

BUSINESS

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Resorting to rental Lake Geneva condos reflect growing trend

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Michael Peterson learned the hard way about the perils of misunderstanding the market's appetite for real estate.

When construction started in 1990 at Mariner's Cove—Peterson's luxury condominium development

located on Lake Mendota in Madison—he figured all 75 condos would sell within two years.

Instead, it took four years. And the condos didn't fetch the prices Peterson had expected.

Since then, Peterson has stuck to a strategy that brings faster sales. His Chicago companies — Diversified Real Estate Concepts, Inc. and Blue Water Development Co., Inc. — develop "condominium resorts."

The condos are sold as vacation homes, but the buyers also rent them out as hotel rooms when they're not using them – making the condos affordable to a wider market.

Peterson was among the first to introduce condo resorts to the Wisconsin Dells area in 1988. He's now bringing the concept to Lake Geneva with two separate developments: The Cove, with 222 units, and Harbor Cove, with 108 units. They represent the area's largest real estate investment since Marcus Corp., of Milwaukee, spent \$20 million renovating the Grand Geneva Resort and Spa.

The Cove, which will include a HOULIHAN'S Restaurant & Bar, so far has an investment of \$2.45 million for land acquisition and \$14 million in estimated construction costs, according to public records. Peterson estimated Diversified will spend \$5 million to buy the neighboring Hilton Inn of Lake Geneva and \$3.5 million to convert it to Harbor Cove.

The Cove's units will generate an estimated \$27 million in sales, Peterson said, while Harbor Cove will generate an estimated \$13 million in sales.

Some real estate observers wonder how Peterson's developments will affect the Lake Geneva area's tourism industry. Anvan Corp., a Lombard, Ill., developer, has run into financial problems after buying Lake Lawn Lodge resort in Delavan, and after building Geneva National, a 1,600-acre housing development on Lake Como.

"Obviously, this is a very busy area," said John Tisdall, president of Coldwell Banker Geneva Lakes real estate agency. "But does it have the ability to absorb 222 very high-end hotel rooms?"

Peterson said the Cove's units, which he started marketing earlier this year, were sold out by July. He said Harbor Cove had sold 54 of its 108 units since Aug. 5, when marketing of that project began.

Vacation Appeal

The condos are selling quickly, Peterson said, because they include the amenities vacation home buyers want. The Cove and Harbor Cove have views of Geneva Lake, and will include indoor and outdoor swimming pools, whirlpools, saunas, and fitness centers.

The Lake Geneva area draws most of its tourists from Chicago, which is just 70 miles away. Chicago's northern suburbs are even closer.

"People can get up here in 45 minutes to an hour," Peterson said.

Also, condo resorts provide a sound approach for buying a vacation home, Peterson said, because they can be rented out as hotel

Thomas Diehl,

Investor in Dells condos:

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rooms. That gives the buyers a way to offset part of their mortgage payment.

Condos at Harbor Cove, for example, have list prices ranging from \$69,900 to \$139,900. Condo owners will receive 65% of the hotel room rental income, with 35% going to the company hired to manage Harbor Cove, Peterson said.

Peterson said he got the idea of developing condo resorts from people who had purchased vacation condos at his first Wisconsin development: the 28-unit Blue Water Condominium Development on Lake Delton.

Some Blue Water owners wanted to rent out their units after finding they weren't using the condos as much as they had expected, Peterson said.

So Peterson, in 1988, developed Lighthouse Cove Condominium Development, one of the first condo resorts in the Wisconsin Dells area. Its investors included Thomas Diehl, chief executive officer of Tommy Bartlett, Inc. and co-owner of Wisconsin Dells Greyhound Park.

Skeptical at First

Diehl was skeptical when Peterson first proposed the idea. The summer rental rates at Lighthouse Cove for a two-bedroom unit range from \$165 to \$225 a night.

"I said it wouldn't work because no one would come to Wisconsin Dells and spend that kind of money," Diehl said. "What I didn't understand was that the reason those people weren't coming is because the Dells didn't have the facilities."

Lighthouse Cove sold all of its 101 units by 1990. Peterson then developed Sunset Cove Condominium Development, a Dells condo resort that sold its 38 units by 1991.

In 1993, Peterson and his partner developed the Copa Cabana, a 170-room hotel resort adjacent to Tommy Bartlett's Thrill Show and Robot World. A HOULIHAN'S Restaurant & Bar opened in May 1995, next to the Copa.

Attended UW

Peterson, a native of Rockford, Ill., was a University of Wisconsin-

Madison student operating a boat rental business in the Dells when he first met Diehl.

"He's a tremendous developer," Diehl said of Peterson. "Everything he says he's going to do, he does. He has lots of energy."

Peterson flew by private plane from Chicago to Lake Geneva Thursday to show off The Cove and Harbor Cove to visitors. Despite his polo shirt, shorts and tennis shoes, Peterson was all business as he explained the work that's gone into both projects.

"I try to stay on top of things," Peterson said as he wound his way past busy construction workers. That attention to details, he said, helps assure a project's success.

Of course, interest rates could soar – killing the demand for vacation condos, Peterson said. If that happens, he said, "I suddenly don't look so great anymore."

Barring that development, the Lake Geneva area is filled with possibilities for other projects aimed at the Chicago market, Peterson said.

"I'm always looking," he said.