Brookfield
Residential

Brookfield Residential Properties Inc.

2012 First Quarter Results

Conference Call & Webcast Transcript

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Time: **1:00 PM ET**

Speakers: **Alan Norris**
President & Chief Executive Officer

Craig Laurie
Executive Vice-President & Chief Financial Officer

OPERATOR:

At this time, I would like to turn the conference over to Mr. Alan Norris, President and Chief Executive Officer. Please go ahead, Mr. Norris.

ALAN NORRIS:

Thank you. Good afternoon, ladies and gentlemen, and thank you for joining us today for Brookfield Residential's First Quarter Conference Call. On the call with me today is Craig Laurie, our Chief Financial Officer. I will provide some comments on the current markets, intrinsic value, and outlook going forward. These comments are also reflected in my letter to shareholders, which was posted on our website yesterday. Craig will then provide financial highlights of our operations and financial results. I would at this time remind you that in responding to questions, and in talking about our new initiatives, and our financial and operating performance, we may make forward-looking statements. These statements are subject to known and unknown risks, and future results may be differ materially. For further information for investors, I would encourage you to review our interim report and supplemental information package, both of which are available on our website.

Our results for the first quarter of 2012 improved over the same period last year, when one excludes the one-time merger items that were included in the first quarter of 2011. Our income before taxes was $4 million, compared with breakeven last year from normalized operations. This year also includes interest on our transaction debt of $9 million, which was not in last year's first quarter numbers, so we are performing operationally at a much higher level this year. The comparative statements for 2011 do include certain one-time merger items. Throughout the year, we will endeavor to break out normalized and non-recurring items for 2011, so that you can better gauge our performance. Our markets in Alberta and Ontario are performing very well. Lot sales activity remains very good in Alberta, and our housing sales backlog in both Alberta and Ontario increased by 27% from December, which augers very well for the remainder the year. Even if some tightening of lending rules take place due to the perceived housing bubble in Vancouver and Toronto high rise, we do not believe it will have a significant impact on the low rise business in Ontario and Alberta.

In the U.S. we are seeing a much higher level of traffic and activity in our communities, which has translated into higher sales. We continue to see tightening of supply in many U.S. markets, but again, it is a very regional situational phenomenon. With our recent new U.S. acquisitions, particularly in the Bay area, we should start to show sales and closings activity toward the end of this year. As the only publicly traded land and housing company with operations in both Canada and the U.S., we must articulate our business model, and clearly differentiate ourselves from the U.S. national homebuilders, who are seen to be our peers, but who are homebuilders first, and developers second. While our homebuilding operations are important, we are much more heavily invested in land than many others, and therefore will benefit significantly in our recovering market as land values appreciate. As a result, the approach to valuing our Company should also be viewed differently. With this in mind, we have expanded our corporate profile posted on our website to add more information to help investors and shareholders better understand our business, and various approaches to valuing our Company. As an example, our land held for future development and optioned land has a book value of approximately $1.5 billion at March 31, 2012 however, future cash flows arising from these lands are projected to exceed for $4.5 billion over the respective project lives, which average approximately 10 years. Obviously, there will be different views of the underlying value, depending upon what discount rate you wish to apply to these future cash flows to reflect time value of money and risk. Further information on our housing and developed land inventory is also included in our corporate profile.

Based on our outlook at this early point in the year, we offer the following limited guidance for 2012. The Canadian operations are projected to close approximately 1,700 lots and 1,200 homes, and the U.S. operations are projected to close approximately 550 homes, which also include our share of unconsolidated entities. In addition, there are projected to be a number of acreage sales of multi-family, commercial, and industrial parcels, as well as several potential bulk lot sales in the U.S. We're therefore optimistic about the balance of the year, and believe that our 2012 operating income will improve, and exceed last year's normalized income. I would now like to turn the call over to Craig, who will discuss our financial performance for the three months ended March 31.

CRAIG LAURIE:

Thank you, Alan. Good afternoon, everyone. Our results for the first quarter of 2012 improved over the same period last year. Net income for the three months ended March 31st, 2012 totaled $1 million or $0.01 per share, compared to a net loss of $57 million, or $0.56 per share for the three months ended March 31, 2001. The first quarter of 2011 included a one-time valuation allowance against the Company's U.S. deferred tax assets on the completion of the merger.

The 2011 financial statements represented our first year end as a public company, and reflected non-recurring items as a result of the merger that impacted revenue and net income. Specifically, the first quarter of 2011 included $26 million of income from a non-recurring change in business practice, while the first quarter of 2012 included $9 million of interest on the transaction debt that was not included in the comparable period in 2011. Taking these items into account, income before income taxes improved $13 million on a comparable basis over the same period in 2011, reflecting improved operating results on a quarter-over-quarter basis.

The Company currently sells from 22 active land communities and 31 active housing communities. From these communities, the Company closed 281 lots and 251 homes for the quarter ended March 31, 2012.

For the three months ended March 31, 2012, land revenue totaled $44 million, compared to $97 million for the same period of 2011. Approximately $61 million of the revenue from 2011 was due to the change in business practice referred to above. Excluding the non-recurring revenue, land revenue for the three months ended March 31, 2012 increased by $8 million, or 22% in comparison to the same period of 2011. This increase was driven by increased lot sales in Canada, with 281 lot closings for the three months ended March 31st, compared to a normalized 233 during the same period in 2011. The Company's average selling price of lots delivered for the quarter ended March 31, 2012 was $157,000, compared to $163,000 during the same period last year. The decrease in the average selling price of lots is due to the change in business practice, where non-recurring lots had a higher average selling price. Taking this into consideration, the average selling price of lots delivered for the quarter ended March 31, 2012 was $2,000 higher when compared to the same period of 2011.

For the three months ended March 31, 2012, housing revenue increased to $88 million from $83 million for the same period in 2011, as a result of increased home closings to 251, versus 220 last year. The Company's average selling price of homes for the quarter ended March 31, 2012 was $351,000, compared to $380,000 in 2011. The decrease is a result of product mix, primarily due to no contribution from our Bay area operations for the first quarter of 2012, which in the first quarter of 2011 had closings with higher selling prices. As Alan mentioned, we expect contribution to begin again from the Bay area later in the year from the acquisitions made in 2011. In addition, the 24% increase in home orders in the first quarter, particularly in Canada and the Washington D.C. areas, resulted in a 62% higher backlog of 868 homes at March 31, 2012, compared to 537 homes for the same period in 2011.

Moving to our balance sheet; as of March 31, 2012, our primary asset, our landed housing inventory, totaled $2.3 billion, or approximately 88% of our total assets, similar to prior quarters. The balance increased when compared to December 31, 2012 due to acquisitions of $44 million, development activity, and a strong Canadian dollar. Our land and housing assets include homes completed and under construction, and lots ready for construction, model homes, and land under and held for development.

Cash flow used in operating activities during the three months ended March 31, 2012 totaled $81 million, consisting of $44 million of acquisitions, $22 million for the purchase of Canadian tax credits, $9 million of corporate interests, and net $6 million used in operations to advance construction of the backlog. $42 million of the total acquisitions were in Canada, split with $22 million in Ontario, and $20 million in Alberta. $20 million of vendor financing supported the Canadian acquisitions. The Company works to balance taking advantage of acquisition opportunities with overall capital planning, and believes they will provide an appropriate return, based on using today's pricing and absorption. Thank you for joining us in our quarter end conference call. I will now turn the call back to the operator, who will moderate questions.

OPERATOR:
The first question comes from Alex Avery of CIBC. Please go ahead.

ALEX AVERY:
Thank you. As Craig was outlining the sale prices for lots and houses, in this quarter were pretty consistent with what you saw last year. But in other parts of the real estate world, we're starting to see some encouraging signs around, particularly, Alberta. Apartment landlords are starting to get more pricing power, and certainly, I guess, the office landlords are in extremely good shape. Can you give us a bit of a sense of where I guess the momentum is headed in terms of the Alberta housing market, and what you see, perhaps, over the next year there?

ALAN NORRIS:
Alex its Alan, yes, actually there's been some, I would say on the housing sideif any builders were offering incentives in the past year, many of those sort of incentives are being narrowed quite considerably, and reduced considerably, and in conjunction with that, there has been some price increases, as well. So, the combination has obviously increased the real price from a housing perspective, and there is also some view with respect to lots, as well, that we are moving the lot prices up slowly at this point during the course of the year.

ALEX AVERY:
And that's working; you're not having any pushback on that?

ALAN NORRIS:
No. I mean, not really. I think the resale market is fairly tight in both cities at this point, Alex. We didn't get the sort of surge of listings you typically get in the spring. So it's a fairly tight

marketplace out there. I would say most people in the business in Alberta had a good first quarter.

ALEX AVERY:

Okay. And I guess just turning to the U.S., pretty big swing factor for Brookfield Residential. It seems like you have a more positive outlook, and I guess, could you just frame that for us from a broader housing market recovery perspective, or what your expectations are on that front, and whether it's more, I guess, local markets in your case, or if you see that more broadly in the U.S. housing market?

ALAN NORRIS:

I think, generally, if you look at most of the other conference calls from those in the business, where most people are seeing better traffic, increased traffic, which is increasing sales, which is helping backlog in the case of most homebuilders in the U.S. I think everybody has just got to take a step-by-step process. This is not something that is going to happen overnight, but the fact that we are seeing some progress, I think our markets are better positioned than most markets in the U.S., because of where we are.

So, we're seeing good response in all of our areas. But I think, generally, there is a more positive outlook from a housing perspective. But I don't think we can expect immediacy with respect to the other underlying results. We will start to see step-by-step some of the backlog will improve, and then we'll hopefully start to see some pricing pressure, because you see that in local markets in most of the prime areas, that is where it is. But we still have to see that push on pricing pressure, which then will filter out to some of the outlying areas.

ALEX AVERY:

Okay. That's great color, thank you.

OPERATOR:

The next question comes from Stefan Mykytiuk of Pike Place Capital. Please go ahead.

STEFAN MYKYTIUK:

Good afternoon. A couple questions; I guess first off, when you talked about the cash flow, the $4.5 billion of cash flows that you could expect over the next 10 years from your land under development, is that net of any incremental capital you need to put in there to finish the development?

ALAN NORRIS:

Yes, it is.

STEFAN MYKYTIUK:

Okay. And do you think -- I realize this is kind of, that's a ballpark way of looking at it, is it $4.5 billion ratably kind of over 10 years? Is it more front loaded, or --

ALAN NORRIS:

What it is, obviously, because it is land held for development, it probably would only start in, say, 18 months' time, or two years' time, because we would be theoretically working through our land under development first.

STEFAN MYKYTIUK:

Right, that's the other categories you broke out in your slide show, so that value comes to us near term, and the other $4.5 billion comes longer term.

ALAN NORRIS:

That's exact. All we are really trying to do is give some illustration as to what that future -- obviously these are just estimated numbers that we have built in, based on all of the analysis that we do on each project, as to what we expect to get out of that project. We have different assumptions with respect to pricing, and things of that nature over a long period of time. But again, we're trying to give some flavour to differentiate ourselves from others in this space as to the difference between somebody who is land light being a homebuilder and somebody who has land and is in the business, and hopefully we'll see some appreciation as markets recover. I'm talking primarily U.S. in that regard, obviously, because Canada is doing very well.

STEFAN MYKYTIUK:

Right, right, I guess the other way to kind of flip that metric on its head is right now the enterprise value of the Company is about $23,000 per lot, using the 100,000-plus lots that you have. What is your average lot? If you look across the whole Company, what would be the average kind of lot price?

ALAN NORRIS:

The differentiation, the reason why we try to split it out between land under development and land held for development is that the land under development has lots to some form of finished state, so the servicing costs have been spent on those, and they are marketable in a finished state, whereas the land held for development is in many cases, it could be entitled, but the actual servicing dollars have not been spent on that, so that would be a raw land price. So that is a clear difference between, depending on the mix of those two, you could get a distorted number if you just take an overall average.

STEFAN MYKYTIUK:

Right, okay, fair enough. Maybe I can take that off-line.

ALAN NORRIS:

Sorry, Craig. Can you clarify?

CRAIG LAURIE:

This is Craig. Stefan, if you went to page 16, the one that Alan is referencing, we tell you the land under development, and we show you where it's at, and then we tell you what the cost to complete is for that. So if someone was attempting to do a mark-to-market, they would probably put in an assumed lot price. They could probably even use a record of averages we've experienced. And then you would just deduct that cost to complete, and you would come up with a value for that piece of it, same with the housing. And then for the land held for development, probably look at the metric of $4.5 billion cash flow.

STEFAN MYKYTIUK:

Okay, great. When these Bay area projects come online later in the year, what's that going to do for your average price out there? Are those more $600,000, $700,000 homes?

ALAN NORRIS:

I would say they're probably $600,000, $700,000 and above. But again, out of the overall of the number of closings we will manage to back into at the end of year, it won't have a meaningful impact on the overall metric, just because of the number, and we're hopefully somewhere between 50, 60 closings, or whatever from the Bay area this year, albeit we've obviously got a lot coming through in 2013.

STEFAN MYKYTIUK:

Okay. So that number is much higher in 2013?

ALAN NORRIS:

Yes.

STEFAN MYKYTIUK:

Okay. And then last question and I'll jump back in the queue. I know you talked about 1,700 lots that you expect to sell in 2012. What's the comparable amount, or the non-recurring number of lots that were sold in 2011?

ALAN NORRIS:

It's quite comparable. That's just in the Alberta operations we're talking about, there.

CRAIG LAURIE:

Yes so, as Alan mentioned, the 1,700 is really from the Alberta operation. Last year the non-recurring would have been 1,173. You would just deduct that from our total lots sold last year.

STEFAN MYKYTIUK:

So, take the 2,940 sold, and take out the 1,173?

OPERATOR:

The next question comes from Sean O'Malley of Wedge Capital Management. Please go ahead.

SEAN O'MALLEY:

Good afternoon, guys. Just a couple questions here. The first questioner asked a little bit about pricing in Canada, and you commented a little bit about the U.S. I wonder if you could get a little bit more specific on what are you seeing in terms of pricing in your different U.S. markets.

ALAN NORRIS:

I would say there was a little bit of movement in the D.C. area, not as much in Southern California, and it's a little bit early days on the Bay area. But based on our underwriting of when we tied up those deals, we would think that our pricing for the Bay Area houses that we are going to be occupying is slightly higher than what we underwrote, to be quite honest. So we're seeing some pricing pressure, which allows for increases in the Bay area. It's marginal in D.C., and sort of on par, I would suggest, in Southern California.

SEAN O'MALLEY:

Okay, great. And your forecast, obviously, is with your orders up, and the forecast you've made as far as closings for the year suggesting a substantial increase. Should we expect there to be any operating leverage that comes along with such an increase, or is margin purely a function of where pricing is?

ALAN NORRIS:

I would say if we'd end up a little bit higher from a house closings perspective in any of the markets, candidly, where we're getting some pricing margin increase in Ontario and a bit in Alberta, as I touched on earlier on. With respect to the U.S. operations, we were a little bit north of 400 last year, so if we end up slightly higher -- to me, the 400 doesn't work from an overall -- the more we have there, obviously, the more contribution we have to our SG&A fixed costs, so with that extra 100-plus closings that you may have in the U.S., that makes further contribution against the fixed costs of running the operation. So we're obviously happier with respect to that, even though, even if you ended up staying flat from a margin perspective.

SEAN O'MALLEY:

Okay. And, on your year end call, you had stated that you had hoped to replace the non-recurring income from 2011. Given results to date, and where the orders and the backlog stand, do you believe that achieving that ambition will be more or less challenging than it was when you last spoke with us in February?

ALAN NORRIS:

I think I said that we were trying to replace some of the non-recurring income, were my words.

SEAN O'MALLEY:

Okay.

ALAN NORRIS:

But yes, I think the first quarter, we ended up probably a little bit better than where we thought, and if things continue, I mean we've seen some spring rushes before from a U.S. perspective, so we just want to have that sustain. But again, most of that stuff is not going to have as big an impact this year. It's that sustained thing in the U.S. will help us, even going into next year. But from a Canadian perspective, where the bulk of the profit is this year, we're in reasonable shape at this point, as we see it.

SEAN O'MALLEY:

Okay. And last question, I think probably for Craig. I noticed it seemed like the tax rate was pretty high in the quarter. Could you explain that a little bit?

CRAIG LAURIE:

Sure. The tax rate on the Canadian side is about 27%, and if you back out, there was a net loss in the U.S., as we take a valuation allowance against that. And so, on the surface to your point, the income before tax on a consolidated basis was around $4million, and then the tax expense was around $4 million, so on the surface it looks like it's 100%, but when you back out the U.S. loss, it ends up working out to about that 27% on the Canadian income that I mentioned.

SEAN O'MALLEY:

Okay. So you're basically just accumulating a bigger evaluation allowance in your U.S. deferred tax asset account?

ALAN NORRIS:

Exactly right, and then at some point if you could reverse that, the number is getting up there, now.

CRAIG LAURIE:

I think it's probably above $90 million.

SEAN O'MALLEY:

Okay, great. That's all I have, thank you.

ALAN NORRIS:

Thank you.

OPERATOR:

The next question comes from Frank Mayer of Vision Capital. Please go ahead.

FRANK MAYER:

Hello, everybody. I was just wondering, you've been at pains to mention that it's a ten-year average. Could you indicate how much occurs after the tenth year?

ALAN NORRIS:

Not off the top, Frank, no.

FRANK MAYER:

I mean, would it be half and half?

ALAN NORRIS:

No, I would doubt that. Most of the stuff, very few of our projects would be starting in year ten. Obviously, we've got projects which run the gambit. I would say that, because this is just a standing valuation, and has no replenishment of land, I would definitely suggest that it would be trailing after that point.

FRANK MAYER:

I mean you know your portfolio far better than anybody else, what would your guess be?

ALAN NORRIS:

Oh I hate guessing with you Frank.

FRANK MAYER:

Okay. The $4.5 billion, could you break it down between Canada and the United States?

ALAN NORRIS:

We can look at that next quarter, and try and get that out there, absolutely, so we can share it with everybody.

FRANK MAYER:

Any number, off the top of your head, at this stage?

ALAN NORRIS:

No.

FRANK MAYER:

You can't help us in that regard?

ALAN NORRIS:

Not right of the top.

FRANK MAYER:

One of the reasons for asking that question, of course, is that there are different tax rates between the two countries.

ALAN NORRIS:

Yes.

FRANK MAYER:

You mentioned that the Canadian tax rate is 27%. I think it's coming down lower than that. But if you were making money in the United States, what would the average tax rate be?

CRAIG LAURIE:

Frank, it's Craig; it would be about 38%.

FRANK MAYER:

38%?

CRAIG LAURIE:

Yes.

FRANK MAYER:

So very clearly, if we are going to work with the $4.5 billion number, there's a tremendous difference in taxes. Would there be tax losses available to you to mitigate those tax rates, either in Canada, or the United States, or both?

CRAIG LAURIE:

Yes, that's what I was going to say, is that it's roughly $90 million, most of that is NOL.

FRANK MAYER:

Where would that be?

ALAN NORRIS:

In the U.S.

FRANK MAYER:

$90 million of NOLs in the United States?

ALAN NORRIS:

No, no. That's just at the asset.

CRAIG LAURIE:

The NOL is, that's what I was saying. If you take the $90 million, and you divide it by 0.38, you get approximately $240 million of taxable income.

FRANK MAYER:

I'm sorry; I'm having a hard time hearing you. Say it again, please?

CRAIG LAURIE:

If you take the net -- the $90 million is the net deferred tax asset. So if you gross that up by the 38%, you get about $240 million of actual income that can be sheltered.

FRANK MAYER:

I see. How many years do you figure that will last you?

ALAN NORRIS:

That would depend how quickly we earn the income.

FRANK MAYER:

Oh, precisely. Okay, no guess on that?

ALAN NORRIS:

I mean, we're hopeful on the recoveries, as well as everybody else, Frank, absolutely. But we do have that good shelter from an NOL perspective, which, as we start to earn the profits there in the U.S. that we anticipate, we have shelter for $240 million .

FRANK MAYER:

Now, do those NOLs expire at any point in time?

ALAN NORRIS:

Most NOLs have a 15 year life.

CRAIG LAURIE:

In the U.S., you have up to 20 years, so a number of them that are a few years old, so an average, as Alan said, is about 15 years left.

FRANK MAYER:

15 years left?

CRAIG LAURIE:

Yes.

FRANK MAYER:

So there's no urgency to use the NOLs, except in terms of the higher present discounted value if you use them today, as opposed to tomorrow?

ALAN NORRIS:

That's probably a fair comment.

FRANK MAYER:

Yes, okay. Now, last but not least, the $4.5 billion is quite a different number than what investors and analysts in Canada would call met asset value. I mean, it includes a profit margin on profits on your developments over and above what the current value of those long-term land holdings might be. Could you give us any guidance as to how the $4.5 billion relates to current value of your land holdings that are held for future development?

ALAN NORRIS:

I mean, we've had the conversation before, Frank. But obviously, what we're trying to do is give some indication there. For land held for development, I would offer the following guidance, that we try and buy land to anywhere between, say, an 18% and, say, close to 20% return unlevered. If we're selling land or buying land, and once it has gone through the entitlement process, the discount rate that you would use would be significantly less than that

20%, once you get it through that process, and bring it through the entitlement, and bring it closer to execution.

So, there is a range of discount rates that one could use. This number, obviously, is a 0% discount rate, because it is the future cash flows that we are estimating would come out. So, it could be a variety of reasons, again, that's just somewhat our perception with respect to what the cash flows would be, other people may, in fact, want to pay more for an asset, even more than we would even value ourselves.

FRANK MAYER:
You said you're buying in the 18% to 20% rate annually, and you would be selling, and you faded out at that point. What kind of numbers did you mention?

ALAN NORRIS:
As low as somebody would be willing to pay, to be quite honest. If we went to the seller community, we would not be selling up in that range, obviously, because we feel we add value through the process.

FRANK MAYER:
Could you give us any guidance as to what would be an appropriate approximate number, please?

ALAN NORRIS:
Yes, if you were selling, you would love to be selling in that 10% to 11% range, or 10% to 12% range, if you were selling raw land, rather than holding onto it and executing yourself, so you are trying to spread risk all the way through.

FRANK MAYER:
So, the selling discount rate was utilized in calculating the $4.5 billion, is that correct?

ALAN NORRIS:

There's no discount rate used in the $4.5 billion.

FRANK MAYER:

Okay, then help me along, how did you get it?

ALAN NORRIS:

The $4.5 billion is the future cash flow coming from our land portfolio.

FRANK MAYER:

So it's an absolute dollar amount, then?

ALAN NORRIS:

That's correct.

FRANK MAYER:

Okay. Good. Okay. Thank you very much for that.

ALAN NORRIS:

Thanks, Frank.

OPERATOR:

The next question is a follow-up question from Stefan Mykytiuk of Pike Place Capital. Please go ahead.

STEFAN MYKYTIUK:

After all that, I think I might have forgotten my question. Oh, I know what it was. Can we just get into, was there a reason why the gross margin was up so much year-over-year? If I pull out the non-recurring from last year and look at it, it was, I think it was 49% last year, gross margin on the lots, and this year it's like 54.5%. And then on the housing, it's 16.8% versus

14.2%. What was causing it, was it just the mix; or was it because of price, or what's going on?

CRAIG LAURIE:

This is Craig. Those are in average across the two countries. So, you end up there's a mix between the two countries to some extent. This quarter versus last year would have had more of a Canadian component than it would have last year, and so that's part of the reason for the higher margin. But in particular, we did see an increased gross margin, in particular in Alberta. I think the Alberta one works out to be almost 60%, if you just look on the lot side, versus the overall average.

And then similar on the housing side. As Alan mentioned, you're seeing similar increase in the gross margin in Ontario and Alberta, and Ontario this quarter, on housing, accounted for a bigger percentage of the overall total than it has in past quarters.

STEFAN MYKYTIUK:

Okay. So if I understand you correctly, you are saying gross margins are up in both Alberta and Ontario, and they were a bigger part of the mix.

CRAIG LAURIE:

Yes.

STEFAN MYKYTIUK:

Okay. And, I guess as we look through the rest of the year, you'll get a little more from the U.S., but it still seems like you're going to be dominated, the business, obviously, is dominated by Canada. So should we expect that for the year, overall, we are going to see gross margin improvement on both the lots and the housing?

ALAN NORRIS:

The backlog that we've got in Canada is a healthy margin at this point. And the backlog even that we have, we've got pretty good backlog, even for instance, in D.C. and San Diego at this point, versus where we think we're going to be for the whole year. So, some of this stuff is getting locked in at this point in time. So I would say that we'll see some marginal improvement in the U.S., and definitely a bit more improvement. And again, as Craig said, because of the increased volume we think we're going to see in Alberta and Ontario, the mix will be even heavier, because our Ontario operations, we anticipate doing more houses this year, and that will obviously weight it again, just because of the weighting between the two countries.

STEFAN MYKYTIUK:

Okay. So, I kind of look at the guidance you gave. You got, I think you are telling us, a 20% increase in lots, lot sales, and on the housing side, I think it's also 20-percent-plus increase on the housing volumes?

ALAN NORRIS:

Yes, Ontario could be the big factor in that one, with some slight increase in Alberta, that's correct.

STEFAN MYKYTIUK:

Okay. And so you've got 20-percent-plus increase in volumes, we've got better gross margins. Is SG&A going to be up -- it wasn't up that much in the first quarter. Should we expect kind of low single-digit growth in SG&A for the year?

CRAIG LAURIE:

This is Craig. You'll see the "S" part of it, the selling costs, obviously, if the volume is higher, be up. The "G" part of it, we wouldn't actually anticipate a material increase.

ALAN NORRIS:

Shouldn't be many changes in at all on the "G" side.

STEFAN MYKYTIUK:

How much of the "SG", of that $26 million is, or call it $100 million-plus for the year, how much of that is selling versus G&A?

CRAIG LAURIE:

In general, we've experienced the G&A being about $20 million of that $26 million to $27 million, and then selling costs were the $6 million to $7 million. They can range, in other quarter, obviously, in bigger sales quarters we've had $7 million to $9 million on selling costs.

STEFAN MYKYTIUK:

Okay. All right. Thanks very much.

ALAN NORRIS:

Thanks.

OPERATOR:

The next question comes from Jonathan Jacobs, private investor. Please go ahead.

JONATHAN JACOBS:

Hi. You had mentioned, you had spoken about taking out the non-recurring revenue for last year. Is, this was the change of business practice in Alberta; is that correct?

ALAN NORRIS:

Yes.

JONATHAN JACOBS:

Does that mean that you no longer sell under that method?

CRAIG LAURIE:

What I was going to say, John, is if you go to page five of the supplemental, we did break out by quarter for what the non-recurring was last year, so they know what to remove. The total is $50 million for the quarter. What it was was that we did change business practice, and when title was transferred, and that was really the one-time event that occurred at the time of the merger, and that's the nature of why we're calling it non-recurring.

JONATHAN JACOBS:

Okay, but, so you still use that revenue recognition practice now, is that correct?

CRAIG LAURIE:

Yes. It's been consistent revenue recognition practice. What changed was, let's go back, so, previously, when we sold lots in Alberta, we transferred title, not when we first sold it to the homebuilder, we transferred title when we sold it to the ultimate homebuyer. And so, what ended up happening under U.S. GAAP is you couldn't recognize that revenue until the actual title transferred on that second stage. We changed business practice at the time of the merger, where we now transfer title at the time that it goes to the builder. And so what ended up happening in 2011 was almost a double-up, for lack of a better word, with that change of business practice. Now, moving forward, ever since the first quarter of last year it's been a consistent practice and will be going forward, and it's been a consistent revenue recognition. You just had this kind of double-up that occurred in the first, really, three, four quarters of last year.

ALAN NORRIS:

It was really just to catch up on the equity side.

JONATHAN JACOBS:

Okay, I get it. Can you tell me what the vendor take-back financing component of real estate receivables is this quarter?

ALAN NORRIS:

Vendor take-back on the receivables side?

JONATHAN JACOBS:

Yes. It's a number that you used to put out in your quarterlies.

CRAIG LAURIE:

Yes so we're working to publish the quarterly at the end of this week. I can tell you the number if you give me a moment.

ALAN NORRIS:

This is trade lot receivables?

CRAIG LAURIE:

I don't have that. We collected a number of them from the end of the year. But we will be publishing it this week.

JONATHAN JACOBS:

Okay. I will check that out. And then, could you just comment a little bit, lastly, on liquidity and credit availability?

CRAIG LAURIE:

Sure. So, I think our liquidity is obviously strong. We obviously have the cash flow from operations, which is a material amount every year, and in addition to that, we have these borrowing-based bank lines in Canada, and then we also have the loan from Brookfield Asset

Management. So at the end of the quarter, on the Canadian side, there was availability of about $124 million, and on the Brookfield Asset Management line, it was about $36 million.

ALAN NORRIS:
In the U.S?

CRAIG LAURIE:
U.S.

JONATHAN JACOBS:
Okay, terrific. Thank you very much.

ALAN NORRIS:
Thank you.

OPERATOR:
The next question is from Frank Mayer of Vision Capital, a follow-up question. Please go ahead.

FRANK MAYER:
I forgot, by the way to congratulate you on the extra disclosure. It's a great move forward. The follow-up question; bulk lot sales, are they likely to occur at the end of the year in terms of timing, and in terms of location, are they going to be in Canada or the United States?

ALAN NORRIS:
The ones that we were talking about, there, there could be a number of partial sales that we refer to, Frank, which would be a fair number of them in Canada, which would relate to commercial and some multi-partials. But we do have some bulk residential lot sales which we are planning, some in Southern California, and some out in Washington D.C., partial sales, so a little bit of a mixed bag. It was just too difficult to try and explain every single one of them, so

I would say that the multi-family partials and some of the commercial is definitely up here in Canada, some of the bulk single-family lot sales would primarily be in the U.S.

FRANK MAYER:

I see. Would these be to national builders that you referred to earlier?

ALAN NORRIS:

On the bulk single-family lot sales in the U.S., that probably would be the case, yes.

FRANK MAYER:

So in other words, these national homebuilders don't carry many lots on their balance sheet until they're coming to people like you to supply their needs in the future, is that correct?

ALAN NORRIS:

Yes, that's the idea.

FRANK MAYER:

Okay. Very good. Thank you.

ALAN NORRIS:

Thanks, Frank.

OPERATOR:

There are no more questions at this time. I will now turn the call back over to Alan Norris for closing remarks.

ALAN NORRIS:

Thanks, Operator. Thank you very much, everyone. I much appreciate your time and interest in our Company, and I look forward to talking to you next quarter, or before. So thank you very much, indeed.

OPERATOR:

Ladies and gentlemen, this concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.