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Linking Up

by Larry Hirsh

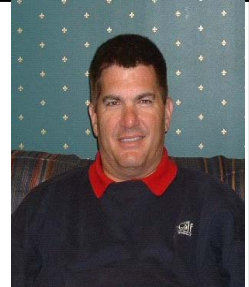
This issue of NewsLinks deals with a variety of pertinent topics. We are reprinting an article by Mike Hughes of the NGCOA on the eminent domain issue and successful resolution for Deepdale Golf Club in North Hills, NY. We also offer the second part of attorney Dallas Addison's article on Legal due diligence. Shaun Henry explores the ins and outs of maintenance budgets and I will share some thoughts on the travails of the private club industry.

As I wrote in the last issue, we've been hearing from many private clubs that are struggling. Predominantly, the clubs experiencing the toughest challenges are those often considered "mid-market" clubs or those in smaller communities. What I'd like to do in this issue is discuss some of the reasons why private clubs are struggling.

As I travel the country and talk to many in this industry it appears to me that the culture of private clubs has changed. No longer is the club an "automatic" so "Dad" can play golf on the weekends while "Mom" and the kids play at the pool. In addition, there are many more dining alternatives and the club is now competing with much more than other clubs.

First, there is the fact that many families have two workers and there are activities that compete with golf and other country club sports that are often cheaper and more family oriented. Hiking, boating and various travel destinations are just a few. For those families that do wish to play golf, if they don't play enough, there are now many upscale and high-quality public access courses available that are often just as nice and carry fewer rules to deal with.

Of critical importance are both cost and value. For many years, clubs simply charged what it cost and attracted members because of prestige and exclusivity. Younger families are



now more concerned than ever with their financial future and demand high value at competitive prices. In many markets clubs have lost members to other clubs and in many cases all clubs have experienced declining membership. Everyone wants to know why.

First, many people are house poor. We've been reading for years about the booming housing market. Even though it has cooled off, there are still many who bought homes at elevated prices because of attractive mortgage interest rates. The result is still high payments. Therefore, the younger buyers simply don't have the income or the cash to join clubs, especially those with high entrance fees.

Secondly, those younger families that are joining clubs are demanding more facilities of a higher quality. Not only does today's member demand fitness facilities, baby-sitting and a complete golf practice facility but they also demand superior quality of facilities and services. All this adds up to higher costs of operation and results in higher dues. If the quality isn't there or the price is too much, they simply don't join, play less golf at the upscale public facilities and go out to eat at the variety of restaurants now available in most cities and towns.

Third, there is a stigma associated with the country club culture. With a more
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Legal Audits and Due Diligence

by Dallas Addison

Part 2

Operational audits require the evaluation of all contracts and agreements to which a club is a party. For most clubs, this usually includes lease agreements, purchase contracts, service contracts, maintenance agreements and independent contractor agreements. The written report compiled as a result of this evaluation will provide a club with the necessary information to create a tickler system to alert the club staff when important contracts are due to expire or, more importantly, the deadline for avoiding (or guaranteeing) automatic renewal. An operational

audit can pay for itself when a club is able to use information gained from the audit to avoid future liability. For example, an operational audit may reveal such issues as an existing contract that automatically renews at the end of its first term for a successive three year term unless notice is given in a timely manner. If the club does not want the contract to renew, missing the deadline is a costly mistake. Operational audits also identify consent requirements that will be needed to transfer contracts to a new owner.

Employment audits provide a written report reviewing a club's Employment Application, Employee Handbook, certain personnel files and documentation of hiring, firing and disciplinary actions at the club. Simi-

lar to the review of membership information, the goal is to alert the club to those written documents, policies or procedures which should be changed as a means of reducing the likelihood that the club will be sued for discrimination, sexual harassment, wage and hour violations or other employment related matters.

An ADA audit provides a review of a club's existing state of compliance or noncompliance with the requirements of the Americans with Disabilities Act, Title III, which deals with the accessibility of the club accommodations to Members and Guests in a number of areas. The review includes an on-site audit of the facility. After the on-site audit has been completed, a written report will be prepared to address the state of the club's current compliance with the requirements of the ADA.

Environmental issues are always a hot button. A clean bill of health is critical for any club, particularly one that may be sold. Having a Phase I Environmental Site Assessment performed allows club ownership to identify and address and thus mitigate environmental concerns. It may also suggest operational changes that need to be made to minimize future problems. A buyer will want to "update" the Phase I Environmental Site Assessment, but an update is usually a quick process and the uncertainty is minimized since ownership has already reviewed and responded to the prior report.

After completing some or all of these audits, owners will have a

clearer picture of where they stand on these fundamental issues. In a sale scenario, this aids in pricing, as ownership knows where potential issues may arise, allowing ownership to quantify those issues. On the operational side, these audits help avoid the surprise issues that can pop up and derail an otherwise smooth running operation.

Having a Phase I Environmental Site Assessment performed allows club ownership to identify and address and thus mitigate environmental concerns.

This allows ownership to focus on the key issues to their financial success.

Dallas

Addison is a partner with Addison Law Firm. Addison Law Firm focuses on representing clients in the golf, club, resort and hospitality industries. Addison Law Firm's professionals have over sixty years combined experience in these industries, with over 900 total transactions. Mr. Addison practices primarily in the real estate, corporate and membership

areas of the Firm. Mr. Addison has represented Purchaser, Sellers, Developers, Members and Operators in the negotiation and structuring of multiple golf, club, resort and hospitality transactions throughout the country totaling over Two Billion Dollars.

Dallas Addison is also a founding principal of Preservation Land Company, which creates unique conservation and recreation oriented properties. Mr. Addison focuses on project acquisition, management, marketing and oversight of Preservation Land Company activities. Mr. Addison, along with Randy Addison, is responsible for the conception and development of Cross Pines Ranch, Preservation Land Company's first property. Preservation Land Company is currently working on other projects in Texas and Hawaii.

An operational audit can pay for itself when a club is able to use information gained from the audit to avoid future liability.

GPA has been retained to serve as exclusive marketing agent for the following acquisition opportunity:

- ◆ **Alcoma GC – Pittsburgh, PA:** Member-owned private golf club with swimming pool, clubhouse, maintenance building and 420± members. Available for acquisition. Offers due by September 15, 2006, Offers due by October 5, 2006 Price - **\$3,900,000** **Under Contract**
- ◆ **Montclair CC –Prince William County, VA:** 18-hole private golf course and practice facility, a clubhouse structure with a pro shop and lower-level golf cart storage, an asphalt-paved parking lot, a swimming pool facility with a pool house and 3 pools, a tennis facility with 4 inside courts and 6 outside courts and a tennis pro shop, a maintenance facility, a pump house, available for acquisition **Price Reduced - \$3,500,000**
- ◆ **Three Little Bakers Country Club – Wilmington, DE:** 18-hole private club, with clubhouse, maintenance building and parking. Available for acquisition. Offers due by September 20, 2006. Offers due by October 15, 2006 Price - **\$3,600,000** **Under Contract**
- ◆ **Bucks County CC – Bucks County, PA:** 18-hole semi-private golf course and practice facility, a clubhouse structure with a pro shop and banquet facility, an asphalt-paved parking lot, a swimming pool facility with a pool house a maintenance facility, a pump house, available for acquisition.
- ◆ **French Creek Golf Club- Chester County, PA:** 18-hole private club with clubhouse, practice facility, maintenance and Gil Hanse designed golf course in Beautiful Chester County, PA.
- ◆ **Hickory Heights Golf Club – Pittsburgh, PA:** Daily fee facility in Suburban Pittsburgh with clubhouse, banquet area and 18-hole Hurdzan designed golf course.
- ◆ **Tanglewood Country Club – Cleveland, OH:** Private club with 18-hole golf course, clubhouse, maintenance facility **\$4,600,000** **Just Listed**

More information available on www.golfprop.com/brokerage.

Interested parties may contact Larry Hirsh for more information at 800-775-2669.

Where the Dollar Hits the Dirt—
By Shaun Henry

GOLF COURSE MAINTENANCE
What is in your budget?

As a superintendent, I was often frustrated when my maintenance budget was compared to that of other clubs in the local market. Beyond the course nuances that influence maintenance budgets such as acreage maintained, quality of conditions, mowing difficulty, micro-climates, etc; the real question is, “What is included in that budget?” There was one club in our area that did not include labor in their maintenance budget. With labor typically responsible for 50%-60% of golf course maintenance expenditures, you can imagine the confusion when my members heard my budget was \$300,000 higher than that of this competing club.

So what *is* included in a typical golf course maintenance budget? Course maintenance expenses are often divided into four categories, including labor and associated taxes, irrigation water, equipment repairs and maintenance, and materials.

In many cases course maintenance expenditures go beyond these four broad categories. Frequently, the course maintenance operation is viewed as a stand alone department from an accounting standpoint. That is, all expenses associated with maintaining the golf course amenities and operating the maintenance department are included in the department budget. As a rule, the physical location of the maintenance facility

(typically) away from the clubhouse and other departments allows for easy separation of course maintenance



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Linking Up,

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diverse group of the population now able to afford private clubs, many are opting to spend their recreational and social dollars in places that don't have a history of exclusion and "stuffiness". Some clubs simply have too many rules that today's young and independent professionals don't care to follow. Many professionals dress casually at work and in today's cyberspace environment, it's easier to take vacations or spend more time at vacation homes, which further diminishes the role of the club. Thus, the culture needs to be expanded.

While each and every club has its own specific and unique challenges, I think it is critical (especially for member operated clubs) to periodically review and plan on the following fronts:

- ◆ Facilities – Constant improvement, upgrading and good maintenance is a must.
- ◆ Services – Services always need to be enhanced or expanded.
- ◆ Service – Members and guests must be served in a manner that makes them feel special.
- ◆ Quality – All aspects of the club must be well done. Food has to be good and consistent. The golf course must be in good condition. All employees must be well trained and there must be quality competent management.
- ◆ Competition – Many clubs fail by trying to compete directly with nearby clubs. Clubs have and need their own identities. Historically, older clubs have been associated with certain segments of the population based on religion, socioeconomic or heritage. Newer clubs tend to be more mixed with emphasis on certain activities, families, business or golf. It is, in my opinion important for clubs to define themselves, emphasize what they do best and continue to improve.

Each of these items should be considered in long and short range planning that should be updated periodically and in the case of member run clubs should include independent professional assistance. Many clubs make popular but unwise decisions because of club politics and an independent consultant can often assist by providing a different perspective while being sensitive to the goals of the membership.

GOLF COURSE MAINTENANCE

Continued from Page 3.

operating expenses such as utilities, professional fees, and building maintenance. These same expenses for departments located within the clubhouse are often reported as undistributed expenses, and not allocated between departments. Maintenance

equipment expense can be handled in several different ways and may or may not be included in an operating budget. When superintendents discuss their budgets, the most frequently asked question is, "Does that include equipment?" Equipment purchases are typically categorized as capital expenditures, while lease payments are often considered an operating expense and are therefore incorporated in the maintenance budget.

While there is no absolute standard, golf course maintenance budgets should comprise all expenses associated with maintaining the golf course amenities and operating the maintenance department including labor and associated taxes, irrigation water, equipment repairs and maintenance, materials and operational expenses. To compare "apples to apples" when evaluating budgets of similar properties it is important to determine if the facilities are buying irrigation water, whether they lease and/or own maintenance equipment and how they account

GOLF COURSE MAINTENANCE BUDGET

LABOR & ASSOCIATED TAXES

LABOR
EMPLOYEE BENEFITS
HIRING ADVERTISEMENT

IRRIGATION WATER

IRRIGATION WATER

EQUIPMENT REPAIR & MAINT.

EQUIPMENT REPAIR
WORKSHOP SUPPLIES
SHOP TOOLS
OIL

MATERIALS

GASOLINE
DIESEL FUEL
EQUIPMENT RENTAL
COURSE SETUP SUPPLIES
IRRIGATION/DRAINAGE
COURSE HAND TOOLS
SAFETY EQUIPMENT
SEED
SOD
DIVOT MIX
TOPDRESS/SOIL/SAND
FERTILIZER
CONTROL PRODUCTS
SALT/ICE MELT
TREE MAINTENANCE
LANDSCAPING
NURSERY STOCK
MULCH
SPRING WATER
OFFICE SUPPLIES

COURSE MAINTENANCE

OPERATIONS EXPENSES

POSTAGE
PROFESSIONAL SERVICES
DUES
BOOKS/PERIODICALS
LICENSES/FEEES
MEETINGS/SEMINARS
TRAVEL
LINENS/LAUNDRY
SECURITY MONITORING
TELEPHONE
TRASH REMOVAL
WORKSHOP UTILITIES
PUMP STATION UTILITIES
BUILDING MAINTENANCE

The Fifth Amendment and the World of Golf

by Michael Hughes



It's not often the Fifth Amendment to the U.S. Constitution enters the world of golf, but it did so recently in the Village of North Hills, New York. That's where city officials are moving to claim eminent domain over a private golf club. While disturbing in this instance, the possibility that similar actions could spread to courses in other parts of the U.S. is what should have golf club members and non-golfing taxpayers alike very concerned.

The Village of North Hills is home to the Deepdale Golf Club, a highly regarded private club approximately 20 miles from Manhattan. The mayor of North Hills claims converting Deepdale to a municipal facility in the name of "economic development" would provide an amenity to village residents and boost property values

We believe the mayor is loosely interpreting the "Takings" clause of the Fifth Amendment, which allows taking private property for "public use" as long as just compensation is made to the private party. However, our quarrel is not with the Constitution or even the concept of eminent domain – it's with this interpretation of economic development.

We saw the eminent domain issue coming even before the U.S. Supreme Court's controversial *Kelo v. City of New London, Conn.* ruling in June 2005 that confirmed the use of eminent domain in the name of "economic development." A pre-*Kelo* example occurred in Coatesville, Penn., where an attempt failed to condemn a family farm in order to construct a recreational complex that would have included an 18-hole golf course.

Leadership at the National Golf Course Owners Association believes this is a slippery slope. If government starts to condemn private property in order to build upscale municipal courses, or scout for "blighted" privately owned golf courses ripe for multi-million dollar renovations subsidized by taxpayers, where might it lead? That's why this is not only an issue for golfers. Undoubtedly, that's also why lawmakers in Washington and in more than 30 states have introduced legislation to curtail or require greater scrutiny of eminent domain in the name of economic development.

We believe local authorities need to ask whether their constituents are really clamoring for more high-end, public golf courses. There are currently some 70 public-access golf courses within a 25-mile drive of North Hills. Isn't the hue and cry much louder for investment in better schools, health-care and roads?

The question that must be asked now in North Hills – and maybe soon in towns across America – is whether the need for further economic development justifies seizing some of the least-blighted property in the area. Is it more compelling than the Deepdale members' right to their private club? Further, might the property values enjoyed by North Hills – already among the highest in the nation – be due in part to the gem of a private golf club that already calls North Hills home?

Editor's Note : Deepdale will be preserved as a private club. Last summer, the Governor of New York, signed a law that created a category of land use exempt from seizure under the "eminent domain," statute the North Hills, N.Y., mayor intended to use. The law prohibits municipalities from using public funds to acquire "land within special groundwater protection areas being used as a recreational or open space at the time of the acquisition." Deepdale has been in such an area for 20 years.

As chief executive officer, Mike Hughes is responsible for all aspects of the operation of the NGCOA and its subsidiaries. Hughes joined the NGCOA in 1990 after serving as a litigation attorney for the law firm of Rosen, Rosen, and Hagood. Hughes graduated from the College of Charleston with a bachelor's degree in political science. He earned a master's degree in Sports Administration from Ohio University and a Juris Doctor degree from the University of South Carolina Law School. In 2000 Hughes was named one of the "Most Influential Leaders in Golf" by *Golfdom* magazine.

Hughes serves on the Executive Committee of Golf 20/20, on the Board of Governors of the National Golf Foundation and on the Advisory Board of the Golf Hall of Fame. He is also a member of the selection panel for the PGA of America's Lifetime Achievement Award.



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The Practice Tee

- ◆ **CNL Income Corp.** recently retained **GPA** to provide appraisal services for **the Premiere Golf portfolio with courses in Ohio, Missouri, Arizona, Kansas & Texas.**
- ◆ **GPA** has recently been retained by **Wilshire National Bank** to provide a market value appraisal of the **Middle Island CC** in **Nassau County, NY.**
- ◆ **Tolleson Private Bank** recently retained **GPA** to provide appraisal services in connection with **Dallas National Golf Club** in **Dallas, TX**
- ◆ **Dempsey Family LP** recently retained **GPA** to provide consulting services in connection with **The Golf Club at Cape Cod, in Massachusetts.**
- ◆ **The Brick Companies** recently retained **GPA** to provide consulting services on the **Potomac Ridge Golf Club** in **Waldorf, MD.**
- ◆ **Amboy National Bank** recently retained **GPA** to provide appraisal services in connection with **Shadow Isle Golf Club** near **Colts Neck, NJ**
- ◆ **PGA Golf Properties** recently retained **GPA** to provide consulting services for **The Dye Course at PGA Golf Club, Port St. Lucie, FL**