ConcertGolf Partners

From the Nov 2016 issue of:

EXECUTIVE GOLFER
Published by the Pazdur Family since 1972

# Peter Nanula on Capital Planning for Private Clubs

There are about 3,500 private golf clubs in America. Most fall into one of three categories.

Approximately 800 are considered "untouchable." Baltusrol and Los Angeles Country Club fall into this category. No matter the economy or changing demographic trends, they will remain financially strong with membership waiting lists.

Another 200-400 are destined to fail, no matter how hard management works. Location and macro trends are too great to overcome.

The "meat of the market" includes 2,000 private golf clubs that will, and must, evolve.

This evolution will come at a cost. Capital improvements to add family friendly amenities, update a clubhouse, and renovate a golf course run in the millions of dollars.

Ideally, businesses budget a percentage of gross revenues every month, and divert those funds into a separate bank account earmarked for capital expenditures. This is how businesses maintain the integrity, charm, and value of their properties over time.

Data from Club Benchmarking (see www.ClubBenchMarking.com) reveals 63% of clubs maintain a capital improvement reserve fund. However, a follow-up investigation by Concert Golf Partners (seewww.ConcertGolfPartners.com) indicated a stunning 25% had no money in the account.

If infrastructure isn't methodically updated through proper CapEx planning, roofs, furnaces, and pools inevitably fall into disrepair—meaning these recurring, more or less permanent capital dues grow in size. Before you know it, members wake up and the club they joined for $800 in monthly dues is now costing them $1,200 a month. The club has priced itself out of the market.

Many private clubs in America have long used episodic assessments. But make no mistake: it's far more common today because another longstanding CapEx funding method—borrowing—is a less likely option. Since the recession, local banks and specialty golf lenders have essentially vacated the golf space. And even if clubs can get their local bank to make a loan, most Boards tack on an extra charge ("debt dues" anyone?) to the members' monthly bill to pay the bank for years to come.

**The Right Guy For a Changing Landscape**

I recently interviewed Peter Nanula, chairman of Concert Golf Partners, and left impressed. A graduate of Harvard Law School, his outlook on the private club industry causes mixed emotions of worry and optimism. His portfolio of wholly owned private clubs is debt free and profitable, rain or shine.

"Most private club Boards realize major capital will be required in coming years," explained Nanula. "Borrowing from banks, member assessments, and cranking up monthly dues each carry inherent risks. If you don't have the cash on hand to self-fund and have to look for a loan, debt service costs can be significant. A medium-sized project of $5 million @ a 6% interest rate equates to $435,000 in additional bank costs *per year* – and these payments never seem to go away."

Private clubs that are simply looking to evaluate day-to-day operations and implement new staff training manuals have a handful of good choices including the likes of Troon Golf. "But most management companies have no skin in the game. They receive a fee for their services but they have no capital to address the real issues," said Nanula.

If capital is required, Club Corp and Concert Golf Partners are the market leaders. "I like to think of Concert Golf as the Kimpton Hotels in our industry," described Nanula. "Concert Golf is a boutique operator - and an investor in these clubs. We have a proven formula to assure the long–term success of a private club. Our solution is to upgrade necessary infrastructure, preserve the existing management team, and do so without the club incurring any debt – and the members paying nothing more."

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