

It is important for the appraiser to have some basic knowledge of maintenance equipment - by Jeff Dugas

March 31, 2017 - Front Section

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In order to run a golf course, the operator must utilize personal property in conjunction with the real estate. Personal property would include clubhouse furnishings, like tables, chairs, flatware, computers, kitchen equipment, along with golf carts and grounds maintenance equipment. When valuing a going concern the manner in which an appraiser handles personal property is critical to the analysis and conclusions being reported; this is especially true with golf courses. Under federal banking regulations, it is incumbent on the appraiser to allocate the value between the going concern, it's real estate and nonrealty (both tangible and intangible) therefore a thorough understand of this topic is paramount.

It is important for the appraiser to have some basic knowledge of maintenance equipment; the age, type and condition of the equipment can vary greatly. During my six year term on the board of governors at Wampanoag Country Club in West Hartford, I worked as the liaison between the board and the grounds maintenance department. During this time I became intimate with the workings of the equipment, their cost and their usage. The information I learned while working with our course superintendent enhanced my skill as a golf course appraiser.

As an analyst we strive to support our assumptions and cash flow projections with market based evidence. We have done this by exploring maintenance leasing costs as they pertain to the overall maintenance budget. In the following chart we have summarized five examples of golf courses that lease most if not all of their equipment and how these costs relate to the overall maintenance budget. It is reasonable that the greater the maintenance budget, the more equipment the course would require. The opposite would also be true. As indicated, the cost of leasing equipment generally runs between 10% and 20% of the overall maintenance budget.

The thing to remember is that these costs can vary from course to course, since some clubs opt to pay cash to satisfy their equipment needs while others use conventional financing or capital leases. The treatment of this expense which can range from \$50,000 to \$200,000 and as such it has a significant impact on value. If the club chooses to buy their equipment, then a reserve fund must be sufficient to replace items over time. Therefore, how this expense is treated by the appraiser must be outlined in the report and accounted for in the cash flow.

This is especially important when completing assessment appeal work because in most states the property owner does not pay taxes on personalty. Therefore, when valuing just the real estate, the value contribution of the personalty in a going concern analysis must be accounted for. Again, this knowledge is critical since lenders require that appraisers allocate between real estate and nonrealty.

Aside from maintenance equipment, most courses lease their golf carts. The cost for leasing carts

usually ranges from \$700 to \$1,000 per cart per year. Most courses require between 50 and 70 carts, depending on the level of play and size of membership. Therefore, the average cart rental fleet lease is around \$50,000 a year.

Because personalty depreciates at a rapid rate, the cap rate for business and personal property can range from 15% to 25%. If an appraiser were trying to value the personalty by applying a real estate cap rate, they would overstate its value. The same could be true if the appraiser were to value the personal property based on book value derived from the club's balance sheet; they could be understating the value of the real estate. The impact of personal property is critical to the income approach, but equally as important to the handling of the sales approach. How the appraiser handles such an expense is critical to the valuation of the property. And, whether personalty is owned or leased can impact the price paid for a property.

This article is meant to bring to light the intricacies of going concern analysis and the understanding that is needed to prepare golf course appraisals. Wellspeak Dugas & Kane's Golf Advisory Group, has been preparing golf course appraisals for more than 25 years at an average of 80 assignments annually. Therefore, with over 2,000 golf appraisals to our credit we have given consideration to issues like these.

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