Club Director

WINTER 2023

PERSPECTIVES FOR LEADING PRIVATE CLUBS

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INSIDE: CLUB GOVERNANCE

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Are we ready for the downturn?

IT'S BEEN almost 13 years since the end of the 2008-2009 recession. Typically, recessions appear every seven to nine years. By traditional standards, the U.S. entered a recession at the end of the second quarter of 2020 as much of the country was locked down by government mandates to control the spread of COVID-19. That ended the longest economic expansion in U.S. history.

The recession was short-lived as we learned how to cope with the pandemic and by November 2020, the economy had significantly recovered. Our current economy has been quite weak for much of the year, but to date, we haven't seen a gross domestic product (GDP) reduction over two successive quarters, which is the official definition of a recession. Although we aren't officially in a recession, it sure feels like it and the population is broadly beginning to hunker down, coping with higher energy and fuel prices, huge price increases at the grocery store and substantial increases in consumer goods. Most economists are forecasting an official recession to arrive during the first quarter of 2023, with varying opinions about its severity.

Is the country in for a recession? And if so, how severe and for how long? Does anyone know? Are you betting your club's success on those speculations?

DAN: I'm undaunted by the threats of a recession for the private club industry. I'm confident that both city and country clubs will prosper through the slowdown as they have learned valuable lessons from the 2020–21 recession and are stronger for the experience. It is now time to reverse 2022's positive momentum by hunkering down. According to PBMares' *2021 Clubs in Town and Country* report, city clubs were staging a comeback in 2019 with increasing revenues and memberships before the pandemic occurred. Although city clubs were severely affected by the pandemic and forced to close for extended periods during the 2020 recession, the average city club lost only 3% of its membership base and has since re-tooled and strengthened its financial position. They developed creative ways to provide some level of services to their members, even off-site. Members remained loyal to their clubs, and I fully believe they will continue to support their clubs through whatever impending economic downturn we may face. The biggest point about city clubs is this: There is an emerging crop of "new school" city clubs. Have you heard of Soho House? Thirty-three locations worldwide with seven more under construction.

Country clubs, on the other hand, substantially benefited from the pandemic. Initially many clubs and their athletic facilities were forced to close but once golf courses, tennis courts and swimming pools were permitted to reopen, the current boom increased at a faster rate. Member participation surged and new member applications flooded in. Within approximately 18 months, membership caps were reached and record outdoor uses of the clubs were recorded. According to the National Golf Foundation (NGF) and Golf Datatech, golf rounds increased across the country by approximately 22% from October 2019 through October 2021. They only slackened off a meager 2.4% in 2022 after caps were met and maximum capacities were reached. Private country clubs had a banner year in 2022, with memberships remaining full, waitlists created where many have not existed and non-dues income on the rise. Social and golf outing income has returned like a banshee.

Both country and city clubs had proven themselves to be very resilient and I do not doubt that they will continue to prosper through however long or severe a recession might pan out to be. Keep the pedal to the metal!

A few macro takeaways, Bob: I trust you remember from hotel school, hospitality is the first sector to go in a downturn, and the first to come back. Given the range of consumer choices today, hospitality will continue to be affected with a bigger beta than other industries but will continue to come back with a vengeance. The club industry has not wasted a good pandemic, and given we offer what the consumer wants today—safety, family, camaraderie, outdoor sports, a refuge for their friends and family—even clubs with suboptimal governance, management and food are doing well!

BOB: Dan, I appreciate your optimism and encouraging viewpoint, but I would advise that clubs be cautious of what the next 12 to 24 months may bring. The city club scene may not be as rosy as you have painted it. Although the loss of members during the pandemic did not appear to be substantial, that depends upon which numbers you reference. The 3% average decline in memberships PBMares reported for 2020 was an average across the board and their further breakdown showed city clubs above 1,000 members having lost an average of 6% of their membership, less for smaller clubs. Further, the operating losses were substantial and ate into their capital reserves for all-size clubs.

I have a slightly more optimistic feeling for the smaller city clubs with wealthier memberships as they are more collegial and likely to support their club throughout hard times. However, they, like their larger counterparts, will continue to suffer from the work-at-home phenomenon and trend toward outdoor dining. Businesspeople are still giving up their jobs before agreeing to go back to the office and most city clubs simply don't have outdoor dining options.

I agree that country clubs have fared much better than city clubs through the pandemic—including 2022—however, you are making too little of the first apparent chink in their armor. As you mentioned, the October NGF and Golf Datatech annual and monthly golf rounds reports showed what you referred to as a meager dip of 2.4% for the first 10 months of 2022. This was a particularly dry year for most of the country, which generally results in higher average rounds. I would view this "meager" decline as, at best, a plateauing of rounds and more likely the beginning of a gradual decline, particularly for private club rounds. Taking a deeper dive into the report, of the 2.4% overall decline, the golf rounds for public access facilities were only down 2.1% but private club rounds were down 3.4%. The comparative numbers for October were positive at .8% and -7.7% (for clubs), respectively. This picture isn't a positive one and I suspect it will only be exacerbated by a recession. Also, it is widely reported that businesses are beginning to bring their workers back into the office, if only on a limited basis. The work-at-home phenomenon was the big boost to golf rounds and tennis play, mostly responsible for membership growth. If members start having less time and tighter budgets because of changing business requirements and a recession, clubs can expect to maintain the momentum that they have enjoyed these last 18 months.

DAN: Bob, as I am fond of saying, clubs are in the entertainment business, and from a macro perspective, the private club industry has materially changed over the last few years, with COVID-19 tremendously affecting our industry in positive ways. Clubs have learned to refocus on the member, particularly member families. Most club boards and management teams have gotten unstuck because of need. Some have not and if they buck the paradigm shift they will soon go away. Most clubs have gotten much more creative with their programming and despite the pandemic downturn, many continued with capital improvement programs that make them even more attractive to their existing and potential new members. As a result, member expectations have escalated and their corresponding willingness to pay more has increased. Even members at traditional clubs with traditional values expect a heightened experience and clubs are responding to those anticipated needs in a major way with facility improvements and reset of services, amenities and programming. When the club has become their family social and recreational center, it is not something that they are readily going to give up. If the economy turns bad, clubs may benefit even more from the "staycation" phenomenon. Regardless of what the economy may throw at us, clubs are much stronger and smarter now than during the 2008–2009 period, from which most clubs survived and many thrived.

BOB: Expectations have certainly escalated but the improvements you mentioned do have a cost. 2022 was a banner year for many country clubs, with record initiation, dues and fee income as an upshot of membership growth. The other, non-fee income was also up because of record numbers of weddings, social events, golf outings, etc. Much of it was the result of pent-up demand from previous years. We operated in a false economy in 2022 with the extra costs of member programming offset by these one-time sources of profits. It must have been difficult to explain the need for a dues increase for 2023, even if you successfully explained away 2022's windfall profits. The pent-up demand is gone! Dan, I think we can agree that clubs will survive the upcoming recession, but do they have a conservative budget and ample capital reserves to continue to provide all the costly amenities that have been built into our operations when special function business dissipates? To paraphrase Maya Angelou, "Hope for the best, be prepared for the worst."

DAN: I'll close with this Bob, you can't save your way to prosperity. You can grind the expense side as I argue that the best will find more, creative ways to drive revenue, including dues revenue while making their clubs indispensable to their members' lives. CD

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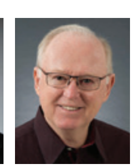

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