Course development

Build to fit

GOLF COURSE BUILDERS HAVE HAD TO ADJUST TO THE CHANGING MARKET AS THE ECONOMY RECOVERS AND DEMAND INCREASES

by JOHN WALSH

What's the current state of golf course development?

Compared to where we were five years ago, the industry is down considerably. New golf course development is probably down 50 percent. On the same hand, things are looking good for the coming year. In the last year, it seemed like there were many more development inquiries than the previous three or four years. It seems like there's even more work today than there was a year ago. Much of that has to do with the improved economy, the fact that 9/11 happened more than three years ago and people aren't as negative about golf as they were four years ago because of the overbuilt market.

Now, the type of developments has changed. There's a shift in what's being built today.

Have we hit the bottom of the down cycle?

The bottom was hit six months ago, maybe even a year ago. The people developing golf courses sat back. They still wanted to build their golf courses but thought maybe they ought to wait awhile to see what was going to happen. That money has loosened up again, and the people that had access to money are moving forward.

Who's funding golf course development projects?

There are a couple of arenas. You have the wealthy people who feel they can build a better mousetrap or have always wanted to build a course. Then there are the land developers - those who have had good projects during the past five years. They are building some big, high-end golf courses.

On the other hand, some of the middle-market housing folks have figured out that providing open space to their development is almost as beneficial as providing a golf course, and the cost is much less. The high-end housing - especially in markets such as Southern California, Scottsdale, Ariz., and Florida - has slowed down somewhat, but there are still a lot of high-end courses being built in those markets due to the housing demands.

How did overbuilding happen?

First, let's look at it from the housing developer's point of view. That's where most of the golf construction was in the past. That's the market where courses were being overbuilt five to 10 years ago. Everyone thought we needed more high-end daily-fee golf courses, but that market has really slowed down. The large housing developers were pumping golf courses into the market, and they didn't care if the golf course made any sense financially as they developed them only to help sell lots.

The land developers were giving the golf course land to golf developers who had little involvement in the sale of lots, but only ended up owning the golf course. This type of golf course developer is almost extinct today because the money for these types of projects has dried up, and if the developer does have money, they can purchase existing courses for less than constructing new ones. There's not a lot of venture capital out there to build golf courses and make a profit on the golf course alone.

So some of these home developers built golf courses solely to boost the housing sales?

Right. They were loss leaders. They didn't care if the golf course made money. They figured the cost of building the golf course would be absorbed, and they would make their money back by selling lots. That's fine and dandy for the housing market, but it wasn't good for the golf market. That caused the supply and demand to get way out of kilter.

Are there some areas of the country that are overbuilt and underbuilt?

Most areas in the country, maybe 75 percent to 80 percent of the U.S. golf market, are overexpanded. Any major city, especially in the South and maybe the Midwest, is overbuilt, but there are still a few markets that are underserved. There are still some Southern California areas that could use a little more golf. The places where it has been hard to get permits because of the bureaucracy - such as the Washington, D.C., market and parts of California where it can be a six- to 10-year process to get a golf course approved - those are probably a little underserved.

The other underserved markets would be those specialty golf locations - the Bandon Dunes, the Whistling Straits - those are still very popular among golfers. It's the remote, boutique, high-end daily-fee courses that still have demand, which are in many markets across the United States. But that market could be saturated in five or six years as well because there are many new projects of this type in the planning stages.

Is there anything the industry can learn from what happened in the late 1990s?

Unfortunately, it's the supply-and-demand curve - simple economics. When the market starts looking good again, people will start building golf courses again. From a contractor's standpoint, it's difficult to operate within these cycles, although I had been calling for this slowdown for five years. Thank
management companies

Bill Kubly, c.e.o. of Landscapes Unlimited, says there's a huge need for less-expensive golf courses to be built.

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Is there a benefit to being an owner and a developer? Absolutely. We're really the only golf course construction company that offers the full services of being able to project manage the entire project - from building the clubhouse, the maintenance building, the cart shed, the golf course, as well as having management knowledge from owning our own courses. There are probably a few builders that have done a couple turnkey projects, but we have done it many times. Turnkey golf development is a great service. It's a consulting aspect we can offer our clients. We can hold their hand. We can tell them where not to make mistakes or waste money because we've been there before ourselves.

As an owner, how involved are you? My ownership division is headed up by Mike Jenkins. Of the 20 golf courses we own, we manage 12 of them. In some cases, we have management companies as one of our partners. For instance, we own part of a golf course in Indianapolis, and Troon is our partner, and they manage it. We don't manage them all, but we still have to oversee those projects because we have an investment in them.

Is there something that you keep an eye on as an owner? Four or five years ago, we would take a piece of land inside a housing development and build a golf course and own and operate it, but that market is dried up, so we don't have many of those projects anymore. I personally like to have a pet project at all times to oversee myself. Sutton Bay in South Dakota was a pet project. I probably spent 50 or 60 percent of my time on Sutton Bay. That's a property my company and I have ownership in, so that became my labor of love for several years and will continue to be for many more. I have a couple of other special courses that we own as well.

It's the fun part of the business for me, but because we're not doing many of those anymore, I focus more on operations, especially those that are close to me. We own four golf courses in the Omaha, Neb., market, and I probably stick my nose in there more than I should, but I'm a nitpicker. I'm a detail person, and if we're going to own them, I want to make sure we're doing it right. I want to be proud of our projects, even if they're not in the high-end arena. I can be just as proud of a golf course that we own and manage that makes money with a $20 green fee than a private club with a $75,000 initiation fee.

Will the industry experience a boost in development during the next five years? It will be very gradual. It might stay level. We're not going to see the growth we saw in the 1990s. I expect the industry to stabilize at somewhere between 150 and 200 new golf course construction projects a year in the United States.

From a demographic perspective, where's demand going to come from in the future? Demand is going to come from the baby boomers who have money to spend on exclusive golf at special kinds of destinations. Much of the market today consists of high-end country clubs or high-end national clubs, such as Sutton Bay or Sand Hills or the high-end golf destinations like Pacific Dunes or Pinehurst. The demographics are the 40- to 65-year-old group right now. It's a bit beyond baby boomers, but that's the group that has the money to spend and can afford to join those types of clubs or enjoy spending that kind of money for a golf trip.

What's the company's ownership plan? In the old days, we did the build-to-flip-type courses when the market was really good. We felt like we could build a golf course for less than anybody, and then we'd sell it as soon as the right buyer would come along. That worked well back in the heyday when many courses were being sold. Today, our rationale is that we want to own projects that can pay their way and are profitable even in the down times. We have a strike price for every course we own. If somebody wants one of our golf courses bad enough, most of them are probably for sale. We don't advertise them for sale because we really like the projects we have. We sold a couple projects last year that didn't quite fit right in our portfolio, and we also purchased a couple that were in markets that we like and understand. We like core groups of courses like our Omaha group. We like golf courses in the South, yet we have a core of two golf courses in Washington, D.C., and we love those. We want to own golf courses that can carry themselves and that don't have to be fed financially on an annual basis.

Is there interest in owning some of the golf courses you'll develop in the future? If there's a project that we see that is an absolute grand slam, we'll invest our capital in it, but we don't want any surprises. We built a few six or eight years ago that are great golf courses but are in bad markets, maybe a market where people won't pay high-end daily fees. So those are the ones we have culled out of our portfolio. We've learned a lot over the years, but if it's a great location and a great opportunity, we'll jump in. In the past, the land developers almost always gave us the land, and on top of that, they gave us lot rebates or concessions to build a golf course on their property. There are some great deals out there, if a person wants to be in that business because there aren't many people with the capital anymore. There will be some good opportunities during the next five to 10 years.

Is there need for more less-expensive golf courses to be developed? There's a huge need. The industry is poised to grow the game, but it's hard to grow the game when the average round of golf is $50 or $60. The problem is how do you build a golf course that can be marketed for $20 or $25 a round. It's difficult to get a golf course built for that kind of price, unless there's some help from municipalities that have a rationale to provide their constituents with low-cost golf. But that's out of vogue. Most of
course development

those markets have an oversupply of golf courses, but the prices haven't come down. What's going to happen — and it's happened in a lot of markets with the pricing pressure — is that some of the middle-market golf courses, and even the high-end golf courses, will have to be repurposed as a lower-priced facility. That's going to happen for financial reasons. It will be the second, third and fourth owners of these courses who will get it down to where they can afford to have less expensive golf.

Q: If there's going to be less-expensive golf, what part of golf course operations will be less-funded?

First of all, if it's a new project, the construction costs have to be lower than what they have been. Secondly, players' expectations have to be lowered a bit. Everyone is conditioned to expect perfect wall-to-wall green conditions. So the superintendent will be involved in that. I get tired of people in the Midwest saying you have to spend $600,000 or $700,000 on maintenance a year. You don't have to. There are ways to reduce the maintenance cost. It's part maintenance, part expectations and part construction costs or low acquisition cost going in, which will reduce the cost of a round of golf.

Q: What type of projects are you looking for?

We look at all golf course projects — new construction, renovations and irrigation installation. We're probably the biggest golf course contractor in the country, so we take a look at everything. We're a specialty company that probably negotiations 30 percent to 50 percent of our work. Many of the owners today are interested in their contractor's reputation and financial strength, and that is where we have flourished. The rest of our jobs are open bid, usually with a prequalified group of bidders. If it's a project that's going to have six or more bidders, we probably aren't going to waste our time looking at that project. With that many bidders, there usually are some bottom feeders out there that are taking projects just for work, so it would be hard for us to be competitive.

On top of that, we've expanded into sports fields, parks and landscaping to help us keep our volume where it needs to be because of the softer golf market.

Q: Are there any other types of projects you wouldn't get involved with?

We would see who's involved in the bidding. If the owner hasn't been very selective about whom he's going to allow to bid — if we know one or two of them shouldn't be on that list — we'll back off. Or if it's a high profile project with difficult conditions — either a lot of rock or very wet conditions or an impossible schedule — we'll steer away from those as well.

Q: Are there any projects you haven't done that you would like to do?

I pride myself in developing the talk-of-the-town-type golf courses — the premier courses in the United States. I like to have a couple of those under construction at all times, but we don't want all of our work to be high end. We take just as much pride in building affordable golf courses because we believe in that market. We do a lot of renovation work on the high-end golf courses — Torrey Pines South, The Southern Hills, The Colonial, The Dupont Club, the Broadmoor Mountain course. We steer much of our work in this direction. Usually, these high-end renovations are either on a negotiated basis or with a very select bid list.

Q: How much of your work is new construction and how much is renovation?

My guess is 20 percent renovation and 80 percent new golf on the golf course side. If you divide up all of our business, 15 percent is landscaping and recreational development, 15 percent renovation, and 70 percent new golf.

If you did that by numbers of projects, we might only have 15 new golf courses that we build each year. We probably work on 40 renovation projects a year, and then 15 or 20 recreation development projects. We'll be working on anywhere from 70 to 90 projects in a year, and only 20 or 25 might be new construction.

Q: Is reconstruction more of a trend nowadays?

Yes. A reconstruction is actually a golf course that happens to be built on the site of another golf course. We call them blow-ups, whereas many renovations can be called restorations if the course is being reconstructed to its original state or look. There are still a lot of renovations where they are rebuilding only the greens and tees and maybe installing a new irrigation system, but many more courses are more of a rebuild. About a third of our high-end renovations are of the reconstruction type.

Q: Is most of that with high-end courses?

Some are. I've also seen some in-field golf courses that might have been a low-end country club or a public course in certain markets that have been converted to a high-end private club where they get some lots designed in their excess acreage. They repositioned a lower-price course into a higher-end product because of the great location.

Q: Have you done anything overseas?

We've worked in Barbados. We did the Sandy Lane project where Tiger Woods spent his honeymoon. We've worked on several projects in the Dominican Republic. We have a couple of projects in the works in Italy, and we have some upcoming work in Mexico.

Q: What is the biggest difference working outside the United States?

In most cases, we'll supply the expertise, maybe five to 10 people to a job, and we become more of a construction manager in which we will show the local people how to build the golf course, and we'll manage the construction. We'll build it for them, but we'll use their work force and machinery, or we'll have the owner buy machinery. At Sandy Lane for instance, we had the owner of the project purchase all of the construction equipment necessary to build their golf courses because it was a 36-hole project. Our work outside the United States is more of a management process than it is taking a lump sum contract to do the work.

Q: Is it more or less preferable to work that way?

It's more preferable because the only way we'll look at those projects is on a fixed-fee basis where we'll know we're going to make a profit. The negative side of that is that we have our people out of town, traveling throughout the world, which is difficult. It's critical to make sure you have your payments lined up properly because the last thing you want to do is chase your money in a foreign country.

Q: What's the easiest and most difficult part of being a developer?

The easiest part is the passion. Unfortunately or fortunately, passion drives this business a lot. Everyone thinks their golf course will be more successful than the one next door. The best part about development is this passion, and I have it for the projects we get involved in. The bad part for many developers can be the cost overruns, underestimating the mar-

(continued on page 67)
There are many bad projections out there, and what the actual yield per round will be. And they've gotten many developers in trouble. The unfortunate thing is that many times golfers are unwilling to pay the green fees you need to make your project viable.

**What mistakes do you see other builders make?**

Some builders are succumbing to the fact they need a job so bad they're taking the work for less money than they ever have before. Their margins are so thin they can get into trouble. Most golf course contractors self perform 60 to 80 percent of the work. If you get one of those bad jobs and you didn't have enough margin in that job to begin with, you can get into financial trouble. We haven't done that at Landscapes Unlimited. We have a margin structure that if we can't make a reasonable profit, we won't take the work.

Fortunately, not everybody is dropping their prices. If everyone's bid is within 2 percent to 4 percent you feel pretty good about it, but I've seen so many bids in the last year where somebody might be 15 or 20 percent lower, and we don't have that kind of margin on a job. The problem in this case is that everybody loses. We lose because I didn't get the job, the contractor that got the job is probably going to lose money or maybe go out of business, and at the end of the day if that happens, the owner loses because the project won't get done on time if at all, and they will struggle to get their project open on time.

**Other than price, what's important in the bidding process?**

The staff. It's easy to find new people to do a job today because there are many guys looking for work. However, they're an unknown quantity, and having a staff that has worked for a company for some time is important.

And then there's the schedule - is it realistic? Is the contractor telling an owner he can get it done by an unrealistic date? The worst thing that can happen as an owner is to get done late because you might miss your market by a year. Those are two real important things. And the contractor you're hiring - what is their track record, what have they done in the past, can they perform and what are they going to do when the project gets in trouble, e.g., bad weather and tough conditions - can they step up to the plate and accelerate the work to get it done no matter what it takes? There are a lot of contractors that don't have a history of doing that.

**What's the biggest thing you've learned throughout the years?**

Hire the best people you can find - people with a passion for the golf business. Surround yourself with people smarter than you. Hire people that know the parts of the business that maybe you're not as good at or doesn't interest you. My biggest success in business has been the people that I've hired and surrounded myself with.

**Is there an aspect of building golf courses that's consistently difficult?**

The biggest complication is schedule. We're rarely given enough time to do the project the way it should be done. If you're starting out on a project that should take nine months and you're given six, that project isn't going to be fun. This is a business that we're in because we like it, and if you have to do a project in which you are under then gun from day one, it isn't fun. It all comes down to schedule, and it's the most important thing to the owner.

The owner can't underestimate how valuable it is to hire somebody who's committed to getting your project done when you have to have it done. Carrying costs on a golf course for an extra eight months to a year can cost a project well over a million dollars more than a project that gets done on time. If you're out here in Palm Desert and you're not open by Dec. 1 and you don't open until April 1, you've missed the entire season, and now you have to maintain and water that golf course for another eight months before you have a decent market again, so getting done on time is critical.

**What is the key to being a successful builder?**

Resiliency, doing quality work, doing the simple things well and doing the things you tell the owner you're going to do. We won't take on a project in which we can't perform. Many times the schedules aren't reachable, so we don't take those jobs. It's important to make sure the owner is happy. Be honest and straightforward with the owner. We lose projects from time to time because we're dreadfully honest to the owner. I've been in business about 28 years, and I'm proud to say that almost all of the clients we've worked for would say good things about us.

**What's your favorite golf course you've built?**

Well, it's not always just the golf course. It's the experience. It's the people that we've worked with. My favorite is Sutton Bay in Agar, S.D. It's near and dear to me because I was so involved in it's development, finding the partners, decorating the clubhouse. It's a beautiful piece of land. It was a labor of love.

Another would be Caves Valley in Baltimore. It's a wonderful golf course, but as wonderful as the course are, the people that we worked with when we built it. It's one of the first big projects we completed. The people there are first class, and they took a chance on a small company. There are so many wonderful people throughout the golf industry and people that have become long-term friends. There aren't a lot of professions in which you can say that you've had a long-term effect on people or that they've had a long-term effect on you. That's why it's such as rewarding business.

**What's the biggest change in the industry since you started?**

The quality of contractors. Twenty-eight years ago, when I started my company, there were only two or three high-quality contractors - Wadsworth being the largest and the best. Today, because of the support and education by the Golf Course Builders Association of America and the evolution of the industry, there are many good contractors.

**Is retirement on the horizon for you?**

I'm 55. I've changed what I do on a daily basis. I don't want to run the business day to day and be tied up with the little details of running a business, but I'm never retire. I'll always have some involvement with a course we own or a golf course we're building. You won't ever see me totally hang it up. Even though I'm in California for the winter, I'm tracking 13 projects out here. I still enjoy working every day. I'm calling on clients or one of our courses every day. I'm having too much fun to retire.