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Brookfield Property Partners L.P. NYSE:BPY

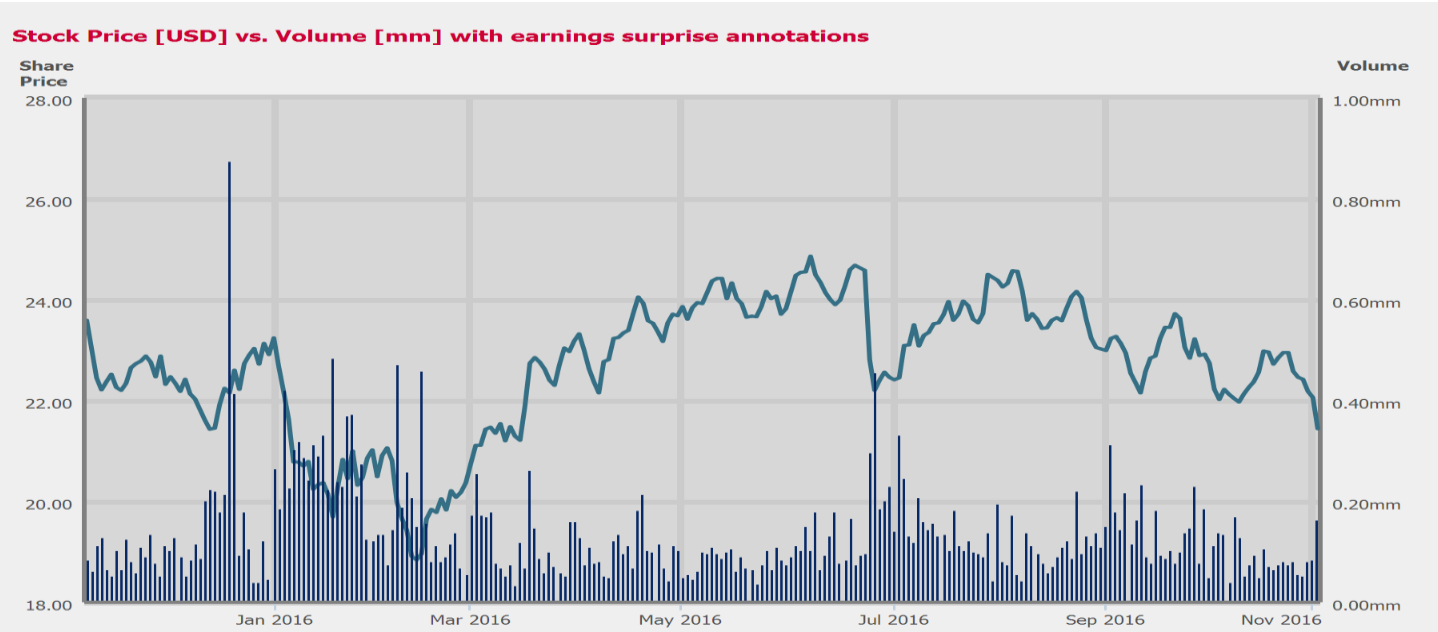
FQ4 2016 Earnings Call Transcripts

Friday, February 03, 2017 4:00 PM GMT

S&P Capital IQ Estimates

	-FY 2016-			-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.67	-	-	2.33
Revenue (mm)	4691.00	5185.00	▲10.53	4776.00

Currency: USD
Consensus as of Jan-05-2017 9:23 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2015	-	-	-
FQ1 2016	-	-	-
FQ2 2016	-	-	-
FQ3 2016	-	-	-

Call Participants

EXECUTIVES

Brian W. Kingston
Chief Executive Officer of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

Bryan Kenneth Davis
Chief Financial Officer of Brookfield Property Partners Limited and Managing Partner of Real Estate - Brookfield Property Partners Limited

Matthew P. Cherry
Vice President of Investor Relations and Communications

Richard Byron Clark
Chairman of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

ANALYSTS

Mario Saric
Scotiabank Global Banking and Markets, Research Division

Mark Rothschild
Canaccord Genuity Limited, Research Division

Sheila Kathleen McGrath
Evercore ISI, Research Division

Presentation

Operator

Good day, ladies and gentlemen. Welcome to the Brookfield Property Partners 2016 Fourth Quarter and Full Year Financial Results Conference Call. As a reminder, today's call is being recorded.

It is now my pleasure to turn the call over to Mr. Matt Cherry, Vice President of Investor Relations and Communications. Please go ahead, sir.

Matthew P. Cherry
Vice President of Investor Relations and Communications

Thank you, and good morning, everyone. Before we begin our presentation, let me caution you that our discussion will include forward-looking statements. These statements that relate to future results and events are based on our current expectations.

Our actual results in future periods may differ materially from those currently expected because of a number of risks, uncertainties and assumptions. The risks, uncertainties and assumptions that we believe are material are outlined in our press release issued this morning.

With that, I'll turn the call over to Chief Executive Officer, Brian Kingston.

Brian W. Kingston
Chief Executive Officer of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

Thank you, Matt, and good morning, everyone. Thank you for joining the call today. With me on the phone are Ric Clark, the Chairman of BPY; and Bryan Davis, our CFO.

In my prepared remarks, I will recap our activities and accomplishments for the -- over the course of 2016 and provide some observations on real estate fundamentals in the investment environment that we're currently seeing around the world. Bryan will then go through the details of our quarterly and annual financial results, and I'll close the call with a list of our priorities to focus for in 2017. Following those comments, we'd be happy to take questions from analysts and investors on the call today.

As you would have seen in our disclosures this morning, we reported solid quarterly and annual financial results for 2016. Specifically, our company FFO increased by 15% over 2015. This growth was fueled by strong performance in our core office and retail segments as well as new investments made in our opportunistic investment strategy. Given this increasing cash flow, our Board of Directors has approved a 5.4% distribution increase for 2017, which is in line with our targeted annual distribution growth of 5% to 8%.

Importantly, with our payout ratio now in line with our long-term target of 80%, going forward, we should be able to grow our distributions at the higher end of that targeted range, consistent with the strong growth in cash flows we foresee over the next several years.

Just recapping some of our 2016 strategic priorities. One of our first goals was to enhance the flexibility of our balance sheet. And early in the year, we secured a BBB corporate credit rating from S&P, which allowed us to refinance our corporate credit facility, increasing its size by $500 million to a total of $2.5 billion, extending its term to 2019 and lowering its cost by 55 basis points, which will save us about $14 million a year in annual interest costs.

We also issued $200 million of perpetual preferred shares into the Canadian market using those proceeds to repay $200 million of capital securities, which were due on demand. In total, we reduced our corporate debt by over $1 billion in 2016, further improving our access to liquidity.

Our second priority was to continue to actively recycle capital out of some of our stable and more mature assets, taking advantage of strong investor appetite for these types of assets. Over the course of the year, we successfully raised approximately $3 billion of net equity from core office and retail sales. The majority of these transactions, in places like New York City; London; Sydney; Las Vegas; Washington, D.C.; and Vancouver, were executed at cap rates in the 3% to 5% range. Proceeds were redeployed into various initiatives, including debt repayment, new investments, funding our development pipeline and unit buybacks.

Our third priority was to increase the occupancy in our core office and retail business. Over the course of 2016, we completed over 8 million square feet of office leasing and 13 million square feet of retail leasing. Importantly, new leases signed during 2016 were at rents that were, on average, 14% and 20% higher than expiring leases, respectively, for our office and retail.

Our final priority was to increase the resources associated with our share buyback program. Repurchasing our units offered a compelling investment opportunity in 2016, and we bought back approximately 2.8 million units at an average price of USD 21.35 per unit. We were particularly active late in the year buying back approximately 1.6 million units in the fourth quarter alone as we gained greater certainty around our various capital recycling initiatives and volatility in equity capital markets following the U.S. election negatively impacted retail -- real estate share prices. We believe acquiring our own units at a 30% discount to NAV will provide very high returns on the capital we've invested.

In addition to delivering strong operating results, we continue to investigate other potential paths to get our units trading closer to the underlying value of our business. Late last year, at our annual investor conference, we mentioned that we are actively considering conversion of BPY's structure to a U.S. REIT. And while work continues in this regard, the uncertainty with respect to potential future changes in U.S. tax law under the new administration has led us to take a more cautious approach to this decision until we have greater clarity. We will continue to provide you with updates on this topic as they become available.

So with that as an introduction, I'll turn the call over to Bryan Davis with a detailed financial report. Bryan?

Bryan Kenneth Davis
Chief Financial Officer of Brookfield Property Partners Limited and Managing Partner of Real Estate - Brookfield Property Partners Limited

Thank you, Brian. During the fourth quarter, we earned company FFO of $268 million compared with $242 million for the same period in 2015. On a per-unit basis, company FFO for the quarter was $0.38 per unit compared with $0.34 per unit in the prior year, an increase of 12%. A solid operating performance across most business units more than offset the impact of the conversion of foreign income into our U.S. dollar-reported results.

BPY recorded a net loss attributable to unitholders for the quarter of $62 million or $0.09 per unit compared with net income of $863 million or $1.21 per unit in the prior year. The decrease this quarter relates to fair-value losses in our core businesses as uncertainty related to the recovery of energy markets and the political environment in the U.K. and U.S. led us to reduce our future cash flow expectations in our discounted cash flow models compared with the prior period. Offsetting this in part, we saw compression of spreads over the risk-free rate, improved investment markets and a reduction in property-level risk due to leasing, which accounted for a slight decrease in our average discount rates.

During the quarter, we had 84 assets across our portfolio externally appraised, either to support a transaction, financing or our reporting process. The aggregate appraised value of these assets came to $22.2 billion or 10 basis points within our IFRS values.

BPY executed on a number of asset sale transactions in the quarter at values in line with our prior-period IFRS and resulted in a realized gain of $208 million or $0.28 -- or $0.29 per unit. The transactions included the sale of interests in 13 core office assets located in the U.S., U.K. and Australia at an average cap rate of 4.3% and realized gains of $195 million; 8 industrial assets in Italy and Spain at an average cap rate of 4.9% and realized gains of over $15 million; 7 multifamily assets at cap rates in the low 5%; the Ritz-Carlton in San Francisco at a 4.4% cap rate, in addition to a number of suburban office assets and retail malls. These realized gains, combined with our FFO this quarter, provided strong support for our quarterly distribution of $0.28 per unit that was paid at the end of December.

In reviewing our Q4 company FFO in a little more detail, the main drivers that contributed to the $26 million year-over-year growth were a fee earned in our U.K. office business of $44 million related to a contract to develop and construct a new office building where the counterparty ultimately decided not to proceed. We had same-store growth of 2% and 6% in our core office and core retail businesses, respectively, in natural currency. And this was offset by the conversion of foreign income into our U.S. dollar-reported results, which reduced income by $17 million on a comparative basis; and a tough quarter in certain of our hospitality assets where we had a number of rooms off-line due to renovations, which was compounded by the impact of Hurricane Matthew, which limited travel and resulted in incremental expenses to get properties back to pre-hurricane condition.

In arriving at company FFO, which we detail on Page 9 of our supplemental, amongst our standard adjustments for GGP warrants and the add-back of depreciation of non-real-estate assets, we adjusted for $10 million in transaction costs related to our recent acquisitions and $15 million of gains, mainly associated with the early debt extinguishment in our core retail business.

In comparing our results to the third quarter of 2016, company FFO increased by $36 million from $232 million earned in that period. This increase was primarily attributable to the fee that was earned in our U.K. office business, as previously mentioned; seasonality in our core retail business, which had same-store growth of 17%; and this was offset by lower results from our hospitality business where seasonality was compounded by the impact of renovation programs and weather conditions to reduce income in the quarter by $25 million. In addition, in the prior quarter, we had income of $10 million earned in our multifamily business related to the successful sale of a merchant build property in Vista, California, and we saw weaker foreign currencies this quarter, which reduced company FFO by $5 million.

On a year-to-date basis, we earned company FFO of $967 million or $1.36 per unit. This compares with $839 million or $1.18 per unit for 2015, a 15% year-over-year increase. For 2016, we also earned $1.8 billion in net income and paid distributions of $755 million for a total return of $2.6 billion or 12% on our opening equity. Despite political and economic headwinds that impacted the performance in some of our markets in foreign currencies, we benefited from geographic and sector diversification of our business.

The major items that led to the $128 million increase in our company FFO on a year-over-year basis includes, in our core office business, we had same-property growth of 6.6% in natural currency. In 2016, we benefited from an incremental $85 million of net operating income at Brookfield Place New York as a result of achieving revenue recognition hurdles on new leases with Saks and Jones Day and the full year benefit for leases with Time Inc. and Bank of New York and Jane Street.

As mentioned last quarter, these pluses were partially offset by a reduction in same-store occupancy to just above 92% as we were impacted by anticipated tenant move-outs where in Calgary, Imperial Oil at Fifth Avenue Place; in Sydney, KPMG at 10 Shelley Street; in New York, AMEX at 200 Vesey Street; and in Houston, Hilcorp at 1201 Louisiana, all moved out. We've already made significant progress on re-leasing the space in Calgary, Sydney and New York. In fact, as we enter into 2017, we have another significant pipeline of leases that have already been executed but are not yet in a position where they produce income. And this totals about $65 million. We expect 2/3 of the benefit of that in 2017 with the remaining 1/3 to come online by 2018.

Our core retail business also had a strong year-over-year performance with 5.3% same-property growth compared with the prior year primarily due to increased rents. Company FFO from our opportunistic business increased by $96 million or 39% compared to the prior year as we allocated incremental capital to this strategy to acquire high-quality and high cash flow yielding portfolios and executed on business plans within existing investments to reposition assets and increase occupancy. These increases more than offset the conversion of foreign currencies to the U.S. dollar, which reduced earnings by almost $40 million on a year-over-year basis.

On our proportionate balance sheet, our total assets decreased slightly to $65 billion as we were impacted by the translation of currencies, and we continued our asset sales program, as Brian highlighted. These proceeds raised from these asset sales, along with cash generated from our business, were used to fund our commitment to our opportunistic strategy where we invested another $300 million during the quarter to reduce our corporate leverage and to buy back our units and pay our distributions.

We ended the quarter with an IFRS value per unit of $30.72, which is almost $1 higher than where we ended the prior year as our positive net income more than offset the impact of currencies and distributions paid.

Lastly, our Board of Directors yesterday declared a quarterly distribution of $0.295 per unit, an increase of 5.4% with the first to be paid at the end of March.

With that, I'll now turn the call back over to you, Brian.

Brian W. Kingston
Chief Executive Officer of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

Thank you, Bryan. And turning to our operating segments. Occupancy in the core office portfolio increased 90 basis points in the quarter to 92.3%, which is consistent with the end of the prior year. As I mentioned earlier, we had a strong volume with execution of over 8.2 million square feet of total leasing in 2016 at rents that were, on average, 14% higher than the expiring rents.

We also made meaningful advancements in the lease-up of our active development projects, bringing our 7.3 million square foot pipeline to 60% committed. An important lease signed during the fourth quarter was the National Hockey League at One Manhattan West in New York. The NHL signed for 176,000 square feet, bringing that project to 37% pre-let, ahead of delivery in late 2019.

Behind that, we are in various stages of discussions with tenants representing an aggregate 6 million square feet of total requirements. Our 2 near-term deliveries in London are 85% and 71% committed, respectively. And we are close to signing a third lease at our largest London development, 100 Bishopsgate, which would bring that 940,000 square foot building to approximately 65% pre-let, ahead of its late 2018 delivery.

Real estate fundamentals in the majority of our key office markets remain positive. While the London market slowed following the unexpected Brexit outcome in June, it stabilized quickly, and demand for premier quality office product has remained healthy. The outlier is to the strength of our energy-driven markets, which remained challenged due to the impact of the price of oil and other commodities. Despite this, we completed over 300,000 square feet of leasing in our Calgary portfolio during 2016, demonstrating why owning the best assets in a market provides great downside protection during challenging markets.

As you may have seen, last month, we submitted a proposal to acquire the minority interest in our Canadian REIT subsidiary, Brookfield Office Properties Canada, for CAD 30.10 per unit. If successful, this transaction will allow us to fully integrate our North American operations under BPY, further simplifying our structure following on the previous privatizations of Brookfield Office Properties and Canary Wharf.

The proposal is currently being considered by a special committee of the BOX Board of Trustees, and so we are somewhat limited in the comments we can make with respect to this process. We do, however, believe the all-cash offer at a 15% premium to where the units had been trading is an attractive one for BOX unitholders and hope to have a successful transaction completed in the first half of the year.

Moving on to retail. Leasing activity comprised 13.3 million square feet of leasing at average rent spreads of 20% over the leases that were expired. Same-store NOI growth was 5.3% in 2016, and tenant sales were up about 1% to $20.5 billion on a trailing 12-month basis. Same-store occupancy finished the quarter at 96.5%.

Although there's been much written about the challenges currently being faced by retailers generally and department stores in particular, we continue to see very high demand from tenants for space in our premier U.S. malls. There is a noticeable difference in investor appetite and operating performance between the best-located destination shopping centers and lower-quality or poorly located retail locations. And the 125 retail centers owned by GGP are among the top 400 in the entire country.

We're anticipating same-store NOI growth that is consistent with 2016 in this business this year. In addition, there's capacity for us to invest meaningfully in development and redevelopment initiatives within the portfolio, a strategy that, in the past, has proven to produce 8% to 10% yields on our cost.

As you would have seen in our press release, we were active late in 2016 acquiring department store boxes through GGP as well as forming a strategic partnership with Macy's to redevelop a high-quality portfolio of their own stores. Our contrarian investment approach is particularly well suited to finding opportunities in this sector at the moment.

Within our opportunistic investments, as we've been -- as we've mentioned over the past 12 months, we've been allocating an increasing percentage of our capital to these strategies. In April of 2016, Brookfield held a final close of $9 billion for its second global opportunistic fund, double the size of its predecessor fund. BPY's commitment to this fund is $2.3 billion, and to-date, the fund has invested or committed to invest approximately 75% of that capital. And we anticipate having the fund fully invested over the course of 2017.

Through our participation in Brookfield-sponsored fund strategies, we've expanded into new higher growth-generating real estate sectors, including self-storage, student housing and manufactured housing. We've also expanded our global investment and operating footprint, agreeing [ph] to acquire premier large-scale projects in Seoul, South Korea, and Mumbai, India.

Looking ahead to 2017, I'll just give a brief update on our strategic priorities for the year. And building on our success in 2016, the goals for this year remained largely the same. We will continue to seek opportunities to enhance the flexibility of our balance sheet by extending the maturity profile of our debt, reducing our floating rate exposure and seeking avenues to reduce the overall cost of capital. We plan to recycle a further $1 billion to $2 billion of net equity from mature asset sales this year to fund new investments and continue the build-out of our development pipeline.

We will remain focused on bringing our core office and retail portfolios to stabilized levels of occupancy, taking advantage of strong leasing conditions in our key markets. And finally, should our units continue to trade at a significant discount to NAV, we will then dedicate increasing resources to buying back our own units.

So to recap the year, we achieved meaningful earnings growth, improved the balance sheet and made some strategic investments in new sectors and markets. We're well positioned to further this growth in 2017, and this was reflected in the board's approval of our annual distribution increase. We remain committed, first and foremost, to delivering 12% to 15% long-term total returns for our unitholders.
So with those remarks, I'm now happy to open up the line to questions for any analysts and investors. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Sheila McGrath with Evercore.

Sheila Kathleen McGrath
Evercore ISI, Research Division

I was wondering if you could give us some insights on the investment market perhaps in New York and London in terms of investor demand and pricing for office assets and then also give us an update on interest level at 245 Park.

Brian W. Kingston
Chief Executive Officer of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

Sure. As I mentioned earlier, certainly -- starting with London, I guess. Certainly around the time the Brexit results came out, there was a real slowdown in activity in the market as people started to digest what it means, but it really just lasted through the summer. And coming into September-October, we've seen a real pickup in activity. I think a lot of people are looking at London, thinking this will be a great buying opportunity. So it's not a unique idea. And as a result of that, the transactions that have actually been happening over there have been at very strong cap rates. We actually sold one of our office buildings in the city in -- late in the year that was at a price that was at or a little bit above what we had been expecting to sell it for pre-Brexit. So that's anecdotal. It's one asset. But the investment market there is very strong. I think in our discussions with various LPs around the world, there's a tremendous amount of interest in buying at what people think is maybe a favorable time to do that. And so as a result, we really haven't seen a noticeable change in activity in London. New York remains, I'd say, probably the most popular destination for capital amongst foreign investors looking to invest not only in the U.S. but internationally. We're seeing a tremendous amount of demand there. You mentioned 245 Park, which is one asset that we're currently in the market for. Right now, it's a little early to speculate exactly where pricing will come out. But I can tell you that interest has been very high and from a lot of different places around, obviously, Asia and the Middle East, but there's been a great deal of domestic interest in it as well.

Sheila Kathleen McGrath
Evercore ISI, Research Division

Okay. And then, Brian, could you give us update on One Manhattan West? Just leasing outlook and what you're seeing on the leasing side.

Brian W. Kingston
Chief Executive Officer of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

Sure. I'll let Ric handle it.

Richard Byron Clark
Chairman of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

Yes. Sheila, interestingly, last year, I'd say, activity slowed down a little bit leading up to the election. But once the election was determined, activity has picked up. And we've just seen robust space showings and activity both at Manhattan West and the rest of our portfolio in New York City. We are under discussions with close to 6 million square feet of tenants in -- most of that targeted at Manhattan West. Clearly, we don't have that much space, so they're not all going to result in leases. But activity is strong. So we expect to have more announcements on new leases as the year progresses.

Sheila Kathleen McGrath
Evercore ISI, Research Division

Okay, great. And one last quick question. You mentioned in the letter about the payout ratio. And I was just wondering if you could help us with that calculation, the 80%. Is it -- it's FFO plus gains on sales? Or where we can kind of figure out that calculation?

Bryan Kenneth Davis
Chief Financial Officer of Brookfield Property Partners Limited and Managing Partner of Real Estate - Brookfield Property Partners Limited

Sheila, it's just our distributions divided by our FFO. That's what our target is. And we just calculate it on an annualized basis.

Sheila Kathleen McGrath
Evercore ISI, Research Division

Oh, on FFO?

Bryan Kenneth Davis
Chief Financial Officer of Brookfield Property Partners Limited and Managing Partner of Real Estate - Brookfield Property Partners Limited

Yes.

Operator

And our next question comes from the line of Mark Rothschild with Canaccord.

Mark Rothschild
Canaccord Genuity Limited, Research Division

Maybe just starting with your comments on the buyback. Brian, you mentioned that if the units remain well below NAV, you'd have -- you'd allocate increasing amounts of capital towards the buyback. Is that -- would that be consistent with what you did in the past quarter? Or should we expect something more significant if this discount to NAV persists?

Brian W. Kingston
Chief Executive Officer of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

No. Look, I do think, as I mentioned, over the course of the year, as we got more certainty around some of the asset sales, et cetera, that we were working on, it allowed us to do more in the fourth quarter than we had in the previous years. And I think it's the same for 2017. We're -- we obviously think where the shares are trading right now relative to the value that each of these individual assets is worth, it's a very meaningful discount and certainly a much bigger discount than we can buy new assets at. So we do think it's a good use of that capital. So I'd say that -- I don't want to predict it quarterly how much we would dedicate toward it. But I do think if the shares stay where they are, we will buy back more shares in 2017 than we did in '16.

Mark Rothschild
Canaccord Genuity Limited, Research Division

And you made a comment about converting to a REIT that it's not something that you guys would be able to do right now just because there's uncertainty about things regarding taxes. Can we infer from that, that if there is some resolution or some -- something that changes that makes it work or maybe that nothing changes and you see some stability in that regard, that it is something you're likely to pursue?

Brian W. Kingston
Chief Executive Officer of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

I think it's a little early to commit one way or the other. I do think there will be greater clarity, or we're expecting there to be greater clarity over at least the direction of where some of these tax changes are heading fairly early in 2017. It's clearly one of the priorities of the new government. And really, I guess, the point was at where we are right now that we don't have that direction. And so it would be premature to make a decision based on where current -- the current rules are if they may possibly change over the course of this year. So I think once we get a better sense for the direction that they're heading, we'll be in a better position to make an informed decision around that.

Mark Rothschild
Canaccord Genuity Limited, Research Division

Would it be fair to say that you wouldn't be mentioning this and going -- repeatedly even at the Investor Day as well if this is not something that you're strongly leaning toward?

Brian W. Kingston
Chief Executive Officer of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

I'd say it's something that we are actively working on. We don't have a preconceived view one way or the other as to whether we definitely want to do it. I -- look, it's obviously -- there are pluses and minuses to it, which we've talked about in the past. The index inclusion, et cetera, we think is a -- would be a net benefit in terms of increasing investor interest in the shares or in the units. But there are also limitations on how we operate the business, and we really just need to sort of take all that into account. I wouldn't read too much into that we mentioned it twice now.

Operator

[Operator Instructions] And our next question comes from the line of Mario Saric with Scotiabank.

Mario Saric
Scotiabank Global Banking and Markets, Research Division

Maybe at the risk of beating a dead horse here, just going back to the REIT conversion. Brian, if we put aside the administration's kind of proposed changes to tax, just kind of given the work that the company has done in the past 4 months with respect to converting to a REIT, would the odds that you initially placed on a successful conversion being 50-50 have changed significantly based on what you've done in the past 4 months?

Brian W. Kingston
Chief Executive Officer of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

No, now you're pinning me down to a specific number, but I -- no, I don't think the -- look, I don't think anything has changed in our thinking over the past 4 months that would lead that percentage to change dramatically. I think the issues were well known. We -- there is a -- as far as the structural process to converting, we believe there is a logical path there, but it's really some of the other finer points that will probably drive that decision.

Mario Saric

Scotiabank Global Banking and Markets, Research Division

Okay. And one of the potential policy changes is just the elimination of the 1031 rollover. Can you talk about how significant or insignificant that may be for your operations in the U.S. in terms of how you're thinking about capital recycling and I think [ph] along those lines?

Brian W. Kingston
Chief Executive Officer of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

Yes. Depending on how long you have, we could talk a lot about the implications of some of these. I think 1031 on its own -- the decision to eliminate 1031 on its own is not a stand-alone decision. There's numerous other changes that come with it, including deductibility of interest and being able to expense acquisitions as -- in the years that they're made. And so I think, really, the elimination of 1031 really only happens with those other changes. And it's logical because those other changes sort of get rid of the requirement to have a 1031. So I would say that, in general, if some of these changes are made, it is likely going to, we think, lead to increased transaction activity in the U.S. I'm not sure that, that necessarily impacts value one way or the other, but we do think some of these things could lead to greater transaction activity. But I think, most importantly or the thing that we're watching the most closely is, obviously, the REIT structure is tax beneficial under the current set of rules. And with the changes that -- some of the changes that are being contemplated, that may be less true in the future. And that's really the certainty we're trying to get more clarity on before we make decisions around some of these things.

Mario Saric
Scotiabank Global Banking and Markets, Research Division

That's great. Just maybe shifting focus to fundamentals and specifically looking at the office portfolio. If I look at the occupancy, it increased quarter-over-quarter in 6 of your markets, and it was flattish in only 2. I think, as you mentioned, your overall occupancy was up 90 basis points quarter-over-quarter. So I'm just wondering if you can maybe talk about the level of conviction that you have internally with respect to hitting kind of your previous targeted occupancy of the mid-90s on the office side by the end of '17, kind of '18, acknowledging that the portfolio may not be a static one over time.

Richard Byron Clark
Chairman of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

So this is Ric. I'd say our confidence level is actually pretty high given the level of activity. As I mentioned just a few minutes ago, activity was down, for some reason, going into the election, I guess, just political uncertainty. But across the board, we've seen a pickup in activity, and we've got a lot of discussions going on within our development portfolio as well. So I think there's a good chance of hitting our numbers. And of course, we'll update you quarter-by-quarter as the year goes on.

Mario Saric
Scotiabank Global Banking and Markets, Research Division

Okay. And then I think I heard the discussion pipeline was 6 million square feet. Is that for your entire development pipeline? Or is that specifically for One Manhattan West?

Richard Byron Clark
Chairman of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

Yes. So that's for New York in general. And I'd say probably 2/3 of that is geared towards Manhattan West overall. So some of that would be targeted towards One Manhattan West, some potentially the second tower and some 5 Manhattan West, our existing building that we redeveloped.

Mario Saric
Scotiabank Global Banking and Markets, Research Division

And then given kind of your commentary on the outlook, is it a fair assumption that the kind of mark-to-market -- the strong mark-to-markets that we've seen in terms of lease rolls this year, is it a fair assumption to expect a similar kind of mark-to-market next year given your bigger lease expiries, at least in the U.S., are in New York as well as Houston?

Richard Byron Clark
Chairman of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

Yes. I think that's right. Yes. Yes, there's no reason to expect it to change much.

Mario Saric
Scotiabank Global Banking and Markets, Research Division

Okay. And then just maybe for Bryan Davis. I just wanted to clarify whether there was any incremental income coming in from Brookfield Place in New York that wasn't in the Q4 run rate.

Bryan Kenneth Davis
Chief Financial Officer of Brookfield Property Partners Limited and Managing Partner of Real Estate - Brookfield Property Partners Limited

Nothing material, Mario. I think as of the end of Q3, we were pretty much at a full run rate.

Operator

And our next question comes from Sheila McGrath with Evercore.

Sheila Kathleen McGrath
Evercore ISI, Research Division

Yes. I wanted to ask you about leverage targets for the year and if -- kind of if that will restrict the amount of shares you buy back.

Bryan Kenneth Davis
Chief Financial Officer of Brookfield Property Partners Limited and Managing Partner of Real Estate - Brookfield Property Partners Limited

So our leverage targets that we have talked about on a number of occasions is the 50% range, which is just debt to total assets, which is effectively what we target at a very high level, and it's really focused on the fact that we pursue a property-level financing strategy. We are pretty close to those levels now. We did pay down a fair amount of corporate-level debt during 2016 and into the early part of 2017, whether it be subsidiary credit facilities, our corporate credit facilities or facilities associated with our fund activities. In addition, we repaid our one series of senior unsecured notes in early January. So I think we feel in pretty good position with respect to leverage levels. I don't think they'll restrict our ability to pursue things on an opportunistic basis. If we find the ability to transact for value, we will do that. And our main focus is ensuring that we have the liquidity available to allow us to do that.

Sheila Kathleen McGrath
Evercore ISI, Research Division

Okay. And then on -- 2 questions in Europe. London, it looks like that you have 3 condo projects at Canary Wharf. Just wondering about your confidence level just with the uncertainty in London with those projects. And then also on -- if you could give us a update on the Berlin property.

Richard Byron Clark
Chairman of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

So Sheila, on London, we do have a few condo projects going on both at Canary Wharf and at Shell Centre and at Principal Place. And sales have been good. Maybe they've slowed down a little bit post Brexit, but obviously, the product that we have, I think, is right in the sweet spot of those looking for condos. So we're not expecting any material changes or issues. As far as Berlin goes, progress on the repositioning of that project has also been tremendous. If you recall, we bought the project with half the office space empty. I think as of now, we're close to 90 with a pretty robust pipeline and in discussions with a number of tenants. So I think this year, we'll get all the office completely leased. We're in the process of renovating the apartments and re-leasing those. The prior owner was in the -- had a different strategy of emptying them out. Their plan was to sell them as condos. We've reversed course. So I think by the end of the year, we'll make great progress leasing those apartments back up again. The only thing really left to do there is to finish our planning for the redevelopment of the retail part of the project, and that's underway. So we should have a plan in the next few months.

Sheila Kathleen McGrath
Evercore ISI, Research Division

Did you do any major changes to get the office occupancy up so -- more than the previous owner?

Richard Byron Clark
Chairman of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

Honestly, we didn't. I think 2 things we had going for us. One is just our relationships with tenants around the world. It was, I think, really helpful. There were a couple of tenants in the project that were in the process of leaving that we convinced, because of our relationships with them, not only to stay but to expand. So that was good. And I think, just being completely honest, the market sort of changed right as we entered the market. So we had a lot of good strong wind at our back, which was helpful as well.

Operator

And our next question comes from the line of Mario Saric, Scotiabank.

Mario Saric
Scotiabank Global Banking and Markets, Research Division

Sorry. Just one follow-up question on the quarter for Bryan Davis maybe. The -- Hurricane Matthew, can you quantify what kind of impact that may have had on FFO basis -- on a year-over-year basis in terms of lost revenue and increased cost during the quarter?

Bryan Kenneth Davis
Chief Financial Officer of Brookfield Property Partners Limited and Managing Partner of Real Estate - Brookfield Property Partners Limited

It was $4 million in aggregate, about $1 million at our share. But there was downtime associated with it as well that's not quantified in that number.

Operator

And I'm showing no further questions at this time, so I'd like to turn the call back over to Mr. Brian Kingston.

Brian W. Kingston
Chief Executive Officer of Brookfield Property Partners Limited and Senior Managing Partner of Real Estate - Brookfield Property Partners Limited

Thank you, everyone, for joining the call again this quarter, and we look forward to updating you again in the future. Have a good day.

Operator Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.