Strategic Report for Lennar Corporation

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Executive Summary

The economic downturn, mortgage market crisis, and burst of the housing bubble has adversely affected homebuilders, and Lennar is no exception. Today, the housing market is unstable, showing no clear signs of bottoming out, nor offering any indication of when it will recover. Stabilizing the housing market requires two separate components to occur: (1) a stemming of the flow of home foreclosures; and (2) a program to jump-start demand stimulus. Through these housing fixes, a floor in home values will be re-established, resulting in fewer families sliding into the burden of underwater mortgages and thus, there will be fewer defaults. Materially lower interest rates will enable existing homeowners to refinance at affordable fixed rates and stabilized values will enable appraisers to support refinances. While, the stabilization of the housing market depends primarily on outside forces, most significantly, the United States Government, Lennar's internal corporate strategies are crucial to the short-run and long-run performance of the company, as well as its emergence from the economic downturn as a viable competitor going forward.

In the past, Lennar's strategy involved strategic expansion during a downturn and conservative reconsolidation of debt during an upswing. However, like many other homebuilders, Lennar over expanded during the most recent housing bubble, and as a result, Lennar must adjust its activities in an effort to regain its original strategic methods. Thus, broadly, Lennar must remain conservative in its operations, downsizing where possible, as well as cutting costs and SG&A expenses, in order to regain a healthy cash base. Additionally, as one of Lennar's strategic advantages is its access to land and its land acquisitions, Lennar must seek to maintain its developable real estate for future development.

Beyond the broad suggestions above, this report touches on a few of Lennar's most prevalent issues: targeting new first-time homebuyers, its financial positioning, its homebuilding segment operations, and its financial services segment operations. This report recommends that Lennar target its new developments to new first-time homebuyers by offering smaller, low-priced homes or through the development of multi-residential buildings. Additionally, this report recommends that Lennar act conservatively with regard to its finances, eliminating its high risk joint-venture exposure. Next, this report recommends that Lennar, given declining homebuilding segment revenues, should continue to downsize, in addition to concentrating on reducing construction and SG&A costs in order to raise its profit margins and maximize cash flow. Finally, this report recommends that Lennar take steps in preparing for the passage of the final rule by taking advantage of the face-to-face and convenience advantages that Lennar enjoys, essentially increasing the accessibility of its financial consultants to create a "one stop shop" for homebuyers.

Company Overview

History

Founded in 1954 by Gene Fisher and Arnold Rosen, Lennar began as a local Miami, Florida homebuilder by the name of F & R Builders, delivering a modest 50 homes. In 1956, Leonard Miller replaced Fisher in the partnership, investing $10,000 into the company. Throughout the early 1960s the company began a process of expansion which culminated in its 1969 entrance into commercial real estate. All the while, F & R strategically expanded its operations in the state of Florida, growing from selling 350 homes in 1961, at an average sales price of $16,000, to the top homebuilder in Dade County, earning revenues of $11 million.

In 1971, Lennar became a public company under the corporate banner of Lennar, a combination of Miller and Rosen's first names (Leonard and Arnold). At its incorporation, Miller was appointed president and CEO of Lennar. It was then that Lennar's principles of Integrity, Quality, and Value became an integral part of the company's core value foundation going forward. Originally, in its first public year, Lennar's stocks were sold over the counter, followed by on the American Exchange. In 1972, Lennar received an invitation from the New York Stock Exchange, adopting the ticker symbol LEN.

A few years after going public, in 1979, Lennar expanded into its first out-of state market, Phoenix, Arizona, through the acquisition of Mastercraft Homes and Womack Development Company. As the company matured, Lennar sought to expand its services beyond construction and home management in order to become a full service provider, and in the early 1980s, Lennar entered into real estate investment and financial services, such as mortgage financing, closing services, and title insurance. Lennar began offering mortgage services in 1984, originating what would become Lennar Financial Services, Inc. Additionally, in 1984, Lennar liquidated all of its construction assets and began to exclusively subcontract its work. This represented an important shift in focus, and to this day Lennar does not construct its own homes.

Through timely debt reduction and a counter-cyclical land purchasing strategy, Lennar was comparatively very strong throughout the recession of the late 1980s. Conservative behavior during boom times maximized the profit of existing holdings at the expense of rapid expansion, which placed Lennar in a position of great strength as the economy faltered. While most of its competitors were struggling to meet costs and stay in business, Lennar was able to take on debt and purchase land and projects at a significant discount. Home builders struggled during the early 1990s, as construction costs rose, the economy struggled, and demographics shifted. Coinciding with the failing savings and loan industry, a new market niche was developing: the market for low and medium priced homes made available to the newly spend-thrifty home buyers; a niche that Lennar had already mastered in its business model. Lennar profited from the new movement, recording its highest earnings gain in its history in 1991, while many competitors were going out of business. This allowed Lennar to acquire competing companies at bottom dollar while the rival builders struggled to endure the changing market. Lennar was in a prime position, increasing its revenues while the rest of the American economy was only beginning to recover in 1993, earning $666.9 million, a 55% improvement over its revenues of 1992. Earnings increased by 80% during this period, amounting to $52.5 million in 1993.

At the close of the 20th Century, Lennar engaged in an aggressive expansion, entering Dallas, Texas in 1991, California in 1995, Nevada in 1997, and the Pacific Northwest in 1998. In 1997, Stuart Miller replaced his father as president and CEO of the company and spun off Lennar's commercial real estate operations as LNR Property, in order to focus entirely on homebuilding and mortgage services. The purchase of U.S. Home Corporation in 2000 for $1.1 billion made Lennar a national heavyweight, doubling its size. In 2001, Lennar became one of Forbes' 500 largest companies, and in 2003 and 2004, Lennar earned Fortune's most admired home building company title. Recently, Lennar was recognized as the top new-home seller in Los Angeles County, California, surpassing Kaufman & Broad Home Corporation--the reigning leader for many decades.

Today, through organic and inorganic growth, Lennar has expanded to become the nation's fourth largest homebuilder (measured by revenues), operating in 17 states across the United States.

Acquisitions by Lennar Corporation		
Date	Acquisition	Significance of Acquisition
1979	Mastercraft Homes, Inc. Womack Development Company	Acquired homebuilding operations in Phoenix, AZ
10/31/1984	H Miller & Sons Inc.	Acquired company building 5000+ units in FL & TX
3/29/1991	North American Title Co.	Acquired a CA based title insurance company
6/13/1991	AmeriStar Finl-CA Mortgage	Acquired CA wholesale mortgage origination assets
7/2/1992	AmeriFirst & Sky Financial	Acquired real estate portfolio including 1100+ properties
9/6/1994	North American Title Insurance	Acquired title company with operations in AZ, CA, & CO
12/7/1995	Friendswood Development	Acquired homebuilding operations in Houston, TX
1/28/1996	Winncrest Homes	Acquired a leading homebuilder in the Sacramento, CA market
9/9/1997	West Venture Homes	Acquired builder in Southern CA
10/31/1997	Pacific Greystone Corp.	Merged with one of the largest homebuilders in CA
1/16/1998	North American Title Group	Acquired one of the largest title companies in CA
6/2/1998	Colrich Communities	Acquired homebuilder in San Diego, CA
6/30/1998	Polygon Communities	Acquired homebuilder in Orange County & Inland Empire, CA
5/2/2000	US Home Corp.	Acquired homebuilder of 33 Sun Belt markets
12/21/2001	Sunstar Homes	Acquired homebuilding operations in NC & SC
1/18/2002	Patriot Homes	Acquired homebuilding operations in Baltimore, MD & DC
6/24/2002	Fortress Group Inc.	Acquired homebuilder with operations in TX, AZ, & CO
7/1/2002	B Andrews & Co.	Acquired homebuilding operations in MD
7/11/2002	Cambridge Homes	Acquired homebuilding operations in Fresno, CA
7/11/2002	Pacific Century Homes	Acquired homebuilder operations in Temecula, CA
8/15/2002	Concord Homes	Acquired homebuilder in Chicago, IL
10/16/2002	Summit Homes Illinois	Acquisition expanded its Chicago-area homebuilders
1/30/2003	Seppala Homes	Acquired homebuilder in SC
5/1/2003	Coleman Homes Inc.	Acquired nationwide homebuilding & real estate development company
6/30/2003	Mid America Title Co.	Acquired title company based in IL
1/27/2004	Newhall Land & Farming Co.	Acquired land management company in Valencia, CA
6/7/2004	Classic American Homes Inc.	Acquired homebuilder in Jacksonville, FL
3/22/2005	Roseland Property Co.	Acquired residential units in the greater NY & Boston areas
11/23/2005	Admiral Homes LLC	Acquired local homebuilder in Jacksonville, FL
5/6/2006	Barker Coleman	Acquired homebuilding operations in Reno, NV
12/3/2007	Morgan Stanley Real Estate	Formed strategic land venture in 32 communities nationwide

Source: Alacra, Inc.[i]

Business Model

Lennar operates as one of the nation's largest homebuilders and provider of financial services, primarily focusing on the construction and sale of single-family attached and detached homes, and to a lesser extent, multi-level residential buildings, in communities targeted to first-time, move-up, and active adult homebuyers. Lennar operates in seventeen states, which are separated into five reporting segments: Homebuilding East, Homebuilding Central, Homebuilding West, Homebuilding

Houston, Texas, and Homebuilding Other. The states, and cities, in which Lennar operates, are outlined below:

Lennar Homebuilding Operation Locations

Arizona
- Phoenix
- Tucson

California
- Bakersfield
- Fresno/Central Valley
- Los Angeles/Valencia
- Orange County
- Palm Springs/ Coachella
- Riverside County
- Sacramento
- San Bernardino
- San Diego
- San Francisco/Bay Area

Colorado
- Colorado Springs
- Denver

Delaware
- Millsboro

Florida
- Clermont
- Ft. Lauderdale
- Jacksonville/ St. Augustine
- Lakeland
- Melbourne/Palm Bay
- Miami
- Naples/Ft. Myers
- Orlando
- Sarasota/Manatee
- Tampa
- Treasure Coast/Palm Beach

Illinois
- Chicago

Maryland
- Baltimore
- Eastern Shore
- MD/DC Metro

Massachusetts
- Boston

Minnesota
- Minneapolis/St. Paul

Nevada
- Las Vegas
- Reno

New Jersey
- Edison Township
- Mays Landing
- Monroe Township
- Rockaway Township
- Waretown
- Weehawken
- Woolwich Township

New York
- Dutchess County
- Orange County
- Rockland County

North Carolina
- Charlotte
- Raleigh

Pennsylvania
- Lancaster
- York County

South Carolina
- Charleston
- Charlotte
- Greenville
- Myrtle Beach

Texas
- Austin
- Dallas/ Ft. Worth
- Houston
- San Antonio

Virginia
- Southern Virginia
- VA/DC Metro

Source: Lennar Investor Relations[ii]

Though Lennar operates primarily under the Lennar brand name, other brand names include Cambridge, Greystone, NuHome, Patriot, U.S. Home, and Village Builders. Lennar's financial service products and services originate primarily from its financial service subsidiaries, Universal American Mortgage Company, LLC and Eagle Home Mortgage, LLC, which are located, with few exceptions, in the same states as its homebuilding operations.

Real Estate/Land Acquisition

Lennar employs a diversified program of property acquisition consisting of the following:

- Acquiring land directly from individual land owners/developers or homebuilders;
- Acquiring local or regional homebuilders that own, or have options to purchase, land in strategic markets;

- Acquiring land through option contracts; and
- Acquiring parcels of land through joint ventures.

Unique to Lennar's business model was a focus on the use of joint ventures in land acquisition, primarily as a means of reducing and sharing risk, as well as expanding Lennar's access to land which may otherwise not have been accessible. While this strategy was beneficial to the homebuilder in the past, the homebuilding market deterioration, beginning in 2006, coupled with asset impairments resulting in the loss of equity, gave rise to some of Lennar's joint venture partners becoming financially unable or unwilling to fulfill their obligations, and as such, Lennar's current strategy has shifted to actively reducing the number of joint ventures in which it participates in order to curtail its joint venture exposure.

At November 30, 2008, Lennar owned 74,681 homesites and had access through option contracts to an additional 38,589 homesites, of which 12,718 were through option contracts with third parties and 25,871 were through option contracts with unconsolidated entities in which Lennar has investments, compared with November 30, 2007, in which Lennar owned 62,801 homesites and had access through option contracts to an additional 85,870 homesites, of which 22,877 were through option contracts with third parties and 62,993 were through option contracts with unconsolidated entities in which Lennar has investments.

Development

Lennar actively supervises and controls the development of land and the design and building of its residential communities. Virtually all site improvements and home construction Lennar subcontracts out under arrangements that the subcontractors will complete specified work in accordance with price schedules and applicable building codes and laws. Construction and land development activities are financed primarily with cash generated from operations and public debt issuances, as well as cash borrowed under Lennar's revolving credit facility.

Sale

Lennar employs sales associates who are paid salaries, commissions, or both to complete on-site sales of homes. Lennar also sells homes through independent brokers. Lennar provides a warranty for all new homes against defective materials and workmanship for a minimum period of one year after the date of closing.

Financing

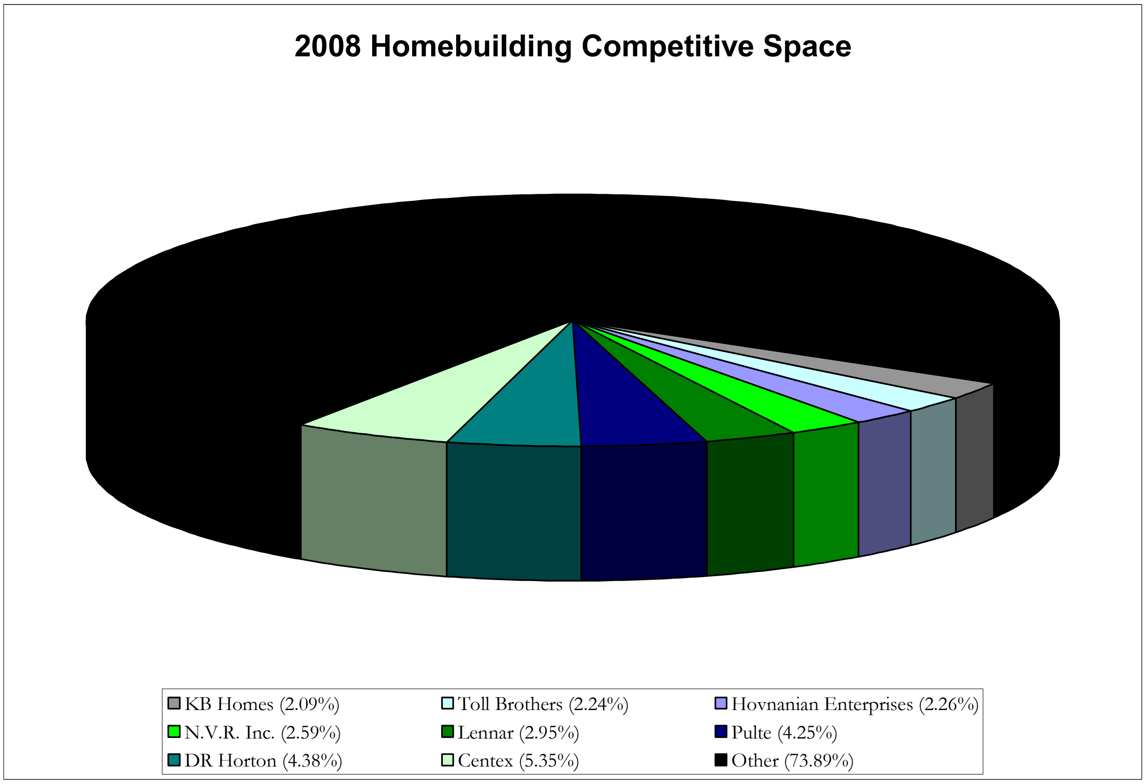
Lennar primarily originates conforming conventional, FHA-insured, VA-guaranteed residential mortgage loan products and other products to its homebuyers and others through its financial service subsidiaries, Universal American Mortgage Company, LLC and Eagle Home Mortgage, LLC. In 2008, Lennar's financial service subsidiaries provided loans to 85% of its homebuyers who obtained mortgage financing. During 2008, Lennar originated approximately 18,300 mortgage loans totaling $4.3 billion, compared to 30,900 mortgage loans totaling $7.7 billion during 2007. Substantially all of the loans that Lennar originates are sold in the secondary mortgage market. Lennar finances its mortgage loan activities with borrowings under its financial services warehouse facilities or from its operating funds.

Competitive Analysis

Force	Strategic Significance
Internal Rivalry	🌴🌴🌴
Entry/Exit	🌴🌴
Substitutes	🌴🌴🌴
Complements	🌴🌴🌴
Buyer Power	🌴🌴
Supplier Power	🌴
🌴🌴🌴 **High** 🌴🌴 **Moderate** 🌴 **Low**	

Internal Rivalry

Lennar operates in the homebuilding industry, primarily under SIC code 1521 "General Contractors: Single-family housing construction."[iii] The industry is defined by residential construction of single-family attached and detached homes. With regard to the Dow, Lennar operates in the Home Construction (HOM) Dow Jones Industry Group. Nationally, the industry encompasses about 170,000 companies that build homes within the United States.[iv] Several companies rival Lennar, and its closest competitors, with regard to size. The companies in this competitive space, with total 2008 revenues above $2 billion, are Centex Corporation (CTX), D.R. Horton, Inc. (DHI), Pulte Homes, Inc. (PHM), N.V.R. Inc. (NVR), KB Homes (KBH), Toll Brothers Inc. (TOL), and Hovnanian Enterprises Inc. (HOV).[v] Within Lennar's operating regions, Lennar's major competitors are DR Horton, Inc. (DHI) and Pulte Homes, Inc. (PHM), as well as other national, regional, and local homebuilders.[vi] Despite multi-billion dollar revenues, Lennar and its competitors account for only 26.11% of the approximate $140.65B total single-family construction homebuilding revenues in 2008.[vii] Lennar accounts for 2.95%, fourth to Centex (5.35%), DR Horton (4.38%) and Pulte (4.25%), respectively. A graph of the 2008 homebuilding competitive space is shown below:



Source: U.S. Department of Housing and Urban Development and respective 2008 Annual 10-k Reports.[viii]

As shown by the graph, Lennar's operations are comparatively small compared to total industry revenues, indicating an opportunity for Lennar to expand its market share. For the purposes of this strategic report, any further comparative statistics regarding Lennar will include only Pulte Homes and DR Horton, as those are Lennar's closest competitors.

Internal rivalry in the homebuilding industry is strong. As such, Lennar faces a high degree of rivalry and price competition. In the housing market, a decline in the value of one home leads to falling valuations of the surrounding homes, which has a domino effect on the industry. Therefore, homebuilders are sensitive to price reductions, and in order to keep housing market prices up, homebuilders respond to competitive market pressures through sales incentives and incentive brokerage fees instead of price reductions. However, increasing competition and pressures have recently resulted in price reductions across the industry and housing deflation. In the declining housing market, Lennar competes for homebuyers against other homebuilders on the basis of a number of interrelated factors including location, reputation, amenities, design, quality, financing, and price.

The physical homes which Lennar sells have very little product differentiation from any other home sold by a builder. According to the Joint Center for Housing Studies of Harvard University, over the last 15 to 20 years, in order to reduce the variable costs associated with building a home, such as the cost of supplies, the homebuilding industry shifted toward developing model homes and moved away from custom home designs.[ix] While this move increased homebuilder's efficiency and ability to pre-sell more homes, it decreased product differentiability among homebuilders.

To separate itself from other homebuilders and differentiate itself based on its brand, Lennar operates under brand names Cambridge, Greystone, Lennar, NuHome, Patriot, U.S. Home, and Village Builders. In order to assert its brand reputation, home features, and quality, Lennar adopted the slogan "Everything's Included." In its "Everything's Included" advertising campaign, Lennar focused on its unique undertaking to find out what homebuyers wanted in their dream homes, surveying thousands of prospective homebuyers, and then committed to making those high quality features and upgrades as a default in its homes. However, these efforts provide little or no differentiability for Lennar against its competitors, as both Lennar's brands, and its competitors' brands, blur together in consumers' minds. Further exacerbating this effect is Lennar's customer base: Lennar focuses on first-time buyers, move-up buyers, and active-adult buyers. As such, Lennar faces very little brand loyalty.

While the physical homes themselves provide little product differentiation, location acts as the major basis for product differentiation within the homebuilding industry. Location, however, location does not serve as a wedge in creation of local monopolies due to the fact that multiple homebuilders tend to operate in the same location. As such, Lennar still faces strict competition within its operating regions from other major homebuilders, as well as other local homebuilders. In the future, as land becomes more constrained and state and local governments approve various slow growth or no growth initiatives, as has been the recent growing trend, particular locations may serve as local monopolies for homebuilders. In a land constrained market, Lennar possesses a competitive advantage due to its extensive investments and land acquisitions. As such, Lennar's access to developable land is substantially greater than its competitors'.

Lennar's major financial service segment competitors include CTX Mortgage, D.R. Horton, Pulte Homes, Countrywide, as well as other mortgage lenders, including national, regional, and local mortgage bankers and brokers, banks, and savings and loans associations and other financial institutions.[x] In its financial operations, Lennar competes in the origination and sale, in the secondary mortgage market, of mortgage loans. Major competitive factors with regard to mortgages include interest rates and convenience of the mortgage loan products available to the consumer.

While there are no switching costs with regard to purchasing one home over another, homebuilders have attempted to artificially create switching costs in regard to mortgage financing. As a type of customer rewards program, in order to provide incentives for a homebuyer to bundle both the purchase of the home and its financing, homebuilders would provide incentives to use affiliated businesses with regard to the home purchase, such as lower closing costs. However, on November 17, 2008 the United States Department of Housing and Urban Development (HUD) issued a final rule (referred to as the "final rule") that amended the regulations pertaining to permissible affiliated business arrangements under the Real Estate Settlement Procedures Act (RESPA). The final rule has the effect of prohibiting homebuilders from providing incentives to their buyers for their buyers to use affiliated businesses. While the final rule was to go into effect January 16, 2009, a pending lawsuit, alleging, among other things, that HUD did not have any statutory authority to prohibit such incentives, has delayed the implementation of the final rule until at least April 16, 2009 in order to allow the court time to rule on the legality of the final rule.[xi] Should the final rule be deemed legal, Lennar will face even stronger competition with regard to mortgage origination, as Lennar will lose the benefit of incentive based programs.

Lennar is at a severe disadvantage compared to its competitors with regard to its financial services operations due to the fact that the credit facilities of its financial services segment will expire in 2009. Lennar's financial services segment has a syndicated warehouse repurchase facility, which matures in April 2009 and a warehouse repurchase facility, which matures in June 2009. The financial services segment uses those facilities to finance its mortgage lending activities until the mortgage loans are sold on the secondary market. If Lennar is unable to renew or replace these facilities when they mature in April 2009 and June 2009, Lennar's financial services segment could be severely impeded. Such a risk is currently significant due to the fact that capital market participants are reluctant to repurchase securities backed by residential mortgages in the secondary mortgage market.[xii]

In its ancillary services, Lennar competes with other title insurance agencies and underwriters for closing services and title insurance. In regard to those, major competitive factors include service and price. Additionally, Lennar competes with other communication service providers in the sale of high-speed internet and cable television services, whose major factors include price, quality, service, and availability.

Finally, Lennar competes with other homebuilders in regard to other aspects as well, such as desirable properties, raw materials, and reliable, skilled labor. In addition, Lennar competes for land buyers with third parties in its efforts to sell land to homebuilders and others.

As a result, Lennar's threat level with regard to internal rivalry is rated high. Lennar operates in a highly competitive industry with fierce competition, almost non-existent switching costs, and low brand loyalty. As such, its competitors have the ability to undermine Lennar's performance.

Entry/Exit

The homebuilding industry has relatively low entry barriers and moderate exit barriers. The major factors influencing entry and exit are economies of scale, limited access to input materials, government, and the economic downturn.

Large economies of scale, which Lennar benefits from, are beneficial to homebuilders in three major areas: (1) access to capital, (2) land use regulation, and (3) supply chain management.[xiii] After World War II, the savings and loan industry was the principal source of capital for the homebuilding industry. When the savings and loan industry collapsed in the late 1980s, builders were forced to seek other sources of financing: Wall Street investment banks and private equity funds. However, Wall Street and the private equity firms looked for scale in builder operations before lending. Thus, large-scale builders possessed an advantage with regard to financing, and, as a result, entrants and smaller-scale builders faced a more difficult time raising capital, a necessity to entry or expansion in the homebuilding industry.

Furthermore, an increasing number of communities are restricting residential development in order to manage and/or curtail growth, adopting either slow-growth or no-growth legislation. As a result, prior land acquisitions have become increasingly important in securing development sites, a result that favors large economies of scale, due to the fact that larger builders have the resources and capital to invest in real-estate, which entrants and smaller builders lack. An additional consequence is the exponential increase in time associated with the development processes in many locations due to increased bureaucracy, complexity, and costs associated with land assembly and entitlement. Larger builders, such as Lennar, have both the advantage of a large, established network of relationships as well as the resources and ability to work with local officials over an extended period of time to secure the necessary approvals, an advantage that entrants and smaller builders lack, affecting either their entry into the industry or their expansion into new markets, or both.

Finally, the homebuilding industry, including Lennar, shifted toward building model homes, otherwise known as "assembly line" homes. Under this model, homebuilders would produce the identical or mirror image homes,, with little to no variation, instead of custom design homes, standardizing base supplies and materials necessary in the construction of their homes. As a result of this movement, large-scale homebuilders benefited from the economies of scale associated with supply chain management, such as increased buyer power in supplier price negotiations for products and services, bulk purchase discounts, and the infrastructure and ability to implement information systems to support purchasing and inventory management. As such, large-scale builders face lower costs, thus allowing for large-scale builders to undercut new entrants and small-scale builders.

The next major factor influencing entry and exit is location as an input material. This factor works through two channels: (1) the best locations are taken by incumbents and (2) the necessary inputs (desirable land) are already in the hands of the incumbents. Land, particularly desirable land for a housing development, is an increasingly limited, non-renewable resource. In addition, slow-growth or no growth legislation adopted by communities further limit land availability. Thus, new entrants face difficulty in obtaining desirable land for new developments, as the incumbents have already acquired those locations.

The third major factor influencing entry and exit is government legislation. Federal, state, and local governments may serve as an artificial barrier to entry. Homebuilders are subject to extensive and complex laws and regulations, including regulations related to zoning, permitted land uses, levels of density, building design, elevation of properties, water, and waste disposal and use of open spaces. In complying with those laws, homebuilders generally are required to obtain permits, entitlements and approvals from local authorities to commence and carry out residential development or home construction. Such permits, entitlements, and approvals may stand as a barrier to entry.

Moreover, Lennar's mortgage and title subsidiaries must comply with applicable real estate laws and regulations. These laws and regulations include provisions regarding capitalization, operating procedures, investments, lending and privacy disclosures, forms of policies and premiums. One such requirement of these laws and regulations is for the subsidiaries to be licensed in the states in which they do business. As such, these licenses may act as a barrier to entry.

Furthermore, state and local governments create barriers to entry through the approval of various slow growth or no growth homebuilding initiatives and other ballot measures that negatively impact the availability of land and building opportunities within those jurisdictions.

Finally, changes in federal laws and regulations could have the effect of curtailing the activities of Fannie Mae and Freddie Mac. These organizations provide significant liquidity to the secondary mortgage market. By curtailing their activities, there may be a greater barrier to exit, due to an inability to liquidate mortgage securities.

The final factor, the economic downturn, works in two opposing directions. The first direction favors entry by opening the possibility of acquisition opportunities at favorable prices of companies that are having problems contending with the current difficult homebuilding environment. While this may be an advantage for Lennar if Lennar is able to capitalize on it, it creates the possibility for new entrants or for Lennar's competitors to gain competitive footing through acquisitions, as is demonstrated by the proposed merger between Pulte Homes and Centex Corporation. The second direction hinders exit: in today's market, liquidating the real-estate, home inventory, and mortgages associated with a homebuilder is increasingly difficult due to difficulty in obtaining capital, falling real-estate and home prices, and an illiquid secondary mortgage market.

As a result, Lennar's threat level with regard to entry/exit is rated moderate. Competitor's strategic mergers, like the proposed merger between Pulte and Centex, may threaten Lennar's market share and government no-growth or slow-growth regulations may create an advantage for Lennar or curtain its growth, both effects of which, remain to be seen.

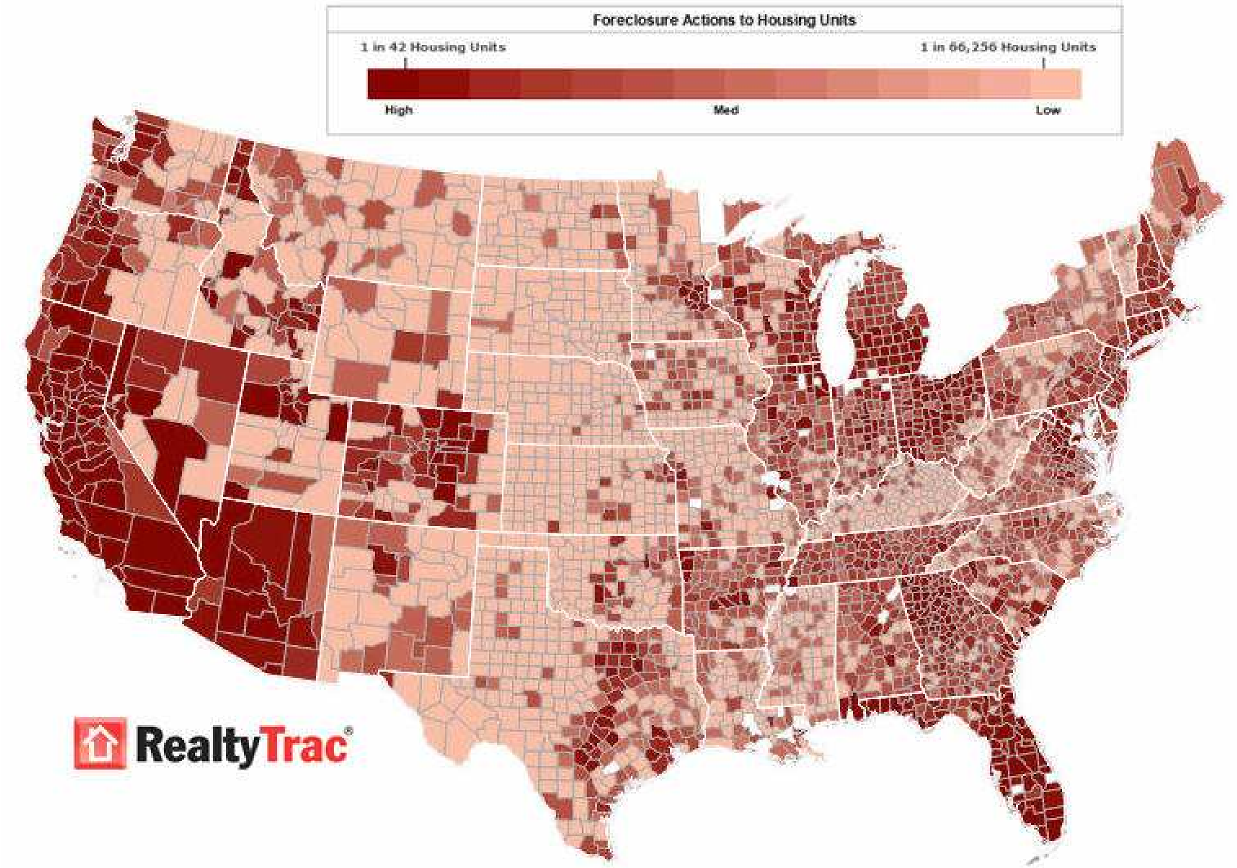
Substitutes

Lennar faces many comparable substitutes for its product and services. Possible substitutes in place of a home built by Lennar are other builders' homes, foreclosed homes, and rental units, of which the current major threat is foreclosures.

Foreclosures

With the recent economic downturn, foreclosures have become an increasing contributive force to the housing supply. The effect of foreclosures on the housing market is not only through saturation of housing supply, but also through home pricing as well. Foreclosed homes sell for next-to-nothing through auctions or bank repossession sales, depreciating nearby housing values. As such, foreclosures represent an increasing threat to homebuilders as a whole, Lennar included.

According to RealtyTrac's latest foreclosure report, in the first quarter of 2009, more than 800,000 properties received foreclosure filings. The first quarter results were the highest quarterly total since RealtyTrac began issuing its numbers in the first quarter of 2005, despite a 13 percent decrease in bank repossessions (REO) from the previous quarter. The large number of foreclosures were primarily driven by the high level of activity in March (more than twelve percent higher than the next highest month on record and a 46 percent increase from March 2008), which experienced an increase in default and auction notice filings, of 20 percent and 29 percent from the previous month, respectively[xiv] Below, is a map outlining foreclosure activity within the United States.



Source: Realty Trac[xv]

Of the states most affected with foreclosures, Nevada, Arizona, and California post the top state foreclosure rates in the first quarter of 2009. Nevada documented the highest state foreclosure rate in the first quarter, with one in every 27 housing units receiving foreclosure filings-more than five times the national average. Arizona posted the national second highest foreclosure rate for the first quarter, with one in every 54 housing units receiving foreclosure filing, and California posted the nation's third highest state foreclosure rate, with one in every 58 housing units receiving foreclosure filing. Rounding out the states with the 10 highest foreclosure activity totals in the first quarter of 2009 were Michigan, Ohio, Georgia, Texas and Virginia. Of those, California, Florida, Arizona, Nevada and Illinois accounted for nearly 60 percent of the nation's foreclosure activity in the first quarter, with 479,516 properties receiving foreclosure filings in the five states combined.[xvi]

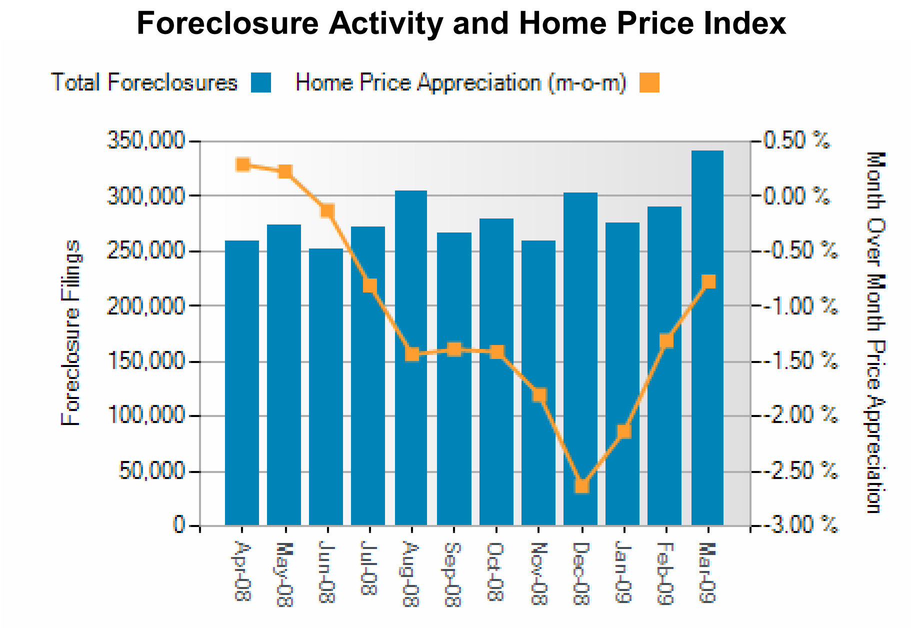
Of those top ten foreclosure activity states in the first quarter of 2009, Lennar operates in seven of the ten states: California, Florida, Arizona, Nevada, Illinois, Texas, and Virginia. Yet, despite the first quarter results, on a yearly foreclosure activity basis, Lennar operates in only five of the top ten foreclosure activity states and in fourteen of the top thirty foreclosure activity states. Below, is a table outlining the states in which Lennar operates, and their yearly foreclosure rates and rankings.

Rank	State	Foreclosure Rate (1/ every x HU)	Rank	State	Foreclosure Rate (1/ every x HU)
--	United States	159	23	South Carolina	288
1	Nevada	27	24	New Jersey	299
2	Arizona	54	25	Minnesota	321
3	California	58	27	Massachusetts	332
4	Florida	73	29	Texas	373
5	Illinois	135	30	Pennsylvania	464
12	Colorado	169	31	Delaware	469
13	Virginia	222	36	North Carolina	689
16	Maryland	250	37	New York	721

Source: RealtyTrac[xvii]

Consequentially, Lennar is highly impacted by foreclosures, as a substantial amount of its operations are in high foreclosure rate states.

One major impact of foreclosures is on housing prices. As foreclosure rates rise, housing prices fall. Below, is a graph comparing foreclosure rates to average home sales price appreciation in the United States.



Source: RealtyTrac[xviii]

As one can see from the trend line, increased foreclosures have place downward pressure on housing prices, resulting in housing depreciation. In the four highest foreclosure areas alone, Arizona, California, Florida, and Nevada, statewide average home price declines for 2008 exceeded 20 and in Virginia, another high foreclosure state, home price declines exceeded 10 percent. Prices in five metros in California's Central Valley have fallen to less than half their peaks this decade; 38 other metros have seen prices fall more than 30 percent.[xix]

As such, Lennar's threat level with regard to substitutes is rated high, as foreclosures threaten Lennar's sales, by saturating the housing market supply, and profit margins, by reducing home prices.

Complements

Lennar's home sales are highly influenced by, and dependent on the mortgage market.

Mortgage Market

Mortgage rates and availability are driven by the secondary mortgage market. The mortgage process works in the following manner: a mortgage loan originates from a bank, credit union, or other financial institution. In Lennar's case, Lennar offers mortgages through its financial subsidiaries. On the date of funding, the money flows out of the mortgage originator's hands and into the homebuyer's. The homebuyer then pays that money over to the seller of the home. Once the loan is funded, the originator has the option of keeping the loan in its portfolio or selling it on the secondary market. If the originator keeps the loan, it makes money by way of interest on the loan. If the loan is sold, the originator replenishes its funds and can therefore make more loans to other homebuyers. In essence, the secondary market investors keep funds circulating so that loan originators do not run out of money for new mortgages. Today's secondary market investors include government-chartered companies like Fannie Mae and Freddie Mac, plus insurance companies, pension funds, and securities dealers. Both Fannie Mae and Freddie Mac are capable of grouping mortgages together for resale as mortgage-backed securities. In the past, these securities acted as highly liquid investments, however, recent mortgage default rates have risen, particularly subprime mortgages, and as such, the mortgage-backed securities market has become illiquid due to the higher risk associated with them, tightening money available to the secondary market, and, as a result, to mortgage lenders.

On the borrower side, homebuyers are weary of taking on housing debt in today's uncertain economic conditions. According to the new *House Prices in America* report released by IHS Global Insight and The PNC Financial Services Group, Inc., U.S. housing prices fell at an annual rate of 13 percent in the last three months of 2008, declining in 92 percent (302 of 330) of the nation's metropolitan areas.[xx] Given this housing deflation, the demand by prospective homebuyers for a new mortgage has fallen, as prospective homebuyers fear being "underwater." In other words, homebuyers fear entering into a mortgage on a house whose value may decline, leaving the homebuyer with a mortgage worth more than the home.

Mortgage rates have experienced a falling trend in the U.S. as of late (see graph below), but despite the falling rates, mortgage demand remains low.

National Mortgage Rates					4/22/2009	
Loan Type	**Today**	**Points**	**Month Ago**	**Points**	**Year Ago**	**Points**
30 Year Fixed	5.42%	0.35	5.62%	0.35	6.60%	0.40
15 Year Fixed	5.09%	0.39	5.25%	0.32	6.10%	0.37
1 Year ARM	5.27%	0.51	5.29%	0.48	6.25%	0.43

Source: HSH Associates Financial Publishers[xxi]

As a result, Lennar's threat level with regard to complements is rated high. Mortgage availability and home sales are intertwined, thus the depressed mortgage market remains a credible threat to Lennar's future performance.

Buyer Power

In today's market, due to the recent economic downturn, buyers have increased bargaining power, and as a result, Lennar is unable to fully pass on its costs to homebuyers. Previously, Lennar was able to spread the fixed costs of building a community, such as preparing the land, installing the roads, sewage, and other utilities, as well as taxes and other costs related to the ownership of the land, among the high sales volume that it enjoyed. In addition to covering its fixed costs through high sales volume, Lennar was able to cover the variable costs associated with the home, such as labor and material costs, through the higher prices of its homes. However, as Lennar has been forced to lower its sales price, in addition to facing a lower sales volume, Lennar is unable to fully recover its fixed and variable costs.

As a consequence, inflation poses a risk to Lennar. Increasing costs of land, materials, and labor may require Lennar to attempt to increase the sale prices of homes in order to maintain profit margins. However, the current market conditions force Lennar to decrease the sale prices of homes and with decreased demand, increased sales volumes are not a plausible form of relief; thus, Lennar faces difficulty in recovering the effect of cost increases. Accordingly, increasing inflationary pressures in the current market is not sustainable for Lennar in the long-run.

As a result, Lennar's threat level with regard to buyer power is rated moderate. While Lennar is not able to fully recover its costs in the short-run, in the long-run, it is likely that the market will pick-up again and Lennar will be able to recover its costs.

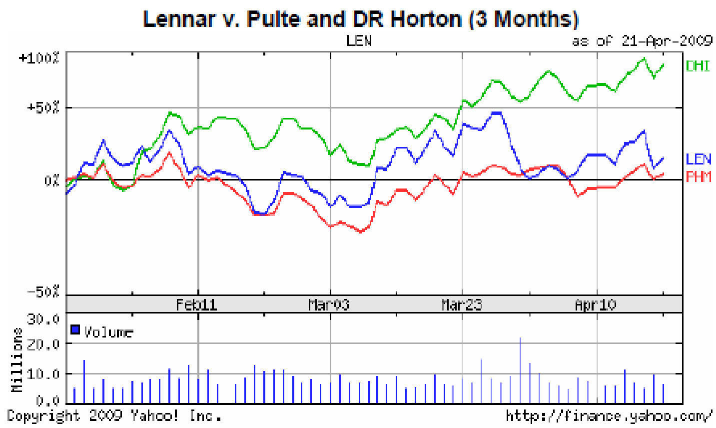
Supplier Power

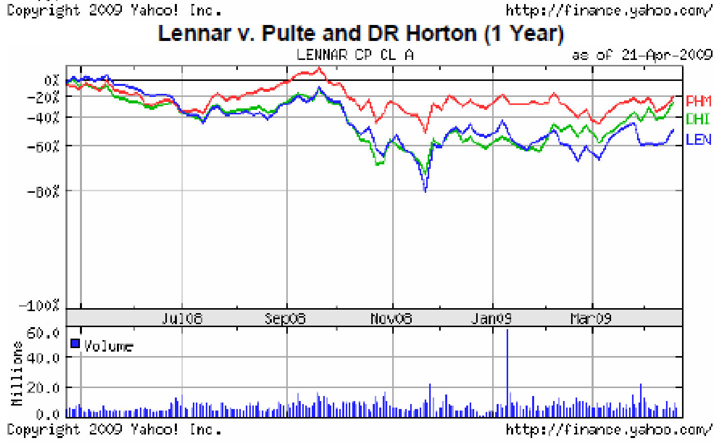
We have found no research indicating this to be a major force behind Lennar's operations. As a result, Lennar's threat level with regard to supplier power is rated low.

Financial Analysis

Stock Performance

Price Performance





Source: Yahoo Finance[xxii]

Stock Performance Indicators			
	Lennar	**Pulte**	**DR Horton**
Market Cap	1.29B	2.86B	3.76B
52 Week High	$20.94	$23.24	$17.42
52 Week Low	$3.42	$6.49	$3.79
Price to Sales (TTM)	0.30	0.44	0.60

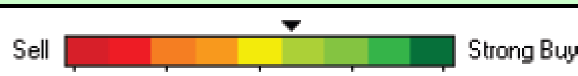
Source: Reuters[xxiii]

Lennar's recent stock performance has been tainted by accusations by Barry Minkow, co-founder of the Fraud Discovery Institute, that Lennar is a financial crime in progress in January (resulting in a 20% decline in its stock, upon its announcement), a large drywall law-suit against Lennar regarding its homes in southern Florida in February (resulting in a 19% decline in its stock, upon its announcement), and most recently, at the end of March, fears about the stability of Lennar's joint venture participation, and whether those joint ventures will drown Lennar in debt obligations (resulting in a 14% decline in its stock, upon its announcement). While the "Minkow" effect has since worn off, as no convincing evidence was presented, the tensions over the drywall lawsuit and Lennar's joint venture participation remain high. While the results of the drywall lawsuit remain to be seen, Lennar, has cause of action against the contractor it hire to perform the work, for recovery of damages. As such, the lawsuit does not pose a large threat. However, concerns about joint venture debt are viable. For further analysis regarding joint venture, please see the .

Overall, Lennar's performance in the past year has been within range of its competitors, Pulte and DR Horton, yet, Lennar's price to sales ratio remains low compared to its competitors, indicating that compared to its competitors, Lennar remains the more attractive investment.

Analyst Coverage

Analyst Ratings				
	April 2009	**March 2009**	**February 2009**	**January 2009**
Strong Buy	3	4	4	4
Buy	2	2	2	2
Hold	11	9	9	9
Underperform	2	2	2	2
Sell	0	0	0	0
Total	**18**	**17**	**17**	**17**



Source: ThomsonOne[xxiv]

Lennar has received a few choice words from analysts regarding its performance and investor communication, outlined below:

- "We note that LEN spends considerably less time on the road speaking with institutional investors than do its peers. We think this is detrimental to the equity valuation. LEN's story is above average in complexity, and we think that risk-aversion is in the current environment is high. We think that investors are likely to continue to assign an appreciable valuation discount to LEN until (1) it winds down substantially all of its JV recourse obligations or (2) management makes a more concerted effort to reach out to investors like its peers do." (Josh Levin, Citi)[xxv]

- "The main negative of the Company is perhaps the Company's balance sheet. With $2.57 billion worth of debt, $1.1 billion in cash, no net cash flow, and a number of outstanding joint ventures, we doubt the Company will be able to increase its cash balance significantly in the months ahead, and it may see a drop in cash reserves." (David Urani, Wall Street Strategies)[xxvi]
- "LEN's long-term focus on asset reduction, more efficient construction and historic land-buying prowess at times of market crisis are tempered by uncertainty in JV obligations. Key risks to our valuation range include LEN's high joint venture exposure relative to peers which could create the need for additional capital infusions and a high reliance on currently weak California and Florida markets." (Carl Reichardt, Wachovia)[xxvii]
- "LEN's performance remains weak, although these results are more indicative of what we expected to see in the current operating environment, we expect the market will continue to be disappointed." (Robert Stevenson, Fox-Pitt Kelton Cochran1 Caronia Waller)[xxviii]

Industry Performance

According to the Bureau of Economic Analysis, the overall economy grew at a rate of 1.3 percent in 2008 and the housing market's effect on real Gross Domestic Product (GDP) was to reduce growth by 0.93 percentage points (compared with a 1.02 percentage point decrease in 2007). During the fourth quarter of 2008, the housing market reduced real GDP by 0.85 percentage points at a seasonally adjusted annual rate (SAAR), compared to reductions of 0.60, 0.52, and 1.12 percentage points in the third, second, and first quarters of 2008, respectively.[xxix]

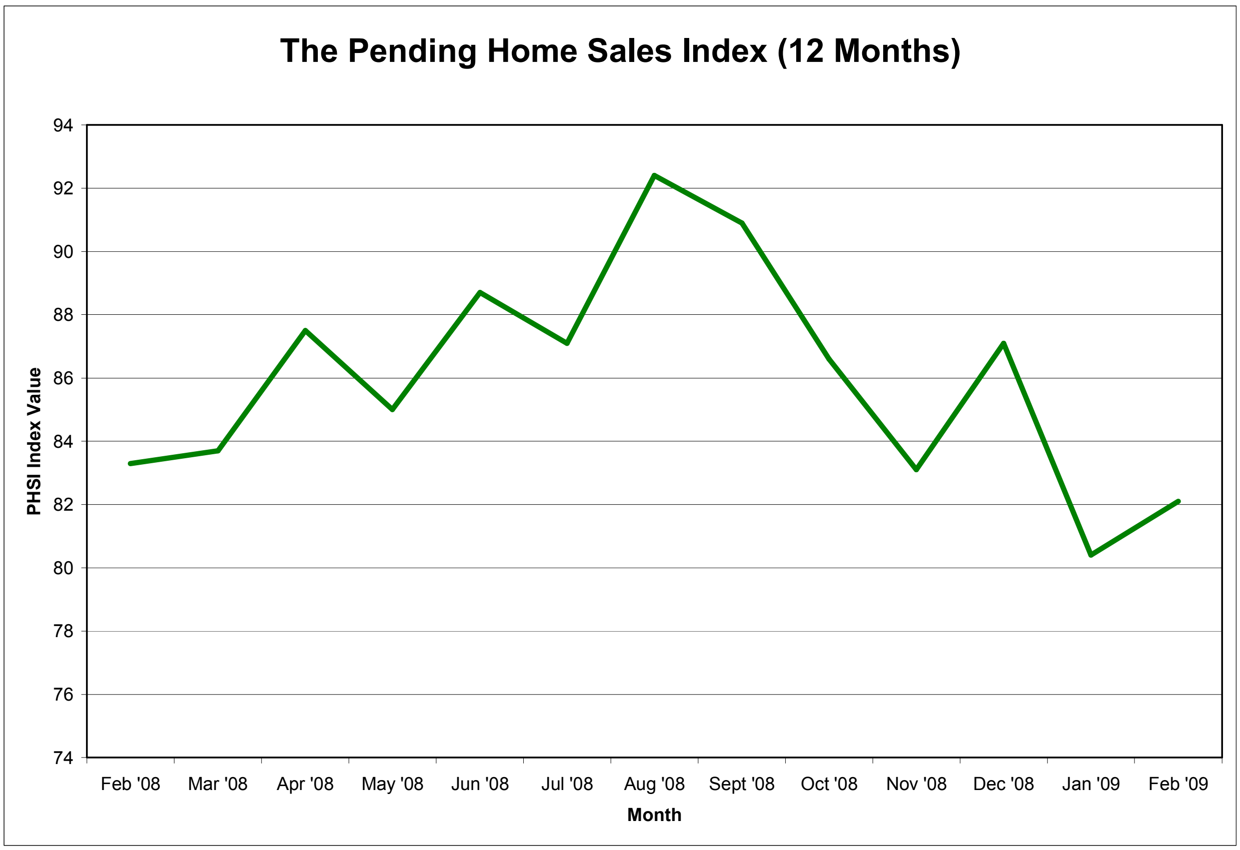
During the past year, housing production indicators (permits, starts, and completions) fell, home sales declined, especially new home sales, and builders' attitudes about the housing market reached record lows. Below are a few bulleted 2008 annual data highlights[xxx]:

- Builders took out single-family and multifamily permits for 892,500 new housing units in 2008, a decrease of 36 percent from 2007. In 2008, single-family permits were issued for 569,900 new homes, down 42 percent from 2007.
- Housing starts totaled 904,300 units in 2008, down 33 percent from 2007. Single-family housing starts equaled 622,400 units, down 40 percent from 2007. [xxxi]
- In 2008, construction was completed on 1,116,600 new housing units, down 26 percent from 2007. A total of 817,200 single-family units were ready for occupancy in 2008, down 33 percent from 2007.
- Builders were considerably less optimistic in 2008 than they were in 2007. The National Association of Homebuilders/Wells Fargo (NAHB/Wells Fargo) Housing Market Index averaged 16 points in 2008, down 11 points from 2007. The 2008 value is the lowest annual value in the 24-year history of this attitude survey. [xxxii]
- Builders sold 482,000 new single-family homes in 2008, down 38 percent from the 776,000 homes sold in 2007.
- The housing sector (residential fixed investment) decreased by 20.8 percent in 2008 compared with a decline of 17.9 percent in 2007.

During the past year, mortgage market interest rates continued to decline, as delinquency rates rose. Below are a few bulleted 2008 annual mortgage market highlights[xxxiii]:

- The average interest rate for a 30-year fixed-rate mortgage, as reported by Freddie Mac's Primary Mortgage Market Survey, was 6.03 in 2008, 31 basis points below the 2007 annual average, but 20 basis points above the record low set in 2003.
- The Federal Housing Administration guaranteed 1,468,057 mortgages in 2008, up 219 percent from 460,317 loans in 2007. In contrast, private mortgage insurance on mortgage loans decreased 38 percent in 2008, from 1,567,961 loans in 2007 to 971,595 loans in 2008.
- The Mortgage Bankers Association reported that the delinquency rate on all loans in the third quarter of 2008 was 6.99 percent, up 20 percent from 5.82 percent at the end of 2007. Foreclosure starts amounted to 1.07 percent of all loans in the third quarter of 2008, up 22 percent from 0.88 percent at the end of 2007.

Industry demand, as measured by the Pending Home Sales Index (PHSI), remains low and is still following a downward general trend, despite erratic short-lived increases in the summer and year end of 2008. The PHSI is a leading indicator for the housing sector, based on pending sales of existing homes.[xxxiv] A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing. An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined as well as the first of five consecutive record years for existing-home sales. As shown in the chart (below), industry demand remains weak, indicating future weak industry performance.



The Pending Home Sales Index (PHSI) (Yearly)

Year	United States	Northeast	Midwest	South	West
2006	111.9	98.6	101.5	127.0	109.6
2007	96.3	86.8	89.9	107.9	92.4
2008	87.1	74.1	80.8	89.8	99.6

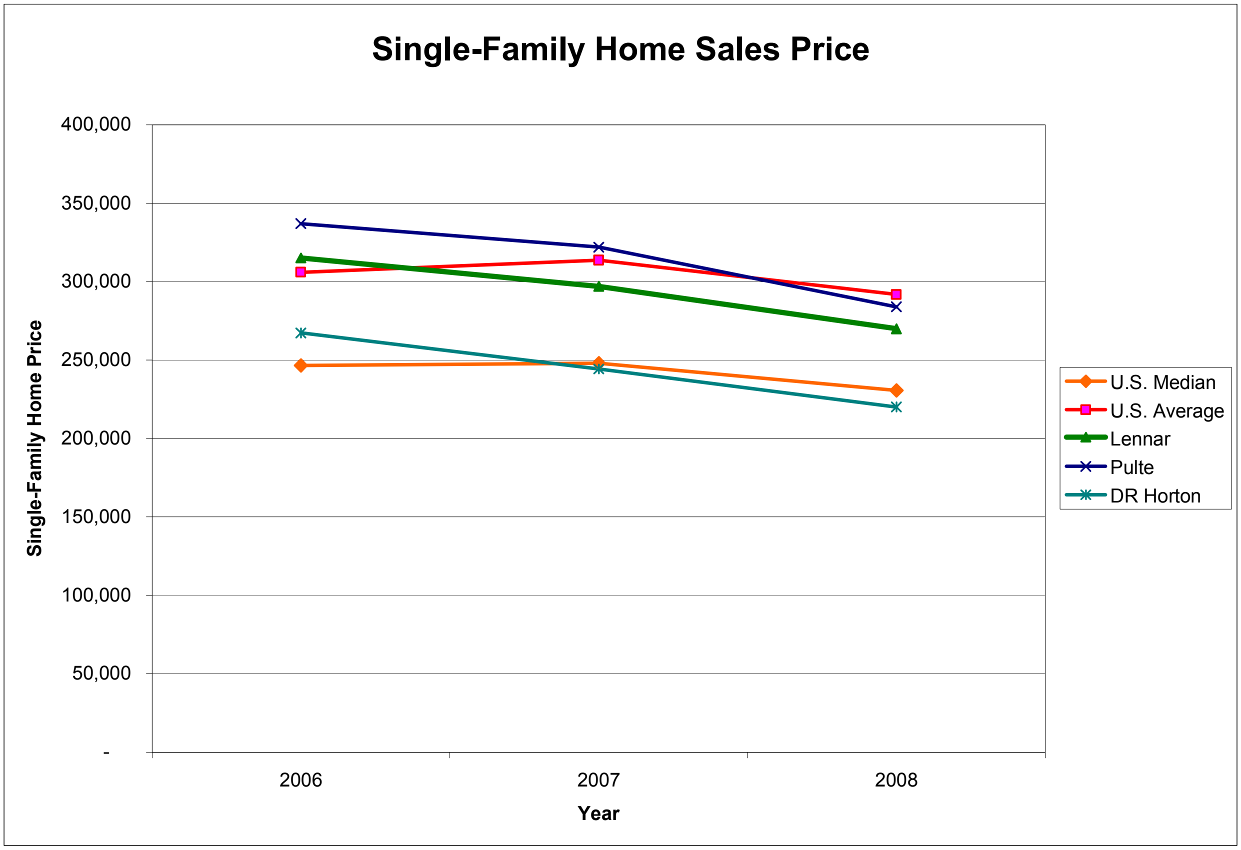
Source: National Association of Realtors[xxxv]

Financial Performance

Summary Table of Select Financial Performance						
(Dollars in thousands)	Lennar	Pulte	DR Horton	(Percent Change)		
	2008			2007-2008		
Revenue:						
Homebuilding	4,263,038	6,112,038	6,164,300	-56.2%	-33.0%	-42.5%
Financial Services	312,379	151,016	127,500	-31.6%	12.1%	-38.6%
Total Revenue	4,575,417	6,289,458	6,646,100	-55.1%	-32.1%	-41.2%
Net Income	(1,109,085)	(1,473,113)	(2,633,600)	--	--	--
EPS	$ (7.00)	$ (5.81)	$ (8.34)	--	--	--
	2007			2006-2007		
Revenue:						
Homebuilding	9,730,252	9,121,730	10,721,200	-37.7%	-35.2%	-26.3%
Financial Services	456,529	134,769	207,700	-29.1%	-30.7%	-28.6%
Total Revenue	10,186,781	9,263,094	11,296,500	-37.4%	-35.1%	-24.9%
Net Income	(1,941,081)	(2,255,755)	(712,500)	--	--	--
EPS	$ (12.31)	$ (9.02)	$ (2.27)	--	--	--
	2006					
Revenue:						
Homebuilding	15,623,040	14,075,248	14,545,400			
Financial Services	643,622	194,596	290,800			
Total Revenue	16,266,662	14,274,408	15,051,300			
Net Income	593,869	687,471	1,233,300			
EPS	$ 3.76	$ 2.73	$ 3.94			

Source: Lennar Investor Relations[xxxvi]

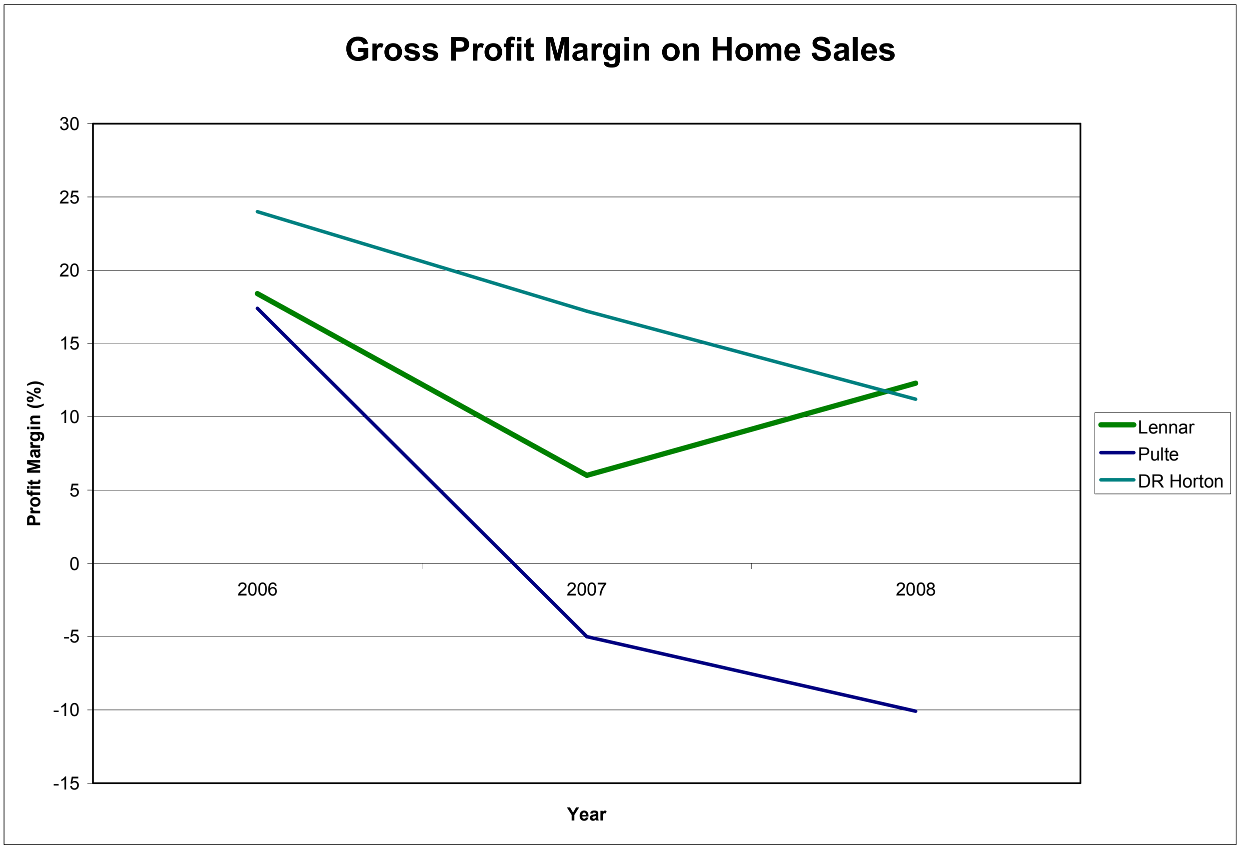
In fiscal year 2008, Lennar earned total revenues of $4.6 billion (a 56% decrease from 2007), compared with $10.2 billion in 2007 and $16.3 billion in 2006. Compared with its competitors (see table above), Pulte and DR Horton, Lennar's 2008 revenues were 37 percent and 45 percent less, respectively, largely due to the substantial difference in homebuilding revenues. Revenues were primarily lower due to a 51 percent decrease in the number of home deliveries (33% decrease in 2007 from 2006) and a 9 percent decrease in the average sales price of homes in 2008 (6% decrease in 2007 from 2006). In the fiscal year end, Lennar's new home deliveries decreased to 15, 344 homes from 31,582 homes (47,032 homes in 2006). The average sales price of homes decreased as well, to $270,000 in fiscal 2008, from $297,000 in 2007 ($315,000 in 2006). Lennar's competitors experienced the same general trend, as Pulte and DR Horton experience a decline in new home deliveries of 24 percent (34% in 2007) and 36 percent (22% in 2007), respectively. Additionally, both competitors' average selling price fell 12 percent to $284,000 (4% in 2006 to $322,000 from $337,000) and 10 percent to $220,100 (8% in 2006 to $244,300 from 267,300), respectively. See below for a graphical representation of the average sales price of Lennar's homes, compared to its competitors and the U.S. average and median sales price.



Source: 10-k data.[xxxvii]

Lennar's home prices fall within its two competitors, consistently above the U.S. median home price; however, as of late, Lennar's home prices have fallen below the U.S. average.

Unlike its competitors, for fiscal 2008, Lennar increased its gross profit margin on home sales 630 basis points to 12.3 percent (6.0% in 2007 and 18.4% in 2006). Both Pulte and DR Horton's gross margins fell 510 basis points to -10.1 percent (-5.0% in 2007 and 17.4% in 2006) and 600 basis points to 11.2% (17.2% in 2007 and 24.0% in 2006). This increased profit margin allowed Lennar to remain competitive compared to its peers.



Source: 10-k[xxxviii]

Despite earning the lowest total revenues of its competitors, for fiscal year 2008, Lennar's net loss was below that of its competitors at $1.1 billion, or $7.00 per share (compared with a 2007 net loss of $1.9 billion, or $12.31 per share and a 2006 net gain of $0.6 billion, or $3.76 per share).

Segment Performance

Homebuilding

(Please note: At the end of this section, there is a table of select financial data available for reference.)

Lennar's homebuilding business operations are broken down into five homebuilding segments. As of November 30, 2008, Lennar's reportable homebuilding segments consisted of the following operations located in:

Lennar Homebuilding Segment Breakdown

Homebuilding East:
- Florida
- Maryland
- New Jersey
- Virginia

Homebuilding Central:
- Arizona
- Colorado
- Texas (excluding Houston)

Homebuilding West:
- California
- Nevada

Homebuilding Houston:
- Houston, Texas

Homebuilding Other:
- Illinois
- Minnesota
- New York
- North Carolina
- South Carolina

Source: 10-k[xxxix]

East

Homebuilding revenues decreased in 2008, compared to 2007, primarily due to a decrease in the number of home deliveries and in the average sales price of homes delivered in all of the states in this segment. Gross margins on home sales increased to 19.3%, in 2008, compared to 13.7%, in 2007 (22% in 2006). As a percentage of home sales revenues, sales incentives were 17.2% in 2008 and 16.9% in 2007 (11.4% in 2006). Losses on land sales were $41.2 million in 2008, compared to losses on land sales of $400.8 million in 2007 (losses of $63.7 million in 2006).

Central

Homebuilding revenues decreased in 2008, compared to 2007, primarily due to a decrease in the number of home deliveries in all of the states in this segment. Gross margins on home sales were 11.7%, in 2008, compared to $193.3 million, or 12.5%, in 2007 (17.3% in 2006). Gross margin percentage on home sales decreased compared to last year primarily due to higher sales incentives offered to homebuyers (15.9% in 2008, compared to 13.0% in 2007 and 10.2% in 2006). Losses on land sales were $11.3 million in 2008, compared to losses on land sales of $142.3 million in 2007 (losses of $0.9 million in 2006).

West

Homebuilding revenues decreased in 2008, compared to 2007, primarily due to a decrease in the number of home deliveries and average sales price of homes delivered in all of the states in this segment. Gross margins on home sales were 16.3%, in 2008, compared to 13.0%, in 2007 (22.4% in 2006). Gross margin percentage on home sales increased in 2008 despite higher sales incentives offered to homebuyers (15.3% in 2008, compared to 14.3% in 2007), but decreased in 2007 (gross margin percentage was 22.4% in 2006). Losses on land sales were $75.0 million in 2008, compared to losses on land sales of $950.3 million in 2007 (gains of $84.7 million).

Houston

Homebuilding revenues decreased in 2008, compared to 2007, primarily due to a decrease in the number of home deliveries in this segment. Gross margins from home sales were 19.6%, in 2008, compared to 21.4%, in 2007 (19% in 2006). Gross margin percentage on home sales decreased compared to last year primarily due to higher sales incentives offered to homebuyers (11.1% in 2008, compared to 7.7% in 2007 and 5.9% in 2006). Gross profits on land sales were $0.8 million in 2008, compared to gains on land sales of $1.2 million in 2007 (gains of $6.0 million in 2006).

Other

Homebuilding revenues decreased in 2008, compared to 2007, primarily due to a decrease in the number of home deliveries in all of the states in Homebuilding Other, and a decrease in the average sales price of homes delivered in all of the states in this segment except in Minnesota. Gross margins from home sales were 15.7%, in 2008, compared to 13.9%, in 2007 (12.0% in 2006). Gross margin percentage on home sales increased compared to last year despite higher sales incentives offered to homebuyers (13.6% in 2008, compared to 9.1% in 2007 and 7.8% in 2006). Losses on land sales were $6.5 million in 2008, compared to losses on land sales of $168.8 million in 2007 (losses of $56.1 million).

	Years Ended November 30,					
(In thousands)	2008	2007	2006	2008	2007	2006
East:				**Central:**		
Revenues:						
Sales of homes	$1,252,725	$ 2,691,198	$4,642,582	$512,957	$1,549,020	$2,549,138
Sales of land	$ 23,033	$ 63,452	$ 129,297	$ 20,153	$ 56,819	$ 80,168
Total	$1,275,758	$ 2,754,650	$4,771,879	$533,110	$1,605,839	$2,629,306
Operating earnings (loss)						
Sales of homes	$ (37,361)	$ (366,153)	$ 305,397	$ (67,124)	$ (110,663)	$ 113,960
Sales of land	$ (41,242)	$ (400,830)	$ (63,729)	$ (11,330)	$ (142,330)	$ (878)
Goodwill impairments	$ -	$ (46,274)	$ -	$ -	$ (31,293)	$ -
Other	$ (91,604)	$ (79,902)	$ (5,014)	$ (12,723)	$ (44,297)	$ 14,917
Total	$ (170,207)	$ (893,159)	$ 236,654	$ (91,177)	$ (328,583)	$ 127,999
Deliveries	4,957	9,840	14,859	2,442	7,020	11,287
New Orders	3,953	7,492	11,290	2,280	5,055	10,292
Backlog-Homes	787	1,797	4,139	123	285	2,250
Cancellation Rates	31%	34%	32%	22%	29%	32%
West:				**Houston:**		
Revenues:						
Sales of homes	$1,408,051	$ 3,460,667	$5,466,437	$542,288	$ 815,250	$ 996,036
Sales of land	$ 32,112	$ 83,045	$ 503,075	$ 8,565	$ 23,000	$ 23,879
Total	$1,440,163	$ 3,543,712	$5,969,512	$550,853	$ 838,250	$1,019,915
Operating earnings (loss)						
Sales of homes	$ (67,757)	$ (347,018)	$ 532,456	$ 39,897	$ 76,378	$ 77,732
Sales of land	$ (74,987)	$ (950,316)	$ 84,749	$ 807	$ 1,151	$ 5,989
Goodwill impairments	$ -	$ (43,955)	$ -	$ -	$ -	$ -
Other	$ 7,827	$ (137,515)	$ 22,712	$ (1,898)	$ 2,148	$ 3,666
Total	$ (134,917)	$(1,478,804)	$ 639,917	$ 38,806	$ 79,677	$ 87,387
Deliveries	4,031	8,739	13,333	2,736	4,380	5,782
New Orders	3,396	6,765	11,119	2,416	3,621	5,828
Backlog-Homes	247	942	2,991	269	589	1,348
Cancellation Rates	24%	29%	29%	27%	32%	24%
Other:						
Revenues:						
Sales of homes	$ 434,696	$ 946,805	$1,200,681			
Sales of land	$ 28,458	$ 40,996	$ 31,747			
Total	$ 463,154	$ 987,801	$1,232,428			
Operating earnings (loss)						
Sales of homes	$ (13,283)	$ (50,230)	$ (54,071)			
Sales of land	$ (6,463)	$ (168,814)	$ (56,130)			
Goodwill impairments	$ -	$ (68,676)	$ -			
Other	$ (23,545)	$ (5,410)	$ 4,397			
Total	$ (43,291)	$ (293,130)	$ (105,804)			
Deliveries	1,569	3,304	4,307			
New Orders	1,346	2,820	3,683			
Backlog-Homes	173	396	880			
Cancellation Rates	23%	20%	22%			

Source: 10-k[xl]

Financial Services

Lennar's financial services segment primarily originates conforming conventional, FHA-insured, VA-guaranteed residential mortgage loan products and other products such as title insurance and closing services, to Lennar's homebuyers and others through its financial services subsidiaries, Universal American Mortgage Company, LLC and Eagle Home Mortgage, LLC. Substantially all of the loans the Financial Services Segment originates are sold in the secondary mortgage market on a servicing released, non-recourse basis; although, Lennar remains liable for certain limited representations.

During fiscal 2008, Lennar's Financial Services Segment's operating loss was $31.0 million, down from 2007's operating earnings of $6.1 million ($149.8 million in 2006). The segment earned revenues of $312.4 million, down from $456.5 million in 2007 ($643.6 million in 2006). Lennar originated 18,300 mortgages, down 41% from 30,900 in 2007 (41,800 mortgages were issued in 2006). Of the 18,300 mortgages originated in fiscal 2008, 85% represented Lennar homebuyers, which increased from 73% in 2007 (66% in 2006). Lennar's mortgage originations were primarily down due to concern in the mortgage market regarding sub-prime and Alt A loans, as such, Lennar reduced originating loans of that caliber.

	Years Ended November 30,		
	2008	2007	2006
	(Dollars in thousands)		
Revenues	$312,379	456,529	643,622
Costs and expenses	343,369	450,409	493,819
Operating earnings (loss)	($30,990)	6,120	149,803
Dollar value of mortgages originated	$4,290,000	7,740,000	10,480,000
Number of mortgages originated	18,300	30,900	41,800
Mortgage capture rate of Lennar homebuyers	85%	73%	66%
Number of title and closing service transactions	105,900	136,300	161,300
Number of title policies issued	96,700	146,200	195,700

Source: 10-k[xli]

SWOT Analysis

Strengths

- Diversified Market Reach
  - Lennar's national reach through its five homebuilding segments enables it to achieve the leading position in the key markets in which it operates and diversify its risk.
  - Diversification in Lennar's floor plans allows Lennar to serve a more diverse and larger customer base.
  - Customizable quality within its homes allows Lennar to meet customer needs and take advantage of shifts in consumer preferences.
- Balanced Geographic Exposure
  - Within the United States, Lennar is not disproportionately dependent on any one region, reducing the firm's exposure to regional housing market downturns.
- Diversified Land Acquisition Program
  - Lennar sources its land acquisition from a variety of channels, which reduces dependence on any one source, broadens the firm's acquisition prospects, and enables the firm to take advantage of the best deals available.

Weaknesses

- Weak Financials/Declining Earnings
  - In the financial year 2008, the company reported a net loss of $1.1 billion, compared to a net loss of $1.9 billion in 2007 and a net gain of $593 million in 2006.
  - The decrease in net income was mainly due to a substantial decrease in earnings. In the financial year 2008 the company recorded sales of $4,575 million, compared to $10,187 million in 2007 and $16,267 million in 2006.
- Limited Geographic Exposure
  - The firm's lack of international operations exposes the firm to downturns in the domestic housing market.
- Joint Venture Exposure
  - Joint ventures may adversely affect Lennar's performance as partners fail to fulfill their obligations.

- Lennar's net recourse indebtedness with regard to joint ventures at the end of fiscal 2008 was $392.5 million, compared to $1.1 billion at the peak in 2006.
- At the end of fiscal year 2008, Lennar had continued participation in 116 unconsolidated joint ventures, compared to 270 unconsolidated joint ventures at the peak in 2006.

Opportunities

- Global Expansion
  - Construction industries in countries like India, China, Brazil, Russia, and Canada are booming, providing solid opportunities for Lennar to expand in newer locations.
- Sustainable Construction
  - By 2010 sustainable construction will be the norm in the U.S. industry.
  - Sustainable development provides a huge opportunity for Lennar to move into the development of buildings that are more economical and environmental to run.
- Baby Boomer Retirement Relocation
  - After retiring, many baby boomers are expected to move to single family dwellings, which could drive the demand for new single family units.

Threats

- Hyper-Competition Among Builders
- U.S. Recession
  - Loss of jobs and equity have resulted in increased foreclosures saturating housing supply and decreased demand.
- U.S. Housing Industry Downturn
  - Depreciating housing prices threaten Lennar's profit margins and lower housing demand.
- Frozen Mortgage Financing Market
  - The U.S. residential mortgage market has been experiencing serious disruption due to deterioration in credit quality of loans originated to non-prime and sub-prime borrowers, an increase in mortgage foreclosure rates, and recent failure of numerous lending institutions, which has resulted in the curtailing of the approval and

origination of new home loans and, as a consequence, prospective homebuyers are unable to obtain financing.

- Government Regulation
    - Changes in federal laws and regulations could have the effect of curtailing the activities of Fannie Mae and Freddie Mac, which provide significant liquidity to the secondary mortgage market and upon which Lennar depends in its sale of mortgages on the secondary mortgage market.
    - Tax increases or stricter environmental guidelines could lower profitability.

Strategic Recommendations

Lennar faces significant challenges in the near future due to the economic downturn, mortgage market crisis, and burst of the housing bubble. In the past, Lennar's strategy involved strategic expansion during a downturn and conservative reconsolidation of debt during an upswing. However, like many other homebuilders, Lennar over expanded during the most recent housing bubble, and as a result, Lennar must adjust its activities in an effort to regain its original strategic methods. Thus, broadly, Lennar must remain conservative in its operations, downsizing where possible, as well as cutting costs and SG&A expenses, in order to regain a healthy cash base. Additionally, as one of Lennar's strategic advantages is its access to land and its land acquisitions, Lennar must seek to maintain its developable real estate for future development.

Beyond the broad suggestions above, this report touches on a few of Lennar's most prevalent issues: targeting new first time homebuyers, its financial positioning, homebuilding segment operations, and financial services segment operations.

Targeting New First-time Homebuyers

The Obama administration has taken steps in their new tax plan to encourage new first time homebuyers to purchase a home by offering them a $7,000 rebate on their taxes. Lennar should take advantage of this legislation and target its development sites toward new homebuyers. However, as most first-time homebuyers have a budget constraint and those that are not facing a constraint have most likely already bought a home if they were in the market to buy, the products Lennar offers should be in a low price range. Two ways in which Lennar can operate within this pricing scheme is through the development of smaller, less expensive homes, or through the development of multi-residential buildings.

Financial Positioning

At the end of fiscal 2008, Lennar was vulnerable to losing a major credit facility, with an upcoming maturing date in 2009 and a tight credit market. Though Lennar ended the fiscal year with no borrowed funds outstanding on its revolver, Lennar's cash and cash equivalents of $1.2 billion on its balance sheet, would have been insufficient for Lennar's continuing operations, and Lennar may have had to resort to issuing new stock in order to raise capital. However, as of late, Lennar was successful in amending its credit facility to provide greater flexibility under the outlined covenants and in securing a greater commitment. The facility commitment is now $1.1 billion, maturing in July of 2011.

Despite its newly amended agreement, Lennar needs to continue to focus on strengthening its cash and cash equivalents on its balance sheet and be conservative in its use of its credit facilities, as the company still remains exposed to cash-consuming obligations. Of those, Lennar's joint venture exposure is particularly threatening. Lennar's joint venture participation continues to leave Lennar vulnerable to erosions in its liquidity as a result of recourse debt guarantees or supporting non-recourse joint venture obligations of debt. Though Lennar has taken steps in reducing its number of joint ventures from 270 at the peak in 2006 to 116 at the end of fiscal 2008, Lennar still remains exposed. Of the remaining joint ventures, 41 have recourse debt, 27 have non-recourse debt, and 48 have no debt at all. In fiscal 2008, Lennar reduced its maximum recourse indebtedness by 71% to $520 million, since its peak of $1.8 billion in 2006. Lennar needs to continue its trend of reducing its joint venture exposure by performing a full evaluation of its joint venture partnerships in order to ascertain the risk and reward associated with each, the financial health of the joint venture partners, and triage those joint venture partnerships that present the most threat of default. Lennar then needs to focus its efforts on reducing Lennar's exposure to those ventures by dismantling those ventures or reducing Lennar's maximum recourse indebtedness exposure related to those ventures. Finally, in Lennar's future land acquisitions, Lennar should refrain from entering into recourse debt joint venture contracts.

Homebuilding Segment Analysis

All of Lennar's homebuilding operating segments have been affected by the housing market declines (see table below), ranging from a 33.5% decrease in revenues in the Homebuilding Houston

Segment, to a 66.9% decrease in revenues, in the Homebuilding Central Segment (18.2% decrease in revenues in the Houston Segment to 42.0% decrease in the Homebuilding East Segment in 2006). In fiscal 2008, all of Lennar's homebuilding segments posted an operating loss, save Houston.

Revenue Percentage Change from Previous Year		
	2007-2008	2006-2007
East	-53.5%	-42.0%
Central	-66.9%	-39.2%
West	-59.3%	-36.7%
Houston	-33.5%	-18.2%
Other	-54.1%	-21.1%

Source: 10-k[xlii]

As such, Lennar should perform an in-depth analysis of each of its current development project locations, assessing each location based on local housing performance and adjust its development plans accordingly. In high foreclosure areas, of which its Homebuilding East, Homebuilding West, and Homebuilding Central segments are particularly vulnerable, as those segments contain the top foreclosure rate states to date (Nevada, Arizona, California, and Florida), Lennar should halt development and shift resources to its other operations. Overall, however, given declining revenues, Lennar should continue to downsize, curtailing the unsuccessful development operations in each segment, as well as concentrating on reducing construction and SG&A costs in order to raise its profit margins and maximize cash flow.

Financial Services Segment Analysis

Lennar's Financial Services Segment is particularly vulnerable in the current market, as secondary mortgage loan markets have dried up, particularly for sub-prime and Alt A loans, in which Lennar participated in until 2008, lowering the price of mortgages on the secondary market, and thus, exposing Lennar to increasing risk to reduced revenues, an inability to sell the loans, or both. In fiscal 2008, Lennar originated $4.3 billion in mortgages (compared to $7.7 billion in 2007 and $10.5 billion in 2006). At the end of fiscal 2008, Lennar's financial services segment had borrowings of $714.9 million, collateralized by mortgage loans, and an operating loss of $30.1million. In order to curtail its risk, Lennar needs to maintain its tightened lending standards, and ensure that each of its financial subsidiaries have taken the steps to halt the origination of sub-prime and Alt A loans entirely.

However, despite the Financial Services Segment's operating loss for fiscal 2008, Lennar's increasing homebuyer participation rate indicates a symbiotic relationship between its homebuilding segments and its financial services, as well as an increasing reliance on its Financial Services Segment in order to make a sale. As such, Lennar still gains an advantage from its financial services segment and should not look to spin-off or sell off its financial subsidiaries.

Finally, with the threat of the passage of the Final Rule, Lennar may no longer be able to offer incentives to its customers for in-house financing. As such, Lennar's remaining advantage over its competitors would be the convenience of filing a mortgage application in-house, as there would be no third party involvement in the process, and its face-to-face interaction with the homebuyer. Lennar needs to enhance the accessibility of its financial consultants by creating a "one stop shop" for homebuyers. Make it easy for them to deal with only Lennar. Differences in the legal entities should be invisible to new home owners to make it easier for them. At the moment, Lennar's customers interact primarily with Lennar's new-home consultants; instead, Lennar should have all buyers interact with both new-home consultants and financial consultants in order to build a relationship with its potential homebuyers in both its product and its financial services. In essence, Lennar needs to fuse its homebuilding segment with its financial services segment with regard to interactions with homebuyers in order to fully capitalize on the advantages it holds with regard to in-house bundling.

Conclusion

In summation, this report recommends that Lennar target its new developments to new first-time homebuyers by offering smaller, low-priced homes or through the development of multi-residential buildings. Additionally, this report recommends that Lennar act conservatively with regard to its finances, eliminating its high risk joint-venture exposure. Next, this report recommends that Lennar, given declining homebuilding segment revenues, should continue to downsize, in addition to concentrating on reducing construction and SG&A costs in order to raise its profit margins and maximize cash flow. Finally, this report recommends that Lennar take steps in preparing for the passage of the final rule by taking advantage of the face-to-face and convenience advantages that

Lennar enjoys, essentially increasing the accessibility of its financial consultants to create a "one stop shop" for homebuyers.

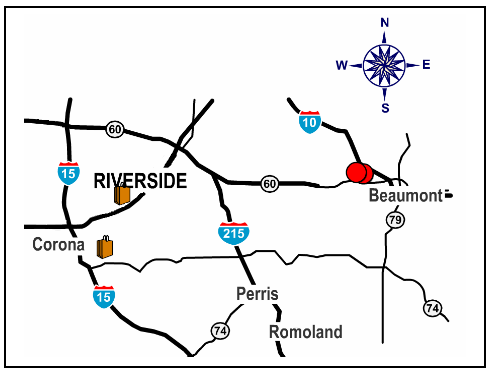
Appendix A: The Beaumont Developments

The first Beaumont development (Bellford at Fairway Canyon), signified by the leftmost red dot on the map (below), is located at:

11334 Bean Street
Beaumont, CA 92223

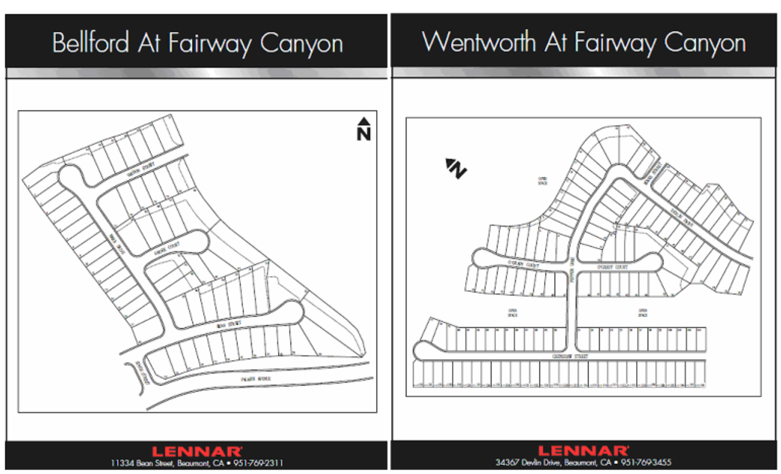
The second development in Beaumont (Wentworth at Fairway Canyon), signified by the rightmost red dot on the map (below), is located at:

34367 Devlin Drive
Beaumont, CA 92223



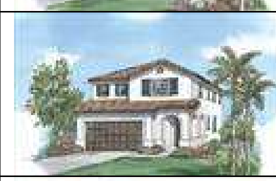
Source: Lennar website[xliii]

Bellford's site plan consists of 63 home sites, whereas the Wentworth site consists of 133 home sites. The site development plans are pictured below.



Source: Lennar website[xliv]

Each development contains community features, including: a baseball field, basketball court, clubhouse, community center, fitness center, golf course, greenbelt, Home Owner's Association, picnic area, playground, sport court, swimming pool, tot lot, and a hiking trail. In total, there are six different type of residence floor plans, which include front a back landscaping; three per site. Each of these floor plans is outlined in the table below:

Residence Floor Plan Outline		
Bellford-Residence One	3 Bedrooms 2.5 Bathrooms 1,938 Square Feet Beginning at $213,500	
Bellford-Residence Two	4 Bedrooms 3 Bathrooms 2,108 Square Feet Beginning at $230,000	
Bellford-Residence Three	4 Bedrooms 3 Bathrooms 2,306 Square Feet From the mid $200,000	
Wentworth-Residence One	4 Bedrooms 2.5 Bathrooms 2,198 Square Feet From the low $200,000	
Wentworth-Residence Two	4 Bedrooms 2.5 Bathrooms 2,417 Square Feet From the mid $200,000	
Wentworth-Residence Three	5 Bedrooms 2.5 Bathrooms 2,517 Square Feet From the mid $200,000	

Source: Lennar website[xlv]

Both of the Lennar home development sites have on-site new-home consultants (Corina Ortiz and Laurie Vasquez), as well as internet new home consultants (Tricia Payawal and Kathy Cantrell). These consultants work exclusively with the Beaumont sites full-time.

As a prospective home owner, you will begin in Lennar's onsite office, a medium-sized entry room with floor plans on either wall. The on-site new-home consultant will greet you and ask feeler questions in order to ascertain where you are in the process. After the initial questions (such as if you are working with a realtor, have you consulted a lender, etc.), the consultant will question what you are looking for in your dream home. They will mention the three floor plans on site, suggesting what they feel is the best fit for you; they will then take you to see all three, regardless. The floor plans are displayed in model homes, which are fully furnished with attractive settings. If a particular floor plan is of interest, the on-site consultant will escort you through an actual available for sale home currently under construction. If a larger home is desirable, the on-site consultant will drive you to the Wentworth models. After the tour, they will discuss possibilities and options for you, what you liked, what you are interested in, and how Lennar is equipped to meet your needs. For financing questions, you will be directed to a financing representative, who will provide you with all of the necessary paperwork to apply for a mortgage through one of Lennar's mortgage subsidiaries. The day will conclude with your receiving a pamphlet and packet of information, which will include the business cards of the new-home consultant and the financing representative. Lennar will then follow up with you in the days following to answer any questions that you may have.

As for financing, Lennar is open about your freedom to choose any lender you want; however, Lennar offers additional incentives to use their lender, including $10,000 off of closing costs. The standard FHA loan under Lennar is 5.5%, but it is subject to multiple variables, including FICO and the size of the down payment. The rate can be brought down to a low of 4.5% if you choose a quick move-in option. FHA typically requires a minimum FICO score of 620, with a 3.5% down payment, which approximates to $7,000-$8,000.

In my visit to the Beaumont development site, I was a party interested in a smaller floor plan, with a particular interest in Bellford's "Residence One" floorplan; as such, I did not visit the Wentworth site, as Wentworth specializes in larger floor plans. At the Bellford site currently there are a few homes that will be available for a July move-in date; two available with floor plan "Residence One". After July, the next phase of available homes will occur approximately in September or October. At this time, the Bellford site is almost closed out with their current supply of homes.

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