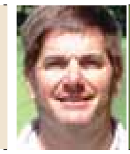

By Larry Hirsh
President
Golf Property Analysts

Finding the Right Course for Golf Properties

Deferred maintenance and lower values are concerning lenders

COMMERCIAL MORTGAGE BROKERS who have worked with golf properties are well aware of the troubles that this niche has endured in the past few years. Many loans involving golf courses and private country clubs that were made before the recession have turned into nonperforming assets with the recent economic downturn.

There are different sorts of financial troubles: Some are unable to develop adequate debt coverage; some are delinquent in their payments; and others are simply at the end of their loan term and struggling to find new financing for their properties after the slump in golf-property values.

In all cases, owners of these golf course and country clubs likely will be seeking professional advice on how to work out their financing and loan issues, providing commercial mortgage brokers with an opportunity to share their expertise and knowledge.

Generally, lenders have limited options: Extend the term; renegotiate the loan; or call the loan, which can lead the lender to foreclosing on the property and assuming its ownership and responsibility. Because golf courses are management-intensive, and many lenders may not be familiar with this niche's management strategies, lenders rarely want to foreclose, as the responsibility for operating the course and preserving its value would shift to their shoulders.

Brokers who find themselves in the middle of such a situation between borrowers and lenders should be aware that there is no one-size-fits-all solution. Each and every situation is different, but here are some observations and questions that may help clients.

Observations

Lenders will be looking at the various sources and causes of the property's problems. For example, some troubled golf-course properties have been struggling because they limited their maintenance budgets in response to calls for austerity and plain old price competition. This deferred maintenance may have reached a point where the quality of the course product has been compromised. The same approach may be seen in clubhouse infrastructure.

Similarly, many may have limited marketing or sacrificed it in the name of cost efficiency, which led to a reduction in their market share. Naturally, a less desirable product almost always will result in fewer members and players, as well as lower revenues.

Seasonal factors also have worked against many golf courses. In the growing season in northern climates — and any time in warmer climates — if a distressed property is not maintained, it quickly can be destroyed. When this happens, reclamation becomes more costly and asset values might not recover. That's why you can expect lenders to act quickly and have a plan in place for dealing with any stoppage in maintenance to protect the collateral. Also, expect lenders to tackle the management of distressed properties because when distress hits, operations typically are affected negatively and the value of the property suffers.

The golf courses and country clubs that have continued to evolve and improve their products through the recession have fared better than those that hoped to ride out the recession via simple austerity. Today, it's clear that the ones that have mustered the will to reinvest — in enhancing facilities, upgrading maintenance and accommodating modern golf consumers — have their recovery in sight.

In working with distressed properties, expect lenders to make similar long-term, asset-protecting decisions. Whether or not they assume ownership and management of a distressed property, banks should acknowledge that such reinvestment is the most likely path toward a turnaround. In this process, they may have to seek new management. Any plan that eschews reinvestment is shortsighted and ultimately runs counter to a lender's interests, however.

Questions

Lenders typically lack familiarity with the daily operations of golf-course and private-club properties. As a result, they may be willing to bring in external management expertise and may be reluctant to pursue foreclosure because of the operational responsibility that comes along with it.

Still, lenders may seek answers to the following questions when they are making decisions regarding properties that are not developing adequate debt coverage or are delinquent in their payments:

- **What is the current condition of the property?** How does it compare to its former

continued ››

Larry Hirsh is president of Golf Property Analysts, a golf/club property consulting, appraisal and brokerage company based in Philadelphia. He has performed consulting and appraisal assignments on more than 2,500 golf/club properties in 45 U.S. states, Canada and the Caribbean. A founder and first president of the Society of Golf Appraisers, Hirsh has brokered more than $100 million in golf course and club property sales. Read his blog at blog.golfprop.com. Reach Hirsh at larry@golfprop.com.

‹‹ continued

conditions and other properties?

- **Given the time of the year, how can the asset be preserved** if seasonal factors could mean further deterioration?
- **Is investment required** to get the property in optimum playing shape? If yes, how much would this cost?
- **Has the property as a whole been marketed aggressively?**
- **Is the club positioned properly?** What opportunities for repositioning exist in its marketplace?
- **Has the club developed a stigma in the market** because of its struggles?
- **Is the market deep enough for its current existing competition?**
- **Is there a loyal base of customers and members?** Can the club recover lost members and players?
- **Are additional capital improvements needed?**
- **Does the value of collateral equal or exceed the balance of the loan?**

Once these questions are answered, commercial mortgage brokers should expect lenders and borrowers to be able to make informed decisions on how to proceed. Options include selling the property; operating or retaining contract management through a turnaround; reinvesting and repositioning the property; or closing the property. There are many permutations of these options, and it's the broker's job to help lenders and owners understand their options to make informed decisions.