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Appraising golf courses - by John Nitz

November 12, 2021 - Appraisal & Consulting



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In the movie *Caddyshack*, when Rodney Dangerfield considered buying Bushwood Country Club, he had one thought in mind . . . to build condominiums. Similar to appraising commercial properties, it is necessary to consider the motivations of buyers and sellers when appraising golf courses. Solving the highest and best use question is even more critical.

In 2020, the COVID-19 pandemic provided a jolt of life into the golf industry. The number of rounds played increased over previous years despite some shutdowns in the early spring of 2020 for mitigation purposes. Many working remotely from home had more time to play golf, and golf became “the only game in town” as various sports leagues shut down. Before the pandemic, the golf course industry had been declining steadily over the past 10 years nationally and regionally, with golf course contraction evident.

Since the beginning of the pandemic, the housing market has been red hot with increased demand for apartments, single-family homes, and condominiums. As a result, there has been increased demand for good-quality land for residential development. Southington, Connecticut, had featured three public golf courses in its community; however, the former Pine Valley Golf Course sold to a developer in February 2014 for a sale price of approximately \$7.9 million or \$439,889 per hole. The developer, subsequently, demolished the clubhouse and redeveloped the front nine with a 90-lot subdivision of estate-like homes. As part of the approval process, the town restricted the developer from developing the remaining nine holes. The developer had plans of a new clubhouse and expanding the golf course by acquiring land across the street, but the golf course expansion never came to fruition. In more recent years, the town of Southington acquired development rights to its two remaining public golf courses. Southington’s motivation was to help prevent significant housing growth in hopes of keeping educational costs in its public schools under control.

In some cases, the highest and best use of a golf course is its continued present use. A few years ago, I appraised a Hartford County private country club, which has inland wetlands winding throughout its fairways. As a result, the number of potential building lots for this golf course was limited considerably and the highest and best use was its continued present use as a golf course, despite significant golf course competition within a 20-mile radius. Another appraisal more recently involved a private country club in Rhode Island with gently rolling terrain, water views, and access to public utilities. My first thought was that the highest and best use was to develop the golf course with a residential subdivision of high-end homes and possibly retain the clubhouse as a restaurant on its own lot. However, after further examination of the land records, I discovered a deed restriction preventing the development of the golf course. One of the criteria of highest and best use is whether the use is “legally permissible,” and the deed restriction is an example of criteria limiting the highest and best use of a property.

The techniques of appraising a golf course are similar to any commercial property, including the cost approach, the sales comparison approach, and income capitalization approach. The latter two techniques typically are given more credence than the cost approach. The cost approach has

complications when calculating accrued depreciation, especially with older golf clubs. In addition, the cost to construct a golf course with its clubhouse can substantially exceed what buyers are willing to pay. The income capitalization approach can be less beneficial to appraising a private country club in which annual dues are the norm in lieu of greens fees. Nevertheless, market derived greens fee revenue can be implemented into the analysis along with income from other sources such as food and beverage.

In either case, the sales comparison approach is very relevant and one must distinguish the quality of a golf course in comparison to the others. For example, adjustments are necessary when comparing an average-quality golf course versus a championship-caliber golf course. The demand to play among area golfers is also important. Locational factors are also relevant, including demographics, economic characteristics of the area, whether in a tourist area, or benefitting from panoramic views. Other key factors requiring adjustments to the comparable sales include the quality and size of the clubhouse, the quality and age of the irrigation system, and amenities such as driving ranges, tennis courts, and swimming pools.

Ultimately, an appraiser of golf courses must be knowledgeable of the industry and its market. Highest and best use along with the motivations of buyers and sellers are key elements in the valuation of golf courses.

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New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540