



Brookfield



Brookfield Asset Management

Q1 2009 Earnings Conference Call Transcript

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Speakers: **Robert Harding**

Chairman

Brian Lawson

Managing Partner & Chief Financial Officer

Bruce Flatt

Managing Partner & Chief Executive Officer



OPERATOR: At this time I would like to turn the conference over to Mr. Robert Harding, Chairman of Brookfield. Please go ahead.

ROBERT HARDING: Thank you very much, Operator. And good morning, ladies and gentlemen. Thank you for joining us for our 2009 First Quarter Earnings announcement. Joining me today on the call are Bruce Flatt, our President and Chief Executive Officer, who will provide a brief market comment and update you on our business strategy and Brian Lawson, our Chief Financial Officer, who will discuss our financial results.

I would also like to remind you that in responding to questions and in talking about our new initiatives and our financial and operational performance we may make forward-looking statements. These statements are subject to known and unknown risks and future results may differ materially. For further information on known risk factors I would encourage you to review our Annual Information Form or our Annual Report which are available on our website.

With that done I would like to turn the call over to Bruce Flatt to begin today's presentations. Bruce?

BRUCE FLATT: Thanks, Bob, and good morning, everyone. Our operations in the first quarter performed essentially as expected. And as noted at our shareholder meeting this morning and in our Letter to Shareholders, essentially nothing exceptional occurred in the quarter. More importantly nothing detrimental happened, and in this environment, I guess we count that as somewhat of an accomplishment.

We generated cash flow of about \$273 million in the quarter, and that compares to last year of about \$443 million. Last year included a number of special items which didn't occur to the same extent this year, and Brian will talk about that later in the call.



As we move through this tough economic period, which has lasted for almost a year now, we are thankful for the long duration cash flows generated by the underlying asset base that we have. In essence, our strategy was designed to see us through market downturns like these and so far, our assets and cash flows have proven to be as durable as we had generally expected.

As an overview perspective on the markets, we have been encouraged by a number of the positive things happening in the markets in the last two months and in respect of our operations in particular. The debt markets continue to recover from the extreme events that happened, obviously the government initiatives that have been announced, and some of them implemented, are continuing to assist in that regard. Companies should be able to plan their businesses with greater certainty and that we believe, will form the basis of a recovery as we look forward.

We have been able to execute our financing plans within our operations and although, to be very open about it, it has been challenging, we have been able to accomplish most of the things that we set out to do. But obviously the risk of a setback in the markets causes everyone to be a little more cautious these days, including ourselves.

Some positive highlights I would have share with you are that our Brazilian retail malls continue to have strong sales. In fact, unlike North America and developed markets, we have had record sales in our Brazilian homebuilding operations, better than any other time before. We have continued to lease office space in our commercial portfolio at rates which exceed the previous lease rates on average.

And just to give you a point in that, we leased 1.8 million square feet at an average rate higher than the ones that were expiring. And that leaves us today



with 96% of our space leased, only 2% of the leases rollover in the balance of the year and 5% in 2010.

One should always reflect on the fact that in these kind of markets, people do not want to move because they have to spend a lot of money on improvements in their space, so that favors renewals in high-quality office properties. So a lot of those spaces should rollover just as of right.

On the negative front, we have clearly seen several of our smaller operations influenced largely, I will call it, by the consumer and/or US homebuilding industry. This has been a drag on our results for three years. I guess we would have to say that we think we have come to the bottom of that, partly because it can't get much worse and partly because we have seen the markets generally stabilizing. In fact, in some places we have seen sales increase over the same period last year.

In this regard, one fact just for people to note, is that the median U.S. family now requires only about 25% of its income to buy a median house. That compares to almost 45% at the peak of the market, which is close to three years ago. So we think that over time should lead to a recovery and assist the recovery in what is a very important sector for the US and developed market economies.

Included in the shareholder are a number of summaries of our views on our global real estate business and our general view on the state of the real estate markets. Recently, many economists, analysts and investors have given their predictions on the state of the commercial industry. Often I listen to those and question whether some of them have positions which they are speaking upon, but we tend to not get involved in public debates about these matters.

However, I guess we think it's important for you as shareholders to understand our views on the market so you can take this into account when assessing what



we own today on behalf of ourselves and for institutional clients. Many of the opportunities that we are looking at going forward, because of some of the financial market issues that are out there, may position us to buy further real estate in the marketplace, and therefore, it will be important to understand that.

We didn't plan to go through these in detail on this call. They are included in the Shareholder Letter. Hopefully, they speak for themselves. But we would be welcome to discuss these with you or provide feedback, and in fact, we would welcome your views on them should you have any.

With that I will turn the call over to Brian and he will discuss our operations in the first quarter.

BRIAN LAWSON:

Thank you, Bruce, and good morning. To recap the operating results, we reported \$273 million of operating cash flow for the first quarter of 2009. This is a sequential increase over the \$242 million that we recorded in the fourth quarter of 2008, although a decrease from the \$443 million we recorded in the first quarter of that year.

It is worth noting that the first quarter of 2008 was particularly strong due to a number of special events in that quarter that gave rise to gains and because we had unusually high generation levels within our renewable power operations. As expected, our two largest businesses -- renewable power and commercial office delivered good performance.

On the negative side, however, the current economic weakness did impact some of our business units that are more closely correlated to the U.S. economy and to homebuilding in particular. Fortunately they are small relative to our overall business.



In our renewable power operations, water flows were 5% above average, and while this is good, it was not as good as the first quarter of 2008 when generation was roughly 18% above average. We did, however, make up some of that difference through the contribution from new facilities that were recently acquired or commissioned. Realized prices for power declined by approximately 10% due to lower spot energy prices and the impact of lower currencies on our Canadian and Brazilian operations.

Fortunately, our practice of locking in 75% to 80% of our expected generation continues to provide us considerable protection against short-term declines in energy prices.

In our Commercial Office business we experienced modest growth in net rental income in local currency terms through the releasing activity that Bruce referenced. We also extended the overall average term of our leases from seven years to 7.6 years through that activity. The contractual nature of the cash flows in our renewable power and commercial office businesses do give us good visibility and a solid base going forward.

In our Timber operations, we responded to low log prices by electing to curtail our harvest activities. And while this results in lower reported cash flows in the short term, it does protect the long-term value of our timberlands by allowing the trees to grow on the stump.

In our Residential business, the Brazilian homebuilding operations achieved record launches in contracted sales during the quarter, although these accomplishments are not fully reflected in our reported cash flows until future quarters. But we are benefiting from the acquisitions completed there during 2008 and the Brazilian residential market continues to be active.



U.S. operations recorded losses in the quarter, but on the other hand our Canadian operations continue to achieve favorable margins although volumes are reduced.

Turning now to our financial position, we raised \$1.5 billion during the quarter through new financings and asset monetizations. And while most of the new financing were extensions or refinancings of existing ones, we did also generate cash proceeds to reinvest in our business, address pending maturities, and reduce the leverage on select assets. All-in-all, we deployed \$700 million of liquidity during the quarter, including the repurchase of 1.5 million common shares at an average price of \$12.09.

At March 31, our core liquidity was \$2.5 billion compared to \$2.8 billion at year-end. We also have transactions in the closing process that will yield a further \$300 million of proceeds. Our overall maturity schedule continues to be well diversified. Of particular note, we have no maturities at the corporate level at all during 2009 and just one maturity of \$200 million in 2010.

Our debt to capitalization at the corporate level is 15%. On a proportionately consolidated basis including our subsidiaries the percentage is 44%, which makes sense when you consider that most of our assets are high-quality, long-life properties that typically support investment-grade mortgages or project financings with 50% to 75% loan-to-value ratios. We will continue to make our liquidity and debt maturities a top priority to ensure we are in good shape to act on any investment opportunities that arise.

Finally, the Board of Directors have approved a dividend of \$0.13 per share payable on August 31st of this year to holders of record on August 1.

Thank you and I will now turn the call over to the operator. Bruce or I would be pleased to answer questions from shareholders or analysts. Thank you.



OPERATOR: The first question today comes from Mark Rothschild of Genuity Capital Markets.

MARK ROTHSCHILD: Good morning. Bruce, you used the Letter this quarter to focus on the commercial real estate division and you indicated that you are pursuing distressed acquisitions of a number of major real estate companies. How confident are you that you can get a transaction, a major transaction, done in 2009?

BRUCE FLATT: Thanks for the question. I guess I would say I don't know whether 2009 is the right time or not. There is much debate out there as to when the market will turn. I guess our view generally is that buying into a downturn is easier than buying out of a downturn. I don't know, I guess our view is when the opportunity comes along, whether it's in 2009, 2010, or 2011, we will capitalize on it.

So I am not sure -- there may not be one in 2009 for various reasons or there may be and that will all depend on, I guess, our views of the markets and the situations that are out there that present themselves and the opportunity to take advantage of it. So I wouldn't suggest that it will happen in 2009, but it could.

MARK ROTHSCHILD: Okay. Moving on to something else, you spun off some of your infrastructure assets into BIP and the goal was to have it as a vehicle to acquire additional infrastructure assets. The share price is obviously weak, along with the whole market. Do you believe that that is a vehicle that still can be utilized to grow into a large infrastructure company or are infrastructure acquisitions going to be possibly on the BAM level because of the weak share price in BIP?

BRUCE FLATT: We created that entity and there aren't very many of these externally managed entities in the market. We created it because we felt that we could utilize it to essentially be one of our institutional investors, if you want to call it that, along with our other clients that we invest money on behalf of. Unfortunately -- I guess



the good news is the assets that are in the Company have generally held their value.

The intrinsic value of that entity is not much different than what it was when we spun it off. Its share price has traded down and, therefore, to raise capital in that entity, to be a continued investor, is somewhat problematic if you are trading at a discount to value. But I would say in the longer term, we believe that it could be a very valuable structure to us in the right environment. We will have to see over the next year or so whether we can utilize it and whether it trades closer to intrinsic value.

MARK ROTHSCHILD: Okay, thanks.

BRUCE FLATT: Thank you.

OPERATOR: The next question comes from Michael Goldberg of Desjardins Securities.

MICHAEL GOLDBERG: Thank you, good morning. Bruce, I want to follow up on the previous question. I guess I too would interpret your comments in your Letter about distress opportunities and commercial properties as signaling that something may be imminent. Not to say that something is definitely going to happen, but it is the area that you focused on.

So am I correct in interpreting you as far as the reasoning for focusing on this right now? Not to say, as I said, that it will happen immediately, but perhaps to say that this is potentially where an opportunity could be the most imminent. Could you give us some idea of how much BAM, a range, let's say, could be prepared to invest in distress opportunities?



BRUCE FLATT:

Michael, maybe just to be clear, the information that we had in our Shareholder Letter, we try each quarter to put in relevant information to shareholders and highlight some area of the business. Given the amount of questions we have had about commercial real estate and given the amount of, I guess differing opinions that are out there as to commercial real estate, we thought it was relevant to A) tell you about our business, B) give you our views about the markets, and C) tell you a little bit, I guess in our view, why some of the things that are relevant to others aren't relevant to us.

So I think reason number one for putting it in is it's a large investment for us and our clients, some of our fees and a lot of our asset value is dependent upon it, and we wanted to make sure shareholders had our view of those assets so that they could factor that into their thinking and understand where we're going. That was the first reason.

The second reason is I would say because of the distress in some participants in the marketplace that own real estate -- and I should be very clear with this. Most of commercial real estate is owned by prudent owners of real estate who have prudent amounts of finance and they don't have financing or fundamental issues with their real estate. There are some extreme cases that are out there, and because of that, they usually garner the headlines. And as a result of that you read about them.

So I would say given those exceptions to the rule, there is more of that today than before and, therefore, odds favor us finding opportunities in the real estate sector probably more than most of the other things that we are involved in, because that is where more of the distress is in that area.

Therefore, the last comment I would make is you used the word imminent and the fact is we think the next 24 months will offer us opportunities. Whether something should be done in the next three months, six months, or 24 months,



we are unclear today. It will be more opportunity specific versus our view of the market because our general view is that buying into a downturn, the actual timing of it is not that relevant.

You will lose money on the way down if you buy something too early, but generally the multiples are large enough on your investment that it really didn't matter in the longer term. So you shouldn't read this in our Letter that there is something imminent occurring, although that is not to say that there won't be.

MICHAEL GOLDBERG: Thank you. And can you give us some range, some idea, of how much could potentially be invested?

BRUCE FLATT: Sorry, you asked about that. We, with a number of clients, are talking about putting substantial sums of money together for real estate turnarounds. Today, you don't need as much money as you used to need to do things. A lot of money comes in vendor take-backs from people or the type of situations where other people have debt already in place as a good financial sponsor on the other side with some money.

So the amount of money that we have in our balance sheet to dedicate to it, plus client money, plus in-place leverage that is on assets, allows us to do some very substantial transactions should we want to do them.

MICHAEL GOLDBERG: Thank you.

OPERATOR: The next question comes from Linda Ezergailis of TD Newcrest.

LINDA EZERGAILIS: Thank you. You mentioned in your release that you have deleveraged some specific assets. I'm just wondering what your views are on any further deleveraging and where that might be in your business? And what sort of



updates on target leverage and other balance sheet metrics would you be targeting in a deleveraging scenario?

BRIAN LAWSON: Okay. Hi, Linda, it's Brian. That happens pretty much on a case-by-case basis. I think the good news is that I would say pretty well all of the financings that we have either been rolling over, replacing, extending, or refinancing, we have been able to do at the same level and hence having to delever them.

I think the difference is -- keeping in mind that some of these financings were put in place a while ago -- is that in more buoyant markets we would actually be taking cash out of those assets as you refinance them. And there is less opportunity for doing that today as you can imagine.

There have been a couple of situations where we have paid down financings. Typically they have been pretty small and we would expect that to be the case. There may be one or two exceptions of that, but as I said, it's on a case-by-case basis.

But the good news is we are continuing to execute on the financings. They are tougher than they used to be, but just given spreads a little wider -- a fair bit wider in some cases -- but the nominal rates or the underlying rates have come in a lot. So it's pretty good in that regard.

BRUCE FLATT: Linda, it's Bruce. I might mention one place where we had, obviously -- our Homebuilding business in North America is a shorter cycle business and therefore the liabilities are shorter cycle. And people have wanted to get out and not have as much capital in the banking system devoted towards it. So as always occurs, over the last three years, we have taken leverage out of those businesses and, frankly, that is where most of the cash that we provided to the companies allowed them to do that.



What it has allowed us to do is hold assets and buy a few more assets which hopefully, as we come out of the bottom of the market, will create value for the shareholders in the Company. So that is probably the biggest place where that has occurred.

LINDA EZERGAILIS: Okay. And then just further to these real estate opportunities in terms of financing, in your view what do you believe could be the best source at this point of financing the BAM contribution for any sort of significant acquisition? Would it be external debt equity? What sort of capacity do you think you have on your balance sheet and from existing cash flows and are there any either less core assets or core assets that are attractively valued that you would consider monetizing?

BRIAN LAWSON: It's Brian again. The first and most obvious area that we could look to is our core liquidity, which is the cash from financial assets and our credit lines. And as I mentioned that was roughly \$2.5 billion at the end of the quarter.

Having said that, we also have our client relationships, both in the form of future and existing funds. We have strong client relationships and so we believe that there are going to be opportunities to marshal those resources. I recognize that you were focusing more on the actual BAM contribution.

There will continue to be areas where we can monetize assets within our own platform where we think that by reallocating that capital to higher-yielding assets it makes sense. And so we will continue to explore opportunities to do that. So I think those would really be the primary sources for us.

LINDA EZERGAILIS: And have you had any preliminary discussions with your debt rating agencies as to their buy-in to the current business plan or outlook that BAM has?



BRIAN LAWSON: Yes, we have been meeting with all of the agencies. We continue an open dialogue with them at all times, so they understand what we are looking at.

LINDA EZERGAILIS: Okay, great. Thank you.

BRIAN LAWSON: Thanks.

OPERATOR: The next question comes from Brendan Maiorana of Wachovia.

BRENDAN MAIORANA: Good morning, thanks. Bruce, back to deals that have not gotten done in the past 18 months or so, since the beginning of the downturn. Have the impediments to these deals been that there is just a large pricing gap between buyers and sellers or are you just not getting the support from the lending community? What has stopped some of these deals from going through thus far and has that changed at this point?

BRUCE FLATT: I'd maybe respond with three points. Point number one -- for a period of time over the last year, nothing happened in any industry on any transactions because there was just no business going on. So I would say the phone just didn't ring anywhere and therefore I would say that a lot of transactions just weren't happening because people didn't want to do anything.

But there are various other reasons. There is a wide gap of buyers and sellers, some of it's because the buyers couldn't find financing, and some of it's just because there was disarray in the markets with players and therefore no decisions could be made. I think it's all of those things.

I think what is occurring today is, firstly, that the markets have loosened up a little bit and therefore some deals are starting to get done. Number two, financing is available for some things. Not in a robust fashion, but it is available for some things.



In fact, what is maybe more important is that many transactions that I guess we look at, have embedded leverage within them, so you don't have to arrange new financing. The institutions just want someone who is a decent counterparty to put new capital into it and they are willing to have their financing stay in place. So that is a new thing that is evolving over the past, call it 18 months.

I think the third point is the gap of buyers to sellers. Eventually people come to realize that it's just a cost of capital gain. They can sell one thing and buy another one or whatever it is, and they get more realistic to pricing. I think that changes and I think we are entering into probably that phase at this point in time.

BRENDAN MAIORANA: Thanks, Bruce. And then just in terms of the opportunities, are all of these opportunities that you are exploring with partner capital, or are you thinking about doing some of this stuff wholly owned at the BAM level?

BRUCE FLATT: Likely they will be with partner capital. Clearly, there are points in time where we can't convince institutional partners to do something. I think there are some that will. If we have an entity that has capital that can invest -- we always favor the downstream client or entity, to be able to invest and we are always trying to ensure that we have that. There are lots of opportunities to go around these days.

BRENDAN MAIORANA: Thanks. Then just lastly for Brian, with respect to some of the refinancings that you have got coming up, has there been a difference in the lender community in terms of the size of assets and the ease with which to refinance? Given that you guys have larger assets, if it's more difficult to get lending on larger assets, how is that impacting your ability to refinance?

BRIAN LAWSON: Fortunately, we have not had any, I will call them jumbo financings, to do. Clearly, the sweet spot is probably south of \$100 million; that is the easiest. The easiest thing to do is a financing that is south of \$100 million and do it with the



existing lenders. That's not to say that you can't get larger ones done. We have done some of those and make some progress in that regard.

There is definitely institutional support for the larger transactions. I think that has probably improved a bit over the past little while and we continue to see things easing up in that regard.

BRENDAN MAIORANA: Are the terms for the larger transactions more onerous? And can you give us a sense of, if you use that \$100 million breakpoint, how your maturities over the next couple of years break down in terms of those over \$100 million versus under?

BRIAN LAWSON: Sure. The \$100 million is the -- I am just saying that is where it's the easiest. When I talk to you about a jumbo, if you are getting up to \$800 million or something, that is going to be challenging to do in today's market.

In between, I would say just if you are talking about something that is \$200 million or \$300 million, that is achievable both in the private market and the public market. We have done some -- we did a \$300 million bond issue out of our property business earlier this year. The terms -- to the extent that it gets larger and you are dealing with a broader community and perhaps less capacity, then the pricing will get a little bit more expensive than it would be for the areas that are, as I mentioned, in the really sweet spot.

BRUCE FLATT: And Brendan to your second question, just numbers, we have very few if any maturities of any scale - none in 2009, none in 2010. It's into 2011 before we have anything of any size to deal with, which clearly is a good thing in this environment. I think what eventually leads to getting that market back restarted, which is difficult on large loans today, would be government programs and the TALF money and other things restarting the markets. The positive environment of that and actually it getting working should assist that market.



BRENDAN MAIORANA: Thank you.

OPERATOR: Our next question comes from Peter Sklar of BMO Capital Markets.

PETER SKLAR: Hi, Bruce I am just wondering how you weigh these distressed potential real estate opportunities against your normal course issuer bid. Based on the things the Company has written with respect to the quarter and your commentary, I am sure you also find your own stock compelling yet I notice that you only bought back 1.5 million shares during the quarter. So I am just wondering how you weigh the two or do you believe you have adequate capital to pursue both opportunities?

BRUCE FLATT: I guess I would say the following -- we think that there are significant opportunities in buying stock back. It's an easy one to do because it trades at less than intrinsic value, although there may be opportunities externally where the multiples of return to capital, if you get it right, could be very, very substantial. So the bottom line, we try to be like in the up markets the same as in the down markets.

We do a little bit of everything and we are not going to spend all of our time only buying our stock back. We probably will do some of it and we will do some external things as well. I guess the only thing I can say is we try to manage our capital to ensure that we try to get the lowest risk to maximize return. We take that into account when we are looking at our shares or other things, but there is no magic bullet in this one.

PETER SKLAR: Okay, thank you.

OPERATOR: Our next question comes from Andrew Kuske with Credit Suisse.



ANDREW KUSKE: Good morning. If you could just give us an update on your third-party fund raising activities, so far as possible, because I believe about three quarters ago you mentioned \$8 billion to \$9 billion of opportunities I believe in six different fund strategies that you were working on. Obviously, the market conditions have changed a lot since that point in time so if you just give us an update on that.

BRIAN LAWSON: Andrew, I guess I would say we always have to be careful in what we say about our marketing because of the private placement rules. We still have a number of funds that are marketing. I would say, in general, if you take our fund raising activities, everything in the world stalled in the fourth quarter or third and fourth quarter of last year.

We have had a lot more traction in the funds that have been in place. Our belief is that there are a number of institutions -- that break really into three groups -- institutions that have their own difficulties and therefore are not doing very much today, institutions who have capital but are waiting for future times, and some that have a lot of capital to deploy. Obviously, the third group are the ones that we are working more with than others.

We have a very broad marketing organization across the world and are in touch with most of the sovereign funds in the globe. I think what should favor us doing well in our fund-raising activities going forward, is most, if not all, of our private equity funds have performed at or above their expectations. Therefore, we don't have a lot of issues when we go in and talk to them.

We have a big platform and are in the business to invest capital. We don't have a lot of legacy issues within the asset base and therefore we can talk to them with a very fruitful view going forward. That should favor us garnering more capital than on average.



And I think this environment should help establish our franchise more than otherwise it would have, because two years ago it was tough to differentiate yourself with institutional investors. And I think we should be able to try to do that in this period.

ANDREW KUSKE: So when you look at your global platform, at this point in time, if you could just give us sort of quick snapshot on your thoughts on some of the regional real estate markets where you see the greatest dislocations and possibly the best opportunities in the near term and the longer term?

BRUCE FLATT: Of the four markets that we are in, Canada and Australia have very good underlying fundamentals in the real estate businesses, in particular office. They have their own issues with financing, but the countries are smaller, the capital markets are more defined, the governments are more able to deal with it because it's a finite amount of issues. And we think they will sort them out quicker and the markets will recover faster because of that.

The two other markets, the United States and the UK, I would say have more fundamental issues in real estate. Although, the U.S. is actually relatively good in the vacancies and occupancies in office, the UK is undergoing more distress and there is more supply coming into the markets. The financing issues are difficult in both, in particular in the United States as it's a very large system and it takes a lot of things to go right to get it back working.

I guess our belief is those two markets have more fundamental distress but more so, have more financing issues in them, and therefore the opportunities are greater in those two markets.

Probably the number one market for distress is the UK. And that is because they both have some more fundamental market issues on the real estate side but they also have more financing issues -- a lot of their loans have loan-to-value



covenants. Therefore, owners of properties, even though they are performing and they are cash flowing, they are hit with appraisal pay downs that they have to make on loans and that is causing its own form of issues in the market.

The fifth real estate market that we are in is in Brazil. I would say it is an anomaly to the rest of the world. It doesn't have the financing issues because there wasn't any of the same over-leverage that happened in the balance of the world. And the economy actually is doing, on a world scale, excellent and on a local-basis, pretty good. So I would say generally it doesn't have the same issues that are occurring, so hopefully that helps.

ANDREW KUSKE: That is very helpful. So if I may, just on the UK market and the distress there, is it fair to say that you are going to start to skew some exposure -- potentially looking to skew exposure away from Canary Wharf and look into the city of London in a proper sense?

BRUCE FLATT: Well, we started in London in 2001. By the time we got really interested, the markets changed and the values went up a lot and we weren't able to assemble as large operations as we have elsewhere. I think this environment should offer us a number of opportunities to do things. It's very possible that we end up with properties in the city.

ANDREW KUSKE: That is great. Thank you very much.

OPERATOR: The next question comes from Rossa O'Reilly with CIBC World Markets.

ROSSA O'REILLY: Thanks very much. Of the \$351 million that was invested in net invested capital in Europe office properties, what is the Canary Wharf component of that?

BRIAN LAWSON: It's around \$140 million, Rossa.



ROSSA O'REILLY: And when you look at the distress opportunities in commercial real estate are you looking at retail assets as well as office assets, or primarily office assets?

BRUCE FLATT: Rossa, I would say the following, we have owned many retail assets in past as you would remember. Today we have a very large office platform. That is because -- largely in the early '90s - we could buy office assets at a lot bigger discount to replacement costs than retail. This time through, clearly, retail is having as much distress or maybe more than office.

So I would say it's unclear as to where we end up, but I think that it's possible we end up with more retail assets out of this cycle than we do office. Although I guess if you think of all of the different sectors -- we don't invest in hotels just for various reasons which I won't get into right here.

The industrial sector is sort of more of a local business. We don't feel we have any great advantage in that and there are a number of specific other types of real estate which don't accord themselves to large owners like ourselves.

Really, which leaves us with two sectors -- retail and office -- and that is where our big focus is. Dependent on opportunity and value it's possible we add either one of those.

ROSSA O'REILLY: I see. And then finally, if I may, will BAM participate in Brookfield Properties DRIP program?

BRIAN LAWSON: We have not made any decision on that Rossa.

BRUCE FLATT: Just for everyone's benefit, Brookfield properties put a DRIP, dividend reinvestment program, in place this quarter. A number of shareholders have been asking for it and I think, depending on how the world turns out, Rossa, we



will see. But we haven't made any decisions today.

ROSSA O'REILLY: Well, thanks very much.

OPERATOR: Our next question comes from Sam Damiani of TD Newcrest.

SAM DAMIANI: Thank you. Just on the same question, was BAM one of the shareholders that was asking for that DRIP at BPL?

BRUCE FLATT: No.

SAM DAMIANI: And then if you could just offer your thoughts as to I guess why BPO put the DRIP in at this particular point in time?

BRIAN LAWSON: Well, I suppose it's not entirely appropriate for us to speak on behalf of Brookfield Properties, but I as I understand it, there were shareholders that had made inquiries around the dividend reinvestment program. And so it was in response to the request of those shareholders.

We are obviously supportive of them doing that. And as Bruce mentioned, we will gauge our own participation as we go down the road.

SAM DAMIANI: Okay, thank you.

OPERATOR: The next question comes from Michael Goldberg of Desjardins Securities.

MICHAEL GOLDBERG: Thanks. I was intrigued by the recent purchase by Brookfield Homes of 1,800 lots in San Diego out of foreclosure at less than \$10,000 per lot. So here was an example of a distressed situation where you or an affiliate actually pulled the trigger. Was the foreclosure the catalyst and would you typically be waiting for a catalyst in other distress opportunities?



BRUCE FLATT: You know, Michael, I guess there are lots of things out there; we assess each one of them as they come along. That one specifically was bought out of a bankruptcy and we think it will be tremendous value five or ten years from now. When that occurs, I don't know but we just take them as they come.

MICHAEL GOLDBERG: Thanks.

OPERATOR: The next question comes from Linda Ezergailis of TD Newcrest.

LINDA EZERGAILIS: Thanks. This is more a pedestrian, operational question. What is your outlook for hydrology in your power business in Q2? And, I guess it's early days, but what would be your best guess for the balance of the year beyond Q2?

BRIAN LAWSON: I think -- without getting into specific guidance, I think it would be fair for us to say that the ponds were in good shape at the end of the first quarter. As you know, we benefited from strong flows, above average flows in that regard.

As it goes out for the rest of the year that is -- to a certain extent we are at the whim of the elements. What I would say and what you can observe from our previous quarters is that there is some seasonality in the business. So if everything holds to averages we will track that seasonality.

BRUCE FLATT: Although reporting from the ground, I have been in New York for the last few days and it has been pouring rain, so hopefully that gets to some of our ponds.

LINDA EZERGAILIS: It's good for hydrology if not for travel. Another follow-up question, just looking at your cash and financial assets, they continue to perform spectacularly. Can you give us any update, and I appreciate if you can't, in terms of how we might think of your CDS or FX or other activity in that unit going forward?



BRIAN LAWSON: Sure. Well, I would say -- a couple of comments. We have tended to have, I will call it, a short bias in our activities in that regard particularly with respect to credit spreads. And at some point in time that will run its course.

We have recorded some very strong gains over the past while, but again that is going to ease at some point in time. Clearly, we have been generating outsized returns relative to the capital that we have deployed in that regard, which has been fortunate. And we wouldn't suggest that we have any secret potion that will enable us to do that quarter in, quarter out.

LINDA EZERGAILIS: Now, your FX tactics in that business, would they be counter to your FX exposure in your businesses or totally independent?

BRIAN LAWSON: I would say typically -- and this goes back to the credit spread strategy as well, we do like to put on positions where, while there is an opportunistic element to them, they also do serve to act as some form of hedge or have some broader relevance within the organization. So to a degree the FX would fall into that category.

BRUCE FLATT: I might add a comment just to this, because our focus really is on wealth creation in the business; how much asset value can we create. Often that is because of cash flows and capitalizing cash flows.

But our activities we overlay -- all of these things are essentially hedges against our assets. So often when we make current income we have lost value in our assets because we were hedging against an asset we had. It really has to be looked at over a very long period of time as opposed to quarter over quarter.

LINDA EZERGAILIS: Okay, great. Thank you.

OPERATOR: Our next question comes from Kathleen Piaggessi, KAP Planning Advisory.



KATHLEEN PIAGGESSI Thank you, good morning. Bruce, regarding BAM's operations in South America, Australia, and Asia. In your opinion, where are these regions in their economic cycle? And what are you most excited about in those regions and what keeps you up at night? Thank you.

BRUCE FLATT: Thank you for the question. On the three things, I guess dealing specifically with economics and we are not economic experts, so we will give you our general view. South America actually this time around didn't create the problems in the world and in fact is being hurt a little bit by what has happened in the developed economies. But I think, like most of the developing markets, didn't undergo the same leverage in the markets.

In fact South America, particularly Brazil, which is the largest economy there, and where we have a lot of investments, didn't undergo the same leverage issues and therefore doesn't have the problems that have occurred. Therefore the economies are actually doing quite well. So I think we are very positive about Brazil. We think that there are a number of opportunities to continue to deploy capital within our businesses there.

So to your second question about excited, we are very positive about a number of opportunities there.

On Australia, the fundamental economic situation was that the commodities markets had been very strong in Australia prior to all of this occurring because of the run-ups in commodity prices. It has pushed inflation up and the government has responded by taking interest rates up. It cooled the markets there far before what happened in the balance of the world.

They have now brought interest rates down a lot, but they entered into a recession -- or technically it probably wasn't a recession -- but they entered into slower times before everyone else. Our view, therefore, is that they will come out



earlier and the fundamental economy is actually in better shape than most places in the world.

So we are pretty positive about Australia and we think, given our platform there, we should be able to continue to put money to work effectively.

In Asia, we have very small operations. We have a marketing group that market to sovereign funds and we have some real estate investment people in Singapore, Hong Kong, and Beijing. But it's small in nature and we have very little amounts of capital devoted to that business.

As to what keeps us up at night, we worry about everything. Clearly, I guess probably the most worrisome thing over the past 12 months has been the financing markets. The good is that that has started to loosen up a little bit and therefore we sleep better now than we did six months ago.

KATHLEEN PIAGASSI: Thank you.

BRUCE FLATT: Thank you very much.

OPERATOR: The next question comes from David Henle of BLH Capital.

DAVID HENLE: My question was about AUM growth and it's been answered, so thank you.

OPERATOR: There appears to be no further questions at this time. I will hand the call back over for any closing comments.

ROBERT HARDING: Thank you very much, operator. Thank you all for joining us this morning for this conference call. We appreciate your questions and comments and we look forward to speaking to you again in August when we release our second-quarter results. Have a great afternoon. Bye for now.