NewsLinks

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Driving Through a Hard Insurance Market

by: Linda S. Kaiser*
Saul Ewing LLP

Golf courses, like other businesses, are finding that the insurance market has turned "hard." Premium rates are rising, sometimes by a dramatic 40% to 50%. Some insurers are declining coverage for existing insureds, or retreating from the golf course insurance market altogether. Insurers that previously were lax in evaluating risks have tightened up their underwriting and loss control standards. The enthusiasm to accept business that existed in the highly competitive insurance market has turned into an eagerness to avoid claims. These changes make it imperative for you, as a golf course owner, to familiarize yourself with strategies to respond to this "hard" market.

The first strategy is to evaluate the insurance that you currently carry, and verify that all coverages and limits remain appropriate. For example, during the "soft" market, it was inexpensive to purchase higher liability limits. In this market, you should assess the amount of liability protection needed to protect the enterprise, rather than selecting limits based upon what your organization can afford. If you purchased extra coverage in prior years (for example, additional coverage for potential contamination relating to the use of chemicals), you should evaluate the cost for that coverage against the peace of mind achieved by having insurance protection. You should also review the deductibles; self-insuring a larger portion of each loss covered by insurance should help lower the premiums charged.

Second, you should work to make your organization attractive to insurers. Your organization should consider implementing a comprehensive risk management plan, to identify potential risks before they arise. Formulate strategies to limit those risks. Improvements, such as sprinkler systems or smoke/heat detectors in buildings, can make

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an insurer more interested in your account. The cause of any repetitive losses (for example, damage from errant golf balls) should be addressed through corrective action.

Third, you should shop around for insurance protection. Typically, insurance agents represent only 4 or 6 insurance companies. A different agent may be able to access additional insurers. Further, if the relationship with your insurance professional is primarily based upon social factors, rather than insurance expertise, it's time to reevaluate the selection of the agent handling your account.

Fourth, you should prepare for the purchase of insurance coverage well before the expiration date of your current policy. Gather the necessary background information, and have it available for your agent. Ask your current agent for "loss runs" showing any losses that have occurred over the past several years. Ensure that the organization's budget planning contemplates anticipated increases in insurance premiums.

Fifth, the feasibility of self-insurance should be evaluated. You may elect to forgo property, liability and certain other coverages. In such event, the course owner will be responsible to pay for any losses or damages for which the organization is liable. Self-insurance will not be a viable option for all course owners because of the large assumption of risk involved. Needless to say, a substantial claim could result in financial disaster for a self-insured course owner. Nevertheless, dropping coverage for less-likely or non-catastrophic exposures may be an acceptable tactic.

As compared with the other approaches described herein, which make adjustments within a typical insurance program, a final potential strategy involves a more dramatic change. Under federal law, groups may purchase liability insurance through a risk retention group (RRG) or a purchasing group (PG). An RRG writes liability insurance and acts as the insurer for its owner-members, who must be engaged in similar business activities. A PG consists of a group of insurance buyers that are engaged in similar business activities, who come together to purchase liability coverage from an insurance company. Banding together allows PG members to obtain tailored policies with potentially broader coverage terms and lower rates. There are financial and other commitments involved in the selection of either an RRG or a PG, all of which should be reviewed fully with a qualified insurance professional before embarking on this strategy.

With proper planning, golf course owners can avoid many bogeys during this hard insurance market.

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* *Ms. Kaiser served as the Pennsylvania Insurance Commissioner from 1995-1997. Currently, she is a co-chair of Saul Ewing's Insurance Practice Group. Ms. Kaiser gratefully acknowledges the contributions of Franco Corrado to this article.*
June 19, 2002

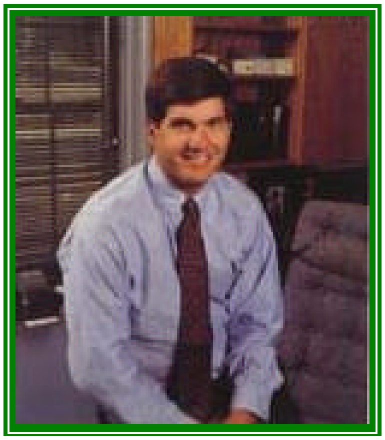
Hirsh Speaks

GPA President Larry Hirsh will be speaking at several upcoming events this spring. In February he will be on a panel whose topic is “How to get in; How to get out; How to Survive” at NGCOA. At the ULI in March Larry will be on a panel on the “Current State of the Golf Industry”.

WHERE IS THE MARKET NOW?

Linking Up

By: Larry Hirsh, CRE, MAI, SGA



When GCN called and asked me to discuss the current state of the golf market it raised an interesting and often asked question. Where are we right now (in the cycle)? Since nobody can confidently predict the future, we're all speculating but it's that type of speculation that creates market evolution.

The last four years have seen much change in the golf industry. Many players have departed the business, resulting in consolidation. Some courses have ceased operation and many clubs are struggling for members. Play at many daily fee facilities has declined and there is great concern that the game is not growing. Combine this with declining sponsorship of PGA Tour events and you have a golf industry that needs a shot in the arm.

In recent months, I have seen a renewed interest in acquisitions (albeit at lower prices) and in many cases by the Wall Street and institutional interests that fueled the industry through the 90's. The recent acquisition of the National Golf Properties portfolio by investors represented by Goldman-Sachs is one example. Additionally, several of the players who survived the shakeout seem to be snooping around again – for bargains.

The big issue holding back recovery is debt financing, or lack thereof. Textron remains the industry leader after the Bank of America departure and GE Capital and GMAC Mortgage are staking positions, but to date show no indication of "replacing" the market share of B of A. Daimler Benz is also out of the picture leaving commercial banks as the best source of financing for many projects. These banks, however are typically less than enthused about golf and if they're interested at all, it's usually with many restrictions. Typical terms preclude new construction, require stabilized cash flow and frequently, personal guarantees from borrowers.

Given all this doom and gloom however, I think the golf industry may have hit bottom and is on the rebound. There are several reasons for this hypothesis:

- Many undercapitalized projects are struggling under high debt loads and are eager to sell, often at bargain prices. This produces buyers and eventually supports higher prices.
- Markets that have been overbuilt are seeing motivated sellers who have had enough with the intense competition. This creates demand.
- The preponderance of upscale daily fee facilities in some markets has opened up opportunities in the affordable daily fee and private segments AND the market perception that opportunity exists.
- The apparent interest of Wall Street and the institutions should signify equity (and maybe debt) capital is on the way. With the stock market as

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volatile as it has been, real estate is often a safe haven and yields on golf courses (though not exactly pure real estate) exceed those on traditional investment grade real estate.

- Golf still has "sex appeal." Whether the traditionalists like to admit it or not, golf is still attractive to captains of business and industry. It fuels tourism in many cases and what golfer doesn't dream of building his/her own course? Those with the resources can do that.

I do believe that any recovery will be slow and that the golf industry will have to become more market specific in its analyses and that any industry of such a non-essential nature will be subject to the volatile nature of the economy.

In closing, it is my opinion that while there is evidence of recovery, certain things need to occur first:

- We need to see the ultimate results of the Golf Trust and National Golf Properties situations.
- Debt financing needs to become more available in the marketplace.
- Some courses will close and help balance out supply and demand. This does not imply that we will end up with fewer courses, only that those which were ill conceived in the first place or their locations are now too valuable for golf should be put to alternative uses.
- Sellers need to realize that golf is not just a real estate investment, it's a business and as such will require a higher rate of return, and a correspondingly lower value.

Let's all watch and see what happens next.

Replica Courses

By Ron Garl

I have to admit that I'm one of the luckiest golfers in the world. By virtue of my profession, I've been able to play most of the great golf courses in the world. It was during one of those rounds many years ago that the thought occurred to me that it would be even more enjoyable and memorable if I could share this experience with my golf buddies back home.

It wasn't long afterward that a prospective client, who like most developers, wanted a golf course architect to design a truly unique golf course for him, was interviewing me. As we were talking, my mind flashed back to that day during a round in Scotland when I wanted to share that great experience with my friends back home. Maybe I could bring this experience to not just my friends, but all golfers here in the U.S. Thus was the beginning of the planning of Golden Ocala in Florida, the first replica golf course.

One of the first questions I asked myself was "What holes do golfers most want to see replicated?" My answer to that is:

- Holes where major championships are played.
- Holes seen on television.
- Holes with a reputation of being challenging.
- Holes that have historical significance.
- Holes that people dream of playing on famous courses that are too distant for the average golfer to travel.

As I quickly realized there is a lot more to building a replica hole than making sure it's the correct yardage, shape and green size with all the bunkers in the proper place. To have a successful replica hole, you have to recreate the feel of the hole to allow the golfer to live his dream of playing the greatest holes in the world. When a golfer stands on the tee of the hole called "Hogan's Alley," the sixth at Carnoustie in Scotland, he has to feel the wind. He has to see the out of bounds dangerously close to the left side of the fairway and the huge pot bunkers on the right. He has to be aware of the heavy rough to the left and feel that the British Open is on the line if he misses the fairway.

The architect has to realize that a very low percentage of golfers will ever get the chance to play these holes, but most will have a perception of what they're like. It's up to the architect to make that perception a reality. We have to create the great moment for the golfer and allow him to be lost in it.

Often there's a bit of hesitation on the part of the developer/owner to build a replica course because of the fear of trademark infringement and potential legal problems. We had to be very careful when we built Golden Ocala and we learned many lessons. The key is in how you advertise the property. Of course there are many factors that come into play and they're too numerous to mention in this article. I'll be glad to go into detail if you contact me.

Initially, there was a bit of a challenge to overcome. Any developer/owner who wants to have a replica course must realize that construction costs run an additional 25%. This, of course, is dependent upon having a desirable site. This would be a site on gently rolling land with varied tree cover.

While it seems as if the sound economics of a replica course is a well-kept secret, the truth has leaked out. Years after Golden Ocala was constructed, the two Tour 18 facilities in Texas sold for $52 million. The public's fascination with replica courses is still spreading. This year, Travel & Leisure Magazine named Golden Ocala the Best Replica Course in the nation.

The naysayers will tell you that a replica course is no more than a manufactured illusion. We believe that designed properly, it will bring dreams to life. After all, who doesn't want to play a course that is different than all the rest, yet challenging and a truly great golf experience? It's what golf is supposed to be—it's fun!

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THE PRACTICE TEE

- **First State Bank** recently retained GPA to provide appraisal services for **Paa Ko Ridge Golf Club** in **Albuquerque, NM.**
- **Blank Rome Tenzer Greenblatt, LLP** recently retained GPA to provide appraisal services for **Hampton Hills Golf & Country Club** located in Riverhead, NY.
- **Young, Clement, Rivers and Tisdale, LLP** has retained GPA to provide appraisal services for **Dunes West Golf Club**, which is located in **Mt. Pleasant, SC.**
- **Sun Trust Bank** retained GPA to provide appraisal services for **MacArthur Golf Club** in **Hobe Sound, FL.**
- **United Water** retained GPA to provide market value appraisals of **Valley Brook Golf Club and Emerson Golf Club** in **Bergen County, NJ**.
- **Masonic Homes** recently retained GPA to provide consulting services for a proposed facility in **Elizabethtown, PA.**
- **Portfolio appraisal** of multiple courses located in 19 states.