Warning for hotel investors considering golf courses: Golf courses are different! They have different risks and require different skill sets.

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Hotel Lawyer with some insights on buying and developing golf courses.

Hotel investors suddenly seem to be buying or building more golf courses. With the right expectations and circumstances, golf courses can make sense — particularly as an amenity for hotels, residential development and other real estate. But as more hospitality clients look at golf courses, it seems appropriate to consider the drivers of this renewed interest, and some of the similarities golf courses share with other hospitality investments such as hotels. And finally, we want to look at some of the big factors that make golf courses very different from other hospitality investments, so you can avoid some unnecessary pitfalls.

Why the increased interest in golf courses?

Interest in golf courses has likely increased for a number of reasons, including the continuing overall improvement in the economy, favorable projections for the hotel industry, the return of home builders to the active market, and the likely surge in new development in 2014 and beyond. In addition, it is now well proven that “mixed-use” really works, and that includes adding a golf amenity for hotels, condos, residential and other real estate product. On top of all this, there is a wave of Asian investment and tourism — particularly Chinese — that favors golf.

Many of these investors and developers are familiar with hotels, and have established teams of experts that are familiar with hotels — but they often don’t have golf course-specific experience and capabilities.

That is why it is important to realize that hotels are different (from golf courses) though they share a number of characteristics and are often both regarded as “hospitality” product. Recognizing the similarities and the important differences will enable investors and developers to fill in potential gaps of expertise to avoid unnecessary problems.

Hotels and golf courses are both “hospitality” assets. How does experience with one translate to the other?

Most people in the hotel industry will tell you that working on a hotel matter requires special hospitality experience because hotels are so different from any other class of real estate. The single purpose real estate… And the operating business. . . and all the unique norms, customs, practices and players in this small world of hotels.

The same is true for golf courses. They are generally regarded as “hospitality” assets. They are characterized by a similar intertwining of special purpose real estate with an intense operating business. And they have their own sets of norms, customs, practices and players. Unfortunately, experience with hotels provides virtually no help on the learning curve for dealing with golf course-specific issues.
Here are a few illustrative points that show how golf courses are so different from hotels. It also follows that you don’t really want your lawyers and other advisors trying to learn about golf courses on your project. It can be an expensive and hazardous approach. It is much better to start with the golf course expertise.

What are some of the features and issues that make golf courses different from other hospitality assets?

- Golf courses involve large parcels of land that require significant maintenance.
- Every round of golf needs to be marketed every day; and, the sales and marketing channels are different from those used by hotels.
- Many (if not most) golf courses are unprofitable. Many were justified for the benefit they created in selling related residential or other property, but not for their own cash flow. The difficult profit prospects for golf courses creates a significant tendency in the industry for deferred maintenance and other corner-cutting to improve financial performance.
- A lot of fairly expensive equipment is needed to maintain a golf course and frequently it is leased. These leases may create some thorny legal issues, affect title and refinancing and be quite burdensome or restrictive.
- Sufficient water rights to maintain the course are critical
- Golf courses often have “gray water” issues (disposal of water used on the course).
- Golf courses frequently involve lot line issues, easements, and complex title and encroachment issues – experienced golf course lawyers virtually always find encroachment and other title issues.
- There are a host of unique CC&Rs, contracts and arrangements that can be very important to the operations and profitability of the golf course – each with their own market terms, customs, and the like. These include golf course management agreements, gardening and maintenance contracts, amenity or distribution network agreements, and easements both on-site and off-site.
- New ADA rules are now in effect on golf courses, generally requiring adequate path of accessibility to the clubhouse, retail facilities, and through the golf course itself. (See “ADA Compliance and Defense Lawyer: New ADA compliance standards for golf courses.”)
- Flying golf balls and operating equipment can present safety issues and liabilities not found in hotels. It’s important to know what complaints or lawsuits are on file regarding errant golf balls or other matters.
- Golf courses frequently involve many environmental issues, endangered species habitats, and other issues not common with hotels.

Before you tee up your golf course project, remember: when it comes to providing legal and business advice, there is no handicap available to inexperienced players. You need a pro.

This is Jim Butler, author of www.HotelLawBlog.com and hotel lawyer, signing off. We’ve done more than $87 billion of hotel transactions and have developed innovative solutions to unlock value from hotels. Who’s your hotel lawyer?

Our Perspective. We represent hotel lenders, owners and investors. We have helped our clients find business and legal solutions for more than $87 billion of hotel transactions, involving more than 3,900 properties all over the world. For more information, please contact Jim Butler at jbutler@jmbm.com or +1 (310) 201-3526.
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Jim and his team are more than “just” great hotel lawyers. They are also hospitality consultants and business advisors. They are deal makers. They can help find the right operator or capital provider. They know who to call and how to reach them.