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Golf Course Owners Recover From Slump as Players Return

By Nadja Brandt and Michael Buteau Apr 11, 2014 11:44 AM ET

Photographer: Russell Kirk/Horseshoe Bend Country Club via Bloomberg

At Horseshoe Bend Country Club in Georgia the number of members climbed by 100 to a... **Read More**

Oil executive Ben Kenny has spent two and a half years and $24 million improving his golf course along the banks of the Chattahoochee River, adding lakes, streams, a new putting green and driving range.

Kenny is also adding a tennis and swim center with French Open-style red-clay courts at the **Horseshoe Bend Country Club** in Roswell, **Georgia**, 22 miles (35 kilometers) north of Atlanta.

He’s confident the upgrades at the 40-year-old course, where golfer **Phil Mickelson** won three American Junior Golf Association Tournament of Champions titles, will pay off.

“People think I’m crazy, but I’m not crazy,” said Kenny, 70, president of Atlanta-based petroleum-storage firm **Perimeter Oil Co.**, who bought Horseshoe Bend for $6.1 million three years ago. “If you run the revenue numbers, I view it as a very solid investment.”

Course owners and real estate investors are betting on a comeback following a downturn that was “by far the toughest ever in the industry,” according to Charles Staples, co-founder of Fore Golf, which has 12 courses in **Florida**, Virginia and **Maryland**. Property prices are climbing and shutdowns have slowed as recreational golfers return to the hobby after scaling back club memberships during the recession.

Prices for U.S. golf courses climbed 57 percent in 2013, said **Steven Ekovich**, vice president of investments at Marcus & Millichap Inc.’s National Golf & Resort Properties Group. The average sale price was $4.25 million last year for operational, regulation-length golf courses with at least 18 holes valued at $250,000 to $75 million.

Hit Bottom

The market hit its low the previous year, when the average price fell to $2.7 million. Values remain below the 2006 peak of $7.33 million, Marcus & Millichap said.

“After bottoming out in 2012, the golf-course sales market looks to be recovering and stabilizing,” Ekovich said. “Bank financing is slowly returning, the average sales price is rebounding, there are fewer foreclosures and bank repossessions, and more courses are back to producing positive **cash flow**.”

Last month, Manassas, Virginia-based Fore Golf completed the sale of **Feather Sound Country Club** in Clearwater, Florida, to Premier Club Holdings LLC for $5.13 million. The club was on the market for only about three months, Staples said.

“The sale actually happened quickly,” he said. “The course has an outstanding location, but it surprised me a bit. We’ve seen activity pick up on the buy side, but for a while there were sales at extremely low prices. But recently prices have improved, so we thought it’s a good time to give it a go.”

Dale Schmidt, founder of Premier Club Holdings, didn’t return telephone calls seeking comment on the purchase.

Most Sales

In 2013, **CBRE Group Inc. (CBG)**'s Golf & Resort Properties division brokered the most sales of 18-hole, standalone golf courses in eight years. It sold 15 courses for an average price of $4.59 million, compared with an eight-year low of $1.18 million in 2011. The peak of $7.23 million was reached in 2006.

"There are two different concepts in the golf business: the joining and playing, so the business side and the transaction side of things," said **Jeff Woolson**, executive vice president and managing director at CBRE's golf division. "Both have improved."

Private-club membership numbers are improving most at top-performing courses, according to**Henry DeLozier**, principal at Toronto-based Global Golf Advisors Inc.

Member Increase

At Horseshoe Bend in Georgia, the number of members has climbed by 100, to 650, since Kenny bought the course in 2011. Last year it, was ranked by Golf Digest as one of the best new courses, along with **Donald Trump**'s Trump National Doral Miami. The upgrades have helped boost Horseshoe Bend's dues revenue 94 percent to $3.49 million, and Kenny said he expects to expand membership to 1,000 following the renovations.

"Members are seeking reliability," DeLozier said. "Everybody is focused on being a member at an economically stable club. So many lost their memberships when courses went belly up that a membership decision today is more so than ever an economic decision."

Georgia also is home to Augusta National Golf Club, where the **Masters Tournament**, golf's first major event of the year, began yesterday. Players include past champions Mickelson and Bubba Watson of the U.S. and **Adam Scott** of **Australia**.

At Donald Trump's 13 U.S. courses, including Doral and **Trump National Golf Club Los Angeles**, membership numbers have increased each year and dues haven't dropped, even during the economic slump, said his son Eric Trump, executive vice president of development and acquisitions for Trump Organization.

'Invests Heavily'

“For our type of members, the last recession just meant joining one or two instead of four or five of the best courses,” he said. “The existing membership at all of our courses has gone up every year.”

Trump said the company “invests heavily” in its courses to increase customer loyalty, including $250 million put into Doral after its 2012 purchase of the course, where **Tiger Woods** won his 76th PGA Tour event last year. The resort has five courses, including the Blue Monster, on 800 acres (324 hectares).

The company is seeking more golf-course acquisitions after completing four in the U.S. in 2012 and none last year. The company is “looking at a couple of very exciting assets,” Trump said.

Volume Rises

At Global Golf Advisors, deal volume last year increased about 60 percent from 2012, with demand being driven in part by private-equity firms and investment funds seeking returns of as much as 20 percent -- down from about 25 percent in the peak years of 2005 and 2006, DeLozier said.

Unlike many investors who bought golf courses during the property boom and were betting on surging real estate values, buyers today are more focused on operating them as businesses, according to Woolson of CBRE. That has resulted in lower prices and higher capitalization rates. A cap rate, derived by dividing a property’s net operating income by its purchase price, rises as values fall.

“The run-up in 2005 and 2006 was caused by people who thought of golf courses as real estate investments,” Woolson said. “That’s why, during the glory days, we were selling golf courses at a 10 cap rate. Now they are closer to 12, 13 or 14, meaning they are less expensive.”

Conservative Financing

Golf-course financing has become more conservative too, with a greater focus on operations -- membership numbers, operating costs and revenue -- than potential property values in the future, said Chris Balestrino, principal at Scottsdale, Arizona-based lender **Park Place Equity LLC**.

“Financing in the last year has continually loosened up,” he said. “There will be a time again when banks will lend to developments, but at the end of the day what’s getting done will be the experienced operators that know how to run a course.”

The firm has provided about $20 million in golf-course loans in the past six months, up from “essentially none” from 2009 to 2011 and only “a handful” in 2012, Balestrino said. Today, Park Place protects itself from potential losses by requiring recourse on almost all its loans, meaning a lender can pursue a borrower in case of default, he said.

“We only finance golf course owners and operators, not housing developers,” Balestrino said. “We’ll never do a deal where the source of repayment of the loan is through the sale of acres of land meant for housing developments.”

‘Tapering Demand’

In 2005 and 2006, at the end of the housing boom, many developers used loans to develop residential communities with golf courses, Balestrino said.

“But these developers didn’t know how to run a golf course,” he said. “So not just did they struggle with a tapering demand for houses, but they also had the burden of running a business they knew nothing about.”

The “gross overbuilding” of golf courses by residential developers is still being worked through, said Ekovich of **Marcus & Millichap. (MMI)** In 2012, 141 more courses closed than opened, down from 154 a year earlier, he said. There were about 144 net closings last year.

“There is still an excess supply of courses due to the golf construction boom, which was largely fueled by residential real estate development,” he said. “Net course closures should remain over 100 courses per year for the foreseeable future.”

Course owners such as Kenny continue to have faith in the industry. Along with spending about $8 million to renovate his course, he sunk about $11 into a new clubhouse and $2 million on a parking lot with about 2,000 trees and other plants, and is investing about $8 million in the pool and tennis center. Kenny wants to leave Horseshoe Bend as a profitable investment for his two grown stepchildren, who are helping him run the country club.

“I’m very happy with my investment,” he said. “It’s nice to look out the window at a golf course. It beats looking at a stock portfolio that 13 guys are manipulating to try to beat me. You can’t duplicate a real estate investment over time.”

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