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Possum Kingdom Lake investors plan to replicate process around state

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With a closing date in sight, investors leading the Possum Kingdom land purchase are happy with their results – and are ready to expand their services statewide.

Patterson PK Land Partnership, formed by Arlington businessman Mike Patterson, will make history on Sept. 15 with the purchase of more than 1,500 Possum Kingdom lakefront property leases to be transferred from the Brazos River Authority. And Patterson said the experience has been great – great enough to build on.

Last year, the Brazos River Authority accepted a \$52 million bid from Patterson PK Land Partnership. Under the terms of the sale, 1,516 residential leaseholders and 19 business owners will be allowed to buy the land their property sits on or re-lease it. The cost will be based on the land's 2008 assessed value. It is the first time in Texas history that a government controlled lake has sold leaseholds in bulk to a private investor.

“If you look around, cities are on furloughs and cutting staff and fire and police, but then they hold real estate like this – something they don't necessarily need,” said Patterson, managing partner of Patterson PK Land Partnership. “This has been a great experience and we are ready to close this deal and do more.”

Possum Kingdom Lake, which covers 17,700 acres mostly in Palo Pinto County, was created in the early 1940s when the Brazos River Authority constructed the Morris Sheppard Dam, which was the authority's first major project to manage flooding in the Brazos River Basin.

The authority, established in 1929, began selling leases after 1941, first for camping and fishing sites, then for small lake houses, and eventually for million-dollar mansions along the 310 miles of shoreline.

Patterson, who has owned a home on Possum Kingdom Lake for nearly 14 years, said the Brazos River Authority (BRA) decided to get out of the leasehold business a few years ago when legislation nearly passed that would have forced the entity to sell its leasehold land.

With the passing of House Bill 3031, which allowed BRA to sell its land, the entity put out a

Request for Bids in 2009 and received two bids – one from a Dallas group for \$12 million and one from Patterson’s group for \$52 million. In July 2009, the Brazos River Authority signed a contract with Patterson PK Land Partnership by unanimous vote to sell the leaseholds.

Patterson signed on 42 investors for the deal, half of which are Possum Kingdom Lake homeowners, who put up \$15 million in equity to add to the \$40 million in debt.

“When they opened the bids, I think they were excited to see we had a serious bid and we were ready to see it through,” Patterson said. “And I think they liked some of the aspects of our bid.”

Those aspects included several lake lessees as investors and financing from not one, but 11 area banks.

“It was a team effort,” Patterson said. “... I knew the big loans were being highly scrutinized, but if you bust that up, you’re more likely to get it done. It’s the way of the world right now. They would rather get a stick in their eye than lend Mike Patterson \$40 million dollars, but the way we structured it, their risk is \$5 million to \$2 million and that doesn’t provoke the regulators as much.”

In return for supporting the project, Patterson will offer a 5 percent discount off lessees purchase prices if they use one of the 11 lenders participating in the loan.

“There’s about 1,000 transactions going to these lending institutions and these are lots under someone’s house, so it’s not high-risk,” Patterson said. “I’ve been involved in a lot of situations where I represented the buyer or the seller and somebody walks away the winner and the loser, but in this situation, the BRA is happy with \$52 million and getting a large part of the way out of the land management business and the homeowners are getting to buy at 85 to 90 percent of the 2008 values.”

Pricing structure

Once the deal is closed, Possum Kingdom Lake homeowners will have a one-year option period to buy their lot from Patterson’s group for 90 percent of its 2008 appraised value, after which the prices will adjust to current values – and Patterson said 2010 values for the land are double the 2008 values.

If they close within 30 to 60 days of Patterson’s closing and use a preferred lender – one of the 11 lenders that financed the PK land deal – then Patterson will take 5 percent off the total sales price.

Patterson said he also will seller finance at the same 2008 value for 10 percent down, at a 6 percent, 30-year amortization and he will offer some 99-year leases, or 20-year leases for leaseholders 65 years or older.

To date, Jarod Cox, director of Patterson PK Land Partnership, said about 72 percent of the lake already is under contract, awaiting the group's closing date.

"Part of that is the low interest rates right now," Cox said. "A lot of these people have 8 percent leasehold financing, but interest rates are lower now and they see it as a good opportunity."

Looking to more lakes

Patterson PK Land Partnership is a subsidiary of Patterson Equity Partners, an entity Patterson said he plans to market as one that assists government entities in the divestiture of leasehold property.

Patterson said he feels many cities and counties throughout the state have found themselves in the land management business – and would like the option of getting out.

"It's nice to be able to offer them a solution," Patterson said. "And we're helping the government get out of things they're not good at. I think a lot of cities and counties and states have somehow ended up in things that privatization would work better than them trying to do it themselves.

Patterson said he didn't begin the Possum Kingdom negotiations with the intension to duplicate the deal with other government entities, but the more he got into it, the more of an opportunity he saw.

"When we really stopped and looked at it, and saw it was working and the more we read the newspapers and listened to different stories, there are just so many challenges out there cities and counties are facing and I am a big believer in letting government do what it does best," he said. "So yes, I think we're going to expand this and explore other lakes in Texas."

Patterson said PEP has developed a business model in which it purchases land from the government and then sells it back to the leaseholders. Possum Kingdom has about twice as many leaseholds as any other in Texas, Patterson said, with typical leaseholds boasting 200 to 300 lessees.

Cox said if the group can handle Possum Kingdom, smaller deals should present no problem.

"A lot of these cities, municipalities, got into it and got in there with leases for fishing cabins,

and then they wake up 40 years later and they have multimillion dollar homes and they're wondering how they became a residential real estate firm," Cox said. "It's a situation with a lot of potential problems."

Patterson said he hopes to begin promoting PEP throughout the state in the coming months – after the Possum Kingdom Lake deal closes.

"No. 1 is Possum Kingdom," he said. "We don't want to take our eye off the ball with that. Along the way, we'll try to tell our story and maybe there will be a lessee or a homeowner group on a lake that hears about it and wants to talk to us. One person buying one lot on a lake is not a compelling reason for a city to sell its lots, but if the city can get out of all of the lots at once, now that's something they would be interested in. And for investors, if you look at the money markets, a one-year CD would get you 1 percent, so you're not getting much for your money at the banks and I think people know that and we can do this many, many times and not have to go very far."

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