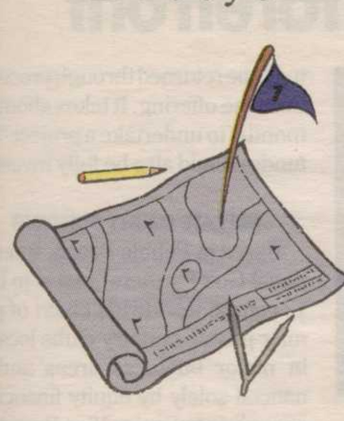
Briefs



DYE DESIGNS COURSE OPENS IN JAPAN

TOKYO, Japan — The Country Club Glenmoor, located in the Chiba Prefecture outside Tokyo, opened July 20.

The Dye Designs' family, led by Perry Dye, attended opening day Shinto ceremonies. Honorary guest Pete Dye performed the rituals.

Glenmoor is the second of four Dye golf course projects to be completed for Toshio Someya, owner and chairman of Mariya Company, Ltd.

Pete and Perry Dye's first golf course in Japan was Mariya Country Club, opened in November 1987. The third course, Gran Mariya Country Club, is under construction. Completion is anticipated in the fall of 1993.

LOHMANN TRANSFORMS SCHAUMBURG

CRYSTAL LAKE, Ill. — Lohmann Golf Designs and the Schaumburg Park District have joined to transform the 27-hole Schaumburg Golf Club into a premier public golf facility. Phase one of the three-phase renovation project is complete, and nine holes are scheduled to open in September.

The original course was designed in 1927 by architects William Langford and Theodore Moreau. Inattentioin in recent years turned challenging golf holes into what has been termed "concrete acres." Schaumburg Park District purchased the golf course in 1989 and hired Lohmann for total renovation.

Lohmann has been capturing the course's original character. The master renovation plan includes computerized and automatic irrigation, bent grass tees, greens and fairways; new bunkers and reshaping old bunkers..Ground was broken this summer for a new clubhouse.

ELKHORN EYES DEC. 1 OPENING

STOCKTON, Calif. — Projected completion date of Elkhorn Country Club's member clubhouse remodeling and expansion is Dec. 1.

The 10,000-square-foot clubhouse will include expanded men's and women's locker rooms, bar and grill room, formal dining facilities, expanded golf shop and administrative offices.

H & H Construction of Stockton is the project's general contractor, Jackson Associates the architect.

The 93-acre, 18-hole layout designed by Bert Stamps is a private golf facility with 530 members. Elkhorn recently increased membership entry fee from $5,000 to $7,000.

DAVIS SIGNS FOR GEORGIA LAYOUT

ROME, Ga. — The architectural firm of Arthur L. Davis Inc. will design the city's proposed public golf course and be involved in course site selection. Davis' fee will be about $200,000.

The Rome City Commission unanimously approved his presentation. Davis, a former Rome resident, now lives in Gainesville.

Non-traditional funding sources take spotlight in developing golf facilities

By Peter Blais

Alternative sources of financing are filling some of the golf course development and acquisition gaps left by the virtual departure of banks and savings and loans from the leisure real-estate market.

Non-traditional mortgage lenders, real-estate syndications, preferred stock offerings, foreign investors, corporate America, pension funds, unions and foreign contractors are helping fill the void.

A panel of financiers discussed golf course funding alternatives at a recent Institute for International Research conference in Las Vegas.

Following are some of their thoughts.

'Capital markets are tight, but that has always been so for golf courses.' — Herb Hogue GATX Golf Capital

NON-TRADITIONAL MORTGAGE LENDERS

"Capital markets are tight, but that has always been so for golf courses," said Herb Hogue, director of golf investments for GATX Golf Capital. "Money is available for golf courses that can be profitable businesses with a well-thought-out plan."

GATX is a finance company that does participating mortgage loans for firms wishing to acquire or develop and then manage golf courses. The company has financed more than 30 courses. It has also funded golf course communities.

GATX is a lender, but also wants to create value rather than just collect guaranteed interest payments, Hogue said. GATX transactions are highly leveraged with moderate interest rates.

"Our profit is really back-ended where the owner's profit is. So we're really into these projects with the same incentive as the owner's," Hogue said. "We're lenders but our profit is contingent on the project being successful. We're more like venture capitalists.

"We don't do one-shot deals. We are relationship lenders. We're in the business to develop relationships with the best developers and managers of golf courses in the country. We finance their plans to develop or acquire a series of courses over the next several years."

Seventy percent of new courses are parts

Continued on page 26

'Sure-fire' methods of past have passed away

By Peter Blais

Attaching a golf course to a residential development is not a sure-fire way to make a project successful, according to a golf course communities consultant.

"We're involved in 50 to 60 residential golf course projects a year around the country," said Dan Levitan, a principal with the Greenman Group, a Hollywood, Fla.-based residential marketing consulting company. "My skepticism comes from the fact that half of those are troubled properties."

'My skepticism comes from the fact that half of those (50-60 residential projects) are troubled properties.' — Dan Levitan Greenman Group

The residential trend is toward large community developments complete with amenities, including golf courses, said Levitan during the recent Institute for International Research Golf Course Development and Financing Conference in Las Vegas, Nev.

After all, the National Golf Foundation predicts the number of golfers will increase 40 percent by the year 2000. And the typical golfer's income is $11,000 above the national average.

So, with demographics and demand solidly in golf's corner, why are so many residential golf projects in trouble?

First, golf demand is localized. "What may work well on the north side of town may not work on the south side," said Levitan, who described an attractive golf course commu-

Continued on page 30

More industrial, commercial projects adding golf

CHICAGO, Ill. — More golf courses are being built in conjunction with industrial and commercial developments, according to Tom Clark, president of the American Society of Golf Course Architects.

Developers, real-estate professionals and businesses are realizing that golf courses add much more than curb appeal to commercial properties, according to Clark. "A golf course can add prestige and beauty, help attract occupants and provide the ideal environment to entertain clients," he said.

There's a certain prestige to working in an office surrounded by a beautiful green belt. "Many companies that want to project an upscale image are establishing their headquarters on golf course property," he said.

Several city government offices, including those of Norfolk, Va., are taking part in the growing trend. "Any mayor or city administrator would appreciate the benefits of an office overlooking a public course, especially one that brings revenue to the city," said Clark, who recently developed a master plan for a course that will house offices for the city of Norfolk.

Another reason for the growing popularity of hybrid golf courses is that they help presell commercial projects.

"If a potential business wants to lease space overlooking a certain hole or lake they must act quickly," Clark said. "In this respect, courses generate additional interest and excitement for the project."

In addition to making a property more attractive, a golf course's open space absorbs noise. Trees produce oxygen, especially beneficial to industrial and commercial developments.

"Some courses have been built over landfills, eliminating an eyesore to the community and possibly reducing further environmental risks," said Clark. "Golf courses will benefit commercial and industrial developments in the next decade in the same way they have generated sales in residential developments the past 10 years."

Executives in the private sector also know the value of having their business address on a golf course. "Golf courses offer an excellent place to meet and entertain clients," Clark said. "Since decisions often are made on the links, why not gain a competitive advantage with potential clients and business associates?"

Clark cites Windsor Parke Golf Club, Jacksonville, Fla., as an example of a course built in conjunction with a commercial project. Said ASGCA member Art Hills, who designed the public course which opened in May, 1990, "We blended the golf course and commercial space into a single cohesive project."

Another example of a hybrid course is Dakota Dunes in South Dakota, near Sioux City, Iowa. The project features two 18-hole courses surrounded by a residential community and a campus-like 200-acre commercial development.

Those interested in the master plan concept should write the American Society of Golf Course Architects, 221 N. LaSalle St., Chicago, Ill. 60601.

Alternative ways to finance projects coming to forefront

of master-planned communities, Hogue estimated. Residential developers are sometimes willing to lose money on a course to sell house lots. GATX is not interested in those deals, he said.

"Golf course lenders like us, particularly participating mortgage lenders, are very concerned the borrower has one agenda, and that's to make money with the golf course," he said.

To get a loan from a lender like GATX, borrowers must prove they want to make money from the course and that they have the ability to do it. There are, Hogue said, five things he looks for:

- Owners or management staffs with experience in the golf business. Even though loans are secured, lenders don't want to take over projects. Evidence of management control can come from histories of courses the borrower has made more profitable. Credit checks, references, trust and personal chemistry are also important.
- Well-conceived projects in good markets. Every lender has its preferences. GATX likes daily-fee courses in metropolitan markets of 500,000 or more where play comes primarily from residents. The project must address an unserved market niche.
- Economics that work. Cash flow from operations should be at least 20 percent of total project costs within three or four years. Borrowers should have a 90-percent confidence level in reaching pro forma targets.
- Hard-cash equity from the borrower, even if the developer owns the land. The owner should have a source of equity to cover working capital and cost overruns. An equity investment shows a highly leveraged lender to a specialized business, like GATX is to golf, that the owner is committed to the course's success.
- Evidence the borrower has done his homework. Proposal packages should include a complete project description starting with a thorough budget; market analysis; and financial analysis of realistic profit and loss projections. Borrowers should use conservative and defendable pro forma projections rather than optimistic forecasts that can't be substantiated.

'The economy has eliminated the amateur investors from the market. Those left will be looking hard at the economics of any investment.'
_ Norm Carl
Carl Realty Advisors

REAL ESTATE SYNDICATION

The amount of syndication money has diminished dramatically in recent years, but about $3 billion of it will be available in 1991, the same as in 1980, said Paul E. Dunn, president of Wellspring Advisors.

"The good news is that the $3 billion is available and that it is being applied to specialty niches by relatively small companies," he said.

Dunn said he is more receptive to companies with well-conceived projects in hard-hit economic areas that are on the verge of coming out of the recession than areas that may be overbuilt and the developer believes can't miss.

Most current syndication activity is not on specific projects. The focus instead is on raising equity for companies to finance whatever it is they want to do in the future, Dunn said. His company is working on a project that will provide a collateralized, 10-year line of credit for a developer.

"We are less concerned, in fact almost cavalier, about the properties themselves," Dunn said. "What we're really looking for is the people involved, their sophistication and willingness to work hard, their commitment to our project and their ability to be flexible. Over the next 10-year cycle, we know that whatever is popular today will not be popular in the future.

"We look at developers with a diversification and capacity to look at the market and say, 'No, we want to avoid that' and move on to another market niche or strategy."

"Years from now, golf courses could be overbuilt around the country. It isn't likely in the short term. But I'd rather be with someone who is still up and running if golf courses are no longer an attractive place to be."

Dunn was formerly with NTS Securities, a Louisville, Ky. developer doing Arnold Palmer-designed courses in Louisville and Fredericksburg, Va. NTS wanted more control over its projects than traditional lenders were allowing and so created NTS Mortgage Income Fund, a source of debt financing that raised $61 million that went directly to NTS for various projects over 15 years. While building the golf course communities was the fund's aim, the company has a lot of flexibility on how the money is spent.

The NTS money was expensive and included a 1-percent origination fee; regular interest equalling the prime rate plus 2 percent for first mortgages and prime plus 3.5 percent for secondary mortgages; and, a novel equity kicker that gave the fund 5 percent of the gross sales price of real estate lots.

"The investing public in general has lost faith in capital appreciation as an investment goal and therefore they want confirmation they made a good investment by getting current cash flow in their pockets," Dunn explained of the high current interest paid investors.

Dunn is also working on Riverside County, Calif.'s Moreno Valley Ranch Land Fund, raising $22 million through a three-year limited partnership for equity investing. The short three-year term, and the fact the project is already two-thirds complete, make it unusual.

The benefits of syndication funding are the control developers have over the pool of financing; greater flexibility in funding and timing projects; fewer personal guarantees; and, the ability to return to the same source for more funding.

The cons are the relatively high expense of borrowing; uncertainty whether investors will be interested in the offering; and, the time and money involved in putting the project together.

To make it work, the borrower needs to be financially strong since it will cost between $500,000 and $1 million to put the project together. Fortunately, those costs will eventually be returned through proceeds from the offering. It takes about six months to undertake a project. The funds should also be fully invested.

PRIVATE EQUITY FUNDING

Based in Pebble Beach, International Golf Partners' goal is to be a 12-course worldwide chain of premier private country clubs located in major business areas and financed solely by equity financing, according to Senior Vice President Richard Thorman. They will be used primarily by corporations.

"The end product, in a phrase, will be a Winged Foot Country Club with a 40- to 60-room Belair Hotel," Thorman said. It will be privately guarded, with a heliport and limousine service. Memberships are being sold through a preferred stock offering.

Projected membership sales of 4,800 over eight years are expected to raise $1 billion to $1.4 billion, some of which is expected to come from foreign investors, Thorman said. Capital costs for land, development and start-up are estimated at $600 million. That will leave common stockholders, who will invest about $75 million, with assets of improved properties of $600 million and cash in the bank of $600 million to $800 million.

Two pieces of property are under contract. One is in Chicago and has all its building permits. The second is near Los Angeles and is just entering the permitting stage. Sites in San Francisco, New York and Dallas are ready to enter negotiations.

The company's founder put up the first $3 million. Small, foreign entrepreneurs have kicked in another $2 million. The Persian Gulf War, U.S. recession and drying up of Japanese capital has slowed investment somewhat, Thorman said.

But pockets of foreign capital still exist in Hong Kong, Singapore, Taiwan, Malaysia, England and Germany, he added.

JAPANESE INVESTMENT

Norman A. Carl, president of Carl Realty Advisors, helped put together a $200 million deal 18 months ago between Japanese investors and the team of architect Bob Cupp and golfer Tom Kite to develop courses in the United States and Canada. The company has also negotiated foreign deals with Greg Norman.

Most Japanese golf course investment dollars in the United States, until recently, came from Japanese companies borrowing against the escalated values of their real estate holdings in Japan. That has essentially stopped, Carl said.

Japanese companies that can still invest abroad are those with cash in hand that can move it out of the country to invest.

After interviewing Japanese financiers the past few months, Carl estimated 90 percent of those investing in U.S. golf course projects are now out of the market.

"However, there are companies

Continued on page 28

Non-traditional sources join forces with builders in golf

Continued from page 26

with significant cash-on-hand that can continue to invest overseas," he added. "The economy has eliminated the amateur investors from the market. Those left will be looking hard at the economics of any investment. It's a very difficult environment to raise money."

An executive of one of Japan's largest banks told Carl his firm has shifted its focus from helping clients acquire foreign properties to helping them sell those properties.

Accessing what Japanese capital remains requires U.S. developers and sellers of golf courses to be smarter and willing to accept smaller profits and more risk, Carl said.

"The day of the foreign investor coming in and providing 100 percent of the equity capital to do a 50-50 deal is history," Carl said.

The most important thing in raising Japanese capital is selecting who will represent the developer's project. Whoever the developer selects should represent the developer on an exclusive basis, should have a track record and should be able to provide proof of the network of investors he will contact.

"The worst thing a developer can do is brokering the deal, putting together 150 packages and trying to send them to everybody in a directory listing who has invested in the United States," Carl said. "The appeal for an investor... is to feel he is about the only person seeing the transaction."

The developer's representative should be given a free hand to bridge the cultural gap between developer and Japanese investor.

"If you look at foreign investment as a last resort, your opportunities to attract that capital are greatly reduced," Carl said. "It's extremely important to realize the relationship you are going to develop with your partner should be viewed as long-term."

Most transactions with foreign capital in the next three years will be under $10 million, reflecting the change in the Japanese economy, Carl said.

CAPITAL MARKETS

New and increasing sources of capital will become slowly available over the next few years for golf courses, resorts and other leisure industries, said Steven H. Gold, chairman and CFO of Center Financial Group.

Developers must begin looking for many sources of capital since guarantees no longer exist that even the largest banks, financial companies and insurance companies will be around or anxious to invest six months from now, Gold said.

Corporate America will be one of the major new capital sources through credit companies set up by firms like General Electric, GATX, Westinghouse and Chrysler, Gold said. Most aren't doing construction financing, but rather refinancing and re-doing existing financings.

Gold said they are interested in 18-hole courses; daily-fee or semi-private; minimum 6,300 yards; no equity ownerships; personal guarantees on loans; two-year cash flow histories; interest rates 2-1/2 to 3-1/2 percent over the prime rate plus one to two points; five-year terms with amortizations of 10 to 20 years; minimum debt coverage ratios of 1.3 to 1 and loan-to-value of 50 to 65 percent.

"There are about a half dozen corporate lenders doing real estate lending in the United States today," Gold said.

Pension funds are another source, Gold said. They were battered in the 1980s, particularly on real estate. Still, labor unions come up with interesting lending programs. But the developer must use union labor.

Life insurance companies will be in difficult shape for the next few months. "They are either substantially out of the market or super conservative," Gold said.

Bringing in a Japanese contracting firm as a partner, who acts as the contract management firm rather than the actual builder, has worked on some deals, Gold said. The U.S. developer is the on-site manager.

The Japanese contractor was able to go to its bank for capital, something the U.S. company could never do. The U.S. company may have to give up some control, but the project may get done, and under terrific terms, Gold said.

"There are so many sources of different capital, you can't just say,- 'Let's go hit the top 10 insurance companies or the top 10 Japanese banks.' Nobody has full access any longer. It has become a quiet marketplace for money.

"Anything you are doing, don't be afraid to share information. And give yourself a minimum of six months to close a deal.

"Give yourself time to collaborate. If you are logical and not greedy, you have to meet with success. Times are going to get better. But they are going to get better slowly."