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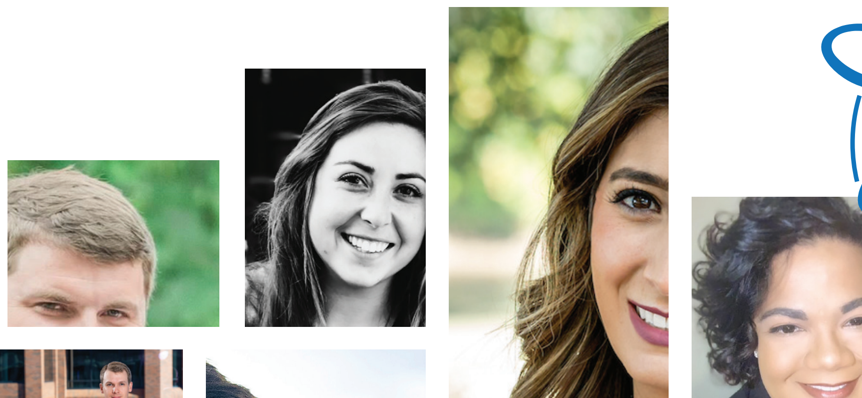

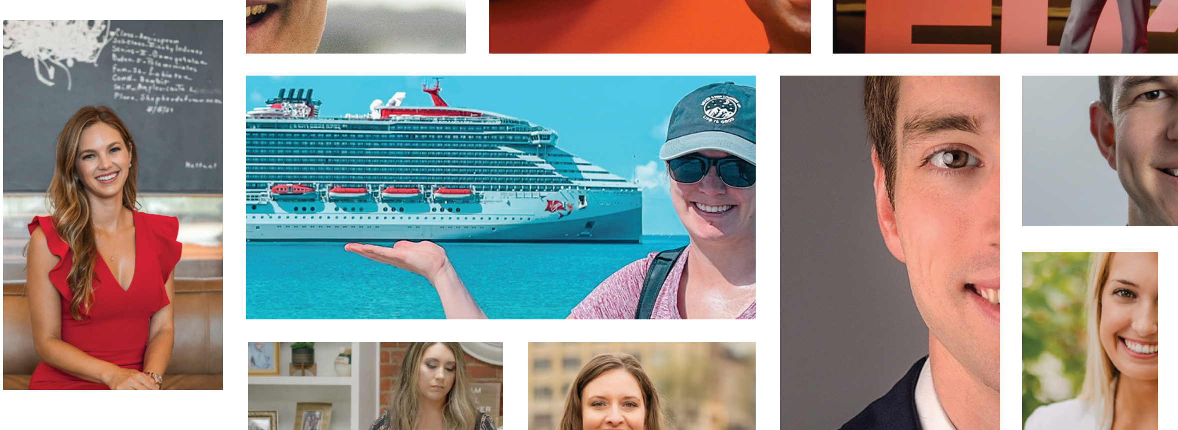

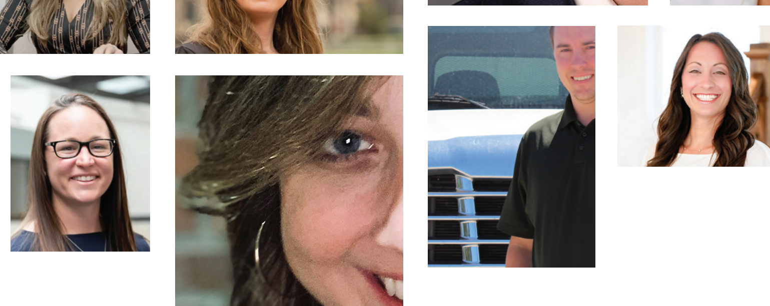

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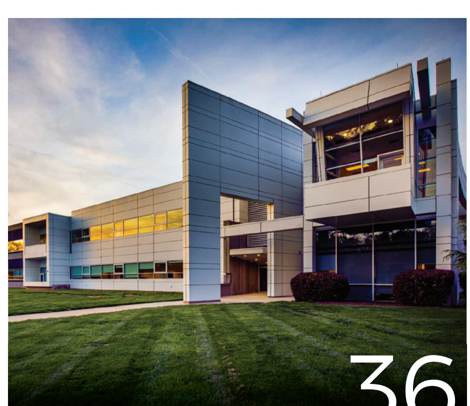

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LIVING LARGE

Patrick Melton and South Street Partners show shrewd timing as demand for elite property cascades.

By David Dykes and David Mildenberg

PHOTO CREDIT: NILL SILVER

▲ South Street bought Cliffs Communities in 2019, including The Cliffs at Mountain Park near Hendersonville.

PHOTO CREDIT: PATRICK O'BRIEN @ SOUTH STREET PARTNERS

Patrick Melton and Jordan Phillips didn't have a lot to lose when they started their South Street Partners real estate enterprise in the recession of 2009. Developers were folding and banks in the Southeast were collapsing, creating opportunities for risk-taking investors that come along rarely.

Both men had done well financially by helping develop high-end golf communities for their previous employer, Scottsdale, Arizona-based Discovery Land Company. The graduates of UNC Chapel Hill had supportive, well-known fathers who had enjoyed great success in North Carolina's financial sector.

Thirteen years later, South Street has exceeded expectations, having deployed more than $600 million to become the largest owner of luxury residential club and resort communities in the Southeast with more than $1 billion of assets. The partners, who were later joined by fellow Chapel Hill grads Chris Randolph and Will Culp, have partnered with major investors to acquire a big chunk of South Carolina's Kiawah Island; seven Cliff Communities golf-oriented developments in the Carolinas mountains; thousands of undeveloped acres in the Southeast assembled by Charlotte investor Robert Pittenger; and a variety of other thriving projects.

For Melton, it's a story of old friends, new alliances and strokes of good fortune coming together at the right time. Increasing popularity of second homes among Baby Boomers and Millennials, along with the pandemic-inspired push to leave dense cities, has sparked huge gains in property values at elite resort properties.

"My father-in-law thought I was nuts. But, to me, in this business, jumping off in a period in the cycle where you can buy low felt like the best strategy," he says. Had the group launched a couple of years earlier, when prices were peaking, it would have been a very different story.

"We kind of bootstrapped it, in terms of just two guys jumping off and starting a company," Melton, 49, says. "We didn't have any institutional capital behind us, but we had great relationships with a lot of the institutional groups from our previous careers."

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They have plenty of financial backing now, having developed close ties to major investment companies that typically hold 80% or more of the equity in the properties. It's a strategy that has enabled South Street to grow rapidly in an industry dominated by public companies or families that have built up wealth, often over two or more generations.

The partners regret it now, but they didn't buy much real estate during their first four years, instead focusing on purchasing distressed debt from some of the era's many failing developers. They also knocked on doors at many banks, advising the lenders on how to handle nonperforming and foreclosed properties. In retrospect, pulling the trigger on deals when prices were particularly low in 2009-11 would have paid off handsomely, Melton notes.

▲ Kiawah Island Club includes two golf courses. Melton is shown with his daughters at the River Course.

RESORT LIFESTYLE

Melton grew up in North Carolina, where his father, Burt, was a senior executive at First Union Bank during its rapid growth period in the 1980s and '90s. The senior Melton was in charge of the bank's eastern North Carolina region for many years, then led its credit-card business before retiring in 1997.

Patrick worked as a consultant for KMPG and Ernst & Young before joining residential developer Terrabrook, which owned about 50 communities across the Sunbelt, including Charlotte's Highland Creek in northeast Mecklenburg County. It was the region's No. 1 master-planned community during the late 1990s and early 2000s. Terrabrook later assigned him to an interim chief financial officer job at a Hawaiian project called Kūki'o, where oceanfront lots were selling for $10 million.

He then jumped to Discovery Land, having developed a friendship with its founder, Mike Meldman. One of his initial projects was Mountaintop Golf & Lake Club, which opened in Cashiers, 60 miles southwest of Asheville, in 2004.

He later worked on other Discovery properties, including Cabo San Lucas, Mexico, Coeur d'Alene, Idaho, and Scottsdale. The allure of the job began to fade after his first daughter was born in late 2007.

"Moving to Hawaii for a year, Coeur d'Alene, Idaho, for a summer, Scottsdale for a winter, with your wife traveling with you, and you're not on a plane every week, that's a really enjoyable way to travel," he said. "After my first daughter was born, that dynamic really shifted."

That's when Melton and fellow Discovery colleague Phillips, 41, concluded it was time to start their own business. Philips is from High Point, where his dad, Phil Phillips Jr., built a factoring company that was sold to GE Capital Services in 1998. The elder Phillips was a director at First Union from 1988-98 and a longtime trustee at UNC Chapel Hill.

Chris Randolph, 42, another Chapel Hill alumnus, joined the duo later in 2009 and was originally based in New York, where he helped develop relationships with various institutional partners. Their years of experience in the real estate business has led to joint ventures with Farallon Capital, Rockpoint Group and other institutional investors that rely on smaller groups to find good deals. He and Phillips live in Charleston, while Melton and Culp are in Charlotte. They consider both cities as company headquarters.

"Our whole business model was centered around sort of this elephant hunting, getting these larger transactions and teaming with these big institutional groups where we had the expertise and they had the capital," Melton says. "These groups want you to have skin in the game and we end up putting a good bit of our money in each and every deal."

PHOTO CREDITS: PATRICK O'BRIEN @ SOUTH STREET PARTNERS

South Street's first key strike came in January 2012 when they partnered with New York-based Starwood Capital Group to buy control of the unsold units and bank debt of North Beach Towers in North Myrtle Beach, South Carolina.

Measuring 216 feet high and encompassing almost 1 million square feet, the 337-unit North Beach Towers is the largest ocean-front condominium constructed on the Grand Strand. With its Atlantis-like bridged towers and classic Georgian architecture, the project was acclaimed as an architectural landmark. But the project's timing by original developer David Stradinger proved to be difficult — It broke ground in 2006 and was completed in early 2009, when selling condos in Myrtle Beach was a major challenge.

The fact that famed Starwood owner Barry Sternlicht saw value in the property made it an easy decision for South Street to invest, Melton says. During that period, major real-estate investors were only starting to notice Charlotte and Raleigh as good potential investment markets. "Myrtle Beach might as well have been, you know, Fayetteville, from an institutional perspective," Melton says. "But to Barry Sternlicht's credit, his team came down and saw the value and jumped on it."

The investment struck gold as demand for Grand Strand real estate soared amid the economic rebound. Condos at the development were listed mainly in the range of $700,000 to $800,000 in mid-September.

South Street's key turning point came several months later, when Melton learned from an old Discovery Land friend that undeveloped portions of Kiawah Island and some other major assets there were going up for sale. Earlier in his career, Melton was involved with oceanfront developments in the Bahamas, Mexico and Hawaii, but he had always wanted a project in the Carolinas.

"I would've thought I had to go down to the Caribbean to get a 1,000-acre tract of land to go do a high-end oceanfront golf community," he says. "And so to get a call that says you have the opportunity to become the master developer of Kiawah Island, one of the largest islands on the East Coast, was like a dream come true."

When the call came, Melton and his partners, including Will Culp, 41, who had joined earlier in 2012, were winding down and readying for holiday vacations at ski resorts or islands during the Christmas to New Year's week.

Instead, they worked full-time for two weeks to evaluate the portfolio that included Kiawah, a third of the Caribbean island of St. Kitts and an Irish property called Doonbeg. Melton and his group contacted New York-based investment manager King Street, which sent down a team to study the deal and eventually became its main financial backer.

In early 2013, South Street and King Street acquired Kiawah Partners, the master developer of the South Carolina barrier island, as well as Kiawah Island Real Estate and the Kiawah Island Club. South Street declined to disclose the Kiawah property's purchase price, which was reported at $350 million by some media outlets.

The sale was sparked by a dispute among family members including Leonard Long and Charles "Buddy" Darby, who had bought the property from a Kuwaiti investment company in 1988 and expanded it into one of the East Coast's most prestigious resorts.

The sale included about 400 undeveloped lots, the River and Cassique golf courses and other assets. Since the acquisition, South Street has sold hundreds of lots as property values have soared, aided by the increasing prominence of Charleston as a business and tourism hub. Its majestic maritime forestry, ribboning waterways, whispering marsh grasses, and famed fairways have made Kiawah a prized property.

To benefit from Kiawah's popularity, South Street started its Knight Residential Charleston home building company in 2014. It's now the island's biggest builder with projects ranging from $1 million to $5 million. The median sales price for a single-family home on Kiawah was $2.75 million in the first half of this year, while cottages sold for a median of $763,000.

▲ South Street Partners Will Culp, Patrick Melton, Jordan Phillips and Chris Randolph.

▲ Six of the seven Cliffs Communities are in South Carolina, including three near Lake Keowee.

The Kiawah deal included Christophe Harbour, which is the largest residential and hotel resort on St. Kitts. The 2,500-acre property was later sold to one of its original developers. The Doonbeg golf property in County Clare, Ireland, was sold to a company led by Donald Trump for $20 million in 2014.

In 2016, South Street took the lead in the complex buyout of the ownership of Pittenger Land Investments, a 19,000-acre portfolio assembled by former U.S. Congressman Robert Pittenger. Mixing an expertise in real estate with country-club networking, Pittenger spent more than a decade creating a land business by leveraging $300 million of other people's money — in this case, a who's who of North Carolina's establishment including several Belk family members, the wife of former Carolina Panthers owner Jerry Richardson, and other prominent politicians and families.

But controversy embroiled Pittenger as disgruntled clients complained about his business practices. The business ultimately sold for $35 million, representing Pittenger's 10% interest in 51 limited partnerships. The buyer, a joint venture between investors and South Street Partners, also paid Pittenger Land $6 million.

CLIFF DWELLERS

In 2019, South Street acquired The Cliffs Communities, a collection of seven private golf communities set in three regions across the Carolinas. The Cliffs was the brainchild of a brash developer named Jim Anthony, who once worked as a telephone lineman. Starting in 1991, he assembled large tracts for exclusive golf-oriented properties and enlisted professional golfers Tiger Woods and Gary Player as promoters. But his expansion plans shattered with the recession, causing large financial losses and, eventually, the sale to South Street. The Buncombe County development involving Woods never got off the ground.

Three years later, Cliffs appears more popular than ever after significant investment by South Street. With sites at Lake Keowee in South Carolina's Pickens and Oconee counties to the peaks of the Blue Ridge mountains around Greenville, Asheville and western North Carolina, homeowners and club members enjoy access to seven private clubs with a single membership. The variety of landscapes provide diverse options for buyers, who span the gamut from Carolinians seeking second homes to retirees from northern and Midwest states seeking a warmer climate.

PHOTO CREDITS: PATRICK O'BRIEN @ SOUTH STREET PARTNERS; NILL SILVER

Cliffs Realty, the official brokerage of The Cliffs, reported record real estate sales volume of $129.8 million during the first half of this year, a 24% increase from the same period last year. This summer, homes at The Cliffs ranged in price from $650,000 to more than $6 million, while homesites typically start at $125,000. A Lake Keowee home sold this summer for a record $6.3 million.

South Street's biggest expansion opportunity isn't in the mountains, however. It's Palmetto Bluff, sandwiched between Charleston and Savannah, Georgia near Bluffton in South Carolina's Lowcountry. In June 2021, the group partnered with London-based Henderson Park Capital to acquire the 20,000-acre site. Charlotte-based Crescent Communities had owned the property since 2000, acquiring it from the Union Camp paper company that mostly used it as a hunting preserve for clients. Crescent added a hotel and golf course, but didn't make a major development push during its ownership.

The property is one of the largest, mostly undeveloped waterfront properties on the East Coast, Melton says. It features 32 miles of river frontage, the 5-star, 200-room Montage Hotel, and the May River Golf Club designed by Jack Nicklaus' firm. A handful of homes have been constructed there with land plotted for another 2,500 residences, which South Street plans to develop over the next decade.

While plans call for preserving much of the property's wilderness feel and extensive nature trails, South Street has ambitious objectives that suggest a potential Kiawah-style impact. Two new golf courses are planned, including a nine-hole short course and an 18-hole track to be designed by Beau Welling, Tiger Woods' design partner.

Given the ages of South Street's partners and their track record, ambitious growth plans are no surprise, signaled by their first major institutional investment fund that closed in July. The partners raised $225 million from a group of undisclosed institutions, family offices and high net-worth individuals. Their initial goal was $100 million. The money gives them the potential to take part in investments of more $2 billion, using traditional real-estate financing leverage.

While the fund can bankroll any kind of real estate, the partners expect to spend a lot of time at the beach in the years ahead. Much of the investment fund will be targeted at continued development of the Kiawah and Palmetto Bluff holdings.

Recessions typically wreak havoc on resort developers, but South Street is prepared if the economy weakens in coming months. "The good news is we've got a very long-term outlook at all of our projects of 10-plus years, if not more," Chris Randolph told the *New York Times* in a September interview. ■