



Brookfield Residential Properties Inc.

2012 Year End Results

Conference Call & Webcast Transcript

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

Craig Laurie
Executive Vice-President & Chief Financial Officer

OPERATOR:

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

ALAN NORRIS:

Thank you. Good morning ladies and gentlemen, and thank you for joining us today for Brookfield Residential's Year-End Conference Call. On the call today, I will be providing some comments about the current market conditions. I will highlight some of our accomplishments over the last year, and our outlook going forward. With me today is Craig Laurie, our Chief Financial Officer, who will be discussing our financial and operational results.

I would at this time remind you that in responding to questions, and in talking about new initiatives, and our financial and operating performance, we will make forward-looking statements. These statements are subject to known and unknown risks, and future results may differ materially. For further information, I would encourage investors to review the corporate profile on our website.

In 2012, we are pleased to report that Brookfield Residential delivered strong performance. Income before income taxes increased to \$129 million compared to recurring income before income taxes of \$81 million in 2011, and our net income also improved markedly, increasing to \$93 million or \$0.91 per share from net income of \$7 million or \$0.07 per share in 2011.

Our Canadian operations in both Alberta and Ontario continue to perform well, and we've also seen great improvement in the U.S. housing market. While each regional market is at a slightly different stage of recovery, it appears that supply is tightening, demand is increasing, and hence, house prices are rising in most markets. We're optimistic about 2013, and feel that we are well positioned to take advantage of the improving market conditions.

During the fourth quarter, we completed some strategic initiatives, including a joint venture with the California State Teachers Retirement System to develop a 370-acre parcel of premier land in the highly desirable Northwest quadrant of Calgary overlooking the Bow River. Upon completion, it is anticipated that this project will have 2,500 developed lots.

Another key transaction was the acquisition of the Playa Capital Company in California. This company owned approximately 2,250 units on more than 65 acres of land at Playa Vista in Los Angeles. Immediately after the acquisition, we sold three apartment sites totaling about 22 acres or 1,500 units, and 195 for-sale residential lots to three different and well-respected builders. While nominal profit was recorded on these concurrent sales, the transaction was completed on a relatively capital-neutral basis.

We are proud to bring the final stage of this master-planned community to development; that will include approximately 500 mixed-use lots. The area is highly desirable, and is located close to the ocean, job markets, and schools. Brookfield Homes, a division of Brookfield Residential, will also be building on a select number of the remaining lots. We were also very successful in executing our capital plan, whereby we issued \$233 million of common equity, and completed an offering of \$600 million of eight-year senior unsecured notes at 6.5%. The equity offering allowed us to reduce our year-end debt-to-capital ratio to 43% from 58% at the end of the third quarter, and also provided a more robust public float for our shareholders. The new debt replaced our existing transaction debt, which arose from our 2011 merger, and enabled us to pay down certain other project debt while lowering our overall interest cost. We ended 2012 with a market cap of over \$2 billion, and available liquidity of approximately \$650 million, including undrawn credit lines and cash on hand, providing a solid capital base from which to move forward.

As we move forward, there are some exciting initiatives on the horizon. For 2013, we have added home building operations in Denver, Colorado, where we have previously focused on land development; and we are also exploring the opportunity to develop a program that will support infrastructure financing of third-party residential real estate development in select markets. Our view for the coming year is for a much improved U.S. housing market, and a generally stable Canadian market. As the U.S. housing market improves and house prices increase, we anticipate that our land assets will continue to appreciate in value.

In many of our markets, a 10% increase in house prices can translate into a 20% to 30% increase in the underlying finished lot value. This inherent leverage in our exiting lands is what differentiates us from many others in the residential arena.

Our sizable land inventory places us in the enviable position of not having to replenish lands each year at ever-increasing prices. Instead, we are able to optimize returns on our assets by selling finished lots into a supply-constrained environment.

Given our strong asset base and our solid capital position, we believe that we are positioned for success and, therefore, optimistic that 2013 income before income taxes will exceed 2012 due to improved U.S. operations, reduced overall interest costs as a result of the equity and debt offerings. This is partially offset by reduced multifamily, industrial, and commercial partial sales, that these partial sales, while very meaningful, have variability from year-to-year.

At this point, I'd like to turn the call over to Craig Laurie, our CFO, who will provide details on our financial results.

CRAIG LAURIE:

Thank you, Alan, and good morning, everyone. Net income for the three months ended December 31, 2012 totaled \$56 million or \$0.52 per share, compared to \$26 million, or \$0.25 per share for the three months ended December 31, 2011.

Land revenue for the three months ended December 31, 2012 totaled \$407 million, compared to \$166 million during the same period in 2011. Included in 2012's land revenue was approximately \$264 million from the sale of three apartment sites, and 195 for-sale residential lots at the recently acquired Playa Vista community. Approximately \$36 million of the land revenue from 2011 was due to the non-recurring change in business practice for lot sales in Alberta. Taking both of these items into account land revenue increased by \$14 million over the same period of 2011, and was driven by increased lot sales in the U.S. as our markets improved.

Housing revenue for the three months ended December 31, 2012 increased 55% to \$308 million, from \$199 million during the same period of 2011. This increase in housing revenue reflects a 37% increase in home closings, and a 12% increase in our average home selling price. Sales activity continued to be strong in the fourth quarter, with a 25% year-over-year increase in our overall net new home orders.

For the 12 months ended December 31, 2012, net income increased significantly to \$93 million, or \$0.91 per share, from \$7 million, or \$0.07 per share for the 12 months ended December 31, 2011.

For the 12 months ended December 31, 2012, land revenue totaled \$622 million, compared to \$524 million during the same period in 2011. Approximately \$189 million of the land revenue from 2011 was due to the change in business practice referred to above, while \$264 million of the 2012 revenue was from the sales at Playa Vista. Taking this into account, land revenue for the 12 months ended December 31, 2012 increased by \$23 million, or 7% over the same period of 2011, driven by the sale of multifamily and commercial parcels in Canada, and higher lot closings in both Canada and the U.S.

Housing revenue increased by \$234 million, or 48%, compared to the same period in 2011 to \$718 million. This improvement reflects a 40% increase in home closings and a 6% increase in our average home selling price compared to the same period in 2011. At December 31, 2012 the backlog of units increased by approximately 27% to 817 homes from 645 homes at December 31, 2011, reflecting stronger sales demand in all our markets.

Moving to our balance sheet, as of December 31, 2012, our assets totaled approximately \$2.8 billion, an increase of \$236 million compared to December 31, 2011. Our land and housing inventory and investments in unconsolidated entities are our most significant assets with a combined book value of \$2.4 billion or approximately 85% of our total assets. The land and housing assets increased when compared to December 31, 2011 due to strategic land purchases of approximately \$504 million, and land development activity of approximately \$200 million, partially offset by increased sales activity. Acquisitions in 2012 totaled \$504 million, consisting of \$136 million in Canada, \$16 million in Central and Eastern U.S., and \$352 million in California included in the California numbers, \$258 million for Playa Vista, which was recaptured with the subsequent sales.

As Alan mentioned, we made tremendous strides strengthening our balance sheet this year. The proceeds of our common share issuance of approximately \$230 million, and unsecured senior notes of \$600 million, was used to repay our notes payable and project-specific debt, and other financing and credit lines. Thank you for joining us in our year-end conference call. I'll now turn the call back over to the Operator who will moderate questions.

OPERATOR:

The first question comes from Sam McGovern of Credit Suisse. Please go ahead.

SAM MCGOVERN:

Thanks for taking my call. A couple of questions around Playa Vista; in terms of the future sales there, are you guys done with the no-margin, capital-neutral sales that you completed in the fourth quarter; or should we expect some of that to roll over into the first quarter?

ALAN NORRIS:

Sam, it's Alan here; I think, really, because of the concurrent nature of the transaction that is why we recorded nominal profit. Obviously we think it's a very good project, and we will realize it is going to be a profitable project going forward, obviously that's why we bought it.

SAM MCGOVERN:

Margins there should be more in line with what one would expect from a normal land development project?

ALAN NORRIS:

We think it'll be an excellent project going forward.

SAM MCGOVERN:

In terms of, when I look at it beyond that your gross margins ex-Playa Vista you're still down year-over-year. It looks like home building gross margins improved year-over-year in the fourth quarter which makes sense, but the Canada land development gross margin was down year over year. Could you talk a little bit about why that was down?

ALAN NORRIS:

I think some of it is really just more from a mix perspective, Sam. From a pricing point of view, just to give you some perspective, prices in Calgary have probably increased 3% to 4%, quite honestly, over the calendar year I would say this mostly a mix issue. Going forward we do anticipate having a slightly higher mix of lots in Edmonton going forward, which will have slightly less margin than we have had in Calgary, as an example. But that is coming up in 2013; that is not reflective in 2012, mostly a mix issue from a Canadian point of view.

CRAIG LAURIE:

I was just going to add that the actual dollar of the margin obviously went up, Sam. But to your point, the percentage would have gone down very marginally in Canada, and that is just mix. As you said, in terms of the housing gross margin that has been increasing in both countries, and in the U.S., we would expect it to continue to increase two-fold, as a bunch of new products come on stream. But then, also, as we've talked about with the Bay Area starting to produce more homes, we get both better percentage margin but also better dollar value margin coming out of those homes.

SAM MCGOVERN:

In terms of the U.S. land development side, excluding Playa Vista it looks like the overall figures in terms of both volume and sales and gross margin are not up that much versus fourth quarter of 2011. Should we expect as we go into 2013 that the year-over-year comparables should look a lot stronger?

ALAN NORRIS:

Yes, I think that it is a critical question. We're seeing good price appreciation in just about all of the markets, Sam. The question we face is, do we sell into that rising market or do we actually have a better appreciation on holding in some cases? I'm not saying we're not going to crystallize, not in the slightest, but just finding the right balance between continuing momentum in some of the communities; and, in some cases we believe that some of the prices will increase quite substantially over the next year or two; as house prices increase, the inherent land value is going up substantially, as you're well aware.

SAM MCGOVERN:

You guys mentioned in your press release that in some of your communities, a 10% increase in home prices can translate to 20% to 30% in lot prices. When you think about how much of your business does that apply to and in what areas?

ALAN NORRIS:

We're primarily talking about the U.S. markets; obviously, the Canadian markets are much more stable. I would say, from a California point of view, we have seen those price increases in most of the markets in California. We are starting to see a little bit less in Denver, and getting close to that in Austin. D.C. is not quite as much, but I would say that California, most definitely, we're starting to see

that pricing pressure which has existed in most of the coastal areas and is now starting to go inland as well.

SAM MCGOVERN:

To your point earlier about when you decide to actually crystallize some of the gain in terms of the improvement that we are seeing in land prices, we hear constantly from the home builders about the shortage for lots that are developable, this year and next year. How do you look at your mix of businesses; how much of it, if you wanted to, could you take advantage of now? Is it a substantial portion, or is most of your lots further out in the maturity curve?

ALAN NORRIS:

I think one of our things is we're big believers in the recovery. And I think one of the things you have got to try to match up as best as we can is, we don't want to end up flooding out there a number of lot sales that, let's say, the next three years' production, when we do believe that prices are continuing to increase over the next little while. I think what we try to measure is what we think the actual underlying absorption is on the part of the customer who is going to be buying the lots from us, and make sure that we don't get too far ahead of the marketplace in that respect while still giving them sufficient visibility and pipeline that allows them to have an economic program, if you see what I mean.

SAM MCGOVERN:

Just some housekeeping items; in terms of land spend for 2013, can you talk about where you see that being; and then also where that compares to 2012?

ALAN NORRIS:

I think for the most part, probably a little bit more obviously from a U.S. perspective, Canada is fairly stable, I would suggest. Are you talking about new acquisitions, or?

SAM MCGOVERN:

Yes, new acquisitions of land.

ALAN NORRIS:

I see. Yes, I think from a Canadian point of view in Alberta, we are little bit more, lumpy, so I don't see us having to be out there as frequently. We did some critical acquisitions in the last year which I think

will set us up very well going forward. Obviously, the Playa deal from a U.S. point of view was very opportunistic and was a bit of a one-off. I think if we can find some larger deals in some of the areas we would look at it, but we are not in a position we have to be out there doing those, as we said. We are in a very fortunate position that we do not have to replenish. We don't have anything major, although we're talking to a number of different groups on different types of deals. We do that on a constant basis; these are ongoing conversations. Some of them work out; some of them don't, the Playa deal did, and there are a number of other ones; but they didn't all come to fruition.

SAM MCGOVERN:

Craig, what is cash interest going forward following the transactions in the fourth quarter? And then, it looks like you paid down some debt post those transactions as well?

CRAIG LAURIE:

In terms of 2012, actual cash interest paid was about \$72 million for the year. The interest incurred and capitalized was \$33 million, and then we obviously had the interest on the income statement. The cash, the capitalized interest that was expensed during the year quarter through cost of goods sold was about \$46 million, just to frame it for 2012. In terms of 2013, we obviously have the \$600 million at 6.5%, and then we do have our bank debt, which we do talk about; those are all floating rates. So, in general, obviously I would expect the overall interest to be down. I couldn't give you an exact number right now because, as you mentioned, it would depend on if we did acquisitions and those types of things.

SAM MCGOVERN:

Great, well, thanks so much. When do you guys plan on posting your Annual Report?

CRAIG LAURIE:

We're working to post that this week.

SAM MCGOVERN:

Got it; thanks so much.

OPERATOR:

Your next question comes from Adam Rudiger of Wells Fargo. Please go ahead.

ADAM RUDIGER:

Thank you. Going back to Playa Vista; am I reading it correctly that you basically got 500-plus lots for free, and if so, how did you do that?

ALAN NORRIS:

Adam, what happened was we bought an active company which had the acreages and the lots, but we also assumed certain costs to complete obligations and other obligations within the Company as well. So we inherited those obligations, which are detailed in our disclosure documents.

ADAM RUDIGER:

Okay, so that interpretation is not totally correct given the assumption of the liabilities?

ALAN NORRIS:

What we were trying to do is explain it from a pure cash perspective. It was relatively capital-neutral but we did assume some ongoing obligations which obviously formed the basis for lots going forward.

ADAM RUDIGER:

Okay. Then somewhere, I recall your discussion before, you mentioned prices are rising in many of your markets, and if previous questions talked about increased language out of the big builders for land and land tightness. I was wondering if you had seen an increase in inbound calls, so to speak, in terms of people looking for land, if that has actually been occurring; and if so, what markets and what the pace of the increase has been of late.

ALAN NORRIS:

I would say that it has been very tight up in the Bay Area for some time. I would say Southern California has picked up a fair bit. Austin has picked up recently over the last three or four months and even actually in Denver we have had a number of more incoming calls with respect to projects that we had literally put on hold during the downturn. And we are now getting some expressions of interest from some of the nationals on entering those communities. It is generally positive; it's still the early stages of it, but we are starting to see a lot more calls coming in as opposed to going out, let's put it that way.

ADAM RUDIGER:

Okay, and then last question; I notice in the back of your slides when you break out your inventory by bucket, the land held for development or under development you are now expecting \$5 billion in cash flows versus, I think it was \$4.5 billion previously; and it looks like more of those are expected to come within 10 years than you had on your previous slide decks. I was wondering what drove that, and that was my last question.

CRAIG LAURIE:

It is not a change in assumptions or anything like that. We did a series of acquisitions, which is going to increase that cash flow. A lot of the acquisitions were longer term land, land for development. The second piece is, again, we did spend money and so that drops off some of the negative. So, it's a combination of the acquisitions and then the actual real dollars spent that increases that number in totality. In terms of the term being 10 years, I think it is just as land has continued to budget that march forward, then more would have fallen into 2003 10-year bucket.

OPERATOR:

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

FRANK MAYER:

Good morning and congratulations on your results. I am wondering, in light of the optimistic nature of your comments, if the changing status of the American markets in particular would lead you to spend more money on getting un-entitled lots entitled more quickly than you would have in the past? And what that would entail?

ALAN NORRIS:

That's a good question Frank. The reality is people are going further back on the supply chain. There is no question. We know it is a very dog-eat-dog situation at the finished lot stage, and even at the entitled; and yet the finish stage is getting competitive there as well. Where it is not competitive right now is exactly where you're pointing out. We do have the ability to go further back there because, one, there's not many people there, and as long as we think it is a market where you do get rewarded for the entitlement process. And some of the markets, the pricing is still a bit of a disconnect Frank; but we are evaluating that because, as you well know, we try and make sure that we are in an area where most other people are not, if we possibly can. And we have got the patience to stay with a

program to go through the entitlement and then bring it to market, so, it is something that we are looking in some of the markets.

FRANK MAYER:

Is this part of where you have your \$650 million in liquidity targeted for?

ALAN NORRIS:

It could be, absolutely. We don't have anything lined up at this point. We have ongoing conversations with a number of different groups, and we always have our strategic land studies always up to date in each of our markets. If the right opportunity comes along, we are in a very fortunate position we can take advantage of it. But, as we have said earlier, and as you well know, we don't have to be out there replenishing. We can be very choosy as to which opportunities we take advantage of, because we do have a very solid asset base already.

FRANK MAYER:

Just to clarify the \$5 billion number, can I presume that is after tax?

CRAIG LAURIE:

Frank, this is Craig, it is before tax.

FRANK MAYER:

Before tax; it says more than \$5 billion, or rather that the right word is over \$5 billion. Can I presume that it is not so much over that you should have said \$5.5 billion?

CRAIG LAURIE:

That's a correct assumption, yes.

FRANK MAYER:

Correct assumption. And I believe that is only on land held for development?

ALAN NORRIS:

Correct.

FRANK MAYER:

What about land under development? If you were to include that and do that exercise for that land, how would it change the \$5 billion number?

CRAIG LAURIE:

So, we don't disclose that cash flow that would come from land under development. We do print out information that if someone who wanted to come up with a net asset value based on our actual selling prices, we do show a cost of complete as well.

FRANK MAYER:

But the land under development, correct me if I am wrong, would encompass what kind of time period; is it one year, two years, three years?

ALAN NORRIS:

In a lot of markets I would say its one to two years, and some markets are maybe two to three.

FRANK MAYER:

I see. Okay, so the time zone is right. What was your thinking in terms of taking on a joint venture partner in the new piece of land in Calgary? Obviously, you have a very strong balance sheet, you have liquidity, what does the partner bring to bear?

ALAN NORRIS:

A great relationship, we have a relationship with them in Southern California and we had conversations with them and they expressed the desire to explore the Canadian markets. And we still believe that going forward it is a very capital intensive business and want to further those relationships with good partners. And so that is why we did the deal with them. You're right, we could have done it on our own without any question, but again, looking at it in the long haul we believe that having those strong strategic relationships is critical for a go-forward basis.

FRANK MAYER:

Could you outline the nature of the relationship, I don't know if I have ever seen it discussed?

ALAN NORRIS:

Basically it's just a JV relationship, 50/50, we manage and they invest capital side by side with us.

FRANK MAYER:

And what is the profit split?

ALAN NORRIS:

That is too much detail, Frank. It's a 50/50 for the most part in all of the ventures that we do in Southern California, and then there is a typical relationship for managing projects, etcetera. But it is a very strong relationship that we have with CalSTRS and we have had it for a number of years down in Southern California; and as I say, they ventured to Calgary with us.

FRANK MAYER:

Any problems getting the lots entitled to the north of the city, I've forgotten the name of the project; Stony if I'm not mistaken.

ALAN NORRIS:

No, we have got area structure plan approval for those lines; we got that last July.

FRANK MAYER:

So, how far away is entitlement in terms of time?

ALAN NORRIS:

I would like to think we're in the ground later next year.

OPERATOR:

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

STEFAN MYKYTIUK:

Hey, good morning. Just a couple of questions; on the Playa, the revenues, the \$264 million that was for the apartment sites plus the 195 lots?

ALAN NORRIS:

Correct.

STEFAN MYKYTIUK:

Okay. And then the remaining 500 lots, what is the time period you have for which you'll bring those around?

ALAN NORRIS:

We're probably not dealing with anything this year because we have to, in fairness to the builders who bought the 195 lots, they're slightly different lots going forward; but generally speaking I would think we would start to do some of the other lots maybe early 2014. We still have the 195 lots we sold concurrently, the models; we just have to provide those lots to them by, I think, it is May or June of this year. We don't want to be going in and competing directly with them immediately; but we think it will be over the next, probably, starting at 2014 for the next three or four years or whatever.

STEFAN MYKYTIUK:

Those 195, I'm assuming you sold those at slightly lower prices because it was funding, in effect, funding the deal at the time of the close? In other words, did they get a better deal?

ALAN NORRIS:

No, retail price.

STEFAN MYKYTIUK:

They were part of the 345 lots in the Q4 numbers, and the \$205,000 average price for California?

ALAN NORRIS:

It would have been in there, yes.

STEFAN MYKYTIUK:

How variable are the lots across that; are some for more townhouses and others are single-family? I'm just curious whether the 500 you've got are going to be similar to the 195 you sold or are they...

ALAN NORRIS:

There is a variety, and I didn't have it at my fingertips, but we can try to get that to you. But there is a variety of some detached, some attached products, some triplexes, maybe even some six-plexes. There is a variety of different lot sizes.

STEFAN MYKYTIUK:

Okay. So that \$205,000 for California obviously includes non-Playa Vista, but that is not necessarily an indicator of what the value is of the 500 that you kept?

ALAN NORRIS:

Correct.

CRAIG LAURIE:

I think, Stefan, the value at Playa Vista would have been above the \$207,000; then we would have had some at Southwest Riverside and a few other places. It would have brought the average below the \$207,000, and so in general you get to an average of \$207,000.

STEFAN MYKYTIUK:

That's where I was going. The Playa Vista value is above the \$205,000. One of the buyers had indicated to me that they were paying substantially more than that \$205,000, so that's just what I was getting at. SG&A was up a lot of the fourth quarter, was that just because of incentive compensation kicked in?

CRAIG LAURIE:

Yes, we'd like to point out that there were selling costs, there was increased activity, and then, as you said, there were certain performance targets achieved within the fourth quarter for incentive compensation across the Company.

STEFAN MYKYTIUK:

Then, back to California; what is the status of projects coming online in Northern California, actual homebuilding projects, how are those doing and what is the pace of new community openings in that market?

ALAN NORRIS:

I would say that we met all of our expectations from an internal point of view for Northern California, we occupied 64 homes in the fourth quarter there, which was a tremendous effort on the part of our Bay Area team. We are on track for all of the projects that we bought into over the last 18 months from a Northern California point of view. And down in Southern California, here, we have got about 13 new communities opening from a housing point of view this year on a housing site, from a product segment point of view. So we are very excited on both sides of California at this point. That Southern Cal includes the San Diego area as well. It's a busy time, and everybody is rejuvenated; and we are actually in California right now taking a call, and the teams are all pretty pumped.

STEFAN MYKYTIUK:

In Northern California; how many communities are you going to open this year?

CRAIG LAURIE:

We won't be opening too many there.

ALAN NORRIS:

It is just continuing some of the ones that we've bought; we're just in the early stages of doing some of those ones that we opened up, and we are continuing. There may be one more or two more, I just cannot recall.

STEFAN MYKYTIUK:

Okay, and then you have got some in backlog from the stuff that you opened. You started the community but you haven't sold homes yet?

ALAN NORRIS:

Absolutely; we're obviously anticipating much higher closings in 2013 from our Bay Area, just with what we have done already, never mind adding in nothing new.

OPERATOR:

The next question comes from Mario Saric of Scotiabank. Please go ahead.

MARIO SARIC:

Good morning; thanks for taking my call. A really quick question on Calgary; we've had a lot of press recently with respect to the lack of pipeline capacity squeezing provincial coffers from a revenue standpoint, but it sounds like the appetite for homeownership is still pretty strong in the province. Can you maybe talk about what you're seeing on the margin as far as homeownership psychology is concerned in Calgary?

ALAN NORRIS:

I would still say there is good optimism in the Calgary marketplace. We obviously still had significant in-migration to the province over the last year, Mario. The pipeline capacity thing is obviously a longer term concern and issue because of the price discount could ultimately lead to some deferral of some capital projects up north. But I think there is, other, plans available but we're not seeing anything in the marketplace just now. The challenge is, just continue to get entitlements through the city, and actually there is slight constraint on supply which, candidly, we end up being the beneficiary because we have got a fair bit of the entitled land at this point. That constraint is actually continuing to help pricing as I touched on earlier in the call. We have seen some price appreciation on lots over the last 12-month period. On the bigger picture, obviously Alberta does have to solve the price discount, just to get them all to market.

MARIO SARIC:

Have you noted any shift from the municipalities as far as the entitlement process is concerned? As far as it being a bit easier, a bit more challenging or complex going forward?

ALAN NORRIS:

Many municipalities are wrestling with density. In Calgary many people don't understand that, but our new communities are averaging close to 10 units per acre in the greenfield sense, so there is definitely a shift to try to get a little more infill. We strongly believe that, still, 60% to 65% at least is going to be greenfield, and we just have to get some of that product through the entitlement process because infill will become a slightly larger piece of the pie but it is not going to happen overnight.

It will take a little bit of time, so we just have to help the municipalities on some of the infrastructure challenges and deal with some of those things to bring on the communities. That goes back to my comment earlier on about becoming a more capital-intensive business. But we still think it is a very positive market to be in; it is one of the better markets in North America, as well as Edmonton.

MARIO SARIC:

Shifting gears to California, a market that I'm not as familiar with, the rental market in the U.S. has done really well in the last couple of years. I'm just wondering if you can give me a sense of the rent versus owned dynamics in some of your bigger markets in California today from a pricing perspective.

ALAN NORRIS:

I can't quote you chapter and verse, but we do know in most of our markets that it is actually cheaper to, from a monthly obligation point of view, to own rather than rent, the big difference being just the down payment. Affordability is still very strong on the home ownership side. We know that on the rental side a lot of stuff has been built, and the yields were fairly tight, I would say, for those buying into the multi business. And I would say that most of their upside is going to be coming from rent increases, which is a real help for us on the home ownership side, because we get back to the basics of, as rental goes up, people move into home ownership. And the longer it goes, the more confident people feel, then they're probably more likely to take the plunge have accumulated enough from a down payment point of view. We think the cycle is going back to a more normalized level, at least as we go forward.

OPERATOR:

The next question comes from Andrew Berg of Post Advisory Group. Please go ahead.

ANDREW BERG:

Hey guys, let me try this again. First of all, Craig, cash taxes for the year?

CRAIG LAURIE:

Let me get that for you; it was about \$42 million.

ANDREW BERG:

Then you were asked earlier about the increase in SG&A, part of which is incentive comp; was that incentive comp all cash or was some of that in stock?

CRAIG LAURIE:

There is some that is in stock. That's primarily for the corporate team; the incentives within the operations would be in cash.

ANDREW BERG:

Can you ballpark how much was stock comp in that number?

CRAIG LAURIE:

\$10 million, the stock was probably about \$3 million, and then the remainder would have been a component of cash.

OPERATOR:

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

FRANK MAYER:

Regarding the chart dealing with the \$5 billion cash flow from land held for development, it indicates that the split between Canada and United States is 38% U.S. and 62% Canadian. However, you have indicated that there is a relationship between housing prices and land prices. If housing prices go up 10%, then land prices will go up 20% to 30%. I'm wondering, I've heard some experts suggest that there'll be significant increases for next three or four years. I'm wondering if you've put any thought to what will happen to this ratio over the next four years, or at the end of a four-year period in which there is a significant recovery in the American housing prices, and what the ratio will look like then?

ALAN NORRIS:

I think we have built in, in some cases, when we think that recovery is coming, Frank; and I would just say that it is probably a little bit quicker than what we thought. And, in some cases, maybe a little bit more. If it goes up by what you just mentioned, yes, that's a very positive story for us.

FRANK MAYER:

I was doing the back of the envelope type of thing, saying it could get to 45%, 55% instead of the 38%, 62%; would you have any problem with that type of number?

ALAN NORRIS:

I'm just speculating, we think we are well-positioned Frank. We get the inherent leverage. As I touched on, and you know the math as well, it's that \$300,000 has gone up \$30,000. A lot of that falls to the bottom to the underlying land, albeit we will, and something that we've got to keep in mind is, there will, as time goes on, there will be construction cost pressures as the market starts to recover. Some form of that house price increase will start to fall through construction costs, et cetera.

FRANK MAYER:

That neatly leads me to a question that I hadn't intended to ask; but let me ask it nonetheless. In terms of your projections, obviously you took these numbers out 10 years or more. What kind of price increases, and for that matter, cost increases, did you assume in the calculation of the \$5 billion number?

ALAN NORRIS:

For the most part we do not build inflation into our numbers. Albeit we do build in, when we think there could be some form of a market recovery, Frank. Just to give you some perspective, if we had a project that we thought we'd put on hold, and we thought the market was coming back in 2015, we would assume some enhanced cash flow at that point in time. But then we would go constant dollars at that point.

FRANK MAYER:

So, in other words, it would be your cash flow projections on that \$5 billion number would take into cognizance any entitlement or other changes that enhance the value of the land, plus any significant change in market conditions. But it wouldn't take into account, as one housing expert has suggested that housing prices in the United States could average an increase of 10% over the next four years?

ALAN NORRIS:

It would not, no.

FRANK MAYER:

It would not. Okay, thank you.

OPERATOR:

There are no more questions at this time. I'll turn the conference over to Mr. Norris.

ALAN NORRIS:

Thank you very much. Thanks once again everyone for taking the time to dial in. We believe our Company is uniquely positioned as a land developer and home builder in the premier regions in North America, so we feel very positive about the upcoming year. We're ready for growth as the U.S. housing market recovers and the market volume of our properties continue to increase. Thank you very much, indeed, for taking the time and we will chat with you at next quarter. Thank you.

OPERATOR:

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