

Brookfield Residential Properties, Inc.

2014 Annual General Meeting of Shareholders

Webcast Transcript

Date: Thursday, May 1, 2014

Time: 11:00 AM ET

Speakers: **Robert L. Stelzl**
Chairman

Alan Norris
President & Chief Executive Officer

ROBERT L. STELZL:

Good morning, ladies and gentlemen. It is now 11:00 a.m. and time to begin the Annual Meeting of Shareholders of Brookfield Residential Properties Incorporated. My name is Robert Stelzl and as Chair of the Corporation, it is my pleasure to chair today's meeting. On behalf of the Board and my colleagues, I would like to extend a warm welcome to everyone here today, including those joining us through our webcast.

I will now call the meeting to order and would ask CST Trust Company by its representative Tony Tacanya to act as a scrutineer. I will also ask Shane Pearson, our Executive Vice President and Corporate Counsel, to act as Secretary of today's meeting. It is now my pleasure to introduce my colleagues who will be participating in today's meeting. On my right, Alan Norris, our President and Chief Executive Officer, and next to him, Craig Laurie, our Executive Vice President and Chief Financial Officer.

As outlined in the Management Information Circular, there are four items of business to be conducted today. First, to receive the Company's Annual Report to Shareholders, including the consolidated financial statements of the Company for the fiscal year ended December 31st, 2013, and the external auditor's report thereon. Second, to elect the Company's Directors who will serve until the end of our next Annual Meeting of Shareholders. Third, to appoint the Company's external auditor and authorize the Directors to set its remuneration. Fourth, to consider an Advisory Resolution on the Corporation's approach to Executive compensation.

To expedite the formal part of today's meeting, I have asked certain shareholders to move, and in some cases second, various resolutions. Although this procedure will assist in the handling of the formal matters, it is not intended to discourage any shareholder from speaking in reference to any resolution after it has been proposed and seconded.

I am advised that the notice calling this meeting and the Management Information Circular were sent to voting shareholders in accordance with all applicable requirements. I have asked Shane Pearson to keep a copy of the notice and proof of mailing with the minutes of this meeting.

The minutes of last year's Annual and Special Meeting of the Company's Shareholder—Shareholders, held on May 2nd, 2013, are also available should any shareholder wish to review them. Based upon the Scrutineer's preliminary report on attendance, the Secretary has confirmed that there is a quorum present. I therefore declare the meeting properly constituted for the transaction of the business for which it has been called.

Turning to the first item of business, I will now table the Company's 2013 Annual Report to Shareholders which includes the 2013 consolidated financial statements together with the external auditor's report. Copies of our Annual Report have been mailed to our shareholders who so requested and are also available here today. Here's our report.

The second item of business at our meeting today is the election of the Company's Directors. Eight proposed nominees for election by holders of the Company's common shares are: Bruce Lehman, Patricia Newson, Alan Norris, Allan Olson, Timothy Price, David Sherman, Michael Young, and myself, Bob Stelzl. All eight of the proposed nominees were elected at our last Annual Meeting in May 2013 and are standing for re-election today. Additional information on the Director nominees is set out in our Management Information Circular which was mailed to shareholders along with the notice of this meeting.

The meeting is now open to receive nominations for the election of the proposed Directors.

GREG RAMSAY:

Mr. Chairman, my name is Greg Ramsay. I nominate for election as Directors the eight nominees named in the Company's Management Information Circular dated March 27th, 2014.

ROBERT L. STELZL:

Thank you, Greg. Are there any further nominations? If not, I declare the nominations closed. Will someone now please move a resolution for the election of the nominated Directors?

THOMAS LUI:

Mr. Chairman, my name is Thomas Lui. I move that the eight nominees named in the Company's Management Information Circular dated March 27th, 2014, be elected as Directors of the Company until the end of the next Annual Meeting of Shareholders.

ROBERT L. STELZL:

Thank you, Thomas. May I have a seconder, please?

GREG RAMSAY:

Mr. Chairman, I second the motion.

ROBERT L. STELZL:

Thank you, Greg. As Management holds proxies to withhold votes for a minimal number of shares relating to this motion, I propose to conduct the vote on this motion by a show of hands unless someone who is entitled to vote requires a vote by ballot. Would anyone like a ballot? If not, I will now call for the vote on the motion by a show of hands. All those in favour? Withhold? Thank you.

I declare the motion carried and declare that those eight nominated Directors who have been duly elected to serve as Directors of the Company until the end of the next Annual Meeting of Shareholders.

Ladies and gentlemen, our Directors are here with us today and I hope you will have an opportunity to meet and talk with them after the meeting.

The third item of formal business today is the appointment of the Corporation's external auditor and authorizing the Directors to set its remuneration. As stated in the Management Information Circular, the Audit Committee of your Board of Directors has recommended to the shareholders that Deloitte LLP be reappointed as the Company's external auditor. Will someone now please move a resolution for the appointment of the external auditor?

THOMAS LUI:

Mr. Chairman, I move that Deloitte LLP be appointed the external auditor of the Company until the end of the next Annual Meeting of Shareholders and that the Directors be authorized to set its remuneration.

ROBERT L. STELZL:

Thank you, Thomas. May I have a seconder, please?

GREG RAMSAY:

Mr. Chairman, I second the motion.

ROBERT L. STELZL:

Thank you, Greg. Adoption of this motion requires the favourable vote of a majority of the votes cast at the meeting by the holders of the Company's common shares. Management has received proxies concerning this matter representing 86.5% of the Company's common shares. These proxies direct me to vote over 86% of the common shares in favour of the resolution. As Management holds proxies to withhold votes for a minimal number of shares relating to this motion, I propose to conduct the vote on this motion by a show of hands unless someone who is entitled to vote requires a vote by ballot. Would anyone like a ballot? Thank you. If not, I will now call for the vote on the motion by a show of hands. All those in favour? Thank you. Opposed? Thank you.

I declare the motion carried.

The last item of business today is the approval of the Advisory Resolution on the Company's approach to Executive compensation, which is described in the Management Information Circular. The Company has adopted an advisory resolution at this meeting as part of its ongoing efforts to both meet its objectives and ensure a high level of shareholder engagement. For the advisory resolution to be effective, the favourable vote of a majority of the votes cast at the meeting by the shareholders—by the common shareholders is required. Because this is an advisory vote, the results will not be binding upon the Board, however the Board and the Management Resources and Compensation Committee

will take into account the results of the vote, as appropriate, when considering future compensation policies, procedures and decisions.

It is now in order for someone to move this resolution.

GREG RAMSAY

Mr. Chairman, I move that the advisory resolution accepting the approach to Executive compensation described in the Company's Management Information Circular dated March 27th, 2014, be approved.

ROBERT L. STELZL:

Thank you, Greg. May I have a seconder, please?

THOMAS LOUEY:

Mr. Chairman, I second the motion.

ROBERT L. STELZL:

Thank you, Thomas. Adoption of this motion requires the favourable vote of a majority of the votes cast at the meeting by the holders of the Company's common shares. Management has received proxies concerning this matter representing 86.4% of the Company's common shares. These proxies direct me to vote 84.1% of the common shares in favour of the resolution. As Management holds proxies to vote a minimal number of shares against this motion, I propose to conduct the vote on this motion by a show of hands unless someone who is entitled to vote requires a vote by ballot. Would anyone like a ballot? If not, I will now call for the vote on the motion by a show of hands. All those in favour? Against? Thank you.

I declare the motion carried.

Ladies and gentlemen, that concludes the formal part of today's meeting. I will now turn the meeting over to Alan Norris and Craig Laurie for the Company's Management Presentation. At the end of the Management Presentation, we will welcome any questions or comments you may have. Please note

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 actual future results may differ materially from such forward-looking statements. For further information on known risk factors and assumptions, I would encourage you to review our Management's Discussion and Analysis in our Annual Report, and our Annual Information Form, both of which are available on our website. Alan?

ALAN NORRIS:

Thanks, Bob. Good morning and thank you for joining us. I'm going to begin today with a brief overview of the Company and then some of our major achievements from the past year, and we'll then review our first quarter 2014 results which we released earlier today, and wrap up with our outlook for the balance of the year.

Brookfield Residential is a leading North American land developer and homebuilder and a company with a great story and a very strong future. With over \$3 billion in assets and approximately 110,000 single-family lots and lot equivalents under our control, we currently rank as the fifth largest residential platform in North America by land and housing assets. We're also nicely diversified with operations in 11 major markets. In Canada, this includes Calgary, Edmonton and the Greater Toronto Area, and in the U.S., we're active in Austin, Denver, Phoenix, Washington DC, the San Francisco Bay Area, Los Angeles, San Diego and Sacramento.

Looking more closely at our land and housing holdings, geographically, our assets are divided about 50/50 between our Canadian and U.S. markets. This means we benefit from the ongoing stability of the Canadian market while also participating in the continued housing market recovery in the U.S. where we have seen a constrained supply of lots and consumer demand culminate in house and land price appreciation.

We're also exceptionally well positioned in terms of our asset mix, with 110,000 lots controlled. We have a great supply of geographically diversified land which gives us the flexibility to focus our

development efforts where we can generate the best returns. We're not boxed in by a limited land resource or by too few markets.

Our core business is bringing land through entitlements and our strategy is sharply focused on creating value at every stage of the land development cycle. The process starts when we acquire land in growth corridors and dynamic markets where we see long-range opportunities for master planned communities. We add the next layer of value by entitling the land. This involves securing the various approvals needed to create communities. It's a complex, multi-year process but it adds considerable value. Once we're ready to develop a particular community, we create fully-serviced lots from the entitled land. This involves investing in the utilities, roads and other infrastructure which further increase the value of the land. Only after we've taken these steps do we monetize the asset. We do that by either selling the lot or—to a third-party homebuilder, or by building homes ourselves and selling to a home buyer. It's a slow approach; it requires a lot of patience, a strong balance sheet and discipline, but over time, this disciplined approach delivers long-term, sustainable value to our investors.

It was definitely a rewarding year for Brookfield Residential in 2013 as we capitalized on recovering markets in the U.S. While total revenue was fairly stable year-over-year, our profitability increased sharply. Our results reflect a significant increase in home closings as we brought new communities to market and took advantage of higher house prices in many of our markets and our backlog continued to grow.

Net income increased to \$142 million or \$1.21 per diluted share from \$93 million or \$0.91 per diluted share in 2012. Additionally, we strengthened our capital position with the issuance of 500 million of senior unsecured notes. Together with a new unsecured U.S. \$250 million revolving credit facility, we improved our overall liquidity levels to approximately \$1 billion, including \$320 million of cash on-hand. Our net debt-to-cap rate was 43% at the end of the year. Overall, a very positive year and our strong results have continued in the first quarter of 2014.

We have a quarterly conference call scheduled for tomorrow morning at 11:00 a.m. Eastern to talk about our results in more detail. However, here are some highlights for the first quarter of 2014.

In California, we had a successful opening in February at Playa Vista, our mixed-use development in Los Angeles where we released our first phase of homes. We also completed a 22,700 square foot retail transaction for a small gain during the quarter. Just out of interest, it was the—the average pricing of our homes released was approximately \$1.9 million that we sold in the first quarter for our own housing operation.

In Austin, Texas we gained final approval to begin construction of our second master-planned community, Addison, and preliminary approval for the first phase of Easton Park; our third master-planned community in the Texas market. We will realize lot sales in Addison and Easton Park later this year and in early 2015.

In Canada, we completed the sale of a Phase I retail project in our Seton mixed-use development in Calgary, generating a gain of \$32 million.

Other highlights of the quarter included opening up the Arbors project in Aurora, north of Toronto, netting over 100 contracts in the first six weeks of sales.

Financial highlights for the first quarter include net income increased to \$25 million or \$0.21 per diluted share from \$4 million or \$0.04 per diluted share in the first quarter of 2013. Revenue increased to 22% to \$208 million. Our home closings increased to 346 units, up 18% from the first quarter of 2013. Housing gross margin increased to 23%, up 4% from 19% compared to the first quarter of 2013. Our backlog of housing units increased 3% to 1,249 units while backlog value increased 17% to \$626 million compared to March 31, 2013.

Our active housing communities increased to 53, up from 37 in the first quarter of 2013 and 47 at the end of 2013.

One topic we just wanted to raise today is our focus on mixed-use projects. Brookfield Residential is very proud to be involved in number of major North American mixed-use projects, including Seton in Calgary, Eastmark in Phoenix and Playa Vista in California.

To give an example, the Seton project in Calgary, is located in one of the fastest growing corridors of Calgary and our vision is to create a true urban district out of the downtown. The master plan includes higher density development and aligning all of the necessary elements and setting the stage for smart growth in the future. The project is 365 acres in size and will include over 2.5 million square feet of office and retail space, a 16-acre regional park, public library, schools, 1,300 multi-family residences, an active main street, a new South Health Campus, which is currently built and a hotel and recreation centre, all serviced by light rail transit in the future. Seton will accommodate a future trade area of over 100,000 people and is in close proximity to four of our residential and master-planned communities.

As we look ahead to the balance of 2014, we're very encouraged by what we see. While there's no question a number of areas in the U.S. have experienced some slowdown in the early spring selling season in comparison to the extremely strong season last year, we have not experienced a profound impact on our operations as our outlook for the balance of 2014 remains positive. The U.S. housing market continues to recover, albeit at different rates of recovery for each region. National and regional builders are working hard to source enough lot supply to meet demand, and land sales and prices continue to improve based on this demand.

In Canada, we expect the market will remain stable, particularly in our regions. Alberta continues to benefit from a strong, energy-focused economy, job creation and in-migration, and we continue to see steady demand in Ontario, particularly in the single-family home and low-rise markets that we focus on.

In addition, subsequent to the first quarter of 2014, we announced a normal course issuer bid for up to 2 million common shares. We will fund the purchases through our available cash. It is our belief that

the purchase of our common shares is a prudent investment at times when the market price of our shares may not fully reflect the underlying value of our business and our future business prospects.

We believe Brookfield Residential is one of the best-positioned land and housing companies in North America, with a geographically diversified supply of land. We have a focused and proven strategy that helps us maximize the value of our land holdings and an exceptional team of people who know their markets and how to execute on our strategy.

This month we will be at several investor conferences which are posted on our website and we are also planning our first Investor Day to be held in Playa Vista, California, this November.

We extend our sincere thanks to all our employees, building trade partners, consulting partners and lenders. We especially thank you, our supportive shareholders, for your confidence and support in Brookfield Residential. We are committed to continuing to reward your investment in us in the years ahead.

Thank you for your attendance today, both those who are here in person and those who have joined via our webcast. We greatly appreciate your interest.

ROBERT L. STELZL:

Ladies and gentlemen, if there are no further questions or comments, I would like to thank you for your participation today. That brings us to the end of today's meeting, unless there is any other business.

Since there is no other business, I declare the meeting terminated.

Thank you.