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Gamble Sours for Many Kentucky Horse Breeders

By **JOE DRAPE**

LEXINGTON, Ky. — The for-sale signs on horse farms are as common as the bluegrass and the limestone fences here, and breeders have grown accustomed to sending horses through the auction ring and feeling fortunate when they fetch half of their asking price — or anything at all. The run-up to the [Kentucky Derby](#) is normally an exciting time for lawyers playing matchmaker between deep-pocketed clients and owners of can't-miss stallion prospects.

No more.

“The rails are quiet,” said Mike Meuser, a Lexington lawyer who is usually in the forefront of such deals. “Collecting, or trying to collect money, is the bulk of my business these days.”

The bankers have disappeared here as well. Lending to buy horses, the grease in the deal-making machine for many years, has dropped 60 percent to about \$400 million from an estimated \$1 billion in 2007, according to the [Kentucky Thoroughbred Association](#).

The decline is no small matter here in bluegrass country, where horses, all kinds, are responsible for 100,000 jobs and \$4 billion in economic impact, according to association figures, and are the cornerstone of Kentucky's \$8.8 billion tourism trade. It is one reason the racing industry has lobbied for [casinos in the state's racetracks](#), a position that would have been unthinkable not too long ago.

Kentucky is also the heart and soul of the nation's thoroughbred industry, and when it hurts, so do farms across the country.

Over the past two years, for example, the number of mares bred nationally has dropped 20 percent, and the number of stallions standing stud has fallen even more, by 25 percent, according to [The Jockey Club](#). Money bet on horse races, known as the handle, is off nearly 30 percent, to \$12 billion in 2009, a major decline for a once-reliable source of revenue for local governments.

The economic decline of racing, however, will be on full display during this year's [Triple Crown](#) season. Eskendereya, who would have been the favorite for the Kentucky Derby but was pulled out with an injury, is owned by a [bankrupt stable](#). The owners of Pimlico Race Course, the historic racetrack in Baltimore that hosts the [Preakness Stakes](#), are [going through bankruptcy](#). And the [New York Racing Association](#) said it [might not have enough money](#) to hold the [Belmont Stakes](#) this year; it is trying to get a loan from the state government.

Dynamics similar to those that brought down subprime mortgages have been at work in the horse business: no-money-down lending and a breeding market based on the assumption of ever-rising prices.

"We ignored the notion of supply and demand," said Arnold Kirkpatrick, president of the Lexington real estate firm [Kirkpatrick & Company](#). "We bred too many horses, overborrowed to do it, and are now caught trying to sell them to people who don't want them."

Gambling is the core of the thoroughbred industry. Commercial stallion farms spend millions on accomplished racehorses in the hope they will pass on their speed and class to future generations. Breeders pay up to \$150,000 to mate a mare to these studs in the hope they can land a sales topper in the auction ring.

Lately, however, horsemen have been betting their farms and losing. There are 265 farms of more than 20 acres for sale here in the four counties of horse country — up from 199 listed last year — and that is not counting the more than 60 "pocket listings" Mr. Kirkpatrick said he and his peers had not put on the multiple listings service.

"I've got 14 myself from people who want out, but don't want to scare their help or their clients by listing," he said.

In 2004 Storm Cat, who has since retired, commanded \$500,000 a mating, and his off-spring

sauntered through the sales rings like royalty. One of his colts, Jalil, sold for \$9.7 million at the Keeneland September sale in 2005. Last September, Storm 'n Indian, from Storm Cat's last crop, was the Keeneland [sales topper at \\$2.05 million](#).

"Even if you're O.K. financially, you don't want to be flamboyant or ostentatious and spend money on a yearling," said Nick Nicholson, chief executive of the Keeneland Association, which has had a 50 percent drop in sales from more than \$800 million in 2007. "We have a minimum bid of \$1,000, and we've seen more horses go through the ring and not get bid on at all than we ever had."

These days it is far cheaper to get a date with a blue-blooded stallion. The top of the market for stallions like Dynaformer is \$150,000, according to [BloodHorse.com](#). Smarty Jones, who nearly swept the Triple Crown in 2004, once stood for \$100,000, but today he can be had for \$10,000.

Case Clay is president of Three Chimneys Farm in Midway, Ky., which stands Dynaformer, Smarty Jones and 10 other stallions. He said that farms like his were being prudent about chasing the big horse.

"Usually, we are all knocking on their doors and getting into bidding wars," Mr. Clay said. "This year owners are calling us, and we are all sitting tight."

Mr. Meuser, the lawyer, said there had been warning signs the prices would not keep rising. In 2008, he said, some bigger farms like the Dubai-owned Darley were offering essentially 100 percent, no-money-down financing.

"They weren't asking to get paid until after they went through the sales ring," Mr. Meuser said. "Now, with the market the way it is, no one is getting their money back."

There is a saying among horseplayers that a bad day at the track is better than a good day anywhere else. With the Derby set for Saturday, hope springs eternal for a horse to sweep the Triple Crown (only 11 have done so) and make the industry whole.

Mr. Meuser, and others like him, would like to run down another big deal, but he said he thought horsemen needed to be realistic about their expectations.

"In years past, to put a stallion deal together for a Triple Crown winner was projected to be a

\$75 million price tag," he said. "This year you're looking at \$40 million tops, and it would take a lot of work to get it done."