PO Box 2486, Vancouver, BC V6B 3W7 & Tel: 604-984-6838 & Email: madrep@shawcable.com & Web: www.madisonsreport.com

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Toronto's Brookfield Properties, a North American commercial real estate company and a subsidiary of Brookfield Asset Management, made a big splash in the mainstream press in early August 2009 after investing almost \$5 billion in distressed real estate assets worldwide. Of particular note was the purchase, for 20 cents on the dollar, of a development in suburban Los Angeles containing 3.200 unfinished high-end homes. Headlines shouted, "Brookfield's Bet on the Bottom." Refer to your March 13, 2009 edition of Madison's Timber Preview for information on another Brookfield subsidiary, Tricap Partners, a major bondholder of Western Forest Products, Ainsworth, Norbord and Longview Fibre.

With evidence accumulating that the recent economic downturn may be showing signs of recovery, all eyes are on the US real estate market. Considered an early indicator of economic strength by most analysts, the US real estate market is generally acknowledged to drive 25 per cent of the US economy. If property starts changing hands in real terms, a resurgence in home building can not be far off. The question is, did Brookfield just make a good buy, acquiring property globally at deep discounts, only to have to wait a year or more before getting a return on that investment? With an asset portfolio as great as Brookfield's, the company may well be able to afford to wait, a luxury that may not be available to the average investor.

Jack Kern, an analyst with Gerson Lehrman Group, suggested that Brookfield's decision "may signal the willingness on the part of investors to take chances," rather than an actual improvement in the market. In a separate note, Kerns gets to the heart of the matter, "The real question is where lot prices are going to go when the existing market is bought, and with no new lots in the pipeline, how high can prices go?" Kern goes on to say that, "Brookfield will be in control of thousands of lots and be able to dictate prices, absorptions and builder selection to compliment their offering."

As of December 31, 2008, the Brookfield's commercial property portfolio consisted of investment in 108 offices comprising 74 million square feet in 12 US and Canadian markets. By August 2009 Brookfield had real estate investments in 10 countries, with over 190 properties and development sites consisting of 125 million sq. ft. As if to scoff in the face of detractors, Brookfield wasted no time in partnering with Export Development Canada on August 11 to establish a \$1 billion fund to provide Debtor-in-Possession loans and other specialty finance solutions to Canadian companies undergoing a restructuring or reorganization. Does Brookfield know something that few others know about the global economic state in general and of Canada in particular?

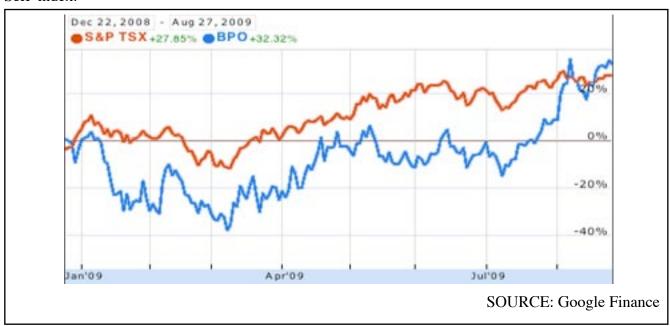
Apparently that company is not the only one looking to a brighter financial horizon in Canada. Following the EDC announcement of the partnership with Brookfield, both CIBC and Sun Life Financial promptly made their own announcements, with the former committing an initial \$225 million, and the latter, Canada's number three insurer, committing \$250 million to the fund. With such solid backing, together with an initial \$450 million investment from EDC itself, perhaps Brookfield is indeed on the right track. The wording, "an initial commitment" suggests that all four parties expect to invest further in the fund.

As if this excitement wasn't enough, on August 12, 2009, Brookfield Properties priced its \$902.5 million common share offering set to expire August 21 at \$9.50 apiece. The company agreed to sell half

its 95 million share offering to the public and the other half to its parent, Brookfield Asset Management. Brookfield Asset currently holds an 51 per cent stake in Brookfield Properties, one of Manhattan's largest landlords. That same day, the company was among the most actively traded companies on the TSX. Brookfield shares were up 31 cents, or 2.75 per cent, to \$11.60 on 6,514,922 shares.

On August 7, 2009 Brookfield Properties announced 2Q results with a net income of \$60 million or \$0.15 per diluted share, compared with \$45 million or \$0.11 per diluted share for 2Q 2008. Funds from operations was \$148 million for the three months ended June 30, 2009 compared with \$157 million during the same period in 2008. A company statement explained that, "Commercial property net operating income for the second quarter of 2009 was \$338 million, compared with \$341 million during the second quarter of 2008 as a result of the impact of a weaker Canadian dollar and a lower contribution from non-managed properties. Absent these items, commercial property net operating income increased 3% over the same period in the prior year."

Given the generally poor 1Q and 2Q financial results by most publicly-traded companies in North America, such an even rate of return bodes well for Brookfield's 3Q and 4Q 2009 results. Brookfield shares enjoyed a sharp, albeit temporary, high on the TSX at \$37.35 in February 2, 2007 and an equally short-lived low of \$5.77 on March 6, 2009. On August 21, 2009, company shares had rebounded to \$12.15. Brookfield's shares were trading below the S&P TSX index for most of 2009, however generally following the S&P line as it rose and fell (see graph). On August 6, Brookfield share values briefly overtook the S&P index then fell slightly below. This week company shares again traded above the S&P index.



In Brookfield Properties' 2Q release, company CEO Ric Clark stated, "Our industry-leading low vacancy rate and lease rollover profile have helped mitigate risk exposure in this economic downturn."

Keta Kosman Publisher Madison's Lumber Reporter Madison's Timber Preview www.madisonsreport.com 604 984-6838