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
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 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
the market continues to transition from second homes to
in 1990 to 51 in 2010, and it is expected to move higher as
average age of the town’s residents has increased from 40
to $249,000. Those values have not recovered. Also, the
while the average value of condos dropped from $449,000
slowed dramatically, and the average value of single-family
during the recession of 2007-2009, however, development
to growth and partly to appreciation of existing property.
“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
Palm) 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 over-
runs 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

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 dra-
matic visual contrasts. As he approached Sea Pines’ swanky

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 oppor-
tunities 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 any-
where 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
Readings

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

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

The natural rate of interest is a key concept in monetary economics because its level relative to the real rate of interest allows monetary authorities 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.

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