golf property analysts
APPRAISERS • CONSULTANTS

NewsLinks

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SPECIAL POINTS OF INTEREST:

- Strategic Private Club Initiatives
- Realities of Golf Course Development
- Acquisition Opportunities
- Soaring Maintenance Expenses

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Linking Up

Troubled Club?...What to Do

by Larry Hirsh

Current times have brought many challenges to private golf and country clubs. The national economy is widely perceived to be on "shaky ground". Oil prices are at an all-time high and home mortgage foreclosures dominate the news along with presidential politics. As a result, many clubs are struggling to make ends meet and maintain competitive ground in facility improvements.

At the recent National Club Association Conference, some of the key challenges facing clubs were identified as:

- Appealing to the under 46 age group
- The impact of a sluggish economy
- Providing Good Value
- Integrating the club into the lifestyle of *THE WHOLE FAMILY*
- Keeping up with the times;
  - ◊ Facilities
  - ◊ Services
  - ◊ Dress Code
  - ◊ Technology
- Appealing to all age groups

These challenges are further compounded by the increase in the number of golf facilities in many markets making competition for golfers and members fierce and exerting downward pressure on revenues. Couple the above challenges with the evolution of hospitality and recreation culture which makes clubs less of a "family" priority and the challenges for private golf and country clubs are significant.

Dealing with these challenges requires a plan and some

of the key elements of such a plan are discussed below.

The following is a list of five (5) "proactive" and strategic initiatives that club leadership can do to combat this downward spiral that affects many private clubs. In fact, all golf and country clubs should consider each of the following bullet points to control costs, enhance member experience and revenues, develop new and viable membership sales

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A Nickel Ain't Worth a Dime Anymore: The Financial Realities of Golf Course Development

By, Todd Arterburn, Principal Rainmaker Golf Development Inc.

Part II

A Balanced Budget

"FANTASTIC! I've got a course with a projected $900,000 NOI, I'll use 7 as my NOI multiplier, leaving me with a $6.3 million development budget. I've heard that you can build a great golf course for $4.0 million, I can get the land for $500,000, so I'll still have a million eight for everything else. Done deal."

Hang on one minute. You've got to consider *all* the costs of developing a new course. Don't forget a) golf course design and engineering costs, b) project management and permitting expenses, c) construction soft costs (e.g. inspections, survey, water investigations), d) clubhouse and maintenance building design, engineering and construction expenses, e) infrastructure costs (e.g. parking lots, roads and utilities), f) furniture, fixtures and equipment (e.g. maintenance equipment, computers, chairs and tables, kitchen equipment, tools), g) growing-in the golf course (i.e. pre-opening turf preparation and maintenance), and h) pre-opening operating expenses (e.g. staff salaries before you

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Golf Course Development, continued from page 1.

Hang on one minute. You've got to consider all the costs of developing a new course.

Todd Arterburn is a founding principal of The Rainmaker Group, a diversified real estate development company based in central Maryland. Since its formation in 1991, Rainmaker has completed the development of 11 golf and golf/residential projects, along with 15 stand-alone residential and commercial projects. Prior to the formation of Rainmaker, Todd worked in international finance, and for the U.S. intelligence community.

open). Some developers also include their construction financing's **capitalized interest expenses** (interest that has accrued, but hasn't been paid) prior to opening.

THESE COSTS ADD UP!

In most daily fee projects, *excluding any land costs*, golf course construction represents no more than 60%-65% of the total development budget, and *in many cases it is less than half*. So, for instance, a project with a $4 million golf course will typically have a total development budget of between $6.5 million and $8 million, plus land costs, if any.

Keep one thing in mind as you plan your project. If your pro forma anticipates a high-end facility with premium pricing, you have to develop a golf course and clubhouse that can meet your golfers' expectations. There's nothing worse than trying to charge $80 for a $40 experience.

What does this mean? If you have a projected NOI of $1 million with greens fees of $75, and you think your total development budget is going to be $4 million, you're kidding yourself. If you're lucky, you'll probably end up with a $600,000 NOI (because you'll have to cut fees or your rounds forecasts won't hold up) and a $6 million development budget (because you left out or underestimated expenses). It may end up even uglier than that!

In summary, if your operating pro forma suggests a stabilized NOI of around 16.5% (or more) of your projected development budget (i.e. an NOI multiple of 6 or less), go back and take a harder look at your numbers. You're probably being overly optimistic on your operational assumptions, or your development budget is too low – or both. If your numbers hold up on further review, you've got a home run project!

Like Money in the Bank

But even if the numbers do hold up, you still face an uphill battle to get your project financed. Even when capital is looking for golf course investments, new development financing is tough to get, especially on one-off projects for first-time developers.

The big boys – companies like ClubCorp, American Golf, IGM/Meadowbrook and Kemper Sports -- are lucky. They have existing relationships that provide equity and debt at terms a first-time developer will never see. They may be able to get fixed-rate bank debt representing 75% or more of project costs, and can often get one lender to do the construction and permanent financing. You shouldn't count on it. Be thankful to get 60% of your project costs from a bank, *after you contribute the land, free-and-clear, as collateral.*

You can gripe all you want about banks financing only 60% of project costs (i.e. a **loan-to-value** of 60%), but what is a bank really looking for? Cash flow. You know the saying – cash is king. Any lender worth his salt wants to know how the loan will be paid back. For a golf course deal, that's from operating cash flow. Getting the bank to accept a high loan-to-value ratio is great, but that will only happen if the **debt service coverage ratio** (the ratio of facility cash flow to debt service payments) is high.

"Just great. More financial gobbledygook."

Maybe so. But the debt service coverage ratio is the single most important financial indicator for a bank reviewing a loan, even if the collateral value is high. Why? Because the last thing your banker wants is to have to foreclose on the loan, take possession of the collateral and then try to sell it. What he really wants is for the facility to comfortably provide the cash flow required to make the payments due to the bank.

Using the debt service coverage ratio is pretty simple. Take the projected net operating income, and divide by the coverage ratio required by the lender. Most lenders require their total payment, which includes both principal and interest, to be covered between 1.25 and 1.5 times by your cash flow. Therefore, if your facility is generating $1 million in cash flow, and the lender requires a coverage ratio of 1.25 times, the highest payment he'll allow you to incur is $800,000 ($1 million/1.25).

With the payment maximum determined, all you still need is the **amortization schedule** (the number of years you can repay the loan over), and the interest rate, and you can back into a maximum loan from the bank. (Unless you can do calculus in your head, you'll need a computer or financial calculator to complete the calculations!) You'll often find the bank willing to push its loan-to-value limits if the debt service coverage ratio is strong.

All of this is nice, but it applies primarily to your course's **permanent financing** (the long-term operational financing). To get to that, you need to get through construction first. You do that with **construction financing**, which is usually provided by a different lender than the permanent lender. Your best bet with construction financing is a local lender that already knows you, who will lend you the money to get through construction as long as you can show him you have the equity and permanent financing in place. Many providers of permanent financing won't do construction lending; conversely, many construction lenders aren't interested in long-term operational financing.

Part III of the Mr. Arterbaum's Article will appear in the Summer Newslinks Edition.

Acquisition Opportunities

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

Great Bear Country Club – East Stroudsburg, PA: 18-hole private country club with Jack Nicklaus designed golf course, clubhouse, practice facility, and other facilities……….**$7,900,000**

Semi-Private Golf Club, Brunswick County, NC: 27-hole semi-private club with clubhouse, practice facility, maintenance and associated land and buildings near Wilmington, NC with positive cash flow ……….**$4,750,000 (price reduced)**

Blue Knob All Seasons Resort, Claysburg, PA: Ski area with 1,000'+ vertical drop, 4 chairlifts, tubing park, lodge, restaurant, 9-hole golf course and residential development opportunities on 1,400 total acres……….**$4,900,000 (price reduced)**

Augustine Golf Club, Stafford, VA: 18-hole **UNDER CONTRACT** lubhouse, practice facility, maintenance and associated land and buildings ashington, DC, 3.5 miles west of I-95……….**$5,450,000**

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

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

Golf Property Tax Assessments Valuation and Case Law

By Larry Hirsh

Recently, the issue has arisen as to what is the most appropriate methodology to use in the valuation of the property. With the inherent difficulty in allocating real and personal property value in golf course properties, this issue is often debated vigorously as different methodologies can often yield widely variable results.

According to USPAP (Uniform Standards of Professional Appraisal Practice) S.R. 1-1 (a), the appraiser is responsible to "understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal." However, in one recent case a prior court decision dictated that certain methodology be used and even though not objectively applied a conclusion was reached based on such methodology and application without even a review of the inaccurate application. This conflicts with SR 1-1 (a). Accordingly, it seemed that a review of golf property tax case law and their effect on valuation methodology was in order.

While in most states, the concept of highest and best use dictates most valuations for tax assessment cases, in New York the 1991 case of New Country Club of Garden City vs. Board of Assessors, the court held that the property must valued as a golf course despite its likely much higher value for potential residential development. Thus, in New York golf properties are valued for their present use (use value). This is also the case in Hawaii where golf courses are statutorily valued based on their use as a golf course and not based on highest and best use. Hawaii, however goes one step further in the case of Hawaii Prince Hotel Waikiki Corp. v. City and County of Honolulu, where the state and court recognized the concept of imparted value. The State also mandates that the value established by the golf course to the surrounding land be deducted from the assessment of the golf course as "imparted value." Thus Hawaii statutorily recognizes that golf courses are often an amenity that improves the value of the land surrounding it. The case describes how the assessor failed to uniformly establish the imparted value to the surrounding land. The significance of the case to other jurisdictions is to explain imparted value and its application in assessment law.

Also in New York, the case in 2005 of North Shore Country Club vs. Board of Assessors the court ***accepted*** a methodology whereby North Shore (a private club) was valued as if a daily fee course and analyzed on that basis. Additionally, the court accepted the use of a methodology known as the "market rent approach" which has been interpreted by some as the only acceptable method of valuation for golf course property tax assessments in New York.

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Troubled Club?...What to Do

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programs and create a more efficient operating cost basis.

(1) Financial Analysis – A review of the club's operating history can often identify areas where the club can improve by more efficient management and cost controls. One area can even be an evaluation of the club's real estate tax assessment. Usually, this analysis yields some potential cost savings, but more often than not, clubs have managed expenses to a point where they can't be cut further without diminishing the club experience. Generating more revenues is often overlooked in favor of expense cutting and it is on the revenue side where there are often more opportunities for improvement.

(2) Facilities Review - Over time, it is not unusual for a club's facilities to become outdated and undesirable. As the club culture evolves and clubs are less about belonging to a social group and more about facilities and services, clubs need to consider adding the facilities today's consumers/ members want. These can include fitness facilities, children's play areas (with supervision), enhanced golf practice facilities and more informal dining areas. The best way for a club to enhance revenues is through improved facilities, to "be the best on the block".

(3) Programs – Today's family dynamics are different. The successful country club of today is "not your father's country club" anymore. In order to attract family members there has to be programs for Mom and the kids as well. Otherwise, Dad doesn't get to join.

(4) Quality - With competition coming from clubs and other sources, it is imperative that clubs offer the highest quality experience. Why join the club if you can go to a better maintained golf course, and from there go to a restaurant for the best steak in town without paying initiation or dues? Many clubs, in an effort to cut expenses have seen quality suffer as well. Those members who aren't the regulars then see no reason to pay dues anymore and the numbers dwindle considerably.

(5) Value – In an environment where price is so important, many clubs have turned to discounting. It rarely works, especially over the long term. Society has progressed to where the pressure to belong to once secular clubs has diminished and members seek quality services and facilities. Discounting typically does nothing more than cheapen a club's reputation and defer the problem. Creating value in membership through effective programs, efficient use of the club's assets and a long term plan of improvements provides more value to the membership. It is rare that I observe the cheapest club in town thriving. It is unusual that the club with the best facilities and services is not thriving.

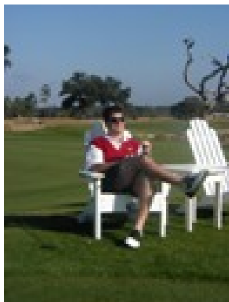
No discussion of challenges for clubs would be complete without addressing membership development and retention, the heart of revenue development. An objective look at communications with members and the events and programs being held can do wonders for increasing activity and subsequently member retention. A member who uses the club is more likely to retain membership. Orientation programs for new members are helpful in integrating them into the club and enhancing their experience. Existing members can also benefit from periodic orientation as facilities, programs and staff changes over time. It is also suggested that members be encouraged to participate on the board and committees as a way of getting more members to "take ownership" in the club. Of course, at all times, the club must continue to provide optimal services and offerings throughout the spectrum of services and activities at the club. In my opinion, retention is more critical than recruitment because it promotes stability in the club and means existing members are satisfied with their club experience.

Recruitment of members often begins with those satisfied members. It is often said that satisfied members are a club's best "ambassadors". This is most evident at the most successful clubs. The one common denominator at successful clubs is the consistently high quality of facilities and services. Recruiting methods can include creative initiation fee payment plans, incentives and discounting. Clubs also tap into the dynamics in their local markets, such as new businesses to develop new, young members that perpetuate the future of any club. In order to develop membership successfully, a club needs a plan and should avoid discounting in favor of a unique selling proposition and creative payment plans. According to most industry experts, discounting starts a downward spiral that often ends in a club becoming public or closing altogether.

There are many elements that can contribute to these major areas, including the often talked about quality of a club's food and the condition of its golf course. Those are fundamental and if either is lacking will discourage members (existing and prospective) rapidly. If your club needs members, a survey of existing members won't tell you much. However, learning what dissatisfied the members who left and why some aren't joining will give you the answers you need to make sound decisions. With financial challenges faced by many clubs, it is critical to develop a long term plan addressing these issues that is progressive, as well as fiscally responsible. Clubs need strong leadership and the willingness to consult OBJECTIVE professionals to help.

"While the golf industry is a small world and everybody knows everybody else, make sure that the consultant you select is not in somebody's "back pocket".

Hirsh Speaks



Lectures/Presentations:

PGA of America—PGA Merchandise Show in Orlando, FL on January 18, 2008.

NGCOA—Leader/Moderator of seminar on ad-valorem taxation for golf courses, January 30, 2008.

NGCOA—Presenter, along with Kieran Jennings, Esq. of webinars (3) on golf property taxation issues.

Hirsh recently authored an article entitled ***"Private golf Club Memberships: Real or Personal Property",*** which was published in the Fall, 2007 issue of the Journal of Property Tax Assessment and Administration.

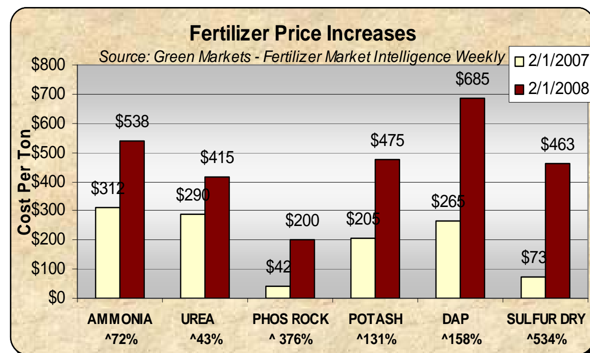
Where the Dollar Hits the Dirt - Soaring Expenses

by Shaun Henry

It seems as though the cost of everything is rising at an unprecedented pace recently. Of course, the cost to fill up at the pump is one of the most prominent increases. The trickle down effect of the price of oil impacts the cost of products that use petroleum as an ingredient or as a fuel to harvest, manufacture, or transport.

Coupled with rising petroleum prices, global market conditions are driving prices to all time highs. Take fertilizer for example. Increased global demand has American consumers competing with growers worldwide for fertilizer products. Skyrocketing nutrient prices together with the soft American dollar and rising fuel costs are pushing fertilizer prices to extraordinary levels. Some nutrient sources have increased greater than 500% over the past year while typical golf turf fertilizer products have reportedly increased 12-25% over the past three months. Superintendent's in the northeast report control product prices increasing about 8% over the same period.

The impact of rising commodity prices on golf course maintenance budgets is extensive. In addition to the direct cost of fuel and fertilizer, copper, brass, aluminum, steel, plastic, PVC pipe, lubricants, and delivery fees (fuel surcharges) are all rising at a record pace. Some superintendents have even reported a labor crunch because workers can no longer afford to drive 20 or more miles to work for modest wages!



One superintendent recently estimated that it would cost 27% - 33% more to maintain his course this year if he employed the same programs as last year. At that pace, even an aggressive increase in budget dollars may not keep up with the rising cost of golf course maintenance. So in essence, with dramatically increasing expenses, a budget cut, flat budget or even a modest budget increase equates to significantly less buying power. They say that there is no status quo in golf course maintenance… you are either moving forward or falling behind.

So how are superintendents coping with less buying power? They are starting with reducing inputs in areas where it will show the least, such as slightly reducing annual fertilizer rates on fairways and roughs, taking advantage of early order programs, stocking up on products now (before prices go higher) for later in the season, using more generic control products, and modifying fertility programs to utilize more economical nutrient sources. More noticeable cut backs include: reducing mowing frequency (necessity vs. luxury), no longer collecting clippings on fairways, mowing as quickly as possible, reducing hand mowing, delaying return of seasonal staff, reducing weekend maintenance (spring and fall), and eliminating maintenance positions.

These cost reduction strategies will surely impact course conditions to some degree and more importantly erode the quality of the golf experience. With no relief from expense increases in sight, the question is; how much more can we continue to cut before the product isn't worth marketing? Perhaps the answer to sustainability isn't slashing expenses to critical levels, but rather concentrating on the revenue side of the equation with quality enhancement and value added amenities.

Shaun A. Henry is a 14-year member of the GCSAA, former golf course superintendent and a staff appraiser-consultant with Golf Property Analysts.

THE PRACTICE TEE

- **GPA** has recently been retained by **The Town of Ossining and the Village of Mt. Pleasant (NY)** to provide appraisal services in connection with **Sleepy Hollow Country Club**.
- **Spirit Finance** recently retained **GPA sister firm Ski Property Analyst**s to provide appraisal services in connection with **Camelback Ski Area and Camelback Water Park** in **Tannersville, PA**.
- **NSU Grand Oaks, LLC** recently retained **GPA** to provide tax assessment and evaluation services in connection with the **Grande Oaks Golf Club, Davie, FL**.
- **Evans & Petree,** in connection with the clubs recently retained **GPA** to provide assessment analysis and appraisal services for the **Colonial Country Club, Windyke Country Club, Ridgeway Country Club and Germantown Country Club** in **Shelby County, TN**.
- **McMillan, Constabile, Maker & Perone, LLP** recently retained **GPA** to provide appraisal services in connection with **Winged Foot Golf Club** in **Mamaroneck, NY**.
- **Heritage Golf Group** recently retained **GPA** to provide appraisal services in connection with **The Tournament Players Club of Tampa Bay** in **Lutz, FL**.

Golf Property Tax Assessments Valuation and Case Law

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It is important to note that the court did not ***mandate*** the use of this methodology, but merely accepted it. However, despite some of its inherent weaknesses, the use of the market rent approach is now advisable in New York State as a result of this acceptance.

Conversely, in the 2001 case in Michigan of *Warwick Hill v. Grand Blanc Township* MTT rejected taxpayer's claim of the highest and best use of a private country club as a public golf course as the taxpayer failed to reflect capital expenditures that would be required to convert the property from the current use. This clearly demonstrates how, in going between different jurisdictions, the courts can determine how the appraiser approaches the appraisal problem. In New York a private club was valued as a daily fee facility and when the same thing was tried in Michigan it was rejected by the court.

The issue of replacement reserves was addressed in the 2001 Michigan case of Novi Golf Associates v. City of Novi. The court held that deduction of a replacement reserve was NOT appropriate, which would seem contrary to the belief of most market participants and to the normal practice of most appraisers.

In Ohio the 1994 case of Kirtland CC v. Lake County Board of Revision considered the relevance of the Cost Approach to value for golf courses. While most market participants would disagree, The Ohio Supreme Court affirmed the Board of Tax Appeals decision that the sales comparison approach is ***inappropriate*** methodology to use since too many adjustments need to be made in order for the sales to reasonably compare to the subject property. The BTA noted that although there are sales of municipal, semi-private, and public golf courses, it is rare for a private country club to sell on the open market other than where the land is going to be used by the buyer in some manner other than as a club.

The Court affirmed the BTA's acceptance of the cost approach to value a long-established private country club in an exclusive suburb of Cleveland. Interestingly, there was no mention in the case of the relevance of the income approach.

There are additional (and conflicting) cases in Ohio on the relevance of the sales comparison approach that clearly indicate that the issue is certainly not settled in Ohio.

There are many issues in golf property valuation relating to tax assessments with supporting case law. As shown herein,

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Golf Property Tax Assessments Valuation and Case Law

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the laws and decisions are inconsistent from jurisdiction to jurisdiction. We, in the appraisal profession often discuss valuation issues and methodologies as if there is no jurisdictional difference that may impact how we approach different appraisal problems. I have been involved in cases where approaches I thought were not only relevant but necessary were prohibited either by statute or by case law. I've also experienced situations where we were either requested or required to use methodology that was largely inappropriate for the appraisal problem at hand.

Clearly USPAP requires appraisers to determine and employ the appropriate valuation techniques. However there is jurisdictional exception provided for in USPAP's Jurisdictional Exception Rule which states "If any part of USPAP is contrary to law or public policy of any jurisdiction, only that part (of USPAP) shall be void and of no force or effect in that jurisdiction. Certainly, the existence of case law presents somewhat of a "gray area" in that (as shown herein) sometimes case law conflicts other case law and whether case law is equal to statute or constitutes public policy is debatable.

We have adopted a policy in our practice of inquiring of legal counsel about any such jurisdictional issues that we may need to consider in the appraisal assignment. The laws and decisions don't always make sense but are important to understand in any tax assessment case.

[1]*New Country Club of Garden City v. Bd. Of Assessors*, Supreme Court, Nassau County, Index No. 12696/88, June 4, 1991.

[2]use value

- in real estate appraisal, the value a specific property has for a specific use; may be the highest and best use of the property or some other use specified as a condition of the appraisal; may be used where legislation has been enacted to preserve farmland, timberland, or other open space land on urban fringes. See also exchange value; value in use.

[3]*Hawaii Prince Hotel Waikiki Corp. v. City and County of Honolulu*, 89 Hawaii 381, 974 P.2d 21 (1999).

[4]*North Shore Country Club v. Bd. of Assessors* and the Board of Assessment Review of Nassau County, Index No. 400961/03, April 5, 2005.

[5]*Warwick Hill Golf & Country Club v. Grand Blanc Township*, MTT Docket No. 225492 (2001).

[6]*Novi Golf Associates v. City of Novi*, MTT Docket No. 260722 (2001).

Golf Property Analysts

Primary Business Address:

2213 Forest Hills Dr. Ste 3

Harrisburg, Pa 17112

Phone: 717-652-9800

Fax: 717-652-8267

E-mail: larry@golfprop.com