

**LENNAR CORP**

**Moderator: Grace Santaella**  
**June 21, 2016**  
**11:00 am EST**

Coordinator: Welcome and thank you for standing by. Welcome to Lennar's Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question-and-answer session.

Today's conference is being recorded. If you have any objections, you may disconnect at this time. I will 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 obligations to update any forward-looking statements.

Coordinator: Thank you. I would like to introduce your host, Mr. Stuart Miller, CEO.

Sir, you may begin.

Stuart Miller: Great, thank you. And thank you, David. And I want to say thank you to everyone for joining us this morning. This morning, I'm joined by Bruce Gross, our Chief Financial Officer; Dave Collins, who you just heard from; and Diane Bessette, our Vice President and Treasurer; Rick Beckwitt, our President; Jon Jaffe, our Chief Financial Officer; and Jeff Krasnoff, CEO of Rialto, are here as well, as well as some other members of our management team. Some of them will be joining in on our conversation with the - during the Q&A period.

I'm going to briefly give some remarks, as I've always done, about the business in general and then Bruce is going to jump in, break down our financial detail and give some further guidance for next year and then, as always, we will open up to Q&A.

We would like to request, as we always do, that during the Q&A period each of our participants, please limit yourself to one question and one follow-up, so that we can get as many participants as possible.

So let me go ahead and begin and say that our second quarter 2016 results reflect another quarter of strong operating results for our company. We've continued to benefit from a slow and steady housing market recovery that has continued to define the US housing market environment and we've crafted specific strategies within our company for our business that have positioned us well to maximize opportunity in these market conditions.

As we've noted consistently over the past years, the overall housing market has been generally defined by a rather large production deficit that has continued to grow over the past years.

While questions have been raised as to the real normalized levels of production that are required to serve the US current population, we believe that production levels in the 1 million to 1.2 million starts per year range are still too low for the needs of American household growth that is now normalizing.

While measuring current production levels against historical norms of 1.5 million starts per year might be flawed logic, as there may be a new normal, we believe that the very low inventory levels in existing and new homes and the low vacancy rates and high and growing rental rates for apartments indicate that we are in short supply nationally.

With that said, it's important to note that the housing market is not really a national market. Instead, it's a large number of very local markets, each with

different dynamics that are averaged together to generate some sometimes quirky results.

With that said, we believe that there continues to be a growing pent-up demand for dwellings of all types across the country, though stronger in some markets than others, and this demand will continue to propel a continued long cycle, slow and steady market improvement.

While demand has been constrained by limited access to mortgages, stronger general economic conditions, including lower unemployment, modest wage growth, and general consumer confidence are still driving consumers to form new households and to purchase homes and to rent apartments.

We expect that demand will continue to build and come to the market over the next years and that will drive increased production as the deficit and housing stock ultimately needs to be replenished.

Nevertheless, land and labor shortages will continue to be limiting factors and will constrain supply and restrict the ability to quickly respond to growing demand, while the mortgage market and higher rents will continue to constrain that demand.

We expect that these conditions will continue to result in a slow and steady positive homebuilding market and will enable slow, steady though sometimes erratic growth throughout the industry.

This has been our consistent guiding theme over the past years and we have mapped our strategy around this view. Each segment of our company has positioned itself for continued performance in 2016 and beyond and we believe that we remain well positioned to execute our operating plans and

strategies in each of these segments. Even with the somewhat erratic conditions that defined the early part of this year, we have remained resolute in our view that have generated our strategies.

Against this backdrop, let me briefly discuss each of our operating segments. Our for sale homebuilding operations experienced a healthy spring selling season with a sales pace of 3.9 sales per month per community.

Our results reflect the slow but steady growth in the overall homebuilding market as our new home orders increased 10% year-over-year, while community count grew 4% and our average sales price grew 4% to \$362,000.

Even while continued labor shortages and land and construction cost increases have tested our ability to match sales and delivery pace, our management team has carefully managed sales prices, maximized margins and focused on reducing SG&A to offset and maintain a strong net operating margin which came in at 13.9%.

As we've noted in past conference calls, we have adjusted our for sale housing strategy as the recovery has matured and land pricing has adjusted to that recovery. There are three components of our core homebuilding segment strategy. They are soft pivot, slower growth and focus on SG&A.

To begin, we've talked consistently about our soft pivot land strategy over the past years, 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.

Our more recent quarterly reports have demonstrated that we've moderated our land spend as a percent of homebuilding revenues and this has and will

continue to be a core strategy driving our homebuilding platform, as we manage land acquisitions to taper the growth rate in both community count and home sales.

Second, we've noted in past quarter conference calls that given our now mature recovery, we have been and continue to carefully manage and limit our growth in order to grow the bottom line and to drive strong cash flow.

We have moderated our top line growth targets to achieve a growth rate in the 7% to 10% range as we've redirected our management efforts towards maximizing our net operating margin.

Third, with less pressure on the top line growth rate, we can intensify management focus on driving faster bottom line growth and cash flow by maximizing pricing power and using innovative strategies to drive our SG&A down. Under the company mantra of What We Can Measure, We Can Change, we are focused on changing and improving all elements of our operation.

As an example, last quarter, we highlighted that we've been working on reducing customer acquisition costs. We've been moving our advertising and marketing spend away from conventional marketing, like newspaper and billboard advertising, to a purely digital platform.

In the current quarter's results, we're continuing to see the benefit of this management focus as a significant portion of our SG&A reduction can be attributed to this initiative. It is noteworthy that this quarter's SG&A of 9.3% is the lowest second quarter SG&A in our company's history.

With demand growing steadily, land limited, labor tight and constrained mortgage availability, we believe that our three-pronged strategy for homebuilding - for our homebuilding segment positions us well for the slow but steady growth environment.

We feel that we can run our business at a steady and consistent growth rate, with strong bottom line profitability and cash flow by measuring and changing our way to greater efficiency and performance in our core for sale homebuilding segment.

Moving on, our financial services group has had an outstanding second quarter as well. While the financial services operations have grown alongside our core homebuilding business, we've also benefited from a strong, though sometimes erratic, refi market, as well as from the expansion of retail opportunities in both our mortgage and title platforms. These side car opportunities are continuing to expand as we move through 2016.

Our strategy for the future of Lennar Financial Services continues to be to continue 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 will discuss it further in his comments.

Next, our multifamily program continues to develop as a leading blue chip developer of apartment communities across the country. The second quarter has continued an outstanding run for LMC, Lennar Multifamily Communities, which continues to complement our for sale homebuilding operations.

Since household formation has recovered at a slower rate than expected and many new households have been more inclined to rent than purchase, we have

focused on building well-located rental communities to address this market opportunity.

First time home purchasers have come back to the 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 targeted the rental market as well.

As we've continued to expand our national footprint, we've matured and evolved from a merchant build program which was designed to prove our base concept. This beginning phase worked extremely well, as we have proven our ability to purchase, design, build, stabilize and sell a number of our communities at a growing level of profitability.

Having proven the concept, we have now built or added a build to core platform. This platform enables us to build and retain our outstanding pipeline of properties and benefit from long-term ownership. We have now raised \$2 billion for our build-to-core platform which will become a long-term cash flow-producing, fee-generating, value creation machine.

And while multifamily production has generally normalized, more rental product is going to continue to be needed and we are very well positioned to continue to be careful in site selection while we fill this need and grow our multifamily platform. Our now almost \$7 billion-plus apartment strategy is proving to be very well timed as rental rates continue to climb and vacancies are at very low levels.

Next, our Rialto segment continued to see challenges of the second quarter. While our Rialto segment continued to see challenges in the second quarter,



we continue to see opportunity rising in our Asset Management business, as we get closer to realizing the embedded value of our promote from our Rialto fund investments.

We expect to begin to report our promote in the first half of 2017. Additionally, on a current basis, our Fund and Asset Management business showed improved profitability over last year's second quarter and we expect this trend to continue.

Unfortunately, volatility within the capital markets in the first quarter continued to pressure volumes and pricing on new issue commercial mortgage-backed securities into the second quarter and that continued to negatively impact our mortgage finance business.

Nevertheless, while Rialto Mortgage Finance was less of a contributor in the current period than in past quarters, we have been seeing sequential improvements in both volumes and margins for RMF and the capital markets have generally healed and we expect improvement in contributions in the second half of the year.

Rialto also suffered a onetime write-off, resulting from a discrete single asset from a bulk legacy acquisition in 2010. Overall, our Rialto platform enables us to invest across all real estate and financial products and allows us to capitalize on both short-term and long-term duration opportunities throughout the economic cycles.

While the collapse of the capital markets in the beginning of the calendar year and the onetime write-off from a single asset negatively impacted year-to-date earnings for Rialto, this volatility has also created unique opportunities for new investments in our Asset Management business.

The dysfunction in the financial markets, along with new risk retention rules and banking regulations, will ultimately work to the benefit of Rialto's core competence in CMBS and financial products and we will continue to grow as a best-in-class asset manager.

And finally, as we noted in our press release, we've successfully completed an important step in the evolution of FivePoint, our strategic, large-scale community builder. We contributed and exchanged our interest in three strategic joint ventures and our interest in the management company for an investment in a newly-formed entity called FivePoint Holdings, LLC.

This transaction marks the next step in FivePoint's evolution as a strategic developer and manager of large scale master plan communities. It also marks a next step in Lennar's strategic mission to revert to our core homebuilding base.

As the recovery matures, FivePoint will operate very independently with a self-contained management team led by Emile Haddad. We simply could not be more excited about the prospects for the future of this one of a kind leader in community development.

Overall and in conclusion, let me say that we continue to be very pleased to present our second quarter results and our overall progress this morning. We feel very confident that our view of the market and the strategies that define our business segments have worked very well to position us for continued performance and future growth.

And as I've said many times before, we are extremely confident that we have the right people, the right programs, and the right timing to continue to perform this year and into the future.

Now let me turn it over to Bruce.

Bruce Gross: Thanks, Stuart. And good morning.

Our net earnings for the second quarter were 218 million which is a 19% increase over the prior year. Revenues from home sales increased 17% in the second quarter, driven by a 12% increase in wholly-owned deliveries, and a 4% year-over-year increase in average selling price to 362,000.

Our gross margin on home sales in the second quarter was 23.1% which was in line with our stated goals. The prior year's gross margin percentage was 23.8%. The gross margin decline year-over-year was due primarily to increased land costs. Sales incentives continued to decline as this quarter was 5.7% versus 5.8% in the prior year.

Gross margin percents were once again highest in the east and west regions. Direct construction cost increases have moderated compared to the prior year. These costs were up 2% year-over-year to approximately \$53 per square foot driven entirely by labor and offset by a slight decrease in material costs.

As Stuart highlighted, we were successful in improving our SG&A operating leverage by growing volume organically in our existing homebuilding divisions and we continued to see the benefits of our focus on digital marketing. As a result, operating margins improved year-over-year by 10 basis points.

Equity and loss from unconsolidated subs was 9.6 million in the second quarter compared to equity in the earnings of 6.5 million in the prior year. The loss was primarily attributable to the company's share of costs associated with establishing the new FivePoint entity, partially offset by 6.7 million of equity in earnings from one of our unconsolidated entities, primarily due to the sale of home sites to third parties.

Other income was 14.9 million, primarily due to a profit participation from one of our joint ventures and there is a partial offset of 7 million in the noncontrolling interest line.

We opened 88 new communities to end the quarter with 692 net active communities. New home orders increased 10% and new order dollar value increased 11% for the quarter. The cancellation rate decreased to 14% in the second quarter from 15% in the prior year.

In the second quarter, we purchased 5300 home sites, totaling 437 million versus 445 million in the prior year's quarter. These numbers align with our soft pivot strategy where we are focused on buying shorter duration land.

Our home sites owned and controlled now total 166,000 home sites, of which 131,000 are owned and 35,000 are controlled. Our completed unsold inventory ended the quarter with approximately 1200 homes which is in our normal range of one to two per community.

Turning to financial services, this business segment had strong results this quarter with operating earnings of 44.1 million compared to 39.1 million in the prior year. Mortgage pretax income increased to 36.8 million from 33.5 million in the prior year. Mortgage originations were flat with the prior year at 2.4 billion.

The improved earnings is driven by an increased profit per loan due to the favorable interest rate environment. Refinance volume for the company decreased to 12% of total originations from 19% in the prior year, bringing this quarter's purchase origination volume to 88% of total originations.

The capture rate of Lennar home buyers improved to 83% this quarter from 82% in the prior year. Our title companies' profit also increased growing to 7.4 million in the quarter from 5.1 million in the prior year primarily due to higher profit per transaction versus prior year.

Turning to Rialto, this segment produced an operating loss of 13.8 million compared to operating earnings of 7.6 million in the prior year. Both amounts are net of noncontrolling interest.

The Investment Management business contributed 26.1 million of earnings which includes 6.9 million of equity and earnings from the real estate funds and 19.2 million of management fees and other.

At quarter end, the undistributed hypothetical carried interest for Rialto Real Estate Funds 1 and 2 now totals 138 million. Rialto Mortgage Finance operations contributed 386 million of commercial loans into three securitizations, resulting in earnings of 12.7 million, compared with 721 million and 29 million in the prior year, respectively, and these are before their G&A expenses.

As mentioned previously, the volume decrease was due to the disruption in the CMBS capital markets earlier this year and it has taken some time for the new loan market to ramp back up.

Our direct investments had a loss of 21 million. This included a \$16 million write-off of uncollectible receivables at a hospital acquired through the foreclosure of the distressed loan from a 2010 bank portfolio acquisition. A third-party management company operates this hospital.

Rialto's G&A and other expenses were 24.9 million for the quarter and interest expense was 6.7 million. Rialto ended the quarter with a strong liquidity position with 104 million of cash.

The Multifamily segment delivered a \$14.9 million operating profit in the quarter, primarily driven by the segment's \$15.4 million share of the gain from the sale of an operating property and a \$5.2 million gain on a third-party land sale, as well as management fee income partially offset by G&A expenses.

We ended the quarter with eight completed and operating properties, and 32 under construction, five of which are in lease-up, totaling over 9700 apartments with a total development cost of approximately \$2.6 billion. Including these communities, we have a diversified development pipeline that exceeds 7 billion and over 25,000 apartments.

Our tax rate for the quarter was 32.2%. The lower rate is a result of our continuing efforts to maximize the new Home Energy Efficiency Credit which was again extended into 2016. The tax rate for future quarters should be approximately 34%, although we will continue to focus on trying to maximize this available energy credit.

Turning to the balance sheet, liquidity remains strong with approximately 600 million of homebuilding cash and 375 million of borrowings under our \$1.6 billion revolving credit facility.

Our leverage improved by 390 basis points year-over-year, as our homebuilding net debt to total capital was reduced to 43.5%. We grew stockholders' equity by 19% to 6.1 billion and our book value per share increased to 27.92 per share. In March, we issued 500 million of five-year senior notes at 4.75%, and in April, we retired our maturing 6.5% senior notes.

In May, we converted the remaining 71 million of our 2.75% convertible notes. And in addition, during the quarter, we early converted approximately 68 million of our 3.25% convertible senior notes with an additional 136 million converted subsequent to quarter-end.

Finally, I would like to update our 2016 goals. 2016 homebuilding goals are right on track with the guidance that we gave at the start of the year with just a couple of quarterly refinements.

First, deliveries. Deliveries are still on track to be between 26,500 and 27,000 homes for all of 2016. The backlog conversion ratio in the second quarter was 88% which exceeded the previous guidance of 80% to 85%.

We capitalized on a healthy spring selling season and sold and delivered some homes in Q2 that were scheduled for our third quarter. Given that, we now expect our backlog conversion ratio to be around 75% in the third quarter. The fourth quarter is still projected to achieve a backlog conversion of at least 90%.

Operating margins are still on track to be flat to down 50 basis points for the entire year. The gross margin percent will vary between Q3 and Q4 based on our product mix. Q3 is expected to be between 22-1/2% and 23%, while the

fourth quarter is projected to be between 23.5% and 24%. We are still on track to achieve the lowest SG&A in our company's history for the full year with the greatest leverage coming in our fourth quarter.

Turning to financial services, we are assuming we will continue to benefit from the extended low interest rate environment and we are increasing our financial services goal to 130 million to 135 million of profit for all of 2016.

Turning to Rialto, we are still on track to earn between 15 million and 20 million for 2016. However, the onetime write-off of the hospital receivables will now bring the range to flat to 5 million of profit for the full year and is still weighted more heavily towards the fourth quarter.

We are still on track with 50 million to 55 million of profit in the Multifamily segment with the third quarter close to breakeven and strong profits in the fourth quarter.

The category of joint ventures, land sales and other income we expect to be flattish for the third quarter but now expect the fourth quarter to be the highest profit quarter for this category in 2016 with 20 million to 30 million of profits.

And finally, our balance sheet is well on its way on its path to lower leverage. The soft pivot strategy, the strong earnings contribution and the 400 million 3-1/4% convertible security of which half is already converted through mid-June, should bring us to a net debt to total capital in the 35% to 40% range by year-end. This will position us extremely well as we finish out 2016.

Let me turn it back to the operator to open it up for questions.

Coordinator: Thank you, sir.



We will now begin the question-and-answer session. If you would like to ask a question, please press star followed by the number 1. Please unmute your phones and record your name clearly when prompted. Your name is required to introduce your question. To cancel your request, press star followed by the number 2.

One moment, please, for the first question. Speakers, our first question comes from the line of Ivy Zelman of Zelman & Associates. Your line now is open.

Ivy Zelman: Thank you. Good morning and congratulations, guys. Great quarter.

Stuart Miller: Morning.

Ivy Zelman: Stuart or I'm not sure if Rick or Jon are on, but maybe you guys can just give us some perspective on looking at the results fundamentally within the company's framework. The ones that came in lower than you might have expected on sales and where you're exceeding.

And differentiating between price point because there is some concern around moderation at the high end whereas the lower price point seems to be very much accelerating. So that's my first and I have a follow-up. Thank you.

Stuart Miller: Okay, good. I'm going to turn it over to Rick and Jon but I want to correct one thing that I apparently said. Jon is not the Chief Financial Officer of the company. He is the Chief Operating Officer and I didn't want to dethrone Bruce inadvertently. So let me turn it over to Jon and Rick to give some color on that.

Jon Jaffe: Ivy, its Jon. Overall, we saw, you know, strong sales in different markets that tend to cover both, you know, starter price points and move up price points. For example, Pacific Northwest was strong across all segments.

Southern California was strong. Southeast and Southwest Florida were strong. Charlotte and the Carolinas also strong and Central Valley which is a more affordable price point for California.

The place that was off the most was Houston. As you would expect, as we continue to see the effects of job loss there, you see that also with our greatest increase in incentives in Houston, even though for the overall company, we're flat.

So if you look at it big picture, Florida was year-over-year sort of flat for us in absorption pace, California flat. Texas, excluding Houston, was actually improved nicely and the Carolinas were improved. And, you know, clearly, we do see some lower demand in the higher price points as compared to lower price points but generally it's still submarket driven.

Ivy Zelman: Great. That's really helpful. Thank you.

And then just secondly, on the respect to the multifamily portfolio and recognizing the strength of what you're seeing, can you talk a little bit about, you know, the lease-ups, if they're meeting expectations. You know, there is concern that we've all been talking about on the urban supply and a lot of supply that might be a bit ahead of its skis and how you think about your investment and your growth in that sector in that overall category going forward with respect to the supply dynamics.

Rick Beckwitt: Hey, Ivy. It's Rick. First, I'd tell you that we couldn't be, from our standpoint, better positioned. You've got to go back in time. We started this program back in 2011 and a lot of the pipeline was secured at points in time where, you know, there wasn't a lot of people looking for land opportunity and it's coming through the - it's coming through our machine right now.

We've got key strategies, the merchant build strategy where we're going to sell those assets and generate good, consistent profits for us as a company. And our build-to-core strategy gives us the opportunity to hold on to these assets for a longer period of time because it's in a longer growth vehicle.

As you look at the things that we've put under contract, we were very careful in, first of all, understanding where the growth in the market was going to be, focusing on vacancy levels, focusing on age of product that was close to our assets.

So just like in our homebuilding business, we were very specific on identifying where things were going to come on and compete. And I can tell you, looking across the portfolio we really couldn't be better positioned right now.

Stuart Miller: Let me jump in here, Ivy, and say that, you know, I think that we had, at the outset, a strategic advantage. We started with an overlay of homebuilding operations where we had market data and market intelligence.

We understood that we were not dealing with a national apartment market, or for sale market for that matter, but we were dealing with local markets and each one would have to be regarded carefully and individually.

We mapped out our strategy for investment for land acquisition. We were careful to avoid markets that looked like they were becoming oversaturated. I think Rick and Jon and the entire multifamily team did an extraordinary job of finding the opportunities where growth would be consistent and where we would have long dated opportunities for a sustained business.

And given the fact that we had a very deep research team already established that had an eye towards not just the rental markets but also the for sale markets we think gave us a better window into the market and better strategic positioning.

There is a lot of talk about the urban markets being somewhat overbuilt in most of those instances. Those were the markets where we saw the most action and where we didn't get heavily involved or where we did. We got involved very early at very attractive pricing.

So I think that we are starting to hear - everybody is starting to hear that there might be a little bit more heat in some of the rental markets. What I've heard articulated by one of the best and brightest in the rental market is that we're probably coming to the later innings of a double header, the first game of a double header.

We might see a little bit of softness for a period of time but it looks like and it feels like absorption is going to outstrip any kind of oversupply in fairly short order and we think that there's a lot of run rate for the multifamily markets - for the rental markets going forward.

Rick Beckwitt: And, Ivy, just a last thing on that. If we are in that stage where the market gets a little bit soft and that - what that's going to do is it's going to drive some of the people out of the market. And given the fact that we just created this \$2

billion venture, it's going to position us to really capitalize on the opportunity as people step away from the market. So we're really excited about where we are.

Ivy Zelman: Well, good luck. Thanks, guys.

Stuart Miller: Thank you. Next question?

Coordinator: Thank you. Next question comes from Michael Rehaut of JPMorgan. Sir, you line now is open.

Michael Rehaut: Thanks. Good morning, everyone.

First question I had was on the - just another type of broader health question on the general markets. You know, Ivy referred to kind of the higher end. But I was hoping to get a little bit more color around what's going on in your California markets and kind of speak to, you know, coastal versus inland empire and you mentioned Central Valley.

If we could kind of get a little more in-depth look on, you know, the different trends, different markets and again, maybe speaking to, you know, high end versus low end and the foreign buyer, you know, there's always, I think, a good amount of interest in those trends.

Jon Jaffe: Sure, this is Jon again. You know, California, as I said a moment ago, from a sales pace perspective, has, you know, remained strong year-over-year. And, you know, we see a pace of over five sales per community per month on average. Certainly at the lower price point, it absorbs faster.

California, in general though, it's hard to produce homes at the lower price points because not only of land costs but also because of impact fees being as significant as they are. And so that tends to drive, particularly in Southern California, the Bay Area, a higher sales point. And at that higher sales price point, clearly, you know, it's hard to get significant momentum above, I think, the current levels.

We are seeing a sustained interest, particularly in the Asian or Chinese buyer. We haven't seen that fall off. So if you look at a place like Irvine where it's been very significant, we have good data at the Great Park. That remains very consistent and healthy, same thing in the Bay Area marketplace. So we're seeing consistency there.

Bakersfield probably is off the most in terms of California markets. It's similar to Houston. It's not as severe though as hurt by the pullback in the energy sector which is a lot of the job creation. So there's been - in Bakersfield, so there's been job loss in Bakersfield. Fresno remains healthy, though, from a Central Valley perspective.

Michael Rehaut: Great, Jon. That was really helpful. I appreciate that.

And then just secondly, on the second half of the year, obviously, a lot of detailed guidance and really appreciate the help there but no good deed goes unturned, unpunished so just a little more clarity, if possible.

The ASP for the back half of the year, you know, you did, you know, 365 in the first quarter, 362 in the second, your average price in backlog is in the high 360s. So can we expect something similar to persist into the back half?

Bruce Gross: Mike, this is Bruce. I would say that because the mix of what's in the backlog includes a little bit more of lower priced homes, you're likely to see the average sales price come down into the 350s in the back half of the year.

Michael Rehaut: Okay. Thanks very much, guys.

Bruce Gross: You're welcome.

Coordinator: Thank you. Next question comes from the line of Susan McClary of UBS. Your line now is open.

Susan McClary: Thank you. Good morning.

Stuart Miller: Good morning.

Susan McClary: You obviously have, you know, realized a lot of benefits in what you've been doing through your marketing initiatives in the SG&A that we saw this quarter. But looking out from there, how do we think about what the next steps are and what other things could you take advantage of to continue to kind of see improvements in there?

Stuart Miller: Well, the example of migrating from conventional to digital marketing is put forth simply as an example. We have initiatives throughout our organization that are designed to use technologies to change the landscape of the way that we're operating our business.

Some other examples of that are as simple as in and around technology. We are revamping the entire plumbing system of our technology department to reconfigure in a more efficient manner the way we input information and ultimately produce reports for people in the field.

That seems, you know, kind of simplistic but in a company like ours that has evolved systems over a lot of years, going back and reconfiguring systems with a, you know, proper tubing system enables us to reduce the number of applications that we're actually using in the field with multiple points of input to drive efficient export of data to the people that need to use it on a regular basis. It will enable us to be more accurate. It will enable us to be a lot more timely, approaching real-time distribution of data over the next year or two.

This will - that initiative alone will drive cost down. We view that over the next couple of years, there's a 20 to 50-basis point reduction in SG&A that will derive just from that.

Now there might be some intermittent ticks up in cost but primarily, the trend will be down.

In our production arena, we are using our technologies to look at the number of models and the efficiency of the plan designs that we're offering our customers in the field.

We're looking at technologies to review and to consolidate the view of SKUs that we're offering across our different markets. All of these things we view as opportunities to bring another 10, 20, 50 basis points to either the reduction of SG&A or potentially the efficiency of our construction efforts.

Susan McClary: Okay. Thank you. That's very helpful.

And then, you know, just in terms of the sort of labor side I know that you noted that your costs were around about 2%, I think, you said in the quarter.



We are hearing that in some areas perhaps things are getting a bit better there. Can you just give us more detail on what you mean?

Jon Jaffe: This is Jon. I wouldn't describe conditions as better. What you see is a change as the construction cycle moves into this part of the year. So you see more stress perhaps in the drywall area today than you did before and perhaps less stress at the frontend with flats. But overall, it remains very constrained.

All of the increase for us was in the Labor category. In fact, because of the low point of lumber in our deliveries in Q2, actually material costs were down for us year over year.

So still can see pressure in labor and it ties into the point Stuart was making, we are very focused on doing a better job of our tools communicating with our labor force so that we can communicate job site readiness and their availability and be better connected with our trade partners.

Susan McClary: Okay. Thank you.

Stuart Miller: Next question?

Coordinator: Next question comes from the line of Robert Wetenhall of RBC Capital Markets. Sir, your line now is open.

Michael Eisen: Good morning. This is actually Michael Eisen on for Rob today. Just a quick question for you guys. Looking at some of the trends that I'm seeing quarter-over-quarter on your orders and demand, I was wondering if any of the strength in the central market or kind of slowdown in the west and some other regions is due to a change in community count and footprint as opposed to just organic demand. And if you guys could touch on some of the markets that

have been outliers for you of either strength or weaknesses, greatly appreciate it.

Jon Jaffe: This is Jon. Again, you know, the biggest needle mover was the decline in sales pace in Houston when you look at the central. Other markets in the central, you know, saw an improvement in Phoenix, and Dallas has remained very strong and improved year-over-year in terms of sales pace. And the west, you know, fluctuates very much based on community openings.

So for example, the Bay Area, which remains very strong, was down year-over-year, and that's just based on timing. You know, we went from an absorption of over seven sales per month per community to five.

Five is very healthy but I would just say that's just depending on timing of communities and very similar throughout the rest of California.

Michael Eisen: So thinking about timing for the remainder of the year, would you expect those trends in California to persist or will additional communities come on to market that'll help benefit those rates in the region?

Jon Jaffe: I think, in general, you see as municipalities struggle to deal with the increase in activity, a slowness in bringing communities online. So I think you'd expect that trend to continue somewhat.

Michael Eisen: Great. That's very helpful. Thank you, guys.

Rick Beckwitt: And if you look at central activity, our sales were up 22% year-over-year for the quarter. We've got some communities that were held back because of weather. It was really wet in parts of the Central US. And so you'll start to see those come on end of this quarter, beginning of next.

Michael Eisen: Very helpful. Thank you, guys.

Jon Jaffe: Welcome.

Coordinator: Thank you. Next question comes from the line of John Lovallo of Merrill Lynch. Sir, your line now is open.

John Lovallo: Hi, guys. Thanks for taking my call as well. The first question is on the operating margin outlook to be flat to down 50 basis points year-over-year. And this is, you know, despite 20 basis points of improvement in the first quarter and about 10 in the second quarter.

You know, I understand that the third quarter gross margin expectations seem to be a bit tempered but it just seems that, you know, the leverage that you should get on the higher volume in the back half of the year could be an offset. So it just feels like there might be a little conservatism baked in there. Can you help me understand that?

Bruce Gross: Yes, John. This is Bruce. You know, as you look at the prior year, you know, we had some pretty strong operating margins, especially in the third quarter as you're looking at year-over-year and then the fourth quarter.

So as you're looking at any change in volume, our third quarter won't have as much increase in volume as our fourth quarter is likely to have year over year. So there's not much leverage there. So we are not trying to be conservative.

I think as we've laid out this guidance and updated it from quarter to quarter, this is what we really think is going to come in. So, you know, as you do the

math with those numbers, I think you'll see us right in that range. There's no conservatism that we're trying to put into the guidance that were given.

John Lovallo: Okay, thank you. And then the follow-up would be, you know, realizing that Houston has still been, you know, a challenging market with oil kind of creeping back in that \$50 per barrel range. How has the mood been? I mean, are you guys seeing signs that things could be, you know, at least bottoming?

Rick Beckwitt: Yes, we are seeing signs of that. You know, the biggest issue associated with Houston right now is you're still seeing positive employment growth. The issue is that that growth is really happening at the lower wage jobs as opposed to the higher wage jobs.

Driving that or stemming from that, our lower priced homes and we have a lot of communities in Houston that are focused on the lower price are doing extremely well. It's really once you get above that \$400,000 price point in the oil corridor where sales are off. And if you were to break out our business between our higher price and our lower price, what's dragging Houston down is the higher price communities.

That being said, we've got some core assets that are lowland basis that we are just hanging on to and metering out to sales to the buyers that are there.

We are seeing the decline in rig counts slow down. You're starting to see a little bit more relo activity or talk of relo activity as oil inches back up. As it moves above 50, 55, I think you'll start to see an overall change in temperament throughout the market.

John Lovallo: Okay. Thank you very much, guys.

Stuart Miller: Next question.

Coordinator: Thank you. Next question comes from the line of Jade Rahmani of KBW.  
Your line now is open.

Jade Rahmani: Thanks for taking my questions. Just a broad strategic question as the Lennar family of companies has expanded, is there vision for the company to evolve into more of a real estate asset manager, Brookfield type of company or do you see the company remaining at its core a homebuilder with other, but perhaps fewer, related offshoot businesses that you mentioned with FivePoint, you know, the potential for simplification?

Stuart Miller: Yes. Our strategy -- and we've been talking about it for some time now -- is with the maturity of the market, we're clearly focused on reverting to our core - what we almost call reverting to pure play.

We think that, you know, the development of some of these strategic ancillary businesses were very much a part of growing the core out of the downturn and leveraging opportunities that were part of our DNA.

But having developed those strategies to elements of maturity, we think that there are opportunities that we have maintained as optional opportunities for those businesses to find better programs for themselves. You see that embedded in the way that FivePoint has been evolving.

If you look at the management team of FivePoint, led by Emile Haddad, who we have been working - he's been working within the company for over 20 years, you know, the management team is a self-sufficient, independent, you know, highly confident, industry-leading management team that's prepared to

operate very independently. And, you know, as has been reported, we have been looking at an opportune time to invigorate an IPO.

The market doesn't happen to be there. But with that said, it's emblematic of the strategies that we've employed. Jeff Krasnoff leads Rialto. Rialto has its self-sufficient team. And of course, as we've talked about quite a lot on this call, our Multifamily Program, LMC, is also led by Todd Farrell, very strong leader with a core management team that it, too, is operating very independently.

So while under the Lennar umbrella we all tend to thrive and work well together and synergistically, the core mission right now is to revert to pure play as a homebuilder and to ultimately over the next years, as opportunities present themselves, find proper homes for those opportunities.

Jade Rahmani: And on the Rialto side, you know, with risk retention quickly approaching on the horizon for the end of this year, you know, are you viewing that as an opportunity? And specifically, is there an opportunity to raise funds that would be - are you seeing demand from institutional investors to participate in risk retention funds?

Stuart Miller: Well, look, we've talked about that a number of times and, look, Rialto has, you know, some of its legacy assets that came about in the beginnings of the recovery are a minor drag to an operation but the big bold opportunity is this blue chip operating machine that we have built as an asset manager and as a conduit business.

That business is really well crafted to participate in this ultra-regulatory environment that we have run into where both bank regulation, whether it's

Basel III or Dodd-Frank, and risk retention rules all kind of migrate business in the direction of the platform that we've built.

And over time, Rialto was going to benefit from these things is well positioned. The money that we have raised is clearly earmarked for those kinds of things and it convinces a real confidence in the opportunity set that lies ahead.

Jade Rahmani: Thanks very much.

Stuart Miller: You're welcome. Next question?

Coordinator: Thank you. Next question comes from the line of Mike Dahl of Credit Suisse. Sir, your line now is open.

Mike Dahl: Hi, thanks for taking my questions. First question, just to pick up on some of those FivePoint comments, just maybe some clarification there, I think the original intent was that this formal combination was conditioned on an actual IPO. So just curious if the overall structure is the same.

Your ownership interest is the same as originally contemplated. What's the rationale for going ahead and, you know, formally converting the interest today and then it looked like you recognized some costs alongside that this quarter. So how should we think about any P&L impact over the next couple of quarters related to this?

Stuart Miller: I think in a general sense, the transaction is very similar. As is widely known, the IPO market has been tepid, at best. It's just not the opportune time but the strategy of putting together FivePoint and large-scale communities under one umbrella management team was a strategy that was primary under any

circumstances. The contribution that we made basically had a very similar net impact. There might be some nuance differences.

And in terms of FivePoint's profitability going forward, I think you'll look to the numbers that come out from FivePoint independently, as it has asserted itself as an independent entity, very much part of our construct.

So I think that what you're seeing is very similar to what we articulated as part of an IPO process but just not with the fruition of the IPO process. And the combination that we've engineered in anticipation of something in the future is about creating efficiencies and effectiveness and growing this large-scale blue chip operating platform for large-scale community development.

Mike Dahl: Okay. Thanks for that, Stuart.

And then second question, just going back to some of the margin guidance and so I understand the operating margin is flat to down 50. If I look at the gross margin guidance specifically and kind of look at midpoints and combine with some of the backlog conversion numbers, it looks like the guide is effectively towards the lower end of the 23 to 24 for gross margins. And, you know, again, I understand there's some offsets on the better SG&A control. But just curious, what are - you know, what's driving that difference in - or driving you towards the lower end of the gross margin guide compared, you know, to three or six months ago?

Stuart Miller: Well, look, you know, I think that what we've articulated is a slow and steady growth recovery environment that has defined housing but a lot of choppiness along the way. And I guess if there's a representation of the choppiness we're talking about, it's the way that the first quarter evolved, kind of as a surprise to everyone.



Fed raised interest rates starting January 1st right out of the chutes at the beginning of the year. The capital markets tanked and it created some lack of confidence in the consumer. I think, generally speaking, you can't time where the choppiness actually exist. And so we left a fairly wide range as we gave guidance at the beginning of the year.

We're probably trending to the lower parts of that range but I think it derives from the choppiness that's embedded in the system and the way that the years started out. And so at the end of the day, I think this is well within kind of the range that we've articulated.

I don't think it should be of any concern that we're trending towards the lower part of that range. In fact, it's exactly why we gave the range that we did, recognizing that there's some tugs and pulls to the downside as well as the upside but we still believe very strongly that the trend is upward.

Mike Dahl: Right. And is this - I guess if we're looking out, you know, to next quarter, is this something where this is just a lack of pricing power that you would have anticipated or will we actually see incentives tick up in what's delivered over the next two quarters?

Rick Beckwitt: I think it's - this is Rick. It's a combination of several factors. Choppiness, as Stuart said. You know, we are seeing some labor price increases out in the field and that's flowing through our product.

Certainly, the building material manufacturers are trying to get more for their product as well. That, combined with a slowing of sales price increases, has caused our margins to compress a little bit.

You know, as you step back from that, I would say that there's still very healthy margins. We're very much focused on operating margin. If we can get some incremental deliveries, we'll see the play on operating margin and that's really how we're operating the company.

We are - you know, we continue to benefit from some land assets that we bought in prior years. But when we're replacing those land assets in a little bit higher land cost basis running through, so it's a combination of all those things that has an impact on gross margin.

Stuart Miller: And let me just, in this context, remind one thing that I said in my initial remarks and that is, you know, we tend to look at national numbers, even the roll-up of Lennar's numbers are a national roll-up across the country. You know, we're actually dealing with a lot of very, very different markets that roll up and sometimes give some kind of quirky roll up results.

And so each market is operating very independently, is finding that the volatility in its unique market can sometimes relate to jobs, can sometimes relate to macro environment, can sometimes relate to the international environment. And so you're seeing a roll up of all of those trends. So let's not forget that these are a lot of local markets that are operating very independently.

Mike Dahl: Right. Always a good reminder and thanks for the color.

Stuart Miller: You bet. Let's take the last question.

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

Tim Daley: Thanks for taking my call. This is actually Tim Daley on for Nishu.

Stuart Miller: Okay. Good morning.

Tim Daley: My first question is kind of touching back with what Ivy was discussing in the Multifamily business. So I noticed that you mentioned that you kind of started the Multifamily business by gathering market data and the market intelligence that you had via the single family operations. Does that mean you're traditionally targeting the same markets in multifamily as currently operating on a single family? And how does this dynamic interact, if that's the case?

Stuart Miller: No, I wouldn't think of it exactly that way although that is - we are all targeting the same basic buyer. It just it kind of depends on what the appetite of the buyer is at a moment in time.

But I think that what we were articulating is that our keen understanding of each local market gave us an advantage as a new entrant to understanding where the demand actually lay and what the opportunity set was.

It also gave us a very sensitive group of tentacles in the market as to where activity was evolving. So it enabled us to avoid the markets that were perhaps getting a little bit too hot while gearing towards the markets that had the most - the deepest set of opportunities.

So I would say that the multifamily group has interacted very symbiotically with the for sale group and it's really worked to our benefit in developing a long-term strategy.

Rick Beckwitt: So let me just add a little more color on that. If you look at the first-time buyer, they are generally focused on, because of affordability, suburban type

of opportunities that require a little bit longer commute for them to get to where their work center is.

In our multifamily operation, what we focused on is very transit-oriented locations, suburban/urban, a little bit urban, very location specific for folks that can't or may choose not to buy but want to rent and they want to be in a live/work/play type of environment. So we really got two discrete strategies going on right now to capture that person that's in that first-time buyer world.

Tim Daley: Understood. Great. And then just to follow up on that, if you do just kind of obviously a little higher level, but if you do overlap in some of these markets, which I assume you kind of do, how do you see the ability to price rent versus the ability to price the single family to buy homes?

Stuart Miller: Well, look, let's remember that we are always competing as a for sale homebuilder against the rental markets and perhaps more importantly against the existing home markets.

So we've been pricing against rental rates for decades and the fact that we happen to be producing some of those rental communities in our markets is incidental. The fact is in none of our markets are we a dominant factor.

To the contrary, we might have a community or two in any of the markets in which we operate in and our homebuilding operation and pricing per se operates very independently from the way that we're pricing rental rates.

I would say to steer clear of viewing those two - any kind of relationship in rental rates and for sale pricing as interdependent as it relates to our management team pricing either one.

Tim Daley: All right. Great. Thank you for the color.

Stuart Miller: Okay, great. Well, listen, thank you, everybody, for joining today. I couldn't be happier to present our results. We think we're on a good track and look forward to reconvening to report our third quarter earnings.

Coordinator: Thank you. And that concludes today's conference call. Thank you all for participating. You may now disconnect.

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