Golf Course Financing – does it exist?

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The answer to the question in the title is YES – the bigger issue that has to be solved is can your course qualify in today's revamped commercial real estate financing world?

Since the meltdown of commercial lending in 2008, there have been dramatic changes in underwriting guidelines for borrowers looking to refinance existing debt or utilize a new loan to purchase a property. Gone are the days of loans made at 80 to 85 percent loan to value. For most lenders who may be lending now, the rule of thumb is about 70 percent LTV. Depending on the class of commercial property, the LTV number drops quickly. For most golf courses that may be able to jump through the other hoops of qualifications that a lender may put in front of them, 50 percent LTV seems to be the number that most lenders are currently quoting.

The more obvious issue that is facing commercial real estate owners is the drop in overall values of their properties. Depending on geographical location that number could be 20 to 40 percent, with some areas experiencing reductions in value of as much as 50 percent or more. In some areas, arriving at a true market value is almost impossible. Lenders will then view the cash flow from a property to ascertain some level of valuation. With the golf course industry seeing reductions in the rounds played as well as heavy discounting from competitors to try to garner business, it doesn't take the scorekeeper in your foursome long to figure out there are some major structural issues within the golf course lending arena.

For example, you purchased a course in 2005 for ten million, financing eight million with a balloon payment due in 2010. The lender calls you for their payoff. You ask them to refinance it for another five years but they refuse. You due an exhaustive search to find a new lender. You're lucky, you find a new lender who will look at your course. They assign a value to it of seven million and will lend you 50% of that number. Where is the approximately 4.5 million going to come from to pay off the old lender??? Houston – we have a problem!!!

The good news is, as long as the current lender is not Textron, the lender does not want your course!!! The banker may like to play golf, but he sure as five footer straight uphill, does not want to be cutting grass and raking bunkers. However, he has a board of directors or other bosses that he must answer to, and they have Federal Regulators who they in turn must answer to about what is happening with the problems in their loan portfolios. The health of your lender may have a bigger impact on your loan workout then most borrowers realize.

You always have the option to utilize the bankruptcy laws to protect your interests. This process may or may not be able to save your ownership interest in your club. Depending on various litigation factors, the bankruptcy route may become very cost prohibitive.

Another option that is available, would be to utilize the services of a workout and restructuring firm. Basically, these firms will formulate a plan based on your property's current cash flow and other factors. They will then take their detailed plan and negotiate with your lender to formulate a resolution that will be acceptable to the bank as well as you the owner of the property. The plan is designed to minimize the lender's potential losses while retaining ownership for you in a more manageable scenario. While it is possible to do these negotiations on your own, the time and experience factors of utilizing bankers who are handling these issues on a daily basis and on a much bigger scale then your property may be one of the best investments in your course.

The information provided above is a general summary of the current conditions that exist in the general commercial real estate financing industry. Every CRE loan has the same characteristics and everyone has its own unique story.

If you have a specific situation that you are looking for advice on, I can be reached via email at mkennedy@lnbcapital.com . LNB Capital is a direct lender on commercial real estate as well as a consultant to CRE owners for issues related to financing problems.