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Cliffs members raise $62 million for developer

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Members of the Cliffs Communities have raised $62 million to lend to developer Jim Anthony.

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Banks aren't lending on lots, and sales at the Cliffs' high-end mountain communities have been slow, resulting in a lack of capital to finance development of golf courses, fitness centers and other amenities.

This morning, Anthony said 629 members – there are about 2,400 in the Cliffs communities – have contributed around $62 million through a private placement of seven-year notes that will pay a 12% annual return. That averages about $10,000 apiece from members who pay monthly golf dues of $750, in addition to a one-time membership initiation fee as high as $150,000.

If members did not provide the funding needed, Anthony previously said he had a signed letter of intent to obtain financing from a private equity firm.

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Collateral for the notes will be the Cliffs' many amenities. Cliffs established a wholly owned subsidiary, commonly referred to by members as Club Co., to own and operate those amenities.

Cliffs at Glassy resident Steve Humphrey, who participated in the private placement, said the golf courses present a viable stand-alone business with revenues from membership dues and spending at the clubs. The courses also receive 8% of revenues from

lot sales.

But if the lots don't sell, which has been the problem, the courses wouldn't have a revenue stream for members to fund operations if the Cliffs fails. Humphrey isn't worried, saying that the land will be developed, whether the Cliffs does it or not.

"The assumptions that we've proceeded under are: No. 1, that the financial distress on golf communities like the Cliffs is not permanent; it's transient," said Humphrey, the former CEO of Graphic Packaging International in Atlanta. "No. 2, if the Cliffs fails, they own some of the most desirable undeveloped land in the United States and someone would come in and buy that."

"We think the Cliffs is a viable business model that has encountered a tough economic climate," he added.

Humphrey also said members participating in the private placement believe that completed amenities like the Woods- and Player-designed golf courses will drive lot sales.

Anthony said sales have already improved. So far this year, the Cliffs has reported 32 lot sales with an additional eight to 10 pending contracts, he said. That's double last year's volume at this time of year, he said. The goal is to reach $125 million in sales for the year, including both lot sales and re-sales.

"We're already ahead of that pace," Anthony said.

That would remain below sales during the middle of the decade of around $200 million annually, but sales do not need to reach that point for the Cliffs to be successful, Anthony said.

In addition to the financing from members, the Cliffs will provide around $40 million from revenues received on lot sales to the development of amenities, he said.

The course at Mountain Park should be complete in the spring or summer of 2011. The course at High Carolina is scheduled for a 2012 completion.

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