Norton: Gold rush days of golf financing are over

By Peter Blais

Golf course architects and developers need to be more realistic about obtaining financing in today's economy, according to a National Golf Foundation official.

A good concept and a nice piece of property alone won't attract 99-percent financing, NGF Vice President Richard Norton said during May's American Society of Golf Course Architects annual conference on Long Island, N.Y.

"Investors must get value for their dollar. The days of the Japanese rushing in with $20 million or $30 million to totally finance a golf course are gone," he said.

Competition for financing is fierce, according to Norton. Getting money requires extensive homework and an understanding of what lenders are requesting.

The key concept is risk versus return. Lenders want assurances the amount borrowed can be repaid, Norton said.

The rate of return to attract private dollars must be high enough to compete with other investments, including the stock market. Municipalities may require a lower return because their goals are different, such as providing recreation, he said.

Availability of other types of recreation must also be considered in proposing a golf project. The course must provide enough value to compete with other recreation options to attract investors.

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"The challenge is to develop golf courses that serve an identifiable demand and provide enough income to cover debt and operations," Norton said.

Golf was largely real-estate driven through the 1980s. Part of the reason was that real estate spread the risk between different components of a project. But with the downturn in the real-estate market, that has changed, Norton said.

While 70 percent of new courses were associated with real estate during the last decade, only 34 percent of 1991 course openings were real-estate oriented.

"If we are going to base our future on real-estate driven golf, then we will have a very rude awakening. Real estate will still be a part of what's going on, but not like it has been historically," Norton said.

The amount of debt a new project can carry is dropping. Most projects can only get 60 percent or less of their financing through debt. The remainder, 40 percent or more, must come from equity. Lenders view golf as risky, so developers must invest a large amount of their own money in a project, according to Norton.

While non-traditional funding sources are becoming more popular, local banks still provided a significant amount of the money to finance the 350 courses that opened in the United States last year, Norton said.

In working with lenders, developers have learned that:

- Loan terms and equity requirements are relaxed somewhat if the borrower has a track record.
- Lending institutions prefer personal property and income from unrelated businesses over land as collateral.
- An established relationship with a lender is often key to obtaining a loan.
- Limited partnerships are important sources of equity.

Active golf course lenders, Norton explained, claim the Federal Deposit and Insurance Corp. has no specific underwriting guidelines for golf course credits. They are treated as conventional real estate credits. Creditors are concerned bank examiners will not look favorably at golf course loans. Burned by the savings and loan crisis, they are reluctant to lend.

Cash flow from property and borrower reserves are the primary concern of bank examiners. Their secondary interest is the property's auction value, Norton said.

Lenders, who are generally uninformed about golf courses, have several problems financing them, he said. Course improvements have a low residual value, giving lenders, in their eyes, no fall-back position if the project fails.

"They look at it and see a clubhouse and 18 holes. That doesn't have a lot of residual value, except for the land, for some of these people," the NGF executive said.

Lenders also see golf as a service business, with the loan's success dependent on uncertain projected cash flows.

It is easier to lend on existing golf courses with a cash-flow track record than it is on new projects. That's why much of the current financing is being done on acquisitions and expansions, Norton said.

Informed lenders are willing to lend to golf courses. They have overcome obstacles by creating loan structures that accommodate potential negative cash flows in the early years of operation by capitalizing working capital requirements and shortfalls; requiring cash reserves to

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ASGCA identifies funding sources for golf projects

Anyone doubting that golf course financing is hard to come by ought to speak with Tom Clark.

"Our firm has 23 projects completed, sitting there with plans and specs waiting for financing. That's quite a dilemma," the immediate past president of the American Society of Golf Course Architects said during the association's annual conference on Long Island, N.Y.

Financing became an acute problem about two years ago, Clark said. Last year the ASGCA formed a financial committee, headed by Brian Silva, that is researching funding sources.

Among those identified so far are:

- Blue T Golf (Tel. 800-621-9199) : funding and development services for municipal facilities.
- Club Corp. of America (615-523-3837): limited new course development.
- Commonwealth Brokerage (804-358-2222): arranges financing through an Immigration and Naturalization Service program allowing foreign investors to invest in the United States in return for citizenship.
- Dai-Ichi Kokusai Co. Inc. (803-626-2400): arranges financing from international lenders, especially for resort properties.
- FFG Consultants Inc. (213-624-6266: provides Japanese clients with consulting services.
- First Golf Corp. (800-621-9454): funding and turnkey construction of municipal and privately owned daily-fee courses.
- Flint Golf Inc. (916-362-0165): funding and construction of municipal and privately owned daily-fee courses.
- Forrest/Crooks Associates (415-392-0301): banking and real estate firm providing investment and consulting services.
- GATX Golf Capital (415-955-3200): arranges financing on a fee basis.
- Golf Investment Advisers (407-624-0303): provides feasibility studies and investors for private, equity courses.
- Golf West Co. (209-432-1346): financing and turnkey construction for public, semi-private and private facilities.
- Greyhound Financial (800-525-4532: acquisitions and refinancings of existing courses.
- HJM Corp. (212-953-1300): finances privately owned, daily-fee courses.
- InterAmerican Holding Co. (619-237-0433): finances Mexican projects.
- Landex International Inc. (404-377-3000: specializes in international investments and joint ventures between the U.S. and Pacific Rim.
- Municipal Golf Inc. (800-527-GOLF): builds and finances municipal courses.
- Natchez Financial Corp. (205-837-4132): commercial loan broker on a fee basis.
- New Golf Enterprises (415-284-7100): finds joint venture partners for golf projects.
- Prestwick Group (708-501-5110) : acquisition and development deals.
- Southeastern Club Management (803-686-2988): provides management, financial and sales services.
- Stewart Financial Co. (619-325-1141): international limited partner for golf course funding.
- Suriel Finance (703-938-1493): loans for golf course projects against corporate bonds.
- Textron Financial Services (800-343-0053): financing for all sectors of golf.
- United Realty Advisers (714-222-0820: provides construction, joint venture and permanent financing working with insurance firms, banks, pension funds, savings institutions and other lenders.
- VP Venture Partners (303-428-1800): venture capital company.

Norton on money

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cover all contingencies; and offering equity participation to decrease borrower equity requirements and lower interest rates.

Norton said to have the best shot at obtaining financing, a loan proposal should include an objective feasibility study that focuses on the existing course supply; a detailed investigation of all site and environmental issues; resources and history of the project principals; and a business plan.

"Frankly, we don't see enough of this type of detailed planning going on out there today," he said.

While a 40-percent equity position is common, private developers can get that down to 10 to 15 percent with experience, a proven track record and good lender relationships, he said. The primary sources of equity are the developer/owner, limited partnerships and syndications.

Debt sources can include banks and S&Ls, insurance companies, pension funds, credit companies and investment banks. The public sector can also turn to bond issues, certificates of participation and lease/purchase agreements.

Combination debt/equity arrangements are becoming increasingly popular with credit companies or investment banks taking an equity position, Norton said.

While the financing picture may appear gloomy, the golf industry is doing far better than most segments of the economy, noted Norton, who is a member of the Urban Land Institute.

"The gloom in that group is profound because there is so little going on," he said. "They look at golf as one of their saviors. Golf courses are being financed. It may be difficult. There may be severe barriers to entry. But we opened 350 courses last year. Someone is financing golf courses."