In a Shifting Economy, a Developer Keeps Asking What Buyers Want

While navigating the industry's ups and downs, Chris Randolph of South Street Partners says his firm has learned that "you can't rinse and repeat."

The Cliffs at Walnut Cove in Arden, N.C., just outside Asheville. Patrick O' Brien/South Street Partners

By Michael Croley
Sept. 9, 2022, 5:02 a.m. ET

This article is part of our latest special report on International Golf Homes.

When it comes to second homes and golf communities, South Street Partners has more than a dozen years of experience under its belt, riding the industry through economic ups and downs and the increased popularity of drive-to developments in the wake of Covid-19.

South Street, a private equity development firm based in Charlotte, N.C., and Charleston, S.C., has scored major acquisitions of the Kiawah Island Club in South Carolina and its two golf courses; Palmetto Bluff in Bluffton, S.C.; and the Cliffs development, which is set in the Blue Ridge Mountains and has seven separate communities in South Carolina and North Carolina.

With $1 billion in assets, the company's strategy has been to primarily focus on the southeastern United States, which has experienced sustained population growth partly because of the migration of families and older adults to warmer climates.

Prices start around $2 million in their suite of developments, and Chris Randolph, a partner, says South Street is seeing no slowdown. In the coming year, South Street is building new homes at Kiawah and the Cliffs developments in South Carolina, particularly around Lake Keowee, and in Palmetto Bluff.

Golf remains, depending on where you live, a popular — and lucrative — attraction, so South Street is planning two new courses at Palmetto Bluff in the coming years: a nine-hole short course by King-Collins (architects of the Sweetens Cove course outside Chattanooga, Tenn., which has attracted investors like Peyton Manning); and another course at a private club.

At Kiawah, where Covid increased golf demand and drove up home prices, Beau Welling, Tiger Woods' design partner, will work on a new course with a residential component. South Street plans to put a considerable amount of land into a conservation easement.

Mr. Randolph spoke about his firm's investment plans and residential golf developments. The following conversation has been condensed and edited.

Chris Randolph, a partner in South Street Partners, at the Cliffs at Mountain Park, a development in Marietta, S.C. Patrick O' Brien/South Street Partners

South Street just raised its first discretionary fund of $225 million. What does the fund allow you to do for the future, and how will it affect your existing portfolio of properties?

This is the first discretionary fund in South Street's history and allows us to be more acquisitive of new properties while continuing to work with our legacy investment partners in the private equity and hedge fund space. At the same time, it will also allow us to do deals entirely on our own, to the extent we would like to do that.

As for existing properties, we will use the fund to make improvements at Palmetto Bluff, where we're building a short course and a regulation 18-hole course, and Kiawah, where we will build a new 18-hole course, as well as other amenities and development activities.

How will you handle the golf real estate at both Kiawah and Palmetto Bluff? Has anything changed about how South Street views residential golf communities?

We may have a bit of a novel approach in that we're not necessarily layering in real estate directly on the golf course. We want to create the best golf experience possible. From our perspective, that means what I would call a core golf course with little to no real estate impacting the golf experience.

Our theory is that if you create an incredible world-class golf experience, just the proximity of homes to that course will yield higher prices than a traditional fairway-lined real estate golf course development.

When you talk about giving the architects the best land, how much of that is member/customer-driven, and how much of that might be attributed to the average golfer's growing understanding of what a good golf experience entails?

I think it's both. We think the golf consumer has gotten far more sophisticated in terms of what they expect. To deliver on that, we need to find the best land for the best golf.

I used the term novel earlier, and I think it is probably still considered a little bit of a novel approach in our industry to not try and really integrate a ton of real estate on the golf frontage.

Another factor that's driving this for us is that, at Kiawah, we actually see premiums for lots and homes on the parks that we've developed versus golf courses. The theory there is that people, especially young families, will pay more for frontage on a park they can access 24 hours a day versus a golf course where you really are only getting out there before and after the golfers play.

South Street has really made a push into offering turnkey homes at its properties. This seems to follow an industry trend. Is that consumer-driven, or simply the best way to maximize profit?

It's very much consumer-driven and probably the biggest change to our industry, meaning high-end second-home communities. Fifteen years ago, the product of choice was the estate lots where you buy a lot, find an architect, find a builder, find a landscape architect and manage that all yourself.

Through the downturn of 2008 to 2010, people started taking a different approach, where they weren't necessarily interested in taking on a project of that type. They still wanted a second home, but they were willing to trade some of the customization for a turnkey product that checked probably 90 percent of their boxes.

If you look at our home building activity, we are now the largest home builder at Kiawah and the largest home builder at the Cliffs. We will soon be the largest at Palmetto Bluff, because we believe fully in that strategy of delivering a finished product and doing so with scale and efficiency.

On Lake Keowee [at the Cliffs], we just set a record with a purchase price of $6.3 million. We designed it, built it and did the interiors, all the way down to the forks and knives in the drawers.

To that point, what are other major developments you've noticed in the last 10 years, and where do you foresee things going in the next five years?

As we enter into whatever this recessionary — whether it's deep, shallow, long or short — environment, we're going to be very conscious of what that means for our buyers.

The good news is we've got a very long-term outlook at all of our projects of 10-plus years, if not more. So, we don't concern ourselves too much with slowdowns in the market in terms of our business plan, but we also want to be conscious of overdeveloping during a time when sales might not be there.

So, we'll continue to build our amenities. We'll continue to build the clustered neighborhoods around those amenities. Maybe we'll scale back a little bit on some of the larger spec homes, but I don't think it changes our business plan much at all, if any.

One thing we know is that you can't rinse and repeat. That might have worked in another time, in different cycles. We've got to create unique products and, more than anything, we have to deliver the best product possible from both a club and resort experience.

At the end of the day, that's what people are buying: the private club experience we can offer. The home is important, but you're buying a lifestyle. Our buyers have worked a long time to have the ability to buy into these communities. The service, amenities and experience we offer need to be just world class.

A version of this article appears in print on Sept. 10, 2022, Section S, Page 5 in The New York Times International Edition. Order Reprints | Today's Paper | Subscribe