

BROOKFIELD HOMES CORP

Form 10-K

March 06, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006
Commission File Number: 001-31524
BROOKFIELD HOMES CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

8500 Executive Park Avenue
Suite 300, Fairfax, Virginia
(Address of Principal Executive Offices)

22031
(Zip Code)

(703) 270-1700

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock

New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

As of June 30, 2006, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$375,829,776 based upon the closing market price on June 30, 2006 of a share of common stock on the New York Stock Exchange.

As of February 15, 2007, the registrant had outstanding 26,627,825 shares of its common stock, \$0.01 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 2007 definitive proxy statement, to be filed with the Commission no later than April 30, 2007, are incorporated by reference into Item 10 (Directors, Executive Officers and Corporate Governance), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters), Item 13 (Certain Relationships and Related Transactions, and Director Independence) and Item 14 (Principal Accounting Fees and Services) of Part III of this annual report on Form 10-K.

PART I

Item 1. Business

Introduction

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

General Development of Our Business

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

Market	Year of Entry	Principal Subsidiary
San Francisco Bay Area	1996	Brookfield Bay Area Holdings LLC
Southland / Los Angeles	1996	Brookfield Southland Holdings LLC
San Diego / Riverside	1996	Brookfield San Diego Holdings LLC
Washington D.C. Area	1984	Brookfield Washington LLC
California	1998	Brookfield California Land Holdings LLC
Sacramento	2003	Brookfield Sacramento LLC

Overview of the Residential Homebuilding and Land Development Industry

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

Raw Land

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

Land Development

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

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

Generally, the first significant step in developing a residential community is to complete a draft specific plan incorporating major street patterns and designating parcels of land for various uses, such as parks, schools, rights of way and residential and commercial uses that is consistent with the local city or county general plan. This plan is then submitted for approval to the governmental authority with principal jurisdiction in the area such as a city or county. The draft specific plan is then refined with the local, state and federal agencies designating main and side streets, lot sizes for residential use and the sizes and locations of parcels of land to be used for schools, parks, commercial properties and multi-family dwellings. These refinements are usually made in consultation with local planning officials, state agencies and, if required, federal agencies. In most cases, this process takes several years to complete. Once the plan has been approved, the developer generally commences negotiations with the local governmental authority on a formal development agreement, which governs the principal aspects of the construction of the community. These negotiations generally involve the review and approval of engineering designs pertaining to various aspects of the development, such as the construction and installation of sewer lines, water mains, utilities, roads and sidewalks. At the same time, the allocation of the costs of these items between the governmental authority and the developer, and the amount of fees which the developer will pay in order to obtain final approval of the plan must be settled.

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

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

Home Construction and Marketing

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

Narrative Description of Our Business

We design, construct and market single-family and multi-family homes primarily to move-up and luxury home-buyers. We also develop land for our own communities and sell lots to other homebuilders. In each of our

markets, we operate through local business units which are involved in all phases of the planning and building of our master-planned communities and infill developments. These phases include sourcing and evaluating land acquisitions, site

planning, obtaining entitlements, developing the land, product design, constructing, marketing and selling homes and homebuyer customer service. In the five year period ended December 31, 2006, we closed a total of 7,621 homes and sold 7,700 lots in various stages of development to other homebuilders. A home or lot is considered closed when title has passed to the homebuyer, and for a lot when a significant cash down payment or appropriate security has been received.

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

In 2006, we closed a total of 1,159 homes, compared with 1,582 in 2005. The breakdown of our home closings by market in the last three years follows:

<i>(Units)</i>	2006	2005	2004
Northern California	107	192	407
Southland / Los Angeles	326	221	338
San Diego / Riverside	288	611	507
Washington D.C. Area	375	556	447
Corporate and Other	63	2	99
Total	1,159	1,582	1,798

At December 31, 2006, we had in backlog 247 homes or approximately 20% of our planned 1,150 to 1,250 home closings for 2007 delivery. Backlog represents the number of homes subject to pending sales contracts.

We also sell serviced and unserviced lots to other homebuilders, generally on an opportunistic basis where we can enhance our returns, reduce our risk in a market or re-deploy our capital to an asset providing higher returns. In 2006, we sold 834 lots, the majority of which were bulk sales of raw or undeveloped land in Southland and San Diego. In 2005, we sold 1,242 lots, the majority of which were bulk sales of raw or undeveloped land in San Diego and the Washington D.C. Area.

Our average home price in 2006 was \$677,000, consistent with our average home price in 2005 of \$679,000. The breakdown of the average prices on our home closings in the last three years follows:

	2006		2005		2004	
	Sales	Average	Sales	Average	Sales	Average
	<i>(Millions)</i>	Price	<i>(Millions)</i>	Price	<i>(Millions)</i>	Price
Northern California	\$ 106	\$ 987,000	\$ 199	\$ 1,036,000	\$ 328	\$ 804,000
Southland / Los Angeles	236	725,000	193	874,000	337	996,000
San Diego / Riverside	173	601,000	378	618,000	231	456,000
Washington D.C. Area	222	592,000	303	545,000	219	491,000
Corporate and Other	47	749,000	1	586,000	54	548,000
Total	\$ 784	\$ 677,000	\$ 1,074	\$ 679,000	\$ 1,169	\$ 650,000

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

Business Strategy

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

Selective Acquisition Policies

We selectively acquire land that provides us with attractive residential projects that are consistent with our overall strategy and management expertise. We acquire land only if we believe that it will provide us with a minimum return on our invested capital. We also acquire options to purchase land rather than purchasing the land outright, in

order to reduce our capital at risk in controlling land. In determining the minimum return we will accept, we take into account the risk inherent in increasing our land inventory and the specific development project. In making additional land acquisitions in one of our current markets, we also consider our recent financial returns achieved in that market. In order to expand our market opportunities, we also selectively pursue joint venture projects with landowners, other homebuilders and intermediaries. We are generally active participants in our joint ventures.

Decentralized Operating Structure

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

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

Proactive Asset Management

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

Creating Communities

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

Risk Management

We focus on managing risk in each stage of the homebuilding and land development process. In the land acquisition phase, we use options and joint ventures to mitigate the risk that land values will decline due to poor economic or real estate market conditions, or that we will be unable to obtain approval for development of a proposed community. We attempt to limit development approval risk by conducting significant due diligence before we close land acquisitions. Furthermore, we generally participate in land developments which we believe will allow us to sell our interest or take other protective actions should a downturn in the real estate market occur. We sell lots and parcels when we believe we can redeploy capital to an asset providing higher returns or reduce risk in a market.

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

- selecting carefully the building materials that we use;
- emphasizing to our employees and subcontractors that our homes are to be built to meet a high standard of quality and workmanship;
- using only insured subcontractors to perform construction activities;
- providing on-site quality control; and

providing after-sales service.

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

Asset Profile

Our assets are focused on single-family and multi-family homebuilding in the markets in which we operate. They consist primarily of housing and land inventory and investments in housing and land joint ventures. Our total assets excluding cash and cash equivalents and deferred income taxes as of December 31, 2006 were \$1,262 million, with \$888 million of these assets located in California, \$314 million in the Washington D.C. Area and \$60 million in other operations.

As of December 31, 2006, we controlled 27,616 lots. Controlled lots include those we directly own, our proportionate share of those owned by our joint ventures and those that we have the option to purchase. Our controlled lots provide a strong foundation for our future homebuilding business and visibility on our future cash flow and earnings.

Approximately eighty percent of our owned lots are entitled and ready for development and our optioned lots are mainly unentitled and require various regulatory approvals before development can commence. The number of residential building lots we control in each of our markets as of December 31, 2006 follows:

<i>(Lots)</i>	Owned			Total Lots
	Directly	Joint Ventures	Options	
Northern California	837	408	8,564	9,809
Southland / Los Angeles	786	271	1,964	3,021
San Diego / Riverside	4,157	2,059	1,500	7,716
Washington D.C. Area	2,367	1,684	2,869	6,920
Corporate and Other	115	35		150
Total December 31, 2006	8,262	4,457	14,897	27,616
Total December 31, 2005	8,443	3,890	17,179	29,512

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

<i>(Book Value, \$ millions)</i>	December 31, 2006	December 31, 2005
Northern California	\$ 289	\$ 169
Southland / Los Angeles	154	183
San Diego / Riverside	344	264
Washington D.C. Area	247	253
Corporate and Other	41	44
Total	\$ 1,075	\$ 913

The book value of our investments in housing and land joint ventures as of December 31, 2006 was \$90 million. The total book value of the assets and liabilities of these joint ventures and our share of the equity of the joint ventures as of December 31, 2006 follows:

<i>(Book Value, \$ millions)</i>	December 31, 2006
Assets	\$ 490
Liabilities	\$ 286

Brookfield Homes net investment

\$ 90

The following describes our major projects:

Windemere, San Francisco Bay Area. Windemere is a 5,200 lot master-planned community located on one of the last premier infill tracts of residential housing land in the East Bay area of San Francisco. Windemere was acquired under option in 1998, final approvals were obtained in 2000 and lot sales commenced in 2001. We hold a one-third interest in Windemere, with the other two-thirds owned equally by Centex Corporation and Lennar Corporation. We have no affiliation with Centex Corporation or Lennar Corporation. We directly own 449 lots in Windemere and our share of the remaining joint venture units is 98 lots.

University District, San Francisco Bay Area. University District is a 254 acre project in Rohnert Park, near Santa Rosa which is entitled for 1,454 lots, all of which we control. The City of Rohnert Park's water supply assessment has been challenged and this may delay further development of this project.

Edenglen, Ontario. Edenglen is a 542 lot project in the City of Ontario in San Bernardino County and is the first community within the master-planned community known as the New Model Colony. We obtained final approvals and commenced grading in 2006. We hold a 50% interest in Edenglen with the remaining 50% held by Standard Pacific Corp. We have no affiliation with Standard Pacific Corp.

Morningstar Ranch, Riverside County. Morningstar Ranch is a 1,081 lot master-planned community near Temecula in Riverside County. The initial phases of 492 lots have closed out and land development on the remaining 589 lots, all of which we own, commenced in 2004 and was completed in 2006.

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

Calavera Hills, San Diego County. Calavera Hills is an 800 acre project located in the coastal community of Carlsbad. We completed Phase I of the project with the construction of 483 homes. Approvals for Phase II were obtained for 642 homes, grading commenced in 2002 and home closings commenced in 2004. Phase III, planned for 394 units will commence development in 2007. We hold a 50% interest in Calavera Hills, with the remaining 50% held by McMillin Companies. We have no affiliation with McMillin Companies.

Sycamore Canyon, San Diego County. Sycamore Canyon is a 2,132 acre project located in San Diego County. The project was acquired under option in 1998, and in 2002, final approvals were obtained and grading of the site commenced. Home closings commenced in 2004 and as of December 31, 2006, we owned 269 units.

Windingwalk, San Diego County. Windingwalk (Otay Ranch Village II) in south San Diego County is a 1,200 acre project. Grading on the site commenced in 2002 and home closings commenced in 2004. We hold a 50% interest in this project, with the remaining 50% held by Shea Homes. We have no affiliation with Shea Homes. All lots have been distributed to partners of which we currently own directly 314 units.

Braemar, Washington D.C. Area. Braemar is a master-planned community located in Prince William County that began development in 1994. Since 1999, we have closed over 2,300 homes and lots in this community. As of December 31, 2006, we had 605 lots remaining in Braemar and adjacent communities in which we hold a 100% interest.

Property Acquisition and Sale

Before entering into an agreement to purchase land, we complete comparative studies and analyses that assist us in evaluating the acquisition. We manage our risk and attempt to maximize our return on invested capital on land acquisitions by either entering into option agreements or joint venture arrangements. We attempt to limit our development approval risk by conducting significant due diligence before we close land acquisitions.

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

Construction and Development

We attempt to match our construction starts to our sales rate. We control our construction starts by constructing and selling homes in phases. Generally, we will not start construction of a phase of homes until sales of homes to be built in the phase have met predetermined targets. The size of these phases depends upon factors such as current sales and cancellation rates, the type of buyer targeted for a particular project, the time of year and our assessment of prevailing and anticipated economic conditions. We generally do not begin selling homes until a significant portion of the homes construction costs are established through firm subcontractor bids.

We attempt to limit the number of unsold units under construction by limiting the size of each construction phase and closely monitoring sales activity. Building homes of a similar product type in phases also allows us to utilize production techniques that reduce our construction costs. The number of our unsold homes fluctuates depending

upon the timing of completion of construction and absorption of home phases. As of December 31, 2006, we had 135 completed and unsold homes, excluding the model homes we currently maintain.

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

Sales and Marketing

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

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

As of December 31, 2006, we owned 84 model homes and leased 36 model homes from third parties, which are not generally available for sale until the final build-out of a project. Generally, two to four different model homes are built and decorated at each project to display design features. Model homes play a key role in helping buyers understand the efficiencies and value provided by each floor plan type. In addition to model homes, customers can gain an understanding of the various design features and options available to them using our design centers. At each design center, customers can meet with a designer and are shown the standard and upgraded selections available to them, including professional interior design furnishings and accessories.

We typically sell homes using sales contracts that include cash deposits by the purchasers. Before entering into sales contracts, we generally pre-qualify our customers. However, purchasers can generally cancel sales contracts if they are unable to sell their existing homes, if they fail to qualify for financing, or under certain other circumstances. Although cancellations can delay the sale of our homes, they have historically not had a material impact on our operating results. During 2006, as a result of more challenging market conditions, our cancellation rate significantly increased to 30% from a historical average of 15%. We continue to closely monitor the progress of prospective buyers in obtaining financing. We also monitor and adjust our construction start plans depending on the level of demand for our homes.

Customer Service and Quality Control

We pay particular attention to the product design process and carefully consider quality and choice of materials in order to attempt to eliminate building deficiencies. The quality and workmanship of the trade contractors we employ are monitored and we make regular inspections to ensure our standards are met.

We staff each business unit with quality control and customer service staff whose role includes providing a positive experience for each customer throughout the pre-sale, sale, building, closing and post-closing periods. These employees are also responsible for providing after-sales customer service. Our quality and service initiatives include

taking customers on a comprehensive tour of their home prior to closing and using customer survey results to improve our standards of quality and customer satisfaction.

Mortgage Brokerage Operations

We offer mortgage brokerage services exclusively to our customers in our San Francisco Bay Area, Southland / Los Angeles, San Diego and Washington D.C. Area markets. We have agreements with various lenders to receive a fee on loans made by the lenders to customers we introduce to the lenders. We provide mortgage origination services to our customers in the Washington D.C. Area and do not retain or service the mortgages we originate. We customarily sell all of the loans and loan servicing rights that we originate in the secondary market within a month of origination. For the year ended December 31, 2006, less than 1% of our revenue and less than 1% of our net income was derived from our mortgage operations.

Relationship with Affiliates

We are a residential homebuilder and land developer, building homes and developing land primarily in four markets in California and in the Washington D.C. Area. None of our affiliates, including Brookfield Asset Management Inc. and Brookfield Properties, operate in similar businesses in our markets. Nevertheless, there are agreements among our affiliates to which we are a party or subject relating to a name license, the lease of office space, a deposit facility and an unsecured revolving credit facility in the form of a promissory note. For a further description of these agreements refer to Certain Relationships and Related Transactions, and Director Independence which is incorporated by reference into Item 13 of this report from our definitive 2007 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2007.

Three of our directors serve as executive officers and/or directors of our affiliates. For a description of those relationships refer to Certain Relationships and Related Transactions, and Director Independence which is incorporated by reference into Item 13 of this report from our definitive 2007 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2007.

Competition

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

Material Contracts

Other than contracts arising in connection with the reorganization and the Spin-off of the residential homebuilding operations of Brookfield Properties, and a deposit facility and promissory note with subsidiaries of Brookfield Asset Management Inc., we are not party or subject to any material contracts. For a description of the material contracts arising in connection with the reorganization, refer to Certain Relationships and Related Transactions, and Director Independence which is incorporated by reference into Item 13 of this report from our definitive 2007 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2007.

Regulation and Environment

We are subject to local and state laws and regulations concerning zoning, design, construction and similar matters, including local regulations which impose restrictive zoning and density requirements in order to limit the number of homes that eventually can be built within the boundaries of a particular area. We are also subject to periodic delays in our homebuilding projects due to building moratoria. In addition, new development projects may be subject to various assessments for schools, parks, streets and highways and other public improvements, the costs of which can be substantial. When made, these assessments can have a negative impact on our sales by raising the price that homebuyers must pay for our homes.

We are also subject to local, state and federal laws and regulations concerning the protection of the environment. The environmental laws that apply to a given homebuilding site depend upon the site's location, its environmental

conditions and the present and former uses of the site and its adjoining properties. Environmental laws and

conditions may result in delays, or cause us to incur substantial compliance and other costs, and can prohibit or severely restrict homebuilding activity in environmentally sensitive regions or areas.

We do not currently have any material estimated capital expenditures related to governmental assessments or environmental compliance costs for the remainder of fiscal 2007, fiscal 2008 or fiscal 2009.

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

Seasonality

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

Employees

As of December 31, 2006, we had 591 employees. We consider our relations with our employees to be good. Our construction operations are conducted primarily through independent subcontractors, thereby limiting the number of our employees. None of our employees are currently represented by a union or covered by a collective bargaining agreement. We have not recently experienced any work stoppages.

Available Information

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

NYSE Annual Disclosure

We confirm that we have submitted a Section 303A.12(a) CEO Certification to the NYSE in 2006 and filed with the SEC the CEO / CFO certification required under Section 302 of the Sarbanes-Oxley Act for the 2006 fiscal year.

Item 1A. Risk Factors

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

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

The residential homebuilding and land development industry is cyclical and is significantly affected by changes in general and local economic conditions, such as employment levels, availability of financing for homebuyers, interest rates, consumer confidence, levels of new and existing homes for sale and housing demand. In addition, significant supply of alternatives to new homes, such as rental properties and used homes, including homes held for sale by investors and speculators, may depress prices and reduce margins for the sale of new homes. The United States housing industry experienced an industry-wide softening of demand, mainly due to a significant negative shift in homebuyer sentiment that continued through 2006. We believe this shift in sentiment was a result of a number of factors, including the impact of higher home prices on consumer confidence and increases in short term interest rates. In addition, as price appreciation slowed, the impact of investors and speculators on the markets became more evident, particularly for us in San Diego and the Washington D.C. Area. The resulting impact of these buyers canceling their sales contracts or listing their investment homes for sale was a substantial increase in new and resale home inventories. These market conditions negatively impacted our operations resulting in lower home sales per community, an increase in home cancellation rates, increases in homebuyer incentives and a decrease in lots sold to other builders.

Homebuilders are also subject to risks related to the availability and cost of materials and labor, and adverse weather conditions that can cause delays in construction schedules and cost overruns. Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by us can fluctuate significantly as a result of changing economic and real estate market conditions and may result in inventory impairment charges or putting our deposits for lots controlled under option at risk. If there are significant adverse changes in economic or real estate market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. We may be particularly affected by changes in local market conditions in California, where we derive a large proportion of our revenue.

Rising mortgage rates or decreases in the availability of mortgage financing will discourage people from buying new homes.

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

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

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

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

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

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

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

Homebuilding is subject to home warranty and construction defect claims in the ordinary course of business and furthermore we sometimes face liabilities when we act as a general contractor, and we are sometimes responsible for losses when we hire general contractors.

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of our business. These claims are common in the homebuilding industry and can be costly. Further, where we act as the general contractor, we are responsible for the performance of the entire contract, including work assigned to subcontractors. Claims may be asserted against us for construction defects, personal injury or property damage caused by the subcontractors, and if successful these claims give rise to liability. Where we hire general contractors, if there are unforeseen events like the bankruptcy of, or an uninsured or under-insured loss claimed against, our general contractors, we sometimes become responsible for the losses or other obligations of the general contractors. The cost of insuring against construction defect and product liability claims are high, and the amount of coverage offered by insurance companies is currently limited. There can be no assurance that this coverage will not be further restricted and become more costly. If we are not able to obtain adequate insurance against these claims, our business and results of operations will be adversely affected.

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

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

Our debt and leverage could adversely affect our financial condition.

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

flexibility to adjust to changing economic or market conditions, reduce our ability to withstand competitive pressures and make us more vulnerable to a general economic downturn.

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

We repay the principal of our debt from the proceeds of home closings, and as a result our annual debt service is equal to the interest that accrues on our debt. Based on our net debt levels as of December 31, 2006, a 1% change up or down in interest rates could have either a negative or positive effect of approximately \$4 million on our cash flows. Refer also to the section of this Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures About Market Risks - Interest Rates.

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

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

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

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

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

Increased insurance risk adversely affects our business.

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

Tax law changes could make home ownership more expensive or less attractive.

Tax law changes could make home ownership more expensive or less attractive. Significant expenses of owning a home, including mortgage interest expense and real estate taxes, generally are deductible expenses for an individual's federal, and in some cases state income taxes subject to various limitations under current tax law and policy. If the federal government or a state government changes income tax laws to eliminate or substantially modify these income tax deductions, then the after-tax cost of owning a new home would increase substantially. This could adversely impact demand for, and/or sales prices of new homes.

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

The residential homebuilding industry is highly competitive. Residential homebuilders compete not only for homebuyers, but also for desirable properties, financing, building materials and labor. We compete with other local, regional and national homebuilders, often within larger communities designed, planned and developed by such homebuilders. Any improvement in the cost structure or service of our competitors will increase the competition we face. We also compete with the resale of existing homes. Competitive conditions in the homebuilding industry could

result in: difficulty in acquiring suitable land at acceptable prices; increased selling incentives; lower sales volumes and prices; increased construction costs; and delays in construction.

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

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

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

The trading price of shares of our common stock could be adversely affected because Brookfield Asset Management Inc. owns approximately 53 % of our common stock.

Brookfield Asset Management Inc. owns approximately 53% of the outstanding shares of our common stock. If Brookfield Asset Management Inc. should decide in the future to sell any of our shares owned by it, the sale (or the perception of the market that a sale may occur) could adversely affect the trading price of our common stock.

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

The trading price of shares of our common stock in the open market cannot be predicted. The trading price could fluctuate significantly in response to factors such as: variations in our quarterly or annual operating results and financial condition; changes in government regulations affecting our business; the announcement of significant events by us or our competitors; market conditions specific to the homebuilding industry; changes in general economic conditions; differences between our actual financial and operating results and those expected by investors and analysts; changes in analysts' recommendations or projections; the depth and liquidity of the market for shares of our common stock; investor perception of the homebuilding industry; events in the homebuilding industry; investment restrictions; and our dividend policy. In addition, securities markets have experienced significant price and volume fluctuations in recent years that have often been unrelated or disproportionate to the operating performance of particular companies. These broad fluctuations may adversely affect the trading price of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

In addition to real estate held for development and sale, which we either own or hold under an option to purchase, we lease and maintain corporate and administrative offices in Del Mar, California and Toronto, Canada. Our Del Mar lease expires in 2007, but we may, at our option, extend the lease for an additional six years and our Toronto lease is a sublease from Brookfield Asset Management Inc., which expires in 2008.

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

Item 3. Legal Proceedings

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

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

None.

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

Our common stock is listed on the New York Stock Exchange under the symbol BHS, and began regular trading on January 7, 2003. The following table shows high and low sales prices for our common stock, for the periods included, as reported by the NYSE.

	Year Ended December 31, 2006			Year Ended December 31, 2005		
	High	Low	Cash Dividends Per Share	High	Low	Cash Dividends Per Share
1 st Quarter	\$ 53.45	\$ 45.27		\$ 45.00	\$ 31.70	
2 nd Quarter	\$ 52.44	\$ 29.36	\$ 0.20	\$ 49.25	\$ 39.60	\$ 0.16
3 rd Quarter	\$ 33.14	\$ 22.04		\$ 55.68	\$ 43.56	
4 th Quarter	\$ 40.50	\$ 28.01	\$ 0.20	\$ 56.40	\$ 46.30	\$ 0.16

As of February 15, 2007, there were approximately 859 holders of record of our common stock.

On February 1, 2007, our Board of Directors declared a semi-annual dividend of \$0.20 per share, payable June 29, 2007 to stockholders of record on June 15, 2007. Our Board of Directors periodically reviews our dividend policy. Future dividends on our common stock, if any, will be at the discretion of our Board of Directors and will depend upon, among other things, our results of operations, cash requirements and surplus, financial condition, contractual restrictions, investment opportunities and other factors that our Board of Directors considers relevant.

There are no current or anticipated contractual terms in our credit or other arrangements that restrict our ability to pay dividends, other than the requirements imposed by our project specific financings that require Brookfield Homes Holdings Inc., our wholly-owned subsidiary, to maintain a tangible net worth of at least \$250 million, a net debt to tangible net worth ratio of 2.50 to 1 and a net debt to capitalization ratio of no greater than 65%, and the requirements of our revolving credit facility with Brookfield Asset Management Inc. that require us to maintain minimum stockholders' equity of \$200 million and a consolidated net debt to book capitalization ratio of no greater than 70%. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Other Commitments for additional information about these restrictions.

Our Board of Directors approved a share repurchase program that allows us to repurchase in aggregate up to \$144 million of our outstanding common shares, of which the remaining amount approved for repurchases at December 31, 2006 was \$49 million. Since the initial approval of the program in February 2003, the following annual share repurchases have been made under the program: 2003 1,192,749 shares at an average price of \$18.19; 2004 76,400 shares at an average price of \$25.39; 2005 707,500 shares at an average price of \$47.81; 2006 964,200 shares at an average price of \$39.30. Separately, during the fourth quarter of 2005 we repurchased 3,000,000 of our shares through a fixed price tender offer at a purchase price of \$55.00 per share.

During the three months and year ended December 31, 2006, we repurchased the following shares of our common stock:

Total Number of Shares	Average Price Paid Per	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or
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Period	Purchased	Share	or Programs		Programs
January 1, 2006 - September 30, 2006	964,200	\$ 39.30	964,200	\$	48,750,330
October 1, 2006 - October 31, 2006				\$	48,750,330
November 1, 2006 - November 30, 2006				\$	48,750,330
December 1, 2006 - December 31, 2006				\$	48,750,330
Total (Year)	964,200	\$ 39.90	964,200	\$	48,750,330
Total (Fourth Quarter)				\$	48,750,330

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes our equity compensation plans approved by stockholders as of December 31, 2006. We have no equity compensation plans not approved by stockholders.

	(a)	(b)	(c)
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders	678,051	\$ 21.02	900,375
Equity compensation plans not approved by stockholders	none	n/a	none
Total	678,051	\$ 21.02	900,375

Performance Graph

The following graph illustrates the cumulative total stockholder return on Brookfield Homes common stock for the last four fiscal years assuming a hypothetical investment of \$100 and a reinvestment of all dividends paid on such investment, compared to Standard & Poor's 500 Stock Index and the Standard & Poor's Homebuilding 500 Index.

**COMPARISON OF CUMULATIVE TOTAL RETURN
PERIOD ENDING DECEMBER 31, 2006**

* Brookfield Homes common stock began trading on the NYSE on January 7, 2003.

Item 6. Selected Financial Data

The following tables include selected historical consolidated financial data for each year in the five year period ended December 31, 2006.

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

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

United States GAAP

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

Income Statement Data

(\$ millions, except per share amounts)

	Years Ended December 31				
	2006	2005	2004	2003	2002
Housing revenue	\$ 784	\$ 1,074	\$ 1,169	\$ 818	\$ 785
Total revenue ⁽¹⁾	888	1,231	1,232	1,001	831
Gross margin ^{(1) (2)}	261	416	287	211	131
Operating income ⁽³⁾	253	391	268	166	81
Contribution from land sales to net income	26	45	9	39	
Net income	148	219	146	88	43
Diluted earnings per share ⁽⁴⁾	5.45	7.04	4.64	2.75	1.35
Cash dividends per share ⁽⁵⁾	0.40	0.32	9.16	0.16	0.52

Balance Sheet Data (\$ millions)

	At December 31				
	2006	2005	2004	2003	2002
Housing and land inventory	\$ 1,075	\$ 913	\$ 680	\$ 567	\$ 616
Cash and cash equivalents	87	198	187	219	36
Total assets	1,401	1,330	1,082	1,013	844
Total debt	658	691	512	426	424
Total liabilities	1,030	1,065	836	631	523
Total stockholders' equity	371	265	246	382	321

Supplemental Financial Data (\$ millions)

	Years Ended December 31				
	2006	2005	2004	2003	2002
Cash provided by/(used in):					
Operating activities	\$ 26	\$ 60	\$ 164	\$ 209	\$ 102
Investment activities	(47)	(5)	25	6	24
Financing activities	(91)	(44)	(221)	(32)	(91)
Net debt to total capitalization percent ⁽⁶⁾	55%	61%	51%	32%	53%

Operating Data (Unaudited)

	Years Ended December 31				
	2006	2005	2004	2003	2002
Home closings (units)	1,159	1,582	1,798	1,528	1,554
Lots sold (units)	834	1,242	400	4,940	284
Net new orders (units) ⁽⁷⁾	951	1,421	1,765	1,710	1,580
Backlog (units at end of period) ⁽⁸⁾	247	455	616	649	467
Average selling price	\$677,000	\$679,000	\$650,000	\$535,000	\$505,000
Lots controlled	27,616	29,512	27,966	21,606	22,128

(1) To conform to the current year presentation, for years prior to 2004, revenue excludes equity in earnings from housing and

land joint ventures and gross margin excludes equity in earnings from housing and land joint ventures and includes interest expense.

- (2) Gross margin represents the contribution from our housing and land projects, after all costs for development and construction, including related overhead, and before all selling, general and administrative expense, interest expense and minority interest.
- (3) Operating income represents net income before minority interest and income taxes.
- (4) Earnings per share prior to September 30, 2002 have been calculated based on the weighted average number of Brookfield Properties common shares

outstanding during each respective period, adjusted on the basis of one of our common shares for every five common shares of Brookfield Properties. For the periods after October 1, 2002, earnings per share have been calculated based on the weighted average number of outstanding shares of Brookfield Homes.

- (5) The 2004 cash dividend includes a special dividend of \$9 per share.
- (6) Net debt to total capitalization percent is defined as total project specific financings plus subordinated debt less cash (net debt) multiplied by 100 and divided by net debt plus stockholders equity plus minority interest (total capitalization).
- (7) Net new orders for any period represents the

aggregate of all homes ordered by customers, net of cancellations, excluding joint ventures.

- (8) Backlog represents the number of new homes subject to pending sales contracts, excluding joint ventures.

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

The following discussion and analysis should be read along with Selected Financial Data and our consolidated financial statements and the related notes included elsewhere in this report. This discussion includes forward-looking statements that reflect our current views with respect to future events and financial performance and that involve risks and uncertainties. Our actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including risks discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements and Item 1A Risk Factors included elsewhere in this report.

Overview

We design, construct and market single-family and multi-family homes primarily to move-up and luxury homebuyers and develop land for sale to other homebuilders.

We operate in the following geographic regions which are presented as our reportable segments: Northern California (San Francisco Bay Area and Sacramento), Southland / Los Angeles, San Diego / Riverside and Washington D.C. Area. Our other operations that do not meet the quantitative thresholds for separate disclosure are included in Corporate and Other.

Our goal is to maximize the total return on our common stockholders' equity over the long term. We plan to achieve this by actively managing our assets and creating value on the lots we own or control.

The 27,616 lots that we control, 12,719 of which we own directly or through joint ventures, provide a strong foundation for our future homebuilding business and visibility on our future cash flow and earnings. We believe we add value to the lots we control through entitlements, development and the construction of homes. In allocating capital to our operations we generally limit our risk on unentitled land through optioning such land positions in all our markets thereby mitigating our capital at risk. Option contracts for the purchase of land permits us to control lots for an extended period of time. We have controlled our 27,616 lots since the following specified years:

Year	% of Lots	Owned	Optioned	Total Controlled Lots
Pre-2003	32%	4,568	4,153	8,721
2003	33%	3,378	5,665	9,043
2004	22%	3,110	2,929	6,039
2005	10%	1,119	1,702	2,821
2006	3%	544	448	992
	100%	12,719	14,897	27,616

The United States housing industry experienced an industry-wide softening of demand, mainly due to a significant negative shift in homebuyer sentiment that continued through 2006. We believe this shift in sentiment was a result of a number of factors, including the impact of higher home prices on consumer confidence and increases in short term interest rates. In addition, as price appreciation slowed, the impact of investors and speculators on the markets became more evident, particularly for us in San Diego and the Washington D.C. Area. The resulting impact of these buyers canceling their sales contracts or listing their investment homes for sale was a substantial increase in new and resale home inventories. These market conditions negatively impacted our operations resulting in lower home sales per community, an increase in home cancellation rates, increases in homebuyer incentives and a decrease in lots sold to other builders.

Homebuilding is our primary source of revenue and has represented approximately 90% of our total revenue since 2002. Our operations are positioned to close up to 2,000 homes annually. Operating in markets with higher price points and catering to move-up and luxury buyers, our average sales price in 2006 of \$677,000 was well in excess of the national average sales price. We also sell serviced and unserviced lots to other homebuilders, generally on an opportunistic basis where we can redeploy capital to an asset providing higher returns or reduce risk in a market. In 2006, we sold 834 lots, the majority of which were bulk sales of raw or undeveloped land in our Southland and San

Diego operations.

In addition to our housing and land inventory and investments in housing and land joint ventures, which together comprised 87% of our total assets as of December 31, 2006, we had \$87 million in cash and cash equivalents and \$90 million in other assets. Other assets consist of homebuyer receivables of \$15 million, deferred income taxes of \$53 million, and mortgages and other receivables of \$22 million. Homebuyer receivables consist primarily of proceeds due from homebuyers on the closing of homes.

Since 2002, we have generated over \$500 million in operating cash flow that was used mainly to return cash to stockholders through the repurchase of shares and the payment of dividends. At the same time, despite the current slowdown in the United States housing market, we believe our business is positioned to create further shareholder value through the selective control of a significant number of strategic projects and the overall level of lots controlled.

Critical Accounting Policies and Estimates

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

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

Carrying Values

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

For the year ended December 31, 2006, we recognized \$3 million of impairment charges related to housing and land we directly own which is included in our direct cost of sales. The \$3 million in impairment charges are related to finished lots acquired in 2005. In addition, we wrote-off \$7 million, primarily related to lot options on unentitled land that expired.

Capitalized Costs

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

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

Revenue Recognition

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

Results of Operations

<i>Selected Financial Information (\$ millions)</i>	Years Ended December 31		
	2006	2005	2004
Revenue:			
Housing	\$ 784	\$ 1,074	\$ 1,169
Land and other revenues	104	157	63
Total revenues	888	1,231	1,232
Direct cost of sales	(627)	(815)	(945)
Gross margin	261	416	287
Equity in earnings from housing and land joint ventures	58	65	61
Selling, general and administrative expense	(66)	(90)	(80)
Operating income	253	391	268
Minority interest	(18)	(36)	(28)
Net income before taxes	235	355	240
Income tax expense	(87)	(136)	(94)
Net income	\$ 148	\$ 219	\$ 146

<i>Segment Information</i>	Years Ended December 31		
	2006	2005	2004
Housing revenue (\$ millions):			
Northern California	\$ 106	\$ 199	\$ 328
Southland / Los Angeles	236	193	337
San Diego / Riverside	173	378	231
Washington D.C. Area	222	303	219
Corporate and Other	47	1	54
Total	\$ 784	\$ 1,074	\$ 1,169
Land and other revenues (\$ millions):			
Northern California	\$ 10	\$	\$
Southland / Los Angeles	33	4	3
San Diego / Riverside	38	67	9
Washington D.C. Area	13	75	45
Corporate and Other	10	11	6
Total	\$ 104	\$ 157	\$ 63
Gross margin (\$ millions):			
Northern California	\$ 26	\$ 58	\$ 49
Southland / Los Angeles	69	45	65
San Diego / Riverside	89	182	84
Washington D.C. Area	54	121	73

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Corporate and Other	23	10	16
Total	\$ 261	\$ 416	\$ 287
Home closings (units):			
Northern California	107	192	407
Southland / Los Angeles	326	221	338
San Diego / Riverside	288	611	507
Washington D.C. Area	375	556	447
Corporate and Other	63	2	99
Total	1,159	1,582	1,798
Average selling price:			
Northern California	\$ 987,000	\$ 1,036,000	\$ 804,000
Southland / Los Angeles	725,000	874,000	996,000
San Diego / Riverside	601,000	618,000	456,000
Washington D.C. Area	592,000	545,000	491,000
Corporate and Other	749,000	586,000	548,000
Average	\$ 677,000	\$ 679,000	\$ 650,000

<i>Segment Information</i>	Years Ended December 31		
	2006	2005	2004
Net new orders (units): ⁽¹⁾			
Northern California	112	150	348
Southland / Los Angeles	321	242	287
San Diego / Riverside	241	412	674
Washington D.C. Area	254	557	405
Corporate and Other	23	60	51
Total	951	1,421	1,765
Backlog (units at end of year): ⁽²⁾			
Northern California	17	12	54
Southland / Los Angeles	100	105	84
San Diego / Riverside	35	82	281
Washington D.C. Area	75	196	195
Corporate and Other	20	60	2
Total	247	455	616
Lots controlled (units at end of year):			
Lots owned:			
Northern California	1,245	1,392	1,723
Southland / Los Angeles	1,057	1,110	254
San Diego / Riverside	6,216	5,949	6,680
Washington D.C. Area	4,051	3,713	4,134
Corporate and Other	150	169	256
	12,719	12,333	13,047
Lots under option	14,897	17,179	14,919
Total	27,616	29,512	27,966

(1) Net new orders for any period represent the aggregate of all homes ordered by customers, net of cancellations, excluding joint ventures.

(2) Backlog represents the number of new

homes subject
to pending sales
contracts
excluding joint
ventures.

Year Ended December 31, 2006 Compared With Year Ended December 31, 2005

Net Income

Net income for the year ended December 31, 2006 was \$148 million, a decrease of \$71 million when compared to the year ended December 31, 2005. Our decrease in net income was primarily attributable to a decrease in home and lot closings as a result of an industry-wide softening of demand during 2006.

Results of Operations

Company-wide: Housing revenue was \$784 million in 2006, a decrease of \$290 million compared to 2005. The decrease in housing revenue was a result of a decrease in homes closed in 2006 to 1,159 units, a decrease of 423 units or 27% when compared to 2005 home closings. The gross margin on housing revenue in 2006 was \$206 million or 26.3% excluding write-downs of \$3 million, compared with \$324 million or 30.2% in 2005. The decrease in gross margin was due to a decrease in home closings and a reduction in the gross margin percentage as a result of an increase in homebuyer incentives and product mix.

Land and other revenues totaled \$104 million in 2006 compared with \$157 million in 2005. The decrease in land and other revenues were primarily the result of a decrease in lots sold in 2006 to 834 lots, a decrease of 408 lots, or 33% when compared to 2005. Our land revenues may vary significantly from period to period due to the timing and the nature of land sales as they generally occur on an opportunistic basis. The gross margin on land and other revenues totaled \$65 million in 2006 excluding write-offs related to lot options on unentitled land that expired of \$5 million and \$2 million in the Washington D.C. Area and Southland / Los Angeles Area, respectively. The components of the 2006 gross margin on land and other revenues compared to 2005 are summarized as follows:

<i>(\$ millions)</i>	2006	2005
Sale of lots and forfeited deposits	\$ 49	\$ 75
Change in fair value of swap contracts	6	2
Interest income and other	10	15
	\$ 65	\$ 92

Northern California: Housing revenue was \$106 million in 2006, a decrease of \$93 million compared to 2005. The decrease in revenue was primarily attributable to a 44% decrease in homes closed. The gross margin on housing revenue in 2006 was \$20 million or 18.7% compared with \$58 million or 29.2% in 2005.

Land and other revenues were \$10 million in 2006, compared to nil in 2005. The increase was due to a land sale that contributed \$6 million to our gross margin.

Southland / Los Angeles: Housing revenue was \$236 million in 2006, an increase of \$43 million compared to 2005. The increase in revenue was due to a 47% increase in homes closed, partially offset by a 17% decrease in our average selling price. The gross margin on housing revenue was \$55 million or 23.3% excluding write-downs of \$2 million, compared with \$41 million or 21.2% in 2005.

Land and other revenues were \$33 million in 2006, an increase of \$29 million when compared to 2005. The increase is primarily due to land sales which contributed \$15 million to the gross margin in 2006.

San Diego / Riverside: Housing revenue was \$173 million in 2006, a decrease of \$205 million compared to 2005. The decrease in revenue was primarily attributable to a 53% decrease in homes closed and a 3% decrease in our average selling price. The gross margin on housing revenue was \$64 million or 37.1% compared with \$142 million or 37.6% in 2005.

Land and other revenues totaled \$38 million in 2006, a decrease of \$29 million when compared to 2005. The decrease was a result of 365 lots sold compared to 750 lots sold in 2005.

Washington D.C. Area: Housing revenue was \$222 million in 2006, a decrease of \$81 million compared to 2005. The decrease in revenue was primarily attributable to a 32% decrease in homes closed, partially offset by a 9% increase in our average selling price. The gross margin on housing revenue was \$55 million or 24.7% excluding write-downs of \$1 million, compared with \$84 million or 27.6% in 2005. As a result of continuing challenging market conditions in this market, our gross margin percentage for the three months ended December 31, 2006 decreased to 12%.

Land and other revenues totaled \$3 million, a decrease of \$62 million when compared to 2005. The decrease was a result of 62 lots sold compared to 451 lots sold in 2005

Other Income and Expenses

Equity in earnings from housing and land joint ventures in 2006 totaled \$58 million, a decrease of \$7 million when compared to 2005. In 2006, our Windemere joint venture in the San Francisco Bay Area contributed \$43 million to our earnings from housing and land joint ventures compared to \$41 million in 2006. This joint venture sold its remaining single family lots in 2006 and as a result we expect it to contribute only nominally to our future earnings. Selling, general and administrative expense was \$66 million in 2006 compared with \$90 million in 2005. Excluding stock compensation income of \$4 million in 2006 and an expense of \$23 million in 2005, selling, general and administrative expense as a percentage of housing revenue was 9.0% in 2006 and 6.2% in 2005. This percentage increase relates to a 27% decline in housing revenue when comparing 2006 to 2005.

Sales Activity

Net new home orders for the year ended December 31, 2006 totaled 951 units, a decrease of 470 units compared to 2005. The decrease in net new orders is due primarily to a decrease in demand for homes in our San Diego / Riverside and Washington D.C. Area markets as a result of a negative shift in homebuyer sentiment. Our sales cancellation rate on new orders in 2006 was 30% compared to 18% in 2005.

Year Ended December 31, 2005 Compared with Year Ended December 31, 2004

Net Income

Net income for the year ended December 31, 2005 was \$219 million, an increase of \$73 million over the year ended December 31, 2004. Our increase in net income in 2005 was primarily attributable to a higher percentage of our home closings in San Diego and the Washington D.C. Area where our housing margins for 2005 were higher.

Results of Operations

Company-wide: Housing revenue was \$1,074 million in 2005, a decrease of \$95 million compared to 2004. The decrease in housing revenue was a result of fewer home closings, partially offset by a 4% increase in our average selling price to \$679,000. The increase in our selling price is a result of house price appreciation and product mix.

The gross margin on housing revenue in 2005 was \$324 million or 30.2% compared with \$258 million or 22.1% in 2004. The increase in gross margin was due to a higher percentage of home closings in San Diego and the Washington D.C. Area where our housing margins are the highest as we are building on land that we entitled and developed. Land and other revenues totaled \$157 million in 2005 compared with \$63 million in 2004. The increase in land and other revenues was primarily due to the sale of 1,242 lots in 2005 compared to 400 lots in 2004. Our land revenues may vary significantly from period to period due to the timing and the nature of land sales as they generally occur on an opportunistic basis. The gross margin on land and other revenues totaled \$92 million in 2005 compared with \$28 million in 2004. The increase was a result of 1,242 lots sold in 2005 compared to 400 lots in 2004.

Northern California: Housing revenue was \$199 million in 2005, a decrease of \$129 million compared to 2004. The decrease in housing revenue was a result of fewer home closings, partially offset by a 29% increase in our average selling price. The increase in our average selling price was primarily the result of house price appreciation. The gross margin on housing revenue in 2005 was \$58 million or 29.2% compared with \$49 million or 14.7% in 2004.

Southland / Los Angeles: Housing revenue was \$193 million, a decrease of \$144 million compared to 2004. The decrease in housing revenue was a result of fewer home closings. The gross margin on housing revenue in 2005 was \$41 million or 21.2% compared with \$62 million or 18.6% in 2004.

Land and other revenues were \$4 million, an increase of \$1 million over 2004.

San Diego / Riverside: Housing revenue was \$378 million, an increase of \$147 million compared to 2004. The increase in housing revenue was the result of an increase in home closings and a 35% increase in our average selling price. The increase in our average selling price was the result of house price appreciation and product mix. The gross margin on housing revenue in 2005 was \$142 million or 37.6% compared with \$78 million or 33.8% in 2004.

Land and other revenues were \$67 million, an increase of \$58 million over 2004. The increase was the result of 750 lots sold compared to 58 lots sold in 2004. The gross margin on land and other revenues was \$40 million in 2005 compared to \$6 million in 2004.

Washington D.C. Area: Housing revenue was \$303 million, an increase of \$84 million compared to 2004. The increase in housing revenue was the result of an increase in home closings and an 11% increase in our average selling price. The gross margin on housing revenue in 2005 was \$84 million or 27.6% compared with \$53 million or 23.9%. Land and other revenues were \$75 million compared with \$45 million in 2004. The increase in land and other revenues was primarily due to the sale of 451 lots compared to 342 lots sold in 2004. The gross margin on land and other revenues was \$37 million compared with \$20 million in 2004.

Other Income and Expenses

Equity in earnings from housing and land joint ventures totaled \$65 million, an increase of \$4 million over 2004. The increase was primarily attributable to housing and lot sales from our joint ventures. Profits on the lots acquired by us have been eliminated from income.

Selling, general and administrative expense was \$90 million in 2005 compared with \$80 million in 2004. Selling, general and administrative expense as a percentage of housing revenue was 8.3% in 2005 and 6.8% in 2004.

Excluding stock compensation expense of \$23 million in 2005 and \$22 million in 2004, selling, general and administrative expense as a percentage of housing revenue was 6.2% in 2005 and 4.9% in 2004.

Sales Activity

Net new home orders for the year ended December 31, 2005 totaled 1,421 units, a decrease of 344 units compared to 2004. The decrease in net new home orders resulted from fewer homes available for sale in our California operations and a fourth quarter slowdown in sales in the San Diego and Washington D.C. Area markets.

Liquidity and Capital Resources

Financial Position

Our total assets as of December 31, 2006 were \$1,401 million, compared to \$1,330 million as of December 31, 2005, an increase of \$71 million. The increase in 2006 was the result of increases in housing and land inventory of \$162 million, investments in housing and land joint ventures of \$37 million, consolidated land inventory not owned of \$37 million and deferred income taxes of \$3 million, partially offset by decreases of \$112 million in cash and cash equivalents and \$57 million of receivables and other assets.

Our total debt as of December 31, 2006 was \$658 million, a decrease of \$33 million over December 31, 2005. Total debt as of December 31, 2006 consisted primarily of project specific financings of \$599 million, which represent construction and development loans that are repaid from home and lot sales proceeds. As new homes are constructed, further loan facilities are arranged on a rolling basis. Our major project specific lenders are Bank of America, Housing Capital Corporation, Wells Fargo and Union Bank of California. Other debt includes deferred compensation of \$40 million on which interest is paid at the prime rate, loans outstanding relating to mortgages we originated totaling \$4 million, which are repaid when the underlying mortgages are sold to permanent lenders, a promissory note due to a subsidiary of our largest stockholder, Brookfield Asset Management Inc., of \$15 million and project specific financings of \$6 million related to our other operations. As of December 31, 2006, the average interest rate on our debt was 8.0%, with maturities as follows:

(\$ millions)	Maturities				Total
	2007	2008	2009	Post 2009	
Northern California	\$ 7	\$ 117	\$ 18	\$	\$ 142
Southland / Los Angeles	22	65	3		90
San Diego / Riverside	60	115	43		218
Washington D.C. Area	61	41	41		143
Other	10	41	12	2	65
Total	\$ 160	\$ 379	\$ 117	\$ 2	\$ 658

Cash Flow

Our principal uses of working capital include purchases of land, land development and home construction. Cash flows for each of our communities depend upon the applicable stage of the development cycle and can differ substantially from reported earnings. Early stages of development require significant cash outlays for land acquisitions, site approvals and entitlements, construction of model homes, roads, certain utilities and other amenities and general landscaping. Because these costs are capitalized, income reported for financial statement purposes during such early stages may significantly exceed cash flows. Later, cash flows can significantly exceed earnings reported for financial statement purposes, as cost of sales include charges for substantial amounts of previously expended costs. A summary of our lots owned and their stage of development at December 31, 2006 compared with the same period last year follows:

	2006	2005
Housing units and model homes	703	968
Lots ready for house construction	2,072	1,114
Graded lots and lots commenced grading	1,619	1,590
Undeveloped land	8,325	8,661
	12,719	12,333

Cash provided by our operating activities totaled \$26 million for the year ended December 31, 2006, compared with \$60 million in 2005, a decrease of \$34 million. The decrease in cash generated was primarily the result of a decrease in net income of \$71 million. During 2006, we used \$178 million of cash to invest in our housing and land inventory, a decrease of \$54 million when compared to 2005. The investment in housing and land inventory included the acquisition of 2,276 lots previously held under option and expenditures related to longer term strategic expansion areas.

Cash used in our investing activities in joint ventures for the year ended December 31, 2006 was \$47 million, compared with cash used of \$5 million in 2005. The increase in cash used was primarily a result of capital

contributions to our joint ventures in San Diego / Riverside.

Cash used in our financing activities for the year ended December 31, 2006 was \$91 million, compared with \$44 million in 2005. Our use of cash in 2006 was due to share repurchases and dividends of \$49 million, the repayment of borrowings of \$33 million and net distributions to minority interest of \$9 million.

Deferred Tax

Our Company was formed in the course of a reorganization in 2002 by Brookfield Properties of its United States homebuilding operations and was withdrawn from the Brookfield Properties consolidated tax group. The tax provisions that apply in connection with the reorganization, including the departure of a member from a consolidated group, are detailed and complex and are therefore subject to uncertainty. Our accounts payable and other liabilities include \$25 million related to the uncertainties in tax attributes which were recorded when we left

the Brookfield Properties consolidated tax group with \$115 million of net operating losses. In addition, if any member of the consolidated group were reassessed for taxation years prior to 2003, this could have a direct impact on the net operating losses available to the Company on the Spin-off. There is also a \$22 million liability included in accounts payable and other liabilities and a \$0.3 million valuation allowance in deferred taxes that relates to the tax cost of properties in excess of the fair value of properties at the time of reorganization of the Company which may not be realized. The exact amount of these tax liabilities will be determined at the earlier of a review of the Spin-off transaction by taxation authorities or 2007. A further liability of \$4 million has been recorded in respect of tax positions taken. We believe we have been prudent and reasonable to provide for any reduction in our net operating losses or loss of tax basis in properties.

Contractual Obligations and Other Commitments

We generally fund the development of our communities through the use of project specific financings. As of December 31, 2006, we had available project specific debt lines of \$244 million that were available to complete land development and construction activities. As of December 31, 2006, we also had available cash and cash equivalents of \$87 million.

A total of \$539 million of our project specific and other financings mature prior to the end of 2008. Our high level of debt maturities in 2007 and 2008 are a result of our expected project completions over this period. Although the level of our maturing debt is high, we expect to generate cash flow from our assets in 2007 and 2008 to repay these obligations. Our net debt to total capitalization ratio as of December 31, 2006, which is defined as total interest-bearing debt less cash, divided by total interest-bearing debt less cash plus stockholders' equity and minority interest, was 55%, a decrease from 61% as of December 31, 2005. For a description of the specific risks facing us if, for any reason, we are unable to meet these obligations, refer to the section of this Form 10-K entitled Item 1A Risk Factors Our Debt and Leverage Could Adversely Affect Our Financial Condition.

Our project specific financings require Brookfield Homes Holdings Inc., a wholly-owned subsidiary of our Company, to maintain a tangible net worth of at least \$250 million, a net debt to capitalization ratio of no greater than 65% and a net debt to tangible net worth ratio of no greater than 2.50 to 1. Our revolving credit facility with Brookfield Asset Management Inc. requires us to maintain minimum stockholders' equity of \$200 million and a consolidated net debt to book capitalization ratio of no greater than 70%. As of December 31, 2006, we have the capacity to fully draw our available project specific debt lines of \$244 million.

A summary of our contractual obligations as of December 31, 2006 follows:

	Total	Payment Due by Period			More than 5 Years
		Less than 1 Year	1-3 Years	3-5 Years	
Project specific and other financings ^(a)	658	160	498		
Operating lease obligations ^(b)	10	3	5	2	
Purchase obligations ^(c)	730	139	246	345	
Total ^(d)	1,398	302	749	347	

(a) Amounts are included on the Consolidated Balance Sheet. See Note 4 of the Notes to the Consolidated Financial

Statements included in this Form 10-K for additional information regarding project specific and other financings and related matters.

- (b) Amounts relate to multiple non-cancelable operating leases involving office space, design centers and model homes.
- (c) Amounts are included in the Notes to the Consolidated Financial Statements. See Note 2 for additional information regarding purchase obligations and related matters.
- (d) Amounts do not include interest due to the floating nature of our debt.

Off-Balance Sheet Arrangements

In the ordinary course of business, we use lot option contracts and joint ventures to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time, until options expire and/or we are ready to develop the land to construct homes or sell the land. This reduces our financial risk associated with land holdings. As of December 31, 2006, we had \$95 million of primarily non-refundable option deposits and advanced costs. The total exercise price of these options was \$730 million. Pursuant to FIN 46R, as defined elsewhere in this Form 10-K, we have consolidated \$59 million of these option contracts. Please see Note 2 to our consolidated financial statements included elsewhere in this Form 10-K for additional information on our lot options.

We also control 4,457 lots through joint ventures. As of December 31, 2006, our investment in housing and land joint ventures totaled \$90 million. We have provided varying levels of guarantees of debt in our joint ventures. As of December 31, 2006, we had recourse guarantees of \$13 million and limited capital maintenance guarantees with

respect to \$89 million of debt in our joint ventures.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of December 31, 2006, we had \$23 million in letters of credit outstanding and \$249 million in performance bonds for these purposes. We do not believe that any of these letters of credit or bonds are likely to be drawn upon.

Stock Repurchase Program

Our Board of Directors approved a share repurchase program that allows us to repurchase in aggregate up to \$144 million of our outstanding common shares, of which the remaining amount approved for repurchases at December 31, 2006 was \$49 million. Since the initial approval of the program in February 2003, the following annual share repurchases have been made under the program: 2003 1,192,749 shares at an average price of \$18.19; 2004 76,400 shares at an average price of \$25.39; 2005 707,500 shares at an average price of \$47.81; 2006 964,200 shares at an average price of \$39.30. Separately, during the fourth quarter of 2005, we repurchased 3,000,000 of our shares through a fixed price tender offer at a purchase price of \$55.00 per share.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement is effective for fiscal years beginning after November 15, 2007 (the Company s fiscal year beginning January 1, 2008), and interim periods within those fiscal years. We are currently reviewing the impact of this Statement on our consolidated financial statements.

In July 2006, FASB issued FASB Interpretation 48 (FIN 48), Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB 109, Accounting for Income Taxes. This Interpretation provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently reviewing the effect of this Interpretation on our consolidated financial statements.

Seasonality and Quarterly Information

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

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

	December 31		September 30		June 30		March 31	
<i>(\$ millions, except home closings and per share amounts)</i>	2006	2005	2006	2005	2006	2005	2006	2005
Total revenue	\$ 337	\$ 559	\$ 176	\$ 267	\$ 232	\$ 253	\$ 143	\$ 152
Gross margin	85	211	51	81	74	76	51	48
Contribution from land sales to net income	5	37	5	5	11		5	3
Net income	58	130	28	38	43	32	19	19
Diluted earnings per share ⁽¹⁾	2.19	4.36	1.03	1.20	1.57	1.03	0.68	0.60
Home closings (units)	477	640	228	365	262	355	192	222
Total assets	1,401	1,330	1,263	1,262	1,246	1,140	1,235	1,069
Total debt	658	691	666	591	681	536	672	530

- (1) Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

Non-Arms Length Transactions

We are party to a license agreement with Brookfield Properties (US) Inc., an indirect wholly-owned subsidiary of Brookfield Properties, for the right to use the names Brookfield and Brookfield Homes. In addition, we have entered into an agreement with a subsidiary of Brookfield Asset Management Inc., our largest stockholder under which we can deposit cash on a demand basis to earn LIBOR plus 50 basis points. At December 31, 2006, the amount on deposit was nil. A subsidiary of Brookfield Asset Management Inc. has provided us with an unsecured revolving credit facility in the form of a promissory note that was amended in March, 2007. The facility bears interest at LIBOR plus 2.5% and at December 31, 2006, there was \$15 million outstanding under this facility. For details of these arrangements and other non-arms length transactions refer to Certain Relationships and Related Transactions, and Director Independence which is incorporated by reference into Item 13 of this report from our definitive 2007 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2007.

Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements within the meaning of the United States federal securities laws. The words may, believe, will, anticipate, expect, planned, estimate, project, future, and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. The forward-looking statements in this annual report on Form 10-K include, among others, statements with respect to:

- planned home closings, deliveries and land and lot sales (and the timing thereof);
- sources of and strategies for future growth;
- lot supply;
- visibility of cash flow and earnings;
- financing sources;
- expectations of future cash flow;
- valuation allowance;
- the effect of interest rate changes;
- strategic goals;
- the effect on our business of existing lawsuits;
- the adequacy of our land supply;
- whether or not our letters of credit or performance bonds will be drawn upon;
- acquisition strategies;
- capital expenditures; and
- the time at which construction and sales begin on a project.

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

- changes in general economic, real estate and other conditions;
- mortgage rate changes;
- availability of suitable undeveloped land at acceptable prices;
- adverse legislation or regulation;
- ability to obtain necessary permits and approvals for the development of our land;
- availability of labor or materials or increases in their costs;
- ability to develop and market our master-planned communities successfully;
- confidence levels of consumers;
- ability to raise capital on favorable terms;
- adverse weather conditions and natural disasters;
- relations with the residents of our communities;
- risks associated with increased insurance costs or unavailability of adequate coverage;
- ability to obtain surety bonds;

competitive conditions in the homebuilding industry, including product and pricing pressures; and additional risks and uncertainties, many of which are beyond our control, referred to in this Form 10-K and our other SEC filings.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Exchange Rates

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

Interest Rates

We are exposed to financial risks that arise from the fluctuations in interest rates. Our interest bearing assets and liabilities are mainly at floating rates, so we would be negatively affected, on balance, if interest rates increase. In addition, we have interest rate swap contracts which effectively fix \$210 million of our variable rate debt at an average rate of 6.58%. Based on our net debt levels as of December 31, 2006, a 1% change up or down in interest rates would have either a negative or positive effect of approximately \$4 million on our cash flows.

Our interest rate swaps are not designated as hedges under SFAS 133. We are exposed to market share risk associated with changes in the fair values of the swaps, and such changes must be reflected in our income statements. As of December 31, 2006, the fair value of the interest rate swaps totaled \$2 million.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Stockholders of Brookfield Homes Corporation

We have audited the accompanying consolidated balance sheets of Brookfield Homes Corporation and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Brookfield Homes Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 1, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Independent Registered Chartered Accountants

Toronto, Canada

February 1, 2007

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

	Note	As at December 31	
		2006	2005
Assets			
Housing and land inventory	2	\$ 1,075,192	\$ 912,617
Investments in housing and land joint ventures	3	90,325	53,260
Consolidated land inventory not owned	2	59,381	22,100
Receivables and other assets		37,031	94,081
Cash and cash equivalents		86,809	198,411
Deferred income taxes	6	52,715	49,417
		\$ 1,401,453	\$ 1,329,886
Liabilities and Equity			
Project specific and other financings	4	\$ 657,909	\$ 691,410
Accounts payable and other liabilities	5	280,083	320,787
Minority interest	8	92,055	53,040
Preferred stock 10,000,000 shares authorized, no shares issued	9		
Common stock 65,000,000 authorized, 32,073,781 shares issued (December 31, 2005 32,073,781 shares issued)	9	321	321
Additional paid-in capital	9	146,730	146,249
Treasury stock, at cost 5,519,275 shares (December 31, 2005 4,695,600 shares)	9	(248,606)	(217,182)
Retained earnings	9	472,961	335,261
		\$ 1,401,453	\$ 1,329,886

See accompanying notes to consolidated financial statements

BROOKFIELD HOMES CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

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

	Note	Years Ended December 31		
		2006	2005	2004
Revenue				
Housing		\$ 784,162	\$ 1,074,155	\$ 1,169,073
Land and other revenues		103,626	156,897	62,677
		887,788	1,231,052	1,231,750
Direct Cost of Sales	2	(626,858)	(815,423)	(945,387)
		260,930	415,629	286,363
Equity in earnings from housing and land joint ventures	3	58,284	65,084	61,394
Selling, general and administrative expense		(65,990)	(89,693)	(79,904)
Minority interest		(18,378)	(36,498)	(28,140)
Net Income Before Taxes		234,846	354,522	239,713
Income tax expense	6	(86,492)	(135,782)	(93,297)
Net Income		\$ 148,354	\$ 218,740	\$ 146,416
Earnings Per Share				
Basic	10	\$ 5.52	\$ 7.17	\$ 4.74
Diluted	10	\$ 5.45	\$ 7.04	\$ 4.64
Weighted Average Common Shares Outstanding				
<i>(in thousands)</i>				
Basic	10	26,874	30,497	30,903
Diluted	10	27,243	31,071	31,547

See accompanying notes to consolidated financial statements

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

	Note	Years Ended December 31		
		2006	2005	2004
Common Stock		\$ 321	\$ 321	\$ 321
Additional Paid-in Capital				
Opening balance	1	146,249	142,016	320,417
Stock option exercises	9	481	4,233	709
Special dividend	9			(179,110)
Ending balance		146,730	146,249	142,016
Treasury Stock				
Opening balance	1	(217,182)	(22,091)	(21,695)
Share repurchases	9	(37,922)	(198,847)	(1,942)
Stock option exercises	9	6,498	3,756	1,546
Ending balance		(248,606)	(217,182)	(22,091)
Retained Earnings				
Opening balance		335,261	125,870	83,215
Net income		148,354	218,740	146,416
Dividends	9	(10,654)	(9,349)	(4,942)
Special dividends	9			(98,819)
Ending balance		472,961	335,261	125,870
Total stockholders equity		\$ 371,406	\$ 264,649	\$ 246,116

See accompanying notes to consolidated financial statements

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

	Years Ended December 31		
	2006	2005	2004
Cash Flows From Operating Activities			
Net income	\$ 148,354	\$ 218,740	\$ 146,416
Adjustments to reconcile net income to net cash provided by operating activities:			
Distributed/(undistributed) income from housing and land joint ventures	9,497	11,319	(6,755)
Minority interest	18,378	36,498	28,140
Deferred income taxes	(3,298)	(10,955)	17,867
Other changes in operating assets and liabilities:			
Decrease/(increase) in receivables and other assets	57,050	(20,095)	6,360
Increase in housing and land inventory	(177,571)	(232,057)	(115,374)
(Decrease)/increase in accounts payable and other	(26,274)	56,771	87,516
Net cash provided by operating activities	26,136	60,221	164,170
Cash Flows From Investing Activities			
Investment in housing and land joint ventures	(72,403)	(35,980)	(46,064)
Recovery from housing and land joint ventures	25,841	31,211	71,207
Net cash (used in)/provided by investing activities	(46,562)	(4,769)	25,143
Cash Flows From Financing Activities			
Net (repayments)/borrowings under revolving project specific and other financings	(33,501)	179,312	85,787
Repayment of subordinated debt			(137,294)
Distributions to minority interest	(14,627)	(24,858)	(24,510)
Contributions from minority interest	5,364	9,726	2,263
Exercise of stock options	164	244	85
Repurchase of common shares	(37,922)	(198,847)	(1,942)
Dividends paid in cash	(10,654)	(9,349)	(145,577)
Net cash used in financing activities	(91,176)	(43,772)	(221,188)
(Decrease)/increase in cash and cash equivalents	(111,602)	11,680	(31,875)
Cash and cash equivalents at beginning of year	198,411	186,731	218,606
Cash and cash equivalents at end of year	\$ 86,809	\$ 198,411	\$ 186,731

Supplemental Cash Flow Information

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Interest paid	\$ 58,873	\$ 37,567	\$ 31,788
Income taxes paid	89,102	146,000	71,128
Non-cash increase/(decrease) in consolidated land inventory not owned	22,285	(24,510)	18,952
Dividends paid through issuance of subordinated debt			137,294

See accompanying notes to consolidated financial statements

BROOKFIELD HOMES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands of U.S. dollars except per share amounts)

Note 1. Significant Accounting Policies

(a) Basis of Presentation

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

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the consolidated accounts of Brookfield Homes and its subsidiaries and investments in unconsolidated joint ventures and variable interests in which the Company is the primary beneficiary.

(b) Housing and Land Inventory

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

(ii) Carrying values: In accordance with Statement of Financial Accounting Standards (SFAS) 144, Accounting for the Impairment of Disposal of Long-Lived Assets, housing and land assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at this amount, the Company estimates the cash flow for the life of each project. These projections take into account the specific business plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. If these assets are considered to be impaired, they are then written down to the fair value less estimated selling costs. The ultimate fair values for the Company's housing and land inventory are dependent upon future market and economic conditions.

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

(c) Joint Ventures

The Company participates in a number of joint ventures in which it has less than a controlling interest to develop and sell land to the joint venture members and other third parties. These joint ventures are accounted for using the equity method. The Company recognizes its proportionate share of the earnings from the sale of lots to other third parties. The Company defers earnings from the purchase of lots from its joint ventures and reduces its cost basis of the land purchased.

(d) Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires estimates and assumptions that affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

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

(Tabular amounts in thousands of U.S. dollars except per share amounts)

(e) Cash and Cash Equivalents

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

(f) Income Taxes

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

(g) Stock-Based Compensation

The Company accounts for stock option grants and deferred share unit grants in accordance with SFAS 123(R)

Share-Based Payment. All stock options granted have exercise prices equal to the market value of the stock on the date of the grant. Participants in the management share option plan can elect to purchase shares at the exercise price or receive cash equal to the difference between the exercise price and the current market price.

Accordingly, the Company records and re-measures at each balance sheet period end the fair value of these options using a Black-Scholes option pricing model and deferred share units as a liability as disclosed in accounts payable.

(h) Other Comprehensive Income

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

(i) Earnings Per Share

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

(j) Advertising Costs

The Company expenses advertising costs as incurred. For the years ended December 31, 2006, 2005 and 2004, the Company incurred advertising costs of \$10.7 million, \$8.8 million, and \$5.1 million, respectively.

(k) Warranty Costs

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

(l) Variable Interest Entities

In December 2003, the Financial Accounting Standards Board (FASB) issued revised Interpretation 46 (FIN 46R),

Consolidation of Variable Interest Entities (VIEs), an Interpretation of Accounting Research Bulletin 51, Consolidated Financial Statements, which replaced the previous version of FASB Interpretation 46 issued in January 2003 (FIN 46).

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

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

(Tabular amounts in thousands of U.S. dollars except per share amounts)

entity or both is considered to be the primary beneficiary of the entity and is required to consolidate such entity. The Company has determined they are the primary beneficiary of certain VIEs which are presented in these financial statements under Consolidated land inventory not owned with the interest of others included in Minority interest. See Notes 2 and 3 for further discussion on the consolidation of land option contracts and joint ventures.

(m) Derivatives

The Company records derivatives at fair market value because hedge accounting is not applied.

(n) Recent Accounting Pronouncements

In September 2006, FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement is effective for fiscal years beginning after November 15, 2007 (the Company's fiscal year beginning January 1, 2008), and interim periods within those fiscal years. The Company is currently reviewing the impact of this Statement on its consolidated financial statements.

In July 2006, FASB issued FASB Interpretation 48 (FIN 48), Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB 109, Accounting for Income Taxes. This Interpretation provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 (the Company's fiscal year beginning January 1, 2007). The Company is currently reviewing the effect of this Interpretation on its consolidated financial statements.

Note 2. Housing and Land Inventory

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

	December 31	
	2006	2005
Housing inventory	\$ 571,352	\$ 441,912
Model homes	42,706	20,837
Land and land under development	461,134	449,868
	\$ 1,075,192	\$ 912,617

The Company capitalizes interest which is expensed as housing units and building lots are sold. For the years ended December 31, 2006, 2005 and 2004, interest incurred and capitalized by the Company was \$58.9 million, \$37.6 million and \$31.8 million, respectively. Capitalized interest expensed as direct cost of sales for the same periods was \$24.7 million, \$23.8 million and \$29.1 million, respectively.

Capitalized costs are expensed as costs of sales, on a specific identification basis or on a relative value basis in proportion to anticipated revenue. Included in direct costs of sales is \$578.1 million of costs related to housing revenue (2005 \$750.1 million) and \$38.4 million of costs related to land sales and other revenues (2005 \$65.3 million), excluding impairment charges.

For the year ended December 31, 2006, the Company recognized \$3.1 million of impairment charges related to the housing and land the Company directly owns, which is included in direct cost of sales (2005 nil). The \$3.1 million in impairment charges are related to finished lots acquired in 2005. In addition, the Company wrote-off \$7.3 million primarily related to lot options on unentitled land that expired which is included in direct cost of sales (2005 nil).

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

(Tabular amounts in thousands of U.S. dollars except per share amounts)

In the ordinary course of business, the Company has entered into a number of option contracts to acquire lots in the future in accordance with specific terms and conditions of such agreements. Under these option agreements, the Company will fund deposits to secure the right to purchase land or lots at a future point in time. The Company has evaluated its option contracts and determined that for those entities considered to be VIEs, it is the primary beneficiary of options for 1,083 lots with an aggregate exercise price of \$59.4 million (2005 577 lots with an aggregate exercise price of \$22.1 million) which are required to be consolidated. In these cases, the only asset recorded is the Company's exercise price for the option to purchase, with an increase in minority interest of \$40.5 million (2005 \$18.3 million) for the assumed third party investment in the VIE. Where the land sellers are not required to provide the Company financial information related to the VIE, certain assumptions by the Company were required in its assessment as to whether or not it is the primary beneficiary.

Housing and land inventory includes non-refundable deposits and other entitlement costs totaling \$76.6 million (2005 \$58.3 million) in connection with options that are not required to be consolidated under the provision of FIN 46R. The total exercise price of these options is \$670.3 million (2005 \$720.6 million) including the non-refundable deposits identified above. The number of lots which the Company has obtained an option to purchase, excluding those already consolidated, and their respective dates of expiry and their exercise price follows:

Year of Expiry	Number of Lots	Total Exercise Price
2007	2,016	\$ 128,500
2008	3,954	134,905
2009	527	69,158
Thereafter	7,317	337,700
	13,814	\$ 670,263

The Company holds agreements for a further 4,013 acres of land that may provide, upon obtaining entitlements, additional lots with an aggregate exercise price of \$265.5 million. However, based on the current stage of land entitlement, the Company has concluded at this time that the level of uncertainty in entitling these properties does not warrant including them in the above totals.

Note 3. Investments in Housing and Land Joint Ventures

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

	December 31	
	2006	2005
Assets		
Housing and land inventory	\$ 452,359	\$ 357,833
Other assets	38,063	64,866
	\$ 490,422	\$ 422,699
Liabilities and Equity		
Project specific financings	\$ 253,529	\$ 289,851
Accounts payable and other liabilities	32,319	90,459

Investment and advances		
Brookfield Homes	90,325	53,260
Others	114,249	(10,871)
	\$ 490,422	\$ 422,699
Revenue and Expenses		
Revenue	\$ 459,893	\$ 594,380
Expenses	(232,938)	(299,898)
Net income	\$ 226,955	\$ 294,482
Company's share of net income	\$ 58,284	\$ 65,084

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

(Tabular amounts in thousands of U.S. dollars except per share amounts)

In reporting the Company's share of net income, all inter-company profits or losses from housing and land joint ventures are eliminated on lots purchased by the Company from the joint ventures.

As described in Note 1(c), joint ventures in which the Company has a non-controlling interest are accounted for using the equity method. In addition, the Company has performed an evaluation of its existing joint venture relationships by applying the provisions of FIN 46R. The Company has determined that for those entities in which this interpretation applies, none of these joint ventures were considered to be a VIE requiring consolidation pursuant to the requirements of FIN 46R.

The Company and/or its joint venture partners have provided varying levels of guarantees of debt in its joint ventures. At December 31, 2006, the Company had recourse guarantees of \$12.7 million (2005 \$2.0 million) and limited maintenance guarantees of \$89.4 million (2005 \$91.6 million) with respect to debt in its joint ventures.

Note 4. Project Specific and Other Financings

The Company has total project specific and other financings outstanding as at December 31, 2006 of \$657.9 million (2005 \$691.4 million).

Project specific financings of \$599.1 million (2005 \$600.8 million) are revolving in nature, bear interest at floating rates with a weighted average rate of 8.0% as at December 31, 2006 (December 31, 2005 7.4%) and are secured by housing and land inventory. The weighted average rate was calculated as of the end of each period, based upon the amount of debt outstanding and the related interest rates applicable on that date.

Interest rates charged under project specific financings include LIBOR and prime rate pricing options. The maximum amount of borrowings during the years ended December 31, 2006, 2005 and 2004 were \$607.5 million, \$600.8 million, and \$485.0 million, respectively. The average borrowings during 2006, 2005 and 2004 were \$601.1 million, \$528.8 million, and \$422.0 million, respectively.

Other financings of \$58.8 million (2005 \$90.6 million) consist of unvested deferred compensation under the Company's Long Term Participation Plan, mortgage loans and amounts drawn on an unsecured revolving credit facility due to a subsidiary of the Company's largest stockholder, Brookfield Asset Management Inc. Other financings bear interest at a weighted average rate of 8.0% as at December 31, 2006 (December 31, 2005 7.3%).

Project specific and other financings mature as follows: 2007 \$159.7 million; 2008 \$378.3 million; 2009 \$117.4 million; and 2010 \$2.5 million.

Note 5. Accounts Payable and Other Liabilities

The components of accounts payable and other liabilities included in the Company's balance sheet are summarized as follows:

	December 31	
	2006	2005
Trade payables and cost to complete accruals	\$ 70,187	\$ 86,137
Warranty costs	19,569	17,743
Customer deposits	4,030	12,307
Stock-based compensation	33,824	44,935
Due to minority interest	31,863	39,478
Accrued and deferred compensation	49,658	47,974
Income tax liabilities	65,794	65,039
Other accrued expenses	5,158	7,174
	\$ 280,083	\$ 320,787

BROOKFIELD HOMES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands of U.S. dollars except per share amounts)

Note 6. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The differences that give rise to the net deferred tax asset are as follows :

	December 31	
	2006	2005
Compensation deductible for tax purposes when paid	\$ 39,047	\$ 37,338
Differences relating to properties	14,013	12,424
Valuation allowance	(345)	(345)
	\$ 52,715	\$ 49,417

SFAS 109 requires the reduction of deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that a portion or all of the deferred tax asset will not be realized. At December 31, 2006, the Company had a valuation allowance of \$0.3 million (2005 \$0.3 million) for tax attributes that relate to the tax cost of properties in excess of the fair market value of properties at the time of reorganization of the Company which may not be realized. The Company reclassified nil (2005 \$5.5 million) of valuation allowance to accounts payable and other liabilities that relate to the realization of tax attributes that were subject to a valuation allowance. If these tax attributes are ultimately disallowed, the Company will owe additional tax.

As described in Note 5, included in accounts payable and other liabilities is \$65.8 million (2005 \$65.0 million) for income tax liabilities. The following table summarizes these amounts.

	December 31	
	2006	2005
Current taxes payable	\$ 14,659	\$ 13,904
Other tax liabilities	51,135	51,135
	\$ 65,794	\$ 65,039

Included in other tax liabilities is \$25.0 million (2005 \$25.0 million) related to the uncertainties in tax attributes which were recorded at the time of the Spin-off discussed in Note 1(a). On the Spin-off, the Company left the Brookfield Properties consolidated tax group with \$115.0 million of net operating losses. The tax provisions that apply in connection with the reorganization, including the departure of a member of a consolidated group, are detailed and complex and thereby subject to uncertainty. In addition, if any member of the consolidated group were reassessed for taxation years prior to 2003, this could have a direct impact on the net operating losses available to the Company on the Spin-off. Also included is an additional income tax liability of \$22.5 million (2005 \$22.5 million) that relates to the tax cost of properties in excess of the fair value of properties as described above. The exact amount of these tax liabilities will be determined at the earlier of review of the Spin-off transaction by taxation authorities or 2007. A further liability of \$3.6 million (2005 \$3.6 million) has been recorded in respect of tax positions taken.

The Company has computed the tax provisions for the periods presented based upon accounting income realized, adjusted for expenses that are not deductible for tax purposes. The provision for income taxes for each of the three years ended December 31, 2006, 2005 and 2004 follows:

	December 31		
	2006	2005	2004

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Current	\$ 89,790	\$ 146,737	\$ 75,430
Deferred	(3,298)	(10,955)	17,867
	\$ 86,492	\$ 135,782	\$ 93,297

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

(Tabular amounts in thousands of U.S. dollars except per share amounts)

A reconciliation of the statutory income tax rate and the effective rate follows:

	December 31		
	2006	2005	2004
Statutory Federal rate	35.0%	35.0%	35.0%
State income tax	4.0%	4.0%	3.9%
Other	(2.2)%	(0.7)%	
Effective rate	36.8%	38.3%	38.9%

Note 7. Stock-Based Compensation

Option Plan

Pursuant to the Company's stock option plan, Brookfield Homes grants options to purchase shares of the Company's common stock at the market price of the shares on the day the options are granted. A maximum of two million shares are authorized for issuance under the plan. Upon exercise of a vested option and upon payment to the Company of the exercise price, participants will receive one share of the Company's common stock. The Company's compensation committee may permit participants to, rather than exercising an in-the-money option (in-the-money means the market value of shares under the option exceeds the exercise price of the option prior to related income taxes), receive an amount equal to the difference between the market price of the shares underlying the option and the exercise price of the option. The excess amount will be payable either in cash or by the Company issuing to the participant a number of shares calculated by dividing the excess by the market price of the underlying shares. Prior to January 1, 2006, the Company accounted for stock option grants in accordance with Accounting Principles Board Opinion No. 25. Accordingly, the Company recorded the intrinsic value of options as a liability using variable plan accounting. Effective January 1, 2006, the Company adopted the provisions of SFAS 123R using the modified prospective transition method.

As a result of adopting SFAS 123R, the incremental impact to net income for the year ended December 31, 2006 was an expense of \$0.7 million. The impact of adopting SFAS 123R on both basic and diluted earnings per share for the year ended December 31, 2006 was an additional expense of \$0.03 per share.

Compensation expense related to the Company's stock options during the years ended December 31, 2006, 2005 and 2004 was income of \$0.2 million, expense of \$12.9 million and expense of \$11.9 million, respectively.

The fair value of each of the Company's stock option awards is estimated at each reporting date using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the Company's stock option awards, which are subject to graded vesting, is expensed over the vesting period of the stock options. Expected volatility is based on historical volatility of the Company's stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond with a maturity equal to the expected term of the stock option award granted. The Company uses historical data to estimate stock option exercises and forfeitures within its valuation model. The expected term of stock option awards granted for some participants is derived from historical exercise experience under the Company's share-based payment plan and represents the period of time that stock option awards granted are expected to be outstanding. The expected term of stock options granted for the remaining participants is derived by using the shortcut method.

The significant weighted average assumptions relating to the valuation of the Company's stock options for the year ended December 31, 2006 were as follows:

Dividend yield	2006
Volatility rate	1.07%
	40%

Risk-free interest rate	4.7%	5.1%
Expected option life (years)	1.0	7.0

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

(Tabular amounts in thousands of U.S. dollars except per share amounts)

The following table sets out the number of common shares that employees of the Company may acquire under options granted under the Company's stock option plan:

	December 31, 2006		December 31, 2005		December 31, 2004	
	Shares	Weighted Average Per Share Exercise Price	Shares	Weighted Average Per Share Exercise Price	Shares	Weighted Average Per Share Exercise Price
Outstanding, beginning of year	678,576	\$ 10.52	756,625	\$ 3.83	747,625	\$ 1.20
Granted	140,000	\$ 52.00	124,000	\$ 36.25	95,000	\$ 21.94
Exercised	(140,525)	\$ 1.17	(202,049)	\$ 1.26	(86,000)	\$ 1.01
Cancelled						
Outstanding, end of year	678,051	\$ 21.02	678,576	\$ 10.52	756,625	\$ 3.83
Options exercisable at year end	191,326	\$ 9.81	138,526	\$ 3.93	172,050	\$ 1.17

Pursuant to the terms of the stock option plan, the option exercise price for shares granted prior to April 2004 was adjusted by the \$9.00 special dividend paid in April 2004.

The weighted average grant date fair value of options granted during 2006 was \$15.17 per option compared to \$11.88 per option in 2005. The intrinsic value of options exercised during 2006 and 2005 was \$6.8 million and \$8.0 million, respectively. Shares were issued out of treasury stock for options exercised during the year. At December 31, 2006, the aggregate intrinsic value of options currently exercisable is \$5.3 million and the aggregate intrinsic value of options outstanding is \$11.9 million.

At December 31, 2006, there was \$2.2 million of unrecognized compensation expense related to unvested options, which is expected to be recognized over a weighted average period of approximately 1.6 years.

The following table summarizes information about stock options held by employees of the Company outstanding at December 31, 2006:

Exercise Prices Per Share	Options Outstanding at December 31, 2006	Weighted Average Remaining Contract Life	Options Exercisable at December 31, 2006
\$ 1.00	217,051	5.9 years	108,526
\$ 1.74	102,000	6.2 years	20,000
\$21.94	95,000	7.2 years	38,000
\$36.25	124,000	8.2 years	24,800
\$52.00	140,000	9.2 years	

Deferred Share Unit Plan

The Company has adopted a Deferred Share Unit Plan (DSUP) under which certain of its executive officers and directors may, at their option, receive all or a portion of their annual bonus awards or retainers, respectively, in the form of deferred share units. The annual awards are convertible into units based on the closing price of the Company's shares on the New York Stock Exchange on the date of the award. The portion of the annual bonus award elected by an officer to be received in units may be increased by a factor of up to two times for purposes of calculating the number of units to be allocated under the plan. An executive or director who holds units will receive additional units as dividends are paid on shares of the Company's common stock, on the same basis as if the dividends were reinvested. The units vest over a five year period and participants are allowed to redeem the units only upon ending their employment with the Company through retirement, termination or death, after which time the units terminate unless redeemed no later than 12 months following such retirement, termination or death. The

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

(Tabular amounts in thousands of U.S. dollars except per share amounts)

cash value of the units, when redeemed, will be equivalent to the market value of an equivalent number of shares of the Company's common stock where written notice of redemption is received.

The DSUP provides that no shares of the Company's common stock will be issued, authorized, reserved, purchased or sold at any time in connection with units allocated and under no circumstances are units considered shares of common stock, or entitle any participant to the exercise of any other rights arising from the ownership of shares of common stock. As of December 31, 2006, the Company had granted 589,181 units under the DSUP all of which were outstanding at December 31, 2006, and of which 397,096 units are vested and 192,085 units vest over the next five years. Total compensation costs recognized in income in connection with the DSUP for the years ended December 31, 2006, 2005 and 2004 were income of \$4.1 million, expense of \$9.8 million and expense of \$10.2 million, respectively. Compensation costs recognized in income will fluctuate based on the year end share price.

Note 8. Minority Interest

Minority interest represents the equity in consolidated subsidiaries that are owned by others. Total minority interest as at December 31, 2006 of \$92.0 million (2005 \$53.0 million) consisted of the following:

- (a) Ownership interests of certain business unit presidents of the Company totaling \$51.5 million (2005 \$32.8 million). In the event a business unit president (Minority Member) of the Company is no longer employed by an affiliate of the Company, the Company has the right to purchase the Minority Member's interest and the Minority Member has the right to require the Company to purchase their interest. Should such rights be exercised, the purchase price will be based on the then bulk sales value.
- (b) Third party investments of consolidated variable interest entities of \$40.5 million (2005 \$18.2 million).
- (c) Preferred shares issued by a wholly-owned subsidiary of nil (2005 \$2.0 million).
- (d) Included in accounts payable and other liabilities is \$31.9 million (2005 \$39.5 million) of amounts due to minority interest.

Note 9. Stockholders' Equity

- (a) *Preferred Stock* The Company currently does not have shares of preferred stock outstanding.
- (b) *Treasury Stock* The Company's Board of Directors has approved a share repurchase program that allows the Company to repurchase in aggregate up to \$144 million of the Company's outstanding common shares, of which the remaining amount approved for repurchases at December 31, 2006 was \$48.8 million. During the years ending December 31, 2006 and 2005, the Company repurchased 964,200 shares at an average price of \$39.30 and 707,500 shares at an average price of \$47.81 per share, respectively.
- (c) *Dividends* During the year, the Company's Board of Directors declared a semi-annual cash dividend of \$0.20 per common share payable in June and December.
- (d) *Special Dividend* On April 30, 2004, the Company paid a special dividend of \$9.00 per common share, \$277.9 million in the aggregate, consisting of \$140.6 million in cash and \$137.3 million in principal amount of the Company's 12% senior subordinated notes due 2020. The subordinated notes were redeemed by the Company on December 20, 2004 at par. The special dividend has been reflected as a reduction of retained earnings accumulated from the date of the Spin-off (see Note 1) to April 30, 2004, the date the special dividend was paid, with the balance reflected as a reduction of additional paid-in capital.
- (e) *Exercise of Stock Options* During the year ended December 31, 2006, certain officers exercised options to purchase a total of 140,525 shares of the Company's common stock at an average price of \$1.17 per share. During the year ended December 31, 2005, certain officers exercised options to purchase a total of 202,049 shares of the common stock at an average price of \$1.26 per share.

BROOKFIELD HOMES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands of U.S. dollars except per share amounts)

Note 10. Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2006, 2005 and 2004 were calculated as follows (in thousands except per share amounts):

	Years Ended December 31		
	2006	2005	2004
Numerator:			
Net income	\$ 148,354	\$ 218,740	\$ 146,416
Denominator:			
Basic average shares outstanding	26,874	30,497	30,903
Net effect of stock options assumed to be exercised	369	574	644
Diluted average shares outstanding	27,243	31,071	31,547
Basic earnings per share	\$ 5.52	\$ 7.17	\$ 4.74
Diluted earnings per share	\$ 5.45	\$ 7.04	\$ 4.64

At December 31, 2006, options to purchase 0.1 million shares of common stock were outstanding and anti-dilutive and were excluded from the computation of diluted earnings per share. All options outstanding at December 31, 2005 and 2004 were included in the computation of diluted earnings per share.

Note 11. Commitments, Contingent Liabilities and Other

(a) The Company, in the normal course of its business, has issued performance bonds and letters of credit pursuant to various facilities which at December 31, 2006, amounted to \$248.7 million (December 31, 2005 \$266.4 million, 2004 \$305.0 million) and \$22.8 million (December 31, 2005 \$21.4 million, 2004 \$19.6 million), respectively. The majority of these commitments have been issued to municipal authorities as part of the obligations of the Company in connection with the land servicing requirements.

(b) The Company is party to various legal actions arising in the ordinary course of business. Management believes that none of these actions, either individually or in the aggregate, will have a material adverse effect on the financial condition or results of operations of the Company.

(c) The Company is exposed to financial risk that arises from the fluctuations in interest rates. The interest bearing assets and liabilities of the Company are mainly at floating rates and, accordingly, their fair values approximate cost. The Company would be negatively impacted, on balance, if interest rates were to increase.

(d) During the second quarter, the Company entered into an unsecured revolving credit facility with a subsidiary of Brookfield Asset Management Inc., the Company's largest stockholder, in an aggregate principal amount not to exceed \$50.0 million. Included in Project specific and other financings is \$15.0 million related to this facility. The interest rate on this facility is LIBOR plus 2.00%.

(e) When selling a home, the Company's subsidiaries provide customers with a limited warranty. The Company estimates the costs that may be incurred under each limited warranty and records a liability in the amount of such costs at the time the revenue associated with the sale of each home is recognized. In addition, the Company has insurance in place where its subsidiaries are subject to the respective warranty statutes in the State where the Company conducts business which range up to ten years for latent construction defects. Factors that affect the Company's warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The following table reflects the changes in the Company's warranty liability for the years

ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Balance, at beginning of year	\$ 17,743	\$ 18,202	\$ 14,917
Payments and other adjustments made during the year	(4,689)	(5,246)	(3,624)
Warranties issued during the year	6,515	4,787	6,909
Balance, at end of year	\$ 19,569	\$ 17,743	\$ 18,202

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

(Tabular amounts in thousands of U.S. dollars except per share amounts)

(f) The Company leases certain facilities under non-cancelable operating leases. Rental expense incurred by the Company amounted to \$3.8 million for 2006 (2005 \$2.6 million). At December 31, 2006, future minimum rent payments under these operating leases were \$3.5 million for 2007, \$3.1 million for 2008, \$2.1 million for 2009, \$0.9 million for 2010 and \$0.9 million thereafter.

(g) From time to time, the Company enters into interest rate swap contracts. As at December 31, 2006, the Company had five interest rate swap contracts outstanding which effectively fixed \$210.0 million of the Company's variable rate debt at an average rate of 6.58%. The contracts expire between 2009 and 2016. At December 31, 2006, the fair market value of the contracts was \$2.2 million (2005 \$2.1 million) and was included in Accounts receivable and other assets. Income of \$0.1 million was recognized during the year ended December 31, 2006 (2005 \$2.1 million) and was included in Land and other revenues. All interest rate swaps are recorded at fair market value because hedge accounting has not been applied.

(h) During the third quarter, the Company entered into an equity swap transaction maturing in July 2007 at an average cost per share of \$26.72, which effectively fixes the stock compensation liability on 620,000 shares which is included in Accounts payable and other liabilities. At December 31, 2006, the fair market value of the equity swap was \$6.5 million and was included in Accounts receivable and other assets. Income of \$6.1 million was recognized during the year ended December 31, 2006 and was included in Land and other revenues. The equity swap is recorded at fair market value because hedge accounting has not been applied.

Note 12. Segment Information

As defined in SFAS 131, *Disclosures About Segments of an Enterprise and Related Information*, the Company has five operating segments. The Company has four reportable segments: Northern California, Southland / Los Angeles, San Diego / Riverside, and the Washington D.C. Area. The fifth operating segment is quantitatively immaterial. The Company is a residential homebuilder and land developer. The Company is organized and manages its business based on the geographical areas in which it operates. Each of the Company's segments specializes in lot entitlement and development and the construction of single-family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of other risk factors. Earnings performance is measured using segment operating income. The accounting policies of the segments are the same as those described in Note 1, *Significant Accounting Policies*.

	Years ended December 31,		
	2006	2005	2004
<i>Revenues</i>			
Northern California	\$ 115,073	\$ 199,234	\$ 327,757
Southland / Los Angeles	268,921	197,148	339,000
San Diego / Riverside	210,625	444,672	239,914
Washington D.C. Area	235,485	377,751	264,783
Corporate and Other	57,684	12,247	60,296
Total Revenues	\$ 887,788	\$ 1,231,052	\$ 1,231,750
<i>Segment Operating Income</i>			
Northern California	\$ 57,496	\$ 88,049	\$ 84,186
Southland / Los Angeles	51,975	36,167	46,601
San Diego / Riverside	85,646	173,819	75,749
Washington D.C. Area	38,214	110,125	64,762
Corporate and Other	19,893	(17,140)	(3,445)

Total Operating Income	\$ 253,224	\$ 391,020	\$ 267,853
Minority Interest	(18,378)	(36,498)	(28,140)
Net Income Before Taxes	\$ 234,846	\$ 354,522	\$ 239,713

BROOKFIELD HOMES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands of U.S. dollars except per share amounts)

	December 31,	
	2006	2005
<i>Housing and Land Assets</i> ⁽¹⁾		
Northern California	\$ 302,424	\$ 167,985
Southland / Los Angeles	203,829	185,309
San Diego / Riverside	376,717	293,804
Washington D.C. Area	293,117	291,380
Corporate and Other	48,811	49,499
Total	\$ 1,224,898	\$ 987,977

(1) Consists of housing and land inventory, investments in housing and land joint ventures and consolidated land inventory not owned.

The following tables set forth additional financial information relating to the Company's reportable segments:

	Years Ended December 31,		
	2006	2005	2004
<i>Equity in Earnings / (Loss) from Housing and Land Joint Ventures</i>			
Northern California	\$ 42,629	\$ 40,739	\$ 50,271
Southland / Los Angeles	(552)	6,296	1,056
San Diego / Riverside	12,853	7,409	4,235
Washington D.C. Area	3,354	10,640	5,832
Corporate and Other			
	\$ 58,284	\$ 65,084	\$ 61,394

	December 31,	
	2006	2005
<i>Investments in Housing and Land Joint Ventures</i>		
Northern California	\$ 6,791	\$ (14,989)
Southland / Los Angeles	6,872	2,733
San Diego / Riverside	32,536	30,152
Washington D.C. Area	36,256	30,091
Corporate and Other	7,870	5,273

Total	\$ 90,325	\$ 53,260
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All revenues are from external customers and are of origin in the United States. There were no customers that contributed 10% or more of the Company's total revenues during the years ended December 31, 2006, 2005 and 2004. All of the Company's assets are in the United States.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 2006, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the United States Securities Exchange Act of 1934 (the Exchange Act)) was carried out under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based upon that evaluation, the CEO and CFO have concluded that as of December 31, 2006, our disclosure controls and procedures are effective: (i) to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms; and (ii) to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

It should be noted that while our management, including the CEO and CFO, believe our disclosure controls and procedures provide a reasonable level of assurance that such controls and procedures are effective, they do not expect that our disclosure controls and procedures or internal controls will prevent all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There was no change in our internal control over financial reporting during the quarter ended December 31, 2006, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2006. We have not identified any material weakness in our internal control over financial reporting.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Deloitte & Touche, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Stockholders of Brookfield Homes Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Brookfield Homes Corporation and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Company and our report dated February 1, 2007 expressed an unqualified opinion on those financial statements.

Independent Registered Chartered Accountants

Toronto, Canada

February 1, 2007

Item 9B. Other Information

None.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

Information about our directors and the remaining information called for by this item is incorporated by reference from our 2007 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2007 (120 days after the end of our fiscal year). The following table provides the name, age and position of each of our current executive officers and significant employees.

Name	Age	Position Held
Executive Officers:		
Ian G. Cockwell	59	President and Chief Executive Officer
Paul G. Kerrigan	39	Executive Vice President and Chief Financial Officer
William B. Seith	57	Executive Vice President, Risk Management
Significant Employees:		
Stephen P. Doyle	49	President, Brookfield Homes San Diego Holdings LLC
Adrian Foley	44	President, Brookfield Homes Southland Holdings LLC
Robert Hubbell	49	President, Brookfield Washington LLC
John J. Ryan	47	President, Brookfield Homes Bay Area Holdings LLC
Richard T. Whitney	43	President, Brookfield California Land Holdings LLC

Ian Cockwell was appointed President and Chief Executive Officer in October 2002. From 1994 to December 2002, Mr. Cockwell served in various senior executive positions with Brookfield Residential Group, a division of Brookfield Properties. From 1998 to December 2002, Mr. Cockwell was Chairman and Chief Executive Officer of Brookfield Residential Group.

Paul Kerrigan was appointed Executive Vice President and Chief Financial Officer in October 2002. From 1999 to December 2002, Mr. Kerrigan served as Senior Vice President and Chief Financial Officer of Brookfield Residential Group, a division of Brookfield Properties. Mr. Kerrigan joined Brookfield Properties in 1996 and holds a Chartered Accountant designation.

William Seith was appointed Executive Vice President, Risk Management in October 2002. From 1994 to December 2002, Mr. Seith served in various senior executive positions with Brookfield Residential Group.

Stephen Doyle was appointed President of our San Diego / Riverside business unit in 1996. Mr. Doyle has 27 years of experience in the real estate industry. Prior to joining Brookfield Properties, Mr. Doyle spent 15 years working for other California homebuilders. Mr. Doyle is a licensed attorney and registered civil engineer in California.

Adrian Foley was appointed President of our Southland / Los Angeles business unit in 2004. Mr. Foley has 20 years of experience in the real estate industry. Prior to joining Brookfield in 1996, Mr. Foley was employed by another California homebuilder. Mr. Foley holds a bachelors degree in Construction from the University of London.

Robert Hubbell was appointed President of our Washington D.C. Area business unit in 1998. Mr. Hubbell has 23 years of experience in the real estate industry and has been with Brookfield for 17 years. Mr. Hubbell holds a bachelors degree in civil engineering.

John Ryan was appointed President of our San Francisco Bay Area business unit in 1995. Mr. Ryan has 23 years of real estate and development experience. After six years as a manager in public accounting, specializing in real estate, Mr. Ryan spent eight years with another public homebuilder before joining Brookfield Properties in 1995. Mr. Ryan is a licensed Certified Public Accountant and general contractor.

Richard Whitney was appointed President of Brookfield California Land Holdings LLC in 2002. Prior to his appointment, Mr. Whitney served as Senior Vice President, Finance of Brookfield Residential Group. Mr. Whitney joined Brookfield Properties in 1994.

Item 11. Executive Compensation

The information called for by this item is incorporated by reference from our 2007 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2007 (120 days after the end of our fiscal year).

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by this item is incorporated by reference from our 2007 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2007 (120 days after the end of our fiscal year), except for the information required by this item with respect to equity compensation plans which is set forth under Item 5 of this annual report on Form 10-K and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information called for by this item is incorporated by reference from our 2007 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2007 (120 days after the end of our fiscal year).

Item 14. Principal Accounting Fees and Services

The information called for by this item is incorporated by reference from our 2007 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2007 (120 days after the end of our fiscal year).

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

(i) *Financial Statements:*

See Item 8 of this report, beginning on page 29.

(ii) *Financial Statement Schedules:*

Schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have either been incorporated in the consolidated financial statements and accompanying notes or are not applicable to us.

(iii) *Exhibits:*

Refer to the Exhibit Index to this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 6th day of March, 2007.

Brookfield Homes Corporation

By: /s/ IAN G. COCKWELL

Ian G. Cockwell
*President and Chief Executive
 Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ J. BRUCE FLATT J. Bruce Flatt	Chairman of the Board	March 6, 2007
/s/ IAN G. COCKWELL Ian G. Cockwell	President and Chief Executive Officer and Director (Principal Executive Officer)	March 6, 2007
/s/ PAUL G. KERRIGAN Paul G. Kerrigan	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 6, 2007
/s/ JOAN H. FALLON Joan H. Fallon	Director	March 6, 2007
/s/ ROBERT A. FERCHAT Robert A. Ferchat	Director	March 6, 2007
/s/ BRUCE T. LEHMAN Bruce T. Lehman	Director	March 6, 2007
/s/ ALAN NORRIS Alan Norris	Director	March 6, 2007
/s/ DAVID M. SHERMAN David M. Sherman	Director	March 6, 2007

/s/ ROBERT L. STELZL

Director

March 6, 2007

Robert L. Stelzl

/s/ MICHAEL D. YOUNG

Director

March 6, 2007

Michael D. Young

EXHIBIT INDEX

Exhibit	Description
2.1	Purchase Agreement between Brookfield California Holdings Inc. and Brookfield Homes Corporation, effective as of September 30, 2002 Incorporated by reference to Exhibit 2.1 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
2.2	Purchase Agreement between Brookfield Homes (US) Inc. and Brookfield Homes Holdings Inc., effective as of September 30, 2002 Incorporated by reference to Exhibit 2.2 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
2.3	Purchase Agreement between Brookfield Washington Inc. and Brookfield Homes Holdings Inc., effective as of September 30, 2002 Incorporated by reference to Exhibit 2.3 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
2.4	Purchase Agreement between Brookfield Homes of California Inc. and Brookfield Homes Holdings Inc., effective as of September 30, 2002 Incorporated by reference to Exhibit 2.4 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
2.5	Purchase Agreement between Brookfield Washington Inc., Brookfield Homes of California Inc. and Brookfield Homes Corporation, effective as of September 30, 2002 Incorporated by reference to Exhibit 2.5 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
2.6	Purchase Agreement between Brookfield Homes of California Inc. and Intercontinental Investment & Development Bank Corporation, effective as of September 30, 2002 Incorporated by reference to Exhibit 2.6 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
3.1	Amended and Restated Certificate of Incorporation Incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
3.2	By-laws Incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
4.1	Description of Common Stock (see Article FOURTH of Exhibit A to Exhibit 3.1) Incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
4.2	Form of Deposit Facility Incorporated by reference to Exhibit 4.2 of the Registrant's Annual Report on Form 10-K filed with the Commission on March 15, 2004.
4.3	Revolving Credit Facility dated June 12, 2006 Incorporated by reference to Exhibit 4.1 of the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 9, 2006.
4.4	Amendment to Revolving Credit Facility dated June 12, 2006 Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed with the Commission on March 5, 2007.
4.5*	Letter furnished to Securities and Exchange Commission agreeing to furnish certain debt instruments.
10.1	License Agreement Incorporated by reference to Exhibit 10.1 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
10.2	Form of Stock Option Plan Incorporated by reference to Exhibit 10.5 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
10.3	Form of Deferred Share Unit Plan Incorporated by reference to Exhibit 10.6 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
21.1	List of Subsidiaries Incorporated by reference to Exhibit 21.1 of the Registrant's Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission.
31.1*	Rule 13a-14(a) certification by Ian G. Cockwell, President and Chief Executive Officer.
31.2*	Rule 13a-14(a) certification by Paul G. Kerrigan, Executive Vice President and Chief Financial Officer.

32.1* Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

* Filed herewith

Executive
Officers
management
contract or
compensatory
plan or
arrangement

Copies of certain of the exhibits filed with or incorporated by reference into this annual report on Form 10-K do not accompany copies of this annual report on Form 10-K distributed to our stockholders. We will furnish a copy of any of such exhibits to any stockholder requesting the same.