NGP acquisition a good sign for golf business

Derek Rice, managing editor

Several months of speculation and rumor-mongering ended in September when Goldman Sachs agreed to acquire National Golf Properties (NGP) for $1.1 billion, most of which will go to satisfy the real estate investment trust's more than $800 million in debt.

Once Goldman is able to buy back enough shares to take NGP private, it will merge the company with management company American Golf Corp. (AGC), its largest tenant, eliminating a large part of NGP's original problem. Namely, AGC's inability to make lease payments.

While it's obvious the NGP that will emerge when all is said and done will be very different than the company of today, the Goldman acquisition is huge for the industry. It is a statement that Wall Street is willing to take a look at golf, which is a refreshing change.

Bottom-line-focused Goldman, which does not have a background in golf, simply will not tolerate under-performing assets. The firm will evaluate NGP's courses and try to cut loose those that aren't pulling their weight, retaining only those it feels can still turn a profit. Something tells me there will soon be a glut of courses on the market to be had for a fraction of what NGP paid to acquire them.

This deal may be just the kickstart the golf industry needs. Many of the larger lenders, such as Bank of America, have left the space and default rates on golf loans are rising. It is not the most ideal time to get involved with a golf course project from a financial standpoint, as competition is shrinking what were already slim margins.

According to Steve Mooney, CEO of Commercial Bancorp, who has been in banking for many years, this is the latest in a string of good news for the industry. Equity money is starting to flow back into golf. As Mooney says, wherever equity money goes, "the lenders will follow blindly – they always do."

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On the subject of management companies, in the page 1 story "Munis face challenges from many fronts" in last month's issue, I neglected to mention that Black Gold Golf Course director of golf Eric Lohman works for KemperSports Management, which operates the in Yorba Linda, Calif.-based course.

DISTRIBUTION OF PUBLIC AND PRIVATE GOLFERS

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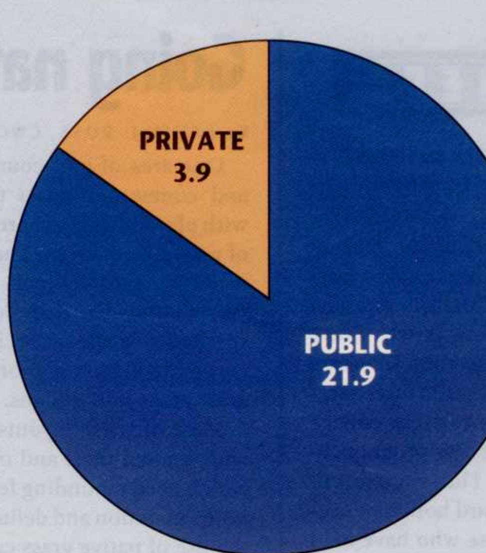

Source: NGF Golf Consumer Spending in the U.S.

Municipal golf still fills important niche

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are many people who want to play the game but don't. They make up the latent demand segment of the market. Conservative estimates place the number of people in the latent demand segment of approximately 10 million. Other estimates take that figure up to 20 million people. The reasons most often cited for not playing golf are time, expense and difficulty.

This is where municipalities still play an important role in golf. Municipalities, counties and other government entities are not under the same pressure to maximize profits as developers in the private sector. This allows them to develop those simple, inexpensive golf courses that meet the needs of so many existing and potential golfers. In the same way that they provide ball fields, soccer fields, tennis courts, skate parks and BMX tracks for their citizens' use, they need to build golf facilities in a way that the private sector can't.

Over the years, metropolitan areas such as Los Angeles, Spokane, Wash., and New York have built a terrific collection of municipal golf courses that are simple, affordable and fun. They service their citizens as they have for decades. But as new communities continue to sprout up across the country, it is important for them to understand the value and role a municipal golf course plays in their future.

I believe municipalities also have a responsibility to think beyond traditional, regulation-sized golf courses. In most instances they are better positioned than the private sector to develop and operate executive-length and par-3 courses. These "alternative golf courses" often act as the entryway to golf to many aspiring golfers. Not unlike baseball's minor league system, par-3s and executive courses allow players to improve their skills, learn the etiquette of the game and gain the confidence necessary to move up to regulation golf courses.

Again the research of Golf 20/20 bears this out: "alternative facilities open to the public share a complementary relationship to regulation-length courses nearby. That is, golfers pay and play more at traditional facilities in communities with abundant alternative facilities."

While it is easy to focus on bringing new players into the game, we cannot forget about older players who for either physical or economic reasons, simply don't want to go the full 18 anymore. Alternative facilities are a great way for them to continue their participation in the game.

Cities can take a leadership position in environmental stewardship by converting degraded sites in municipal golf facilities. We've seen in recent decades the conversion of many landfills, and brownfield sites into player- filled golf courses.

Enjoyable, accessible and affordable are the keystones of municipal golf courses. They have played a historic role in the growth of American golf and will continue to be an important part of the game's future.■

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Leave the business of golf to private owners

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as a means for some politicians to leave their legacy behind in the form of 18 holes of upscale golf.

Tell anyone outside the golf industry about the supply and demand struggle in which we find ourselves, and they just can't believe it. Golf is more popular on television than ever before, but the business of golf has seen better days. Mayors, city and county councils and state park divisions that are currently building golf courses seem to be insulated from the truth about the overabundant supply of golf courses that already exists.

Don't get me wrong – I am not anti-growth. But I am against illogical and unreasonable growth.

It's not just a supply-and-demand issue. It's also a matter of government waste. First, only eight percent of the public plays golf. Municipalities should not engage in $15 million projects (sometimes much larger) that are aimed at less than 10 percent of their citizens. Also, some municipal officials will argue there is a lack of affordable golf. With today's plethora of coupon books, twilight pricing, junior discounts and intra-market price wars, the affordability point is moot. In cities and counties where schools are falling apart, teachers are underpaid, medical services are poor, crime is high, why on earth would you spend tax dollars on an upscale, designer golf course? There are many cases around the country where those courses are operating in the red to the tune of hundreds of thousands of dollars.

Take a case in New Jersey, where it can cost literally hundreds of thousands of dollars for a privately owned, daily-fee golf course to obtain a liquor license. In that same county, a new municipal course will get a license without paying a fee whatsoever. Other tax abatements include sales and property taxes. Such relief should be reserved for projects and programs that affect the quality of life of a large percentage of the populace, such as attracting new industry that will create hundreds or thousands of new jobs or augmenting public safety services. Unfair competitive advantage can also take form in other ways, such as preferential water use agreements.

If private enterprise is providing affordable golf in a given market – even if it means playing in the afternoon or even walking the course – the municipality should be vehemently challenged on any move to develop a new golf course. The proverbial pie has already been split into more pieces than necessary. In this day and age, there are much higher priorities for municipalities than playing golf course owner. Leave the business of owning and operating golf courses to the sole proprietors, families and corporations around the country who are already doing a fantastic job of delivering golf to the American public.■

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