FTfm Brookfield Asset Management Inc

Bruce Flatt of Brookfield on owning the backbone of the global economy

Chief of Canadian asset management group is on a mission to acquire infrastructure

Bruce Flatt: in 50 years most of the world's infrastructure will be in private hands

Judith Evans and Peter Smith SEPTEMBER 22, 2018

It is a windy Tuesday in London and from a Canary Wharf skyscraper, Bruce Flatt, chief executive of Brookfield Asset Management, surveys a corner of his global empire.

Close by is Newfoundland, 62-storeys of homes for rent beside the Thames. In the distance, nestled among City of London towers, is 100 Bishopsgate, a 37-floor office building under construction. To the right, in fashionable Shoreditch, the 50-storey residential Principal Tower is taking shape.

What about the West End, which is studded with cranes? No, nothing there is big enough for Brookfield. "The sites are small and our advantage is scale," says Mr Flatt.

Toronto-based Brookfield keeps a low profile but its scale is vast. In 20 years under Mr Flatt, it has become one of the largest real estate and infrastructure investors, with a footprint in 35 countries.

On the scale of its $285bn portfolio, even Canary Wharf, which Brookfield bought with Qatar's sovereign wealth fund for £2.6bn three years ago, looks small. In just one of Brookfield's megadeals this year, it took the US mall operator GGP private for $15bn. Many countries are too small to have any assets worth Brookfield's time. "We paid nearly $12bn for a real estate company [Forest City Realty Trust] in the US. Some countries, their entire investment stack is not $12bn," says Mr Flatt.

Now, Mr Flatt is on a mission to acquire infrastructure, with Brookfield at the centre of a global shift as indebted governments transfer assets to the private sector.

“We’re in a 50-year transformation of the infrastructure world. We’re 10 years in; we have 40 left to go. By the end of that 50 years most infrastructure in the world will be transferred to private hands,” he says.

A rough calculation indicates that about $100tn could go private over that 50 years, Mr Flatt says, adding that only “maybe 10 per cent” has transferred. In developing countries, existing assets are being sold; in developing markets, new infrastructure is being built by the private sector. That is a huge opportunity for Brookfield, he believes.

“We’re in the business of owning the backbone of the global economy. [But] what we do is behind the scenes. Nobody knows we’re there, and we provide critical infrastructure to people that somebody pays a small amount for . . . the road you drive on, most people think it’s owned by the government. Even if it is a toll road, they wouldn’t actually know who owned it,” says Mr Flatt.

Brookfield bought Canary Wharf in 2015

At first sight, billionaire Mr Flatt appears understated: a pale figure in a suit and sober tie. As with his company, though, his discretion belies immense ambition. Overall, he expects group assets to double to between $500bn and $600bn in five to 10 years, including more than $100bn in India and China.

Mr Flatt began his career at Canadian conglomerate Brascan. It foundered in the early 1990s, forcing a fire sale. Mr Flatt bought stock cheaply and helped rebuild it. The collapse of Olympia & York — a Canadian company felled by losses on Canary Wharf, where we now sit — gave an opportunity to acquire prime US real estate assets through buying its debt.

Brookfield did not buy Canary Wharf itself until 2015, but the Olympia & York assets formed the core of a new real estate division: Mr Flatt was on the road to taking control of Brascan and turning it into Brookfield. In a complex structure, the parent company has four listed affiliates handling property, renewables, infrastructure and private equity.

Buying where there is distress, whether companies or countries, remains Brookfield's hallmark. "There's a lot of stress in the banking market in India . . . and we've been finding the opportunity to buy virtually in all of our sectors [there]. Over the past 36 months . . . there was an enormous void of foreign direct investment into Brazil, therefore we bought a lot of things at what we deemed to be fractions of the replacement cost," says Mr Flatt.

In Brazil, for example, a consortium led by Brookfield bought a gas pipeline network from state-run Petrobras for $5.2bn.

Mr Flatt admits that Brookfield has made mistakes, including in its early years on projects in the US and Australia. Volatile currencies in emerging markets such as Brazil are also a risk. "If you earn a 35 per cent IRR [internal rate of return] but you lost 35 per cent on the currency, you got zero," he says.

This year in the US, home to half the group's assets, Brookfield's private equity division bought Westinghouse Electric, the nuclear services company, out of bankruptcy for $4bn; the group took control of two subsidiaries of the bankrupt solar group SunEdison for $1.4bn. Last month it struck a deal for control of 666 Fifth Avenue, the Manhattan tower owned by the Kushner family, now represented in the White House by Jared Kushner, son-in-law of US president Donald Trump.

Mr Flatt deflects questions about the chance of success for Mr Trump's $1.5tn infrastructure programme. "Not much is happening in infrastructure in the US," he says deftly.

Brookfield bought two subsidiaries of SunEdison this year

He would not say whether infrastructure is a bigger opportunity than real estate: “It is like [asking] which of your children you like better.”

Brookfield was overtaken three years ago by Blackstone as the world’s largest real estate investor. The arch-rivals must now hunt for property assets in a late-cycle environment, following almost a decade of rising prices.

GGP, the mall group of which Brookfield already owned a third, was under pressure as the crisis in the retail sector hit demand for physical stores. “We don’t buy into the thesis that all retail is going to go online,” says Mr Flatt. The GGP purchase is primarily a redevelopment play, he says, “concentrating these shopping centres with apartments and all these other things”.

Is Brookfield preparing for a crash? “We’re almost 10 years into a recovery, which means that the recovery or the expansion may last for one year, two years, three years, four years more. Four years would be maybe a record . . .[so], just because we’re very conservative people, our view is we should hold more cash, be more conservative,” says Mr Flatt.

He recalls 2007 when Brookfield “began preparing” for a downturn. Brookfield is once again increasing its cash holdings. At the end of June, in its latest results, Brookfield Asset Management held almost $6bn of cash and equivalents, almost double the figure at the end of 2016.

“It’s when enormous dislocations happen and you can buy, and the only way one can do that is be prepared,” he says. “I wouldn’t want this to come across that we’re preparing for Armageddon.”

The 'Tribute in Light', a memorial to the World Trade Center towers

Mr Flatt is understandably reluctant to compare a potential downturn with the financial crisis of 2008. But September 11, the day we meet, marks a different disaster. By the time of the 9/11

attacks in 2001, Brookfield owned the World Financial Center, now Brookfield Place, across the street from the Twin Towers, along with One Liberty Plaza next to the World Trade Center.

Mr Flatt was in Toronto when the attacks occurred. With flights grounded, he drove for 10 hours to reach Manhattan. “I got there September 12 at 1am and went downtown. We didn’t know whether our people were OK. Only later did we find that out,” he recalls.

The glass in Brookfield’s buildings shattered up to 30 storeys; there were fears that One Liberty Plaza could collapse. However, Brookfield found that all its staff had survived and the buildings reopened two months later.

Initially many employees were too traumatised to return. “I, in fact, was the only person I think down there two months later on my phone, phoning people . . .[who] came back slowly. Today, leaving aside the whole tragedy, the remake of Lower Manhattan was enabled because of the tragedy,” he says.

The following year, Mr Flatt became chief executive. What did this experience teach him? He pauses before concluding: “Make sure you’re at the wheel.”

CV

Born 1965

Pay $6.84m

Education 1986: University of Manitoba, bachelor of commerce

Career 1987: Chartered accountant, EY
1990: Corporate finance, Brascan (predecessor of Brookfield Asset Management)
1993: Chief financial officer, Brookfield Properties
1998: President and chief executive, Brookfield Properties
2002: Senior managing partner and chief executive, Brookfield Asset Management

Brookfield Asset Management

Founded Traces roots to 1899

Assets $285bn

Employees 1,500

Headquarters Toronto

Ownership Publicly traded on NYSE and TSX; Partners have ownership of 20%