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Golf Property Analysis and Valuation

Second Edition



by Laurence A. Hirsh, MAI, CRE, SGA

Golf Property Analysis and Valuation

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About the Author

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Foreword

Golf course and club properties represent a unique combination of land and improvements, and their value is derived from both the real estate and the ongoing business. When valuing a golf course, appraisers must consider the agronomics of the land, the buildings on the land, and the viability of the going concern. With all the practical and economic considerations involved, it is important for appraisers and other professionals to understand the operation of golf courses and clubs and the perceptions and behavior of market participants.

The goal of this text is to provide appraisers with a guide to the proper techniques, methods, and resources for accurately estimating the value of golf courses and to assist related professionals in exploring the unique characteristics of golf course and club properties.

Golf course appraisal can be an interesting, challenging, and fun endeavor. This second edition of *Golf Property Analysis and Valuation* provides current information on the economics and valuation of golf properties and will help appraisers update their understanding of how golf properties should be appraised.

Craig Steinley, MAI, SRA, AI-GRS, AI-RRS
2023 President
Appraisal Institute



Introduction

Golf course and club properties represent a unique combination of real estate and business. On one hand, a typical modern, 18-hole golf course can consume up to 200 acres of land or more. As a living, breathing, and growing combination of agronomic (greens, tees, fairways, etc.) and “bricks and sticks” improvements, the real estate assets of golf courses and clubs are significant. However, a golf course or club is also a going concern integrating substantial management, marketing, and cultivation that is unique to golf properties.

The comments in this text are generally based on the accepted valuation process depicted in Exhibit 1.1, with some additions and modifications to address the specifics of golf properties.

The intended function of this text is not only to provide appraisers with a guide to the proper techniques, methods, and resources for accurately estimating the value of golf courses, but also to assist others in related disciplines with discussion of the market dynamics, property characteristics, and other factors that impact the economics of golf course and club properties. Among the professionals who regularly interact with appraisers and who can benefit from this book are the following:

- Accountants
- Agronomists
- Assessors
- Attorneys
- Bankers
- Clubhouse architects
- Club boards
- Contractors
- Golf course architects

Exhibit 1.1 The Valuation Process

Identification of the Problem

Identify the intended use	Identify the client and intended users	Identify the type and definition of value	Identify the effective date of the opinion	Identify the relevant characteristics of the property	Identify any assignment conditions
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Scope of Work Determination

Data Collection and Property Description

<i>Market Area Data</i> General characteristics of region, city, and neighborhood	<i>Subject Property Data</i> Subject characteristics of land use and improvements, personal property, business assets, etc.	<i>Comparable Property Data</i> Sales, listings, offers, vacancies, cost and depreciation, income and expenses, capitalization rates, etc.
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Data Analysis

<i>Market Analysis</i> Demand studies Supply studies Marketability studies	<i>Highest and Best Use Analysis</i> Land as though vacant Ideal improvement Property as improved
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Land Value Opinion

Application of the Approaches to Value

Sales Comparison Approach	Income Capitalization Approach	Cost Approach
---------------------------	--------------------------------	---------------

Reconciliation of Value Indications and Final Opinion of Value

Report of Defined Value



- Golf course brokers
- Golf course buyers
- Golf course/club managers
- Golf course sellers
- The Internal Revenue Service
- Judges/courts
- Lenders
- Banking regulators

According to the American Golf Industry Coalition, golf contributes \$84 billion and 2 million jobs to the American economy. It generates more jobs than performing arts, spectator sports, and the motion picture industries. Golf annually raises more than \$4 billion for charitable causes at 143,000 events with 12 million participants.¹ Golf courses are a responsible use of green space, providing wildlife habitats, a filter for runoff, and a cooling effect on developed areas. Golf also provides an excellent source of exercise. A typical player burns roughly 2,000 calories and takes more than 10,000 steps for 18 holes when walking and burns roughly 1,300 calories in a cart. Nine out of 10 golfers play at public courses, and 76% of all golf rounds are played at public courses. According to the National Golf Foundation (NGF), the median cost of a round of public golf (peak fee) is \$49 and the overall average cost is \$36, including a cart (as of April 2021). Golf is also a “socially distant” activity that allows players to socialize and exercise safely in a pandemic environment.

With this type of economic, social, and physical impact, combined with the golf industry’s use of more than 2 million acres of land, it stands to reason that understanding the economics of golf courses and clubs (“golfonomics”) makes good sense.

The valuation of golf properties has developed and evolved, especially during the past 30 years, since the establishment of a professional group of appraisers and consultants specifically dedicated to advancing the practice of golf property analysis. The Society of Golf Appraisers (SGA)² has not only identified its members as among those specifically qualified to analyze golf course and club properties but has also developed a model for the concept of specialization in the real estate appraisal profession.

There have been four publications previously published by the Appraisal Institute on the topic of golf property valuation and analysis, with the most recent published in 2016.³ The golf course industry has undergone dramatic change since then, and we have learned a considerable

1. American Golf Industry Coalition, <https://golffcoalition.org/industry-impact>.

2. www.golffappraisers.org

3. Laurence A. Hirsh, *Golf Property Analysis and Valuation: A Modern Approach* (Chicago: The Appraisal Institute, 2016).



amount about employing updated valuation and analysis methods and techniques that are sensitive to those changes in the industry.

Additionally, in recent years there have been numerous decisions handed down by various courts in golf property valuation cases that have used questionable valuation premises. It is the author's hope that some of these can be corrected in the future, using this reference and modern theory.

A Brief History of Golf Courses in the United States

The first organized golf club in the United States is believed to be the Savannah Golf Club in South Carolina, located just across the Savannah River from Savannah, Georgia. The club can trace its origins to the forming of the group (without a golf course) back in 1794, with the present course founded in 1899 and expanded to 18 holes in 1917.

The oldest golf course in the United States is believed to be The Oakhurst Links (West Virginia), which was built in 1884, went into disuse from 1912 until 1994, and was acquired by the venerable Greenbrier Resort in 2012. Upon renovation and reopening in 1994, the 9-hole course has been limited to play with hickory-shafted clubs and has hosted the US National Hickory Championships on several occasions. Shortly after the development of Oakhurst, the Quogue Field Club (New York) opened in 1887 as an 18-hole course. Though now reduced to 9 holes since a 1938 hurricane, it is believed to be the oldest course in continuous use in the US.

The United States Golf Association (USGA) was formed in 1894 with the following five founding member clubs:

- St. Andrews Golf Club (New York)
- The Country Club (Massachusetts)
- Chicago Golf Club (Illinois)
- Newport Golf Club (Rhode Island)
- Shinnecock Hills Golf Club (New York)

In the early days of golf in the United States, the game was largely limited to the privileged and played at private clubs. In 1931, the first year for which statistics are available, roughly 78% of all golf courses in the US were private clubs. Around 1960, corresponding with the height of Arnold Palmer's popularity and golf on TV, about 50% of all golf courses were private. By 2014, at the end of Tiger Woods' reign atop the world golf rankings, about 25% of all golf facilities in the US were private clubs. Now, more than three-fourths of all courses are for-profit entities, *plus* there are many private clubs that operate on a for-profit basis. Accordingly, it is increasingly important to understand the market dynamics for these properties, the often varying economics impacting golf properties, and how to properly and accurately analyze golf course properties in a manner consistent with market behavior patterns.



While the golfer demographic still represents a relatively affluent segment of the population, it's clear by the relative growth of public access, daily-fee golf that a greater variety of socioeconomic and cultural groups as well as more women and children are playing golf compared to 50 years ago, broadening the game's appeal and, more importantly, its economic reach.

As almost anyone connected with the industry is aware, the past 20 years have seen dramatic swings in golf course supply, demand for golf, and the fortunes of many golf courses and related enterprises. For several years, a variety of pundits predicted the demise of the game in the US. There is no doubt that after substantial increases in participation in the 1980s and 1990s and a corresponding increase in the supply of golf courses, the industry has seen contraction in the form of course closures. According to the NGF, the national supply of golf courses grew by roughly 40% between 1986 and 2005. Since 2006, however, supply has decreased by slightly less than 4%.

Much of the industry growth was fueled by a report from the NGF in the early 1990s suggesting that the then-growing demand would require "a course per day" to be built in the US. The industry went on a building boom for the next 10 to 12 years that saw supply increase from roughly 12,500 courses nationwide in 1988 to estimates as high as 16,000 immediately preceding the economic recession of 2007-2008. This period also highlighted an era in golf course design that was dominated by the "signature architect."

Many of the courses constructed during this time displayed a design philosophy that "more is better," with elaborate bunkering, free-form mowing patterns, and numerous features in the form of hazards and beautification. Combined with the continued development of the golf ball and equipment, as well as stronger athletes, legal concerns for player safety, and often the need to sell real estate, golf courses became more expensive to build, maintain, and play and used more land and other natural resources.

The focus on golf course design continues today because even though new course development is limited, many clubs seeking to remain competitive and keep up with the evolution of the game are renovating, often using the services of signature architects to enhance their competitive position in the marketplace.

Although the period immediately preceding the Great Recession (2008-2009) was the high-water mark for US golf course supply, it was clear as early as 2000-2002 that many golf markets were oversupplied and clubs began to experience membership decline. Public access courses saw declines in volume of play related to flattening or declining golf participation along with the distribution of that play over more facilities. At about the same time, the acquisition of debt financing for golf properties became difficult as one of the major secondary golf specialty lenders (Bank of America Credit) withdrew from the market, leaving a consid-



erable void for those seeking mortgage debt. This void grew over time as other sources departed the space, including the market's largest player, Textron Financial. Textron Financial repossessed numerous golf properties, some of which they are still operating and marketing for sale as they liquidate their portfolio while not granting any new loans.

From a high of nearly 30± million in 2003, national golf participation declined to 25± million in 2011 and has remained at that level for about four to five years. Despite that decline, the NGF reports that those most committed to the game have continued to play at a substantial rate. The average number of rounds per golfer per year increased from 16.2 to 18.8 between 2003 and 2013.

As of the beginning of 2016, most observers felt that the golf course market has bottomed out and there are numerous buyers seeking acquisitions. The industry's largest player in the private club space, ClubCorp., owns and operates more than 200 clubs. Troon Golf, the largest golf course management company, operates more than 650 courses worldwide. The debt market, while still considered "tight," has seemingly softened, and acquisitions are expected to continue as industry consolidation continues and more owners and clubs become motivated sellers.

The years 2020-2022 brought a strange phenomenon to golf. The COVID-19 pandemic, which ravaged many industries along with claiming the lives of more than 1,000,000 Americans, seems to have been a catalyst for golf. Despite many courses being closed for extended periods, rounds were up 14% in 2020 over 2019, and 2021 also saw substantial play increases compared to the pre-COVID era. Private clubs also reported increasing membership. The lingering question is whether this increase is sustainable and by how much. Preliminary indications are that 2022 play has declined some but not to pre-pandemic levels.

Many golf facilities have focused on environmental and economic sustainability, especially after the success of the 2014 US Open Championship at Pinehurst, North Carolina. This championship was held on a remodeled golf course that was designed to use less water and look "brown." This was a departure from the typical emerald-green golf courses normally shown on TV and inspired by the annual Masters Tournament, which emphasizes course conditions and beautification. The USGA has recently named Pinehurst as an "anchor" course for the US Open, which is sure to encourage other courses and clubs to consider the idea of brown golf courses.

Additionally, golf, not known to have a high level of cultural diversity, has implemented efforts to change this. Most major organizations have established diversity, equity, and inclusion (DEI) programs designed to expand the reach of golf to minorities, women, and other groups traditionally under-represented in the game. Some clubs have modified names, symbols, and images (logos) in an effort to respect sensitivities to diversity.

Golf in the Future

It is probably safe to assume, at least for the time being, that consolidation of golf course ownership will continue. Equity capital has returned to the golf industry, and well-financed golf management firms are positioned to acquire golf course and club properties with an eye on enhancing operations. One area of particular focus is member-owned private clubs, many of which have struggled financially and experienced distress, often due to leadership politics.

Among the firms focusing on this segment are the former ClubCorp (now Invited), Concert Golf, and ARCIS Golf. There are also numerous “third-party” management firms that specialize in contract management of golf courses and clubs and include major players like Kemper Sports, Troon, Landscapes Management, Morningstar Golf, and Heritage Golf Group, among others.

The COVID-19 pandemic beginning in March 2020 first closed golf courses in many states and stifled business. In some states, golf courses were closed down for extended periods. However, it was soon realized and acknowledged that golf is a safe and socially distant activity. Golf experienced a growth spurt, with rounds increasing nationally by approximately 14% over 2019 levels, according to the NGF. Approximately 500 million rounds were estimated to have been played in 2020. Many private clubs saw increases in membership demand, and as of this writing over half the nation’s private clubs are believed to have waiting lists for membership. Conversely, many golf facilities that rely heavily on food and beverage and pro shop revenues saw declines in those areas with COVID-related restrictions during the height of the pandemic.

The equity capital that has returned to the marketplace enhances the position of the larger and experienced management firms that have access to that capital. Debt, while relatively cheap (prior to inflation-related rate increases), is still difficult to acquire due to the negative experiences of many commercial banks that have avoided golf property deals.

Most observers believe that many markets are still saturated with too much golf and foresee additional course closures as has been the case for the 10± years pre-pandemic, although the activity in 2020 may save some courses, at least temporarily. This should continue the market correction that has been in process that most market participants see as necessary for the golf course industry to achieve stability. Clearly, 2020 and 2021 were years of improvement in most sectors, with private club membership growing and many parts of the US enjoying favorable weather and increased rounds at most courses. Whether this is sustainable and how much is the big question for the industry.

Because of acquisition cost, development cost, and debt levels, there are still many golf courses and clubs that are “under water” and subject to distressed disposition. Of particular interest is the market for



the acquisition of member-owned private clubs that may have one or more of these issues, along with the need for capital improvements that the owners (members) can't afford or won't support. Several firms are targeting these opportunities by assuming existing debt or buying notes at a discount and promising members reinvestment in the clubs' facilities and infrastructure with the prospect of an assessment-free future.

Golf's potential for long-term and sustainable growth relies on what I call the "3 Ms," (Millennials, Minorities, and Moms), and other groups not traditionally attracted to the game. There have been many calls for expanding golf participation through the specific encouragement of these segments of the population, and some organizations (like First Tee) have been at least moderately successful. However, the golf industry has not done a great job of player retention and has experienced considerable flight from the game, despite attracting new players each year. Will the new players from the COVID-era stick with golf? According to the NGF, reasons cited for leaving golf include the opinion that the sport is too costly, too difficult, too time-consuming, too complicated, and too traditional.

Additionally, golf has cultural challenges that must be overcome in order for expansion to occur. Historically, golf has not embraced the "3 Ms" successfully, and many among those groups have chosen alternative recreational activities. Demographic analysis of golf markets should consider these segments and how the markets are doing.

There is a gap between the perceptions of buyers and sellers in the golf course market that is largely based on the difference between acquisition cost/debt and relative economic performance. Buyers in the present market rely largely on historical revenues or cash flow in underwriting acquisitions, while sellers often seek to evaluate their properties based on the chance of recovering their investment plus seeing a potential return.

While it is not as prominent as it was during the "go-go" days of the mid- to late-1990s, one aspect of the golf industry that still exists is the "hobbyists." Because of the emotional attraction to golf for many, some investors are motivated as much by the appeal of having their own golf club as by the economics of the investment. These types of buyers (that all sellers seek) are now few and far between. These buyers, combined with the still-limited bank confidence and debt financing market, exerted downward pressure on pricing until the growth spurt from the COVID pandemic was significant. It's not at all unusual for the value of some golf properties to have declined over an extended period, though the pandemic years of 2020 and 2021 saw sale price growth until the inflation precipitated by the Russia/Ukraine conflict impacted the cost of debt in 2022. The same can be said of foreign investors seeking American golf properties. They still exist, but in fewer numbers than during the 1990s. Generally, courses for sale experience some level of distress, which many buyers perceive as turn-around opportunities.



Many of the golf courses developed in the past 25 to 50 years have served as amenities to residential developments. As these developments sell out, the developer has limited interest in operating the golf course and often seeks to sell to the members, or if a daily-fee course, to a golf course management firm. Some of the larger real estate development firms, like Toll Brothers, have a club division that professionally operates and manages the clubs at their communities, but they've recently sold many of their clubs. These types of facilities will continue to transfer ownership as the community develops. However, it is observed that a decreasing number of developers are amenitizing with golf due to the long-term hold and the level of competition in many markets.

The biggest area of progress in the past few years, and likely into the near future, is renovation. In an ever-competitive environment, clubs seek to improve to maintain healthy membership levels. Modern golfers and club members will demand more (although they may not always be willing to pay for) quality and amenities, which should continue to spur the renovation and expansion of golf and club facilities. Many consultants are encouraging clubs to undertake large capital expansion projects while seemingly ignoring the potential downward economic cycles that are inevitable in the future.

Of particular concern to the golf industry are the issues of sustainability and how to attract millennials, who make up the next generation of the game. Sustainability is already a critical question in many areas of the US and beyond. Water usage, chemical application, and overall maintenance practices are evolving quickly as restrictions on each invade golf maintenance practices and cost becomes more and more of an issue. When possible, many courses are testing heat- and drought-resistant varieties of turfgrass and limiting water usage as much as possible. Society is demanding these practices and it is incumbent on the analyst to recognize that just because a course isn't emerald-green doesn't necessarily mean its playability is compromised.

USGA Championship Agronomist Darrin Bavard put it best when he wrote the following in 2011:

When did the visual aspects of the golf course become so important at the expense of playability to the average golfer? We routinely see golf courses that provide superb playability: firm, fast conditions and an *overall* attractive appearance under stressful weather conditions. Yet many golfers seem to focus on small areas of wear or off-color grass that are present on most courses during the heat of the summer. They choose to ignore the many positives that a given golf experience provides and emphasize the bad. This raises the question of whether aesthetics have become more important than playability in the daily maintenance of the golf course.

The golf course needs to be attractive to the golfers, but there is a difference between off-color or dormant grass and dead grass. This is a very important distinction. Dead grass is not good for anybody. The increased emphasis on firm and fast has created a lot of debate, and many golf courses have embraced this concept. Unfortunately, the exact appearance of the golf course as it relates to providing firm conditioning varies from region to region and even golf course to golf course. Most



people seem to agree this is a good idea, especially at some other golf course. Far fewer people agree on how it should manifest itself at *their* golf course.

Some golf courses have the resources to maintain firm, fast conditions and a canvas of green, but most cannot. You need to choose one or the other. Quite simply, it costs more money to maintain firm, fast and green during the heat of the summer. Labor resources for hand watering fairways are needed because overhead irrigation systems cannot account for small variances in ground contours or soil conditions that lead to dry spots and brown grass, especially in vast fairway acreages.⁴

Golf is known as a game of traditions. Some of those traditions, like dress codes, limited cell phone use, and other more rigid customs are eschewed by millennials and younger players who would be the future of the game. The debate is on about how much tradition to maintain while appealing to these groups to join the fun. Major efforts are underway in the form of innovations like GolfBoards (www.golfboard.com), FootGolf (<https://footgolfusa.org>), SNAG Golf (snaggolf.com), and Topgolf (topgolf.com), as well as new apparel like high-top golf shoes that promise to inject change into the golf universe.

4. Darrin Bavard, "Aesthetics Should Not Trump Playability," United States Golf Association (October 31, 2011), www.usga.org/articles/2011/10/aesthetics-should-not-trump-playability-21474843653.html.



The Market: Golf Property Segmentation

Among the first challenges in evaluating a golf course property is developing an understanding of what is being analyzed. In the performance of a golf property appraisal or analysis it is critical to understand the information needed going in and to acquire and compile that information, preferably before going to visit the site. Information that should be requested includes:

- Ownership and management
- Type of operation
- List of competitive facilities
- Club performance history
- Membership information
- Site information
- Golf facilities summary
- Maintenance summary
- Lease and contract summary
- Other amenities/facilities
- Building schedule
- Community information
- Deferred maintenance

There are many types of golf courses and golf course operations. There are four basic segments of golf course markets—daily-fee, semi-private, private, and resort—with numerous sub-categories to consider.¹ These segments are shown in Exhibit 2.1.

1. Stephen F. Fanning, “Segmentation of Golf Course Markets,” *The Appraisal Journal* (January 2003): 62-67.

Exhibit 2.1 Golf Market Segments: Course Types and Demand Sources

Market Segment	Demand Sources	Characteristics
Daily-Fee		
<i>Resident-Based (Including Municipal)</i>		
Affordable daily-fee	Price-conscious residents nearby	Limited maintenance and services
Value daily-fee	Value-conscious residents nearby	Moderate maintenance and services
Upscale daily-fee	Higher-income corporate clientele coming from a greater distance	Upscale maintenance, services, and design
<i>Specialty</i>		
Theme course	<ul style="list-style-type: none"> • Wider market area • Tourists • Corporate 	<ul style="list-style-type: none"> • Replica holes • Themed atmosphere (NFL, college, Opryland)
Semi-private		
Includes all of the daily-fee characteristics above, but typically with some form of membership/annual pass option		
Private		
<i>Resident-Based (Including Stand-Alone and Community Amenity Clubs)</i>		
Affordable country club	Local residents seeking the “best deal”	<ul style="list-style-type: none"> • Limited services, maintenance, and amenities • Geared toward individuals
Middle-market country club	Local residents seeking lifestyle	Family-friendly
Upscale country club	Local high-income residents seeking family, social, and business use	<ul style="list-style-type: none"> • Highest level of maintenance and service • More social activities
<i>Specialty</i>		
Destination club—residential	<ul style="list-style-type: none"> • Non-resident, high-income • Usually a “second” club 	<ul style="list-style-type: none"> • Vacation/second home clientele • “Big boy” clientele
Destination (“big boy”) club	<ul style="list-style-type: none"> • Resident or nonresident • Often corporate entertainment 	<ul style="list-style-type: none"> • Limited number of members or “national” membership • Selective membership • Excellent facilities, maintenance, and services
Resort (with Lodging)		
Urban resort	<ul style="list-style-type: none"> • Corporate • Upscale tourist 	Usually upscale and affiliated with hotel
Leisure resort (nonurban)	<ul style="list-style-type: none"> • Families • Corporate retreats 	Vacations and meetings

Source: Adapted from Stephen F. Fanning, “Segmentation of Golf Course Markets,” *The Appraisal Journal* (January 2003): 62-67.



It is not uncommon for lenders, brokers, attorneys, and even appraisers less experienced with golf properties to assume that all golf properties are alike. Thus, understanding the various market segments and sub-segments allows the appraiser to better define the market for their subject.

Golf courses are developed for a variety of purposes, including amenity support for various types of real estate development. Golf facilities can be either municipally or privately owned and available for public access or limited to play by members, guests, and resort patrons. According to the National Golf Foundation (NGF), in 2020 there were approximately 14,167 golf courses in the United States, with a “golf facility” defined as at least one nine-hole course. The following is a description of the various basic types of golf facilities. Exhibit 2.2 illustrates the breakdown of golf courses by type. Exhibit 2.3 shows the growth (and contraction) trends of golf courses in the US since 1931, and Exhibit 2.4 shows the change in golf course supply since 2000.

Types of Golf Properties

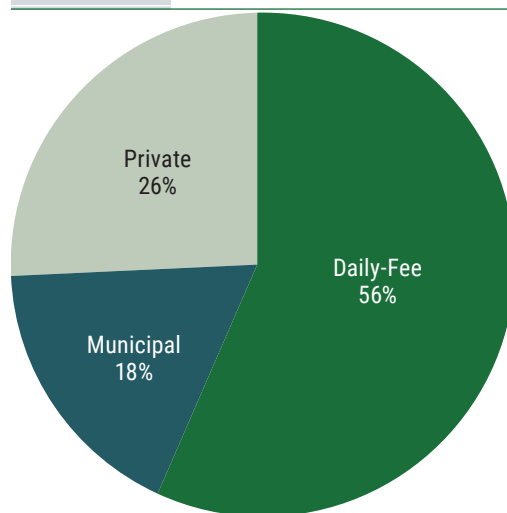
Private Clubs

Private clubs are typically composed of between 200 and 500 members per 18 holes. These members normally pay an initial fee, which can be in the form of equity, an initiation fee, a deposit, or a bond and may or may not entitle the member to an equity interest in the club. Members then also remit annual dues to support the ongoing operation of the club. There are two types of private clubs, which are described below.

Equity Clubs

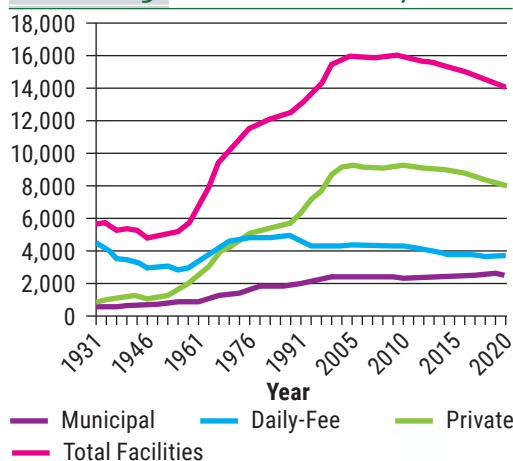
Equity clubs are owned by the members. Their equity interest is represented by the members’ ability to vote, govern the club, and have an interest in the assets upon dissolution or liquidation of the club’s assets. Payment made to acquire the membership and the refundability or transfer-

Exhibit 2.2 2020 Segmentation of US Golf Courses



Source: NGF

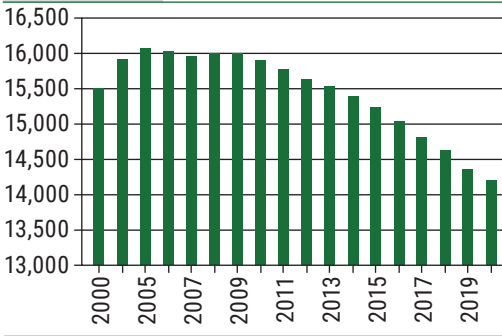
Exhibit 2.3 US Golf Course Growth, 1931-2020



Source: NGF



Exhibit 2.4 US Golf Course Supply Since 2000



Source: NGF

ability of that payment does not constitute equity. There are three categories of equity clubs distinguished by the transferability of memberships. When a member leaves the club, he or she may be able to recover all, a portion of, or none of the entrance fee. In some cases the member can realize a “profit” depending on the structure of the membership. All memberships must be sold (or relinquished) back to the club for sale to the next member. Memberships can be in the form of a non-refundable initiation fee, a full or partially refundable initiation fee, or a market-based fee where the selling member may be able to profit

from the sale. Each of these transfers typically is done through the club to avoid securities regulations.

Investor- or Sponsor-Owned Clubs

These clubs can have any number of types of entrance fees which can be refundable (often in the case of deposits) or not. These clubs are typically owned by a person or entity in the business of operating the club. The members would have no interest in the event of a sale of the club, apart from contractual rights to continue membership if such a provision exists in their membership documents. There is no equity to the members in the event of a sale of the club.

While many private clubs are member-owned and normally organized as not for profit, many are now purchased, often in distress, by non-member professional operators and investors for income investment. There are often agreements for a minimum level of capital investment in these acquisitions, which is typically considered in the sale price.

In the 1950s, private clubs accounted for about 60% of all US golf facilities. By 2004 private clubs represented only 27% of all courses, and as of 2020 have dropped to 25%. While private clubs normally restrict play to members and their guests, some open for daily-fee play during their early years of operation to offset costs as membership stabilizes or during periods of distress when membership declines and revenues are down.

The economics of private clubs are different than daily-fee courses, and the



Coral Creek Club in Placida, Florida

facilities are also considerably different. Analysis of a golf property must acknowledge that even physically (not just operationally) similar golf facilities in different market segments are usually not comparable. Members sign on for an annual (or longer) commitment as compared to daily-fee courses which rely on fees that are subject to weather and availability, among other factors. At private clubs, members are responsible for dues whether they play or not, whether the club/course is open or not, and, if member-owned, they are responsible for shortfalls in the form of assessments. There are also typically minimum expenditures for food and beverage that are billed regardless of usage. Private clubs typically provide superior playing conditions, more access, and a higher level of personal service and atmosphere.

Contrary to the belief of many, there are many private clubs operated *for-profit* and many *not-for-profit*, member-owned clubs that trade in the marketplace. In almost all cases, those not-for-profit clubs that trade are sold to buyers who will operate them seeking profit. Accordingly, the perspective of estimating market value (where a sale is presumed) is usually based on economics, assuming the club would be purchased and operated for profit by one of the many investors and/or management firms that specialize in operating private clubs. This is true even in appraisal assignments for ad valorem tax assessment, which should reflect market conditions and typically motivated buyers. Additionally, the appraiser must be aware of and sensitive to existing case law in many jurisdictions, which dictate appraisal methodology and procedure in ways that may be unusual.²

Daily-Fee Courses

Daily-fee courses constitute approximately 59% of the current golf course supply in the United States. These facilities can also be part of a real estate development or can be “stand alone” facilities. Most golfers play at either daily-fee or municipal courses, which cater to the occasional golfer and are usually (but not always) less expensive than private clubs. Revenues at daily-fee facilities come from green fees, annual passes, cart fees, pro shop sales, and food and beverage operations. Some are “mom & pop” operations, while an increasing number are being acquired or built for professional operators and investors. The quality of daily-fee golf is improving, and many upscale daily-fee facilities compete admirably with private country clubs in terms of providing a quality golf experience. Often grouped within this segment are semi-private courses, which offer annual memberships as well as fee play.

Municipal Courses

Municipal golf courses represent about 16% of all US golf courses but are rapidly increasing in number. Many are formerly privately owned (daily-fee or private) facilities that have been purchased by municipal-

2. Laurence A. Hirsh, “Valuation of Private Golf and Country Clubs for Ad Valorem Taxation,” *The Appraisal Journal* (Spring 2021).





Indian Wells Golf Resort in California is a municipal/daily-fee course.

ities to maintain green area or enhance revenues, while many others are new construction representing private/public partnerships in conjunction with parks and recreation departments and private developers and managers. While increasing costs are a problem for municipal golf facilities, the availability of favorable financing to develop municipally owned facilities is most advantageous in the current financial environment.

Resort Courses

Resort courses are built to attract tourists and are usually high-quality facilities built with the idea of attracting vacation and business travelers. These can be associated with natural, historical or cultural tourist attractions or represent the main destination attraction. Many areas around the country offer golf as the primary resort activity and attraction. Many resort courses feature signature architects like Jack Nicklaus and Arnold Palmer with sometimes dramatic and difficult courses which host major golf events.

While there is competition that crosses these segmentation borders, it's important to realize that different types of golf properties are analyzed based on different criteria. For instance, a private club is analyzed based on the number of members and the revenue generated by them, even if there might be revenue from outside events. Most daily-fee courses, while sometimes having members, are analyzed considering the revenue per round with consideration of the volume of rounds played versus the number of members. Of course, there are some facilities that combine the characteristics of both and require a hybrid analysis that is sometimes sensitive to both volume and membership.

Fundamentally, the major economic difference between daily-fee courses and private clubs is that the private club usually has at least a one-year commitment from its members (in addition to any equity requirement, entrance fee, or deposit), while the daily-fee course depends on player satisfaction, repeat business, weather conditions on busy days, and season length.

With 12 different types of courses, each requires at least a slightly different approach than simply assuming that all golf courses are the same. Each of the daily-fee segments are similar in that they depend on daily-fee play though some do sell "memberships" in the form of annual passes. Those with a significant membership component are often referred to as "semi-private" clubs. There is no threshold as to the balance of member and fee play, but typically all daily-fee courses are analyzed by comparing revenue per average round (REVPAR) on an annual basis.

Conversely, private clubs are typically analyzed on revenue per average member (REVPAM), which can paint a quite different picture.

Of particular interest is the market positioning of a club, both existing and potential, should the club be competing in the “wrong” space. Many facilities consider “repositioning” to a different market segment due to competition, facility characteristics, or other considerations.

Market Analysis

The difference between strong appraisals and weak appraisals for golf properties is often the quality of the market analysis. There are two distinct markets that impact each golf property. The “buyer/seller” market is that marketplace consisting of buyers and sellers of golf properties, and this will be explored later in this book in the discussion of the valuation approaches. The “user” market is that market consisting of providers (clubs and owners) and users (customers, members, and others) of the golf and club facilities that pay the fees that generate revenue. The user market will be discussed in this section.

According to *The Appraisal of Real Estate*, there are six steps in the market analysis process as shown in Exhibit 2.5. The first step in market analysis is an evaluation of property productivity. This basically establishes a baseline for the property’s potential based on its physical attributes and location.

Following this model, the second step— market delineation—seems simple, but it’s not. As previously discussed, there are multiple market segments which each define a specific golf product. When a golf course is improperly positioned, such as an upscale private club in a market where there’s only demand for affordable daily-fee play, this needs to be accurately defined and accounted for in the analysis.

The market delineation for some golf facilities is nothing more than a defined radius indicating from where the players will come. It could be a drive-time radius or distance around the property determined by demographics and potentially competing courses within the area to be analyzed. For others, it can be a national audience and for most somewhere in between.

A private club that serves as an amenity for a community might have a market delineation of less than a five-minute radius, if all the members are expected to live in the development. A nationally known resort might compete with other resorts from all regions of the country or even the world. Delineating this market is essential to identifying a property’s competition. Not only does it entail understanding where the patrons will come from, but also a delineation of geography for the competing properties.

The demand element is of critical importance with golf properties because in many markets there is a perceived oversupply. Thus, measuring the needs, desires, and purchasing power of consumers is essential to understanding whether a market is over, under, or adequately supplied.



Exhibit 2.5 The Six-Step Market Analysis Process

Step 1. PROPERTY PRODUCTIVITY ANALYSIS (Determine the Product)

- A. Physical attributes
- B. Legal and regulatory attributes
 - 1. Private
 - 2. Public
- C. Location attributes
 - 1. Identification of economic attributes - the association between land uses and their linkages
 - 2. Identification of the movement of demand in relation to the direction of urban growth

Step 2. DELINEATE THE MARKET (Determine the Market)

- A. Market area delineation concepts
 - 1. Identification of demand sources and their location
 - 2. Area over which substitute properties tend to compete with the subject
- B. Consumer profile concepts
 - 1. Identification of characteristics of most probable user
 - 2. Segmentation of consumer groups

Step 3. DEMAND ANALYSIS (Measure Demand)

- A. Inferred demand projection
 - Make a projection of demand based on historical growth and absorption data
- B. Fundamental demand forecast
 - Submarket-specific demand forecast
 - Major demand drivers
 - 1. Population creates households.
 - 2. Income creates retail buying power.
 - 3. Employment creates office and industrial users.

Step 4. SUPPLY ANALYSIS (Measure Competition)

- A. Existing stock of competitive properties
- B. Properties under construction
- C. Potential competition
 - 1. Proposed construction
 - 2. Probable additional construction
- D. Attributes and characteristics of competitive properties
 - 1. Economic and financial
 - 2. Locational
 - 3. Site
 - 4. Structure

Step 5. RESIDUAL DEMAND ANALYSIS (Compare Supply and Demand)

- A. Residual demand analysis* (compare supply to demand over time)
- B. Ratio of supply to demand (potential market occupancy)
- C. Market cycle concepts (analyze the interaction of supply and demand)

Step 6. SUBJECT CAPTURE ANALYSIS (Marketability Analysis Conclusions)

- A. Inferred capture methods
 - Comparison of subject to general market indicators
 - Comparable property data
 - Secondary data surveys and forecasts
 - Subject historical performance
 - Local economic analysis
 - Other
- B. Fundamental capture methods
 - Estimate subject capture potential of fundamental demand forecast by methods such as
 - Share of market
 - Adjust by quantifiable rating techniques
 - Subject historical capture rate
 - Other
- C. Reconcile subject capture indications derived by analysis of inferred and fundamental methods (market penetration concepts)

USE OF STUDY PROCESS (SIX-STEP) CONCLUSIONS

- Economic demand data for financial testing of highest and best use alternatives
- Economic demand data for the valuation models

* In economics, the term *marginal demand* refers to the change in demand for a product or service in response to a specific change in its price. In that context, a marginal demand analysis could study, for example, how much demand for apartment units would increase in response to a specific reduction in rent. That is a different analysis than described here. To avoid confusion, this text uses only the term *residual demand analysis*, although appraisers sometimes use the term *marginal demand analysis* to mean the same thing.

Source: Stephen Fanning, *Market Analysis for Real Estate*, 2nd ed. (Chicago: Appraisal Institute, 2014), 15.

Of course, one way to measure demand is to survey the competing properties and determine if there is any oversupply in the form of unsubscribed memberships or unused tee space. If not, the logical conclusion is that the market is either in balance or that there could be pent-up demand with nowhere to play. An analysis of demographics, determining potential pent-up demand can develop a picture of the supply-demand balance in a market. Primary consideration should be given to a market's employment growth, which also impacts growth in other sectors, like office, industrial, housing, and retail.

Once the market is defined and delineated, the supply is determined by identifying and surveying the competing properties, usually both by phone and physical visit.

The Market Survey

After determining the appropriate market segment (or combination of segments) for the property, the appraiser now identifies both competitive and "peer" clubs (primary and secondary) for the subject. From a geographical perspective, the market area may be as simple as location in a particular city or county. Most often it is determined by acceptable drive time and the supply of competing properties in that geographical space. In some cases, like destination resort properties, the market geography may be as wide as across the nation. The process for identifying the competition can include the following:

- Inquiring of the subject management which facilities they perceive as competition
- Delineating the market area
- Searching the internet and inquiring of golfers and golf industry people for nearby facilities
- Identifying trends in the market area
 - Interviewing golfers at the subject and surrounding courses
 - Contacting the local/regional golf association
 - Interviewing local golf professionals

The "peer" market for some clubs may be clubs located in a different geographical market that don't directly compete with the subject club for play or members. Despite not being directly competitive, these "peer" clubs are often comparable and sometimes require consideration in the analysis of any given club. For example, a peer club may be a club of similar quality with similar facilities in a comparable climatic region with similar seasonal boundaries.

Once the competitive set (those courses that compete with the subject) is identified, the data gathering process begins. There are several important considerations in gathering competitive golf course data, including:

- Identifying what information is required



- Determining how to acquire the information
- Identifying who to contact and when to contact them
- Interpreting the data

The information required for a useful market analysis goes well beyond a simple search of the internet or compiling “rack rates” for local golf courses. Though helpful, many markets are competitive, and variable rates exist that can impact the actual revenue generated from the average golfing customer. Many courses also offer seasonal passes and nine-hole rates. At the very least, the market information requested should include:

- Type of course (daily-fee (DF), private (PR), semi-private (SPR), municipal (MUNI), residential (RES), etc.)
- Number of rounds³ played annually
- Number of members/golf members
- Revenues/expenses
- Golf revenues
- Food and beverage revenues
- Golf course maintenance budget
- Fees/dues (published and actual)

Sample market survey forms for daily-fee and private clubs are shown in Exhibits 2.6 and 2.7. Once this information is gathered, to accurately compare the competition to the subject, the analyst should visit the competitive properties. Exhibit 2.8 shows an example of a market survey summary.

Further analysis shows that while it is unlikely that any research effort will yield 100% results, some of the more sensitive information gleaned from the market can be summarized as shown in Exhibit 2.9.

A similar analysis for a private club would focus on entrance fees, dues, revenue per member, and rounds per member, as opposed to the “revenue per round” metric shown in Exhibit 2.9. A visit to each of the competing clubs is often necessary to visually compare the property to the subject and observe the differences in facilities, location, and amenities that may explain and account for the differences in performance between the subject property and the competitive property. Such a visit can also yield information about trends for play, rates, and weather conditions that can help create a more clearly defined picture of the market.

Two elements of market analysis often neglected by appraisers are (1) research of competitive course financial information (revenues, expenses, rounds, etc.) because many clubs refuse to provide this information and (2) a visit to each of the competitive courses. No doubt, these two tasks take time, but are crucial to building solid support for any

3. See the definition of *round* in the Glossary at the end of this book.



Exhibit 2.6 Sample Market Survey Form for a Daily-Fee Club

Job #	<input type="text"/>	Survey Date	<input type="text"/>	Phone #	<input type="text"/>
Data Year	<input type="text"/>	Contact	<input type="text"/>	Email	<input type="text"/>
Name of Course	<input type="text"/>			Type	<input type="text"/>
Location	<input type="text"/>			# of Holes	<input type="text"/>
City	<input type="text"/>	County	<input type="text"/>	State	<input type="text"/>
	<input type="text"/>		<input type="text"/>	Zip Code	<input type="text"/>
Clubhouse	<input type="text"/>	Banquet Capacity	<input type="text"/>	Designer	<input type="text"/>
Practice Facilities	<input type="text"/>				
Par	<input type="text"/>	Back Tee Yardage	<input type="text"/>	Course Rating	<input type="text"/>
	<input type="text"/>		<input type="text"/>	Slope Rating	<input type="text"/>
Peak Wkday GF 1	<input type="text"/> \$0.00	Peak Wkend GF 18	<input type="text"/> \$0.00	Avg Green Fee	<input type="text"/> \$0.00
Rounds	<input type="text"/> 0	# of Golf MBRs	<input type="text"/> 0	Cart Fee/18	<input type="text"/> \$0.00
% of MBR Rnds	<input type="text"/> 0.00%	Type of Mbrshp	<input type="text"/>	% of Cart Rnds	<input type="text"/> 0.00%
				Annual Dues - single	<input type="text"/> \$0
Gross Revenue	<input type="text"/> \$0	Food Beverage Revenue	<input type="text"/>	Annual Operating Expenses	<input type="text"/>
Gross Rev/ per Round	<input type="text"/> #Num1	Pro Shop Revenue	<input type="text"/>	Maintenance Budget	<input type="text"/>
Comments	<input type="text"/>				

Exhibit 2.7 Sample Market Survey Form for a Private Club

Job #	<input type="text"/>	Survey Date	<input type="text"/>	Phone #	<input type="text"/>
Data Year	<input type="text"/>	Contact	<input type="text"/>	Email	<input type="text"/>
Name of Course	<input type="text"/>			Type	<input type="text"/>
Location	<input type="text"/>			# of Holes	<input type="text"/>
City	<input type="text"/>	County	<input type="text"/>	State	<input type="text"/>
	<input type="text"/>		<input type="text"/>	Zip Code	<input type="text"/>
Clubhouse	<input type="text"/>	Fitness	<input type="text"/>	Designer	<input type="text"/>
Swimming	<input type="text"/>	Banquet Capacity	<input type="text"/>	Year Opened	<input type="text"/>
Tennis	<input type="text"/>	Practice Facilities	<input type="text"/>		
Par	<input type="text"/>	Back Tee Yardage	<input type="text"/>	Course Rating	<input type="text"/>
	<input type="text"/>		<input type="text"/>	Slope Rating	<input type="text"/>
Total # Members	<input type="text"/> 0	Type of Mbrshp	<input type="text"/>	Annual Dues - single	<input type="text"/> \$0
# of Golf MBRs	<input type="text"/> 0	Entrance Fee	<input type="text"/> \$0.00	Annual Dues - family	<input type="text"/> \$0
Rounds	<input type="text"/> 0	Entrance Fee Type	<input type="text"/>	Food Bevq Min (Mo)	<input type="text"/> \$0.00
% of MBR Rnds	<input type="text"/> 0.00%	Entrance fee refund (%)	<input type="text"/>		
Peak Wkday GF 18	<input type="text"/> \$0.00	Peak Wkend GF 18	<input type="text"/> \$0.00	Cart Fee/18	<input type="text"/> \$0.00
				% of Cart Rnds	<input type="text"/> 0.00%
Gross Revenue	<input type="text"/> \$0	Food Beverage Revenue	<input type="text"/>	Annual Operating Expenses	<input type="text"/>
Gross Rev/per member	<input type="text"/> #Num1	Pro Shop Revenue	<input type="text"/>	Maintenance Budget	<input type="text"/>
Comments	<input type="text"/>				



Exhibit 2.8 Sample Market Survey Summary

Course	Rounds	Weekday GF* 18	Weekend GF 18	Weekday GF 9	Weekend GF 9	Cart Fee 18	Cart Rounds	Annual-Single	Annual-Family	No. of Members
1	40,000	\$53.00	\$60.00	\$28.50	\$31.00	Included	61%	\$2,200		75
2	30,000	\$27.50	\$38.00	\$20.00	\$20.00	Included	50%	\$650		250
3	34,000	\$22.50	\$25.50	\$14.50	\$16.00	\$23.00	35%	\$900		240
4	20,000	\$52.00	\$57.00	\$28.00	\$30.00	Included	78%	\$2,500	\$4,400	50
5	50,000	\$39.00	\$43.00	\$19.50	\$23.00	\$16.00	65%	\$1,625		40
6	30,000	\$35.00	\$40.00	\$15.00	\$15.00	\$16.00	50%	\$2,000	\$2,850	50
7	21,000	\$37.00	\$40.00	\$19.00	\$20.00	\$14.00	57%	\$1,200		25
8	43,000	\$37.00	\$41.00	\$23.00	\$25.00	\$17.00	60%	\$1,400		150
9	30,000	\$41.00	\$44.00	\$21.00	\$23.00	\$13.00	65%	\$1,800		125
10	15,000	\$35.00	\$40.00	\$19.50	\$20.00	\$15.00	50%	\$1,507		20
11	31,000	\$69.00	\$79.00	\$38.00	\$48.00	Included	85%	\$3,150	\$1,650	45

* GF = green fee

Exhibit 2.9 Sample of Sensitive Market Information

SAMPLE Golf Club									
Name of Course	Rounds	Gross Revenue	Maintenance Budget	Green Fee Revenue per Round	Pro Shop Revenue per Round	F&B Revenue per Round	Gross Annual Revenue per Round	Expense % of Gross Revenue	
1	40,000	\$2,196,462	\$635,493	\$34.63	\$10.00	\$12.06	\$54.91	91.7%	
5	50,000	\$2,300,000	\$700,000	\$32.00	\$8.00	\$3.00	\$46.00	84.5%	
6	30,000	\$1,200,000	\$250,000	\$28.00	\$6.00	\$2.50	\$40.00	87.4%	
7	21,000	\$1,177,260	\$114,564	\$37.05	\$12.00	\$6.15	\$56.06	105.3%	
8	43,000	\$1,050,060	\$345,000	\$30.00	\$7.50	\$4.50	\$24.42	78.4%	
11	31,000	\$2,000,120	\$700,000	\$38.71	\$3.87	\$12.90	\$64.52	76.4%	

conclusions the appraiser or analyst might develop. Appraisers not only need to know the questions to ask, but who to ask and how to ask.

An analysis of the interaction between supply and demand can show not only the depth of the market, but also which clubs are performing, which ones aren't, and possibly provide clues as to why. Forecasting the future of the market and as a result the subject property performance is a critical part of any golf property analysis/appraisal.

Although golf is widely perceived to be the sport of a more affluent demographic, in some regions it is also the common man's game. Unlike the past, the vast majority of golf is now played at public access courses, which now make up three-fourths of the facilities in the United States. Information obtainable from the multitude of demographic sources available allows the analyst to first determine how many potential golfers might exist in a given market area. This begins to develop a picture of whether or not there is ample market depth for the subject being analyzed and where in the marketplace opportunity might exist. Combining



the information to be harvested from a competitive market survey with relevant demographic information can quickly illustrate the depth existing in the marketplace.

For example, the subject is an 18-hole, daily-fee facility which hosted 24,021 rounds last year. Is this course doing its fair share? From the market information presented, we can conclude that it's not:

Market number of rounds	334,021
Market number of holes	207
Market rounds per hole	1,614
Subject rounds	24,021
Subject rounds per hole	1,335
Market penetration	83%
Subject fair share rounds	29,045

By virtue of the club's fair share being calculated at 29,045 rounds and only generating 24,021 rounds (83%), the question is raised as to why it's not doing its fair share.

The analysis is similar for a private club, but with some differences as illustrated below. Let's assume the following:

- The subject property is a private club with 250 members.
- There are five competing (18-hole) clubs within the 20-minute drive-time of the subject, with a total of 1,500 members (average of 300 per club).
- The total population in the market (20-minute drive-time) is 600,000 (200,000 households).
- A "clubbable" household is defined as one with income above \$200,000.
- 3% (6,000) of the households are considered clubbable.
- 30% (1,800) of clubbable households can be expected to join a private club.

Therefore, armed with this information, you can determine a club's fair share of the market, market penetration, and market depth as follows:

Total number of golf members in the market	1,500
"Clubbable" households	1,800
Total number of golf holes at survey respondents and the subject property	108
Fair share of golf members per hole	16.67
Number of golf members at the subject property	250
Subject number of members per hole	13.89
Subject's market penetration	83.3%
Projected fair share of golf members for 18 holes	300



Why is the club underperforming? There can be many reasons for this. Maybe the club has not updated its facilities or has less desirable facilities than the competition. The club has considerable debt and because of declining membership may need to charge excessively high dues. The club's location may not be as desirable as the others. Maybe the club has a poor reputation for being family friendly. Maybe there simply isn't enough depth in the market for six private clubs. This can be determined only after surveying the competing market, visiting the competitive clubs, and developing an understanding of the market's criteria for a desirable club.

Let's assume for a second that even though the club is underperforming, there is enough market depth for six clubs. Again, by understanding the market and how the subject club compares, the analyst can determine from a comprehensive site analysis and financial analysis what it might take for the subject to be successful.

As shown in these two examples, demographics are important for determining the *potential* size of a market, but actual market performance clearly shows how a club is performing *relative* to its market competition.

One element of data often considered in golf course analysis is participation rates. The NGF (www.ngf.org) regularly publishes golfer participation rates for US states and the nation. Other sources for participation rate data include Pellucid (www.pellucidcorp.com) and the Site To Do Business (www.stdb.com). The methods behind these statistics are not published and thus, there is some skepticism about their use. That said, they are often used by appraisers, analysts, and others in the industry to help measure market depth.

In situations where a new facility is being considered for development, future demand is a major consideration both for determining highest and best use and for projecting income in the future. Among the questions to be asked include where the new development will be positioned, if the market demographics support another club in that segment, and if the clubs in that segment are fully subscribed.

In recent years, most markets have been judged to be oversupplied and there have been many course closures, averaging a net loss of approximately 200 courses per year, with few being developed.

Market Positioning

Every golf course or club has a market position. As shown in the discussion on market segmentation, there are lots of different types of golf course operating models. Sometimes we find that courses are improperly positioned based on either targeting a crowded market segment, not having facilities to match the target market, or simply not providing the experience a specific market segment requires in terms of course quality, personal service, and amenities.

During the golf boom of the 1990s, a disproportionate number of courses were developed in the upscale, daily-fee, and residential private



club segments. Many of these clubs have since been either closed or repositioned to better meet the opportunities that exist in the market. In some cases, courses built during this period grabbed market share from existing facilities because they offered more desirable and modern amenities and the older clubs either couldn't or wouldn't keep up. Accordingly, numerous private clubs have opened up to public fee play on some basis, and some have simply become daily-fee courses. Some of the upscale courses have reduced their fees to compete, and even some of the most private clubs have reduced or eliminated entrance fees and offered incentivized dues programs to generate membership development. One wonders if private clubs in the US will adopt the model of many clubs in the UK which are heavily subsidized by visitor and public play.

There's an old saying that "All politics are local." The same holds true in golf course market analysis. The balance of supply and demand may well be (and often is) much different than state or national averages. It is important to note that a market analysis is *not* excessive use of national golf statistics. The NGF, Pellucid, Golf Datatech, the National Golf Course Owners Association, the USGA, and the Professional Golfers' Association (PGA) of America provide many useful statistics about the golf business in the United States. These organizations offer many useful products that can assist those performing market analysis. However, a proper market analysis is accomplished not by "cutting and pasting" national statistics, but rather by identifying a club's competitive market, thoroughly surveying that market for the specific performance of market competitors, visiting the competition, and then measuring the size and depth of the market and the potential impact on and of the specific club being analyzed. Included in this is consideration of a property's proper market positioning. This clearly fits into Step 2 (market delineation) of the market analysis process because a club's characteristics, location, and limitations determine which other clubs it may be in competition with. For instance, although they both may be golf courses, the 100-year-old, stabilized, established private club with all amenities simply doesn't compete with the local municipal course providing affordable golf and limited services.

Demographics

Of particular interest in golf property analysis (for any market segment) are market demographics. Sources of demographic information include the following:

- US Census Bureau (www.uscensus.gov)
- Local, state, and regional chambers of commerce
- Site To Do Business (stdb.com)
- Pellucid (www.pellucidcorp.com)
- NGF GolfMap (www.ngf.org)



Since golf typically appeals to a demographic of higher-income people, it is incumbent on the appraiser to understand what that demographic is in a given market and whether or not there is depth for the type of facilities planned or existing. Just because the national average income for golfers might be, for instance, \$100,000 per year, doesn't mean that is accurate in every market.

Demographics are clearly helpful in framing a given market. However, a simple application of published participation rates or certain income levels can lead to conclusions that contradict the information harvested from a complete market survey accomplished by contacting, surveying, and visiting competing courses.

In competitive markets it has become more important than ever to find the correct market position, matching the subject's characteristics to be successful. Proper market positioning (not blindly accepting the current operation of the subject) is critical to developing a reliable market analysis. Many clubs are improperly positioned, have too many or too few facilities (including holes of golf), and are priced incorrectly. Also, some properties that should be private are daily-fee and vice versa.

Capacity and Utilization

Often, the issue of course capacity and utilization is raised. This can be a slippery slope. In theory, a golf course's capacity for rounds played is simply equal to the number of tee times available multiplied by four (players). For an 18-hole course with a year-round season, that could equate to an astronomical number if you assumed that a group of four could tee off every eight minutes from sunrise until four hours (the typical length of an 18-hole round) before sunset. For instance, in Orlando, Florida, the average amount of daylight over the course of a year is 12 hours, 9 minutes. Thus, assuming an average of 8 hours and 9 minutes (amount of daylight minus four hours) of tee times per day, Exhibit 2.10 shows an average daily capacity of 244 players and an annual capacity of 89,060 rounds.

Few if any 18-hole courses can accommodate that much play, and more importantly, few wish to. Much of what is determined in the market positioning analysis contributes to the conclusions of *desired* utilization.

Most courses and clubs determine a *desired* capacity, based on the following criteria:

- Climate and weather
- Course difficulty and pace of play logistics
- Desired intervals between tee times
- Member access
- Months of busy season (courses with winter-oriented seasons have fewer prime daylight hours to offer)

Exhibit 2.10 Golf Course Capacity and Utilization for Orlando, Florida	
Hours of daylight on June 21	13:58
Hours of daylight on December 21	10:20
Average daily hours of daylight	12:09
"Golfable" hours	8:09
Number of tee times	61
Number of players (capacity) per day	244
Annual capacity	89,060



- Quality of experience
- Size of turf areas (greens and tees) and maintenance

Different courses and clubs have different capacities. For instance, a private club with a high level of family participation will likely set a cap on membership below that of a club that caters to individual and business members because a family with three golfers can be expected to take up more tee times than the individual member. The daily-fee facility with eight-minute tee intervals and a green fee of \$20 is likely to want (and need) more rounds than the upscale, signature architect facility with 12-minute tee times charging a \$100 green fee and focused on a quality experience for the golfer.

The best way to calculate what an *appropriate* utilization of any given course should be is to examine that course's peers. Those clubs in a similar geographic (climatic) region seeking to offer a comparable experience can tell the analyst what an appropriate utilization should be. Therefore, if a club's five closest peers are averaging 30,000 rounds, their patrons/members are happy, and they're profitable, that number may be the target.

The desired number of rounds along with the number of rounds generated by each membership can help to determine an appropriate level of full membership. For each competing club and the subject, calculate the total number of rounds per membership and then determine the ideal number of members based on the activity patterns of any particular club or market.

Capacity and utilization vary at each facility. For members at a private club, often the determining factors are course conditions, pace of play, and access. For patrons of an affordable, daily-fee course, the single most important criteria may be price. The determination of capacity can include any of these factors to varying degrees, and it is incumbent on the appraiser in developing income/expense pro formas and comparison of sales to consider these based on the specific characteristics of the subject property.

Golf Travel

One factor that requires acknowledgement and attention is tourism. Since golfers are typically both avid and affluent, they like to travel to golf destinations. In these cases it is important to understand demand drivers. This is usually different than the typical demographic analysis one might do for a course or club that depends on local residents for its business. Among the questions that need to be asked in these markets are:

- How many golfers travel to the destination each year?
- Can the market be identified as tourist or second-home? Or both?
- Which market segment is the subject in?



For markets where the traveling golfer is the primary market, Smith Travel Research (strglobal.com) offers products for sale that can quantify the depth of travel markets and assist the appraiser or consultant. In 2020 the impact of the COVID pandemic, despite increasing rounds nationally, kept golfers near home and travel destinations experienced declines, with rooms and food and beverage revenues particularly impacted.

Market Analysis Conclusions

Conclusions to be developed in a useful market analysis include:

- Number of rounds
- Number of members
- Rates for fees and dues
- Cart fees
- Food and beverage and pro shop revenues
- Maintenance costs
- Depth of the market
- Market opportunities

Mistakes often made in market analysis include:

- Not visiting the competitive properties
It is most helpful to visit each of the competitive properties so that the comparison to the subject is not blind. Properties that look good online may be less desirable, and the appraiser can avoid a wrong impression of the market positioning for the subject. Sometimes, this can take a full day or more, depending on the number of competitive properties, how far they might be apart, and of course the quality of roads and traffic, which can make getting around a challenge.
- Research sources
Exclusively harvesting information from the internet and neglecting to survey each competing facility is a common practice that can yield limited results. All you can get online is rack rates, scorecard information, and maybe the name of the architect. Information on rounds or number of members, revenues (gross and by department), maintenance budgets, and items like entrance fees (private), recent capital improvements, and facility information can only be obtained by asking.
- National statistics
Relying solely on national information from the NGF, Pellucid, the PGA, and other online sources—as opposed to measuring market depth by surveying market competitors and compiling a view of the size of the market that accurately measures depth—can lead to errors resulting from differences between markets that impact the information gleaned online.



Performing these procedures takes a considerable amount of extra time but is required to do the job properly.

The use of market analysis in the application of the approaches to value is best illustrated in Exhibit 2.11. According to *Market Analysis for Real Estate* there are four levels of market analysis for real estate. These are illustrated in Exhibit 2.12.

It is widely presumed that a Level C analysis is required for golf course properties. This allows not only for local, regional, and national data to be utilized, but more importantly includes field surveys and future-oriented forecasting techniques so critical to the development of the income capitalization approach, which is widely considered the most reliable approach for the valuation of golf course properties. There are likely instances where a Level A or Level B analysis might be adequate, but only in situations where the subject property is not only stabilized but considered insulated from many of the risks that face golf properties and clubs.

Exhibit 2.13 shows a partial list of examples of work items in various levels of market analysis. An overall outline of the market study process for golf properties is presented in Exhibit 2.14.



Exhibit 2.11 Market Analysis and Marketability Analysis in the Approaches to Value

Approach to Value	Uses of Market Analysis and Marketability Analysis
Cost	Market analysis can provide appraisers with information about trends in land prices and construction costs, current building costs, and market conditions. The conclusions of marketability analysis help appraisers estimate the profit an entrepreneur can expect and any economic advantage or obsolescence.
Sales comparison	Market analysis provides appraisers with a thorough understanding of current market conditions, the future market outlook, and the subject property's ability to compete in this market. The conclusions of marketability analysis provide support for many of the adjustments in the sales comparison approach such as adjustments for location and market conditions. Marketability analysis is also helpful in the analysis of the risk factor in capitalization rates generated from the sales that have occurred.
Income capitalization	Market analysis provides appraisers with important information used to forecast income and to select appropriate capitalization rates. Marketability analysis allows appraisers to predict a property's sell-out rate and to estimate how the sell-out rate and lot or unit prices will change over time. For income properties, marketability analysis can provide an estimate of lease-up and includes a conclusion of current and future occupancy for the subject property. Market analysis allows an appraiser to predict the change in rent or revenue over time. Marketability analysis is also helpful in analyzing the risk characteristics of a property, which is necessary to select the appropriate direct capitalization rates and discount rates.

Source: *The Appraisal of Real Estate*, 15th ed. (Chicago: The Appraisal Institute, 2020), 275.

Exhibit 2.12 Summary of Levels of Market Analysis in Appraisal

Category	Level A	Level B	Level C
Property analysis	Descriptive	Descriptive plus comparison	Quantify marketability factors
Location analysis	Generic description	Description and analysis of subject specific linkages/urban growth, etc.	Quantify location factors in relationship to growth trends impacting subject and its completion
Legal	Descriptive	Subject specific analysis	Quantify impact and probability for change
Market delineation	Macro general	Subject specific identified	Subject specific identified on map, and consumer characteristics quantified
Economic demand	Generic description of broad market area and selected comparable properties	Inferred by competitive set and subject submarket area trends	Quantify demand sources
Competitive supply	Generic description	Submarket specific overall amount	Inventory all competition
Market condition	Generic city-wide	Specific trend analysis	Quantify specific demand with subject specific competition
Marketability analysis (subject capture)	General inference from selected comparable properties	Pro rata share and competitive set analysis	Quantify competitive rating with all competition

The studies are cumulative. For example, a Level C study includes Level A and B studies.

Source: Stephen F. Fanning, *Market Analysis for Real Estate*, 2nd ed., 32.



Exhibit 2.13 Partial List of Examples of Work Items in Various Levels of Market Analysis

Work Item	Level of Study			
	A	B	C	D
Property Analysis				
General description	✓	✓	✓	✓
Comparison to comparable properties		✓	✓	✓
Rating compared to industry standards			✓	✓
Location Analysis				
General description—city and neighborhood	✓	✓	✓	✓
Specific analysis of site linkages		✓	✓	✓
Specific analysis of urban growth determinants		✓	✓	✓
Detailed competitive location rating			✓	✓
Detailed probable future land use analysis				✓
Demand Analysis				
General evidence of demand by sales/leasing activity	✓	✓	✓	✓
General city growth trends	✓	✓	✓	✓
Analysis of overall market absorption from secondary data		✓	✓	✓
Demand forecast by specific projections of population, employment, and income			✓	✓
Demand forecast for subject market segment			✓	✓
Direct attitudinal survey of target market				✓
Competitive Supply Analysis				
Vacancy rates for selected comparable properties	✓	✓	✓	✓
Vacancy rate from secondary data—broad market surveys		✓	✓	✓
Field research on all competitive properties			✓	✓
Research on proposed properties—field inspection, building permit analysis, identification of potential sites			✓	✓
Detailed competitive amenities rating			✓	✓
Direct interview structural survey of developers				✓
Market Condition Analysis				
General inference from broad data	✓	✓	✓	✓
Secondary data analysis of occupancy and rent trends		✓	✓	✓
Specific submarket calculations of demand and supply			✓	✓
Capture Analysis				
General inference from select comparable properties	✓	✓	✓	✓
Inference from survey of all competition		✓	✓	✓
Quantifiable capture potential rating of competition			✓	✓
Highest and Best Use Conclusion and Marketability or Timing				
Vacant Land				
Probable use and timing but no specific timetable for development	✓			
Generalized land use plan				
Probable use supported by present value analysis		✓		
Timing supported by secondary data		✓	✓	✓
Specific land use plan				
Probable use supported by present value analysis		✓	✓	✓
Land plan drawn to site			✓	✓
Timing based on residual demand, feasibility rent, and competitive rating analysis			✓	✓
Cost estimate for subject development				✓
Value impact analysis of alternative marketing/development strategies				✓
Improved Properties				
General ad hoc judgments	✓			
<i>NOI</i> projection supported by performance of selected comparable properties	✓	✓	✓	✓
Use, timing, <i>NOI</i> projection supported by analysis of secondary data		✓	✓	✓
Capture rate/ <i>NOI</i> projection supported by residual demand of market segment and competitive ratings			✓	✓
Risk analysis of <i>NOI</i> forecast				✓
Value impact analysis of alternative marketing and development strategies				✓

Source: Stephen F. Fanning, *Market Analysis for Real Estate*, 2nd ed., 26.

Exhibit 2.14 Golf Course Market Study Process

1. What golf market segment(s) does the subject golf course property have the ability to serve? Some factors to consider include:
 - Course design and quality
 - Facilities design and quality
 - Legal
 - Social/economic characteristics of the club and community
 - Location—How the golf course fits into the community growth structure

Note: If the work done in Step 1 identifies more than one segment, then the study would become a highest and best use study. This, among other factors, requires repeating the following steps for each segment studied.
2. What are the characteristics of the golf market segment that desires this type of golf course?
 - Market area concepts
 - Time-distance concepts
 - Area over which equally desirable substitute properties tend to compete
 - Location of current members\users
 - Geographic market delineation
 - Consumer profile of most likely users
 - Type
 - > Tourist
 - > Second-home residents
 - > White collar executives
 - > Corporate outings
 - > Local residents
 - > Etc.
 - Characteristics
 - > Income
 - > Age
 - > Social
 - > Employment categories (i.e., high-tech, service, etc.)
3. What is the golf course demand for this market segment?
 - Inferred methods
 - Current market conditions
 - General growth trends of city and subject submarket
 - Fundamental methods
 - Ratio methods by golf course type
 - > Ratio of current rounds\memberships to indicator proxies such as: population, age, income, employment, tourists, hotel rooms, etc.
 - Segmentation method (segmentation of golf course types, user types, participation rates, and average rounds played)
4. What is the competition in this market for this market segment?
 - Current competitive courses
 - Planned competitive courses
5. What is the market condition for this market segment? (comparing supply with demand currently and for the future)
6. How much of this market segment can the subject golf property capture?
 - Current capture analysis methods
 - Competitive course rating methods
7. What are the financial implications to the property?
 - Is it a good investment? (investment value to individual or specific group)
 - Is the property's value more than its cost? (feasibility)
 - Does this market segment produce a higher net income than another segment? (highest and best use)
 - What is the golf course's market value? (appraisal)
 - Can redirected management\marketing increase income? (management practices)

Source: Adapted from Stephen F. Fanning, "Segmentation of Golf Course Markets," *The Appraisal Journal* (January 2003): 63.



Ownership, Management, and Governance Structure

One of the sometimes-overlooked but often-critical issues related to golf properties is the management and governance structure. Not only is capable management essential to the success of any golf operation, but this along with governance and ownership structure can be key elements of the bundle of rights being valued.

Since there are considerable differences between daily-fee and private clubs, we'll examine each separately.

Daily-Fee

Daily-fee facilities typically fall into one of the following three categories:

- “Mom & pop”
- Management company
- Municipal government
- Resort

“Mom & pop” courses typically operate as classic, family-owned, small businesses. In many cases, multiple family members may be employed. Often, the family owns just one facility. “Pop” frequently doubles as general manager and superintendent and can often be found mowing fairways and greens. “Mom” can be called upon to handle the books, pay the bills, flip burgers, and administer first aid when necessary.

A particular characteristic of mom & pop courses today is that many no longer have the generational succession of ownership and, when marketed for sale, there can be some deferred maintenance that has been overlooked in favor of balancing the books. That being said, many mom & pop operations are run by families with a long history and well-deserved reputation for providing a quality golf product to their customers.

Having experienced significant growth during the past 20 years, the segment of courses owned, leased, or managed by golf course management firms has grown, not only among daily-fee courses, but also the private club and resort segments. *Golf Inc.* magazine identifies more than 150 management companies that reportedly operate approximately 1,600 golf courses and clubs across the United States. This represents approximately 11% of the total market.

Roughly one in every six golf courses in the US are owned by municipal governments. These facilities can be managed in one of four ways:¹

- Direct management (by municipal employees)
- Indirect management (by experienced golf personnel)
- Private management (by a third-party management firm)
- Lease to private firm (lease to third party)

A particular distinction of municipal courses is that most have the advantage of not being required to pay real estate taxes, which often makes it easier to retain professional contract management. Conversely, there are also many instances where municipalities are required to pay “prevailing wage,” which can increase labor costs to the point where the tax advantage is offset.² Of course, if debt financing is involved, municipal bond financing (either revenue bonds or general obligation bonds) is typically available at rates significantly below traditional bank or secondary market loans.



Seaview Resort in New Jersey is a resort course.

Resort courses are very common in states like Florida, Arizona, and other vacation destinations. Owned and run by hotels or resort companies, these courses are designed to be a pleasure to play for their guests regardless of the standard of golf they play. This means they will typically have wide fairways and the rough will be cut fairly short. This also helps speed of play on what are often very heavily played courses. Resort courses often feature wide fairways and stunning surroundings with mature trees, lakes, and large, shallow bunkers.

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1. Laurence A. Hirsh, “Municipal Golf—What’s the Best Management Path?” *Parks and Recreation* (January 2014).
 2. The *prevailing wage* rate is defined as “the average wage paid to similarly employed workers in a specific occupation in the area of intended employment.” (US Department of Labor, “Prevailing Wage Information and Resources,” www.dol.gov/agencies/eta/foreign-labor/wages).

Private Clubs

Private clubs have many varieties of ownership.³ These include:

- Member-owned—Equity
Each member owns a pro rata share of the club and can sell that interest, typically with restrictions. In the event of the club's sale, each member would receive a pro rata share of the proceeds.
- Member-owned—Non-Equity
Collectively, the members own the club and upon a sale, each member would receive a pro rata share of the proceeds. Each member *cannot* sell his or her share. Entrance fees can be any of the following:
 - Refundable deposit
 - Non-refundable initiation
 - No fee
- Investor-owned
Investor-owned clubs are typically run as for-profit operations.
- Developer-owned
Developer-owned clubs are usually held until sellout.
- Homeowners association-owned
HOA-owned clubs are operated for the benefit of the community

Particularly with the various forms of member-owned clubs, governance can take on different forms. Most are governed by boards of directors, typically with committees for various departments within the club, such as golf, greens, house, social, tennis, etc. Some clubs are governed by a “benevolent dictator,” one individual who has the authority to make any and all decisions with respect to the operations of the club. While boards are typically elected by the membership, the benevolent dictator is typically elected by the board. Investor, developer, and HOA-owned clubs are simply governed by those entities. Each can hire club employees for management or retain the services of third-party management firms. Lease situations can also occur with each of the ownership structures.

No discussion of member-owned private clubs would be complete without commenting on leadership and club politics. There are two basic structures of club leadership and governance. Most clubs are governed by a board, elected by the members. The board elects an executive committee, typically consisting of a president, one or more vice presidents, a secretary, and a treasurer. The president usually appoints board members as chairs of the various committees (golf, greens, house, social, membership, etc.). The executive committee, board, and committee chairs are normally considered the club's “leadership.” Club politics can be ugly (just like governmental politics), and at many clubs those selected as club

3. The effects on value of the fragmented ownership of private clubs are discussed in detail in Chapter 12.



leaders may micro-manage and frequently interfere with the professional staff, sometimes expecting and demanding preferential treatment at the club. While normally unwelcome by membership and staff, the sometimes laborious and time-consuming decision-making process of board-run clubs can and often does prevent adequate and timely response to daily issues. Many boards are too large (some with 20 or more members), and it is not uncommon for board meetings to last long into the night with little getting done as each director contributes his or her “two cents.”

Much like government, board-run clubs are anything but a model of efficiency. There’s an old saying, attributed to Club Corp founder Robert Dedman, that clubs are “run like nobody’s business, because they are nobody’s business.” Conversely, it should be noted that most member-owned clubs are not for profit. Therefore, no profit motive exists, and decisions are made based on member satisfaction (not a bad thing) or (more troubling) based on the personal desires of *some* club leaders (even more troubling). Numerous clubs with this operating model find themselves distressed to the point where several firms seek to acquire and convert them to for-profit facilities. When boards turn over too frequently, it creates inconsistency in governance, while some clubs seem to experience a preponderance of the “same old crowd” maintaining leadership roles almost in perpetuity, which often results in those individuals assuming excessive influence and creating animosity among the general membership.

Some member-owned clubs are governed by a benevolent dictator. While this sounds unappealing, it’s often the most efficient way to operate a quality club, and those clubs that operate in this manner are often among the most desirable clubs in the country. While not without its flaws, the benevolent dictator form of governance is typically more efficient.

Most clubs have either a constitution or bylaws that dictate governance, the number of board members, officer positions, the membership process, and other procedures, plus a published set of rules that members are expected to comply with to enjoy the privileges of membership. As private clubs, some though not very many still discriminate in selecting their membership, which is still generally legal in most cases.

Given that so many clubs are “not-for-profit,” the question arises as to what criteria are used for valuation. Since an appraisal is normally seeking an economic value of the club and its property, the club is valued based on the assumption that it would likely be marketed to a for-profit buyer who would evaluate the opportunity based on its economics. This typically represents the universe of buyers in the market, and attempting to estimate value based on continued not-for-profit operation is unrealistic and not responsive to the concept of market value. For the appraiser to accurately estimate the club’s economic value, this assumption of for-profit operation is essential to the concept of an assumed sale. Even in ad valorem tax assessment appraisals, the not-for-profit club is valued as a for-profit facility because any valuation assuming continued not-



for-profit operation would constitute value in use and be inconsistent with most definitions of market value used for assessment purposes. As we'll discuss later, there is a significant and growing market for buyers of private clubs seeking to achieve a profit operating them.

The success or failure of private clubs can often hinge on the *culture* of the club. The most successful clubs (whether member- or investor-owned) have established a culture of *ownership* among the membership, who are often willing to pay to improve the club. Conversely, less successful clubs are those where members are ultra-sensitive to price and change normally meets with significant resistance. This culture is one of *customers*.

The valuation of private clubs can vary considerably based on the ownership structure, membership agreements, and membership culture. As discussed in the valuation chapters, the various types of membership interests can impact the valuation process and methodology.

Semi-Private Clubs

A hybrid of sorts are what are known as “semi-private” golf clubs. These are typically clubs which have both memberships and daily-fee play. Often, resort facilities fall into this category, as do many private clubs early in their sellout period, daily-fee and municipal courses which offer annual passes or memberships, and courses that may either be in distress or haven't defined their appropriate market position. Semi-private clubs employ a wide variety of operating models and can have both minimal or extravagant facilities and amenities. They are difficult to compare to either private or daily-fee courses, but most certainly can provide insight as to the competitive market in some cases.





Subject Property Analysis

Although a club is defined by Dictionary.com as “a group of persons organized for a social, literary, athletic, political or other purpose,” golf clubs (facilities) typically (not always) have a substantial amount of real property that is the subject of most valuation and analysis assignments. Analyzing that property starts with a thorough understanding of its characteristics.

The Site

As with any property, the analysis of the subject begins with the site. Golf properties require some unique considerations. A typical site questionnaire might look like the form shown in Exhibit 4.1.

Although few courses are being developed in 2022, site characteristics can significantly impact a club’s long-term success. As clubs become more competitive, site considerations can often make the difference between success and failure. These considerations include:

- **Location**
Is the site accessible and visible? Is there sufficient population within an acceptable drive time to support the facility?
- **Size/land area**
Many golf courses are squeezed onto sites that are too small, especially for the modern golf course. The site’s topography, vegetation, and natural features, along with the physical shape of the site, all impact how much land area may be required. Traditional links courses are often long, narrow sites with nine holes going “out” and nine holes returning “in.” The shape of a site often determines the routing, location of the clubhouse and other facilities, and if part of a golf community, how many lots can be accommodated. Typically, at least 150 to 200 acres is required for a modern 18-hole golf course. However, some of the world’s greatest courses are situated on sites

Exhibit 4.1 Sample Site Questionnaire

Property Information

Total acreage of property _____
 Amount of "excess" land _____
 Number of parcels _____
 Topography _____
 Soils _____
 Visibility _____
 Views on site _____
 Access _____
 No. of paved parking spaces _____
 Restrictive covenants _____
 Environmental issues _____
 Is any portion of the property leased? _____
 Easements _____
 Wetlands _____
 Drainage issues _____
 Is there a Phase 1 environmental study? Date _____
 Is there an ALTA survey? _____
 Restrictions _____
 Development plans _____
 No. of lots—approved/improved _____
 Surroundings _____
 Notes _____

Zoning & Tax Assessment

Zoning classification _____
 Jurisdiction(s) _____
 Conforming or nonconforming _____
 Parcel No.(s) _____
 Assessment _____
 Millage rate _____
 Annual tax liability _____

Utilities

Service	Public or Private	Provider
Drinking water	<input type="checkbox"/> <input type="checkbox"/>	_____
Sewer	<input type="checkbox"/> <input type="checkbox"/>	_____
Gas	<input type="checkbox"/> <input type="checkbox"/>	_____
Electric	<input type="checkbox"/> <input type="checkbox"/>	_____
Telephone	<input type="checkbox"/> <input type="checkbox"/>	_____

of little more than 100 acres. Of particular consideration are safety from adjacent golf holes and wayward shots as well as the ability to expand (lengthen) the course to accommodate advances in equipment and player ability.



- **Topography**
Topography is an important element for any golf course. If the site is featureless, the resulting golf course can be boring. If the terrain is too severe, navigating the site for both golfers and maintenance workers may be too difficult. Even with the preponderance of golf carts in some regions, a site that is too severe not only eliminates walkers, but also creates potentially difficult play, which can frustrate golfers and impede pace of play. Terrain that is too severe can also make maintenance more difficult and require more land to site the golf course.
- **Resources**
Of particular importance to golf courses is the availability and cost of water for irrigation. The supply of water available, its relative location to the site, and the cost of either bringing it on site or purchasing it is critical to success. Soils are also important to ensure that quality turf can be cultivated and proper drainage can occur. Water has become a precious resource, especially in more arid climate regions. The availability, cost, and restrictions on irrigation water have caused many golf courses to reconsider their maintenance practices and selection of turfgrass varieties. In some areas, golf course operators spend in excess of \$1 million for irrigation water annually. Many courses require consumptive use permits for high volume wells, and in some areas there are restrictions on the volume of water that can be applied. These restrictions can be permanent or temporary.
- **Utilities**
Like any business, a golf course needs power, water (potable), sewer (public or private), and telephone service.
- **Trees**
Trees have become a source of great debate on golf courses in recent years. There are many who seek to preserve trees at all costs. In the development of golf courses, trees (like excessive topography) are costly to clear for playing corridors. Existing golf courses (despite many objections) have tended toward tree removal as superintendents have learned that turf quality often depends on positive air circulation that can only be accomplished with ample open space. Additionally, tree management is critical as more extreme weather events damage and destroy trees that have been neglected, become heavier, and cause injury and sometimes death. Tree management is expensive and often gets put off for extended periods.
- **Politics**
How a golf course is developed or renovated is often subject to the local politics of development. Any course being considered or planning renovations should be prepared to address the political and permitting process.



- **Environmental**
Because of their size, golf courses often contain wetlands or other environmentally sensitive areas, marshes, streams, ponds, or protected wildlife habitats. They use significant amounts of water and create runoff, which causes concern for the infiltration of foreign matter into adjacent waterways and ponds.
- **Zoning**
Many golf courses are situated on sites that are zoned for alternative uses. When this is the case, the appraiser has to consider whether continued use as a golf course is the highest and best use. Many courses are “grandfathered” uses and some are on sites that are either zoned specifically for golf courses (or other recreation) or open space. When this is the case, the highest and best use question isn’t as prominent.
- **Covenants**
A significant number of golf courses are an amenity to planned residential developments (PRDs) that, while zoned for an alternative use, carry restrictive covenants requiring the golf course site to remain at the very least open space, if not a golf course. These covenants can sometimes impact the property value, especially in those cases where the golf facility may not be profitable.
- **Easements**
Many courses have a variety of power line, underground utility, road, cart path, public use, and other easements traversing the property.

Golf courses use a significant amount of land but represent an inefficient use of the land resource. Most golf courses, even if they run a morning and afternoon “shotgun” start, are not likely to yield more than 300 players in a single day. Conversely, if the same 150 acres can accommodate just 150 homes (low-density development), as many as 450+ people can live on the same site with more favorable economic benefits to the owner/developer. A golf course certainly has some unique site requirements, but nevertheless it should be recognized as an economically inefficient use of land in those cases where alternative uses may be available. In other cases, golf courses are the only potential economic use, such as for properties where there are no development rights or where physical limitations (swamps, wetlands, terrain, etc.) preclude alternative uses.

The Golf Course

Some people immediately think of golf course design, the architect, and how the course will play when golf courses come to mind. Separate from golf course *design* and more fundamental to some degree is the golf course *layout*. Unlike most other sports, golf does not offer a standard playing field. Football fields are 100 yards by 53 yards. Baseball fields all



have the same sized infields. Basketball courts and hockey rinks are of standard size. Golf courses come in many shapes and sizes.

All golf courses are based on one or a combination of five basic design types or configurations. These include the “core” course, the “single-fairway” course, the “single-fairway with returning nines” course, and “double-fairway” courses both with and without returning nines. These configurations, along with the decision of whether to emphasize “strategic,” “heroic,” or “penal” design, are usually based on overall project objectives, operational requirements, and site considerations such as soil, topography, and vegetation. Few pure examples of each type exist; instead, characteristics from each type are usually combined to suit a particular site or specific project.

Exhibit 4.2 18-Hole Regulation Course Design Options

Design	Land Use	Frontage	Maintenance
Core	Low	Low	Low
Single-fairway	High	High	High
Single-fairway with returning nines	High	High	High
Double-fairway	Medium	Medium	Medium
Double-fairway with returning nines	Medium	Medium	Medium

All types of courses are measured partially against the concept of the “regulation course,” which is the result of the idea of par. Par is simply the result of error-free golf and is the score an expert player is expected to make under ordinary playing conditions allowing two putts per hole. A typical regulation course will play to a par between 69 and 73 strokes, with typical lengths from approximately 5,000 yards for novice players to more than 7,200 yards for the expert. Most regulation courses measure between 6,200 and 6,700 yards from the middle tees normally used by most male adult players and can stretch to over 7,500 yards from the championship tees.

Typically, a par-72 golf course will have 10 par-4 holes, four par-3 holes, and four par-5 holes. This varies from course to course depending on site considerations and project desires. The term “championship course” is often overused in referring to basic regulation courses. A true championship course is normally a very high-quality regulation course; however, the term championship course carries no universally accepted definition and is usually used as a descriptive term to measure the challenge and quality of a particular golf course.

Core Course

The core course is characterized by clustering the holes together so that the course is an element unto itself. The holes can be arranged in a continuous sequence, with one starting hole and one finishing hole at



Exhibit 4.3 Core Golf Course

Core golf course,
18 holes



Approximate acreage: 140

Source: Gregory L. Cory, David A. Mulvihill, Laurence A. Hirsh et al., *Golf Course Development in Residential Communities* (Washington, DC: Urban Land Institute, 2001).

the clubhouse, or in returning nines, with two starting holes and two finishing holes at the clubhouse.

This layout requires the least amount of land and is highly efficient to operate because the holes are closer together, increasing the speed of play and reducing maintenance. This layout also provides the least amount of golf course frontage for lots and is best suited for an operation where real estate frontage is not an issue.

This layout is more suitable for generally level sites with minimal elevation changes on the property and generally requires about 140 acres of land.

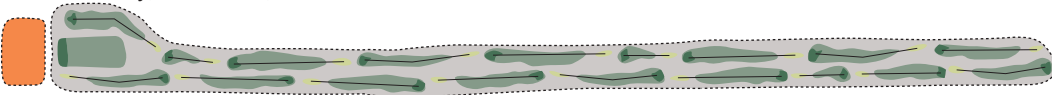
Double-Fairway Courses

The double-fairway continuous layout is characterized by a continuous single loop of adjacent parallel fairways, with one hole starting at the clubhouse and one finishing hole returning to the clubhouse.

Two circuits of nine holes characterize the double-fairway returning nines layout, each with adjacent parallel fairways. These configurations might allow for some savings in land compared to a single-fairway layout and allow for a slight reduction in maintenance compared to a single-fairway layout, as the tees and greens are adjacent to each other. These layouts are most adaptable for sites with long, narrow valleys or land with potential for development on either side of the golf course.

Exhibit 4.4 Double-Fairway Courses

Double-fairway, continuous, 18-hole course



Approximate acreage: 150

Double-fairway, 18-hole course with returning nines



Approximate acreage: 150

Source: *Golf Course Development in Residential Communities*

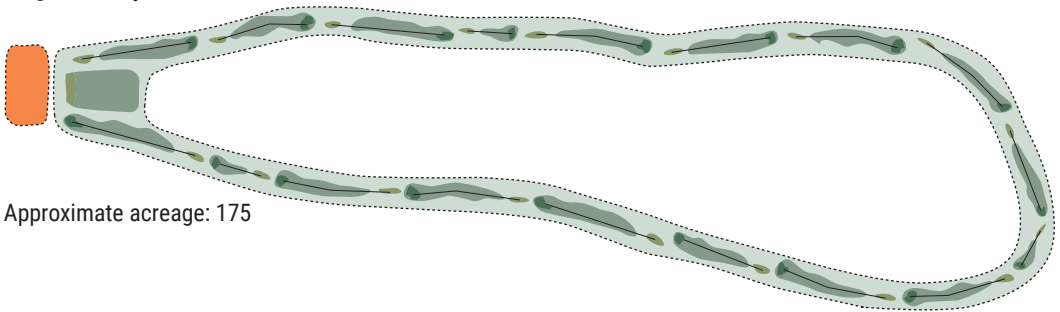


Single-Fairway, Continuous Courses

The single-fairway, continuous layout is characterized by a single, open loop starting from the clubhouse and returning to the clubhouse. This layout has the greatest adaptability to an existing site, as the course has a limited number of fixed elements: a clubhouse, a starting hole, and a finishing hole. This layout requires the most land, and maintenance is often higher, as the greens and tees are spread out. Additionally, the flexibility of play is reduced, as there is only one starting hole. This configuration provides the maximum golf frontage for real estate development.

Exhibit 4.5 Single-Fairway, Continuous Course

Single-fairway, continuous, 18-hole course



Approximate acreage: 175

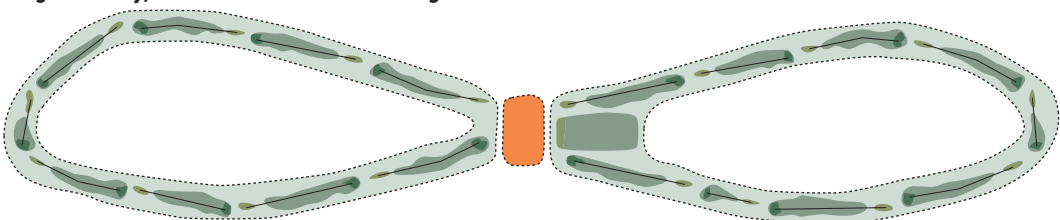
Source: *Golf Course Development in Residential Communities*

Single-Fairway Courses with Returning Nines

The single-fairway with returning nines layout is characterized by two open loops of returning nines, with the clubhouse in the center. This layout has greater potential for frontage than other configurations, except the single-fairway, continuous. Flexibility and efficiency in operation are a result of the two starting holes. Maintenance is often higher, as the greens and

Exhibit 4.6 Single-Fairway with Returning Nines

Single-fairway, 18-hole course with returning nines



Approximate acreage: 175

Source: *Golf Course Development in Residential Communities*



tees are spread out. This configuration is ideal for any course associated with real estate development and is adaptable to most types of topography.

These layouts can be improvised on any one of the “styles” of golf courses, which are often determined by the characteristics of the site and location. The basic styles of courses will be discussed next.



The Royal Dornoch Golf Club in Scotland is a links course.



The Philadelphia Cricket Club in Pennsylvania is a parkland course.



The Sunningdale Golf Club in the UK is a heathland course.

Golf Course Styles

Links Courses

The original links courses, which are mostly found in the UK, were situated on the thin strip of sand, grass, and dunes that lay between the sea and agricultural land. The courses “linked” them together. Links-style courses have undulating fairways, sand dunes, deep bunkers, and few (if any) trees. Many of the most famous links courses are found in Scotland or Ireland, including St Andrews, Turnberry, Portmarnock, and Ballyunion. In the US, Pebble Beach and Bandon Dunes are famous examples of links courses.

Parkland Courses

Parkland courses are the most common style of golf course found in the US. Parkland layout features lush, well-kept fairways, mature trees, thick rough, and bunkers. These are usually situated well inland, although some very fine examples can be found close to the coastlines.

Heathland Courses

Heathland courses are inland courses that feature gentle, rolling fairways winding through a landscape full of bushes and shrubs but few large trees. Some of the oldest courses in the UK, including past Ryder Cup venues like Walton Heath and Sunningdale, are examples of heathland courses.

Desert Courses

Desert courses are mostly found in the southwestern US. Situated in deserts and therefore watered heavily, they are oases of green in the middle of the sand. Usually



(but not always) desert courses have gentle terrain due to the nature of the country they are found in. Many of the best desert courses feature lakes, huge sandy waste areas surrounding the fairways, and large, sloping greens. A typical landscape of sand, cacti, palm trees, and rocky outcrops give a very distinctive feel to these courses. It is important to note that water for irrigation is becoming ever more precious, creating a present and future challenge and substantial cost for desert facilities.

Mountain Courses

Mountain courses often feature dramatic changes in elevation, which make them more difficult to navigate but also provide desirable views. Mountain golf challenges the player to evaluate the impact of both altitude and uneven terrain.

Site Selection

Although few new golf courses are being developed, should the appraiser/analyst be dealing with one, the issue of site selection is critical. Often, golf course developers can choose from among several sites, considering the elements described as follows.

Size

To construct an 18-hole golf course of modern length, with appropriate infrastructure (clubhouse, maintenance facility, parking, ancillary facilities) typically requires at least 150 acres, and in many cases more, depending on the site's other characteristics.

Location

There was a time when golf courses were built on sites far from town, often the result of "leapfrog" development (where developers seek cheap land in anticipation of urban expansion reaching their site). While this phenomenon still occurs, it is more likely the identified site will have ample surrounding population and access to area roads and highways to enable the club to serve a larger population base. In many cases, a club's success is related to the demographics within a specific drive time.



Indian Wells Golf Resort in California is a desert course.



Shooting Star Golf Club in Wyoming is a mountain course.



Physical Characteristics

To many, a site with dramatic (and sometimes severe) terrain is considered favorable for development of a golf course. Often these sites are too severe for other development. While such sites can make for dramatic golf holes, they present numerous problems, such as higher construction costs, more clearing costs (if wooded), and more difficulty in getting players and maintenance crew around the course. Many of the earliest and most highly regarded courses were built on more gentle sites, often on “linksland”¹ with sandy soils and minimal or gentle topography, often near oceans. The more dramatic terrain will increase the need for golf carts, which may help the developer in recovering costs but also preclude walking the course by those so inclined. While trees and wooded areas are also considered desirable by some, the trend today on many highly regarded courses is to remove trees in the interest of air circulation and resulting improvements in turf conditions. Soils should allow good drainage and there should be a viable and ample supply of high-quality water available for irrigation. With site shapes of so many variations, it should be noted that the early Scottish links courses were built on long, narrow sites that played nine holes “out” and nine holes “in.” Modern courses are built on a variety of site sizes and shapes and often as part of housing developments, which has resulted in the various types of golf course layouts previously illustrated.

Design and Purpose

As noted earlier, not only are there distinctions between the various types of golf operations, but considerable differences between facilities in each of the market segments. Along with the different types of golf course operations (private, daily-fee, etc.) there is a need to design courses to match their intended use. All golf properties do *not* compare to each other. As shown in Exhibit 4.7, there are substantial physical differences between the different types of golf properties and operations.

Dr. Michael Hurdzan, PhD, in his book *Golf Course Architecture: Design, Construction and Renovation*, says that “a golf course is a spatial arrangement of holes on a tract of land with clearly designated starting points called tees and specific finishing points of four and one quarter inch holes cut in the ground.”² Further, he says that “golf course design is the arrangement of these starting and ending points (and further that) if the landscape is not modified or changed then the golf course is merely *laid out*. If the terrain is modified or changed, then the course is *built*.”

-
1. Linksland is seaside terrain that is characterized by rolling hills of sand and is often used as the site of golf courses.
 2. Michael J. Hurdzan, *Golf Course Architecture: Design, Construction and Renovation* (Chelsea, MI: Sleeping Bear Press, 1996).

Exhibit 4.7 Physical Characteristics of Different Types of Golf Courses		
Type	Golf Course	Amenities
Daily-Fee (DF)		
<i>Resident Based (including municipal)</i>		
Affordable daily-fee	Minimal hazards, wide open, expedited pace of play	Small clubhouses, snack bar
Value daily-fee	Moderate hazards and interest	Clubhouse, pro shop, banquet facility
Upscale daily-fee	Name architect, excellent maintenance, lots of features	Larger clubhouse, restaurant, banquet, lockers, pro shop
<i>Specialty</i>		
Theme course	Name architect, excellent maintenance, lots of features	Larger clubhouse, restaurant, banquet, lockers, pro shop
Semi-Private		
Includes all of the DF above, but typically with some form of membership/annual pass option		
Private		
<i>Resident-based (including both stand-alone and community amenity clubs)</i>		
Affordable country club	Moderate hazards and interest	Clubhouse, pro shop, banquet facility, swimming, tennis
Middle-market country club	Moderate hazards and interest, better conditions	Clubhouse, pro shop, banquet facility, swimming, tennis
Upscale country club	Name architect, excellent maintenance, lots of features	Excellent facilities, dining, banquet, other sports, swimming, tennis, squash, paddle, fitness
<i>Specialty</i>		
Destination clubs—residential	Name architect, excellent maintenance, lots of features	Good amenities but often limited locker space
Destination (“big-boy”) clubs	Name architect, excellent maintenance, lots of features, golf-centric, sometimes all-walking	Varies depending on membership, often large locker rooms, bars, limited dinner service
<i>Resort (with lodging)</i>		
Urban resort	Name architect, excellent maintenance, lots of features, sometimes not walkable	Lodging, water parks, attractions
Leisure resort (non-urban)	Name architect, excellent maintenance, lots of features, sometimes not walkable	Lodging, water parks, attractions

Furthermore, Hurdzan establishes 11 basic criteria for golf course design as follows:

1. Safety
2. Flexibility
3. Shot value
4. Fairness



5. Progression
6. Flow
7. Balance
8. Maintenance cost
9. Construction planning
10. Aesthetics
11. Tournament qualities

These are characteristics of any good golf course and each can clearly impact the facility's long-term economics.

Of particular interest is the first item mentioned, safety. In a litigious society, any errant shot that injures someone can turn into a lawsuit for the player, owner, club, architect, and builder. Although, according to Hurdzan there are no design standards, data suggests that 92% of all shots are played to within a 15° angle on either side of the target line. While each architect determines safety margins individually, the graphic in Exhibit 4.8 illustrates Hurdzan's vision of safety practices in golf course design.

The appraiser should be aware of such issues. While the appraiser is not a golf course architect, he or she should be able to recognize, identify, and convey to the client when such issues may warrant consideration.

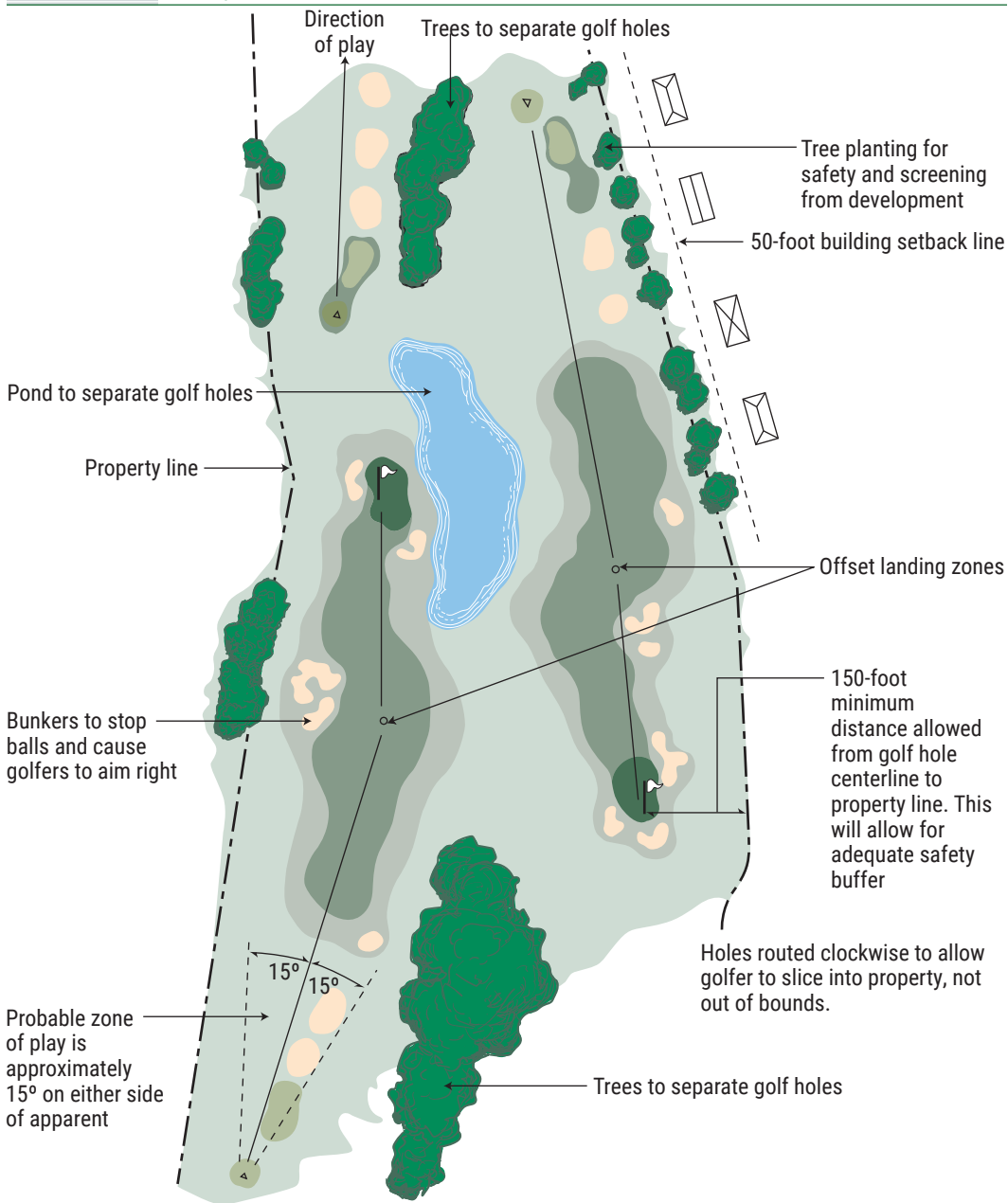
Hurdzan has also authored a book³ on golf course safety, security, and risk management that goes more than a few steps further in analyzing the hazards (legal and physical) that golf courses present to both owners/operators and players. Characteristics of the golf course, such as bridges, cart paths, slopes and banks, water features, and even trees can present safety hazards that require recognition and action to ensure player and employee safety. Additionally, adjacent property is sometimes at risk from errant shots and many lawsuits for damages have been brought. Weather also presents a hazard that golf facilities need to be prepared for in the event of dangerous conditions. Hurdzan's book will be discussed more later in this chapter.

Private clubs typically distinguish themselves with more features, better turf conditions, and greater challenge. Private club members often take great pride in the quality, challenge, playing conditions, and recognition of their golf courses. Most daily-fee and municipal courses, on the other hand, have the challenge of turning a profit, thus investing less money into the construction of dramatic features and more sand bunkers, which not only cost money to develop but more to maintain. They also have fewer dollars to allocate to course maintenance. It is incumbent upon the developer of a golf course to understand who will be using it, the market segment it will occupy, and what the typical user will expect in the way of challenge, playing surfaces, and features—and what he or she is willing to pay for. While the sexy part of golf course design often

3. Michael J. Hurdzan, *Golf and Law: Golf Course Safety, Security and Risk Management* (BookBaby, 2018).



Exhibit 4.8 Safety Design Elements



Hurdzan design guidelines can be used as a starting point and adjusted to suit the topography, vegetation, altitude, prevailing winds, adjacent land uses, and anticipated play level of the specific site or project.

Source: Michael J. Hurdzan, *Golf Course Architecture: Design, Construction and Restoration* (Chelsea, MI: Sleeping Bear Press, 1996).



focuses on national rankings, major championships, and Augusta-like manicuring, few courses can sustain that level. The best golf course architects understand that and design accordingly, being sensitive to both development cost and golf course maintenance/sustainability.

Additionally, there are various operational models, as previously described, which can factor into both the golf course layout and the golf course design. These include:

- **Private clubs**
Private clubs are typically more challenging, in better playing condition, and less crowded. Associated facilities may include large clubhouses with banquet facilities, swimming, tennis, and other sports.
- **Daily-fee courses**
Daily-fee courses constitute approximately 59% of the current golf course supply in the United States. That said, these are typically “for profit” facilities, and the level of service and conditions usually are less than what is found at most private clubs.
- **Municipal golf courses**
Municipal golf courses represent about 16% of all United States golf courses but are increasing in number. These facilities typically run on very tight budgets because they are accountable to the taxpayers. With only about 10% of the US population playing golf, municipal officials strive to avoid operating losses, if possible, especially in election years.
- **Resort courses**
Resort courses are built to attract tourists and are usually high-quality facilities built with the idea of attracting vacation and business travelers. Many resort courses feature signature architects like Jack Nicklaus and Arnold Palmer with sometimes dramatic and difficult courses which host major golf events.

Note that valuation issues related to these different golf course types are discussed in more detail in Chapter 11, and the importance of comparing golf properties of similar types in an appraisal assignment is discussed in Chapter 13.

Golf courses are developed for a variety of purposes, including amenity support for various types of real estate development. Golf facilities can be either municipally or privately owned and available for public access or limited to play by members and guests or resort patrons. According to the NGF, at the beginning of 2020 there were approximately 14,167 golf facilities in the United States, with a golf facility being defined as at least one nine-hole course. These are roughly segmented as shown in Exhibit 4.9, which also appeared in Chapter 2. The market segment and operational model should also be consistent with the physical facilities in that an elaborate, difficult golf course with numerous features and high-level maintenance is likely to be found only in an upscale pri-



vate club or upscale daily-fee facility or resort. Conversely, the affordable, daily-fee facility will typically have less sophisticated systems, maybe different, less maintenance-intensive varieties of turfgrass, and smaller playing surfaces.

A key element of any golf course is its history and design. In many cases the identity of the course architect is a key factor in how some golfers choose the courses they play or join.

Many older facilities have a history of hosting major events, being designed by historically prominent golf course architects like Donald Ross, A.W. Tillinghast, or Alistair MacKenzie, or of having hosted celebrities as members or guests. This history can add to the allure of the club and possibly translate into either more play, increased membership, or higher fees.

The history behind any club is an important part of its overall character and can impact economics.

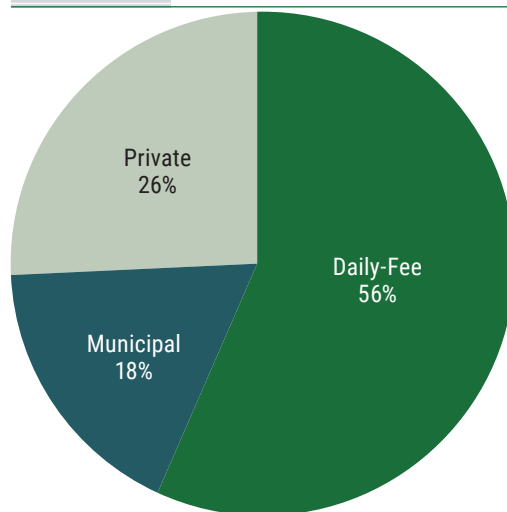
More modern courses, in an effort to gain more instant recognition, have retained notable golfers like Jack Nicklaus or Arnold Palmer to design their courses, or some of the acknowledged modern masters of golf course architecture like Rees Jones, Tom Fazio, Dr. Michael Hurdzan, PhD, David McClay Kidd, or Coore & Crenshaw to lay out their courses.

A major impact on design today is renovation, restoration, and remodeling of golf courses. There are many architects who specialize in the updating of the courses of the long-gone masters, like Tripp Davis, Keith Foster (Tillinghast), and Ron Prichard and Ron Forse (Ross).

While many courses are often identified by their architect, there are still three fundamental types of golf hole design:

- Strategic
A “strategic” hole (see Exhibit 4.10) is one that has at least one reasonable route for reaching the green in regulation play with very little risk of incurring a severe penalty because of a misplayed shot. In addition, if there are several alternative routes, the route having the greatest distance generally has the least risk of incurring a severe penalty for a misplayed shot.
- Heroic
A “heroic” hole (see Exhibit 4.11) has at least two distinctly different alternatives for reaching the green in regulation play. One lacks a severe penalty for a misplayed shot. With the second, however,

Exhibit 4.9 2020 Segmentation of US Golf Courses



Source: NGF

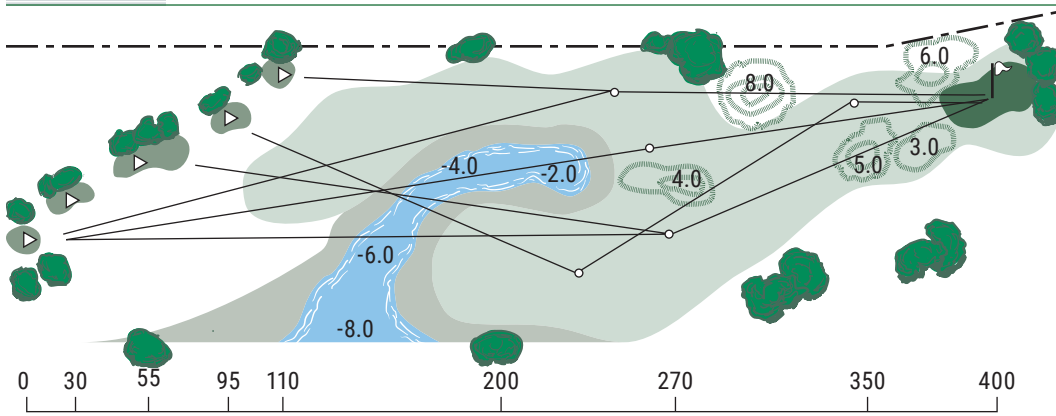


a misplay incurs a severe penalty, but, if successfully negotiated, it will reward the player with a far superior position and/or distance advantage. Thus, the player faces a truly heroic decision. This shot itself also can be called heroic.

- Penal
A hole is “penal” (see Exhibit 4.12) if the only way to reach the green in regulation play involves successfully executing at least one shot that will incur a severe penalty if misplayed. Often the severe penalty involves a ball lost in an escape-proof hazard like water, a ravine, or out-of-bounds.

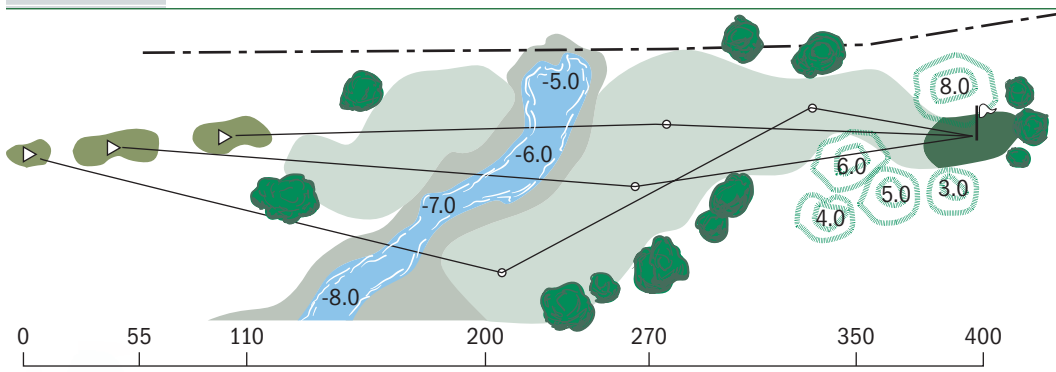
Accomplished designers often blend strategic, penal, and heroic holes to create a golf course with balance and rhythm. Although well-versed players may vehemently disagree over which of the three catego-

Exhibit 4.10 Strategic Golf Hole



Source: *Golf Course Architecture*

Exhibit 4.11 Heroic Golf Hole



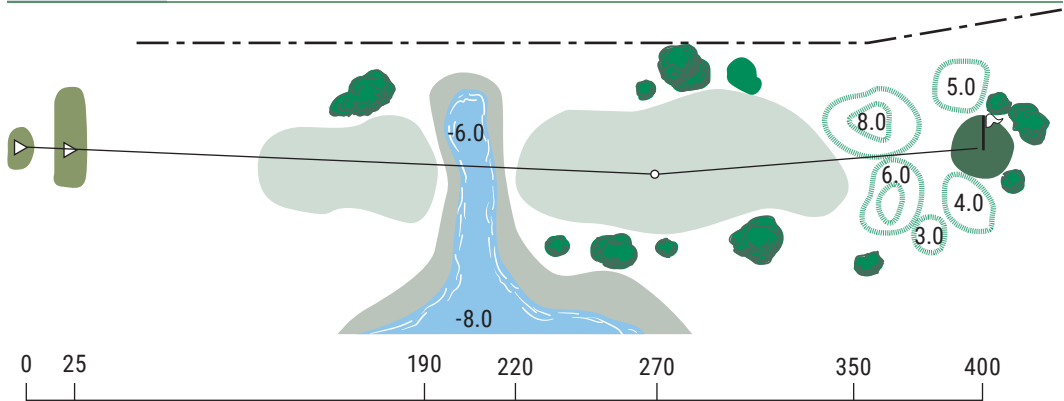
Source: *Golf Course Architecture*



ries a particular hole belongs to, it would be rare indeed to classify all holes on a given course as strategic, penal, or heroic. Therefore, when an entire course is given one of these labels, it likely means that it has a relatively large number of holes of that particular type.⁴

In addition, the “freeway” hole (see Exhibit 4.13) is also found in many instances, especially in those courses where ease of maintenance and low budgets are emphasized.

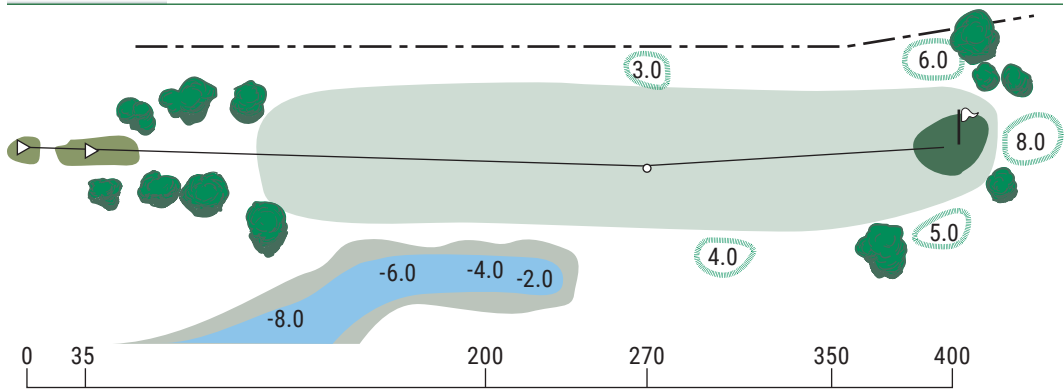
Exhibit 4.12 Penal Golf Hole



To amplify his design intent, the golf course architect must visualize the hole and assign 3-dimensional values to each of the elements. In this case it is a depression of no more than 8 feet in depth, and mounds of 3, 4, 5, 6, and 8 feet in height.

Source: *Golf Course Architecture*

Exhibit 4.13 Freeway Golf Hole



Source: *Golf Course Architecture*

4. Robert Trent Jones, Jr., *Golf By Design* (Boston: Little, Brown, and Company, 1993).



There are several famous holes that have been copied through the years. These include the following:

- Redan
No. 15, North Berwick (Scotland)
- Cape, C.B. MacDonald
No. 14, National Golf Links of America (New York)
- Short, Seth Raynor and MacDonald
No. 10 Chicago Golf Course (IL), No. 6, Lookout Mountain (TN)
- Biarritz, MacDonald
No. 9, Yale Golf Course (CT)
- Punchbowl, MacDonald/Raynor
No. 16, National Golf Links of America (NY)
- Eden
No. 11, The Old Course, St. Andrews, Scotland, UK
- Alps
No. 17, Prestwick, Scotland, UK
- Double Plateau, Raynor,
No. 9, Fishers Island Club (NY)

When done well, these “copycats” have proven to be well received and copied with great skill at many courses around the world.

Hazards and Features

Among the most prominent elements of a golf course are hazards and features. According to Dr. Michael Hurdzan, PhD, a hazard “takes the form of any physical feature that makes the playing of a golf shot more difficult.”⁵ Examples of hazards include:

- Depressions
- Grass bunkers
- Long grass
- Man-made structures
- Mounds
- Non-turf vegetation
- Rocks, boulders, and stone
- Sand bunkers
- Slopes
- Trees
- Water (creeks, ponds, rivers, oceans, bays, lakes, etc.)

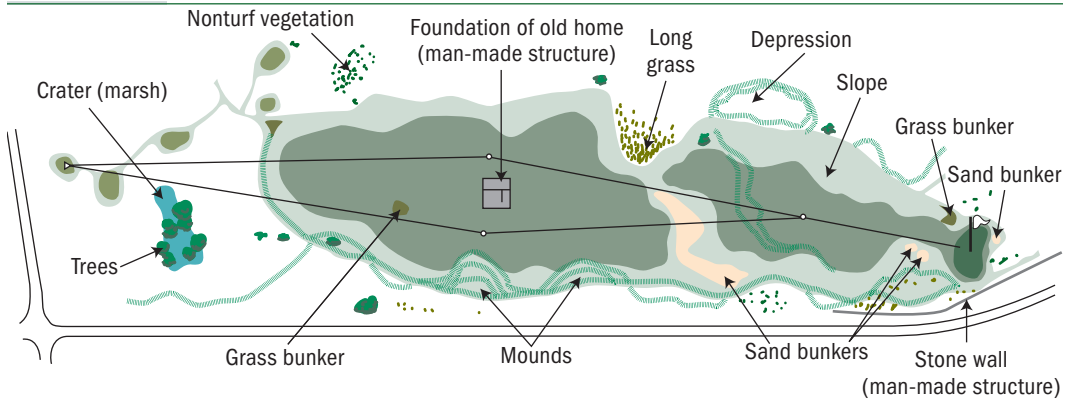
Each of the above hazards not only adds interest, difficulty, and intrigue to a golf course, but also the possibility of added cost in development

5. Hurdzan, *Golf Course Architecture*, 46.



and added maintenance expense. While many might perceive a golf course with more hazards and features to be more economically feasible and have more value than others, that's not always the case. A sample hazard plan is shown in Exhibit 4.14.

Exhibit 4.14 Sample Golf Course Hazard Plan



This hole shows the composite of all hazards and architectural devices that a golf course designer has to work with.

Source: *Golf Course Architecture*

Golf Course Improvements

A golf course is a living agronomical system. Understanding its elements and functionality are critical to analyzing any golf facility. If one understands that certain types of turfgrass require more water and maintenance or that par-3 holes require larger tee areas, the analysis becomes more consistent with how a knowledgeable buyer would analyze the property. Characteristics like the age and design of an irrigation system and the subsurface drainage system that may exist are fundamental elements of the golf course infrastructure.

Contrary to the belief of some, golf course improvements are intricate systems with both agronomical and mechanical characteristics. The combination of soil mixtures, turfgrass varieties, irrigation, and drainage make up a complex system that results in the often-manicured playing conditions golfers (especially in the US) have come to expect.

The analysis of golf course improvements begins with a questionnaire like the one shown in Exhibit 4.15. This type of facility summary sets the stage for the more detailed questions that contribute to the analysis of the golf course improvements, such as details about the green construction or irrigation system. For instance, is there ample water supply? Do the cart paths adequately cover areas where they're needed and are they in good condition? Is there enough cart storage for the facility's use?



Exhibit 4.15 Facility Summary

Facility type: _____	Year opened: _____
No. of holes: _____	Architect: _____
Course design: _____	Course layout: _____
Practice range: _____	Green construction: _____
Practice green: _____	Grassing: _____
Putting green: _____	Tees: _____
Amenities: _____	Greens: _____
Clubhouse: _____	Fairways: _____
Pro shop: _____	Roughs: _____
Dining room: _____	Irrigation (Make): _____
Locker rooms: _____	Configuration: _____
Snack bar: _____	Age of system: _____
Fitness center: _____	Water source: _____
Swimming: _____	Cart paths: _____
Tennis: _____	Path coverage: _____
Maintenance bldg.: _____	Path material: _____
Cart storage: _____	Path condition: _____
Comments: _____	

Exhibit 4.16 Golf Course Yardage

Tees	Yardage	Par	Rating	Slope
Championship	_____	___	_____	_____
Back	_____	___	_____	_____
Middle	_____	___	_____	_____
Forward	_____	___	_____	_____

Some of the components of a golf course are complex systems constructed to exacting standards. Putting greens, for instance, can be formed with one of several different methods of construction which vary in the soil modification procedures and drainage installation that are used. The most widely used system in the US is the United States Golf Association

(USGA) Green Section Method.⁶ The most widely used methods of green construction are:

- **USGA**
The USGA Green Section Record⁷ updated the recommended method in 1993 and details an intricate system of seedbed, subgrade, drainage, material preparation, layer depth, and particle size that their research concluded produces the ideal green.
- **California**
An alternative green construction method, enthusiastically advocated by noted golf course architect and plant physiologist Dr. Michael Hurdzan, PhD, is the California Green, which is a 100% sand subgrade mixture without the gravel and other elements of the USGA green.

6. James B. Beard, *Turf Management for Golf Courses* (New York: McMillan Publishing Company, 1982), 110-113.
7. USGA Green Section Staff, *USGA Green Section Record*, March/April 1993.



- Push-Up
Many older courses have what are known as “push-up” greens, which are basically created from collecting surrounding native soil, shaping, and planting seed. Few modern courses use push-up greens and many older courses have renovated and converted their greens to USGA or California.

The California Green is less costly to construct than the USGA green, and debate is ongoing as to the performance qualities of each compared to the other. The key element of the performance issue is drainage and the ability of the soil to support various turf species in different climates. Illustrations are shown in Exhibit 4.17

Tees and bunkers also can have complex construction, again typically focused on drainage characteristics which are critical to the financial success of the course so that play can continue after rain events. Sand bunkers have seen advancement in recent years with a variety of drainage-related systems such as Bunker Wall, Matrix Bunker, Better Billy Bunker, and Capillary Bunker systems. Some courses which have stacked sod-style bunkers are now installing synthetic faces at considerable cost to reduce maintenance and expand the useful life.

Another area of interest in analyzing a golf course facility is the turfgrass. There are many different cultivars used on golf courses. These are basically divided into cool-season and warm-season species. Selecting the right turfgrass for any course is dependent on several factors, including but not limited to climate, soils, construction, drainage, amount of play, type of course, and marketing.

In northern and some transitional climates, varieties of bentgrass are widely used as the most desirable surfaces. Although they are improving through research and development, bentgrass surfaces are normally more sensitive to heat and drought in the summer and require more water usage than other varieties, such as ryegrass and zoysia. There are numerous types of bentgrass varieties and more being developed all the time.

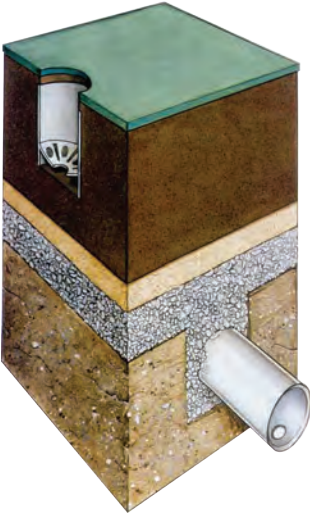
In warm-season climates like Florida, Texas, Arizona, and other southern regions, various varieties of bermudagrass are used more widely, along with zoysia and other warm-season grasses. In many of these regions, as the bermudagrass goes dormant in the winter, courses often overseed with a cool-season grass to maintain the green color and playing surfaces desired by many golfers. A basic illustration of where warm- and cool-season grasses might be found is shown in Exhibit 4.18.

In the transitional areas, some facilities will use bentgrass on greens and bermudagrass or zoysia in other areas and different varieties may be used depending on whether it is a humid or arid climate. Unique considerations in the valuation of golf properties created by weather and climate are discussed in more detail in Chapter 12. The lifeblood of any golf course is irrigation water. The irrigation system can be quite



Exhibit 4.17 Tee, Green, and Bunker Construction

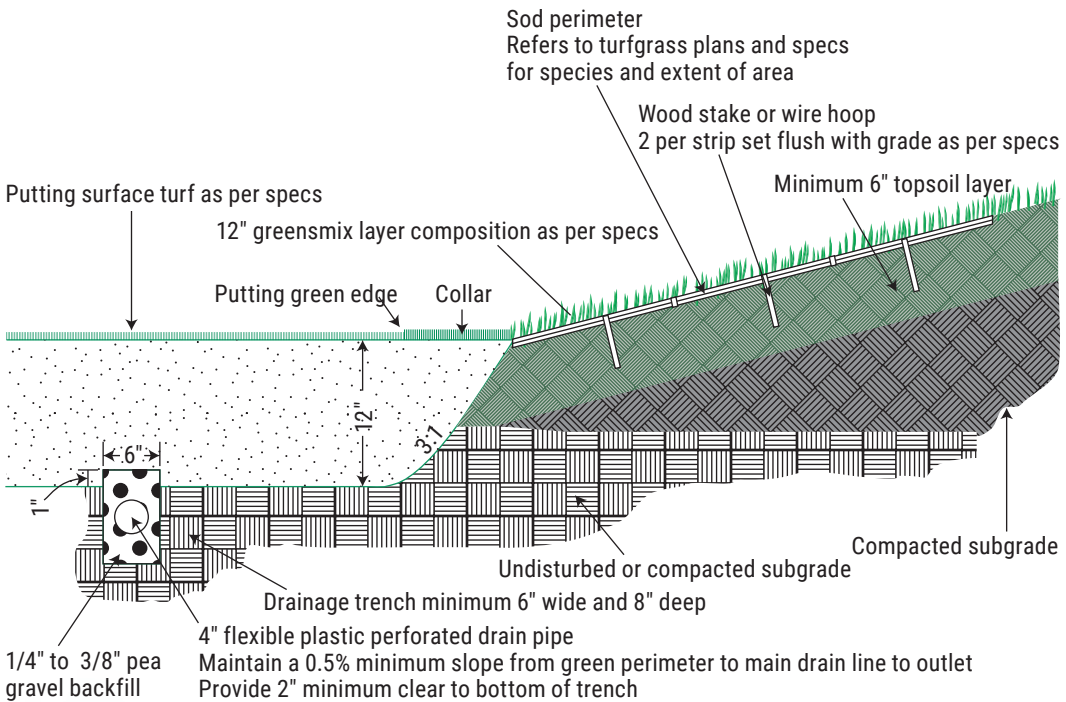
USGA Recommendations for Putting Green Construction



Profile of a green built to USGA recommendations with the intermediate layer (cover). When the appropriate gravel is used, the intermediate layer can be eliminated (below).

Source: USGA

California Method of Green Construction

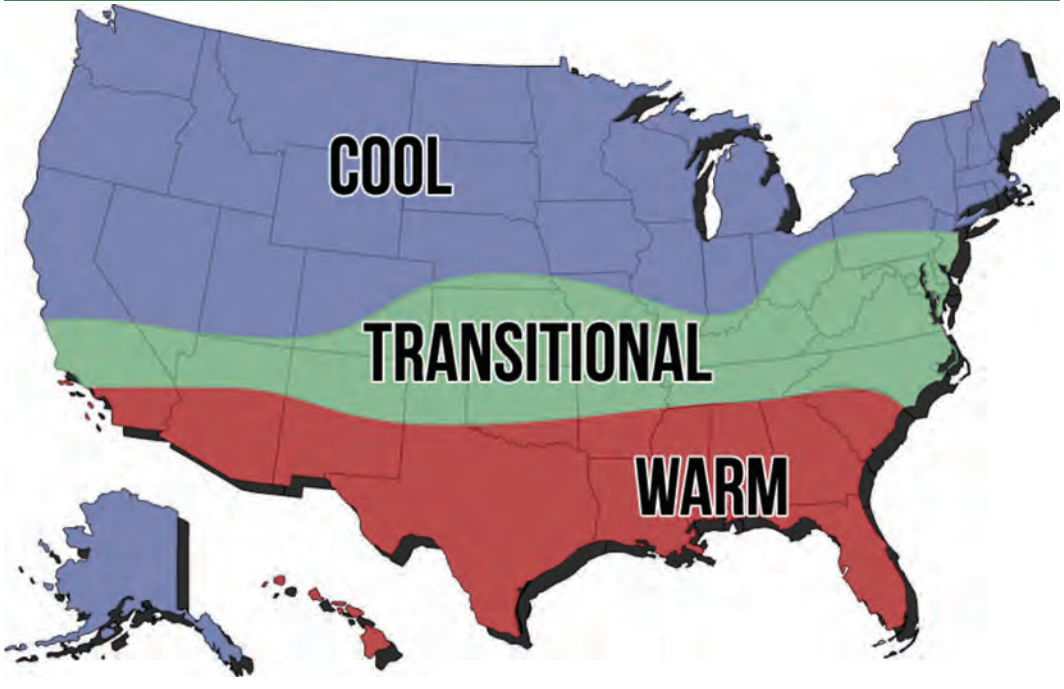


Source: Golf Course Architecture.

Scale: 3" = 1'6"



Exhibit 4.18 Climate Regions of the United States



complex. A modern irrigation system includes elements like subsurface water lines and pipes, irrigation heads (often numbering well over 1,000 on some courses), pumping systems, and chemical distribution. There are both simple and complex irrigation systems. Most modern systems are computer controlled, and some are “single-row” systems with lines running through the center of each hole or more complex double- and multiple-row systems servicing all areas of the course with a highly precise level of water application. The cost of such systems is typically a seven-figure (exceeding \$1 million) investment, but it can make the difference in playing conditions, especially during the warmer months. The irrigation system also requires a source (stream, river, pond, wells, municipal water, etc.), and most have on-site storage in the form of a pond.

An understanding of these systems and components and their age/condition leads to a more thorough understanding of the quality and condition of the facility, as well as helping the analyst, purchaser, or anyone in correlating the financial statements with facilities and operations.

A review of a golf course’s scorecard may reveal whether the golf course is long enough to host competitive events and whether all levels of players are accommodated. The scorecard can often also show the name of the architect, who can be researched to learn if there is some specific history associated with the course’s original design.



Exhibit 4.19 Golf Cart Path Checklist

Linear feet of cart paths _____
Path coverage (%) _____
Material _____
Condition _____
Width (feet) _____
Age _____
Design/safety _____



A typical golf cart path requiring attention

Cart Paths

One item of note is cart paths. Like other golf course components, cart paths require maintenance and replacement. They become uneven and bumpy and can have (sometimes large) potholes or buckling from subsurface tree roots. Often cart paths settle and develop ponding from rain events. Many golf property purchasers view cart paths as essential to allowing revenue-producing carts on the course, and if the paths are deteriorated they will often adjust a purchase price accordingly. It is incumbent upon the analyst to recognize these conditions and allow for them appropriately. Cart paths and bunkers along with irrigation systems are often areas of deferred maintenance that can dramatically influence the value of any golf property. A checklist for golf cart paths is shown in Exhibit 4.19.

Practice Facilities

Many golf facilities are focusing on improvement of their practice facilities. Complete practice facilities with 300+ yard range, ample tee area, targets, short game area, and practice bunkers are more in demand as elements of a complete golf facility as golfers have less time to play and seek game improvement. In some cases, clubs and courses with extensive practice facilities have found a profit center for instruction, club fitting, and providing a place where beginners can safely learn the game without holding up more experienced players on the course or being intimidated by those watching from the clubhouse.

Exhibit 4.20 shows a description of the practice facilities, which can range from less than an acre for an area limited to short game and putting to an elaborate area of more than 20 acres with irrigated tees and landing areas, targets, ample tee area turf to service a full season of divots and recycling turf, and extensive short game areas. It is also important where the practice facility is located. Those practice areas that are distant and remote from the clubhouse are typically not utilized as much, and if the practice facility is planned as a profit center, this can impact its performance considerably.

Too many golf facilities do not have adequate practice facilities. As more and more players seek to improve their game, or even have limited time, practice grounds are increasingly important, both economically



and practically. Even as far back as the “golden age” of course design (the 1920s), famed architect A. W. Tillinghast noted that “Ground for practice in proximity to the clubhouse is one of the essentials of the modern golf course.”⁸ Unfortunately, many courses even today find themselves without adequate practice facilities.

At many upscale clubs and resorts there is a trend of developing high-technology golf learning centers. These facilities, often constructed on the range area, have heated indoor hitting bays, video equipment, and sometimes lounge areas for socializing.

Photographing the Course

One element of any appraisal, analysis, or marketing effort for a golf property or any other is quality photographs. With a golf course or club, the appraiser is attempting to show a landscape. Today, this is best done with drone technology. Not only do drones enable the appraiser to create images of the landscape but also of the relative location of elements on a typically large property. Understanding that the practice area, for instance, is remote from the clubhouse (or immediately adjacent) is critical to analyzing how it might be used. Showing the relative location of surrounding homes can help indicate if there are danger areas. The location of the parking areas and maintenance facility can also be photographed with drones.

Golf Course Maintenance

It has been said that “if the greens are slow the hamburger tastes bad.” This somewhat humorous reference to golf course maintenance and conditioning truly speaks volumes about the importance of course conditions. Simply because a course is green and pretty (compared to one’s office or back yard) doesn’t qualify it

Exhibit 4.20 Practice Facilities	
Length (yards) _____	Width (yards) _____
Tee surface _____	Chipping green _____
Tee area _____	Annual no. of balls hit _____
No. of hitting stations _____	Practice green _____
No. of targets _____	Irrigation _____
Practice bunker _____	Lighted _____

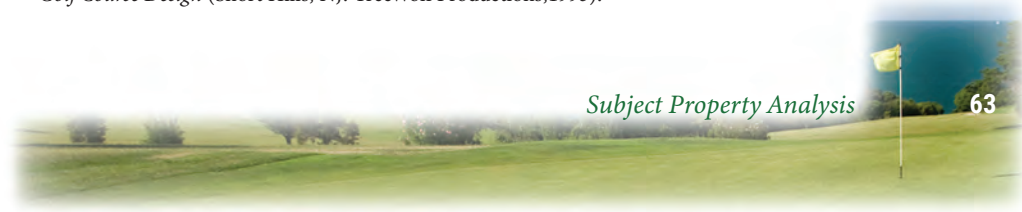


A practice area at Chechessee Creek Club in South Carolina



This photo of Shackamaxon Country Club in New Jersey was taken by drone.

8. A. W. Tillinghast, *The Course Beautiful: A Collection of Original Articles and Photographs on Golf Course Design* (Short Hills, NJ: TreeWolf Productions, 1995).





A maintenance facility at Spanish Trails Country Club, Nevada

for desirable course conditions. Golfers demand quality conditions and the race to be considered among the best-conditioned courses is never ending. A survey conducted by *Golf Digest* in 2013 stated, “Far and away, course conditions proved the most important driver of satisfaction when golfers travel, much more so than the pace of the round or the cost of the green or guest fee, both of which golfers stated as more important.”⁹ Specifically, in ascending order golfers value the conditions of the bunkers, the tee boxes, the fairways and, most of all, the greens. For

the appraiser/analyst, therefore, it’s important to detail the golf course maintenance program to understand the type of conditions that are provided at any given course on a consistent basis. Since weather impacts course maintenance and conditions, the day of a site visit may be deceiving about the normal conditions provided. Thus, an understanding of the maintenance program and expenditures can play a significant role in the analysis. The appraiser should be able to observe things like playing surface quality, discoloration, or turf density, which could indicate drainage issues or poor air circulation from densely treed areas, and the general playing condition of the golf course.

There is normally a correlation between quality conditions and cutting heights and frequencies. The shorter and more often greens are cut, normally the better (and more expensive) the maintenance program and playing conditions. In addition to observations of playing conditions (in-season), having the benefit of a written maintenance plan for the golf course can be most helpful in understanding the quality level of the golf course maintenance at a given facility. Exhibit 4.21 lists the information to be requested from the superintendent, along with costs and budget history.

One area that is often overlooked is that of access to and from the maintenance facility to all areas of the golf course. Some properties are simply more difficult to traverse, and the maintenance crew and equip-

Exhibit 4.21 Turf and Mowing Schedule

	Greens	Tees	Fairways	Roughs	Bunkers
Height/depth	_____	_____	_____	_____	_____
Frequency	_____	_____	_____	_____	_____
Equipment used	_____	_____	_____	_____	_____

9. Max Adler, “Can’t Get No Satisfaction: What Really Makes Golfers Happy,” *GolfDigest.com* (July 17, 2013).



ment need to be able to get to and from all areas of the golf course and have adequate surfaces to traverse. This clearly can impact the cost of maintenance from a labor perspective.

One element of many golf courses that seems to get limited attention is trees and tree management. Due to the cost, tree management and pruning often go unattended for extended periods. Unfortunately, as this occurs trees become larger, heavier, and more susceptible to the wrath of the seemingly more frequent extreme weather events. Accordingly, they become more dangerous as well, and there are examples of trees killing people *inside* buildings at golf courses as a result.

Chemical usage in golf course maintenance is becoming more tightly regulated in some areas. Storage of chemicals in a safe and secure facility is often mandated, and restrictions on the volume of chemicals may be enforced.

Every course needs an adequate maintenance fleet. It is incumbent on the appraiser to understand the level of adequacy of the fleet and the impact on operations, whether leased or owned. Golf course superintendents are often an excellent source of information on the physical characteristics of their golf courses and can be very helpful.

Sustainability

For golf courses, “sustainability” remains something of an elusive topic. It typically means a combination of practices which are deployed—over the long term—to better preserve or work in better concert with the environment. However, because club leaders and course owners are equally (if not more) concerned about cost and the impact on value, it’s important to acknowledge how sustainability affects the bottom line, mostly for the better.

Sustainability can mean several things:

- Environmental sustainability
- Economic sustainability
- Playing conditions sustainability

One of the biggest challenges for operators in the normally dry western parts of the US is water. Not only is it expensive, but the supply is limited and golf courses are normally very restricted in how much water they can use. It isn’t uncommon for golf facilities in the Western US to spend a half million dollars or more for water. However, there are golf courses in other areas, like the Northeast and Mid-Atlantic, where water availability is a growing and potentially costly issue.

Accordingly, it may be only a matter of time before the emerald green courses many of us are used to will be forced to go “green” (which of course means brown). Some courses, including upscale private clubs, are testing a new “low mow” bermudagrass called Latitude 36, and oth-



ers are experimenting with zoysia. In some cases they have experienced a need for 25% less water and considerably lower amounts of fungicide and fertilizer. There are numerous varieties of turfgrass used on golf courses, most falling under the following categories:

- Bentgrass
- Bermudagrass
- Fescue
- Ryegrass
- Zoysia

Each of these have multiple species, and more are being developed all the time as agronomists seek to develop varieties that are more heat- and drought-resistant and use reduced amounts of water and chemicals. Additional information on turfgrass can be obtained through the USGA's Green Section as well as many universities and colleges with strong agronomy programs around the country.

Other sustainability practices include using modern bunker liners, which can save on washout and the resulting labor (but are costly), using heat- and drought-tolerant rough grasses, and using dense turfgrass varieties to retain stormwater more effectively.

Different courses have different issues, but often sustainability can be accomplished with little things, like ensuring that the irrigation system is efficient and in good condition. In any event, as water becomes more and more a critical issue in more variable climates, the warm-season turfgrass varieties will likely be getting more attention, especially with the water, labor, and chemical savings that can be realized.

From an economic perspective, golf needs to become more affordable to grow the game and more sustainable to ensure that the game doesn't become obsolete in an era of concern about limited natural resources. Golf is viewed by many as not being near the top of society's priorities, and preserving the planet (while simultaneously saving money) can only enhance the economics for golf courses of all types.

The lifeblood of any golf course is its irrigation system and access to a quality water source. Without water, most golf courses would cease to exist in their present form. With water becoming more and more of an issue both environmentally and economically, the efficiency of the irrigation system is a critical element to the success of the club. Since it's often difficult for appraisers to understand the system's condition, knowing its age and discussing it with the superintendent can be helpful.

Irrigation systems are made up of multiple components with different useful lives (see Exhibit 4.22). Underground pipes, pump systems, electronics, and irrigation heads should all be considered when analyzing the issue of deferred maintenance and the potential that the system may require upgrades or replacement.



Since a golf course assignment is more an analysis of a going concern business, understanding the staffing in the maintenance department is also revealing about the program employed on site. Knowing the labor situation is most relevant to having a complete understanding of the maintenance program and evaluating the budget information provided. Exhibit 4.23 can be used to compare competing properties based on the number of full- and part-time crew.

It cannot be overstated that playing conditions cannot be maintained in tournament mode all the time at most courses. While there are some clubs that keep their courses in “US Open” shape all the time, it is very costly, not environmentally friendly, and can often slow play to maintain super-fast and firm putting greens, tight fairways, and long rough for regular play.

In addition to the mowing and other day-to-day operations, some golf courses do their periodic maintenance more frequently than others. Exhibit 4.24 can be helpful in evaluating the overall maintenance program.

The level of features and accessories at any golf course can contribute to its desirability. Features and accessories often found at golf courses are listed in Exhibit 4.25 and can be inventoried accordingly.

Exhibit 4.22 Golf Course Irrigation/Drainage

Water source _____	Water permits _____
Restrictions _____	No. of ponds _____
Water storage (gal.) _____	Water quality _____
Cost of water _____	Annual water usage (gal.) _____
Natural _____	Subsurface _____
Sub-air _____	Adequacy of drainage _____

Irrigation System

Make _____	Automatic/manual _____		
Design/configuration _____		Condition	Age
Electric/hydraulic _____	System _____		
Pipe material _____	Pipes _____		
No. of pumps _____	Mechanicals _____		
Size of pumps (HP) _____	Electronics _____		
No. of controllers _____	Pumps _____		
No. of heads _____	Brand of pumps _____		
Type of heads _____	Adequacy of system _____		

Exhibit 4.23 Maintenance Staffing

No. of full-time staff _____	No. of horticulturalists _____
No. of assistant superintendents _____	No. of spray technicians _____
No. of mechanics _____	No. of seasonal employees _____



Exhibit 4.24 Maintenance Schedule (Frequency)

Aerification _____	Tee markers _____
Fertilization _____	Dew removal _____
Pesticides _____	Topdressing schedule _____
Verticutting _____	Bunker maintenance _____
Cup changing _____	Irrigation _____
Recent projects _____	Recent weather _____

Exhibit 4.25 Features and Accessories

<input type="checkbox"/> Water	<input type="checkbox"/> Bunkers	<input type="checkbox"/> Mounding
<input type="checkbox"/> Bridges	<input type="checkbox"/> Vegetation	<input type="checkbox"/> Waste bunkers
<input type="checkbox"/> Rock	<input type="checkbox"/> Ornamental grasses	<input type="checkbox"/> Streams
<input type="checkbox"/> Waterfalls	<input type="checkbox"/> Ravines	<input type="checkbox"/> Trees
<input type="checkbox"/> Landscaping/flowers	<input type="checkbox"/> Signage	<input type="checkbox"/> Ball washers
<input type="checkbox"/> Benches	<input type="checkbox"/> Water coolers	<input type="checkbox"/> Trash receptacles
<input type="checkbox"/> Roping	<input type="checkbox"/> Railroad tie curbing	<input type="checkbox"/> Markers
<input type="checkbox"/> Flags/sticks	<input type="checkbox"/> Bunker rakes	<input type="checkbox"/> Yardage markers

Completing the analysis of the golf course improvements includes identifying any recent major maintenance procedures or planned capital expenditures, along with noting the weather during the site visit and immediately preceding it. It is then incumbent upon the analyst to observe the condition of the golf course from the visit. If the appraiser/analyst is not a golfer, many observations about the quality or condition of a golf course would be enhanced by having an experienced golfer, or better yet a golf operator, along for the site visit. To a non-golfer, most golf courses appear attractive as compared to parks, hiking trails, ball fields, or other recreational sites. The golfer or operator will be able to observe in greater detail the elements that make a golf course desirable and contribute to the level of its success, such as the quality of the playing surfaces, bunker sand depth, and tree management to avoid intrusion on intended lines of play, among other conditions. Some of the observations one may want to make are listed in Exhibit 4.26. A form for recording property and playing conditions is shown in Exhibit 4.27.

Making observations can be difficult during the off-season, as conditions will differ and maintenance practice will be less, normally

with a reduced staff and program. One of the best resources for evaluating the condition of the golf course is the age of its components. The American Society of Golf Course Architects publishes handy estimates of the expected lives of major golf course components, as shown in Exhibit 4.28.

Exhibit 4.26 Other Observations

Recent major maintenance procedures: _____

Prone to flooding: _____

Planned capital improvements: _____

Weather on day of inspection: _____

Weather immediately prior to inspection: _____

Exhibit 4.27 Property and Playing Conditions

	Age	Excellent	Good	Average	Fair	Poor
Property condition						
Golf course	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Irrigation	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pumps	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carts	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cart paths	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Paving/parking	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clubhouse	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other buildings	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Facilities	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pool	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tennis	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Maintenance	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Equipment	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Observed playing conditions	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Greens	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tees	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fairways	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Roughs	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bunkers	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes _____						

Course Rating and Course Ranking

Two elements that cannot be overlooked (but often are) in the analysis of a golf course are course *rating* and course *ranking*. They are substantially different and serve different purposes.

A USGA Course Rating is the evaluation of the playing difficulty of a course for handicapping. The course rating is what scratch (expert) golfers are expected to score under normal course and weather conditions. It is expressed as the number of strokes taken to one decimal place (72.5) and is based on yardage and other obstacles to the extent that they affect the scoring difficulty of the scratch golfer. Part of the USGA course rating system is *slope*. The slope rating is the USGA indicator measuring the relative playing difficulty of a course for players who are not scratch golfers, compared to scratch golfers. It is computed from the difference between the Bogey Rating and the USGA Course Rating times a constant factor and is expressed as a whole number from 55 to 155. Rating and slope are used primarily as elements of the handicapping system that golfers use to create fair comparison and matches between players of varying skill levels.

Course ranking is more of a “beauty contest” for golf courses, conducted by several national golf publications whereby a panel of golfers plays and evaluates each course on a variety of criteria. The major publications that do course rankings are *Golf Digest*, *Golf*, *Golfweek*, and *Links*. Each publication utilizes a panel of golfers, golf industry professionals,



Exhibit 4.28 Expected Life Cycles of Golf Course Items

HOW LONG SHOULD PARTS OF THE GOLF COURSE LAST?

No two golf courses are alike except for one thing: deferring replacement of key items can lead to greater expense in the future, as well as a drop in conditioning and player enjoyment. The following information represents a realistic timeline for each item’s longevity.

Component life spans can vary depending upon location of the golf course, quality of materials, original installation and past maintenance practices. The American Society of Golf Course Architects (ASGCA) encourages golf course leaders to work with an ASGCA member, superintendents and others to assess their course’s components.

ITEM	YEARS
Greens (1)	15 – 30 years
Bunker Sand	5 – 7 years
Irrigation System	10 – 30 years
Irrigation Control System	10 – 15 years
Pump Station	15 – 20 years
Cart Paths – asphalt (2)	5 – 10 years (or longer)
Cart Paths – concrete	15 – 30 years (or longer)
Practice Range Tees	5 – 10 years
Tees	15 – 20 years
Corrugated Metal Pipes	15 – 30 years
Bunker Drainage Pipes (3)	5 – 10 years
Mulch	1 – 3 years
Grass (4)	Varies

NOTES: (1) Several factors can weigh into the decision to replace greens: accumulation of layers on the surface of the original construction, the desire to convert to new grasses and response to changes in the game from an architectural standpoint (like the interaction between green speed and hole locations). (2) Assumes on-going maintenance beginning 1 - 2 years after installation. (3) Typically replaced because the sand is being changed – while the machinery is there to change sand, it’s often a good time to replace the drainage pipes as well. (4) As new grasses enter the marketplace – for example, those that are more drought and disease tolerant – replanting may be appropriate, depending upon the site.

ASGCA thanks those at the USGA Green Section, Golf Course Builders Association of America, Golf Course Superintendents Association of America and various suppliers for their assistance in compiling this information.

The materials presented on this chart have been reviewed by the following Allied Associations of Golf:



For more information, contact ASGCA at (262) 786-5960 or visit www.ASGCA.org

DATA COMPILED BY ASGCA, 126 NORTH EXECUTIVE DRIVE, SUITE 302, BROOKFIELD, WI 53005



and writers to develop and publish a variety of rankings including top 100 US, best in state, best “classic” and “modern” courses, best college courses, best resort courses, and best public access courses, among others. While these rankings are generally subjective, some of the publications (*Golfweek* and *Golf Digest*) conduct periodic educational seminars and encourage their raters to learn more about golf course design and architecture and achieve consistency as much as possible in the rankings.

Among the categories evaluated are:

- Aesthetics
- Ambience
- Basic conditioning
- Feature shaping
- Interest of greens and surrounding chipping contours
- Landscape and tree management
- Memorability
- Resistance to scoring
- Routing
- Setting and land plan
- Shot values
- Variety and memorability of par-3s
- Variety and memorability of par-4s
- Variety and memorability of par-5s
- “Walk in the park” test

Despite the subjective nature of these rankings, course owners and club members covet the recognition in many instances, and it can help a course substantially in their marketing efforts.

It should be emphasized here that course rating is exclusively related to the difficulty of the course, not necessarily the perceived quality. Neither course rating nor course ranking necessarily has a direct effect on the economics or value of a particular course, and there are many “great” courses that are highly ranked and for one reason or another economic failures. Both course ranking and course rating are metrics that some use to differentiate competition to a limited degree. However, it is unlikely that either has a significant impact on the valuation process due to the many other variables that impact a golf course’s economics, such as location, amount of competition, management, marketing, and pricing.

Distance

Among the elements sometimes considered in evaluating a golf course is distance. Through the years, golf courses have expanded and gotten longer as equipment and athletes have improved. The USGA has studied



the impact of longer distances on golf and made conclusions in their “Distance Insights Report” in 2020.

Key findings of the project include:

- There is a 100-year trend of hitting distance increases in golf, as well as a corresponding increase in the length of golf courses across the game globally. The USGA and The R&A¹⁰ believe this continuing cycle is detrimental to the game’s long-term future.
- The inherent strategic challenge presented by many golf courses can be compromised, especially when those courses have not or cannot become long enough to keep up with increases in the hitting distances of the golfers who play from their longest tees. This can lead to a risk of many courses becoming less challenging or obsolete.
- Increased hitting distance can begin to undermine the core principle that the challenge of golf is about needing to demonstrate a broad range of skills to be successful.
- If courses continue to lengthen, it is at odds with growing societal concerns about the use of water, chemicals, and other resources.
- Longer distances and courses, longer tees, and longer times to play are taking golf in the wrong direction and are not necessary for a challenging, enjoyable, and sustainable game.
- A concern has been identified that many recreational golfers are playing from longer tees than is necessary relative to their hitting distances, and, in particular, that the forward tees on many golf courses are very long for many of the golfers who play from them.

What isn’t included here is that the cost of golf is increasing as a result. This is critical for the analyst or appraiser to understand.

Clubhouses

Most golf facilities have some type of “clubhouse” facility. A *clubhouse* is defined as “a building used by a club for its activities.” Specifically, a clubhouse for a golf facility is defined as “a building at a golf course typically housing a locker room, pro shop, and restaurant.”

Clubhouses take on many different forms. At a “no-frills” daily-fee or municipal course, the clubhouse may be little more than a place to pay one’s fee, use the restroom, and possibly buy a hot dog and soda. Conversely, at a large private club the clubhouse can sometimes consist of multiple facilities with a variety of specialty areas listed as follows:

- Bag storage
- Banquet
- Bar/grille

10. The Royal & Ancient Golf Club of St. Andrews, Scotland—golf’s ruling body outside the US



- Card/meeting rooms
- Cart storage
- Dining
- Fitness
- Indoor golf hitting area
- Kitchen(s)
- Lockers
- Office/administration
- Patio/terrace
- Pro shop
- Snack area
- Spa
- Squash/racquetball
- Swimming
- Tennis

The smallest clubhouse facilities can be less than 1,000 square feet, and some at more elaborate private clubs can exceed 200,000 square feet. There is no such thing as a “typical” clubhouse, and many older clubs still utilize barns, farmhouses, or other buildings that were on the property when it was converted to a club. Clubhouses at private clubs and those at daily-fee courses are typically very different. The private club (unless it’s part of a community) will require large locker rooms, often with a place for members to “hang out” as part of their club experience. Conversely, daily-fee courses typically do not have golfers using locker facilities but may sometimes have large restaurant or food and beverage facilities to accommodate after-golf refreshment or dining or banquet facilities to accommodate golf outings and tournaments.

Some of the areas that are often unseen by members and golfers but that contribute significantly to the functionality of a clubhouse include:

- Attendants
- Boiler room
- Cold storage
- Dry storage
- Employee lounge
- Janitorial
- Laundry



Harmony Club in Ft. Collins, Colorado



A clubhouse facility at a private golf club

- Linen storage
- Mechanical rooms
- Receiving/loading area
- Secure storage for alcoholic beverages
- Service pantry
- Service transport/corridor

Of particular concern is the clubhouse that is too big. Many clubs have experienced financial distress as a result of either building or expanding clubhouses to a size where the club couldn't use the facility efficiently, but nevertheless had to incur the costs of both building and maintaining that facility. It has often been called the "church for Easter Sunday" where the clubhouse might be used only a few times per year to capacity but goes underused most of the time.

As a potentially significant revenue generator, food and beverage (F&B) facilities are a critical part of the clubhouse facility and the overall operation. Among the elements considered when evaluating a club's F&B are:

- F&B as a percentage of total operation
- Frequency of use
- Liquor license/restrictions
- Menu
- Profitability
- Seating capacity(ies)
- Target market

Since some clubs frequently host large banquets and functions, seating capacity is often an important element. Some facilities are too large, and others are unable to host the largest functions of more than 300 guests.

Of particular concern are any liquor license restrictions that may exist. In some states, private clubs have liquor licenses that either restrict or prohibit sales to non-members. Combined with the fact that there are often federal tax issues with private clubs doing more than a specified amount of revenues with non-members and non-member functions, these issues can impact the club's economics. It is incumbent upon the appraiser/analyst to understand the particulars of the liquor license, whether it is transferrable or not in a sale, and what type of license may be required. Specific clubhouse issues related to valuation are discussed further in Chapter 12.

Golf Course Maintenance Facility

A facility found at almost all golf courses and clubs is the golf course maintenance facility. These can range from old barns adapted for the use of the maintenance crew to modern, efficient buildings designed specifically for the purpose of storing and maintaining golf course maintenance



equipment, providing office space for the superintendent, housing computer systems for the irrigation and other systems, and providing locker, shower, and break space for the crew. Part of the maintenance facility ideally includes fuel tanks (preferably above ground), sand, and other supply storage and equipment wash areas. There is also often a secure chemical storage facility, and the area is ideally secured with fencing and often camouflaged from the golf course. Maintenance facilities require ample space for staff parking and sufficient land area to freely maneuver equipment and accommodate delivery vehicles. These facilities should be accessible to both local roads and all areas of the golf course to ensure efficient operations by the staff.

Environmental concerns often exist around maintenance areas resulting from the chemicals used and stored, water sources, and other impacts. Issues may persist which can render a property unmarketable if not addressed.

Of course, at many courses, the maintenance facilities are sometimes an afterthought and any number of these criteria can be overlooked, in which case there can be an economic impact on the golf course facility by hampering the efficiency of the maintenance team and adding to cost.

As part of the analysis of the maintenance facility, observing the equipment fleet and its size, age, and condition is also required to truly understand a course's level of maintenance. Equipment schedules and any leases (or summaries) are necessary to obtain. For valuation purposes, it's also important to know what equipment is leased and owned, and the terms of the leases, if applicable. An important economic element is whether a course chooses to purchase or lease maintenance equipment. Many lease smaller, less durable pieces and purchase the larger, longer lasting machines. Understanding the economic impacts of this is critical to understanding the effective maintenance costs.

Cart Storage

Since most clubs use powered (gas or electric) golf carts, a storage facility for these is typically (but not always) part of



Golf club maintenance facilities



Golf cart storage facilities



the property. This facility's location, capacity, size, and condition, as well as its infrastructure for either refueling or recharging the golf carts, is significant. The analyst will also need to know the age and condition of the carts and whether they are leased or owned. At some clubs, carts are stored underneath the clubhouse, in separate buildings, or sometimes in open-air areas with or without cover.

With many (if not most) carts being leased, as well as maintenance equipment, an understanding of these leases and their consistency with the market rate is useful.

Other Facilities

Other facilities that are typically found at clubs include:

- Cabana/snack bar
- Fitness centers
- Golf learning center
- Indoor tennis building
- On-course restroom facilities
- On-site lodging facilities/cottages
- Paddle courts and hut
- Pool equipment facility
- Pump house
- Squash and racquetball facilities
- Swimming pool
- Tennis courts and pro shop

Some of these facilities can also be profit centers, while others are essential to the operation of the club and require the same degree of attention as the golf course and clubhouse.

In 2018, renowned golf course architect Dr. Michael Hurdzan, PhD, published *Golf and Law: Golf Course Safety, Security and Risk Management*. This book highlights items like steep banks to ponds and streams, bridges, cart path design, and lightning and weather protection. The book, a result of numerous lawsuits in which Hurdzan served as an expert witness, should enlighten the appraiser to these risks that can not only invite costly lawsuits but also increase insurance and maintenance costs.

Personal Property

An important element of any golf property is the associated personal property. Golf courses and clubs typically (almost always) trade in the marketplace as going-concern businesses, which means that not only is real estate purchased and sold but both tangible and intangible personal property is usually a part of the bundle being analyzed. This adds



challenge to a golf property appraisal in those cases (such as real estate tax assessment valuations) where only the real estate is to be valued. The methods for allocating real and personal property will be discussed later, but it is critical to understand that golf properties have a substantial amount of personal property.

Included among *tangible* personal property are:

- Computer systems
- Fixtures
- Furniture
- Golf carts
- Maintenance equipment
- Kitchen equipment
- Merchandise

Among the items of *intangible* personal property are:

- Branding
- Goodwill
- History
- Leases
- Liquor license
- Maintenance agreements
- Other licenses
- Management

The value of these can represent a significant amount of the going concern and needs to be recognized and understood as part of the bundle of rights that are bought and sold as part of any golf property. Allocation of personal property value will be discussed in a later chapter.

The documents and information required to thoroughly analyze a golf facility include:

- Financial statements (three years)
- Balance sheet
- Current budget
- Membership census by zip code
- Membership documents
- Rounds analysis by zip code
- Real estate tax bills
- Deed or legal description
- Property survey/site plan
- Building floor plans
- Golf course routing map



- Prior appraisal report on property
- Cost estimates for any planned capital improvements/repairs
- Golf course maintenance plan
- Equipment schedule
- Lease summary
- Scorecard
- Insurance report

Common Errors in Golf Property Analysis

Describing and analyzing a golf course or club property is different than describing and analyzing most other properties. Not only is a golf property typically very complex, with a variety of improvements, including the golf course itself, clubhouse, maintenance facility, and other facilities, but the primary improvement (the golf course) is a living, breathing, complex and growing *system* requiring significant maintenance that is often the biggest cost item in the operating budget. Additionally, there is a substantial complement of personal property without which the golf facility cannot operate. Just about every golf course, large and small, has a full-time, on-site golf course superintendent and an extensive fleet of maintenance and other equipment.

To thoroughly understand the golf course, it is necessary not only to understand its components, but also to grasp how it is maintained. Among the items often neglected in analyzing a golf course property are:

- Adequacy of clubhouse and other facilities
- Availability of land for expansion
- Environmental impact
- Site drainage and installed drainage system
- Source, supply, quality, and storage of irrigation water
- The adequacy and condition of the cart paths
- The complexity of the irrigation system
- The design or designer of the golf course
- The physical functionality of course components (greens, tees, bunkers, fairways)
- The level of maintenance (not just the cost)
- The location and adequacy of the practice facilities
- The maintenance facilities
- The variety and characteristics of the turfgrass species used on the course
- Safety



Each of these elements contributes to the economics of the facility and must be thoroughly understood to accurately develop pro formas and value opinions.

Deferred Maintenance

Most golf courses, especially when being marketed for sale, exhibit deferred maintenance. Three of the biggest areas are (1) irrigation systems, which are often old and ready for replacement, (2) cart paths, which often experience tree root buckling, deterioration of pavement, or normal wear and tear, and (3) bunkers, which either lack effective drainage or simply aren't regularly replenished with sand. Other areas can be green shrinkage, unlevel tee boxes, and tree management, to name a few.

Golf and club buildings are also prone to wear out, with items like roofing, HVAC, flooring, and decorations being outdated. The form shown in Exhibit 4.29 can be used to list and estimate deferred maintenance:

Exhibit 4.29 Deferred Maintenance		
Area	Condition(s)	Est. Cost to Cure
Golf course	_____	\$ _____
• Irrigation	_____	\$ _____
• Bunkers	_____	\$ _____
• Greens	_____	\$ _____
• Tees	_____	\$ _____
• Cart paths	_____	\$ _____
Maintenance area	_____	\$ _____
Clubhouse	_____	\$ _____
Swimming pool	_____	\$ _____
Other buildings	_____	\$ _____
Tennis	_____	\$ _____
Other facilities	_____	\$ _____
Parking areas	_____	\$ _____
Water source	_____	\$ _____
Tree management	_____	\$ _____
Infrastructure	_____	\$ _____
Notes _____		

SWOT Analysis

SWOT Analysis is a tool that identifies the strengths, weaknesses, opportunities, and threats of an organization. Specifically, SWOT is a basic, straightforward model that assesses what an organization can and cannot do as well as its potential opportunities and threats. The method of SWOT analysis is to take the information from an environmental analysis



and separate it into internal (strengths and weaknesses) and external issues (opportunities and threats). Once this is completed, SWOT analysis determines what may assist the club in accomplishing its objectives, and what obstacles must be overcome or minimized to achieve desired results.

A SWOT analysis can be useful to the appraiser in not only identifying characteristics of the club, but also in comparing the subject to its competitive market. A SWOT analysis for appraisal approaches is shown in Exhibit 4.30. Such an analysis allows the analyst to evaluate the golf facility in an easy-to-view format.

Exhibit 4.30 Sample SWOT Analysis

ABC Golf Club			
Criteria	Strengths	Weaknesses	Criteria
Advantage of facilities?	_____	_____	Disadvantage of facilities?
Competitive advantages?	_____	_____	Competitive disadvantages?
Resources, assets, people?	_____	_____	Resources, assets, people?
Membership/customer base?	_____	_____	Membership/customer base?
Financial reserves, likely returns?	_____	_____	Financial reserves, likely returns?
Marketing—reach, distribution, awareness?	_____	_____	Marketing—outreach, distribution, awareness?
Innovative aspects?	_____	_____	Innovative aspects?
Location and geographical?	_____	_____	Location and geographical?
Price, value, quality?	_____	_____	Price, value, quality?
Awards/recognition?	_____	_____	Awards/recognition/criticisms?
Technology/communications?	_____	_____	Technology/communications?
Cultural, attitudinal, behavioral?	_____	_____	Cultural, attitudinal, behavioral?
Tools/equipment?	_____	_____	Tools/equipment?
Reputation/market perception?	_____	_____	Reputation/market perception?
Historical performance?	_____	_____	Historical performance?
Depth of market and competition?	_____	_____	Depth of market and competition?
Criteria	Opportunities	Threats	Criteria
Market developments?	_____	_____	Political effects?
Competitors' vulnerabilities?	_____	_____	Legislative effects?
Industry or lifestyle trends?	_____	_____	Environmental effects?
Technology development and innovation?	_____	_____	IT developments?
Global/market influences?	_____	_____	Competitor intentions—various?
New markets, vertical, horizontal?	_____	_____	Market demand?
Niche target markets?	_____	_____	New technologies, services, ideas?
Additions/upgrades to facilities/programs?	_____	_____	Vital contacts and partners?
Marketing?	_____	_____	Sustaining internal capabilities?
Information and research?	_____	_____	Obstacles faced?
Partnerships, agencies, distribution?	_____	_____	Insurmountable weaknesses?
	_____	_____	Property constraints?
	_____	_____	Loss of key staff?
	_____	_____	Sustainable financial backing?
	_____	_____	Economy—home, abroad?
	_____	_____	Seasonality, weather effects?
	_____	_____	Capital needs?





5 Highest and Best Use

There are two kinds of highest and best use:

1. The highest and best use of the property as if vacant (other than golf)
2. The highest and best use of the property as improved (as a golf course)

It is essential to follow the highest and best use analysis process as described in Chapter 18 of *The Appraisal of Real Estate*, 15th ed., which emphasizes the four tests and highest and best use both as vacant and as improved. The highest and best use analysis process is summarized in Exhibit 5.1. Despite

Exhibit 5.1 Eight Steps of the Highest and Best Use Analysis Process		
Step 1. Property productivity analysis	Analyze property productivity attributes (site, legal, and location) to eliminate uses and determine most probable uses	<ul style="list-style-type: none"> • Physical possibility • Legal permissibility
Step 2. Delineate the market Step 3. Demand analysis Step 4. Supply analysis Step 5. Residual demand analysis Step 6. Subject capture analysis	Perform market studies to determine the economic demand and timing for probable alternative uses Perform marketability analysis	Data required for analysis of financial feasibility
Step 7. Financial analysis of alternative uses	Complete a financial analysis of alternative land uses to determine which use has the highest residual land value	Financial feasibility
Step 8. Highest and best use conclusions	Perform highest and best use reconciliation and draw conclusions: <ul style="list-style-type: none"> • Use • Timing • Market participants <ul style="list-style-type: none"> - Users of space - Most probable buyer type 	Maximum productivity

Source: *The Appraisal of Real Estate*, 15th ed. (Chicago: Appraisal Institute, 2020), 318.

sounding like the classic as vacant/as improved scenario, highest and best use analysis for golf properties can present some unique challenges.

Marketability and Segmentation

Within the universe of golf related uses, the marketability of a golf property is often determined by its proper positioning in the marketplace. If, for instance, a club is operated in the private segment and should be converted to daily-fee, semi-private, etc., its marketability would be affected by the time and possible capital expenditures required to make the conversion. Many golf properties are improperly positioned and even if the zoning or other restrictions require use as a golf course, the highest and best use analysis is still required because with the numerous market segments, it is imperative in developing the income capitalization approach that the “most profitable business mode” concept be explored. The most profitable use may be a golf course, but which business mode (market segment) needs to be determined before the analysis can begin in earnest. In the case of golf and club properties, some private clubs are better suited for daily-fee operation and vice versa. Some clubs should be operated at different levels within a certain segment (affordable/upscale, resident/non-resident, etc.). Just because a club is operated in a certain segment doesn’t limit its analysis to that mode.

Like any property, consideration of the four tests (physically possible, legally permissible, financially feasible, and maximally productive) is required. However, if it is concluded that the highest and best use (as improved) is continued use as a golf facility, consideration of market positioning becomes prominent. With the various market segments previously discussed, of critical importance with golf properties is whether they are appropriately positioned in the marketplace. As noted earlier, the percentage of golf facilities that are operated as private clubs is declining. This issue is also important to daily-fee courses that need to understand their proper positioning in the marketplace to maximize performance. Accordingly, it is incumbent on the appraiser to notice and analyze a potentially improperly positioned club and analyze it as such, considering not only the *present* operation but the operation as it might be if put to its *golf* highest and best use, which, for instance, may be converting a private club to daily-fee or vice versa.

Alternative Use (As If Vacant)

With a significant number of golf courses and clubs in distress and many golf course properties that would simply be more economically used for alternative purposes, the consideration of repurposing a course for alternative uses is essential. Those with the luxury of legally permissible alternative uses often consider repurposing the property, especially in distress situations. In many cases, golf courses do not represent the prop-



erty's highest and best use. Depending on zoning, restrictive covenants, and other issues, golf course properties have been repurposed for the following uses, among others:

- Agricultural
- Residential development
- Commercial development
- Mixed use
- Infill
- Solar farm

In some cases, golf courses are an *interim use*, which is defined as “the use contemplated by the market participants that the subject real estate can be put to while waiting for certain subsequent factors to occur.”¹ It should be clarified that interim use is not to be confused with highest and best use. Sometimes, the club or owner will wish to continue the golf use for a variety of reasons. In some cases, the club or owner will consider the donation of a conservation easement or seek to sell development rights to generate economic benefit from relinquishing development rights. Understanding the highest and best use and the value based on that use can be of significance to the club or owner even if they plan to continue operations.

There are instances where an alternative use represents the highest and best use of a property and even though it will continue to be used as a golf or club facility, the valuation assignment calls for a value estimate based on highest and best use. If, for instance, the highest and best use is for residential development, the question may arise as to the contributory value of the building improvements. In ad valorem tax assessment cases, taxing authorities may seek to *add* the value of the building improvements (clubhouse, maintenance facility, pool and tennis buildings, etc.) to the value of the land using a cost approach. In most cases this would be improper because those buildings would have little value (if any) to the proposed subdivision. This is “consistent use theory.” If the use is restricted to a use that is not the highest and best use, then the improvements probably have significant obsolescence issues to adjust in the valuation.

In *Army-Navy Country Club v. City of Fairfax* this issue was raised when the appraiser for the taxing authority suggested that the cost of the buildings be added to the value of the land.² The court agreed with the taxpayer's appraiser, saying that “the court agrees with the Owner's experts [appraiser and developer] that the existing clubhouse consisting of 26,000 square feet and including a kitchen, a restaurant, a grill room, locker rooms, a pro shop, etc., would not be a significant amenity for

1. *The Dictionary of Real Estate Appraisal*, 7th ed. (Chicago: Appraisal Institute, 2022), 98.
2. *Army-Navy Country Club v. City of Fairfax (VA) – Case No. CL-2010-18136*.



any residential community that might be developed on the Property.” While this is only one example, and there may be exceptions, it stands to reason that the impact on lot yield, combined with the cost of operation and upkeep, would be unlikely at best to fit with a developer’s plans for most subdivisions. That said, it is acknowledged that some communities that don’t have golf courses do in fact have clubhouses and even pool facilities, but they are often much smaller and have more limited facilities.

Another wrinkle in the highest and best use exercise for golf properties is the potential for *partial* redevelopment, whereby portions of the property may be repurposed and the balance maintained for golf. This might occur when a course has 18 or more holes and chooses to close nine holes, leaving the balance for development and the remaining holes for continued operation. Zoning, open space, golf course economics, and local politics can impact this decision, and all warrant consideration by the analyst.

An issue often encountered, especially with golf courses that are amenities to developments, are restrictive covenants. The golf course might represent open space for the community; even though it may not be performing, it might be required to continue operation as a golf course or at the very least be restricted from any future development.

One prominent consideration of golf facilities with alternative use potential is preserving the golf course through the placement of a conservation easement. This will be discussed more thoroughly in a later chapter but given the significance of highest and best use in these cases, it should be acknowledged here. Some golf properties can accommodate supplemental uses on site while minimally disturbing the golf course.

As golf profitability becomes an ever-growing challenge, operators are seeking to expand revenue sources by using real estate assets more efficiently. At some courses, facilities are used for cross-country skiing and other winter activities. Many clubs have fireworks or drive-in movies, and it wouldn’t be hard to imagine golf courses setting aside safe areas for walking, hiking, mountain biking, and other activities. If fees could be generated from these uses, it would enhance the bottom line of some courses and provide potential additional revenues to the food and beverage and other departments.

Iconic Clubs

Some clubs are considered to be “iconic.” This raises the question of whether the iconic value might alter the conclusion of highest and best use. This is a difficult question since the iconic economic value may be either immeasurable or insignificant.

In the golf world, particularly with respect to golf courses, the term *iconic* has been used to describe courses and clubs that have held major championships, been designed by signature architects, or have a signif-



icant place in golf history. Of relevance here is what constitutes a club as being iconic and whether the application or consideration of such status translates into additional monetary value to the club.

Measuring this value can employ a lower capitalization or discount rate or adjusted unit of comparison (such as gross income multiplier) to reflect any value from its iconic status. However, this is very subjective and would require considerable logical support.

Definition of iconic

1. of, relating to, or having the characteristics of an icon
 2. a. widely recognized and well-established an *iconic* brand name
b. widely known and acknowledged especially for distinctive excellence
- an *iconic* writer
a region's *iconic* wines³

3. Merriam-Webster, www.merriam-webster.com.





6

Marketability

Since the purpose of most appraisals is to estimate the market value of a property, it stands to reason that there is the presumption of a sale involving the subject property. As used in this discussion, “marketability” means the level of attraction a specific golf course property has to the marketplace and how broad its appeal might be in the asset buy-sell market. The buyers and sellers of golf course properties typically come from one of the groups described as follows.

Sellers

Subdivision Developers

Developers often use the golf course as a focal point for a community and offer golf as an amenity to increase prices and speed up absorption. These developers often sell to experienced golf course management firms or member groups.

Municipal Agencies

While normally leased or managed by outside interests, municipalities often hire private contractors to develop, build, and manage their golf courses but retain control of valuable open space for recreational use.

Family Owners

Many golf courses serve as family businesses. Sometimes these have been owned for an extended period and now have no member of the family interested in the business. Reasons for sale could include retirement, divorce, or profit from sale.

Investor-Owners

Like any other investor, those who acquire golf properties seek positive cash flow and hope to sell for profit or alternative use of funds at the end of the holding period.

Owners in Distress

Distressed owners who used the golf course for a development but were unfamiliar with its operation are often motivated sellers. The course could be overimproved or need substantial renovations. Sometimes, the seller will incur a loss to facilitate a sale.

Private Clubs

Some private clubs involve a developer who has completed a proximate development and will sell to the members upon the sale of a designated number of memberships. Often, there is no distressed position because the developer has charged membership entrance fees and dues to cover his losses. Many member-owned private clubs being sold are the result of membership determining that professionals can be more successful at running the club, often preserving the life of the club. In these instances, the sellers are the members themselves.

Buyers

Investors

Investor buyers are cash flow- and growth-motivated and typically purchase based on historical or expected cash flow from operations and expected appreciation from the market or improved management. Purchasers in this category care little about property prestige.

Private Club Members

In some cases, a limited group of members will purchase a club from the owners and set up a foundation or for-profit entity to own and operate the club. In these cases, economics are secondary with zero cash flow normally (but not always) the goal. Location relative to the members' places of business or homes, prestige, and local recognition are typically prime motivators for this category of purchasers, along with the desire to perpetuate the operation of the club. In these instances, members will often be well-advised and shrewd enough to purchase their club at a price representative of market value.

Foreign Investors

Foreign investors were very prominent in the 1980s with respect to “trophy” properties. Primarily, these investors were from Japan, where golf is popular and courses are sparse. With the decline of the yen in recent



years, this trend has waned considerably and Japanese investors are now paying competitive prices for golf properties.

Professional Golf Management Companies

Professional golf management companies normally have motives similar to investors but with a higher level of management expertise, more sophisticated market knowledge, and often substantial equity funds to invest, either through their own in-house resources or investment funds becoming prominent in the industry. This type of purchaser has been very prominent lately, with several large companies often competing for some properties. Some of the larger companies in this category include Invited (formerly ClubCorp), Heritage Golf Group, Kemper Sports, ARCIS Capital, and Concert Capital.

Municipalities

On some occasions, municipalities will purchase golf courses to keep them from being developed and to preserve community recreational opportunities.

Hobbyists

Because of the wide appeal and allure of the game of golf, many enthusiasts with sufficient wherewithal to do so have either developed or purchased golf properties as much from personal desire as from an economic opportunity perspective. These “hobbyists” have had a profound impact on the market and in some cases drove sale prices/values higher than they might have otherwise been. Fewer of these buyers exist today, but they remain a factor.

The identification of the most likely buyer or type of buyer for a given property can impact its valuation and its highest and best use. How adaptable a club is to potential repositioning in the market and its operating history impacts which sector the likely purchaser will come from. There are buyers that focus only on private clubs, some that have minimum revenue thresholds, and some that have specific demographic requirements. Understanding how a club fits into these segments and from where a buyer might emerge is critical to accurately evaluating how it might be marketed.

Additionally, it is essential to identify which or whose interest is being valued. Not only are there sometimes leased fee and leasehold interests to be considered, but with private clubs in particular there can be membership interests that depending on the intended use of the analysis or the nature of the prospective purchaser may be appropriate to include in the analysis.





Marketing Golf Properties

Like many other areas in real estate, the marketing of golf properties is often handled by specialists. These specialists can reach not only the golf industry universe of buyers but also can access those buyers who may represent the hobbyists, local investors, or even land developers if that is the future of the property. Understanding how a golf property sale occurs, how much time it takes, and the breadth of the market is often helpful in selecting the proper market segment, determining highest and best use (as improved), and ultimately applying the approaches to value. Understanding how golf properties are marketed can also be very helpful in compiling accurate and current market data.

Much of the marketing of golf properties is done electronically, typically with emails and listing offerings on golf industry websites like the National Golf Course Owners Association (NGCOA) “Golf Market” website, Real Capital Markets, LoopNet, and others. There are about a dozen well-known brokerage firms around the US that focus on marketing golf properties.

Since there are several types of buyers in the marketplace, it stands to reason that part of successfully marketing a golf property involves a determination of what the typical buyer may look like. There are buyers who focus exclusively on private clubs, some who prefer resorts, and those who only consider affordable daily-fee properties in certain markets. Some buyers seek a minimum of gross revenue and others look only at properties in a certain geographical region. It is important to market a property within its submarket and to ensure that it receives exposure to as many segments of the market as possible.

Some buyers might require the following for a potential acquisition:

- Location in or near a primary metropolitan market
- Positive historical cash flow

- Acceptable debt level
- No litigation, unpaid taxes, or catastrophic claims pending
- Limited deferred maintenance

To understand the dynamics of golf property valuation, it is important to understand how golf properties are marketed, purchased, and sold. There is an active market for the trading of golf course properties. In addition to many multi-course management firms, some with specialties in private clubs, affordable daily-fee courses, or resorts, there are numerous investors who seek golf property acquisitions, sometimes even as a hobby. As previously mentioned, there are brokers around the nation who specialize in the marketing of golf course properties. The assertion that has come from some courts and others that golf courses rarely sell is inaccurate.

Golf properties are marketed much like any other investment properties, largely online and with the standard procedures using confidentiality agreements before authorizing access to “deal rooms” where offering memoranda and other due diligence information can be accessed.

Once a buyer is identified, most transactions begin with a letter of intent (LOI) and then proceed to a contract. There is ordinarily a due diligence period of 30 to 60 days, during which the purchaser compiles information and studies all aspects of the property to ensure that the asset is accurately represented. Once this period is completed, closing can occur shortly thereafter. Many transactions occur without financing contingencies, as most sellers prefer to avoid them. However, in some markets, especially the “mom & pop” facilities, seller financing is often an element that enhances property marketability or simply makes it possible to sell.

A guide published by the NGCOA entitled *How to Buy and Sell a Golf Course*¹ offers insight on the complex due diligence process, including the following items:

- Advance preparation checklist
- Market analysis
- Appraisal and valuation
- How buyers determine value
- Employment
- Accelerated sale process
- Frequently asked questions
- Purchase and sale agreements
- Closing issues and problems

Unlike most investment properties for which due diligence includes a title examination, physical inspection, systems, and leases, a golf prop-

1. *How to Buy and Sell a Golf Course* (Charleston: NGCOA, 2009).



erty is more complex. As a living, breathing asset, there is the condition of turf, drainage, equipment, irrigation system, and water storage and, if private, issues relating to membership and any potential refund liability. A due diligence checklist is included later in this chapter.

Typically, the due diligence process will start with access to financial operating information after execution of a confidentiality agreement and then progress to a site visit and offer through an LOI. Once accepted, the parties will develop a purchase and sale agreement and the due diligence period will start and typically be defined as anywhere from 30 to 90 days.

For desirable properties, financing contingencies are the exception, mainly because financing golf properties can be challenging. Commercial banks avoid (not completely) golf property loans, and the secondary market golf specialty lenders that existed before 2000 are largely no longer in the business, with few exceptions. Golf course loans that are available typically range from a maximum of 50% to 70% of value with interest rates typically higher than those available for other commercial properties. Terms are typically no longer than five to 10 years with maximum 20-year amortizations.

A method of marketing golf properties that is gaining favor is what is known as the *accelerated sale process*.² This is effectively an auction process, which employs one of the various types of auctions (reserve, absolute, sealed bid, hybrid, or call for offers) and can compress the time frame for selling a golf property.

While sometimes the sale of a golf property can take up to a year or more from listing to closing, whether with auction or not, some transactions can get to closing in 120 days or less. This can depend on pricing, property condition, market dynamics, and potential terms.

Due Diligence Checklists for Golf Properties

The following checklists for sellers of golf properties were adapted from the 2009 National Golf Course Owners Association book *How to Buy and Sell a Golf Course*. Contributors to this book include Randy Addison, Hilda W. Allen, Robyn Nordin Stowell, and Van Tengberg.

2. Hilda W. Allen, "Accelerated Sale Process," in *How to Buy and Sell a Golf Course*.

Financial Information

A potential buyer's first analysis of your business will likely be numbers-driven. The buyer will evaluate income and expense in gross, by categories, by trends, etc. Therefore, the buyer will immediately ask for detailed financial information. Depending on your operation, that list might include the following. Evaluate your operation and decide if there is additional important financial information that you should have organized and available.

- 1. Three years of actual financials (with detail and balance sheets)
- 2. The current year's budget with year-to-date actuals
- 3. The next three years' budget
- 4. The last three years' tax returns
- 5. Real estate tax bills
- 6. Rounds summaries
- 7. Membership statistics and summaries
- 8. Membership documents
- 9. Property tax records
- 10. Fixed assets lists
- 11. Depreciation schedules
- 12. Insurance policies/coverage
 - (a) Summary of coverage
 - (b) Policies
- 13. Appraisals
- 14. Golf course maintenance plan
- 15. Cost estimates for any planned capital improvements or repairs

Contract and Leases

The buyer will immediately review your existing contracts to determine which can and which must be assumed by the buyer. When the leases expire and whether the buyer can negotiate more favorable terms with the lessors will factor into the buyer's analysis and the purchase price. There may be some contracts you will require the buyer to assume, and you need to have your list of deal points prepared before negotiations begin.

- 1. Loan documentation
 - (a) Balance
 - (b) Lender
 - (c) Assumable?
- 2. Equipment
 - (a) Golf carts
 - (b) Maintenance equipment
 - (c) Cars, trucks, and trailers
- 3. Facilities
 - (a) Maintenance
 - (b) Office equipment
 - (c) Operations
 - (d) Consultants
 - (e) Security
 - (f) Computers and software
 - (g) Janitorial

Employment

Generally, the buyer wants to know who the employees are and what the general terms of their employment are. Transactions are often structured so that employees are terminated at closing and hired by the buyer, but the buyer nonetheless will want to know employees' expectations (prior salary and benefits), etc.

- 1. Employee contracts
- 2. Employee handbook
- 3. Employee list
- 4. Benefit programs/information
 - (a) Plan administration
 - (b) Insurance
 - (c) Retirement
- 5. Payroll records

Licenses and Permits

The buyer will want to know that you have current licenses and permits for all of your operations. The buyer will also be investigating whether they can assume your licenses and permits or if they will need to apply for new ones. You should add any additional license and permits not listed here that apply to your facility—for example, many facilities do not have childcare or spas, but might have licenses related to catering or fireworks displays.

- 1. Facilities
 - (a) Elevator
 - (b) Chemical applications
 - (c) Pesticides
 - (d) Fire extinguishers
 - (e) Health permits (locker room and restaurants)
 - (f) Certificates of occupancy
- 2. Spa
 - (a) Manicure
 - (b) Facialist
 - (c) Operator
 - (d) Massage
- 3. Operations
 - (a) Liquor license
 - (b) Catering license
 - (c) Childcare facilities license
 - (d) Use and sales tax permit
 - (e) Water permits



Facilities Information

The buyer will investigate your sources and uses of water, whether there are potential environmental issues, the condition of the assets, etc. You may elect not to provide all of this information and to require the buyer to obtain their own inspection, but it will help you and your advisors evaluate options if you have the existing material assembled.

- 1. Water information
 - (a) Evidence of water rights
 - (b) Evidence of historic use
 - (c) Back-up water plan
- 2. Environmental information
 - (a) Copies of existing environmental documentation, state filings, reports, correspondence, and Phase I ESAs.
 - (b) All soil reports, engineering tests, environmental hazardous substances and geotechnical reports, and similar reports and all correspondence relating thereto
 - (c) Details on existing dump sites, wetlands, endangered species, and sewer treatment ponds or any other contaminated ponds or wetlands
 - (d) List and description of environmental permits and authorizations
 - (e) Descriptions of hazardous substance treatment, storage, transportation, and discharge policies and any compliance issues
- 3. Title insurance policy
 - (a) Deed/legal description
- 4. As-built drawings
 - (a) Buildings
 - (b) Golf course
 - (c) Irrigation
 - (d) Swimming pool
 - (e) Tennis courts
 - (f) Other facilities
- 5. Inspection reports
 - (a) Americans with Disabilities Act audit
 - (b) Reserves report
 - (c) Termite inspection
 - (d) Fire marshall inspection
- 6. American Land Title Association (ALTA) survey
- 7. Site plan
- 8. Scorecards
- 9. Aerial photographs



Programs and Promotions

You will need to make an immediate disclosure to the buyer if you participate in any reciprocal or prepaid programs that will impact their financial projections. In addition, the buyer will evaluate your marketing programs as they develop their business plan.

- 1. Description of program
- 2. Marketing materials
- 3. Outstanding loyalty card balances
- 4. Outstanding gift certificate balances

Contact Information

For convenient reference and to provide ready access to your advisors, you should have information on all of your advisors assembled.

- 1. Accountant
- 2. Attorney
- 3. Benefits representative
- 4. Banks and financial institutions
- 5. Consultant/appraiser
- 6. Insurance agent

Frequently Asked Questions

The golf marketplace is a “buyer’s market,” and the prospective buyer will be at an advantage. Astute buyers are asking these following 10 questions:

1. **Equipment:** What is the condition of the golf course equipment and the FF&E (furniture, fixtures, and equipment)?
2. **Water:** What is the source of water for the golf course and the recent cost for water?
Is there a recent water analysis available to review? What are the water rights and value placed on the water rights?
3. **Competition:** What are the current green fees and how does this compare to the competition? Research the average green fee in the marketplace.
4. **Trends:** What are the trends in the past three years of operating history, whether positive or negative?
5. **Deferred maintenance:** What are the deferred maintenance for the golf course and facilities?
6. **Capital improvements:** What capital improvements have been made in the past 12 months?
7. **Special events:** What potential exists for increasing special events for increased revenue?
8. **Developable land:** What excess land is available for future development?
9. **Development agreement:** What agreements exist between the golf course and surrounding community? Does the development of the golf course propose any restrictions?
10. **Demographics:** What are the area demographics for golfers in the community? Has a golf market analysis been completed, and is it available for review?

Although the following questions are not asked frequently, they may be asked by prospective buyers.

1. **What are the golfers saying about the golf course, customer service, and amenities?**
It is surprising how many prospective buyers arrange a tour of the golf course and facilities and do not play the course, observe the staff, speak with the golfers, or read the online comments about the course.
2. **What is the condition of the fuel storage and chemical storage areas? Are they in compliance with governmental agencies?**
The professionals hired during the due diligence will bring a keen eye to this question as they review the records, talk to the agencies, and inspect the property.
3. **What are the current cultural practices on the golf course, such as aerification?**
Basic cultural practices such as periodic aerification of the greens will improve the soil aeration, coupled with top dressing the greens.
4. **Is the current debt load assumable?**
Due to the credit market conditions and disruption, volatility, and deterioration of the credit markets, it is worth exploring with the current lender of the property the benefit of assuming the mortgage loan. This can accelerate the closing time frame and even potentially save the buyer money. Many of the loads for golf courses are funded by local commercial banks that have a stake in the community. Approaching the current lender can be an option for the buyer.
5. **Will the current owner provide seller financing?**
In today’s economy, securing financing to purchase a golf course has become a full-time job, and there is no guarantee all the hard work will pay off in the end. The seller of the property is another source of financing, and the terms can be as flexible as the buyer and seller need them to be.



Closing Checklist

Purchase of ABC Golf Club by Acquisition Entity, L.P.

Closing: December 31, _____

Seller: _____

Purchaser: _____

Facility: _____

Closing date: _____

Purchase price: _____

Counsel for seller: _____

Counsel for purchaser: _____

Document	Responsible Party	Status
A. Operative Documents		
1. Purchase and sale agreement	_____	_____
a. List of contracts	_____	_____
b. Seller's non-foreign status affidavit form	_____	_____
c. Member notice form	_____	_____
d. Description of names, trade names, and logos	_____	_____
e. Club membership representations	_____	_____
f. Membership list (updated at closing)	_____	_____
g. Deed form	_____	_____
h. Assignment of bonds, warranties, and guaranties form	_____	_____
i. Assignment of contracts form	_____	_____
j. Assignment of licenses and permits form	_____	_____
k. Assignment of water rights and permits form	_____	_____
l. Bill of sale form	_____	_____
m. Seller's bringdown certificate form	_____	_____
n. Purchaser's bringdown certificate form	_____	_____
o. List of existing personal property conditions	_____	_____
p. List of licenses and permits	_____	_____
q. Real property legal description	_____	_____
r. List of tangible personal property	_____	_____
s. Opinion of seller's counsel form	_____	_____
t. Opinion of purchaser's counsel form	_____	_____
u. Updated inventory (updated at closing)	_____	_____
v. List of waste disposal activities	_____	_____
2. Deed	_____	_____
3. Quitclaim deed	_____	_____
4. Assignment of contracts	_____	_____
5. Bill of sale	_____	_____
6. Assignment of bonds, warranties, and guaranties	_____	_____
7. Assignment of licenses and permits	_____	_____
8. Assignment of water rights and permits	_____	_____
9. Seller's bringdown certificate	_____	_____
10. Opinion of seller's counsel	_____	_____



Document	Responsible Party	Status
11. Seller's non-foreign status affidavit	_____	_____
12. Purchaser's bringdown certificate	_____	_____
13. Opinion of purchaser's counsel	_____	_____
14. Notice to members	_____	_____
15. Required state, county, and municipal transfer declarations, if any	_____	_____
16. Approved contracts	_____	_____
17. Letters to parties under approved contracts	_____	_____
18. Termination of all contracts other than approved contracts	_____	_____
19. ALTA statement or other affidavit	_____	_____
20. Assignment of marks (if applicable)	_____	_____
21. Assignment of accounts receivable (if applicable)	_____	_____
22. Transfer of domain/website (if applicable)	_____	_____
B. Transfer of Liquor License	_____	_____
1. Liquor escrow	_____	_____
2. Liquor purchase price	_____	_____
3. Transfer of liquor license	_____	_____
4. Notice of intended transfer	_____	_____
5. Notice of intention to engage in the sale of alcoholic beverages	_____	_____
6. Temporary liquor license	_____	_____
C. Organization Documents of Seller: Seller	_____	_____
1. Certificate of legal existence and good standing	_____	_____
2. Incumbency certificate	_____	_____
3. Corporate resolutions authorizing sale	_____	_____
D. Organization Documents of Purchaser: DMAE	_____	_____
1. Certificate of legal existence and good standing	_____	_____
2. Incumbency certificate	_____	_____
3. Corporate resolutions authorizing purchase	_____	_____
E. Miscellaneous	_____	_____
1. Instruction letter to title insurance company (i) confirming wiring instructions, and (ii) arranging for recording/filing of documents	_____	_____
2. Final owner's title policy commitment	_____	_____
3. Final ALTA survey	_____	_____
4. Final settlement statement/final prorations	_____	_____
5. Cash portion of purchase price	_____	_____
6. Replacement of credit card plates	_____	_____
7. Insurance certificates	_____	_____
8. Sales tax clearance certificate	_____	_____
9. Consents to assignment of contracts	_____	_____
10. Loan documents	_____	_____



F. POST-CLOSING

1. Delivery of final title insurance policies
2. Copies of recorded documents
3. Closing binders

_____	_____
_____	_____
_____	_____

Employment Checklist

Employees

A potential buyer will want to learn as much as possible about the employees of the target business. The buyer needs to understand the amount and type of manpower needed to run the business and the payroll costs required on an ongoing basis. Such information also helps the buyer assess minimum wage and overtime. In a stock sale, the buyer will use the information gathered to determine whether any of the existing employees will be terminated after the sale. In an asset purchase, the buyer will use the information to determine which employees to extend an offer of employment to.

- 1. Listing of all employees, giving names, citizenship, date hired, employee number, rate of pay, position, classification as exempt or non-exempt under the Fair Labor Standards Act, location, current fiscal year-to-date compensation and prior fiscal year compensation, including any incentive or bonus compensation
- 2. List of active employees and employees not currently working who have reemployment rights (e.g., employees on military leave, medical leave, family leave, pregnancy leave, or employee layoff with recall rights)
- 3. List of all temporary personnel, casual personnel, contract personnel, or independent contractors giving name, position, and the actual and budgeted compensation for the current fiscal year
- 4. Copies of unemployment history for the last three years

Employment Discrimination Compliance

The buyer needs to be aware of any existing employment claims, along with the target's history of such claims. In a stock sale, unless excepted, the buyer will be responsible for any existing claims and therefore needs to understand the potential liability. However, such information is critical even with respect to an asset purchase. For example, a large number of claims may signify that the target had poor human resources management or that the buyer can expect additional claims to arise after the sale.

- 1. Copies of Equal Employment Opportunity reports for the preceeding three years
- 2. Copies of the most recent affirmative action plan, if applicable
- 3. List of all employee terminations within the last 12 months, including name, employee number, age, race, sex, position, date of termination, and reason for termination
- 4. List of any discrimination/employee complaints against the company within the last three years
- 5. List of any outstanding discrimination/employee complaints

Employee Relations

The buyer will need to review the information listed in this section to determine whether the target has established an at-will relationship with its employees. The buyer also needs to be aware of and carefully review any individual employment contracts or arrangements with employees that are other than at-will.

- 1. Employment policies and contracts
 - (a) Copy of human resources policy manual, employee handbook or booklet, miscellaneous personnel policies, or any other similar documents that describe policies or programs applicable to employees
 - (b) Organizational charts and copies of positions or job descriptions
 - (c) Sample employment application, sample offer letter outlining the terms and conditions of employment or, if a standard offer letter is not used, copies of individual offer letters setting forth the terms and conditions of employment
 - (d) Any individual employment contracts



- ❑ 2. Other agreements, arrangements, and contracts
 - (a) Brief description of all consulting and management agreements, arrangements, or understandings to which the company is a party and, if they are in writing, copies thereof
 - (b) Copies of all indemnification contracts or arrangements insuring or indemnifying any director, officer, employee, or agent against liability incurred in such capacity
 - (c) Copies of all confidentiality, non-compete, or non-solicitation agreements with employees or independent contractors

Compensation and Benefits

The buyer will want to understand the compensation arrangements with the employees, and the different benefit programs offered to employees. The details of any deferred compensation arrangements are particularly critical, as the failure to comply with the IRS regulations governing deferred compensation can create potential liability for improper withholding or claims from employees for adverse tax consequences. The information obtained will provide important reference points as the buyer establishes future compensation and benefit programs.

Compensation

- ❑ 1. Analysis of employee headcount, by department, and approximate total wage or salary cost of each department at the most recent interim date and at the last two fiscal year-end dates
- ❑ 2. Brief description of any annual salary review/wage raise cycle policy (performance review)
- ❑ 3. Brief description of policies regarding bonuses and incentives
- ❑ 4. Description of all deferred compensation programs affecting officers, directors, or employees of the company. State the amount accrued and/or paid during the most recent fiscal year under such programs and amounts of accruals thereunder through a recent date
- ❑ 5. Access to, and copies as requested of, all performance bonus plans, deferred compensation plans, and incentive compensation plans adopted by the board of directors of the company and each subsidiary during the past five years

Employee Benefits

- ❑ 1. Copies of summary plan descriptions and plan documents and copies of all employee benefit plans, including health and medical plans, group life insurance plans, cafeteria plans or other such medical reimbursement plans, supplemental unemployment benefit plans, disability plans, defined benefit or defined contribution retirement plans, salary continuation plans, and any other benefit plans or programs provided to employees
- ❑ 2. Copies of any insurance contracts pursuant to which welfare or other benefits are provided to employees; copies of any contracts with individuals or entities that administer benefit plans of target, i.e., third-party administrator (TPA) contracts
- ❑ 3. Copy and/or description of any severance program or plan
- ❑ 4. Summary of employee sharing, premiums, or cost for benefits in the last fiscal year and current fiscal year-to-date
- ❑ 5. Identification of any accrued but unpaid amounts due to any benefit plan
- ❑ 6. Identification of any audits of the target's benefit plans by federal or state authorities; identification of any administrative claims or litigation against or related to the benefit plans
- ❑ 7. Copies of Form 5500s for the past three years for all welfare and pension plans



Immigration

Review of immigration documentation is critical, particularly in a stock sale, or where the buyer is a “successor-in-interest” for purposes of immigration compliance and intends to rely on the target’s existing immigration documentation.

- ❑ 1. I-9 Compliance/audit
 - (a) Copies of the facility’s I-9s or other immigration compliance documents
 - (b) Determination of whether the facility has completed I-9s for all current employees and for all former employees who were hired within the past three years or terminated within the past year
 - (c) Determination of whether the I-9s are factually valid and whether supporting documentation is still valid (i.e., has not expired)
- ❑ 2. Non-citizen status audit
 - (a) List of all current employees who are not citizens of the US
 - (b) Copies of employment eligibility documentation for each non-citizen (i.e., valid and unexpired visas, green cards, etc.)
 - (c) Determination of whether any visa holders have been terminated before the expiration of their visas and if so, whether the facility has notified the US Citizenship and Immigration Services and paid any required return transportation costs
- ❑ 3. “No-match” letters
 - (a) Copies of any “no-match” letters regarding any current employee
 - (b) Determination of what steps the facility has taken to resolve no-match situations
- ❑ 4. State law compliance
 - (a) Determine whether the facility is in compliance with all state immigration laws
- ❑ 5. Corporate policies and future compliance
 - (a) Identify and obtain copies (where in writing) of facility’s immigration policies and procedures and determine whether such policies are in compliance with applicable laws
- ❑ 6. Discrimination
 - (a) List of any employees terminated within the past 300 days for immigration-related issues and explanation of the circumstances surrounding such terminations

Environmental, Safety, and Health

The buyer must evaluate the target’s work safety record and potential liability associated with workplace safety policies. The information in this section will also provide the buyer with the necessary information regarding the facility’s history of worker’s compensation claims.

Workplace Safety Records

- ❑ 1. Copies of the last three years of Occupational Safety and Health Administration (OSHA) Forms 101 and 200
- ❑ 2. Copies of the last three years’ experience modification rate (EMR), OSHA recordable rate, and lost workday cases
- ❑ 3. Copies of workers’ compensation insurance policies
- ❑ 4. Access to, and copies as requested of, accident/injury reports for the past five years
- ❑ 5. Identification of any investigations by state or federal occupational safety and health administration agencies; identification of any claims or complaints filed against the employer for violation of workplace safety rules and regulations
- ❑ 6. Copies of serious accident reports filed in the last 12 months
- ❑ 7. Summary and description of current and ongoing injury claims



Training

- ❑ 1. Access to, and copies as requested of, all employee training programs related to:
 - (a) Hazardous waste and chemicals handling, storage, and processing
 - (b) Environmental compliance
 - (c) Safety
- ❑ 2. Access to, and copies as requested of, all employee certifications and training records related to the above identified training

Workers' Compensation

- ❑ Description of workers' compensation coverage; copy of policy/ratings

Insurance and Self-Insurance

The buyer will want documentation of any insurance policies through which the target facility complies with unemployment and workers' compensation laws or which otherwise relate to employment or benefit issues.

- ❑ 1. Insurance policies and claims
 - (a) List of all insurance policies relating to the business, assets, or properties of the company (including directors' and officers' liability insurance), including the insurance company, policy number, term of coverage, property or risk covered, appraisal value of covered property (where appropriate), extent of coverage, deductible, annual premium, and amount of premiums that are prepared or are unpaid from prior years
 - (b) A description of all insurance claims (over \$5,000 in amount) currently pending
 - (c) Schedule of company loss experience per insurance year for the last five years
 - ❑ 2. Workers' compensation/disability insurance
 - (a) Documents representing or relating to workers' compensation or disability policies and any material claims with respect thereto
 - (b) Summary of all workers' compensation claims in the preceding 12 months
 - ❑ 3. Unemployment insurance
 - (a) A description of the manner in which the company fulfills its unemployment compensation insurance obligations in each state (i.e., insured or self-insured, etc.)
-

Financing

Since around 2000, the biggest single impact on the golf property market has been a lack of available debt financing. Prior to that point, financing was available not only through commercial banks but also through several specialty lenders. Firms like Textron Finance, Bank of America Credit, GE Capital, and GMAC all offered debt programs for golf course properties. Starting at this time, most of these firms ceased lending on golf courses and many called in loans where they could. The last of these firms, Textron, repossessed many properties, some of which they still own and manage today as they work to divest.

Commercial banks, many having experienced loan foreclosures on golf courses, were reluctant (if willing to consider at all) to lend on golf courses, and it became extremely difficult to finance golf properties. The transactions that did occur were typically all cash, and the lack of debt financing drove prices down.

In recent years, starting around 2014, debt capital has returned (in a trickle) to the market and more deals are getting done, as banks have

loosened a bit and some secondary markets exist for golf loans. This turnaround is led by a group named Leisure Financial, which employs several of the former Textron groups. As usual, interest rates are typically higher than more traditional forms of investment real estate, but there are isolated cases of lenders providing financing at rates comparable to other forms of investment real estate. When doing an analysis of any golf property, it would be prudent to research loan interest rates and loan-to-value ratios for golf specific properties.

It should be noted that with the high number of distressed golf properties and potential foreclosures, there has grown a market for the purchase of golf loan notes, typically at a discount. Additionally, many banks are willing to discount the payoffs of loans to get out of the golf business, which has gotten a negative stigma in the lending world.

As a rule, it would be safe to assume that if financing for a specific property (and borrower) were available, that available terms might approximate a 50% to 70% (tops) loan-to-value ratio, with interest rates typically a couple points higher than those of traditional investment property and with amortization of up to 20 years and sometimes terms of five to seven years. Of course, there are examples of more or less favorable loans, but something akin to that described above would be typical, and there would likely be discount points involved.

Membership Refund Liability

One element unique to the analysis of some private clubs is the membership refund liability. Some clubs were established with a membership structure that involved a refundable deposit for the right to join the club. In many cases, this arrangement carried with it a provision whereby after 30 years the member was refunded his deposit, or alternatively, if the member resigned prior to the 30-year term, would be repaid the deposit on a "4 in, 1 out" basis or some other ratio. This was done to avoid taxation for the developer on membership entry fees, which instead of being income were booked as a liability (payable). As the clubs have aged, the buyers of these clubs anticipate the payment of the refunds coming due and often negotiate a lower sale price as a result, if they will consider the club for purchase at all. Many buyers avoid refund liabilities altogether. Some buyers are accepting of the obligation, and some simply use bankruptcy or an "asset purchase" (rather than taking over the club entity) to eliminate the liability.

A major problem with these clubs is that many have converted to (lower priced) non-refundable deposits due to membership pricing having often declined and there not being funds available to pay those members awaiting refunds.

The membership refund liability is often used as a negotiating tool by buyers, especially when the face value of the potential liability is a



significant amount. Many sales of clubs have stalled or not occurred due to this liability, which can have many variables that require understanding. There are several concepts (not yet thoroughly tested) which can eliminate this liability—including bankruptcy, a buydown of the liability to a present value, and the potential for an insurance product—that have been explored, but these are new ideas for what has become a significant marketability hurdle for many clubs. There have been numerous lawsuits where members have claimed they weren't paid their refunds in accordance with documentation. With many of the 30-year programs reaching maturity in the coming years, this is likely to become an even bigger issue in private club analysis assignments.

Valuing this membership refund liability is an onerous process. The steps that need to be undertaken include:

1. Identify each member's deposit, date of deposit, and maturity date.
2. Estimate an appropriate discount rate.
3. Calculate the net present value (*NPV*) of *each* member deposit.
4. Calculate the sum of each of the deposits.

This is an arduous process that can take some time, but it does provide a logical value analysis for the membership deposit liability. Of considerable debate is estimating an appropriate discount rate for the net present value calculation of the refund liability. Despite this process, it is not uncommon for this liability to be a point of negotiation, making the present value calculation possibly moot.

Of particular interest as of the writing of the first edition of this book is the lawsuit filed by 65 members of the Trump National Golf Club in Jupiter, Florida, who claimed that the club wrongfully eliminated their rights to a refund by terminating the refund rights of members who were on the list to exit the club. The court trial for this case occurred in February 2017, and the members prevailed in a decision that ultimately resulted in a settlement requiring the club to payout \$5.45 million to the 65 members.

Disputes like this one would appear to be common in the future, as many clubs seek to alter their membership structures and refund programs in the face of falling fees and the conversion to nonrefundable fees. This is an evolving area of the marketplace that should be carefully observed. How this element is treated in the valuation process depends on a number of factors, including the amount of the potential liability, the timing of the potential liability (payouts), the desirability of the club, and external market factors.

Defining the Market and Criteria for Purchase

While this will be discussed at more length in the valuation approaches, of particular importance when marketing or appraising a golf property



is from what group the buyer may emerge and the evaluation criteria for that type of buyer.

For instance, there are active purchasers who only consider private clubs in high-density population areas with a minimum threshold of annual gross revenues. Other buyers may seek affordable daily-fee facilities with “turnaround” opportunity. Still others may seek opportunities requiring capital investment, and of course there are buyers whose criteria are based largely on historical cash flow.

Understanding this element of market segmentation allows the broker to focus on the right market and match buyers to properties and allows the appraiser to seek guidance from the segment of the market most appropriate for the subject property.

In the current market environment, most buyers rely on multiples of cash flow or gross revenues, depending on the performance of the club, in making purchase decisions. Since it is the appraiser’s charge to interpret and reflect the market, it stands to reason that these criteria should be of primary consideration to appraisers. This is true even of member-owned, not-for-profit private clubs, which when they trade, typically sell to operators who, while continuing to operate them as private clubs, operate for a profit, somewhat modifying the operating pro forma. There are numerous other units of comparison that have been employed, and each will be addressed in the discussion of the sales comparison approach in Chapter 9.





Development, Restoration, and Renovation

An understanding of the development and renovation of golf course projects is often necessary for appraisers because many assignments are related to new or renovated golf projects. If a cost approach is part of the assignment, a thorough comprehension of what is involved in either new development or renovation, restoration, or rehabilitation of a golf course is required. If the landscape is not modified or changed, then the golf course is merely *laid out*. If the terrain is modified or changed, then the course is *built*.

Furthermore, Dr. Michael Hurdzan, PhD, establishes 11 basic criteria for golf course design as follows:

- Safety
- Flexibility
- Shot value
- Fairness
- Progression
- Flow
- Balance
- Maintenance cost
- Construction planning
- Aesthetics
- Tournament qualities¹

These are characteristics of any good golf course, and each can clearly impact a course's long-term economics.

Private clubs typically have more features and better turf conditions and are more challenging. Private club members often take great pride

1. Michael J. Hurdzan, *Golf Course Architecture: Design, Construction and Renovation* (Chelsea, MI: Sleeping Bear Press, 1996).

in the quality, challenge, playing condition, and recognition of their golf courses. Most daily-fee and some municipal courses, on the other hand, have the challenge of turning a profit and thus invest less money into the construction of dramatic features and more sand bunkers, which not only cost money to develop but more to maintain. They also have fewer dollars to allocate to course maintenance. It is incumbent upon the developer of a golf course to understand who will be using it, the market segment it will occupy, and what the typical user will expect in the way of challenge, playing surfaces, and features—and what he or she is willing to pay for. While the sexy part of golf course design often focuses on national rankings, major championships, and Augusta-like manicuring, few courses can sustain that level, and the best golf course architects understand that and design accordingly, being sensitive to both development cost and golf course maintenance/sustainability.

Renovation, Restoration, and Remodeling

Much more prominent today than the development of new courses are projects where existing courses are either renovated, restored, or remodeled. Each is a different project.

A *renovation* is typically where the golf course has fallen into disrepair, may need new turf or irrigation, or maybe where trees have encroached, and green boundaries have shrunk. The golf course systems (drainage, bunkers, greens, irrigation, etc.) may have become dysfunctional and need to be either replaced or upgraded to modern systems.

A *restoration* typically involves some return to the original design and is typically associated with classic or notable courses that may have declined to the point where some features are no longer present or functional and ownership or membership desires to preserve that historical reference. Most of the time, a restoration will also include the modernization of the course to length and conditioning standards, preserving the original intent of the architect in the process.

Restorations are quite popular, with many golf course architects focusing their practice on restoring the classic designs of architects of past generations. These projects typically involve courses of prominence or courses that were designed by masters of the trade such as Donald Ross, A. W. Tillinghast, and Seth Raynor, to name a few.

A *remodeling* project is normally one where the course is determined to have features that are undesirable or where changes are required to accommodate



The Philadelphia Cricket Club in Pennsylvania



surrounding development. In many cases, remodeling can include a re-routing of the golf course and it ends up being a totally different layout with few, if any, recognizable features.

Each of these projects requires a team of professionals, including the following:

- Accountant
- Appraiser
- Banker
- Management/leadership/ ownership
- Golf course architect
- Golf course contractor
- Golf course superintendent
- Market analyst

Once the team is assembled, goals need to be established and planning commences. The analysis portion of a renovation project will need to be focused on the return on investment or contribution to the club's value. This is not always a purely mathematical exercise, because often there are intangible benefits to enhancements and upgrades that can't be measured just in terms of dollars. Sometimes, it's member satisfaction and other times it's the desire of a club to gain recognition or notoriety or host a major event. The primary goal of the renovation project has to be established in order to set a path for planning what is done and how.

If the goal of a renovation project is non-economic and there is limited likelihood that the project will significantly improve the club's financial performance, then the analysis is simple and based purely on the appetite for cost. If, on the other hand, the project is motivated by increasing play or membership or hosting weddings, bar mitzvahs, and other functions and reaping their economic benefit, the analysis becomes one focused not only on cost but also benefit. The first question to be asked is whether the project can "pay for itself." A simple example of this is a club considering the development or enhancement of practice facilities. This is one area where many clubs have a deficiency and to compete some feel that having a quality practice facility can help. An example of an economic analysis of this type of situation is shown in the following discussion, where a club considering a practice facility wanted not only to determine the cost and potential benefit, but also the "breakeven" point of such a project as it relates to the number of new members required to pay for it as well as the potential impact on each member if the project were *not* to generate any positive membership development.

Practice Facility Example

The cost of the facility in the (actual) example illustrated here was \$500,000. Depending on the term of the financing used, the cost per



member to fund the project as well as the number of members needed for breakeven (at various levels of gross revenue per member) are illustrated in Exhibit 8.1. Not included in this analysis is the cost/benefit of a learning center facility. These have become a popular addition at many clubs in the ever-competitive market for memberships and prestige, especially in the COVID/Post-COVID era as golf and club memberships are experiencing a resurgence and practice facilities are seeing higher usage.

Exhibit 8.1 Practice Range Economics—Cost				
Cost		\$500,000.00	\$500,000.00	\$500,000.00
Interest rate		7%	7%	7%
Amortization (years)		15.00	10.00	5.00
Monthly payment		\$ 4,494.14	\$ 5,805.42	\$ 9,900.60
Annual debt service		\$ 53,929.70	\$ 69,665.09	\$ 118,807.19
Additional maintenance		10,000.00	10,000.00	10,000.00
Golf balls		5,000.00	5,000.00	5,000.00
Total annual cost		\$ 68,929.70	\$ 84,665.09	\$ 133,807.19
Cost per member (annual) @	210 members	\$ 328.24	\$ 403.17	\$ 637.18
	225 members	306.35	376.29	594.70
	250 members	275.72	338.66	535.23
	275 members	250.65	307.87	486.57
	285 members	241.86	297.07	469.50
New members necessary to pay @ (with no additional expense to existing members)	\$4,000	14.54	17.68	27.51
	5,000	11.63	14.15	22.01
	6,000	9.69	11.79	18.34
	8,000	7.27	8.84	13.76
	10,000	5.81	7.07	11.00

The potential gain or impact on value is illustrated in Exhibit 8.2, which shows the annual benefit to the club at various rates of new members and annual spending per member.

In some instances, renovation projects can take several years, including planning, permitting, construction, and grow-in. At many private clubs, the planning process can take even longer because of the politics of getting the project approved by the board and then the membership. The analyst needs not only to consider the cost of the project, but most renovations also take the course out of play for a period of time, and consideration of lost revenues must be part of the analysis. Planning to minimize this downtime is a most challenging part of any project.



Exhibit 8.2 Practice Range Economics—Annual Benefit (\$500,000)				
Cost			\$68,929.70	Net Gain/Loss
New members @ total expenses	\$8,000	10	80,000.00	\$21,856.24
	8,000	15	120,000.00	61,856.24
	8,000	25	200,000.00	141,856.24
New members @ dues	\$5,500.00	10	55,000.00	(13,929.70)
	5,500.00	15	82,500.00	13,570.30
	4,500.00	25	112,500.00	43,570.30
Additional club use by current members		2%	\$1,000,000.00	\$20,000.00
		5%	1,000,000.00	50,000.00
		10%	1,000,000.00	100,000.00





Application of the Approaches to Value

In most cases, appraisers are charged with estimating *market value*, which is defined by the Uniform Standards of Professional Appraisal Practice (USPAP) as “a type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the value definition that is identified by the appraiser as applicable in an appraisal.”¹ As it relates to golf course properties, the key element of this definition is the presumption of a transfer of the property (a sale). Furthermore, the definition of market value used by federally insured financial institutions and similar to that widely used by many US courts is:

The most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.²

Many golf properties, especially some member-owned private clubs and municipal courses, are very unlikely to transfer ownership in the

1. *Uniform Standards of Professional Appraisal Practice* (USPAP), 2020-2021 ed. (Washington DC: The Appraisal Foundation, 2020), 5.

2. *The Dictionary of Real Estate Appraisal*, 7th ed., (Chicago: Appraisal Institute, 2022), 118.

foreseeable future, but the presumption that such a transfer is imminent must be made. Therefore, the concept of *value in exchange* is fundamental to the appraisal of golf courses for market value even though some clubs are unlikely to be sold in the near future due to a stable membership, restrictive covenants, or possibly an endowment that would perpetuate the current ownership of the club. Disputes on the rights being valued often arise with private clubs in situations where there may be a high membership entrance fee or if the club was costly to construct and taxing authorities seek to generate tax revenue based on those criteria. If it is market value that is sought in the appraisal assignment, the appraiser is charged with determining the likely market for the property and what the market's actions might be like.

First and foremost, the appraisal of a golf course or club is a valuation of a going concern business. Although the real estate value can be isolated, most transactions involving golf properties include not only the real property but also the tangible and intangible personal property. The allocation of this personal property will be discussed later. Since market transactions typically include items like golf carts, maintenance equipment, kitchen equipment, merchandise, inventory, and fixtures, along with intangible property like logos, name branding, and management, the application of the approaches to value will focus on the valuation of the going concern.

In Chapter 4, we discussed SWOT analysis for a property. It would stand to reason that in the introduction and discussion of the valuation process a similar SWOT analysis can be done for each of the approaches to value and their relative relevance to the development of a final value conclusion for the subject property.

As will be discussed, the income capitalization approach is clearly and typically the most widely used approach of market participants, with sales comparison not far behind. Although we'll see that the cost approach is rarely indicative of market activity, its use is sometimes required despite its usefulness often being limited. While this type of SWOT analysis will be different for each assignment, a typical example is shown in Exhibit 9.1.

Income Capitalization Approach

According to *The Appraisal of Real Estate*, "Buyers of income-producing properties usually concentrate on a property's economic characteristics and typically put more emphasis on the conclusions of the income capitalization approach."³ This is true of golf course properties, but unlike most forms of traditional investment real estate, the focus is on the club's ability to generate revenue and manage expenses, as opposed to generating rent. However, there are examples of golf courses that are leased,

3. *The Appraisal of Real Estate*, 15th ed. (Chicago: Appraisal Institute, 2020), 354.

Exhibit 9.1 SWOT Analysis of the Approaches to Value			
	Income Capitalization Approach	Sales Comparison Approach	Cost Approach
Strengths	<ul style="list-style-type: none"> • Investment analysis • Reflective of market behavior • Similar to buyer analysis 	<ul style="list-style-type: none"> • Uses market activity • Plenty of sales transactions are usually available 	<ul style="list-style-type: none"> • Can be a feasibility indicator • Courts like this approach
Weaknesses	<ul style="list-style-type: none"> • Sometimes speculative • Depends on availability of information/market data • Potential for capital needs 	<ul style="list-style-type: none"> • Data is sometimes not available on sales • Units of comparison and adjustments may be difficult to make • Sales may be widespread and not always comparable 	<ul style="list-style-type: none"> • Not reflective of market transactions and participant behavior
Opportunities	<ul style="list-style-type: none"> • Can provide a look into the future 	<ul style="list-style-type: none"> • Builds a convincing case with a large sample 	<ul style="list-style-type: none"> • Can establish a cost of replacing/reproducing the subject
Threats	<ul style="list-style-type: none"> • Subject to scrutiny about capitalization rates, operating efficiency, etc. 	<ul style="list-style-type: none"> • Using gross income multiplier when sales are at different levels of stabilization • Information may be inaccurate • Capital needs 	<ul style="list-style-type: none"> • Wildly high values • Speculative estimates of depreciation

albeit somewhat infrequently. Unlike traditional forms of investment real estate, and because golf properties trade as going concerns, revenues come not only from user fees and dues, which are akin to rent, but they also come from ancillary sources such as food and beverage (F&B), merchandise, and golf carts.

Since most sales of golf properties (including member-owned private clubs) are motivated by the potential for profit, the income capitalization approach plays a central role in the valuation process. Even if a club being appraised (private or municipal) is not-for-profit, the property rights being appraised are often impacted by different ownership structures and must be fully understood, since most not-for-profit clubs ultimately sell to for-profit buyers (when they do sell).

Revenues

Each course has utilization revenues. Private clubs generate those revenues from dues and guest fees, daily-fee facilities generate revenues from green fees, and resort and semi-private courses generate revenues from both dues and green fees. Most courses generate additional revenues from among the following sources:

- Activity fees
- Cart rentals
- Club rentals



- F&B
- Merchandise sales
- Other revenues (vending, events, social, etc.)
- Range fees

Estimating each of these revenues in a realistic and credible manner is tantamount to developing a realistic appraisal and requires that the market analysis be as thorough as possible and interpreted accurately. Combined with an objective evaluation of the subject, a realistic and credible estimate of revenues for a simple daily-fee course may look like the summary in Exhibit 9.2.

Exhibit 9.2 Sample Summary of Estimated Revenues for a Daily-Fee Course

Sample Golf Club		
Stabilized - Income/Expense Pro Forma		
6/30/2019		
Golf rounds		32,500
Members rounds	15%	4,875
Fee rounds	85%	27,625
Memberships/annual passes		135
Income		
Average green fee		\$45.25
Green fee revenue		\$1,250,031
Average membership fees		\$1,400.00
Membership revenue		\$189,000
Revenue per round		\$4.50
Pro shop revenue		\$146,250
Revenue per round		\$31.50
Food & beverage revenue		\$1,023,750
Gross revenue per round		\$80.28
Total revenue		<u>\$2,609,031</u>

The example in Exhibit 9.2 assumes golf carts are included. However, this isn't always the case, and golf carts can be a significant source of revenue. A more complex private club revenue estimate may look like the summary shown in Exhibit 9.3.

Regardless of what type of club is being analyzed, the pro formas are developed with combined consideration of both historical financial information *and* revenue information developed in the market analysis.

In the examples shown, the revenues are relatively simple and don't include a variety of other revenue sources that could be present, such as:

- Cards
- Cricket
- Interest groups



- Paddle
- Polo
- Shuffleboard
- Squash
- Swimming
- Tennis
- Wine tasting

Exhibit 9.3 Sample Summary of Estimated Revenues for a Private Club

Sample Private Club		
Stabilized - Income/Expense Pro Forma		
10/6/2021		
Golf memberships		300
Total memberships		300
Golf rounds		18,350
Rounds per golf member		61
Non-member rounds	20.0%	3,670
% of cart rounds	55.0%	10,093
Income		
Average membership dues (all members)		\$4,800
Membership revenue		\$1,440,000
Average green/guest fee		\$56.00
Initiation fees		\$40,000
Green/guest fee revenue		\$205,520
Cart fee		\$20
Cart fee revenue		\$201,850
Revenue per member		\$1,675
Pro shop revenue		\$502,500
Revenue per member		\$2,000
Food & beverage revenue		\$600,000
Revenue per member		\$75.00
Other revenue		\$22,500
Revenue per member		\$9,907.90
Total revenue		\$2,972,370

In some cases, these revenues are significant and even vital to the continued operation of the club. In each instance, it should be clarified that considerable analysis and market positioning is combined with the club's operating history to produce reliable estimates. In the case of daily-fee courses, the analysis is best done using a revenue-per-round metric. With private clubs, the more relevant metric is based on revenue per member, although some revenues (golf carts and guest fees) are estimated based on the number of rounds played.



Of particular interest in the valuation of private clubs is the treatment of membership entrance fees, which are non-recurring. Whether these should be included as attributable to the real property value in the analysis is largely dependent on the function of the appraisal and the identification of the interest being valued. There are several types of membership entrance fees, including the following:

- **Initiation fees**
Initiation fees are paid upon joining and are typically non-refundable.
- **Membership deposits**
Membership deposits are paid up front by the member and are typically refundable upon resignation. These deposits can be fully refundable after a specified period of membership (often 30 years) or upon resignation, typically on a schedule of either 4:1 or 5:1 (new members: resignations). Deposits also typically create a balance sheet liability that will be explored in detail in a later chapter.
- **Bonds**
Bonds are purchased upon joining and are redeemable under a variety of terms.
- **Equity fees**
Equity fees represent an equity interest in the club and can sometimes be sold (usually with some restrictions) by the member.

The treatment of membership entrance fees and the valuation of non-profit private clubs is a source of considerable debate in the golf property valuation space, and there are several unique approaches.

In the *Appraisal Journal* article “Challenges in the Appraisal of Private Golf Clubs,” author Martin E. Benson presumes that in the transfer of an equity club, prior members are selling not only their rights to their former property, but also their right to use that property.⁴ Should those members desire to continue using the property, they would need to rejoin the club, presumably paying a new entry fee, which would be considered in valuing the fee simple interest.

Conversely, in this author’s *Journal of Property Tax Assessment and Administration* article “Private Golf Memberships: Real or Personal Property?,” the suggestion is made that sales of memberships do not recur, that one member cannot sell the entire property, and that an equity membership interest is akin to owning stock in a company that owns a property.⁵ The value of the property is not necessarily impacted by the value of the stock, and thus the membership interest would not be included in the fee simple real property value.

4. Martin E. Benson, “Challenges in the Appraisal of Private Golf Clubs,” *The Appraisal Journal* (October 1998).

5. Laurence A. Hirsh, “Private Golf Memberships: Real or Personal Property?” *Journal of Property Tax Assessment and Administration* 4, no. 3.

Whether the highest and best use is in the daily-fee, semi-private, private, or resort segment may impact the treatment of membership entrance fees, and whether or not those fees are refundable or recoverable in some other way could also affect treatment. Some forms of membership (deposits and bonds) are typically shown as a liability on the balance sheet and reflect an obligation on the part of the club that has to be paid back to the member at some point. In the valuation of a going concern, the issue at hand is fairly simple, calling for an analysis of cash flow resulting from membership entrance fees. When seeking real property value, the question becomes whether membership entrance fees are attributable to the real estate.

There are several different types of entrance fees. Each should be considered in a going-concern analysis. There is considerable debate as to whether those revenues are attributable to real property or business value.

The critical element of this debate is understanding the property rights being valued. If in a tax assessment case the appraiser is estimating the market value of the fee simple interest in real property only, it is the position of this author that the membership interest would not be included. Much like membership in a wholesale buying club (Sam's Club, Costco, etc.), the membership interest has no impact on the value of the real estate. Furthermore, if one were to include the memberships in real property value, it is likely that a club in absorption with numerous memberships to sell might have a significantly higher value than one with a full subscription. That would almost be like saying that a development that is 50% sold out is worth more than one fully sold. It is the position of this author that membership is like a license, with such license requiring the payment of dues and fees.

Conversely, if the appraiser is valuing the going concern of a club with memberships remaining to sell, then it stands to reason that the potential purchaser is considering those membership interests that he or she can sell as potential revenue. It is unlikely that in most situations a transfer of the club would include the requirement that existing members rejoin, possibly paying a higher fee, except in the very unusual event of market conditions that would allow the new owner to demand such fees. It does happen.

There are some differences that require consideration between member-owned and investor-owned clubs. These include:

- **Membership vote**
A membership approval of usually more than a majority is typically required to sell a member-owned club.
- **Interminable rights**
When an investor-owned club has given the members interminable rights, those members have the right to continue membership.



- **Control of the club**

Operations and routine decisions transfer from the membership to the investor/owner. Often the new owner will establish a member advisory board.

There are several types of equity private clubs, which are listed below:

- **Equity 1**

An equity 1 club is one in which the member has a marketable (usually with some restrictions) ownership that can be sold individually, with the price determined either by the market or the club. In some cases memberships are sold with bonds, which are redeemable, usually with a variety of rules and conditions.

- **Equity 2**

Equity 2 clubs typically charge an initiation fee which has no marketable equity interest and is non-refundable. The only way the member would recapture any of this investment is if the club were to sell.

With equity fees, initiation fees, membership deposits, and bonds, the question of whether revenues contribute to real property value is similarly dismissed because unlike dues, for instance, the entrance fees are non-recurring and represent the fee for a license to pay use fees, which are similar to rent. In addition to the use of facilities, most private clubs offer their members social opportunities, prestige, a variety of personal services, the use of equipment (personal property), and the benefits of a professional staff. With membership deposits that are refundable, the issue of the resulting liability is an additional consideration.

Whether considered real estate or personal property, the entrance fees are a component to be considered by all purchasers. In some cases, those fees can represent either a one-time windfall to the prospective buyer or possibly a source of revenue that can reliably be depended upon each year. In other cases, membership entrance fees can be a liability to the buyer that is often considered in the offering price. How these funds are treated in the appraisal process varies from club to club, depending on the specifics of that situation.

Daily-fee facilities, on the other hand, do not typically have entrance fees. Thus, valuations of daily-fee facilities are more straightforward than valuations of private clubs because there is no need to address the various forms of membership and ownership structures that result.

Particular care must be taken to acknowledge and understand the relationship between the various revenue departments. Many courses and clubs assume that by aggressively building F&B revenues, they will enhance their bottom line and subsequent value. While to some degree it is true that F&B can enhance value, revenues that are too reliant on F&B can negatively impact a golf property's marketability. Many buyers seek ratios of \$2 in golf revenue for every \$1 of F&B (or similar) and will



discount properties with excessive proportions of F&B revenues. Private clubs often lose money in the F&B department.

It is not uncommon for revenues to be overstated for a variety of reasons. Sometimes, appraisers use published “rack rate” information for both the subject and competitive courses, and annual rounds estimates can be stated as either “18-hole equivalents” or “starts,” which may include nine-hole rounds played at a reduced rate. Many courses also offer a variety of discounted rates which, if not accounted for, can result in an overstatement of revenues.

Pro forma revenue estimates can be supported by calculating the revenue per round or member and comparing it to the subject property’s history, as well as by gathering actual revenue and rounds per member information from competing properties and analyzing those versus the subject property.

Whether historic or projected revenues are used is largely a function of the state of the market. If the market for a given property is such that there is or would be competition for the purchase, it is possible that projected revenues may be used. If there would not be considerable competition to purchase the property, it is likely that a prudent purchaser would base his or her analysis on historical revenues.

Expenses

Expenses for golf and club properties are typically broken down into one of three categories:

- Departmental costs and expenses
- Undistributed expenses
- Fixed expenses

Departmental costs and expenses typically include the following:

- **Golf course maintenance**
Golf course maintenance includes labor, supervisory staff, equipment, materials, utilities, and water.
- **Golf cart expenses**
Golf cart expenses can include the cost of leasing carts or maintaining and fueling owned carts.
- **Pro shop (labor) and pro shop cost of goods sold (COGS)**
Pro shop expenses include the salaries for all the pro shop and bag staff, attendants, rangers, starters, and professionals, as well as the cost of merchandise sold in the shop.
- **F&B expense and COGS**
F&B expenses include the cost of food and beverages, the salaries for kitchen and wait staff, and any costs for kitchen equipment and its maintenance.



Of course, more sophisticated clubs also incur expenses in departments like pool, tennis, fitness, social, and other departments.

Undistributed expenses (those not limited to a specific department) include the following:

- **General and administrative (G&A)**
The G&A category is often a repository for a variety of expenses that have no other place to go. Accordingly, reviewing the detail of this category and understanding what is included is critical to understanding the property. G&A is often where personal expenses might be “buried” or sometimes even where real estate taxes or insurance might be placed.
- **Repairs and maintenance**
The repairs and maintenance category normally applies to all areas *except* the golf course and includes items like the roof, HVAC, normal wear and tear repairs, snow plowing, cleaning, and other items.
- **Management**
While many clubs are independent or family-owned and a management fee is often not included in the financial statements, many purchasers assume the need for a management fee in their reviews. Since some courses are unlikely to have such an expense, there are those (simple facilities) where it may be appropriate not to include a management fee in the analysis.
- **Marketing**
Marketing fees would include any promotional, advertising, website, social media, or other marketing expenses. Often private clubs retain membership development consultants and marketing firms, which would be included in this expense.
- **Professional fees**
Professional fees would include legal, accounting, consulting, and other professional fees.
- **Utilities**
Utilities would include electricity, heating fuel, water/sewer, and telephone fees. It’s important to clarify whether the utilities line item includes golf course maintenance.

Fixed expenses include the following:

- **Real estate taxes**
Real estate taxes can also sometimes include personal property taxes and other municipal taxes.
- **Insurance**
Insurance typically refers to property and casualty insurance but can also include employee benefits and health insurance. Both insurance and real estate taxes are often found in the G&A category.



- **Reserves and capital improvements**

Reserves are required for the capital requirements of other one-time expenses that may occur from time to time. Capital expenses typically include items like irrigation systems, golf carts, equipment, rebuilding of greens or bunkers, or possibly a major renovation of the course or clubhouse. Because they occur sporadically, reserves are rarely included on financial statements and the appraiser is responsible for estimating an appropriate annualized expense for reserves and capital. In an annual pro forma, these are calculated as either a *sinking fund* or as a percentage of gross revenue based on an analysis of the subject property. If able to be estimated precisely, a discounted cash flow (DCF) analysis can show a year-by-year estimate of capital expenses. However, with many of the items being longer lived than the holding period, an annualized estimate based on the age and condition of the facility is advised. Many of the larger management firms have studied their own experience with multiple courses and are sometimes willing to share how they estimate this expense.

After estimating each of these expense categories, a check on estimates can be done by analyzing the operating expense ratio (*OER*) as a percentage of gross revenues. Various organizations, including the Society of Golf Appraisers (SGA), the National Golf Course Owners Association (NGCOA), the Golf Course Superintendents Association of America (GCSAA), the Professional Golfers' Association of America (PGA), and the National Club Association (NCA) collect and monitor operating information that provides benchmarks for estimating golf property operating expense information. A sample summary of operating expenses is shown in Exhibit 9.4.

Exhibit 9.4 Operating Expense Summary

Departmental expenses		
Golf maintenance (labor, materials, and equipment)		\$800,000
Golf cart expense	50 @ \$1,000	\$50,000
Pro shop COGS and expense	135.0%	\$678,375
F&B COGS and expense	90.0%	\$540,000
Undistributed expenses		
General and administrative	7.5%	\$222,928
Repairs and maintenance	2.0%	\$59,447
Management	2.0%	\$59,447
Marketing	1.0%	\$29,724
Professional fees	0.5%	\$14,862
Utilities	0.7%	\$22,000
Fixed expenses		
Real estate taxes		\$61,673
Insurance	0.5%	\$14,862
Reserves/capital improvements	2.0%	\$59,447
Total operating expenses		\$2,612,766
Expense ratio		87.9%

Net Operating Income

Net operating income (often called “cash flow”) is simply the annual gross revenue less expenses, as described, exclusive of any debt service. This is slightly different than the earnings before interest, taxes, depreciation, and amortization (EBITDA), an often-used term which rarely includes management fees (especially in smaller, family-owned courses) and reserves. This distinction is important because owners often provide EBITDA when sharing information on their facilities, while buyers typically perform their analysis including allowance for management and reserves. It is stabilized net operating income (*NOI*) which is ultimately capitalized into an indication of value. *Stabilized income* is defined for the purposes of this discussion as “an estimate of income, either current or forecasted, that presumes the property is at stabilized occupancy.”⁶ Stabilized *NOI* is defined for golf properties as the sustainable level of play or membership desired by the club.

Capitalization and Discount Rates

The overall capitalization rate (R_o) is defined by *The Dictionary of Real Estate Appraisal* as “The relationship between a single year’s net operating income expectancy and the total property price or value ($R_o = I_o/V_o$).”⁷ The development of R_o for golf courses is similar to that of other properties, but with some different considerations. Typically, capitalization rates for golf courses will exceed those of most other forms of investment real estate by 2% to 4% because golf courses are typically traded as going concern businesses and because they are considered higher risk than most forms of investment real estate. This is due to the extensive management requirement of the business (including real estate) and the weather risk, which is not typically a concern with other real estate investments. Accordingly, interest rates for debt financing will be higher and loan-to-value (LTV) ratios will be lower than for other types of property. Combined with typically higher equity return requirements, a capitalization rate used in a golf course analysis might be several percentage points higher than those used for other properties. The best illustration of this can be found through RealtyRates.com, which publishes periodic capitalization rates for a variety of property types. An example of this is shown in Exhibit 9.5.

Equity dividend rates are also higher, demonstrating the reasoning behind higher capitalization rates as shown in Exhibit 9.6. A summary of a typical band of investment is shown in Exhibit 9.7.

Capitalization rates are sometimes available from comparable sales but often vary widely due to differences in the level of stabilization of the sales used. Sources of capitalization rates are shown in Exhibit 9.8.

6. *The Dictionary of Real Estate Appraisal*, 7th ed., 180.

7. *The Dictionary of Real Estate Appraisal*, 7th ed., 137.

Exhibit 9.5 RealtyRates.com Capitalization Rate Indices**RealtyRates.com Investor Survey - 1st Quarter 2021*
Current and Historical Capitalization Rate Indices**

Year	Method-Weighted ^A Property Category Indices														Weighted Composite Indices BP									
	Apts BP		Golf BP		Healthcare Senior Housing BP		Industrial BP		Lodging BP		MH/RV Park BP		Office BP			Retail BP		Restaurant BP		Self Storage BP		Special Purpose BP		
	Rate	Chg	Rate	Chg	Rate	Chg	Rate	Chg	Rate	Chg	Rate	Chg	Rate	Chg		Rate	Chg	Rate	Chg	Rate	Chg	Rate	Chg	Rate
2020	7.50	-43	11.08	-48	8.10	-48	8.32	-40	9.40	-47	8.63	-46	8.16	-38	8.58	-35	10.81	-39	8.91	-49	10.91	-29	8.75	-14
4th Qtr	7.43	6	10.98	16	7.92	8	8.20	9	9.34	12	8.49	12	8.14	14	8.50	11	10.75	12	8.80	10	10.94	14	8.67	11
3rd Qtr	7.37	13	10.82	3	7.84	-2	8.11	-4	9.23	12	8.38	-2	8.00	19	8.39	7	10.63	8	8.70	-1	10.81	19	8.56	8
2nd Qtr	7.24	-33	10.79	-39	7.86	-42	8.15	-29	9.11	-34	8.39	-37	7.81	-37	8.32	-35	10.55	-33	8.71	-31	10.61	-26	8.48	-34
1st Qtr	7.57	-10	11.18	-14	8.28	-10	8.44	-6	9.45	-10	8.76	-8	8.18	-12	8.67	-4	10.87	-16	9.02	-17	10.88	-9	8.82	-10
2019	7.92	-50	11.56	-47	8.58	-44	8.72	-47	9.86	-66	9.08	-48	8.54	-50	8.93	-45	11.20	-37	9.40	-46	11.20	-45	9.15	-49
2018	8.42	26	12.02	30	9.01	14	9.19	23	10.53	25	9.56	30	9.04	10	9.38	20	11.57	15	9.86	29	11.64	40	9.64	22
2017	8.16	4	11.73	-2	8.87	-6	8.96	-12	10.28	5	9.26	11	8.94	-22	9.19	-8	11.42	-15	9.57	-9	11.25	4	9.42	-6
2016	8.13	-2	11.75	6	8.92	12	9.08	15	10.22	0	9.15	15	9.16	16	9.27	12	11.57	-10	9.67	14	11.21	10	9.48	9
2015	8.15	-9	11.69	-14	8.80	-9	8.93	-10	10.22	-20	8.99	-18	9.00	-6	9.15	-11	11.66	-13	9.52	-22	11.11	-12	9.40	-12
2014	8.24	-15	11.83	-9	8.89	-1	9.03	-4	10.43	-17	9.17	-5	9.06	-22	9.26	15	11.79	-6	9.75	-20	11.24	14	9.52	-7
2013	8.39	14	11.92	-14	8.90	5	9.07	-2	10.60	3	9.22	14	9.28	-19	9.11	-4	11.86	9	9.95	-24	11.10	1	9.58	-2
2012	8.25	-35	12.07	6	8.85	-36	9.09	-40	10.57	-24	9.08	-39	9.47	3	9.15	-13	11.77	6	10.19	-49	11.09	-4	9.60	-21
2011	8.60	-29	12.00	-22	9.21	-40	9.49	-11	10.81	-24	9.48	-8	9.44	-10	9.28	-26	11.70	-14	10.69	-3	11.12	-17	9.81	-19
2010	8.89	4	12.22	5	9.62	15	9.60	12	11.05	7	9.55	22	9.54	16	9.54	25	11.84	12	10.72	21	11.30	0	10.00	13
2009	8.85	8	12.17	16	9.47	10	9.48	10	10.98	-7	9.33	1	9.38	29	9.29	20	11.72	15	10.50	37	11.30	8	9.87	14
2008	8.77	-4	12.01	29	9.37	-16	9.38	-14	11.05	56	9.32	-5	9.09	-16	9.09	-11	11.57	-28	10.13	20	11.22	-7	9.74	-1
2007	8.81	-45	11.72	-21	9.53	-65	9.52	-25	10.49	-28	9.37	-26	9.25	-47	9.20	-12	11.85	61	9.93	-38	11.29	-24	9.75	-28
2006	9.26	12	11.93	47	10.18	15	9.77	35	10.77	27	9.63	41	9.72	26	9.32	30	11.24	18	10.31	27	11.53	9	10.03	26
2005	9.14	14	11.46	80	10.03	-16	9.42	-30	10.50	-21	9.22	19	9.46	6	9.02	16	11.06	5	10.04	13	11.44	-30	9.77	2
2004	9.00	-19	10.66	28	10.19	-37	9.72	19	10.71	-98	9.03	-48	9.40	-4	8.86	-19	11.01	-15	9.91	-13	11.74	-30	9.75	-19
2003	9.19	-2	10.38	-32	10.56	64	9.53	33	11.69	56	9.51	-11	9.44	1	9.05	-18	11.16	8	10.04	-53	12.04	105	9.94	12
2002	9.21	-40	10.70	18	9.92	-39	9.20	-61	11.13	26	9.62	-60	9.43	-35	9.23	-62	11.08	-3	10.57	-12	10.99	-177	9.82	-41
2001	9.61	64	10.52	133	10.31	90	9.81	16	10.87	98	10.22	-68	9.78	-35	9.85	-53	11.11	47	10.69	13	12.76	32	10.23	21
2000	8.97		9.19		9.41		9.65		9.89		10.90		10.13		10.38		10.64		10.56		12.44		10.01	

* Weighted by methodology: band of investment, DCR technique, sales survey

^A Further weighted by property category

Source: RealtyRates.com

Another reliable source of capitalization rate information was the annual survey done by the SGA. This survey was published annually and included information on capitalization rates, terminal capitalization rates, various multipliers, discount rates, and other valuable information. Unfortunately, this survey has not been published since 2019, but is anticipated to be published again in the future. A summary of the direct capitalization method for a private club “as-is” that is considered stabilized is shown in Exhibit 9.9.

Exhibit 9.6 RealtyRates.com Equity Dividend Rates

RealtyRates.com Investor Survey - 1st Quarter 2021

Equity Dividend Rates

Property Type	Min.	Max.	Avg.
Apartments	6.20%	14.75%	10.90%
Garden/suburban townhouse	6.20%	13.55%	9.51%
High-rise/urban townhouse	6.20%	14.75%	10.05%
Student housing	6.20%	14.15%	9.78%
Golf	9.43%	22.12%	16.41%
Public daily-fee courses	9.43%	21.52%	14.87%
Semi-private clubs	9.43%	22.12%	15.14%
Private clubs	9.43%	20.92%	14.60%
Health care/senior housing	7.50%	17.28%	12.88%
Acute care facilities	7.70%	17.28%	12.01%
Outpatient care facilities	7.50%	16.08%	11.36%
Congregate care facilities	7.60%	16.68%	11.69%
Assisted living facilities	7.55%	16.38%	11.52%
Industrial	7.16%	15.88%	11.96%
Warehouse/distribution	7.16%	14.68%	10.55%
R&D/flex	7.36%	15.88%	11.20%
Climate controlled/manufacturing	7.26%	15.28%	10.87%
Lodging	7.92%	19.47%	14.27%
Full-service facilities	7.92%	18.27%	12.58%
Limited-service facilities	8.12%	19.47%	13.23%
Golf/gaming/resort	8.02%	18.87%	12.90%
Mobile home/RV park/camping	7.78%	18.17%	13.49%
Manufactured housing	7.78%	16.97%	11.92%
Mobile home parks	7.88%	17.57%	12.24%
RV parks/campgrounds	7.98%	18.17%	12.57%
Office	7.52%	16.18%	12.28%
Suburban	7.52%	14.98%	10.88%
CBD	7.72%	16.18%	11.53%
Medical	7.62%	15.58%	11.20%
Restaurants	10.34%	20.21%	15.77%
Full-service	10.54%	20.21%	14.89%
Fast food	10.34%	19.01%	14.24%
Retail	7.88%	17.87%	13.38%
Anchored	7.88%	16.67%	11.84%
Unanchored	8.08%	17.87%	12.49%
Convenience/gas	7.98%	17.27%	12.16%
Freestanding	7.83%	17.12%	12.01%
Self-storage	7.86%	15.31%	11.96%
Climate controlled	8.06%	15.31%	11.40%
Mini-storage	7.86%	14.11%	10.67%
Special-purpose	10.19%	21.07%	16.17%
Schools/day care centers	10.19%	19.87%	14.54%
Churches/temples/synagogues	10.39%	21.07%	15.19%
All properties	6.20%	22.12%	12.58%

Source: RealtyRates.com

Exhibit 9.7 Typical Band of Investment and Overall Capitalization Rate

Band of Investment

Mortgage	60% LTV	6.5% Interest	20 yrs.= 0.0895
	60%	× 0.0895	= 0.0537
Equity	40%	× 12.5%	= 0.0500
Overall Capitalization Rate		0.1037	= 10.37%

Exhibit 9.8 Capitalization Rate Sources

Golf Property Analysts band of investment	10.37%
Society of Golf Appraisers survey	10.60%
RealtyRates.com debt coverage ratio	9.49%
RealtyRates.com band of investment	10.39%
RealtyRates.com survey	11.92%
Selected Rate	10.50%



Exhibit 9.9 Sample Private Club Income/Expense Pro Forma**Sample Private Club
Stabilized - Income/Expense Pro Forma
10/6/21**

Golf memberships		300
Total memberships		300
Golf rounds		18,350
Rounds per golf member		61
Non-member rounds	20.0%	3,670
% of cart rounds	55.0%	10,093
Income		
Average membership dues (all members)		\$4,800
Membership revenue		\$1,440,000
Average green/guest fee		\$56.00
Initiation fees		\$40,000
Green/guest fee revenue		\$205,520
Cart fee		\$20
Cart fee revenue		\$201,850
Revenue per member		\$1,675
Pro shop revenue		\$502,500
Revenue per member		\$2,000
Food & beverage revenue		\$600,000
Revenue per member		\$75.00
Other revenue		\$22,500
Revenue per member		\$9,907.90
Total revenue		\$2,972,370
Expenses		
Departmental expenses		
Golf maintenance (labor, materials & equipment)		\$800,000
Golf cart expense	50 @ \$1,000	\$50,000
Pro shop COGS and expense	135.0%	\$678,375
F&B COGS & expense	90.0%	\$540,000
Undistributed expenses		
General & administrative	7.5%	\$222,928
Repairs and maintenance	2.0%	\$59,447
Management	2.0%	\$59,447
Marketing	1.0%	\$29,724
Professional fees	0.5%	\$14,862
Utilities	0.7%	\$22,000
Fixed expenses		
Real estate taxes		\$61,673
Insurance	0.5%	\$14,862
Reserves/capital improvements	2.0%	\$59,447
Total operating expenses		\$2,612,766
Expense ratio		87.9%
Net operating income of annual operations		\$359,604
Capitalization of net operating income		
Overall capitalization rate		10.00%
Indicated value	= \$359,604 ÷ 10.00% =	\$3,596,043
Rounded to		\$3,600,000

Discounted Cash Flow Analysis

According to *The Appraisal of Real Estate*, DCF analysis is an appropriate tool for valuing any pattern of regular or irregular income, as per statements to Standard 2 of USPAP.⁸ Critics of the approach argue that DCF is too speculative. However, appraisers who use DCF are simply identifying (hopefully with reliable support) what investors expect as of the date of appraisal that is indicated by supply and demand in the market. Whether those expectations are realized or not, the appraisal will be prepared properly if the appraiser has correctly identified the investor's expectations as of the date of appraisal.

With many golf properties experiencing irregular patterns of income, sometimes due to market fluctuations and sometimes due to weather, the DCF is a reliable tool for estimating value for properties that may be repositioning in the market, that require improved management in a "turn-around" effort, or that are renovating.

Often, whether DCF analysis is used is a function of the sophistication level of the typical purchaser for the subject property. If the typical purchaser would be inclined to use DCF, it would be an appropriate measure of value. If not, the appraiser is best off reflecting the behavior of the marketplace and limiting the analysis to either a gross income multiplier or direct capitalization.

When making forecasts of income and expenses, it is the analyst's job to mimic the same procedures and criteria that a typical investor for the property would employ. Most important is that the forecasts be realistic and supported by market evidence and include consideration of the overall fundamentals of the users and supply and demand of user space. Because these forecasts are somewhat speculative in nature, courts have frowned on the use of DCF analysis in many instances. Unfortunately, this can remove a very useful tool from the appraiser's arsenal. When applicable, all attempts should be made to employ DCF analysis to reflect investor actions in an appraisal.

It is critical that the appraiser utilize absorption periods that are consistent with the market and supported by sound market analysis, a typical investor's perception, and other factors such as a longer forecast needed in order to assess the value impact of forecasted market cycles and the subject's point in this cycle. Other considerations include the subject's competitive position, facility characteristics, and an understanding of the marketing plan. Additionally, the rate of absorption is not likely to be constant at a particular percentage rate. While these irregularities are difficult to predict, the appraiser should be sensitive to the idea that growth in golf property income can vary considerably.

Selecting a discount rate can be challenging. Since (unlike capitalization rates) there is rarely the ability to extract a discount rate from

8. *The Appraisal of Real Estate*, 15th ed., 325.

comparable sales, the best sources are surveys like the ones previously mentioned. A band of investment method can be used, employing an *equity yield* rate as opposed to equity dividend, but market indications are that investors' actions are more accurately portrayed in these surveys. RealtyRates.com offers the discount rate survey shown in Exhibit 9.10 that illustrates the perception of comparatively high risk for golf properties as compared to more traditional investment real estate like office, retail, and industrial, which seem to range from 3% to 4% lower than golf properties. The discount rate survey is followed by a sample summary of a DCF analysis in Exhibit 9.11. In Exhibit 9.11 the increase in rounds played is based on the increase in membership, with an estimate of 100 rounds per membership per year, which is derived from property history and market analysis.

Applicability

While the income capitalization approach is applicable (and in most cases primary) in the evaluation for purchase of nearly all golf properties, there are some instances where jurisdictional decisions or statutory law preclude its use.

Although this will be discussed in a later chapter, in some jurisdictions the income capitalization approach cannot be used in certain types of legal actions. In some states, case law dictates that the income capitalization approach may be inapplicable in certain situations and a jurisdictional exception may be required to include it. There are other situations where the sales comparison approach is conclusive and market evidence may override the conclusions developed in the income capitalization approach to the point of negating its effectiveness. Most common, however, are situations where a property is not stabilized and employing a DCF analysis is indicated and either statutory or case law precludes the use of the DCF. There are also instances (like New York State in tax certiorari cases) where a specific methodology is called for by case law and private clubs are to be valued as daily-fee facilities. This methodology will be discussed in a later chapter.

Market participants typically employ the income capitalization approach in either the direct capitalization or DCF format. Thus, it is imperative for appraisers to strongly consider, and at the very least attempt to develop, an income capitalization approach. It should be perfectly clear that when adequate data and information is available, the income capitalization approach most clearly reflects the behavior of market participants in the golf property space.

Comments on the Income Capitalization Approach

When a property is stabilized or reliable forecasts of income and expenses are made, the income capitalization approach is the method of



Exhibit 9.10 RealtyRates.com Discount Rates

RealtyRates.com Investor Survey - 1st Quarter 2021

Discount Rates

Property Type	New Development			Acquisitions			Recapitalizations		
	Min.	Max.	Avg.	Min.	Max.	Avg.	Min.	Max.	Avg.
Apartments	4.16%	12.78%	8.50%	3.62%	11.12%	7.39%	4.12%	12.66%	8.41%
Garden/suburban townhouse	4.16%	11.61%	7.74%	3.62%	10.10%	6.73%	4.12%	11.49%	7.66%
High-rise/urban townhouse	5.06%	12.78%	8.61%	4.40%	11.12%	7.49%	5.01%	12.66%	8.52%
Student housing	4.80%	12.41%	8.93%	4.17%	10.80%	7.77%	4.75%	12.29%	8.84%
Golf	5.06%	19.00%	12.94%	4.40%	16.53%	11.26%	5.01%	18.81%	12.81%
Public daily-fee courses	7.57%	18.75%	12.73%	6.59%	16.31%	11.07%	7.50%	18.56%	12.60%
Semi-private clubs	5.75%	19.00%	13.15%	5.00%	16.53%	11.44%	5.69%	18.81%	13.01%
Private clubs	5.06%	17.32%	12.09%	4.40%	15.07%	10.52%	5.01%	17.14%	11.97%
Health care/senior housing	4.33%	17.72%	8.48%	3.77%	15.41%	7.37%	4.29%	17.54%	8.39%
Acute care facilities	5.49%	18.82%	10.08%	4.78%	16.37%	8.77%	5.44%	18.63%	9.98%
Outpatient care facilities	4.33%	12.56%	7.29%	3.77%	10.92%	6.35%	4.29%	12.43%	7.22%
Congregate care facilities	5.30%	14.24%	8.37%	4.61%	12.39%	7.28%	5.25%	14.09%	8.29%
Assisted living facilities	4.58%	12.98%	7.48%	3.98%	11.30%	6.51%	4.53%	12.85%	7.41%
Industrial	4.61%	13.38%	9.29%	3.87%	11.24%	7.80%	4.66%	13.51%	9.38%
Warehouse/distribution	4.61%	11.24%	8.14%	3.87%	9.44%	6.84%	4.66%	11.35%	8.22%
R&D/flex	5.64%	13.38%	9.60%	4.74%	11.24%	8.07%	5.69%	13.51%	9.70%
Climate controlled/manufacturing	5.18%	12.76%	8.69%	4.35%	10.72%	7.30%	5.24%	12.88%	8.78%
Lodging	4.93%	16.57%	10.71%	4.14%	13.92%	9.00%	4.78%	16.07%	10.39%
Full-service facilities	4.93%	13.79%	10.84%	4.14%	11.59%	9.11%	4.78%	13.38%	10.52%
Limited-service facilities	6.08%	16.57%	11.08%	5.11%	13.92%	9.31%	5.90%	16.07%	10.75%
Golf/gaming/resort	5.65%	15.54%	10.05%	4.74%	13.06%	8.44%	5.48%	15.08%	9.75%
Mobile home/RV park/camping	4.61%	15.65%	9.75%	3.74%	12.68%	7.90%	4.61%	15.65%	9.75%
RV parks/campgrounds	5.46%	15.65%	10.26%	4.42%	12.68%	8.31%	5.46%	15.65%	10.26%
Manufactured housing	4.61%	13.85%	8.94%	3.74%	11.21%	7.24%	4.61%	13.85%	8.94%
Mobile home parks	5.31%	14.16%	9.76%	4.30%	11.47%	7.90%	5.31%	14.16%	9.76%
Office	4.67%	13.39%	9.56%	4.06%	11.65%	8.32%	4.62%	13.26%	9.47%
Suburban	4.67%	12.03%	8.81%	4.06%	10.46%	7.67%	4.62%	11.91%	8.72%
CBD	5.76%	13.39%	9.77%	5.01%	11.65%	8.50%	5.70%	13.26%	9.68%
Medical	5.69%	13.41%	8.81%	4.95%	11.67%	7.67%	5.63%	13.27%	8.72%
Restaurants	5.43%	17.67%	12.61%	4.62%	15.02%	10.72%	5.22%	16.97%	12.10%
Full-service	8.56%	17.67%	12.61%	7.27%	15.02%	10.72%	8.21%	16.97%	12.10%
Fast food	5.43%	16.55%	11.67%	4.62%	14.07%	9.92%	5.22%	15.89%	11.20%
Retail	4.87%	14.79%	10.08%	4.19%	12.72%	8.67%	4.77%	14.49%	9.88%
Anchored	4.87%	13.30%	10.10%	4.19%	11.44%	8.69%	4.77%	13.04%	9.90%
Unanchored	5.69%	14.79%	10.88%	4.90%	12.72%	9.35%	5.58%	14.49%	10.66%
Convenience/gas	5.98%	14.90%	8.74%	5.14%	12.81%	7.51%	5.86%	14.60%	8.56%
Freestanding	5.28%	14.41%	10.67%	4.54%	12.39%	9.18%	5.18%	14.12%	10.46%
Self-storage	3.75%	12.74%	10.32%	3.19%	10.83%	8.77%	3.75%	12.74%	10.32%
Climate controlled	3.69%	12.74%	10.08%	3.13%	10.83%	8.57%	3.69%	12.74%	10.08%
Mini-storage	3.75%	13.74%	10.24%	3.19%	11.68%	8.70%	3.75%	13.74%	10.24%
Special-purpose	5.62%	18.99%	12.43%	4.83%	16.33%	10.69%	5.51%	18.61%	12.19%
Schools/day care centers	5.62%	16.06%	11.04%	4.83%	13.82%	9.49%	5.51%	15.74%	10.82%
Churches/temples/synagogues	7.07%	18.99%	12.56%	6.08%	16.33%	10.80%	6.92%	18.61%	12.31%
All properties	3.69%	19.00%	10.10%	3.13%	16.53%	8.63%	3.69%	18.81%	9.97%

Source: RealtyRates.com



Exhibit 9.11 Sample Private Club DCF Analysis

Sample Private Club Discounted Cash Flow Analysis - As Is 12/22/2020							
			Year 1	Year 2	Year 3	Year 4	Year 5
Golf members	267	12.00%	299	335	375	420	471
Non-golf members	648	7.00%	661	695	744	796	851
Total members	915		960	1,030	1,100	1,170	1,220
Total rounds			29,904	33,492	37,512	42,013	47,055
Guest rounds percentage			28%	25%	22%	20%	20%
Non-members rounds			8,373	8,373	8,253	8,403	9,411
Total rounds per golf membership		100	100	100	100	100	100
Cart rounds			26,914	30,143	33,760	37,812	42,349
Income (increasing @)		2.0%					
Annual operating revenue							
Average green/guest fee			\$100.00	\$102.00	\$104.04	\$106.12	\$108.24
Green fee revenue			\$837,312	\$854,058	\$858,595	\$891,690	\$1,016,667
Membership entrance fees			\$1,250,000	\$1,250,000	\$1,250,000	\$1,250,000	\$1,250,000
Average membership fee			\$3,738	\$3,813	\$3,889	\$3,967	\$4,046
Membership revenue			\$3,588,463	\$3,927,124	\$4,277,897	\$4,641,129	\$4,936,257
Pro shop revenue per member			\$2,072	\$2,113	\$2,155	\$2,198	\$2,242
Pro shop revenue			\$619,509	\$707,727	\$808,507	\$923,639	\$1,055,165
Food & beverage revenue per member			\$2,900	\$2,958	\$3,017	\$3,078	\$3,139
Food & beverage revenue			\$2,784,000	\$3,046,740	\$3,318,876	\$3,600,679	\$3,829,645
Fitness, swim, and tennis revenue per member			\$235	\$239	\$244	\$249	\$254
Fitness, swim, and tennis revenue			\$225,230	\$246,486	\$268,502	\$291,300	\$309,824
Spa revenue			\$40,000	\$40,800	\$40,800	\$40,800	\$40,800
Other revenue per member			\$250.00	\$255.00	\$260.10	\$265.30	\$270.61
Other revenue			\$240,000	\$262,650	\$286,110	\$310,403	\$330,142
Revenue per member			\$9,984	\$10,035	\$10,099	\$10,213	\$10,468
Total revenue			\$9,584,514	\$10,335,585	\$11,109,287	\$11,949,640	\$12,770,499
Expenses (increasing @)		2.5%					
Departmental costs & expenses							
Golf maintenance (incl. payroll)			\$1,010,000	\$1,035,250	\$1,061,131	\$1,087,660	\$1,114,851
Golf cart expense	72 @	\$1,000	\$72,000	\$72,000	\$72,000	\$72,000	\$72,000
Pro shop COGS & expense		170.0%	\$1,053,165	\$1,203,136	\$1,374,463	\$1,570,186	\$1,793,780
F&B COGS & expense		90.0%	\$2,505,600	\$2,742,066	\$2,986,988	\$3,240,611	\$3,446,680
Fitness, tennis, and swim expense		175.0%	\$394,152	\$431,350	\$469,878	\$509,775	\$542,192
Spa expense		50.0%	\$20,000	\$20,400	\$20,400	\$20,400	\$20,400
Undistributed expenses							
General & administrative		8.5%	\$814,684	\$878,525	\$944,289	\$1,015,719	\$1,085,492
Repairs and maintenance		6.0%	\$575,071	\$620,135	\$666,557	\$716,978	\$766,230
Management		3.5%	\$335,458	\$361,745	\$388,825	\$418,237	\$466,967
Marketing		2.5%	\$239,613	\$258,390	\$277,732	\$298,741	\$319,262
Professional fees		1.0%	\$95,845	\$103,356	\$111,093	\$119,496	\$127,705
Utilities		6.5%	\$622,993	\$638,568	\$654,532	\$670,896	\$687,668
Fixed expenses							
Real estate taxes			\$72,000	\$73,800	\$75,645	\$77,536	\$79,475
Other taxes & fees			\$20,000	\$20,500	\$21,013	\$21,538	\$22,076
Insurance		1.5%	\$143,768	\$147,362	\$151,046	\$154,822	\$158,693
Reserves/capital improvements		5.0%	\$479,226	\$516,779	\$555,464	\$597,482	\$638,525
Total operating expenses			\$8,453,574	\$9,123,362	\$9,831,057	\$10,592,078	\$11,321,998
Expense ratio			88.2%	88.3%	88.5%	88.6%	88.7%
Net operating income of annual operations			\$1,130,939	\$1,121,223	\$1,278,230	\$1,357,562	\$1,448,502
Annual golf club operating cash flows			\$1,130,939	\$1,212,223	\$1,278,230	\$13,555,472	
Reversion @		11.400%	\$12,706,156			\$12,197,910	
Selling costs @		4.0%	\$508,246				
Net reversion			\$12,197,910				
Discount rate		12.50%					
NPV of golf club operations @		12.50%	\$11,323,411				
Present value of refund liability @		8.00%	\$496,018				
Net present value			\$10,827,423				
Rounded to:			\$10,800,000				

value most relied upon by investors. However, in the development of an appraisal, there are several unique considerations:

- Revenues can often be overstated by using rack rates for dues and especially green fees, as discounts are often offered.
- The owner's financial statements rarely include allowances for capital reserves or management, which need to be estimated and included to develop an accurate picture.
- Using the standard system of accounts for clubs allows comparison on a level basis.
- Many appraisers fail to consider or develop the income capitalization approach because they are either unwilling or unable to develop sufficient data to do so effectively. It is not unusual to see appraisers eliminate the income capitalization approach simply because of a discrepancy with the sales comparison approach.
- The income/expense pro forma which is ultimately used to estimate net operating income is a combination of operating history and market-based indications and estimates. In many instances, historical revenue or expenses are inconsistent with what prudent management would be able to achieve, or there are expenses that need to be increased to maximize revenues. The appraiser needs to recognize this and make appropriate adjustments.
- Capitalization rates are typically higher for golf courses than other forms of investment real estate because golf courses are operating businesses and typically trade as going concerns. The use of capitalization rates that are too low and more consistent with other property types is common.
- Weather can have a significant impact on the performance of golf properties. Thus, reviewing a property's performance for a period of several years for the amount of play or membership levels is necessary to accurately estimate an annualized level of each.
- Golf course capacity is not a mathematical calculation and varies from course to course based on a variety of factors, including the *desired* level of play by management based on market position, pace of play, and other factors. Overestimation of rounds played is a common mistake.
- It is critical to use units of comparison relevant to the operation of the specific club. For private clubs, an analysis of revenues on a per-member basis is more indicative of their operation, while daily-fee courses should be considered on a per-round basis. Private clubs are selling memberships, and daily-fee courses are selling rounds.
- Each and every club has different operating characteristics. It's best to begin the analysis with a clean spreadsheet.

Because of their unique nature and the fact that golf courses combine real and personal property, and because the ownership interest being valued can vary, there are some hybrid methods of valuation which have been developed.

Market Rent

The previously mentioned market rent method directly targets the value of real property, bypassing the going concern valuation in favor of estimating a market rental rate for the subject real estate. This method is used almost exclusively in tax assessment appeals and only in a very limited number of jurisdictions. Its application (in New York) inexplicably requires the use of rentals of daily-fee courses to establish a rental rate for private clubs based on a rounds and green fee analysis.

Stock and Debt Approach

The stock and debt approach, as described by the California Assessor's Handbook, "is a variant of the market data approach to value. The stock represents the equity in the property, and its value is ascertained from the price people are paying for it. A purchaser of stock also implicitly assumes the debt against the property, and for this reason the amount of the debt assumed must be added to the consideration paid to obtain the total purchase price. This approach, simply stated, calls for the addition of the total amount of outstanding debt to the product of the total number of members multiplied by the current cost of a membership."⁹ This method, which is sometimes used by tax assessors or their appraisers, fails to account for the time necessary to sell memberships by discounting and assumes that upon the sale of a club *all* of the previous members will rejoin *and* that the equity fees are attributable to the value of the real property. Each of these assumptions is, at the very least, debatable, especially if the value being sought is market value (*value in exchange*). Few, if any, buyers would evaluate a property on such a basis.

Conclusion

The income capitalization approach is typically the most reliable of the three approaches because it reflects the actions of market participants, because typically the data available for the development of the approach is both available and reliable, and because the subject's history can often be used as a barometer for a club's future performance. It is critical to understand that in valuing a golf property, even if the assignment is to develop an estimate of real property value, one is valuing a going concern first and then allocating the personal property. As such, capitalization rates are higher for golf courses than most forms of investment real estate. A nonprofit facility needs to be considered as a for-profit facility for the purposes of estimating *value in exchange*, which is defined as "a

9. *Assessors' Handbook* Section 501 (Sacramento: California State Board of Equalization, 2015).



type of value that reflects the amount that can be obtained for an asset if exchanged between parties.”¹⁰ This is simply because the vast majority of private club sales are to for-profit operators. Examples include market value, fair value, liquidation value, and disposition value. Most, though not all, assignments call for such a value, including “market value” appraisals.

Sales Comparison Approach

The sales comparison approach, when appropriately applied to golf properties, varies from the way the approach is applied to most property types for a variety of reasons:

- Golf properties are almost always sold as going concern enterprises.
- Due to the number and limited frequency of golf course sales, the geographical market boundaries are typically wider than they would be for most other property types.
- Golf properties are rarely bought and sold based on physical characteristics. Rather, they are traded based on operational economics.
- Golf facilities are difficult to compare based on physical characteristics.
- The financial stability of a golf course sale can affect the sales comparison approach.

The first step in the sales comparison approach for golf properties is to determine the likely buyer for the subject property. As discussed in Chapter 7, there are a number of buyer groups, and not all courses appeal to all buyers. Many buyers require certain levels of gross revenue or a minimum surrounding population. Others who focus on private clubs might look not only at those elements, but also consider a specific minimum level of income that they consider to identify the universe of potential members.

There are several different market segments for golf property transactions, and a simple comparison of all golf courses to one another is inappropriate. The selection of comparable sales for golf properties should consider the following criteria:

- **Type of club**
Private clubs and daily-fee courses often are not comparable to each other, and some buyers focus on one or the other.
- **Location**
For many golf properties, buyers would consider properties over a wide region or even nationally. For others, the market would be more local. Matching the subject property to its market is helpful in identifying those sales that a buyer for the subject might also consider.

10. *The Dictionary of Real Estate Appraisal*, 7th ed., 200.

- **Gross revenue**
A club with gross revenues under \$1 million is not likely to be of interest to larger management companies or investors seeking a minimum gross revenue of, say, \$4 million.
- **Financing**
Some investors (and lenders) are “cash-flow oriented” and only consider properties with positive cash flows and often with a minimum debt coverage. Some properties can only find buyers if seller financing is available and may warrant a cash-equivalency adjustment.
- **Turnarounds**
There are some investors that specialize in acquiring distressed properties and turning them profitable.

An upscale private club is obviously not comparable to an affordable daily-fee facility because the likely universe of buyers considering each would be different. Thus, selecting comparable sales that are consistent with the subject property’s characteristics and would be potential substitutes for the subject would be a prudent practice.

One common practice used today by some appraisers is to simply compile a list of as many as 35 golf course sales which may include private, daily-fee, and semi-private facilities, may range in price from less than \$1 million to more than \$20 million, might be scattered all over the United States, and might be dated. These lists do not accurately represent the market for the subject property and rarely (if ever) include much income information relevant to the sales presented. More appropriate might be choosing fewer sales that offer similar regional or seasonal characteristics and, if possible, researching more information about those sales, like revenue and expense information, number of rounds or members, facility characteristics, and condition and details of the transaction, where available. Of particular importance to analyzing and comparing the sales accurately is the level of stability at the time of the sale.

Selection of Sales

Of particular importance in the selection of comparable sales are the following:

- **Date of sale**
Market conditions do change. For example, sales from before the Great Recession would not be applicable after 2008.
- **Type of club/similarity to subject**
Daily-fee and private clubs are different animals and have different operating profiles. They can be difficult to compare in most instances. Sometimes, there is a reason to make this comparison, but most often there is not. It’s important where possible to use sales of courses with similar income levels and in similar sized markets.



- **Geography**
Pick sales in a similar region with similar seasons.
- **Demographics**
Select sales that are similar in terms of income, age, and expectation of future growth.

Units of Comparison

Over the years, many different units of comparison have been used for the analysis of golf property sales. These include:

- **Price per hole (\$/hole)**
Sale Price (SP) ÷ Number of Holes
Price per hole is calculated as the sale price divided by the number of holes. Although it is common for appraisers to seek a physical-based unit of comparison and ultimately a “common denominator” for comparison, this unit simply doesn’t work for golf properties. Most (not all) golf courses have 18 holes. Those that don’t have 9, 27, 36, 45, 54, or some other multiple of the number 9. Therefore, it is virtually impossible to develop a common denominator. Price per hole does not allow for the comparison of courses with varying economics. This is primary to employing the principle of *substitution*, defined as “the appraisal principle that states that when several similar or commensurate commodities, goods, or services are available, the one with the lowest price will attract the greatest demand and widest distribution. This is the primary principle upon which the cost and sales comparison approaches are based.”¹¹ This unit of comparison is outdated, unproductive, and largely irrelevant.
- **Gross income multiplier (GIM)**
SP ÷ Gross Revenue
The *GIM* is calculated as the sale price divided by the gross revenue. Also called the *gross revenue multiplier (GRM)* and the *total revenue multiplier (TRM)*, this unit of comparison is widely used today by many market participants, including buyers, sellers, brokers, and appraisers. The mere fact that it is so widely used makes it relevant. However, it is sensitive to the level of stability of the sale. Analysis of many sales has shown that those with more profitable operations or the potential for profit often have higher *GIMs* than sales that are less profitable or lose money. Thus, it is necessary to research any sale as thoroughly as possible to find out how profitable the course may have been and what improvements may have been required. The primary reason for the added emphasis on *GIM* is the fact that many of the golf properties trading experience negative cash flow, negating the ability to develop market-extracted capitalization rates. Additionally, the ratio

11. *The Dictionary of Real Estate Appraisal*, 7th ed., 184.



of golf revenue to F&B revenue can also impact a property's ultimate *GIM*, with many buyers seeking a balance in favor of golf revenues.

- **Overall Rate (OAR or R_o)**

$$NOI \div SP$$

The overall rate is simply the net operating income divided by the sale price. When sufficient information is available and the sample of sales and the subject are relatively stable, the overall rate can be useful. Unfortunately, many sales are not stable, and the indicated capitalization rates can be confusing.

- **Golf Revenue Multiplier (GRM)**

$$SP \div \text{Golf Revenue}$$

The golf revenue multiplier is the sale price divided by the golf revenue. The acronym for this term being the same as that used for gross revenue multiplier (above) is the reason for using *GIM* above. Though not used as widely as *GIM*, the golf revenue multiplier can be relevant in those cases where the F&B revenue is uncertain or if the buyer plans to reposition the property to not focus on F&B as much. The wide variances in non-golf revenues that often occur between facilities can also dictate use of this unit of comparison, and it can be a useful tool.

- **Price per round (\$/round)**

$$SP \div \text{Annual Number of Rounds}$$

The price per round is calculated as the sale price divided by the annual number of rounds, and it can be used primarily for daily-fee courses. It can be most useful when rates, revenues, and other indices are similar and the differences between courses are largely based on volume of play.

- **Price per membership (\$/membership)**

$$SP \div \text{Number of Memberships}$$

The price per membership is calculated as the sale price divided by the number of memberships. This unit is not widely used. However, it could be used for private clubs in a manner similar to the price per round discussed above.

- **Green fee multiplier (GFM)**

$$SP \div \text{Average Green Fee} \div \text{Number of Rounds}$$

The green fee multiplier is calculated as the sale price divided by the average green fee divided by the number of rounds. This unit of comparison, first introduced in this author's January 1991 *Appraisal Journal* article "Golf Courses: Valuation and Evaluation," allows for the comparison of courses of varying fee and rounds levels and offers a common denominator.¹² While more commonly used in the 1990s, the market's recent focus on *GIM* has diminished the use of the *GFM* to some degree.

12. Laurence A. Hirsh, "Golf Courses: Valuation & Evaluation," *The Appraisal Journal* (January 1991): 38-47.



- **Membership dues multiplier (MDM)**

$SP \div \text{Average Dues} \div \text{Number of Memberships}$

The membership dues multiplier is calculated as the sale price divided by the average dues divided by the number of memberships. This unit of comparison is similar to the *GFM* above, and both require that the average green fee and average dues use consistent information from the sales. For instance, in the case of the *MDM*, if the annual family dues are extracted from the sales, the family (not individual) dues must be used for application to the subject.

Note that *The Appraisal of Real Estate* identifies a general problem in the use of certain units of comparison: “Sometimes the use of units of comparison can replicate another approach to value and, in effect, tie the value indications together.”¹³ In effect, the use of the same income and sales data in these analyses eliminates the independence of the sales comparison approach and the income capitalization approach. In the strictest sense, the use of *GIMs* is a function of the income capitalization approach in the appraisal of property types other than golf courses and clubs. However, with golf properties the most accurate reflection and analysis of market sales employs the *GIM* for a variety of reasons, most notably the inability to compare golf properties on a physical basis due to the lack of a common denominator as a relevant unit of comparison. Golf properties are purchased and sold largely on the basis of economics, and multiple golf facilities with the same number of holes, similar land sizes, and similarly sized buildings can have dramatically different economic characteristics. Accordingly, principal market participants typically and regularly employ an analysis of *GIM* in their evaluation of acquisitions based on the sales of other golf properties.

Adjustments to Golf Property Sales

Another difference in the valuation of golf properties compared to other investment properties is the process of adjusting comparable sales. Development of a typical sales adjustment grid is not particularly useful, and the process is much more subjective than objective. The differences between golf course sales motivations are almost always based on economics, and the physical differences normally adjusted for in other properties are illustrated much more clearly through the economic-based units of comparison previously presented. In many cases, a course with inferior physical characteristics may, in fact, have superior economic characteristics, making physical adjustments misleading. Using a typical adjustment grid for a golf property appraisal can be like forcing a “square peg into a round hole.” It just doesn’t fit!

Subjectively, an appraiser would be able to conclude that a *GIM* from “Sale A” might be adjusted upward due to the subject’s higher level

13. *The Appraisal of Real Estate*, 15th ed., 361.

of profitability, or because it had a more desirable golf-to-F&B revenue ratio, but it would be difficult at best to quantify that adjustment in a typical grid fashion. This is one of many reasons why selecting sales with similar characteristics (as much as possible) is critical to the accuracy of the appraisal. If sales from too wide an area (say, nationally) are used, the development of a credible location adjustment, for instance, would be highly speculative at best.

The write-up of each sale can be efficiently accomplished on a form like that shown in Exhibit 9.12. A summary of comparable sales highlighting the *GIM* is shown in Exhibit 9.13.

When developing the sales comparison approach, it is necessary that the appraiser understand the difference between the “user market” and the “buyer market.” As developed in the market analysis, the users of golf courses are members and customers. The buyers of golf courses typically represent an entirely different market and can come from far and wide, often seeking golf course properties on a nationwide basis. In most cases, golf property purchasers are seeking investment income and growth and examine the user market when evaluating potential purchases. Just because the local competitive courses haven’t sold recently doesn’t mean a credible sales comparison approach can’t be developed.

Common mistakes made in developing the sales comparison approach include:

- The use of dated sales due to the belief that few golf sales exist. There are more golf property sales than most appraisers perceive. The NGF has tracked more than 1,500 US golf course sales in the past seven years, which represents roughly 10% of golf courses nationwide. It is likely that there are additional sales, so the mistake of using dated sales is often unjustified. Often appraisers are reluctant to widen their search area, which can limit the number of sales available.
- The use of price per hole or price per acre as the primary (if not only) unit of comparison is a common mistake. As previously mentioned, because these units of comparison don’t offer a reliable “common denominator,” they are rarely units that will be reflective of behavior in the marketplace.
- Many appraisers perceive golf courses as all being the same. Private clubs and daily-fee courses are very different in their operating profiles, often appeal to different market participants, and generate revenue in different manners. While there are limited instances justifying the use of daily-fee sales for private club appraisals and private club sales for daily-fee course appraisals, a concerted effort should be made to limit the sales analyzed to those of the same type.
- The use of a random list of sales from a variety of regions and of all types of clubs is commonly used by some appraisers. While this can yield a considerable amount of data on *GIMs* or other indicators, the



Exhibit 9.12 Comparable Sale Description

Tippecanoe Country Club				
Type:	PR	Date of sale:	07/31/2020	
City:	Canfield	Sale price:	\$2,200,000	
County:	Mahoning	Grantor:	Tippecanoe Country Club, Inc.	
State:	OH	Grantee:	Tippy Acquisition Co., Inc.	
Deed information:	202000016908			
Description				
Architect:	Donald Ross	Slope:	130	Maintenance building: 4,600 sq. ft. and 980 sq. ft.
Year built:	1921	Course rating:	73.0	Other buildings:
Number of holes:	18	Number of acres:	176.21	Other facilities: Practice facilities, 3,876- sq.-ft. aquatics center
Par:	72	Clubhouse size:	40,400 sq. ft.	Zoning: A and R-1
Amenities				
Swimming:	Yes	Marina:	No	Practice area: Yes, range
Tennis:	Yes	Fitness:	No	Learning center: No
Paddle:	No	Spa:	No	Short game: Yes
Pickle ball:	No	Stables:	No	Putting green: Yes
Squash:	No	Lodging:	No	Banquet: Yes, 280 guests
Intended use	Restore the club's status to a premier club in the Mahoning Valley and increase golf membership to 275.			
Sale Indicators				
Annual rounds:	22,500	Gross revenues:	\$3,200,000	
Avg. green fee:		GIM:	0.69	
GFM:		Operating expenses:	\$2,980,000	
Golf members:	200	OER:	93.13%	
Annual dues:		EBITDA:	\$220,000	
MDM:		Overall rate (%):	10.00%	

Remarks/Comments

Equipment:

Verification:

Comments:

Mahoning County Auditor, Seller

Of the 350 members, 200 are golf members and 150 are social memberships. Seventy members of the club raised \$3 million to purchase and make improvements to the landmark. The club wasn't bringing in enough revenue to invest in new capital projects, so a 95% vote in October 2019 approved the transaction and brought an assumption of \$2.2 million in debt and a commitment of \$2.5 million in capital improvements. The club was previously funded solely by membership dues and fees. Improvements include a new roof, a large outdoor bar, additional outdoor dining, enhancements to the parking lot and pool, upgrades to the kitchen, an enhanced pool area, and a cigar lounge.



Exhibit 9.13 Comparable Sales Summary

Sample Sales Summary 12/22/2020														
Club	City	State	Sale Date	Type	Acres	Holes	Intended Use	Sale Price	Gross Revenue	GIM	Operating Expenses	OER	NOI	OAR
1 Sand Barrens Golf Club now known as Union League National Golf Club	Cape May Court House	NJ	10/16/2017	PR	236	27	Was going to be a parkland course until sand was discovered under the soil surface.	\$5,000,000	\$2,100,000	2.38	\$1,800,000	85.71%	\$300,000	6.00%
2 Wildwood Golf and Country Club (now known as The Shore Club)	Cape May Court House	NJ	12/2017	PR	184.188	18	Continued use as a golf club.	\$2,4540,000	\$2,702,701	0.91	\$2,931,301	108.46%	-\$228,600	-9.33%
3 Linwood Country Club	Linwood	NJ	12/29/2017	PR	225.24	18	Continued use as a country club.	\$3,000,000	\$2,770,000	1.08	\$2,290,512	82.69%	\$479,488	15.98%
4 Plymouth Country Club (now known as the 1912 Club)	Plymouth Meeting	PA	3/19/2018	PR	114.87	18	Continued use as a golf club.	\$2,884,000	\$1,173,516	2.46	\$1,214,082	103.46%	-\$40,566	-1.41%
5 Wild Quail Golf & Country Club	Camden Wyoming	DE	3/23/2018	PR	189.698	18	Continued use as a golf and country club.	\$1,620,000	\$2,321,373	0.70	\$2,338,911	100.76%	-\$17,538	-1.08%
6 DuPont Country Club	Wilmington	DE	4/1/2018	PR	500	54	Continued use as a country club.	\$9,000,000	\$9,872,750	0.91	\$11,124,574	112.68%	-\$1,251,824	-13.91%
7 New Castle Country Club (now known as Avalon Field Club at New Castle)	New Castle	PA	5/9/2019	PR		18	Continue as a private country club with many upgrades to create a new club. Grow the club.	\$787,323	\$2,476,273	0.32	\$2,400,665	96.95%	\$75,608	9.60%
8 Out Door Country Club	York	PA	3/4/2020	PR	168.08	18	Continued use as a country club.	\$2,030,875	\$2,000,000	1.32	\$1,850,000	92.50%	\$150,000	7.39%
9 Newark Country Club	Newark	DE	11/12/2020	PR	119	18	Continued use as a country club.	\$6,000,000	\$5,200,000	1.15	\$4,700,000	90.38%	\$500,000	8.33%



lack of depth can mask potential differences that would disqualify some sales from consideration.

Conclusion

The sales comparison approach can be a useful tool in golf property appraisal. Despite sometimes being difficult, in most instances (except when market conditions simply stifle the transaction market) there is normally ample sales data from which to identify a market. In many cases, this data will only be used to check the value developed by the income capitalization approach because the nature of golf property sales is such that inconsistencies, combined with the inability to make adjustments like in other appraisal assignments, relegates the sales comparison approach to being secondary. It is not unusual to see appraisers attempt to derive a value conclusion from the sales comparison approach, even when one is not clearly indicated.

Sales data is often difficult (and time consuming) to compile. Detailed information necessary for a quality analysis, like gross revenue, number of rounds or members, and other benchmark items are rarely published on CoStar or other similar services, and transaction principals sometimes decline to share such information. Brokers can be a good source, and some are cooperative. The ability and reputation for maintaining confidentiality is often the difference between getting data and not.

The sales comparison approach is best utilized when sales are at similar levels of stabilization allowing for the analysis of their comparative financial performance. Despite the often-subjective nature of the sales comparison approach, courts often favor this approach in the resolution of valuation questions in litigation.

Cost Approach

A previous text, *Analysis and Valuation of Golf Courses and Country Clubs*, states that “the cost approach is uniquely applicable to the appraisal of golf facilities.”¹⁴ This is true but misleading. There are limited instances where the cost approach is relevant in the valuation of a golf course property, existing or not. The market has evolved to a point where the cost of development of a golf facility is largely irrelevant to the analyses of buyers and sellers in the marketplace. This fact is attested to in the same publication, where it is stated that “investors rarely use the cost approach to estimate an acquisition price; sellers of these properties rarely apply the approach either, although some may.” It is unlikely at best that any seller would be successful in actually selling their property based on a cost approach valuation.

That said, a cost approach is often required by courts in some jurisdictions because it is easily understood by nonappraisers, more

14. Arthur E. Gimmy and Buddie A. Johnson, *Analysis and Valuation of Golf Courses and Country Clubs* (Chicago: Appraisal Institute, 2003), 97-99.

so than the income capitalization and sales comparison approaches. Furthermore, many banks now require appraisers to provide insurance value estimates. Thus, an understanding of how to develop a proper cost approach for golf courses is relevant.

Land Valuation

Valuation of the golf course site is much like valuation of any other site, except that transactions for sites to be developed as golf courses are rare in an environment where more golf facilities are ceasing operations and being repurposed than being developed. The combination of the limited development of new golf courses and the repurposing of some courses leaves the appraiser simply searching for comparable sales of sites with similar characteristics. Of particular importance to the valuation of a golf course site is that an 18-hole course requires a minimum of 150± acres in most cases. That eliminates from consideration the many sales of considerably less acreage that may have other similar characteristics. Another consideration is whether zoning or restrictive covenants on the subject will permit alternative uses. If so, the highest and best use may be as something other than a golf course, and the appraiser may be asked to value the site either as contributory to the golf project or based on its highest and best use. Often the best approach is to research land sales with similar zoning and then compare differences in physical characteristics, such as terrain, soils, the need for clearing, access to water and other resources, and, of course, location.

Of particular importance to golf course sites is the physical shape of the site, as illustrated in the routing discussion earlier in this text. Like many types of development, sites that are square or more regular in shape are easier to develop or configure for a golf course. Additional consideration may need to be given to the shape of the golf course site if it's part of a development with housing or commercial uses. Although many of the great links courses of Scotland are long, narrow sites, development on and maintenance of courses on these sites present challenges. One hundred fifty acres is not simply 150 acres when one parcel is square and the other is irregular in shape or a long, narrow site with limited flexibility or dramatic terrain.

Land with the necessary approvals in place typically enhances the value of the site significantly and should also be considered. If the appraiser can gain a thorough understanding of the intended use of the sale or the motivation for purchase, this is most helpful. The more consistent the sale is with the anticipated characteristics of the subject, the better. It's often difficult to identify sales of sites for golf course development, but obviously that would be the ideal situation. Because land is not depreciable, estimating land value is often called for as part of acquisitions as buyers seek to allocate purchase prices to establish a basis for depreciation. Only since 2001 have golf course owners been able to depreciate golf course improvements for federal tax purposes, resulting from an



effort by the golf industry, led by tax consultant William Ellis and the NCGOA, which resulted in IRS Revenue Ruling 2001-60.¹⁵

Replacement/Reproduction Cost Estimate

The cost estimate for a golf property involves several elements. First, there's the golf course construction itself, including such elements as earth moving, clearing, shaping, irrigation, grassing, and grow-in. To that, add construction of the clubhouse, maintenance facility, and any other facilities and buildings, like swimming pool and tennis courts.

Costs can be estimated using one of the following methods:

- **Unit costs**

Typically used on a cost-per-hole basis, this method is used widely because of its simplicity. The best resource for this is the Marshall and Swift Valuation Service.

- **Detailed cost estimates**

Most appraisal assignments don't require a detailed cost estimate, and for older courses these may be difficult to develop. Typically, a detailed cost estimate will include all the components of the golf course and other items. It is essential to consult with a golf course architect or contractor to get the proper quantities (earth moving, irrigation, seed, etc.). A detailed cost estimator is available from the Golf Course Builders Association of America at www.gcbaa.org/resources/cost-guide. This is a very detailed Excel template (DEMO) that provides line items for most of the elements one would need to construct a golf course and is illustrated later in this book.

The sources for these cost estimates require research in multiple areas. Of course, appraisers often have access to cost services like Marshall and Swift Valuation Service, and there are golf course estimates included in these. However, the best estimates come from golf course architects and golf course contractors. Each of those groups are represented by professional organizations like the American Society of Golf Course Architects (ASGCA, www.asgca.org) and the Golf Course Builders Association of America (GCBA, www.gcbaa.org). If a precise estimate of golf course construction is required, members of these two organizations can be invaluable to the appraiser. If the architect of the course being appraised is reachable, they can likely provide a reliable estimate of the current cost to reproduce the course. If the course is relatively new, actual incurred costs may be available and would provide excellent guidance.

The question that often arises for appraisers is whether replacement or reproduction cost is estimated. For golf courses, those two terms *can* be interchangeable, but not always. Since golf courses are each unique and no two are truly alike, replacing one without reproducing it is al-

15. www.irs.gov/pub/irs-drop/rr-01-60.pdf

most impossible. The evolution of golf course design and construction, however, is such that few golf courses would ever be exactly reproduced because irrigation, turfgrass, drainage, bunker, and construction techniques have advanced through the years. The design may be possible to reproduce but one of the elements of most renovation projects is the updating and upgrading of all those components. Typically, the design is updated (usually with added length and hazard placement) to meet modern advances in equipment and the golf ball as well as more physically capable golfers.

The more general cost per hole estimates that are typically found in the Marshall and Swift manuals are very broad in nature and don't often allow for adequate consideration of the amount of clearing, earth moving, or irrigation work that might be required on a specific site, which can be estimated by an architect or contractor, especially one familiar with the property. Additionally, features (bunkers, size of greens, tees, fairways, etc.) vary from course to course and can contribute significantly to the construction cost of any course. A detailed cost estimating form, as provided by the GCBA, is shown in Exhibit 9.14.

Of particular importance, especially with golf properties that are part of developments or resorts, is allocating costs accurately to the club. Often items like excessively long entry roads designed to show off real estate, lakes designed to create waterfront lots, or overbuilt clubhouse facilities are developed to enhance real estate value. These costs should not be allocated to the club or should be deducted as depreciation.

Depreciation

Like any other type of property, golf courses experience depreciation from the three typical sources: physical deterioration, functional obsolescence, and economic obsolescence. The methods of estimating depreciation (age-life and breakdown) for golf courses are similar to those used for other properties.

Using age and life relationships to estimate depreciation for a golf course may be useful in developing sinking funds for replacement reserves, but many golf courses, if well maintained, can actually benefit from maturation over time. Along with the widely varying life expectancies of different golf course components, this renders an age-life analysis problematic in the marketplace of golf property buyers and sellers. The breakdown method of estimating depreciation may be more useful.

In addition to the typical depreciation sources found in the improvements at other types of properties, golf courses have some unique sources of depreciation that are listed in Exhibit 9.15.

Physical deterioration is evident in golf courses in the form of antiquated or malfunctioning irrigation systems, bunker systems, and greens. Sometimes, turfgrass also becomes outdated and requires replacement. Over time, greens contract in size, and along with bunkers





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Predefined Project Type	Enter Manual Quantities	Units	Predefined Project Type Unit Prices	Project Totals
1.00	Manual / Over Ride	LB	\$ 118,213.95	\$118,213.95
Section Sub Total->				\$118,213.95

75.00	Manual / Over Ride	AC	\$ 3,500.00	\$262,500.00
-	-	EA	\$ 850.00	\$0.00
-	-	EA	\$ 560.00	\$0.00
-	-	EA	\$ 325.00	\$0.00
5.00	Manual / Over Ride	AC	\$ 4,500.00	\$22,500.00
Section Sub Total->				\$285,000.00

60,000.00	Manual / Over Ride	AC	\$ 575.00	\$0.00
60,000.00	Manual / Over Ride	CY	\$ 1.84	\$110,400.00
-	-	CY	\$ 1.85	\$111,000.00
-	-	CY	\$ 1.75	\$0.00
Section Sub Total->				\$221,400.00

300,000.00	Manual / Over Ride	CY	\$ 2.15	\$645,000.00
50,000.00	Manual / Over Ride	CY	\$ 1.75	\$87,500.00
Section Sub Total->				\$732,500.00

1.00	Manual / Over Ride	LB	\$ 185,000.00	\$185,000.00
Section Sub Total->				\$185,000.00

7,500.00	Manual / Over Ride	LF	\$ 5.50	\$41,250.00
7,500.00	Manual / Over Ride	LF	\$ 7.50	\$56,250.00
7,500.00	Manual / Over Ride	LF	\$ 9.25	\$69,375.00
2,500.00	Manual / Over Ride	LF	\$ 15.00	\$37,500.00
250.00	Manual / Over Ride	EA	\$ 300.00	\$75,000.00
50.00	Manual / Over Ride	EA	\$ 650.00	\$32,500.00
25.00	Manual / Over Ride	EA	\$ 350.00	\$8,750.00
1.00	Manual / Over Ride	LB	\$ 8,000.00	\$8,000.00
Section Sub Total->				\$318,675.00

1.00	Manual / Over Ride	LB	\$ 300,000.00	\$300,000.00
Section Sub Total->				\$300,000.00

What's This? MOBILIZATION / General Conditions (This Will Vary From 1% to 5% of The Final Project Subtotal)
 * V.6 Cost Guide Calculations Will Use 1.5% of The Final Project Subtotal. No Data Entry Required

What's This? CLEARING
 2 Mass Tree Clearing (This is Based on Open Burning, if Debris is Cripped It is Also Covered in This Item)
 3 Individual Tree Clearing Large
 4 Individual Tree Clearing Medium
 5 Individual Tree Clearing Small
 6 Hand or Select Clearing

What's This? EXISTING GRASS REMOVAL
 7 Strip Herbicide (3 Applications to Eradicate Existing Turf)
 8 Strip Existing Grass Rootzone 4" Depth to Stockpile or Bury Pit
 9 Topsoil Replacement 4" Depth From Stockpile
 10 *Bury Pit Construction (This Item Covers the Burial of Stripped Root Zone Materials from Line Item #8)
 *If Bury Pits are Required, Enter The Cubic Yard Value from Line Item #8 Into The "Manual Over Ride" Column.

What's This? EARTHWORK / LAKE EXCAVATION
 11 Lake Excavation (Rock Excavation is Not Included. Rock Excavation is Quoted on a Site Specific Basis)
 12 Site Cuts (Rock Excavation is Not Included. Rock Excavation is Quoted on a Site Specific Basis)

What's This? SHAPING
 13 Shaping

What's This? DRAINAGE
 14 4" Solid Pipe (Green, Bunker & Tee Run-Off Lines)
 15 6" Solid Pipe (Fairway Drainage)
 16 8" Solid Pipe (Fairway Drainage)
 17 12" Solid Pipe (Fairway Drainage)
 18 Catch Basin 12" Grate (Fairway Drainage)
 19 Catch Basin 18" Grate (Fairway Drainage)
 20 Catch Basin 12" Within CarPath
 21 GPS As-built Drawings of Drainage System and Features

What's This? STORM DRAINAGE (Allowance)
 22 ALLOWANCE (Covers Basic Requirements for Storm Drainage System)

Exhibit 9.14 GCBA Cost Estimating Form (continued)



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Quantities	Quantities		Unit Prices	Totals

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IRRIGATION SYSTEM

23	23	2,000.00	EA	\$	990.00	\$2,000,000.00
24	24	2,000.00	EA	\$	96.96	\$193,920.00
25	25	-	LF	\$	15.00	\$0.00
26	26	-	EA	\$	15.00	\$0.00

PUMP HOUSE AND PUMP STATION

27	27	1.00	LS	\$	120,000.00	\$120,000.00
28	28	1.00	LS	\$	5,000.00	\$5,000.00
29	29	1.00	LS	\$	3,000.00	\$3,000.00
30	30	1.00	LS	\$	50,000.00	\$50,000.00
31	31	1.00	LS	\$	20,000.00	\$20,000.00

ELECTRICAL WORK

32	32	1.00	LS	\$	10,000.00	\$10,000.00
33	33	1.00	LS	\$	5,000.00	\$5,000.00
34	34	1.00	LS	\$	5,000.00	\$5,000.00
35	35	1.00	LS	\$	12,000.00	\$12,000.00
36	36	1.00	LS	\$	20,000.00	\$20,000.00

GREENS CONSTRUCTION

37	37	120,000.00	SF	\$	3.50	\$420,000.00
38	38	12,000.00	LF	\$	6.95	\$83,400.00

TEE CONSTRUCTION

39	39	150,000.00	SF	\$	0.13	\$19,500.00
40	40	200,000.00	SF	\$	1.25	\$250,000.00
41	41	150,000.00	SF	\$	6.45	\$967,500.00
42	42	5,000.00	LF	\$	6.95	\$34,750.00
43	43	50,000.00	SF	\$	0.13	\$6,500.00
44	44	3,500.00	LF	\$	6.95	\$24,325.00

BUNKER CONSTRUCTION

45	45	100,000.00	SF	\$	0.83	\$83,000.00
46	46	2,000.00	TN	\$	30.00	\$60,000.00
47	47	-	TN	\$	67.00	\$0.00
48	48	8,500.00	LF	\$	6.95	\$59,075.00
49	49	115,000.00	SF	\$	1.25	\$143,750.00

** If The Driving Range Tee Does Not Require Mix, Please Deduct That Square Footage From Item #40
 ** If Your Site Is Rocky It Is Important to Contact a GCBAA Member to Evaluate the Cost of Rock Excavation
 ** If The Driving Range Tee Does Not Require Mix, Please Deduct That Square Footage From Item #40



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Item #	Description	Quantities	Unit	Price	Total
50	Install Compacted 4" of Bunker Sand	2,000.00	TN	\$	\$29,200.00
51	Remove 4" of Bunker Sand to Stockpile (Bunker Renovations Only)	-	SF	\$	\$0.00
52	Waste Bunker Construction (Includes Prep, Sand Purchase and Install, No Drainage Included)	40,000.00	SF	\$	\$72,000.00
				Section Sub Total->	\$445,625.00

What's This? CART PATH CONSTRUCTION

53	Remove of Old Cart Path (Offsite Disposal, Wall to Wall removal on 18 Hole Renovation)		SF	\$	0.40	50.00
54	1/2 Concrete Cart Path (4" Depth with 3000 PSI Concrete With Fiber Mesh)	220,000.00	SF	\$	3.30	\$566,000.00
55	4" Concrete Curbing (3000 PSI With Fiber Mesh)	12,500.00	LF	\$	5.75	\$71,875.00
56	1/2 Asphalt Cart Path In Lieu of Concrete (Includes 9" Wide Base Rock Subgrade)		LF	\$	20.00	50.00

*If Asphalt is to be installed instead of concrete, Place a "0" in the Manual Over Ride Column for Line Items #54 and Input the Linear Footage of Asphalt Cart Path for Your Project in the Manual Over Ride Column in Line #56.

What's This? SEEDBED PREPARATION

57	Fine Shaping of All Features	100.00	AC	\$	1,500.00	\$150,000.00
58	Seedbed Preparation, to Include "Rock Poking"	100.00	AC	\$	1,650.00	\$165,000.00
				Section Sub Total->		\$315,000.00

What's This? SOIL AMENDMENTS

59	Greens Fertilization or Chemical Specialization	120,000.00	SF	\$	0.27	\$32,400.00
60	Fairway & Rough Fertilization (This is Done Prior to Grassing in Some Locations)		AC	\$	6,000.00	50.00
61	Fertilizer Application Greens, Tees, Fairways, Roughs,	102.00	AC	\$	450.00	\$45,900.00
62	Application of Lime to Adjust PH - 1 ton/AC	102.00	AC	\$	275.00	\$27,950.00
				Section Sub Total->		\$101,350.00

What's This? GRASSING

63	Greens Surface Grassing (Hand Planted Sprigs or Drop Seed)	120,000.00	SF	\$	0.40	\$48,000.00
64	Tee Surface (Hand Planted Sprigs or Drop Seed, Includes Draining Range)	200,000.00	SF	\$	0.12	\$24,000.00
65	Fairway Grassing (Machine Planted Strips or Seed)	34.00	AC	\$	1,250.00	\$42,500.00
66	Rough Grassing (Machine Planted Sprigs or Seed)	33.00	AC	\$	1,250.00	\$41,250.00
67	Hand Planting Areas (Areas Not Able to be Machine Planted)	348,480.00	SF	\$	0.10	\$34,848.00
68	Soil (Suggested Allowance)	871,200.00	SF	\$	0.36	\$313,632.00
				Total Acres being grassed-->		\$504,230.00

What's This? SPECIALTY ITEMS

69	Demolition of Wood Bunkers and Disposal Offsite		LF	\$	30.00	50.00
70	Installation of 4" to 6" Wood Bulkhead	1,000.00	LF	\$	100.00	\$100,000.00
71	Demolition of Wood Bridges and Dispose Offsite		LF	\$	60.00	50.00
72	Installation of 10' x 3' Ton Wood Pile Bridge	250.00	LF	\$	275.00	\$68,750.00
73	Liberal Shaft Handing With Fish Fence		SF	\$	1.50	50.00
74	Lake Liners (HDPE or PVC)		SF	\$	3.15	50.00
				Section Sub Total->		\$168,750.00

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Exhibit 9.15 Sources of Physical and Functional Golf Course Depreciation

Tees	Greens	Fairways	Roughs	Hazards	Clubhouse	Maintenance/ Accessories
<ul style="list-style-type: none"> • Too small or too large • Uneven surface • Steep side slopes • Compaction • Excessive shade • Poor air circulation • Difficult access • Hazardous location • Poor drainage • Misaligned 	<ul style="list-style-type: none"> • Improper slope • Poor soil mixture • Poor sunlight • Poor circulation • Steep side banks • Poor drainage • Size contraction • Difficult access • Too large • Too small 	<ul style="list-style-type: none"> • Poor drainage • Too narrow • Too bumpy • Too firm • Lack of definition • Excessive slope • Rock outcroppings • Poor turf condition 	<ul style="list-style-type: none"> • Bumpy holes • Trees, brush, and rocks • Wet areas • Clumpy turf 	<ul style="list-style-type: none"> • Overgrowth • Algae • Steep, tall bunkers • Invisible hazards • Poor bunker drainage • Stones in bunkers 	<ul style="list-style-type: none"> • Inadequate spaces • Pro shop visibility • Locker areas • Condition • Inadequate parking • Practice area access • Too big or too small • FF&E 	<ul style="list-style-type: none"> • Narrow cart paths • Inadequate maintenance of roads • Poor condition of cart paths • Deteriorated signage • Deteriorated benches • Limited containment • Inadequate fuel tanks • Unsecured chemical storage • Inadequate equipment storage • Practice area size/turf • Limited maintenance paving • No fencing • Poor outside storage • Water source/storage • Irrigation system • Turf disease • Worn out turf • Deteriorated equipment • Inadequate staff facilities • Turf nursery

cease to function properly, especially with drainage. Tee boxes settle and become irregular and unleveled. While this type of depreciation is difficult to project, these components do wear out and renovation becomes necessary. The typical life of these components is somewhat dependent on their location/climate and how they are maintained. It is often possible for the golf course superintendent to estimate when these elements need to be replaced or rebuilt. Most (not all) of these conditions are curable. However, incurable depreciation can exist from a site being too



small to correct problems like danger zones from adjacent holes that are too close to each other or limited site size precluding expansion where it might be necessary.

Functional obsolescence is evident from a variety of curable conditions such as difficulty for players and maintenance personnel in getting around the site, poor design or construction that results in a lack of functionality (turfgrass cultivation, drainage, or difficult maintenance), and of course instances where the building facilities are either poorly located or designed, resulting in a lack of visibility or ease of access between the golf course and its buildings. Incurable items include forced carries over hazards which can't be reconfigured or the inability to modify terrain that is too steep or correct flooding issues near waterways.

External obsolescence is often the largest source of depreciation in golf courses. Because of market conditions, the cost of developing most golf properties often far exceeds their resulting market value. Herein lies one of the great challenges in developing and relying on the cost approach. The estimate of economic obsolescence can be nothing more than a finger in the wind, unless one simply employs the market extraction method,¹⁶ which considers the value estimates from the sales comparison approach and the income capitalization approach and compares them to each other. The challenge is that instead of comparing value indications from the approaches to one another independently, it becomes necessary for the cost approach to *utilize* the other approaches and rely on their accuracy.

In cases where the course is an amenity to a residential development, often the economic obsolescence is a result of value that is transferred from the cost of the golf course development to the value of the development and its homes. This needs to be acknowledged.

Applicability

The applicability of the cost approach for golf course appraisals is limited. As previously suggested, if market value is sought the approach is rarely, if ever, used by market participants. However, the cost approach can provide useful insight into land value, allocation exercises, and the development of capital reserve funds. If detailed analysis of those elements is not required, the cost approach can be misleading because of the difficulty in estimating depreciation, especially when the property is well maintained and functional. In these instances, the challenge is accurately estimating economic obsolescence, especially when there is limited physical or functional obsolescence, and an excessively large economic obsolescence adjustment would be required to allow the cost approach to correlate with the others.

16. *The Appraisal of Real Estate*, 15th ed., 573.

For some reason, courts in many jurisdictions (as will be addressed in the chapter on litigation valuation) favor the cost approach. In some states, it's because the cost approach is required for some types of cases and in others it's likely because the cost approach is easier for nonappraisers to follow. Thus, the appraiser may find that a cost approach is necessary to avoid disqualification as an expert witness.

Another applicability of the cost approach is the recent requirement of many clients (mostly banks) to require insurance valuations. Typically, a depreciation estimate is not required for insurance purposes, so that challenge is removed. The cost sources mentioned above are excellent resources for this task. As shown later, the cost approach can also be useful in the allocation of real and personal property. A sample of a cost approach summary is shown in Exhibit 9.16.

Common mistakes in developing the cost approach include:

- Underestimating costs
- Overstating costs as a result of improvement attributable to development
- Not including soft costs in estimates
- Excluding entrepreneurial incentive
- Excluding ancillary facilities
- Errors in depreciation estimates

Exhibit 9.16 Sample Cost Approach Summary

Golf course reproduction cost new			
Golf course development	18 holes		\$3,500,000
Clubhouse	15,000 sq. Ft.	\$250.00	\$3,750,000
Pro shop	1,500 sq. Ft.	\$250.00	\$375,000
Cart barn	8,000 sq. Ft.	\$100.00	\$800,000
Maintenance facility	8,000 sq. Ft.	\$150.00	\$1,200,000
Ancillary buildings			\$500,000
FF&E			\$1,200,000
Soft costs	5%		\$566,250
Total reproduction cost new			\$11,891,250
Accrued depreciation			
10% Physical deterioration			\$1,189,125
15% Functional obsolescence			\$1,783,688
40% External obsolescence			\$4,756,500
Total accrued depreciation			-\$7,729,313
Site value 205 acres	205	\$7,500	\$1,537,500
Subtotal of costs			\$5,699,438
Entrepreneurial incentive	@ 10%		\$569,994
Value by the cost approach			\$6,269,381
Rounded to			\$6,300,000

Conclusion

The cost approach has limited use in most golf property appraisal assignments, largely because it is not reflective of market participants. The cost approach can be useful, however, in establishing sinking funds for capital reserves, planning renovations, purchase price allocations, and, of course, compliance with courts or other jurisdictional regulations that require its development. Those assignments where the cost approach is required to be developed are typically more complex and require additional research as compared to more typical assignments and should be planned for accordingly.

Reconciliation

Reconciling value indications from the three approaches is an exercise in measuring which of the approaches best reflects the behavior of market participants and what data is considered the most reliable indicator of the market, including the supply/demand relationship and its economic implications. The appropriateness of an approach to the intended use of the appraisal is usually directly related to property type. With golf course properties that determination is often based on a familiarity with the specific marketplace and the characteristics of the property being appraised. If market participants are primarily interested in income-earning potential, the final opinion of value may be closer to the conclusion derived from income capitalization than from sales comparison. This is typically the case with golf properties.

It is not unusual to observe appraisers avoiding the income capitalization approach for private, not-for-profit clubs. While many of these properties are, in fact, operated with “zero-based” budgeting seeking no profit or loss, the appraiser seeks to estimate an economic value, which the market has proven (in most cases) should be based on the economics of a for-profit operation both in the income capitalization and sales comparison approaches to accurately reflect the behavior of market participants. One common characteristic is that each of these approaches relies on economics to establish their value.

Given the plethora of information available on capitalization rates, discount rates, and multipliers, the ultimate conclusion as to which approach or approaches yield the most reliable indications of value will depend on the following variables:

- **Quantity of data**
Was there significantly more data available for one approach than the others?
- **Quality of data**
Was better information available for one approach versus the others?



- **Subject property**
Is the subject property profitable? Are likely buyers for the subject more inclined toward using one method of valuation?
- **Accuracy**
Is one approach (for any reason) considered to be more accurate than the others?
- **Credibility**
Is there any reason why one approach is more credible than the others?

For golf course properties, there is a tendency for buyers (currently) to evaluate acquisitions based on gross revenues. This would indicate a preference for using the sales comparison approach, which can generate market-derived *GIMs*. However, it would be safe to say that for properties with stabilized, positive cash flow, both buyers and sellers would tend toward consideration of a multiple or capitalization rate applied to either EBITDA or to *NOI*, which would suggest reliance on an income capitalization approach.

With most golf properties, transactions occur either from distress or because the buyer feels he or she can enhance the property's economic performance. Accordingly, this would indicate that the appraiser often needs to look forward to see if suitors exist for the property and consider what if any improvements to performance could be achieved. If a property is improperly positioned, it might suggest that the most indicative method of valuation is a DCF analysis in the income capitalization approach. In litigation, courts are typically skeptical of DCF and care should be taken to avoid exclusive reliance on this method in these cases.

Reconciliation in golf property appraisal assignments is best left to the indications from the market and fundamentals for the market—users—which also requires intimate knowledge and analysis. This requires an intimate knowledge of the current pulse of the market for the sale of golf courses that would come from interviewing participants, brokers, lenders, and appraisers who frequent the golf course market space, along with an understanding of the characteristics of the subject property and its market appeal.

It should be noted that assuming the appraiser has considered all the sources of income, the value resulting is that of the going concern. Accordingly, in an assessment-related assignment with a banker lending exclusively on real estate or even a buyer or seller allocating their transaction price, an allocation may be required to identify real property value.





Allocation of Real and Personal Property

Among the most challenging issues in golf property appraisals is the allocation of real and personal property. USPAP Standards Rules 1-3(e) (iii) and 1-4(g) require that an appraiser identify any personal property that is included in an appraisal and that the impact on value of such non-real property be analyzed.¹

Allocating values to the different assets is *not* a USPAP requirement. Since most golf course transactions include significant personal property (including tangible personal property, trade fixtures, and intangible items), when real property value is sought, like in tax assessment appeals and eminent domain cases (among others), an allocation of real and personal property is indicated.

According to *The Appraisal of Real Estate*:

Intangible assets are inherent in the operation of some property types. In those cases, appraisers do not ask whether intangibles exist, but rather how the intangibles should be measured. The same is true of personal property. The challenge of accounting for the value of non-realty assets is complicated by the variety of property types and markets in which they are traded. For example, intangible assets inherent in the operation of sports stadiums may be treated differently by market participants than the manner in which market participants treat intangible assets inherent in convenience stores. Intangible assets inherent in health care properties may be treated differently by buyers and sellers in that market than by buyers and sellers of regional malls. How market participants treat these assets may change over time and may be an unresolved issue, and various methods have been developed for appraisers to consider. One of the most reliable procedures for appraisers to follow is to interview active buyers of a specific property type (that is the same as the subject property) to determine what the actual market makers believe they are purchasing and how and why they make value allocations. Because all of the methods are

1. *Uniform Standards of Professional Appraisal Practice*, 2020-2021 ed. (Washington DC: The Appraisal Foundation, 2020), SR 1-3(e)(iii) and 1-4(g).

subject to criticism, the professional appraiser should exercise judgment as to which method, or combination of reconciled methods, provides a credible conclusion.²

Golf properties would be included among those properties that likely include other assets beyond just real estate.

Some abbreviations to be used in this discussion are:

- *V* = value
- *GC* = going concern
- *RP* = real property
- *TPP* = tangible personal property
- *IPP* = intangible personal property

The term *business enterprise value* is not included, as it is sometimes confused with *GC* value, *IPP*, or both. Under the going concern premise, a fundamental constant is the equation:

$$VGC = VRP + VTPP + VIPP$$

The value of the going concern is equal to the value of the real property plus the value of the tangible personal property plus the value of the intangible personal property.

One of the most challenging aspects of allocation comes from the unique nature of golf properties. For instance, it is acknowledged universally that golf carts are personal property. Accordingly, some simply deduct the revenue generated by golf cart rentals from the income/expense model when seeking real property value. This can be troubling if the question is raised as to whether any of the golf cart revenue would be generated without the existence of the golf course. Many courses lease their golf carts, and in some states both the revenue from and lease expense of the carts is removed from consideration in real estate tax assessment cases as a step in isolating real property value. In some cases, the question arises as to whether the value of equity memberships in private golf clubs is akin to an interest in real property and whether they should be included in the analysis. While unlikely that an absolute solution to the challenge of allocation will be resolved herein, an attempt will be made to present the various options and their strengths and weaknesses.

The most prominent cases where allocation is used are real estate tax assessment cases and eminent domain cases where the fee simple value of real property (as opposed to going concern value) is typically the objective of the appraisal assignment. Additionally, assignments where a purchase price allocation is required indicate that not only real and personal property be allocated, but also land and improvements. Banks also often require real property value, so this is an area of increased interest. While sometimes unable to loan on going concern value, banks making such loans must structure the loan in three parts: real estate, equipment, and business.

2. *The Appraisal of Real Estate*, 15th ed. (Chicago: Appraisal Institute, 2020), 670.

As illustrated in previous chapters, each of the approaches to value (even the cost approach) in a golf property appraisal includes personal property elements as part of the going concern which may need to be allocated.

There have been numerous methods of allocation applied to golf properties through the years. Each of the traditional approaches to value has been employed. Each presents a solution, but most focus on *either* tangible or intangible personal property but not *both*. Each has its flaws and shortcomings. These are discussed as follows.

Tangible Personal Property

At golf properties, *TPP*, which is often referred to as furniture, fixtures, and equipment (FF&E), typically includes items like maintenance equipment, tools, supplies, golf carts, pro shop merchandise/inventory, kitchen equipment, furniture, dishes, and silverware, along with all the other items needed to run a club. The methods of measuring their value are typically based on some type of cost analysis. These methods include:

- **Modified book value method**
In the modified book value method, book value is used as a starting point, but the appraiser makes adjustments from book value based on observation of all the assets to arrive at a market value estimate.
- **Comparable course method**
The comparable course method utilizes costs from comparable facilities to determine a cost new and then employs an estimate of depreciation by percentage based on the age and expected remaining life of the assets.
- **Asset grouping method**
The asset grouping method groups assets by department, and an average cost is estimated. Depreciation is also estimated by department to compile an estimate of market value.

Since none of these methods consider the actual market for used equipment, weaknesses exist that are subject to scrutiny.

- **Personal property appraisal**
Although it is not usually available to appraisers or part of the scope of most appraisal assignments, a personal property appraisal would result in the most accurate method of valuation. There are markets for used maintenance equipment, golf carts, and other items from golf course operations, and these instances where equipment is bought and sold would allow the appraiser to most accurately estimate the *market value* of the personal property. A source of reliable information is equipment suppliers, who are often asked to assist in disposing of used equipment.

A question that arises in the personal property analysis is whether it is more appropriate to measure the value of *TPP* based on use



value or value in exchange. Since the golf course is typically being sold as a going concern, the issue is not what the value in exchange of the equipment is, but rather what its contributory value to the going concern is. This would seem to dilute the credibility of the personal property appraisal as mentioned previously. This is one area where the various methods mentioned previously are of considerable value.

Intangible Personal Property

IPP is one of the most difficult elements of a golf property to value. The *IPP* might include a “brand” (Invited (formerly ClubCorp), Kemper, Troon, etc.) influence on professional management or high-profile reputation that some clubs have by virtue of hosting major events or being highly ranked, an assembled workforce (most notably the golf course superintendent, general manager, golf pro, or chef), a business name, non-realty (favorable cart and equipment) contracts, non-realty leases, membership, and innovations. There are sometimes disputes as to what is *IPP* versus real property. For instance, many cases dispute whether equity memberships in private clubs constitute ownership in real property (the club) or a license to use (pay rent through dues) that would be considered *IPP*. Some of the more widely known methods of estimating the value of *IPP* include the following:

- Excess earnings technique
- Parsing income method: Total excess earnings model (TEEM) and enhanced TEEM
- Sales of golf course business opportunities
- Cost approach (residual/segregated value technique)
- Parsing income method (imputed rent)
- Management fee technique
- Market rent method

None of these techniques are foolproof. The appraiser faces the test of reasonableness, analyzes allocation in a convincing manner, and chooses a methodology that suits the specific situation at hand.

Excess Earnings Technique

In the excess earnings method, a stabilized net income is calculated after removing expenses that may be unique to the owner, and required returns are calculated for each identifiable tangible and intangible asset with the residual being income attributed to the *IPP*. The weakness in this method is that the individual asset values are typically based on cost or depreciated cost, as market value by asset is difficult to measure. Furthermore, the required rates of return are also typically difficult to support and are usually based on a derivative of the overall capitalization rate. An example is shown in Exhibit 10.1.



Exhibit 10.1 Excess Earnings Technique

Excess Earnings Calculation of Stabilized Net Income				
Income Adjustments		Summary of Asset Value		
Taxable Income	\$501,455	Land		\$1,000,000
Plus:		Golf course		\$2,500,000
Depreciation	\$250,000	Buildings		\$2,000,000
Interest	\$150,000	Equipment		\$500,000
Inventory adjustment	\$200,000	Inventory		\$100,000
Less:		Operating capital		\$200,000
Owner's salary	\$70,000	Liquor license		\$50,000
Retirement plan	\$20,000			
Car expense	\$6,000			
Other personal total adjustments	\$2,500			
Stabilized Net Income	\$1,002,955			
Determination of Asset Returns & Recapture Requirements				
Asset	Values	Return	Recapture	Portion of Net Income
Land	\$1,000,000	8%		\$80,000
Golf course	\$2,500,000	10%	6%	\$400,000
Buildings	\$2,000,000	10%	3%	\$260,000
Equipment	\$500,000	12%	10%	\$110,000
Inventory	\$100,000	15%		\$15,000
Operating capital	\$200,000	8%		\$16,000
Liquor license	\$50,000	8%		\$4,000
Required net income				\$885,000
Stabilized net income				\$1,002,955
Difference - net income attributable to business				\$117,955
Value of IPP		@	20%	\$589,773

Parsing Income Method: Total Excess Earnings Model and Enhanced Total Excess Earnings Model

The parsing income method is a variant of the excess earnings method of business valuation. The total excess earnings model and enhanced total excess earnings model are further refinements of the allocation of income.

The 2011 *Appraisal Journal* article "Using TEEM-Work to Extend Your Reach to the Real Estate/Business Value Continuum" by Franz Ross and Adam Alessi³ presents the TEEM dating to the 1920s, which more effectively addresses those assignments where the appraiser can more easily develop *RP* value but also needs to identify and estimate accurately

3. Franz H. Ross and Adam A. Alessi, "Using TEEM-Work to Extend Your Reach to the Real Estate/Business Value Continuum," *The Appraisal Journal* (Summer 2011).

the values of tangible and intangible personal property. This is somewhat different than most golf property assignments, where the appraiser seeks to isolate *RP* value from the going concern. TEEM suggests starting with the cost approach to value the *RP* and working through the development of rental estimates and capitalization rate developments to solve for business enterprise value. For golf properties this is problematic because of the limited reliability of the cost approach. The enhanced total excess earnings model (ETEEM) was introduced in the 2015 *Appraisal Journal* article “Asset Allocations: Are You Reconciling?” by Franz Ross and James K. Tellatin.⁴ This article interestingly also introduces the term *real estate centered enterprises (RECE)*, which golf courses most definitely are. ETEEM does start by solving for the value of the *GC*, but only develops a real estate capitalization rate using the cost approach with its limitations. An example is shown in Exhibit 10.2.

Exhibit 10.2 The ETEEM Model					
		Real Estate	Property	Intangibles	Enterprise Value
1	Appraised value	\$4,500,000	\$475,000	-\$248,812	\$4,726,188
1A	Source	Cost approach	Cost approach	Residual value	$V = I/R$
2	Net EBITDAR	\$360,000	\$104,500	\$36,955	\$501,455
2A	Source	$I = V \times R$	$I = V \times R$	Excess earnings found via subtraction	Pro forma <i>NOI</i>
3	Cap rate	8.00%	22.00%	-14.85%	10.60%
3A	Source	Market-derived RE cap rate	RE Rate + 700 BP premium	$R = I/V$	Market-derived cap rates

Sales of Golf Course Business Opportunities

Analyzing sales of golf course business opportunities would likely be the best method for estimating business enterprise value. However, the number and frequency of such sales are limited, since golf properties typically trade as going concerns, including *RP*, *TPP*, and *IPP*.

Cost Approach (Residual/Segregated Value Technique)

The residual/segregated value technique is simply a technique where the *RP* is valued by the cost approach and the residual remaining from the purchase price or value of the *GC* asset less the *TPP* is the *IPP*. With golf properties, the speculative nature of estimating depreciation makes this method a challenge to support. This method is typically considered an element of the cost approach.

4. Franz H. Ross and James K. Tellatin, “Asset Allocations: Are You Reconciling?” *The Appraisal Journal* (Summer 2015).



Parsing Income Method (Imputed Rent)

Of particular interest is a variant of the parsing income method called “imputed rent” in a 2002 decision of the South Carolina Administrative Law Judge Division.⁵ In this case some interesting observations were made. First, according to the court, golf carts and the revenue generated from golf carts are already taxed from sales taxes, personal property tax, and federal income tax on the revenues. Further, the judge found that the county’s appraiser erred in including revenues from personal property, such as pro shop merchandise, F&B, and golf cart rentals. The taxpayer’s appraiser calculated *NOI*, subtracted revenues attributable to personal property, and then added back an imputed rent for the pro shop operation, F&B, and golf cart operation. From this “restated revenue” was deducted operating expenses directly attributable to the real estate, but specifically excluding all expenses directly related to the golf cart, F&B, and pro shop *operations*. In this case, the taxpayer’s appraiser then estimated and deducted *corporate expenses* from the restated revenues to arrive at an *NOI*. The judge found this “imputed rent approach” to be a proper method. In testing this method on several examples, it was observed that with limited *NOI* properties, there often was no income left to be attributable to the business enterprise value. However, when the property was a higher-income property with considerable *NOI*, it worked more effectively.

Management Fee Technique

Golf course management firms market their services on the basis that enhanced performance will exceed the amount of the management fee. Accordingly, in utilizing this technique, it is assumed that capitalization of the management fee accounts for the value of the *IPP*. The weakness in this method is that it fails to recognize some of the other *IPP* components that exist, most notably business value to the owner. This method suggests that all business value is retained by management, who usually has no investment. Thus, it fails to recognize any return on and of investment, which most would assume as necessary to any acquisition. This method also does not follow the basic economic theory that gives priority of claim to the tangible assets factors of production being paid first at their full opportunity cost before making any determination that business value exists. Business value is the true residual and only exists after all other factors of production are paid (priority of claim).

Market Rent Method

Among the more recently developed methods of allocation for golf properties is the market rent method. This method, described in the 2015 *New*

5. South Carolina Administrative Law Judge Division, *Sea Pines Plantation Co, Inc. v. Beaufort County Assessor*, Docket No. 01-ALJ-17-0018-CC.

England Real Estate Journal article “The Appraisal Institute’s Analysis and Valuation of Golf Courses and Country Clubs” by Jeffrey Dugas⁶ as a derivative of the sales of golf course business opportunities method, is slightly different. This approach utilizes an estimate of market rent which is then capitalized into the value of real property (VRP). Advocates of the market rent method say that it addresses real property value more directly than the other methods by isolating a rental estimate for the real property exclusively. Opponents of the method claim that rental data for golf course properties is too inconsistent to be reliable and that the breakdown of revenues (when used versus a percentage of total revenue) often used in this method to develop rental estimates for each department is too speculative and not supportable. The market rent method has become accepted in New York State in tax certiorari matters involving golf course properties, and with an interesting “twist.” When this method is used in the valuation of private clubs, the market rent is often estimated with comparables of daily-fee and municipal courses. These operations are significantly different than private clubs, and the rents are not competitive. There are many examples of upscale private clubs being required to be valued as if they were daily-fee courses, and the resulting value indications can be confusing to say the least. Additionally, municipal courses are often tax-exempt, introducing another variable to the comparison. Lease rates for many courses have been observed at rates not supportable by historical or projected revenues, and the base rental rates or percentages of gross revenue often used don’t relate to the subject property, especially in those instances where the comparable data is from daily-fee or municipal courses and the subject is a private club operating on entrance fees and dues versus daily green fees. For now, the market rent method has been focused largely on New York State, and it is certainly a tool for appraisers in situations where an ample supply of truly comparable rentals exists and is available and where that data is consistent enough to indicate conclusive trends. It would probably be safe to conclude that the market rent method could be used in jurisdictions other than New York, but using comparisons of private to daily-fee and daily-fee to private has pitfalls for all the obvious reasons. In 40+ years of analyzing golf and club property sales, I have yet to hear of a transaction price based on a capitalized rental value. Furthermore, the notion that market rent can be exclusively indicative of real property value (as opposed to the going concern) is flawed in its customary application because the comparable rentals and ultimately the economic (market) rental estimate for the subject property are typically based on a percentage of operating revenues (going concern).

After reviewing numerous articles advocating a variety of methods of allocation, what is clear is that each has at least one “wrinkle.” Therefore,

6. Jeffrey Dugas, “The Appraisal Institute’s Analysis and Valuation of Golf Courses and Country Clubs” *New England Real Estate Journal* (October 30, 2015).

The Market Rent Method in Court

The 2020 New York Supreme Court decision in “Sleepy Hollow” (66855/2012)⁷ has supported and reaffirmed the (flawed) approach of using “comparable” rentals from (often affordable level) daily-fee and municipal golf facilities to develop estimates of value for (in this case and others) upscale private country clubs. Few, if any, clubs (or golf facilities) are sold based on capitalized economic rent. They are almost always predicated on a multiple of gross operating revenues or capitalization of net operating income. The disconnect is obvious and the use of affordable, daily-fee golf course leases to estimate market rent for upscale private clubs is akin to comparing McDonald’s to Ruth’s Chris.⁸ Both are restaurants, but that’s where the similarity ends. In the federal courts, rules of evidence are often predicated partially on what are known as the “Daubert Tests.” Named after a federal court case, these can determine whether an appraiser’s (or any expert witness’s) testimony is admissible in federal court, and while not required can be used as a guide in state courts. Basically, an expert witness (as opposed to a fact witness) is someone with specialized knowledge or skills who can offer an opinion that is substantiated with data. There are four tests resulting from the “Daubert” case from 1993 that determine whether the witness has demonstrated specialized knowledge or skill. These are:

- **Tested**
Whether the theory or technique used by the expert can be, and has been, tested
- **Peer review**
Whether the theory or technique has been subjected to peer review and publication
- **Error rate**
The known or potential rate of error of the method used is known or predictable
- **General acceptance**
The degree of the method’s or conclusion’s acceptance within the relevant scientific community.

There is little, if any, market evidence that the market rent technique can be (or has been) *tested* in the marketplace. Accordingly, this approach is theoretical and not indicative of market activities.

it becomes incumbent upon the appraiser to tailor the analysis to the specific property being appraised.

Conclusions to be drawn from this discussion include the following:

- Some of the previously discussed methods are more reliable when estimating the value of *RP* (which is unusual with golf properties), and others are more reliable when *GC* value is more easily calculated.
- Tangible and intangible personal property should be addressed *separately* in order to achieve the most reliable and credible results. The *TPP* has priority of claim to income and value over *IPP*.
- The cost new of most *TPP* assets is typically going to be the starting point for many allocation analyses.
- When a detailed personal property appraisal can be obtained, that should be a great asset. Such a report is often not available nor within the scope of most appraisal assignments.

7. *Sleepy Hollow Country Club v. Town of Ossining and Briarcliff Manor Free Union School District*, Index 66855/12, 65431/13, 66118/14, 66569/15, 64361/16, State of New York Supreme Court, County of Westchester.

8. Laurence A. Hirsh, “Valuation of Private Golf and Country Clubs for Ad Valorem Taxation,” *The Appraisal Journal* (Spring 2021).



- Which of the discussed methods may prove to be most reliable will depend on what variables are known, the specific data availability, and the characteristics of the subject property being appraised.

It must be reiterated that none of the methods described here are fool-proof. The appraiser faces the test of reasonableness, analyzing allocation in a convincing manner and choosing a methodology that suits the specific situation at hand.





Golf Course Valuation Issues

Comments on Different Course Types

Among the most significant issues with golf properties is that many appraisers view all golf courses as one property type. As discussed earlier, there are four major categories and numerous submarkets within those categories:

- Private
- Semi-private
- Daily-fee/municipal
- Resort

Each type has its own specific characteristics, and noting the differences from an economic and cultural perspective should be explored.

Each of the different segments has its own qualities and presents challenges to the analyst. First and foremost, they each compete in specific and different market spaces, while sometimes still overlapping. One common characteristic is that each rely on economics to establish their value. There are those clubs that rely on annual dues, which is often supplemented by a joining fee of one variety or another. These private clubs take on the character of one-year leases, with the average terms often being longer due to the entrance fees. Conversely, daily-fee and municipal courses rely on more of a “retail” model where players pay as they go and only “rent” the facility for one day at a time. The challenge here is that daily-fee courses are more weather-sensitive and don’t have the luxury of the captive audience that private clubs enjoy. Private clubs, however, can be more sensitive to economic fluctuations, as seen during the Great Recession when many private clubs experienced declining membership and considerable impact to their revenues.

While sometimes indirectly competitive, private clubs and daily-fee facilities are “serving different masters” in separate market segments. It

is virtually meaningless to compare the guest fees at a given private club to the green fees charged at a neighboring daily-fee course. They're not competing for the same customer. Daily-fee facilities depend on volume and sell tee times. Private clubs sell access with uncrowded tee sheets and top playing conditions, for those willing to pay for it. There is a significant market today for the acquisition of member-owned private clubs by for-profit management firms. Remember Robert Dedman statement, "Clubs are run like nobody's business, because they are nobody's business." Firms like Invited (formerly ClubCorp), Heritage Golf Group, Kemper Sports, ARCIS, Landscapes Management, Concert Capital, and others are firmly positioned to acquire and operate member-owned clubs on a *for-profit* basis. Thus, the income capitalization approach is quite relevant for these clubs, despite the frequent assertion to the contrary. The club is then analyzed on a for-profit basis, which is consistent with how it is likely to trade on the open market, as it is firms like these that constitute the marketplace and should be reflected in a valuation analysis.

Staffing, service, atmosphere, and goals at private clubs typically exceed the level of each at daily-fee facilities except for resort facilities, where the objective is the success of the resort as a whole. Many private clubs foster an atmosphere of prestige, rules, and restraint, while the daily-fee courses often have minimal rules and allow a wider variety of dress and behavior and foster a more relaxed environment.

Other than financial viability, the goals of the various types of operations are different as well. Private clubs seek to provide a controlled, insulated environment where members and their families can recreate and entertain personal and business guests in an atmosphere of varying degrees of exclusivity. Daily-fee facilities seek to attract a broader market that is usually not as serious about golf or any other activities offered, and often do so in a price-centric manner. Both daily-fee and private facilities, however, need to provide value where competition is fierce, or survival is at risk.

Of course, for the appraiser or analyst, it is incumbent to understand the mechanics of membership and ownership. Most daily-fee facilities are either investor-owned or municipally-owned. Private clubs can either be investor-owned or member-owned, and the member-owned clubs have a variety of forms, all of which can impact an appraisal, depending on the interest being valued.

All golf properties are not the same, and it is critical to acknowledge that and understand that golf properties of different types and in different markets often present different challenges in analysis and appraisal.





Unique Considerations in Golf Property Valuation

Golf Is an Inefficient Use of Land

Golf properties represent a unique and challenging appraisal assignment. Utilizing relatively large land masses of typically more than 150 acres (18 holes) yet unable to accommodate more than 300 players in a day, golf courses are very inefficient uses of land. Alternative uses are often considered. As a comparison, ski resorts (smaller ones) often have not more than 200-300 acres of (typically steeply sloped) land, and even small areas can accommodate upwards of 1,500 participants in a day. It is not uncommon to see golf courses repurposed for residential, commercial, or other types of development, depending on property zoning, restrictive covenants, and other considerations. Highest and best use analysis can be critical not only for alternative uses but also for appropriate market positioning within the various golf market segments. With each golf property appraisal, consideration must be given to which operating model (within the various golf market segments) represents the most profitable business model given market dynamics and the physical characteristics of the property. It's not enough to simply say that "golf" is the highest and best use. Which of the types of golf facilities works best needs to be determined, and the property should be valued accordingly.

Food and Beverage

F&B revenues are not as profitable as golf revenues. This is one reason why many golf operators only seek properties with a majority of the revenue coming from golf-related activities. Many golf clubs develop large restaurant and banquet facilities with the anticipation of big profits adding to their bottom line and supplementing the golf operation. While there are cases where this can occur, many golf facilities focus too much on F&B and end up with overbuilt clubhouses and operating deficits.

F&B is not the savior of all golf properties. Many golf facilities, especially private clubs, experience significant negative cash flow from F&B for a variety of reasons.

Management

Golf courses represent a unique combination of real and personal property that result in almost all golf courses and clubs trading as going concern enterprises. They are a business that uses a significant amount of real estate when compared to a classic real estate analysis challenge where simply analyzing rental revenues is required. Management is a key element of any golf course. Between providing desirable playing conditions (agronomy/maintenance), good F&B, and adequate levels of personal service, operating a golf course is very much a hospitality enterprise. Management and marketing can make or break the viability of any golf course or club.

Clubhouses

There is a widely held perception among some that golf property value is directly related to clubhouse size. Conversely, it is often excessively large clubhouse facilities that place a financial drain on many golf properties due to the need to staff and power those facilities, even when unused. The big clubhouses are often the reason some clubs fail.

Weather and Climate

A consideration in the review of any golf property's performance is weather and climate. In most locations, golf is seasonal in nature, even in southern climates where despite a year-round ability to play, demand during the hotter months is usually quite limited. Accordingly, courses in the warmer climates experience less daylight during their high season yet still have to maintain the course when play is limited.

In some cases, clubs might experience favorable golf weather during the week and inclement weather on weekends in a given year during their season. It's quite common that some courses' performance can be impacted by not only the amount of poor weather but also when it occurs. There are meteorology services available that track weather conditions at any specific location which enable playable hours to be defined and compiled. While knowing the number of playable hours can be helpful, it doesn't tell the whole story because in many cases poor weather at the start of a day can influence golfers to change plans and not play golf at all despite the prospects for a pleasant afternoon. Evaluating a course's performance using recent weather patterns in comparison to climatic norms can help explain the fluctuations that occur.



Refund Liability

One of the more complicated challenges faced in the appraisal of a golf property is the existence of a membership refund liability. Many private clubs, especially those developed in the 1980s, 1990s, and early 2000s, established membership programs that included the requirement of a membership deposit. In many instances, this deposit was refundable, with the member being entitled to a refund either upon resignation with four or five new members joining, or after 30 years of continuous membership. This structure (of which there are numerous variations) was quite popular with developers who promised new members that they would get their money back and benefitted from long-term use of capital with no tax impact, since the deposits represented a liability on the balance sheet.

Over time, these memberships lost favor as potential buyers of these clubs avoided properties with this liability, which in many cases amounted to many millions, if not tens of millions, of dollars. Depending on the interest being valued, this liability represents a bargaining chip for buyers willing to accept it. The valuation can be done using a present value schedule, listing the amount deposited, date deposited, and maturity date of each membership along with turnover and consideration of “replacement” memberships and discounting the payout into a present value. This represents a conceptual, mathematical analysis of an issue that is realistically more accurately analyzed based on an evaluation of the portion of the prospective buyer pool that may not be willing to consider clubs with such liabilities. Programs are being developed to address this issue, and time will tell which works the best.

Fragmented Ownership of Private Clubs

Among the more complex issues related to clubs is when private clubs have a fragmented ownership. In some cases, clubs formed many years ago by a group of founders admitted members with no ownership privileges. Those with ownership would then establish a club entity and lease the property to the club. Over time and with the evolution of membership, the deaths of some of the original members, and different goals and objectives of their heirs, control of the club became disputed.

Sometimes the leases, which were originally designed to perpetuate the club, became an issue of contention, and those controlling the club (lessee) entity wanted to maintain the (presumably) favorable terms while the heirs of the original members (who often had no interest or position in the club) sought to modify lease terms or terminate the lease and sell the property for a potential alternative use.

These valuation assignments often require some legal opinions and can become contentious, often ending up in litigation. Many clubs have similar structures.



Ad Valorem Tax Assessment, Conservation Easements, and Litigation Valuation

Many golf property appraisal assignments are related to ad valorem tax assessment appeals. Thus, it's appropriate to address issues specifically related to those situations.

Since a taxpayer cannot contest taxes but rather the tax assessment, it reminds one of the old joke about the tax assessor's and the taxpayer's perspective on the same property. They see different things. In the case of golf course properties, the tax assessor sees a large, well-manicured, open space with an expansive building and other facilities, frequented by wealthy people, often wearing brightly colored clothes. Conversely, the taxpayer (golf course owner) views the property as one that requires extensive maintenance, competes fiercely with other courses in the marketplace, and has building and other facilities that aren't efficiently utilized. In some cases, the assessor sees a property that has development potential and is worth considerably more than if the golf course operation is continued.

There are several ways a property owner can contest a tax assessment. These include:

- Seeking relief on his or her own
- Retaining legal counsel
- Engaging the services of a contingent fee property tax representative
- Retaining the services of an appraiser to testify as an expert (which may be required in any of the above).

None of these approaches are mutually exclusive. If the case is ultimately litigated, it's likely that both an appraiser and legal counsel will be necessary.

In most states, assessments must be based on highest and best use, so if a use alternative to golf is viable, an appropriate highest and best use analysis is required. Further, in most states, the burden of proof that the assessment is incorrect is the obligation of the taxpayer, so a proper and credible appraisal is often necessary.

Of particular interest in ad valorem assessment cases is the issue of allocation, as discussed extensively in a previous chapter. Since in many states only real property is subject to assessment and because golf properties trade normally as going concern enterprises, the allocation procedure takes on increased importance.

As a result of both case law and statutory law, the jurisdictional considerations for the appraiser in an ad valorem assessment assignment require research and analysis. In some states, it is perceived that the cost approach is either primary or at the very least required to be developed, despite potentially not being reflective of marketplace behavior. In other states, like New York, a specific methodology (like the market rent analysis) may be required due to preceding case law, such as *Mill River Club v. Board of Assessors*, which found "that the tax issue is best consid-



ered in Market Rent Analysis and that a triple net lease method (without extracting a tax load for the cap rate) is the better method here.”¹ Also, in New York (and possibly other states), highest and best use is *not* a consideration in favor of valuation based on the continued present use as a result of *New Country Club of Garden City v. Board of Assessors*, which concluded that “it was inappropriate to value the property for residential development because it requires valuation of improved property according to its existing use, not a potential one contemplated in the future.”² This methodology was most recently affirmed by the New York courts in *Sleepy Hollow*³ despite its inherent flaws of not being indicative of the presumption of a sale and not being consistent with typical market transactions. This methodology is disputed and discussed at length in this author’s contribution to the Spring 2021 issue of *The Appraisal Journal*.⁴

In Hawaii, *Hawaii Prince Hotel Waikiki Corp. v. City and County of Honolulu* also concluded that “golf courses shall be assessed based on the actual use as a golf course rather than on the valuation based on the highest and best use of the land. The State also mandates that the value established by the golf course to the surrounding land be deducted from the assessment of the golf course as “imparted value.””⁵

Conflicting cases abound on some issues, such as the allocation of real and personal property. In Michigan, *Novi Golf Associates v. City of Novi* concluded (among other things) that “cart revenue and income from the restaurant/banquet and pro shop businesses are to be included in estimating gross revenue.”⁶ Conversely, in South Carolina in *Sea Pines Plantation Co., Inc. v. Beaufort County Assessor*, the court found that “golf carts and the revenue generated from golf carts are already taxed from sales taxes, personal property tax and federal income tax on the revenues. Further, the judge found that the county’s appraiser erred in including revenues from personal property, such as pro shop merchandise, food & beverage and golf cart rentals.”⁷ Accordingly, if you’re in South Carolina, including pro shop, cart, and F&B revenues is precluded, while in Michigan including these would be required.

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1. Supreme Court of The State of New York, *Mill River Club v. Board of Assessors*, 2005-10036, Index No. 97-032206, December 18, 2007.
 2. Supreme Court, Nassau County (NY), Index 12696/88, June 4, 1991.
 3. *Sleepy Hollow Country Club v. Town of Ossining and Briarcliff Manor Free Union School District*, Index 66855/12, 65431/13, 66118/14, 66569/15, 64361/16, State of New York Supreme Court, County of Westchester.
 4. Laurence A. Hirsh, “Valuation of Private Golf and Country Clubs for Ad Valorem Taxation,” *The Appraisal Journal* (Spring 2021): 85-94.
 5. 89 Hawaii 381, 974 P.2d 21 (1999).
 6. MTT Docket No. 260722 (2001)
 7. South Carolina Administrative Law Judge Division, *Sea Pines Plantation Co, Inc. v. Beaufort County Assessor*, Docket No. 01-ALJ-17-0018-CC.

One recent case of particular interest was in New Jersey. This case is known as “*Bear Brook*,” and the court stated the following conclusions:

- “The income approach is seldom appropriate in appraising a private, nonprofit club or a municipal course. This court finds no distinction with semi-private courses such as Bear Brook.”
- “While it is clear to the court that the cost approach is the most appropriate valuation method for Bear Brook...”⁸

The court in *Bear Brook* also quoted the 1980 Appraisal Institute publication *A Guide to the Analysis and Valuation of Golf Courses and Country Clubs* by stating, “Traditionally, the cost approach has been accorded a great weight in the valuation of a golf course because [they] are considered special-purpose property that were not frequently exchanged in the market.”⁹

These findings would appear to be inconsistent with market behavior, and furthermore inconsistent with the more recent 2003 text *Analysis and Valuation of Golf Courses and Country Clubs* which states “Investors rarely use the cost approach to estimate an acquisition price; sellers of these properties rarely apply the approach, either, although some may.”¹⁰ However, the cost approach must be considered in doing ad valorem assessment appraisals in New Jersey. While it stops short of “blessing” the cost approach for all golf course appraisals, this decision implies some level of acceptance for the approach.

A more recent case in New Jersey, *Forest Hill Golf Club*, held that although *Bear Brook* rejected the income capitalization approach to value, and the court found that in this case the methodology used by the experts was flawed, “the court has not determined whether the approach is inappropriate in this matter.”¹¹

These cases can be confusing to the appraiser. However, what is clear is that in each case the appraisers did not satisfy the burden of proof.

One issue that often arises in assessment cases involving private clubs is the status of memberships and revenue from membership entrance fees of all types. This issue is addressed directly in this author’s 2007 *Journal of Property Tax Assessment and Administration* article “Private Golf Memberships: Real or Personal Property?,” which concluded that memberships “are like stock in a company that owns property. The value of the property is not impacted by the value of the stock, and thus

8. *Gale & Kitson Fredon Golf, LLC v. Township of Fredon (NJ)*; Docket Numbers: 007539-2008; 004341-2009

9. Karla L. Heuer, *A Guide to the Analysis and Valuation of Golf Courses and Country Clubs* (Chicago: Appraisal Institute, 1980), 98.

10. Arthur E. Gimmy and Buddie A. Johnson, *Analysis and Valuation of Golf Courses and Country Clubs* (Chicago: Appraisal Institute, 2003), 99.

11. *Forest Hill Golf Club v. Township of Belleville* and *Forest Hill Golf Club v. Township of Bloomfield*, Tax Court of New Jersey, Docket No. 007841-2009 (plus numerous other references).

the membership interest would not be included as real property value.”¹² This is much like personal seat licenses, access to a wholesale buying club, or other similar privileges that are considered personal property and do not directly impact the value of the real property. This was also at issue in the Massachusetts case *Black Rock Golf Club, LLC, v. Board of Assessors of The Town of Hingham*,¹³ where the court held that the income capitalization approach was the preferred method of valuing golf properties and concurred with the appellant’s appraiser that membership revenue not be included. To reiterate, there are conflicting schools of thought on this issue. However, courts and market participants have suggested that membership entrance fees should not be attributable to real property value.

There are cases in a variety of jurisdictions which either promote or disqualify one approach or the other in specific situations or universally for all golf properties. Some of these cases contradict each other. The goal of satisfying the burden of proof and the appraiser’s understanding of the legal landscape as it applies to the valuation of golf properties are both critical to the development of a useful and credible appraisal. The appraiser must not only research the valuation question but must also understand the impact of jurisdictional case law on what elements are to be valued and the methodology to be used.

The “Cost Approach Monster”

This chapter would not be complete without some discussion of the “cost approach monster.” As previously mentioned, the cost approach is not typically reflective of buyer and seller actions in the marketplace, and in most golf property appraisal assignments it has limited usefulness beyond the aforementioned roles in the allocation process, when necessary. However, because the cost approach is typically easier to understand than most income capitalization approach applications and because it avoids the subjectivity present in the sales comparison approach, many courts are more comfortable with the cost approach to value as applied to golf course properties.

The perception is that golf course properties trade infrequently, allowing for few comparable sales transactions. In the case of not-for-profit private clubs, in many instances because of their not-for-profit status, the income capitalization approach is shunned in favor of the cost approach. Neither is an accurate assertion. The presumption of a sale inherent in the definition of market value combined with market activity in the past 25 years clearly indicates that not-for-profit private clubs do

12. Laurence A. Hirsh, “Private Golf Club Memberships: Real or Personal Property?” *Journal of Property Tax Assessment & Administration* 4, no. 3, (July 2007).

13. Commonwealth of Massachusetts Appellate Tax Board, *Black Rock Golf Club, LLC v. Board of Assessors of The Town of Hingham*, Docket Nos. F284357, F288545, March 1, 2010.



trade regularly. The fact that almost all are purchased by for-profit investors strongly indicates that the cost approach is rarely relevant in favor of the income capitalization and sales comparison approaches to value.

There are just under 15,000 golf courses in the United States, with that number having declined steadily since 2000. Those that purchase and operate golf properties are often seeking acquisitions over a wide geographical area, if not nationally, making the market boundaries for buyers generally larger than most other property types. It is estimated by the NGF that since 2007 between 2,500 and 3,000 golf properties have been bought and sold, roughly an average of 200 per year. Depending on their geographic and market segment distribution, that has proven to be an adequate data sample in most instances to evaluate market transactions for a credible and useful sales comparison approach. It is not uncommon to identify 10 or more relevant comparable sales for many golf property appraisal assignments, often limiting the currency of data to the most recent three years.

Many of those sales are, in fact, of not-for-profit private clubs. There is most definitely a market for professional management companies, individual investors, and member groups purchasing member-owned clubs as many member groups conclude that the future of their club is best left to professionals. Remember the old saying that “Clubs are run like nobody’s business, because they are nobody’s business.” Thus, the income capitalization approach is quite relevant, assuming that the club is analyzed on a for-profit basis, which is how most are acquired.

The conclusion to be drawn is that despite the frequent ability of the appraiser to compile the data and perform credible income capitalization and sales comparison approaches, there is an insistence on the part of some to develop a cost approach, even when it might *not* be applicable. Going into any case, the appraiser needs to beware of the potential for the “cost approach monster” and react accordingly.

Because many golf courses do not represent their properties’ highest and best use, appraisers are called upon to value the property for an alternative use, often residential development. Most appraisers are used to applying the sales comparison approach or a subdivision analysis depending on the nature of the property, planning that may have been done, or approvals that may have been obtained. Again, in these cases there are often jurisdictional exceptions that need to be applied, such as in Virginia, where the case known as *Fruit Growers*¹⁴ effectively precludes the use of subdivision analysis in Virginia for assessment appeals. This effectively removes a very useful tool from the appraiser’s arsenal in areas where some clubs would be represented as infill development sites and no truly comparable sales exist in nearby areas.

14. *Fruit Growers Express Company v. City of Alexandria* Record N. 740856, January 16, 1976.

Conservation Easements

Another specific area of golf property appraisals is conservation easements. An open-space conservation easement is a vehicle used by some property owners to monetize the preservation of open space by donating an easement to a qualifying land trust and realize the tax benefit from the diminution of value resulting from the relinquishment of development rights that may exist.

If an appraiser accepts a conservation easement assignment, he or she needs to be aware that the highest and best use analysis is critical. Just because development on the site may pass the test of legal permissibility, doesn't mean it's financially feasible. These cases are scrutinized very closely by the Internal Revenue Service, and the appraiser will be required to sign IRS Form 8283 (certification of value), which exposes the appraiser to considerable scrutiny and possible reprimands from the IRS if they believe the appraisal to be unqualified and potentially promotive of abusive tax shelters. The appraiser will want to ensure that he or she is prepared for that type of scrutiny and exposure.

Any litigation valuation assignment involving golf properties requires specific familiarity with jurisdictional considerations, local case law, and proper valuation methodologies and procedures as well as a fundamental familiarity with golf courses and the golf business. Remember the USPAP Competency Rule and follow it.

Despite this scrutiny, a recent decision in the 11th US Circuit Court of Appeals has affirmed that the presence of a golf course does not disqualify a property from eligibility for a conservation easement.¹⁵

Golf properties are subject to a variety of litigation situations. In addition to those mentioned, eminent domain cases and a wide variety of disputes are typical. The key is to understand what is being appraised in what market segment and to become familiar with the jurisdictional requirements of the location.

Golf Communities

Many of the golf course and club facilities developed since the 1970s are part of and amenities to residential golf and lifestyle communities. In many cases the developer held the club until either a turnover to the membership at a certain point in the sellout of memberships or until the developer was ready to relinquish control of the club and sell to an operator. The golf course, in many cases was a main attraction to homebuyers and often elevated residential real estate values. Appraisers are often called upon to value not only the club, but also the surrounding residential community. There are numerous articles on the process of estimating premiums for lots fronting on golf

15. "Conservation Easements on Golf Courses—A Significant Recent Court Decision" Golf Property Analysts (May 15, 2020) <https://golfprop.com/blog/conservation-easements-on-golf-courses-a-significant-recent-court-decision/>



courses and lots in golf communities but not fronting the golf course with conclusions of potential premiums indicating a large range. If the appraiser is charged with valuing the residential development, this analysis will require considerable time, research, and analysis to solve this appraisal problem with a comparison of golf and non-golf oriented real estate required.

Planning the integration of the golf course and the community is a challenge that incorporates several disciplines, including land planner, engineer, golf course architect, legal counsel, and economic feasibility consultant. There are a variety of physical design options for the golf course which will focus either on maximizing golf course lot frontage or maintaining the integrity of the golf course continuity or something in between.

Among the considerations with golf communities, especially second-home and retirement communities, is the aging of homeowners/members. Since many of the buyers are already senior citizens, they tend to cease playing golf after a shorter time period. Assuming they stay in the community, the club suffers from membership decline. When that occurs, maintenance suffers and home values can take a hit. One of the solutions to this is mandatory membership for all homeowners in the club. Where this concept has been established at the beginning, it has helped to preserve the long-term future of many clubs. Conversely, in aging communities, as membership declines, some communities have attempted to add mandatory membership to the club as a requirement for homeowners and have met considerable resistance.

One element warranting consideration is the number of units in the community. Some communities are smaller and rely on supplementing club membership with members from outside the community. Others are large enough to have more units than the club can handle in members. The appraiser needs to consider this, along with potential absorption, when valuing a club community.

One challenge in golf lifestyle communities is safety. In many cases homes are adjacent to fairways, and if small children are around, they can be in harm's way from errant golf shots. This is an element that requires the appraiser to observe if any unusual risk exists and evaluate accordingly. As discussed in the book *Golf and Law*, items like cart paths, pond banks, entry/exit points, weather hazards, and much more encourage an understanding of the risks inherent on a golf course that need to be considered in valuation.¹⁶

Exclusive of considerations required for the development valuation, it is incumbent upon appraisers to understand the impact of the development and its evolution on the value of the club. There is an interdependency to some degree between the development and the club, so that even when the appraiser is exclusively considering the club, it

16. Michael J. Hurdzan, *Golf and Law: Golf Course Safety, Security and Risk Management* (Book-Baby, 2018).

requires consideration of the development, its place in the life cycle, and its economics. Golf communities represent an opportunity for a unique lifestyle and the potential for added value to the residential homebuyer.

Advising the Client

A credible appraisal not only provides an estimate of value but also should provide valuable insight on challenges to the property being appraised. As such, some more experienced appraisers are being asked to provide consulting and advisory services.

One of the most important advisory services that many golf properties need is advice on market positioning. As the golf industry and markets have evolved, many clubs have repositioned themselves to better respond to demand. In many cases, private clubs have either opened to outside play or converted to daily-fee facilities. In other cases, clubs have repositioned themselves based on price to find a niche in competitive markets. There are numerous examples of clubs that have embarked on major or minor renovation projects to compete more effectively and provide better value. There are also clubs that have focused on expense reduction to the point where dues and fee levels were maintained, but membership declined due to perceived diminishing value. Analyzing and understanding a club's competitive market and that club's relative position and potential in that market is key to not only the club's success but also the credibility of any conclusions the analyst may provide.

Many courses have very limited marketing programs. While many appraisers cannot be expected to provide professional marketing advice, the existence of a limited budget can raise red flags that the appraiser can point out may be grossly deficient when compared to competing courses.

The most important part of the golf experience to the member or customer is the playing conditions of the golf course. Accordingly, golf course maintenance is a critical part of success and a significant financial element for any club. Remember the saying, "When the greens are slow, the hamburger tastes bad." Just because a maintenance budget is at a certain level doesn't mean it's enough or that it may not be too much. The level of playing conditions should be consistent with the target market at competitive pricing.

It's not unusual for the infrastructure of a golf facility to deteriorate over time. Specifically, irrigation systems, pumps, maintenance equipment, and even golf course components like greens, bunkers, tees, and turfgrass wear out. Sometimes F&B quality or service aren't up to par. It is incumbent upon the analyst to observe these conditions and account for appropriate reserves in the analysis, and if necessary, recommend changes that should be considered. As experts in valuation, appraisers are uniquely qualified to assist clubs in renovation planning from the perspective of identifying those items that will contribute most to the value and success of the club.





Common Mistakes in Golf Property Analysis

Some of the more common mistakes observed in golf property appraisals are discussed below.

Comparing Courses of Different Types

Since most appraisers encounter very few golf course assignments, they often perceive a dearth of comparable sales and don't always properly identify the competitive markets. Because of their different operating profiles, comparing private clubs (which focus on annual dues) with daily-fee courses (which focus on revenues from public daily play) can be deceptive. They compete in different markets and often appeal to different groups of buyers. If possible, it is best to focus comparisons for both sales and competitive properties on courses of the same operating type.

Poorly Supported Highest and Best Use

Not only do many appraisers simply determine highest and best use as "golf course" without specifying which type or segment, but there is often no support for the conclusion. The market analysis should provide this, along with an evaluation of the property's historical performance and physical characteristics.

Ignoring Deferred Maintenance or Age of Components

Many golf properties—especially those being sold or that have experienced distress—have old, dated, and often deteriorated components. These can include irrigation systems, cart paths, bunkers, greens, roofing, HVAC, and paving, to name a few. Sophisticated buyers will take note of these elements and negotiate accordingly. The appraiser must understand that even though, for instance, the irrigation system may be functional, if it is approaching or exceeds the expected useful life an expensive replacement may be quickly forthcoming.

Use of Outdated Market Data

Because many appraisers are geographically oriented, they often search only for golf property sales in a very small area. Due to the small number of golf courses and somewhat infrequent sales, many choose to utilize dated sales. There is no rule of thumb about how old a sale can be, and it varies for each assignment, depending on the availability of data. However, with changes in economic conditions should come boundaries for sales selection. For instance, the use of pre-Recession sales for valuations after September 2008 would be difficult to reconcile. Sales occurring pre-COVID are not likely to reflect the surge in golf experienced in 2020 and 2021. Time will tell what comes next.

Inadequate Market Data

Many appraisers fail to “get into the weeds” and get competitive market or sales information past what’s publicly available online. Published rack rates only tell part of the story. When the appraiser is able to learn the number of rounds or members and the gross revenue produced by a club, a picture is developed that really tells the story of the market. Garnering this information takes time and it’s unlikely that success in compiling this information will be 100%, but getting as much as possible is essential.

Irrelevant Units of Comparison

Sometimes because they’re unfamiliar and sometimes because data is unavailable, appraisers rely on irrelevant units of comparison in the sales comparison approach. Using a price per hole unit doesn’t provide a common denominator because most courses have the same number of holes (18) and all have a number that is a derivative of nine. Using price per acre is also irrelevant because the market simply doesn’t buy golf courses that way unless it’s a land bank acquisition. Today, many buyers use a simple gross revenue multiple.

Use of Inappropriate Approaches

Often, appraisers will rely on the cost approach because they find data too hard to compile and other aspects of the golf appraisal process too time consuming to learn. As stated earlier, the cost approach has very limited usefulness in golf property appraisals and is rarely reflective of market activity. Sometimes, the sales comparison approach or income capitalization approach is also unreliable for a number of reasons, including poor data. It is incumbent upon the appraiser to understand how the market would evaluate the property.

Unrealistic Income/Expense Estimates

Often through the use of published rack rates or from not adequately researching comparable properties or understanding the subject property,

appraisers make unrealistic and unachievable income/expense estimates. Sometimes, actual expenses may be excessive and not recognized to the point where value is reflected more accurately through an adjustment using more efficient estimates which are achievable. It is not uncommon for rounds estimates to be unreasonably high, which can significantly impact value. These estimates need to be adequately supported from the market.

Omission of Management and Capital Reserve Expense

Many golf property appraisals fail to allow for management expense (which most buyers include in their analysis) and capital reserves. The funding of replacements on an ongoing basis is critical because if an item is in need of replacement (irrigation, cart paths, etc.) and the owner has not funded for it, the buyer is likely to deduct the cost to cure the deficiency from the purchase price, in addition to an annual funding of capital reserves.

Capitalization Rates

Because golf properties represent the valuation of a going concern, capitalization rates are different (usually higher) than for traditional investment real estate. Multiple sources of data exist for estimating appropriate capitalization rates that are accurately reflective of the marketplace.

Not Visiting the Competition

In today's world of time- and fee-pressured appraisals, few take the time to visit the competitive courses. Not only is it valuable to see what the competition looks like for comparison, but often a visit gleans information from the staff that would be otherwise unavailable. It's also advisable to visit comparable sales. Sometimes, because of the great distances that can be involved, this isn't practical, but when possible comparable sales should be visited.





Conclusions and Takeaways

The 1991 *Appraisal Journal* article “Golf Courses—Valuation and Evaluation” discusses what is being valued in a golf course appraisal assignment.¹ Understanding what is valued is the foundation of most appraisal assignments, but even more so with golf properties.

Because of their unique nature, all golf courses, particularly private clubs, require a determination of the interest being valued. “Fee simple” simply doesn’t adequately describe the interest being valued. First and foremost, a determination is necessary as to whether just real property is being valued or whether the going-concern value is the goal of the assignment. In the case of private clubs, the issue of memberships must be explored. Since most clubs have unique and different membership structures (which are often fragmented), *whose* interest is being valued must also be determined. A club’s culture can also be a factor in determining its market segment. Communicating value opinions for going concerns is discussed at great length in *The Appraisal of Real Estate*.

As discussed in the chapter on market segmentation, the type of club being valued often determines the valuation methodology and the units of comparison to be used in the analysis. With at least five major types of golf properties and many variations of each, understanding the differences and properly identifying the competing markets is essential for accuracy and credibility.

What are the purpose and the function of the appraisal? This can impact the assignment significantly. If the purpose is to estimate the market value of the fee simple interest in real estate only, the appraiser will likely have to employ one of the techniques for allocation discussed previously. Often more important is the function of the appraisal. For

1. Laurence A. Hirsh, “Golf Courses—Valuation and Evaluation,” *The Appraisal Journal* (January 1991): 38-47.

instance, if the assignment is connected to an ad valorem tax assessment appeal, not only will the normal procedure of loading the capitalization rate be required, but the jurisdictional requirements for valuation will also warrant consideration as they might in an eminent domain or matrimonial matter. If the assignment is connected to mortgage financing, it's important to know what the lender is considering as collateral. Is it the going concern (real and personal property) or just real property? Is the lender relying on the value of memberships to be sold in the future? Is there a refund liability that requires a specific analysis to determine the impact of that liability on the appraisal? These are all questions the appraiser needs to ask and understand before embarking on a golf property appraisal assignment.

A golf course appraisal assignment is a most interesting, challenging, fun, and somewhat time-consuming endeavor. Several years ago, Society of Golf Appraisers (SGA) members were surveyed about the length of time necessary to properly complete a typical golf course appraisal assignment. For planning purposes, a summary of that survey is shown in Exhibit 14.1.

	SGA Survey Results: Length of Time Needed to Complete a Typical Golf Property Appraisal Assignment	
	Daily-Fee Course Appraisal (Hours)	Private Club Appraisal (Hours)
Low	30	33
High	150	175
Mean	55.45-72.70	53.0-67.5
Median	60	62.5-81.0
Mode	50-90	50-90

Typically, these time estimates include a site visit, visits to competitive clubs, research, compilation analysis of market data, analysis of the property, development of the approaches, drafting/review of the report, and any necessary travel. It is likely that the time necessary to complete a proper appraisal of a golf property is due to the increased level of sophistication now considered the norm for golf properties, which were historically passed off as “unique” or “unusual” assignments and sometimes limited to the cost approach despite that being inappropriate. In other cases, appraisers inexperienced with golf properties may forego the development of an income capitalization approach because the property has negative cash flow. The sales comparison approach is often overlooked because the inexperienced golf appraiser may not be able to identify comparable sales nearby and could be reluctant to expand the geographic market. The establishment of the SGA and increase in practitioners specializing in the valuation of golf course and club properties have brought



new understanding and methodology to the appraisal of golf properties. One of the purposes of this work is to update that understanding.

The amount of time elapsed from retention to delivery of the completed appraisal report should also be considered. While this varies to some degree based on the appraiser's workload, it often takes time to compile the necessary information, which cannot occur overnight. Useful data cannot be entirely researched online. Thus, the appraiser should calculate into any delivery promise time factors like coordination of travel, the site visit, requests for information, cooperation of competing clubs (research), and weather, which can often delay a site visit. It's also important that the site visit be scheduled for a time when key staff (general manager, superintendent, golf professional) are all available to meet with the appraiser. All appraisers have dealt with quick turnaround assignments. Know what you're getting into.



Glossary of Golf Property Terms

avid golfer. A golfer who has played 25+ rounds in the past 12 months.

bunker. An area of bare ground, often a depression, which is typically covered with sand.

capacity. The total volume of play, typically measured in rounds per year, which a course may physically accommodate without regard to other factors such as waiting time and course maintenance. Capacity is constrained only by sunlight hours and weather conditions. *See also* **desired capacity.**

championship course. A term usually used to describe a course on which championship tournaments are held. Often reserved for courses that, according to the National Golf Foundation, by virtue of their design and maintenance are capable of providing an exacting challenge for superior golfers in regional, state, and national competitions. This term is never used to describe the caliber of a course.

clubhouse. Typically a building that serves as the central gathering area for the golf facility. This building houses any pro shop, food and beverage, or locker facilities that may be on site.

core golfer. A golfer who has played between 8 and 24 rounds of golf in the past 12 months.

course rating. The evaluation of the playing difficulty of a course compared with other rated courses. Courses are rated to provide a uniform basis for the establishment of handicaps. *See also* **slope rating.**

daily-fee facility. A golf facility, available for public access, where players pay a daily fee for each daily use. These facilities have also been segregated into categories based on the normal, published weekday daily fee as follows:

- Affordable
- Affordable upscale
- Upscale

demand. The desire and ability to purchase or lease goods and services. In this book, this term is typically used to describe the level of such desire and ability relative to joining private golf clubs and utilizing daily-fee golf facilities.

desired capacity. The ideal number of rounds (usually expressed annually) which will allow a course to meet its physical and financial objectives. This is formulated in consideration of quality of golfing experience, course maintenance, desired profits, and speed of play that the particular course can accommodate.

driving range. See **practice facility.**

executive course. A course made up exclusively of par-3 and shorter par-4 holes, with a total par of 55 to 66 strokes. Also known as a *precision course*.

fairway. An area between the tee and green defining the desired route between those two points. The fairway is manicured with the shortest-cut grass between the tee and green, facilitating play. A fairway is usually bounded by higher grass called *rough*.

features. Those elements of a golf course which distinguish it from others, such as bunkers, hazards, natural beauty, or strategic or penal highlights of the course.

GCSAA. Acronym for the Golf Course Superintendents Association of America, the professional association of golf course caretakers and managers. A source of research information on golf course maintenance.

golf accessibility rate. The total population of a defined area expressed as the number of persons per each 18 holes available for play.

golf capacity utilization. The actual number of rounds achieved divided by the desired capacity. Private clubs may express this in terms of the number of members divided by the number of desired members.



golf cart. A motorized form of transportation around the golf course that carries players and equipment. Golf carts usually are designed for two players and are either electrically- or gas-powered. Often referred to as *golf cars*.

golf corridor. The land area where a golf course will be located.

golf frequency rate. The frequency with which the population or segments thereof play golf, usually expressed in number of rounds per year.

golf participation rate. The percentage of the total population (over age 12) that plays golf at least once per year.

golf revenue multiplier (GRM). Sale price divided by total golf revenue. A unit of comparison which can be used in the sales comparison approach.

golfer. One who has played golf at least once during the past year.

grassing. The types of grass planted in the different areas of the golf course.

green. See **putting green**.

green fee multiplier (GFM). Sale price divided by annual number of rounds played, then divided by average green fee ($SP \div \text{Number of Rounds} \div GF = GFM$). A unit of comparison which can be used in the sales comparison approach.

green speed. The relative speed at which a ball rolls on the putting surface, normally measured with a device called a Stimpmeter.

grow-in. The period of time after a course is seeded but before it is ready for play.

hazard. Features or situations that complicate the golf shot and are to be avoided, if possible. Hazards can be in the form of a bunker, long grass, non-turf vegetation, slopes, mounds, rocks, trees, water, and other features.

heroic design. A philosophy of golf course design where the golfer can decide on his or her level of risk. If more risk is taken and the player chooses to “bite off” as much of the hazard as possible, success is rewarded with a shorter, unobstructed shot to the green. Less risk means a longer shot to the green, often with additional hazards.

hole location. The area(s) on the putting green where holes may be fairly located.



links. A seaside golf course constructed on naturally sandy ground with undulations formed by wind and receding tides.

membership dues. Annual dues paid by members to belong to a golf club, usually private or semi-private.

membership dues multiplier (MDM). Sale price divided by number of members, then divided by average dues ($SP \div \text{Number of Members} \div \text{Annual Dues} = \text{MDM}$). A unit of comparison which can be used in the sales comparison approach.

municipal course. A golf course which is owned by a public entity—i.e., a city, township, county, or other public authority.

NGF. Acronym used for the National Golf Foundation. A source of research and information on the US golf market with a membership of over 6,000, the NGF's stated purpose is to promote the development of the game.

occasional golfer. A golfer who has played one to seven rounds of golf in the past 12 months.

par. The score an expert player is expected to make for a given hole. Par assumes errorless play and allows two strokes per putting green.

penal design. A philosophy of golf course design that demands error-free play with severe penalties for mis-hit shots.

PGA. Acronym used for the Professional Golfers' Association of America. The largest sports association in the United States with a membership of more than 20,000.

practice facility. An area of a golf property dedicated to golf practice and learning. Also called a *driving range*, *practice range*, or *practice fairway*.

price per membership (PPM). Sale price divided by number of members ($SP \div \text{Number of Members}$). A unit of comparison which can be used in the sales comparison approach.

price per round (PPR). Sale price divided by annual number of rounds played ($SP \div \text{Annual Number of Rounds}$). A unit of comparison which can be used in the sales comparison approach.

primary market. The area from which it is anticipated the golf course will draw most of its patrons or members.

private club. A golf club where use is restricted to the members and their guests.



putting green. The portion of each golf hole where the cup is located and play on the hole is concluded. This area typically has a very closely mowed surface and is expected to be true and smooth.

rack rates. A golf course's published green fees.

redesign. To deliberately change the design of a hole or course.

regulation course. Typically, a regulation course is one that plays to at least 6,000 yards from the men's tees (18 holes) with a minimum par of 70, consisting of par-3, par-4, and par-5 holes.

restoration. The redesign of a course with the intention of returning its holes to their original form and character.

roughs. The unmanicured area typically surrounding tees, greens, fairways, and hazards. Roughs are characterized by long grass, which is difficult to play from, and are normally not in the desired line of play.

round. One golfer playing a number of golf holes. Typically, one golfer playing 18 holes. However, a round *can* consist of nine holes or even less. While the true definition of a *round* is a golfer playing 18 holes, most golf courses count rounds as a golfer starting a round, regardless of the number of holes played.

routing. The positioning and sequence of holes on the site.

semi-private facility. A golf course facility which allows daily-fee play and annual memberships.

shoulder season. The period of time between the prime season and the off-season. This is typically during the early spring and late fall in the colder climates and the late spring and early fall in the warmer climates.

signature golf course/architect. Those golf courses and architects which by the nature of their notoriety and reputation are recognizable by their architect or name. The architects are usually well known and are either successful golfers, prolific golf course architects, or both.

signature hole. A hole of unusual or exceptionally dramatic or challenging design that creates a lasting and memorable impression and identity for a golf course.

slope rating. A measure of course difficulty which allows players from different courses to "equalize" their handicaps based on the slope rating of the course where the handicap is established and the slope rating of the course being played.



Stimpmeter. A device used to measure green speed.

strategic design. A golf course design philosophy which affords the golfer alternative routes to the green. Each route has hazards of different severity, requiring golfers to decide at the tee which route best suits their game.

tee. A wooden peg used by players to elevate their ball prior to the “tee shot” on each hole.

teeing ground. The marked area on each hole from which a player begins play on that hole. Most holes have multiple tee areas for players of different skill levels.

USGA. Acronym used for the United States Golf Association, the ruling body of golf in the United States. The USGA sets forth the rules of the game, establishes player handicaps, and supports championships and golf courses through its “Green Section.”

USGA green. A putting green constructed in accordance with USGA specifications.

