The Future's Looking Brighter

There's Light At The End Of The Tunnel In The Financial World

NEW YEAR

2012 marked the end of a long winter and with a new year came some refreshing news from the finance world. For the 2012 season, there are more options available to golf course owners and some credit loosening when it comes to mortgage financing and long-term debt. Looking back at darker times, the global financial crisis of 2008 and the direct impact it had on the Canadian golf industry were well documented in this magazine by Mr. John Gordon (Fall 2010).

Mr. Gordon's message was clear; Canadian golf course owners had very few options when it came to term debt and mortgage financing. The terms available were not favourable, and there was much to be resolved. Gone were all of the US based lenders and their Canadian subsidiaries. Life Insurance companies had taken their ball and gone home as well. As one industry expert stated in that article, "the weak will die, the strong will survive." While this comment was directed towards the supply of golf courses in Canada, the vast majority of mortgage providers were in fact already dead! Without a doubt, 2009 and 2010 were amongst the most difficult times to have been sourcing a new mortgage for your golf course.

Thankfully, we can now begin to look forward to more optimistic times. Make no mistake; the market does not present nearly as many options as it did in the 'pre-meltdown' era. However, things have improved and there are more options today. While many of the main players remain the same from 2010, some now have a bigger appetite for golf course mortgages.

MORE BORROWING OPTIONS

The big Canadian banks continue to be a source of mortgage financing for Canadian golf courses. In the past, the banks generally provided mortgage solutions to clubs in the member owned 'not-for-profit' segment of the market. Today they are also appearing, with increased frequency as a mortgage option for some 'for-profit' daily-fee and semi-private clubs. With the ability to offer exceptionally good interest rates, the big banks may be a good option for the most credit-worthy of 'for-profit' borrowers. While this expands the reach of the banks to a certain extent, they will likely continue to be selective and targeted in their approach to financing 'for-profit' golf course properties, and they will continue to be a good option for non-profit member owned clubs.

Maxium Golf Leasing, which was identified in the 2010 article as an option for mortgage financing, has further expanded its golf course mortgage program. In the fall of 2010, Maxium was evaluating golf course mortgages "very selectively" as owner Paul McLean stated in Mr. Gordon's article. Since that time, the mortgage program at Maxium has grown. The company has been actively originating new golf course mortgage loans and purchasing existing mortgages from other lenders. As a prominent player in the golf leasing business since 1994, Maxium observed and acknowledged a void in golf course mortgage providers as a result of the 2008 credit crisis. As a result, Maxium developed a mandate to deepen their commitment to golf and further pursue mortgages in Canada.

The BDC, a Canadian Crown Corporation, also continues to be a source of mortgage financing for Canadian golf courses. In fact, during the peak of the global economic meltdown, the BDC was one of the only institutional sources of funding with a mandate to do any golf course lending. That interest remains in place today. On a more regional level, there are credit unions that will consider golf mortgages on a case-by-case basis. Lastly, there are also various boutique lenders that will consider golf course loans, also on a case-by-case basis. These lenders would generally be classified as 'higher-risk and higher-rate' lenders, and would be suited to borrowers that would have difficulty securing financing through institutional channels.

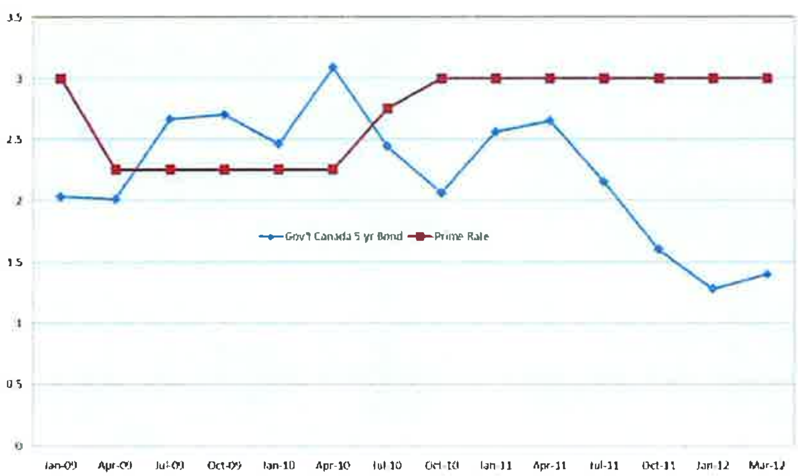
While this discussion of mortgage options may not be exhaustive, the point of the illustration is to demonstrate that there certainly are more borrowing options available to Canadian golf course owners in the present day economy. In my opinion, the market remains conservative, but is showing continued improvement for the 2012 golf season.

TODAY'S TERMS

One of the effects of the economic meltdown was that it placed downward pressure on interest rates in Canada. If you've renewed a residential mortgage recently, you've probably noticed that fixed rates have remained exceptionally low through the winter of 2012. As the Bank of Canada (BOC) tries to stimulate the economy, both the prime lending rate (base index for variable rate mortgages), and Government of Canada bonds (base index for fixed rate mortgages) are at or near 10-year lows.

As depicted in the chart below, Prime has not been above 3% since January 2009, and the 5-year Government of Canada bond dipped to a record low of 1.25% in January 2012. In my opinion, it is unlikely that rates will continue to be this low for much longer. For instance, on the heels of some good economic data in March 2012, the 5-year bond has jumped back up to 1.70 and may continue to climb for the rest of 2012.

The BOC has also hinted that on April 17th, the next date at which they will make an announcement on interest rates, the overnight lending rate may also be increased. If the economy continues to demonstrate positive indicators, interest rates will need to increase to control inflation at targeted levels[i]. The present day interest rate environment is favourable for Borrowers, but rates may be on the rise soon.



With more options and record low interest rates, is now a great time to be looking at refinancing your long-term debt? The answer is yes, it definitely is! However, there are caveats to this. As the world tries to recover from the last 36-months, the present-day reality is that lending terms are more restrictive than they were in 2008. The ratios and metrics are more conservative, and they are designed to be more sustainable over the long-term. Prior to the credit-crisis the commercial lending market was very liquid with a great deal of competition for all types of loans, and this certainly included golf. The result was a set of aggressive borrowing terms for golf courses. In Canada, golf courses could secure mortgages in 2008 based on:

- a loan-to-value ratio as high as 75% to 80%,
- loan amortization periods of up to 30-years, and
- thin debt-service coverage ratios of less than 1.25:1.00.

Based on these terms, many golf courses took on too much debt, and thanks to the long amortization periods, weren't repaying enough principal. Coupled with the negative impact that the recession had on many golf course (i.e., drop in revenue, rounds, and value in some cases), golf got overly leveraged. The challenge that we face today as an industry is to gradually deleverage it to a place where it can be manageable and successful over the long-term. Today's terms are different with 50% to 65% loan-to-value, more conservative amortization periods of 20 years, and debt-service coverage ratios with more cushion (i.e., 1.25:1.00 or greater).

Based on these numbers, if your golf course is leveraged appropriately and carrying a 'comfortable' amount of long-term debt, this is a great time to be shopping for financing. If your long-term debt ratios are in-line with today's standards, you should be able to capitalize on favourable interest rates that are at historical lows. Furthermore, if the cash-flow of your business allows it, shorter amortization periods and lower interest rates can have you paying off your golf course debt on an accelerated basis.

However, if your golf course is currently carrying too much debt and you are overly leveraged, the thought of seeking financing may seem more daunting. There could be a renewal coming up soon, or pressure from an existing lender to find a new source of long-term financing. If this is the case, don't despair! In many of these situations, there are often creative solutions that can be found. Long-term debt can be restructured. Equity can be injected into the business. Perhaps there are solutions and opportunities that would even emerge from a detailed analysis of the golf course operations and business trends. Developing working solutions for these more challenging situations requires not only financing expertise, it also requires golf industry expertise.

FINANCIAL OPTIMISM

As an owner, it is important to be proactive and speak to as many potential lenders as possible. You do not want to wait until the last minute to discover that you have a potentially time-sensitive and important issue on your hands. Ensure that you are investigating all of your options, and that you work on potential solutions well in advance of the expiration of any long-term debt.

On an overall basis, the climate for borrowing has improved for Canadian golf course owners since the fall of 2010. While current market conditions will present opportunities for some and challenges for others, I think there is reason to be optimistic about the upcoming golf season. We will have some more information for you in the next issue of Golf Business Canada magazine. In the meantime, best wishes for the 2012 golf season.

[i] http://www.bankofcanada.ca/2012/03/press-releases/fad-press-release-2012-03-08/

RYAN SPRING

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