

JORDAN

CAPITAL AM



Brookfield
DTLA Fund Office Trust Investor,
7.625% Ser A Cumul Red Pfd Stock

Disclaimer

Brookfield DTLA Fund Office Trust Investor, 7.625% Ser A Cumul Red Pfd Stock (DTLA-) is an actual holding of Jordan Capital Partners, LP and our presentation should not be considered a recommendation to buy or sell. It is merely our opinion and an attempt to help better explain our investment process. We can and will sell it or buy more shares at any time as we please...

Sources

- 1) *DTLA Office Fund (<https://www.dtlaofficefund.com/>)*
- 2) *Preferred Stock Channel (<https://www.preferredstockchannel.com/preferred-stocks-by-industry/>)*
- 3) *The Wall Street Journal (<https://www.wsj.com/news/interactive/LAOFFICE0426>)*
- 4) *LoopNet (http://www.loopnet.com/Los-Angeles_California_Market-Trends)*
- 5) *Kessler Topaz Meltzer & Check, LLP (https://www.ktmc.com/files/6066_2015-10-14_Affidavit_of_G._Mark_Brown.PDF)*

Brookfield DTLA Fund Office Trust (DTLA-)

Why We Like Preferred Stocks

“Eagles may soar in the clouds, but weasels never get sucked into jet engines”

- Preferred stocks (“prefs”) are a unique asset class – they are not widely followed or understood and are the most “retail” fixed income asset class out there and thus frequently present unique mispricing opportunities that might not be available anywhere else
- Prefs normally trade on public exchanges in \$25-50 par equivalent, carry a coupon, are frequently perpetual and have many other fixed income features (call/put options, fixed/floating, etc.)
- Prefs have much smaller average market caps (liquidity) than their respective common equity issuers and they are also difficult to find due to inconsistent symbols across various brokers (e.g. RSO-B, RSO.PRB, RSO-PB, RSO/B)
- The assumption is that prefs in general are safer and less volatile than the underlying equity and are also assumed to be riskier than bonds of the same issuer and historically trade at a 300BP premium to long term interest rates

Preferred Stock Database

Ticker	Price	Yield	Dividend	Market Cap	Industry
ABC	25.00	5.00%	1.25	100M	Technology
DEF	30.00	4.50%	1.35	200M	Healthcare
GHI	40.00	3.50%	1.40	500M	Financial
JKL	50.00	2.50%	1.25	1B	Consumer Goods

Yield Screener

Yield	Price	Dividend	Market Cap	Industry
5.00%	25.00	1.25	100M	Technology
4.50%	30.00	1.35	200M	Healthcare
3.50%	40.00	1.40	500M	Financial
2.50%	50.00	1.25	1B	Consumer Goods

Source: Proprietary Database

Brookfield DTLA Fund Office Trust (DTLA-)

Why We Like Preferred Stocks

“All generalizations are bad. ~R.H. Grenier”

- During “good times” prefs trade on yield-to-call basis
- During “bad times” prefs react very violently to any structural short term imbalances in supply/demand. There is simply not enough demand from traditional arbitrageurs to keep prices from deviating far from their underlying value over a short period of time
- At any sign of an underlying problem in the issuer, institutional investors quickly pull out, prices collapse rapidly, retail investors panic, and prefs begin trading at levels that assume an eventual restructuring or worse
- We believe that in a crisis, assuming a coupon of over 7%, prefs are essentially a binary option – they are either worth 100 cents on the dollar if the issuer makes it through the cycle or they are worth zero if things get really rough. Thus, the key factor for analyzing prefs (balance sheet) isn’t the same as for the common equity (income statement)

PREFERRED STOCKS BY INDUSTRY		
Industry	Avg. Discount	Avg. Yield
Application Software Preferred Stocks »	2.44%	10.74%
Asset Management Preferred Stocks »	4.32%	6.71%
Banking & Savings Preferred Stocks »	3.78%	6.48%
Technology Preferred Stocks »	-23.80%	10.62%
Business Services & Equipment Preferred Stocks »	-6.92%	9.57%
Credit Services & Lending Preferred Stocks »	-12.59%	5.30%
Closed End Funds Preferred Stocks »	3.44%	4.99%
Utilities Preferred Stocks »	-30.84%	10.68%
Energy Preferred Stocks »	-8.70%	9.33%
Financial Preferred Stocks »	6.56%	5.62%
Real Estate Preferred Stocks »	-34.68%	4.66%
Healthcare Preferred Stocks »	-15.01%	6.48%
Hospital & Medical Practitioners Preferreds »	-13.60%	12.58%
Insurance Preferred Stocks »	1.76%	6.63%
Investment Brokerages Preferred Stocks »	4.33%	6.83%
Office Supplies Preferred Stocks »	4.28%	0.00%
Oil & Gas Equipment & Services Preferred Stocks »	-7.08%	9.69%
REITs Preferred Stocks »	0.51%	7.65%
Shipping Preferred Stocks »	-18.86%	7.34%
Transportation Preferred Stocks »	-6.38%	8.78%
Waste Management Preferred Stocks »	-34.75%	8.05%

(2)

Brookfield DTLA Fund Office Trust (DTLA-)

Overview

- “Brookfield DTLA Fund Office Trust Investor Inc. (NYSE: DTLA-P) owns and invests in high-quality commercial properties in the Los Angeles Central Business District. The company is a subsidiary of Brookfield Property Partners (NYSE: BPY; TSX: BPY.UN), one of the world’s largest commercial real estate companies, with approximately \$65 billion in total assets.” (1)
- DTLA- currently owns 6 “trophy” office properties in Downtown Los Angeles with a total of roughly 7.5 million sqft of leasable space
- Current price ~\$25 per share, shares outstanding are ~9.75M, coupon is 7.625% and is cumulative, current deferred dividend amount is ~\$15 per share
- Pref holders are represented by 2 directors that will stay on the DTLA board until dividends are brought current

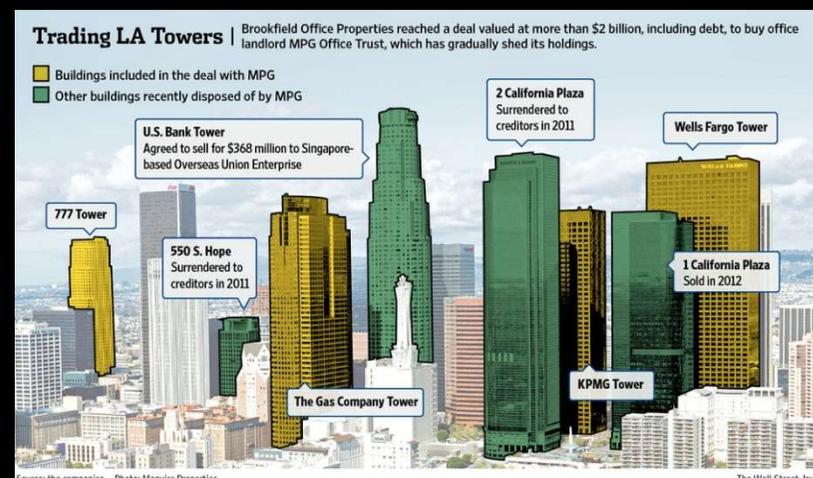


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Brookfield DTLA Fund Office Trust (DTLA-)

"History is man's best guess as to what the past would look like if everything had happened in chronological order." ~ Robert Brault

- MPG Trust (Maguire Properties) was one of the names that best represented the tragic boom/bust story of the US real estate market in 2006-2007. Led by the founder Robert Maguire, the company was a premier REIT that owned most of the prominent skyscrapers in downtown Los Angeles
- However, in 2007 right at the top of the market, it chose to participate in the ill-timed Blackstone/EOP deal by buying ~\$3B worth of real estate mostly located in Orange County
- Results were disastrous – the market crashed and MPG was forced to sell off or give back to lenders over half of their assets
- In April 2013, Brookfield Properties reached a deal to purchase MPG in a \$2B+ deal by folding assets into a new entity. Common holders got cash and the prefs got assumed

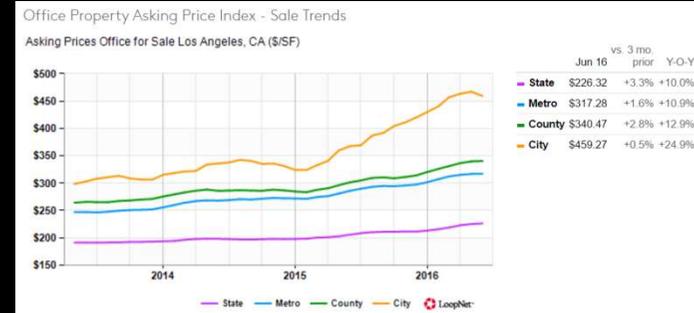


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Brookfield DTLA Fund Office Trust (DTLA-)

“California can and does furnish the best bad things that are obtainable in America.” ~ Hinton R. Helper

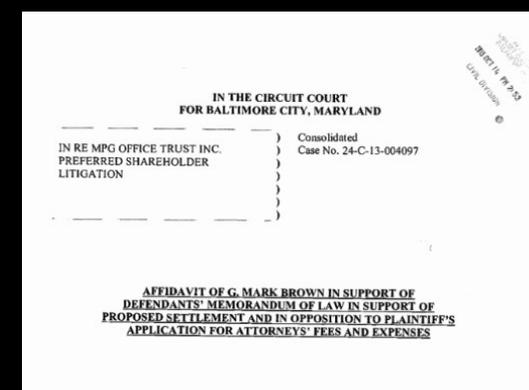
- Downtown LA is going through a “renaissance”-like boom period – thousands of new residential units are being built, multiple new hotels/sports arenas, retail venues are opening, etc.
- Values are increasing across the board, leasing rates are still climbing and are very competitive when compared to other major markets (NYC, SF, DC and DAL/HOU). Vacancies are dropping fast and unlike on the residential side – very limited supply of new office space is coming on board (building in CA isn’t an easy task)
- Recent sales of marquee office properties are being done in the \$400+ per sqft range and rental rates are currently being done in the \$25+ range
- Brookfield DTLA’s portfolio is now stabilized, i.e. all 6 existing towers are here to stay and they have been refinanced with permanent financing. DTLA is also in the process of finishing \$130M of improvements (lobbies, elevators, HVAC, etc.) that should be completed in 2017
- With overall occupancy at only 86.7% DTLA- is generating positive cash flow (\$40M+) and, by the end of 2017 once the heavy capex is finished, should be able to cash flow enough to keep dividends current
- At ~90% occupancy DTLA will generate enough cash to start paying off the pref rapidly



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Brookfield DTLA Fund Office Trust (DTLA-) CIO of Brookfield in his own words

- *“...[P]ayment of the accrued dividends on the preferred stock pursuant to the Settlement will reduce the actual liability of Brookfield DTLA on a dollar for dollar basis...”*
- *...Moreover, the preferred stock has certain protections and priorities that enhance the likelihood that dividends on the Brookfield DTLA Preferred Stock will resume...*
- *...The cumulative effect of these restrictions is that the owners of Brookfield DTLA are incentivized over the coming years to pay the accrued dividends on the Brookfield DTLA Preferred Stock...*
- *... Plaintiff's counsel gives zero credit to the prospect of any dividends being paid in the future by the Company on the Brookfield DTLA Preferred Stock. That is not correct. The restrictions on payments to common stockholders...are meaningful. The owners of Brookfield DTLA, Brookfield, and three institutional real estate investors made the acquisition of MPG for the purposes of receiving a return on their investment. Therefore, Brookfield DTLA is incentivized to pay the accrued dividends on the Preferred Stock so that they can receive a return on their common stock investment...”*

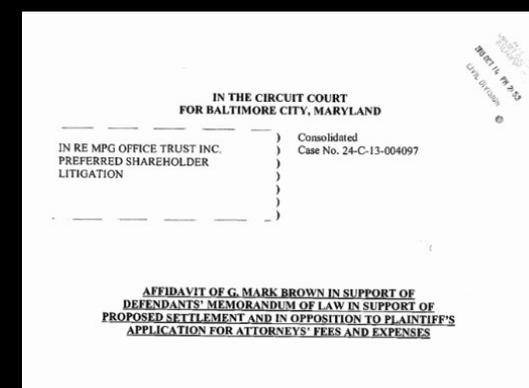


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Brookfield DTLA Fund Office Trust (DTLA-)

CIO of Brookfield in his own words

- “...While the timing of projected dividend payments is not certain, in my view, it is highly likely that Brookfield DTLA will begin paying the accrued and unpaid dividends on the preferred stock within the next eight years. For example, since the closing of the merger, the value of the assets held by Brookfield DTLA has increased. Accordingly, Brookfield DTLA should be able to recapitalize the Company and refinance mortgages on the underlying properties as the mortgages come due...”*
- ...Once the portfolio is stabilized and recapitalized, more cash may be available to pay the accrued Brookfield DTLA Preferred Stock dividends. In addition, a recapitalization of the portfolio by Brookfield DTLA could lead to payment of the accrued dividends and/or redemption of the Brookfield DTLA Preferred Stock altogether, requiring payment of \$25.00 per share, plus all accrued and unpaid dividends to the preferred stockholders...*
- ...Brookfield DTLA could redeem some or all of the preferred stock using proceeds from new senior debt that would be more cost effective to the Company. Furthermore, the coupon rate of 7.625% on the preferred stock is high in the current interest rate environment, which provides an additional incentive to redeem the Brookfield DTLA Preferred Stock. Further, if the properties generate income, as they currently do, certain dividends must be paid by Brookfield DTLA to the preferred stockholders (and other stockholders) to maintain the real estate investment trust status of the Company...”*



(5)

Brookfield DTLA Fund Office Trust (DTLA-)

“Price is what you pay. Value is what you get.” ~ Warren Buffett

Punchline – we believe that DTLA- has many features making it an attractive investment:

- Substantial upside – (50%+) increasing at 7.625% per annum which is fairly unique in current market conditions
- Margin of Safety – (at conservative liquidation values of ~\$400 per sqft) the pref is well covered with substantial equity remaining to common holders
- Timeline of the eventual transaction is moving closer daily (recent pref issuance by BPY indicates substantial savings in a case of a recap ~<6% replacement cost) and original investors are only 1.5 years away from the average 5 year time horizon and are likely to ask for some form of a pay off soon...



(1)



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