



Business Description:

Brookfield Property Partners LP (BPY) is a multinational commercial real estate owner, operator and investor. BPY possesses a diversified portfolio including interests in over 400 office and retail properties encompassing approximately 260 million square feet. In addition, BPY owns 44 million square feet of industrial space, 27,800 multi-family units as well as 11 hotel assets with nearly 8,700 rooms. BPY is headquartered in Bermuda, while the majority of its properties are located in North America, Europe, Australia and Brazil. Established on January 3, 2013, BPY was formed through a spin-off of Brookfield Asset Management, Inc. Subsequent to the spin-off, Brookfield Asset Management continues to share its industry expertise and proven investment strategies while maintaining a nearly 68% interest in the company. The acquisition activities for the past two years involving Canary Wharf and Brookfield Office Properties Inc. has further strengthened its office portfolio consisting mostly of Class A office buildings located in downtown cores of some of the largest cities in the world.

Overview and Investment Thesis:

- **Large scale owner and operator.** BPY offers investors exposure to a quality real estate platform encompassing all four core real estate asset classes. With approximately 14,000 employees involved in its real estate businesses around the world, BPY has built operating platforms in office, retail, industrial and multi-family sectors. Through its subsidiaries, BPY owns many signature properties including Brookfield Place in New York City, Toronto and Perth, Bankers Hall in Calgary, Bank of America Plaza in Los Angeles and Canary Wharf in London. BPY expanded its scale through active asset management and rapid asset acquisition, which has enabled its cash flow to grow significantly over time.
- **Internal growth to boost value proposition.** BPY possesses a significant amount of development and redevelopment projects that contribute meaningful cash flow in each of its operating segments. Among all of the ongoing development projects, many are in the early pre-development stages which are scheduled to be completed over the next five years. Currently, there are approximately US\$5.4 billion of development projects that are expected to earn better risk-adjusted returns compared to acquisitions. Those active projects are expected to generate 7% yield on cost on average and are expected to be completed by 2018; by then an estimated additional US\$266 million net operating income will be generated annually.
- **Significant post spin-off support from Brookfield Asset Management (BAM).** Since the establishment of BPY, we believe it has benefited from BAM's industry expertise and connections. With its business exposure in infrastructure, power and equity funds, BAM has many clients and investors who are some of the world's largest and most successful pension funds, sovereign wealth funds, insurance companies and financial institutions. Furthermore, with BAM's substantial liquidity and strong relationships with banks and institutional investors, BPY is able to participate in attractive investment opportunities that it could not have executed on a stand-alone basis. With the help from BAM, BPY has completed several major acquisitions which allowed itself to deploy capital in a time effective manner and participate in sizable transactions.

- **Real estate pure-play.** The spin off allowed BPY to own BAM's income producing property investments and to focus on top quality real estate investments. In addition, we believe the creation of BPY offers investors an opportunity to gain exposure to a portfolio consisting of Class A assets located in global gateway markets.
- **High-quality tenant base.** BPY's office tenant profile is characterized by large, credit worthy companies and government agencies. As of December 31, 2014, government and government agencies comprise BPY's largest tenant, comprising 8.2% of its office segment. Other high quality tenants include CIBC World Markets, Morgan Stanley, Bank of Montreal, JPMorgan Chase and Company, Royal Bank of Canada and Suncor Energy Inc., which as a group, have a minimum credit rating of A-. In its retail properties business, tenants such as L Brands Inc., The Gap Inc., Foot Locker Inc. and American Eagle Outfitters Inc. also exhibit high level of credit worthiness.

Opportunities in office portfolio:

- **Mark to market of expiring leases.** There is an opportunity for substantial growth in cash flow as rental rates are marked to market on expiring long term leases. The average in-place net rent per square foot in BPY's office portfolio (which represents more than 60% of its revenue) is currently 21% below the market net rents. We believe this provides a solid opportunity for BPY to capitalize on increasing mark to market rents as a result of the renewal of leases.
- **Growth momentum in occupancy rate.** With BPY's outstanding negotiation efforts throughout 2014, the company has increased its occupancy rate to 92.1% compared to 89.3% at the beginning of last year. The firm's office division leased over 10 million square feet throughout 2014, when strong performance in New York City and London offset more moderate performance in other geographic segments.
- **Highly regarded management team.** The management team is currently led by Richard Clark, who has 33 years of experience in real estate industry, including 30 years at Brookfield Asset Management. Mr. Clark held the Chief Executive Officer position at Brookfield Office Properties prior to the creation of BPY. John Stinebaugh, currently holds the Chief Operating Officer position. Mr. Stinebaugh has ten years of experience with the Brookfield group where he spent the most time as Chief Financial Officer of Brookfield Infrastructure Partners LP. Brian Kingston is President and Chief Investment Officer. Mr. Kingston has experience across various operating platforms such as mergers and acquisitions, real estate advisory, and merchant banking, which seek to enhance BPY's overall strategy to expand its multinational platform.
- **Strong organic cash flow and distribution growth potential.** There are many upside catalysts for cash flow growth over the next few years including increase in occupancy, rent growth and redevelopment potential. As a result of escalation provisions in the majority of BPY's leases, the marking-to-market of rents (as long-term leases expire) and ability to increase occupancy primarily in office and retail sectors, has built a strong foundation for organic cash flow growth. BPY will have flexibility to utilize this incremental cash flow to increase distribution to unitholders and fund other growth initiatives.



Industry Growth Drivers/Trends:

- **Robust economic growth in U.S.** The combination of sustained job creation, falling unemployment, improving consumer and employee confidence, plateauing inflation, as well as low interest rates, have created a highly-optimistic environment for the U.S. real estate industry. The positive reading from the recent U.S. nonfarm payroll report has further confirmed the nation's solid growth in labor market, which historically tends to boost occupancy in office properties. With 35% of BPY's revenue exposed to the U.S. office segment, we anticipate a reduction in vacancy rates within its U.S. office portfolio.
- **Growing international demand.** Given the improving global economic conditions and more relaxed foreign investment regulations, global capital inflows remain strong as investors diversify in pursuit of outperformance and attractive real yield. Among all the countries, U.S. properties will continue to be seen as the safe heaven investments given the country's solid economic condition. Meanwhile, BPY maintains material exposure to the U.S. property market, where its ownership in some of the landmark Class A buildings such as the World Financial Center and Brookfield Place will continue to help the company to retain its top quality brand image.
- **Increasing attractiveness in real estate investment.** As part of the ongoing global monetary stimulus, central banks including Swiss National Bank and European Central Bank have imposed negative deposit rates, and interest rates around the world are expected to be maintained at low levels for an extended period. This unprecedented period of low rate condition benefits real estate as an asset class. Real estate's stable income continues to attract investors looking for higher yield. The potential for real estate to diversify between both asset classes and geographies is an added advantage in the current uncertain international political environment. In addition, the momentum in North American real estate investment is expected to continue as both rental growth and new development are currently still at an early stage of the cycle.
- **Rising opportunity in office segment.** U.S. office-using employment expanded by 2.4% in 2014, while net office absorption totaled 52.7 million square feet, the greatest since 2007. We believe that with the declining trend in vacancy rates and solid growth in rental rates, the U.S. office sector has robust growth potential for the next few years. Elsewhere, in U.K., the yield margin between prime and secondary class assets is at high level, which is driven by the increasing demand and shortage of supply for Class A space.
- **Underlying growth in retail sector.** With job growth in U.S. now just reaching its fastest pace in over a decade, and consumer confidence surging alongside occupancy rates, we believe the fundamental outlook for retail sector is very attractive. According to CBRE Group (one of the largest commercial real estate service providers), a combination of all-time low completions and a record drop on availability rate will drive up average rent to its fastest pace since 2007. We believe the positive outlook for solid improvement within the sector is likely to continue, with demand outpacing supply, and attractive rent growth through 2018.

Competitive Advantages:

- **Global scale:** With approximately 14,000 employees involved, BPY has operating platforms in North America, Europe and Australia, with growing presence in Brazil, China and India.
- **Sector diversification:** With a portfolio of assets in office, retail, industrial, multi-family, and hospitality, BPY generates diversified cash flows, which enhance cash flow stability and reduce cost of capital.
- **Connection with BAM:** Its unit holders benefit from BAM's global presence, operating experience, execution capabilities and relationships.

Competitors:

- **U.S. segment:** SL Green Realty Corp., Vornado Realty Trust, Boston Properties Inc.
- **Canada segment:** Allied Properties REIT, First Capital Realty Inc., Killam Properties Inc.,
- **Europe segment:** Barratt Developments PLC, Unibail-Rodamco SE
- **Australia segment:** Westfield Corporation, Dexus Property Group

Customers:

BPY's tenants are well diversified where no single commercial tenant consists of more than 5% of its total available square foot.

Barriers to Entry:

- **The importance of network:** Entrants to the real estate market must have a well-established network with potential tenants. Given the increasing demand from institutional clients, BPY's ability to access BAM's institutional relationships through its private funds, infrastructure and renewable energy businesses to generate marginal buyer is a crucial way to guard against threats from new entrants.
- **High switching cost among tenants:** Tenants in office and retail segments are usually reluctant to switching among real estate developers due to the substantial cost associated with moving as well as the importance of the geographic location.
- **Large initial capital outlays/Economies of scale:** Entry in the real estate industry requires significant amount of up-front investments especially for owning high quality properties. With the supporting capital provided by BAM, BPY's strategy in maintaining a premium quality of real estate portfolio is rarely challenged by other real estate developers.

Officers and Directors:

Leadership team: Chief Executive Officer, Richard Clark; Chief Operating Officer, John Stinebaugh; President and Chief Investment Officer, Brian Kingston.



Corporate Governance:

- The General Partner of BPY has sole responsibility and authority for the central management and control of BPY, which is exercised through its board of directors.
- 8 member board – of which 6 are considered independent directors, while 2 members, Louis Joseph Maroun and Jeffrey Blidner also hold other positions with the Brookfield Group of Companies.
- The General Partner's governance and nominating committee has approved conflicts policy which addresses requirements for transactions in which there is greater potential for conflict of interest.
- BPY intends to build all future office developments to a Leadership in Energy and Environmental Design (LEED) Gold standard which entails highly energy efficient sustainable sites. The LEED Green Building Rating System is an internationally accepted scorecard for sustainable sites, water efficiency, energy and atmosphere, materials and resources, and indoor environment quality. Within BPY's office portfolio, 67 properties are LEED certified or equivalent.
- In its 2014 annual report, BPY states that it pays a quarterly management fee of \$12.5 million to the appointed Brookfield service providers, which on an annualized basis accounts for approximately 2.6% of the company's net operating income.

Ownership:

- No person or company other than BAM, Future Fund Board of Guardians, Manulife Financial Corporation and Qatar Investment Authority beneficially owns or controls more than 9% of BPY's total shares. As of December 31, 2014, ownership of BPY is as follows: BAM 68%, Qatar Investment Authority 9%, Manulife Financial Corporation 6%, Future Fund Board of Guardians 5%, Investment Corporation of Dubai 4.03%, London Capital Management Ltd. 0.95% and HSBC Global Asset Management 0.4%.

Capital Allocation/Uses:

- BPY has been generating premium returns through its capital recycle program, through which it seeks to fund new investments by disposing stabilized assets that have low capitalization rates. Over the past five years, BPY has sold \$3.5 billion of office assets, generating approximately \$800 million of realized gains and nearly \$55 million of fair value gains. In 2014, BPY's capital recycling program has recycled \$570 million of capital, increasing its funds from operation yield by an average of 400 basis points and realized over \$450 million of value.
- Funds from operations (FFO) increased significantly over the past two years, to \$1.93 billion in the fiscal year ended December 31, 2014 compared with \$1.77 billion for 2012. The increase was driven primarily by the increased ownership in Brookfield Office Properties and General Growth Properties.
- Compared to its fiscal year 2013, BPY's 2014 debt obligation increased by \$6.531 billion but weighted average cost of debt was maintained at 4.4%. The main contributor to the surge in debt is due to the new \$1.5 billion acquisition facility and a \$1 billion credit facility in March 2014. As a result, the company's total debt obligation was over \$28 billion, with roughly 85% due in more than a year.

- BPY announced its 50/50 joint venture with the Qatar Investment Authority (QIA) on December 4, 2014. It intends to make an offer to acquire the outstanding shares of Songbird Estates plc, who is the owner of Canary Wharf Group plc. To finance the acquisition, BPY will issue \$1.8 billion of preferred equity securities to QIA. The security will be issued in three \$600 million tranches, with an average dividend yield of 6.5%, and maturities of seven, ten and twelve years.
- BPY has improved its dividend payout in fiscal year 2014 as it continues to pay a quarterly dividend of 25 cents which is in line with the 80% payout target (FFO based). This is largely due to its successful effort in improving occupancy rates at Brookfield Place New York. According to its management team, the strong net operating income growth is expected to drive its FFO growth of 8% to 11% per year, which has boosted BPY's confidence to increase its distribution growth target to between 5% to 8% per annum.

Geographic Segments (Years ended December 31)

Geographic Mix	Revenues (%)		Non-Current Assets (%)	
	2014	2013	2014	2013
Australia	7.9%	3.2%	7.1%	7.9%
United States	67.5%	66.1%	70.8%	67.2%
Canada	11.6%	13.2%	8.9%	11.0%
Europe and rest of world	8.9%	14.1%	7.3%	9.5%
Brazil	3.3%	3.3%	3.6%	4.4%
China	0.9%	-	1.0%	-
India	-	-	1.3%	-



BROOKFIELD PROPERTY PARTNERS LP

BPY - NYSE

JUNE 2015



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Business Segments (Year ended December 31)						
Business Sector Mix	Revenues (%)		Non-Current Assets (%)		Total Assets (%)	
	2014	2013	2014	2013	2014	2013
Office	63.1%	61.1%	71.4%	74.7%	58.9%	66.2%
Retail	4.2%	3.7%	5.6%	5.5%	16.8%	18.1%
Industrial	4.5%	3.0%	4.9%	4.1%	4.4%	5.3%
Multi-family	4.6%	3.6%	5.1%	4.0%	4.4%	3.3%
Hotels	22.6%	28.5%	9.9%	11.8%	5.6%	6.9%
Triple Net Lease	1.3%	-	3.0%	-	6.7%	-
Corporate	-0.4%	0.1%	-	-	3.2%	0.2%

Key Ratios and Figures					
Y/E December 31	2010	2011	2012	2013	2014
EBITDA Margin	56.9%	56.7%	47.5%	42.2%	43.0%
Debt to Equity	-	-	1.51x	8.56x	4.1x
Return on Invested Capital	-	-	-	6.4%	14.7%

Financial Statement Summary (\$USD MM except per share items which are \$USD, years ended December 31)					
	2010	2011	2012	2013	2014
Income Statement					
Total Revenue	2,235	2,781	3,768	4,287	4,373
EBITDA	1,271	1,576	1,791	1,811	1,880
Earnings per Share (Diluted)	4.70	10.72	6.75	1.60	5.59
Dividend per Share	-	-	-	0.25	1.25
Dividend Payout Ratio	-	-	-	15.63%	22.36%
Balance Sheet					
Net Debt	-	-	29,793	42,734	47,437
Total Equity	-	-	13,163	2,532	6,591
Net Debt: Total Equity	-	-	2.3x	16.9x	7.2x
Cash Flow Statement					
Operating Cash Flow	764	1,546	605	421	483

Sourced from Thomson Reuters and Company Reports

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