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Moving east to California

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PHOTO: TOM FOWLKS

Model homes going up on the site of the old Marine El Toro air base in Orange County, Calif., part of a planned community that will emphasize architectural and social diversity

The heat is almost unbearable at midday on a bluff overlooking a panoramic view of California's Orange County. A coyote slinks languorously among the bone-dry hills above what once was the El Toro Marine Corps Air Station, now a collection of derelict barracks and dormant aircraft hangars -- and thousands of acres of dusty, empty land. Below sit the crisscross runways where F-18 fighters once roared, and a dozen miles beyond is the Pacific Ocean.

Surveying this expanse -- in a sense *his* expanse -- Emile Haddad is willing to make just one concession to the stifling temperature, and that is to remove his suit jacket. His necktie stays on, firmly knotted in place. It is as if Haddad is too close to realizing his dream to go casual now.

As CEO of FivePoint Communities, a joint venture with national homebuilder Lennar, Haddad is just weeks away from opening the first phase of an audacious "master plan" community bolted onto the city of Irvine.

Irvine itself began as a planned community, famously carved out of the Irvine Ranch by the developer that gave the city its name and continues to build its beige, Italianate homes around the city's edges. FivePoint's massive project on the base it bought from the U.S. Navy signals the arrival of a new player in town and a rare opportunity to build a community that doesn't add to suburban sprawl. If all phases of the project are eventually built -- plans call for construction to continue beyond 2017 -- FivePoint's Great Park Neighborhoods will include nearly 10,000 new homes, 4 million square feet of commercial real estate, a sports complex within a park twice the size of New York's Central Park, and a wildlife corridor running all the way to the beach.

For Haddad, a refugee from war-torn Lebanon, Great Park represents a real estate industry turning point. He is reclaiming and improving land that had previously been used and abused, in this case a military base, rather than carving it out of nature. The homes in his community will look different from one another, closer to an urban experience than the cookie-cutter suburbs nearby. Though it abuts the notoriously clogged Interstate 5 freeway between Los Angeles and San Diego, the Great Park project doesn't even emphasize cars, a blasphemous notion in Southern California. Instead it features narrower-than-usual streets and 23 miles of bicycle trails. Each Great Park homebuyer receives a new bright-orange bike as a welcome gift.

Haddad's target market is different too. He is relying on a heavy dollop of Asians paying cash for their first home in the U.S. as well as empty-nesters looking to downsize without completely relinquishing the California dream. "All the factors that drove the U.S. real estate market from World War II onward have changed," he says. "For decades the white-picket-fence dream drove the business," says Haddad, as the real estate industry churned out new ways to appeal to baby boomers. He plans instead to pitch a different vision: a multigenerational living experience with the best of the burbs and at least some of the architectural diversity and convenience of the city. "I feel like a salmon," says Haddad, as in one who swims upstream.

Like many real estate projects launched before the Great Recession, the redevelopment of El Toro nearly didn't emerge from the larval stage. The air station closed in 1999, a result of the national base-closure program begun with the end of the Cold War. Fearful of the hit to the local economy from the loss of military and civilian jobs, Orange County boosters proposed a new international airport for the site. Those plans were rejected in 2002 by voters who effectively chose peace and quiet over economic development. The Navy made plans to auction off the land, whose runways were playing host to automakers conducting test drives -- and not much else.

Haddad's ambitions faced long odds to begin with, given that the Navy planned to chop the base's 4,700 acres into four separate parcels. A top executive at Lennar at the time, Haddad assembled a consortium of equity investors, which included LNR (a commercial real-estate spinoff from Lennar), Michael Dell's MSD Capital, and Stanford University's endowment, to bid for all four parcels simultaneously. They intended to create one giant community that neither the Navy nor Irvine had envisioned. In 2005 they succeeded with a bid of \$650 million plus a \$200 million cash payment to the city of Irvine to fund construction of a 1,000-plus-acre park adjoining the real estate development. Home construction was to begin in 2007.

The victory was short-lived. Lehman Brothers led the debt financing for the project, and its 2008 bankruptcy halted development, with Lehman creditors from as far away as Germany demanding a say in the future of the project. It took Haddad two years to cobble together a new financing package, with State Street Corp. as lead lender. By then the bottom had fallen out of the residential real estate market. Making matters worse, cash-strapped Irvine spent the money FivePoint had committed to the park, leaving the project's centerpiece amenity unfunded.

As the drama over El Toro was playing out, Haddad and Lennar had created a niche of redeveloping shuttered naval bases. Their first project, begun in the late 1990s, was the former Mare Island base in Vallejo, Calif., near San Francisco. They also got going on three other Bay Area projects, which remain under development today: Treasure Island, a training base built on landfill in the middle of the San Francisco Bay; Hunters Point, a contaminated former shipyard in a gritty neighborhood near downtown San Francisco; and Candlestick

Point, which includes the stadium that will be demolished when the San Francisco 49ers football team vacates the premises next year. In most cases Lennar acquired the land for what would be massive fixer-upper projects for next to nothing. "The Clinton administration looked at these as a 'no cost' approach to urban blight," says Haddad.

The projects may have started at a low cost, but they were also slow going -- and tangential to Lennar's core homebuilding business. So in 2009 it spun off the projects, including the El Toro redevelopment, into the FivePoint joint venture with Haddad as CEO and controlling shareholder. In Irvine, Haddad offered again to finance the park at the center of his redevelopment plan, and he recruited eight builders, including Lennar, to participate in the first phase of development. That first phase, called Pavilion Park, is composed of 726 lots with homes ranging in size from 1,800 to 4,200 square feet and in price from the mid-\$700,000s to more than \$1.5 million. Construction got under way this year, with the first families expected to take up residence in November.

At 55 years old, with a bushy mustache and clear-rimmed spectacles, Emile Haddad likes to fuse his personal narrative with the story of his signature real estate project. Educated as a civil engineer at the American University of Beirut, he fled Lebanon for Southern California in 1986. "We all left everything behind," he says. "It prepared me for real estate and shaped my views on life." He quickly married his Lebanese fiancée in Las Vegas and found work in Orange County with an engineering firm whose assets were later sold in a bankruptcy auction to Lennar, where Haddad rose through the ranks. "It is a good reminder that the American dream is alive," he says.

Now he deftly pushes that dream to others. Haddad sees a new wave of immigrants as his core market. Newly rich Chinese fed up with their country's one-child policy and already affluent South Koreans fearful of the nuclear specter to the north are flocking to Orange County. Haddad says 80% of new-home purchases in the region are by Asians.

The trend explains the critical contribution of Angi Ma Wong. An "intercultural and feng shui consultant," Wong advises developers like FivePoint on everything from the positioning of structures to street

names. At Pavilion Park, Wong blessed the northward positioning of the swimming pool (north represents water, a critical part of energy balance in feng shui). She cautioned against street names like "Picket" ("Asians won't get it") and "Limelight" ("a compound word that is confusing") and praised "Honeybee" (connotes industriousness) and "Hawthorn" (known in Asia for its medicinal qualities, thus representing good health). She also nixed "Wayfarer" and "Fielder" as ridiculously difficult for the Asian tongue to pronounce.

Twenty-eight thousand potential homebuyers -- or real estate voyeurs (it's hard to tell the difference) -- traipsed through Pavilion Park during its opening weekend in late September. The eight builders had constructed 31 different model homes. Jon Robertson, division manager for Southern California at William Ryan Homes, says shoppers seemed interested in the "eclectic design" and "randomness and irregularities" of the development, such as a community building that evokes the airplane hangars that once dotted the site. "The heritage of the air base is special," he says.

The heritage of nearby development is noteworthy as well, at least for real estate professionals. Haddad is effusive in his praise for the Irvine Co. and its billionaire CEO, Donald Bren, who continues to build homes nearby. Yet his praise takes on a faint quality when Haddad points out the contrasts between Great Park and its older competitor. The Irvine Co. added much to the sprawl of Orange County.

Haddad's project eventually will include a sports complex for local athletic leagues. It will create a Main Street-like vibe next to an existing commuter-rail station at the edge of the former military base, utilizing one of the runways as a pedestrian thoroughfare. The goal, says Haddad, is to make Great Park a quasi-urban destination for its own residents, rather than forcing them to drive hours away for sports tournaments and other events. (The Irvine Co. declined to make executives available to comment about the new kid on the block.)

Haddad has a more fundamental goal, and that's to make money. He says so far he and his partners have invested \$1.6 billion in the Great Park Neighborhoods. Construction on the second phase of homebuilding is scheduled to begin in 2015. FivePoint -- it stands for live, work, learn, play, and connect, Haddad's own pan-cultural nod to

harmony -- profits by selling the land it bought from the Navy, not by building homes. Haddad says the land is yielding \$4 million per acre, vs. typical yields in the Los Angeles area of around \$1.5 million.

FivePoint is giving some land away. It committed 174 acres on the eastern edge of its project for a wildlife corridor that, with a newly constructed tunnel under Interstate 5, will connect the Cleveland National Forest with an existing nature strip that runs all the way to Laguna Beach. A local environmentalist praised the corridor as an "audacious, cutting-edge endeavor" and FivePoint for its "congenial" manner. "In all my career I've never had an environmentalist show up to a public hearing to support a project," says Haddad. That's one more way the real estate market has changed.

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