

# FINAL TRANSCRIPT

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## **BPO.TO - Q2 2011 Brookfield Office Properties Inc Earnings Conference Call**

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**Neil Downey**

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## PRESENTATION

**Operator**

Good day. Welcome ladies and gentlemen to the Brookfield Office Properties Inc. second quarter 2011 conference call. This call is being recorded. It is now my pleasure to turn the call over to Ms. Melissa Coley, VP Investor Relations and Communications. Please go ahead, Ms. Coley.

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**Melissa Coley** - *Brookfield Office Properties Inc - VP of IR and Communications*

Good morning and welcome to Brookfield Office Properties second quarter 2011 conference call. Before we begin our presentation, let me caution you all that comments and discussion will include forward-looking statements and information, and there are risks that actual results, performance or achievements could differ materially from anticipated future results, performance, or achievements expressed or implied by such forward-looking statements and information. Certain material factors and assumptions were applied in drawing the conclusions and making the forecasts and projections in the forward-looking statements and

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information. You may find additional information about such material factors and assumptions and the material factors that could cause our actual results, performance or achievements to differ materially set forth in our news release issued this morning. I would now like to turn the call over to Ric Clark, Chief Executive Officer.

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**Ric Clark** - Brookfield Office Properties Inc - CEO

Thank you, Melissa. Good morning all and thank you for dialing in today. With me today are several members of our senior management team -- Bryan Davis is here, our CFO; Dennis Friedrich, our Chief Investment Officer; Tom Farley, our Chief Operating Officer; as well as Mitch Rudin, who joined us six weeks ago as the CEO of US Commercial Operations. As usual, Bryan and I will cover a couple of topics upfront while Dennis, Tom, and Mitch will be available to answer questions and provide further market color during the Q&A period. I suspect most of the US operating questions will be fielded by Dennis again this quarter while he completes the hand-off of the US business to Mitch. You will get a chance to meet and hear from Mitch more on the next call and in the future, I'm sure, so we'll plug you into Mitch as we go forward.

Obviously, the last 1.5 weeks and particularly, the last few days, have been nerve-racking from a stock market perspective. Impacting the markets are concerns in the US over slow economic growth and slow job and wage recovery as a result of the debt pulling back on what has been in the view of many, a stimulus-driven recovery. It's too early to tell whether or not the time -- now is the time that a prolonged belt-tightening will occur to deal with the long-term problem of debt reduction or not. If it is, slow growth would be the logical result. In Europe, there are concerns over sovereign risk and inadequate bank capitalization. I think that has all concerned. And inflation risk in Asia and Latin America are also weighing on the markets. I make these comments but obviously we aren't economists so we won't waste your time with our predictions and dig into the detail of what might be impacting the markets as our views would be no better than anyone else's.

But there's always plenty to worry about which is why we are firm believers in the principal that real estate and financial markets are cyclical and things can change at any given moment. In order to be effective, our view is strategy is important. Ours, which focuses on investments in high-quality assets around major transportation hubs in the developed world's most dynamic and resilient local economies, continues to work well. From our experience, within geographies in any economic climate, there are bright spots. We happen to believe that we have focused and diversified the majority of our investments to these areas. Supporting this is our solid second quarter results which were good, both from an economic results standpoint and in our execution against our major goals and priorities.

For today's call, in addition to covering our financial results, since there have been no trend changes in our markets from our last call, and all continues to be positive, I thought that it would be more useful to hit a couple of market data points and to give a status update versus our major strategic initiatives. As we have a lot to cover, we'll skip digging into detail on the leases signed during the quarter. Our supplemental is loaded with detail and anything that's not in there that you want to explore, please do so during the Q&A period. So with that as background, Bryan, let's first tackle the operating and reported results, if you don't mind.

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**Bryan Davis** - Brookfield Office Properties Inc - CFO

Thank you very much, Ric. Good morning, everyone. As noted in our press release, we reported funds from operation totaling \$166 million for the second quarter of 2011. This compares to funds from operations of \$155 million in the prior quarter and \$156 million on a comparable basis for the same period in 2010. Including an investment gain in the prior year, FFO was \$209 million. On a per share basis, the current quarter funds from operations was \$0.30 per diluted share. This compares with \$0.28 per share in the prior quarter and \$0.30 per share in the prior year on a comparable basis, including that investment gain it was \$0.40 per share in the prior period.

The increase in FFO of \$10 million over the prior period was due primarily to acquisitions which contributed about \$64 million. These acquisitions include Australia, Heritage Plaza in Houston, 650 Massachusetts in Washington, and our most recently



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announced, 450 West 33rd in Manhattan. These are all highlighted on slide 11. The continued lease-up of Bay Adelaide Center which we're now recognizing revenue on our full occupancy and also the benefit of the stronger Canadian dollar contributed an incremental \$7 million.

We also had an increase in interest and other income of \$30 million on a year-over-year basis. And this is due mainly to 4 key things. One, we had a gain on the repurchase of mortgage debt at 75 State Street at a discount of \$5 million. We had the settlement of a profit-sharing arrangement with a tenant which contributed \$6 million. We continued to carry our investment in the US Office Fund debt that was repurchased in the prior year, and we also had interest on our CAD480 million note at a rate of 6.5% which we received as part consideration on the disposition of our residential development business, and that contributed \$8 million. These increases in income are offset by a decrease in same-store net operating income which we provided guidance on at the beginning of this year as a result of the expiries of Goldman Sachs in New York, at the end of December, and Wellington in Boston on April 1 of this year. Those two lease expiries contributed to a decline of about \$11 million for the quarter.

There was also a termination fee of \$6 million that was earned in the prior period and not repeated this year. The sale of the residential development business which contributed \$33 million in net operating income in the prior period. And we had an increase in interest expense of \$35 million due to the addition of Australia, some of the new financings we've executed over the last half of last year and the early part of this year, and, of course, the strength of the Aussie dollar and Canadian dollar on interest expense. And over and above that, we did have higher minority interest of \$8 million as a result of the sell-down of our interest in our Canadian subsidiary, BOX, in the fourth quarter of last year to 83%.

In comparison to the previous quarter, the increase in FFO of \$11 million was due primarily to increased NOI from the acquisition of 450 West 33rd Street, which was approximately \$3 million; increased NOI from our same-store properties of approximately \$3 million. This, even after taking into account a loss of income on the expiry of our Wellington lease at 75 State Street. An increase in interest and other income as I had mentioned earlier but on a quarter-over-quarter basis, that difference was \$19 million -- \$5 million related to the debt gain, \$6 million related to the profit share income and \$8 million related to the carry on our residential note. Now we also, on quarter-over-quarter basis, benefited from a stronger Canadian and Aussie dollar. All of these offset by the fact that we sold our residential business last quarter. That contributed \$13 million to FFO. Our FFO of \$0.30 per share did benefit from a few things, putting it slightly ahead of consensus estimate of approximately \$0.27 for this quarter.

As I mentioned, these benefits include a stronger Canadian and Aussie dollar, the Canadian dollar averaged \$0.97, the Aussie dollar averaged \$0.94 in the quarter. This contributed probably an incremental \$6 million compared to parity with the US dollar which we typically give guidance at. As mentioned earlier, we had the gain on the debt and we had the profit share arrangement that wouldn't have otherwise been included in our guidance, and likely not included in anyone's consensus, and so those, in aggregate, account for about \$16 million, or \$0.03 per share. Our strong leasing performance for the first six months of this year will benefit our NOI and FFO going forward.

Our net income for the quarter was also very strong at \$640 million, or \$1.12 per share. This compares with \$172 million or \$0.31 per share for the same period in 2010. Net income in the current period included revaluation gains of \$558 million compared to revaluation gains for the same period in 2010 of \$339 million. These gains were driven primarily by increased cash flows at our properties. We also had a 20 basis point reduction in overall discount rates and a 7 basis point reduction in our terminal cap rates to reflect market conditions which have been evidenced by recent transactions, external appraisals and of course, general market sentiment. Again, slide 20 provides more details on this. As a result, our IFRS value per share at \$17.27 or \$18.21 when considered on a pre-tax basis. With that, I will now turn the call back over to Ric.

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**Ric Clark** - Brookfield Office Properties Inc - CEO

Thanks, Bryan. As Bryan said, our second quarter leasing was strong. We completed, I think in total, 105 leasing transactions covering 1.6 million square feet, and year-to-date, we've leased 4.4 million square feet. So we're off to a very strong start. In addition, our pipeline of negotiations at the serious stage, meaning we believe there's a high probability of converting these



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to executed leases, remains at about 3.5 million square feet in the US, 3 million square feet in Canada, about 0.5 million square feet in Australia. So roughly 7 million square feet overall. Although we're feeling pretty good about converting these discussions to leases, some could well drift into next year and might not end up in this year's stats, but I would just point out that we're on track, we believe, to hit likely our best leasing year ever. Behind these deals, at the serious stage, there's also a robust level of preliminary leasing discussions underway. So notwithstanding recent economic news, it really has not had an impact on our overall level of activity and our major markets remain strong and they continue to move in the right direction.

Now, just giving a couple of market data points, not to bog down the call with every one of our markets, but overall, in Manhattan, our biggest market, vacancies dropped to 9.4% versus 10.5% at the beginning of the year. Midtown has dipped to 9.8% from 10.6% at the beginning of the year. On first half, leasing activity is a little over 11 million square feet, and close to 2.5 million square feet of absorption. On the heels of the Conde Nast deal that was announced for Lower Manhattan, the level of interest and the coolness factor for this market has improved very noticeably. Downtown New York City vacancy ended the second quarter at 9.7%, down from 11.5% at the beginning of the year, which is a more significant change than Midtown.

The Toronto market continues its improvement from what was already a good place to start, starting the year at 6.9%, overall market vacancy, and ending the second quarter at 5.1% on 2 million square feet of activity. Our energy and natural resource-based markets continue to be strong with exploration and production responding to strong demand expectations. Calgary's vacancy ended the second quarter at 7.8%, down 420 basis points from the beginning of the year and basically one-half what it was a year ago. So that's probably in the market where we've seen the most dramatic change.

Houston continues to be an active market, although the vacancy is up slightly from the beginning of the year, about 90 basis points, it's still a pretty healthy 10.7% overall market vacancy as of the second half. Perth, where we have a growing presence, second quarter vacancy dropped to 5.2%, and in the high end or prime sector of the market, it's under 3%. So that market has excited us and has very similar characteristics to the Calgary market. Although the Boston market hasn't improved overall from a vacancy standpoint and it is hovering around the 20% mark, we've been getting more than our fair share of deals chipping away at the Wellington vacancy and completing 114,000 square feet of leasing so far with a further 110,000 square feet in serious discussion.

So on the leasing side, we're continuing to see very, very strong activity, and as I said, expect a pretty big year, notwithstanding recent economic news. On the debt side, the recent economic news we think may help in a way, the Fed is not likely to raise rates as this will hurt what is already a weak economy. And also, what we're hearing from banks, particularly the US banks, as well as insurance companies, they're all flush with cash and looking for debt opportunities. Although spreads could float up a little bit if worry over the economic health globally persists, overall rates we expect will stay at historic low levels for the foreseeable future, and that's great for us.

We're currently within our portfolio working to complete 9 financings over the balance of the year, totaling just over \$2 billion. So 4 of them are in the US for about \$0.5 billion; 2 in Canada, \$0.75 billion; and 3 in Australia for \$0.75 billion. The overall rates that we expect to achieve are really good and just giving you some anecdotes on that, one that we're working on in the US, we expect to close at an all-in rate of about 4.6%. That's \$100 million loan. Working on 2 in Canada and we expect they will come in anywhere from 4.6% or 4.7% to 5.25%. And in Australia, we're seeing rates hovering around 7%, slightly different story in Australia.

On -- just moving off market topics, and many of you might have seen the US jobs report which came out earlier this morning and was better than people expected, I think. For those who hadn't heard, US unemployment dropped slightly to 9.1% on 154,000 new private sector jobs which were reported in July, up from about 80,000 jobs in June. The government, counteracting this, has shredded -- shedded 37,000 jobs in July, which was the report. So assuming for a minute that this isn't a positive trend and a second or double-dip recession occurs, and we aren't predicting this, but just in case it happens, we like our international diversification strategy. I point out that currently 41% of our NOI is earned outside of the US, and this compares to about 19% a couple of years ago in 2009.



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So today, about 23% of our NOI comes from Canada, and 18% comes from Australia. These are two economies that are driven in part from vast energy and other commodity resources. Both Canada and Australia operate without long-term deficits so will not have to deal with the fall-out of trying to pay off the credit card bill when the time ultimately comes to deal with it. Both countries have a lower unemployment rate and a consumer base that is better positioned to spend money which should help both of those economies. So we like this diversification strategy and are very, very happy to be very active players in both Canada and Australia. We think this will ultimately benefit our shareholders.

Moving to capital recycling, I just wanted to spend a minute to point out our progress versus our capital recycling plan. Since last December, in addition to divesting of our residential land development business, we've completed the sale of 3 properties. In total, we've sold \$2.1 billion of assets generating about \$1.3 billion of equity in the form of cash and receivables. To date, we've acquired about \$5.5 billion of new properties including picking up a further 20% interest from investors in our US Office Fund.

Since last December, we've been a net buyer by about \$2 billion. We're currently working on an additional 4 asset sales as well as 4 acquisitions. All or none of these could happen, who knows? But the point, I guess, is, is we remain focused on recycling capital out of non-core markets, out of non-strategic assets within our core markets and out of mature assets into more accretive opportunities to ultimately benefit shareholders. These activities we expect will add to our growth in the future, and hopefully we'll get a chance to talk to you more about what all this means shortly in the future.

I wanted to also just take a minute to talk about the US Office Fund which I know has been on investors' minds over the last couple of years. We're nearing completion of the recapitalization of the US Office Fund. Just a little bit of data on this from our perspective, from our share perspective, post picking up the additional share from an investor that I referred to, we started with \$2.9 billion of debt to recapitalize. We've completed \$2.1 billion of paydowns through refinancings and asset sales. We have \$200 million of additional financings in the works which we expect to close shortly. For the balance to delever, which would be \$600 million plus or minus has already been taken care of when we acquired at a discount to par, a comparable amount of mezzanine debt. And finally on this, we expect the put/call with Blackstone to be executed at some point in the third quarter at which point the recapitalization of the US Office Fund will be done. So I think at this point in our view, we've done the bulk of the work, and there's little more to do.

So just a couple of things before we get to questions. We continue to advance discussions with tenants to back-fill the Wellington space in Boston and the Goldman space in Lower Manhattan. There's healthy activity at the World Financial Center to replace Merrill and Nomura which has decided to move to Midtown so we're confident in that area as well. We're set to launch our capital program to update the World Financial Center's lobbies, common areas, systems, and retail, which we're excited about as are the tenants that we've had a chance to present our plans to. With supply in check and the changes that have occurred to best practices and the building design and tenant space utilization, we believe we have a very strategic development pipeline with several projects positioned to launch once we secure anchor tenants.

Now this pipeline, I'd point out, is just 3% of operating assets after backing out the City Square property which was a development, which was a property under development that we acquired with no construction risk and no leasing risk since we've leased it to 100%. All of this is -- at 3% this is not a material item on our balance sheet, but represents a great promise for growth in the future. I hope that and would invite you all to join us on September 26, in New York for our Investor Day where we'll provide an overview of the Lower Manhattan market and our plans for holdings in this market as well as talk to you about development pipeline and what it means for our future.

We're also holding an Investor Day in Houston on the afternoon of November 14, more or less a tie-in to the NAREIT -- to NAREIT which is happening in Dallas I think the next day. Last thing before questions, we gave FFO per share guidance earlier this year with a range of \$1.05 per share to \$1.10 per share with a midpoint at \$1.08. At this point, we're trending at the midpoint to the upper end of the guidance range. So we feel pretty comfortable just pointing that out to you. So with that as remarks, operator, we're happy to field questions from investors and analysts.



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## QUESTIONS AND ANSWERS

### Operator

Thank you, sir. The question-and-answer session will be conducted electronically.

(Operator Instructions)

Michael Bilerman with Citi.

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### Josh Attie - Citigroup - Analyst

Hello; thanks. It's Josh Attie with Michael. As you speak with potential tenants for new leases at the World Financial Center, do you have any sense for what the CapEx package might be for a new tenant moving to that building?

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### Ric Clark - Brookfield Office Properties Inc - CEO

Dennis, you want to field?

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### Dennis Friedrich - Brookfield Office Properties Inc - CIO

Sure. Hi, Josh, it's Dennis.

When you say CapEx, the tenant improvement allowance?

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### Josh Attie - Citigroup - Analyst

Yes.

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### Dennis Friedrich - Brookfield Office Properties Inc - CIO

Depending on the length of the term; we're falling in the range of about \$60 per square foot, plus or minus.

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### Ric Clark - Brookfield Office Properties Inc - CEO

I think that varies between renewals and new tenants as well.

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### Dennis Friedrich - Brookfield Office Properties Inc - CIO

That's assuming a new tenant coming in, Josh, which I think is what you were alluding to.

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### Josh Attie - Citigroup - Analyst

Yes. And also if I can ask -- on Australia, now that you have owned that portfolio for almost a year, can you update us on your thoughts on long-term financing and the timing and structure of a potential sell-down?

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**Ric Clark** - Brookfield Office Properties Inc - CEO

Well -- boy, that's hard to do. The Australian market -- we're still exploring lots of alternatives. I wouldn't say it's at the top of our list at the moment. At one point in time we were hopeful to execute a -- or considering executing a publicly listed strategy similar to what we have with our Canadian subsidiary, Brookfield Office Properties Canada. As those of you that follow the Australian market know there's a big disconnect between underlying asset value and what publicly listed entities are trading at. So we've put that on the shelf, and haven't really been actively working on it at the moment. So it's hard to say, Josh. It's hard to predict when we might sell down our interest there. We remain active in the market. We've acquired a couple of properties since our last call -- or acquired an interest in a couple of properties that we're already invested in. So it is a market that we like.

**Operator**

John Guinee with Stifel Nicolaus.

**John Guinee** - Stifel Nicolaus - Analyst

Hello -- two questions, Ric. Nice quarter. Can you give us a, first, your two loans in Houston -- \$200 million and \$165 million, north of 6% on an interest rate. Seems a little bit high. Was there something unusual there? And then a second, and probably more important, question is, can you give us a sense for the valuation to acquire the 20% interest in the US fund?

**Ric Clark** - Brookfield Office Properties Inc - CEO

So Bryan, do you want to field the first part of that question?

**Bryan Davis** - Brookfield Office Properties Inc - CFO

Sure. As it relates to the 2 financings -- nothing unusual there. Houston is a market that doesn't have as much depth as you would otherwise see in Washington, New York, et cetera; and so there is typically a spread premium you pay just for the risk associated with that market. And then, the only other point is, these were financings that we closed right at the heels of the end of Q1, early Q2; so they weren't necessarily representative of the rate environment that we see in the market today.

**John Guinee** - Stifel Nicolaus - Analyst

Okay. And then the valuation on the US Fund?

**Dennis Friedrich** - Brookfield Office Properties Inc - CIO

Hey, John, it's Dennis.

So, I think you saw the metrics in terms of overall value. It comes in at about \$297 a foot on the portfolio. We're looking at that in terms of an unlevered IRR -- pretty high in the 9% range, with existing property leverage; that's a mid-teen IRR. And as part of that transaction, there's an additional loan component which will take the leverage up even higher. The -- if you look at the supplemental off of our NOI provided, it's a going in of 6.5%, but I would say that one thing we focused on is that, right now, given some of the rollovers in the portfolio recently, the occupancy is only 89%, so we see the ability to drive that stabilized cap rate up significantly.

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**Ric Clark** - Brookfield Office Properties Inc - CEO

So, John, that transaction was similar to the loans in Houston; was arranged at around the fourth quarter; and so fourth quarter valuations were used for it.

**Operator**

Mario Saric with Scotia Capital.

**Mario Saric** - Scotia Capital - Analyst

Looking at the balance sheet and capital deployment in general, I think, Ric, you mentioned that you're looking at 4 asset sales and 4 acquisitions. Given the volatility in the equity markets, I'm just trying to get a sense of how important you think capital preservation is today relative to acquisition opportunities, versus where it was, let's say, three months ago.

**Ric Clark** - Brookfield Office Properties Inc - CEO

Right. I think it's always important, because you never know; and so I think it's always important. And for us, I think the net result of selling 4 and buying 4 is that we would remain neutral from an overall equity standpoint. So I'm not sure if that adequately answers your question. You might be asking, why don't we just sell and not buy? I think our mission is to continue to make accretive acquisitions to the Company to help fuel its growth; and I think even if we do these 4 acquisitions, we will have plenty of liquidity still on hand.

**Mario Saric** - Scotia Capital - Analyst

Okay. And I think, secondary to that, given where transaction cap rates are today in some of the major markets, like New York and Washington, relative to where your implied cap rate is; today there is a pretty decent spread there. Any new thoughts about reengaging in the share buyback?

**Ric Clark** - Brookfield Office Properties Inc - CEO

That's interesting. Certainly over the last 3.5 days, we've been thinking about that again. Nothing to say other than we think our shares are an incredibly attractive buy, and one of the things we're going to have to do is look at these acquisitions versus buying our shares.

**Operator**

Alex Avery with CIBC.

**Alex Avery** - CIBC World Markets - Analyst

Thank you. I was hoping you could provide a little bit more color on the US Office Fund transaction -- how that came about, and secondly, does that change the economics of any of the put-call activity that still remains with Blackstone?

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**Ric Clark** - Brookfield Office Properties Inc - CEO

So, answering the last part of your question first, Alex -- it has no bearing on the transaction with Blackstone. It was all within our partnership within that transaction. And I think the motivation for the seller was, basically, they've redirected their focus from making equity investments to making debt investments; and additionally, within this fund, there was a delevering requirement. So it seemed natural that, instead of putting more cash into it, it was better from their perspective, to be a seller; and for us it worked out well, because, as Dennis pointed out, we think there's lots of upside. Obviously, there's work to do, and whenever there's work to do, there's risk. But I think this is the one thing we're pretty good at.

**Alex Avery** - CIBC World Markets - Analyst

Okay. And the timing of the closing of that?

**Ric Clark** - Brookfield Office Properties Inc - CEO

I think it was yesterday or -- yesterday.

**Alex Avery** - CIBC World Markets - Analyst

And then, I wanted to follow up on the prior question about priorities and capital preservation and whatnot. If you look at the different assets that you've got, even buying and selling, it seems like as much as you're trying to maintain a relatively neutral capital position, the strategy is very much to redeploy capital from the secondary markets into primary markets?

**Ric Clark** - Brookfield Office Properties Inc - CEO

Yes. Absolutely.

**Operator**

Our next question, Jay Habermann with Goldman Sachs.

**Jay Habermann** - Goldman Sachs - Analyst

Sloan is here, too. Ric, can you talk about perhaps -- you mentioned the slower growth environment that could occur over the near term. Can you talk about the appeal of Lower Manhattan, say, versus Midtown? I know you've talked in the past about 2-plus million square feet of potential demand; but can you give us some sense of maybe how those discussions are moving in the last few months?

**Ric Clark** - Brookfield Office Properties Inc - CEO

Sure, Jay. And I would say we're not really -- we're not necessarily predicting slower growth. If you ask me -- and at the beginning, I said we're not economists -- so no one should have to listen to our views, maybe; but it seems like now is the wrong time to settle the deficit. It would stymie growth and part of me believes that this won't be the time, and that we will see good growth in the US, notwithstanding what people are worried about the last couple of days. But again, I'm not an economist -- who knows? In Lower Manhattan, for those that are interested in doing things that benefit the bottom line, it is by far the best proposition -- the value proposition within New York City -- and at the same time, it's a market that is changing so dramatically from a



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desirability standpoint that I think tenants are getting it. Boy, not only is it a great place with state-of-the-art transportation, et cetera; it's also a bargain.

So we're seeing lots of interest, and the interest is coming from those that are -- whose work forces live in this area, for those that are bottom-line motivated, and for those that are looking for large blocks of space in order to consolidate from multiple locations. With the transaction Nomura did at Worldwide Plaza, there's really few large blocks of space, and certainly none for a million-square-foot user other than the World Financial Center and new development, and we offer the value proposition there, too. So we're in -- we've got 0.75 million square feet of -- actually, a little more than that. Probably a little over 1 million square feet -- Dennis, actually, maybe you can help here. We've got leases in serious discussion, which means negotiating leases for how much?

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**Dennis Friedrich** - Brookfield Office Properties Inc - CIO

Jay, the number you alluded to before -- we've been talking about our combination lease negotiations and serious discussions for tenants over 2 million square feet; and that number has remained the same. I think you asked how the pace of those going? They've been moving well. It always takes a little while to complete large leases in New York; but there hasn't been any change in the pace of those discussions amid the uncertainty recently. I would say actually, the activity behind that -- which we wouldn't take to the same level, but would mean we're starting to exchange proposals and doing tours -- has actually picked up in the last 30 to 60 days; and that number is increasing well above 1 million square feet as well.

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**Jay Habermann** - Goldman Sachs - Analyst

Okay. And maybe with the potential for Port Authority, or some of the government entities to pull back a bit across the street, does that raise the risk of greater challenge as well, a little bit more competition?

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**Dennis Friedrich** - Brookfield Office Properties Inc - CIO

I think the answer is yes. I think if there are some restructuring across the street, we still have a timing benefit. Our timeline is still -- we have the ability to deliver space in a more immediate time frame, which I think is still playing to our advantage with a little more certainty than what's across the street. But if both towers, both Tower 1 and Tower 4 at the World Trade Center do restructure to public deals, it will be more direct competition.

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**Jay Habermann** - Goldman Sachs - Analyst

Okay. And Ric, just a question on strategy -- you talked about the international diversification, 43% non-US. I know you've talked in the past about continuing to sell down Canada. Am I sensing perhaps a little bit of a change in strategy that perhaps you like this diversification strategy, and actually would keep that exposure?

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**Ric Clark** - Brookfield Office Properties Inc - CEO

No, still on our list is to sell down some of our interest in Brookfield Office Properties Canada. So we'll do that at the right time. And, in part, it will be -- when we do it, it will be dictated by the price, and as well as the alternatives to reinvest the money in it. We think that we're seeing some interesting things in the US as well. So, I think the numbers will fluctuate up and down as opportunities present themselves; but we will probably go lighter in Canada ultimately.

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**Jay Habermann** - Goldman Sachs - Analyst

Okay. I know there was some management changes announced as well. I guess -- maybe for Bryan -- is this any impact to G&A for the back half of the year?

**Bryan Davis** - Brookfield Office Properties Inc - CFO

No, none.

**Operator**

(Operator Instructions)

Neil Downey with RBC Capital Markets.

**Neil Downey** - RBC Capital Markets - Analyst

Maybe a question for Dennis or for Bryan -- the acquisition of the West 33rd Street position has significant influence on your Midtown in-place rents. Can you help me understand a little bit better the in-place lease profile of that asset, and what the future holds for it -- and how it affected the in-place rent for Midtown?

**Dennis Friedrich** - Brookfield Office Properties Inc - CIO

Sure, Neil. It's Dennis. I will take that.

I think the asset has had a certain tenant profile which has been a little more of a B-class tenancy for a period of time, partly reflective of an area that hasn't been as developed as it is now. So one of the appeals to the acquisition was actually, we think that there's an opportunity to get in there, do our thing, and create some mark-to-market upside. So at times, partly because it's transitioned in ownership quite a bit, and hasn't had as stable a sponsor as Brookfield is -- it's attracted some of the more back-office functions. And we see it now -- we see an opportunity to actually attract creative firms, media firms, and upgrade that rent roll; and I think we're still working on our redevelopment plans, but even just on our baseline underwriting, we see just the neighborhood coming up. So that was one of the -- it's part of the Midtown south submarket, but it has been off by its own for a little while, and now we're seeing more and more tenant activity in that area. So it's been a change in profile.

**Bryan Davis** - Brookfield Office Properties Inc - CFO

And it's Bryan.

Just to give context to the impact on our in-place -- we did include a footnote on page 27 of our supplemental, which effectively strips out 450 West 33rd Street, to give you Midtown New York in-place rents without the impact of that acquisition.

**Neil Downey** - RBC Capital Markets - Analyst

All right. Okay. And you include 100% of the building in the way you calculate that?



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**Bryan Davis** - Brookfield Office Properties Inc - CFO

We do it on a under-management basis, and then on a proportionate basis as well, which would be at our ownership.

**Neil Downey** - RBC Capital Markets - Analyst

Right, okay. Bryan, while I have you -- thinking about the investment in other income line for the next couple of quarters, should the simple adjustment to a run rate really be to take \$12 million or \$14 million off of the Q2 result?

**Bryan Davis** - Brookfield Office Properties Inc - CFO

Yes, for Q3. Now, what's going to happen in Q4 is, we're no longer going to get the carry that's associated with the US Office Fund debt that we repurchased; because by that time that will all have been repaid, and the interest, and, of course, unamortized discount, will have been recognized through earnings. So probably the best bet Q4 onward is to think of it in the context of anywhere from \$5 million to \$7 million, just in regular recurring other income; plus the \$8 million that we have on a quarterly basis related to the new note -- residential note -- that we had as of March 31.

**Operator**

John Stewart with Green Street Advisors.

**John Stewart** - Green Street Advisors - Analyst

Bryan -- I'm sorry, I don't remember this offhand -- but the ownership interest in the US Office Fund -- have you guys bought out everyone but Blackstone?

**Bryan Davis** - Brookfield Office Properties Inc - CFO

So we have 2 remaining partners.

**John Stewart** - Green Street Advisors - Analyst

Okay. And then, maybe for Ric -- along the lines -- similar to your strategy with respect to BOX, what is the ultimate structure plan for the US Office Fund? Do you intend to own 100% of those assets, or what's the plan?

**Ric Clark** - Brookfield Office Properties Inc - CEO

At the moment, there's really no change in plan. We own roughly 80% of it, and a little over 80% with 2 other partners. So we don't have any immediate change of -- plans to make any change to that.

**John Stewart** - Green Street Advisors - Analyst

Okay. And on the 4 assets teed up for your acquisition and disposition pipeline -- can you give us a sense, if all 4 were to hit on both sides, what order of magnitude of a net buyer or seller would you be?

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**Ric Clark** - Brookfield Office Properties Inc - CEO

If all 4 were to hit? Hold on one second. Bryan, would you have that?

**Bryan Davis** - Brookfield Office Properties Inc - CFO

John, can you just repeat that one more time?

**John Stewart** - Green Street Advisors - Analyst

Sure. If you were to close all 4 acquisitions that you're looking at, and all 4 dispositions, to what extent would you be a net buyer and net seller?

**Ric Clark** - Brookfield Office Properties Inc - CEO

Hang on a second.

**John Stewart** - Green Street Advisors - Analyst

If I could squeeze in one more while you're looking -- on the -- can you give us any details on the profit sharing agreement, the \$6 million during the quarter?

**Bryan Davis** - Brookfield Office Properties Inc - CFO

Yes, I can do that. We, a number of years back, had established a partnership with a company that provides business service solutions -- office space rental on a North American and now global basis -- and as part of that, we effectively provided space, but also partnered with them to assist with the start-up of their business. The partnership is now over, and as part of that, there was a profit sharing arrangement, and we collected \$6 million associated with that on the termination of the partnership, one-time gain.

**John Stewart** - Green Street Advisors - Analyst

Got it.

**Ric Clark** - Brookfield Office Properties Inc - CEO

So John, just the gross value of the assets we're looking at -- dispositions are \$950 million and acquisitions are more like \$700 million to \$750 million

**Operator**

John Guinee with Stifel Nicolaus.

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**John Guinee** - *Stifel Nicolaus - Analyst*

A follow-up on the US Fund. I was looking at the details, Dennis. It's probably not the same on an NOI basis, but on a square footage basis, it's roughly 25% greater New York; 25% Washington, DC; 25% LA; and 25% Houston. Are you continuing to commit to all 4 of these markets, 1? And then, 2, the Maguire portfolio is getting very slimmed down as they give everything back to lenders. Is that back on your radar screen?

**Dennis Friedrich** - *Brookfield Office Properties Inc - CIO*

To answer the first one, John, I think we are -- remain committed to the US Fund markets, as they are currently represented. We like all the markets that are in the fund and in the mix, and as always, we'll try to take a view of growing certain markets a bit over others; but we would expect the mix to -- at least the markets to remain the same. And then, on Maguire -- Ric, I don't know if you want to --

**Ric Clark** - *Brookfield Office Properties Inc - CEO*

Look, we haven't burned the files on that one yet, but we haven't exactly been active, so I don't know. I do still think that there are synergies between the 2 portfolios, but it's not something that we've been actively engaged in at this point.

**Operator**

Suzanne Kim with Credit Suisse.

**Suzanne Kim** - *Credit Suisse - Analyst*

Hello. I was wondering if you could provide any updates with regards to development potential, particularly in Toronto and London?

**Ric Clark** - *Brookfield Office Properties Inc - CEO*

So, all of those projects -- so we've got several projects that are ready to launch; and the key to launching is going to be finding anchor tenants. And in the case of Toronto, the market is in fantastic shape. It never really took a major hit from the global economic downturn, and the vacancy is a little over 5%, I think, overall. So the market could withstand another new tower, and we've been out actively looking for anchor tenants. It's hard to predict when that will occur; so, but we're on it.

In London, similarly, we have been preparing the site for development. We expect to be done, the demolition of the existing structures by November of this year; and we can deliver a building for a tenant's occupancy in 2016. And the condition of precedent to meeting that time frame is to find an anchor tenant by the middle of next year; and that's where our focus is. It's hard to give guidance on when exactly we're going to launch full scale on these, because it really does depend on getting that anchor tenant. We're not a speculative developer. Once in a while we might do a small building in a market that can withstand small buildings; but these are pretty big buildings that we're talking about.

**Operator**

Looks like we have no further questions at this time.



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**Ric Clark** - Brookfield Office Properties Inc - CEO

That's great. Well, thank you, everyone for joining our call today. Please keep September 26 in mind. We'd love for you to join us. We'll have a lot to talk about, and we look forward to catching up with everyone soon.

**Operator**

Ladies and gentlemen, that does conclude today's conference. We thank you for your participation. Have a great weekend.

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