

# Looking For Lenders



**I**n the heady days of the golf boom, national lenders were jumping into the market at breakneck pace. What most people don't remember is, for the most part, they didn't stay very long.

Bank of America got in and out of the golf business quickly, as did Daimler-Chrysler Finance. Wachovia

waded into the golf waters for a while before drowning in subprime mortgages, and institutional lenders like Prudential and Citibank had courses of various shapes and sizes in their portfolios. But most of these lenders were only in golf long enough for a cup of coffee and a quick goodbye.

Why the short courtship? Like the savings and loans in the 1980s, large lenders realized that golf loans weren't "scalable," meaning there weren't any natural economies of scale, and the volume was too small. In order for there to be enough financeable golf assets for these large lenders, the number of affluent golfers would have had to quadruple. That simply wasn't going to happen, so most of the big companies got out.

After the exodus, the remaining golf financiers were Textron, Capmark, GE Capital and First National of America. The biggest three—Textron, Capmark and GE—were all credit companies backed by a larger manufacturing arm or other market investments, and all off-shoots of one

man: M.J. Mastalir, a former mortgage banker and vice president of the USGA. Mastalir convinced Textron that golf course financing made sense because the company was one of the largest golf vendors in the country with its E-Z-Go and Jacobsen brands. In short order, Textron Financial became a \$12 billion company, with about 10 percent of that business (\$1.5 billion at its peak) in golf course loans. GE Capital and Capmark came in later, following the Textron lending model (and in some cases, taking Textron personnel).

Now, Textron is out of the lending business altogether, and GE Capital has abandoned golf. Capmark remains in the golf business, but on a much smaller scale and with almost no new clients. First National continues to lend, but not at the volume of the larger companies in the old days.

So, what happened? How did a multi-billion-dollar business—granted, a mere sliver of the overall commercial lending pie, but a profitable slice no less—vanish without a trace?

"Wall Street told Textron to get out of the lending business because they're a manufacturing company," Mastalir says. "The only internal financing they do now is for their aircraft division, Cessna, but that's done through Cessna itself and not through Textron corporate and certainly not through Textron Financial. GE was told the same thing by their Wall Street partners, although GE is a bigger company than Textron."









This came as a shock to many golf operators who considered the Big Three to be lending staples, but those within Textron, GE and Capmark had seen the writing on the wall for several years. Beginning as early as 2005, the effects of overbuilding were making it tougher to underwrite good golf loans. By late 2006, very few new deals were

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## Pro Shop Sales July

On-course retail sales. Taken from July 2011 Retail Market Share Report compared to July 2010 Retail Market Share Report.

Source: Golf DataTech

PRODUCT	RETAIL		UNITS SOLD		AVG. PRICE	
		YTD		YTD		YTD
 Footwear	7.0%	6.9%	7.8%	5.5%	-0.7%	1.4%
 Gloves	8.1%	2.7%	8.1%	1.6%	0.0%	1.0%
 Golf Bags	-5.0%	1.2%	-8.3%	-2.2%	3.6%	3.5%
 Golf Balls	0.1%	-0.2%	1.8%	-0.5%	-1.7%	0.3%
 Irons	-1.3%	7.8%	-2.9%	5.6%	1.6%	2.1%
 Putters	-6.0%	-4.9%	-5.6%	-5.2%	-0.5%	0.3%
 Wedges	-26.8%	-22.4%	-25.0%	-21.5%	-2.3%	-1.2%
 Woods	22.7%	25.7%	11.8%	12.0%	9.8%	12.2%

being financed, and all the lenders were seeing stress in their portfolios.

The crash of 2008 added more downward pressure. Couponing wars broke out, pushing revenues and yields lower at existing facilities while new courses that broke ground in 2005 and 2006 came online. Independently but universally, all the credit companies decided that golf was a weak lending sector and a bad investment.

So, in a sense, the industry has stepped back to the mid-1980s with respect to lending. Most golf loans that are getting done are taking place at the local level, and the deals are being heavily scrutinized.

"They're specific capital financiers to a specific group for a specific proj-

ect," Mastalir notes. "There might be a strong partnership behind a particular asset that makes a lender get involved, but nine times out of 10, it's not the golf asset that's driving the loan."

It's a scenario that the industry will likely have to adjust to. According to experts, it could be some time before golf once again becomes an attractive investment for lenders.

"If I had \$100 million today, it would take a long time for me to find \$100 million in good golf loans," Mastalir says. "Most properties today are over-leveraged. It takes other sources of financing to bring the capital stack back in balance to the prudent lender." —*Steve Eubanks*

## Disney Exits the Golf Business



SO LONG, MICKEY. AFTER FOUR DECADES OF CREATING "MAGICAL MOMENTS" on the links for young and old alike, Walt Disney World is getting out of the golf business. Sort of.

In late August, the resort operator struck a 20-year deal with Arnold Palmer Golf Management (APGM) to operate, manage, maintain and help promote all five

Disney courses. As part of the long-term agreement, Arnold Palmer and his golf course design team will rework features on several of the courses and oversee a full renovation of the Palm course.

The announcement came as somewhat of a surprise, given Disney's brand power and presence in the local golf market. However, officials insist the collaboration will allow each company to leverage the power of the other.

"Drawing on Arnold Palmer Golf Management's expertise and experience enables us to build on our mutual strengths and extend our appeal both among leisure players and avid golfers," says Ken Potrock, senior vice president of Disney Sports Enterprises.

In particular, officials point to the exposure Disney courses will now receive within "Palmer Advantage," a reciprocal club and concierge service program that provides members with unique travel benefits and access to more than 250 private clubs, resorts and golf courses around the world. The club currently has between 5,000 and 6,000 members.

"This new collaboration will benefit Disney guests and Palmer Advantage club members wanting a destination golf experience," Potrock notes.

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