Lower Interest Rate Is Wise Answer to Fee Plant Problem

By HERB GRAFFIS

INVESTORS who put money into daily fee courses during the 1927-1931 period of high real estate prices have found that their investments, like other investments in buildings and grounds made during that time, have to be readjusted.

Most of the real estate investments made during those years of rising prices and swiftly made sales have gone into the hands of receivers. This has been temporarily very pretty for receivers who are getting fat incomes, but investors who want to salvage something out of their investment have been paid off in headaches and tears. The sorry history of ghoulish connivance between courts, lawyers and professional receivers has been given in many newspaper stories. Golf would like to avoid this sort of costly agony in readjustment of its fee course properties, but probably must suffer. As long as humanity believes it can get rich by taking unfortunates into camp real estate equity holders will be victimized by the greedy and ignorant during tough times. Golf real estate will not be immune from this rap.

The situation works out this way: People who hold the paper figure they can foreclose and get the property for a few dimes on the dollar. With low carrying charges they believe they will be able to cut playing charges to such an extent they will get all the business in the neighborhood. They seldom budget any money for the development of the golf market or for making the course more attractive.

What happens?

Around in Circles to Ruin

Other course owners in desperation meet the cut prices. No one has any money for keeping the courses in shape and the wind-up is that fee course business in the entire district is ruined. What makes the picture turn out bad for the foreclosing parties is that government money goes into public courses in the neighborhood. Public course design and maintenance standard has improved greatly. On the lower-priced play the municipal courses get business that formerly played on fee courses and private clubs that have lowered their initiation fees get those fee players who can qualify for private club membership.

The last act is that the foreclosing parties find their property won't give them a return on the throw-away price they paid and they are stuck along with the rest of the fee course owners.

This sad last chapter has been written just enough to provide a plain lesson—or warning.

Let us review some of the situations that have developed as a result of fee course foreclosures, and see what has been taught.

In the first place it is impossible for many fee courses built during the last nine years to pay 6 per cent interest now. Especially in the metropolitan districts where the plants were built on land valued at $500 an acre and up, meeting the interest payments frequently is impossible even if only the scantiest amount is devoted to operation and maintenance of the plant.

Fee course play generally is falling off while municipal and private course play has been showing definite signs of a big revival. The reason in the majority of cases is plain; the maintenance of fee courses is not of any too high a grade simply because it requires money and money is what the fee course operators haven't got. The players have been around enough to recognize and demand good greens, fairways and tees.

Experienced Operators Essential

Absentee landlordism also has been responsible for the plight of some of the fee courses. Men who had a surplus to invest in the boom years got together and put in a fee course. When everything was coming their way and players had the urge and money there was no special necessity for a well-trained, conscientious and well-paid man on the job. Hiring active and able pros and giving them financial arrangements that would result in the development of trade and anchorage of a satisfied patronage was seldom done. Where it was done you see courses that have weathered the storm far better than the average.

Since it is obvious that absentee management has been a failure in good times, it seems quite clear that you can't expect much of management by remote control in these times when hard-working, resourceful experts on the job are vital to existence of the plant.

Golf No Cash and Carry Business

There is another factor in the fee business that those who rush in to force receiverships don't consider. A fee plant to attract play has to be operated by people who have a keen interest in golf. The job is not a cash and carry business with code working hours. The successful operators of fee courses count a 10-hour day a short one. You have to show some personal interest in each male and female customer and help them to enjoy themselves. You have to keep peace and see that there are no battles about rules or golf etiquette.

Repeal hasn't done fee courses the good, financially, that it has done the private clubs. Lack of money to buy licenses has prevented some of the courses from operating attractive bars. In other cases the revenue from beer and liquor has been partially offset by higher food costs that the restaurant hasn't been able to pass on to the players because of the keen competition between fee courses on food business.

Most noticeable of the indications that all is not well in the fee course business is the condition of the courses. Most courses that people are hungry to foreclose on will require enough money and time for rehabilitation to discourage anyone who figures that he can immediately make money because of reduced interest payments.

Up Against It

The case of one ably managed fee course comes to mind in connection with this matter of maintenance requirements. The course was put into play six years ago. Since that time the establishment hasn't bought a dollar's worth of new equipment. Recall that an automobile which runs on smooth pavement is ready for replacement after three years and you get an idea of the present condition of the mowing equipment and tractors that this course has been using since its original rough days. The course is starved for fertilizer. Landscaping needed to make the course profitably inviting, is lacking. The clubhouse is in desperate need of repairs and painting. The people who have been operating this plant know exactly what the plant needs and where money can be spent to make money, but every nickel outside of bare operating expenses has gone to holders of the property's paper in a frantic effort to stave off receivership. About $200,000 was the value of this plant in the boom days. I suspect that some people are hanging around to smack down on this plant and take it away from its operators at around 20 cents on the dollar which they figure will be a smart steal.

The way this deal actually figures out though, is that reduced real estate prices already have cut the land price to about a third of the original price. To restore the course, clubhouse and equipment to condition needed for efficient and attractive operation will take at least three years after the foreclosures find out what's needed. The work will require a minimum expense around $20,000 because things have run down terribly due to lack of money. There will have to be money spent for advertising and promotion. There will be operating deficits. The work will be harder than any the foreclosing people ever have done before and they will have agony with the fact that the earning period of a fee course in the north central district is six months at its longest.

In the end these foreclosing parties will be out money instead of being ahead a net profit which they could get by revising the interest terms downward.

To make it worse for the foreclosing parties, the present strugglers under the load, if forced out, can pick up an adjacent course on a shoe-string, rehabilitate it in an experienced manner and drag over a good part of the play they had at the course from which they were forced out.

Consequently our rather extensive observation and study of the fee course financial problem has convinced us that a fellow is a sucker to foreclose on most fee courses if he has an alternative of reducing interest charges and getting experienced, industrious and courageous operators to retain the plant.