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On the Money

Financing and refinancing are hot topics, but it's tough getting a loan these days

BY ANTHONY PIOPPI

When the National Golf Course Owners Association (NGCOA) decided to hold a forum on financing at the Golf Industry Show (GIS), no one could have expected the response. The 75 slots were filled in no time, as were the 75 seats for an added session.

While they are hot topics, financing and refinancing also comprise a tender subject as it becomes more difficult to find money to build, renovate or refinance golf courses.

Refinancing, especially, has become nearly impossible but more desired as a result of the ongoing slump in the market, in part caused by overbuilding in many areas of the country.

Richard Singer, a consultant for the National Golf Foundation (NGF), says he has seen an increase in the number of owners approaching the NGF to learn how to go about refinancing.

"It was five to seven times a year maybe seven or eight years ago. But it might be 15 times a year the past few years," Singer says.

Refinancing is recommended when a course is not bringing in enough money to pay its debt, or there is a need to inject capital into an operation to improve its facilities.

Unfortunately, as the demand has increased, the supply of money has dwindled for two very good reasons, according to Doug Spear, president of Spear Consultants Ltd. in Cary, N.C. First, golf courses have turned out to be a bad investment. Second, fewer lenders are in the golf business. He points out that Nations Credit Corp., which once loaned money to some of the largest course players such as American Golf and ClubCorp, no longer deals in the golf industry.

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PHOTO ILLUSTRATION BY: LAURA WATILO BLAKE

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"It's just difficult to find lenders that will refinance golf courses," Spear says in his no-nonsense style. "The reason is because golf historically has not been a good loan."

Spear, who has been in the golf business for more than 30 years, cites a sobering estimation. His guess is that nationwide less than 40 percent of golf course owners are current on their obligations.

Spear says the three factors for many golf course failures are poor management, under-capitalization and no marketing.

"They think they can do a 'Field of Dreams' — build it and they will come," Spear says.

There are other factors that lead to failures. Spear says very few owners understand the most important person on the golf course is the superintendent because he's the person in charge of the turf and the look of a course.

"It's not the general manager. It's not the golf pro. It's the superintendent," he adds.

Overly large clubhouses, especially for public golf courses, are another common problem related to financial problems. Spear calls them "white elephants" or "ego thrones."

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"The truth is you only need about 5,000 square feet [for a clubhouse] for a pay-to-play [facility]," Spear says.

Mom-and-pop facilities often run into a common roadblock when it comes to refinancing or selling. After years of underreporting sales in an effort to avoid taxes, owners find it impossible to accurately document yearly income or determine the value of their courses.

The lending game

There are some loans to be had but not many. "The logical thing to do is to go to a local bank where you have your account," Spear says.

In some cases, institutions will give a loan of $3 million if the borrower puts $1.5 million in a certificate of deposit.

Others make it even more difficult.

"They want your wife to co-sign and for you to pledge your firstborn and your dog," Spear says with a laugh.

Courses with a real-estate component have a better chance of getting money since the lots hold value.

In other cases, lenders will give out, as an example, $1.5 million if the course is worth $4 million. Making matters worse, the loans are 20-year notes that can be called after seven years in many cases, Spear says.

For a rare number of owners, the U.S. Department of Agriculture may be the savior. Through a program designed to bring jobs to rural areas (population under 20,000 in this case), the USDA will guarantee a loan up to 90 percent.

The plan does not allow for a straight refinance, but the loan will be extended to someone purchasing an existing course. As part of the process, however, an existing course must be turned into a not-for-profit and new ones must be built for that same reason.

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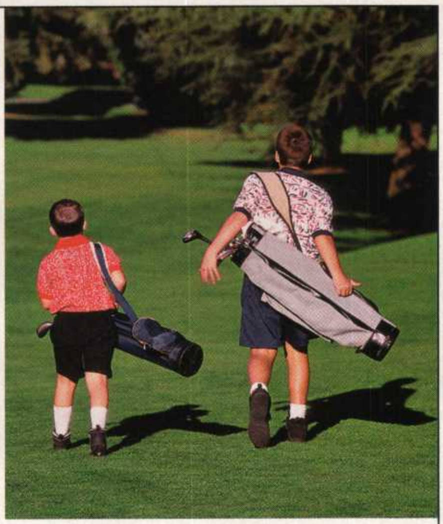

PHOTO BY: DIGITALSTOCK

SURPLUS MONEY can be used to provide a free day of junior golf.

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That does not mean, however, that a current owner can't still derive income from his course.

The guaranteed loan program falls under a much larger umbrella program originally designed to help municipalities. Guaranteed loans used by municipalities to purchase or build golf courses make great sense, Spear says.

Among other uses, surplus money can be turned back to the golf course as part of a long-term capital improvement plan or used to help schools and police or fire departments.

The money can also be used to market the course, including paying to rent it out and provide a free day of junior golf.

Arthur Jeffords, president of Lighthouse Golf Group, a development, management and consulting company based in Atlanta, has two clients that were granted USDA loans. In one instance a course owner turned his existing layout into a not-for-profit entity, which then was leased back to him to run. This way, the owner is no longer carrying the day-to-day financial burden. "It's not a refinancing technically," Jeffords says.

A new Virginia course will fund area educational charities when completed. There is no requirement on when the course must be profitable enough to give out money.

Jeffords issues a warning to those who might view the USDA program as an easy end to financial problems.

"This is not something you want to tackle on your own because it can be a long, laborious process, anywhere from three months to two years," he says. "This is not for everybody. You have to put up a lot of money not knowing if you'll get approval."

In order to even begin the process for a new golf course, owners must present a paper design of the course, construction quotes, as well as plans and projected costs for a clubhouse.

The USDA also requires a management company to run the business once the layout is completed. Spear says the USDA provides straight 40-year terms at about 5.5 percent. ■

Anthony Pioppi is a contributing editor to Golfdom.

PROFILE

James "Bob" Husband

CEO of Heritage Golf Group says it's 'incredibly important to give people what they want'

James "Bob" Husband is president and CEO of San Diego-based Heritage Golf Group, which operates 14 public and private courses nationwide, with plans to grow to 20 facilities by the end of 2005.

"Our goal is to become known as a boutique-type company that provides a higher level of service to guests and members to the point that we're perceived as being the Mercedes of the golf industry, or the Four Seasons of golf in terms of service," according to the company's Web site.

Husband has operated courses for 25 years, previously founding Cobblestone Golf Group in 1992 and before that co-founding a company that ultimately became CCA/GolfCorp, the public golf operations subsidiary of Club Corporation of America. He is a PGA golf professional and was a PGA Tour member in 1978 and 1979.

Golfdom asked Husband to share his thoughts about the golf business and give readers some insight into one of the most successful course operators in the golf industry.

Golfdom: *What is the most important issue facing golf course owners today?*

Husband: Customer retention, whether public or private. There has been such a glut of courses built in so many markets. It has become incredibly important to give people what they want and get them back to your property. On the private-course side, you are trying to understand the demographic and psychographic profile of your members and guests. In our case, we are trying to become the social center of their lives. When the membership bill comes in the mail at the end of the month, it should be more the family's social bill than the husband's club bill. On the daily-fee side, customers need to feel you are giving them a little more [than they could get elsewhere].

Golfdom: *What is the key to a good owner/superintendent relationship?*

Husband: The golf course is clearly the No. 1 item for which any property is judged. If a course is in great shape all the time, it begins to get a good reputation. You improve the owner/superintendent relationship by making superintendents feel they are owners of that property. We have 401k plans, stock-ownership plans and other financial incentives to make superintendents feel like they're sharing in the business, not only from a conditioning perspective but from a profitability perspective.

Golfdom: *Finish this sentence: "The best thing that could happen to the golf industry would be ..."*

Husband: ... for developers to become more responsible in building golf courses. The development of golf courses does enhance the development of homes. But the best thing for the golf industry would be if developers would be more responsible about building new courses in markets that are already saturated.

Golfdom: *What is the best investment you ever made in your business?*

Husband: First is getting the best people. Second is technology. In the Cobblestone days, we had 25 courses and as many as 30 people in the accounting office. Today, we have just three people responsible for accounting. That is all due to technology.

Golfdom: *Who are the three most influential people in the golf industry?*

Husband: PGA Tour Commissioner Tim Finchem, who is following in the footsteps of Deane Beman. Arnold Palmer, who is still among the leaders in getting endorsements. Tiger Woods, who has made golf more of an athletic sport.

Golfdom: *If you could have lunch with anyone, who would it be and what would be the first question you would ask?*

Husband: There aren't many people I overly admire because we all have shortcomings that make us human. If it were anyone in history, Abraham Lincoln. In modern times, Bill Gates. The first question I'd ask Gates is why he didn't call me when he started his company.

Golfdom: *What do you do in your free time?*

Husband: My 13-year-old son and my wife have dominated my time outside work.

Golfdom: *What was the last book you read?*

Husband: "The Summons" and "Skipping Christmas," both by John Grisham.

Golfdom: *What is your favorite movie?*

Husband: "Patton."

Golfdom: *With what club do you hit the best?*

Husband: Driver.

With Spring, Thoughts Turn to Membership Drive Program

BY HEIDI VOSS

As we march into spring, the clubs in cold climates are wondering if membership sales will ever pick up, and the clubs in warm climates are preparing to kiss their members goodbye and send them home for the summer.

For the colder climates, it's an ideal time to design a membership referral program for the golf season. Why should we create incentives for our members to refer their friends?

Many of the old, stodgy clubs' leaders might say, "It is a member's duty and obligation to sponsor new members." Well, it may be just that, but it appears that many of the members missed that memo and they just aren't highly motivated to bring in more people who are going to want those precious 8 a.m. tee times that they've monopolized for the past 20 years.

Why are referrals important enough to merit so much of our membership dollars and time? Early in the formation of my membership consulting company I began to track the conversion of prospects to new members. I was always curious as to where the members were coming from and how quickly they would join a club.

We found that those who call on the phone to inquire about membership have about a 10 percent chance of joining the club. Those who stumble in the front doors for a tour rose to about 20 percent likelihood, and those who were referred to a club by a member leapt to 50 percent.

Wait, it gets better. If they are referred by a new member who has been in the club less than 30 days, the rate jumps to about 80 percent.

These are spectacular numbers when you consider the return on direct mail, which is about 1 percent to 2 percent response and maybe a 1 in 10 conversion rate.

The first key is to get your members involved in the design of a program. Ask them what would motivate them to bring their friends into the club.

Offer incentives to sponsors, such as club credits, special golf days or trips and merchandise. These are just a few ideas, but all clubs are different and their members have different hot buttons to push.

I will caution you on one thing that the late founder of ClubCorp instilled in my heart: Don't give away dues. Keep them sacred and show your members how important dues are for the livelihood of the club.

The second key is to set a timeline when the program will expire. If I know it's only going to run for 90 days, I'll get moving.

Just when you think all the members are aware of the program, the guy who has been lost on the back nine for the whole summer hears about it.

Remember to look at your closing rates and how long it takes you to convert someone from a prospect to a member and be sensitive when giving your members deadlines.

The third key is to provide your members with events to introduce their friends to a club. Member mixers on a Thursday evening would be one example. You can also provide complimentary social hours for those who bring a prospective member from 5 p.m. to 7 p.m.

Don't forget to promote the referral program. Train the staff, get buttons for their uniforms that remind members, use table tents in the grille, send out a reminder postcard campaign, devote the cover of the newsletter to it, and lastly, announce winners each month.

Just when you think all the members are aware of the program, the guy who has been lost on the back nine for the whole summer hears about it.

Remember, to be generous with your incentives. Handing out a divot repair tool for a $30,000 membership somehow does not prove to be highly motivational. On the other hand, you don't need to give them a Lexus. Just land somewhere in the middle and be sure to get your members involved in the process.

Heidi Voss is president of Bauer Voss Consulting, a club marketing consulting company. She specializes in new development as well as club conversions from public to private as well as member buyouts. For more information, contact www.bauervossconsulting.com.

Owners, Superintendents Can Never Communicate Too Much

Editor's note: This column, which will run occasionally in this section, focuses on superintendent and owner relationships from a superintendent's perspective.

BY JIM BLACK

I can't tell you how much I appreciate the opportunity to write this column and give you a chance to see our perspective. I feel even greater appreciation to you, however, for taking the time to read it. I honestly don't believe there can ever be too much communication, especially in this business.

At the time of this writing, I have yet to come up with another industry in which highly competent professionals have to answer to each other without having a true working knowledge about the others' responsibilities to the company.

I've always felt that the best boss was one who had climbed the ladder and had actually done the work of his (or her) subordinates. Yet I would venture a guess that in nine out of 10 golf course operations, the superintendent's immediate superior has never been a superintendent. Nor has the superintendent ever been a club manager. So hopefully you can see the dichotomy here and the intense need for clear communication and vision.

PHOTO BY: DYNAMIC GRAPHICS

So here comes my perspective, my "view from the maintenance facility." I understand my view isn't necessarily the same as everyone else's, and that some superintendents may disagree with me. That's OK, but I think the odds are in my favor that there are many more who are in agreement.

It's worth pointing out that club managers and superintendents are different, not just from a professional standpoint but as people in general. We have different views, perspectives, wants and needs.

What a general manager sees isn't necessarily what a superintendent sees. This is not a bad thing. Being in separate aspects of the same business, we may see the same things, but chances are we just see them in different ways. This is good actually because, in theory, all angles should be covered.

On the downside, however, if communication is poor you may assume we see the same things and in the same way that you do. Then, when something fails to happen because we didn't do what you assumed we would do, animosity is created.

The animosity can fester in your mind and Domino into other things that are unrelated, which is totally unnecessary. Please be clear and concise in your communication with us, avoiding all assumptions. This will be the key to a positive operation.

Another key will be for you to include us in the knowledge of the goals of the club. We can't meet them if we don't know what they are.

Of course, goal No. 1 will obviously be to make revenue. That's a given. What I'm saying here is to involve us in the process.

Include us in the club business meetings, take a ride with us on the course once a week and share with us the things you see and the things you want to see. Again, don't ask us to assume. It's really not fair to either one of us.

Keep in mind the reason why people join our clubs and visit our facilities and hand over their hard-earned money. I'll take a wild guess that 99 times out of 100 it's because of the golf course. Surely it's not because of the quality of the hot dogs at the halfway house. So understand the importance of the role of the superintendent and his or her staff.

I can tell you with confidence that superintendents want to succeed. People come from miles around and pay to partake of that which we have created. We want the club to be in the best possible condition it can be in on a daily basis. Just like you do, and just like your customers do.

Sometimes things can go wrong. Remember, this is agriculture we're talking about, not bookkeeping. There are literally thousands of variables to be dealt with on the golf course on a daily basis. Given this, the golf course may lose turf to disease or other hardship. No one feels the pain of turf loss more than the superintendent.

Lastly, please don't forget that we are not the enemy. We are on your side and we kindly request that you be on our side as well.

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