FINAL TRANSCRIPT

Brookfield Real Estate Services Inc.

2017 Fourth Quarter and Annual Results Conference Call

Event Date/Time: March 7, 2018 — 10:00 a.m. E.T.

Length: 26 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

PRESENTATION

Operator

Good morning. My name is Leandra (phon), and I would like to welcome everyone to the Brookfield Real Estate Services Inc. 2017 Fourth Quarter and Annual Results 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 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, the 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, Leandra, and good morning, everyone. We appreciate you joining us today. With me this morning is our Chief Financial Officer, Glen McMillan.

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

I want 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 actual results and performance to differ from anticipated future results expressed or implied by such statements.

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

2017 was another banner year. Overall, royalties and cash flow from operations increased to their highest levels.

To date, we paid dividends of $1.32 per share. This included a 3.9 percent increase to our monthly dividend in August 2017. The dividend approved by the Board of Directors at our meeting yesterday, payable April 30th to shareholders of record on March 30th, will be $0.1125 per share. This translates to an annualized dividend of $1.35.

As at December 31, 2017, the Company's network of REALTORS grew to 18,135, a 3 percent increase compared to the previous year. In addition, on January 1, 2018, the Company acquired 38 real estate operations comprised of 563 REALTORS across Canada for approximately $8.8 million. These agreements are expected to generate annual royalty stream—an increase in our annual royalty stream of $1.2 million starting this year.

Overall, the residential real estate market mirrored the Canadian economy last year. It was a very strong performance.

Regular participants on our investor calls will recall that real estate markets expanded rapidly across Canada in 2016. The exception to this was British Columbia, where housing regulations triggered a correction focused in the Greater Vancouver region.

BC aside, 2016 was a strong year, and that momentum was carried into the first half of 2017. It was then that the Ontario government introduced their own set of regulatory changes aimed at curbing house price inflation, which caused Canada's largest housing market to stall.

While overall Canadian market volumes were virtually identical in 2016 and '17, the second half of 2017 was much lower in Ontario than the first. These lower sales volumes have extended into early 2018.

As we begin the new year, the BC market is growing again, Alberta has recovered from the 2014 drop in oil prices, and Quebec is very strong. Changes implemented by the chartered bank regulator, the Office of the Superintendent of Financial Institutions commonly referred to as OSFI, went into effect on January 1st of this year. The full impact of the OSFI stress test on mortgage financing will be not known until well into the spring market.

Finally, a few minutes ago, the Bank of Canada announced that it was not raising its target rate this month. More on that and other market insight later in the call.

With that, I'd like to turn things over to Glen for a closer look at our financial performance.

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

Thank you, Phil, and good morning, everyone. As Phil mentioned, Brookfield Real Estate Services generated strong financial results during 2017. Royalties improved by 4 percent to $44.2 million, and cash flow from operations improved by 5.5 percent to $32.7 million, largely driven by an increase in the number of REALTORS in the network, and significant growth in the Canadian real estate market through the first half of the year.

For the fourth quarter, royalty revenues amounted to $9.5 million, down marginally from the $9.6 million in 2016 as a result of weaker real estate markets in the last half of 2017, particularly in Southern Ontario.

For the fourth quarter, the Company generated $7 million in cash flow from operations, or $0.55 per share, a slight increase as compared to 6.9 million, or $0.54 a share last year, as lower operating costs and lower interest expense served to offset the impact of lower royalties in the quarter.

For the year, net earnings were $12.4 million, or $1.31 per share, compared to net earnings of 6.4 million, or $0.67 per share last year. The increase in earnings were driven by increased royalty revenues, a lower mark-to-market adjustment on the Company's exchangeable units, and lower amortization costs associated with intangible assets.

The mark-to-market adjustment on the exchangeable units is determined with direct reference to the trading price of the Company's restricted voting shares. So the good news is that the value of the Company's restricted voting shares increased to $16.52 at December 31 compared to 15.77 last year. The less good news is that this increase results in an increase in the obligation associated with those units on the Company's balance sheet.

As Phil noted, the residential real estate market has seen its share of volatility this past year. It is important to remember that the Company's revenue is driven by long-term franchise agreements, and that our royalties are weighted towards fixed fees. Approximately 73 percent of the Company's annual royalties are effectively fixed in nature and are substantially insulated from market fluctuations.

For the year, the Canadian market closed down marginally at $262.5 billion compared to 263 billion last year. This reflects a 4 percent decrease in units sold, offset by an increase of 4 percent in the average selling price of homes.

During the first quarter of the year, we saw the housing market grow by 7 percent on strength of a 44 percent increase in the Greater Toronto Area. During the second quarter, we saw a drop of 2 percent as a result of a 9 percent year-over-year drop in the GTA. The overall market fell again in Q3 by 10 percent, before recovering in the fourth quarter to improve 8 percent relative to the fourth quarter of 2016.

The increase in the fourth quarter was despite a drop in the GTA, as the rest of the country grew by 23 percent, led by Vancouver at 47 percent and Montreal at 77 percent.

Regulatory changes introduced in 2017 by the Government of Ontario and OSFI, which Phil referred to earlier, appear to have contributed to reduced housing activity particularly in the GTA and surrounding areas in the last half of the year.

For the three months ended December 31, 2017, the GTA market experienced a decrease in transactional dollar volumes, down 19 percent at $15 billion compared to the fourth quarter of last year. This reflects a 20 percent decrease in units sold, partly offset by a 2 percent increase in price.

For the year, the GTA closed down 8 percent at $76 billion, driven by a 19 percent decrease in unit sales and a 13 percent increase in price.

The residential real estate markets in Vancouver started slowly before showing signs of recovery in the third quarter, ending up down 9 percent for the year. Notably and similar to the GTA, the decrease in transactional dollar volume is attributed to a decline in unit sales, as prices remain flat to slightly positive.

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

Phil Soper

Thanks, Glen. The Canadian economy experienced strong growth in 2017, and economic growth is an important driver of healthy housing markets. In 2018, all provinces, with the exception of Newfoundland, are expected to grow again.

The Canadian labour market in particular has had an impressive run. The national jobs picture improved throughout the year as the unemployment rate continued on a downward trend, ending 2017 at 5.7 percent, the lowest level since comparable data became available in 1976. Particularly gratifying was jobs progress in Quebec and Alberta, which I will refer to shortly.

Industries from retail through to energy have posted solid results during 2017, all of which has removed the need for crisis-level lows and fiscal stimulus. As a result, the Bank of Canada increased rates twice in 2017 and again in January 2018.

As I noted at the beginning of the call, the Bank has decided not to raise rates again this month, and currently at 1.25 percent the Bank rate remains very low by historical standards.

As Glen mentioned earlier, while selling prices have increased in the GTA, the region has witnessed a material decline in unit sales. This is a common reaction to regulatory change.

In 2016, after the BC provincial government introduced new regulations impacting housing, unit sales volume in Vancouver fell briefly by almost 40 percent on a year-over-year basis. Early in 2017, the Ontario government introduced the Ontario Fair Housing Plan, which pushed potential buyers to the sidelines as they waited to gauge the impact of the new policy.

During August 2017, we saw an uptick in sales volume, as we believe buyers had regained their confidence in the market. However, in October, the Office of the Superintendent of Financial Institutions unveiled changes to mortgage underwriting standards that further tightened lending. The most significant change was a new stress test requiring the minimum qualifying rate to be the greater of the Bank of Canada's five-year benchmark rate or the client's contract mortgage rate plus 2 percentage points.

This, unlike previous attempts at the federal level to moderate the expansion of the housing market which were aimed at first-time buyers through mortgage insurance, the OSFI stress test is a move aimed at what we call move-up buyers. These are not first-time buyers in the market, but rather Canadians who are moving from existing homeownership positions and moving up to a larger, more expensive home.

As an aside, clients who renew their mortgage with their own financial institution are not subjected to the stress test. Also, there is a smaller but substantial section of the mortgage lending market that is not regulated by OSFI, and therefore not impacted by this new regulation.

The actual number of Canadian home buyers impacted by the mortgage stress test is less than would appear at first.

As with any change—the foreign buyers tax in British Columbia is an excellent example—the psychological impact on consumers is every bit as important as the mechanical impact of the new rules themselves. Buyers tend to withdraw from the market at times like this and take stock of what is happening to home prices before reengaging.

While regulatory announcements can significantly affect real estate markets temporarily, the GTA and the Lower Mainland of British Columbia are structurally burdened with ongoing housing shortages. Inventory … tight inventory levels are something we have had to live with for some time, and we believe they are not going away anytime soon.

Population increases boosted by both international and interprovincial migration, and the number of millennials who are coming of home-buying age will also continue to grow. We believe housing supply challenges will continue in Toronto and Vancouver, and will dominate discussions in those provinces in terms of how to maintain a moderate increase in home prices.

BC's economic indicators continue to be positive, and economists are optimistic in their expectations for provincial growth in 2018. BC posted a very low unemployment rate of 4.6 percent in December, which was down a further 0.2 percent compared to November. With 5 percent widely accepted as full employment, the region is dealing with labour shortages.

Greater Vancouver finished the year with an impressive fourth quarter. The market saw a 16 percent increase in home prices and a 27 percent increase in units sold compared to the same quarter in the previous year.

In February 2018, as part of the provincial government, the BC government has announced a 5 percent increase to its existing foreign home-buyer tax, as well as an expansion to municipalities outside of Greater Vancouver.

In addition, it was announced that a speculator tax will be introduced this fall aimed at both foreign and domestic homeowners who don't pay tax in British Columbia.

Finally, there was a 2 percent increase to the property transfer tax rising to 5 percent on homes with fair market values of over $3 million.

We do not believe that the increase to the foreign buyer home tax will have a notable impact on sales volumes in the province; particularly now that the market appears to be on an upward trajectory after the significant drop in home sales volumes experienced from the initial regulatory changes in 2016, an additional 5 percent expected to be absorbed into the market.

The introduction of a speculation tax is more significant for British Columbia as it will soften demand, not just from international investors, but from Canadians outside of the province, especially Alberta, a notable buyer demographic for the region.

Quebec remains one of the country's top economic success stories, with 2017 seeing what may be the largest growth witnessed in the province in 15 years. According to the provincial government, in 2017 Quebec's GDP grew at 2.6 percent with industries such as public administration, manufacturing, and services all contributing to the gains. The unemployment rate in Quebec also dipped to 4.9 percent, the lowest since Statistics Canada started tracking the current … with the current methodology in 1976. And remarkably, the unemployment rate in Montreal itself fell by a full 3 percentage points over the past two years, which is expected to fuel strong housing demand.

Case in point, Montreal experienced a 9 percent increase in unit sales during the quarter compared to the same period last year. When looking at sales for the full year, it was the second highest on record for the Montreal area. The medium price of a home in Greater Montreal increased 7 percent year over year. This was the largest increase in seven years.

According to the province's GDP forecast for 2018, Alberta is poised for significant growth, as the province revised its forecast up from 2.6 percent growth to 4 percent. The recovery of the oil industry is the primary driver of the overall regional recovery, but we are seeing other positive indicators as well.

Retail sales have returned to prerecession levels, manufacturing industries have improved, and it could expand further in 2018. When comparing 2017 to 2016, unit sales in Calgary increased 6 percent, while the medium (sic) price of a home in the city increased by 1 percent.

In the fourth quarter of 2017, the Company made significant investments in new products and services to assist our brokerages across the country in managing their businesses and increasing productivity with innovative tools to attract or retain the best talent in the real estate industry.

During the quarter, the Royal LePage brand launched a new consumer company website, one of the most popular consumer portals for viewing real estate listings in Canada for many, many years. In addition to enhanced esthetics, the new site offers improved mobile web experience and improved search engine optimization.

It also provides a feature called Local Logic, which allows an individual to search for a home based on specific network attributes, and it adds a host, a wealth of detail on demographics, transportation methodologies, education, and other things to every single of the thousands and thousands of listings on the site, making those listings much more attractive to search engines.

It is available for listings in over 180 cities and municipalities across the country, which we are certain will lead to an increase in volume and consumer engagement.

Earlier this year, Royal LePage launched Smart Studio—or earlier in 2017, I should say, a new marketing and consumer relationship management tool for our REALTORS and brokers. The platform uses automation to improve realtor productivity, and provides everything needed to market realtors and their listings. BrokersBoost, a new nationwide coaching program, was also launched last year.

In November, the Royal LePage brand received two Canadian Marketing Association awards; a gold medal for Your Perfect Life, which I have described on earlier calls, which is a neighbourhood consumer matching tool using both user inputted personal profile data and psychological profiling, treating neighbourhoods as if they were people. It’s highly engaging and entertaining and has attracted many, many consumers to the site.

In the fourth quarter, our Via Capitale business launched a virtual reality tool to provide 3D tour technology for home buyers to tour prospective properties. They also launched Courtier D’étoile (phon), or Star Broker, a highly effective tool for REALTORS to better market themselves and Maison D’étoile Plus (phon), Starhouse Plus, which is an enhanced way to market homes through social media such as Facebook.

A series of accredited courses were launched by Via Capitale to assist our REALTORS there in meeting continuing education requirements for their licences, and a 12-week coaching program was launched to assist salespeople in enhancing productivity and increasing their sales.

In the fourth quarter, Royal LePage generated almost 88 percent more impressions—these are media impressions across all channels—than our largest competitor. And for 2017 as a whole, Royal LePage was ahead of the next of the next largest competitor by 107 percent, generating an astonishing 2.33 billion consumer impressions as the voice of Canadian real estate.

In addition to publishing the Royal LePage House Price Survey, which is a significant driver of consumer engagement with the brand, the Royal LePage company launched a new forecast report in December, which itself alone resulted in over 197 million consumer impressions across Canada.

In conclusion, healthy economics, nationally and regionally, have supported key real estate markets, while low inventory in major cities supported home values despite significant regulatory changes. We are pleased with the strong financial and operational results the Company delivered in 2017. Our financial success is a result of our growing company network of REALTORS.

Nationwide, our brands continue to attract engaged and motivated entrepreneurs as they look for the best operating model and the best products and services to support their practices.

We would also like to take this opportunity to inform you that the Annual General Meeting is being held on Tuesday, May 8, 2018 at 10:00 a.m. Eastern Standard Time. That's Tuesday, May 8th, 10 a.m. Eastern Standard Time. It will be held in the Inverness Room at Vantage Venues on the 27th floor of 150 King Street West in Toronto. This information is, of course, available on the Company website for Brookfield Real Estate Services Inc.

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

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, you can press *, and the number 1 on your telephone keypad. And we'll pause for just a moment to compile the Q&A roster.

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

And we have no questions in the queue. I will now return the call back to Mr. Phil Soper.

Phil Soper

Thank you very much, everybody, for tuning in. We look forward to seeing you at the AGM and catching up on our next investors update call.

Operator

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

*****