LENNAR CORP

Moderator: Grace Santaella
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10:00 am CT

Coordinator: Welcome to our 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. Today's conference call may include forward-looking statements including statements regarding Lennar's business, financial condition, results of operations, cash flows, strategies and process.

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 10K most recently filed with the SEC. Please note that Lennar assumes no obligation to update any forward-looking statements.

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

Stuart Miller: Okay very good, thank you David and thank you for joining us everyone. 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 and John Jaffe are here as well along with Jeff Krasnoff who's the CEO of Rialto and a few other management members as well. Some will join for a Q&A period.

This morning I'm going to brief in my opening remarks as I feel that our views about the market have been pretty consistently expressed on prior calls.

Bruce is going to jump in and break down our financial detail. And then is always we'll open up to Q&A and we'd like to request that during Q&A each person 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 I'll begin by saying that we're very pleased to report our third quarter results as we continue to perform consistently across our platform.

Our performance really reflects our strong management team executing our strategically crafted operating plan in what continues to be a solid macro-environment for large well-capitalized companies.

Our home building operations and associated financial services business continue to form the core of our operating platform.

Our results reflect the slow but steady growth in the overall home building market. This year's summer season and the spring selling season it confirmed that the market is continuing to improve at a fairly consistent pace.

We continue to believe that the recovery in housing has been and will continue to be driven by strong and consistent demand.

Employment is up, labor is tight and wages are starting to rise.

Millennial's who have been on the sidelines are now starting to form households and are looking at housing alternatives.

A growing number of individual balance sheets that were impaired by the economic downturn are starting to be repaired as the economy improves and as time passes. And US population continues to grow.

Even as demand grows supply remains limited. We have often discussed the production deficit of both rental and for sale homes relative to the need for housing in the United States over the years since the downturn.

This deficit has created a supply shortage as the growing pent up demand comes to market. Without a dramatic increase in the number of homes built in this country we will continue to be short dwelling units for a growing population.

Even though supply is limited as demand is building we do not anticipate a surge in production. Frankly I don't think that the current market conditions could support a strong increase in production a combination of land, labor and mortgage availability have simply put limiting factors to a surge in production.

Limited capital for land and land development have left entitled land in short supply while growing demand has driven up land prices.

In most major US markets the ability to grow quickly is limited by available lands and the markets ability to bring new land to entitlement is limited by a constrained capital market for land developers.

Homebuilders with strong land and capital position are able to carefully and methodically add to land positions while less well positioned participants have seen margin and bottom line erode.

Land continues to be the most challenging competitive environment in the homebuilder's universe today.

Running a close second labor has also become a limiting factor. The slow and steady recovery in housing did not signal to the labor market that it was time to come back to work in this sector and many found work elsewhere.

Today the entire labor market has tightened and rapid growth in housing production will be limited by available labor.

Larger builders with consistent production and payment plans are better able to maintain production but an overly rapid growth in production would significant stress the labor force.

Finally the regulatory environment for mortgages remains challenging and limits the number of entrants for, for sale for the for sale market.

QM and QRM rules together with the ATR that is the ability to repay rules continue to restrict qualified purchasers from accessing the mortgage market.

Adding to the complex landing landscape TRID looms right around the corner as it complicates and slows the home closing process.

While these rules have been evolving and easing at the margin except for TRID of course which is just getting started they have exacerbated an already impaired consumer psychology to create a perception that home ownership just might not be accessible. Even with that said the pent up demand is finding its way back to the market out of necessity.

All of this portends an extended recovery and duration with a slow and steady slope and with continued upward pressure on pricing.

With demand growing steadily land limited, labor tight and constrain mortgage availability we feel that we are in an excellent environment to run our business at a steady and consistent growth rate with strong bottom line profitability and strong cash flow.

Our strategy at the bottom of the market was to purchase land aggressively. As the recovery began to take hold we began a soft pivot towards a lighter land strategy and moderated growth.

As the recovery has continued to mature we've continued to adjust our operating strategy for current market conditions.

We are using our strong land position to avoid chasing growth with low margin land deals. We are fortifying our operation to focus to build product and environment that attract the best of a limited labor force.

And we are refining all areas of selling and marketing and overhead to drive consistent high net operating margins. All of these strategic components can be seen in our results this morning.

Overall this is a very favorable environment for a well-capitalized national homebuilder. We have believed and continue to believe that the downside in the housing market is very limited and the upside is very significant. And of course we believe that we are uniquely positioned within this market to continue to thrive.

Of course as we've continued to grow our core home building business in the wake of the economic downturn we also continue to grow and mature our additional business segments that represent significant opportunity to enhance shareholder value.

Our Multifamily program continues to complement our for sale operation. We've continued to expand our national footprint and grow from a merchant build program to a build to own program.

As first time purchasers have begun coming back to the housing market more slowly than expected and more slowly than they have historically we've addressed this market in a comprehensive way.

While approximately 30% of our home building business continues to be geared to first time home purchasers -- and that's up by the way from 25% last year -- our broader new household strategy has been aimed primarily at the rental market.

Our $6 billion plus apartment strategy is proving to be very well timed as rental rates are soaring and vacancies are at historical lows. This is driven by a supply demand imbalance.

First time households have had the most difficulty accessing the markets mortgage market. Credit limitations have been most constraining to the first time buyers.

And although that is beginning to open up as it has been reported this segment is also the most susceptible to price and interest rate increases and many have been and will continue to be relegated to the rental market driving both rental rates and occupancies higher.

A new study by the Harvard Joint Center on Housing Studies and the Enterprise Community Partners indicate that an increasing number of families are severely cost burdened by housing cost indicating supply constraints in the rental markets.

More rental product is needed and we are well positioned to continue to fill this need and grow our Multifamily platform.

As I noted before our core financial services group has continued to expand alongside our primary housing business while we have also expanded our retail platform.

Additionally we've been able to capture an expanded share of the refi business as it exists.

Our Rialto Capital Asset Management Platform enables us to invest across real estate and financial product (types) as an opportunistic play on the long duration recovery.

The dysfunction in the financial market and the new risk retention rules work to the benefit of Rialto's core competence in CNBS and financial products.

And finally our strategic investment in FivePoint and its management team positions us to continue to benefit from some of the best located land in California as that market continues to improve.

As noted during the quarter FivePoint has confidentially filed a registration statement for an initial public offering. And we will keep you posted as further information becomes available.

In conclusion we are very pleased to present our third quarter results this morning. And we're 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 over to Bruce.

Bruce Gross: Thank you Stuart and good morning. Our net earnings for the third quarter were $223 million which is a 26% increase over the prior year.

Revenues from home sales increased 22% during the quarter driven by a 16% increase in wholly owned deliveries and a 5% year over year increase in average selling price to $350,000.

Our gross margin on home sales in Q3 was 24.1%. And we are still on track with our goal of 24% gross margins for the full year.

The prior year's gross margin percentage for the third quarter was 25.2%. Sales incentives during this quarter continued to decline and it was 5.6% versus 5.8% in the prior year's quarter.

Gross margin percentages were highest in the East, Southeast Florida and West regions this quarter. The gross margin decline year over year was also a result of increased land costs.

Year over year direct construction costs are up approximately 5% to $52 per square foot.

Labor increased over 10% which drove almost all of the increase while material costs have remained relatively flat year over year.

We have a continued focus on reducing costs due to commodity declines primarily in lumber, copper, oil and steel.

The total direct cost increases have moderated as we have continued throughout 2015. We remain on track with our previously stated guidance to achieve a 30 to 40 basis point improvement and the combined selling general, and administrative costs, and corporate G&A lines for the entire 2015.

In this quarter SG&A improved 50 basis points over the prior year. We continue to achieve improved SG&A operating leverage by growing organically in our existing divisions. And by the way this is the lowest SG&A percentage for a Lennar third quarter going back to the late 1990s.

Equity and earnings from unconsolidated subs was $13.3 million during the quarter compared to a $2.1 million loss in the prior year.

This was primarily due to a gain on debt extinguishment and the sale of home sites to a third party in our El Toro joint venture. And this was partially offset by some operating expenses in other JVs.

This quarter we opened 71 new communities to end the quarter was 673 net active communities, new homeowners as you’ve seen in the release were up a solid 10% for the quarter year over year and new order dollar value increased 20% for the quarter.

Our sales pace declined to 3.2 sales per community per month in Q3 versus 3.3 in the prior year however after adjusting for some softness in the Houston market on the move upside our absorption would be flat with the prior year.

And the cancellation rate this quarter was consistent with the prior year at about 17%.

In the third quarter we purchased 4900 home sites totaling $195 million versus spending $273 million in the prior year’s quarter. The lower land spend represents the results of our soft pivot strategy that Stuart laid out.

Our home sites owned and controlled now total 170,000 home sites of which 132,000 are owned and 38,000 are controlled.

Completed unsold inventory is in check with approximately 1100 homes which is in our normal range of one to two per community.

Turning to financial services this business segment had strong results with operating earnings increasing to $39.4 million from $27.1 million in the prior year.

Mortgage pretax income increased to $31.4 million from $20.6 million in the prior year. The increased mortgage earnings were due to higher volume as mortgage originations increase 43% to $2.4 billion from $1.7 billion in the prior year.

Purchase origination volume increased 40% as a result of increased Lennar home deliveries and our expanded retail presence.

The capture rate of Lennar homebuyers improved to 82% this quarter from 77% in the prior year.

Refinancings remain strong as refi origination volume increased by 74% versus the prior year.

Our title companies profit increased to $8.2 million in the quarter from $7.1 million in the prior year. And this was primarily due to higher volume over the past year.

Turning to our Rialto segment, Rialto produced operating earnings of $9 million even compared to $12.4 million in the prior year. Both amounts are a net of non-controlling interest.

The investment management business contributed $30.6 million of earning which includes $7.6 million of equity in earnings from real estate funds and $23 million of management fees and others.

At quarter end the carried interest for Rialto Real Estate Fund I under a hypothetical liquidation has increased and now stands at $112 million.

Rialto mortgage finance operations contributed $519 million of commercial loans into three securitizations during the quarter resulting in earnings of - $14.2 million for the quarter and that's before their G&A expenses.

Our liquidating the direct investments had a loss of $1.9 million for the quarter but we continue to monetize these investments and increase our cash flow.

Rialto SG&A and other expenses were $26.9 million for the quarter and interest expense excluding warehouse lines was $7 million.

Rialto ended the quarter with a strong liquid position with $107 million of cash. And as an update of fundraising we're now reaching the end of our investing cycle for Fund II. And we're now in the process of working on our first closing of commitment for Rialto Real Estate Fund III. This is expected to occur during the fourth quarter and is targeted to be greater than the amount in Fund II.

We continue to grow our Multifamily operation which has now grown to over 275 associates located in regional offices nationwide.

We ended the quarter with three completed and operating projects, 28 projects under construction of which five are in lease up and over 7700 apartments with a total development cost of approximately $1.9 billion.

Included in these communities we have a diversified development pipeline that exceeds $6 billion and over 20,000 apartments.

As expected we had an operating loss in Q3. The $3 million operating loss related to G&A expenses that were partially offset by management fees and the $5.7 million share of a gain from the sale of one of our operating properties.

Turning to our tax rate it decreased to 30% during the quarter. This is a lower tax rate then the first two quarters of the year primarily due to a catch up adjustment relating to validation of new home energy tax credits that were available to us.

Turning to the balance sheet our balance sheet liquidity remains strong as our homebuilding cash balance ended the quarter at $596 million. And there was $575 million borrowed under our $1.34 billion revolving credit facility at quarter end.

Our leverage improved by 100 basis points year over year as our net debt to total capital was reduced to 46.5%.

We grew stockholders equity by 17% or $779 million over the prior year to $5.4 billion at quarter end and our book value per share has now increased to $25.51.

During the quarter we converted $169 million of our 2.75% convertible senior notes. Of this amount $122 million was converted through privately negotiated transactions where we retired the par value of the notes in cash and issued 2.9 million shares when the average stock price was $47.34.

Turning to updated goals for the rest of this year let me start with deliveries, we are still on track with our delivery expectations for 2015 to between 24,000 and 24,500 homes. As a result our backlog conversion ratio for Q4 should be between 90% and 95%.

Turning to gross margins we still expect our gross margins in 2015 to average approximately 24% for the full year.

Our fourth quarter gross margin percentage is expected to be just a touch above our third quarter actual of 24.1%

SG&A and corporate G&A we are still on track with the expectation of 30 to 40 basis points improvement for all of 2015 with all of the leverage coming from the SG&A line.

Financials services, we are increasing our financial services earnings goal again for 2015 with the refi market driving higher volumes and stronger overall margins we have now expect to earn $120 to $125 million for the full year. However we continue to expect some cooling in the strong refi market as we finish out the year.

Rialto is now expected to earn $25 million to $30 million for the full year. The recent market volatility that has been experienced has reduced the margin on securitization in our fourth quarter to the lower end of our normal range of

200 to 400 basis points in that business. And the fees on the Rialto Real Estate Fund III will not have a significant contribution until 2016.

Turning to Multifamily we expect to have one apartment community sale in the fourth quarter which will result in a profitable fourth quarter for our Multifamily segment.

There are no joint venture or other transactions expected in the fourth quarter and therefore should be close to a breakeven bottom line for the company's homebuilding joint ventures in the fourth quarter.

We're still on track with approximately $25 million of wholly owned land sale profit for all of 2015 however some of those transactions were successfully accelerated and shifted from the fourth quarter into our third quarter.

Our tax rate is expected to be about 34% for the fourth quarter. Our community count is still on track to hit a goal of 675 net communities by the end of the year.

We remain well positioned to meet these goals as we finish out 2015. And with that I'll turn it back to the operator for questions.

Coordinator: Thank you. We will now begin the question and answer session. If you'd like to ask a question please press Star 1, to withdraw your request press Star 2.

Our first question is coming from Stephen Kim from Barclays. Sir your line is now open.

Stephen Kim: Hello can you hear me?

Man: Yes.

Stephen Kim: Okay. Thanks very much. I was wondering if you could give us the land spend numbers. I believe you gave a figure that just included purchases or acquisitions. I was wondering if you could give us a figure that included development as well?

And then my second question relates to cash flow. Can you give us a sense for how cash flow figures in your list of priorities for the company over the next year or two?

Bruce Gross: Steve let me take the first one and then I'll turn it over to Stuart. So the soft pivot strategy has also been noted in the land development line as well.

In the third quarter of last year we spent $370 million on land development and this year's quarter we spent $286 million.

Stuart Miller: Okay. And the second question on cash flow Steve it - cash flows been a central focus of our strategy since we started talking about our soft pivot.

We've highlighted to you and to the street that we came out of the downturn with a very, very strong focus on land acquisition at the bottom of the market.

Rick and John crafted a strategy that really positioned the company very well. We began off of that a soft pivot towards a shorter duration at the beginning and the end shorter tail for the land.

And as the market has continued to mature and the competition for land assets has grown we have very actively determined that we will not chase growth by pursuing tertiary locations and low margin land acquisitions.

And so we're focused on a combination of slower growth, more orderly growth, sustainable growth and focus on bottom line cash flow and profitability.

Stephen Kim: Great, thanks very much.

Stuart Miller: Next question.

Coordinator: Thank you. The next question is coming from (Michael Rijas) from J.P. Morgan. Your line is now open.

(Michael Rojas): Thanks. Good morning everyone. First question maybe I just wanted to perhaps get a little bit of an expansion on, you know, your comment Stuart about not, you know, pursuing growth or stretching out, you know, beyond perhaps what was done in the last cycle.

When you think about the last cycle I mean we have, you know, growth numbers that range, you know, low double digits to, you know, up to 30% or more depending or nearly 30% in 2001.

Do you have a sort of a I guess a minimum type of growth that you're thinking about, you know, of course this would be more of a midcycle-ish question not, you know, at the peak or repositioning where, you know, there might be the next downturn but, you know, as a low double digit type of a growth environment what you're thinking in the back of your head when you talk about a more moderate growth rate or how should we think about, you know, just the core business over the next few years?

Stuart Miller: So, you know, one of the things I don't want to do is start equating to the last cycle because this recovery is very, very different in its composition.

We highlighted that there are some interesting and somewhat unique limiting factors. I highlighted land. I highlighted labor. And I highlighted mortgage availability.

And while land had been constrained in prior cycles the labor constraint today is a limiting factor that is somewhat different than we've seen in the past and mortgage availability is clearly a very different overlay in the cycle.

So, you know, our view and our thinking has been to remain very focused on market conditions as they exist not try to drive our strategy with kind of a just a reflection on past cycles but instead to adapt to the current market conditions.

And we've concluded at an operating level that we're going to pursue land acquisition and growth strategy at levels that the market enables.

And each of the professionals in our respective markets across the country are looking at land acquisition as opportunistic as a primary driver of future margins. And we're just not going to be beholden to the simple growth game of hitting a growth metric.

So the answer to your question is that we don't have a specific metric that we're solving to but we are working within the confines of the existing market condition to strike the balance between orderly consisting growth, and strong gross margins and especially strong bottom line and cash flow.

(Michael Rojas): Okay. No I appreciate that. And I guess the second question, you know, if I heard it right the sales piece in the prepared remarks were I believe roughly down 2% year over year if you, you know, count if you're comparing that against average community count. And I believe I heard that Houston sales pace would have been more flattish year over year.

I was hoping maybe to get a little more detail on what you're seeing in the Houston market? Obviously there's different commentary. There's been different commentary around different price points, different segments of the market as well as perhaps the highlight some of your markets where you are seeing sales pace improved on a year over year basis?

Rick Beckwitt: So this is Rick. I'll talk about Houston. I would say that the Houston market is still overall a pretty decent market. Clearly with the decline in oil the energy corridor there has been hit which is pretty much the far west side of the market.

Now if you look at that it hasn't been across all price points. The lower price points let's say sub $300,000, $350,000 are performing pretty well.

It's just when you get up in that 350 plus price point sales have been impacted and have slowed. Those would be the big master planned communities that are on the west side of town.

If you're looking at Southwest, Northwest Houston even at higher price points those have slowed but they're still performing well. So its price sensitive, geographically focused but Houston is not one market it's multiple markets.

John, why don't you talk about some of the other (unintelligible)?

John Jaffe: So if you look at our different markets California has seen the most acceleration in our sales pace as well as growth in ASP.

So today just look at our third quarter California is representing up to 22% of our total revenues. That's up from 19% last year with average sales price of $507,000.

Pacific Northwest is also seeing an acceleration in sales pace as have parts of Florida seen an acceleration. As you look at the rest of our markets they are pretty much right around flattish year over year.

(Michael Rojas): Great, thanks a lot guys.

Coordinator: Thank you. The next question is coming from (Mishu Su) from Deutsche Bank. Your line is now open.

(Mishu Su): Thanks. I had a question for Stuart just your thoughts on the labor market. We're still, you know, pretty far below what most people would consider a normalized pace of housing construction.

And whatever, you know, obviously unemployment has fallen but the construction trades would seem to match up well with where there might be some relatively higher unemployment.

So just looking for your thoughts on what do you think it's going to take for the, you know, the labor market to ease for construction? And how do you see that playing out as we get back to normalized and housing production?

Stuart Miller: Well, you know, embedded in your question I, you know, I think is exactly part of the problem. This - the slow and steady growth has not brought labor back to the housing market.

And I think overall labor is constrained. So the ability of people to - that we're not dealing the same unemployment issue that we had at the beginning of the recovery so there's not a large labor force to draw from.

It's an increasingly complicated landscape in that we have a shortfall in production that is really revealing itself.

And you see it most prominently in the rental market right now. Occupancies are very tight. Rental rates are moving upwards and we've already seen an acceleration in Multifamily production.

So the fact is that we're still under producing normal rates of home production and the labor market is already very, very tight across the country in all industries but especially in the home market.

So getting to a normalized production rate is going to be difficult. And it's why I say I think that we have a slow and steady recovery. We're going to continue to attract labor back in. We're going to continue to see unemployment go down I think and some pressure on wages which has the double edged sword of bringing our costs up but bringing more people to the market to purchase.

And over time with limited supply and growing demand it seems that there's going - during this steady increase in the recovery we're going to continue to see some pressure on pricing - on prices home prices as well.

(Mishu Su): Great I appreciate the thoughts. And the second question was on the Multifamily side. You know with the significant pipeline you built up you previously talked about, you know, some profitability from the fourth quarter and Bruce you mentioned that you mentioned that again.

You've also talked about with the pipeline having been built up that the fourth quarter might mark the beginning of more consistent profitability in Multifamily. Is that still the expectation?

Rick Beckwitt: Yes. This is Rick. I think as we move into in our fourth quarter and into 2016 we should be getting more predictable profitability from the group.

One of the things that something that we can't control and since we've got these investments and partnerships a lot of times we can't control the sale decision, it's got to be a joint decision.

And as a result of that it may move from one quarter to the other. But as we look at on an annual basis we should be profitable from here on out.

(Mishu Su): Okay. Thanks for the thoughts.

Coordinator: Thank you. The next question is coming from Mike Bell from Credit Suisse. Your line is now open.

Mike Bell: Hi. Thanks for taking my questions. First question and I think in the prepared remarks you mentioned that first time buyer mix is up to 30 from 25.

And I'm just curious if we could get a little more color particularly as you've articulated kind of the challenges from an affordability standpoint, rising rent and so are you seeing a change in the type of product or square footage that your first time buyers are opting for as you see that mix rise?

Stuart Miller: Let me let Rick and John kind of weigh in on this primarily but I'll just say that, you know, we are, you know, you might have listened to the opening remarks and heard that, you know, it is a constrained environment for first time buyers to come in.

That remains the case and I meant to say it exactly that way. With that said our first time buyer product offering and that across the home building industry is increasing it's mostly out of necessity. People are coming in and finding a way over time to access the mortgage market.

And it is altering the landscape somewhat as the first time market does start to come back in. But there is a very, very large pent up demand both in rental and in for sale for buyers that need to come back in.

John Jaffe: This is John. I would say in many of our markets we are addressing this by increased density in our product offering a simpler product.

Some cases attached. Some cases cluster or a higher density product that allows us to achieve a lower price point and make today's land environment work for us to address this first time buyer need.

Rick Beckwitt: Yes. And it really goes back to 18, 24 months ago when we first started getting the questions about, you know, our product mix and how we were going to attack the approach the first time buyer.

We've strategically gone after well located easy access communities where people could - can get to traffic corridors.

And we've designed product accordingly that's smaller footprint, lower specification levels, a little bit more cookie cutter product that's easier to build and more affordable product.

Mike Bell: Got it thank you. And second question is going back to some of the market commentary and thank you for some of the color that you gave.

Wanted to dig in on a couple of other markets that I think were kind of lumped into the flattish category but, you know, like a Phoenix, Dallas and Austin.

So on Phoenix I think some others have been reporting a decent bit of strength in that market. And then on the flipside I think Austin and Dallas had been quite strong and we may be hearing some pause in the market in those areas. So just wondering if you could offer some color specifically on those three markets?

John Jaffe: This is John. I'll talk to Phoenix and let Rick handle the Texas markets. Phoenix is solidifying seeing more strength over the earlier parts of the year.

As you look at it year over year it's up just a little bit because the third quarter last year was decent and we really saw a slowdown in the fourth and first quarters.

Second was a little bit better and third is noticeably better as well. So I wouldn't say it's strong again but it's - it feels like it's a solid market today and on and improving trend.

Rick Beckwitt: Yes. I'm not sure we talked about the individual markets in Texas about them being soft or flat quite the contrary Dallas is performing extremely well. We've seen sell price increases.

But more particularly in that market we're balancing case and price because we secured some really trophy assets and want to make sure that we're maximizing the margins in these communities.

Austin for us is really just a transitional market from the standpoint is we're moving through some communities and have a bunch of new communities that are about to open. So you'll see a little bit better performance and Austin.

But outside of Houston I - the Texas markets are performing well, and you're seeing good job growth good wage increases across the board. And the state has really positioned itself well to attract employment.

John Jaffe: This is John again. I would just add to that you just have to be careful as you talk about any submarket because even within submarkets there are areas and product types that perform stronger than others and it's very much a community by community analysis.

Mike Bell: Okay great. Thank you.

Coordinator: Thank you. The next question is coming from (Jaden Remaddi) from KVW. Your line is now open.

(Ryan Thomas): Hi. This is actually (Ryan Thomas) on the line for (Jaden). Thanks for taking my questions.

I was wondering if you could provide your updated thoughts on consolidation in both the home building market and in Rialto's various business lines including, you know, CMBS special servicing given that the role of the B-Piece buyer in the CMBS market appears to be increasing in importance?

Stuart Miller: Hello. It seems that we got cut off but I - Rick why don't you take M&A and home building.

Rick Beckwitt: Yes. On the acquisition side within the home building space we continue to see some private companies some larger regional companies that are available for purchase.

We're being very careful because as Stuart said we're very focused on the underlying asset values and want to make sure that if we're going to purchase something if it's not taking us into a new geographic area that we're purchasing something that's going to produce decent margins.

You know we're fortunately - very diversified as a company today. So there's very few geographic areas that would be new markets for us.

So as a result of that given the fact that we've got very strong land acquisition folks spread out across the country the deal would have to pencil out for us to look at it. On the Rialto side?

Stuart Miller: Look on the Rialto side Jeff why don't you weigh in?

Jeff Krasnoff: Yes I was just say as it relates to - it sounded like the question was headed in this direction of special services in CMBS and special services really are sort of the gatekeepers for those transactions both up front in terms of determining collateral that goes into the transactions and after the fact in terms of overseeing the, you know, overseeing the loans to ensure that they get collected.

It's a relatively small group today. There aren't that many. I think if you look to the top four or five is probably 80% of the marketplace but from time to time there are opportunities out there.

And, you know, when there are we'll, you know, we, you know, we'll take a look and the comments are pretty much the same as what Rick said if the numbers make sense.

Stuart Miller: Well but adding to that is the question in my opinion of what risk retention does to the landscape because, you know, special servicing combined with BPs purchasing is a significant part of enabling a risk retention environment.

The amount of capital required for that business is going to get bigger. I don't know that M&A is the direction or not the direction that we go but it opens up a vein of opportunity. And frankly supply that's going to have to be absorbed.

So there's tremendous amount of business in that arena that is - that's going to divide - it's going to define the next wave of activity. We're very well positioned for it.

(Ryan Thomas): Great thanks for taking that question. And just as a follow-up you previously noted that you have a single family rental community.

I was wondering if you can provide an update on whether or not you are seeing any indications if that makes you more positive or negative towards that sector?

Stuart Miller: We are decidedly more positive relative to that sector specifically the way that we're doing it which is a kind of unified community of single family homes.

We think the single family product is desirable. We think that the leverage the management leverage associated with a community approach to single family is very attractive and provides management efficiencies.

The single family scattered approach I think still has some elements of shortcoming although the product is very desirable.

And we expect to expand on that platform as we go forward. There is still some complications in terms of the financing of those kinds of communities and really defining what the rental rates are for those communities.

But our first experimentation is proving to be very successful. I will add parenthetically that expanding that platform comes with all of the challenges of accessing the labor market and actually getting the homes built.

So, you know, we're still in the experimentation stage. We think it's a really neat opportunity that rides right between our for sale single family operations and our multifamily rental operations and we're uniquely qualified to be moving in this direction.

(Ryan Thomas): Great, thanks for taking my questions.

Coordinator: Thank you. The next question is coming from Mr. Ryan McKeveny from Zelman and Associates. Your line is now open.

Ryan McKeveny: Thank you and nice quarter. Given the continued upside in terms of profitability in the financial services segment can you just elaborate on your expansion of your retail presence? And do you see any low hanging fruit to continue taking share in that retail purchase business to essentially drive profits even if we do see things slow on the refinance side?

Bruce Gross: Sure this is Bruce. You know we continue to look for the right fit within our programs. So there are opportunities to look at some bolt on acquisitions like we did last year with the Pinnacle deal. That's worked out very well.

It's been integrated extremely well. And if we could find other opportunities like that we'd be very interested.

One thing to highlight is that, you know, when the refinance market is hot the margins that we earn on both purchase and the refi business is above normal type of margins.

So we do expect that as refi's may be taper down a little bit as we go through the latter part of this year there might be a little bit of margin compression as well.

But again our folks are looking at continuing to expand the retail presence. We don't have a full national footprint yet but we're growing it. But we're going to make sure we do it with the right types of programs and the right people.

Ryan McKeveny: Great. Thank you. And then also on the topic of mortgages, just on the update on where you think you as well as the industry stand in terms of trade implementation and any anticipated delays on deliveries within that guidance that you gave for the fourth quarter? Thanks.

Bruce Gross: So October 3 is the date that treatise implemented for new applications. And our team has been very focused with the software vendors and with training to make sure it goes as smooth as possible.

We think we're in good shape because we're fortunate to have our homebuilding team, our mortgage associates, and our title associates, and our IT associates all working together.

We don't control what happens outside of our mortgage company which is about 20% of the business but if we are as well positioned as we could be.

Keep in mind, you know, often when you have some deliveries you might pick up at the very end of a quarter or year that makes it tougher because of the three day waiting period if any changes are made but we're as well positioned as we could possibly be at this point.

Stuart Miller: Look the TRID is a combination of waiting period and process. And we've been training and operating under TRID like environment. So we expect that our operations are going to be well positioned to handle volume and to have a good smooth year end closing.

Ryan McKeveny: Great, thank you.

Coordinator: Thank you. The next question is coming from Stephen East from ISI Group. Your line is now open.

Stephen East: Thank you. Good morning guys. Both in your prepared comments Stuart and the press release you talked about land and land inflation.

A few things around that, could you talk about how long do you think it would be for the industry before we get to a sufficient finish lot supply on the ground more broadly speaking I know every market is, you know, varies but is this a one year, two year, three years type thing?

And then could you talk about on the land inflation side how much is it up year over year? You talked about labor being a 10%. How much do you think land is and sort of rank order the regions of the most inflation?

Stuart Miller: So look, you know, I think that the land market is constrained in a lot of levels not the least of which is the capital constraint.

The traditional lending avenues have remained closed to the land assets as a, you know, as a basis for open door to lending.

And so, you know, as production is really being forced to expand to normalize land is behind the eight ball. And the enabling factor that is the access to capital is continuing to constrain the ability to entitle new property.

So I think this is a long term deficit that we're going to see limiting the ability to expand production and to work to even normalize production. And, you know, we think that keeps pressure on home prices to go up and land prices as well.

I think that what we've seen is probably a 14% kind of inflation factor for land on an annual basis right now. I don't know looking ahead what the right number is in terms of land prices going up.

But, you know, we're uniquely positioned with a really strong land position to leverage off of. We're able to be more deliberate careful in our approach to purchasing the next parcel.

And as long as we don't try to accelerate growth but instead remain steady I think that we're really advantaged in our ability to navigate this market.

But with that said in most land markets you're seeing land prices accelerate because of that scarcity and limited access to capital. And maybe Rick and John you'd like to weigh in on a specific region?

John Jaffe: Well as you would suspect Stephan is you'll see more acceleration for example in coastal California, from coastal Florida you less acceleration in the center part of the country just as you would normally expect and you can follow, you know, sales price trends to sort of look forward to see what what's happening in land markets there.

Rick Beckwitt: Yes. The Texas markets you're not going to see as much because land comes on faster and there are some larger developers there.

You know but all this in context Steve I'd go back to what Stuart said at the beginning is, you know, while pricing is going up from across the board for most of the people out there we're not really facing as much of a headwind gives us the opportunity to be more selective more opportunistic because we were very aggressive going back to 2009.

Stephen East: Okay. That is a great answer. I appreciate all that. And then just sort of a little bit of a hodgepodge here.

Bruce you talked about refi on the financial services. Could you give us an idea right now what percentage of volume and profits refi would be versus purchase?

And then on the pricing your house prices are up about 5%. How much of that is mix versus true pricing power would you say?

John Jaffe: Let me take the question on the refi Stephen. So as you look at actual originations, originations were only 11% of the total originations this quarter even though it was up 74% over last year.

But when you look at profitability when you have a high refinance market you end up earning better margins than you would in a normalized market because the purchase business is fighting for more deals when everybody is busy and has enough activity you tend to end up with better margins.

So the true profitability from refi is a little bit hard to calculate because we're typically - we would typically make somewhere between 2000 and 3000 per locked loan.

This quarter we were over 3300. So, you know, we would expect to be back in maybe that 2500 to 3000 range as the refinance market cools off a bit.

Stephen East: Okay. That's helpful. And then on house prices just to understand, you know, because you had mentioned that hey we offset some of the land costs with pricing so I'm just trying to get a feel for how much is mix and how much is true pricing power?

Stuart Miller: You know I would say that given the fact that our first time buyer profile is moving up that's more towards the lower end mix is probably been more of a moderating factor.

And I think that would be a proxy for the housing market at large. I think you're probably, you know, when you start to see - I think in today's existing home sales numbers we saw a reduction in the median home price but I think that what you're seeing is a little bit more mix towards the lower end.

And I think that's reflective of the fact that at the higher end the more desirable area there's just very limited supply.

And so you're not actually seeing a decrease in demand at the higher end it's just a decrease in the number of actual deliveries and that's - you've got a higher percentage of lower price and that's bringing your median price down. I think that's more the case in our numbers as well, Bruce would you agree with that?

Bruce Gross: Yeah. And no I think you're spot on.

Stephen East: All right, thank you all.

Stuart Miller: Okay.

Coordinator: Thank you. The next question is coming from Mr. Eric Bosshard from Cleveland Research Company. Your line is not open.

Eric Bosshard: Thank you. In terms of gross margin you did a good job of walking through the moving pieces within that.

Curious as you think about the land relative to selling price and what you see going on with labor costs if you have any thoughts for us on how we should think about how this works moving forward just beyond the current year?

I'm not necessarily asking specifically for guidance of course but how you think about those moving pieces as we work through the cycle?

Bruce Gross: Well given that the market continues this slow and steady recovery I think we see more of the same with generally the ability like products they're able to increase prices as there isn't enough supply to match demand and to offset those labor costs and land costs.

And as was stated as we see our mix trend to more of our lower priced products that will have an overall effect of bringing down our ASP not necessarily our margin though.

Eric Bosshard: Great. And then secondly in the same construct as you should think about the ability to lever SG&A in the home building operation is there anything that changes with your ability to improve efficiency that influences how that performs going forward?

Stuart Miller: I think we continue to find leverage particularly on the sales component of that as we focus on our online strategy and look to reduce cost there.

And then with our, you know, as Rick said we're well-positioned across the country in the markets there we're in so as we continue to add community count I think we'll continue to see some G&A leverage there as well.

Rick Beckwitt: And I would just add to your first question there we did have a higher percentage of deliveries coming from California this quarter where you have an average sales price.

So our land cost also increased as well because in California the percentage of the home price relating to land is a little higher so that 14% is a little bit more weighted higher this quarter because of the product mix.

Eric Bosshard: Great, thank you.

Coordinator: Thank you. The next question is coming from (Jay McKanlis) from Synergy CRT. Your line is now open.

(Jay McKanlis): Good morning everyone. First question I had on the spec count you guys talked about 1100 I believe this quarter.

Man: Right.

(Jay McKanlis): What percentage of your deliveries came from spec and where do you - what do you anticipate that'll go and especially as you broaden out in the more entry level do you think you're going to be relying more heavily on spec product?

Man: Well on the spec for the entry level we're pretty much build to order in most of our first time buyer markets.

You know we - as in any community need some product there for immediate delivery homes but our spec strategy doesn't - it doesn't really vary by that price point.

John Jaffe: This is John. As you look at it we've consistently run at a spec level of about one to two per community depending on the time of the year and we track pretty well with that so we don't see an increase or decrease in the way we're operating our day to day business.

(Jay McKanlis): Okay perfect thanks. The second question I had on the apartment business could you remind us how many of I think its 28 total between construction and completed. How many of those are wholly owned by Lennar how many of those are owned by JVs?

Man: All of the 28 are owned by JVs.

(Jay McKanlis): Okay great. Thank you.

Stuart Miller: And this will be our last question.

Coordinator: Thank you. The next question is coming from (Brock Coyne) from Raymond James. Your line is now open.

(Brock Coyne): Hey thanks very much. Going back to labor real quickly, I was wondering if you look at as your thinking ahead to 2016 and the tightness of the labor markets I think consensus out there is expecting your total deliveries to be up around 10% year over year in 2016 but is there any growing risk that the labor shortages that you're seeing or the tightness could create backlog cycle time issues and maybe push out some deliveries?

Stuart Miller: Well, you know, as I noted in the remarks the larger builders have been (unintelligible) advantaged in the current environment.

It's a combination of, you know, and especially in our, everything is included world being able to simplify our product offering is a big advantage for us.

But additionally payment schedules subs are looking for consistent workload with, you know, dependable payment schedules.

And they have the ability to do a little bit of picking and choosing and they're definitely aligning with larger better capitalized builders.

You know as we've navigated the shortage of labor we have found that we're able to consistently run our operations and deliver without too much of a hic up.

Can that change over time? It certainly can and there's no way to predict the future but we're not anticipating that at this point. We feel very comfortable that we're able to leverage our positions and keep our production machine going at pace.

(Brock Coyne): Okay my last point is just more of a policy type question because we are entering that season of the, you know, the political cycle and immigration policy has been a significant hot button issue already.

But do you have any concerns or industry view if, you know, we continue to see a tightening of immigration policy become an even bigger political movement is that something that could affect the home building industry into 2016?

Stuart Miller: You know I think about this a lot. I think that you listen to some of the political rhetoric and you sometimes you just want to go hide in, you know, under your sheets and not come out.

But I think practically speaking the practical landscape is going to moderate. You know if you listen to some of the discussion this weekend it sounds like we're gearing up to accept a whole new group of immigrants from the Middle East. And so there are a lot of offsets and questions embedded in all of this.

I think labor shortage and, you know, the way that the country has been wired historically common sense kind of tells me that this is going to even out and we're going to see kind of an orderly approach to immigration and it won't be a singular kind of negative impact.

But, you know, you go to extremes and you start to say we're going to deport 11 million people then we have to start to think about that.

And we'll have to see how it plays out. But I think that common sense says it finds equilibrium and we're going to be okay.

(Brock Coyne): Thanks. I appreciate your insights. Thank you very much.

Stuart Miller: Okay very good. And listen I want to thank everybody for joining us and look forward to reporting year end at the end of our fourth quarter. Thank you.

Coordinator: That concludes today's conference. Thank you for participating. You may now disconnect.

END