CASE STUDY:
Preserving & Enhancing Private Clubs

Elite New York Club Pays off Debt, Funds Capital Projects and Preserves Club for Long Term

ConcertGolf Partners

The Muttontown Club | Long Island, NY

Imagine for a moment that you preside over one of the most distinguished and superb courses on all of Long Island. The course, opened in 1962, was designed by Alfred H. Tull. Your equity membership owns 150 acres of valuable property just 30 minutes from Manhattan; it is zoned for residential use and was assessed in 2014 at $25 million.

The elegant 70,000 square foot Georgian mansion which serves as the clubhouse is steeped in history. The building was completed in 1919 and soon became the home of Henry Fonda. According to a New York golf commentator, "Sumptuous is the only way to describe The Muttontown Club…"

The homes surrounding your club are mostly mansions, priced from $2 million to $10 million. Household incomes are very high, among the highest on Long Island. Your members are pillars of the business and legal circles, and most can easily afford the $20,000 to $25,000 annual dues charged at your club and the other top clubs nearby.

Your club should be among the equity clubs with a waitlist, right?

Muttontown Club History

The Muttontown Club features one of the most distinguished and superb courses on all of Long Island. The course, opened in 1962, was designed by Alfred H. Tull, a prolific designer with courses all over the eastern United States, including Bethpage's Blue and Yellow tracks. The course plays 6,533 yards from the tips and has a slope and rating of 70.3/128.

The elegant Georgian mansion which serves as the clubhouse is steeped in history. Dubbed "The Mad Chimneys" for the 26 fireplaces and 13 chimneys set among its 44 rooms, the building was completed in 1919 and later became the home of Henry Fonda.

The Muttontown Club is not far from the Long Island Expressway on Northern Boulevard in East Norwich, Long Island. You drive down a very long entrance road to the circular driveway, where you find a beautiful, red-brick Georgian Style Clubhouse befitting aristocrats. The course is impeccably maintained, the lockers are large and crafted from fine wood, the steam room and showers are luxurious, and after exiting the 18th hole you can sit on the veranda of the beautiful clubhouse with a view of the entire course.

Club Challenges

Despite the club's great location, affluent demographics and its grand and historic clubhouse and facilities, in 2017, Muttontown faced many of the same challenges that many equity clubs are dealing with.

First, the overall decline of the golf industry combined with the cluster of 13 private clubs in the same mid-Long Island area meant that Muttontown was competing for the same shrinking group of affluent golfers. Initiation fees at most of these clubs were zero, down from $50,000 to $100,000 in the good old days. Each year, every club in the area requires members to commit for the coming year - and must sign a one-year contract. Most have zero initiation fee to join, so groups of golfing buddies typically "shop" their group to other local clubs to see where they can get a better deal.

Moreover, the membership at Muttontown was itself shrinking. After a series of assessments for both capital and operating shortfalls had driven the annual price up to $25,750 per year, only 125 equity members remained. Some Board members favored higher dues rates to clear out the less-affluent members; these same Board members also cut back on non-golf amenities over the years and discouraged women golfers and families with kids.

In addition, the club owed millions in refunds to members holding certificates. Some had already resigned and were on a "sell list." Current members wondered whether they should put their name on the resigned list in order to have an earlier chance at a refund, when they someday actually decided to resign.

The club's larger financial obligation was to two different banks it had borrowed from. The club owed nearly 100 percent of its annual revenues, which is significantly higher than industry experts advise. The annual debt service was killing the club; without that payment, the club was operating at roughly a breakeven level.

According to the Board President, on top of all this, "the Board and committees are killing me." These were wealthy, successful businesspeople, after all, who had strong opinions on everything about the club. They all wanted to drive the club in a dozen different directions...including unsustainable directions that were causing large operating deficits each year.

Trying a Management Company

In order to address these various club challenges, in 2010 the club retained one of the leading golf management companies, for $150,000 to $200,000 per year. The hope was that the company's expertise in managing clubs, plus its purchasing power and brand name for marketing memberships, would improve the financial and membership trends at Muttontown. This is a common choice of club boards, who feel pressure to do something about their club's decline – and they know that golf management companies must surely have some advantages over a standalone equity club with a rotating board of part-time volunteer members.

The firm brought in some new staff, including a top-rated General Manager with a hospitality background from Switzerland. Members liked his personal touch and attentiveness to individual members' special requests. Accounting was done off-site, which was supposed to bring some expertise or cost savings – but in fact further reduced the club's ability to control its financial performance. After seven years of third-party management of the club, the trends were the same: increasing dues and assessments, declining membership, needed capital projects being deferred and rising debt levels.

Unfortunately, the Board found that being able to tell your members that the club is run by one of the nation's top golf management companies is not the same thing as having a well-capitalized and well-run club. Hiring a third-party management company is simply not an answer to bank loans, member refunds, declining membership levels or rising dues and assessments. These common club challenges are all beyond the manager's capabilities. They kept asking the club's Board to pay the bills and fund the needed capital.

Problems with the Bank(s)

In 2004, the club had borrowed $9.5 million in order to fund major renovations to the main clubhouse and the fitness complex. The projects were well-received by the membership, but in hindsight the timing was not ideal. The recession of 2008-09 hit many clubs hard. Loan payments were $850,000 per year; this required a highly profitable club just to service the debt, leaving aside continuing capital improvement projects and paying back member refunds.

In 2014, the lender agreed to restructure the remaining $6.5 million loan balance. They raised the interest rate to 6.5 percent to reflect the heightened risk of the loan but lowered the principal to be repaid each year, which gave the club some cash flow breathing room. In 10 years, there would still be $4.9 million owed to the bank. Bankers call this "pretend and extend" – give the borrower more time to repay the loan, make the monthly payments lower and hope that things will get better in the meantime.

In 2015, the Board got creative and obtained a second loan on the club – this time for an additional $2 million – from a local bank whose management knew wealthy members of the club and did other banking for those individuals.

During 2017, things got worse. The first lender's loan portfolio was sold off, and the new lender declared several loan defaults: they were not receiving full payments from the club and they were not pleased to learn that there was now $2 million of additional debt on the club. The bank wanted a sizeable paydown of its loan by the wealthy club members. Surely these rich folks could each make a small contribution – also known as an assessment – to pay down the loan and correct the loan defaults? Perhaps valuable land could be sold off to real estate developers to pay down the loan.

Trying to Sell off Some Land

> "The high-end private clubs on Long Island were **struggling with many of the same challenges** endemic to the 3,300 member-owned clubs nationwide: **debt from the last round of projects, new improvements needed to attract new members and rising member bills to pay for all of it**. On the Gold Coast of Long Island, this means member dues and assessments totaling $25,000 to $30,000 annually. At some point, even very affluent club members begin to question the value proposition."

Peter Nanula
CEO, Concert Golf Partners

The board president called in real estate developers to see if some of the club's valuable land could be sold off to raise cash to pay down the debt. A few nearby clubs had gone down this path: Elmwood CC in White Plains had sold to Ridgewood Real Estate Partners, a local developer. The Woodmere Club, 26 miles south of Muttontown near JFK Airport, had sold to another local developer. Hampshire Country Club in Mamaroneck was also sold to developers - now 105 townhomes are being built where the course used to be, and the town is collecting an additional $5 million in annual property taxes.

There were two problems with this approach, the Muttontown board president discovered. First, the club had minimum 3-acre zoning. This means that each home buyer would be buying a lot at least 3 acres in size, so the developer could only squeeze 20-30 big, expensive lots on the entire club property. These kinds of expensive lots do not sell very quickly, and there are not enough of them to offset the roads, drainage and other infrastructure costs for such a small development project. The price a developer would pay, if any were interested, would be very low – and only after spending years getting entitlements and permits from the local township. After several meetings with developers, it became clear that selling off the club's land would bring in $10-12 million, so the net proceeds after paying off the debt was only $20,000 to $30,000 per member, possibly less after taxes. Not much of a windfall for the members willing to take a check and join somewhere else.

Second, and more important, all these other clubs were being closed and bulldozed to make way for homes; there was no more golf and no more club. There was no dream scenario where a few holes could be rearranged and – presto - $5 million or $10 million would appear in the club's bank account to make all of its debt and financial problems go away.

Muttontown called in the folks from Ridgewood Real Estate, who had family members that were long-time Muttontown club members. Ridgewood quickly sized up the low yield of lots that could be developed on the property and gave the Board an estimated price it could pay for the entire club. Ridgewood also suggested a different solution to the Board: instead of losing your club forever, you could recapitalize with Concert Golf for roughly the same price and keep your club. In fact, the club would see its debt paid off, receive millions in capital improvements projects, member dues would be reduced by 10-20 percent and there would be a written guarantee of no future member assessments. A club preserved, indeed.

Educating the Membership and Voting

The club president started with his Executive Committee, and then began to bring his fellow Board members into the loop on the club's options. Either the club would have to pass a sizeable assessment to pay down the debt and fund some capital projects or recapitalize with Concert Golf. These were the only two ways to preserve their lifestyle and club traditions, otherwise they would lose their golf course and club with a real estate developer.

The Board unanimously decided on the Concert Golf proposal. The president sent out a letter to his membership along with key facts about the proposed deal to begin the process of educating members. He then held two town hall meetings, as well as some smaller group sessions and webinars, which allowed members to ask questions and have their voices heard. In less than a month, the transaction was approved by a 96-3 vote of the Muttontown Club's members.

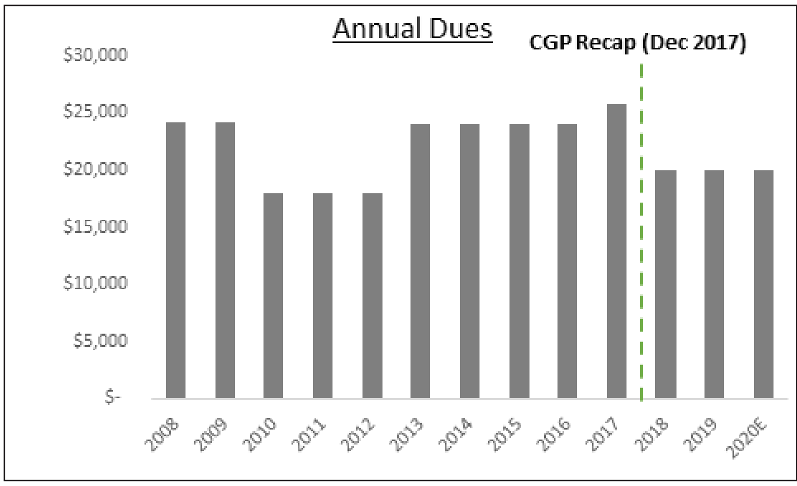
The Transformation is Underway

Concert Golf Partners worked with the Board and club staff on the transition during December 2017. No immediate changes were made, other than paying off the bank loans and starting the promised capital projects. With $850,000 of annual bank payments gone, cash flow was much improved.

In early 2018, Concert Golf announced new membership dues pricing – with sizeable price reductions in several categories to adjust to local market prices. A small cadre of members who were in the $30,000-dues-or-bust camp were not in favor, and some of them left Muttontown. Quickly, membership sales activity picked up. Locals who had heard about the club's debt, high dues rates and frequent assessments now gave the club a fresh look.

CGP immediately made good on their promised capital improvement projects. Members began to see bunker, tee box, and greens renovations, a cocktail lounge was added, renovation of the driving range, pool deck surface repairs, parking lot repairs, HVAC repairs, boiler replacement, roof repairs and other necessary repairs to enhance the club's appearance.

Just two years later, the results are in: 110+ net new members were added to Muttontown's roster. Membership median age has dropped by 10 years. Many younger members and their families are using all aspects of the club. MCC has become a progressive, diverse, family oriented resort style private country club. The social calendar at the club is packed with new activities – along with the old traditions that have, as promised, been kept. With all the cash flow coming in through new memberships, some additional golf course and clubhouse renovations are being planned. And best of all, the club president is enjoying his club again – and not getting calls at all hours from bank officers and complaining members.



Dues reset to market pricing.