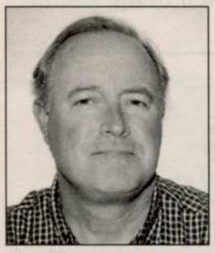
'Estate' courses: golf at a rarefied level

Several months ago in this column, I described the spending frenzy under way at ultra-chic golf developments. The examples came from THK Associates, a Colorado firm that specializes in course valuations. And the anecdotes in its report – "The new wave of golf communities that define WOW" – were captivating.

It detailed the enormous sums paid for building lots at the most exclusive new golf resorts – $4.5 million at Maroon Creek in Aspen, up to $10 million at Desert Mountain in Arizona and Lake Las Vegas in Nevada. At Stock Farm, a new Montana project by Charles Schwab, building lots start at $800,000.



Jay Finegan, editor

Golf membership fees at these opulent clubs sometimes hit $1 million, as they have at The Yellowstone Club in Montana, for instance, and at Cherokee Plantation in South Carolina. La Quinta Quarry, an exclusive club in Palm Springs, even features Frederic Remington statues as tee markers.

THE SINGLE-MEMBER COURSE

Now we come to the highest level of all – the private golf course. And I do mean *private*.

Two articles in this issue delve into a couple of examples of these so-called "estate" golf courses. One is the famed Sanctuary, in Colorado, owned by RE/MAX realty co-founder Dave Liniger. The other is a new course under construction in Illinois for energy magnate Gerald Forsythe.

Architect Bob Lohmann designed the Forsythe course, not yet named, which will roll over 290 acres. Lohmann isn't new to this line of work, according to our story. He also designed The Merit Club in Gurnee, Ill., as a personal layout for a wealthy investor named Bert Getz. That project eventually turned into a more traditional private club, hosting last summer's U.S Women's Open.

HITTING FINANCIAL BUNKERS

With course construction easily running $2 million to $10 million, and sometimes more, and with annual maintenance costs of around $500,000, personal courses are expensive hobbies.

"The way it usually starts out is that they just want to have it their way," Lohmann told *Fortune* magazine, which ran a story about the proliferation of these private layouts last year. "They want a course they can play with their friends. Then most realize they have to figure out a way to pay for the thing."

The first hole at Sanctuary course in Colorado

Thus far, an inventor named Jim Smith has avoided that financial bunker.

CRYSTAL LAKES STORY

In 1983, Smith bought a nice nine-hole course in Montana called Crystal Lakes, along the base of the Whitefish Range of the Rocky Mountains. A year later he brought in Arnold Palmer to design the back nine. To this day, the course remains Smith's personal preserve, set amid 700 acres of stunning countryside.

"It's an amazing place, a real nice layout," says Dave Meeker, a former superintendent there and now at Buffalo Hill Golf Club in Kalispell, Mont. "It has a lot of lakes, a fish hatchery and fish ponds. They play a lot of golf up there, but it's basically for Jim and his relatives and friends."

According to Meeker, the place is "awesomely well maintained" by a year-round crew.

ORDERING UP A MIG

Getting to and from his secluded hideaway is apparently easy for Smith. "He's a got a real nice airstrip up there," Meeker says, "and a number of hangars. He's got a whole bunch of aircraft – a P-51 Mustang, a Navy Corsair, an old Jenny. And he flies all these contraptions. He's a very good pilot." Now Smith is reportedly angling to buy a Russian MiG jet fighter, presumably minus the rockets.

An architect like Lohmann can only dream of such splendor. He does have a 7,500-square-foot putting green in his backyard, but says "that's probably as close as I'll get to having my own personal course."

Hirsh, Ross come aboard as contributors

This month we welcome two new contributing writers to the editorial lineup.

Laurence A. Hirsh, president of Golf Property Analysts, joins us as a columnist. Larry is engaged in all phases of golf property consulting, appraising and brokerage, with more than 350 course clients nationwide.

A graduate of Penn State, Larry is past president of the Society of Golf Appraisers and a member of the National Golf Course Owners Association, the Golf Course Superintendents Association of America and the USGA Green Section Committee. He's also a member of *Golf Digest*'s course-ranking panel.

He will be weighing in quarterly with views and comments on the financial health of the golf course industry. In the meantime, you can always reach him at (717) 652-9800. His first piece, dealing with the current state of course valuations, starts on this page.

Kevin J. Ross, CGCS, is director of golf course maintenance at the Country Club of the Rockies. The private, 18-hole club, opened in 1985, is in Edwards, Colo., not far from the Vail and Beaver Creek ski resorts. Already a member of our editorial advisory board, Kevin will regularly contribute his insights and advice concerning course maintenance. His first story appears in this issue.

Course valuations dropping as golf market makes a correction

By LAURENCE A. HIRSH

After 10 years of unprecedented growth, the golf course industry is beginning to sort itself out. As a golf property appraiser, however, I've observed conflicting perceptions of the market, making it harder to get a true reading on where course valuations are heading.

Recent issues of *Golf Course News* and other publications feature stories about the challenges of a soft market for golf course properties and, more significantly, the dearth of available debt financing for golf properties. With interest rates having dropped recently, one would think refinancing would be as busy as ever. Not so. While the golf course finance companies do report brisk activity in terms of inquiries, they are being more selective than ever.

Bank of America's departure from the golf lending business means less competition for Textron Financial, Daimler Chrysler, First National of America, Citicapital and the rest. Accordingly, these remaining lenders are both more selective and more costly – a classic example of the laws of supply and demand.

Combine this with the announced liquidation of the Golf Trust of America properties – in addition to other mergers and downsizings – and you have the large-scale elimination of potential purchasers of golf properties.

BULLISH SENTIMENT REMAINS

Along with other golf industry executives, I recently attended the National Golf Course Owners Association (NGCOA), Golf Course Superintendents Association of America (GCSAA), Urban Land Institute (ULI) and Golf 20/20 events. Here are some of the things I heard:

"I wonder how many of these folks will be here next year."

"Boy, financing is tough."

"We're going to sit on the sidelines until fall 2001, when we think there will be some bargains."

"It's been a tough weather year."

"We're still bullish on new projects."

"We need to create more golfers."

While most comments suggest an impending gloom descending on the industry, it seems developers who spoke at the ULI conference are still optimistically planning new projects. Was it just

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developer's optimism, or is there real substance to this?

REPOSITIONING OF COURSES

To discuss the golf market on a macro scale is both dangerous and potentially inaccurate. In the near future, what I expect to see above all else are projects which are more thoroughly planned and focused.

Not only do some locations still offer opportunity, but we need to remember that golf is not a "one product industry." In recent years, many marketshave seen an abundance of upscale daily-fee development with little or no affordable or private club development.

Market segmentation and positioning is even more a key to success than before and I suspect that some of the courses built in the past will be repositioned in the near future.

A textbook example of this is the Stonehaven project in Scottsdale, Ariz. This daily-fee course was completely constructed and paid for, only to be purchased for millions so it could to be plowed under to create a ritzy private facility.

As I have traveled the country appraising, consulting and brokering, I've heard some interesting points made:

- Reportedly, Bank of America did *not* have a preponderance of under-performing loans.
- Many markets have a need for golf, much of it in the affordable daily-fee and upscale private sectors.
- While national round counts were down in 2000, much of that was the result of poor weather, particularly rainy weekends in the Northeast.

Why then are we singing the blues? Well, in business, perceptions are reality. Much like the stock market, the golf market is making a correction.

SIGNS OF LIFE IN FLORIDA MARKET

Because of the time already invested in new golf projects, most will go on. With 750 projects under construction, most will eventually be added to existing inventory. More supply. But is there going to be more demand? That remains to be seen. The current market is a buyer's market in most cases. That perception has become reality.

A sign of things to come may be found in Florida. For the past couple of years, courses for sale in this market have begged for lookers. Only recently have buyers, hunting for bargains, once again started eyeing available golf properties.

GENERATING COMPETITION

So what does all this mean to values of golf properties? Golf Property Analysts is currently in the process of conducting our annual golf investor survey and, while not complete, the returns so far indicate the following:

- Higher desired capitalization rates, with half of respondents so far looking for deals at 12 percent or higher, or eight times cash flow.
- Internal rate of return (IRR) goals, all in excess of 15 percent, with some as high as 25 percent and one at 40 percent.
- More than half of our respondents perceive values as declining, the rest as stable.
- Again, more than half perceive now as a buyer's market.
- Most respondents plan to acquire more courses in 2001, with some sitting out until the second half of the year.
- Half of our respondents indicate something other than daily-fee courses as their preference for acquisition.

The bottom line is that golf property values, as a function of income, are probably declining right now. Certainly there are attractive deals that will generate competition, such as those in major metropolitan areas and those with strong, increasing historical cash flows. Many are waiting to see if Bank of America is replaced in the lending market, and most are seeking alternative financing sources.

As many said at the various shows and conferences, it's going to be an interesting year.■

Laurence A. "Larry" Hirsh is the president of Golf Property Analysts of Harrisburg, Pa.