LNR PROPERTY CORP
Form 10-Q
July 15, 2002

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, 2002

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 incorporation or organization)	(I.R.S. Employer 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 ___

Common shares outstanding as of the end of the current fiscal quarter:

Common	24,861,634
Class B Common	9,786,568

PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements.

LNR Property Corporation and Subsidiaries
Consolidated Condensed Balance Sheets

(In thousands, except per share amounts)	May 20
Assets	

Cash and cash equivalents	$
Restricted cash	
Investment securities:	
Investment securities pledged to creditors which can be repledged or sold by creditors	
Other investment securities	
Total investment securities	1,
Mortgage loans, net	
Operating properties and equipment, net	
Land held for investment	
Investments in unconsolidated partnerships	
Other assets	
Total assets	$ 3,

Liabilities and Stockholders' Equity

Liabilities	
Accounts payable	$
Accrued expenses and other liabilities	
Mortgage notes and other debts payable	1,
Total liabilities	1,
Minority interests	
Commitments and contingent liabilities (Note 3)	
Stockholders' equity	
Common stock, $.10 par value, 150,000 shares authorized, 24,862 and 24,445 shares issued and outstanding in 2002 and 2001, respectively	
Class B common stock, $.10 par value, 40,000 shares authorized, 9,786 and 9,949 shares issued and outstanding in 2002 and 2001, respectively	
Additional paid-in capital	
Retained earnings	
Unamortized value of restricted stock grants	
Accumulated other comprehensive earnings	
Total stockholders' equity	1,
Total liabilities and stockholders' equity	$ 3,

See accompanying notes to unaudited consolidated condensed financial statements.

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LNR Property Corporation and Subsidiaries
Consolidated Condensed Statements of Earnings

(Unaudited)
Three Months Ended

(In thousands, except per share amounts)	May 31,	
	2002	2001
Revenues		
Rental income	$ 29,037	29,5
Equity in earnings of unconsolidated partnerships	10,373	12,1
Interest income	47,736	44,9
Gains on sales of:		
Real estate	16,443	35,3
Investment securities	-	
Management and servicing fees	7,561	8,2
Other, net	(752)	(2
Total revenues	110,398	129,9
Costs and expenses		
Cost of rental operations	13,855	15,0
General and administrative	18,466	18,9
Depreciation	6,224	6,5
Minority interests	449	8
Total costs and expenses	38,994	41,3
Operating earnings	71,404	88,6
Interest expense	24,746	29,1
Earnings before income taxes	46,658	59,4
Income taxes	15,164	21,1
Net earnings	$ 31,494	38,3
Weighted average shares outstanding:		
Basic	33,913	33,3
Diluted	35,129	34,8
Net earnings per share:		
Basic	$ 0.93	1.
Diluted	$ 0.90	1.
Dividends declared per share:		
Common stock	$ 0.0125	0.01
Class B common stock	$ 0.01125	0.011

See accompanying notes to unaudited consolidated condensed financial statements.

LNR Property Corporation and Subsidiaries
Consolidated Condensed Statements of Comprehensive earnings

(In thousands)		(Unaudited) Three Months Ended May 31, 2002	2001
Net earnings	$	31,494	38,374
Other comprehensive earnings (loss), net of tax:			
Unrealized gain (loss) on available-for-sale securities, net and other		(5,960)	(6,152)
Unrealized gain (loss) on derivative financial instruments		(407)	(660)
Transition adjustment related to accounting for derivative financial instruments and hedging activities		-	-
Reclassification adjustment for (gains) losses included in net earnings		(1,745)	2,408
Other comprehensive earnings (loss), net of tax		(8,112)	(4,404)
Comprehensive earnings	$	23,382	33,970

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 used in operating activities:
Depreciation
Minority interests
Accretion of discount on CMBS and mortgage loans
Amortization of deferred costs
Equity in earnings of unconsolidated partnerships
Gains on sales of real estate
Gains on sales of investment securities
Losses on hedging activities
Changes in assets and liabilities:
Decrease (increase) in restricted cash
Increase in other assets

(Decrease) increase in accounts payable and accrued liabilities

Net cash used in operating activities

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

Net cash (used in) provided by investing activities

Cash flows from financing activities:
Proceeds from stock option exercises
Purchase of treasury stock
Payment of dividends
Net borrowings (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

(Continued)

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	$ 8
Purchases of mortgage loans financed by seller	$ 2

Supplemental disclosure of non-cash transfers:	
Transfer of land held for investment to operating properties	$
Transfer from investment securities to mortgage loans	$
Transfer from other assets to investments in unconsolidated partnerships	$
Supplemental disclosure of cash flow information:	
Purchase of partnership interest and consolidation of entity previously accounted for under the equity method:	
Operating properties	$ 2
Other assets	
Mortgage notes and other debts payable	(1
Investments in unconsolidated partnerships	(
Cash paid	$

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

The accompanying unaudited consolidated condensed financial statements include the accounts of LNR 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 non-controlling 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 in 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, 2001 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 the fair presentation of the accompanying unaudited consolidated condensed financial statements have been made.

2. Earnings Per Share

The following reconciles the numerator and denominator of the basic and diluted earnings per share calculations for the three and six months ended May 31, 2002 and 2001:

	Three Months Ended May 31,		Six Mont May
(In thousands, except per share amounts)	2002	2001	2002

Numerator			
Numerator for basic and diluted earnings per share - net earnings	$ 31,494	38,374	59,794
Denominator			
Denominator for basic earnings per share - weighted average shares	33,913	33,356	33,803
Effect of dilutive securities			
Stock option grants	528	659	565
Restricted stock grants	663	880	720
Stock purchase plan and other	25	-	22
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	35,129	34,895	35,110
Basic earnings per share	$ 0.93	1.15	1.77
Diluted earnings per share	$ 0.90	1.10	1.70

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3. Commitments and Contingencies

The Company is committed under various standby letters of credit or other agreements to provide certain guarantees, which are not otherwise reflected in the financial statements. Outstanding standby letters of credit, guarantees, performance bonds and other commercial commitments under these arrangements totaled approximately $302.3 million at May 31, 2002. They include a letter of credit of $55.3 million, which is collateralized by short-term investment securities included in restricted cash on the Company's unaudited consolidated condensed balance sheet. Subsequent to the quarter ended May 31, 2002, this letter of credit was released. Due to this release, restricted cash will be reclassified to unrestricted cash.

4. New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually on a basis set forth in SFAS No. 142, and that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment. SFAS No. 142 is effective for the fiscal year ending November 2003 and the interim periods within fiscal year 2003. The adoption of SFAS No. 142 is not expected to have a material effect on the Company's results of operations or financial position as the Company has no goodwill on its balance sheet.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the asset, and the associated asset retirement costs. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Upon initial recognition of a liability for an asset retirement

obligation, the Company must capitalize an asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability. That asset retirement cost is then subsequently allocated to expense using a systematic and rational method over its useful life. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement. The Company is required and plans to adopt the provisions of SFAS No. 143 for the quarter ending February 28, 2003. The adoption of SFAS No. 143 is not expected to have a material effect on the Company's results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions of Accounting Practices Bulletin Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of a Disposal of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. This Statement also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 is effective for the fiscal year ending November 30, 2003, and the interim periods within fiscal 2003, with early application encouraged. The provisions of this statement generally are to be applied prospectively. The Company has determined that adoption of this statement will not have a material impact on the Company's results of operations. It may, however, have an impact on the presentation of the financial position and related operating results of certain Company assets.

In December 2001, the Accounting Standards Executive Committee issued Statement of Position ("SOP") 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others." This SOP clarifies that accounting and financial reporting practices for lending and financing activities should be the same regardless of the type of entity engaging in those activities. Changes in accounting and financial reporting required by this SOP are to be applied prospectively and will be effective for the fiscal year ending November 30, 2003, and the interim periods within fiscal 2003. The Company does not expect the adoption of SOP 01-6 to have a material effect on the Company's results of operations or financial position.

5. Reclassifications

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

6. Subsequent Event

Subsequent to the end of the quarter, the Company transferred non-investment grade commercial mortgage backed securities ("CMBS") with a face amount of approximately $800 million to a bankruptcy remote, qualified special purpose entity ("QSPE"). These CMBS were securitized into various classes of non-recourse, fixed- and floating-rate notes, approximately $416 million of which was investment grade, and preferred shares of the QSPE. The Company sold all of the investment grade notes to unrelated third parties for net proceeds of approximately $402 million. The proceeds were used to repay short-term debt, the majority of which can be re-borrowed. In accordance with the provisions of SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," the Company expects to recognize a gain on the

sale of the senior notes in the Company's third quarter. The Company has retained interests, including non-investment grade fixed-rate notes and the preferred shares, with a face amount of approximately $384 million, all of which are subordinate to the interests sold.

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. GENERALLY, THE WORDS "BELIEVE," "EXPECT," "INTEND," "ANTICIPATE," "WILL," "MAY" AND SIMILAR EXPRESSIONS IDENTIFY FORWARD LOOKING STATEMENTS. 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, (V) CHANGES IN THE MARKET FOR VARIOUS TYPES OF REAL ESTATE BASED SECURITIES, (VI) CHANGES IN AVAILABILITY OF CAPITAL OR THE TERMS ON WHICH IT IS AVAILABLE, (VII) CHANGES IN AVAILABILITY OF QUALIFIED PERSONNEL AND (VIII) CHANGES IN GOVERNMENT REGULATIONS, INCLUDING, WITHOUT LIMITATION, ENVIRONMENTAL REGULATIONS. SEE THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED NOVEMBER 30, 2001, 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 properties, (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 under-performing and non-performing loans). For the following discussion, these businesses are grouped as follows: (a) real estate properties, (b) real estate loans and (c) real estate securities.

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, 2002 and 2001 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.

(In thousands)	Three Months Ended May 31, 2002	Three Months Ended May 31, 2001	Six Months May 3[1], 2002
Revenues			
Real estate properties	$ 55,760	67,993	92,832
Real estate loans	10,089	11,007	21,598
Real estate securities	44,549	50,997	98,282
Total revenues	110,398	129,997	212,712
Operating expenses			
Real estate properties	27,152	29,816	52,392
Real estate loans	1,464	1,917	3,127
Real estate securities	4,542	4,034	9,081
Corporate and other	5,836	5,608	11,728
Total operating expenses	38,994	41,375	76,328
Operating earnings			
Real estate properties	28,608	38,177	40,440
Real estate loans	8,625	9,090	18,471
Real estate securities	40,007	46,963	89,201
Corporate and other	(5,836)	(5,608)	(11,728)
Total operating earnings	71,404	88,622	136,384
Interest expense	24,746	29,136	47,800
Income tax expense	15,164	21,112	28,790
Net earnings	$ 31,494	38,374	59,794

Three months and six months ended May 31, 2002 compared to three months and six months ended May 31, 2001

The Company reported net earnings of $31.5 million and $59.8 million for the three- and six-month periods ended May 31, 2002, respectively, compared to $38.4 million and $64.3 million for the same periods in 2001. The year-over-year decrease in net earnings for both the quarter and the six months ended May 31, 2002 is primarily attributable to (i) a decrease in gains on sales of operating properties, (ii) a decline in equity in earnings of unconsolidated partnerships within the real estate securities segment and (iii) a decrease in interest income within the real estate loan segment primarily from lower interest rates on the Company's floating-rate loans. These decreases were offset somewhat by (i) a decrease in interest expense due primarily to lower interest rates, (ii) an increase in interest income from the Company's growing CMBS portfolio, (iii) an increase in equity in earnings of unconsolidated partnerships within the real estate property segment, and (iv) a decrease in income tax expense.

Consistent with its strategic plan, over the past two years, LNR has remained balance sheet focused. The Company has been methodically diversifying its investments in terms of property type, geography and position in the capital structure, while recycling operating cash flow and proceeds from the sale of matured assets to enhance its financial position.

As reported in previous quarters, the Company elected to reduce the pace of new investing towards the latter part of 2001, opting instead for a strategy of higher long-term earnings growth versus less compelling short-term results. As planned, the Company more recently has been actively identifying and acquiring new assets. Additionally, the Company has been shifting its new investment dollars from properties into CMBS and B-notes because of the greater risk-adjusted returns and because of the Company's unique position in the marketplace. Partly as a result of this shift in investment strategy into higher net margin assets, partly due to reduced income on floating-rate assets, and partly due to the timing of asset sales, total revenues declined 15% and 12% during the three- and six-month periods ended May 31, 2002, compared to the same periods in the prior year, respectively.

Asset sales fluctuate from quarter to quarter and come from a variety of sources, including wholly owned real estate assets, real estate assets owned by unconsolidated partnerships or sales of partnership interests in connection with the syndication of tax credits in the affordable housing business. Gains from sales activity in the three- and six-month periods ended May 31, 2002 amounted to $16.4 million ($0.32 per share diluted) and $25.8 million ($0.50 per share diluted), respectively. In the three- and six-month periods ended May 31, 2001, revenues included $35.4 million ($0.65 per share diluted) and $43.9 million ($0.81 per share diluted) of gains, respectively.

While lower interest rates on floating-rate assets impact revenues, these assets are match-funded with floating-rate debt, and therefore have only a minor impact on bottom-line earnings. Even without accounting for any impact of lower interest rates, after backing out the gains from asset sales, and netting costs of rental operations from rental income, total net revenues in the three- and six-month periods ending May 31, 2002 were $80.1 million and $160.9 million compared with $79.6 million and $166.9 million for the same periods in the prior year, respectively.

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Real estate properties

	Three Months Ended May 31,		Six Months End May 31,
(In thousands)	2002	2001	2002
Rental income	$ 29,037	29,512	54,190
Equity in earnings of unconsolidated partnerships	6,809	1,478	9,973
Interest income	1,346	574	1,417
Gains on sales of real estate	16,443	35,392	24,144
Management fees	2,120	1,037	3,103
Other, net	5	-	5
Total revenues	55,760	67,993	92,832
Cost of rental operations	13,855	15,022	26,066
Other operating expenses/(1)/	7,052	8,220	13,967
Depreciation	6,224	6,549	12,263

Minority interests	21	25	96	---
Total operating expenses/(1)/	27,152	29,816	52,392	---
Operating earnings	$ 28,608	38,177	40,440	===
Balance sheet data:				
Operating properties and equipment, net	$ 752,684	786,484	752,684	
Land held for investment	45,072	41,607	45,072	
Investments in unconsolidated partnerships	296,954	245,797	296,954	
Other assets	49,408	56,976	49,408	
Total segment assets	$ 1,144,118	1,130,864	1,144,118	==

(1) Operating expenses do not include interest expense.

Real estate properties include rental apartment communities (market-rate and affordable housing communities, substantially all of which qualify for Low-Income Housing Tax Credits under Section 42 of the Internal Revenue Code), 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 partnerships that are either consolidated or accounted for by the equity method, and therefore reflected on the Company's balance sheet only as an investment in unconsolidated partnerships. Real estate properties also include the Company's 50% interest in Lennar Land Partners ("LLP"), an unconsolidated partnership accounted for under the equity method, which is engaged in the acquisition, development and sale of land. Total revenues from real estate properties include rental income from consolidated operating properties, equity in earnings of unconsolidated partnerships that own and operate real estate properties, gains on sales of properties or interests in those unconsolidated partnerships and fees earned from managing 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 some of the partnerships.

For the past two years, based on its overall view of the comparative returns in the U.S. property markets, the Company has limited its new property acquisitions in favor of adding value to its existing portfolio through development, repositioning and leasing. While continuing to maintain this strategy, during the quarter, the Company began to invest in real estate property in Europe through a strategic relationship it formed with CDC Ixis Capital Markets ("ICM"). ICM is a subsidiary of Caisse-de Depots et Consignations of France, a AAA-rated financial institution that is one of the largest investors in Europe. At May 31, 2002, the Company's investment in unconsolidated partnerships in Europe amounted to $64.5 million.

The Company's existing consolidated portfolio (including market-rate operating properties and affordable housing communities) continues to mature and just since year-end, the portion that is not yet stabilized has decreased from approximately 58% to approximately 48%. As these additional properties came on line, net operating income (rental income less cost of rental operations) ("NOI") in the second quarter of 2002 increased approximately 17% over the first quarter of 2002 and approximately 44% over the fourth quarter of 2001. The

majority of the properties that are not yet stabilized are pre-leased, so the Company anticipates that these properties will contribute to net operating income as they come on line and tenants begin to pay rent.

Three months and six months ended May 31, 2002 compared to three months and six months ended May 31, 2001

Overall operating earnings from real estate properties were $28.6 million and $40.4 million for the three- and six-month periods ended May 31, 2002, respectively, compared to $38.2 million and $52.9 million for the same periods in 2001. These decreases were primarily due to lower gains on sales of operating properties, partially offset by an increase in equity in earnings of unconsolidated partnerships.

Gains on sales of real estate decreased by $18.9 million and $19.7 million for the three- and six-month periods ended May 31, 2002, respectively, over the same periods in 2001, reflecting a significant decrease in real estate property sales activity during 2002. Gains on sales of real estate fluctuate from period to period based on the timing of asset sales. Gains from sales activity in the second quarter of 2002 were derived primarily from the sale of one office complex, while gains from sales activity in the second quarter of 2001 were derived primarily from the sale of eight stabilized operating properties. Gains from sales activity for the six months ended May 31, 2002 were derived primarily from the sale of one office complex and land, while gains from sales activity for the six months ended May 31, 2001 were derived primarily from the sale of the eight stabilized operating properties and land.

Equity in earnings of unconsolidated partnerships increased to $6.8 million and $10.0 million for the three- and six-month periods ended May 31, 2002, respectively, from $1.5 million and $5.6 million for the same periods in 2001. These increases were primarily attributable to higher earnings from Lennar Land Partners ("LLP"): a 50% owned partnership engaged in the acquisition, development and sale of land. Equity in earnings from LLP may vary from period to period depending upon, among other things, the timing of housing starts by Lennar Corporation and other homebuilders. Lennar Corporation is the other partner in and a purchaser of land from LLP.

Total rental income and cost of rental operations decreased to $29.0 million and $13.9 million, respectively, for the three-month period ended May 31, 2002 compared to $29.5 million and $15.0 million, respectively, for the same period in 2001. Property net operating income increased by 5%, or $0.7 million for the three months ended May 31, 2002 compared to the same period in 2001. Total rental income and cost of rental operations decreased to $54.2 million and $26.1 million, respectively, for the six-month period ended May 31, 2002 compared to $60.0 million and $30.5 million, respectively, for the same period in 2001. Property net operating income decreased by 5%, or $1.4 million for the six months ended May 31, 2002 compared to the same period in 2001. The primary factor contributing to the fluctuations in property net operating income for the three- and six-month periods in 2002 compared to 2001 was the timing of sales of stabilized properties relative to new stabilized properties coming on line. The primary factor contributing to the increase in net operating income as a percentage of rental income for the three- and six-month periods in 2002 compared to 2001 was a change in the mix of property types and leases.

Other operating expenses, which represent an allocation of salary, professional and other administrative expenses, decreased to $7.1 million and $14.0 million for the three- and six-month periods ended May 31, 2002, respectively, from $8.2 million and $15.9 million for the same periods in 2001. These decreases were due

to less administrative costs necessary to support the smaller portfolio of properties under development or repositioning.

Management fees increased to $2.1 million and $3.1 million for the three- and six-month periods ended May 31, 2002, respectively, compared to $1.0 million and $2.1 million for the same periods in 2001. These increases were primarily due to fees earned in the second quarter of 2002 from one of the Company's partnerships.

The net book value of operating properties and equipment at May 31, 2002 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:

(In thousands, except percentages)	Net Book Value	Occupancy Rate/(1)/	Annualized Net Operating Income (NOI)/(2)/
Market-rate operating properties			
Stabilized operating properties			
Office	$ 257,062	94%	$ 33,146
Retail	14,498	91%	2,051
Industrial / warehouse	48,714	100%	6,611
Ground leases	11,104	100%	2,152
Commercial	331,378	97%	43,960
Hotel	15,403	52%	744
	346,781		44,704
Under development or repositioning			
Office	187,769		9,415
Retail	35,314		2,751
Commercial	223,083		12,166
Multi-family	78,657		2,293
Hotel	29,859		892
	331,599		15,351
Total market-rate operating properties	678,380		60,055
Affordable housing communities			
Stabilized	40,184	91%	4,540
Under development	28,981		-
Total affordable housing communities	69,165		4,540
Furniture, fixtures and equipment	5,139		-
Total	$ 752,684		$ 64,595

(1) Occupancy rate at May 31, 2002.
(2) 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, 2002, multiplied by two.

As of May 31, 2002, approximately 51% of the Company's market-rate operating properties, based on net book value, had reached stabilized occupancy levels and were yielding in total 13% on net book value. 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 are generally lower than for market-rate rentals. However, the Company receives its desired yield from these investments after adding in (i) the impact of lower income taxes as a result of the tax credits and other related tax deductions and (ii) profits from sales of tax credits to others.

The net investment in the Company's affordable housing communities at May 31, 2002 is as follows:

(In thousands)	
Operating properties	$ 69,165
Investments in unconsolidated partnerships	82,789
Debt and other	(56,032)
Net investment in affordable housing communities	$ 95,922

As of May 31, 2002, the Company had been awarded and held rights to $133.7 million in gross tax credits, with approximately 61% 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 majority of the partnership interests in the affordable housing communities and then using 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 has shifted its strategy away from owning the majority of the partnership interests in the affordable housing communities toward syndicating those interests. After such syndications, the Company continues to hold small interests (typically ranging from 1% to 10%) in the partnerships and continues to manage the communities, for which it earns management fees. 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 the remainder of 2002.

Real estate loans

	Three Months Ended May 31,		Six Months Ende May 31,	
(In thousands)	2002	2001	2002	200

Interest income	$ 9,695	10,794	19,401	26,
Equity in earnings (losses) of unconsolidated partnerships	111	(185)	1,226	1,
Management fees	221	357	928	2,
Other, net	62	41	43	
Total revenues	10,089	11,007	21,598	30,
Operating expenses/(1)/	1,036	1,325	2,258	2,
Minority interests	428	592	869	1,
Total operating expenses/(1)/	1,464	1,917	3,127	3,
Operating earnings	$ 8,625	9,090	18,471	26,
Balance sheet data:				
Mortgage loans, net	$ 355,054	272,419	355,054	272,
Other investments	55,327	52,348	55,327	52,
Investments in unconsolidated partnerships	8,574	14,015	8,574	14,
Other assets	2,447	3,141	2,447	3,
Total segment assets	$ 421,402	341,923	421,402	341,

/(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 discount loan portfolio investments, owned primarily through unconsolidated partnerships, and related loan workout operations. Total revenues include interest income, equity in earnings of unconsolidated 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, 2002 compared to three months and six months ended May 31, 2001

Overall operating earnings from real estate loans were $8.6 million and $18.5 million for the three- and six-month periods ended May 31, 2002, respectively, compared to $9.1 million and $26.6 million for the same periods in 2001. These decreases were primarily attributable to lower interest income and management fees, despite a larger average real estate loan portfolio.

Interest income decreased to $9.7 million and $19.4 million for the three- and six-month periods ended May 31, 2002, respectively, from $10.8 million and $26.3 million for the same periods in 2001. These decreases reflect lower interest rates on floating-rate loans, offset in part by an increase in interest from a higher average level of loan investments. The decrease for the six-month period compared to the same period in 2001 also reflects $4.2 million of interest income recognized in the first quarter of 2001 resulting from the payoff of two loan investments, which had been acquired at a discount. The majority of the Company's interest income from its real estate loan segment is earned on investments in structured junior participations in high-quality short- to medium-term variable-rate real estate loans ("B-notes"). Because these floating-rate loans are match-funded with floating-rate debt, the reduction in interest income due to declining interest

rates has virtually no impact on net earnings. To date, the Company has not experienced any delinquencies in its B-note portfolio.

During the second quarter of 2002, the Company funded two additional B-note investments for $32.7 million, bringing the total portfolio of B-note investments at May 31, 2002 to $293.1 million.

Management fees decreased to $0.2 million and $0.9 million for the three- and six-month periods ended May 31, 2002, respectively compared to $0.4 million and $2.8 million for the same periods in 2001. The year-to-date decrease was primarily due to fees earned in the first quarter of 2001 from the disposition of assets in one of the Company's domestic discount loan portfolios.

Real estate securities

	Three Months Ended May 31,		Six Months May 31
(In thousands)	2002	2001	2002
Interest income	$ 36,695	33,552	71,979
Equity in earnings of unconsolidated partnerships	3,453	10,866	11,151
Gains on sales of investment securities	-	-	1,608
Management and servicing fees	5,220	6,870	14,252
Other, net	(819)	(291)	(708)
Total revenues	44,549	50,997	98,282
Operating expenses/(1)/	4,542	3,802	9,066
Minority interests	-	232	15
Total operating expenses/(1)/	4,542	4,034	9,081
Operating earnings	$ 40,007	46,963	89,201
Balance sheet data:			
Investment securities	$ 1,355,074	803,993	1,355,074
Investments in unconsolidated partnerships	112,351	102,892	112,351
Other assets	27,946	35,432	27,946
Total segment assets	$ 1,495,371	942,317	1,495,371

/(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 primarily 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.

Three months and six months ended May 31, 2002 compared to three months and six months ended May 31, 2001

Overall operating earnings from real estate securities decreased to $40.0 million and $89.2 million for the three- and six-month periods ended May 31, 2002, respectively, from $47.0 million and $90.7 million for the same periods in 2001. These decreases were primarily due to a decline in equity in earnings of unconsolidated partnerships and an increase in operating expenses, offset in part by an increase in interest income.

Interest income from direct CMBS investments increased 9% and 13% to $36.7 million and $72.0 million for the three- and six-month periods ended May 31, 2002, respectively. These increases were primarily due to growth in the Company's CMBS portfolio, as well as greater recognition of earnings as actual CMBS performance continued to exceed original expectations. Not only is the Company's CMBS portfolio continuing to perform better than original expectations, but it is also performing better than the industry averages. Delinquencies on the Company's CMBS conduit investments are running at approximately one-third less than those shown in Standard & Poor's latest industry report.

In recording CMBS interest income, the Company recognizes the amount by which cash flows over the life of a security are expected to exceed the Company's initial investment as interest income to achieve a level yield over the life of the security. To date, this has resulted in less recognition of interest income than the amount of interest actually received. The excess interest received is applied to reduce the Company's CMBS investment. The Company's initial and ongoing estimates of cash flows from CMBS investments are based on a number of assumptions that are subject to business and economic conditions, the most significant of which is the timing and magnitude of credit losses on the underlying mortgages.

The Company invests in subordinated classes of CMBS, and does not receive principal payments until the principal of the senior classes of that issue is paid in full. The Company is currently receiving principal payments from 11 classes of its CMBS securities, and an additional 21 classes have reached economic maturity either through the collection of principal, liquidation of the trust, or sale. 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 primarily from its success in managing and working out the underlying loans and stable real estate fundamentals. However, the positive experience on these older transactions does not necessarily mean there will be similar yield improvements on newer investments.

During the quarter ended May 31, 2002, the Company acquired $325.7 million face

amount of fixed-rate CMBS for $158.3 million and $31.2 million face amount of short-term floating-rate CMBS for $25.1 million. The following is a summary of the CMBS portfolio held by the Company at May 31, 2002:

	Face Amount	Weighted Average Interest Rate	Book Value	% of Face Amount	Weighted Average Cash Yield/(1)
	(In thousands, except percentages)				
Fixed-rate					
BB rated or above	$ 489,067	6.57%	$ 351,515	71.9%	9.2%
B rated	623,745	6.50%	332,615	53.3%	11.6%
Unrated	967,268	6.89%	218,571	22.6%	28.5%
Total	2,080,080	6.70%	902,701	43.4%	14.8%
Floating-rate/short-term					
BB rated or above	$ 12,789	3.14%	$ 11,573	90.5%	3.5%
B rated	25,822	8.52%	24,618	95.3%	8.9%
Unrated	132,096	13.68%	107,129	81.1%	16.9%
Total	170,707	12.06%	143,320	84.0%	14.4%
Total amortized cost	2,250,787	7.09%	1,046,021	46.5%	14.7%
Excess of fair value over amortized cost	-		309,053		
Total CMBS portfolio /(3)/	$ 2,250,787		$ 1,355,074		

(1) Cash yield is determined by annualizing the actual cash received during the month of May 2002, and dividing the result by the book value at May 31, 2002.
(2) Book yield is determined by annualizing the interest income for the month of May 2002, and dividing the result by the book value at May 31, 2002.
(3) This table excludes CMBS owned through unconsolidated partnerships.

The Company's annualized cash yield on its fixed-rate CMBS portfolio is approximately 15%. The cash yield on the unrated portion of this portfolio is approximately 28%.

Equity in earnings of unconsolidated partnerships primarily represents the Company's participation in Madison. The venture owns a $1.8 billion pool of CMBS at May 31, 2002. The Company's investment in the venture at May 31, 2002 was $106.1 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 $3.6 million and $11.6 million of equity in earnings of unconsolidated partnerships to the real estate securities line of business for the three- and six-month periods ended May 31, 2002, respectively, compared to

$10.9 million and $22.7 million for the same periods in 2001. The decrease in earnings from Madison primarily resulted from lower interest income due to asset pay downs, as well as the timing and amount of principal collections on one of the larger securities owned by the venture.

At least in part through the Company's efforts as special servicer, the underlying collateral in the Company's CMBS pools continues to perform at much higher levels than originally anticipated. In recognition of this improvement, the rating agencies continue to upgrade many of the Company's bond positions, which increases their value. As a result, in the first quarter of 2002, the Company sold three CMBS securities, which were originally purchased at discounts, at or above par for a gain of $1.6 million. Gains on sales of securities can fluctuate from period to period depending on the timing of asset sales.

Operating expenses increased to $4.5 million and $9.1 million for the three- and six-month periods ended May 31, 2002, respectively, from $3.8 million and $7.2 million for the same periods in 2001. These increases were primarily due to increased personnel and out-of-pocket expenses directly related to the growth of the Company's CMBS portfolio.

Corporate and Other, Interest and Income Tax Expenses

Three months and six months ended May 31, 2002 compared to three months and six months ended May 31, 2001

Corporate and other operating expenses were $5.8 million and $11.7 million for the three- and six-month periods ended May 31, 2002, respectively, compared to $5.6 million and $11.2 million for the same periods in 2001, remaining relatively flat year over year as the Company has grown.

Interest expense decreased to $24.7 million and $47.8 million for the three- and six-month periods ended May 31, 2002, respectively, compared to $29.1 million and $59.3 million for the same periods in 2001. These decreases were primarily due to a decline in interest rates. The weighted average interest rate on outstanding debt was 5.9% at May 31, 2002 compared to 7.7% at May 31, 2001.

Income tax expense decreased to $15.2 million and $28.8 million for the three- and six-month periods ended May 31, 2002, respectively, from $21.1 million and $35.4 million for the same periods in 2001. These decreases were attributable to lower pre-tax income and, to a lesser extent, a lower effective tax rate.

2. LIQUIDITY AND FINANCIAL RESOURCES

The Company's operating activities used $5.0 million and $43.4 million of cash during the six months ended May 31, 2002 and 2001, respectively. This decrease in cash used for operating activities was primarily due to a decrease in restricted cash, a lower increase in other assets, and higher net earnings after adjusting for the effects of non-cash items, whose contributions to cash flow are reflected in cash flow from investing activities. These decreases in cash used were partly offset by a higher decrease in accounts payable and accrued liabilities.

The Company's investing activities used $111.4 million of cash during the six months ended May 31, 2002, and provided $54.9 million of cash during the same period in 2001. This increase in cash used for investing activities is primarily

due to (i) a higher level of purchases of investment securities and mortgage loans, (ii) a higher level of investment in unconsolidated partnership interests primarily related to the Company's investment in Europe, (iii) more acquisitions of land held for investment, (iv) less proceeds from the sale of operating properties and the syndication of affordable housing partnership interests, and (v) less distributions from unconsolidated partnerships. These increases in cash used for investing activities were partly offset by a higher level of collections from mortgage loans.

The Company's financing activities provided cash flows of $120.2 million and $4.5 million during the six months ended May 31, 2002 and 2001, respectively. This increase in cash provided by

financing activities is primarily due to increased net borrowings required to fund a higher level of investing activity.

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 matching the maturities of its debt with the expected lives of its assets.

At May 31, 2002, the Company had approximately $950 million of available liquidity, which included approximately $891 million of cash and availability under credit facilities, and approximately $59 million of committed project level term financing.

The Company has a $350.0 million unsecured revolving credit facility, which matures in July 2004 assuming a one-year extension option is exercised. At May 31, 2002, $155.0 million was outstanding under this facility, and the Company had $28.2 million of outstanding standby letters of credit that used the facility.

The Company has various secured revolving lines of credit with an aggregate commitment of $355.0 million, of which $197.0 million was outstanding at May 31, 2002. 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") as well as other agreements which 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. Therefore, if the market value of the Company's CMBS falls significantly, the Company could be required to either pay down repos with cash flow the Company needs to operate and grow its business, or to sell assets at a time when it may not be most appropriate for the Company to do so to generate cash needed to repay repo obligations.

At May 31, 2002, the Company had four repo facilities through which it financed selected CMBS. The first facility had a commitment and outstanding balance at May 31, 2002 of $44.1 million and is required to be paid in full by June 2004. The second facility had a commitment of $50.0 million, with no balance outstanding at May 31, 2002, and matures in June 2003. The third facility is a $150 million non-recourse facility, which matures in April 2005, and had an outstanding balance of $61.0 million at May 31, 2002. The fourth facility is a $100 million non-recourse facility, which matures in April 2007, and had an outstanding balance of $29.0 million at May 31, 2002.

The Company also has a $430.0 million financing structured as a repo line with a

leading financial institution to finance the acquisition of securities and loans. At May 31, 2002, there was $85.4 million outstanding under this facility. This facility has limited recourse to the Company and matures in January 2006, including a one-year extension option.

Additionally, the Company has received seller financing in the form of term repos for eight specific CMBS transactions. These agreements had an aggregate commitment of $96.6 million with an outstanding balance of $96.6 million at May 31, 2002 and expire through August 2004. The Company also has seller financing in the form of term loans for three specific CMBS transactions which are non-recourse to the Company but which contain similar provisions to a repo. The loans had an outstanding balance of $27.8 million at May 31, 2002 and expire through October 2002.

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

At May 31, 2002, the Company had scheduled maturities on existing debt of $69.3 million through May 31, 2003, assuming the Company takes advantage of extensions, which are available 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, its operating cash flow and unencumbered asset values, 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. However, limitations on access to financing constrain the Company's ability to take advantage of opportunities that might lead to more significant growth.

Approximately 67% 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, 2002, 18% of the Company's variable-rate debt had been swapped to fixed rates and 57% was match-funded against variable-rate assets. After considering the variable-rate debt that had been swapped or was match-funded, 17% of the Company's debt remained variable-rate and 83% of the debt was fixed-rate or match-funded. Therefore, a 100 basis point change in LIBOR would impact net earnings by $0.8 million and earnings per share by approximately $0.02.

The Company is committed, under various standby letters of credit or other agreements, to provide certain guarantees which are not otherwise reflected in the financial statements. Outstanding standby letters of credit, guarantees, performance bonds and other commercial commitments under these arrangements at May 31, 2002 are as follows:

		Amount of Commitment Expiration Per Per			
	Outstanding	Less Than	1 - 3	4 - 5	O

(In millions)	Commitments	1 Year	Years	Years	Y
Standby letters of credit/(1)/	$ 96.4	89.3	7.1	-	
Guarantees of debt/(2)/	42.8	28.1	4.8	2.2	
Limited maintenance guarantees	48.4	12.0	36.4	-	
Committed capital contributions	28.4	22.6	5.8	-	
Performance bonds	42.1	17.0	9.5	-	
Affordable housing communities - other	44.2	21.6	12.2	10.4	
Total commercial commitments	$302.3	190.6	75.8	12.6	

(1) Includes a $55.3 million letter of credit, which is collateralized by short-term investment securities included in the Company's restricted cash balance at May 31, 2002. See Note 3 to the unaudited consolidated condensed financial statements in Item 1. As discussed in Note 3, this letter of credit was released subsequent to quarter end.
(2) See "Unconsolidated Investments" section for further discussion.

UNCONSOLIDATED INVESTMENTS

The Company frequently makes investments jointly with others, through partnerships and joint ventures. This (i) allows LNR to further diversify its investment portfolio, spreading risk over a

wider range of investments, (ii) provides access to transactions which are brought to the Company by other participants, (iii) provides access to capital and (iv) enables the Company to participate in investments which are larger than it is willing to make on its own. In many instances, the Company has a less than controlling interest in the partnership or venture or control is shared, and therefore, the Company accounts for its interest by the equity method, rather than consolidating the assets and liabilities of the partnership or venture on its balance sheet.

Typically, the Company either invests on a non-recourse basis, such as by acquiring a limited partnership interest or an interest in a limited liability company, or the Company acquires a general partner interest, but holds that interest in a subsidiary which has few, if any, other assets. In those instances, the Company's exposure to partnership liabilities is essentially limited to the amounts the Company invests in the partnerships. However, in some instances the Company is required to give limited guarantees of debt incurred or other obligations undertaken by the partnerships or ventures. For certain partnerships, typically those involving real estate property development, the Company may commit to invest certain amounts in the future based on the partnership's business plan.

At May 31, 2002, the Company had investments in unconsolidated partnerships of $417.9 million. Summarized financial information on a combined 100% basis related to the Company's investments in unconsolidated partnerships accounted for by the equity method at May 31, 2002 follows:

	LNR	LNR Ownership	Total Partnership	Total Partnership

(In thousands, except percentages)	Investment	Interest (1)	Assets	Liabilities
Properties:				
Single-asset partnerships	$ 44,836	33% - 94%	$ 303,226	$ 229,152
Partnerships with Lennar				
LLP	66,695	50%	278,409	145,019
Other	32,993	50%	68,433	2,248
Affordable housing communities	82,789	1% - 99%	609,269	425,306
Other	3,590	5% - 99%	14,497	9,764
Domestic	230,903		1,273,834	811,489
International	66,052	37.5% - 50%	180,393	8,075
	296,955		1,454,227	819,564
Loans:				
Domestic non-performing loan pools	8,574	15% - 50%	46,825	21,449
Securities:				
Madison	106,070	25.8%	1,396,768	982,100
Other	6,280	69.5%	48,149	38,933
	112,350		1,444,917	1,021,033
Total	$ 417,879		$ 2,945,969	$1,862,046

(1) Although LNR may hold a majority financial interest in certain partnerships, it does not consolidate those partnerships in which control is shared or in which less than a controlling interest is held.
(2) Only $23.0 million is recourse to the Company.
(3) Only $2.2 million is recourse to the Company.
(4) Only $17.6 million is recourse to the Company.
(5) Total partnership assets include an investment in an unconsolidated partnership which in turn has investments in properties with a net book value of approximately $2.4 billion and non-recourse debt of approximately $1.9 billion.
(6) Debt is non-recourse to the Company except for the $42.8 million noted in footnotes 2, 3 and 4 above and in the commitments table discussed above.

RECENT DEVELOPMENTS

Subsequent to the end of the quarter, the Company transferred non-investment grade commercial mortgage backed securities ("CMBS") with a face amount of approximately $800 million to a

bankruptcy remote, qualified special purpose entity ("QSPE"). These CMBS were securitized into various classes of non-recourse, fixed- and floating-rate notes, approximately $416 million of which was investment grade, and preferred shares of the QSPE. The Company sold all of the investment grade notes to unrelated third parties for net proceeds of approximately $402 million. The proceeds were used to repay short-term debt, the majority of which can be re-borrowed. In accordance with the provisions of SFAS 140, "Accounting for

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," the Company expects to recognize a gain on the sale of the senior notes in the Company's third quarter. The Company has retained interests, including non-investment grade fixed-rate notes and the preferred shares, with a face amount of approximately $384 million, all of which are subordinate to the interests sold.

This transaction enabled the Company to maximize value from a pool of owned, non-investment grade CMBS by creating a portion of cash flows that are investment grade that the Company could sell. The Company was able to use a portion of the proceeds from the sale to repay short-term debt, which was in the form of repos that contain provisions, which may require the Company to repay amounts or post additional collateral prior to the scheduled maturity dates if the market value of the bonds which collateralize them significantly decline ("margin calls"). Through this transaction, the Company was able to eliminate the refinancing risk, the short-term rate risk, and the margin call risk that was associated with the financing of this pool of assets. This transaction provided the Company with significant new liquidity, for the purchase of new investments, for other general corporate purposes or for the repurchase of stock under the Company's share repurchase program authorized in 1998.

As a result of this transaction, the Company's liquidity and financial position were further strengthened. On a pro forma basis, the Company's available liquidity at May 31, 2002 was $1.27 billion, compared to $950 million as reported. In addition, repo debt outstanding at May 31, 2002 was $164 million less than reported, and scheduled maturities over the next twelve months were $20 million less than reported. On a pro forma basis, 12% of the Company's debt remained variable rate after considering variable-rate debt that had been swapped or match funded, and the Company's weighted average interest rate at May 31, 2002 was 6.7%.

Based on the success of this transaction, the Company may in the future securitize CMBS it owns or purchases.

3. ACCOUNTING POLICIES

There has been no material change in the accounting policies since November 30, 2001. See the Company's Annual Report on Form 10-K for the year ended November 30, 2001 for further discussion.

4. NEW ACCOUNTING PRONOUCEMENTS

Information about new accounting pronouncements appears in Note 4 to the unaudited consolidated condensed financial statements in Item 1.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There has been no material change in the quantitative or qualitative market risk since November 30, 2001. See the Company's Annual Report on Form 10-K for the year ended November 30, 2001 for further discussion.

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 2-3. Not applicable.

Item 4. Submission of matters to a Vote of Security Holders

(a) The annual meeting of stockholders of LNR Property Corporation was held on April 10, 2002.

(b) All director nominees described in (c) below were elected. The following additional directors continued in office after the meeting: Jeffery P. Krasnoff, Stuart A. Miller, Stephen E. Frank, Leonard Miller, Brian L. Bilzin and Connie Mack.

(c) The votes cast at the Annual Meeting were:

ELECTION OF DIRECTORS

Common Stock:

Director	Votes For	Votes Withheld
Steven J. Saiontz	17,977,760	2,915,192
Edward Thaddeus Foote II	20,755,901	137,051
Charles E. Cobb, Jr.	20,755,301	137,651

Class B:

Director	Votes For	Votes Withheld
Steven J. Saiontz	97,637,040	62,400
Edward Thaddeus Foote II	97,639,040	60,400
Charles E. Cobb, Jr.	97,639,040	60,400

Item 5. Not applicable.

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

(a) Exhibits:

10.15 Master Repurchase Agreement dated as of March 20, 2002 between Liquid Funding, Ltd. and LNR CMBS Holdings Corp.

10.16 Annex I to Master Repurchase Agreement, Supplemental Terms and Conditions, dated as of March 20, 2002 between Liquid Funding, Ltd., as buyer and LNR CMBS Holdings Corp. as seller.

10.17 Annex I-A to Master Repurchase Agreement, Definitions, dated as of March 20, 2002 between Liquid Funding, Ltd., as buyer and LNR CMBS Holdings Corp. as seller.

10.18 Annex II to Master Repurchase Agreement, Names and Addresses for Communications Between Parties, dated as of March 20, 2002 between Liquid Funding Ltd., as buyer and LNR CMBS Holdings Corp. as seller.

10.19 Terms Annex 2002-A to Master Repurchase Agreement dated as of March 20, 2002 between Liquid Funding Ltd., as buyer and LNR CMBS Holdings Corp. as seller.

10.20 Terms Annex 2002-B to Master Repurchase Agreement dated as of March 20, 2002 between Liquid Funding Ltd., as buyer and LNR CMBS Holdings Corp. as seller.

(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:

Signature and Title	Date
/s/ Shelly Rubin Shelly Rubin Vice President; Chief Financial Officer (Principal Financial Officer)	July 15, 2002

Exhibit Index

Exhibit Description

10.15 Master Repurchase Agreement dated as of March 20, 2002 between Liquid Funding, Ltd. and LNR CMBS Holdings Corp.

10.16 Annex I to Master Repurchase Agreement, Supplemental Terms and Conditions, dated as of March 20, 2002 between Liquid Funding, Ltd., as buyer and LNR CMBS Holdings Corp. as seller.

10.17 Annex I-A to Master Repurchase Agreement, Definitions, dated as of March 20, 2002 between Liquid Funding, Ltd., as buyer and LNR CMBS Holdings Corp. as seller.

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10.19 Terms Annex 2002-A to Master Repurchase Agreement dated as of March 20, 2002 between Liquid Funding Ltd., as buyer and LNR CMBS Holdings Corp. as seller.

10.20 Terms Annex 2002-B to Master Repurchase Agreement dated as of March 20, 2002 between Liquid Funding Ltd., as buyer and LNR CMBS Holdings Corp. as seller.