FIVEPOINT

FIVEPOINT HOLDINGS, LLC
FOURTH QUARTER 2020 CONFERENCE CALL
March 17, 2021

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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Stephen Kim, *Evercore ISI*

Ken Hansen, *Private Investor*

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PRESENTATION

Operator

Greetings and welcome to the Five Point Holdings, LLC Fourth Quarter 2020 Conference Call.

As a reminder, this call is being recorded.

Today's conference may include forward-looking statements regarding Five Point's business, financial conditions, operations, cash flow, strategy and prospects. Forward-looking statements represent only Five Point's estimates on the date of this conference call and are not intended to give any assurance as to actual future results. Because the forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties.

Many factors could affect future results and may cause Five Point's actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described in today's press release and in Five Point's SEC filings, including those in the Risk Factors section of the most recent Annual Report included in Form 10-K filed with the SEC. Please note that Five Point assumes no obligation to update any forward-looking statements.

Now, I'd like to turn over the call to Mr. Emile Haddad, Chairman and CEO of Five Point. Please go ahead, sir.

Emile Haddad

Thank you, Sarah.

Welcome to our call and Happy St. Patrick's Day.

A year ago yesterday, we had our year-end earnings call on the heels of sending everyone home to comply with the COVID stay at home orders and to ensure the well being of our associates. Within just a few days, we set in motion our emergency plan that shut down discretionary spending thereby preserving cash and protecting our balance sheet.

At that time, our Great Park Venture chose not to sell any home sites for the balance of 2020 in order to allow our builders to sell homes without the pressure of added inventory. This allowed us to continue to optimize the pace of our land sales and to maintain the value of our land, which is a limited resource in our sub markets.

The fact that we have approximately $180 million in cash on the Great Park Venture balance sheet, in addition to the cash we have on the Company's balance sheet, gave us the flexibility to make these types of practical decisions as we believed necessary. We did this all while helping our communities cope with the impact of the virus, including donating badly needed PPE that was in short supply in the early months of the pandemic.

Today, as we look back at a very unusual year, we are proud that we accomplished all our goals for 2020. As stated in our earnings release, our balance sheet is well positioned with ample liquidity and low leverage. We believe that our assets have become more valuable as a result of the strength of the housing market and the migration of homebuyers to the types of communities that we are building, ones that include quality public schools, abundant open space, and state of the art sports fields and amenities.

At the same time, the bonds among our associates have grown stronger, and the commitments made by everyone to ensure that the Company comes out stronger has been more effective than any team building program that I have ever seen. Companies with a strong culture were able to function much better in a virtual environment than those without.

As 2020 unfolded, it turns out that the bright spot in the economy was housing, driven by lower interest rates and what I have been referring to as a cocoon factor, where people find themselves spending more time in their homes. According to CoreLogic in 2020, median prices of existing homes in L.A. County went up by 18.2% and 12.6% in Orange County. What we have seen so far in 2021 is a strengthening in the housing market in general, and an increase in demand for homes in our communities in particular, resulting in a bigger interest from builders to buy land.

At the Great Park, comparing home sales and cancellations for the period of December 2019 through mid-March 2020, versus the same period in 2020 and 2021, the number of homes sold increased from 177 to 257, and the number of cancellations dropped from 41 to 10, yielding an almost doubling in rate of net sales. We view the trends in lower cancellations as a leading indicator of homebuyers' confidence, as well as their ability to qualify for mortgages.

We are currently engaged with our guest builders regarding the next phase of homesite sales, which we currently anticipate closing in Q2 or Q3. The anticipated proceeds from these sales are expected to be sufficient to pay the last $45 million of priority legacy distributions, which totals $476 million, and to provide for a distribution to Five Point.

We also recently kicked off home sales at our fee-build program at the Great Park with The New Home Company. The program is off to a great start. On March 6, the first eight homes were released for sale and within a few days, five of these homes were sold and one more reserved at prices between $1.5 million and $1.6 million. In Valencia, with the sale of the additional 487 home sites in Q4 to MDC, Tri Pointe, Toll Brothers and KB, our builders are currently either building their first model homes or getting ready to do so very shortly.

The first home sales in this first phase, which also includes our fifth builder, Lennar, are scheduled to start next month. In total, this first phase includes 1,268 homes. Later this year, prospective buyers will be able to visit approximately 50 separate model homes that will have a very wide range of pricing and will cater to a broad base of homebuyers. Valencia will be the biggest provider of new homes in Los Angeles County by far.

I have been in this business for 35 years and I've never seen a political environment that is more favorable, focused on new housing. There are multiple pro-housing bills in the pipeline and the governor has set a target of building 3.5 million new homes by 2025, which is approximately a 500% increase from the current annual pace of home production. This is all coming to pass due to the severe housing shortage in California that has been growing for many years, particularly in our markets where there's a high demand for housing and little supply of land for new homes.

The state's most recent housing needs assessment has confirmed this fact and shows a need of over 1.3 million housing units in Southern California and over 400,000 units in the Bay Area. As part of the state's assessment, each county and city within these regions gets allocated a share of the housing needs, which is then required to plan for in its zoning and general plan to meet the housing needs for everyone in the community.

We are having active dialogues with our local public partners to explore opportunities for intensification within some of our communities to provide more housing and assist in mitigating the shortfall. We believe that the next few years will provide a good environment for housing. As the largest provider of diversified residential opportunities in the main markets in California, we are positioned extremely well to capitalize on these conditions.

Finally, with the vaccinations underway and the hope that by early summer we will be able to start having in-person meetings, we are currently targeting June as a potential investor meeting that will be both virtual and in person.

Now, let me turn it over to Erik, who will report on our 2020 Q4 and year-end financials, and then we'd be happy to take questions after that.

Erik Higgins

Thanks, Emile.

A summary of our financial results was included in the earnings release issued yesterday and our 10-K was filed last week. Our financial results for the fourth quarter were highlighted by the previously announced second round of land sales in Valencia, where we closed on 442 home sites and entered into a contract to sell an additional 45, which will close in 2021.

Our cash position improved by $27.6 million to $298 million and we had no borrowings under our $125 million corporate revolving line of credit.

Debt to total capitalization at the end of the year was stable at 24.9%. Net debt to total capitalization at the end of the year, taking into account our cash balance, was 14.8%.

Revenues under management were $115.6 million for the quarter. After eliminating revenues from the unconsolidated entities, our consolidated revenues were $111.7 million. The land sales in Valencia generated $105.5 million in revenue. Management fee revenue of $5.6 million was recognized during the quarter primarily as a result of management services we provide to the Great Park Venture.

SG&A for the quarter was $24.9 million.

The Company's share of fourth quarter loss in our unconsolidated entities, which includes the Great Park Venture, the Gateway Commercial Venture, and the newly formed Valencia Landbank Venture, was $3.1 million.

Net income was $3.7 million for the quarter.

The Company has four reporting segments: Valencia, San Francisco, Great Park, and Commercial. The segment results for the fourth quarter are as follows:

The Valencia segment is consolidated for accounting purposes. Total revenues for the Valencia segment were $106 million for the fourth quarter, which included the land sales, as well as marketing fee revenue we expect to collect as homes are sold. We closed on 442 home sites for $102.2 million. We entered into a sales contract for an additional 45 home sites, which will close in 2021.

210 of the 442 home sites closed were sold to the newly formed Valencia Landbank Venture, in which Five Point owns a 10% equity interest. The Landbank was formed to facilitate land sales of Valencia to home builders who are pursuing balance sheet alternatives to land acquisition and just in time delivery of home sites. Revenues associated with these closings are reported as related party land sales, and 10% of the gross margin from the land sale is deferred until the Landbank sells the land to the third party home builder.

The Valencia Landbank Venture is an unconsolidated entity, and its operations will be accounted for under the equity method of accounting. Five Point contributed $4.2 million to the Landbank in the fourth quarter and $1.6 million of the gross margin from the sale to the Landbank was deferred through equity in loss from unconsolidated entities. The Valencia segment profit was $27.5 million for the quarter.

The San Francisco segment is consolidated for accounting purposes and recognized a loss of $3 million for the quarter, which was primarily related to SG&A for the segment.

The Great Park segment includes operations of the Great Park Venture, the owner of the Great Park neighborhoods, as well as the management services provided by the management company to the Great Park Venture. As a reminder, we own a 37.5% percentage interest of the Great Park Venture and 100% of the management company.

The operations of the Great Park Venture are accounted for under the equity method of accounting, and therefore, the assets and the liabilities of the Great Park Venture are not included in our consolidated financial statements. The Great Park Venture is a self-funding operation with no debt and had a cash balance of approximately $128 million at the end of the year, which is not included in Five Point's consolidated cash balance.

Ownership interests in Great Park Venture are either percentage interests, of which Five Point owns 37.5%, or legacy interest. Holders of the legacy interest are entitled to receive priority distributions of available cash in an amount of up to $565 million. To date, the legacy interests have received distributions of $431.3 million, including a $76.3 million legacy distribution which was made in January of 2020. The remaining aggregate distributions payable to the holders of the legacy interests total $134 million. Of that $134 million, the first $45 million will be paid to the holders of the legacy interests prior to the commencement of distributions to the holders of the percentage interests.

We anticipate the next round of land sales of the Great Park later this year to generate enough available cash to fund the $45 million priority distribution to the holders of the legacy interests and to commence distributions to the percentage interests, of which Five Point will receive 37.5%.

For the fourth quarter, the Great Park segment revenues were $7.2 million, which were primarily related to $5.5 million in management fee revenue recognized by the management company for services provided to the Great Park Venture. Net income for the Great Park segment was $0.4 million for the fourth quarter, which was comprised of approximately $1.6 million of income from the management company and a $1.2 million loss from the Great Park Venture operations.

The Company's equity in loss from the Great Park Venture after adjusting for a difference in investment basis was $1.3 million for the quarter.

Our Commercial segment includes operations of the Gateway Commercial Venture and management services provided by the management company to the Gateway Commercial Venture. We own 75% of the Gateway Commercial Venture and 100% of the management company.

The operations of the Commercial Gateway Venture are accounted for under the equity method of accounting, and therefore the assets and the liabilities of the Gateway Commercial Venture are not included in our consolidated financial statements. Commercial segment revenues were $2.2 million for the quarter, which reflects a reduction in rents as a result of the sale of the two office buildings occupied by Broadcom earlier in the year. Commercial segment loss for the quarter was $0.1 million. The Company's equity in loss from the Gateway Commercial Venture was $0.2 million.

With that, I'll turn it over to Sarah, our Operator, for questions.

Operator

We'll take our first question from Michael Rehaut from JP Morgan.

Elad Hillman

Hi, this is Elad Hillman on for Mike. Thanks again for taking my questions and congrats on the sales at Valencia.

I wanted to delve in a little bit into the sales trends again at Great Park appreciating some of the commentary you gave year-on-year. I guess I was more curious kind of sequentially how things have been shaking out for the builders so far this quarter and last quarter?

Emile Haddad

What we're seeing at the Great Park is actually a really strengthening trend starting from the beginning of the year in a very meaningful way. In the past, I used to reference that pre-COVID we used to see about net nine to 10 home sales [per week]; and actually, in the period of March of last year, we were selling out of 22 communities. Today, we're selling out of 15 communities. We're seeing a trend somewhere between 20 and 30 sometimes, net. But the more important thing is we're really seeing very little cancellation.

Last week, for instance, we had 20 net sales and zero cancellations. And that tells you that buyers do not want to walk away because home prices are going up and they know that builders will be able to sell the homes for higher. That also tells us that the buyers are being able to qualify. The interesting thing that we've been watching in light of the movement in the Treasury is that our buyers in the last phase recently have been 22% cash buyers, and about 78% are using financing and those are putting down 35% down payment.

That’s important because as the market watches its potential uptick in mortgage rates, we are not that vulnerable because our buyer is a different profile buyer and I feel that it's important for us to highlight that because how mortgage rates might impact first time buyers in certain markets, is not necessarily how it's going to impact our buyers here.

As a result of the acceleration in sales by our builders, we now are talking to the builders and moving up potentially our land sale, the next phase at Great Park. I'm hoping that we can actually conclude all of that sometime in Q2, Q3. I can tell you that we went out with—usually we go out to our guest builders with a request for them to tell us what their interest is and then we start sorting through that, and as of yesterday afternoon, every product that we are offering has a suitor from the builders’ community or more.

We’re very, very encouraged about what we see with the Great Park and I think you're going to see that the same trend is going to carry in Valencia as well.

Elad Hillman

That's really encouraging. Just to follow up on that, I believe you still have about 4,000 lots to be developed and sold at Great Park. Is there any sort of quantification or cadence in development and sales that you're expecting to do in Great Park for those home sites, maybe 2Q, 3Q and for the full-year and over the next couple of years? Just kind of think about that (multiple speakers).

Emile Haddad

Yes. I think the question is what's the size of our offering? I think right now we're looking at potentially about 800. Maybe it pushes 900 home site sales at the Great Park for the next one. Again, we pay close attention to the segmentation of the product to make sure that we don't have overlap as far as the pricing structure, but right now, I think we're looking at about 800 to 900.

As I said before, although we have the number right now that is max of 10,500 in total, with the state movement right now towards allocating needs of housing to each of the cities and counties, we are trying to see how we can assist in that and potentially increase the number of home sites at the Great Park since we have the capacity from a land point of view to add more homes, and we're hoping that that could be something that could benefit the public/private partnership we have with the City of Irvine.

Elad Hillman

Great, and then one for Valencia, if I could squeeze one more in. I was curious if you're seeing some changes in the builder land acquisition strategies, if there's any changes you're seeing in the underwriting criteria? And what was kind of the driver to create the Valencia Landbank Venture?

Emile Haddad

Well, I haven't seen anything in the underwriting that has changed. Obviously, the builders have developed discipline in terms of their underwriting that I think has been consistent for many years, especially the ones that we partner with in our communities, the large publics. I think that what I can tell you is that we're now getting a lot more interest on the builders about buying more land. I think the last report that John Burns issued, about the sentiment of the builders and the summary of all of the earning calls from the large builders, there's a consistent message about the need for more land by builders. As I said before, we've been waiting for this for a long time, because we have been positioning the Company to be in the top of that growth. And we are the largest provider of land in primary markets in the State of California, and it seems like the market is finally picking up in a big way.

We're very excited and I think you're going to see a lot of good things happen over the coming two to three years in terms of builders. What we try to do is we try to be a partner as much as possible with the builders. Builders today, if you read what they're trying to do, they're either buying land off balance sheet and taking it on a rolling option, and that was the logic behind establishing our own Landbank, so we can provide that as a service for people who do not want to take the land on the balance sheet, because our land is pretty expensive. And also, if you listen to all of the CEOs, they all are talking about getting land that is ready to go in terms of building homes, and trying to stay away from land heavy, land development entitlement risk.

So that's what we do. And we've been working at it now for many, many years, to go through the entitlement process, to go through the land development, to build state of the art schools and amenities so the builders can actually do what they want to do, which is simply build homes and sell homes, and not have to make promises to their buyers about a potential amenity coming or a potential school coming. They can actually point to it as the buyers are looking at their homes. We feel that the strategy we put in place for many years is now starting to dovetail very nicely with the strategy of all of the builders.

Elad Hillman

Great, that's very helpful. Thank you.

Operator

Next, we'll take a question from Alan Ratner, Zelman and Associates.

Alan Ratner

Hi, guys, good afternoon. Congrats on all the progress here.

First question, the Great Park land sale, and thank you, Erik, for the color on the distribution. Any chance you can give us just a rough estimate, assuming you do kind of sell the 800 to 900 lots that you're expecting, what dollar amount that might come back to you in terms of a distribution?

Emile Haddad

Well, we have not disclosed it, but since you're asking we'll tell you. We are expecting somewhere between $120 million to $150 million in distribution this year as a result of that, which, as you know, because you've been tracking this, is very meaningful.

Alan Ratner

Absolutely. That's great news. Thank you for that.

Second question, I apologize if you've commented on this in the past, and I just don't recall. But I'm curious if you've had any conversations with build-to-rent operators in any of your communities.

Obviously, that seems to be the new hot part of the market, all the public builders are getting into the space, or at least a lot of them are, and certainly the SFR operators are as well. It would seem like that would be a great opportunity for you to accelerate some of the absorption of your lots in the communities given that it's a different product type. It's not competitive with the for sale guys. Curious if you're going down that path? And if so, how does the underwriting differ for those buyers in terms of how they're thinking about the value of the land?

Emile Haddad

Well, we have not engaged any of the for-rent builders, but I can tell you that we are looking at it ourselves. And as part of our commercial segment, we expect to add apartments, ultimately, and potentially single family for-rent as part of our portfolio. The way it works for us is with the Landbank being established, we potentially could take the land in the Landbank and then take it out from the Landbank to build it and rent it. That's the process that we're going through as we speak. We are having deep discussions with the Board as we speak.

And so what I think you should expect is that as the year unfolds, and as we have more discussions with our Board, in terms of our strategy going forward, hopefully we'll be able to share with you more and more what we're thinking of in terms of the for-rent program.

Alan Ratner

Right. Sounds exciting.

Emile Haddad

Erik just slipped a paper in front of me as I see—thought I was being a little bit too aggressive in the distribution. He said, please tell them it's $100 million. So, Erik wants to tell you it’s $100 million of distribution to Five Point.

Alan Ratner

I'll bring it down to $90 million, Erik, just to make you sleep better at night.

Emile Haddad

You've known him for a long time.

Alan Ratner

Understood, guys. Good luck. Thanks again.

Emile Haddad

Thank you.

Operator

Thank you. Next we'll take our question from Stephen Kim, Evercore ISI.

Stephen Kim

Yes, thanks a lot, guys. Let's see here. I wanted to touch on the comment you made about the political environment turning towards the prioritization of increasing supply. I think you said, you're having conversations about increasing density in some of your communities. I guess the first question just kind of big picture. I assume you meant Valencia and Great Park, but is there any potential opportunity for the timeline in San Francisco to accelerate, or do you think the environmental concerns there effectively supersede the desire for housing supply? And is that kind of out of the conversation as a result for now?

Emile Haddad

Stephen, first of all, nice to hear from you and I'm glad everything is well with you.

Stephen Kim

Yes. Thank you.

Emile Haddad

We contemplated whether we wanted to talk about San Francisco or not. We really wanted the—my comments at least, to be acutely focused on the residential, just because it's on everybody's mind right now and everybody knows that the residential market is doing very well, and therefore I do not want to dilute that strong message with discussions about commercial or San Francisco. So, we contemplated the question, and we're ready to answer it.

Here's the answer. If you recall, for the last two years since the Navy came out with the press release, and we started dealing with the issues in San Francisco, I used to say that, unfortunately the political environment that existed before November and the friction that existed between the Federal Government and the State of California - and this is not a big secret - was not helping. We found ourselves stuck in that friction. What we've seen since the change of administration, and since now that we've seen the amount of influence that the State of California has in Washington, D.C., we now have started seeing a lot of more movement.

We've seen reports from the Navy about clean up. We have now in front of us a schedule that came out of the Navy that shows that they're ready to deliver the first parcel in 2023, which is a very sizable parcel, and go through the rest of the parcels until 2026. The reason I didn't want to say it is because we are working right now extremely closely with representatives at the state level, at the federal level, with the City of San Francisco, there are multiple conversations happening to try to make sure that these schedules and these commitments are firm. And that's why I didn't want to say anything. I was hoping that I can actually deliver that news in the next call when we have more confirmation, but I can tell you that I am feeling much, much better about where we are in San Francisco, and the fact that things are going to move.

Going back to the first part of your question, I think the opportunity of intensification—and I didn't want to say increased density, because I didn't want people to think we're talking to our partners on the public side is going and building a bunch of very high density products at the Great Park and you've seen here. We're probably right now at a density that is almost 50% of the density of what The Irvine Company has built around us. So, we have a lot of ability to intensify without going to mid-rise and high-rise and a lot of intensification. Not that we won't do it, but we have the capacity.

In Valencia, as you know, we have a lot of land and that's something that we will visit as we go. We're in the beginning of that. We still have 21,000 homes ahead of us, but we want to make sure that we are helpful in terms of any needs that the county has.

San Francisco is a different story, because San Francisco, if there's a willingness by the city to go to a higher density, a lot of the product that should be built on the water in San Francisco is more of a higher density, high-rise, mid-rise product, mixed use. And therefore, I think San Francisco has a lot of capacity to intensify.

Those are really early discussions. All I wanted you to know is that the environment in California has shifted in a very, very meaningful way to pro-housing. The problem is, the process takes too long. There isn't much land in the primary markets. And that's why we find ourselves in a unique position talking to our public partners.

Stephen Kim

Well, that's great Emile. I appreciate that. And don't worry, your secret's safe with me. I won't tell anybody.

Emile Haddad

I know that. I'll only read about it this afternoon.

Stephen Kim

Yes. That's very helpful. Second question relates to Great Park specifically. You took an impairment on that last year when everything was all up in an uproar, and I remember that because of the JV nature that sort of precipitated that or compelled you to do that. If you were to get some additional home sites permitted, I'm wondering if there's anything about that impairment that might influence the cost basis lower. Or if you could just talk about how you would anticipate the cost base is to be determined from these extra home sites that could conceivably be created.

Emile Haddad

I'm going to have, if I say something that is inaccurate, Erik, will jump in and correct. But let me just put it in perspective.

The impairment we took was $30 million and it's really a very, very small number when you compare it to the total budget and total revenue at the Great Park. So, $30 million is not going to change the basis of the cost in any meaningful way to impact the margin. What we did at that time is we took a very conservative approach when the pandemic started by making assumptions that were based on our view at that time of how the economy and how the market might move.

And the main reason why the impairment took place is because we assumed that home prices were going to stay flat all through the year as builders were trying to sell and that's why we didn't sell any more home sites. We actually were told by our auditors that if we wanted we could have avoided taking the impairment and wait, but I did not want to not do it because I wanted to at least deal with it from an accounting point of view the way I was seeing the world at that moment.

Looking back, obviously, the market behaved in a much better way. And if you were to reverse the clock, we probably wouldn't have taken the impairment. Now, what's going to happen, though, is there's additional home sites with home price appreciation moving up, that should expand the margin over time, but this will not reverse the impairment.

Stephen Kim

Got it. Okay, that is helpful. Now, just a clarifying comment. You indicated that the density in Great Park I think you said it was about half that of Irvine. I assume that's including all the land and that's not talking about the portions of the sites that have been developed. You're talking about the entirety of the parcel, right? That's what you meant by the density is only 50%?

Emile Haddad

Yes, what I'm doing is that—yes. I'm saying, look, if I take the number of homes that we have approval on, which is 10,500, divided by the buildable acres we have, and we compare it to everything that surrounds us, we would look at half of the density. Let me put it this way: if I were to take the density up by about 50% to 60% of what we have built so far of the density we built, we probably can build another 7,000 homes. We have a lot of capacity without starting to get into the area of very high density. And that's what we have been analyzing and looking at. Obviously, the analysis is a very complex analysis because of capacities in traffic and all of that. But from a pure density point of view, if I were to just go up to what was around me, I can probably add anywhere between 5,000 to 7,000 homes.

Stephen Kim

Great. Yes. Okay, that's helpful. Lastly, I know that, at one point, there was some conversation, speculation one might say, about Concord. I know Lennar was very actively involved in that, then that deal fell apart. What I hadn't heard was—I have no idea if there's been any additional movement there in light of your comments about California, generally, in a political environment, around housing, whether that has in any way, shape, or form, come back into the conversation, or if there's any other potential sites that are of interest that you're doing, any kind of active work, feasibility analyses and that kind of stuff for rent.

Emile Haddad

Sure. Nothing has happened on Concord in particular. I can tell you, in discussions that I've had with the state of identifying land that the state owns, and finding private partners to put in a public/private partnership to start providing housing, as you know with the role I played up there with the amount of involvement and who we are as a company in the state, that's where I see the possibility. But if your question is focused on Concord in particular, nothing's happening in Concord.

We stopped getting involved in it. Right now, candidly, we've been clear that there's so much value that we can extract from our own communities in light of the shifts we are seeing, the positive shifts. Our focus has been much more on our communities, especially that there's only four of us that show up at the office every day, and everybody's busy at home. And we have a big lift in San Francisco.

If you ask me, is there going to be opportunities in the future? The answer is yes, but right now we're focusing on what we have.

Stephen Kim

Great. Last one, I promise, just kind of big picture. As we're really at the very early stages of Valencia, which is a multi-decade kind of project, I'm curious as to whether you have any thoughts about how a rapid acceleration in home prices at the beginning of the project influences either the way you think that project ought to be valued, or it affects how you anticipate what was the optimal strategy for working through that project. Because, that's kind of what we're seeing right now.

Home price’s up mid-teens year-over-year, homes at unheard of rate. And, really, I'm not in any way suggesting that's going to stop near term, but certainly that's well beyond what figures people were sort of talking about, and obviously, everybody kind of straight line things. The fact that it's happening right at the beginning of your project selling, does that have any implications for how you strategically work through that project to maximize value?

Emile Haddad

Stephen, the answer is probably not really. I think that we obviously like to see home price appreciation because that translates to a big movement in land price. But you have to be very careful when you're developing something like Valencia. As you said, that's going to take a long time. Because over a long time, I don't think any of us expect the home prices to appreciate at a rate of 18% on an annual basis, and that actually is a dangerous place to go, we tend to focus on what does home price appreciation mean to affordability.

What we care about the most is staying within a range of affordability that allows a very broad base of buyers to be homebuyers. That's why we deal with the product items, the diversity in product. If you look, right now, in Valencia, you will see that we start actually at 720 square foot homes, one bedroom, which is an entry home for anybody who wants to move from an apartment to a homeownership and start building equity. And we go all the way to 3,700, and as I said later this year, we’re going to go—you have to spend a few days up there because we're going to visit more than 50 model homes that cater to all that.

Our view is always about, okay, am I on the positive side of home price appreciation and the translation to value per acre, but also a cautious eye about affordability that might start actually getting us in trouble.

We looked at that. The strategy of the Company, Stephen, you’ve known us for a long time, has been very, very consistent, which is build the right amenities, build the right schools, build the right mix of products, attract people who really are not speculators but really homeowners and give them the program that everybody is looking for in terms of amenities, open space sports, as well as healthcare and public education. And if we stay true to that, at the end of the day, we can actually navigate the cyclical nature of the business in a much better way.

Stephen Kim

Yes, makes sense. Thanks a lot, Emile. Appreciate it.

Emile Haddad

Of course.

Operator

Thank you. We'll take our next question from Ken Hansen with Stifel.

Ken Hansen

Thank you, gentlemen, for taking the time to answer my questions. For full disclosure purposes, I’m with Stifel and I’m a chartered financial analyst, but I’m calling because I’m a shareholder and not representing the company’s interest, Stifel’s interest in the firm.

I'm familiar with the Great Park because I moved my office to 400 Spectrum Center Drive so I can look down on what you're doing every day. I also spent a good many years flying off those runways at El Toro Marine base. So, I'm familiar with what you've done, but I really didn't get clued in until I went over to the Harvard-ASU hockey game in December of ’19 and found out what a truly world class community you were building.

I became a shareholder just this last year and the reason I did it is because what I see you doing is so world class, yet I look at the performance of the Class A shares and there's a disconnect there. You rightly point that out in Page 30 of your 10-K. So, it's not something that people don't know who’ve owned the share class. So, I just wonder about why it is that Wall Street isn't rewarding you for what I see on the ground. And what can you do about it?

Is it the capital structure’s too complex for people to do discounted cash flows? Is it that the rewards to the builders and their vertical infrastructure costs are higher than the rewards to the innovators like you that build a community and have these horizontal investments? Is that just the fundamental nature of the development business? But I'm curious to know what happened and what can be changed to either enlighten people or to financially make this clearer, so that investors really reward you for what you've done.

Emile Haddad

First of all, Ken, really appreciate the nice words you used about world class communities. It means a lot to us over here who have been working on these communities for two decades to see that there are people who are buying our shares just because they come and visit the amenities and what we're doing.

Let me answer the question, because it's a great question. And you're talking to a frustrated shareholder, one of the largest shareholders who, obviously, is probably the most frustrated, because I put all my eggs in this basket; as you know, I'm very committed to this and have been for the longest time. And it's very frustrating to see that the public market does not have an ability to see what you are seeing as somebody who came and saw that.

So, let me just tell you, firstly, you're going to the heart of the discussion that we're currently having with our Board as to how do we educate the market. How do we tell the market that the disconnect between the value of our assets and the market cap is so large that it actually should be much more attractive for people who want to get on the ground floor of this Company? Here’s the things that I can tell you from my perspective, have been factors and here’s what we are doing in order for us to help the market understand it.

Factor number one, as you know, and obviously you do because if you're referencing Page 30 of the filing I know that you've read it, we have a very complex, organization structure that came about as a result of the combination of four entities that was focusing a lot on tax efficiency for either investors or (inaudible). We were looking at all of that, and trying to figure out how do we explain to the market. How do we simplify that complex structure?

Number two, Valencia, up until now has been a little bit of a mystery to people, because a lot of people have been hearing about Newhall or Valencia for many years and a lot of people wanted to see it to believe it. And the good news for us right now, it's happening. You go up there, there’s homes being built. Valencia is the largest asset we have, and that is turning the corner. I think that gives us an opportunity now to start explaining to people the amount of value that exists in Valencia and the amount of cash that’s going to come out.

Third, half of our book value sits in San Francisco. San Francisco, nobody's going to ask questions about the location of San Francisco and the San Francisco market, and how fortunate we are to be where we are. Unfortunately, over the last, almost three years, the noise that came out as a result of the Navy and the contractor and all that has really created a lot of ambiguity about the timing, as Stephen was asking, about San Francisco. And we can actually pinpoint a shift in the stock price downwards that started with the press release that came out of the Navy.

I mean, I have a chart that I've shown the Board that shows that the Company lost almost 50% of its market cap within a very short period after the Navy came out with this noise. And I think that's going to fix itself this year with the information that’s going to come out of the Navy and with us being able to articulate more and more the fact that San Francisco is going to be back on track at some point in time.

The last factor, the major factor is, the only asset that has been a contributor to the Company, our operation up until Valencia has been the Great Park. As Erik said, and as I alluded in my opening remarks, because of the priority distribution to the legacy, and the amount of priority distribution being almost $500 million, a lot of people have doubted whether the $500 million is going to be paid out in two years, five years, or 10 years, because we feel it's a big number. And until that number gets retired Five Point’s not going to get the distribution. And the good news is, we are announcing on this call that this year it will be retired, the priority component, and we're going to get $100 million, hopefully more in distribution to the Company.

Those are factors that are going to help us bundle that. What we're talking about now is finally after being public for almost four years, we're going to be able to go out to the public market in June and we're going to be able to articulate all of these changes that should change behavior.

Now, you mentioned discounted cash flow. I don't think discounted cash flow is meaningful to anybody, because our community is built over two decades sometimes. When you start getting into assumptions that are past two or three years, that information is not helpful; and who knows what the market is going to be doing in 2030. We believe that the best way for people to look at the value and the disconnect in asset value versus stock value is either a multiple of book or an NAV. And what we will be doing is we will be helping people like yourself, analysts, and investors to understand what the NAV is, and how that NAV is so much disconnected from the market cap of the Company, which from my perspective, I believe there's almost a 4x disconnect.

Ken Hansen

Thank you, I appreciate that. I am a product of USC’s fantastic accounting school, but I must say that I have to do a lot of work to get through the details of your 10-K to find out what's really there. So, whatever you can do to simplify would I think help the process.

One last question for you. There's a lot of development, commercial development around you, down here in Irvine and the Spectrum Terrace for example up the 133 and then off the Sand Canyon 5 Interchange. I'm wondering with the pandemic and with that local build-out, how do you see that impacting your commercial build out?

Emile Haddad

Yes. We made a decision probably about three years ago to pivot our commercial into healthcare and life science; and lifestyle retail, meaning food and beverage, that is really more an additive amenity to the community. Our City of Hope partnership is a big step forward. I think what you probably should expect from us is more and more in the space of commercial being targeting healthcare and life science. We have a lot of interest, not because of us only, but because of people who want to be in the same order as the City of Hope. And we have a lot of people who want to be part of that. And even the City of Hope now is expanding its foot footprint and asking for additional space, and they now believe that they're going to actually add potentially two more floors to the hospital. So, they're expanding their footprint. And a lot of people want to be within that area. I think that's why we don't see ourselves competing, for instance, with The Irvine Company in office space and a WeWork-type of a program. We are much more focused on a very, very specific segment, which is healthcare and life science.

Ken Hansen

Thanks for the time and the comments, and as an Irvine resident thanks for the quality of the environment you've created here. And I am familiar with Robert Stone and had a conversation with him at a mutual friend's memorial service. He mentioned his commitment to Irvine and to Five Point, and that's an indication of the quality of people that you're attracting to your project.

I appreciate that as a shareholder. I hope—and I'm a recent shareholder so I haven't gone through the pain and suffering that previous shareholders have, but I think with the clarity that you're going to bring to the net asset value calculation and the streamlining of it and the legacy payments, that's going to make things a lot easier. So, from an Irvine resident's standpoint, thank you for what you do and from a shareholder I think good things are coming. Appreciate it.

Emile Haddad

Thank you very much, Ken. Really appreciate it.

Operator

Thank you. We'll take our last caller in the queue. Sean Farinaccio, The Rosen Group.

Sean Farinaccio

Hi, Good afternoon. It's a pleasure to hear from you guys and a lot of really important and insightful perspective being rendered. I really appreciated you guys touching on San Francisco specifically, because obviously, that's an area where the timeline has been impacted relative to the initial expectations.

I was wondering if you had any update on whether we could expect to see progress at Candlestick in the near to medium term?

Emile Haddad

I'm sorry, Sean, I was having difficulty hearing you. Can you repeat the question, please?

Sean Farinaccio

I apologize. No, I was just hoping to hear whether you guys had any insight as to whether you were going to see some progress at Candlestick Point this year in San Francisco. I appreciated the commentary on the shipyard and the timeline, but I know that that area is able to be advanced prior to the Navy finishing its review, so I wondered if there's any activity we can expect to see there.

Emile Haddad

Yes. First of all, the answer is, yes. That is not activity, probably, that you're going to see, in terms of construction, but you're going to see a lot of more things we're going to be able to share about the alignment of interest that we have with the community and with the city and the fact that the city, and people who are representing San Francisco in Federal Government. You're going to hear us all speak with the same voice about fulfilling commitments made to the community out there and to the City of San Francisco. I think you're going to see a lot of statements that are going to be indicating what's going to come next.

We are having extremely constructive discussions with the city about repositioning Candlestick and how Candlestick could actually move forward. As you know, I have been saying all along that from a technical point of view, as it relates to the timing of the Navy cleanup, Candlestick is not entangled in any of that. But obviously, we look at it as one community that is all tied together, commitments that were made to the larger communities, a lot of those benefits come from Hunters Point. And I don't want to end up sending the wrong signal to the community over there that we're moving forward with Candlestick and abandoning the community of Bayview Hunters Point and the community over there that really was with us from day one.

The short answer is yes. I think you should see movement at this. We believe that 2021 and 2022 will be totally different than the last two years in terms of San Francisco. But I can't tell you that that's going to translate to construction going on in the next few months. But we're definitely on the right track.

Sean Farinaccio

Thanks very much. That's very helpful. I guess just a last smaller question would be I wanted to—I feel like the City of Hope is such a great archetype of the type of collaboration with a big occupier of real estate that you guys have had. I know that you guys have monetized a large amount of the gateway venture. But I also know that you do retain some building and some land. I was wondering whether things are going as you'd expected so far with regards to the construction of the City of Hope, and whether you guys have a good outlook on your ability to generate more value from your residual assets from that.

Emile Haddad

Yes, and Ken before he was talking about the fact that he knows Robert Stone, the CEO of City of Hope. If you were to listen to our conversations, which we have very frequently about what we both envision here in terms of the relationship, that alone might actually move the share price. So, to answer your questions, first of all, the City of Hope is under construction. I come every day, and they're all doing the tenant improvements and it's moving really well.

We got a call from them two weeks ago that the Board had a meeting and they decided to expand the hospital by two floors and they're now asking us for more space. There's a lot of actually activity that's happening between the two of us that not only is going to be dealing with the cancer center and the hospital, but also in terms of collaboration together and with others about reimagining healthcare delivery, improving it in our community that they can then start exporting. We're also talking to City of Hope potentially about having a footprint in Valencia and others who are closing (phon) with the same order.

We have a lot of thoughts right now and plan on having more healthcare providers to the area. And hopefully, within the coming quarter or two, we'll be able to speak more about them, but I can tell you last year has accelerated a lot of what we always were thinking of in terms of health care in our community.

So, stay tuned, but you're going to hear I think some very encouraging things.

Sean Farinaccio

Awesome, thank you so much.

Emile Haddad

Thanks, Sean.

Operator

Thank you. That does conclude today's question-and-answer session. I'd like to turn the conference back over to Mr. Emile Haddad for any additional or closing remarks.

Emile Haddad

Well, thank you, everyone, for joining us. I don't know how you feel, but I'm starting to feel really optimistic about what's coming both in terms of health and our dealing with the virus and the pandemic. We all are starting to see a light at the end of the tunnel. This is a different March than the March we had last year. And I can tell you from my perspective I am so excited to start seeing us go back to a normal life with a backdrop that is so positive in terms of our industry.

I really want to take this opportunity to thank every one of our associates, who has contributed to our success last year and is working very hard from home, most of them, in terms of the balance of the year. I want to thank our Board for their support all through this period. It has not been an easy period for anybody. But we're very, very excited about where we are, and we look forward to more good news as we unfold the balance of 2021. Thank you very much. Happy St. Patrick's Day, everyone. Thank you.

Operator

Thank you. That does conclude today's teleconference. Thank you for your participation. You may now disconnect.