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FINAL TRANSCRIPT

Brookfield Real Estate Services Inc.

Second Quarter 2018 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 Kelly, and I would like to welcome everyone to the Brookfield Real Estate Services Inc. Second Quarter 2018 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, 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 very much, and good morning, everyone. We appreciate you joining us this morning. With me today is our Chief Financial Officer, Glen McMillan.

On today's call, I will begin with a brief overview of the quarter, Glen will then discuss our financial results for the quarter, and I'll conclude by providing some remarks on recent business operational highlights and the Canadian real estate market. 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 forward-looking statements.

I encourage everyone to review the cautionary language found in our news release and on our regulatory filings. All of these documents can be found on our website and on SEDAR.

As expected, the federal mortgage stress test implemented on January 1st slowed the residential real estate market in the first half of 2018. Also, as expected, and included in our forecast, many consumers had adjusted by midyear, and the market began to normalize. More on this later in the call.

Suffice to say that the Company's business model, which is designed to insulate investors from the significant swings in transactional volume that are part and parcel of our industry, worked well during the quarter. Case in point, for the rolling 12-month period ended June 30, 2018, cash flow from operations—CFFO—was 2.51 per share as compared to 2.56 per share in the previous 12-month period, a drop of a little less than 2 percent. In the second quarter, the market itself was down 19 percent in transactional dollar volumes.

Royalties dipped in the quarter, largely due to lower unit sales, particularly in the Greater Toronto and Vancouver regions. More colour on this later as well.

Turning to agent count. As at June 30, 2018, the Company's network of REALTORS grew to 18,780, a 3.6 percent increase compared to the 18,135 at the start of the year and an increase of 72 net agents during the quarter.

Listeners familiar with the Company will recall that when our share price rises, accounting rules require us to take a charge for Brookfield's exchangeable units. The Company's performance has resulted in a strong 12 months for our share price, rising from 16.50 on June 30, 2017, to 19.50 on June 30, 2018, up $3 a share or 18 percent. Glen will get into this more during the financial part of the call.

Finally, the Company distributed dividends of 3.2 million to the holders of restricted voting shares. Yesterday, the Board of Directors approved a dividend payable September 28th $0.1125 per share to shareholders of record on August 31st. This indicates an annualized dividend of $1.35 per share.

With that, over to Glen for a look at our second quarter.

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

Thank you, Phil. Despite an increase in the number of REALTORS representing our brands, royalties decreased by 5 percent to $11.5 million in the second quarter compared to 12.1 million in the second quarter of 2017. On a year-to-date basis, revenues are lower by about 2.6 percent.

The lower revenues are largely driven by softer real estate markets, specifically in the Greater Toronto Area and Greater Vancouver.

The softer Canadian market also negatively impacted cash flow from operations. CFFO for the second quarter was $8.4 million compared to $9.2 million for the same period in 2017. On a year-to-date basis, our CFFO was 16 million compared to 16.6 million last year.

And as Phil noted, during the second quarter, the Company paid dividends totalling $3.2 million, or $0.34 per share to holders of restricted voting shares, an increase of 4 percent over the second quarter of 2017, and our fifth consecutive year of annual dividend increases.

The Company generated a net loss of $3.7 million in the quarter compared to net earnings of 3.3 million last year. For the year to date, the Company generated a loss of $4 million compared to earnings of $4.6 million last year.

Our net earnings were negatively affected by a loss on the fair value of our exchangeable units. This noncash loss is the result of an increase in the market price of the Company's restricted voting shares, which are used to determine the fair value of the obligation associated with those exchangeable units.

Phil noted we've seen a significant increase in our share price during the quarter. So while this is a positive thing for our shareholders, it does increase the liability associated with the conversion option that's embedded in those exchangeable units.

The Canadian residential real estate market closed down 19 percent in the quarter. The total transactional dollar volume during the second quarter across Canada was $71.2 billion.

If we look at the GTA market, it closed at $19 billion, down 26 percent compared to 2017, and that decline was driven by a 20 percent decrease in the number of units sold and an 8 percent decrease in price. Just for reference, the Greater Toronto Area represents approximately 25 percent of the national housing market.

Canada's most expensive market, Greater Vancouver, is absorbing its second wave of government initiatives in the last two years aimed at improving profitability. These new policies were introduced in the 2018 BC budget, and they included new tax policies focusing on foreign buyers, homeowners of properties that have a value of more than $3 million and homeowners who reside outside the province.

Partly as a result of these initiatives, the Greater Vancouver market closed at $8.6 billion, down 33 percent from the second quarter of last year. This was driven by a 32 percent decrease in units sold and a small 1 percent decrease in price.

Phil will now provide additional insights into the markets and an update on our operations.

Phil Soper

Thanks, Glen. Glen and I both touched on significant policy changes implemented at the federal level aimed at cooling Canada's largest housing market.

These policies typically have an impact on consumer confidence, as buyers take to the sidelines to gauge the effect of the housing market and more specifically, prices. However, it is people's ability to buy homes, which we can glean from the economic indicators such as unemployment rates and GDP, and it's this that moves long-term buying trend.

The health of the Canadian economy continued to be a positive contributor to the country's real estate market in the second quarter, which helped to mitigate the sharp housing market corrections that could have occurred.

At 6 percent, Canada's unemployment rate continues to be low by historical standards. It is when people are employed that they have confidence that their job is not in danger, or that they could find new employment with relative ease, that we see an increase in potential buyers, which drives sales and puts upward pressure on home prices.

Provincially, virtually all job growth in June was in Ontario, Saskatchewan, and Manitoba. In Ontario, there was a 35,000 gain in jobs, which took the year-over-year gain in jobs to 2.2 percent, which is above the Canadian average.

In BC, the unemployment rate was 5.2 percent in June, a small year-over-year employment and considerably below the national average in what has been our strongest provincial economy for some time now.

Quebec's unemployment rate in June was 5.4 percent, a 0.6 percent improvement over June 2017. And to quote the 2018/'19 budget released at the end of March, Quebec's economy is going full throttle. With unemployment hovering at its lowest in the province in 40 years, it is actually a lack of workers that continues to make it difficult for the province's businesses, with the province's Premier even calling for—calling the shortage of workers the province's biggest economic challenge.

As far as our second-largest city in the country, Montreal, sales there increased by 4 percent, while the median price for both single-family homes and condominiums rose 3 percent. Montreal has had strong growth in housing activity for some time now. We're very pleased with the Company's performance in the province.

In June, Alberta's unemployment rate was 6.5 percent, a full 1.2 percent year-over-year improvement.

And looking on a broader basis, as a sign of confidence in the national economy, the Bank of Canada raised its benchmarked interest rate on July 11th.

When we look at fluctuations in real estate values, it's important to remember that the value that the Company provides for investors is driven by long-term franchise agreements, and our royalties are weighted towards fixed fees. Approximately 72 percent of our annual royalties have been insulated from market fluctuations, something I touched upon at the outset of this call.

In the first quarter conference call, we noted that a decline in unit sales was as a result of both the implementation of the OSFI stress test itself—in other words, taking buyers out of the market—and also a pull-ahead effect. Buyers who had purchased a home—who may have purchased a home in the first half of 2018, rushed in to buy in late 2017 to avoid the stress-test measures introduced by the Office of the Superintendent of Financial Institutions. And these measures were aimed at cooling—ensuring Canadians can afford their mortgage obligations if interest rates rise materially.

During the second quarter, we continued to see lower sales year over year, as these OSFI rules and the prospect of higher interest rates and some provincial legislation, particularly in BC and Ontario, all aimed at slowing down an overheated market had an impact.

As we look to the second half of the year, housing activity in Canada may improve as buyers and sellers adjust expectations and regain confidence in the real estate market. We're already seeing some strong signs of improvement in both housing activity and home prices.

According to the Toronto Real Estate Board, residential real estate sales in July were up 18.6 percent year over year in the GTA, while the MLS Home Price Index composite benchmark annual growth rate looks to be trending towards positive territory.

Another important indicator is inventory. And inventory in the region fell 1.8 percent year over year, meaning that more people were buying homes than were listing homes for sale. And this should put upward pressure on home prices.

While sales activity in Greater Vancouver continued to decline in July year over year, the MLS Home Price Index composite benchmark for Metro Vancouver rose 6.7 percent. Generally an increase in home price in this city put pressure on prices in the suburban regions around Vancouver, as homebuyers are pushed further out due to affordability. And we are seeing that in the Vancouver area.

Turning to operations. The Company continues to invest in products and services that support our brokerages to attract and retain top performers.

In the second quarter, our Royal LePage brand launched new features and functionality in consumer-facing website properties. Following on the success of Your Perfect Neighbourhood (sic) [Life], an emerging, engaging, and helpful regional matching tool, we introduced lifestyle match. This new tool allows potential home buyers to find the perfect location based on specific attributes in their home search.

In the second quarter, our Via Capitale business launched two new training sessions for its real estate professionals, as well as videos for promoting Via Capitale's tools, including Maisons des Dates and Cotierre des Dates (phon) products, both aimed at promoting homes and agents to consumers. In addition, Via Capitale launched a new Facebook campaign, la différence Via Capitale, focused on how marketing a home with Via Capitale was a different experience for consumers.

The Company has continued to drive brand awareness, industry-leading public relations, and media awareness programs, in addition to publishing the Royal LePage House Price Survey, which is a significant driver of consumer traffic to our web properties and billions of media impressions for our brand. The Royal LePage company also published a luxury real estate release and a recreational property release aimed at important niches in the real estate market.

In the second quarter, Royal LePage was recognized by the Canadian Public Relations Society with two ACE Awards for the Royal LePage Peak Millennial campaign, as well as the Royal LePage House Price Survey and House Price Composite.

The brand was also recognized by the International Association of Business Communicators for two campaigns, including an OVATION Award for that widely read Peak Millennial campaign.

In conclusion, while the Canadian market continued to see a significant decline in sales during the second quarter, we are seeing strong signs of growth in the second half of the year. And furthermore, our business strategy, which puts the emphasis on fixed-fee revenues, has limited the impact of a soft first half on our business, the 2.6 percent reduction in royalty revenues during that period that we spoke about earlier.

The growth shows that our products and services are being well received in the marketplace, and our brands continue to resonate with both consumers and real estate professionals.

With that, I will 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, please press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Again, that's *, then the number 1 on your telephone keypad.

And there are no questions at this time. I will turn the call back over to Mr. Soper for closing remarks.

Phil Soper

I wish to thank everybody once again for participating on a beautiful day in the middle of summer on a Friday, so good for you. And wish you well for the rest of your summer.

Look forward to updating you again on our next quarterly earnings call in three months' time.

Operator

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

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