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LNR PROPERTY CORP
Form 10-Q
July 16, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended May 31, 2001

Commission file number 1-13223

LNR Property Corporation
(Exact name of registrant as specified in its charter)

Delaware 65-0777234
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

760 Northwest 107th Avenue, Miami, Florida 33172
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (305) 485-2000

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. YES X NO
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Common shares outstanding as of the end of the current fiscal quarter:

Common	24,372,357
Class B Common	9,998,280

PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements.

LNR PROPERTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands, except per share amounts)

Assets

(unaud
May
20

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Cash and cash equivalents	\$	1
Restricted cash		9
Investment securities		80
Mortgage loans, net		27
Operating properties and equipment, net		78
Land held for investment		4
Investments in and advances to partnerships		36
Other assets		11

Total assets	\$	2,49
		=====

Liabilities and Stockholders' Equity

Liabilities		
Accounts payable and other liabilities	\$	14
Mortgage notes and other debts payable		1,47

Total liabilities		1,62

Minority interests		2

Stockholders' equity		
Common stock, \$.10 par value, 150,000 shares authorized, 24,372 and 24,215 shares issued and outstanding in 2001 and 2000, respectively		
Class B common stock, \$.10 par value, 40,000 shares authorized, 9,998 and 9,999 shares issued and outstanding in 2001 and 2000, respectively		
Additional paid-in capital		51
Retained earnings		33
Unamortized value of restricted stock grants		(1
Accumulated other comprehensive earnings (loss)		

Total stockholders' equity		84

Total liabilities and stockholders' equity	\$	2,49
		=====

See accompanying notes to unaudited consolidated condensed financial statements.

LNR PROPERTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

(Unaudited)
Three Months Ended
May 31,

(In thousands, except per share amounts)

2001	2000
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Revenues

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Rental income	\$ 29,512	34,606
Equity in earnings of partnerships	12,159	25,649
Interest income	44,920	35,224
Gains on sales of:		
Real estate	35,392	293
Partnership interests	-	23,166
Management and servicing fees	8,264	6,407
Other, net	(250)	59
	-----	-----
Total revenues	129,997	125,404
	-----	-----
Costs and expenses		
Cost of rental operations	15,022	20,251
General and administrative	18,955	16,503
Depreciation	6,549	8,638
Minority interests	849	324
	-----	-----
Total costs and expenses	41,375	45,716
	-----	-----
Operating earnings	88,622	79,688
Interest expense	29,136	29,773
	-----	-----
Earnings before income taxes	59,486	49,915
	-----	-----
Income taxes	21,112	16,570
	-----	-----
Net earnings	\$ 38,374	33,345
	=====	=====
Weighted average shares outstanding:		
Basic	33,356	33,326
	=====	=====
Diluted	34,895	34,906
	=====	=====
Net earnings per share:		
Basic	\$ 1.15	1.00
	=====	=====
Diluted	\$ 1.10	0.96
	=====	=====

See accompanying notes to unaudited consolidated condensed financial statements.

LNR PROPERTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE EARNINGS

		(Unaudited) Three Months Ended May 31,	
		-----	-----
(In thousands)		2001	2000
		-----	-----
Net earnings	\$	38,374	33,345

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Other comprehensive earnings (loss), net of tax:		
Unrealized gain (loss) on available-for-sale securities, net and other	(3,744)	3,133
Unrealized loss on hedging activities	(660)	-
Transition adjustment related to accounting for derivative financial instruments and hedging activities	-	-
Less: reclassification adjustment for gains included in net earnings	-	(5,748)
	-----	-----
Other comprehensive earnings (loss)	(4,404)	(2,615)
	-----	-----
Comprehensive earnings	\$ 33,970	30,730
	=====	=====

See accompanying notes to unaudited consolidated condensed financial statements.

LNR PROPERTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

Cash flows from operating activities:

Net earnings
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:
Depreciation
Minority interests
Amortization of discount on CMBS, mortgage loans and other
Gains on sales of real estate
Gains on sales of partnership interests
Equity in earnings of partnerships
Losses on hedging activities
Changes in assets and liabilities:
(Increase) decrease in restricted cash
Increase in other assets and deferred taxes
Decrease in mortgage loans held for sale
Increase (decrease) in accounts payable and accrued liabilities
Net cash provided by (used in) operating activities

Cash flows from investing activities:

Operating properties and equipment
Additions
Sales
Land held for investment
Additions
Sales
Investments in and advances to partnerships
Distributions from partnerships
Proceeds from sales of partnership interests
Purchase of mortgage loans held for investment
Proceeds from mortgage loans held for investment
Purchase of investment securities
Proceeds from principal collections on investment securities
Interest received on CMBS in excess of income recognized
Syndication of affordable housing communities

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Net cash provided by (used in) investing activities

Cash flows from financing activities:

Proceeds from stock option exercises

Purchase of treasury stock

Payment of dividends

Net payments under repurchase agreements and revolving credit lines

Mortgage notes and other debts payable:

Proceeds from borrowings

Principal payments

Net cash provided by financing activities

Net increase in cash and cash equivalents

Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

LNR PROPERTY CORPORATION AND SUBSIDIARIES CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS - Continued

(In thousands)

Supplemental disclosure of non-cash investing and financing activities:

Purchases of investment securities financed by seller

Purchases of mortgage loans financed by seller

Grant of restricted stock

Supplemental disclosure of non-cash transfers:

Transfer of land held for investment to operating properties

Transfer of certain assets and liabilities to investments in partnerships

Syndications of affordable housing communities:

Proceeds from sales of partnership interests

Basis in partnership interests

Cash gain from syndications

Net gain reflected in gains on sales of real estate

See accompanying notes to unaudited consolidated condensed financial statements.

LNR PROPERTY CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Condensed Financial Statements

1. Basis of Presentation and Consolidation

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The accompanying unaudited consolidated condensed financial statements include the accounts of LNR Property Corporation and its wholly-owned subsidiaries (the "Company"). The assets, liabilities and results of operations of entities (both corporations and partnerships) in which the Company has a controlling interest have been consolidated. The ownership interests of noncontrolling owners in such entities are reflected as minority interests. The Company's investments in partnerships (and similar entities) in which less than a controlling interest is held or of which control is shared are accounted for by the equity method (when significant influence can be exerted by the Company), or the cost method. All significant intercompany transactions and balances have been eliminated. The financial statements have been prepared by management without audit by independent public accountants and should be read in conjunction with the November 30, 2000 audited financial statements in the Company's Annual Report on Form 10-K for the year then ended. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for fair presentation of the accompanying unaudited consolidated condensed financial statements have been made.

2. Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that all derivative instruments be recorded as either an asset or liability on the balance sheet at their fair value, and that changes in the fair value be recognized currently in earnings unless specified criteria are met. This statement was effective for fiscal quarters of fiscal years beginning after June 15, 1999. SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" extended the effective date to all fiscal quarters of fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of FASB Statement No. 133." This statement amends the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and certain hedging activities. The Company adopted the provisions of these standards on December 1, 2000. In accordance with these standards, the Company carries all derivative instruments in the balance sheet at fair value. At May 31, 2001, the Company has a derivative liability of \$14.3 million which is included in accounts payable and other liabilities in the Consolidated Condensed Balance Sheet. Periods prior to December 1, 2000 have not been restated. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship.

Hedging Objectives and Strategies

With regard to risk management in general, and interest rate risk in particular, the Company's fundamental philosophy is centered on a desire to tolerate only a relatively small amount of risk. The Company has an interest rate risk management policy with the objective of: (1) managing its interest costs and (2) reducing the impact of unpredictable changes in asset values related to movements in interest rates on the Company's available-for-sale securities. To meet these

LNR PROPERTY CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Condensed Financial Statements

objectives, the Company employs hedging strategies to limit the effects of changes in interest rates on its operating income and cash flows and on the value of its available-for-sale securities.

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The Company does not acquire derivative instruments for any purpose other than cash flow and fair value hedging purposes. That is, the Company does not speculate using derivative instruments.

The Company believes its interest rate risk management policy is generally effective. Nonetheless, the Company's profitability may be adversely affected during particular periods as a result of changing interest rates. In addition, hedging transactions using derivative instruments involve risks such as counterparty credit risk and legal enforceability of hedging contracts. The counterparties to the Company's arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. These counter-parties potentially expose the Company to loss in the event of nonperformance.

Cash Flow Hedging Instruments

The Company's approach to managing interest cost is based primarily on match funding, with the objective that variable-rate assets be primarily financed by variable-rate liabilities and fixed-rate assets be primarily financed by fixed-rate liabilities. Management continually identifies and monitors changes in interest rate exposures that may adversely impact expected future cash flows by evaluating hedging opportunities. The Company maintains risk management control systems to monitor interest rate cash flow risk attributable both to the Company's outstanding or forecasted debt obligations and to the Company's offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analyses, to estimate the impact of changes in interest rates on the Company's future cash flows.

The Company periodically enters into derivative financial arrangements, primarily interest rate swap agreements, to manage fluctuations in cash flows resulting from interest rate risk. These swap agreements effectively change the variable-rate cash flows on debt obligations to fixed-rate cash flows. Under the terms of the interest rate swap agreements, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. At May 31, 2001, the Company had 16 such interest rate swap agreements with a notional amount of \$322.2 million, which mature through February 2004.

The Company records the fair value of interest rate swap agreements designated as hedging instruments for variable-rate debt obligations as a derivative asset or liability. Changes in the fair value of the interest rate swap agreements are reported as unrealized gains or losses in stockholders' equity as a component of accumulated other comprehensive earnings. If a derivative instrument is not designated as a hedge, the gain or loss resulting from a change in fair value is recognized in earnings in the period of change. If a derivative instrument is designated as a hedge but the derivative instrument is not fully effective in hedging the designated risk, the ineffective portion of the gain or loss is reported in earnings immediately.

LNR PROPERTY CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Condensed Financial Statements

Interest expense for the quarter and six months ended May 31, 2001 includes no net gains or losses representing cash flow hedge ineffectiveness arising from differences between the critical terms of interest rate swap agreements and the hedged debt obligations, since the terms of the Company's swap agreements and debt obligations are matched.

Fair Value Hedging Instruments

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To manage the risk associated with unpredictable changes in asset values related to the effect of movements in interest rates on the Company's fixed-rate available-for-sale securities, the Company periodically uses derivative financial instruments, primarily interest rate swap agreements. Under the terms of these swap agreements, the Company receives variable interest rate payments and makes fixed interest rate payments. At May 31, 2001, the Company had three such interest rate swap agreements with a notional amount of \$189.0 million, which mature through December 2011.

The Company has designated these interest rate swap agreements as hedges of interest rates on certain available-for-sale securities and records the fair value of the agreements as derivative assets or liabilities. Changes in the fair value of the interest rate swap agreements are recorded in earnings, as are the changes in the fair value of the hedged available-for-sale securities resulting from changes in interest rates.

The Company recorded a loss of \$0.3 million and \$0.7 million, respectively, for hedge ineffectiveness during the three-month and six-month periods ended May 31, 2001. These amounts are included in other revenue, net in the Consolidated Condensed Statement of Earnings.

Transition

Upon the adoption of SFAS No. 133, the Company recognized \$4.1 million, net of tax benefit, of deferred hedging losses on derivative instruments. This amount was offset by \$4.1 million, net of tax expense, of realized gains related to the hedged available-for-sale securities. Both of these amounts were previously recorded in stockholders' equity as a component of accumulated other comprehensive earnings. Also upon adoption of SFAS No. 133, the Company transferred \$102.8 million of securities which were previously classified as held-to-maturity to available-for-sale. Upon this reclassification, the Company recorded a transition adjustment of \$4.1 million, net of tax expense, which was the difference in the market value and book value of the securities on December 1, 2000, the date the Company adopted SFAS No. 133. This adjustment is reported in stockholders' equity as a component of accumulated other comprehensive income.

3. New Accounting Pronouncements

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB No. 101 is applicable to the Company beginning no later than the fourth quarter of the year ending November 30, 2001.

LNR PROPERTY CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Condensed Financial Statements

The Company believes that its revenue recognition policies conform to SAB No. 101.

SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" was issued in September 2000, and replaces SFAS No. 125. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001, and is effective for disclosures relating to securitizations and other transfers of financial assets and collateral for the fiscal year ended November 30, 2001. Disclosures about securitizations and other transfers of financial assets and collateral

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need not be reported for prior periods presented for comparative purposes. The adoption of SFAS No. 140 insofar as it relates to accounting for transfers and servicing of financial assets and extinguishments of liabilities has not had a material effect on the Company's results of operations or financial position. The adoption of SFAS No. 140 insofar as it relates to disclosures relating to securitizations and other transfers of financial assets and collateral is not expected to have a material effect on the Company's results of operations or financial position.

4. Reclassifications

Certain reclassifications have been made to the prior year consolidated condensed financial statements to conform to the current year presentation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTAINS INFORMATION WHICH CONSTITUTES FORWARD LOOKING STATEMENTS. FORWARD LOOKING STATEMENTS INHERENTLY INVOLVE RISKS AND UNCERTAINTIES. THE FACTORS, AMONG OTHERS, THAT COULD CAUSE THE COMPANY'S ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE ANTICIPATED BY THE FORWARD LOOKING STATEMENTS IN THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS INCLUDE (i) CHANGES IN DEMAND FOR COMMERCIAL REAL ESTATE NATIONALLY, IN AREAS IN WHICH THE COMPANY OWNS PROPERTIES, OR IN AREAS IN WHICH PROPERTIES SECURING MORTGAGES DIRECTLY OR INDIRECTLY OWNED BY THE COMPANY ARE LOCATED, (ii) INTERNATIONAL, NATIONAL OR REGIONAL BUSINESS CONDITIONS WHICH AFFECT THE ABILITY OF MORTGAGE OBLIGORS TO PAY PRINCIPAL OR INTEREST WHEN IT IS DUE, (iii) THE CYCLICAL NATURE OF THE COMMERCIAL REAL ESTATE BUSINESS, (iv) CHANGES IN INTEREST RATES, AND (v) CHANGES IN THE MARKET FOR VARIOUS TYPES OF REAL ESTATE BASED SECURITIES. SEE THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED NOVEMBER 30, 2000, FOR A FURTHER DISCUSSION OF RISKS AND UNCERTAINTIES APPLICABLE TO THE COMPANY'S BUSINESS.

OVERVIEW

LNR Property Corporation (together with its subsidiaries, the "Company") is a real estate investment, finance and management company. The Company engages primarily in (i) acquiring, developing, managing and repositioning commercial and multi-family residential real estate, (ii) investing in high yielding real estate loans and purchasing at a discount portfolios of loans backed by real estate, and (iii) investing in unrated and non-investment grade rated commercial mortgage-backed securities ("CMBS") as to which the Company has the right to be special servicer (i.e., to oversee workouts of underperforming and non-performing loans).

1. RESULTS OF OPERATIONS

The following discussion and analysis presents the significant changes in results of operations of the Company for the three months and six months ended May 31, 2001 and 2000 after allocating among the core business segments certain non-corporate general and administrative expenses. The following discussion should be read in conjunction with the unaudited consolidated condensed financial statements and notes thereto.

Three Months Ended
May 31,

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(In thousands)	2001	2000	2001
Revenues			
Real estate properties	\$ 67,419	45,638	111,5
Real estate loans	11,581	36,300	31,3
Real estate securities	50,997	43,466	98,3
Total revenues	129,997	125,404	241,2
Operating expenses			
Real estate properties	29,816	33,567	59,7
Real estate loans	1,917	2,715	3,6
Real estate securities	4,034	2,933	7,6
Corporate and other	5,608	6,501	11,2
Total operating expenses	41,375	45,716	82,2
Operating earnings			
Real estate properties	37,603	12,071	51,8
Real estate loans	9,664	33,585	27,6
Real estate securities	46,963	40,533	90,7
Corporate and other	(5,608)	(6,501)	(11,2)
Total operating earnings	88,622	79,688	159,0
Interest expense	29,136	29,773	59,2
Income tax expense	21,112	16,570	35,3
Net earnings	\$ 38,374	33,345	64,3

Three months and six months ended May 31, 2001 compared to three months and six months ended May 31, 2000

The Company reported net earnings of \$38.4 million and \$64.3 million for the three- and six-month periods ended May 31, 2001, respectively, compared to \$33.3 million and \$54.9 million for the same periods in 2000. The year-over-year improvements in net earnings are primarily attributable to (i) an increase in gains on sales of real estate, (ii) an increase in interest income and servicing fees derived from the Company's growing CMBS portfolio and (iii) an increase in interest income from a growing portfolio of high-yielding loans. These increases were offset somewhat by (i) a decrease in gains on sales of partnerships interests due to the sale of the Company's investment interests in its Japanese discount loan portfolios in April of 2000, (ii) a decrease in equity in earnings of partnerships due primarily to the sale of the Company's Japanese loan portfolios, lower earnings from the Company's real estate property partnerships and lower earnings from the Company's domestic discount loan portfolios and (iii) an increase in general and administrative expenses from the Company's growing businesses.

Real estate properties

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(In thousands)	Three Months Ended May 31,		Six
	2001	2000	2001
Rental income	\$ 29,512	34,606	59,977
Equity in earnings of partnerships	1,478	7,271	5,601
Gains on sales of real estate	35,392	293	43,871
Gains on sales of partnership interests	-	2,830	-
Management fees	1,037	638	2,135
Total revenues	67,419	45,638	111,584
Cost of rental operations	15,022	20,251	30,501
Other operating expenses	8,220	5,247	15,853
Minority interests	25	(569)	32
Depreciation	6,549	8,638	13,374
Total operating expenses (1)	29,816	33,567	59,760
Operating earnings	\$ 37,603	12,071	51,824

Balance sheet data:

Operating properties and equipment, net	\$ 786,484	1,100,740	786,484
Land held for investment	41,607	113,187	41,607
Investments in and advances to partnerships	245,797	168,881	245,797
Total segment assets	\$ 1,073,888	1,382,808	1,073,888

(1) Operating expenses do not include interest expense.

Real estate properties include rental apartment communities (market-rate and affordable housing communities), office buildings, industrial/warehouse facilities, hotels, retail centers and land that the Company acquires and develops, redevelops or repositions. These properties may be wholly owned or owned through a partnership that is either consolidated or reflected as an investment in partnership. Real estate properties also include the Company's 50% interest in Lennar Land Partners ("LLP"), a partnership engaged in the acquisition, development and sale of land. Total revenues from real estate properties include rental income from operating properties, equity in earnings of partnerships that own and operate real estate properties, gains on sales of the properties and the partnership interests and fees earned from managing the partnerships. Operating expenses include the direct costs of operating the real estate properties, the related depreciation and the overhead associated with managing the properties and partnerships.

Three months and six months ended May 31, 2001 compared to three months and six months ended May 31, 2000

Overall, operating earnings from real estate properties were \$37.6 million and \$51.8 million for the three-month period and six-month periods ended May 31, 2001, respectively, compared to \$12.1 million and \$24.0 million for the same periods in 2000. This growth in operating earnings from real estate properties

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is primarily due to higher gains on sales of real estate, partially offset by a decrease in equity in earnings and gains on sales of partnerships, and an increase in other operating expenses.

Gains on sales of real estate increased by \$35.1 million and \$40.1 million for the three-month and six-month periods ended May 31, 2001, respectively, over the same periods in 2000, reflecting a significant increase in real estate property sales activity during 2001. For the three-month and six-month periods ended May 31, 2001, respectively, compared to the same periods in 2000, \$32.0 million and \$31.4 million of these increases were from the sale of stabilized market rate operating properties, \$2.9 million and \$2.0 million of these increases were from the Company's low income housing tax credit syndication program and the rest of the increases were from sales of land.

Recurring income in the real estate property segment (net rents and fees including the Company's pro-rata share of net rents and fees from properties owned through partnerships that are reflected as investments in partnerships), increased to \$22.2 million and \$44.6 million for the three- and six-month periods ended May 31, 2001, respectively, from \$16.9 million and \$32.7 million for the same periods in 2000. Recurring income grew despite increased property sale activity, reflecting the Company's success in leasing up newly developed and repositioned properties. At May 31, 2001, approximately 58% of the Company's consolidated properties were still undergoing development or repositioning. Most of that development pipeline is pre-leased and should add to net operating income and cash flow as the properties are completed and tenants move in.

Equity in earnings of partnerships decreased to \$1.5 million and \$5.6 million for the three- and six-month periods ended May 31, 2001, respectively, from \$7.3 million and \$16.3 million for the same periods in 2000. This decrease is partly due to lower earnings from LLP. Equity in earnings from LLP may vary from period to period depending on the timing of housing starts. The Company expects these earnings to pick up significantly in the second half of the year. The decrease in equity in earnings is also due to an increase in the Company's stabilized affordable housing partnership investments. These partnerships typically generate pre-tax operating losses which are more than offset by the tax credits and benefits which directly reduce the Company's overall income taxes.

Gains on sales of partnership interests decreased \$2.8 million for the three- and six-month periods ended May 31, 2001 compared to the same periods in 2000 due to the sale of the Company's interest in a single-asset partnership in the second quarter of 2000.

Other operating expenses, which represent an allocation of salary, professional and other administrative expenses, increased to \$8.2 million and \$15.9 million for the three- and six-month periods ended May 31, 2001, respectively, from \$5.2 million and \$10.2 million for the same periods in 2000. These increases were due to additional personnel and administrative costs necessary to support the growth in the overall real estate portfolio managed by the Company.

The net book value of market-rate operating properties and equipment, excluding affordable housing communities, at May 31, 2001 and the annualized net operating income for the six-month period ended on that date with regard to various types of property owned by the Company were as follows:

Annualized Net Operating	Annualized NOI as a % of Net
--------------------------------	------------------------------------

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(In thousands, except percentages)	Net Book Value	Occupancy Rate	Income (NOI) (1)	Book Value
Stabilized operating properties				
Office	\$ 160,706	95%	\$ 22,845	14%
Retail	29,773	93%	4,040	14%
Industrial / Warehouse	49,911	100%	6,613	13%
Ground Leases	18,951	100%	2,945	16%
	<hr/>		<hr/>	
Commercial	259,341	98%	36,443	14%
Hotel	15,640	65%	1,932	12%
	<hr/>		<hr/>	
	274,981		38,375	14%
Under development or repositioning				
Office	268,174		12,273	
Retail	30,188		1,991	
Industrial / Warehouse	11,671		-	
	<hr/>		<hr/>	
Commercial	310,033		14,264	
Multi-family	72,661		-	
Hotel	29,593		-	
	<hr/>		<hr/>	
	412,287		14,264	
	<hr/>		<hr/>	
Furniture, fixtures and equipment	7,228		-	
	<hr/>		<hr/>	
Total (2)	\$ 694,496		\$ 52,639	
	<hr/>		<hr/>	

(1) Annualized NOI for purposes of this schedule is rental income less cost of rental operations before commissions and non-operating expenses during the six-month period ended May 31, 2001, multiplied by two.

(2) Total market-rate operating properties and equipment, net, excluding affordable housing communities.

As of May 31, 2001, approximately 40% of the Company's market-rate operating properties, based on net book value, had reached stabilized occupancy levels and were yielding in total 14% on net book cost. The anticipated improvements in the earnings of the not yet stabilized market-rate operating properties are not expected to be recognized until future periods.

Pre-tax operating margins for the affordable housing communities, which qualify for Low-Income Housing Tax Credits, are generally lower than for market-rate rentals. However, the Company receives its desired yield from these investments after adding in (1) the impact of lower income taxes as a result of the tax credits and other related tax deductions and (2) profits from sales of tax credits to others.

The net investment in the Company's affordable housing communities at May 31, 2001 and the annualized yield on the stabilized affordable housing communities for the six-month period then ended, were as follows:

(In thousands, except percentages)

Net book value of apartment communities	\$ 51,670
Investments in partnerships	46,644

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Debt and other	(35,027)

Net investment in stabilized apartment communities	63,287
Net investment in apartment communities under development	40,661

Net investment in affordable housing communities	\$ 103,948
	=====

Stabilized apartment communities:

Annualized NOI as a % of net book value	11%
Annualized adjusted NOI as a % of net book value (1)	17%

(1) Annualized adjusted NOI includes the annualized effect of tax credits and other related tax deductions.

As of May 31, 2001, the Company had been awarded and held rights to over \$205 million in gross tax credits, with approximately 68% relating to apartment communities that have not yet reached stabilized occupancy levels.

At the time of the acquisition of the Affordable Housing Group ("AHG") in 1998, the Company's strategy was to retain the tax credits generated through owning the partnership interests in the affordable housing communities and then use those credits to reduce the Company's overall effective tax rate. However, the demand for credits has since increased significantly and the Company found it could generate higher returns on its investment by selling the credits than by using them. The Company began to shift its strategy away from owning the partnership interests in the affordable housing communities toward syndicating such interests. The Company expects to generate fee income and gains in future years from such syndications. As a result, the Company expects its investment in affordable housing communities, as well as the amount of tax credits it holds and utilizes to reduce its tax rate, to decline during 2001.

Real estate loans

(In thousands)	Three Months Ended May 31,		Six M
	2001	2000	2001
Interest income	\$ 11,368	8,902	27,361
Equity in earnings of partnerships	(185)	6,732	1,188
Gains on sales of partnership interests	-	20,336	-
Management fees	357	271	2,776
Other income	41	59	48
	-----	-----	-----
Total revenues	11,581	36,300	31,373
	-----	-----	-----
Operating expenses (1)	1,325	2,086	2,456
Minority interests	592	629	1,232
	-----	-----	-----
Total operating expenses	1,917	2,715	3,688
	-----	-----	-----
Operating earnings	\$ 9,664	33,585	27,685
	=====	=====	=====

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Balance sheet data:

Mortgage loans, net	\$	272,419	213,306	272,419
Other investments		52,348	50,093	52,348
Investments in and advances to partnerships		14,015	15,167	14,015
		-----	-----	-----
Total segment assets	\$	338,782	278,566	338,782
		=====	=====	=====

(1) Operating expenses do not include interest expense.

Real estate loans include the Company's direct investments in high yielding loans, as well as its domestic and foreign discount loan portfolio investments, owned primarily through partnerships, and related loan workout operations. Total revenues include interest income, equity in earnings of partnerships and management fees earned from those partnerships. Operating expenses include the overhead associated with servicing the loans and managing the partnerships.

Three months and six months ended May 31, 2001 compared to three months and six months ended May 31, 2000

Operating earnings from real estate loans were \$9.7 million and \$27.7 million for the three- and six-month periods ended May 31, 2001, respectively, compared to \$33.6 million and \$46.8 million for the same periods in 2000. The decrease was because LNR sold its investment interests in its Japanese discount loan portfolios in 2000, and therefore had no earnings or gains from its discount loan portfolio investment business in the 2001 period.

Interest income increased to \$11.4 million and \$27.4 million for the three- and six-month periods ended May 31, 2001, respectively, from \$8.9 million and \$16.8 million for the same periods in 2000. Interest income includes interest earned on investments in structured junior participations in high-quality short- to medium-term variable rate first mortgage real estate loans. During the second quarter of 2001, the Company funded three of these investments for \$55.9 million and one investment paid off in full, bringing the total investment at May 31, 2001 to \$251.3 million. These investments contributed approximately \$6.6 million and \$13.5 million to interest income for the three- and six-month periods ended May 31, 2001, respectively, compared to \$5.7 million and \$8.4 million for the comparable periods in 2000. For the six-month period ended May 31, 2001, interest income also included \$4.2 million from the early payoff of a discounted mortgage loan in the first quarter of 2001.

Equity in earnings of partnerships decreased \$6.9 million and \$12.5 million for the three- and six-month periods ending May 31, 2001, respectively, compared to the same periods in 2000. This

decrease is primarily due to earnings recognized from the Company's Japanese discount loan portfolios prior to their sale in April 2000 and a decrease in earnings from the Company's domestic discount loan portfolios, as expected, due to the liquidation of most of the assets in those portfolios.

Gains on sales of partnership interests of \$20.3 million for the three- and six-month periods ended May 31, 2000 represents the gain on sale of the Company's investment interests in its Japanese discount loan portfolios.

Management fees increased slightly to \$0.4 million for the three-month period ended May 31, 2001 and increased to \$2.8 million for the six-month period ended May 31, 2001 compared to \$0.3 million and \$0.5 million for the same periods in 2000. The increase in the six-month period was primarily due to fees earned

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from the disposition of assets in one of the domestic discount loan portfolios.

Operating expenses decreased to \$1.3 million and \$2.5 million for the three- and six-month periods ended May 31, 2001, respectively, from \$2.1 million and \$3.6 million for the same periods in 2000, primarily due to the sale of the Company's interests in its Japanese discount loan portfolios in April 2000, partially offset by increased general and administrative expenses to support the growth in the Company's mortgage loan portfolio.

Real estate securities

(In thousands)	Three Months Ended May 31,		Six Months Ended May 31,
	2001	2000	2001
Interest income	\$ 33,552	26,322	63,743
Equity in earnings of partnerships	10,866	11,646	22,712
Management and servicing fees	6,870	5,498	12,529
Other, net	(291)	-	(652)
Total revenues	50,997	43,466	98,332
Operating expenses	3,802	2,669	7,179
Minority interests	232	264	428
Total operating expenses (1)	4,034	2,933	7,607
Operating earnings	\$ 46,963	40,533	90,725
Balance sheet data:			
Investment securities	\$ 803,993	535,729	803,993
Investments in and advances to partnerships	102,892	105,994	102,892
Other investments	13,143	26,787	13,143
Total segment assets	\$ 920,028	668,510	920,028

(1) Operating expenses do not include interest expense.

Real estate securities include unrated and non-investment grade rated subordinated CMBS which are collateralized by pools of mortgage loans on commercial and multi-family residential real estate properties. It also includes the Company's investment in Madison Square Company LLC ("Madison"), a limited liability company that invests in CMBS, as well as investments in entities in related businesses. Total revenues from real estate securities include interest income, equity in the earnings of Madison, gains on sales of securities, servicing fees from acting as special servicer for CMBS transactions and fees earned from managing Madison. Operating expenses include the

overhead associated with managing the investments and Madison, and costs of the special servicing responsibilities.

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Three months and six months ended May 31, 2001 compared to three months and six months ended May 31, 2000

Overall, operating earnings from real estate securities increased to \$47.0 million and \$90.7 million for the three- and six-month periods ended May 31, 2001, respectively, from \$40.5 million and \$76.6 million for the same periods in 2000. Earnings were higher primarily due to (i) increased interest income resulting from the growth of the Company's CMBS portfolio, (ii) greater recognition of earnings due to actual CMBS performance continuing to exceed original expectations and (iii) an increase in servicing fees due to the growth of the Company's CMBS portfolio. These increases were partially offset by higher operating expenses.

In recording CMBS interest income, the Company recognizes interest received plus the amortization of the difference between the carrying value and the face amount of the securities to achieve a level yield. To date, this has resulted in less recognition of interest income than interest received. The excess interest received is applied to reduce the Company's CMBS investment. The Company's initial and ongoing estimates of its returns on CMBS investments are based on a number of assumptions that are subject to various business and economic conditions, the most significant of which is the timing and magnitude of credit losses on the underlying mortgages.

The Company has already begun to receive principal payments from some of its securities, and some have matured entirely. Actual loss experience to date, particularly for older transactions (3 to 8 years in age), is significantly lower than originally underwritten by the Company. Therefore, changes to original estimated yields have resulted, and the Company believes they should continue to result, in improved earnings from these transactions. The Company believes these improvements resulted from its success in managing and working out the underlying loans and strong real estate fundamentals. However, the positive experience on these older transactions will not necessarily translate into yield improvements on newer investments.

During the quarter ended May 31, 2001, the Company acquired \$56.4 million face amount of fixed-rate CMBS for \$25.9 million and \$12.0 million face amount of short-term floating-rate CMBS for \$10.6 million. The following is a summary of the CMBS portfolio held by the Company at May 31, 2001:

	Face Amount	Weighted Average Interest Rate	Book Value	% of Face Amount	Weighted Average Cash Yield (1)	Weighted Average Book Yield (2)

(In thousands, except percentages)						
Fixed-rate						
BB rated or above	\$ 303,582	7.03%	\$219,630	72.3%	9.7%	13.7%
B rated	516,555	6.61%	280,771	54.4%	12.2%	12.8%
Unrated	843,609	7.15%	196,788	23.3%	28.5%	31.6%

Total	1,663,746	6.96%	697,189	41.9%	16.0%	18.3%
Floating-rate/short-term						
BB rated or above	\$ 12,789	6.30%	\$ 11,105	86.8%	7.3%	15.1%
B rated	10,880	7.52%	9,247	85.0%	8.9%	9.1%
Unrated	74,157	11.55%	59,991	80.9%	14.3%	9.9%

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Total	97,826	10.42%	80,343	82.1%	12.7%	10.5%
Unrealized gains on securities	-		26,461			
	-----		-----			
Total CMBS portfolio (3)	\$1,761,572	7.17%	\$803,993	45.6%	15.1%	17.0%
	=====		=====			

(1) Cash yield is determined by annualizing the actual cash received during the month of May 2001, and dividing the result by the book value at May 31, 2001.

(2) Book yield is determined by annualizing the interest income for the month of May 2001, and dividing the result by the book value at May 31, 2001.

(3) This table excludes CMBS owned through non-consolidated partnerships.

Equity in earnings of partnerships primarily represents the Company's participation in Madison, which was formed in April 1999. The venture owns approximately \$1.5 billion of real estate related securities. The Company's investment in the venture at May 31, 2001 was \$102.9 million, representing a 25.8% ownership interest. In addition to its investment in the venture, the Company maintains a significant ongoing role in the venture, for which it earns fees, both as the special servicer for the purchased CMBS transactions and as the provider of management services. Madison contributed \$10.9 million and \$22.7 million of equity in earnings of partnerships to the real estate securities line of business for the three- and six-month periods ended May 31, 2001, respectively.

Management and servicing fees increased to \$6.9 million and \$12.5 million for the three- and six-month periods ended May 31, 2001, respectively, from \$5.5 million and \$8.7 million for the same periods in 2000. This increase was primarily attributable to an increase in the number of CMBS mortgage pools (75 at May 31, 2001 versus 60 at May 31, 2000) for which the Company acts as special servicer.

Operating expenses increased to \$3.8 million and \$7.2 million for the three- and six-month periods ended May 31, 2001, respectively, from \$2.7 million and \$5.1 million for the same periods in 2000. This increase is primarily due to increased personnel and out-of-pocket expenses directly related to the growth of the Company's CMBS portfolio.

Corporate, Other, Interest and Income Tax Expenses

Three months and six months ended May 31, 2001 compared to three months and six months ended May 31, 2000

Corporate and other operating expenses were \$5.6 million and \$11.2 million for the three- and six-month periods ended May 31, 2001, respectively, compared to \$6.5 million and \$11.5 million for the same periods in 2000.

Interest expense remained relatively flat for the three-month period ended May 31, 2001 compared to the same period in 2000. Interest expense increased slightly to \$59.3 million for the six-month period ended May 31, 2001 from \$56.3 million for the same period in 2000, reflecting a decrease in capitalized interest as a result of more operating properties leasing up.

Income tax expense increased to \$21.1 million and \$35.4 million for the three- and six-month periods ended May 31, 2001, respectively, from \$16.6 million and \$24.7 million for the same periods in 2000, primarily due to an increase in pre-tax earnings, and to a lesser extent, a lower level of Low Income Housing Tax

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Credits utilized. The Company's effective tax rate was 35% for the three- and six-month periods ended May 31, 2001 compared to 33% and 31% for the same periods in 2000, respectively.

2. LIQUIDITY AND FINANCIAL RESOURCES

The Company's operating activities used \$30.6 million of cash during the six months ended May 31, 2001, and provided \$38.8 million of cash during the six months ended May 31, 2000. This increase in cash used for operating activities is primarily due to fewer payoffs of mortgage loans held for sale, an increase in restricted cash resulting from sales of operating properties and a decrease in accounts payable and accrued liabilities.

The Company's investing activities provided \$42.1 million of cash during the six months ended May 31, 2001, and used \$66.4 million of cash during the same period in 2000. This increase in

cash provided by investing activities is primarily due to more sales of operating properties and land held for investment, less spending on operating properties and more proceeds from mortgage loans held for investment. These increases were partially offset by fewer proceeds from sales of partnership interests and additional purchases of investment securities.

The Company's financing activities provided cash flows of \$4.5 million and \$33.1 million during the six months ended May 31, 2001 and 2000, respectively. This decrease in cash provided by financing activities is primarily due to \$130.8 million more of net payments under the Company's repurchase agreements and revolving credit lines and \$63.3 million more of principal payments made on mortgage notes and other debt. These decreases were offset by \$136.3 million less proceeds from borrowings under the Company's mortgage notes and other debts payable and \$27.9 million less in purchases of treasury stock.

The Company continues to diversify its capital structure and to manage its debt position with a combination of short-, medium- and long-term financings with a goal of properly matching the maturities of its debt with the expected lives of its assets.

At May 31, 2001, the Company had approximately \$830 million of available liquidity, which included approximately \$710 million of cash and availability under credit facilities, and approximately \$120 million of committed project level term financing.

The Company has a \$350 million unsecured revolving credit facility, which matures in July 2004 assuming a one-year extension option is exercised. At May 31, 2001, \$0 was outstanding under this facility, although the Company had issued and outstanding \$30.0 million of standby letters of credit utilizing the facility.

The Company has various secured revolving lines of credit with an aggregate commitment of \$364.6 million, of which \$186.8 million was outstanding at May 31, 2001. These lines are collateralized by CMBS and mortgage loans and mature through January 2006.

The Company has financed some of its purchases of CMBS under reverse repurchase obligation facilities ("repos"). The repo agreements contain provisions which may require the Company to repay amounts or post additional collateral prior to the scheduled maturity dates if the market values of the bonds which collateralize them significantly decline. At May 31, 2001, the Company had three repo lines through which it financed selected CMBS. The first facility had a commitment of \$80.4 million, of which \$49.9 million was outstanding, and is required to be paid in full by June 2004. The second facility had a

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commitment of \$50.0 million of which \$0 was outstanding. This facility matures in June 2002. The third facility is a \$150 million non-recourse facility, which matures in March 2003, and had an outstanding balance of \$99.8 million at May 31, 2001. Additionally, the Company has received seller financing in the form of term repos for nine specific CMBS transactions. These agreements had an aggregate commitment of \$140.9 million with an outstanding balance of \$124.7 million at May 31, 2001 and expire through August 2004.

Because the Company borrows significant sums in connection with its activities, the Company could be adversely affected by reluctance of lenders to make loans to companies in real estate related businesses. Difficulty obtaining financing can reduce the Company's ability to take advantage of investment opportunities.

In February 2001, the Company issued \$150 million of long-term unsecured senior subordinated notes, bringing the Company's total long-term unsecured senior subordinated notes to \$450 million. The \$150 million of notes bear interest at 10.5% and are due in January 2009. The Company used the proceeds from the issuance to pay down debt, primarily secured credit facilities, and for general corporate purposes.

During the second quarter of 2001, Standard and Poor's upgraded the Company's senior unsecured credit rating to BB from BB- and the Company's senior subordinated note rating to B+ from B.

At May 31, 2001, the Company had scheduled maturities on existing debt of \$88.2 million through May 31, 2002, assuming the Company takes advantage of extensions which are exercisable at the Company's option. The Company's ability to make scheduled payments of principal or interest on or to refinance this indebtedness depends on its future performance, which to a certain extent, is subject to general economic, financial, competitive and other factors beyond the Company's control. The Company believes its borrowing availability under existing credit facilities, operating cash flow and unencumbered assets, and its ability to obtain new borrowings and/or raise new capital, should provide the funds necessary to meet its working capital requirements, debt service and maturities and short-and long-term needs based upon currently anticipated levels of growth.

Approximately 63% of the Company's existing indebtedness bears interest at variable rates. However, most of the Company's investments generate interest or rental income at essentially fixed rates. The Company has entered into derivative financial instruments to manage its interest costs and hedge against risks associated with changing interest rates on its debt portfolio. At May 31, 2001, 35% of the Company's variable-rate debt had been swapped to fixed rates and 43% was match-funded against floating-rate assets. After considering the variable-rate debt that had been swapped or was match-funded, 14% of the Company's debt remained variable-rate and 86% of the debt was fixed-rate or match-funded. Therefore, a 100 basis point change in LIBOR would impact net earnings by \$2 million and earnings per share by approximately 1.5% of the Company's 2001 earnings per share goal of \$3.70 to \$3.85.

The weighted average interest rate on outstanding debt, after giving consideration to the interest rate swap agreements mentioned above, at May 31, 2001 and May 31, 2000 was 7.7% and 8.4%, respectively.

In December 2000, the Company purchased 300,000 shares of its common stock, bringing the total purchases to date under the Company's buy-back program to 3,244,100 shares. This represents 59% of the Company's repurchase authorization and over 9% of the Company's total stock outstanding when the buy-back program began. At the end of the quarter, the Company had authorization under its buy-back program to purchase an additional 2,255,900 shares.

3. NEW ACCOUNTING PRONOUNCEMENTS

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The Company adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, on December 1, 2000.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB No. 101 is applicable to the Company beginning no later than the fourth quarter of the year ending November 30, 2001. The Company believes that its revenue recognition policies conform to SAB No. 101.

SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" was issued in September 2000, and replaces SFAS No. 125. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001, and is effective for disclosures relating to securitizations and other transfers of financial assets and collateral for the fiscal year ended November 30, 2001.

Disclosures about securitizations and other transfers of financial assets and collateral need not be reported for prior periods presented for comparative purposes. The adoption of SFAS No. 140 with regard to accounting for transfers and servicing of financial assets and extinguishments of liabilities has not had a material effect on the Company's results of operations or financial position. The adoption of SFAS No. 140 with regard to disclosures relating to securitizations and other transfers of financial assets and collateral is not expected to have a material effect on the Company's results of operations or financial position.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not subject to any legal proceedings other than suits in the ordinary course of its business, most of which are covered by insurance. The Company believes these suits will not, in the aggregate, have a material adverse effect upon the Company.

Items 2-5. Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

None

(b) Reports on Form 8-K:

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

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Signature and Title

Date

/s/ Shelly Rubin

July 16, 2001

Shelly Rubin
Chief Financial Officer (Principal
Financial Officer)