

Developments Get Back to the Plan

As more financing and private-equity investments begin to flow into residential real estate, some mothballed development plans are being revitalized.

By ROBBIE WHELAN

On Tuesday, bulldozers rumbled to a start and launched the construction of Great Park Neighborhoods, a 2,000-acre master-planned community in Irvine, Calif.

At a cost of \$1.4 billion and with ambitions to build 10,700 homes over the next 10 years, it is one of the largest residential-construction projects to break ground since the housing crash. The development, conceived in 2005, had been on hold since the financial crisis. The first phase, which includes 726 single-family detached homes surrounded by exercise trails, is expected to start selling this year.



Associated Press

A former Marine base in Irvine, Calif., shown here in 2005, will eventually be the site of as many as 10,700 homes.

5,100-home community on the site of a former gravel quarry near Dallas. In Florida, one of the nation's hardest-hit markets, investors decided last week to reactivate Waterset, envisioned as a community with 6,700 homes near Tampa.

"I think there's a sense that we've passed the bottom of the market," said Brad Hunter, chief economist at Houston-based research firm Metrostudy. "I think investors are saying, now it makes sense to rejuvenate these properties."

Still, they might have to be patient. The housing market continues to languish in many parts of the country. On Tuesday, Standard & Poor's/Case-Shiller home-price index showed that prices fell 3.7% in November compared with a year earlier. It was the third consecutive monthly decline on a nonseasonally adjusted basis.



Orange County Register/Associated Press

Construction is under way at the El Toro Marine base in Irvine, Calif., more than six years after it was auctioned off to a housing developer.

As more financing and private-equity investments begin to flow into residential real estate, some mothballed development plans like Great Park are being revitalized.

Putting these developments back on track is an indication that some investors and bankers are betting that the worst is over for the housing market and that demand for new homes will rise over the next few years. Master-planned communities are an important marker for the housing industry because, unlike smaller projects, they require large amounts of capital to pay for roads, sewer systems, golf courses and other infrastructure.

In Arlington, Texas, Huffines Communities, a private land developer, recently dusted off its plans for Viridian, a

At the same time, other data show that the low prices are starting to attract buyers. The National Association of Realtors reported in January that sales of previously owned homes rose in December for the third month in a row as the supply of homes on the market declined to the lowest level since 2006.

The Federal Reserve also has recently indicated that short-term interest rates will remain low for the next two years, keeping mortgage rates down as well.

It isn't clear how many planned projects will get the nod to move forward, but the ones that have received financing are in strengthening markets or developments where land was purchased at distressed prices.

Over the past three years, bank lending for land development was harder to find, with the balance of development loans falling more than 50%, according to the Federal Deposit Insurance Corp. But lately, pension funds, private-equity investors and other nontraditional investors in residential development have stepped up.

Emile Haddad, chief executive of FivePoint Communities Management Inc., the company developing Great Park, has benefited from both traditional and nontraditional financing sources. The development is being built on the site of a former Marine base that was acquired by home builder [Lennar Corp.](#) for \$650 million in 2005. Lennar is majority owner of FivePoint.

At the time, Mr. Haddad headed Lennar's California operations. The development hit a hurdle when its main lender, Lehman Brothers Holdings Inc., filed for bankruptcy protection in 2008. In the final days of 2010, Mr. Haddad refinanced the Lehman debt with \$380 million in new debt from [State Street Corp.](#), setting the stage for the project to go forward, plus \$200 million in new equity commitments from his partners.

The equity in Great Park now is owned by Lennar, along with investment firms LNR Property LLC, Rockpoint Group LLC, computer executive Michael Dell's MSD Capital LP, the California State Teachers' Retirement System, the New York State Teachers' Retirement System and the pension funds of Stanford University and the state of Oregon. Investors were attracted to the project because of the relative strength of the Irvine housing market, they said in statements.

For the investors to sign on means they believe "that over the coming five, 10 or 15 years, this market is going to see a steep recovery," Mr. Haddad said.

San Diego-based Newland Communities, one of the largest land developers in the country, looked abroad for funding. Late last year, the developer purchased 28 master-planned communities from Calpers, the giant California pension fund, at a large discount from what the land was previously worth. Newland's financial backer was North America Sekisui House LLC, a unit a large Japanese investment firm. Last week, Newland's investment committee gave the greenlight to start construction at Waterset.

In Arlington, Huffines Communities late last year received the last piece of the puzzle for its Viridian development: a \$24 million temporary construction loan from Dallas-based PlainsCapital Bank.

"The crunch delayed us by a year and half," said Donald Huffines, who owns the family-run development company with his brother. "Everything's going to go up from here, because the market's as low as it can get."