



# Capital Crunch

With many lenders TIGHTENING loan restrictions, some operators are turning to NON-TRADITIONAL STRATEGIES to finance renovations and acquisitions

SEVERAL YEARS AGO, longtime golf operator Mike Cavey partnered with the owner of a successful telemarketing company to build a pair of golf courses in Ohio: Shale Creek Golf Club in Medina and The Quarry Golf Club in Canton. The pairing seemed like a slam-dunk from a funding standpoint, given his partner's contacts and access to capital. After all, when Cavey's new partner approached a local bank to buy a \$50 million private jet for his telemarketing business, the local bankers were ecstatic to lend him the money. But when the two met with the same lender to borrow \$4 million to build a golf course, bank officials hesitated.

Fortunately, the story didn't end there for Cavey. The bank eventually acquiesced, advancing the needed capital, but Cavey's partner was, nonetheless, shocked.

"That was my partner's indoctrination to the golf industry," recalls Cavey, with a deep sigh and merely the hint of a chuckle. "He could finance \$50 million for a jet with no problem, but almost couldn't get \$4 million to build a golf course. He couldn't believe it."

The reason? Cavey believes it has to do with general perceptions about the health of the golf industry. That and the simple truism that what you don't know can hurt you—or, in this case, someone else's business plan.

"Many banks only know what they read about the golf industry," Cavey adds. "What they've been reading is extremely negative, and they respond accordingly."

#### LENDING TAKES ON A LOCAL FLAVOR

Indeed, the discipline of golf course financing in today's market can prove more art than science. Despite being a



multi-billion dollar industry that generates cutting-edge advances in equipment technology, golf remains relatively unsophisticated when it comes to business metrics and, by extension, financing options. True, there are a number of specialty golf lenders and an increasing amount of private equity firms are "rediscovering" golf as an investment option. But, by and large, the vast majority of golf course lending is still executed by local banks. In fact, Ray Munoz, golf division director for Textron Financial, estimates local institutions underwrite more than 80 percent of today's golf loans.

The reasons for this regional approach to lending are numerous. First and foremost are interest rates, followed closely by banks' knowledge of local markets and borrowers.

"All loans are about terms—loan-to-value financing options, the interest rate spread over an index—these

are the fundamental decisions," says Rowland Bates, a financing representative with Boston-based Sawyer Realty Holdings and former executive director of Liberty National Golf Club in Jersey City, New Jersey. "Then, it's a matter of relationships and a history of working with a lender."

If an aspiring operator wants to borrow money to purchase a course (or a current owner is looking for capital to buy another facility), chances are he or she can get the best interest rate from a local lender. Such was the case for Peter Clark, managing partner of The Ranch in Southwick, Massachusetts. When he began searching for money to finance his course, which opened in 2001, Clark leveraged a sound relationship with Berkshire Bank in Pittsfield.

"The rates were right," he recounts. "Our main interest was getting the money we needed."

Better rates and personal relationships aren't the only potential advantages local lenders can offer borrowers. In general, regional banks require much simpler documentation than specialty golf lenders such as Textron, **First National**, GE Commercial Finance and Capmark (GMAC Commercial

industry—are finding it more difficult to obtain loans in the wake of the late-1990s building boom and a flattening rate of golf participation.

"We're paying for the sins of the 1990s now," Cavey says. "There were too many bad loans made and now banks are being

**"He could finance \$50 MILLION for a JET with no problem, but almost COULDN'T get \$4 million to build a GOLF COURSE."**

Mortgage). What's more, local banks can more easily perform due diligence on the project and ownership because they know the area intimately.

"Many national specialty lenders don't really know the various markets and individuals involved," notes Dan Hourihan, owner of Nonesuch River Golf Club in Scarborough, Maine. "Most of those companies want you to get the place built with local funding. After the place is up and running, they'll come in and talk about refinancing in place of the local bank and going longer term."

That is exactly the route Hourihan took with his project, which opened in 1997. "I used a local bank for construction financing, which was eventually assumed by a national lender."

There was a time in the not-too-distant-past, however, when borrowers could more easily secure funds from national specialty lenders. But observers like Hourihan contend that operators seeking capital—like the entire

very, very careful before they loan to a golf course, and many have unloaded golf courses. The banks here in northeast Ohio have turned their backs on many of the golf course owners, even those who were good customers."

In a way, however, that perceived negative could be a positive—at least in pure business terms. "Right now, you're seeing more banking arrangements based on your track record of operating your facility as a business," Hourihan notes.

#### WHEN IT PAYS TO SPECIALIZE

For all the "feel good" appeal of working with a local bank, specialty lenders certainly fill a distinct (and important) niche within the golf industry by offering options that most regional lenders can't. Chief among them is an ability and willingness to take on larger loans.

Mike Abee, a partner with Paradigm Golf, which owns Cimarron Golf Resort and Woodhaven Country Club in California and Western



# LENDER 101 SELECTION

**SO, YOU'RE SHOPPING FOR A LENDER WHO CAN FUND THAT COURSE ACQUISITION OR RENOVATION. Regardless of who you choose—a local bank or a firm that specializes in the golf industry—there are several pieces of advice that can prove valuable when dealing with course lenders:**

▪ **SEEK A COMPANY WITH GOLF COURSE EXPERIENCE.** Securing funds to purchase a golf course is more complex than, say, obtaining a loan to buy a boat. Dealing with a lender who has navigated the process and understands the intricacies of the golf business can prove invaluable.

▪ **LOOK FOR A COMPANY THAT'S FLEXIBLE.** Rates and terms are certainly important, but there's an immeasurable amount of value in working with a lender who can be flexible if your business experiences a short-term hiccup. This type of give-and-take can yield long-term relationships that benefit all parties.

▪ **SHOP AROUND.** Chances are you wouldn't make an offer on a home without first looking at a few options. The same holds true for choosing a lender. Talk to two or three companies before making financing decisions—there might be something (or someone) better out there.

**"The most important thing for single operators, from a lender's point of view should be (to ensure) that proceeds from a loan and the loan's structure allow operators to keep as much of their cash flow as possible," explains Jerry Sager, managing director of First National. "Single operators' livelihoods come from their course. They need to keep as much of the proceeds generated from the loans as possible in order to make their payments and withstand any changes in the golf market." —P.B.**



# MAXIMIZING VALUE

**IMAGINE, FOR A MOMENT, THAT YOU OWN TWO COURSES AND HAVE \$400,000 OF YOUR OWN MONEY that you'd like to use to acquire a third course. You've decided to explore a loan-to-value deal but aren't sure how this particular financing vehicle would work.**

**Let's pretend the third course appraises for \$5 million, and most lenders will only loan 80 percent (or \$4 million). To complete this transaction, you'd need at least an additional \$600,000 (or more) to purchase the facility and make any improvements to the course.**

**With a loan-to-value deal, the lender considers the two existing courses as well as the new facility and lends you the additional money for a shorter period of time, cross-collateralized by both existing courses and the third facility. That additional money is specifically earmarked for acquisition and capital improvements to the new course.**

**As you acquire the third course for \$5 million and make improvements, the value of the new asset increases in a short period of time because of the capital expenditures. So, at the end of the loan period, your third course is worth, say, \$7 million. Then, it's reappraised and the entire course is refinanced into a new, long-term mortgage.**

**In effect, you've financed these capital expenditures out of debt and rolled it into a new piece of debt as the improvements increase the value of the property. This, in turn, gives you a chance to expand your business as opposed to going to the equity marketplace and trying to find partners to loan you the extra \$1 million that you'd need to buy the third course.**

**"That reduces the risk for the lender and allows the owner to borrow more money on better terms," says Mike Abee, a partner with Paradigm Golf, which owns Cimarron Golf Resort and Woodhaven Country Club in California and Western Skies Golf Club in Chandler, Arizona. —P.B.**

Skies Golf Club in Chandler, Arizona, has found that local lenders generally will not loan more than 50 percent to 60 percent of loan-to-value. Specialized golf lenders, on the other hand, will loan a higher percentage of the course value, although their rates are generally somewhat higher.

"Banks might charge 7 percent to 8 percent while specialized firms are in the 8 percent to 9 percent range," Abee says. "But specialized golf lenders will lend the operator a larger sum if they see good value in the transaction. From a loan structure point of view, a course owner can benefit greatly from a specialized golf lender."

Indeed, there can be inherent value to working with vendors who have a thorough knowledge of a particular industry—even if it costs a bit more. Abee, who has been a course owner for more than 20 years, has always been willing to pay the additional points and fees of a specialized lender "because things do not always go the way you plan, especially with the weather in this business."

For proof, Abee points to one of his courses, which recently flooded. His loan documents required that the course be repaired immediately, but rather than hassle or threaten to foreclose on Abee and his partner, the lender financed 70 percent of the money needed to make the repairs to the facility.

"Specialized firms are very good at knowing how to deal with those situations," Abee adds. "They provide valuable input and understand the golf business. They understand they are part of the solution and are

often willing to lend additional funds if needed."

Because of their experience in the golf business, Mike Robichaud has found specialty lenders to be more efficient during the loan application process than their local counterparts. "You may pay higher rates, but you certainly receive additional service and knowledge from specialty lenders," says the general manager and director of golf at Renaissance Golf Club in Haverhill, Massachusetts.

## YOU CAN ALWAYS GET WHAT YOU WANT (USUALLY)

Although many lenders, both locally and nationally, may be approaching deals more cautiously than they were 10 years ago, there are still a number of options for operators trying to secure loans for a renovation, expansion or facility acquisition. Take, for instance, one specialty lender's capital-add program. Under the loan structure, owners can use their existing course assets as collateral, allowing them to seek financing as an operating business rather than simply a piece of real estate.

Why is that significant? A golf course viewed merely as a piece of dirt (real estate) has a specific loan-to-value basis based on rental income (i.e., green fees). But if viewed as an overall operating business—one that includes cash flow from a variety of profit centers as well as assets that comprise the business as a whole—the value can be vastly different.

"Many lenders look at the course real estate and agree to do a first mortgage on the golf course," explains Jerry Sager,



managing director of First National. "But if the course is viewed as an entire operating business, the owner can frequently generate more dollars of total loan with a longer amortization schedule than viewing it simply as real estate. That's a relatively new concept with lenders."

Loan-to-value deals have become another popular option for course owners in recent years. Under this plan, a facility is financed with a standard 20- or 25-year mortgage that includes a specified loan-to-value and debt-service coverage. But, additionally, a second, shorter-term mortgage is written. Essentially, this loan serves as a rider to the first

mortgage, the second mortgage would be structured as a 15-year deal. This gives single-facility operators or those with smaller operations the opportunity to generate more dollars out of a loan at locked-in rates and for a longer period of time than they could normally obtain. (See sidebar "Maximizing Value" for a detailed example.)

According to Jim Mendelson, managing director of GE Real Estate, owners looking to acquire a distressed property, quickly turn it around and then sell it should consider a floating-rate bridge loan. Under this loan, the interest rate would be spread over LIBOR (London Interbank Offered Rate, which is commonly used to

determine interest rates), and there would be flexibility to prepay the loan once the owner has completed the expected turnaround work and is ready to sell the property.

Meanwhile, owners interested in purchasing a more stable facility that will likely be a core asset for a longer period of time might consider a fixed-

rate loan in the five- to seven-year range. These plans, Mendelson says, are based on an interest rate over the U.S. Treasury bill rate, and often include a prepayment premium for early loan pay-off.

"There are a lot of creative and flexible options for the single-course owner," Mendelson adds. "It just depends on the investment objective."

Acquisitions aside, owners of older facilities may look to take advantage of increased options in coming years. "Old golf courses, with aged irrigation and drainage systems or bunkers that today's golfers are hitting past, have become obsolete and need changes," Cavey says. "But it will become harder for older facilities to compete (with the game's advances) without having access to the capital needed to upgrade."

"Many of the courses that cannot obtain the financing to reinvest are struggling," he adds. "I'm not sure a struggling course is good for the golf industry. It might be better converting that course into a housing development or business park." ❧

Peter Blais is a Maine-based freelance writer.

## "We are PAYING for the SINS of the 1990s now."

For example, say the first mortgage rate is 5 percent, and the rider (second mortgage) carries a 7.5 percent rate. Instead of having the same 20- or 25-year amortization rate as the first mort-

gage, the second mortgage would be structured as a 15-year deal. This gives single-facility operators or those with smaller operations the opportunity to generate more dollars out of a loan at locked-in rates and for a longer period of time than they could normally obtain. (See sidebar "Maximizing Value" for a detailed example.)

According to Jim Mendelson, managing director of GE Real Estate, owners looking to acquire a distressed property, quickly turn it around and then sell it should consider a floating-rate bridge loan. Under this loan, the interest rate would be spread over LIBOR (London Interbank Offered Rate, which is commonly used to

determine interest rates), and there would be flexibility to prepay the loan once the owner has completed the expected turnaround work and is ready to sell the property.

Meanwhile, owners interested in purchasing a more stable facility that will likely be a core asset for a longer period of time might consider a fixed-