

## *Private Golf Club Memberships: Real or Personal Property?*

BY LAURENCE A. HIRSH, CRE, MAI, SGA

A private golf club presents a unique combination of interests to consider in a valuation assignment. Not only are there different types of private clubs with a variety of memberships types (equity, deposit, refundable initiation, and various combinations of the three), but appraisers sometimes are asked to value different interests. For instance, the property rights a banker may seek to have valued can be much different from the property rights valued for ad valorem real property assessment. The focus of this article is whether the membership interests in private golf clubs should be considered as real property for ad valorem taxation appraisal assignments and how they should be addressed in the income approach to value.

### **Key Term Definitions**

**Clubs**—Commonly refers to golf or country clubs as the entity that may own real estate

**Memberships**—The right to use club

facilities and the obligation to pay dues and other charges for such use

**Equity/Non-equity**—Types of memberships. In an equity club, the member can sell his or her interest for a market price. In a non-equity club, the member cannot sell the interest but would receive a share of proceeds upon sale of the club.

**Initiation Fee**—A fee paid for the privilege of gaining membership. This fee can be refundable or non-refundable but it does not include an ownership interest. This fee is distinguished from an equity fee which gives the member ownership in the club.

**Fee Simple Real Estate**—Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat (Appraisal Institute, 2001, 69)

**Business Value**—The intangible personal property (goodwill, prestige, and the like)

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**Going Concern Value**—The market value of all the tangible and intangible assets of an established and operating business enterprise with an indefinite life, as if sold in aggregate (Appraisal Institute, 2001, 27)

## Overview

This article explores whether the value of memberships in a private golf club should be included in the value of its fee simple interest, and thus in its value for ad valorem tax purposes where only real property is relevant. This factor is emphasized because the real and personal property can be difficult to separate when appraising golf properties. Rarely is a golf course purchased or sold without the business and tangible personal property. Therefore, the sales and income information available makes valuing the going concern a far less daunting task than valuing only the fee simple interest in the real property.

A business appraisal of a private club (or any golf course) typically considers the going concern interest and most buyers would consider the value derived from membership sales. Accordingly, the case can be made that memberships should be included in the value of the fee simple interest.

Conversely, an argument can be made that because the sale of memberships does not recur and because one member cannot sell the entire property, the membership interest is like stock in a company that owns a property. The value of the property is not impacted by the value of the stock, and thus the membership interest would not be included as real property value. An analogy would be to stores like Costco, Sam's Club, or BJ's, which charge a fee to join in return for the ability to access merchandise at the store's lower prices. While the membership requirement may generate additional revenue for the store, the value of the real estate is not directly affected.

Another logical comparison can be made to a real estate investment trust

(REIT). In the case of a REIT, the stock price is impacted by the underlying property value. Similarly, an argument can be made that the value of a membership is impacted by the value of the club property. However, this would be true only in situations where the property is being liquidated and in such cases, the value would likely (but not always) be depressed.

There is also the consideration of whether the value of a membership would be influenced by the underlying value of the real estate. In many instances, the highest and best use of the real estate is as something other than a golf course or club. In these circumstances, the intangibles that are normally associated with membership are irrelevant to the value of the real estate. This article focuses on those instances when the highest and best use of the property is as a club.

In ad valorem tax cases, the valuation challenge presented by private membership clubs is further compounded because there often is a significant number of memberships remaining to be sold, which can distort the valuation considerably. For instance, a club with 100 memberships of significant value left to sell will likely have a higher value (if memberships are considered) than the same club with a fully subscribed membership. The value of remaining memberships can often represent more than 50 percent of a club's going concern value. For a club worth \$10 million, with a tax rate of 1 percent (10 mills), these unsold memberships could represent \$50,000 in annual taxes.

There are several analogous situations. If an appraiser were asked to value a Wal-Mart store, for instance, it is unlikely that he or she would be consider Wal-Mart's stock price in the valuation, despite the fact that stockholders are the ultimate owners of the property through their ownership of the company. It is the company, however, that owns the store property. Therefore, the appraiser is asked to value the company's interest

in the real estate, not the stockholders' interest in the company.

Another analogy can be made to the valuation of an office building or retail center that has not reached stabilized occupancy. In such a case, the real estate value would be less than if occupancy were "full." By contrast, in a membership club, if the value of the remaining memberships is considered, the club can be worth more in many cases with less than full membership than it would be if fully subscribed. This situation is similar to that of a condominium project that decreases in value to a potential buyer as units are sold. The value is not lost; it is just transferred to the individual unit owners.

### Relevance

Why is proper treatment of private golf club memberships important? Principally, the *Uniform Standards of Professional Appraisal Practice* (USPAP) requires appraisers to "analyze the effect on value of any personal property, trade fixtures, or intangible items that are not real property but are included in the appraisal." (Appraisal Foundation 2006, Standards Rule 1-4g). According to USPAP, appraisers can value the going concern if inseparable and the use of the appraisal does not require real property value alone. In the area of ad valorem taxation, ensuring that only real property is included in the valuation can often mean differences of considerable tax dollars.

Thus, with private clubs, the value of memberships and membership sales revenue is relevant in ad valorem tax valuation in most jurisdictions. The point of view of this article, as demonstrated in the application of the income approach, is that memberships should NOT be included in a valuation of real property for private club properties.

### What Is Being Valued?

Most golf properties, like hotels, ski areas, marinas, and other hospitality and

recreational properties, are intertwined combinations of real and personal (tangible and intangible) property, and are typically sold as going concerns. Accordingly, it is important to acknowledge that any economic analysis will include consideration of the entire bundle of rights and assets (going concern value) and that once the highest and best use of a property is determined to be for golf, the challenge of allocation will exist. Following are some of the elements that contribute to a private golf club's value:

- Facilities (golf, tennis, pool, and the like)
- Social Opportunities
- Prestige
- Services
- Equipment
- Staff

Since, for ad valorem tax purposes, the ultimate goal is to develop a reliable estimate of value for the real property, which of these elements are contributory to the real property value?

### Income Approach: Theory

The income approach is typically applied in golf property appraisals and will be the focus here. From an economic perspective, real estate value is derived from rental income, less expenses. That Net Operating Income (NOI) is then capitalized into a value indication. This then raises the question of whether revenue from membership sales should be included in the calculation of real property value. Similarly, since each member in an equity club buys an equal ownership share and can sell his or her interest to another party, should that membership interest be included in the value of the real property for ad valorem tax purposes?

In an equity club situation, the party purchasing a membership is not receiving an individual interest in the real estate. The member obtains an undi-

vided minority interest in the going concern, and as such has no rights to sell the property. The membership does give the purchaser the right (and the obligation) to use the facilities and pay such dues and other financial obligations as the club sees fit to levy. These charges are typically set at rates which either compete in the marketplace, cover operating expenses, or both. Members also can participate in club activities and identify themselves as club members. It is the entity of the club that owns the real estate: the membership is an interest in the club (or business).

A differing argument states that since most equity clubs are operated on a not-for-profit basis that the “street price” of the memberships represents the value of the club (frequently interchanged with property) and that a process of valuing those memberships is the only way to determine the true value of the club. The members can vote to sell the property and the entry or equity fee (plus or minus any profit or loss) will be paid in return for the member’s share of property ownership and assumption of rights and obligation in membership.

It is my position, from a fundamentals perspective, that equity-club operating revenue that is recurring and that is generated to cover normal operations or capital expenditures, and would be considered part of a non-equity club’s normal annual operating budget should be considered income attributable to the real property and part of the real estate value. The revenue generated by the sale of memberships should not.

Consider this theoretical example of two clubs with similar locations, similar golf courses, and similar buildings and other facilities. One is operated as an equity club with a very high (\$100,000) equity fee. The other is a refundable initiation fee club, with a much more moderate (\$10,000) entry fee. Assuming that both clubs were well positioned in the market and there was a balance of supply and demand, their real estate

only values would be theoretically the same while their going concern values would be dramatically different. The equity club owner would have much higher-priced memberships to sell. The value terminology could be virtually interchangeable with significant value changes, assuming that both clubs generated similar revenues albeit with varying number of members (for instance, the equity club maintained a lower number of members at a higher dues level). Even if the equity fee were not so dramatically high, the refundability of the initiation club fee would impact the value of the going concern as it would create a liability to the owner.

Accordingly, if the project were sold, the sold units are not available for the project to sell and thus, the value is reduced. In the case of a private club, the buyer of the club cannot sell memberships already sold to individual members, thus the value of the club is diminished, and once fully subscribed (without those memberships to sell) would represent the value of the real property. However, if something other than the fee simple real property is being valued, then it would be appropriate to include the value of remaining memberships.

### **Income Approach: Application**

As stated earlier, the difference in value with and without membership value can be dramatic. Membership structure clearly can alter the value of a club, but that structure should not theoretically alter the value of the club’s real estate. This contention might be challenged as a theoretical argument because in the real world, golf properties are rarely bought and sold as pure fee simple real property. Thus, there is no market data to prove this theory, only common sense.

The Club X used for the following examples is based on a modified real-life appraisal situation. In example 1, Club X is presented as an equity club without including the value of memberships. Example 2 shows the value of the same

equity club with memberships included. The memberships are valued based on their absorption and discounted at a higher rate (+2%) than the operational cash flow. Example 3 illustrates a daily fee scenario for the same facility, with appropriate changes to reflect that style of operation. Example 4 portrays the club under for-profit ownership with some changes in the operating profile to reflect the lower operating costs typical of clubs managed by a private, for-profit owner.

It should be noted that some expenses in the examples are estimated and grown at a constant percentage while others are based on a percentage of gross income. This is consistent with industry practice. Furthermore, pro-shop expenses include the cost of labor which, while categorized in the pro-shop line item, serves other functions that are related to dues and guest fee income and thus distort that percentage. Membership refunds begin in Year 5 upon club sellout.

The dramatic difference in value between examples 1 and 2 raises the question of whether an allocation of the membership revenues should be considered. I think not. When the same real estate (land and improvements) is utilized by a for-profit golf club, a daily-fee golf club, or a resort golf club, the resulting value is closer to that in example 3. The equity club value exclusive of memberships (example 1) is more consistent with that result.

While none of these examples addresses the issue of tangible personal property (furniture, fixtures, and equipment or FF&E), when comparing “apples to apples,” the real property values under the equity club (without memberships), private, for-profit, and daily fee scenarios still indicate a reliable conclusion for the real property value (less FF&E) that is desired from this exercise.

The memberships also represent an encumbrance to the seller that would have to be satisfied at closing and thereby reduces the seller’s proceeds. While such

an encumbrance would impact the going concern value, logically the market value of the real property would not be affected. In any event, any applicable refunds would not begin until Year 5 in the examples because it is assumed that membership sellout would not occur until then and thus no refunds would be due.

The results, therefore, seem clear that including the value of memberships in the valuation of a private, equity club is inconsistent with valuing the fee simple interest of the real property. It was assumed for purposes of this article that in each example, personal property values would be similar. Thus, they were not estimated and removed in order to maintain the focus on the main issue of whether memberships should be included in an ad valorem valuation. Seemingly, highest and best use could change depending on whether the value of memberships was included or not and possibly between private, equity-club and daily-fee operating scenarios. In these examples, daily-fee club value exceeds the private, equity club value if memberships are not included. Furthermore, the value difference between a daily fee and private, for-profit operation is small enough that in different situations, the conclusion could change depending on the ownership and specific uses of the surrounding property and the current state of the golf market.

### **Non-Equity Memberships**

While not the focus of this article, membership interests other than the classic, equity membership beg the same question in any valuation problem. However, for member-owned non-equity clubs (in which the member cannot sell his or her interest to another), deposit memberships as well as refundable and non-refundable initiation-fee memberships, the issues are slightly different.

A few years ago, we did an assignment on a member-owned non-equity club for bank financing. The bank review

**Example 1. Club X as an equity golf club with full membership, exclusive of memberships**

		Year 1	Year 2	Year 3	Year 4	Year 5
No. of Golf Rounds (27 holes)		12,000	13,000	14,000	16,000	16,000
Member Rounds	75.0%	9,000	9,750	10,500	12,000	12,000
Cart Rounds	33.0%	3,960	4,290	4,620	5,280	5,280
Guest Rounds	25.0%	3,000	3,250	3,500	4,000	4,000
	Revenue Increasing @	2.5%				
<b>Equity Fees</b>						
Cumulative Golf Members		357	357	357	357	357
No. of New Members		0	0	0	0	0
Equity Fee		\$125,000	\$125,000	\$170,000	\$180,000	\$180,000
<b>Total Equity Fees</b>		\$0	\$0	\$0	\$0	\$0
<b>Membership Refunds/Attrition</b>	3.0%					11
<b>Turnover/Refunds</b>	75.0%					\$0
Average Annual Golf Member Dues		\$9,400	\$9,635	\$9,876	\$10,123	\$10,376
<b>Membership Dues Revenue</b>		\$3,355,800	\$3,439,695	\$3,525,687	\$3,613,830	\$3,704,175
Average Guest Fee		\$85	\$87	\$89	\$92	\$94
<b>Guest Fee Revenue</b>		\$255,000	\$283,156	\$312,561	\$366,143	\$375,296
Cart Rental Fee/Round		\$32.00	\$32.80	\$33.62	\$34.46	\$35.32
<b>Cart Rental Revenue</b>		\$126,720	\$140,712	\$155,324	\$181,951	\$186,500
Food & Beverage Sales/Member		\$2,400	\$2,460	\$2,522	\$2,585	\$2,649
<b>Food Sales</b>		\$856,800	\$878,220	\$900,176	\$922,680	\$945,747
Pro Shop Sales/Member		\$1,000	\$1,025	\$1,051	\$1,077	\$1,104
<b>Pro Shop Sales</b>		\$357,000	\$365,925	\$375,073	\$384,450	\$394,061
Other Income/Member		\$500	\$513	\$525	\$538	\$552
<b>Other Income</b>		\$178,500	\$182,963	\$187,537	\$192,225	\$197,031
Cottage Rental Revenue		\$100,000	\$102,500	\$105,063	\$107,689	\$110,381
Locker Room Revenue		\$40,000	\$41,000	\$42,025	\$43,076	\$44,153
<b>Fitness Center Revenue</b>		\$50,000	\$51,250	\$52,531	\$53,845	\$55,191
<b>Total Revenue/Member</b>		\$14,901	\$15,365	\$15,843	\$16,431	\$16,842
<b>Total Revenue</b>		\$5,319,820	\$5,485,421	\$5,655,977	\$5,865,888	\$6,012,535
<b>Expense Multiplier</b>	3.50%					
<b>DEPARTMENTAL COSTS &amp; EXPENSES</b>						
Golf Course Maintenance		\$1,400,000	\$1,449,000	\$1,499,715	\$1,552,205	\$1,606,532
Cart Maint. and/or Lease (25 carts)	\$800	\$20,000	\$20,700	\$21,425	\$22,174	\$22,950
Food & Bev. Costs	35.0%	\$299,880	\$307,377	\$315,061	\$322,938	\$331,011
Food & Bev. Exp. (Incl. Payroll)	35.0%	\$299,880	\$307,377	\$315,061	\$322,938	\$331,011
Pro Shop Costs (Goods Sold)	50.0%	\$178,500	\$182,963	\$187,537	\$192,225	\$197,031
Pro Shop Exp. (Incl. Payroll)	90.0%	\$321,300	\$329,333	\$337,566	\$346,005	\$354,655
Cottage Costs	60.0%	\$60,000	\$61,500	\$63,038	\$64,613	\$66,229
<b>Total Dept Costs &amp; Expenses</b>		\$2,519,560	\$2,596,749	\$2,676,365	\$2,758,485	\$2,843,191
<b>UNDISTRIBUTED EXPENSES</b>						
Administrative & General		\$1,400,000	\$1,449,000	\$1,499,715	\$1,552,205	\$1,606,532
Management Fee	4.0%	\$212,793	\$219,417	\$226,239	\$234,636	\$240,501
Marketing & Promotion	3.0%	\$100,000	\$103,500	\$75,000	\$75,000	\$50,000
Professional Fees (Consultants)		\$50,000	\$51,750	\$53,561	\$55,436	\$57,376
Utilities		\$150,000	\$155,250	\$160,684	\$166,308	\$172,128
Repairs & Maintenance	2.0%	\$106,396	\$109,708	\$113,120	\$117,318	\$120,251
<b>Total Undistributed Expenses</b>		\$2,019,189	\$2,088,625	\$2,128,319	\$2,200,902	\$2,246,789
<b>FIXED CHARGES</b>						
Real & Personal Property Taxes		\$100,000	\$103,500	\$107,123	\$110,872	\$114,752
Property Insurance		\$70,000	\$72,450	\$74,986	\$77,610	\$80,327
Reserves for Replacement	2.0%	\$106,396	\$109,708	\$113,120	\$117,318	\$120,251
<b>Total Fixed Charges</b>		\$276,396	\$285,658	\$295,228	\$305,800	\$315,330
<b>TOTAL EXPENSES</b>		(\$4,815,146)	(\$4,971,033)	(\$5,099,911)	(\$5,265,187)	(\$5,405,310)
<b>Operating Expense Ratio</b>		91%	91%	90%	90%	90%
<b>NET OPERATING INCOME</b>						
of Annual Operations		\$504,674	\$514,388	\$556,066	\$600,701	\$607,225
					\$5,181,656	
<b>Annual Golf Club Operating Cash Flows</b>		\$504,674	\$514,388	\$556,066	\$5,181,656	\$5,782,357
Reversion @	11.25%	\$5,397,559				
Selling Costs @	4.0%	\$215,902				
<b>Net Reversion</b>		\$5,181,656				
<b>Discount Rate</b>		13.00%				
<b>NPV of Golf Club Operations @</b>		13.00%	\$4,781,265			
<b>Rounded to</b>			\$4,800,000			

**Example 2. Club X as an equity golf club with memberships included in value**

		Year 1	Year 2	Year 3	Year 4	Year 5
No. of Golf Rounds (27 holes)		12,000	13,000	14,000	16,000	16,000
Member Rounds	75.0%	9,000	9,750	10,500	12,000	12,000
Cart Rounds	33.0%	3,960	4,290	4,620	5,280	5,280
Guest Rounds	25.0%	3,000	3,250	3,500	4,000	4,000
	Revenue Increasing @	2.5%				
<b>Equity Fees</b>						
Cumulative Golf Members		150	275	325	357	357
No. of New Members		150	125	50	32	0
Equity Fee		\$125,000	\$125,000	\$170,000	\$180,000	\$180,000
<b>Total Equity Fees</b>		<b>\$18,750,000</b>	<b>\$15,625,000</b>	<b>\$8,500,000</b>	<b>\$5,760,000</b>	<b>\$0</b>
<b>Membership Refunds/Attrition</b>	<b>3.0%</b>					<b>11</b>
<b>Turnover/Refunds</b>	<b>75.0%</b>					<b>(\$1,485,000)</b>
Average Annual Golf Member Dues		\$9,400	\$9,635	\$9,876	\$10,123	\$10,376
<b>Membership Dues Revenue</b>		<b>\$1,410,000</b>	<b>\$2,649,625</b>	<b>\$3,209,659</b>	<b>\$3,613,830</b>	<b>\$3,704,175</b>
Average Guest Fee		\$85	\$87	\$89	\$92	\$94
<b>Guest Fee Revenue</b>		<b>\$255,000</b>	<b>\$283,156</b>	<b>\$312,561</b>	<b>\$366,143</b>	<b>\$375,296</b>
Cart Rental Fee/Round		\$32.00	\$32.80	\$33.62	\$34.46	\$35.32
<b>Cart Rental Revenue</b>		<b>\$126,720</b>	<b>\$140,712</b>	<b>\$155,324</b>	<b>\$181,951</b>	<b>\$186,500</b>
Food & Beverage Sales/Member		\$2,400	\$2,460	\$2,522	\$2,585	\$2,649
<b>Food Sales</b>		<b>\$360,000</b>	<b>\$676,500</b>	<b>\$819,488</b>	<b>\$922,680</b>	<b>\$945,747</b>
Pro Shop Sales/Member		\$1,000	\$1,025	\$1,051	\$1,077	\$1,104
<b>Pro Shop Sales</b>		<b>\$150,000</b>	<b>\$281,875</b>	<b>\$341,453</b>	<b>\$384,450</b>	<b>\$394,061</b>
Other Income/Member		\$500	\$513	\$525	\$538	\$552
<b>Other Income</b>		<b>\$75,000</b>	<b>\$140,938</b>	<b>\$170,727</b>	<b>\$192,225</b>	<b>\$197,031</b>
Cottage Rental Revenue		\$100,000	\$102,500	\$105,063	\$107,689	\$110,381
Locker Room Revenue		\$40,000	\$41,000	\$42,025	\$43,076	\$44,153
<b>Fitness Center Revenue</b>		<b>\$50,000</b>	<b>\$51,250</b>	<b>\$52,531</b>	<b>\$53,845</b>	<b>\$55,191</b>
<b>Total Revenue/Member</b>		<b>\$17,111</b>	<b>\$15,882</b>	<b>\$16,027</b>	<b>\$16,431</b>	<b>\$16,682</b>
<b>Total Revenue</b>		<b>\$2,566,720</b>	<b>\$4,367,355</b>	<b>\$5,208,831</b>	<b>\$5,865,888</b>	<b>\$4,527,535</b>
<b>Expense Multiplier</b>	<b>3.50%</b>					
<b>DEPARTMENTAL COSTS &amp; EXPENSES</b>						
Golf Course Maintenance		\$1,400,000	\$1,449,000	\$1,499,715	\$1,552,205	\$1,606,532
Cart Maint. and/or Lease (25 carts)	\$800	\$20,000	\$20,700	\$21,425	\$22,174	\$22,950
Food & Bev. Costs	35.0%	\$126,000	\$236,775	\$286,821	\$322,938	\$331,011
Food & Bev. Exp. (Incl. Payroll)	35.0%	\$126,000	\$236,775	\$286,821	\$322,938	\$331,011
Pro Shop Costs (Goods Sold)	50.0%	\$75,000	\$140,938	\$170,727	\$192,225	\$197,031
Pro Shop Exp. (Incl. Payroll)	90.0%	\$135,000	\$253,688	\$307,308	\$346,005	\$354,655
Cottage Costs	60.0%	\$60,000	\$61,500	\$63,038	\$64,613	\$66,229
<b>Total Dept Costs &amp; Expenses</b>		<b>\$1,942,000</b>	<b>\$2,399,375</b>	<b>\$2,635,853</b>	<b>\$2,823,099</b>	<b>\$2,909,420</b>
<b>UNDISTRIBUTED EXPENSES</b>						
Administrative & General		\$1,400,000	\$1,449,000	\$1,499,715	\$1,552,205	\$1,606,532
Management Fee	4.0%	\$102,669	\$174,702	\$208,353	\$234,636	\$181,101
Marketing & Promotion	3.0%	\$100,000	\$103,500	\$75,000	\$75,000	\$50,000
Professional Fees (Consultants)		\$50,000	\$51,750	\$53,561	\$55,436	\$57,376
Utilities		\$150,000	\$155,250	\$160,684	\$166,308	\$172,128
Repairs & Maintenance	2.0%	\$51,334	\$87,351	\$104,177	\$117,318	\$90,551
<b>Total Undistributed Expenses</b>		<b>\$1,854,003</b>	<b>\$2,021,553</b>	<b>\$2,101,490</b>	<b>\$2,200,902</b>	<b>\$2,157,689</b>
<b>FIXED CHARGES</b>						
Real & Personal Property Taxes		\$100,000	\$103,500	\$107,123	\$110,872	\$114,752
Property Insurance		\$70,000	\$72,450	\$74,986	\$77,610	\$80,327
Reserves for Replacement	2.0%	\$51,334	\$87,351	\$104,177	\$117,318	\$90,551
<b>Total Fixed Charges</b>		<b>\$221,334</b>	<b>\$263,301</b>	<b>\$286,285</b>	<b>\$305,800</b>	<b>\$285,630</b>
<b>TOTAL EXPENSES</b>		<b>(\$4,017,338)</b>	<b>(\$4,684,229)</b>	<b>(\$5,023,627)</b>	<b>(\$5,329,800)</b>	<b>(\$5,352,738)</b>
<b>Operating Expense Ratio</b>		<b>157%</b>	<b>107%</b>	<b>96%</b>	<b>91%</b>	<b>118%</b>
<b>NET OPERATING INCOME</b>						
of Annual Operations		(\$1,450,618)	(\$316,674)	\$185,203	\$536,088	(\$825,203)
					(\$7,041,736)	
<b>Annual Golf Club Operating Cash Flows</b>		<b>(\$1,450,618)</b>	<b>(\$316,674)</b>	<b>\$185,203</b>	<b>(\$6,505,648)</b>	
Reversion @	11.25%	(\$7,335,141)				
Selling Costs @	4.0%	(\$293,406)				
<b>Net Reversion</b>		<b>(\$7,041,736)</b>				
<b>Discount Rate</b>	<b>13.00%</b>					
<b>NPV of Golf Club Operations @</b>	<b>13.00%</b>	<b>(\$5,393,415)</b>				
<b>NPV of Remaining Unsold Memberships</b>	<b>15.00%</b>	<b>\$37,001,279</b>				
<b>NPV of Refunds Year 5</b>	<b>15.00%</b>	<b>(\$738,307)</b>				
<b>Total Value of Club and Remaining Unsold Membership</b>		<b>\$ 30,869,557</b>				
<b>Rounded to</b>		<b>\$ 30,900,000</b>				

appraiser suggested an analysis as proffered by Benson (1998) which would assume that upon sale of the club, all members would be paid their share of the distribution and then be required to rejoin at the rate established by the new owner. Given that the market in question had several options for membership in other clubs and given that the subject club had relatively full membership, this approach was resisted as unrealistic. Certainly (in our

opinion), no buyer of this club would risk the loss of his “captive” membership audience to competitive clubs. Therefore, we believed it would have been wrong to value the going concern inclusive of those memberships or to include them in the fee simple valuation.

The preceding real-world assignment could not provide a clearer example of why memberships should be considered as business value, not real property value. If the memberships

**Example 3. Club X as a daily fee golf club**

		Year 1	Year 2	Year 3	Year 4	Year 5
No. of Golf Rounds (27 holes)		15,000	18,000	22,000	25,000	25,000
Member Rounds	0.0%	—	—	—	—	—
Cart Rounds	85.0%	12,750	15,300	18,700	21,250	21,250
Guest Rounds	100.0%	15,000	18,000	22,000	25,000	25,000
Revenue Increasing @		2.5%				
Average Guest Fee		\$150	\$154	\$158	\$162	\$166
Guest Fee Revenue		\$2,250,000	\$2,767,500	\$3,467,063	\$4,038,340	\$4,139,298
Cart Rental Fee/Round		\$32.00	\$32.80	\$33.62	\$34.46	\$35.32
Cart Rental Revenue		\$408,000	\$501,840	\$628,694	\$732,286	\$750,593
Food & Beverage Sales/Round		\$30	\$31	\$32	\$32	\$33
Food Sales		\$450,000	\$553,500	\$693,413	\$807,668	\$827,860
Pro Shop Sales/Round		\$20	\$21	\$21	\$22	\$22
Pro Shop Sales		\$300,000	\$369,000	\$462,275	\$538,445	\$551,906
Other Income/Round		\$5	\$5	\$5	\$5	\$6
Other Income		\$75,000	\$92,250	\$115,569	\$134,611	\$137,977
Total Revenue/Round		\$232	\$238	\$244	\$250	\$256
Total Revenue		\$3,483,000	\$4,284,090	\$5,367,013	\$6,251,350	\$6,407,634
Expense Multiplier	3.50%					
<b>DEPARTMENTAL COSTS &amp; EXPENSES</b>						
Golf Course Maintenance		\$1,550,000	\$1,604,250	\$1,660,399	\$1,718,513	\$1,778,661
Cart Maint. and/or Lease (25 carts)	\$800	\$48,000	\$49,680	\$51,419	\$53,218	\$55,081
Food & Bev. Costs	45.0%	\$202,500	\$249,075	\$312,036	\$363,451	\$372,537
Food & Bev. Exp. (Incl. Payroll)	45.0%	\$202,500	\$249,075	\$312,036	\$363,451	\$372,537
Pro Shop Costs (Goods Sold)	50.0%	\$150,000	\$184,500	\$231,138	\$269,223	\$275,953
Pro Shop Exp. (Incl. Payroll)	90.0%	\$270,000	\$332,100	\$416,048	\$484,601	\$496,716
Total Dept. Costs & Expenses		\$2,423,000	\$2,668,680	\$2,983,074	\$3,252,456	\$3,351,484
<b>UNDISTRIBUTED EXPENSES</b>						
Administrative & General		\$750,000	\$776,250	\$803,419	\$831,538	\$860,642
Management Fee	4.0%	\$139,320	\$171,364	\$214,681	\$250,054	\$256,305
Marketing & Promotion	3.0%	\$104,490	\$108,147	\$111,932	\$115,850	\$119,905
Professional Fees (Consultants)		\$25,000	\$25,875	\$26,781	\$27,718	\$28,688
Utilities		\$150,000	\$155,250	\$160,684	\$166,308	\$172,128
Repairs & Maintenance	2.0%	\$69,660	\$85,682	\$107,340	\$125,027	\$128,153
Total Undistributed Expenses		\$1,238,470	\$1,322,568	\$1,424,836	\$1,516,495	\$1,565,821
<b>FIXED CHARGES</b>						
Real & Personal Property Taxes		\$100,000	\$103,500	\$107,123	\$110,872	\$114,752
Property Insurance		\$70,000	\$72,450	\$74,986	\$77,610	\$80,327
Reserves for Replacement	2.0%	\$69,660	\$85,682	\$107,340	\$125,027	\$128,153
Total Fixed Charges		\$239,660	\$261,632	\$289,449	\$313,509	\$323,232
TOTAL EXPENSES		(\$3,901,130)	(\$4,252,879)	(\$4,697,358)	(\$5,082,460)	(\$5,240,538)
Operating Expense Ratio		112%	99%	88%	81%	82%
<b>NET OPERATING INCOME</b>						
of Annual Operations		(\$418,130)	\$31,211	\$669,654	\$1,168,890	\$1,167,096
Annual Golf Club Operating Cash Flows		(\$418,130)	\$31,211	\$669,654	\$1,128,112	
Reversion @	11.25%	\$10,374,189				
Selling Costs @	4.0%	\$414,968				
Net Reversion		\$9,959,222				
Discount Rate	13.00%					
NPV of Golf Club Operations @	13.00%	\$6,943,599				
Rounded to		\$6,900,000				



**Example 4. Club X as a private, for-profit golf club, exclusive of memberships**

		Year 1	Year 2	Year 3	Year 4	Year 5
No. of Golf Rounds (27 holes)		12,000	13,000	14,000	16,000	16,000
Member Rounds	75.0%	9,000	9,750	10,500	12,000	12,000
Cart Rounds	33.0%	3,960	4,290	4,620	5,280	5,280
Guest Rounds	25.0%	3,000	3,250	3,500	4,000	4,000
Revenue Increasing @	2.5%					
<b>Initiation Deposits</b>						
Cumulative Golf Members		311	331	351	357	357
No. of New Members		20	20	20	6	0
75% Refundable Initiation Fee		\$50,000	\$50,000	\$65,000	\$75,000	\$75,000
<b>Total Golf Initiation Fees</b>		<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,300,000</b>	<b>\$450,000</b>	<b>\$0</b>
Membership Refunds/Attrition	3.0%					11
Turnover/Refunds	75.0%					
Average Annual Golf Member Dues		\$9,400	\$9,635	\$9,876	\$10,123	\$10,376
<b>Membership Dues Revenue</b>		<b>\$2,923,400</b>	<b>\$3,189,185</b>	<b>\$3,466,432</b>	<b>\$3,613,830</b>	<b>\$3,704,175</b>
Average Guest Fee		\$85	\$87	\$89	\$92	\$94
<b>Guest Fee Revenue</b>		<b>\$255,000</b>	<b>\$283,156</b>	<b>\$312,561</b>	<b>\$366,143</b>	<b>\$375,296</b>
Cart Rental Fee/Round		\$32.00	\$32.80	\$33.62	\$34.46	\$35.32
<b>Cart Rental Revenue</b>		<b>\$126,720</b>	<b>\$140,712</b>	<b>\$155,324</b>	<b>\$181,951</b>	<b>\$186,500</b>
Food & Beverage Sales/Member		\$2,400	\$2,460	\$2,522	\$2,585	\$2,649
<b>Food Sales</b>		<b>\$746,400</b>	<b>\$814,260</b>	<b>\$885,047</b>	<b>\$922,680</b>	<b>\$945,747</b>
Pro Shop Sales/Member		\$1,000	\$1,025	\$1,051	\$1,077	\$1,104
<b>Pro Shop Sales</b>		<b>\$311,000</b>	<b>\$339,275</b>	<b>\$368,769</b>	<b>\$384,450</b>	<b>\$394,061</b>
Other Income/Member		\$500	\$513	\$525	\$538	\$552
<b>Other Income</b>		<b>\$155,500</b>	<b>\$169,638</b>	<b>\$184,385</b>	<b>\$192,225</b>	<b>\$197,031</b>
Cottage Rental Revenue		\$100,000	\$102,500	\$105,063	\$107,689	\$110,381
Locker Room Revenue		\$40,000	\$41,000	\$42,025	\$43,076	\$44,153
<b>Fitness Center Revenue</b>		<b>\$50,000</b>	<b>\$51,250</b>	<b>\$52,531</b>	<b>\$53,845</b>	<b>\$55,191</b>
<b>Total Revenue/Member</b>		<b>\$15,138</b>	<b>\$15,501</b>	<b>\$15,875</b>	<b>\$16,431</b>	<b>\$16,842</b>
<b>Total Revenue</b>		<b>\$4,708,020</b>	<b>\$5,130,976</b>	<b>\$5,572,137</b>	<b>\$5,865,888</b>	<b>\$6,012,535</b>
Expense Multiplier	3.50%					
<b>DEPARTMENTAL COSTS &amp; EXPENSES</b>						
Golf Course Maintenance		\$1,475,000	\$1,526,625	\$1,580,057	\$1,635,359	\$1,692,596
Cart Maint. and/or Lease (60 carts)	\$800	\$48,000	\$49,680	\$51,419	\$53,218	\$55,081
Food & Bev. Costs	35.0%	\$261,240	\$284,991	\$309,766	\$322,938	\$331,011
Food & Bev. Exp. (Incl. Payroll)	35.0%	\$261,240	\$284,991	\$309,766	\$322,938	\$331,011
Pro Shop Costs (Goods Sold)	50.0%	\$155,500	\$169,638	\$184,385	\$192,225	\$197,031
Pro Shop Exp. (Incl. Payroll)	90.0%	\$279,900	\$305,348	\$331,892	\$346,005	\$354,655
Cottage Costs	60.0%	\$60,000	\$61,500	\$63,038	\$64,613	\$66,229
<b>Total Dept. Costs &amp; Expenses</b>		<b>\$2,480,880</b>	<b>\$2,621,272</b>	<b>\$2,767,285</b>	<b>\$2,872,683</b>	<b>\$2,961,386</b>
<b>UNDISTRIBUTED EXPENSES</b>						
Administrative & General		\$1,000,000	\$1,035,000	\$1,071,225	\$1,108,718	\$1,147,523
Management Fee	3.0%	\$141,241	\$153,929	\$167,164	\$175,977	\$180,376
Marketing & Promotion	3.0%	\$141,241	\$146,184	\$151,300	\$156,596	\$162,077
Professional Fees (Consultants)		\$50,000	\$51,750	\$53,561	\$55,436	\$57,376
Utilities		\$150,000	\$155,250	\$160,684	\$166,308	\$172,128
Repairs & Maintenance	2.0%	\$94,160	\$102,620	\$111,443	\$117,318	\$120,251
<b>Total Undistributed Expenses</b>		<b>\$1,576,642</b>	<b>\$1,644,733</b>	<b>\$1,715,377</b>	<b>\$1,780,352</b>	<b>\$1,839,731</b>
<b>FIXED CHARGES</b>						
Real & Personal Property Taxes		\$100,000	\$103,500	\$107,123	\$110,872	\$114,752
Property Insurance		\$70,000	\$72,450	\$74,986	\$77,610	\$80,327
Reserves for Replacement	2.0%	\$94,160	\$102,620	\$111,443	\$117,318	\$120,251
<b>Total Fixed Charges</b>		<b>\$264,160</b>	<b>\$278,570</b>	<b>\$293,551</b>	<b>\$305,800</b>	<b>\$315,330</b>
<b>TOTAL EXPENSES</b>		<b>(\$4,321,682)</b>	<b>(\$4,544,574)</b>	<b>(\$4,776,214)</b>	<b>(\$4,958,835)</b>	<b>(\$5,116,447)</b>
<b>Operating Expense Ratio</b>		<b>92%</b>	<b>89%</b>	<b>86%</b>	<b>85%</b>	<b>85%</b>
<b>NET OPERATING INCOME</b>						
of Annual Operations		\$386,338	\$586,401	\$795,923	\$907,053	\$896,088
Annual Golf Club Operating Cash Flows					\$7,646,619	
Reversion @	11.25%	\$7,965,229	\$386,338	\$586,401	\$795,923	\$8,553,672
Selling Costs @	4.0%	\$318,609				
<b>Net Reversion</b>		<b>\$7,646,619</b>				
Discount Rate	13.00%					
NPV of Golf Club Operations @	13.00%	\$6,598,873				
Rounded to		\$6,600,000				

had been considered, they would have increased the value conclusion dramatically, and incorrectly, since market dynamics at the time suggested that many of the club's members might have gone elsewhere. The value of the real estate would not have been affected by including the memberships, but it would have suggested otherwise if they had been included.

There is also the question of how to handle the valuation of stabilized clubs with normal turnover and predictable annual stabilized revenue from non-refundable initiation fees paid by replacement members. An argument can be made that such income is normal and recurring and therefore should be included in the valuation of both the going concern and the real estate. In my opinion, it should be part of the going concern value. It is not real property revenue because it represents a joining fee. The real estate produces revenue from these new members in the form of dues and use fees. Furthermore, the cost of the membership (initiation fee) is typically based on a club's prestige level, membership, reputation, and other non-realty items; it is not always the best facilities (real estate) that command the highest initiation fees. For these reasons, initiation fees should not be considered as income attributable to real property.

The same reasoning would hold true for deposit memberships. Even though upon stabilization these memberships produce predictable annual income in the form of interest, these fees, like initiation fees, are not charged based on the real property and should not be considered as such. Additionally, as deposits, they represent a long-term liability to the club but do not affect the value of the real property, unencumbered.

As appraisers are often called upon to value the going concern, it is important to understand the economics of each type of membership and how to value each, typically in a situation unique to each club.

## Conclusion

For a business appraisal of a private club (or any golf course), it is important to remember that the interest being purchased is typically, but not always, that of a going concern and that most buyers will be considering the value derived from membership sales. In many cases, these revenue projections can be capitalized or discounted at rates different (although usually higher) than the normal annual income of the club itself because there is more risk involved in the sale of memberships than in the collection of dues and user fees after the membership has been purchased (Hirsh 1994).

A key element is that memberships vary greatly in their rights, restrictions, and structure. They have only been discussed here in general terms and readers are cautioned to look at each situation individually.

In ad valorem appraisal situations, the value of memberships should not be considered as real property for the following reasons:

- Membership sales do not generate recurring annual income.
- The value of a club can often be greater with less than full membership than with full membership. This does not make sense.
- The value of a property is largely independent of the value of the entity that owns the property and stock in that entity.
- The type of operation or membership, as shown by the four examples, can dramatically change the value of the going concern. Common logic suggests that the value of the real estate should not be similarly affected.

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