Brookfield
Real Estate Services Inc.

Brookfield Real Estate Services Inc. Announces Third Quarter Results, Monthly Dividend, Amended Management Services Agreement and Amended Banking Arrangements

(TORONTO, ON) November 7, 2018 – Brookfield Real Estate Services Inc. (TSX: BRE) (the "Company"), a leading provider of services to residential real estate brokers and their REALTORS®[1] today announced its third quarter financial results and the approval of a monthly dividend to holders of the Company's restricted voting shares. The Company will also be continuing its relationship and has entered into an amended Management Services Agreement (the "Amended MSA") with Brookfield Real Estate Services Manager Limited (the "Manager"), a subsidiary of Brookfield Business Partners LP (TSX:BBU) ("BBP"). The Amended MSA provides for certain amendments to the existing Management Services Agreement intended to, among other things, improve certain economic aspects of the agreement for the Company. These amendments will become effective immediately, except for the changes to the compensation of the Manager which will be effective January 1, 2019. The Amended MSA will have an initial term expiring on December 31, 2028, with provisions for automatic ten-year renewals thereafter.

THIRD QUARTER RESULTS HIGHLIGHTS

- The Company's network of REALTORS® (the "Network") increased to 18,799, up from 18,135 as at December 31, 2017.
- Royalty revenues decreased relative to the prior year as a result of a decrease in the premium franchise fees and variable franchise fees partly offset by an increase in fixed franchise fees.
- Net earnings for the Company improved to $12.5 million in the quarter due to a large, non-cash fair value gain related to the Exchangeable Units issued by the Company.
- Cash flow from operations ("CFFO") on a rolling twelve-month basis decreased by 4.3% compared to 2017 to $2.44 per Share, driven by a decrease in variable fees and premium fees.
- The Company distributed dividends of $3.2 million to holders of restricted voting shares.
- The Board of Directors of the Company approved a dividend to shareholders of $0.1125 per restricted voting share payable December 31, 2018 to shareholders of record November 30, 2018, representing a target annual dividend of $1.35 per restricted voting share.

THIRD QUARTER OPERATING RESULTS

Royalties for the three months ended September 30, 2018 were $11.1 million, compared to $12.2 million in Q3 2017 as a result of a decrease in the premium franchise fees and variable franchise fees partly offset by an increase in fixed franchise fees. Premium fee royalties expired for six locations in the first quarter and the remaining 15 locations in the third quarter. For the rolling twelve-month period ended September 30, 2018, royalties were $42.5 million, down marginally compared to $44.4 million for the same period in 2017.

The Company generated net earnings of $12.5 million, or $1.32 per share ("Share") for the three months ended September 30, 2018, compared to net earnings of $5.0 million or $0.52 per Share, for the same period in 2017. The primary driver of net earnings during the quarter was a gain on the determination of the fair value on the Exchangeable Units of $9.2 million in the quarter compared to a loss of $0.3 million in the third quarter of 2017. The fair value of the Exchangeable Units is determined with reference to the trading price of the Company's Restricted Voting Shares.

CFFO for the third quarter was $8.3 million or $0.65 per Share on a diluted basis, a 9.8% decrease as compared to $9.2 million or $0.71 per Share for the same period in 2017. For the rolling twelve-month period ended September 30, 2018, CFFO was $2.44 per Share as compared to $2.55 per Share for the rolling twelve-month period ended September 30, 2017.

During the third quarter, the Company paid dividends totaling $3.2 million (or $0.34 per share) to holders of restricted voting shares. Dividend payments of $9.6 million year to date represent an increase of 3% over 2017.

“As expected, during the third quarter the royalty stream from the 15 remaining premium fee contracts ended,” said Phil Soper, President and Chief Executive Officer, Brookfield Real Estate Services Inc. “While these fixed-term contracts have now expired, the core business of growing renewable franchise royalties continues to perform strongly. The Company remains focused on network growth through both recruitment and acquisition, and continues to see healthy demand for its brand offerings.”

THE COMPANY NETWORK

As at September 30, 2018, the Network was comprised of 18,799 REALTORS®, operating under 295 franchise agreements providing services from 673 locations, with an approximate 20% share of the Canadian residential real estate market (“Canadian Market”) based on 2017 transactional dollar volume.

CASH DIVIDEND

The Company declared a cash dividend of $0.1125 per restricted voting share payable on December 31, 2018, to shareholders of record on November 30, 2018. This represents a target annual dividend of $1.35 per restricted voting share.

THE MANAGEMENT SERVICES AGREEMENT

The Company has been managed pursuant to the Management Services Agreement (“MSA”) which initially had a five-year term expiring December 31, 2018 and which had recently been extended to June 30, 2019. In April 2018, the Manager requested that the board of directors approve amendments to the MSA to update it to better align with current market practices and provide better visibility of fees for both the Company and the Manager in a way that better aligns interests. The Manager’s compensation formula has remained largely unchanged since 2003 when the Company was established as an income trust. Since that time, the Network has grown and as a result the costs to support the expanded Network have also increased. As such, the Special Committee has approved an increase in management fees in order for the Company to maintain its market leadership in the range and quality of franchise services being offered throughout the next ten-year term.

The Amended MSA was negotiated on behalf of the Company by a Special Committee of the Board of Directors of the Company comprised exclusively of Independent Directors. This negotiation process was commenced by the Special Committee in May of 2018. The Special Committee engaged independent legal counsel and an independent financial advisor to assist in negotiating and evaluating the terms of the Amended MSA. As part of this process, the Special Committee considered various alternatives to entering into the Amended MSA available to the Company. Following this thorough process conducted with the assistance of its external advisors, the Special Committee determined that the terms of the Amended MSA are reasonable and in the best interests of the Company.

“We are pleased to announce the Amended MSA as it supports the long-term success of the Company,” said Spencer Enright, Chair of the Board. “Under the Amended MSA, the Company will earn revenue from new franchise agreements at their inception and will have access to broader revenue streams.”

The Amended MSA contains a number of changes which have been made to simplify the relationship between the Manager and the Company as well as improve certain economic aspects of the agreement for the Company and the Manager. These changes include:

- The Company (through its operating subsidiaries) will directly enter into new franchise agreements with franchisees. This will eliminate the need to purchase franchise agreements from the Manager and will allow the Company to earn revenue from these agreements from their inception.
- The Manager will assign to the Company at no cost, all existing franchise agreements not previously purchased by the Company. These contracts would otherwise have been eligible for purchase on January 1, 2019 under the previous MSA.

- The Manager will also assign to the Company at no cost, contracts associated with revenue streams that it has developed outside of the franchise agreements owned by the Company. These ancillary revenues include, for example, mortgage referral fee revenues generated through associations with various Canadian residential mortgage lenders. This will result in an immediate increase in revenues for the Company and provide revenue diversification beyond royalty fees.
- The obligation of the Company to acquire franchise agreements from the Manager is discontinued under the Amended MSA. In lieu of the Company acquiring franchise agreements annually, the Company will pay the Manager a fixed management fee of $840,000 per month.
- The variable management fee paid to the Manager will increase to 23.5% of CFFO before management fees from the current 20%. After five years, the variable fee will increase to 25% of CFFO before management fees. The Manager will have the opportunity to earn a higher management fee if the Company's market capitalization reaches certain thresholds. This strengthens the alignment of interests between the Company and the Manager.
- The Amended MSA results in the elimination of historically large, unpredictable capital expenditure requirements from franchise agreement purchases, thus reducing the volatility of cash requirements of the Company.

THE AMENDED FINANCE ARRANGEMENTS

In conjunction with the changes to the MSA, the Company has agreed to certain amendments to its financing arrangements (the "Debt Facilities") with Canadian Imperial Bank of Commerce ("CIBC"). The main amendments to the Debt Facilities include:

- An extension of the committed Debt Facilities to December 31, 2023.
- An increase in the borrowings under the non-revolving, term variable rate facility from $53 million to $55 million.
- A reduction in the required EBITDA (as defined in the Debt Facilities agreement) to interest coverage ratio from 5.0 times to 3.0 times.
- An increase in the permitted level of borrowings from 2.5 times EBITDA to 4.0 times.
- The obligation to make limited principal repayments under the Debt Facilities in circumstances where borrowings exceed 3.4 times EBITDA.

There are no significant changes to the security arrangements or interest arrangements associated with the Debt Facilities as a result of these amendments.

"These amendments to our Debt Facilities complement the Amended MSA and provide an attractive extension of tenor and financial flexibility," said Mr. Enright. "We appreciate the support of our lenders in helping us position the Company for broader growth in the residential real estate market segment."

These amended banking arrangements are subject to completion of final agreements and are expected to be effective from January 1, 2019.

CONFERENCE CALL

Brookfield Real Estate Services Inc. will host its quarterly conference call on Wednesday, November 7, 2018 at 10:00 a.m. ET. To access the call by telephone, please dial (888) 231-8191 or (647) 427-7450.

Participants can join via webcast at:
https://event.on24.com/wcc/r/1868832/523E1E77BF4849E60577427ADFEB7416

Please connect approximately ten minutes prior to the beginning of the webcast to ensure participation.

A recording of the conference call will be available in the Investor Centre section of the Company's website by Friday, November 16, 2018.

CFFO

This news release and accompanying financial highlights make reference to CFFO on a total and per Share basis. CFFO is defined as operating income prior to deducting impairment and amortization of intangible assets. CFFO is used by the Company to measure the amount of cash generated from operations which is available to pay income taxes and distributions to the Company's shareholders on a diluted basis where such dilution represents the total number of Shares of the Company that would be outstanding if Exchangeable Unitholders converted Class B LP units into Shares of the Company. The Company uses CFFO to assess its operating results and the financial position of its business and believes that many of its shareholders and analysts also find this measure useful. CFFO does not have any standard meaning prescribed by International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies.

FORWARD-LOOKING STATEMENTS

This news release contains forward-looking information and other "forward-looking statements". Words such as "will", "continue", "expected", "improve", "remains", "growth" "resulting", "supports", "target" and "extension" and other expressions that are predictions of or could indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those indicated in the forward-looking statements include: changes in the Company's strategy with respect to dividends, changes in the supply of houses for sale in Canada or in any particular region within Canada, changes in the demand for houses in Canada or any particular region within Canada, changes in general economic conditions (including interest rates, consumer confidence and other general economic factors or indicators), changes in global and regional economic growth, the demand for and prices of natural resources on local and international markets, the level of residential real estate transactions, the availability of attractive investment opportunities, the average rate of commissions charged, competition from other real estate brokers or from discount and/or Internet-based real estate alternatives, the closing of existing real estate brokerage offices, other developments in the residential real estate brokerage industry or the Company that could reduce the number of REALTORS® in the Company's Network or royalty revenue from the Company's Network, our ability to maintain brand equity through the use of trademarks, the methods used by shareholders or analysts to evaluate the value of the Company and its publicly traded securities, the availability of equity and debt financing, changes in tax laws or regulations, changes in the corporate structure of the Company or its affiliates, demand for the services the Company provides to REALTORS® , and other risks detailed in the Company's annual information form, which is filed with securities commissions and posted on SEDAR at www.sedar.com. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

About Brookfield Real Estate Services Inc.

Brookfield Real Estate Services Inc. is a leading provider of services to residential real estate brokers and a network of over 18,000 REALTORS®[1]. We operate in Canada under the Royal LePage, Via Capitale and Johnston & Daniel brands. For more information, go to www.Brookfieldresinc.com.

Brookfield Real Estate Services Inc. is an affiliate of Brookfield Business Partners, a business services and industrials company focused on owning and operating high-quality businesses that benefit from barriers to entry and/or low production costs. Brookfield Business Partners is listed on the New York and Toronto stock exchanges. Further information is available at https://bbu.brookfield.com.

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[1] REALTORS® is a trademark identifying real estate licensees in Canada who are members of the Canadian Real Estate Association.

Brookfield Real Estate Services Inc.

Interim Balance Sheet Highlights

As at (Unaudited, in thousands of Canadian dollars)	September 30, 2018	December 31, 2017
Cash	$ 4,267	$ 3,458
Other current assets	4,318	4,645
Total current assets	8,585	8,103
Non-current assets	88,702	85,420
Total assets	**$ 97,287**	$ 93,523
Accounts payable and accrued liabilities	$ 1,119	$ 803
Purchase obligation	2,307	1,497
Interest payable on Exchangeable Units	484	484
Dividends payable to shareholders	1,067	1,067
Other current liabilities	-	400
Total current liabilities	4,977	4,251
Debt facilities	68,920	65,677
Exchangeable Units	55,738	54,973
Total Liabilities	129,635	124,901
Shareholders' deficit	(32,348)	(31,378)
Total Liabilities and Shareholders' deficit	**$ 97,287**	$ 93,523

Interim Earnings Highlights

(Unaudited, in thousands of Canadian dollars)	**Three months ended September 30, 2018**	Three months ended September 30, 2017	**Nine months ended September 30, 2018**	Nine months ended September 30, 2017
Royalties	$ 11,141	$ 12,235	$ 33,082	$ 34,772
Administration Expense	(82)	(163)	(716)	(706)
Management Fee	(2,078)	(2,288)	(6,069)	(6,428)
Interest Expense	(669)	(626)	(2,020)	(1,923)
Cash Flow from Operations	8,312	9,158	24,277	25,715
Impairment, write-off and amortization of intangible assets	(2,222)	(1,280)	(6,284)	(5,573)
Interest on Exchangeable Units	(1,452)	(1,444)	(4,355)	(4,299)
Gain / (loss) on fair value of Exchangeable Units	9,151	(333)	(765)	(2,762)
Gain on interest rate swap	108	547	171	1,017
Gain / (loss) fair value of purchase obligation	2	213	(541)	35
Income tax expense	(1,355)	(1,904)	(3,985)	(4,567)
Net and comprehensive earnings	**$ 12,544**	$ 4,957	**$ 8,518**	$ 9,566
Basic earnings per Restricted Voting Share	**$ 1.32**	$ 0.52	**$ 0.90**	$ 1.01
Diluted earnings per Share	**$ 0.38**	$ 0.52	**$ 0.90**	$ 1.01
Cash Flow from Operations per Share on a diluted basis	**$ 0.65**	$ 0.71	**$ 1.89**	$ 2.01
Cash Flow from Operations per Share on a diluted basis - rolling twelve-month period ended September 30,			**$ 2.44**	$ 2.55

Interim Cash Flow Highlights

(Unaudited, in thousands of Canadian dollars)	**Three months ended September 30, 2018**	Three months ended September 30, 2017	**Nine months ended September 30, 2018**	Nine months ended September 30, 2017
Cash provided by Operating activities:	$ 6,840	$ 6,695	$ 16,007	$ 16,645
Cash provided used for Investing activities:	(260)	(12)	(8,796)	(10,179)
Cash provided / (used) by/for Financing activities:	(7,201)	(6,661)	(6,402)	(6,924)
Change in cash for the period	**(621)**	22	**809**	(458)
Cash, beginning of the period	**4,888**	2,622	**3,458**	3,102
Cash, end of the period	**$ 4,267**	$ 2,644	**$ 4,267**	$ 2,644