

## Calculating Paradise

Beach Economics

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PROVIDENCIALES, Turks and Caicos -- The plane came from the north and landed near warm sand. Rachel Friedberg, a Brown University economist, stepped out, holding her black wool pea coat, squinting.

"Skin cancer. Dehydration. Sunstroke," she muttered. "Sand sticking to your body." The New England professor had arrived for vacation in Turks and Caicos, one of the Caribbean's fastest-growing economies. "Why would people on purpose, on purpose, go where the land ends, and stare at undifferentiated nothingness? Think of the opportunity cost of that time."

Lucid blue water makes most travelers forget about work. But for Friedberg, economics infuses everything: the equilibrium price of conch shells; the asset-value implications of Bruce Willis's beach compound; the labor market impact of a Filipino, rather than a Bahamian, massage therapist digging her oiled thumbs into Friedberg's sacrum.

For the constant economist, Turks and Caicos offers something more exciting than night scuba diving: a case study on the economics of hyper-growth. Real GDP is growing at more than 14 percent, faster than China's growth of about 10 percent per year. The annual number of tourists surged from 88,000 in 1996 to an estimated 200,000 in 2006. Hotel and restaurant GDP was \$155 million per year in 2005, of which hotels accounted for \$142 million.

The self-governing British territory, 575 miles southeast of Miami, had been overlooked by tourists and investors until recently. Over the past four years, the pro-development government upgraded the airport and encouraged Carnival to build a \$40 million cruise center in Grand Turk. A famous designer invested in an island and other celebrities followed. In Grace Bay, developers built sand palaces like Point Grace and the Palms, attracting such wealthy guests as Sean "Diddy" Combs and Sen. John F. Kerry (D-Mass.).

As Friedberg drove along the narrow coastal road from the airport, crews were laying power lines to accommodate growth. For every finished building, there seemed to be two under construction. The government levies no income tax, capital gains tax, inheritance tax or exchange controls. Administration posters fluttered from the lampposts: "Don't Stop the Progress!!! Bigger and Better in 2007."

The car stopped at Northwest Point, one of the island's best sites for snorkeling. Turks and Caicos lies on the third-largest coral-reef system in the world. In the winter, herds of humpback whales pass 800 yards off the beach. On this day, though, the beach was littered with fiberglass chunks of a snorkeling boat smashed the day before in a storm.

"Sunk costs," Friedberg said, smiling.

The Amanyara, part of the Singapore-based Amanresorts International, opened last year on Northwest Point. The islands' premier, Michael Misick, married sitcom actress Lisa Raye McCoy poolside, at sunset. The resort attracts the high end of the high end. "All the men have either shaved heads or shipping-magnate flowing locks," Friedberg observed, passing the infinity-edged pool lined with Indonesian volcanic rock. Friedberg, who teaches principles of economics, said the guests' haircuts exemplify "signaling theory": People who want to demonstrate qualities that aren't otherwise observable invest in a signal. "It's a non-middle-management haircut. You either work at Blockbuster's, or you run Sony Pictures," she said.

Friedberg, for her part, signals "pale, fashion-oblivious nerd," she said. Squeaking as she walked in \$8 rubber sandals, Friedberg approached two sleek guests. They run XOJet, a private jet airline. For a one-way flight from the United States to the islands, said Kathleen Brennan, an executive in an orange bikini, XOJet charges \$15,000.

The price is reasonable, said XOJet chief executive Paul Touw, because the teak-and-glass villas here cost \$7 million to \$20 million. "These people could probably afford it," Touw said.

With the profusion of private jets, Friedberg told Touw, "Turks and Caicos competes in the same market as Maryland's Eastern Shore." Either way, it's about three hours to the beach. On Grace Bay, the average price of properties rose 27 percent in three years, according to one study.

The real estate rush, Friedberg said, is being fed by "trickle-down cachet." As with trickle-down economics -- which posits that tax cuts for the wealthy indirectly enrich others -- beach houses for the stars indirectly glamorize others. First the Rolling Stones' Keith Richards vacationed here, Friedberg said, "next come the podiatrists and tax attorneys."

The trend started in the late '90s, when Melissa Ong went diving off Parrot Cay, a 1,000-acre island near Providenciales. Ong thought her mother, Singapore style icon Christina Ong, would like the turquoise water.

"So they bought the island," said Jeff Morgan, hotel manager of the Parrot Cay resort, driving Friedberg in a golf cart. Ong turned the island into one of the Caribbean's most exclusive destinations. Jodie Foster tried to reserve a house recently, Morgan said, but none were available.

The villas come with furniture, a private pool and a butler imported from Asia. Friedberg started to ask Morgan, "Did wages fall from the increase . . ."

Morgan broke in: "The butler takes care of any needs the guests have, short of going to the bathroom with them."

Friedberg rode past Donna Karan's estate, which has a separate yoga pavilion. She saw Bruce Willis's compound, where the five-bedroom house rents to tourists for \$10,000 a night and a three-bedroom bungalow (\$4,800 a night) was used by Jennifer Garner and Ben Affleck for their wedding. Hotel guests often request to stay at Keith Richards's house, Morgan said, because he has a 60-inch TV.

Next door, at Christie Brinkley's (\$5,100 a night), Friedberg admired the St. Ives Apricot Scrub and Pantene shampoo in Brinkley's shower. "She uses the same cheap stuff I buy from CVS."

Friedberg dropped into the chair in Brinkley's whitewashed bedroom and asked, "When you're faced with people who have infinite money, how do you set a price?"

"These people have people working for them who examine every penny," Morgan said. "They'll dispute irrigation bills. We bill them for tiki fuel, and they're like, 'Why are you billing us for that?' "

"But what's the market structure?" Friedberg inquired.

And on went the professor, for five sugar-sanded, icing-blue-sky days, until she was back on the runway, on the plane, with the engines vibrating her armrest.

Friedberg looked outside, down at the pale blue water. "Why would people *purposefully* leave? Why should universities be in freezing, miserable places instead of here, now that there's the Internet?"

But the economist knew why. She sighed and said, barely audible over the revving engines:

"Agglomeration effects."