Why golf isn't price sensitive

Hal Phillips, editor

Before you read any further, check out our new feature — "Manager on the Street" — which can be found on page 42. Go ahead; I'll wait.

Well, several managers indicated they felt that, 20 years down the road, the golf industry would most resemble the hotel industry. This is interesting because these sentiments echoed several I heard during my research for the customer service story that starts on page 1. What's even more interesting? Everyone uses the Westin, Hyatt, Doubletree example.

However, the hotel business has learned that money can be made and needs served by developing modest chains like Motel 6, Hampton Inn and Super 8. Here's hoping golf developers and managers will see the same opportunities and build some truly affordable golf courses, where service is still king but golfers don't necessarily need to plunk down 100 bucks for a round.

Problem is, of course, developers are often forced to develop the big-budget courses and charge the giganto green fees because their debts services dictate it. Though we've dissected this issue time and again in *Golf Course News*, it took a story in *Forbes* (August '96) to focus the golf industry's attention on this serious matter.

As Neil Miller, associate general counsel at National Golf Properties, explained to *Forbes*: "It costs at least $6 million to build a modest golf course. Operating margins are typically 30 percent; so to earn even 15 percent on the $6 million investment, the course would need to gross $3 million. Assuming an optimistic 50,000 rounds are played each year, the course would have to charge $60 a round to make its nut."

Now, we can quibble with things like the $6 million figure, but that assessment is basically right on the money. It further illustrates two points: First, the reason a majority of new developments falls into the "upscale daily-fee" category is necessity; they must charge $90 to make back their investment. And second, the National Golf Properties/American Golf Corp. strategy of buying what are essentially "used" courses for approximately one-third the construction price makes a whole lot of sense.

I'm not as worried as *Forbes* about the glut of new golf course developments. After a few years of willy-nilly development in already overpopulated golf markets, entrepreneurs are beginning to understand the biggest test a drawing-board project must pass is geographical. Why else would Wisconsin and Minnesota lead the nation in new openings?

Further, Baby Boomers are just now turning 50 and rounds should steadily rise over the next decade. If they don't and development continues apace, THEN we have a problem.

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Also on the media front: Alert reader John Strawn, a Portland, Ore.-based member of the architectural firm Arthur Hills & Associates, recently faxed me the latest in a long line of anti-golf polemics gleaned from our nation's editorial pages. While Strawn capably rebutted this particular column, the situation got me thinking — a dangerous notion, as you know.

To me, what's really interesting about these anti-golf tirades —

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Better prep helps developers put up hall-of-fame numbers

Remember your Mom hammering at you: "Do your home work!" ... "Have you done your homework?" ... "Where are you going without doing your homework?"

Henry Ford once said: "Before everything else, getting ready is the secret of success." And we all know where he ended up.

Yes, preparation is a key to success and, in the golf industry, to successful developments. We reported in August that a golf project in Maine got all its approvals in seven weeks. Seven weeks! Sounds something like Lou Gehrig's 2,130 consecutive games played — a record that would never be broken, right? Wrong. Just as Gehrig's record fell to Cal Ripken, so did The Meadows' record fall. And quickly... In July, Belgrade Lakes (Maine) Golf Club, Inc. (BLGC) was granted approval, in five weeks, to build an 18-hole golf course; it would have been three weeks if a second traffic study were not ordered.

Mark Leslie, managing editor

Without advance preparation and compromise, permitting might have taken two years, said BLGC President Kyle Evans. The 240-acre property contains 35 acres of wetlands and construction is only impacting 5,000 square feet: "virtually puddles," he said.

"We had to make a number of changes in routing, but it was worth it," Evans said. He credited the environmental consulting firm Maine Land Development.

Likewise, Maine Department of Environmental Protection regional project director Chuck Kellogg said today's developers are far better prepared than in the past. The result is, they save time and money — sometimes a lot of both.

"No question, their investigation and pre-construction work, and the quality of consultants have improved tremendously," Kellogg said. "Ten years ago, people were trying to do a lot themselves. But now they're finding out it doesn't cost them any more to hire a good consultant. A consultant puts the project together in half, or one-third the time, and a few months makes a big difference in the cost."

Meanwhile, consultants are working more closely with the DEP, he said.

"We try our best not to require unnecessary things, to be up front and honest, and interpret the law in a fair manner," Kellogg added. "In the past, people would dig their feet in and argue."

Kellogg's Southern Maine counterpart, Linda Kokemuller, concurred, saying, "Everybody is better prepared."

"A lot of golf courses have a lot of wetlands on them," she said. "We do a lot of pre-app work with them now. They didn't do that seven or eight years ago. We meet before they even apply. So, when the application comes in the door it's more apt to have met our requirements."

So, all you would-be developers, hit the books.

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Officials at the Belgrade Lakes Golf Club intend to push walking at the course and bring back the caddie program. British architect Clive Clark (see interview, page 31), said that at his course in England, Sunningdale, caddies are often used.

"It's great fun," he said. "It's nicer to walk. It's almost easier to concentrate on your game walking. When you're hopping out of

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Letters

LENDERS CAST WARY EYE

To the editor:

Contrary to popular belief, bank presidents who make loans for golf course development are not completely enamored with golf — the business. Or so it would seem from the findings of a recent survey completed by our firm.

We surveyed several golf course lenders and found that golf courses are being charged higher interest rates than other real-estate projects. Interest rates for golf course development averaged 250 to 500 basis points above the LIBOR rate, or up to 3 percent above the prime rate.

In other cases, lenders assess a rate at 250 to 500 basis points above corresponding treasury bills. And for institutional quality properties (malls, prime office buildings, apartments, etc.) this rate may be as low as 125 to 200 basis points above corresponding treasuries.

The biggest reason for this rate increase is that banks view golf courses as a management-intensive business (as opposed to a pure real-estate investment). While charging higher interest for golf course developments, most lenders will also place developers under a high level of scrutiny and require previous golf course operating experience.

Despite the recent report that 1995 was a record-breaking year for golf course construction and the fifth year in a row of increased course construction and the large expansion in golf course development, the interest rates have not come down. Why is this? Many lenders feel that the failures of the past will be repeated. The elevated level of sophistication in the golf course industry has not yet been recognized fully by the lending community. Shrewd investors are taking advantage of this by offering equity and debt funding at increased rates, often with participation.

Only time will tell if this means that the financial community is beginning to take a more friendly look at golf and if these investors have already recognized this and are taking advantage of a favorable market for the time being. Conversely, it could mean that these expensive means of financing will continue to make golf deals more difficult to do and less profitable for the developers.

I believe that we in the golf industry need to keep elevating our level of sophistication in order to enjoy the benefits of other more traditional real estate and business opportunities. Interest rates are simply a reflection of perceived risk. It is our job to show the financial community that we have the ability to accurately and objectively identify the good deals from the bad and that good golf deals should be judged individually and not based on the failures of others in the past.

Furthermore, we need to be able to tell the financial community when and why a particular golf deal is a bad one. When the financial community is confident in our abilities to do this, then and only then will golf courses be treated as other types of investments.

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