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Don’t hire a generalist for special-purpose properties! - by Jeffrey Dugas

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As someone who has worked with the golf industry for the past 25 years I have seen my share of appraisal reports prepared by general certified appraisers with limited experience. I have found them to be almost universally subpar, no pun intended. Golf course appraisal is more difficult than most people realize, because it accounts for appraisal theory not found with office, retail, industrial or apartments. This article touches on the nuances we encounter daily when working on this specific property type and the mistakes made by those lacking experience.

Business value, personal property and allocation to real property: One of the most challenging aspects of an appraisal of a “going concern” is the allocation between the Realty and Nonrealty. Under federal banking laws it is incumbent upon the appraiser to make such allocation. This again is a step not taken by those working on general commercial appraisal work. There are several different methods of allocating value, all of which are subject to change, some more than others. Our office has relied on a market rent approach in which the value of the real estate is determined by using rent comparables. The difference between the value of the going concern and the value of the real estate can be assigned to the nonrealty. Then, by estimating the contributory value of the personal property by either relying on depreciated costs or actual market transactions, we can specify the value of the business. This allocation alone requires a multi-step process, specific knowledge and market extracted data.

Profit verse nonprofit: According to the National Golf Foundation there are approximately 15,200 golf courses nationwide. The market is segmented between 59% daily fee operations, 16% municipally run facilities and 25% private, most of which are operated as a nonprofit. This poses a problem for appraisers with limited experience since they are unable to review historic profit/loss statements without any meaningful relevance. Nonprofit private clubs are generally established with a 501C tax status. They were designed to operate on an essentially breakeven basis, after debt service and a reasonable allocation for reserves. Clubs of this kind are also restricted from certain forms of marketing and no more than 15% of revenue can come from outside sources. When appraising clubs of this kind the appraiser cannot rely on historic income and expenses but instead must make well-founded, market supported projections with the assumption that the property would be sold to an investor or for-profit operator.

The reliance on personal property: Again unlike most conventional commercial property, golf course operations are dependent upon the use of golf carts, clubhouse furnishings and golf course maintenance equipment. The value of personal property is generally between 5% and 20% of the overall value. Furthermore, two identical clubs may have different operating strategies with respect to personal property. For instance, one club may elect to lease it's golf maintenance equipment at an annual expense of $100,000 a year while the other may elect to purchase the equipment out right with either cash or debt financing. On the surface, the two properties would expect to have similar cash flow yet the equipment could swing the profits and ultimately alter the value conclusion. Therefore without proper knowledge or understanding of its impact on value, the appraiser could provide a misleading appraisal report. Again this is not an issue with most commercial appraisal assignments.

Membership liabilities: The impact of membership liabilities can be significant on a golf course property because repayment of funds, and/or the waiting list to terminate membership can impact the marketability of a golf course property. Membership liabilities came about in the 1990s when a loophole in the tax law allowed private club owners to offer refundable memberships. These were generally established with a 30 year term so that income would be reported as a liability and not as taxable earnings. Most clubs offered refunds on a four in, one out basis. This allowed the club to attract new members without having a mass exodus. Unfortunately this dynamic created a liability that requires repayment over time. Because this type of refundable membership is no longer being sought, these liabilities are having an adverse impact on property values.

There are many nuances that can impact the value of a golf course; many are overlooked by inexperienced appraisers, who may be competent with general purpose property. The mistakes are too voluminous to mention, but this articles touches on a few that can have a major impact on value.

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