

# Capitalize On Capital Leasing

*The trends are indisputable... more and more golf courses are using lease financing as the preferred method to acquire equipment and golf cars. In fact, some of the most traditional and storied golf clubs in Canada, clubs that have always cash-purchased big-ticket items, now appreciate and understand the value associated with financing these purchases through a properly structured capital lease.*

*As we all know, golf is a capital intensive business and large capital purchases occur regularly. Even for a club with cash reserves, there is value and favourable cash-flow impacts to be derived from leasing major purchases such as turf equipment, golf cars, irrigation systems, pump houses, and clubhouse/kitchen equipment.*

#### WHAT IS A CAPITAL LEASE?

A capital lease is a lease of business equipment that represents ownership of an asset, meaning it is classified as a purchase by the lessee. To be classified as a capital lease, at least one of the following requirements must be met:

- Title to the equipment passes automatically to the lessee at the end of the lease term;
- The lease contains an option to purchase the equipment at the end of the lease for less than fair market value (sometimes that is a \$1 purchase option);
- The term of the lease is greater than 75% of the useful life of the equipment; or,
- The lease payments present value exceeds 90% of the fair market equipment value.

One of the points of distinction with a capital lease is the transfer of asset ownership to the lessee at the end of the term. If the equipment is well maintained, and the capital lease is structured properly, it should create 'equity' in the equipment by the end of the lease term. This equity can be realized through continued use, or as a trade-in on new equipment. By definition, almost all leases in the golf industry are classified as capital leases.



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Applications for a proposed development of about 22 acres for "natural burial" cemetery have been submitted with substantial work completed.

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### THE VALUE OF CAPITAL LEASING

As a golf course owner, if you aren't doing so already, there are several reasons to consider capital lease financing for all major capital purchases. In today's ultra-competitive golf market perhaps the single most important benefit of lease financing is the **conservation of capital**. Capital leasing affords the club the ability to adopt a pay-for-use philosophy, as opposed to large, and periodic, up front expenditures. Therefore the same capital dollars can be stretched significantly further under a capital lease than they can be under a cash-purchase philosophy.

Additionally, capital leasing can **improve cash-flow** for a golf club. Not only does the club avoid the large capital outlay, the budgeting and forecasting of expenses also become more exact. The monthly lease payment is a known cost, whereas the repair and maintenance costs on older, aging equipment is, at best, variable. Fixed monthly lease payments over the course of a 3 to 5 year term also provide a hedge against inflation.

A less evident, but equally important benefit of capital leasing relates to **managing the life-cycle of equipment**. Capital leasing encourages the club to plan for the timely replacement of equipment, and to avoid the mistake of keeping equipment beyond its useful life. Continuing to replace regular daily-use equipment and golf cars on a normal schedule allows the club to:

- avoid costly repairs and unnecessary down-time;
- keep the golf course in better condition through the use of the most modern equipment and technology; and
- attract quality personnel and talent that will be eager to work with the best available equipment.

Lastly, capital leasing also allows the **customer to enjoy the benefits of ownership** with the flexibility at lease expiry to purchase the equipment, extend the lease, or apply the equity as a trade to lower the cost of new equipment.

### A CHANGING PHILOSOPHY

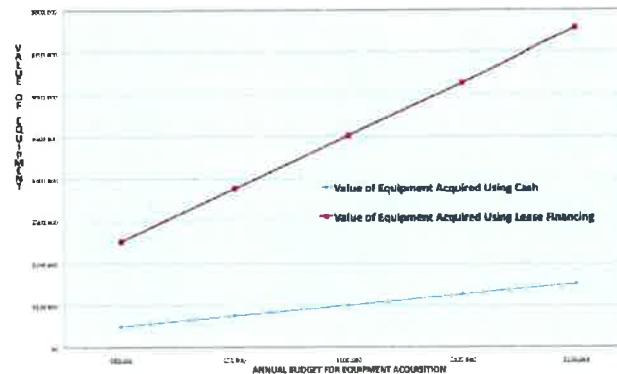
The journey from purchasing equipment and golf cars to a world where approxi-

mately 90% of clubs lease big-ticket capital items has not happened overnight. With ever increasing customer expectations and budget pressures more and more clubs have gradually turned towards leasing as the best way to acquire the assets needed to effectively run their businesses. In many clubs it has been a rough philosophical and attitudinal switch, but ultimately one that was deemed necessary for the club to move forward.

The challenge was that even if you had a superintendent or mechanic that was a magician at keeping equipment running long past its useful life, it would eventually result in the golf course spending too much on repair & maintenance (R&M), notwithstanding the labour costs and inefficiencies associated with equipment down-time.

The solution was to make a philosophical change to the way that golf clubs acquired their equipment and golf cars...through a capital-leasing plan. This behavioural change enabled clubs to update fleets of turf equipment and golf cars so that all pieces were current. Furthermore, with the ability to operate with newer equipment and golf cars, clubs were also enhancing the customer experience by providing better playing conditions and a more enjoyable day on the golf course. The best part was that they could make this change while spending relatively the same amount of money!

For example, instead of spending only \$25,000 on acquisitions, and \$45,000 on R&M, clubs were now able to spend \$50,000 on acquisitions and only \$20,000 on R&M. With the 'purchasing power of leasing' an annual leasing budget of \$50,000 allows for acquisitions in excess of \$250,000. In essence, clubs could effectively increase their acquisition budget by more than 100%, while not spending additional dollars. With the competitive landscape in the golf industry and advances in technology, more than ever, leasing is the better answer. Leasing allows the club to not spend more but to spend it more effectively. The following graph illustrates in greater detail, the purchasing power of leasing.



### THE RIGHT LEASING PARTNER

In conjunction with the "Purchasing Power of Leasing" an equally important choice is who will provide the financing for your lease facility. It is vital to choose a leasing partner that understands and has expertise in the golf industry. Not only will that lender understand your goals and objectives as an operator, but they will also ensure that you are structuring your leases in a way that is both reasonable and practical for your business (i.e., to ensure that there is positive equity at the end of the lease term!) A lender with golf expertise will be keenly aware of appropriate residual values, and terms specific to the piece of turf equipment or golf car that is being contemplated. Some of the key benefits of working with an experienced golf lessor include:

- **Lease Structure:** The main components that make up the structure of the lease are the Term, Residual, and Payments. The Term of the lease needs to be set so that it doesn't outlast the useful life of the equipment. A properly set term will allow the club options at expiry and keep their flexibility at a maximum. The Residual directly affects the monthly payment. Clubs want to maximize the residual to keep payments down. However, it is important to make sure the residual is set at a level equal to or below what the equipment will be worth at the end of the lease to ensure equity at expiry. The Payment

Structure is the final component. A golf specific lender will match the payments of the lease to the cash flow of the club. Some courses may prefer an annual payment to take advantage of early season membership revenue while others may prefer seasonal payments that match the incoming cash flow. The uniqueness of the cash flow of golf clubs requires flexibility on the part of the lender.

- **Trends in the golf industry:** Choosing a financing partner that works within and understands the golf industry and its trends will ensure your leases are realistic and will help facilitate a smoother credit approval process. An experienced golf lender understands and acknowledges the effects of a 'wet spring', or an unusually early fall and their effects on revenues. These important aspects of the golf business will be considered and weighed carefully during the credit approval process. A lease finance industry partner who can offer expertise and advice is a valuable asset for any golf course.

- **Non-Core Financing:** There can often be a gap between traditional bank loans and specialized mortgage funders. Many assets like pump stations, irrigation systems, kitchen equipment, locker room renovations and technology can be deemed "out of the box" for lenders that don't have expertise in the golf industry. A golf focused lender

will help clubs finance these "non-core" assets through an appropriately structured lease. A lease that will allow clubs to avoid large cash outlays, member assessments or delays in the starting dates for projects.

### LONG-TERM SUCCESS

Choosing a golf specialized lender is as important a choice as leasing itself. The expertise they bring makes them a vital partner in the long-term success of the golf club and allows for a creative solution to a unique financial challenge. Do you have some equipment that has reached the end of its useful life? Have you ever considered leasing? Do you currently have a leasing partner? Does that partner have golf industry specific experience? Is leasing the right option for your organization? All good questions that need and should be asked.



**TIM TRIMPER**

After retiring from the NHL in 1985 and spending 10 years in the automotive industry Tim joined Maxium's Golf Program in 1995 and currently holds the position of Vice President, Maxium Golf Leasing. Contact Tim at [timt@maxium.net](mailto:timt@maxium.net) or 905-780-6150 X304.



**RYAN SPRING**

Ryan has been originating golf course mortgage transactions in Canada since January of 2005. Currently working with Maxium Financial Services Inc. in an exclusive basis, Ryan is focused on providing creative golf course mortgage solutions to the Canadian golf industry. Contact Ryan at [ryans@maxium.net](mailto:ryans@maxium.net) or 1-800-379-5888.