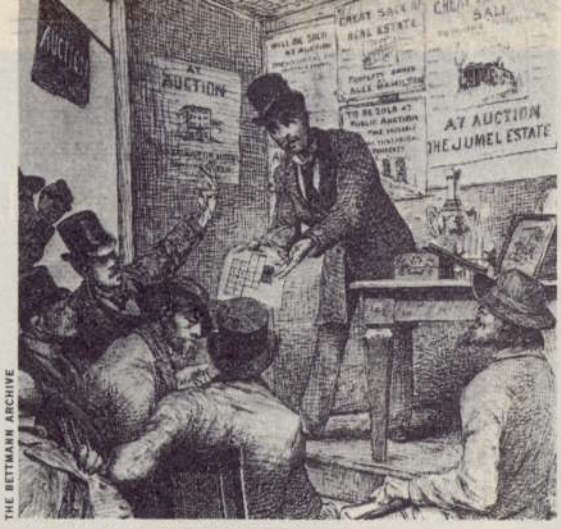


THE BETTMANN ARCHIVE

FRAUDULENT REAL ESTATE AUCTION, 1882

HARVEY SHAMAN

HIGH-PRESSURE PITCH FOR RECREATIONAL LOTS, 1973

SPECIAL SECTION

The New American Land Rush

On Maine's Moosehead Lake—frigid in winter, plagued by black flies in summer—300 ft. of water frontage is selling for $30,000, or double the price of two years ago.

In Provo canyon, Utah, raw land near the Sundance ski resort fetched $3,750 an acre in 1966. Today it goes for as much as $13,000—even though zoning restrictions prevent some buyers from building anything.

Near Orlando, Fla., a grove owner sold 30 acres of land 15 miles from Disney World last spring for $285,000. Two weeks later the buyer resold it for $375,000. One week later a subdivision developer bought it for $525,000. Several months later the developer turned down an offer of $750,000 for the property, upon which he is now constructing apartments.

These stories are symptomatic of a virulent outbreak, in modern, urbanized America, of an early frontier frenzy: land fever. Around metropolitan centers, real estate developers are pushing suburbia farther and farther into the countryside. Out in the deserts and woodlands, people who want vacation homes are scrambling to pick up pieces of the good earth. They are being joined by speculators, who have rediscovered in real estate the fast-buck thrills that a droopy stock market rarely provides. Citizens are taking seriously the advice of Humorist Will Rogers: "Buy land. They ain't makin' any more of it."

The new land rush has set off an inflation that far outstrips price rises on commodities like food, gasoline and steel. Nationwide, the price of land for industrial parks has tripled in a decade. Suburban residential property has been gaining in value by some 8% a year. The average price of the land under a house with a Federal Housing Administration–insured mortgage is now $5,300, up about 80% since 1963, while the average plot size has shrunk from about 11,000 sq. ft. in 1965 to 7,000 sq. ft. Farm land has almost doubled in value since 1963, to an average $247 per acre. In the past ten years, the consumer price index has risen only about 44%.

Land fever is not confined to the U.S. In England, the average price of a lot has doubled in two years. The cost of raw acreage outside Munich has risen nine hundredfold since the early 1950s. Urban real estate in Japan shot up 30% last year alone, and a square foot in downtown Tokyo now costs more than $2,000.

In the U.S., the boom is paradoxically drawing strength from a new, more socially responsible public attitude toward land. States and localities are imposing stricter zoning laws and environmental standards, punitive taxes on speculators, even some outright bans on development. The moves are long overdue, but they make land development ever costlier, reducing what real estate men call "buildable" land.

The price increases are creating small fortunes. Mrs. Charles Henry, for example, has been scratching out a modest living growing vegetables on her 40-acre farm in Cranston, R.I., for more than 30 years. Not long ago, she was offered $1,000,000 for her property, which is near a new highway and has access to municipal sewer and water systems. The 64% of American families who own houses have seen their homes appreciate an average 14% a year since 1970. Prices of godforsaken Arizona desert land are rising right along with choice commercial plots in cities. Land is bought and sold with almost no regard for its usefulness.

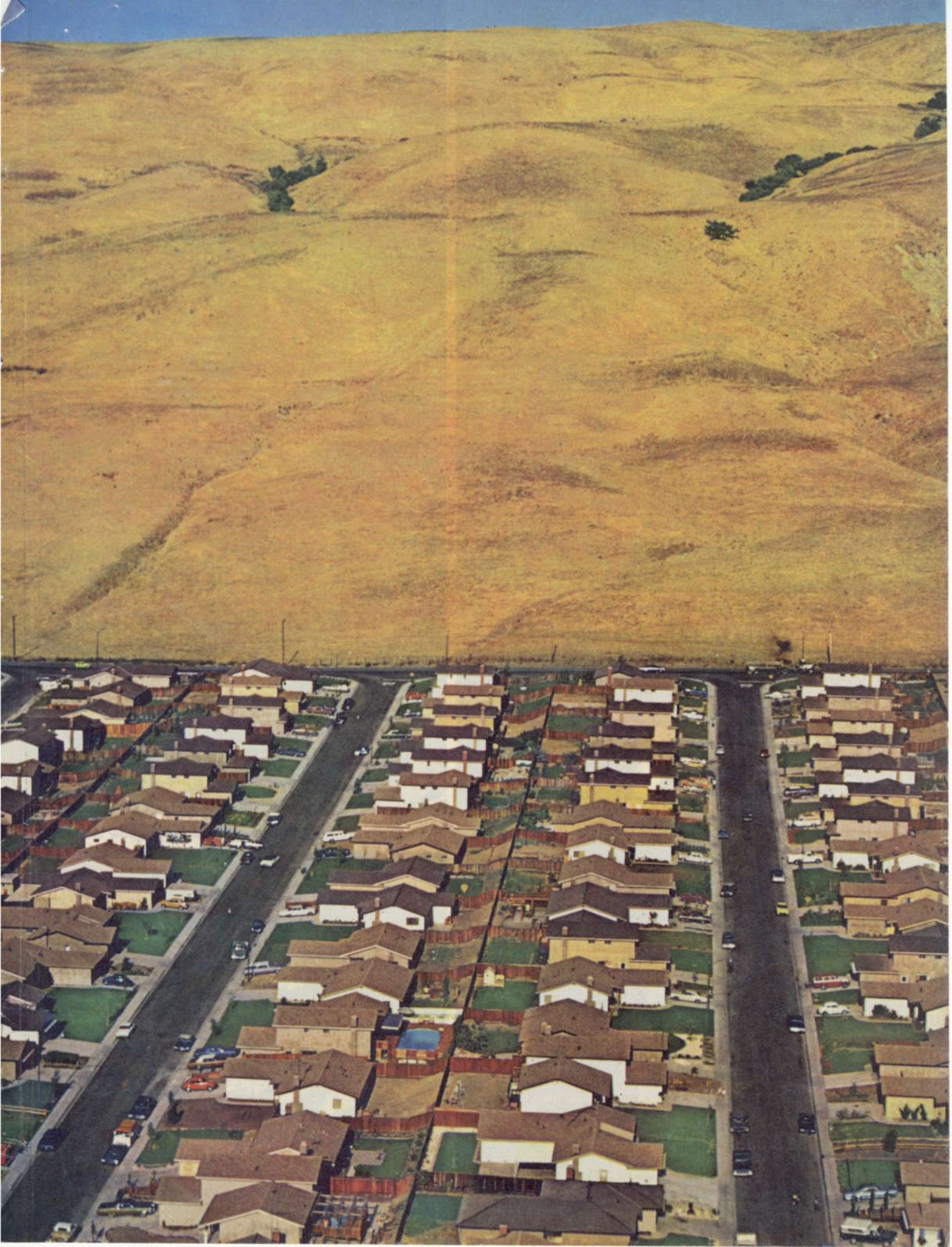
Corporations have also caught the land bug. Hundreds have been going into land development or construction, or simply buying land and holding it for price appreciation. Chrysler Corp., for instance, has invested $89 million in diversified real estate ventures. General Electric has shifted 15% of its $3 billion pension fund into real estate. Other big players: ITT, Du Pont and U.S. Steel.

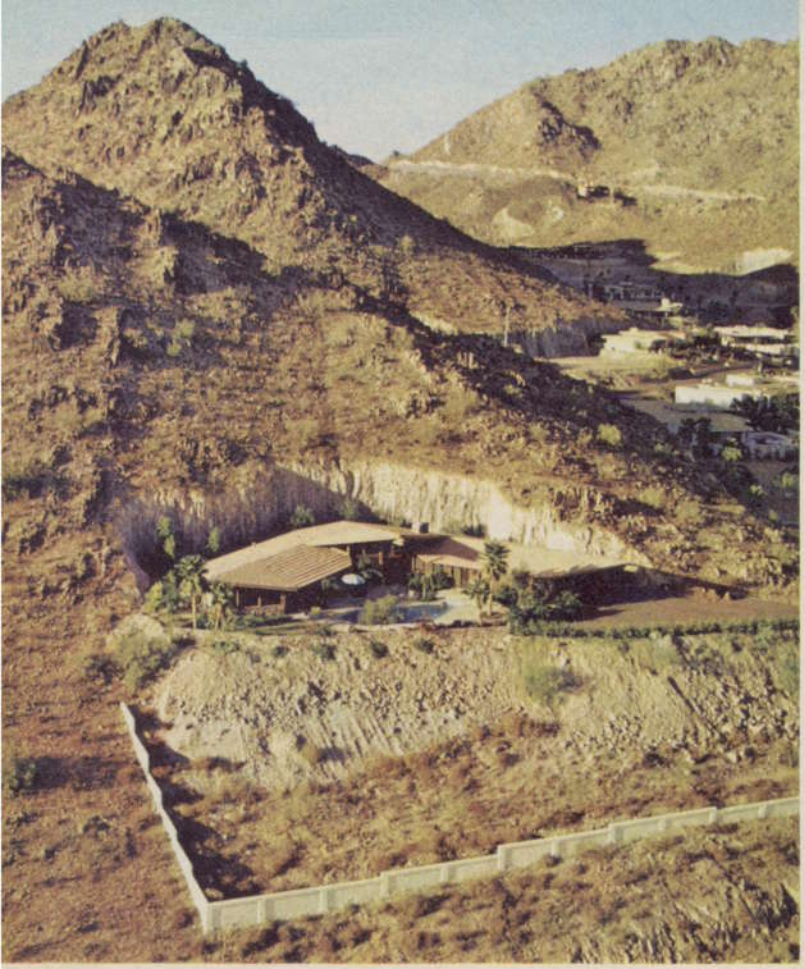
Investment companies are rushing to set up land syndicates. These are simply large pools of money, garnered from people who put up an average $5,000 to $10,000 minimum investment, and managed by real estate professionals. In Atlanta, where syndication is intense, four large firms put together 66 syndicates last year that sank more than $40 million into local property.

Even smaller rollers can buy shares in a real estate investment trust, which is essentially a mutual fund that invests in property loans or ownership. Under law, REITs can escape taxes by distributing 90% of their pretax earnings as dividends, so yields can be high. REITs have taken their lumps in the market recently, largely because interest yields on types of loans they do not make have surpassed the return

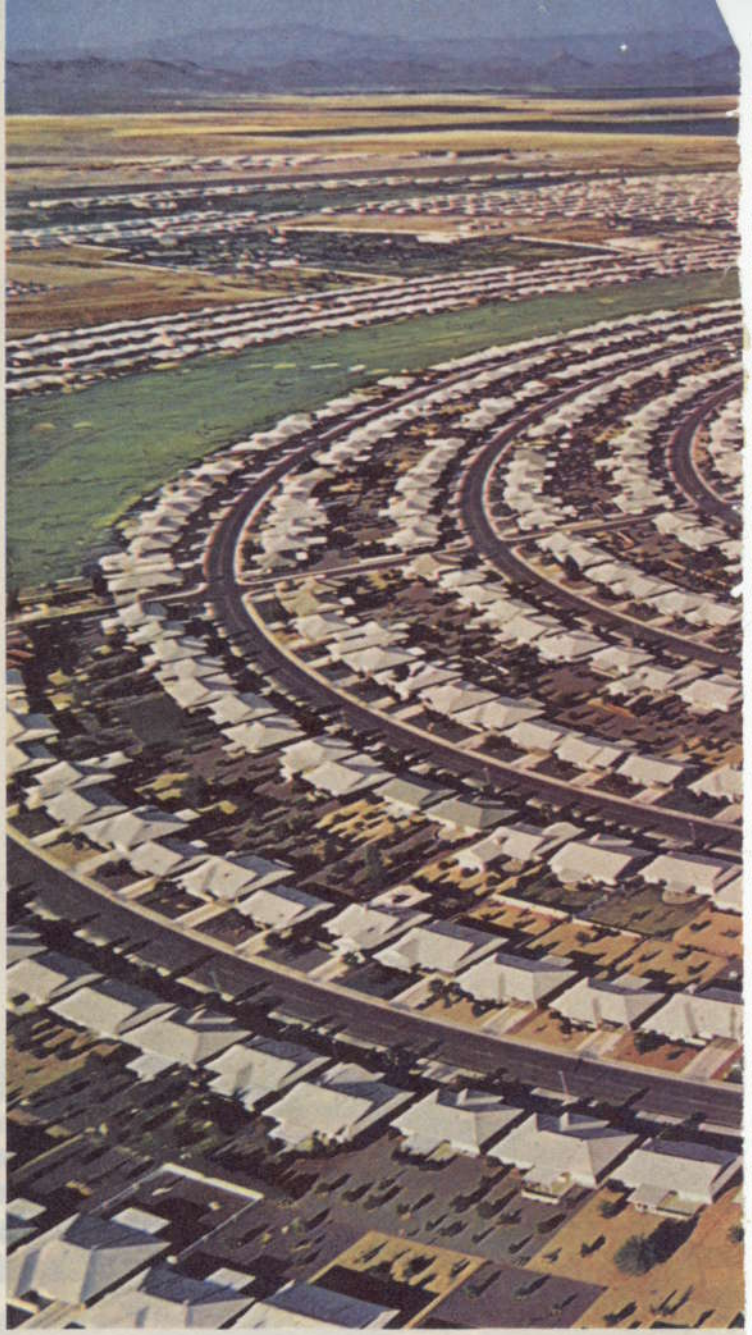
AL KAHN

Reaching for every available piece of land, San Jose, Calif., mushrooms to the very edge of the Diablo Range.





Mountain is no obstacle to Phoenix home.

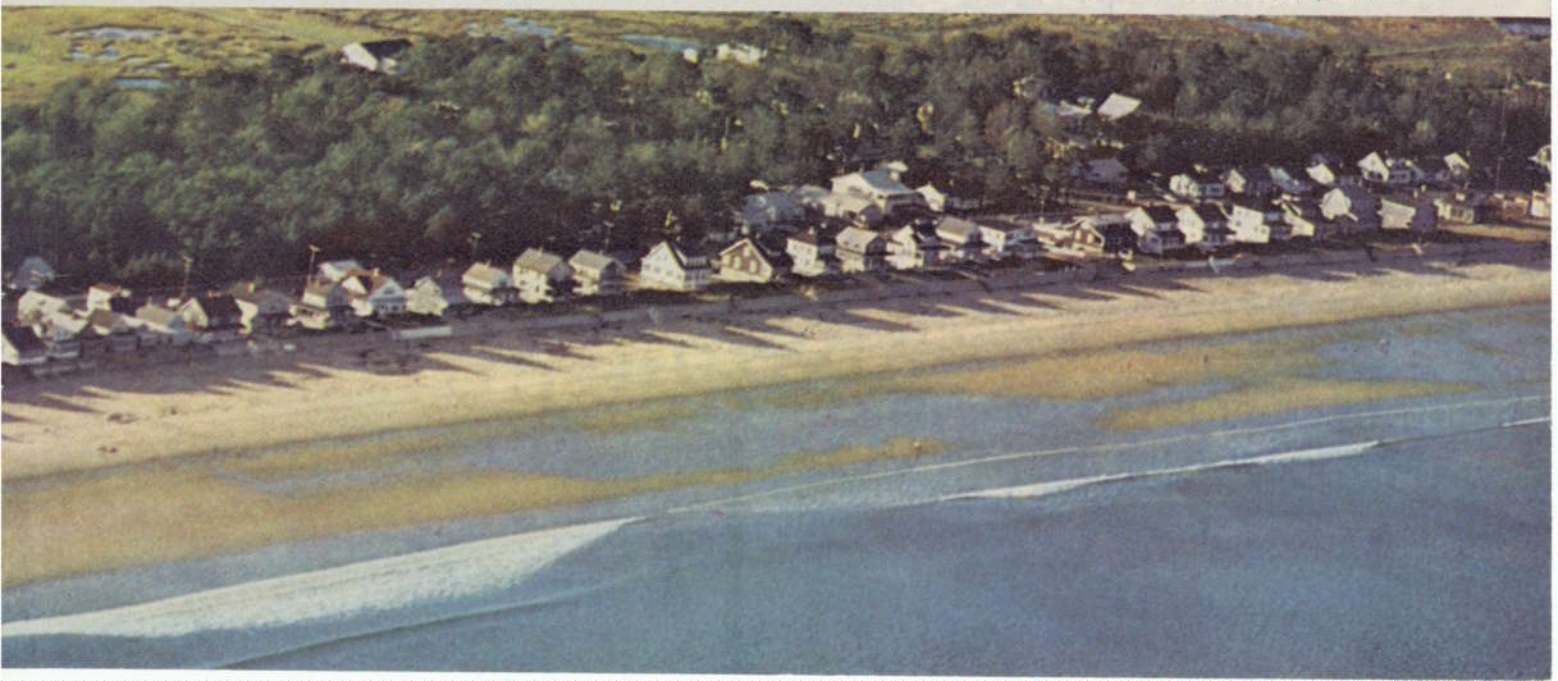


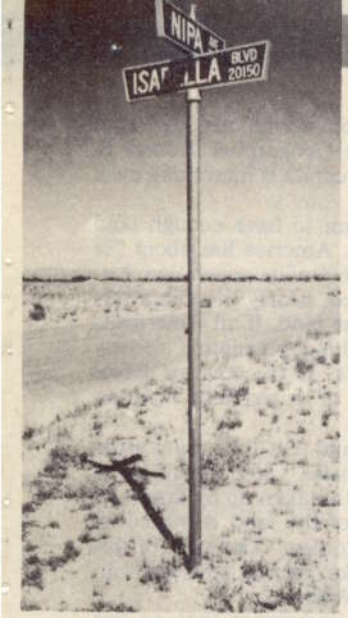
Above: Rings of resort retirement homes grow in the desert

Tearing up farm for shopping center in Wells, Me.

at Sun City, Ariz.

Below: Wall-to-wall houses crowd along the beach in Ogunquit, Me.





Above: street sign in California City, Calif., locates plots. Few houses have been built at the project in the Mojave Desert (left). At bottom: tract houses in Nassau County, N.Y., cover virtually all usable land.

they get on mortgage loans. But some brokers still see the better-managed REITs as solid investments for the future.

Such investment devices have greatly pushed up land prices because they thrive on speculation. Atlanta syndicators readily admit that they may trade the same property two or three times in 18 months, marking up its price each time. Like the stock market, the land market operates largely on the "one more idiot" theory. According to this, an investor may know that he is paying far too much for land, but the purchase is justified because there will always be "one more idiot" to buy it from him at an even higher price.

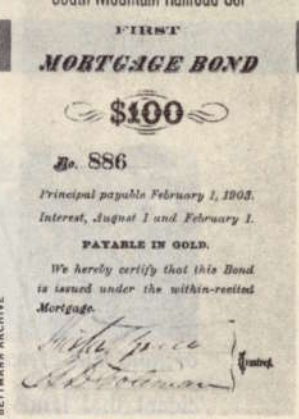
Land values, however, are notoriously capricious—they may vary wildly from one suburb to its neighbors—and the land boom, like all others, has claimed its overeager victims. A Boston doctor paid $90,000 not long ago for a 300-acre tract in northeastern Vermont that included a picturesque 90-acre pond. Too late he found out that the pond is a town water source; every summer it is drained right down to its muddy bottom, and the state forbids swimming or boating at any time. The doctor is trying to unload the land. Another example: Ashley T. Murphy, a California builder, got design approval for a $9,000,000 apartment complex in Oceanside. Then, as a classroom assignment, a 16-year-old girl protested the project before the state's coastline commission, charging that the state and the developer had acted with "unseemly haste" in order to start construction before development restrictions went into effect. Murphy eventually won, but for 2½ months he had to pay interest on money borrowed for a project he could not start.

The Price Is Often Wrong

For most Americans, land-price inflation costs more than it is worth. For the homeowner, a rise in the value of his house is purely theoretical profit until he sells, but the land spiral meanwhile helps raise the price of almost everything that he must buy. Packing plants, bakeries, supermarkets, movie theaters, filling stations, widget makers, all pass on to their customers the rising prices—and taxes—that their owners must pay for the land on which they set up shop.

Food prices are jacked up by the land boom in two ways. The rising price of farm land is reflected directly in the cost of crops. The land boom also turns farm land into lots for houses, roads and stores, thus removing it from food production while food demand keeps growing. Between 1960 and 1970, developers bought as much as 3,000,000 acres of crop land out of America's total 1.1 billion acres of farm land. In some areas, the land surge practically forces farmers to sell out. The usual process: developers put up houses and shopping centers in the middle of farm land just beyond the suburbs of a city. Other developers bid high for the remaining land, and local assessors raise the farmers' taxes drastically to reflect the land's increased market value. The farmers cannot pay the taxes and have no choice except to sell.

Though the land rush is powered in no small part by affluent people seeking second homes, it is making the housing situation more crowded for the less fortunate. Lot prices now account for 24% of the total price of a typical new single-family home, up from 19% a decade ago. As lots become more expensive, developers try to keep profits up by constructing higher-priced houses or by building less house for the money—eliminating such features as patios and two-car garages. Soaring land values also lead many builders to put up "town houses," which are stuck together wall-to-wall. Other developments consist of misnamed "mobile homes" (median price: $6,950), which are often trailers anchored to one spot. They are about all that buyers can afford after paying for the ground.


FIRST
MORTGAGE BOND
$100
No. 886
Principal payable February 1, 1903.
Interest, August 1 and February 1.
PAYABLE IN GOLD.
We hereby certify that this Bond is issued under the within-recited Mortgage.

BETTMANN ARCHIVE

MORTGAGE BOND (1903)

Fast-rising land prices also aggravate urban decay, suburban sprawl and even the energy shortage. Real estate developers often "leapfrog" over expensive land close to cities to find cheaper sites farther out; on the outskirts of Phoenix, houses are climbing mountainsides. The less expensive houses in those distant areas lure residents and businesses from the city, reducing the urban tax base. Mass transportation is uneconomical in the far suburbs; so their residents become totally dependent on the auto, increasing the strain on the nation's fuel supplies.

How long can the land boom last? There is nothing immediately in sight to stop it. In part, land-hungry Americans are following a deep, atavistic pattern. It is no ac-

Shopping List of Prices

Here is a comparison shopper's guide to some real estate prices; based on average local prices or some actual recent sales:

URBAN & SUBURBAN

Boston, downtown	$60-$70 per sq. ft.
Atlanta, Peachtree Center	$200 per sq. ft.
Honolulu, downtown	$60-$70 per sq. ft.
Manhattan, midtown	$200 per sq. ft.
Miami Beach area, zoned for high rises	$450,000 per acre*
Madison, Wis., on Lake Mendota	$28,500 for 85 front feet
Minneapolis, southern suburbs	$11,000-$13,000 per ½-acre
Kansas City, raw land in Platt County, north of Kansas City	$1,500-$2,500 per acre
Providence, R.I., suburb of Glocester	$2,500-$4,000 per acre
Dallas–Fort Worth Airport vicinity	$25,000 per acre
Houston, raw industrial land	$26,500 per acre

RECREATIONAL

Boothbay Harbor, Me., waterfront lots	$40,000 per acre
Cape Cod, Mass., on bayside in Osterville	$30,000 per ½-acre
Martha's Vineyard, Mass., on Vineyard Sound	$104,000 per acre (with 300 ft. frontage)
Island Pond, Vt., 16 miles from Canadian border	$150 per acre
Long Island's north shore, non-waterfront lots	$12,000 per acre
Disney World, Fla., on swampy southern fringe	$900 per acre
Disney World, north on Lake Hancock Road	$4,000 per acre
Sundance ski resort, 60 miles from Salt Lake City	$10,000-$13,000 per acre
Lakeway resort community, near Austin, Texas	$25,000-$70,000 per ½- to ½-acre
Palm Springs, Calif., vicinity of airport	$100,000 per acre
Lake Tahoe, Calif., waterfront lots	$1,000 per front ft.
Koko Kai, Oahu, Hawaii, ocean-front on marina	$125,000 for less than ½-acre

FARM AND GRAZING LAND

Colorado, 50 miles north of Denver	$1,000-$2,000 per acre
Utah, Sanpete County	Up to $1,000 per acre
New Mexico, at foot of Sandia Mountain	$5,000 per acre
Missouri, 150 miles southwest of St. Louis	$150-$200 per acre
Missouri, north central	$500 per acre
Illinois, west of Fox River	$3,000-plus per acre
Northern Michigan	$250-$300 per acre
Alabama, 30 miles from Montgomery	$150-$400 per acre

*There are 43,560 sq. ft. in an acre.

CREDITS: PHOTOGRAPHS FOR TIME BY: D. GORTON (PAGE 1); BILL EPPRIDGE (PAGES 2 & 3, TOP); BILLY RAY (PAGES 2 & 3, BOTTOM); D. GORTON (PAGE 4, TOP); TONY LINCK (PAGE 4, BOTTOM)

BETTMANN ARCHIVE

OPENING LAND OFFICE IN OKLAHOMA, 1889

cident that land is called *real* estate; land ownership for millenniums has been the basis of power and wealth. Today many urbanites have a feeling that life in the cities is too ephemeral and that they can become people of substance only by putting down roots in the land. As Novelist Anthony Trollope put it in 1867: "It is a very comfortable thing to stand on your own ground. Land is about the only thing that can't fly away." Popular language is filled with phrases expressing a subliminal yearning for the soil: down to earth, salt of the earth, lay of the land, landed gentry.

In addition, inflation, dollar devaluations and scandals like the Equity Funding fiasco have soured many investors on stocks, bonds and other paper abstractions. People are putting their money into things that they can touch and handle: paintings, rare coins, new cars and refrigerators. By far the most popular of these palpable investments is land, which offers the buyer the rare psychological opportunity to speculate and still feel cloaked with the prestige of the property holder.

The land boom is powered by economics as well as psychology. The U.S. population is expected to grow from 210 million to 264 million by the year 2000, assuming that birth rates remain at about two children per family. The nation will have to find room for another 27,000 new families each week, equal to the present population of Columbia, Mo.

Rising affluence steadily demands more land per person. The Department of Transportation estimates that auto registrations will rise 50% by this century's end, and that vehicle-miles driven in urban areas will more than double. To accommodate that growth, the department projects a need for 18,000 more miles of freeways and expressways within existing metropolitan areas by 1990; about 8,000 miles of urban highways existed in 1968.

Affluence will also increase land demand for airports, marinas, ski lodges and especially vacation and retirement homes. Apartment dwellers no longer are content with a rented room by the seashore on their holidays; more and more yearn for their own cabin on Mosquito Lake. Older people who once took it for granted that they would move in with reluctant sons and daughters after retirement now count on relaxing in some sunny clime on the beaches and golf courses of Senior Citizen Acres. "Even if we attain zero population growth, we will continue to spread out across our open land like a tidal wave," says Dartmouth Geographer Robert B. Simpson. "Our demand for land per capita is increasing even more rapidly than our population."

MRS. CHARLES HENRY (LEFT), OWNER OF $1 MILLION FARM

DOUG BRUCE—CAMERA 5

Superficially, the U.S. would seem to have enough land to accommodate that demand easily. America has about 7% of the world's land, but only about 5.6% of its population. Little of the nation's surface is inhabited; nearly three-quarters of the population lives on 1.5% of the land. If all Americans were to move into Texas, the resulting population density would be no greater than England's. If the country seems crowded, it is only because so many of its residents insist on clustering in cities and suburbs.

The U.S. is not running out of land, but the empty areas are not always available for development. Close to half of the country's 2.3 billion acre surface is still taken up by farm and pasture land. More than one-third of the land is owned by the biggest single holder: the Government. The bulk of this consists of timberlands, national parks, grazing land and military reserves in Alaska and the Far West.

Even much of the vacant land is acreage that no one wants to live or build on. Large tracts of fairly cheap land —less, say, than $300 per acre—can still be found in such relatively unpopulated places as northeastern Vermont, Alabama, Oklahoma, Missouri and northern Michigan. There is even some good shore-front land available for less than $5,000 an acre in North Carolina and Washington—though along many other shorelines, houses are jammed wall-to-wall and prices are outrageous. Trouble is, people settle not just where land is cheapest but where there are jobs, schools, hospitals, roads and other amenities.

The Subdividing Action

To spread the magnets of population around, the Government is helping to finance a modestly ambitious new-towns effort. But little significant population redistribution is taking place, because developers like to site their new towns near existing metropolitan areas in order to increase their chances for success. Demographers are generally skeptical of the chances for much reshuffling. They note that the Soviet Union has avoided a mass migration to Moscow only by imposing a system of work and residency permits that would be intolerable in the West.

Though psychology and economics both make for steady growth in land values over the long run, bubbles of pure speculation always burst sooner or later. Investors are already getting a lesson that land prices can go down as well as up. High construction costs and urban blight have undercut property values in some city areas. The land under the Boston Edison Building was worth about $200 per square foot in the 1920s; today it is less than half that, though property values in other parts of town have risen. A speculative orgy of overbuilding in New York City has driven office rents in the Wall Street area down from about $10 per square foot three years ago to as low as $8.50 today. Apartment rents are still rising because there has been no comparable overbuilding of residential housing in the city.

Land is also a notoriously illiquid investment: a seller can wait months, even years, to find a buyer at the price he demands. Meanwhile, interest payments and local taxes on the land continue. Eli Broad of Los Angeles, a major home builder, says that undeveloped land "has to appreciate 20% a year to cover carrying costs. On balance, it rarely does."

Real estate men know that the big profits come not from buying raw land and sitting on it but from cutting it up into lots for housing, commercial and industrial sites. For that reason, developers have platted (divided into precisely mapped portions) millions of building lots across the U.S. far in advance of their use. Such subdividing grossly inflates land prices. Once the lots are sold off to individual buyers, ownership of plots is scattered, to the extent that local authorities often find it impossible to accumulate land for parks and other public uses. Nor do the developers' plans always work

out; no one knows how many superfluous, remote or uninhabitable subdivisions the U.S. contains today. For example, only about 2,500 people have chosen to live in California City, a 119,000-acre swatch of the Mojave Desert, since the development was opened to residents in 1959.

Currently, the big subdividing action is in development of vacation-home and retirement-home communities from Quechee, Vt., to Sun City, Ariz. Second homes will account for 300,000 of this year's 2.1 million housing starts. Large land corporations have sprung up to meet the demand. Typically, they buy a huge plot, bulldoze a few roads, dig out an artificial lake or build a golf course, and sell lots to the public. Among the largest firms are Deltona, General Development Corp. and GAC Corp., most of whose developments are in Florida, and Horizon Corp. and McCulloch Oil Corp., which concentrate on the Southwest.

The industry has come a long way since the 1950s, when submerged swampland in Florida was sold through the mail to millions of unfortunates. Today the bigger developers are switching the emphasis from peddling lots to planning communities such as:

New Seabury, Mass., a 3,000-acre group of villages along Popponesset Beach, is one of the most expensive second-home communities: $12,000 to $75,000 for a half-acre lot; $40,000 to $150,000 additional for a house. It also is one of the best, because Developer Emil Hanslin took special pains to preserve the terrain and maintain high aesthetic standards. Lots are generally clustered in wooded areas, a homeowner cannot cut down any tree more than six inches in diameter without company approval, and beach grasses are fertilized by helicopter to prevent erosion.

Beech Mountain, N.C., smack on top of an Appalachian mountain, is one of the South's largest ski areas. It could become crowded, because the developer, Carolina Caribbean Corp., plans to put about 8,500 single-family homes and 1,500 condominium units on its 7,200 acres. But the firm has set up its own water company, shopping center and police and volunteer fire departments to accommodate the crush.

Sun City, Ariz., has drawn 28,000 residents (average age: 67) to a tract 16 miles northwest of Phoenix. It has enough athletic and recreation facilities to train an Olympic team: seven golf courses, four tennis courts, six lawn-bowling greens, a 16-lane bowling alley, Arizona's first indoor, air-conditioned shuffleboard courts, two artificial lakes and a 7,500-seat amphitheater for plays and concerts.

Lake Havasu City, Ariz., is famed as the new home of the London Bridge, which now spans a canal connected to a lake made by damming the Colorado River. The development by McCulloch Properties covers 16,640 acres of gravelly desert 200 miles northwest of Phoenix. Lots and gently curving streets are well laid out, but the development could become a jumble of clashing architectural styles because McCulloch will let a lot buyer put up any kind of house—Cape Cod, Spanish pueblo, Swiss chalet.

Palm Coast, Fla., is an immense undertaking of an International Telephone and Telegraph subsidiary, which is cutting up 92,000 acres midway between St. Augustine and Daytona Beach into lots that company executives think will house 650,000 people by the year 2000. ITT has put some thought into planning: residential areas will be separated by greenbelts, and all houses (only 180 built so far) will be hooked up to company-owned water and sewage plants. But ITT can harvest timber from a buyer's lot until his payments are completed, leaving him with the cost of removing stumps.

Despite the emphasis on building communities, the stress for the industry as a whole is still on selling land *qua* land. Many firms sell lots for 20 to 30 times what they originally paid to acquire them and spend fully one-third of their revenues on sales promotion; their pretax profits range upward from 30% of revenues on land sales.

The recreational developers have created a sales technique all their own. Householders selected from telephone books are called and invited to dinner at a local restaurant. They are shown a technicolor movie about the development. Teams of salesmen at each table work over prospective customers with a pitch that emphasizes the soundness of land as an investment.

FLORIDA PUBLICITY BROCHURE, ca. 1926

In the Miami area, several firms operate "boiler rooms" from which batteries of salesmen make long-distance telephone pitches. Salesmen for one such firm try to get prospects to buy $5,000 lots for $50 down and $50 a month—and to put the first $50 check in the next mail—with the promise that the buyer can quickly resell the land for a huge profit. Excerpts from one telephone spiel: "I'm going to make an offer that will definitely be of interest to you, especially if you're interested in making money . . . If you saw that you could definitely make an excellent profit within the next 24 to 36 months, Mr. Blotz, could you comfortably handle a $50-a-month investment program? . . . Because I've set up such easy terms, the payout is approximately eleven years, but because of where this property is located, you won't be holding onto this property *anywhere near* that length of time."

The salesmen have prepared answers for various objections. If the prospect wants to talk to his lawyer: "Your attorney is well versed in law, not real estate. In fact, I'll bet you

REAL-ESTATE PROMOTIONS IN UPSTATE NEW YORK, 1973

HARVEY SHAMAN

didn't know that 85% of all the attorneys in this country earn less than $12,000 per year,* and you can rest assured that if they were knowledgeable about real estate as an investment, they would be earning $120,000." If the mark wants to get his wife's opinion: "I could understand your wife saying no if she knew the area or if she were in the land-investment business. But I am sure she isn't. And because of it, she can't make an intelligent decision, so that decision is yours."

The largest developers have cleaned up their sales practices under pressure from federal and state regulators. Executives of Dart Industries, which has been charged with allegedly fraudulent sales of recreational lots in California, say that they will fire any salesman who tries to peddle their lots on a promise that the price will rise; the company is seeking customers who will actually build and live in their communities. Amrep Corp. promises to give a customer his money back if he visits his property within six months of signing a purchase agreement and decides that he does not like it. But investigators are still doing a land-office business. The federal Office of Interstate Land Sale Registration gets more than 800 complaints a month from irate buyers. They frequently charge that they have been gypped by fast-talking salesmen who promised price appreciation or recreational facilities that never materialized. So far this year, the office has brought indictments against seven developers on various charges including fraudulent statements to customers and has brought three cases to trial; all have resulted in convictions.

Low-Tax Speculation

Developers could not exert quite as much upward pressure on prices without the help of the tax structure, which enables them to operate on a grander scale than their resources would otherwise permit. An investor who buys or erects a building, for example, can write off depreciation on it at a much faster rate than the actual wear and tear on the property would justify. The write-offs shelter from taxes large amounts of the investor's income from other sources, and he can use this tax-free income to buy more land or put up more buildings and pay off his debt tax free. Then, after he has depreciated the first building to a point at which the benefits of depreciation run out, usually eight to twelve years, he sells out to another investor, who can go through a new round of depreciation write-offs on the same building.

Real estate investors also generally borrow heavily to buy land or put up buildings, and all the interest that they pay is tax deductible—not only against income from the property, but against any income at all. Example: Richard Nixon in 1970 paid at least $81,000 interest on $1,000,000 borrowed to buy his San Clemente property. He could have written that off against his $200,000 salary as President of the United States —and that, combined with other deductions, might have freed him from paying any income tax on his presidential salary. A White House official says the President did pay some income tax for 1970, but how much has not yet been disclosed. The Administration last spring proposed to limit the tax deductibility of some interest on money borrowed to finance investments, including real estate, and to limit the right to offset salaries by claiming accelerated depreciation on investment property. But its proposals have got sidetracked.

*A flat untruth. According to the American Bar Association, only half of U.S. lawyers earn less than $20,000 to $25,000 a year.

COLLECTION OF ROBERT E. CUNNINGHAM

SETTLERS TENTING ON FRONTIER, 1899

There is some evidence that the consuming desire for development is misguided not only environmentally but even financially. Local officials commonly think that vacation-home developments will boost their tax collections, but they are sometimes wrong. Many buyers of vacation homes turn them into year-round residences and immediately require greatly expanded public services. The Vermont Public Interest Research Group once found that the state's ski industry was profitable mostly for outsiders who have come to exploit it. The Rev. Brendan Whitaker has denounced the industry from the pulpit of St. Thomas Episcopal Church in Brandon, Vt. Says the pastor: "Dad has to work all day running ski tows and Mom has to work half the night as a cocktail waitress to pay the taxes on what was once an inexpensive piece of property."

What to Do?

Congress would do well to adopt the Nixon Administration's program to put sensible limits on real estate deductions. Local tax authorities should stop taxing undeveloped land at lower rates than developed land. If the rates were equalized, land hoarding would become prohibitively expensive for many speculators. And the cities might not be quite so blighted by weed-choked vacant lots, crumbling buildings and parking lots that speculators hold only because they are lightly taxed and might rise in price.

Further, cities should follow the lead of Philadelphia and Wilmington, Del., which give abandoned houses free to anybody who will fix them up and live in them for a specified number of years. That move could restore huge blighted areas of central cities and accommodate much expected population growth without aggravating suburban sprawl.

If such steps are taken, the orgy of land speculation, and the inflation that it has brought, may wind up doing some good. For much too long, Americans have considered land to be a cheap resource that could be squandered. Today land is becoming too expensive to be treated in that manner. Now that Americans have to pay a stiff price for it, they may begin to treat land with the respect that it deserves.

HOME IN BEECH MOUNTAIN, N.C., SKI RESORT

LEVITON—ATLANTA

PART OF ITT'S PALM COAST DEVELOPMENT IN FLORIDA

RAY FISHER