Private Equity Club Model Isn't Failing
IT'S DIVERSIFYING

PETER J. NANULA

Today's private club market is clearly in transition, but this is not a situation where the failure of one model (private equity clubs) has given rise to another (private non-equity).

What we're seeing is a diversification of club products/categories resulting from a series of economic realities: an oversupply of private clubs, an economic recession (2008-2012) that forced many of those clubs into debt, and the subsequent flight of banks from this sector.

This is an analysis you've likely heard before, but here's something you probably haven't: Members themselves emerged from the recent economic downturn with adjusted tastes and expectations, which has furthered this diversification.

There is a perception that private non-equity clubs sprouted up in the wake of the 2008 recession. Not so. It happened during the 1990s...They grew in popularity because they ostensibly offered many "private equity club" benefits (membership cap, careful screening of prospective applicants, all or substantially all of the services offered in a private equity club) while eliminating some of the perceived negatives: members in management, assessments for capital improvements, uncertainty regarding dues levels.

We've been witness to this dynamic because we at Concert Golf Partners are in the business of buying out members at private equity clubs, eliminating that debt, thereby transforming these properties into private non-equity clubs.

This solution, this product of diversification, isn't for every club. But when the factors are right, these new member tastes and expectations dovetail with the economic realties. If that weren't so, our business model wouldn't work.

The old model is hardly facing extinction. The most prestigious private golf clubs in America have historically been private equity clubs, and that is unlikely to change.

However, perceived social status historically went along with the exercise of voting power and membership exclusivity. That is changing.

There were always trade-offs inherent to the private equity model: Such clubs are obliged to assess members each year for capital improvements.

Many such clubs shied away from those tough choices (meaning improvements didn't take place, leaving a legacy of deteriorating infrastructure), and members with limited experience ultimately self-managed these clubs.

Before 2008, most private equity clubs made this work, in spite of these challenges.

Post 2008, with many markets oversupplied, the private club market experienced something of a perfect storm — and those tradeoffs have become increasingly difficult to bear. Need evidence? One need only count the number of clubs that have gone semi-private or transitioned to private non-equity status, or simply given up the ghost the last three years.

With few exceptions, private equity clubs have, during this period, generally experienced an increase in resigned members, a decrease in demand for memberships, an increase in the waiting time on the seller's resignation list, an increase in monthly dues, a decrease in the fee/deposit for memberships, and a long list of deferred capital improvements and repairs.

In many instances, private equity clubs have continued to raise dues to unprecedented – and in many cases above-market – levels. Unfortunately, when these clubs found themselves in a position where they could no longer raise dues, they took on debt and pledged the club's assets and properties to finance their deficits. Banks have more or less abandoned the private club market because too many similar loan obligations in this segment have not been met.

Some private equity clubs weathered this storm, while others are today fighting their way back into the black, retrenching when it comes to the capital expenditures too long deferred. These clubs occupy the top of the market.

Some are going the opposite direction, opening their doors to public golfers.

Others are questioning just how much value is inherent in the private equity model and its modern-day vulnerabilities. These are the clubs exploring the private non-equity model.

There is a perception that private non-equity clubs sprouted up in the wake of the 2008 recession. Not so. It happened during the 1990s, and a large golf company, a wealthy entrepreneur, or a developer generally owned these prototypes.

They grew in popularity because they ostensibly offered many "private equity club" benefits (membership cap, careful screening of prospective applicants, all or substantially all of the services offered in a private equity club) while eliminating some of the perceived negatives: members in management, assessments for capital improvements, uncertainty regarding dues levels.

The perceived benefits of private non-equity membership are plain to see: debt is liquidated, management is left to someone trained in the craft, and all-important capital projects are fully funded.

All of this remains true of private non-equity clubs. The difference is the degree of vulnerability private equity clubs feel today. Simply put, debt and falling membership rolls/prices have rendered the private non-equity club model far more attractive – especially when the alternatives (going semi-private, going further into debt, or going under) are so stark.

This isn't the failure of the private equity club segment. It is the natural diversification of a segment that has been through the wringer and is coming out the other side. **BR**

Peter J. Nanula is chairman of Concert Golf Partners (www.concertgolfpartners.com) and the former CEO of Arnold Palmer Golf Management.

Judd Brown Designs and Jefferson Group Architects

FIDDLER'S ELBOW COUNTRY CLUB - BEDMINSTER, NJ

FIDDLER'S ELBOW COUNTRY CLUB - BEDMINSTER, NJ

Whether you are building, renovating, or seeking guidance our team of professionals can provide complete Planning, Architectural and Interior Design services for your clubhouse.

Contact Peter Cafaro
401.721.0977
pcafaro@jbd.cc
www.jbd.cc

INTERIOR DESIGN
CLUB CONSULTING