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Lennar Bets on Ex-Officer Housing 'Party' as California Rebounds
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By John Gittelsohn and Dan Levy

Feb. 18 (Bloomberg) -- Emile Haddad, a former Lennar Corp. executive, sold 12,000 acres in California for a \$277 million profit at the housing market's peak four years ago. He and his partners then reacquired it at half the price in 2009. Now, Haddad says, it's time to build.

Haddad, chief executive officer of FivePoint Communities Inc., is developing four new master-planned communities with a combined 45,000 residences, two in the Los Angeles area and two in San Francisco. Construction of the first homes is scheduled to begin in the second half of this year. Investors including Lennar, Michael S. Dell's MSD Capital LP, Ross Perot Jr.'s Hillwood Development Co. and Rockpoint Group LLC are banking on the projects as the state emerges from a five-year housing bust.

"I don't want the party to show up and I'm not dressed," Haddad, 52, said in an interview at the Aliso Viejo, California, office he leases in Lennar's West Coast headquarters. "When the market says 'I'm here,' we'll be one of the few that can deliver inventory."

Los Angeles and San Francisco were two of only four major U.S. housing markets with year-over-year price gains in November, according to the S&P/Case-Shiller index. Values have risen 23 percent statewide from the trough in February 2009, with affordability at the highest level in a decade for first-time buyers, data from the California Association of Realtors show.

Nationwide, the rising stock market and improved consumer sentiment may spur buyers who delayed purchases during the 18-month recession, said Karl Case, emeritus economics professor at Wellesley College in Massachusetts.

'Reasonable Housing Market'

"With higher incomes and wealth and expectations, it seems to me that demand ought to do something," Case, co-creator of the price index, said in a telephone interview. "There might be a reasonable housing market this spring."

Lennar is counting on it. Regulatory filings show that the Miami-based homebuilder, the third-largest in the U.S. by revenue, has about a quarter of its \$626 million of joint venture investments in Haddad's master-planned sites at Newhall Ranch north of Los Angeles, the former El Toro Marine Corps Air Station in Orange County and Hunters Point and Treasure Island, both former U.S. Navy bases in San Francisco.

"Over the past five years we've taken a lot of pain on some of these ventures," Lennar Chief Executive Officer Stuart Miller said during a Jan. 11 conference call, after reporting the company's first annual profit since 2006. "As we come out of 2010, we are getting better positioned to reap some benefits from some of those deals."

Environmental, Legal Hurdles

FivePoint faces environmental, legal and financial hurdles that could delay delivery of homes in each of its four locations, according to John Burns, chairman of John Burns Real Estate Consulting in Irvine, California.

"These projects are the most difficult in the state of California," said Burns, who has advised some of Haddad's partners. "Every one of those big investors is unhappy with their investment, but continue to back Emile because they feel his team gives them the greatest chance for success."

Hunters Point sales are set to begin by late 2012 with prices starting at \$525,000, as the Navy continues its cleanup of the 700-acre (283-hectare) site. The plan calls for as many as 12,000 homes, 3 million square feet (279,000 square meters) of commercial space and a new stadium for the National Football League's 49ers.

Treasure Island Homes

More than 7,000 homes can eventually be built on Treasure Island and adjoining Yerba Buena Island, under terms of a final development agreement that may go before the San Francisco Board of Supervisors for approval in May, said Michael Tymoff, the city's deputy director for redevelopment on Treasure Island.

With views of San Francisco's skyline and the bay and planned ferry service to the city, units will average \$800,000 and may reach \$2 million, said Kofi Bonner, a Lennar regional vice president.

FivePoint expects to sell an average of 650 homes a year from the two projects, Haddad said. That's a lot to expect for San Francisco, which absorbs about 1,000 new homes a year, said Tony Avila, CEO of San Francisco-based Avila Advisors, a homebuilding investment consulting company.

"Hunters Point and Treasure Island will cannibalize each other," he said.

Todd Platt, CEO of Dallas-based Hillwood Investments, a unit of Perot's company that's investing in Hunters Point, declined to comment.

El Toro Restructuring

At El Toro, Haddad completed a financial restructuring in December in which State Street Corp. wrote down \$425 million of a \$625 million loan. State Street also extended a line of credit while the project's investors each put in additional, undisclosed equity.

The first of 5,000 home sites may begin selling to builders by the end of next year, Haddad said, with the smallest homes starting at about \$400,000.

"We expect to be with this project for a number of years to come," said Patrick Fox, managing member of Boston-based Rockpoint, which has invested \$8 billion in properties since 1995. "Emile is one of the premier residential land developers in the United States."

Fox wouldn't disclose the size of Rockpoint's El Toro investment. Other investors in the project -- Lennar, New York-based MSD Capital and LNR Property Corp., a Miami Beach-based real estate investment and management company -- declined to comment.

Born in Beirut

Haddad was born in 1958 in Lebanon, where he studied civil engineering at the American University of Beirut and ran a construction company. In 1986, Haddad, his parents and his fiancée fled Lebanon after 11 years of civil war in the country.

In California, he worked a series of real estate jobs, rising to senior vice president at Bramalea Ltd., a Canadian developer that filed for bankruptcy in 1995. When Lennar acquired Bramalea's Southern California assets, Haddad went along, rising first to western regional president in 1998 and, in 2006, to chief investment officer.

As CIO, Haddad oversaw deals that netted Lennar about \$1 billion, he said in a Jan. 26 interview at a hotel near Lennar's San Francisco offices. He ushered real estate proposals through regulatory approvals and public hearings and found investors to get projects "out of the quicksand."

"We create value, bring somebody in, take chips off the table," he said.

Buyer for Newhall

In January 2007, with the U.S. housing bubble near its peak, Haddad found a buyer for Newhall. The largest U.S. pension fund, the California Public Employees' Retirement System, was expanding its real estate portfolio and paid \$970 million for 68 percent of the 12,000-acre site and other development sites. Lennar, which had acquired the property three years earlier, booked a \$277 million profit on the deal.

In June 2008, with California home prices down 59 percent, the Newhall development entity filed for bankruptcy protection and Calpers wrote off the investment as a total loss. Thirteen months later, under a court-approved reorganization, Haddad and Lennar paid \$140 million to regain a 15 percent equity in the site, management control and immunity from creditor lawsuits.

"That was extraordinary," said Vicki Bryan, senior bond analyst for Gimme Credit LLC, a New York-based corporate bond research firm. "I'd say Lennar is crazy like a fox. It's not an accident that they were well-covered in that deal."

Acquiring Newhall a second time was the catalyst for Lennar to create FivePoint as a standalone entity to manage long-term, large, master-planned communities, said Jonathan Jaffe, Lennar's chief operating officer.

'Enhance Shareholder Value'

"By restructuring assets and separating the management team from Lennar, we have created an opportunity to significantly enhance shareholder value," Jaffe said in a statement in response to questions from Bloomberg News.

Haddad said he was prepared for tough times in real estate by the many nights he spent sheltered in his Beirut building's stairwell during wartime.

"When the bombs start falling, there are two questions you want to ask," he recalled telling the staff at Newhall Ranch after the company filed for bankruptcy. "When is it going to be over, and will I survive? I cannot answer those questions. But I can tell you I will be in it with you till the last minute and I'll work day and night to make sure we come out of it alive -- as many of us as possible."

Master-Planned Communities

FivePoint is planning about 21,000 new homes in Newhall, doubling the size of Valencia, an adjoining master-planned community begun in 1965. The built-up value of Valencia is now about \$14 billion, according to data from Los Angeles County's assessor.

FivePoint, should it meet performance goals, will receive as much as 12.5 percent of the equity in Newhall, Haddad said. That equity will be split between his company and Lennar, which owns 60 percent of FivePoint to Haddad's 40 percent share.

"The more they get paid, the more I get paid," he said.

Haddad's investments for Lennar don't all make money. A commercial and residential development in Anaheim, California, by Platinum Triangle Partners, a joint venture in which the homebuilder invested \$107.5 million, stalled after the local real estate market slumped in 2007, Haddad said.

FivePoint's prospects may be tempered by California's 12.5 percent unemployment rate, the highest after Nevada's, and lingering effects of the housing bust. The state ranked third, behind Nevada and Arizona, in foreclosure filings per household in January, data seller RealtyTrac Inc. reported Feb. 10.

Governor Brown's Plan

Haddad's plans also are threatened by California Governor Jerry Brown's proposal to eliminate local redevelopment agencies, which have used \$5 billion in annual tax revenue to finance real estate projects, affordable housing, roads and parks. Brown wants the state to use the money to fill its \$25 billion budget deficit.

The Brown plan as currently proposed would be fatal to Treasure Island and other real estate proposals around the state, which rely on a tax-increment financing tool that is crucial for redevelopment, Tymoff said.

"This is fundamental to realizing the project and the enormous public benefits that go along with it," he said.

Delays and obstacles come with the territory, Haddad said.

"In this business, we don't plan for the next two years," he said. "We plan for two decades."

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