

Brookfield Property Partners Reports Strong First Quarter 2018 Results

MAY 04, 2018

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

BROOKFIELD NEWS, May 04, 2018 (GLOBE NEWSWIRE) -- Brookfield Property Partners L.P. (NASDAQ:BPY) (TSX:BPY.UN) ("the Partnership" or "BPY") today announced financial results for the quarter ended March 31, 2018.

"We had another successful quarter with strong operational results driving year-over-year Company FFO per unit growth of 12%," said Brian Kingston, chief executive officer. "We continue to generate attractive returns from our capital recycling initiatives from both balance sheet assets and private real estate funds."

Financial Results

(US\$ Millions, except per unit amounts)	Three months ended March 31,	
	2018	2017
Net income ⁽¹⁾	\$ 1,023	\$ 187
Company FFO ⁽²⁾	\$ 268	\$ 237
Net income per LP unit ⁽³⁾	\$ 0.69	\$ (0.21)
Company FFO per unit ⁽⁴⁾	\$ 0.38	\$ 0.34

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

(2) 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 per unit is calculated based on 703.6 million units and 706.9 million units outstanding for the three months ended March 31, 2018 and 2017, respectively. See reconciliation of basic net income in the "Reconciliation of Non-IFRS Measures" section in this press release.

Net income for the quarter ended March 31, 2018 was \$1,023 million (\$0.69 per LP unit) versus \$187 million (\$(0.21) per LP unit) for the same period in 2017. The increase is attributable to a higher Company FFO, fair value gains in our Core Office and Opportunistic businesses and taxes. These increases were offset in part by fair value reductions in our Core Retail portfolio.

Company FFO was \$268 million (\$0.38 per unit) for the quarter ended March 31, 2018 compared with \$237 million (\$0.34 per unit) for the same period in 2017. The increase in Company FFO is primarily attributable to same-property growth in our Core Office operations, and net investment activity.

Operating Highlights

Excluding a one-time gain last year, our Core Office operations generated 13% quarter-over-quarter growth and Company FFO of \$153 million for the quarter ended March 31, 2018 compared to \$136 million on a comparable basis or \$156 million in total in the same period in 2017. Our Core Office portfolio generated 6.0% same-property growth and benefitted from the exchange of foreign currency into US dollars.

Occupancy in our Core Office portfolio finished the quarter at 92.6%, consistent with the prior quarter and up 1.1% over the prior-year period, on just shy of a million square feet of total leasing. New leases were signed at average rents approximately 17% higher than leases that expired during the quarter.

Our Core Retail operations generated Company FFO of \$116 million for the quarter ended March 31, 2018 compared to \$110 million in the comparable period in 2017. The \$6 million variance is primarily attributable to increased investment in this segment.

Same-property Core Retail occupancy finished the first quarter of 2018 at 94.3%, a decrease of 0.4% over the prior-year period, with average suite-to-suite rent spreads of 21% for leases commencing in the trailing 12 months. Tenant sales (excluding anchors) increased by 1% on a trailing 12-month basis to \$21.4 billion.

Our opportunistic investments generated Company FFO of \$114 million for the quarter ended March 31, 2018, compared to \$83 million in the first quarter of the prior year. The positive variance is attributable to an increase in capital allocated to this business, strong operating performance from our hospitality assets, and increased earnings from our multifamily business augmented by the sale of a development property in the quarter.

Three months ended March 31,

(US\$ Millions)	2018	2017
Company FFO by segment		

Core Office	\$	153	\$	136
Core Office gain		–		20
Core Retail		116		110
Opportunistic		114		83
Corporate		(115)		(112)
Company FFO ⁽¹⁾	\$	268	\$	237

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

Strategic Initiatives

Dispositions

During the first quarter, we advanced a number of our capital recycling initiatives:

- Sold a 50% interest in Bay Adelaide Centre East and West towers in Toronto for C\$850 million. The properties were refinanced (details below) concurrent with the sale, resulting in total net proceeds of C\$566 million which were used to pay down the term loan and revolver used to privatize Brookfield Canada Office Properties in 2017.
- Sold our 51% direct interest in 1801 California Street in Denver for \$286 million, resulting in net proceeds of \$159 million.
- Sold three U.S. hospitality properties for \$572 million (\$348 million at BPY's share).
- Sold three U.S. multifamily properties for \$282 million (\$66 million at BPY's share).
- Sold three opportunistic office assets in Southern California for \$60 million (\$18 million at BPY's share).
- Sold three triple net lease properties for \$41 million (\$12 million at BPY's share).

New Investments

The proceeds raised from asset sales were used to invest in our active development pipeline and to fund new acquisitions, including:

- A 15-property student housing portfolio servicing 12 university cities in the UK for £520 million (£133 million at BPY's share).
- A UK-based owner-operator of 1,160 serviced apartments with assets in the UK and continental Europe for £457 million (£126 million at BPY's share).
- The office building at 333 West 34th St. in New York City for \$225 million (\$56 million at BPY's share).

In addition, subsequent to quarter-end, we acquired:

- The Equinox Business Park, a four-building, 1.3-million-square-foot class A office park in Mumbai, India for \$375 million (\$121 million at BPY's share).
- The 1.4-million-square-foot office building at 175 West Jackson St. in Chicago for \$305 million (\$78 million at BPY's share).
- SI Centrum, a 1.2-million-square-foot mixed-use complex in Stuttgart, Germany for €145 million (€45 million at BPY's share).

GGP Transaction Update

On March 26, 2018, we announced that we had entered into a definitive agreement with GGP Inc. for BPY to acquire all of the outstanding shares of common stock of GGP other than those shares currently held by BPY and its affiliates. The preliminary proxy statement/prospectus was filed on May 2 and the transaction is progressing in normal course.

Balance Sheet Update

During the quarter, we executed on the following transactions to increase our balance sheet flexibility, increase liquidity and extend the maturity of our debt:

- Refinanced the Five Manhattan West office building in New York for \$1.2 billion. The loan has a seven-year term at a fixed rate of 4.2%. Net proceeds to BPY were \$303 million.
- Refinanced the Principal Place office tower in London for £460 million, generating net proceeds to BPY of £123 million. The loan term is for 10 years at a fixed interest rate of approximately 3%.
- Refinanced the Bay Adelaide Centre office complex in Toronto for C\$900 million. The loan was secured through the issuance of bonds with 10-year terms and a blended fixed interest rate of 3.9%.
- Financed or refinanced a portfolio of U.S. industrial operating and development assets for an aggregate of \$286 million. The loans have three-year terms at a weighted average floating interest rate of L+1.56%.
- Refinanced the EY Tower office building in Los Angeles for \$265 million. The loan term is 2.5 years at a floating rate of L+2.0%. Net proceeds to BPY were \$42 million.

Distribution Declaration

The Board of Directors has declared the quarterly distribution of \$0.315 per unit payable on June 29, 2018 to unitholders of record at the close of business on May 31, 2018.

The quarterly distributions 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.

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 4, 2018 at <http://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 ("Company FFO") and net income attributable to unitholders.

Company FFO and net income attributable to unitholders are also presented on a per unit basis. NOI, same-property NOI, FFO, Company FFO 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 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 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 and the FFO that would have been attributable to unitholders' shares of GGP Inc. ("GGP"), if all outstanding warrants of GGP were exercised. Prior to the third quarter of 2017, the adjustment assumed net settlement of the outstanding warrants. For the third quarter 2017, the adjustment is based on the cash settlement for all applicable warrants to reflect the Partnership's stated plans for settling the warrants on such a basis. The warrants were exercised in the fourth quarter of 2017. Company FFO, similar to FFO discussed above, provides a performance measure that reflects the impact on operations of trends in occupancy rates, rental rates, operating costs and interest costs. In addition, the adjustments to Company FFO relative to FFO allow the Partnership insight into these trends for the real estate operations, by adjusting for non-real estate components.

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.

Brookfield Property Partners

Brookfield Property Partners is one of the world's premier commercial real estate companies, with approximately \$69 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, industrial, hospitality, self-storage, student housing and manufactured housing assets. Brookfield Property Partners is listed on the Nasdaq stock market and the Toronto stock exchange. Further information is available at bpy.brookfield.com.

Associated Files