How much is a golf course really worth?

by Cecil McKay, Jr.

Why is it important to know? A number of good reasons may come up, but the most common are: Sales transactions, where buyer and seller both want to know the true value of the property. Estates or partnerships, where settlements must be made or worth established. Situations when a new partner wants in, or an old partner wants out. Corporations for sale, mergers, or stock transactions. Bank loans, which usually require a knowledge of present value. Condemnation of property by state or government authority. Taxation — tax assessors are often confused on golf course values and an owner may be well advised to challenge taxation he feels is too high.

Bill Sherman of the William Sherman Co. in California, a noted golf course consultant appraiser, states: "In a buy-sell transaction, the seller or buyer may be well served by having an independent opinion of value stated by a knowledgeable professional.

"This opinion, in addition to showing value, may also show potential by projecting increased income by virtue of changes in grounds, buildings, management, etc.

"For all other uses cited, loans, estate filings, and all tax matters, an expert opinion will usually be well accepted, providing its credibility is shown to the interested party."

Worth depends on use

A property such as a golf course with many acres of land may have several values, depending on the intended usage. A tax assessor is only interested in the highest and best use, a golf course operator is only interested in golf business, but an investor might be interested in several alternative usages to secure his investment.

It is most important to keep from mixing values. For example, many owners or appraisers value the land similar to the going rate of development land in the area, then add the cost of the golf course. You cannot have a golf course and development land at the same time, so you must have one or the other. Normally it is not at all practical to build a golf course on high-priced development land, unless it is being used to appreciate the surrounding land. Frequently a golf course may be built in flood plain lands or may be zoned "green belt," which would drastically restrict any alternate usages.

Establishing worth

We are only concerned here with the worth as a golf course property.

Market approach. This can be most important if proper comparisons can be made. Unfortunately golf courses are very diverse in location, physical facilities, and size, and while many sales may have taken place in the last few years, it takes an expert to have knowledge of these and make meaningful comparisons.

Replacement value. This is an interesting value to know, but increased land cost often makes replacement not economically feasible. We many times find clubhouses built too large of courses built where they should not have been built, or a course may be poorly laid out. In any of these cases replacement value would not indicate the true worth of the facility, as an investor is not apt to pay for the builder's mistakes. Also, replacement value should take into account obsolescence, as drain tiles, irrigation systems, ponds, clubhouses, and even greens have a lift span which must be accounted for.

Income value. The important thing here is to establish the cash flow income. We define cash flow as income before payment of depreciation, interest, amortization, or income taxes. In other words, it is the income left over at the end of the year which could be used for payment of principle and interest.

In our analysis of income we try to study expenses to find if there are any extraordinary or one-time expenses which could be eliminated, or if any expense categories could be improved through better management. Frequently, in smaller operations we find that the owner-operator's wages are left out of expenses, and these certainly should be taken into account. From the income side of the ledger, we try to determine if proper ratios between green fees and golf car rentals, pro shop, etc. are being achieved.

After adjusting income and expenses to show cash flow profit a good

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operator could expect to receive, the market value would be approximately eight times the cash flow profit. If a course is relatively new or has a lot of potential, the worth may be higher than eight times the cash flow or, conversely, if it is operating near maximum capacity, the worth may be less than eight times the cash flow.

Determining potential

What is the maximum potential of a golf facility? This question has a very complex answer, and for the purposes here, we will just mention the most important criteria:

1. Average number of rounds of golf course in the geographical area will produce at maximum capacity. This is governed principally by climate.

2. Amount of population available per 18 holes of golf in the area. We normally figure it takes 20,000 to 25,000 population per 18 holes of golf to reach maximum capabilities, so if only half of the population is available per 18 hole course in the area, the potential may be cut in half.

3. Other important considerations are peculiarities of the area (resort trade, golfer habits, etc.), physical characteristics of the course (hilly or flat, long or short, accessibility, etc.), size and design of clubhouse, and potential for other categories of income such as food, liquor, banquet room rental, or driving range.

Cost may exceed worth

Why are courses built that cost more than they are worth? Private clubs are usually built without thought of profit or resale, but rather for self-use and prestige. They are normally nonprofit, so investment is not considered.

Land developers build courses for prestige and to increase value and desirability of surrounding property. A golf course is an excellent means of getting higher density zoning for surrounding lands while creating a desirable recreational facility to attract customers to the higher density property. If the golf course has a value income-wise of $500,000 and it cost $800,000 to develop, then $300,000 of the development cost should be distributed to the surrounding lands.

Bill Sherman states: "In the case of land developers, any good one recaptures all of his golf course costs on the sale of perimeter properties, just as he would any other on-site improvement. New income value of the golf course, when possible, provides a bonus to developer."

Conclusion

If a golf course is to be valued as a golf business, the only really meaningful criteria is its income producing ability. If the land makes it far more valuable for other purposes, then it should be appraised for land value alone. According to William Sherman: "Buying or selling a golf course is similar to any other commercial real estate investment. Its particular nuances suggest that either buyer or ssller, or both, engage someone whose experience can provide specific benefits to each or to one party in the transaction. Terms, taxes, and financing are the same keys to closing a sale as they are to any other real estate transaction. Why not save money for many years by spending an additional dollar up front—where it counts most?" □

Cecil McKay, Jr., a broker who deals exclusively in golf course transactions, knows as well as probably any one person how to determine the worth of a facility.