Land ‘Hustlers’ Unmasked: Real Estate’s Shady Corner

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"The entrepreneur who carves up remote lands for sale sight-unseen on the installment plan (is) ... closely akin to the carnival con artist, the door to door salesman of Bibles, the used car salesman whose time tested hard-sell techniques he has adopted."

The words are those of Anthony Wolff, author of “Unreal Estate,” a book that un_masks those “land hustlers” who operate in the “shady corner of the real estate business where land is not so much bought as sold.”

This particular shady corner is the second-home recreational subdivision. But Wolff does more than focus on the mechanics of financing, subdividing and selling the second-home site in the wilderness: He also fashions—a model of the genius labeled “land hustler.”

Land hustlers move fast, faster usually than government legislators and/or regulatory agencies. By the time government agents get one barn door securely bolted, these relative operators fashion a new exit and lead the gullible out into the next get-rich scheme.

Wolff makes it clear the hustlers he speaks of are not all small-time operators. Some are corporate conglomerates which use the prestige of their membership in the New York Stock Exchange to enhance sales.

Although Wolff’s book is aimed at a national audience, and as such places no special emphasis on California, it stands as a solid point of departure into the subject. California always has been somewhat of a laboratory for get-rich-quick schemes.

For a century or more, land hustlers have created bonanzas out of California’s mountains, deserts and swamps. Legend has it one land baron in the 1870’s put a boat on a wagon and “rowed” across San Joaquin Valley prairies to fulfill federal regulations for claiming swamp and overflow lands.

Between 1960 and 1970 subdivider in California registered 250,000 acres to be carved up and sold. If a promoter could not sell a lot at $500, he could always up the price to $1,000 and advertise the “fact” the land had doubled in value.

The largest of the recreation “land project” subdividers was Boise Cascade, Inc., a conglomerate that grew from a small timber company grossing $35 million to a giant grossing $1 billion a year.

As Boise gobbled up smaller companies, it came into possession of a half-dozen California-based land development companies. Along with the properties, it bought the suede-shoe sales techniques that ultimately spelled doom for its recreational lands division.

In addition to existing projects, Boise bought raw land and started new projects. At one time it had 18 subdivisions in California sprawling over 100,000 wildland acres. By buying land at $800 an acre and investing in clubhouses and golf courses, it could convert the land to $15,000 or $20,000 or even $30,000 an acre in sales value.

But the roof fell in: Environmentalists fought pollution of lakes and streams, irate buyers complained of sales fraud and broken promises, the legislature passed new laws protecting the consumer and the environment.

Sold privately and hailed into court by the state attorney general, Boise decided to get out of the recreation subdivision business. It settled the suits out of court for $58 million. Half the money went to 13,000 lot buyers—they received an 18 per cent refund and kept the land—and the rest was used to complete and maintain promised amenities—golf courses, club houses, sewers.

The new California laws provided local government with the tools needed to force developers to protect the environment, with sewers, high standards, underground utilities and open space. The result was a dramatic increase in development costs and lower profits.

The state real estate commissioner’s office reports new starts on “land projects” those developments over 50 lots out in remote areas—are “practically nil.” State officials credit the new laws for this decline.

But Harold Berliner, an attorney specializing in fighting land hustlers, disagrees. He says the decline in new land projects has come because of the lawsuits and attention by the attorney general. State regulatory agencies, he adds, have not been enforcing new laws vigorously.

"And the selling hasn’t stopped," Berliner says. "Look at California City and Omnivest."

Berliner has suits pending against two of these companies. California City, an 80,000-acre parcel of Mojave Desert, is one of the oldest second-home subdivisions, and one of the most thoroughly investigated. Berliner reports that 50,000 lots have been sold there.

For several years the state attorney general’s office took no action against California City, despite numerous complaints and a voluminous investigative report by its own investigators that recommended sales be stopped.

Recently Great Western United—the conglomerate that purchased Cal...
Hustlers: Fast Movers

Continued from Page 1.1

ifornia City from the original developer, agreed to pay $4 million back to unhappy purchasers. The repayment was arranged by a "consent order" negotiated through the attorney general's office.

The order allows the continued sales in California City. Berliner is highly critical of both the "small size" of the settlement, and the continued sales. A deputy state attorney general explains that without continued sales the company could not repay even the $4 million agreed upon.

Omnivest is a desert land development-investment scheme that is too new to be in Wolff's book. Omnivest sells small parcels of desert land. The prices range from $49.90 for a single acre up to $79.90.

Omnivest spokesmen make no bones about it — they are selling "investments, not land you live on." The company, headquartered in Beverly Hills, controls 36,000 acres of desert land.

Berliner has filed a class action suit, Alexander v. Omnivest, in Federal District Court in San Francisco, contending the company has violated federal law by not registering its projects with the Housing and Urban Development's Office of Interstate Land Sales Regulation (OILSR).

Such registration processes require the preparation of a project report, a public document that must be shown the prospective buyer. The report is required by federal "full disclosure" laws.

Omnivest officials say they have from 300 to 400 salesmen working actively, and another 200 or 300 who sell the company's investments part-time. Omnivest has subsidiary offices in San Francisco and San Diego.

The California Real Estate Commission and the state attorney general's office report they are investigating Omnivest to see if any state laws are being violated.

Nationally, John McDowell of the Office of Interstate Land Sale Regulation reports: "The number of new recreational subdivisions starts is up, despite the fact the tight money market has forced at least one developer out of business every two weeks."

McDowell says these bankruptcies are signs that developers still in business may be shifting money around, possibly shorting the "amenities" promised in order to finish the project.

Most new recreational subdivisions are being built in the Southwest, in Texas and Florida. But Wolff warns the sales pitches are being made in almost every major city in the nation.

California residents are protected by law from salesmen pitching risky, overpriced projects in other states. To sell an out-of-state project in California the developer must prove his price is "fair, just and equitable" before the real estate commissioner will issue a permit.

But this did not stop the California sale of Florida swamp lands or Arizona deserts entirely. To lure California customers to places like Las Ve-

gas where such sales pitches can be made legally, the land hustlers offered "free vacations."

The free vacation certificate either came in the mail or was part of a contest or sales promotion. Before the state attorney general cracked down on the "vacation certificate" commercials, they were a major source of customers for such corporations as GAC.

Wolff issues the general warning: "Most subdivision lots are sold under pressure, by salesmen trained in sleight of mouth." Because of this, he feels the new federal laws requiring subdivisions of over 50 lots must be registered with OILSR are adequate.

The OILSR-required property report is a forbidding document dealing with encumbrances, easements and other technical matters and is difficult to understand... even a land lawyer might require more than the 48 hours the law grants to study the language and make a rational decision," Wolff writes.

"More important, is what the report does not include. Most people buy subdivided lots for investment purposes. But the property report includes no information about investment values, such as population trends, an inventory of existing local subdivisions, a sales history of the land being offered, comparable prices..."

"As is so often the case, where the interests of people and land intersect, if we take action to protect the land, we cannot help but protect ourselves."