golf property analysts

NewsLinks

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Lending Alternatives: What's Left?

By Larry Hirsh

Can anyone get financing? This is a prevalent question in the golf industry these days. The departure of Bank of America from the golf-lending scene last fall left a significant void, as it represented the market's largest lender.

Can Bank of America be replaced? Nobody knows for sure, but recently we explored just who is lending on golf courses, with what criteria, and at what cost?

These questions were posed to several experts in the golf course financing realm, including Bobby Fitzpatrick of Daimler Chrysler, Greg Lewis of Textron Financial and Rick Nekoroski, formerly of Bank of America and now heading up the golf lending effort at Heller Financial.

They say this much is clear: Options for development deals are thin. Banks, traditionally the source for new development lending, aren't looking for new development deals, according to Lewis, who says that banks are only interested when the borrower has a good relationship already established.

Lewis adds that he's only tracking half the number of new development deals compared to a year ago. Fitzpatrick agrees, saying that banks are the only option for development deals.

Existing facilities have several options. Daimler-Chrysler, Heller and Textron, as well as IRI Golf and First National of America, dominate the "golf lender" market. Additionally, local banks still provide an option for those with relationships. The life insurance market has only one real player (Pacific Life) participating in golf, and only for "trophy" properties.

Terms for the "golf" lenders generally fall in the ranges detailed below (as of June 10, 2001):

- Interest Rate: 90 day Labor, plus 350 to 475 (8.5 to 10.25%)
- Loan to Value Ratios: 50 to 75%
- Points: 1 to 3%
- Term: 3 to 7 years
- Amortization: Up to 25 years
- Debt Coverage: 1.2 to 1.35

The key element missing in this market is competition.

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Market Comments June-2001

Typically, a prudent golf property appraiser accurately reflects the market in his or her conclusions. Lately, that has become more difficult than ever.

As the golf course industry sorts itself out after 10 years of unprecedented growth, I have observed conflicting perceptions of the market. In the past week, I have read the most recent issues of Golf Course News and other publications, each which contain stories about the challenges of a soft market for golf course properties and, most significantly, a dearth of available debt financing for golf properties.

With interest rates having recently dropped, one would think refinancing would be as busy as ever. However, while the golf course finance companies report brisk activity in terms of inquiries, they are being more selective than ever. With Bank of America's departure from the specialty golf lending business, there is less competition for Textron, Daimler Chrysler, First National of America, The Associates and the rest. Accordingly, these remaining lenders are both more selective and more costly. A classic case of supply/demand economics.

Combine this with the announced liquidation of the Golf Trust of America properties -- in addition to other firms' merging and downsizing -- and you have the large-scale elimination of potential purchasers of golf properties.

Along with a large number of other golf industry executives, I recently attended the National Golf Course Owners Association (NGCOA), Golf Course Superintendents Association of America (GCSAA), Urban Land Institute (ULI) and Golf 20/20 events. Here are some of the things I heard:

"I wonder how many of these folks will be here next year."

"Boy, financing is tough."

"We're going to sit on the sidelines until fall 2001, when we think there will be some bargains."

"It's been a tough weather year."

"We're still bullish on new projects."

"We need to create more golfers."

While most comments suggest an impending gloom descending on the industry, it seems that the developers who spoke at the ULI conference are still optimistically planning new projects. Is it a case of just developer's optimism or is there real substance to this?

To discuss the "market" on a macro scale is dangerous at best and certainly potentially inaccurate. In the near future, what I expect to see above all else are projects that are more thoroughly planned and focused.

Not only do some locations still offer opportunity, but also golf is not a "one product industry". In recent years, many markets have seen an abundance of upscale daily-fee development with little or no affordable or private club development. Market segmentation and positioning is even more of a key to success than before and I suspect that some of the courses built in the past will be repositioned in the near future.

A perfect example of this is the Stonehaven project in Scottsdale, Ariz., which was constructed, paid for and plowed under to create a ritzy private facility where an upscale daily fee was previously planned.

As I have traveled the country appraising, consulting and brokering -- in addition to attending conferences and seminars -- the following points warrant attention:

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Hirsh Speaks

GPA President Larry Hirsh recently offered a presentation on specialization in Real Estate Counseling to the **Counselors of Real Estate** annual Mid-Year Meetings in Chicago. The presentation, given on May 4, 2001 was made as part of a panel discussion on specialization. The **Counselors** (C R E 's) are the world's foremost organization devoted to real estate counseling with nearly 1,500 members worldwide.

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• Reportedly, Bank of America did NOT have a preponderance of under-performing loans.

• Many markets have a need for golf, much of it in the affordable daily-fee and upscale-private sectors.

• While national round counts were down in 2000, much of that was the result of poor weather, particularly poor weather weekends in the Northeast.

Why then, are we singing the blues? Well, in business, perceptions are reality. Much like the stock market, the golf market is making a correction.

Because of the time it takes to build a golf course, and because of the time already invested in many projects, most will go on. With 750 courses currently under construction, they will be added to existing inventory. With more supply. will there be more demand? That remains to be seen. But the current market is a buyer's market in most cases. The perception has become reality.

A forecast of things to come may be found in the Florida market. Until recently, courses for sale in this market have begged for lookers. Only recently have buyers (looking for bargains) once again started eyeing available golf properties in the market.

So what does all this mean to values of golf properties? Golf Property Analysts is currently in the process of conducting our annual golf investor survey and, while not complete, the returns so far indicate the following:

• Higher desired cap rates, with half of respondents so far looking for deals at 12 percent or higher (8 multiple of cash flow);

• Internal Rate of Return (IRR) goals all in excess of 15 percent, with some as high as 25 percent and one lender looking at 40 percent;

• More than half of our respondents' perceive values as declining, the rest as stable;

• Again, more than half perceive now as a buyer's market.

• Most respondents plan to acquire more courses in 2001, with some sitting out until the second half of the year; and

• Half of our respondents indicate something other than daily fee courses as their preference for acquisition

The bottom line is that golf property values (as a function of income) are probably declining right now. Certainly there are attractive deals that will generate competition, such as those in major metropolitan areas and those with strong, increasing historical cash flows. Many are waiting to see if Bank of America is replaced in the lending market and most are seeking alternative financing sources.

As many said at the various shows and conferences, it's going to be an interesting year.

Lending Alternatives,

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With Bank of America gone, the remaining competition has naturally become quite selective, taking only the most desirable deals, creating higher pricing and conditions more difficult for troubled or transition properties. Despite this situation, the specialty golf lenders all emphasize that because of their familiarity with the business, they are uniquely qualified to solve the majority of golf lending problems. Moreover, with the golf lenders, experience in the business (on the part of potential lendees) has always been preferred. As Lewis explains, its "necessary now more than ever." Golf lenders also express concern about over built markets and the lenders that emphasize cash flow are taking a wait-and-see attitude toward "pro-forma" deals located in potentially over built markets.

A recent entry into the golf lending market is taxable bonds. In addition to the tax-free bonds used to finance municipally owned courses, taxable bond deals are now available to private investors through several sources.

Unlike in most types of real estate investment, the life insurance market is only beginning to emerge Currently, only Pacific Life has entered the market and, in most cases, only for the most desirable properties located strong, primary markets.

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Lending Alternatives,

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Nevertheless, several alternatives for golf lending do exist. The challenge is that fewer competitors can be found. This means that relationships are more critical than ever because lenders are "cherry picking" for the best properties.

How does one deal with this?

First, I recommend truly "knowing" your property and, even more important, your market. Many lenders rely heavily on market depth and market positioning when making lending decisions. A property with limited competition within its market segment (properly positioned) is desirable. A property which has been well taken care of, and a property for which a sound improvement plan has been developed, is always more attractive than a "pipe dream".

To improve your standing in the eyes of financiers, these ducks must be in a row:

- Appraisal/Market Analysis
- Phase I Environmental Study
- Subject Property Due Diligence (buildings, agronomy, equipment, water resources, etc.)
- Title Insurance
- Plans (if applicable)

Many of these items can be obtained through qualified consultants offering a "one-stop shop", or through individual vendors of these various services. Either way, the preparation of a thorough and comprehensive package will make the lender's job easier and thus enhance your chances of being considered favorably in what is perceived as a shrinking market.

So, in summary, financing is available. But, more than ever, acquiring financing requires research and preparation, both of your property and of your request for financing.

New Alliance Formed

Golf Property Analysts (GPA) is pleased to announce that is has been selected by the Western Pennsylvania Golf Association (WPGA) to be its strategic partner for Club Information Programs.

Recognizing the many challenges facing their member clubs and the golf industry as a whole, the WPGA believed it would be beneficial to their member clubs to have an alliance with GPA. GPA will contribute articles to WPGA periodicals and Larry. Hirsh will speak at various WPGA functions throughout the year.

All of us at GPA are excited about working with Executive Director, Mr. Jeff Rivard and the entire WPGA.

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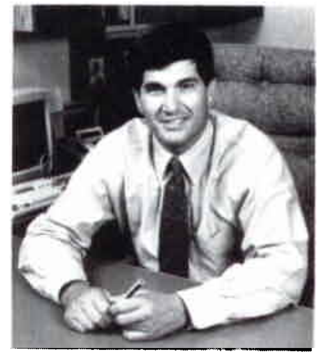
Linking Up

By Larry Hirsh



One question I'm frequently asked is how accurate are our feasibility studies? This is a valid and legitimate question since clients have the right to know how accurate our "predictions" have been. We are also frequently asked the question; "How many golf courses have you said shouldn't be developed?"

The first question is a little more difficult to answer because the operating information of a course is typically not readily available to us several years after the study and because market conditions can change considerably over time. As for how many courses we advised against building, there have been quite a few.

Recently, we were given the assignment of determining the economic feasibility of a project that called for a 7,100-yard golf course on a 120-acre site. Though not a golf course architect or land planner, it seemed to us that this was a "tight fit" and while our assignment was to measure economic feasibility, it occurred to me that if it wasn't physically feasible, it wasn't economically feasible. We asked a golf course architect to review the plan and included his analysis in our conclusions.

As real estate consultants, we are limited in our expertise and it is often incumbent upon us to retain experts outside our field. Accordingly, Golf Property Analysts has forged relationships with water, environmental and engineering experts, several golf course architects, a golf course contractor, clubhouse architect, agronomist and management experts, when needed to "complete" our feasibility analysis services.

This combination of services, allows Golf Property Analysts to do a complete feasibility analysis. We can provide our clients with market and operating data and projections while complementing our work with the work of recognized experts in a variety of fields such as water supply availability, wetland and environmental issues and site suitability for golf course design and construction as needed

The added cost of these services is nominal when compared to the added value and we believe that combining these services is the most cost-effective way for the client to go.

THE PRACTICE TEE

- **Blanchard & Calhoun Real Estate Development Company** recently retained **GPA** to provide a feasibility analysis of the proposed Bartram Trail Golf Club in **Augusta, GA**.
- **GPA** has been retained by **Plantation Golf Club** to provide a market value appraisal of the club in **Southern Pines, NC**.
- **Bank of America** has retained **GPA** to provide a market value appraisal for the **Pleasant Valley Golfers Club** in **Fairfax County, VA**.
- **Mason-Dixon Country Club, Inc.** has retained **GPA** to provide consulting services in connection with the **Mason-Dixon** project in **Gettysburg, PA**.
- **Potomac Golf Properties** retained **GPA** to provide appraisal services on the **Dallas National Golf Club** in **Dallas, TX**.
- **Lincroft, Inc.** has retained **GPA** to provide appraisal services in connection with a proposed course near **Pittsburgh, PA**.
- **Gardiner's Bay Country Club** retained **GPA** to provide consulting services for their club in **Suffolk County, NY**.

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