Bridgemarq Real Estate Services Inc.

2023 Fourth Quarter Results Conference Call

March 28, 2024 — 10:00 a.m. E.T.

Length: 24 minutes

CORPORATE PARTICIPANTS

Phil Soper
Bridgemarq Real Estate Services Inc. — President & Chief Executive Officer

Glen McMillan
Bridgemarq Real Estate Services Inc. — Chief Financial Officer

PRESENTATION

Operator

Good morning. My name is Joanna and I would like to welcome everyone to the Bridgemarq Real Estate Services Inc. 2023 Fourth Quarter Results Conference Call. This call is being recorded. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. For those of you who dialed into the conference call, if you would like to ask a question, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, press star two. For those of you joining us via webcast, if you would like to ask a question simply type it into the Q&A box on your screen. We will answer these questions in sequence following the dial-in questions after the presentation.

I would now like to introduce Mr. Phil Soper, President and CEO of Bridgemarq Real Estate Services Inc. Mr. Soper, you may begin your conference call.

Phil Soper — President & Chief Executive Officer, Bridgemarq Real Estate Services Inc.

Thank you very much and good morning, everybody. With me today is our Chief Financial Officer, Glen McMillan. We appreciate you joining us to hear about the updates to the Canadian real estate market and our Company.

I will begin with a brief overview of the Company's fourth quarter and annual results and just some high-level notes about the market. Glen will then discuss our financial results in more detail and I'll conclude by providing some more detailed insight into operational highlights and market developments.

In today's call, we'll also provide an update on the recent brokerage acquisitions and the internalization of the Company's manager as well as the class action settlement by the National Association of Realtors in the United States and what that might mean for the Canadian real estate industry. Following our remarks, Glen and I would be happy to take your questions.

I want to remind you that some of the remarks expressed during this call may contain forward-looking statements. You should not place reliance on these forward-looking statements because they involve known and unknown risks and uncertainties that may cause the actual results and the performance of the Company to differ materially from the anticipated future results expressed or implied by such forward-looking statements. As always, I encourage everyone to review the cautionary language found in our news releases and on all of our regulatory filings, which can be found both on our website and on SEDAR+.

Canada's housing market closed out 2023 with continued weakened activity and prices trending modestly downward. The increased cost of living during that year and higher borrowing costs contributed to weaker buyer demand overall, particularly among first-time homebuyers. Weak demand led to a decline in real estate sales volumes and then to softer prices, both compared to the record highs experience during the pandemic real estate boom and the ten-year moving average.

Based on data from our field offices and real estate board reporting across the country, prices appear to have reached their floor in most real estate markets across Canada. Sidelined buyers appear to have been waiting for either a drop in the bank rate or a rise in home prices. While the Bank of Canada has not yet indicated when we should expect a rate cut, we are seeing that both activity and home prices are beginning to pick up materially. The trends we are observing indicate an upswing in the market is imminent. As an aside, the pattern that is emerging closely matches the year beginning forecast produced a few months back by our Royal LePage business.

Despite the 2023 market contraction, we are pleased with our performance over the last year and the Company's ability to weather these challenging market cycles as we have weathered market cycles over the life of this business. Revenue for 2023 was $48.5 million compared to $49.9 million in 2022, a 3% decrease. This is due to our largely fixed-fee revenue, which provides investors with exposure to the Canadian real estate market while also mitigating the impact of market volatility on revenues and cash flows. So, while the industry overall contracted by 14% year over year in 2023, our business contracted by only 3%. Glen will provide additional colour on this.

The Board of Directors previously approved a dividend payable on April 30th of $0.1125 per share to shareholders of record on March 28th. This indicates an annualized dividend of $1.35 per share.

Revenue for 2023 was $48.5 million, which is a slight decrease from the $49.9 million recorded in 2022. During the fourth quarter, revenues were $10.8 million, up from the $10.4 million recorded in the same period of 2022. At the end of 2023, the Company's network of realtors sat at 20,529, a decrease of 157 agents, which is less 1% compared to the previous year.

In 2023 the Company recorded net earnings of $4 million compared to $21 million in 2022. This is the result of a $1.1 million loss on the value of exchangeable units issued by the Company compared to the $11.5 million gain in the previous year. The fair valuation adjustment on the exchangeable units is directly related to changes in the market price of the Company's restricted volume shares.

Cash provided by operating activities amounted to $13.1 million compared to $15.1 million in 2022. In addition to the impact of reduced revenues as a result of weaker real estate markets, the Company incurred higher administration expenses to evaluate the transaction to acquire the brokerages and manager from Brookfield Business Partners. These costs were comprised of fees paid to the financial and legal advisers to the committee of independent directors that negotiated the share purchase agreement. For the fourth quarter, cash provided by operating activities amounted to $2.2 million, unchanged from the prior year, as the impact of higher administration expenses was substantially offset by the benefit of higher revenues.

The Canadian residential real estate market contracted in 2023 after the record-breaking results during the pandemic. In 2023, the market closed at $300.8 billion, a decline of 14% compared to 2022. Sales volumes for the year were lower by 11% while the average selling price dipped 4% year over year. In the fourth quarter, however, the Canadian market was up 5% compared to the final quarter of 2022, driven by a 3.5% increase in the average selling price year over year and a modest uptick in unit sales of 1%.

The country's largest real estate trading area, the Greater Toronto Area, saw a year-over-year decrease of 17%, closing at $74.3 billion in 2023, driven by a 12% drop in unit sales and a 5% decline in the average selling price compared to 2022. The Greater Vancouver real estate market was down by 10%, closing at $33.4 billion in 2023 compared to the previous year, driven by an 11% decrease in unit sales while the average selling price remained flat. The Greater Montreal Area decreased 16% to $20.8 billion in 2023 compared to 2022. This reflects a 15% decline in unit sales and a modest 1% dip in the average selling price.

The overall message about the market correction, which was the latter half of 2022 and through 2023, was that unit sales volumes were down considerably, but home prices were remarkably resilient. And we're taking that into 2024. It provides a considerable amount of our confidence for the approximately two-thirds of Canadians who are home buyers.

As we've mentioned, buyer activity and home prices in Canada's real estate market decreased in 2023 as a sustained increase to borrowing costs resulted in many buyers remaining on the sidelines. This contraction in all three of the country's major urban centers—Toronto, Vancouver, and Montreal—was universally driven in the post-pandemic correction. The slowdown did allow for some much needed inventory to build up, but the underlying housing supply shortage, which many observers would characterize as a housing supply crisis, has kept a lid on home price depreciation. In the first quarter of 2024 we've already seen an increase in sales activity as consumers regained confidence that the home they buy today will not be worth less tomorrow, a really key point.

Canada's Consumer Price Index, a broadly used measure of domestic inflation, continues to fall at the upper range of the Bank of Canada's target of 2% to 3%. In February, the inflation rate sat at 2.8%, well off the peak of greater than 8% reached in June of 2022. Following ten increases in 2022 and 2023, the Bank of Canada has maintained its overnight lending rate of 5% for five consecutive announcements now and markets broadly expect the central bank to begin cutting rates later this year. While our belief is that interest rates are not likely to return to the lows reached during the pandemic, some buyers have been sitting on the sidelines waiting for borrowing costs to come down, even by a small amount, before rebooting their home-buying plans.

So, in summary, 2023 saw consumers worried about the economy and declining house prices so they move to the sidelines. This created pent-up demand. Add to this an unusually high number of new Canadians, new Canadian citizens, and non-permanent residents seeking shelter, be it for rent or for purchase, and we have a large pool of buyers that would like to transact. Some are entering the market now, ahead of what they perceive to be a return of higher home prices. Others are waiting for the Bank of Canada to begin lowering interest rates before they re-enter the market, but the demand is there.

Canada has weathered a significant housing correction tremendously well on the strength of low unemployment, higher than normal household savings, and intergenerational wealth transfer, which helps with down payments, particularly with first-time homebuyers. Mortgage default rates remain at historic lows with only 15 in 10,000 mortgage holders defaulting on their obligations to their lender, or less than a quarter of 1%, a very, very low number. We know that the real estate professionals trying to navigate a down market will put greater emphasis on the value a brand offers and will look for advantages that help to set them apart from the competition. Providing innovative technology solutions, superior coaching and training focused on how to adapt to changing client needs, and industry-leading marketing and brand awareness tools will continue to set us apart and make our brands more attractive, especially in a supply challenged market environment.

With materially fewer transactions nationwide, less productive real estate professionals were pushed out of the industry in 2023. We experienced a modest decline, only 1%, and our share of agent count remained approximately equivalent to prior to the correction. We are pleased with our performance over the course of a difficult year and with the Company’s ability to retain top talent and continue to deliver stable results for shareholders.

In 2023, the Company continued to make enhancements to the rlpSPHERE digital platform, the fully customized, Canadianized, cloud-based, AI-driven CRM providing ecosystem exclusive to our Royal LePage business, including the rollout of new features such as a new listings and design tool and new integrated user interface and automatization optimizations, which we call autopilot. The Company also re-branded and re-launched its commercial real estate website supporting our Royal LePage commercial business including, for the first time, the integration of external listings and the addition of a new lead source for Royal LePage commercial practitioners. This is the first time that our rlpSPHERE platform has been able to provide smart leads lead referral program elements to commercial practitioners and it's helped with the strong growth in that business. And for members of the corporately-owned brokerage, including those with the luxury Johnston & Daniel brand, the Company launched a rebranded marketing platform. It's an innovative marketing studio called "Recreate". Finally, our Via Capitale business launched Via TV. It's an online video platform that provides agents with access to the latest news, training, events, information, and other useful video content that they can use to both market listings and keep in touch with previous clients and, of course, source new business. Royal LePage itself received two prestigious communications awards over the past year for excellence in media relations, the first for its millennial demographic survey and the second for the cost of living report.

Now I'd like to discuss the exciting news I touched on at the beginning of the call. On March 25th, a special meeting of Bridgemarq shareholders was held to approve a transaction to acquire several best-in-class brokerages, including one of the largest real estate brokerages in the country operated in three provinces—BC, Ontario, and Quebec—under our flagship Royal LePage branding. As well, the innovative Proprio Direct business, which is the largest brokerage in the province of Quebec and, finally, the internalization of the management company. All of these assets were acquired from Brookfield and are now part of Bridgemarq. The transaction was approved overwhelmingly with 93% of votes in favour.

This represents an exciting and important step in the long-term growth and success of our business. As a result of the acquisition of the brokerage operations, the Company will benefit from a broader revenue base and will earn revenues from the gross commission income earned by brokerages under the Royal LePage, Via Capitale, Proprio Direct, and Johnston & Daniel banners, in addition to the franchise fees and ancillary revenues that it currently generates from the franchise network to provide dividends and growth for our shareholders.

In addition, the outstanding deferred payments owing to Brookfield that date back to the pandemic relief program that we put in place to help agents weather that unprecedented crisis has been settled and the requirement to pay management fees to a third-party will cease, cleaning up our financial statements. The transaction is expected to close in the next few days. These are exciting developments for our business, which will enable us to capture more revenue and add new tools to expand our market share across Canada. The transaction is expected to deliver value for all shareholders over the long term and enable growth opportunities for our industry-leading brands.

The last thing I'd like to discuss today briefly is the recent settlement in the United States of a class action lawsuit which saw the National Association of Realtors, known widely as NAR, agree to pay $418 million to home sellers claiming that the organization and the industry is responsible for inflating commissions and unfairly forcing sellers to compensate buyer agents. As part of the settlement, NAR has also agreed to enforce a new rule prohibiting offers of broker compensation, that is premeditated offers of buyer agent compensation, on the American multiple listing service. Despite this settlement, NAR continues to deny any wrongdoing.

As you are likely aware, by our disclosures and reporting, two cases with similar allegations are currently underway in Canada. It's important to note that no admission or decision has been made regarding whether Canadian competition law has been violated. All defendants in the Canadian cases deny the allegations and are vigorously defending against the claims. Canadian competition laws differ considerably from what exists in the United States. The NAR settlement and any changes in the NAR rules or policies regarding changes to commissions and cooperative compensation policies are specific to circumstances in the United States and have no direct impact on ongoing cases in Canada. Any decisions made in the United States cases do not reflect on the realities of Canadian competition law and have no direct impact or influence on the Canadian proceedings and any conclusions drawn from the US settlement and the announcements made by NAR cannot be extrapolated to the Canadian context. We maintain our position that the claims made in the Canadian cases are without merit and we remain committed to defending our position vigorously and will continue to navigate the legal proceedings in accordance with Canadian law and, of course, to keep you informed. And the final thing I'll say is the way in which NAR oversees the real estate industry in the United States is different from the way the Canadian real estate associations and real estate boards in Canada conduct business. Just one more reason why drawing too many conclusions from what has happened south of the border make sense here in Canada.

So hopefully that's been helpful. With that, I will turn the call back to the operator and turn things over to your questions for both Glen and I.

Q & A

Operator

Thank you. Ladies and gentlemen, should you have any questions on the phone, please press star one. If you would like to ask a question via webcast, please type your question into the Q&A box on your screen.

We currently have no questions on the phone.

Phil Soper — President & Chief Executive Officer, Bridgemarq Real Estate Services Inc.

Thanks very much, operator. I wish to thank everyone for participating in today's call and I look forward to updating you again when we release our first quarter results in May and, of course, at our annual general meeting. It will be a virtual meeting. The details are on our website. Thank you all.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and we ask that you please disconnect your lines.