



## Alert: Brookfield to Buy Out Brookfield Property Partners: What Should You Do?

### Description

In a surprise move on Monday, **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)) and its institutional partners proposed to acquire 100% of **Brookfield Property Partners** ([TSX:BPY.UN](#))(NASDAQ:BPY) units that it did not already own. [The deal](#) prices BPY at US\$5.9 billion for US\$16.50 per unit.

Actually, the news may not be so surprising. BPY shares were cheap. Last year, BAM/BPY backed up the truck and bought back at least US\$561 million worth of BPY shares.

From Q1 to Q3, its average buyback price was US\$11.67 per unit. It probably bought more in Q4 2020. We'll know the actual numbers in about a month when BPY releases its Q4 and full-year 2020 results.

The real estate stock popped on the buyout news. By the market close on Tuesday, the real estate stock held steady at US\$16.95 per share, which was a 2.7% premium to the offer price. This suggests that the market believes BAM could sweeten the deal.

After all, BPY's end-of-Q3 book value was US\$26.80 per unit. The public units still trade at a discount of 37%. Notably, the book value slipped 6% from a year ago. There's the possibility that the ongoing pandemic could further pressure BPY's book value.

Moreover, BPY tends to trade at a discount to its book value and has been trading at a bigger and bigger discount, as shown below.



BPY Price to Book Value data by YCharts.

BAM's buyout move is a quick way to shore up immediate value for BPY unitholders. BPY shares popped 17% from Friday's market close price!

However, shareholders don't necessarily need to sell out of their position. BAM provides three options in this deal. And investors can choose a mix of the three options.

## Option 1: Take the cash

In light of BAM's buyout announcement, BPY stock is trading at a meaningful premium to recent trading prices. This provides an opportunity for BPY unitholders to monetize their positions and take the cash to invest somewhere else.

A special committee of independent directors will commission an independent valuation of the BPY units, which could result in a higher price than the US\$16.50 currently offered. If BAM sweetens the deal, investors could get an offer that's 5-15% higher than US\$16.50.

BPY unitholders can wait if they're patient. Alternatively, they can sell the units on the public market, if they see better places to invest their capital right now, especially if they're sitting on substantial gains from buying shares last year.

## Option 2: Convert to Brookfield shares

For every one share of BPY you own, you can get 0.4 BAM shares. This option allows you to invest in

BAM, BPY's parent and manager, for the long term.

BAM is much more diversified. Other than real estate assets, it's invested in infrastructure, renewable power, private equity, and credit assets. Notably, it's a growth stocks versus BPY that's used primarily as an income vehicle. Specifically, BAM aims for returns of 12-15% per year in the long run.

## Option 3: Change to BPY preferred shares

For each BPY share you own, you can get 0.66 BPY Class A Cumulative Redeemable Perpetual Preferred Units with a liquidation preference of \$25.00 per Unit. This option could be suitable for those who seek income.

Preferred stock provides safer income than common stock. However, the price of preferred shares are sensitive to the changes in interest rates.

## More Foolish food for thought

I'm a business stock/owner. So, the preferred shares aren't something I'd consider. I'd rather take the cash to reinvest elsewhere. Thankfully, I'm not retired yet and not in a hurry to replace the income lost from the soon-to-be delisted BPY shares.

Are you thinking of converting BPY shares to [BAM](#) shares? At writing, BPY trades at an 8.6% premium to BAM shares. So, ignoring your tax consequences of selling BPY shares (e.g., if you own the shares in an TFSA, RRSP, RDSP, or RESP), you could sell the shares and buy BAM at a discount.

If you hold BPY shares in a taxable account, you'll need to decide the best move. If you want to avoid paying taxes, converting to BAM or BPY preferred shares may be the way to go.

Standalone, BAM has good long-term prospects. Additionally, Analysts have an average 12-month price target that's almost 24% higher from current levels.

### CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

### TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:BN (Brookfield)
3. TSX:BPY.UN (Brookfield Property Partners)

### PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

### Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

### Date

2025/07/17

### Date Created

2021/01/07

### Author

kayng

default watermark

default watermark