GOLF COURSES REPORT

Golf's Surprising Swing

By: Cary Lannin, Director, IRR-Chicago

The golf sector has experienced a surprising upswing, defying predictions with a robust recovery post-pandemic. Surging participation rates, both on and off-course, underscore golf's enduring appeal and its successful adaptation to social and leisure trends. Despite a net decrease in the number of courses, the industry has not only retained but also expanded its player base, demonstrating resilience and a potential for growth. With rounds played rebounding and facilities adjusting to increased demand, the sector stands on solid ground. However, the broader economic context, marked by rising interest rates, poses challenges yet to be fully understood within the golf industry. Despite these, investor interest remains strong, fueled by the sector's positive fundamentals. Explore this report for a comprehensive analysis of golf's dynamic landscape and its prospects amid changing economic conditions.

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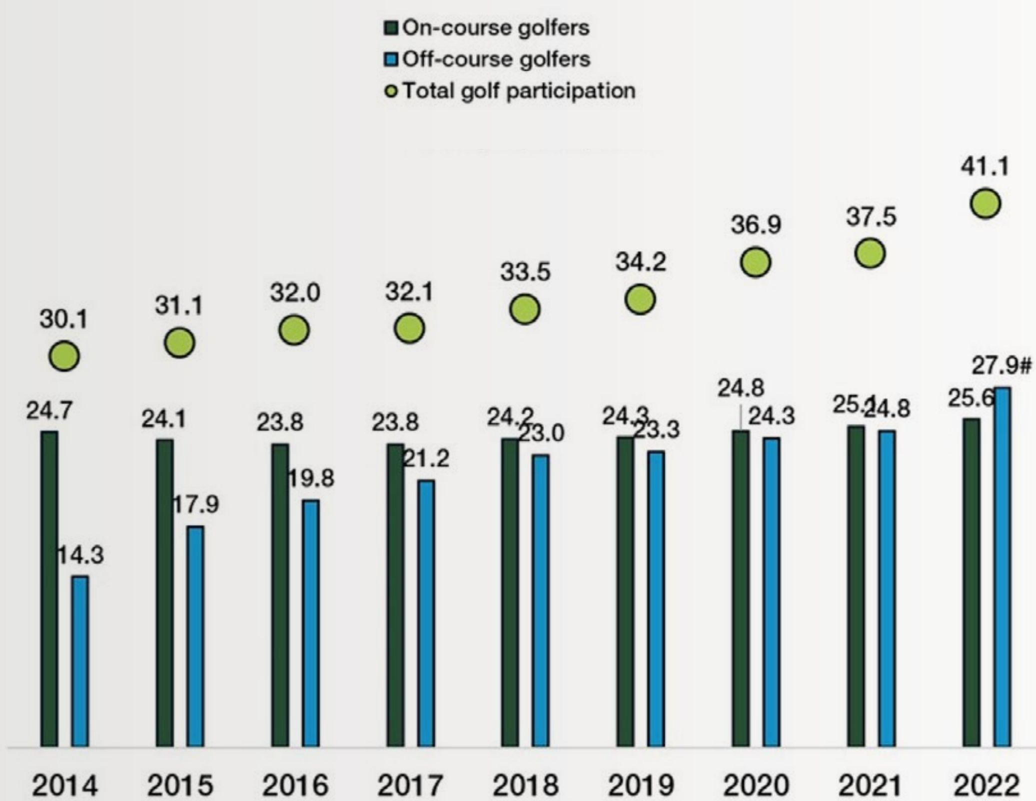
If you'd asked me in late 2019 to predict the future of golf, there's no chance I could have imagined a devastating worldwide pandemic and a world economy tottering on the brink of recession, if not depression, followed by a complete rebound of the golf industry. Inconceivable!

And yet, that's what happened, as evidenced by the top-line metrics -- rounds played and participation -- sustaining from post-pandemic 2020 levels into 2023. According to the National Golf Foundation (NGF), participation by on-course golfers increased from 24.3 million in 2019 to 25.6 million in 2022.

And that only tells half the story. Participation by off-course golfers (at Topgolf, indoor golf simulators, and elsewhere) soared to 27.9 million, up from 23.3 million in 2019. These venues successfully marry golf with social activities (in a non-intimidating setting), and don't require the four-to-six-hour time commitment for an on-course experience.

Total U.S. Golf Participation (Millions)



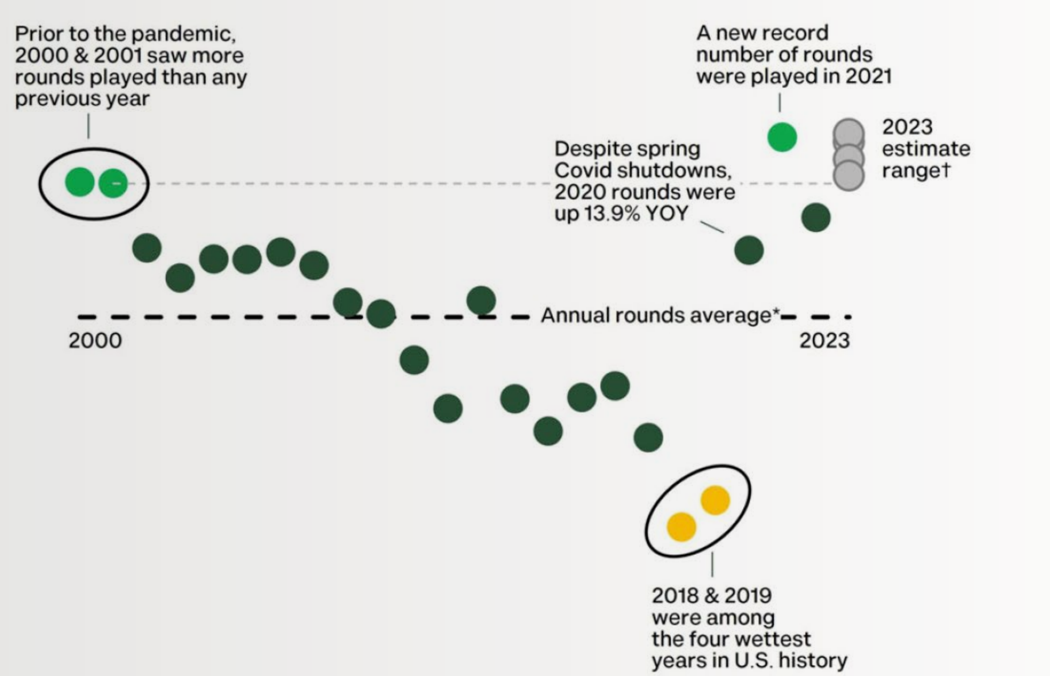
Source: National Golf Foundation
27.9M off-course golfers in 2022 includes meaningful overlap between on- and off-course engagement, as 12.4M Americans age 6+ did both. This means 15.5M engaged exclusively away from the course, at golf entertainment venues, in simulators and/or screen golf setups, and/or at standalone driving ranges.

While the increase in off-course participation comes with the risk of such facilities cannibalizing demand from courses, NGF data indicates that this has not been the case. In fact, off-course facilities have served as incubators for on-course play.

Another factor fueling golf's upswing is the continuing decline in the number of courses. Although this trend appears to be slowing, the NGF indicates that about 105 courses closed in 2023, compared with only around 10 new course openings. That means the total number of golf facilities has fallen to 13,946; a level not seen since 2007. And fewer courses mean a larger share of golf rounds played at the surviving courses.

Which brings us to the question posed after a record number of golf rounds were played in 2021: Was it a blip? Or was the 3.7% downturn in rounds played in 2022 a harbinger of a return to pre-pandemic levels? The answer seems to be a resounding no. Rounds played in 2023 bounced back sharply from the weather-affected rounds in 2022. Through September 2023, rounds played were up 3.8% from 2022 YTD levels, on par with 2021 levels. Even more impressive: Both public and private facilities have been able to boost green fees and member dues in response to the uptick.

Annual U.S. Golf Rounds Since 2000



Source: National Golf Foundation
October 2023
* Note: Annual rounds average is based on an average total from 2000 to 2022
† Estimate reflects +3% to -3% YOY rounds fluctuation for remaining months in 2023
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The sustained golf metrics are cause for optimism, but there's always a flipside: 2023 was a turbulent year overall for real estate, with the Federal Reserve sharply increasing the target federal funds rate from 0.50% to 5.50%. The goal, as we all know, is to tame inflation; however, the jury is still out on whether or not this has been achieved.

Clearly, the rate boosts have severely disrupted the status quo. Higher rates have led to higher borrowing costs, sending tremors throughout the industry. There are fewer transactions, with borrowers unable to secure affordable financing. Lenders are also feeling the pinch, with higher interest rate spreads making it difficult to fund refinances of real estate loans already on their books, especially with the looming threat of commercial real estate losses.

How has this affected the golf industry? Evidently, not materially. The strong underlying fundamentals of golf have led to increased investor interest in the industry. According to Leisure Investment Properties Group's 2023 Golf Investment Report, 2022 was the third consecutive year with an increase in the median sale price. However, the report also notes that sales volume remains well below pre-pandemic levels. This is largely due to a lack of available inventory since owners –– faced with the increase in bottom line EBITDA post-pandemic –– aren't motivated to sell.

Jeff Woolson, managing director of CBRE's Golf & Resort Group, summarizes the current sentiment in the market: "The runway is long. Buyer's view golf's underlying fundamentals positively, and are confident in a continuation of the recent trends. The story told by increasing EBITDA post-2019 is spiking investor interest, limited primarily by the lack of available inventory. Prices will continue to increase, in step with increasing EBITDA; however, investing metrics have not changed materially, still generally falling within 7x to 10x EBITDA. Headwinds include increased difficulty in securing debt, but overall, golf's future is bright."

SOURCES & REFERENCES

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Total U.S. Golf Participation
Source: National Golf Foundation

Annual U.S. Golf Rounds
Source: National Golf Foundation

ABOUT VIEWPOINT

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