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Après-Bankruptcy

In the last two years, the Yellowstone Club has sold nearly $1 billion in real estate. It has doubled its membership, which includes the likes of Bill Gates and the investor and Hollywood producer Peter Chernin.

Six years after hitting its low point, a private ski resort for the rich is thriving in Montana.

By SARAH MAX

BIG SKY, Mont. — In the weeks before the holiday season, snowfall at the Yellowstone Club is both a blessing and a curse. It is an essential ingredient for this 13,600-acre private ski club just north of Yellowstone National Park. Yet it is also an unwelcome wrinkle for the 2,000 to 3,000 contractors who come and go each day, racing to build homes, renovate lodges and break ground on new projects.

Just a few years ago, such activity would have been hard to fathom. This alpine redoubt defaulted on a $375 million loan in November 2008, epitomizing the risky loans and real estate speculation that precipitated the financial crisis, and it became mired in bankruptcy and a messy divorce case.

Today, six years after its bankruptcy, the Yellowstone Club is thriving. In the last two years alone, the club has sold nearly $1 billion in real estate. It has doubled its membership, which includes the likes of Bill Gates and the investor and Hollywood producer Peter Chernin, to more than 500 households from 260 in 2009, and it is gearing up for what is likely to be its busiest winter since the club broke ground more than 15 years ago.

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DealBook

Six Years After Bankruptcy, a Ski Resort for the Rich Is Bouncing Back

From First Business Page

Of course, busy here is relative, and that is one of the biggest selling points.

"Look at the crowds at Breckenridge on opening day," said Sam Byrne, the financier who bought the Yellowstone Club out of bankruptcy in 2009. He pointed to a web camera showing what looked like ants dotting a ski run at the Breckenridge resort in Colorado, then called up satellite images of lift lines at Vail Ski Resort.

Like many members, Mr. Byrne first visited the Yellowstone Club as a guest and, after seeing its 2,200 skiable acres — more than Deer Valley Resort in Utah or Sun Valley in Idaho — became a member in 2005.

"The first time I skied here, I didn't even make it into the lodge because I was so enamored," said Mr. Byrne, a founder of CrossHarbor Capital Partners, a private equity firm based in Boston.

That is a common initial impression of the club. Its currency is not its night life or shopping, but the promise of privacy, security, no lift lines and pristine fields of snow.

"We don't have powder days," Mr. Byrne said in a promotional video for the club. "We have powder weeks."

Untrammeled trails do come with a price. Patrons must own property. The smallest condominiums cost about $4 million, and single-family homes start at $5 million, with annual assessments in the thousands of dollars. There is also an initial fee of $300,000, in addition to $36,000 a year for dues.

Only members, their families and guests have access to the club, with its ski-in, ski-out homes that typically include ski rooms with individual lockers, heated driveways, bunk rooms and $5,000 boot dryers. They have access to 15 chairlifts, an 18-hole golf course designed by Tom Weiskopf and three ski lodges, the largest of which is the 140,000-square-foot Warren Miller Lodge at the base of Pioneer Mountain. There are no fences, but the surrounding 250,000 acres of Gallatin National Forest and a security team run by a former Secret Service officer are reassurance enough; many guests do not even lock their doors.

Although Mr. Byrne has made a career buying and financing distressed real estate, his interest in buying the Yellowstone Club was as much about seeing the club succeed, he said, as it was about turning a profit — though the deal is shaping up to be incredibly profitable.

"He turned a Wild West project into something with institutional diligence," said Mike Meldman, a member of Yellowstone Club and the chief executive of the Discovery Land Company, which took over the club's operations and development in 2009.

The club was originally the brainchild of Tim Blixseth, who pieced together more than 100,000 acres of undevelopable timberland and swapped it for land on the back side of Big Sky Resort. By the mid-2000s, lots at Yellowstone Club were selling for seven figures and membership had grown to include hedge fund managers, professional athletes and captains of industry.

The club's financial woes stemmed from a loan to Mr. Blixseth and his wife at the time, Edra, that "they never should have gotten," Mr. Byrne said, referring to a $375 million loan that Credit Suisse syndicated in 2005.

Mr. Blixseth put the club up as collateral but, as was allowed under the loan's terms, used most of the proceeds for other purposes, including an unsuccessful effort to assemble luxury properties around the world for an ultraexclusive vacation club. In October 2008, the Blixseths divorced, with Ms. Blixseth assuming ownership of the club and its debt. When the club filed for bankruptcy a month later, it was losing $20 million a year between operating expenses and debt servicing.

Homeowners weren't caught unaware. In spring 2008, a group of 14 members formed an ad hoc board to represent all owners, who collectively owned more than $3 billion in real estate at the club. More than 200 people contributed money to hire their own legal team. "Nobody wanted to see a bankruptcy," Mr. Byrne said.

When that did happen, Credit Suisse and CrossHarbor were the only two bidders. "In late 2008, the world was a pretty messy place," said Mr. Byrne, who along with other investors tried to buy the property for about $400 million in 2007.

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In June 2009, CrossHarbor paid $115 million for the club and pledged an additional $100 million for capital improvements and payments to unsecured creditors. CrossHarbor in turn invited members and other investors, including the Discovery Land Company, to buy into the deal under the same terms.

"Sam was uniquely positioned to pull this off," said Scott Prince, a former Goldman Sachs partner who joined the club in 2004 and was among the 78 members who invested. "Had it been an opportunistic investor, I don't think you would have seen the same balance of doing what's right for the members and the investors."

One of Mr. Byrne's first tasks after the purchase was to repair the club's reputation. The former owners burned bridges, owing $10 million to local contractors, vendors and employees.

"I personally delivered a lot of those checks," said Mr. Byrne, who said the club is an economic engine for the area. It employs 700 people in the winter and 450 in the summer, not to mention all of those contractors in the building trade.

Another priority for Mr. Byrne was to make the operations transparent and work with members to outline a strategy for eventually turning over ownership to the club. When the club reaches 700 to 750 households, Mr. Byrne will start the handover process. In the meantime, he said, the club has no remaining debt from the bankruptcy and has positive cash flow.

Before the bankruptcy, new development came to a standstill. Secondary market sales in the first few years were "even worse than our most conservative plans," said Mr. Prince, who is on the club's advisory board. Speculators ran for the exit, and demand for 8,000-square-foot chalets dwindled. "It took a full three years to burn through excess inventory," Mr. Byrne said. "We don't allow speculators now."

While the club has not strayed from Mr. Blixseth's original vision of a private ski oasis where families gather, it has significantly changed its approach. Next to the traditional post-and-beam estates are more modern homes, with sharp angles, glass and metal.

One new subdivision, American Spirit, lets buyers customize existing designs for 5,000- to 8,800-square-foot houses that can be built in 14 months. This option particularly appeals to buyers because the supply of completed homes is at its lowest level.

The club is also putting land that was slated to be developed higher up on the mountain into a conservation easement, instead focusing on building condos, duplexes and amenities near the base of Pioneer Mountain.

"The village is the low-hanging fruit," said Mr. Meldman, whose company, Discovery Land, has developed communities in places like Mexico and the Bahamas. "That's where most people want to be."

Likewise, the new owners have toned down the décor in the lodge and converted the caviar bar to a breakfast buffet. What was to be a grand ballroom in the basement of the Warren Miller Lodge is now dedicated to children's activities, with a basketball court, game room and movie theater.

"This isn't Augusta or some Upper East Side club," Mr. Meldman said. "It's a ski place in Montana, and you have to program it that way."

Skiing is the primary draw. Yet more members are coming throughout the year to hike, bike, fly fish and golf — though people golfing in bare feet, with their dogs, is not an uncommon sight. Under the previous owners, members spent about 20 days a year at the club, Mr. Meldman said. Now, members average 60 days a year.

There is a laundry list of new projects in the works, including more restaurants, a golf clubhouse, below-ground parking and new spa and fitness facilities. Nevertheless, Vail or Breckenridge it will never be. Membership is capped at 864 households.

Although Mr. Byrne is anticipating the day when he can visit Yellowstone Club purely for pleasure, his work in Montana is hardly finished. In late 2013, his firm paid $26 million for the bankrupt 5,700-acre Spanish Peaks development just down the road. A few months later, it bought the Moonlight Basin ski club after its bankruptcy and promptly teamed up with Big Sky Resort to link their collective 5,800 skiable acres.

"It wasn't my plan to buy them all," said Mr. Byrne, who along with his partners controls 95 percent of the future developable real estate in the area. Nevertheless, he says there is no shortage of opportunity to build additional lodging, services and housing around what is now the largest ski resort, by skiable acres, in the United States.

When Yellowstone Club members want a change of scenery, they need only hop on the Southern Comfort chairlift, which speeds them over to the slopes at Big Sky.

The club's own slopes, however, will always stay private, Mr. Byrne said. Yellowstone Club may be all about being discreet, but the "No Trespassing" signs marking its coveted boundary are anything but.