

Trouble on the LINKS

BY
ALBERT
WARSON

DEPENDING ON WHOM YOU ASK ABOUT THE STATE OF THE golf-course industry in the United States, it is (a) terrible, (b) in bad shape but poised for a slow recovery or (c) not doing as poorly as believed. ● Colin Hegarty, for example, during a recent interview with *Mortgage Research Group*, Dallas, an international research company, interprets the results of its research—its company's currency. ● "Golf courses are in a state of pain," Hegarty says. "Annual revenues [in 2001] were down 30 percent, and in a fixed [operational] cost environment [whether] there is one player or 40,000. The number of courses played has dropped by 5 percent or 6 percent. The industry has deteriorated to the point where a golf course that cost \$10 million three or four years ago is now worth \$8 million or even \$5 million today. Home builders with visions of upscale homes are building golf courses dancing in their entrepreneurial imaginations. You can buy distressed golf properties for as little as 50 cents on the dollar, according to Hegarty. For years, golf courses in the United States were opening at the rate of more than 400 a year. That's down to about 120 a year—60 percent of those are real estate-driven with residential development selling for premium prices. If there is a bright side in all this, Hegarty says, it's that fewer courses are

A different line

On the other hand, the widely held belief that golf courses have been mainly hurting in recent years is somewhat distorted, according to **Jerry Sager, managing director, First National of America Inc.**, Martinsville, New Jersey, a mortgage lender on golf-course properties.

"The industry volume of loans is not up or down, but stable - and the banking community generally sees it that way," Sager says. "Some resort properties [with golf course] got into trouble after 9/11, [and a precipitous drop in tourism], and residential developments with golf courses outside the demographic profile have not done well and fallen into financial difficulties."

But if you match the number of 18-hole golf courses built in the United States between 1960 and 2000 against percentages of increased population and core golf players, Sager says that comparison will reveal "a pretty steady growth - no huge peaks and valleys - compared to bowling alleys or tennis courts," which have fluctuated in popularity over the years.

Many mature courses continue to turn profits, and some golf courses in certain parts of the country have done very well while others haven't done well at all because of local economic conditions. "You can't build a golf course in the middle of nowhere, 80 miles from the closest major demographic market, and expect to make money," Sager says.

His company focuses on the demographics of the markets in which it lends: the size of a local population, average incomes, ages and other information that identifies capability and inclination to spend money on golfing. Its smallest golf-course loan was an \$18 million construction loan; the largest was \$63 million for the development of 36 holes of golf and ancillary real estate.

Unlike some lenders, Sager's company will provide mortgage loans for both stand-alone golf courses and ones with residential development. During June, for example, First National of America closed a \$5 million loan to refurbish a golf course in Texas and develop some residential lots, and \$11.5 million in acquisition financing for a 27-hole project on the West Coast. Earlier, in the spring, it closed a \$3.9 million construction loan for another developer, in Oklahoma, for a residential community/golf-course development.

When asked why there were so many bad golf-course loans, notwithstanding his more upbeat take on the subject, Sager replied: "Because they weren't based on prudent lending decisions. We [First National] have an inordinately low default rate because we're fairly conservative and approach golf-course loans as bankers, not any differently than lending to any other business." . . .