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APPRAISAL INSTITUTE

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Golf Courses—Valuation and Evaluation

The difference between valuation and evaluation is clearly defined when a golf course facility is properly appraised. This article outlines some of the items to consider during the evaluation process and provides insight into the application of typical appraisal techniques and methodology as they relate to the valuation of a golf course. It is of utmost importance that appraisers have an understanding of what can affect the value of a golf course and know how to identify and analyze these determinants of value.

The National Golf Foundation estimates that until the year 2000 more than 400 new golf courses per year will be needed to meet the expected demand. The population of golfers in the United States has increased 32.2%, from approximately 17.7 million in 1985 to 23.4 million in 1988. In addition, many courses are being planned or are currently under construction, and it is anticipated that existing courses will be increasingly desirable as real estate and business investments. This will undoubtedly create the need for knowledgeable and competent appraisal services for these properties. In this article, the valuation and evaluation of existing golf courses, including both the real estate and the business value, will be discussed.

OVERVIEW

A golf course is a special-use property with a variety of alternative uses. Although the focus of this article will be on use solely as a golf course, many golf courses do not constitute the highest and best use of a property; some are located in rapidly developing areas that have prohibited this use or will do so in the future. In many cases golf courses also serve as sales tools for another type of development. While the golf course is sometimes expected to carry its own weight, consideration should certainly be given to its extrinsic value in relation to the adjoining properties. These and many other considerations must be weighed in the

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evaluation and valuation of a golf course.

As in any appraisal, the typical areas of concern must be addressed. These include a location and property analysis, a highest and best use study, and a complete exploration of the sales comparison, income capitalization, and cost approaches to value. The purpose of this article is to identify and discuss some of the unique research and analysis considerations that affect each of these areas.

Three points will be emphasized: 1) items to research during property analysis, 2) sources for golf course information, and 3) methods of valuation for existing golf courses, assuming that golf is the property's highest and best use.

PROPERTY INSPECTION AND ANALYSIS

It is important that appraisers become thoroughly familiar with the property characteristics that contribute to a good golf facility, and that the different types of golf facilities are understood.

Different golf facilities may include daily fee, municipal, resort, semi-private, and private. Typically the daily fee and municipal facilities are characterized by "strategic," less demanding designs that promote a high volume of play and cater to less frequent, less proficient golfers. These courses usually have wide fairways, few hazards, and are maintained in a budget-oriented manner. The resort courses are normally designed in a more "heroic" or "penal" fashion, and are generally maintained at a higher level than the public facilities. In many cases resort courses have the marquee value of a well-known designer, or are affiliated with one or more hotels, and as a result can generate higher greens fees. The private country club course can be either strategic, heroic, or penal in design and is usually characterized by the highest level of maintenance and conditioning. While maintenance budgets are scrutinized carefully, many clubs make course condition a top priority.

To thoroughly analyze a golf facility, it is important to have a checklist of items to evaluate, and more importantly, to understand where to go for help.

Improvements on a golf course property typically include tees, fairways, greens, roughs, bunkers, practice facilities, and watering systems as well as clubhouse facilities, parking lots, and maintenance buildings and equipment.

In any other property appraisal, building improvements would be analyzed based on such characteristics as their condition and functional utility. An analysis of golf course improvements, however, requires a familiarity with the game of golf and the particular and often peculiar demands of golfers in design, aesthetics, degree of challenge, and condition.

When valuing a golf course, it is a good idea to visit courses of different types (public, private, resort) to become familiar with their varying characteristics, so that a clear concept of the product being appraised can be developed. A local PGA golf professional can be of great assistance in the identification of the different levels of facilities in your market; he or she can also help to identify comparable sales and rate their quality.

When analyzing a golf course, the following characteristics should be noted:

Tees: Are they big enough? Are there enough tee areas to accommodate all levels of players?

Fairways: Are they wide enough or too wide? Is irrigation used? What type of grass is used? Is the

Golf course design is a difficult item to analyze because every player has a different conception of a well-designed course.

grass of consistent thickness? How does a golf ball sit on it? What is the firmness?

Greens: This is always the characteristic of a golf course most often discussed. Some considerations are the type of grass, smoothness, speed, receptiveness, size, availability of hole placements, and undulation.

Bunkers: Are they strategically placed? Do they penalize weaker players? Are they of consistent playability? Is there too much or not enough sand? Do they drain adequately?

Roughs: Is the rough penal, and is it well-maintained? What type of grass is on the rough, and is it watered?

Practice Facilities: This can be a money-maker. Is the range large enough and is it well-maintained? Is the practice green similar to the greens on the course? Is it big enough? What types of teaching facilities exist?

If an appraiser is not a golfer or is unfamiliar with the various items listed above, many resources are available. The National Golf Foundation publishes pamphlets and booklets on golf course operation, development, and maintenance. In many instances these publications also contain guidelines for such items as the size of the tee and green areas. For example, it is recommended that there be 100 square feet of tee area per hole for each 1,000 rounds played per year. The United States Golf Association Green Section, the Professional Golfers Association of America, the American Society of Golf Course Architects, and the Golf Course Superintendents Association of America can also be helpful when analyzing golf course improvements and maintenance. Golf course design is a difficult item to analyze because every player has a different conception of a well-designed course. In many cases whether the design is accepted by the majority of players can make or break a golf course.

While these are excellent sources of information about golf courses, the best source may be either a local PGA golf professional who is knowledgeable about both the course being appraised and the courses used as comparables or a knowledgeable amateur golfer willing to assist you in the evaluation of your subject property. Further, the United States Golf Association has a course rating and slope system for comparing golf courses. This can also be a helpful resource for the comparison of competing properties with the subject on the basis of golf course design and difficulty.

One focus of the on-site inspection should be maintenance practices. Such practices as manual or automatic watering, gang-mowed or tri-plexed fairways, hand-mowed or tri-plexed greens, approach maintenance, rough maintenance, and bunker appearance and consistency should be examined. A greens superintendent or PGA professional can illustrate these terms and familiarize appraisers with the various maintenance practices.

In conclusion, a property analysis of a golf course should communicate a complete understanding of the product being appraised, and should highlight the golf course's strengths as well as its deficiencies. An evaluation of the golf course is necessary before performing a valuation of the property.

VALUATION

Like any other valuation, that of a golf course property requires consideration of each of the three approaches to value. While one might think that given adequate data the income capitalization approach would be most applicable, the sales comparison and cost approaches are also excellent indicators of value in many cases. Each of these approaches will be discussed, with attention given to the methods and techniques considered most useful and the data required for each.

SALES COMPARISON APPROACH

Most golf courses have 18 holes, but a unit comparison on the basis of price per hole or price per acre can be misleading. The sales comparison approach may therefore present a problem. This is because, with the exception of a too small or excessively large property, the size of the property is usually judged on its adequacy without reference to the particular number of acres. Obtaining income information on golf course sales can prove unusually difficult, and in most cases there may not be enough information to develop a market-extracted overall capitalization rate. While golf course owners are usually reluctant to share details of their income and expense statements, other information, such as greens fees and the number of rounds played, is readily available either through casual telephone calls or through communication with sources within the local golf industry.

Two items that have been relatively easy to obtain (in addition to sale price) have been the number of rounds played and the greens fee schedule at the time of sale. From this information two units of comparison have been developed that have been especially useful. These units are the price per round played (annual) and the greens fee multiplier (*GFM*). The price per round played is simply the sale price of the property divided by the annual number of rounds played (dollars/round = sale price/number of rounds played) as of the date of sale. The *GFM* is created by dividing the price per round played by the average greens fee (*GFM* = dollars/round/average greens fee)

TABLE 1 Golf Course Sales Summary

Golf Course	Type	Land Size in Acres	Date	Sales Price	Yearly Rounds	Greens Fee	Price/ Round	Greens Fee Multiplier (*GFM*)
1	Public	128.85	03-84	\$ 2,185,000 \$ 16,958/acre \$121,389/hole	45,000	\$ 9.00	\$48.56	5.40
2	Public	264.35	12-86	\$ 1,200,000 \$ 4,539/acre \$ 66,667/hole	20,000	\$ 9.00	\$60.00	6.67
3	Private	280.00	10-87	\$ 2,800,000 \$ 10,000/acre \$103,704/hole	29,263	\$20.00	\$96.68	4.78
4	Public	146.40	12-86	\$ 1,400,000 \$ 9,563/acre \$ 77,778/hole	40,000	\$ 8.00	\$35.00	4.38
4	Semi-Private	163.80	01-87	\$ 2,720,000 \$ 16,606/acre \$151,111/hole	39,000	\$10.00	\$69.74	6.97
5	Public	127.75	04-86	\$ 2,487,500 \$ 19,472/acre \$138,194/hole	39,000	\$11.00	\$63.78	5.80
6	Private	101.20	03-86	\$ 1,355,000 \$ 13,389/acre \$ 75,278/hole	20,000	\$11.00	\$67.75	6.16
7	Public	184.08	01-86	\$ 1,565,000 \$ 8,502/acre	27,500	\$16.00	\$56.91	3.56

Market-extracted overall rates are difficult to develop, and mortgage and equity terms can vary greatly depending on the geographical area and the credit reputation of the borrower.

as of the date of sale. The *GFM* serves two excellent purposes. It acts as a common denominator much as an overall capitalization rate or gross income multiplier does. It can also provide an excellent time adjustment by eliminating the need for a comparable property to sell twice, or some other typical method of time adjustment. In addition, the *GFM* equates courses of varying quality for analysis purposes, with the assumption that facilities of higher quality will have higher greens fees and thus higher income levels and sale prices. Obviously, higher greens fees don't necessarily lead to higher income levels at the bottom line, but in the marketplace courses of higher quality do appear to command prices commensurate with that quality level.

Once a *GFM* is chosen, the daily greens fee of the course being appraised can be multiplied by the *GFM* (daily greens fee × *GFM* = dollars/round) to produce the unit value for the subject. This is then multiplied by the actual or projected number of rounds played (dollars/round × number of rounds = value) to produce the estimate of market value for the subject golf course. There is obviously a great deal of attention given to items that would be considered part of the business valuation. Therefore, to separate business value from real estate value, either a residual or cost approach method can and should be enlisted, and possibly both. This method makes the sales comparison approach most useful in the appraisal of a golf facility, provided the appraiser has sufficient data to formulate conclusions for the units of comparison. Table 1 shows a typical sales summary.

Some important considerations when using the sales comparison approach include the following:

- Are data from similar courses available?
- Are either weekday, weekend, or average greens fees used with consistency?
- Is the analyst familiar with comparable sales from a golfer appeal viewpoint?

INCOME CAPITALIZATION APPROACH

The income capitalization approach to value can be the most reliable indicator of value for a golf facility, especially for a daily fee course or other income-producing property. Capitalization of the income is generally accomplished through the usual methods of either direct or yield capitalization, with rates developed by the band-of-investment technique.

In many cases a great deal of attention should be paid to future income projections. Present and future income projections can be made only after thorough research of the market. This should include a survey of the competition that takes into account the greens fees, cart fees, number of rounds played, and cart rounds as well as possible revenue generated from a driving range, restaurant, or pro shop.

After assembling this information, a comparative analysis between the subject and its competition should be performed. Knowledge gained about golf courses in general will be helpful in this analysis. Many existing courses will require improvements to keep up with the competition. The survey of area golf courses should be used as the basis for estimating revenues for the golf course facility. A sample competition survey and a golf market demand analysis are found in Table 2 and Table 3.

Expenses include maintenance, salaries, cost of goods sold, and equipment replacement in addition to other typical property expenses. The maintenance budget should be

TABLE 2 Public Access Golf Survey—Harrisburg Area—March 1990

Golf Course Address	FIPS/ Zip Code	Facility Type	Number of Rounds	Greens Fee	Number of Cart Rounds	Cart Rate	Number of Carts	Lesson Rate	Range Rate	Comments
1	42043 17028	Daily Fee 18/72/6,400	41,000	$10/$13	27,000	$8.00/player	72	N/A	N/A	Busy, open course with no fwy. irrig.
2	42043 17033	Pub./Resort 9/35/3,000	14,000	$12/$14	2,500	$10.00				
3	42043 17033	Daily Fee 18/71/6,100	33,000	$15/$20	16,000	$10.00/player	70	$20	$2.00	$900 Ann. mbrshp. good pub. course
4	42043 17033	Daily Fee 9/33/2,700	16,000	$7.50/$9.50	2,500	$5.00				
5	42043 17602	Daily Fee 18/71/6,200	35,000	$9.50/$12.50	17,500	$8.25	40	N/A	$1.50/ $2.50	Remote location
6	42043 17057	Municipal 18/70/6,440	31,000	$10/$13	12,000	$7.50	45	N/A		$700 Ann. mbrshp. no fwy. irrig.
7	42041 17055	Municipal 18/70/6,000	49,000	$9.50/$11.50	26,000	$6.50	60	N/A	N/A	Munic. course very busy
8	42041 17013	Daily Fee 18/72/6,490	45,000	$8/$12	23,000	$8.00	55	N/A	Limited	No fwy. irrig., good location
9	42041	Daily Fee	30,000	$10/$13	12,000	$8.00	48	Varies	$2.50/ $3.00	Mbrshps. $625
10	42075 17517	Daily Fee 18/72/6,700	33,000	$13/$16	24,000	$8.00	62			Nice layout, remote location
11	42071 17319	Daily Fee 18/71/6,900	35,000	$10/$12	18,000	$8.00	55			Limited irrigation, good loc. $425 wkdy.
12	42043 17112	Daily Fee 18/71/6,700	35,000	$10/$13	24,000	$8.50	65	N/A	N/A	$600 Ann./good layout, ltd. irrig.

TABLE 3 Golf Course Demand Analysis—Harrisburg Area—March 1990

Market population			502,619
Mean household		$38,544	
Golf participation rate		10%	
Golfer population			50,262
Average yearly rounds		22	
Total potential rounds			1,105,762
Existing course			
	11 Public @	45,000 rounds =	495,000
	8 Private @	35,000 rounds =	280,000
Total			775,000
Unserved rounds			330,762
Courses needed	@ 40,000	Rounds per year	8.27

compared to maintenance costs at similar courses in the area and to industry averages for the region concerned. A property inspection will also provide a guide to the type of maintenance actually being performed, in case it is necessary to refer to industry average figures to justify the maintenance budget. A wealth of information about industry averages for maintenance and other expenses is available from the sources previously mentioned.

Capitalization rate selection is often one of the most difficult aspects of valuing a golf facility. Market-extracted overall rates are difficult to develop, and mortgage

TABLE 4 Income Approach Summary

Gross income estimate		
Greens fees	$342,210	
Cart rounds	$168,000	
Grill room	$ 90,000	
Pro shop	$325,000	
Other income	$ 20,000	
Total gross income		$945,210
Cost of sales and expenses		
Maintenance budget	$200,934	
Administration and salaries	$ 65,000	
Reserves	$ 15,000	
Pro shop	$302,250	
Grill	$ 45,000	
Carts	$ 21,600	
Total cost of goods sold/expenses		($649,784)
Net operating income		$295,426
Capitalization rate		
Mortgage (11.5%, 20 yrs., 75% loan-to-value)	0.12797 × .75 =	.09598
Equity dividend rate	0.12000 × .25 =	.03000
Capitalization rate		.12598 or 12.60%
Value estimate		
	(*NOI*/Rate = Value) $295,426/.12598 = $2,345,023 rounded to $2,350,000	

and equity terms can vary greatly depending on the geographical area and the credit reputation of the borrower. Financing for golf projects or existing courses is not as readily available as for other commercial real estate projects, despite the current need for such facilities, because many lenders are still feeling the sting of some recent, ill-fated golf projects. Therefore, a thorough study of available funds and terms is a must. Lenders typically want slightly higher-than-market rates with limited amortization periods (11.5% to 12% for 15 to 20 years). Many require a larger portion of the debt service to be paid during the playing season and a lesser portion during the off season. Equity dividend requirements may also be higher than for most other types of real estate because of the perceived higher level of risk and the less desirable financing terms. A sample summary of an income capitalization approach is shown in Table 4.

Since a separation of the real estate and business values might be required, income could be similarly separated. The most obvious revenue generators that could be directly attributed to the business are pro shop sales, food sales (if applicable), and possibly golf cart revenues. The argument still remains, however, that this income could not be generated without the golf course, and could thus be considered similar to laundry machine income in an apartment property. A separation of greens fee income would be more difficult to perform because of the difficulty in estimating the amount attributable to the property as opposed to the amount attributable to advertising and good will. The best way to separate the business and real estate income and value is therefore through a residual technique.

Simply estimating a property capitalization rate and multiplying that by the cost of land and improvements should yield the amount of the overall net operating income attributable to the property, with the remainder attributable to the business. This business income would be capitalized at an appropriate rate to estimate the value of the business. Further, it would seem that capitalization rates for each component would be higher than for the combined property and business because it is unlikely that one would be marketable without the other.

Because this is true, such a separation may not be required, but certainly there are many reasons it may be necessary—including income tax considerations.

When using the income capitalization approach, it is a good idea to include the following questions.

- Does the income estimate include revenues from all applicable sources? Is the income supported with data from competing courses?
- Are expenses consistent with other courses of similar quality? Is the maintenance budget large enough to include a reserve for replacement of such items as trees, sand, and improvements?
- Does the capitalization rate accurately reflect the mortgage and equity requirements for the property type appraised?

COST APPROACH

The cost approach can be a reliable indicator of value for most types of golf facilities. This is because few sales are usually available and no profit motive exists from which to formulate reliable income patterns. Raw land valuation is accomplished by a sales comparison with any potential development ground valued in the appropriate manner.

Potential problems in the cost

approach arise in connection with the estimate of the cost to construct the golf course. This area offers the greatest possibility of error. Construction costs for golf courses vary greatly based on the type of course desired and the market for which the course is to be built. Costs per hole can range from below $100,000 to in excess of $500,000, depending on topography, hazards, the irrigation system, rock, and design. It is important to know how much earthmoving was necessary and to what specifications greens and bunkers were constructed. If possible, a conversation with the architect who designed the course should provide some insight into its current cost. If this is not possible, an architect familiar with the course is a viable alternative.

Depreciation of golf course improvements can be estimated through observation, as well as through discussion with the greens superintendent regarding the cost to cure some items and the expected life of others. An age–life method can be useful for a golf course, just as for any other property. Renovations and design updates are usually included in the maintenance budget unless they are major, and in that case such changes are usually by choice, not of necessity. It is therefore important to understand that golf courses usually have long economic lives. While some courses are redeveloped into other property uses, many courses, especially private clubs, have been on the same site for 50 years to 100 years or more. Although it is not possible to predict future trends with any certainty, development trends in the subject area should be considered when estimating the economic life of the subject property.

Other items that must be included in a cost analysis are the clubhouse and interior improvements, the maintenance building and equipment, and such items as flags, benches, water fountains, tee markers, and yardage markers.

A good cost approach can provide an accurate value indication and also determine the feasibility of development based on a cost versus value comparison. When appraising any property, it is important to remember the difference between cost and value. But in the valuation of a golf course, construction costs can vary so much that the theory of contribution must be considered at all times. An additional point to consider is whether the potential purchaser/developer is analyzing the market value of the golf course or its value to such appurtenant uses as residential or hotel property. When the appurtenant use is the reason for the golf course, the cost might be manipulated to meet the profitability objectives of the appurtenant development. Construction of a high-cost, high-quality championship layout might be the only alternative to meet the requirements of the user, but even developers of the most visible, high-budget courses must consider the value to the surrounding development and adjust costs accordingly. In summary, there are cases in which an increase in expenditure is justified to meet the expectations of the market. There are also cases (sometimes the same cases) in which costs must be limited to meet project profitability objectives. Design features can be easily manipulated, within reason, to meet cost objectives and, assuming a good design is used, the result of such manipulation is obvious to most golfers.

One caution flag that must be raised when using the cost approach, however, concerns the golf course construction cost estimate. As was previously stated, the cost can vary greatly. Therefore, it is important to know exactly what type of course is being appraised and to be familiar with many of the items discussed in the property analysis, including the cost of features and design. The property analysis is the basis for the cost estimate and can produce grossly inaccurate results if costs are derived without particular attention to the unique features of the subject course.

CONCLUSION

As was shown in this article, the valuation of a golf course is similar to other appraisal problems, but it offers the challenge of valuing not only real estate and a business, but the combination of business and real estate. It is imperative that appraisers gain a thorough knowledge of the golf industry and develop a familiarity with the game and course design in order to accurately identify the quality level of the product being appraised. All approaches can be used effectively. The quantity and quality of the data and the type of course being appraised are usually the factors that determine which approach would be most useful. It should be clearly understood that the typical golf course appraisal assignment involves the valuation of a business entity in addition to the valuation of real estate.

If a separation between the market value of the real estate and the business is desired, a residual technique would be in order, since there would be little if any market data available to support the sale of one without the other. An analysis of typical management fees as a barometer of business value would be unjustified because any real estate requires management. It would be difficult to separate business management from real estate management of a golf course project, especially if the same firm were handling both.

It should also be noted that appraisers need to "identify and consider any personal property, fixtures or intangible items that are not real property but are included in the appraisal."[1]

It is apparent that the valuation of a golf course facility offers many of the problem-solving challenges with which appraisers are familiar. This type of assignment also offers an inside look at facets of the game and business of golf rarely experienced by a typical golfer, or a typical appraiser.

1. American Inst. of Real Estate Appraisers, *Code of Professional Ethics and Standards of Professional Practice* (Chicago: American Inst. of Real Estate Appraisers, 1990), Rule No. 1-2e, B-2.