

LENNAR CORP
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11:00 am ET

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

Today's conference is being recorded. If you have any objections, you may disconnect at this time. I would now like to 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 our earnings 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 now like to introduce your host, Mr. Stuart Miller, Executive Chairman. Sir, you may begin.

Stuart Miller: Thank you, and good morning, everyone. Thank you for joining us this morning. I'm here in Miami and joined by Rick Beckwitt, our Co-CEO and Co-President, Jon Jaffe, Co-CEO and Co-President, Diane Bessette, our Chief Financial Officer, David Collins, who you just heard from, our Controller and Vice President, and Bruce Gross, our CEO of Lennar Financial Services. There are other executives here with us as well.

As usual, I'm going to give a macro and strategic overview of the company. After my introductory remarks, Rick is going to walk through our markets around the country and comment on our land strategy, and then Jon is going to update construction cost, supply chain and cycle time.

As usual, Diane will give additional financial highlights. And we'll give some rough boundaries, not guidance, just boundaries given volatility in the market for the second quarter to assist in forward-thinking and modeling. And then we'll answer as many questions as we can. And as usual, please limit yourself to one question and one follow-up so that we can include as many as possible.

So let me go ahead and begin by saying that we're pleased to report that the Lennar team has produced strong and consistent results for the first quarter of what is shaping up to be a complicated and volatile 2023. The quarter started in December with traffic and sales stalled moving only with incentives and price adjustments.

We entered January with interest rates declining and energized customer and improving margins. And then closed out February with rates again rising and challenging consumer confidence, although sales remained relatively strong at adjusted prices, traffic was slowing.

Of course, the quarter ended and the past couple of weeks have added new issues and questions that are reflective of a market that is looking for a bottom and looking for stability. With the Federal Reserve and federal government trying to reconcile the unintended consequences from aggressive interest rate hikes in order to curb the inflation, there is simply no way to see around corners and anticipate with certainty what comes next.

This is exactly the kind of volatility that our core operating strategy of maintaining volume using incentives and sales price has been built to endure. With volume and production as our constant, and margin as our shock absorber, we manage with certainty through volatility and stay focused on our mission.

If market conditions deteriorate, we compromise margin through price and/or incentives, but we generate strong cash flow. If conditions improve, we improved margins and bottom line while also generating strong cash flow. Our primary focus is on cash flow.

We maintain our volume to move through the limited legacy land that we have, which is at legacy prices, while keeping our production machine working efficiently and rationalizing costs. And the fact that we are projecting a flattish number of deliveries in 2023 versus 2022 displays the strength of our strategy.

Interest rates have continued to be the primary headwind to sales activity as inflation concerns have dominated the Federal Reserve's actions to date. At the same time the housing supply shortage, especially workforce housing, discussed by every mayor and every governor across the country continues to drive customers to stretch their wallet as incentives and price reductions have worked to meet purchasers half way.

Additionally, interest rates have also sidelined the professional or institutional purchasers. Higher capital costs, together with higher capitalization rates, have made the purchase of single-family for rent homes less financially attractive as well.

With that said we still believe that the housing market is beginning to find a point of stabilization and customers, both primary and institutional, are coming to grips with the new normal of higher but acceptable interest rates. The sudden sticker shock of rapidly rising interest rates in 2022 has mellowed. And while net prices are lower, incentives are moderating, cancellations have been normalizing lower and margins have been bottoming as cost reductions are beginning to provide an offset.

As I have said many times in the past the overall housing shortage remains a dominant theme and is defined by a decade long production deficit in the country after the Great Recession. This deficit will be exacerbated by a growing reduction in housing starts of both single-family and multifamily

homes brought on by the current housing recession. This shortage should be a stabilizing factor for the housing market over time.

Against this backdrop we've remained steadfast in our adherence to the strategies we adopted as the Fed began its tightening program approximately one year ago. As noted we've continued to focus on selling homes at market clearing prices while building a consistent pace to meet the needs of a supply constrained housing market.

Whether for purchase or for rent housing shortages are a major concern across the country, as I said, particularly at state and local levels. In spite of higher interest rates driving affordability concerns more dwellings are needed, and our mission is to meet that need.

In the first quarter we saw our margins fall to 21.2% reflecting sales from prior quarters and adjustments to backlog. While margins fell 360 basis points over the prior quarter, and 570 basis points year over year, they reflected the use of price reductions and incentives, that is closing cost payments and interest rate buy-downs, to offset volatile interest rate and market shifts. We used these tools both to sell homes as well as to protect our backlog by adjusting pricing and incentives to ensure closings.

Our first quarter cancellation rate improved to 21.5%. While this is higher than the 10.2% last year, it is decidedly lower than the 26% last quarter and has been falling in each consecutive month. While our new orders were down some 10% year over year that result has compared favorably to reported market conditions and enabled us to maintain a strong start pace that enables us to increase our expected closings for the year to a range of 62,000 to 66,000 homes delivered.

On a positive note, very limited new home inventory exists. Limited existing home supply exists as existing homeowners hold on to extremely low mortgage rates. And very limited multifamily production combines with the chronic housing production shortfall over the past decade and leaves the industry in the middle of what we believe will be a fairly short duration correction without an inventory overhang to resolve. These factors will also extend the runway for longer-term housing growth as the correction develops.

We derive growing confidence in our ability to achieve sales at the best possible prices from our significant investment in digital marketing, which is more relevant than ever before. We have used our dynamic pricing model in conjunction with our formidable and improving digital marketing platform to continue to drive sales volume at market clearing prices in order to maintain consistent production levels.

Our proprietary Digits platform, which we built on a Microsoft backbone, provides digital marketing insights and analytics that guide us to better execution while maximizing pricing using our Dynamic Pricing Model. Our digital marketing team, and our dynamic pricing team, are getting better and better each quarter. And they enable us to refine and improve our execution and effectiveness as we accumulate more data and more experience.

Our second strategy was to work with our trade partners to right size our construction - our cost structure to current market conditions while we re-established cycle time at pre supply chain crisis levels. Jon will cover this in great detail shortly, but at a high level we continue to make meaningful progress with our trade partners as they appreciate our long-term strategy of maintaining consistent production.

Relative to construction costs Lennar led the way with reducing - with a reduction in margin while maintaining volume and increasing market share as the market has corrected. As our margins have now contracted we are driving cost reduction participation from our trade partners.

Our trade partners are working side by side with us to reduce costs and to keep the production machine working. While there continues to be a lag in those reductions coming through our reported numbers, in the back half of the year, cost reductions will improve lagging margins.

Cycle time reductions will also come through in the back half of the year. While cycle time has increased slightly this quarter from 211 days to 219 days last quarter, this timing reflects homes that have been in production for almost eight months.

While we've reviewed the front end of construction for homes that have started more recently we are seeing a two-week reduction already coming through, and we know that will improve over the next quarters. Improved cycle time will improve our inventory turn, which now stands at 1.2 and will help reduce inventory as we'll be able to carry less inventory to hit our deliveries, and accordingly, we will improve our return on inventory as well.

Our third articulated strategy was to sharpen our attention on land and land acquisitions. While Rick will give detail on our land strategy, this has been a specific concentrated area of focus for all three of us, myself, Rick and Jon, across the platform.

We recognized early that land would be expensive relative to reduced prices, and we therefore stopped the bleeding early. While we reconsidered every land deal in our pipeline we have walked from deposits or renegotiated terms

and price. And we have been relentless in focusing on protecting cash and only purchasing the next strong margin at today's market pricing.

We purchased very little land this quarter as we await better pricing that is more in line with current home sale prices. New land purchases in time will improve lagging margins. Fortunately, we are well positioned with well-structured contracts and shorter-term deal structures that enable our capital allocation to be managed constructively.

As with our trade partners, our land partners or sellers, understand that we are maintaining volume and increasing market share while taking the first hit to our own margin. They will need to work together with us in cost reduction given lower home sales prices or we'll just have to move on.

Our fourth playbook strategy was to manage our operating costs, our SG&A, so that even at lower gross margins we will drive a strong net margin. We've been driving our SG&A down over the past years quarter by quarter to new record lows and many of those changes, though not all, are hardwired into permanent efficiency in operations.

In our first quarter we were able to marginally improve SG&A to 7.4% from 7.5% last year. And we believe if we continue to drive volume we'll be able to limit increases and manage to advantageous cost levels. Nevertheless, as average sales prices come down the percentages won't hold without corresponding additional cuts.

We also know that in more difficult times there will be upward pressure on some of our sales and marketing and realtor costs in order to drive and find purchasers and drive new sales. In this regard the earlier discussion of our

intense focus on our digital marketing platform is critically important in offsetting many of these potential cost increases.

Our fifth playbook strategy is to maintain tight inventory control. This is exactly what drives cash flow and our cash flow machine. And we're focusing on this part of our business every day.

Both land and home inventory control are a core focus of our overall business and leadership team. And in our first quarter - and in our first quarter numbers you can see our focus on these elements in our 14.2% debt to total capitalization rate, which is down 410 basis points from last year's 18.3%, and our \$4.1 billion cash position, together with our 2%, our \$2.6 billion undrawn revolver, which together provides excellent liquidity and flexibility.

Tight control of land, and completed home inventory, has enabled cash flow so that our net debt to total capital is actually negative at this point. Inventory management is the most carefully reviewed and managed part of our business and enables us to maintain an extremely low inventory of completed, not sold homes, which are consistently - which have been consistently been at or under one home per community for the past years. And right now we have approximately 1,300 unsold uncompleted homes.

We are well aware that inventory has remained flat as opposed to lower year over year as one might expect, because of expanded cycle time due to the supply chain disruption. We also know that this inefficiency will correct over the next few quarters and will return approximately \$1.5 billion of inventory and turn it into additional cash. Additionally, a pause in growth this year will reduce inventory and generate additional cash over the next year as well.

The sixth strategy is to continue to focus on cash flow and bottom line in order to protect and enhance our already extraordinary balance sheet. With our balance sheet strong, we are able to complement our strong operational execution with stock repurchases and debt reductions that improve total shareholder returns and return on equity.

As we continue to execute our strategies we will continue to drive strong cash flow and bottom line profitability. And even though bottom line profitability will be compressed year over year as prices and margins are impacted in a correcting market our balance sheet and our cash position will continue to improve. This improvement enables the flexibility to be opportunistic as market conditions stabilize.

Finally, we have added an additional strategy, an additional core strategy, since last quarter end. This is a strategy of continuous improvement focus throughout the company.

Although it seems obvious and perhaps a little trite, we have created a central focus on continuous improvement metrics for every leader in our company with a direct tie to performance measurement and bonus structure. Last year, we recruited a new CHRO with specific expertise in this area. And we've developed a determined and constructive program of engagement and measurement across our platform.

Welcome aboard, Drew Holler. Now that he has been with us for about six months I wanted to formally welcome Drew to the company on our earnings call and let him know formally that we, meaning me, Rick, Jon and all of our shareholders, expect really exciting improvements that will help Lennar continue to reach higher and drive harder to be the best version of ourselves.

So in conclusion it seems that the homebuilding industry has been skating on a very thin edge between some very strong headwinds and some equally strong tailwinds that have required careful navigation and refined adjustment along the way. The headwinds have been defined by Federal Reserve driven interest rate increases driven by stubbornly high inflation. The consumer has attempted to adjust.

The tailwinds have been defined by housing shortages across the country as well as production deficits over the past decade. And while the consumer remains challenged by affordability concerns they are adjusting to the new normal of higher interest rates and opting to purchase their home.

In these extraordinarily difficult and volatile market conditions the Lennar team has focused on strategy, and we have executed with precision. We ended the first quarter with stronger than expected revenues and closings, strong profitability and cash flow, a fortified balance sheet and strong liquidity.

We have a plan of execution to continue to navigate the uncertainty of 2023 with a focus on maintaining volume, maximizing margin, managing inventories, driving cash flow, managing land and - land spend and further enhancing our balance sheet in spite of the challenging market conditions. Accordingly, we are not guiding, but giving some broad boundaries for our second quarter closing to between 15,000 and 16,000 homes with a gross margin we expect between 21% and 21-1/2%.

Additionally, we are targeting delivery volume for the full year to be between 62,000 and 66,000 homes as we drive volume and pick up market share and build margins back up through reconciliation of construction and land costs while carefully managing SG&A. While we're prepared for volatility, and

adversity along the way, we will stick to our focus on our core operating strategies in order to perform as expected.

Simply put, that's what we expect of ourselves and we hope in the process we will continue to earn your trust and respect. Thank you. And with that, let me turn over to Rick who's going to walk through a review of our market conditions across the platform.

Rick Beckwitt: Thanks, Stuart. As you can tell from Stuart's opening comments the overall housing market has continued to be impacted by higher mortgage rates, which has impacted affordability and homebuyer confidence.

While some of our markets are performing well in most of our markets we've had to adjust base prices, increase incentives and/or provide mortgage buy rate buy-downs to maintain or regain our targeted sales pace. Our strategy has been to maintain our targeted sales pace, continue to sell homes and adjust our pricing to reflect market conditions.

With this strategy we have sacrificed gross margins to generate sales. To match sales to starts, we've used our dynamic pricing model to continuously find the market clearing price for each of our homes on a community by community basis as quickly as possible.

We fundamentally believe that our price to market strategy reflects our balance sheet first focus where we can maintain starts and sales, generate cash flow and keep our homebuilding machine going. To this end, Jon will discuss the operational and cost benefits of maintaining our start pace.

Our first quarter reflects - our first quarter results reflect the successful execution of our price to market strategy. During the first quarter our new

sales orders declined 10% from the prior year. These results, as Stuart mentioned, compare very favorably to competitor and nationally reported results.

We did see improvement during the first quarter as new sales orders increased sequentially from the fourth quarter and in each month of the first quarter with our February 2023 sales pace per community totaling 4.7 sales, just 0.1 sales lower than our sales pace in February 2022.

Our cancellation rate also declined from 26% in the fourth quarter to 21% in the first quarter with sequential improvement in each month of the quarter. In fact, our cancellation rate in February was 14%, much below our normalized cancellation rate. Our cancellation rates have benefited from the flawless execution of our Financial Services Group in both finding the right mortgage product and locking mortgages with our home buyers.

Our new order sales price in the first quarter totaled 452,000, up 8% from the fourth quarter with mix primarily pushing our average sales price higher. Sequentially, we saw a slight improvement and a reduction in our incentives, which was partially offset by lower base prices.

We've been able to achieve small sequential monthly reductions in incentives during our first quarter without impacting sales pace. This trend has continued into the first two weeks of March.

Notwithstanding the spike in interest rates in late February, and continuing into the first two weeks of March, our sales and cancellation rates have maintained. And we feel we have established market pricing and sales pace stability across our footprint.

Now I'd like to give you an update on our markets across the country. In prior quarters I had three categories, one, markets that are performing well, two, markets where we've adjusted pricing and incentives, found the market price and have successfully regained sales momentum, and three, markets that require additional pricing adjustments incentives and focus to regain our targeted absorption phase. While our strategy has resulted in lower gross margins across the platform the good news is that, for now, we have no Category 3 markets.

During the first quarter, and so far in March, we had ten markets that are performing well. These are Southeast Florida, Southwest Florida, Tampa, Palm Atlantic, New Jersey, Philly Metro, Charlotte, Coastal Carolina's, Indy and San Diego. These markets are benefiting from extremely low inventory and many are benefiting from strong local economy, employment growth and migration.

While these markets have continued to perform well we have had to selectively offer mortgage buy down programs and normalized sales incentives. Some communities in these markets have required targeted price adjustments, but those are in rare cases.

Our Category 2 markets, which reflect markets where we've made more significant adjustments and have successfully regained sales momentum, include 29 markets. These include Jacksonville, Ocala, Orlando, Gulf Coast, Northern Alabama, Atlanta, Raleigh, Virginia and Maryland, Chicago, Minnesota and Nashville, all the markets in Texas including Austin, Colorado, Phoenix, Tucson, Las Vegas and the rest of California, Pacific Northwest, including Portland and Seattle, Utah, Reno and Boise.

While inventory is limited in each of these markets we have had to offer more aggressive financing programs, base price reductions and/or increased incentives to regain sales momentum. The size of the adjustments is varied on a community by community basis and has often been limited to specific homes each week.

In some cases, to avoid cancellations, we've adjusted pricing on our homes in backlog. We've been very proactive with our pricing and not reactive. This has allowed us to sell homes and avoid building up finished inventory.

In all of our Category 2 markets we have seen base prices stabilize. In a handful of our Category 2 markets we've been able to increase our net sales price primarily by reducing incentives and to a lesser extent by raising base prices.

The markets remain very fluid, and we're making proactive strategic decisions and adjustments every day. As Stuart said, we're committed as a management team to address any future market changes quickly.

As we said in the past we're going to keep our homebuilding machine going, maintain our sales and start pace and price our homes to market. This is our balance sheet first focus.

Before I turn it over to Jon, I'd like to discuss our land lite strategy and community count. Much of our balance sheet and inventory management progress was driven by the execution of our land strategy while simultaneously driving sales, deliveries and managing production. Quarter after quarter we've worked with our land partners and land banks to develop relationships for them to purchase land on our behalf and deliver just in time

finished home sites to our homebuilding machine on a monthly and quarterly basis.

In the first quarter, about 90% of our 12,000 home sites purchased were finished home sites from our various land structures. We have continued to make significant progress on our land lite strategy. This was evidenced at the end of our first quarter where our years supply of owned home sites improving to 1.9 years from 2.7 years and our controlled home site percentage increasing to 68% from 63% year over year.

We've also focused on increasing our community count to drive future growth. Our community count increased 1% to 1,217 communities at the end of the first quarter from the year ago period. And we expect to increase our community count in the high single digits from the first quarter by the end of the fiscal year. Given our development timelines the bulk of these communities will come on in our fourth quarter. I'd now like to turn it over to Jon.

Jon Jaffe: Thank you, Rick. You've heard from Stuart and Rick how we've remained focused on finding market community by community to maintain sales pace. Accordingly, this does enable Lennar to keep our production machine moving forward with starts.

We continue with our stated construction strategy of being a production first homebuilder. Keeping starts consistent and then matching the sales pace to establish start space to effectively manage inventory. This resulted in ending our first quarter with only about one inventory home per community.

To remind you, our construction playbook has three primary areas of focus, lowering construction cost, reducing cycle time and achieving even flow

production. By executing this playbook we believe we can maximize financial results in all market conditions. Let me address each area.

As we noted last quarter the speed of change in market conditions has caused a sharp reduction in industry-wide starts and permits. This is evidenced in the nationally reported starts and permit activity over the last three months with November, December and January starts down year over year at 34%, 27% and 27% while permits were down 30%, 35% and 40% respectively in the same year over year period. The declining starts and the drop in permits, which are a proxy for a further drop in future starts, has already and will continue to free up the availability of labor and material.

Looking at our first quarter, as expected construction costs fell sequentially from Q4 by about 1%. This was driven primarily by the reduction in lumber cost from last summer flowing through our deliveries, partially offset by the increases in costs in most other categories.

Year over year construction costs rose by almost 13% reflecting the elevated cost environment for home constructions - for homes started in 2022 versus 2021. Importantly, in our first quarter, we continue to make progress working with our trade partners to reduce the cost of labor and materials. Additionally, we have now evaluated all of our product lines for appropriate specification changes, and we maintain an ongoing value engineering review process across all of our divisions.

As I have already noted there's been a significant slowdown in starts and permits in the industry. And our trade partners feel this first-hand. We continuously meet with them to communicate our strategy of maintaining our starts pace, which they greatly appreciate.

They also understand the steps we have taken in sacrificing margin in order to keep our sales pace and to support our volume. In turn, they are partnering with us to lower our construction costs as they know we are helping to keep them in their businesses financially stable.

They understand the mission. They're on board to help us make it happen. We expect to start seeing these savings begin to flow through our second quarter closings, which are factored into our margin guidance.

Last quarter, I communicated we had identified about \$14,000 per home in construction cost savings which will flow through our closings in the back half of the year. We have now contracted these cost savings and continue to make progress on identifying additional savings while at the same time managing through an environment where certain material costs are impacted by inflationary pressures.

A potential future headwind to cost savings is lumber, as the combination of reduced supply from the mills, and minimal inventory quantities throughout the distribution channels sets up for the potential for a small price rally in lumber over the next few months. At this time we are comfortable in reaffirming at least \$14,000 per home in savings, which will serve us well should home prices come under further pressure again.

Cycle time is the second area of focus for our construction strategy. As Stuart noted our closings in the first quarter saw extended cycle times as those homes were impacted by the supply chain challenges in the second half of 2022. For the quarter cycle time increased 14 days and 8 days year over year and sequentially, respectively.

As we move into the second quarter and beyond we will continue to close more of the home started last year, which were heavily impacted by supply chain disruptions eliminating those longer duration of homes from our inventory. Our cycle time also benefits from the greater availability of material and labor due to the significant reduction in housing starts.

As we've previously discussed our overall cycle time increased about two months from pre-pandemic conditions. The bulk of this affected the front end of construction as there are fewer opportunities to build out a sequence at the front end as compared to the back end. For example, we can't put on the roof without the walls, but we can install toilets without the windows.

There has been significant improvement in recapturing on time at the front end. By the end of our first quarter we have reduced front-end cycle time by over two weeks from our peak. Currently, we are on a pace of improving cycle time by a few days each week.

We will have to wait and see how long this trend can be maintained or potentially even approved upon. This will depend on some lingering supply chain issues such as transformers, labor remaining in the workforce as starts decline and appropriate staffing levels at municipalities. Reducing our cycle time over the next few quarters will free up a significant amount of cash that is tied up in our inventory further strengthening our balance sheet.

The third area of focus is even flow production. Prior to the pandemic, and its related supply chain disruptions, even flow production was a core focus for us. Even flow, properly executed means consistent completions throughout the month and quarter. Consistent starts and completions allow both Lennar and our trade partners to be staffed for the average versus the peaks and avoid

inefficiencies at the valleys. This drives field and G&A efficiencies for both the trades and Lennar.

While we are not there yet as we look forward at our planned deliveries for each month of the second quarter, we can start to see a return to even flow. These strategies are an intense focus - everyday focus of the entire company. Everyone at Lennar involved in operations and purchasing are focused every single day on lowering cost, reducing cycle times and achieving even flow production. I would now like to turn it over to Diane.

Diane Bessette: Thank you, Jon, and good morning everyone. Stuart, Rick and Jon have provided a great deal of color regarding our homebuilding performance so therefore I'm going to spend a few minutes on the results of our Financial Services and Lennar Other segments and our balance sheet and then provide high level boundaries for Q2 2023.

So starting with Financial Services, for the first quarter our Financial Services team produced operating earnings of \$78 million. Mortgage operating earnings were \$59 million compared to \$67 million in the prior year. The decrease in earnings was driven by lower lock volume, primarily as a result of the decline in the average sales price of our homes.

Title operating earnings were \$23 million compared to \$21 million in the prior year. Title earnings increased primarily as a result of higher volume and the decrease in cost per transaction as the team continues to achieve efficiencies through technology. These solid results were accomplished as a result of great synergies between our Homebuilding and Financial Services teams as they successfully executed together through this challenging market.

So then looking at our Lennar Other segment, for the first quarter, this segment had an operating loss of \$41 million. The loss was primarily the result of non-cash mark to market losses on our publicly traded technology investments, which totaled \$24 million.

And then turning to our balance sheet, there is a constant drumbeat at Lennar to be laser focused on returns and on cash flow. This quarter we were unwavering with our determination to turn our inventory and generate cash by pricing homes to market to deliver as many homes as possible.

The drumbeat continued with our determination to preserve cash and increase asset efficiency by continuing to be judicious about land purchases acquiring primarily finished homesites where vertical construction will soon begin. The results of these steadfast strategies was that we ended the quarter with \$4.1 billion of cash and no borrowings on our \$2.6 billion revolving credit facility, as we've noted. This provided a total of approximately \$6.7 billion of Homebuilding liquidity.

Given our continued focus on balance sheet efficiency, we've enhanced our goal of becoming land lighter. At quarter end we owned 125,000 home sites and controlled 264,000 home sites for a total of 389,000 home sites.

Our years owned improved to 1.9 years from 2.7 years in the prior year. And our home sites controlled increased to 68% from 63% in the prior year. We believe this portfolio of home sites provides us with a strong competitive position to continue to grow market share in a capital efficient way.

During the quarter we started about 13,300 homes and ended the quarter with approximately 36,500 total homes in inventory, of which about 1300 were completed unsold as we successfully managed our finished inventory levels.

Consistent with our commitment to strategic capital allocation we repurchased 2 million shares totaling about \$189 million. Additionally, we paid dividends totaling \$108 million.

And then looking at our debt maturity profile our next senior note maturity is \$400 million, which is due in fiscal 2024. We continue to benefit from our paydown of debt.

You may recall that we've repaid about \$5.4 billion of senior notes, which equates to about \$300 million in interest savings. Combined with strong earnings our home building debt to total capital was 14.2% at quarter end, our lowest ever, which was an improvement from 18.3% in the prior year.

And just a few final points on our balance sheet. We remain committed to increasing shareholder returns. Our stockholders' equity increased to \$24 billion. Our book value per share increased to over \$84, our return on inventory was approximately 31% and our return on equity was approximately 21%.

In summary, the strength of our balance sheet, strong liquidity and low leverage provides us with significant confidence and financial flexibility as we move through 2023. And with that brief overview, I'd like to turn our thoughts to Q2.

It continues to be difficult to issue the targeted guidance that we have historically provided given the volatility in market conditions. So as Stuart mentioned, and as we did last quarter, we're providing very broad ranges to give some boundaries for each of the components of our second quarter.

So let's start with new orders. We expect Q2 new orders to be in the range of 16,000 to 17,000 homes. And expect our Q2 ending community count to be flat to slightly up year over year.

We anticipate our Q2 deliveries to be in the range of 15,000 to 16,000 homes. And our Q2 average sales price should be in the range of 435,000 to \$445,000 as we continue to price to market.

We expect gross margins to be in the range of 21% to 21.5%. And we expect our SG&A to be in the range of 7.2% and 7.4%.

And for the combined homebuilding, joint venture, land sales and other categories, we expect to have earnings of about \$10 million. We anticipate our Financial Services earnings for Q2 to be in the range of \$70 million to \$75 million. And we expect a loss of about \$20 million for each of our Multifamily business and the Lennar Other category.

The Lennar Other estimate does not include any potential mark to market adjustments to our technology investments since that adjustment will be determined by their stock prices at the end of our quarter. We expect our Q2 corporate G&A to be about 1.6% to 1.7% of total revenues.

And our charitable foundation contribution will be based on \$1,000 per home delivered. We expect our tax rate to be about 24.5%. And the weighted average share count should be approximately 286 million shares. And so when you pull all that together these estimates should produce an EPS range in between \$2.10 to \$2.55 per share for the second quarter.

Finally, once again, given market volatility we're providing boundaries for deliveries only for full year 2023 as we did last quarter. As Stuart mentioned

this delivery range should be 62,000 to 66,000, which is an increase of our previous range of 60,000 to 65,000. We look forward to giving you another update on our next earnings call. And with that let me turn it over to the operator.

Coordinator: Thank you. We will now begin the question and answer session of today's conference call. We ask that you limit your question to one question and one follow-up question until all the questions have been answered.

If you would like to ask a question please unmute your phone, press Star 1 and record your name clearly when prompted. If you need to withdraw your question you may use Star 2 at any time.

Again, that is Star 1 to ask a question. And our first question will come from Stephen Kim from Evercore ISI. Please go ahead.

Stephen Kim: Yes. Thanks very much, guys. Super interesting times and very impressive results. Wanted to ask a first question, if I could, about your commentary and your guidance on orders.

So I think you indicated that your February absorptions were running at 4.7 sales per community. Your order guidance for 2Q seems to imply something less than that. I was curious why that is?

And because we usually see, you know, if anything the absorption, you know, higher in the second quarter than in the first quarter. And if demand exceeds, what seems to be implied in your order guide, would you expect that we might see that, you know, that excess show up in a higher margin or greater starts?

Stuart Miller: We're struggling with who should answer that question. Hold on please.

Jon Jaffe: David, it's Jon. I think our view, as you heard, is that we've found building the markets as we've made what we think are the appropriate adjustments to achieve a pace.

It's really at a pace that, as I defined it in my discussion points, really matches our start pace. And so it's a managed community by community, you know, market by market sales pace, you know, that we think is very healthy as you look at it relative to the year over year and the current market environment.

Stuart Miller: And I think it's most important to recognize, Stephen, that when you look at the overview - the overall numbers they might not match up perfectly with the fact that we are managing our business and managing each of these numbers from a community by community base - a community by community basis. And it's really a roll-up of exactly what's happening in the field in each community and so you're going to see some anomalies in the numbers.

Your question as to whether if demand is stronger we're going to see that reflected in higher volume numbers or higher margins. And it's really - the answer to that is really going to be about optimizing to both. We will, with greater demand, see some greater volume. But additionally, that greater demand will express itself through our dynamic pricing model and the ability to garner a higher sales price and margin.

Jon Jaffe: You know, additionally there is one more thought on that. And that is as you know we really have a very healthy inventory position, not a lot of unsold homes in front of us are current.

So we're very disciplined about not getting too far ahead in sales. We could potentially open it up some more. But we find very effective use of mortgage

rate buy downs which tend to lead to a shorter cycle duration in terms of how far out we're selling.

Stephen Kim: Yes, that's exactly where I was going to go next. So thanks for that segue. So I know you have this dynamic pricing model.

One of the things that we've really noticed recently, and I'm curious if you have as well, is that homebuyers seem to prefer QMIs much more even than they did, Quick Move-In homes, than they did in the past. And so I would imagine that you could probably actually reduce the level of incentive that you need to offer as your spec homes near completion, which is something very different from the way things were in the past.

And so I'm curious is that true? Are you finding that you can actually reduce incentives as your specs get, you know, further along the construction process? And has your dynamic pricing model adjusted to reflect that change?

Rick Beckwitt: Steve, it's Rick. We have seen that our homes, as they're getting close to completion or being completed, that they get premium pricing. That's why we continued with our production strategy to keep homes coming off of the conveyor belt, if you will.

And as I mentioned in my commentary that's reflective of the lowering of incentives on a monthly basis, really on a weekly basis since - for the last six, eight, ten weeks we've been able to, you know, lower the amount of the incentive. That's why we're keeping our start cadence going.

And just going back to your sales pace question, you know, the sales pace for the Q2 is really in the mid-fours. And if the market improves we can

definitely push that, but that's sort of the middle of the fairway type of projection.

Stuart Miller: I do think it's important to note that last night I finished writing my remarks and talked a bit about volatility in my remarks. Little did I know that this morning I'd wake up and see even increased volatility. I say that as an overlay to all of the discussion around numbers looking forward have to be looked at in the context of very strange and moving market conditions.

Stephen Kim: Yes. Thanks very much Stuart. Appreciate that. And we will take the 3.4% 10-year yield, though, too this morning.

Stuart Miller: Absolutely. We'll see what the other numbers look like.

Stephen Kim: Okay, thanks.

Coordinator: Next, we'll go to the line of Alan Ratner from Zelman & Associates. Please go ahead.

Alan Ratner: Hey guys. Thanks for taking my questions and all the great color so far. You know, first just I was hoping to reconcile a little bit of Stuart and Rick's comments earlier just as far as kind of the late February, early March activity and how that pertains to the overall pricing strategy.

You know, Rick I think I heard from you that, you know, at least in your opinion sales, you know, have remained steady here through the first couple of weeks of March and not to parse too finally between weekly data. But Stuart, your comments were that you did see a little bit of a tick lower in late February from the higher rates.

And obviously, that's a rearview mirror now, but, you know, now the banking headlines are taking over. So I guess I'm just curious, A, can you reconcile those comments? And B, you know, given that you think pricing has kind of found a market clearing price, so to speak, if orders were to fade a bit at what point would you get more aggressive on incentivizing again or adjusting prices to bring that sales pace up?

Stuart Miller: Well the answer to your last question is every day. We're looking at pricing on an everyday basis in each community. It's a very granular assessment.

You know, to reconcile what I said about the end of February, at the end of February interest rates started moving dramatically in a different direction. And we definitely saw a direct impact in traffic levels.

We were intrigued to sit and watch as we went from February into March that our sales pace remained relatively strong. You know, there are a number of ways to read that information. But we, you know, a big part of our read is the fact that we have kind of entered into a world of a new normal relative to interest rates. The sticker shock of the rapid change is subsiding. It doesn't mean it's gone away.

But at the same time, you know, interest rate movements are not disrupting sales as they might have six months or nine months ago. And we are able to find and keep in touch in step with interest rate movements and, you know, that intersection between the discounting that we might have to do, the incentives we might have to give and the consumers' affordability assessment.

So, you know, all of those are in play on a regular basis. And as we came to the end of February we definitely saw an impact on traffic but not really much of an impact on sales, that's anomalous.

Jon Jaffe: Alan, it's Jon. I think there's a connection of - to the point Stuart made, and that is as interest rates went up we pulled on the lever of mortgage rate buy downs to keep our customers who were in the queue moving forward with their purchase decision. And that's I think part of why we didn't see an impact to our sales while we're seeing an impact to our traffic.

Alan Ratner: Got it.

((Crosstalk))

Rick Beckwitt: And I guess just a final comment I'd make is we did see stability going into the first two weeks of March, didn't see much variation in the aggregate number of sales in the first two weeks. You know, incentives ticked down, and cancellation rates really stayed in that stable zone, you know, for the two weeks prior and really the month of February.

Alan Ratner: Appreciate that. No, that's all really helpful. Second, you know, I know it's early, and this can kind of take a lot of different directions here. But, you know, given the uncertainty in the regional banking sector today, you know, on one hand, you guys and the other publics, are at a huge advantage over private builders given your long-term debt and the balance sheet and the strength that you have.

But if you think about the industry more holistically it's so reliant on debt financing from the regional banks that, you know, may be coming up, you know, to a tougher period here in the near term which could result in some tightening, whether it's on AD&C financing or build for rent purchases, anything that kind of utilizes that capital. So, you know, maybe this one is best for Stuart.

How do you see this playing out if there are any headwinds or tightening that might occur? And how could that impact your business even if you do have that competitive advantage from a capital perspective?

Stuart Miller: So Alan, your question is a really important one, and I don't think there's a clean clear answer to it. You know, and I was very intentional in my comments. I used the words unintended consequences.

There are so many of them just swirling around out there, and I'm not sure how they're going to shake out. You're absolutely right that the community banking and regional banking system is a support structure for the broader housing market, whether it's the smaller builders or all the way through the system.

The SFR buyers are going to feel the ripple of not only cost of capital but also capitalization rates. There's going to be moving upward. There's going to be movement downward. And how it shakes out is going to be something that we'll be very tuned to.

But the landscape is going to shift. Unintended consequences are not - we're not going to be able to see around those corners. And I think we've seen that in, you know, many ways over just the past few days, the unexpected has happened.

And we just have to think about how we deal with it, whether it's over the weekend or whether it's over last night. So it's important to daylight that there are these things out there that are going to have some ripple effects. And we'll all have to just sit and see how we deal with them.

I hope that I laid out well in our commentary that our strategic focus is taking into account the volatility, the unexpected and recognizing that we're going to stay very close to the market on a community by community basis and use our dynamic pricing model, digital marketing platform to keep the production machine moving and, you know, that will impact both sales prices and margins.

Alan Ratner: I appreciate the thought Stuart. Thanks again.

Stuart Miller: Sure.

Coordinator: Next, we'll go to the line of Susan Maklari from Goldman Sachs.

Susan Maklari: Thank you. Good morning everyone.

Stuart Miller: Good morning.

Susan Maklari: My first question is, you know, going back to the Dynamic Pricing Model you mentioned in your comments that you are constantly refining and improving that process. Are there any specifics that you can give us around that?

And especially, you know, even the volatility that we've seen in rates over the last couple of months, how has that helped you to adjust on the ground? And given you the confidence to give us those guidance or those boundaries for your '23 closings of 62,000 to 66,000?

Jon Jaffe: Hey, Susan, it's Jon. Our Dynamic Pricing Model really gives us a very clear view of the different elements that go into pricing a home and associated incentives, mortgage buydowns, base pricing premiums, et cetera. So we've evolved that product through these market conditions.

We've developed additional tools within dynamic pricing that give our operators that view of what's happening on a plan by plan community by community basis where they can track week over week changes in base pricing incentives, et cetera, and stay very much on top of sales pace, what's needed and what is having the biggest impact on driving results.

Stuart Miller: As well as the competitive landscape.

Jon Jaffe: Yes.

Stuart Miller: All of the components of what's happening in the market is being ingested into our dynamic pricing model. And it is giving in graphic form our operators a clear view of what's happening in their market, backward looking and forward expected.

And it's really the ingestion of data, the backward testing and the ability to accumulate more information that is dependable that we - where we build and understanding as to what it means that helps us come up with pricing that is actionable in the field on a market by market basis. And probably the most interesting thing that has taken place over the last six months is a better understanding of how to look at our underperforming assets, meaning the communities that are not performing up to par.

It's easy to focus on the communities that are doing quite well and harder to focus on the ones that might be lagging. And across a platform that's, you know, 1,300 communities coast-to-coast it's important to zero in on those that are underperforming and see what it takes to get them moving in the right direction. That's what our dynamic pricing model is all about.

Rick Beckwitt: It also allows us to identify the ones that are performing well from a sales pace, but that need pricing adjustments to the upside because we're not maximizing the value of the opportunities.

Jon Jaffe: And, Susan, really the foundation that really enables our dynamic pricing model to work is we have a set start pace. And we're trying to land on a sales pace that ties into and matches that start pace. So we know where we want to land, and dynamic pricing helps us navigate to make sure that we land on the spot that we want to.

Susan Maklari: Yes. Okay, that's all very helpful. And then, you know, turning to the balance sheet. You've got probably the strongest balance sheet you've ever had, especially given the operating conditions right now.

Historically, when we've gone through periods of slowdowns, or the global financial crisis, you've been able to leverage certain opportunities to drive long-term growth. Obviously, it's really hard to know how things will come together this time.

But what are some of the things that you're looking out for? Where do you think there could be opportunities to take advantage of? And how are you thinking about investing in long-term growth relative to say shareholder returns or other uses of the balance sheet?

Stuart Miller: So Susan, let me say emphatically that our primary focus is on organic growth. We are not really looking outside at strategic opportunities and being opportunistic in a kind of traditional sense. We are - and I've said this many times before, we are focused on being a best of breed homebuilder, manufacturer with an asset light program.

We're going to be focused on generating cash, paying down debt, buying back stock, where opportunistically we can and should. And we're not really looking outside the boundaries.

We think that the opportunity to continuously improve, as I said, continuous improvement is a serious mantra around here. Continuously improving is the biggest opportunity that we have. And we are refining all of the levers of our company down to or up to the actual operators that run the business. Across the board it's continuous improvement internally focused.

And that opportunistic skill set, that we clearly have, is not our primary focus right now. The strength of our balance sheet is not enabling us to meander our thinking. We're staying very focused on running our business and refining it.

And that asset light component continues to be right in the crosshairs of what we're focused on. How do we systematically build a land strategy that is complementary of a land light programming that enables us to execute well and to grow for the future.

Rick Beckwitt: I think consistent with that, on the margin, the opportunities that might come on individual, community by community basis, is if things on a regional level with the smaller builders, smaller developers where they need capital we can put that in one of our land vehicles.

Susan Maklari: Okay. That's very helpful. Thank you and good luck.

Stuart Miller: Thank you.

Coordinator: And our next question comes from Truman Patterson from Wolfe Research.

Paul Sadowski: Thank you. Actually this is Paul Przybylski. First question, you know, your order ASP increased 3% to 7% quarter over quarter on a regional basis. You did mention that was pricing power, but I can't imagine pricing power drove all that.

Was it more, you know, the balanced product or geographic, you know, submarket mix, et cetera? And then following on that, what percent of your communities have actually, you know, come off the bottom in order pricing?

Rick Beckwitt: So as I said in my comments most of the price increase between Q4 and Q1 was really mix of product with some incentive reductions. So that was the primary impact between Q4 and Q1. As far as the percentage of communities I'm not sure we have that right now.

Stuart Miller: Not specifically.

Paul Sadowski: Okay. Okay. All right, well and the second question. Your first quarter gross margin came in a little bit above, you know, guidance. The midpoint on 2Q, you know, is basically flat.

And last quarter you mentioned that you thought 1Q would kind of be, you know, the low point for the year. Do you continue to believe that, you know, the second half of '23 will see higher margins relative to the first half?

Stuart Miller: Generally, we do. I do want to just correct one term and that is that term guidance. We've used the word boundaries. I know there's a subtle difference there, but we are trying to give some boundaries, but we do recognize that the world is, you know, working a little strangely these days.

With that said, we do feel that our margins should be better in the back half of the year as some of our cost savings and work with our building partners kind of start to flow through. Remember there's a lag in what we're able to engage with our building partners and what actually - the timing of which is actually flows through our numbers. But we are anticipating that the second half should be a little bit stronger, assuming that conditions in the market don't, you know, radically move in a different direction.

Paul Sadowski: Appreciate it. Thank you.

Stuart Miller: Sure

Coordinator: And our next question comes from Carl Reichardt from BTIG.

Carl Reichardt: Thanks. Good morning everybody. Stuart, you talked about turns at 1.2 times inventory turns. So if you think about like selling at a normalized pace for Lennar, getting back to normal cycle times and optimizing the land lite program in an hunky-dory world, where do you think those inventory turns can go?

Stuart Miller: So we've spent a lot of time thinking about this Carl. We think it's a very important metric for us. And I'm not prepared to make that prediction.

What I want to say that it is very much at the center of our thinking. And there are some cross currents right now because of the reconciliation of supply chain disruption and some of the holdovers.

And the reconciliation of that supply chain disruption, getting our cycle times back in line, will be a factor in the answer to that question. And let's leave the

answer to that another day, but just understand that it's very much part of the focus of our management team.

Carl Reichardt: Okay. I had to take the shot at least. And then on Quarterra, obviously, you've postponed that. What are the conditions necessary do you think to actually get that business spun under the assumption that you still intend to do that?
Thanks.

Stuart Miller: I'll answer it in the negative and say not the conditions that we've seen unfold over the past couple of weeks. We are - look there's - as I said last quarter the markets are moving, and the financial markets have created complication. Since that last quarterly call I would say that the capital markets have become even a bit more complicated.

This is just not the time for us to be taking Quarterra to the market. I think that we're going to wait and see and look for the right opportunity to do the next right thing for the company. And I want to leave that as an open item as well. I feel like I'm not answering your questions, Carl. It's not like me.

Carl Reichardt: That's quite right. I appreciate all the color, guys. Thanks so much.

Stuart Miller: Okay. You bet. We have time for two more please.

Coordinator: Okay, absolutely. Our next question comes from Mike Rehaut from JPMorgan. Please go ahead.

Michael Rehaut: Good morning. Thanks for fitting me in. So one follow-up on going on around the banking system. You know, or I guess good afternoon now. The first question, I just wanted to circle back to, I believe it was Jon's comments on, you know, that 14,000 of savings per home that you feel like you've been able

to achieve, I guess, maybe over the last, you know, I don't know, call it, three to six months.

You know, that against your second quarter closing ASP, that's a, you know, a little over 300 basis points of margin improvement. So I'm just trying to think about, you know, you mentioned earlier about, you know, still expecting some amount of improvement in second quarter and - I'm sorry second half gross margins provided the pricing and incentive backdrop remain relatively stable.

You know, is - it seems like you're a little more hesitant to kind of say, okay, you know, back half gross margins up by 300. Are there other things that we should be considering that would offset that? Is this more of a fiscal '24 event? Just trying to think about those savings and how they might flow through in the back half.

Stuart Miller: So Mike, before I let Jon comment, let me just say that you hit the nail on the head. I think that it's the general volatility that is sending up the caution flag that, yes, you're correct. We are working every day on expanding that number to a larger number, and it is not static.

And, you know, if you just look at numbers, you know, your assessment is correct. But with that said, we're leaving room for volatility to run its course.

We recognize that even things within the cost numbers are moving around, whether it's lumber costs moving down and then moving back up, whether its other components. So the answer is yes, we're leaving some room for other elements of volatility to express themselves as well. Go ahead Jon.

Jon Jaffe: Yes. So for Q2, as I mentioned, you're just seeing the very beginnings of that because there is a time lag that Stuart addressed a moment ago. We put

something under contract today it affects homes we start tomorrow, which deliver call it six months from now. So you have that timing cycle.

You do have, you know, a likelihood that lumber does move up some. We are battling, for example with aggregates and concrete as a headwind. There is a constant energy efficiency battle that goes on that affects our manufacturers.

So there's give and take in that. And that's why I said we feel comfortable with what we have, you know, put under contract so far, but it's all a balance. And so you shouldn't do the math where you apply 100% of that because there will be offsets.

Michael Rehaut: Okay. No, that's very helpful and makes sense. I guess, you know, maybe even, you know, increasing the focus to the second quarter instead of the second half we're getting even shorter term.

You know, you guided to roughly flat gross margins in the second quarter versus the first. And, you know, what struck me on that guidance is that, you know, at the same time you've been talking about, during the call, incentives.

You know, I think Rick kind of referred to incentives declining over the past, I think I heard six to ten weeks. And maybe there was a little bit of a bump up in the end of February, but then a bump down, I guess, in March.

Why wouldn't we see a little bit of that in the second quarter in terms of the gross margins? And again, is there any offset there or is this more of a 3Q, 4Q type of benefit?

Rick Beckwitt: I think it's more of a Q3, Q4 type of benefit. But if you look at our guidance, you know, we've pushed up to 21.5, which incorporates some of that improvement.

And the thing you need to think about incentives is incentive is one part of the equation. The base price is another. And occasionally we have to adjust base prices down because ultimately we're really focused on net pricing.

So will - we feel that we will get a benefit from the reduction in incentives and net pricing as we move through the year. But we're at the beginning stages of really stabilized markets and making the improvements as volume and traffic change.

Stuart Miller: Bottom line is there are a lot of moving parts in all of this, Mike. And the way it plays out over the quarter, especially in the near term, it's going - they're - the moving parts are all going to work together, and we're going to roll it up. So you're seeing the injection of some rational conservatism to just make sure we're including the volatility in the market that is moving things all around.

Michael Rehaut. Great, thanks so much.

Stuart Miller: You bet. All right, last question please.

Coordinator: Thank you. Our final question comes from Matthew Bouley from Barclays. Please go ahead.

Matthew Bouley: Good afternoon. Thanks for fitting me in. So one follow-up on everything going on around the banking system. You know, you laid out some sort of broader industry thoughts there.

And I very much recognize this is very fluid but just kind of pertaining to your own mortgage business kind of lay out or unpack kind of, as you guys go through the process of selling loans to the secondary mortgage market, do you have any exposure to the regional banking system there? And just any sort of higher level thoughts on, you know, how all this may impact lending standards and all that? Thank you.

Stuart Miller: We're going to let Bruce chime in on that. Nice to hear you this morning Bruce.

Bruce Gross: Nice to be here. Good morning. With respect to sales of loans to investors we have the agencies that we sell to and other parties that are not regional banks.

Some of those investors did have financing from regional banks. We're paying very close attention to that, but no disruption. And the backdrop is we could always sell to the agencies. So we feel very good about the sales to investors.

Our warehouse lines are primarily the big commercial banks. So very little regional bank component with the warehouse line. So we're in really good shape. We vetted that. This is an experienced team that's been through the financial crisis back in 2008 and '09. So we have the playbook, and we've reacted very quickly, and we feel very comfortable.

Stuart Miller: You know, let me also say that, you know, capital markets are pretty fluid, especially around established products like the mortgage product. There - there's more than the regional banks. Some of the insurance companies are starting to look at some of these spaces. And I think we have a high degree of confidence that we'll be able to fill any void that temporarily show up.

Matthew Bouley: Wonderful. All right, thank you Stuart and Bruce. Perfect color there. Second one, just, you know, you mentioned at the top around land. And it sounds like prices are very sticky, and you're trying to push back on that.

I think you said you'd eventually see kind of a lagged benefit to margins, if I heard you correctly. I'm just curious if you can elaborate a little on, you know, what you're doing to, you know, kind of push back and kind of get the land market where you think it should be at this stage? Thank you.

Stuart Miller: You know, look at the end of the day land value is a residual of what it can be used for. And the residual land value off of residential land is relative to the price or sales price of the home.

What makes land value somewhat sticky is the expectation that perhaps home prices have come down, but they'll bounce back up. And therefore the old residual might come back into play and landholders will sometimes wait.

At the end of the day we're finding that we're coming into a new sense of normal. And I have to believe that if landholders, landowners, want to generate cash and sell product, ultimately the valuation is going to have to revert to kind of that new normal of home pricing and the end use of the land. And there will be that rational relationship between land cost and ultimate home price.

We are patiently waiting for that to reconcile. And we're doing it because we're simply not going to buy the land that's going to put us underwater or buy the next, you know, impaired margin.

And so we are going to bide our time. If the market corrects to the upside, we'll pay a little bit more. But if it stays kind of situated where it is we're quite

sure that land sellers will come around to understanding that there is a new valuation that has to come into play.

Jon Jaffe: Just for clarity if operationally we're really - staying very close to all land that is out there so that as it does ebb and flow we are in that flow, know what's going on and can make decisions quickly.

Stuart Miller: Right, Rick?

Rick Beckwitt: And I think there's no doubt that the land market, the land sellers, are seeing the permits and starts activity that Jon highlighted. I think some of them are getting a little bit nervous.

They all think they had the last piece of land that can be acquired or developed. Stuart, Jon and I have heard that comment for the last 20 years. There's always more than the last piece of land.

So we're being very careful. We're underwriting specifically to today's prices for respectable and strong margins. And if the deals make sense we're going to structure them really well, and we'll move forward with them.

Stuart Miller: So let me just say, and I guess a concluding thought along these lines, is they say it takes a village. Well in the homebuilding world it's the homebuilder, the land seller, and the building partners or the trades all working together and recognizing the current pricing is going to define in the future.

With that I want to say thank you to everybody for joining us, and we look forward to reporting again in the future as we report future quarters. Thank you.

Coordinator: That concludes today's conference. Thank you all for participating. You may disconnect your line. And please enjoy the rest of your day.

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