BROOKFIELD HOMES CORP
Form 10-K
February 27, 2006

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, 2005
Commission File Number: 001-31524
BROOKFIELD HOMES CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**37-1446709**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
8500 Executive Park Avenue Suite 300, Fairfax, Virginia	**22031**
(Address of Principal Executive Offices)	(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 o No þ

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 o No þ

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 þ No o

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 þ.

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 o Accelerated filer þ Non-accelerated filer o

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

Yes o No þ

As of June 30, 2005, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $673,944,880 based upon the closing market price on June 30, 2005 of a share of common stock on the New York Stock Exchange.

As of February 15, 2006, the registrant had outstanding 27,331,206 shares of its common stock, $0.01 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s 2006 definitive proxy statement, to be filed with the Commission no later than April 30, 2006, are incorporated by reference into Item 10 (Directors and Executive Officers of the Registrant), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management), Item 13 (Certain Relationships and Related Transactions) and Item 14 (Principal Accounting Fees and Services) of Part III of this annual report on Form 10-K.

PART I

Item 1. Business

Introduction

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

General Development of Our Business

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

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

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

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

Overview of the Residential Homebuilding and Land Development Industry

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

Raw Land

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

Land Development

Land development involves the conversion of raw land to the stage where homes may be constructed on the land. Regulatory bodies at the 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 more expensive than raw land because a portion of the costs and risk associated with the development have been incurred.

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

Upon execution of the development agreement and grading and improvement plans, the developer generally posts a bond with the local governmental authority to secure the developer s obligations and the plan receives final approval. The developer is generally required to convey to the local municipality, for no consideration, the land upon which roads, sidewalks, rights of way and parks are constructed. Land for schools, if any, is sold to the local school district. 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 government entitlements, developing the land, product design, constructing, marketing and selling homes and homebuyer customer service. In the five year period ended December 31, 2005, we closed a total of 8,107 homes and sold 8,202 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 2005, we closed a total of 1,582 homes, compared with 1,798 in 2004. The breakdown of our home closings by market in the last three years follows:

(Units)	**2005**	**2004**	**2003**
San Francisco Bay Area	192	407	275
Southland / Los Angeles	223	437	296
San Diego / Riverside	611	507	452
Washington D.C. Area	556	447	505
Total	1,582	1,798	1,528

At December 31, 2005, we had in backlog 455 homes or 28% of our planned 1,625 home closings for 2006 delivery. Backlog represents the number of homes subject to pending sales contracts.

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

Our average home price in 2005 was $679,000, an increase of 4% over 2004. This increase was due to our product mix and continued price appreciation of homes within our projects. The breakdown of the average prices on our home closings in the last three years follows:

	2005		**2004**		**2003**	
	Sales *(Millions)*	**Average Price**	**Sales *(Millions)***	**Average Price**	**Sales *(Millions)***	**Average Price**
San Francisco Bay Area	$ 199	$ 1,036,000	$ 328	$ 804,000	$ 193	$ 700,000
Southland / Los Angeles	194	872,000	391	894,000	258	872,000
San Diego / Riverside	378	618,000	231	456,000	137	303,000
Washington D.C. Area	303	545,000	219	491,000	230	456,000
Total	$ 1,074	$ 679,000	$ 1,169	$ 650,000	$ 818	$ 535,000

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

Business Strategy

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

Selective Acquisition Policies

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

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

Decentralized Operating Structure

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

We maintain a small corporate team that sets our strategic goals and overall strategy. The corporate team approves all acquisitions, allocates capital to the business units based on expected returns and levels of risk, establishes succession plans, ensures operations maintain a consistent level of quality, evaluates 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, 2005 were $1,082 million, with $726 million of these assets located in California and $356 million in the Washington D.C. Area.

As of December 31, 2005, we controlled 29,512 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. Ninety percent of our owned lots are entitled and ready for development and our optioned lots are generally unentitled and require various regulatory approvals before development can commence. The number of residential building lots we control in each of our markets as of December 31, 2005 follows:

	Owned			
(Lots)	**Directly**	**Joint Ventures**	**Options**	**Total Lots**
San Francisco Bay Area	700	382	3,551	4,633
Southland / Los Angeles	1,246	33	1,616	2,895
San Diego / Riverside	3,796	2,153	2,300	8,249
Sacramento		310	4,810	5,120
Washington D.C. Area	2,701	1,012	4,902	8,615
Total December 31, 2005	8,443	3,890	17,179	29,512
Total December 31, 2004	9,081	3,966	14,919	27,966

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:

(Book Value, $ millions)		**December 31, 2005**		**December 31, 2004**
San Francisco Bay Area	$	153	$	115
Southland / Los Angeles		227		91
San Diego / Riverside		264		274
Sacramento		16		11
Washington D.C. Area		253		189
Total	$	913	$	680

The book value of our investments in housing and land joint ventures as of December 31, 2005 was $53 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, 2005 follows:

(Book Value, $ millions)		**December 31, 2005**
Assets	$	423

Liabilities	$	380
Brookfield Homes net investment	$	53

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 270 lots in Windemere and our share of the remaining joint venture units is 382 lots.

University District, San Francisco Bay Area. University District is a 254 acre project in Rohnert Park, near Santa Rosa which is currently being entitled for 1,419 lots, all of which we control.

Irvine Ranch, Orange County. The Irvine Ranch is a master-planned community owned by the Irvine Company. We acquire lots from the Irvine Company on a rolling option basis, and believe we have developed a strong reputation for our homes among upper-end buyers in Orange County, California. We have closed more than 600 homes on the Irvine Ranch since 1999, and as of December 31, 2005, we owned or had under contract to purchase or option 136 lots in this area.

Morningstar Ranch, Riverside County. Morningstar Ranch is a 1,081 lot master-planned community near Temecula in Riverside County. The initial phases of 448 lots have closed out and land development on the remaining 633 lots, all of which we own, commenced in 2004.

Audie Murphy, Riverside County. Audie Murphy Ranch is a 999 acre project in the Menifee Valley in the County of Riverside. We obtained final approvals in 2004 and grading 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 with 400 units, is currently being processed by the local authorities. We hold a 50% interest in Calavera Hills, with the remaining 50% held by McMillin Companies. We have no affiliation with McMillin Companies.

Sycamore Canyon, San Diego County. Sycamore Canyon is a 2,132 acre project located in San Diego County. The project was acquired under option in 1998, and in 2002, final approvals were obtained and grading of the site commenced. Home closings commenced in 2004 and as of December 31, 2005, we owned 308 units.

Winding Walk, San Diego County. Winding Walk (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. We own directly 91 units and our share of the remaining joint venture is 387 units.

Braemar, Washington D.C. Area. Braemar is a master-planned community located in Prince William County that began development in 1994. Since 1999, we have closed over 2,100 homes and lots. As of December 31, 2005, we had 827 lots remaining in Braemar and adjacent communities in which we hold a 100% interest.

Property Acquisition and Sale

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

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

Construction and Development

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

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

upon the timing of completion of construction and absorption of home phases. As of December 31, 2005, we had 46 completed and unsold homes, excluding the 41 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, 2005, we owned 41 model homes, which are not generally available for sale until the final build-out of a project. Generally, two to four different model homes are built and decorated at each project to display design features. Model homes play a key role in helping buyers understand the efficiencies and value provided by each floor plan type. In addition to model homes, customers can gain an understanding of the various design features and options available to them using our design centers. At each design center, customers can meet with a designer and are shown the standard and upgraded selections available to them, including professional interior design furnishings and accessories.

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

Customer Service and Quality Control

We pay particular attention to the product design process and carefully consider quality and choice of materials in order to attempt to eliminate building deficiencies. The quality and workmanship of the trade contractors we employ 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, 2005, 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. (formerly Brascan Corporation) 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 and a deposit facility. For a further description of these agreements refer to Certain Relationships and Related Transactions which is incorporated by reference into Item 13 of this report from our definitive 2006 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2006.

Four of our directors serve as executive officers and directors of our affiliates. For a description of those relationships refer to Certain Relationships and Related Transactions which is incorporated by reference into Item 13 of this report from our definitive 2006 proxy statement which will be filed with the Securities and Exchange Commission not later than April 30, 2006.

Competition

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

Material Contracts

Other than contracts arising in connection with the reorganization and the Spin-off of the residential homebuilding operations of Brookfield Properties, and a deposit facility with a subsidiary of 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 which is incorporated by reference into Item 13 of this report from our definitive 2006 proxy statement which will be filed with the Securities and Exchange Commission not later than April 30, 2006.

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.

9

We do not currently have any material estimated capital expenditures related to governmental assessments or environmental compliance costs for the remainder of fiscal 2006, fiscal 2007 or fiscal 2008.

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, 2005, we had 636 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 12(a) CEO Certification to the NYSE in 2005 and filed with the SEC the CEO / CFO certification required under Section 302 of the Sarbanes-Oxley Act for the 2005 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 and housing demand. In addition, significant supply of alternatives to new homes, such as rental properties and used homes, may depress prices and reduce margins for the sale of new homes. Homebuilders are also subject to risks related to the availability and cost of materials and labor, and adverse weather conditions that can cause delays in construction schedules and cost overruns. Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by us can fluctuate significantly as a result of changing economic and real estate market conditions. If there are significant adverse changes in economic or real estate market conditions, we will have to sell homes at a loss or hold land in inventory longer than planned. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. We may be particularly affected by changes in local market conditions in California, where we derive a large proportion of our revenue.

Rising mortgage rates 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.

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

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

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

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

Our debt and leverage could adversely affect our financial condition.

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

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

We repay the principal of our debt from the proceeds of home closings, and as a result our annual debt service is equal to the interest that accrues on our debt. Based on our debt levels as of December 31, 2005, a 1% change up or down in interest rates could have either a positive or negative effect of approximately $4 million on our cash flows. Refer also to the section of this Form 10-K entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risks Interest Rates.

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

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

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

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

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

Increased insurance risk adversely affects our business.

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

12

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, as has been discussed recently, 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. 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 52% of our common stock.

Brookfield Asset Management Inc. owns approximately 52% 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 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, as adjusted for the $9.00 per share Special Dividend paid in 2004.

	Year Ended December 31, 2005			Year Ended December 31, 2004		
	High	**Low**	**Cash Dividends Per Share**	**High**	**Low**	**Cash Dividends Per Share**
1st Quarter	$ 45.00	$ 31.70		$ 26.71	$ 14.90	
2nd Quarter	$ 49.25	$ 39.60	$ 0.16	$ 30.91	$ 21.75	$ 9.08(1)
3rd Quarter	$ 55.68	$ 43.56		$ 29.01	$ 24.87	
4th Quarter	$ 56.40	$ 46.30	$ 0.16	$ 34.66	$ 24.81	$ 0.08

(1) $4.50 was paid in the form of a subordinate note which was redeemed for cash during the fourth quarter of 2004.

As of February 15, 2006, there were approximately 878 holders of record of our common stock.

On February 1, 2006 our Board of Directors declared a semi-annual dividend of $0.20 per share, payable June 30, 2006 to stockholders of record on June 15, 2006. 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, and the additional requirements of our project specific financings that Brookfield Homes Holdings Inc. maintain a net debt to tangible net worth ratio of 1.75 to 1 and a net debt to capitalization ratio of no greater than 65%. Refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Other Commitments for additional information about these and other restrictions.

In February 2003, our Board of Directors approved and publicly announced our share repurchase program which allowed us to repurchase up to $40 million of our outstanding common shares. In February 2005 and December 2005, our Board of Directors approved and publicly announced increases of $19 million and $50 million, respectively, in the share repurchase program. As of December 31, 2005, we had repurchased 1,976,649 shares under the program, of which 492,000 were purchased in the three months ended December 31, 2005. Our repurchase program does not have an expiration date. In October 2005, our Board of Directors authorized the Company to commence a tender offer to purchase up to 3,000,000 shares of its common stock at a fixed price of $55.00 per share. The offer commenced on October 14, 2005 and expired on November 15, 2005. Under the offer, we purchased 3,000,000 of our common stock for $165 million including expenses.

During the three months and year ended December 31, 2005, we repurchased the following shares of our common stock:

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
January 1, 2005 September 30, 2005	215,500	$ 44.15	215,500	$ 26,440,502
October 1, 2005 October 31, 2005				$ 191,440,502
November 1, 2005 November 30, 2005	3,225,100	$ 54.65	3,225,100	$ 15,204,432
December 1, 2005 December 31, 2005	266,900	$ 48.99	266,900	$ 52,128,294
Total (Year)	3,707,500	$ 53.63	3,707,500	$ 52,128,294
Total (Fourth Quarter)	3,492,000	$ 54.21	3,492,000	$ 52,128,294

(1) All shares were purchased pursuant to the publicly announced plan in open-market transactions or pursuant to the tender offer.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes our equity compensation plans approved by stockholders as of December 31, 2005. We have no equity compensation plans not approved by stockholders.