So you want to buy a golf course?

Current golf course sales trends present a mixed message

By Jim Dunlap

Potential buyers, hopeful (or desperate) sellers and the golf course brokers who hope to bring the two together are faced with a variety of mixed messages from today's golf course transactions marketplace. On the positive side of the ledger, a slowly recovering real estate market has revived interest in golf courses with accompanying residential acreage to develop, farmers seeking to convert cheaply priced rural courses to lucrative farmland have entered the buyer pool, and some investment funds and private equity players are returning to the golf ownership fray. On the down side, debt financing for purchases is still elusive, owners looking to sell have not reached the "sell at any price" stage for the most part, and owners who got an unexpected but welcome boost from last year's generally benevolent weather may have priced their assets at points which are unrealistic in terms of the more typical weather which the country has returned to this year.

Observations vary, depending upon which market niches they typically serve, but some common themes emerge after conversations with a number of the industry's leading course brokers and buyers. Steven Ekovich of course mega-broker Marcus & Millichap, Hilda Allen of Hilda Allen Real Estate and multi-course owner Heritage Golf Group CEO Bob Husband agree that most standalone courses today are selling for anywhere between 6 to 9 times annual earnings or EBIDTA (Earnings Before Interest, Depreciation, Taxes and Amortization), and both Ekovich and veteran broker Jeff Woolson of CB Richard Ellis concur that somewhere between1 and 1.5 times annual gross revenue is also a typical purchase price guideline. All agree, however, that "typical" is an elusive term when one is talking about golf course asset pricing, which can swing wildly depending upon changes in what Ekovich calls "life changes" impacting owners' motivation such as age, illness or financial concerns, to pressure from course lenders or investors, or simply fatigue from trying to wring a profit from a course that is struggling to make ends meet somewhere north of the break-even point.

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Some course owners, particularly in the Midwest farm belt and other agricultural areas of the country, are finding eager buyers for their rural, reasonably priced courses among local farmers. The high prices currently commanded by products such as corn or soybeans have made golf course acreage, in many cases, much more desirable as farmland than fairways. As a recent article in the Washington Post pointed out, a number of rural courses in the Midwest have recently sold to farmers who see a much brighter profit potential for corn and beans than birdies and bogeys.

Chris Charnas, principal of Chicago-based Links Capital Advisors, who recently brokered the approximately $3.25M sale of Elks Run GC in Ohio and has had a banner six or seven months of sales activity, said, "At some point, you've got to look at alternative uses. So many courses in the past were built so far out in anticipation of future development that never occurred, and people are not willing to drive 30 miles to play golf. If you can grab some acres for farming, why not? The problem is that so many of the courses that are being shut down are the entry level ones that we need to grow the game."

To borrow from the social media vernacular, another tendency "trending" is the revival of interest in developable acreage surrounding golf courses from buyers who may be only peripherally interested in owning the golf course, but are very interested in possible profits from building golf course community housing. As existing inventory from failed housing developments is absorbed, and the economy improves, raw land for golf course community development looks much more promising.

"People are starting to buy golf courses with real estate attached, particularly in failed developments in Florida," said Allen, whose company is based in Adel, Georgia and does a healthy amount of both auction and private listing course sales. CBRE's Woolson, meanwhile, said that while they have recently closed a number of golf course-only sales, much of his current business involves not just golf, but the residential or commercial development opportunities adjacent to or associated with the golf course itself, such as the recent sale of the Warner Springs spa resort/golf development east of San Diego to the Pacific Hospitality Group entity.

One aspect of the golf course sales situation that may seem counter-intuitive, but may not be, is that according to a historic purchaser of golf courses, courses that are actually making money may be more difficult to sell for a big number than those running in the red. Bob Husband, whose track record includes a development and mega-sale of the Cobblestone portfolio to MediTrust in the 1990s, said, "Courses which are making money tend to price less [than struggling courses]. It's harder to sell those courses unless you can sell a story - a new owner thinks he can run them better, or add a new clubhouse or F&B operation that will take it to the next level and jump

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it ahead of the competition."

CBRE's Woolson agreed with that assessment, saying, "If the current owner has already taken it as far as it's likely to go, and is making money, how do you justify paying one times revenue as a multiplier for it in anticipation that it's going to make more money? On the other hand, if you can cost-engineer it, and maybe add some amenities or upgrades for a reasonable number, and generate more rounds, revenue or members, that may be a good deal."

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Ekovich, whose industry-largest golf brokerage division recently added Billy Casper Golf executive Rob Waldron to the roster, said his overall perspective is that there are less golf courses on the market currently, due to a number of factors.

"A lot of the stuff that was distressed is gone now," he said. "Lenders like Capmark and Textron are out of the business and have sold theirs. We'll continue to see some short sales, note sales and foreclosures, but the issue now is not finding people who want to sell, it's finding people who 'can' sell, based on their loan to value situation."

All things taken in perspective, it appears on many levels that if you're going to be a golf course owner, it's a good idea to be a farmer first and foremost. ■