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FINAL TRANSCRIPT

Brookfield Real Estate Services Inc.

Second Quarter of 2017 Conference Call

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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 Jodie (phon), and I would like to welcome everyone to the Brookfield Real Estate Services Inc. Second Quarter of 2017 Conference Call. All lines have been placed on mute to prevent any background noise.

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

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

Thank you, Jodie, and good morning to everyone. We appreciate you joining us this morning.

With me today, as the Operator mentioned, is our Chief Financial Officer, Glen McMillan.

On today's call, I will begin with a brief overview of the quarter, Glen will then discuss our financial results for the second quarter, and I'll conclude by providing some remarks on recent business, operational highlights, and market developments. After that, Glen and I would be happy to take your questions.

I wanted to remind you that some of the remarks expressed during this call may contain forward-looking statements. You should not place any reliance on these forward-looking statements because they involve known and unknown risks and uncertainties that may cause 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 read the cautionary language found in our new release and all our regulatory filings with respect to forward-looking statements. All these documents can be found on our website and on SEDAR.

The Company has had a very successful first half of 2017, with strong second quarter financial and operational results. Cash flow from operations on a 12-month rolling basis saw a significant increase of 8.9 percent to $2.56 per share compared to the same period in 2016.

As a result of our strong financial performance, we announced this morning a 3.9 percent increase in the monthly dividend to holders of the Company's restricted voting shares. This announcement increases the targeted annual dividend to $1.35 per share. As a result, the dividend payable September 30th to shareholders of record on August 31st will be 11.25.

We are very pleased to make this announcement, as it speaks to our company's commitment to providing shareholders with reliable, appreciating returns. It reflects the hard work of our employees that work every day to provide excellent service to our existing company network and, of course, to attract new brokerages and realtors to our brands. I'll touch on this more later.

The Company's network continued to grow in the second quarter. As at June 30, 2017, our network of REALTORS grew to 18,116, up from 18,077 at the end of the first quarter and 17,580 at December 31, 2016.

The Canadian housing market, as measured by transactional dollar volume and value of all homes sold, was down by 2 percent in the second quarter of 2017 compared to the second quarter of 2016. This represents the first year-over-year quarterly drop since the first quarter of 2013.

If we were to exclude Canada's two largest markets, Toronto and Vancouver, which represent about 44 percent of the Canadian market, the rest of Canada grew by 5 percent. I'll provide more detailed remarks on the state of the Canadian housing market later in the call.

When we look at fluctuations in real estate values, it is important to remember that the Company's revenue is driven by long-term franchise agreements, and our royalties are weighed towards fixed fees. As a result, approximately 72 percent of the annual royalties have been insulated for market fluctuations.

With that, I'll turn the call over to Glen for a look at our second quarter financial performance.

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

Thank you, Phil, and good morning, everyone. As Phil mentioned, during the second quarter of 2017 Brookfield Real Estate Services generated strong financial results.

The Company generated cash flow from operations of $9.2 million in the second quarter, or $0.72 a share, which represents an increase of 14.6 percent as compared to the $8 million, or $0.63 per share generated in the same period of 2016.

For the rolling 12-month period ended June 30, 2017, cash flow from operations was $2.56 per share as compared to $2.35 per share for the same period last year.

Royalty revenue totalled $12.1 million in the quarter compared to 10.9 million for the second quarter of 2016.

For the year-to-date, royalty revenues amounted to $22.5 million compared to 20.3 million in 2016, an increase of 11 percent.

The increased royalties and improvement in cash flow from operations were driven primarily by an increase in the number of REALTORS in the Network and continued growth in the Canadian real estate market through the first half of 2017 relative to 2016.

In the second quarter, the Company generated net earnings of $3.3 million, or $0.35 per share, compared to 1.2 million, or $0.12 per share, for the same period last year. For the first six months of the year net earnings were $4.6 million, or $0.49 per share, compared to net earnings of 2.1 million, or $0.22 per share, last year.

During the quarter, the Company recorded administration costs of $6,000 compared to $203,000 recorded in Q2 of 2016. During the quarter, the Company was able to collect accounts receivable which had been previously written off, resulting in the reversal of bad debt expense recorded in prior quarters. Administration expenses on a year-to-date basis are in line with 2016.

In the second quarter, the Canadian residential real estate market closed down a modest 2 percent to $88.4 billion in total transactional dollar volume. This reflects a 7 percent decrease in units sold, partly offset by a 5 percent increase in average home prices.

However, as Phil noted earlier, the market outside of Toronto and Vancouver grew by a healthy 5 percent, with a 7 percent increase in prices and a 2 percent drop in volumes. For the 12-month period ended June 30th, the Canadian market closed up 4 percent at $264.8 billion, driven by an increase of 6 percent in average selling price, partly offset by a 2 percent decrease in units sold.

And for the three months ended June 30, 2017, the GTA market experienced a decrease in transactional dollar volume, down 9 percent to $25.6 billion compared to the second quarter of last year. This reflects a 21 percent decrease in units sold, partly offset by a 16 percent increase in prices. However, on a rolling 12-month basis, June showed an increase of 20 percent over the prior year due to higher average selling prices.

The market in Vancouver continues to be challenged. For the 3- and 12-month periods ended June 30, 2017, the Greater Vancouver market decreased by 15 percent and 30 percent, respectively, when compared to the same period in 2016. And while the Vancouver market has seen significant reductions in unit sales, we did see a price increase of 2 percent during the second quarter compared to the second quarter of 2016.

Also, while the number of units sold was down 17 percent this quarter compared to the same quarter last year, this was a market improvement from the year-over-year decrease of 28 percent during the rolling 12-month period.

And Phil will now provide additional insight into the markets and an update on our operations.

Phil?

Phil Soper

Thanks, Glen. While we are looking at a correction in the Toronto market now that followed the correction in the Vancouver market that began in 2016, it's important to step back and look at the overall health of the Canadian economy, which has and will continue to be a significant contributor to the stability of the country's real estate market.

Compared with a year ago, there are 388,000 new jobs in Canada and most, 354,000, are full-time positions. This is excellent news for the large purchasing segment of the economy. A strengthening employment picture encourages investment in real estate and the purchase of big-ticket items, like autos and major appliances, investment in real estate, and the purchase of—or the investment in multiunit construction across the country.

GDP is now expected to exceed the 2.6 percent growth rate previously forecast by the Bank of Canada. Correspondingly, Canada's residential real estate market posted strong house price gains in the second quarter 2017, with the majority of metropolitan areas across Canada displaying expansionary trends. In other words, the market—housing market is mirroring what's happening in the economy overall.

The rate of national home price appreciation that the Canadian market experienced in the second quarter continued to be above what we would consider the normal range, driven primarily by a very strong year-over-year price growth across much of Ontario, more specifically the GTA region. However, the GTA's second quarter drop in sales activity is sure to signal calmer waters ahead for the province.

The 20 to 30 percent year-over-year price increases that characterized Toronto and its adjoining areas over the past two years were not, in our view, sustainable or healthy. Higher inventory and moderating demand is an indication that some much-needed balance has returned to the GTA market.

During the second quarter, the introduction of the Ontario Fair Housing Plan appears to have contributed to a slowdown in sales activity across the GTA as financial buyers moved to the sidelines to gauge the potential impacts of these new policies.

With looking forward to 2018, we believe the strength of the underlying economy will mitigate the downside to the housing market in Ontario as Ontario continues to expand economically and on the jobs front.

British Columbia's economy has continued its strong performance in the second quarter of the year. As for the region's housing market specifically, Glen noted earlier that sales activity and price appreciation are both on the rise in greater Vancouver after a difficult year when the market went through a significant correction. It is also worth noting that prospective homeowners are now seeking more affordable living in cities like Kelowna and Victoria, contributing to the market expansion in those cities.

Moving to the third-largest real estate market in the second-most populated … populous province in the country, Québec has drawn significant attention in the past few months as Montréal's housing market posted promising second quarter results, with unit sales improving 8 percent year over year, making a new second quarter record for the city.

It's no surprise that the region's continued economic revival and unemployment rate, which have fallen to its lowest level since Statistics Canada started tracking it in 1976, are supportive of an expanding housing market. Province-wide, second quarter unit sales were up by 4 percent year over year in Québec, marking the 12th consecutive quarterly increase in sales, and a new second quarter sales record. During the same period, prices in the province were up 5 percent year over year, the largest quarterly gain in six years.

I think this underscores the importance of looking at our business on a national basis. We are well-represented in every nook and cranny of Canada. And while regional markets fall … rise and fall across Canada, we are well-situated to take advantage of expanding markets such as Québec today.

Following two years of recession—almost 30 months—Alberta's economy is now in the upswing, as oil prices have stabilized. In June, the provincial unemployment rate fell by 40 basis points to 7.4 percent, and Alberta's employment—unemployment rate is now 2.2 percent better year over year, with virtually all of the increases coming in the form of full-time jobs. As such, consumer confidence in both Calgary and Edmonton has improved.

Calgary saw a 12 percent increase in unit sales during the first half of the year compared to the same period in the previous year while new listings increased only 3 percent, improving the sales-to-listing ratio for the quarter.

Earlier I mentioned the Company's commitment to attracting and retaining the best brokers and agents in the industry to lead—to have our company lead and our brands lead from coast-to-coast is an important fundamental of what drives our business.

In the second quarter of 2017, the Company continued to invest in recruitment and retention programs to help our brokerages best position our brands to attract top performance. While continuing to build on previously announced initiatives, such as Smart Studio, a cutting-edge centralized CRM and online marketing tool, this quarter we introduced two significant new initiatives: one national in scope and one Québec-focused.

Royal LePage brand launched BrokersBoost, a new coaching program focused on prospecting, onboarding, and retention with a strong peer-to-peer accountability component.

In Québec, we launched a recruiting and lead-generation program in April which targets competitive agents through a variety of channels, including an interactive microsite. This program's materials have also been used to support retention in our current network.

This campaign has resonated exceptionally well. When we surveyed franchisees using this tool, 86 percent said the campaign was excellent or beyond expectations, and the adoption rate for use with one-on-one recruitment meetings was over 87 percent; very, very high for a large franchise system such as ourselves.

Our Via Capitale business focused on three new initiatives during the period: real estate as an investment education; preparing for higher interest rates, a public service program; and home staging. The Company has continued to deliver a robust, industry-leading—the Company overall has continued to lead an industry-leading public relations media awareness program.

As at June 30, 2017, the Royal LePage brand has secured almost 1.5 billion media impressions. In the second quarter, the brand generated almost 130 percent more media impressions than our largest competitor. Just as important as quantity, the quality of our media coverage has been exceptionally high. In the second quarter of 2017, Royal LePage accounted for over 70 percent of Tier 1 coverage generated by the Company.

During this quarter, the success of the Royal LePage House Price Survey was recognized by the Canadian Public Relations Society, receiving the award for best use of media relations over $50,000.

To conclude, Canada's economy is in good health and improving. And this, of course, supports a healthy housing market.

During the second quarter, residential real estate in Canada made a move to moderation, particularly in Ontario as those unsustainable price gains we saw in the GTA began to cool. And markets such as Vancouver and the Province of Alberta showed promising results that these regions were turning a quarter. The Company posted strong financial results, and the Network continued to grow.

Our business strategy of long-term franchise agreements and fixed fees has best positioned us for consistent and reliable performance and returns for our investors. And as such, as I announced at the outset, we are pleased to announce the monthly dividend to our holders of the Company's restricted voting shares, increasing the targeted annualized dividend to $1.35 starting September 30, 2017.

With that, I'll turn the call back to our Operator and open up to questions.

Q&A

Operator

At this time, I would like to remind everyone if you'd 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 a moment to compile the Q&A roster.

Again, that's *, 1 on your telephone keypad to ask a question.

There are no questions in the queue at this time. Mr. Soper, I will turn the call back over to you.

Phil Soper

Wish to thank everyone, again, for participating in today's call, and look forward to updating you during our next quarter earnings call in three months' time.

Enjoy the balance of your summers.

Operator

This concludes today's conference call. You may now disconnect.

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