Rescued from the Money Pit of Member-Owned Clubs

When Norbeck Country Club celebrated its 50th anniversary in 2004, the members of the Rockville, Maryland, club could not have had a rosier outlook. The fee for the privilege of joining their member-owned club was in the neighborhood of $20,000, and there was a list of prospective members anxiously waiting to pay it.

A decade later, the country club membership paradigm had shifted significantly, the economy was in recession and not only was the waiting list gone but the club needed members so badly that anyone who was willing to start paying the monthly dues was welcome. The depth of the recession led to a golf economy that showed no signs of returning to its roaring Tiger Woods-infused heyday, and Norbeck was on the ropes. Debt service on money borrowed – almost $8 million largely for improvements to the clubhouse – was sucking up cash flow and members could feel the financial noose tightening.

The club's board of directors was so concerned about not being able to make ends meet that in casual dinners and formal meetings, discussions began turning to the "nuclear" option – sell the club's land to a developer. It would be a last-ditch option, but club leaders were putting a plan in motion in case that button needed to be pushed.

"There were sharks swimming out there," says former club president Nick Bobruska. They were eyeing Norbeck's 200 acres on Cashell Road, just minutes from the Georgia Avenue interchange on the new Intercounty Connector. To a developer, the property represented the Holy Grail – one of the last large tracts of developable land left in affluent lower Montgomery County.

For the past three years, it appeared Norbeck might follow the same demise as nearby Brooke Manor Country Club in the mid-1990s and Trotter's Glen, the Rockville public course, both of which are now housing developments. But then ClubCorp Holdings, the $2 billion Dallas-based company, rekindled a years-old interest in Norbeck. In March 2017, the two struck a deal. ClubCorp purchased Norbeck, relieving members of their debt and promising to invest in the club's amenities without member assessments or a huge dues increase. Its proposal to take over the club was approved with 98.7 percent of the member vote, and now, just weeks into its ownership, it's hard to find any Norbeck member who cares that he no longer has an equity stake in their club.

At White Manor Country Club west of Philadelphia, the story is different. Members were paying off a fabulous 2003 course renovation and other capital improvements, but the debt was by no means crippling.

"We were probably similar to where many upper mid-tier clubs were," says general manager Gerard Heller. "We had debt but it's not as though we were unable to make payments. Certainly, we could have used a few more members."

But even with a solvent, smooth-functioning club, members had financial concerns. There was always the question of whether a year-end assessment would be needed to make ends meet, or what kind of financial distress might occur if membership suddenly declined with a downward tilt to the economy, or what would happen if any of the myriad of potential pitfalls of running a member-owned club came along.

So earlier this year, members sold their club to Concert Golf, and the change to corporate ownership has relieved members of the potential of facing tough decisions down the road.

"We were nowhere near that downward spiral," Heller says. "But this gives the club an opportunity to move forward."

Norbeck and White Manor arrived at the same place through different circumstances, but the result for each has been the same – peace of mind. At both clubs, members no longer have the financial worries of owning their own club. No one loses sleep over financing major capital improvement projects, and members, instead of spending their time owning and operating their club, now use the facilities for the reason they joined. That is to play golf and spend time in a private environment with family and friends.

So now, in the new golf economy that has emerged coming out of the Great Recession, the question is: Is the member-owned private club business model viable or even desirable in a time when there are fewer golfers, fewer people willing to spend thousands of dollars a year on a country club membership, and a pool of potential younger members who may not want golf at all but are attracted by more family-oriented amenities? In the first quarter of 2017, five member-owned private clubs in the Philadelphia, Baltimore and Washington, D.C., suburbs have sold to two different corporations that specialize in running golf clubs. North Hills Country Club (Glenside, Pennsylvania), Eagle's Nest Country Club (Towson, Maryland), and Norbeck have all sold to ClubCorp, one of the nation's biggest private club owner-operators.

Philmont Country Club (Huntingdon Valley, Pennsylvania) and White Manor have sold to Concert Golf Partners, a well-funded boutique owner-operator.

That's in addition to places like Woodmore (Mitchellville, Maryland), Chantilly National Country Club (Centreville, Virginia) and Hartefeld National (Avondale, Pennsylvania) that have made the transition to either ClubCorp or Concert in the last four years for one reason or the other.

There are about 3,300 member-owned private clubs in the country. Of those, maybe a quarter, are likely never going to go away from the member-owned model. The established blueblood clubs that are the elite clubs in any city – Congressional, Burning Tree, Columbia, the Chevy Chase Club, for example, in Washington, Baltimore Country Club and the Elkridge Club in Baltimore and Aronimink, Merion or Pine Valley as examples in Philadelphia – will always have wealthy members and the resources through the combination of assessments, dues increases and financing to fund and operate their clubs.

But recent sales of mid-tier clubs suggests the member-owned paradigm – at least in the current economy – might be willingly shifting to a corporate ownership model.

At clubs with little debt, the decision to sell grows from a careful consideration of the best way to fund ongoing capital needs. At these mid-level private clubs, the idea of raising dues or assessing members to cover capital costs is unsustainable. As Norbeck's Bobruska says, "If you say the word assessment around here, you'd better be wearing a Kevlar jacket."

Distressed clubs have simply reached the end of their financial rope and have almost been forced into the decision, reasoning that corporate ownership is better than closing the doors, or the alternative approach clubs like LuLu Country Club north of Philadelphia took by opening its private 1912 Donald Ross-design to public play to keep the club afloat. Either way, Concert Golf Partners CEO Peter Nanula says clubs come to the realization that bringing in a professional organization loaded with expertise in the hospitality business makes sense. "For both of those reasons," says Nanula, "nice clubs are increasingly saying, 'This is crazy.' "

So when an investment company like Concert or ClubCorp offers to take over or pay off a club's debt, invest in capital improvements, and maintain, or in some cases, even lower monthly dues, club members suddenly see a light at the end of the fairway that they haven't seen in years.

"Many of those mid-tier clubs have not been able to reinvest in their clubs," says ClubCorp senior vice president of business development Tom Bennison. "They either borrowed too much money before the recession and can't pay it back now, or they didn't borrow money and desperately need capital today but can't get it."

At historic Philmont Country Club, members had very little debt but had deferred capital improvement projects while they tried to sell 60 acres of their South Course to a developer. The deal would generate about $10 million, but, not being experts in the process, members struggled with the approval process for five years and couldn't get it done. Concert Golf offered a deal to take over the club that has been around since 1906 and provide the $10 million in two stages – half immediately to fund the overdue improvements and half when Concert completes the sale of the 60 acres on behalf of the members. Upon signing the deal earlier this year, Philmont's board of directors declared an end to the era of funding capital projects through member assessments.

In addition to paying off a club's debt and investing in upgrades, these ownership companies promise no member assessments, which gives members peace of mind, lowers attrition rates and makes the club more attractive to prospective members. Almost every club that has gone to the corporate model has seen an uptick in membership.

A few years ago at the Country Club of Woodmore, just east of Washington, declining membership and growing financial obligations fueled the downward spiral that is the inevitable offspring of those two factors. During its 38-year existence, Woodmore has been considered one of the D.C. area's finer country club courses, but it was struggling to keep the membership rolls filled. By 2011, the expense of a clubhouse expansion and modifications to its wonderful Arnold Palmer-designed course – not to mention keeping up with the swimming and tennis facilities – were all catching up to members. Growing debt service and a shrinking membership led to deferred capital improvements and maintenance projects as well. "Let's just say the club was close to not being able to meet its financial commitments, and there were some very serious discussions with the bank," says former Woodmore president Thomas Graham.

The future was getting away from Woodmore like a downhill 40-foot putt. But then, as if by the wave of a magic 9-iron, everything turned when members sold to Concert Golf, which immediately paid off the club's debt and invested in upgrades to the course and the clubhouse.

At Woodmore, there is no longer any financial distress. Members are not worried about setting a new direction to save the club. The course is better, the food is better and the facilities are better. As at nearby Norbeck, it's hard to find a Woodmore member who has given the decision a second thought.

Often, the decision to remain a member-owned club is fueled more by ego and emotion than common sense and sound financial and membership strategies.

At the end of 2015, members at Eagle's Nest Country Club staged an 11th-hour fundraising appeal – essentially passing the hat – to collect money to retire its $4.8 million debt and remain a member-owned club. The members then loaned that money to the club at a very favorable interest rate. But the debt-to-freedom movement did nothing to fund future capital improvement projects or the operation of the club beyond its normal revenue, and less than a year later it became apparent that wasn't going to be enough to meet future obligations. It was looking like the worst investment decision ever for the members who ponied up the most money – until ClubCorp agreed to buy the club and assume the members' debt at the low interest rate.

ClubCorp also agreed to spend millions of dollars to upgrade the club amenities and food service, all while lowering monthly dues. At this year's Easter brunch, members said it was the best ever at the 45-year-old club.

"The excitement level is very high here," says general manager Karen Ruth.

The flurry of sales activity in the first quarter of this year might be an indication of where the market stands in 2017, but golf is not on the threshold of loosing the member-owned private club model.

"The Mid-Atlantic market is way overbuilt with clubs, and I think you will continue to read about acquisitions of these clubs," says ClubCorp's Bennison. "But I don't think we'll get to the point where most clubs will be owned by a company like ours."

When many of these clubs were formed, some in the early years of the 20th century, the economics of owning a private club were much simpler. Buy land, build a golf course, toss in a few amenities and the members paid for it. But the dynamics of private clubs have become much more complicated. Members still join for the same reasons – the country club membership has always been more about belonging and enjoying the camaraderie of like-minded people than anything else.

But members have to do their part as club owners and that's like taking on a second job. They have to serve on committees and become involved in the day-to-day business decisions, not only involving the golf course but everything from replacing clubhouse carpeting to caring for the heating and air conditioning systems. That's not the case under corporate ownership.

"The capital projects happen very fast because the members don't have to pass the hat and have 20 committee meetings to talk about it and finance it," says Nanula, Concert Golf's Harvard law grad who started and led the Arnold Palmer Golf Management Company from 1993 to 2000. "We have the money in the bank so if it's a good idea to put in a new pool, we put in a new pool. What's there to talk about?"

At some clubs, Philadelphia's White Manor being the perfect example, members came to the realization that their time at the club had become more about solving problems, financial planning and eyeing the future than spending quality time playing golf with friends or recreating with their families. In theory, members of these private clubs paid an initiation fee to join and have an equity stake as a part owner. But the fact is, equity is unlikely to ever pay a dividend. So members at a growing number of mid-tier clubs in the region take the next logical step and sell their club to a corporation of professionals who have the knowledge, manpower and economies of scale to take the burden of a member-owned club and turn it into a cog in a smooth-running corporate machine.

That may sound like selling out and giving the soul of your club to the devil, but that's not the way members at recently sold clubs see it. "I don't feel like we've lost our self," says Woodmore's Graham. "It's still our brand. New members and guests come in and they don't really notice Concert is here."

In businesses like hotels and restaurants, corporate ownership is viewed as a positive. When you stay at a Marriott property or eat at Ruth's Chris, you know you're getting the same across-the-board quality whether you're in Washington, D.C., Philadelphia or Hong Kong. But the last thing country club members want is for their club to be exactly the same as the club in the next city. And that's not the case.

"It's not a cookie-cutter mode here," says White Manor's Heller. "The culture here remains the culture that the club has always had."