Factors Affecting Golf Course Valuation
A brief history of golf course development and participation in the United States

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Golf course ownership is a tenuous endeavor these days, but it hasn’t always been so shaky. Golf course development has experienced three major industry booms (and subsequent busts) throughout history, with peaks in 1930, 1970 and 2000. By looking back at the history of golf course development and participation in the United States, it will help to shed light on the way past events have affected today’s market, and what that entails for current golf course owners and their property valuation process.

The upper socio-economic class was responsible for the first development boom, in which approximately 5,600 golf courses were privately built during the 1920s. By 1930, there were between 1.1 and 1.5 million golfers. The growing middle class drove a second golf course development boom in the 1960s. The number of golf facilities reached approximately 10,200, and number of golfers grew to 12.5 million by 1970.

While the first two booms were socio-economic and culturally driven, the third boom took place in the 1990s due to anticipation of the buying power of the huge “Baby Boomer” generation (78 million+) who grew into the game of golf like no generation had before. In order to keep pace with growing demand, and in anticipation of real estate value appreciation, real estate developers responded by developing more and more golf courses. Many of the new golf courses involved residential development, in which golf course communities were created and the golf course enhanced the value of the surrounding land. Unfortunately, the golf operations were not always profitable, but the significant increase in golf course lot values overrode any concerns about nonperforming golf operations. In 2000, there were approximately 16,000 golf facilities and 30 million golfers in the United States. Golf course developers and associated services were certainly enjoying good times.

It is a well-documented fact that the golf industry hit its high-water mark in 2000. As with the first two booms, a bust followed the third boom. The downturn in golf course development occurred as a result of several national calamities, which included the Tech stock crashing in 2000, the 9/11 World Trade Center terrorist attack in 2001 and the failing of Fannie Mae and Freddie Mac in 2007 which led to the collapse of the residential real estate market. In 2008 Lehman Brother went out of business, sparking the crisis in global financial markets, which in turn led to the Great Recession. Aside from lines of credit that were risk-free to the lender, funding for golf course development dried up by 2008.

Since 2006, the number of 18-hole course closings has reached 643, according to the National Golf Foundation. In 2011 alone, 157 golf courses closed. Of those course closings, 151.5 were public courses (96%) and 5.5 were private courses (4%). In that same year, only 14 new courses opened (8.5 public and 5.5 private). By the beginning of 2012, there were 14,565 golf courses in the United States. In addition to the diminishing amount of courses, the number of golfers reduced from 30 million in 2005 to 25.7 million in 2013, a loss of 4.3 million.

During the 1990s, the number of golf courses increased 21%, while the rounds played increased 15%. Between 2001 and 2005, the oversupply of courses collided with the reduced number of rounds played by fewer golfers. The imbalance was aggravated further when the economy turned sour in 2007. When the Great Recession took full-effect, casual golfers found other ways to spend their time and money, and the more avid golfers reduced the number of times they played. Of course, fewer golf rounds leads to less income for golf courses.
Additionally, the Great Recession reduced the number of jobs and employees nationwide. Consequently, employees who formerly entertained clients on the golf course, and conversely clients who regularly accepted such invitations, were less apt to take time off work to play a round of golf. When unemployment is high, there tends to be a plethora of qualified candidates, which in turn places a high priority in doing what it takes to protect ones job and commensurate personal income stream. The result is fewer business golf outings, fewer golf rounds played and less income to golf course operators.

How does all this history affect the value of golf courses?

Not only have the rounds of golf played decreased, but the average fee paid has decreased, as well. In an effort to attract more players, golf courses began to discount their daily fees and offer promotions. Some private facilities continue to offer discounted programs to nonmembers to add top line revenue. Uncertainty in the golf industry still lingers today. The questions are:

1. Is the decline in golfers permanent?
2. Will golfers return to the game once the economy fully recovers?

Due to the declining demographic trends in the golf business, more courses have closed than opened over the past two years. The oversupply will likely take many years to absorb. Additionally, the soft economy and stagnant wage growth are negatively affecting golf course revenues. Unfortunately, operating costs continue to be flat at best and many assessors across the country fail to consider these factors when valuing properties for ad valorem purposes within their jurisdictions.

Valuation Methodology

Sales Comparison Approach

As with most property types, golf courses can be valued via the income approach, sales approach, or cost approach. Each method has its limitations. Given the specialized nature of golf course properties, the application of the comparable sales approach is preferred. However, a result of recent declines in golf participation is fewer and fewer golf course sales, as the number of interested buyers have dwindled in recent years. Thus, the sales approach is constrained by the limited number of sales on which to arrive at reliable values. In addition, in today’s market, many sales are distressed, or at least not stabilized, despite an ample supply of course owners who want to sell. Another issue is the fact that many sales are not arm’s length transactions, because they involve members buying their own club. Members have a tendency to make “emotional” purchases and pay well in excess of a true market price.

Cost Approach

Many assessment jurisdictions utilize the cost approach to valuation for two basic reasons:

1. It is the easiest method for them to ensure equitable values
2. The data to develop these values is the most readily available

The cost approach rests on the assumption that the given facility would and could be built again in the same location. With that being said, comparable land sales are difficult to find and a significant amount of physical depreciation, functional obsolescence (both curable and incurable), and external obsolescence must be considered due to the oversupply and the general headwinds facing the golf industry. In addition, fewer golf courses are being built today and this leads to less reliable cost data. Investors rarely use the cost approach to determine the purchase price of an existing golf course property, because the cost approach typically generates the highest value due to the difficulty in measuring all forms of depreciation.
**Income Approach**

The income approach is the preferred method of valuation by market participants, as most are interested in the cash flow generating potential. The problem with utilizing the income approach on most facilities is that many (both public and private) are not profitable. In fact, a recent survey by *Golf Course Industry* shows that merely 32 percent of all courses made money in 2011. This creates a dilemma in the income approach, because there is no Net Operating Income (NOI) on which to apply a market capitalization rate. In addition, golf facilities with a large component of food and beverage revenue will not be as profitable as those that generate the majority of its revenue from golf activities. Moreover, most private clubs are operated as “not-for-profit” entities, and because private clubs have larger clubhouses with service staff, and difficult layouts that include more “hazards” and elaborate landscaping features, their operating expenses are higher than the operating expenses for public daily fee clubs. Another special consideration in the valuation of private golf clubs is membership fees. There are assessors who want to include all forms of income in the revenue stream. We believe membership fees contribute to the value of the going concern, but have very little to do with the real estate value. Therefore, one must be prepared to present rational arguments to the assessor or the jurisdictional board of assessment review.

**Other Considerations**

There are several distinct types of golf course properties, including private, public daily fee and resort. Each type contains certain nuances that must be accounted for in each valuation methodology. All have different revenues and expense profiles and require different management techniques.

In addition to the limitations of each approach to value, the highest and best use must be considered. Many assessors make the mistake of assessing golf courses based on alternative land uses, such as housing developments. A golf course assessment should be based on its present use and condition, not on alternative uses, especially if a land has limited use due to being in a flood plain, a deed restricted area or by zoning.

The biggest issue in golf course valuation is allocation. Golf properties typically include several revenue components in the going concern; business enterprise value, real estate, and business personal property, which includes golf carts, maintenance equipment, restaurant equipment, etc. However, only the value of the real estate and business personal property is typically relevant in establishing property tax assessments. Segregating the various values into their appropriate “buckets” is likely the most important factor in establishing a property tax assessment on golf course properties.

*If you own a golf course and would like more information on how Paradigm Tax Group can help maximize your tax savings, please contact Brett Walker at (214) 442-6074 or bwalker@paradigmtax.com and Adrian Dekker at (678) 954-6006 or adekker@paradigmtax.com.*

Sources:

*National Golf Foundation*

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