BROOKFIELD HOMES CORP
Form 10-K
February 13, 2009

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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, 2008
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 o.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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, 2008, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $136,436,486 based upon the closing market price on June 30, 2008 of a share of common stock on the New York Stock Exchange.

As of February 10, 2009, the registrant had outstanding 26,768,732 shares of its common stock, $0.01 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s 2009 definitive proxy statement, to be filed with the Commission no later than April 30, 2009, 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.

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PART I

Item 1. Business

Introduction

Brookfield Homes Corporation is a land developer and homebuilder (unless the context requires otherwise, references in this report to we, our, us and the Company refer to Brookfield Homes and its subsidiaries). We entitle and develo land for our own communities and sell lots to third parties. We also design, construct and market single-family and multi-family homes primarily to move-up and luxury homebuyers. 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 target these markets because we believe over the longer term they offer the following positive characteristics: strong housing demand, a constrained supply of developable land and close proximity to areas where we expect 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 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:

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

Current Business Environment

2008 was another very challenging year for the housing industry as the downturn in the housing market intensified. The supply of resale and new homes far exceeds demand and even though annual single-family new home production in the United States has dropped to below 600,000 units, we do not anticipate that an equilibrium between the supply and demand for housing will be reached in 2009. This continuing imbalance, as well as the disruption in credit markets and uncertain economic outlook, has led to continued weak consumer confidence, a critical factor for home sales. For additional information and analysis of the impact on our operations and financial condition, see Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

Overview of the Land Development and Homebuilding Industry

The residential homebuilding and land development industry involves converting raw or undeveloped land into residential housing. This process begins with the purchase or control of raw land and is followed by the entitlement and 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 and interest. 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.

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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, open space, 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 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, 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.

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Narrative Description of Our Business

We develop land for our own communities and sell lots to other homebuilders. In our own communities, we design, construct and market single-family and multi-family homes primarily to move-up and luxury homebuyers. 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, 2008, we closed a total of 6,268 homes and sold 4,420 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 2008, we closed a total of 750 homes, compared with 839 in 2007. The breakdown of our home closings by market in the last three years follows:

(Units)	2008	2007	2006
Northern California	139	131	107
Southland / Los Angeles	227	258	326
San Diego / Riverside	128	150	288
Washington D.C. Area	245	272	375
Corporate and Other	6	14	63
	745	825	1,159
Joint Ventures	5	14	22
Total	750	839	1,181

At December 31, 2008, we had in backlog 134 homes, a decrease of 21 homes when compared to 2007. 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 2008, we sold 616 lots. In 2007, we sold 1,328 lots, the majority of which related to the sale of 1,249 controlled lots in Southern California.

Our average home price in 2008 from directly owned projects was $557,000, a decrease of $99,000 or 15% when compared to our average home price in 2007 of $656,000. The breakdown of the average prices on our home closings in the last three years follows:

	2008		2007		2006	
	Sales *(Millions)*	Average Price	Sales *(Millions)*	Average Price	Sales *(Millions)*	Average Price
Northern California	$ 127	$ 913,000	$ 121	$ 921,000	$ 106	$ 987,000
Southland / Los Angeles	94	413,000	176	682,000	236	725,000
San Diego / Riverside	68	533,000	89	597,000	173	601,000

Washington D.C. Area	122	499,000	143	528,000	222	592,000
Corporate and Other	4	689,000	12	831,000	47	749,000
Total	$ 415	$ 557,000	$ 541	$ 656,000	$ 784	$ 677,000

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 consider our recent financial returns achieved in that market.

In order to expand our market opportunities, we selectively pursue joint venture projects with landowners, other homebuilders and intermediaries. We are generally active participants in our joint ventures.

During 2008, we acquired 1,353 lots and obtained control of a further 430 lots through options. All of the lots were acquired from joint venture partners or were lots we previously controlled through options.

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 land development and 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 land development and 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.

The corporate team 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 four stages where we make strategic decisions to deploy capital: entitling the raw land that we control; acquiring land; 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 attempting to minimize 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 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. We sell lots and parcels when we believe we can redeploy capital to an asset providing higher returns or reduce risk in a market.

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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 limit the risk of overbuilding by attempting to match 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, net of deferred income taxes as of December 31, 2008 were $1,148 million, with $829 million of these assets located in California, $259 million in the Washington D.C. Area and $60 million in other operations.

As of December 31, 2008, we controlled 24,109 lots. Controlled lots include those we directly own, our 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. Approximately seventy 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, 2008 follows:

	Owned			
(Lots)	**Directly**	**Joint Ventures**	**Options[(1)]**	**Total Lots**
Northern California	1,010	98	6,182	7,290
Southland / Los Angeles	1,163	254	2,043	3,460
San Diego / Riverside	6,604	1	1,500	8,105
Washington D.C. Area	2,265	1,416	1,300	4,981
Corporate and Other	210	63		273
Total December 31, 2008	11,252	1,832	11,025	24,109
Total December 31, 2007	9,620	3,458	12,293	25,371

(1) Includes proportionate share of lots under option related to joint ventures.

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

(Book Value, $ millions)	December 31, 2008	December 31, 2007
Northern California	$ 237	$ 308
Southland / Los Angeles	97	150
San Diego / Riverside	365	337
Washington D.C. Area	204	238
Corporate and Other	44	45
Total	$ 947	$ 1,078

The book value of our investments in housing and land joint ventures as of December 31, 2008 was $105 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, 2008 follows:

(Book Value, $ millions)	December 31, 2008
Assets	$ 319
Liabilities	$ 79
Brookfield Homes net investment	$ 105

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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 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 193 lots in Windemere and our share of the remaining joint venture 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.
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 currently known as the New Model Colony. We obtained final approvals and commenced grading in 2006. Home closings commenced in 2007 and as of December 31, 2008, we owned 470 lots.
Morningstar Ranch, Riverside County. Morningstar Ranch is a 1,081 lot master-planned community near Temecula in Riverside County. The initial phases totaling 448 lots closed out and land development on the remaining 633 lots commenced in 2004 and was completed in 2006. Home closings commenced in 2006 and a land sale of 451 lots was closed in 2008. As of December 31, 2008, we owned 58 lots.
Calavera Hills, San Diego County. Calavera Hills is an 800 acre project located in the coastal community of Carlsbad. We completed the first two phases of the project and Phase III, which is planned for 404 units, commenced development in 2007.
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 development approvals were obtained and grading of the site commenced. Home closings commenced in 2004 and as of December 31, 2008, we owned 226 lots.
Windingwalk, San Diego County. Windingwalk 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 owned directly 234 lots as of December 31, 2008.
Heritage Shores, Washington, D.C. Area. Heritage Shores is a 2,000 lot master-planned active adult community located in the town of Bridgeville, Delaware. Development commenced in 2004 and Phase I is fully developed and the golf course and clubhouse were completed in 2006. As of December 31, 2008, we owned 499 lots in Heritage Shores and held a long-term option for a further 1,066 lots.
Braemar, Washington D.C. Area. Braemar is a master-planned community located in Prince William County that began development in 1994. Since 1999, we closed over 2,400 homes and lots in this community. As of December 31, 2008, we owned 363 lots in Braemar and adjacent communities.

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 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, 2008, we had 108 completed and unsold homes, excluding the model homes we currently maintain. The level of completed homes has decreased when compared to 2007, as a result of matching our home construction to our home closings.

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 generally have 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, 2008, we owned 102 model homes and leased 25 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 2008, as a result of continuing challenging market conditions, our cancellation rate of 27% was high relative to our historical average of 15%. We continue to closely monitor the progress of prospective buyers in obtaining financing. We also monitor and attempt to adjust our planned construction starts depending on the level of demand for our homes.

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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 and on a limited recourse basis, generally limited to early payment defaults or fraud and misrepresentation. For the year ended December 31, 2008, 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 land developer and homebuilder, developing land and building homes 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, an unsecured revolving credit facility in the form of a promissory note and a management services agreement. 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 2009 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2009.

Four 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 2009 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2009.

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 also compete with resales of existing homes, whether by a homeowner or by a financial institution that has acquired a home through foreclosure, and with the rental housing market. 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. We also compete for land buyers with third parties in our efforts to sell lots to other homebuilders. Competition may increase if there is future consolidation in the land development and homebuilding industry.

Material Contracts

Other than contracts arising in connection with the reorganization and the Spin-off of the residential homebuilding operations of Brookfield Properties, a deposit facility and promissory note with a subsidiary of Brookfield Asset Management Inc., and a management services agreement, 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 2009 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2009.

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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 2009, fiscal 2010 or fiscal 2011.

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, 2008, we had 379 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 2008 and filed with the SEC the CEO / CFO certification required under Section 302 of the Sarbanes-Oxley Act for the 2008 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.

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

The land development and homebuilding industry is cyclical and is significantly affected by changes in general and local economic and industry conditions, such as employment levels, availability of financing for homebuyers, interest rates, consumer confidence, levels of new and existing homes for sale, demographic trends and housing demand. In addition, an oversupply of alternatives to new homes, such as resale homes, including homes held for sale by investors and speculators, foreclosed homes and rental properties may reduce our ability to sell new homes, depress prices and reduce our margins from the sale of new homes.

2008 was another very challenging year for the housing industry, as the downturn in the housing market intensified. Home foreclosures and lack of financing for homebuyers resulted in continued high inventories of new and resale homes and sharp declines in new home deliveries. The supply of resale and new homes far exceeds demand and even though annual single-family new home production in the United States has dropped to 0.6 million units per year, we do not anticipate that an equilibrium between the supply and demand for housing will be reached in 2009. This continuing imbalance, as well as the disruption in credit markets, has led to continued weak consumer confidence, a critical factor for home sales.

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. As a result of the present challenging market conditions, we have sold homes and lots for lower profit margins than in the past and we have recorded inventory and joint venture impairments and lot option write-off charges that resulted in a loss during fiscal 2008. If market conditions continue to deteriorate, some of our assets may be subject to further impairments and option write-off charges further adversely affecting our operations and financial results.

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. Prior to the recent volatility in the financial markets, mortgage rates were at or near their lowest levels in many years and a variety of mortgage products were available. As a result, more homebuyers were able to qualify for mortgage financing. 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 and reduced mortgage availability could adversely affect our ability to sell new homes and the price at which we can sell them.

During 2007 and 2008, there was a significant decrease in the type of mortgage products available and a general increase in the qualification requirements for mortgages. Fewer loan products and tighter loan qualifications made it more difficult for some borrowers to finance the purchase of our homes. This, coupled with higher mortgage interest rates for some mortgage products has reduced demand for new homes. These reductions in demand have adversely affected our operations and financial results, and the duration and severity of the effects are uncertain.

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. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to being approved for a particular development or project, if approved at all. In addition, new development projects may be subject to various assessments for schools, parks, streets and highways

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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 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. The availability of financing from banks and the public debt markets has declined significantly. Due to the deterioration of the credit markets and the uncertainties that exist in the economy and for home builders in general, we cannot be certain that we will be able to replace existing financing or find additional sources of financing. 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.

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Our debt and leverage could adversely affect our financial condition.

Our total debt as of December 31, 2008 was $749 million, of which a total of $405 million matures prior to the end of 2010. 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.

If any of these conditions occur, or should we be unable to repay these obligations as they become due, our financial condition will be adversely affected. In addition, our various debt instruments contain financial and other restrictive covenants that may limit our ability to, among other things, borrow additional funds that we might need in the future. We also guarantee shortfalls under some of our community bond debt, when the revenues, fees and assessments which are designed to cover principal and interest and other operating costs of the bonds are not paid.

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. In general, we repay the principal of our debt from the proceeds of home closings.

Based on our net debt levels as of December 31, 2008, a 1% change up or down in interest rates could have either a negative or positive effect of approximately $5 million on our cash flows. Refer also to the section of our 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.

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 may 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.

Homebuilding in California and the Washington D.C. Area is susceptible to, and is significantly affected by, adverse weather conditions and natural disasters such as hurricanes, tornadoes, earthquakes, droughts, 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.

We are confronting reduced insurance capacity, and generally lower limits for insurance against some of the risks associated with our business. Some of the actions that have been or could be taken by insurance companies include: increasing insurance premiums; requiring higher self-insured retention and deductibles; requiring 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

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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, building materials, labor and capital. 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 including foreclosed homes, sales by housing speculators and investors and rental housing. 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; lower profit margins; impairments in the value of our inventory and other assets; 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 securities.

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 that 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 our securities could fluctuate significantly and could be adversely affected because Brookfield Asset Management Inc. beneficially owns approximately 58.17% of our common stock.

The trading prices of shares of our common stock in the open market cannot be predicted. The trading prices 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.

Also, Brookfield Asset Management Inc. beneficially owns approximately 58.17% of the outstanding shares of our common stock, which percentage could increase in connection with our currently proposed rights offering because Brookfield Asset Management Inc. has indicated its intention to exercise in full its subscription rights, and any over-subscription rights to which it my be entitled. If Brookfield Asset Management Inc. should decide in the future to sell any of our securities owned beneficially by it, the sale (or the perception of the market that a sale may occur) could adversely affect the trading price of those securities.

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 Toronto lease is a sublease from Brookfield Asset Management Inc.

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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, 2008			Year Ended December 31, 2007		
	High	Low	Cash Dividends Per Share	High	Low	Cash Dividends Per Share
1st Quarter	$ 17.52	$ 10.51		$ 41.49	$ 30.55	
2nd Quarter	$ 17.30	$ 12.28	$ 0.20	$ 36.61	$ 28.92	$ 0.20
3rd Quarter	$ 16.75	$ 9.26		$ 32.07	$ 17.04	
4th Quarter	$ 13.90	$ 1.49		$ 22.21	$ 13.50	$ 0.20

As of February 10, 2009, there were approximately 839 holders of record of our common stock.

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. We do not currently pay a dividend.

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 currently require Brookfield Homes Corporation to maintain minimum stockholders equity of $225 million and a consolidated net debt to book capitalization ratio of no greater than 80%. 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. In addition, we expect to issue shares of our 8% convertible preferred stock in connection with our currently proposed rights offering. The terms of the 8% convertible preferred stock will contain limitations on when we may pay dividends on our common stock.

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, 2008 was approximately $49 million. During the three months and year ended December 31, 2008, we did not repurchase any shares of our common stock.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes our equity compensation plans approved by stockholders as of December 31, 2008. We have no equity compensation plans not approved by stockholders.

	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights		(b) Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders	875,000	$	30.57	489,200
Equity compensation plans not approved by stockholders	none		n/a	none
Total	875,000	$	30.57	489,200

Performance Graph

The following graph illustrates the cumulative total stockholder return on Brookfield Homes common stock for the last five 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 ENDED DECEMBER 31, 2008

Base Period

Period ended December 31	Legend	2003	2004	2005	2006	2007	2008
Brookfield Homes Corporation		100	181.09	267.44	204.39	87.72	24.37
S & P 500 Homebuilding Index		100	133.64	169.17	135.33	55.63	33.99
S & P 500 Index		100	110.88	116.32	134.69	142.09	89.52

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, 2008.

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.

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United States GAAP

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

	Years Ended December 31				
Statement of Operations Data					
($ millions, except per share amounts)	**2008**	**2007**	**2006**	**2005**	**2004**
Total revenue [1]	$ 449	$ 583	$ 872	$ 1,214	$ 1,220
Housing revenue	415	541	784	1,074	1,169
Housing gross margin	52	92	206	324	258
Housing gross margin %	13%	17%	26%	30%	22%
Total gross margin excluding impairments and write-offs [2]	33	102	255	398	275
Impairments of housing and land inventory and write-offs of option deposits	115	88	10		
Impairments of investments in housing and land joint ventures	38	15			
Net (loss) / income	(116)	16	148	219	146
Diluted (loss) / earnings per share	(4.33)	0.58	5.45	7.04	4.64
Cash dividends per share [3]	0.20	0.40	0.40	0.32	9.16

	At December 31				
Balance Sheet Data ($ millions)	**2008**	**2007**	**2006**	**2005**	**2004**
Housing and land inventory	$ 947	$ 1,078	$ 1,075	$ 913	$ 680
Cash and cash equivalents		9	87	198	187
Total assets	1,207	1,351	1,401	1,330	1,082
Total debt [4]	749	735	618	636	475
Total liabilities	947	971	1,030	1,065	836
Total stockholders equity	260	380	371	265	246

	Years Ended December 31				
Supplemental Financial Data ($ millions)	**2008**	**2007**	**2006**	**2005**	**2004**
Cash provided by/(used in):					
Operating activities	$ 66	$ (44)	$ 26	$ 60	$ 164
Investment activities	(32)	(58)	(47)	(5)	25
Financing activities	(43)	24	(91)	(44)	(221)
Net debt to total capitalization percent [5]	70%	61%	53%	58%	48%

	Years Ended December 31				
Operating Data (Unaudited)	**2008**	**2007**	**2006**	**2005**	**2004**
Home closings (units)	750	839	1,181	1,618	1,880
Lots sold (units)	616	1,328	834	1,242	400
Net new orders (units) [6]	729	735	960	1,482	1,847
Backlog (units at end of period) [7]	134	155	259	480	616
Average selling price	$ 562,000	$ 662,000	$ 679,000	$ 683,000	$ 652,000
Lots controlled	24,109	25,371	27,616	29,512	27,966

(1) To conform to the current year

presentation, for years prior to 2007, revenue excludes other income.

(2) Gross margin represents the contribution from our housing and land projects, after all costs for development and construction, including related overhead and interest, and before all other (expense) / income, selling, general and administrative expense and minority interest.

(3) The 2004 cash dividend includes a special dividend of $9 per share.

(4) To conform to the current year presentation, for years prior to 2007, total debt excludes deferred compensation which is now shown as a component of accounts payable and other liabilities. Total debt is defined as project specific

financings and other revolving financings.

(5) Net debt to total capitalization percent is defined as total project specific financings plus other revolving financings less cash (net debt) multiplied by 100 and divided by net debt plus stockholders equity plus minority interest (total capitalization).

(6) Net new orders for any period represents the aggregate of all homes ordered by customers, net of cancellations, including joint ventures.

(7) Backlog represents the number of new homes subject to pending sales contracts, including joint ventures.

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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.

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, a 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 strategies and foundations for future growth;

supply and demand equilibrium;

visibility of cash flow;

financing sources;

sufficiency of our access to capital resources;

tax recoveries;

the proposed completion of a $250 million rights offering;

ability to create shareholder value;

expectations of future cash flow;

ability to generate sufficient cash flow from our assets in 2009 and 2010 to repay maturing project specific and other financings;

valuation allowances;

the effect of interest rate changes;

strategic goals;

the effect on our business of existing lawsuits;

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 and availability 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;
- ability to obtain regulatory approvals;
- confidence levels of consumers;
- our debt and leverage;
- 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.

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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.

Overview

2008 was another very challenging year for the housing industry, as the downturn in the housing market intensified. Home foreclosures and lack of financing for homebuyers resulted in continued high inventories of new and resale homes and sharp declines in new home deliveries. The supply of resale and new homes far exceeds demand and even though annual single-family new home production in the United States has dropped to 0.6 million units per year, we do not anticipate that an equilibrium between the supply and demand for housing will be reached in 2009. This continuing imbalance, as well as the disruption in credit markets, has led to continued weak consumer confidence, a critical factor for home sales.

The challenging market conditions in 2008 negatively impacted our operations with lower home sales per community, price reductions and high home sale cancellation rates. These factors resulted in an 11% decrease in home closings to 750 units when compared to 2007 home closings.

We entitle and develop land for our own communities and sell lots to third parties. We also design, construct and market single and multi-family homes primarily to move-up and luxury homebuyers.

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 the Washington D.C. Area. Our other operations that do not meet the quantitative thresholds for separate segment 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. Since going public in 2003, we have limited the capital placed at risk, and have returned, through dividends and share buybacks, $584 million to shareholders, or in excess of $20 per share.

For the five year period 2004 to 2008, cash provided from operations was $272 million, which was used primarily to return cash to stockholders through the repurchase of shares and the payment of dividends and to repay debt. Despite the continuing challenges of the United States housing market, we believe our business is positioned to create further shareholder value over the long term through the selective control of a number of strategic projects and the overall level of lots controlled.

The 24,109 lots that we control, 13,084 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. 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 by optioning such land positions in all our markets thereby mitigating our capital at risk. Option contracts for the purchase of land permit us to control lots for an extended period of time.

Homebuilding is our primary source of revenue and has represented approximately 90% of our total revenue since 2003. Operating in markets with higher price points and catering to move-up and luxury buyers, our average sales price in 2008 of $562,000 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 2008, we sold 616 lots, the majority of which was a sale of finished lots in our San Diego operations. The number of lots we sell may vary significantly from period to period due to the timing and nature of such sales which are also affected by local market conditions.

Our housing and land inventory, investments in housing and land joint ventures, and consolidated land inventory not owned together comprised 87% of our total assets as of December 31, 2008. In addition, we had $152 million in other assets. Other assets consist of homebuyer receivables of $4 million, income taxes receivable of $64 million, deferred taxes of $60 million, and mortgages and other receivables of $24 million. Homebuyer receivables consist primarily of proceeds due from homebuyers on the closing of homes.

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Results of Operations

Selected Financial Information ($US millions)	Years Ended December 31 2008	2007	2006
Revenue:			
Housing	$ 415	$ 541	$ 784
Land	34	42	88
Total revenues	449	583	872
Direct cost of sales	(416)	(481)	(617)
Impairments and write-offs of option deposits	(115)	(88)	(10)
Gross margin / (loss)	(82)	14	245
Selling, general and administrative expense	(69)	(69)	(59)
Equity in earnings from housing and land joint ventures	3	13	58
Impairments from housing and land joint ventures	(38)	(15)	
Other (expense) / income	(18)	(6)	9
Operating (loss) / income	(204)	(63)	253
Minority interest	18	7	(18)
(Loss) / income before taxes	(186)	(56)	235
Income tax recovery / (expense)	70	72	(87)
Net income / (loss)	$ (116)	$ 16	$ 148

Segment Information	Years Ended December 31 2008	2007	2006
Housing revenue ($US millions):			
Northern California	$ 127	$ 121	$ 106
Southland / Los Angeles	94	176	236
San Diego / Riverside	68	89	173
Washington D.C. Area	122	143	222
Corporate and Other	4	12	47
Total	$ 415	$ 541	$ 784
Land revenues ($US millions):			
Northern California	$ 2	$	$ 9
Southland / Los Angeles		30	31
San Diego / Riverside	19		36
Washington D.C. Area	13	12	12
Corporate and Other			
Total	$ 34	$ 42	$ 88

Gross margin / (loss) ($US millions):			
Northern California	$ (18)	$ 12	$ 25
Southland / Los Angeles	(3)	36	68
San Diego / Riverside	(42)	(10)	86
Washington D.C. Area	(17)	(26)	53
Corporate and Other	(2)	2	13
Total	$ (82)	$ 14	$ 245
Home closings (units):			
Northern California	139	131	107
Southland / Los Angeles	227	258	326
San Diego / Riverside	128	150	288
Washington D.C. Area	245	272	375
Corporate and Other	6	14	63
Consolidated Total	745	825	1,159
Joint Ventures	5	14	22
Total	750	839	1,181

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Segment Information	Years Ended December 31 2008	2007	2006
Average selling price ($US):			
Northern California	$ 913,000	$ 921,000	$ 987,000
Southland / Los Angeles	413,000	682,000	725,000
San Diego / Riverside	533,000	597,000	601,000
Washington D.C. Area	499,000	528,000	592,000
Corporate and Other	689,000	831,000	749,000
Consolidated Average	557,000	656,000	677,000
Joint Ventures	1,288,000	1,020,000	818,000
Average	$ 562,000	$ 662,000	$ 679,000
Net new orders (units): (1)			
Northern California	122	141	112
Southland / Los Angeles	237	183	321
San Diego / Riverside	128	123	241
Washington D.C. Area	233	249	254
Corporate and Other	7	13	23
Consolidated Total	727	709	951
Joint Ventures	2	26	9
Total	729	735	960
Backlog (units at end of year): (2)			
Northern California	10	27	17
Southland / Los Angeles	55	45	100
San Diego / Riverside	8	8	35
Washington D.C. Area	40	52	75
Corporate and Other	20	19	20
Consolidated Total	133	151	247
Joint Ventures	1	4	12
Total	134	155	259
Lots controlled (units at end of year):			
Lots owned:			
Northern California	1,108	1,325	1,245
Southland / Los Angeles	1,417	1,493	1,057
San Diego / Riverside	6,605	6,064	6,216
Washington D.C. Area	3,681	3,914	4,051
Corporate and Other	273	282	150

	13,084	13,078	12,719
Lots under option (3)	11,025	12,293	14,897
Total	24,109	25,371	27,616

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

(2) Backlog represents the number of new homes subject to pending sales contracts.

(3) Includes proportionate share of lots under option related to joint ventures.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Net Income

Net loss for the year ended December 31, 2008 was $116 million, a decrease of $132 million when compared to net income of $16 million for the year ended December 31, 2007. The decrease in net income was due to continued challenging market conditions in all our markets which resulted in impairment charges and write-downs on our housing and land assets, a 11% decrease in home closings and a reduction in our 2008 housing gross margin to 13% compared to 17% in 2007. The decrease in net income was also due to an expense of $19 million related to our interest rate swaps in 2008 compared to an expense of $8 million in 2007.

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Results of Operations

Company-wide: Housing revenue was $415 million in 2008, a decrease of $126 million when compared to 2007. The decrease in housing revenue was a result of fewer homes closed from directly owned projects to 745 units, a decrease of 80 units or 10% when compared to 2007. The gross margin on housing revenue in 2008 was $52 million or 13% compared with $92 million or 17% in 2007. The decrease in gross margin and gross margin percentage was due to fewer home closings, continued increases in homebuyer incentives and reduced prices and product mix.

Land revenue in 2008 totaled $34 million on the sale of 616 lots compared with $42 million in 2007 on the sale of 1,328 lots. The gross margin on land revenue was a loss of $19 million, a decrease of $29 million when compared to 2007. Our land revenues may vary significantly from period to period due to the timing and nature of land sales, as they generally occur on an opportunistic basis and are affected by local market conditions.

In 2008, we recognized impairment charges and write-downs on our housing and land inventory of $115 million compared to $88 million in 2007. The impairment charges and write-downs related to 2,326 owned lots located primarily in the Inland Empire of California and Washington D.C. Area and 819 optioned lots located in California and the Washington D.C. Area.

A summary of our gross margin / (loss) is as follows:

($ millions)	**2008**	**2007**
Housing	$ 52	$ 92
Land	(19)	10
Impairment charges / write-downs	(115)	(88)
	$ (82)	$ 14

Northern California: Housing revenue was $127 million in 2008, an increase of $6 million when compared to 2007. The increase in revenue was primarily due to an increase of eight homes closed. Excluding impairment charges, the gross margin on housing revenue was $10 million or 8% in 2008, compared with $17 million or 14% in 2007.

Land revenue was $2 million in 2008, compared with nil in 2007. The land revenue in 2008 comprised the sale of 78 raw lots. The gross margin on land revenue was a loss of $7 million. Impairment and other charges totaled $21 million in 2008, compared with $5 million in 2007.

Southland / Los Angeles: Housing revenue was $94 million in 2008, a decrease of $82 million when compared to 2007. The decrease was due to a 39% decrease in our average selling price to $413,000 and 31 fewer homes closed. Excluding impairment charges, the gross margin on housing revenue was $12 million or 13% compared with $31 million or 18% in 2007. The decrease in the gross margin percentage was a result of reduced selling prices, increases in homebuyer incentives and product mix.

Land revenue was nil in 2008, a decrease of $30 million when compared to 2007. The land revenue in 2007 comprised the sale of 1,249 lots held under option. Impairment and other charges totaled $15 million in 2008 compared with $3 million in 2007.

San Diego / Riverside: Housing revenue was $68 million in 2008, a decrease of $21 million when compared to 2007. The decrease was primarily due to 22 fewer homes closed and a decrease in our average selling price. Excluding impairment charges, the gross margin on housing revenue was $16 million or 23% compared with $23 million or 26% in 2007. The decrease in the gross margin percentage was a result of reduced selling prices, increases in homebuyer incentives and product mix.

Land revenue was $19 million in 2008, compared with nil in 2007. The land revenue in 2008 comprised the sale of 451 finished lots. The gross margin on land revenue was a loss of $15 million. Impairment and other charges totaled $43 million in 2008, compared with $33 million in 2007.

Washington D.C. Area: Housing revenue was $122 million in 2008, a decrease of $21 million when compared to 2007. The decrease was primarily due to 27 fewer homes closed. Excluding impairment charges, the gross margin on housing revenue was $16 million or 13% compared with $19 million or 13% in 2007.

Land revenue was $13 million in 2008, compared to $12 million in 2007. The gross margin on land revenue was $3 million in 2008 compared with $2 million in 2007. Impairment and other charges totaled $36 million in 2008, compared with $47 million in 2007.

Other Income and Expenses

Equity in earnings from housing and land joint ventures in 2008 totaled $3 million, a decrease of $10 million when compared to 2007. This decrease was primarily a result of a decrease in earnings from our Windemere joint venture of $8 million. Impairments from housing and land joint ventures totaled $38 million in 2008 compared to $15 million in 2007. The impairment charges in 2008 related to 907 lots in Riverside.

Other expense in 2008 totaled $18 million, an increase of $12 million when compared to 2007. The components of the 2008 and 2007 other (expense) / income are summarized as follows:

($ millions)	**2008**	**2007**
Change in fair value of interest rate swap contracts	$ (19)	$ (8)
Interest income		1
Other	1	1
	$ (18)	$ (6)

Selling, general and administrative expense was $69 million in 2008, consistent with 2007. The components of the 2008 and 2007 expense are summarized as follows:

($ millions)	**2008**	**2007**
Selling, general and administrative expenses	$ (65)	$ (68)
Stock compensation	7	18
Changes in fair value of equity swap contract	(11)	(19)
	$ (69)	$ (69)

Sales Activity

Our net new orders for the year ended December 31, 2008 were 729 units, a decrease of 6 units compared to 2007. Based on our average of 33 active selling communities, our average sales rate during 2008 was approximately 0.4 sales per week per community, consistent with 2007 but below what may be considered a normal housing market of one sale per week per active selling community.

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

Net Income

Net income for the year ended December 31, 2007 was $16 million, a decrease of $132 million when compared to the year ended December 31, 2006. Our decrease in net income was due to continued challenging market conditions in all our markets which resulted in impairment charges and write-downs on our housing and land assets, a 28% decrease in home closings and a reduction in our gross margin to 17% from 26% in 2006.

Results of Operations

Company-wide: Housing revenue was $541 million in 2007, a decrease of $243 million when compared to 2006. The decrease in housing revenue was a result of fewer homes closed from projects owned directly to 825 units, a decrease of 334 units or 28% when compared to 2006 home closings. The gross margin on housing revenue in 2007 was $92 million or 17% compared with $206 million or 26% in 2006. The decrease in gross margin and gross margin percentage was due to fewer home closings, continued increases in homebuyer incentives and reduced prices and product mix.

Land revenue in 2007 totaled $42 million on the sale of 1,328 lots compared with $88 million in 2006 on the sale of 834 lots. Although the number of lots sold increased in 2007 when compared to 2006, 1,249 of the lots sold in 2007 were held under option, and as a result our revenue per lot decreased significantly. The gross margin on land revenue was $10 million, a decrease of $39 million when compared to 2006. The decrease in gross margin was primarily due to a decrease in owned lots sold to 79 lots compared to 834 owned lots sold in 2006. The decrease in owned lots sold was due to the continued slow housing market conditions. Our land revenues may vary significantly from period to period due to the timing and nature of land sales, as they generally occur on an opportunistic basis and additionally such revenues are affected by local market conditions.

In 2007, we recognized impairment and write-downs on our housing and land inventory of $88 million compared to $10 million in 2006. The impairment charges and write-downs related to 580 finished lots located in the Inland Empire of California; 1,045 finished or graded lots in the Washington D.C. Area; 1,185 optioned lots located in California; and 2,536 optioned lots located in the Washington D.C. Area.

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A summary of our gross margin is as follows:

($ millions)	**2007**	**2006**
Housing	$ 92	$ 206
Land	10	49
Impairment charges / write-downs	(88)	(10)
	$ 14	$ 245

Northern California: Housing revenue was $121 million in 2007, an increase of $15 million when compared to 2006. The increase in revenue was primarily due to an increase in homes closed. The gross margin on housing revenue was $17 million or 14% in 2007, compared with $20 million or 19% in 2006. Impairment and other charges totaled $5 million in 2007, compared with nil in 2006.

Southland / Los Angeles: Housing revenue was $176 million in 2007, a decrease of $60 million when compared to 2006. The decrease was due primarily to 68 fewer homes closed. Excluding impairment charges, the gross margin on housing revenue was $31 million or 18% compared with $55 million or 23% in 2006. The decrease in the gross margin percentage was a result of reduced selling prices, increases in homebuyer incentives and product mix.

Land revenue was $30 million in 2007, a decrease of $1 million when compared to 2006. The land revenue in 2007 comprised the sale of 1,249 lots held under option. The gross margin on 2007 land revenue was $8 million or 28% compared to $18 million or 58% in 2006. Impairment and other charges totaled $3 million in 2007, compared with $5 million in 2006.

San Diego / Riverside: Housing revenue was $89 million in 2007, a decrease of $84 million when compared to 2006. The decrease was primarily due to fewer homes closed. The gross margin on housing revenue was $23 million or 26% compared with $64 million or 37% in 2006. The decrease in the gross margin percentage was a result of reduced selling prices, increases in homebuyer incentives and product mix. Impairment and other charges totaled $33 million in 2007, compared with nil in 2006.

Washington D.C. Area: Housing revenue was $143 million in 2007, a decrease of $79 million when compared to 2006. The decrease was primarily due to fewer homes closed. The gross margin on housing revenue was $19 million or 13% compared with $55 million or 25% in 2006. The decrease in the gross margin percentage was a result of reduced selling prices, increases in homebuyer incentives and product mix. Land revenue was $12 million in 2007, consistent with 2006. Impairment and other charges totaled $47 million in 2007, compared with $5 million in 2006.

Other Income and Expenses

Equity in earnings from housing and land joint ventures in 2007 totaled $13 million, a decrease of $45 million when compared to 2006. This decrease was primarily a result of a decrease in earnings from our Windemere joint venture of $34 million. Impairments from housing and land joint ventures totaled $15 million in 2007 compared to nil in 2006. The impairment charges in 2007 related to 581 lots.

Other (expense) / income in 2007 totaled an expense of $6 million, a decrease of $15 million when compared to 2006. The components of the 2007 other (expense) / income compared to 2006 are summarized as follows:

($ millions)	**2007**	**2006**
Change in fair value of interest rate swap contracts	$ (8)	$
Interest income	1	4
Other	1	5
	$ (6)	$ 9

Sales Activity

Our net new orders for the year ended December 31, 2007 were 735 units, a decrease of 225 units compared to 2006. Based on our average of 33 active selling communities, our average sales rate during 2007 was approximately 0.4

sales per week per community, below the one sale per week, which has been considered a stable housing market.

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Liquidity and Capital Resources

Financial Position

Our assets as of December 31, 2008 totaled $1,207 million compared to $1,351 million as of December 31, 2007, a decrease of $144 million. The decrease in 2008 was due primarily to a decrease in housing and land inventory and a decrease in our cash and cash equivalents from $9 million in 2007 to nil in 2008. Our housing and land inventory and investments in housing and land joint ventures are our most significant assets with a combined book value of $1,055 million or approximately 87% of our total assets. Our housing and land assets decreased by a combined $180 million in 2008 when compared to 2007. When impairments and other write-downs of $153 million are excluded, the decrease was $27 million. A summary of our lots owned and their stage of development at December 31, 2008 compared with the same period last year follows:

	2008	2007
Completed homes, including models	265	477
Homes under construction	64	91
Homes with foundation / slabs	76	165
Total housing units	405	733
Lots ready for house construction	2,544	2,683
	2,949	3,416
Graded lots and lots commenced grading	900	1,552
Undeveloped land	9,235	8,110
	13,084	13,078

Our total debt as of December 31, 2008 was $749 million, an increase of $14 million over December 31, 2007. Total debt as of December 31, 2008 consisted primarily of project specific financings of $434 million, which represent construction and development loans which are used to fund the development of our communities. As new homes are constructed, further loan facilities are arranged. Our major project specific lenders are Bank of America, Housing Capital Corporation, Wells Fargo and Union Bank of California. As of December 31, 2008, the average interest rate on our project specific debt was 4.0%, with stated maturities as follows:

	Maturities			
($ millions)	**2009**	**2010**	**2011**	**Total**
Northern California	$ 53	$ 17	$	$ 70
Southland / Los Angeles	6	46	18	70
San Diego / Riverside	122	44		166
Washington D.C. Area	22	78	11	111
Other	8	9		17
Total	$ 211	$ 194	$ 29	$ 434

The debt maturing in 2009 and 2010 is a result of our expected project completions over this period. This project specific debt will be repaid from home and lot sale proceeds expected over this period. During 2008, we extended repayment terms and we will continue to work closely with our lenders. Additionally, we had project specific debt lines of $237 million that were available to complete land development and construction activities.

Other debt includes a promissory note of $315 million due to a subsidiary of our largest stockholder, Brookfield Asset Management Inc., which matures in September, 2009. As of December 31, 2008, we had $10 million available on our revolving credit facility with Brookfield Asset Management Inc. Subsequent to December 31, 2008, this facility was increased from $325 million to $350 million, and the maturity was extended to June 30, 2010.

During December 2008, we announced that we filed a registration statement with the Securities and Exchange Commission with respect to a $250 million proposed rights offering to our common stockholders. Should the rights offering be fully subscribed, we expect to receive gross proceeds of $250 million upon issuance of the shares of convertible preferred stock. The proceeds from the rights offering will be used for general corporate purposes, including repayment on the credit facility due to a subsidiary of our largest stockholder, Brookfield Asset Management Inc. Brookfield Asset Management Inc. has indicated its intention to exercise in full its subscription rights, and any over-subscription rights to which it may be entitled, but it has not entered into a binding agreement to do so. Holders of the convertible preferred stock we expect to issue in the rights offering will be entitled to receive, when, as and if declared by our board of directors, dividends per year at the per share rate of 8%, representing annual dividends of $20 million should the rights offering be fully subscribed. These dividends may be paid, at the election of our board of directors, in cash or shares of common stock. Please see Note 14 to our consolidated financial statements included elsewhere in this Form 10-K for additional information on the proposed rights offering.

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 exceed earnings reported for financial statement purposes, as cost of sales include charges for substantial amounts of previously expended costs.

We believe we currently have sufficient access to capital resources and will continue to use a significant amount of our available capital resources to fund our existing business plan. Our capital resources include cash flow from operations, borrowings under credit facilities, tax recoveries and proceeds from our currently proposed rights offering. While we do not anticipate that the equilibrium between the supply and demand for housing will be reached in 2009, we continue to work through the challenging market conditions and remain focused on proactively managing our balance sheet, placing a strong emphasis on liquidity. We are continuing to manage our inventory levels through the reductions of land purchases and homebuilding starts, while adjusting prices to deliver completed homes.

Cash provided in our operating activities totaled $66 million for the year ended December 31, 2008, compared with cash used of $44 million in 2007. The increase in cash generated was primarily from reduced housing inventories during the year. In addition, during 2008 we received $22 million in income tax recoveries and we expect to receive approximately $64 million in tax recoveries in 2009.

Cash used in our investing activities in joint ventures for the year ended December 31, 2008 was $32 million, compared with cash used of $58 million in 2007.

Cash used in our financing activities for the year ended December 31, 2008 was $43 million, compared with cash provided of $24 million in 2007. In 2008, we repaid a net amount of $272 million of project specific debt and made dividend payments of $5 million, offset by borrowings from the subsidiary of Brookfield Asset Management Inc. of $225 million.

Contractual Obligations and Other Commitments

A total of $405 million of our project specific and other financings matures prior to the end of 2010. The debt maturing in 2009 and 2010 is a result of our expected project completions over this period. Our net debt to total capitalization ratio as of December 31, 2008, 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 70%, an increase from 61% as of December 31, 2007. 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-owed 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. required us to maintain minimum stockholders equity of $300 million and a consolidated net debt to book capitalization ratio of no greater than 70%. During January 2009, this facility was increased to an aggregate principal amount not to exceed $350 million, the maturity was extended to June 30, 2010 and the covenants were amended on a temporary basis to June 30, 2009 to maintain minimum stockholders equity of $225 million and a consolidated net debt to book capitalization ratio of no greater than 80%.

A summary of our contractual obligations as of December 31, 2008 follows:

		Payment Due by Period			
($ millions)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Project specific and other revolving financings[(a)]	$ 749	$ 526	$ 223	$	$
Operating lease obligations[(b)]	7	3	3	1	
Purchase obligations[(c)]	281	23	60	198	
Total [(d)]	$ 1,037	$ 552	$ 286	$ 199	$

(a) Amounts are included on the Consolidated Balance Sheet. See Note 5 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 non-cancelable operating leases involving office space, design centers and model homes.

(c) See Note 2 to the Consolidated Financial Statements for additional information regarding purchase obligations and related matters, which include joint ventures.

(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, 2008, we had $59 million of primarily non-refundable option deposits and advanced costs. The total exercise price of these options was $281 million. Pursuant to FIN 46R, as defined elsewhere in this Form 10-K, we have consolidated $3 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 own 1,832 lots through our proportionate share of joint ventures. As of December 31, 2008, our investment in housing and land joint ventures totaled $105 million. We have provided varying levels of guarantees of debt in our joint ventures. As of December 31, 2008, we had recourse guarantees of $36 million and limited capital maintenance guarantees with respect to $23 million of debt in our joint ventures. During 2008, we did not have any loan re-margin requirements on our 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, 2008, we had $12 million in letters of credit outstanding and $148 million in performance bonds for these purposes. The costs to complete related to our letters of credit and performance bonds are $8 million and $73 million, respectively. We do not believe that any of these letters of credit or bonds are likely to be drawn upon.

Subsequent Event

During December 2008, we announced that we filed a registration statement with the Securities and Exchange Commission with respect to a proposed rights offering to our common stockholders of up to 10,000,000 shares of 8% convertible preferred stock. Each whole right will entitle the holder to purchase one share of convertible preferred stock for $25.00. Each share of preferred stock will be convertible into common stock, at an initial conversion rate of 3.571428571 shares (equivalent to a conversion price of $7.00 per share). Under the proposed rights offering, stockholders will receive 0.3735701 subscription rights for each share of common stock owned on the record date, subject to adjustment as contemplated by the terms of the rights offering. The record, commencement and expiry dates for the offering will be determined at the time that the registration statement relating to the rights offering becomes effective.

Should the rights offering be fully subscribed, we expect to receive gross proceeds of $250 million upon issuance of the shares of convertible preferred stock. The proceeds from the rights offering will be used for general corporate purposes, including repayment on the credit facility due to a subsidiary of our largest stockholder, Brookfield Asset Management Inc.

Stockholders who fully exercise their rights will be entitled to subscribe for additional shares of convertible preferred stock, if available, that were not subscribed for by other rights holders. Brookfield Asset Management Inc. has indicated its intention to exercise in full its subscription rights, and any over-subscription rights to which it may be entitled, but it has not entered into a binding agreement to do so.

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.

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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. In addition, when assessing fair value, we also calculate a static residual value analysis which is assessed in conjunction with the discounted cash flow analysis to validate results from the fair value assessment. 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, 2008, we recognized $97 million of impairment charges related to housing and land we directly own which is included in our direct cost of sales. The $97 million in impairment charges were related to 2,326 lots located primarily in the Inland Empire of California and Washington D.C. Area. In addition, we wrote-off $18 million, primarily related to unentitled lot option agreements on 819 lots that expired or which we are no longer pursuing and we recognized $38 million in impairment charges and write-downs on investments related to 907 lots in our joint ventures.

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.

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.

SFAS 109 requires a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In determining our need for a valuation allowance, we consider all available evidence, both positive and negative. We consider current and future expected losses or profits, the length of the statutory carry-forward periods, our history with operating loss and tax credit carry-forwards not expiring unused, and tax planning strategies. During 2008 and 2007, we incurred losses as a result of continued challenging market conditions. At December 31, 2008 and 2007, our deferred tax asset was $59 million and

$56 million, respectively. Based on our evaluation, a valuation allowance is not required as it is more likely than not that the deferred tax asset will be realized. We will continue to evaluate the need for a valuation allowance in the future.

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Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Effective January 1, 2008, we adopted SFAS 157. SFAS 157 specifies a hierarchy of valuation techniques that are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. The three levels of the hierarchy are as follows: level 1 inputs are derived from quoted prices for identical instruments in active markets; level 2 inputs are derived from quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable; and level 3 inputs which are derived from instruments with primarily unobservable value drivers.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 allows companies to choose to measure certain financial instruments and other items at fair value. Companies electing the fair value option are required to report subsequent changes in fair value in earnings. This Statement was effective for the fiscal year beginning January 1, 2008. We did not elect the fair value option for any of our financial assets or financial liabilities under SFAS 159 and the standard has had no impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 160, Non-controlling Interests in Consolidated Financial Statements. SFAS 160 clarifies the accounting for non-controlling interests and establishes accounting and reporting standards for the non-controlling interest in a subsidiary, including classification as a component of stockholders equity. This statement is effective for fiscal years beginning on or after December 15, 2008. We are currently reviewing the impact, if any, that SFAS 160 may have on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141R, Business Combinations, which replaces the previous version of SFAS 141. SFAS 141R provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interests in the acquiree as a result of business combinations. The revised standard also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008. We are currently reviewing the impact, if any, that SFAS 141R may have on our consolidated financial statements.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 ("SFAS 161). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand how and why an entity uses derivative instruments and the instruments effects on an entity s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. We are currently evaluating the impact that adopting SFAS 161 may have on our consolidated financial statements.

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles , which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the Security and Exchange Commission s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with GAAP. We do not expect the adoption of SFAS 162 to have a significant impact on our consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, Determining Whether Instruments Granted in Share-based Payment Transactions are Participating Securities ("FSP EITF 03-6-1), which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS) under the two-class method in accordance with FAS 128, Earnings Per Share. FSP EITF 03-6-1 is effective for fiscal years beginning after November 15, 2008 and earlier application is prohibited. We are currently evaluating the effect that FSP EITF 03-6-1 may have on our consolidated financial statements.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46R-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. The document increases disclosure requirements for public companies and is effective for reporting periods (interim and annual) that end after December 15, 2008. The purpose of this FSP is to promptly improve disclosures by public entities and enterprises until the pending amendments to SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and FASB Interpretation 46 (revised December 2003), Consolidation of Variable Interest Entities FIN 46R, are finalized and approved by the Board. The FSP amends SFAS 140 to require public entities to provide additional disclosures about transferors continuing involvements with transferred financial assets. It also amends FIN 46R to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. This pronouncement is related to disclosure only and will not have an impact on our consolidated financial position, results of operations or cash flows.

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**	
($ millions, except home closings and per share amounts)	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Total revenue	$ 150	$ 197	$ 110	$ 121	$ 120	$ 157	$ 69	$ 108
Gross margin / (loss)	(65)	(22)	(19)	(13)	(2)	28	4	21
Net (loss) / income	(70)	(24)	(25)	2	(9)	9	(12)	29
Diluted (loss)/earnings per share (1)	(2.58)	(0.91)	(0.95)	0.06	(0.33)	0.35	(0.47)	1.07
Home closings (units) (2)	230	272	184	179	216	237	120	151
Total assets	1,207	1,351	1,320	1,382	1,354	1,386	1,394	1,365
Total debt	749	735	783	691	792	655	798	643

(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.

(2) Includes joint ventures.

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, 2008, 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 most recently in January 2009. The facility bears interest at LIBOR plus 3.0%, and at December 31, 2008, there was $315 million outstanding under this facility. We entered into a management services agreement with an affiliate of Brookfield Asset Management Inc., effective February 2009. Pursuant to the agreement, we will pay directly to the Brookfield affiliate a quarterly service fee of $80,000 with respect to Craig Laurie s employment by us as our Chief Financial Officer. 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 2009 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2009.

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.

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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 $260 million of our variable rate debt at an average rate of 7.5%. Based on our net debt levels as of December 31, 2008, a 1% change up or down in interest rates would have either a negative or positive effect of approximately $5 million on our cash flows.

Our interest rate swaps are not designated as hedges under SFAS 133, Accounting for Derivative Instruments and Hedging Activities. We are exposed to market risk associated with changes in the fair values of the swaps, and such changes must be reflected in our consolidated statements of operations. As of December 31, 2008, the fair value of the interest rate swaps totaled a liability of $26 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, 2008 and 2007, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2008. 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 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, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, 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 Company s internal control over financial reporting as of December 31, 2008, 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 9, 2009 expressed an unqualified opinion on the Company s internal control over financial reporting.

Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
February 9, 2009

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

		As at December 31	
	Note	2008	2007
Assets			
Housing and land inventory	2	$ 946,875	$ 1,078,229
Investments in housing and land joint ventures	3	105,261	130,546
Consolidated land inventory not owned	2	3,328	26,748
Receivables and other assets	4	92,333	50,066
Cash and cash equivalents			9,132
Deferred income taxes	7	59,438	55,943
		$ 1,207,235	$ 1,350,664
Liabilities and Equity			
Project specific financings	5	$ 433,580	$ 644,572
Other revolving financings	5	314,977	90,000
Accounts payable and other liabilities	6	142,992	159,956
Minority interest	9	56,055	76,486
Commitments, contingent liabilities and other	12		
Preferred stock 10,000,000 shares authorized, no shares issued	10		
Common stock 65,000,000 authorized, 32,073,781 shares issued (December 31, 2007 32,073,781 shares issued)	10	321	321
Additional paid-in capital	10	141,286	145,101
Treasury stock, at cost 5,305,049 shares (December 31, 2007 5,410,368 shares)	10	(238,957)	(243,701)
Retained earnings		356,981	477,929
		$ 1,207,235	$ 1,350,664

See accompanying notes to financial statements

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BROOKFIELD HOMES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(all dollar amounts are in thousands of U.S. dollars, except per share amounts)

	Note	Years Ended December 31 2008	2007	2006
Revenue				
Housing		$ 415,311	$ 541,432	$ 784,162
Land		33,692	41,922	88,118
		449,003	583,354	872,280
Direct cost of sales				
Housing		(363,038)	(449,695)	(578,088)
Land		(53,057)	(31,568)	(38,382)
Impairment of housing and land inventory and write-off of option deposits	2	(115,124)	(87,630)	(10,388)
		(82,216)	14,461	245,422
Selling, general and administrative expense		(69,498)	(69,819)	(59,829)
Equity in earnings from housing and land joint ventures	3	3,302	12,745	58,284
Impairments of investments in housing and land joint ventures	3	(37,863)	(15,029)	
Other (expense) / income	12(e)	(17,823)	(5,717)	9,347
Operating (Loss) / Income		(204,098)	(63,359)	253,224
Minority interest		17,622	7,028	(18,378)
(Loss) / Income Before Taxes		(186,476)	(56,331)	234,846
Income tax recovery / (expense)	7	70,861	71,958	(86,492)
Net (Loss) / Income		$ (115,615)	$ 15,627	$ 148,354
Earnings Per Share				
Basic	11	$ (4.33)	$ 0.59	$ 5.52
Diluted	11	$ (4.33)	$ 0.58	$ 5.45
Weighted Average Common Shares Outstanding				
Basic	11	26,688	26,627	26,874
Diluted	11	26,688	26,851	27,243

See accompanying notes to financial statements

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

	Note	2008	2007	2006
		Years Ended December 31		
Common Stock		$ 321	$ 321	$ 321
Additional Paid-in Capital				
Opening balance	1	145,101	146,730	146,249
Stock option exercises	10	(3,815)	(1,629)	481
Ending balance		141,286	145,101	146,730
Treasury Stock				
Opening balance	1	(243,701)	(248,606)	(217,182)
Share repurchases	10			(37,922)
Stock option exercises	10	4,744	4,905	6,498
Ending balance		(238,957)	(243,701)	(248,606)
Retained Earnings				
Opening balance		477,929	472,961	335,261
Net (loss) / income		(115,615)	15,627	148,354
Dividends	10	(5,333)	(10,659)	(10,654)
Ending balance		356,981	477,929	472,961
Total stockholders equity		$ 259,631	$ 379,650	$ 371,406

See accompanying notes to financial statements

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

	Years Ended December 31		
	2008	**2007**	**2006**
Cash Flows From / (Used in) Operating Activities			
Net (loss) / income	$ (115,615)	$ 15,627	$ 148,354
Adjustments to reconcile net (loss) / income to net cash operating activities:			
Undistributed income from housing and land joint ventures	(1,902)	277	9,497
Minority interest	(17,622)	(7,028)	18,378
Deferred income taxes	(3,495)	(3,228)	(3,298)
Impairment of housing and land inventory and write-off of option deposits	115,124	87,630	10,388
Impairment of investments in housing and land joint ventures	37,863	15,029	
Other changes in operating assets and liabilities:			
(Increase) / decrease in receivables and other assets	(48,677)	(13,035)	57,050
Decrease / (increase) in housing and land inventory	132,269	10,272	(187,959)
Decrease in accounts payable and other liabilities	(31,539)	(149,820)	(26,274)
Net cash provided by / (used in) operating activities	66,406	(44,276)	26,136
Cash Flows From / (Used in) Investing Activities			
Investments in housing and land joint ventures	(28,344)	(77,102)	(72,403)
Distribution from housing and land joint ventures	3,046	19,146	25,841
Acquisition of additional interest in housing and land joint ventures	(6,844)		
Net cash used in investing activities	(32,142)	(57,956)	(46,562)
Cash Flows From / (Used in) Financing Activities			
Net repayments under revolving project specific financing	(271,719)	(41,820)	(48,501)
Net borrowings under other revolving financings	224,977	75,000	15,000
Distributions to minority interest	(580)	(5,675)	(14,627)
Contributions from minority interest	9,130	7,588	5,364
Exercise of stock options	129	121	164
Repurchase of common shares			(37,922)
Dividends paid in cash	(5,333)	(10,659)	(10,654)
Net cash (used in) / provided by financing activities	(43,396)	24,555	(91,176)
Decrease in cash and cash equivalents	(9,132)	(77,677)	(111,602)
Cash and cash equivalents at beginning of year	9,132	86,809	198,411
Cash and cash equivalents at end of year	$	$ 9,132	$ 86,809

Supplemental Cash Flow Information			
Interest paid	$ 57,754	$ 58,300	$ 58,873
Income taxes recovered / (paid)	22,299	(22,154)	(89,102)
Non-cash decrease / (increase) in consolidated land inventory not owned	18,463	18,744	(22,285)
Acquisitions of unconsolidated entities assets and liabilities			
Increase in housing and land inventory	$ 97,828	$ 104,050	
Reduction in investment in housing and land joint ventures	33,960	2,429	
Liabilities assumed	63,868	101,621	

See accompanying notes to consolidated financial statements

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BROOKFIELD HOMES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands of U.S. dollars except share and 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 land development and homebuilding 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 consolidated 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 interest entities 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 the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 144, Accounting for the Impairment or 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. Such projections assume current home selling prices, cost estimates and sales rates for short-term projects are consistent with recent sales activity. For longer-term projects, planned sales rates for 2009 and 2010 assume recent sales activity and normalized sales rates beyond 2010. If these assets are considered to be impaired, they are then written down to 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 the Company s 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 does not recognize earnings from the purchase of lots from its joint ventures and reduces its cost basis of the land purchased accordingly.

(d) *Use of Estimates*

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, 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 these estimates.

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

SFAS 109 requires a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In determining the Company s need for a valuation allowance, the Company considers all available evidence, both positive and negative. The Company considers current and future expected losses or profits, the length of the statutory carry-forward periods, the Company s history with operating loss and tax credit carry-forwards not expiring unused, and tax planning strategies. During 2008 and 2007, the Company incurred losses as a result of continued challenging market conditions. At December 31, 2008 and 2007, the Company s deferred tax asset was $59.4 million and $55.9 million, respectively. Based on the Company s evaluation, a valuation allowance is not required as it is more likely than not that the deferred tax asset will be realized. The Company will continue to evaluate the need for a valuation allowance in the future.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation 48 (FIN 48), Accounting for Uncertainty in Income Taxes. There was no impact to the Company s financial statements as a result of adopting FIN 48. FIN 48 requires that a company determine whether it is more-likely-than-not that a position will be sustained upon examination by taxation authorities, based upon the technical merits of the position. A tax position that meets the more-than-likely-not threshold is then measured to determine the amount of the tax benefit to recognize in the financial statements. At December 31, 2008 and 2007, the Company did not have any unrecognized tax benefits / liabilities.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits / liabilities in income tax recovery / expense.

(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 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 date 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. See Note 8 Stock-Based Compensation for further discussion.

(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, Earnings per Share. Basic earnings per share is calculated by dividing net income by the weighted 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.

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(j) *Advertising Costs*

The Company expenses advertising costs as incurred. For the years ended December 31, 2008, 2007 and 2006, the Company incurred advertising costs of $14.0 million, $11.9 million and $10.7 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 FASB issued revised FASB Interpretation 46 (Revised 2003) (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 entity or both is considered to be the primary beneficiary of the entity and is required to consolidate such entity. The Company has determined it is the primary beneficiary of certain VIEs which are presented in these financial statements under Consolidated land inventory not owned with the interests 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) *Derivative Financial Instruments and Hedging Activities*

The Company accounts for its derivative and hedging activities in accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133) and SFAS 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities ("SFAS 149). SFAS 133 and SFAS 149 require the Company to recognize all derivative instruments at their fair value as either assets or liabilities on its balance sheet. The accounting for changes in fair value (i.e. gains or losses) of a derivative instrument depends on whether the Company has designated it, and whether it qualifies, as part of a hedging relationship and on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. The Company had no fair value hedges or hedges of a net investment in foreign operations as of December 31, 2008 and as of December 31, 2007. For derivative instruments that are designated and qualify as a cash flow hedge (i.e. hedging the exposure to variability in expected future cash flows that are attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings (i.e. in "interest expense when the hedged transactions are interest cash flows associated with floating-rate debt). The remaining gain or loss on the derivative instrument in excess of the cumulative changes in the present value of future cash flows of the hedged item, if any, is recognized in the realized and unrealized gain (loss) on derivatives in current earnings during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in realized and unrealized gain (loss) on derivatives in the current earnings during the period of change. Income and/or expense from interest rate swaps are recognized as an adjustment to interest expense. The Company accounts for income and expense from interest rate swaps on an accrual basis over the period to which the payments and/or receipts relate.

(n) *Recent Accounting Pronouncements*

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Effective January 1, 2008, the Company adopted SFAS 157. SFAS 157

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specifies a hierarchy of valuation techniques that are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. The three levels of the hierarchy are as follows: level 1 inputs are derived from quoted prices for identical instruments in active markets; level 2 inputs are derived from quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable; and level 3 inputs which are derived from instruments with primarily unobservable value drivers. SFAS did not have an impact on the Company s consolidated balance sheets, statements of operations or statements of cash flows, but did result in certain additional disclosures. See Notes 2 and 12(e) and (f) for fair value disclosure.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 allows companies to choose to measure certain financial instruments and other items at fair value. Companies electing the fair value option are required to report subsequent changes in fair value in earnings. This Statement was effective for the Company s fiscal year beginning January 1, 2008. The Company did not elect the fair value option for any of its financial assets or financial liabilities under SFAS 159 and the standard has had no impact on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS 160, Non-controlling Interests in Consolidated Financial Statements. SFAS 160 clarifies the accounting for non-controlling interests and establishes accounting and reporting standards for the non-controlling interest in a subsidiary, including classification as a component of stockholders equity. This statement is effective for fiscal years beginning on or after December 15, 2008 (the Company s fiscal year beginning January 1, 2009). The Company is currently reviewing the impact, if any, that SFAS 160 may have on its consolidated financial statements.

In December 2007, the FASB issued SFAS 141R, Business Combinations, which replaces the previous version of SFAS 141. SFAS 141R provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interests in the acquiree as a result of business combinations. The revised standard also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008 (the Company s fiscal year beginning January 1, 2009). The Company is currently reviewing the impact, if any, that SFAS 141R may have on its consolidated financial statements.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement 133 ("SFAS 161). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand how and why an entity uses derivative instruments and the instruments effects on an entity s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. The Company is currently evaluating the impact that adopting SFAS 161 may have on its consolidated financial statements.

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles, which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the Security and Exchange Commission s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with GAAP. The Company does not expect the adoption of SFAS 162 to have a significant impact on the Company s consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, Determining Whether Instruments Granted in Share-based Payment Transactions Are Participating Securities ("FSP EITF 03-6-1), which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS) under the two-class method in accordance with SFAS 128, Earnings Per Share . FSP EITF 03-6-1 is effective for fiscal years beginning after November 15, 2008 and earlier application is prohibited. The Company is currently evaluating the effect that FSP EITF 03-6-1 may have on its consolidated financial statements.

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In December 2008, the FASB issued FSP SFAS 140-4 and FIN 46R-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. The document increases disclosure requirements for public companies and is effective for reporting periods (interim and annual) that end after December 15, 2008. The purpose of this FSP is to promptly improve disclosures by public entities and enterprises until the pending amendments to SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , and FIN 46R, Consolidation of Variable Interest Entities , are finalized and approved by the FASB. The FSP amends SFAS 140 to require public entities to provide additional disclosures about transferors continuing involvements with transferred financial assets. It also amends FIN 46R to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. This pronouncement is related to disclosure only and will not have an impact on the Company s consolidated financial position, results of operations or cash flows.

(o) *Reclassification*

Certain prior period amounts in the consolidated balance sheet have been reclassified to conform with the December 31, 2008 presentation. Specifically, other revolving financings, which had previously been shown as a component of project specific and other financings, are shown separately. This reclassification had no impact on the Company s results from operations.

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	
	2008	**2007**
Housing inventory	$ 440,394	$ 600,241
Model homes	54,165	58,042
Land and land under development	452,316	419,946
	$ 946,875	$ 1,078,229

The Company capitalizes interest which is expensed as housing units and building lots are sold. For the years ended December 31, 2008, 2007 and 2006, interest incurred and capitalized by the Company was $57.8 million, $58.3 million and $58.9 million, respectively. Capitalized interest expensed as direct cost of sales for the same periods was $29.1 million, $34.3 million and $24.7 million, respectively.

For the year ended December 31, 2008, the continued challenging housing market conditions resulted in a reduction of average selling prices along with an increase in sales incentives and additionally, the Company recognized $97.4 million of impairment charges related to housing and land inventory the Company directly owns (2007 $66.4 million). The $97.4 million in impairment charges is related to 2,326 lots primarily located in San Diego / Riverside and the Washington D.C. Area. In addition, the Company wrote-off $17.7 million (2007 $21.2 million) primarily related to unentitled lot option agreements on 819 lots that had expired or which the Company is no longer pursuing. The table below sets forth information regarding the Company s fair value measurement method and values basis used to determine fair value for the housing and land inventory impaired during the year:

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)

Estimated fair value of housing and land inventory impaired during the year	$ 310,098

In accordance with the provisions of SFAS 144 and SFAS 157, housing and land inventory with a carrying amount of $407.5 million was written down to its fair value of $310.1 million resulting in an impairment charge of $97.4 million, which was included in earnings for the year ended December 31, 2008 (December 31, 2007 $66.4 million).

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The fair value measurements for housing and land inventory were determined by comparing the carrying amount of an asset to cash flows expected to be generated by the asset. To arrive at the estimated fair value of housing and land inventory impaired during the third quarter, the Company estimated 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. Such projections generally assume current home selling prices, cost estimates and sales rates for short-term projects are consistent with recent sales activity. For longer-term projects, planned sales rates for 2009 and 2010 assume recent sales activity and normalized sales rates beyond 2010. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired. If the assets are considered to be impaired, they are then written down to fair value less estimated selling costs.

In December 2008, the Company sold 451 lots for cash proceeds of $18.5 million to an entity that is considered by the Company s largest stockholder to be a variable interest entity and is consolidated by its largest stockholder. The Company believes that the transaction was on terms no less favorable than it would have agreed to with another party.

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. Under these option agreements, the Company will advance 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 with an aggregate exercise price of $3.3 million (December 31, 2007 204 lots with an aggregate exercise price of $26.7 million) and 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 $3.3 million (2007 $21.8 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 $59.3 million (2007 $55.6 million) in connection with options that are not required to be consolidated under the provisions of FIN 46R. The total exercise price of these options is $277.8 million (December 31, 2007 $409.4 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 those held through joint ventures, and their respective dates of expiry and their exercise price follows:

Year of Expiry	Number of Lots		Total Exercise Price
2009	56	$	22,876
2010	1,667		16,677
2011	555		20,942
Thereafter	6,760		217,284
	9,038	$	277,779

During the year ended December 31, 2008, the Company wrote-off $17.7 million (December 31, 2007 $21.2 million) primarily related to unentitled lot option agreements on 819 lots which the Company is no longer pursuing.

Investments in housing and land joint ventures includes $23.9 million of the Company s share of non-refundable deposits and other entitlement costs in connection with 1,987 lots under option. The Company s share of the total exercise price of these options is $93.2 million.

The Company holds agreements for a further 5,096 acres of land with non-refundable deposits and other entitlement costs of $12.6 million which is included in housing and land inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of $72.0 million. However, given that the Company is in the initial 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.

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In the ordinary course of business, the Company selectively acquires land that it anticipates will provide a minimum return on invested capital. In the first quarter of 2008, the Company acquired its former partner s 50% interest in one of its joint ventures for cash consideration of $5.4 million and assumed project specific and other financings of $9.0 million. As a result, the Company now owns 100% of this venture and, as of January 15, 2008, it is included in the Company s consolidated financial statements. This acquisition resulted in an increase to the Company s housing and land inventory of $29.2 million, an increase to project specific and other financings of $18.0 million and a decrease in investments in housing and land joint ventures of $11.2 million. In the second quarter of 2008, the Company acquired its former partner s 50% interest in another joint venture for cash consideration of $1.4 million and assumed project specific and other financings of $21.3 million. As a result, the Company now owns 100% of this venture and, as of April 11, 2008, it is included in the Company s consolidated financial statements. This acquisition resulted in an increase to the Company s housing and land inventory of $68.6 million, an increase to project specific and other financings of $42.7 million, an increase to accounts payable and other liabilities of $3.2 million, and a decrease in investments in housing and land joint ventures of $22.7 million. The Company s purchase price allocations for the acquisitions were based on estimated fair values.

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 2008	December 31 2007
Assets		
Housing and land inventory	$ 310,026	$ 476,250
Other assets	9,242	11,526
	$ 319,268	$ 487,776
Liabilities and Equity		
Project specific financings	$ 62,583	$ 193,259
Accounts payable and other liabilities	15,840	26,497
Investment and advances		
Brookfield Homes	105,261	130,546
Others	135,584	137,474
	$ 319,268	$ 487,776
Revenue and Expenses		
Revenue	$ 21,547	$ 87,327
Expenses	(18,129)	(98,289)
Net income / (loss)	$ 3,418	$ (10,962)
Company s share of net income / (loss)	$ 3,302	$ 12,745
Impairment of investments in housing and land joint ventures	$ (37,863)	$ (15,029)

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.

During 2008, in accordance with Accounting Principles Board Opinion No. 18 (APB 18), The Equity Method of Accounting for Investments in Common Stock, the Company recognized impairment charges of $19.9 million related to a joint venture as a result of continued deterioration in this project which resulted in the carrying value of the Company s investment in this joint venture exceeding the estimated fair value. Additionally, the joint venture has received notice from its lender that it is in default on its $71.6 million loan. The Company has provided the lender a several guarantee for fifty percent of the amount outstanding. The lender is currently proceeding to foreclose on the property and the Company has accrued $18.0 million as its best estimate related to its $35.8 million several guarantees which is included in accounts payable and other liabilities. The $18.0 million expense is included in impairments of investments in housing and land joint ventures.

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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 and/or its joint venture partners have provided varying levels of guarantees of debt in its joint ventures. At December 31, 2008, the Company had recourse guarantees of $35.8 million (2007 $8.5 million) and limited maintenance guarantees of $22.6 million (December 31, 2007 $76.1 million) with respect to debt in its joint ventures.

Note 4. Receivables and Other Assets

The components of receivables and other assets included in the Company s balance sheet are summarized as follows:

	December 31	
	2008	**2007**
Taxes receivable	$ 64,292	$ 18,433
Proceeds and escrow receivables	3,731	6,935
Refundable deposits	7,560	11,312
Mortgages and notes receivable	3,264	22
Prepaid expenses	4,649	2,349
Miscellaneous receivables	4,967	7,063
Other assets	3,870	3,952
	$ 92,333	$ 50,066

Note 5. Project Specific Financings and Other Revolving Financings

Project specific financings of $433.6 million (2007 $644.6 million) are revolving in nature, bear interest at floating rates with a weighted average rate of 4.0 % as at December 31, 2008 (December 31, 2007 7.0%) 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. During the year ended December 31, 2008, the remaining 50% interests in two joint ventures were acquired on which $60.7 million of debt was assumed and remains outstanding at December 31, 2008.

Project specific financings also includes $3.1 million (December 31, 2007 nil) of mortgage loans with an average interest rate of 7.5%. See note 12(h) for further discussion.

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, 2008, 2007 and 2006 was $644.6 million, $644.6 million, and $607.5 million, respectively. The average borrowings during 2008, 2007 and 2006 were $546.9 million, $610.6 million, and $601.1 million, respectively.

Project specific financings mature as follows: 2009 $210.9 million; 2010 $193.8 million; and 2011 $28.9 million.

Other revolving financings of $315.0 million (December 31, 2007 $90.0 million) consist of amounts drawn on an unsecured revolving credit facility due to a subsidiary of the Company s largest stockholder, Brookfield Asset Management Inc., that bears interest at LIBOR plus 3.0% per annum and which at December 31, 2008 matured in September 2009. This facility was increased in December 2008 to an aggregate principal amount not to exceed $325.0 million. During the years ended December 31, 2008 and 2007, interest of $13.7 million and $5.0 million was incurred related to this facility. At December 31, 2008, this facility required the Company to maintain minimum stockholders equity of $300 million and a consolidated net debt to book capitalization of no greater than 70%. During January 2009, this facility was increased to an aggregate principal amount not to exceed $350.0 million, the maturity was extended to June 2010 and the covenants were amended on a temporary basis to June 2009 to maintain minimum stockholders equity of $225.0 million and a consolidated net debt to book capitalization of no greater than 80%. Based on the amended covenants, the Company is in compliance with all its covenants.

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Note 6. 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	
	2008	**2007**
Trade payables and cost to complete accruals	$ 41,247	$ 46,017
Warranty costs (Note 12(c))	13,123	17,844
Customer deposits	1,347	2,495
Stock-based compensation	5,328	13,164
Due to minority interest	16,469	23,573
Accrued and deferred compensation	15,454	46,304
Swap contracts (Note 12 (e) and (f))	25,809	6,523
Guarantee of joint venture debt (Note 3)	18,000	
Other	6,215	4,036
	$ 142,992	$ 159,956

Note 7. 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	
	2008	**2007**
Differences relating to properties	$ 38,761	$ 32,927
Compensation deductible for tax purposes when paid	6,055	20,434
Other	14,622	2,582
	$ 59,438	$ 55,943

The Company recognizes interest and penalties accrued related to unrecognized tax benefits / obligations in income tax recovery / expense.

The Company has computed the tax provisions for the periods presented based upon accounting income, adjusted for expenses that are not deductible for tax purposes. The provision for income taxes for each of the three years ended December 31, 2008, 2007 and 2006 are as follows:

		December 31	
	2008	**2007**	**2006**
Current	$ (67,366)	$ (68,730)	$ 89,790
Deferred	(3,495)	(3,228)	(3,298)
Income tax (recovery) / expense	$ (70,861)	$ (71,958)	$ 86,492

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

	December 31		
	2008	2007	2006
Statutory federal rate	35.0%	35.0%	35.0%
State income tax	3.0%	1.0%	4.0%
Uncertain tax liability reversals		91.4%	
Other		0.3%	(2.2)%
Effective rate	38.0%	127.7%	36.8%

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Note 8. 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 is authorized for issuance under the plan. Upon exercise of a vested option, participants 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.

Total compensation recognized in income related to the Company s stock options during the years ended December 31, 2008, 2007 and 2006 was income of $1.5 million, $5.7 million and $0.2 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 simplified method.

The significant weighted average assumptions relating to the valuation of the Company s stock options for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Dividend yield	0.0%	0.0% 2.53%
Volatility rate	72%	57%
Risk-free interest rate	0.0% 2.3%	3.1% 3.6%
Expected option life (years)	0 6.5	0 7.0

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, 2008			December 31, 2007			December 31, 2006		
	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	782,319	$	30.11	678,051	$	21.02	678,576	$	10.52
Granted	210,000	$	15.90	260,000	$	36.41	140,000	$	52.00
Exercised	(117,319)	$	1.28	(155,732)	$	1.06	(140,525)	$	1.17
Cancelled									
Outstanding, end of year	875,000	$	30.57	782,319	$	30.11	678,051	$	21.02

Options exercisable at year end	304,400	$ 30.39	256,919	$ 18.15	191,326	$ 9.81

The weighted average grant date fair value of options granted during 2008 was $6.65 per option compared to $12.17 per option in 2007. The intrinsic value of options exercised during 2008 and 2007 was $1.0 million and $4.5 million, respectively. Shares were issued out of treasury stock for options exercised during the year except those where the cash feature was utilized. At December 31, 2008, the aggregate intrinsic value of options currently exercisable is $0.1 million and the aggregate intrinsic value of options outstanding is $0.1 million.

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At December 31, 2008, there was $0.2 million of unrecognized compensation expense related to unvested options, which is expected to be recognized over a weighted average period of approximately 2.6 years.

The following table summarizes information about stock options held by employees of the Company outstanding at December 31, 2008:

Exercise Prices Per Share	Options Outstanding at December 31, 2008	Weighted Average Remaining Contract Life	Options Exercisable at December 31, 2008
$1.74	46,000	4.2 years	46,000
$21.94	95,000	5.2 years	76,000
$36.25	124,000	6.2 years	74,400
$52.00	140,000	7.2 years	56,000
$36.41	260,000	8.2 years	52,000
$15.90	210,000	9.2 years	
	875,000	7.5 years	304,400

Deferred Share Unit Plans

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. The deferred share unit plan was amended in February 2008 to permit the Compensation Committee to award deferred share units to our executives in order to further align the recipients interests with those of our stockholders. 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 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.

In addition, the Company has adopted a Senior Operating Management Deferred Share Unit Plan (MDSUP) under which certain senior operating management employees receive a portion of their annual compensation in the form of deferred share units.

The DSUP and the MDSUP provide 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, 2008, the Company had granted 925,999 units under the DSUP of which 793,882 were outstanding at December 31, 2008, and of which 728,546 units are vested and 65,336 units vest over the next five years. As of December 31, 2008, the Company had granted 73,375 units under the MDSUP, all of which were outstanding at December 31, 2008. Total compensation recognized in income in connection with the DSUP and MDSUP for the years ended December 31, 2008, 2007 and 2006 were income of $5.6

million, $12.4 million and $4.1 million, respectively. Compensation recognized in income will fluctuate based on the year end share price.

Note 9. Minority Interest

Minority interest represents the equity in consolidated subsidiaries that is owned by others. Total minority interest as at December 31, 2008 of $56.1 million (2007 $76.5 million) consisted of the following:

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(a) Ownership interests of certain business unit presidents of the Company totaling $49.9 million (December 31, 2007 $52.9 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 estimated bulk sales value of the business unit net assets.
(b) Third party investments of consolidated variable interest entities of $3.3 million (December 31, 2007 $21.8 million) and of consolidated joint ventures of $2.9 million (2007 $1.8 million).
(c) Included in accounts payable and other liabilities are amounts placed on deposit with the Company by holders of minority interest of $16.5 million (2007 $23.6 million) (see Note 6).

Note 10. 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 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, 2008 was $48.8 million. During the years ended December 31, 2008 and 2007, the Company did not repurchase any shares.
(c) *Dividends* During the year, the Company s Board of Directors paid a cash dividend of $0.20 per common share in June.
(d) *Exercise of Stock Options* During the year ended December 31, 2008, certain officers exercised options to purchase a total of 105,319 shares of the Company s common stock at an average price of $1.22 per share. An additional 12,000 options were exercised using the cash feature. During the year ended December 31, 2007, certain officers exercised options to purchase a total of 108,907 shares of the common stock at an average price of $1.00 per share. An additional 46,825 options were exercised using the cash feature.

Note 11. Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2008, 2007 and 2006 were calculated as follows (in thousands except per share amounts):

	Years Ended December 31		
	2008	**2007**	**2006**
Numerator:			
Net (loss) / income	$ (115,615)	$ 15,627	$ 148,354
Denominator:			
Basic average shares outstanding	26,688	26,627	26,874
Net effect of stock options assumed to be exercised		224	369
Diluted average shares outstanding	26,688	26,851	27,243
Basic (loss) / earnings per share	$ (4.33)	$ 0.59	$ 5.52
Diluted (loss) / earnings per share	$ (4.33)	$ 0.58	$ 5.45

At December 31, 2008, outstanding options to purchase 0.9 million shares were considered anti-dilutive and were excluded from the computation of diluted earnings per share (December 31, 2007 0.6 million).

Note 12. 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, 2008, amounted to $148.3 million (December 31, 2007 $211.9 million, 2006

$248.7 million) and $11.6 million (December 31, 2007 $19.3 million, 2006 $22.8 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.

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(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) 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 10 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, 2008, 2007 and 2006:

	2008	2007	2006
Balance, at beginning of year	$ 17,844	$ 19,569	$ 17,743
Payments and other adjustments made during the year	(7,872)	(6,682)	(4,689)
Warranties issued during the year	3,151	4,957	6,515
Balance, at end of year	$ 13,123	$ 17,844	$ 19,569

(d) The Company leases certain facilities under non-cancelable operating leases. Rental expense incurred by the Company amounted to $3.6 million for 2008 (December 31, 2007 $4.5 million). At December 31, 2008, future minimum rent payments under these operating leases were as follows:

	Lease Payments
2009	$ 2,803
2010	$ 1,429
2011	$ 1,030
2012	$ 861
Thereafter	$ 414

(e) 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 carrying value. The Company would be negatively impacted, on balance, if interest rates were to increase. From time to time, the Company enters into interest rate swap contracts. As at December 31, 2008, the Company had seven interest rate swap contracts outstanding which effectively fixed $260.0 million of the Company s variable rate debt at an average rate of 7.5%. The contracts expire between 2009 and 2017. At December 31, 2008, the fair market value of the contracts was a liability of $25.6 million (2007 liability of $6.2 million) and was included in accounts payable and other liabilities. Expense of $19.4 million was recognized during the year ended December 31, 2008 (2007 expense of $8.5 million) and was included in other (expense) / income. All interest rate swaps are recorded at fair market value in the statements of operations because hedge accounting has not been applied.

	Fair Value Measurement Using Significant Observable Inputs (Level 2)

Interest rate swap contracts at December 31, 2008	$	(25,648)

(f) In July 2007, the Company s equity swap transaction was amended to mature during July 2008 at an average cost per share of $28.41, and effectively fixed the stock compensation liability on 1,003,302 shares. This agreement, as subsequently amended, matured with a notional equity swap amount at an average cost of $12.63 per share on 1,022,987 shares. During July 2008, a new equity swap transaction was entered into at an average cost of $12.31 per share on 1,022,987 shares which mature during July 2009. During December 2008, the notional amount of the equity swap was amended to an average cost of $4.29 per share. At December 31, 2008 and 2007, the fair market value of the equity swap was a liability of $0.2 million and $0.3 million, respectively and was included in accounts

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payable and other liabilities. An expense of $11.3 million and expense of $19.2 million was recognized during the years ended December 31, 2008 and 2007, respectively, and was included in selling, general and administrative expense. The equity swap is recorded at fair market value in the statements of operations because hedge accounting has not been applied.

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)
Equity swap contract at December 31, 2008	$ (161)

(h) The Company offers mortgage brokerage services exclusively to its customers in each of its markets. The Company has agreements with various lenders to receive a fee on loans made by the lenders to customers that the Company introduces to the lenders. The Company provides mortgage origination services to its customers in the Washington D.C. Area and does not retain or service the mortgages it originates. The Company customarily sells all of the loans and loan servicing rights that it originates in the secondary market within a month of origination and on a limited recourse basis, generally limited to early payments, defaults, or fraud and misrepresentation.

Note 13. 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 Company is a land developer and residential homebuilder. 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		
	2008	2007	2006
Revenues			
Northern California	$ 128,878	$ 120,684	$ 114,775
Southland / Los Angeles	93,828	205,990	267,515
San Diego / Riverside	86,745	89,556	208,519
Washington D.C. Area	135,416	155,489	234,261
Corporate and other	4,136	11,635	47,210
Total revenues	$ 449,003	$ 583,354	$ 872,280

	Years ended December 31		
	2008	2007	2006
Segment Operating (Loss) / Income			
Northern California	$ (29,213)	$ 249	$ 57,496
Southland / Los Angeles	(18,923)	12,475	51,975
San Diego / Riverside	(87,571)	(16,823)	85,646

Washington D.C. Area	(33,147)	(40,471)	38,214
Corporate and other	(35,244)	(18,789)	19,893
Total operating (loss) / income	(204,098)	(63,359)	253,224
Minority Interest	17,622	7,028	(18,378)
(Loss) / income before taxes	$ (186,476)	$ (56,331)	$ 234,846

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	December 31	
	2008	**2007**
Housing and Land Assets[(1)]		
Northern California	$ 240,469	$ 310,946
Southland / Los Angeles	143,526	198,483
San Diego / Riverside	366,467	387,575
Washington D.C. Area	246,805	287,994
Corporate and Other	58,197	50,525
Total	$ 1,055,464	$ 1,235,523

(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		
	2008	**2007**	**2006**
Impairments and Write-offs of Option Deposits			
Northern California	$ 21,172	$ 4,700	$
Southland / Los Angeles	15,695	3,300	4,970
San Diego / Riverside	42,498	32,982	
Washington D.C. Area	35,759	46,648	5,418
Corporate and Other			
	$ 115,124	$ 87,630	$ 10,388
Equity in (Loss) / Earnings from Housing and Land Joint Ventures			
Northern California	$	$ 7,675	$ 42,629
Southland / Los Angeles			(552)
San Diego / Riverside	1,974	3,832	12,853
Washington D.C. Area	14	302	3,354
Corporate and Other	1,314	936	
	$ 3,302	$ 12,745	$ 58,284
Impairments of Investments in Housing and Land Joint Ventures			

Northern California	$	$ (7,894)	$
Southland / Los Angeles		(7,135)	
San Diego / Riverside	(37,863)		
Washington D.C. Area			
Corporate and Other			
	$ (37,863)	$ (15,029)	$

	December 31	
	2008	**2007**
Investments in Housing and Land Joint Ventures		
Northern California	$	$
Southland / Los Angeles	46,604	32,541
San Diego / Riverside	1,942	50,165
Washington D.C. Area	42,838	41,777
Corporate and Other	13,877	6,063
Total	$ 105,261	$ 130,546

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, 2008, 2007 and 2006. All of the Company s assets are in the United States.

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Note 14. Subsequent Event

During December 2008, the Company announced that it filed a registration statement with the Securities and Exchange Commission with respect to a proposed rights offering to its common stockholders of up to 10,000,000 shares of 8% convertible preferred stock. Each whole right will entitle the holder to purchase one share of convertible preferred stock for $25.00. Each share of preferred stock will be convertible into common stock, at an initial conversion rate of 3.571428571 shares of common stock (equivalent to a conversion price of $7.00 per share of common stock). Under the proposed rights offering, stockholders will receive 0.3735701 subscription rights for each share of common stock owned on the record date, subject to adjustment as contemplated by the terms of the rights offering. The record, commencement and expiry dates for the offering will be determined at the time that the registration statement relating to the rights offering becomes effective.

Should the rights offering be fully subscribed, the Company expects to receive gross proceeds of $250.0 million upon issuance of the shares of convertible preferred stock. The proceeds from the rights offering will be used for general corporate purposes, including repayment on the credit facility due to a subsidiary of the Company s largest stockholder, Brookfield Asset Management Inc.

Stockholders who fully exercise their rights will be entitled to subscribe for additional shares of convertible preferred stock, if available, that were not subscribed for by other rights holders. Brookfield Asset Management Inc. has indicated its intention to exercise in full its subscription rights, and any over-subscription rights to which it may be entitled, but it has not entered into a binding agreement to do so.

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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, 2008, 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, 2008, 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, 2008, 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, 2008. 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.

The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by Deloitte & Touche, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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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 internal control over financial reporting of Brookfield Homes Corporation and subsidiaries (the Company) as of December 31, 2008, based on the 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, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, 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 the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated February 9, 2009 expressed an unqualified opinion on those financial statements.

Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
February 9, 2009

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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 2009 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2009 (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	61	President and Chief Executive Officer
Craig J. Laurie	37	Executive Vice President and Chief Financial Officer
William B. Seith	59	Executive Vice President, Risk Management
Significant Employees:		
Stephen P. Doyle	51	President, Brookfield Homes San Diego Holdings LLC
Adrian Foley	46	President, Brookfield Homes Southland Holdings LLC
Robert Hubbell	51	President, Brookfield Washington LLC
John J. Ryan	49	President, Brookfield Homes Bay Area Holdings LLC
Richard T. Whitney	45	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.

Craig Laurie was appointed Executive Vice President and Chief Financial Officer in October 2008. Mr. Laurie has served as Chief Financial Officer of Crystal River from April 2007 and from June 2003 to March 2007 served as the Chief Financial Officer of Brookfield Properties Corporation, and has held various other positions with Brookfield Asset Management Inc. and associated companies. Mr. Laurie joined Brookfield Asset Management Inc. in 1997 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 29 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 21 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 Building from the University of Greenwich, London.

Robert Hubbell was appointed President of our Washington D.C. Area business unit in 1998. Mr. Hubbell has 25 years of experience in the real estate industry and has been with Brookfield for 18 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 25 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 2009 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2009 (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 2009 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2009 (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 2009 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2009 (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 2009 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2009 (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 31.

(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.

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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 13th day of February, 2009.

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/ ROBERT L. STELZL		
Robert L. Stelzl	Chairman of the Board	February 13, 2009
/s/ IAN G. COCKWELL		
Ian G. Cockwell	President and Chief Executive Officer and Director (Principal Executive Officer)	February 13, 2009
/s/ CRAIG J. LAURIE		
Craig J. Laurie	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 13, 2009
/s/ ROBERT A. FERCHAT		
Robert A. Ferchat	Director	February 13, 2009
/s/ J. BRUCE FLATT		
J. Bruce Flatt	Director	February 13, 2009
/s/ BRUCE T. LEHMAN		
Bruce T. Lehman	Director	February 13, 2009
/s/ ALAN NORRIS		

Alan Norris	Director	February 13, 2009
/s/ TIMOTHY R. PRICE		
Timothy R. Price	Director	February 13, 2009
/s/ DAVID M. SHERMAN		
David M. Sherman	Director	February 13, 2009
/s/ MICHAEL D. YOUNG		
Michael D. Young	Director	February 13, 2009

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 March 5, 2007 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	Amendment to Revolving Credit Facility dated October 11, 2007 Incorporated by reference to Exhibit 99.1 of the Registrant s Current Report on Form 8-K filed with the Commission on October 17, 2007.
4.6	Amendment to Revolving Credit Facility dated February 7, 2008 Incorporated by reference to Exhibit 99.1 of the Registrant s Current Report on Form 8-K filed with the Commission on February 7, 2008.
4.7	Amendment to Revolving Credit Facility dated July 23, 2008 Incorporated by reference to Exhibit 99.1 of the Registrant s Current Report on Form 8-K filed with the Commission on July 25, 2008.
4.8	Amendment to Revolving Credit Facility dated October 8, 2008 Incorporated by reference to Exhibit 99.1 of the Registrant s Current Report on Form 8-K filed with the Commission on October 10, 2008.
4.9	Amendment to Revolving Credit Facility dated December 17, 2008 Incorporated by reference to Exhibit 99.1 of the Registrant s Current Report on Form 8-K filed with the Commission on December 19, 2008.
4.10	Amendment to Revolving Credit Facility dated January 27, 2009 Incorporated by reference to Exhibit 99.1 of the Registrant s Current Report on Form 8-K filed with the Commission on February 2, 2009.
4.11*	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.
10.4	Deferred Share Unit Plan 2008 Incorporated by reference to Exhibit 10.4 of the Registrant s Annual Report on Form 10-K/A filed with the Commission on March 12, 2008.
10.5*	Departure Agreement.

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Exhibit	Description
10.6	Management Services Agreement Incorporated by reference to Exhibit 10.1 of the Registrant s Current Report on Form 8-K filed with the Commission on February 6, 2009.
10.7	2009 Stock Option Plan Award Letter Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the Commission on February 6, 2009.
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 Craig Laurie, 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 made available to our stockholders. We will furnish a copy of any of such exhibits to any stockholder requesting the same.