A golf course, like a resort or a hotel, is a unique grouping of facilities, amenities and revenue-producing departments. No two courses are alike in terms of their physical characteristics, playability, reputation, social atmosphere and other subjective criteria. Because of these differences, estimating the value of a course by comparing the prices paid for other properties is very difficult. Furthermore, unlike the other two valuation approaches, the sales comparison approach cannot be applied if no sales of competitive golf courses are available to the appraiser. Data may be obtained through other means such as interviews with market participants, however, and many insights and secondary benefits can be gained from historical sales investigations.

Except in unusual or required circumstances, the results of sales comparison analysis of a golf course should be expressed as a reasonable value range, not a single point value estimate. This is accepted methodology in the appraisal of special property types and a realistic course of action considering the number of variables for which price or other adjustments may be required. Following is a list of possible variables that could be considered:

1. Location/Site Relationships
   - Distance from playing populace
   - Demographics of market
   - Surrounding land uses
   - Access and parking

2. Climate
   - Length of playing season
   - Wind direction and velocity
   - Frequency of play-stopping weather

3. Playability
   - Course challenge
     - Player appeal, steep fairways, aesthetic design, surface drainage, size of greens, width of fairways
     - Shrub and tree maturity
   - Course condition
   - Rounds played annually

4. Irrigation System
   - Reliable water source
   - Water cost (pumping cost or vendor charges)
   - Water quality, system type (fully automatic, etc.)
   - Other (treated effluent, water rights, etc.)

5. Soil Type and Texture
   - Intrinsic drainage, water holding capacity
   - Salinity or alkalinity
6. Furniture fixture and equipment
   - Type and condition
   - Rental versus ownership
   - Adequacy

7. Practice range
   - Width and length
   - Number of tee stations

8. Size
   - Acreage
   - Number of holes
   - Turf versus rough

9. Improvements
   - Size and condition
   - Clubhouse
     - Bar
     - Restaurant
     - Club room
     - Locker rooms
     - Pro shop
     - Swimming pool
     - Tennis courts

10. Financial factors
    - Green fees
    - Monthly dues
    - Initiation fee
    - Number of members
    - Minimum to be spent at bar/restaurant
    - History of special assessments
    - Annual operating costs
    - Profitability

11. Sales terms and conditions
    - Sale price
    - Trust deeds or mortgages including chattels (?), interest rates, terms of loans, leases (especially lease-back), options, mineral rights, liquor license, included in the sales price or financing.

Analysis of golf course sales transactions may require creativity, but appraisers should remember to think about pricing and value in the same way buyers, sellers and brokers do. The rules of thumb applied by knowledgeable market participants and the more precise units of comparison used by appraisers are both derived from experience and investigation.

AGI VALUATIONS
Recent Sales of Golf Courses and Country Clubs

In the past, there has been no national database of golf course transactions, but in recent years, the CoStar Group has rectified this problem. In Table 7.1 there are eight pages listing 192 transactions from 2008 to 2011, sorted by total price from the highest (approximately $22,000,000) to the lowest ($150,000). Figure 7.1 breaks down the data by year, price bracket and region where located.

Figure 7.1

<table>
<thead>
<tr>
<th>No. of Sales by Year</th>
<th>No. of Sales by Price Range</th>
<th>No. of Sales by State</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 – 53</td>
<td>$15M-$20M – 3</td>
<td>17 – California</td>
</tr>
<tr>
<td>2011 – 52</td>
<td>$7.5M – $10M – 7</td>
<td>12 – WI, OH</td>
</tr>
<tr>
<td></td>
<td>$5.0M – $7.5M – 20</td>
<td>9 – GA, NY</td>
</tr>
<tr>
<td></td>
<td>$4M - $5M – 22</td>
<td>7 – MI, NC, NV, VA</td>
</tr>
<tr>
<td></td>
<td>$3M - $4M – 24</td>
<td>5 – CO, HI, MA, WA</td>
</tr>
<tr>
<td></td>
<td>$2M - $3M – 32</td>
<td>4 – MD, SC</td>
</tr>
<tr>
<td></td>
<td>$1M - $2M – 33</td>
<td>2 – IL, IN, ME, MN, NJ, OK, PA, RI, TN</td>
</tr>
<tr>
<td></td>
<td>$500K - $1M – 26</td>
<td>1 – IA, ID, KS, MT, NH, MS</td>
</tr>
<tr>
<td></td>
<td>Under $500K</td>
<td></td>
</tr>
</tbody>
</table>

The CoStar Group template for each 18-hole course transaction includes location, year built/renovated, buyer, seller, broker(s), sale date, sales price, terms, zoning, sale condition, land area, building area, listing prices, sale condition, financing, topography, site improvements, legal description, assessor’s parcel number, document number, transaction notes and plat.

Examination if the details of the transactions indicates that nearly 43% were sold at a price of $2,000,000 or less, and the median price was $2,650,000. Geographically, 36% were in three Sunbelt states (Florida, California and Arizona), and none were in Texas!

Units of Comparison and Analysis

Golf courses with the same number of holes may have very different land areas due to a number of factors such as unusable topography, the configuration of fairways, the amount of natural vegetation and natural waterways. These variables may not affect revenue, but they could have a negative influence on maintenance expenses if the course needs excessive watering or mowing. Thus, a value comparison based on price per acre is not recommended when appraising a golf course, whether it is existing or proposed.

Obviously, if the assignment is the appraisal of a parcel of land that is presently improved with a golf facility that has another highest and best use, the size of the land parcel is very important. In
this case, price per developable unit or price per usable square foot derived from appropriate comparable sales would be a proper unit of comparison. These units could also be applied to the excess land of a golf course that can be developed separately.

In most cases, however, units of comparison that relay to the financial aspects of a golf course transaction are preferred. When a substantial amount of data on recent golf course sales is available, the following indicators may be considered.

- Total Revenue Multiplier
- Golf Revenue Multiplier
- Price per Round
- Price per Membership
- Greens Fee and Rounds Multiplier

The derivation, application and validity of these factors should be understood because they can produce varying results. The calculation of these valuation indicators is illustrated in Figure 7.3.

**Total Revenue Multiplier (TRM)**

Most real estate professionals are familiar with the Gross Income Multiplier (GIM). Gross income multipliers are used to compare the income producing characteristics of comparable properties with those of the subject. Although the conversion of income into a value estimate is a capitalization process, multipliers are commonly applied in the sales comparison approach.

A Total Revenue Multiplier or TRM, can be applied to a golf facility. The multiplier is typically derived by dividing the sales price of the golf course by the total income produced by the facility during the most recent 12-month operating period. It is important to know whether the multiplier is derived from the 12-month period before or after the date of sale so that the multiplier can be applied consistently to the total income of the subject facility.

The advantage of the TRM is that revenue production is directly related to the sale price. The multipliers vary from property to property depending on the mix of departmental revenues and the relative profitability of each revenue source. If a facility’s food and beverage operation is large, the multiplier will tend to be lower because the net income from these facilities is usually small. When the food and beverage operation of the facility is leased to a third party, the income component for this department declines greatly, and, if all other revenues remain equal, the multiplier will be substantially higher. If, in the example shown in Figure 7.2, the food and beverage operation were leased for 6.5% of the sales, the income to the total property would then be $1,987,630 reflecting $26,150, not $402,000 in food and beverage income) and the total revenue multiplier would jump from 1.904 to 2.264.

Careful application of a TRM can be very useful, but accurate revenue or income data is needed to derive the multiplier. If information about profitability is unrealistic, or uneven, the value indicated will be unreliable.
FIGURE 7.2 – DERIVING UNITS OF COMPARISON FROM A GOLF COURSE SALE

**Available Data***

Type: 18-hole, semi-private regulation course  
Price: $4,500,000  
Rounds: 38,000  
Average Greens Fee: $32  
No. of Members: 220  
Income (most recent 12-month reporting period)  
  - Greens Fees: $1,216,000  
  - Car Fees: 427,500  
  - Driving Range: 128,000  
  - Food & Beverage Sales: 402,000  
  - Pro Shop Sales: 190,000  
  - Total Revenue: $2,363,500

**Units of Comparison**

1. Total Revenue Multiplier (TRM)  
   
   $4,500,000 divided by $2,363,500 = 1.904

2. Golf Revenue Multiplier (GRM)  
   
   $4,500,000 ($1,216,000 + $427,500 + $128,000) = 2.54

3. Price per Round (PPR)  
   
   $4,500,000 divided by 38,000 = $118.42

4. Price per Membership (PPM)  
   
   $4,500,000 divided by 220 = $20,455

5. Greens fee and Rounds Multiplier  
   
   $4,500,000 divided by 38,000 = $118.42 divided by $32 = 3.70

* The source of the data may include a website, on-site interviews, 3rd parties and actual data provided by management or the client.

**Golf Revenue Multiplier (GRM)**

The amount of non-golf revenue generated by individual golf courses varies greatly and non-golf operations (e.g. food, beverage, pro shop, concession sales) generally contribute relatively little to a facility’s bottom line. Therefore, a multiplier derived solely from direct golf activities such as green fees, membership dues, car rental fees and driving range fees is often appropriate.

GRMs should exclude initiation fees if they vary greatly from year to year; if they are a predictable source of annual revenue (such as annual turnover fees), and they should be included. Food and beverage sales should always be excluded; pro shop sales may be included if the subject property has a significant pro shop operation. The advantages and disadvantages of using a golf revenue multiplier are the same as those associated with the total revenue multiplier.
Price Per Round (PPR)

It is often difficult to obtain financial statements for golf courses that have been sold. However, other statistics may be readily available from data-gathering organizations or obtained through investigation and interviews with knowledgeable parties such as club managers and golf pros. It is imperative that the annual number of rounds for a golf course be known to analyze the sale of a property.

The applicability of a PPR valuation indicator depends on other factors involved in the operation of a golf course, which must be analyzed and adjusted. If a golf course is not realizing its maximum rounds potential because of poor management and marketing policies, the value estimate will be understated. Similarly, if green fees at the comparable courses are very different from fees at the subject property, a problem will arise in the interpretation of the data. A refinement that the analyst can use to adjust for differences in green fees and annual rounds played is described later.

Sometimes a price per round can be estimated for a group of golf course transactions involving similar properties with slightly different greens fees, but very different restaurant and shop facilities. Normally, if data are available to compute GRMs, a reasonably accurate value range may be found. However, if financial data are not available, then some type of extra adjustment must be made for the valuation indicator. Valid adjustments for differences in building square footage can be made and their use is acceptable in contemporary appraisal practice.

The advantage of using a PPR estimate is that it can be derived from data that are readily available to experience golf course analysis. The weakness of this indicator is that it does not provide for differences in the non-golf components of a course or the size and quality of amenities. It is most reliable when the comparables are very similar to the subject property in terms of fees and property characteristics.

Price per Membership (PPM)

This valuation indicator is only applicable when the subject property is a private golf or country club and the comparables are also private or semi-private. Price per membership is commonly used in the appraisal of racquet sports and health and fitness facilities because in these properties there is a direct relationship between the number of members, gross revenues and net profit.

On the whole, private golf and country clubs are large, complicated investments and maintenance costs for the facilities are extremely high. They have varied classes of membership which make comparisons difficult and the fact that many are marginally profitable (or unprofitable) diminishes the applicability of multipliers.

At one time in the late 1980s when it was perceived that new memberships in exclusive golf clubs could be sold at very high fees, thus driving trophy golf course prices to unheard of levels. The PPM was used to explain the rationale for the transactions. This market phenomenon is no longer in play as the history of resale prices at much lower levels indicated that this strategy was unrealistic.
Greens Fee Multiplier (GFM)

The green fee (and rounds) multiplier is a refinement of the price per round unit of comparison. A variation of this methodology was described in Chapter 6 as a technique for valuing raw land for a golf course. For a profit-oriented golf course, the GFM can be a highly effective valuation tool. It provides a common denominator in the comparison of golf course sales, and it can be derived without access to financial statements.

The GFM is calculated by dividing a price per round, or PPR, by the average greens fee. This factor can be extremely important because it automatically accounts for variations in annual rounds attributed to different pricing policies among courses that appear to be comparable. For example, consider two courses in a common market area that vary in the number of annual rounds played by 30%. Sale 1 had 41,000 rounds with an average greens fee of $24 and Sale 2 had 28,940 rounds and an average greens fee of $34. Their PPRs would vary by close to 30%, but their GFMs would be identical because both courses had total revenues from greens fees of $984,000.

The problem in estimating a GFM is obtaining accurate data on average greens fees. Obviously, the most accurate figures, from financial statements, which may be difficult to obtain. However, careful questioning of club personnel and a study of the various rates charged for weekdays, weekends, seniors and juniors can help an appraiser derive a reasonably accurate figure.

It is recommended that this multiplier be used in all appraisals of profit motivated golf course operations if possible. The GFM accounts for pricing or qualitative differences between properties and is based on data that can be obtained by an accomplished analyst.

Adjusting Golf Course Sales

When sufficient units of comparison are available from a golf course database, the appraiser should be able to derive an accurate value range. Up to four separate valuations and calculations can usually be made under detailed research circumstances.

In a typical situation, an appraiser may find evidence of only a few recent arms-length transactions involving golf courses over a large region; good reliable data about sales are difficult to obtain. Quite possibly, detailed information may be available on only one or two transactions involving courses that are reasonably similar to the subject facility.

When sales are scarce, the appraiser must conduct in-depth analyses of the few good sales available to construct a convincing argument and account for all significant differences between the comparable sales and the subject property. The major physical differences between golf courses of a similar type can be identified using the golf course rating data described in Chapter 1.

A thoughtful study of a comparative golf course may reveal positive and negative cost factors that will account for property differences. For example, an estimate of the cost to improve
fairways and greens, reconfigure the sprinkler system, or renovate the clubhouse of a comparable property could account for part of the variance in value or price between this course and the subject. Adjustments for deferred maintenance are common to all real estate appraisals and should always be considered in the appraisal of golf projects.

Functional problems in golf facilities can also explain price differences between properties. Excessive or penal fairway layouts and hazards that are very difficult for the casual golfer may cause a facility to lose business from this market segment. The appraiser can account for factors of this type with an adjustment in annual rounds.

Operating cost differences between golf courses may be revealed by studying their financial statements. These differences can explain why golf course prices vary significantly when other circumstances indicate that they should not. High operating costs may be attributed to inept management, which is a curable item, or to more serious factors such as the quantity and quality of the water supply or an inefficient course layout that results in excessive maintenance expenses.

Any number of items can account for differences in golf courses. The appraiser should look for major items that can be explained and quantified; it is fruitless to try to account for everything. Construction of the market data grid may facilitate the visual presentation of data and the analytical process. A sample golf course sales analysis is shown in Figure 7.3.

In many appraisal assignments the real estate must be separated from the non-real estate components of the property. This situation arrives in valuations for lending purposes where the real property alone represents the security for the loan (one might also think of the physical assets as being the security for the loan and the furniture, fixtures and equipment can be secured by a chattel arrangement). The cost approach can be employed to derive a separate value estimate for the FF&E and the business component can be quantified using the techniques described in Chapter 6 or by comparative analyses.

In valuation assignments where it is necessary to separate the physical assets (i.e. real estate and FF&E) from the intangible aspects or business value of a golf course, another step must be added to the analytical process.
## FIGURE 7.3
GOLF COURSE SALES ANALYSIS

<table>
<thead>
<tr>
<th>Physical Characteristics</th>
<th>Subject</th>
<th>Sale 1</th>
<th>Sale 2</th>
<th>Sale 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Holes</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Clubhouse (sq. ft.)</td>
<td>5,500</td>
<td>4,200</td>
<td>8,100</td>
<td>5,800</td>
</tr>
<tr>
<td>Practice greens</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Driving range</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Car storage</td>
<td>Good</td>
<td>Average</td>
<td>Excellent</td>
<td>Good</td>
</tr>
<tr>
<td>Course rating*</td>
<td>35 (good)</td>
<td>32 (average)</td>
<td>39 (good)</td>
<td>27 (average)</td>
</tr>
<tr>
<td>Food &amp; beverage</td>
<td>Average</td>
<td>Average</td>
<td>Excellent</td>
<td>Good</td>
</tr>
<tr>
<td>Condition</td>
<td>Average</td>
<td>Average</td>
<td>Good</td>
<td>Good</td>
</tr>
<tr>
<td>Other amenities**</td>
<td>L,R,B,T</td>
<td>L,R</td>
<td>L,R,B,S</td>
<td>B,T,S</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Data</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>TBD</td>
<td>$4,500,000</td>
<td>$6,900,000</td>
<td>$3,400,000</td>
</tr>
<tr>
<td>Date</td>
<td>6/12</td>
<td>11/11</td>
<td>8/09</td>
<td>11/10</td>
</tr>
<tr>
<td>Rounds</td>
<td>37,500</td>
<td>44,000</td>
<td>52,000</td>
<td>29,000</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$2,000,000</td>
<td>$2,227,700</td>
<td>$2,782,300</td>
<td>$1,405,000</td>
</tr>
<tr>
<td>Golf revenue</td>
<td>$1,312,500</td>
<td>$1,630,400</td>
<td>$2,269,700</td>
<td>$780,000</td>
</tr>
<tr>
<td>Average greens fee</td>
<td>$35.00</td>
<td>$27.65</td>
<td>$38.80</td>
<td>$23.90</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Value indicators</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue multiplier (TRM)</td>
<td>2.25 (est.)</td>
<td>2.02</td>
<td>2.48</td>
<td>2.42</td>
</tr>
<tr>
<td>Golf revenue multiplier (GRM)</td>
<td>3.50 (est.)</td>
<td>2.76</td>
<td>3.04</td>
<td>4.36</td>
</tr>
<tr>
<td>Price per round (PPR)</td>
<td>$120.00 (est.)</td>
<td>$102.27</td>
<td>$132.69</td>
<td>$117.24</td>
</tr>
<tr>
<td>Greens fee and rounds multiplier (GFM)</td>
<td>3.40 (est.)</td>
<td>3.70</td>
<td>3.42</td>
<td>4.91</td>
</tr>
</tbody>
</table>

*From golf course rating data (See Chapter 1)
**L = lockers, R = rain shelters, B = bag storage, T = tennis courts, S = swimming pool
Note: Value indicators (multipliers) for the subject property were estimated and used to derive a range of value estimates.
Valuing the Business Component

If properly applied, the sales comparison approach can provide an automatic allowance for intangible assets of the golf facility being appraised. A separate value estimate or adjustment for this factor such as is made in the cost approach often is unnecessary. However, separate consideration of the business component when:

1) the comparable sales represent under-performing golf courses;
2) the transactions were made under duress
3) the transactions involved sales of a leased fee interest of a property subject to an operating lease.

Conclusion of Case Study

Based on the data from Figure 7.4, the following conclusions may be shown (the low end of the above indicators are used, due to depressed market conditions).

By Total Revenue Multiplier (TRM)
2.25 x $2,000,000 = $4,500,000

By Golf Revenue Multiplier (GRM)
3.5 x $1,312,500 = $4,593,750

By Price per Round (PPR)
$120 x 37,500 = $4,500,000

By Greens Fee and Rounds Multiplier (GFM)
3.4 x $35 x 37,500 = $4,462,500

The indicated market value by the sales comparison approach is as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Side</td>
<td>$4,460,000</td>
</tr>
<tr>
<td>High Side</td>
<td>$4,595,000</td>
</tr>
</tbody>
</table>

A separate analysis of the business component is indicated if such factors are revealed in the investigative process. Needless to say, the analyst must understand the typical aspects of a real estate transaction and the unique considerations involved in the sale of a business. It is generally beyond the scope of a golf course appraisal assignment to appraise a comparable sale property, except in extraordinary circumstances. It is proper for appraisers to allocate a sales price as to buyers, sellers and their representatives, as long as a realistic value is placed on the components of the total assets involved in a transaction.

If the appraiser only applies the sales comparison and income approach to value and the assignment requires segregation of various value components, a distinct and separate analysis must be conducted to appraise the business. This work can be accomplished as another aspect of the sales comparison approach or by application of other techniques.

Golf course business opportunities exist when facilities are leased, typically by municipalities, to operators, sales of leaseholds usually involve the personal property or FF&E and the intangible
assets or business enterprise but they may also include interest in improvements made to the golf course or clubhouse by the lessee.

The following example illustrates the financial aspects of such a transaction and important analytical data that can be useful to the appraiser. Consider a local municipal course subject to a 25-year lease. It was leased five years ago by an experienced golf pro who improved the greens and fairways, renovated the clubhouse, and added new cars and vastly upgraded the image of the facility. The rent schedule has a guaranteed step-up clause and includes a percentage formula that allows the lessee to recapture his investment in the improvements and the lessor to share in the success of the operation.

The golf course produces a net income of $525,000 after management compensation, but before rent payments of $350,000; the golf pro just sold his leasehold for $700,000. Investigation of this sale reveals that the price was allocated as follows: $200,000 to the FF&E and $500,000 to intangibles such as the license to operate, favorable contracts, business systems in place, a short term management contract, favorable terms of the lease, reputation, and golfer list.

A nearby golf course facility with similar characteristics, but no lease, was sold for $4,500,000. Assuming that this figure represents the approximately total value each of both courses unencumbered, the two transactions indicate an allocation of $3,800,000 for the land and golf course improvements, $200,000 for FF&E, and $500,000 for the intangibles of the enterprise, which are sometimes inaccurately referred to as goodwill. The capitalization rates are 11.67% for the overall property ($525,000/$4,500,000), 25.0% for the business ($175,000/$700,000), and 9.2% for the real property ($350,000/$3,800,000).

With this type of information and other statistics from the operating statement of the comparable golf course, comparative techniques can be used to appraise the business component of a going concern separately. In a successful course, the intangible component of the total enterprise can be quite significant. In the example described, the intangibles amounted to about 11% of the value of the golf course valuation. Unlike sales of retail or service businesses, transactions involving the sale of golf course leaseholds as business opportunities are quite rare. Specialists in the field should keep a careful record of these sales when they do occur.

MIXED USES

A golf course or country club appraisal assignment can sometimes involve a combination of other land uses held in one ownership or security interest. For example, a resort and recreational golf facility may be combined with surrounding single-family home and condominium developments in a master project.

In the application of the sales comparison approach, the other land uses can be separately valued with comparative techniques using appropriate multipliers and unit value indicators. The sum of the parts can produce an indication of the total project value when consideration is given to the risk, appropriate returns, and yield requirements associated with mixed-use projects. Appraisers involved in such assignments should be familiar with the techniques employed in the valuation of lodging, racquet sport, health and fitness, restaurant and retail facilities.