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The Bay State's Community of Country Clubs is Deep in the Rough

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When the money squabbles spilled over from the computer screen to the putting green two years ago, Tim Nelson knew his country club was in trouble.

Canton's Blue Hill Country Club was stuck in a downward spiral — one that a significant number of Greater Boston's member-run clubs also find themselves in. The institution had lost members to the carnage of the recession. To keep the club running with fewer members, its board raised dues. The higher dues led more members to drop out. And so on. At some clubs, one-time charges known as assessments, meant to help clubs balance their budgets, have contributed to the spiral.

To end the vicious cycle, some Blue Hill members proposed to pony up for a new restaurant, bar and gym to attract young families seeking a one-stop shop for recreation. But a contingent of veteran members opposed the changes and launched an email campaign to kill the proposal, according to Nelson, who sat on the club's board. Soon enough, members were openly arguing with one another, even on the fairways of Blue Hill's emerald links. "It just got ugly," Nelson said.

Similar scenarios are unfolding throughout the region's community of country clubs in the face of waning national interest in the sport of golf and economic realities that, since the most-recent recession, have cast membership as a luxury many Americans are willing to live without. Experts in the field say the trend will force courses, particularly those with thinning memberships and over-leveraged balance sheets, to sell or reorganize, possibly through bankruptcy.

The numbers in Massachusetts aren't promising. A Business Journal analysis of nearly 60 clubs in the Bay State found that they carried more than \$168 million in total debt. More than 30 clubs have at least \$1 million in debt, according to data from the most recent fiscal year.

To some, any amount of borrowings equal to or above 50 percent of annual revenue is a sign that a club could soon find itself in major financial trouble. Nearly two-thirds of the clubs fit that description, and over a dozen reported total debt in excess of 100 percent of total revenue.

Board blues

The financial problems faced by member-run clubs are not only tied to a uneven economy, but also to the way the organizations are run, experts said. The members who sit on a club's board of directors have the biggest say over its finances but only hold their positions temporarily. Kicking debt repayments down the road may seem like an easier choice than raising dues on your friends to balance the budget.

"You're off the board next year, and you're the hero guy that's added on to the clubhouse. Paying for it? That's someone else's problem," said Peter Nanula, the chairman of Concert Golf Partners, the investment firm that ultimately bought Blue Hill.

In addition, potential members desire different amenities than the members of yesteryear, according to industry experts. For example, young families want more casual dining spaces than a traditional white-cloth country club restaurant. They also want fitness facilities, tennis courts and day-care services. "I always tease that clubs were built for the Cleaver family of

the '60s, and families just don't look like that anymore," said Whitney Reid Pennell, a consultant for country clubs.

To include those amenities without raising dues, clubs have to achieve a consensus among hundreds of members to take on debt, a difficult proposition. "Members who have been there for 30 or 40 years, they don't want to take on more debt," Pennell said. "Younger members are comfortable taking on the debt because they feel like (they're) going to enjoy this for the next 30 years." In the case of Blue Hill, members who did not live near Canton were reluctant to spend money on a gym they would not be able to use every day, according to Nelson. "These things are a hospitality business being run by a PTA board with volunteer parents," Nanula said. "It doesn't work."

Blue Hill's board ultimately tabled the renovation proposal. After weighing a few other options, its members decided last year to sell the club to Concert Golf Partners. When Concert took over in December, its members lost control over their 90-year-old club. But in an instant, its roughly \$5 million in debt was wiped out, and the millions of dollars in capital improvements that the property needed were put on someone else's tab.

It's a path that several other Massachusetts private clubs, including Seekonk's Ledgemont Country Club and Agawam's Crestview Country Club, have followed — and one that many more likely are weighing.

A way out

If a club recognizes it's in a death spiral, it has a few options. It can sell land to a real estate developer, though in extreme cases that can mean its members no longer have a weekend hangout spot. Others have opted to sell to a professional club manager such as ClubCorp or Concert, as Blue Hill did, or to a less specialized outside investor, as Ledgemont Country Club did at the end of 2013.

Ledgemont saddled itself with debt in the late 1990s, when its membership was still strong, and lost members after the early-2000s recession and then again after 2008, according to its former president, Jeffrey Brier. As a

formerly Jewish club, Ledgemont also ran into issues attracting a wider membership base, he said. “The feedback we were getting from some of our non-Jewish members, their friends were saying, ‘Are you going to be comfortable?’” Brier said.

At first, Ledgemont considered merging with one of two nearby organizations, but neither conversation led to a deal. Brier then reached out to outside investors big and small, including one of Donald Trump’s sons, but Ledgemont ultimately accepted the first offer they received, from local real estate investor Joseph Ruggiero. Some 94 percent of its members voted in favor of the deal.

As many outside investors do, Ruggiero slashed Ledgemont’s dues — in the case of top-tier members, annual dues were cut in half, to \$6,500. Ruggiero ponied up for the sort of unsexy capital improvements that don’t get members excited, such as a new septic system and clubhouse windows. He also added a new driving range, swimming pool and tennis courts, according to Brier.

For outside investors, such upfront improvements are a way to complete the maintenance neglected in the wake of the recession and to entice new members. In the case of specialists like Concert, which owns a dozen clubs across the country, equipment is cheaper than it is for member-run clubs because they buy it in bulk for multiple clubs.

Back at Blue Hill in Canton, equipment savings and the elimination of its debt boosted cash flow by roughly \$1 million, according to Nanula. “We know we can make a reasonable return over the long haul,” he said.

For members, the first year following a sale can be something of a honeymoon. But there are drawbacks, namely a loss of control. At Ledgemont, some members grew unhappy with staffing changes last year, Brier said. Clubs will stipulate in sale agreements that the new owner cannot immediately sell the club or make the course public, but those provisions expire. Ledgemont’s members have a right of first refusal on any proposed sale, but only for 10 years, Brier said.

Brier has to remind members grumbling about service cuts about the improved state of the club's finances under Ruggiero. "If he just ran the club the way we did, he would lose a fortune," Brier said.

The other option

Rather than selling in the face of financial and membership struggles, some local clubs have borrowed to make the investments that consultants say will attract new, younger members. After Framingham

Country Club lost a "considerable" number of members post-recession, it put in a new pool, pool house and fitness facility in 2010 and invested nearly \$1 million into the golf course in 2013, according to its president, Jason DeVito.

The Framingham club's liabilities tripled in fiscal 2014 to \$7.4 million, nearly equaling its total assets, according to tax filings. DeVito attributed the debt increase to an accounting change, and said the club has its debt under control and that the improvements have brought on the younger members it sought. Membership has rebounded to about what it was immediately before the recession, DeVito said, though some are so-called social members who pay less and do not have full use of the golf course. Like others, the club now offers one-year trial memberships, at about 65 percent of typical membership costs.

Blue Hill considered staying independent, too. One strategy called for the sale of nine of its 27 holes. Another was to ask members to kick in money to pay off the debt. Members ultimately opted to sell.

With golf season starting, Concert is making millions of dollars in improvements to the club, including fixing the driving range, putting in a new practice area and reopening a restaurant area. Nelson isn't worried about a loss of control now that members don't run things in Canton. "You really don't have a lot (of control) especially if you have a lot of debt," he said. "Now you can all be friends again."