Brookfield Residential

Brookfield Residential Properties Inc.

Q3 2022 Interim Report

Third Quarter 2022 Overview and Outlook

In the third quarter, the market provided greater uncertainty that has worsened consumer sentiment, leading to deferred buying decisions and higher cancellations on existing sales. As home ownership costs continue to increase as a result of higher home prices experienced in the past year, rising mortgage rates, inflation in consumer goods due to supply chain constraints and geopolitical risks are all affecting consumer confidence. While we adjust for a slower near-term housing market, we continue to be encouraged in the medium-term by several fundamentals including low supply of new and existing homes in many markets, a robust labor market, and the potential for cycle times and costs to moderate as new home starts decline.

Brookfield Residential's results for the third quarter of 2022 reflect the continued slowdown in home sales rates being seen across the industry in our Canadian and U.S. markets. We continued to execute on our backlog which saw gross margin improvements on the homes that benefited from the price appreciations experienced earlier in the year combined with consistent performance from our land operations. For the three months ended September 30, 2022, income before income taxes was $75 million, compared to $139 million in the same period of 2021. Included in the results were earnings of $25 million from our affiliate unconsolidated entities compared to earnings of $40 million in 2021. Adjusting for this, our adjusted income before income taxes relating to our residential and mixed-use operations was $50 million compared to $99 million in 2021.

Additional operating and financial highlights for the three months ended September 30, 2022 include:

- Closed 550 homes generating gross margin of 22%, an improvement from 19% when compared to the same period in 2021 as a result of a 20% increase in average home selling price to $670,000
- Net new home orders declined 39% compared to the same period in 2021 reflecting lower sales rates as well as a decline in active housing communities
- Backlog of 1,470 units with a value of $992 million
- Closed 211 single family lots, an increase of 11% when compared to Q3 2021, generated gross margins of 46% during the quarter

As we look forward to the remainder of the year, our focus remains on working with our existing homebuyers to execute on our backlog as well as to monitor and adapt to changing market conditions and a moderation in sales pace. The fourth quarter historically has been our most active period and we expect it to be the same this year with the execution of our housing backlog. In addition, subsequent to the end of the third quarter, the Company entered into a purchase and sale agreement to sell Fifth + Broadway with an anticipated closing before the end of 2022. Sales proceeds from the sale will be utilized to repay project-specific financings and a portion of the outstanding borrowings under the North American unsecured revolving credit facility.

BROOKFIELD RESIDENTIAL PROPERTIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This interim report, incorporated herein by reference, contains “forward-looking statements” within the meaning of applicable Canadian securities laws and United States ("U.S.") federal securities laws. Forward-looking statements can be identified by the words “may,” “believe,” “will,” “anticipate,” “expect,” “plan,” “intend,” “estimate,” “project,” “future,” and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters. Such statements are neither historical facts nor assurances of future performance. Instead, they reflect management’s current beliefs and are based on information currently available to management as of the date on which they are made. The forward-looking statements in this interim report may include, among others, statements with respect to:

- the current business environment and outlook, including statements regarding: the duration and impact of the coronavirus pandemic ("COVID-19") on our financial position and homebuilding operations; the duration, impact and effectiveness of government measures including orders, stimulus, aid, assistance and other government programs in response to COVID-19; economic and market conditions in the U.S. and Canadian housing markets and our ability to respond to such conditions; the effect of seasonality on the homebuilding business; the impact of changes to Canadian mortgage rules affecting the ability of prospective homebuyers to qualify for mortgage financing; the potential offset of the Canadian shared equity program on the impact of stress test mortgage rules in Canada; home prices and affordability in the communities, home closings resulting therefrom, and the timing thereof; international trade factors, including changes in trade policy, such as trade sanctions and increased tariffs; the impact of actual, proposed or potential interest rate changes in the U.S. and Canada and resulting consumer confidence; the effect of inflation; volatility in the global price of commodities, including the price of oil and lumber; unexpected cost increases that could impact our margins; disruptions in the global supply chain adversely impacting product availability and causing delays; the economic and regulatory uncertainty surrounding the energy industry and pipeline approvals and the impact thereof on demand in our markets including future investment, particularly in Alberta; consumer confidence and the resulting impact on the housing market; change in consumer behavior and preferences; our relationship with operational jurisdictions and key stakeholders; our ability to meet our obligations under our North American unsecured credit facility; our costs to complete related to our letters of credit and performance bonds; expected project completion times; our ability to realize our deferred tax assets; our ability to grow and market our mixed-use development operations, identifying other mixed-use opportunities, and our ability to execute on our plans for a mixed-use operational platform and expected redevelopment opportunities resulting therefrom; home price growth rates and affordability levels generally; recovery in the housing market and the pace thereof; reduction in our debt levels and the timing thereof; our expected unit and lot sales and the timing thereof; expectations for 2022 and beyond;
- possible or assumed future results, including our outlook and any updates thereto, how we intend to use and the availability of additional cash flow, the operative cycle of our business and expected timing of income and expected performance and features of our projects, the continued strategic expansion of our business operations, our assumptions regarding normalized sales, our projections regarding revenue and housing inventory, the impact of acquisitions on our operations in certain markets;
- the impact of recent and future increases in interest rates in the U.S. and Canada, the effect of higher inflation and the resulting impact on consumer confidence;
- the expected closing of transactions;
- the expected exercise of options contracts and lease options;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- trends in home prices in our various markets and generally;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project-specific financings and take advantage of new opportunities;

- the ability to meet our covenants and re-pay interest payments on our unsecured senior notes and the requirement to make payments under our construction guarantees;
- the ability to create value in our land development business and meet our development plans;
- the visibility of our future cash flow;
- social and environmental conditions, policies and risks;
- governmental policies and risks;
- cyber-security and privacy related risks;
- health and safety risks;
- expected backlog and closings and the timing thereof;
- the sufficiency of our access to and the sources of our capital resources;
- the impact of foreign exchange rates on our financial performance and market opportunities;
- the impact of credit rating agencies' rating on our business;
- the timing of the effect of interest rate changes on our cash flows;
- the effect of debt and leverage on our business and financial condition;
- the effect on our business of existing lawsuits; and
- damage to our reputation from negative publicity.

Although management of Brookfield Residential believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information in this interim report are based upon reasonable assumptions and expectations, readers of this interim report should not place undue reliance on such forward-looking statements and information because they involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of Brookfield Residential to differ materially from anticipated future results, performance, or achievements expressed or implied by such forward-looking statements and information.

Various factors, in addition to those discussed elsewhere in this interim report, that could affect the future results of Brookfield Residential and could cause actual results, performance, or achievements to differ materially from those expressed in the forward-looking statements and information include, but are not limited to, those factors included under the sections entitled “Cautionary Statements Regarding Forward-Looking Statements” and “Business Environment and Risks” of the Annual Report for the fiscal year ended December 31, 2021.

The forward-looking statements and information contained in this interim report are expressly qualified by this cautionary statement. Brookfield Residential undertakes no obligation to publicly update or revise any forward-looking statements, whether written or oral, or information contained in this interim report, whether as a result of new information, future events or otherwise, except as required by law. However, any further disclosures made on related subjects in subsequent public disclosure should be consulted.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") relates to the period ended September 30, 2022 and has been prepared with an effective date of November 3, 2022. It should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this interim report. All dollar amounts discussed herein are in U.S. dollars, unless otherwise stated. Amounts in Canadian dollars are identified as "C$." The condensed consolidated financial statements referenced herein have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

This MD&A includes references to gross margin percentage which is not specified, defined, or determined under U.S. GAAP and is therefore considered a non-GAAP financial measure. This non-GAAP financial measure is unlikely to be comparable to similar financial measures presented by other issuers. For a full description of this non-GAAP financial measure, please refer to "Non-GAAP Financial Measures" in this MD&A.

OVERVIEW

Brookfield Residential Properties Inc. (unless the context requires otherwise, references in this interim report to "we," "our," "us," the "Company" and "Brookfield Residential" refer to Brookfield Residential Properties Inc. and the subsidiaries through which it conducts all of its homebuilding and land development operations) is a wholly-owned subsidiary of Brookfield Asset Management Inc. ("BAM") and has been in operation for over 60 years. We are the flagship North American residential property company of BAM, a leading global alternative asset manager with over $750 billion of assets under management.

Brookfield Residential is a leading North American homebuilder and land developer with operations in Canada and the United States. We entitle and develop land to create master-planned communities to create shared value for our stakeholders through a balanced mix of revenue-generating consumer and commercial deliverables. We build and sell lots to third-party builders, conduct our own homebuilding operations and, in select developments, establish commercial areas. We also participate in select strategic real estate opportunities, including infill projects, mixed-use developments, infrastructure projects and joint ventures.

Our disciplined land entitlement process, synergistic operations and capital flexibility allow us to pursue land investment, traditional homebuilding and mixed-use development in typically supply-constrained markets where we have strategically invested. Canada, Pacific U.S. and Central and Eastern U.S. are the three operating segments related to our land and housing operations that we focus on. Our Canadian operations are primarily in the Alberta (Calgary and Edmonton) and Ontario (Greater Toronto Area) markets. Our Pacific U.S. operations include Northern California (San Francisco Bay Area and Sacramento), Southern California (Los Angeles / San Diego / Riverside), Oregon (Portland), Washington (Seattle), and Hawaii (Honolulu Mixed-Use). Our Central and Eastern U.S. operations include Washington, D.C. Area, Colorado (Denver), Texas (Austin / Houston / Dallas), Arizona (Phoenix), Florida (Tampa), Georgia (Atlanta), North Carolina (Raleigh) and Tennessee (Nashville Mixed-Use).

By targeting these markets that have strong underlying economic fundamentals we believe that over the longer term they offer robust, diversified housing demand, barriers to entry for competitors and close proximity to areas where employment growth is expected.

Brookfield Residential invests in markets for the long term, building new communities and homes where people want to live today and in the future. Our developments are places of character and value. We create a plan for each development - a blueprint that guides the land development process from start to finish. This tailored approach results in a community with attributes that make it unique - attributes that make our communities the best places to call home. It is what drives us to commit the resources needed to make a positive, lasting social impact in all of the communities in which we build.

Principal Business Activities

Through the activities of our operating subsidiaries, we develop land for our own communities and sell lots to other homebuilders and third parties and design, construct and market single family and multi-family homes in our own and others' communities. We operate through local business units which are involved in all phases of the planning and building of our master-planned communities, infill projects and mixed-use developments in each of our markets. These operations include sourcing and evaluating land acquisitions, site planning, obtaining entitlements, developing the land, product design, constructing, marketing and selling homes and providing homebuyers with customer service. We also develop or sell land for the construction of commercial shopping centers in our communities. By offering this flexible, integrated operating model, we maintain balanced and diversified operations providing value at the various stages of the land development process while also being responsive to the economic conditions within each market where we do business.

As a result, Brookfield Residential has developed a reputation for delivering innovative, award-winning master-planned communities and residential products. Our reputation stems from our passion to create “The Best Places to Call Home.” This goes beyond the physical structures we build. To us, it’s also about creating sustainable communities that offer a high quality of life and truly make a difference in people’s lives. That’s why our business is more than a traditional housing operation. The master-planned communities we develop typically also feature community centres, parks, recreational areas, schools, commercial areas and other amenities. As we grow our mixed-use platform, we are uniquely positioned to apply our distinct expertise to urban redevelopment projects that are residentially anchored.

Land Acquisition

Our traditional land development and homebuilding business involves converting raw or undeveloped land into residential housing built by us and/or like-minded building partners, as well as commercial areas to add to the community placemaking strategy and provide added value creation. This process begins with the purchase or control of raw land and is followed by the entitlement and development of the land, and the marketing and sale of homes constructed on the land.

As a land developer, we target the acquisition of raw land during the low point of the economic cycle. Due to our local presence and collective capital strength, we are uniquely positioned to acquire underutilized land or brownfield development opportunities as they arise. We make diligent investments in supply-constrained markets with strong underlying economic fundamentals informed by strategic land studies to review growth patterns.

Entitlement Process & Land Development

Our unique approach to land development begins with our disciplined approach to acquiring land in the path of growth in dynamic and resilient markets in North America that have barriers to entry caused by infrastructure or entitlement processes. We create value through the planning and entitlement process, developing and marketing residential lots and commercial sites and working with industry partners who share the same vision and values. We plan to continue to grow this business over time by selectively acquiring land that either enhances our existing inventory or provides attractive projects that are consistent with our overall strategy and management expertise.

These larger tracts held for development afford us a true “master-planned” development opportunity that, following entitlement and assuming market conditions allow, creates a multi-year stream of cash flow. Creating this type of community requires a long-term view of how each piece of land should be developed with a vision of how our customers live in each of our communities. Through strong relationships with key stakeholders in the jurisdictions where we operate, we create shared value and infrastructure that supports great places.

We may also purchase smaller infill or re-use parcels, or in some cases finished lots for housing. As a city grows and intensifies, so do its development opportunities. Inner city revitalization opportunities contribute to the strategic expansion of our business. We develop and construct homes in previously urbanized areas on underutilized land. Urban developments provide quick turnarounds from acquisition to completion, create new revenue streams, and infuse new ideas and energy into the Company.

We also consider the opportunity for mixed-use and commercial space within the community to cultivate the live, work and play experience that many customers desire today, in addition to building homes and community amenities, as part of the planning process.

Mixed-use development is a continuous focus of the Company. We have been developing commercial properties within our master-planned communities for decades. Seton, in Calgary, Alberta, is a prime example of adding value to a master plan through appropriate mixed-use planning and building on our own land. A shift in consumer behavior has resulted in further demand for infill/brownfield locations. With many municipalities also focused on urban intensification, we believe these trends will create a significant pipeline of redevelopment opportunities. Premier mixed-use projects in Tennessee (Nashville) and Hawaii (Honolulu) allow us to design and build leading-edge mixed-use developments in some of the most vibrant urban centers in the U.S.

Our core land and homebuilding operations remain our focus and priority; however, we see our position in mixed-use development as a significant opportunity that reflects some potential shifts in our residential portfolio to continue to meet customer needs and lifestyle preferences. We believe Brookfield Residential has the necessary entitlement and re-entitlement expertise to implement this strategic focus, including the determination of appropriate future uses for a site, including retail, office, hospitality, for sale residential, and for rent residential.

Home Construction and Consumer Deliverables

Having a homebuilding operation gives us the opportunity to monetize our land and provides us with market knowledge through our direct contact with the homebuyers to understand customer preferences and product choices; we construct homes on lots that have been developed by us or that we purchase from others. In markets where the Company has significant land holdings, homebuilding is carried out on a portion of the land in specific market segments and the balance of lots are sold to and built on by third-party builders. Certain master-planned communities will also include the development of mixed-use space, consisting of retail or commercial assets, which we will build and add value through leasing, before selling to a third-party operator.

Brookfield Residential Properties Portfolio

Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at September 30, 2022 were $6.7 billion.

As of September 30, 2022, we controlled 84,096 single family lots (serviced lots and future lot equivalents) and 70 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels in each of our primary markets as of September 30, 2022 is as follows:

	Single Family Housing & Land Under and Held for Development[1]								**Multi-Family, Industrial & Commercial Parcels Under Development**	
	Housing & Land		**Unconsolidated Entities**		**Total Lots**		**Status of Lots 9/30/2022**		**Total Acres**	
	Owned	**Options**	**Owned**	**Options**	**9/30/2022**	**12/31/2021**	**Entitled**	**Unentitled**	**9/30/2022**	**12/31/2021**
Calgary	14,084	—	2,431	—	16,515	16,972	10,852	5,663	52	55
Edmonton	9,778	—	185	—	9,963	9,928	4,753	5,210	3	12
Ontario	8,317	—	2,106	—	10,423	9,604	5,504	4,919	—	1
Canada	32,179	—	4,722	—	36,901	36,504	21,109	15,792	55	68
Northern California	2,400	7,255	149	—	9,804	10,016	2,556	7,248	—	—
Southern California	5,890	—	417	—	6,307	6,026	4,528	1,779	—	—
Other	—	—	1,092	—	1,092	452	1,092	—	1	1
Pacific U.S.	8,290	7,255	1,658	—	17,203	16,494	8,176	9,027	1	1
Denver	6,515	—	—	—	6,515	6,558	6,515	—	10	10
Austin	10,067	—	—	—	10,067	10,488	10,067	—	—	37
Phoenix	8,149	—	371	—	8,520	2,509	8,520	—	—	—
Washington, D.C. Area	3,359	715	315	—	4,389	4,311	4,352	37	—	—
Other	—	—	501	—	501	588	501	—	4	2
Central and Eastern U.S.	28,090	715	1,187	—	29,992	24,454	29,955	37	14	49
Total	68,559	7,970	7,567	—	84,096	77,452	59,240	24,856	70	118
Entitled lots	50,806	1,922	6,512	—	59,240	49,763				
Unentitled lots	17,753	6,048	1,055	—	24,856	27,689				
Total September 30, 2022	68,559	7,970	7,567	—	84,096					
Total December 31, 2021	62,091	8,126	6,817	418		77,452				

(1) Land held for development will include some multi-family, industrial and commercial parcels once entitled.

RESULTS OF OPERATIONS

Key financial results and operating data for the three and nine months ended September 30, 2022 compared to the three and nine months ended September 30, 2021 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Key Financial Results				
Housing revenue	$ 369	$ 420	$ 951	$ 1,212
Land revenue	26	26	267	153
Housing gross margin ($)	80	79	188	227
Housing gross margin (%)	22%	19%	20%	19%
Land gross margin ($)	12	12	109	48
Land gross margin (%)	46%	46%	41%	31%
Total gross margin ($)	92	91	297	276
Total gross margin (%)	23%	20%	24%	20%
Income before income taxes	75	139	320	280
Income tax expense	(4)	(2)	(20)	(2)
Net income	71	137	300	279
Net income attributable to Brookfield Residential	32	61	110	153
Basic earnings per share	$ 0.24	$ 0.47	$ 0.85	$ 1.18
Diluted earnings per share	$ 0.24	$ 0.46	$ 0.85	$ 1.17
Key Operating Data				
Home closings for Brookfield Residential (units)	550	750	1,532	2,236
Home closings for unconsolidated entities (units)	7	—	26	—
Average home selling price for Brookfield Residential (per unit)	$670,000	$559,000	$621,000	$542,000
Average home selling price for unconsolidated entities (per unit)	$643,000	$ —	$646,000	$ —
Net new home orders for Brookfield Residential (units)	302	493	1,503	1,999
Net new home orders for unconsolidated entities (units)	1	24	1	39
Backlog for Brookfield Residential (units)	1,470	1,670	1,470	1,670
Backlog for unconsolidated entities (units)	18	38	18	38
Backlog value for Brookfield Residential	$ 992	$ 1,000	$ 992	$ 1,000
Backlog value for unconsolidated entities	$ 16	$ 32	$ 16	$ 32
Active housing communities for Brookfield Residential	68	71	68	71
Active housing communities for unconsolidated entities	—	1	—	1
Lot closings for Brookfield Residential (single family units)	211	190	827	1,159
Lot closings for unconsolidated entities (single family units)	106	376	309	827
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	4	3	22	21
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	33	198	172	208
Acre closings for Brookfield Residential (raw and partially finished)	—	—	101	99
Acre closings for unconsolidated entities (raw and partially finished)	—	—	1	1
Average lot selling price for Brookfield Residential (single family units)	$109,000	$125,000	$298,000	$116,000
Average lot selling price for unconsolidated entities (single family units)	$207,000	$ 81,000	$199,000	$119,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$714,000	$753,000	$899,000	$831,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$663,000	$407,000	$762,000	$410,000
Average per acre selling price for Brookfield Residential (raw and partially finished)	$ —	$ —	$ 9,000	$ 11,000
Average per acre selling price for unconsolidated entities (raw and partially finished)	$ —	$ —	$131,000	$272,000
Active land communities for Brookfield Residential	16	17	16	17
Active land communities for unconsolidated entities	17	18	17	18

Segmented Information

We operate in three operating segments within North America related to our land and housing operations: Canada, Pacific U.S. and Central and Eastern U.S. Each of the Company's segments specializes in land entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of risk factors. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the three and nine months ended September 30, 2022 and 2021.

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity and average selling price)	**2022**	**2021**	**2022**	**2021**
Housing revenue				
Canada	$ 92	$ 108	$ 245	$ 260
Pacific U.S.	141	161	329	541
Central and Eastern U.S.	136	151	377	411
	369	420	951	1,212
Unconsolidated entities	4	—	17	—
Total	$ 373	$ 420	$ 968	$ 1,212
Land revenue				
Canada	$ 22	$ 20	$ 89	$ 103
Pacific U.S.	1	2	163	23
Central and Eastern U.S.	3	4	15	27
	26	26	267	153
Unconsolidated entities	44	111	192	184
Total	$ 70	$ 137	$ 459	$ 337
Housing gross margin				
Canada	$ 19	$ 20	$ 46	$ 46
Pacific U.S.	30	31	64	109
Central and Eastern U.S.	31	28	78	72
	80	79	188	227
Unconsolidated entities	1	—	5	—
Total	$ 81	$ 79	$ 193	$ 227
Land gross margin				
Canada	$ 8	$ 7	$ 32	$ 33
Pacific U.S.	3	3	71	11
Central and Eastern U.S.	1	2	6	4
	12	12	109	48
Unconsolidated entities	26	32	100	51
Total	$ 38	$ 44	$ 209	$ 99
Home closings (units)				
Canada	167	223	488	570
Pacific U.S.	155	232	389	841
Central and Eastern U.S.	228	295	655	825
	550	750	1,532	2,236
Unconsolidated entities	7	—	26	—
Total	557	750	1,558	2,236
Average home selling price				
Canada	$ 551,000	$ 481,000	$ 503,000	$ 454,000
Pacific U.S.	906,000	695,000	847,000	644,000
Central and Eastern U.S.	597,000	512,000	575,000	499,000
	670,000	559,000	621,000	542,000
Unconsolidated entities	643,000	—	646,000	—
Average	$ 670,000	$ 559,000	$ 621,000	$ 542,000

	As at September 30	
	2022	2021
Active housing communities		
Canada	32	38
Pacific U.S.	12	9
Central and Eastern U.S.	24	24
	68	71
Unconsolidated entities	—	1
Total	68	72

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Lot closings (single family units)				
Canada	144	116	458	628
Pacific U.S.	—	34	188	184
Central and Eastern U.S.	67	40	181	347
	211	190	827	1,159
Unconsolidated entities	106	376	309	827
Total	317	566	1,136	1,986
Acre closings (multi-family, industrial and commercial)				
Canada	4	3	22	21
Pacific U.S.	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	4	3	22	21
Unconsolidated entities	33	198	172	208
Total	37	201	194	229
Acre closings (raw and partially finished)				
Canada	—	—	101	99
Pacific U.S.	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	—	—	101	99
Unconsolidated entities	—	—	1	1
Total	—	—	102	100
Average lot selling price (single family units)				
Canada	$ 130,000	$ 152,000	$ 149,000	$ 136,000
Pacific U.S.	—	53,000	867,000	125,000
Central and Eastern U.S.	45,000	105,000	85,000	76,000
	109,000	125,000	298,000	116,000
Unconsolidated entities	207,000	81,000	199,000	119,000
Average	$ 142,000	$ 95,000	$ 271,000	$ 117,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	$ 714,000	$ 753,000	$ 889,000	$ 831,000
Pacific U.S.	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	714,000	753,000	899,000	831,000
Unconsolidated entities	663,000	407,000	762,000	410,000
Average	$ 668,000	$ 412,000	$ 781,000	$ 449,000
Average per acre selling price (raw and partially finished)				
Canada	$ —	$ —	$ 9,000	$ 11,000
Pacific U.S.	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	—	—	9,000	11,000
Unconsolidated entities	—	—	131,000	272,000
Average	$ —	$ —	$ 10,000	$ 15,000

	As at September 30	
	2022	2021
Active land communities		
Canada	7	7
Pacific U.S.	1	1
Central and Eastern U.S.	8	9
	16	17
Unconsolidated entities	17	18
Total	33	35

(US$ millions)	As at September 30 2022	As at December 31 2021
Total assets		
Canada	$ 1,061	$ 1,078
Pacific U.S.	1,290	1,237
Central and Eastern U.S.	2,271	2,051
Corporate and other	1,209	1,162
Equity Investment in Affiliate	834	770
Total	$ 6,665	$ 6,298

For additional financial information with respect to our revenues, earnings and assets, please refer to the accompanying condensed consolidated financial statements and related notes included elsewhere in this interim report.

Three and Nine Months Ended September 30, 2022 Compared with Three and Nine Months Ended September 30, 2021

Net Income

Consolidated net income for the three and nine months ended September 30, 2022 and 2021 is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except per share amounts)	2022	2021	2022	2021
Consolidated net income	$ 71	$ 137	$ 300	$ 279
Net income attributable to Brookfield Residential	$ 32	$ 61	$ 110	$ 153
Basic earnings per share	$ 0.24	$ 0.47	$ 0.85	$ 1.18
Diluted earnings per share	$ 0.24	$ 0.46	$ 0.85	$ 1.17

The decrease of $66 million in consolidated net income for the three months ended September 30, 2022 compared to the same period in 2021 was the result of a decrease in earnings from land and housing unconsolidated entities of $26 million, a decrease in earnings from our affiliate unconsolidated entity of $16 million, an increase in selling, general and administrative expense of $14 million, an increase in interest expense of $8 million, an increase in income tax expense of $3 million, a decrease in other income for $0.5 million and an increase in lease expense for $0.5 million. This was partially offset by an increase in gross margin of $2 million primarily due to higher gross margin percentage on closings from our housing operations.

The increase of $21 million in consolidated net income for the nine months ended September 30, 2022 compared to the same period in 2021 was the result of an increase in other income of $49 million primarily from a change in unrealized gain from investment related to our Brookfield Single Family Rental LP ("BSFR") investment and higher commercial rent income, an increase in earnings from land and housing unconsolidated entities of $40 million and an increase in gross margins of $21 million primarily due to opportunistic lot sales from our land operations. This was partially offset by a decrease of $44 million in earnings from our affiliate unconsolidated entity, an increase in income tax expense of $19 million, an increase in selling, general and administrative expense of $11 million, an increase in interest expense of $10 million, an increase in depreciation expense of $3 million and an increase in lease expense of $2 million.

Results of Operations – Housing

A breakdown of our results from housing operations for the three and nine months ended September 30, 2022 and 2021 is as follows:

Consolidated

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2022**	**2021**	**2022**	**2021**
Home closings	550	750	1,532	2,236
Revenue	$ 369	$ 420	$ 951	$ 1,212
Gross margin	$ 80	$ 79	$ 188	$ 227
Gross margin (%)	22%	19%	20%	19%
Average home selling price	$670,000	$559,000	$621,000	$542,000

Housing revenue and gross margin were $369 million and $80 million, respectively, for the three months ended September 30, 2022, compared to $420 million and $79 million for the same period in 2021. The decrease in revenue was primarily the result of 200 fewer home closings, partially offset by a 20% increase in average home selling prices. Gross margin increased $1 million and gross margin percentage increased 3% as a result of the product mix of homes closed and higher average home selling prices for the three months ended September 30, 2022 when compared to the same period in 2021.

Housing revenue and gross margin were $951 million and $188 million, respectively, for the nine months ended September 30, 2022, compared to $1,212 million and $227 million for the same period in 2021. The decrease in revenue and gross margin were primarily the result of 704 fewer home closings, across all of our operating segments, partially offset by a 15% increase in average home selling prices primarily in our Pacific U.S. segment. Gross margin decreased $39 million when compared to the same period in 2021 primarily due to fewer homes closed in all our operating segments offset by higher average home selling prices.

A breakdown of our results from housing operations by our land and housing operating segments is as follows:

Canada

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2022**	**2021**	**2022**	**2021**
Home closings	167	223	488	570
Revenue	$ 92	$ 108	$ 245	$ 260
Gross margin	$ 19	$ 20	$ 46	$ 46
Gross margin (%)	21%	19%	19%	18%
Average home selling price	$551,000	$481,000	$503,000	$454,000
Average home selling price (C$)	$720,000	$606,000	$646,000	$568,000

Housing revenue in our Canadian segment for the three months ended September 30, 2022 decreased by $16 million when compared to the same period in 2021, primarily due to 56 fewer home closings, partially offset by 15% higher average home selling prices. The decrease in home closings was primarily the result of fewer closings in our Edmonton and Ontario markets as a result of fewer active selling communities. The increase in average home selling prices was primarily due to the price appreciation of homes closed in our Alberta and Ontario markets. Gross margin remained consistent and gross margin percentage increased 2% for the three months ended September 30, 2022 when compared to the same period in 2021 primarily as a result of increased average home selling prices in our Ontario market and lower incentives on homes closed when compared to the same period in 2021.

Housing revenue in our Canadian segment for the nine months ended September 30, 2022 decreased by $15 million when compared to the same period in 2021, primarily due to 82 fewer home closings, partially offset by 11% higher average home selling prices. The increase in average home selling prices was primarily due to the product and geographic mix of homes closed in our Ontario market where higher price move-up homes were closed, and our average home selling prices have increased approximately 11%. The decrease in home closings was primarily the result of fewer closings in our Edmonton and Ontario markets. Gross margin remained consistent and gross margin percentage increased 1% for the nine months ended September 30, 2022 when compared to the same period in 2021 primarily as a result of lower incentives on homes closed when compared to the same period in 2021.

Pacific U.S.

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended September 30 2022	Three Months Ended September 30 2021	Nine Months Ended September 30 2022	Nine Months Ended September 30 2021
Home closings	155	232	389	841
Revenue	$ 141	$ 161	$ 329	$ 541
Gross margin	$ 30	$ 31	$ 64	$ 109
Gross margin (%)	21%	19%	19%	20%
Average home selling price	$906,000	$695,000	$847,000	$644,000

Housing revenue in our Pacific U.S. segment for the three months ended September 30, 2022 decreased by $20 million when compared to the same period in 2021, primarily due to 77 fewer home closings. This was partially offset by 30% higher average selling prices, primarily due to the price appreciation of homes sold in our California markets. Gross margin decreased by $1 million, and gross margin percentage increased by 2% primarily as a result of increased average home selling prices and the product and geographic mix of homes closed when compared to the same period in 2021.

Housing revenue in our Pacific U.S. segment for the nine months ended September 30, 2022 decreased by $212 million when compared to the same period in 2021, primarily due to 452 fewer home closings, partially offset by 32% higher average selling prices, primarily in our California markets. Gross margin decreased by $45 million as a result of fewer home closings, and gross margin percentage decreased 1% primarily as a result of increased direct housing costs due to supply chain constraints and the product and geographic mix of homes closed when compared to the same period in 2021.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended September 30 2022	Three Months Ended September 30 2021	Nine Months Ended September 30 2022	Nine Months Ended September 30 2021
Home closings	228	295	655	825
Revenue	$ 136	$ 151	$ 377	$ 411
Gross margin	$ 31	$ 28	$ 78	$ 72
Gross margin (%)	23%	19%	21%	18%
Average home selling price	$597,000	$512,000	$575,000	$499,000

Housing revenue in our Central and Eastern U.S. segment for the three months ended September 30, 2022 decreased by $15 million when compared to the same period in 2021, resulting from 67 fewer home closings, primarily in our Washington D.C. market, offset by 17% higher average home selling prices. The increase in average home selling prices is primarily the result of the price appreciation and geographic mix of the homes closed. Gross margin increased by $3 million and gross margin percentage increased 4% as a result of higher average home selling prices combined with lower incentives on homes closed when compared to the same period in 2021.

Housing revenue in our Central and Eastern U.S. segment for the nine months ended September 30, 2022 decreased by $34 million when compared to the same period in 2021, resulting from 170 fewer home closings, primarily in our Washington market, offset by 15% higher average home selling prices. The increase in average home selling prices is primarily the result of the price appreciation and geographic mix of homes closed within the operating segment. Gross margin increased $6 million and gross margin percentage increased 3% primarily as a result of the product and geographic mix of homes closed, combined with lower incentives on homes closed when compared to the same period in 2021.

Home Sales – Incentives

We grant our homebuyers sales incentives from time-to-time in order to promote sales of our homes. The type and amount of incentives will vary on a community-by-community and home-by-home basis. Incentives are recognized as a reduction to sales revenue at the time title passes to the homebuyer and the sale is recognized. For the three and nine months ended September 30, 2022, total incentives recognized as a percentage of gross revenues decreased by 1% as a result of decreased incentives provided across all of our operating segments, primarily due to market conditions at the time the homes were sold when compared to prior year closings.

Our incentives on homes closed by operating segment for the three and nine months ended September 30, 2022 and 2021 were as follows:

	Three Months Ended September 30			
	2022		2021	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 3	3%	$ 5	5%
Pacific U.S.	2	1%	2	2%
Central and Eastern U.S.	3	3%	7	4%
	$ 8	2%	$ 14	3%

	Nine Months Ended September 30			
	2022		2021	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 8	3%	$ 12	5%
Pacific U.S.	4	1%	7	1%
Central and Eastern U.S.	11	3%	19	4%
	$ 23	2%	$ 38	3%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders for the three and nine months ended September 30, 2022 totaled 303 units and 1,504 units, a decrease of 214 units or 41%, and a decrease of 534 units or 26%, respectively when compared to the same periods in 2021. For the three months ended September 30, 2022, the decrease in net new home orders was the result of lower net new home orders across all of our operating segments as a result of market conditions combined with a lower number of active selling communities. For the nine months ended September 30, 2022, the decrease in net new home orders was a result of fewer net new orders across all of our operating segments. Average monthly sales per community by reportable segment for the three and nine months ended September 30, 2022 were: Canada – 1 and 1 units (2021 – 2 and 2 units); Pacific U.S. 2 and 4 units (2021 – 5 and 5 units); Central and Eastern U.S. 2 and 3 units (2021 – 3 and 3 units). We were selling from 68 active housing communities at September 30, 2022 compared to 72 communities at September 30, 2021.

The net new home orders for the three and nine months ended September 30, 2022 and 2021 by our land and housing operating segments were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(Units)	2022	2021	2022	2021
Canada	96	181	451	722
Pacific U.S.	88	128	412	518
Central and Eastern U.S.	118	184	640	759
	302	493	1,503	1,999
Unconsolidated entities	1	24	1	39
Total	303	517	1,504	2,038

Home Sales – Cancellations

The overall cancellation rates for the three and nine months ended September 30, 2022 were 13% and 8%, respectively, compared to 4% and 5% during the same periods in 2021. The increase in cancellation rates for the three and nine months ended September 30, 2022 was driven by declining affordability and higher mortgage rates due to rising interest rates combined with geopolitical concerns and market volatility. The cancellation rates for the three and nine months ended September 30, 2022 and 2021 for our land and housing operating segments were as follows:

	Three Months Ended September 30			
	2022		2021	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	—	— %	—	— %
Pacific U.S.	12	12%	6	4%
Central and Eastern U.S.	34	22%	17	8%
	46	13%	23	4%

	Nine Months Ended September 30			
	2022		2021	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	3	1%	3	—%
Pacific U.S.	44	10%	27	5%
Central and Eastern U.S.	90	12%	82	10%
	137	8%	112	5%

Home Sales – Backlog

Our backlog, which represents the number of new homes under sales contracts, as at September 30, 2022 and 2021 by operating segment, was as follows:

	As at September 30			
	2022		2021	
(US$ millions, except unit activity)	Units	Value	Units	Value
Canada	603	$ 299	727	$ 370
Pacific U.S.	302	332	309	267
Central and Eastern U.S.	565	361	634	363
	1,470	992	1,670	1,000
Unconsolidated entities	18	16	38	32
Total	1,488	$ 1,008	1,708	$ 1,032

We expect substantially all of our backlog to close in 2022 and 2023, subject to future cancellations. The units in backlog as at September 30, 2022 decreased when compared to September 30, 2021 as a result of lower net new home orders, combined with a decline in our active selling communities now at 68 compared to 72 at September 30, 2021. Total backlog value decreased by $24 million when compared to the same period in 2021 mainly due to lower units in backlog overall as a result of lower home sales and the product mix of the homes sold under contract.

Results of Operations – Land

A breakdown of our results from land operations for the three and nine months ended September 30, 2022 and 2021 is as follows:

Consolidated

	Three Months Ended September 30		**Nine Months Ended September 30**	
(US$ millions, except unit activity, percentages and average selling price)	**2022**	**2021**	**2022**	**2021**
Lot closings (single family units)	211	190	827	1,159
Acre closings (multi-family, industrial and commercial)	4	3	22	21
Acre closings (raw and partially finished)	—	—	101	99
Revenue	$ 26	$ 26	$ 267	$ 153
Gross margin	$ 12	$ 12	$ 109	$ 48
Gross margin (%)	46%	46%	41%	31%
Average lot selling price (single family units)	$109,000	$125,000	$298,000	$116,000
Average per acre selling price (multi-family, industrial and commercial)	$714,000	$753,000	$899,000	$831,000
Average per acre selling price (raw and partially finished)	$ —	$ —	$ 9,000	$ 11,000

Land revenue totaled $26 million and land gross margin totaled $12 million for the three months ended September 30, 2022, representing no change in revenue and gross margin, when compared to the same period in 2021. While land revenue remained consistent, this reflects a decrease in average single family lot selling prices of 13% primarily due to the geographic mix of lots sold, offset by the total increase in lot closings of 21 single family units, primarily from our Canadian segment.

Land revenue totaled $267 million and land gross margin totaled $109 million for the nine months ended September 30, 2022, an increase of $114 million and $61 million, respectively, when compared to the same period in 2021. The increase in land revenue, gross margin and average single family lot selling prices were primarily due to two bulk lot sale transactions in our coastal Southern California communities within the Pacific U.S. segment in the first quarter.

A breakdown of our results from land operations for our operating segments is as follows:

Canada

	Three Months Ended September 30		**Nine Months Ended September 30**	
(US$ millions, except unit activity, percentages and average selling price)	**2022**	**2021**	**2022**	**2021**
Lot closings (single family units)	144	116	458	628
Acre closings (multi-family, industrial and commercial)	4	3	22	21
Acre closings (raw and partially finished)	—	—	101	99
Revenue	$ 22	$ 20	$ 89	$ 103
Gross margin	$ 8	$ 7	$ 32	$ 33
Gross margin (%)	36%	35%	36%	32%
Average lot selling price (single family units)	$130,000	$152,000	$149,000	$136,000
Average lot selling price (C$) (single family units)	$170,000	$192,000	$191,000	$170,000
Average per acre selling price (multi-family, industrial and commercial)	$714,000	$753,000	$889,000	$831,000
Average per acre selling price (C$) (multi-family, industrial and commercial)	$933,000	$948,000	$1,134,000	$1,031,000
Average per acre selling price (raw and partially finished)	$ —	$ —	$ 9,000	$ 11,000
Average per acre selling price (C$) (raw and partially finished)	$ —	$ —	$ 12,000	$ 14,000

Land revenue in our Canadian segment for the three months ended September 30, 2022 was $22 million, an increase of $1 million when compared to the same period in 2021. The increase was primarily the result of 28 additional average single family lot closings, partially offset by a 14% decrease in average single family lot selling prices due to the mix of land sold within the operating segment. Gross margin remained relatively consistent when compared to the same period during 2021, and gross margin percentage increased 3% mainly due to the mix of land sold.

Land revenue in our Canadian segment for the nine months ended September 30, 2022 was $89 million, a decrease of $14 million when compared to the same period in 2021. The decrease was primarily the result of 170 fewer single family lot closings, partially offset by a 10% increase in average single family lot selling prices due to the mix of land sold within the operating segment. Gross margin decreased $1 million compared to the same period during 2021 primarily as a result of fewer closings, and gross margin percentage increased 4% mainly due to the mix of land sold.

Pacific U.S.

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2022**	**2021**	**2022**	**2021**
Lot closings (single family units)	—	34	188	184
Revenue	$ 1	$ 2	$ 163	$ 23
Gross margin	$ 3	$ 3	$ 71	$ 11
Gross margin (%)	300%	150%	44%	48%
Average lot selling price (single family units)	$ —	$ 53,000	$867,000	$125,000

Land revenue in our Pacific U.S. segment decreased by $1 million and there was no change in gross margin for the three months ended September 30, 2022 when compared to the same period in 2021. The decrease in revenue was due to no lot closings for the period. Revenue recognized in the period was due to profit participation and gross margin also included cost to complete adjustments relating to existing and closed-out land communities.

Land revenue in our Pacific U.S. segment increased by $140 million and gross margin increased by $60 million for the nine months ended September 30, 2022 when compared to the same period in 2021. The increases were primarily due to the mix of lots sold as the first quarter included two bulk lot sale transactions in our coastal Southern California communities for 158 lot closings at a $1 million per lot selling price which generated gross margins of $64 million and a 42% gross margin.

Central and Eastern U.S.

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2022**	**2021**	**2022**	**2021**
Lot closings (single family units)	67	40	181	347
Revenue	$ 3	$ 4	$ 15	$ 27
Gross margin	$ 1	$ 2	$ 6	$ 4
Gross margin (%)	33%	50%	40%	15%
Average lot selling price (single family units)	$ 45,000	$105,000	$ 85,000	$ 76,000

Land revenue in our Central and Eastern U.S. segment for the three months ended September 30, 2022 was $3 million, representing a decrease of $1 million compared to the same period in 2021. The decrease was primarily the result of a 57% decrease in lower average single family lot selling prices overall due to the geographic mix of lots sold, partially offset by 27 additional single family lot closings. Gross margin decreased by $1 million when compared to the same period in 2021 and gross margin percentage decreased by 17% due to lower average selling prices and the geographic mix of land sold within the operating segment.

Land revenue in our Central and Eastern U.S. segment for the nine months ended September 30, 2022 was $15 million, representing a decrease of $12 million when compared to the same period in 2021. The decrease was primarily the result of 166 fewer single family lot closings mainly in our Austin market, offset by 12% higher average single family lot selling prices in our Austin market due to the geographic and mix of lots sold. Gross margin increased by $2 million when compared to the same period in 2021 and gross margin percentage increased by 23% due to higher average selling prices and the geographic mix of land sold within the operating segment.

Earnings from Unconsolidated Entities - Land and Housing

Earnings from land and housing unconsolidated entities for the three and nine months ended September 30, 2022 totaled $28 million and $111 million, compared to $54 million and $71 million for the same periods in 2021.

Land

A summary of Brookfield Residential's share of the land operations from unconsolidated entities is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2022**	**2021**	**2022**	**2021**
Lot closings (single family units)	106	376	309	827
Acre closings (multi-family, industrial and commercial)	33	198	172	208
Acre closings (raw and partially finished)	—	—	1	1
Revenue	$ 44	$ 111	$ 192	$ 184
Gross margin	$ 26	$ 32	$ 100	$ 51
Gross margin (%)	59%	29%	52%	28%
Average lot selling price (single family units)	$207,000	$ 81,000	$199,000	$119,000
Average per acre selling price (multi-family, industrial and commercial)	$663,000	$407,000	$762,000	$410,000
Average per acre selling price (raw and partially finished)	$ —	$ —	$131,000	$272,000

Brookfield's share of land revenue within unconsolidated entities decreased $67 million and gross margin decreased $6 million for the three months ended September 30, 2022 when compared to the same period in 2021. The decrease was primarily due to the 390-acre industrial parcel sale at our Eastmark master-planned community in the prior year compared to fewer acre closings in the current period. Gross margin decreased by $6 million and gross margin percentage increased by 30% due to the mix of land sold when compared to the prior year.

Brookfield's share of land revenue within unconsolidated entities increased by $8 million and gross margin increased by $49 million for the nine months ended September 30, 2022 when compared to the same period in 2021. The increase was primarily due to our Southern California and Phoenix joint ventures which respectively had 74 and 61 multi-family, industrial and commercial acre closings with no comparative sales for Southern California and 11 acre closings in Phoenix in 2021, partially offset by the 390-acre industrial parcel sale at Phoenix in 2021 with no comparative sales in 2022. Gross margin increased by $49 million and gross margin percentage increased by 24% due to higher average selling prices and the mix of land sold within our unconsolidated land entities when compared to the prior year.

Housing

A summary of Brookfield Residential's share of the housing operations from unconsolidated entities is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2022**	**2021**	**2022**	**2021**
Home closings	7	—	26	—
Revenue	$ 4	$ —	$ 17	$ —
Gross margin	$ 1	$ —	$ 5	$ —
Gross margin (%)	25 %	— %	29 %	— %
Average home selling price	$643,000	$ —	$646,000	$ —

For the three months ended September 30, 2022, there were seven closings in housing operations from unconsolidated entities in a housing joint venture in our Ontario market, compared to no closings during the same period in 2021.

For the nine months ended September 30, 2022, there were 26 closings in housing operations from unconsolidated entities in a housing joint venture in our Ontario market, compared to no closings during the same period in 2021.

Earnings from Unconsolidated Entities - Affiliate

A summary of Brookfield Residential's share of earnings from affiliate unconsolidated entities is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	**2022**	**2021**	**2022**	**2021**
Earnings from unconsolidated entities - affiliate	$ 25	$ 40	$ 66	$ 109

For the three and nine months ended September 30, 2022, earnings from affiliate unconsolidated entities was $25 million and $66 million, respectively, compared to earnings of $40 million and $109 million during the same periods in 2021. The decrease was primarily the result of lower fee and dividend income as well as a decrease in income from equity accounted investments.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three and nine months ended September 30, 2022 and 2021 are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	**2022**	**2021**	**2022**	**2021**
General and administrative expense	$ 51	$ 36	$ 125	$ 108
Sales and marketing expense	22	24	62	75
Share-based compensation	2	1	9	2
	$ 75	$ 61	$ 196	$ 185

Selling, general and administrative expense was $75 million and $196 million for the three and nine months ended September 30, 2022, an increase of $14 million and $11 million, respectively when compared to the same periods in 2021. General and administrative expense increased $15 million and $17 million for the three and nine months ended September 30, 2022 primarily due to higher management fees paid to Brookfield Properties Development ("BPD") as a result of an increase in development and construction activity and a change in the rate charged for asset management services when compared to the same periods in 2021. Sales and marketing expense for the three and nine months ended September 30, 2022 decreased by $2 million and $13 million, respectively, when compared to the same periods in 2021, primarily due to lower home closing costs resulting from fewer home closings. Share-based compensation increased by $1 million and $7 million, respectively, resulting from the change in fair value of our share-based compensation liabilities for the three and nine months ended September 30, 2022 compared to the same periods in 2021.

Other (Income) / Expense

The components of other (income) / expense for the three and nine months ended September 30, 2022 and 2021 are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	**2022**	**2021**	**2022**	**2021**
Income from commercial properties	$ (11)	$ (5)	$ (30)	$ (7)
Investment income	(7)	(10)	(18)	(37)
Preferred share dividend income	(6)	(6)	(18)	(18)
Other	(6)	(10)	(16)	(17)
Change in unrealized gain from investment	(2)	—	(29)	—
Joint venture management fee income	(2)	(3)	(8)	(6)
Loss on extinguishment of debt	—	—	—	16
	$ (34)	$ (34)	$ (119)	$ (69)

For the three months ended September 30, 2022, other (income) / expense remains unchanged when compared to the same period in 2021. The movement in other (income) / expense include an increase in income from commercial properties for $6 million due to the collection of leasing revenue on our fully operational properties in Nashville and Hawaii and a $2 million change in unrealized gains from investment related to our BSFR investment. This was partially offset by a decrease in investment income of $3 million, a decrease in other income for $4 million, and a decrease in joint venture management fee income for $1 million.

For the nine months ended September 30, 2022, other income increased $50 million when compared to the same period in 2021. The increase in other income is attributable to a $29 million change in unrealized gains from investment related to our BSFR Investment, an increase in income from commercial properties of $23 million due to the collection of leasing revenue on our fully operational properties in Nashville and Hawaii, a loss on extinguishment of debt of $16 million in 2021 with no comparative expenses in the same period and an increase in joint venture management fee income of $2 million. This was partially offset by a decrease of $19 million in investment income and a decrease in other income of $1 million. Refer to Note 16 "Fair Value Measurements" for further details on our investment in BSFR.

Income Tax (Recovery) / Expense

Income tax expense for the three and nine months ended September 30, 2022 increased $3 million and increased $19 million, respectively, when compared to the same periods in 2021. The components of current and deferred income tax (recovery) / expense are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	**2022**	**2021**	**2022**	**2021**
Current income tax (recovery) / expense	$ (2)	$ 3	$ 4	$ 4
Deferred income tax expense / (recovery)	6	(2)	16	(3)
	$ 4	1	$ 20	$ 1

For the three and nine months ended September 30, 2022, current income tax expense decreased $5 million and remains unchanged, respectively, when compared to the same periods in 2021. The decrease in current income tax expense for the three months ended September 30, 2022 primarily relates to a decrease in taxable income in our U.S. operations, compared to the same period in 2021.

For the three and nine months ended September 30, 2022, deferred income tax expense increased $8 million and $19 million, respectively, when compared to the same periods in 2021. The increase in deferred income tax expense for the three and nine months ended September 30, 2022 primarily relates to an increase in deferred income tax expense relating to earnings from unconsolidated entities - affiliate, an increase in non-deductible share-based compensation expense, partially offset by a decrease in unrealized foreign exchange gains on the Company's U.S. denominated notes.

Foreign Exchange Translation

The U.S. dollar is the functional and presentation currency of the Company. Each of the Company's subsidiaries, affiliates and jointly controlled entities determines its own functional currency and items included in the financial statements of each subsidiary and affiliate are measured using that functional currency. The Company's Canadian operations are self-sustaining. The financial statements of its self-sustaining Canadian operations are translated into U.S. dollars using the current rate method.

Assets and liabilities of subsidiaries or unconsolidated entities having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at September 30, 2022, the rate of exchange was C$1.3829 equivalent to US$1 (December 31, 2021 – C$1.2637 equivalent to US$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended September 30, 2022, the average rate of exchange was C$1.3057 equivalent to US$1 (September 30, 2021 – C$1.2595 equivalent to US$1). The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the condensed consolidated statements of operations as other (income) / expense, except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations and hedging instrument resulted in a net loss of $49 million and $63 million, respectively for the three and nine months ended September 30, 2022, compared to a net loss of $16 million and a net gain of $2 million, respectively during the same periods in 2021.

QUARTERLY OPERATING AND FINANCIAL DATA

	2022			2021				2020
(US$ millions, except unit activity and per share amounts)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Quarterly Operating Data								
Home closings (units)	550	555	427	885	750	788	698	845
Lot closings (single family units)	211	220	396	1,253	190	381	588	1,454
Acre closings (multi-family, industrial and commercial)	4	9	9	69	3	13	4	39
Acre closings (raw and partially finished)	—	—	101	102	—	99	—	—
Net new home orders (units)	302	464	737	714	493	521	985	817
Backlog (units)	1,470	1,718	1,809	1,499	1,670	1,927	2,194	1,907
Backlog value	$ 992	$ 1,162	$ 1,141	$ 942	$ 1,000	$ 1,098	$ 1,200	$ 1,013
Quarterly Financial Data								
Revenue	$ 395	$ 367	$ 457	$ 679	$ 446	$ 475	$ 444	$ 650
Direct cost of sales	(302)	(290)	(330)	(508)	(355)	(383)	(351)	(515)
Gross margin	93	77	127	171	91	92	93	135
Selling, general and administrative expense	(75)	(63)	(58)	(114)	(61)	(63)	(62)	(88)
Interest expense	(19)	(15)	(12)	(9)	(11)	(13)	(12)	(5)
Earnings from unconsolidated entities	53	91	33	49	95	37	48	5
Other income	27	40	33	22	29	9	17	9
Lease expense	(4)	(4)	(4)	(4)	(4)	(3)	(3)	(4)
Income before income taxes	75	126	119	115	139	59	81	52
Income tax expense	(4)	(6)	(10)	(12)	(2)	—	—	(2)
Net income	71	119	109	103	137	59	81	50
Net income attributable to non-controlling interest	39	77	73	69	77	27	20	47
Net income attributable to Brookfield Residential	$ 32	$ 42	$ 36	$ 34	$ 60	$ 32	$ 61	$ 3
Foreign currency translation	(50)	(21)	7	1	(16)	9	9	37
Comprehensive (loss) / income	$ (18)	$ 21	$ 43	$ 35	$ 44	$ 41	$ 70	$ 40
Earnings per common share attributable to Brookfield Residential								
Basic	$ 0.24	$ 0.33	$ 0.28	$ 0.26	$ 0.47	$ 0.25	$ 0.47	$ 0.02
Diluted	$ 0.24	$ 0.33	$ 0.28	$ 0.26	$ 0.46	$ 0.25	$ 0.46	$ 0.02

We have historically experienced variability in our results of operations from quarter to quarter due to the seasonal nature of the homebuilding business and the timing of new community openings and the closing out of projects. We typically experience the highest rate of orders for new homes and lots in the first nine months of the calendar year, although the rate of orders for new homes is highly dependent upon the number of active communities. As new home deliveries trail orders for new homes by several months, we typically deliver a greater percentage of new homes in the second half of the year compared with the first half of the year. As a result, our revenues from the sales of homes are generally higher in the second half of the year. In terms of land sales, results are more variable from year to year given the nature of the development and monetization cycle.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's condensed consolidated balance sheets as at September 30, 2022 and December 31, 2021:

(US$ millions)	As at September 30 2022	As at December 31 2021
Cash and restricted cash	$ 45	$ 121
Receivables and other assets	1,237	1,157
Land and housing inventory	2,841	2,574
Investments in unconsolidated entities - land and housing	323	357
Investment in unconsolidated entities - affiliate	834	770
Held-to-maturity investment	300	300
Commercial properties	289	873
Assets held for sale	670	—
Operating and financing lease right-of-use asset	82	82
Deferred income tax assets	28	48
Goodwill	16	16
	$ 6,665	$ 6,298
Accounts payable and other liabilities	$ 654	$ 738
Bank indebtedness and other financings	1,231	652
Notes payable	1,612	1,626
Liabilities associated with assets held for sale	46	—
Operating and financing lease liability	88	90
Total equity	3,034	3,192
	$ 6,665	$ 6,298

Assets

Our assets as at September 30, 2022 totaled $6.7 billion. Our land and housing inventory, investments in land and housing unconsolidated entities, and commercial properties are our most significant assets with a combined book value of $3.5 billion, or approximately 52% of our total assets. The land and housing assets increased when compared to December 31, 2021 primarily due to continued land development, partially offset by sales activity and turnover of inventory. Commercial properties decreased primarily due to two of our commercial properties (in Nashville and Calgary) being classified as held for sale, offset by continued construction at the Lilia Waikiki mixed-used project. 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.

A summary of our residential land and housing portfolio lots owned, excluding unconsolidated entities, and their stage of development as at September 30, 2022 compared with December 31, 2021 is as follows:

	As at September 30, 2022		As at December 31, 2021	
(US$ millions, except units)	Units	Book Value	Units	Book Value
Land held for development (lot equivalents)	65,553	$ 1,308	62,258	$ 1,238
Land under development and finished lots (single family units)	8,522	641	6,029	667
Housing units, including models	2,454	848	1,930	587
	76,529	$ 2,797	70,217	$ 2,492
Multi-family, industrial and commercial parcels (acres)	61	$ 44	111	$ 82

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at September 30 2022	As at December 31 2021
6.250% unsecured senior notes due September 15, 2027 (a)	600	600
5.125% unsecured senior notes due June 15, 2029 (b)	181	198
5.000% unsecured senior notes due June 15, 2029 (c)	350	350
4.875% unsecured senior notes due February 15, 2030 (d)	500	500
	1,631	1,648
Transaction costs	(19)	(22)
	$ 1,612	$ 1,626

(a) The Company’s $600 million principal amount of 6.25% unsecured senior notes matures on September 15, 2027 with interest payable semi-annually. On or after September 15, 2022 the notes may be redeemed at 103.13% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after September 15, 2025 through maturity.

(b) On May 25, 2021, the Company and Brookfield Residential US LLC ("BRUS LLC") co-issued a private placement of C$250 million of unsecured senior notes. The notes have an eight-year term, are due on June 15, 2029, and bear interest at a fixed rate of 5.125% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company’s subsidiaries. On or after June 15, 2024, the notes may be redeemed at 102.56% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity. The net proceeds of the offering were used to redeem the C$250 million aggregate principal amount of the unsecured senior notes due in 2023.

(c) On May 25, 2021, the Company and BRUS LLC co-issued a private placement of $350 million of unsecured senior notes. The notes have an eight-year term, are due June 15, 2029, and bear interest at a fixed rate of 5.0% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company’s subsidiaries. On or after June 15, 2024, the notes may be redeemed at 102.5% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity. The net proceeds of the offering were used to redeem the $350 million aggregate principal amount of the unsecured senior notes due in 2025.

(d) The Company’s $500 million principal amount of 4.875% unsecured senior notes mature February 15, 2030 with interest payable semi-annually. On or after February 15, 2025 the notes may be redeemed at 102.44% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after February 15, 2028 through maturity.

The Company and BRUS LLC are co-issuers of all private placements of unsecured senior notes. All unsecured senior notes include covenants that, among others, place limitations on incurring additional indebtedness and restricted payments. Under the limitation on additional indebtedness, Brookfield Residential is permitted to incur specified categories of indebtedness but is prohibited from incurring further indebtedness if it does not satisfy either a net indebtedness to tangible net worth ratio of 3.0 to 1, or a fixed charge coverage ratio of 2.0 to 1, as applicable. The Company was in compliance with these financial covenants as at September 30, 2022.

Our actual fixed charge coverage and net indebtedness to tangible net worth ratio as at September 30, 2022 are reflected in the table below:

	Covenant	Actual as at September 30 2022
Minimum fixed charge coverage	2.0 to 1	4.09 to 1
Maximum net indebtedness to consolidated tangible net worth	3.0 to 1	0.96 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings represent our corporate unsecured revolving credit facility and construction and development loans and facilities that are used to fund the operations of our communities as land is developed and homes and commercial properties are constructed. We also use secured vendor take back ("VTB") mortgages to secure and acquire land for future development. Our bank indebtedness and other financings as at September 30, 2022 were $1.2 billion, an increase of $579 million from December 31, 2021. The increase was primarily due to increased drawings on our revolving credit facility in addition to project-specific financings on our Lilia mixed-use project. As of September 30, 2022, the weighted average interest rate on our bank indebtedness and other financings was 5.8% (December 31, 2021 – 3.6%).

Future debt maturities are expected to either be refinanced or repaid from home closings, lot closings, or proceeds from the sale of mixed-use developments. Additionally, as at September 30, 2022, we had bank indebtedness capacity of $74 million that was available to complete land development and construction activities. The “Cash Flow” section below discusses future available capital resources should proceeds from our future home and/or lot closings not be sufficient to repay our debt obligations.

Bank indebtedness and other financings consist of the following:

	As at	
(US$ millions)	**September 30 2022**	**December 31 2021**
Project-specific financings (a)	$ 637	$ 603
Bank indebtedness (b)	534	—
Secured VTB mortgages (c)	65	58
	1,236	661
Transaction costs (a)(b)	(5)	(9)
	$ 1,231	$ 652

(a) Project-specific financings

(i) On December 29, 2021, OliverMcMillan/Brookfield Residential Nashville LLC, a wholly-owned subsidiary of the Company, finalized the mezzanine loan agreement for the Fifth + Broadway mixed use project in Nashville for $117 million, of which $97 million is from BAM Reinsurance Investments LP, a related party of the Company. Proceeds from the 364-day loan were used for general purposes.

Interest is charged on the loan at a fixed rate of 6.0% per annum.

The loan contains restrictive covenants and requires BRUS LLC to maintain a minimum liquidity of $10 million and a minimum net worth of $100 million, exclusive of BRUS LLC's equity in the project. The loan is secured by a first priority equity pledge of 100% of BRUS LLC's interest in OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company and direct owner of the Fifth + Broadway Project. The following table reflects the covenants:

		Actual as at
(US$ millions)	**Covenant**	**September 30 2022**
Minimum liquidity	$ 10	$ 105
Minimum net worth	$ 100	$ 1,598

(ii) On June 17, 2021, OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company, finalized the amendment of the secured construction loan for the Fifth + Broadway mixed-used project in Nashville. The loan was extended through to July 2024, allowing OliverMcMillan Spectrum Emery LLC to borrow up to $360 million (December 31, 2021 – $360 million). As at September 30, 2022, there were $360 million of borrowings outstanding under the construction loan (December 31, 2021 – $358 million).

Interest was amended to be charged on the loan at a rate equal to LIBOR plus 3.15%, subject to a LIBOR rate floor of 0.25%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $10 million and a minimum net worth of $100 million exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at September 30, 2022. The following table reflects the covenants:

(US$ millions)	Covenant	Actual as at September 30 2022
Minimum liquidity	$ 10	$ 105
Minimum net worth	$ 100	$ 1,593

(iii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The loan allows OliverMcMillan Kuhio LLC to borrow up to $156 million. As at September 30, 2022, there were $135 million of borrowings outstanding under the construction loan. (December 31, 2021 – $87 million)

Interest is charged on the loan at a rate equal to LIBOR plus 2.0%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $25 million and a minimum net worth of $250 million exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at September 30, 2022. The following table reflects the covenants:

(US$ millions)	Covenant	Actual as at September 30 2022
Minimum liquidity	$ 25	$ 105
Minimum net worth	$ 250	$ 1,636

(iv) As at September 30, 2022, the Company has two Canadian project-specific financings totaling $25 million (C$34 million) provided by various lenders (December 31, 2021 – $40 million (C$51 million)).

Project-specific financing totaling $17 million (C$23 million) has an interest rate of Canadian prime + 0.5%, is due on demand with 240 days' notice, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company (December 31, 2021 – $28 million (C$36 million)). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with this covenant as at September 30, 2022.

The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at September 30 2022
Maximum debt to equity ratio	1.50 to 1	0.43 to 1

Project-specific financing totaling $8 million (C$12 million) is held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian prime + 0.5%, matures in November 2022, and is secured and without covenants (December 31, 2021 – $12 million (C$15 million)).

(b) Bank indebtedness

As at September 30, 2022, there were $534 million of borrowings outstanding under the North American unsecured revolving credit facility and we had available capacity of $74 million (December 31, 2021 – no borrowings outstanding and $592 million of available capacity, respectively). The Company is able to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either the adjusted LIBOR plus an applicable rate between 2.0% and 2.8% per annum or an alternative base rate ("ABR") plus an applicable rate between 1.0% and 1.8% per annum. For Canadian dollar denominated borrowings, interest is charged on the facility at a rate equal to either the Canadian dollar offered rate ("CDOR") plus an applicable rate between 2.0% and 2.8% per annum or the Canadian prime rate plus an applicable rate between 1.0% and 1.8% per annum.

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of $2.4 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at September 30, 2022, the Company was in compliance with all of our covenants relating to this facility. The following table reflects consolidated tangible net worth and consolidated total debt to capitalization covenants:

(US$ millions, except percentages)	Covenant	Actual as at September 30 2022
Minimum tangible net worth	$ 2,430	$ 3,017
Maximum total debt to capitalization	65%	50%

(c) Secured VTB mortgages

The Company has nine secured VTB mortgages (December 31, 2021 – 10 secured VTB mortgages) in the amount of $66 million (December 31, 2021 – $58 million).

Six secured VTB mortgages (December 31, 2021 – seven secured VTB mortgages) in the amount of $49 million (December 31, 2021 – $42 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP. This debt is repayable in Canadian dollars of C$67 million (December 31, 2021 – C$52 million). The interest rates on this debt range from fixed rates of 4.0% to 6.0% and variable rates of Canadian prime plus 1.0% to 2.0%, and the debt is secured by the related land. As at September 30, 2022, the borrowings are not subject to any financial covenants.

Three secured VTB mortgages (December 31, 2021 – three secured VTB mortgages) in the amount of $17 million (December 31, 2021 – $17 million) relate to raw land held for development by various U.S. subsidiaries of the Company. The interest rates on the debt range from fixed rates of 0.5% to 5.0% and the debt is secured by the related land. As at September 30, 2022, these borrowings are not subject to any financial covenants.

Net Debt to Capitalization Calculation

Brookfield Residential’s net debt to total capitalization ratio is defined as total interest-bearing debt less cash divided by total capitalization. We define capitalization to include total equity and interest bearing debt, less cash.

Our net debt to total capitalization ratio as at September 30, 2022 and December 31, 2021 was as follows:

	As at	
(US$ millions, except percentages)	September 30 2022	December 31 2021
Bank indebtedness and other financings	$ 1,231	$ 652
Notes payable	1,612	1,626
Total interest bearing debt	2,843	2,278
Less: cash and cash equivalents	(40)	(116)
	2,803	2,162
Total equity	3,034	3,192
Total capitalization	$ 5,837	$ 5,354
Net debt to total capitalization	48%	40%

Credit Ratings

Our access to financing depends on, among other things, suitable market conditions and the maintenance of suitable long-term credit ratings. Our credit ratings may be adversely affected by various factors, including but not limited to, increased debt levels, decreased earnings, declines in our customer demand, increased competition, a further deterioration in general economic and business conditions and adverse publicity. Any downgrades in our credit rating may impede our access to capital markets or raise our borrowing rates. We are currently rated by two credit rating agencies, Moody's and Standard & Poor's ("S&P"). We are committed to maintaining these ratings and improving them further over time. Our credit ratings at September 30, 2022 were as follows:

	Moody's	S&P
Corporate rating	B1	B
Outlook	Stable	Negative

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issuer of securities. Agency ratings are subject to change, and there can be no assurance that a rating agency will rate us and/or maintain our rating.

Cash Flow

Our principal uses of working capital include acquisitions of land, land development, home construction and mixed-use development. Cash flows for each of our communities depend upon the applicable stage of the development cycle and can differ substantially from reported earnings. Early stages of development require significant cash outlays for land acquisitions, site approvals and entitlements, construction of model homes, roads, certain utilities and other amenities and general landscaping. As these costs are capitalized, earnings reported for financial statement purposes during such early stages may significantly exceed cash flows. Later, cash flows can exceed earnings reported for financial statement purposes as cost of sales includes charges for substantial amounts of previously expended costs.

We believe that we currently have sufficient access to capital resources and will continue to use our available capital resources to fund our operations. Our future capital resources include cash flow from operations, borrowings under project-specific and other credit facilities and proceeds from potential future debt issues or equity offerings, if required.

At September 30, 2022, we had cash and cash equivalents, including restricted cash, of $45 million, compared to $121 million at December 31, 2021.

The net cash flows for the nine months ended September 30, 2022 and 2021 were as follows:

	Nine Months Ended September 30	
(US$ millions)	2022	2021
Cash flows (used in) / provided by operating activities	$ (353)	$ (179)
Cash flows (used in) / provided by investing activities	88	101
Cash flows (used in) / provided by financing activities	187	(205)
Effect of foreign exchange rates on cash	3	—
Net change in cash and cash equivalents	$ (75)	$ (283)

Cash Flow (Used in) / Provided by Operating Activities

Cash flows used in operating activities during the nine months ended September 30, 2022 totaled $353 million, compared to cash flows used in operating activities of $179 million for the same period in 2021. During the nine months ended September 30, 2022, cash used in operating activities was primarily impacted by our net income and an increase in land and housing inventory due land development and home construction, an increase in receivables and other assets, an increase in operating lease liabilities, and an increase in accounts payable and other liabilities. Acquisitions of land and housing inventory for the nine months ended September 30, 2022 totaled $182 million, consisting of $83 million in Canada, $68 million in Pacific U.S. and $30 million in Central and Eastern U.S. During the nine months ended September 30, 2021, cash used in operating activities was primarily impacted by our net income, an increase in land and housing inventory due to land development and home construction, partially offset by sales activity and turnover of inventory, an increase in receivables and other assets, an increase in accounts payable and other liabilities and an increase in operating lease liabilities. Acquisitions of land and housing inventory for the nine months ended September 30, 2021 totaled $224 million, consisting of $23 million in Canada, $155 million in Pacific U.S. and $46 million in Central and Eastern U.S.

Cash Flow (Used in) / Provided by Investing Activities

During the nine months ended September 30, 2022, cash flows provided by investing activities totaled $88 million, compared to cash flows provided by investing activities of $101 million for the same period in 2021. During the nine months ended September 30, 2022, cash provided by investing activities was primarily impacted by $6 million of proceeds related to the sale of an investment in an unconsolidated entity and $183 million of distributions from our land and housing unconsolidated entities. This was partially offset by investments of $77 million in land and housing unconsolidated entities and an increase in loan receivables of $24 million. During the nine months ended September 30, 2021, cash provided by investing activities was primarily impacted by $137 million distributions from our land and housing unconsolidated entities offset by an increase in our loan receivables of $11 million, acquisitions of $15 million, and investments of $10 million in land and housing unconsolidated entities.

Cash Flow (Used in) / Provided by Financing Activities

Cash flows provided by financing activities for the nine months ended September 30, 2022 totaled $187 million, compared to cash flows used in financing activities of $205 million for the same period in 2021. During the nine months ended September 30, 2022, cash provided by financing activities was primarily from drawings on bank indebtedness of $534 million and $47 million net borrowings under project-specific and other financing. This was partially offset by a $375 million dividend paid to common shareholders. For the nine months ended September 30, 2021, cash used in financing activities was primarily from a $350 million dividend paid to common shareholders, distributions from non-controlling interest of $63 million, $9 million of costs related to the extinguishment of the unsecured senior notes due in 2023 and 2025, and $7 million of costs related to the issuance of the unsecured senior notes due in 2029. This was partially offset by $95 million net borrowings under project-specific and other financings, drawings on bank indebtedness of $82 million and contributions from non-controlling interest of $47 million.

Contractual Obligations and Other Commitments

See Note 14 to the condensed consolidated financial statements, "Commitments, Contingent Liabilities and Other" for detailed information.

Shareholders’ Equity

At November 3, 2022, 129,756,910 Common Shares in the capital of the Company were issued and outstanding. In addition, Brookfield Residential has a stock option plan under which key officers and employees are granted options to purchase Non-Voting Class B Common Shares or settle the options in cash at the option of the holder. Each option granted can be exercised for one Non-Voting Class B Common Share or settled in cash for the fair value of one Common Share at the date of exercise. At November 3, 2022, 1,502,114 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the nine months ended September 30, 2022.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and invest in unconsolidated entities to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time until the options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of September 30, 2022, we had $17 million of primarily non-refundable option deposits and entitlement costs. The total remaining exercise price of these options was $46 million. Pursuant to the guidance in the United States Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 *Consolidation*, we have consolidated $14 million of these option contracts where we consider the Company to hold the majority economic interest in the assets held under the options.

We also own 7,567 lots and control under option 592 lot equivalents through our proportionate share of land and housing unconsolidated entities. As of September 30, 2022, our investment in land and housing unconsolidated entities totaled $323 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of September 30, 2022, we had recourse guarantees of $48 million with respect to debt in our land and housing unconsolidated entities. During the nine months ended September 30, 2022, we did not make any loan re-margin repayments on the debt in our land and housing unconsolidated entities. Please refer to Note 4 to the condensed consolidated financial statements, “Investments in Unconsolidated Entities”, for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of September 30, 2022, we had $64 million in letters of credit outstanding and $576 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at September 30, 2022 are $39 million and $182 million, respectively.

Transactions Between Related Parties

See Note 19 of the condensed consolidated financial statements, "Related Party Transactions", for detailed information.

Non-GAAP Financial Measures

Gross margin percentage on land and home sales are non-GAAP measures and are defined by the Company as gross margin of land and homes over respective revenues of land and homes. Management finds gross margin percentage to be an important and useful measurement, as the Company uses it to evaluate its performance and believes it is a widely accepted financial measure by users of its financial statements in analyzing its operating results. Gross margin percentage also provides comparability to similar calculations by its peers in the homebuilding industry. Additionally, gross margin percentage is important to the Company's management because it assists its management in making strategic decisions regarding its construction pace, product mix and product pricing based upon the profitability generated on homes and land actually delivered during previous periods. However, gross margin percentage as presented may not be fully comparable to similarly titled measures reported by other companies because not all companies calculate this metric in an identical manner.

This measure is not intended to represent GAAP gross margin percentage and it should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(all dollar amounts are in thousands of U.S. dollars)
(Unaudited)

	Note	As at September 30 2022	As at December 31 2021
Assets			
Cash and cash equivalents		$ 40,457	$ 116,469
Restricted cash	2	4,991	4,832
Receivables and other assets		1,237,434	1,157,213
Land and housing inventory	3	2,841,163	2,573,635
Investments in unconsolidated entities - land and housing	4	322,866	356,642
Investments in unconsolidated entities - affiliate	4	833,958	769,660
Held-to-maturity investment		300,000	300,000
Commercial properties	5	289,198	873,145
Assets held for sale	6	670,242	—
Operating and financing lease right-of-use asset		80,489	82,249
Deferred income tax assets	7	27,500	47,678
Goodwill		16,479	16,479
Total assets		$ 6,664,777	$ 6,298,002
Liabilities and Equity			
Accounts payable and other liabilities		$ 654,389	$ 737,669
Bank indebtedness and other financings	8	1,230,524	652,065
Notes payable	9	1,611,654	1,626,017
Liabilities associated with assets held for sale	6	45,529	—
Operating and financing lease liability		89,113	89,943
Total liabilities		3,631,209	3,105,694
Common shares	10	626,594	626,594
Retained earnings	10	860,884	1,125,670
Non-controlling interest - land and housing		305,732	299,751
Non-controlling interest - affiliate		1,407,738	1,244,218
Accumulated other comprehensive loss		(167,380)	(103,925)
Total equity		3,033,568	3,192,308
Total liabilities and equity		$ 6,664,777	$ 6,298,002
Commitments, contingent liabilities and other	14		
Guarantees	15		
Subsequent events	20		

See accompanying notes to the condensed consolidated financial statements

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(all dollar amounts are in thousands of U.S. dollars, except per share amounts)
(Unaudited)

		Three Months Ended September 30		Nine Months Ended September 30	
	Note	**2022**	**2021**	**2022**	**2021**
Revenue					
Housing		$ 368,680	$ 419,554	$ 951,338	$1,211,634
Land		25,623	25,971	267,290	152,976
Total revenue		394,303	445,525	1,218,628	1,364,610
Direct Cost of Sales					
Housing		(288,250)	(340,825)	(763,181)	(984,186)
Land		(13,624)	(13,966)	(158,695)	(104,702)
Total direct cost of sales		(301,874)	(354,791)	(921,876)	(1,088,888)
Gross margin		92,429	90,734	296,752	275,722
Selling, general and administrative expense		(74,832)	(60,523)	(195,992)	(184,753)
Interest expense		(19,381)	(11,057)	(45,982)	(35,884)
Earnings from unconsolidated entities - land & housing	4	28,032	54,290	110,698	71,098
Earnings from unconsolidated entities - affiliate	4	24,573	40,429	65,795	109,397
Other income	13	33,709	34,365	118,393	69,540
Lease expense		(4,060)	(3,515)	(12,064)	(10,495)
Depreciation		(5,706)	(5,629)	(18,047)	(14,829)
Income Before Income Taxes		74,764	139,094	319,553	279,796
Current income tax recovery / (expense)	7	995	(3,161)	(4,591)	(4,471)
Deferred income tax (expense) / recovery	7	(5,448)	1,624	(15,847)	2,810
Net Income		70,311	137,557	299,115	278,135
Other Comprehensive (Loss) / Income					
Unrealized foreign exchange (loss) / gain on:					
Translation of the net investment in Canadian subsidiaries and unconsolidated entities - affiliate		(62,637)	(20,692)	(80,505)	2,757
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		13,425	4,500	17,050	(825)
Comprehensive Income		$ 21,099	$ 121,365	$ 235,660	$ 280,067
Net Income Attributable To:					
Consolidated		$ 70,311	$ 137,557	$ 299,115	$ 278,135
Non-controlling interest - land and housing		2,233	5,192	25,381	20,550
Non-controlling interest - affiliate		36,502	71,848	163,520	104,093
Brookfield Residential		$ 31,576	$ 60,517	$ 110,214	$ 153,492
Comprehensive Income / (Loss) Attributable To:					
Consolidated		$ 21,099	$ 121,365	$ 235,660	$ 280,067
Non-controlling interest - land and housing		2,233	5,192	25,381	20,550
Non-controlling interest - affiliate		36,502	71,848	163,520	104,093
Brookfield Residential		$ (17,636)	$ 44,325	$ 46,759	$ 155,424
Common Shareholders Earnings Per Share					
Basic	12	$ 0.24	$ 0.47	$ 0.85	$ 1.18
Diluted	12	$ 0.24	$ 0.46	$ 0.85	$ 1.17
Weighted Average Common Shares Outstanding *(in thousands)*					
Basic	12	129,757	129,757	129,757	129,757
Diluted	12	130,037	130,645	130,037	130,645

See accompanying notes to the condensed consolidated financial statements

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(all dollar amounts are in thousands of U.S. dollars)
(Unaudited)

	Note	Nine Months Ended September 30 2022	Nine Months Ended September 30 2021
Common Shares	10		
Opening balance		$ 626,594	$ 626,594
Ending balance		626,594	626,594
Retained Earnings			
Opening balance		1,125,670	1,393,099
Common share dividends	19	(375,000)	(350,000)
Dilution of investment in unconsolidated entities - affiliate		—	35,309
Net income attributable to Brookfield Residential		110,214	153,492
Other		—	437
Ending balance		860,884	1,232,337
Accumulated Other Comprehensive Loss			
Opening balance		(103,923)	(107,170)
Other comprehensive (loss) / income		(63,457)	1,932
Ending balance		(167,380)	(105,238)
Total Brookfield Residential Equity		$ 1,320,098	$ 1,753,693
Non-Controlling Interest - Land & Housing			
Opening balance		$ 299,751	$ 155,464
Net income attributable to non-controlling interest		25,381	20,550
Distributions		(19,401)	(62,701)
Contributions		—	46,564
Ending balance		$ 305,731	$ 159,877
Non-Controlling Interest - Affiliate			
Opening balance		$ 1,244,218	$ 1,073,016
Net income attributable to non-controlling interest		163,520	104,093
Ending balance		$ 1,407,738	$ 1,177,109
Total Equity		$ 3,033,567	$ 3,090,679

See accompanying notes to the condensed consolidated financial statements

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(all dollar amounts are in thousands of U.S. dollars)
(Unaudited)

	Nine Months Ended September 30	
Cash Flows (Used in) / Provided by Operating Activities	**2022**	**2021**
Net income	$ 299,115	$ 278,135
Adjustments to reconcile net income to net cash (used in) / provided by operating activities:		
Earnings from unconsolidated entities - land and housing	(110,691)	(71,098)
Earnings from unconsolidated entities - affiliate	(65,795)	(109,397)
Deferred income tax expense / (recovery)	15,847	(2,810)
Share-based compensation expense	8,599	2,190
Depreciation	18,047	14,829
Right-of-use asset depreciation	4,969	4,162
Amortization of non-cash interest	6,603	5,371
Loss on extinguishment of debt	—	15,751
Dividend income on held-to-maturity investment	(17,951)	(17,951)
Distributions of earnings from unconsolidated entities	5,717	6,680
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(58,914)	(87,436)
Increase in land and housing inventory	(338,220)	(97,747)
Increase in commercial properties	(42,475)	(148,601)
Increase in operating lease liabilities	(3,498)	(3,102)
Increase / (decrease) in accounts payable and other liabilities	(74,758)	32,020
Net cash (used in) / provided by operating activities	(353,405)	(179,004)
Cash Flows (Used in) / Provided by Investing Activities		
Investments in unconsolidated entities	(77,216)	(10,044)
Distributions from unconsolidated entities	183,036	137,383
Sale of investment in unconsolidated entity	5,979	—
Acquisition costs	—	(14,500)
Decrease / (increase) in loan receivable	(23,649)	(11,511)
Net cash (used in) / provided by investing activities	88,150	101,328
Cash Flows (Used in) / Provided by Financing Activities		
Drawings under project-specific and other financings	137,025	117,722
Repayments under project-specific and other financings	(89,562)	(22,445)
Net drawings on bank indebtedness	533,707	84,033
Drawings under unsecured senior notes payable	—	551,650
Repayments under unsecured senior notes payable	—	(551,650)
Payments of debt issuance costs	—	(9,078)
Payments of debt extinguishment costs	—	(8,984)
Distributions to non-controlling interest	(19,401)	(62,701)
Contributions from non-controlling interest	—	46,562
Dividends paid to common shareholders	(375,000)	(350,000)
Payments made on the principal of financing leases	(209)	(109)
Net cash (used in) / provided by financing activities	186,560	(205,000)
Effect of foreign exchange rates on cash and cash equivalents	2,842	155
Change in cash, cash equivalents and restricted cash	(75,853)	(282,521)
Cash, cash equivalents and restricted cash at beginning of period	121,301	368,155
Cash, cash equivalents and restricted cash at end of period	$ 45,448	$ 85,634
Supplemental Cash Flow Information		
Cash interest paid	$ 105,282	$ 89,213
Cash taxes paid	$ 13,090	$ 3,569

See accompanying notes to the condensed consolidated financial statements

Note 1. Significant Accounting Policies

(a) Basis of Presentation

Brookfield Residential Properties Inc. (the “Company” or “Brookfield Residential”) was incorporated in Ontario, Canada and is a wholly-owned subsidiary of Brookfield Asset Management Inc. ("BAM") and has been developing land and building homes for over 60 years.

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company’s Annual Report for the year ended December 31, 2021.

The condensed consolidated financial statements include the consolidated accounts of Brookfield Residential, its subsidiaries, investments in unconsolidated entities and variable interest entities in which the Company is the primary beneficiary. All intercompany accounts, transactions and balances have been eliminated upon consolidation.

All dollar amounts discussed herein are in U.S. dollars and in thousands, unless otherwise stated. Amounts in Canadian dollars are identified as “C$.”

(b) Use of Estimates

The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the carrying amounts of particular assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where judgment is applied include asset valuations, investments in unconsolidated entities, assessment of variable interest entities, assessment of the probability of sale within the next twelve months relating to assets and liabilities associated with assets held for sale, tax provisions, warranty costs, deferred income tax assets and liabilities, share-based compensation, and contingent liabilities including litigation. Actual results could differ materially from these estimates.

(c) Future Accounting Pronouncements

ASU 2016-13 *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016, and is effective January 1, 2023 with early adoption permitted. It is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. Adoption of the update is not expected to have a significant impact on the Company's financial position and results of operations.

ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform*, was issued in March 2020, and is effective from March 12, 2020 through December 31, 2022. The update provides optional guidance for a limited period of time to ease the potential burden of reference rate reform on financial reporting, in response to concerns about structural risks of interbank offered rates (IBOR), and particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR). Adoption of this update is not expected to have a significant impact on the Company's financial position and results of operations.

Note 2. Restricted Cash

At September 30, 2022, the Company has restricted cash primarily consisting of $5.0 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments (December 31, 2021 – $4.7 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments).

(all dollar amounts are in thousands of U.S. dollars)

Note 3. Land and Housing Inventory

The following summarizes the components of land and housing inventory:

	As at	
	September 30 2022	December 31 2021
Land held for development	$ 1,307,927	$ 1,238,452
Land under development	684,866	748,390
Housing inventory	762,378	506,691
Model homes	85,992	80,102
	$ 2,841,163	$ 2,573,635

The Company has reviewed all of its projects for indicators of impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. As at September 30, 2022 based on the analysis performed, no indicators of impairment were identified.

Interest capitalized and expensed during the three and nine months ended September 30, 2022 and 2021 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Interest capitalized, beginning of period	$ 190,576	$ 188,359	$ 180,399	$ 188,646
Interest capitalized	16,988	14,932	49,116	50,294
Interest expensed to cost of sales	(12,817)	(20,689)	(34,768)	(56,338)
Interest capitalized, end of period	$ 194,747	$ 182,602	$ 194,747	$ 182,602

Land and housing inventory includes non-refundable deposits and other entitlement costs totaling $17.3 million (December 31, 2021 – $15.7 million) in connection with options that are not required to be consolidated in accordance with the guidance incorporated in ASC Topic 810. The total remaining exercise price of these options is $46.1 million (December 31, 2021 – $50.7 million), including the non-refundable deposits and other entitlement costs identified above.

(all dollar amounts are in thousands of U.S. dollars)

Note 4. Investments in Unconsolidated Entities

(a) Land and Housing

As part of its land and housing operations, the Company participates in joint ventures and partnerships to explore opportunities while minimizing risk. As of September 30, 2022, the Company is invested in 32 unconsolidated entities (December 31, 2021 – 25 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include $6.2 million (December 31, 2021 – $16.2 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 592 lot equivalents (December 31, 2021 – 418 lots) under option. The Company's share of the total exercise price of these options is $15.8 million (December 31, 2021 – $20.9 million). Summarized financial information on a 100% basis for the combined land and housing unconsolidated entities follows:

	As at	
	September 30 2022	**December 31 2021**
Assets		
Land and housing inventory	1,360,838	$ 1,524,897
Investments in unconsolidated entities	114,495	128,960
Other assets	353,167	319,201
	$ 1,828,500	$ 1,973,058
Liabilities and Equity		
Bank indebtedness and other financings	346,111	$ 349,690
Accounts payable and other liabilities	182,746	185,507
Brookfield Residential's interest	322,784	356,642
Others' interest	976,859	1,081,219
	$ 1,828,500	$ 1,973,058

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	**2021**	**2022**	**2021**
Revenue and Expenses				
Revenue	$ 140,388	$ 290,316	$ 651,972	$ 462,433
Direct cost of sales	(71,770)	(159,404)	(349,383)	(275,710)
Other income and expenses	(24,358)	(7,733)	(14,274)	(10,832)
Net income	$ 44,260	$ 123,179	$ 288,315	$ 175,891
Total equity earnings	$ 28,032	$ 54,290	$ 110,698	$ 71,098

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt on its unconsolidated entities. As at September 30, 2022, the Company had recourse guarantees of $48.3 million (December 31, 2021 – $50.1 million) with respect to debt of its land and housing unconsolidated entities.

(all dollar amounts are in thousands of U.S. dollars)

(b) Affiliates

The Company recorded its investment in Brookfield US Inc. ("BUSI") using the equity method in accordance with ASC Topic 323 *Equity Method - Investments and Joint Ventures* for transactions with entities under common control. Under the equity method, the Company's investment is recorded at its proportionate share of the carrying amount of the underlying assets and liabilities of BUSI as at September 26, 2019. The Company's investment in BUSI is subsequently increased or decreased to recognize the Company's share of comprehensive income or loss after the initial recognition and for changes in ownership. As at September 30, 2022, the Company had an ownership interest of 9.1% in BUSI (December 31, 2021 – 9.1%)

Summarized activity in the balance of our investment in unconsolidated entities - affiliate for the current and prior period is as follows:

	As at	
	September 30 2022	**December 31 2021**
Equity Investment in BUSI		
Balance, beginning of period	$ 769,660	$ 605,615
Dilution gain	—	35,309
Earnings / (Loss) from unconsolidated entities	65,795	129,346
Other comprehensive (loss) / income	(1,497)	(610)
Balance, end of period	$ 833,958	$ 769,660

Summarized financial information of BUSI, excluding the assets and liabilities of BUSI's investment in the Company's controlled subsidiaries, (presented at 100%) is as follows:

	As at	
	September 30 2022	**December 31 2021**
Assets		
Investments	$ 7,714,294	$ 13,494,394
Investments in unconsolidated entities	4,911,113	5,167,070
Other assets	4,700,638	3,915,395
	$ 17,326,045	$ 22,576,859
Liabilities and Equity		
Loans payable	$ 1,959,379	$ 2,197,035
Other liabilities	1,179,186	1,087,495
Non-controlling interest	4,978,865	10,792,508
Brookfield Residential's interest	833,958	769,660
Others' Interest	8,374,657	7,730,161
	$ 17,326,045	$ 22,576,859

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	**2021**	**2022**	**2021**
Revenue and Expenses				
Income	$ 563,293	$ 743,325	$1,779,493	$2,126,953
Expenses	(286,261)	(307,652)	(999,359)	(989,297)
Net income	$ 277,032	$ 435,673	$ 780,134	$1,137,656
Other comprehensive loss	(8,272)	(4,112)	(16,453)	(5,338)
Comprehensive income	$ 268,760	$ 431,561	$ 763,681	$1,132,318

(all dollar amounts are in thousands of U.S. dollars)

Note 5. Commercial Properties

The Company's components of commercial properties consist of the following:

	As at	
	September 30 2022	December 31 2021
Work in progress	$ —	$ 239,919
Finished properties	293,572	652,992
	293,572	892,911
Less: accumulated depreciation	(4,374)	(19,766)
	$ 289,198	$ 873,145

During the quarter, two of our commercial properties were classified as Assets Held for Sale, see Note 6.

Interest capitalized to commercial properties and commercial properties held for sale and expensed during the three and nine months ended September 30, 2022 and 2021 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Interest capitalized, beginning of period	$ 58,025	$ 54,123	$ 56,320	$ 52,537
Interest capitalized	—	1,122	1,916	3,165
Interest expensed to depreciation	(555)	(231)	(766)	(688)
Interest capitalized, end of period	$ 57,470	$ 55,014	$ 57,470	$ 55,014

(all dollar amounts are in thousands of U.S. dollars)

Note 6. Assets Held for Sale

As of September 30, 2022, there were two disposal groups that were classified as held for sale including Fifth + Broadway mixed use project (in Nashville) and the Seton Professional Center commercial property (in Calgary). No gain or loss was recorded upon reclassification of either disposal group as held for sale. As of September 1, 2022, the long-lived assets within the two disposal groups are no longer being depreciated. The assets and liabilities classified as held for sale are as follows:

	As at September 30 2022
Assets	
Commercial properties	$ 607,007
Receivables and other assets	37,908
Financing lease right-of-use asset	25,327
Assets held for sale	$ 670,242
Liabilities	
Financing lease liability	$ 22,948
Other liabilities	22,581
Liabilities associated with assets held for sale	$ 45,529

The Company has incurred $0.1 million of transaction costs to date related to the disposal efforts. These costs are recorded within Other Income in the condensed consolidated statements of operations.

Subsequent to the end of the quarter, the Company closed on the sale of the Seton Professional Center. In addition, the Company entered into a purchase and sale agreement to sell Fifth + Broadway in Nashville and is subject to customary closing conditions with anticipated closing before the end of 2022. Sales proceeds from the sale will be utilized to repay project-specific financings and a portion of the outstanding borrowings under the North American unsecured revolving credit facility.

Note 7. Income Taxes

The Company recorded an aggregate income tax expense of $20.4 million for the nine months ended September 30, 2022 (nine months ended September 30, 2021 – $1.7 million), which is comprised of current income tax expense of $4.6 million (nine months ended September 30, 2021 – income tax expense of $4.5 million) and deferred income tax expense of $15.8 million (nine months ended September 30, 2021 – income tax recovery of $2.8 million).

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the nine months ended September 30, 2022 and 2021 is as follows:

	Nine Months Ended September 30	
	2022	**2021**
Statutory rate	23.0%	23.0%
Non-temporary differences	1.3	0.7
Rate difference from statutory rate	1.9	(0.3)
Deferred tax asset valuation allowance impact	1.0	(16.3)
Portion of gains subject to different tax rates	(0.1)	6.7
Return to provision	(0.4)	0.2
Non-taxable preferred share dividends	(1.5)	(1.7)
Taxable income attributable to non-controlling interests	(16.7)	(12.4)
Other	(2.1)	0.7
Effective tax rate	6.4%	0.6%

The increase in the effective tax rate when compared to the same period in 2021 was primarily due to changes in the proportion of income in jurisdictions with different tax rates, an increase in non-deductible stock based compensation, a release of the valuation allowance relating to the recognition of capital losses and the outside basis difference in our investment in affiliate unconsolidated entities in 2021, with no comparable adjustment in 2022. This was partially offset by a decrease in tax expense relating to a decrease in unrealized foreign exchange gains on the Company's U.S. denominated notes, the consolidation of income attributable to non-controlling interest for which the consolidated tax provision only includes our proportionate share and realized capital gains on the sale of common share investments in the nine months ended September 30, 2021, with no comparable adjustment in 2022.

(all dollar amounts are in thousands of U.S. dollars)

As at September 30, 2022, the Company recorded deferred tax assets of $30.5 million (December 31, 2021 - $47.7 million) which were partly offset by valuation allowances of $3.0 million (December 31, 2021 - $nil). In evaluating the need for a valuation allowance against the Company's deferred tax assets at September 30, 2022, the Company considered all available and objectively verifiable positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. The valuation allowance of $3.0 million mainly relates to the realized and unrealized foreign exchange capital losses in Canada. The Company concluded it is more likely-than-not that all of its remaining U.S. and Canadian deferred tax assets will be realized in the future.

Note 8. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	September 30 2022	**December 31 2021**
Project-specific financings (a)	$ 636,782	$ 602,406
Bank indebtedness (b)	533,707	—
Secured VTB mortgages (c)	65,430	58,330
	1,235,919	660,736
Transaction costs (a)(b)	(5,395)	(8,671)
	$ 1,230,524	$ 652,065

(a) *Project-specific financings*

(i) On December 29, 2021, OliverMcMillan/Brookfield Residential Nashville LLC, a wholly-owned subsidiary of the Company, finalized the mezzanine loan agreement for the Fifth + Broadway mixed use project in Nashville for $116.9 million, of which $96.9 million is from BAM Reinsurance Investments LP, a related party of the Company. Proceeds from the 364-day loan were used for general corporate purposes.

Interest is charged on the loan at a fixed rate of 6.0% per annum. During the nine months ended September 30, 2022, the Company paid $5.3 million of interest, of which $4.4 million is to BAM Reinsurance Investments LP at the exchange amounts in the condensed consolidated statement of operations within interest expense.

The loan contains restrictive covenants and requires BRUS LLC to maintain a minimum liquidity of $10.0 million and a minimum net worth of $100.0 million, exclusive of BRUS LLC's equity in the project. The loan is secured by a first priority equity pledge of 100% of BRUS LLC's interest in OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company and direct ownership of the Fifth + Broadway project. The Company was in compliance with these covenants as at September 30, 2022.

(ii) On June 17, 2021, OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company, finalized the amendment of the secured construction loan for the Fifth + Broadway mixed-used project in Nashville. The loan was extended through July 2024, allowing OliverMcMillan Spectrum Emery LLC to borrow up to $360.0 million. As at September 30, 2022, the Company has $360.0 million of borrowings outstanding under the construction loan (December 31, 2021 – $358.4 million).

Interest is charged on the loan at a rate equal to LIBOR plus 3.15%, subject to a LIBOR rate floor of 0.25%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $10.0 million and a minimum net worth of $100.0 million, exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at September 30, 2022.

(iii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The loan allows OliverMcMillan Kuhio LLC to borrow up to $155.7 million. As at September 30, 2022, the company has $135.0 million of borrowings outstanding under the construction loan (December 31, 2021 – $86.7 million).

Interest is charged on the loan at a rate equal to LIBOR plus 2.0%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $25.0 million and a minimum net worth of $250.0 million exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at September 30, 2022.

(iv) As at September 30, 2022, the Company has two Canadian project-specific financings totaling $24.9 million (C$34.5 million) provided by various lenders (December 31, 2021 – $40.4 million (C$51.0 million)).

Project-specific financing totaling $16.5 million (C$22.9 million) has an interest rate of Canadian prime + 0.50%, is due on demand with 240 days' notice, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company (December 31, 2021 – $28.2 million (C$35.6 million)). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with this covenant as at September 30, 2022.

Project-specific financing totaling $8.4 million (C$11.6 million), held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian prime + 0.50%, matures in November 2022, and is secured without covenants (December 31, 2021 – $12.2 million (C$15.4 million)).

(b) Bank indebtedness

As at September 30, 2022, there were $533.7 million of borrowings outstanding under the North American unsecured revolving credit facility, and available capacity of $73.9 million (December 31, 2021 – no borrowings outstanding and $592.0 million of available capacity, respectively). The Company is able to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either the adjusted LIBOR plus an applicable rate between 2.0% and 2.75% per annum or an alternative base rate ("ABR") plus an applicable rate between 1.0% and 1.75% per annum. For Canadian dollar denominated borrowings, interest is charged on the facility at a rate equal to either the Canadian dollar offered rate ("CDOR") plus an applicable rate between 2.0% and 2.75% per annum or the Canadian prime rate plus an applicable rate between 1.0% and 1.75% per annum.

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of $2.4 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at September 30, 2022, the Company was in compliance with all of its covenants relating to this facility.

(c) Secured VTB mortgages

The Company has nine secured VTB mortgages (December 31, 2021 – 10 secured VTB mortgages) in the amount of $65.4 million (December 31, 2021 – $58.3 million). Secured VTB mortgages are repayable as follows: 2022 – $17.4 million; 2023 – $25.8 million; and 2024 – $22.2 million.

Six secured VTB mortgages (December 31, 2021 – seven secured VTB mortgages) in the amount of $48.6 million (December 31, 2021 – $41.5 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP, wholly-owned subsidiaries of the Company. This debt is repayable in Canadian dollars of C$67.2 million (December 31, 2021 – C$52.4 million). The interest rates on the debt range from fixed rates of 4.0% to 6.0% and variable rates of Canadian prime plus 1.0% to 2.0% and the debt is secured by the related land. The Company was in compliance with this covenant as at September 30, 2022.

Three secured VTB mortgages (December 31, 2021 – three secured VTB mortgages) in the amount of $16.8 million (December 31, 2021 – $16.8 million) relate to raw land held for development by various U.S. subsidiaries of the Company. The interest rate on the debt ranges from fixed rates of 0.48% to 5.0% and the debt is secured by related land. As at September 30, 2022, these borrowings are not subject to any financial covenants.

(all dollar amounts are in thousands of U.S. dollars)

Note 9. Notes Payable

	As at	
	September 30 2022	**December 31 2021**
6.250% unsecured senior notes due September 15, 2027 (a)	600,000	600,000
5.125% unsecured senior notes due June 15, 2029 (b)	180,775	197,825
5.000% unsecured senior notes due June 15, 2029 (c)	350,000	350,000
4.875% unsecured senior notes due February 15, 2030 (d)	500,000	500,000
	1,630,775	1,647,825
Transaction costs	(19,121)	(21,808)
	1,611,654	$ 1,626,017

(a) The Company's $600 million principal amount of 6.25% unsecured senior notes matures on September 15, 2027 with interest payable semi-annually. On or after September 15, 2022 the notes may be redeemed at 103.13% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after September 15, 2025 through maturity.

(b) On May 25, 2021, the Company and BRUS LLC co-issued a private placement of C$250 million of unsecured senior notes. The notes have an eight-year term, are due on June 15, 2029, and bear interest at a fixed rate of 5.125% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries. On or after June 15, 2024, the notes may be redeemed at 102.56% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity. The net proceeds of the offering were used to redeem the C$250 million aggregate principal amount of the unsecured senior notes due in 2023.

(c) On May 25, 2021, the Company and BRUS LLC co-issued a private placement of $350 million of unsecured senior notes. The notes have an eight-year term, are due June 15, 2029, and bear interest at a fixed rate of 5.0% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries. On or after June 15, 2024, the notes may be redeemed at 102.50% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity. The net proceeds of the offering were used to redeem the $350 million aggregate principal amount of the unsecured senior notes due in 2025.

(d) The Company's $500 million principal amount of 4.875% unsecured senior notes mature February 15, 2030 with interest payable semi-annually. On or after February 15, 2025 the notes may be redeemed at 102.44% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after February 15, 2028 through maturity.

The Company and BRUS LLC are co-issuers of all private placements of unsecured senior notes. All unsecured senior notes include covenants that, among others, place limitations on incurring additional indebtedness and restricted payments. Under the limitation on additional indebtedness, Brookfield Residential is permitted to incur specified categories of indebtedness, but is prohibited from incurring further indebtedness if it does not satisfy either a net indebtedness to tangible net worth ratio of 3.0 to 1, or a fixed charge coverage ratio of 2.0 to 1, as applicable. The Company was in compliance with these financial covenants as at September 30, 2022.

(all dollar amounts are in thousands of U.S. dollars)

Note 10. Equity

Common Shares

The authorized Common Share capital of the Company consists of an unlimited number of voting Common Shares and Non-Voting Class B Common Shares.

There were no Common Shares issued during the nine months ended September 30, 2022 and the year ended December 31, 2021.

	For the Period Ended	
	September 30 2022	December 31 2021
Common Shares issued, beginning of period	129,756,910	129,756,910
Common Shares issued	—	—
Common Shares issued and outstanding, end of period	129,756,910	129,756,910

The Company had no Non-Voting Class B Common Shares issued and outstanding as at September 30, 2022 and December 31, 2021.

Note 11. Share-Based Compensation

(a) Management Share Option Plan

During the three and nine months ended September 30, 2022, there were no options granted to eligible employees (three and nine months ended September 30, 2021 – no options granted).

The liability of $14.8 million (December 31, 2021 – $34.9 million) relating to stock options is included in accounts payable and other liabilities. The total stock based compensation cost recognized in selling, general and administrative expense resulting from the change in fair value of our share-based compensation liabilities for the three and nine months ended September 30, 2022 was $2.0 million and $8.6 million, respectively (September 30, 2021 – $1.3 million and $2.2 million, respectively).

The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company's Management Share Option Plan for the nine months ended September 30, 2022 and 2021:

	September 30, 2022		September 30, 2021	
	Options	Weighted Average Per Share Exercise Price	Options	Weighted Average Per Share Exercise Price
Outstanding, beginning of period	3,510,114	$ 21.64	10,409,076	$ 22.20
Granted	—	—	—	—
Exercised	(1,947,000)	21.38	(4,057,476)	22.49
Cancelled	(22,000)	22.51	—	—
Outstanding, end of period	1,541,114	21.95	6,351,600	22.01
Options exercisable, end of period	746,314	$ 21.90	4,807,400	$ 22.10

A summary of the status of the Company's unvested options for the nine months ended September 30, 2022 and 2021 are as follows:

	September 30, 2022		September 30, 2021	
	Options	Weighted Average Fair Value Per Option	Options	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of period	994,200	$ 11.16	1,721,600	$ 6.77
Granted	—	—	—	—
Vested	(177,400)	10.96	(177,400)	6.51
Cancelled	(22,000)	22.51	—	—
Unvested options outstanding, end of period	794,800	$ 11.21	1,544,200	$ 6.80

At September 30, 2022, there was $3.3 million (September 30, 2021 – $6.5 million) of unrecognized expenses related to unvested options, which are expected to be recognized over the remaining weighted average contract period of 1.1 years (September 30, 2021 – 1.8 years).

Note 12. Earnings Per Share

Basic and diluted earnings per share for the three and nine months ended September 30, 2022 and 2021 were calculated as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	**2021**	**2022**	**2021**
Numerator:				
Net income attributable to Brookfield Residential	$ 31,576	$ 60,517	$ 110,214	$ 153,492
Denominator (in '000s of shares):				
Basic weighted average shares outstanding	129,757	129,757	129,757	129,757
Diluted weighted average shares outstanding	130,037	130,645	130,037	130,645
Basic earnings per share	$ 0.24	$ 0.47	$ 0.85	$ 1.18
Diluted earnings per share	$ 0.24	$ 0.46	$ 0.85	$ 1.17

Note 13. Other (Income) / Expense

The Company's components of other (income) / expense consist of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	**2021**	**2022**	**2021**
Income from commercial properties	$ (10,833)	$ (5,309)	$ (29,735)	$ (7,308)
Investment income	(6,801)	(10,261)	(17,917)	(37,139)
Other	(6,080)	(10,092)	(16,593)	(16,515)
Preferred share dividend income	(6,049)	(6,049)	(17,951)	(17,951)
Joint venture management fee income	(2,432)	(2,654)	(7,584)	(6,377)
Change in unrealized gain from investment	(1,514)	—	(28,613)	—
Loss on extinguishment of debt	—	—	—	15,750
	$ (33,709)	$ (34,365)	$ (118,393)	$ (69,540)

Note 14. Commitments, Contingent Liabilities and Other

The following table reflects the changes in the Company's estimated warranty liability for the nine months ended September 30, 2022 and 2021:

	Nine Months Ended September 30	
	2022	**2021**
Balance, beginning of period	$ 18,789	$ 16,718
Payments and other adjustments made during the period	(8,306)	(3,227)
Warranties issued during the period	8,868	5,754
Adjustments due to change in estimates	(1,040)	(1,326)
Balance, end of period	$ 18,311	$ 17,919

As at September 30, 2022, $10.8 million of the amounts held in other assets related to deposits on land purchase obligations (December 31, 2021 – $18.2 million). The total amount committed on these obligations is $230.7 million (December 31, 2021 – $267.0 million).

Note 15. Guarantees

In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at September 30, 2022, these guarantees amounted to $640.3 million (December 31, 2021 – $658.7 million) and have not been recognized in the condensed consolidated financial statements. However, the proportionate development costs that relate to lots that have been sold are accrued in accounts payable and other liabilities. Such guarantees are required by the municipalities in which the Company operates before construction permission is granted.

(all dollar amounts are in thousands of U.S. dollars)

Note 16. Fair Value Measurements

Fair Value Hierarchy

Fair value hierarchical levels are directly determined by the amount of subjectivity associated with the valuation inputs of these assets and liabilities. The fair value hierarchy requires a company to prioritize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value.

As at September 30, 2022, all of the Company's financial assets and liabilities are recorded at their carrying value as it approximates fair value due to their short term nature, with the exception of one of the Homebuilder Finance assets, and Brookfield Single Family Rental investment, which are recorded at their fair values.

Homebuilder Finance Investment

The Company has determined that the valuation of the Homebuilder Finance Investment under the fair value hierarchy falls under Level 3, due to the lack of observable pricing inputs and related market activity. The purchases of investments classified as Level 3 are as follows:

		Nine Months Ended September 30, 2022
Purchases / Land Development Spend	$	53,170

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of September 30, 2022:

Financial Instrument		Fair value as of 9/30/2022	Valuation technique	Unobservable inputs	Range (where applicable)
Homebuilder Finance Investment	$	121,286	Discounted cash flow	Rate of return	12.2% - 33.7%

Brookfield Single Family Rental Investment

The Company has determined that the valuation of the Brookfield Single Family Rental Investment under the fair value hierarchy falls under Level 3, due to the lack of observable pricing inputs and related market activity.

The change in fair value of the investment has used Level 3 inputs to determine fair value is as follows:

		Nine Months Ended September 30, 2022
Balance, beginning of period	$	297,738
Purchase of investment		—
Change in unrealized gain from investment		28,613
Balance, end of period	$	326,351

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of September 30, 2022:

Financial Instrument		Fair value as of 9/30/2022	Valuation technique	Unobservable inputs	Range (where applicable)
Single Family Rental Investment	$	326,351	Discounted cash flow	Discount rate Capitalization rate	7.8% 5.3%

Net Investment Hedge

For the three and nine months ended September 30, 2022, an unrealized pre-tax gain of $13.4 million and $17.1 million, respectively (September 30, 2021 – gain of $4.5 million and loss of $0.8 million, respectively), was recorded in other comprehensive income for hedges of net investments in foreign operations.

Note 17. Managing Risks

The Company is exposed to the following risks as a result of holding financial instruments: (a) market risk (i.e. interest rate risk, currency risk and other price risk that impact the fair values of financial instruments); (b) credit risk; and (c) liquidity risk. The following is a description of these risks and how they are managed:

(a) Market Risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates, such as changes in equity prices, commodity prices or credit spreads.

The Company manages market risk from foreign currency assets and liabilities and the impact of changes in currency exchange rates and interest rates, by funding assets with financial liabilities in the same currency and with similar interest rate characteristics, and holding financial contracts such as interest rate derivatives to minimize residual exposures.

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. Some of the interest-bearing assets and liabilities of the Company are at floating rates and, accordingly, their fair values approximate their carrying value. The Company would be negatively impacted on balance, if interest rates were to increase. Based on net debt levels as at September 30, 2022, a 1% change in interest rates would have a $10.8 million impact on the Company's cash flows.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at September 30, 2022, the book value of all outstanding debt exceeded its fair value by $353.6 million (December 31, 2021 – fair value of all outstanding debt exceeded its book value by $40.6 million).

Currency Exchange Rate Risk

The Company conducts business in both Canadian and U.S. dollars and, therefore, is exposed to currency risks. Cash flows from Canadian and U.S. operations are exposed to foreign exchange risk as sales and operating expenses are denominated in local currencies. Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the U.S. dollar.

The Company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would result in a C$1.8 million gain on these hedging instruments as at September 30, 2022 (December 31, 2021 – C$2.0 million gain). See Note 16 "Fair Value Measurements" for additional disclosure.

Other Price Risk

Other price risk is the risk of variability in fair value due to movements in equity prices or other market prices such as commodity prices and credit spreads.

(b) Credit Risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. The Company assesses the credit worthiness of each counterparty before entering into contracts and ensures that counterparties meet minimum credit quality requirements. The Company does not expect to incur credit losses in respect of any of these counterparties. The maximum exposure in respect of receivables is equal to the carrying value.

(c) Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund an obligation as it comes due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

To ensure the Company is able to react to contingencies and investment opportunities quickly, the Company maintains sources of liquidity at the corporate and subsidiary levels. The primary source of liquidity consists of cash and other financial assets, net of deposits and other associated liabilities, and undrawn committed credit facilities.

The Company is subject to the risks associated with debt financing, including the ability to refinance indebtedness at maturity. The Company believes these risks are mitigated through the use of long-term debt instruments, maintaining debt levels that are in management's opinion relatively conservative, and by diversifying maturities over an extended period of time. The Company also seeks to include in its agreements terms that protect the Company from liquidity issues of counterparties that might otherwise impact the Company's liquidity.

(all dollar amounts are in thousands of U.S. dollars)

A summary of the Company's contractual obligations and purchase agreements as at September 30, 2022 is as follows:

	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Notes payable(1)	$ 1,630,775	$ —	$ —	$ 600,000	$ 1,030,775
Interest on notes payable	557,665	88,640	177,279	177,279	114,467
Secured VTB mortgages(2)(3)	65,429	17,401	25,793	22,235	—
Bank indebtedness(2)(3)	533,707	533,707	—	—	—
Project-specific financings(2)(3)	636,782	276,782	360,000	—	—
Accounts payable and other liabilities	654,389	654,389	—	—	—
Operating and financing lease obligations	1,360,446	54,194	376,405	283,172	646,675
Purchase agreements and other obligations(4)	252,112	2,894	132,735	7,183	109,300

(1) Amounts are included on the condensed consolidated balance sheets and exclude transaction costs. See Note 9 for additional information regarding notes payable.
(2) Amounts are included on the condensed consolidated balance sheets. See Note 8 for additional information regarding bank indebtedness and other financings and related matters.
(3) Amounts do not include interest due to the floating nature of the interest on the debt. See Note 8 for additional information regarding floating rate debt.
(4) See Note 14 for additional information regarding purchase agreements and other obligations.

(all dollar amounts are in thousands of U.S. dollars)

Note 18. Segmented Information

The following tables summarize select information on the Company's consolidated statements of operations by reportable segments:

	Three Months Ended September 30, 2022					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	$ 92,030	$ 140,445	$ 136,205	$ —	$ —	$ 368,680
Land revenue	21,525	1,280	3,018	—	—	25,823
	113,555	141,725	139,223	—	—	394,503
Housing cost of sales	(72,218)	(110,701)	(105,331)	—	—	(288,250)
Land cost of sales	(12,897)	1,258	(1,985)	—	—	(13,624)
	(85,115)	(109,443)	(107,316)	—	—	(301,874)
Gross margin	28,440	32,282	31,907	—	—	92,629
Earnings from unconsolidated entities - land and housing	2,687	5,431	19,914	—	—	28,032
Earnings from unconsolidated entities - affiliate	—	—	—	—	24,573	24,573
(Expenses) / Income	(18,495)	(23,774)	(17,924)	(10,077)	—	(70,270)
Income before income taxes	$ 12,632	$ 13,939	$ 33,897	$ (10,077)	$ 24,573	$ 74,964

	Three Months Ended September 30, 2021					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	$ 107,514	$ 161,019	$ 151,021	$ —	$ —	$ 419,554
Land revenue	19,957	1,809	4,205	—	—	25,971
	127,471	162,828	155,226	—	—	445,525
Housing cost of sales	(87,935)	(129,899)	(122,991)	—	—	(340,825)
Land cost of sales	(12,846)	1,009	(2,129)	—	—	(13,966)
	(100,781)	(128,890)	(125,120)	—	—	(354,791)
Gross margin	26,690	33,938	30,106	—	—	90,734
Earnings from unconsolidated entities - land and housing	1,070	4,023	49,197	—	—	54,290
Earnings from unconsolidated entities - affiliate	—	—	—	—	40,429	40,429
(Expenses) / Income	(16,342)	(5,906)	(24,425)	314	—	(46,359)
Income before income taxes	$ 11,418	$ 32,055	$ 54,878	$ 314	$ 40,429	$ 139,094

(all dollar amounts are in thousands of U.S. dollars)

	Nine Months Ended September 30, 2022					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	$ 245,222	$ 329,430	$ 376,686	$ —	$ —	$ 951,338
Land revenue	88,710	162,990	15,590	—	—	267,290
	333,932	492,420	392,276	—	—	1,218,628
Housing cost of sales	(199,419)	(264,889)	(298,873)	—	—	(763,181)
Land cost of sales	(57,322)	(91,680)	(9,693)	—	—	(158,695)
	(256,741)	(356,569)	(308,566)	—	—	(921,876)
Gross margin	77,191	135,851	83,710	—	—	296,752
Earnings from unconsolidated entities - land and housing	6,908	65,527	38,263	—	—	110,698
Earnings from unconsolidated entities - affiliate	—	—	—	—	65,795	65,795
(Expenses) / Income	(40,602)	(60,036)	(51,443)	(1,611)	—	(153,692)
Income before income taxes	$ 43,497	$ 141,342	$ 70,530	$ (1,611)	$ 65,795	$ 319,553

	Nine Months Ended September 30, 2021					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	$ 258,973	$ 541,325	$ 411,336	$ —	$ —	$1,211,634
Land revenue	103,288	23,017	26,571	—	—	152,976
	362,361	564,342	437,907	—	—	1,364,610
Housing cost of sales	(211,987)	(432,471)	(339,728)	—	—	(984,186)
Land cost of sales	(70,666)	(11,753)	(22,283)	—	—	(104,702)
	(282,653)	(444,224)	(362,011)	—	—	(1,088,888)
Gross margin	79,708	120,118	75,896	—	—	275,722
Earnings from unconsolidated entities - land and housing	3,648	6,551	60,899	—	—	71,098
Earnings from unconsolidated entities - affiliate	—	—	—	—	109,397	109,397
(Expenses) / Income	(42,445)	(50,462)	(74,938)	(8,576)	—	(176,421)
Income before income taxes	$ 40,911	$ 76,207	$ 61,857	$ (8,576)	$ 109,397	$ 279,796

(all dollar amounts are in thousands of U.S. dollars)

The following tables summarize select information on the Company's consolidated balance sheets by reportable segments:

	As at September 30, 2022					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Land held for development	$ 374,414	$ 291,453	$ 642,060	$ —	$ —	$1,307,927
Land under development	190,192	156,096	335,781	2,797	—	684,866
Housing inventory	183,079	268,272	311,027	—	—	762,378
Model homes	18,009	47,082	20,901	—	—	85,992
Total land and housing inventory	765,694	762,903	1,309,769	2,797	—	2,841,163
Commercial properties	25,136	259,595	4,467	—	—	289,198
Commercial assets held for sale	26,735	—	643,507	—	—	670,242
Investments in unconsolidated entities - land and housing	109,332	168,456	45,078	—	—	322,866
Investments in unconsolidated entities - affiliate	—	—	—	—	833,958	833,958
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset	9,805	39,839	21,727	9,118	—	80,489
Goodwill	—	—	—	16,479	—	16,479
Other assets (1)	124,123	58,883	246,288	881,088	—	1,310,382
Total assets	$1,060,825	$1,289,676	$2,270,836	$1,209,482	$ 833,958	$6,664,777

(1) Other assets presented in above table within the operating segments note includes receivables and others assets, cash, restricted cash, Homebuilder Finance investment, Brookfield Single Family Rental investment and deferred income tax assets.

	As at December 31, 2021					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Land held for development	$ 393,787	$ 275,455	$ 569,209	$ —	$ —	$1,238,451
Land under development	202,672	241,842	301,076	2,801	—	748,391
Housing inventory	130,889	150,145	225,657	—	—	506,691
Model homes	20,894	34,868	24,340	—	—	80,102
Total land and housing inventory	748,242	702,310	1,120,282	2,801	—	2,573,635
Commercial properties	49,199	239,704	584,242	—	—	873,145
Investments in unconsolidated entities - land and housing	118,529	180,506	57,607	—	—	356,642
Investments in unconsolidated entities - affiliate	—	—	—	—	769,660	769,660
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset	11,511	41,600	19,764	9,374	—	82,249
Goodwill	—	—	—	16,479	—	16,479
Other assets (1)	150,411	72,433	268,882	834,466	—	1,326,192
Total assets	$1,077,892	$1,236,553	$2,050,777	$1,163,120	$ 769,660	$6,298,002

(1) Other assets presented in above table within the operating segments note includes receivables and others assets, cash, restricted cash, Homebuilder Finance investment, Brookfield Single Family Rental investment and deferred income tax assets.

Note 19. Related Party Transactions

Related parties include the directors, executive officers, director nominees or shareholders, and their respective immediate family members. There are agreements among our affiliates to which we are a party or subject to, including a name license. The Company's additional significant related party transactions as at and for the three and nine months ended September 30, 2022 and 2021 were as follows:

- During the three months ended September 30, 2022, the Company amended the Management Services and Development Agreement with our service provider, BPD, to increase the asset management fees charged. The management fee is determined by applicable rates on construction and development spending as well as assets under management, as defined in the management agreement. During the three and nine months ended September 30, 2022, the Company incurred $41.8 million and $90.7 million of management fees, respectively (three and nine months ended September 30, 2021 – $31.6 million and $78.3 million, respectively). These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- On January 1, 2022, the Company increased the financing capacity on the loan with BPD from $100.0 million to $125.0 million. As at September 30, 2022, the loan had an outstanding balance of $121.8 million that was recorded within receivables and other assets (December 31, 2021 – $68.9 million). During the three and nine months ended September 30, 2022, the Company recorded $1.6 million and $3.4 million, respectively, of interest income at the exchange amounts in the condensed consolidated statement of operations within other income (three and nine months ended September 30, 2021 – $0.7 million and $1.8 million, respectively).
- During the nine months ended September 30, 2022, the Company amended a previously existing agreement with a consolidated subsidiary in order to provide financing of up to $125.0 million to include Brookfield Residential US Land Holdings II. The loan bears interest at LIBOR + 2.25%. As at September 30, 2022, the loan had an outstanding balance of $111.4 million that was recorded within receivables and other assets (December 31, 2021 – $56.5 million). During the three and nine months ended September 30, 2022, the Company recorded $1.0 million and $2.0 million, respectively, of interest income at the exchange amounts in the condensed consolidated statement of operations within other income (three and nine months ended September 30, 2021 – $0.01 million and $0.01 million, respectively).
- During the three and nine months ended September 30, 2022, the Company earned $6.0 million and $18.0 million, respectively, of dividends from the preferred shares of Brookfield International Ltd. (three and nine months ended September 30, 2021 – $6.0 million and $18.0 million of dividends earned, respectively) that have been recorded in the condensed consolidated statements of operations within other income. As at September 30, 2022, a total of $78.1 million of accrued dividends is recorded within receivables and other assets (September 30, 2021 – $54.1 million). These transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2022, the Company declared and paid a dividend to the common shareholders, which included various subsidiaries of BAM, of $375.0 million. The transaction was recorded at the exchange amount.
- During the nine months ended September 30, 2022, the Company contributed $17.5 million to BSI LB Borrower LLC ("BSI"), a related party of BAM. This investment is accounted for as an equity method investment and is recorded within receivables and other assets on the balance sheet.

Note 20. Subsequent Events

The Company performed an evaluation of subsequent events through November 3, 2022, which is the date that these condensed consolidated financial statements were approved, and has determined that other than those events disclosed in Note 6 there were no additional subsequent events that require disclosure.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties Inc. is a leading land developer and homebuilder in North America. We entitle and develop land to create master-planned communities, build and sell lots to third-party builders, and conduct our own homebuilding operations. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Asset Management Inc., a leading global alternative asset manager with over $750 billion of assets under management. Further information is available at BrookfieldResidential.com or Brookfield.com or contact:

BROOKFIELD RESIDENTIAL PROPERTIES INC.

4906 Richard Road S.W.

Calgary, Alberta T3E 6L1

Tel: (403) 231-8900

Fax: (403) 231-8960

Email: info@brookfieldrp.com

Website: www.BrookfieldResidential.com

BONDHOLDER INQUIRIES

Brookfield Residential welcomes inquiries from bondholders, analysts, media representatives and other interested parties. Questions relating to bondholder relations or media inquiries can be directed to Thomas Lui, Executive Vice President & Chief Financial Officer via e-mail at thomas.lui@brookfieldpropertiesdevelopment.com.