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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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"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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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.

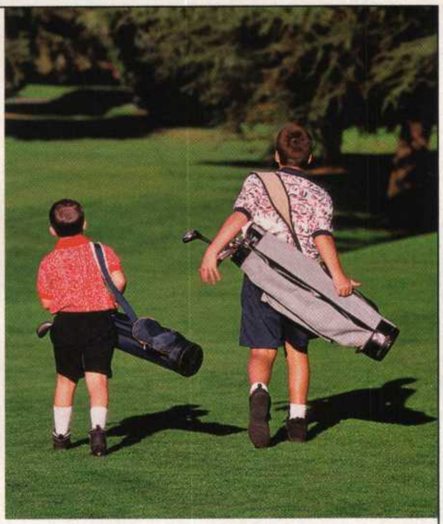
Among other uses, surplus money can be turned back to the golf course as part of a long-term capital improvement plan or used to help schools and police or fire departments.

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.



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

"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.