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**Alert | Hospitality**

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# Equity vs. Non-Equity Club Dynamics

How will the Great Recession and changing club market conditions change a developer's decision about whether to structure a club as an equity (i.e., nonprofit member-owned) club vs. a non-equity (for profit) club? The traditional view held that developers favor the equity club structure for high-end communities and the non-equity structure for more affordable housing communities, based on purchasers' preferences. Owners of high-end residences were more likely to want to own their club than were owners of moderately priced residences.

Based on the tsunami of club closures, foreclosures and bankruptcies, a developer today will more likely want to structure the club so as not to own it on a long-term basis. Developers will not opt to create golf and club operating divisions as some large developers planned in the past.

Although very few developers will want to own clubs, the residential purchaser market demand will continue to drive the developer's decision. The economy and changing market seem to have reinforced the traditional concept of high-end property owners favoring equity and middle and lower end owners favoring non-equity. Property owners with significant investment in their residential real estate fear that a closed or poorly operated and maintained club will undermine their investment, so they - more than ever - want to own and control their clubs. In the past, large residential developers with good reputations for the quality of their clubs were able to convince their high-end purchasers to buy into non-equity club communities. High-end residential purchasers no longer want to depend on the developer to maintain club quality. Club members in some high-end communities have purchased their clubs (e.g., Amelia Island Club and the Club at Black Rock) or accelerated turnover (e.g., Grey Oaks Golf Club).

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In contrast, property owners in middle and lower end communities seem to be more concerned that ownership of the club amenities will result in assessments for operating deficits and capital expenditures. They don't want to own the club because they fear they can't afford to operate it. Members and property owners in some communities have voted down the opportunity to purchase their club (e.g., Reynolds Plantation, which has a wide mix of home values).

So, what can a developer do when it does not want to own the club, but its prospective purchasers do not want to own the club either? Such developers can arrange for large, strongly capitalized, reputable club and golf managers to own and/or operate the club.

It will be interesting to see if the traditional equity vs. non-equity club dichotomy continues to be reinforced or changes as the market evolves.

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