golf property analysts
APPRAISERS • CONSULTANTS

NEWS LINKS

Volume 12, Issue 3 Fall 2008

Special Points of Interest

- Weathering the Economic Storm
- Successful Club/ Course Marketing
- Acquisition Opportunities

What's Inside:

Country Clubs Should not Expect to Take a Mulligan When Dealing with Their Lenders

by Arthur J. Abramowitz, Esquire[1]

A patient confers with a psychiatrist for an initial consultation. At the conclusion of the session, the psychiatrist turns to his patient and says, "Perhaps life is not meant for everyone."

There is no divine rule that a private country club is destined to remain viable in perpetuity. Undoubtedly, the recent financial downturn will have a substantial impact on many financial sectors, and unfortunately, country clubs are a prime target. The fallout on country clubs goes beyond merely those employees who may have held prominent positions at Lehman Brothers or AIG, to name a few. For many, the recent events at Wall Street have wiped out what were once considered substantial portfolios. When members conclude that their 401(k) has been reduced to a "201(k)," membership in a country club may not be the priority that it was previously.

Country clubs are competing for leisure time dollars. Golf club membership is now competing more than ever against overnight camp for children, vacations and second homes. When a husband says to his wife on a Saturday and/or Sunday, "You take the kids to soccer and ballet. I'll be back in six hours after I play golf." Unless both parents are committed to country club membership as a priority, golf is often a point of tension in a marriage. This tension is exacerbated by economic conditions. In light of the economic downturn and uncertainty, except for a small percentage of the population, the priority of country club membership must be considered within the context of a family's budget. Bear in mind that these recent financial setbacks, combined with changing demographics create a "Perfect Storm" that will cause more than a few country clubs to cease operations.

1. The Work Out

A country club is a business and must *ultimately* meet its financial obligations on a timely basis. The word "ultimately" is italicized because, like a company that requires a capital infusion if it is operating at a deficit, a private country club normally has the ability to assess its membership for operating shortfalls. These assessments are often "flash points" for membership. As membership declines, individual assessments normally increase. Clearly, this is a sticking point with current members as well as prospective members who are concerned about the extent of possible future assessments.

One of the "band aids" that some country clubs are employing is the capitalization of

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Linking Up

by Larry Hirsh

As I write this, the Dow Jones has fallen to around 8,200, over 125,000 have lost jobs in the financial sector and credit is almost unavailable. Most of the talking heads and economists are reluctant to say so but we seem to be in a recession. Whether we are or not, it is incumbent upon us, as real estate appraisers to measure the impact of these events on the value of properties, specifically in our case, golf course properties.

The most significant impact seems to be the difficulty in obtaining debt financing for golf property sales/purchases. Even as early as last Spring (2008), a client purchasing a course we were selling was only able to get a commitment for 50% of the purchase price (or appraised value, whichever was lower) from a golf specialty lender. While this would certainly impact value, the real question is for how long and how much.

With the current level of uncertainty, it is unlikely that this question can be conclusively answered because it is more likely that many transactions will be deferred to a time when things are more stable. Accordingly, we recommend that golf course owners and clubs consider taking advantage of the market in the following ways:

- Take a look at your tax assessment. If it's outdated, you may be able to achieve a reduction with an accurate and convincing appraisal.
- If you're doing estate planning, this might be a good time to have your property appraised for purposes of planning and gifting in the interest of minimizing the resulting tax burden.
- Consider an independent operational review to see where you might be able to improve your operation and better position yourself in the changing market.
- Explore the possibilities of more efficient use of your infra-structure and resources. Many courses are exploring how their property can integrate alternative uses with golf to create potential mixed-use opportunities.

As the golf and club culture has changed in recent years, it is now incumbent on the industry to embrace that change by continuing to respond with a product desirable to the modern marketplace. "It's not your father's golf club anymore".

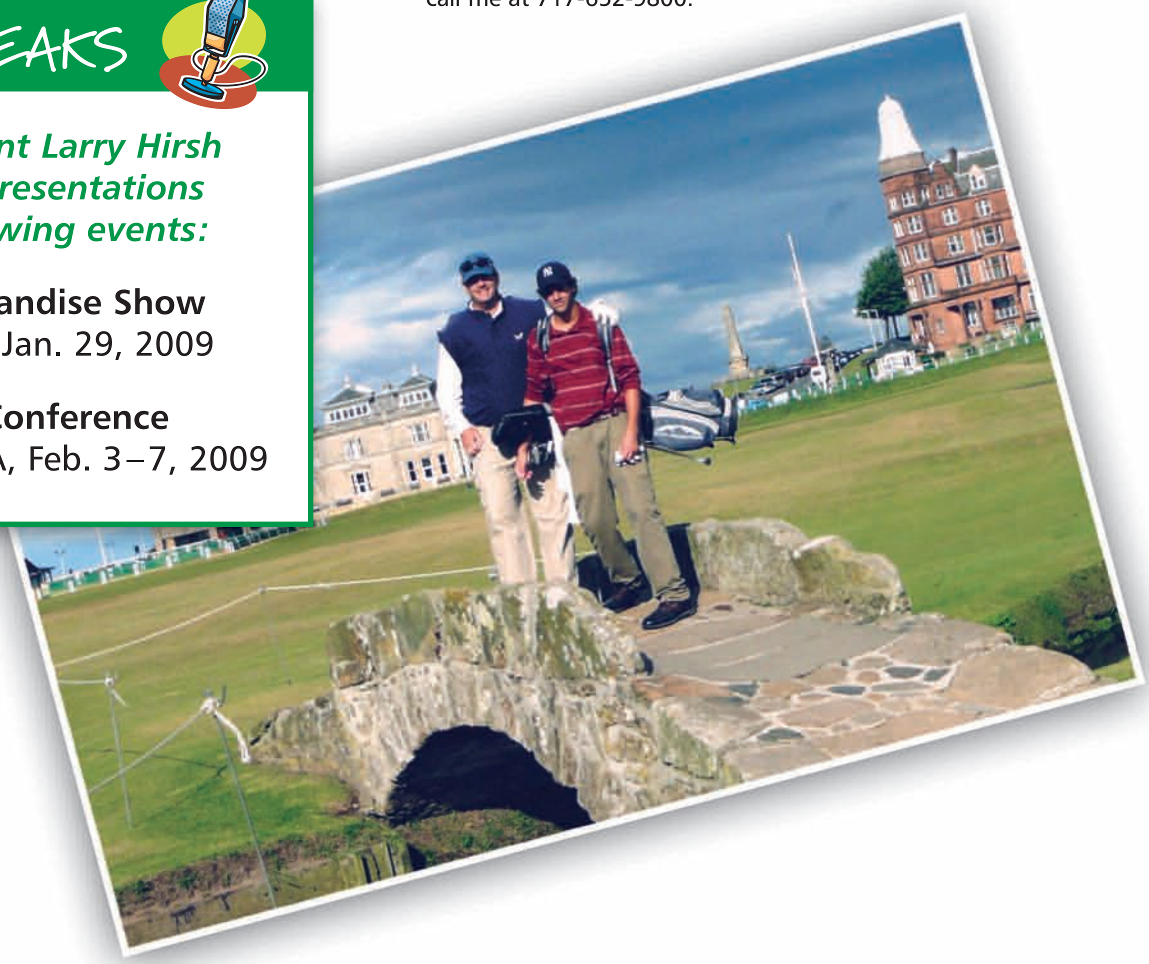
Lastly, we recently introduced our Club Advisory Program designed to provide expert and cost control consulting to golf courses and clubs. If you would like more information, please call me at 717-652-9800.

HIRSH SPEAKS

GPA president Larry Hirsh will offer presentations at the following events:

PGA Merchandise Show
Orlando, FL, Jan. 29, 2009

NGCOA Conference
New Orleans, LA, Feb. 3–7, 2009



Acquisition Opportunities

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 **$4,900,000** (price reduced)

Daily fee golf course located in a major mid-western city with excellent cash flow. Please contact our office for additional information.

Mays Landing Golf Club, Egg Harbor Township, NJ:
18-hole daily fee golf course situated on approximately 155 acres of land. Property includes an 8,000 SF clubhouse and 3,000 SF banquet facility **$5,100,000**

For more information, go to www.golfprop.com/brokerage.
Interested parties may contact Larry Hirsh at 800-775-2669.

Can We Do More With Le$$?

by Shaun A. Henry

How much should we be spending on golf course maintenance? How do our conditions compare to our competition? How can we achieve the WOW factor? How do we balance the high cost and desperately needed benefits of capital improvements and equipment? Can we do more with less? How can we absorb the rising cost of fuel, materials and labor when rounds and revenue are flat, at best? These are all very timely questions given the economic concerns currently plaguing our communities, our industry, and our country.

While the answers to these questions are certainly course specific, it is becoming tougher than ever to balance revenue and expenses without entering a downward spiral of declining revenue leading to budget cuts which ultimately resulting in downgraded quality of course conditions or the golfing experience further depressing revenue, and so on. Efficient operations are a must in these challenging times, but I recently heard a veteran course operator say, "Remember, you can't successfully run a business by cutting costs alone." How true. I've seen more than a handful of courses and clubs fall into this cycle coupled with deep discounting. In many cases the result is a deteriorated product, reputation and ability to charge a sustainable price for green fees and/or memberships.

An understanding of the specific property nuances, market dynamics, past performance and goals are crucial to evaluating the efficiency and appropriateness of maintenance expenditures and how they fit into the "big picture" of the whole operation, while detailed budgeting and record keeping are essential to gauge how maintenance dollars are being spent and if adjustments are advisable. An independent expert in golf course maintenance, club management and financial/market analysis can be a fresh set of eyes and a big help in ensuring efficient maintenance operations appropriate for a particular course and its target position within the local market.

Shaun A. Henry is a 15-year member of the GCSAA, former golf course superintendent and a staff appraiser-consultant with Golf Property Analysts.

GOLF OPERATIONS

by Garry Leathers

2008 will likely see the third straight year that the number of golf facilities will decline in the United States. Reasons for this fall in three major categories; lack of new course development, sustained poor financial performance of courses resulting in closing and determined higher land value for alternative use. Golf course owners naturally see this trend as positive after years of new development of courses creating "over-supply" dynamics. To complicate matters, growth in rounds/golfers has been marginal, if not flat, over this same 10 year period of growth and, now, decline in the number of golf facilities. Few regions across the United States are immune from this circumstance and all categories of golf facilities (private and daily fee) are similarly challenged and it would require another 5–7 years of declining number of golf facilities before the "supply and demand" equilibrium changes.

While dealing with these competitive challenges, the game of golf still remains highly positive in the minds of active participants and potential players. Shifts in playing patterns and participation have occurred and require a "new and bold" operational approach. The main thrusts of this approach lie in the following areas; course/club positioning and marketing plus a well-defined operating plan with a strategies to exploit local markets and business opportunities.

Course/club positioning and marketing–

Positioning and successful marketing of a facility requires an "objective" assessment of the facility's status/stature in the immediate marketplace and the business objectives required for success. Test your facility within your immediate competition and determine a relative guideline of "strengths, weaknesses, opportunities and threats". From a daily fee course perspective, it was only 8–10 years ago that national average annual rounds of golf ranged from 35–65K (with consideration for most U.S. regions) with owner's/operator's ability to moderately or aggressively increase rates and fees. Today, these same annual rounds' totals range from 25–50K per course with either depressed or challenged fee basis. From a private club standpoint, many clubs through the mid-1990's enjoyed full privileged golf membership levels of 275–500 members (again, regionally biased) with most clubs realizing current levels of 200 to less than 400 members. Again, stable club income sources have eroded and ability to increase fees is difficult. The best way to understand your current market position is to gain an "intimate" understanding of your existing guests and members. Gaining this knowledge will allow course/club leadership and ownership to build current relationships and understand motivations and methods to exploit future opportunities. Consider these key points:

Does your facility have and utilize an "objective" mechanism to insure proper market position?

Is there a meaningful procedure to clearly understand your members/golfing guests' needs and expectations?

Well-defined operating plan–

Once astute market position is determined, direct all efforts towards meeting these market expectation. This well-defined plan will yield a "varied" fee and service structure, standards for staff expectations and execution, clearly defined business goals for each area of the facility, a system to evaluate facility efficiency and aggressive sales and revenue management practices. Daily fee facilities will focus on maximizing daily rounds at appropriate rates and promote ancillary revenue streams from retail and food and beverage. Private clubs will focus on membership sales and service along with food and beverage and retail sales. Where facilities allow for large outings/functions, directed efforts to fill all available dates and space are important. Private club owners must recognize that in today's operating and lifestyle environment, "today's private club is not your dad's or granddad's private club". Operations must reflect a family inclusive philosophy and, in many cases, diverse recreational outlets/activities.

Is your fee structure varied enough to be growing all revenue streams?

Does each department in the club/course have well-defined business goals for successful operations?

Is there a clear system to determine and insure each service/business unit's success?

Again, the game, and "business" of golf is here to stay. While challenges abound, so do opportunities for the immediate and long term future. Remember, there are tools and expertise available for the ultimate success of your golf club/course.

Jupiter Country Club, designed by Greg Norman—a Toll Brothers Community

(Country Club continued from page 1)

annual deficits. Instead of assessing existing members and chilling potential future members, clubs are adding their annual deficits to their mortgages. Needless to say, in the short term, this strategy is questionable; in the long term, it can be devastating.

Savvy lenders are concerned with performing loans and loan to value ratios. Many county clubs have had the luxury of having real estate that is looked to as a "land bank," where if all else fails, a bank's debt is protected due to the value of real estate being above the loan amount. That perspective has been deflated by present economic conditions, and lenders are just as concerned about the underlying value of golf course real estate as country clubs are in servicing their debt.

Country clubs are competing for leisure time dollars.

Frequently, a country club member who is a banker, attorney or accountant (who is not experienced in work-outs with lenders) will form a committee to volunteer to meet with the country club's lender to enter into work out discussions. One of the problems with this scenario is that while in the short run, the country club may be able to operate, in the long run, many protections that are available to debtors may be unsuspectingly negotiated away by the country club's amateur debt swat team. A bank workout is a critical event. The upshot of a workout meeting with a bank can result in forbearance agreements with unreasonable terms, unwanted guarantys as well as constraints that can restrict future negotiations with a lender.

2. The "B" word–Bankruptcy

There is an old adage that, "Halitosis is better than no breath at all." No country club wants to file for bankruptcy, especially if no exit strategy is in place. Before proceeding, the reader should be aware that there are basically two types of bankruptcies that may be available. The first is a Chapter 7, which is a liquidation. In a Chapter 7 scenario, a trustee is appointed at the time of filing and essentially, the debtor (country club) flips the keys to the trustee to liquidate the asset. A second alternative is a Chapter 11, which is referred to as a bankruptcy reorganization. Within the umbrella of a Chapter 11, a debtor has some flexibility in terms of its goal. A debtor can, through the judicial process and depending upon its finances, reorganize in the traditional sense and pay creditors a percentage of their claims. Another option is that the Debtor (country club) may liquidate the club within the Chapter 11. Under this scenario, a country club can liquidate its assets more in the ordinary course of business rather than by conducting a "fire sale" that is akin to a Chapter 7 liquidation.

The negatives of any bankruptcy filing include:

- Members and non-members with revenue producing social functions, such as weddings, showers, bar mitzvahs and even golf outings do not want to risk losing deposits or facing a closed country club at some future date, and will book events elsewhere.
- Present membership will erode because many members do not want to make the financial commitment of dues and minimums when it is quite possible that their club may close. Along those lines, many bondholders may request their bond amounts at the time of their resignation, when funds will not be available.
- Filing for bankruptcy protection will certainly have an adverse impact upon a club's ability to attract future membership.

The key, if possible, before any bankruptcy filing is to quickly file and emerge from a bankruptcy. This can be done in the "right cases" through successful negotiations with secured creditors and unsecured creditors. Those creditors, whether they like it or not, are in effect "partners" in your success, since without a successful emergence from bankruptcy, more substantial losses may loom on their horizon. Without a feasible exit strategy, a debtor is generally doomed.

3. Conclusion

So what does this all mean? Plan, plan and plan. Project cost-cutting budgets and stick to them. Involve membership so that as stakeholders membership is just as concerned about the success of their club as management. Lenders did not just fall off a rutabaga truck. They can read balance sheets. Keep lenders apprised of the status of your club rather with hitting them over the head with your first crisis. If it is likely that a workout will be required, hire a workout attorney as well as a qualified appraiser, so that the value of club's real estate is a part of any equation. Consider valuing the property both on a "market value" as well as "liquidation value" basis. Formulate a feasible exit strategy.

At this point, the economy is chaotic, meaning that there is a lack of controls or knowledge of where it is ultimately headed. A country club, like any other business must try to address these economic issues and maintain the confidence of present and potential members and assure them that a steady hand is at the helm. That being said, in today's economic environment, "Fasten your seatbelts, there is a bumpy ride ahead."

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[1] *Arthur J. Abramowitz, Esquire, is an attorney with Cozen O'Connor and is co-chair of that firm's bankruptcy department. He has operated a number of golf courses as a Trustee in Chapter 11 cases and has also been counsel to other courses involved in financial difficulties. His office is in Cherry Hill, New Jersey.*

The Practice Tee

Golf Property Analysts has recently been retained on the following assignments:

- Consulting services, Running Deer Golf Course, Salem County, NJ
- Appraisal services, Scotland Run Golf Course, Camden County, NJ
- Tax assessment and appraisal services, Manhattan Woods Golf Club, Rockland County, NY
- Tax assessment and appraisal services, Downingtown Golf Club, Chester County, PA

Hirsh Valuation Group, the parent company of GPA, has recently been retained on the following assignments:

- Consulting services, Forest Dunes development, Crawford County, MI

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