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FINAL TRANSCRIPT

Brookfield Real Estates Services Inc.

Second Quarter 2015 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

PRESENTATION

Operator

Good morning. My name is Jessica (phon), and I would like to welcome everyone to the Brookfield Real Estate Services Inc. Second Quarter 2015 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.

Mr. Soper, you may begin your conference call.

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

Thank you, Jessica, and good afternoon, everybody. Thanks for joining us.

Those of you who follow our company will know that we welcomed a new Chief Financial Officer to the firm during the second quarter. In the room with me today is Glen McMillan, who brings a depth of executive finance and operational experience to the role.

Glen joins us from within the family. He joins us from Brookfield Asset Management where he was most recently a senior vice president. Over the past four years he managed a portfolio of more than 40 investments, orchestrating numerous acquisitions, consolidations, and expansions of the business within his portfolio.

If any of our investors or potential investors would be interested in meeting Glen, we would be happy to arrange such.

At this time, I would like to thank Kevin Cash, our previous CFO, for his hard work during his 12-year tenure with the Company. Kevin was there with me in 2003 when the Company launched as the Royal LePage Franchise Services Fund. All of us wish Kevin the very best with his future endeavours.

I would like to caution people that comments made today may contain forward-looking statements and would point you to the cautionary language on SEDAR to receive that kind of background.

On today's call I will begin with a brief look at our high-level financial and operational results. Glen will then discuss our results for the quarter in more detail. Finally, I'll conclude by providing some comments on recent business, operational, and market developments. After that, Glen and I would be happy to take your questions.

Overall, we experienced a solid quarter and are pleased with our business performance for the three months ended June 30, 2015, as well as year to date.

Our cash flow from operations were 7.5 million, increasing by $580,000, or 8 percent versus the same period in 2014. This increase was driven by an increase in royalties and a reduction in operating costs.

I'm delighted to share with you that we increased our monthly dividend by 4.2 percent to $1.25 per annum from $1.20 per annum; more on that later in the call.

We are very proud of our position as the industry's leading and most successful consolidator, which has gained momentum over the past few years and further solidified this year. To that end, we are happy to announce that subsequent to the close of the quarter we acquired another contract representing another 719 realtors from our manager through a midyear vend-in.

While we have traditionally made contract acquisitions from the manager only once a year on January 1st, we've decided that if volumes warranted such we would move to a twice per year cycle, smoothing our growth curve.

It has been a very successful year for the Company, and the Board felt that it would be prudent to have these realtors join the Company now rather than waiting until January 2016. I'll talk a bit more about our acquisitions and pipeline for the rest of the year later in the call.

We're pleased with the strong results, continued growth, and ongoing stability of our company. These factors speak to the value of our business model, which puts a premium on fixed and recurring revenue streams that provide certainty in both up and down markets.

At this point, I'd like to turn the call over to Glen for a closer look at our second quarter financial performance.

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

Thank you, Phil, and good morning, everyone. I'd like to start by talking about our credit facilities, which we were able to extend further during the quarter.

On June 17th, the Company announced that it had completed an agreement with CIBC Business Banking to increase the Company's credit facilities to provide an incremental $10 million in available financing.

This increases the maximum borrowings under our company's financing arrangements from 68 million to $78 million. And in addition, we've converted a portion of that facility from non-revolving to revolving to improve our financial flexibility.

The increase in our financing capacity is an important element of our acquisition strategy, and we're pleased that we were able to finalize this agreement with our partners at CIBC.

For the three months ended June 30, 2015, as Phil noted, the Company generated cash flow from operations of $7.5 million, or $0.59 per share. This represented an increase of approximately $580,000 versus the same period a year ago.

The increase in cash flow from operations was driven mainly by an increase in royalties of approximately $436,000 and a $200,000 reduction in interest expense.

For the first half of 2015, the cash flow from operations increased to $13.5 million, a 7 percent improvement over 2014.

Royalties for the quarter totalled $10.3 million compared to $9.9 million for the same period last year. Our 4 percent increase in royalties to $18.8 million for the six months is a result of an increase in the number of agents in the network, as Phil already noted.

During the quarter, the Canadian real estate market closed up 17 percent at $74.2 billion in total home sales compared to last year, driven by a 9 percent increase in selling prices and a 7 percent increase in volume.

The impact of the increase in pricing and units sold continues to be most pronounced in the Toronto and Vancouver markets, while a number of other markets across the country experienced flat to modest increases.

For the quarter, the key GTA market closed up almost 26 percent at $22.5 billion in total home sales, driven by an 11 percent increase in selling prices and a 13 percent increase in units sold.

Our network is made up of 16,105 realtors. On a year-to-date basis, our agent network has grown by 728 agents. This increase consisted of 858 agents from acquisitions on January 1st of 2015, offset by net attrition of 130 agents for the period.

The Company generated net earnings of $40,000 versus net earnings of $4 million in the same period of 2014. The primary driver of this decrease in net earnings was an increase in the fair value of our exchangeable units. This year we showed an increase of $2.9 million versus a decrease of $2.6 million in the previous year.

The fair value ascribed to the exchangeable units is based on the price of the Company's restricted voting shares, which are listed on the TSX. So as our shares become more valuable so too does the value of the exchangeable units.

Partly offsetting these items are royalty increases of $436,000, lower interest costs, and lower noncash charges related to intangible assets.

The Company generated a net loss of $3.5 million for the six months ended June 30, 2015, compared to a net loss of $800,000 in 2014. The primary drivers of the increase in the net loss were a larger increase in the fair value of the exchangeable units, as already discussed, and a loss in the fair value of our interest rate swap of $1.3 million, partly offset by higher royalties and lower interest costs.

We are pleased with the results of the second quarter, which demonstrated improved financial performance, particularly the growth in cash flow from operations, which is one of our key core measures.

Our network of agents also continues to grow, which bodes well for continued increases throughout the balance of 2015 and into 2016.

And with that, I'd now like to turn the call back over to Phil for some additional commentary and his views on the industry.

Phil Soper

Thanks, Glen. Before we open up the call to questions, I would like to offer some comments on our operations and some important market and industry developments.

Let me start with some operational updates. The Company continues to be the growth leader in Canadian real estate. We surpassed the 16,000 agent mark for the first time. And that was last year, and the momentum has carried forward in the first half of 2015.

As I mentioned earlier, at the end of the quarter we acquired contracts representing an additional 719 realtors, which brings us close to reaching the 17,000 agent market. These new agreements are estimated to generate an annual royalty stream of approximately $1.4 million.

This addition includes 12 real estate operations from provinces across the country, including several large transactions in British Columbia, a province where we were traditionally underrepresented. And for regular listeners on the call, you'd remember that some three or four years ago we talked about making investments in the region. It was the fastest-growing real estate market in the country, and we wanted to step up our representation in the province.

In terms of our growth pipeline for year-end 2015 acquisitions, in July—so this is subsequent to the close of the quarter—we announced another large transaction in British Columbia. Two weeks ago Royal LePage acquired Coast Realty Group and property management business, the largest independent brokerage operation on Vancouver Island and one of the largest in British Columbia.

This business is now operating under the Royal LePage banner. The transaction adds more than 150 highly regarded professionals to the Royal LePage family. Established in 1984, Coast Realty operated out of nine offices on Vancouver Island and one office on the mainland in Powell River.

Also in BC we were able to negotiate the merger of Royal LePage Westside Vancouver and Prudential United Realty, two great Vancouver-based brokerages. The newly merged brokerage will double in size to over 90 agents, and will operate in the highly active Vancouver Westside market.

We have made growth in this all-important provincial market a strategic priority, and the focus is paying large dividends. In the last year alone, Royal LePage has experienced momentum across the province adding 600 realtors through acquisition.

Casting a glance across the entire country, we remain not just the oldest, but the fastest-growing national real estate business.

Looking ahead, we have a solid pipeline of growth prospects in the works, and many additional agents continue to be attracted to our company. Our management team is enthusiastic about the opportunities that exist in the marketplace right now.

As I said earlier, during the quarter we were able to increase our monthly dividend by 4.2 percent to $1.25 per annum. This is the second dividend increase we've instituted in the past 18 months, after we raised the dividend from $1.10 to $1.20 at the beginning of last year.

Our ability to reward loyal shareholders with dividend increases speaks to our business model and growth strategy. With approximately 70 percent of our royalties coming from fixed fees and long-term contracts, we know that we are happy to have the stable revenues that allow this kind of continued growth.

And the past years have shown that the industry's best agents do want to be part of a team like ours. We are confident that we'll continue to be able to make strategic acquisitions to increase our overall royalty stream in the future.

I'd like to take this time to talk about the market itself. Looking at the competitive landscape, there's two things I wanted to highlight that occurred during the quarter.

On June 16th, Montreal-based Yellow Pages bought DuProprio digital real estate marketing for $50 million. DuProprio is what we call a FSBO-assist company, essentially a classified advertising business that assist people to sell their homes by themselves. FSBO stands for for sale by owner.

The market share of FSBO sales has not changed materially in recent years in Quebec, but DuProprio, previously owned by Power Corp, was able to consolidate a very fragmented space.

The second industry development of note is that the online real estate website, Zoocasa.com, officially shut down on June 22nd. Previously owned by Rogers Communications, Zoocasa began as a real estate listings website in 2013.

It was actually originally launched in 2008 aimed as a site where real estate agents would pay to advertise their services to buyers. It later expanded into a referral service that charged real estate agents a referral fee for prospective clients.

Zoocasa tried a number of different models, in fact, over its lifespan, including operating as a site that offered discount real estate brokerage fees, but nothing seemed to capture the imagination and participation of enough consumers or real estate agents to warrant continued operation.

I raise these two industry developments because we continue to watch the online portal space carefully, as we believe leadership in this space is critical. Our own consumer portal, leading portal—we have more than one—but our leading portal, the royallepage.ca website, continues to expand its scope. It had its biggest month ever in May with 1.8 million unique visitors and 3 million total visitors to our web and mobile platforms.

As I usually do on these calls, I will provide some thoughts on the economic and market outlook for the rest of the year. Despite continued economic uncertainty at home and abroad, Canada's residential real estate market remained in a healthy space in the second quarter of 2015, showing solid national average appreciation across all housing segments.

As expected, and as previously observed, the price appreciation was heavily influenced by activity levels in Toronto and Vancouver, driven largely by strong employment numbers and strengthening consumer confidence in those mega-markets.

We expect that the excess of demand over limited supply in the single-family housing space specifically will drive above-average price increases for the foreseeable future in those two large markets.

Additionally, we expect that the lower interest rate environment will continue to stimulate activity levels. The affordability dimension is important in our largest cities, and certainly single-family homes' affordability is stretched, particularly for first-time home buyers.

But what the market has been able to respond with is affordable condominium offerings and houses outside of the core areas, call it in the extended suburban areas of both cities so that the entry-level house or home point continues to exist for first-time home buyers even in those markets.

In the closely watched Calgary market, job losses thus far have been lower than many expected in the wake of oil price declines. During the second quarter, average home prices in the region remained relatively flat year over year in most segments.

For example, the deepest fall that we observed was in the single-family home, the detached-home segment, which was down about 3 percent year over year.

We believe most of the oil shock adjustment to home values has taken place, and expect stable to modestly declining prices in the region in the second half of the year. But we continue to monitor the region closely.

Looking ahead, the combination of high sales volumes and price appreciation in our largest cities has put the real estate market on track for a record year in terms of total sales.

Looking at prices nationally, we predict that the average price of a home in Canada will increase by 6.1 percent for the full year, an average pulled upward by our Toronto and Vancouver forecasts of 9.6 percent increase and 9.4 percent, respectively. Again, those are our forecasts for full year 2015.

In conclusion, the Board, Glen, and I are optimistic about the state of our business and the growth opportunities that exist for us. Our business performed well in the first half of 2015. We are positioned for another strong year ahead.

We're confident in our ability to continue growing our network while providing our shareholders an investment vehicle that pays stable and growing dividends.

With that, I will turn things back to our Operator and open the call to questions.

And, Jessica, are you there to open the line for questions?

We appear to be having some technical difficulty with the Operator. I'm just going to leave just a second to see if she can get herself back online, otherwise we'll draw the call to a close.

Q&A

Operator

I do apologize. If you do have a question at this time, please press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. And again, if you would like to ask a question, please press *, then the number 1 on your telephone keypad.

And we have no questions from over the phone. I will turn the call back over to Mr. Soper.

Phil Soper

Just wanted to thank everybody for participating in today's call, and look forward to updating you again on our progress during our next earnings call in three months' time.

Thank you, everybody, and have a good afternoon.

Operator

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

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