

**LENNAR CORP**

**Moderator: Grace Santaella**  
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**11:00 am EST**

Coordinator: Welcome to Lennar's First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the presentation, we will conduct the question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I'll now turn the call over to David Collins for the reading of the forward-looking statements.

David Collins: Thank you, and good morning, everyone. Today's conference call may include forward-looking statements, including statements regarding Lennar's business, financial condition, results of operations, cash flows, strategies and prospects. Forward-looking statements represent only Lennar's estimates on the date of this conference call and are not intended to give any assurance as to actual future results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties.

Many factors could affect future results and may cause Lennar's actual activities or results to differ materially from the activities and results

anticipated in forward-looking statements. These factors include those described in this morning's press release and our SEC filings, including those under the caption Risk Factors contained in Lennar's Annual Report on Form 10-K, most recently filed with the SEC. Please note that Lennar assumes no obligation to update any forward-looking statements.

Coordinator: I would like to introduce your host, Mr. Stuart Miller, CEO. Sir, you may now begin.

Stuart Miller: All right. Very good. Thank you, David, and thanks everyone for joining us for our first quarter 2016 conference call. This morning I'm joined by Bruce Gross, our Chief Financial Officer; Dave Collins, who you just heard from; Diane Bessette, our Vice President and Treasurer; Rick Beckwitt, our President; and Jeff Krasnoff, CEO of Rialto are here as well along with a few other members of our management team.

And Jon Jaffe, is joining by phone from California. Some of this group will join for our Q&A period. I'm going to give some brief remarks to begin about the business, Bruce is going to jump in and break down our financial picture. And then as always we're going to open up to Q&A. And as we have in the past, we'd like to request that each person limit yourself to one question and one follow-up.

So let me begin and let me begin by saying that our first quarter 2016 marks the beginning of yet another year of strong operating results for the company. Even while the month of December was defined by the first interest rate hike by the Fed since the great recession, which turned into capital market turbulence and fears of recession as we entered calendar 2016. We have seen only mild negative impacts to our business and have continued to be able to perform, as expected.

The management teams across our platform has - have recognized the challenges of these sometimes complicated market conditions and have adjusted strategies to meet those challenges and have often turned them into unique opportunities. Each segment of our company has positioned itself for continued performance in 2016 and beyond, and we believe that we remain very well positioned to execute our operating plans and strategies in each of those segments.

In light of the FED's move in interest rates early in this quarter and the turbulent market conditions that followed, let me speak briefly about our outlook for the housing market in general. There have been some questions raised about the relationship between housing and interest rates, about the possibility of recession, about consumer confidence in a globally terror-stricken world, and about the implications of a God-awful election season in the United States.

In times like these, it's probably best to put the blinders on and focus on the road ahead, because it seems almost impossible to avoid the distractions of the environment around.

To answer the questions directly, we feel certain that modest moves in interest rates tied to low unemployment and some wage growth will be a net positive for housing. We do not see the telltale signs of recession. Global terror seems to highlight that the US is the safest place to be and to invest in the world and teach US citizens focused right here at home. And that's for the election. Well, they say that America always gets to the right answer right after we've tried all the wrong ones, we'll see.

As we've noted consistently over the past few years, the overall housing market has been generally defined by a rather large production deficit, and this is resulted in a growing pent-up demand. Stronger general economic conditions, including lower unemployment, modest wage growth, and general consumer confidence are still driving consumers to form new households and to rent and to purchase apartments and homes. We expect the demand will continue to build and come to the market over the next years, and will drive increased production at the deficit and housing stock ultimately needs to be replenished.

Land and labor shortages will continue to constrain supply and constrain the ability to quickly respond to growing demand, while the mortgage market will continue to constrain purchaser's access to mortgages. These conditions will continue to result in slow and steady positive homebuilding market conditions and will enable slow, steady, though sometimes erratic growth across our platforms.

This has been our consistent guiding theme for the past years and we've mapped our strategy around this view. Even with the somewhat erratic conditions that defined the first quarter, we've remained resolute in our view and have adhered to our strategies.

Against this backdrop, let me briefly discuss each of our operating segments. Our for sale homebuilding operations have performed extremely well in the first quarter. Our results reflect slow, but steady growth in the over homebuilding market, as our new orders increased 10% year-over-year.

Even while continued labor shortages in land and construction cost increases have tested our ability to match sales and delivery pace, our management team

has carefully managed sales prices, maximize margin, and focused on reducing SG&A to offset and maintain strong net operating margins.

We have noted in the past quarter conference calls that given the now mature recovery, we have been and continue to carefully manage our growth in order to grow our bottom line and to drive strong cash flow. We've moderated our growth targets to achieve a growth rate in the 8% to 10% range, as we've redirected our management efforts towards creating operating efficiencies and leveraging SG&A.

We've also talked consistently about a soft pivot in our land strategy away from the land heavy acquisition strategy in the early stages of the recovery. And we are now targeting land acquisitions with a shorter two to three-year average life. Generally, we've moderated our land spend as a percent of revenues, and this will be reflected in future quarters. This has been and will continue to be the strategy driving our homebuilding platform as we manage land acquisitions to taper the growth rate in both community count and home sales.

With less pressure on growth rate, we can intensify management focus on driving bottom line growth, cash flow, and maximizing pricing power, while using innovative strategies to drive SG&A down. Under a company mantra of what we can manage, we can change. We are focused on changing and improving quite a lot in operations. As one example of this focus, we've been working on reducing customer acquisition costs.

We've been moving our spend away from conventional marketing and advertising to a digital platform. We've learned that digital advertising can be much more targeted and much less expensive. We believe that once fully implemented, we will see up to a 50 basis point reduction in SG&A, while

driving an increase in qualified traffic. In the current quarter, we're already starting to see results from this initiative.

With demand growing steadily, land limited labor tight and constrained mortgage availability, we feel that we're in an excellent environment to run our business at a steady and consistent growth rate with strong bottom line profitability and strong cash flow by measuring and changing our way to greater efficiency and performance in our core for sale homebuilding segment.

Next our financial services group has had an outstanding first quarter as well. While the financial services operations have grown alongside our core homebuilding business, we've also benefited historically from a strong though sometimes erratic refi market, as well as from expansion of retail opportunities in both our mortgage and title platforms. These sidecar opportunities will continue to expand in 2016.

Our strategy for the future for Lennar Financial Services continues to be to construct and maintain a fully self-sufficient financial services platform that benefits from Lennar Homebuilding business, but drives profitability from retail operations as well.

Bruce Gross oversees this operation and we'll discuss it further in his comments. The first quarter has continued to display our outstanding positioning for LMC, Lennar multifamily communities as well. We closed one property in the quarter and continue to develop our extensive over \$6.5 billion pipeline of quality properties across the country.

Our multifamily program continues to complements our for sale operation. Since household formation has recovered at a slower rate than expected, and

new households have been more inclined to rent than purchase. We address these markets with rental communities that are desired or can be afforded.

First time home purchasers have come back to the housing market more slowly than they have historically and more slowly than expected. While approximately 30% of our for sale homebuilding business continues to be geared to first time home purchasers, our broader new household strategy has been named primarily at the rental market.

We've continued to expand our national footprint and grow from a merchant build program to a build to own program. In the first quarter, we got equity commitments for an additional \$300 million for our Lennar multifamily venture to bring our raise to just over \$1.4 billion. Our apartment strategy is proving to be very well-timed, as rental rates continue to climb and vacancies are at historic lows. More rental product is going to continue to be needed and we are well-positioned to continue to fill this need and grow our multifamily platform.

Also in the first quarter, our Rialto segment saw both challenges and opportunity. While the collapse of the capital markets in the beginning of the calendar year negatively impacted current quarter earnings for Rialto, the volatility did create unique opportunities for investment for the future.

During the quarter, volatility within the capital market pressured the pricing on a variety of fixed income products, including new issued commercial mortgage-backed securities. Accordingly, Rialto Mortgage Finance, RMF saw its net spread dwindled to unusually low levels, while volume dropped as well. Although profit expectations were met, excellent management kept us in the black in a stress market and Rialto was able to make strategic purchases of CMBS B-pieces at advantage prices for future profitability.

Overall, our Rialto platform enables us to invest across real estate and financial product types as an opportunistic play on the long duration of this economic recovery. The dysfunction in the financial markets along with new risk retention rules will ultimately work to benefit - to the benefit of Rialto's core competence in CMBS and financial products and will continue to grow as a best-in-class manager.

Finally, let me mention briefly, our FivePoint properties strategic investment and its management team, which positions us to continue to benefit from some of the best located land in California as that market continues to improve. As noted in our last conference call, FivePoint has confidentially filed a registration statement for an initial public offering. Of course, the difficult market conditions of the first quarter have kept us on the sidelines, but we'll keep you posted as further information becomes available.

In conclusion, let me say that, we're very pleased to present our first quarter results this morning. We feel confident that our view of the market and the strategies that define our business segments have worked well to position us for continued performance and for future growth. As I said in the past many times, we're very confident that we at Lennar have the right people, the right programs, and the right timing to continue to perform this year and into the future. With that, let me turn over to Bruce.

Bruce Gross: Thanks, Stuart, and good morning. Our net earnings for the first quarter were \$144 million, which is a 25% increase over the prior year. Revenues from home sales increased 25% in the first quarter, driven by a 12% increase in wholly-owned deliveries and a 12% increase in average selling price to \$365,000. Our gross margin on home sales in the first quarter was 22.7%, which was in line with our expectations. The prior year's gross margin



percentage was 23.1%, the decline year-over-year was due primarily to increase land costs.

Sales incentives as a percent of home sales revenue continue to decline as this quarter was 5.6% versus 6.3% in the prior year. Gross margin percentages were once again highest in the East and West regions. Direct construction costs for our single-family detached homes were up 5% year-over-year to approximately \$53 per square foot and that was driven primarily by labor increases.

Our selling, general and administrative expenses as a percent of home sales revenue improved 60 basis points to 10.8% in the first quarter. We were successful in improving SG&A operating leverage by growing volume organically in our existing homebuilding divisions and additionally we continue to see the benefits of our focus on digital marketing. This resulted in the lowest first quarter SG&A percentage in our history.

Operating margins on home sales also improved and this was improved by 20 basis points to 11.9% in the first quarter. This quarter, we opened 62 new communities to end the quarter with 684 net active communities. New home orders increased 10% and new order dollar value increased 15% for the quarter. Our sales pace was slightly higher compared to the prior year at 2.9 sales per community per month versus 2.8 in the prior year. The cancellation rate decreased to 15% in the first quarter from 16% in the prior year.

In the first quarter, we purchased 10,300 home sites totaling \$537 million versus \$421 million in the prior year's quarter. We continue to focus on our soft-pivot land strategy. However, our land spend in 2016 is weighted more heavily to the first-half of the year. Our home sites owned and controlled now totaled 168,000 home sites of which 132,000 are owned and 36,000 are

controlled. We continue to carefully manage inventory as our completed unsold inventory ended the quarter with approximately 1,200 homes, which is in our normal range of one to two per community.

Our Financial Services business segment had strong results with operating earnings of \$14.9 million, and that compared to \$15.5 million in the prior year. Mortgage pre-tax income decreased to \$13 million from \$14 million in the prior year. And mortgage originations increased 2% to \$1.7 billion from \$1.6 billion in the prior year.

Refinance volume decreased 47% year-over-year, which created a more competitive market for the remaining purchase business. We did, however, increase our purchase origination volume by 17%, as a result of increased Lennar home deliveries and expanded retail presence. The capture rate of Lennar homebuyers improves to 82% this quarter from 79% in the prior year. Our title company's profit decreased slightly to \$2 million in the quarter from \$2.1 million in the prior year, primarily due to lower volume versus last year.

Our Rialto segment produced operating earnings of \$1.9 million compared to \$4.6 million in the prior year, both amounts are net of noncontrolling interests. The investment management business contributed \$23.2 million of earnings, which includes \$1.5 million of equity in earnings from the real estate funds and \$21.7 million of management fees and other.

At quarter end, the undistributed hypothetical carried interest for Rialto real estate funds one and two combined now totaled \$136 million. Rialto mortgage finance operations contributed \$380 million of commercial loans into two securitizations with an average margin of 1.6%, totaling earnings of \$3.9 million for the quarter, and that was before their G&A expenses.

Our direct investments had earnings of \$1.8 million and Rialto's G&A and other expenses were \$20 million for the quarter and interest expense was about \$7 million. Rialto ended the quarter with a strong liquidity position with \$112 million of cash.

The Multifamily segment delivered a \$12.2 million operating profit in the first quarter, primarily driven by the segment's \$20.4 million share of a gain from the sale of an operating property, as well as management fee income, partially offset by G&A expenses. The apartment community sale this quarter was in Mountain View, California and was sold to a firm providing corporate housing for companies, including Google and Facebook. This will be the most profitable apartment community sale this year.

We ended the quarter with 6 completed and operating properties, 28 under construction, 5 of which are in the lease up, totaling over 8,000 apartments with a total development cost of approximately \$2.1 billion. Our tax rate for the quarter was approximately 28%. The rate was benefited by a favorable settlement with the IRS, as well as the extension of the new home energy efficiency credit. The remaining quarters of the year should have a tax rate of approximately 34%.

Our Southeast Florida division has grown successfully and was operating from Vero Beach to Miami. As a result in the first quarter, we split the division into two operating divisions to maximize operational efficiencies. The Southeast Florida segment no longer meets the reportable segment criteria and is now part of the homebuilding East segment.

Turning to the balance sheet, liquidity remains strong with approximately \$511 million of homebuilding cash and \$500 million of borrowings under our \$1.6 billion revolving credit facility. Our leverage improved by 240 basis

points year-over-year, as our homebuilding net debt to total capital was reduced to 45.3%. We grew stockholders equity by 18% to \$5.8 billion, and our book value per share increased to \$27.11 per share.

During the quarter, we converted \$163 million of our 2.75% convertible notes for \$163 million of cash and 3.6 million of shares with an average price of approximately \$44. At quarter end, the remaining balance to be converted was \$71 million. In March, we issued \$500 million of five-year senior notes at 4.75%, which will be used for working capital and to retire our \$250 million, 6.5% senior notes. This will continue to reduce our borrowing rate, while extending our maturities.

Finally, I would like to update our 2016 goals. 2016 homebuilding goals are right on track with the guidance we gave in December with just a couple of quarterly refinements. Deliveries are still on track to be between 26,500 and 27,000 homes. We expect the backlog conversion ratio in a range of 80% to 85% for Q2, 75% to 80% for Q3, and 90% to 95% for Q4.

Operating margins are still on track to be flat to down 50 basis points for the entire year. The full-year gross margin is still expected to be in a range of 23% to 24%. The second and third quarter are expected to be at the low end of this range, and the fourth quarter is expected to be at the high-end of the range. We are still on track to achieve the lowest SG&A percentage in our company's history in 2016 with the greatest leverage coming in our higher delivery quarters in the second-half of the year.

Our other company goals are all on track except given the turmoil in the capital markets, we now expect Rialto to earn between \$15 million and \$20 million for 2016, and that's weighted more heavily towards the fourth quarter.

We're off to a strong start in 2016. And with that, let me turn it back to the operator and open it up for questions.

Coordinator: Thank you. We will now begin the question-and-answer session. To ask a question you may press star followed by the number 1 and for today's session we ask that you please limit yourself to one question and one follow-up only. To cancel the request you may press star followed by the number 2. Our first question is from the line of Bob Wetenhall from RBC Capital Markets. Your line is now open.

Robert Wetenhall: Good morning, and congratulations on a really strong quarter. Stuart, just taking from your remarks, I was hoping you could give a little bit more regional detail in terms of how the spring selling season has started to unfold. You guys saw tremendous delivery growth in the Central West regions and I was also curious what you are seeing in Houston and how it is compared to prior years?

Stuart Miller: Okay, good, Bob. I'm going to turn it over to Rick and to Jon to give a greater detail on the regions.

Rick Beckwitt: Yea, I would tell you from an overall standpoint, we saw good sequential improvements throughout the quarter, December being the lightest and clearly February being the strongest month, pretty much spread across every operating territory that we've got, and I'll address Houston in a little bit. We saw that with regard to both home sales activity as well as pricing, so we're optimistic that we're entering the sale season, although we're at a very beginning stages, because our quarter ended in February.

Geographically, we saw - the numbers are pretty similar. Probably our toughest market was Houston, sales were down 3%. But I think we're

outperforming the market there, because on the new home side, as we calculated the market was down about 10% during this comparable period. We saw good pricing power, because we are as Stuart said and Bruce mentioned earlier balancing pace and price there, sales prices were up about 5%.

Our margin took it a little bit on the chin, because we're keeping our inventory active. And we are optimistic that we're going to pace - starts to deal with the market on the higher price points with lower price points still performing extremely well, but once you get above 350, 400,000, it's down quite a bit.

And we anticipate the numbers that you've seen in the magnitude, as I said last quarter around 5%, 6% down for the year is where we think we're going to end up. But we have tapered back our starts, given some of the weakness on the higher end. Jon, you want to talk about any western markets?

Jon Jaffe: Sure. Bob, as you know California is too big to refer to as one market. So as you look at the segments in Southern California, we're seeing good strength in Orange County, San Diego, and LA, that's not only supported by our activity, but when you look at our FivePoint master plan communities at the Great Park you've seen that same seasonality Rick described, but selling at almost four sales per month per community for the builders at the Great Park. At Valencia, we're seeing over three sales per month per community. So it shows very good activity in those markets.

Northern California, the Bay Area remains very strong, really defined by a shortage of both housing and particularly in Silicon Valley by a shortage of skilled labor in the tech and biotech world. So that continues to fuel demand

there. And then in Sacramento, we've seen a nice recovery where that's become a strong market.

Inland Empire, Central Valley, I described more stable, good markets, healthy, not as robust as Northern and Southern California. And then across the rest of the West, Colorado, Nevada, Arizona, all very stable markets. And then the Pacific Northwest, we can see continued good strength up there again defined by a very strong job demand and very short supply of housing.

Rick Beckwitt: And then if you look at the other big markets we had, Bob, Florida was clearly a - we're seeing strength there, and the other markets in Texas were up pretty big too. So in our largest areas, California, Florida, and Texas were doing extremely well.

Robert Wetenhall: That's a great summary. Thank you. Wanted to ask and maybe this is for Bruce to address. Your gross margin guidance 23 to 24 reciting some pressure there from land and labor costs, at the same time, you're making very, very big strides in managing SG&A. Stuart said you're managing what you can measure. And I'm not really asking about 2016, but as a company when you're thinking about net margin and profit - profitability going forward in 2017 and 2018, are you thinking that like a 20% plus, or 22% gross margin is sustainable, given current pricing trends in land costs, and how much more opportunity do you have to leverage SG&A? Thanks very much. Good luck.

Rick Beckwitt: So, Bob, this is Rick. I'll take the margin side of that for the next couple of years. Clearly, we're continuing to benefit from some of the land that we purchased in the last cycle, going back to 2009, and some of the land that we're continuing to close, was put under contract a couple of years back. As we move later in the cycle, it's going to be more difficult to keep the margins up where they are now. But we are underwriting deals today north of 20%

across the Board and we're being relatively conservative with regard to pricing.

So as we look at it, the company has historically done - produced a margin that's north of 20%. And it's the balance of fine finished home sites on a retail basis and doing some pivot and doing some land development, where you've got some wholesale purchasing.

Stuart Miller: And one thing to consider is, we're focused on two things. We've got a race car that's on the racetrack that is moving through year-after-year, we're buying land and we're selling homes. And at the same time off the track, we are refining the engine and we're tuning it up. What we can measure, we can change is a major focus off the track.

We are looking at refining various component parts of our business, I've given one example, we have others in our pipeline. And we think that the opportunity to refine SG&A is more significant than what we've outlined, but we don't want to set out pipe dreams that have not been proven yet.

So we're trying to give examples, as we undertake them. But we think that there can be a lot of refinement in SG&A, as we go forward. We're pretty optimistic about where our net operating margins are going to hold steady.

Robert Wetenhall: Got it. Thanks very much. Good luck.

Coordinator: Thank you. Our next question is from Stephen Kim from Barclays. Your line is now open.

Stephen Kim: Okay. Sorry about that, guys. Can you hear me?



Stuart Miller: Yes, we hear you.

Stephen Kim: Okay. Yes, sorry about that. Yes, so good quarter. I wanted to ask a little bit about your land spend. I think you gave a figure of \$537 million. I think that was - was that just acquisition, and if so, can we get sort of the break out of acquisition and development in the quarter?

Bruce Gross: Sure, Steve. The \$537 million was just the acquisition. The land development spend was \$271 million, and that's down about \$20 million from last year's first quarter.

Stephen Kim: Got it. And that rate of land spend, do you feel like there was anything in that number, which was a little elevated relative to your expectations going forward over the remainder of the year?

Rick Beckwitt: Yes, Steve, it's Rick. As I said earlier on the markets, we closed on - probably half of the land that we acquired in the quarter was in Florida. Deals that we've been working on for really past a couple of years that just came to fruition now, really excited about the positioning that we acquired. And I think you'll see as we move through the year, the land spend sort of taper down.

Stephen Kim: Okay, great. That's very helpful. Next question was just about Next Gen. Can you give us a sense for roughly how much of your sales are utilizing that sort of a multi-generational, or a multi-generation type floor plan? And just in general, how have you seen that portion of your product array performing?

Jon Jaffe: Hey, Steve, it's Jon. For us we're seeing over 5% of our net sales is coming from our Next Gen platform. We continue to roll it out across more and more of our markets. A good example of that is recently a bigger push in

Texas, where we're seeing a very good reception of the product as we bring it to market there, continues to sell very strong in some of our markets where affordability is more of a pressure like Arizona, Inland Empire, Central Valley, we see tremendous demand in those markets, Florida, as an example sees very strong demand.

So we're very bullish on that product. Similar to Stuart's comments, we continue to refine and learn as we go and make sure that we are tweaking that product to meet what we're hearing back from consumer demand side.

Stephen Kim: Great. Thanks very much, guys. I appreciate it.

Coordinator: Thank you. Our next question is from Ivy Zelman with Zelman & Associates. Your line is now open.

Ivy Zelman: Good morning and congratulations guys, nice quarter. Stuart, you talk a lot about - well, not a lot, but you spoke about digital marketing and appreciation of the opportunity to leverage SG&A. I guess, if you can maybe expand on the marketing in absolute dollars and what you think what will drive this internally, is there collaboration, people understand, and maybe you could give us some examples, because I think the word digital marketing, I think, we kind of get it, but maybe you expand on that please?

Stuart Miller: So, look, we've focused on the broader concept of customer acquisition costs and that cost is about 10% of our SG&A. There is a large opportunity to reduce that cost. The first part of that is the migration from conventional to digital marketing. If you think about it, conventional marketing is going to a newspaper ad and basically shot gunning across a wide population, a message that might or might not resonate with that population.

Using an example, we think first time homebuyers as most likely to decide to purchase a home when they're getting married or one they're having children. In a digital platform, we can target our message to people who are looking for wedding dresses or purchasing cribs, that's a more targeted focused audience and it costs a lot less to target that group.

Digital marketing enables a greater penetration to the people that we want to hear our message, less scattered delivery of our message at a much, much lower cost. That's been driving our marketing and advertising costs down and we're at the front end of that. There are other benefits that will flow from that as we become more proficient at that form of marketing. And I think that our industry and our company are the front end of really redefining what that cost structure can look like.

Ivy Zelman: Well, that's really helpful. I guess, the internal buy in and appreciating all the divisions are they doing it by themselves, or is it coordinated? Can you give people a better understanding how the collaboration works?

Stuart Miller: So changing a group of divisions that operate fairly independently across the country is a little bit complicated. We have - the way that we have kind of focused on rolling out our thinking is, first, we proved concept in one division. We had one division teach a second division to see if the metrics still hold true. And then we basically have used a metric calculation and almost game within the company to create a competition to roll this out across the company.

And we've seen this program really take hold across our company and start to create a great deal of enthusiasm around not only a focus on migrating from conventional to digital marketing, but really on looking at broader concepts around SG&A as well. So I think we've kind of laid what I would call

transmission lines throughout the company to really foster change and roll it out across a broad spectrum.

Ivy Zelman: Sounds great. Well, good luck with that. If I can sneak in another one, you guys had talked a lot about the opportunity to generate consistent cash flow and improving returns over the cycle and just looking at cash flow that you actually had outflows versus generating cash. Can you talk about what we should be expecting with respect to cash flow? And what you think this - the opportunity is on cash flow going forward?

Stuart Miller: Sure. You know, we started talking about our soft pivot in land a couple of years ago. And we started a process think of the homebuilding business more like a cruise ship than a speedboat, there's a lot of momentum in the direction that we're headed. It's hard to turn in short distances. The land acquisition program is that kind of a momentum program. We start negotiating land positions years in advance of actually closing them. Rick has already articulated that our land spend this quarter in large part derived from negotiations and contracts that were entered into two and three years ago.

So as we look out towards future quarters, we're going to see the work the redirection that was put in place two years earlier. So over the next quarters and over the next couple of years, we'll see our land spend subside as a percentage of total revenues, and we'll see the impact of that soft pivot.

As I articulated, our land today as we focus on land acquisition is generally targeted towards two and three-year duration land purchases. That doesn't mean where we find a unique opportunity that we won't buy something larger, we most certainly will, because we're opportunistic in that way. But it's going to be priced in a certain way. Generally speaking, you'll start to see that soft

taper be incorporated in the numbers that were reported that's not the case for this quarter.

Ivy Zelman: Got it. Thank you, and good luck.

Stuart Miller: Thanks.

Coordinator: Thank you. Our next question is from Stephen East with Evercore ISI. Your line is now open.

Paul Przybylski: Thank you. This is actually Paul Przybylski on for Stephen. I was wondering if you might be able to give us a little bit more color on your entry-level strategy. I think you said it was 30% of your business this quarter. How did that compare to a year ago and if it's up, has it had any impact on margins? And then what regions would you be seeing more of a shift entry-level? And then on the Houston side, is there any pressure from the multifamily operators that might put its way through to the entry-level buyer in that market?

Rick Beckwitt: So first on the trend line for first time buyer, you're right on 30%. It's up from about 25% of our mix from the prior year. I think as you start to look at us going forward, you're going to see in the markets that would include Texas, Carolina, Atlanta, Florida, that those percentages are going to go up as we move through and the balance of this year into 2017, consistent with the land strategy that we articulated going back a couple of years.

So on a mix basis, I think, you'll see probably a 10% to 20% increase in the amount of first time penetration that we'll do in those specific markets. And as we said before, we're really not chasing tertiary business on the first time side. These are more infill oriented first time positions and but we're not going out

to what we would normally call the C type markets. Does that answer your question?

Paul Przybylski: Yes, I guess. But and then we have heard some rumors that the apartment operators were starting to give a couple of months' rent free in Houston. Has that started to work its way into entry-level demand? I know you said (unintelligible) 250 price point has remained rather strong?

Stuart Miller: You know, we haven't seen any impact from the multifamily side on the for sale side. But Mark there's just not a lot of inventory to be had and that benefits us as well as the other builders in the market.

Paul Przybylski: Okay. And then one final question your conversion was a little bit better than we expected. Is that a function of just better weather this quarter, or are we actually start to see true improvement in labor? And if so, do you think that holds going into the second-half of this year, or are we going to still have some kind of hangover like we saw in the second-half of last year?

Bruce Gross: Jon, you might want to comment on the labor picture?

Jon Jaffe: Yes, we're not really seeing a recovery on the labor picture. I think that we look at it internally from Lennar perspective, or everything is included platform combined with our scale and market share in the markets that we're in really allow us to manage that very effectively. Everything is included in particular is a very simple program in this environment. It benefits our trades, and it benefits us, particularly as we manage our job side readiness and being prepared for the environment. So that we can manage it on a daily basis by having a simple program.

So we've seen a very steady environment for us in terms of cycle time, very little increase in cycle time year-over-year. But that doesn't mean that the labor market is improving any.

Paul Przybylski: Yes, thank you.

Coordinator: Thank you. Our next question is from John Lovallo with Bank of America. Your line is now open.

John Lovallo: Hi, guys, thanks very much for taking my call as well. First question is, you discussed the trend of some first-time buyer shifting towards rental. I'm wondering, if you are seeing any increased demand from other demographics may be on the move down segment?

Stuart Miller: There's no question that that there has been movement in a number of segments. Clearly, relative to the empty nesters rethinking their living conditions, there has been some movement in the direction of rental versus homeownership there as well. So we've seen that the rental option, the reduction in homeownership rate is something that is broader than just affordability, it reflects also appetites and desires that have evolved since the recession. And we think that some of those trends will continue.

John Lovallo: Okay, that's helpful. And then in terms of the digital marketing strategy, if I heard you correct, I think you guys talked about a 50 basis point potential, benefits the SG&A over time and maybe even a little bit more. But for the 50 basis point, specifically, did you guys give a timeframe of when you think that's achievable?

Stuart Miller: You know, I don't want to get out over my skies and start wrapping timeframes around this. The rollout of a program like this and its adoption is

something that gets incorporated, as culture allows change to happen. So we see this as an opportunity, but the 50 basis points is a starting point for us. We think there's a lot more fuel in that tank around customer acquisition costs, which is a larger broader number than just marketing and advertising.

And so I think what I would say at this point to stay tuned, we'll give further reports on this as it develops. There are other areas of SG&A that we're also targeting that we think technology, measurement, and focus can bring change in reduction to and I'd say, again, don't want to get out over our skies that I want to make promises that we can't live up to. So over the next quarters, we expect to be reporting more on that.

John Lovallo: Okay. Thanks a lot, guys.

Stuart Miller: You bet.

Coordinator: Thank you. Our next question is from Michael Rehaut with JPMorgan Chase. Your line is now open.

Michael Rehaut: Thanks. Good morning, everyone.

Stuart Miller: Good morning.

Michael Rehaut: First question I had was just in terms of - Stuart, your opening remarks, right at the top you kind of mentioned the Fed rate hike and some of the volatility in the markets during the first couple months of the year and you said since kind of almost for - kind of quote here since the Fed rate hike, you seen only a mild negative impact, struck me is a little surprising giving up the order trends or kind of right in line with our estimates and expect your expectations.



What you were referring to exactly when you kind of said mild negative impact? My only thought would be perhaps the reduced profitability of Rialto. But I was wondering, if there's anything else because obviously sales pace was up a little bit and I believe John also talked about good improvement in order trends throughout the quarter and across all regions. So I was hoping to get a little more granular there?

Stuart Miller: Well, Mike I think that the comment was - what I was trying to get across is, look you saw a shock to the financial system and clearly within the Lennar environment, the biggest shock rippled through RMF and the capital markets approach through Rialto. But relative to our company, it was relatively minor in scope.

Really homebuilding, if you look at it, step back from it, rode through some pretty tumultuous timing in the first quarter, pretty much unscathed. There might have been some pullback in some consumer confidence and we all sat kind of on the edge of our seats waiting to see how the spring selling season might present itself.

And I think there was a lot of question as questions about recession in the US economy started to kind of gain steam among economists. So I think that what I was trying to express is that it was a shock to the system. There were some impacts to certain parts of our business though they were minor, the homebuilding side really rode through it intact and there was a little bit of anxiety in terms of anticipation about what might evolve and I still think that people are staying tuned because I don't think that there's a complete view that we're out of the woods. So we're going to have to wait and see what the FED says and see how the markets present themselves. I hope I communicated that all right.

Michael Rehaut: Yeah, that's helpful and kind of what I thought, but it's good to hear you verbalize that for clarity's sake, particularly on the homebuilding side. Secondly, just kind of looking at big picture and you kind of mentioned the soft pivot and how you're adjusting as the cycle matures. I was hoping that if you could just kind of revisit capital deployment over the next two to three years in a broader scale, and specifically now that as several ancillary businesses. I believe are still your capital neutral in terms of the requirements, if not giving back some capital what that might mean in terms of the other the balance sheet from a leverage standpoint and also any thoughts around share repurchase?

Bruce Gross: Yeah, so our balance sheet is getting stronger every quarter, we have profitability reflecting on equity or adding to equity. We have in December a convert that is converting that will be in addition to equity - I'm sorry to November, thanks Bruce. Our balance sheet continues to get stronger just by the operation of our business.

In terms of cash flow, as noted in an answer to an earlier question, turning the tide on land acquisition and actually turning to that real cash flow program with a lower growth rate and a soft pivot in our land strategy will take some quarters still ahead of us. But with our ancillary businesses at least neutral some of them cash flowing positive, apartment still being somewhat of the cash flow negative. We really think as we get into 2017, we have fortified balance sheet, we continue to recast our business with our soft-pivot.

I think that we're going to see the cash starts to come in. It's most likely to start to reduce our debt dependence and that's where our focus will be initially. And then ultimately with excess cash from operations, we will start to buy back stock. But that's not going to happen in 2016.

Michael Rehaut: Okay, no, it's helpful. And then one last quick one if I could squeeze in technically just a clarification. In terms of the 2016 guidance other than the Rialto adjustment in terms of the expected profits there, the only other thing I was able to gather was that the tax rate is going to come down slightly relative to the first quarter benefit and that impact on the full-year 34 for the next three quarters. But other than Rialto and the tax rate, it did appear that all the other elements of guidance were reiterated, is that correct?

Bruce Gross: That's correct, Mike. We just had some minor shifts between the quarters, as I gave that detail, but otherwise everything else should be the same for the year.

Michael Rehaut: Right, great. Perfect. Thanks so much.

Bruce Gross: You're welcome.

Coordinator: Thank you. Our next question is from Mike Dahl with Credit Suisse. Your line is now open.

Mike Dahl: Hi, thanks for taking my questions. I wanted to start out with the SG&A and maybe take a step back to some of the divisional changes, because it clearly seems that aside from just the efforts to lower customer acquisition costs and transformed digital, you've found plenty of other areas to lever SG&A. And then if anything is tracking, at least, at the high-end or even better than the guide for the full year.

And so I'm wondering if there are anything - any other things like splitting of divisions that we should be thinking about for the next couple quarters that, at least, from a near-term standpoint are creating some additional costs that won't really be levered until maybe later in the year, or next year, or just how to think about kind of the cadence of the SG&A improvement?

Bruce Gross: Mike, this is Bruce. As you look at the cadence of the SG&A improvement, it's really coming from two main areas. It's the focus on digital marketing and it's the operating leverage, because our additional deliveries are coming out of existing divisions other than the one division split that we mentioned.

So as you think about that cadence, we'll have more homebuilding revenue as you get later in the year, so there will be more leverage later in the year. So that's the way to think about the cadence.

The second part of this year is going to have a bigger improvement in SG&A and that's driven by the increased volume.

Mike Dahl: Right. I guess on a year-on-year basis and though I guess what I was getting at is, it seems like the current guidance some ways could even be conservative. And just wondering if just given the level of improvement, you're already seeing and then you will be getting into better leverage quarters and some of these initiatives will be gaining traction. So I guess just wondering how to think about the level of conservatism, or if there are other one-off costs we should be thinking about of why we shouldn't see the same magnitude of improvement as we get through the year?

Bruce Gross: Well, look, we are investing in technology. So there's obviously some other costs involved with our focus. But for the most part, you're looking at similar leverage that you saw in the first quarter and the second-half of the year, as you're looking year-over-year. And that's going to be driven by the volume increases. So there isn't a lot of additional other costs to really think about.

Mike Dahl: Got it, okay. And then just shifting gears to RMF, I guess, Rialto as a whole was a product of the overall Lennar strategy of being very opportunistic at the

right points in the cycle, and as you see things changing. And so just curious how you're - you made some comments about you're looking at it as you're now looking at this and some of the challenges in CMBS is being an opportunity. And so it does feel like it's potentially early on and some disruption in that market. So just wondering if you can give us some sense of just how you are managing to or mitigating some of the near-term risks and balancing that versus potentially looking at some opportunities to expand that part of the business?

Stuart Miller: Okay. So, you know, remember that we've been in the CMBS markets for a couple of decades now. We're probably one of the most - we're probably the most seasoned participant in those markets. We've recognize the ebb and flow of demand and supply in CMBS markets. And we recognize we see when the market dries up, sometimes there's more demand than there is supply and we generally sit on the sidelines as we are right now.

At those times, the demand side seem - tends to go away. And as the supply side starts to come back, presents unique opportunities for the participants that are still there to participate. So the way we think about that market is in recognizing that ebb and flow uniquely relative to its market recognizing the dysfunction generally works to our favor, given our experience.

I think that the events of the past quarter will tend to drive participants out of that market might sideline the supply side of the market for a period of time, it will ultimately come back and we'll be well-positioned to be a leader in the market as it reemerges. So that's kind of the way that we think about it, but our position derives directly from our long-term experience. Jeff, you want to add to that?

Jeff Krasnoff: No. I would just say, you know, just anecdotally on the buy-side in terms of our investment vehicles, we've actually, I'd say over the last three or four months have probably been some of the busiest since we've been in business just on the buy side just because it's been such a diminution and demand at the end of the day.

Stuart Miller: And the capital markets ended up taking a lot of the participants out of the market. So there weren't any buyers there.

Jeff Krasnoff: Exactly. And from the loan origination perspective, which is the other side of business, I mean and again that gives us sort of a leg up on really understanding what's going on there, there you saw the widening out of spreads. So and we'll see how that market behaves going forward as the supply and demand ebbs and flows is doing there.

Mike Dahl: All right. Okay, thanks. That's helpful.

Stuart Miller: Okay. Let's have one more question.

Coordinator: Thank you. Our last question is from the line of Nishu Sood with Deutsche Bank. Your line is now open.

Nishu Sood: Thank you. I wanted to follow-up on some of Rick's comments. Rick mentioned the first-time buyer percentage, which is 30% has been roughly that we could expect to see some improvement, I'm sorry, some gains in that 10% to 20%, I think you said. And that a lot of your investments were in closer in area. So I just wanted to dig into that a little bit. You would think that the opportunity for closer in first-time product would necessarily be limited just because if you have a highly desirable closer in lot, you maximize your returns by putting a more expensive product on it.

So just wanted to get a sense of how much growth potential do you see in making these closer investments. What would drive? What would you folks need to see in the market to begin to move out to a more traditional further out, call it, areas that tend to support first-time buyer demand? So just wanted to get a little more details and your thoughts on that, please?

Rick Beckwitt: Okay, so let me just reiterate. In the markets of Texas, Carolina, Atlanta, Florida those areas, we've been targeting for the last year. So couple of years to increase our first-time presence by about 10% to 20%. Most of that focus going back a couple of years ago was in securing land positions that were more closer to where people wanted to live than in the tertiary areas. And you can do that generally in the markets that we've talked about, because there's still good employment, there's good transit.

As a result of that those positions are going to be higher IRR type of opportunities and lower gross margin opportunities, because you just don't have the juice in those deals to really get a higher margin. They're more retail oriented positions that's not to suggest that we aren't moving out into a little bit further commute oriented places, but you won't see us going outside of what I would call core markets. Hopefully, that answers your question.

Nishu Sood: Got it.

Jon Jaffe: Just to add some clarity out west we don't see those same opportunities that Rick described and say Texas, Carolina and Florida, so with more traditional markets to say, Central Valley and Phoenix will be more like our company average 30%, 35% affordable, but in your other markets in the west as I went through them earlier, they really isn't that opportunity, unless you go way out in tertiary markets and we're just avoiding that and not chasing that business.

Nishu Sood: Got it, you know that's helpful. And another question just in terms of the recovery and where we're at, one of the - in closer in areas that the move-up market, which has fed most of the recovery so far, there's been some concerns that with pricing, gains now in their - going to the fifth year. Some pretty strong pace of gains that we had in 12 and 13 in terms of home price, appreciation that affordability is potentially a constraint on - because the housing recovery continuing. They're closed from a volume perspective, there's a lot of no room to grow. But what are your broader thoughts on that? And especially if you could give some context from what you're seeing on the ground in terms of affordability issue.

Stuart Miller: Yes, I think Nishu, that's a good way to wrap up into - to bring it to an end, bring our call to an end. And in that regard, I think that we continue to see fairly strong demand. I think affordability is a looming question as prices have tended to go up. They tend to go up because the supply, we read about it, see it all the time both on existing homes and new homes as fairly tight and the demand as emerging. It hasn't emerged, but it's still emerging and I think that there is a sizable pent-up demand.

Your question about move our purchasers in the market were generally still seeing relative strength across the board from first-time buyers all the way through to move up. There are certain markets that are little bit different. The Houston market as we've noted has been softer with higher end, the California markets have remained robust.

So it's not a national picture anymore. We have to look at local markets more directly - but we're still seeing strength. I think the thing to remember for everyone in the back of their mind is that you have to measure affordability against the alternative and the alternative is what is the rental market look



like? What is the rental option and was rental rates moving up and more and more people are thinking to kind of stabilize their outflow of capital, our personal capital into their housing cost like purchasing as opposed to renting because on an annual basis, the rental rates are going up.

So that that picture is one that continues to define the housing markets today, a production deficit, supply is tight, demand is growing, rental rates are going up and the affordability picture is a bit of a question, but I think in the mix that it probably gives way to a strong consistent slowly growing housing market.

And with that, I think we're going to bring it to close and say thank you all for joining us and we look forward to continuing to report on our progress.

Coordinator: Thank you, speakers. And that concludes today's conference. Thank you all for joining. You may now disconnect.

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