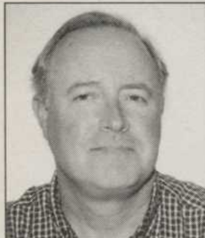
If you build that new course, will they come?

Do we ever need more people playing golf in this country!

This month's front-page story on course financing drives home the point that bankers – including some of the most prominent lenders to the golf industry – are plainly spooked about extending credit to developers in need of cash for a new layout. And one of the big reasons is the fear that some parts of the United States are "saturated" with golf courses.

Nobody should be shocked. The massive boom in new courses in the past dozen years has no parallel. We've shot up from some 13,600 courses in 1988 to about 17,300 today. Over the same period, the number of golfers has crept up from 23 million to about 26 million.



Jay Finegan, editor

Do the math and you'll see that it works out to one new course for every 810 new players. That ratio doesn't translate to very promising economics for course operators.

Moreover, there are many new courses on the way. This past November alone saw 47 course construction starts, along with the announcement of plans for 54 more. All this on top of last year's record-setting total of 515 course openings.

"Golf is growing, but not at a level to meet the supply," says George Marderosian, president of Clubhouse Capital, in Providence, R.I. "When you're opening one course a day across the country, that means every day you need 40,000 new players."

So now the music has stopped, or at least gone down-tempo, and the implications are obvious for course builders, golf architects, and anybody else angling for work in the industry.

The saturation isn't universal, of course. Lenders say the Northeast could support more courses. And 50 new daily-fee layouts in the Los Angeles area would barely dent the demand. "Some resort areas will keep adding courses," Marderosian says. "One of these days Las Vegas is going to overbuild, but right now they're all doing well. At the same time, Orlando is dead in the water. There aren't many courses in Orlando doing the play they projected. They are absolutely saturated."

If the overbuilding is spotty, the credit crunch is everywhere – and made more severe by the exit of some major lenders from the golf-loan business. But Textron Financial Corp., a pillar of the industry, is still making loans. A lot of loans.

"We continue to each year exceed our prior year's loan volume," says Jeff Burkle, assistant vice president at TFC's golf division, in Atlanta. "This year will be no exception. We continue to fund refinancings, acquisitions, turnarounds and, on a very limited basis, some construction. We're still getting requests for construction loans, but we're refusing most of them."

Nor is Burkle impressed by that mainstay of today's course builders, the developer who wants to add a course as an amenity for a housing complex. "Take the largest development you can imagine, like 40,000 home sites," he says. "Then take the national average for golf participation, and boost it a little because it's around a golf course and maybe people are drawn to it for that reason. You still don't have enough golfers there to support a golf course."

On the other hand, if you've put together a sizzling new project – a good architect, strong demographics, a high number of pre-sold memberships, and so on – your odds are pretty good.

"The best deals will continue to get done," says Jerry Sager, managing director of First National American, in Martinsville, N.J., which has made golf construction loans for years. "But the marginal deals won't get done. Two years ago, at the height of construction, we would have stretched to do a deal where a guy didn't have enough equity or the land was donated to him by an uncle and the guy has no cash in it. We're not going to do that right now."

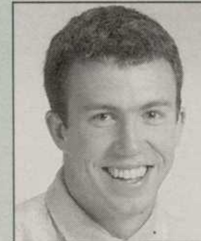
But the industry moves in cycles, Sager adds, and the situation will improve in due course. Meanwhile, he says, don't overlook your local banks. "Frequently, you can do a deal with a local bank that's more advantageous than we can do here," he says. "We often tell borrowers who come in here with loan requests, 'Hey, we like your deal but we can't do it right now. Don't take ours as the only letter of intent. We think you ought to talk to your local bank as well, because they might be able to do pretty well for you.'

"But bear in mind," Sager adds, "this is an industry you need to analyze on the basis of population and demand, not on the basis of 'If you build it, they will come.' "

Life sciences experiment is officially over

When the first wave of consolidation hit the agrochemical industry, the word was that the synergies between pharmaceutical and agrochemical firms were undeniable and would provide surefire benefits for both the companies and their customers.

Last year, when Hoescht and Rhone-Poulenc finalized their merger of their life sciences businesses to form Aventis, it was under the guise of combining research and development costs in order to strengthen the bottom line. The earlier mergers between Astra and Zeneca to form AstraZeneca and between Sandoz and Ciba-Giegy to form Novartis touted the very same benefits.



Andrew Overbeck, managing editor

The expected synergies, however, never really materialized and certainly never impressed shareholders. So now we turn to the second wave: spin-offs to form stand alone agrochemical businesses.

At the very same time that Aventis was unveiled, AstraZeneca and Novartis were already ahead of the game, announcing that they were spinning off and merging their agrochemical units to form Syngenta. Aventis is now following suit, announcing that it intends to sell its crop protection unit in order to focus solely on pharmaceuticals.

"There was a belief that when the large pharmaceutical and agrochemical companies came together to form life sciences ventures, that there would be a lot of synergies," said Keelan Pulliam, head of professional products for Syngenta. "But they were not as great as expected. At the same time, part of the life sciences groups include biotech and genetically modified seeds. That has been a bit bumpy and there has been a push back from the investment community. Pharmaceuticals then wanted to distance themselves from that, and that has driven the spin offs."

The investment community has welcomed these moves.

"These firms are now making the decision that there are no useful synergies between a crop protection business and a human healthcare business," said Jo Walton, an analyst with Lehman Brothers in London. "The life sciences concept is no longer relevant."

What will all this mean for golf course superintendents?

If Syngenta's gameplan is any indication, (see story on page 50) it will mean that more attention will be paid to the end-user. In theory, since the company is no longer a small part of a large pharmaceutical firm, it will no longer have to compete for resources with other divisions. It should result in more new products, better technical support and improved customer service. However, it will also mean trimming down its list of distributors and cutting back on middle management in order to achieve greater efficiencies.

"I think all these issues will be sorted out," said Pulliam. "But that also puts pressure on us to meet financial targets because we don't have the pharmaceutical company or another component to depend on if things become difficult. We will have to pay our own way and that will be a bit of a learning exercise for the management team. But we will work through it."

In the meantime, it's business as usual at Aventis, at least until the powers that be figure out how to spin off its CropScience division.

According to Walton, there are three possibilities. "They could split the company in half, and for every Aventis share you would have a continuing share in Aventis pharmaceuticals plus a new share in Aventis crop protection," she said. "Then there is the possibility of an initial public offering, but that doesn't seem too likely. Or they could dispose of the crop protection business in the same sort of way that Novartis and AstraZeneca disposed of theirs. The only problem is that a lot of the obvious business partners have already been snapped up."

Whatever takes place, this wave of spin-offs certainly makes more sense if it does indeed create companies that are more completely dedicated to the turf and ornamentals market.

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