

Investors Are Buying Troubled Golf Courses and Giving Them Makeovers

By [SARAH MAX](#) JULY 7, 2014 8:25 PM



When the Gaillardia Golf and Country Club opened in 1998, it was to be the crown jewel of golf in Oklahoma City, complete with an 18-hole P.G.A. championship course and a 55,000-square-foot clubhouse of Norman-style architecture. The Gaylord family, best known as Oklahoma media moguls and owners of the Grand Ole Opry, sank a reported \$59 million into the project.

Over the next 15 years, however, the course changed hands and fell into disrepair as a glut of new courses and declining demand punished the market. Finally, early this year, Gaillardia was sold to Concert Golf Partners, an investment firm based in Newport Beach, Calif., which assumed \$7 million in loans and now owns the property free and clear.

“Between 1998 and 2005 there would have been a bidding war,” said Peter Nanula, the chairman of Concert Golf who previously ran Arnold Palmer Golf Management.

DragonRidge Country Club near Las Vegas. Credit Pacific Links International While golf is still anathema to many investment portfolios, investors who have the cash see the current market as an opportunity to scoop up distressed clubs and revamp their business models.

“It’s certainly a buyer’s market,” said Larry Hirsh, president of Golf Property Analysts. “There are a lot of distressed courses, financing is difficult and most buyers don’t have the ability to write a check.”

Valuations for golf courses — and golf course debt — have been slow to recover even as most asset classes have recovered from the financial crisis. Last year was the eighth consecutive year of net club closings, according to the National Golf Foundation, with 157 closings and 14 openings. Most existing courses, meanwhile, are still worth far less than they were before the recession.

Several factors have been dragging down the industry, experts say, including changing family dynamics, overbuilding in the late 1990s and an absence of lenders.

In 2007, the three big players in this area — [GE Capital](#), [Textron](#) and Capmark — had more than \$2 billion in golf loans outstanding, which were already in decline, Mr. Nanula said. In 2012, that number was just \$500 million. Today, what lending is done is extremely fragmented, with interest rates starting about 7 percent and loan-to-value ratios around 50 percent, compared with 90 percent before the recession.

“It would be like if [Wells Fargo](#) and Chase suddenly quit making home loans,” he said, noting that lenders left the market for a variety of reasons, not all of them related to loan performance.

But that has opened the door for investors like Mr. Nanula, who raised his \$50 million [private equity](#) fund in 2012 and has since bought eight golf course clubs and loans. In 2013, the asset management giant [Fortress Investment Group](#) began financing Arcis Equity Partners, a Dallas-based private equity firm that specializes in leisure. In March, Tower Three Partners of Greenwich, Conn., took a majority stake in the Heritage Golf Group, an owner and operator of premier private, resort and daily fee golf properties.



Last September, the world’s largest owner and operator of private clubs, ClubCorp Holdings, went public at \$14 a share. The Dallas-based company, which had been owned by the private equity firm KSL Capital Partners, has used the injection of capital to add to its portfolio of clubs and eventually pay off its high-yield debt. It now owns 109 golf and country clubs in 23 states and Mexico. Its shares climbed as high as \$19.30 in May and closed at \$18.63 on Thursday.

More golf courses are likely to close over the next couple of years, said Eric Affeldt, ClubCorp’s chief executive, but for the right clubs in the right markets, the tide is turning. “We sold more memberships last year than at any time over the last 10 years,” he said. “As capacity returns to a healthier level, things should

only improve.”

Though the housing boom and easy access to credit helped pave the way for hundreds of new courses, the buildup began decades earlier. From 1986 through 2005, about 4,200 net new golf courses were added in the United States, a 40 percent increase, according to the National Golf Foundation.

The biggest frenzy was in the late 1990s, Mr. Affeldt said, after an “erroneous report” said that the supply of golf courses would not be sufficient to accommodate retiring baby boomers. Between 1994 and 1999, the market added on average a net 343 courses a year.

What the projections did not account for, however, was changing behavior among retirees. “Prior to 2000, the assumption was that boomers would behave the same as retirees in the 1950s through 1990s — people would retire and get a membership at a golf club,” said Douglas Main, director of real estate consulting with Deloitte Transaction and Business Analytics. While plenty of baby boomers still love to golf, he said, many are working longer, traveling more and taking up other leisure activities.

Meanwhile, the younger set has not given the industry much of a bump. “The family dynamic has changed,” Mr. Hirsh said. “Dad’s not leaving for the golf course at 8 o’clock Saturday morning and coming home just in time for dinner.”

Consequently, for more than a decade, the number of rounds played has been down or flat.

Though the industry as a whole has been under a black cloud, not all clubs are losing money. The clubs that have held up best are those in densely populated areas with limited land on which to develop, Mr. Main noted. “You can have a club in Chicago doing better than one in Florida or Texas, even after you factor for the weather,” he said.

The worst off are those developed in the last 15 years as part of a residential community off the beaten path. “They’re relying solely on demand from that community,” Mr. Main added. Indeed, many of the new courses built during the housing boom were meant to be subsidized by home sales. When the bottom fell out of the housing market, developers had no way to pay for the expensive amenity. In many cases they defaulted on their loans, which are now getting scooped up by investors.

“Golf courses have high fixed costs,” Mr. Nanula said. “At a typical course, it’s at least \$500,000 a year just to mow the grass.” Moreover, many clubs are mismanaged, he said. “The typical dynamic at a private club is that it’s not run with profit in mind but with the idea of making the place fabulous,” he said. As a result, he said, “we consistently see clubs that have no rhyme or reason on spending.”

As such, investors focus primarily on buying private clubs — annual and monthly dues are “stickier” than daily fees on public courses — and turning around the operations.

While the right location and management is crucial, the golf clubs that are doing well have also evolved from being golf centric to family centric. “It’s now golf with a small ‘g’ instead of a capital ‘G,’” Mr. Affeldt said, explaining that ClubCorp is refreshing food and beverage operations, relaxing dress codes and adding water parks, tennis courts and fitness facilities. Case in point: His home club, Brookhaven Country Club in Dallas. “Kids are playing putt-putt golf and running around in their bare feet while grandmas do water aerobics,” he said. “It’s the epitome of a multiuse, multigenerational club.”

The pool of buyers has improved considerably over the past year, said Jeff Woolson, managing director of [CBRE](#)’s golf and resort division, but that has not necessarily driven up prices.

Rather than base their offers on the value of the real estate, as many did in the past, buyers are focusing on the cash flow generated by the business. “This is a fundamental change,” Mr. Woolson said. “Prior to the recession, we didn’t even talk about gross revenue multipliers.”

Before the financial crisis, buyers were paying the equivalent of 11 to 14 times net income, he said. Now, the going rate for a well-run course is in line with other businesses, typically six to eight times net income, he said — assuming there is income.

The change is warranted, Mr. Woolson said, because most courses left on the market have deed restrictions that preclude developing them for other purposes. “Where people got into trouble was thinking golf is a real estate investment,” he said. “Golf courses are a real estate asset only inasmuch as they use real estate in association with their business.”

In fact, golf courses typically cost more to build than they are worth. “They’re like new cars,” Mr. Hirsh added. “They’re worth less the minute you drive off the lot.”