

ARE WE IN A REAL ESTATE BUBBLE, where demand is driven not by need but by speculation? Possibly. But you can make money even during a bubble if your timing is good.

In the past year Terry Bradshaw, the Hall of Fame quarterback who played for the Pittsburgh Steelers in the 1970s and 1980s, has bought two lots at El Dorado, a plush residential golf club in Los Cabos, Mexico, and several more at an exclusive development called Vaquero in the Dallas area. Bradshaw, who breeds horses on a ranch near the Vaquero club, won't be vacation-hopping among his acquisitions. His plan is to build homes on each of the lots, then flip all but one at Los Cabos, hoping for a 30% or more return. A portion of the proceeds will pay for a cliff-top vacation home for himself in Los Cabos overlook-

newest project, Baker's Bay in the Abaco Islands of the Bahamas.

Meldman's developments mix the exclusivity of a private club, to which membership is available only to property owners, with the amenities of a five-star resort, such as full-service spas, championship-level golf courses, restaurants, fishing, horseback riding and boating. At this end of the luxury real estate market supply is barely keeping up with demand.

What happens if and when the bubble bursts? The speculators in luxury developments tell themselves that they are all but immune to climbing mortgage interest rates. That's because so many property buyers at these resorts pay cash. It remains to be seen whether this nice theory holds up in practice, but for the moment there seems to be no end of serious golfers eager to pay \$2.5 million for a

more money we make on the lots we sell," breezes Meldman. "I want my developments to reek of quality."

In 2003 Discovery sold one undeveloped 1-acre lot by the beach at Kuki'o for \$12 million. In January the buyer flipped the parcel for \$20 million to the current owner, who plans to build a vacation home on the property.

A model for investors wanting to play this game themselves may be Robert J. Schumacher, 49. He is chief executive of Schumacher Interests, an investment firm in Woodside, Calif. with holdings in real estate and oil-and-gas exploration. After hearing about Meldman while shopping for a vacation home five years ago, Schumacher visited Discovery's Iron

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Live large and make a profit by flipping real estate at a high-end golf resort. Maybe. | **BY CARRIE COOLIDGE**

ing the Sea of Cortez. The rest of the profit "will be dumped into more real estate projects," says Bradshaw, who is willing to flip the second Mexico property, too, if the right bid comes along. "I like to be involved with this kind of investing because it is something that is tangible."

All of Bradshaw's real estate investments are in projects of Michael S. Meldman, the 46-year-old chief executive of Discovery Land Co., a developer of golf and recreational residential communities. Meldman has attracted a swarm of investment groupies who will buy lots just about anywhere he builds—and Terry Bradshaw is one of his biggest fans. "I am investing in Mike's projects because he has a proven track record," says Bradshaw, who is planning to invest several million dollars more in three of Meldman's other projects, including Mountaintop, a golf and lake club in Cashiers, N.C., Gozzer Ranch in Coeur d'Alene, Idaho and at Discovery's

6,500-square-foot home on a single acre at a place like Vaquero.

Discovery's customers, like Bradshaw, often buy multiple lots intending to keep one for themselves while flipping the rest. It helps that these speculators are willing to jump in before much of a development is even built, although Meldman insists that he doesn't need their money to get the projects off the ground; his well-heeled equity partners include Nationwide Realty Investors, a subsidiary of Nationwide Mutual Insurance, and Westbrook Partners, a \$10 billion Boston, Mass. private-equity firm that specializes in real estate.

You surely can't do this sort of developing on a shoestring. Meldman's Kuki'o property on the Kohala Coast of Hawaii's Big Island has a Tom Fazio-designed 18-hole golf course, a \$50 million clubhouse with a ritzy restaurant and a 32,000-square-foot spa. "The more we spend, the

Horse club in Whitefish, Mont. He so liked the concept, he bought six properties at four Discovery developments: Kuki'o, Iron Horse, Vaquero, and the Hideaway in La Quinta, Calif.

Schumacher has already flipped four of those lots, one with a completed house, and sold two golf memberships for a combined gross profit topping \$1 million. Besides tying up capital, he had to pay ample sums in real estate taxes, insurance, golf club membership fees and community association fees. The two golf memberships he bought for \$60,000 apiece at Vaquero each went for \$130,000, but Schumacher had to fork over a 20% transfer fee to the club (which is owned by its members). Schumacher used his profits to cover most of the \$ 1.4 million price tag on a 3,300-square-foot house at the Hideaway that he plans



Rob Schumacher's
Hideaway home.



to eventually use for vacations.

Schumacher flipped his investments at the Hideaway before the clubhouse and spa were even built. "Discovery likes to sell the product before they build it," says Schumacher. "Mike offers an incentive and makes it economically attractive for people who follow him around by letting them buy lots early on." Discovery doesn't charge property owners membership dues until a golf course is finished. Dues rise in-

crementally as amenities are added. The Hideaway, Meldman brags, "sold out before the roads were even built."

A nice tale. What can go wrong? Well, if you buy early, you run the risk that a developer might not provide all the amenities promised or that the development goes bust before it's done. Or maybe it's well financed but can't get the building permits it needs. Dean Macfarlan, chief executive of Dallas, Tex. Mac-

farlan Real Estate Investment Management, advises that you hire a good attorney and do a lot of research into things like zoning.

Lyle Anderson is a developer in Scottsdale, Ariz. with a successful track record spanning 30 years. He ran into legal problems developing Hokuli'a, a planned 1,500-acre oceanfront resort in Hawaii. He sold 192 of the initial 261 lots at prices from \$ 1 million to \$3 million and put in a \$35 million golf course designed by Jack Nicklaus. Then, in 2000, a group of Kona residents and a former employee of the developer filed a lawsuit claiming that the project was an illegal use of agricultural land. Promised amenities such as the spa, beach club, swimming pools, tennis courts and a clubhouse are on hold, and lot owners can't put up houses (three already built are in use).

Dean Gilpin, a real estate agent on the island, owns two lots. "I'm sitting on them and paying taxes while we wait to see what happens," he says. Property values at nearby Kuki'o have doubled over the past two years, while Hokuli'a values have stalled. A few owners, says Gilpin, have bailed out and lost money on their lots.

Look at what happened at the Hideaway before Meldman stepped in. The original developer was Jack Dean Franks, a twice-convicted white-collar felon (*FORBES*, Oct. 29, 2001) who planned to develop a three-golf-course, 342-home club. Investors, including Nationwide Realty, gave Franks \$20 million for the club's development. Franks did build one golf course, but he allegedly bought two planes, a yacht and real estate in California and Mexico for himself with \$3.4 million of the money. After the project went bust in 2001 without a lot having been sold, Franks was charged with wire fraud. The case, which is under seal, is pending, according to Thomas F. (Thorn) Mrozek, spokesman for the U.S. Attorney in Los Angeles.

"Timing is everything in real estate," says Macfarlan. Schumacher has flipped his Discovery lots in one of the longest-rising real estate markets in memory. Other Meldman early birds will hope its streak will continue long enough for them to enjoy similar good fortune. F