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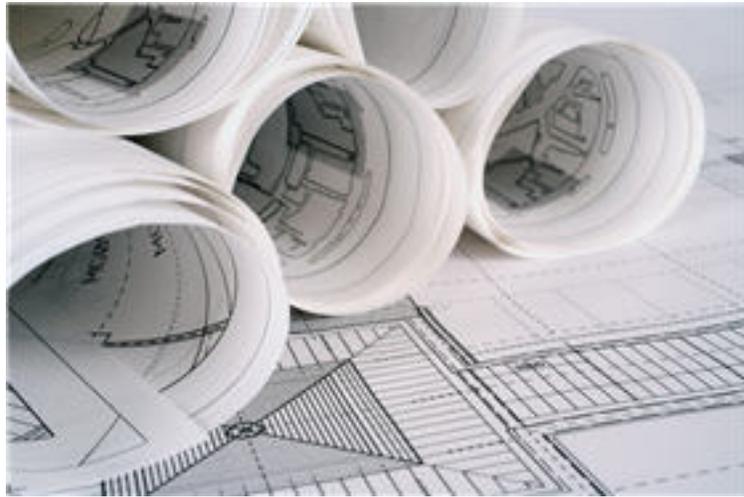
Key Steps for Planning Capital Projects

by Larry Hirsh, President, Golf Property Analysts

Planning for capital projects at private clubs is a complex undertaking. First, there are the club's needs and desires. Next is the issue of club member "politics" that is inexorably intertwined with financial considerations, and lastly are the challenges of implementation that may result in membership turnover.

These matters can be better understood by looking at each step in the capital project planning process:

- Project Planning
- Project Feasibility
- Project Financing
- Project Implementation



Project Planning

Many clubs begin the planning process with the establishment of committees who then seek input from club members on the areas for primary focus for the project. It's not uncommon for different factions of the membership to see things differently, and often the golfers will want better practice facilities or course enhancements while others will look to upgrade clubhouse and dining facilities or add new facilities. Every member will likely have a "wish list," and it is critical for club leadership to understand these wishes, along with the wishes of *prospective* members, and combine these desires with the realities of the club facilities' needs and the club's property limitations. An example of one club that experienced success was a club that was losing members, wanted a new clubhouse and also needed enhanced practice facilities. By prioritizing and phasing their project, first adding a practice facility to develop membership, they gained members and then, on more sound financial footing built a new clubhouse and the club is now thriving in a competitive environment.

Sometimes, capital/renovation projects are driven by a club's need to address long-term maintenance items. Greens and bunkers have a limited life; using modern construction and new turfgrass varieties can enhance the course. Likewise, clubhouse facilities, swimming pools and tennis courts require "refreshment," and in many cases, modifications better serve modern day members. Another club we know approved a major renovation project which included one of its two championship courses that has been plagued by poorly performing bunkers, old turfgrass and antiquated, push up greens and enhancements and upgrades to other athletic and clubhouse facilities that appeases all factions of the membership. To prepare, the club undertook a successful membership drive to counteract the departures of some opposed to the project and grew (net) the membership significantly.

Without doubt, a huge part of the planning process includes identifying a realistic budget, time frame and financing plan. Estimating costs is a complex issue that, in the beginning, is sometimes done "from the hip" and results in inaccurate estimates that have to be corrected later. Two commonly overlooked issues are the impact that ongoing construction has on the club and membership and the changes in maintenance and operation afterward.

Project Planning Tip: When considering your final project budget, remember to leave at least a 10 percent cushion in your budget to account for unanticipated costs.

Planning often takes several years and requires a coordinated "sales" effort to ensure that the vast majority of the membership is on board with the project. Professional help in the areas of golf course and clubhouse design, financial feasibility, maintenance and operations is critical to completing the planning process objectively and realistically.

Project Feasibility

Analysis of the feasibility of a club improvement project includes reviewing financial spreadsheets that estimate income and expenses during and after the project. However, the following questions need to be addressed realistically before any meaningful spreadsheets can be developed:

- Will the improvements enhance membership development and stability?
- Are existing members willing to pay for improvements?
- Will existing members use club facilities more frequently?
- How will club revenues be impacted moving forward, both in the near term and long term?
- How will the enhanced facilities impact the club's operating expenses?
- What kind of capital reserve will be required to fund replacement of new items in the future?
- How will the project's construction impact club operations, and what impact will the disruption have on membership?
- How will the club address "membership flight" during the project?
- What plans does the club have for accommodating members during the project?

Once these questions are answered, the club can begin developing spreadsheets that will help determine project feasibility.

There are several types of feasibility demanding attention. Most people will focus on the financial feasibility, as everyone is concerned about cost. However, a big part of the feasibility analysis has to focus on the physical feasibility of any project. For instance, if the land area is limited, does development of an enhanced practice area that may require alterations to the golf course make sense? Is there physical space for a fitness center that won't hinder other areas of the club? Some clubs have added or considered multi-purpose areas, such as practice ranges that can be used as skeet shooting ranges or athletic fields and banquet rooms that can be used for

aerobics or educational seminars. Each and every club has physical limitations; sometimes they can be modified (acquisition of adjacent land), but often they cannot.

Another often-overlooked element of feasibility is prioritization. Many clubs can't afford to do all the items on their wish list at once. Therefore, those items should be prioritized in a manner that favors those items that can provide economic benefits that will assist in funding the other elements of the plan. For instance, if development of a practice facility will allow the club to increase its membership capacity and enhance membership development, such a project might take precedence over the redecoration of a function room or the purchase of new chairs and dishes, which could be easily done once membership is increased.

Of course, once these decisions are made, the ultimate feasibility questions are whether or not the club can operate fiscally with a new and modified profile, and whether the proposed improvements are worth the cost.

Feasibility Tip: When determining whether or not the club will benefit from the project, be sure to consider both the hard costs, like construction expenditures, and the soft costs, like facility downtime and member dissatisfaction during the renovation. When evaluating benefits, remember to factor in increased revenue and marketability along with costs saved by updating facilities, like improved resource (water, gas, electricity) utilization.

Project Financing

When it comes to funding capital projects, clubs are often viewed as having one of two types of member "mentalities." There are "*owner*" members who have a sense of ownership and pride in their club—they want to do what is best for the club and are willing to pay for it. There are also "*customer*" members who are less likely to agree to increased costs. While both types of clubs invest in capital projects, the owner clubs are more likely to finance through cash and assessment while the customer clubs are more likely to use debt that defers at least some of the cost to the next generation. There are also clubs that finance with a combination of assessment and debt and those that offer members the option of paying an assessment up front (with a discount) or financing it over time.

During the planning process it is critical to understand the club mentality and how best to finance the project given the fiscal condition of the club, the attitude of the membership and the availability of debt financing. Many clubs have a membership that is economically diverse; having financing options can often make the difference between the success and failure of a project.

Financing Tip: Clubs can also use a combination of options to finance projects, and some may consider having members invest in club improvements through no- or low-interest loans.

Project Implementation

Capital project implementation is unique for every club. Since many clubs are somewhat seasonal in nature, scheduling construction to occur as much as possible in the off-season is desirable; however, if golf course renovations are included, the agronomic considerations for grow-in are likely to impact at least a portion of the busy season.

The club should assemble a good team to work with the professional consultants in coordinating with the contractor and overseeing construction to ensure project success. Having a strong, well-coordinated team can impact the project's cost, time and quality, and as the principal in the project, the club should ensure the best representation from both the membership and the club's professional management/staff.

Implementation Tip: Resist the temptation to make multiple, small upgrades during construction, which can drive up the cost of a project and create delays.

Successful projects are generally seen as those completed on time, kept on budget and fulfill member expectations. Successful projects are generally seen as those completed on time, kept on budget and that fulfill member expectations. Careful planning and conscious project management can help your club make capital projects true improvements to the club experience and the club's future.

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