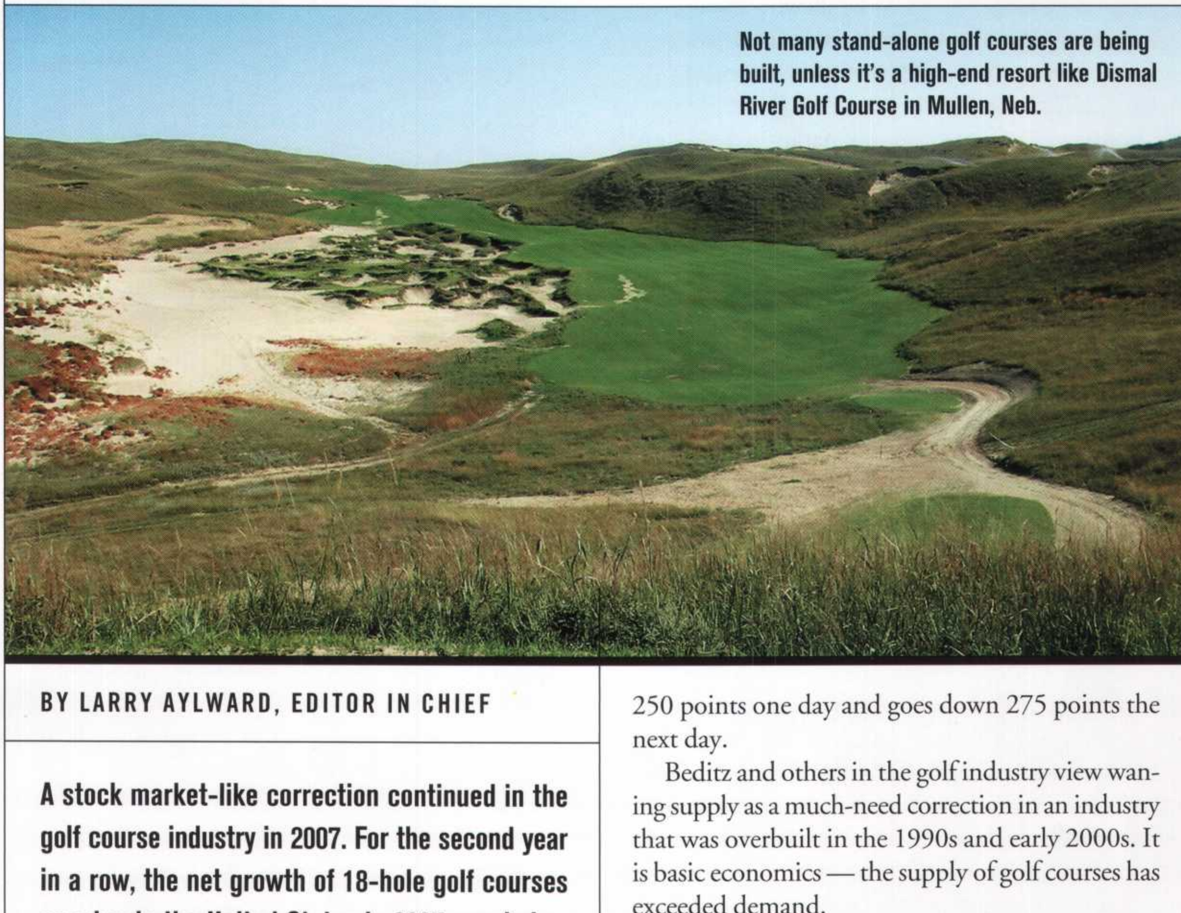
Negative net course openings is a positive for the industry, experts agree



Not many stand-alone golf courses are being built, unless it's a high-end resort like Dismal River Golf Course in Mullen, Neb.

PHOTO COURTESY: DISMAL RIVER CLUB

BY LARRY AYLWARD, EDITOR IN CHIEF

A stock market-like correction continued in the golf course industry in 2007. For the second year in a row, the net growth of 18-hole golf courses opening in the United States in 2007 was below zero. But it might be on the rebound.

The National Golf Foundation reported minus 26.5 net golf course openings — the combination of course openings minus course closures — in 2006, the first time the statistic was in the red in 60 years. Joe Beditz, president and CEO of the NGF, told *Golfdom* in December that net growth would remain in the red for 2007. While he couldn't provide an exact number at press time, Beditz says data suggests it won't be as low a number as in 2006.

But Beditz doesn't view the negative numbers as a negative situation entirely. In fact, his take on the matter is positively positive.

Beditz says what's happening in the golf course industry is like another day on Wall Street. You know, the Dow Jones Industrial shoots up 250 points one day and goes down 275 points the next day.

Beditz and others in the golf industry view waning supply as a much-need correction in an industry that was overbuilt in the 1990s and early 2000s. It is basic economics — the supply of golf courses has exceeded demand.

"Over the last 15 years, the golf course industry has had more than 4,500 openings," Beditz says. "So if we're down a little against 4,500 up, this is not a major correction. This is like the Dow going to 18,000 and then dropping back to 17,500."

While the NGF recorded a 56 percent increase in the number of closures between 2005 and 2006 (from 93.5 to 146), Beditz says the courses were mostly older "value" courses (under $40 for peak

Continued on page 12A

Joe Beditz,
National Golf Foundation

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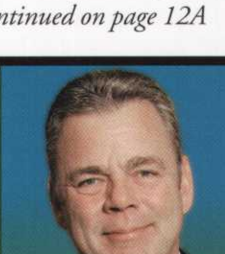


Continued from page 11A

green fee) whose fairways and greens had seen better days. "I think most of these closures are not failures," he says.

Beditz also points to the fact that there are plenty of new courses opening nationwide, especially in regions like the coastal Carolinas where market conditions are good.

"It's not like we've stopped building golf courses," he says.

Brit Stenson, director of design for IMG Golf Course Design, was around in 2000 when the industry had a net growth of 375 golf courses. Like Beditz, Stenson isn't overly concerned about new golf course construction heading the other way.

"We were going at a furious pace there for awhile," Stenson says. "But I assume we'll come out of this stronger than ever."

Mike Hughes, CEO of the National Golf Course Owners Association (NGCOA), has cited the correction as a "healthy thing" for the golf economy. Hughes says the courses that have remained open in thinning markets are benefiting from more play.

"They will tell you in Myrtle Beach that rounds per golf course are increasing, even though total rounds haven't changed," he says.

Many of the closures during the past few years weren't tear-jerker stories, Hughes and Beditz point out. In fact, people walked away from these transactions with smiles pasted on their faces. These closures, which Beditz calls "cash outs," equate to course owners selling high-priced land to developers.

Beditz says the owner who closes a rundown nine-hole course in a major metro area — and sells the high-priced land for $10 million — is not a tragic character in a sad story.

"That just says that the value of the land far exceeds the value of the cash flow coming off the nine-hole golf course," Beditz adds.

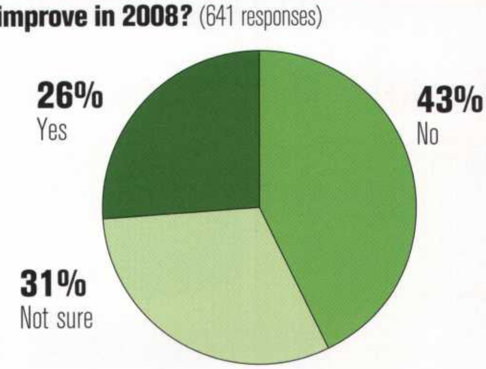
In Myrtle Beach, for example, Mitchell Wilkerson, the certified superintendent of Moss Creek Golf Club in nearby Bluffton, S.C., says, "If a golf course is only bringing in $25 or $30 a round, it's more worth it for the owner to gut the whole thing and put up condos."

There were a few closings that were failures, which Beditz defines as "distressed sales" or courses changing hands for reduced rates. "That's when you buy a golf course for $12 million, and you have to turn around and sell it for $8 million," Beditz says.

While Beditz and Hughes urge people not to be alarmed by the low number of net golf course openings, some industry maintenance equipment and product suppliers believe the net number of openings is hurting their businesses. Beditz says many of the closed courses were low-end facilities that didn't buy a lot of equipment and supplies to begin with. On the other hand, the 120 new private and public 18-hole courses that opened in 2006 all had maintenance facilities that needed to be equipped, he adds.

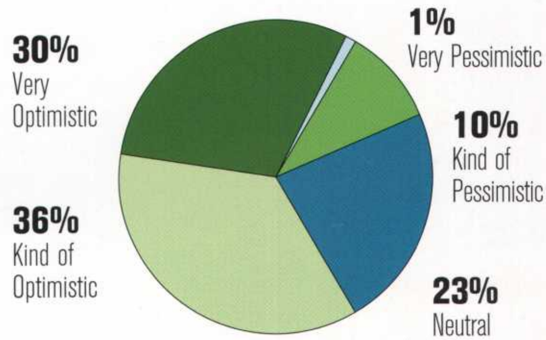
Continued on page 14A

Are you confident the national economy will improve in 2008? (641 responses)



Source: Golfdom Survey

How optimistic are you about the economic health of your facility? (639 responses)



Source: Golfdom Survey

Brit Stenson,
IMG Golf Course Design

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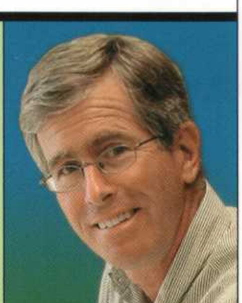

How Bad Will Housing Hamper Golf?

Purists often say housing ruins golf. These days, housing is hurting golf in a whole new way as the country reels from a foreclosure crisis and a significant slowing of new home sales.

More than 70 percent of new golf projects revolved around development last year, according to the National Golf Foundation. And long before the mortgage meltdowns of late monopolized the mainstream media, development projects played a significant role in financing new golf course construction and many renovation projects throughout the country.

2007 single-family home starts, a metric used by the National Association of Home Builders, are expected to be about 829,000, the lowest level since 1991. That's about 25 percent fewer than 2006, and it doesn't look like a rebound will come anytime soon. Building permits, an indicator of future home construction, fell almost 25 percent from November 2006 to November 2007.

Interestingly, the National Association of Home Builders says the ebbing market is good for the housing industry. David Seiders, the association's chief economist, told *Business Week* that builders can't reduce their inventories unless they slow production in line with demand. Production has ebbed since the beginning of this year, and Seiders says he wishes the slow would've started earlier.

That sentiment sounds incredibly familiar. Golf industry observers herald the diminishing golf course supply as a needed correction to better mirror demand for rounds. For the second-consecutive year, NGF expects golf course supply to shrink in 2007.

The Southeast has been hit hard with closings, largely because of so much new supply in Florida and the Carolinas replacing old, unkempt and outdated discount layouts. Florida was No. 1 for golf course closings in 2006, and it's in the top four for foreclosures today. California is in the top four on both lists, too, but economists attribute both states' woes to overgrowth and poor speculation versus local economic shortcomings.

But situations in much of the Midwest are a different story. Foreclosures in Ohio, Michigan and other rust-belt states are prompting a national emergency. And in 2006, Ohio lost eight golf courses (most of them public courses near Cleveland). Michigan tells the same tale, as does much of the Midwest. Public courses are closing in areas were local economies are trying to reinvent themselves. Judging by the mortgage crisis, they're not doing a very good job.

Golf has painstakingly tried to reverse its outdated image of a recreation for the rich. But will high-priced new layouts, housing woes and struggling local economies take the industry full circle?

- David Frabotta, Senior Editor

Mitchell Wilkerson,
Moss Creek Golf Club

"Some of the courses on the plate for next year are going to get pushed back because people are not building homes."

Continued from page 12A

Beditz says a bigger red flag for equipment and product suppliers is that some golf courses aren't investing in their property because they don't have the cash flow to do so. A course that only clears $100,000 a year isn't going to invest much of that back into the golf course.

"They're not investing in capital improvements, they're not replacing their equipment, and they're not fertilizing as much," Beditz says.

This problem is related directly to the low number of rounds at those courses, Beditz says.

What's on tap for new golf course construction in 2008?

Jeff Shelley, editorial director for Golfconstructionnews.com, says his tracking firm reports that North Carolina, Oregon, Washington, California, Texas and Tennessee were solid markets in 2007 and should continue to be in 2008. He says golf course development in Louisiana and Mississippi is also picking up.

Shelley expects closings to continue in areas such as Michigan and Ohio where economies are stagnant. "We'll see more of the same in 2008," he adds.

The NGF expected between 110 and 120 18-hole courses connected to housing developments to open in 2007. NGF said 70 percent of courses scheduled to open in 2007 were connected to housing developments.

"It's getting rare to see a stand-alone golf course being built, unless it's done by some public entity or it's a high-end development destination-type club, which is what we're seeing in Nebraska and South Dakota of all places," Shelley says.

It will be interesting to see what impact the housing slowdown will have on golf course construction tied to real estate in 2008.

Wilkerson expects the housing market to dictate golf course development in the Carolinas.

"Some of the courses on the plate for next year are going to be pushed back because people are not building homes," he says. "Golf courses are chump change when they're building these big developments." ■