

Kevin Osgood and Jay Miller are with Newton, Massachusetts-based Sterling Golf Management Inc., which operates nine facilities throughout New England.

Raising Capital

Owners, lenders get creative with finance

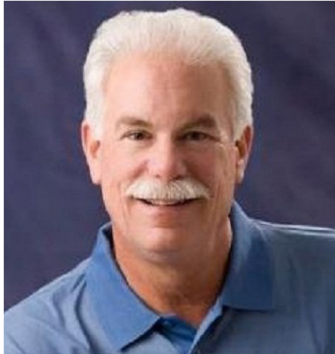
Photo by Stephen Sherman

By the time this article is published, the U.S. economy should be starting a record 11th consecutive year of economic expansion with no immediate signs of a downturn in growth any time soon. Indeed, after surpassing in June the 10-year mark since the last U.S. recession – matching America's longest period of positive economic growth from March 1991 to March 2001 – the country was coming off a remarkable May labor statistics report with 263,000 new jobs added and an unemployment rate that dropped to its lowest level since December 1969 (3.6 percent).

Undoubtedly, the decades-long economic growth cycle has improved the well being of many Americans and certainly shored up financial conditions at golf courses reeling from years of systemic industry issues (read: course oversupply and static participation).

Nonetheless, have these positive macro-economic conditions really made it easier for course owners in general to forge stronger financial footings for the future?

Courses are consistently pitched with revenue-generating recommendations, solutions and capital improvement projects. And arguably there is no better time to invest in golf's future than now, what with a number of attractive



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- Jerry Sager
First National of America

or the cash-flow nature of high-end private clubs and resorts, how does one actually come up with money to purchase fleets of new Club Car or Yamaha vehicles, re-imagine driving ranges into sexy, new Toptracer ranges or undergo major irrigation renovations?

In other words, is access to capital and the flow of financing finally turning in golf’s favor? Not quite, depending on whom you ask and what you want.

Especially since the overall golf industry still occupies somewhat fragile turf in the economic eyes of mainstream underwriters.

technology innovations, entertainment solutions or new amenities that seem to be drawing a new generation into the industry.

Yet, that old adage, “It takes money

to make money,” echoes through the halls of maintenance facilities, clubhouses and pro shops. And for those courses that might not have the capital clout of large management companies

Who is Funding Projects?

From the financial perspective of senior managing director Jerry Sager of First National of America, however, nothing’s really changed in the 30 years his firm has specialized in golf and hospitality-related business loans. It just comes down to really understanding the nuances of the many golf sub-markets within every major market, Sager points out, and doing your fundamental due diligence.

“It’s seriously no different today than it was in 2008,” says Sager, whose New York-based firm has underwritten \$2.7 billion of specialized asset class real estate financing since 1989. “If it’s a good loan and a good project and there’s debt service coverage in a logical market, the loan’s going to get done. ... Ten years ago, if you had a decent FICO score and you needed a new automobile you could go out and buy it. And if you wanted to finance it or lease it you

could finance it or lease it because you were a good credit risk. Right?”

“So, here we are today, in what is theoretically a better economic environment, according to Washington. Maybe it is; maybe it isn’t. Guess what? If you go out to buy an automobile today, and you’re the same credit (profile) you were 10 years ago, you’re going to get the same loan. It’s no different in the golf industry.”

For instance, when member-owned Boca Lago Country Club in Boca Raton, Florida, was looking for a lifeline two years ago prior to being sold, First National was there to “get them over the hump” with a \$1.5 million loan, according to Sager, enabling the membership to keep the club open during its transition.

To be sure, when it comes to purchasing an outright course, there remain no national lenders and very few local or regional financial insti-

tutions – if any – willing to dip their capital back into the business. Lack of large-scale institutional financing notwithstanding, longtime course owner Kevin Osgood, whose Newton, Massachusetts-based Sterling Golf Management Inc. operates nine facilities throughout New England, does acknowledge the rest of the business is in a better place when it comes to adding equipment, technology or new amenities.

“You’re in much better position now than you were 10 years ago and 15 years ago, without a question,” says Osgood, past president and 17-year board member of the New England GCOA. “At least here in New England, we are past the bottom of the golf market crashing. That 2011-2012 time frame.

“Prior to that we could not flat-line budget. We had to budget that we were going to potentially do less greens fees or less membership sales



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Sterling Golf Management



the next year. And then 2011-12 hit. We stabilized the market and then by 2014-16, we’ve been able to actually project that we might do a percent or couple percent higher in greens fees.”

Turn on the Waterworks

What that means for Sterling Golf and other owner/operators is being able to upgrade aging course infrastructure or technology sooner rather than later. And one area of the golf business where capital is flowing like never before is irrigation systems.

Case in point is Rain Bird Corp., a privately held company that can act as its own bank and irrigation company, strategically offering a host of creative and customizable “turn-key” solutions based on the course’s cash-flow needs, for example. Toro Co., meanwhile, continues to leverage its turf equipment finance partners as a way to incentivize owners to purchase new control systems or pump stations.

According to Toro Senior Marketing Manager Mike Read, one of the long-standing challenges in financing irrigation-only projects is the reluctance of many banks to take on these deals because it’s not easy to repossess pipes and parts stuck underneath the ground. Rain Bird, on the other hand, has a competitive edge with its “non-traditional” banking tactics.

“Rain Bird’s financing program is unique in the industry to finance complete irrigation systems – including labor, materials, pump stations and infrastructure,” says Stuart Hackwell, national sales manager for Rain Bird’s

golf division. “This program enables courses to pay over an extended period of time. Sales through Rain Bird financing are increasing exponentially in recent years, and I would encourage any golf course to evaluate whether financing is a possible solution to help with their irrigation needs.”

Irrigation specialist Tony Abshire of longtime Rain Bird distributor Sanford, Florida-based FIS Outdoor is busier than ever helping finance those “smaller courses” where 30- to 40-year-old irrigation systems are nowhere near as energy- and water-efficient compared with today’s newest Rain Bird systems.

“What a lot of these older courses find is they save enough money to almost make their payment for the brand-new

irrigation system off the efficiencies of the new systems,” says Abshire.

Cypresswood Golf and Country Club in Winter Haven, Florida, is a perfect example. The 18-hole course ownership recently replaced its 38-year-old system with brand-new parts and technology and the entire irrigation project – labor and materials included – was \$495,000, according to Abshire.

Abshire said the course financed it over a period of 84 months with monthly payments being “less than \$2,000.”

“With the new system, I’m saving them more than \$2,000 a month in electricity and water,” Abshire adds. “If it was just me in the irrigation business, I’d sell every one of them (courses). But the problem is our competitors manu-



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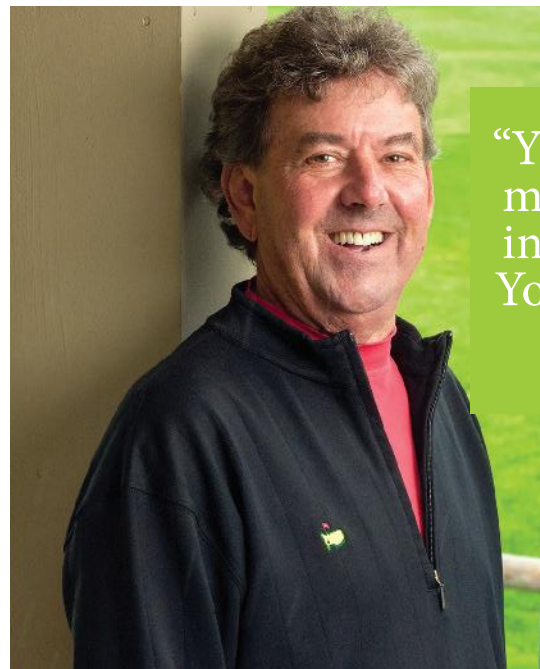
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“You know how you make a million dollars in the golf business? You start with \$10 million.”

- Jay Miller
Past president of the California GCOA

for the company's portfolio. One small example was switching out some of the course merchandise, namely the FootJoy golf shoes at Sterling Golf's nine courses.

All-America high-school golfer who played for Purdue University. “But I found out that the golfer doesn't give a (expletive). So now, all of my scorecards got advertisements on them. We saved another \$70,000 and I didn't have to pay for a scorecard.”


Wells Fargo Steps In

Another positive sign for the future financing hopes of golf course owners is the recent announcement by Wells Fargo.

In April, Waterloo, Iowa-based VGM Insurance & Financial Solutions announced an equipment-financing program partnership with Wells Fargo.

Having another major lender like Wells Fargo now taking a more committed approach to the golf business is yet another reason Osgood remains optimistic about the financial underpinnings of golf's short and medium-term outlook.

“As long as the economy and the interest rates stay somewhat reasonable for the next 10 years, and with golf courses continuing to go out of business for development and other things, our business is going to continue to get a little bit stronger,” Osgood says. “It's not going to rocket up, but it's going to get a little bit stronger.”

With a little bit of creative financing or partnering along the way, that golf business just might do even better than that. 

Scott Kauffman is a golf business writer and the managing director of Aloha Media Group.

facture (turf) equipment.

“So what Toro will do is come and give you a really good deal on the irrigation system if you 'buy our equipment from us.' Our sales strategy is completely different. We have to be the best of the best of the best (in irrigation technology) because I can't come in and offer them \$4 million worth of equipment over the next 20 years.”

Small Changes Can Add Up

Favorable financing notwithstanding, Jay Miller, Sterling Golf's new director of operations and a former California course owner himself, reminds everybody having some humor can help relieve some of the financial stress.

“You know how you make a million dollars in the golf business?” asks Miller, past president of the California GCOA. “You start with \$10 million.”

All kidding aside, Miller has discovered some creative ways to finance new merchandise, partner with vendors and successfully drive new top-line revenue

restock those courses with FootJoys it costs me \$5 a pair of shoes plus shipping and they give me credit for next year,” Miller says. “I just went from carrying 100 percent FootJoy to 50 percent FootJoy because I signed a deal with all nine of our golf shops to start carrying Puma shoes. So now, with an order of 24 pairs of shoes, I can get 12 free golf shirts – \$65 retail shirts for free – belts at a discount and the No. 1 selling 'P' hat at a discount.

“Plus, at the end of the season with all of these shoe orders, if I have 20 pairs left at every one of my golf courses, that's 180 pairs of shoes Puma will take back. Pay for the shipping and charge me nothing to restock them.”

Miller also is comfortable bartering his way to new revenue streams, partnering with scorecard maker Bench Craft Co. out of Portland, Oregon, in allowing them to sell and put ads on Sterling Golf's scorecards.

“I wasn't for this back in my course owner days,” says Miller, a former