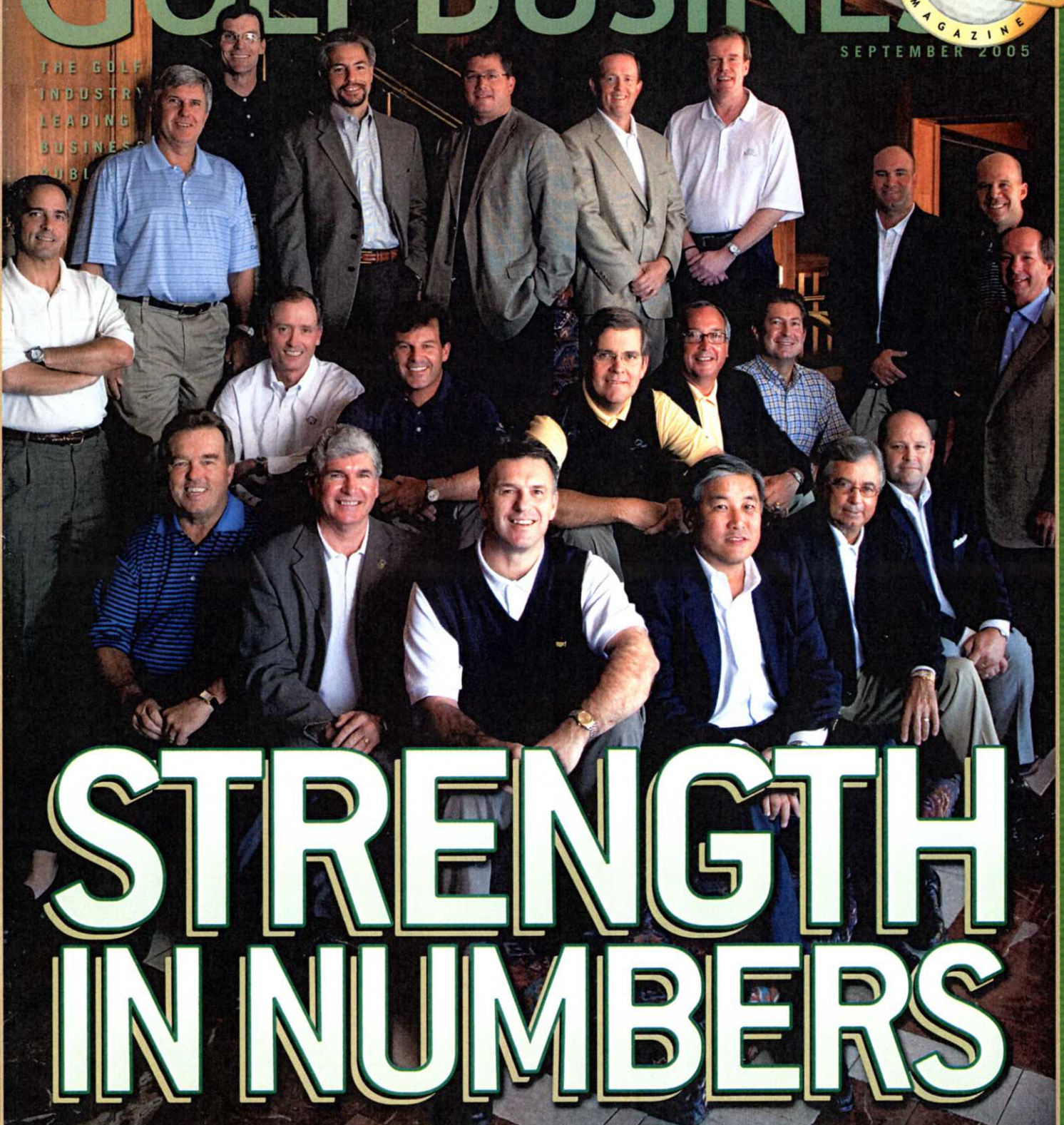


GOLF BUSINESS

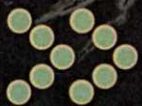


SEPTEMBER 2005

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Maximizing Your Investment



With the realities of skyrocketing land values, smart operators are considering ways to maximize the use of their land without compromising their golf courses.

A large blue key and a stack of blue dollar signs are positioned on a wooden background. The key is at the top, and the dollar signs are at the bottom right. The text 'ng' and 'stment' are on the left side, with 'by Dan Gleason' in between.

ng stment

by Dan Gleason

In these times of urban sprawl and soaring land prices, every square foot of dirt is starting to look like gold dust. Planned communities are springing up all around booming cities such as Phoenix, Las Vegas, Atlanta, Denver and whatever has yet to be claimed of every metropolitan area of California. Much of what was idyllic countryside longing to be developed is now a sea of subdivisions and wall-to-wall people. Take Phoenix, for instance. It is not uncommon to hear an old timer talk about how he would be a millionaire if he'd just bought land in north Scottsdale for \$10 or \$20 an acre. And he isn't talking about the Stone Age, either; he's talking about as recently as the 1980s. Golf courses are not immune to the pressures of increasing land values in many areas of the United States.



In St. Louis, the landmark St. Charles Golf Course, built in 1956 when St. Charles County was 35 times smaller than it is today, recently announced that it is closing. The venerable 27-hole facility will give way to development of more than 400 single-family houses as well as 25 acres of commercial property.

On its once rolling, dappled fairways are now homes and office buildings. The landmark Lakeside Country Club near the airport is also long gone, as are several others. But even outside the perimeter, courses are disappearing. In the northern suburb of Acworth, the Centennial Club is no more—and it was

Owners who are struggling to survive, yet want to keep their golf courses open, are going to have to find ways to maximize their investment.

Atlanta has ridden a non-stop boom since the early 1970s. Today, many courses inside the I-285 perimeter have been swallowed up and plowed under by real estate developers. The Metropolitan Club, a fine public course on Atlanta's south side, was bought by developers.

only about 15 years ago that Larry Nelson designed and helped develop it. Now it has been sold to commercial and residential developers because the owners realized they would make the kind of huge killing they could never have made selling greens fees, balls and caps.

Even in smaller cities, urban sprawl covets the land that golf courses have long occupied. For example, the growth in Des Moines, Iowa, has been prolific of late, with the more upscale development reaching into West Des Moines, evidenced by the fact that Des Moines Country Club and the equally upscale Glen Oaks Golf Club were located there. Ponderosa Golf Course, a nine-hole public course that opened some 20 years ago, closed the doors last year to make way for a huge financial windfall. Once out in the sticks in view of cornfields and bean rows, Ponderosa more recently found itself smack dab in the way of development from the upscale Jordan Creek Town Center area. The Jordan Creek mall covers 220 acres, but around it, luxury homes and high-end retail stores are still being built. According to a *Des Moines Register* newspaper article, the golf course owners originally bought the entire 64-acre parcel at Ponderosa for about \$200,000. The land around there today is selling for between \$325,000 and \$400,000 *per acre*. That means that even, by conservative estimates, the Ponderosa sale will net the tidy sum of \$20 million. Who could resist?

Many Options

These bursts of growth are great for local economies, but what does all this mean to a golf course owner, especially when he sees that he could make a lot more money by walking away and selling the place for dirt rather than continuing to battle the marketplace?

Selling the golf course for other development is certainly one option. But owners who are struggling to survive, yet want to keep their golf courses open, are going to have to find ways to maximize their investment.

That may mean diversifying the uses of the land around their courses.

Rock Lucas is one of many owners already doing that. In 1989, he bought Charwood County Club in West Columbia, S.C., from his father, who had built the course some years earlier with a partner. Lucas had helped develop the second nine holes while working for his father and his father's partner, then helped develop a third nine after his father bought out the partner.

Being a PGA professional and having such a history with this club, Lucas did not want to part with the course to land developers, so when profits thinned, he got creative. "I had wanted to expand the golf course, maybe put in an executive nine, but the profit potential just hasn't been there," he says. "So I began to develop the land around the course for commercial and residential use."

Lucas first took a 35-acre tract and began developing it for retail stores offices and residential lots. He still has a 22-acre tract and a 16-acre tract he will develop, which include a 15-acre residential community in



which most of the lots are already sold. Eventually, there will be 56 courtyard homes on that tract, which is pulled far back off the road near a high-traffic area. Closer to the road, he plans a commercial/retail area that will serve the residents.

"I would like to build a new practice area or an executive course, but I just can't justify that right now," he laments. "I wanted to expand the golf and didn't even care whether it would make money, as long as it would be self-supporting. But I couldn't find a way to make that happen—and believe me, I looked. So I had to develop around the golf course if I wanted to keep it. We have had a few courses totally disappear around here for residential and commercial development because they weren't making money and the land had become so valuable. What I have done, even though it wasn't my first choice, is find a way to keep my facility. Down in Myrtle Beach, the situation is much worse than it is here."

Lucas' assessment of Myrtle Beach is accurate. Among the landmark courses that are no more is the



Myrtle Beach granddaddy, Gator Hole. Robber's Roost, a renowned Myrtle Beach favorite, is now a Home Depot.

Las Vegas has been another residential boomtown, proving there is another side to Vegas than its neon lights, cigar smoke and busted out blackjack players. Angel Park Golf Course boasts two award-winning championship 18s, but maximized its investment by building a lighted 12-hole short course called "Cloud Nine" and a grass 18-hole putting course. Both courses are open late at night to accommodate the city's nocturnal nature. The Cloud Nine course, all par threes, maximizes a minimum amount of real estate. The course is comprised of replicas of famous par-3 holes from around the world and tallied 32,500 rounds in 2004, increasing the operation's

annual revenues by more than \$400,000. The putting course—the nation's first 18-hole grass putting course—takes up a small amount of

Golf developments around the country are maximizing profit potential by using their courses as centerpieces for everything from retail to light industry.

space, yet brought \$94,000 into the coffers in 2004. Those two venues alone—afterthoughts to the original 36 holes—were responsible for an extra \$500,000 last year.

Going Commercial

Several other golf developments around the country are maximizing profit potential by using their courses as centerpieces for everything from retail to light industry. One of the more interesting of those projects is being undertaken by Daedalus Real Estate Advisors in Phoenix, at Longbow Golf Club in suburban

Mesa. The public-access course was originally built simply to create income on land being held as a buffer to protect airspace for the McDonald-Douglas helicopter plant and airfield. But Boeing decided to sell the course when it bought McDonald-Douglas five years ago.

At the time, Daedalus was doing a transaction on another piece of property with Boeing, and the subject came up about Longbow. Due to land restrictions at the time it was built, Longbow was wedged inside a 135-acre tract, making it very tight. It didn't even have enough land for a practice facility and shrubbery was planted between fairways to protect golfers from getting smacked by errant shots.

So in 2001, after buying the course and an adjacent 200 acres, Daedalus owner Robert McNichols came up with the vision to develop Longbow Business Park & Golf Club. He contracted with the very able Ken Kavanaugh, the course's original designer, who was overjoyed at having sufficient land to redesign the course to a more championship and playable caliber. Twelve of the original 18 holes were initially kept open for play as Kavanaugh designed the new course and used the six closed holes as a sod farm for the new fairways. Eventually, more holes were

closed and used for sod—a very economical move.

The original Longbow clubhouse was moved intact to its current site and a practice facility now sits just outside the clubhouse doors. Play at the new course quickly got back up to the previous average of 45,000 rounds a year. But now there is another 1.5 million square feet being developed for commercial and retail businesses and light industry. Residential property cannot be developed there due to zoning restrictions, but a hotel is feasible in the future.

“We will dedicate about 300,000 square feet of development to retail stores,” McNichols explains, “and 600,000 square feet each to offices and light industry.”

One advantage for the golfer, McNichols points out, is that the views will not be restricted as they might with residential development. “Buildings may be a few stories high, but there is space between them. Homes often have no space between them and eliminate any view.”

Kavanaugh did a masterful job of designing waste areas and basins that come into play and add to the visuals of the course, but which also act as holding places for the runoff that comes with Arizona’s heavy, flash rainstorms. “By doing that,” says McNichols, “we have been able to use the course to retain water, which gave us a lot more land that we could develop for the business park.”

Having multiple uses for a golf development is not a new concept in Phoenix’s Valley of the Sun. The well-



With the realities of urban sprawl, every square inch of ground is becoming more valuable every day.

known Gainey Ranch golf facility in Scottsdale is a mixed-use community with homes and an elegant Hyatt Regency hotel that also feeds players to the golf courses to increase revenues. The venerable 36-hole McCormick Ranch facility in Scottsdale sold off much of its original land for residential development as well as for offices and an upscale restaurant. Up the road into north Scottsdale, Kierland Golf Club includes 27 holes of golf surrounded by high-end private condominiums, a Westin hotel and, just across the street, upscale shops and cafes.

However, for the Longbow project, McNichols was inspired by three such projects that he’d known about while growing up in Denver: Inverness and Meridian in southeast Denver, near the Tech Center, and Interlochan in Broomfield, north of

Denver toward Boulder.

Meridian Business Park was the brainchild of Hartford Insurance, which built Meridian Golf Club as an amenity and an enticement to sell property in the business park. However, the economic timing could not have been worse, as the country, and Denver in particular, suffered a real estate downturn. Hartford quickly sold the business part to the Denver Tech Center but the golf club was not part of the sale and is separate from the business park and is now a private club owned and operated by Central Sports. After the economy surged in the mid-1990s, the Denver Tech Center has developed and sold a good deal of the property to an assortment of companies and continues to do so.

Inverness Golf Club opened its course in 1973 and began developing

an office park soon after. In the mid-1980s a hotel and conference center was added and the hotel guests have playing privileges and can book packages at the otherwise private club. However, even though the office park is now separately owned, the businesses can still acquire playing passes at the club, which continues as a marketing tool to rent and sell commercial space.

The Interlochan development was more recent, launched in the late 1990s, with a business park, a mall, a hotel and a golf course all part of the master plan. Omni Hotels owns the golf course and the hotel, and the original developers sold part of the parcel to what is now the Flat Irons Mall, near the hotel. The office park is owned separately from the course and includes about 25 office buildings. The course offers private memberships but is also open to resort and daily-fee play. Companies in the office park get special rates as “company of the month,” which rotates to a new company every 30 days as a further enticement for businesses to rent or buy space.

Residential property may be easier to develop and may sell faster than commercial property. However, selling off property for commercial development in one chunk eliminates the need for the golf course owner to get involved in the development and also serves those courses that may be zoned out of residential development, as they are at Arizona’s Longbow.

From the standpoint of operating a

course within a development, it may be a blessing of sorts not to have to deal with homeowners. Many homeowners who may not play golf and may not contribute to the golf operation still often have a sense of entitlement to walk their dogs down the fairways while golfers are playing or holding parties within earshot of players standing over short putts during important tournaments. With commercial development, on the other hand, it is a place of work, where people leave at the end of the day. McNichols predicts a trend toward more commercial developments as master plans for golf courses that will be built in the future.

With the realities of urban sprawl, every square inch of ground is becoming more valuable every day, and smart operators are considering ways to maximize the use of that land without compromising the enjoyment their courses bring to their customers.

“I think you will see a lot more courses that are forced to do what we have done,” says Lucas. “I will say that we have been able to develop around Charwood without really compromising our course. We developed around the course in the least obtrusive way possible. In the end, I did what I had to do to hang onto my golf course so golfers could continue to use it as a place of enjoyment and so I didn’t have to part with a place that’s very dear to my heart.” 🍷

Dan Gleason is a freelance writer based in Arizona.

Points to Consider

Before you run out and start staking out home lots around your course, here are some important points to consider about further developing your property:

- 1) Will it be worth the time and effort to develop the property yourself—or will it be better to sell to a developer?
- 2) Will development around the golf course require a costly redesign of the course or will the course have to be closed for a lengthy period?
- 3) Will there be a negative effect on current course members or customers if the land around your course is developed?
- 4) Rather than develop the land, could it be more beneficial to enter into a conservation easement to permanently restrict part of the unused land from future development, thereby qualifying it as a tax-exempted gift to a federal, state or local government entity?
- 5) What are the zoning restrictions around your property? Would it be better, all things considered, to develop for residential use, commercial use or both?