FINAL TRANSCRIPT

Brookfield Real Estate Services Inc.

Fourth Quarter and Annual 2016 Conference Call

Event Date/Time: March 9, 2017 — 10:00 a.m. E.T.

Length: 24 minutes

CORPORATE PARTICIPANTS

Phil Soper
Brookfield Real Estate Services Inc. — President and Chief Executive Officer

Glen McMillan
Brookfield Real Estate Services Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

PRESENTATION

Operator

Good morning. My name is Sally (phon), and I would like to welcome everyone to the Brookfield Real Estate Services Inc. Fourth Quarter and Annual 2016 Conference Call. All lines have placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

I would like to introduce you to Mr. Phil Soper, President and CEO of Brookfield Real Estate Services Inc.

Mr. Soper, you may begin your conference.

Phil Soper — President and Chief Executive Officer, Brookfield Real Estate Services Inc.

Thank you, Sally, and good morning, everyone. With me today is our Chief Financial Officer, Glen McMillan.

I will begin with a brief look at our 2016 fourth quarter and annual highlights. Glen will then discuss our financial results for the quarter and year, and I'll conclude with some remarks on recent business operations and market developments. After that, Glen and I would be happy to answer your questions.

I would like to remind you that the remarks expressed during this call may contain forward-looking statements. You should not place reliance on these forward-looking statements because they involve known and unknown risks and uncertainties that may cause the actual results and performance of the Company to differ materially from the anticipated future results expressed or implied by such forward-looking statements.

I encourage everyone to review the cautionary language found on SEDAR and our website.

The Company has had a very successful fourth quarter and full year 2016. Cash flow from operations drives our ability to pay strong and growing dividends, and again in 2016 we outperformed the previous year results, reaching a record cash flow from operations of 31 million, or $2.42 per share.

This strong financial performance, in which royalty revenue increased by 2.6 million, was driven primarily by successful acquisition and recruiting strategies that resulted in a significant increase in the number of REALTORS® in the Company, supported by a strong Canadian real estate market and lower operating costs.

Our roster of sales professionals grew by almost 800 REALTORS® during 2016. As at December 31, 2016, the Company's network was comprised of 17,580 REALTORS®, up from 16,794 at the end of the previous year.

The increase was driven by the Company's purchase of 33 franchise agreements, representing an annual revenue stream of approximately $1 million from 459 REALTORS®, and net recruitment growth of 327 REALTORS®.

This recruiting strength is particularly satisfying, as the 2016 growth compares to attrition of 160 REALTORS® in 2015, a net positive improvement year to year of approximately 500 salespeople. The improvement in net recruitment growth was driven by newly introduced programs designed to support brokerages in the Network and their recruiting performance.

Another factor in net agent growth was the introduction of programs to improve retention. An agent retained is equivalent to an agent recruited. Diving even deeper, we have improved training aimed at increasing the success rate for rookie REALTORS® in their first year.

At the end of 2016, the Company's network was operating under 297 franchise agreements providing services from 667 locations, with approximately a one-fifth share of the Canadian residential real estate market based on 2016 transactional-dollar volume. In January of 2017, the Company acquired an additional 55 franchise agreements representing 568 REALTORS®, and an estimated annual royalty stream of $1.2 million. This acquisition brings the total network to 18,148 REALTORS® across Canada.

We continue to be on a strong growth trajectory. From inception to today, the Company has doubled the size of its sales force, growing by 97 percent through acquisitions and organic growth.

This represents over a 5 percent compound annual growth rate in underlying salespeople — it doesn't reflect their improvements in productivity; this is just pure head count — outperforming the 4 percent growth in the industry by a substantial margin.

At our Board of Directors meeting yesterday, the Board approved a dividend to shareholders of $0.1083 per restricted voting share payable April 28, 2017, to shareholders of record March 31, 2017, representing a target annual dividend of $1.30 per restricted voting share.

With that introduction, I'd like to turn things over to Glen for a look at our fourth quarter and annual financial performance.

Glen McMillan — Chief Financial Officer, Brookfield Real Estate Services Inc.

Thank you, Phil, and good morning, everyone. As Phil mentioned, during the fourth quarter of 2016, Brookfield Real Estate Services generated strong quarterly and annual financial results.

In the fourth quarter, the Company generated cash flow from operations of $6.9 million, or $0.54 per share on a diluted basis, unchanged from 2015, as continued strength in the Ontario market was offset by a 41 percent quarterly drop in transactional dollar volume in the Vancouver market compared to the fourth quarter of 2015.

For the full year, cash flow from operations was our highest ever at $31 million, or $2.42 per share, an increase of 7.3 percent as compared to the 28.9 million, or $2.26 per share in 2015.

Royalty revenue totalled $9.6 million for the fourth quarter, up marginally from the $9.5 million for the same period last year. We benefitted from higher fixed franchise fees due to the increased number of REALTORS® in the Network, and higher premium fees due to continued growth in the Greater Toronto Area market. However, these increases were offset in part by lower variable franchise fees resulting from the weaker markets in Vancouver in the second half of the year.

For the entire year, royalty revenue totalled $42.4 million compared to 39.9 million in 2015, an increase of 6.6 million, again, due to an increase in the number of REALTORS® in the Network and the strong Canadian real estate market.

And finally, net earnings in 2016 were $6.4 million, or $0.67 per restricted voting share as compared to 1.3 million, or $0.14 per share in 2015.

In the fourth quarter, the Canadian residential real estate market grew by 4 percent to $49.8 billion in total transactional dollar volume compared to the same period in 2015, driven by a 6 percent increase in national average selling price, offset by a 2 percent decrease in units sold.

For the year ended December 31st, the Canadian market closed up 17 percent at $262.9 billion, driven by an increase of 11 percent in prices and 6 percent in units.

The most notable increases were in the greater Toronto area. In the fourth quarter, the GTA experienced a 36 percent increase based on a 19 percent increase in prices, and a 14 percent increase in units sold over the same period last year.

For the year, the housing market in the GTA experienced an increase of 31 percent, driven by a 17 percent increase in average selling price and a 12 percent increase in units sold.

Despite a significant drop in the market in the second half of the year, the greater Vancouver housing market saw healthy annual growth in 2016. While second half activity was 32 percent lower below 2015 levels, transactional volume for the full year increased by 7 percent, driven by a 13 percent increase in average selling price, offset by a 5 percent decrease in number of units sold.

Given the overall strength of the real estate market and continued volatility in home price divergence across regions, it’s important to understand the profile of the Company’s revenue. As a franchisor, our revenue is primarily fixed in nature, which serves to insulate our cash flows from fluctuations in the Canadian real estate market.

And with that, I’ll now turn the call back over to Phil for some additional insight and commentary on the market and the operations.

Phil Soper

Thanks very much, Glen. Canada’s residential real estate market saw significant year-over-year price appreciation in the fourth quarter of 2016, supported by considerable gains in two of the largest markets, the greater Toronto and greater Vancouver areas.

The disparity in home price appreciation between Canada’s hottest markets and the coldest regions was the greatest we have seen in recent memory, with appreciation rates ranging from double-digit extremes in cities like Toronto, Hamilton, and Vancouver, to negative growth in Calgary, Edmonton, and St. John's, and I'll touch on this in the call.

We see something of a return to the mean in 2017 as these great disparities begin to diminish. Eroding affordability in BC's Lower Mainland drove the beginning of a regional market correction in 2016, coupled with national and provincial public policy measures introduced during the year aimed at slowing house price appreciation in Vancouver in particular.

Buyers were pushed to the sidelines gradually and sales volumes dropped. We saw this going back to the middle of the previous year and would have talked about it on this call.

While the cost of a home in greater Vancouver will remain the highest in the country, we are expecting and have forecast a modest price reset, which will provide much needed relief in the Lower Mainland British Columbia, and help reignite overall buyer activity in the region in 2018.

The Royal LePage forecast for greater Vancouver calls for a drop in home prices of 8.5 percent for the full year. Much of this valuation reset has already taken place.

Comparing Vancouver to Toronto, the two regions, while often grouped together in the media, will take divergent paths in 2017. While we witnessed high price increases in Toronto last year, they did not approach the peak increases we experienced in Vancouver on a percentage basis.

Further, home prices in Toronto, while high for Canada as a whole, are nowhere near as expensive as Vancouver. The median value of a Vancouver home was 70 percent—that's 7-0—higher than Toronto in the fourth quarter 2016 Royal LePage House Price Composite.

Unlike Vancouver, where I mentioned earlier the expected price correction is underway, we see no relief in sight for the GTA in 2017, as forward momentum and supporting fundamentals in the region remain very strong.

Finally, it's worth noting that this is primarily economically driven growth, and sustained and strong household creation is the primary driving force behind demand for housing in Toronto and Vancouver.

In Central Canada, the number of homes trading hands in Alberta has been sharply lower over the last couple of years than the long-term norms. This dates back to the end of 2014 when the oil crisis began.

However, Albertans have lost very little equity in their homes, as supply softened to match the lower demand, and prices remained virtually flat. For example, in the fourth quarter, Royal LePage House Price Composite prices in Calgary were down only 1.5 percent year over year.

While we don't anticipate a strong housing rebound for Alberta, we are calling and did call 2016 as the bottom for this correctional phase of the cycle. We anticipate prices to rise in Calgary by 2.5 percent this year, and early indications are that our call is accurate.

We base our outlook not on a sharp increase in the value of oil, by the way, but upon maintaining a floor of around $50 per barrel during the year, allowing the energy industry to move into modest-growth mode.

Price appreciation disparities, as I mentioned earlier, between regions have created a quandary for policymakers who have tried to tame overheated housing markets while at the same time supporting slower ones.

As such, 2016 marked a slew of new public policy initiatives at national, provincial, and municipal levels. We thought it was important we share some of these with you, and summarize them in case there were questions as to their impact on the market and the Company.

So there were federal measures to tighten mortgage insurance rules, expand stress tests, and improve tax fairness around capital gains exemptions. Canada Mortgage and Housing Corporation changed their securitization programs.

There was a 15 percent land transfer tax on foreign nationals introduced by the British Columbia provincial government for Metro Vancouver, and then a home owner mortgage and equity program to provide interest-free loans followed that. So one stimulus program and one slowdown program, and then there were further changes to the foreign tax legislation, so a little bit of back and forth from British Columbia as they tried to find their way.

A tax on vacant homes in Vancouver was introduced at a municipal level. And Ontario doubled the land transfer tax rebate aimed at helping first-time buyers get into homeownership. And finally, there an Ontario-based tax increase on homes over $2 million. That was a land transfer tax increase.

So many different initiatives; some we supported. In fact, we generally support modest legislation that's aimed at moderating runaway markets and supporting homeownership for Canadians, but some were missteps.

What leaders have been slow to address, and what's at the heart of the matter, is the supply side of the equation in Canada's hottest markets. Housing shortages have and will put immense upward pressure on the prices in our largest cities as immigration, interprovincial migration, and organic household formation growth put pressure on the demand side of the equation in our big cities.

As we said earlier, we expect the house price appreciation gap between regions to narrow in 2017 and the trend towards historical norms to take place. But here in the beginning of the year we still have overheated markets in Toronto, cooling markets in Vancouver, and in general looking across the country quite healthy real estate markets in Atlantic Canada, Quebec, and even on the Prairies. So overall, the Canadian real estate market picture looks balanced and healthy with a couple of flashpoints.

As demonstrated by our strong fourth quarter and annual results, such as our growing REALTOR® count, the Company continues to provide value through ongoing investments in technology and business services that ensure our brokers and agents are among the most informed, supported, and of course, successful in the Canadian market.

These include the development of new tools to assist REALTORS® in managing their businesses, and recruitment and retention programs to help brokers and managers effectively attract and retain the best talent in the industry.

In this regard, the Company launched a number of new marketing tools and materials to help franchisees with their recruiting efforts, including new e-mail drip campaigns, which is a way to in a structured way reach out and contact your consumer client base, and an experienced REALTOR® transition presentation.

In addition, two new broker training and accountability programs were launched to support continuous improvement in recruiting and retention results, at the core of the success of our company.

We also launched a new partnership with a leading international luxury real estate services organization, which provides our Royal LePage network of REALTORS® and their luxury listings with international exposure on one of the world’s leading luxury real estate portals.

Turning to meaningful technology, we launched a couple of things that are quite interesting for consumers to use through our web properties. One was Your Perfect Life, which is a neighbourhood matching tool essentially allowing people to find neighbourhoods, hidden neighbourhoods that they didn’t know about, that may match the qualities they’re looking for in the neighbourhood they know but, say, couldn’t afford. Or including information about their personal situation—children's school needs, incomes, even things like ethnicity and restaurants—and matching them to neighbourhoods.

We also introduced something called Travel Time search functionality. This was possible through our enterprise partnership with Google, which enables us to let consumer clients use royallepage.ca home search in a new way.

For example, putting in the location of their work and saying, I'm only willing to accept a 30-minute commute, the Royal LePage search functionality will draw an irregular map drawing upon Google real-time traffic trends and historical traffic trends for the region showing where they could live and stay within that 30-minute window.

This is all designed to create a sticky experience where consumers come to our website, and they establish a relationship with the brands and with the Company. And when they're ready, we turn them over to one of our real estate professionals to help them service the actual transaction.

The final thing that I'm very excited about and that we'll be demonstrating at the Annual General Meeting in just a few weeks is a brand-new tool kit for our REALTORS® that encompasses end-to-end digital marketing and client relationship management technology. It will be the leading such platform in the country, and we are very excited about it. So stay tuned for that in just a few weeks' time.

These are only a few of our many ongoing initiatives, and we continuously look for ways to grow and enhance our business. Details of future projects will, of course, be shared with you as the year progresses.

So in conclusion, we are very optimistic about the state of our business and growth opportunities that continue to exist for us throughout the country, and continue to expand our network while providing our shoulders an investment vehicle that pays stable and growing dividends.

In closing, please put on your calendar the Brookfield Real Estate Services Inc. Annual General Meeting, which will be held in the Estates of Sunnybrook - Vaughan Estate Courtyard Ballroom. That's at 2075 Bayview Avenue in Toronto, Ontario, which is North-Central Toronto, so that's Sunnybrook Estates on the 9 of May 2017, at 10:00 a.m. Eastern Time.

Of course, all this detail is on our website.

With that, I'd like to turn things back to Sally, our Operator, and open up the call for questions.

Q&A

Operator

At this time, I would like to remind everyone if you would like to ask a question, please press *, then the number 1 on your telephone keypad. Again, that's *, 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Again, to ask a question, please press *, 1.

And there are no questions at this time. Mr. Soper, I'll turn the call back over to you.

Phil Soper

Thanks, Sally. Well, with that, I'd like to thank everyone for participating in today's call and looking forward to see you in person. And of course, you can follow it through a webinar live, our Annual General Meeting if you're unable to attend. And that again is the 9th day of May at Sunnybrook Estates.

Thanks so much.

Operator

Thank you, ladies and gentlemen, for your time and participation. This concludes today's conference call. You may now disconnect.

*****