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Is the Game's Economy *as bad as we think it is?*

By David R. Sands

FOR THE GOLF INDUSTRY, SUBPRIME MAY NOT MEAN SUBPAR. The great golfing boom of the 1990s is a thing of the past, but the industry has held up surprisingly well in the turbulent post-September 11 era. The American economy weathered the shock of the attack relatively well, and the much-touted collapse of leisure industries such as golf never materialized.

But with so much of recent golf development tied to companion housing developments, many feared that the financial crisis in the subprime mortgage market, which exploded in the fall of 2007, could prove a far more immediate peril. Markets that were central to the golf building boom of recent times – Las Vegas, Florida, Arizona, to name three – are not coincidentally among the markets most badly smashed by the subprime crisis, financial analysts say.

The masses of homebuyers given mortgage loans on ridiculously easy initial terms are now facing a major squeeze as the market heads south. Foreclosures are up, property values are plummeting, and layoffs are the norm at mortgage bankers, investment houses and construction contractors.

The real estate crisis was a main topic of discussion at the recent PGA Merchandise Show, the annual golf blowout in Orlando.

"I think we all recognize that the depression in the housing industry, certainly a recession at least in some states now, is not a good thing for new golf course development as it related to the housing market," PGA Commissioner Tim Finchem said at a state-of-the-industry briefing held at the show.

Finchem noted that real estate crises like the subprime mess tend to be "cyclical."

"That's the good news," he said. "The question is, how long is it going to take" to work through the bad properties, right the market and get lenders lending again?

Golf industry officials say the pace of residential golf projects will almost certainly fall off in the next few years compared to the overheated pace at the turn of the century, but that may not be a bad thing.

"Most of the new courses that have been opening for the last few years have been real estate-driven, which has added to supply," said Joe Steranka, chief executive officer of the PGA, at the same forum where Finchem spoke. "So maybe catching our breath a little bit on new course openings that were designed to sell something other than golf isn't such a bad thing."

The effect can be seen in a definite slowing of new course development and a welcome break on green fees. New upscale daily-fee courses once seemed to take it as a point of personal pride to push rates ever higher. But green fees for even top-quality daily-fee courses average about $65 to $75 – about where they stood five years ago. A Bulle Rock can charge $150 a round, but most other courses are competing fiercely for a stable but slow-growing market.

The National Golf Foundation recently revealed that the golf course closings outnumbered course

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openings in 2007 across the United States for the second year in a row. The biggest casualties came among older, executive and par-3 courses, while the number of new courses opening for play has plummeted since 2002.

"The development business has run full cycle," according to foundation vice president Greg Nathan. "Developers are now being more prudent about the decision to build, and are doing more due diligence on where to build and at what price point."

Overall rounds played, also tracked by the NGF, were essentially flat in 2007 compared to 2006, with a weak December in the Middle Atlantic and Midwest helping to push the overall number 0.5 percent below the previous year totals. The loss was equally shared, with private clubs and public layouts both reporting modest declines.

But reports of the death of golf, or at least its slow decline, appear to have been greatly exaggerated.

The NGF studies found that, for all the industry turbulence, there's been a net gain of 187 courses in the country the past five years – recession, wars on terror and mortgage meltdowns notwithstanding. Absentee investors who jumped into golf at the height of the Tiger Boom may have left disappointed, but the industry to a large degree remains a relatively stable, mom-and-pop affair. *The Wall Street Journal* recently reported that 90 percent of all golf facilities are individually owned, and the resistance to chains, franchising and stock ownership has made golf one of the most panic-resistant industries around.

The 121 courses that closed in 2007 represent an almost laughably small mortality rate in a country with some 16,000 18-hole courses. Courses may change hands or bring in new management, but rarely disappear forever.

Golf as an industry grew by 4.1 percent between 2000 and 2005, maybe not the sexy rate that some had predicted, but enough to keep the industry on course. The subprime crisis and a possible U.S. recession won't help, but every economic decline has a silver lining. Many predict that, with the dollar plummeting in value against most of its major rivals, the U.S. golf market will see many more foreigners here to play (and buy) our top courses at bargain rates.

And the overall industry numbers are not to be sneezed at. A centerpiece of the Orlando gathering was the release of the most comprehensive study to date of what might be called the "golf dollar" – the sum of all golf and golf-related spending in the United States, from the purchase of tees in the pro shops to multi-billion-dollar investments by the likes of Donald Trump.

Even discounting for some industry cheerleading, the numbers produced by consulting firm SRI International were impressive. According to the report, the golf GDP was $195 billion in 2005, responsible for creating 2 million jobs and with annual wages of $61 billion.

The total included golf course operations, capital investment, golf equipment, tournaments, charities and spin-off spending in tourism and real estate related to golf. The figures, according to SRI, make golf a bigger entertainment industry than Hollywood and the video market combined. The $28 billion in revenues from golf courses and golf-related facilities in 2005 exceeded facility revenues from all other U.S. professional and semi-professional spectator sports combined.

The SRI report broke down the figures for Virginia, with equally impressive results. Golf and its economic spin-offs brought $3.1 billion to the state in 2005, including 40,000 golf-generated jobs.

"Golf is a sizable contributor to Virginia's economy," said Steranka. "It's a job-provider, it's a tax-generator, it's a supporter of tourism and a very efficient user of natural resources." ■

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