

GOLF PROPERTY TAX ASSESSMENTS YOUR PLAN OF ACTION

By Larry Hirsh, CRE, MAI, SGA

NEWS FLASH! Golf properties have been declining in value. This is no secret but with local governments increasingly squeezed for operating revenues, real estate owners are asked to bear a larger burden. Golf courses, despite the recently depressed values are an easy target. Why not? Only 12%± of the population plays golf and golfers are perceived by non-golfers as “rich people in bright clothes chasing a little white ball.” Moreover, when schools, police and fire protection are at risk, golf courses are politically acceptable targets.

In many jurisdictions tax reassessments have been unusually hard on golf course properties. Recently, jurisdictions have experienced re-assessment, which sometimes have resulted in increases for golf properties of between 300% and 900%. In some cases, this is the result of over aggressive targeting of the golf industry or of large land masses, resulting in inflated assessments. In others, it represents the possible correction of assessments that have been ignored for a long period of time and may be artificially depressed.

What should the parties do? The following is a checklist for golf course owners and assessors: how to prepare to challenge or defend an assessment and things to think about for each item.

1. Act Quickly

Any new assessment notice will have a date by which any appeal or objection must be filed. If such objection is not filed in a timely manner, any right to appeal can be forfeited.

2. Evaluate The Case

It is critical to evaluate your case *objectively*. While large assessment increases are often shocking and unjustified, in some cases they represent nothing more than fair updates of value.

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Pursuing an appeal with no foundation can be costly and an owner can risk an *increase in* the assessment. The best way to evaluate your case is to engage the services of a qualified appraiser to perform a preliminary assessment analysis and valuation. In most cases, there is no need to have an appraisal completed right away and most appraisers will work on a phased basis to control “up-front” costs. It is important to ensure that the appraiser you hire is experienced, credible and can perform competently as an expert witness.

3. Try to “Work” with Assessing Authorities

Taxing authorities often calculate how far they can negotiate based on the potential cost of litigation to the taxpayer. Knowing this can often help avoid costly and uncertain litigation. Especially in jurisdictions where reassessments have occurred, the caseload can be burdensome and taxing authorities may be prepared to adjust assessments for taxpayers who have prepared accordingly and provide ample support for their case.

4. Sharing of Information

A constant conflict between golf course owners and tax assessors is the confidentiality with which owners treat their income and expense statements and other operating information. While it is certainly understandable to maintain the privacy of financial records, golf courses are typically appraised based primarily on the income approach and historical income is often the best data available. Assessors, often unfamiliar with the valuation of golf properties use data that might not represent a true picture

of a property’s operation and in many cases apply the cost approach, exclusively. Moreover, tax assessors may not be aware that a facility’s published rates may often be substantially different than it’s actual achieved averages. While I don’t advocate owners “publishing” their operating information, certain data such as accurate round counts (adjusted for 18-hole equivalents), average green fees, per round estimates of pro-shop and food & beverage sales and market information of operating expense ratios and other particular line items could be shared with an independent consultant, such as a real estate appraiser, in order to formulate market averages and trends without jeopardizing that confidentiality. This could help encourage accurate assessments on the front end or certainly shorten the appeal process through amicable settlements.

5. Preparation

In any assessment case, the property owner has to be prepared to “go the distance.” This is the best way to avoid costly litigation. Hire counsel who is experienced and respected, be prepared to have your appraiser complete a full appraisal report on the property and be ready to litigate, if necessary.

6. Methodology

Flat Fee vs. Contingent Fee: Several ways to pursue assessment appeals exist. One can find appraisal firms that will pursue assessment adjustments on a contingent fee basis. The advantage of this method is that there is no “up-front” cost to the taxpayer who simply pays a contracted percentage of tax savings.

The disadvantage of the “contingent fee” is that often the fee can be quite significant if the savings is high and the potential for amicable settlements can be hindered due to the “Bounty Hunter” image that many contingent fee firms have. Additionally, contingent fee consultants are unable to serve as expert witnesses due to their fee arrangement and the resulting vested interest in the case. In some cases the contingent fee consultant will pay for the expert appraiser, in others the taxpayer pays the appraiser.

Legal Counsel: Another way to pursue assessment appeals is through legal counsel. While this can sometimes produce satisfactory results, most attorneys will want a qualified independent appraiser on board as an expert witness.

Phased Process: The third way to pursue assessment appeals is through a “phased” process. This involves engaging an appraisal/consulting firm, for a fee on a “phased” basis that is sensitive to up-front costs but where the fee is defined. The advantage is that if the taxpayer achieves big savings, he keeps most of it because his fee is not a percentage. His likelihood of amicable settlement or success in court (if necessary) is enhanced because of the impartial nature of his expert(s). The disadvantage is that he/she will incur nominal “up-front” costs and risk not saving any money or even learning that he/she may not have a legitimate case. While this may be frustrating, it can often be a ‘blessing

in disguise” in that it can avoid a possible increase if a case with no merit is pursued.

A thorough evaluation of any case is considered critical and can be the most important element in your decision.

Hirsh Speaks

GPA President Larry Hirsh recently delivered a presentation on the turnover of clubs from developers to members at the ULI Golf Development Conference in Las Vegas, April 1, 2004.

Hirsh will also be presenting “Appraisal Issues for Golf Courses” to the Continuing Legal Education (CLE) seminar in Naples, FL on April 22, 2004

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Trends in Club Development

By Dennis Hillier

In order to be successful in today's changing Club Industry, clubs must recognize and embrace a number of emerging lifestyle trends. Significant competition exists for the entertainment dollar of the typical member of a golf or country club. To preserve the flow of those dollars into the club from dues and usage fees, clubs today have to attract not only the golfer, but his or her spouse and children to the club as well. In addition, clubs also have to implement new activities and programs that attract member interest while preserving the cash flow the club needs to be able to offer such services.

Family Friendly Golf

Clubs have to become more family friendly. Golf has become a family activity as women and juniors are providing the only growth areas in the number of golfers. Clubs are expanding the benefits a member's family receives and providing day care for children of members while they dine at the club. Be sure to check your State childcare laws if you are thinking of implementing a day care service.

Moreover, Clubs are allowing adult children and other relatives of members to use the Club facilities for reduced rates under "extended family" provisions. These provisions encourage families to get together at the club through discounted greens fees and other guest charges.

Women have become increasingly important to clubs. A common saying in the real estate industry is that the man may pick the area but the woman picks

the house. Couples golf is a rapidly growing segment of the golf industry. As a result, more golf courses are being designed with women in mind and golf pro shops are making more of an effort to cater to women. Many clubs employ women professionals who can teach women how to play golf the way they play golf. More activities and services are being provided for children and teens, including children's play areas and teen centers. In today's two-parent work environment, parents want to have their children with them and clubs must offer specific programs for young children and teenagers if they want to retain the patronage of the family.

Golf Only is Not Enough

Just as clubs must shift their focus to include women and juniors, clubs must also expand their offerings to meet these and other segments of the market. The days of every member knowing how to play golf are over. Golf clinics have become increasingly important to members who want to either learn to play golf or to improve their game. Golf clinics can introduce more people to the game of golf at a reasonable price and teach basics of the sport that many existing members take for granted. For every new person attracted to the sport, another player leaves. To keep players from leaving, clubs must make it easy to learn the sport and not scare the new players away.

Members today, are looking to clubs for a broad range of social activities and services, not just for golf. They want a good Activities Director to plan activities for themselves and their family. Post 9/11, many clubs have seen an increase in food & beverage income as members choose to dine at their own clubs instead of going

out. Clubs must work to retain this patronage.

Communication is Key

Communicating with members with regard to upcoming events and activities is crucial. Club newsletters are becoming more and more hi-tech communication tools with members. For example, the club's calendar of events can be placed on the club's website in a member's only web page, saving newsletter-printing costs.

Members can find comfort with an ability to make reservations for dining and it can be helpful to the food & beverage revenue. Email communication between members and the Club has become a popular form of communication and can enable clubs to eliminate gossip and rumor mills through timely responses to member questions.

Recently, more clubs are offering hotel-like concierge services as a convenience to members to help members save time in their busy lives. These clubs assist members in arranging for "non-club" activities and services such as restaurants, travel agencies, car rental companies, fishing guides and a myriad of other services.

Economics are Important

Members have become more conscious of dues and annual fees. The annual cost of belonging to a club has become very important even to affluent property owners. Limits on the number of members in clubs have been increasing so that dues can be more affordable. If billing dues on an annual basis, you may want to consider either switching to monthly billing or allowing your members both payment options. Members are less likely to ask themselves am I getting enough value for my membership if they

are writing smaller checks over the year than one large one at the beginning.

More and more residential communities are bundling property ownership and club memberships to lower dues levels and to bring in more members. In many developments, property owners automatically become a member, usually at the lowest membership category. Some bundled communities charge a refundable membership deposit, and some do not. All property owners pay dues or assessments to help pay operating costs, so the dues can be more affordable than a traditional private club can.

The mandatory membership requirement is usually enacted in a community's bylaws. Some clubs and Property Owner's Associations that enact such requirements retroactively, years after the community was developed, have faced legal challenges. An alternative to bundling property and memberships is to offer internal membership financing. This enhances the marketing of memberships and increases sales because members do not have to come up with the entire membership price at once. Most clubs typically require 25% down with three annual payments and interest may or may not be charged.

In sum, increasing competition faces clubs today for the entertainment dollar of their members. Clubs have to make it easier to pay for memberships while making those memberships attractive to all members of the family. Clubs are generally doing a good job of making members feel special but need to do more to save members time to enjoy the activities and facilities clubs offer.

Dennis W. Hillier is the founding partner of the law firm, Hillier & Associates, P. A. The firm specializes in corporate and real estate law, with emphasis on the design of club membership programs.

Linking Up - Hot Topics in Golf

By Larry Hirsh

Having just finished the golf industry "conference season," I thought it might be a good time to identify the "hot topics" in the golf course industry for 2004.

From my perspective, the most talked about topics of concern right now are:

- Real Estate Taxes
- Safety Issues
- Conservation Easements
- Transition from Developer to Members
- "Mandatory" Membership

"While each of these is worthy of a paper on its own, I thought it a good idea to simply identify and highlight some of these issues. Since our current and previous NewsLinks have delved into Conservation Easements as well as Real Estate Taxes, the present discussion will focus on the other areas.

Safety Issues

As the golf ball gets longer, equipment improves and athletes become stronger, golf courses are simply being outgrown. Accordingly, nearby properties and people are in danger, as well as those on adjacent holes. In addition to the risk of injury, there is a serious economic issue here. Insurance companies are taking a hard line, in some cases increasing premiums and in others canceling coverages. There is talk of the industry creating a self-insurance program but little about resolving the problem. We already need more space (bigger golf courses) and that translates into higher costs. We also need (often unsightly) protection that can minimize the risk on existing courses.

Transition from Developer to Members

always fund appropriate reserves, the property is maintained with a focus on short term real estate sales and often there are clubhouses with the same emphasis that become nooses around the members' necks. Members are often ill prepared to take over the club and usually run it by committee. As once said by former Club Corp Chairman Mr. Dedman, "clubs are run like nobody's business because they are nobody's business." At a recent seminar I moderated at ULI, the key element from all perspectives here was good planning. As more and more clubs navigate this phase, this issue will become more prominent with a variety of "sticky" issues.

Mandatory Membership

This hot new issue is centered so far, in South Florida, where many clubs have aging membership wanting to resign from the club. Accordingly, the clubs are declining and surrounding property values are suffering. Many have instituted "mandatory membership" policies for community residents to preserve the clubs. Some however maintain that this limits the market for their homes when selling. Time will tell which is best, but my guess is that it will be a case specific answer and that this will become a bigger issue in many areas of the country as more clubs age and transition.

Flat Participation

It's no secret that golf participation has been flat of late. Many industry groups are trying to spur growth but now we may learn that some previously published rates have been overstated, in some markets. All the experts say that this "dip" is short-lived and that growth will return soon. Who really knows? My guess is that if nothing else, we will see some golf courses go away and the strongest and best will survive. This is nothing different from any other types of development, and the cycle goes on.

Have a great Spring!



The Practice Tee

- ◆ **The PGA of America** recently retained **GPA** to provide a feasibility analysis and appraisal of the proposed **PGA Village Golf Club** on the in **San Antonio, TX**.
- ◆ **Meadowbrook Golf Group** recently retained **GPA** to provide replacement cost appraisals for the **TPC of Tampa Bay (FL), TPC Heron Bay (FL), TPC Eagle Trace (FL)**.
- ◆ **Hudson United Bank** recently retained **GPA** to provide a market value appraisal of **Radnor Valley Country Club** in **Radnor Township, PA**.
- ◆ **GPA** has been chosen as a strategic partner for the **Iowa Golf Association**, the **Rhode Island Golf Association**, the **Western Pennsylvania Golf Association**, the **Pennsylvania Golf Course Owners Association** and the **New Jersey Golf Course Owners Association**
- ◆ **Potomac Golf Properties** recently retained **GPA** to provide appraisal services for **TPC of Virginia Beach** in **Virginia Beach, VA**.