



## Con Men

Greetings!

### **A Growing Shift in Land Investment**

As most of you know, our industry went from the big vertically integrated companies where timberland was a closely held asset for the paper and saw mills, to a world where the timberland has now been acquired by timber investment firms. That occurred in large extent in the early 2000's, although you could draw the line even earlier than that.

Most of those transactions occurred with the purchaser also signing a wood supply agreement for the next 15, 20 or 30 years, depending on the contract and the companies negotiating. These agreements specified how much timber from the land the mills wanted back over the specified period.

Now it's been 15 plus years and many of the agreements are expiring and or being renegotiated. This is leading to a mixed bag of investment and ownership types. The highest and best use land has been spun into real estate deals where it made the most sense, and now high net worth individuals are investing in the smaller block deals (5000-50000 acres) while larger deals are still made by the various timberland investment organizations.

These trends are furthering a business model where major forest products companies specialize in manufacturing and look to others who specialize in land ownership to provide their raw materials.

Obviously, any change in the industry provides opportunity for those who take advantage of the system for their own gain.

This month I'm sharing a story of some con men who have bilked investors with a phony industrial park. Then I've put together some recommendations for those looking to invest in land, whether you are a timber company looking to reinvest cash from a prior land sale or an investor or landowner looking to purchase more land as your own investment.

And don't forget the Forest Resources Association is having their forest products security group meeting next week in Starkville, MS, October 31 - November 1st. It's a great place to hear more theft and fraud case studies. Hope to see you there.

Warmly,  
Aaron



## "Con Men" accused of bilking investors with a phony industrial park

The details in this case were taken from an article by Brendan Kirby in Mobile, Alabama, on December 3, 2012. A pair of slick-talking "con men," with a history of pulling off scams in other states and foreign countries cheated three investors out of \$1.425 million they invested in a phony Choctaw County industrial park.



Patrick Daleiden

According to court records, Patrick Daleiden and Bruce Mabey lured investors to put up money in 2006 and 2007 that supposedly would help finance a 3,200-acre industrial park near the Tombigbee River in Choctaw County. Investors believed a bank had agreed to a loan of \$10 million to Daleiden's company, Starboard Capital, Inc.

Furthermore, investors were assured that the developers had a \$200 million credit guarantee from the Union Bank of Switzerland. One of the three investors was a timber company owner.



Bruce Mabey

The industrial park never existed, and the defendants never brought the land or performed any construction work. "Unfortunately, S.G., C.W., and J.R., gave their trust and their money to sophisticated con men," Bodnar wrote. "Butterfield Bank never agreed to loan \$10 million to Daleiden, Mabey, or Starboard Capital. Documents shown to investors saying otherwise were counterfeit." The scam continued a few years and the contacts even spurred another \$25,000 wire transfer in 2007, assuring them that the deal would eventually go through.

- In 2010, one of the investors won a \$1.05 million civil judgment against Mabey in Choctaw County Circuit Court. Mabey has not paid any of that money, according to records.
- A second investor wired \$75,000 to a Starboard Capital account on the promise of a \$25,000 return. The scammers swiftly moved the funds to other accounts and the investor has not received any interest or his principal.
- Finally, the third investor, wired \$300,000 to the company. He was to receive the investment plus \$60,000 interest in 45 days but never received anything, records show.

These were not the only ones swindled by these two. Prosecutors also accuse the defendants of participating in several fraudulent schemes around the world over the past decade. They allege that Mabey, with his shell company, Platinum Too Investments, was a "key player" in a multi-million-dollar Ponzi scheme in Indonesia. Daleiden, prosecutors contend, ran a condominium development scam in Florida's Brevard County. He also was involved in a scheme in Maryland that resulted in an arrest warrant in Florida, according to prosecutors. They have also been accused of participating in frauds in Arizona, Massachusetts, New York and Costa Rica.

### A Checklist for investing in land development

There are plenty of pitfalls to land investments, but the rewards can be great, too. Here are some tips to make sure your investments pay off for you instead of for scammers.

1. Know what you are buying - Sometimes everything seems right but you can end up with a recalcitrant building official who blocks every effort for development or you are put on a water wait

list for decades. Check out the players as well as the property. Sometimes the area is so dangerous that no one will build or go there. Is the land zoned properly for your use? Determine what makes this land valuable - a great location, a view, etc. On the other hand, find out what is planned for the area - is it a new highway or new industry which will make the development even more valuable or a chemical plant or prison which could greatly affect the use and/or selling price.

2. Check out historical trends - To analyze what land will give you the fastest and quickest return over time, look at long-range historical trends in population growth, employment growth, household income growth, personal income growth and gross county product to understand the demand for land versus the supply of land. You may also know this a "checking out the comps" in the area.

3. Stick to primary markets - Unless you are looking for an investment with high risk (and potentially high rewards) stick to primary markets where there will always be demand for land and multiple different use types.

4. Flexibility counts - As with any product, the more specialized the use, the harder time you might have if the market changes and the venture goes out of business since it can be difficult to find a replacement. Also, be sure you can hold onto the land in a more turbulent market.

5. Do your legwork - Get a topography and soils report to be sure you can build on the lot, a survey to be sure your neighbors are not encroaching, and that what you are buying is really yours. Make sure the owner has not made any oral or written agreements with neighbors about access, parking or crossing over the property. Make sure there is access to the land and whether it's paved, private, gravel or dirt.

6. Order a title report - Be sure the owner is the actual owner.

7. Walk the land - Ensure things are as claimed. Don't take the sellers word for anything. The con men in this case obviously knew how to build trust that later proved unfounded. Do your own homework.



8. Go to the Experts -- Utilize real estate and forestry experts that have a long track record that can be verified. Real estate experts, appraisers and forestry experts will have industry accepted credentials. For foresters, industry accepted credentials come from ACF (Association of Consulting Foresters). For Appraisers, credentials come from MAI (Member of the Appraisal Institute) and Real Estate credentials include a real estate brokers license.

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