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Lennar Corp. dominates redevelopment in S.F.

Hunters Point deal gives firm City Hall clout

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Lennar Corp., the company Mayor Gavin Newsom wants to lead an ambitious redevelopment of Hunters Point shipyard and Candlestick Point, has woven itself deeply into the future of the Bay Area.

The company, which has supplanted Catellus Development Corp. over the past decade as the major player in Bay Area redevelopment projects, controls Vallejo's decommissioned Mare Island Naval Station, San Francisco's Treasure Island, Hunters Point shipyard and now -- for all intents and purposes -- Candlestick Point. The company expects to reap hundreds of millions of dollars from each project once it is completed.

It was selected, along with Catellus, by the Alameda City Council on Wednesday night to redevelop the former Alameda Naval Air Station, and it has set its sights on Concord Naval Weapons Station in Contra Costa County.

But Lennar's enterprising relationship with San Francisco City Hall -- in which it has come to control much of the city's remaining undeveloped land -- gives the company unparalleled sway over how San Francisco will evolve, arguably rivaling the clout of the city's elected leadership and the voters themselves.

Critics say there are dangers in relying so heavily on a single company. If it ran into financial trouble, the impact on the city could be magnified. Moreover, trying to bargain from a position of strength with a corporation driven by its bottom line can prove difficult for public officials who need the company to deliver on multiple fronts.

Those risks are outweighed by Lennar's strengths, according to Wall Street analysts and city officials. The company's unmatched experience with the expensive and tedious work of military base redevelopment and its relative financial heft in an industry battered by recent economic trends could make it an ideal partner, they say.

"We consider ourselves part of the business fabric of the city," said Kofi Bonner, president of Lennar's urban land division and the company's leading executive in San Francisco, who along with negotiators for Newsom believes the public-private partnership between Lennar and the city will be a winner for both sides.

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In 1954, Leonard Miller and Arnold Rosen, two young Florida homebuilders, started Lennar with \$10,000. They developed a strategy of buying real estate when the market was depressed and later diversified, adding commercial property development to their business.

Through huge land acquisitions in California in the 1990s, Lennar's profits soared.

In 1993, Lennar nationally took in \$593 million in revenue. After buying out real estate firms and their holdings in places like San Diego, Orange and Los Angeles counties, the company's revenue reached \$8.9 billion by 2003. In 2006, it was \$16.3 billion.

Lennar, which aims to earn a 25 percent return on its investments, is the biggest homebuilder in California based on revenue and units built, company officials say.

California's weather and housing shortage led Lennar to invest more in the state than in any other region in the past few years, according to Emile Haddad, Lennar's chief investment officer.

"To provide some perspective, we now own 80 percent of all of the entitled land in northern Los Angeles County," Haddad said.

In the late 1990s, California's shut military bases posed an opportunity that Lennar believed it was uniquely qualified to seize. While many of the bases were badly polluted Superfund sites -- and had frustrated the military and local governments because they were so much work to decontaminate -- Lennar saw potential for profit.

Many of the bases were on or near some of the best real estate in the state, as well as in or close to urban centers with jobs, growing populations and the need for more housing.

Two of the first bases Lennar made plays for were the former Marine Air Corps stations at Tustin and El Toro in booming Orange County, and eventually it landed development rights there.

Move into San Francisco

Potentially better opportunities sat up north in San Francisco.

In 1999, Lennar prevailed in a close contest for control of the 500-acre Hunters Point shipyard, closed two decades earlier. The city Redevelopment Agency Commission voted 4-3 to choose Lennar -- against the advice of a financial consultant who had been hired by the city to evaluate competing development proposals and who recommended another company.

Lennar and its subcontractors are preparing a 75-acre, upland segment of the shipyard -- the first and easiest parcel to be decontaminated by the Navy -- for nearly 1,500 homes. By May, workers are to have started installing the communications, electrical, gas and water lines, streets, sidewalks and sewer lines to support residential life.

Under Lennar's shipyard redevelopment deal with the city, it is paying nothing for the land but it is making upfront investments to build the necessary infrastructure and has agreed to a profit-sharing formula with the city's Redevelopment Agency.

Having secured control of the shipyard, Lennar in 2003 joined a partnership that controlled Treasure Island Naval Station that was put together by Darius Anderson, a Democratic Party fundraiser and lobbyist.

Lennar, Anderson and other members of the partnership plan to have 13,500 new residents living on Treasure and Yerba Buena islands in a environmentally cutting-edge community of 600 "green" homes, with a new ferry terminal and 300 acres of parks and open space.

The partnership -- which also includes the developer behind the successful Ferry Building restoration, Wilson Meany Sullivan -- has proposed that in lieu of paying for the land, it pick up the \$40 million estimated cost of the remaining pollution cleanup at Treasure Island.

The outlines of the redevelopment deal negotiated for Treasure Island call for the developers and the city to share the projected \$1.2 billion cost to shore up the seismically unstable island, lay in new utilities and build transportation infrastructure for a planned community on the bay that still faces difficult questions about how people will come and go.

The city would raise its \$700 million share of that cost by borrowing against future property tax revenue to be generated by a redeveloped Treasure Island.

Eventually, San Francisco would begin sharing in profits after the developers had reaped a 25 percent return on their investment.

Now, the mayor and Lennar want to add Candlestick Point to Lennar's portfolio, a move prompted in part by the 49ers' announced plans to give up on building a new stadium and residential community there.

The decision by the football team to instead seek a stadium deal in Santa Clara led the Newsom administration and Lennar to draw up a new integrated redevelopment plan joining Candlestick and Hunters Point shipyard.

On the combined 790 acres, it calls for 8,500 housing units, 2 million square feet of office space, an 8,000-seat to 12,000-seat arena and 700,000 square feet of retail and entertainment uses, more than 350 acres of parks and open space and a new football stadium -- this time at the shipyard, rather than Candlestick.

The open space would include open-air parking for 19,500 cars immediately around the new stadium. The parking surface would be made of "dual-use turf," natural grass held together with a synthetic mesh in the root system, which would allow for year-round recreation.

The change in stadium location and the parking-space innovation were included as a final appeal to the 49ers to reconsider their plans to leave the city.

Ultimately, the project would go before city voters, Newsom administration officials have promised.

Relationship's risks, rewards

Michael Cohen, Newsom's base reuse director, said the decision to put more chips on Lennar makes sense

for San Francisco on a number of levels -- one of which is a need to move quickly with a recrafted shipyard and Candlestick project in time to meet the 49ers expressed need for a new stadium by 2012.

"They had already spent a year and more than \$1 million on Candlestick," Cohen said of Lennar, noting that before the 49ers abandoned their own development plans for Candlestick, they were partnering with the company for the housing around a stadium.

"We didn't want to start over because we are on a remarkably quick timeline, so they were the right one," Cohen said.

But the control Lennar now holds over the city's development future also would seem to increase its leverage with San Francisco in negotiations and renegotiations at the shipyard, Treasure Island and Candlestick.

UCLA real estate Professor Eric Sussman cautioned that the city may find it difficult to hold Lennar to its promises and that Lennar's desire to make money inevitably will conflict at times with the city's social goals.

"Look, there are always going to be cost overruns and contingencies, and the developer is going to say, 'it's out of our hands,' " Sussman said. "That's probably magnified in big projects and multiple simultaneous projects with the same developer."

Steve Meyers, a lawyer who represents redevelopment agencies throughout California, said that ideally a city is protected by the contract it signs with a developer. The reality is more complicated, he said, because officials find it hard to get tough on one project if they're depending on the same company to deliver on other projects as well.

"It becomes more difficult to deal with a single operator if you've got an established relationship that you know involves multiple projects over a long period of time," Meyers said.

Critics have said tension between Lennar's profits and the public good already has surfaced at the shipyard.

In October, the Redevelopment Commission overseeing the project let Lennar adjust the housing mix planned for the upland segment, referred to as the Hilltop, in a way some observers say will make the community less affordable.

The company was allowed to convert plans to build 400 for-rent apartments and instead make them for-sale condominiums after arguing that construction costs had risen and without the change the firm wouldn't make a profit.

Newsom administration and Lennar officials contend economic diversity is still being protected because some properties will be sold at below-market prices and the Redevelopment Agency is developing some Hilltop apartments to be rented at affordable rates.

Protecting the public interest goes beyond matters of dollars and cents.

In July, the city Health Department repeatedly cited Lennar for failing to keep track of its subcontractors who were not monitoring asbestos-laden dust created by Hilltop grading.

"Until about four months ago, you would stand on the hill next to the shipyard and see a huge cloud of dust, and you'd say 'come on, you've got to be kidding me,'" said Melita Rines who lives across the street from the shipyard and is chairwoman of the India Basin Neighborhood Association.

The dust has become the subject of a lawsuit filed against Lennar. Company employees, who filed the suit in San Francisco Superior Court in March, say the company violated state law by retaliating against them for raising questions about dust problems at the construction site.

The employees also said they were victims of racial discrimination in the workplace. They are seeking unspecified damages. Lennar has said the allegations in the lawsuit are false.

According to the city, the fact that the dust problem was recognized and resolved means the shipyard project's rigorous environmental standards were enforced and worked.

Relative financial strength

The day after the Newsom administration unveiled its proposed combined shipyard-Candlestick redevelopment, Lennar announced that its earnings had dropped 73 percent in the first quarter of 2007. That followed poor results in the previous quarter.

The short-term economic woes reflected a national housing-construction industry reeling from broad economic downturn -- one that has caused other builders to walk away from a big Bay Area redevelopment deal.

In September, a partnership called Alameda Community Partners, which included Centex Homes and Shea Homes, abandoned plans to develop the former Alameda Naval Air Station, citing the downturn and the Navy's \$108.5 million asking price for the property.

But Wall Street analysts interviewed by The Chronicle insisted that Lennar is different -- and the company's ability, along with Catellus, to step in last week and snap up the Navy base in Alameda is evidence of that.

Although the company's earnings tumbled from \$1.58 a share in the first quarter of 2006 to 43 cents a share in 2007, the analysts said, Lennar is doing the right things to survive and is expected to stay in long-term projects in the Bay Area because they have such high profit potential.

"They have a strong balance sheet, and they aren't going anywhere," said Jeremy Pinchot, an analyst with Monness Crespi Hardt & Co. in New York.

Pinchot said few national homebuilders can handle mixed-used developments the scale of Treasure Island or the shipyard. Lennar can do so because it has a lot of capital socked away and long ago developed expertise in both homebuilding and other kinds of commercial development.

Cohen, Newsom's point man on its dealings with Lennar, acknowledged that the city is placing a lot of land

in Lennar's hands but said the company has enough money and expertise to handle it.

He also said there is another way to look the relationship -- one that suggests City Hall will continue to hold plenty of clout.

"They have agreed to invest hundreds of millions of dollars to create the infrastructure on these projects; the city couldn't do that, nor can most other developers," Cohen said. "The city has more leverage the more Lennar is invested ... it's harder for them to walk away."

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