

BROOKFIELD HOMES CORP

Form 10-K

March 15, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004
Commission File Number: 001-31524

BROOKFIELD HOMES CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

37-1446709
(I.R.S. Employer
Identification No.)

12865 Pointe Del Mar
Suite 200
Del Mar, California
(Address of Principal Executive Offices)

92014
(Zip Code)

(858) 481-8500

(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock

Name of Each Exchange on Which Registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes No

As of June 30, 2004, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$392,896,225 based upon the closing market price on June 30, 2004 of a share of common stock on the New York Stock Exchange.

As of March 1, 2005, the registrant had outstanding 30,860,932 shares of its common stock, \$0.01 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 2005 definitive proxy statement, to be filed with the Commission no later than April 30, 2005, are incorporated by reference into Item 10 (Directors and Executive Officers of the Registrant), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management), Item 13 (Certain Relationships and Related Transactions) and Item 14 (Principal Accounting Fees and Services) of Part III of this annual report on Form 10-K.

PART I

Item 1. Business

Introduction

Brookfield Homes Corporation (Brookfield Homes) is a residential homebuilder and land developer, building homes and developing land in master-planned communities and infill locations (unless the context requires otherwise, references in this report to we, our, us and the Company refer to Brookfield Homes and its subsidiaries). We design, construct and market single-family and multi-family homes primarily to move-up and luxury homebuyers. We also entitle and develop land for our own communities and sell lots to other homebuilders. Our operations are currently focused primarily in five markets: the San Francisco Bay Area; the Southland / Los Angeles Area; San Diego / Riverside; Sacramento; and the Washington D.C. Area. We targeted these markets because we believe they offer strong housing demand, a constrained supply of developable land and close proximity to areas where we expect continued strong employment growth. Our Washington D.C. Area operations commenced in the mid 1980s and our California operations commenced in 1996.

General Development of Our Business

We were incorporated on August 28, 2002 in Delaware as a wholly-owned subsidiary of Brookfield Properties Corporation (Brookfield Properties) in order to acquire all of the California and Washington D.C. Area homebuilding and land development operations of Brookfield Properties pursuant to a reorganization of its residential homebuilding business (which we refer to as the Spin-off). On January 6, 2003, Brookfield Properties completed the Spin-off by distributing all of the issued and outstanding common stock it owned in our Company to its common shareholders. We began trading as a separate company on the New York Stock Exchange on January 7, 2003, under the symbol BHS.

The following chart summarizes our principal operating subsidiaries in the primary markets in which we operate and the year in which we commenced operations:

Market	Year of Entry	Principal Subsidiary
San Francisco Bay Area	1996	Brookfield Bay Area Holdings LLC
Southland / Los Angeles	1996	Brookfield Southland Holdings LLC
San Diego / Riverside	1996	Brookfield San Diego Holdings LLC
Sacramento	2003	Brookfield Sacramento LLC
Washington D.C. Area	1984	Brookfield Washington LLC

We also formed Brookfield California Land Holdings LLC to purchase and acquire options to purchase unentitled land in California, an operation that commenced in 1998.

Overview of the Residential Homebuilding and Land Development Industry

The residential homebuilding and land development industry involves converting raw or undeveloped land into residential housing. This process begins with the purchase of raw land and is followed by the development of the land, and the marketing and sale of homes constructed on the land.

Raw Land

Raw land is usually unentitled property, without the regulatory approvals which allow the construction of residential, industrial, commercial or mixed-use buildings. Acquiring and developing raw land requires significant capital expenditures and has associated carrying costs, including property taxes. The selection and purchase of raw land provides the inventory required for development purposes and is an important aspect of the real estate development process. Developers of land, from time to time, sell raw or partially approved land to other homebuilders and land developers as part of the normal course of their business.

Land Development

Land development involves the conversion of raw land to the stage where homes may be constructed on the land. Regulatory bodies at the municipal, regional and state levels must approve the proposed end use of the land and many of the details of the development process. The time required to obtain the necessary approvals varies. In most jurisdictions, development occurs on a contiguous basis to existing land services such as water and sanitation.

To shorten the development period, many developers purchase land that has been partially developed. This land is generally more expensive than raw land because a portion of the costs and risk associated with the development have been incurred.

Generally, the first significant step in developing a residential community is to complete a draft specific plan incorporating major street patterns and designating parcels of land for various uses, such as parks, schools, rights of way and residential and commercial uses that is consistent with the local city or county general plan. This plan is then submitted for approval to the governmental authority with principal jurisdiction in the area such as a city or county. The draft specific plan is then refined with the local, state and federal agencies designating main and side streets, lot sizes for residential use and the sizes and locations of parcels of land to be used for schools, parks, commercial properties and multi-family dwellings. These refinements are usually made in consultation with local planning officials, state agencies and, if required, federal agencies. In most cases, this process takes several years to complete.

Once the plan has been approved, the developer generally commences negotiations with the local governmental authority on a formal development agreement, which governs the principal aspects of the construction of the community. These negotiations generally involve the review and approval of engineering designs pertaining to various aspects of the development, such as the construction and installation of sewer lines, water mains, utilities, roads and sidewalks. At the same time, the allocation of the costs of these items between the governmental authority and the developer, and the amount of fees which the developer will pay in order to obtain final approval of the plan must be settled.

Upon execution of the development agreement and grading and improvement plans, the developer generally posts a bond with the local governmental authority to secure the developer's obligations and the plan receives final approval. The developer is generally required to convey to the local municipality, for no consideration, the land upon which roads, sidewalks, rights of way and parks are constructed. Land for schools, if any, is sold to the local school district usually at slightly less than its market value. The school district normally takes responsibility to construct the schools with developer fees and local and state bonds. The developer is usually responsible for the grading of the land and the installation of sewers, water mains, utilities, roads and sidewalks, while the municipality is usually responsible for the construction of recreational and community amenities such as libraries and community centers. The municipality funds its portion of these costs through fees charged to the developer in connection with plan approvals and through the collection of property taxes from local residents.

After a period of one to two years, following the completion by the developer of certain obligations under the development agreement, the municipality takes responsibility from the developer for the underground services, roads and sidewalks, and a portion of the improvement bond posted by the developer is released. The developer is generally required to maintain a minimum portion of the bond with the municipality for several years after completion of the community to ensure performance by the developer of its remaining obligations under the development agreement.

Home Construction and Marketing

Residential home construction involves the actual construction of single-family houses and multi-family buildings such as townhouses and condominiums. Each dwelling is generally referred to as a unit. A planned community typically includes a large number of lots on which single-family units will be situated and a smaller number of pads of land which have been designated for the construction of multi-family units, schools, parks and commercial buildings. The approved development plan specifically provides the total number of lots and pads in the project. The construction phase normally involves consulting, architectural, engineering, interior design, merchandising and marketing personnel who assist the homebuilder in planning the project. Residential home construction is usually performed by subcontractors under the supervision of the homebuilder's construction management personnel. Marketing and sales of residential units are conducted by marketing sales staff employed by the homebuilder or by

independent realtors. Pre-selling residential units before the commencement of their construction is a common sales practice that usually involves the creation of model homes or drawings of the proposed homes in a sales location close to or within the project.

Narrative Description of Our Business

We design, construct and market single-family and multi-family homes primarily to move-up and luxury home-buyers. We also develop land for our own communities and sell lots to other homebuilders. In each of our markets, we operate through local business units which are involved in all phases of the planning and building of our master-planned communities and infill developments. These phases include sourcing and evaluating land acquisitions, site

planning, obtaining government entitlements, developing the land, product design, constructing, marketing and selling homes and homebuyer customer service. In the five year period ended December 31, 2004, we closed a total of 7,992 homes. A home is considered closed when title has passed to the homebuyer.

We believe we have developed a reputation for innovative planning of master-planned communities and infill developments. Master-planned communities are new home communities that typically feature community centers, parks, recreational areas, schools and other amenities. Within a master-planned community there may be smaller neighborhoods offering a variety of home styles and price levels from which homebuyers may choose. In an infill development, we construct homes in previously urbanized areas on under-utilized land. In connection with planning and building each of our master-planned communities and infill developments, we consider, among other things, amenities, views, traffic flows, open space, schools and security.

In 2004, we closed a total of 1,798 homes, compared with 1,528 in 2003. The breakdown of our home closings by market in the last three years follows:

<i>(Units)</i>	2004	2003	2002
San Francisco Bay Area	407	275	273
Southland / Los Angeles	437	296	527
San Diego / Riverside	507	452	293
Washington D.C. Area	447	505	461
Total	1,798	1,528	1,554

At December 31, 2004, we had in backlog 33% of our planned 1,875 home closings for 2005 delivery. Backlog represents the number of homes subject to pending sales contracts.

We also sell serviced and unserviced lots to other builders, generally on an opportunistic basis where we can enhance our returns, reduce our risk in a market or re-deploy our capital to an asset providing higher returns. In 2004, we sold 400 lots, the majority of which were bulk sales of raw or undeveloped land in the Washington D.C. Area. In 2003, we sold over 5,000 lots, the majority of which were bulk sales of raw or undeveloped land in southern California.

Our average home price in 2004 was \$650,000, an increase of 21% over 2003. This increase was due to our product mix and continued price appreciation of homes within our projects. The breakdown of the average prices on our home closings in the last three years follows:

	2004		2003		2002	
	Sales	Average Price	Sales	Average Price	Sales	Average Price
	<i>(Millions)</i>		<i>(Millions)</i>		<i>(Millions)</i>	
San Francisco Bay Area	\$ 328	\$ 804,000	\$ 193	\$ 700,000	\$ 167	\$ 612,000
Southland / Los Angeles	391	894,000	258	872,000	330	626,000
San Diego / Riverside	231	456,000	137	303,000	98	334,000
Washington D.C. Area	219	491,000	230	456,000	190	412,000
Total	\$ 1,169	\$ 650,000	\$ 818	\$ 535,000	\$ 785	\$ 505,000

For more detailed financial information with respect to our revenues, earnings and assets, please see the accompanying consolidated financial statements and related notes included elsewhere in this report.

Business Strategy

Our goal is to maximize the total return on our common stockholders' equity over the long term. The key elements of our strategy to achieve this goal are as follows:

Selective Acquisition Policies

We intend to continue to grow by selectively acquiring land that provides us with attractive residential projects that are consistent with our overall strategy and management expertise. We acquire land only if we believe that it will provide us with a minimum return on our invested capital. We also acquire options to purchase land rather than purchasing the land outright, in order to reduce our capital at risk in controlling land. In determining the minimum return we will accept, we take into account the risk inherent in increasing our land inventory and the specific

development project. In making additional land acquisitions in one of our current markets, we also consider our recent financial returns achieved in that market.

In order to expand our market opportunities, we also selectively pursue joint venture projects with landowners, other homebuilders and intermediaries. We are generally active participants in our joint ventures. In certain circumstances, we acquire options to purchase land rather than purchasing the land outright, in order to reduce our capital at risk in controlling land.

Decentralized Operating Structure

We operate our homebuilding business through local business units responsible for projects in their geographic area. Each of our business units has significant experience in the homebuilding industry in the market in which it operates. We believe that in-depth knowledge of a local market enables our business units to better meet the needs of our customers and to more effectively address the issues that arise on each project. Our business units are responsible for all elements of the homebuilding process, including sourcing and evaluating land acquisitions, site planning and entitlements, developing the land, product design, constructing, marketing and selling homes built on the land, customer service and management reporting. Given the nature of their responsibilities, the compensation of each of the management teams in our business units is directly related to its results. Each business unit operates as a fully integrated profit center and the senior management of each business unit is compensated through a combination of base salary and participation in his or her business unit's profits. Furthermore, certain business unit presidents own a minority equity interest in their business unit.

We maintain a small corporate team that sets our strategic goals and overall strategy. The corporate team approves all acquisitions, allocates capital to the business units based on expected returns and levels of risk, establishes succession plans, ensures operations maintain a consistent level of quality, evaluates risk and holds management of the business units accountable for the performance of their business unit.

Proactive Asset Management

Our business generally comprises three stages where we make strategic decisions to deploy capital: entitling the raw land that we control; the development of the land; and the construction of homes on the land. As our assets evolve through these stages, we continually assess our ability to maximize returns on our capital while at the same time minimizing our risks. The decision to advance an asset through each stage of development is based on a number of factors, including the amount of capital to be deployed, the level of incremental returns at each stage and returns on other investment opportunities.

Creating Communities

We seek to acquire land that allows us to create communities that include recreational amenities such as parks, biking and walking trails, efficient traffic flows, schools and public service facilities. We integrate land planning and development with housing product design in order to deliver lifestyle, comfort and value. We cooperate with local and regulatory authorities in order to be responsive to community conditions, and we attempt to balance our goal of maximizing the value of our land with the impact of development on the community and the environment. We encourage our employees to actively participate in local community activities and associations.

Risk Management

We focus on managing risk in each stage of the homebuilding and land development process. In the land acquisition phase, we use options and joint ventures to mitigate the risk that land values will decline due to poor economic or real

estate market conditions, or that we will be unable to obtain approval for development of a proposed community. We attempt to limit development approval risk by conducting significant due diligence before we close land acquisitions. Furthermore, we generally participate in land developments which we believe will allow us to sell our interest or take other protective actions should a downturn in the real estate market occur. We sell lots and parcels when we believe we can redeploy capital to an asset providing higher returns or reduce risk in a market.

When constructing homes, we strive to satisfy our customers and limit our product liability risk by:

selecting carefully the building materials that we use;

emphasizing to our employees and subcontractors that our homes are to be built to meet a high standard of quality and workmanship;

using only insured subcontractors to perform construction activities;

providing on-site quality control; and

providing after-sales service.

Finally, we attempt to limit the risk of overbuilding by matching our construction starts to our sales rates. We generally do not begin selling homes until a significant portion of the homes' construction costs have been established through firm subcontractor bids.

Asset Profile

Our assets are focused on single-family and multi-family homebuilding in the markets in which we operate. They consist primarily of housing and land inventory and investments in housing and land joint ventures. Our total assets excluding cash and cash equivalents as of December 31, 2004 were \$895 million, with \$618 million of these assets located in California and \$277 million in the Washington D.C. Area.

As of December 31, 2004, we controlled 27,966 lots. Controlled lots include those we directly own, our proportionate share of those owned by our joint ventures and those that we have the option to purchase. Our controlled lots provide a strong foundation for our future homebuilding business and visibility on our future cash flow and earnings. Over 90% of our owned lots are entitled and ready for development and our optioned lots are generally unentitled and require various regulatory approvals before development can commence. The number of residential building lots we control in each of our markets as of December 31, 2004 follows:

<i>(Lots)</i>	Owned			Total Lots
	Directly	Joint Ventures	Options	
San Francisco Bay Area	704	709	2,125	3,538
Southland / Los Angeles	330	180	2,713	3,223
San Diego / Riverside	4,865	1,815	2,145	8,825
Sacramento		310	4,210	4,520
Washington D.C. Area	3,182	952	3,726	7,860
Total December 31, 2004	9,081	3,966	14,919	27,966
Total December 31, 2003	7,257	3,748	10,601	21,606

Our housing and land inventory includes homes completed or under construction, developed land and raw land. The book value of our housing and land inventory in each of our primary markets for the last two years follows:

<i>(Book Value, \$ millions)</i>	December 31, 2004	December 31, 2003
San Francisco Bay Area	\$ 115	\$ 165
Southland / Los Angeles	91	118
San Diego / Riverside	274	165
Sacramento	11	4
Washington D.C. Area	189	115
Total	\$ 680	\$ 567

The book value of our investments in housing and land joint ventures as of December 31, 2004 was \$60 million. The total book value of the assets and liabilities of these joint ventures and our share of the equity of the joint ventures as of December 31, 2004 follows:

<i>(Book Value, \$ millions)</i>	December 31, 2004
Assets	\$ 400
Liabilities	\$ 324
Brookfield Homes net investment	\$ 60

Our housing markets continue to exhibit strong economic fundamentals which we believe allows us to participate in a number of projects without undue risk. The following describes our major projects:

Windemere, San Francisco East Bay Area. Windemere is a 5,200 unit master-planned community located on one of the last premier infill tracts of residential housing land in the East Bay area of San Francisco. Windemere was acquired under option in 1998, final approvals were obtained in 2000 and lot sales commenced in 2001. We hold a one-third interest in Windemere, with the other two-thirds owned equally by Centex Corporation and Lennar Corporation. We have no affiliation with Centex Corporation or Lennar Corporation. We directly own 226 lots in Windemere and our share of the remaining joint venture units is 709 lots.

Irvine Ranch and Newport Coast, Orange County. Irvine Ranch and Newport Coast are master-planned communities owned by the Irvine Company. We acquire lots from the Irvine Company on a rolling option basis, and believe we have developed a strong reputation for our homes among upper-end buyers in Orange County, California. We have closed more than 500 homes since 1999, and as of December 31, 2004, we had under contract to purchase or option 256 lots in this area.

Audie Murphy, Riverside County. Audie Murphy Ranch is a 999 acre project in the Menifee Valley in the County of Riverside. We obtained final approvals in 2004 and grading is planned to commence in 2005. We hold a 50% interest in Audie Murphy, with the remaining 50% held by Woodside Homes. We have no affiliation with Woodside Homes.

Calavera Hills, San Diego County. Calavera Hills is an 800 acre property located in the coastal community of Carlsbad. We completed Phase I of the project with the construction of 483 homes. Approvals for Phase II were obtained for 642 homes, grading commenced in 2002 and home closings commenced in 2004. Phase III, planned with 400 units, is currently being processed by the local authorities. We hold a 50% interest in Calavera Hills, with the remaining 50% held by McMillin Companies. We have no affiliation with McMillin Companies.

Sycamore Canyon, San Diego County. Sycamore Canyon is a 2,132 acre project located in San Diego County. The project was acquired under option in 1998, and in 2002, final approvals were obtained and grading of the site commenced. Home closings commenced in 2004. We hold a 50% interest in Sycamore Canyon, with the remaining 50% held by McMillin Companies. We directly own 232 units and our share of the remaining joint venture is 152 units.

Winding Walk, San Diego County. Winding Walk (Otay Ranch Village II) in south San Diego County is a 1,200 acre project. Grading commenced in 2002 on the site, and home closings commenced in 2004. We hold a 50% interest in this project with the remaining 50% held by Shea Homes. We have no affiliation with Shea Homes. We own directly 407 units and our share of the remaining joint venture is 387 units.

Braemar, Washington D.C. Area. Braemar is a master-planned community located in Prince William County that began development in 1994. Since 1999, we have closed over 2,100 homes and lots. As of December 31, 2004, we had 1,324 lots remaining in Braemar and adjacent communities in which we hold a 100% interest.

Property Acquisition and Sale

Before entering into an agreement to purchase land, we complete comparative studies and analyses that assist us in evaluating the acquisition. We manage our risk and attempt to maximize our return on invested capital on land acquisitions by either entering into option agreements or joint venture arrangements. We attempt to limit our development approval risk by conducting significant due diligence before we close land acquisitions. Furthermore, we generally seek to participate in land developments which we believe will allow us to sell our interest or take other protective actions should a downturn in the real estate market occur.

We believe that we own an adequate supply of land in our existing markets to maintain, on average, our operations at their current levels for at least the next seven years. We regularly evaluate our land inventory and strategically sell lots and parcels of land to third parties at various stages of the development process to increase our returns from a project.

Construction and Development

We attempt to match our construction starts to our sales rate. We control our construction starts by constructing and selling homes in phases. Generally, we will not start construction of a phase of homes until sales of homes to be built in the phase have met predetermined targets. The size of these phases depends upon factors such as current sales and

cancellation rates, the type of buyer targeted for a particular project, the time of year and our assessment of prevailing and anticipated economic conditions. We generally do not begin selling homes until a significant portion of the homes construction costs are established through firm subcontractor bids.

We attempt to limit the number of unsold units under construction by limiting the size of each construction phase and closely monitoring sales activity. Building homes of a similar product type in phases also allows us to utilize production techniques that reduce our construction costs. The number of our unsold homes fluctuates depending upon the timing of completion of construction and absorption of home phases. As of December 31, 2004, we had 22 completed and unsold homes, excluding the 36 model homes we currently maintain.

We function as a general contractor, subcontracting the construction activities for our projects. We manage these activities with on-site supervisory employees and informational and management control systems. We engage independent architectural, design, engineering and other consulting firms to assist in project planning. We do not have long-term contractual commitments with our subcontractors, consultants or suppliers of materials, who are generally selected on a competitive bid basis. We employ subcontractors for site improvements and for virtually all of the work involved in the construction of homes. In almost all instances, our subcontractors commit to complete the specified work in accordance with written price schedules. These price schedules normally change to meet fluctuations in labor and material costs. We do not own heavy construction equipment and we have a relatively small labor force used to supervise development and construction, and to perform routine maintenance service and minor amounts of other work. We have generally been able to obtain sufficient materials and subcontractors, even during times of market shortages. We build a home in approximately five to eight months, depending upon the availability of raw materials and supplies, governmental approvals, local labor situation, time of year, design and other factors.

Sales and Marketing

We advertise in local newspapers and magazines and on billboards to assist us in selling our homes. We also utilize direct mailings, special promotional events, illustrated brochures and model homes in our marketing program. The internet has also become an important source of information for our customers. Through the internet, potential buyers are able to search for their home, take a virtual video tour of selected homes, obtain general information about our projects and communicate directly with our personnel.

We sell our homes through our own sales representatives and through independent real estate brokers. Our in-house sales force typically works from sales offices located in model homes close to or in each community. Sales representatives assist potential buyers by providing them with basic floor plans, price information, development and construction timetables, tours of model homes and the selection of options. Sales personnel are licensed by the applicable real estate bodies in their respective markets, are trained by us and generally have had prior experience selling new homes in the local market. Our personnel, along with subcontracted marketing and design consultants, carefully design exteriors and interiors of each home to coincide with the lifestyles of targeted buyers. We use various floor plan types and elevations to provide a more varied street scene and a sense of customization for the buyers.

As of December 31, 2004, we owned 36 model homes, which are not generally available for sale until the final build-out of a project. Generally, two to four different model homes are built and decorated at each project to display design features. Model homes play a key role in helping buyers understand the efficiencies and value provided by each floor plan type. In addition to model homes, customers can gain an understanding of the various design features and options available to them using our design centers. At each design center, customers can meet with a designer and are shown the standard and upgraded selections available to them, including professional interior design furnishings and accessories.

We typically sell homes during construction using sales contracts that include cash deposits by the purchasers. Before entering into sales contracts, we generally pre-qualify our customers. However, purchasers can generally cancel sales contracts if they are unable to sell their existing homes, if they fail to qualify for financing, or under certain other circumstances. Although cancellations can delay the sale of our homes, they have not in the past had a material impact on our operating results because we closely monitor the progress of prospective buyers in obtaining financing. We also monitor and adjust our construction start plans depending on the level of demand for our homes.

Customer Service and Quality Control

We pay particular attention to the product design process and carefully consider quality and choice of materials in order to attempt to eliminate building deficiencies. The quality and workmanship of the trade contractors we employ

is monitored and we make regular inspections to ensure our standards are met.

We staff each business unit with quality control and customer service staff whose role includes providing a positive experience for each customer throughout the pre-sale, sale, building, closing and post-closing periods. These employees are also responsible for providing after-sales customer service. Our quality and service initiatives include taking customers on a comprehensive tour of their home prior to closing and using customer survey results to improve our standards of quality and customer satisfaction.

Mortgage Brokerage Operations

We offer mortgage brokerage services exclusively to our customers in our San Francisco Bay Area, Southland / Los Angeles, San Diego and Washington D.C. Area markets. We have agreements with various lenders to receive a fee on loans made by the lenders to customers we introduce to the lenders. We provide mortgage origination services to our customers in the Washington D.C. Area and do not retain or service the mortgages we originate. We customarily sell all of the loans and loan servicing rights that we originate in the secondary market within a month of origination. For the year ended December 31, 2004, less than 1% of our revenue and less than 1% of our net income was derived from our mortgage operations.

Relationship with Affiliates

We are a residential homebuilder and land developer, building homes and developing land primarily in four markets in California and in the Washington D.C. Area. None of our affiliates, including Brascan and Brookfield Properties, operate in similar businesses in our markets. Nevertheless, there are several agreements among our affiliates to which we are a party or subject. For a description of these agreements refer to Certain Relationships and Related Transactions which is incorporated by reference into Item 13 of this report from our definitive 2005 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2005.

Several of our directors serve as executive officers and directors of our affiliates. For a description of those relationships refer to Certain Relationships and Related Transactions which is incorporated by reference into Item 13 of this report from our definitive 2005 proxy statement which will be filed with the Securities and Exchange Commission not later than April 30, 2005.

Competition

The residential homebuilding industry is highly competitive. We compete against numerous homebuilders and others in the real estate business in and near the areas where our communities are located. Our principal competitors are primarily national public company homebuilders, including Centex Corporation, Lennar Corporation, Pulte Corporation, Standard Pacific Corp. and Toll Brothers, Inc. We may compete for investment opportunities, financing, available land, raw materials and skilled labor with entities that possess greater financial, marketing and other resources than us. Competition may increase the bargaining power of property owners seeking to sell and industry competition may increase if there is future consolidation in the residential homebuilding and land development industry.

Material Contracts

Other than contracts arising in connection with the reorganization and the Spin-off of the residential homebuilding operations of Brookfield Properties, and a deposit facility with a subsidiary of Brascan, we are not party or subject to any material contracts. For a description of the material contracts arising in connection with the reorganization, refer to Certain Relationships and Related Transactions which is incorporated by reference into Item 13 of this report from our definitive 2005 proxy statement which will be filed with the Securities and Exchange Commission not later than April 30, 2005.

Regulation and Environment

We are subject to local and state laws and regulations concerning zoning, design, construction and similar matters, including local regulations which impose restrictive zoning and density requirements in order to limit the number of homes that eventually can be built within the boundaries of a particular area. We are also subject to periodic delays in

our homebuilding projects due to building moratoria. In addition, new development projects may be subject to various assessments for schools, parks, streets and highways and other public improvements, the costs of which can be substantial. When made, these assessments can have a negative impact on our sales by raising the price that homebuyers must pay for our homes.

We are also subject to local, state and federal laws and regulations concerning the protection of the environment. The environmental laws that apply to a given homebuilding site depend upon the site's location, its environmental conditions and the present and former uses of the site and its adjoining properties. Environmental laws and conditions may result in delays, or cause us to incur substantial compliance and other costs, and can prohibit or severely restrict homebuilding activity in environmentally sensitive regions or areas.

We do not currently have any material estimated capital expenditures related to governmental assessments or environmental compliance costs for the remainder of fiscal 2005, fiscal 2006 or fiscal 2007.

In connection with our operations, some of our employees have general contractor and real estate sales licenses, which are subject to governmental regulations. Our employees holding those licenses are currently in material compliance with all applicable regulations.

Seasonality

We have historically experienced variability in our results of operations from quarter to quarter due to the seasonal nature of the homebuilding business and the timing of new community openings and the closing out of projects. We typically experience the highest rate of orders for new homes in the first six months of the calendar year, although the rate of orders for new homes is highly dependent upon the number of active communities. Because new home deliveries trail orders for new homes by several months, we typically deliver a greater percentage of new homes in the second half of the year compared with the first half of the year. As a result, our revenues from sales of homes are generally higher in the second half of the year.

Employees

As of December 31, 2004, we had 589 employees. We consider our relations with our employees to be good. Our construction operations are conducted primarily through independent subcontractors, which limits the number of our employees. None of our employees are currently represented by a union or covered by a collective bargaining agreement. We have not recently experienced any work stoppages.

Available Information

We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports as soon as reasonably practicable after we file such material with, or furnish it to, the SEC. The reports may be accessed by visiting our website at www.brookfieldhomes.com and clicking on the Investor Relations link. We will also provide these reports in paper format to our stockholders free of charge upon request made to our Investor Relations department. Information on our website is not part of this annual report on Form 10-K.

NYSE Annual Disclosure

We confirm that we have submitted a Section 12(a) CEO Certification to the NYSE in 2004 and filed with the SEC the CEO / CFO certification required under Section 302 of the Sarbanes-Oxley Act for the 2004 fiscal year.

Item 2. Properties

In addition to real estate held for development and sale, which we either own or hold under an option to purchase, we lease and maintain executive offices in Del Mar, California. Our Del Mar lease expires in 2007, but we may, at our option, extend the lease for an additional six years.

We also maintain administrative offices in Toronto, Canada. In addition, we have other offices located in the markets in which we conduct business, generally in our communities or in leased space. None of these other office premises are material to our business. We believe that our office space is suitable and adequate for our needs for the foreseeable future.

Item 3. Legal Proceedings

We are party to various legal actions arising in the ordinary course of our business. We believe that none of these actions, either individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange under the symbol BHS, and began regular trading on January 7, 2003. The following table shows high and low sales prices for our common stock, for the periods included, as reported by the NYSE, as adjusted for the \$9.00 per share Special Dividend paid in 2004.

	Year Ended December 31, 2004			Year Ended December 31, 2003		
	High	Low	Cash Dividends Per Share	High	Low	Cash Dividends Per Share
1 st Quarter	\$ 26.71	\$ 14.90		\$ 4.32	\$ 0.22	
2 nd Quarter	\$ 30.91	\$ 21.75	\$ 9.08 ⁽¹⁾	\$ 8.81	\$ 4.10	\$ 0.08
3 rd Quarter	\$ 29.01	\$ 24.87		\$ 9.75	\$ 6.26	
4 th Quarter	\$ 34.66	\$ 24.81	\$ 0.08	\$ 18.25	\$ 9.50	\$ 0.08

(1) \$4.50 was paid in the form of a subordinate note which was redeemed for cash during the fourth quarter of 2004. As of March 1, 2005, there were approximately 959 holders of record of our common stock.

Our board of directors periodically reviews our dividend policy. Future dividends on our common stock, if any, will be at the discretion of our board of directors and will depend upon, among other things, our results of operations, cash requirements and surplus, financial condition, contractual restrictions, investment opportunities and other factors that our board of directors considers relevant.

There are no current or anticipated contractual terms in our credit or other arrangements that restrict our ability to pay dividends, other than the requirements imposed by our project specific financings that require Brookfield Homes Holdings Inc., our wholly-owned subsidiary, maintain a tangible net worth of at least \$250 million, and the additional requirements of our project specific financings that Brookfield Homes Holdings Inc. maintain a net debt to tangible net worth ratio of 1.75 to 1 and a net debt to capitalization ratio of no greater than 65%. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Other Commitments for additional information about these and other restrictions.

In February 2003, our board of directors approved and announced our share repurchase program which allows us to repurchase up to \$40 million of our outstanding common shares. This program does not have an expiration date.

	Total	Average	Total Number of Shares Purchased as Part of Publicly	Maximum Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or
	Number of Shares	Price		

Period	Purchased	Paid Per Share	Announced Plans or Programs		Programs
October 1, 2004 – October 31, 2004 ⁽¹⁾	20,000	\$ 25.77	20,000	\$	16,367,968
November 1, 2004 – November 30, 2004				\$	16,367,968
December 1, 2004 – December 31, 2004				\$	16,367,968
Total	20,000	\$ 25.77	20,000	\$	16,367,968

(1) All shares were purchased pursuant to the publicly announced plan in open-market transactions. Subsequent to December 31, 2004, our board of directors approved an increase in the share repurchase program from \$16 million to an aggregate of \$35 million.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes our equity compensation plans as of December 31, 2004:

	(a)	(b)	(c)
	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders	756,625	\$ 3.83	1,158,375
Equity compensation plans not approved by stockholders		n/a	
Total	756,625	\$ 3.83	1,158,375

Item 6. Selected Financial Data

The following tables include selected historical consolidated financial data for each year in the five year period ended December 31, 2004.

This selected financial data should be read along with Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited historical consolidated financial statements and the related notes included elsewhere in this report.

The historical financial data for all periods presented prior to 2003 relates to our business as it was operated by Brookfield Properties prior to the Spin-off, and therefore some of our expenses are based upon allocations made by Brookfield Properties. For example, allocations were made with respect to personnel, space, estimates of time spent to provide services and other appropriate costs. We believe the allocations were made on a reasonable basis and that no material change to our costs would be expected had our business been operated as a stand-alone entity.

United States GAAP

Our income statement data, balance sheet data and supplementary financial data prepared in accordance with U.S. GAAP and our operating data are as follows:

	Years Ended December 31				
<i>Income Statement Data</i>	2004	2003	2002	2001	2000
<i>(\$ millions, except per share amounts)</i>					
Housing revenue	\$ 1,169	\$ 818	\$ 785	\$ 729	\$ 590
Total revenue ⁽¹⁾	1,232	1,001	831	790	666
Gross margin ^{(1) (2)}	287	211	131	119	93
Operating income ⁽³⁾	268	166	81	72	52
Contribution from bulk land sales to net income ⁽⁴⁾	9	39		2	
Net income	146	88	43	40	29
Diluted earnings per share ⁽⁵⁾	4.64	2.75	1.35	1.23	0.99
Cash dividends per share ⁽⁶⁾	9.16	0.16	0.52		
	At December 31				
<i>Balance Sheet Data (\$ millions)</i>	2004	2003	2002	2001	2000
Housing and land inventory	\$ 680	\$ 567	\$ 616	\$ 633	\$ 547
Cash and cash equivalents	187	219	36	1	8
Total assets	1,082	1,013	844	851	762
Total debt	512	426	424	499	472
Total liabilities	836	631	523	564	551
Total stockholders' equity	246	382	321	287	211
	Years Ended December 31				
<i>Supplemental Financial Data (\$ millions)</i>	2004	2003	2002	2001	2000
Cash provided by/(used in):					
Operating activities	\$ 164	\$ 209	\$ 102	\$ (32)	\$ 99
Investment activities	25	6	24		(51)
Financing activities	(221)	(32)	(91)	25	(42)
Net debt to total capitalization % ⁽⁷⁾	51%	32%	53%	62%	68%

<i>Operating Data (Unaudited)</i>	Years Ended December 31				
	2004	2003	2002	2001	2000
Home closings (units)	1,798	1,528	1,554	1,645	1,467
Net new orders (units) ⁽⁸⁾	1,765	1,710	1,580	1,531	1,581
Backlog (units at end of period) ⁽⁹⁾	616	649	467	441	555
Average selling price	\$ 650,000	\$ 535,000	\$ 505,000	\$ 443,000	\$ 402,000
Lots controlled	27,966	21,606	22,128	16,947	17,280

- (1) To conform to the current year presentation, for years prior to 2004, revenue excludes equity in earnings from housing and land joint ventures and gross margin excludes equity in earnings from housing and land joint ventures and includes interest expense.
- (2) Gross margin represents the contribution from our housing and land projects, after all costs for development and construction, including related overhead, and before all selling, general and administrative expense, interest expense and minority interest.
- (3) Operating income represents net income before minority interest and income taxes.
- (4) Contribution from bulk land sales to net income represents income from sales of owned parcels of undeveloped land.
- (5) Earnings per share prior to September 30, 2002 has been calculated based on the weighted average number of Brookfield Properties common shares outstanding during each respective period, adjusted on the basis of one of our common shares for every five common shares of Brookfield Properties. For the periods after October 1, 2002, earnings per share has been calculated based on the weighted average number of shares of Brookfield Homes outstanding.
- (6) The 2004 cash dividend includes a special dividend of \$9 per share.
- (7) Net debt to total capitalization % is defined as total project specific financings plus subordinated debt less cash (net debt) multiplied by 100 and divided by net debt plus stockholders' equity plus minority interest (total capitalization).
- (8) Net new orders for any period represents the aggregate of all homes ordered by customers, net of cancellations.
- (9) Backlog represents the number of new homes subject to pending sales contracts.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read along with Selected Financial Data and our consolidated financial statements and the related notes included elsewhere in this report. This discussion includes forward-looking statements that reflect our current views with respect to future events and financial performance and that involve risks and uncertainties. Our actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of certain factors including risks discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors included elsewhere in this report.

Overview

We design, construct and market single-family and multi-family homes primarily to move-up and luxury homebuyers and develop land for sale to other homebuilders. Our operations are currently focused primarily in five markets: San Francisco Bay Area; Southland/Los Angeles; San Diego/Riverside; Sacramento; and the Washington D.C. Area.

Our goal is to maximize the total return on our common stockholders' equity over the long term. In 2004, we earned a 38% return on opening common stockholders' equity.

The 27,966 lots that we control, 13,047 of which we own directly or through joint ventures, provide a strong foundation for our future homebuilding business and visibility on our future cash flow and earnings. The lots we own directly or through joint ventures represent approximately a seven year lot supply, based on 2005 planned home closings of 1,875.

Homebuilding is our primary source of revenue and has represented over 90% of our total revenue since 2000. Our operations are positioned to close annually between 1,700 and 2,000 homes. Operating in markets with higher price points and catering to move-up and luxury buyers, our average sales price in 2004 of \$650,000 was well in excess of the national average sales price of approximately \$273,000. We also sell serviced and unserviced lots to other homebuilders generally on an opportunistic basis where we can redeploy capital to an asset providing higher returns or reduce risk in a market. In 2004, we sold 400 lots, the majority of which were bulk sales of raw or undeveloped land in the Washington D.C. Area.

In addition to our housing and land inventory and investments in housing and land joint ventures, which together comprised 73% of our total assets as of December 31, 2004, we had \$187 million in cash and cash equivalents and \$108 million in other assets. Other assets consist of homebuyer receivables of \$24 million, deferred taxes of \$34 million, and mortgages and other receivables of \$50 million. Homebuyer receivables consist primarily of proceeds due from homebuyers on the closing of homes. Our mortgages receivable and other receivables relate primarily to land assets we have sold or on which we have granted options to purchase.

Since 2000, our revenues and net income have grown at compounded annual growth rates of 17% and 50%, respectively. Over the same period, we generated over \$500 million in operating cash flow that was used mainly to return cash to shareholders. At the same time, we believe we have positioned our business for future growth through the selective optioning or acquisition of a significant number of large projects and our overall level of lots controlled. Our recent growth is primarily the result of strong economic fundamentals in the markets in which we operate, our success in acquiring strategic parcels of land and in controlling costs at all levels of our operation.

Results of Operations

<i>Selected Financial Information (\$ millions)</i>	Years Ended December 31		
	2004	2003	2002
Revenue:			
Housing	\$ 1,169	\$ 818	\$ 785
Land and other revenues	63	183	46
Total revenues ⁽¹⁾	1,232	1,001	831
Direct cost of sales ⁽¹⁾	(945)	(790)	(700)
Gross margin ⁽¹⁾	287	211	131
Equity in earnings from housing and land joint ventures	61	22	11
Selling, general and administrative expense	(80)	(67)	(61)
Operating income	268	166	81
Minority interest	(28)	(19)	(9)
Net income before taxes	240	147	72
Income tax expense	(94)	(59)	(29)
Net income	\$ 146	\$ 88	\$ 43

<i>Selected Operating Data</i>	Years Ended December 31		
	2004	2003	2002
Home closings (units):			
San Francisco Bay Area	407	275	273
Southland / Los Angeles	437	296	527
San Diego / Riverside	507	452	293
Washington D.C. Area	447	505	461
Total	1,798	1,528	1,554
Average selling price:			
San Francisco Bay Area	\$ 804,000	\$ 700,000	\$ 612,000
Southland / Los Angeles	894,000	872,000	626,000
San Diego / Riverside	456,000	303,000	334,000
Washington D.C. Area	491,000	456,000	412,000
Average	\$ 650,000	\$ 535,000	\$ 505,000
Net new orders (units): ⁽²⁾			
San Francisco Bay Area	348	342	284
Southland / Los Angeles	338	358	440
San Diego / Riverside	674	447	329
Washington D.C. Area	405	563	527

Total	1,765	1,710	1,580
Backlog (units at end of year): ⁽³⁾			
San Francisco Bay Area	54	113	46
Southland / Los Angeles	86	185	123
San Diego / Riverside	281	114	119
Washington D.C. Area	195	237	179
Total	616	649	467
Lots controlled:			
Lots owned:			
San Francisco	1,413	1,928	2,051
Southland / Los Angeles	510	404	697
San Diego / Riverside	6,680	6,282	7,054
Sacramento	310	310	
Washington D.C. Area	4,134	2,081	1,937
	13,047	11,005	11,739
Lots under option	14,919	10,601	10,389
Total	27,966	21,606	22,128

(1) To conform to the current year's presentation, for years prior to 2004, revenue excludes equity in earnings from housing and land joint ventures and gross margin excludes equity in earnings from housing and land joint ventures and includes interest expense.

(2) Net new orders for any period represent the aggregate of all homes ordered by customers, net of cancellations for consolidated projects.

(3) Backlog represents the number of new homes subject to pending sales contracts for consolidated projects.

Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

Net Income

Net income for the year ended December 31, 2004 was \$146 million, an increase of \$58 million over the year ended December 31, 2003. Our increase in net income in 2004 was primarily attributable to house price appreciation as a result of continued strong market conditions in all our markets. In addition, we increased our number of homes closed by 18% and the contribution to net income from our joint ventures increased by \$24 million, partially offset by lower net income from fewer bulk lot sales of \$30 million.

Results of Operations

Housing revenues were \$1,169 million in 2004, an increase of \$351 million or 43% over 2003. The increase in housing revenue was primarily a result of strong market conditions, particularly in our California markets where our homes closed increased by 328 units or 32% and our average selling price increased to \$703,000, an increase of 22%.

The gross margin on housing revenues in 2004 was \$258 million or 22.1% compared with \$144 million or 17.6% in 2003. The increase in gross margin is primarily attributable to house price appreciation in all our markets and an increase of 18% in the number of homes closed.

Land and other revenues totaled \$63 million in 2004 compared with \$183 million in 2003. The gross margin on land and other revenues in 2004 was \$28 million or 45.2% compared with \$66 million or 36.1% in 2003. The contribution from land sales may vary significantly from period to period due to the timing and nature of land sales as they generally occur on an opportunistic basis.

Equity in earnings from housing and land joint ventures increased to \$61 million, an increase of \$39 million over 2003. The increase was primarily attributable to our Windemere joint venture in the San Francisco Bay Area where single family lot sales increased 69%.

Other Expenses

Selling, general and administrative expense was \$80 million in 2004 compared with \$67 million in 2003. The increase in 2004 was primarily a result of an increase in stock compensation expense of \$14 million over 2003. Excluding stock compensation expense, selling, general and administrative expense as a percentage of housing revenue was 4.9% in 2004 compared to 7.2% in 2003. The improvement in this percentage is a result of our ongoing focus to control corporate overhead costs and increased sales absorptions have assisted us in controlling sales and marketing costs.

Sales Activity

Net new orders were 1,765 units in 2004, an increase of 55 units over 2003. The increase was primarily a result of continued strong market conditions in all our markets and a number of successful new project openings in San Diego offset by a delay in new project openings in the Washington D.C. Area. Our backlog of sales at December 31, 2004 was 616 units compared to 649 units last year. The decrease in backlog is primarily a result of fewer homes available for sale within communities nearing build-out in the San Francisco Bay Area and Southland / Los Angeles.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

Net Income

Net income for the year ended December 31, 2003 was \$88 million, an increase of \$45 million over the year ended December 31, 2002. Our increase in earnings was primarily a result of the bulk sale of 4,700 lots in southern California which contributed net income of \$39 million compared to nil in 2002. Excluding the bulk sale of lots, our earnings from core operations increased to \$49 million from \$43 million, an increase of 14%. The increase was primarily a result of strong market conditions in all our markets.

Results of Operations

Housing revenues were \$818 million in 2003, an increase of \$33 million or 4% over 2002. The increase was principally a result of a 6% increase in the average selling price from home closings, offset by 26 fewer home closings than 2002. The higher average selling price from home closings in 2003 was a result of product mix and price appreciation in the markets in which we operate. The decrease in home closings was largely the result of fewer active projects in our Southland / Los Angeles operation. The gross margin on housing revenues in 2003 was \$144 million or 17.6% compared with \$124 million or 15.8% in 2002.

Land and other revenues totaled \$183 million in 2003, compared with \$46 million in 2002. The increase was primarily a result of the bulk sale of lots in southern California generating revenue of \$150 million. Our land revenues may vary significantly from period to period as the timing and the nature of bulk lot sales generally occur on an opportunistic basis.

The gross margin on land and other revenues in 2003 was \$66 million or 36.1%, compared with \$7 million or 15.0% in 2002. The increase was a result of strong market conditions in southern California, the area where the majority of this revenue was generated.

Equity in earnings from housing and land joint ventures increased to \$22 million in 2003, an increase of \$11 million over 2002. The increase was primarily a result of a bulk land sale of 99 lots in southern California held in a joint venture, which contributed earnings of \$7 million.

Other Expenses

Selling, general and administrative expense was \$67 million in 2003, an increase of \$6 million or 10% over 2002. This increase was primarily a result of additional active projects and an increase in stock compensation expense of \$7 million over 2002. Selling, general and administrative expense as a percentage of housing revenue was 8.1% in 2003 compared to 7.7% in 2002.

Sales Activity

Net new orders were 1,710 units in 2003, an increase of 130 units over 2002. The increase was primarily a result of additional active projects and continued strong market conditions in all our markets.

Liquidity and Capital Resources

Financial Position

Our total assets as of December 31, 2004 were \$1,082 million, compared to \$1,013 million as of December 31, 2003, an increase of \$69 million. The increase in 2004 was primarily a result of an increase in housing and land inventory of \$113 million partially offset by a decrease of \$32 million in cash and cash equivalents. The increase in housing and land assets is mainly due to the acquisition of over 2,200 lots in our Washington D.C. Area market for a purchase price of \$87 million.

Our total debt as of December 31, 2004 was \$512 million, an increase of \$86 million over December 31, 2003. Total debt as of December 31, 2004 consisted mainly of project specific financings of \$462 million which represent construction and development loans that are repaid from home and lot sales proceeds. As new homes are constructed, further loan facilities are arranged on a rolling basis. Our major project specific lenders are Bank of America, Housing Capital Corporation and Wells Fargo. Other debt includes deferred compensation of \$38 million on which interest is

paid at prime, and loans outstanding relating to mortgages we originated totaling \$12 million, which are repaid when the underlying mortgages are sold to permanent lenders. As of December 31, 2004, the average interest rate on our debt was 5.7% with maturities as follows:

(\$ millions)	Maturities				Total
	2005	2006	2007	Post 2007	
San Francisco Bay Area	\$ 74	\$	\$	\$	\$ 74
Southland / Los Angeles	51	17			68
San Diego / Riverside	131	81			212
Washington D.C. Area	32	5	50	21	108
Other	12	19	12	7	50
Total	\$ 300	\$ 122	\$ 62	\$ 28	\$ 512

Cash Flow

Our principal uses of working capital include purchases of land, land development and home construction. Cash flows for each of our communities depend upon the applicable stage of the development cycle and can differ substantially from reported earnings. Early stages of development require significant cash outlays for land acquisitions, site approvals and entitlements, construction of model homes, roads, certain utilities and other amenities and general landscaping. Because these costs are capitalized, income reported for financial statement purposes during such early stages may significantly exceed cash flow. Later, cash flow can significantly exceed earnings reported for financial statement purposes, as cost of sales includes charges for substantial amounts of previously expended costs. A summary of our lots owned and their stage of development at December 31, 2004 compared with the same period last year follows:

	2004	2003
Housing units started and model homes	498	477
Lots ready for house construction	1,183	1,027
Graded lots and lots commenced grading	1,391	1,506
Undeveloped land	9,975	7,995
	13,047	11,005

Cash provided by our operating activities totaled \$164 million for the year ended December 31, 2004, compared with \$209 million in 2003. The decrease in cash generated was primarily the result of fewer lot sales in 2004, an increase in lots purchased, particularly in our Washington D.C. Area market, partially offset by increased net income and accounts payable.

Cash provided by our investing activities in joint ventures for the year ended December 31, 2004 was \$25 million, compared with \$6 million in 2003. The increase in cash generated was primarily a result of distributions of capital at our Windemere joint venture in the San Francisco Bay Area.

Cash used in our financing activities for the year ended December 31, 2004 was \$221 million, compared with \$32 million in 2003. Our use of cash in 2004 related primarily to common share dividends of \$283 million, including a special dividend of \$278 million of which \$141 million was paid in cash and \$137 million was paid in the form of a subordinated note which was redeemed in 2004.

Deferred Tax

Our company was formed in the course of a reorganization in 2002 by Brookfield Properties of its United States homebuilding operations and was withdrawn from the Brookfield Properties consolidated tax group. The tax provisions that apply in connection with the reorganization, including the departure of a member from a consolidated group, are detailed and complex and are therefore subject to uncertainty. Our accounts payable and other liabilities include \$25 million related to the uncertainties in tax attributes which were recorded when we left the Brookfield Properties consolidated tax group with \$115 million of net operating losses. For example, if the Brookfield Properties consolidated group of companies was reassessed for taxation years prior to 2003, this would have a direct impact on the net operating losses available to the Company on the Spin-off. There is also a \$17 million liability included in accounts payable and other liabilities and a \$6 million valuation allowance in deferred taxes that relates to the tax cost of properties in excess of the fair value of properties at the time of reorganization of the Company which may not be realized. The exact amount of these tax liabilities will be determined at the earlier of review of the Spin-off transaction

by taxation authorities or 2007. A further liability of \$4 million has been recorded in respect of tax positions taken. We believe we have been prudent and reasonable to provide for any reduction in our net operating losses or loss of tax basis in properties.

Contractual Obligations and Other Commitments

We generally fund the development of our communities through the use of project specific financings. As of December 31, 2004, we had available project specific debt lines of \$222 million that were available to complete land development and construction activities. As of December 31, 2004, we also had available cash and cash equivalents of \$187 million.

A total of \$422 million of our project specific and other financings mature prior to the end of 2006. Our high level of debt maturities in 2005 and 2006 are due to our expected project completions over this period. Although the level of our maturing debt is high, we expect to generate cash flow from our assets in 2005 and 2006 to repay these obligations. Our net debt to total capitalization ratio as of December 31, 2004, which is defined as total

interest-bearing debt less cash divided by total interest-bearing debt less cash plus stockholders' equity and minority interest, was 51%, an increase from 32% as of December 31, 2003. The increase in this ratio is a result of paying a special dividend in 2004 of \$278 million. For a description of the specific risks facing us if, for any reason, we are unable to meet these obligations, refer to the section of this Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors - Our Debt and Leverage Could Adversely Affect Our Financial Condition."

In connection with our project specific financings, Brookfield Homes Holdings Inc., a wholly-owned subsidiary, is required to maintain a tangible net worth of at least \$250 million. In addition, our project specific financings require Brookfield Homes Holdings Inc. to maintain a net debt to capitalization ratio of no greater than 65% and a debt to tangible net worth ratio of no greater than 1.75 to 1.

A summary of our contractual obligations as of December 31, 2004 follows:

	Total	Payment Due by Period			More than 5 Years
		Less than 1 Year	1-3 Years	3-5 Years	
Project specific and other financings ^(a)	512	300	212		
Operating lease obligations ^(b)	9	3	5	1	
Purchase obligations ^(c)	675	120	364	191	
Total	1,196	423	581	192	

(a) Amounts are included on the Consolidated Balance Sheets. See Note 4 of the Notes to the Consolidated Financial Statements for additional information regarding project specific and other financings and related matters.

(b) Amounts relate to multiple non-cancelable operating leases involving office space, design centers and model homes.

(c) Amounts are included in the Notes to the Consolidated Financial Statements. See Note 2 for additional information regarding purchase obligations and related matters.

Off-Balance Sheet Arrangements

In the ordinary course of business, we use lot option contracts and joint ventures to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time, until options expire and/or we are ready to develop the land to construct homes or sell the land. This reduces our financial risk associated with land holdings. As of December 31, 2004, we had \$41 million of primarily non-refundable option deposits and advanced costs. The total exercise price of these options was \$675 million. Pursuant to FIN 46R, as defined elsewhere in this Form 10-K, we have consolidated \$47 million of these option contracts. Please see Note 2 to our consolidated financial statements included elsewhere in this Form 10-K for additional information on our lot options.

We also control 3,966 lots through joint ventures. As of December 31, 2004, our investment in housing and land joint ventures was \$60 million. We have provided varying levels of guarantees of debt in our joint ventures. As of December 31, 2004, we had recourse guarantees of \$13 million and limited maintenance guarantees of \$64 million with respect to debt in our joint ventures.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of December 31, 2004, we had \$20 million in letters of credit outstanding and \$305 million in performance bonds for these purposes. We do not believe that any of these letters of credit or bonds are likely to be drawn upon.

Stock Repurchase Program

In February 2003, our board of directors approved a share repurchase program which allows us to repurchase up to \$40 million of Brookfield Homes' outstanding common shares. During the year ended December 31, 2004, we had repurchased 76,400 of our shares at an average cost of \$25.42 per share. During the year ended December 31, 2003, we repurchased 1,192,749 of our shares at an average cost of \$18.19 per share. At December 31, 2004, the remaining amount approved for repurchases is \$16 million. Subsequent to December 31, 2004, our board of directors approved an increase in our share repurchase program from \$16 million to \$35 million.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon the consolidated financial statements of our Company, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

Our most critical accounting policies are those that we believe are the most important in portraying our financial condition and results of operations, and require the most subjectivity and estimates by our management. A summary of our significant accounting policies, including the critical accounting policies discussed below, is provided in the notes to the consolidated financial statements of our Company included elsewhere in this Form 10-K.

Capitalized Costs

Our housing and land inventory on our consolidated balance sheet includes the costs of acquiring land, development and construction costs, interest, property taxes and overhead directly related to the development of the land and housing. Direct costs are capitalized to individual homes and lots and other costs are allocated to each lot in proportion to our anticipated revenue.

Estimates of costs to complete homes and lots sold are recorded at the time of closing. These estimates are prepared on an individual home and lot basis and take into account the specific cost components of each individual home and lot. The estimation process to allocate costs to homes and lots is dependent on project budgets that are based on various assumptions, including construction schedules and future costs to be incurred. These estimates are reviewed for accuracy based on actual payments made after closing and adjustments are made if necessary. If the estimates of costs are significantly different from our actual results, our housing and land inventory may be over- or under-stated on our balance sheet, and accordingly gross margins in a particular period may be over- or under-stated.

Carrying Values

Housing and land assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at this amount, we estimate the cash flow for the life of each project. These projections take into account the specific business plans for each project, and our estimate of the most probable set of economic conditions anticipated to prevail in the market area. If these assets are considered to be impaired, they are then written down to the fair value less estimated selling costs. The ultimate fair values for our housing and land inventory are dependent upon future market and economic conditions. If our estimate of the future cash flows is significantly different from our actual cash flows, we may prematurely impair the value of the asset, we may underestimate the value of the calculated impairment or we may fail to record an impairment. In these cases, our housing and land inventory would be represented on our balance sheet at other than its cost or fair value, which could have an effect on our gross margin in future periods as we develop and sell the assets.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. SFAS No. 123(R) establishes accounting standards for transactions in which a company exchanges its equity instruments for goods or services. In particular, this Statement would require companies to record compensation expense for all share-based payments, such as employee stock options, at fair market value. This Statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. We are currently reviewing the effect of this Statement on our consolidated financial statements.

In December 2003, the FASB issued revised Interpretation 46 (FIN 46R), Consolidation of Variable Interest Entities (VIEs), an Interpretation of Accounting Research Bulletin 51, Consolidated Financial Statements, and replaces the previous version of FASB Interpretation 46 issued in January, 2003 (FIN 46). This interpretation applied immediately to variable interest entities created after January 31, 2003. A company that holds a variable interest in a VIE it acquired before February 1, 2003 shall apply the provision of this interpretation no later than the

first fiscal year or interim period beginning after March 15, 2004 unless those entities are considered to be special purpose entities in which the application is to be no later than the end of the first reporting period that ends after December 15, 2003. This interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. We applied the provision of this new pronouncement effective January 1, 2003 but did not restate any previously issued financial statements.

The decision whether to consolidate a VIE begins with establishing that a VIE exists. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investor lacks one of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights, the obligation to absorb the expected losses of an entity, and the right to receive the expected residual returns. The entity with the majority of the expected losses or expected residual return is considered to be the primary beneficiary of the entity and is required to consolidate such entity.

We have determined that we are the primary beneficiary of certain VIEs which are presented in our consolidated financial statements under the item Consolidated land inventory not owned, with the interest of others included in Minority interest. See Notes 2 and 3 of our consolidated financial statements included elsewhere in this Form 10-K for further discussion on the consolidation of land options contracts and joint ventures.

Seasonality and Quarterly Information

We have historically experienced variability in results of operations from quarter to quarter due to the seasonal nature of the homebuilding business and the timing of new community openings and the closing out of projects. We typically experience the highest rate of orders for new homes in the first six months of the calendar year. New home deliveries trail new home orders by several months, therefore we normally have a greater percentage of new home deliveries in the second half of our fiscal year. As a result, our revenues from deliveries of homes are generally higher in the second half of the year.

The following table presents a summary of our operating results for each of the last eight quarters:

	December 31		September 30		June 30		March 31	
<i>(\$ millions, except home closings and per share amounts)</i>	2004	2003	2004	2003	2004	2003	2004	2003
Total revenue	\$ 547	\$ 383	\$ 313	\$ 286	\$ 229	\$ 190	\$ 143	\$ 142
Gross margin	138	78	68	71	48	29	33	33
Contribution from bulk land sales to net income	9	14		11		4		10
Net income	89	33	29	28	18	12	10	15
Diluted earnings per share	2.83	1.06	0.94	0.87	0.56	0.37	0.31	0.45
Home closings (units)	726	585	496	460	332	324	244	159
Total assets	1,082	1,013	1,021	877	969	845	1,067	855
Total debt	512	426	616	387	621	392	457	425

Non-Arms Length Transactions

We have entered into a license agreement with Brookfield Properties (US) Inc., an indirect wholly-owned subsidiary of Brookfield Properties, for the right to use the names Brookfield and Brookfield Homes. Brookfield Homes Holdings Inc., our wholly-owned subsidiary, has entered into an agreement with Brookfield Properties (US) Inc. with respect to shared services. In addition, we have entered into an agreement with a subsidiary of Brascan, our largest stockholder under which we can deposit cash on a demand basis to earn LIBOR plus 50 basis points. At December 31, 2004, the amount on deposit was \$125 million. For details of these arrangements and other non-arms length transactions refer to Certain Relationships and Related Transactions, which is incorporated by reference into Item 13 of this report from our definitive 2005 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2005.

Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements within the meaning of the United States federal securities laws. The words may, believe, will, anticipate, expect, planned, estimate, project, future, and other expressions which are predictions of or indicate future events and trends and which do not relate

to historical matters identify forward-looking statements. The forward-looking statements in this annual report on Form 10-K include, among others, statements with respect to:

planned home closings, deliveries and lot sales (and the timing thereof);

sources of and strategies for future growth;

lot supply;

visibility of cash flow and earnings;

financing sources;

expectations of future cash flow;

valuation allowance;

the effect of interest rate changes;

strategic goals;

the effect on our business of existing lawsuits;

the adequacy of our land supply;

whether or not our letters of credit or performance bonds will be drawn upon;

acquisition strategies;

capital expenditures; and

the time of which construction and sales begin on a project.

Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results to differ materially from the anticipated future results expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forward in the forward-looking statements include, but are not limited to:

changes in general economic, real estate and other conditions;

mortgage rate changes;

availability of suitable undeveloped land at acceptable prices;

adverse legislation or regulation;

ability to obtain necessary permits and approvals for the development of our land;

availability of labor or materials or increases in their costs;

ability to develop and market our master-planned communities successfully;

confidence levels of consumers;

ability to raise capital on favorable terms;

adverse weather conditions and natural disasters;

relations with the residents of our communities;

risks associated with increased insurance costs or unavailability of adequate coverage;

ability to obtain surety bonds;

competitive conditions in the homebuilding industry, including product and pricing pressures; and

additional risks and uncertainties, many of which are beyond our control, referred to in this Form 10-K and our other SEC filings.

Except as required by law, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted.

Risk Factors

This section describes the material risks associated with an investment in our common stock. Stockholders should carefully consider each of the risks described below and all of the other information in this Form 10-K. If any of the following risks occurs, our business, prospects, financial condition, results of operations or cash flow could be materially and adversely affected. In such an event, the trading price of shares of our common stock could decline substantially, and stockholders may lose all or part of the value of their shares of our common stock.

Our business and results of operations will be materially and adversely affected by weakness in general economic, real estate and other conditions.

The residential homebuilding and land development industry is cyclical and is significantly affected by changes in general and local economic conditions, such as employment levels, availability of financing for homebuyers, interest rates, consumer confidence and housing demand. In addition, significant supply of alternatives to new homes, such as rental properties and used homes, may depress prices and reduce margins for the sale of new homes. Homebuilders are also subject to risks related to the availability and cost of materials and labor, and adverse weather

conditions that can cause delays in construction schedules and cost overruns. Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by us can fluctuate significantly as a result of changing economic and real estate market conditions. If there are significant adverse changes in economic or real estate market conditions, we will have to sell homes at a loss or hold land in inventory longer than planned. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. We may be particularly affected by changes in local market conditions in California, where we derive a large proportion of our revenue.

Rising mortgage rates will discourage people from buying new homes.

Virtually all of our customers finance their home acquisitions through lenders providing mortgage financing. Mortgage rates are currently at or near their lowest levels in many years. Increases in mortgage rates or decreases in the availability of mortgage financing could depress the market for new homes because of the increased monthly mortgage costs to potential homebuyers. Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their homes to potential buyers who need financing, which would result in reduced demand for new homes. As a result, rising mortgage rates could adversely affect our ability to sell new homes and the price at which we can sell them.

Laws and regulations related to property development and related to the environment subject us to additional costs and delays which adversely affect our business and results of operations.

We must comply with extensive and complex regulations affecting the homebuilding and land development process. These regulations impose on us additional costs and delays, which adversely affect our business and results of operations. In particular, we are required to obtain the approval of numerous governmental authorities regulating matters such as permitted land uses, levels of density, the installation of utility services, zoning and building standards. We must also comply with a variety of local, state and federal laws and regulations concerning the protection of health and the environment, including with respect to hazardous or toxic substances. These environmental laws sometimes result in delays, cause us to incur additional costs, or severely restrict land development and homebuilding activity in environmentally sensitive regions or areas.

If we are not able to develop and market our master-planned communities successfully, our business and results of operations will be adversely affected.

Before a master-planned community generates any revenues, material expenditures are incurred to acquire land, obtain development approvals and construct significant portions of project infrastructure, amenities, model homes and sales facilities. It generally takes several years for a master-planned community development to achieve cumulative positive cash flow. If we are unable to develop and market our master-planned communities successfully and to generate positive cash flows from these operations in a timely manner, it will have a material adverse effect on our business and results of operations.

Difficulty in retaining qualified trades workers, or obtaining required materials and supplies, will adversely affect our business and results of operations.

The homebuilding industry has from time to time experienced significant difficulties in the supply of materials and services, including with respect to: shortages of qualified trades people; labor disputes; shortages of building materials; unforeseen environmental and engineering problems; and increases in the cost of certain materials (particularly increases in the price of lumber, wall board and cement, which are significant components of home construction costs). When any of these difficulties occur, it causes delays and increases the cost of constructing our homes.

We sometimes face liabilities when we act as a general contractor, and we are sometimes responsible for losses when we hire general contractors.

Where we act as the general contractor, we are responsible for the performance of the entire contract, including work assigned to subcontractors. Claims may be asserted against us for construction defects, personal injury or property damage caused by the subcontractors, and if successful these claims give rise to liability. Where we hire general contractors, if there are unforeseen events like the bankruptcy of, or an uninsured or under-insured loss claimed against our general contractors, we sometimes become responsible for the losses or other obligations of the general contractors.

If we are not able to raise capital on favorable terms, our business and results of operations will be adversely affected.

We operate in a capital intensive industry and require significant capital expenditures to maintain our competitive position. The failure to secure additional debt or equity financing or the failure to do so on favorable terms will limit our ability to grow our business, which in turn will adversely affect our business and results of operations. We expect to make significant capital expenditures in the future to enhance and maintain the operations of our properties and to expand and develop our real estate inventory. If our plans or assumptions change or prove to be inaccurate, or if our cash flow from operations proves to be insufficient due to unanticipated expenses or otherwise, we will likely seek to minimize cash expenditures and/or obtain additional financing in order to support our plan of operations. If sufficient funding, whether obtained through public or private debt, equity financing or from strategic alliances is not available when needed or is not available on acceptable terms, our business and results of operations will be adversely affected.

Our debt and leverage could adversely affect our financial condition.

We are leveraged, and also guarantee shortfalls under some of our bond debt service agreements, when the revenues, fees and assessments which are designed to cover principal and interest and other operating costs of the bonds are not paid. Our leverage could have important consequences, including the following: our ability to obtain additional financing for working capital, capital expenditures or acquisitions may be impaired in the future; a substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on our debt, thereby reducing the funds available to us for other purposes; some of our borrowings are and will continue to be at variable rates of interest, which will expose us to the risk of increased interest rates; and our substantial leverage may limit our flexibility to adjust to changing economic or market conditions, reduce our ability to withstand competitive pressures and make us more vulnerable to a general economic downturn.

We finance each of our projects individually. As a result, to the extent we increase the number of our projects and our related investment, our total debt obligations may increase.

We repay the principal of our debt from the proceeds of home closings, and as a result our annual debt service is equal to the interest that accrues on our debt. Based on our debt levels as of December 31, 2004, a 1% change up or down in interest rates could have either a positive or negative effect of approximately \$4 million on our cash flows. Refer also to the section of this Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures About Market Risks - Interest Rates."

If any of these conditions occur, our financial condition will be adversely affected. In addition, our various debt instruments contain financial and other restrictive covenants that limit our ability to, among other things, borrow additional funds that we might need in the future.

Our business and results of operations will be adversely affected if poor relations with the residents of our communities negatively impact our sales.

As a master-planned community developer, we are sometimes expected by community residents to resolve any issues or disputes that arise in connection with the development of our communities. Our sales will likely be negatively affected if any efforts made by us to resolve these issues or disputes are unsatisfactory to the affected residents, which in turn would adversely affect our results of operations. In addition, our business and results of operations would be adversely affected if we are required to make material expenditures related to the settlement of these issues or disputes, or to modify our community development plans.

Our business is susceptible to adverse weather conditions and natural disasters.

The homebuilding industries in California and the Washington D.C. Area are susceptible to, and are significantly affected by, adverse weather conditions and natural disasters such as hurricanes, tornadoes, earthquakes, floods and fires. These adverse weather conditions and natural disasters can cause delays and increased costs in the construction of new homes and the development of new communities. If insurance is unavailable to us or is unavailable on acceptable terms, or if our insurance is not adequate to cover business interruption or losses resulting from adverse weather or natural disasters, our business and results of operations will be adversely affected. In addition, damage to new homes caused by adverse weather or a natural disaster can cause our insurance costs to increase.

Increased insurance risk adversely affects our business.

Due in part to the terrorist activities of September 11, 2001 and other recent events, we are confronting reduced availability of, and generally lower limits for, insurance against some of the risks associated with our business. Some of the other actions that have been or could be taken by insurance companies include: increasing insurance premiums; requiring higher self-insured retention and deductibles; requiring additional collateral on surety bonds; imposing additional exclusions, such as with respect to sabotage and terrorism; and refusing to underwrite certain risks and classes of business. The imposition of any of the preceding actions have and will continue to adversely affect our ability to obtain appropriate insurance coverages at reasonable costs.

Residential homebuilding is a competitive industry, and competitive conditions adversely affect our results of operations.

The residential homebuilding industry is highly competitive. Residential homebuilders compete not only for homebuyers, but also for desirable properties, financing, building materials and labor. We compete with other local, regional and national homebuilders, often within larger communities designed, planned and developed by such homebuilders. Any improvement in the cost structure or service of our competitors will increase the competition we face. Competitive conditions in the homebuilding industry could result in: difficulty in acquiring suitable land at acceptable prices; increased selling incentives; lower sales volumes and prices; increased construction costs; and delays in construction.

Provisions in our charter documents and Delaware law may make it difficult for a third party to acquire us, which could depress the price of our common stock.

Provisions in our certificate of incorporation, our by-laws and Delaware law could delay, defer or prevent a change of control of our company or our management. These provisions, which include authorizing the board of directors to issue preferred stock and limiting the persons who may call special meetings of stockholders, could also discourage proxy contests and make it more difficult for stockholders to elect directors and take other corporate actions.

We are also subject to provisions of Delaware law which could delay, deter or prevent us from entering into an acquisition, including Section 203 of the Delaware General Corporation Law, which prohibits a Delaware corporation from engaging in a business combination with an interested stockholder unless specific conditions are met. The existence of any of the above factors could adversely affect the market price of our common stock.

The trading price of shares of our common stock could be adversely affected because Brascan Corporation owns approximately 50% of our common stock.

Brascan Corporation owns approximately 50% of the outstanding shares of our common stock. If Brascan should decide in the future to sell any of our shares owned by it, the sale (or the perception of the market that a sale may occur) could adversely affect the trading price of our common stock.

The trading price of shares of our common stock could fluctuate significantly.

The trading price of shares of our common stock in the open market cannot be predicted. The trading price could fluctuate significantly in response to factors such as: variations in our quarterly or annual operating results and financial condition; changes in government regulations affecting our business; the announcement of significant events by us or our competitors; market conditions specific to the homebuilding industry; changes in general economic conditions; differences between our actual financial and operating results and those expected by investors and analysts; changes in analysts' recommendations or projections; the depth and liquidity of the market for shares of our

common stock; investor perception of the homebuilding industry; events in the homebuilding industry; investment restrictions; and our dividend policy. In addition, securities markets have experienced significant price and volume fluctuations in recent years that have often been unrelated or disproportionate to the operating performance of particular companies. These broad fluctuations may adversely affect the trading price of our common stock.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Exchange Rates

We conduct business in U.S. dollars only, so we are not exposed to currency risks.

Interest Rates

We are exposed to financial risks that arise from the fluctuations in interest rates. Our interest bearing assets and liabilities are mainly at floating rates, so we would be negatively affected, on balance, if interest rates increase. In addition, we have an interest rate swap contract which effectively fixes \$60 million of our variable rate debt at 5.89%. Based on our debt levels as of December 31, 2004, a 1% change up or down in interest rates would have either a positive or negative effect of approximately \$4 million on our cash flows.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Stockholders of Brookfield Homes Corporation

We have audited the accompanying consolidated balance sheets of Brookfield Homes Corporation and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Brookfield Homes Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Independent Registered Chartered Accountants
Toronto Ontario, Canada
February 16, 2005

BROOKFIELD HOMES CORPORATION**CONSOLIDATED BALANCE SHEETS***(all dollar amounts are in thousands of U.S. dollars)*

	Note	As at December 31	
		2004	2003
Assets			
Housing and land inventory	2	\$ 679,930	\$ 567,302
Investments in housing and land joint ventures	3	59,810	78,198
Consolidated land inventory not owned	2	47,240	25,542
Receivables and other assets		73,986	80,346
Cash and cash equivalents	9	186,731	218,606
Deferred income taxes	6	33,924	43,446
		\$ 1,081,621	\$ 1,013,440
Liabilities and Equity			
Project specific and other financings	4	\$ 512,098	\$ 426,311
Accounts payable and other liabilities	5	256,985	145,090
Minority interest	2	66,422	59,781
Preferred stock 10,000,000 shares authorized, no shares issued	8		
Common stock and additional paid-in capital 65,000,000 shares authorized, 30,889,632 shares issued and outstanding with par value of \$309, excluding 1,184,149 treasury shares with a cost of \$23,552 (December 31, 2003 30,881,032 shares issued and outstanding with a par value of \$309, excluding 1,192,749 treasury shares with a cost of \$21,695)	8	120,246	299,043
Retained earnings	8	125,870	83,215
		\$ 1,081,621	\$ 1,013,440

See accompanying notes to consolidated financial statements

BROOKFIELD HOMES CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(all dollar amounts are in thousands of U.S. dollars, except per share amounts)

	Note	Years Ended December 31		
		2004	2003	2002
Revenue				
Housing		\$ 1,169,073	\$ 817,774	\$ 784,807
Land and other revenues		62,677	183,421	46,431
		1,231,750	1,001,195	831,238
Direct Cost of Sales	2	(945,387)	(790,877)	(700,132)
		286,363	210,318	131,106
Equity in earnings from housing and land joint ventures	3	61,394	22,055	10,429
Selling, general and administrative expense		(79,904)	(66,612)	(60,822)
Minority interest		(28,140)	(18,684)	(8,566)
Net Income Before Taxes		239,713	147,077	72,147
Income tax expense	6	(93,297)	(58,830)	(28,858)
Net Income		\$ 146,416	\$ 88,247	\$ 43,289
Earnings Per Share				
Basic	1	\$ 4.74	\$ 2.78	\$ 1.35
Diluted	1	\$ 4.64	\$ 2.75	\$ 1.35
Weighted Average Common Shares Outstanding (in thousands)				
Basic	1	30,903	31,751	32,044
Diluted	1	31,547	32,048	32,044

See accompanying notes to consolidated financial statements

BROOKFIELD HOMES CORPORATION**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY***(all dollar amounts are in thousands of U.S. dollars)*

	Note	Years Ended December 31		
		2004	2003	2002
Common Stock and Additional Paid-in Capital				
Opening balance	1	\$ 299,043	\$ 320,738	\$ 1
Recapitalization upon reorganization				320,737
Repurchase of common shares	8	(1,942)	(21,695)	
Exercise of stock options	8	2,255		
Special dividend	8	(179,110)		
Ending balance		120,246	299,043	320,738
Combined Companies Capital				
Opening balance				286,979
Contributions of capital				7,037
Net income (prior to reorganization)	1			26,722
Recapitalization upon reorganization	1			(320,738)
Ending balance				
Retained Earnings				
Opening balance		83,215		
Net income		146,416	88,247	16,567
Dividends	8	(4,942)	(5,032)	(16,567)
Special dividend	8	(98,819)		
Ending balance		125,870	83,215	
Total stockholders equity		\$ 246,116	\$ 382,258	\$ 320,738

See accompanying notes to consolidated financial statements

BROOKFIELD HOMES CORPORATION**CONSOLIDATED STATEMENTS OF CASH FLOWS***(all dollar amounts are in thousands of U.S. dollars)*

	Years Ended December 31		
	2004	2003	2002
Cash Flows From Operating Activities			
Net income	\$ 146,416	\$ 88,247	\$ 43,289
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed income from housing and land joint ventures	(6,755)	(3,179)	(10,429)
Minority interest	28,140	18,684	8,566
Deferred income taxes	17,867	29,967	28,858
Other changes in operating assets and liabilities:			
Decrease/(increase) in receivables and other assets	6,360	(5,812)	(10,798)
(Increase)/decrease in housing and land inventory	(115,374)	47,389	16,975
Increase in accounts payable and other	87,516	33,158	25,711
Net cash provided by operating activities	164,170	208,454	102,172
Cash Flows From Investing Activities			
Net recovery from housing and land joint ventures	25,143	5,940	23,658
Net cash provided by investing activities	25,143	5,940	23,658
Cash Flows From Financing Activities			
Net borrowings under revolving project specific and other financings	85,787	100,819	41,307
Net repayments under revolving subordinated debt			(73,635)
Repayment of subordinated debt	(137,294)	(98,300)	(43,000)
Net (distributions to)/contributions from minority interest	(22,247)	(7,483)	1,177
Contributions of capital			35
Exercise of stock options	85		
Repurchase of common shares	(1,942)	(21,695)	
Dividends paid in cash	(145,577)	(5,032)	(16,567)
Net cash used in financing activities	(221,188)	(31,691)	(90,683)
(Decrease)/increase in cash and cash equivalents	(31,875)	182,703	35,147
Cash and cash equivalents at beginning of year	218,606	35,903	756
Cash and cash equivalents at end of year	\$ 186,731	\$ 218,606	\$ 35,903
Supplemental Cash Flow Information			
Interest paid	\$ 31,788	\$ 19,117	\$ 25,820
Income taxes paid	71,128	20,000	
Non-cash capital contributions:			

Benefits of tax losses of consolidated group contributed			5,854
Costs of options of former parent issued to management of the Company			1,148
Increase in consolidated land inventory not owned	18,952	23,808	
Dividends paid through issuance of subordinated debt	137,294		

See accompanying notes to consolidated financial statements

BROOKFIELD HOMES CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in \$U.S. thousands except share and per share amounts)

Note 1. Significant Accounting Policies

(a) Basis of Presentation

Brookfield Homes Corporation (the Company or Brookfield Homes) was incorporated on August 28, 2002 as a wholly-owned subsidiary of Brookfield Properties Corporation (Brookfield Properties) to acquire as of October 1, 2002 all of the California and Washington D.C. Area homebuilding and land development operations (the Land and Housing Operations) of Brookfield Properties pursuant to a reorganization of its business (the Spin-off). On January 6, 2003, Brookfield Properties completed the Spin-off by distributing all of the issued and outstanding common stock it owned in the Company to its common stockholders. Brookfield Homes began trading as a separate company on the New York Stock Exchange on January 7, 2003.

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the consolidated accounts of Brookfield Homes and its subsidiaries and investments in unconsolidated joint ventures and variable interests in which the Company is the primary beneficiary. These financial statements for the comparative periods are presented on a combined basis as if the Land and Housing Operations had been owned by the Company for the prior periods presented.

(b) Housing and Land Inventory

(i) Revenue recognition: Revenues from the sale of homes are recognized when title passes to the purchaser upon closing, wherein all proceeds are received or collectability is evident. Land sales are recognized when title passes to the purchaser upon closing, all material conditions of the sales contract have been met and a significant cash down payment or appropriate security is received.

(ii) Carrying values: Housing and land assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at this amount, the Company estimates the cash flow for the life of each project. These projections take into account the specific business plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. If these assets are considered to be impaired, they are then written down to the fair value less estimated selling costs. The ultimate fair values for the Company's housing and land inventory are dependent upon future market and economic conditions.

(iii) Capitalized costs: Capitalized costs include the costs of acquiring land, development and construction costs, interest, property taxes and overhead related to the development of the land and housing. Direct costs are capitalized to individual homes and lots and other costs are allocated to each lot in proportion to our anticipated revenue.

(c) Joint Ventures

Joint ventures, where the Company exercises significant influence and has less than a controlling interest, are accounted for using the equity method.

(d) Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires estimates and assumptions that affect the carrying amounts of assets and liabilities and

disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

(e) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, demand deposits, and all highly liquid short-term investments with original maturity less than 90 days.

BROOKFIELD HOMES CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Tabular amounts in \$U.S. thousands except share and per share amounts)

(f) Income Taxes

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) 109, Accounting for Income Taxes. Under SFAS 109, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured by using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to reverse.

(g) Minority Interest

Minority interest represents the equity in consolidated subsidiaries that are owned by others. Total minority interest as at December 31, 2004 of \$66.4 million (2003 \$59.8 million) consisted of assumed third party investments of consolidated variable interest entities of \$42.8 million (2003 \$23.8 million), ownership interests of certain business unit presidents of the Company totaling \$21.6 million (2003 \$34.0 million) and preferred shares issued by a wholly-owned subsidiary of \$2.0 million (2003 \$2.0 million). Included in accounts payable and other liabilities is \$29.2 million (2003 \$11.0 million) of amounts due to minority interest.

(h) Stock-Based Compensation

The Company accounts for stock option grants and deferred share unit grants in accordance with Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees. All stock options granted have exercise prices equal to the market value of the stock on the date of the grant. Participants in the management share option plan can elect to purchase shares at the exercise price or receive cash equal to the difference between the exercise price and the current market price.

Accordingly, the Company records the intrinsic value of these options and deferred share units as a liability using variable plan accounting as disclosed in accounts payable. The pro forma disclosures required by SFAS 123, Accounting for Stock-Based Compensation, and SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure, are not included in the financial statements as the basis of accounting and disclosure for the options under SFAS 123, SFAS 148 and APB 25 would yield the same compensation expense as that already recognized in the financial statements presented.

(i) Other Comprehensive Income

The Company adheres to U.S. GAAP reporting requirements with respect to the presentation and disclosure of other comprehensive income, however, it has been determined by management that no material differences exist between net income and comprehensive income for each of the periods presented.

(j) Earnings Per Share

Earnings per share is computed in accordance with the Statement of Financial Accounting Standards (SFAS) 128. Basic earnings per share is calculated by dividing net income by the average number of common shares outstanding for the year. Diluted earnings per share is calculated by dividing net income by the average number of common shares outstanding including all dilutive potentially issuable shares under various stock option plans.

Basic and diluted earnings per share for the years ended December 31, 2004, 2003 and 2002 were calculated as follows (in thousands except per share amounts):

	Years Ended December 31		
	2004	2003	2002
Numerator:			
Net income	\$ 146,416	\$ 88,247	\$ 43,289
Denominator:			
Basic average shares outstanding	30,903	31,751	32,044
Net effect of stock options assumed to be exercised	644	297	
Diluted average shares outstanding	31,547	32,048	32,044
Basic earnings per share	\$ 4.74	\$ 2.78	\$ 1.35
Diluted earnings per share	\$ 4.64	\$ 2.75	\$ 1.35

BROOKFIELD HOMES CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Tabular amounts in \$U.S. thousands except share and per share amounts)

(k) Advertising Costs

The Company expenses advertising costs as incurred. For the years ended December 31, 2004, 2003 and 2002, the Company incurred advertising costs of \$5.1 million, \$6.1 million, and \$4.5 million, respectively.

(l) Segment Information

The Company designs, constructs and sells a wide range of homes designed to meet the specific needs of each of its markets. For internal reporting purposes, the Company is organized into geographical housing and land regions. Because each of the Company's geographical housing and land regions has similar economic characteristics, housing products and class of prospective buyers, the geographic housing and land regions have been aggregated into a single housing and land segment in accordance with Statement of Financial Accounting Standards No. 131, Disclosure About Segments of an Enterprise and Related Information (SFAS 131).

All revenues are from external customers and are of origin in the United States. There were no customers that contributed 10% or more of the Company's total revenues during the years ended December 31, 2004, 2003 or 2002. All of the Company's assets are in the United States.

(m) Warranty Costs

Estimated future warranty costs are accrued and charged to cost of sales at the time the revenue associated with the sale of each home is recognized. Factors that affect the Company's warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and cost per claim.

(n) Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. SFAS No. 123(R) establishes accounting standards for transactions in which a company exchanges its equity instruments for goods or services. In particular, this Statement would require companies to record compensation expense for all share-based payments, such as employee stock options, at fair market value. This Statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently reviewing the effect of this Statement on its consolidated financial statements.

In December 2003, the FASB issued revised Interpretation 46 (FIN 46R), Consolidation of Variable Interest Entities (VIEs), an Interpretation of Accounting Research Bulletin 51, Consolidated Financial Statements, and replaces the previous version of FASB Interpretation 46 issued in January 2003 (FIN 46). This interpretation applied immediately to variable interest entities created after January 31, 2003. A company that holds a variable interest in a VIE it acquired before February 1, 2003 shall apply the provision of this interpretation no later than the first fiscal year or interim period ending after March 15, 2004 unless those entities are considered to be special purpose entities in which the application is to be no later than the end of the first reporting period that ends after December 15, 2003. This interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. The Company applied the provision of this new pronouncement effective January 1, 2003 but did not restate any previously issued financial statements. The decision whether to consolidate a VIE begins with establishing that a VIE exists. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investor lack one

of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights, the obligation to absorb the expected losses of an entity, and the right to receive the expected residual returns. The entity with the majority of the expected losses or expected residual return is considered to be the primary beneficiary of the entity and is required to consolidate such entity. The Company has determined they are the primary beneficiary of certain VIEs which are presented in these financial statements under Consolidated land inventory not owned with the interest of others included in Minority Interest. See Notes 2 and 3 for further discussion on the consolidation of land options contracts and joint ventures.

BROOKFIELD HOMES CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Tabular amounts in \$U.S. thousands except share and per share amounts)

(o) Reclassification

Certain prior year amounts in the consolidated financial statements have been reclassified to conform with the 2004 presentation. In particular, reclassifications have been made to equity in earnings from housing and land joint ventures (now shown as a component of operating income separately from revenue) and to interest expense (now included as a component of Direct Cost of Sales).

Note 2. Housing and Land Inventory

Housing and land inventory includes homes completed and under construction, model homes and land under and held for development which will be used in the Company's homebuilding operations or sold as building lots to other homebuilders. The following summarizes the components of housing and land inventory:

	December 31	
	2004	2003
Housing under construction	\$ 244,041	\$ 200,553
Model homes	19,179	21,029
Land and land under development	416,710	345,720
	\$ 679,930	\$ 567,302

The Company capitalizes interest which is expensed as housing units and building lots are sold. For the years ended December 31, 2004, 2003 and 2002, interest incurred and capitalized by the Company was \$31.8 million, \$19.1 million and \$25.8 million, respectively. Capitalized interest expensed as direct cost of sales for the same periods was \$29.1 million, \$33.4 million and \$35.3 million, respectively.

Capitalized costs are expensed as costs of sales on a specific identification basis or on a relative value in proportion to anticipated revenue. Included in direct costs of sales is \$911.1 million of costs related to housing revenue (2003 \$673.8 million) and \$34.3 million of costs related to land sales and other revenues (2003 \$117.1 million).

In the ordinary course of business, the Company has entered into a number of option contracts to acquire lots in the future in accordance with specific terms and conditions of such agreements. Under these option agreements, the Company will fund deposits to secure the right to purchase land or lots at a future point in time. The Company has evaluated its option contracts and determined that for those entities considered to be VIEs, it is the primary beneficiary on options for 375 lots with aggregate exercise prices of \$47.2 million (2003 311 lots with an exercise price of \$25.5 million) which are required to be consolidated. In these cases, the only asset recorded is the Company's exercise price for the option to purchase, with an increase in minority interest of \$42.8 million (2003 \$23.8 million) for the assumed third party investment in the VIE. Where the land sellers are not required to provide the Company financial information related to the VIE, certain assumptions by the Company were required in its assessment as to whether or not it is the primary beneficiary.

Housing and land inventory includes non-refundable deposits and other costs totaling \$36.0 million (2003 \$16.0 million) in connection with options that are not required to be consolidated under the provision of FIN 46R. The total exercise price of these options is \$627.7 million (2003 \$362.7 million) including the non-refundable deposits identified above. The number of lots which the Company has obtained an option to purchase, excluding those already consolidated, and their respective dates of expiry and their exercise price follows:

Year of Expiry	Number of Lots	Total Exercise Price
2005	975	\$ 88,574
2006	3,831	214,233
2007	3,276	133,550
Thereafter	6,462	191,385
	14,544	\$ 627,742

BROOKFIELD HOMES CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(Tabular amounts in \$U.S. thousands except share and per share amounts)***Note 3. Investments in Housing and Land Joint Ventures**

The Company participates in a number of joint ventures in which it has less than a controlling interest. Summarized condensed financial information on a combined 100% basis of the joint ventures follows:

	December 31	
	2004	2003
Assets		
Housing and land inventory	\$ 345,939	\$ 310,324
Other assets	54,510	42,729
	\$ 400,449	\$ 353,053
Liabilities and Equity		
Accounts payable and other liabilities	\$ 46,313	\$ 15,606
Project specific financings	277,568	182,452
Investment and advances		
Brookfield Homes	59,810	78,198
Others	16,758	76,797
	\$ 400,449	\$ 353,053
Revenue and Expenses		
Revenue	\$ 466,260	\$ 375,351
Expenses	(265,277)	(264,470)
Net income	\$ 200,983	\$