Warren Buffett Would Love This Canadian Real Estate Pick

Description

Real estate is a very difficult asset class to gauge these days. The coronavirus pandemic as fundamentally changed how society uses real estate. Digitization has rapidly increased in importance compared to the past.

In this context, in the past, I have been bearish on **Brookfield Property Partners** (TSX:BPY.UN). This article is going to outline the contrarian perspective on why BPY could turn out to be a good investment right now. After all, Warren Buffet would love this pick.

Real estate and risk

Much ado has been made of Brookfield Property Partners' exposure to retail and office space. These assets are likely to be hit hard due to the previously mentioned digitization trend. That said, a majority of this company's revenue (around 55%) is generated from BPY's portfolio of multifamily and commercial real estate.

On one hand, the company has a little less than half of its business tied to office and retail real estate assets. These are risky. On the other hand, revenues are likely to continue to be stickier than investors and analysts expect due to the quality of BPY's assets and its diversified holdings.

The company's assets are widely considered to be among the best in class across the board. This supports a bull case that cash flows in the future may be more stable than strained in the coming quarters. Also, there is definitely potential for share price appreciation from these levels.

Value and income investors take note

From a valuation perspective, Brookfield Property Partners hasn't been this cheap in quite some time, which makes the value argument very intriguing for long-term investors. The share price decline of Brookfield Property Partners in recent months has resulted in a dividend yield of approximately 11%, at the time of writing. This is much higher than the company's traditional range of 7-8% in recent years.

From an income perspective, this dividend is too juicy to ignore. Of course, investors may have concerns around the payout ratio of Brookfield Property Partners. However, delinquencies and non-payment of rent are materializing at a slower clip than expected. Market sentiment could shift positively in the near-term. Thus, income investors may regret not picking up shares in hindsight with an 11% yield.

Further, **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM) fully backs Brookfield Property Partners. BAM is the company's largest shareholder, further boosting the argument BPY's dividend yield could be maintained. Brookfield Asset Management recently put forward a substantial issuer bid to increase its ownership up to 60% in respect to the value it sees in Brookfield Property Partners.

This bid has stoked bets that BAM may choose to fully acquire and integrate BPY back into the parent company if the stock price gets too cheap. This theoretically puts a floor beneath BPY's share price in the near-term.

BAM and its incredibly talented management team would love nothing more than to take advantage of negative market sentiment. They may plan to re-acquire BPY at dirt cheap levels, spinning out these assets in the future at much higher prices when things cool down.

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