Who's Got "Next"?

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What will 2016 bring for golf course builders? During the past several years, GCBAA members have focused on right-sizing their operations, targeting remodels and renovations for existing golf courses, and hoping for new golf courses to build. What is next?

Favorable Market Conditions

According to the National Golf Foundation 2015 Golf Industry Overview, the on-going correction in supply and demand for golf indicates a 4% decline in supply since the beginning of 2006. For perspective, NGF notes that golf supply grew by a factor of 40% during the previous two decades (1986 to 2005). In its forecast, NGF noted 123.5 new 18-hole equivalents in development and renovation. Roughly two-thirds (82.5) of the projects were renovations leaving just more than 40 new golf courses (18 HEQs). Builders are wise to watch NGF data and to depend on the research being generated for its timely and reliable use.

However modest a recovery in golf course construction may be, it will be modest by the heady standards of the 1986 to 2005 times. As such, builders can call upon other dependable indicators of future demand for golf courses. Two certain categories which will call upon new golf course construction are housing and hospitality.

Ivy Zelman, principal of Ivy Zelman & Associates, is the person who correctly called the top of the housing market back in 2005 and the bottom of the market in 2012. Since 2013 Ms. Zelman has declared that housing will enjoy a four to six year run of favorable market conditions. These favorable conditions include stable demand, favorable home mortgage interest rates and limited (to lacking) supply in key markets. As before Ms. Zelman has proven accurate as the housing segment shows uneven growth limited largely by the supply of finished and market-ready lots for new homes.

Increasing Demand for Renovations

Access to capital is the key. Clubs with ready access to capital – via member investment, new equity or debt – have lead the way for most renovation work for GCBAA members. Generally, renovations have been situated in the category of traditional private clubs in need to improved facilities and upgraded golf courses.

A recent study by Global Golf Advisors notes that a new round of renovations driven by the growth in hedge-fund investment in many long-standing golf facilities. As fund ownership within the category progresses, more renovation and remodel activity will be undertaken. Seeing a distressed asset category, these funds have seized upon golf courses and clubs as a category of opportunity. This market circumstance may represent opportunity for GCBAA builders as well.

Increasing Demand for New Builds

Slowly and quietly, new golf courses are taking shape as regional developers and publicly funded homebuilders re-start new communities using golf courses as a central amenity. There are many communities in which golf is only one of several primary amenities. Updated and expanded fitness and training facilities rank at the top of other market-attractive amenities for communities.

Previously reported here, new growth for golf courses is evident in housing projects in the Carolinas, Georgia, Tennessee, and Texas. This trend will expand modestly during 2016.

The hospitality category is another growing segment beneficial to golf course builders. Owners and investors in major hospitality brands have upped the ante with new resorts, which include golf courses, in the Caribbean, Asia-Pacific and North America. Markets with dependable GDP growth will lead the way.

Who Will Win?

GCBAA members who have ridden the bumpy road from 2010 through 2015 have evolved with the market. The capabilities of the winners are sure to be defined by flexibility, adaptability, low overhead and dependability.

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Flexibility is needed for established builders who may have developed long-standing methods, supply chains and capabilities. GCBAA members who will prosper in the cycle that Ms. Zelman suggests should run into 2018 will have changed to the needs of the market and its customers.

Adaptability will be necessary for builders who must introduce new solutions for construction cycle, partial project scheduling and reallocated responsibilities. Those who adapt will be rewarded by large companies seeking to reduce risk and compress or accelerate amenity development.

Low overhead is essential for the builders who must compete in an over-supplied category. GCBAA members need third-party supply chain that makes available manual labor, equipment and transport using an on-call approach. Think of Uber and apply the same approach to company overhead.

Dependability is the constant. And, given that the most dependable builders remain active in the market category, dependability will be sorely tested for builders. Therefore, builders must implement systems that increase internal operational efficiency to the benefit of its clients.

The question is, "What will win?" And not "Who?" The builders who have mastered flexibility, adaptability, overhead management and dependability in the new market will prosper.

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