

Friday, May 16, 2008

# Will Lennar's housing woes delay the Great Park?

The developer of homes around the future greenbelt says it will generate the needed cash despite the lull in construction.

By **JEFF COLLINS**

The Orange County Register

The Great Park, billed as the first great metropolitan park of the 21st Century, relies on one source for about a third of its \$1.1 billion construction budget: Lennar Corp.

The Miami-based homebuilder already provided \$200 million in fees to the city of Irvine – enough cash to keep Great Park development going for several years, officials said.

But some critics fear that the housing slump could imperil the next big chunk of cash needed for the park: \$201 million worth of bonds to pay for infrastructure.

Lennar originally believed it would be selling homes by now in its Great Parks Neighborhoods – formerly Heritage Fields.

But homes aren't selling, so Lennar's not building – at least not until late 2010, at the soonest.

So will the homebuilding delays affect the park?

Officials at Lennar and the Great Park insist they will not.

Officials boast that development is under way on the park's first phases.

And, they add, Lennar has shifted its plans from building homes to building the Lifelong Learning District, a non-residential project consisting of educational buildings and commercial space. The company expects to break ground in late 2008 or early 2009, said Emile Haddad, Lennar's chief investment officer.

"We are in excellent shape," said Larry Agran, an Irvine councilman and chairman of the Great Park board. "We're pushing forward. Do we wish things were better for Lennar? Of course we do. Their success only adds to our success. Does their problematic situation cause problems for us? The answer is no."

But critics argue that the park already is behind schedule, delayed by a housing slump that makes it impossible to build, much less sell, new homes right now.

The slump hampers the ability to build infrastructure and generate tax revenue, said Dick Sim, a former Great Park board member who resigned in 2005 because of differences with Agran.

"When housing slows down, it affects everything," said Sim, a former Irvine Co. executive. "Revenues go down, and costs go up. This park will drag on for 20 or 30 years."

### **LENNAR'S WOES**

Like most homebuilders, Lennar has gone from record earnings to huge losses, reporting \$2.2 billion in red ink over the past 1 ½ years. Its stock price plummeted from \$56 per share in February 2007 to \$20 and under this year.

In its latest quarterly filing, Lennar reported sales and revenue declines of 57 percent and 62 percent respectively.

Two ventures Lennar has investments in are in trouble. LandSource Communities Development LLC, developer of the Newhall Ranch project in the Santa Clarita Valley, and the Kyle Canyon Gateway project near Las Vegas both defaulted on loan payments.

While creditors have little recourse against Lennar other than taking ownership of those projects, some analysts have expressed concerns about the amount of "recourse" debt Lennar does have in other joint venture partnerships. According to a report by Lehman Brothers analyst Megan Talbott McGrath, Lennar partnerships had about \$668 million in "recourse" debt as of Feb. 29 that Lennar may have to repay if those ventures fail.

Still, some analysts say that Lennar is well positioned to survive the slump. The firm has reduced its debt, lowered construction costs and improved profit margins. According to McGrath, Lennar cut its payroll from a peak of 14,000 employees to 6,200 now.

Cash on the company's balance sheet increased to more than \$1 billion at the end of February, up from \$642 million on Nov. 30.

"I certainly don't expect any bankruptcy filings from Lennar," said James McCanless, a financial analyst for FTN MidWest Securities in Nashville, Tenn.

### **SEPARATE TRACTS**

Lennar and Great Park officials insist that Lennar's private development and the development of the Great Park public space are independent from each other.

Regardless of Lennar's woes, the Great Park has plenty of cash, officials say. And it's on schedule – although its development plan has been reconfigured to conform to changes Lennar has made.

According to park figures, the park had spent \$54.7 million as of Feb. 29. The Great Park is projected to have \$104 million in available cash by June 30 and \$99.5 million a year after that.

The park's proposed 2008-09 budget includes \$45 million for park development in the next year, one-third of it for design work and just under half for a proposed wildlife corridor and for the first portion of the 27-acre Preview Park, which is set to open this summer.

The budget also includes funds for the demolition of 43 buildings, although demolition of the former air base's runways has been halted because the park makes money leasing out runway space, said Kurt Mowery, the Great Park's finance manager.

### **BOND DILEMMA**

Still to be determined, however, will be creation of a new taxing district that will generate the \$201 million to pay for shared infrastructure like roads, utilities and sewers.

Bonds will be issued to raise the cash, and a Mello Roos tax on future property owners will pay them off over the years.

The first set of bonds likely will be issued sometime in 2009, tied to Lennar's Lifelong Learning District project, Mowery said.

But Sim, the former park board member, is skeptical that bonds can be issued in time to keep infrastructure construction on track.

"If you don't have water and sewer and roads for circulation, how are you going to build anything?" Sim asked.

Walter Hahn, an Irvine real estate consultant, agrees that housing delays have pushed park development back about three years or more.

But he believes that once the housing market returns, homes will sell briskly in Lennar's Great Park Neighborhoods, which he called a "golden" property.

There are plenty of households able to afford those homes, even with price tags from \$1 million to \$3 million for single-family homes, he said.

"In my opinion, it's going to happen because the money's going to flow once the (tax districts) get formed and the bonds get sold and the housing gets built," Hahn said. "We have another boom coming. Don't lose sight of that."

In five years, Hahn said, "they'll be turning dirt like crazy in the Great Park."

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## Great Park: Key figures

**\$1.1 billion to 1.2 billion:** Projected cost of building the Great Park

**3,625:** Number of homes in Lennar's Great Park Neighborhoods, formerly Heritage Fields

**\$200 million:** Development fees Lennar paid to Irvine

**\$201 million:** Amount to be raised from bonds to pay for infrastructure. Repaid over the years from future Mello Roos taxes.

**\$54.7 million:** Amount spent from park funds as of Feb. 29

**\$104 million:** Projected available cash as of June 30 (less projected spending in 2008-09)



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