Brookfield Residential

Brookfield Residential Properties Inc.

Q3 2021 Interim Report

Third Quarter 2021 Overview and Outlook

Q3 2021 Results Overview

The residential real estate market in both the U.S. and Canada remained healthy during the quarter, albeit, housing demand has declined when compared to the first half of 2021 and Q3 2020. The decline is primarily due to price shock and affordability concerns from potential homebuyers following the price appreciation we have recently seen and with the unseasonably higher sales in Q3 2020 following the lifting of COVID government restrictions. In addition, we continued to have lower active housing selling communities as we were sold out of many offerings after months of strong sales pace combined with the operational strategy initiated earlier this year to limit sales on homes started while selling homes once building costs are confirmed.

During the third quarter of 2021, Brookfield Residential's focus on the continued execution of its housing backlog combined with a sale of a large land parcel led to improved financial performance when compared to the prior year. Total gross margin remained consistent despite a decline in home and lot closings in the third quarter of 2021 primarily due to the increased average home and single family lot selling prices as a result of both product mix and price appreciation. In addition, earnings from our land and housing unconsolidated entities of $54 million was primarily the result of the sale of a 390-acre industrial parcel at our Eastmark master-planned community.

For the three months ended September 30, 2021, income before income taxes was $139 million compared to $44 million in 2020. Included in the results were earnings of $40 million from our affiliate unconsolidated entities (compared to a loss of $9 million in 2020). Adjusting for this, our adjusted income before income taxes relating to our residential and mixed-use operations was $99 million compared to $53 million in 2020.

Additional operating and financial highlights for the third quarter ended September 30, 2021 include:

- Continued execution with 750 home closings at a housing gross margin of 19% where average home selling prices increased 25% to $559,000
- Net new home orders of 517 resulting in total backlog units of 1,708 units with a value of $1.032 billion (including our unconsolidated entities)
- In August, Brookfield Residential amended and extended its $675 million unsecured revolving credit facility until August 2025 on substantially the same terms and conditions
- Net debt to total capitalization ratio of 41%, which includes a cash balance of $82 million and $84 million drawn on our unsecured revolving credit facility

Our View Going Forward & Corporate Update

Brookfield Residential remains in a good position for the foreseeable future while the homebuilding sector continues to experience some near-term setbacks relating to cost increases, product shortages and delays. We continue to track key market indicators such as potentially higher interest and mortgage rates, supply chain implications and overall affordability in the markets that we operate in. We remain bullish on the housing and residential land development sector in both the near and medium-term and foresee that demand is supported by continued positive underlying fundamentals and demographic shifts in place driving household formation together with a historical supply shortage.

As a result, our outlook for the fourth quarter of 2021 remains positive. We continue to monitor the impact of the disruption on the supply chain, which may cause some home closings scheduled for the end of this year to be delayed into 2022. At this time, we re-affirm our previously provided limited guidance of closing 2,330 homes and 1,330 lots in the U.S. and 980 homes and 740 lots in Canada, excluding our share of unconsolidated entities. In addition, we are projecting a number of multi-family, commercial and industrial parcel sales in both countries.

At the close of this fiscal year, Alan Norris will retire as Chief Executive Officer while continuing to serve as Executive Chairman. Effective January 1, 2022, Adrian Foley will be appointed President and Chief Executive Office and will oversee Brookfield Residential's strategic and day-to-day operational responsibilities.

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 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; 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 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 2021 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 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;
- loss of key personnel;
- 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, 2020.

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, 2021 and has been prepared with an effective date of November 2, 2021. 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 $625 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, California 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 California operations include Northern California (San Francisco Bay Area and Sacramento), Southern California (Los Angeles / Southland and 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 over the longer term they offer robust, diversified housing demand, barriers to entry 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 one - a blueprint that guides the land development process from start to finish, resulting 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. Sourcing and evaluating land acquisitions, site planning, obtaining entitlements, developing the land, product design, constructing, marketing and selling homes and providing homebuyer customer service are included in our operations. 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 industry 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 in all of our markets, 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 the jurisdictions and key stakeholders 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 many customers desire today, in addition to building homes and community amenities, as part of the planning process.

Mixed-use development is a growing 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 under development in Tennessee (Nashville) and Hawaii (Honolulu) allows 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 increasing our position in mixed-use development as a significant opportunity and reflects our view of 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 allows 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, 2021 were $6.1 billion.

As of September 30, 2021, we controlled 77,768 single family lots (serviced lots and future lot equivalents) and 136 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, 2021 is as follows:

	Single Family Housing & Land Under and Held for Development[1]								Multi-Family, Industrial & Commercial Parcels Under Development	
			Unconsolidated				Status of Lots			
	Housing & Land		Entities		Total Lots		9/30/2021		Total Acres	
	Owned	Options	Owned	Options	9/30/2021	12/31/2020	Entitled	Unentitled	9/30/2021	12/31/2020
Calgary	15,586	—	2,148	—	17,734	18,306	9,496	8,238	40	56
Edmonton	10,144	—	—	—	10,144	10,479	4,934	5,210	15	15
Ontario	7,631	—	1,030	—	8,661	8,147	4,169	4,492	1	1
Canada	33,361	—	3,178	—	36,539	36,932	18,599	17,940	56	72
Northern California	2,672	7,255	224	—	10,151	10,095	2,783	7,368	—	—
Southern California	4,957	—	230	955	6,142	6,901	3,471	2,671	—	—
Hawaii	—	—	—	—	—	3	—	—	—	—
Newland[2]	—	—	564	—	564	—	564	—	2	—
California	7,629	7,255	1,018	955	16,857	16,999	6,818	10,039	2	—
Denver	6,789	—	—	—	6,789	6,927	6,789	—	10	10
Austin	10,861	—	—	—	10,861	11,092	10,861	—	37	37
Phoenix	2,102	—	926	—	3,028	3,431	2,916	112	21	55
Washington, D.C. Area	2,196	871	—	—	3,067	3,486	3,030	37	—	—
Newland[3]	—	—	627	—	627	—	627	—	10	—
Central and Eastern U.S.	21,948	871	1,553	—	24,372	24,936	24,223	149	78	102
Total	62,938	8,126	5,749	955	77,768	78,867	49,640	28,128	136	174
Entitled lots	42,809	2,078	4,753	—	49,640	51,070				
Unentitled lots	20,129	6,048	996	955	28,128	27,797				
Total September 30, 2021	62,938	8,126	5,749	955	77,768					
Total December 31, 2020	63,556	8,203	6,107	1,001		78,867				

[1] *Land held for development will include some multi-family, industrial and commercial parcels once entitled.*

[2] *Newland includes lots acquired on June 1, 2021, which are located in the following markets: Oregon, California and Washington State. See Note 4 of the condensed consolidated financial statements "Business Combinations" for further details.*

[3] *Newland includes lots acquired on June 1, 2021, which are located in the following markets: North Carolina, Florida, Georgia, Texas, and Washington D.C. See Note 4 of the condensed consolidated financial statements "Business Combinations" for further details.*

RESULTS OF OPERATIONS

Key financial results and operating data for the three and nine months ended September 30, 2021 compared to the three and nine months ended September 30, 2020 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except percentages, unit activity, average selling price and per share amounts)	**2021**	**2020**	**2021**	**2020**
Key Financial Results				
Housing revenue	$ 420	$ 380	$ 1,212	$ 981
Land revenue	26	73	153	108
Total revenue	446	453	1,365	1,088
Housing gross margin ($)	79	71	227	169
Housing gross margin (%)	19%	19%	19%	17%
Land gross margin ($)	12	21	48	32
Land gross margin (%)	46%	29%	31%	30%
Total gross margin ($)	91	92	276	201
Total gross margin (%)	20%	20%	20%	18%
Income before income taxes	139	44	280	39
Income tax expense	(2)	—	(2)	(1)
Net income	137	44	279	38
Net income attributable to Brookfield Residential	61	14	153	11
Basic earnings per share	$ 0.47	$ 0.11	$ 1.18	$ 0.09
Diluted earnings per share	$ 0.46	$ 0.11	$ 1.17	$ 0.09
Key Operating Data				
Home closings for Brookfield Residential (units)	750	850	2,236	2,028
Average home selling price for Brookfield Residential (per unit)	$559,000	$448,000	$542,000	$483,000
Net new home orders for Brookfield Residential (units)	493	1,144	1,999	2,689
Net new home orders for unconsolidated entities (units)	24	—	39	—
Backlog for Brookfield Residential (units)	1,670	1,935	1,670	1,935
Backlog for unconsolidated entities (units)	38	—	38	—
Backlog value for Brookfield Residential	$ 1,000	$ 973	$ 1,000	$ 973
Backlog value for unconsolidated entities	$ 32	$ —	$ 32	$ —
Active housing communities for Brookfield Residential	71	84	71	84
Active housing communities for unconsolidated entities	1	—	1	—
Lot closings for Brookfield Residential (single family units)	190	726	1,159	1,057
Lot closings for unconsolidated entities (single family units)	376	408	827	530
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	3	—	21	3
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	198	—	208	1
Acre closings for Brookfield Residential (raw and partially finished)	—	—	99	—
Average lot selling price for Brookfield Residential (single family units)	$125,000	$100,000	$116,000	$ 99,000
Average lot selling price for unconsolidated entities (single family units)	$ 81,000	$ 88,000	$119,000	$103,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$753,000	$ —	$831,000	$819,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$407,000	$ —	$410,000	$297,000
Average per acre selling price for Brookfield Residential (raw and partially finished)	$ —	$ —	$ 11,000	$ —
Active land communities for Brookfield Residential	17	25	17	25
Active land communities for unconsolidated entities	18	7	18	7

Segmented Information

We operate in three operating segments within North America related to our land and housing operations: Canada, California 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, 2021 and 2020.

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity and average selling price)	**2021**	**2020**	**2021**	**2020**
Housing revenue				
Canada	$ 108	$ 107	$ 260	$ 224
California	161	125	541	383
Central and Eastern U.S.	151	148	411	374
Total	$ 420	$ 380	$ 1,212	$ 981
Land revenue				
Canada	$ 20	$ 27	$ 103	$ 48
California	2	13	23	19
Central and Eastern U.S.	4	33	27	41
Total	$ 26	$ 73	$ 153	$ 108
Housing gross margin				
Canada	$ 20	$ 18	$ 46	$ 36
California	31	27	109	73
Central and Eastern U.S.	28	26	72	60
Total	$ 79	$ 71	$ 227	$ 169
Land gross margin				
Canada	$ 7	$ 10	$ 33	$ 18
California	3	1	11	3
Central and Eastern U.S.	2	10	4	11
Total	$ 12	$ 21	$ 48	$ 32
Home closings (units)				
Canada	223	319	570	657
California	232	202	841	551
Central and Eastern U.S.	295	329	825	820
Total	750	850	2,236	2,028
Average home selling price				
Canada	$ 481,000	$ 337,000	$ 454,000	$ 340,000
California	695,000	616,000	644,000	694,000
Central and Eastern U.S.	512,000	451,000	499,000	457,000
Average	$ 559,000	$ 448,000	$ 542,000	$ 483,000

	As at September 30	
	2021	**2020**
Active housing communities		
Canada	38	35
California	9	19
Central and Eastern U.S.	24	30
	71	84
Unconsolidated entities	1	—
Total	72	84

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Lot closings (single family units)				
Canada	116	230	628	406
California	34	87	184	138
Central and Eastern U.S.	40	409	347	513
	190	726	1,159	1,057
Unconsolidated entities	376	408	827	530
Total	566	1,134	1,986	1,587
Acre closings (multi-family, industrial and commercial)				
Canada	3	—	21	3
California	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	3	—	21	3
Unconsolidated entities	198	—	208	1
Total	201	—	229	4
Acre closings (raw and partially finished)				
Canada	—	—	99	—
California	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	—	—	99	—
Unconsolidated entities	—	—	1	—
Total	—	—	100	—
Average lot selling price (single family units)				
Canada	$ 152,000	$ 118,000	$ 136,000	$ 112,000
California	53,000	151,000	125,000	141,000
Central and Eastern U.S.	105,000	79,000	76,000	79,000
	125,000	100,000	116,000	99,000
Unconsolidated entities	81,000	88,000	119,000	103,000
Average	$ 95,000	$ 96,000	$ 117,000	$ 101,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	$ 753,000	$ —	$ 831,000	$ 819,000
California	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	753,000	—	831,000	819,000
Unconsolidated entities	407,000	—	410,000	297,000
Average	$ 412,000	$ —	$ 449,000	$ 613,000
Average per acre selling price (raw and partially finished)				
Canada	$ —	$ —	$ 11,000	$ —
California	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	—	—	11,000	—
Unconsolidated entities	—	—	272,000	—
Average	$ —	$ —	$ 15,000	$ —

	As at September 30	
	2021	2020
Active land communities		
Canada	7	10
California	1	4
Central and Eastern U.S.	9	11
	17	25
Unconsolidated entities	18	7
Total	35	32

	As at	
(US$ millions)	September 30 2021	December 31 2020
Total assets		
Canada	$ 1,111	$ 1,065
California	1,230	1,087
Central and Eastern U.S.	2,065	1,992
Corporate and other	908	1,119
Equity Investment in Affiliate	750	606
Total	$ 6,064	$ 5,869

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, 2021 Compared with Three and Nine Months Ended September 30, 2020

Net Income

Consolidated net income for the three and nine months ended September 30, 2021 and 2020 is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except per share amounts)	2021	2020	2021	2020
Consolidated net income	$ 137	$ 44	$ 279	$ 38
Net income attributable to Brookfield Residential	$ 61	$ 14	$ 153	$ 11
Basic earnings per share	$ 0.47	$ 0.11	$ 1.18	$ 0.09
Diluted earnings per share	$ 0.46	$ 0.11	$ 1.17	$ 0.09

The increase of $93 million in consolidated net income for the three months ended September 30, 2021 compared to the same period in 2020 was primarily the result of an increase of $49 million in earnings from our affiliate unconsolidated entity, an increase in earnings from land and housing unconsolidated entities of $45 million as a result of a large industrial acre parcel sale from our Phoenix unconsolidated joint venture, an increase in other income of $14 million due to higher commercial rent income and recognition of a development receivable related to a previously completed housing community, and an increase in housing gross margin of $8 million due to home price appreciation. This was partially offset by a decrease in land gross margin of $9 million due to fewer lot closings, an increase in interest expense of $8 million due to the Nashville mixed-use project now being operational and less interest being capitalized as well as an increase in depreciation expense of $4 million also from the Nashville mixed-use project.

The increase of $241 million in consolidated net income for the nine months ended September 30, 2021 compared to the same period in 2020 was primarily the result of an increase in affiliate unconsolidated entity earnings of $141 million, an increase in housing and land gross margins of $75 million due to increased activity and home price appreciation, an increase in earnings from land and housing unconsolidated entities of $57 million, and an increase in other income of $22 million. This was partially offset by an increase in interest expense of $31 million due to the Nashville mixed-use project now being operational and less interest being capitalized, and an increase in selling, general and administrative expenses of $13 million primarily due to higher management fees paid to Brookfield Properties Development ("BPD") and an $11 million increase in depreciation due to the Nashville mixed-use project.

Results of Operations – Housing

A breakdown of our results from housing operations for the three and nine months ended September 30, 2021 and 2020 is as follows:

Consolidated

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**	**2021**	**2020**
Home closings	750	850	2,236	2,028
Revenue	$ 420	$ 380	$ 1,212	$ 981
Gross margin	$ 79	$ 71	$ 227	$ 169
Gross margin (%)	19%	19%	19%	17%
Average home selling price	$559,000	$448,000	$542,000	$483,000

Housing revenue and gross margin were $420 million and $79 million, respectively, for the three months ended September 30, 2021, compared to $380 million and $71 million for the same period in 2020. The increase in revenue and gross margin were primarily the result of a 25% increase in average home selling prices offset by 100 fewer home closings from our Canada and Central and Eastern operating segments. Gross margin percentage was flat at 19% when compared to the same period in 2020.

Housing revenue and gross margin were $1,212 million and $227 million, respectively, for the nine months ended September 30, 2021, compared to $981 million and $169 million for the same period in 2020. The increase in revenue and gross margin were primarily the result of 208 additional home closings from our California and Central and Eastern U.S. operating segments, and a 12% increase in average home selling prices. Gross margin percentage increased 2% when compared to the same period in 2020 due to geographic and product mix of homes closed, combined with lower incentives on homes closed when compared to the same period in 2020.

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)	**2021**	**2020**	**2021**	**2020**
Home closings	223	319	570	657
Revenue	$ 108	$ 107	$ 260	$ 224
Gross margin	$ 20	$ 18	$ 46	$ 36
Gross margin (%)	19%	17%	18%	16%
Average home selling price	$481,000	$337,000	$454,000	$340,000
Average home selling price (C$)	$606,000	$449,000	$568,000	$459,000

Housing revenue in our Canadian segment for the three months ended September 30, 2021 increased by $1 million when compared to the same period in 2020, due to the combination of 43% higher average home selling prices offset by 96 fewer home closings. Higher average selling prices per home were noted across all markets in the segment, especially in Ontario, where price appreciation and the product mix of homes closed led to higher selling prices in 2021 compared to 2020 due to the product and community offerings. Gross margin increased $2 million for the three months ended September 30, 2021 when compared to the same period in 2020 as a result of higher average home selling prices, and gross margin percentage increased 2% primarily as a result of the product mix of homes closed.

Housing revenue in our Canadian segment for the nine months ended September 30, 2021 increased by $36 million when compared to the same period in 2020, primarily due to 34% higher average home selling prices offset by fewer home closings. The increase in average home selling price was primarily the result of higher selling prices per home across the segment as well as the product mix of homes closed where homes in Ontario had a higher selling price in 2021 compared to 2020 due to the product and community offerings. Gross margin increased $10 million for the nine months ended September 30, 2021 when compared to the same period in 2020 as a result of the higher average home selling prices, and gross margin percentage increased 2% primarily as a result of the product mix of homes closed.

California

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended September 30		Nine Months Ended September 30	
	2021	**2020**	**2021**	**2020**
Home closings	232	202	841	551
Revenue	$ 161	$ 125	$ 541	$ 383
Gross margin	$ 31	$ 27	$ 109	$ 73
Gross margin (%)	19%	22%	20%	19%
Average home selling price	$695,000	$616,000	$644,000	$694,000

Housing revenue in our California segment for the three months ended September 30, 2021 increased by $36 million when compared to the same period in 2020, primarily due to a 13% increase in average home selling price as well as 30 additional home closings. Gross margin increased $4 million as a result of price appreciation and additional home closings, and gross margin percentage decreased 3% primarily as a result of the product and geographic mix of homes closed when compared to the same period in 2020 as we had higher margin home closings from our Hawaii housing operations in 2020 with no similar closings in the current period.

Housing revenue in our California segment for the nine months ended September 30, 2021 increased by $158 million when compared to the same period in 2020, primarily due to 290 additional home closings, partially offset by 7% lower average selling prices. The additional home closings were recognized in our Southern and Northern California markets, and the decrease in average home selling price reflects price appreciation and the change in product mix in our Southern California market. Gross margin increased $36 million as a result of additional home closings, and gross margin percentage increased 1% primarily as a result of the product and geographic mix of homes closed, combined with lower incentives provided when compared to the same period in 2020.

Central and Eastern

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended September 30		Nine Months Ended September 30	
	2021	**2020**	**2021**	**2020**
Home closings	295	329	825	820
Revenue	$ 151	$ 148	$ 411	$ 374
Gross margin	$ 28	$ 26	$ 72	$ 60
Gross margin (%)	19%	18%	18%	16%
Average home selling price	$512,000	$451,000	$499,000	$457,000

Housing revenue in our Central and Eastern U.S. segment for the three months ended September 30, 2021 increased by $3 million when compared to the same period in 2020, primarily due to 14% higher average home selling prices, partially offset by 34 fewer home closings. The increase in average home selling price is primarily attributable to home price appreciation and the geographic and product mix of homes closed, with a higher proportion of closings in the current period coming from our Washington D.C. market where average selling prices are typically higher, compared with the prior period's higher proportion of closings in our Austin market which typically has a lower average selling price. The decrease in home closings is mainly the result of fewer closings in our Austin market. Gross margin increased $2 million as a result of higher average home selling prices, and gross margin percentage increased 1% primarily as a result of the product and geographic mix of homes closed, combined with lower incentives provided when compared to the same period in 2020.

Housing revenue in our Central and Eastern U.S. segment for the nine months ended September 30, 2021 increased by $37 million when compared to the same period in 2020, resulting from 9% higher average home selling prices and five additional home closings. The increase in average home selling price is primarily the result of geographic and product mix of homes closed within the operating segment. Gross margin increased $12 million as a result of additional homes closings at higher average selling prices, and gross margin percentage increased 2% primarily as a result of the product and geographic mix of homes closed, combined with lower incentives provided when compared to the same period in 2020.

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, 2021, total incentives recognized as a percentage of gross revenues decreased 1% as a result of fewer incentives provided in our California and Central and Eastern U.S. operating segments, primarily due to improving market conditions, while the Canadian operating segment remained consistent when compared to the same periods in 2020.

Our incentives on homes closed by operating segment for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30			
	2021		2020	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 5	5%	$ 5	5%
California	2	2%	3	2%
Central and Eastern U.S.	7	4%	8	5%
	$ 14	3%	$ 16	4%

	Nine Months Ended September 30			
	2021		2020	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 12	5%	$ 11	5%
California	7	1%	8	2%
Central and Eastern U.S.	19	4%	21	5%
	$ 38	3%	$ 40	4%

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, 2021 totaled 517 and 2,037 units, a decrease of 627 units or 55%, and a decrease of 652 units or 24%, respectively when compared to the same periods in 2020. For the three and nine months ended September 30, 2021, the decrease in net new home orders was the result of fewer active selling communities, primarily in our California operating segment, as well as affordability concerns from potential buyers as a result of home price appreciation. Average monthly sales per community by reportable segment for the three and nine months ended September 30, 2021 were: Canada – 2 and 2 units (2020 – 4 and 3 units); California – 5 and 5 units (2020 – 7 and 5 units); Central and Eastern U.S. – 3 and 3 units (2020 – 4 and 3 units), and unconsolidated entities – 8 and 6 units (2020 – nil and nil units). We were selling from 72 active housing communities at September 30, 2021 compared to 84 at September 30, 2020.

The net new home orders for the three and nine months ended September 30, 2021 and 2020 by our land and housing operating segments were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(Units)	2021	2020	2021	2020
Canada	181	343	722	806
California	128	413	518	950
Central and Eastern U.S.	184	388	759	933
	493	1,144	1,999	2,689
Unconsolidated entities	24	—	39	—
Total	517	1,144	2,038	2,689

Home Sales – Cancellations

The overall cancellation rates for the three and nine months ended September 30, 2021 were 4% and 5%, respectively, compared to 9% and 14% during the same periods in 2020. The decrease in the cancellation rate for the three and nine months ended September 30, 2021 was driven by a lower number of cancellations in all of our operating segments. As a result of the COVID-19 pandemic, there was an increase in the number of cancellations across all of the Company's operating segments during the first half of 2020, which also contributes to the nine month ended variance when compared to prior year.

The cancellation rates for the three and nine months ended September 30, 2021 and 2020 for our land and housing operating segments were as follows:

	Three Months Ended September 30			
	2021		2020	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	—	—%	57	14%
California	6	4%	18	4%
Central and Eastern U.S.	17	8%	40	9%
	23	4%	115	9%

	Nine Months Ended September 30			
	2021		2020	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	3	—%	198	20%
California	27	5%	81	8%
Central and Eastern U.S.	82	10%	147	14%
	112	5%	426	14%

Home Sales – Backlog

Our backlog, which represents the number of new homes under sales contracts, as at September 30, 2021 and 2020 by operating segment, was as follows:

	As at September 30			
	2021		2020	
(US$ millions, except unit activity)	Units	Value	Units	Value
Canada	727	$ 370	705	$ 321
California	309	267	619	375
Central and Eastern U.S.	634	363	611	277
	1,670	1,000	1,935	973
Unconsolidated entities	38	32	—	—
Total	1,708	$ 1,032	1,935	$ 973

We expect all of our backlog to close between 2021 and 2023, subject to future cancellations. The units in our backlog as at September 30, 2021 decreased when compared to the same period in 2020 as a result of continuing to sell out of communities, with our active selling communities now at 72 compared to 84 at September 30, 2020. Total backlog value increased by $59 million when compared to the same period in 2020 mainly due to 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, 2021 and 2020 is as follows:

Consolidated

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**	**2021**	**2020**
Lot closings (single family units)	190	726	1,159	1,057
Acre closings (multi-family, industrial and commercial)	3	—	21	3
Acre closings (raw and partially finished)	—	—	99	—
Revenue	$ 26	$ 73	$ 153	$ 108
Gross margin	$ 12	$ 21	$ 48	$ 32
Gross margin (%)	46%	29%	31%	30%
Average lot selling price (single family units)	$125,000	$100,000	$116,000	$ 99,000
Average per acre selling price (multi-family, industrial and commercial)	$753,000	$ —	$831,000	$819,000
Average per acre selling price (raw and partially finished)	$ —	$ —	$ 11,000	$ —

Land revenue totaled $26 million and land gross margin totaled $12 million for the three months ended September 30, 2021, a decrease of $127 million and $36 million, respectively, when compared to the same period in 2020. The decrease in land revenue was primarily due to 536 fewer single family lot closings offset by 25% higher average single family lot selling prices. The decrease in single family lot closings was due to fewer closings across all of our operating segments. The increase in average single family lot selling prices was primarily due to the product and geographic mix of lots closed in our Canada and Central and Eastern segments. There were also three multi-family, industrial and commercial acre closings in our Canadian segment with no comparative closings in the comparative period. Gross margin decreased primarily due to fewer single family lot sales, and gross margin percentage increased 17% compared to the same period in 2020, primarily due to the product and geographic mix of land sold.

Land revenue totaled $153 million and land gross margin totaled $48 million for the nine months ended September 30, 2021, an increase of $45 million and $16 million, respectively, when compared to the same period in 2020. The increase in land revenue was primarily due to 102 additional single family lot closings and 17% higher average single family lot selling prices. The increase in single family lot closings was due to additional closings in our Canada and California segments. The increase in average single family lot selling prices was primarily due to the product and geographic mix of lots closed. Also contributing to the increase were 18 additional multi-family, industrial and commercial acre closings and 99 additional raw and partially finished acre closings in our Canadian segment. Gross margin increased primarily due to additional single family lot sales and acre closings, and gross margin percentage increased 1% compared to the same period in 2020, primarily due to the product and geographic mix of land sold.

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)	**2021**	**2020**	**2021**	**2020**
Lot closings (single family units)	116	230	628	406
Acre closings (multi-family, industrial and commercial)	3	—	21	3
Acre closings (raw and partially finished)	—	—	99	—
Revenue	$ 20	$ 27	$ 103	$ 48
Gross margin	$ 7	$ 10	$ 33	$ 18
Gross margin (%)	35%	37%	32%	38%
Average lot selling price (single family units)	$152,000	$118,000	$136,000	$112,000
Average lot selling price (C$) (single family units)	$192,000	$157,000	$170,000	$150,000
Average per acre selling price (multi-family, industrial and commercial)	$753,000	$ —	$831,000	$819,000
Average per acre selling price (C$) (multi-family, industrial and commercial)	$948,000	$ —	$1,031,000	$1,100,000
Average per acre selling price (raw and partially finished)	$ —	$ —	$ 11,000	$ —
Average per acre selling price (C$) (raw and partially finished)	$ —	$ —	$ 14,000	$ —

Land revenue in our Canadian segment for the three months ended September 30, 2021 was $20 million, a decrease of $7 million when compared to the same period in 2020. The decrease was primarily the result of 114 fewer single family lot closings in our Calgary and Edmonton markets, offset by 29% higher single family lot selling prices due to the mix of land sold during the period. There was also three multi-family, industrial and commercial acre sales with no comparative closings for the same period in 2020. Gross margin decreased $3 million compared to the same period during 2020 mainly as a result of fewer lot closings, and gross margin percentage decreased 2% due to the mix of land sold.

Land revenue in our Canadian segment for the nine months ended September 30, 2021 was $103 million, an increase of $55 million when compared to the same period in 2020. The increase was primarily the result of 222 additional single family lot closings in our Calgary and Edmonton markets, and 21% higher single family lot selling prices due to the mix of land sold during the period. Also contributing to the increase were 18 additional multi-family, industrial and commercial acre closings and 99 additional raw and partially finished acre closings when compared to the same period in 2020. Gross margin increased $15 million compared to the same period during 2020 mainly as a result of additional lot and acre closings, and gross margin percentage decreased 6% due to the mix of land sold.

California

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**	**2021**	**2020**
Lot closings (single family units)	34	87	184	138
Revenue	$ 2	$ 13	$ 23	$ 19
Gross margin	$ 3	$ 1	$ 11	$ 3
Gross margin (%)	150%	8%	48%	16%
Average lot selling price (single family units)	$ 53,000	$151,000	$125,000	$141,000

Land revenue in our California segment for the three months ended September 30, 2021 was $2 million, a decrease of $11 million when compared to the same period in 2020. The decrease was primarily the result of 53 fewer single family lot closings in our Northern California market, along with 65% lower average single family lot selling prices due to the geographic mix of land sold during the period. Gross margin increased $2 million and gross margin percentage increased 142% compared to the same period during 2020 mainly as a result of the recognition of profit participation in our Southern California market with no corresponding lot sales.

Land revenue in our California segment for the nine months ended September 30, 2021 was $23 million, an increase of $4 million when compared to the same period in 2020. The increase was primarily the result of 46 additional single family lot closings in our Southern California market, offset by 11% lower average single family lot selling prices. Gross margin increased $8 million and gross margin percentage increased 32% compared to the same period in

2020 due to additional lot closings at higher average selling prices, and the recognition of city development reimbursements and profit participation in our Southern California market with no corresponding lot sales.

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)	**2021**	**2020**	**2021**	**2020**
Lot closings (single family units)	40	409	347	513
Revenue	$ 4	$ 33	$ 27	$ 41
Gross margin	$ 2	$ 10	$ 4	$ 11
Gross margin (%)	50%	30%	15%	27%
Average lot selling price (single family units)	$105,000	$ 79,000	$ 76,000	$ 79,000

Land revenue in our Central and Eastern U.S. segment for the three months ended September 30, 2021 was $4 million, a decrease of $29 million when compared to the same period in 2020. The decrease was primarily the result of 369 fewer single family lot closings, mainly in our Austin and Phoenix markets, partially offset by 33% higher average single family lot selling prices mainly resulting from the geographic and community mix of land sold. Gross margin decreased by $8 million and gross margin percentage increased by 20% due to the 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, 2021 was $27 million, a decrease of $14 million when compared to the same period in 2020. The decrease was primarily the result of 166 fewer single family lot closings, mainly in our Austin and Phoenix markets, as well as 4% lower average single family lot selling prices mainly resulting from the geographic and community mix of land sold. Gross margin decreased when compared to the same period in 2020, and gross margin percentage decreased by 12% due to the geographic and community 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, 2021 totaled $54 million and $71 million, compared to $9 million and $14 million for the same periods in 2020.

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)	**2021**	**2020**	**2021**	**2020**
Lot closings (single family units)	376	408	827	530
Acre closings (multi-family, industrial and commercial)	198	—	208	1
Acre closings (raw and partially finished)	—	—	1	—
Revenue	$ 111	$ 36	$ 184	$ 55
Gross margin	$ 32	$ 10	$ 51	$ 15
Gross margin (%)	29%	28%	28%	27%
Average lot selling price (single family units)	$ 81,000	$ 88,000	$119,000	$103,000
Average per acre selling price (multi-family, industrial and commercial)	$407,000	$ —	$410,000	$297,000
Average per acre selling price (raw and partially finished)	$ —	$ —	$272,000	$ —

Land revenue within unconsolidated entities increased $75 million and gross margin increased $22 million for the three months ended September 30, 2021 when compared to the same period in 2020. The increase was primarily the result of a 390-acre industrial parcel sale at our Eastmark master-planned community of which Brookfield Residential's share was 195 acre closings with no comparable closings in the prior year. This was offset by 32 fewer single family lot closings and a 8% decrease in average single family lot selling price due to mix of land sold.

Land revenue within unconsolidated entities increased $129 million and gross margin increased $36 million for the nine months ended September 30, 2021 when compared to the same period in 2020. The increase was primarily the result of 297 additional single family lot closings, mainly coming from bulk lot closings in our Phoenix joint ventures and increased closings in our Southern California joint ventures. Also contributing to the increase were 207 multi-family, industrial and commercial acre closings in our Phoenix joint ventures compared to only one acre closing during 2020.

Earnings / (Loss) from Unconsolidated Entities - Affiliate

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

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	2021	2020	2021	2020
Earnings / (Loss) from unconsolidated entities - affiliate	$ 40	$ (9)	$ 109	$ (32)

For the three and nine months ended September 30, 2021, earnings from affiliate unconsolidated entities was $40 million and $109 million, respectively, compared to a loss of $(9) million and $(32) million in the prior periods. The increase was primarily the result of increased distributions, higher fee and investment income, and from the disposition of certain investments.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three and nine months ended September 30, 2021 and 2020 are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	2021	2020	2021	2020
General and administrative expense	$ 36	$ 33	$ 108	$ 92
Sales and marketing expense	24	27	75	74
Share-based compensation	1	1	2	6
	$ 61	$ 61	$ 185	$ 172

General and administrative expense increased $3 million and $16 million, respectively, for the three and nine months ended September 30, 2021 primarily due to higher management fees paid to BPD as a result of increased development and construction activity when compared to the same periods in 2020. Sales and marketing expense for the three months ended September 30, 2021 decreased $3 million compared to the same period in 2020 primarily due to lower commissions and closing costs. Sales and marketing expense for the nine month reporting period was largely unchanged when compared to the same period in 2020. Share-based compensation expense remained unchanged for the three month reporting period, but for the nine months ended September 20, 2021 decreased $4 million due to the change in fair value of our share-based compensation liabilities.

Other (Income) / Expense

The components of other (income) / expense for the three and nine months ended September 30, 2021 and 2020 are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	2021	2020	2021	2020
Investment income	$ (10)	$ (8)	$ (37)	$ (23)
Other	(10)	(3)	(18)	(9)
Preferred share dividend income	(6)	(6)	(18)	(18)
Income from commercial properties	(5)	—	(7)	(2)
Joint venture management fee income	(3)	(3)	(6)	(10)
Loss on extinguishment of debt	—	—	16	15
	$ (34)	$ (20)	$ (70)	$ (47)

For the three months ended September 30, 2021, other income increased $14 million when compared to the same period in 2020. This was a result of a $5 million increase in income from commercial properties, a $2 million increase in investment income from unrealized gains on Brookfield Single Family Rental ("BSFR") investment and a $7 million increase in other income, which is primarily related to the recognition of a development receivable relating to a previously completed housing community.

For the nine months ended September 30, 2021, other income increased $23 million when compared to the same period in 2020. This was the result of a $14 million increase in investment income, primarily resulting from unrealized gains of $11 million on the BSFR investment and a $3 million gain on the sale of common share investments, a $9 million increase in other income and a $5 million increase in income from commercial properties. This was partially offset by a $4 million decrease in joint venture management fee income and a $1 million increase in debt extinguishment costs when compared to the same period in 2020.

Income Tax Expense / (Recovery)

Income tax expense for the three and nine months ended September 30, 2021, increased $1 million and $nil, respectively when compared to the same periods in 2020. The components of current and deferred income tax expense / (recovery) are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Current income tax expense / (recovery)	$ 3	$ (2)	$ 4	$ 6
Deferred income tax (recovery) / expense	(2)	2	(3)	(5)
	$ 1	$ —	$ 1	$ 1

For the three and nine months ended September 30, 2021, current income tax expense increased $5 million and decreased $2 million, respectively, when compared to the same periods in 2020. The increase in current income tax expense for the three months ended September 2021 primarily relates to an increase in net income before tax in the U.S. compared to the same period in 2020. The decrease in current income tax expense for the nine months ended September 2021 primarily relates to an increase in net income before tax in the U.S., partially offset by an income tax expense of $7 million recognized in the second quarter of 2020 due to the impact of the release of certain final U.S. tax regulations with no comparable adjustment in the current period.

For the three and nine months ended September 30, 2021, deferred income tax recovery increased $4 million and decreased $2 million, respectively, when compared to the same periods in 2020. The increase in deferred income tax recovery for the three months ended September 30, 2021 primarily relates to a partial release in our valuation allowance and the impact of unrealized foreign exchange on the Company's U.S. denominated notes. The decrease in deferred income tax recovery for the nine months ended September 30, 2021 primarily relates to an increase in taxable income in Canada when compared to the same period in 2020.

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, 2021, the rate of exchange was C$1.2681 equivalent to US$1 (December 31, 2020 – C$1.2734 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, 2021, the average rate of exchange was C$1.2595 equivalent to US$1 (September 30, 2020 – C$1.3320 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 $16 million and a net gain of $2 million, respectively, for the three and nine months ended September 30, 2021, compared to a net gain of $15 million and a net loss of $19 million during the same periods in 2020.

QUARTERLY OPERATING AND FINANCIAL DATA

(US$ millions, except unit activity and per share amounts)	2021 Q3	2021 Q2	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4
Quarterly Operating Data								
Home closings (units)	750	788	698	845	850	634	544	882
Lot closings (single family units)	190	381	588	1,454	726	164	167	1,578
Acre closings (multi-family, industrial and commercial)	3	13	4	39	—	—	3	20
Acre closings (raw and partially finished)	—	99	—	—	—	—	—	18
Net new home orders (units)	493	521	985	817	1,144	622	921	671
Backlog (units)	1,670	1,927	2,194	1,907	1,935	1,638	1,650	1,273
Backlog value	$ 1,000	$ 1,098	$ 1,200	$ 1,013	$ 973	$ 771	$ 750	$ 603
Quarterly Financial Data								
Revenue	$ 446	$ 475	$ 444	$ 650	$ 453	$ 323	$ 312	$ 656
Direct cost of sales	(355)	(383)	(351)	(515)	(361)	(268)	(257)	(520)
Gross margin	91	92	93	135	92	55	55	136
Selling, general and administrative expense	(61)	(63)	(62)	(88)	(61)	(53)	(58)	(53)
Interest expense	(11)	(13)	(12)	(5)	(2)	—	(3)	(10)
Earnings / (Loss) from unconsolidated entities	95	37	48	5	—	4	(22)	34
Other income	29	9	17	9	19	19	4	15
Lease expense	(4)	(3)	(3)	(4)	(4)	(3)	(3)	(3)
Income / (Loss) before income taxes	139	59	81	52	44	22	(27)	119
Income tax (expense) / recovery	(2)	—	—	(2)	—	(5)	4	2
Net income / (loss)	137	59	81	50	44	17	(23)	121
Net income / (loss) attributable to non-controlling interest	77	27	20	47	30	5	(8)	41
Net income / (loss) attributable to Brookfield Residential	$ 60	$ 32	$ 61	$ 3	$ 14	$ 12	$ (15)	$ 80
Foreign currency translation	(16)	9	9	37	15	27	(60)	15
Comprehensive income / (loss) attributable to Brookfield Residential	$ 44	$ 41	$ 70	$ 40	$ 29	$ 39	$ (75)	$ 95
Earnings / (Loss) per common share attributable to Brookfield Residential								
Basic	$ 0.47	$ 0.25	$ 0.47	$ 0.02	$ 0.11	$ 0.10	$ (0.12)	$ 0.61
Diluted	$ 0.46	$ 0.25	$ 0.46	$ 0.02	$ 0.11	$ 0.10	$ (0.12)	$ 0.61

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, 2021 and December 31, 2020:

(US$ millions)	As at September 30 2021	As at December 31 2020
Cash and restricted cash	$ 86	$ 368
Receivables and other assets	882	768
Land and housing inventory	2,751	2,657
Investments in unconsolidated entities - land and housing	296	307
Investment in unconsolidated entities - affiliate	750	606
Held-to-maturity investment	300	300
Commercial properties	847	710
Operating and financing lease right-of-use asset	79	82
Deferred income tax assets	58	55
Goodwill	16	16
	$ 6,065	$ 5,869
Accounts payable and other liabilities	$ 672	$ 608
Bank indebtedness and other financings	591	410
Notes payable	1,625	1,621
Operating and financing lease liability	86	89
Total equity	3,091	3,141
	$ 6,065	$ 5,869

Assets

Our assets as at September 30, 2021 totaled $6.1 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 $3.9 billion, or approximately 64% of our total assets. The land and housing assets increased when compared to December 31, 2020 primarily due to continued land development and home construction activity, partially offset by sales activity and turnover of inventory, and the commercial properties increased primarily due to continued construction at the Lilia Waikiki mixed-use project and tenant improvement construction at Nashville Fifth + Broadway mixed-use project, partially offset by depreciation on the Nashville mixed-use project following completion of construction in the current year. 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 lots owned, excluding unconsolidated entities, and their stage of development as at September 30, 2021 compared with December 31, 2020 is as follows:

	As at September 30, 2021		As at December 31, 2020	
(US$ millions, except units)	Units	Book Value	Units	Book Value
Land held for development (lot equivalents)	62,121	$ 1,310	64,213	$ 1,307
Land under development and finished lots (single family units)	6,764	712	5,731	720
Housing units, including models	2,179	664	1,816	575
	71,064	$ 2,686	71,760	$ 2,602
Multi-family, industrial and commercial parcels (acres)	99	$ 65	115	$ 55

Notes Payable

Notes payable consist of the following:

	As at	
(US$ millions)	**September 30 2021**	**December 31 2020**
6.125% unsecured senior notes redeemed June 10, 2021 (a)	$ —	$ 196
6.375% unsecured senior notes redeemed June 10, 2021 (a)	—	350
6.250% unsecured senior notes due September 15, 2027 (b)	600	600
5.125% unsecured senior notes due June 15, 2029 (c)	197	—
5.000% unsecured senior notes due June 15, 2029 (d)	350	—
4.875% unsecured senior notes due February 15, 2030 (e)	500	500
	1,647	1,646
Transaction costs (f)	(22)	(25)
	$ 1,625	$ 1,621

(a) The Company's C$250 million principal amount of 6.125% unsecured senior notes and $350 million principal amount of 6.375% unsecured senior notes were redeemed in full at redemption prices equal to 100.0% and 102.13% of their aggregate principal amounts, respectively, plus accrued and unpaid interest, using cash on hand and the net proceeds from the issuance of the unsecured senior notes due in 2029.

(b) The Company's $600 million principal amount of 6.25% unsecured senior notes mature 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.

(c) 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%. The notes require semi-annual interest payments June 15 and December 15 of each year until maturity. 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.

(d) 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%. The notes require semi-annual interest payments on June 15 and December 15 of each year until maturity. 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.

(e) 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.

(f) During the nine months ended September 30, 2021, the Company capitalized $7 million of transaction costs associated with the issuance of the unsecured senior notes due in 2029. As a result of the redemption of the unsecured senior notes due in 2023 and 2025, the Company recorded a loss on extinguishment of debt, which included a write-off of net unamortized deferred financing fees of $7 million.

The Company and BRUS LLC are co-issuers of all private placements of unsecured senior notes. All unsecured senior notes include covenants that, among other things, place limitations on incurring additional indebtedness and making restricted payments. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited from incurring further indebtedness if we do not satisfy either an indebtedness to consolidated tangible net worth ratio, net indebtedness to tangible net worth ratio, or a fixed charge coverage ratio, as applicable. The Company was in compliance with these debt incurrence covenants as at September 30, 2021.

Our actual fixed charge coverage, indebtedness to consolidated tangible net worth, and net indebtedness to tangible net worth ratio as at September 30, 2021 are reflected in the table below:

	Covenant	**Actual as at September 30 2021**
Minimum fixed charge coverage	2.0 to 1	2.74 to 1
Maximum net indebtedness to consolidated tangible net worth	3.0 to 1	0.72 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. Our bank indebtedness and other financings as at September 30, 2021 were $591 million, an increase of $181 million from December 31, 2020. The increase was the result of our bank indebtedness used primarily to fund land development and home construction, and borrowings from our project-specific facilities increased to fund the construction at our Nashville and Honolulu mixed-use projects. As of September 30, 2021, the weighted average interest rate on our bank indebtedness and other financings was 3.2% (December 31, 2020 – 4.4%).

Future debt maturities are expected to either be refinanced or repaid from home closings, lot closings, or proceeds from mixed-use developments. Additionally, as at September 30, 2021, we had bank indebtedness capacity of $506 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 2021**	**December 31 2020**
Project-specific financings (a)	$ 472	$ 356
Bank indebtedness (b)	84	—
Secured VTB mortgages (c)	44	62
	600	418
Transaction costs (a)(b)	(9)	(8)
	$ 591	$ 410

(a) Project-specific financings

(i) 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 (December 31, 2020 - matures December 2023), allowing OliverMcMillan Spectrum Emery LLC to borrow up to $360 million (December 31, 2020 - $360 million). As at September 30, 2021, the Company has $353 million of borrowings outstanding under the construction loan (December 31, 2020 - $284 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 (December 31, 2020 - LIBOR plus 3.35%, subject to a LIBOR rate floor of 1.80%).

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. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at September 30, 2021.

(US$ millions)		Covenant		Actual as at September 30 2021
Minimum liquidity	$	10	$	571
Minimum net worth	$	100	$	1,298

(ii) 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, 2021, there were $83 million of borrowings outstanding under the construction loan (December 31, 2020 - $24 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 $75 million and a minimum net worth of $250 million. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at September 30, 2021. The following table reflects the covenants:

(US$ millions)		Covenant		Actual as at September 30 2021
Minimum liquidity	$	75	$	571
Minimum net worth	$	250	$	1,385

(iii) As at September 30, 2021, the Company has two Canadian project-specific financings totaling $36 million (C$46 million) provided by various lenders (December 31, 2020 - $47 million (C$60 million)).

Project-specific financing totaling $25 million (C$32 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, 2020 - $39 million (C$50 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, 2021.

The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at September 30 2021
Maximum debt to equity ratio	1.50 to 1	0.39 to 1

On September 20, 2021, the Company finalized the amendment and extension of the project specific financing, that was extended through November 2022 on substantially the same terms and conditions. Project-specific financing totaling $8 million (C$10 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 without covenants (December 31, 2020 - $8 million (C$10 million)).

(b) Bank indebtedness

On August 19, 2021, the Company and BRUS LLC finalized the amendment of the North American unsecured revolving credit facility to replace BRUS LLC as a co-borrower with Brookfield Residential US Holdings LLC ("BRUSH"). The unsecured revolving credit facility was also extended through August 2025 on substantially the same terms and conditions, allowing the Company to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

As at September 30, 2021, there were $84 million of borrowings outstanding under the North American unsecured revolving credit facility and we had available capacity of $506 million (December 31, 2020 - no borrowings outstanding and $598 million of available capacity, respectively).

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, 2021, 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 2021**
Minimum tangible net worth	$ 2,371	$ 3,074
Maximum total debt to capitalization	65%	43%

(c) Secured VTB mortgages

The Company has nine secured VTB mortgages (December 31, 2020 – 12 secured VTB mortgages) in the amount of $44 million (December 31, 2020 – $62 million).

Seven secured VTB mortgages (December 31, 2020 – 10 secured VTB mortgages) in the amount of $29 million (December 31, 2020 – $47 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$37 million (December 31, 2020 – C$60 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, 2021, the borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2020 – two secured VTB mortgages) in the amount of $15 million (December 31, 2020 – $15 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 4.0% and the debt is secured by the related land. As at September 30, 2021, 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, 2021 and December 31, 2020 was as follows:

	As at	
(US$ millions, except percentages)	**September 30 2021**	**December 31 2020**
Bank indebtedness and other financings	$ 591	$ 410
Notes payable	1,625	1,621
Total interest bearing debt	2,216	2,031
Less: cash and cash equivalents	(82)	(350)
	2,134	1,681
Total equity	3,091	3,141
Total capitalization	$ 5,225	$ 4,822
Net debt to total capitalization	41%	35%

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, 2021 were as follows:

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

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, 2021, we had cash and cash equivalents, including restricted cash, of $86 million, compared to $368 million at December 31, 2020.

The net cash flows for the nine months ended September 30, 2021 and 2020 were as follows:

	Nine Months Ended September 30	
(US$ millions)	**2021**	**2020**
Cash flows used in operating activities	$ (179)	$ (118)
Cash flows provided by / (used in) investing activities	101	(32)
Cash flows (used in) / provided by financing activities	(205)	135
Effect of foreign exchange rates on cash	—	—
Net change in cash and cash equivalents	$ (283)	$ (15)

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the nine months ended September 30, 2021 totaled $179 million, compared to cash flows used in operating activities of $118 million for the same period in 2020. During the nine months ended September 30, 2021, cash provided by operating activities was primarily impacted by our net income, an increase in commercial properties primarily due to continued construction on the Nashville and Honolulu mixed-use development projects, an increase in land and housing inventory due to sales activity and turnover of inventory, an increase in receivables and other assets, an increase in accounts payable and other liabilities and a decrease 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 California and $46 million in Central and Eastern U.S. During the nine months ended September 30, 2020, cash used in operating activities was primarily impacted by our net income, an increase in commercial properties, a decrease in land and housing inventory due to sales activity and turnover of inventory, an increase in receivables and other assets, a decrease in accounts payable and other liabilities and a decrease in operating lease liabilities. Acquisitions of land and housing inventory for the nine months ended September 30, 2020 totaled $123 million, consisting of $65 million in Canada, $41 million in California and $17 million in Central and Eastern U.S. The increase in commercial properties of $181 million was largely due to continued construction at our Nashville and Honolulu mixed-use development projects.

Cash Flow Provided by / (Used in) Investing Activities

During the nine months ended September 30, 2021, cash flow provided by investing activities totaled $101 million, compared to cash flow used in investing activities of $32 million for the same period in 2020. 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. During the nine months ended September 30, 2020, we had an increase in our loan receivables of $30 million and made investments of $24 million in land and housing unconsolidated entities primarily in our joint ventures in Southern California and the BSFR. This was partially offset by $22 million distributions from our unconsolidated entities.

Cash Flow (Used in) / Provided by Financing Activities

Cash flows used in financing activities for the nine months ended September 30, 2021 totaled $205 million, compared to cash flows provided by financing activities of $135 million for the same period in 2020. During 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. For the nine months ended September 30, 2020, the cash provided by our financing activities was primarily from $134 million net borrowings under project-specific and other financings, drawings on bank indebtedness of $34 million, and contributions from non-controlling interest of $18 million, partially offset by distributions to non-controlling interest of $31 million, $9 million of costs related to the extinguishment of the unsecured senior notes due in 2022, $9 million of costs related to the issuance of the unsecured senior notes due in 2030, and $2 million of costs related to the amendment and extension of the Company's unsecured revolving credit facility.

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 2, 2021, 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 2, 2021, 6,351,600 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, 2021.

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, 2021, we had $27 million of primarily non-refundable option deposits and entitlement costs. The total remaining exercise price of these options was $58 million. Pursuant to the guidance in the United States Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 *Consolidation*, we have consolidated $8 million of these option contracts where we consider the Company holds the majority economic interest in the assets held under the options.

We also own 5,749 lots and control under option 955 lots through our proportionate share of land and housing unconsolidated entities. As of September 30, 2021, our investment in land and housing unconsolidated entities totaled $296 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of September 30, 2021, we had recourse guarantees of $41 million with respect to debt in our land and housing unconsolidated entities. During the nine months ended September 30, 2021, we did not make any loan re-margin repayments on the debt in our land and housing unconsolidated entities. Please refer to Note 5 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, 2021, we had $84 million in letters of credit outstanding and $558 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, 2021 are $59 million and $182 million, respectively.

Transactions Between Related Parties

See Note 19 to 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)

		As at	
	Note	September 30 2021	December 31 2020
Assets			
Cash and cash equivalents		$ 81,601	$ 350,306
Restricted cash	2	4,033	17,849
Receivables and other assets		882,124	767,592
Land and housing inventory	3	2,750,567	2,656,627
Investments in unconsolidated entities - land and housing	5	296,186	307,250
Investments in unconsolidated entities - affiliate	5	749,831	605,615
Held-to-maturity investment		300,000	300,000
Commercial properties	6	847,212	709,947
Operating and financing lease right-of-use asset		78,531	82,109
Deferred income tax assets	7	57,982	54,967
Goodwill		16,479	16,479
Total assets		$ 6,064,546	$ 5,868,741
Liabilities and Equity			
Accounts payable and other liabilities		$ 672,218	$ 608,040
Bank indebtedness and other financings	8	590,888	409,638
Notes payable	9	1,624,841	1,621,500
Operating and financing lease liability		85,920	88,559
Total liabilities		2,973,867	2,727,737
Common shares	10	626,594	626,594
Retained earnings	10	1,232,339	1,393,099
Non-controlling interest - land and housing		159,877	155,466
Non-controlling interest - affiliate		1,177,109	1,073,016
Accumulated other comprehensive loss		(105,240)	(107,171)
Total equity		3,090,679	3,141,004
Total liabilities and equity		$ 6,064,546	$ 5,868,741
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	**2021**	**2020**	**2021**	**2020**
Revenue					
Housing		$ 419,554	$ 380,456	$1,211,634	$ 980,511
Land		25,971	72,554	152,976	107,589
Total revenue		445,525	453,010	1,364,610	1,088,100
Direct Cost of Sales					
Housing		(340,825)	(309,088)	(984,186)	(811,931)
Land		(13,966)	(52,030)	(104,702)	(75,129)
Total direct cost of sales		(354,791)	(361,118)	(1,088,888)	(887,060)
Gross margin		90,734	91,892	275,722	201,040
Selling, general and administrative expense		(60,523)	(61,274)	(184,753)	(171,984)
Interest expense		(11,057)	(2,710)	(35,884)	(4,944)
Earnings from unconsolidated entities - land & housing	5	54,290	9,277	71,098	13,869
Earnings / (Loss) from unconsolidated entities - affiliate	5	40,429	(8,973)	109,397	(31,861)
Other income	13	34,365	20,325	69,540	46,600
Lease expense		(3,515)	(3,783)	(10,495)	(10,257)
Depreciation		(5,629)	(1,208)	(14,829)	(3,368)
Income Before Income Taxes		139,094	43,546	279,796	39,095
Current income tax (expense) / recovery	7	(3,161)	2,085	(4,471)	(5,812)
Deferred income tax recovery / (expense)	7	1,624	(2,248)	2,810	5,097
Net Income		137,557	43,383	278,135	38,380
Other Comprehensive Income					
Unrealized foreign exchange (loss) / gain on:					
Translation of the net investment in Canadian subsidiaries and unconsolidated entities - affiliate		(20,692)	18,687	2,757	(23,578)
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		4,500	(3,550)	(825)	4,775
Comprehensive Income		$ 121,365	$ 58,520	$ 280,067	$ 19,577
Net Income Attributable To:					
Consolidated		$ 137,557	$ 43,383	$ 278,135	$ 38,380
Non-controlling interest - land and housing		5,192	3,008	20,550	9,374
Non-controlling interest - affiliate		71,848	26,229	104,093	17,748
Brookfield Residential		$ 60,517	$ 14,146	$ 153,492	$ 11,258
Comprehensive Income/ (Loss) Attributable To:					
Consolidated		$ 121,365	$ 58,520	$ 280,067	$ 19,577
Non-controlling interest - land and housing		5,192	3,008	20,550	9,374
Non-controlling interest - affiliate		71,848	26,229	104,093	17,748
Brookfield Residential		$ 44,325	$ 29,283	$ 155,424	$ (7,545)
Common Shareholders Earnings Per Share					
Basic	12	$ 0.47	$ 0.11	$ 1.18	$ 0.09
Diluted	12	$ 0.46	$ 0.11	$ 1.17	$ 0.09
Weighted Average Common Shares Outstanding *(in thousands)*					
Basic	12	129,757	129,757	129,757	129,757
Diluted	12	130,645	129,786	130,645	129,786

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	
		2021	**2020**
Common Shares	10		
Opening balance		$ 626,594	$ 626,594
Ending balance		626,594	626,594
Retained Earnings			
Opening balance		1,393,099	1,382,130
Common share dividends		(350,000)	—
Net income attributable to Brookfield Residential		153,492	11,258
Dilution of investment in unconsolidated entities - affiliate	5	35,309	—
Other		437	4,593
Ending balance		1,232,337	1,397,981
Accumulated Other Comprehensive Loss			
Opening balance		(107,170)	(125,294)
Other comprehensive income / (loss)		1,932	(18,803)
Ending balance		(105,238)	(144,097)
Total Brookfield Residential Equity		$ 1,753,693	$ 1,880,478
Non-Controlling Interest - Land & Housing			
Opening balance		$ 155,464	$ 149,574
Net income attributable to non-controlling interest		20,550	9,373
Distributions		(16,137)	(13,171)
Contributions		—	—
Other		—	(5,913)
Ending balance		$ 159,877	$ 139,863
Non-Controlling Interest - Affiliate			
Opening balance		$ 1,073,016	$ 1,012,242
Net income attributable to non-controlling interest		104,093	17,748
Other		—	1,320
Ending balance		$ 1,177,109	$ 1,031,310
Total Equity		$ 3,090,679	$ 3,051,651

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 Operating Activities	**2021**	**2020**
Net income	$ 278,135	$ 38,380
Adjustments to reconcile net income to net cash used in operating activities:		
Earnings from unconsolidated entities - land and housing	(71,098)	(9,222)
(Earnings) / Loss from unconsolidated entities - affiliate	(109,397)	31,861
Deferred income tax recovery	(2,810)	(5,097)
Share-based compensation expense	2,190	6,449
Depreciation	14,829	3,368
Right-of-use asset depreciation	4,162	5,572
Amortization of non-cash interest	5,371	5,644
Loss on extinguishment of debt	15,751	15,030
Dividend income on held-to-maturity investment	(17,951)	(18,017)
Distributions of earnings from unconsolidated entities	6,680	—
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(87,436)	(7,089)
(Increase) / Decrease in land and housing inventory	(97,747)	21,494
Increase in commercial properties	(148,601)	(181,426)
Decrease in operating lease liabilities	(3,102)	(2,093)
Increase / (Decrease) in accounts payable and other liabilities	32,020	(22,409)
Net cash used in operating activities	(179,004)	(117,555)
Cash Flows Provided by / (Used In) Investing Activities		
Investments in unconsolidated entities	(10,044)	(24,203)
Distributions from unconsolidated entities	137,383	22,564
Acquisition	(14,500)	—
Increase in loan receivable	(11,511)	(30,288)
Net cash provided by / (used in) investing activities	101,328	(31,927)
Cash Flows (Used In) / Provided by Financing Activities		
Drawings under project-specific and other financings	117,722	161,651
Repayments under project-specific and other financings	(22,445)	(27,198)
Net drawings on bank indebtedness	84,033	34,500
Drawings under unsecured senior notes payable	551,650	500,000
Repayments under unsecured senior notes payable	(551,650)	(500,000)
Payments of debt issuance costs	(9,078)	(11,449)
Payments of debt extinguishment costs	(8,984)	(8,930)
Distributions to non-controlling interest	(62,701)	(31,439)
Contributions from non-controlling interest	46,562	18,270
Dividends paid to common shareholders	(350,000)	—
Payments made on the principal of financing leases	(109)	(138)
Net cash (used in) / provided by financing activities	(205,000)	135,267
Effect of foreign exchange rates on cash and cash equivalents	155	(632)
Change in cash, cash equivalents and restricted cash	(282,521)	(14,847)
Cash, cash equivalents and restricted cash at beginning of period	368,155	123,741
Cash, cash equivalents and restricted cash at end of period	$ 85,634	$ 108,894
Supplemental Cash Flow Information		
Cash interest paid	$ 89,213	$ 91,803
Cash taxes paid	$ 3,569	$ 3,043

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, 2020.

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, 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, 2021, the Company has restricted cash consisting of $3.9 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments, and $0.1 million relating to cash collateralization of development letters of credit (December 31, 2020 – $17.7 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductibles, and $0.1 million relating to cash collateralization of development letters of credit).

(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 2021	December 31 2020
Land held for development	$ 1,310,409	$ 1,307,436
Land under development	776,489	774,074
Housing inventory	579,889	476,629
Model homes	83,780	98,488
	$ 2,750,567	$ 2,656,627

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the three and nine months ended September 30, 2021 and 2020, no impairment indicators were identified.

Interest capitalized and expensed during the three and nine months ended September 30, 2021 and 2020 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Interest capitalized, beginning of period	$ 188,359	$ 195,183	$ 188,646	$ 173,352
Interest capitalized	14,932	20,559	50,294	64,219
Interest expensed to cost of sales	(20,689)	(17,328)	(56,338)	(39,157)
Interest capitalized, end of period	$ 182,602	$ 198,414	$ 182,602	$ 198,414

Land and housing inventory includes non-refundable deposits and other entitlement costs totaling $27.5 million (December 31, 2020 – $24.8 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 $57.7 million (December 31, 2020 – $75.7 million), including the non-refundable deposits and other entitlement costs identified above.

Note 4. Business Combinations

On June 1, 2021, the Company acquired the management company of Newland, an established U.S. real estate land development company, and their 5% general partner equity interest in 15 land communities, for total consideration of $44.4 million. The strategic acquisition provides the Company with an expanded geographic footprint and regional operational skill sets to increase its position in the development of master-planned communities across the United States.

As a part of the transaction, all property management agreements held by Newland as well as all related assets and liabilities were immediately assigned to BPD, a related party of the Company, for no consideration. Additionally, substantially all employees related to the property management agreements were directly hired by BPD.

The acquisition was accounted for as a business combination under the provisions of ASC Topic 805 *Business Combinations* which, among other things, requires assets acquired and liabilities assumed to be measured at their acquisition date fair values.

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

The following table summarizes the measurement of the assets acquired and liabilities assumed:

	Fair Value at Acquisition Date
Assets	
Investments in unconsolidated entities	$ 44,402
Cash and cash equivalents	1,418
Total assets acquired	$ 45,820
Liabilities	
Accounts payable and other liabilities	$ 1,418
Total liabilities acquired	$ 1,418
Net assets acquired	$ 44,402
Total consideration (a)	$ 44,402
Goodwill / (Bargain Purchase Gain)	$ —

(a) The Company paid $14.5 million of the total consideration in cash and had consideration payable outstanding of $29.9 million as at September 30, 2021.

The following table presents the revenue and net income of Newland that are included in the condensed consolidated statements of operations from the acquisition date of June 1, 2021 through September 30, 2021:

	June 1 to September 30, 2021
Revenue	$ —
Net income	$ 4,433

Note 5. Investments in Unconsolidated Entities

(a) Land and Housing

As of September 30, 2021, the Company is invested in 23 unconsolidated entities (December 31, 2020 – 15 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include $16.0 million (December 31, 2020 – $16.1 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 955 lots (December 31, 2020 – 1,001 lots) under option. The Company's share of the total exercise price of these options is $36.1 million (December 31, 2020 – $38.9 million). Summarized financial information on a 100% basis for the combined land and housing unconsolidated entities follows:

	As at	
	September 30 2021	December 31 2020
Assets		
Land and housing inventory	$ 1,297,216	$ 710,268
Investments in unconsolidated entities	148,861	147,695
Other assets	329,139	130,702
	$ 1,775,216	$ 988,665
Liabilities and Equity		
Bank indebtedness and other financings	$ 345,058	$ 126,067
Accounts payable and other liabilities	223,361	117,868
Brookfield Residential's interest	296,186	307,250
Others' interest	910,611	437,480
	$ 1,775,216	$ 988,665

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	**2020**	**2021**	**2020**
Revenue and Expenses				
Revenue	$ 290,316	$ 77,867	$ 462,433	$ 132,751
Direct cost of sales	(159,404)	(56,261)	(275,710)	(92,746)
Other income and expenses	(7,733)	(692)	(10,832)	(3,588)
Net income	$ 123,179	$ 20,914	$ 175,891	$ 36,417
Brookfield Residential's share of net income	$ 54,290	$ 9,277	$ 71,098	$ 13,869

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt on its unconsolidated entities. As at September 30, 2021, the Company had recourse guarantees of $40.9 million (December 31, 2020 – $32.5 million) with respect to debt of its land and housing unconsolidated entities.

(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.

On June 30, 2021, BUSI completed a recapitalization transaction whereby Brookfield US Holdings Inc. subscribed for 455,967 additional Class A common shares in exchange for $700.0 million of BUSI preferred shares. As a result of the transactions, BRPI's economic interest in BUSI was diluted from 9.5% to 9.1%, and a dilution gain of $35.3 million was recorded through retained earnings.

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

	For the Period Ended	
	September 30 2021	**December 31 2020**
Equity Investment in BUSI		
Balance, beginning of period	$ 605,615	$ 634,028
Dilution gain	35,309	—
Earnings / (Loss) from unconsolidated entities	109,397	(29,544)
Other comprehensive (loss) / income	(490)	1,131
Balance, end of period	$ 749,831	$ 605,615

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

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 2021	December 31 2020
Assets		
Investments	$ 11,753,231	$ 7,087,439
Investments in unconsolidated entities	5,235,622	5,056,923
Other assets	4,187,627	4,201,913
	$ 21,176,480	$ 16,346,275
Liabilities and Equity		
Loans payable	$ 2,608,676	$ 3,310,113
Other liabilities	1,005,147	1,000,334
Non-controlling interest	9,311,265	5,658,270
Brookfield Residential's interest	749,831	605,615
Others' Interest	7,501,561	5,771,943
	$ 21,176,480	$ 16,346,275

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Revenue and Expenses				
Income	$ 743,325	$ 544,042	$2,126,953	$ 773,945
Expenses	(307,652)	(1,300,564)	(989,297)	(1,087,415)
Net income / (loss)	435,673	(756,522)	1,137,656	(313,470)
Other comprehensive (loss) / income	(4,112)	(240)	(5,338)	2,170
Comprehensive income / (loss)	$ 431,561	$ (756,762)	$1,132,318	$ (311,300)

Note 6. Commercial Properties

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

	As at	
	September 30 2021	December 31 2020
Work in progress	$ 210,755	$ 469,981
Finished properties	651,875	243,824
	862,630	713,805
Less: accumulated depreciation	(15,418)	(3,858)
	$ 847,212	$ 709,947

Interest capitalized and expensed during the three and nine months ended September 30, 2021 and 2020 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Interest capitalized, beginning of period	$ 54,123	$ 37,451	$ 52,537	$ 23,646
Interest capitalized	1,122	7,647	3,165	21,452
Interest expensed to depreciation	(231)	—	(688)	—
Interest capitalized, end of period	$ 55,014	$ 45,098	$ 55,014	$ 45,098

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

Note 7. Income Taxes

The Company recorded an aggregate income tax expense of $1.7 million for the nine months ended September 30, 2021 (nine months ended September 30, 2020 – $0.7 million), which is comprised of current income tax expense of $4.5 million (nine months ended September 30, 2020 - $5.8 million) and deferred income tax recovery of $2.8 million (nine months ended September 30, 2020 - $5.1 million).

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the nine months ended September 30, 2021 and 2020 is as follows:

	Nine Months Ended September 30	
	2021	**2020**
Statutory rate	23.0%	25.0%
Non-temporary differences	0.7	5.3
Rate difference from statutory rate	(0.3)	(30.9)
Deferred tax asset valuation allowance impact	(16.3)	20.0
Portion of gains subject to different tax rates	6.7	—
Return to provision	0.2	16.6
Non-taxable preferred share dividends	(1.7)	(12.2)
Taxable income attributable to non-controlling interests	(12.4)	(22.7)
Other	0.7	0.6
Effective tax rate	0.6%	1.7%

The change in the effective tax rate when compared to the same period in 2020 was primarily due to changes in the proportion of income in jurisdictions with different tax rates, consolidation of income attributable to non-controlling interest for which the consolidated tax provision only includes our proportionate share and the release of valuation allowance relating to the recognition of capital losses for which no benefit was previously recognized and the outside basis difference in our investment in affiliate unconsolidated entities. This was partially offset by an increase in tax expense as a result of unrealized foreign exchange gains on the Company's U.S. denominated notes and realized capital gains of C$199.0 million on the sale of common share investments which was fully offset by the utilization of capital losses.

As at September 30, 2021, the Company recorded deferred tax assets of $66.9 million (December 31, 2020 - $111.2 million) which were partly offset by valuation allowances of $8.9 million (December 31, 2020 - $56.3 million). In evaluating the need for a valuation allowance against the Company's deferred tax assets at September 30, 2021, 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 $8.9 million mainly relates to the Company's investment in unconsolidated entities-affiliates that have not met the more-likely-than-not realization threshold. 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 2021	**December 31 2020**
Project-specific financings (a)	$ 471,882	$ 355,815
Bank indebtedness (b)	84,031	—
Secured VTB mortgages (c)	43,867	61,861
	599,780	417,676
Transaction costs (a)(b)	(8,892)	(8,038)
	$ 590,888	$ 409,638

(a) Project-specific financings

(i) 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 (December 31, 2020 - $360.0 million). As at September 30, 2021, the Company has $352.6 million of borrowings outstanding under the construction loan (December 31, 2020 - $284.4 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 (December 31, 2020 - LIBOR plus 3.35%, subject to a LIBOR rate floor of 1.80%).

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. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at September 30, 2021.

(ii) 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, 2021, the company has $83.0 million of borrowings outstanding under the construction loan (December 31, 2020 - $24.1 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 $75.0 million and a minimum net worth of $250.0 million. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at September 30, 2021.

(iii) As at September 30, 2021, the Company has two Canadian project-specific financings totaling $36.3 million (C$46.1 million) provided by various lenders (December 31, 2020 - $47.4 million (C$60.3 million)).

Project-specific financing totaling $25.2 million (C$32.0 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, 2020 - $39.3 million (C$50.0 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, 2021.

On September 20, 2021, the Company finalized the amendment and extension of the project specific financing, that was extended through November 2022 on substantially the same terms and conditions. Project-specific financing totaling $11.1 million (C$14.1 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, 2020 - $8.1 million (C$10.3 million).

(b) Bank indebtedness

On August 19, 2021, the Company and BRUS LLC finalized the amendment and extension of the North American unsecured revolving credit facility to replace BRUS LLC as a co-borrower with BRUSH. The unsecured revolving credit facility was also extended through August 2025 on substantially the same terms and conditions, allowing the Company to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

As at September 30, 2021, there were $84.0 million of borrowings outstanding under the North American unsecured revolving credit facility, and available capacity of $506.3 million (December 31, 2020 - no borrowings outstanding and $597.8 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 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 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, 2021, the Company was in compliance with all of its covenants relating to this facility.

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

(c) Secured VTB mortgages

The Company has nine secured VTB mortgages (December 31, 2020 – 12 secured VTB mortgages) in the amount of $43.9 million (December 31, 2020 – $61.9 million). Secured VTB mortgages are repayable as follows: 2022 – $16.5 million; 2023 – $8.2 million; 2024 – $16.9 million; and 2025 – $2.3 million.

Seven secured VTB mortgages (December 31, 2020 – 10 secured VTB mortgages) in the amount of $29.1 million (December 31, 2020 – $47.1 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$37.0 million (December 31, 2020 – C$60.0 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. As at September 30, 2021, these borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2020 – two secured VTB mortgages) in the amount of $14.7 million (December 31, 2020 – $14.7 million) relates 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 4.0% and the debt is secured by related land. As at September 30, 2021, these borrowings are not subject to any financial covenants.

Note 9. Notes Payable

	As at	
	September 30 2021	**December 31 2020**
6.125% unsecured senior notes redeemed June 10, 2021 (a)	$ —	$ 196,325
6.375% unsecured senior notes redeemed June 10, 2021 (a)	—	350,000
6.250% unsecured senior notes due September 15, 2027 (b)	600,000	600,000
5.125% unsecured senior notes due June 15, 2029 (c)	197,150	—
5.000% unsecured senior notes due June 15, 2029 (d)	350,000	—
4.875% unsecured senior notes due February 15, 2030 (e)	500,000	500,000
	1,647,150	1,646,325
Transaction costs (f)	(22,309)	(24,825)
	$ 1,624,841	$ 1,621,500

(a) The Company's C$250 million principal amount of 6.125% unsecured senior notes and $350 million principal amount of 6.375% unsecured senior notes were redeemed in full at redemption prices equal to 100.0% and 102.13% of their aggregate principal amounts, respectively, plus accrued and unpaid interest, using cash on hand and the net proceeds from the issuance of the unsecured senior notes due in 2029.

(b) The Company's $600 million principal amount of 6.25% unsecured senior notes mature 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.

(c) 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%. The notes require semi-annual interest payments June 15 and December 15 of each year until maturity. 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.

(d) 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%. The notes require semi-annual interest payments on June 15 and December 15 of each year until maturity. 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.

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

(e) 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.

(f) During the nine months ended September 30, 2021, the Company recorded a loss on extinguishment of debt as a result of the redemption of the unsecured senior notes due in 2023 and 2025, which included a write-off of net unamortized deferred financing fees of $6.8 million.

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 coverage ratio of 2.0 to 1, as applicable. The Company was in compliance with these financial covenants as at September 30, 2021.

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, 2021 and the year ended December 31, 2020.

	For the Period Ended	
	September 30 2021	December 31 2020
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, 2021 and December 31, 2020.

Note 11. Share-Based Compensation

(a) Management Share Option Plan

During the three and nine months ended September 30, 2021, there were no options granted to eligible employees (three and nine months ended September 30, 2020 – no options granted).

The liability of $28.6 million (December 31, 2020 – $44.5 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, 2021 was $1.3 million and $2.2 million, respectively (September 30, 2020 – $1.4 million and $6.5 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, 2021 and 2020:

	September 30, 2021		September 30, 2020	
	Options	Weighted Average Per Share Exercise Price	Options	Weighted Average Per Share Exercise Price
Outstanding, beginning of period	10,409,076	$ 22.20	12,388,886	$ 22.21
Granted	—	—	—	—
Exercised	(4,057,476)	22.49	—	—
Cancelled	—	—	—	—
Outstanding, end of period	6,351,600	22.01	12,388,886	22.21
Options exercisable, end of period	4,807,400	$ 22.10	9,579,286	$ 22.38

A summary of the status of the Company's unvested options for the nine months ended September 30, 2021 and 2020 are as follows:

	September 30, 2021		September 30, 2020	
	Options	**Weighted Average Fair Value Per Option**	**Options**	**Weighted Average Fair Value Per Option**
Unvested options outstanding, beginning of period	1,721,600	$ 6.77	4,199,380	$ 4.23
Granted	—	—	—	—
Vested	(177,400)	6.51	(1,389,780)	3.33
Cancelled	—	—	—	—
Unvested options outstanding, end of period	1,544,200	$ 6.80	2,809,600	$ 4.55

At September 30, 2021, there was $6.5 million (September 30, 2020 - $11.0 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average contract period of 1.8 years (September 30, 2020 - 2.5 years).

(b) Deferred Share Unit Plan ("DSUP")

The following table sets out changes in and the number of deferred share units that executives, directors and senior operating management employees may redeem under Brookfield Residential's DSUP at September 30, 2021 and December 31, 2020:

	For the Period Ended	
	September 30 2021	**December 31 2020**
Outstanding, beginning of period	1,382,134	1,382,134
Granted and reinvested	—	—
Redeemed	(1,382,134)	—
Outstanding, end of period	—	1,382,134
Deferred share units vested	—	1,382,134

During the nine months ended September 30, 2021, the outstanding vested deferred share units were converted to a different compensation plan with BAM. As a result of the conversion, the DSUP liability at September 30, 2021 was $nil (December 31, 2020 – $37.2 million) and a liability of $37.2 million has been recorded in accounts payable and other liabilities for the nine months ended September 30, 2021. As a result of the conversion, there was no income statement impact for the three and nine months ended September 30, 2021 (three and nine months ended September 30, 2020 – $nil).

Note 12. Earnings Per Share

Basic and diluted earnings per share for the three and nine months ended September 30, 2021 and 2020 were calculated as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	**2020**	**2021**	**2020**
Numerator:				
Net income attributable to Brookfield Residential	$ 60,517	$ 14,146	$ 153,492	$ 11,258
Denominator (in '000s of shares):				
Basic weighted average shares outstanding	129,757	129,757	129,757	129,757
Diluted weighted average shares outstanding	130,645	129,786	130,645	129,786
Basic earnings per share	$ 0.47	$ 0.11	$ 1.18	$ 0.09
Diluted earnings per share	$ 0.46	$ 0.11	$ 1.17	$ 0.09

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

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	
	2021	**2020**	**2021**	**2020**
Investment income	$ (10,261)	$ (8,194)	$ (37,139)	$ (22,895)
Preferred share dividend income	(6,049)	(6,049)	(17,951)	(18,016)
Other	(10,092)	(2,972)	(17,515)	(9,423)
Income from commercial properties	(5,309)	(166)	(7,308)	(1,707)
Joint venture management fee income	(2,654)	(2,944)	(6,377)	(9,589)
Loss on extinguishment of debt	—	—	15,750	15,030
	$ (34,365)	$ (20,325)	$ (70,540)	$ (46,600)

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, 2021 and 2020:

	Nine Months Ended September 30	
	2021	**2020**
Balance, beginning of period	$ 16,718	$ 18,545
Payments and other adjustments made during the period	(3,227)	(4,427)
Warranties issued during the period	5,754	6,662
Adjustments due to change in estimates	(1,326)	(740)
Balance, end of period	$ 17,919	$ 20,040

As at September 30, 2021, $13.3 million of the amounts held in other assets related to deposits on land purchase obligations (December 31, 2020 – $21.8 million). The total amount committed on these obligations is $304.0 million (December 31, 2020 – $292.7 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, 2021, these guarantees amounted to $641.7 million (December 31, 2020 – $593.3 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, 2021, 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 Company's loan receivable balances, Homebuilder Finance assets, and Brookfield Single Family Rental investment, which are recorded at their fair values.

Loan Receivable

The Company determined that the valuation of the loan receivable balance under the fair value hierarchy falls under Level 3, due to the lack of observable pricing inputs and related market activity. During the nine months ended September 30, 2021, the loan receivable balance was paid in full:

		Nine Months Ended September 30, 2021
Balance, beginning of period	$	48,773
Principal payments		(48,773)
Balance, end of period	$	—

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, 2021
Purchases / Land development spend	$	111,416

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of September 30, 2021:

Financial Instrument		Fair value as of 9/30/2021	Valuation technique	Unobservable inputs	Range (where applicable)
Homebuilder Finance Investment	$	200,233	Discounted cash flow	Rate of return	12.1% - 16.3%

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, 2021
Balance, beginning of period	$	23,481
Purchase of investment		68,645
Change in unrealized gain from investment		13,955
Balance, end of period	$	106,081

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

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of September 30, 2021:

Financial Instrument		Fair value as of 9/30/2021	Valuation technique	Unobservable inputs	Range (where applicable)
Single Family Rental Investment	$	106,081	Discounted cash flow	Discount rate Capitalization rate	8.0% 5.5%

Net Investment Hedge

For the three and nine months ended September 30, 2021, unrealized pre-tax gain of $4.5 million and loss of $0.8 million, respectively (September 30, 2020 – loss of $3.6 million and gain of $4.8 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, 2021, a 1% change in interest rates would have a $5.6 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, 2021, the book value of all outstanding debt exceeded its fair value by $50.3 million (December 31, 2020 – fair value of all outstanding debt exceeded its book value by $69.2 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$2.5 million gain on these hedging instruments as at September 30, 2021 (December 31, 2020 – C$2.5 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.

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

(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.

A summary of the Company's contractual obligations and purchase agreements as at September 30, 2021 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]	$ 1,647,150	$ —	$ —	$ —	$ 1,647,150
Interest on notes payable	729,894	166,354	178,958	178,958	205,624
Secured VTB mortgages[2][3]	43,867	16,447	25,090	2,330	—
Bank indebtedness[2][3]	84,031	—	84,031	—	—
Project-specific financings[2][3]	471,882	36,330	82,975	352,577	—
Accounts payable and other liabilities	672,218	672,218	—	—	—
Operating and financing lease obligations	393,041	2,471	18,598	16,173	355,799
Purchase agreements and other obligations[4]	313,264	111,219	195,266	3,463	3,316

(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, 2021					
	Canada	California	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

	Three Months Ended September 30, 2020					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	$ 107,422	$ 124,519	$ 148,415	$ —	$ —	$ 380,456
Land revenue	26,895	13,117	32,542	—	—	72,554
	134,618	137,636	180,756	—	—	453,010
Housing cost of sales	(89,599)	(97,458)	(122,031)	—	—	(309,088)
Land cost of sales	(17,363)	(12,062)	(22,605)	—	—	(52,030)
	(106,964)	(109,519)	(144,635)	—	—	(361,118)
Gross margin	27,654	28,117	36,121	—	—	91,892
Earnings from unconsolidated entities - land and housing	1,850	44	7,383	—	—	9,277
Earnings from unconsolidated entities - affiliate	—	—	—	—	(8,973)	(8,973)
(Expenses) / Income	(12,052)	(19,565)	(23,341)	6,308	—	(48,650)
Income before income taxes	$ 17,452	$ 8,596	$ 20,163	$ 6,308	$ (8,973)	$ 43,546

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

	Nine Months Ended September 30, 2021					
	Canada	**California**	**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	103,388	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	(42,445)	(50,462)	(74,938)	(8,576)	—	(176,421)
Income / (Loss) before income taxes	$ 40,911	$ 76,207	$ 61,857	$ (8,576)	$ 109,397	$ 279,796

	Nine Months Ended September 30, 2020					
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Equity Investment in BUSI**	**Total**
Housing revenue	$ 223,531	$ 382,511	$ 374,469	$ —	$ —	$ 980,511
Land revenue	47,537	19,492	40,560	—	—	107,589
	271,268	402,003	414,829	—	—	1,088,100
Housing cost of sales	187,881	309,291	314,759	—	—	811,931
Land cost of sales	29,578	16,519	29,032	—	—	75,129
	(217,456)	(325,811)	(343,793)	—	—	(887,060)
Gross margin	53,812	76,192	71,036	—	—	201,040
Earnings from unconsolidated entities - land and housing	4,128	333	9,408	—	—	13,869
Loss from unconsolidated entities - affiliate	—	—	—	—	(31,861)	(31,861)
Expenses	(30,630)	(53,908)	(62,773)	3,358	—	(143,953)
Income / (Loss) before income taxes	$ 27,310	$ 22,617	$ 17,671	$ 3,358	$ (31,861)	$ 39,095

(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, 2021					
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Equity Investment in BUSI**	**Total**
Land held for development	$ 415,583	$ 263,131	$ 631,695	$ —	$ —	$1,310,409
Land under development	176,517	242,032	355,089	2,853	—	776,491
Housing inventory	205,873	148,300	225,716	—	—	579,889
Model homes	20,294	38,654	24,830	—	—	83,778
Total land and housing inventory	818,267	692,117	1,237,330	2,853	—	2,750,567
Commercial properties	49,325	210,589	587,298	—	—	847,212
Investments in unconsolidated entities - land and housing	62,225	203,657	30,304	—	—	296,186
Investments in unconsolidated entities - affiliate	—	—	—	—	749,831	749,831
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset	11,813	37,172	20,088	9,458	—	78,531
Goodwill	—	—	—	16,479	—	16,479
Other assets [(1)]	169,249	86,145	191,618	578,728	—	1,025,740
Total assets	$1,110,879	$1,229,680	$2,066,638	$ 907,518	$ 749,831	$6,064,546

(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, 2020					
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Equity Investment in BUSI**	**Total**
Land held for development	$ 445,892	$ 263,162	$ 598,382	$ —	$ —	$1,307,436
Land under development	210,605	198,366	362,092	3,011	—	774,074
Housing inventory	116,959	196,366	163,304	—	—	476,629
Model homes	20,177	52,020	26,291	—	—	98,488
Total land and housing inventory	793,633	709,914	1,150,069	3,011	—	2,656,627
Commercial properties	49,991	97,458	562,498	—	—	709,947
Investments in unconsolidated entities - land and housing	57,532	171,549	78,169	—	—	307,250
Investments in unconsolidated entities - affiliate	—	—	—	—	605,615	605,615
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset	12,821	38,732	20,850	9,706	—	82,109
Goodwill	—	—	—	16,479	—	16,479
Other assets [(1)]	151,023	69,629	180,225	789,837	—	1,190,714
Total assets	$1,065,000	$1,087,282	$1,991,811	$1,119,033	$ 605,615	$5,868,741

(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

The Company's significant related party transactions as at and for the three and nine months ended September 30, 2021 and 2020 were as follows:

- During the three and nine months ended September 30, 2021, the Company incurred $31.6 million and $78.3 million of management fees, respectively, (three and nine months ended September 30, 2020 – $21.9 million and $59.2 million, respectively), related to the management agreement with BPD. 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. These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- During the nine months ended September 30, 2021, the Company increased the financing capacity on the loan with BPD from $50.0 million to $100.0 million. As at September 30, 2021, the loan had an outstanding balance of $82.6 million that was recorded within receivables and other assets (December 31, 2020 – $36.3 million). During the three and nine months ended September 30, 2021, the Company recorded $0.7 million and $1.8 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, 2020 – $0.4 million and $1.1 million, respectively).
- During the three and nine months ended September 30, 2021, 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, 2020 – $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, 2021, a total of $54.1 million of accrued dividends is recorded within receivables and other assets (September 30, 2020 – $30.1 million). These transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2021, the Company amended a previously existing agreement with a consolidated subsidiary in order to provide financing of up to $75.0 million to include Brookfield Residential Land Holdings II. The loan bears interest at LIBOR + 2.25%. As at September 30, 2021, the loan had an outstanding balance of $5.7 million that was recorded within receivables and other assets.
- During the nine months ended September 30, 2021, the Company declared and paid a dividend to the common shareholders, which include various subsidiaries of BAM, of $350.0 million. The transaction was recorded at the exchange amount.
- During the nine months ended September 30, 2021, the Company purchased from and immediately resold, to various subsidiaries of BAM, common shares of a publicly traded timber company resulting in a gain of $3.2 million.

Note 20. Subsequent Events

The Company performed an evaluation of subsequent events through November 2, 2021, which is the date that these condensed consolidated financial statements were approved, and has determined that there were no 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 $625 billion of assets under management. Further information is available at BrookfieldResidential.com or Brookfield.com or contact:

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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.