This page, 17th hole at Keowee Vineyards, The Cliffs; opposite page, left, Trailhead Club at Pronghorn Golf Club and Resort; right, sunrise on Lake Oconee at Reynolds Plantation

BACK FROM THE BRINK

NEW INVESTORS BRING CASH AND HOPE TO FINANCIALLY TROUBLED COMMUNITIES

BY ADAM SCHUPAK

Somewhere, developer Jim Anthony can take solace in knowing that the grassing of The Cliffs at Mountain Park Golf Course is under way and it is expected to open in fall 2013. The Gary Player-designed course on the southernmost edge of the Blue Ridge Mountains is one of the few courses under construction in North America.

Anthony was the visionary behind eight gated, master-planned golf communities under The Cliffs Communities banner in upstate South Carolina and western North Carolina. He developed it, nurtured it, and then lost it. Mountain Park was to be his largest community to date, with 1,500 homesites. But real estate sales sputtered and cash flow slowed. In late August 2012, The Cliffs Club and Hospitality Group, a subsidiary of Anthony's luxury-home company, emerged from bankruptcy under new ownership. The bankruptcy and sale marked the first step in getting the luxury developments back from the verge of insolvency.

"It was essential for The Cliffs to go through bankruptcy to breathe new oxygen," said Davis Sezna, the new CEO of Cliffs Clubs Partners. "It became a necessary tool to save so many terrific facilities."

As Sezna points out, The Cliffs is an all-too-familiar story as some of the most revered golf communities and resorts have been hammered by high debt and the weak economy. New ownerships have swooped in to buy up distressed golf properties such as PGA West, Doral Golf Resort & Spa, and Sea Island Co.


The Lodge at Sea Island

COURTESY OF SEA ISLAND

Sea Island, the iconic Georgia coastal resort, ran into financial trouble in recent years after Bill Jones III, Sea Island's chief executive, led a major expansion that included a $395 million renovation in 2006 and 2007. The Jones family had run the one-time cotton plantation known for its secluded elegance since the late 1920s. But they too filed for bankruptcy protection in August 2010, claiming more than $1 billion in debts.

"Somebody is going to get a diamond for a cheap price and polish it up," said Sea Island resident Davis Love III before the distress sale of the storied resort.

Sea Island Co. emerged from bankruptcy in October 2010 with new ownership, a group of four investors that includes hedge fund and private equity firms. The assets purchased included The Cloister hotel, four golf courses, and a private development called Ocean Forest Golf Club.

The infusion of capital provided by new ownership has quelled many worries about the future of those properties. In addition to becoming more fiscally fit, new ownerships are pouring money into renovations and enhancements to attract new homebuyers and guests and keep existing members and return visitors happy. Many existing amenities are being modernized or upgraded. A tough economic cycle and the financial woes suffered by past ownership led, in many instances, to deferred care and upkeep.

While these efforts are reassuring, owners and guests fret about what changes are on the horizon. Will the new owners simply fix it for a resale? Sell off parcels bit by bit? Or raise club dues?

"The notion that everything is going to stay the same is unrealistic," said Henry DeLozier, a principal in Global Golf Advisors, an international consultancy of service to the real estate development and golf asset ownership and operations business segments. "When savvy investors snap up some of the most prestigious communities and resorts in golf, it goes without saying that they are going to be aggressive and assertive in trying to increase the earning power of those assets."

At The Cliffs, Sezna is just getting settled into his new job, which he began in mid-August. When he broke for an interview with a reporter, he had just met the local barber. His strategic plan, he said, will take 3-6 months to bake. The task of branding – or in this case rebranding – a community and creating a new culture won't happen overnight. But a renewed commitment to service will be instituted immediately.

"If we serve a hot dog, you're going to remember it," Sezna said.

Industry experts suggest that The Cliffs could be well positioned for a turnaround. Since its launch in 1991, the brand has marketed a comfortable golf lifestyle set in picturesque mountain settings with an emphasis on health and wellness. Fitness and wellness components have become valuable recruiting and retention vehicles with homebuyers as individuals become more attentive to preventive health care. At some older clubs, ballrooms are being converted into wellness and health facilities. It's a reflection of the growing preoccupation with physical fitness, and addresses the needs of retiring couples who are more socially and physically active than ever before.


Lake Club Infinity Pool at Reynolds Plantation

COURTESY OF REYNOLDS PLANTATION

The new ownership group at The Cliffs, led by resident Steve Carlile, said it planned to pump $20 million into new amenities such as clubhouses and golf courses over the next decade.

"I have tremendous optimism for the future of The Cliffs," Gary Player said.

The status of one Cliffs development, however, still remains uncertain – The Cliffs at High Carolina, just east of Asheville, which is to include a golf course designed by Tiger Woods.

"It's on the backburner," Sezna said.

Nicklaus Course at Pronghorn Golf Club

COURTESY OF PRONGHORN GOLF CLUB

Things are heating up again at one of the South's other premier residential enclaves, which also recently changed hands. For nearly three decades, Reynolds Plantation, located 75 miles east of Atlanta, had a simple strategy of packaging its pristine rolling terrain along the Lake Oconee shoreline with top-flight golf courses. But, fresh off the success of luring a Ritz-Carlton there in 2002, the developer, Linger Longer, funded land purchases, golf course construction and lot development, and banks were more than eager to extend a line of credit. As Linger Longer wound up, the economy began to collapse.

In August, MetLife completed its purchase of Reynolds Plantation. The acquisition included The Ritz-Carlton Lodge, six golf courses, four full-service marinas and nearly 5,000 acres of undeveloped golf and waterfront property.

Robert Merck, senior managing director and global head of real estate investments for MetLife, said the company jumped at the opportunity to gain control of an established community with 3,700 existing property owners and a strong reputation and brand in the marketplace.

"We acquired Reynolds as a long-term hold asset with significant upside," Merck said. "We are not going to be passive investors. We plan to invest significantly in the product."

Merck noted that during the past few years, some services have been reduced or eliminated. Efforts are under way to preserve the community's southern charm. Plans also are being developed to build a permanent clubhouse for The National, a course designed by Tom Fazio, and there also is talk of expanding the amenity package by building an outdoor recreation facility.

While new crowd-pleasing amenities have received a ringing endorsement during ownership transitions, new membership policies haven't been embraced with the same fervor. In many instances, homeowners are being required to purchase at least some degree of club membership, even if it is simply a social membership.

"That's a significant change," DeLozier said.

At Reynolds, the new ownership reduced the number of membership categories from nine to five, combined two social membership categories into one with access to all amenities, and switched the previous refundable initiation deposit for new members to a nonrefundable initiation fee at a lower price. The good news: Monthly member dues stayed flat with the same or increased access for virtually all membership categories.

Any ownership transition will face its challenges, but for the first time in a while, there is renewed enthusiasm at Reynolds Plantation.

"All the characteristics that made Reynolds appealing in the first place – the natural beauty, the convenient location, the wealth of amenities – are still in play," DeLozier said. "The challenge is the scope of the operation is vast. The good news is there is considerable capacity so when it is full it has considerable earning capability. The bad news is it has tremendous capacity and until it gets full it is just overhead."

The new ownership at Pronghorn Golf Club & Resort, a luxury resort and golf community in Bend, Ore., has taken a different tack. Pronghorn features a 48-suite lodge, golf courses designed by Jack Nicklaus and Tom Fazio, a full-service spa, multiple restaurants and custom homes, condos and home sites.

"The infrastructure of the project was 100 percent built out and 85 percent of the lots are sold," said Randy Koss of The Resort Group and president of Pronghorn Resort. "We'll add some building programs and overnight stays to grow out the resort. That's what attracted us."

Since its purchase in December 2011, The Resort Group has set in motion an ambitious plan to shift Pronghorn's focus from that of residential community to a five-star resort in the Pacific Northwest. Based in Honolulu, Hawaii, The Resort Group has extensive experience creating luxury resorts, including Princeville at Hanalei and Ko Olina Resort & Marina, both in Hawaii. Plans include building additional overnight lodging units to support larger group business. It also formed a partnership with Auberge Resorts, a leading manager of hotels, resorts and clubs, which is part of The Resort Group's plan to establish Pronghorn's as a world-class destination.

DeLozier, for one, said the influx of hedge fund managers and disciplined long-term investors such as MetLife and The Resort Group indicate that golf course communities should no longer be written off as a nonperforming category.

"They aren't getting into the business because they thought it would be cool to own a golf property," he said. "Properly priced, planned and managed, they can be extremely lucrative."

That will depend on the new owner's debt coverage capability, ability to produce a sound business model, and plan for membership recruitment and retention. DeLozier likened a well-informed, disciplined investor to a strategist on the golf course.

"As golfers you have to be dispassionate and say, 'I can't carry the water and make the green.' You can wish, and you can hope and you can tell yourself great stories, but you either believe you can or you can't," he said. "An owner is no different. He's going to come in to a property and say, 'What's the right shot to play and do we have the ability to play it? If not, let's move to the next option.' " ❍