FINAL TRANSCRIPT

Brookfield Real Estate Services Inc.

First Quarter 2016 Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Good day. My name is Steve (phon), and I would like to welcome everyone to the Brookfield Real Estate Services Inc. First Quarter 2016 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 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 call.

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

Thank you, Steve, and good afternoon, everyone. Thank you for joining us. With me today is our Chief Financial Officer, Glen McMillan.

On today's call, I will begin with a brief look at our quarterly highlights that I shared with those gathered at our annual general meeting in Toronto earlier today. Glen, will then discuss our financial results for the quarter. I'll conclude by providing some remarks on recent business, operational, and market developments. After that, Glen and I would be happy to take your questions.

I want to remind you that some of 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 or performance of the Company to differ materially from anticipated future results, expressed or implied by such forward-looking statements.

I encourage everyone to review the cautionary language found in our news release and all of our regulatory filings with respect to forward-looking statements. All of these documents can be found on our website and on SEDAR.

Building on the tremendous success of 2015, we continue to see our numbers climb. We delivered strong financial and operational results in the first quarter of 2016, through a focus on enhancing the value we offer Canadian real estate company owners and their REALTORS®.

For the first three months of 2016, we saw an increase in cash flow from operations of 12 per cent compared to the same period in 2015. Our acquisition strategy continues to support sustained positive momentum, including the January 1, 2016 acquisition of 33 franchise agreements, representing 459 new REALTORS® and an annual revenue stream of approximately $1 million.

In addition to this acquisition, the Company was further increased by net organic recruitment of 67 REALTORS® during the period, driven by our recent investments in recruitment and retention programs. While we have long had organic growth programs in place, these new initiatives are proving to help our brokers and managers efficiently attract and retain the best talent in the real estate business.

Through growth strategies that broaden our reach geographically and deepen our connection within segments of Canada's diverse home-buying population, we solidify our position as Canada's largest real estate firm.

As of March 31st, I am thrilled to report that our agent count has surpassed the 17,000 mark. At the end of the first quarter, we had 17,320 REALTORS® operating under 308 franchise agreements, providing services from 670 locations, with approximately a one-fifth share of the Canadian residential real estate market.

I will further reflect on the Canadian housing market later in the call. Here at the outset, it is worth pointing out to listeners that our business model again proved its mettle during the period.

The Company's structure removes much of the cyclical swing inherent in real estate markets. In a period where we saw great differences between hot regions, such as Toronto and Vancouver, and struggling markets such as Calgary and St. John's, the Company grew steadily.

True, we do not grow at the same pace as a market on fire. But much more importantly, at least in my mind, our predominantly fixed-fee revenue sources protect the Company and the dividend in down markets.

And on that positive note, the Board of Directors of the Company approved a dividend to shareholders of $0.1083 per restricted voting share, payable June 30, 2016 to shareholders of record at May 31, 2016. Our steadily growing dividend represents a targeted annual distribution of $1.30 per restricted voting share.

With that, I'll turn things over to Glen.

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

Thank you, Phil, and good afternoon, everyone.

As Phil mentioned, during the first quarter of 2016, Brookfield Real Estate Services Inc. generated strong financial results. Our royalties and cash flow from operations continued to exceed previous results on a quarterly basis and on a rolling 12-month basis.

The Company generated cash flow from operations of $6.8 million or $0.53 per share which represents an increase of 12 per cent compared to the 6 million or $0.47 per share for the same period last year.

For the rolling 12-month period ended March 31st, cash flow from operations was $2.31 per share as compared to $2.04 for the rolling 12-month period ended March 31, 2015.

For the first three months of 2016, royalty revenue totalled $9.4 million, compared to 8.5 million for the first quarter of 2015. And for the rolling 12-month period ended March 31st, royalty revenue totalled 40.8 million compared to 37.7 million for the comparable period in 2015, an improvement of 8 per cent.

The increased royalties and improvement in cash flow from operations were driven primarily by an increase in the number of REALTORS® in the Company's network, as Phil's referred to.

The Company generated net earnings of $0.9 million or $0.10 per share in the first quarter of 2016 compared to a net loss of $3.5 million or $0.37 per share in 2015.

During the first quarter of 2016, the Canadian residential real estate market saw a marked increase of 32 per cent at $56.8 billion compared to the same period in 2015, driven by a 16 per cent increase in the national average selling price and a 13 per cent increase in units sold.

For the rolling 12-month period ended March 31, 2016, the Canadian market closed up 18 per cent compared to March 2015. This gain was driven by an 11 per cent increase in selling prices and a 7 per cent increase in units.

The most notable increases continued to come from the Greater Toronto Area and Greater Vancouver. In the first quarter, the GTA market experienced a 31 per cent increase compared to 2015, with about half of that increase coming from higher prices and the other half from higher volumes.

On a rolling 12-month basis, the housing market in the GTA experienced a 22 per cent increase, again split equally between price increases and higher volumes.

For the three months ended March 31, 2016, the Greater Vancouver market increased by 65 per cent, driven by a 23 per cent increase in average selling price and a 32 per cent increase in units sold.

On a rolling 12-month basis, the Greater Vancouver market experienced a year-over-year increase of 49 per cent, driven by a 16 per cent increase in selling prices and a 29 per cent increase in units sold.

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

Phil Soper

Thanks, Glen.

As demonstrated by our first quarter results and our growing REALTOR® count, the Company continues to provide value through ongoing investments in technology and services that ensure our brokers and agents are among the most informed, supported, and successful in the Canadian market. This continues to attract the best brokers and agents in the industry to our leading brands, nationwide.

Strengthening our position in some of Canada's most diverse housing markets, in March of this year we welcomed Royal LePage United and its more than 150 REALTORS® who service the Brampton, Ontario housing market, in addition to parts of Toronto and Mississauga.

And in early April, Scarborough, Ontario-based RE/MAX Vision converted to Royal LePage, adding an additional 65 agents to our growing network.

In recent months, we have grown steadily in ethnically diverse Canadian markets, adding significant Chinese-Canadian, Korean-Canadian, and South Asian-Canadian sales capacity.

These acquisitions not only represent momentum for our expanding network, they also demonstrate our ability to further reach new demographics throughout the nation ensuring Canada's largest real estate firm changes and grows as Canada changes and grows.

As well, for the first time in several years, we are seeing new and significant opportunities in the Province of Québec. As a result, we are giving additional focus to that marketplace, with increased staffing, as well as new broker and agent support and training, which will ensure we can appropriately leverage the current shift in the industry momentum.

I will touch briefly on the building strength of the Québec market in more detail shortly.

Coupled with our strong growth year-to-date, we believe our healthy pipeline and focused market strategy will ensure our continued growth and success in these and other market segments throughout the coming year.

Superior financial results require an exceptional operating platform. We continue to invest in differentiating technologies, new business services to improve the efficiency and profitability of our agents and brokerages, marketing initiatives that support our valued brands, and the industry's best training and coaching.

This year, to date, we've seen the continuation of successful broker and agent coaching programs and services. To aid our brokers and managers in their recruiting efforts we've been gearing up training and accountability programs to ensure they are well equipped for the year ahead.

The beginning of 2016 saw the ongoing, positive media reception of our enhanced Royal LePage House Price Composite, part of the House Price Survey program. The Composite provides one of the most comprehensive views of Canada's national residential real estate sector, and it's continued to increase our positive brand exposure in the media.

Our Q1 report garnered 125 million consumer impressions from over 430 stories, including the Tier 1 media outlets nationwide. Based on this success, and a similar achievement with our Q4 2015 report released in January, we are anticipating that 2016 will be another record-breaking year for media exposure and our firm.

Investments in mobile technologies and lead-generation programs continue as we begin 2016. The first quarter of the year saw further enhancements to royallepage.ca. These resulted in increased traffic to the website, up an average of 100,000 visits per month to 3.1 million visits per month.

This in turn has contributed to an increase in our lead volume. These are people who are interested in the housing market, who we marry with our REALTORS®, resulting in more business being driven to our people across the country. On average, we are generating 9,500 leads per month, with a peak in February of 10,000 leads.

Additional enhancements were also made to Royal LePage's intranet, rlpNetwork. This is the platform by which we deliver services to our nationwide network, including the introduction of enhanced tools to improve communication between head office, brokers, and agents.

And beginning this year, our Via Capitale business in Québec has begun offering a transactions and listing management service to its brokers. This service provides a win-win for the brand and its salespeople. Brokers realize cost savings and efficiencies, while Via Capitale increases broker satisfaction and loyalty, and adds another differentiated service that will be compelling to acquisition targets and help grow our brand there.

These are only a few of our many ongoing initiatives as we continually look for ways to grow and enhance the business. Details of additional projects in the works will be shared with you on future update calls.

As Glen noted earlier, the first quarter of 2016 showed a strong real estate market in Canada, but one with extreme regional disparities, the kind we haven't seen in well, about a decade. As we expected, the most significant price increases were seen in the Greater Toronto Area and particularly in Greater Vancouver or the Lower Mainland of British Columbia.

However, a notable divergence between Canada's two hottest markets appeared, with the Greater Toronto Area sustaining its home price appreciation trajectory, while the Greater Vancouver market has accelerated at rarely seen appreciation levels.

Additionally, an emerging interprovincial migration to British Columbia and Ontario from commodity focused economic regions such as Alberta, is expected to put further upward pressure on home prices in these areas, in the coming months.

The impact of very low interest rates, the impact of a competitively low Canadian dollar, and a rapidly expanding US work force, are all stimulating economic growth and housing demand in our largest metropolitan areas.

Conversely, in cities like Calgary, the ongoing drags of a depressed energy sector and worrisome employment trends have taken a bite out of sales volumes. As you would expect, lower demand does impact home prices.

Price, however, is a lagging indicator. It takes time for homeowners to adjust to reality that their houses have fallen in value. When that happens, markets are frankly liberated and sales volumes can pick up. In Alberta and Newfoundland, markets are adjusting to lower demand with modest, single-digit price decreases.

Within a region, price adjustments reflect the diversity of the underlying economies. In Calgary, for example, with its large population of oil company head office professionals and less affordable housing than elsewhere in the province, we expect to see more of a price adjustment during the year than in Edmonton, where prices have been relatively flat.

Shifting our focus eastward, following a multi-year period of stalled economic and residential real estate market growth, the Greater Montreal Area's seen an upswing in demand and unit sales, which often foreshadows stronger home price appreciation.

While Québec has been slower to reap the economic benefits of more affordable energy costs, a competitively low dollar and low interest rates, the region is turning a corner. My personal vote goes to Montréal as the city most likely to exceed expectations in 2016.

An exporting province, Québec, will also benefit from expanding US markets and Ontario economies. There is quite a bit of interprovincial trade and export from Québec to Ontario businesses.

Looking at other parts of Canada, Regina and Atlantic Canada continue to see flat or softening prices as high inventory, and in the case of the Atlantic Provinces, ageing populations create opportunities for buyers.

Home prices are expected to increase in many markets across Canada throughout the remainder of 2016 but not at the pace that has been the recent norm. Instead, the hottest real estate markets are expected to slow somewhat, later this year, principally due to the effects of eroding affordability.

Again, with focus on the vibrant Toronto and Vancouver markets, the impact of foreign buyers has been in the news in these regions, and it remains a hot topic with the Canadian media.

While we believe the impact on the Canadian residential real estate market as a whole to be minimal, we encourage the government to do all it can to acquire meaningful data on foreign investment in Canadian real property.

We feel the engagement of Statistics Canada is an appropriate first step to understand what questions need to be asked around this topic, as well as to determine who should participate to create informed public policy.

In conclusion, in a quarter where some Canadian real estate markets continued to expand rapidly, while others experienced the ongoing drag of lower energy and commodity prices, our business expanded at a steady, profitable pace, which we believe reflects the health of the Company and the value of a business model that emphasized fixed and reoccurring revenue streams. As always, we strive for consistency and reliability in up and down markets.

We are optimistic about the state of our business and growth opportunities that exist throughout the country to continue to expand our network, while providing our shareholders an investment vehicle that pays stable and growing dividends.

With that, I'll turn the call back to our Operator, and open up the call to questions, including if anybody would like to discuss a recent decision that affects the Toronto Real Estate Board where the national Competition Commissioner is requesting more open access to data.

To summarize our view on that point, we do not believe that this will impact the business in a negative way. And in fact, it opens up new opportunities for a business such as our own. I'd be happy to take questions on that subject or any other.

Steve, over to you.

Q&A

Operator

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

Your first question comes from John Rolfe with Argand Capital. Your line is now open.

John Rolfe — Argand Capital

Hey, guys. Nice quarter as always. I think the best news that I saw in the earnings release, candidly this quarter, was the fact that you were able to grow your REALTOR® base organically. And it seems like it's been some time since we've seen that. And notwithstanding the fact that it was a relatively small increase in the quarter, could you just maybe talk a little bit about how sustainable you think that trend is? And whether there are potentially additional levers that you can pull to even possibly sort of increase that rate of organic growth in the underlying REALTOR® base going forward? Thanks.

Phil Soper

Thanks, John, and thanks for the comment. Specifically as it relates to organic growth, or probably a better way to put it in operational terms would be attrition management. Maybe if I step back just half a step, in an industry where you are managing independent contractors, and all of the revenue and earnings that flow into their books of business are generated by them, you do tend to have higher levels of attrition than in other business models. We have always had a focus on recruiting, but the focus specifically on retention is a relatively new one. In the last three years, we've stepped back and said, what can we do to ensure that our businesses across the country are more sustainably healthy so the actual brokerage offices, approximately 670 offices, are themselves healthy?

And one of the things we came to realize is if we reduce the rate of attrition, if we essentially made it easier for young REALTORS® who are starting out in the business to get that first sale, to get rolling, and to build a sustainable book of business and not give up, and to ensure that a greater percentage of the overall population was happy and retained in those local brokerages, they would — with less churn — see less operational risk, and they would be more profitable. So that's really where the emphasis started. And it's just now starting to show up in terms of a net positive recruiting number. And most of that has come from attracting or hanging onto a larger percentage of the population. The industry itself, in terms of agent count, is growing very, very slowly, mid to low-single-digits.

The only time that the Company, as a public vehicle, has grown substantially, organically, was during a burst of growth in overall industry registrants, back in the middle of the 2000s. When the industry growth slowed down to flat, 1, 2, 3 per cent, just with general attrition we tended to make it up through growth strategies: M&A growth strategies, acquisition growth strategies. But these new programs have been met in a very positive way by our management team across the country. So for an example, we've provided new training programs for our managers. We've put in place tracking mechanisms whereby we track and publish how people are doing, and we actually share the results, so people can see how they stack up versus their peers. We've put in place rewards and recognition programs for the very first time.

We've always focused on REALTOR® awards and recognition. Well, now we're providing rewards and recognition for the actual brokerages themselves, as it relates to retention and recruiting. And the accountability programs that we have in place are new. So we bring people together in groups, and to put it sort of anecdotally, someone suggests to their peer group that they are going to do something, meet with a key prospect for coffee. The next week, the group gets together, and they ask, "So Sue, how did it go with your prospect Joe?" And she goes, "Oh I never got around to calling." Well, she doesn't want to do that two weeks in a row. And so this group-based accountability system, while it sounds very basic, to set up across 670 offices is a pretty significant undertaking, and it's starting to take hold. So your core question was sustainability. I think it is sustainable. We'll need more time to see the results. But underneath the covers, on numbers we don't report in terms of the flow of people in and out of the business, the trends have been positive, and we're going to continue to focus on it.

John Rolfe

Okay. Great. Thanks very much. That's helpful.

Operator

Again, if you would like to ask a question, please press *, 1.

And there are no further questions at this time. I now turn the call back over to Mr. Soper.

Phil Soper

I wish to thank everyone, once again, for participating in today's call. And look forward to updating you again during our next quarterly earnings call, in three months' time. Thank you.

Operator

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

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