

## Surviving the free-fall

### New owners take long view on Balsam Mountain Preserve

By Becky Johnson • Staff writer

As one development after another began to bite the dust two years ago, lenders who had bankrolled the mountain building spree in its heyday fretted nervously. The demand for high-priced lots had evaporated into thin air.

Banks reluctantly foreclosed, resigned to the downturn and hoping to wait things out — wait for the financial markets to stabilize, baby boomers' 401Ks to rebound, and the buying and building to resume.

But not Mark Antoncic. Unwilling to write off one of his hand-picked investments, Antoncic rolled up his sleeves and did what few lenders want to do.

Antoncic's firm seized control of Balsam Mountain Preserve, a 4,500-acre mega development between Sylva and Waynesville.

While some foreclosures take a year or more to play out, this one moved at lightning speed. Antoncic forced Balsam Mountain Preserve into foreclosure last October and by March, he held the keys to the gates — a record five months. When asked how he did it, Antoncic smiled.

"We are very good," he said.

With other mega developments spiraling into bankruptcy and foreclosure across the mountains, lenders and developers are taking notes as they watch the turnaround of Balsam Mountain Preserve. One key is a high-quality development to start with. The other is a savvy and well-leveraged lending firm behind the scenes, which, like TriLyn, was willing to take the reins when the developers floundered.

"The alternative could be horrible," said Antoncic, a founder and managing partner of TriLyn. "You can imagine what this place would be like shut down. You would have to close the golf course, weeds would grow up on the tennis courts. You see a lot of that around the country and some of that you can't reverse the damage for the property owners and the community. We made a conscious effort not to let that happen."

Property owners who paid half a million for lots in the upscale development are breathing a sigh of relief after a rocky year.

"So far so good," said Dave Sparks, a homeowner in Balsam. "It could have gone a lot of other directions."



Instead, their Arnold Palmer golf course is open again, the security and maintenance staff is back to full force, and their private mountaintop dining room is back.

The quick timetable was critical.

"We have kept the wheels on the cart in doing that," Antoncic said.

### **When in doubt, foreclose**

Antoncic's career in real estate investment and finance placed him in the realm of troubled and distressed assets before the term was a household world. He recently founded Carpathia, a third-party real estate adviser firm, named after a sea vessel that rescued 705 passengers from the Titanic, which the firm calls "one the greatest all-time distress-situation performances."

Carpathia specializes in counseling lenders who don't know what to do about the failing developers they loaned money to.

Lenders are typically eager to avoid foreclosure. They opt to cut their losses and accept whatever loan payoff they can get rather than assume ownership of a gated community with lot sales going nowhere.

But Antoncic's advice? Err on the side of foreclosure.



"The sooner you do it, the better off you are going to be," he said. "You have to be proactive, not reactive. You can't rescue everything, but you can't just sit back and hope it goes away."

Antoncic does not recommend one-size-fits-all advice through the newspaper. The closest he came to such an edict, however, was to say that lenders should choose their investments more wisely upfront.

"We are real estate professionals," he said. "We own real estate, we manage real estate, and we finance real estate all up and down the capital stack."

The principals of TriLyn have managed \$15 billion in investments over their careers.

"We don't look at this as just a loan. When we make an investment, we make it based on the quality of the real estate with the expectation and capability to take over the asset and run it," Antoncic said. "Where lenders sometimes fall down is they make loans on assets they don't really understand."

The question to ask is: "Could we own this and would we want to own this?" he said.

It's the same reason Antoncic could pull the trigger on foreclosure without being bogged down in the courts for a year or more.

"It was structured properly on the front end to provide for that," Antoncic said.

Foreclosures rarely end well for the banks these days. The lender is usually standing alone on the courthouse steps when the property gets auctioned to the highest bidder. The bank becomes the proud new owner, not quite sure what to do with its new real estate.

As a result, most lenders owed money by developers are willing to take what they can get. A partial payoff is better than none at all. If the developer shows promise, the lender may grant generous extensions or refinance the loan to avoid foreclosure.

Balsam developers tried to settle for less than the full amount owed. It was close enough that most lenders would have agreed.

"Our view is very different than a typical lender. A typical lender would not want this on the balance sheet," Antoncic said.

Balsam Mountain Preserve borrowed \$20 million from TriLyn in 2005 to finance infrastructure for the development, including the pricey golf course. The debt owed to TriLyn reached \$22 million by the height of foreclosure. It included most of the original loan, plus months of interest at higher-than-normal default rate and attorneys fees. It also included money fronted by TriLyn to keep the lights on and the grass mowed as Balsam developers began to run out of cash to make payroll on their own.



TriLyn is not a sharky lender of last resort. It doesn't make risky loans with astronomical interest rates. It doesn't target naïve developers, waiting to gobble them up at the first sign of a stumble.

But Antoncic wasn't going to settle.

"Should we have taken less and walked away with it?" Antoncic said. "We wouldn't have gone into this project if we didn't think it had a long-term prospect. We had planned the investment to be five years. The market is what the market is, so it is going to take longer."

He hopes patience will pay off.

"If you bail today, you lose all that. We would turn over a good asset to someone else," he said.

The key, however, is a "good" asset.

"We can fix this. It is fixable, unlike so many other projects around the country," Antoncic said. "So many had no business being built to start with. There is a list around the country that will never get anywhere."

## **Doing the math**

Before the recession, lots in Balsam Mountain Preserve sold for an average of \$500,000. Those days are over, at least for now, Antoncic said.

"The whole market is down 30 to 40 percent. If we did not react to that appropriately we would be as guilty as the next guy," Antoncic said.

Of the 354 lots in the development, only 120 remain.

When asked how he plans to market them, Antoncic has no magic formula.

"Carefully and strategically," he quipped, then turned serious. "I don't know what an appropriate marketing campaign looks like today. I don't think you can force feed the market anymore."

The marketing campaigns of days past instilled prospective buyers with a "fear of loss," said Ken Costanzo, the new president of Balsam. Buyers were convinced there was a limited pool of resort mountain real estate and they could miss out if they hesitated.

Now "there is lots of inventory out there and there aren't buyers lining up for it, so it is a different world," said Costanzo.



Antoncic has two options to profit from lot sales at Balsam Mountain Preserve.

He could slash lot prices and unload the inventory with minimal effort, luring buyers by the bargain alone. Lots would go more quickly, saving on overhead and operations that could otherwise drag on for years, and avoiding expensive marketing campaigns.

Or Antoncic can keep lot prices high enough that Balsam retains its image. He'll be in the game longer, be stuck subsidizing the golf course and other operations for possibly years to come, as well as fund a marketing campaign.

But it's the route Antoncic is choosing. Existing property owners are glad the new owners don't subscribe to the fire sale mentality.

"I think it would tend to have a negative impact on the community," said Dave Sparks, a homeowner in Balsam.

It would likely anger the 170 individual property owners who bought into what they presumed would remain an upscale development.

TriLyn has hiked both the fees paid by the property owners association and club dues for members who use the amenities, bringing revenue closer in line with expenses.

The former owners were taking a substantial hit on golf course operations and overhead for the amenities, including a horse stable, pool, tennis courts and clubhouse.

Antoncic also plans to cut costs, claiming the former owners weren't very efficient. The move bring the operations "closer to break even," Antoncic said, but they will still have to be subsidized.

Dave Sparks, a homeowner at Balsam, said property owners aren't mad by the move.

"Quite honestly, they should be higher," he said of the fees. "We expect that. That was in play before all this stuff crumbled."

Of the 170 individual property owners, 120 are club members — about 30 fewer than last year. But Sparks said it is not because of the fees. Some simply don't visit their property that often, and others bought lots only as investments and never visit.

Sparks is just glad the golf course has reopened after being closed abruptly during foreclosure last fall.

### **Not 'just another' gated community**

Balsam Mountain Preserve has just 354 lots despite its massive size. Most of the 4,400 acres are protected in a conservation easement. It was the region's first eco-development, and the lot prices and culture — top-notch amenities, an environmental ethos, strict covenants and a woodland estate setting — cater to affluent buyers.



Balsam Mountain was created and run by Chaffin Light Associates until the foreclosure. Unlike some developers who forayed into the mountain real estate world during the boom, Chaffin Light was no amateur. Massive developments touted as sustainable and set in striking landscapes — from Colorado's snow-capped mountains to coastal South Carolina — are a Chaffin Light specialty.

But the firm failed to adjust to the new real estate reality brought on by the recession, Antoncic said.

A new president, Ken Costanzo, is now at the helm of Balsam Mountain Preserve. Costanzo was the chief operating officer of the Cliffs, the epic Tiger Woods golf resort with properties spanning from Western North Carolina to Upstate South Carolina.

Costanzo said Balsam doesn't have the same uphill fight as other developments.

"It's not just another beautiful mountain golf community," Costanzo said. "Golf is important, but there is so much more to offer here."

Unfortunately, Balsam's presumed turnaround doesn't offer a model for other faltering developments to follow. Many troubled developments are carrying far more debt than they're worth and lack infrastructure to make lots sellable. Golf courses exist only in master plans not on the ground. Roads haven't even been built yet.

But Balsam was nearly complete and had a realistic debt load.

"Unlike so many around the country, the assets were good. The infrastructure is here, it is built out," Antoncic said of Balsam Mountain Preserve. "If there is a leader in the market, we have the ability to be that leader."

Antoncic said there is still a lot of carnage to come in the real estate market. He estimates a turnaround is three to five years away.

"At one point, I was concerned we were just having warm-ups, but I think the game has started," Antoncic said.

Boosters of the mountain real estate scene like to think the area was insulated from the downturn, that the spectacular scenery and lifestyle here was so desirable prices here didn't fall. Not so, Antoncic said.

"It is better than other parts of the country, but it is not as though the region escaped the downturn," he said.

Eventually, confidence of buyers will return. After all, there's still 77 million baby boomers out there dreaming of their own golden retirement.