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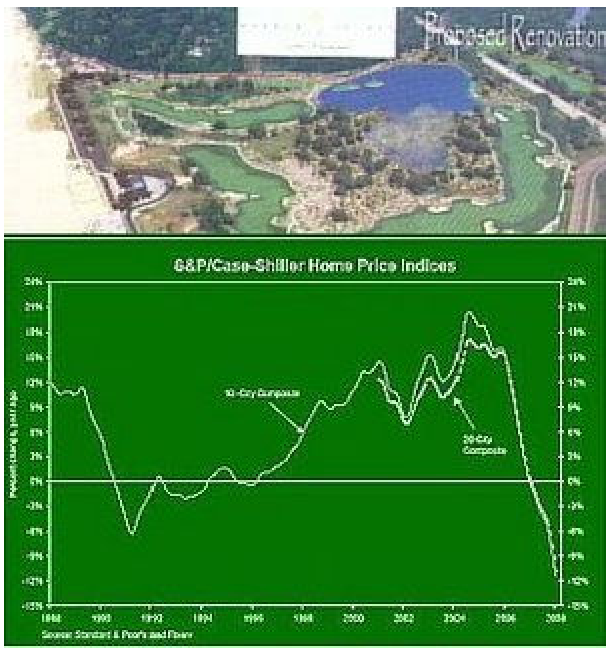
Granholm bets on a golf resort, but there are plenty of hazards

By LoRayne Apo-Joynt 4/18/08 7:20 AM



[COMMENTARY] I'm not wealthy, but I'm a member of the investor class. I'm also a consultant, which means in a roundabout way that I get paid to tell people where to put their money. And right now, I wouldn't bet on a luxury golf resort in Michigan, not as a personal investor or as a consultant.

But our governor came to a different conclusion.

There are a lot of other opportunities I'd put my money in Michigan right now, mind you. I'm even weighing purchasing some smaller starter properties as investments. But I wouldn't buy into a golf resort and here's why.

First, the number of golf courses in Michigan hit an all-time high during the big, fat 1990s, when the investor class was rolling in extra cash, the dot.com kiddies had lots of jingle in their pockets and Tiger Woods was a fresh-faced phenom ripping up the fairways, making golf history while generating new interest in the sport.

There were 950 golf courses at the height of the dot.com bubble — there are now only 837, and any number of them could be troubled and on the bubble at this moment. If there were 950 courses and there was a continuing demand upward for more courses manifested in a waiting list for memberships and tee times, I might change my mind.

Continued -Second, it takes money to play golf. Golf clubs, golf shoes, golf bags and gloves, balls, lessons, all are investments that a seriously interested hobbyist will make in the game, not to mention the cost of greens fees, membership fees and cart fees depending on the course one plays. A public course here in my neighborhood costs $1,850 for a single annual membership. How many households in Michigan are comfortable in today's economic climate with that kind of cash outlay? Not enough — and a private course will cost much, much more. The average Michigander today is already financially excluded from this sport, and we're still not talking about luxury resort golf.

Third, the Michigan real estate market is incredibly soft and may get softer. Sure, there's only a single two- or three-bedroom house down the street that may be in foreclosure — but what happens if, as a billionaire investor recently suggested, as many as 5 million American homes go into foreclosure over the next two years? What happens to the real estate market in Michigan? All real estate values will sink further, not just single-family residential properties.

I'm also feeling the proof of this point personally: We bought a lot in an upscale golf development, expecting the property to appreciate in value while we continued to work toward our retirement. During the past four years, the lot's market-value increased, covering the cost of taxes on the property. But this past year was the first year that the property's value did not appreciate. This year, ownership of the lot is into our pockets for the cost of the taxes and a small amount of depreciation in expected market value. Next year will likely be worse, and I can't contemplate selling it at a loss.

Fourth, other luxury and resort properties have been selling at absolute auction. An absolute auction does not have a reserve price set on the property; theoretically, if you were the only bidder for a resort selling at absolute auction and the owner had not set a minimum amount for a bid, called a "reserve price," you could buy the property for whatever price you chose to name.

A Michigan resort located an hour south of Benton Harbor and an hour to the east of Chicago by rail is selling lakefront properties at absolute auction. This tells me as an investor/consultant that the owners are willing to take a loss on the property to get out from underneath it, in order to cut their losses. Yet another golf resort in northern Michigan went at auction, snapped up by a golf-resort conglomerate. The owner of the course said he wanted to be out completely and an auction offered this feature versus other alternative forms of sale. But typically a property this size is sold at auction, without terms negotiated, if the owner needs cash, and quickly. This is yet another poor indicator of a poor investment.

Fifth, I can't think of a single golf course that is turning away members. I see many signs and advertisements pleading for new members or for golfers, offering some of the cheapest rates I've seen in more than a decade. Add that to the large number of resort homes sitting vacant and on the market for more than 200 days on average, and you've got a glut.

And that's it, my back-of-the-envelope analysis on the luxury golf-resort market. There is no way I could spend another dime on this kind of real estate; I hate to tell my spouse our lot is going to drop in value for the next several years.

So what is it that our governor sees differently in the same market, that she would sign off and approve of another golf resort in Benton Harbor, carved out of Jean Klock Park, and likely to be used and populated by the scions of Whirlpool? Does she have some super-secret inside scoop on American's hidden desire for more laundry equipment, the sales of which will boost the incomes of the golf-playing, condo-buying investor class?

Is it possible that those 5 million impending foreclosures will encourage their owners to take up residence in a Whirlpool washer? What did I miss in my analysis that would persuade the governor that there would actually be an increasing number of jobs in this particular venture, when most other resorts are scrabbling for customers?

What could possibly change my mind to agree with her assessment?

Hmm. I wonder.

Graphic: Home price indices with photo of proposed Harbor Shores golf resort development.