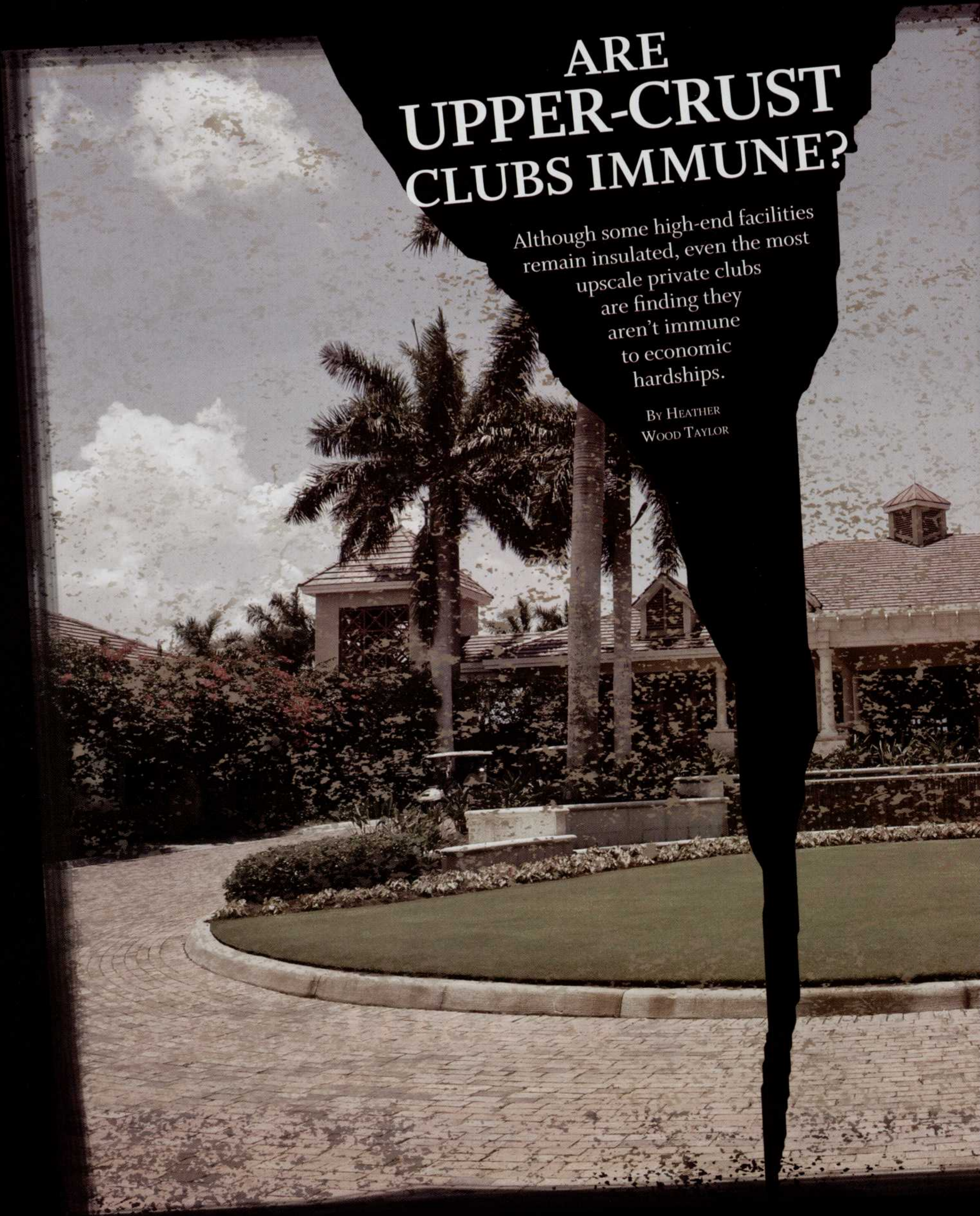

ARE UPPER-CRUST CLUBS IMMUNE?

Although some high-end facilities remain insulated, even the most upscale private clubs are finding they aren't immune to economic hardships.

By Heather Wood Taylor

Some of the upper-crust golf clubs around the country are beginning to discover that their members are not immune to these tough economic times.

The Country Club at Castle Pines planned to renovate its driving range, but the project was put on hold. Marshall Fearing, superintendent of the scenic, upscale private club in Castle Rock, Colo., says the club trimmed its overall budget as a precaution and the renovation project was a casualty.

Castle Pines attracts members from throughout the country – in fact, two-thirds of its members hail from out of state. The club doesn't open until the end of this month, so in the meantime Fearing monitors other clubs to gain an inkling of what might transpire through this year. "What we're seeing with some of the other clubs is a drop in revenue of anywhere from 10 to 15 percent," he says. "The general manager and the president made a decision that we'd make a 10-percent, across-the-board cut with everything to be a little more preemptive."

As some clubs with wealthy memberships are finding out – though talking about money problems might be passé – even these individuals aren't immune to the tough economic times. In fact, 74 percent of people worth $1 million to $10 million say they're concerned about the downturn, according to a study by Elite Traveler/Prince & Associates. While families around the nation fret about stretching their dollars, the wealthy are cutting back on their expenses, too. This act of fiscal restraint sometimes includes private golf club memberships. And while some clubs will continue to enjoy financial stability and a steady membership, others will discover that, like their members, they're not immune to the economic crisis.

"High-end clubs do tend to be more isolated from the ups and downs of economic cycles, but even they can't keep themselves totally out of the cycles," says Jim Riscigno, founder of consulting firm Club Specialists Intl. and former ClubCorp executive vice president.

Why else would the Golf Club of Cape Cod in Massachusetts, which opened two years ago with an $85,000 initiation fee, begin accepting "affiliated" members who don't have to pay the fee for three years, as The New York Times reported last month?

Not only are individual members contributing to a decline, but cash-strapped corporations are having an impact, as well. "During downturns, companies restructure the business and the membership is one of the first things to go – it's among the luxury items that they don't need," Riscigno says.

VIEW FROM THE TOP

While some upscale club members feel the pinch, it's a different story at the very top. Of those worth more than $30 million, only 13 percent harbor worries about the economic climate, according to the Elite Traveler/Prince & Associates survey.

One exception might be those who were defrauded by disgraced New York financier Bernard Madoff's massive Ponzi scheme, says Jim Koppenhaver, president of Pellucid Corp., a Buffalo Grove, Ill.-based golf-industry research and marketing firm. "We know that certain clubs have been affected by incidents such as the Madoff scandal – higher ends, more Jewish-based clubs in New York, Boston and Maine – but, overall, we're not seeing any meltdown at the top end of the food chain relative to the overall hit the private club sector is taking in membership losses," he says. "While they're insulated, they're not exempt from the current belt-tightening and repricing of American goods and services."

Club membership tracking is a research area the industry lacks, partly because of the sensitive nature of the information, Koppenhaver adds.

One affected club is the Palm Beach (Fla.) Country Club, which Madoff joined in 1996, according to a story in The New York Times in December. At least a third of the 300 or so club members had invested with Madoff, the Times said; typically, investors needed at least $1 million to approach him.

The several high-end clubs touched by the scandal are the exceptions, says Lewis Goodkin, real-estate and financial advisor from Miami-based Goodkin Consulting. "Those clubs can't help but be affected," he said. "Most of the desirable clubs will remain insulated for the most part."

One reason the wealthiest club members might not be gung-ho about club membership is because it could be perceived as unfashionable in this climate to flaunt your good fortune. Companies are becoming more aware of public perception, says Tim Moraghan, consultant with Long Valley, N.J.-based Aspire Golf. "You don't want to see financial people playing golf when they should be looking after a portfolio," he says.

THE WAY DOWN

After the stock market tumble of 1929, the number of private clubs in the U.S. diminished by about one-third, according to "The Future of Private Golf Clubs in America" report conducted by the National Golf Foundation last year. But, by many accounts, the current recession has not reached Great Depression status. Still, some clubs struggle for one reason or another; Moraghan has received more notices of clubs closing than normal. While some are due to the economy, some are closing because of poor management and the inability to adapt to a changing market. (See "Staying afloat," page 30).

GOLF COURSE COMMUNITIES ADJUST

Golf courses built as part of a housing development also are experiencing a decline, but they're a different animal compared to other golf clubs, says Lewis Goodkin, real-estate and financial advisor from Goodkin Consulting.

"Golf course properties are a little different because of the rapid increase in property values, so they're more out of whack," Goodkin says. "We see adjustments in pricing downward."

Still, those prices will be pretty high compared to the average home price because they were so inflated to begin with and the market is not yet to the point of desperation, he adds.

"If they had been a half or a third of the price of what they were, they're still impressive," he says.

Some club communities are seeing decreasing membership because their members are aging. They're dealing with decreasing funds by making membership at the club mandatory. A board must vote on the move, and while it doesn't always pass unanimously, the idea has been approved in many communities, Goodkin says.

The golf course communities that might have some trouble are the ones that are being built now, he says.

"It's a tough time to be coming into the market with a new community," he says. "Depending on when they bought the land and what the numbers are going to be, it's not likely you're going to see any momentum in the market. "

Dealing with the Downturn

The Club Managers Association of America has an online resource page with several articles and other information about ways to deal with a down economy. The articles outline trends during past economic rough patches and the information helps clubs set up a master plan to make sure they're are on the right track financially. To learn more, visit http://www.cmaa.org/template.aspx?id=23588.

Riscigno predicts the recession will force some clubs to close, but not at such a dramatic rate as seen the 1930s. Instead, it's plausible that some clubs will go from private to semiprivate status, from semiprivate to semipublic and semipublic to all out public, he says.

Some high-end courses will attempt different cost-cutting measures to stay afloat during these tough times, but if they cut prices and services too deep, they'll inadvertently lower their status in the community, Riscigno warns. The key is striking a balance between reducing operating costs and retaining the high-end persona.

Clubs also may fail to protect talented staff, Riscigno says, adding it's a dangerous move, especially if some clubs opt to cut the general manager position. "Who would think it's a good idea to have a club that's run without someone who knows the business?" he asks. "Having a part-time board run the club probably isn't a good idea. Running a club is extremely labor-intensive and it focuses on high-end, intangible services. When you put all those together, you've got to know what you're doing. It's a fairly sophisticated job."

The club is like a second home to members, and letting them control the financial decisions puts them too close to the situation and leads to emotional decisions, Riscigno adds.

Aside from people, a club's most valuable asset is its golf course. And it makes no sense to cut investment to the feature that generates revenue, Moraghan says. Clubs looking to eliminate something out of the budget should find other areas to cut before setting their sights on their golf courses, he says.

It can be difficult to cut from other areas because members have come to expect the finer items and services. "All the excesses that have come into our industry, such as maintenance practices, design philosophies and extravagant clubhouses, which seemed to be in excess in the late 1990s, all of a sudden have become the norm," Moraghan says. "Now it's one of those where if it's the norm for people, how do you ask people to cut back?"

You shouldn't, Riscigno says. "Make certain you don't compromise the membership offering," he says. "You can tweak pricing, but make sure when times get better this isn't going to hurt the club."

Clubs left with no other options but to cut from their courses need to make smart decisions. "One thing I learned from championship golf when I worked with the USGA is that you're going to be remembered for your putting greens," Moraghan says. "Fifty percent of the game is played on the putting surface."

RECESSION PROTECTION

Clubs keeping their budgets in check and maintaining a reserve fund are poised to deal with a downturn. Take Oak Hill Country Club in Rochester, N.Y., as an example. The club has always operated in a fiscally conservative manner, says Eric Rule, who has been general manager at the club for 24 years. "We would be in good position to weather an economic storm," he says.

The club, which has hosted all of the major men's championships over the past 25 years, has a waiting list of hopeful members and hasn't experienced a decline in light of the current economy.

"Oak Hill is affordable for an upscale club," Rule says. "I think our membership appreciates that and we haven't seen any attrition at all."

It helps that Rochester is more insulated from the recession than other regions.

"Housing has been very affordable for many years," Rule says. "We have seen some hardship in the area, but it hasn't been on par with the rest of the country."

Whatever the circumstances of the region, the clubs who planned ahead stand to come out of the chaos in the best condition.

"The clubs that set out and wrote a strategic plan two to three years ago, put the right governance plan in place and have the right manager, are going to do well and beat the odds," Riscigno says. "They're still going to have a downturn, though. Those who sat fat, dumb and happy thinking everything is wonderful, not thinking about deficiencies, not worrying about the board being involved in day-to-day operations – those are the clubs that will be in extreme jeopardy."

Customer service is another tool to overcome the forces hurting club membership.

"In any type of business, it's all about service," Fearing says. "We try to do as good of a job as we can down here. I think the entire staff does an excellent job. With us being a national club, why would someone come in from out of state to our golf course? It's got to be service. You've got to make it a special place to come." **GCI**

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