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Testify! A case for conversion

GENERAL, INDUSTRY NEWS

To escape mounting debt and a tanking economy, Country Club of Woodmore changed its unsustainable business model as an equity private club to a non-equity private club. It's proving to be a sound business decision that has benefited the course's turf maintenance division.

He arrived in September 2006, just after the Mitchellville, Md., club borrowed $6 million for improvements to the golf course and clubhouse. This renovation work preceded Woodmore's hosting a Nationwide Tour event, prepping for which was "a challenge," Collins recalls, but just the sort of challenge he'd been seeking.

"Life was good for us, for all of golf," Collins says. "We had 425 members and this was a thriving club. But we got hit by the economic downturn like a lot of clubs in our class. If you weren't one of the big boys in our area — that would be Congressional, Columbia, Chevy Chase, and similar clubs — you watched initiation fees drop, assessments go up, and membership flight. At an equity private club, once the members start leaving, you can't put money back into the course or the property as a whole. It's a snowball effect."

Joe Donato, the president of Woodmore's board of directors during this trying time, points out that the economic downturn was only part of the problem. The D.C. area is an extremely competitive market for member-owned private clubs, and there was some oversupply following decades of new club development.

“In our case, we had renovated the course and clubhouse and we didn’t assess enough at the time, in hindsight,” Donato says. “We had enough members to service the debt and operations; things were fine. But when the economy went downhill, we started losing members and that compounded the issue. When you lose members, you get short on funds. Then you assess the remaining membership, which drives more of them away. Now you’re over-leveraged, and trying to meet debt obligations with fewer members.

“It’s a vicious cycle. When you’re using all your money to service the debt and fund operations, you don’t have money for capital investment," he adds. "In our case, the clubhouse was really getting neglected. It got out of control — to the point where our loan was going to come due in a couple years and it was clear we didn’t have the ability to pay off the loan. Even servicing the loan was becoming a problem.”

Life for Collins, or anyone else at Woodmore, wasn’t so good anymore and hundreds of fellow superintendents can relate, today, as this essentially financial dynamic continues to play out at private equity clubs across the country. Some 2,500 of the 4,000 private clubs in the U.S. are structured according to an equity or member-owned model. It’s estimated that some 50 percent of those private equity clubs are holding dangerous levels of debt.

“Membership dropped to 225, I believe,” Collins recalls. “After a time, everyone could see this was an unsustainable model. For years, the uncertainty kept building. I remember getting to work during this period and just hoping the clubhouse would be open so I could get a cup of coffee.”

What Collins, Donato and the membership did, in December 2012, was change the unsustainable model to one that has proved quite sustainable indeed. Concert Golf Partners, a corporate owner/operator of private clubs, purchased the note on Woodmore from the bank — with cash — erasing the club’s debt at a stroke and effectively transforming it from an equity private club to a non-equity private club.

The biggest upside to Woodmore’s conversion, according to Donato, was the club’s retention of private status, as stipulated by the covenant Concert Golf Partners (CGP) signed with the members. For members at equity private clubs today, conversion to non-equity status is an option little understood. Better understood and far less desirable is conversion to “semi-private” status — the ultimate Sword of Damocles. No one wants that hanging over their heads, because it essentially means the club is no longer private.

With the debt liquidated, assessments (much less assessment increases) were eliminated outright at Woodmore. In the first six months, CGP immediately put a new roof on the clubhouse and made a half dozen more long-deferred capital investments in the course and property — so many and so quickly, Collins refers to them as “a blur”.

The downside? Donato, Collins and the membership are still trying to figure that one out. The club’s Board of Directors certainly relinquished all fiscal authority and took on an advisory function, which, according to Donato, maintains legitimate impact on club governance but otherwise defers to Concert’s professional management capabilities.

“Most boards at most equity clubs don’t consist of people who’ve ever worked in the golf industry,” Collins says. “They’re doctors and lawyers and contractors who are successful in their own right, but do not have club management experience. I enjoyed my time working for a board. But over time, with the turnover that’s always taking place within the board, the vision is constantly shifting as to what the club should be and you have to adjust to that continually. Life is a lot easier now because we know what the goals are — and that they’re not going to change.”

Concert Golf Partners is run by Chairman Peter Nanula, formerly the president of Arnold Palmer Golf Management. CGP’s senior management staff is peppered with Palmer veterans and others from across the club operations industry. It’s not a third-party management company, as Palmer was. Like its much larger competitors at ClubCorp, Concert owns the clubs in its portfolio outright, though Nanula says Concert is more of a boutique operator focused exclusively on building a small collection of upscale private clubs.

The non-equity or corporate-owned club, as a genre, can trace its roots back to the early 1990s, though equity or “member-owned” private clubs predominated then, as they do now. Concert, ClubCorp and other owner-operators have grown in recent years, as the number of equity private clubs have, like Woodmore, overleveraged their debt and teetered on the brink of solvency (or worse: semi-private conversion).

Not all private equity clubs are exploring the non-equity model out of desperation. Many are healthy, financially, and are simply looking at upcoming capital expenditures and weighing their options: self-funding those projects or converting to non-equity and securing outside funding through upscale groups like Concert or

ClubCorp.

While conversion to non-equity or corporate-owned status is ever more common, it's not yet widespread enough to dispel the fears many industry types, including superintendents, might have regarding what is actually enabled by the move away from an equity model.

"Our superintendent and our head professional, the two key management people, both stayed on after Concert came in, which sort of speaks for itself," says Donato, adding that the general manager left after 6 months. "I would say, the misperception from the member standpoint — and what causes the angst — is an initial reaction which goes something like this: 'Oh great, a for-profit company buys my club and they're going to cut everything back. The course deteriorates, service deteriorates, etc.' That's a natural reaction and concern, I suppose, but it's an irrational thought process if you think about it.

"If the buyer is well capitalized, its two biggest assets are the golf course and the membership. It doesn't make sense to come in, buy the club, and let its biggest assets deteriorate. That certainly hasn't happened here at Woodmore. It has been the opposite – with better funding, we have seen nothing but capital projects, new services and better course conditions."

The owner-operator model has gained considerable momentum in years following the economic downturn of 2008, as more and more equity clubs cope with overburdening debt. The non-equity conversion phenomenon, i.e. the response to these debt loads, reached a wider audience/consciousness this summer when The New York Times published a July 7 story entitled, "Investors Are Buying Troubled Golf Courses and Giving Them Makeovers".

The trend was further driven home within the golf industry when ClubCorp announced, on Aug. 13, that it had acquired Sequoia Golf for $265 million, making it the largest owner of golf courses in the world, and the second-largest management company. Only Troon, with 207 18-hole equivalent courses, is larger. But Troon is a third-party operator. ClubCorp owns the majority of its properties, though, with this acquisition, it will enter the third-party management business.

Concert Golf Partners has no such plans, according to Nanula. His firm owns and operates just seven facilities, and Nanula says CGP has no intention of shedding either its "boutique" approach or its aversion to third-party management, in style or substance. "We started buying clubs because that sector was dropped by the

banks," Nanula explained. "We're not trying to build a big company. We're just buying a collection of bigger, private clubs that, for whatever reason, had been wrongly capitalized. In this cycle, they got overleveraged. And now they're struggling with the balance sheets or trying to finance needed capital projects. When you look at the bank debt and the goals of boards, in certain cases it makes sense to become a non-equity club."

Purchased by Concert in December 2012, Woodmore was CGP's third club acquisition. Collins acknowledges that the purchase and conversion of Woodmore to non-equity brought some anxieties. For example, how would golf course operations would be run from that point forward. But almost two years into the process, he sees far more positives than negatives.

Collins serves on the board of directors for the Mid-Atlantic Association of Golf Course Superintendents and tries to stay visible among his peers.

"Those guys are interested in what's happening here, and the main comment I get from people is, 'How is it working for a management company?'" he says. "My answer is always 'Concert is not a management company. They are owner-operators. Raising the cart fees 10 cents to make a couple grand extra is not the way Concert works. That's something I'd associate with third-party management — the same applies to the investment I've seen in the course here, in the clubhouse, the pool and the wedding facilities. It's the difference between a professionally managed club and a board-run club, or a third-party-managed club."

Collins says what his colleagues really want are the specifics -- how the Concert-managed Woodmore differs from the board-managed Woodmore. Before ticking off a number of examples, he says, "Concert definitely challenged us to re-think our entire operation to ensure we were not unnecessarily spending on the golf course. My management team and I did this successfully and the golf course is in as good a shape, if not better, than it ever was in the past. We are not limited agronomically at all. We have more resources at our disposal."

Among them, according to Collins:
• "Everything you hear about increased buying power is absolutely true. We have national partnerships with John Deere, John Deere Landscapes, and Toro equipment and irrigation. It's a huge advantage. I'd say that with these partnerships and Concert's capital, we've changed out about 90 percent of our fleet" in just more than two years. Collins adds that most of this equipment is under warranty, which has dropped Woodmore's annual maintenance and repair

bill by half. “It was a savings of about $22,000 in the first year, and should be more than that this year.”

• Collins says there are two greens the club had long struggled to maintain optimally, due to lack of air movement. CGP immediately went out and bought two fans in 2013, its first year in charge — the sort of expense the board had waffled on, and ultimately done nothing about, for years.

• “We had been losing a lot of divot mix, sand, and aggregate materials because we weren’t able to store it properly. We didn’t have the space. We stored it in a field somewhere and we were losing 20 percent of it each year at the bottom to contamination. They built a storage facility, an upgrade to the maintenance facility. Now we’re using 100 percent. I estimate this saves us $5,000 annually.”

• “We used capital dollars to re-sod the clubhouse lawn and entrance from a cool-season blend to zoysia, as well as to replace many of our annual beds with perennial flowers and bulb rotations. This dramatically reduced maintenance costs and man hours, from my crew, needed around the clubhouse area.”

• “We’re able to manage more efficiently. We have areas where we were sending guys to hand-water areas before. But now we’ve extended irrigation to those areas. By the same token, from a green staff perspective, they kept me and let me make the decisions on all the staff I maintain here. All my key staff members are the same. Our pro staff is exactly the same as it was the day Concert arrived.”

“All the original projects we did, when Concert first came on board, they’re a blur to be honest,” Collins says. “A lot of guys think their funding will be limited when they go non-equity. Not the case, I feel busier now on all these reinvestment projects than I did when working for an equity club.

“The biggest thing we were asked to do was rethink our operation. They wanted us to run more efficiently, and I’m like any other super: I don’t like things put that way because I don’t feel like we were ever inefficient," he adds. "But we have changed in many respects, for the better. Our mowing patterns are more efficient. We multi-task a lot more. We looked at the travel time to make our routing more efficient as we move around the course. It made me think in a more efficient, challenging way.”

About the author

Hal Phillips is a Maine-based freelance writer, managing director of Mandarin Media, Inc., and former editor-in-chief of Golf Course News