

Brookfield Property Partners Reports First Quarter 2019 Results

MAY 06, 2019

All dollar references are in U.S. dollars, unless noted otherwise.

BROOKFIELD NEWS, May 06, 2019 (GLOBE NEWSWIRE) -- Brookfield Property Partners L.P. (NASDAQ: BPY; NASDAQ: BPR; TSX: BPY.UN) ("BPY") today announced financial results for the quarter ended March 31, 2019.

"Today we reported another quarter of same-property growth in our core operating businesses while maintaining high occupancy and continuing to capture mark-to-market rent increases," said Brian Kingston, chief executive officer. "We were pleased with the outcome of our Substantial Issuer Bid in the first quarter and reiterate to the market that we will continue to repurchase our units should they continue to trade at a significant discount to their intrinsic value."

Financial Results

	<i>Three months ended March 31,</i>	
(US\$ Millions, except per unit amounts)	2019	2018
Net income ⁽¹⁾	\$713	\$1,023
Company FFO and realized gains ⁽²⁾	367	268
Net income per LP unit ⁽³⁾	0.32	0.69
Company FFO and realized gains per unit ⁽⁴⁾	0.38	0.38

⁽¹⁾ Consolidated basis – includes amounts attributable to non-controlling interests.

⁽²⁾ Excluding realized gains, Company FFO was \$307 million compared with \$268 million in the prior year period. See "Basis of Presentation" and "Reconciliation of Non-IFRS Measures" in this press release for the definition and components.

⁽³⁾ Represents basic net income attributable to holders of LP units. IFRS requires the inclusion of preferred shares that are mandatorily convertible into LP units at a price of \$25.70 without an add-back to earnings of the associated carry on the preferred shares.

⁽⁴⁾ Company FFO and realized gains per unit are calculated based on 970.8 million units outstanding for the three months ended March 31, 2019 (2018 – 703.6 million). Excluding realized gains, Company FFO per unit was \$0.32 compared with \$0.38 in the prior year period. See reconciliation of basic net income in the "Reconciliation of Non-IFRS Measures" section in this press release.

Company FFO and realized gains was \$367 million (\$0.38 per unit) for the quarter ended March 31, 2019, compared to \$268 million (\$0.38 per unit) for the same period in 2018. The increase is attributable to realizations in our LP investment strategy, our increased investment in Core Retail over the prior year period and continued same-property growth in our Core Office operations. Offsetting this was the impact of higher interest rates and a stronger U.S. dollar.

Net income for the quarter ended March 31, 2019 was \$713 million (\$0.32 per unit) versus \$1,023 million (\$0.69 per unit) for the same period in 2018. The decrease is primarily attributable to fewer fair value gains in the first quarter of 2019 compared to the prior year period.

Operating Highlights

Our Core Office operations generated Company FFO of \$140 million for the quarter ended March 31, 2019 compared to \$153 million in the same period in 2018. The business generated 4.2% same-property net operating income growth and fee income of \$24 million, which was \$5 million higher than in the prior period. The decrease in Company FFO over the prior year is due to higher interest rates and the negative impact of a stronger U.S. dollar.

Occupancy in our Core Office portfolio finished the first quarter at 93.3% on 1.4 million square feet of total leasing. This is an increase of 70 basis points and a decrease of 10 basis points over the prior year and quarter, respectively. Leases signed in the first quarter were at rents 16% higher on average than leases that expired in the period.

Our Core Retail operations generated Company FFO of \$184 million for the quarter ended March 31, 2019 compared to \$116 million in the comparable period in 2018. The increase over the prior year reporting period is attributable to the acquisition of GGP in August 2018. The business generated 2.2% same-property net operating income growth in the first quarter. Offsetting this growth were higher operating expenses, a reduction in lease termination income and the impact to earnings of higher interest rates in the U.S.

In Core Retail, we have executed 6.6 million square feet of leases commencing in 2019 and with additional approved leases have now leased over 9 million square feet – approximately 90% of our total leasing goal for 2019. Core Retail same-property occupancy finished the quarter at 95.3%, a decrease of 10 basis points over the prior year period, with average initial suite-to-suite rent spreads of 7% on an NOI-weighted basis. NOI-weighted tenant sales per square foot of \$765 represented increases of 4% and 3% compared to the prior year and prior quarter, respectively.

Our LP Investments generated Company FFO and realized gains of \$146 million for the quarter ended March 31, 2019, compared to \$96 million in the comparable period in 2018. Results in the current period benefitted from \$60 million of realized gains from the sales of mature assets. Offsetting this was the loss of recurring income from these sold assets and the time required to redeploy the proceeds raised. In addition, a stronger U.S. dollar and higher interest rates reduced results compared to the prior period.

Three months ended March 31,

(US\$ Millions)

Company FFO and realized gains by segment	2019	2018
Core Office	\$140	\$153
Core Retail	184	116
LP Investments	146	96
Corporate	(103)	(97)
Company FFO and realized gains ⁽¹⁾	\$367	\$268

(1) See "Basis of Presentation" and "Reconciliation of Non-IFRS Measures" below in this press release for the definitions and components.

Dispositions

In total for the first quarter of 2019, in our LP Investments segment we completed \$490 million of gross asset dispositions at our share, at prices that were 3.6% higher than our carrying IFRS values. These sales generated \$296 million in net proceeds and earned \$60 million in realized gains to BPY. Dispositions completed in the first quarter include:

- A portfolio of retail properties in China for net proceeds of \$159 million.
- Three office buildings in Brazil for net proceeds of \$59 million.
- Five multifamily buildings in the U.S. for net proceeds of \$42 million.
- An office park in Southern California for net proceeds of \$22 million.

Balance Sheet Update

To increase liquidity and extend the maturity of our debt, during the quarter we issued C\$350 million of unsecured notes at 4.3% per annum due on March 1, 2024. Since first accessing the Canadian bond market in the third quarter of 2018, we have issued C\$1.15 billion in bonds, with an average term of more than four years at an average rate of 4.3%. In addition, in March we issued \$184 million of redeemable and perpetual preferred units ("Preferred Units") primarily to U.S. investors. These preferred units are callable at par at BPY's option after five years. The proceeds raised from these issues were used to repay a similar amount of shorter-duration, higher-cost capital.

Subsequent to the first quarter, BPY subsidiary Brookfield Property REIT Inc. ("BPR") issued \$1 billion of seven-year, fixed-rate bonds with a 5.75% coupon. Proceeds will be used to term-out and mitigate interest rate risk on a portion of our Core Retail debt.

Unit Repurchase Program

In March 2019, the Partnership repurchased 18,661,641 BPY units and BPR shares at an average purchase price of \$20.83 per unit/share under its previously announced Substantial Issuer Bids.

Subsequent to the expiration of the SIB, the Partnership repurchased 597,826 of BPY L.P. units at an average price of \$20.90 per unit under its Normal Course Issuer Bid.

Board of Directors Update

The Board of Directors of BPY is pleased to announce the appointment of a new director, Caroline Atkinson. Ms. Atkinson is an Oxford-trained economist with more than two decades of experience as a senior policy-maker in international economics and finance, and as an executive in technology. She has held senior positions in Google, the U.S. government, International Monetary Fund (IMF) and the Bank of England. In addition, Ms. Atkinson is a senior advisor at The Rock Creek Group private investment firm, a trustee of the International Institute for Strategic Studies (IISS) in London and Executive Committee member of the Board of the Peterson Institute for International Economics.

Distribution Declaration

The Board of Directors has declared a quarterly distribution on the partnership's LP units of \$0.33 per unit payable on June 28, 2019 to unitholders of record at the close of business on May 31, 2019.

The quarterly distributions on the LP units are declared in U.S. dollars. Registered unitholders residing in the United States shall receive quarterly cash distributions in U.S. dollars and registered unitholders not residing in the United States shall receive quarterly cash distributions in the Canadian dollar equivalent, based on the Bank of Canada exchange rate on the record date. Registered unitholders residing in the United States have the option, through Brookfield Property Partners' transfer agent, AST Trust Company (Canada) ("AST"), to elect to receive quarterly cash distributions in the Canadian dollar equivalent and registered unitholders not residing in the United States have the option through AST to elect to receive quarterly cash distributions in U.S. dollars. Beneficial unitholders (i.e., those holding their units in street name with their brokerage) should contact the broker with whom their units are held to discuss their options regarding distribution currency.

The Board of Directors has also declared the pro-rated initial distribution on the partnership's preferred units of \$0.446875 per unit payable on July 1, 2019 to holders of record at the close of business on May 31, 2019.

Additional Information

Further details regarding the operations of the Partnership are set forth in regulatory filings. A copy of the filings may be obtained through the website of the SEC at www.sec.gov and on the Partnership's SEDAR profile at www.sedar.com.

The Partnership's quarterly letter to unitholders and supplemental information package can be accessed before the market open on May 6, 2019 at bpy.brookfield.com. This additional information should be read in conjunction with this press release.

Basis of Presentation

This press release and accompanying financial information make reference to net operating income (“NOI”), same-property NOI, funds from operations (“FFO”), Company FFO and realized gains (“Company FFO and realized gains”) and net income attributable to unitholders.

Company FFO and realized gains, and net income attributable to unitholders are also presented on a per unit basis. NOI, same-property NOI, FFO, Company FFO and realized gains, and net income attributable to unitholders do not have any standardized meaning prescribed by International Financial Reporting Standards (“IFRS”) and therefore may not be comparable to similar measures presented by other companies. The Partnership uses NOI, same-property NOI, FFO, Company FFO and realized gains, and net income attributable to unitholders to assess its operating results. These measures should not be used as alternatives to Net Income and other operating measures determined in accordance with IFRS, but rather to provide supplemental insights into performance. Further, these measures do not represent liquidity measures or cash flow from operations and are not intended to be representative of the funds available for distribution to unitholders either in aggregate or on a per unit basis, where presented.

NOI is defined as revenues from commercial and hospitality operations of consolidated properties less direct commercial property and hospitality expenses. As NOI includes the revenues and expenses directly associated with owning and operating commercial property and hospitality assets, it provides a measure to evaluate the performance of the property operations.

Same-property NOI is a subset of NOI, which excludes NOI that is earned from assets acquired, disposed of or developed during the periods presented, or not of a recurring nature, and from opportunistic assets. Same-property NOI allows the Partnership to segregate the performance of leasing and operating initiatives on the portfolio from the impact to performance from investing activities and “one-time items,” which for the historical periods presented consist primarily of lease termination income.

FFO is defined as income, including equity accounted income, before realized gains (losses) from the sale of investment property (except gains (losses) related to properties developed for sale), fair value gains (losses) (including equity accounted fair value gains (losses)), depreciation and amortization of real estate assets, income tax expense (benefit), and less non-controlling interests of others in operating subsidiaries and properties. FFO is a widely recognized measure that is frequently used by securities analysts, investors and other interested parties in the evaluation of real estate entities, particularly those that own and operate income producing properties. The Partnership’s definition of FFO includes all of the adjustments that are outlined in the National Association of Real Estate Investment Trusts (“NAREIT”) definition of FFO. In addition to the adjustments prescribed by NAREIT, the Partnership also makes adjustments to exclude any unrealized fair value gains (or losses) that arise as a result of reporting under IFRS, and income taxes that arise as certain of its subsidiaries are structured as corporations as opposed to real estate investment trusts (“REITs”). These additional adjustments result in an FFO measure that is similar to that which would result if the Partnership was organized as a REIT that determined net income in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”), which is the type of organization on which the NAREIT definition is premised. The Partnership’s FFO measure will differ from other organizations applying the NAREIT definition to the extent of certain differences between the IFRS and U.S. GAAP reporting frameworks, principally related to the recognition of lease termination income. FFO provides a performance measure that, when compared year-over-year, reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and interest costs.

Company FFO and realized gains is defined as FFO before the impact of depreciation and amortization of non-real estate assets, transaction costs, gains (losses) associated with non-investment properties, imputed interest on equity accounted investments, realized gains in the partnership’s LP Investment segment and the partnership’s share of BSREP III Company FFO and realized gains. Realized LP Investment gains represent income earned on investing activity when fund investments are realized, inclusive of associated change in carried interest to be due at a future date to the general partner of the relevant Brookfield Asset Management-sponsored funds. The partnership accounts for the investment in BSREP III as a financial asset and income (loss) of the fund is not presented in the partnership’s results. Distributions from BSREP III, recorded as dividend income under IFRS, are removed from investment and other income for Company FFO and realized gains presentation.

Net income attributable to unitholders is defined as net income attributable to holders of general partnership units and limited partnership units of the Partnership, redeemable/exchangeable and special limited partnership units of Brookfield Property L.P. and limited partnership units of Brookfield Office Properties Exchange LP. Net income attributable to unitholders is used by the Partnership to evaluate the performance of the Partnership as a whole as each of the unitholders participates in the economics of the Partnership equally. In calculating net income attributable to unitholders per unit, the Partnership excludes the impact of mandatorily convertible preferred units in determining the average number of units outstanding as the holders of mandatorily convertible preferred units do not participate in current earnings. The Partnership reconciles this measure to basic net income attributable to unitholders per unit determined in accordance with IFRS which includes the effect of mandatorily convertible preferred units in the basic average number of units outstanding.

About Brookfield Property Partners

Brookfield Property Partners, through Brookfield Property Partners L.P. and its subsidiary Brookfield Property REIT Inc., is one of the world’s premier commercial real estate companies, with approximately \$85 billion in total assets. We are leading owners, operators and investors in commercial real estate, with a diversified portfolio of premier office and retail assets, as well as interests in multifamily, triple net lease, logistics, hospitality, self-storage, student housing and manufactured housing assets. Brookfield Property Partners L.P. is listed on the Nasdaq Stock Market and the Toronto Stock Exchange. Brookfield Property REIT Inc. is listed on the Nasdaq Stock Market. Further information is available at bpy.brookfield.com.

Brookfield Property Partners is the flagship listed real estate company of Brookfield Asset Management Inc., a leading global alternative asset manager with over \$365 billion in assets under management.

Please note that BPY’s previous audited annual and unaudited quarterly reports have been filed on EDGAR and SEDAR and can also be found at bpy.brookfield.com. Hard copies of the annual and quarterly reports can be obtained free of charge upon request.

Certain of our investor relations content is also available on our investor relations app. To download Brookfield Property Partners’ investor relations app, which offers access to SEC filings, press releases, presentations and more, please click [here](#) to download on your iPhone or iPad. To download the app on your Android mobile device, please click [here](#).

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Conference Call and Quarterly Earnings Details

Investors, analysts and other interested parties can access BPY's first quarter 2019 results as well as the letter to unitholders and supplemental information on BPY's website at bpy.brookfield.com.

The conference call can be accessed via webcast on May 6, 2019 at 11:00 a.m. Eastern Time at bpy.brookfield.com or via teleconference by dialing +1 (844) 358-9182 toll-free in the U.S. and Canada or for overseas calls, dial +1 (478) 219-0399, conference ID: 2289868, at approximately 10:50 a.m. A recording of the teleconference can be accessed by dialing +1 (855) 859-2056 toll-free in the U.S. or Canada or for overseas calls, dial +1 (404) 537-3406, conference ID: 2289868.

Forward-Looking Statements

This communication contains "forward-looking information" within the meaning of applicable securities laws and regulations. Forward-looking statements include statements that are predictive in nature or depend upon or refer to future events or conditions, include statements regarding our operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as "expects," "anticipates," "plans," "believes," "estimates," "seeks," "intends," "targets," "projects," "forecasts," "likely," or negative versions thereof and other similar expressions, or future or conditional verbs such as "may," "will," "should," "would" and "could."

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: risks incidental to the ownership and operation of real estate properties including local real estate conditions; the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the ability to enter into new leases or renew leases on favorable terms; business competition; dependence on tenants' financial condition; the use of debt to finance our business; the behavior of financial markets, including fluctuations in interest and foreign exchange rates; uncertainties of real estate development or redevelopment; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; risks relating to our insurance coverage; the possible impact of international conflicts and other developments including terrorist acts; potential environmental liabilities; changes in tax laws and other tax related risks; dependence on management personnel; illiquidity of investments; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits therefrom; operational and reputational risks; catastrophic events, such as earthquakes and hurricanes; and other risks and factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements or information, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

Title Document

CONSOLIDATED BALANCE SHEETS

(US\$ Millions) **Mar. 31, 2019** Dec. 31, 2018

Assets

Investment properties **\$70,509** Associated Files

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