Non-traditional funding sources take spotlight in developing golf facilities

By Peter Blais

Alternative sources of financing are filling some of the golf course development and acquisition gaps left by the virtual departure of banks and savings and loans from the leisure real-estate market. Non-traditional mortgage lenders, real-estate syndications, preferred stock offerings, foreign investors, corporate America, pension funds, unions and foreign contractors are helping fill the void.

A panel of financial-discussed golf course funding alternatives at a recent Institute for International Research conference in Las Vegas. Following are some of their thoughts.

NON-TRADITIONAL MORTGAGE LENDERS

"Capital markets are tight, but that has always been so for golf courses," said Herb Hogue, director of golf investments for GATX Golf Capital. "Money is available for golf courses that can be profitable businesses with a well-thought-out plan." GATX is a finance company that does participating mortgage loans for firms wishing to acquire or develop and then manage golf courses. The company has financed more than 30 courses. It has also funded golf course communities.

GATX is a lender, but also wants to create value rather than just collect guaranteed interest payments. Hogue said GATX transactions are highly leveraged with moderate interest rates.

"Our profit is really back-ended where the owner’s profit is. So we’re really into these projects with the same incentive as the owner’s," Hogue said. "We’re lenders but our profit is contingent on the project being successful. We’re more like venture capitalists.

"We don’t do one-shot deals. We are relationships lenders. We’re in the business to develop relationships with the best developers and managers of golf courses in the country. We finance their plans to develop acquire a series of courses over the next several years." Seventy percent of new courses are parts of larger projects.

More industrial, commercial projects adding golf golf projects in trouble? First, golf demand is localized. "What may work well on the north side of town may not work on the south side," said Levitan, who described an attractive golf course communities.

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Alternative ways to finance projects coming to forefront

Of master-planned communities, Hogue estimated. Residential developers are sometimes willing to lose money on a course to sell house lots. GATX is not interested in those deals, he said.

"Golf course lenders like us, particularly participating mortgage lenders, are very concerned the borrower has one agenda, and that's to make money with the golf course," he said.

To get a loan from a lender like GATX, borrowers must prove they want to make money from the course and that they have the ability to do it. "There are, Hogue said, five things he looks for:

• Owners or management staffs with experience in the golf business. Even though loans are secured, lenders don't want to take over projects. Evidence of management control can come from histories of courses the borrower has made more profitable. Credit checks, references, trust and personal chemistry are also important.

• Well-conceived projects in good markets. Every lender has its preferences. GATX likes daily-fee courses in metropolitan markets of 500,000 or more where play comes primarily from residents. The project must address an unserved market niche.

• Economics that work. Cash flow from operations should be at least 20 percent of total project costs within three or four years. Borrowers should have a 90 percent confidence level in reaching pro forma targets.

• Hard-cash equity from the borrower, even if the developer owns the land. The owner should have a source of equity to cover working capital and cost overruns. An equity investment shows a highly leveraged lender that a project is a personal business of the borrower. Keenan GATX is to the point, such that the owner is committed to the course's success.

• Evidence the borrower has done his homework. Proposal packages should include a complete project description starting with a thorough budget; market analysis; and financial analysis of realistic profit and loss projections. Borrowers should use conservative and defensible pro forma projections rather than optimistic forecasts that can't be substantiated.

REAL ESTATE SYNDICATION

The amount of syndication money has diminished dramatically in recent years, but with $3 billion of it will be available in 1991, the same sum in 1980, said Paul E. Dunn, president of WellsSpring Advisors.

"The good news is that the $3 billion is available and that it is being applied to specialty niches by relatively small companies," he said.

Dunn said he is more receptive to companies with well-conceived projects in hard-hit economic areas that are on the verge of coming out of the recession than areas that may be overbuilt and the developer believes can't be developed.

Most current syndication activity is not on specific projects. The focus instead is on raising equity for companies to finance whatever it is they want to do in the future, Dunn said. His company is working on a project that will provide a collateralized, 12-year line of credit for a developer.

"We are less concerned, in fact almost cavalier, about the properties themselves," Dunn said. "What we really are looking for is the people involved, their sophistication and willingness to work hard, their commitment to see the project through and their ability to be flexible. Over the next 10-year cycle, we know that whatever is popular today will not be popular in the future.

"We look at developers with a diversification and capacity to look at the market and say, 'No, we want to avoid that' and move on to another market niche," Dunn said.

"Years from now, golf courses could be overbuilt around the country. It isn't likely in the short term. But I'd rather be with someone who is still up and running if golf courses are no longer an attractive place to be."

Dunn was formerly with NTs Securities, a Louisville, Ky. developer doing Arnold Palmer-designed courses in Louisville and Fredericksburg, Va. NTs wanted more control over its projects than traditional lenders were allowing and so created NTS Mortgage Income Fund, a source of debt financing that raised $150 million that went directly to NT$S's various projects over 15 years.

While building the golf course companies was the fund's aim, the company has a lot of flexibility on how the money is spent.

The NTS money was expensive and included a 1 percentorigination fee; regular interest equalling the prime rate plus 2 percent for first mortgages and prime plus 3.5 percent for second mortgages; and, a novel equity kicker that gave the fund 5 percent of the gross sales price of real estate lots.

"The investing public in general has lost faith in capital appreciation as an investment goal and therefore they want confirmation they made a good investment by getting current cash flow in their pockets," Dunn explained of the high current interest paid investors.

Dunn is also working on Riverside County, Calif.'s Moreno Valley Ranch Land Fund, raising $22 million through a three-year limited partnership for equity investing. The short three-year term, and the fact the project is essentially two-thirds complete, make it unusual.

The benefits of syndication funding are the control developers have over the pace of financing; greater flexibility in funding and timing projects; fewer personal guarantees; and, the ability to return to the same sources for more funding.

The cons are the relatively high expense of borrowing; uncertainty whether investors will be interested in the offering; and, the time and money involved in putting the project together.

To make it work, the borrower needs to be financially strong since the costs will eventually be returned through proceeds from the offering. It takes about six months to undertake a project. The funds should also be fully invested.

PRIVATE EQUITY FUNDING

Based in Pebble Beach, International Golf Partners' goal is to be a 12-course worldwide chain of premier private country clubs located in major business areas and financed solely by equity financing, according to Senior Vice President Richard Thorman. They will be owned primarily by corporations.

"The end product, in a phrase, will be a Winged Foot Country Club in every state," Thorman said. It will be privately guarded, with a heliport and limo service. Memberships are being sold through a preferred stock offering.

Projected membership sales of 4,900 over eight years are expected to raise $1 billion to $1.4 billion, some of which is expected to come from foreign investors, Thorman said. Capital costs for land, development and start-up are estimated at $600 million. That will leave common stockholders, who will invest about $75 million, with assets of improved properties of $600 million and cash in the bank of $600 million to $800 million.

Two pieces of property are under contract. One is in Chicago and has all the building permits. The other may be near Los Angeles and is just entering the permitting stage. Sites in San Francisco, New York and Dallas are ready to enter negotiations.

The company's founder put up the first $83 million. Small, foreign entrepreneurs have kicked in another $2 million. The Persian Gulf, U.S. recession and drying up of Japanese capital has slowed investment somewhat, Thorman said.

Japanese golf courses are not going to exist in Hong Kong, Singapore, Taiwan, Malaysia, England and Germany, he added.

JAPANESE INVESTMENT

Norman A. Carl, president of Carl Realty Advisors, helped put together a $200 million deal 18 months ago between Japanese investors and the team of architect Bob Cupper and golfer Tom Kite to develop courses in the United States and Canada. The team met with Japanese investors first in Hong Kong, Singapore, Taiwan, Malaysia, England and Germany, he added.

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Their Approach To Boosting Potash.
Non-traditional sources join forces with builders in golf

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with significant cash-on-hand that can continue to invest overseas," he added. "The economic crisis eliminated the amateur investors from the market. Those left will be looking hard at the economics of any investment. It's a very difficult environment to raise money."

An executive of one of Japan's largest banks told Carl his firm has shifted its focus from helping clients acquire foreign properties to helping them sell those properties.

Accessing what Japanese capital remains requires U.S. developers and sellers of golf courses to be smarter and willing to accept smaller profits and more risk, Carl said.

"The worst thing a developer can do is brokering the deal, putting together 150 packages and trying to send them to everybody in a directory listing who has invested in the United States," Carl said. "The appeal for an investor... is to feel he is about the only person seeing the transaction."

"If you look at foreign investment as a last resort, your opportunities to attract that capital are greatly reduced," Carl said. "It's extremely important to realize the relationship you are going to develop with your partner should be viewed as long-term."

Most transactions with foreign capital in the next three years will be under $10 million, reflecting the change in the Japanese economy, Carl said.

CAPITAL MARKETS

New and increasing sources of capital will become slowly available over the next few years for golf courses, resorts and other leisure industries, said Steven H. Gold, chairman and CFO of Center Financial Group.

Developers must begin looking for many sources of capital since guarantees no longer exist that even the largest banks, financial companies and insurance companies will be around and anxious to invest six months from now, Gold said.

Corporate America will be one of the major new capital sources through credit companies set up by firms like General Electric, GATX, Westinghouse and Chrysler, Gold said. Most aren't doing construction financing, but rather refinanc-