

## Alchemy Island

BY KARL RHODES

### Turning Dirt into Gold on Hilton Head

As a teenager in the late 1940s, Thomas Barnwell Jr. earned money raising butter beans and “bogging” for crabs along the muddy shores of Skull Creek on Hilton Head Island, S.C. In those days, before any bridge connected the island to the mainland, most islanders still lived off the land and water.

“The land will take care of you,” Barnwell’s grandfather often advised. “Don’t sell it. And if you ever have to sell it — if you hold on long enough — you can sell it by the foot instead of by the acre.” Barnwell and his cousins used to laugh at such an idea. “Who in the world,” they asked, “would want to come to Hilton Head and buy this dirt by the foot?”

Who indeed?

Development of Hilton Head Island, named by Capt. William Hilton in 1663, has transformed one of the poorest and most isolated corners of South Carolina into a popular refuge for wealthy people from all over the world. This economic miracle was set in motion during the 1950s by Charles Fraser, an innovative young developer whose vision for Hilton Head set a new standard for upscale resort, retirement, and residential communities across the nation. He employed land covenants and deed restrictions to

preserve the natural beauty of the island and control every aspect of Sea Pines Plantation, his 5,000-acre masterpiece of master planning.

“The modern American resort and retirement community was invented on Hilton Head by Charles Fraser,” wrote Michael Danielson in his 1995 book, *Profits and Politics in Paradise: The Development of Hilton Head Island*. “Sea Pines triggered a remarkable and rapid transformation of Hilton Head into a world-class resort.”

As Sea Pines won national and international acclaim, Fraser’s ambition, reputation, and access to financing grew exponentially. In the early 1970s, he borrowed hundreds of millions of dollars to jumpstart similar projects in Florida, South Carolina, Virginia, and Puerto Rico. Lenders took over most of those projects after the mid-1970s recession, and Fraser lost much of his personal fortune. But the Sea Pines style of development created a lot of wealth for other people, especially Fraser’s former employees. They call themselves the alumni of “Sea Pines University,” where they acquired human capital that has enabled them to continue turning dirt into gold on Hilton Head and in many other areas of the United States.

The success of Sea Pines also created a wide socioeconomic gap between native islanders and the wealthy people who have flocked to the place since the 1950s. But unlike many low-income people in similar situations throughout the United States, Hilton Head’s native islanders own a significant share of the land that surrounds them. And in recent years, Barnwell and his family have demonstrated how to tap the economic potential of that land without selling it.

### Before the Bridge

For nearly 100 years, Hilton Head was populated primarily by descendants of former slaves who claimed freedom on the Union-occupied island during

*From the left, Charles Fraser, Jack Nicklaus, and Pete Dye discuss the layout of Harbour Town Golf Links with Donald O’Quinn, who oversaw construction of the course in the 1960s.*



PHOTOGRAPHY: COURTESY OF THE SEA PINES RESORT

the Civil War. These native islanders, also called Gullah, farmed and fished and maintained a language and culture that reflected strong African roots. The Gullah people owned less than one-third of the land, but they generally ran the whole island. Hilton Head was isolated from the mainland — not only was there no bridge, there was no telephone, electricity, or running water.

Things started to change in 1949 when the Hilton Head Company, a timber partnership from Hinesville, Ga., purchased a large portion of the island for \$60 an acre. Fraser, son of the company's majority partner, worked in his father's timber camp one summer and fell in love with the place. To maximize the island's development potential, he persuaded his father to preserve many mature pine trees along the island's southern shores. The other timber partners also recognized that Hilton Head had strong development potential. They also cut down trees selectively, but none of them envisioned the island's future the way Fraser did.

As a student at Yale Law School, he started making grand plans to develop an upscale resort and residential community on Hilton Head. "Fraser studied design and planning as well as law; and he persistently asked 'law school colleagues, law and architecture professors what could be done with four miles of virgin South Carolina beachfront and adjacent forests,'" Danielson wrote, quoting Fraser. He was "strongly influenced by a course at Yale called 'Land Use Planning and Allocation by Private Agreement' taught by Myres McDougal, a specialist in the use of private covenants to implement comprehensive land use planning." He also consulted "hundreds of landowners and planners along the east coast."

Fraser returned to Hilton Head in 1956 — the year when a privately financed toll bridge opened — and urged his father's partners to upgrade their plans for traditional beachfront development. He unveiled an ambitious proposal to build a world-class resort with at least two golf courses. Golf was vital to Fraser's alchemic equation — the catalyst that eventually would turn dirt into gold on the island's interior.

"We in the development business now assume there was a golf course in the Garden of Eden, but Charles was really the guy who figured out how to use golf courses to create real estate value," says Peter Rummell, a Sea Pines alumnus who later ran Disney Development and Walt Disney Imagineering. "He was always forward-looking — always trying to figure out what's going to happen next."

But the partners of the Hilton Head Company didn't see Fraser as a visionary. They still viewed him as the little kid next door in Hinesville. His innovative ideas were "hooted at in derision by many of the directors," Fraser wrote. In particular, they dismissed the notion that the island could eventually support two golf courses as "the 'wild visions' of an immature 25-year-old." (Hilton Head now has 21 golf courses.)

The conflict between Fraser and his father's partners ultimately tore the former timber company limb from limb. Soon after the bridge opened, Fraser's father broke away from his partners and put his 20-something son in charge of



*This photo was taken near the spot shown on the preceding page. The Harbour Town golf course, lighthouse, and marina became world-famous features of Sea Pines and Hilton Head.*

developing the family's acreage on the southern end of the island. They called the project Sea Pines Plantation.

### After the Bridge

Native islanders bristled at the idea of working on anyone's "plantation," but other job opportunities on Hilton Head were sparse, and it was getting harder to make a living from small-scale farming and fishing.

Barnwell took a summer job with Sea Pines in the late 1950s helping to clear land for 50 cents an hour, significantly more than he had been earning raising beans and catching crabs. He operated a winch on the back of a truck to pick up tree stumps and haul them to an area where they were burned. Sea Pines sacrificed a few trees on this altar of economic progress, but Fraser hated to cut down trees.

"Trees were sacred," Rummell emphasizes. "We didn't take down one more tree than we had to." All that timber came in handy during the early days of development when Fraser was desperate to secure financing from the Travelers Insurance Co. He essentially mortgaged the trees on the property with a "timber loan" to keep Sea Pines afloat.

Financing high-dollar infrastructure and amenities on a remote island off the coast of South Carolina was difficult, so money was extremely tight. Quite often, Sea Pines sold just enough real estate during the week to make payroll on Friday. Even so, Fraser insisted that Sea Pines adhere to high standards of quality and conservation. His blend-with-nature vision arguably was focused more on aesthetics than ecology, but potential buyers liked what they saw, and word slowly started to spread about "Charlie Fraser's island paradise," a phrase *Fortune* magazine coined in 1967.

A turning point for publicity came in 1962, when the *Saturday Evening Post* ran a photograph of Fraser walking in perfect lock step with an eight-foot alligator. Newspapers in South Carolina and North Carolina picked up the story, and national publications chimed in with glowing reviews. Fraser was a gifted promoter. He changed the name of "Horse's Hole" — a small lake on the island — to "Audubon

Pond.” He called drainage ditches “lagoons.” Subdivisions were “plantations.” And Fraser never sold condos, he marketed “villas” — lots of them. As Sea Pines’ sales accelerated, Fraser secured significantly more financing from Travelers and started building Harbour Town, a picturesque marina surrounded by restaurants, shops, and condos. The marina’s yacht basin was designed to be a perfect circle, but Fraser refused to cut down a massive southern live oak that stood in the way of that plan. So the company spent an extra \$250,000 to preserve the tree on a small spit of land extending into the otherwise circular harbor. It was a defining moment for Fraser, Sea Pines, and Hilton Head.

Fraser was always willing to invest lavishly in Sea Pines’ visual appeal. For example, he built a 90-foot lighthouse — not to guide mariners, but to create a dramatic backdrop for the 18th green of Harbour Town Golf Links, a new course designed by Pete Dye and Jack Nicklaus. The course was so highly anticipated that it was placed on the PGA Tour’s 1969 schedule before the course was completed.

By then, other developers of Hilton Head were creating their own upscale “plantations” by copying many of Fraser’s ideas. “The Sea Pines or Hilton Head style became a generic term among architects and landscape designers,” Danielson noted. Sea Pines’ land-use covenants (including strict rules against cutting down trees) became a model for residential developments nationwide.

### Sea Pines University

After earning his MBA from the Wharton School at the University of Pennsylvania, Rummell drove to Hilton Head for a job interview with Fraser. It was 1971, a year when the economic transformation of the island was creating dramatic visual contrasts. As he approached Sea Pines’ swanky

William Hilton Inn, Rummell was surprised to see a native islander plowing oceanfront land with a mule. That was his first clue that he was about to get an education unlike anything he had encountered at Wharton.

Fraser hired Rummell and many other Ivy League MBAs, and the company became, in effect, a postgraduate program for master-planned resort and residential development. “Charles was a huge believer in looking at what other people were doing,” Rummell recalls. “Just before we went public, he chartered a DC-9 and flew 45 employees and their spouses to Southern California to look at other people’s projects. This was a small company, and he spent a fortune doing that.”

The small company, however, was growing rapidly. Fraser assigned Rummell to the team that was developing Amelia Island Plantation off the coast of Florida. Other teams were cloning the Sea Pines model elsewhere: on the northern end of Hilton Head; on Kiawah Island, S.C.; at River Hills Plantation southwest of Charlotte, N.C.; at Brandermill in the suburbs of Richmond, Va.; and at Palmas del Mar (Sea Palms) on the southeastern coast of Puerto Rico.

The company’s liabilities soared from \$12.6 million in 1969 to \$283 million in 1975, and the interest rates Sea Pines was paying spiked into the teens. The Arab oil embargo and the recession of 1973-1975 also hit the company hard. Fraser publicly blamed the company’s problems on Federal Reserve Chairman Arthur Burns, but the bigger issue was cost overruns at Palmas del Mar, a resort that was extravagant even by Sea Pines’ standards. At one point, the company placed a third mortgage on the southern end of Hilton Head to make payroll at Palmas del Mar.

“Charles never met a debt instrument he didn’t want to hug,” Rummell says with a laugh. “Once financing became readily available, he got way ahead of his capability.” At Sea

## Economic Development in Paradise

Residents of Hilton Head Island created a town government in 1983 to slow down growth and “preserve paradise” by imposing tighter land-use controls. Over the years, critics of this approach have caricatured the town’s initial strategy as: “Now that we are here, let’s blow up the bridge!”

The bridge, of course, is still standing, and for many years, Hilton Head continued to grow rapidly. The total assessed value of the island’s real estate nearly doubled from 1990 to 2000 and doubled again from 2000 to 2010 — due partly to growth and partly to appreciation of existing property. During the recession of 2007-2009, however, development slowed dramatically, and the average value of single-family homes fell from more than \$1 million to less than \$670,000, while the average value of condos dropped from \$449,000 to \$249,000. Those values have not recovered. Also, the average age of the town’s residents has increased from 40 in 1990 to 51 in 2010, and it is expected to move higher as the market continues to transition from second homes to retirement homes.

In light of these changes, there has been a growing view among town government leaders that the island should diversify its economy, attract and retain younger people, and become a “real town” with a full spectrum of job opportunities and housing options. Toward that end, the town has eased some zoning restrictions, created an economic development organization, and hired Don Kirkman as the organization’s first director.

Kirkman speaks passionately about creating the missing rungs on the island’s socioeconomic ladder by attracting small business owners who could live and work virtually anywhere that has good Internet access. “If you can locate your business anywhere,” he says, “why not locate it in a place where you would love to live?”

Kirkman says he is optimistic about the island’s future, but he concedes that it feels strange “to be hired as the first economic development director for a town that was formed for the specific purpose of opposing economic development.”

— KARL RHODES

Pines University, students learned what to do and what not to do by interacting with Fraser. “He had a wonderful optimism that was part of his creativity,” Rummell marvels. “He had the courage of his convictions, so he was hard to help when he got his mind set on something. Everybody told him not to go to Puerto Rico.”

During the next few years, the Sea Pines Company lost everything except its original properties. Fraser sold the company in 1983 for \$10 million, a fraction of what it was once worth. By then, Sea Pines was more of a resort management company than a development company, but the Sea Pines style had become a nationally prominent model for resort and residential development. Several alumni helped finish some of the bankrupt projects that Fraser had started, and many of his protégés developed highly successful projects on their own, both on Hilton Head and across the country.

Sea Pines alumni say they are the biggest beneficiaries of Fraser’s genius and Hilton Head’s success. Four of them — including Rummell — went on to chair the Urban Land Institute, which gave Fraser a Heritage Award, one of only nine given in the history of the institute, to recognize land-planning contributions of lasting importance. Several Sea Pines alumni remained on Hilton Head, including J.R. Richardson, a prominent local developer whose family owns and operates Coligny Plaza, the island’s oldest shopping center. When asked who benefited most from Fraser’s influence, Richardson just smiles and raises his hand.

Richardson was among the many Sea Pines alumni who were devastated when Fraser died in a boating accident in 2002. Richardson helped make arrangements to bury his mentor on Hilton Head at the Harbour Town marina — beneath the southern live oak that Fraser refused to cut down.

### Gullah Gold

Development of Hilton Head gradually improved the quality of life for Barnwell and many other Gullah people.

They gained electricity, running water, better roads, better schools, and better medical care. But the economic gap between native islanders and wealthy newcomers remains enormous. At the end of one dirt road, there are small shacks and trailers about 100 yards from luxury homes that are visible through the woods.

“We have these fantastic people who are here from all over the world in this world-class community. Yet we still have people on Gumtree Road who are not connected to public sewer,” Barnwell says. “We still have people who are not in the economic mainstream.”

Over the years, many Gullah families have sold their land — including some prime oceanfront properties — but some native islanders have retained their acreage, following the advice of Barnwell’s grandfather and other Gullah elders. Selling land still goes against their culture, and it can be difficult for native islanders to develop their properties, partly because much of the land belongs to far-flung family members who inherited portions of it from generations of ancestors who died without wills. This encumbered land is called “heirs” property because it is titled to the unnamed “heirs” of someone who has died.

Today, a nonprofit organization in Charleston, S.C. — the Center for Heirs’ Property Preservation — is working to clear “heirs” land titles for families in the region who cannot afford lawyers and want to benefit economically from their land without selling it. In the meantime, Barnwell and his family have demonstrated how to use limited liability corporations and long-term land leases to generate income from their land. The family used both of those tools to facilitate the development of Bluewater Resort and Marina, an upscale timeshare on Skull Creek, where Barnwell used to bog for crabs. He concedes that turning Gullah dirt into Gullah gold can be tedious and complicated, but the economic payoff sure beats raising butter beans and digging up crabs. **EF**

### READINGS

Campbell, Emory S. *Gullah Cultural Legacies*. Hilton Head Island, S.C.: Gullah Heritage Consulting Services, 2002.

Danielson, Michael N. *Profits and Politics in Paradise: The Development of Hilton Head Island*. Columbia, S.C.: University of South Carolina Press, 1995.

Fraser, Charles E. *The Art of Community Building*. 1985.

Fraser, Joseph B., and Margaret Greer. “The Sea Pines Story: Three-Part Series.” *Hilton Head Monthly*, April, May, and June 2005.

## Economic Brief publishes an online essay each month about a current economic issue.

**September 2015** Inflation Targeting: Could Bad Luck Explain Persistent One-Sided Misses?

**October 2015** Calculating the Natural Rate of Interest

To access the *Economic Brief* and other research publications, visit [www.richmondfed.org/publications/research/](http://www.richmondfed.org/publications/research/)

### Economic Brief

October 2015, EB15-10

#### Calculating the Natural Rate of Interest: A Comparison of Two Alternative Approaches

By Thomas A. Lubik and Christian Matthes

The natural rate of interest is a key concept in monetary economics because its level relative to the real rate of interest allows economists to assess the stance of monetary policy. However, the natural rate cannot be observed; it must be calculated using identifying assumptions. This *Economic Brief* compares the popular Laubach-Williams approach to calculating the natural rate with an alternative method that imposes fewer theoretical restrictions. Both approaches indicate that the natural rate has been above the real rate for a long time.

The natural rate of interest is one of the key concepts for understanding and interpreting macroeconomic relationships and the effects of monetary policy. Its modern usage dates back to the Swedish economist Knut Wicksell, who in 1898 defined it as the interest rate that is compatible with a stable price level. An increase in the interest rate above its natural rate contracts economic activity and leads to lower prices, while a decline relative to the natural rate has the opposite effect. In Wicksell’s view, equality of a market interest rate with its natural counterpart therefore guarantees price and economic stability.

constantly react to economic shocks, gives rise to a natural rate of interest akin to Wicksell’s original concept. Woodford’s innovation was to show how the natural rate relates to economic fundamentals such as productivity shocks or changes in consumers’ preferences. Moreover, an inflation-targeting central bank can steer the economy toward the natural rate and price stability by conducting policy through the application of a Taylor rule, which links the policy rate to measures of economic activity and prices.

Naturally, monetary policymakers should have a deep interest in the level of the natural interest