Palmer Management

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ness Journal that five to 10 of the companies at the March meeting were likely candidates for mergers or acquisitions.

"Associating the Palmer name with 500 additional courses is going to take a long time and require a careful screening process," Nanula told *Golf Course News* in mid-May. "There are many ways to do it, including mergers."

The joint arrangement with Toll Brothers is one method. Nanula said the partnership is a response to a market need. The United States has approximately 3,000 residential golf communities with another 100 coming on line each year. Many have struggled financially and are in the hands of banks, receiverships or developers without the funds to complete their projects.

"They've stalled out for whatever reason," Nanula explained. "The developer or his broker is trying to find a management company to take over the golf course and a local developer to finish the residences. It usually takes months trying to find people to buy the separate parts. With Toll Brothers, we become a one-stop shop. We can make a single bid for the entire property and write a check on the spot. Toll Brothers finishes the homes and we operate the golf course."

The ability to move quickly is a reflection of the financial strength of publicly traded Toll Brothers and Palmer Golf Management, which received a huge influx of capital when California-based Pacific Golf and the Chicago venture capital firm Apex Investment Partners acquired the golf management firm back in 1993.

Palmer and Toll announced their arrangement in late April. Nanula said he received 25 proposals within a few weeks. "We're looking at three or four very seriously," he said.

Nanula termed the sale of Golf Enterprises to NGP "disappointing", not only because it increased the size of rival American Golf, but also for GEI's investors and managers, who received a lower return on their investment than Nanula believed they expected.

"It was mainly venture capitalists who backed Golf Enterprises," the Palmer Golf executive said. "They generally expect a 30-plus-percent rate of return. I know this deal was nowhere near that."

GEI Chief Financial Officer John Berndsen acknowledged that some of the early investors who purchased stock at $13.50 (NGP eventually paid $12) lost money on the deal. The Chicago investment banking firm Golder, Thoma, Cressey that financed the company's original start-up back in 1988 made a small profit, but "managers had higher expectations for Golf Enterprises than were eventually reflected in the selling price," Berndsen conceded.

Nanula said the GEI sale was particularly disappointing because the Dallas-based firm was the first management company to go public with its stock back in July 1994.

"Golf Enterprises never did anything to make itself special," Nanula said. "It just accumulated a bunch of golf courses and then sold them. Unfortunately, that's the route many management firms are taking.

"Golf courses have been run generically for years. There has been no real innovation, like there has been in the hotel and restaurant industries. Golf is still a sleepy little business in terms of customer relations.

"Look at a hotel company like Marriott. They run everything from high-priced to moderately-priced hotels. But there are certain things a customer can expect at any of them — great service, a clean room and a great value for whatever price range one of their hotels are in. That's the sort of customer service we need in the golf business."

Berndsen disagreed, stating that GEI emphasized customer service from day one and continues to do so through its association with American Golf and National Golf Properties.

"If anyone is the leader in customer service, it's AGC," Berndsen said. "Golf is a competitive marketplace. With participation rates down and some unfavorable demographics over the next few years, a golf course must market itself aggressively and retain its customer base to survive. The American Golfs and ClubCorps are in the best position to do that. The only reason we sold the company to NGP was because it was in the best interest of our shareholders."

Bristol's Clear Creek work nearly complete

BRISTOL, Va. — Work at the 18-hole public Clear Creek Golf Course is about 90 percent complete, according to developer Jack Sykes. Sykes said the substantial earth moving is virtually finished and all that remains is seeding and the grow-in period.

The city of Bristol has already let bids out for two buildings on the course, the clubhouse and a maintenance facility. Along with the golf course, a 250-home residential project is planned.

The city bought the 400-plus acre Clear Creek Lake site from the Tennessee Valley Authority in 1994 and ground was broken in December by Kentucky-based Summit Engineering.