



NEW YORK The World Financial Center

## DEAR FELLOW SHAREHOLDERS,

We are pleased to report that 2006 was a productive year for Brookfield Properties. We achieved our financial and operational targets and have taken a number of steps aimed at positioning the company for continued growth going forward. Consistent with past years, and for the eighth year in a row, we saw our funds from operations (FFO) grow meaningfully. Our residential land development business had another record year, contributing \$144 million to our FFO, up 36% from 2005. In total, we generated FFO of \$443 million or \$1.87 per share, a 9% increase over 2005. In addition, our shareholders benefited from the continued strong performance of our common shares during the year, realizing a \$9.91 per share increase to \$39.33 for a total return of 34%.

Last year in our letter to shareholders, we outlined four principle objectives for the year: leasing (lowering our overall vacancy and near-term rollover exposure); acquisitions (investing with joint venture partners in a fund format to leverage our

returns); development (monetizing our development assets while building upon our development platform); and residential operations (supporting and expanding our residential operations, capitalizing on the strong Alberta economy). During 2006, we made meaningful progress in all of these areas in addition to strengthening our balance sheet. The following are a few of our accomplishments.

### LEASING

Strong and improving economic conditions in all of the cities in which we operate led to strong demand for office space during the year. Capitalizing on this, 2006 was a record year for us from a leasing standpoint.

Overall, we leased 8 million square feet of space for the year, 5.1 million square feet on a same-property basis. In the process, we accomplished our two main leasing objectives: we increased our same-property year-end occupancy rate by 250 basis



HOUSTON Allen Center



TORONTO BCE Place

points to 97.1% and reduced our 2008 to 2010 lease rollover exposure by 850 basis points collectively to 3.2%, 3.7% and 5.7% respectively.

A few of our notable leases for the year included an early renewal with the Federal Government of Canada for 926,000 square feet at Place de Ville in Ottawa, a new lease with EnCana Oil & Gas for 450,000 square feet at Republic Plaza in Denver, a 250,000 square foot lease with KPMG to kick off development at Bay Adelaide Centre in Toronto, and a 1.267 million square foot lease with Chevron at Four Allen Center in Houston, the largest lease in North America since 2000.

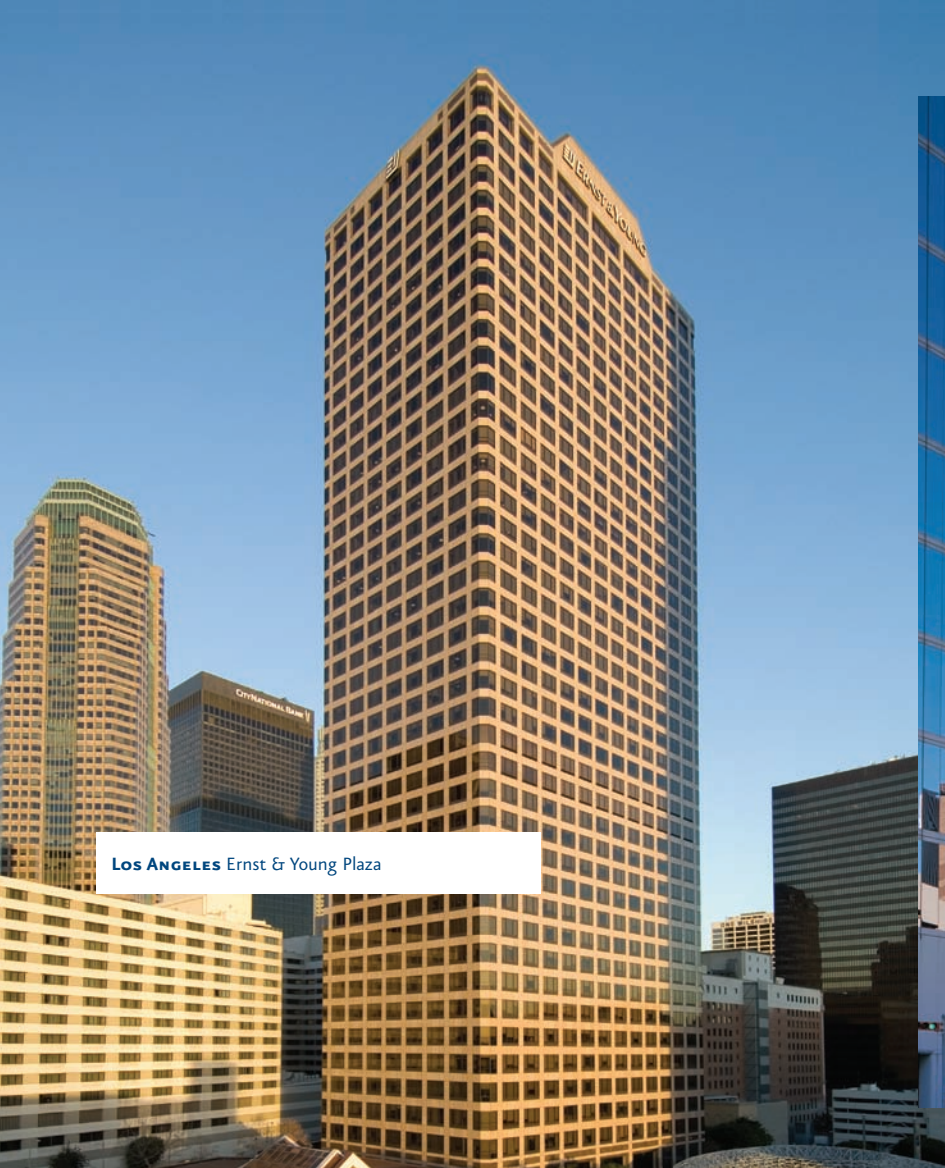
#### ACQUISITIONS

On the heels of the successful launching of our first Canadian Office Fund and its investment in the O&Y portfolio in 2005, last year we set our sights on accomplishing similar results with our first U.S. Office Fund. To that end, during 2006, we launched

and fully invested our first U.S. office fund in the \$7.6 billion acquisition of Trizec. This transaction was completed in a partnership with the Blackstone Group with our fund owning 73% of the investment.

In keeping with our investment strategy, the Trizec portfolio comprises 29 million square feet of well-located, premier quality assets in high-growth, gateway cities driven by tenants in the financial services, government and energy sectors. In addition to expanding our presence in New York City and Washington, D.C., we entered two new markets, Houston and Los Angeles.

During the year, we also acquired One Bethesda Center and the TSA buildings in the greater Washington, D.C. area (708,000 square feet), Four Allen Center in Houston (1.3 million square feet), and the remaining 75% interest in Hudson's Bay Centre in Toronto (797,000 square feet). In total during 2006, we acquired interests in 62 new properties comprising 31 million square feet, practically doubling the size of our portfolio.



Los Angeles Ernst & Young Plaza



Houston Allen Center

#### DEVELOPMENT

Recognizing that acquisition asset pricing has exceeded replacement cost in many cases, we began 2006 with a potential commercial development pipeline comprising seven projects and 8.1 million square feet and a goal to begin to monetize these assets and to add to our development inventory.

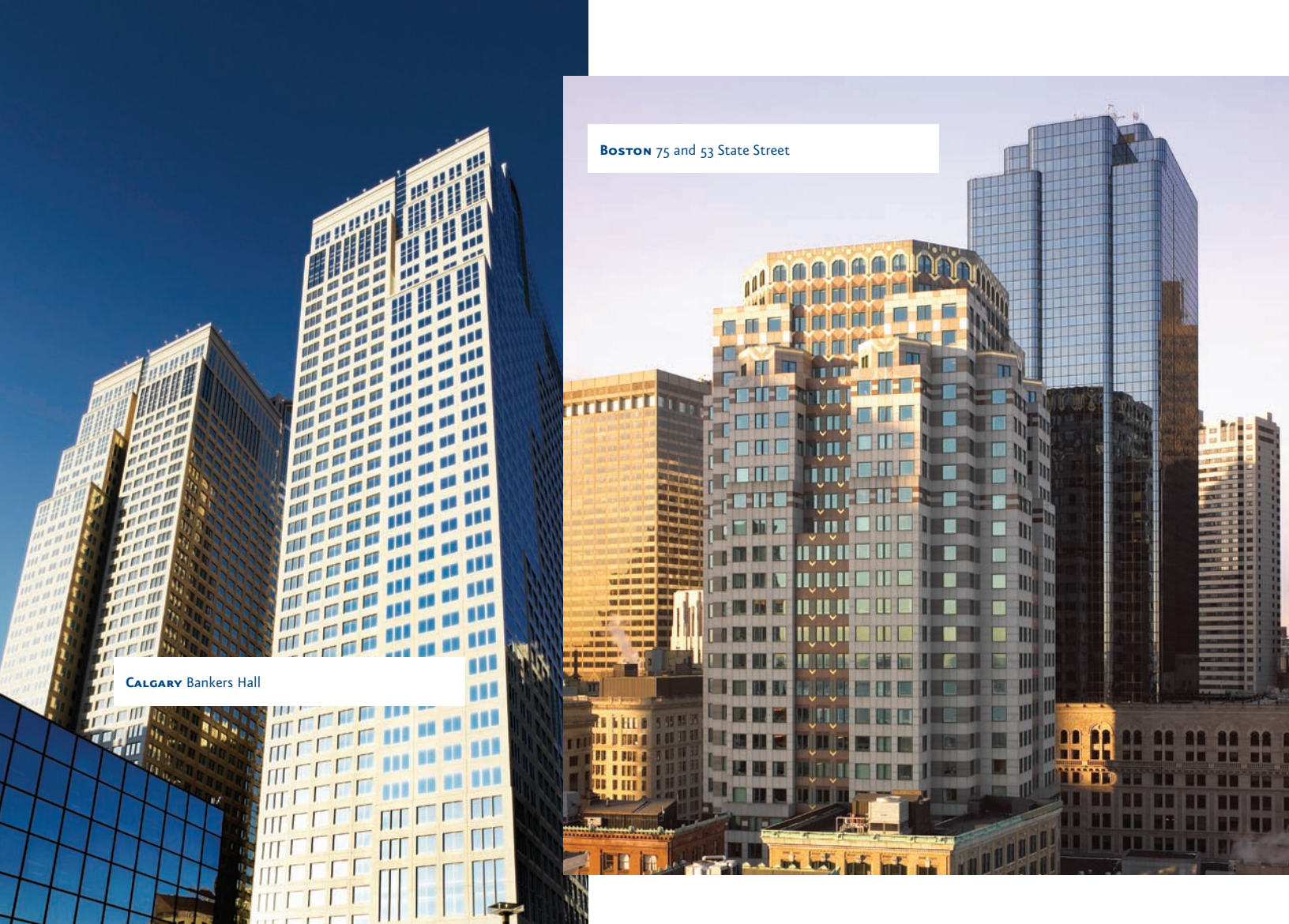
During the year we began development at five sites totaling 2.8 million sq. ft. including Bay Adelaide Center in Toronto, Bankers Court in Calgary, 77 K Street in Washington, D.C., and with the Trizec acquisition, the Water-view Project in Rosslyn, Virginia as well as Two Reston Crescent in suburban Virginia. To facilitate all of this, we added a number of key personnel to our team including new heads of development in the U.S. and Canada.

Additionally in 2006, we picked up an additional 9.1 million square feet of development density, bringing our total pipeline to 17.2 million square feet, by acquiring a site on West 33rd Street in New York City; buying

the Herald block in downtown Calgary; investing in the 77 K Street development in Washington, D.C.; and through the acquisition of Trizec, adding development assets in the Washington, D.C. area, Houston and potentially Los Angeles.

#### RESIDENTIAL DEVELOPMENT

Our residential land development business, based largely in the energy-dominated western Canadian province of Alberta, had another record year. Given an unemployment rate of 2.7% and 60,000 new jobs created in Alberta in 2006, the demand for new housing remains strong and has pushed margins up by almost 50% over the past 12 months. Competition for labor and materials has had a somewhat mitigating impact through increasing project costs as well as timelines. The net effect of this is a reduction of home and lot sales by 14% year over year, but this was more than offset by margin increases.



BOSTON 75 and 53 State Street

CALGARY Bankers Hall

## OUTLOOK

For 2007, our strategic plan remains similar to that which we shared with you last year. Our goals and objectives can best be summarized in the following principle themes:

- Create value within our portfolio through proactive leasing and asset management given the ongoing improvement in office fundamentals;
- Enhance returns by expanding sources of managed capital;
- Originate fund assets through acquisition or vend-ins;
- Monetize our significant development pipeline on a measured reward basis;
- Continue to support our residential land development operations, working to improve performance through innovation; and
- With the recent expansion of our office operations, through recruiting, training, realignment of duties

and systems upgrades, make the necessary adjustments to remain a best-in-class operating company.

We would like to acknowledge outgoing board member Bill Wheaton; we are most grateful for his contributions over the past three years.

We continue to be excited about future prospects for Brookfield Properties and, on behalf of the management and Board of Directors, we thank you for your continued support.

Richard B. Clark  
President & Chief Executive Officer  
February 7, 2007