

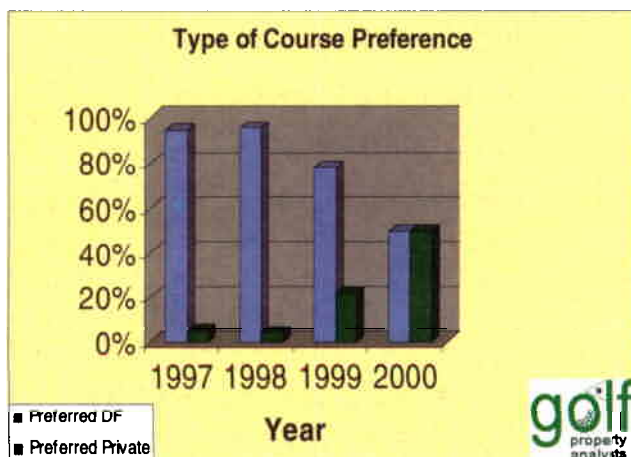
2000 Golf Course Investor Survey

By Larry Hirsh

Has the course acquisition market, after several years of explosive growth, finally leveled off? Judging from the results of the annual golf investor survey our firm administered, this could well be the case.

Earlier this year, GPA distributed a proprietary survey and questionnaire to management companies large and small, frequent investors in the golf course industry, and financial institutions, most of whom are our clients.

The results of that survey are summarized below. Approximately 50 percent of the responding firms this year indicated a preference for private facilities as opposed to daily-fees. This is a significant shift from previous years as shown in the graphic below. While the golf course industry continues to churn out more than 300 new daily-fees each year, it's become clear to me -- through my own experience, and through the results of this particular survey -- that certain influential management firms now see more opportunity on the private side. This could be a sign that the daily-fee market represents less "upside" opportunity as perceived by investors.



Most responding firms indicated a market-area interest that was national in scope. However, of those firms that indicated a regional preference, this market-area interest was evenly distributed around the country with nearly equal focus on the Midwest, Northeast, Southwest and Southeast regions. To put that in perspective, last year more than 65 percent indicated a preference for the Sunbelt regions of the Southeastern and Southwestern United States. This indicates that buyers, recognizing the growing saturation in warm-weather markets, are beginning to view well-positioned cool-season courses with more interest.

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Golf Industry & IRS Meet

For many years the Internal Revenue Service (IRS) has denied depreciation deductions on golf course improvements, maintaining that such improvements are land and thus not depreciable.

On April 19, 2000, representatives of the golf course industry, organized by the National Golf Course Owners Association (NGCOA) and Bill Ellis of KPMG LLP met with representatives of the IRS to discuss the issue of golf course improvements' depreciation as set forth in the IRS proposed Audit Techniques Guide (ATG). Industry presenters included Mike Hughes of the

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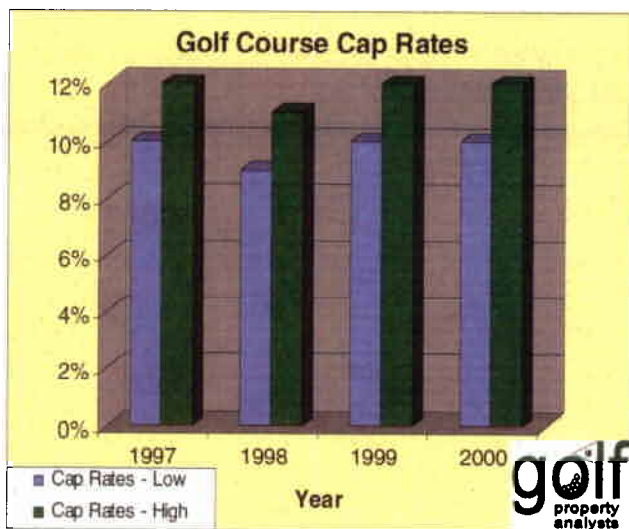
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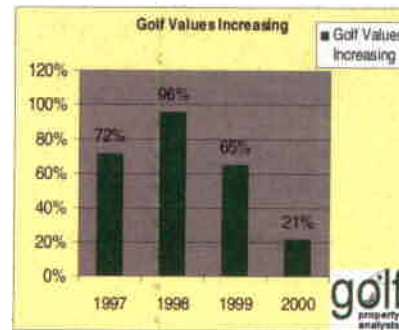
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Indeed, in many cases, today's firms are seeking to "cluster" their courses in particular areas, depending on their size. For instance, one firm we work with regularly has a guideline of working only within a 200-mile radius of its headquarters – plus one mile for every additional course in the cluster. In other words, with 24 courses, this firm will typically consider acquisitions within a 224-mile radius of its headquarters. It's my feeling that many regional management firms operate on similar bases.

Our survey also asked for desired beginning and terminal cap rates. Beginning rates were typically 10 to 12 percent (trailing cash



flow). Terminal (or "exit") cap rates were indicated between 10 and 12 percent. Desired internal rates of return (IRR) were indicated mainly between 15 and 30 percent, which is consistent with the past few years. One firm responded with a requirement of 40 percent, though the overall average was 23.32 percent. IRR illustrates not only a buyer's cash flow projections but also the perceived growth in the value of the investment. As rates rise, values decrease. While no significant increase in IRR has been detected, it hasn't dropped either, indicating stable values with little or no increases perceived. While not reflected in the survey, our experience from the analysis of actual sale transactions is typically resulting in overall capitalization rates between 10.25% and 11%.



As many golf projects are being turned over by the developer to members, management firms or other interests, our survey asked what percentage of original cost was typically paid for existing golf properties. Responses ranged between 50 and 100 percent of original cost, though most of the respondents indicated between 70 and 85 percent of the original development cost – up from 60 to 85 percent in past years. This was consistent with 1999, the first year we asked this question. What this seems to indicate is that many "development" courses cost more than they're worth and the excess is applied (theoretically) to surrounding property values in the form of premiums for being on a golf course.

On the Macro front, unlike 1998 and 1999, our respondents predominantly perceived golf property values as either stable or declining. Approximately one-half of our respondents viewed values as stable, with about 29 percent actually seeing values as declining. Approximately 21 percent perceived values as increasing.

This is a significant change from recent years past, when more than 90 percent of our 1998 respondents perceived values as increasing; about half perceived values as increasing in 1999. Whether or not this perception is accurate isn't the point. If buyers see values as declining, then negotiations automatically take on a wholly different tone – a tone course owners should bear in mind.

While most investors sought properties in larger markets (population of 250,000 or more), many were willing to consider smaller markets, especially if they were geographically accessible to their other facilities. This is more evidence that the daily-fee market is becoming crowded enough to force investors outside the ideal demographic parameters. Generally the larger markets remain popular; the average desired market size is 750,000 or more.

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With respect to golf property financing, the responses were equally split -- facilities dealt as frequently with commercial banks and as they did with golf finance companies; many money-seekers used both. The typical loan size was in the \$3 to \$5 million range with an overwhelming percentage of the respondents (more than 90 percent) reported loan-to-value ratios between 60 and 75 percent.

Interest rates for loans were predominantly less than 10 percent, and as low as 8.5 percent, with loan amortization terms typically 15-25 years. Our respondents indicated, however that interest rates were higher than a year ago with the most recent loans in the 9.25 to 9.5 percent range. Our lender survey, while not complete seems to support the responses of our investors.

About half of our respondents listed leasing as a viable option, with a percentage of gross or net income the typical criteria for establishing the lease price.

One final note: certain operators are said to be implementing an "as-available" pricing structure on a basis similar to the way airlines price seats. Reportedly, the experience with this technique has been positive and may be something to watch in the coming year. If average fees can increase, it would all fall to the bottom line and enhance the value of the properties. Only time will tell how it will affect cap rates and other market indicators, however my observation has been that increased management sophistication has improved golf properties in the eye of traditional investors.

Generally, we at GPA have concluded that recently rising interest rates, along with an ever-increasing supply of golf properties, has caused the market to "take a breather" from the remarkable growth it has shown the past few years. While my sense is that no "bust" in the market is imminent, it is clear that buyers are more price-conscious. They are still seeking acquisitions, and most expect acquisitions to continue at a brisk rate through 2000.

Nationwide Permit Program Revised by Army Corps of Engineers

By Carl Everett*

On March 9, 2000, the Corps of Engineers issued a final notice in the Federal Register announcing five new Nationwide Permits (NWP) and modifications to six existing NWPs. The Corps has regulatory jurisdiction over wetlands under Section 404 of the Clean Water Act and Section 10 of the Rivers and Harbors Act. The fundamental Corps regulations pertaining to wetlands are in 33 CFR Part 330.

This new Corps permit program, which has already been challenged in court by the National Association of Home Builders ("NAHB"), is likely to affect numerous golf course projects. The applicability threshold has been dropped from one-third to one-tenth of an acre, and the old NWP 26 ceilings of three acres/500 linear feet of streambed have been reduced to one-half acre/300 linear feet in both NWPs.

Two of the new NWPs explicitly address golf courses. NWP 39 covers golf courses that are an integral part of residential developments. NWP 42 applies to recreational facilities and small support facilities, such as maintenance and storage buildings.

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specific market and feasibility analyses, big mistakes can be made.

THE PRACTICE TEE

- ◆ **V. S. Hovnanian** recently retained GPA to provide a market value appraisal of the proposed **Jackson Valley National Golf Club in Jackson Township, NJ.**
- ◆ GPA has recently been retained by **Potomac Golf Properties** to provide a market value appraisal of **proposed private club in Dallas, TX** to be designed by **Tom Fazio**
- ◆ **Citrus Bank** has recently retained GPA to provide a market value appraisal for the **Course at Westland** in **Jacksonville, FL.**
- ◆ **Norristown School District** in **Montgomery County, PA** recently retained GPA to provide tax assessment analysis and appraisal services in connection with **Westover Golf Club.**
- ◆ **Meadowwink Farms, Inc.** recently retained GPA to provide a market value appraisal for **Meadowwink Golf Club**, in **Murrysville, PA.**
- ◆ **Aviation Golf Services, LLC** recently retained GPA to provide a feasibility analysis for the proposed **Rock Ridge Golf Club** on the airport site in **Janesville, WI.**
- ◆ **The Dauphin County General Authority** recently retained GPA to provide consulting services in connection with the **Bedford Springs Golf Course** in **Bedford, PA.**

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NGCOA, Larry Hirsh of Golf Property Analysts, Mike Hurdzan of Hurdzan-Fry Golf Course Architects and Jim Moore of the United States Golf Association.

Hughes opened the industry presentation representing the interests of the NGCOA and course owners everywhere by requesting the IRS to listen to the presentations and review their position on depreciation. He emphasized the NGCOA's support for the effort coordinated by Ellis.

Attention then turned to the ATG, most specifically to a quote in the guide (p.3-10) taken from an Appraisal Journal article written by Larry Hirsh and published in 1991. Hirsh, in his presentation, explained that while the portion included in the ATG seems to indicate otherwise, the **entire paragraph** clearly states that depreciation of golf course improvements occurs and **must be considered** in the valuation of golf course property in much the same manner as the depreciation of a roof, HVAC system or other building components. Hirsh also clarified that replacement of such items is **not** a maintenance expense and should be treated as a capital expenditure with an appropriate reserve.

Dr. Mike Hurdzan, a plant physiologist and former president of the American Society of Golf Course Architects showed slides and explained how the construction of golf courses has evolved and illustrated how a golf course, while being grass on the surface requires a complex subsurface system including soil mixing, drainage installations, earth shaping and irrigation to meet today's demanding standards by golfers for the ability to produce quality playing conditions. Hurdzan showed how early golfers simply played across the landscape and described the improvements to golf course construction over time. Finally, Hurdzan emphasized the scientific research and achievements that have occurred in turf grass research through the years and the resulting changes in golf green construction.

Moore, the USGA's resident construction specialist explained in great detail the elements of

modern greens, tees, fairways and bunkers. Moore further showed how below the surface, not only do drainage and irrigation installations exist but (especially with greens) that a carefully controlled system of layers of different materials designed to allow for the cultivation of rich turf grass and provide for proper drainage and stability exist as well.

Finally, Ellis presented a survey of golf course superintendents conducted by the Golf Course Superintendent Association of America (GCSAA) and tabulated by First Generation Consulting that showed that approximately half (49.4%) of all superintendents responding (26.2% response rate) had major reconstruction experience within the past 25 years. Moreover, this number most likely would be higher if the tenures of superintendents were higher than the average of 7 years. More importantly, over 70% of the respondents anticipated reconstruction activity in the next 5 years.

The afternoon session provided for a lively and productive discussion and all parties appeared to come away with many of the issues clarified. Most likely as the IRS will continue to study the issue while the industry will continue to promote future allowance for depreciation of golf course improvements. The initial feedback from the meeting indicates that the IRS is seriously reconsidering its prior positions in light of the industry presentations and facts provided.

These efforts are supported by the NGCOA and its members. To assist in these efforts, contact Bill Gurney at (843) 881-9956, extension 264.

Golf Property Analysts

Is pleased to announce
the sale of

Bear Creek Golf Club
Westminster, MD

to

Gotham Golf Partners

GPA participated in the transaction as
broker for the seller.