Affinity MANAGEMENT

MEMBERANDUM™

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Accessing Capital: Staying Afloat During the Recovery

Normally, the successful operation of golf courses, private clubs and other hospitality businesses depends on getting a million small things right. However, economic success over the next several years will depend mainly on a few critical things; and one in particular – access to capital. I may refer to “golf” and “clubs”, but the dialogue includes any club or recreation facility such as equestrian, shooting, fishing, ski, swimming, tennis, yacht - the principles are the same regardless of focus.

You Are Here

While it isn’t the roaring 20’s (or 90’s), it seems clear that the recession is over. (That won’t be made official for several more months). The fact that the economy has stopped shrinking is small consolation for the approximately 10% unemployed, or those who have stopped looking for employment or traded down in income to stay employed. More businesses will fail. More homes will be foreclosed. Things aren’t great, but they’re stabilizing and growth is re-emerging. A double-dip recession is still a possibility.

Recap

The stock market shock in fall 2008 jolted many private clubs’ membership rosters as well as resort travelers. Beyond that, however, the golf and club industry weathered the recession better than most predicted. Usage and golf rounds have been surprisingly resilient. Price weakness (deflation) is evident. (See “The ‘Bad Times’ Problem” below)

The “Good Times” Problem

A lot of owners – maybe most - are in the club business for the wrong reasons. It’s an ego play. Like a restaurant, easy business…right? Consequently the industry is highly fragmented. Less than 20% of US golf courses and clubs are professionally managed. Trends are hot to spot when you are on an island. Things seem like they will be ok. There won’t be a life-ending tsunami because there hasn’t been one before. The industry groups are cheerleaders for supply growth and self-sustenance. Money for development is easy. There are too few naysayers.

The “Bad Times” Problem

If a restaurant location fails several times under different owners it closes and becomes something else, maybe a dry cleaner or nail salon. If a club/golf course location fails several times it stays a club/golf course. However, as the property’s cost basis goes down, prices to consumers decrease, hurting competitors who may have been doing a good job running their business.

The “2010” Problem

Lower asset values, low interest rates and high default rates lead banks to wish they could have a mulligan on many outstanding loans – including some in good standing. Non-strategic, hard to defend, loans at the margin go first…and the club industry is at the margin for most lenders. The specialty lenders are all sidelined right now. **That means any maturing loan – even loans where every payment has been made on time – are at risk of not being renewed**. Because most clubs have debt and most of that debt is on 5-7 year terms, most loans are maturing at the worst possible time.

Foreclosure Activity Up

While most of the commercial real estate industry is waiting for the other shoe to drop, it already has for clubs. We saw foreclosure activity really pick up in this sector beginning Q4 2009 (along with hotels), much more so than other commercial property sectors. Affinity is witnessing unprecedented foreclosure activity and club financial distress, which we expect to continue for some time. My best guess is that one in four clubs will experience foreclosure or threatened foreclosure. I tend to be an optimist so that could be an understatement.

Our advice to those who ask it to take nothing for granted, and to get an early jump on exploring all options. With chaos comes opportunity and while we do not wish financial distress on anyone, we are positioning ourselves to be a part of the solution for troubled club assets, and we are not alone in doing so.

Damon DeVito is co-founder and Managing Director of Affinity Management. Affinity was founded in 1997 and provides advisory services and professional management to private clubs, golf courses, equestrian facilities and other member-based businesses. For more information on Affinity Management, visit www.affinitymanagement.com or call (434) 817-4570.

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