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BPY - Q1 2018 Brookfield Property Partners LP Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Brookfield Property Partners First Quarter 2018 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, Senior Vice President of Investor Relations and Communications. Please go ahead, sir.

Matthew P. Cherry - *Brookfield Property Partners L.P. - SVP of IR & Communications*

Thank you, and good morning. 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.

Please note the earlier this week, we filed the preliminary proxy statement & prospectus related to our pending acquisition of GGP. While the proxy statement and prospectus is not yet final as it is now under customary review by the SEC, we encourage all interested parties to read it to inform themselves on any and all aspects of the transaction. With that said, the purpose of today's conference call is to discuss BPY's Q1 2018 financial and operational results. And accordingly, we ask that any questions from analysts pertain to that subject matter.

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

Brian William Kingston - *Brookfield Property Partners L.P. - Senior Managing Partner & CEO of Brookfield Property Partners Limited*

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

In my prepared remarks, I'll recap our operating performance as well as provide an update on the various strategic initiatives and accomplishments from the first quarter. Bryan will then go through the details of our quarterly financial results. And following those comments, we'd be happy to take any questions from analysts on the call today.

So as you would have seen in our disclosure this morning, we recorded another quarter of strong earnings growth with company FFO up 12% on a per-unit basis over the prior year. Bryan will provide further detail on what drove those positive results in his remarks.

Our ongoing asset sales program continues to yield strong returns. We were very active in capital markets this quarter with strategic exits at both our stabilized core properties as well as assets in our maturing private funds. In March, we sold a 50% interest in the Bay Adelaide Centre in downtown

Toronto at a valuation of CAD 1.7 billion. Developed by Brookfield, these 2 towers were completed in 2009 and 2015 and have been -- have become one of Toronto's premier commercial addresses. Our in-place occupancy is 99% and we have a remaining weighted average lease term of nearly 10 years. The properties were refinanced concurrent with the sale, resulting in total net proceeds of CAD 566 million to BPY. Those proceeds were used to retire the term loan used to privatize Brookfield Canada Office Properties last year.

Also in March, we sold our 51% interest in 1801 California Street in Denver. It's the city's second largest office tower at 1.3 million square feet, and the transaction that valued the building at $560 million, which is the highest value achieved by any asset in the Denver market. We acquired this property in 2011 for $215 million, when it was facing an anchor lease expiry and was in need of a significant capital improvement.

Following a comprehensive redevelopment of the property, occupancy in the building moved from 37% to 95%. The successful investment generated a gross investment return of 21% and $159 million of net proceeds to BPY.

We've also continued to recycle capital within our opportunistic fund strategy. This quarter, we completed asset sales in several sectors, including hospitality, triple net lease, industrial and multifamily assets. It's worth noting that we generate substantial cash returns from our fund investments when assets or businesses are sold like this. However, these amounts are generally not reflected in our company funds from operations. These cash returns represent a major portion of our 18% return targets on this capital and are a key factor in determining our distribution policy, which is established to track record of annual growth between 5% and 8%.

Looking at operational results from our 2 primary business segments, first, starting with office. We leased just under 1 million square feet during the quarter and occupancy in this portfolio today stands at 92.6%, which is consistent with the prior quarter and up about 110 basis points over the prior year.

Importantly, new leases that were signed during the quarter were rents that were 17% higher than the leases expiring. Occupancy in our core retail business decreased 0.4% year-over-year to 94.3%. That said, demand for space remained strong as we executed or approved leases for 8.2 million square feet of space during the quarter, which represents about 80% of our full year 2018 leasing goals.

And also, similar to office, we achieved significant mark-to-market rent increases with these leases, with average suite-to-suite spreads of 21% on leases that are commencing in the last 12 months.

I'll now turn the call over to Bryan to discuss our detailed financial results for these sectors as well as for BPY overall.

Bryan Kenneth Davis - *Brookfield Property Partners L.P. - CFO of Brookfield Property Partners Limited*

Great. Thank you, Brian. During the first quarter of 2018, BPY earned company FFO of $268 million compared with $237 million for the same period in 2017. 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. This represents a 12% increase.

BPY has recorded net income attributable to unitholders for the quarter -- was $530 million or $0.75 per unit compared with a net loss of $166 million or $0.23 per unit in the prior year.

In reviewing what contributed to the year-over-year growth and company FFO and net income, I will highlight the main drivers by our 3 business units. First off, in our core office business, we earned $153 million of company FFO compared with $136 million in the prior year before considering a legal settlement earned in London in the prior year relating to historic lease dispute of $20 million.

Contributing to the $17 million increase was strong same property net operating income growth of 2.6% on a currency natural basis and 6% when considering the relative strength of foreign currencies compared to the U.S. dollar. We saw a 170 basis point increase in our office same property occupancy to 92.9%. More specifically, our same-property growth was most pronounced in Australia, where we had growth -- was 8% as a result of new rent commencements in Sydney at 10 Shelley Street and at Brookfield Place Tower 2 in Perth, which contributed to an increase in same property occupancy of 210 basis points to 96.4%.

And in Canada, where overall growth, same store -- same property growth was 9%, led by Toronto, where occupancy was up by 340 basis points to 98.3% with higher net operating income at Brookfield Place and Bay Adelaide East.

In Calgary, where same property occupancy was up 160 basis points to 94.9% with higher net operating income at Fifth Avenue Place. In addition, the strength of the pound and the euro relative to the U.S. dollar led to an 8% same-property growth in our markets of London and Berlin.

Another driver of earnings growth for our core office business is our active development pipeline. In the quarter, we benefited from incremental FFO of over $4 million from recently completed although not yet stabilized developments, including The Eugene, which is our 844-unit for rent multifamily property in New York, which is now closed to 80% leased in total; Brookfield Place Calgary East, our 1.4 million square foot development in Calgary, which is currently 82% leased; and Towers 1 and 2 at London Wall in London, which is a 500,000 square-foot complex and 79% leased.

Net income from our core office business for the quarter was $258 million and included property fair value gains of $88 million. These gains were mainly from our Australian portfolio and are reflective of increased cash flow driven by leasing activity and rent adjustments at rates that were better than forecasted.

Secondly, in our core retail business, we earned $116 million of company FFO compared with $110 million in the prior year. The main factor contributing to this increase was our additional $460 million investment that we made in GGP on the exercise of our warrants towards the end of 2017.

Although same-store results from this business were down year-over-year by slightly over 1%, they were in line with our expectations for the first quarter. Excluding the impact of lease terminations, other noncore revenue and a temporary drag on our first quarter operating expenses, same property net operating income did trend positively, which was supported by favorable trends and permanent same-store mall revenues.

During the quarter, we did realize income of $2 million related to the transfer of title of 5 condominium units at Ala Moana to the purchasers, which pretty much completes the recognition of revenue related to these sales.

Net loss for our core retail business for the quarter was $158 million and included fair value -- property fair value losses of $270 million. These losses were due to valuation metric adjustments. Reflective of these valuation adjustments are carrying value of GGP at the end of the quarter was $26.61, which is inclusive of $1.71 of goodwill from our original investment in GGP in 2009.

Lastly, our opportunistic investments earned $114 million of company FFO compared with $83 million in the prior year, a $31 million increase or 37%. Much of this increase is due to an additional $450 million of capital invested in this business through our commitment to various Brookfield-sponsored funds, which generated almost $9 million of FFO. We list some of the major investments made on Page 7 of our supplemental.

In addition to this, our operations performed very well through the first quarter. Same-property growth in our North American and U.K. hospitality assets contributed $5 million in incremental FFO, reduced interest expense as we repaid high-cost debt secured by retail assets in Brazil and the strength of foreign currencies contributed another $7 million in incremental FFO.

During the quarter, we also earned income from a multifamily merchant build sale in California of $17 million. We are targeting to sell 2 other projects towards the end of the year to generate a total of just under $40 million in merchant build income for the year. Although this is down from our target of $65 million for the year that I referenced at last quarter's conference call, it is only due to timing, which has pushed certain sales into 2019 to achieve our best execution.

Net income from our opportunistic business for the quarter was $166 million and included property fair value gains of $144 million. These gains were mainly attributable to a cap rate compression in our U.S. industrial and manufactured housing portfolios, supported by market data as well as gains in our India office portfolio resulting from strong leasing activity and increases in market rents. 78% of the capital that we have invested in our opportunistic business is invested in Brookfield's first and second real estate opportunity funds. These funds are currently tracking at a 22% IRR with a 2.3x multiple of capital, which means of the original $3.6 billion that we committed, we expect to have over $7 billion returned to us as these fund investments are realized.

In comparing our results to the fourth quarter of 2017, company FFO decreased by $18 million from $286 million earned in that period. This decrease was primarily attributable to seasonality in our retail business with the fourth quarter being its strongest.

Reflecting typical adjustments for leasing costs, tenant improvements, sustaining capital expenditures, noncash items and realized gains are in from our opportunistic investment activity that are not otherwise reflected in FFO, we earned adjusted company FFO, which we highlight now on Page 13 of our supplemental, of $1.64 per unit on a last 12-month basis. Including our increased distribution of $0.315 per unit for the first quarter of this year, we paid distributions of $1.20 per unit over the last 12 months, which represents a payout ratio of 73% of our adjusted company FFO.

On our balance sheet, we continue to make progress building out our core development pipeline with the majority of the incremental capital being funded through our construction facilities. In addition, our recent acquisition of 2 extended stay portfolios contribute to an increase in our property plant and equipment.

We are also advancing all of our 2018 debt maturities and expect to be completed with them well before maturity. During the quarter, as Brian mentioned, we sold an interest in Bay Adelaide Centre and used the proceeds to repay in full the acquisition debt put in place when we privatized the REIT last year. With our debt to capitalization around 55%, we continue to focus on a number of initiatives with the target of both adding term to short-dated debt and reducing our overall debt to be more in line with our longer-term target of a debt-to-capital ratio of around 50% and a debt-to-EBITDA coverage ratio of less than 12x.

With that, I will end my prepared remarks and I will turn the call back over to you, Brian.

Brian William Kingston - *Brookfield Property Partners L.P. - Senior Managing Partner & CEO of Brookfield Property Partners Limited*

Thanks, Bryan. So turning to new investments we made during the quarter. It was an active one in Europe, including a portfolio of 1,000 serviced apartments that we acquired, which were located in London, Dublin, Amsterdam, Paris and Berlin. We also acquired a 15-property, 5,400-bed portfolio of student housing assets in 12 university cities throughout the U.K. This portfolio represented an attractive opportunity for us to add scale to our growing student housing business in the U.K., which is now one of the largest businesses there with nearly 16,000 beds.

We continue to see attractive investment opportunities in the high growth office market in India as well. So following an active 2017, we recently acquired a 4-building, 1.3 million square foot Class A office park in the CBD of Mumbai. The purchase price was $375 million, which represents a significant discount to replacement cost in north of a 10% cap rate upon full stabilization.

We plan to leverage our experienced local operating team to increase occupancy from its current level of less than 50% while substantially increasing rents, which currently set at 25% to 30% discount to comparable properties in the market. We also agreed to acquire the 1.4 million square-foot office tower at 175 West Jackson in downtown Chicago for $305 million or $211 per square foot, which again is a discount to replacement cost and recent comparable transactions in that market. The building is currently 67% leased, but contains very large floor plates that span an entire city block, which is a feature that's really in favor with our technology and media sector tenants and growing substantially in the Chicago market.

The building, which has historically averaged 90% plus occupancy, benefits from a strong location, proximity to abundant residential housing and public transportation, and we intend to undertake a pretty significant renovation program.

Turning to other balance sheet initiatives. We did execute on the following financing transactions during the quarter, which continue to add flexibility, increase liquidity and extent of the overall maturity profile of our debt.

Starting in New York, we refinanced 5 Manhattan West for $1.2 billion. This loan is a 7-year facility, the fixed rate of 4.2% and resulted in net proceeds to BPY of over $300 million. We also refinanced Principal Place in London for about GBP 460 million, which generated proceeds to BPY of GBP 123 million. This loan is a 10-year term at a fixed interest rate of just over 3%. And as I mentioned earlier, we also refinanced the Bay Adelaide Centre in Toronto for a total of $900 million at 100%. And this was issued -- this was secured through the issuance of bonds with a 10-year term and a blended fixed interest rate, again, of under 4%.

Within our opportunistic portfolios, we financed or refinanced a portfolio of U.S. industrial operating and development assets for an aggregate of $286 million as well as refinancing the EY Tower in Los Angeles for $265 million. Again, this loan is 2.5 years at a floating rate of LIBOR plus 2%.

So in summary, to recap, the strong results for this quarter are indicative of our strategic priorities, which consist of recycling capital out of mature investments and into our higher-yielding opportunities around the world, continuing to grow our earnings through strong operational performance and enhancing the flexibility of our balance sheet.

Successful completion of the GGP transaction, of course, is our primary focus at the moment, but we have many other exciting initiatives and opportunities to grow the business and continue to increase returns for unitholders. And we look forward to keeping you updated over the course of the rest of this year.

So with those as our prepared remarks, we'll now turn the call over to any questions that our analysts may have. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Mario Saric of Scotiabank.

Mario Saric - *Scotiabank Global Banking and Markets, Research Division - Analyst*

I just wanted to touch on Slide 13 with the new kind of payout ratio slide that you included in the supplemental. And so we're familiar with kind of how you view the distribution payout and what not. I was just wondering, in terms of, I guess, one concern that some people have is just the sustainability of that kind of $0.66 that you generated and gained over the past 12 months in a potentially rising rate environment, and then given cap rates across many asset classes, globally today are at or near all-time lows. So how should we think about kind of that sustainability, if you will, of that $0.66 per unit over time, even an environment where let's say the U.S. Department of the Treasury goes up [100] basis points as (inaudible)

Brian William Kingston - *Brookfield Property Partners L.P. - Senior Managing Partner & CEO of Brookfield Property Partners Limited*

Yes. So I guess I'd make a couple of comments. One, I think, as we mentioned, a number of the asset sales particularly from the core office side of the equation have been in these core markets, where stabilized assets are attracting very high prices. I'd say that's just a function of where we are in the market as opposed to our overall business plan or the only opportunity we have to do those things. So that's -- like your questions, if interest rates rise, will we suddenly not be able to do that anymore? I really think a lot of where our -- the value that we're creating in these assets comes from is the operational turnarounds. So if you use 175 West Jackson as an example, at 67% occupied, it needs some capital invested in it. We're going to lease it up. We're going to mark the rents to market. And that's really how we ultimately will exit that asset and -- implicit in all of our business plans is an assumption that interest rates will be a little higher and cap rates will move up. So I guess your question is, is it sustainable? It is sustainable. It's not dependent on cap rates staying where they are. In fact, a lot of the return that we're creating from these are from the operational turnarounds, so we obviously have the advantage over the last couple of years of low cap rates. But I don't think modestly higher interest rates and cap rates like we're forecasting today have a big impact in our ability to do that. And as you know, we have 20% of our balance sheet that's invested in our opportunistic fund strategy where literally, these are 3- to 7-year business plans on each one of these assets. And so there's just a natural recycling of capital that happens in those funds, year in, year out, that will provide a strong underpinning for that as well.

Mario Saric - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Right. So I don't know if you can answer this, but like of the $0.66, do you have any sense in terms of how much would have come from the opportunistic platform versus core and how much of it would have been actual operational cash flow improvement as opposed to discount rates coming down.

Bryan Kenneth Davis - *Brookfield Property Partners L.P. - CFO of Brookfield Property Partners Limited*

Mario, it's Bryan. In fact, all of that comes from our opportunistic investing activity. We do have the ability during cycles to supplement our realized gains with sales of core assets, as Brian had mentioned. But specific to creating our dividend policy and calculating our payout ratio, we're only considering the realized gains that come from our opportunistic investing activity. And I would say, a good portion of that -- those gains come from our ability to execute on business plans, which are all driven by operational enhancements that end up resulting in increased cash flows in those underlying businesses. And one of the other things to take note of is the diversity of the sectors that we are invested in and the geographies that we are invested in provide us the opportunity in a rising interest rate environment in the U.S. that may not be a rising interest rate environment in other areas to be able to allocate, execute and realize capital in those different markets and different sectors as well.

Mario Saric - *Scotiabank Global Banking and Markets, Research Division - Analyst*

That's great. I guess, the reason I asked because you've highlighted in the past several examples where you substantially increased the cash flow upon or post acquisition of an asset. And so I'm just curious in terms of how big of a portion of the total...

Brian William Kingston - *Brookfield Property Partners L.P. - Senior Managing Partner & CEO of Brookfield Property Partners Limited*

Yes, I'd say, obviously, we benefited from having a relatively benign interest rate and cap rate environment, but I would argue 100% of those gains is coming from the operational turnaround, like, that is, we're not just buying cash-flowing assets and writing interest rates or cap rates down. In each case, it is things like what I described with either the office property in Chicago or the things that we're doing in India where I think there's a substantial turnaround, and that's really where the returns are being different from.

Mario Saric - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. Just maybe shifting to the balance sheet. There's some sizable debt maturity in 2018, Brookfield Place in Calgary, Perth along with the retail Winter Garden. They're all floating at this stage, so can you maybe talk about the refinancing plan at those 3 assets and potential net proceeds to be realized this year.

Bryan Kenneth Davis - *Brookfield Property Partners L.P. - CFO of Brookfield Property Partners Limited*

Yes, the specific ones that you referenced in terms of Brookfield Place Calgary and Brookfield Place Perth, we don't expect to have incremental net proceeds from our refinancing activity. I will note that we have actually extended the maturities on both of these pieces of debt for a period of about 18 months that allow us to execute a refinancing strategy. The Calgary market, although, is still a high level of vacancy, is starting to feel a little bit better as oil prices creep up a little bit. We'll look for some more sustained support of oil prices and potentially increasing in occupancy in Calgary East before we undertake to refinance that property on a long-term fixed rate basis. In the case of Perth, we actually have stability with those properties, a market that is actually performing surprisingly well. We're looking to actually refinance it with offshore capital. Sort of a longer-term basis, which typically wasn't available in the Australian market. So it would be longer-term fixed rate and that's really our strategy there. But again, in both of those cases, we have an incremental 18 months to execute on those strategies, and we feel very comfortable because debt markets seemed healthy in all of the markets that we're currently operating in.

Mario Saric - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. And then just I noticed -- just sticking to the balance sheet, in your letter to unitholders, in the conclusion, you kind of highlighted the desire to enhance the flexibility of your balance sheet. I was just wondering if you can maybe provide a bit more color in terms of what that may mean. And I asked, because we've heard from other Brookfield subs recently, just in terms of broader market volatility and some examples of market going sideways, creating potential opportunities down the road from a capital deployment perspective. So I was just curious in terms of what on the commercial property side, what that means over the couple of years?

Bryan Kenneth Davis - *Brookfield Property Partners L.P. - CFO of Brookfield Property Partners Limited*

Yes, I think in my mind means two things, and I'll let Brian comment as well. But first off, it's terming out some short-dated debt. We've been very active through the first 3 months, 4 months of 2018 in addressing or progressing most of our 2018 maturities. And we hope to get almost all of them done by the middle part of this year. In addition, we are exploring a bond market potentially in the U.S., potentially up in Canada or a bond issuance up in Canada as well, which will allow us to free up some of the room that we have on our revolving credit facility and term that out for a period of potentially 7 to 10 years. And then, ultimately, we have been looking to realize capital from asset sale initiatives using that capital to repay our revolving credit facility so that we can retain a sufficient amount of available capital to continue to fund our existing commitments as well as potential new opportunities. So it's really those 2 things that we're focused on from my perspective.

Brian William Kingston - *Brookfield Property Partners L.P. - Senior Managing Partner & CEO of Brookfield Property Partners Limited*

Yes. And then, Mario, I think if I understood your -- the point of your question is what are we preparing for? Or what is the outlook? I don't think there's anything right now that is overly concerning to us with respect to the market or the outlook over the next couple of years. But we are conscious that we are every quarter we're later -- another quarter later in the cycle. And so it's prudent that we think to have some dry powder and flexibility available should some disruption happens so that we're able to take advantage of it. And that maybe very short lived or in certain places around the world. So there's nothing in particular I'd say that we're preparing for it other than it's always good to be prepared.

Operator

Our next question is from Sheila McGrath of Evercore.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

I was wondering before we talk about BPY operations, if you can help clarify the tax impact on the pre-closing distribution. Will it be regular dividend, return of capital or will capital gains be involved?

Bryan Kenneth Davis - *Brookfield Property Partners L.P. - CFO of Brookfield Property Partners Limited*

Yes, Sheila, it's Bryan. Yes, I'll take a stab at that. In fact, we've been getting a number of questions as it relates to that specific topic. So I'm just going to try to summarize what we've included in the proxy and of course, I'm going to end up with a caveat. But really, first off, a GGP shareholder will receive a pre-closing distribution of cash consideration and stock consideration. This is assuming proration for simplicity in this example, that will constitute a dividend to the extent that it is paid out of the earnings and profits of GGP. It is expected that this distribution will be substantially taxed as a capital gain with the balance as ordinary income. In addition, you'll receive a small amount of merger consideration, which we outlined in the proxy as part of this transaction. This merger consideration, when applied against the tax basis that GGP shareholders has in their GGP shares, will result in either a capital gain or a capital loss. Any capital loss from applying it against merger consideration can be used to offset the capital gain received as part of your pre-closing distribution. And then on a go-forward basis, your BPR or BPY units that you receive as consideration will have a basis that's equal to the fair market value at the time of the transaction close and pre-closing distribution. So I will say that certain aspects of these tax consequences of the transaction are not entirely clear, so we do urge anyone working through this to consult your tax advisers. In addition, we do have more complete discussion of these consequences in the proxy and S-4, and we would also urge everybody to reference that as well. So hopefully, that gives you a sense.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Just a quick follow-up on that. Will there be gains generated from the joint venture sales that you're raising that capital that GGP shareholders would be obliged to pay tax on those as you're raising that capital or...

Bryan Kenneth Davis - *Brookfield Property Partners L.P. - CFO of Brookfield Property Partners Limited*

Yes. So when I commented that the distribution will be substantially taxed as a capital gain, it's that portion of the gain that's largely attributable to the asset sales associated with the transaction. The balance will be ordinary income.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Just on Manhattan West, I was wondering since you refinanced 5 Manhattan West, there must have been a reevaluation of the asset. I'm just curious how the returns look on to BPY on your cost basis or IRR or however you can kind of frame that to us, that will be helpful.

Brian William Kingston - *Brookfield Property Partners L.P. - Senior Managing Partner & CEO of Brookfield Property Partners Limited*

I maybe let Ric take credit for that one.

Richard Byron Clark - *Brookfield Property Partners L.P. - Chairman of Brookfield Property Partners Limited*

Sheila, I don't have the returns on hand, but they were -- they're pretty substantial. I mean, I think just rough math, we probably made $0.5 billion over time in that investment. So it's been a terrific investment for us. I mean, we've done really well in New York and other places, buying older properties, renovating them and bringing them up to market standards, it's been a good strategy for us.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

That's great. And Ric, since you're touching on Manhattan West, if you could give us an update on leasing at Tower 1, which I understand is mostly done, and any conversations that you could give us just insight on Tower 2 and an update on the hotel at Manhattan West.

Richard Byron Clark - *Brookfield Property Partners L.P. - Chairman of Brookfield Property Partners Limited*

Sure. So on Tower 1, we just through some discussions that are ongoing for expansions of existing tenants that we've already signed leases with, we expect to have all but 6 to 8 floors leased. So we're probably roughly 90% leased, just assuming these discussions go through. And the building won't even open until late 2019. So we've done incredibly well there. We've obviously turned our attention to the south tower. Our goal is to get that one going and finish off the projects just as quickly as we can. We're in active discussions with a number of tenants. I think our building is positioned well versus the other offerings in the neighborhood. Our floor plate, I think, are more appealing to professional firms, law firms and the like where others are sort of bunched up with larger floor plate buildings. So we're hoping to sign some leases this year. We'll see. We certainly have enough activity worth the possibility. The hotel, we've broken ground on building a hotel. I don't think we're quite ready to announce -- I don't think it's leaked out yet who the operator is going to be, but it's a terrific operator and we think just adds to the overall appeal of the complex.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay, great. And one last question on Retail. Same-store NOI on core retail was down in first quarter, but you mentioned that your expectations for that to ramp higher. Was there something skewing results in the first quarter?

Brian William Kingston - *Brookfield Property Partners L.P. - Senior Managing Partner & CEO of Brookfield Property Partners Limited*

The main thing was there was a relatively high amount of lease termination income in the prior year that didn't repeat this year. As you know, 2017 was a relatively high year of retail bankruptcies, et cetera. And so lease termination fees were high last year. It was not repeated this year. So on an adjusted basis, it was flat to modestly up, if you adjust for that.

Operator

(Operator Instructions) And we have a follow-up from Sheila McGrath of Evercore ISI.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Yes, I was wondering if you could just remind as of the strategic reasons why the GGP acquisition make sense for BPY in terms of the opportunities you see there? Have you had great success with Rouse that you want to -- I know it's a completely different portfolio. Just talk about why it makes sense from BPY's standpoint. And if you could comment on the FFO and NAV accretion or dilution you're expecting.

Brian William Kingston - *Brookfield Property Partners L.P. - Senior Managing Partner & CEO of Brookfield Property Partners Limited*

Sure, so I will preface this by referring back to Matt's earlier comments, which is we have the S-4 out there, and so I would encourage people to read that in its entirety because that will give you a more fulsome answer to all these things. And I'll keep my comments largely consistent with what's in there. But look, from a strategic perspective, we really think about it in 2 main ways. One is from an operational perspective. I think having the ability to bring to bear all of our various operating platforms in a much more coordinated way than you can in 2 separate companies is going to have a huge strategic benefit. And we're seeing this in all of our projects, whether it's Manhattan West here in New York or Ala Moana in Honolulu. These very large retail projects are increasingly becoming mixed use. It's not only retail, it's not only office, but it's office, retail, multifamily, hotel uses, et cetera. And so having an ability for us to be able to bring all of those internal resources together in a more efficient way, we think is going to have huge operational benefits in terms of speed of execution. The other big advantage I think for us in particular again comes back to the balance sheet flexibility. And so owning 34% of a separately listed publicly traded company, we had a very substantial investment in a portfolio of listed -- of shares. This will now give us a much more direct access to the underlying cash flows and asset themselves and will give us a lot more flexibility, as we have been doing with Brookfield Office Properties since we privatized that business. So those are the 2 strategic benefits. As we've mentioned, it has the advantage that it will be FFO accretive immediately and on a NAV per share basis, it should be roughly neutral.

Operator

Our next question is from Mario Saric of Scotiabank.

Mario Saric - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Just one more quick follow-up and maybe for Ric just coming back to New York. I was just wondering if you can provide a bit more color in terms of kind of broader themes that you're seeing across the various sub notes on midtown, midtown west from Manhattan West & then to downtown? The reason I asked because I just noticed on a quarter-over-quarter basis, it looks like market rent or disclosed market rent in your supplemental for Lower Manhattan came down a little bit and then midtown came up a little bit. So just maybe some color in terms of what you're seeing for Manhattan comparing it to the other borough.

Richard Byron Clark - *Brookfield Property Partners L.P. - Chairman of Brookfield Property Partners Limited*

Yes. So Mario, I think the change in rental rates was really more related to mix than anything else. I'd say overall, rental rates in Manhattan, actually, in all markets are holding up. And we've got activity. I think more midtown than downtown, where we expect potentially meaningful increases in rental rates. The last quarter in Manhattan, just anecdotally, there were 7.1 million square feet of space leased, which was above sort of the 10-year average and mainly driven by midtown activity. Downtown was absolutely slower. If you notice downtown had a big year last year. And so it's been a little bit slower. All in all, just sort of what's going on in the market, I'd say rental rates are holding up in all sectors. TI capital is actually increasing in a number of instances. But I think this is really in response to all the success that the newer buildings at Manhattan West and Hudson Yards and World Trade Center and One Vanderbilt have achieved. So the average age of a building in New York City is -- a Class A building is 70 years old. These buildings are -- they have structural infrastructure issues that have to be addressed, so TIs are creeping up on those (inaudible) properties. But that's not really our issue because our properties are much more modern than those. So we're not seeing anything to be concerned about at this point. Downtown is a little bit of increase in sublease space but we're keeping an eye on. But we were pretty well leased in doing well with our vacancy, so hopefully that answers your question.

Operator

Thank you, and that does conclude our Q&A session for today. I'd like to turn the call back over to Mr. Brian Kingston for any further remarks.

Brian William Kingston - *Brookfield Property Partners L.P. - Senior Managing Partner & CEO of Brookfield Property Partners Limited*

Well, thank you, everyone, for dialing in again this quarter, and we look forward to providing you another update, following the second quarter.

Operator

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