FINAL TRANSCRIPT

Brookfield Real Estate Services Inc.

Third Quarter 2015 Conference Call

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CORPORATE PARTICIPANTS

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Brookfield Real Estate Services Inc. — Chief Financial Officer

PRESENTATION

Operator

Good morning. My name is Sharon (phon), and I would like to welcome everyone to the Brookfield Real Estate Services Inc. Third Quarter of 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, Sharon, and good morning, everyone. 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. 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 any reliance on these forward-looking statements because they involve known and unknown risks and uncertainties that may cause the actual results and performance of the Company to differ materially from the anticipated future results expressed or implied by such 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 these documents can be found on our website and on SEDAR.

Our third quarter results are very strong and certainly confirm the strength of our value proposition to realtors, as well as our focus on reducing operational costs.

Royalties and cash flow from operations, the primary measure we use to assess the performance of the Company, are at the highest levels they have ever been.

This record financial performance is being driven by further growth in our network, which at quarter-end was comprised of 16,826 realtors across Canada. We are delighted with the continued growth and success of this national agent base.

In July, we purchased Franchise Agreements representing 719 realtors from across Canada. Historically, we have purchased Franchise Agreements from our manager once a year on January 1st. However, the growth of our brands across the country has been so successful that we were able to support this additional addition in 2015.

During the quarter, Coast Capital Realty Group, the largest independent brokerage on Vancouver Island, joined our Royal LePage franchise network, significantly increasing our footprint in British Columbia.

We anticipate that those agents will be part of any proposed acquisition in January 2016, something the Board of Directors is contemplating at this moment.

So far in 2015, we have seen our network of realtors grow from 15,377 at the start of the year to 16,826 at the end of September. We have acquired franchisee agreements representing 1,577 agents, which has been partially offset by the net attrition of 128.

As we mentioned last quarter, we increased our monthly dividend, effective July, by 4.2 percent to $1.25 per annum. This marks the second increase in the previous 18 months. And it was made possible due to our ability to generate growing cash flows.

Our strong results represent the continued growth and ongoing stability of the Company, and the value of our business model, which emphasizes fixed and reoccurring revenue streams and provides consistency and reliability in both up and in down markets.

With that, I'd like to turn things over to Glen, for a closer look at our third 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 third quarter of 2015 Brookfield Real Estate Services generated record operating results. Our royalty revenues and cash flow from operations were at the highest levels they've ever been, both on a quarterly and a year-to-date basis. These results are due to the larger number of agents in our network and the strong real estate markets we've experienced in Canada.

During the third quarter, the Canadian residential real estate market was up 10.9 percent at $58.7 billion compared to the same period in 2014, driven by a 7.6 percent increase in selling price and a 3 percent increase in units sold.

And most market increases continued to come from the Greater Toronto Area and in Greater Vancouver. In the third quarter, the GTA market increased by 15.5 percent, driven by a 10 percent increase in selling price, and a 5 percent increase in units sold compared to 2014. The Greater Vancouver market experienced even larger increases with transactional dollar volumes, increasing by 31.4 percent for the quarter over 2014.

Phil will talk a little bit more about the markets in a few minutes.

Royalties for the quarter totalled $11.6 million compared to the $10.8 million in 2014, representing an improvement of 7 percent. On a year-to-date basis, the Company increased royalties by 5.2 percent relative to 2014.

For the three months ended September 30th, the Company generated cash flow from operations of 8.5 million or $0.66 per share, which represents an increase of 12.3 percent compared to the same period a year ago.

The increase in cash flow from operations was driven mainly by an increase in royalties of $770,000 and a $159,000 reduction in cash operating expenses due primarily to lower interest costs and lower administration expenses.

For the first nine months of 2015, cash flow from operations increased to $22 million versus 2014, an improvement of 9 percent.

The Company generated net earnings of $7.8 million in the third quarter versus net earnings of $2.2 million in the same period in 2014. The primary drivers of the increase in net earnings were improved CFFO, plus a gain in the valuation of the exchangeable units of $5.3 million from $399,000 a year ago in the same period.

The fair value ascribed to the exchangeable units is based on the price of the Company's restricted voting shares listed on the Toronto Stock Exchange.

The Company generated net earnings of $4.3 million for the nine months ended September 30th, compared to net earnings of 1.4 million in 2014. The primary driver of the increase in net earnings was due to the increase in cash flow from operations, a reduction in the amortization and impairment of intangible assets, and lower interest charges on exchangeable units of $500,000.

This was partly offset by higher current income tax expense and a loss on interest rate swaps versus the prior year.

We're pleased with the results of the third quarter, which demonstrated continued strong financial performance, particularly the growth in cash flow from operations, one of our key core measures.

Our network of agents also continues to grow, which bodes well for additional revenue 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

Thank you, Glen. We are very pleased with our progress we've made over the past year. Building on the acquisition success we saw in 2014, this year has been a solid one in building our agent count.

On a year-to-date basis, we've added the 1,577 realtors that I mentioned in my introductory comments. Realtors, understandably the value of our brands, and we continue to make investments to ensure our brokers and agents are among the most productive and successful in the industry.

We continue to remain on track with our strategic priorities, which many of you on the call would know, include a strong emphasis on the all-important British Columbia market, which became over the last 24 months the second-largest real estate market in Canada.

And traditionally we were somewhat underrepresented in that region. We believe that in addition to being the fastest-growing real estate Company in Canada we are the fastest-growing real estate firm in British Columbia now.

And in the last year, under the Royal LePage banner, we have added over 600 realtors in the province through acquisition.

Looking ahead, we have a solid pipeline of growth prospects in the works. And we expect to continue to grow—see the growth of agents in the Company network.

And our management team is enthusiastic about opportunities that exist in the marketplace right now from coast to coast.

Our agent count is at just over 16,800, which makes the 17,000 agent mark very close. This is an exciting milestone for the Company.

We continue to be the growth leader, as I've said. And recent years show that the industry's best agents want to be part of our team. We're confident that we'll be able to continue to make strategic acquisitions that will add to our annual royalty stream.

In October, we proudly announced major enhancements to our Royal LePage House Price Survey Program, a program that dates back over 40 years. As a result of a new collaboration and investment in significant new technologies, the collaboration with our sister company, Brookfield Real Property Solutions, we expanded our program to introduce the Royal LePage National House Price Composite which will be produced quarterly through a solution that analyzes a housing database that contains millions of real estate transactions.

Among other enhancements, the number of regions studied to produce our widely followed national report was significantly increased from 22 major markets to 53 major markets.

Our report provides one of the most comprehensive views of Canada's national real estate sector, and gives our readers a deeper understanding of local market dynamics across the country.

We are thrilled with the initial response. We saw media impressions in the third quarter rise from 78 million to close to 120 million with the introduction of the new report. And year-to-date, we are up 62.5 percent through the same period as last year, and are closing in on one billion media impressions; well, well ahead of anyone else in the industry.

We continue to enhance our services and tools we provide, our network. Just to note a couple: We introduced a new form of team training. So real estate teams have become a very important differentiator for—particularly for the leading brands that attract the top realtors in the industry. They leverage their name in a local community by hiring realtors to work on their teams.

It's a very specialized form of real estate services. And over the last year, we've been in development—we have had in development specialized team training that's been rolled out this quarter to rave reviews. We're really pleased with the feedback we've received.

On the recruiting side of things, also aimed at management, we introduced several new initiatives. The dedicated recruiter concept is one that we've been introducing to our offices across the country. We had a specialist on contract, a woman by the name of Judy Ledger (phon) in training, doing specialized training for our brokers.

We're writing a white paper on best practices that will be released shortly, and have produced a new recruiting video series. So a lot of focus for management on the recruiting space.

Again, recruiting is important for healthy brokerages because you need to continually be adding new blood to your firm to stay healthy and growing.

In terms of agent services, we introduced new digital marketing training with a focus on how to rank higher in online search. And have—really had good success with a new webinar program that's called the Sales Success Webinar program. Highly subscribed; allows people to watch on the go, where and when they are.

Listeners on the call might be interested to know that Canadians are among the world's most voracious watchers of mobile and online video. So 84.5 percent of Canadians regularly watch online video compared to 78 percent in America. So it's an important part of how we get messages to market.

And finally, we've had a focus, as I've mentioned in previous calls, on luxury marketing. And have introduced a program in collaboration with the American Institute of Luxury Brokers (phon), which has been well received, and we've seen a real sharp increase in the use, within our Royal LePage, of the Carriage Trade listing differentiation or luxury marketing program.

Finally, we had a consumer-focused campaign—a social media and marketing campaign—called I'm Home. The nature of it was to encourage consumers to print a sheet that was widely available through our web properties that had the #IMHOME on it and post a picture in different lifestyle-oriented things.

So we had pictures of people with their kids and their dogs and their swimming pool and their parks. Thousands of people submitted entries, and it created a huge amount of buzz in our social media channels: Twitter, Facebook in particular, and Instagram. And we've seen through this and other structural enhancements to our web properties a growth from 2 million to 3 million consumer visits per month on our benchmark, our royallepage.ca consumer portal.

As Glen noted earlier, in the third quarter, home prices showed moderate to strong year-over-year growth in most markets in Canada. While the effects of the crude oil shock are still filtering through the economy, the Company's non-energy sectors are beginning to regain momentum as a lower Canadian dollar stimulates higher exports, supporting the overall consumer confidence in the strength of our real estate markets.

In line with recent quarters, strong national house price increases were largely driven by significant price appreciation in Greater Toronto and the Lower Mainland or Greater Vancouver.

At the outset of the third quarter—part of the reason for that is at the outset of the third quarter the Bank of Canada made a move to lower its target rate by 0.25 of a point to 0.05 percent. This move has been supported by housing markets across the country. And we believe mitigated the downside in energy-dependent markets because they have to date fared better than we would have expected.

However, it also bestowed an unneeded fuel on already over-stimulated markets in Vancouver and Toronto, cities where affordability has become a growing challenge for many individuals and families. In this light, we were encouraged by the Bank of Canada's most recent decision in October to hold the target rate at 0.05 percent versus taking action to lower it further.

2015 has been positive for Ontario, resulting in stronger consumer confidence and increased housing market activity. On the other side of the country, economic growth in British Columbia, combined with a net migration into the province continues to drive local housing activity. We expect this to continue through the balance of 2015 and into the all-important spring market next year.

Looking at other parts of Canada, after years of outpacing the rest of the country, Regina and St. John's house price increases are now firmly below the national average, but are stable.

In other regions, Atlantic Canada are showing mixed results with the clear winner or hottest market in Atlantic Canada being the Halifax market, which is showing substantial year-over-year price increases in most housing categories.

Meanwhile, a balance appears to be returning to major Quebec housing markets, due to improvements in the province's manufacturing and export sectors.

Overall, Canadians remain confident in the housing market. And as we saw in the recent election, it was not surprising that all the major political parties acknowledging the housing sector's prominence as a foundation upon which the economy's been built for years, and the importance of it as an area in which Canadians can build life savings.

In conclusion, we remain optimistic about the state of our business and the growth opportunities that exist for the Company. Our business performed well in the third quarter, and we're positioned to complete the year on a strong note.

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

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

Q&A

Operator

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

We do not have any questions at this time. I turn the call over to the presenters.

Phil Soper

I wanted to thank everybody once again for participating in today's call, and look forward to updating you again during our next quarterly and full year's conference call. Thank you.

Operator

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

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