Is there light at the end of the tunnel?

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

dustry 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.

By 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 fourteen 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 coming.

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. Extron remains the industry leader after the Bank of America departure. GE Capital and GMAC Mortgage are stalking 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 the best source of financing for many projects. These banks, however, are typical 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.

• 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.

• 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.

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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 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
**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 scorching 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.
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.

**Hirsch: Golf market comeback imminent**

Continued from page 4

**Terry Hirsh**

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 NGA situations. What will happen with the rest of the GTA portfolio and what courses from the NGA portfolio will be sold 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 become either semi-private or become the victim of the next "Jackass" inspired vandalism.
- If courses are not putting a premium on the quality of their product, it will be difficult to sell a golf club.
- Golf courses 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.