



Brandywine Realty Trust (BDN)

Updated October 23rd, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$6.2	5 Year CAGR Estimate:	12.2%	Market Cap:	\$1.1 B
Fair Value Price:	\$7.3	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	1/3/2025 ¹
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.3%	Dividend Payment Date:	1/17/2025
Dividend Yield:	9.7%	5 Year Price Target	\$8.0	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Brandywine Realty Trust (BDN) is a real estate investment trust (REIT) that owns, develops, leases and manages an urban town center and transit-oriented portfolio which includes 156 properties in Philadelphia, Austin and Washington, D.C. The REIT has a market capitalization of \$1.1 billion and generates 75% of its operating income in Philadelphia, 19% of its operating income in Austin and the remaining 6% in Washington, D.C.

As Brandywine Realty Trust generates the vast portion of its operating income in Philadelphia and Austin, it is worth noting the advantages of these two areas. According to official reports, Philadelphia has the highest growth rate of highly educated citizens since 2008 while Austin is the fastest-growing metropolitan area, the best place to start business and it has retrieved all the jobs lost due to the pandemic.

On 10/22/24, Brandywine Realty Trust reported results for the third quarter of fiscal 2024. Occupancy edged down sequentially from 87.3% to 87.2% but funds from operations (FFO) per share rose 4.5%, from \$0.22 to \$0.23. It was the eighth quarter in a row in which the impact of high interest rates on interest expense was evident. Interest expense grew 26% year-over-year. As the REIT faces debt maturities, it has to issue new debt at high interest rates. The REIT slightly lowered its guidance for FFO per share in 2024 from \$0.91-\$0.96 to \$0.89-\$0.92. Accordingly, we have lowered our forecast from \$0.93 to \$0.91.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	\$1.37	\$1.47	\$0.95	\$1.30	\$1.38	\$1.43	\$1.40	\$1.37	\$1.36	\$1.15	\$0.91	\$1.00
DPS	\$0.60	\$0.60	\$0.63	\$0.66	\$0.73	\$0.76	\$0.76	\$0.76	\$0.76	\$0.72	\$0.60	\$0.60
Shares²	166.2	178.2	176.0	176.8	179.6	176.7	172.3	172.9	172.0	174.0	176.0	200.0

Brandywine Realty Trust operates primarily in Philadelphia and Austin, which have some attractive characteristics. 80% of all U.S. pharmaceutical companies have offices in Philadelphia, with no other county producing as many degrees in biomedical engineering. Moreover, Austin is the fastest-growing metropolitan area in the U.S., with Oracle and Tesla recently moving their headquarters to Austin. Up to 50 companies may move to Austin to service Tesla and its supply chain vendors. Overall, the outlook is bright for those who operate commercial properties in the area. On the other hand, Brandywine Realty Trust has not grown FFO per share over the last decade, with a volatile performance record in place. It is also hurt by high interest expense due to high interest rates. We thus prefer to be conservative in our growth assumptions and assume that the REIT will grow its FFO per share at a 2.0% average annual rate over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	10.9	9.7	15.7	13.2	11.5	10.5	8.2	9.8	7.3	4.1	6.8	8.0
Avg. Yld.	4.0%	4.2%	4.2%	3.9%	4.6%	5.1%	6.6%	5.7%	7.7%	15.1%	9.7%	7.5%

¹ Estimated date.

² In millions.

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Brandywine Realty Trust is currently trading at a depressed price-to-FFO ratio of 6.8, which is much lower than the 10-year average FFO multiple of 10.1. Due to the high debt load of the REIT and its resultant vulnerability to high interest rates, we assume a fair price-to-FFO ratio of 8.0, which is the 5-year average of the stock. If the stock trades at its fair valuation level in five years, it will enjoy a 3.3% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

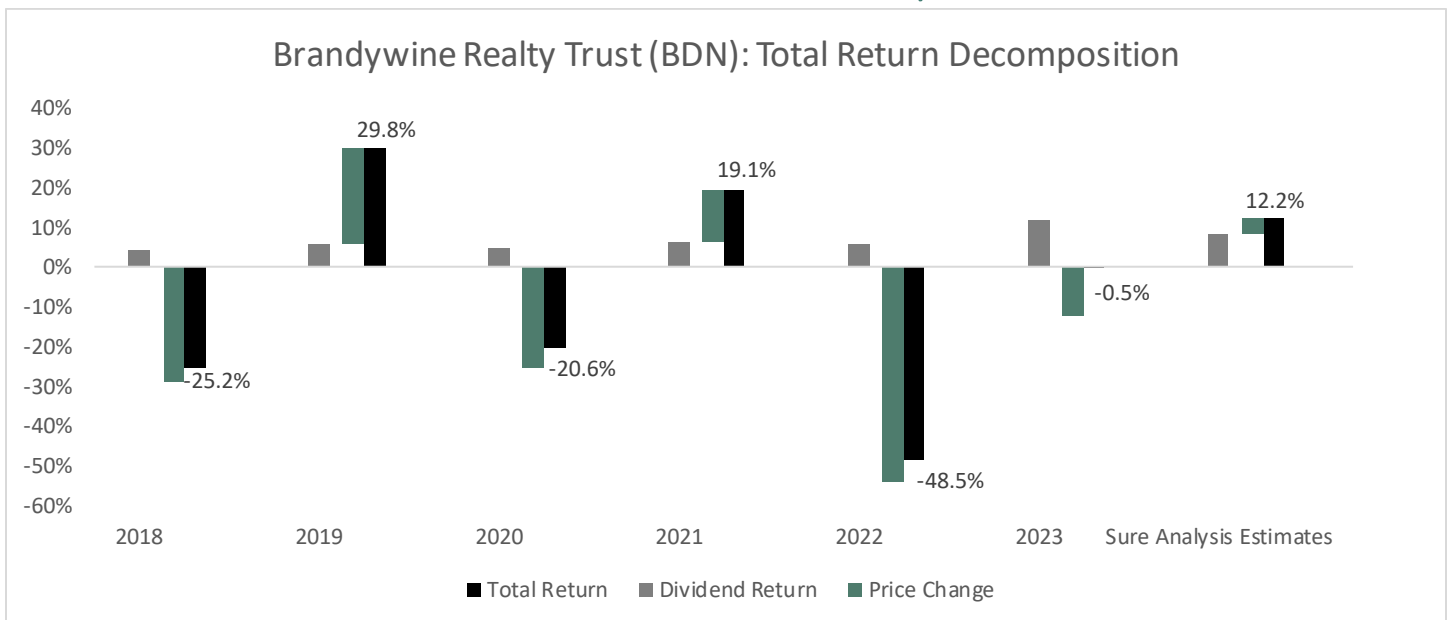
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	44%	41%	66%	51%	53%	53%	54%	55%	56%	63%	66%	60%

Brandywine Realty Trust cut its dividend by 21% last year due to the impact of high interest rates on its interest expense but it is still offering an exceptionally high dividend yield of 9.7%. Given the decent payout ratio of 66%, the dividend looks enticing on the surface. However, it is important to note that the REIT operates with a nosebleed leverage ratio (Net Debt to EBITDA) of 7.9. It also has a debt maturity in November-2027. As a result, the dividend is likely to come under pressure in the event of an unforeseen downturn. The high debt load is the primary reason behind the freeze of the dividend for 19 consecutive quarters (before the cut in 2023). Moreover, Brandywine Realty Trust is sensitive to recessions due to its weak balance sheet and the sensitivity of its tenants to recessions. While the REIT performed decently during the pandemic, with just a -4% decline in FFO per share between 2019 and 2021, we believe that the REIT is not suitable for risk-averse income-oriented investors.

Final Thoughts & Recommendation

Brandywine Realty Trust operates in the attractive markets of Philadelphia and Austin but it has exhibited choppy performance over the last decade and it is currently facing a strong headwind due to rising interest expense amid high interest rates. We consider a consistent growth record as paramount and hence we are concerned over the unreliable performance of the REIT. On the bright side, as inflation has finally cooled and the Fed has begun reducing interest rates, the stock has rallied 29% since our last research report, in August. The stock could still offer a 12.2% average annual return over the next five years thanks to 2.0% annual growth of FFO per share, a 9.7% dividend and a 3.3% valuation tailwind. We lower our rating from “buy” to “hold” and reiterate our concerns over the excessive debt load of the REIT and its high risk in the event of a recession.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	597	603	525	520	544	580	535	487	506	515
Gross Profit	361	365	316	314	326	355	329	299	312	325
Gross Margin	60.5%	60.5%	60.1%	60.4%	59.9%	61.1%	61.6%	61.3%	61.7%	63.1%
SG&A Exp.	27	29	27	29	28	32	30	30	35	35
D&A Exp.	209	219	190	180	176	210	188	178	178	189
Operating Profit	126	116	100	106	122	112	111	90	99	101
Operating Margin	21.1%	19.3%	19.0%	20.3%	22.5%	19.4%	20.7%	18.5%	19.6%	19.6%
Net Profit	7	(30)	40	120	135	34	306	12	54	(197)
Net Margin	1.2%	-5.0%	7.6%	23.1%	24.7%	5.9%	57.1%	2.5%	10.7%	-38.2%
Free Cash Flow	(48)	(129)	(81)	20	15	36	66	56	(54)	21

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,835	4,555	4,099	3,995	4,077	4,076	3,900	3,846	3,875	3,732
Cash & Equivalents	258	57	194	202	23	90	46	27	18	58
Accounts Receivable	19	17	12	18	16	16	14	12	11	12
Goodwill & Int. Ass.	99	112	72	65	171	124	88	56	54	35
Total Liabilities	2,676	2,602	2,216	2,149	2,266	2,388	2,095	2,145	2,241	2,408
Accounts Payable	96	100	103	107	126	113	122	150	132	124
Long-Term Debt	2,427	2,385	2,013	1,931	2,028	2,144	1,831	1,854	1,965	2,139
Shareholder's Equity	2,141	1,934	1,866	1,829	1,799	1,678	1,794	1,690	1,626	1,317
LTD/E Ratio	1.13	1.23	1.08	1.06	1.13	1.28	1.02	1.10	1.21	1.62

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.1%	-0.6%	0.9%	3.0%	3.3%	0.8%	7.7%	0.3%	1.4%	-5.2%
Return on Equity	0.3%	-1.5%	2.1%	6.5%	7.4%	2.0%	17.6%	0.7%	3.2%	-13.4%
ROIC	0.2%	-0.7%	1.0%	3.1%	3.5%	0.9%	8.2%	0.3%	1.5%	-5.6%
Shares Out.	166.2	178.2	176.0	176.8	179.6	176.7	172.3	172.9	172.3	172.0
Revenue/Share	3.59	3.38	2.99	2.94	3.03	3.29	3.10	2.83	2.94	2.99
FCF/Share	(0.29)	(0.72)	(0.46)	0.12	0.08	0.20	0.38	0.32	(0.31)	0.12

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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