ISSUERDIRECT
Trading Under the Symbol: ISDR

Transcript of
Pure Cycle Corporation
Three and Nine Months Ended May 31, 2020 Earnings Call
July 7, 2020

Participants
Mark Harding - President and CEO

Analysts
Geoffrey Scott - Scott Asset Management
Tucker Andersen - Above All Advisors
Elliot Knight - Knight Advisors

Presentation

Operator
Greetings, and welcome to the Pure Cycle Corporation Three and Nine Months ended May 31, 2020 Earnings Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. [Operator instructions]. Please note, this conference is being recorded.

I will now turn the conference over to our host, Mark Harding, President and Chief Executive Officer. Thank you, sir. You may begin.

Mark Harding - President and CEO
Thank you, and I'd like to welcome you all to our third quarter earnings call. Just some housekeeping issues, as you all are aware, there is a deck for this call. It will be on our website. So you can find that at purecyclewater.com. There is a couple of places to find that, they will be on the landing page where you can click on the third quarter conference call, or you can navigate over to the investor page and I think it's there as well.

What I'll try to do is I'll go through the presentation and I'll note the transition of the slides, so you can kind of walk through the presentation with me. Much like our previous calls, I'm going to probably skip over pretty quickly a lot of the history. I think most of you are familiar with the history of the company, to those of you who are new to the company, our website has some pretty good tutorials on that. There's a couple of good webcasts on there that will give you some listening time to get a lot of color about sort of how we got into the business, some of the assets that we've acquired through the years and how we're kind of undertaking what it is that we're undertaking. So you can combine that with some of the details on kind of keeping investors current through these quarterly calls.

So with that, I'm going to go ahead and start. And as usual, I'm going to get the lawyers out of the room first and talk about our Safe Harbor statement and statements that are not historical facts are contained or incorporated by reference in this presentation are forward-looking statements. I'm sure you're all familiar with the forward-looking statements. Actual results will differ from those contemplated in forward-looking statements.

So with that, page 3, just a brief overview of key assets. We're a wastewater land development company. So we have a large portfolio of water and water short area here in Colorado where you can actually own water. So in addition to the utility function, along the way we've acquired some very valuable land assets and are developing those land assets to provide single-family residential, multifamily lots, commercial, retail, light industrial lots to developers on parcel of property located along the I-70 corridor, which is about four miles south of the airport. So we have terrific transportation access on the property as well.

We also supply a lot of water for oil and gas, although we haven't supplied a lot of water for oil and gas this year. We'll talk a little bit about that and a little bit of color about that later in the presentation. And then we also have some mineral estate where we collect oil and gas royalty revenues from the oil and gas interests that we own on properties that we own.

Slide 4, gives you kind of an overview of some of the water utility assets that we have. The water kind of the sandbox that we're in. We're in the Southeast part of the Denver metropolitan area, some of the infrastructure and the water that we're developing. Slide 5, draw your attention. The Master Planned Community has teamed [ph] Sky Ranch. It's about 930 acres along the I-70 corridor, just east of Downtown, directly south of the Denver international airport.

If you look at the project as a whole, the 930 acres, we should be developing something close to about 3,400 single family homes. And that's going to be a mix between detached paired product, where you have a duplex product or attached product, some townhome product and then some multifamily product. And then we have a little over 2 million square feet of commercial property zone, because we have about a half a mile of frontage along the interstate.

So we'll have a lot of commercial development that also is incorporated in this development plan as well. One of the units of measures that we measure our water utility segment by is something we call single-family equivalent. So if you just look at Sky Ranch, we have about 5,000 single-family equivalent connections at Sky Ranch.

So let me get into kind of the bulk of the update. Slide 6 will kind of give you a bullet point inventory of the lots that we have in our first phase. We have 506 lots in our first phase. We've delivered finished lots of almost 391 of those finished lots. We've completed all of the remaining work for the remaining 115 lots. So while we have not actually been paid for the remainder of the 115 lots, I would say we're probably within $1 million of our investment of completing all of the infrastructure, all of the roadways, all the landscaping for this first phase of the project.

We have about 120 folks moved in to the community and we have about 255 building permits, which is inclusive of that 120. So if you kind of do the math on those two, we probably have about 135 homes under construction from the three builders that we have. Our three builders in this phase are Richmond American Homes, Taylor Morrison and KB Home. All three national home builders, all have been terrific home builders to work with. So we've been very, very pleased with working relationship that we have with each of our home builders.

Both our water and our wastewater systems for this first phase have been completed. Our operating, our delivering both water and wastewater service to families, homes that are in this first phase. For sort of a picture illustration of how this has progressed. If you go to slide 7, you can kind of see quarter-over-quarter and just an extraordinary contrast of progress of the development in the nine months. If you really just take a look at how quickly we're selling homes in this first day, it's stunningly impressive for what it is that we're doing.

A couple of statistics. We took a look at the metro associated realtors and got a note from them just yesterday that they're reporting their June contracts were up 27% from a year ago. So I think June 2020 is one of the largest year of contracts in the metro area. While we had that statewide stay-at-home order here in Colorado, which was in place in April and most of May. We did have construction continuing. We didn't have a lot of traffic through the community. But what we saw was a lot of that was deferred to that June timeframe.

So all three of our builders had just an enormous June in terms of both traffic through the model homes and the community itself as well as sales. So both those things are remaining high through the building season. We are cyclical while we sell and construct homes year round. We do have a season here, which really extends from about February through October here in Colorado.

Moving on to slide 8, this will kind of give you an illustration of the balance of the project. If you take a look at that graphic illustration, the first 500 home is in that Neighborhood B, which is under construction. And then we are at kind of the latter stages of finishing up all of our development plans for our second phase. Our second phase will include about 480 acres. So it differentiates itself from the light blue right along the interstate there, which is going to be mostly commercial retail type development. And then the darker blue, which is going to be more single-family. We'll have a little bit more density in there. We'll have about 950 units in that phase. We'll probably look at four sub phases. We're negotiating contracts with four different developers. I won't be able to tell you which developers are yet, because we haven't finalized those contracts yet, but they are again four national developers.

We showed it to eight national developers and I had eight developers or eight home builders interested in the project. So I think that's a testament to the success of our team and the success of our current builders out there on really the absorption. As you saw from slide 6 of how quickly our community has really made a dent in the metropolitan area.

For the second phase, we're looking at starting our grading probably in the October, November timeframe. So late fall this year we'll do some of the site work on grading, some of the prep work on that to be able to start delivering those lots sometime in the fall of '21. So it takes about nine, ten months to do some of the overlap grading and the site prep work before you start getting into a lot of the finished lot deliveries.

Moving on to the next slide, that'll be a little more color on how this next residential components going to be laid out. So you've got a, a variety of product mixes, which really is going to segment the market out for a much more diverse price range of single-family homes that are going to be paired duplex lots, townhome lots, and then just some standard single-family detached lots of varying configurations. Some of them are going to be bigger lot, some of them are going to be relatively small with some Alley Load [ph] product and things like that. So, love the design of it. I think it's going to continue to feel of community out there and really carry forward all of the good work that we've done on the first days of this thing.

Moving on to slide 10, talk a little bit about oil and gas. Well, I'll sort of refer to oil and gas. There's not a lot to talk about. Don't have a lot of guidance for you on our industrial water demand segment still. The oil and gas price of oil has certainly recovered. Like to see that starting with the four, or would like to see it starting with five or even a six. I'm sure some of our operators would as well. They're still pretty cautious. I haven't gotten a lot of guidance from them about when they're going to start back some of their operations, but we will continue to monitor that. As you'll see in the numbers specifically, there'll be a stark absence of revenue from the sale of water too, even though we do anticipate setting records for revenue as well as profitability this year. So most of that's going to come from operations other than oil and gas.

Slide 11. So we'll talk a little bit about some of the numbers, talk a little bit about water investments. We continue to add to the water infrastructure in our portfolio during '20. So about a $5 million increase there. Cash and liquidity starting to build back that from sale and monetization of our lots. So we have about $17 million in liquid cash investments. That's a bit misleading because we've got about $2.5 million of collateral cash to the various governmental agencies while we're finishing up the infrastructure that we're going to turn over to them this summer and we'll get that cash back from them. So you see it on the balance sheet, but it's not reported as cash. So the liquidity is actually slightly better than our cash position would be.

Moving on to slide 12, gives you kind of a snapshot of our operating revenues. So, year-to-date three quarters about $16 million in operating revenues, earnings per share is about $0.25 per share. And then our net income after tax about $6.1 million. So as you're looking at sort of the revenue to our net income, very healthy metrics for us on that, which kind of proved to all the investment community, some of the things that we've been talking about for years on being able to acquire these highly valuable assets. And then the market has started to catch up with us on the value proposition of our land and water assets.

Page 13, we'll review some of these revenues by segment. So if you take a look at our land development, the delivery of lots of Q3 ’20, $11.5 million compared to $6 million in '19, and then what I've tried to do is give you a foreshadow of what's left as we've incurred all the costs associated with that. So we have some dollars that you'll see in inventory. So that is our WIP, our work in process. So we have about $7 million remaining. And I think it's about 115 lots, not 110 of the remaining 115 lots. I would say three quarters of those will close in August from two builders. That's what our contract’s calling for. So you'll see some of that revenue come in on year-end and then our fiscal year end, and then the balance of those we'll close out by calendar year end.

Actually all of that has been pulled forward and all of our builders, their original contracts had these extending into 2022. So we're actually getting these much, much sooner than originally anticipated. And I think that's a function of, we're hitting the right segment of the market. We have an entry level product that looks fantastic. That builders are able to deliver to homeowners that's been well-received.

Taking a look at our water segment revenues. So, we have two components of that. We have tap fee revenue, which is going to be the capital component of that. So Q3 revenues in ’20, $3.8 million compared to $1.8 in '19. And then if you try and segment out what we have remaining in the first phase of Sky Ranch, that first 506 slots, we have been paid for 255 taps. So we have about 251 taps remaining. And we're getting on average between water and sewer, right around that $30,000. Some more, some less, depending on the size of the lots and the size of the house. So again, that's going to be another $7.5 million of revenue that we've already made all the investment for within the community.

So when you start to look at, where we're headed with the investment that we have on the balance sheet, you're going to see probably another $14 million come in attributable to that. So some very healthy revenue still yet to come to balance out the $35 million investment that we have into the phase one infrastructure. Industrial water sales have been the hardest hit from the virus related impacts. And that's basically because of demand for travel and oil and gas in general. So we've had no real fracs or water sales attributable to that. Some small deliveries relative to pad construction and maintenance issues and things like that.

But we'll continue to monitor that, that's a variable delivery for us. So fortunately for us, we have a fixed investment into our infrastructure and then we can dial up or dial down that system as appropriate and we don't have a lot of inventory that goes away. There are water supplies will continue to be available for those uses. And then lastly, our oil and gas royalties. So those are a little bit stronger this year, and that's mostly because we've had new wells that were developed in our mineral interest. These wells are actually developed in our one-eighth pooling interest, as opposed to we have really one square mile where we have one-eighth of a two square mile pooling and then three-eighths in another pooling. These wells were actually in the smaller mineral segment of that. So those have been healthy for us this year. We enjoy that.

Slide 14 and 15 really start to get into what's in the Q [ph] itself. You have the balance sheet, good liquidity, no liability. I'm very proud of kind of our stewardship of investor capital where we've been able to accumulate these assets. We're very hawkish on our denominator for shares outstanding. The company has not issued shares since 2010. And we take very serious our fiduciary role for your capital and make sure that we're putting those assets to use. And we don't leverage this up.

We do have leveragability within the balance sheet and if there's an opportunity that will call for something like that, an acquisition or something like that, that may interest us. We have the ability to do that. But if anything, the virus issues and the downturn in an economy like this, our strong, healthy balance sheet certainly has proven a very strong stewardship for these company and our assets. So we're very pleased to be able to present a very clean balance sheet. And then also a very profitable income statement, if you take a look at that.

For those who keep track of how our assets are performing without the accounting principles and our favorite government taxes, we do show that non-GAAP EBITDA measure. And you take a look at if we're at $9.5 million on $15 million of revenues, that's tremendous asset potential, tremendous earning potential from some very long lived assets that's the company has been accumulating. So we're continuing to manage those assets. We're continuing to monetize those assets and bring delivery to those.

So that's kind of the end of the prepared remarks. What I'd like to do is kind of turn the call over to the moderator and then open it up to questions for folks. If you'd like me to drill down on any specific color, I'd be happy to do that if I can. So with that, I'll turn that back over to you, Diego.

Operator
Thank you. [Operator instructions]. Our first question comes from Geoffrey Scott with Scott Asset Management. Please state your question.

Q: I had to hop off for a minute or two. I hope I didn't miss it. Could you talk about the commercial development, the timing of it and kind of what your expectations are for what's going to move in there? Thanks.

Mark Harding - President and CEO
Yes. Good call. Good question. The key element of commercial, where you're selling lots, you might be selling large lots, a couple lots to the acre, that type of stuff. When you really get a good commercial development, you sell your land in the square foot range. One of the things that the company recognized is that it did not have adequate expertise either at the managerial level or at the board level to evaluate commercial deals. So our newest board member, Mr. Jeff Sheets, certainly brought with him about 25 years of Denver-based commercial real estate development expertise. So we're very delighted to welcome him to the board and his recruitment was very specific to that opportunity, Geoff, we really wanted to make sure that the company does capitalize on that.

If I were really to highlight one of the advantages of being debt free is the fact that we have the flexibility to be patient on the commercial stuff and realize the significant value, the full value of that. We've been approached by a number of folks that have had an interest in the commercial development, but they've been the type of players that would buy it and then sell it to somebody else, who specialize in commercial real estate development as opposed to actually developing the commercial real property. So we would like to eliminate that middleman by bringing on someone like Jeff with some expertise to do that.

I would say that we're probably maybe a year out from being the guy in getting the commercial reel [ph], the commercial accounts that have an interest in there, and that's mostly because of trip traffic and things like that.

So, as we start to balance out the rest of Phase 1, say getting closer to that 500 unit development. And really we're the only development and really the only interchange on the interstate within kind of a geometry of three directions going west towards Denver, the nearest commercial development is about eight miles away. If you go east farther out of Denver, there's some commercial activity, really just mostly a grocery store, not a lot of other retail. That's about 11 miles. And then you'd have to go about 10 or 11 miles south to pick up that.

So triangulating ourselves, we are in an ideal position for that commercial development. And then, I think what they're looking for is a little bit more density, a little bit more traffic. And then I think you'll start to see some deals go about that. We are in the market, we are talking with participants that might be interested in grocery, kind of a strip center type deal where you can get grocery and a couple of other things that couple onto that as well as some big box stores and things like that.

So when we envision that we envision kind of a full mix of retail, kind of the commercial side where you'd pick up those Walmart or Home Depot or Lowe's, or any number of the big boxes together with some square footage for transportation or warehouse or employment centers and things like that. So that's how we kind of look at it and really are looking at it to be patient enough to stay in the game to be selling it directly to the developer on that.

So we will likely to deliver a finished pad site for it where we will do what we're doing on the single-family lot basis, where we'll extend utilities to it, water gas, electric, sewer and then participate in varying deal structures on the commercial side. Probably not interested in going vertical on any of that stuff, but we want to try and optimize how we're going to participate with the marketplace on the land side and bringing all the utilities to it to best finance that.

Q: But really the commercial development won't start for another year or so?

Mark Harding - President and CEO
That's my hunch. Given the level of conversation that we have, I just think that's still about a year out.

Q: Okay. Thanks.

Mark Harding - President and CEO
Yes.

Operator
Thank you. Our next question comes from Greg Malakowsky [ph]. Please go ahead with your question.

Q: Just a quick question or first a comment that I do want to agree with the commend [ph] what you're talking about regarding the denominator and just in general, the handling of shareholder resources. I think it's definitely been a strength of the company and something that you guys have done a good job with in respect to that and where we stand. I was just curious if maybe you could shed some light on where you're leaning in terms of, if there are acquisitions where is it more on the land side? Is it more on the water side? Are there other assets that you're kind of looking at trying to plug into the equation?

And also, I guess tangentially related to that, if you've seen any sort of shifts starting from, I mean, Denver is obviously different from New York City, but there's been talk of virus-related kind of effects where people are maybe looking to actually move out of the city to more suburban or rural areas. And if that's something that maybe you're seeing starting to come into effect in the area where you guys operate.

Mark Harding - President and CEO

I'll take the latter part of that first and then talk a little bit about where our nets are out on terms of acquisitions. I think, Greg, we're probably very typical, maybe even slightly weighted to a continued suburban development model, the west, Denver particularly, but when you take a look at the bigger cities and I would not compare Denver as a big city compared to New York and some of the, larger metropolitan areas, but for Colorado being the largest city in Colorado, we look at that as an urban center and it took eons, I mean, really haven't had any urban development until maybe the last ten years where you started to see significant multifamily projects pop up downtown and those were long in coming and slow in acceptance.

And then, I think—and this is just my crystal ball—but I think you're going to see the very same trend is that a lot of those folks, who maybe they were young, cohabitation dual-income folks that, that started out because they wanted that urban lifestyle, they wanted to be downtown. They wanted to have the restaurant scene. And now as they start to mature up in the millennial segment, that they really want to start to take a look at families and really we get this from our developer, from our builders too, is that they have a lot of people who come out to look because they're climbing the walls, being locked in they're finding that 700, 800 square feet isn't enough space when you have to be there all the time and you have, one or multiple people working from home.

So I think that a lot of our June traffic and really the traffic coming out of the rest of the summer is somewhat indicative of that very trend. Now I would argue that we're also in the right price segment and you take a look at an entry level price segment for us. You can buy a house at our property for something starting in the 3's, and there's probably no other community in town that happens. And so, a lot of those builders are good at what they do, and they're able to plus that up a little bit. But still, I think most people are moving into this community with mortgages that are less than $380,000. So that I think is going to be a continuing trend.

And I agree, I think it's going to have more and more ramifications as we find this telecommute, we find technology platforms that continue to make it easier and easier for people to be productive working from home. And having four bedroom houses that you can buy at $380,000 level is going to be a very high demand for folks.

Taking a look at the acquisitions, we've been in the market for about a year because we've had the liquidity to do that to make pitches. And we've made pitches on a number of different types of projects. I think, as disciplined as you've seen us be on our denominator for shares, we're as disciplined with our acquisition pricing, there is a time to risk on that sort of stuff. And I was getting a little more risk on in the January, February timeframe and while I can't be very specific, because it's still an opportunity, had a deal that we just couldn't quite come to terms on and was, by the time March and April came around, I was extremely happy and they were a little bit regret that they didn't take our last offer.

And then we kind of cooled that one down and it's still active something that we're good, but if you're looking for personality on how we're looking at acquisitions, that's kind of the style that we're going to try and be good and try to be smart to make our money on the buy and not on what it is that we do, even though I think we'll make money on the things that we can do by adding water, adding infrastructure or adding development and entitlements to that. We are looking at both land opportunities where we can provide utility services. So those acquisitions would be maybe would not have water attributable to them, or just maybe have the groundwater beneath the property that would be attributable to it. Certainly not enough to provide urban level density development.

And even if we don't become the developer, if we just add the utility contract and get the entitlements, and then if it turns out that we find that's diverting our focus from other areas, which I think we're demonstrating a certain ability to be disciplined about how we do the land development as well. Not only in how we're pricing it, how we're developing it, but also how we're using cash management in that side that we want to be thoughtful about that.

And then also some utilities being able to be out there acquiring utilities. One of the things that the virus did, and put a lot of uncertainty into how quickly some of these acquisitions might absorb. And so where we might've had a little bit more conservative analysis as to how these things would absorb and the seller may have thought it would have absorbed a little bit faster to get a present value to be a little bit different, I think some of that is going to the virus issues and kind of slow down. And if nothing else, just the uncertainty to how some of that forecasting goes.

So we want to be disciplined about it, but we also want to make sure that, we do put stuff to work and we can continue to demonstrate we know what we're doing in this thing. So that would give you a flavor for some of what we're doing.

Q: Okay. That's a helpful. I guess just one other question relating to the jump in terms of actual household, there are people living at the community. Is that, again, going quarter-over-quarter and in terms of forward-looking, is there any sort of delay incorporated just through obviously things being shut down and whatever was going on in, March, April and May or is that really just more dependence on things relating to the builders and home closings versus being literally shut down from a government perspective?

Mark Harding - President and CEO
I would say, what our experience is that, while we did have slower closings in April and May that those buyers that would have otherwise been closing in April and May just rushed to the site in June, so we didn't lose any. So it was just kind of a timing difference. And you may not notice it just because it occurred in a quarter, but no, I would not say that we've seen any decrease in traffic or contracts from, if you look at this schedule instead of quarter-over-quarter, year-over-year.

In fact, I would say that the virus is going to be accelerating some of that demand. And that's what our builders are preparing for. It used to be that they would never develop spec homes and they always wanted to sell a home before they would actually start construction on it. And they're pulling taps and they're pulling building permits in anticipation of doing spec homes right now, just because they're getting a premium for being able to deliver those homes. So each of the builders are, I've been surprised that, given the level of traffic and they didn't pump the brakes. They actually moved over to the pedal, the gas pedal on that.

Q: Okay. Alright. No, that's helpful. Thank you for your detail and again, obviously your awareness of the needs to be disciplined and just the way you guys generally have handled the company, I think is excellent and worth mentioning, especially even earlier in the call. Just I don't think I've ever really heard, any executive at a company say, well, we just didn't really have the experience here so we waited and we brought somebody in. I think that shows a great deal of humility, and it's pretty awesome from a shareholder's perspective.

Usually you get a bunch of arrogant you-know-what about a different approach than that. So I think you guys are doing the right things. I think you're being disciplined. And again, just being very careful with the resources available, and I think that's going to continue paying off. So I want to say thank you and I'll jump back in the queue.

Mark Harding - President and CEO
Thanks. I appreciate that. I live with four women, so I'm very accustomed to being told what I'm not good at.

Operator
Thank you. [Operator instructions]. Our next question comes from Tucker Andersen with Above All Advisors. Please state your question.

Q: Thanks for all the good news. And as someone who participated in your last round of equity raise, I can attest that you have been true to the disciplines you said you would exhibit. And I guess my only disappointment is I didn't hear on this call that you were about to make the next Sky Ranch acquisition yet.

Mark Harding - President and CEO
I was hopeful that I would have that on this call too, but it just didn't quite pan out. But it's we do have our nets out and while I doubt that I could find another Sky Ranch, I mean, we acquired that at a scary time, which you actually helped us with. Thank you very much. We acquired that in 2010 and we acquired it when nobody wanted land. And while I think a lot of people want land today and I want to be part of that and I'm going to be competitive for that, I'm not going to be as Greenspan would say, irrational exuberant in how I spend your money. So we'll be opportunistic, we'll be optimistic, but we won't be over irrational about it.

Q: Yes. Couple of questions. First, could you give me a little more background on the commercial development in two ways? One is a lot of the commercial development that you envisioned knowing that it depends on who shows up, what I would call inward facing, is it going to be commercial to serve Sky Ranch, or is it also going to be dependent on that location you talked about and will a lot of it be looking beyond the Sky Ranch community as part of their commercial area of service?

And along with that, are you fully looking to monetize the commercial assets or would you be amenable if it seemed like a very good deal to a long-term ground lease on some of those?

Mark Harding - President and CEO
Yes, I would be amenable to a long-term ground lease. We do like that recurring revenue and we like to stay in the game in terms of increasing the value of the property. So as we continue to invest in the community and do what we do to make it an attractive place, those ground leases I think become attractive to you because you do get some appreciation on the real estate over a period of time and you still monetize it at a point in time. So I like those types of opportunities. We'll see how those play out.

When you take a look at where we pull from for our commercial, certainly the interstate gives us a tremendous advantage. It gives us the ability to impact from really more than five mile radius to the property and while 3,500 single-family units, that's a lot of density to be able to draw some of that commercial. Because we have good transportation access, we'll be pulling from that sooner than the build-out of our property. While I think our property will create a tremendous demand at that commercial center, I think all the properties around us and the access that we provide there with our interchange gives us leverage for a broader market segment that really will be in advance of building out our community itself.

So play it both ways. I think we get advantage from pulling customers from other projects and other properties miles away from our project, until our project creates enough density where we overwhelm the commercial development and hanging in there later phase on some of that stuff where we can still have some of that stuff in our pocket and can continue to add value as we add density. So that's the real play. And that's what we've tried to learn from our new director as to how to best look at this from a value where we can actually have that asset where we have no debt to it.

So, it's an appreciating asset and while it's not monetized for all of us to kind of mark that to the market, I think we'll continue to show that in smaller transactions where the per square foot in the triple net lease opportunities continue to demonstrate value.

Q: And my other question is a little more color on following residential developments. And I wasn't sure whether you were saying that the further developments you may see price points both above and below where you are now to the extent there's going to be multifamily, and things like that in terms of the terms of a move in and how you think those price points might expand. You probably have some ideas since you are in discussion with people for the next phase.

Mark Harding - President and CEO
We do. We do. And so, yes, we will have detached product at a price point that'll be at and above. We'll have detached product that will actually be below because there'll be smaller lot sizes. So, you may have a 1,600 square foot house on a 32 foot lot as opposed to a 2,200 square foot house on a 45 foot lot as opposed to a 2,700 square foot house on a 50 foot lot. So a variety of product segmentation, and then taking a look at sort of the townhome and the attached duplex markets, again, you'll start to see some product being the very low 3's, maybe even starting in the high 2's on a townhome type product that may roll up into a, 310 or something like that for that type of offering as opposed to a detached product.

So it's reaching, it's continuing to reach other buyer segments in this in kind of that entry-level market, other than just the detached segment.

Q: Sounds exciting. Keep up the good work. I'm [indiscernible].

Mark Harding - President and CEO
Well, I look forward to getting back to those muffin tops at the Harvard Club.

Operator
Thank you. Our next question comes from Elliot Knight with Knight Advisors. Please state your question.

Q: Well, this is very much like old home week to hear Tucker's voice on the phone. Smith Barney alumni, both interested in this fine company. Sitting here listening to you having said how Phase 1 is selling out and is ahead of schedule. And then listening to you outline what certainly sounds like better than expected perspective demand for Phase 2, it begs the question as to whether or not you would be interested in or the builders would be interested in, or even if it's physically possible, to accelerate the pace at which you move? Right now you're talking about grading fall 2020, lot delivery winter '21. Any possibility of accelerating that timetable?

Mark Harding - President and CEO
Great question. And I would love to be able to do that as would they. This will be the unintended consequence of the virus. While I think the private sector reacts very quickly, the public sector does not. And so if I was to lament any frustration and I mean I don't want to beat up on our local governments, they're doing a terrific job. But working remotely for the county government and some of our storm water management agencies and things like that, the turnover of drafts and comments far, far—probably tripled, whereas something may have taken months it has taken three months.

And so it hasn't been us that's deferred this to the November timeframe. We would have loved to have been in the ground late this summer and had fully intended to be, but that's one of the burdens that we have to bear on this.

Q: Okay, understood. Thank you.

Mark Harding - President and CEO

Yes.

Operator
Thank you. There are no further questions at this time. I'll turn it back to Mr. Harding for closing remarks. Thank you.

Mark Harding - President and CEO
Well, again, I want to thank all of you. And I know a number of you have been with us for a long time. Certainly tracking us, participating in all of the things that we've done with a high degree of patience to allow us to show you how we can monetize all this stuff, and show you where the value is in our water assets and how those can actually enhance the value of land here in the arid west.

So I've been thrilled to see this thing mature to this continued cycle. I have a lot of wind in our sale. I have a terrific leadership, I think the company is right sized. We have a terrific management team. We have terrific construction crews that have helped us deliver this project within budget and be able to pick up new tools for our toolbox to be able to do more in the next phase to make our costs and our margins much higher. So thank you for that. Thank you for your patience. Thank you for your continued support.

We were going to try and have an Investor Day this summer, but with travel the way it is, the folks that are here local, do call on me and do come out and see this. I continue to encourage you to come out and see it because it is darn impressive how this thing is greening up and the community with people. And it's impressive because with more people at home, you see more people than you would otherwise in the community. And the feedback that we've gotten from residents in the community, because they see our trucks, they see our guys and we're as disciplined as the guy that is laying some pipe or working on landscaping as we are at the management level, and all the guys if they see trash they pick it up and the residents in the community are our best voice. They're bringing their friends out, they are proud of where they live, they love where they live, they love the design, they love the maintenance of what we're doing and it's really just being attentive to the small things.

So we have a great team, have a great Board, got a good balance sheet that we are going to continue to protect and will look for opportunities to deliver other exciting ventures for you and continue to share that benefit to our shareholders and continue to monetize that. I lament that the market isn't quite caught up to where I think it should be. Of course, I'm sure you're accustomed to every CEO in the book telling you that their company isn't fairly valued, but we want to talk less and do more. So you will continue to see us really do all our talking through posting results and otherwise.

If you all didn't get a question that you wanted to, just don't hesitate to reach out and give me a call and we look forward to continued updates. So thank you all very much.

Operator
Thank you. This concludes today's call. All parties may disconnect. Have a good day. Thank you.