

5 Things Lennar's Results Tell Us About the New-Home Market

By Kris
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Kris Hudson/The Wall Street Journal

Lennar Corp.'s quarterly results on Thursday depict a new-home market shifting into a higher gear so far this year, perhaps finally shaking off last year's doldrums. Lennar reported a heady 18% increase in sales orders for [its fiscal first quarter ended Feb. 28](#) from the year-earlier period. In addition, Lennar's subdued gain in pricing and its decline in gross margin are indicative of selling a greater number of homes. Here are five things Lennar's results indicate about the broader new-home market.

19 Mar 2015 5:22pm

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• 1 A Surge in Orders

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Lennar [and other builders](#) have credited their double-digit percentage gains in sales of late to factors such as continued strong job growth and interest rates that remain below 4%, for now. "An early read from this spring selling season suggests that the market is continuing to improve at a very steady pace," Lennar Chief Executive **Stuart Miller** said Thursday. Less restrained was RBC Capital Markets analyst **Robert Wetenhall Jr.** "This is the start of the best spring selling season of the past five years," he said.

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RBC Capital Markets analyst Robert Wetenhall Jr.

• 2 Price Increases in Check

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For much of the past two years, builders' steep price increases have buttressed their profit margins but also deterred some buyers. That is changing. Lennar's increase in its average closing price slowed to a 3.2% year-over-year gain in its first quarter from a 17.5% gain in the previous year. Overall, that might mean buyers are fed up with big price hikes. It likely also signals that builders are constructing a greater number of less-expensive homes.

3.2%

Year-over-year gain in Lennar's average closing price

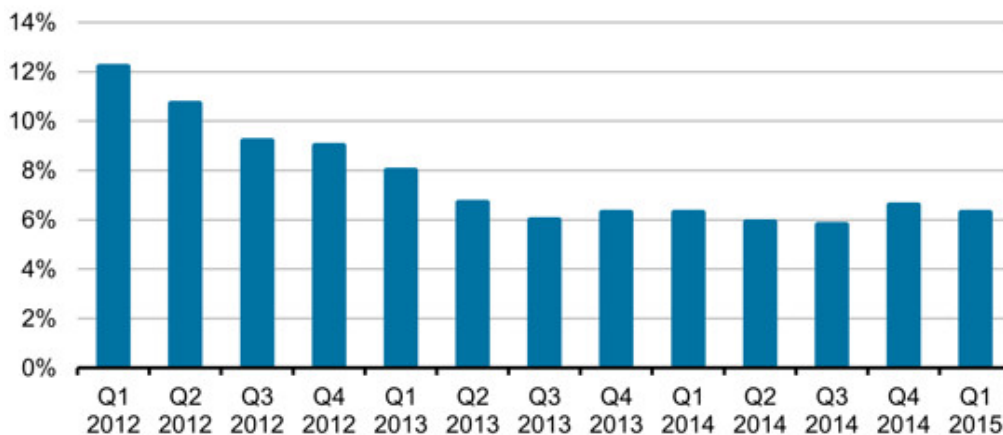
• 3 Incentives Are Moderating

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Builders typically use sales incentives—such as financial assistance with closing costs—to goose sales in slow times. Not as much these days. In its fiscal first quarter, Lennar provided an average of \$21,800 per home in freebies, which amounts to 6.3% of home-sales revenue. That’s about the same as the \$21,300, or 6.3%, that it provided in incentives a year earlier. And it’s well less than Lennar’s incentives in the more trying times of 2012. “The reduction in incentives is a further sign that demand is improving,” said **Brad Hunter**, chief economist for housing research firm **Metrostudy**, part of Hanley Wood LLC.

Fewer Freebies For Lennar Buyers

Lennar Corp.'s incentives, as a percentage of home-sales revenue, by quarter.



Source: Lennar Corp. | WSJ.com

• 4 Houston Is Hampered

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The steep decline in oil prices has cooled what has been the hottest U.S. housing market for the past several years. **Lennar** sold 520 homes in the Houston area in its first quarter, a 7% decline from a year earlier. Its average price there was flat from a year ago at \$280,000. **TRI Pointe Homes Inc.** said this month that its sales in Houston in the first two months of this year are down 10% to 15% from a year earlier.

-7%

Lennar's sales decline in Houston from a year earlier

- **5 Rentals Remain Robust**

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Since 2011, Lennar has amassed a portfolio of 24 rental complexes totaling more than 6,600 apartments under construction. Fellow home builder **Toll Brothers Inc.** also is building rental apartments. Now Lennar is experimenting with building single-family homes for rent. The builder this month unveiled its Frontera at Pioneer Meadows community in Sparks, Nev. There, Lennar is offering 80 two-, three- and four-bedroom homes for lease.

6,600

Apartments under construction by Lennar and partners