

Golf Course Communities' Double Bogey

Demand for Country Club Lifestyle Dries Up in Overbuilt Washington Suburbs

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It wasn't long ago that real estate developers could build a golf course community and collect a \$30,000 premium from customers who might not have even played golf, but aspired to the country club lifestyle.

Not anymore. Projects have been put on hold or canceled because potential buyers are no longer willing to pay extra, can't qualify for a mortgage or can't sell their homes to trade up. Courses that were too far along to stop are struggling to find customers.

"People just can't afford the luxury of a country club. It's become much more aspirational," said Marc Montgomery, a developer who opened his third Washington area golf course community this summer. Like the other two, River Creek in Virginia and Cross Creek in suburban Maryland, his latest, Oak Creek, is the centerpiece of an exclusive luxury community. He has brought in a company from Pennsylvania to manage the golf operations but, he said, "it's hard to spend \$12 million [on a course] and make it back at \$50 to \$100 a round."

"If you don't have enough people buying houses fast enough, it's never going to work," Montgomery said.

Sixty to 80 percent of people who live in golf communities don't play the sport, said Edward T. McMahon, a senior resident fellow at the Urban Land Institute in the District. Now that mortgage lending has tightened up and potential buyers are more price-conscious, "all of a sudden, the whole math changes," he said.

Eighteen months ago, buyers would gladly have paid a \$25,000 premium for a lot on a fairway at the new Lake Presidential Golf Course, said Aref Hinedi, vice president of marketing for Texas-based Ryko Development. The course opened in May five miles from Oak Creek in Upper Marlboro. "It was simply a question of the bank giving them money," he said. "It was easy. Now the market is not there any more."

Developers are also seeing the residual shakeout of a nationwide golf construction binge that created an "unsustainable and unrealistic" number of courses at its height about eight years ago, said Joe Beditz, president of the National Golf Foundation.

In 1999, 509 new golf courses opened in the United States, compared with 113 in 2007, foundation data show. Industry officials project fewer than 50 will open this year. In addition, more golf courses have closed in the past two years than have opened, according to the NGF. "Rationality has returned to the marketplace," Beditz said.

Henry DeLozier of Global Golf Advisors, a consultancy to golf course developers and operators, said the Washington area was more overbuilt than other major metropolitan areas. About 15 courses in the planning stages at the end of 2006 have been deferred or dropped, he said.

Rounds of golf have also decreased, according to NGF data. Maryland courses reported 3.5 percent fewer rounds, and Virginia reported a 1 percent decline.

Since Lake Presidential opened in the Beechtree community in May, it has launched a variety of promotions, including senior discounts on Tuesdays, a Wednesday night women's league and a junior golf program, and hosted several fundraisers. For early joiners, there are no golf cart or range practice fees and no minimum spending requirements in the pro shop or dining room. The course bills itself as an upscale public course, with dramatic black sand bunkers, an old tobacco barn and two man-made lakes, and offers annual membership for \$4,200 or daily walk-on fees of up to \$95.

Membership development is coming along slowly. After more than three months, according to general manager Nathan Presnal, the club has signed about 50 members. Eventually, it hopes to have about 125.

John Shields, a past president of the National Golf Course Owners Association and current president of the Glenn Dale Golf Club in Glenn Dale, says his business is off 10 percent this year. He drives to competing golf courses from time to time, counting the number of cars in their parking lots. His club, he said, is on the losing end. He is trying to sell his property to a developer.

"My family and I have owned it for 50 years," said Shields, who said operating costs -- labor, fertilizer, irrigation, fuel for lawnmowers -- have been rising, along with competition. "It's just too difficult to earn a dollar."

He is not alone. By year's end, the owners of Beechtree Golf Course in Aberdeen plan to close it and redevelop it as a community of 735 new homes. At Hillendale Country Club in Baltimore County, members worried about the slowing economy put off a \$2.7 million upgrade last year. There are no current conversations about when that might happen, club officials said.

And last summer, two pension funds bought the Leesburg-area Beacon Hill golf course at auction. They would like to sell it for redevelopment by the end of the year, according to Joseph Mayes, an attorney for the funds. But, he said, "we recognize that it's not a particularly good market at this point."

The appetite for land used by golf courses has decreased, said Global Golf Advisors' DeLozier.

"Most of the golf courses being closed and repurposed were being acquired by developers or large-volume home builders," DeLozier said. "Clearly, those folks are now on the sideline. So the elimination of golf courses we saw in 2005-6-7 has slowed because the capital market does not have an appetite."

Jack Kay, whose family has owned, developed and operated golf courses in the Washington region since 1938, closed the last one, Indian Springs in Silver Spring, two years ago, and is in the process of selling it to a developer.

"I wouldn't want to be opening up a new golf course right now," he said, noting that home builders' troubles are making life even more difficult for developers. Developers generally map out a project, sell lots to a builder, construct the golf course and then either sell it to a company that operates courses or turn it over to homeowners. That generally doesn't happen, however, until a development is well underway or completed, industry officials said.

Last Monday, one of Oak Creek's builders, Carl C. Icahn's [WCI Communities](#), filed for Chapter 11 bankruptcy protection. It had completed several houses and a model home in Oak Creek but had not sold them all. Montgomery said he will find another builder to replace WCI, which did not return phone calls seeking comment.

"We have enough sales to offset our debt and make a little bit of profit," said Montgomery, who said that about 350 of 1,200 homes have been sold. About 50 of 400 or so club memberships have been sold, and the pace has been slower than Montgomery says he would like. "It isn't like it's coming to an end; it's just not a very good market," he said.