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.

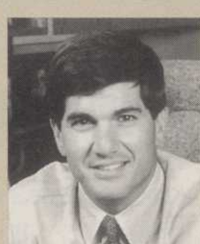
And leave it to me, and many others in the industry, to find something positive about the slowdown in golf course construction. With fewer courses being built, supply is coming back into balance with demand. As the industry has tightened and financing has become more difficult, more often than not, the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

In any business, it pays to be aware of popular culture. Some may argue, but as evidence, I point to an Oct. 26 incident in Aurora, Colo.

Four men cut security chains and hot-wired 23 golf cars at Kennedy Golf Course. In two hours, the vandals had done $10,000 damage, leaving one car at the bottom of nearby Cherry Creek.

Derek Rice

Golf car thefts are nothing new. In fact, Kennedy GC has had at least five car-theft cases this year. But in most cases, all the vandals want to do is joyride. This particular instance is most disturbing because of the seeming desire to simply cause damage.

So the question becomes, "Why the change in attitudes?"

The answer, more than likely, is "Jackass: The Movie," which was released, not coincidentally, on Oct. 25. The movie is the big-screen version of the recently cancelled MTV series, which features a group of guys doing things that no one in their right mind would ever think of, such as being covered in meat and barbecued. It should go without saying that these are not the kinds of things one should try at home.

One segment in the movie features the group driving golf cars wrecklessly around a course, crashing into each other and jumping over bunkers and water hazards. At one point, one of the cars flips over, destroying the canopy and knocking its occupants out cold.

The lesson is this: either be sure your golf car storage area is secure or become the victim of the next "Jackass"-inspired vandalism.

But hey, it could be worse. John Rocker's slasher film "The Greenskeeper" could have gotten more play nationwide.

A Midsummer's Nightmare

Editor's note: Superintendent Tony Bertels penned these lines about the harsh weather that impacted conditions at Prairie Highlands Golf Course in Olathe, Kan., this summer. Things got so dry that Bertels' water source dried up, forcing him to purchase $60,000 worth of city water. His poem originally ran in the Heart of America GCSA's August newsletter.

By TONY BERTELS

Out of troubled slumber
I awake in desperation;
Another day of soaring temps
With no hope of moderation.

"It's going to be a scorcher!"
Says the radio in my truck.
I grudgingly drive on to work
As I curse such foul luck.

No matter how I irrigate
Or spray or fertilize
I can't help but watch my golf course
Go south before my eyes.

My rough is slowly fading.
The greens are all on edge.
The whole damn place is turning
Into a mighty stand of sedge!

Oh! The ragweed all seems healthy
As do the goose and crab.
And the knotweed in the fairways
Could push me to rehab.

And that sunny disposition
Which my chem.-reps all possess
Is enough to turn me violent
As I try to check my stress.

I have a sinking feeling
That Mr. Skunk and Master Coon
Will soon be farming shallow roots
By the light of summer's moon.

Those rotten little varmints
Could cut me so much slack.
They can dine on all the grubs they want.
Just put the turfgrass back!

If these are truly "Dog Days"
It all seems quite clear cut.
The golf course is my master
And I am just its mutt!

It's all about my frame of mind
As I tread from week to week.
And there's something to remember
If things become too bleak.

You see, every dog must have his day.
And fall will finally dawn.
Then, I become the master
While the course becomes my pawn!

Hirsh: Golf market comeback imminent

Continued from page 4

to the volatile nature of the economy.

One area of particular concern is that of secondary market private clubs. Many of this type seem to be struggling more than other market segments. Many smaller communities are no longer able to support their clubs and in those with multiple clubs, the competition for members has become so intense that entry fees have dropped to levels which provide no encouragement for members to "stick it out" during lean times. These clubs, along with "second-tier" private clubs in even the primary major markets have experienced some problems. Membership levels are declining due to competition that is either newer or cheaper. In many cases, these clubs have been forced to become either semi-private or daily-fee, or have been hosting more outside functions to make up for declining membership. This is particularly troublesome in those markets where residential developers build private clubs as amenities to their developments and create additional supply in markets with limited depth.

In closing, it is my opinion that while there is evidence of recovery, certain things need to occur first:

- We need to see the ultimate results of the Golf Trust of America and NGP situations. What will happen with the rest of the GTA portfolio and what courses from the NGP portfolio will be spun off?
- Debt financing needs to become more available in the marketplace.
- Some courses will close and help balance out supply and demand. This does not imply that we will end up with fewer courses, only that those which were ill conceived in the first place or their locations are now too valuable for golf should be put to alternative uses.
- Sellers need to realize that golf is not just a real estate investment, it's a business and as such will require a higher rate of return, and a correspondingly lower value.

Let's all watch and see what happens next.

The Point-Counterpoint feature, which usually runs in this space, will return in the January issue.