Seven

Huffing the Fumes

Lee County, Florida, 2008

Q: What is the hottest time to buy in real estate,
in your opinion, or does it matter?
DT: Right now! I don't want to buy in a hot market.
I want to go into a dead shit market. This is the time to
start thinking about buying.

—Donald Trump and Bill Zanker,
Get Rich and Kick Ass, October 2007

There it was in the paper—the opportunity Brian Dunn had been looking for when he moved to Fort Myers, Florida. He planned to buy and run some kind of business once he and Sue got settled down. But this prospect looked a lot more promising. "What is the best way to make money in real estate? It's the most common question I'm asked in my real estate brokerage and as the author of this column," said the article by someone named Frank D'Alessandro. Every Sunday, D'Alessandro had the entire left third of the front page of the *News-Press* real estate section, prime space in a town—and at about forty-eight thousand people Fort Myers was still very much a town in 2002, with cows grazing in a pasture right in the middle of College Avenue—whose biggest business was selling pieces of itself.

Dunn himself had just arrived from Sterling Heights, Michigan, where his wife, Susan, up and quit her job at the gas company after twenty-two

years. Unlike his dad, who had worked all his life fabricating stainless steel kitchen equipment in a factory, Brian Dunn could remodel homes anywhere. There wasn't much demand for what he was doing in the Detroit area. So why not Florida?

"The simple answer is it depends on what an investor is comfortable with," D'Alessandro continued, writing with the authority of a broker who was selling more real estate than anyone in Fort Myers. "Some investors choose to buy and hold properties as rentals, dealing with tenants. Others prefer to buy raw land, avoiding tenant issues. And some investors buy distressed properties, rehabilitate them and sell them. This type of speculative investing requires the most upfront work. But at least one Lee County company is taking a unique approach by providing investors the means to buy real estate and sell it at a profit."

Now, this is interesting, thought Dunn, who is tall and lean, with long arms, smooth blue eyes capped by severe eyebrows, and a demeanor that's at once intense and laconic. He didn't have money. What he did have was lots of experience remodeling homes. The guy who cleaned their pool out back on the lanai had asked Dunn if he had thought about investing in real estate. Yes, you could say that. Back in Michigan, Dunn had bought a bunch of books—*How to Buy Foreclosed Real Estate*; *Buy It, Fix It, Sell It*; *Flipping Properties: Generate Instant Cash Profits in Real Estate*; *Building Wealth One House at a Time*—which he kept on a shelf beneath Susan's set of old Nancy Drew editions.

What he didn't have was the financial know-how. Now D'Alessandro's column offered a solution. " 'We're helping people by teaching them how to effectively use equity as a tool to invest in real estate, and that ultimately helps the community develop a pride of homeownership,' explains Eric Herrholz, CEO and founder of Housing Redevelopment Inc."

Dunn wasn't quite sure what "equity" meant, but that week he looked up Herrholz and asked how he could join in. Herrholz agreed to take Dunn on for a rehab job and see what he could do. The entrepreneur liked what he saw—how couldn't he, since Dunn could turn a whole house around in less than three weeks.

They worked out a deal: on each place Dunn rehabbed, he would get 40 percent of the proceeds to Herrholz's 60. Herrholz would provide the money to buy the property. The funds (that would be the equity) to purchase and renovate the real estate came from D'Alessandro himself—immediate cash, at nearly 15 percent interest plus two "points," 2 percent up front on the total amount lent. D'Alessandro raised the money from his own private circles of investors, drawn from the Fort Myers elite: an eye surgeon, a dermatologist, an engineer who had become wealthy inventing optics for military use. Dunn's personal supplier of hard money would be a personal injury attorney whose brother was pals with D'Alessandro growing up in New Jersey.

Dunn was quickly learning what they wouldn't teach on *Flip This House* or *Flip That House*: The supposedly easy money via mortgage brokers, from the likes of Argent, New Century, and Countrywide, was nowhere easy enough for a real estate investor. Hard money was the only way to grab a place immediately, the moment Dunn got a call from his property wholesaler. He needed immediate cash to pay for what he needed from Home Depot and a work crew. If he didn't buy the house right then, it would be sold to someone else by noon.

No credit checks. No questions. D'Alessandro's appraiser would drive over—Dunn snaps his fingers twice in quick succession to demonstrate how fast—give a quick once-over, and green-light the job. Frank D'Alessandro didn't advertise this service. Nor did most hard-money lenders. Someone had to tell you about it—and Dunn was in.

He got to work, all over Fort Myers, with a crew of four, in the most disgusting places he and Susan had ever seen. Refrigerators full of food, unplugged in the Florida heat. Dog shit everywhere. Walls squirted with ketchup packages. Abandoned grow houses, sticky with the residue of the marijuana harvested there. Homes that had never been cleaned, ever. Once Brian had turned eyesores into upstanding pieces of real estate, neighbors thanked them for improving their streets.

And on his way to flipping thirty houses, Brian Dunn was making money, much more than he'd ever had in Michigan. That was 2003, and with the price of real estate rising like bamboo on HGH, his houses had no shortage of buyers—guys named Chen, Dong, Velazquez, Frey, in investor argot, "end users" looking for a place they could still afford to live in. Business was so good that when Herrholz didn't give Dunn his share of the proceeds, Dunn struck out on his own, borrowing large sums from D'Alessandro directly and getting tips on deals from real estate agents. In exchange, Dunn gave those brokers exclusive listings when he was done.

Dunn hates the flipping shows on TV. The financial calculus viewers see is often bogus, starting with the displayed prices the flippers allegedly bought their wrecks for—sometimes tens of thousands of dollars less than the actual purchase prices, with the result that viewers are led to believe the flip is much more profitable than it actually is. Basic expenses—Realtor fees, closing costs, carrying charges—are frequently omitted. But the misleading financial information doesn't bother Brian Dunn half as much as the fact that the flippers almost never do the reconstruction work themselves. Dunn handled plenty. He was part of the crew, ripping out rot, laying down tile, doing whatever needed his expert touch. He enjoyed it all tremendously, clearing about $20,000 on each house, doing what he knew best.

Still, as he shook off his boots at night and Susan cleaned up after him, the Dunns were coming to learn that there were more, and less physically exhausting, ways to make money in real estate. On the far side of I-75 lay Lehigh Acres—135,000 little lots of land reclaimed years before from swamps. It was a blank canvas for their aspirations.

The hundred square miles of Lehigh Acres tended to startle passengers landing at Southwest Florida International Airport. The place—it wasn't even incorporated as a town—resembled a mouth that had lost most of its teeth, with houses scattered one or two on a block amid expanses of sand and brush, but on a street grid as dense as Manhattan's and vaster still. On the ground, rough roads forded their way over canals dug to drain what had been swampland; the muddy ruts lowered the water table so far that wells were starting to run dry. There was nothing here but mile upon mile of lots, with little on them but spindly Australian melaleuca trees whose fecundity and appetite for water were killing all other vegetation.

With 90 percent of Lehigh Acres' lots still undeveloped, they sold for a couple of thousand dollars apiece, if they could sell at all. Many owners just gave the land to friends, charity, or back to the county, rather than pay a $10 tax bill. It used to be in Lee County that when someone wanted to dump a body, they'd do it in Lehigh Acres, because besides the rutted streets, there was nothing around.

In 2003, Lehigh Acres rumbled out of its slumber. By 2004, a lot would sell for nearly $25,000. Why? Don't ask—buy. With the guidance of a firm in Fort Myers that was advising hundreds of investors like her to do the same, Susan Dunn cleared out her IRA and put $75,000 into three lots in Lehigh Acres. With long bleached hair, in tight T-shirts and tiny button-fly cut-off jeans, she still looked like the Sue Dunn who used to go to Who concerts and help fellow fans who'd passed out, not the fifty-seven-year-old who might retire anytime soon.

She and Brian stood to make even more, they reasoned, with lots that had homes on them, and so they dug into their proceeds from the flips to put down a modest sum—just $2,100—for contracts on six more properties in Lehigh Acres, three in each of their Social Security numbers.

That was all they needed to do to spark construction on those lots. The developer, a local company called First Home Builders, arranged for them to borrow more than $800,000 from First Florida Bank, and got its construction crews to work, as fast as it could, anyway. So much building just like this was booming here and over in Cape Coral, on the other side of Fort Myers across the Caloosahatchee River, that work crews and materials were becoming scarce.

Those dusty lots eventually sprouted First Home's cozy "Belvedere" model, what Floridians call a 3/2/2: three bedrooms, two baths, and a two-car garage. The company advertised these HOMES FOR EVERYDAY HEROES on a billboard along I-75 featuring a sultry young firefighter caressing his helmet. At $240,000 or so each, a civil servant could almost afford to live here in Lehigh Acres, unlike pricey Naples or Fort Myers. Five of the Dunns' Belvederes sold, netting them $70,000 to $80,000 apiece.

While Brian and Susan were mining the eastern end of Lee County, a fellow investor they met in the Herrholz days beckoned them west to Cape Coral, a sprawling mass of lots ringed by canals that make a vague gesture toward Venice but were originally dug to drain otherwise useless swampland. Like Lehigh Acres, Cape Coral had been platted out in the late 1950s by northern pitchmen who mass-marketed land on installment plans using the same techniques as they did with the products that had made them successful, Charles Antell cosmetics (Cape Coral) and d-Con rat poison (Lehigh Acres).

During those same two mad years from 2003 to 2005, Cape Coral echoed Lehigh Acres' manic trajectory to a tenfold increase in land prices. Consider a lot in the middle of the woods at the northern edge of town, with no electricity, water, sewer, anything—a place that someone from Minnesota gave away in 1999. In 2003 the lucky recipient cashed in on the gift, for $7,500. A developer bought it a month later for $12,900 and then sold the land two months after that for $17,500. Finally, in early 2006 someone shook his retirement account upside down, using $75,000 to buy just one lot.

By then, hundreds of Lee County residents had, like Brian Dunn, chosen a business name—his was Sunrise Investment Company—put the letters "LLC" after it, duly registered in Tallahassee, and started looking for buyers. Remember, these were just vacant lots they were selling, offering little more than a Florida address. Schooled by an industry of real estate seminars, carefully tutored speculators from the Bronx to Mill Valley, California, made 2005 the year for Lee County, a place where property values still seemed remarkable bargains for those accustomed to the swollen prices back home. By the busload, thousands of eager investors visited Fort Myers and checked out builders' model homes prominently scattered, like three-dimensional billboards, at major intersections in Cape Coral and Lehigh Acres. Brokers put together complete packages for them: land, construction loan, builder.

Dunn knew Lee County real estate was becoming a treacherous business. He remembers the month everything stopped: "It was like someone turned a faucet off." That was October 2005. Nothing was selling. But, he thought then, how long could the slump last? "I was hoping, it can't be this bad for this long," he says with a stare, his eyebrows furrowing. "Oh, yeah? Bet me it can't be. Because it was." He took advantage of the lull in work to get a real estate broker's license. With his partner Lou, and using funds from hard-money lenders, heading into 2007 Dunn bought three Cape Coral foreclosures to flip, for the kind of prices you had to pay then. One lone three-thousand-square-footer, on a road that abuts a canal but like most in Cape Coral doesn't even have streetlights, cost him $310,000. He did his usual top-quality job, and built a huge amount of wiggle room into his financial calculations. For nothing. These houses just wouldn't sell at any price that could make him a profit. All over Cape Coral sat hundreds of empty homes. A lot of them were brand-new.

In retrospect Dunn realized his mistake. "You should always be selling to an average Joe Blow," he scolded himself.

But in Fort Myers and vicinity in those few astounding months, Joe Blow was nowhere to be found. Car wash owners, nurses, appliance repairmen, secretaries, firemen: all of them bought contracts, land, liens—anything that could get them a claim on a piece of southwestern Florida soil. Joe Blow had become Donald Trump.

Now the Dunns are flushing down a toilet, fast. Not only has their income evaporated, but they also have to make $6,500 in payments every month on four huge loans, none of which is for the home they actually live in. They've already spent everything that they made on the First Home deals on the mortgage payments for the places they can't sell. It's extremely unlikely that the houses will find buyers anytime soon, because Cape Coral, at the dawn of 2008, is the worst real estate market in the country, trapped in prices that are many times higher than anyone around here can afford to pay. The market is littered with thousands more homes than there are people to occupy them.

Dunn asks me to show him how my digital recorder works. He says he might get one like it for his own book he's thinking of writing, showing other contractors how to flip houses. Really, he wants to make sure the device is turned off. With that taken care of, the tone of the conversation turns alarmingly upbeat. Brian has spent the entire interview hunched in his easy chair on the far side of his spacious living room, barking, "What else do you want to ask me?" and "Next question" like he can't wait for the interrogation to be over. Now he's up close next to me in the kitchen while diminutive, deferential Susan sidles in from the other side. For the first time, she makes eye contact with me.

"Do they have MonaVie in New York?" Sue asks.

Mona what? I have no idea what she's talking about.

"Oh, I'm surprised! Cuz it's the biggest thing around here. You drink it, and it gives you incredible energy. The antioxidants help with all kinds of conditions." I hear about how Brian's eighty-seven-year-old arthritic father (he's still up in Michigan) wants to leave the house again; how the cultivation of the acaï berry helps protect the rain forest; how Brian was able to stop taking Prilosec; how they don't have to buy fruit anymore, since now they drink it all—eighteen different tropical fruits in one bottle of MonaVie! Susan proudly points to her kitchen counter, now barren of everything except a few decorative canisters.

"It's natural energy."

"*Natural* energy," Brian echoes on cue, raising his eyebrows meaningfully.

She dashes to the other room and comes back with a small stack of literature on MonaVie. No samples?

They have sat for hours, exposing their embarrassing story of aspiration, naïveté, and low-grade greed to a stranger because they hope that she just might buy, and in turn help them sell, as Brooklyn's own MonaVie sales representative, a $45 bottle of juice.

Frank D'Alessandro's body floated miles off Manasquan, New Jersey, bloated underneath his wet suit. His kayak had already washed ashore. He'd gone out five days before, after dinner with his mother, who had been ailing and glad to see Frank on a rare visit back to New Jersey. It was September 2007, and the new world D'Alessandro had helped build was already half dead; his own demise was only one more symptom.

In D'Alessandro's Fort Myers, buying and selling property for profit became a way of life, far more commonplace than going to work in a factory. In a span shorter than it takes to get a high school education, new homes pushed miles farther east and north, into swamp and woods, paid for with money borrowed by teachers, construction workers, nurses, policemen, and homemakers who expected someone else to live on these new frontiers.

Speculators didn't have to have Brian Dunn's construction know-how. Nor did they need much money; indeed, one couldn't properly call them investors, because they ventured almost no capital of their own. In D'Alessandro's most popular program, $1,000 bought a contract for a plot in Lehigh Acres and a construction loan that would put a new house from First Home Builders on the barren parcel, retailing for more than $200,000. You couldn't buy just one; participants were required to purchase two and, later, four at a time.

It was all spelled out in the PowerPoint that D'Alessandro's sales team first tested in Fort Myers and then took on the road in 2005, to the suburban fringes of Philadelphia, Boston, Columbus, D.C.—places cold enough that it seemed natural that money could grow in the Florida sun. Buyers would gross a 14 percent return, guaranteed, and wouldn't have to do anything after signing their names and handing over their deposits. His firm would fill the homes with tenants: customers who wandered into First Home's sales center on Colonial Boulevard, where eight model homes ringed a little brook with a bridge over it, but who couldn't qualify for a mortgage because of damaged credit. Through First Home's ministrations, this untapped mass of customers would become homeowners within a year. "It's just a matter of education," company president Pat Logue told a *News-Press* real estate reporter of these tenants, who couldn't even muster a down payment. "They still think there's cash out of pocket." Instead, First Home alerted the renters of southwestern Florida that they would apply their first year's rent toward buying their homes.

Heading the sales team was Lee County's perfect ambassador. Charming, strong-jawed, spiky-haired, a top Citadel graduate and not yet thirty, Samir Cabrera was married to one of Fort Myers's NBC news anchors and by extension her dad, the county manager. At his seminars Cabrera distributed a handy work sheet breaking down the revenue and expenses participants in the scheme should anticipate—real estate professionals call this a "pro forma," though Cabrera's was labeled a "Performa." Investors could expect net income of more than $1,500 on each house every year, plus $30,000 once the tenant made a year's payments on time and could therefore proceed to buy the home from the investor. "The refinance is possible because Sub-Prime lenders will allow a refinance on a property with 12 cancelled monthly checks for a lease payment," the prospectus promised.

From the packed hotel ballroom in King of Prussia, Pennsylvania, sheltered from the winter outside, Kelly Haegele thought that all sounded promising. She and her husband, Chuck, lived in Warrington, a respectable Philadelphia exurb of modestly paid professionals and small-businessmen, where they knew neighbors who were making money on these Florida investments. Her family of six needed that kind of income. Kelly stayed home with the kids. Chuck framed houses, which was a decent enough business but slowing down.

Tom Messina, over on Jericho Drive, was the first to get involved. He went from running an appliance repair service out of his house to establishing himself as Jericho Drive Investors, LLC, moving to Florida, and starting a property management service down there. Tom and his wife, Donna, were already getting rent payments from the houses that First Home built on their lots, which meant that the tenants were well on their way to qualifying for their own loans and buying those homes, bringing on a series of $30,000 paydays for the Messinas. That wasn't all that they were getting. For every investor he brought in, Tom Messina got another $10,000.

At the seminar, Kelly and Chuck learned about the booming economy in southwestern Florida—the population growing in double digits, the super-low unemployment, the small housing inventory that guaranteed demand would stay high. And sun and water, of course, if you were willing to drive

eighteen miles for the latter. By the end of Cabrera's presentation, people were literally lined up out the meeting room door, waiting to sign up to buy homes and have First Home put tenants in them. Many of those queuing up were familiar faces to Kelly. The town of Chalfont, just down the road from Warrington, had barely more than a thousand families, and six of them ended up signing contracts with First Home. In Warrington, which wasn't much bigger, nine couples enlisted.

Diane Bannar, a registered nurse who lived in the house next to Tom and Donna Messina, took the plunge with her husband, William. So did Mariana and Jim Cliggett, who ran a flower shop and nursery, and the Curleys, and a chemical engineer named Raj Merchant, whose kids went to school with Kelly and Chuck's children. Merchant was encouraged to join by two other parents from Titus Elementary, John and Lisa Joyce.

Kelly and Chuck Haegele flew down to Fort Myers after signing their contracts, to check out the land that would yield them new prosperity. They didn't get to choose their lots—that was part of the deal. But when they were down there in the winter of 2005, they met with Cabrera over at the First Home sales center and asked him if he could take them to see their property. He looked at his watch. Sorry—another appointment. It was only later that they learned where their lots were, in the middle of next to nowhere. In Lehigh Acres, SW Twenty-sixth Street had just two houses on the entire block, which terminated in a canal that was more like a muddy ditch. The Cape Coral lots sat in what had been woods until they were bulldozed, miles from the center of town. The dirt landscape might as well have been on the moon.

The housewife and carpenter had borrowed close to $1 million in construction loans for four homes on four lots—two Ashfords, a Belvedere, and a St. Michael. All remained empty. While some investors managed to get tenants in the houses, few of those renters stuck around to buy. Why should a construction worker (for that was what many around here did for a living) keep paying $1,100 a month when he could rent an identical house for $800?

The money that Cabrera's Performa promised would come in started gushing back out instead. The houses themselves actually didn't cost that much to build; acrylic bathroom fixtures and laminate countertops were part of First Home's signature style. For the walk-throughs before closing, Kelly and Chuck had to hire someone local, who reported back, to their dismay, that the homes didn't yet all have their toilets or drywall.

What the Haegeles had paid dearly for in their package deal was the land. First Home bought one of the lots for $891. The Haegeles paid $45,900 for it. Over in Cape Coral, a lot way on the north end of the Cape cost First Home $1,500 in 2003; Kelly and Chuck got it for $65,900.

With Frank D'Alessandro brokering its purchases of land—most of it from widows, heirs, and men and women so old they had forgotten they'd ever bought a quarter acre on an installment plan—First Home bought and sold upward of three thousand lots this way in Lehigh Acres, and about as many in Cape Coral. That helped explain why property values were going kablooey in those two places: First Home was essentially making up prices as it went along, persuading the far-flung purchasers of these plots to look not at the debt they were taking on or the price of the land but how much money they were going to make. Selling more than half the lots in Lee County, First Home Builders of Florida wasn't following the market; it was fabricating it.

The Haegeles thought they'd be in and out in a little over a year, committed only to a few thousand dollars in deposits that they'd get back soon enough. By the end of 2006 it was clear that they owned not just one albatross, but a whole flock. Since they still owed First Home the balance of construction costs—expenses the renter-turned-buyer was supposed to ultimately pay—those new loans totaled tens of thousands of dollars more than they'd already borrowed.

Their first impulse was to make good on their commitments. Kelly and Chuck borrowed as much as they could against their own home, and from friends. As Christmas 2007 arrived, they'd spent more than $80,000 of their own money keeping all the Florida debts paid, and there was still no end in sight. With the new year Kelly decided to leave her kids on their own after school for the first time and go work as a part-time school aide (it was great to finally have health insurance, too).

Even if they sell the houses close to their asking price of $119,000—half of what they were supposed to retail for—the Haegeles will have to write a big check at closing. At this point, as interest rates inexorably reset and unpaid debt accumulates toward infinity, they'd be more than happy to do that. Investors, unlike homeowners, do not qualify for the government-sponsored program that Congress created in 2008 to help overcommitted borrowers refinance into less expensive loans.

"We followed other people. We trusted them," Kelly lamented before going back to the kitchen to make dinner for the family. The rite was a comfortable moment of normal. The kids have had to listen to their parents tangle in endless, vicious fights about who's to blame and what to do. The Lehigh Acres homes are scheduled for foreclosure sales, and it's only a matter of time before the Cape Coral ones follow.

Across town, Lisa Joyce is still trying to hold on. Avoiding foreclosure won't save her credit score, but it can buffer the damage to her pride and conscience she feels as one of the people responsible for dragging Bucks County, Pennsylvania, into Florida's real estate vortex. John and Lisa Joyce's backyard bumps up against the Messinas', and the couples installed a gate in the fence to make it easier for their kids to go back and forth. Tom and Donna are godparents to the Joyces' eldest son. The Florida real estate proposition Tom told them about sounded like a way to deepen his blessings to the family next door. John and Lisa expected that the proceeds from buying and selling eight First Home houses, four apiece, would let John fulfill his dream of quitting his marketing job at the cash register company NCR and opening a martial arts studio.

But more important than anything, it would buy higher education for their sons. For Lisa, it was just hard to say no to the promised double-digit returns. "I mean, where else do you get that?" she asks at her kitchen table in Warrington, while John and the boys spend their Saturday at a karate demonstration. "You don't get that in a bank; you don't get it in the stock market, or anywhere else."

Slender and focused, Lisa supervises billings for a crime lab. When Cabrera flew her and the Messinas down to woo them, she asked sharp questions and got answers that seemed convincing in the Florida sun. Cape Coral was sensationally popular, its population bulging with retiring boomers and those who serve them. There was no risk, since if a renter decided not to buy, the investor could always sell to someone else. Lisa went on Marketwatch.com not long before signing the deeds, and she saw that Cabrera's promises of a bright future for Lee County were true: Cape Coral now had the nation's fastest-growing job market. (Almost all of the new jobs, it would turn out, involved building, financing, or selling houses to speculators.) The local paper ran a report about how an expansion of the airport and Florida Gulf Coast University were providing further boosts to demand for real estate—written by, who else, Frank D'Alessandro.

Donna Messina still lives in Warrington while her husband looks after other people's empty investment properties down in Cape Coral. When Lisa Joyce goes to her backyard and Donna is there, the women won't look one another in the eye. Of all the friends and neighbors who joined them on their Florida escapade—"it was like an Amway Corporation kind of thing," says Lisa—only one is still talking to the Joyces, and that's testament to his forgiving nature. Ashamed of what his coworkers might think, he does not want his name published. Like the Joyces, their friend thought he'd found a way to send his kids to college; he was so entranced by Cabrera's presentations that he attended three of them. Instead he spent tens of thousands of dollars on mortgage payments for empty houses in Cape Coral, borrowing from family and friends, before coming to the conclusion that he'd be better off just losing the homes and incinerating his previously perfect credit. "I got creamed," he says. Like Kelly Haegele, he has closed his checkbook in defeat to mounting debts there's no longer any point in paying. He doesn't want to know when the foreclosure sale will happen.

Lisa isn't giving up yet on the two of her First Home houses that never sold. To refinance their expensive construction loans she and John sought mortgages with the cheapest monthly payments, and found them at a venture of General Motors called Homecomings Mortgage. As it happened, Homecomings was headquartered just down Easton Road from Warrington. Its parent company, ResCap, was one of the biggest issuers of securities made up of mortgages that were too big or too dubious for Fannie Mae or Freddie Mac to buy. (GM's mortgage operations, the company had just reported, earned the company $1.4 billion that previous year, even while the automaker itself lost many times that much.) Through a broker, in early 2006 this mutant hometown lender got the Joyces two mortgages, one for under $800 a month and the other for less than $600.

John and Lisa knew very well that these were negative-amortization loans, their initial payments artificially low because most of the interest owed was being added to the principal. Not only would they have to pay an adjustable rate—by the middle of 2007 their initial 1.5 percent interest rate would spike up to 8.5 percent—but they'd also be paying that higher interest on a growing amount of money owed. Like a lot of borrowers who turned to these neg am loans, the Joyces were hardly ignorant consumers who fell for an easy pitch. They were looking for a paddle big enough to navigate them out of financial disaster, buying just a little more time until they could locate someone, anyone, to purchase their houses.

Of course, that plan didn't work out so well, for the Joyces or most people in their position. Lisa has found a counselor who specializes in helping borrowers negotiate with mortgage billing companies to reduce loan payments, and she's been staying up late compiling proof of her family's economic hardship, a first step toward a workout with GMAC and other lenders. If the loss mitigators were in her house, they'd see it for themselves in the mold stains growing on the living room ceiling from a plumbing mishap they can't afford to replaster. They can see it in John's now-drained 401(k) account from NCR. (John lost much of that money on a subsequent land venture with Cabrera, who was later indicted for fraud for buying property cheap, flipping it to a phantom company, and then bringing some of his First Home investors in to buy shares at inflated prices.) The Joyces owe more than $500,000 and about $10,000 a month on four investment properties in Lee County. Lisa is working to whittle those numbers down and sell the houses and condos at a loss.

"We're professionals," says Lisa, mystified at where her family has landed, on a venture that seemed to have no downside. "Nobody thought it would end up this way."

Lisa Joyce's biggest regret? It's that she came in on the First Home program too late. John's first four houses sold at a profit. So did Tom Messina's. "The timing wasn't right," Lisa laments. For her the Florida storm wasn't a debacle. It was a missed opportunity.

It was only a matter of time before bigger money took interest in the gorgeous numbers emerging from Cape Coral and Lehigh Acres. In the summer of 2005, while Kelly and Chuck Haegele were still going to bed dreaming of checks, the publicly traded New Jersey–based homebuilder K. Hovnanian bought First Home. Hovnanian proceeded to claim, as federal judges started hearing stories like the Haegeles', that it wasn't responsible for whatever sins its acquisition might have committed to get where it was.

Lawsuits were the last thing Hovnanian needed to deal with in Florida. Of the nearly six thousand unsold houses the homebuilder had in its national inventory at the turn of 2008, more than a quarter of them sat dully in Cape Coral and Lehigh Acres. "We view Fort Myers as likely the worst housing market in the country," Hovnanian reported to shareholders, as if the company were an innocent bystander.

Hovnanian never suggested, however, that its management was unaware of First Home's unorthodox growth model. How could they be? Selling land on installment plans to dreaming Northerners was exactly what Lehigh Acres and Cape Coral had been built for.

In the early 1950s, a team of admen turned a sprawling ranch east of Fort Myers into a laboratory for a new formula in mass-marketing real estate. A Chicago entrepreneur named Lee Ratner had originally bought the eighteen-thousand-acre Lucky Lee Ranch to keep the IRS away from the millions he'd made turning d-Con into America's most popular rodent killer. His mail-order company was one of the nation's largest buyers of TV advertising. Besides d-Con, Ratner peddled a knife that'll slice a tomato every time, a gas tank pellet to increase your mileage—or your money back! That was Ratner's catchphrase.

Ratner was already such a sales legend that when he set up shop in Miami, a young adman named Gerald Gould introduced himself and asked if Ratner needed an agency. Ratner already had one, but he made a proposition to Gould: If you bring me a new product to sell, I'll bring you that account.

They launched a beauty products company together and became close friends. But meanwhile, Ratner's Lucky Lee Ranch, on the other side of the state, was fooling no one at the IRS—while Ratner liked to ride horses there in his custom cowboy hat and alligator boots, this was hardly a tax-deductible moneymaking venture. As Gould and Ratner rode together and Ratner vented about his dilemma, Gould asked him: Why not turn the Lucky Lee into a subdivision? That was what one of his agency's clients was doing up the coast in Warm Mineral Springs, selling lots through ads in northern newspapers.

Ratner liked the idea. He didn't want Gould, who was twenty-six, running the company on his own, but with the help of a couple of guys Ratner knew in Calfornia who had experience in finance, the men founded Lehigh Acres Corporation and began advertising Florida land for sale.

Gould and Ratner came up with the pitch on a flight to New York, writing it on a flattened-out barf bag: "For $10 down and $10 a month, you can own a lot in Florida." Back in Miami, Gould handed the bag to a colleague with instructions to turn the copy into an ad for the papers and TV. The campaign was successful way beyond their hopes or their capacity. Lehigh Acres sold twelve thousand lots that first year, 1954, to buyers from all over the country and above all, for some reason, Ohio. With sales continuing at a manic pace, they were running out of Ratner's ranch acres so fast that the corporation bought forty thousand more.

Getting all that land into passable shape to sell required drastic measures. Under orders from Ratner, his engineers took the street grid from the first of his subdivisions, along Leland Boulevard, and simply replicated it, over and over for miles around, without regard to the particulars of the landscape. As a result, many of the new roads drained uphill, while others plowed through wetlands. Crews dug more canals to dry the land, but that meant that most streets dead-ended at the trenches. Lehigh Acres lacked even a shopping center or a school, because the Lehigh Corporation had neglected to set aside land for them.

Did buyers care? The checks kept coming, along with notes describing visions of a sunny retirement. "I always dreamed of owning a piece of land where I would sit on the back porch and look at my land as far as the eye could see," wrote one who had just made his first payments on a half-acre lot. Another gentleman sent Gould a check for upward of $12,000 with a handwritten request: "I want you to build this house." Enclosed was a picture from the Lehigh Acres sales brochure. But that house didn't exist, at least not in Lehigh. While Gould was still working on finding a builder to erect a reasonable facsimile—he also quietly swapped the buyer's lot out on the fringes for one closer to the center of town—the man showed up with a truckload of furniture, asking to move in. The corporation put him up at a hotel in Fort Myers until the new house was ready.

While a few thousand retirees and entrepreneurs settled in to make Lehigh Acres' original subdivision into something roughly resembling a neighborhood—though a neighborhood where entertainment at the auditorium included Bing Crosby, Liberace, and an annual luau—from the beginning the tropical haven pictured in the beautiful brochures and sales force's spin was a chimera. Only about four out of ten of the buyers who signed contracts actually made all their payments and took title; the rest of the land went back to the company. While Lehigh Acres Corporation sold roughly 135,000 lots during its seventeen years of business, many of those were actually the same properties, over and over again.

By the early 1960s Lehigh Acres had big competition from another workingman's paradise across the Caloosahatchee River. Cape Coral was the creation of Leonard and Jack Rosen, brothers from Baltimore who got their start hawking coat hangers and other household items at carnivals and on the Atlantic City boardwalk. In New York, barkers herded audiences into a Times Square storefront to see Leonard do a half-hour pitch for lanolin hair cream ("Did you ever see a bald-headed sheep?"). He proceeded to take the show to the stage of the grand Roxy Theater and, as a founder with Jack of the Charles Antell cosmetics company, onto some of TV's first late-night infomercials.

Real estate hucksters had been selling Florida swampland to unsuspecting buyers as far back as 1914. But through their Gulf American Corporation, Leonard and Jack Rosen turned Florida land sales into a mass-marketing machine. Their crews sliced Cape Coral into a maze of navigable canals—A WATERFRONT WONDERLAND OF TRULY GRACIOUS LIVING, advertised the sign atop their first sales office—and moved fifty million cubic yards of earth to carve out hundreds of thousands of little lots.

Endorsements from Mickey Rooney and Philadelphia Athletics' owner Connie Mack, a computerized database, and a nationwide sales force beckoned millions of prospective buyers to Cape Coral: YOUR NEW WORLD FOR A BETTER TOMORROW. At grand sales banquets and house parties, guests received knife sets and other door prizes. International sales teams intercepted American tourists and servicemen in Germany and England, Tokyo and Rome. *The Price Is Right* gave away houses as prizes. Best of all were the free trips to Florida on Gulf American's own airline.

Alligators, cows, and mosquitoes gave way to a pool of porpoises, a massive Waltzing Waters fountain replicated from the Brussels World's Fair, and copies of the Iwo Jima statue and Mount Rushmore, part of a "Garden of Patriots" housed in the largest rose display in America.

Hundreds of thousands of visitors came for the attractions. Once prospects were in Cape Coral, the real sales job began, for lots that started at $20 down and $20 a month. The company planted bugs in the salesrooms so that supervisors could listen in on couples and advise salesmen on how to close the deals. Some separated husbands from wives until they agreed to sign papers. One salesman made his customers swear on the Bible that they would make at least six payments—the number he'd need to make his commission. Customers heard promises that they would double or triple their investment in the first year, or the company would buy the land back.

Such shenanigans, with Gulf American as the highest-profile offender out of many all over Florida, prompted Congress to pass a law regulating real estate investments. Cape Coral and Lehigh Acres just sat there, fallow, awaiting a future generation of Florida dreamers. The bulldozers had razed almost every oak, hickory, and palmetto. The canals brought in salt water and killed Cape Coral's once-spectacular fishing. There was little left but dirt and water, often combined.

By 1989, much of Lehigh Acres was the property of the U.S. government, after the Arizona savings and loan that bought Lee Ratner's company went kaput. The government-appointed caretaker of the S&L called Lehigh Acres "about as salable as a half-finished nuclear power plant"—fittingly, it turned out, since Minnesota's biggest public utility proceeded to buy the assets.

But most of Lehigh Acres remained harbored in safe deposit boxes and dresser drawers all over the country, and eventually another team of TV salesmen set out to liberate those yellowing deeds. National Recreational Properties, run by two high school buddies from Anaheim, got *CHIPs* star Erik Estrada to shoot late-night testimonials in English and Spanish, with an irresistible come-on: free junkets to Florida for prospective buyers. The company bought its first batch of Lee County lots for about $1,800 apiece in 1999, and it was as if time had restarted in Lehigh Acres, right where it had left off.

This time, the thousands of buyers writing out deposit checks for $895 were overwhelmingly Latino, many living in houses and apartments they didn't own themselves. At the end of their free trips they were buying the lots for $7,000, $10,000, eventually upward of $20,000. At $295 a month, they were effectively paying 15 percent interest, or more.

Scouring for new product to sell, Estrada's employers became the number one buyer of tax liens at the Lee County courthouse, bidding up lot prices to new heights. And then the craziest thing happened: The new buyers saw their fantasies come true. First Home and other builders came calling, paying $25,000 for lots they'd just bought for a few thousand.

Cape Coral attracted its own new generation of late-night TV viewers, as home to Whitney Information Network, founded in 1992 and better known to insomniacs as Millionaire University. Selling his stock over-the-counter under the symbol RUSS, founder and president Russ Whitney sent teams all over the country to present thousands of free seminars, advertised through infomercials, promising to teach the secrets of real estate investing at what the company internally referred to as "the 1590"—a three-day course, held at Gulf American's old headquarters on Cape Coral Parkway, that cost $1,590.

The first thing students learned, and heard throughout the three days, was that they needed to buy more courses from Whitney's Wealth Intelligence Academy, at nearly $5,000 each and at up to $40,000 for the full "platinum" package. Seminar leaders helpfully sat with each student in turn as they dialed their credit card companies, on speakerphone for the whole classroom to hear, and raised their credit limits. They'd hold a contest to see who could raise it the highest.

In between the sales pitches, Millionaire U. mostly taught the basic stuff of Brian Dunn's sweaty workdays: how to pick investment properties up for little money down, fix them up, rent them out, get them to "cash-flow" (invariably a verb).

Other seminar gurus had already marked this territory—such as Carleton Sheets, who sold millions of books and tapes through his own infomercials, offering advice that, not surprisingly, was often dubious. A classic no-money-down maneuver: have the seller advance you money for a down payment, but don't tell the bank.

Whitney just took the model to new heights of psychological conditioning, through a fawning regimen of positive reinforcement. Students who followed trainers' and mentors' directives received ever-escalating rewards of praise; the most compliant were honored at a Las Vegas conference with induction into the Wealth Intelligence Academy International Hall of Fame, "Where Only Eagles Fly."

But though Whitney Information Network was grossing upward of $100 million a year with the seminars, the money to be made selling real estate itself, in Whitney's own town, was getting too good to pass up. On the final day of their courses, Russ Whitney's seminar leaders escorted students around Cape Coral by bus, showed them a model home, and informed them that if they acted now, they could get one of a limited number of spots in a special investment program, which would not only earn them back all the money they'd spent on the courses but were such good deals that they could begin amassing capital to become successful real estate investors. Buyers would put just a little down to buy a lot, take out a construction loan, and sell the house before they'd ever have to take out a permanent loan. Or "houses," since students were encouraged to buy at least two packages. Whitney's partners even agreed to lease out and manage the properties if that was how the students wanted to cash-flow.

Hundreds hungrily seized the opportunity to put into practice everything they'd learned in the courses: above all, to trust in their Power Team of real estate agents, mortgage brokers, and other professionals. The students signed blank purchase agreements, which the development company later filled in with property addresses and other pertinent details, such as the price. Many of the homes turned out to be way out in the backwoods of Lehigh Acres.

Millionaire University was one of many wealth seminar operations flogging Cape Coral and Lehigh Acres, teaming up with local real estate agents (and builders, and lenders) who received substantial commissions on property sold to members. The Marshall Reddick Real Estate Network, with eighty thousand members in Southern California, brought its Florida agent (himself recently relocated from northern Michigan) in for a series of presentations from Orange County to the San Fernando Valley. Its AMAZING NEW 100% CONSTRUCTION-PERM OPPORTUNITY IN CAPE CORAL (translated: You pay $6,000 for the contracts; we'll build four houses for you; you'll rent them out and cash-flow) persuaded nearly five hundred buyers to sign up. In the Bay Area, International Capital Group had a similar arrangement, with $2,500 deposits for each lot. Much of the loan money for these deals came from, of all places, credit unions in Michigan, Alabama, and Colorado—little financial institutions whose membership is supposed to be limited to local civil servants. Two of those credit unions met their ruin in Cape Coral, and their federal regulator ended up stuck with $210 million in defaulted loans.

Southwestern Florida was just one of many places the seminars and wealth clubs promoted; at different times, Phoenix, Las Vegas, and Miami were the investors' darlings du jour. The ready availability of low-doc and no-money-down mortgages conjured heady opportunities in all those places for real estate flipping on a massive scale. But the sheer size of the Fort Myers supply, nearly half a million lots, made southwestern Florida the biggest feeding frenzy of them all.

For all that history repeated itself, echoing the Florida land craze of the 1950s and '60s, something profoundly different happened this time around. The seminar people, equipped with an open tap of money courtesy of the mortgage securities market, spawned an explosion of construction. Tens of thousands of new houses erupted one by one on hitherto empty streets. To growing ranks of locals who watched in bewilderment as home prices blasted to heights far beyond their incomes, it was like rainfall after a long drought.

For a brassy paralegal and weekend prep cook named Autumn Sturgis, who has lived in Fort Myers since she was nine, the new houses were a chance to get a little more space. And she'd heard the buzz that Lehigh Acres was hot. She's explaining this moments after bounding in the door, breathless and apologetic for being moments late, and untying the purple cape around her shoulders. Her chubby preteen daughter, Melissa, has quietly trailed in behind her, a nylon floral garland in her hair—they've just returned from a Renaissance fair, a welcome respite for Sturgis from her sixty-five-hour workweek.

"A very old man I used to work with at a car dealership told me: You can never go wrong with real estate," Sturgis recounts. She looks around her, at a house that she likes well enough and now can't hope to leave. She and her husband, Michael, bought it in 2006, for a little over $237,000, including a decent down payment from the sale of their old house. Michael had been forever renovating that place, hoping to increase its value; she was relieved to get rid of it.

Then her husband, a six-foot-seven cop, left her. Autumn got the house—and its $1,200-a-month mortgage bill. Her efforts to sell the home went nowhere, not with a flood of speculators' houses now on the market alongside hers. Autumn Sturgis's house happened to be the progeny of speculators Timothy and Diane Smith of Doylestown, Ohio, who bought three Lehigh Acres lots and managed to get only this one built on and sold.

Across the street, she tells me, her neighbors picked up and moved in the middle of the night, taking everything with them, even the kitchen cabinets. On one of the four bathrooms' mirrors, someone has written *Puta tu era a mi* (I was your whore) in lipstick. The Bank of New York now owns that house.

Sturgis earns $12.50 an hour, and that's at the better of her two jobs. If she was going to avoid her neighbors' fate, she would have to get creative. And so Melissa's dad, Jack Sturgis, came to live with them. It's worked out fairly well, considering that Jack and Autumn divorced nine years ago. His work in construction inspections is extremely slow now, so he's able to spend

time at home with Melissa. He cooks a fine fettucine alfredo. "And he makes sure the place doesn't get robbed while I'm at work," adds Autumn.

Lehigh Acres has a rep, partly because of its growing Latino population, of being a dangerous place. But more than anything, crime here is a product of Lehigh's bizarre pattern of settlement: vast sprawl sprinkled with residences along dead ends, it's nearly impossible to police. This immense terrain, with its rapidly growing group of settlers, isn't incorporated. A couple of weeks after my visit, voters turned down the chance to make Lehigh Acres a real city, with services and the taxes that pay for them. And so Lee Ratner's ranch will likely forever be a place where inhabitants rely on wells in the back, and septic tanks under swells in the front yard. It's not clear how long that can go on. Lehigh Acres' aquifer is drying up and may be entirely tapped out by 2010, thanks to hundreds of new water hookups.

Like many houses in Lehigh Acres, Autumn Sturgis's is bordered by a patch of crunchy lawn that ends abruptly and gives way to raw dirt. After wildfires claimed dozens of homes in 2004, it's now customary to ring the grass with an expanse of pebbles as a barrier against the flames.

Jack's expert eye has identified endless little things wrong with the house, and many of them Autumn quickly discovered for herself, such as misdirected ventilation, gaping closet doors, a toilet that will never really flush. Those problems are perversely reassuring because they're fixable. The community they live in is a much less certain home. As the sun sets, Autumn, Melissa, and Jack stand in their driveway, one of three on their street, and wave good-bye in the descending darkness.

Twenty thousand arms, palms up, are raising the already very high roof at the Broward County Convention Center, where the hallway windows offer panoramic views of departing cruise liners as they pass shipping cranes unloading steel and cement destined to underpin Miami's rising forest of condo towers.

The arms are doing their part in the Money Dance. The Money Dance starts like the Macarena, except once your arms are out front the thumb and adjoining two fingers get to work, rubbing together like cricket legs. "I want money!! Lots and lots of money! I want the pie in the skyyy . . ." a pop soprano wails over an overamped sound system. And then the refrain,

Our Lot

How Real Estate Came to Own Us

Alyssa Katz

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