

# Lennar Tops Expectations, as Housing Market Continues to Improve

By Lisa Beilfuss and Kris Hudson



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Lennar's CEO said the new-home market is improving in a slow and steady manner. Photo: Reuters

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Home builder [Lennar](#) Corp. posted double-digit percentage gains in new orders, deliveries and net income for its fiscal third quarter, underscoring a sustained but unspectacular recovery in the U.S. new-home market.

Lennar Chief Executive [Stuart Miller](#) described the market as improving in a “slow and steady manner” in Lennar’s quarter ended Aug. 31, echoing what the Federal Reserve’s monetary policy-setting arm said in its statement last week. Miami-based Lennar, the second-largest U.S. home builder by houses constructed, behind [D.R. Horton](#) Inc., posted a 10% increase in orders from a year earlier, a 16% increase in deliveries of completed homes and a 5% increase in average price, to \$350,000.

“We have believed and continue to believe that the downside in the housing market is very limited and the upside

very significant,” Mr. Miller said Monday in a conference call with investors to discuss Lennar’s results.

Mr. Miller outlined several points that bode well for a U.S. home-construction market that, though it is rebounding, remains at roughly half of its average annual output in the latest normal housing market of 2001 to 2003 due to weak demand for starter homes so far in the recovery and shortages of construction labor and buildable land. Construction starts on single-family homes in the U.S. in this year’s first eight months are up a lukewarm 11% from the same period last year.

First, Mr. Miller noted that, though mortgage-qualification standards remain prohibitive for many borrowers, the share of Lennar’s sales going to first-time buyers rose to 30% in its third quarter from 25% a year earlier. That dovetails with a report by the National Association of Realtors on Monday that 32% of sales of existing homes in August went to first-time buyers, up from 29% a year ago.

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Even so, Lennar remains bullish on its rental-apartment business, which has 28 projects totaling 7,700 units under development with partners. “There is very, very large pent-up demand both in rental and in for-sale (housing) for buyers who need to come back in,” Mr. Miller said.

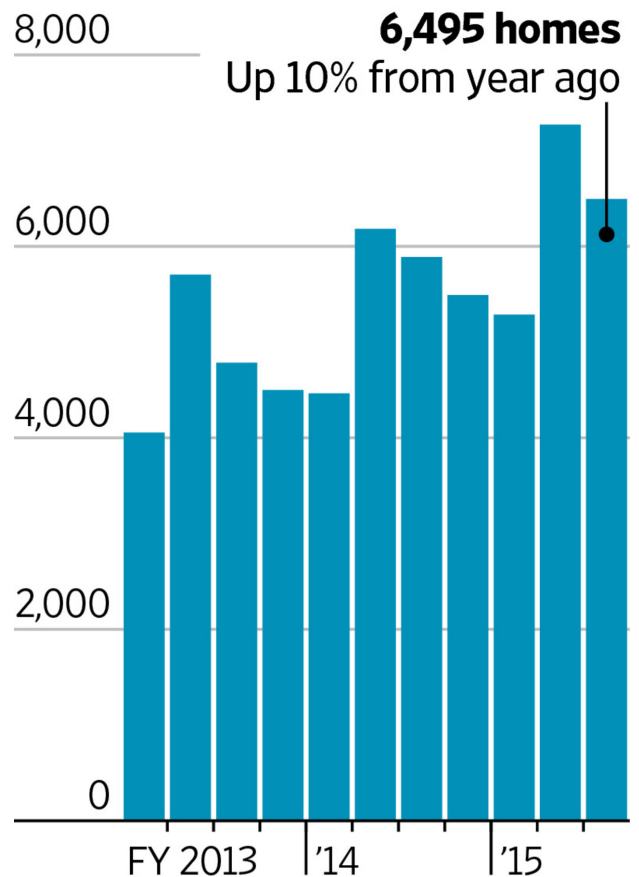
Despite Lennar’s gains in orders and closings, and a 24% increase in revenue to \$2.5 billion, the builder’s gross margins slipped to 24.1% from 25.2% a year earlier. That was due mostly to higher land costs, which surged 56% from last year’s quarter.

Analysts were expecting a steeper decline in margin, but the surge in closings and incentives that were little changed from a year earlier were behind the gross-margin beat, said Jay McCannless, an analyst at Sterne Agee.

For the quarter, Lennar reported a profit of \$223 million, or 96 cents a share, up from \$177.8 million, or 78 cents a share, a year earlier. Analysts projected 80 cents in per-share profit and \$2.42 billion in sales, according to Thomson Reuters.

## Building Up

### Lennar’s new home orders



Source: the company

THE WALL STREET JOURNAL.



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A Lennar development in Florida. Photo: Mark Elias/Bloomberg News

Mr. Miller also provided an update on Lennar’s nascent efforts to build communities of single-family homes for rent. The builder earlier this year started its first such project of 80 homes near Reno, Nev. Lennar now “expects to expand on that platform” due to the “very successful” early results from the Reno project, Mr. Miller said. He didn’t provide additional details on the call.

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