Non-traditional funding sources take spotlight in developing golf facilities

By Peter Bless

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 experts 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 at 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 participatory 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 relationship 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 golf communities. Continued on page 30
The odds — and at-odds — of golf course development

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In a Florida city that was located 20 minutes from the growing part of town, "It was a hot residential area 10 years ago. But no one is interested in moving into the area today. There is a life cycle to neighborhoods and it had bypassed this property," Levitan said. They have redeveloped this course and it has continued to be open two years. They have sold 14 home sites and 25 memberships. You're talking substantial red ink," Levitan said. Second, residential golf course developments require large tracts of land. That amount of acreage is usually only available in remote areas, putting the community at odds with the home buyer's desire for a convenient location.

"Unless you are building a destination resort that is self-contained, putting the new residential development 10, 15 or 20 minutes out is not an advantage for the sale of residential property," Levitan said. Third, golf course design often takes precedence over community design. The profit from the sale of an average golf course is about one-fourth of the profit from lot sales, Levitan said. Yet more money and attention are often spent on course design than in creating attractive environments for house lots or maximizing lots along the golf course, he added.

"If you can't get 40 percent of your house lots on the course in a small development, or 25 percent in a large one, you're losing real money," he said. Fourth, the golf course concept — membership costs and availability — often conflicts with the residential market. Levitan mentioned a 2,400-lot development with an equity golf course. With 800 lots sold, the 400 golf course members exercised their option to buy the course and make it private. Lot sales stopped cold. The developers had to buy 300 acres five miles away and build two more courses that they could offer as an amenity to prospective buyers of the remaining 1,000 lots before sales picked up again.

Not all golf course lot buyers are the young, beautiful and rich people pictured on marketing pamphlets, Levitan said. Some are blue collar. Some are short and fat. The type of housing offered and difficulty of the course should reflect that, he added. Finally, many builders don't understand or budget for the economics of golf course development. The Greenman Group recommends budgeting for a $250,000 per year operating loss on the golf course for the first five years, not including the losses for promotional use of the course to sell home sites.

Golf course development costs are up front and usually amount to $3 million or more for an upscale development, including course, clubhouse, locker rooms, restaurant, bar, and pro shop. "You need all that, even though no one may use them for several years," Levitan said. "Yet they need to be up and available for that one, two or three buyers. That's a lot of up-front money. Residential developments can be phased. But it's very difficult to phase a golf course. It's difficult to convince people to pay $300,000 for a home and $15,000 for a membership at the club if they only have nine holes to play for two years."

The cost of a name designer adds $1 million or more. One well-known architect has a clause in his contract allowing him to rip out a hole he doesn't like before the course opens, totally at the developer's expense, Levitan said. "I'm not saying you can't make money with a golf course. But you have to know what you're getting into. The bottom line is it has to work for you and the buyers," he added.

So, how does a developer avoid, or at least decrease the likelihood of taking a bath on a residential golf course development project? Levitan offered "Greenman's 17 Tried and True Rules for Successful Residential Golf Development." While some may be distasteful to golf course purists, Levitan believes they will help the community and the course survive in today's marketplace.

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The odds — Continued from page 30

They are:

1. Research market thoroughly — Research golf demand and supply, residential demand and supply and market components.

2. Evaluate site carefully — Investigate the surrounding area, quality of access, character of the area and site, suitability for residential development (first) and for golf (second).

3. Understand why buyers purchase homes in golfing communities — The most important reason could be open space and views, ambience or the club atmosphere.

4. Develop a realistic consumer profile — Who will live in the community? Where are they coming from? What prices will sell? What product types and sizes are required?

5. Create a unique concept — Don't copy the market, it may be fully saturated.

6. Design an appropriate residential community environment around the golf course — This is the opposite of designing a wonderful golf course and throwing some housing in. The community design is the primary concern.

7. Utilize the golf course to benefit residential site planning — The golf course should be visible from as many homes as possible and as vehicles enter the community.

8. Design the course and membership structure to the residential market — The course must be playable by the residents. It must be affordable and have adequate capacity.

9. Prepare realistic budgets and cash flow analyses — Development is heavily front-loaded and early operating losses must be considered.

10. Market the community intelligently and creatively — Just offering golf isn't enough, especially in an area already with many courses.

11. Utilize the golf course to sell homes — There is nothing worse than an empty golf course. If it's empty, it's not selling homes. Encourage play, sponsor outings and get the market involved in the lifestyle.

12. Balance housing products — Make certain to have product for all viable markets and market segments.

13. Operate the golf course for the members — The last home sold should come with the opportunity to buy a golf membership, or at least the chance to soon purchase a regular golf membership.

14. Maintain membership availability — The last home sold should come with the opportunity to buy a golf membership, or at least a realistic one with a realistic opportunity to obtain membership.

15. Operate the golf course for the members' benefit and convenience — They are the customers and will refer new members and homeowners if they are happy. Avoid needless restrictions, like a dress code if your market is 60-year-old retirees from Ohio. They are going to wear Bermuda shorts and T-shirts no matter what the developers say because that's what they're used to wearing, shirts no matter what the developers say.

16. Remembering priorities — This is a residential community first and a golf course second. Even in small developments, 75 percent of all profits come from the residential side, 20 percent in large developments.

17. Golf is not a cure-all — Golf is a wonderful amenity that will help a developer sell homes and make money. It will not save a residential development that is poorly located, conceived or executed.

ROCKFORD, ILL. — A forward-looking Rockford Park District and forward-thinking architect Dick Nugent — nudge on by a donation from a public-thinking industrialist — have created the fifth municipal golf course here.

Taking a $2-million gift from retired businessman Norris Alden that included 143 acres from his family farm and $300,000 in trees, the Rockford Park District added $3.8 million from two bond issues, another $10,000 in private donations and built on $8.2-million facility.

The course carries the name of Alden, who also donated a small bridge reminiscent of that over Swilcan Burn at St. Andrews.

Nugent added mounding and contours, heavily bunkered greens, and a layout that skirts water on 10 holes to transform the flat and wide-open farm. Nine of the holes opened July 26 and the back nine will open next year.

"They wanted a course suitable for all levels of public play up to and including state amateur championships and maybe some day the national public links championship, so we designed with that in mind," Nugent said.

Four sets of tees make the course playable from 7,006 to 5,000 yards.

"Everybody is extremely pleased," said Jim Reid, manager of design and construction for the Park District. "The course is much more than I thought it was going to be."

Course manager David Claeyssens, who now oversees five courses, described the newest as an upscale public facility.

One of its most unique features, he said, is a $1.25-million practice area Nugent designed so that "any shot you can get on a course, you can get on the range, from sand to water, playing on bentgrass or bluegrass."

It includes four target greens, a chipping green and bunker complex, and large putting green.

Ken Giesler, formerly at Ingersoll Golf Course, is superintendent at the Alden course, which is all bentgrass from tee to green.

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