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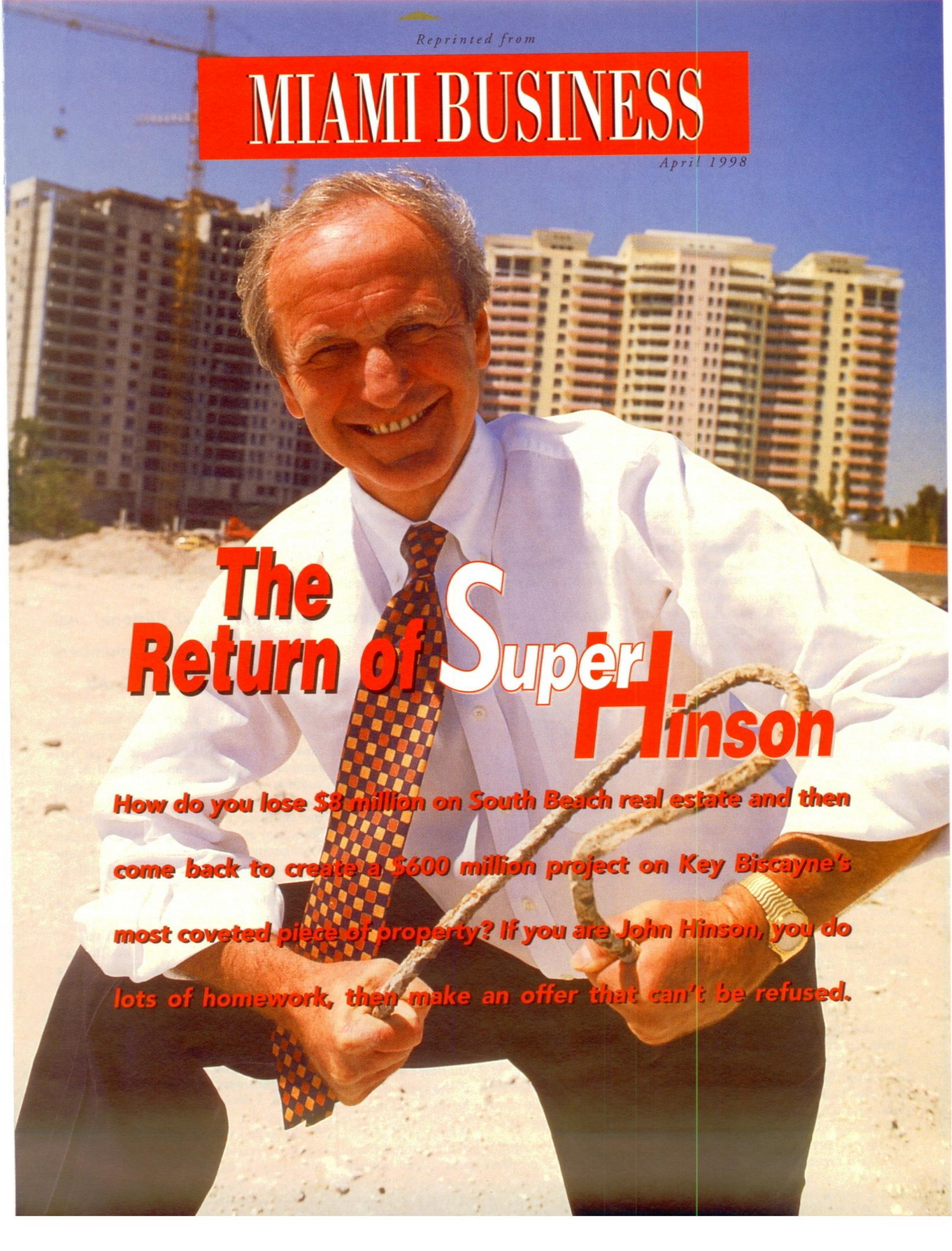


The Return of Super Hinson

How do you lose $8 million on South Beach real estate and then come back to create a $600 million project on Key Biscayne's most coveted piece of property? If you are John Hinson, you do lots of homework, then make an offer that can't be refused.

Super Hinson

By J.P. Faber

On a shimmering morning in Key Biscayne, John Hinson is spinning doughnuts in the sand with his two-seater Jaguar coupe sports car. His schedule is tight and he can't wait for one of the golf carts that the sales office uses to trundle prospective buyers around the beachfront grounds of his Ocean Club project.

"I promised one of our neighbors I'd look at something this morning, and we always keep our promises," he says, grinning and climbing from the car. Hinson walks through a mini-forest of palm trees, the remains of a defunct nursery, and resurrects several wooden markers that an El Nino-inspired wind had toppled. "They wanted to know exactly where the buildings were going up. Now they'll know."

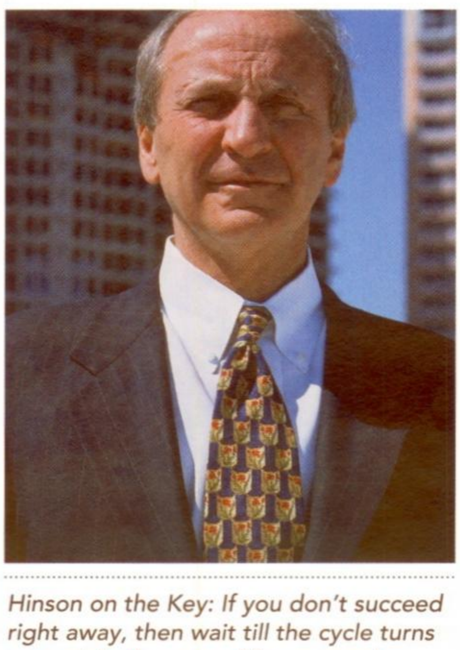
Hands on? Hinson may be one of the most detail-driven men in the business, right down to checking the quarter-inch variance on marble inlays for the lobby floors of one of the Ocean Club's five high-rise towers. "This marble is cut with a water-jet laser," he says, bending down. "It's a fascinating process how they do this. Look at the detail. Amazing, huh?"

Not nearly as amazing as how Hinson, a career real estate developer, managed to acquire the last – and most coveted – piece of oceanfront land on affluent Key Biscayne. And not only acquire it, but develop it into the best-selling condominium project in the state of Florida. Over the past two years, Hinson's Ocean Club has generated more than $225 million in sales. When it is complete three years from now, the 52-acre compound will comprise 832 residential units in six mid-rise and five high-rise buildings, with nine swimming pools and more amenities than a country club on steroids. Along the way, according to Arthur Andersen, the $600 million Ocean Club will create, directly and indirectly, 3,500 jobs in Miami-Dade. Hinson's secret? "I'm an old-fashioned kind of real estate guy," he says. "I just like to check things out first, that's all."

When Hinson began to dabble in the South Florida real estate market a decade ago, a little more homework might have helped him avoid financial disaster. At the time, Hinson had been sailing the Caribbean, having opted for early retirement after accumulating a sizable fortune from commercial property deals in and around Atlanta. Hinson was based in Atlanta after finishing a stint with the US Marine Corps and attending the University of North Carolina, Chapel Hill and Georgia State University. A motorcycle accident had convinced him that life was too short, so he bought a sailboat and moved aboard.

After two years of sailing around the Bahamas and Caribbean, Hinson says, he became bored. So he moved to Fort Lauderdale in the early '80s, and began working in real estate again. From there he moved to Miami Beach ("one of the first reverse immigrants," he says), and in the summer of 1987, he rolled the dice with South Pointe Towers, a high-rise condo at the southern tip of Miami Beach being developed by the publicly-owned American Community Development Group. The company was strapped for cash, but held title to some 20 prime acres on the ocean in South Beach. Hinson agreed to lend $1 million to American Community, then dumped millions more into the project, "what the ex-Mrs. Hinson referred to as good money after bad," Hinson recalls. Even after he agreed to take over management of American Community, Hinson was unable to overcome Miami's real estate bust in the late 80's.

Hinson worked from the proposition that most national real estate firms don't really know what they own. Very few members of management actually see their properties firsthand. He did.



Hinson on the Key: If you don't succeed right away, then wait till the cycle turns around. In the case of luxury condos, the time was right.

"I believed in South Pointe Towers, but events changed in the fall of 1987. Additional financing was unavailable," he says. "So I decided to liquidate. I was successful in the next few years, repaying all the debts, and I learned a great deal in that expensive lesson. In 1991, I emerged from that process, fiscally leaner, but wiser."

About $8 million leaner, in the end. And wiser. Hinson gave up on the luxury condo market, and moved to Coral Gables.

From his new offices in the Colonnade, Hinson, his assistant and a research analyst he employed assembled files on virtually every publicly traded REIT in the country. For the next two years, Hinson spent his time buying into distressed and deeply undervalued REITs (real estate investment trusts) – but only after physically inspecting their properties and coming up with his own independent valuations. "There were a great many opportunities. I took a real estater's approach, getting on airplanes and looking at the properties. Very few people were doing that. Most of the others in the field only read SEC documents and company financial reports." Once Hinson took control of 5 percent or more of a REIT, he would file a 13-D with the SEC and become involved in management. "I took measurable ownership positions and then worked to sell them, or redirect the activities of the companies." The system paid off, and Hinson began to rebuild his assets.

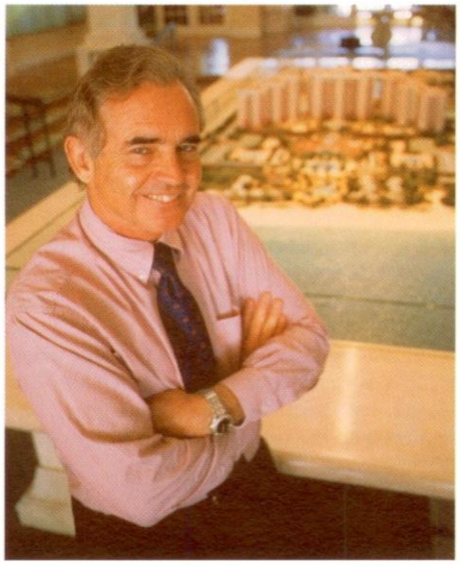
Then, in 1993, Hinson applied his honed research skills to a piece of Key Biscayne known as the VMS parcel, a choice slab of 55 acres that was the envy of every South Florida developer worthy of the name. The land was not for sale, but Hinson determined to buy it and develop the property by purchasing the companies that owned it. The campaign to do so would take two years.

The VMS parcel was owned by two REITs it had created, the Banyan Strategic Investment Fund II and the Banyan Mortgage Investment LP III. VMS, once a multi-billion real estate company, had spun off the Banyan REITs via IPOs through Prudential Bache, largely with the aim of obtaining financing in the form of loans made back to VMS from the Banyan companies. When VMS announced insolvency in 1990, the two publicly-owned Banayan REITs survived as independent entities.

When Hinson began looking into the corporate records of the Banyan companies, he discovered a complex web of deals. "So I made the resolution to uncover all the tangle of financial relationships. There were overlapping loans, overlapping ownership, joint ventures between and among the varoius public entities. I continued to seek out information." Hinson says he discovered inconsistencies between the public SEC records filed by the firms and the actual courthouse real estate records. "They had rearranged the ownership of various portions of the land, with deeds in lieu of foreclosure granting title to the other's collateral, with recarvings and redistributions. Things like that," he says. At the same time, Hinson examined all the properties owned by the Banyan companies, and had determined their stocks were selling way below the value of the owned assets.

"I accumulated stock in both companies, and in June 1993 presented myself in Chicago at the stockholders meeting, with precise questions about the discrepancies between the real estate records and the SEC disclosures. There was a joint development document, and I asked what the terms were. They deferred on answering my questions, and said they'd respond later. But they resisted mightily."

Finally, armed with accounting advice from Arthur Andersen and backed by two lawyers, Hinson appeared at the Banyan offices in Chicago and successfully demanded access to the company's records. "I refer to them as the 'aha!' documents," he says.



Chris Blackman, the man Hinson brought in to market his amibitious project, was another right choice. In two years, Blackman's team has sold more than $225 million worth of condo units.

Hinson discovered that the ownership rights and deeds leaned toward one of the two Banyan companies, and hatched a plan to take control with an unsolicited tender offer. By his figuring, such a takeover would yield an immediate acquisition profit based on the true value of the holdings and, more importantly, had the potential to create an even greater profit based on developing the land, particularly the Key Biscayne parcel. The question then became one of financing.

"I had a plan but not the money. I needed $30 million to implement it. So I embarked on a search for the right kind of funding," says Hinson. He soon located New York-based Private Merchant Banking.

"I had checked them out through mutual acquaintances," says Hinson. "I concluded they'd be able to advise me on the hostile tender, and could be a potential investor. So I arrived with a confidentiality agreement. They asked a lot of questions, which I answered." PMB liked the answers so much that within 30 days they agreed to partner with Hinson. They also brought in billionaire George Soros, and a short time later, John Temple, the former president of Arvida who had served with PMB. With his war chest assembled, Hinson made his move.

In May of 1994, Hinson filed his takeover plan with the SEC. It was initially a hostile takeover, involving a bid of $2.25 per share for the stock, then selling for under $0.50 a share. The management, says Hinson, quickly moved to block the takeover, so Hinson made an end run. In July, after learning all he could about the members of Banyan's board, he met with their attorneys. "We explained to them the discrepancies... That was the 'aha!' moment, when they realized the situation."

With the stipulation that the offer be raised to $2.50 a share in cash, the board agreed to a friendly takeover, "setting the stage for a back-end Delaware merger," as Hinson put it. Some 10,000 pieces of mail went out to the shareholders, and for $30 million, Hinson's Ocean Club Development Company acquired ownership of Banyan Mortgage Investment LP3, which owned all but 18 of the 55 acres. The remaining 18 acres were mired in litigation until March of 1995, when Hinson negotiated a $23.1 million out-of-court purchase.

Now that Hinson's group had all of the land, they had to change the zoning, previously approved by the Village of Key Biscayne for hotel and condominium development. In July Hinson's new land plan was approved – eased through by a reduction in overall density from 1,200 to 800 units, a decrease in building height, a plan to retain 23 acres of open space, and a projection that the Village of Key Biscayne's tax revenues would grow by 23 percent from the project.

From the end of July until November of that year, Hinson assembled his development team. Key among his hires was Chris Blackman, a Vero Beach real estate sales veteran responsible for some $1.5 billion in home sales over the previous 15 years.

"When I went to New York to meet the Soros reps," recalls Blackman, "They said, 'You have a great track record, but have you ever sold high rises?' I said, "It's real estate, isn't it? You market it and sell it or you don't.'"

Blackman immediately realized that home sales on Key Biscayne were flowing largely through one brokerage firm, Fortune International Real Estate, then responsible for 70 percent of the deals on the Key. "I hired two of their people with track records, top of the line. They were well liked by the Fortune company. So it gave them [Fortune] a comfort level to bring in new customers," with commissions split by Ocean's new sales team and Fortune, he says. Blackman also began marketing in Latin America through a network of brokers, realizing that a large number of buyers would come from there. "For the South Americans, a lot of this has to do with security. These are people whose families are used to traveling with bodyguards and in armored cars. Here they can send out their kids on a bicycle to go play soccer."

The result has been an astonishing level of sales, more than $100 million worth in both 1996 and 1997, to a mix of buyers from 31 different countries. Overall, 60 percent of the sales have gone to foreign buyers, and of those, about 70 percent are from Central and South America. Moreover, the demographics tend to be young, with many buyers in their 30s and 40s – "a plethora of lawyers and professionals," says Blackman. The mix of residents has become in itself another marketing tool. "One of our stories has been that the networking opportunity here is tremendous. Residents can meet their equivalents from all over the world, and business is going to be generated from it. The common denominator is that our clients are entrepreneurial."

Thanks to the high level of sales, banks which have lent some $200 million for the project so far – $107 million from Colonial Bank, $76 million from First Union and $15 million from Mellon Bank – have been more than pleased. (Hinson's group also has a $53 million revolving line of credit from United National.)

"The whole project has been outstanding," says John McLeod, now vice president and branch manager for GMAC Commercial Mortgage in Miami. A former lender for First Union, and a 10-year resident of Key Biscayne, McLeod says he was impressed not only by Hinson's partners, but also by the presales. "When we looked at the transaction, we were seeing 20 percent to 30 percent down [as deposits], which is stronger than many of the projects out there, where you have only 10 percent down," says McLeod. By the time First Union put up an initial $47 million to fund Tower 2 of the Ocean Club, he says, Blackman's sales team had taken deposits on $56 million worth of units. As for Hinson, McLeod refers to him as the "mastermind" of the deal.

E. Richard Alhadeff, a partner with Stearns Weaver Miller Weisser Alhadeff in Miami, represented G. Soros Realty in connection with the financing. Like many of the lenders and bankers who have worked with the Ocean Club project, he is another Hinson fan. "This is a tremendously successful project, way ahead of expectations, as far as the sales and buildouts go. One reason is that John is a very dynamic person, extremely organized and a very hard worker. On the job you get a sense that everything works very efficiently. He's essentially a no-nonsense guy who is on top of everything."

Concludes Alhadeff: "John was able to figure out how to get control over the whole piece, put it together as one parcel, and that is incredible. All I can tell you is that he is a Marine. If you know Marines, that says it all."

What it doesn't say is that Hinson remains intensely committed to the community where hisproject is rising. Last year, the Ocean Club donated $3.2 million toward improvements at Key Biscayne school facilities. Another $500,000 was donated to the Village of Key Biscayne for developing a "Village Green," two acres of beachfront property were donated for use as the Village Beach Park, $490,000 was donated for improvements at other parks and $240,000 was pledged to the Key Biscayne Fire Department. "It is of utmost importance for us to be a good neighbor and make a positive contribution to the Village of Key Biscayne," says Hinson. Not a bad philosophy for an old-fashioned kind of real estate guy. MB