

Staying in the Fairways

Market Sense and Intelligence for the Golf Course Industry

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What It Really Takes To Get Financing

By Lee Beck

Golf course owners often feel that the banking community does not really understand their business loan requests. Frequently, this is true. Many banks do not consider golf courses as retail operations, but rather view them as collateral assets, serving only to support residential subdivision sales. In addition, many bankers only have prior experience dealing with private equity clubs, where constant member assessments confirm that golf courses cannot achieve financial stability.

Golf course operations are a retail cash flowing business and should approach the banking community to secure long term debt and working capital from that perspective. While working with a banker who likes golf is helpful, most seem to feel that golf course loans could be a real estate transaction and perhaps should be developed into housing rather than trying to generate revenues from greens fees, cart rentals and food and beverage sales.

So how do golf course operators finance their operating golf venue, or obtain funding to finance construction? Finding a specialized lender with a focus on the industry is generally the most preferred route to follow, because they understand the revenue streams and debt requirements of a golf business. Large banks with specialized commercial lending departments may also have the knowledge base or experience to quickly understand the debt requirements of golf course owners and developers. However, if you are working with your regional or community bank, the first step is to approach the banker from the perspective of being a retail enterprise.

Prove the Value

Realize what the banker needs to make a positive decision for your loan and present only the information the banker needs to respond in a positive way. Prove that golf is a for-profit business and not a game, and demonstrate that golf course operations are a cash flowing retail business. While it may be wonderful to have the best venue in a local market with soft sand in the bunkers and greens that run true, it means little when trying to convince a banker of the lending opportunities afforded from the annuity in a well-run and market-savvy operation.

Prepare all your financial information in a format that the banker is accustomed to seeing from what he or she perceives as retail businesses. Show your banker your recent annual financial statement prepared by a professional along with the most recent interim financial statement. Include in those statements detailed break-downs of revenue streams as if the banker had no idea how a golf course could ever make money or how profit is generated by the overall operation. Show the detail of cart rentals, greens fees, any applicable membership revenue, the potential outing business, pro shop sales, and food and beverage sales. Detail operating overhead and costs on a departmental basis. Include a few pages of introduction to the business of golf. Although many bankers play golf, few real-

ize the profit available from stable rounds, high cart utilization, and well-run merchandise and food and beverage sales.

Leverage Your Credentials and Highlight Your Success

You may want to consider providing your banker with a resume of your career showing the banker your success as a business person with a focus on your golf operations history, the reasons your golf operations will be

successful, and how you have the ability to provide sufficient cash flow to service the debt you seek. No banker wants to risk a loan that may go into default, and all bankers want to provide funds to operators who will have a continued high degree of success. It is up to you to show the banker how and why you are that candidate for the loan you seek and why the banker will have little or no concern over re-payment of the loan.

Keep in mind that your banker is in a business as well. Banks are for profit institutions, and want to make loans. You need to provide the information needed for the banker to have little option but to agree with your sound business management and approach to a profitable business operation. This can only be done by providing the financial

information in a professional and concise way that educates and demonstrates why golf is a for-profit business and not a game.

Positioning your operation as a retail business:

◆ Stress income generation.

Tailor your financial statements to a format that the banker is accustomed to seeing from a retail business. Link rounds of play revenue with greens fees, memberships, outings, cart rentals, pro shop sales, and food and beverage. Present seasonal effects of the operation and address working capital provisions and/or needs.

◆ Quantify the entire loan.

Prepare a detailed statement of your funding request including loan retirements, improvements, and working capital; as well as your understanding of loan costs and reserves. Explain how any capital improvements will affect the bottom line.

◆ Present your organization.

Provide a brief narrative of your operation's history. Include successes with a focus on golf operations in your resume and those of your critical staff. Also submit the reasons your golf operations will be successful and have the ability to provide sufficient cash flow to service the debt you seek.

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