

**SPECIAL
POINTS OF
INTEREST:**

- Changing Nature of Golf Clubs
- Realities of Golf Course Development
- Acquisition Opportunities
- Managing Daily Maintenance

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Linking Up

“Requiem for a Country Club”

by Larry Hirsh

Just yesterday, I was emailed an article on “thegolfchannel.com” by Rich Lerner entitled “Requiem for a Country Club” which can be found at the address cited below.

What occurred to me while reading this excellent and sensitive piece was that in these challenging times for clubs we come across many clubs experiencing similar struggles and it may be due at least in part to our society’s drive toward political correctness. In years past many clubs’ foundation was built upon secular segregation and as Mr. Lerner so eloquently says “*Prejudice was more pronounced than it is today, and people sought status and comfort with their own kind. Country clubs flourished along with industries like steel and automobiles.*”

Unfortunately, it is just that prejudice that may have been the boost clubs needed and the lack of same that has

changed the club industry forever. No longer is there the need to belong and to insulate one’s self with “their own kind”. Without question, this is a move in the right direction for society but it seems that clubs have suffered as a result. There’s no



longer a sense of obligation in one segment of the community to support one club or another. Thus clubs no longer have that “draw.” Rather, my observations in traveling around the country are that in communities with competitive (club) environments, it is that club with the best facilities and services that almost always thrives. As an

example, in one Midwestern city the “old money” club with a once “Top 100” golf course fell on hard times as newer, better located facilities attract some of the old club’s members and certainly their offspring.

The club world is changing. As we’ve seen time and time again, a club needs substance to attract and maintain members. There are few if any “secular” clubs any longer and for our society that is a good thing. The clubs that will survive and thrive into the future will respond positively to this and continue to offer the best facilities and services. This practice will test the often cost-sensitive club boards and memberships to the limit but, as history has shown us, in order to stay alive clubs will need to evolve.

<http://www.thegolfchannel.com/core.aspx?page=15100&select=24272>

A Nickel Ain’t Worth a Dime Anymore: The Financial Realities of Golf Course Development

By, Todd Arterburn, Principal Rainmaker Golf Development Inc.

“ Psst. Hey buddy. I’ve got a great deal for you. I own 200 acres that’s perfect for a golf course. It’s appraised for \$10,000 per acre, but I’ll let it go for half that if you’ll build a golf course, maybe let me and my buddies play for free. I haven’t done a feasibility study, but everyone ‘round here knows you can’t even get on any of our courses. It’s

a slam dunk.”

WRONG! Walk away. Fast. Don’t look back.

Why? Because the fastest way to become a millionaire in golf course development is to start with five million! Still reading? Still want to develop a golf course? Great. But there are some things you should know about the financial realities of golf course development be-

fore you start spending your hard-earned money. Things that most golf course architects, builders, engineers and specialty consultants don’t know, or won’t tell you. Things like asset illiquidity, exit strategies and capitalization rates. Things like basis risk, EBITDA and debt service coverage ratios.

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Golf Course Development, continued from page 1.



Welcome to the world of capitalization rates and acquisition multiples, which are really just the inverse of each other.

Todd Arterburn is a founding principal of The Rainmaker Group, a diversified real estate development company based in central Maryland. Since its formation in 1991, Rainmaker has completed the development of 11 golf and golf/residential projects, along with 15 stand-alone residential and commercial projects. Prior to the formation of Rainmaker, Todd worked in international finance, and for the U.S. intelligence community.

Things like pro formas, net effective greens fees and IRR.

“YUCK. This is about golf, not money. I don’t care if I make any money on this project.”

You’re not alone -- not many golf course development projects make suitable returns. Only the best-planned, best-developed and best-operated golf courses are profitable.

Why shouldn’t yours be one of them?

And They’re Off

The great temptation is to start with the fun stuff. A golf course routing plan, preferably in color. A catchy name. A logo, and definitely some cool logo’d merchandise for the founders. And if you get into the hard stuff at all, maybe a superficial attempt at a development budget. But this isn’t where your attention should be. Start with a detailed feasibility study that flows from your intended market positioning strategy, and prepare an operating **pro forma** (a forecast of financial results) that takes you through the first five years of operations.

Why? Because your golf course will be an operating business, with operating revenues and expenses. Its **net cash flow**, roughly synonymous with **EBITDA** (earnings before interest, taxes, depreciation and amortization) or **NOI** (net operating income), will tell you what your maximum development budget can be.

Imagine that you went to your financial advisor, and he offered you a blue chip investment that paid an annual dividend of \$10,000. What would you pay for it? Maybe \$150,000, which would imply a 6.67% interest rate (i.e. \$10,000/\$150,000). But what if it wasn’t blue chip, and was a whole lot riskier. Would you still pay \$150,000 for that \$10,000 dividend? Nope. You might pay \$100,000 -- or less -- meaning

that the interest rate would be 10% or more.

Welcome to the world of **capitalization rates** and **acquisition multiples**, which are really just the inverse of each other. The capitalization rate (“cap rate”) is the current interest rate you require to make an investment, and the multiple is the number you must multiply the cap rate by to equal 100%. So, a cap rate of 10% equals a multiple of 10, a cap rate of 12.5% equals a multiple of 8, a cap rate of 9% equals a multiple of 11, etc.

So how does this impact the golf course development business? Simply put, the golf course acquisitions market works largely on cap rates. If an existing course generates \$750,000 in annual NOI, and the acquisitions market is paying a 12.5% cap rate, that golf course will be worth \$6,000,000 (i.e. \$750,000/12.5%) to a buyer. Don’t forget, however, that that’s what a course is worth when it is *already generating* that amount of cash flow. In contrast, a development project is nothing more than a *projection* of cash flows, which will begin at some point in the future.

If you were shopping for stocks, both offering the same dividend payment and profit potential, which one would you buy? One with a demonstrated history of making payments on time, or one which had never proven its ability to make any payment? Of course you’d chose the proven one. To buy the promise, rather than the track record, you’d require a higher return, meaning you’d pay less for it.

A golf course in development is just that kind of promise. Let’s say existing Golf Course A (Sunny Acres) *actually generates* an annual NOI of \$500,000, and Golf Course B (Shady Links), which is now being developed, *projects* an annual NOI of \$500,000 in year 3 of operations. The acquisitions market is at a 10% cap rate, meaning Sunny Acres is worth \$5 million (\$500,000/10%). What should Shady

Links’ development budget be?

Well, it sure shouldn’t be any more than Sunny Acres’ valuation of \$5 million, since both will offer the same NOI (assuming Shady Links’ projections are met). And Shady Links can’t forget to pay its investors for **development risk** (e.g. what if the course never gets completed?) and **operating risk** (e.g. what if the projected NOI isn’t met?). And -- oh yeah -- Shady Links can’t begin to pay that dividend for 3-5 years, so it has to compensate its investors for the interest lost due to the time delay.

So Shady Links will probably need to offer a cap rate of 12.5%, rather than the 10% rate in the acquisitions market. This drives its NOI multiple down to 8 (100/12.5), from 10, which then establishes a development budget of \$4 million (8*\$500,000), rather than Sunny Acres’ \$5 million valuation.

Okay, okay. It’s not quite that simple, and you have to worry about things like **basis risk**, which is the underlying interest rate environment in the economy, and **spread risk**, which is the margin above the base rate. If long-term U.S. Treasury rates are at 6%, and the market perceives a need for a **300 basis point** (one basis point equals one one-hundredth of a percent) spread for golf course investments, the total rate of 9% equals an NOI multiple of 11. If, however, Treasuries move to 8.5%, and the spread increases to 4%, the NOI multiple drops to 8 (100/12.5). On a course with a \$1 million NOI, these macroeconomic rate movements would cause the course valuation to drop from \$11 million to \$8 million -- even if operating profits are maintained!

Part II of II of the Mr. Arterbaum’s Article will appear in the Winter Edition of NewsLinks.

Acquisition Opportunities

GPA has been retained to serve as exclusive marketing agent for the following acquisition opportunity:

Great Bear Country Club – East Stroudsburg, PA: 18-hole private country club with Jack Nicklaus designed golf course, clubhouse, practice facility, and other facilities.

Semi-Private Golf Club, Brunswick County, NC: 27-hole semi-private club with clubhouse, practice facility, maintenance and associated land and buildings near Wilmington, NC with positive cash flow.

Blue Knob All Seasons Resort, Claysburg, PA: Ski area with 1,000'+ vertical drop, 4 chairlifts, tubing park, lodge, restaurant, 9-hole golf course and residential development opportunities on 1,400 total acres.

Augustine Golf Club, Stafford, VA: 18-hole daily fee club with clubhouse, practice facility, maintenance and associated land and buildings 45 minutes south of Washington, DC, 3.5 miles west of I-95

Tanglewood Country Club, Cleveland, OH: 18-hole private club with clubhouse, pro shop building and maintenance facility. Can be sold with or without clubhouse.

More information available on www.golfprop.com/brokerage.

Interested parties may contact Larry Hirsh for more information at 800-775-2669.

Municipal Golf Courses

Fiduciary Responsibility of Elected Officials and Staff

Municipal golf courses are often operated through operating leases, management contracts or even internal departments of recreation and parks. Accordingly, administrative staff and elected officials are sometimes disconnected from the daily operations to the point of not really knowing what's going on. In many cases these projects have incurred considerable debt (albeit normally at attractive rates) that often leave taxpayers on the hook should the golf course not perform as expected.

In fact, there are many golf courses (municipal and privately owned) not performing as expected these days as the golf business corrects itself from the boom of the early and middle 1990's. Even though some say the business is showing signs of improvement, such improving markets do not alleviate municipal elected officials and staff of their fiduciary responsibility to the taxpayers.

in most cases where municipalities have engaged golf industry professionals, those firms (even in the best cases) have incentives in the form of fees and percentages of profits and municipal officials get information about the course's operation from that party with financial incentive. Accordingly, it would seem that an independent audit of operations would be a prudent measure.

What is involved in an operational review and audit of a golf course? Most (if not all) municipalities have accounting audits done on a regular basis. The type of review suggested herein is much different. While utilizing financial information provided by the accountants, an operational review performed by a qualified and independent golf property consultant includes much more.

First and foremost, such a review should begin with the identification of the client's goals for the club/course and the review. For instance if the client simply wants to find out if the course is performing consistently with the market or if pricing is consistent with the market, a market analysis can be included. If the property needs to be repositioned in the market or if facility upgrades are necessary, a repositioning analysis or facilities analysis can be done. If there are agronomic issues, an agronomy audit can be done.

In one recent case we were asked by a municipality to review the request of a lessee to make improvements but have the



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Municipal Golf Courses, continued from page 3.

lease extended in return. The question revolved around whether or not such an extension was in the best interests of the municipality. In another assignment, we were asked to evaluate the potential for sale of a property in default for the bondholders and ultimately successfully marketed the property to a private purchaser. Each required a different approach and different information yet each involved a review of the market, facilities and operation. In each case, the assignment was tailored to the client’s goals and objectives. A “cookie cutter” approach should be avoided. The assignment should be defined by the consultant and the client simultaneously – up front whether as simple as providing an oversight function or as complex as determining whether proposed improvements are warranted..

We recommend that operational reviews be done in phases to allow for flexibility in the event that there are surprises and these issues can be dealt with effectively in the process. These could include identifying building issues that need attention, agronomy issues or the discovery that simply repositioning and re-pricing the course in the marketplace would enhance profitability. Once identified, a plan of action can be recommended and implemented effectively, either by the consultant or through referrals to other appropriate professionals.

It comes as no surprise that some in the golf industry encourages municipal involvement in golf financing to take advantage of the favorable terms. Others, meanwhile discourage such involvement because it is perceived as unfair competition with private operators. There are many stories of municipal golf courses that were developed with large budgets combined with low cost of capital that are now “upside down” with more debt than value. In many cases officials wish to sell but are unable to do so for less than the amount of debt. Accordingly, to “stop the bleeding” they need to take a hard look at how to proceed. A well done operational review can help.

What criteria should be used to select a consultant to help answer these questions? Hopefully the list below will help.

- **Independence** – While the golf industry is a small world and everybody knows everybody else, make sure that the consultant you select is not in somebody’s “back pocket”. Being able to give straight answers to tough questions is critical.
- **Experience** – Use a consultant with a wide variety of experience. A consultant with the ability to think “outside the box” and one with the resources to bring a variety of disciplines to the assignment will give you the best chance of success. The cheapest or the closest may not be the best bet. Remember, you get what you pay for.
- **Timeliness** – Engage a firm that can provide results and recommendations in a timely manner. It is critical to have the results of any review when they can be best utilized.
- **Credibility** – Engage a firm with a high level of credibility. This is not a job for a “yes” man. You need a consultant who can give you real answers to tough questions, even if they may not be what you want to hear.

There are many firms and organizations that provide this service and the level of qualifications and experience vary from those simply hanging a shingle and that are interested in golf to highly trained professionals with the resources and experience to do the job right.

Laurence A. Hirsh, CRE, MAI, SGA is the president of Golf Property Analysts (GPA) of Harrisburg, PA, Oriental, NC and Jupiter, FL. GPA is a leading golf property consulting, appraisal and brokerage firm that has performed nearly 2,000 assignments in 44 states and Canada.

Hirsh Speaks



Lectures/Presentations:

Golf, Inc. conference in Palm Springs, CA

West Penn Golf Association - fall meeting, September 26th at Indiana CC, Indiana, PA.

PGA of America - PGA Merchandise Show in Orlando, FL on January 18, 2008.

NGCOA – Leader/Moderator of seminar on ad-valorem taxation for golf courses, January 30, 2008.

Where the Dollar Hits the Dirt - Timed Management, by Shaun Henry

I recently came across an efficient method of planning and managing daily maintenance tasks. During a recent appraisal assignment, I visited six courses that were managed by the same operator, ranging from affordable daily fee to upscale private, and just about everything in between. The common thread among these facilities was the efficiency of the maintenance operations. The level of conditioning was remarkable compared to the modest maintenance expenditures and relatively small crews.

It became obvious after about the third course that these properties were using a “system” to make the most of employee work hours. The superintendents had time to show me around their courses while their staff was diligently working on their maintenance routine. Not once were we interrupted with a radio call asking “what should I do next”, and when we got to the maintenance facility there wasn’t a single employee hanging around - everyone

was out on the course working on their assignments. In most cases the assistant superintendents were off working on their own projects, because it wasn’t necessary to intensively supervise the crew.

The superintendents explained that each maintenance task was given an allotted amount of time to complete, based on timing the jobs previously. Scheduling was done by allocating the number of available daily and weekly employee hours to the individual routine tasks, with remaining employee hours being used for those jobs that otherwise would get put off, such as edging cart paths, etc. As a previous superintendent, my first reaction was skeptical that accounting for every minute was practical or realistic, but the superintendents at these courses believe in this system so much that they can’t imagine managing their staff any other way. When asked if they would use this approach if it was not required of them, they all replied without hesitation – YES. Most importantly, the result of this

high level of organization was obvious, these properties have figured out how to get the biggest bang for their maintenance buck. That’s “Where the Dollar Hits the Dirt.”



Shaun A. Henry is a 14-year member of the GCSAA, former golf course superintendent and a staff appraiser-consultant with Golf Property Analysts.



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Appraisers/Consultants



THE PRACTICE TEE

- **GPA** has recently been retained by **Shadow Isle Golf Club (NJ)** to provide consulting services in connection with financing by **Amboy National Bank**.
- **First United Bank** recently retained **GPA** to provide appraisal services in connection with **The Santa Lucia River Club and community (formerly Ballantrae)** in **Port St. Lucie, FL**
- **Bancorp South** recently retained **GPA** to provide consulting services in connection with **The Club at Northcreek in Southaven, MS**
- **Bancorp South** recently retained **GPA** to provide consulting services in connection with **the Longleaf Club near Gulf Shores, AL**.
- **C.L. King** recently retained **GPA** to provide assessment analysis and appraisal services for the **Moccasin Run Golf Course in Chester County, PA**.
- **JBG Companies** recently retained **GPA** to provide appraisal services in connection with **Reston National Golf Club in Reston, VA**.
- **The State of South Carolina** recently retained **GPA** to provide appraisal review services in connection with appraisals of **Bulls Bay Golf Club near Charleston, SC**.