

Course appraisal can reveal 'highest and best' value

By LAURENCE A. HIRSH

It doesn't take a genius to understand that the valuation or appraisal of a particular golf course property reveals what that facility is worth. What isn't so obvious is this: The very process of appraisal also tells owners how a facility might increase that worth.

The Holy Grail for appraisers is determining the "Highest and Best Use" for the property in question. According to the Appraisal Institute, "Highest and Best Use" is defined as "the reasonable, probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value."

Determining this "highest value" at golf facilities requires a detailed analysis of existing management practices, market position, staffing levels, physical plant and course maintenance practices, among myriad others things.

In the process of examining these factors, there is nearly always a gap between this *status quo* value and the facility's "Highest and Best Use." This gap is where potential value increases are found. Indeed, in the course of a valuation, it's virtually impossible for a skilled golf course appraiser *not* to identify potential efficiencies which, if rectified, serve to increase property value.

CASE STUDY GOLF CLUB

The first critical element in golf

property analysis is determining the type of course being appraised. This sounds so rudimentary as to be utterly obvious. But the income characteristics for each property type (daily-fee, municipal, semi-private, resort, private) are unique.

Further, some properties are miscast and warrant a change, because markets change. Sometimes, a course is simply not properly positioned. In the case of one recent assignment – let's call it Case Study Golf Club – we concluded that Case Study GC, then operating as a semi-private club, should be planning for conversion to private club status to take full advantage of future residents of the growing, surrounding community.

We also concluded there were physical and operational issues that needed addressing at this would-be private club. Course conditions at Case Study GC were sub-standard, the food & beverage operation was highly inefficient, and the property had not been effectively marketing itself (bad course conditions not helping here in the word-of-mouth department).

Our inspection resulted in the hire of an agronomic expert and a management consultant to assist Case Study GC in making appropriate decisions on maintenance practices, staff and management, as well as marketing.

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Fighting city hall

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"They have a 'Skins' game on Fridays," he says. "There's a senior league on Tuesdays and Thursdays. High schools kids come over at 3:30, and they get the plumbers and FedEx guys at 5 o'clock who play a round before going home. By keeping it affordable, they do a strong volume."

UNDEMANDING MARKET

The municipal courses he envisions can be built on 20 or 25 acres and run on a break-even basis.

"Everybody has to check their egos at the door – city officials, architects, operators and builders," he says. "The idea is not to gold-plate these things but to grow grass. You defeat the purpose if you build greens to USGA specs and put in satellite-controlled irrigation systems. This has to be inexpensive, because the market is undemanding."

As an example, he points to the new Rose Hill Golf Club, in South Kingstown, R.I. Owners Tim Conley and Jim Manning built the nine-hole, par-3 layout on 20 acres. The total yardage is 1,250. It's a private course, but they charge only \$14 for a round, with \$2 discounts for seniors and kids under 16.

"It was an old gravel pit," says Conley, a homebuilder by trade. "There wasn't enough acreage for a full 18, and permitting is a nightmare. So we found a beat up piece of industrial land, and permitting was easy. The city fathers saw that we were going to take something that looked like Chernobyl and turn it green."

Frank O'Dowd, president of Intergolf Construction, said his firm built and grew in Rose Hill for \$600,000, complete with a fully automated irrigation system, USGA-spec bunker sand, L-93 bentgrass on the greens and a total course hydro-mulching. "It's not Mickey Mouse golf," O'Dowd said. "There aren't square greens or poor-

quality construction. For \$600,000, they got a very good, high-quality product."

GOLFERS IN SHORT SUPPLY

Pascuzzo plans to stay the course – he sees no choice. "If we do not nurture the game, we're going to be in big trouble," he says. "We can't continue to rely on kids coming out of college, coming into the game maybe through business contacts, and knowing nothing other than \$100 golf at major resorts."

The latest National Golf Foundation report on golf participation bolsters his argument. The NFG saw no big changes in the number of rounds played in 2000 over 1999.

"Over the past six years," the report says, "the nation's supply of golf courses has grown more quickly than the number of golfers. The net increase of 1,718 courses from 1995 to 2000 produced an annual growth rate of 2.1 percent. Golfers during the same period grew at 1.3 percent annually."

No wonder Pascuzzo is concerned. ■

MAILBAG

Dear editor,

As an update to your article on Landmark Golf East (July 2001), Landmark Golf Co. no longer has any interest in the properties listed in the story about Landmark Golf East.

These include PGA West, LaQuinta Hotel Golf and Tennis Resort, Mission Hills, Kiawah Island and Carmel Valley Ranch. These are properties previously owned and operated by Landmark Golf.

Tom Sullivan

Senior vice president

Landmark Golf East

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GOLF COURSE
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Course appraisal can assign 'highest and best' value

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Once the work of these consultants showed us the proposed costs, including the time required to implement suggested changes, we applied these to our valuation of Case Study GC.

HIDDEN VALUE

The physical attributes of a course are of particular interest to us because they often tell the hidden story of the facility's overall quality and value. At Case Study GC, the property was located on a dramatic and beautiful site but it lacked quality conditioning to go along with the good design and great terrain. Quantifying this evaluation means understanding and evaluating the efficient operation/maintenance of the important course components:

- Grassing
- Irrigation systems
- Site size and terrain
- Green and tee sizes
- Maintenance specifications and quality of maintenance
- Cart paths
- Features (bunkers, ponds, etc.)
- Buildings (clubhouse/maintenance, etc.)
- Architect & design

I would be remiss if I didn't mention that an analysis of clubhouse facilities can often be deceiving. Often, the bigger the clubhouse, the bigger the problem. A big clubhouse not only doesn't mean more value; sometimes it means less.

DETERMINING VALUE

There are three primary approaches to appraising facility value:

- **The Income Approach** – A set of procedures by which an appraiser derives a value indication for an income-producing property by converting antici-

pated benefits into property value. This conversion is accomplished either by 1) capitalizing a single year's income expectancy or an annual average of several years' income expectancies at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment; or 2) discounting the annual cash flows for the holding period and the reversion at a specified yield rate.

• **The Sales Comparison Approach** – A set of procedures by which an appraiser derives a value indication by comparing the property being appraised to similar properties that have been sold recently, applying appropriate units of comparison, and making adjustments, based on the elements of comparison, to the sale prices of the comparables.

• **The Cost Approach** – A set of procedures by which an appraiser derives a value indication by estimating the current cost to reproduce or replace the existing structure, deducting for all accrued depreciation in the property and adding the estimated land value.

There's a great deal of analysis involved with each method, especially the last. We use a combination of all three because, while each has its strengths, each also has its weaknesses.

Nevertheless, when it comes to golf course properties, the income approach is typically the most reliable as it normally reflects the behavior of buyers and sellers in the marketplace most accurately. The main strength of the income approach is this: It is usually the method

use by investors when analyzing golf properties for possible purchase. The main weakness: The short space-time unit associated with golf courses (and the vagaries of weather) can render inaccurate even the most well-supported income or expense projections.

INCOME-BASED COMPARISON

The sales comparison approach, by nature, is designed to reflect buyer and seller behavior, but with golf courses this method can often produce data with a wide range of indications. Therefore, most experienced golf property appraisers will utilize income-based units of comparison in developing the sales comparison approach.

The strengths of this approach: It can provide an excellent barometer as to 1) how buyers and sellers are reacting to income and expense projections; and 2) how a property's image can affect its market value directly. The weakness of this approach: Adequate data is often unavailable and comparable sales are often difficult to find and confirm.

The cost approach, as with many income properties, has limited application for golf courses. It is not typically reflective of buyer behavior and often yields value indications far different than those found from the income and sales comparison approaches. This approach, however, can be used effectively with properties which possess unique qualities that make comparisons difficult, or when an income approach may not be applicable, such as in some (but not all) non-profit clubs.

If I can leave you with one thought, it's

this: Experienced course appraisers are equipped to identify more than the market value of a particular facility. My firm, for example, has performed hundreds of appraisals all over the country. In analyzing the operating procedures at all these facilities, we've seen the good and the bad – what works and what doesn't, and why.

Determining actual facility value is important and useful, but sharing this objective, comparative analysis with clients lays the groundwork for increasing that value. ■

Laurence A. "Larry" Hirsch is president of Golf Property Analysts of Harrisburg, Pa. He contributes regularly to Golf Course News.

AS MARKETS CHANGE, COURSES CAN FIND THEMSELVES MISCAST

A BIG CLUBHOUSE MIGHT SUBTRACT VALUE FROM THE CLUB

INVESTORS USE INCOME AS MOST RELIABLE INDICATOR OF VALUE

Western Golf

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from the bag drop to the clubhouse to the service levels – valets and things like that.

"The practice facility is probably second to none around here," Ford added. "We have two teeing areas, each measuring 300 yards long and 75 yards deep. There are target greens out there with bunkers. We have practice greens, chipping greens. You can even hit fairway bunker shots."

Besides maintaining the landscape of the course and practice areas, Western Golf will manage the personnel and purchasing for the clubhouse's pro shop, bar and grill.

Southern Star is building 700 homesites on the property, along with miles of wooded trails, fishing ponds, and a pool and tennis center.

Founded in 1985 by former PGA president Joe Black, Western Golf manages or consults for some 25 courses around the country. ■

Casper Golf

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John Kyle State Park.

Mallard Pointe features a challenging layout with dramatic, forced carries and tight, undulating fairways. It also provides spectacular views of the 58,000-acre Sardis Reservoir.

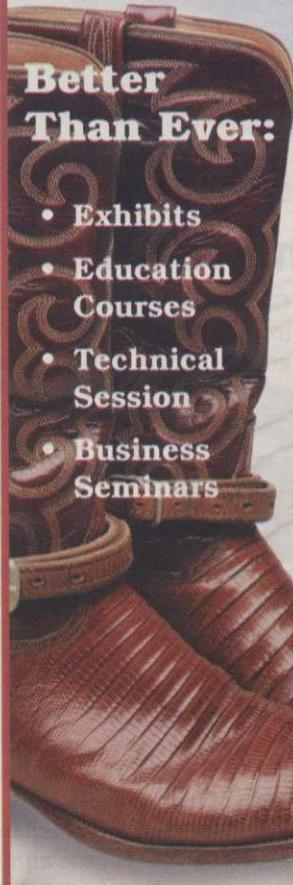
BCG provides third-party management and consultation to golf course developers, owners and investors. It currently owns, manages or consults for 25 golf properties in the United States, primarily in the Mid-Atlantic and Southeast. ■

Cunningham

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improvement projects at existing facilities.

Cunningham joined KemperSports in 1999. He was formerly the director of project development, overseeing the design, development and construction of The Glen Club, the new Tom Fazio layout opening in Glenview, Ill., this summer. ■



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