

**LENNAR CORP**

**Moderator: Grace Santaella**  
**September 20, 2016**  
**11:00 am EST**

Operator: Welcome to Lennar's Third 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 statement.

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.

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

Stuart Miller: Great. Good morning, everyone. Thanks for joining us. And I am here this morning joined by an assorted group of our management team, including Bruce, of course, our Chief Financial Officer; Rick Beckwitt, our President; and Jon Jaffe, our Chief Operating Officer; Jeff Krasnoff, CEO of Rialto and some others. But those will be the primary participants.

I am going to briefly give some remarks and then Bruce will jump in with some additional detail and then we will open up to Q&A. And as usual, I would like to request that we can get as many questions as possible in our hour that you limit yourself to one question and just one follow-up please.

So, great. Let me go ahead and begin and say that our third quarter 2016 results reflect yet another quarter of strong operating results for our company. We have consistently believed that we are in a slow steady though sometimes choppy housing market recovery and we have crafted our operating strategies

specifically to position us well to grow steadily and consistently and to act opportunistically in these market conditions.

As we have noted over the past years, the overall housing market has been generally defined by a rather large production deficit that continued to grow over the past years. This deficit is particularly focused on the first time homebuyer segment of the market and this part of the market was rather late to begin its slow and steady improvement as well.

While questions have been raised as to the real normalized levels of production that are required to serve the growing U.S. population, we continue to believe that production levels in the 1 million to 1.2 million starts per year range are still too low for the needs of the American household growth that is now normalizing. Additional questions have been raised as the effect of an increase in interest rates relative to the recovery for first time homebuyers segment.

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, sometimes erratic market improvement that will not be derailed by slow movements in interest rate and this goes for both first-time and move-up purchasers.

With that said, it's important to note that the housing market is not really a national market, but instead it's a large number of very local markets each with different dynamics that are averaged together - that generate some sometimes quirky results and data. While demand has been constrained by limited access to mortgages, stronger general economic conditions, including lower unemployment, wage growth and general consumer confidence are still

driving consumers to form new households and to purchase homes and to rent apartments.

We continue to expect that demand will build and come to market over the next years and that will drive increased production as the deficit in housing stock ultimately needs to be replenished. Nevertheless, availability of land and labor shortages continue to be limiting factors and constrained supply and restrict the ability to quickly respond to growing demand while the mortgage market and higher rents continue to limit that demand.

We expect that these conditions will continue to result in a slow, steady, positive homebuilding market and will enable slow and steady growth throughout the industry. These have been our consistent guiding views over the past years and we have mapped our operating strategy around these views. 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.

Now, against that backdrop, let me briefly discuss each of our operating segments. Our for-sale homebuilding operations continue to operate at a very high level of efficiency with a steady growth pace and a focus on operational excellence. Our results reflect execution of our operating strategy as our new home orders increased 8% year-over-year while community count grew 3% and our average home price grew 3% to approximately \$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 managed sales prices, maximized margins and focused on reducing SG&A to offset and maintain a strong net operating margin, which came in at 13.2% for the third quarter. This focus has helped improve our balance sheet

as well with our net homebuilding debt to total cap coming in at just below 40% with further improvement expected in the fourth quarter.

As we have noted in past conference calls, we have adjusted our for-sale housing strategy as the recovery has matured and land pricing has gotten more expensive. We have noted three components of our core homebuilding strategy. One, soft pivot; two, target lower growth rate; and three, focus on SG&A.

We have talked consistently and extensively about our soft pivot land strategy over the past years away from land heavy acquisition strategy in the early stages in the recovery. We are now targeting high-quality “A” location land acquisition with a shorter 2 to 3-year average life. Additionally, we have ramped up our first-time homebuyer offering organically with lower land cost as that segment of the market continues to recover.

Second, we have noted in the past quarterly conference calls that given the now mature recovery, we have been and continue to carefully manage and limit our growth in orders to concurrently grow bottom line and to drive strong cash flow. We have moderated our top line growth targets to achieve a growth rate in the 7% at 10% range as we have redirected our management efforts towards maximizing our net operating margin.

Third, with less pressure on top line growth, we have intensified management focus and 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 operations. I noted an example last quarter and highlighted that we have been reducing customer acquisition costs through our digital marketing initiatives.

We have expanded our focus to other operational elements of our business and are seeing reductions in expenses in those areas as well. It is noteworthy that this quarter's SG&A of 9.3% is the lowest third quarter SG&A in our company's history. Our homebuilding operations are becoming extremely efficient operating machines. With demand growing steadily, land limited, labor tight and constrained mortgage availability, we believe that our three-pronged strategy for our homebuilding segment positions us well for steady growth and as well the ability to use a strong balance sheet to act opportunistically.

Moving on, our financial services group is continuing to expand and improve and has had an outstanding second quarter as well. While the financial services operations have grown alongside our core homebuilding business, we have 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 sidecar opportunities have continued to expand our platform as we have moved through 2016 and that's reflected in our operating earnings of \$53.2 million, up 35% over last year.

Our strategy for the future of Lennar Financial Services continues to be to construct and maintain a fully 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 platform continues to develop as the leading blue-chip developer of apartment communities across the country.

The third quarter has continued an outstanding run for LMC, Lennar Multifamily Communities, which continues to complement our for-sale

homebuilding operations. With the home ownership rate continuing its decline, now dropping just below 63%, many new households have either been forced or are inclined to rent rather than purchase and 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 the growing percentage of our for-sale homebuilding business continues to be geared towards first-time purchasers, our broader new household strategy has targeted the rental market as well. As we have continued to expand our national footprint, we have matured and evolved from a merchant build program, which was designed to prove our base concept.

This beginning phase has worked extremely well, as reflected in the sales of properties we have recorded to-date and the additional sales that will close in the fourth quarter as well. Through those sales, we have proven our ability to purchase, to design, build, stabilize and sell quite profitably a number of our communities at an increasing 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 currently a solid \$2 billion for our build-to-core platform, which will become a long-term cash flowing - cash producing, fee generating value creation machine. While multifamily production has generally normalized and some have expressed concerns about over building in some markets, nationally, more rental product is going to continue to be needed to fill the national production deficit.

And we are very well positioned to continue to be very careful in site selection while we fill this need and grow our multifamily platform. Our now \$7 billion plus apartment strategy is proving to be very well timed, as rental rates have climbed to exceed our original underwriting and vacancies remained at very low levels.

Next, our Rialto segment saw a nice turnaround in the third quarter as the capital markets stabilized after a rough start in the first half of 2016. During the quarter, market conditions continued to improve and RMF completed - Rialto Mortgage Finance completed its 30th and 31st securitization transactions with gross margins ranging from 5.4% to 5.7% and with almost \$500 million of RMF originated loans. Rialto Mortgage Finance maintained its position as one of the largest non-bank CMBS loan originators.

With the rebound in the market, the securitization transactions occurring this quarter, generated the single largest contribution of loans Rialto Mortgage Finance has ever made and also the largest net margin for a single transaction in our history. This brings our total to almost \$6 billion of securitized loans since RMF's inception.

On the asset management front, we also previously announced the first closing of commitments of our third fund. And although we can't really say anything more as we are still in the market, this fund will complement our other opportunistic fund with readily available capital to invest as we have approximately \$920 million of investor equity dedicated to mezzanine and transitional lending in those other funds. Our first two flagship opportunity funds have both been top quartile performers.

Fund one became fully invested in early 2013 and we now distributed 135% of investors' original capital from income and monetization. And with the



distribution through this quarter, Rialto now has already realized 2x its original investment with a lot more to go. We expect to begin to report, promote on this first fund in the first half of 2017. Additionally, on a current basis, our fund and asset management business shows improved profitability over last year's third quarter and we expect this trend to continue.

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 cycle. The dysfunction that we saw earlier this year in the financial markets, along with new risk retention rules and banking regulations, are beginning to work to the benefit of Rialto's core competency in CMBS and financial products and we have the capital available to invest.

Finally, FivePoint is now a self-sufficient standalone company that is a premier strategic large scale community builder. As we stated in our last quarterly conference call, we contributed and exchanged our interest in three strategic joint ventures and our interest in the management company for an investment in this newly formed entity. This transaction marks the next step in FivePoint's evolution as a strategic developer and manager of large scale master planned communities.

It also marks a next step in Lennar's strategic mission to revert to our core homebuilding base as it liberates FivePoint to act independently, raise capital and utilize its pristine balance sheet to operate opportunistically. FivePoint will operate very independently with a self-contained management team under the leadership of Emile Haddad, who many of you know. We simply could not be more excited about the prospects for the future for this one of a kind leader in community development.

So in summary, overall let me say that we continue to be very pleased to present our third quarter results and our overall progress this morning. We feel very confident that our view of the market and the strategies that have defined our various business segments continue to work very well to position us for continued performance and for future growth. As I have said many times before, we believe very confidently 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. I will provide some more color on our businesses and conclude with an update on our 2016 goals. Revenues from home sales increased 11% in the third quarter, driven by a 7% increase in wholly owned deliveries and a 3% year-over-year increase in average selling price to \$362,000. Our gross margin on home sales in the third quarter was 22.6%, which was in line with our stated goals. The prior year's gross margin percentage was 24.1%. The gross margins decline year-over-year was due primarily to increased land costs.

Sales incentives were 5.9% this quarter compared to 5.6% in the prior year, with the largest increase coming from the Houston segment, particularly with higher price communities. Gross margin percents were once again highest in the East region. Direct construction costs have increased moderately compared to the prior year. These costs were up 2.5% year-over-year to approximately \$53 per square foot.

This was driven entirely by labor offset by a slight decrease in material costs. As Stuart mentioned, SG&A as a percentage of revenue improved - it improved by 60 basis points as we were successful gaining operating leverage by growing volume organically in existing homebuilding divisions and from the benefits of our focus on digital marketing.

Other income was \$30.9 million primarily due to a gain of \$8.7 million on the sale of a clubhouse, which we originally were projecting to close in the fourth quarter. Additionally, we had \$17 million of management fee income from one of our strategic joint ventures. Equity and loss from unconsolidated entities was \$18 million, which included our share of the loss related to the \$17 million that I just mentioned in other income and our share of net operating losses and one-time charges from the newly created FivePoint entity in combination that Stuart mentioned.

This quarter, we opened 66 new communities and ended the quarter with 694 net active communities. Our sales pace was higher compared to the prior year at 3.4 sales per community per month versus 3.2 in prior year's quarter. The cancellation rate decreased to 16% in the third quarter. And we purchased approximately 5,400 home sites totaling \$264 million versus \$267 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 159,000 home sites, of which 129,000 are owned and 30,000 are controlled. We brought down our completed unsold homes during the quarter. It came down 19% sequentially to 973 homes.

Turning to financial services, they had strong results this quarter with operating earnings of \$53.2 million compared to \$39.4 million in the prior year. Mortgage pre-tax income increased to \$38.3 million from \$31.4 million in the prior year. The improved earnings were driven by an increased profit per loan due to the favorable interest rate environment. Mortgage originations increased to \$2.6 billion compared to \$2.4 billion in the prior year as a result of a focused effort to capitalize on the low mortgage rates in the third quarter,

we achieved a 56% increase in refinance origination volume versus the prior year.

The capture rate of Lennar homebuyers remains consistent with the prior year at 82% capture rate. And our title company also had a strong quarter. Their profits increased to \$15 million from \$8.2 million in the prior year and that was also primarily due to higher refinance transaction volume in the current year. Additionally, they had a great focus on operational efficiencies driving additional bottom line profit.

Turning to Rialto, this segment produced operating earnings of \$5.9 million compared to \$9 million in the prior year. Both amounts are net of non-controlling interest. The investment management business contributed \$27.6 million of earnings, which include \$6 million of equity and earnings from the real estate funds and \$21.6 million of management fees and other.

At quarter end, the undistributed hypothetical carried interest for Rialto Real Estate Funds 1 and 2 now totals \$141 million. Rialto Mortgage Finance operations contributed \$491 million of commercial loans into two securitizations resulting in earnings of \$27.2 million compared with \$519 million and \$14.2 million in the prior year respectively. And that's before their G&A expense.

The increase in earnings was primarily due to an increase in the net margins. This year was 5.4% in the third quarter versus last year's third quarter at 3.1% net margin. Our direct investments had a loss of \$5.6 million during the quarter. And Rialto G&A and other expenses were \$36.2 million for the quarter and interest expense, excluding the warehouse lines, was \$7.1 million. Rialto ended the quarter with a strong liquidity position with \$133 million of cash.

The multifamily segment delivered a \$2.6 million operating profit in the quarter, primarily driven by the segment's \$8 million share of a gain from the sale of an operating property, as well as management fee income partially offset by G&A expenses. We ended the quarter with 8 completed and operating properties and 37 under construction, 10 of which are in lease up, totaling over 11,000 apartments with a total development cost of approximately \$3.2 billion. Including these communities, we have a diversified development pipeline that exceeds \$7 billion and over 20,000 apartments.

Our tax rate for the quarter was 31.1% compared to 30% in the prior year's period. The rate is lower than expected for this quarter as a result of our continued efforts to maximize the new home energy efficiency credit, which was extended into 2016. We will continue to focus on maximizing this energy credit. And therefore, we believe the tax rate for the fourth quarter will also be lower than previously expected. We believe that will be a range of 33% to 34%.

Our balance sheet is strong. Our operating strategies had focused on driving cash flow generation. And this quarter, we generated positive operating cash flow. Liquidity remained strong with approximately \$568 million of homebuilding cash and \$125 million of borrowings under our revolving credit facility, which during the quarter was increased to \$1.8 billion. Our leverage improved by 650 basis points year-over-year as our homebuilding net debt to total capital was reduced to 39.9%.

We grew stockholders' equity by 22% to \$6.5 billion and our book value per share increased to \$28.73 per share. During the quarter, we early converted an additional \$175 million of our 3.25% convertible senior notes. And for the

year, we have now converted a total of \$243 million of those notes. Our next debt maturity matures in June of 2017 and we look forward to retiring \$400 million of 12.25% senior notes, which currently cost us \$50 million per interest per year.

Finally, I would like to update our 2016 goals. We are still on track with our 2016 goals with a few refinements for the fourth quarter. First, deliveries are still on track with our original 2016 goal to deliver between 26,500 and 27,000 homes. The fourth quarter is projected to achieve a backlog conversion right at 90%. We expect the average sales price for these deliveries to be between \$355,000 and \$360,000 per home.

Turning to margins, the gross margin percentage for the fourth quarter is projected to be approximately 23.25%. And we are still on track to achieve the lowest SG&A percentage in the company's history in 2016 with our fourth quarter expected to see another 50 basis points reduction sequentially below the third quarter's 9.3%. So, that would bring it around 8.8% for the fourth quarter.

Financial services, our second and third quarter are typically the highest profit quarters for LFS. However, given the continued favorable interest rate environment, we are also increasing our goal for the fourth quarter for this segment to a range of \$37 million to \$40 million for the quarter. Rialto earnings are projected to be in a range of \$5 million to \$7 million of profit for the fourth quarter.

And multifamily, based on our favorable sale expectations for between 4 and 5 communities for the fourth quarter, we are increasing our multifamily goal to a range of \$30 million to \$40 million for the fourth quarter. Joint ventures, land sales and the other income, which I will group together, we were

successful in accelerating some of the projected fourth quarter land sale and clubhouse transactions into our third quarter. So, we are now updating our projection to this category to \$5 million for the fourth quarter.

And then finally with our balance sheet, as we noted, our third quarter net debt to total capital has come down below 40% and we are well on our path to lower leverage. As Stuart mentioned with our operating strategies, our strong projected earnings, our soft pivot strategy and converting the remainder of the 3.25% convertible, which will shift from debt to equity in the fourth quarter, all of this will continue to lead to lower leverage, which has given us a rock solid balance sheet and positions us well for opportunities as we finish out 2016.

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

Operator: Thank you. We will now begin the question-and-answer session. If you would like to ask a question, please press star 1. Please unmute your phone and record your name clearly when prompted. Your name is required to introduce your question.

To cancel your request, you may press star 1. To all questioners, please limit yourselves to one question and one follow-up (unintelligible) been allowed to ask. Our first question is from Bob Wetenhall of RBC Capital Markets. Your line is open.

Bob Wetenhall: Hey. Thanks for taking the question and good morning. A lot of focus on gross margins, and Stuart has been consistently talking about the soft pivot strategy and I was hoping, instead of just focusing on this quarter, we could kind of walk through your thinking process on gross margin and profitability in the context of your comments about delivery growth of 7% to 10%

annually. It sounds a little bit like you are doing more with less inventory, but you are keeping margins high. I am just trying thinking about the trajectory of how this unfolds, not just today, but more in 2017 and 2018?

Stuart Miller: Okay. You know, so we have been pretty consistent Bob, in saying that we expect our gross margins to be drifting down. We highlighted that at the beginning of this year and as we move through last year as well. But we also focused attention on net operating margin primarily recognizing that as land that was bought at very low prices flow through our system, margins would be higher. As that land dissipated and we ended up with more shorter term land, our margins would - our gross margins would drift down.

But we felt that as the recovery matured, we would continue to focus on bringing down our growth rate, focusing on efficiencies in our SG&A, as we have been articulating and really driving increased earnings through more efficient net operating margin. Let me turn to Rick and Jon and have them weigh in on that.

Rick Beckwitt: Yes. This is Rick. The natural evolution of a soft pivot is that you're starting to take less risk in land. Associated with that risk profile is a margin presence. You're looking for near-term opportunities, quicker turns. So gross margin will naturally come down and IRRs will come up. And so when we're going less long on some of these positions, it means that you're paying a little bit closer to retail than you were in buying wholesale.

The other thing that we have been doing is we really been managing pace and price. A great example of that is notwithstanding the fact that the Houston market is definitely softer given the turmoil in the energy markets. But if you look at our performance there for the last quarter, you know, sales were off by 14%, but our ASP was up by 4%. So in a tough market, we are really trying to



maximize the value of the quality assets that we got there and not give the homes away. We certainly could sold more homes, but we're really managing it.

Jon Jaffe: Hi Bob, its Jon. Just to add on, in addition to the impact we see from the land strategy, we continue to manage in that environment on each community price and pace balance.

If you look at, for example, California and Florida, this past quarter, we averaged over one sell per week. It's a really healthy pace. And we're doing that in environment where there isn't the same kind of pricing power there was a year ago. So that will all drive our net operating margin to maintain a very healthy rate while we see that compression on a gross margin.

Bob Wetenhall: Well, I got to say you, guys, are doing a nice job of striking the balance between price and pace. And thanks for articulating how this unfolds.

Maybe as a second question and follow-up, Stuart's made reference to the ancillary businesses starting to mature. And obviously expectations for multifamily making a much larger contribution in 4Q are becoming visible. And the Rialto business sounds like the promote is going to become much more visible in the first half of 2017.

Can you give us a little bit of a roadmap for thinking about the timing and how you might monetize these assets? It sounds like you've had a lot of progress bringing them up the curve. It sounds like they're kind of ripe. How should we be thinking about the game plan as you revert to a pure play homebuilder moving through the cycle?

Thanks, and good luck.

Stuart Miller: Right. So thanks, Bob.

Well, we've been very focused on that notion of reversion to pure play. And that's a story that's going to play out over the next couple of years. This construct doesn't change overnight.

We've highlighted very clearly that FivePoint is our starting point in all of that. FivePoint, we have seen a consolidation of our interest and a unification under a corporate umbrella where - which was being overseen by its CEO, Emile Haddad. And FivePoint is positioned to see it evolve into its own independent company, managed by its own complement of executives and overseeing by its own unique board of directors, which parenthetically, myself, Rick and Jon are a part of.

That's an example of how we will continue to think about our ancillary businesses, move them through the system.

The second area is in the apartment area. You're already starting to see a migration through that merchant-build program and towards our build-to-core program which in many ways is a very separate program. It again, like FivePoint has its own complement of management.

And that build-to-core program is an opportunity for us to build a stream of earnings that is consistent, it's fee-generative and enables us to realize on the great value that we're creating.

Rialto continues to build to be able to be strategic in its alignment for the future. But we don't have a current path for Rialto that we've articulated. But as Rialto's Asset Management and RMF, Rialto Mortgage Finance businesses

continue to grow, we think that there are tremendous opportunities for that company to combine to IPO to do a variety of things as we really start to focus on the core homebuilding business.

Rick Beckwitt: And it's Rick, Bob.

You know, one sort of data point is if you look at Q4, we're guiding to an increase between \$10 million and \$15 million just for the multifamily group. So I think you'll start to see a more consistent level of big nominal profitability for quarter as we build through the merchant-build program and get into that cash-recurring, fee-generating core program.

So that will become very visible.

Stuart Miller: Okay, next question.

Coordinator: Next question is from Ivy Zelman of Zelman & Associates. Your line now is open.

Ivy Zelman: Thank you, and good morning, guys. Good quarter, 15 in a row beating expectations.

I guess what I'd like to address, if I could with all of you, is sort of the elephant in the room, right? Investment community is very focused on looking at compression of gross margins which, you know, we appreciate that that's sort of a natural progression of, you know, the gap you guys have closed between retail versus distressed.

And, Stuart, I think you've done a great job in articulating that message for quite some time. But the big concern is, is that you're not going to be able to

grow operating earnings in homebuilding as margins, even with the improvement in SG&A drop down, your EBIT margin, you know, operating margin from homebuilding is down year-over-year, although it's amongst the highest of the sector.

And I think what we'd love to hear, what - this cycle is different in many ways. And when you look at the multi-year outlook, can you continue to drive improvements in ROE, utilizing the cash flow you're generating to drive shareholder value and give the investors on the line more confidence that there is growth and probably better than S&P and alternative? With the stock down, I think it's very near-term focused on gross margins, which they're not seeing the bigger picture. So if you can elaborate sort of your vision and how do you generate better cash flows through the strategy that will ultimately drive returns.

Stuart Miller: So - okay, so that's a great question. And I think it is on a lot of people's minds.

Our view has been that our gross margins will continue to drift downward. I think if you look at the average of the industry, if you look at what's normalized gross margin in the industry, you're probably looking at 21%, 22%. And over time, we'll probably drift in that direction. The industry average might even be lower than that.

But I would say a few things. You know, we have a lot of guns in our arsenal. You know, we've been very focused on operational efficiency. We're not focusing on stretching growth in an environment that just isn't giving it easily. Land is expensive. Land is hard to come by. People are expensive and hard to come by. It's hard to grow operations efficiently and effectively at an accelerated rate in a market where land and labor is really constrained.

And so we've chosen to focus on operational efficiencies as a mechanism for driving profitability going forward. And we've been consistently articulating, look at the net operating margin where we'll find much more stability and the opportunity to drive profitability going forward from our core business.

But with that said, we've also articulated other strategies. Look at our financial services group. We've been diversifying that group, not only is it growing alongside of our core homebuilding business, it's growing outside of that homebuilding operation and we're finding additional earnings by leveraging that part of our business. Look at Rialto, look at our multifamily effort, look at our ancillaries and you start to see that there are real growth components that derive from a core homebuilding operation that's operating well and these ancillary businesses that are operating cooperatively.

Rick Beckwitt: Yes. And, Ivy, this is Rick again.

It's really that balance of pace and price again. If we wanted to grow volume at a much higher clip, we could certainly enter into and contract for some additional communities that are at the normalized margins that the rest of the builders are building at. And, you know, we've chosen, up through this point, to keep an above industry margin even though it's been drifting somewhat downward.

And if you go back and you look at this business over multiple cycles, multiple time points, you know, if you're somewhere around 20% gross, you're doing a pretty good job. We've just chosen to be north of that. And we'll continue to be north of where that normalized curve is.

Ivy Zelman: No, that's really helpful. But I think to just take it one step further, if you think about the cash flow that assumingly you'll generate strong cash flows, and knowing investors are looking for companies that can reinvest that cash flow to drive shareholder value beyond the ancillary businesses that are maturing and should drive returns, would you consider share buyback and other alternatives or do you want the maturation process of the ancillary businesses to drive the returns?

And should we expect returns to continue to move on an upward trajectory even if homebuilding might be pivoting? Can you still grow the absolute operating income of homebuilding over the strategy you've deployed?

Stuart Miller: No, look, as I said, we have a lot of guns in our arsenal and our ancillary businesses are a very positive part of that construct. But we have continued to focus everyone's attention on the core. And we think we can continue to drive the core forward. Yes, there are opportunities to either buyback stock or through acquisition to expand our platform. And we hold both of those opportunities open to ourselves. We're generating the cash where we can go down either route. And the opportunities out there to us given our current position are very strong.

Ivy Zelman: Thanks, guys. Good luck.

Stuart Miller: Thank you.

Coordinator: Thank you. Next question is from Michael Rehaut of JP Morgan. Your line now is open.

Michael Rehaut: Thanks. Good morning, everyone.

First question I just wanted to kind of circle back to the ancillary businesses. And obviously I appreciate all the detail and, you know, it's, you know, it's exciting to see how those are maturing over time. I just wanted to try and get a sense, you know, Stuart, as you've talked to the different, you know, three, you know, core businesses, Rialto, LMC and -or LMF and FivePoint - you know, I know FivePoint is taking different twist and turns in terms of its maturation and future in the last 18 months.

And so maybe that's a little harder to kind of pinpoint or get a sense of, you know, when that might, you know, kind of, you know, become its own separate entity, excuse me, separate from Lennar that is on a more complete basis.

But perhaps, you could talk to Rialto and LMC - I'm sorry, LMF. You know, how do you think about those businesses in terms of being a part of the broader Lennar family over the next two or three years? Obviously, Rialto itself is taking a lot of strides. Is that something that might - that you're looking for an exit over the next year or two?

And similarly, for multifamily, you know, now that that's closer to more of a recurring revenue streams, that's something that you just see kind of as an ongoing part of the business from a broader corporate umbrella sense or could this be are you still weighing other, you know, options for that business as well?

Stuart Miller: Well - okay, so as it relates to Rialto - well, I'm sorry. Let me start with FivePoint.

As it relates to FivePoint, which where you started, Mike, you know, FivePoint's trajectory has been very consistent and very positive. The

properties in FivePoint have been moving through their system and the consolidation of FivePoint's ownership under one umbrella is a consistent theme. What hasn't been consistent are market conditions, we had embarked on a program to launch an IPO, which under good market conditions would have gone off by now.

So, you know, the market is the market and we can't do much to change that. But the underlying operations of FivePoint are spectacular.

As it relates to LMC, our multifamily platform, I think that there is a very strong case to be made that that business really is almost part of the core. It has been a part of our strategy for dealing with the first-time homebuyer segment, which has been forced or inclined to rent rather than to purchase because of market conditions or because of appetites.

And in fact, that strategy has worked out quite well for us and might be a very compatible program under the core umbrella.

So we're not - we're certainly not targeting right now a spin-off or some other kind of program relative to that segment. And we'll have to see over time.

As it relates to Rialto, Rialto was built with the understanding that it would be synergistic to the growth of our core business, and it was in fact through the downturn. We've grown Rialto into a business that looks an awful lot like the business that we've spun-off back in 1997 under the name LNR.

And it continues to grow along those lines. Now, there has been choppiness in the capital markets. There are questions around the regulatory environment. We think that each of these things work to our benefit. And as we continue to



grow the platform, we want to let these things resolve themselves before we design and put forth an exit strategy. But ultimately, Rialto will stand alone.

Rick Beckwitt: Let me just add one thing on the multifamily group. It is given that we've pivoted to a build-to-core program, we essentially had the business that is self-funded to build out about \$4 billion to \$4-1/2 billion of apartment communities on a development cost basis. When that's done, it will be a portfolio that's cash producing that we as a company will have tremendous optionality as to what we do with it.

You know, if it makes sense to keep it inside and that creates the most shareholder value, we'll keep it inside. If it makes sense to do something outside of that - but when it gets to that point where it's constantly churning out cash, there's going to be a lot of different things that we can do.

Michael Rehaut: Thank you. I appreciate that. It all makes sense.

You know, I guess, secondly, you know - and, Stuart, you referenced this in terms of Lennar multifamily with the first-time and, you know, rent versus owned. You know, how do you think about that, you know, kind of going back to - shifting back to your core homebuilding operations for a moment, you had a little bit of sales pace growth year-over-year in the quarter. And I think that's consistent with, you know, the first half. Actually, it's a little stronger than the first half on a year-over-year basis, the absorption - year-over-year absorption growth. Is first-time starting to play a little bit of a larger role there? And, you know, as you think about the 7% to 10% growth going forward, would you still expect there to be driven by, you know, perhaps roughly equally community count growth and absorption pace?

Rick Beckwitt: Well, with regard to the first-time buyer business, as Stuart said in his quote, we have ramped up that business. If you look at where we stood at the end of the quarter, about 40% of our communities across the US are first-time buyer. And, you know, and we haven't highlighted that. We've been behind the scenes, increasing our positions in the core markets that are really geared to that first-time buyer. And you'll continue to see that play out over the next couple of years.

Jon, do you want to talk about the growth?

Jon Jaffe: I think we're seeing in all of our markets, even the ones you wouldn't necessarily associate with first-time buyers, the ability through higher density or product strategies to increase our exposure to that market as that market improves. So I think you'll see a ramp-up not only in the natural place like Texas, but you'll see in the California markets, in Nevada and Florida as well.

Michael Rehaut: Great. Thanks.

Coordinator: Thank you. Next question is from Stephen East of Wells Fargo.

Your line now is open.

Stephen East: Thank you. Good morning, guys.

Stuart, can you talk a little bit more, as you do your soft pivot, which you've talked about for a few years now and it's executing, but as we move forward, it sounds like that's gaining a little momentum.

So I'm trying to understand, what happens to your land supply as you move forward? Are you going to shrink even though you're growing 7% to 10%?

What's that imply for your cash flow generation as you move through it? And, well, I'll stop there for now.

Stuart Miller: Yes. So, you know, that's exactly the strategy, Steve, is our land supply relative to our production should be moderating. Our cash flow should be accelerating and we should continue to be enhancing our balance sheet.

And, you know, as I articulated in my remarks, our balance sheet has been improving. We're starting to see that soft pivot reflect. We're buying less land relative to the amount of production that we're generating. And of course that's been accelerating. By slowing the growth pace, we are increasing the cash flow.

We've seen our balance sheet improve. And it will continue to improve as we go into the fourth quarter. I think Bruce highlighted that we'll be reducing our rather expensive debt in June of 2017. All of these are balance sheet enhancements.

And they enable us to have an awful lot of options in terms of being able to access capital and deploy capital either in the form of returning capital to shareholders, as was asked earlier, or in the form of finding unique opportunities to grow our business in strategic ways.

And of course, you know that we look at all of those as real opportunities within the company.

So it's very much been a part of the strategy to get to exactly the place that we're at right now.

Stephen East: Okay. And do you, as a part of that - two quick follow-ons for that and then a different question. Do you accelerate your land sales? You had a bit higher than what we expected this quarter. So is that a part of the plan also to just monetize in a different way than putting a house on it?

And, you know, this last cycle, you all were by far the earliest in taking advantage. And so as you sit here taking advantage of the market, as you sit here and evaluate between share repurchases and being patient in building cash on the balance sheet to take advantage of that, can you tell me sort of what the key drivers of your thought process might be in that evaluation?

And then totally different, your incentives crept up. Just what's going on there? What's driving it? Is this just sort of the new lay of the land, if you will, or was there something going on?

Stuart Miller: Okay. So that's a compound question. You get credit for asking three in one.

((Crosstalk))

Stephen East: I tried my best.

Stuart Miller: But, Rick, do you want to go?

Jon Jaffe: It's Jon.

On land sales, Steve, you know, those are, as always with our company, opportunistic. Our soft pivot strategy is much more about the acquisition side than the disposition. We will look at opportunities where we map a longer land position and how we pare that down to better fit our soft pivot strategy. But the core principle there is how we approach shorter term acquisitions.

With respect to incentives, as Bruce highlighted in his comments, that really was driven for a company by what's going on in Houston. As you look across our marketplace as I would say, incentives maintain a very stable level. We don't see sort of the norm being an increase in incentives at all.

Stephen East: Okay.

Rick Beckwitt: And one clarification. Because I think as a company across the nation, we are going through a soft pivot. But that does not mean that we won't to take advantage of excellent Class "A" assets, well-located, good values, good strategic fit even if they are a longer runway. And it's the overall totality of the blend of the long and the short that has consistently made us successful and differentiate us as a company.

Stuart Miller: Yes. And, look, that's a great point that Rick makes and it's a very important clarification. We are out there buying land and we're buying it - we're taking that core competence that we've got and we're buying strategically.

As we move into and, you know, and accelerate our position relative to certain markets, relative to the first-time homebuyer, we do it rather aggressively. Soft pivot is a way of thinking and it's recognizing that we might buy a five-year piece of land or a seven-year piece of land, but we might carve off half of it or a third of it in a land sale so that we're not holding it on our books.

If you look at our land spend, we're spending significant dollars preparing for our future and ensuring that we're growing consistently. And we do it as well or better than anybody in the industry. So you can expect that we're still a land player and that there will be some additional land sales because of the

way that we're thinking about the hold period. But we're still very active in the market.

Stephen East: Got you. And do you feel comfortable building out cash and holding on your balance sheet waiting for, you know, a similar opportunity as you got in '09 and '10, et cetera? Or, you know, what's your thought process on evaluating that versus going ahead and spending on a share repurchase type program?

Stuart Miller: I think that we are very disciplined in our approach. And the accumulation of cash is not going to burn a hole in the bottom of our pocket. We've stuck to a strategy. Thus far, we're going to stick to it as we go forward, unless we believe that there's a different strategy that is significantly better. And we haven't come to that yet. Given the market conditions, given the maturity of the cycle, we feel very comfortable with the position that we're in. And we're going to be able to drive consistent growth and be positioned for opportunities.

Stephen East: Great. Thank you.

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

Stuart Miller: Good morning, Steve.

Stephen Kim: Good morning. Thanks very much, guys, for taking the question.

I guess I wanted to follow-on to the comment you made about targeting first-time buyers with maybe a little bit more density and some innovation on the product side. Obviously, you guys have been pretty much industry leaders, I would say, over the last decade in terms of product innovation. So we don't

doubt that you have the ability to come up with, you know, what's next in terms of the product.

However, mindful that you already own about five years' worth of lots, give or take. But that sometimes permitting restrictions make it difficult to sort of take, you know, yesterday's land and put tomorrow's product on it in some places. Can you help us understand how much future land spend do you think is needed to accommodate, you know, the innovation, the kind of product you're going to be initiating over the next or launching over the course of the next couple of years?

How much of that is going to have to be from future land spend versus what you already own today? And I'm thinking, particularly, if you can maybe say two years from now, how much of the active land base at that time is already owned by you today?

Rick Beckwitt: I would say that most of that is really owned by us now. On a net-net basis, that's going to be - will basically be flat on an inventory level.

Stephen Kim: In dollars, you mean?

Rick Beckwitt: In dollars. When we're talking about that first-time buyer, if that's what your question was about. It was a little confusing.

Stephen Kim: Yes. I was talking about the first-time buyer, specifically, you know, that segment of the market.

Okay. So then, I guess, the next question is a bit more...

Stuart Miller: Net flat.

((Crosstalk))

Stuart Miller: Net flat.

Stephen Kim: Can you say that again?

Stuart Miller: Net flat.

Rick Beckwitt: Net flat because they're going to be quicker churn deals, Steve.

Stephen Kim: Okay. All right. That's great.

And then second question relates to your comments about soft pivot. Obviously there's been a lot of questions and there're probably going to continue to be there. One question that I had is whether or not there are certain geographies that are more conducive to this, the shift in strategy. In other words, over the course, again, of the next two to three years, should we expect a natural shift in your geographic exposure as a result of what you're seeking to do with your soft pivot strategy?

Stuart Miller: Well, the markets that are more conducive to the softer pivot are ones that have a broader base of third-party developers. So if you think about the Texas markets, parts of the Carolinas, some of Florida, parts of California, where there is an emerging third-party development market, those are more conducive to having someone else buy the land, produce it to you and being shorter-term deals. To the extent that we have to be the developer, of course we take on a longer-term obligation associated with buying, developing and building.



Stephen Kim: Yes, bingo. That's kind of what I was thinking. Okay, thanks very much, guys.

Stuart Miller: Okay. Let's take the last question.

Coordinator: That is noted. The next question is from Jade Rahmani of KBW. Your line now is open.

Ryan Tomasello: This is actually Ryan Tomasello on for Jade. Thanks for taking my questions this morning.

Stuart Miller: Sure.

Ryan Tomasello: Just going back to the Rialto side with risk retention implementation quickly approaching for December, I was wondering if you could provide an update on that opportunity and if you're seeing any demand from third-party capital and the potential to raise funds around that strategy.

Stuart Miller: Well, I'll let Jeff weigh in, in a second. But I'll say that we, you know, we are well into our capital raise. We have the capital available to be well-positioned for the market as it evolves. But the way that the market is evolving raises perhaps more questions than answers at this particular point and requires some experimentation.

So there isn't real clarity from the market standpoint around risk retention at this point. But in the midst of confusion, if you have capital, the opportunities abound.

So, Jeff, why don't you take it from there?

Jeff Krasnoff: Yes. Yes. We've continued to try to be, you know, industry leaders and innovators in this area. And some of the banks, you know, in terms of - I don't know how much you've been following what's been going on. But some of the banks have actually been trying to get some of the plumbing done in advance of the December 24 date when the new rules go into effect.

And we've been right there side by side with them. As a matter of fact, the first risk retention compliant deal was done by actually by three banks that we participated in. We were basically chosen at the end of the day because of our ability to really help with this sort of innovation.

Now, it wasn't required to be done. But the idea was to try to get it done. A couple of other banks are also looking at that and are looking at other alternatives. And for those of you who don't know risk retention basically means that if you're originating loans to be securitized that you have to retain 5% of the economics of the transaction to basically show you have some - you know, that you're eating your own cooking.

But they left an exception just for CMBS that says that you can bring in what's called a B-piece buyer, of which we are the largest B-piece buyer in the market and have been through our fund vehicles since the market started coming back in 2010, 2011.

So - but there are, let's say, there are three or four other ways that we sort of have, you know - or three or four different ponies in this race that we also have in terms of structures that we're working with originators, of which we are through RMF, which we are as well, and we remain very optimistic about how this is going to play out.

Stuart Miller: You know, at the end of the day, this is our specialty. It's an area that is confused at this point. We think, Jade, that we're going to have - we have the capital and we're going to have the opportunity to invest a lot more capital at very attractive returns as risk retention sorts itself out.

Ryan Tomasello: Great. And that was a great color. And then just switching gears to the multifamily front, can you provide a quick overview of the pipeline of that business in terms of the geographic focus and perhaps what other markets you view as attractive for that product, you know, over the next few years?

Stuart Miller: As Rick gathers a paper or two to answer that question, let me just say that, you know, there's a lot of discussion about some overheated rental markets and there are some particularly in some of the core city-centric markets. Those generally have not been the areas where we have focused our attention. And the broader markets that really require kind of the bread-and-butter rental communities are healthy, vibrant and where we focused our attention.

So, Rick, go ahead.

Rick Beckwitt: Yes, we're really spread across nationally amongst 22 to 25 metropolitan areas, some suburban, some mini-urban, all transit-oriented and in markets that are really high growth, low vacancy.

You know, I can - we can give you a list of or you can go to the Web site and see all of the places that we've got communities going. And then that will give you a good sense of where we're looking.

Jon Jaffe: Very similar to our for-sale footprint with a few exceptions.

Stuart Miller: Right. You know, think about that the for-sale footprint as kind of being the roadmap. We don't deploy our for-sale personnel in the rental effort. So it is separate management groups. But they do feed off of each other in terms of market intelligence and general market data.

So we benefit by being coexistent in those markets, but we're not interdependent. And those markets that we've chosen as being best in the country to deploy our for-sale business work just as well on the rental basis.

Ryan Tomasello: Great. Thanks for taking my questions.

Stuart Miller: You bet. All right. Thank you, everyone, for joining our third quarter update. I look forward to updating at year end.

Have a nice day.

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

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