GOLF COURSES

A RISING TIDE LIFTS THE INDUSTRY

The golf industry has been on an upward trend in recent years, with an increase in rounds played and improved financial performance for public and private courses. Many golf clubs have reached capacity and experienced growth in membership dues, green fees, and revenue. Despite some challenges, such as rising interest rates, the outlook for the industry remains positive, driven by continued growth and the emergence of new golf-related opportunities. In this special report, we delve into the data and trends behind this thriving real estate sector, providing an in-depth look at the industry's current state and future potential.

2020 and 2021 saw marked improvement in golf industry fundamentals – according to Golf Datatech, golf rounds played, the industry's benchmark of choice, increased by 13.2% in 2020 over the prior year, and again by 5.5% in 2021 over 2020 levels. To put this in perspective, 2021 saw 529 million rounds played in 2021; the average over the prior nine years was 460 million rounds.

So, the question on everyone's mind entering 2022 was – were the prior two years a short-term blip, or could the industry sustain the momentum? Preliminary indications are indicative: through October 2022, rounds played are down by only 2.4% compared to the same period last year. This is actually very strong performance, given that adverse weather adversely affected golf play during the spring months.

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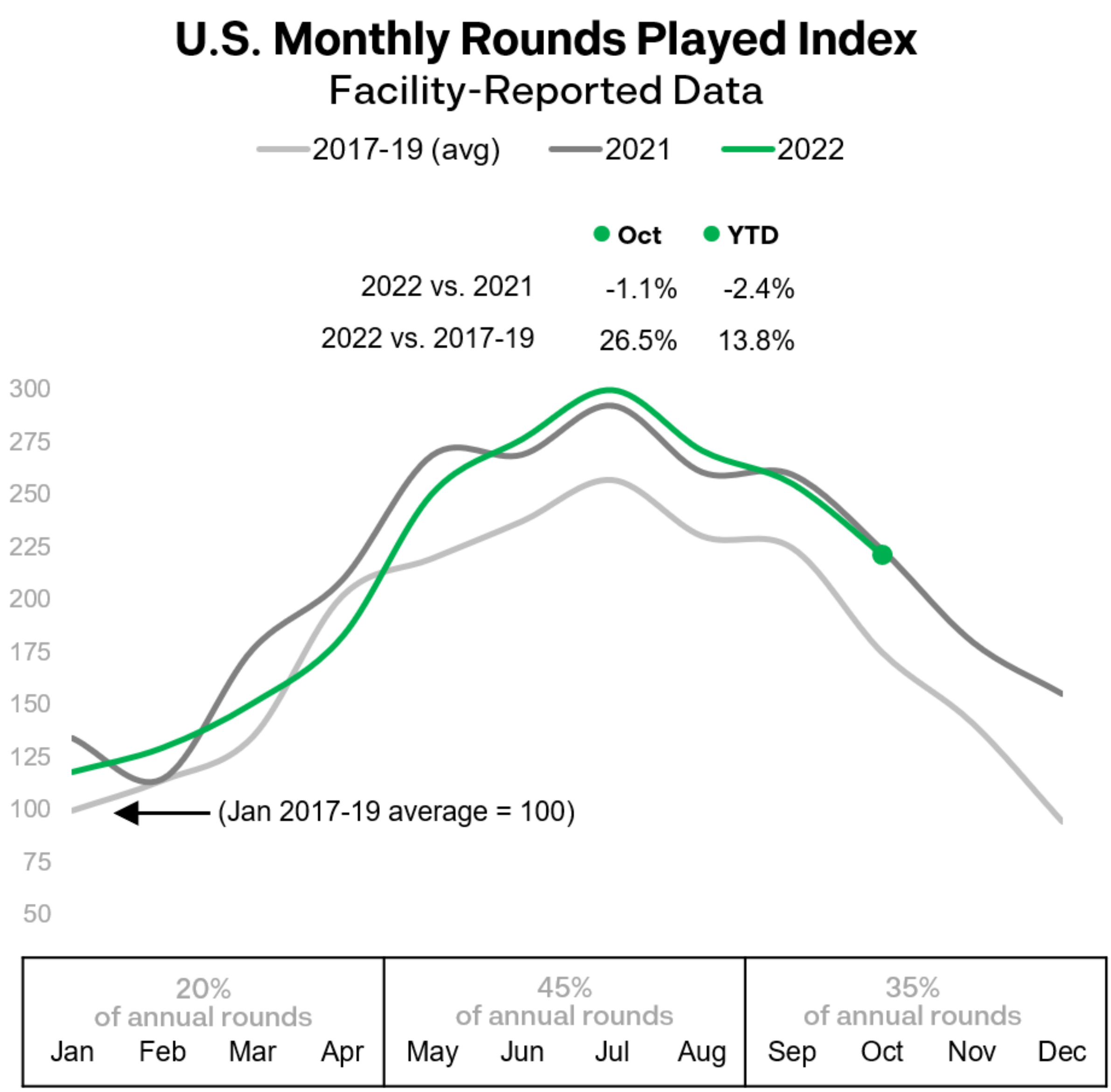

Source: Golf Datatech, National Golf Foundation data support and analysis

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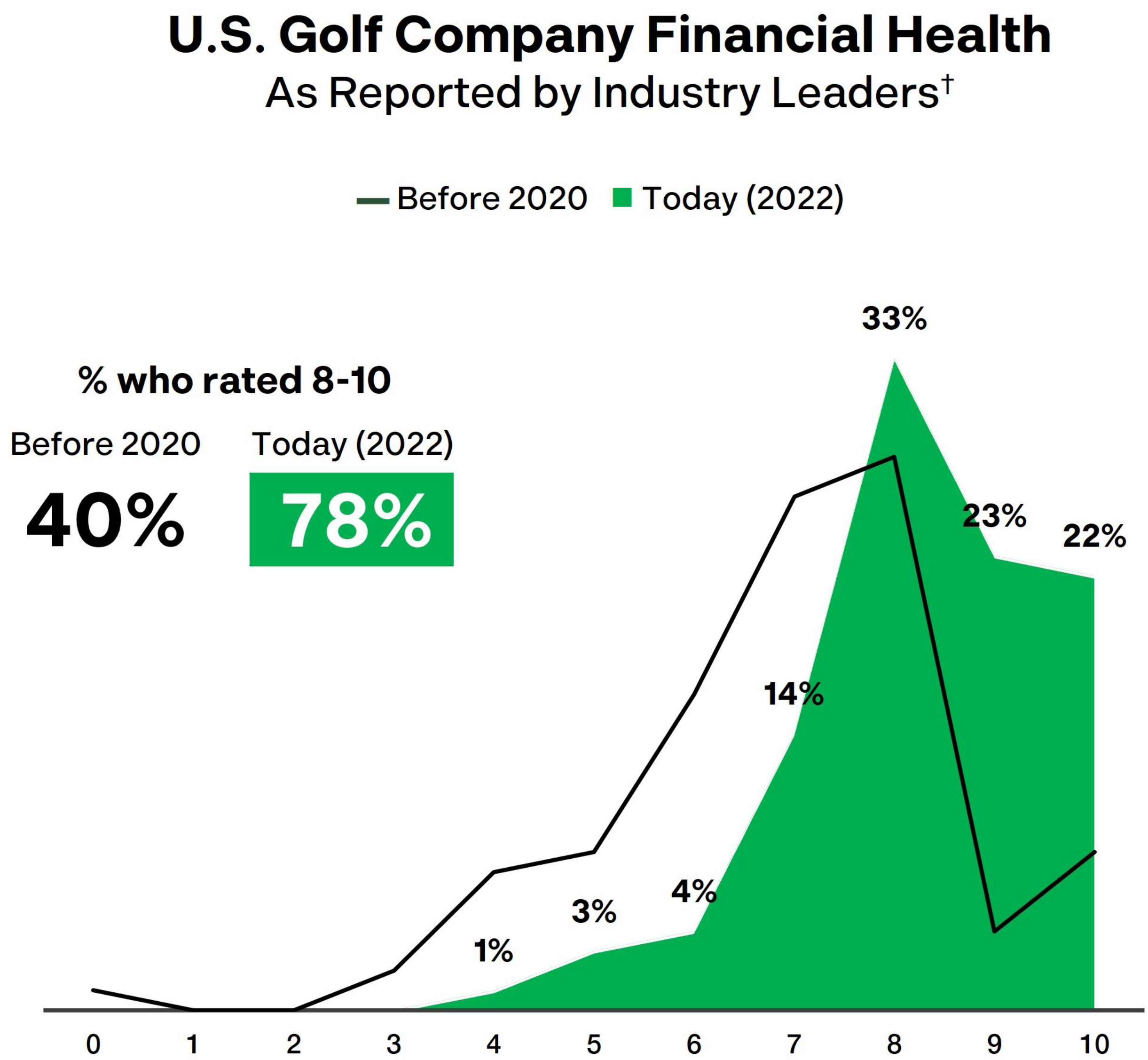
Membership clubs also benefitted from the rising tide, with many clubs reaching their membership capacity, with waitlists to join. This is supported by the National Golf Foundation (NGF) indication that the volume of rounds played at private clubs in 2021 was 18% higher than the average over the previous five years.

Thus, the net effect of the recent trend is that the overall financial health of both public and private courses is very good. The NGF reported in a November 2022 survey of course operators that 66% of public courses, and fully 80% of private clubs, reported their financial health as Good/ Excellent.



Source: National Golf Foundation Executive Sentiment Research November 2022

† Q. Considering all aspects of your company's financial health – revenues, working capital, etc. – how financially healthy
† Q. What did this look like before 2020 (i.e., how financially healthy would you have said your business was back then?
(Fielded October 2022 among 103 industry leaders)
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The cause for their optimism: as rounds and memberships increase, so does revenue. Additionally, another factor fueling the revenue boost is course operators' opportunity to increase green fees and membership dues, with the concurrent benefit of less reliance on fee discounts to drive demand. Welcome news to the majority of course operators who had been unable to increase fees for years, even to keep pace with inflation, for fear of losing play to lower-priced competitors.

How have the improving conditions translated to real estate markets? In short – higher prices. Brokers indicate that while there has been no discernible decrease in overall cap rates/multipliers (to date), investors' appetite for golf courses has increased as they are now viewing golf investments as a more viable alternative to other property types that are trading at much lower cap rates. Golf course owners, on the other hand, are starting to get offers that are more reasonable to them, thereby facilitating more transactions.

To be sure, the golf industry still has hurdles to overcome. The lack of dedicated golf lenders constricts deal flow, and the rising interest rate environment is also a challenge. To wit, many of the golf course purchases in 2021-2022 were by well-funded multi-course owner-manager companies with aggressive expansion goals (Concert Golf, Arcis Golf, Heritage Golf Partners), who acquire courses with little or no debt in the transaction. Other active buyers are current golf course owners who acquire a second or third course in their market, looking to expand their portfolio.

Good news abounds. But golf is a fickle business and is more susceptible to the whims of the marketplace (and the weather). Fortunately, the inroads that golf has made into younger players through off-course growth may be the fuel needed to maintain course. Off-course golf includes the traditional driving range and mini-golf (or do you say putt-putt?) facilities, but also newer concepts such as Top Golf, Puttshack, Pop Stroke, among others, which offer a hybrid golf-entertainment experience. And this market is booming with new entrants and variants emerging on an almost daily basis; even green-grass facilities are entering the field, with indoor golf simulators being a popular amenity addition to existing facilities.

> "Many clubs reached their membership capacities, with waitlists to join.

NGF data indicates that off-course participation is poised to exceed on-course play in 2022. Impressive, considering that Top Golf, the dominant player in the segment, didn't open their first facility in the U.S. until 2005. The success of these facilities is tied to their lower barriers to entry relative to on-course play: less time commitment, less expensive, and more enjoyable than green-grass courses for new players.

The jury is still out, however, on whether or not off-course players are making the transition to green-grass facilities. NGF data indicates that while golf rounds are up, participation at green-grass facilities has grown only nominally over the past three years, and still falls short of historic levels. The increase in rounds played can be attributed to existing players playing more frequently, as opposed to more players playing. Nevertheless, the development of alternative golf-centric outlets is a positive for the golf industry as a whole; the future is definitely bright.

SOURCE & REFERENCE

Written By: Cary Lannin, Director, IRR-Chicago

U.S. Monthly Rounds Played Index – Source: Golf Datatech, National Golf Foundation data support and analysis

U.S. Golf Company Financial Healthy – Source: National Golf Foundation Executive Sentiment Research, November 2022

ABOUT VIEWPOINT

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