Brookfield Residential Properties, Inc.

2014 First Quarter Results

Conference Call Transcript

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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.

ALAN NORRIS:

Thank you very much. Good morning, ladies and gentlemen, and thank you for joining us today for Brookfield Residential's 2014 First Quarter Conference Call. With me today is Craig Laurie, our Chief Financial Officer.

I would, at this time, remind you that in responding to questions and in talking about new initiatives and our financial and operating performance, we will make forward-looking statements. These statements are subject to known and unknown risks and future results may differ materially. For more information on our company, please also visit our website.

Our results for the first quarter improved over the same period last year as we benefited from increased home closings and higher average house prices, as well as, gains on the sale of commercial assets and our mixed-use developments in Playa Vista, California, and Seton in Calgary, Alberta.

For the three months ended March 31st, 2014, our net income increased substantially to $25 million or $0.21 per diluted share from $4 million or $0.04 per diluted share in the same period in 2013. Our Canadian markets of Alberta and Ontario continue to perform well. Our results reflect the measured sales pace with a higher margin for our land sales combined with continued growth in our housing operations. We have a strong market share within the energy-focused Alberta market, and in Ontario, we are well-positioned in the low-rise market outside of the downtown Toronto core.

As we report our overall results in U.S. dollars, at times we do encounter some variability in our results from our Canadian operations through the translation process and the movement in the relative currency rates over the comparative periods.

In the U.S., the recovery of the market continues, albeit at a slower pace than 2013. We continue to have an environment of constrained lot supply which has resulted in home and land price appreciation in many of our markets. Overall in the homebuilding industry, many areas of the U.S. have experienced some slowdown in the early spring selling season in comparison to a very strong 2013.

While we have seen year-over-year home order growth when in Canada and while our U.S. orders are down, we believe we are still tracking for the year based on our new communities recently added are about to come onstream, and normal absorption assumptions going forward.

Other highlights of the quarter included the successful opening of Playa Vista with all three single-family builders opening. We also monetized a 22,700 square foot commercial retail asset in this mixed-use development for a small gain.

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

In Canada, we opened a community called The Arbors in Aurora, just north of Toronto, Ontario, on February 13th, achieving approximately 100 signed sales contracts in the first six weeks of sales.

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

Our land revenue may vary significantly from period-to-period due to the nature and timing of land sales. Revenues are also affected by local product mix and market conditions which have an impact on the selling price per lot. Based on current market conditions, we still anticipate that income before income taxes for 2014 will be measurably higher than in 2013. Also, yesterday, we announced a normal course issuer bid, or our share buyback program as others may refer to it as, for up to two million common shares. We will fund the purchased through our available cash and believe that these purchases are a prudent investment at times when the market price of our common shares may not truly reflect the underlying value of our business and our future business prospects.

I'm going to pass it over to Craig who will review the financials.

CRAIG LAURIE:

Thank you, Alan, and good morning everyone. Our results in the first quarter improved over the same period last year. For the three months ended March 31st, 2014, net income attributable to Brookfield Residential was $25 million or $0.21 per share, compared to $4 million or $0.04 per share for the same period in 2013. The increase of $21 million was the result of an $8 million increase in gross margin, primarily from higher home closings, combined with a $33 million pre-tax gain on commercial assets held for sale, and a $1 million increase in equity earnings from unconsolidated entities. This was partially offset by higher sales and marketing costs of $1 million; higher general administrative expense of $5 million; change in the fair value of equity swap contracts and share-based compensation expense of $3 million; an increase in interest expense of $5 million, and an increase in non-controlling interest and other interest in consolidate subsidiaries of $2 million, and an increase in income tax expense of $5 million.

Total land revenue was $44 million for the three months ended March 31st, 2014, a decrease of $8 million when compared to the same period in 2013. Land gross margin was $21 million, a $7 million dollar decrease compared to the three months ended March 31st, 2013. This was due to 30 fewer lots – single-family lot sales – partially offset by an increase in multi-family, industrial and commercial acre sales, and raw and partially-finished acre sales.

When we look at our operating segments in the first three months, land revenue in Canada was $38 million, a decrease of $10 million when compared to the same period in the prior year. This decrease was a result of a mix of land sales where 87 fewer single-family lots were sold but were partially offset by additional multi-family, industrial and commercial acre parcel sales and two additional raw and partially-finished parcel sales. Land gross margin decreased $9 million when compared to 2013 as a result of lower single-family lot sales in 2014, partially offset by the higher average lot selling price and a mix of land sold.

In the central and eastern U.S., we have experienced continued increased activity as revenue and gross margin increased by $2 million, respectively. This was due to an increase of 57 single-family lots sold, primarily in our Denver market, partially offset by a decrease in average lot selling price related to the mix of lots sold.

In California, there were no lot—land sales or three—for the three months ended March 31st, 2014 or in the same period in 2013.

In terms of our housing operation, housing revenue was $164 million for the three months ended March 31st, 2014, compared to $119 million for the same period in 2013. Gross margin increased $15 million as a result of an 18% increase in home closings and a 17% increase in the average selling price when compared to the same period in 2013. Gross margin percentage increased to 23% for the three months ended March 31st, 2014, compared to 19% when compared to the same period in 2013.

Looking at our operating segments, the Canadian market has shown a steady increase in sales with its backlog units up 8% year-over-year. Housing revenue in Canada for the three months ended March 31st, 2014 increased $17 million and gross margin increased $6 million when compared to the same period in 2013. This resulted from a 22% increase in home closings and a 4% increase in the average home selling price for the three months ended March 31st, 2014, compared to the same period in 2013. The increase in the average home selling was attributable to product mix, particularly due to Ontario having a higher proportionate share of the increase in total home closings as our homes in Ontario have a slightly higher average selling price.

In California, net new homeowners decreased by 44 units, however we saw a 13% increase in home closings during the three months ended March 31st, 2014, when compared to the same period in 2013. Overall, our California segment had the largest improvement in housing revenue with $68 million in the first quarter, an increase of $26 million when compared to the same period in 2013. This is due to nine additional home closings and a 42% increase in an average home selling price compared to the prior year period. Gross margin increased $9 million as a result of the increase in the average home selling price, which was driven by product mix of higher priced home closed in some of our San Francisco Bay Area and Southern California communities.

In the central and eastern U.S. markets, housing revenue increased $2 million as a result of three additional home closings and increase in the average home selling price. In Denver, we had 13 home closings for the three months ended March 31st, 2014, compared to no closings in the same period in 2013. In Washington, due to inclement weather, we saw a decrease in activity. Housing gross margin remained flat when compared to the same period in 2013 due to product mix.

Moving to our balance sheet as at March 31st, 2014, our assets totalled $3.2 billion. Our land and housing inventory and investments in unconsolidated entities are our most significant asset with a combined book value at $2.7 billion or approximately 83% of our total assets. Our land and housing assets include land under development and land held for development, finished lots ready for construction, homes completed and under-construction and model homes. In the first quarter, the increase in our land and housing assets is attributable to acquisitions of $84 million, development activity and a stronger backlog.

In terms of upcoming Investor Events, this month we will be a the following conferences in New York: the Wells Fargo 2014 Industrial and Construction Conference; the JPMorgan Homebuilding and Building Products Conference; and the Credit Suisse 2014 Regional Real Estate and Building Products Conference. We're also planning our first Investor Day in Playa Vista, California on November 19th.

We'd like to thank you for joining us in the quarter-end conference call and I'll now turn the call back to the Operator who will moderate questions.

Operator:
Thank you. The first question is from Dan Oppenheim of Credit Suisse. Please go ahead.

DAN OPPENHEIM:

Thanks very much. I was just wondering if you wanted to talk in terms of just what you're seeing given some of your involvement with the land development side and the homebuilding; how you're now seeing the overall environment in terms of demand from the other builders. If we look at some of the land sales during the quarter which, at this level, and just thinking about sort of over the course of this year, what you're seeing in terms of demand from builders for lots in the communities and what your expectation would be as we sort of work through the year in terms of just the regionally in terms of the land sales and such.

ALAN NORRIS:

Morning, Dan. It's Alan here. I think it varies a little bit by region. I mean I think we have, as you know, we have a number of communities that we are entering into, opening up this year in, say, Southern California. We've have a fairly strong interest and we have—we're in the process of negotiating sort of final agreements with most of the builders and all we have to do is produce the lots in time by the end of the year. So, we had good interest from a number of builders in our communities in Southern Cal; Northern Cal is still obviously—it's going still fairly solid. Definitely there's been some softening in the Phoenix market, without question. Some builders are doing well in that market and others are struggling a bit. So, I would say that market is definitely—has definitely softened.

In Calgary, in the Canadian markets, we have no real issues at all; the biggest issue obviously, is just some constraint on supply we're seeing from builders. We're actually—with prices up quite significantly in the Calgary market, for instance, because of the constrained supply environment and so we've got a long laundry list of people wanting to buy lots, to be quite honest, because of that situation. So, all in all, I think we're generally tracking.

No question some of the areas of the U.S. are slightly more sluggish spring selling seasons. We'll see if today's jobs numbers sort of revitalize it a little bit and give us a bit more optimism to the market place and kicks people out of the—kicks the kids out of the basement. But those types of things, I think we're a little—we're generally feeling okay, albeit it's more tepid than last year though. Last year, you've got to remember, was very, very strong in that first quarter.

DAN OPPENHEIM:

Great. Thanks very much.

ALAN NORRIS:

Thanks.

OPERATOR:

The next question is from Adam Rudiger of Wells Fargo Securities. Please go ahead.

ADAM RUDIGER:

Hi, good morning. Alan, I think last quarter you talked about your—the size of the opportunity for the U.S. operations. You were still talking about it potentially matching Canada in 2015 and you'd said at the time, "2014 should be a linear progression to 2015." I was wondering of that kind of guidance or thought was still intact and, if not, what the current status of those expectations is.

ALAN NORRIS:

Yes, Adam. Yes, I think we're still on track. I don't—the mix might be a little bit different this year, as I say, just because we are experiencing some of the markets slightly higher margins and we might, as I say in the Calgary context, slow down the lot sales just a touch just because we are dealing with a constrained supply situation because we are experiencing much higher margins. So, we still think that we are—we might be off a little bit on some the unit stuff, but still make it up on the margin and on the income side. So, we believe we're still on track on that linear progression between '13, going into '14 on the midpoint, and then '15 on an equal basis with Canada and the U.S. So, it's early days for the year but, generally speaking, we think we've got no reason to believe we're not on track.

ADAM RUDIGER:

Okay, and then when the U.S. growth, as you think about that income growing, you know, to match Canada in 2015, how much is it—should we expect, you know, significant or more community openings from the housing side or will most of that income generation be from land sales? I'm just trying to get a sense of what your expectation is for the size of the U.S. homebuilding operations can or may be.

ALAN NORRIS:

Yes, I mean I think we're gradually trying to get to more home sales in each of the different regions but, I mean, we're not going to be anywhere close to our—what we think our normalized level should be, even by the end of '15. To be quite honest, we think we could be doing 400 or 500 in each of the regions where we do homebuilding operations, but it's really just an ongoing progression of our normal business, to be quite honest, but I don't see us getting to our full potential in '15 by any stretch. But we do believe we'll be getting – we should be – we're hopeful we're equal to where Canada has been over the last several years.

ADAM RUDIGER:

Okay and then just one question on the buyback. How much of that was a function of maybe reduced or slower demand on the land side? So, looking for more kind of balanced capital approach to mute the cyclicality, or how much of it was just because you really think the shares were undervalued? I'm just wanting to look…

ALAN NORRIS:

Yes. No, that's a great question. I mean I think, you know, we still see some opportunities out there; don't get me wrong. It's not just that the market had dried up on the land side but to be quite honest, looking at our share price, which as little as two days ago was sitting just below $20; I mean, buying back some shares offers a tremendous return on investment, in our opinion, buying our own land at such a discount. So, it was really just a balanced capital approach with respect to still looking at, you know, the appropriate types of deals, if they meet our return criteria, but this one in our opinion as management was a very easy one because of our knowledge of the assets we own and the pricing that the market has placed on our assets.

ADAM RUDIGER:

Okay. Thanks for taking my questions.

ALAN NORRIS:

Thank you.

OPERATOR:

The next question is from Will Randow of Citigroup. Please go ahead.

WILL RANDOW:

Hey, good morning and thanks for taking my question.

ALAN NORRIS:

Morning, Will.

WILL RANDOW:

Alan, could you provide—you did provide some incremental colour on the central segment. I was just kind of curious where you're at from a community count perspective and when those margins really start to inflect, in regards to like in Austin, for example.

ALAN NORRIS:

Craig's got—well, I can speak to Austin. I mean Austin on the community count where we've got two new communities coming on this year. That will just get us up to three there, Will. As you know, we don't have anything—that's just on the land side for Austin, at this point. Albeit, we are looking to enter the housing market, as we've stated in past calls. With respect to the rest of the community count, I don't have the numbers; Craig's go it right here, I think.

CRAIG LAURIE:

I don't have by the region but we actually had guided that we would expect, including JVs, to go to 57; we're currently at 53, so that's a net four. I don't have the specifics but sort of going from memory, I think it was the one or two that Alan mentioned in central and eastern and then I think the remainder were really in California.

ALAN NORRIS:

Yes.

CRAIG LAURIE:

I'm not sure there were any in Canada.

WILL RANDOW:

Just the second part of that…

CRAIG LAURIE:

Right.

WILL RANDOW:

When do you think the margins will really start to pick up there, and what drives it?

ALAN NORRIS:

In—on the land side or the housing side, Will?

WILL RANDOW:

Kind of both. I'm just kind of curious from an overall margin perspective.

ALAN NORRIS:

Yes, I mean I think if you notice where we are through —I mean, on the housing side for Q1, we're up; we're at 23% on the gross overall, which is up 4 points from last year, from 19, shall we say, to 23. I mean, we're looking at our backlog and we're fairly comfortable that we can be sort of reasonably consistent though the balance of the year. Obviously as—I mean we know the inherent leverage on the land side; we know that house prices are moving up just not obviously nearly as rapidly as last year but we still think even, as you and I have talked about, I mean even a 3% increase in housing could end up being a 10% increase from a lot perspective as long as all the other costs remain the same.

So, I think our guidance with respect to lot margins, we're in that north of 50% in Calgary and north of 40% to 50% in Edmonton, and we are still maintaining 25% to 35%, we believe, on average between eastern and central and also in California. So, we do have that variable throughout the regions. Some of the ones that we'll be opening in this year might be a little bit higher but on an average that we would still expect them to be in that sort of range.

WILL RANDOW:
Then just one follow-up on the normal course bid. I guess in terms of you're buying that stock in the open market but is a block with Brookfield Asset Management out of the question, given how thin the float already is?

CRAIG LAURIE:
It's Craig, Will. So, obviously we would engage a broker and they would be buying a normal course through the market. We wouldn't really—we wouldn't know who the sellers are. We could not do—would not do a direct purchase with BAM, but, you know, we should say we've obviously—there's a number of rules and laws surrounding a normal course issuer bid, as outlined. It's related – in both cases – it's really you're limited to the 25% of the volume weighted—volume—the average volume. So in our case, based on current volumes, that's you're sort of limited to around 30,000 in shares per day.

ALAN NORRIS:
Will, just to add one more thing with respect to from a float point of view, I mean, almost this is sort of the indirect question you were asking. I mean we are well aware that—I mean we have obviously stated in past calls that we want to try and enhance the public float and enhance the liquidity for all

shareholders. We just felt that we needed to step up, and just based on my earlier comment, that from an actual return point of view, so that we—that it's such an oversized return just for buying our own land back, shall we say. Albeit, we're not trying to—I mean $2 million is sort of a tip to when to just to put—show that support and that belief in our sales and our stock, as opposed to having too much of a negative impact on the public float.

WILL RANDOW:
Yes, totally understand. Congrats on the quarter and thanks for the time, guys.

ALAN NORRIS:
Thanks Will. Cheers.

OPERATOR:
As a reminder, to ask a question, please press star, one. The next question is from Michael Goldberg of Desjardins Securities. Please go ahead.

MICHAEL GOLDBERG:
Thank you. Good morning.

ALAN NORRIS:
Good morning.

MICHAEL GOLDBERG:
First of all, how much do you figure that the difference in your common equity would be if you were reporting under IFRS rather than US GAAP?

CRAIG LAURIE:
Hey Michael, this is Craig. So the—in terms of the comparison between IFRS and U.S. GAAP, housing and land is considered inventory in both cases so there's no mark-to-market. So, on a material basis, there wouldn't be a big difference.

MICHAEL GOLDBERG:

Okay. All right. Separate topic: while a benchmark U.S. mortgage rate has increased significantly over the past year, the increase in monthly carry for the same dollar amount of mortgage has been more modest, yet the increase in mortgage rate is said to have held back the U.S. residential market. Do you think the impact has been largely limited to mortgage refi activity, or have higher mortgage rates and carry also affected new housing activity and lending?

ALAN NORRIS:

Yes. I mean it's Alan here, Michael. I—perhaps a little bit. I think there's been probably more impact a little bit on some of the FHA, you know, mortgage qualifications, the reduction on the levels region by region. So, I think it's taken a bit of a—it had a slight impact with respect to that, and the markets that had improved so quickly last year are probably the ones that have taken more of a breather right now. The ones that were a little bit more slow and steady are not having as, you know, as slow a spring selling season but also the other side of it is the areas where we're still getting great underlying support are those where the job creation has been the highest. I mean, obviously, the Bay Area and Austin are two prime examples of that, and so I think it's just a bit of a breathing room while people adjust to the new reality on some of the qualifying mortgage levels.

MICHAEL GOLDBERG:

Okay. My last question: how do you think higher interest rates may affect residential lot prices over time?

ALAN NORRIS:

No question, I mean, peoples buying—the ability to buy as we go forward will be impacted. I mean it's—I mean we're still very, very affordable at this point. I've stated in the past that I do believe that as rates get to – I hate to say normalized – I don't know what normalized is any more. But getting, you know—if they start to move up a little bit; I think people will be making choices with respect to the housing product that they are looking for. So, their choices previously might have been a certain sized house for a certain price and it may well be that that same price or a slightly lower price and slightly smaller house ends up being the reality. We just need to get that housing continuum re-established in the U.S. where we're moving people through from rental into first-time buying and into the housing ladder, as we typically would look at it. We still have a number of people still doubling up and we just have to re-establish that housing continuum; move people through the process which when things become a bit more normalized after the jobs are created, which we had some good numbers this morning, as early as that, I think we'll start to see that re-establishment. So, I'm comfortable that people will still make those choices but they'll be doing it for shelter reasons, not for any other reason.

MICHAEL GOLDBERG:

So, looking at the overall components, you know, if for a given monthly payment, as borrowing costs go up, you have servicing costs, building costs, taxes, et cetera. All being relatively fixed, does that mean that land becomes the biggest potential outlet for the impact of higher rates to be felt?

ALAN NORRIS:

Land typically, is the residual in most cases, market-by-market, without question. I mean construction costs in most markets are somewhat similar and other things like that, but I'm not as concerned. I mean, land is where you make a lot of money on those things, but you can also build, as I say, smaller product which addresses that and you can still residual. You just—the key thing is to make sure that you're developing land and lots to fit what that market is. That's the art of our business and so I'm not too concerned with respect to that, albeit will become more challenging. But I mean, bear in mind rental costs in most of the markets in the U.S. right now are the same as what that rolled up homeownership cost is that you were just referring to.

MICHAEL GOLDBERG:

Great. Thanks very much.

ALAN NORRIS:

Thank you.

OPERATOR:

The next question is from Robert Wetenhall of RBC Capital Markets. Please go ahead.

COLIN:

Good morning. This is Colin filling in for Bob. Thanks for taking my question. How should we think about the pace community count development and expectations for ASP performance in the U.S. and Canada?

ALAN NORRIS:

Which one? Sorry. Sorry, Colin. Repeat that again. I just missed it.

COLIN:

So, how should we think about the pace of community count development and expectations for ASP performance in the U.S. and Canada?

CRAIG LAURIE:

Yes, so this is Craig. I mean in terms of community count, as I mentioned, we would expect to see sort of a net four come on by the end of the year; that was our original guidance. So, we go up from the 53 we're at now to the 57. In terms of average sales price, as you said, it obviously is going to depend on the overall fall mix. Certainly we have seen an increase in our average sales price. Typically, if you look at our backlog, you will have seen that value have gone up fairly materially. A lot that certainly driven by you seeing it in both Canada/U.S. In the U.S., a lot of it is certainly you're seeing it in California, particularly in the North, and that's a combination of increased margin but also higher average sales price in those markets.

ALAN NORRIS:

I mean giving a quick example, I mean we—some of the homes that we sold, for instance, Colin, in Playa Vista when we just launched it in February there. The average pricing of the housing that we just released there was $1.9 million. So obviously, that takes the average up substantially and a lot of our product up in Northern California is obviously in that million dollar plus range, as well. So it's—the average ASP has gone up, most of it on product mix. It's tough to go apples-to-apples, you know, year-to-year, but for some of the lands that we have, that's the appropriate product to build on it. Albeit, we do try and go across the spectrum for different types of housing, but those lands are such good locations that it befits that type of house product.

COLIN:

Great. Thank you.

ALAN NORRIS:

Thank you.

OPERATOR:

Once again, to ask a question, please press star, one. The next question is from Rick Murray of Midwest Advisors. Please go ahead.

RICK MURRAY:

Hi. Good morning gentlemen.

ALAN NORRIS:

Morning.

RICK MURRAY:

Just a couple of quick questions and I apologize if you've already covered this, but ex the big commercial gain in the quarter, it looks like the results were about breakeven and down a bit from last year. I was just curious what—was this in line with your expectations, and if not, what drove that? Then the second question I had was, what was the driver of the big decline in margins on the land sales versus last year? Thanks.

ALAN NORRIS:

I'll deal with the first part, Rick. It's just we—year-over-year, I mean, we had—I mean a couple of small things. We had some gain recognitions on some jobs that closed out the first part of last year, which, I mean the first quarter is always a slower quarter, as you know, so things tend to be magnified somewhat that are not representative of the balance of the year in any years that we've been doing this. But the other thing, Canadian dollar moved down a bit over the course, you know, when you compare it with the previous year, so we do have some FX currency slight with respect to that when it moved down to probably $0.90/$0.91 through that quarter versus close to, a dollar I think it was, in the prior year quarter. So, there is some fluctuation with respect to that.

So, the second point was…

CRAIG LAURIE:

Yes, so this is Craig. In terms of the land gross margin, the percentage wasn't that material. Obviously, it went—overall we went from 54% to 48%. There was a pretty meaningful increase in central and eastern, and I'm reading off of Page 30 of the Corporate Profile, if you had it in front of you. Canada went from 60% down to 53% and that was really a combination of volume and some mix. As we've talked about before, there's a slightly a lower margin in—on our sales of lots in Edmonton. I think Alan talked about the sort of future of the lots.

ALAN NORRIS:

Yes, I mean I think when you look at—because of the variability on the different margins, I mean I—as I touched on earlier in the call, it's north of 50% in Calgary, north of 40% or 50% in Edmonton, and then most of the other regions are between 25% and 35%. So, obviously that—the blended weighted average comes out depending on where the lots are being sold in a particular quarter. So, I'm comfortable that those levels I am referring to are still consistent, if not actually increasing in some of the areas and so really, it just depends where we sell the lots in that particular quarter.

RICK MURRAY:

Okay. Thank you.

ALAN NORRIS:

Thank you.

OPERATOR:

The next question is from Will Randow of Citigroup. Please go ahead.

WILL RANDOW:

Hey, thanks for taking my follow-up. I was just curious, when I was looking in your Corporate Profile, I haven't seen necessarily the undiscounted cash flow update. Where does that stand? Has that moved at all in the last year or so?

CRAIG LAURIE:

Will, this is Craig. You know, as you know, we don't update that on a quarterly basis. We only update it annually. We did update it at the end of last year during our February call and it was at $5.5 billion.

WILL RANDOW:

Got it, okay. I was just curious because I didn't see it in there, but maybe I missed it. Thanks again guys.

CRAIG LAURIE:

Thanks, Will.

OPERATOR:

The next question is from Alex Avery of CIBC. Please go ahead.

ALEX AVERY:

Thank you. Alan, earlier in the call you mentioned, you know, I guess in the context of the U.S. operations reaching a level equal to Canada by 2015. You also mentioned the idea of a normalized level of business in the U.S. I was just wondering if you could put some parameters around that.

ALAN NORRIS:

Yes, morning Alex. Yes, I think I was just trying to give the context that even once we get to the level in 2015 where we think our U.S. operations will equal where we've been in Canada, up to this point, was that not to think that that was at full operating capacity. I still think we've got room to grow, just even within our existing stuff without really doing a whole bunch more. So, it wasn't to say if we thought we were going to be doing, say, 500 homes in each—most of our areas in the U.S. as a normalized level for each of the regions. What I'm suggesting is we're not going to be at those levels by the end of 2015, yet we will still be at Canadian levels approximating the Canadian profitability. That's all I was trying to say.

ALEX AVERY:

Okay, that's great. Thank you.

ALAN NORRIS:

Thanks, Alex.

OPERATOR:

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

ALAN NORRIS:

Thanks very much, Operator. Really appreciate everybody's interest and support on the call and we'll chat with many of you at the various conferences that Craig referred to earlier on, and obviously at our next quarterly call.

Thanks very much.

OPERATOR:

This concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.