

Lending Alternatives: What's Left?

By Larry Hirsh

Can anyone get financing? This is a prevalent question in the golf industry these days. The departure of Bank of America from the golf-lending scene last fall left a significant void, as it represented the market's largest lender.

Can Bank of America be replaced? Nobody knows for sure, but recently we explored just who is lending on golf courses, with what criteria, and at what cost?

These questions were posed to several experts in the golf course financing realm, including Bobby Fitzpatrick of Daimler Chrysler, Greg Lewis of Textron Financial and Rick Nekoroski, formerly of Bank of America and now heading up the golf lending effort at Heller Financial.

They say this much is clear: Options for development deals are thin. Banks, traditionally the source for new development lending, aren't looking for new development deals, according to Lewis, who says that banks are only interested when the borrower has a good relationship already established.

Lewis adds that he's only tracking half the number of new development deals compared to a year ago. Fitzpatrick agrees, saying that banks are the only option for development deals.

Existing facilities have several options. Daimler-Chrysler, Heller and Textron, as well as IRI Golf and First National of America, dominate the "golf lender" market. Additionally, local banks still provide an option for those with relationships. The life insurance market has only one real player (Pacific Life) participating in golf, and only for "trophy" properties.

Terms for the "golf" lenders generally fall in the ranges detailed below (as of June 10, 2001):

- Interest Rate: 90 day Labor, plus 350 to 475 (8.5 to 10.25%)
- Loan to Value Ratios: 50 to 75%
- Points: 1 to 3%
- Term: 3 to 7 years
- Amortization: Up to 25 years
- Debt Coverage: 1.2 to 1.35

The key element missing in this market is competition.

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- Reportedly, Bank of America did NOT have a preponderance of under-performing loans.
- Many markets have a need for golf, much of it in the affordable daily-fee and upscale-private sectors.
- While national round counts were down in 2000, much of that was the result of poor weather, particularly poor weather weekends in the Northeast.

Why then, are we singing the blues? Well, in business, perceptions are reality. Much like the stock market, the golf market is making a correction.

Because of the time it takes to build a golf course, and because of the time already invested in many projects, most will go on. With 750 courses currently under construction, they will be added to existing inventory. With more supply, will there be more demand? That remains to be seen. But the current market is a buyer's market in most cases. The perception has become reality.

A forecast of things to come may be found in the Florida market. Until recently, courses for sale in this market have begged for lookers. Only recently have buyers (looking for bargains) once again started eyeing available golf properties in the market.

So what does all this mean to values of golf properties? Golf Property Analysts is currently in the process of conducting our annual golf investor survey and, while not complete, the returns so far indicate the following:

- Higher desired cap rates, with half of respondents so far looking for deals at 12 percent or higher (8 multiple of cash flow);
- Internal Rate of Return (IRR) goals all in excess of 15 percent, with some as high as 25 percent and one lender looking at 40 percent;
- More than half of our respondents' perceive values as declining, the rest as stable;
- Again, more than half perceive now as a buyer's market.

- Most respondents plan to acquire more courses in 2001, with some sitting out until the second half of the year; and
- Half of our respondents indicate something other than daily fee courses as their preference for acquisition

The bottom line is that golf property values (as a function of income) are probably declining right now. Certainly there are attractive deals that will generate competition, such as those in major metropolitan areas and those with strong, increasing historical cash flows. Many are waiting to see if Bank of America is replaced in the lending market and most are seeking alternative financing sources.

As many said at the various shows and conferences, it's going to be an interesting year.

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With Bank of America gone, the remaining competition has naturally become quite selective, taking only the most desirable deals, creating higher pricing and conditions more difficult for troubled or transition properties. Despite this situation, the specialty golf lenders all emphasize that because of their familiarity with the business, they are uniquely qualified to solve the majority of golf lending problems. Moreover, with the golf lenders, experience in the business (on the part of potential lenders) has always been preferred. As Lewis explains, its "necessary now more than ever." Golf lenders also express concern about over built markets and the lenders that emphasize cash flow are taking a wait-and-see attitude toward "pro-forma" deals located in potentially over built markets.

A recent entry into the golf lending market is taxable bonds. In addition to the tax-free bonds used to finance municipally owned courses, taxable bond deals are now available to private investors through several sources.

Unlike in most types of real estate investment, the life insurance market is only beginning to emerge. Currently, only Pacific Life has entered the market and, in most cases, only for the most desirable properties located strong, primary markets.

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Nevertheless, several alternatives for golf lending do exist. The challenge is that fewer competitors can be found. This means that relationships are more critical than ever because lenders are "cherry picking" for the best properties.

How does one deal with this?

First, I recommend truly "knowing" your property and, even more important, your market. Many lenders rely heavily on market depth and market positioning when making lending decisions. A property with limited competition within its market segment (properly positioned) is desirable. A property which has been well taken care of, and a property for which a sound improvement plan has been developed, is always more attractive than a "pipe dream".

To improve your standing in the eyes of financiers, these ducks must be in a row:

- Appraisal/Market Analysis
- Phase I Environmental Study
- Subject Property Due Diligence (buildings, agronomy, equipment, water resources, etc.)
- Title Insurance
- Plans (if applicable)

Many of these items can be obtained through qualified consultants offering a "one-stop shop", or through individual vendors of these various services. Either way, the preparation of a thorough and comprehensive package will make the lender's job easier and thus enhance your chances of being considered favorably in what is perceived as a shrinking market.

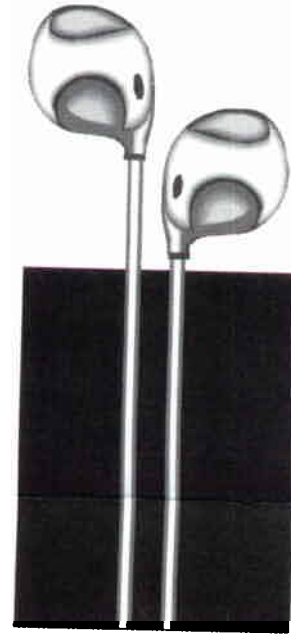
So, in summary, financing is available. But, more than ever, acquiring financing requires research and preparation, both of your property and of your request for financing.

New Alliance Formed

Golf Property Analysts (GPA) is pleased to announce that it has been selected by the Western Pennsylvania Golf Association (WPGA) to be its strategic partner for Club Information Programs.

Recognizing the many challenges facing their member clubs and the golf industry as a whole, the WPGA believed it would be beneficial to their member clubs to have an alliance with GPA. GPA will contribute articles to WPGA periodicals and Larry. Hirsh will speak at various WPGA functions throughout the year.

All of us at GPA are excited about working with Executive Director, Mr. Jeff Rivard and the entire WPGA.



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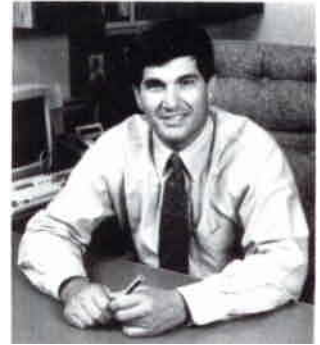
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- ◆ **Blanchard & Calhoun Real Estate Development Company** recently retained **GPA** to provide a feasibility analysis of the proposed Bartram Trail Golf Club in **Augusta, GA**.
- ◆ **GPA** has been retained by **Plantation Golf Club** to provide a market value appraisal of the club in **Southern Pines, NC**.
- ◆ **Bank of America** has retained **GPA** to provide a market value appraisal for the **Pleasant Valley Golfers Club** in **Fairfax County, VA**.
- ◆ **Mason-Dixon Country Club, Inc.** has retained **GPA** to provide consulting services in connection with the **Mason-Dixon** project in **Gettysburg, PA**.
- ◆ **Potomac Golf Properties** retained **GPA** to provide appraisal services on the **Dallas National Golf Club** in **Dallas, TX**.
- ◆ **Lincroft, Inc.** has retained **GPA** to provide appraisal services in connection with a proposed course near **Pittsburgh, PA**.
- ◆ **Gardiner's Bay Country Club** retained **GPA** to provide consulting services for their club in **Suffolk County, NY**.

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