

2014



ANNUAL REPORT  
Brookfield Property Partners L.P.

## **DEAR UNITHOLDERS,**

I am pleased to report that 2014 was a successful year for Brookfield Property Partners L.P. (“BPY”). We generated Company FFO of \$758 million and, when combined with fair value gains of \$4.1 billion, we earned a return of 21% on equity. Importantly, BPY delivered a total return of 20% to unitholders for the year. In addition to solid financial performance, we were able to accomplish a number of key objectives that we had established at the beginning of the year, laying a solid foundation for growth over the next several years. Some of BPY’s significant achievements for the year include:

### **Re-launching BPY in the Public Markets**

Upon spin-off of BPY in April of 2013, we established a goal to reduce the percent of our balance sheet invested in public securities. In June of 2014, we completed the privatization of Brookfield Office Properties Inc. (“BPO”), issuing \$3.3 billion of equity and effectively re-launching BPY in the public markets. From the closing of the BPO tender offer on April 1 through the end of the year, BPY units delivered a total return of 26%, outperforming the S&P, the MSCI U.S. REIT index and the majority of our peers.

### **Increasing Occupancy at Brookfield Place New York**

Facing the expiration of a major lease in September of 2013 at Brookfield Place New York, and a 59% occupancy rate, we launched a \$300 million redevelopment and repositioning plan for the complex. Thanks to this plan, the hard work of our New York team, and the sharp turnaround in the office leasing market in New York, we executed three million square feet of leasing in Lower Manhattan during the year. As a result, Brookfield Place New York closed the year at 95% leased, with our new retail space essentially fully committed.

### **Launching Developments with Significant Lease Commitments**

Going into the year, we owned a number of construction-ready sites in some of the world’s most dynamic markets. In light of current valuations for core real estate, our strategy was to build new, class A properties rather than acquiring existing, older stock at significant premiums to replacement cost. During 2014, we capitalized on robust leasing markets, signing 750,000 square feet of anchor leases to help kick-off two development projects in the City of London. In total, our active development projects across all of our sectors now stands at more than 19 million square feet totaling approximately \$4 billion at cost. We have positioned another four million square feet for potential commencement in 2015.

As a result, BPY is well-positioned for significant growth as cash flow from these initiatives will begin to contribute to our income statement in 2016. Accordingly, backed by projected annual growth in our Company FFO per unit of 8-11% over the next five years, last September we announced an increase in our annual distribution growth rate target to 5-8%.

## **ANNUAL FINANCIAL RESULTS**

Brookfield Property Partners posted strong financial results for 2014. For the year, Company FFO was \$758 million, or \$1.13 per unit, compared to \$571 million, or \$1.21 per unit, in 2013; net income was \$3.7 billion, or \$5.59 per unit, compared with \$1.0 billion, or \$2.10 per unit, in the prior year. The increase in Company FFO and net income is primarily attributable to BPY's merger with BPO last June and to our \$1.4 billion additional investment in General Growth Properties, Inc. ("GGP") in November of 2013. Company FFO per unit declined due to the impact of the issuance of equity to fund these investments and to fund our active development projects, which will contribute to our FFO growth beginning in 2016.

## **PROPERTY OPERATIONS**

### **OFFICE**

In 2014, our office platform produced Company FFO of \$539 million versus \$372 million in 2013 and net income of \$2.9 billion versus \$787 million during the prior year, primarily reflecting the increased ownership of BPO during much of 2014, partially offset by the expiration of a major lease at Brookfield Place New York. However, due to the significant amount of leases signed in lower Manhattan during the year and strengthening valuation metrics, BPY's net income increased significantly during 2014.

During the year, we leased over 10 million square feet in our office platform, increasing occupancy in our core portfolio by 280 basis points to 92.1%, and, in the process, capturing rent increases that averaged 32% on space leased during the year.

During 2014, we achieved a major milestone at our Manhattan West project, completing construction of the platform over the railroad tracks adjacent to Penn Station. This essentially created 2.6 acres of land in the center of Manhattan, on which we are poised to construct a five million square-foot, mixed-use development. Last month, we announced the commencement of the first building to be developed on the site, a 62-story, 844-unit residential tower. We are working toward a 2015 announcement of the commencement of development of the first of two, two million-square-foot office towers.

Concurrently, we commenced the redevelopment of our adjacent property at 450 W. 33rd Street, with a \$280 million program that will modernize the building, replacing the existing façade with a glass exterior. With this repositioning, we have rebranded the building

5 Manhattan West and have incorporated it into our adjoining project. With floor plates that average over 100,000 square feet and 14-foot ceiling heights, this building is uniquely positioned to accommodate the growing demand from media and technology companies seeking office space outside of the traditional Midtown, financial services-sector corridor. At 5 Manhattan West, we recently signed two leases totaling approximately 300,000 square feet at starting gross rents in excess of \$70 per square foot and have a solid pipeline of tenant interest.

During the year, we kicked off two developments in central London. The first, London Wall Place, is a two-building scheme with Schroders leasing 310,000 square feet as anchor tenant helping us to achieve a 61% pre-commitment level. We also commenced our Principal Place mixed-use development with the signing of Amazon for 69% of the 621,000-square-foot office tower. In October, we launched the 344-unit Principal Place condominium tower to strong demand and pricing.

### **RETAIL**

Our retail platform also produced strong results in 2014, with Company FFO of \$491 million versus \$331 million in 2013, and net income of \$1.6 billion versus \$445 million in the prior year. The increase in Company FFO and net income was primarily due to our additional \$1.4 billion investment in GGP at the end of 2013. The significant increase in net income also reflects strengthening valuation metrics. On a pro-forma basis, same property net operating income increased 4.2% compared to the prior year.

On the operational front, demand for stores within GGP's mall portfolio remained strong, ending the year with same store leased percentage of 97.2%. Suite-to-suite spreads improved by 18% on new leases compared to expiring leases in GGP malls.

During the year, GGP continued to progress its \$1.6 billion redevelopment program. The most significant of these projects is the multi-level expansion of the Ala Moana Center in Honolulu, Hawaii. This project comprises 650,000 square feet of additional space which is over 80% leased to such notable tenants as Bloomingdales and Nordstrom. GGP is projecting returns of 9-10% and value creation of \$900 million on this project. Furthermore, GGP has an additional \$800 million of projects earmarked for commencement over the next 24 months.

During 2014, GGP made a significant foray into street retail in gateway U.S. cities including New York City and Miami. Most recently, GGP announced its agreement to acquire 50% of the Crown Building at 57th Street and Fifth Avenue in Manhattan, regarded as one of the most prominent and sought-after retail corners in the world.

Finally, as we enter 2015, our \$300 million redevelopment of the retail and common areas of Brookfield Place New York is nearing completion. Our food hall, 'Hudson Eats,' has become a staple of downtown casual dining. Our luxury retail collection will celebrate its grand opening this spring along with our French marketplace 'Le District', an Equinox fitness club and the Institute of Culinary Education cooking school. Next year, Saks Fifth Avenue will open Downtown's first full-line luxury department store. In all, we will realize over \$30 million of initial incremental NOI from this retail redevelopment.

## **INDUSTRIAL, MULTIFAMILY, HOTELS AND TRIPLE NET LEASE**

Our growing industrial, multi-family, hotel and other platforms generated Company FFO of \$77 million in 2014 versus \$51 million in 2013 and net income of \$84 million versus \$16 million in the prior year. The increase in Company FFO and net income was primarily attributable to \$4.8 billion of gross acquisitions (\$1 billion of net equity investment to BPY) in these platforms in 2013 and 2014.

Our industrial platform leased 10.8 million square feet during the year, increasing occupancy by 490 basis points to 91.7%. We currently have 14 million square feet of active industrial developments, with over 17 million square feet of potential development starts in 2015. During the year, we successfully integrated our Verde investment into IDI and have begun to integrate our U.S. and European operations into a jointly-managed entity, IDI Gazeley, and expect to realize additional benefits going forward.

In our multi-family platform, we maintained mid-90% occupancy across our portfolio. In addition, we completed the renovation of 1,434 units during the year, which equates to 36% of our targeted low-rise apartment upgrades. Upon re-leasing of the renovated units, we have been capturing market rent increases in excess of our underwriting targets and are realizing 25% pre-tax, unlevered returns on our capital invested. With the uplifts in rent on these units, we achieved same-store NOI growth of over 10% in 2014. During 2015, we plan to largely complete the balance of our renovation program in our portfolio of low-rise apartments and to commence a renovation program in our Manhattan high-rise apartment portfolio.

In our hotel platform, our largest hotel, the Atlantis Resort in the Bahamas, produced year-over-year increases in RevPAR and EBITDA of 3% and 6%, respectively, due to an increase in average daily rate combined with cost-cutting initiatives.

## **CAPITAL RECYCLING**

With our globally diversified capital allocation strategy, we are positioned to monetize mature properties in high-demand markets, redeploying this capital into more highly promising properties. During 2014, we sold interests in \$2.2 billion of assets, raising net proceeds of \$1.5 billion and capitalizing on valuations that eclipsed 2007 pricing in many cases. We utilized proceeds from these sales to pay down our BPO acquisition facility to \$1.1 billion and to fund a portion of the \$1.5 billion of new investments that we made during the year. Over time we believe this recycling of capital will create significant value for our unitholders, as the stabilized FFO yield on these new investments is significantly greater than the FFO yield on the assets that we divested.

Notable transactions during the year include:

- **Shanghai Mixed-Use** – Early in the year, we closed on a \$500 million investment (\$157 million equity investment at BPY's share) in China Xintiandi ("Xintiandi"). Xintiandi owns a portfolio of mixed-use properties in Shanghai split between premium retail and office assets, including the iconic lifestyle center which bears its name. Our investment is structured as a U.S. dollar-denominated preferred stock that is convertible into common shares of Xintiandi.
- **India Office Parks** – In the fourth quarter, we closed on an \$860 million acquisition (\$116 million equity investment at BPY's share) of a portfolio of office parks in India. The portfolio consists of six office parks – primarily located in the National Capital Region (NCR) and Kolkata markets – totaling 16.8 million square feet of total development potential. The office parks that are in operation or in construction are approximately 73% leased predominantly to high-quality international tenants. In addition, the portfolio contains two million square feet of development potential, which we can help monetize with our global tenant relationships, many of whom have an increased interest in the Indian market.

- **Net-Lease U.S. Commercial Property Portfolio** – In the fourth quarter, we closed on the \$4.3 billion acquisition (\$357 million equity investment at BPY’s share) of a 15.6-million-square-foot portfolio of triple-net-leased automotive dealerships across the U.S. Our business plan contemplates a number of opportunities to add value, primarily through expanding our footprint as the industry consolidates, extending this platform into international markets in which we have a presence, such as Canada, the UK and Australia, as well as redeployment of land to higher-value uses in select instances.
- **U.S. Multi-family Platform** – In the fourth quarter, we acquired a 4,000-unit multi-family portfolio in Manhattan for \$1 billion (\$94 million of equity at BPY’s share). Similar to our multifamily properties in the southern U.S., our strategy is to commence an accretive, highly replicable renovation program on approximately 60% of the apartment units over the next 8 years.

## **ACQUISITION OF SONGBIRD & CANARY WHARF**

Over the past decade, we have held a passive investment in Canary Wharf, one of the largest portfolios of class A office and retail properties in London. Under an inefficient corporate structure, our 22% investment was not optimal and gave us very little visibility into operations, asset management and growth potential. In December, we announced the formation of a 50/50 joint venture with a strategic partner, Qatar Investment Authority (“QIA”), and made a formal offer to acquire all of the outstanding ordinary shares of Songbird Estates plc (“Songbird”), which owns approximately 69% of Canary Wharf Group plc (“Canary Wharf”), for £3.50 per share in cash. We were pleased to announce that on January 29, 2015, over 90% of Songbird shareholders (excluding QIA) accepted our offer, allowing our joint venture to move forward with the acquisition of this great estate.

With 6.4 million square feet of the highest quality office and retail assets, 11 million square feet of future residential and office development density, and enhanced transportation connectivity soon coming online via Crossrail, we believe that Canary Wharf is one of the world’s most unique and special commercial projects well-positioned for significant future growth. The acquisition is expected to close in the first quarter of 2015.

## **FINANCINGS AND BALANCE SHEET**

In 2014, we were active in the debt markets, capitalizing on attractive credit spreads and the liquid lending environment in order to lower our overall cost of capital. At the asset level, we refinanced \$6 billion (\$3 billion at BPY’s proportionate share) of property debt across our various platforms, lowering our average interest rate by 21 basis points to 4.24%.

In December, we issued \$1.8 billion of preferred equity securities to QIA, which are exchangeable into BPY units at a price of \$25.70. This was a significant endorsement of our globally diversified strategy by one of the world’s largest investment funds. The issuance will be largely used to fund our investment in our joint bid to acquire Songbird and Canary Wharf.

## **2015 OBJECTIVES**

Looking to the new year, our key strategic objectives for 2015 include:

- **Increase pre-leasing on development projects** – Our active development portfolio currently sits with a healthy 57% level of pre-leasing commitments. With 20 months on average until delivery, meaningfully increasing lease commitments on these projects is a principal priority for 2015, as is procuring anchor tenants to launch our Manhattan West (New York City) and 100 Bishopsgate (London) office development projects.
- **Continue to rationalize our structure** – Although we made significant progress in 2014, we continue to own a few investments for which we do not get full credit. In 2015, we will continue to rationalize these investments – such as Canary Wharf – so that there will be greater transparency of their value.
- **Reduce corporate leverage and increase liquidity** – Lowering our leverage and increasing our corporate liquidity by significantly paying down the BPO acquisition and corporate credit facilities is an additional area of focus for 2015.
- **Active capital recycling** – With the strength of the U.S. market, we expect to continue to monetize assets in 2015, redeploying capital raised by these efforts into more accretive investments. In the current environment, we believe that developing markets, particularly Brazil and parts of Europe, may yield investment opportunities with some of the most attractive risk-adjusted returns.

## OUTLOOK

The global economic outlook continues to present a mixed story. In the United States and the United Kingdom the recovery is maintaining its momentum while Europe continues to wrestle with stagnating growth and concerns of deflation. With the European Central Bank's recently announced quantitative easing program, interest rates are showing no signs of material increases in the near-term. Complicating the European picture, the recent Greek election is a warning of the potential for political backlash in Southern Europe against the austerity policies promoted by the North. In developing markets such as Brazil and China, economic growth continues to decelerate, and foreign capital is still in retreat. Conversely, India is showing positive signs led by the reforms of the Modi government and increased interest by foreign investors. Although the recent sharp drop in oil prices has created uncertainty in financial markets, it has created a sort of "tax break" in many geographies which should benefit profitability, business expansion and general economic growth through increased consumer spending.

In terms of the impact of these macroeconomic factors on our business, low interest rates should continue to support the valuations of our real estate and allow us to execute attractive, long-term financings of our stabilized assets. The strong US dollar will provide some headwinds as our cash flow from Australia, Canada and the UK is devalued. Over the past year, we have put in place a significant portfolio of hedges to help protect our equity invested in these markets.

The declines in oil prices will undoubtedly impact our office properties in energy dependent markets such as Houston and Calgary, as oil and gas companies sharply reduce their capital investment. However, overall we have modest exposure to these markets, and we believe that the positive benefits of lower oil prices on many businesses and our retail platform will overwhelm this negative factor. Furthermore, to the extent that developments in Europe and low oil prices create stress, we will be on the lookout for attractive, value investments that are created by these dynamics.

Before concluding, we give our sincere thanks to Gordon Arnell, who has been a trusted advisor, mentor and friend to so many of us during his long and great association with Brookfield. Gordon retired from the BPY board in 2014. His wisdom, insight and input into our strategy will forever be an important part of the Brookfield story. We would like to welcome two new directors to our board, Dr. Soon Young Chang and Ms. Lisa Shalett. Both bring unique experiences and perspectives to the BPY board.

On behalf of the board of directors and all of our employees, I thank you for your interest in Brookfield Property Partners, and we look forward to updating you on our progress over the course of 2015.

Sincerely,



Ric Clark  
Chief Executive Officer



## FORWARD-LOOKING STATEMENTS

This letter to unitholders, particularly the “2015 Objectives” and “Outlook” sections, contains “forward-looking information” within the meaning of Canadian provincial securities laws and applicable regulations and “forward-looking statements” within the meaning of “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding our operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as “expects,” “anticipates,” “plans,” “believes,” “estimates,” “seeks,” “intends,” “targets,” “projects,” “forecasts,” “likely,” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.”

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

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

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

## **BOARD OF DIRECTORS**

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Chairman; Senior Managing Partner,  
Brookfield Asset Management

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Senior Advisor of Investment Corporation of Dubai

OMAR CARNEIRO DA CUNHA

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Empresarial e Participacoes

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Independent Director, Managing Director and  
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## **OFFICERS**

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Chief Executive Officer,  
Brookfield Property Group

BRIAN KINGSTON

President and Chief Investment Officer,  
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JOHN STINEBAUGH

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## **STOCK EXCHANGE LISTING**

<b>Symbol</b>	<b>Exchange</b>
BPY	NYSE
BPY.UN	TSX

## **UNITHOLDER INFORMATION**

Brookfield Property Partners welcomes inquiries from unitholders, analysts and other interested parties. Questions relating to investor relations and financial results can be directed to Matthew Cherry, Vice President, Investor Relations and Communications at 212-417-7488 or via email at [matthew.cherry@brookfield.com](mailto:matthew.cherry@brookfield.com).

Unitholder questions relating to distributions, address changes and unit certificates should be directed to our company's transfer agent, CST Trust, as listed above.

**Brookfield**

[www.brookfieldpropertypartners.com](http://www.brookfieldpropertypartners.com)