



## Brookfield: Should You Worry About Brookfield REIT?

### Description

**Brookfield** ([TSX:BN](#)) is a new TSX stock that was created when **Brookfield Asset Management** ([TSX:BAM](#)) spun off 75% of its asset management business. Shareholders received one BAM share for every four shares they owned. Brookfield currently owns 75% of BAM and a variety of ownership stakes in [other Brookfield-affiliated funds](#).

Right now, one of those funds is going through something of a crisis. In December, [the Brookfield Real Estate Income Trust](#) posted its second consecutive monthly decline, falling 1.6% in December following a 1.9% November dip. These numbers might not look very big, but they are related to structural issues in the real estate industry.

Recently, **Blackstone** ([NYSE:BX](#)) limited customer withdrawals after its struggling REIT (BREIT) surpassed its quarterly limit. Rumours began to swirl, with some inferring that the fund was at risk of becoming insolvent. It's beginning to look like the Blackstone rumours were an overreaction, but it is worth thinking about whether Brookfield might face similar risks should investors pull their money out en masse.

### Why Blackstone got people worrying

To gauge whether Brookfield is at risk because of its real estate fund underperforming, we need to understand why people got worried about Blackstone's fund. On the surface, redemption requests might not look like such a big deal, but there are some scenarios where they could become a problem.

The thing about these private REITs is that they do not trade on the open market like the REITs most investors are familiar with. Rather, investors cash out by redeeming their holdings. It is the fund manager itself who pays them off, not someone buying on the stock market. If the fund managers get enough redemption requests, they may have to sell some of their holdings, which would push the prices of their holdings down and lead to more redemption requests. That, in turn, could lead to the fund going broke, particularly if it uses leverage.

Does Brookfield's REIT use leverage? According to the *Wall Street Journal*, it does. The *WSJ* reported

that BREIT had US\$12.8 billion in debt in 2020. This makes sense, as REITs usually acquire whole properties — that often requires borrowing. If 90% of Brookfield's REIT clients were to withdraw all their money all at once, and Brookfield had to sell properties to pay them back, then there may not be anything left with which to pay the remaining 10% — particularly if this occurred during a steep property market downturn.

## Should Brookfield investors worry?

Having looked at the relevant factors, it's time to answer the big question I started this article with:

Should Brookfield investors worry about the company's REIT?

My feeling is that the answer to that question is no. It's certainly true that enough weakness in the property market could trigger redemptions that lead to BAM's REIT going broke, Brookfield's exposure is pretty limited. The REIT is just one Brookfield Asset Management fund, and Brookfield doesn't even own 100% of Brookfield Asset Management. It owns 75% of BAM along with a variety of other assets. Most likely, it could survive a worst-case scenario for the REIT.

That's not to say there are no risks here. With non-public REITs, insolvency is a real possibility. But for Brookfield shareholders, the exposure is not fatal.

### CATEGORY

1. Investing

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2. TSX:BAM (Brookfield Asset Management)
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