Is there light at the end of the tunnel?

Andrew Overbeck, editor

Even the political spin doctors, who as I write this are working overtime to squeeze percentage points out of close mid-term races, would be hard-pressed to put a positive spin on the year the golf industry had in 2002.

The year served up healthy portions of economic uncertainty, drought conditions, flat rounds numbers and declining golf course construction figures.

Several articles in this month's Newsmakers edition chronicle these big picture stories that characterize the challenges the industry faced over the last year.

Drought conditions plagued almost half the country this year (see story on page 1), ushering in water restrictions and disastrous agronomic consequences. The aforementioned economic woes led to shrinking course revenues and tighter maintenance budgets for most courses. More than 80 percent of courses in the country will spend the same amount or less on maintenance in 2003 than they did in 2002 (see story on page 6), making extravagant maintenance programs a daydream for many superintendents.

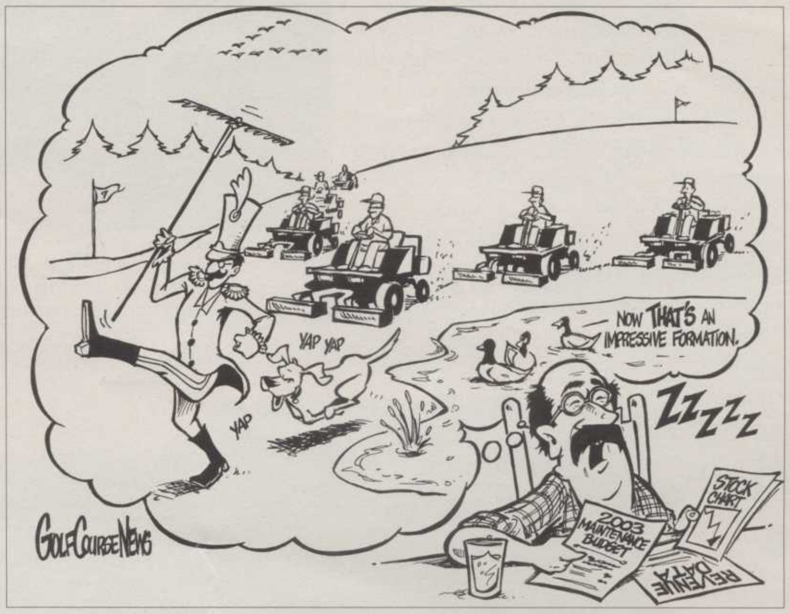
Course construction figures are also set to come in lower for the second year in a row. The luster of the "if you build it they will come" years has quickly faded as new golf course financing backs out of the market.

The golf business has taken its lumps this year, that's for certain. But in some sectors there appears to be reason for optimism.

In this month's commentary (see below) Larry Hirsh takes a stab at what it will take to bring the industry out of its collective funk. After close consideration, he sees signs that the industry is on the brink of a resurgence. Wall Street money is coming back into golf, valuations are nearing bottom and troubled properties are bound to start changing hands soon.

Furthermore, in managing editor Derek Rice's survey of management companies, he discovers that several have grown, and the instability caused by the financial travails of National Golf Properties and American Golf Corp. are coming to an end (see page 1).

Another promising trend to emerge from these tough times is that more golf courses are being run like a business. Superintendents, whether they like it or not, are becoming better at managing expenses and most are paying just as much attention to rounds played as they are to agronomic issues. An opportunity exists to improve profit margins as golf course managers, owners and superintendents work better together as a team.



And leave it to me, and many others in the industry, to find something positive about the slowdown in golf course construction. With fewer courses being built, supply is coming back into balance with demand. As the industry has tightened and financing has become more difficult, more often than not, the courses being built are more economically feasible projects.

A return to reality, both in terms of economic principles and fiscal responsibilities, will make for a healthier industry.

Guest Commentary

Golf industry needs a shot in the arm

By LAURENCE A. HIRSH

Laurence A. Hirsh

When the brain trust at *Golf Course News* called and asked me to discuss the current state of the golf market it raised an interesting and often asked question: Where are we right now? Since nobody can confidently predict the future, we're all speculating, but it's just that type of speculation that creates market evolution to begin with.

The last four years have seen much change in the golf industry. Many players have departed the business, resulting in consolidation. Some courses have ceased operation and many clubs are struggling for members. Play at many daily-fee facilities has declined and there is great concern that the game is not growing. Combine this with declining sponsorship of PGA Tour events and you have a golf industry that needs a shot in the arm.

My sense is that it may be forthcoming.

In recent months, I have seen a renewed interest in acquisitions (albeit at lower prices) and in many cases by the Wall Street and institutional interests that fueled the industry through the '90s. The recent acquisition of the National Golf Properties portfolio by investors represented by Goldman-Sachs is one example of this, and I have been contacted by two such parties actively considering pursuit of golf course acquisitions. Additionally, several of the players who survived the shakeout seem to be snooping around again – for bargains.

The big issue holding back recovery is debt financing, or lack thereof. Textron remains the industry leader after the Bank of America departure. GE Capital and GMAC Mortgage are staking positions, but to date show no indication of "replacing" the market share of B of A. Daimler Benz is also out of the picture, leaving commercial banks as the best source of financing for many projects. These banks, however, are typically less than enthused about golf, and if they're interested at all, it's usually with many restrictions. Typical terms preclude new construction, require stabilized cash flow and often personal guarantees from borrowers. Often, the only way a borrower qualifies is when he/she doesn't need the money.

Given all this doom and gloom, however, I think the golf industry may have hit bottom and is on the rebound. There are several reasons for this:

• Many undercapitalized projects are struggling under high debt loads and are eager to sell, often at bargain prices. This produces buyers and eventually supports higher prices.

• Markets that have been overbuilt are seeing motivated sellers who have had enough with the intense competition. This creates demand.

• The preponderance of upscale daily-fee facilities in some markets has opened up opportunities in the affordable daily-fee and private segments and the market perception that opportunity exists.

• The apparent interest of Wall Street and the institutions should signify equity (and maybe debt) capital is on the way. With the stock market as volatile as it has been, real estate is often a safe haven and yields on golf courses (though not exactly pure real estate) exceed those on traditional investment grade real estate.

Golf still has "sex appeal." Whether the traditionalists like to admit it or not, golf is still attractive to captains of business and industry. It fuels tourism in many cases and what golfer doesn't dream of building his/her own course? Those with the resources can do that.

I do believe that any recovery will be slow and that the golf industry will have to become more market-specific in its analyses and that any industry of such a non-essential nature will be subject

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Publisher
Jonathan Whitney

Editor
Andrew Overbeck

Managing Editor
Derek Rice

Contributing Writers
Kevin Ross, CGCS
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Country Club of the Rockies

Editorial Office
Golf Course News
106 Lafayette St., P.O. Box 997
Yarmouth, ME 04096
207-846-0600; Fax: 207-846-0657
aoverbeck@golfcoursenews.com
drice@golfcoursenews.com

Advertising Offices
Golf Course News
106 Lafayette St., P.O. Box 997
Yarmouth, ME 04096
207-846-0600; Fax: 207-846-0657

Midwest, Western U.S. Sales:
Jonathan Whitney
207-846-0600, ext. 263
jwhitney@golfcoursenews.com

Eastern U.S. Sales:
Michael Pajak
207-846-0600, ext. 223
mpajak@golfcoursenews.com

Marketplace and Classifieds
Anne Washburn
207-846-0600, ext. 230
awashburn@golfcoursenews.com

Subscription Information
Golf Course News, P.O. Box 3047
Langhorne, PA 19047
215-788-7112

For reprint information on orders of 500 copies or more, please call PARS International at (212) 221-9595, or e-mail jeclipse@parsintl.com.

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