NGP acquisition a good sign for golf business

Several months of speculation and rumor-mongering ended in September when Goldman Sachs agreed to acquire National Golf Properties (NGP) for $1.1 billion, most of which will go to satisfy the real estate investment trust's more than $800 million in debt.

Once Goldman is able to buy back enough shares to take NGP private, it will merge the company with management company American Golf Corp. (AGC), its largest tenant, eliminating a large part of NGP's original problem. Namely, AGC's inability to make lease payments.

While it's obvious the NGP that will emerge when all is said and done will be very different than the company of today, the Goldman acquisition is huge for the industry. It is a statement that Wall Street is willing to take a look at golf, which is a refreshing change.

Bottom-line-focused Goldman, which does not have a background in golf, simply will not tolerate under-performing assets. The firm will evaluate NGP's courses and try to cut loose those that aren't pulling their weight, retaining only those it feels can still turn a profit. Something tells me there will soon be a glut of courses on the market to be had for a fraction of what NGP paid to acquire them.

This deal may be just the kickstart the golf industry needs. Many of the larger lenders, such as Bank of America, have left the space and default rates on golf loans are rising. It is not the most ideal time to get involved with a golf course project from a financial standpoint, as competition is shrinking what were already slim margins.

According to Steve Mooney, CEO of Commercial Bancorp, who has been in banking for many years, this is the latest in a string of good news for the industry. Equity money is starting to flow back into golf. As Mooney says, wherever equity money goes, "the lenders will follow blindly—they always do."

On the subject of management companies, in the page 1 story "Munis face challenges from many fronts" in last month's issue, I neglected to mention that Black Gold Golf Course director of golf Eric Lohman works for KemperSports Management, which operates the T in Yorba Linda, Calif.-based course.

NGP acquisition a good sign for golf business

Municipal golf still fills important niche

Continued from previous page

There are many people who want to play the game but can't. They make up the latent demand segment of the market. Conservative estimates place the number of people in the latent demand segment of approximately 10 million. Other estimates take that figure up to 20 million people. The reasons most often cited for not playing golf are time, expense and difficulty.

This is where municipalities still play an important role in golf. Municipalities, counties and other government entities are not under the same pressure to maximize profits as developers in the private sector.

Leaving the business of golf to private owners

Continued from previous page

As a means for some politicians to leave their legacy behind in the form of 18 holes of upscale golf. Tell anyone outside the golf industry about the supply and demand struggle in a way we can understand ourselves, and they just can't believe it. Golf is more popular on television than ever before, but the business of golf has seen better days. Mayors, city and county councils and state park divisions that are curbing building of golf courses seem to be insulated from the truth about the overabundant supply of golf courses that already exists.

Don't get me wrong—1 am not anti-growth. But I am against illogical and unreasonable growth.

It's not just a supply-and-demand issue. It's also a matter of government waste. First, only eight percent of the public plays golf. Municipalities should not engage in projects and programs that affect the quality of life of a large percentage of the populace, such as attracting new industry that will create hundreds or thousands of new jobs or augmenting public safety services. Unfair competitive advantage can also take form in other ways, such as preferential water use agreements.

If private enterprise is providing affordable golf in a given market—even if it means playing in the afternoon or even walking the course—the municipality should be vehemently challenged on any move to develop a new golf course. The proverbial pie has already been split into more pieces than necessary. In this day and age, there are much higher priorities for municipalities than playing golf course owner. Leave the business of owning and operating golf courses to the sole proprietors, families and corporations around the country who are already doing a fantastic job of delivering golf to the American public.

Again the research of Golf 20/20 bears this out: "alternative facilities open to the public share a complementary relationship to regulation-length courses nearby. That, is golfers play and play more at traditional facilities in communities with abundant alternative facilities."

While it is easy to focus on bringing new players into the game, we cannot forget about older players who for other physical or economic reasons, simply don't want to go the full 18 anymore. Alternative facilities are a great way for them to continue their participation in the game.

Cities can take a leadership position in environmental stewardship by converting degraded sites in municipal golf facilities. We've seen in recent decades the conversion of many landfills, and brownfield sites into player-filled golf courses. Enjoyable, accessible and affordable are the keystones of municipal golf courses. They have played a historic role in the growth of American golf and will continue to be an important part of the game's future.

Damian Puciczez is a partner in Groves & Puciczez Ltd. in El Dorado Hills, Calif., and is past president of the American Society of Golf Course Architects.