Private club equity conversion

What follows is an article written by guest contributor Peter Nanula, CEO of Concert Golf Partners. Nanula, who has been ranked among "The Most Powerful People in Golf" by "Golf Inc.", served as CEO of Arnold Palmer Golf Management. Now, at the helm of Concert Golf Partners, a well-capitalized owner-operator of golf properties and buyer of loans secured by golf properties nationwide, Nanula has a unique perspective on the differences between equity and non-equity clubs.

In an ever-changing industry, discussions around equity membership and other options are occurring in boardrooms every day. While an equity conversion is not the solution for every club, understanding alternatives is always worthwhile. If any private clubs wish to evaluate alternatives referenced in this article as well as other options, the McGladrey private clubs industry professionals are available to assist in those evaluations.

Equity vs. non-equity clubs
Of the 16,000 golf facilities in the US, some 4,500 are private clubs. Of these, approximately 60 percent or 2,700 are "equity" clubs (owned and operated by the members themselves), typically as a 501c non-profit entity. Equity clubs have declined by 20 percent since 1990.

For some clubs at the very high end of the market, with initiation fees of $100,000+ and annual dues of $15,000 or more, this will always be the preferred structure. The 501c status not only allows these clubs to avoid paying tax on any income they generate, which is rare since most aim to achieve the best possible member experience while breaking even or thereabouts, but it also allows them to discriminate in choosing their members. In certain markets, there will always be a select few clubs with a concentration of affluent club members who can foot the bill for this exclusive social club model. Members who sell are often able to find a willing buyer for their shares in these rare clubs with elite, irreplaceable status.

For the majority of clubs, with initiation fees below $100,000 and annual dues below $15,000, this may not be the right model. Members at these clubs report varying experiences with actually *selling* their shares in the club, or being repaid after a long waitlist period. For these members, their *equity* is somewhat of an illusion. There are usually other clubs with somewhat comparable amenities in the same market, so affluent families have other options. These clubs need to compete for members on service, amenities, and even price. In short, they are like any other hospitality business. They are often best operated like the best hotels and restaurants—by a professional operator with its own capital invested and a keen focus on delivering experience for value.

The process of transitioning a member-owned *equity* club to a professionally owned and operated non-equity club is rather straightforward, and has been done hundreds of times.

What considerations make a club a candidate for equity conversion?
Consider the following questions from the perspective of a club:

- Is the membership at its cap with a multi-year wait list to join the club?
- Is the club debt-free with substantial long-term capital reserves on hand?
- Is the club consistently well-managed with little or no member complaints?
- Are capital improvements being made annually with no assessments to the members?
- Do members routinely sell their shares at or above their original cost?

If a club is unable to respond "yes" to most of these questions, a chance exists that it should consider whether it is worth remaining member-owned and member-operated indefinitely. At the very least, equity conversion is an option worth weighing.

How does an equity conversion work?
The basic elements of an equity conversion are as follows:

- The real estate assets are transferred to the new entity.
- The membership signs new membership documents with the same privileges, dues and virtually identical by-laws. Dues rates can be frozen for a period of time, usually multiple years.
- Covenants ensure that the club remains private and there will be no assessments—ever.
- Needed capital improvements are funded up front by the new entity. This is in lieu of paying the members for their equity—all capital goes into the club itself.
- Any mortgage debt is paid off by the new entity, so the club is debt-free and can fund ongoing capital projects easily.
- Any membership refund obligations of the club are resolved up front by the new entity.
- An advisory board of members guides the new entity on capital improvements, service issues and long-term planning.
- Members can receive reciprocal club privileges at the manager’s other clubs.

Once a board committee decides to move forward, the operator prepares documents and completes due diligence; then, the membership votes to approve the equity conversion. The whole process can be completed in two to three months.

The benefits of an equity conversion
Some of the benefits of an equity conversion include:

- Debt-free club with fully funded capital improvements.

- Professional management of the club, with advisory board input.
- Dues and privileges remain the same.
- No more assessments—ever.
- No more governance, meetings, financial management.
- Just be a member, and enjoy your club.

While an equity conversion might not be the optimal choice for every club, it is a viable option that can lead to sustainability with more than its fair share of benefits to members.

For comments and questions, Peter Nanula may be contacted directly at pnanula@concertcapital.com.

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