From Tee to Green:
A Primer on Golf Course Development and Financing

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With the rapid growth in the numbers of golfers and rounds played in the 1990s, golf course development is now a dynamic and multifaceted business. There are well over 14,000 golf courses in the United States, and that number is growing dramatically every month. On September 14, 1998, the National Golf Foundation (NGF) released its latest tracking report on golf course construction activity across the United States. It records that 31 new golf courses came on line during the month of August. This brings to 287 the number of golf course construction projects completed since January 1998. The September report also recorded a total of 43 golf course construction starts and the announcement of plans for 61 others.[1]

This article is intended as an informal, thumbnail introduction to key financing and development issues facing a client involved in a golf course development project. The article is written for attorneys advising owner/developer clients who want to develop a golf course. The material is based on many years of experience in the golf industry representing World Golf Hall of Famer Johnny Miller as his attorney and business manager—and as president of Johnny Miller Design and Tournament Players Design.

The golf business is enjoying a boom—not just for golf course development. According to the NGF, favorable U.S. demographics show long-term growth for golf participation as measured by number of golf rounds played and golf-related spending. The 1997 indicators show jumps in junior golf participation (echo boomers), as well as in beginning adult golfers (players in their late 20s and 30s). Other favorable trends include golf's transition from a traditionally private to a predominantly public game, greater emphasis on women and minority player development, and a big increase in community development based on the golf course as a basic amenity for homeowners.

The golf climate is good, but building a golf course is a complicated business. Many people are involved, so your first advice to an owner/developer client should be to assemble an experienced team of experts. Some of the players in a typical golf course development project include: an entrepreneur/property owner looking to develop; a golf course architect; a land planner; a golf course construction company; a traditional or niche lender; a municipality; other public or governmental agencies; and numerous other professionals. There may even be an empire-building golf course company with real estate investment trusts (REIT) in tow vying for the same property. There will always be considerable opposition, including environmentalists and no-growth advocates. All of these players interact to determine the viability of a proposed golf course development.

The Owner/Developer

Developers must get accurate information on their target golf market before they make the decision to develop and build. NGF field experience shows that developers often make decisions with their hearts rather than on quantitative supply and demand information. The *Field of Dreams* mantra "if you build it, they will come" will *not* work unless the developer does the homework, is lucky, or both. The NGF is a great starting point for golf-specific planning information.[2] You can browse the Internet online at the NGF Website for important golf industry information, plus you can order hundreds of publications, surveys, and reports specific to golf course development and planning.

The information-gathering and planning stage is also an area where the attorney can play a pivotal role. Whether or not the client is an experienced developer or a first timer, careful legal review of the business plan will be a key to success. An experienced attorney will sense where to walk the line between legal and business issues throughout the development process.

The Architect

My experience and primary role in golf course development is from the perspective of the architect—particularly "signature design" courses by well-known players. Examples of hands-on "signature courses" include designs by Johnny Miller, Jack Nicklaus, Tom Weiskopf, and others.

There are many fine golf architects,[3] but obviously I am biased and believe that top players who are hands-on make the best designers. Naturally, if I were advising clients, I would suggest they hire a top player/architect to lead their development team. One reason for paying more for a top player/architect is that these designers can create shots that are challenging but fair for everyone. Many designers get it right most of the time but because they're not good, experienced players, they really don't know the difference between what's "challenging but fair" and what's "hard because it's unfair." The advantage of a professional golfer turned course designer is his or her ability to visualize the shot in his or her head to see if it works and to be sure the shot is fairly created.

Whoever the client chooses as a designer, be sure the architect is capable of playing his or her role in leading the developer and development team through the elements of planning, design, permits and approvals, entitlements, and construction. To assure quality technical design, a top player/architect will also use an architectural support team, (e.g. members of the American Society of Golf Course Architects[4]). An important business objective of the architect is to provide high quality technical design to make sure there are no design, safety, and maintenance problems in future years.

Look for professionalism and integrity in past design work. Be diligent in checking the architect candidate's previous designs. Ask if the design is sensitive to the environment, both in creative and technical elements. Ask other developers about their experience with the architect. Did the architect clearly communicate with the owner/developer during the preliminary design and final design phases through completion of the project?

I believe an architect should acknowledge a reality—that the owner/developer is a "patron of the arts" in golf course development. The owner/developer should be satisfied that the architect intends to offer an outstanding golf course as a foundation for a mutually beneficial endorsement and marketing relationship for the development as a whole. A quality golf course design adds great value to the other real estate in the community. Quality designs also mean more substantive sales of course memberships, and higher "greens-fees" rates for high-end daily fee courses. Combined design and marketing value is part of the design fee negotiation between the developer and the selected design company.

Approvals and Entitlements

Getting timely approvals and entitlements are critical and, in fact, are the make-or-break decision points in the development process.

The steps, the time each step takes, and the costs involved vary greatly. Factors include location of the project; forces allied with and/or against the project; sophistication of the developer and consultants; and the political winds swirling around the project. Politics plays a central role and cannot be ignored. Sensitivity and understanding of political variables can neutralize the material objections to the project.

In my experience, the time required to secure approvals and entitlements to start course construction has ranged from two months to more than twenty years. Yes, twenty years! For example, in trying to build anywhere near the California coast, a typical list of agencies that you must successfully work with would include the following:[5]

- **County:** Planning & Zoning; Building & Safety; Public Works; Environmental Safety; Flood Control; Fire/Life/Safety; Health Department; and Board of Architectural Review.
- **Other Local Agencies:** Water District; Sewer District; Local Agency Formation Commission (LAFCO); School District; and Historical Society.
- **Local Private Special Interest Groups:** Urban Creeks Council; Environmental Defense Center; and Surfrider Foundation.
- **State:** Water Quality Control Board; California Coastal Commission; Department of Fish & Game; and California Environmental Protection Agency.
- **Federal:** U.S. Army Corps of Engineers; U.S. Fish & Wildlife Services.

Fortunately, two of the major historic deterrents to golf course development—environmental resistance and the availability of affordable financing—are no longer overwhelming obstacles.

Diminishing Environmental Resistance

The NGF reports that several initiatives in this decade have improved golf's standing relative to the environment. Changes include the golf industry's stronger ties with the U.S. Environmental Protection Agency; cooperation with national environmental activist organizations; use of the publication *Environmental Principles for Golf Courses in the United States* as a framework for environmental responsibility in golf course development; and the development and evolving acceptance of the Audubon Cooperative Sanctuary Program for Golf Courses.

Nature has a great impact on golf courses and viceversa. Golf course developers are business people, but also stewards of the land. If architects, with developer encouragement, can make a course look as if it's been there for 100 years, make people feel they are out for "a walk in the park," and provide a fair though memorable challenge for golfers of all skill levels, they've done their job well.

Affordable Golf Course Financing

The cost of golf course development has risen over the last ten years, but sources of debt and equity financing are now more accessible. Cost factors are more arduous with newer developments, given the rising cost of urban land, lengthy permit and entitlement processes, and ever increasing golf course construction costs.

It is not realistic to expect new development costs to decrease, but there are some factors that can assist in minimizing the negative impact of rising costs. Adopt a cost-effective golf course design that will favorably influence development *and* after-opening operational costs. Owner/developers of both the golf course and of surrounding resort or real estate development should address all possible development and construction efficiencies early on at the "master plan" stage. Avoid high-cost sites such as wetlands and coastal zone areas. Explore joint venture opportunities with private owners or public sector entities who control large parcels of urban property.

Golf Course Capitalization

A 1994 NGF survey of golf course owners/operators and lenders found that, like most businesses, sufficient equity is crucial to development success. The typical golf course loan requirement is approximately 40-to-50 percent equity. Sources of equity include: individual entrepreneurial investment; limited partnerships; corporate investment; syndications; pension funds; and Real Estate Investment Trusts (REITs). Loan terms and equity requirements could be reduced if the owner/developer team can show a solid track record of developing and operating successful golf courses. Otherwise, establishing a good relationship with a lender is often the key to securing the requisite financing.

Land, especially a golf course, is not the traditional lender's collateral of choice. Traditional lenders are wary of loans to *new* golf course developments. Lenders believe that golf course improvements have a low residual value. The success of the loan is not predicated on the underlying value of the real estate—it is based on uncertain projected cash flows from an intensely competitive service business. Also, federal bank regulators and examiners do not look favorably on golf course loans that fail to perform according to first-year projections, and golf course deals are rarely large enough to attract the attention of institutional investors. Furthermore, the FDIC has no specific underwriting guidelines for golf course credits. Finally, golf courses are unfamiliar to personal investors as far as proven resale value, liquidity of the market, growth rate in greens fees, and future profitability.

However, owner/developers need not despair. There *are* experienced golf course lenders who are receptive to golf course financing opportunities. These lenders look beyond traditional concerns by creating financing vehicles that acknowledge potential negative cash flows in the early years of operation. Some of these vehicles include capitalizing working capital requirements and income shortfalls, requiring sufficient cash reserves to cover all contingencies, and offering their own equity participation in the project in order to decrease borrower equity requirements and lower effective interest rates on debt.

Financing Sources

Most golf course development projects are financed through a combination of equity and debt capital. The strategies for generating equity described above are critical to the success of the project. REITs are currently popular because they can be used to finance both golf course development and acquisition of existing courses for sale. This allows consolidation by golf course management companies who can amass golf course assets to profit from economies of scale and leverage. Some large-scale golf course management companies have holdings with hundreds of courses throughout the United States.

Fortunately, sources of traditional debt financing have also increased in variety and creativity to provide for course development, acquisition, and expansion. These sources include: banks and savings and loans for construction and take-out loans; golf capital companies; insurance companies; pension funds; and investment banks. The conventional loan pattern usually

Golf course developers finance most projects with a combination of equity and debt capital.

includes three phases: a construction loan for a period of one to three years; a take-out loan for the next three to five years; and a long term loan for the continued operation of the golf course.

Additionally, new financing alternatives, such as revenue bonds, have developed for municipal golf course development. This new financing has enabled cities and counties to raise funds at low interest rates for a variety of public interest projects, including golf courses. The combination of low interest rate financing and private sector development expertise has been a prime mover in the accelerating development of municipal golf courses. Some municipal funding alternatives include general budget allocations, sale of general obligation or revenue bonds, and establishment of a public development corporation (PDC). PDCs contract with private developers for design and construction of the golf course on a turnkey basis.

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The course is financed by the issuance of tax exempt "certificates of participation." Another funding alternative is lease/purchase financing, which requires a leasehold contract between the municipality and the lease/purchase finance entity. This results in a guaranteed fixed-price turnkey golf course to be delivered to the municipality.[6]

Conclusion

The golf course development business is exciting, especially during this time of rapidly growing interest in golf. Hopefully, this brief outline of the golf course development and financing process will help your developer/client enjoy the fruits of this positive business climate.

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Endnotes

1. The National Golf Foundation, 1150 South U.S. Hwy 1, Jupiter, FL 33477. Tel. 888/NGF-2500. http://www.ngf.org
2. *Id.*
3. *See* TOM DOAK, THE ANATOMY OF A GOLF COURSE - THE ART OF GOLF ARCHITECTURE (1992); ROBERT TRENT JONES, JR., GOLF BY DESIGN (1993).
4. 221 N. La Salle Street, Chicago, IL 60601. Tel. 312/372-7090. Fax 312/372-6160. http://www1.golfweb.com/library/arch/asgca/
5. Provided by Michael Dingman and Dianna Almini with the company of Environmental Golf, 24121 Ventura Blvd., Calibasas, CA 91302. Tel. 818/223-8500.
6. Provided by Richard Norton of the National Golf Foundation. *See also* ROBERT MUIR GROVE AND JEFFREY S. CORNISH, GOLF COURSE DESIGN (1998).