

## **GOLF COURSES: AN EVER CHANGING CHALLENGE**

By Lawrence J. Golicz, Ph.D., MAI, ASA

### **GOLF AND TYPES OF COURSES**

There are three generally accepted traditional categories of golf courses; municipal, daily fee, and private courses. But emerging sub categories and declining rounds played have increased the complexity of making an appraisal. Resident based public daily fee courses now have low to mid high fees. Private clubs range from low to high budgets. Then there are private or specialty segment categories that include destination urban, coastline and desert resort clubs. And at places like Palms Springs, there are super high end country clubs, and public-specialty courses such as the theme course at the Indianapolis raceway.

The kind of operation may market the premise of a “championship course challenge” that is associated with a higher daily fee golf course, but offered at a competitive local greens fee. And the success of the subject may well rely upon a non-equity annual fee for rounds played per year (with discounts and tee time limitations) to increase rounds played and to attract other players. Finally, analysis of the recent financial history of the subject and its rounds played are definitely important to understanding its market demand as well as the owner’s marketing and management skills.

### **THE MARKET RANGE**

Twenty miles is the standard market area for a golf course. But this standard may vary depending upon population density, local competition, and the highway system serving the area. There may be twenty golf courses in the local golfing market. Yet five courses may be private. Of the remaining fifteen courses, only six may be competitive for quality of play. The question is whether or not the subject offers competitive greens fees with all of the other similar play courses.

### **THE CHANGING NUMBER OF GOLF COURSES IN THE U.S.**

Approximately eight hundred golf courses (in terms of 18- Hole Equivalent) closed during the past decade, yet the U.S. golf course supply actually increased by more than five hundred courses during that period. Most importantly the supply-side changes have affected the overall profile of courses. On the one hand, the closures were disproportionately 9-hole or “alternative” facilities with a sub-\$40 greens fee. On the other hand, the openings during the decade were disproportionately private facilities or public/daily fee courses that are tied to residential subdivisions and resort developments. These are often higher quality course offerings which point to a replacement cycle favoring the higher income portion of players in the market.

The following data was collected by the National Golf Foundation.

### **Closures**

- 1083 “facilities” account for the 800 18HEQ closures
- 57% of the facilities closing were 9 holers
- 93% of the closures were public facilities
- Of the public facility closures, 85% of them were <\$40 greens fee
- 7% of the courses (in 18HEQ) closing were private
- 26% of the closures (in 18HEQ) were non-regulation courses such as Executive or Par-3 courses

### **Openings**

- 81% of the facilities opening were 18 holes or greater
- More than 60% of the facilities opening were real estate or resort
- 66% of the public facility openings had greens fees >\$40
- 28% of the course openings (18HEQ) were private
- 92% of the 18HEQ openings were regulation golf courses

Over time, the number of courses remained stable to slightly increasing, but the greatest growth rate is in daily fee courses. Private courses also remained stable with little or no growth, then experienced an actual decline in numbers by 8% since 1990. For 18 Hole equivalents, however, no decline is indicated. Private courses have been fairly constant as a segment of the total course type composition at approximately 27% of the total number of courses in the US.

## **GOLF AND DEMOGRAPHICS**

Why have golf courses evolved as much as they have? The answer is demographic. The trends in golf nationally are available from data collected by the National Golf Foundation, founded in 1936, which is the industry leader in providing accurate information and insights of the golf business. The following information comes from the Foundation’s research reports with the most recent available information.

The golfing population that grew immensely in the 1950’s is aging out of the market at the rate of 100,000 players a year. But the number of rounds played may more directly reflect the economic troubles in the nation that began in 2006. The National Golf Foundation reported the following data in its news release for 2011 accounting for data collected for 2010 against 2009. Nationally, the number of rounds played declined 2.3%, with daily fee courses suffering less than private courses, at minus 2.0% versus 3.2% for private courses. (In the south, Florida declined by 7.4% with the Tampa region dropping 8.4% and the Orlando market dropping 6.9%. This trend followed the lodging industry decline and the economic limitations on resort travel. But northern states

actually experienced increased rounds played with golfers playing longer in a limited season, and even extending into snow cover, and 40-50 degree temperatures.)

In a survey done in 2001 by Golf20/20, in the US, occasional golfers with an average age of 44 years account for 13,500,000 plays annually, of which 65% are males and 35% are females. Most of these golfers own their own home and earn an average household income of \$77,000. Typically they will play 1 to 7 rounds a year. For core golfers there are 7,900,000 players with more than half having a college education, an average income of \$79,900, are married, and have children in their family. These core golfers will typically play 8-24 rounds per year. Finally avid golfers account for 8,200,000 people with an average age of 56 years, and average income of \$82,800 per year. These golfers like to travel and will typically play golf 25 times a year or at least twice a month.

On average nationally, there are likely to be 377,200,000 rounds of golf played annually with variations from year to year based upon the economy. These rounds are played on approximately 16,000 golf courses. The average rounds per course at 23,575 indicate that not all courses are equal and many courses are likely to close in the future.

## **GOLF AND THE ECONOMY**

Given all of the golf demographics and rounds played, the Great Recession that began in 2006 and that has continued to lag our economy for six years, has had a depressive effect on golf courses. With a very slow pace of recovery, the heavy hand of unemployment, although claimed to be going down, still looms on the horizon. And in the last three to four years, golf courses have endured declining rounds played, higher operating costs per round and lower greens fees. Again, many courses failed. Yet there was no problem with them being snatched up by multi-course operators.

With the nation's recovery with core retail sales up, corporate earnings up, and unemployment claims declining, the potential for golf course recovery also offers incentive for ownership. During the worst years, golf definitely lost 9% of rounds played. Yet given the forced economies of operation to date, a 9% increase in rounds played in the near future would drop directly to net operating income.

Per the Marcus and Millichap Golf and Resort Research Report for the first half of 2011, with the golf rounds played looking toward improvement, investors of golf assets are actively pursuing acquisitions. International investors and institutional investors are noted as well as first time buyer operators using private funding and portfolios as financial sources. As the banking source is still typically not making loans in this arena, most transactions include seller carry backs, local banks, and some REO financing. Of the 45 transactions for the first half of 2011 studied by Marcus Millichap, the average price per hole was \$154,274 with an average price per acre of \$17,224. The median

sale price was \$2,750,000. Days on market averaged 274. And based upon the previous year, 2011 offered a significant upward spike in dollar value traded.

For the year 2011, the south experienced better playable weather than the north with its more severe spring and fall weather keeping courses closed more often. Although Florida is one of the most popular golf destinations in the country, it has nevertheless seen declines in rounds played. The declines vary from course to course. On daily fee courses, local green fees have also seen declines on even the best courses in order to compensate for rounds lost over the last three years.

Still, there are 79 million baby boomers that are retiring over the next 20 years. Demand for rounds played will definitely increase as the economy gains traction moving ahead and more baby boomers acquire the time and financial confidence to play more golf. Many investors recognize this potential with today's lower prices that allow for high buy in yields. These purchases are well below replacement cost and maximize leverage over equity growth in the future.

In Fact, in the world of golf, Florida, along with half of the states in the union with the most population, is doing better with rounds played against all of the rounds lost in the last six years, per the National Golf Foundation report for 2011.



U.S. TOTAL	
NOVEMBER '11	YTD '11
+1.7%	-3.5%

	Off Season
	+ 2.0% and higher
	between -1.9% and +1.9%
	-2.0% and lower

## CONCLUSION

So is the loss of 100,000 players annually, a forecast of gloom and doom for golf course appraisers? Not with the upcoming baby boomer retirement population, half of whom will move south, with the other half remaining snow birds playing golf comfortably year round. I think not, for at least the next twenty years. But the appraiser will be challenged by changes in the kinds of courses at hand, the local market, competition, efficient management, and special features. The old days of appraising with price per hole just will not work as well as it used to. That means relying more on the income approach. But that is another story.

### **Editor's Note**

Dr. Lawrence J. Golicz, PhD, MAI, ASA will be presenting at the 2013 International Appraisers Conference in San Antonio on *Golf Course Valuation: Know Your Handicap*

For valuing golf courses, there is ample guidance in the industry, but each course has its own unique character. Conditions of courses vary widely, and bringing back a poorly maintained course can cost hundreds of thousands if not millions of dollars. Rounds played in a golfing market depend greatly on competing courses, greens fees, and travel time for the widest market. Other compounding issues include restaurants or a destination location with an additional stay and play attraction such as a casino or beach hotel. In this session we will acquaint you with the caveats of golf course appraisal and help you get as close to the best description, evaluation of quality and competition, and the most realistic condition rating. With a solid starting point, the review of comparables, rating greens fees, projecting rounds played and greens keeping costs along with valuing land and applying depreciation ensures a better made appraisal. Golf is a never-ending challenge to reduce your handicap and so is appraising.

Please plan on attending this program and introduce yourself to Dr. Golicz.



### **About the Author**

**Dr. Lawrence J. Golicz, PhD, MAI, ASA** is currently acting as an independent valuation consultant, and appraising for over forty years, Dr. Golicz has specialized in atypical and complicated property appraisals. He has had experience with all types of real estate, has performed mass appraisals of whole communities, appraised tangible property of all kinds, including machinery and equipment, and provided valuations dependent upon special purpose improvements, including sewage treatment plants, licensed land-fills, scrap metal processing, recycling facilities, power plants, refineries for gasoline and recycled oil, a whey plant, and breweries.

For extensive complex properties he has participated in the appraisal of the General Motors Technical Center and the Chrysler Technical Center. Also acting as a Special Magistrate for Tax Appeals, Dr. Golicz has provided expert testimony in federal and circuit courts in bankruptcy and foreclosure as well as before the Michigan Tax Tribunal. He can be reached for further contact by email at [lgolicz@tampabay.rr.com](mailto:lgolicz@tampabay.rr.com).