GOLF COURSE INDUSTRY

LEADING THE ONLINE REVOLUTION IN COURSE MANAGEMENT

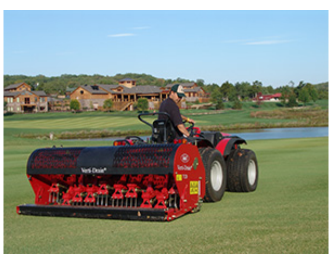
Monday, December 15, 2014

Understand and enhance course value

CAREER DEVELOPMENT, GENERAL, INDUSTRY NEWS

No one knows how to best economize in the maintenance context than a superintendent. GCI guest columnist Larry Hirsh explains that a well conceived and executed maintenance plan can enhance the value of a golf course significantly.

| October 27, 2014



Value means different things to different people. It can mean the market value of a property, which is often what appraisers (like me) estimate on behalf of golf course clients. But the value of a golf course can be interpreted several ways — in relation to the value of one's membership, for example, or what the consumer thinks a round of golf is worth. Still others perceive value according to the level of enjoyment experienced beyond the cost/benefit relationship. Dictionary.com throws a pretty good blanket over all these when it defines value as "relative worth, merit or importance".

As it relates to golf courses and clubs, the person with the biggest impact on value — all these different interpretations of value — is the golf course superintendent. That statement won't shock readers here. Numerous surveys and opinions indicate the most important element of the golf experience is the condition of the golf course, especially the greens.

But today I want to discuss how playing conditions can be the difference between economic success, treading water and outright failure.

Let's first discuss course value from a macro perspective. The old saying goes something like this, "For the right price, everything's for sale". This is the reality today in the golf course industry, whether you're a super working at a private club, resort or daily-fee facility. Every day, it seems, we see courses changing hands, going semi-private or going the way of housing development.

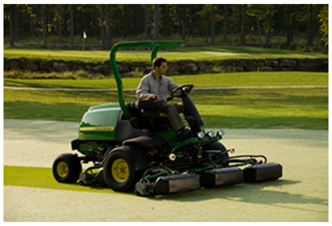
Even courses sold off to a developer (i.e., for closure) affect (and help set) market values for the courses all around it. Every time a management company's portfolio of courses changes hands, every time a private equity club is sold and converted to non-equity, all the other courses in that market learn a bit more about what their properties are worth.

What's driving this activity? In the private club world, it's debt. Some estimates peg the number of equity private clubs carrying dangerous levels of debt at 60 percent. What's more, they cannot get further loans because banks and other lending institutions have essentially abandoned the golf sector (too many bad loans). As a result, private clubs are converting to non-equity status, going semi-

TOP NEWS

private, or selling out to developers.

With refinancing so difficult to secure, and with many private clubs experiencing fierce competition for members, declining fees and rates, these dangerous levels of debt are leading to more non-equity memberships, the welcoming public play or even the selling off to developers for alternative (non-golf) use.



Superintendents need to understand what is, or may well be happening to their clubs, as a result of these finance and debt issues. Their jobs may depend on that understanding, in several key respects.
But superintendents also need to understand the impact they can have on those finances.

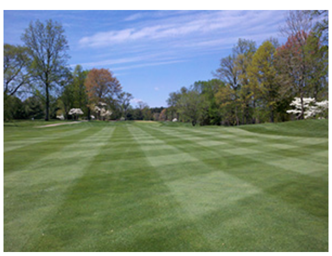
Let’s look at some numbers. I recently saw a survey that indicated that private clubs spend, on average, between 30 percent and 37 percent of gross revenues on golf course maintenance budgets, according to Club Benchmarking (CB). Another consulting firm estimated a range of 55 percent to 65 percent. This, of course, represents the single largest allocation of available resources at most clubs and is often considered the most critical.

In most cases, revenues dictate the level of conditioning, which in turn impacts the potential for generating revenue. If it sounds a bit circular, it is. More than 70 percent of members at private clubs indicated that the main reason for joining was “the high quality of the golf course”. Combine that with the fact that most golfers don’t know Donald Ross from Donald Duck, and maintenance is again emphasized as the critical factor in golf course economics.

The math is pretty simple when you examine course maintenance and its impact on course value. Whether the superintendent achieves consistent cost savings or contributes to revenue enhancements, the direct impact on operating profit is enhanced dollar for dollar. Given that such profit enhancements convert to value at roughly a rate of 10:1, if enhanced maintenance practices result in an extra $100,000 in cash flow, the value of the club can increase by nearly $1 million in today’s market.

In short, it’s in the superintendent’s interest to analyze the condition of his/her course, its position in the market and how maintenance practices can enhance the club’s value.

How do we compare budgets from one course to the next?



It’s difficult, to be honest. Sizes and quantities can vary greatly. The number of features, the amount of traffic, the quality of water, soil and climate can vary — and that variance all impacts a maintenance budget. Many prefer to evaluate costs via some unit of comparison, such as cost per acre or hole, or perhaps cost per round played. Some look at percentage ratios to revenues. All are valid.

Without a detailed maintenance plan and specifications, however, it’s nearly impossible to do accurately, regardless of the unit comparison. For this reason alone, your course should have a written maintenance plan, with specifications in detail that allow management/leadership to assess accurately the cost and benefit of specific practices.

I’m also not so sure how much it matters — that is, exactly what your maintenance budget might be compared to the club across town.

What matters more, far more, are the relationships between your maintenance budget, the revenues your golf operation produce, the debt your club/facility itself is carrying, and the real value of the property in the marketplace.

It seems apparent that a) course conditions are what truly sell/make a golf course experience for the player/member; and b) reductions in maintenance spending, and increased revenues tied to maintenance practices, can make a huge difference to the resulting value of a golf course facility.

No one knows how to best economize in the maintenance context than a superintendent. It would be folly for me to tell you guys, who are the experts, how that should be done. The point I want to emphasize is this: Well conceived and executed maintenance plans can enhance the value of the golf course significantly. If that occurs, not only does profitability increase and value become enhanced, but alternative uses become less attractive and the club better maintains its future as a golf facility. Every club that secures that future and avoids closure means another job maintained for a superintendent.

About the author

Larry Hirsh is president of Golf Property Analysts, a golf/club property consulting, appraisal and brokerage firm based in Philadelphia. He has performed consulting/appraisal assignments on more than 2,500 golf/club properties in 45 U.S. states, Canada and the Caribbean. A founder and first president of the Society of Golf Appraisers, Hirsh has also brokered more than $100 million in golf course & club property sales. He blogs at ***http://blog.golfprop.com*** *and can be reached at* ***larry@golfprop.com***