Dear Shareholders

As 2008 ended, the credit crisis that had initially impacted those operating with excessive leverage ratios rolled into a full-blown economic pandemic. Unemployment is on the rise, some businesses are failing, consumer and business spending is down, and debt markets are difficult to say the least.

All of this had a direct impact on North American office markets, where leasing demand has tempered, pushing direct and sublease availabilities up and associated rents and other economic fundamentals down.

Although this is certainly not good news, as an organization Brookfield Properties has a strong respect for the cyclical nature of the real estate business and financial markets. Consequently, we have always worked to limit the cyclical risk within our portfolio.

We were proud to report another year of strong performance and financial results that exceeded our beginning-of-the-year expectations. We have also accomplished a lot toward our goals for the year to better prepare for the economic downturn.

With this in mind, I'd like to highlight a few of our 2008 accomplishments.

Net income for the year totaled $700 million, compared to $240 million in 2007. Much of that increase was due to a gain of almost $480 million from the conversion of some of our U.S. operations into an internal REIT. As a result of this conversion, all of our U.S. operations now function as a REIT and benefit from the ability to reduce effective tax rates on earnings. Funds from Operations in 2008 totaled $626 million, virtually flat with 2007, notwithstanding a 39% reduction in the earnings from our residential land development operations. Our office operations posted strong earnings growth of 5% for the year.

We leased 6.4 million square feet of office space during the year, almost three times the amount scheduled to expire, ending 2008 with an occupancy rate of 96.3%, no decline from the prior year.

In the process, we lowered our three-year lease expiry profile by 400 basis points, and have just 3.3% of our leases expiring in 2009.

We took a lot of rollover risk out of our energy sector markets, which was an important goal of ours given new development occurring in those markets, by completing the four lease renewals that we set out to accomplish. These were Petro-Canada and Imperial Oil in Calgary and Devon Energy and Continental Airlines in Houston. This reduced our 2010-2013 lease expiry exposure by 3.1 million square feet and pushed our average lease term to nine years in Calgary and seven years in Houston. Our occupancy stands at 100% in Calgary and 95% in Houston.

We completed $1.3 billion of refinancing, successfully rolling our 2008 debt maturities.

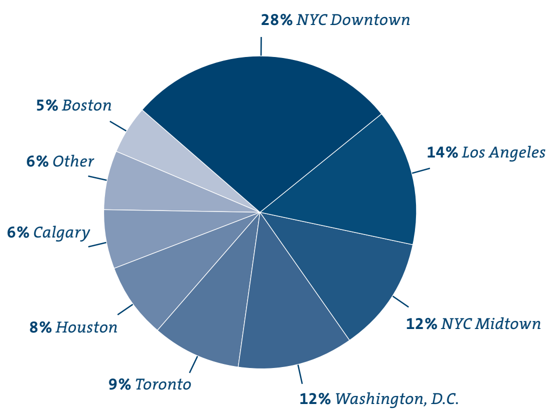
Entering into 2009, we started the year with about $900 million of current commercial and corporate debt maturities on a proportional basis and have already completed refinancing on 44% of these, or $388 million. We believe the remaining 2009 debt maturity exposure is manageable and are well on our way toward completing renewal or replacement financings on these assets. We have virtually no debt maturities throughout the company in 2010.

We sold our interest in the TD Canada Trust Tower in downtown Toronto for a record price for this market, as well as another small asset, for net proceeds of $200 million. Notwithstanding this, as acquisition and disposition activity slowed considerably in 2008, we did not achieve all of our goals in this regard. Although we had hoped to launch funds in both the U.S. and Canada seeded with owned assets, the market's appetite for these types of funds waned as financial market volatility and illiquidity set in.

We brought three of our five active developments to completion. The final two are scheduled to be concluded by the middle of 2009, requiring less than $25 million of additional equity to complete. All other development activities and spending have been curtailed pending tenant and financing commitments. In all, these five office developments total 2.2 million square feet and are 65% leased on average.

Our residential operations achieved net income for the year of $144 million. Although down from the previous year, it was still a solid 17% return on equity investment.

NET OPERATING INCOME BY MARKET



OUTLOOK

Although the battered economy will surely create challenges for us in 2009, based upon our high office occupancy levels, low near-term lease rollovers and mark-to-market rental rate uplift achieved on last year's leasing that will soon kick in, and barring any unforeseen circumstances such as tenant business failures, we are anticipating strong same-property net operating income growth for 2009 in our office division.

Lastly, and given that we are frequently asked questions on Brookfield Properties' outlook for 2009 given market conditions, I'll offer the following.

LIQUIDITY

We have approximately $600 million of liquidity in cash and undrawn lines of credit, supported by an investment-grade rating from Standard & Poor's. Our debt maturity schedule is manageable, with the overwhelming majority of our loans recourse only to specific properties, minimizing the company's exposure to the impact of potential single-asset issues. As of the beginning of the year, our 2009 debt maturities consisted of 13 asset-level, non-recourse loans averaging $43 million in size. These are small loans in relation to our overall debt (6%). The average loan-to-value is low (40%) and the average debt service coverage ratio is high (1.8 times cash flow), putting these loans in the sweet spot of the lending market. We are currently in discussions to renew these loans (and expect by press time many will have already been completed) and are not anticipating any refinancing issues. We have already completed the renewal of our maturing credit facility and expect to renew or refinance our term loan of $104 million shortly. We have no further debt maturities of note until 2011.

2011 DEBT

Our $1.6 billion share of the mezzanine debt used to finance the Trizec acquisition in 2006 does not come due until October of 2011. This debt is recourse only to the assets within the U.S. Office Fund with no corporate recourse or recourse to other Brookfield Properties assets. We are confident given the time we have that we will be able to refinance this debt with fixed-rate, asset-level financing and/or asset sales, working alongside our joint venture partner. The cash flows being generated by these assets continue to exceed our expectations.

MERRILL LYNCH

The uncertainty of Bank of America/Merrill Lynch's plans upon the expiry of their lease at the World

Financial Center in 2013 continues to weigh on our common stock price. Although as of this writing we do not know their plans, there are a number of mitigating factors of note to point out should they not renew all or part of their lease. First, through a self-amortization in-place financing, there will be no debt on Four World Financial Center and only a small amount on Two World Financial Center upon lease expiry. Second, Merrill has an ownership interest of 49% in 4 WFC. Of the 4.6 million square feet that they lease, 1.8 million square feet is subleased to various tenants with whom we are in direct discussions regarding lease extensions and/or expansion. Given Merrill's ownership stake and sublease occupants, our effective direct exposure to Merrill Lynch is 1.9 million square feet. And finally, we have almost five years ahead of us to secure new tenants should Merrill choose to leave the World Financial Center.

RESIDENTIAL LAND OPERATIONS

Our mainly Western Canadian-based residential land development platform had its second most successful year in 2008 despite the global economic slowdown. For 2009, we do expect Alberta's housing market to cool, but, the business prospects of this commodities-rich regional economy remain encouraging over the long term. In the meantime, we expect to limit new investments in this business and focus on harvesting cash.

IN CLOSING

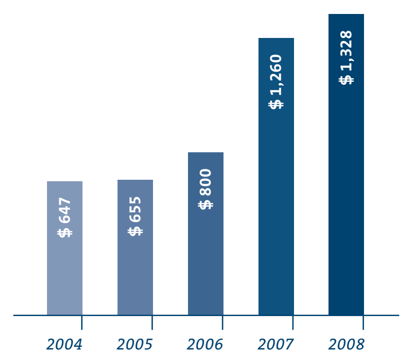
By all accounts, 2009 will continue to be a challenging year for the global economy and there is no reason why the North American real estate business will be an exception.

In the words of Joseph Werner of Peter B. Cannell & Co. Inc.: "Severe economic downturns are always frightening, but they do run their course and provide great opportunities." Those that survive will thrive.

The key to long-term success in commercial real estate, as in all businesses, is sustainable cash flow throughout business cycles. We believe our strategy of owning well-located, high-quality assets in North America's most dynamic markets, 96.3% leased to high-quality tenants, with manageable near-term lease and debt maturities, positions us well to weather this economic storm.

COMMERCIAL-PROPERTY NET OPERATING INCOME

in millions



On behalf of all Brookfield Properties employees and our Board of Directors, I thank you for your continued support.

Sincerely,

Richard B. Clark
Chief Executive Officer
March 6, 2009