

Management’s Discussion and Analysis of Financial Results

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FORWARD-LOOKING STATEMENTS

This annual report to shareholders contains forward-looking statements and information within the meaning of applicable securities legislation. These forward-looking statements reflect management’s current beliefs and are based on assumptions and information currently available to management of Brookfield Properties. In some cases, forward-looking statements can be identified by terminology such as “may,” “will,” “expect,” “plan,” “anticipate,” “believe,” “intend,” “estimate,” “predict,” “forecast,” “outlook,” “potential,” “continue,” “should,” “likely,” or the negative of these terms or other comparable terminology. Although management believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve assumptions, known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Brookfield Properties to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements and information. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general economic conditions; local real estate conditions, including the development of properties in close proximity to the company’s properties; timely leasing of newly developed properties and re-leasing of occupied square footage upon expiration; dependence on tenants’ financial condition; the uncertainties of real estate development and acquisition activity; the ability to effectively integrate acquisitions; interest rates; availability of equity and debt financing; the impact of newly adopted accounting principles on the company’s accounting policies and on period-to-period comparisons of financial results; and other risks and factors described from time to time in the documents filed by the company with the securities regulators in Canada and the United States including in the Annual Information Form under the heading “Business of Brookfield Properties – Company and Real Estate Industry Risks.” The company undertakes no obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by securities laws.

Management's Discussion and Analysis of Financial Results

March 6, 2009

PART I – OBJECTIVES AND FINANCIAL HIGHLIGHTS

BASIS OF PRESENTATION

Financial data included in Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2008 includes material information up to March 6, 2009. Financial data provided has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), with non-GAAP measures such as net operating income and funds from operations have been reconciled to appropriate Canadian GAAP measures. All dollar references, unless otherwise stated, are in millions of US dollars except per share amounts. Amounts in Canadian dollars are identified as "C\$."

The following discussion and analysis is intended to provide readers with an assessment of the performance of Brookfield Properties Corporation ("Brookfield Properties") over the past two years as well as our financial position and future prospects. It should be read in conjunction with the audited consolidated financial statements and appended notes, which begin on page 70 of this report. In our discussion of operating performance, we refer to net operating income and funds from operations on a total and per share basis. Net operating income is defined as income from property operations after operating expenses have been deducted, but prior to deducting financing, administration, depreciation and amortization and income tax expenses. Funds from operations is defined as net income prior to extraordinary items, one-time transaction costs, income taxes, depreciation and amortization and certain other non-cash items. Net operating income is an important measure that we use to assess operating performance, and funds from operations is a relevant measure in analyzing real estate, as commercial properties generally appreciate rather than depreciate. We provide the components of net operating income and a full reconciliation from net income to funds from operations on page 39. Net operating income and funds from operations are both non-GAAP measures that do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies.

Additional information, including our Annual Information Form, is available on our Web site at www.brookfieldproperties.com, or on www.sedar.com or www.sec.gov.

OVERVIEW OF THE BUSINESS

Brookfield Properties is a publicly traded North American commercial real estate company listed on the New York and Toronto stock exchanges under the symbol BPO. We operate in two principal business segments, the first being the ownership, development and management of premier commercial office properties in select cities in North America, and the second being the development of residential land. Since 2005, we have established and fully invested two core office funds for the purpose of enhancing our position as a leading real estate asset manager. The U.S. Office Fund (a single-purpose fund established to acquire the Trizec portfolio) and the Canadian Office Fund (a single-purpose fund established to acquire the O&Y portfolio) are discussed in further detail in Part III and Part IV, respectively, of this MD&A. The term "Brookfield Properties Direct" ("Direct") refers to those properties that are wholly-owned or owned through property-level joint ventures. When referring to ownership of properties by the U.S. or Canadian Office Fund, such ownership percentage refers to that of the applicable fund and not the proportionate percentage ownership of Brookfield Properties. Throughout our MD&A, we use the term "proportional" (as shown in *italics*) to reflect a proportionate consolidation of our 45% effective interest in the U.S. Office Fund. Proportionate amounts disclosed are non-GAAP financial measures and are based on our calculations.

At December 31, 2008, the book value of Brookfield Properties' assets was \$19.5 billion. During 2008, we generated \$700 million of net income (\$1.77 per diluted share) and \$626 million of funds from operations (\$1.59 per diluted share).

FINANCIAL HIGHLIGHTS

Brookfield Properties' financial results are as follows:

(Millions, except per share amounts)	2008	2007	2006 ⁽¹⁾
Results of operations			
Total revenue	\$ 2,805	\$ 2,842	\$ 1,823
Net income	700	240	135
Net income per share - diluted	1.77	0.59	0.37
Common share dividends paid per share	0.56	0.55	0.51
Funds from operations	626	629	443
Funds from operations per share - diluted	1.59	1.57	1.25
Balance sheet data			
Total assets	19,457	20,473	19,314
Commercial properties	14,901	15,889	15,287
Commercial property debt	11,505	12,125	11,185
Shareholders' equity	3,427	3,078	3,112
Book value per share	8.80	7.84	7.80

⁽¹⁾ Per share amounts have been restated to reflect the impact of the three-for-two stock split effective May 4, 2007

COMMERCIAL PROPERTY OPERATIONS

Our commercial property portfolio consists of interests in 108 properties totaling 74 million square feet, including 10 million square feet of parking. Our development/redevelopment portfolio comprises interests in 15 sites totaling 17 million square feet. Our primary markets are the financial, energy and government center cities of New York, Boston, Washington, D.C., Houston, Los Angeles, Toronto, Calgary and Ottawa. We intend to continue our strategy of maintaining a meaningful presence in a select number of North American cities with attractive tenant bases.

We remain focused on the following strategic priorities:

- Surfacing value from our properties through proactive leasing and select redevelopment initiatives;
- Prudent capital management including the refinancing of mature properties;
- Monetizing development assets as the economy rebounds and continued supply constraints create opportunities; and
- Expanding our asset management platform through the growth of our existing office funds or through the establishment of new funds.

The following table summarizes our investment by market:

Region	Number of Properties	Total Area (000's Sq. Ft.)	Brookfield Properties' Owned Interest (000's Sq. Ft.) ⁽¹⁾	Book Value (Millions)	Debt (Millions)	Net Book Equity (Millions)
Direct						
Midtown New York, New York	2	2,881	2,005	\$ 883	\$ 684	\$ 199
Downtown New York, New York	5	10,315	9,359	2,928	1,874	1,054
Boston, Massachusetts	2	2,266	2,266	825	573	252
Washington, D.C.	6	2,300	2,300	678	499	179
Toronto, Ontario	8	5,439	4,636	930	495	435
Calgary, Alberta	7	6,326	3,164	405	321	84
Denver, Colorado	1	1,827	1,827	274	161	113
Houston, Texas	1	892	892	155	101	54
Other	2	926	926	100	98	2
Corporate debt	—	—	—	—	325	(325)
	34	33,172	27,375	7,178	5,131	2,047
U.S. Office Fund						
Midtown New York, New York	4	3,682	2,172	1,243	311	932
Downtown New York, New York	2	3,685	3,685	1,278	397	881
Washington, D.C.	22	4,289	4,110	1,123	366	757
Houston, Texas	8	8,226	7,575	1,135	240	895
Los Angeles, California	22	10,763	10,529	2,616	421	2,195
U.S. Fund debt	—	—	—	—	3,989	(3,989)
	58	30,645	28,071	7,395	5,724	1,671
Canadian Office Fund						
Toronto, Ontario	3	3,697	924	217	82	135
Calgary, Alberta	1	378	95	16	17	(1)
Ottawa, Ontario	6	2,780	695	81	19	62
Other	2	712	179	14	14	—
	12	7,567	1,893	328	132	196
Continuing Operations	104	71,384	57,339	\$ 14,901	\$ 10,987	\$ 3,914
Discontinued Operations ⁽²⁾	4	3,051	3,051	271	199	72
	108	74,435	60,390	\$ 15,172	\$ 11,186	\$ 3,986
Office development sites		16,237	14,798	1,074	518	556
Redevelopment sites		269	269	151	—	151
Total		90,941	75,457	\$ 16,397	\$ 11,704	\$ 4,693

⁽¹⁾ Represents consolidated interest before non-controlling interests

⁽²⁾ RBC Plaza and 33 South Sixth Street in Minneapolis are currently classified as discontinued operations

We have historically explored property-level joint venture opportunities with strategic institutional partners. Although we plan to continue with this endeavor, we also consider opportunities to pursue the acquisition of individual assets and portfolios through joint venture fund vehicles. In 2005 we formed our Canadian Office Fund to acquire the O&Y portfolio and in 2006 we formed our U.S. Office Fund to consummate the acquisition of the Trizec portfolio. Of our 108 commercial office properties, 27 are wholly owned, 11 are held in property-level joint ventures or co-tenancies, and 70 are held in our funds.

Our Canadian Office Fund consists of a consortium of institutional investors, led and managed by us. Affiliates of the consortium members own direct interests in property-level joint ventures and have entered into several agreements relating to property management, fees, transfer rights and other material issues related to the operation of the properties. We proportionately consolidate our interest in this Fund. Our U.S. Office Fund consists of a consortium of institutional investors, which we lead and manage, investing through direct and indirect investment vehicles who have also entered into several agreements relating to property management, fees, transfer rights and other material issues related to the operation of the properties. We fully consolidate this Fund.

We believe that investing our liquidity with these partners in fund formats enables us to enhance returns. The funds and associated asset management fees represent an important area of growth as we expand our assets under management. Purchasing properties or portfolios of properties in a fund format allows us to earn the following categories of fees:

- **Asset Management** Stable base fee for providing regular, ongoing services.
- **Transaction** Development, redevelopment and leasing activities conducted on behalf of these funds.
- **Performance** Earned when certain predetermined benchmarks are exceeded. Performance fees which can add considerably to fee revenue, typically arise later in a fund's life cycle and are therefore not fully reflected in current results.

An important characteristic of our portfolio is the strong credit quality of our tenants. We direct special attention to credit quality particularly in these markets in order to ensure the long-term sustainability of rental revenues through economic cycles. Major tenants with over 1,000,000 square feet of space in the portfolio include Merrill Lynch, U.S. and Canadian governments and government agencies, Chevron U.S.A., Wachovia, CIBC, RBC Financial Group, Bank of Montreal and Petro-Canada. A detailed list of major tenants is included in Part V ("Risks and Uncertainties") of this MD&A, which begins on page 55.

Our strategy is to sign long-term leases in order to mitigate risk and reduce our overall retenanting costs. We typically commence discussions with tenants regarding their space requirements well in advance of the contractual expiration, and although each market is different, the majority of our leases, when signed, extend between 10- and 20-year terms. As a result of this strategy, less than 9% of our leases, on average, mature annually over the next five years and excluding Merrill Lynch, our largest tenant, approximately 7% of our leases, on average, mature annually over the next five years. As a result of our leasing activity in 2008, which includes 3.8 million square feet related to 2009 and beyond maturities, we improved this rollover profile by 400 basis points since the beginning of the year.

The following is a breakdown of lease maturities by region with associated in-place rental rates:

Year of Expiry	Total Portfolio			Midtown New York			Downtown New York			Boston		
	000's Sq. Ft.	%	Net Rent per Sq. Ft. ⁽¹⁾	000's Sq. Ft.	%	Net Rent per Sq. Ft. ⁽¹⁾	000's Sq. Ft.	%	Net Rent per Sq. Ft. ⁽¹⁾	000's Sq. Ft.	%	Net Rent per Sq. Ft. ⁽¹⁾
Currently available	3,321	5.1		627	9.6		141	1.0		113	5.7	
2009	2,547	3.9	\$ 20	375	5.7	\$ 25	196	1.4	\$ 17	183	9.2	\$ 23
2010	3,517	5.4	22	391	6.0	32	286	2.1	20	125	6.3	29
2011	4,750	7.3	24	131	2.0	36	670	4.9	36	454	22.8	43
2012	5,615	8.6	20	446	6.8	30	426	3.1	11	48	2.4	25
2013	11,794	18.2	27	751	11.5	35	4,759	34.7	35	32	1.6	28
2014	3,948	6.1	24	215	3.3	26	410	3.0	36	30	1.5	39
2015	6,670	10.3	20	344	5.3	29	2,156	15.7	19	—	—	—
2016 & beyond	22,752	35.1	30	3,247	49.8	51	4,675	34.1	33	1,005	50.5	31
Parking	9,521	—	—	36	—	—	281	—	—	276	—	—
	74,435	100.0		6,563	100.0		14,000	100.0		2,266	100.0	
Average market net rent			\$ 32			\$ 68			\$ 37			\$ 30
Average market gross rent			\$ 50			\$ 93			\$ 57			\$ 50

⁽¹⁾Net rent at expiration of lease

Year of Expiry	Washington, D.C.			Houston			Los Angeles		
	000's Sq. Ft.	Net Rent		000's Sq. Ft.	Net Rent		000's Sq. Ft.	Net Rent	
		%	per Sq. Ft. ⁽¹⁾		%	per Sq. Ft. ⁽¹⁾		%	per Sq. Ft. ⁽¹⁾
Currently available	379	6.7		425	5.1		1,217	14.1	
2009	511	9.1	\$ 25	181	2.2	\$ 13	422	4.9	\$ 20
2010	292	5.2	23	304	3.7	13	836	9.7	21
2011	195	3.5	26	780	9.4	14	1,032	12.0	19
2012	603	10.7	23	1,102	13.3	13	1,405	16.3	24
2013	418	7.4	26	775	9.4	12	902	10.5	30
2014	1,232	21.9	25	595	7.2	11	715	8.3	26
2015	273	4.9	35	657	7.9	14	359	4.2	25
2016 & beyond	1,716	30.6	44	3,461	41.8	19	1,736	20.0	28
Parking	970	—	—	838	—	—	2,139	—	—
	6,589	100.0		9,118	100.0		10,763	100.0	
Average market net rent			\$ 35			\$ 24			\$ 25
Average market gross rent			\$ 55			\$ 36			\$ 39

⁽¹⁾Net rent at expiration of lease

Year of Expiry	Toronto			Calgary			Ottawa		
	000's Sq. Ft.	Net Rent		000's Sq. Ft.	Net Rent		000's Sq. Ft.	Net Rent	
		%	per Sq. Ft. ⁽¹⁾		%	per Sq. Ft. ⁽¹⁾		%	per Sq. Ft. ⁽¹⁾
Currently available	164	2.2		7	0.1		8	0.5	
2009	432	5.7	\$ 15	61	1.1	\$ 24	35	2.0	\$ 14
2010	580	7.6	22	346	6.1	21	7	0.4	27
2011	511	6.7	22	680	12.0	24	8	0.5	13
2012	763	10.0	22	461	8.1	25	6	0.3	—
2013	1,478	19.4	24	502	8.8	27	1,131	64.6	16
2014	280	3.7	25	111	2.0	32	9	0.5	20
2015	715	9.4	25	1,016	17.9	25	542	31.0	12
2016 & beyond	2,694	35.3	20	2,497	43.9	27	4	0.2	25
Parking	1,519	—	—	1,023	—	—	1,030	—	—
	9,136	100.0		6,704	100.0		2,780	100.0	
Average market net rent			\$ 22			\$ 33			\$ 18
Average market gross rent			\$ 43			\$ 47			\$ 31

⁽¹⁾Net rent at expiration of lease

Year of Expiry	Denver			Minneapolis			Other		
	000's Sq. Ft.	Net Rent		000's Sq. Ft.	Net Rent		000's Sq. Ft.	Net Rent	
		%	per Sq. Ft. ⁽¹⁾		%	per Sq. Ft. ⁽¹⁾		%	per Sq. Ft. ⁽¹⁾
Currently available	31	2.3		188	7.4		21	1.7	
2009	39	2.9	\$ 21	71	2.8	\$ 10	41	3.3	\$ 13
2010	104	7.9	21	65	2.6	12	181	14.4	12
2011	99	7.5	19	48	1.9	15	142	11.3	14
2012	87	6.6	18	178	7.0	16	90	7.2	14
2013	151	11.4	21	791	31.3	7	104	8.3	16
2014	134	10.1	14	172	6.8	12	45	3.6	11
2015	59	4.5	17	434	17.2	5	115	9.2	16
2016 & beyond	620	46.8	16	583	23.0	13	514	41.0	11
Parking	503	—	—	521	—	—	385	—	—
	1,827	100.0		3,051	100.0		1,638	100.0	
Average market net rent			\$ 22			\$ 15			\$ 22
Average market gross rent			\$ 33			\$ 27			\$ 38

⁽¹⁾Net rent at expiration of lease

COMMERCIAL DEVELOPMENT AND REDEVELOPMENT

We hold interests in 17 million square feet of high-quality, centrally-located development and redevelopment sites at various stages of planning and construction. We will seek to monetize these sites through development only when our risk-adjusted return hurdles are met and when preleasing targets with one or more lead tenants have been achieved. We currently have five projects under development and one project under redevelopment as outlined on page 23 of this MD&A.

The following table summarizes our commercial development projects at December 31, 2008:

(Square feet in 000's)	Region	Description	Number of Sites	Owned Interest %	Total	Owned Interest ⁽¹⁾	Other Shareholder's Interest	Net Owned Interest
Direct								
Manhattan West	New York	Between 31st and 33rd Streets across from the Farley Post Office	1	100%	5,400	5,400	—	5,400
77 K Street	Washington	Adjacent to Union Station	1	50%	327	164	(4)	160
Bay Adelaide Centre	Toronto	Bay and Adelaide Streets	1	100%	2,600	2,600	(286)	2,314
Brookfield Place III	Toronto	Third phase of Brookfield Place project	1	54%	800	432	(48)	384
Bankers Court	Calgary	East and West Parkades adjacent to Bankers Hall	1	50%	500	250	(28)	222
Herald Site	Calgary	One block from our existing Calgary assets	1	100%	1,200	1,200	(132)	1,068
1501 Tremont Place	Denver	One block from Republic Plaza	1	100%	733	733	—	733
Block 173	Denver	One block from Republic Plaza	1	100%	600	600	—	600
			8		12,160	11,379	(498)	10,881
U.S. Office Fund								
Reston Crescent	Washington	36 acre landscaped campus in Reston, Virginia	1	100%	1,000	1,000	(548)	452
Waterview	Washington	At the foot of the Key Bridge in Rosslyn, Virginia	1	25%	300	75	(41)	34
1500 Smith Street	Houston	Adjacent to Four Allen Center	1	100%	500	500	(274)	226
Allen Center Clay Street	Houston	Located in the heart of the Allen Center / Cullen Center complex	1	100%	600	600	(329)	271
Five Allen Center	Houston	Adjacent to the Allen Center	1	100%	1,100	1,100	(601)	499
			5		3,500	3,275	(1,793)	1,482
Canadian Office Fund								
300 Queen Street	Ottawa	Third phase of Place de Ville project	1	25%	577	144	(16)	128
			1		577	144	(16)	128
			14		16,237	14,798	(2,307)	12,491
Redevelopment								
1225 Connecticut	Washington	Downtown Washington, D.C.	1	100%	269	269	(147)	122
Total development and redevelopment			15		16,506	15,067	(2,454)	12,613

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

RESIDENTIAL DEVELOPMENT

Through our residential development business segment, we develop residential land and conduct homebuilding operations. Operations are currently focused in five markets: Alberta and Ontario in Canada, and Colorado, Texas and Missouri in the U.S. These business units primarily entitle and develop land in master-planned communities and then sell these lots to other homebuilders. However, in Alberta and Ontario we also build and sell homes.

We intend to continue to grow this business over time by selectively acquiring land that either enhances our existing inventory or provides the residential development groups with attractive projects that are consistent with our overall strategy and management expertise.

We classify our residential development business into three categories: land held for development; land under development; and housing inventory. Costs attributable to land held for development include costs of acquiring land as well as general infrastructure costs to service the land within a community. These costs are not directly related to saleable lots. Once development of a phase begins, the associated costs with that phase are transferred from land held for development to land under development, which includes all underlying costs that are attributable to the phase of saleable lots, including costs of the underlying land, roads, and parks. Included in housing inventory is associated land as well as construction costs.

The following table summarizes our residential land development at December 31, 2008:

(\$ in Millions)	Under Development		Housing Inventory		Held for Development	
	Number of Lots/Acres	Book Value	Number of Units	Book Value	Number of Acres	Book Value
Single Family (Lots)						
Alberta	2,960	\$ 267	86	\$ 14	6,200	\$ 408
Ontario	180	7	388	40	1,854	46
Colorado	998	60	—	—	2,628	146
Texas	106	5	—	—	3,734	99
Missouri	94	5	—	—	221	19
Total Single Family (Lots)	4,338	\$ 344	474	\$ 54	14,637	\$ 718
Total Single Family (Acre Equivalent) ⁽¹⁾	744					
Multi-Family and Commercial (Acres)						
Alberta	141	\$ 44	173	\$ 34	—	\$ —
Colorado	10	1	—	—	—	—
Texas	6	1	—	—	—	—
Total Multi-Family and Commercial (Acres)	157	\$ 46	173	\$ 34	—	\$ —
Total Book Value Land Under Development		\$ 390		\$ 88		\$ 718

⁽¹⁾Represents lots converted to acres based on a conversion factor of four to seven lots per acre depending on region

PERFORMANCE MEASUREMENT

The key indicators by which we measure our performance are:

- Net income per share;
- Net operating income;
- Funds from operations per share;
- Overall indebtedness level;
- Weighted average cost of debt; and
- Occupancy levels.

Although we monitor and analyze our financial performance using a number of indicators, our primary business objective of generating reliable and growing cashflow is monitored and analyzed using net income, net operating income and funds from operations. While net income is calculated in accordance with generally accepted accounting principles ("GAAP"), net operating income and funds from operations are both non-GAAP financial measures that do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. We provide the components of net operating income and a full reconciliation from net income to funds from operations on page 39 of this MD&A.

Net Income

Net income is calculated in accordance with GAAP. Net income is used as a key indicator in assessing the profitability of the company.

Net Operating Income

Net operating income is defined as income from property operations after operating expenses have been deducted, but prior to deducting financing, administration, depreciation and amortization and income tax expenses. Net operating income is used as a key indicator of performance as it represents a measure over which management has control. We measure the performance of management by comparing the performance of the property portfolio adjusted for the effect of current and prior year sales and acquisitions.

Funds from Operations

Funds from operations is defined as net income prior to extraordinary items, one-time transaction costs, income taxes, depreciation and amortization, and certain other non-cash items. While we believe that funds from operations is the most relevant measure to analyze real estate, as commercial properties generally appreciate rather than depreciate, we believe that funds from operations, net operating income and net income are all relevant measures. Funds from operations does not represent or approximate cash generated from operating activities determined in accordance with GAAP and should not be considered an alternative to GAAP measures. Accordingly, we provide a reconciliation of funds from operations to net income, consistent with the definition provided as set out above. A reconciliation is not provided to cashflow from operating activities, as it is often subject to fluctuations based on the timing of working capital payments.

KEY PERFORMANCE DRIVERS

In addition to monitoring and analyzing performance in terms of net income, net operating income and funds from operations, we consider the following items to be important drivers of our current and anticipated financial performance:

- Increases in occupancies by leasing vacant space;
- Increases in rental rates as market conditions permit; and
- Reduction in occupancy costs through achieving economies of scale and diligently managing contracts.

We also believe that the key external performance drivers are:

- The availability of equity capital at a reasonable cost;
- The availability of debt capital at a cost and on terms conducive to our goals; and
- The availability of new property acquisitions that fit into our strategic plan.

PART II – FINANCIAL STATEMENT ANALYSIS

ASSET PROFILE

Our total asset book value was \$19.5 billion at December 31, 2008, a decrease of \$1.0 billion from 2007. The decrease in total assets is primarily attributable to a decrease in commercial properties as a result of the sale of TD Canada Trust Tower in Toronto during 2008, as well as a significant decline in the value of the Canadian dollar as compared to December 31, 2007. The following is a summary of our assets over the past two years:

(Millions)	<i>Proportional⁽¹⁾</i>	Consolidated	Consolidated
	Dec. 31, 2008	Dec. 31, 2008	Dec. 31, 2007
Commercial properties	\$ 10,834	\$ 14,901	\$ 15,889
Commercial developments	1,078	1,225	1,172
Residential developments	1,196	1,196	1,228
Receivables and other	893	935	1,056
Intangible assets	371	637	759
Restricted cash and deposits	96	116	151
Cash and cash equivalents	128	157	214
Assets related to discontinued operations ⁽²⁾	290	290	4
Total	\$ 14,886	\$ 19,457	\$ 20,473

⁽¹⁾ Reflects Brookfield Properties' effective 45% interest in the U.S. Office Fund

⁽²⁾ Includes \$271 million of commercial properties and \$19 million of other assets associated with assets related to discontinued operations at December 31, 2008 (December 31, 2007 - \$3 million and \$1 million, respectively)

COMMERCIAL PROPERTIES

The book value of our commercial properties was \$14.9 billion as at December 31, 2008 compared to \$15.9 billion at December 31, 2007. The decrease is attributable to the sale of TD Canada Trust Tower in Toronto in the third quarter of 2008 and the reclassification RBC Plaza and 33 South Sixth Street in Minneapolis to discontinued operations as well as the impact of foreign exchange fluctuations on our Canadian dollar-denominated assets. These decreases are offset by the reclassification of Four Allen Center in Houston from commercial developments to commercial properties during the first quarter of 2008. The consolidated carrying value of our North American commercial properties is approximately \$260 per square foot, significantly less than the estimated replacement cost of these assets.

A breakdown of our commercial properties by region is as follows:

Region	Total Area (000's Sq. Ft.)	Brookfield Properties'		Dec. 31, 2008		Dec. 31, 2007	
		Owned Interest (000's Sq. Ft.) ⁽¹⁾	Book Value (Millions)	Book Value per Sq. Ft.	Book Value (Millions)	Book Value Per Sq. Ft.	
Midtown, New York, New York	6,563	4,177	\$ 2,126	\$ 509	\$ 2,160	\$ 533	
Downtown, New York, New York	14,000	13,044	4,206	322	4,250	346	
Boston, Massachusetts	2,266	2,266	825	364	854	395	
Washington, D.C.	6,589	6,410	1,801	281	1,822	288	
Houston, Texas	9,118	8,467	1,290	152	1,076	149	
Los Angeles, California	10,763	10,529	2,616	248	2,637	253	
Toronto, Ontario	9,136	5,560	1,147	206	1,637	265	
Calgary, Alberta	6,704	3,259	421	129	523	160	
Ottawa, Ontario	2,780	695	81	117	102	147	
Denver, Colorado	1,827	1,827	274	150	280	156	
Minneapolis, Minnesota	—	—	—	—	422	140	
Other	1,638	1,105	114	103	126	114	
Continuing operations	71,384	57,339	14,901	260	15,889	272	
Discontinued operations	3,051	3,051	271	89	3	58	
Total	74,435	60,390	\$ 15,172	\$ 251	\$ 15,892	\$ 271	

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

TENANT INSTALLATION COSTS AND CAPITAL EXPENDITURES

Upon the signing of the majority of our leases, we provide a capital allowance for tenant improvements for leased space in order to accommodate the specific space requirements of the tenant. In addition to this capital, leasing commissions are paid to third-party brokers representing tenants in lease negotiations. Tenant improvements and leasing commissions are capitalized in the year incurred, amortized over the term of the lease and recovered through rental payments. Expenditures for tenant installation costs in 2008 totaled \$137 million, compared with the \$166 million expended in 2007. The decrease in the current year was due to the leasing commissions and improvements incurred offset by an increase in total leasable area as compared to 2007 due to the purchase of the remaining interest in 53 and 75 State Street in Boston in the fourth quarter of 2007.

Tenant installation costs are summarized as follows:

(Millions)	2008	2007
Leasing commissions	\$ 31	\$ 59
Tenant improvements	106	107
Total	\$ 137	\$ 166

We also invest in ongoing maintenance and capital improvement projects to sustain the high quality of the infrastructure and tenant service amenities in our properties. Capital expenditures for the year ended December 31, 2008 totaled \$77 million, compared with \$49 million during 2007. These expenditures exclude repairs and maintenance costs, a portion of which are recovered through contractual tenant cost recovery payments. The increase in capital expenditures is due primarily to increased capital projects. Capital expenditures include revenue-enhancing capital expenditures, which represent improvements to an asset or reconfiguration of space to increase rentable area or increase current rental rates, and non-revenue-enhancing expenditures, which are those required to extend the service life of an asset. These expenditures are recoverable in some cases. During 2008, \$19 million of our total capital expenditures is recoverable, consistent with \$19 million in the prior year.

ASSETS RELATED TO DISCONTINUED OPERATIONS

In the fourth quarter of 2008, four properties met the criteria for being classified as a discontinued operation; RBC Plaza buildings and 33 South Sixth Street in Minneapolis. We have reclassified \$290 million of assets and \$217 million of liabilities to assets and liabilities related to discontinued operations, respectively, in connection with these properties as at December 31, 2008.

As at December 31, 2007, one property met the criteria for being classified as discontinued operation; Acres House in Niagara Falls. We reclassified \$4 million of assets and \$3 million of liabilities to assets and liabilities related to discontinued operations, respectively, in connection with this property as at December 31, 2007. This property was sold in the second quarter of 2008.

COMMERCIAL DEVELOPMENTS

Commercial developments consist of commercial property development sites, density rights and related infrastructure. The total book value of this development land and infrastructure was \$1,225 million at December 31, 2008, an increase of \$53 million from \$1,172 million in 2007. The increase is primarily attributable to active construction at a number of development sites, offset by the reclassification of Four Allen Center to commercial properties. Four Allen Center in Houston is 100% leased to Chevron.

The details of the commercial property development portfolio and related book values are as follows:

(Millions)	Buildable Sq. Ft. (000's)	Sq. Ft. Currently Under Construction (000's)	Book Value Dec. 31, 2008	Book Value Dec. 31, 2007
Active developments				
Bay Adelaide Centre, Toronto	2,600	1,160	\$ 510	\$ 416
Reston Crescent, Washington, D.C.	1,000	185	70	56
Waterview, Washington, D.C.	300	300	19	27
77 K Street, Washington, D.C.	327	327	44	34
Bankers Court, Calgary	500	265	40	22
	4,727	2,237	683	555
Planning				
Manhattan West, New York	5,400		269	207
Herald Site, Calgary	1,200		47	53
<i>Others</i>			75	52
1500 Smith Street, Houston	500			
Five Allen Center, Houston	1,100			
Allen Center Clay Street, Houston	600			
1501 Tremont Place, Denver	733			
Block 173, Denver	600			
Brookfield Place III, Toronto	800			
300 Queen Street, Ottawa	577			
Total developments	16,237	2,237	1,074	867
Redevelopment				
1225 Connecticut Avenue, Washington, D.C.	269	269	151	107
Reclassified to commercial				
Four Allen Center, Houston ⁽¹⁾				198
Total developments and redevelopments	16,506	2,506	\$ 1,225	\$ 1,172

⁽¹⁾During the first quarter of 2008, this property was reclassified to commercial properties

Although we are generally not a speculative developer, we are a full-service real estate company with in-house development expertise. With 17 million square feet of high-quality, centrally-located development and redevelopment properties in New York, Washington, D.C., Houston, Toronto, Calgary, Ottawa and Denver, we will undertake developments when our risk-adjusted returns and preleasing targets have been achieved. The following development activity took place during 2008:

- Bay Adelaide Centre in Toronto represents one of our largest development projects. Ground-breaking on Phase I of this project took place in July of 2006 and construction is actively underway. Phase I represents 1.2 million square feet of a three-phase project that is expected to total 2.6 million square feet and be completed in 2009. Due to the continuous construction on Phase I, the book value of this site has increased by \$94 million since December 31, 2007.
- Reston Crescent, a development project acquired with the Trizec portfolio in the fourth quarter of 2006, is a 36 acre landscaped campus where construction is substantially complete on Two Reston Crescent, a 185,000 square foot building. As a result of construction progress to date, the book value of this project has increased by \$14 million since December 31, 2007.
- Construction on Bankers Court in Calgary, a 500,000 square foot, two-building project, commenced in the third quarter of 2006. Active development of the first building, totaling 265,000 square feet, is taking place and is expected to be complete by the first quarter of 2009. The building is 100% leased. As a result of the continuous development, the book value of this site has increased by \$18 million since December 31, 2007.
- Construction on 77 K Street in Washington, D.C., a development project we acquired in July 2006, commenced in the fourth quarter of 2006. As a result of active construction, the book value of this site has increased by \$10 million since December 31, 2007. Construction is substantially complete.
- 1225 Connecticut Avenue in Washington, D.C. is a property that was acquired as part of the Trizec portfolio. This site was reclassified as a redevelopment site in the third quarter of 2007. The book value increased to \$151 million at December 31, 2008 from \$107 million at December 31, 2007 as a result of the ongoing development. Construction is substantially complete.
- Waterview, a development site in Washington, D.C. acquired with the Trizec portfolio, was under construction prior to the acquisition. During the second quarter of 2007, we sold the 630,000 square foot office portion of this development site. The remaining 300,000 square foot building is substantially complete. This site is our only hotel/residential asset. The book value of this site has decreased by \$8 million to \$19 million at December 31, 2008.

Expenditures for development and redevelopment of commercial properties totaled \$394 million in 2008 compared with \$313 million in 2007. The increase is due to construction costs incurred on the six projects mentioned above, which are all currently under active development.

The details of development and redevelopment expenditures are as follows:

(Millions)	2008	2007
Construction costs	\$ 331	\$ 211
Interest capitalized	62	54
Tenant improvements	—	47
Property taxes and other	1	1
Total	\$ 394	\$ 313

Further details on our active developments as at December 31, 2008 are as follows:

(Millions)	Square Feet Currently Under Construction (000's)	Expected Date of Completion	% Pre-leased	Investment to Date	Owned Interest ⁽¹⁾			Estimated Total Investment	Total Construction Loan	Amount Drawn	Estimated NOI at Stabilization
					Investment	Total	Investment				
Active developments											
Bay Adelaide Centre, Toronto	1,160	Q3 2009	72%	\$ 380	\$ 443	\$ 344	\$ 226	\$ 32			
Reston Crescent, Washington, D.C.	185	Complete ⁽³⁾	31%	45	64	—	—	4			
77 K Street, Washington, D.C.	327	Complete ⁽³⁾	—	45	64	52	30	5			
Bankers Court, Calgary	265	Q1 2009	100%	42	45	40	30	4			
Subtotal office developments	1,937			\$ 512	\$ 616	\$ 436	\$ 286	\$ 45			
Waterview, Washington, D.C. ⁽²⁾	300	Complete ⁽³⁾	—	19	19	5	5	2			
Total	2,237			\$ 531	\$ 635	\$ 441	\$ 291	\$ 47			
Redevelopments											
1225 Connecticut, Washington, D.C.	269	Complete ⁽³⁾	100%	150	175	—	—	12			
Total	269			\$ 150	\$ 175	\$ —	\$ —	\$ 12			

⁽¹⁾Represents the company's consolidated interest before non-controlling interests

⁽²⁾Estimated value of hotel and condominium upon completion is \$45 million

⁽³⁾Substantially complete as at December 31, 2008

RESIDENTIAL DEVELOPMENTS

Our residential development operations are focused in five markets: Alberta, Ontario, Colorado, Texas and Missouri. The book value of these investments at December 31, 2008 was \$1,196 million, compared with \$1,228 million at the end of 2007. The decrease was attributable to residential inventory sold as well as foreign exchange fluctuations due to the weakening of the Canadian dollar, offset by additional land acquisitions and increased work in progress.

The details of our residential development property portfolio are as follows:

(Millions)	Dec. 31, 2008	Dec. 31, 2007
Under development	\$ 390	\$ 431
Housing inventory	88	85
Held for development	718	712
Total	\$ 1,196	\$ 1,228

The details of our land under development, housing inventory and land held for development are as follows:

Under development	Number of Lots/Acres		Book Value (Millions)	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Single Family (Lots)				
Alberta	2,960	3,725	\$ 267	\$ 314
Ontario	180	330	7	24
Colorado	998	858	60	42
Texas	106	106	5	4
Missouri	94	88	5	2
Total Single Family (Lots)	4,338	5,107	\$ 344	\$ 386
Total Single Family (Acre Equivalent)⁽¹⁾	744	843		
Multi-Family and Commercial (Acres)				
Alberta	141	136	\$ 44	\$ 44
Colorado	10	25	1	1
Texas	6	—	1	—
Total Multi-Family and Commercial (Acres)	157	161	\$ 46	\$ 45
Total Book Value Land Under Development			\$ 390	\$ 431

⁽¹⁾Represents lots converted to acres based on a conversion factor of four to seven lots per acre depending on region

Housing Inventory	Number of Units		Book Value (Millions)	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Single Family				
Alberta	86	224	\$ 14	\$ 28
Ontario	388	239	40	28
	474	463	54	56
Multi-Family				
Alberta	173	174	34	29
Total	647	637	\$ 88	\$ 85

Held for Development	Number of Acres		Book Value (Millions)	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Alberta	6,200	5,955	\$ 408	\$ 424
Ontario	1,854	2,184	46	64
Colorado	2,628	2,167	146	122
Texas	3,734	3,328	99	84
Missouri	221	226	19	18
Total	14,637	13,860	\$ 718	\$ 712

RECEIVABLES AND OTHER ASSETS

Receivables and other assets decreased to \$935 million at December 31, 2008 from \$1,056 million at December 31, 2007 primarily due to a reduction in our residential receivables and prepaid and other assets, partly attributable to the decline in the Canadian dollar. In addition, there was a decrease in our loans receivable balance related to the repayment of a loan acquired in connection with the acquisition of O&Y Properties which occurred in 2005.

The components of receivables and other assets are as follows:

(Millions)	Dec. 31, 2008	Dec. 31, 2007
Accounts receivable	\$ 137	\$ 135
Straight-line rent and free rent receivables	409	378
Real estate mortgages and loans receivable	21	63
Residential receivables and other assets	241	292
Prepaid expenses and other assets	127	188
Total	\$ 935	\$ 1,056

INTANGIBLE ASSETS

We have \$637 million at December 31, 2008 (December 31, 2007 - \$759 million) of lease origination costs, tenant relationships, above-market leases and below-market ground leases, net of related accumulated amortization, which resulted from acquisitions of individual commercial properties and portfolios, including the acquisition of our remaining interests in 53 and 75 State Street in Boston at the end of 2007, the individual property acquisition of 1201 Louisiana in Houston in 2007, as well as the Trizec acquisition, the O&Y acquisition and the 2006 acquisitions in the greater Washington, D.C. area.

The components of intangible assets are as follows:

(Millions)	Dec. 31, 2008	Dec. 31, 2007
Intangible assets		
Lease origination costs	\$ 382	\$ 377
Tenant relationships	499	501
Above-market leases and below-market ground leases	66	82
	\$ 947	\$ 960
Less accumulated amortization		
Lease originations costs	(151)	(124)
Tenant relationships	(138)	(62)
Above-market leases and below-market ground leases	(21)	(15)
Total net	\$ 637	\$ 759

RESTRICTED CASH AND DEPOSITS

Cash and deposits are considered restricted when there are limits imposed by third parties that prevent its use for current purposes. Restricted cash and deposits decreased to \$116 million at December 31, 2008 from \$151 million at December 31, 2007. The decrease is a result of the payment of tax escrows related to certain of our properties during the first quarter of 2008.

CASH AND CASH EQUIVALENTS

We endeavor to maintain liquidity to ensure that we can react quickly to potential investment opportunities. This liquidity consists of cash, which contributes investment returns, as well as committed lines of credit. To ensure we maximize our returns, cash balances are generally carried at a modest level and excess cash is used to repay revolving credit lines.

As at December 31, 2008, cash balances decreased to \$157 million from \$214 million at December 31, 2007 principally as a result of cash used to pay down our revolving credit lines as well as cash utilized in our active development and redevelopment activities.

LIABILITIES AND SHAREHOLDERS' EQUITY

Our asset base of \$19.5 billion is financed with a combination of debt, capital securities and preferred and common equity. The components of our liabilities and shareholders' equity over the past two years are as follows:

(Millions)	<i>Proportional⁽¹⁾</i> <i>Dec. 31, 2008</i>	Consolidated Dec. 31, 2008	Consolidated Dec. 31, 2007
Liabilities			
Commercial property debt	\$ 8,354	\$ 11,505	\$ 12,125
Accounts payable and other liabilities	1,005	1,168	1,357
Intangible liabilities	416	707	834
Future income tax liability	204	247	600
Liabilities related to discontinued operations ⁽²⁾	217	217	3
Capital securities - corporate	882	882	1,053
Capital securities - fund subsidiaries	—	711	739
Non-controlling interests - fund subsidiaries	—	212	216
Non-controlling interests - other subsidiaries	68	68	86
Preferred equity - subsidiaries	313	313	382
Shareholders' equity			
Preferred equity - corporate	45	45	45
Common equity	3,382	3,382	3,033
Total	\$ 14,886	\$ 19,457	\$ 20,473

⁽¹⁾Reflects Brookfield Properties' effective 45% interest in the U.S. Office Fund

⁽²⁾Includes \$199 of commercial property debt and \$18 million of other liabilities related to discontinued operations at December 31, 2008 (December 31, 2007 – nil and \$3 million, respectively)

COMMERCIAL PROPERTY DEBT

Commercial property debt totaled \$11.5 billion at December 31, 2008, compared with \$12.1 billion at December 31, 2007. In addition to principal amortization payments, the decrease is attributable to the repayment of the debt associated with TD Canada Trust Tower in Toronto as well as the repayment of a portion of our Corporate Term Loan and Corporate Revolver. Additionally, the debt related to RBC Plaza and 33 South Sixth Street in Minneapolis has been reclassified to discontinued operations. These decreases were partially offset by various refinancings outlined below. Commercial property debt at December 31, 2008 had a weighted average interest rate of 5.07% (December 31, 2007 – 6.65%). The decrease is largely attributable to the reduction in LIBOR during 2008 as \$3.7 billion of our floating rate debt within the U.S. Office Fund and more than \$1.0 billion of floating rate debt outside of the U.S. Office Fund is based on LIBOR. Almost all of our Direct commercial property debt is recourse only to specific properties, thereby reducing the overall financial risk to the company. Our U.S. Office Fund debt is recourse to the Fund entities.

Select financial ratios are set out in the following table:

Objective	Three-Year Average	Annual Results		
		2008	2007	2006
Debt-to-total-market-capitalization	52%	69%	47%	41%
Non-recourse debt as a percentage of total ⁽¹⁾	94%	94%	94%	94%
Interest expense coverage	2.1x	2.1x	2.0x	2.1x

⁽¹⁾Non-recourse to Brookfield Properties

We attempt to match the maturity of our commercial property debt portfolio with the average lease term of our properties. At December 31, 2008, the average term to maturity of our commercial property debt was six years, compared to our average lease term of approximately seven years.

The tightening of the credit markets has posed a significant challenge to property owners and managers. However, in spite of these conditions, we have had success in refinancing or extending \$1.3 billion of commercial property debt during 2008 and, more recently, the renewal of our corporate revolver, allowing for a manageable 2009 debt maturity exposure. We believe completing these financings in this tough credit environment is a validation of our strategy of owning high-quality assets in North America's top markets. The details are as follows:

(Millions)		Interest Rate %	Maturity Date	Mortgage/Loan	Balance at Dec. 31, 2008 ⁽¹⁾
First Quarter					
2000 L Street	Extended	6.26%	March 2009	\$ 56	\$ 56
Silver Spring Metro Plaza / 2401 Pennsylvania Avenue / 1250 Connecticut Avenue	Financed	LIBOR + 240bps	June 2009	160	158
105 Adelaide	Refinanced	5.32%	February 2013	22	18
Second Quarter					
Royal Centre	Refinanced	4.96%	May 2012	120	98
5670 Wilshire	Refinanced	LIBOR + 205bps	May 2013	57	57
Hudson's Bay Centre	Refinanced	5.20%	May 2013	108	89
75 State Street	Refinanced	LIBOR + 300bps	June 2013	300	294
Canadian Western Bank / 2 Queen Street East / Altius Centre	Financed	5.64%	December 2017	62	52
Third Quarter					
22 Front Street	Refinanced	6.24%	October 2020	19	16
Corporate Term Loan	Extended	LIBOR + 250bps	September 2009	104	104
Bethesda Crescent	Extended	7.07%	March 2009	33	32
Fourth Quarter					
Petro Canada Centre	Refinanced	BA + 225bps	October 2009	123	122
Two Ballston Plaza	Extended	6.91%	March 2009	25	25
RBC Plaza	Extended	LIBOR + 150bps	June 2009	79	79
Total				\$ 1,268	\$ 1,200

⁽¹⁾ Net of transaction costs and in US millions

We have \$800 million of committed corporate credit facilities consisting of a \$500 million revolving credit facility and a \$300 million line from Brookfield Asset Management Inc. ("BAM"), our parent company. At December 31, 2008, the balance drawn on these facilities, was \$221 million and nil, respectively (balances at December 31, 2007 were \$251 million and nil, respectively). At the time of the Trizec acquisition, we obtained a new \$600 million term loan facility at a rate of LIBOR + 250 basis points. The outstanding balance at December 31, 2008 on this facility was \$104 million (December 31, 2007 - \$150 million) and it matures on September 30, 2009.

Subsequent to December 31, 2008, we refinanced our revolving credit facility for \$388 million, the terms of which extend to 2011.

As at December 31, 2008, we had approximately \$15 million (December 31, 2007 - \$15 million) of indebtedness outstanding to BAM and its affiliates, after taking into consideration C\$200 million Class AAA Series E capital securities which BAM owns and which are offset against an equivalent amount on deposit with BAM. Interest expense related to this indebtedness totaled nil for the year ended December 31, 2008, compared to \$11 million in 2007, including interest on the Class AAA Series E capital securities, and was recorded at the exchange amount.

The details of commercial property debt at December 31, 2008 are as follows:

(\$ in millions)	Location	Rate %	Maturity Date	Dec. 31, 2008 ^(1,2)		Mortgage Details
				Proportional ⁽³⁾	Consolidated	
Direct						
RBC Plaza ⁽⁴⁾	Minneapolis	2.50	June 2009	\$ 79	\$ 79	Non-recourse, floating rate
Petro-Canada Centre	Calgary	5.01	October 2009	122	122	Non-recourse, floating rate
West 31 st Street ⁽⁵⁾	New York	1.84	December 2009	105	105	Partial-recourse, floating rate
RBC Plaza ⁽⁴⁾	Minneapolis	6.00	December 2009	29	29	Non-recourse, fixed rate
77 K Street ⁽⁵⁾	Washington, D.C.	3.17	April 2010	30	30	Non-recourse, floating rate
Bay Adelaide Centre ⁽⁵⁾⁽⁶⁾	Toronto	3.53	July 2010	226	226	Non-recourse, floating rate
Bankers Court ⁽⁵⁾	Calgary	3.52	October 2010	30	30	Non-recourse, floating rate
245 Park Avenue	New York	6.65	February 2011	225	225	Non-recourse, fixed rate
Queen's Quay Terminal	Toronto	7.26	March 2011	28	28	Non-recourse, fixed rate
Fifth Avenue Place	Calgary	7.59	August 2011	59	59	Non-recourse, fixed rate
1201 Louisiana Street	Houston	6.73	September 2011	101	101	Non-recourse, fixed rate
Potomac Tower	Washington, D.C.	4.72	November 2011	75	75	Non-recourse, fixed rate
300 Madison Avenue	New York	3.52	April 2012	59	59	Non-recourse, floating rate
Exchange Tower	Toronto	6.83	April 2012	50	50	Non-recourse, fixed rate
Royal Centre	Vancouver	4.96	May 2012	98	98	Non-recourse, fixed rate
HSBC Building	Toronto	8.19	October 2012	19	19	Non-recourse, fixed rate
105 Adelaide	Toronto	5.32	February 2013	18	18	Non-recourse, fixed rate
Bay Wellington Tower	Toronto	6.49	April 2013	275	275	Non-recourse, fixed rate
Hudson's Bay Centre ⁽⁷⁾	Toronto	5.20	May 2013	89	89	Non-recourse, fixed rate
75 State Street	Boston	5.50	June 2013	294	294	Partial-recourse, floating rate
Two World Financial Center	New York	6.91	September 2013	387	387	Non-recourse, fixed rate
Four World Financial Center	New York	6.95	September 2013	230	230	Non-recourse, fixed rate
601 South 12th Street	Washington, D.C.	5.42	October 2013	52	52	Non-recourse, fixed rate
701 South 12th Street	Washington, D.C.	5.42	October 2013	43	43	Non-recourse, fixed rate
Bankers Hall	Calgary	7.20	November 2013	140	140	Non-recourse, fixed rate
Republic Plaza	Denver	5.14	April 2014	161	161	Non-recourse, fixed rate
1625 Eye Street	Washington, D.C.	6.00	September 2014	123	123	Non-recourse, fixed rate
Two World Financial Center	New York	11.02	September 2014	111	111	Non-recourse, floating rate
53 State Street	Boston	5.96	August 2016	279	279	Non-recourse, fixed rate
One Bethesda	Washington, D.C.	5.66	October 2016	53	53	Non-recourse, fixed rate
One World Financial Center	New York	5.83	February 2017	309	309	Non-recourse, fixed rate
One Liberty Plaza	New York	6.14	September 2017	837	837	Non-recourse, fixed rate
West 33 rd Street ⁽⁵⁾	New York	5.90	April 2018	122	122	Non-recourse, fixed rate
22 Front Street	Toronto	6.24	October 2020	16	16	Non-recourse, fixed rate
33 South Sixth Street ⁽⁴⁾	Minneapolis	8.72	May 2028	91	91	Non-recourse, fixed rate
701 9th Street	Washington, D.C.	6.73	December 2028	153	153	Non-recourse, fixed rate
300 Madison Avenue	New York	7.26	April 2032	400	400	Non-recourse, fixed rate
Total Direct		6.08		\$ 5,518	\$ 5,518	
U.S. Office Fund						
Two Ballston Plaza	Washington, D.C.	6.91	March 2009	\$ 16	\$ 25	Non-recourse, fixed rate
Bethesda Crescent	Washington, D.C.	7.07	March 2009	20	32	Non-recourse, fixed rate
2000 L Street	Washington, D.C.	6.26	March 2009	35	56	Non-recourse, fixed rate
Silver Spring Metro Plaza ⁽⁸⁾	Washington, D.C.	6.00	June 2009	60	97	Non-recourse, floating rate
2401 Pennsylvania Avenue ⁽⁸⁾	Washington, D.C.	6.00	June 2009	11	17	Non-recourse, floating rate
1250 Connecticut ⁽⁸⁾	Washington, D.C.	6.00	June 2009	27	44	Non-recourse, floating rate
Waterview ⁽⁵⁾	Washington, D.C.	2.46	August 2009	3	5	Non-recourse, floating rate
1460 Broadway	New York	5.11	November 2012	—	11	Non-recourse, fixed rate
5670 Wilshire	Los Angeles	3.48	May 2013	—	57	Non-recourse, floating rate
Four Allen Center	Houston	5.77	October 2013	149	240	Non-recourse, fixed rate
Ernst & Young Plaza	Los Angeles	5.07	February 2014	69	111	Non-recourse, fixed rate
Grace Building	New York	5.54	July 2014	118	191	Non-recourse, fixed rate
1411 Broadway	New York	5.50	July 2014	—	109	Non-recourse, fixed rate
Bank of America Plaza	Los Angeles	5.31	September 2014	144	232	Non-recourse, fixed rate
2001 M Street	Washington, D.C.	5.25	December 2014	28	45	Non-recourse, fixed rate
Victor Building	Washington, D.C.	5.39	February 2016	31	50	Non-recourse, fixed rate
One New York Plaza	New York	5.50	March 2016	245	397	Non-recourse, fixed rate
Marina Towers	Los Angeles	5.84	April 2016	13	21	Non-recourse, fixed rate
U.S. Fund Pool debt	—	6.85	May 2011	138	306	Non-recourse, fixed rate
U.S. Fund corporate debt	—	3.70	October 2011	1,204	3,089	Non-recourse, floating rate
U.S. Fund Pool debt	—	1.95	October 2011	267	594	Non-recourse, floating rate
Total U.S. Office Fund		4.40		\$ 2,578	\$ 5,729	

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

⁽²⁾ Net of \$45 million of transaction costs

⁽³⁾ Reflects Brookfield Properties' effective 45% interest in the U.S. Office Fund

⁽⁴⁾ Commercial property debt of \$199 million relates to discontinued operations

⁽⁵⁾ Development debt

⁽⁶⁾ Has two one-year extension options available at maturity. The criteria to extend the first option to 2011 has been met as of December 31, 2008

⁽⁷⁾ Has a two-year extension option to May 2015 which is available to the company provided certain debt service and loan-to-value thresholds are met

⁽⁸⁾ Property debt is cross-collateralized

(\$ in millions)	Location	Rate %	Maturity Date	Dec. 31, 2008 ^(1,2)		Mortgage Details
				Proportional ⁽³⁾	Consolidated	
Canadian Office Fund						
Enbridge Tower	Edmonton	6.72	June 2009	\$ 2	\$ 2	Non-recourse, fixed rate
Place de Ville I	Ottawa	7.81	November 2009	5	5	Non-recourse, fixed rate
First Canadian Place	Toronto	8.06	December 2009	51	51	Non-recourse, fixed rate
151 Yonge Street	Toronto	6.01	June 2012	8	8	Non-recourse, fixed rate
Jean Edmonds Tower	Ottawa	5.55	January 2014	1	1	Non-recourse, fixed rate
2 Queen Street East	Toronto	5.64	December 2017	23	23	Non-recourse, fixed rate
Altius Centre	Calgary	5.64	December 2017	17	17	Non-recourse, fixed rate
Canadian Western Bank	Edmonton	5.64	December 2017	12	12	Non-recourse, fixed rate
Jean Edmonds Tower	Ottawa	6.79	January 2024	13	13	Non-recourse, fixed rate
Total Canadian Office Fund		6.81		\$ 132	\$ 132	
Corporate						
Corporate Revolver	—	1.54	June 2009	\$ 221	\$ 221	Recourse, floating rate
Term Facility	—	2.94	September 2009	104	104	Recourse, floating rate
Total Corporate				\$ 325	\$ 325	
Total Commercial Property Debt		5.07		\$ 8,553	\$ 11,704	

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

⁽²⁾ Net of \$45 million of transaction costs

⁽³⁾ Reflects Brookfield Properties' effective 45% interest in the U.S. Office Fund

Commercial property debt maturities for the next five years and thereafter are as follows:

(Millions)	Scheduled Amortization ⁽¹⁾	Maturities	Total ⁽²⁾	Weighted-Average Interest Rate at Dec. 31, 2008
2009	\$ 164	\$ 995	\$ 1,159	3.87%
2010	182	286	468	4.64%
2011 ⁽³⁾	191	4,463	4,654	3.98%
2012	199	182	381	6.24%
2013	61	1,286	1,347	5.93%
2014 and thereafter	669	3,026	3,695	6.14%
Total commercial property debt	\$ 1,466	\$ 10,238	\$ 11,704	5.07%

⁽¹⁾ Paid through our annual cash flows

⁽²⁾ Includes \$199 million of commercial property debt related to discontinued operations at December 31, 2008 (December 31, 2007 - nil)

⁽³⁾ Corporate mezzanine debt of \$3,089 million within the U.S. Office Fund matures in 2011

CONTRACTUAL OBLIGATIONS

The following table presents our contractual obligations over the next five years and thereafter:

(Millions)	Total	Payments Due By Period			
		1 year	2 - 3 Years	4 - 5 Years	After 5 Years
Commercial property debt ⁽¹⁾	\$ 11,704	\$ 1,159	\$ 5,122	\$ 1,728	\$ 3,695
Residential development debt	434	379	55	—	—
Capital securities - corporate	882	—	164	163	555
Capital securities - fund subsidiaries ⁽²⁾	240	—	—	—	240
Interest expense ⁽³⁾					
Commercial property debt	3,207	653	1,125	556	873
Capital securities - corporate	264	48	88	72	56
Capital securities - fund subsidiaries ⁽²⁾	135	28	56	51	—
Minimum rental payments - ground leases ⁽⁴⁾	2,983	28	54	55	2,846

⁽¹⁾ Net of transaction costs and includes \$199 million of debt associated with discontinued operations

⁽²⁾ Excludes redeemable equity interests

⁽³⁾ Represents aggregate interest expense expected to be paid over the term of the debt, on an undiscounted basis, based on current interest and foreign exchange rates

⁽⁴⁾ Represents payments on properties situated on land held under leases or other agreements

Credit Ratings

We are currently rated by two credit rating agencies, Dominion Bond Rating Service Inc. ("DBRS") and Standard & Poor's Rating Service ("S&P"). We are committed to arranging our affairs to maintain these ratings and improve them further over time.

The credit ratings for the company at December 31, 2008 and at the date of this report were as follows:

	DBRS	S&P
Corporate rating	BBB(high)	BBB
Preferred shares	Pfd-3(high)	P3(high)

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings presented are not recommendations to purchase, hold or sell the company's common or preferred shares, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Corporate Guarantees and Contingent Obligations

We conduct our operations through entities that are fully or proportionately consolidated in our financial statements except for our investment in Brookfield LePage Johnson Controls and a 23.75% investment in Oakridges, a residential development project in Toronto, which are both equity accounted.

We may be contingently liable with respect to litigation and claims that arise in the normal course of business as well as for certain obligations of our associates in joint ventures. In addition, we may execute agreements that provide for indemnifications and guarantees to third parties. Disclosure of guarantees, contingencies and commitments can be found in Note 24 to our consolidated financial statements.

ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities totaled \$1,168 million at December 31, 2008, compared with \$1,357 million at December 31, 2007. Accounts payable and accrued liabilities decreased to \$525 million from \$613 million at December 31, 2007, primarily due to the settlement of an interest rate swap which we entered into during 2007 to hedge the interest rate risk associated with the anticipated issuance of \$350 million of fixed rate debt. As a result of the settlement of this swap in the second quarter, accounts payable decreased approximately \$33 million. There was also a reduction in our residential payables due to the slowing activity in that business as well as a reduction in our land development debt. This financing is primarily recourse in nature to the underlying residential development properties and relates to construction and development loans, which are repaid from the sales proceeds of building lots and homes, and other short-term advances. As new homes are constructed, loans are funded on a rolling basis. This financing had a weighted average interest rate of 3.87% at December 31, 2008 (December 31, 2007 - 6.17%).

A summary of the components of accounts payable and other liabilities is as follows:

(Millions)	Dec. 31, 2008	Dec. 31, 2007
Accounts payable and accrued liabilities	\$ 525	\$ 613
Straight-line rent payable	70	59
Residential payables and accrued liabilities	139	184
Land development debt	434	501
Total	\$ 1,168	\$ 1,357

INTANGIBLE LIABILITIES

Intangible liabilities consist of below-market tenant leases and above-market ground lease obligations assumed on acquisitions, net of related accumulated amortization.

The components of intangible liabilities are as follows:

(Millions)	Dec. 31, 2008	Dec. 31, 2007
Intangible liabilities		
Below-market leases	\$ 996	\$ 971
Above-market ground lease obligations	40	58
	1,036	1,029
Less accumulated depreciation		
Below-market leases	(322)	(189)
Above-market ground lease obligations	(7)	(6)
Total net	\$ 707	\$ 834

FUTURE INCOME TAXES

At December 31, 2008, we had a net future income tax liability of \$247 million broken out as follows:

(Millions)	2008	2007
Future income tax assets:		
Loss carryforwards	\$ 134	\$ 344
Deferred financing costs	6	44
	140	388
Future income tax liabilities:		
Properties	314	840
Deferred revenue	41	134
Other	32	14
	387	988
Net future income tax liabilities	\$ 247	\$ 600

Together with our Canadian subsidiaries, we have future income tax assets of \$32 million (2007 - \$117 million) that relate to non-capital losses which expire over the next 20 years and \$73 million (2007 - \$106 million) that relate to capital losses which have no expiry. Our U.S. subsidiaries have future income tax assets of \$29 million (2007 - \$121 million) that relate to net operating losses which expire over the next 20 years.

During 2008, our U.S. office properties subsidiary determined that it would elect to be taxed as a real estate investment trust, the impact of which is described in more detail on page 45.

CAPITAL SECURITIES - CORPORATE

Pursuant to CICA Handbook section 3862, "Financial Instruments – Disclosure and Presentation," financial instruments that may be settled, at our option, in cash or the equivalent value of a variable number of the company's equity instruments are required to be presented as a liability. Accordingly, certain of our Class AAA preferred shares are classified as liabilities under the caption "Capital securities."

We have the following capital securities – corporate outstanding:

(Millions, except share information)	Shares Outstanding	Cumulative Dividend Rate	Dec. 31, 2008	Dec. 31, 2007 ⁽¹⁾
Class AAA Series E	8,000,000	70% of bank prime	\$ —	\$ —
Class AAA Series F	8,000,000	6.00%	163	199
Class AAA Series G	4,400,000	5.25%	109	109
Class AAA Series H	8,000,000	5.75%	162	199
Class AAA Series I	8,000,000	5.20%	164	199
Class AAA Series J	8,000,000	5.00%	163	198
Class AAA Series K	6,000,000	5.20%	121	149
Total			\$ 882	\$ 1,053

⁽¹⁾ Net of transaction costs of \$6 million and \$7 million at December 31, 2008 and December 31, 2007, respectively

For redemption dates, refer to Note 15 of the consolidated financial statements

For details regarding the terms on our capital securities – corporate, refer to our Annual Information Form

CAPITAL SECURITIES – FUND SUBSIDIARIES

We consolidate our investment in the U.S. Office Fund. Capital securities within our U.S. Office Fund are as follows:

(Millions)	Dec. 31, 2008	Dec. 31, 2007
Debt securities	\$ 240	\$ 234
Redeemable equity interests	471	505
Total	\$ 711	\$ 739

Debt securities consist of partner contributions to the U.S. Office Fund by way of an unsecured debenture. The debenture matures on October 31, 2013 and bears interest at 11%. Effective April 2007, the U.S. Office Fund has the right to redeem the debenture for cash, an equity interest in a subsidiary of the U.S. Office Fund, or assets with an equivalent fair value. In the event that the U.S. Office Fund elects to redeem the debenture for cash, the redemption amount will not exceed the fair value of the aforementioned equity interest.

Redeemable equity interests include \$426 million representing the equity interest in the U.S. Office Fund held by our joint venture partner, The Blackstone Group ("Blackstone"). Under the terms of the joint venture agreement, commencing in 2011 Blackstone has the option to put its interest in the venture in exchange for certain properties that are sub-managed by Blackstone. If Blackstone does not exercise this option, in 2013 the Brookfield Properties-led consortium has the option to call Blackstone's interest in the venture in exchange for the Blackstone sub-managed properties. On exercise of either the put or call, the parties are subject to certain cash adjustment payments to compensate for

differences between the actual distributions and cashflows of the respective sub-managed properties, as well as changes in fair values of such properties from the date of acquisition to the put or the call closing date. Such cash adjustments also provide for cross participation in cashflows and changes in fair value of each party's sub-managed properties. Blackstone's equity interest is classified as a liability (Capital securities – fund subsidiaries) in our financial statements, as we could be obligated to transfer assets to Blackstone as a result of Blackstone's put option. The carrying amount of the liability is determined based on the carrying amount of the properties to be transferred to Blackstone on exercise of its put plus the cash adjustment payments accrued based on the relative performance of the properties. The balance of redeemable equity interests is comprised of \$45 million of redeemable preferred securities bearing interest at 6%.

NON-CONTROLLING INTERESTS – FUND SUBSIDIARIES

At December 31, 2008, non-controlling interests – fund subsidiaries was \$212 million (2007 – \$216 million) and represents equity contributions by other U.S. Office Fund investors in the Brookfield Properties-led consortium.

NON-CONTROLLING INTERESTS – OTHER SUBSIDIARIES

In addition to our 100% owned subsidiaries and our U.S. Office Fund, we conduct our commercial property operations through BPO Properties Ltd. (“BPO Properties”) in Canada, which holds substantially all of our Canadian assets other than Brookfield Place in Toronto, and through Brookfield Financial Properties, L.P. (“Brookfield Financial Properties”) in the U.S., which holds substantially all of our Direct interests in our New York, Boston and some of our Washington, D.C. assets. Also, our residential subsidiary, Carma Inc., consolidates UCAR Development LLC, a joint venture in which it holds a 50% interest.

The following table details the components of non-controlling interests:

(Millions)	Others' Equity Ownership	Dec. 31, 2008	Dec. 31, 2007
Common shares of BPO Properties ⁽¹⁾	10.8%	\$ 45	\$ 73
Limited partnership units of Brookfield Financial Properties	0.6%	13	13
UCAR joint venture ⁽²⁾	50.0%	10	—
Total		\$ 68	\$ 86

⁽¹⁾ Canadian dollar denominated

⁽²⁾ New joint venture in 2008

Non-controlling interests in BPO Properties decreased to \$45 million at December 31, 2008, from \$73 million at December 31, 2007, primarily due to a special dividend paid during 2008 as well as the impact of foreign exchange.

PREFERRED EQUITY – SUBSIDIARIES

In addition to the preferred equity classified as capital securities, we had \$313 million of preferred equity outstanding at December 31, 2008 issued by BPO Properties. These preferred shares represent low-cost capital to Brookfield Properties, without dilution to the common equity base. Dividends paid on these preferred shares are a component of non-controlling interest expense.

The following table details the preferred shares issued by BPO Properties:

(Millions, except share information)	Shares Outstanding	Preferred Shares Series	Cumulative Dividend Rate	Dec. 31, 2008	Dec. 31, 2007
	1,805,489	Series G	70% of bank prime	\$ 37	\$ 45
	3,816,527	Series J	70% of bank prime	78	96
	300	Series K	30-day BA + 0.4%	124	150
	2,847,711	Series M	70% of bank prime	58	71
	800,000	Series N	30-day BA + 0.4%	16	20
Total				\$ 313	\$ 382

During 2008, dividends of \$13 million were paid on preferred shares issued by BPO Properties, compared with \$17 million in 2007.

PREFERRED EQUITY – CORPORATE

At December 31, 2008 we had \$45 million of preferred equity outstanding. Similar to the preferred shares issued by subsidiaries, these preferred shares represent low-cost capital to us, without dilution to our common equity base. Dividends paid on these preferred shares are accounted for as capital distributions.

We have the following preferred shares outstanding:

(Millions, except share information)	Shares Outstanding	Cumulative Dividend Rate	Dec. 31, 2008	Dec. 31, 2007
Class A redeemable voting	14,202,000	7.50%	\$ 11	\$ 11
Class AA Series E	2,000,000	70% of bank prime	34	34
Total			\$ 45	\$ 45

For details regarding the terms on our preferred shares, refer to our Annual Information Form

During 2008, we paid preferred dividends of \$3 million, consistent with preferred dividends paid in 2007.

COMMON EQUITY

As at December 31, 2008, we had 391,118,440 issued and outstanding common shares. On a diluted basis, we had 400,836,656 common shares outstanding, calculated as follows:

	Dec. 31, 2008	Dec. 31, 2007
Common shares outstanding	391,118,440	392,805,608
Unexercised options	9,718,216	8,256,994
Common shares outstanding – diluted ⁽¹⁾	400,836,656	401,062,602
Common shares repurchased	2,268,600	4,513,720

⁽¹⁾ Includes all potential common shares at December 31, 2008 and December 31, 2007

In 2008, we repurchased 2,268,600 shares at an average price of \$17.65 per share. Since the inception of our normal course issuer bid in 1999, we have repurchased approximately 38 million shares at an average price of \$11.96 per share on a post-split adjusted basis.

At December 31, 2008, the book value of our common equity was \$3.4 billion, compared with a market equity capitalization of approximately \$3.0 billion, calculated as total common shares outstanding multiplied by \$7.73, the closing price per common share on the New York Stock Exchange on December 31, 2008.

Our book value per share is calculated as follows:

(Millions, except per share information)	Dec. 31, 2008	Dec. 31, 2007
Shareholders' equity	\$ 3,427	\$ 3,078
Less: preferred equity	(45)	(45)
	3,382	3,033
Add: option proceeds ⁽¹⁾	144	113
Fully diluted common shareholders' equity	3,526	3,146
Fully diluted common shares outstanding	400.8	401.1
Book value per share	\$ 8.80	\$ 7.84

⁽¹⁾ Calculated as options outstanding multiplied by the weighted average exercise price of options outstanding at period end

Like most commercial real estate companies within our peer group, our share price traded down materially in the latter part of 2008. Compounding a decline in 2008 across most major indices, commercial real estate was hit particularly hard as a result of perceived pressures on balance sheet liquidity from financing risk. In addition, companies with tenant exposure concentrated in financial service focused markets, like New York, experienced additional share price pressure. As a result of this, at December 31, 2008 our book value per share of \$8.80 exceeded our market value per share. In assessing whether current trading prices of our shares, or the general economic environment, was indicative of carrying value not being recoverable, a detailed impairment analysis was prepared for each of our properties and inventory. The analysis confirmed that the carrying value of our assets is supported by the cashflows expected to be generated through their operation. We did, however, recognize an impairment loss of \$140 million, net of tax, in connection with the write-down of our Minneapolis portfolio as a result of the reclassification to discontinued operations and the estimated net proceeds that may be realized on the sale in the next 12 months.

CAPITAL RESOURCES AND LIQUIDITY

We employ a broad range of financing strategies to facilitate growth and manage financial risk, with particular emphasis on the overall reduction of the weighted average cost of capital, in order to enhance returns for common shareholders. Our principal liquidity needs for the next twelve months are to:

- fund recurring expenses;
- meet debt service requirements;
- make dividend payments;
- fund those capital expenditures deemed mandatory, including tenant improvements;
- fund current development costs not covered under construction loans; and
- fund investing activities which could include:
 - discretionary capital expenditures;
 - repurchase of our stock; and
 - property acquisitions.

We believe that our liquidity needs will be satisfied using cash on hand, cashflows generated from operating and financing activities, as well as proceeds from asset sales. Rental revenue, recoveries from tenants, interest and other income, available cash balances, draws on our corporate credit facilities and refinancing of maturing indebtedness are our principal sources of capital used to pay operating expenses, dividends, debt service and recurring capital and leasing costs in our commercial property portfolio. We seek to increase income from our existing properties by maintaining quality standards for our properties that promote high occupancy rates and support increases in rental rates while reducing tenant turnover and related retensing costs, and by controlling operating expenses. Another source of cashflow includes third-party fees generated by our asset management, leasing and development businesses. In addition, our tax status and tax loss pools allow us to retain and reinvest cash generated by our operations without incurring significant cash taxes. Consequently, we believe our revenue along with proceeds from financing activities will continue to provide the necessary funds for our short-term liquidity needs. However, material changes in these factors may adversely affect our net cashflows.

Our principal liquidity needs for periods beyond the next twelve months are for scheduled debt maturities, non-recurring capital expenditures, development costs and potential property acquisitions. We plan to meet these needs with one or more of the following:

- cashflows from operations;
- construction loans;
- establishment of new funds;
- proceeds from sales of assets; and
- our credit facilities and refinancing opportunities.

Our commercial property debt is primarily fixed-rate and non-recourse to the company. These investment-grade financings are typically structured on a loan-to-appraised value basis of between 55% and 65% as market conditions permit. In addition, in certain circumstances where a building is leased almost exclusively to a high-credit quality tenant, a higher loan-to-value financing, based on the tenant's credit quality, is put in place at rates commensurate with the cost of funds for the tenant. This reduces our equity requirements to finance commercial property, and enhances equity returns.

Most of our borrowings are in the form of long-term property-specific financings with recourse only to the specific assets. Limiting recourse to specific assets ensures that poor performance within one area does not compromise our ability to finance the balance of our operations. Our maturity schedule is fairly diversified so that financing requirements in any given year are manageable.

Our focus on structuring financings with investment grade characteristics ensures that debt levels on any particular asset can typically be maintained throughout a business cycle, and so enables us to limit covenants and other performance requirements, thereby reducing the risk of early payment requirements or restrictions on the distribution of cash from the assets being financed.

The sustainability of our capital strategy has been demonstrated by the \$1.3 billion in debt financings completed in 2008, with which new proceeds were used to refinance existing obligations.

We attempt to maintain a level of liquidity to ensure we are able to react to investment opportunities quickly and on a value basis. Our primary sources of liquidity consist of cash and undrawn committed credit facilities. In addition, we structure our affairs to facilitate monetization of longer-duration assets through financings, co-investor participations or refinancings.

At December 31, 2008, we had approximately \$736 million of liquidity consisting of \$157 million of cash and \$579 million of undrawn capacity on our credit facilities. Subsequent to year-end this was reduced to \$579 million as a result of the extension of the maturity of our corporate bank credit facility to June of 2011 which results in the reduction of the committed amount to \$388 million.

Utilization of Cash Resources

The following table illustrates the utilization of cashflow generated by our operating activities, and our financing and investing initiatives:

(Millions)	2008	2007	Total
Operating			
Increase in land and housing inventory and related working capital	\$ (148)	\$ (355)	\$ (503)
Net increase in cash from other operating activities	607	342	949
	459	(13)	446
Financing			
Commercial and corporate borrowings, net of repayments	(165)	375	210
Land development borrowings, net of repayments	12	219	231
Other acquisition financing arranged	—	130	130
Capital securities arranged – fund subsidiaries	34	—	34
Distributions to non-controlling interests	(36)	(19)	(55)
Net issuance (repurchase) of common shares	(35)	(100)	(135)
Preferred share dividends	(3)	(3)	(6)
Common share dividends	(220)	(216)	(436)
	(413)	386	(27)
Investing			
Loans receivable and other	35	40	75
Loans receivable - affiliate	—	(200)	(200)
Acquisitions of real estate, net	(16)	(307)	(323)
Dispositions of real estate, net	420	224	644
Development and redevelopment investments	(394)	(313)	(707)
Commercial property tenant improvements	(106)	(107)	(213)
Restricted cash and deposits	35	365	400
Capital expenditures	(77)	(49)	(126)
	(103)	(347)	(450)
(Decrease) increase in cash	\$ (57)	\$ 26	\$ (31)

Cashflow from operating activities represents a source of liquidity to service debt, to fund capital expenditures and leasing costs, and to fund distributions on shares. Cashflow from commercial operating activities is dependent upon occupancy levels of properties owned, rental rates achieved and timing of the collection of receivables and payment of payables.

For the year ended December 31, 2008, operating cashflow exceeded common share dividends paid by \$239 million. For the year ended December 31, 2007, common share dividends paid exceeded net cash provided from operating activities, primarily due to the continued expansion of our investment in residential development land and housing inventory which utilized approximately \$355 million of operating cashflow and was funded largely through land development borrowings. Excluding this, operating cashflow exceeded dividends paid by \$126 million.

Cost of capital

We continually strive to reduce our weighted average cost of capital and improve common shareholders' equity returns through value-enhancement initiatives and the consistent monitoring of the balance between debt and equity financing.

As at December 31, 2008, our weighted average cost of capital, assuming a 12% return on equity, was 5.30% (2007 – 7.19%). Our cost of capital is lower than many of our peers because of the greater amount of investment-grade financing which can be placed on our assets, a function of the high-quality nature of both the assets and the tenant base which comprise our portfolio. The decrease over the prior year is due to a decrease in our market capitalization.

The following schedule details the capitalization of the company at the end of 2008 and 2007 and the related costs thereof:

(Millions)	Cost of Capital ⁽¹⁾		Underlying Value ⁽²⁾	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Liabilities				
Commercial property debt	5.07%	6.65%	\$ 11,704	\$ 12,125
Residential debt	3.87%	6.17%	434	501
Capital securities – corporate	5.42%	5.42%	882	1,053
Capital securities – fund subsidiaries ⁽³⁾	10.00%	10.00%	711	739
Non-controlling interests – fund subsidiaries ⁽³⁾	10.00%	10.00%	212	216
Non-controlling interests – other subsidiaries ⁽⁴⁾	12.00%	12.00%	68	86
Preferred equity - subsidiaries	4.19%	4.40%	313	382
Shareholders' equity				
Preferred equity - corporate	3.68%	5.01%	45	45
Common equity ⁽⁵⁾	12.00%	12.00%	3,023	7,562
Total⁽⁶⁾	5.30%	7.19%	\$ 17,392	\$ 22,709

⁽¹⁾As a percentage of average book value

⁽²⁾Underlying value of liabilities represents the cost to retire on maturity. Underlying value of common equity is based on the closing stock price of Brookfield Properties' common shares

⁽³⁾Assuming 10% return on co-invested capital

⁽⁴⁾Assuming 12% return on co-invested capital

⁽⁵⁾Determined on a market value basis

⁽⁶⁾In calculating the weighted average cost of capital, the cost of debt has been tax-effected

OPERATING RESULTS

NET INCOME

Our net income for the year ended December 31, 2008 was \$700 million (\$1.77 per diluted share) compared to \$240 million (\$0.59 per diluted share) in 2007. The net increase in net income is largely a result of:

- a \$498 million decrease (\$1.27 per diluted share) in future income tax expense related to a gain of \$479 million recognized as a result of the conversion of our legacy U.S. operations to a real estate investment trust (“REIT”);
- \$68 million of growth (\$0.17 per diluted share) from commercial property operating income, primarily as a result of the acquisition of the remaining interest in 53 and 75 State Street in Boston in the fourth quarter of 2007 as well as the reclassification of Four Allen Center in Houston to an operating property in 2008, inclusive of an offsetting \$13 million (\$0.03 per diluted share) of costs incurred in the third quarter of 2008 as a result of damage to our Houston properties from Hurricane Ike;
- a decrease in interest expense of \$36 million (\$0.09 per diluted share) as a result of reduced LIBOR rates on our floating rate debt as well as the impact of various refinancings completed throughout 2008;
- no transaction costs in the current year as compared to 2007, which had transaction costs of \$44 million associated with the defeasance of debt on One Liberty Plaza in New York, in addition to costs related to the Trizec merger and integration;
- a \$24 million foreign exchange gain (\$0.06 per diluted share) resulting from the reduction of our net investment in BPO Properties, a self-sustaining subsidiary in our Canadian operations, on account of a special dividend paid;
- an increase of \$8 million (\$0.02 per diluted share) in interest and other income primarily due to \$7 million of income related to an asbestos settlement in our favor associated with One Liberty Plaza in New York, which was received in the second quarter of 2008, offset by:
 - a decrease in discontinued operations of \$96 million (\$0.24 per diluted share) primarily due to an impairment loss recognized on our Minneapolis properties, offset by the gain on the sale of TD Canada Trust Tower in Toronto;
 - a decrease in residential operations of \$93 million (\$0.24 per diluted share) mainly due to decreased land sales and home closings as a result of the slowing economy and an oversupply of homes in the Alberta market;
 - a reduction of \$10 million (\$0.03 per diluted share) in losses absorbed by co-investors in the U.S. Office Fund; and
 - an increase in depreciation and amortization expense of \$26 million (\$0.07 per diluted share) related to the acquisition of the remaining interest in 53 and 75 State Street in Boston in the fourth quarter of 2007, as well as the reclassification of Four Allen Center in Houston to operating in 2008.

Set out below is a summary of the various components of our net income and funds from operations. Discussion of each of these components is provided on the following pages.

(Millions)	2008	2007	2006
Total revenue	\$ 2,805	\$ 2,842	\$ 1,823
Net operating income			
Commercial property operations			
Operating income from commercial properties	1,328	1,256	795
Lease termination, non-recurring fee and other income	—	4	5
Total commercial property operations	1,328	1,260	800
Residential development operations	144	237	144
Interest and other income	52	44	44
	1,524	1,541	988
Expenses			
Interest			
Commercial property debt	637	673	408
Capital securities – corporate	57	61	53
Capital securities – fund subsidiaries	(70)	(27)	(12)
General and administrative	103	103	67
Non-controlling interests			
Fund subsidiaries	(22)	(75)	(21)
Other subsidiaries	20	23	19
Depreciation and amortization	545	519	257
Future income taxes	(429)	69	92
Other	(24)	44	15
Net income from continuing operations	707	151	110
Discontinued operations ⁽¹⁾	(7)	89	25
Net income	\$ 700	\$ 240	\$ 135
Net income per share – diluted			
Continuing operations	\$ 1.79	\$ 0.36	\$ 0.30
Discontinued operations	(0.02)	0.24	0.07
	\$ 1.77	\$ 0.60	\$ 0.37
Funds from operations per share – diluted			
Continuing operations	\$ 1.55	\$ 1.50	\$ 1.18
Discontinued operations	0.04	0.07	0.07
	\$ 1.59	\$ 1.57	\$ 1.25

⁽¹⁾ Refer to page 46 for further details on discontinued operations

It should be noted that challenges of comparability of net income exist among various real estate companies, as those entities structured as corporations, such as Brookfield Properties, are required to charge their earnings with tax expense, despite the presence of tax losses which reduce the cash tax obligation. This differs from those entities which operate as REITs, as REITs are not subject to taxation, provided they remain in compliance with specific tax codes.

Our net income per share and weighted average common shares outstanding are calculated as follows:

(Millions, except per share amounts)	2008	2007	2006
Net income	\$ 700	\$ 240	\$ 135
Preferred share dividends	(3)	(3)	(3)
Net income available to common shareholders	\$ 697	\$ 237	\$ 132
Weighted average shares outstanding – basic	392.3	395.9	348.6
Net income per share – basic	\$ 1.77	\$ 0.60	\$ 0.38
Weighted average shares outstanding – diluted	393.2	399.2	353.0
Net income per share – diluted	\$ 1.77	\$ 0.59	\$ 0.37
Weighted average shares outstanding – basic	392.3	395.9	348.6
Unexercised options	0.9	3.3	4.4
Weighted average shares outstanding – diluted	\$ 393.2	\$ 399.2	\$ 353.0

RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS

(Millions)	2008	2007	2006
Net income	\$ 700	\$ 240	\$ 135
Add (deduct) non-cash and certain non-recurring items:			
Depreciation and amortization	545	519	257
Income taxes	(429)	69	92
Discontinued operations ⁽¹⁾	23	(62)	—
Non-controlling interests in above items ⁽²⁾	(189)	(181)	(56)
Other ⁽³⁾	(24)	44	15
Funds from operations	\$ 626	\$ 629	\$ 443

⁽¹⁾ Represents depreciation and amortization, income taxes and dispositions related to discontinued operations

⁽²⁾ Includes non-cash component of capital securities – fund subsidiaries of \$93 million (2007 – \$82 million)

⁽³⁾ Represents a foreign exchange gain in the current year of \$24 million and transaction costs in 2007 (\$44 million) and 2006 (\$15 million)

After providing for preferred share dividends, our funds from operations per diluted share, excluding lease termination income and gains, is calculated as follows:

(Millions, except per share amounts)	2008	2007	2006
Funds from operations	\$ 626	\$ 629	\$ 443
Preferred share dividends	(3)	(3)	(3)
	623	626	440
Funds from operations per share – diluted	\$ 1.59	\$ 1.57	\$ 1.25

REVENUE

The components of revenue are as follows:

(Millions)	2008	2007	2006
Commercial property revenue			
Revenue from continuing operations	\$ 2,205	\$ 2,054	\$ 1,285
Recurring fee income	43	40	29
Lease termination, non-recurring fee and other income	—	4	5
Total commercial property revenue	2,248	2,098	1,319
Revenue from residential development operations	505	700	460
Revenue from commercial property and residential development operations	2,753	2,798	1,779
Interest and other	52	44	44
Total	\$ 2,805	\$ 2,842	\$ 1,823

COMMERCIAL PROPERTY OPERATIONS

Commercial property net operating income totaled \$1,328 million in 2008 compared with \$1,260 million in 2007 and \$800 million in 2006.

The components of commercial property net operating income from continuing operations are as follows:

(Millions)	2008	2007	2006
Commercial property revenue			
Revenue from current properties	\$ 2,031	\$ 1,870	\$ 1,225
Straight-line rental income	35	47	17
Intangible lease amortization	139	137	43
Revenue from continuing operations	2,205	2,054	1,285
Recurring fee income	43	40	29
Lease termination, non-recurring fee and other income	—	4	5
Total commercial property revenue	2,248	2,098	1,319
Property operating costs	(920)	(838)	(519)
Commercial property net operating income	\$ 1,328	\$ 1,260	\$ 800

Our Direct net operating income as well as our net operating income from our funds for the years ended 2008, 2007 and 2006 is as follows:

(Millions)	2008	2007	2006
Direct			
Same property	\$ 669	\$ 642	\$ 606
Properties acquired since December 31, 2007	38	—	—
Recurring fee income	33	28	21
	740	670	627
U.S. Office Fund			
Same property	526	543	135
Properties reclassified from redevelopment since December 31, 2007	17	—	—
Recurring fee income	2	3	—
	545	546	135
Canadian Office Fund			
Same property	35	35	31
Recurring fee income	8	9	7
	43	44	38
Total commercial property net operating income	\$ 1,328	\$ 1,260	\$ 800

The components of commercial property net operating income from discontinued operations are as follows:

(Millions)	2008	2007	2006
Discontinued operations			
Revenue	\$ 76	\$ 108	\$ 113
Property operating expenses	(41)	(55)	(69)
Net operating income from discontinued operations	\$ 35	\$ 53	\$ 44

Owing to our strategy of owning, proactively managing and developing premier properties in high-growth, and in many instances supply-constrained, markets with high barriers to entry, along with our focus on executing long-term leases with strong credit rated tenants, we have been able to reduce the exposure of our commercial property revenues to the cyclical nature of the real estate business. However, considering the severity of the current global economic slowdown, we are at risk that companies succumbing to financial pressures, may no longer have a need for all of their space leading to increased supply. To date, our results have not been materially impacted by tenant bankruptcies or by the softening market conditions. In addition, we were successful in 2008 in significantly reducing our lease expiry profile for the upcoming years and continue to have in-place net rents below market rents across our portfolio which will continue to add stability to our results going forward.

Revenue from commercial properties includes rental revenues earned from tenant leases, straight-line rent, percentage rent and additional rent from the recovery of operating costs and property taxes as well as recurring fee income and lease termination and other income. Revenue from commercial properties totaled \$2,248 million during the year ended December 31, 2008, compared with \$2,098 million during the same period in 2007. The increase is primarily a result of additional income from our Boston properties due to the purchase of the remaining interest in 53 and 75 State Street in the fourth quarter of 2007 as well as income from Four Allen Center in Houston, which became operational during the first quarter of 2008.

Our leases generally have clauses which provide for the collection of rental revenues in amounts that increase every five years, with these increases negotiated at the signing of the lease. The large number of high-credit quality tenants in our portfolio lowers the risk of not realizing these increases. GAAP requires that these increases be recorded on a straight-line basis over the life of the lease. For the year ended December 31, 2008, we recognized \$35 million of straight-line rental revenue, as compared to \$47 million during the same period in 2007.

Commercial property operating costs, which include real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses, were \$920 million during the year ended December 31, 2008, as compared to \$838 million during the same period in 2007. In 2008 we incurred additional costs on the remaining interests in our Boston properties at 53 and 75 State Street, which were acquired in December 2007, as well as costs associated with Four Allen Center in Houston, which became operational during the first quarter of 2008. The additional operations of these properties accounted for approximately \$56 million of the increase over 2007. Additionally, we incurred \$13 million of costs related to damage to our Houston properties in the third quarter of 2008 caused by Hurricane Ike. While we insure our buildings at standard commercial terms, the damage to our properties from Hurricane Ike was less than our deductible for a named wind storm. Offsetting these increases is the sale of TD Canada Trust Tower in Toronto, which took place in the third quarter of 2008.

Substantially all of our leases are net leases in which the lessee is required to pay their proportionate share of property operating expenses such as utilities, repairs, insurance and taxes. Consequently, leasing activity, which affects both occupancy and in-place rental rates, is the principal contributor to the change in same property net operating income. During 2008, occupancy decreased slightly due some lease expiries and lease terminations offset by lease-ups in New York, Washington, D.C., Houston, Los Angeles, Toronto, Calgary and Minneapolis as compared to the same period in 2007. At December 31, 2008, average in-place net rent throughout the portfolio was \$22.72 per square foot compared with \$23.63 per square foot at December 31, 2007.

The following table shows the average in-place rents and estimated current market rents for similar space in each of our markets as at December 31, 2008:

	Leasable Area (000's Sq. Ft.)	Avg. Lease Term (Years)	Avg. In-Place Net Rent (\$ per Sq. Ft.)	Avg. Market Net Rent (\$ per Sq. Ft.)
New York, New York				
Midtown	6,527	10.7	\$ 37.34	\$ 68
Downtown	13,719	7.9	26.76	37
Boston, Massachusetts	1,990	5.8	30.02	30
Washington, D.C.	5,619	6.5	25.15	35
Houston, Texas	8,280	6.7	12.73	24
Los Angeles, California	8,624	5.2	20.90	25
Toronto, Ontario	7,617	6.2	20.53	22
Calgary, Alberta	5,681	9.2	23.67	33
Ottawa, Ontario	1,750	5.1	14.87	18
Denver, Colorado	1,324	6.5	17.31	22
Minneapolis, Minnesota	2,530	5.7	9.85	15
Other	1,253	7.5	11.72	22
Total⁽¹⁾	64,914	6.9	\$ 22.72	\$ 32

⁽¹⁾ Excludes developments

Our total portfolio occupancy rate decreased by 70 basis points to 94.9% at December 31, 2008 compared with 95.6% at December 31, 2007 primarily due to lease expiries offset by lease renewals.

A summary of our occupancy levels for the past two years is as follows:

(Thousands of square feet)	Dec. 31, 2008		Dec. 31, 2007	
	Leasable Sq. Ft.	% Leased	Leasable Sq. Ft.	% Leased
New York, New York				
Midtown	6,527	90.4	6,298	95.0
Downtown	13,719	99.0	12,901	99.2
Total New York, New York	20,246	96.2	19,199	97.8
Boston, Massachusetts	1,990	94.3	1,887	96.5
Washington, D.C.	5,619	93.3	5,532	92.5
Houston, Texas	8,280	94.9	7,012	95.1
Los Angeles, California	8,624	85.9	8,533	87.5
Toronto, Ontario	7,617	97.8	8,824	97.9
Calgary, Alberta	5,681	99.9	5,681	99.8
Ottawa, Ontario	1,750	99.5	1,750	99.3
Denver, Colorado	1,324	97.7	1,292	97.5
Minneapolis, Minnesota	2,530	92.6	2,487	92.4
Other	1,253	98.3	1,400	94.9
Total⁽¹⁾	64,914	94.9	63,597	95.6

⁽¹⁾ Excludes developments

During 2008, we leased 7.1 million square feet of space at an average leasing net rent of \$26.16 per square foot. This included 3.0 million square feet of new leases and 4.1 million square feet of renewals. Expiring net rent for the portfolio averaged \$18.50 per square foot.

The details of our leasing activity for 2008 are as follows:

(Square feet in 000's)	Dec. 31, 2007		Activities During the Year Ended December 31, 2008						Dec. 31, 2008	
	Leasable Sq. Ft. ^(1,2)	Leased Sq. Ft. ^(1,2)	Expiries Sq. Ft. ⁽¹⁾	Average Expiring Net Rent (\$ per sq. ft.)	Leasing Sq. Ft. ⁽¹⁾	Year One Leasing Net Rent (\$ per sq. ft.)	Average Leasing Net Rent (\$ per sq. ft.)	Acq./ (Disp.) Sq. Ft. ^(1,3)	Leasable Sq. Ft. ⁽¹⁾	Leased Sq. Ft. ⁽¹⁾
New York, New York										
Midtown	6,527	6,214	(555)	\$ 33.59	241	\$ 78.06	\$ 80.58	—	6,527	5,900
Downtown	13,719	13,638	(302)	25.85	242	30.08	32.61	—	13,719	13,578
Boston, Massachusetts	1,990	1,921	(130)	33.05	86	38.37	40.01	—	1,990	1,877
Washington, D.C.	5,619	5,179	(622)	21.86	683	26.71	27.77	—	5,619	5,240
Houston, Texas	7,013	6,665	(1,370)	11.97	1,293	15.56	16.07	1,267	8,280	7,855
Los Angeles, California	8,624	7,536	(1,187)	18.83	1,058	23.36	26.43	—	8,624	7,407
Toronto, Ontario	8,824	8,637	(856)	19.80	872	24.78	25.41	(1,200)	7,617	7,453
Calgary, Alberta	5,681	5,667	(2,190)	17.03	2,197	25.49	26.97	—	5,681	5,674
Ottawa, Ontario	1,750	1,739	(75)	12.18	78	17.14	17.24	—	1,750	1,742
Denver, Colorado	1,324	1,291	(26)	17.05	28	22.36	23.01	—	1,324	1,293
Minneapolis, Minnesota	2,530	2,345	(227)	5.95	224	7.41	8.43	—	2,530	2,342
Other	1,402	1,329	(97)	10.02	100	20.59	21.14	(100)	1,253	1,232
Total ⁽¹⁾	65,003	62,161	(7,637)	\$ 18.50	7,102	\$ 24.74	\$ 26.16	(33)	64,914	61,593

⁽¹⁾Excludes developments

⁽²⁾Restated for remeasurements performed during the first quarter of 2008

⁽³⁾Reclassified 1,267,000 square feet from development properties to commercial properties in connection with Four Allen Center in Houston

Acquisitions

The value created in our mature commercial properties provides us with the opportunity to generate gains and a potential source of capital available to reinvest in other assets at higher returns. The acquisitions of the remaining interest in our Boston properties at 53 and 75 State Street and the reclassification of Four Allen Center in Houston to operational provided \$55 million to net operating income for the year ended December 31, 2008.

Recurring fee income

Fee income includes property management fees, leasing fees and project management fees relating to certain co-owned properties. Fee income serves as a cashflow supplement to enhance returns from co-owned assets. We also earn fees through Brookfield Residential Services Ltd. and Brookfield LePage Johnson Controls. Brookfield Residential Services Ltd. has been managing condominiums in the Greater Metropolitan Toronto area for the past 29 years and manages in excess of 55,000 units in over 280 condominium corporations. Brookfield LePage Johnson Controls, one of the largest facilities management operations in Canada, is owned 40% by Brookfield Properties in partnership with Johnson Controls. This joint venture manages nearly 199 million square feet of premises for major corporations and government, comprised of 101 million square feet of facility management services, 67 million square feet of workplace technology services and 30 million square feet of energy and sustainability services, representing growth of 22 million square feet of facility management services and 30 million square feet of energy and sustainability services from 2007.

The details of our fee income are as follows:

(Millions)	2008	2007	2006
Property management, leasing, project management and other fees	\$ 20	\$ 20	\$ 13
Brookfield Residential Services Ltd. fees	20	17	13
Brookfield LePage Johnson Controls	3	3	3
Total	\$ 43	\$ 40	\$ 29

The generation of fee income is not viewed as a separate business segment; however, with the establishment of our office funds, the associated fees represent an important area of growth for us and are expected to increase as we expand our assets under management. These fees typically include a stable base fee for providing regular ongoing services as well as performance fees that are earned when the performance of the fund exceeds certain predetermined benchmarks. We will also earn transaction fees for investment and leasing activities conducted on behalf of these funds.

RESIDENTIAL DEVELOPMENT OPERATIONS

Our residential development operations are located in five markets: Alberta, Ontario, Colorado, Texas and Missouri. Most of our land holdings were purchased in the mid-1990s, and as a result have an embedded cost advantage over many companies which acquired land at much higher prices.

Our residential development operations contributed \$144 million of net operating income during the year ended December 31, 2008, as compared to \$237 million during the same period in 2007. The decrease is due mainly to decreased land sales and home closings caused by a slowing economy and an oversupply of homes in the Alberta market. Although there has been minimal impact to date on lot prices, housing sales prices were reduced in 2008 relative to 2007 bringing margins on home sales closer to historical levels.

The components of residential development net operating income are as follows:

(Millions)	2008	2007	2006
Sales revenue	\$ 505	\$ 700	\$ 460
Operating costs	(361)	(463)	(316)
Total	\$ 144	\$ 237	\$ 144

Lot sales for the past three years and the related revenue earned are as follows:

	Lot Sales (Units/Acres)			Lot Sales Revenue (Millions)			Average Lot Sales Revenue (Thousands)		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Single Family (Lots)									
Alberta	1,173	1,711	2,231	\$192	\$257	\$244	\$157	\$152	\$110
Ontario	124	152	—	14	18	—	116	117	—
Colorado	98	123	96	12	13	6	118	107	63
Texas	—	102	55	—	4	2	—	43	36
Missouri	4	1	64	—	—	2	72	100	31
Total Single Family (Lots)	1,399	2,089	2,446	218	292	254			
Total Single Family (Acre Equivalent) ⁽¹⁾	214	345	384						
Multi-Family, Commercial and Industrial (Acres)									
Alberta	47	85	63	45	112	33	209	192	131
Ontario	295	—	—	19	—	—	64	—	—
Total Land Sales Revenue				\$282	\$404	\$287			

⁽¹⁾ Represents lots converted to acres based on a conversion factor of four to seven lots per acre depending on region

Home sales for the past three years and the related revenue earned are as follows:

	Home Sales (Units/Acres)			Home Sales Revenue (Millions)			Average Home Sales Revenue (Thousands)		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Single Family									
Alberta	245	441	341	\$77	\$124	\$64	\$313	\$279	\$187
Ontario	305	248	280	88	73	73	290	296	281
	550	689	621	165	197	137			
Multi-Family									
Alberta	195	332	197	58	92	36	297	277	184
Ontario	—	29	—	—	7	—	—	247	224
Total	745	1,050	818	\$223	\$296	\$173			

Residential development operating costs, which include land costs, land servicing costs, housing development costs, property taxes and other related costs decreased to \$361 million in 2008 from \$463 million in 2007. These costs decreased as a result of lower sales volume, declines in construction costs related to our home building operations as well as the foreign exchange due to the decline in the Canadian dollar.

INTEREST AND OTHER INCOME

Interest and other income includes interest charged on real estate mortgages and residential receivables, interest received on cash balances, and transactional gains. Interest and other income was \$52 million during the year ended December 31, 2008, compared to \$44 million during the year ended December 31, 2007. The 2008 results include \$7 million of income related to an asbestos settlement in our favor associated with One Liberty Plaza.

INTEREST EXPENSE

Commercial property debt

Interest expense relating to commercial property debt decreased to \$637 million in 2008 from \$673 million during 2007. This decrease is largely attributable to the benefit of lower LIBOR rates throughout 2008. Average LIBOR during 2008 was approximately 2.0% as compared to approximately 4.2% during 2007. Offsetting these decreases is additional interest on 53 and 75 State Street in Boston as a result of the purchase of the remaining interest during the fourth quarter of 2007 as well as interest on various financings and refinancings done throughout the year.

Capital securities – corporate

Interest expense on capital securities – corporate relates to preferred share dividends reclassified to interest expense. This amount decreased to \$57 million in 2008 from \$61 million in 2007 due to foreign exchange fluctuations as well as the cessation of interest expense on the Class AAA Series E shares that were offset with a deposit to BAM, our parent company, in the third quarter of 2007.

Capital securities – fund subsidiaries

Interest expense on capital securities – fund subsidiaries represents expenses related to the following interests in the U.S. Office Fund:

(Millions)	2008	2007	2006
Interest on debt securities	\$ (13)	\$ 26	\$ 7
Interest on redeemable equity interests	36	29	4
	23	55	11
Non-cash component ⁽¹⁾	(93)	(82)	(23)
Total	\$ (70)	\$ (27)	\$ (12)

⁽¹⁾ Represents co-investors share of non-cash items, such as depreciation and amortization

In 2008, interest on debt securities includes a gain of \$38 million representing the effect of a change in the estimated cash flows to settle the obligation.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative costs during the year ended 2008 remained consistent at \$103 million from 2007. Included in general and administrative expenses is a foreign exchange gain related to the monetary asset position we carry on our Canadian denominated assets. The gain for 2008 was \$15 million (2007 - \$1 million), although this gain is partially offset by the impact of a stronger Canadian dollar on the translation of general and administrative expenses associated with our Canadian operations. The prior year included a gain of approximately \$3 million associated with the change in our share price, as our Deferred Share Unit Plan was not hedged for part of 2007. Also included in general and administrative expenses is \$17 million (2007 - \$16 million) of expenses related to the operations of our subsidiary, Brookfield Residential Services Ltd.

NON-CONTROLLING INTERESTS

Fund subsidiaries

Non-controlling interests in our U.S. Office Fund are as follows:

(Millions)	2008	2007	2006
Non-controlling interests	\$ 74	\$ 62	\$ 1
Non-cash component ⁽¹⁾	(96)	(111)	(22)
Total non-controlling interests – fund subsidiaries	\$ (22)	\$ (49)	\$ (21)

⁽¹⁾ Represents co-investors share of non-cash items, such as depreciation and amortization

Non-controlling interests – fund subsidiaries consists of non-controlling interests from continuing operations and discontinued operations as follows:

(Millions)	2008	2007	2006
Non-controlling interests – fund subsidiaries – continuing operations	\$ (22)	\$ (75)	\$ (21)
Non-controlling interests – fund subsidiaries – discontinued operations	—	26	—
Total non-controlling interests – fund subsidiaries	\$ (22)	\$ (49)	\$ (21)

Other subsidiaries

Non-controlling interests – other subsidiaries consists of earnings attributable to interests not owned by Brookfield Properties in BPO Properties and Brookfield Financial Properties, as well as dividends on shares issued by BPO Properties.

For the year ended December 31, 2008, dividends paid on shares issued by our subsidiaries decreased to \$13 million from \$15 million in 2007. Non-controlling interests in subsidiary earnings was \$7 million in 2008 compared with \$15 million in 2007.

The following table outlines the dividends and earnings paid or attributable to other shareholders of subsidiaries of Brookfield Properties:

(Millions)	Type	2008	2007	2006
BPO Properties	Redeemable preferred shares ⁽¹⁾	\$ 13	\$ 15	\$ 14
BPO Properties	Participating interests	7	14	6
Brookfield Financial Properties	Participating interests	—	1	1
Total		\$ 20	\$ 30	\$ 21

⁽¹⁾ Non-participating

Non-controlling interests – other subsidiaries consists of non-controlling interests from continuing operations and discontinued operations as follows:

(Millions)	2008	2007	2006
Non-controlling interests – other subsidiaries – continuing operations	\$ 20	\$ 23	\$ 19
Non-controlling interests – other subsidiaries – discontinued operations	—	7	2
Total non-controlling interests – other subsidiaries	\$ 20	\$ 30	\$ 21

DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation for the year ended December 31, 2008 increased by \$26 million to \$545 million from \$519 million in 2007. The majority of this increase was due to the acquisition of the remaining interest in our Boston properties at 53 and 75 State Street in the fourth quarter of 2007, the reclassification of Four Allen Center in Houston to operational during the first quarter of 2008, as well as a write down of some intangible assets associated with tenant relationships that were not renewed offset by the sale of TD Canada Trust Tower in Toronto.

FUTURE INCOME TAXES

In December 2008, our wholly-owned U.S. office properties subsidiary, Brookfield Properties, Inc. (“BPI”), determined that it would elect to be taxed as a REIT pursuant to the Internal Revenue Code section 856. The REIT election will be effective as of January 1, 2008. In general, a corporation that distributes at least 90% of its REIT taxable income to its shareholders in any taxable year, and complies with certain other requirements (relating primarily to its organization, the nature of its assets and the sources of its revenues) is not subject to United States federal income taxation to the extent of the income which it distributes. We believe that BPI substantially met the qualifications for REIT status as of December 31, 2008 and we intend for it to satisfy all such qualifications in the future.

We believe that BPI will not be liable for income taxes at the federal level in the United States, or in most of the states in which it operates, in future years. Accordingly, BPI revalued all of its existing future tax assets and liabilities to the rate expected to apply when the underlying temporary differences reverse, resulting in the recognition of a net benefit of \$479 million in our income statement at December 31, 2008.

Income earned in our Canadian and U.S. operations conducted outside of the REIT structures, as well as distributions from the REIT structures, are subject to corporate tax. The company’s tax loss pools are available to reduce cash tax obligations.

OTHER

In the current year, we realized a \$24 million foreign exchange gain resulting from a reduction of the net investment in one of our self-sustaining Canadian subsidiaries as a result of a special dividend paid in the year.

The prior year included \$44 million of transaction costs; \$27 million of costs associated with the defeasance of debt at One Liberty Plaza in New York, \$13 million of merger integration costs and employee transition costs resulting from the Trizec merger and \$4 million of transaction costs related to a financing plan that we elected not to implement.

DISCONTINUED OPERATIONS

At December 31, 2008, the four properties that comprise our Minneapolis portfolio, RBC Plaza, 33 South Sixth Street, and Gaviidae I and II were classified as discontinued operations as we intend to exit this market in the next 12 months through sale of the properties; RBC Plaza has been classified as discontinued since the beginning of 2008. As a result of this classification, the assets were measured at fair value, based on a discounted cashflow valuation, less costs to sell, resulting in the recognition of an impairment loss on these properties of \$140 million, net of taxes of \$7 million.

During the third quarter of 2008, we sold our 50% interest in TD Canada Trust Tower in Toronto. As a result of this sale, we recognized a gain of \$164 million in the third quarter. During the second quarter of 2008, we sold our 25% interest in Acres House in Niagara Falls. As a result of this sale, we recognized a net gain of nil in the second quarter.

During the fourth quarter of 2007, we sold our 25% interest in Gulf Canada Square and recognized a gain of approximately \$27 million. During the third quarter of 2007, we sold our 25% interest in both 2 and 40 St. Clair Avenue West in Toronto, properties which were acquired with the O&Y portfolio, and recognized a gain of approximately \$6 million. During the second quarter of 2007, we sold a portion of our Waterview development site in Washington, D.C., which was acquired in 2006 as part of the Trizec portfolio. In addition, we sold our 25% interest in 18 King Street in Toronto. As a result of these sales, we recognized a gain of \$62 million in the second quarter of 2007. During the first quarter of 2007, we sold our 50% interest in Atrium on Bay in Toronto as well as our 25% interest in both 2200 Walkley and 2204 Walkley in Ottawa. As a result of these sales, we recognized a gain of \$47 million.

The following table summarizes the income from discontinued operations:

(Millions)	2008	2007	2006
Revenue	\$ 76	\$ 108	\$ 113
Operating expenses	(41)	(55)	(69)
	35	53	44
Interest expense	(19)	(26)	(19)
Funds from operations	16	27	25
Depreciation and amortization	(10)	(15)	(27)
Income from discontinued operations before gains, non-controlling interests and taxes	6	12	(2)
Gain on sale of commercial properties	164	144	44
Impairment loss	(147)	—	—
Non-controlling interests	—	(33)	(2)
Future income taxes	(30)	(34)	(15)
Income from discontinued operations	\$ (7)	\$ 89	\$ 25

SEGMENTED INFORMATION

The company and its subsidiaries operate in the U.S. and Canada within the commercial property and the residential development businesses. The commercial markets in which we operate are primarily New York, Boston, Washington, D.C., Houston, Los Angeles, Denver and Minneapolis in the U.S., and Toronto, Calgary and Ottawa in Canada. Approximately 81% of our commercial property net operating income is derived from the U.S. Our residential development operations are focused in five markets: Alberta and Ontario in Canada and Colorado, Texas and Missouri in the U.S. Details of the segmented financial information for our principal areas of business are as follows:

(Millions)	Commercial				Residential Development		Total	
	United States		Canada		2008	2007	2008	2007
	2008	2007	2008	2007	2008	2007	2008	2007
Assets								
Commercial properties	\$ 13,147	\$ 13,498	\$ 1,754	\$ 2,391	\$ —	\$ —	\$ 14,901	\$ 15,889
Development properties	624	676	601	496	1,196	1,228	2,421	2,400
Receivables and other	562	569	132	195	241	292	935	1,056
Intangible assets	612	719	25	40	—	—	637	759
Restricted cash and deposits	112	146	2	2	2	3	116	151
Cash and cash equivalents	97	134	59	74	1	6	157	214
Assets related to discontinued operations	290	—	—	4	—	—	290	4
Total	\$ 15,444	\$ 15,742	\$ 2,573	\$ 3,202	\$ 1,440	\$ 1,529	\$ 19,457	\$ 20,473

(Millions)	Commercial				Residential Development		Total	
	United States		Canada		2008	2007	2008	2007
	2008	2007	2008	2007	2008	2007	2008	2007
Revenues	\$ 1,809	\$ 1,684	\$ 439	\$ 414	\$ 505	\$ 700	\$ 2,753	\$ 2,798
Expenses	737	667	183	171	361	463	1,281	1,301
	1,072	1,017	256	243	144	237	1,472	1,497
Interest and other income	21	18	20	14	11	12	52	44
Net operating income from continuing operations	1,093	1,035	276	257	155	249	1,524	1,541
Interest expense								
Commercial property debt	589	639	48	34	—	—	637	673
Capital securities – corporate	9	9	48	52	—	—	57	61
Capital securities – fund subsidiaries	(70)	(27)	—	—	—	—	(70)	(27)
General and administrative	57	58	46	45	—	—	103	103
Transaction costs	—	40	—	4	—	—	—	44
Non-controlling interests								
Fund subsidiaries	(22)	(75)	—	—	—	—	(22)	(75)
Other subsidiaries	—	1	20	22	—	—	20	23
Depreciation and amortization	476	458	69	61	—	—	545	519
Income before unallocated costs	54	(68)	45	39	155	249	254	220
Future income taxes							(429)	69
Other							(24)	—
Net income from continuing operations							707	151
Discontinued operations	(129)	21	122	68	—	—	(7)	89
Net income							\$ 700	\$ 240

QUARTERLY RESULTS

The 2008 and 2007 results by quarter are as follows:

(Millions, except per share amounts)	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1 ⁽¹⁾
Total Revenue	\$ 723	\$ 715	\$ 716	\$ 651	\$ 830	\$ 687	\$ 705	\$ 620
Net operating income								
Commercial property operations	322	325	341	340	318	321	317	304
Residential development operations	46	45	35	18	80	43	72	42
Interest and other	12	14	16	10	12	13	10	9
	380	384	392	368	410	377	399	355
Expenses								
Interest								
Commercial property debt	163	161	151	162	168	171	167	167
Capital securities – corporate	12	15	15	15	15	15	16	15
Capital securities – fund subsidiaries	(53)	(5)	(4)	(8)	(5)	(8)	(5)	(9)
General and administrative	19	25	30	29	27	23	24	29
Non-controlling interests								
Fund subsidiaries	(7)	(10)	(3)	(2)	(22)	(12)	(31)	(10)
Other subsidiaries	4	4	6	6	7	6	6	4
Depreciation and amortization	148	128	134	135	134	132	132	121
Future income taxes	(479)	20	21	9	4	19	28	18
Other	(24)	—	—	—	2	35	3	4
Net income from continuing operations	\$ 597	\$ 46	\$ 42	\$ 22	\$ 80	\$ (4)	\$ 59	\$ 16
Discontinued operations ⁽²⁾	(139)	128	3	1	25	7	20	37
Net income	\$ 458	\$ 174	\$ 45	\$ 23	\$ 105	\$ 3	\$ 79	\$ 53
Net income per share – basic								
Continuing operations	\$ 1.50	\$ 0.12	\$ 0.11	\$ 0.06	\$ 0.20	\$ (0.02)	\$ 0.16	\$ 0.04
Discontinued operations ⁽²⁾	(0.34)	0.32	—	—	0.07	0.02	0.04	0.09
	\$ 1.16	\$ 0.44	\$ 0.11	\$ 0.06	\$ 0.27	\$ —	\$ 0.20	\$ 0.13
Net income per share – diluted								
Continuing operations	\$ 1.50	\$ 0.12	\$ 0.11	\$ 0.06	\$ 0.20	\$ (0.02)	\$ 0.15	\$ 0.04
Discontinued operations ⁽²⁾	(0.34)	0.32	—	—	0.07	0.02	0.04	0.09
	\$ 1.16	\$ 0.44	\$ 0.11	\$ 0.06	\$ 0.27	\$ —	\$ 0.19	\$ 0.13
Funds from operations per share – diluted								
Continuing operations	\$ 0.48	\$ 0.37	\$ 0.39	\$ 0.31	\$ 0.45	\$ 0.34	\$ 0.41	\$ 0.30
Discontinued operations ⁽²⁾	0.01	0.01	0.01	0.01	0.02	0.02	0.01	0.02
	\$ 0.49	\$ 0.38	\$ 0.40	\$ 0.32	\$ 0.47	\$ 0.36	\$ 0.42	\$ 0.32

⁽¹⁾ Per share amounts restated to include the effect of the three-for-two common stock split effective May 4, 2007

⁽²⁾ All quarters presented are net of non-controlling interests

Commercial property operations in the fourth quarter of 2008 increased over the previous quarter due to an increase in commercial property revenue throughout the quarter, offset by foreign exchange fluctuations.

Residential development income increased in the fourth quarter of 2008 compared with previous quarters in 2008 largely due to two large parcel land sales. In Canada, we typically service lots in April through October, which leads to more sales in May through December. New inventory is not usually created during the first quarter of each year, so our fourth quarter sales could be higher when builders need inventory to provide supply over the first quarter months.

Interest expense decreased in the fourth quarter of 2008 as a result of a drop in LIBOR rates during the quarter, which has a significant impact on our floating rate debt. General and administrative expenses decreased in the fourth quarter of 2008 primarily due to a foreign exchange gain recognized related to our Canadian denominated net monetary asset position. The Canadian dollar weakened significantly in the fourth quarter of 2008. The fourth quarter also includes a foreign exchange gain of \$24 million related to the reduction in our net investment in BPO Properties, a self-sustaining subsidiary in our Canadian operations, on account of a special dividend paid. Non-controlling interests expense remained relatively consistent with prior quarters. Depreciation and amortization in the fourth quarter increased due to the write-down of intangible assets related to tenant relationships that no longer had value. Future income taxes in the fourth quarter of 2008 include a gain of \$479 million related to the conversion of our legacy U.S. operations to a REIT. Net income increased in the fourth quarter of 2008 compared to the fourth quarter of 2007 principally due to the REIT conversion that took place in the fourth quarter as well as decreases in the expenses discussed above offset by a decline in our residential operations.

PART III – U.S. OFFICE FUND SUPPLEMENTAL INFORMATION

During 2006, we established and fully invested a U.S. Office Fund. This Fund was created as a single purpose fund to acquire the Trizec portfolio. We successfully completed the acquisition of the Trizec portfolio, along with our joint venture partner, Blackstone, in the fourth quarter of 2006 for \$7.6 billion.

The U.S. Office Fund now consists of 58 commercial properties totaling 31 million square feet and six development and redevelopment sites totaling four million square feet in New York, Washington, D.C., Houston and Los Angeles. The following represents our portfolio:

(Square feet in 000's)	Number of Properties	Leased %	Office	Retail	Total Leasable	Parking	Total Area	Owned Interest %	Brookfield Properties' Owned Interest ⁽¹⁾	Other Shareholder's Interests	Brookfield Properties' Net Owned Interest
New York											
The Grace Building	1	94.5	1,537	20	1,557	—	1,557	49.9	777	(426)	351
One New York Plaza	1	99.0	2,554	31	2,585	—	2,585	100	2,585	(1,416)	1,169
Newport Tower	1	96.2	1,059	41	1,100	—	1,100	100	1,100	(603)	497
<i>1065 Avenue of the Americas</i>	1	66.3	642	40	682	—	682	99	675	(370)	305
<i>1411 Broadway</i>	1	80.5	1,149	38	1,187	36	1,223	49.9	610	(334)	276
<i>1460 Broadway</i>	1	100.0	211	9	220	—	220	49.9	110	(60)	50
	6	91.6	7,152	179	7,331	36	7,367		5,857	(3,209)	2,648
Washington, DC											
1200 K Street	1	97.6	366	24	390	44	434	100	434	(238)	196
1250 23rd Street	1	—	128	—	128	16	144	100	144	(79)	65
1250 Connecticut Avenue	1	98.5	163	21	184	26	210	100	210	(115)	95
1400 K Street	1	100.0	178	12	190	34	224	100	224	(123)	101
2000 L Street	1	90.5	308	75	383	—	383	100	383	(210)	173
2001 M Street	1	98.9	190	39	229	35	264	98	259	(142)	117
2401 Pennsylvania Avenue	1	86.9	58	19	77	16	93	100	93	(51)	42
Bethesda Crescent	3	99.9	241	27	268	68	336	100	336	(184)	152
One Reston Crescent	1	100.0	185	—	185	—	185	100	185	(101)	84
Silver Spring Metro Plaza	3	94.0	640	47	687	84	771	100	771	(422)	349
Sunrise Tech Park	4	95.8	315	1	316	—	316	100	316	(173)	143
Two Ballston Plaza	1	97.5	204	19	223	—	223	100	223	(122)	101
Victor Building	1	73.1	302	45	347	—	347	49.9	173	(95)	78
1550 & 1560 Wilson Blvd	2	87.1	248	35	283	76	359	100	359	(197)	162
	22	90.2	3,526	364	3,890	399	4,289		4,110	(2,252)	1,858
Houston											
Allen Center											
One Allen Center	1	99.0	914	79	993	—	993	100	993	(544)	449
Two Allen Center	1	98.8	987	9	996	—	996	100	996	(546)	450
Three Allen Center	1	94.4	1,173	22	1,195	—	1,195	100	1,195	(655)	540
Four Allen Center	1	100.0	1,229	38	1,267	—	1,267	100	1,267	(697)	570
Cullen Center											
Continental Center I	1	97.2	1,048	50	1,098	411	1,509	100	1,509	(826)	683
Continental Center II	1	83.8	428	21	449	81	530	100	530	(290)	240
KBR Tower	1	83.4	985	63	1,048	254	1,302	50	651	(357)	294
500 Jefferson Street	1	97.5	351	39	390	44	434	100	434	(237)	197
	8	94.9	7,115	321	7,436	790	8,226		7,575	(4,152)	3,423
Los Angeles											
601 Figueroa	1	75.3	1,037	2	1,039	123	1,162	100	1,162	(636)	526
Bank of America Plaza	1	96.0	1,383	39	1,422	343	1,765	100	1,765	(967)	798
Ernst & Young Tower	1	84.0	910	335	1,245	391	1,636	100	1,636	(896)	740
Landmark Square	1	94.4	420	23	443	212	655	100	655	(359)	296
Marina Towers	2	94.7	356	25	381	87	468	50	234	(128)	106
<i>5670 Wilshire Center</i>	1	75.8	409	19	428	—	428	100	428	(234)	194
<i>6060 Center Drive</i>	1	85.7	253	15	268	113	381	100	381	(209)	172
<i>6080 Center Drive</i>	1	96.0	316	—	316	163	479	100	479	(263)	216
<i>6100 Center Drive</i>	1	97.0	294	—	294	168	462	100	462	(253)	209
<i>701 B Street</i>	1	86.4	512	37	549	—	549	100	549	(301)	248
<i>707 Broadway</i>	1	85.2	183	—	183	128	311	100	311	(170)	141
<i>9665 Wilshire Blvd</i>	1	98.5	171	—	171	64	235	100	235	(130)	105
<i>Howard Hughes Spectrum</i>	1	100.0	37	—	37	—	37	100	37	(20)	17
<i>Howard Hughes Tower</i>	1	49.5	336	2	338	141	479	100	479	(262)	217
<i>Northpoint</i>	1	75.9	105	—	105	45	150	100	150	(82)	68
<i>Arden Towers at Sorrento</i>	4	79.5	554	54	608	—	608	100	608	(333)	275
<i>Westwood Center</i>	1	89.7	293	25	318	—	318	100	318	(174)	144
<i>Wachovia Center</i>	1	92.0	465	14	479	161	640	100	640	(351)	289
	22	85.9	8,034	590	8,624	2,139	10,763		10,529	(5,768)	4,761
TOTAL COMMERCIAL	58	90.5	25,827	1,454	27,281	3,364	30,645		28,071	(15,381)	12,690

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

*Italic – Non-managed properties

(Square feet in 000's)	Number of Sites	Total Area	Owned Interest %	Brookfield Properties' Owned Interest ⁽¹⁾	Other Shareholder's Interests	Brookfield Properties' Net Owned Interest
Washington, D.C.						
Reston Crescent	1	1,000	100	1,000	(548)	452
Waterview	1	300	25	75	(41)	34
	2	1,300		1,075	(589)	486
Houston						
1500 Smith Street	1	500	100	500	(274)	226
Allen Center Clay Street	1	600	100	600	(329)	271
Five Allen Center	1	1,100	100	1,100	(601)	499
	3	2,200		2,200	(1,204)	996
TOTAL DEVELOPMENT REDEVELOPMENT	5	3,500		3,275	(1,793)	1,482
1225 Connecticut Avenue, Washington, D.C.	1	269	100	269	(147)	122
TOTAL DEVELOPMENT AND REDEVELOPMENT	6	3,769		3,544	(1,940)	1,604

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

Our 45% economic interest in the Trizec portfolio was initially purchased for \$857 million, after the assumption of debt and acquisition financing totaling \$3.7 billion in the fourth quarter of 2006.

At December 31, 2008, the impact of our investment in the U.S. Office Fund on our consolidated financial position and results can be summarized as follows:

(Millions)	Balance Sheet	Funds from Operations	
		2008	2007
Midtown New York, New York	\$ 1,243	\$ 77	\$ 86
Downtown New York, New York	1,278	96	99
Washington, D.C.	1,123	90	96
Houston, Texas	1,135	97	87
Los Angeles, California	2,616	183	175
	7,395	543	543
Property management and leasing fee income	—	2	3
Development properties	267	—	—
Total book value / Net operating income	7,662	545	546
Property specific and subsidiary debt / Interest expense	(5,729)	(301)	(386)
Partner capital ⁽²⁾ / Interest expense and non-controlling interests	(923)	(97)	(82)
Total	1,010	147	78
Other assets (liabilities), net / Other income (expenses), net	(195)	8	14
Invested capital / Funds from operations ⁽¹⁾	\$ 815	\$ 155	\$ 92

⁽¹⁾ Fees paid by the Fund to Brookfield Properties are eliminated on consolidation. For the year ended December 31, 2008, a total of \$32 million of fees were paid to Brookfield Properties (2007 - \$31 million) which resulted in a reduction of non-controlling interests expense of \$20 million (2007 - \$19 million) representing the net fees earned from partners

⁽²⁾ Includes both debt and equity capital invested

The U.S. Office Fund contributed \$943 million and \$921 million of commercial property revenue and \$545 million and \$546 million of net operating income during the year ended December 31, 2008 and December 31, 2007, respectively, as follows:

(Millions)	2008	2007	2006
Commercial property revenue			
Revenue from current properties	\$ 793	\$ 759	\$ 174
Straight-line rental income	36	40	12
Intangible amortization	114	122	30
Total commercial property revenue	943	921	216
Property operating costs	(398)	(375)	(81)
Commercial property net operating income	\$ 545	\$ 546	\$ 135

SUMMARY OF INVESTMENT

The following summarizes our investment in the U.S. Office Fund as at December 31, 2008:

Region	Number of Properties	Total Area (000's Sq. Ft.)	Brookfield Properties'		Debt (Millions)	Net Book Equity (Millions)
			Owned Interest (000's Sq. Ft.) ⁽¹⁾	Book Value (Millions)		
Commercial Properties						
Midtown New York, New York	4	3,682	2,172	\$ 1,243	\$ 311	\$ 932
Downtown New York, New York	2	3,685	3,685	1,278	397	881
Washington, D.C.	22	4,289	4,110	1,123	366	757
Houston, Texas	8	8,226	7,575	1,135	240	895
Los Angeles, California	22	10,763	10,529	2,616	421	2,195
Corporate U.S. Fund debt	—	—	—	—	3,989	(3,989)
	58	30,645	28,071	\$ 7,395	\$ 5,724	\$ 1,671
Office development sites	5	3,500	3,275	116	5	111
Redevelopment sites	1	269	269	151	—	151
Total	64	34,414	31,615	\$ 7,662	\$ 5,729	\$ 1,933

⁽¹⁾ Represents consolidated interest before non-controlling interests

Commercial property debt relating to the U.S. Office Fund totaled \$5,729 billion at December 31, 2008. The details are as follows:

Property	Location	Rate %	Maturity Date	Brookfield Properties' Share (Millions)		Mortgage Details
				Proportional ⁽¹⁾	Consolidated	
Two Ballston Plaza	Washington, D.C.	6.91	March 2009	\$ 16	\$ 25	Non-recourse, fixed rate
Bethesda Crescent	Washington, D.C.	7.07	March 2009	20	32	Non-recourse, fixed rate
2000 L Street	Washington, D.C.	6.26	March 2009	35	56	Non-recourse, fixed rate
Silver Spring Metro Plaza ⁽²⁾	Washington, D.C.	6.00	June 2009	60	97	Non-recourse, floating rate
2401 Pennsylvania Avenue ⁽²⁾	Washington, D.C.	6.00	June 2009	11	17	Non-recourse, floating rate
1250 Connecticut ⁽²⁾	Washington, D.C.	6.00	June 2009	27	44	Non-recourse, floating rate
Waterview ⁽³⁾	Washington, D.C.	2.46	August 2009	3	5	Non-recourse, floating rate
1460 Broadway	New York	5.11	November 2012	—	11	Non-recourse, fixed rate
5670 Wilshire	Los Angeles	3.48	May 2013	—	57	Non-recourse, floating rate
Four Allen Center	Houston	5.77	October 2013	149	240	Non-recourse, fixed rate
Ernst & Young Plaza	Los Angeles	5.07	February 2014	69	111	Non-recourse, fixed rate
Grace Building	New York	5.54	July 2014	118	191	Non-recourse, fixed rate
1411 Broadway	New York	5.50	July 2014	—	109	Non-recourse, fixed rate
Bank of America Plaza	Los Angeles	5.31	September 2014	144	232	Non-recourse, fixed rate
2001 M Street	Washington, D.C.	5.25	December 2014	28	45	Non-recourse, fixed rate
Victor Building	Washington, D.C.	5.39	February 2016	31	50	Non-recourse, fixed rate
One New York Plaza	New York	5.50	March 2016	245	397	Non-recourse, fixed rate
Marina Towers	Los Angeles	5.84	April 2016	13	21	Non-recourse, fixed rate
U.S. Fund Pool debt	—	6.85	May 2011	138	306	Non-recourse, fixed rate
U.S. Fund corporate debt	—	3.70	October 2011	1,204	3,089	Non-recourse, floating rate
U.S. Fund Pool debt	—	1.95	October 2011	267	594	Non-recourse, floating rate
Total U.S. Office Fund		4.40		\$ 2,578	\$ 5,729	

⁽¹⁾ Reflects Brookfield Properties' effective 45% interest

⁽²⁾ Property debt is cross-collateralized

⁽³⁾ Development debt

PART IV – CANADIAN OFFICE FUND SUPPLEMENTAL INFORMATION

During 2005, we established and fully invested a Canadian Office Fund. This Fund was created as a single purpose fund to acquire the O&Y portfolio. We successfully completed the acquisition of the O&Y portfolio in the fourth quarter of 2005 for \$1.8 billion.

The Canadian Office Fund, at the time of acquisition, consisted of 27 commercial properties totaling 11 million square feet in Toronto, Calgary, Ottawa, Edmonton and Winnipeg. However, certain of these properties were disposed of over the past couple of years and the Canadian Office Fund now consists of 12 commercial properties totaling eight million square feet primarily in Toronto, Calgary, Ottawa and Edmonton.

The following represents our Canadian Office Fund portfolio as of December 31, 2008:

(Square feet in 000's)	Number of Properties	Leased %	Office	Retail	Total Leasable	Parking	Total Area	Owned Interest %	Brookfield Properties' Owned Interest ⁽¹⁾	Other Shareholder's Interests	Brookfield Properties' Net Owned Interest
Toronto											
First Canadian Place	1	96.5	2,379	232	2,611	170	2,781	25	695	(76)	619
2 Queen Street East	1	98.6	448	16	464	81	545	25	136	(15)	121
151 Yonge Street	1	94.7	289	10	299	72	371	25	93	(10)	83
	3	96.7	3,116	258	3,374	323	3,697		924	(101)	823
Calgary											
Altius Centre	1	98.1	303	3	306	72	378	25	95	(11)	84
	1	98.1	303	3	306	72	378		95	(11)	84
Ottawa											
Place de Ville I	2	99.4	569	18	587	502	1,089	25	272	(30)	242
Place de Ville II	2	99.3	591	19	610	433	1,043	25	261	(29)	232
Jean Edmonds Towers	2	100.0	541	12	553	95	648	25	162	(18)	144
	6	99.5	1,701	49	1,750	1,030	2,780		695	(77)	618
Other Commercial											
Canadian Western Bank, Edmonton	1	99.8	371	36	407	91	498	25	125	(14)	111
Enbridge Tower, Edmonton	1	100.0	184	—	184	30	214	25	54	(7)	47
	2	99.9	555	36	591	121	712		179	(21)	158
TOTAL COMMERCIAL	12	97.9	5,675	346	6,021	1,546	7,567		1,893	(210)	1,683

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

(Square feet in 000's)	Number of Sites	Total Area	Owned Interest %	Brookfield Properties' Owned Interest ⁽¹⁾	Other Shareholder's Interests	Brookfield Properties' Net Owned Brookfield
Ottawa						
300 Queen Street	1	577	25	144	(16)	128
TOTAL DEVELOPMENT	1	577		144	(16)	128

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

At December 31, 2008, the impact of our investment in the Canadian Office Fund on our consolidated financial position and results from continuing operations can be summarized as follows:

(Millions)	Balance Sheet	Funds from Operations	
		2008	2007
Toronto, Ontario	\$ 217	\$ 21	\$ 22
Calgary, Alberta	16	4	3
Ottawa, Ontario	81	7	7
Edmonton, Alberta and other	14	3	3
	328	35	35
Development properties	2	—	—
Total book value / Net operating income	330	35	35
Property specific and subsidiary debt / Interest expense	(132)	(8)	(9)
	198	27	26
Other assets (liabilities), net / Other income (expenses), net	(46)	—	—
Net investment / Funds from operations prior to fee income	152	27	26
Fee income	—	8	9
Invested capital / Funds from operations	\$ 152	\$ 35	\$ 35

The Canadian Office Fund contributed \$80 million of commercial property revenue and \$43 million of net operating income from continuing operations during the year ended December 31, 2008 (2007 – \$81 million and \$44 million, respectively) as follows:

(Millions)	2008	2007	2006
Commercial property revenue			
Revenue from current properties	\$ 66	\$ 64	\$ 56
Straight-line rental income	1	1	1
Intangible amortization	5	7	7
	72	72	64
Recurring fee income	8	9	7
Total commercial property revenue	80	81	71
Property operating costs	(37)	(37)	(33)
Commercial property net operating income	\$ 43	\$ 44	\$ 38

SUMMARY OF INVESTMENT

The following summarizes our investment in the Canadian Office Fund as at December 31, 2008:

Region	Number of Properties	Total Area (000's Sq. Ft.)	Brookfield Properties'		Book Value (Millions)	Debt (Millions)	Net Book Equity (Millions)
			Owned Interest (000's Sq. Ft.) ⁽¹⁾				
Commercial Properties							
Toronto, Ontario	3	3,697	924	\$ 217	\$ 82	\$ 135	
Calgary, Alberta	1	378	95	16	17	(1)	
Ottawa, Ontario	6	2,780	695	81	19	62	
Other	2	712	179	14	14	—	
Continuing Operations	12	7,567	1,893	\$ 328	\$ 132	\$ 196	
Development sites							
Ottawa, Ontario	1	577	144	2	—	2	
Total	13	8,144	2,037	\$ 330	\$ 132	\$ 198	

⁽¹⁾ Represents consolidated interest before non-controlling interests

Commercial property debt relating to the Canadian Office Fund totaled \$132 million at December 31, 2008. The details are as follows:

Property	Location	Interest Rate %	Maturity Date	Brookfield Properties' Consolidated Share (Millions)	Mortgage Details
Enbridge Tower	Edmonton	6.72	June 2009	\$ 2	Non-recourse, fixed rate
Place de Ville I	Ottawa	7.81	November 2009	5	Non-recourse, fixed rate
First Canadian Place	Toronto	8.06	December 2009	51	Non-recourse, fixed rate
151 Yonge Street	Toronto	6.01	June 2012	8	Non-recourse, fixed rate
Jean Edmonds Tower	Ottawa	5.55	January 2014	1	Non-recourse, fixed rate
2 Queen Street East	Toronto	5.64	December 2017	23	Non-recourse, fixed rate
Altius Centre	Calgary	5.64	December 2017	17	Non-recourse, fixed rate
Canadian Western Bank	Edmonton	5.64	December 2017	12	Non-recourse, fixed rate
Jean Edmonds Tower	Ottawa	6.79	January 2024	13	Non-recourse, fixed rate
Total Canadian Office Fund		6.81		\$ 132	

PART V – RISKS AND UNCERTAINTIES

Brookfield Properties' financial results are impacted by the performance of our operations and various external factors influencing the specific sectors and geographic locations in which we operate; macro-economic factors such as economic growth, changes in currency, inflation and interest rates; regulatory requirements and initiatives; and litigation and claims that arise in the normal course of business.

Our strategy is to invest in premier assets which generate sustainable streams of cashflow. While high-quality assets may initially generate lower returns on capital, we believe that the sustainability and future growth of their cashflows is more assured over the long term, and as a result, warrant higher valuation levels. We also believe that the high quality of our asset base protects the company against future uncertainty and enables us to invest with confidence when opportunities arise.

The following is a review of the material factors and the potential impact these factors may have on the company's business operations. A more detailed description of the business environment and risks is contained in our Annual Information Form which is posted on our website at www.brookfieldproperties.com, or on www.sedar.com or www.sec.gov.

PROPERTY RELATED RISKS

Commercial properties

Our strategy is to invest in high-quality core office properties as defined by the physical characteristic of the asset and, more importantly, the certainty of receiving rental payments from large corporate tenants (with investment grade credit ratings – see "Credit Risk" below) which these properties attract. Nonetheless, we remain exposed to certain risks inherent in the core office property business.

Commercial property investments are generally subject to varying degrees of risk depending on the nature of the property. These risks include changes in general economic conditions (such as the availability and costs of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the markets in which we operate), the attractiveness of the properties to tenants, competition from other landlords with competitive space and our ability to provide adequate maintenance at an economical cost.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made regardless of whether or not a property is producing sufficient income to service these expenses. Our core office properties are subject to mortgages which require substantial debt service payments. If we become unable or unwilling to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale. We believe the stability and long-term nature of our contractual revenues effectively mitigates these risks.

As owners and managers of premier office properties, lease roll-overs also present a risk factor, as continued growth of rental income is dependent on strong leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies. Refer below to "Lease Roll-Over Risk" for further details.

Residential developments

The markets within our residential development and home building operations have been favorable over the past five years with strong demand for well located building lots, particularly in Alberta. Our operations are concentrated in high growth areas which we believe have positive demographic and economic conditions. Nonetheless, the residential home building and development industry is cyclical and may be affected by changes in general and local economic conditions such as consumer confidence, job stability, availability of financing for home buyers and interest rates due to their impact on home buyers' decisions. These conditions can affect the outlook of consumers and, in particular, the price and volume of home purchases. Furthermore, we are subject to risks related to the availability and cost of materials and labor, supply and cost of building lots, and adverse weather conditions that can cause delays in construction schedules and cost overruns.

INTEREST RATE AND FINANCING RISK

We attempt to stagger the maturities of our mortgage portfolio evenly over a 10-year time horizon. We believe that this strategy will allow us to most effectively manage interest rate risk.

As outlined under "Capital Resources and Liquidity," beginning on page 34 of this MD&A, we have an on-going obligation to access debt markets to refinance maturing debt as it comes due. There is a risk that lenders will not refinance such maturing debt on terms and conditions acceptable to us or on any terms at all. Our strategy to stagger the maturities of our mortgage portfolio attempts to mitigate our exposure to excessive amounts of debt maturing in any one year.

At December 31, 2008, we had a floating rate bank credit facility of \$500 million which matured in 2009. Subsequent to the end of the year, this facility was refinanced for \$388 million, the terms of which extend to 2011. Additionally, we have a floating rate term facility with BAM of \$300 million, the terms of which extend to 2010. At December 31, 2008, the balances drawn on these facilities were \$221 million and nil, respectively. We also have a floating rate term loan facility established at the time of the Trizec acquisition, the terms of which extend to 2009. The balance drawn on this facility as at December 31, 2008 was \$104 million. There is a risk that bank lenders will not refinance these facilities on terms and conditions acceptable to us or on any terms at all. As a mitigating factor, we have been successful in negotiating

extension options. Approximately 45% of the company's outstanding commercial property debt at December 31, 2008 is floating rate debt (December 31, 2007 – 39%) and subject to fluctuations in interest rates. The effect of a 100 basis point increase in interest rates on interest expense relating to our corporate and commercial floating rate debt, all else being equal, is an increase in interest expense of \$45 million; \$23 million net of non-controlling interests or \$0.06 per share on an annualized basis. Taking into account our floating rate residential development debt and preferred shares issued by BPO Properties, a 100 basis point increase in rates would increase interest expense by an additional \$8 million on an annualized basis. As discussed in the Derivative Financial Instruments section beginning on page 58, we have mitigated to some extent the exposure to interest rate fluctuations through interest rate derivative contracts.

We currently have a level of indebtedness for the company of 64% of gross book value. It is our view that such level of indebtedness is conservative given the lending parameters currently existing in the real estate marketplace and the fair value of our assets, and based on this, we believe that all debts will be financed or refinanced as they come due in the foreseeable future.

CREDIT RISK

Credit risk arises from the possibility that tenants may be unable to fulfill their lease commitments. We mitigate this risk by ensuring that our tenant mix is diversified and by limiting our exposure to any one tenant. We also maintain a portfolio that is diversified by property type so that exposure to a business sector is lessened. Currently, no one tenant represents more than 7.7% of total leasable area.

We attempt to mitigate our credit risk by signing long-term leases with tenants who have investment grade credit ratings. Additional discussion of this strategy is included on page 15 of this MD&A.

The following list shows the largest tenants by leasable area in our portfolio and their respective lease commitments:

Tenant	Location	Year of Expiry ⁽¹⁾	000's Sq. Ft. ⁽²⁾	% of Sq. Ft. ⁽²⁾	Credit Rating ⁽³⁾
1 Merrill Lynch ⁽⁴⁾	New York/Toronto/Denver/Los Angeles	2013	4,923	7.7%	A
2 Government and Government Agencies ⁽⁵⁾	All Markets	Various	3,134	4.9%	AAA
3 Chevron	Houston	2017	1,744	2.7%	AA
4 Wachovia	New York	2015	1,439	2.2%	A
5 CIBC	New York/Toronto/Calgary	2032	1,437	2.2%	A+
6 RBC Financial Group	Five Markets	2019	1,206	1.9%	AA-
7 Bank of Montreal	Toronto/Calgary	2018	1,134	1.7%	A+
8 Petro-Canada	Calgary	2028	1,015	1.6%	BBB
9 Kellogg, Brown & Root	Houston	2017	994	1.5%	Not Rated
10 JP Morgan Chase	New York/Denver/Houston/Los Angeles	2020	975	1.5%	A+
11 Goldman Sachs	New York	2012	896	1.4%	A
12 Target Corporation	Minneapolis	2014	886	1.4%	A+
13 Devon Energy	Houston	2020	865	1.3%	BBB+
14 Imperial Oil	Calgary	2016	717	1.1%	AAA
15 EnCana Corporation	Calgary/Denver	2018	707	1.1%	A-
16 Continental Airlines	Houston	2010	678	1.0%	B
17 Cadwalader, Wickersham & Taft	New York	2024	549	0.8%	Not Rated
18 Talisman Energy	Calgary	2015	539	0.8%	BBB
19 Amerada Hess Corporation	Houston	2011	475	0.7%	BBB-
20 Cleary, Gottlieb, Steen & Hamilton	New York	2031	470	0.7%	Not Rated
Total			24,783	38.2%	

⁽¹⁾ Weighted average based on square feet

⁽²⁾ Prior to considering partnership interests in partially-owned properties

⁽³⁾ From S&P, Moody's Investor Service or DBRS

⁽⁴⁾ Merrill Lynch leases 4.6 million square feet in the World Financial Center ("WFC"), of which they occupy 2.8 million square feet with the balance being leased to various subtenants ranging in size up to 500,000 square feet. Of this 2.8 million square feet, 1.9 million is in 4 WFC, in which Merrill Lynch has a 49% interest, and 0.9 million square feet is in 2 WFC, in which Merrill Lynch has an effective 25% interest through zero-coupon notes.

⁽⁵⁾ Represents various U.S. and Canadian federal governments and agencies

Because we invest in mortgages from time to time, further credit risks arise in the event that borrowers default on the repayment of their mortgages to us. We endeavor to ensure that adequate security has been provided in support of such mortgages.

Credit risk related to residential receivables is mitigated by the fact that, for the majority of sales, we retain title to the lots that are sold until the receivable balance is collected. Additionally, we maintain security over the lots that are sold, which can ultimately be taken back if receivables are not paid.

LEASE ROLL-OVER RISK

Lease roll-over risk arises from the possibility that we may experience difficulty renewing leases as they expire or in releasing space vacated by tenants upon early lease expiry. We attempt to stagger the lease expiry profile so that we are not faced with disproportionate amounts of space expiring in any one year; approximately 9% of our leases mature annually over the next five years. Excluding Merrill Lynch, our largest tenant, approximately 7% of our leases mature annually over the next five years. We further mitigate this risk by maintaining a diversified portfolio mix by geographic location and by proactively leasing space in advance of its contractual expiry. Additional discussion of our strategy to manage lease roll-over risk can be found on page 15 of this MD&A.

The following table sets out lease expiries, by square footage, for our portfolio at December 31, 2008:

(000's Sq. Ft.)	Currently Available	2009	2010	2011	2012	2013	2014	2015	2016 & Beyond	Subtotal	Parking	Total
Midtown New York	627	375	391	131	446	751	215	344	3,247	6,527	36	6,563
Downtown New York	141	196	286	670	426	4,759	410	2,156	4,675	13,719	281	14,000
Boston	113	183	125	454	48	32	30	—	1,005	1,990	276	2,266
Washington, D.C.	379	511	292	195	603	418	1,232	273	1,716	5,619	970	6,589
Los Angeles	1,217	422	836	1,032	1,405	902	715	359	1,736	8,624	2,139	10,763
Houston	425	181	304	780	1,102	775	595	657	3,461	8,280	838	9,118
Toronto	164	432	580	511	763	1,478	280	715	2,694	7,617	1,519	9,136
Calgary	7	61	346	680	461	502	111	1,016	2,497	5,681	1,023	6,704
Ottawa	8	35	7	8	6	1,131	9	542	4	1,750	1,030	2,780
Denver	31	39	104	99	87	151	134	59	620	1,324	503	1,827
Minneapolis	188	71	65	48	178	791	172	434	583	2,530	521	3,051
Other	21	41	181	142	90	104	45	115	514	1,253	385	1,638
Total	3,321	2,547	3,517	4,750	5,615	11,794	3,948	6,670	22,752	64,914	9,521	74,435
	5.1%	3.9%	5.4%	7.3%	8.6%	18.2%	6.1%	10.3%	35.1%	100.0%		

ENVIRONMENTAL RISKS

As an owner of real property, we are subject to various federal, provincial, state and municipal laws relating to environmental matters. Such laws provide that we could be liable for the costs of removing certain hazardous substances and remediating certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect our ability to sell such real estate or to borrow using such real estate as collateral and could potentially result in claims against us. We are not aware of any material non-compliance with environmental laws at any of our properties nor are we aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of our properties or any pending or threatened claims relating to environmental conditions at our properties.

We will continue to make the necessary capital and operating expenditures to ensure that we are compliant with environmental laws and regulations. Although there can be no assurances, we do not believe that costs relating to environmental matters will have a materially adverse effect on our business, financial condition or results of operations. However, environmental laws and regulations can change and we may become subject to more stringent environmental laws and regulations in the future, which could have an adverse effect on our business, financial condition or results of operations.

OTHER RISKS AND UNCERTAINTIES

Real estate is relatively illiquid. Such illiquidity may limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. Also, financial difficulties of other property owners resulting in distressed sales could depress real estate values in the markets in which we operate.

Our commercial properties generate a relatively stable source of income from contractual tenant rent payments. Continued growth of rental income is dependent on strong leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies.

Taking into account the current state of the economy, 2009 likely will not provide the same level of increases in rental rates on renewal as compared to previous years. We are, however, substantially protected against short-term market conditions, as most of our leases are long-term in nature with an average term of seven years. As we face the onset of a severe recession, it is possible we will see downward pressure on overall occupancy levels and net effective rents.

Brookfield maintains insurance on its properties in amounts and with deductibles that we believe are in line with what owners of similar properties carry. We maintain all risk property insurance and rental value coverage (including coverage for the perils of flood, earthquake and named windstorm). Our all risk policy limit is \$1.5 billion per occurrence. Our earthquake limit is \$300 million per occurrence and in the annual aggregate for our California properties and a separate \$300 million per occurrence and annual aggregate limit for all other properties. This coverage is subject to a deductible of 5% of the value of the affected property for California locations and \$100,000 for all other locations. The named windstorm limit is \$300 million per occurrence and in the annual aggregate subject to a deductible of 5% of the value of the affected property. The flood limit is \$300 million per occurrence and in the annual aggregate subject to a deductible of \$50,000 per occurrence.

The Terrorism Risk Insurance Act (“TRIA”) was enacted in November 2002 in response to the uncertainty surrounding the insurance market in the aftermath of the terrorist attacks of September 11, 2001 and provides protection for “certified acts” as defined by the statute. TRIA mandates that insurance carriers offer insurance covering physical damage from terrorist incidents as certified by the U.S. Secretary of the Treasury. On December 22, 2005, the Terrorism Risk Insurance Extension Act of 2005 (the “Extension Act”) was enacted, which extended the duration of the Terrorism Risk Insurance Program until December 31, 2007. The Terrorism Risk Insurance Program Reauthorization Act of 2007 (“TRIPRA”) was signed into law on December 26, 2007. It extends the TRIA program through December 2014. TRIPRA effectively continues the Extension Act while removing the distinction between foreign and domestic acts of terrorism, among other provisions.

With respect to our U.S. properties (including our U.S. Office Fund), in October 2008, we formed a segregated cell captive facility, Liberty IC Casualty, LLC (“Liberty”). Liberty now provides \$2.5 billion of TRIA coverage for all U.S. properties and replaces what was provided by Realrisk Insurance Corporation (“Realrisk”), a wholly-owned captive insurance company; Realrisk continues to provide protection against losses due solely to biological, chemical or radioactive contamination arising out of a certified terrorist act. In the event of a covered loss in 2008, we expect Realrisk to recover 85% of its losses, less certain deductibles, from the United States government with the remaining 15% to be funded by us.

Our Canadian properties are protected by a stand alone policy that covers all acts of terrorism for limits up to \$1 billion.

FOREIGN EXCHANGE FLUCTUATIONS

Approximately 19% of our assets and 34% of our revenues originate in Canada and consequently are subject to foreign currency risk due to potential fluctuations in exchange rates between the Canadian dollar and the U.S. dollar. To mitigate this risk, we attempt to maintain a natural hedged position with respect to the carrying value of assets denominated in Canadian dollars through debt agreements denominated in Canadian dollars and from time to time, supplemented through the use of financial contracts as discussed below. However, even if we do so, the carrying value may not equal the economic value, and any differences therein may not be hedged. In addition, we attempt to mitigate the currency risk of revenues denominated in Canadian dollars through similar means. At December 31, 2008, based on our net Canadian dollar funds from operations, a \$0.01 appreciation in the Canadian dollar relative to the U.S. dollar would result in an increase in our funds from operations of approximately \$2 million on an annual basis.

DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative and non-derivative instruments to manage financial risks, including interest rate, commodity, equity price and foreign exchange risks. The use of derivative contracts is governed by documented risk management policies and approved limits. We do not use derivatives for speculative purposes. In 2008, we used the following derivative instruments to manage these risks:

- Foreign currency forward contracts to hedge exposures to Canadian dollar denominated net investments in self-sustaining subsidiaries and foreign currency denominated financial assets;
- Interest rate swaps to manage interest rate risk associated planned refinancings and existing variable rate debt;
- Interest rate caps to hedge interest rate risk on a portion of its variable rate debt; and
- Total return swap on the company’s shares to economically hedge exposure to variability in share price under the Deferred Share Unit plan.

We also designate certain of our financial liabilities as hedges of our Canadian dollar net investments in self-sustaining subsidiaries.

Foreign currency hedging

The following table provides details on foreign currency hedging relationships as at December 31, 2008 and 2007:

	Derivatives					Non-Derivatives	
	Hedging Item	Notional	Rate	Maturity	Fair Value	Hedging Item	Notional
December 31, 2008	—	—	—	—	—	Capital securities - corporate	C\$750M
	Forward –		C\$1.00 =	March			
December 31, 2007	Sell C\$ / Buy US\$	C\$800M	US\$1.01	2008	nil	Capital securities - corporate	C\$350M

Interest rate hedging

The following table provides details on derivatives in interest rate hedging relationships outstanding as at December 31, 2008 and 2007:

(Millions)	Hedging Item	Notional	Rate	Maturity	Fair Value	Hedged Item
December 31, 2008						
	Interest rate cap	\$3,100	6%	2010	nil	Interest payments on LIBOR debt
	Interest rate cap	600	7%	2010	nil	Interest payments on LIBOR debt
	Interest rate cap	300	5%	2011	nil	Interest payments on LIBOR debt
	Interest rate swap ⁽¹⁾	55	Pay 2.68%	2010	(1)	Interest payments on LIBOR debt
December 31, 2007						
	Interest rate cap	3,100	6%	2008	nil	Interest payments on LIBOR debt
	Interest rate cap	600	7%	2008	nil	Interest payments on LIBOR debt
	Interest rate swap ⁽¹⁾	350	Pay 5.8%	2017	(33)	Interest payments on refinancing of fixed debt

⁽¹⁾ For interest rate swaps, receive LIBOR

The maximum term over which interest rate hedging gains and losses reflected in other comprehensive income will be recognized in income is nine years (2007 – ten years) as the hedged interest payments occur.

At December 31, 2008 and December 31, 2007, the amount of hedge ineffectiveness recorded in interest expense in connection with our interest rate hedging activities was not significant. As at December 31, 2008, losses of \$7 million were reclassified to interest expense because it was probable the hedged forecasted interest payments would not occur within the originally specified time period.

The fair value of interest rate caps is determined based on generally accepted pricing models using quoted market interest rates for the appropriate term. Interest rate swaps are valued at the present value of estimated future cashflows and discounted based on applicable yield curves derived from market interest rates.

Other derivatives

At December 31, 2008, our self-sustaining subsidiaries had foreign exchange contracts to sell a notional amount of US\$21 million (2007 – US\$ 21 million) at a weighted average exchange rate of US\$1 = C\$0.82 (2007 US\$1 = C\$0.99) maturing in three months. The aggregate fair value of these contracts at December 31, 2008 was nil (2007 – nil).

At December 31, 2008, we had a total return swap under which we receive the returns on a notional 1,001,665 Brookfield Properties Corporation common shares. The fair value of the total return swap was a loss of \$9 million at December 31, 2008 (2007 - \$2 million loss) based on the market price of the underlying shares at that date. As at December 31, 2008, losses of \$11 million in connection with the swap have been recorded in general and administrative expense (2007 – nil).

The primary risks associated with our use of derivatives are credit risk and price risk. Credit risk is the risk that losses will be incurred from the default of the counterparty on its contractual obligations. The use of derivative contracts is governed by documented risk management policies and approved limits, which includes an evaluation of the creditworthiness of counterparties, as well as managing the size, diversification and maturity of the portfolio. Price risk is the risk that we will incur losses from derivatives from adverse changes in foreign exchange rates, interest rates or share prices. We mitigate price risk by entering only into derivative transactions where we have determined a significant offset exists between changes in the fair value of, or the cashflows attributable to, the hedged item and the hedging item.

PART VI – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CHANGES IN ACCOUNTING POLICIES

Capital Disclosures

On December 1, 2006, the Canadian Institute of Chartered Accountants (the “CICA”) issued Handbook Section 1535, “Capital Disclosures.” Section 1535 requires the disclosure of (i) an entity’s objectives, policies and process for managing capital; (ii) quantitative data about an entity’s managed capital; (iii) whether an entity has complied with capital requirements; and (iv) if an entity has not complied with such capital requirements, the consequences of such non-compliance. The company adopted the requirements of Section 1535 on January 1, 2008 and the required disclosures are included in Note 25 to these consolidated financial statements.

Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued two new accounting standards, Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation.” These standards replace Section 3861, “Financial Instruments – Disclosure and Presentation” and require additional disclosure of the nature and extent of risks arising from financial instruments and how the entity manages those risks. Disclosures required by Section 3862 have been made in the notes to these consolidated financial statements. The adoption of Section 3863 did not have any impact on the company’s consolidated financial statements.

Inventories

In June 2007, the CICA issued a new accounting standard, Section 3031, “Inventories,” which establishes guidance on the measurement and disclosure of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. We adopted the requirements of Section 3031 on January 1, 2008. The adoption of this standard resulted in additional disclosures being provided with respect to our residential developments.

FUTURE ACCOUNTING POLICY CHANGES

Goodwill and Intangible Assets

In February 2008, the CICA issued a new accounting standard, Section 3064, “Goodwill and Intangible Assets.” Section 3064 replaces Sections 3062, “Goodwill and Other Intangible Assets” and 3450, “Research and Development Costs” and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Various changes have also been made to other sections of the CICA Handbook for consistency purposes. As a result of these related amendments, principally to Section 1000; “Financial Statement Concepts,” any expenses deferred pursuant to “matching” concepts and which do not otherwise meet the definition of an asset, will no longer be eligible for capitalization. The new section and related amendments will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, we will adopt the new standards for our fiscal year beginning January 1, 2009 and, consistent with transition provisions in Section 3064, we will adopt the standards retrospectively with restatement. We are still assessing the impact of the adoption of this standard but expect to record a reduction of receivables and other with a corresponding charge against retained earnings.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. Consequently, IFRS will be applicable for interim and annual financial statements relating to the fiscal periods beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts we report for the year ended December 31, 2010. We are in the process of assessing the impact of adoption of IFRS for 2011 and continue to monitor and assess the impact of the convergence of Canadian GAAP and IFRS as new standard changes are introduced over the transitional period.

USE OF ESTIMATES

The preparation of our financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of our ongoing evaluation of these estimates forms the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions.

Our critical accounting policies are those that we believe are the most important in portraying our financial condition and results, and require the most subjective judgment and estimates on the part of management. A summary of our significant accounting policies, including the critical accounting policies discussed below, is set forth in Note 1 to our consolidated financial statements.

Property Acquisitions

Upon acquisition of commercial properties, we determine the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above- and below-market leases, origination costs related to acquired in-place leases, and other identified intangible assets and assumed liabilities, and allocate the purchase price to the acquired assets and assumed liabilities. We assess and consider fair values based on estimated cashflow projections that utilize appropriate discount rates, as well as available market information. Estimates of future cashflows are based on a number of factors including historical operating results, known and anticipated trends, and market conditions. We also consider an allocation of purchase price to other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenant, the tenant's credit quality and expectations of renewals. We record acquired above- and below-market leases at their fair value, using a discount rate which reflects the risks associated with the leases acquired, equal to the present value of the difference between: (1) the contractual amounts to be paid pursuant to each in-place lease; and (2) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the leases for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases. Recorded amounts for in-place lease origination values are based on our evaluation of the specific characteristics of each tenant's lease. Factors to be considered include estimates of carrying costs during expected lease-up periods considering current market conditions and costs to execute similar leases. Land is recorded at appraised value and building is stated at a depreciated replacement cost.

The cost of acquisitions includes the purchase price of the property, legal fees and other acquisition costs.

Tenant Improvements

Our lease agreements generally provide for payments by the landlord to the tenant in the form of tenant improvement allowances. Amounts paid by us pursuant to such lease provisions are characterized as either the purchase of tenant improvements owned by the landlord or tenant inducements. When the payment is determined to be for tenant improvements owned by us, then the improvements are accounted for as an addition to commercial property and depreciated over their estimated useful life. If we determine that we are not the owner of the tenant improvements, then the property subject to the lease is the unimproved space and any payments made to the tenant under the lease are treated as tenant inducements, which reduce revenue over the term of the lease.

Depreciation and Amortization

Depreciation and amortization of commercial properties is based on the allocation of the acquisition cost to land, building, tenant improvements and intangibles, and their estimated useful lives, based on management's estimates. The allocation of the acquisition cost and the determination of the estimated useful lives of the components significantly impact the computation of depreciation and amortization recorded over future periods and, accordingly, net income.

We apply the straight-line method of depreciation. Under this method, depreciation is charged to income on a straight-line basis over the remaining estimated useful life of the property. A significant portion of the acquisition cost of each property is allocated to building. In the event the allocation to building is inappropriate or the estimated useful life of buildings proves incorrect, the computation of depreciation will not be appropriately reflected over future periods.

Impairment of Assets

We review the long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates a potential impairment in value. An asset is considered impaired when the undiscounted future cashflows are not sufficient to recover the asset's carrying value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cashflows is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods, as well as the selection of discount and capitalization rates.

The fair value of mortgages receivable depends upon the financial stability of the issuer and the economic value of the underlying security.

At December 31, 2008, the four properties that comprise our Minneapolis portfolio were reclassified to discontinued operations. As a result of this classification, we determined the fair value of these assets to be less than their carrying amount and accordingly we recognized a \$147 million non-cash impairment loss. The impairment loss was calculated based on future discounted cash flows net of selling costs for these properties.

Revenue Recognition

Base rental revenue, representing the total amount of contractual rent to be received from a lease, is reported on a straight-line basis over the term of each lease. Revenue recognition under a lease begins when the tenant takes possession of, or controls, the physical use of the property subject to the lease. Generally, this occurs on the lease commencement date or, where we are required to make additions to the property in the form of tenant improvements, upon substantial completion of those improvements. A free rent or straight-line rent receivable is recorded for rental income recognized in excess of rent payments actually received pursuant to the terms of the individual lease

agreements. An allowance for doubtful accounts is recorded, if necessary, for estimated losses resulting from the inability of tenants to make required rent payments. The computation of this allowance is based on the tenants' payment history and current credit status, as well as certain industry or geographic specific credit considerations.

In accordance with EIC-140, we also recognize rental revenue of acquired in-place above- and below-market leases at their fair value over the terms of the respective leases.

Recoveries from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, are recognized as revenue in the period the expenses are incurred. Tenant reimbursements are recognized and presented in accordance with EIC Abstract No. 123, "Reporting Revenue Gross as a Principal versus Net as an Agent," which requires that these reimbursements be recorded on a gross basis, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, having discretion in selecting suppliers and taking credit risk.

Revenue and expenses related to commercial developments are recognized in income when the development is substantially complete. This is also the point at which the property is reclassified from commercial developments to commercial properties. We consider a commercial development to be substantially complete upon the earlier of attaining an occupancy that results in break-even income after debt servicing or the expiration of a reasonable maximum period of time, but no later than one year after completion of major construction. Prior to substantial completion, revenues and expenses related to commercial developments are capitalized to the property. To the extent a development or redevelopment property is leased and the tenant begins to occupy the space as phases of construction are substantially complete, we would recognize revenue and expenses in connection with those respective phases. An example of this was Four Allen Center, which we purchased as a development site in 2006. The building was 100% leased subsequent to the purchase. As floors of the building were substantially complete, the tenant moved in and we recognized revenue and expenses proportionately.

Land sales are recognized at the time that the risks and rewards of ownership have been transferred, possession or title passes to the purchaser, all material conditions of the sales contract have been met, and a significant cash down payment or appropriate security is received.

Revenue from the sale of homes is recognized when title passes to the purchaser upon closing and at which time all proceeds are received or collectability is assured.

Fair Value of Financial Instruments

The fair value of commercial property debt is calculated based on the discount spread between the future contractual interest payments and future interest payments on similar mortgage debt based on a current market rate. In determining the current market rate, market spread is added to the quoted yields on federal government bonds with similar maturity dates to the debt in place. Because valuations of the financial instruments are based on these types of estimates, the fair values of financial instruments may change if the estimates do not prove to be accurate.

The fair values of derivative instruments are calculated using generally accepted pricing models. Derivatives are valued using market yields and forward rates appropriate for the duration of the instrument.

Tax

In accordance with GAAP, we use the liability method of accounting for future income taxes and provide for future income taxes for all significant income tax temporary differences.

Preparation of the financial statements requires an estimate of income taxes in the jurisdictions in which we operate. The process involves an estimate of our actual current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes. These differences result in future tax assets and liabilities which are included in our balance sheet. Judgment is required to determine the appropriate tax rate to be applied to tax attributes and an assessment must also be made to determine the likelihood that our future tax assets will be recovered from future taxable income. To the extent that recovery is not considered more likely than not, a valuation allowance must be provided.

Judgment is required in determining the provision for income taxes, future income tax assets and liabilities and any related valuation allowance. To the extent a valuation allowance is created or revised, current period earnings will be affected. Judgment is required to assess tax interpretations, regulations and legislation, which are continually changing to ensure liabilities are complete and to ensure assets net of valuation allowances are realizable. The impact of different interpretations and applications could potentially be material.

In 2008, we recorded \$1 million (2007 – released \$2 million) of tax valuation allowances related to our Canadian commercial operations, we derecognized a \$1 million (2007 – \$7 million) future tax benefit related to loss carryforwards that were previously recognized, and we reduced our future tax liability by \$479 million (2007 - \$75 million) as a result of a reduction in the tax rates applied to the Brookfield U.S. Direct

properties (2007 - U.S. Office Fund). During the year we also recorded a net release of contingencies of \$3 million (2007 – \$14 million) on the settlement of tax audits in the U.S. Office Fund. The effects of the foregoing are reflected in our consolidated statement of income as an adjustment to future income taxes.

U.S. Office Fund

Our interest in the Trizec portfolio is held, in part, through an indirect interest in TRZ Holdings LLC, an entity we established along with Blackstone to acquire Trizec. We have determined that TRZ Holdings LLC is a variable interest entity based on the characteristics of its equity. We consolidate TRZ Holdings LLC and the underlying portfolio of properties through our subsidiaries, as we are the most closely associated member of a related party group that will absorb the majority of the variability of TRZ Holdings LLC's operations.

Our joint venture partner in the U.S. Office Fund, Blackstone, has \$426 million invested in the form of a redeemable equity interest in TRZ Holdings LLC that is reported in Capital securities – fund subsidiaries in our consolidated balance sheets. Under the terms of the joint venture agreement, commencing in 2011 Blackstone has the option to put its interest in the venture in exchange for certain properties that are sub-managed by Blackstone. If Blackstone does not exercise this option, in 2013 the Brookfield Properties-led consortium has the option to call Blackstone's interest in the venture in exchange for the Blackstone sub-managed properties. On exercise of either the put or call, the parties are subject to certain cash adjustment payments to compensate for differences between the actual distributions and cashflows of the respective sub-managed properties, as well as changes in fair values of such properties from the date of acquisition to the call or the put closing date. Such cash adjustments also provide for cross participation in cashflows and changes in fair value of each party's sub-managed properties. Blackstone's equity interest is classified as a liability (capital securities – fund subsidiaries) in our financial statements as we could be obligated to transfer assets to Blackstone as a result of Blackstone's put option. The carrying amount of the liability is determined based on the carrying amount of the properties to be transferred to Blackstone on exercise of its put plus the cash adjustment payments accrued based on the relative performance of the properties.

Certain contributions to the U.S. Office Fund by an institutional investor in the Brookfield Properties-led consortium are in the form of an unsecured debenture. The interest on this debenture is recorded in interest expense – capital securities – fund subsidiaries and in the current year includes a gain of \$38 million (2007 – nil) representing the effect of a change in estimated future cash flows to settle the obligation.

RELATED-PARTY TRANSACTIONS

In the normal course of operations, we enter into various transactions on market terms with related parties which have been measured at exchange value and are recognized in the consolidated financial statements.

At December 31, 2008, we had approximately \$15 million (December 31, 2007 - \$15 million) of indebtedness outstanding to our parent company, BAM and its affiliates. Interest expense related to this indebtedness, totaled nil for the year ended December 31, 2008, compared to \$11 million for the year ended December 31, 2007, which included interest on Class AAA Series E capital securities that have since been offset, and was recorded at the exchange amount. Additionally, we renewed a \$300 million line from BAM in the form of a two-year revolving credit facility to December 2010. The outstanding balance on this facility at December 31, 2008 was nil. Included in rental revenues are amounts received from BAM, and its affiliates for the rental of office premises of \$2 million for the year ended December 31, 2008 (2007 - \$2 million). These amounts have been recorded at the exchange amount. In addition, we have certain arrangements with BAM and its affiliates to acquire insurance in the normal course and at market rates or at cost. The expense for the year ended December 31, 2008 was \$1 million.

PART VII - BUSINESS ENVIRONMENT AND OUTLOOK

OPERATING ENVIRONMENT AND OUTLOOK

The consequences of the current downturn in the economy, including a rise in unemployment, a drop in consumer and business confidence and spending, and nearly non-existent debt markets, are having an adverse effect on the real estate industry as a whole. Leasing demand in most of our markets has tempered and we are beginning to see increasing direct and sublease availabilities and associated downward pressure on rents and economic fundamentals. Our occupancy levels, however, are at 94.9% across our portfolio and only 3.9% of the space within our portfolio is scheduled to come off lease in 2009. The high quality of our properties relative to others in our markets should enable us to attract new tenants if we are unsuccessful in extending leases with existing tenants. Furthermore, our in-place rents continue to be below market. In our portfolio, the average expiring rates in 2009 are \$19 per square foot compared with a market rate of \$32 per square foot, representing a 68% discount. Our average in-place net rent of \$23 was consistent with the prior year notwithstanding the difficult environment. Our strong tenant lease profile, low vacancies and rental rates that in most properties are substantially below current market rates, give us a high level of confidence that we can achieve our operating targets in 2009. Furthermore, the general lack of development, especially in the central business districts, has created stability from a supply perspective.

The market for our residential operations will be challenging through 2009. The current over-supply in our market has reduced operating margins and must be worked through before we will see margin improvements and growth. This has been compounded in recent months by the state of the overall economy in North America which has moderated consumer demand for housing. Our Alberta operations have benefited greatly from the continued expansion of activity in the oil industry, however, growth will definitely be tempered in the province by the effect of current low oil prices. Most of our land holdings were purchased in the mid-1990's or earlier and as a result have an embedded cost advantage today and should, accordingly, continue to benefit from favorable margins, although likely more in line with historical margins.

While we remain committed to commercial property development and redevelopment opportunities in these current market conditions, our focus is on completing the construction of our underway development pipeline on time and budget and continuing to make progress on leasing. Any new development will have to provide appropriate risk-adjusted returns, have substantial pre-lease commitments and be financeable before we would be willing to proceed.

Looking longer term, with a solid platform consisting of a strong balance sheet, a well-leased portfolio with below-market net rents, a 17 million square foot development and redevelopment pipeline and financial flexibility, Brookfield Properties is well-positioned to continue to deliver on its commitments to shareholders.

DISCLOSURE CONTROLS AND PROCEDURES

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in applicable U.S. and Canadian securities law) as of December 31, 2008. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures are effective as of December 31, 2008 in providing reasonable assurance that material information relating to the company and our consolidated subsidiaries would be made known to us by others within those entities.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our company's internal control over financial reporting that occurred during 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Management has also evaluated the effectiveness of our internal control over financial reporting as of December 31, 2008, and based on that assessment determined that our internal control over financial reporting was effective. Refer to *Management's Report on Internal Control over Financial Reporting* on page 68 of this annual report.



Bryan K. Davis
Senior Vice President and Chief Financial Officer
March 6, 2009

DISTRIBUTIONS

Distributions paid by the company during the year ended December 31, 2008 and in the past three fiscal years are as follows:

	Currency	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Common shares ⁽¹⁾	US\$	\$ 0.5600	\$ 0.5500	\$ 0.5100	\$ 0.4300
Class A preferred shares ⁽²⁾	C\$	0.0833	0.0833	0.0833	0.0833
Class AA Series E preferred shares	C\$	0.8776	1.0178	0.9922	0.7591
Class AAA Series E preferred shares	C\$	0.8457	0.4830	1.0082	0.7695
Class AAA Series F preferred shares	C\$	1.5000	1.5000	1.5000	1.5000
Class AAA Series G preferred shares	US\$	1.3125	1.3125	1.3125	1.3125
Class AAA Series H preferred shares	C\$	1.4375	1.4375	1.4375	1.4375
Class AAA Series I preferred shares	C\$	1.3000	1.3000	1.3000	1.3000
Class AAA Series J preferred shares	C\$	1.2500	1.2500	1.2500	1.2500
Class AAA Series K preferred shares	C\$	1.3000	1.3000	1.3000	1.3000

⁽¹⁾ Per share amounts have been restated to reflect the impact of the three-for-two common stock splits effective May 4, 2007 and March 31, 2005

⁽²⁾ Per share amounts have been restated to reflect the impact of the nine-for-four class A preferred share stock split effective May 4, 2007