How To Sell Your Course

by Cecil McKay

Selling a golf course should be a planned move of ownership. But, the most important factor in the sale is to realize what are you selling.

This may sound like a peculiar statement, but many sellers cannot answer it to the purchaser's satisfaction. The owner will find there are more questions to be answered, than they realize.

Prospective buyers must have all the facts, that includes both the good and the bad. Obviously, there are some preliminary details an owner must deal with before advertising his interest in selling. An operating statement of income and expenses should be prepared for at least one year, preferably three years. Photographs of the clubhouse and other features of interest should be taken and all other details about the club, the area or town it is near and the community at large should be included. These are very important in estimating the potential of an operation.

There will be specific areas the purchaser will get into and they might be dealt with, as follows:

• **Land Area**—How many total acres of land are involved? How many acres are used in the course and how many would be suitable for other purposes. A survey is ideal, but an aerial photo such as can be acquired from the U.S. Department of Agriculture, Agriculture Stabilization and Conservation Service, would be helpful, as course boundaries can be marked out on the photo. Many times a purchaser will wish to see all of the boundaries, so it is well to refresh you memory as to where the lines are.

• **Buildings**—What are the sizes, age and conditions of the buildings? Are any of them leased? Or not included? Is there a residence available, and if so is it included, or could it be included if the purchaser would like to have it. Are heating, electrical, plumbing, sewer, and water systems in good repair? Have any citations or warnings been issued by the Health Department, zoning, building or other government agencies that have not been satisfied? How about termites? Have premises ever been inspected or treated for termites?

• **Equipment Furniture and Fixtures**—A list of equipment will be required sooner or later, and it helps to have at least a list of major equipment to show a potential buyer. Is any of the equipment being purchased on a lease purchase basis? Many times some equipment such as vending machines, drink dispensers, pool tables and coolers, will belong to someone else. Golf cars sometimes are on lease or belong to the pro. Is there any equipment which is used in the operation or maintenance that does not go with the sale, such as personal tools, tractors, trucks, mowers etc?

• **Liquor or Tavern Business**—Does the club have an alcoholic beverage license and if not has one been applied for or how much of a problem is it to get one? Has the business been cited for any violation of liquor laws, which are still pending? Is the business selling liquor or beer without a license?

• **Type of Sale**—Are you selling the physical assets of the club or stock in the corporation? Most offers are for the assets, so check with your accountant to be sure the price is set accordingly.

• **Contingent Liabilities or Assets**—A consideration should be given to items that could affect the operation such as easements across the course, or easements from one part of the course to another. Ownership of roads or drives could be important. Are there any oil or gas leases or any mineral rights which could be an asset or liability? Are there any leases of land or rights-of-ways or easements that would have to be assumed? Are there any free, honorary or prepaid club memberships to be assumed? Is there any real or contingent liability to members or adjacent land owners?

Price, obviously, is an important part of the sale, and deserves much thought and consideration. Prices vary considerably according to location, physical facilities, type of construction and income. Most important is the income or at least potential income, although a purchaser is generally unwilling to pay very much for potential that he has to work to produce. Some owners prefer to establish a high price then negotiate. The problem with this theory is that the high price is likely to scare away many serious buyers.

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It is much better to establish a reasonable price, then hold to it.

• **Establishing value**—This can be very complicated and probably at best one comes up with a debatable figure. In its simplest form, a value might be arrived at by taking the land value then adding cost of course improvements, buildings, irrigation systems, and equipment. Another approach is to take the cash flow income, (income before tax, interest amortization and depreciation) and multiply this by 8½. Other considerations might be made if the course is new, or if other factors in the community may affect it. But it is up to the *Seller* to provide strong justification for the price he is asking!

Ask yourself if you would buy the property on the facts you have presented for the price and the terms you have asked?

Equally important to the price, is the terms of purchase. It is important to make the terms of purchase as attractive as possible, remembering the new owner will need cash reserves for working capital and will want to be able to make the payments on the business out of income.

• **Downpayment**—Most owners automatically pick a figure of 29 percent since any more than this amount can cause tax problems. An average down payment on transactions actually consumated, falls far short of this, however; and down payments of 15 percent to 20 percent are not at all uncommon. Most important is the purchaser, a good hardworking, personable, family man, with good credit and good business experience, could be an excellent risk at an extremely low down payment.

• **Interest Rates**—Generally the balance after down payment is owed to the seller on a land contract or mortgage, and a lot of discussion centers around the interest rate. Most courses are sold on 7 percent interest, which provides a good return for the seller and does not put a prohibitive burden on the purchaser. Bank loans are generally at higher rates, but there is a vast difference between loaning cash and selling property! And of course, if you got a cash sale then invested that cash with the bank in a secure long-term investment, they wouldn't guarantee a very large interest rate to you either.

• **Payment Schedule**—If the payments are to be made from income then the amount of payment depends on revenue produced. If the volume is currently quite low, it may be necessary to have greatly reduced payments, at least for the first few years. Quite commonly, payments are based on a 20-year payoff, although a "balloon" or early payment may be required. One unique idea that has been used in a number of occasions is to have a graduated interest rate. This is used when income is too low to support a higher rate. For example the payment schedule might be set up as payment of interest only for two years with interest at 6 percent, then the interest would be raised to 7 percent and principal payments made. Know what you are selling and what you are not selling.

Much of the foregoing would answer questions a purchaser might have, but remember the purchaser is entering into a new venture and the more comfortable he feels, the better his chances are to buy. Some typical questions that may be asked are:

• 1. Is a survey available? Where are property lines? Is additional land available? If so what price?

• 2. Is a map of the irrigation system available or could it be marked out on a survey or other diagram showing location of valves, sprinkler heads, etc.?

• 3. What is the water source? Is there ample water for the full course? If the course is not all irrigated, is there enough water for expansion of the system? Are there any local governmental authorities who have jurisdiction over the water? How deep and what size are the wells? If ponds are used, are they self-replenishing and of sufficient size?

• 4. Do you have golf course memberships? How many, what categories are they, and how much do they pay? Are there any member discounts? Are any memberships given as payment for work performed? Are there any complimentary or life memberships?

• 5. What are the problems on the course? Are there any specific problems with drainage? Any greens or tees that have specific problems? Any congested areas or reasons to make revisions in tees or greens, or add sandtraps. It is very important to let the purchaser know the problems involved, so that he can immediately make plans toward their solution.

• 6. Income and expense information is very important. This is a deep area of concern, and one where the owner is frequently reluctant to divulge the facts. Nothing can scare a potential buyer more than an owner who is afraid to divulge his income and expenses! The prospect will, invariably envision a worse situation than that which exists. On the other hand, a statement *should not* be given out without proper explanations. In most cases the statement will show very little, if any profit and this can be explained better perhaps by also making out a "cash flow" statement which eliminates interest, depreciation, and abnormal expenses or expenses not essential to the operation. It is always important to know what income is presently being generated and from where (green fees, memberships, driving range, car rentals etc.) Also of prime interest are the types of expenses such as advertising, utilities, repairs and maintenance, fertilizer and course supplies, gas and oil, taxes and etc. Through this information, a "Pro-Forma" or budget-type statement can be formed to project potential income and profits.

Clean up the course, clubhouse, equipment, etc. A good first impression is important to a potential buyer, as well as to the golfing customers. A little effort to remove dust from the stock, getting rid of rubbish, touch up paint jobs, washing windows, etc. can do a lot of good towards producing a sale or promoting business. It is important to remember that all facts should surface on your course at the time you meet with prospective buyers. Surprises that come up later can only bring distrust and negative relations. □