

A graphic consisting of several stylized green leaves and stems. The leaves are simple, rounded shapes with a white vein running through them. The stems are thin, curved lines. The graphic is positioned on the left side of the page, partially overlapping the text area.

# FORESTAR

Information on Execution of  
Key Initiatives and  
Third Quarter 2016  
Financial Results

November 9, 2016

# Notice to Investors

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This presentation contains “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements are typically identified by words or phrases such as “will,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “target,” “forecast,” and other words and terms of similar meaning. These statements reflect management’s current views with respect to future events and are subject to risk and uncertainties. We note that a variety of factors and uncertainties could cause our actual results to differ significantly from the results discussed in the forward-looking statements, including but not limited to: general economic, market, or business conditions; changes in commodity prices; opportunities (or lack thereof) that may be presented to us and that we may pursue; fluctuations in costs and expenses including development costs; demand for new housing, including impacts from mortgage credit rates or availability; lengthy and uncertain entitlement processes; cyclicity of our businesses; accuracy of accounting assumptions; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond our control. Except as required by law, we expressly disclaim any obligation to publicly revise any forward-looking statements contained in this presentation to reflect the occurrence of events after the date of this presentation.

# The Year of Transformation

## Significant Progress Since 9/30/15



### Key Initiatives

#### Reducing Costs Across the Entire Organization\*

- Actions taken to eliminate over \$50MM in annualized SG&A
- Decreased headcount by over 50% compared to 2014 peak
- Implemented zero based budgeting

#### Reviewing Entire Portfolio of Assets

- Executed \$425MM in non-core asset sales
  - Radisson Hotel - \$130MM
  - 5 multifamily assets - \$157MM
  - Oil and gas working interests - \$81MM
  - Undeveloped land sales - \$50MM
  - 108 commercial acres – Antioch, CA project - \$7MM
- Completed multiple NAV scenarios for every asset

#### Reviewing Capital Structure

- Reduced outstanding debt by over \$320MM
- Annual interest expense will be reduced by approximately \$23MM going forward

#### Providing Additional Information

- Reclassified approximately 24,000 acres in Georgia associated with 12 entitled and 8 entitlement in process projects to monetize near term as HBU timberland

# Overview of Assets



## CORE

### Community Development

55 entitled, developed or under development projects in 11 states and 15 markets – 7,000 acres

Three communities in entitlement (CA and TX) – 4,430 total acres

## NON-CORE

### Timberland and Undeveloped Land

70,000 acres, primarily in Georgia

4,000 acres, primarily in Texas

### Minerals and Water

590,000 net fee mineral acres principally in Texas, Louisiana, Georgia and Alabama

45% non-participating royalty interest in groundwater rights on 1.4 million surface acres

Groundwater leases on 20,000 surface acres in Central Texas – **Under Contract\***

### Multifamily

Downtown Edge site in Austin – **Under Contract\***

Westlake site in Austin – **Under Contract\***

Acklen venture in Nashville completed - 80% occupied / 85% leased

HiLine venture in Littleton completed – 74% occupied / 78% leased

Elan 99 venture in Houston completed – 46% occupied / 56% leased

\* Contracts may provide termination rights to buyers so closings cannot be assured.

# Third Quarter 2016 Results

<i>(\$ in Millions, except per share data)</i>	Q3 2016	Q3 2015
Revenues *	\$47.2	\$32.2
Net Income (Loss) – Continuing Operations	\$16.8	(\$57.3)
Net Income (Loss) Per Share – Continuing Operations	\$0.40	(\$1.67)
Net Income (Loss)	\$9.7	(\$164.2)
Net Income (Loss) Per Share	\$0.23	(\$4.79)
Segment Earnings (Loss) *		
Real Estate	\$15.0	\$5.2
Mineral Resources*	1.2	0.1
Other	<u>(0.2)</u>	<u>(0.1)</u>
Total Segment Earnings	\$16.0	\$5.2

\* Excludes oil & gas working interests which are now classified as discontinued operations

Note: Q3 2016 weighted average diluted shares outstanding were 42.3 million compared with 34.3 million in Q3 2015

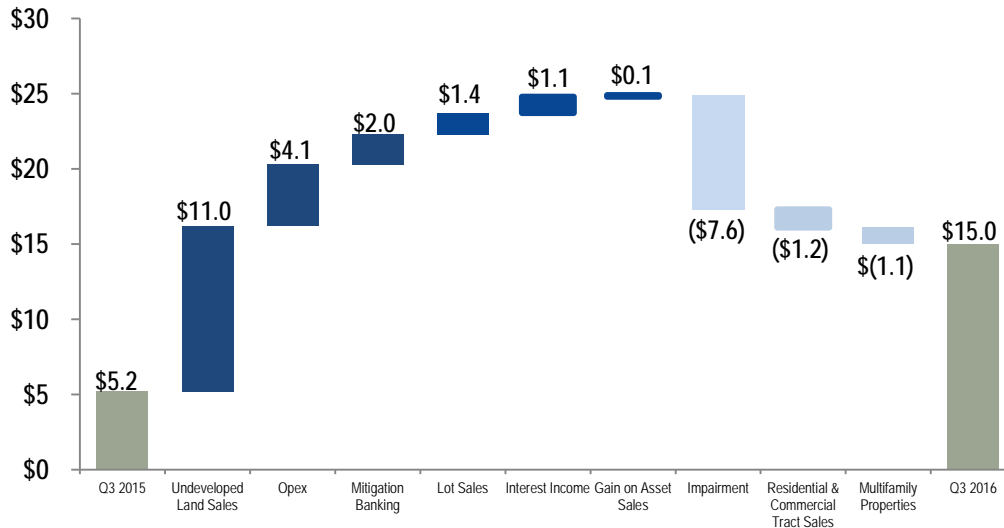
# Real Estate Segment - Earnings Reconciliation Q3 2016



## Segment Earnings Reconciliation

Q3 2015 vs. Q3 2016

(\$ in millions)



## Q3 2016 Sales Activity / Highlights\*

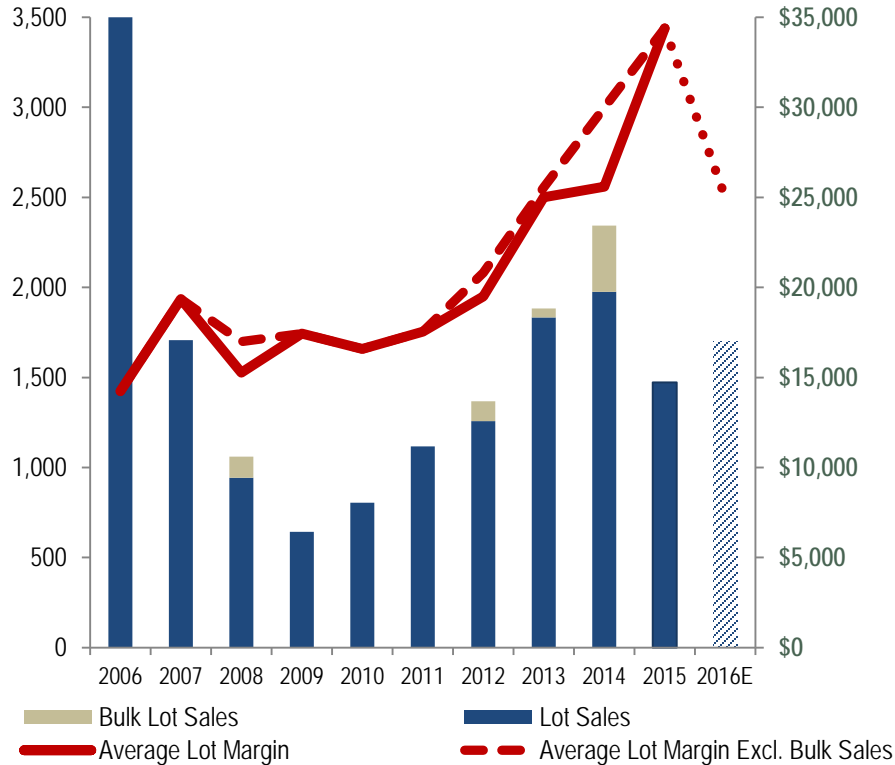
- Residential lot sales – 332 lots
  - ~ \$70,000 average price per lot
  - \$26,100 gross profit per lot
- Commercial tract sales – 110 acres
  - ~ \$76,200 per acre
  - Includes 108 acres of Antioch, California project for \$7 million
- Residential tract sales – 243 acres
  - ~ \$26,800 per acre
- Sold ~ 6,500 acres of undeveloped land, generating \$12.8 million in earnings
  - Average price \$2,410 per acre
- Sold \$3.0 million in mitigation credits
- Incurred \$7.6 million in non-cash impairments, primarily multifamily site under contract

\*Includes ventures

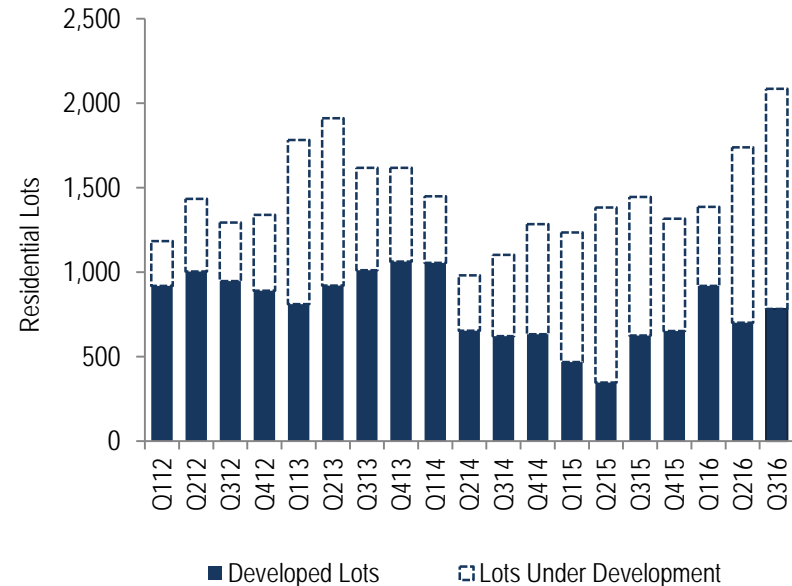
# Lot Sales and Lots Under Contract



## Annual Lot Sales and Average Lot Margin



## > 2,080 Lots Under Option Contract



- Highest number of lots under option contract in over 5 years
- Represents over 70% of our total developed lots and lots under development

Continue to target 2016 residential lot sales of 1,600 – 1,800 lots

Includes ventures

For questions, please contact:

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Appendix

# Real Estate Segment KPI's

	Q3 2016	Q3 2015	YTD Q3 2016	YTD Q3 2015
<b>Residential Lot Sales</b>				
Lots Sold	332	301	1,105	1,109
Average Price / Lot	\$69,970	\$76,623	\$68,573	\$75,019
Gross Profit / Lot	\$26,100	\$30,593	\$24,921	\$34,193
<b>Commercial Tract Sales</b>				
Acres Sold	110	2	120	56
Average Price / Acre	\$76,187	\$28,037	\$99,800	\$216,997
<b>Undeveloped Land Sales</b>				
Acres Sold	6,501	4,616	13,898	6,595
Average Price / Acre	\$2,410	\$2,190	\$2,460	\$2,411
<b>Segment Revenues</b> (\$ in Millions)	\$45.3	\$28.0	\$127.8	\$100.2
<b>Segment Earnings</b> (\$ in Millions)	\$15.0	\$5.2	\$108.5	\$29.7

*Includes ventures*

# Stable Market Demand in Key Markets

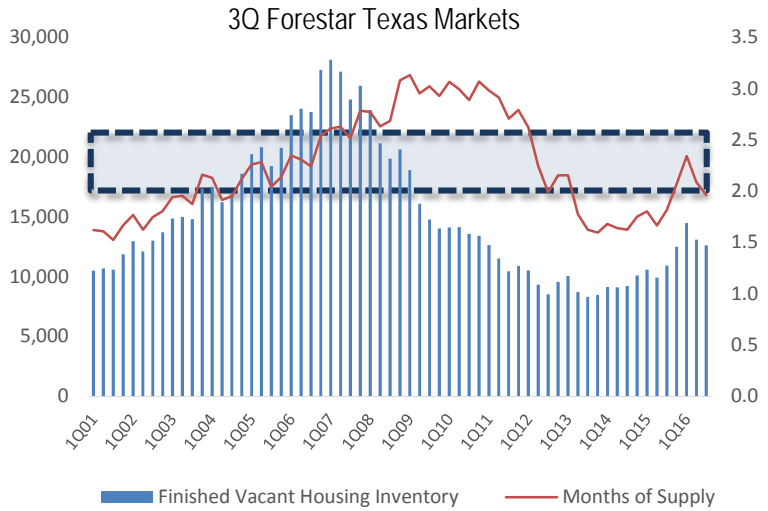


## Job Growth vs. National Average\*

September 2016 vs. September 2015	
Austin	2.8%
Dallas / Fort Worth	3.8%
Houston	0.5%
San Antonio	2.2%
Atlanta	3.0%
Charlotte	2.0%
Nashville	2.8%
<b>U.S. Average</b>	<b>1.7%</b>

Job growth in our key markets holding well above U.S. average (excluding Houston)

## Finished Vacant Home Inventories Below Equilibrium\*\*



- Equilibrium: Balanced supply and demand for Finished Vacant housing for an MSA as measured by months of supply.
  - For Texas markets, equilibrium is 2.0 to 2.5 months of supply.
- Finished Vacant months of supply for 3Q 16 in Forestar Texas markets dropped slightly below equilibrium.

\*Source: Bureau of Labor Statistics

\*\*Source: Metrostudy

# Mineral Resources Segment KPI's



	Q3 2016	Q3 2015
<b>Minerals</b>		
Oil Produced (Barrels) *	20,400	30,100
Average Price / Barrel	\$43.23	\$46.16
Natural Gas Produced (MMCF) **	205.5	242.5
Average Price / MCF **	\$1.95	\$2.45
<b>Total BOE</b>	<b>54,700</b>	<b>70,500</b>
<b>Average Price / BOE</b>	<b>\$23.47</b>	<b>\$28.13</b>
<b>Segment Revenues (\$ in millions)</b>	<b>\$1.4</b>	<b>\$2.5</b>
<b>Segment Income (\$ in millions)</b>	<b>\$1.2</b>	<b>\$0.1</b>

\* Includes Natural Gas Liquids

\*\* Includes our share of venture production: 36 MMcf in Q3 2016, 47 MMcf in Q3 2015

Note: Excludes oil and gas working interest assets now classified as discontinued operations

# Non-Core Community Development Projects Update



Community	Location	Status*	Interest Owned**	Developed Lots	Undeveloped Lots	Commercial Acres Remaining
San Joaquin River	Antioch	Sold 108 acres	100%	---	---	180
The Colony	Austin	Under Contract	100%	91	1,357	5
Caracol	TX Coast	Under Contract	75%	49	9	14
Tortuga Dunes	TX Coast	Under Contract	75%	95	39	4
Somerbrook	Kansas City	Under Contract	100%	12	210	---
Buffalo Highlands	Denver	Marketing	100%	---	164	---
Stonebraker	Denver	Marketing	100%	---	603	---
				247	2,382	203

- Sales could trigger up to approximately \$110 million in tax losses to offset tax gains from other non-core asset sales
- Reduces annual carry costs by \$2.6 million, once sold

\* Contracts may provide termination rights to buyers so closings cannot be assured.

\*\* Interest owned reflects our total interest in the project, whether owned directly or indirectly, which may be different than our economic interest in the project.

# Multifamily Communities Update



Multifamily Development Projects – Q3 2016 <i>(\$ in millions)</i>							
Project	Market	FOR Ownership	Units	% Complete	Status	Target Sale Date	
Wholly Owned	Downtown Edge Site	Austin	100%	n/a	n/a	Under Contract**	Q4 2016
	Westlake Site	Austin	100%	n/a	n/a	Under Contract**	Q3 2017
							Current Market Range Cap Rate***
Ventures	Acklen	Nashville	30%	320	100%	85% leased	4.50% - 5.00%
	HiLine	Denver	25%	385	100%	79% leased	4.75% - 5.25%
	Elan 99*	Houston	90%	360	100%	57% leased	5.75% - 6.25%

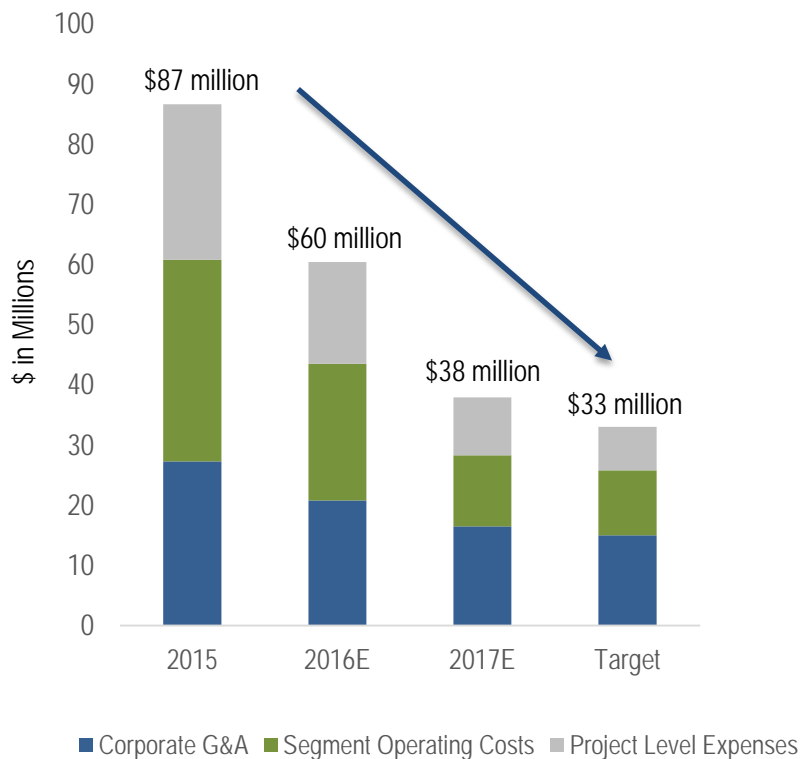
\* FOR is limited partner and not developer of this project

\*\* Contracts may provide termination rights to buyers so closings cannot be assured.

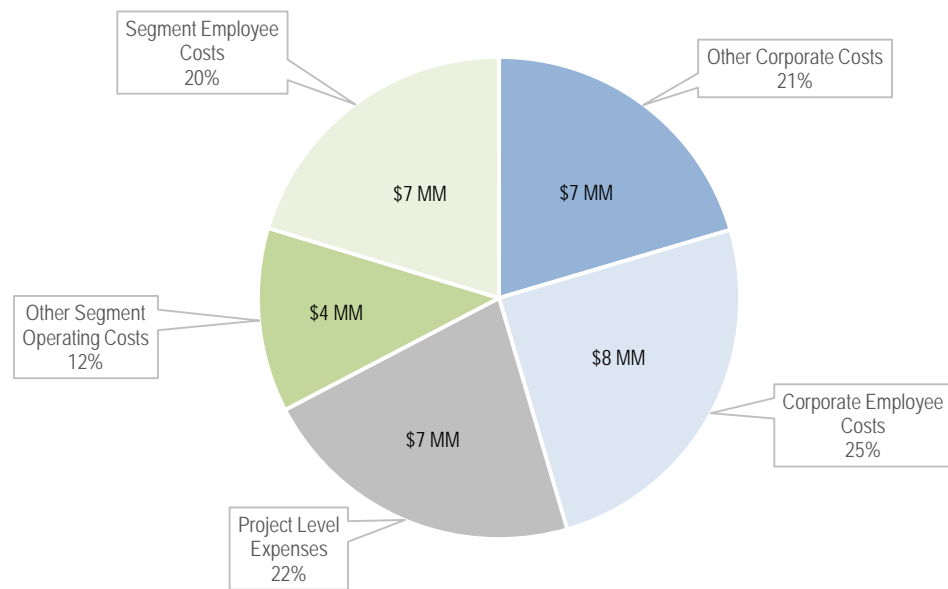
\*\*\* Management Estimate

# Cost Reductions

Annual SG&A Costs



Target SG&A Cost - \$33 million



## Actions Taken to Eliminate Over \$50 million in Annual SG&A Costs

SG&A costs in 2016 and target are estimates and actual results may vary depending on the timing of completion of non-core asset sales.

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