Course development forecast cloudy

BY PETER BLAIS

Tracking golf course development is the centerpiece of National Golf Foundation programs and concerns the entire golf industry, according to a panel of experts assembled at last month's Golf Summit '90 in Palm Springs, Calif.

"Golf course development affects everyone (in the industry) either directly or indirectly in our pocketbooks. A lot of our future economic well-being is dependent on golf course development," said Richard Norton, vice president/general manager of National Golf Foundation Consulting.

Progress and Trends

While not as prolific as the glory days of the 1960s, new course development has been very strong the last four years. More than 300 courses are expected to open in 1990 alone.

'A fairly healthy inventory in the pipeline means a pretty healthy situation near term.' — NGF VP Richard Norton

"A fairly healthy inventory in the pipeline means a pretty healthy situation in the near term," Norton said. "But many have been in the pipeline for months or years and may not reflect the uncertainties of today's economy. Some may drop out, although the near term looks pretty good."

The upswing in new course development has been driven by a strong public demand to play golf, investors recognizing the game's profit potential, and the existence of more and better experienced management companies to run new courses properly, Norton said

New courses continue largely dependent on residential real estate with about 50 percent of new courses being associated with new subdivisions, Norton said. That means new development is vulnerable to the predicted recession. But there are mitigating factors, Norton said.

First, in a recession, the strong survive. Many golf course developers are "well-financed, well-connected and will continue to use golf as vital element to sell real estate," Norton said.

More importantly, he added, golf is being viewed by private and community developers as a stand-alone unit that can be profitable. That makes them less susceptible to a downturn in the real estate market.

NGF studies show parts of the United States have too many golf courses. Far more have too few. With Baby Boomers lining up to enter the golf market, the limiting factor for golf is not demand, Norton said. It's supply.

"If Boomers act like their parents, there's a lot of potential demand for courses out there," the NGF official said.

Existing courses will help satisfy a potential demand the NGF says could almost double from 474 million rounds annually in 1990 to 884 million by the year 2000. But with existing facilities at 85-90 percent of desired capacity, there isn't much room there to meet increased demand, Norton said.

That means new courses are needed. But they can't be placed anywhere. They must be built "where they're needed, at the right price, at the right investment and for the right fee," Norton said.

While there is a need for new facilities, Norton said there are four main factors constraining golf course expansion — global and domestic economies, upward cost pressures, profitability and financing.

New construction is affected by external economic factors. For ex-

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Summit

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likely to be restricted because of potential to contaminate ground water. We may lose popular pesticides through special review."

He said 2,4-D is in "a tenuous situation."

The agency proposed new applicator certification and training regulations in early November and the golf industry had 120 days to present comments to the agency. The final rule will be written some time in 1991, he said.

Also next year, the EPA's agricultural chemicals and ground water strategy will be released. States will develop management plans that will have to be tailored to local ecological and soil conditions, he said.

"Pesticides will be banned in areas that are vulnerable to contamination. If states don't have those plans, pesticides won't be able to be used there," Crampton said. But he added that the research agenda the GCSAA and USGA are coordinating is crucial because it is "tailor-made" to this approach.

Regarding wetlands, Crampton said, "The law is pretty clear... If wetlands are involved you can go elsewhere to build your development unless you can prove that another site is impossible, that environmental problems will be mitigated and you will not harm the existing ecosystem."

Delays in permitting can be skirted if a site's wetlands are considered early in a project.

Yet, with all the discussion about the environment, the very lack of public knowledge may be the biggest stumbling block to golf development, Crampton inferred.

"The decision to allow a golf course to be built in a community is an emotional one. It is not scientific... Increasingly, environmental problems are being given to stop courses from being built," he said. "Developers and course architects are going to have to get in at the front end, dialogue with the community, and make the sale based on the facility's environmental benefits, and other benefits the facility can bring.

"This requires your developing a scientific research agenda of the type the USGA and superintendents have planned. It also calls for some serious soul-searching by course architects and developers about the scope and magnitude of these projects."

He said that notwithstanding a development's amenities, there are people who will use "whatever arguments they can to put it down, including pseudo-science—and there's a lot of pseudo-science out there.

"The environment and environmentalists are not always at fault here. You have to develop a code of practices that eschews these silly solutions and excesses and you have to stick with it."

Crampton suggested more cooperative research with the EPA, saying, "We can even exchange lab personnel... This can help lessen the impact of the major pesticide re-registration review that's under way."

Dr. Michael Hurdzan, former president of the ASGCA, agreed that people in the industry will have to get politically involved.

"There are many people who purport to be environmentalists, who offer their services as environmentalists, who simply do not have the training or background to do an effective job. And we're talking about millions of dollars of decision they make with a stroke of the pen," he said, stressing the need for "responsible professionals at the other end."

Hurdzan added: "I've never heard of a golf course being denied when the operative words were cooperation, compromise, sensitivity, diplomacy, public assurance and responsible action. No matter how difficult the project seemed. But you need to be prepared to spend time and dollars to answer those environmental objections. Really what you're doing is investing in the heritage of your children and grandchildren."

Dr. Joseph Beditz, president of the summit-sponsoring National Golf Foundation, said: "We do have common ground and we're gaining ground... This is not a matter of us versus the environmentalists. We are environmentalists. I am happy with the positive initiatives being taken by the allied associations."

Herbicides

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dients clopyralid and triclopyr — "really blasts" clover. But he added, "I caution wall-to-wall application of Confront on bentgrass until we study it for another year."

Neal added that grounds crews should keep a constant eye out for thin or damaged turf and exposed soil.

"Divots, places where skunks or golf cars have dug up the turf — these are places where clover can germinate and re-establish," he said. "Clover seed remains viable in soil for at least 10 years and probably longer. If it gets a foothold in an exposed spot it can then creep out and re-infest the turf."

Neal disagreed that lower nitrogen fertilization was a root of the clover problem. Courses he is familiar with have reduced nitrogen applications "but only to the range of optimum fertility for bentgrass," he said. "If it reduced the vigor of bentgrass, you'd have a bigger problem with poa annua."

The future

While PBI Gordon's Carrell said most non-phenoxy products "are not an economically feasible option right now," other experts say scientists are concentrating their research on non-phenoxy, post-emergence products.

"There are a number of products that can replace 2,4-D but are a lot more expensive," said Dow Elanco Product Marketing Manager David Maurer.

"Our research and development people are looking primarily at triclopyr and others in that same line of chemistry, with very low rates of application," he said.

Maurer said, "This is true of most companies. Society is telling us they don't want pounds and pounds of chemicals going out."

He said that, typically, it costs $40 million to $60 million and takes eight to 10 years to develop a new product from the laboratory to the marketplace.

"In today's environment we have to do a battery of environmental impact and toxicology studies, and it takes years," he said.

Forecast

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ample, development has traditionally followed the up and down pattern of interest rates.

"If there is a war in the Middle East and a rise in oil prices, that negative economic news will affect us just like it will affect other industries," Norton said.

Development costs have risen dramatically over the last decade, Norton explained. Between 1980 and 1988, the cost to build golf courses rose five times as much as the Consumer Price Index. Higher development costs translate into higher green fees to cover higher debt service payments. Many golfers surveyed by the NGF said higher green fees cause them to play less expensive courses, play less often and buy less equipment.

The greatest upward cost pressures have been the price of land and environmental approval process, Norton said. As metropolitan areas grow, it has become harder to find land that is suitably sized, appropriately located and the right price to build economically viable golf courses.

Creative developers have solved the dilemma by establishing public-private joint ventures, utilizing leased land in urban areas, and building on limited-use, low-cost property like urban landfills and land near airports.

Praising the efforts of states like Arizona and Florida that have assembled pro-golf lobbying groups, Norton said: "We cannot go to the the government simply with opinion. We must go to regulatory agencies and governmental bodies with facts."

The only way to attract the money necessary to meet the potential demand is to build profitable courses. Public facilities average gross operating margins (net income before debt service and taxes as a percent of gross income) of 20 to 25 percent. Lenders generally seek higher margins. But 25 percent isn't bad, Norton said, considering that reflects traditionally non-profit municipal operations and profit-oriented daily fee facilities. Resort and daily fee courses report higher margins. Golf must get away from the traditional breakeven philosophy of private and municipal courses and jump onto the for-profit bandwagon to attract new investment, Norton said.

Despite the depressed state of the banking industry, commercial banks provide 37 percent of the funding for new courses, retaining their slot as the No. 1 source of capital. Banks in certain parts of the country are more resistant to golf course development than others, making the availability of bank loans very much a regional issue.

Golf capital companies, syndications and a host of other alternatives financing sources provide 25 percent of new course capital. Cash is still important at 19 percent.

"Lenders (traditional banks) tend to look at golf courses as a real estate amenity gone amuck. And they are not unfortunately looking at golf industry as a real, viable investment alternative," Norton said.

To counter that perception, NGF is undertaking a study to provide lenders with better information on golf operating ratios.

Funds from banks and S&Ls are very limited and require large equity and cash reserves to obtain, Norton said. New golf projects are averaging 56 percent equity and 44 percent debt. That's a big barrier to entering the market. But those that qualify are more likely to survive and operate successfully. If a developer demonstrates a proven track record and obtains a qualified management group, the debt-equity ratio can be negotiated down toward a more traditional 80-20 level.

'Golf course development is not for the faint of heart.'
— NGF VP Richard Norton

If funding is available, development opportunities clearly exist. Eighty percent of course operators in some areas report their regions need more courses. NGF has identified 50 areas of investment opportunities that could use more facilities.

"Golf course development is not for the faint of heart," Norton said. "You have to have the management capability, financial resources and the savvy to work with government and regulatory bodies to make the golf course happen.

"The key consideration is how can we control costs and increase availability to begin moving toward optimal potential."

Cost, finance and prospects

The basic economics of golf courses have been traditionally well-camouflaged. But the emphasis on public golf and the recent economic downturn are bringing economics to the front, said James A. Chalmers, the founder of a major real estate consulting, valuation and economics firm recently acquired by Coopers & Lybrand.

Chalmers moderated the golf course development panel consisting of Norton, Championship Guest Golf International Chairman Raymon Finch, Dye Designs President Perry Dye, American Golf Corporation Senior Vice President/Acquisitions Craig Price and William Sherman Co. President William Sherman.

In the last 12 years, the cost of a basic "plain vanilla" golf course has risen from $1.5 million to $3.5 million for direct course construction, estimated Finch, a developer of courses in South Carolina and Florida. A "turnkey vanilla" facility with full cart paths, 18-hole irrigation system and standard clubhouse runs about $5 million

An up-scale, world-class signature course has gone from $2.7 million to $5.5 million in the last dozen years. Throw in two years and over $1 million in soft costs (permitting), landscaping, maintenance building, supplies, start-up fees, seeding and sodding costs and that $5.5 million can grow to $10 million before the facility gets into the black, Finch said.

"The cost of the game has changed and must eventually impact green fees," Finch said. "We're looking at serious problems if we don't get these spiraling costs under control."

The primary reason for the cost run-up involves increased government regulation, permitting and land costs, said Finch, a founder of the recently-formed Florida Golf Council dedicated to educating of the public and state government about Florida's $5.5 billion golf industry.

"Golf needs to lobby like regular trade associations do," Finch said. "We need to gather information, catalog it and make it available to people who interface with the government. We've been reading about what's going to happen to us in the newspaper and not doing anything about it. That has to change."

Dye agreed with Finch regarding increased costs due to government and environmental regulations. A builder expects an architect to be well-versed in those areas and to have a staff that can deal with them.

"Our company has 120 employees with more education under one roof than Donald Ross used to have on the full train when he went from city to city," Dye said.

"When you're talking about mitigating costs on a golf course, you're talking about mitigating problems the developer brings to us. Many locations come with environmental issues. The only way to deal with them is with money."

Once solutions are discovered, they often become more economical. For instance, Perry's father, Pete, designed a drainage system during construction of Old Marsh Golf Club in North Palm Beach, Fla., that kept all runoff on the course. The Dyes didn't know what it would cost. But they were working had developer who was willing to solve the problem regardless of cost.

"Once a system is set up, you can usually do it again for much less. I can see my father doing some of the same things at Kiawah Island (S.C.) for less than at Old Marsh because he's already done them once."

Architects are in a Catch-22 situation when it comes to land costs, Dye said. They would like to make do with less. But because of potential liability problems, they must often ask for more.

"I like shorter, tighter par 4s," he said. "I find them more challenging. If I can get golf course on 100 rather than 120 acres, that's 20 acres you don't have to irrigate, maintain or pay taxes on. It can be a substantial savings. The problem is that if a ball flies off those 100 acres and lands on a house or roadway, we're held accountable for that."

The cost of maintaining turf can be reduced if golfers learn to do without the dark, green turf they see on televised tournaments, Dye said.

"It's time for golfers to wake up," Dye said. "Brown is beautiful. It always has been. The great golf links of Scotland are as brown as it gets. Golfers have to be willing to move our ball over to a little bit better turf and play by winter rules in lieu of what we do to the environment to keep things bright green."

Dye Designs charges a different fee for municipal than it does for private clubs or private daily fee courses. The idea is to keep green fees affordable.

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— AGC's Craig Price

"Japan has gotten away from that," Dye said. "Green fees there are about $500 per round. The average golfer plays just twice a year and spends the rest of the time on a driving range. To go in that direction is misappropriating the resources in this country. I hope the people here are committed to keeping golf in the hands of the common man."

American Golf is one of the country's major providers of public facilities. The company operates 150 courses and is building three to four new courses a year, said Price. To make financial sense at today's 11 percent interest rates, those facilities need to be inside major metropolitan areas of at least 1 million people.

American Golf does not buy land, Price said. All deals are leasehold arrangements with the city, county or state. No lease payments are made until the course opens. With courses costing $5 million to $7 million to build, they must cash flow $800,000 to $900,000 a year.

"You're not going to get that kind of cash flow in rural areas. You can only do that in urban areas," Price said.

American Golf is also actively pursuing practice centers. They usually include 75 to 150 driving stations, intensively maintained turf areas, high-quality artificial turf areas, putting courses, putting greens, practice pitching areas and well-managed golf training programs.

Practice centers require just 10 to 15 acres. American Golf operated none two years ago. It has six now open and four under construction. All are in metropolitan areas.

"It's a new product that should be beneficial to promoting the boom in golf," Price said.

American Golf has found affordable land in metropolitan areas in the form of cemetery land, flood plains and landfills.

"It's a tremendous use of otherwise useless land," Price said of courses on landfills. "We have seven of them. You can manage a golf course so there is no impact, no percolation of water and pesticides into it. Landfills should be a good source of land for future development, although courses could be squeezed off by environmentalists."

The fact remains however that most courses are associated with residential or commercial real estate, Sherman said.