golf property analysts

NewsLinks

Winter, 2002; Vol. 6, No. 1

Published by Golf Property Analysts

Longer and "Bigger" Golf Courses What are the Consequences from a Design and Construction Point of View?

By David L. Whelchel, *ASGCA*
and Dr. Michael Hurdzan, *ASGCA*
Hurdzan/Fry Golf Course Design, Inc.

With today's technology in golf balls and clubs allowing golfers, amateurs and professionals alike, to hit longer tee and approach shots, we are all concerned with the potential cost of building courses that can withstand this onslaught of distance and the cost of operating and maintaining these monsters. An interesting statistic that was given on a TV broadcast recently showed an increase in driving distance from 1991 to 2000 of about 10 yards and during the last year, from 2000 to 2001, another 10 yards. The pros are all hitting the balls double digit yards further than ever, and if we as designers are not careful, our par fours will be driver-wedge and par fives will be driver - 4- or 5-iron!! English architect Donald Steele recently suggested that in order to contain, or better yet challenge the pros, the golf course would have to be over 8,200 yards from the "tips," or a less lively ball used.

What are the consequences to the game *from a financial standpoint?* We will overlook the possible impact to the game from a purely enjoyable form of recreation to one of endurance. In addition to the distance, if you walk, or use a golf cart, more time will be required. How much more time? It's difficult to quantify, but in a game where speed of play and the length of a round of golf are already serious issues, we don't need to make a 4 1/2 hour round 5 hours or more!! This will definitely detract from the enjoyment of the game.

Overlooking those issues, we have examined this affects the cost of golf. This may be a little easier to quantify than the other issues mentioned. What are some of the additional factors that will be a part of the 8,200- yard course Mr. Steele mentions? Let's look at that list and then see if we can put a cost to each item.

1. More Land Required.
2. Design, Permit, Legal Costs May Increase.
3. Construction Costs Increase.
4. Time of Construction May Increase.
5. Cost of Maintenance Increases.

INSIDE THIS ISSUE

Coming Next Issue...

- Operating strategies
- 2002 Investor Survey

Newslinks would like to announce that Judith A. Hirsh had tendered the editorial reigns to Theresa Reidmiller.

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How Much More Land?

An 8,200-yard course is some 17 percent longer than today's 7,000 yard course. Various authors and publications have stated that a typical 7,000-yard course with an adequate practice area requires from 150-175 acres for a stand-alone course up to 200 acres for a golf course within in a development. On a course we are currently planning in Pennsylvania, the cost of land was $10,000 per acre, so let's use that to determine the extra cost of land. We'll use 175 acres for this exercise, so 17 percent more is about 30 acres more land at $10,000 or **$300,000** just for addition raw land costs.

Design and Permitting Costs

If you have more land to analyze, it follows that the costs for design, engineering and permitting might increase proportionately. The parcel is larger so even the first exercise of creating an accurate digital topography and area photo would be larger and more expensive. This is often a per acre price, so the increase of 17 percent is probably real. If it costs $40-50 per acre for this type of topo, then another 30 acres could be another **$1,200-1,500**.

From the golf course design side, it is unlikely that the fee would increase, but that probably won't hold true for the other professionals involved. More time and analysis would be required for hydrologic and stormwater management studies, resource areas delineation, soil and vegetation surveys, slope analysis, archeological investigations, etc. This requires more time by your civil engineer, the hydrologist, archeologist, environmentalist – each member of the team that is currently required to get the job through planning, zoning and permitting. Even the legal fees are going to increase because of time required for contracts, title fees, etc. We typically use a range for these additional consultants from $100,000 to $1,000,000 depending upon the site, the state and local governments and other variables that may exist. For the sake of discussion, let's use a figure of $500,000 for all consulting fees except golf course architect. The increase in fee is probably not going to be proportionate to the number of acres just because these firms would have people on site doing analysis then writing reports that would be inclusive. As this is difficult to quantify, we are going to use a 10 percent increase just to allow more man-hours to accomplish the tasks. This would be an increase of **$50,000** for the total project.

Continued on page 4

DEPRECIATION RULING ISSUED

By Bill Ellis, Partner and National Director of KPMG LLP's Golf Tax Services

More than two years ago, the Myrtle Beach Golf Course Owners Association organized a meeting to discuss depreciation of greens, tees and sand bunkers. After the meeting, seven partners of KPMG LLP, and the NGCOA began working with the IRS on an industry-wide position. This working relationship ultimately resulted in the issue being selected for the IRS's Industry Issue Resolution pilot program (IIR). Over the past few months, KPMG and the NGCOA were informed that a new revenue ruling on the depreciation of certain golf course land improvements had been written and was making its way through the approval process. On November 29, 2001 the IRS issued Revenue Ruling 2001-60.

As anticipated, and consistent with our submissions to the IRS, the ruling distinguishes the IRS's 1955 revenue ruling to recognize modern construction techniques. "Push-up" greens were the subject of the previous ruling and will remain non-depreciable land improvements. However, "modern greens" (whether constructed with USGA, modified USGA, California or most other modern specifications) include substantial integrated drainage systems. Because of these new design and construction techniques, the ruling provides that the costs of "modern greens" that will be retired, abandoned, or replaced

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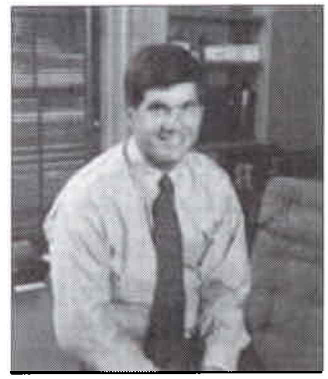
Linking Up

By: Larry Hirsh



9-11 – How did it affect the golf industry?

Four months after the tragic events of September 11, 2001, I though it time to reflect and examine the effects of that tragic day on the golf course industry.

As we well know, the national economy was sputtering at that time and the golf industry was experiencing many difficulties. Two major golf Real Estate Investment Trusts (REIT's) were struggling (Golf Trust was liquidating) and many operators were experiencing down years. New projects were down considerably from years past and there were few buyers for the many golf course properties on the market.

9-11 (as we now refer to it) presented a mix of impacts on the golf industry. Most notable to me were the several projects that were put on hold and the transfers of ownership that were in process were (at least) delayed. In our office alone two assignments that were for new projects were cancelled as well as a litigation support assignment that were a direct results of the skepticism stemming from 9-11. Our consulting practice has received many assignments from several existing private clubs wishing to gain outside advice for future planning in the areas of membership development and retention, facilities analysis and market positioning. My sense is that there is a new emphasis on informed decision-making.

On the "flip" side, the months immediately following 9-11 presented most of the country with great golf weather and several operators I spoke with indicated that the strong fall season improved their year but in most cases not to levels achieved in 2000.

One major area of impact, of course, has been in tourism and the resulting play at destination resort golf facilities. With confidence in the airlines down and the number of flights reduced, many golfing tourists are staying closer to home. This is also apparent on the PGA Tour level with the postponement of the Ryder Cup, and the number of pros who are using private planes for their tournament transportation.

Many expect 2002 to be a much better year for the golf industry. The Golf Channel says that equipment orders are up and I am seeing a renewed interest in golf property acquisition, albeit at reduced cash flow multiples. Contractors appear hungry for construction and renovation work which could spur new course activity somewhat and the lower interest rates should make some projects workable that were previously not feasible, if financing can be obtained.

Financing is as big a question as any. Will GE Capital's acquisition of Heller Golf Finance mean more accessible financing or not? Will banks continue to be hesitant to finance golf course deals? These are only a few of the questions to be answered in 2002. My sense is that we will see an active, if more subdued (than 1997-99) market for golf properties in 2002 as troubled properties are transferred to stronger operators and new projects are launched only after more comprehensive analysis and planning. As one who was attempting (unsuccessfully) to qualify for the US Mid-Amateur only 15-20 miles from New York on 9-11, the one thing the terrorist attacks made us all do is put the game and our business in perspective.

Wishing all a happy and healthy 2002.

Longer *Continued from page 2*

Construction Cost Increase

This number can probably be an almost direct relationship to the size of the property, because more earthmoving will be required, more clearing of trees, more drainage, more irrigation, more sod, all the items typically required of building a golf course. It's easy to see that more cart paths by some 1,200 yards (at least) would be needed, along with clearing, but how much more irrigated area is there? For this exercise, we are going to say that there would be some economy of scale and that instead of a 17 percent increase we only get a 15 percent in construction cost, so the average $3 - $4 million dollar course now increases by **$525,000**.

Time of Construction

This is really a difficult number to calculate and for the sake of keeping this simple we will an example of 2 months more and that delayed the opening and revenue generation by another 2 months minimum or maybe another season, what then is the cost to the developer. Time is money and if your construction loan was financed at 6 percent, then each month on that $4 million dollar course could cost you, $20,000 to $30,000 in interest plus revenues of maybe $100,000 or more per month based on 150 rounds per day and income of $40 per round. If it's a private club, you may not charge monthly dues until the course is open, so 300 members at $400 per month is also income that is not available.

Maintenance Costs

Another area that probably won't be proportional to size is the cost to maintain the golf course, and that is because you already have labor and equipment on site and it won't take too much more of it to maintain another 30 acres. Some of that acreage will be out-of-play areas so they are unmaintained, non-irrigated, etc., but there would still be more fairways to mow and fertilize, and treat in the event of plant diseases or pests. Total maintenance costs in the US may range from $200,000 to $1,000,000 or more, but what we have seen on our past projects is more like an average of $500,000 per year. We could imagine that one more person is needed on the grounds crew and more materials would be needed, so for this discussion we use an increase of **$50,000** to maintain this extra 30 acres.

In summary then, what do we have for increased costs because of the increase that may be needed to allow for technological advances in clubs and balls.

Summary	
Land Costs	$300,000
Consultant Fees	$51,500
Construction Costs	$525,000
Time of Construction	$240,000
Total Immediate Costs	**$1,116,500**
Additional Annual Maintenance	$50,000

The question we now have to ask is can the game of golf stand all these increases to a sport that is already experiencing the perception that it is too expensive. Another question that might be asked would be is this 8200-yard golf course necessary because in all likelihood, the tour pros will never play the average course. The answer to both questions is a resounding …..NO!!

If the new technology in golf equipment helps the average golfer enjoy the game more, we are all in favor of it. But let's find a separate way to address the longer hitting tournament pro rather than build bigger, longer, ***much more expensive*** golf courses.

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Winter, 2002, Volume 6, No. 1

NewsLinks is published by

Golf Property Analysts, a division of

Hirsh Valuation Group

2213 Forest Hills Drive, Suite 3

Harrisburg, PA 17112

717-652-9800; 717-652-8267(fax)

http://www.golfprop.com

President: Laurence A. Hirsh

Editor: Theresa Reidmiller

Depreciation *Continued from Page 2*
contemporaneously with the drainage system are depreciable under current law and regulations as 15-year land improvements. Costs of general earthmoving, grading and initial shaping of the area surrounding and underneath the modern green will remain non-depreciable.

The ruling did not specify other golf improvements by name; however, the basis of any determination will now be factual in nature. We understand the IRS is processing internal guidance to implement RR 2001-60's holding for greens to other items with integrated drainage systems.

It is important to note that this ruling does not represent a new rule or law. Instead, it is the IRS's acceptance of the factual nature of certain golf course land improvements. This is applicable to constructed or purchased golf courses. As further good news, the ruling specifically provides for the automatic approval procedures for a change in accounting method. This is available for taxpayers who choose to depreciate items owned at the beginning of 2001. Thus, "modern greens" (and other qualifying improvements) not depreciated, or under-depreciated, in prior years can be eligible for a cumulative depreciation "catch-up" adjustment.

The change in accounting method provisions must also be considered by owners that may have over-depreciated golf course improvements. If examined by the IRS, the cumulative "over-depreciated" amount would be recognized as income, in full, in the year of audit. The total, cumulative amount of all prior years' over-depreciation could be recaptured in the year of audit, notwithstanding the normal three-year statute of limitation. If the owner voluntarily files under the change in accounting method procedures prior to notification of an audit, the "recapture" could be spread out over 4 years.

The ruling represents a significant achievement for the industry and the IRS. The anticipated benefits include reducing costs and burdens for both taxpayers and the IRS by eliminating uncertainty regarding the tax treatment of golf course land improvements. For owners with under-depreciated improvements, it may represent a significant tax benefit during trying economic times. This could be described as the golf industry's true economic stimulus tax package. For more information, contact Bill Ellis via e-mail at wellis@kpmg.com or Bill Gurney, NGCOA director of special projects, at (800) 933-4262, ext. 264 or via e-mail at bgurney@ngcoa.org.

A Matter of Course

By: Austin L. Smith

A group of local businesspeople known as White Pine Partners purchased Transit America's 188-acre site located at 1 Red Lion Road in Philadelphia and Lower Moreland Township. The property known as the former Budd Plant Company, an old heavy industrial site, has been cleaned up and transformed into a 18-hole golf course and double-sided driving range. The public course, named Island Green Golf Club, held its grand opening this past Labor Day weekend. The lighted driving range has 70 stalls, synthetic turf and practice targets. The course is a 6,520 yard par 72, 2 par fives in the first four holes and 2 more at the 10th and 18th. There are future plans for miniature golf, a clubhouse, youth golf clinics and high school leagues. Jim Blaukovitch of Quakertown, PA, well known in golf circles as the creator of many top courses in Eastern Pennsylvania and New Jersey, designed the course and range. Blaukovitch's other projects include Old Homestead in New Tripoli, PA and Stonehenge in the Scranton area. Colliers Lanard & Axilbund and Golf Property Analysts were the sole brokers involved in the transaction.

Golf Property Analysts
Is pleased to announce
the sale of

Island Green Golf Club
Philadelphia, PA
to
White Pine Partners, LP
GPA participated in the transaction
as co-broker for the seller.

THE PRACTICE TEE

- **DuBois Country Club** recently retained GPA to provide consulting services for their club in **DuBois, PA.**
- **Parker, Poe, Adams & Bernstein, L.L.P.** recently retained GPA to provide a market value appraisal of **Bonaventure Country Club** in **Fort Lauderdale, FL**, in connection with contract disputes involving the resort.
- **The Club at Nevillewood** has retained GPA to provide appraisal services for their club, which is located near **Pittsburgh, PA,** for the purpose of ad valorem taxation.
- **Blanchard Calhoun Real Estate Developers** retained GPA to provide consulting services for **Bartram Trail Golf Club** in **Augusta, GA**.
- **Paul, Johnson, Park & Niles** retained GPA to provide consulting/litigation services for **Kona Country Club** in **Kailua-Kona, HI**.
- **Landscapes Unlimited, LLC** has retained GPA to provide appraisal services for the **Heartland Golf Club**, in **Hemet, CA.**
- **RTJ LLC** has retained GPA to provide appraisal services for the **Robert Trent Jones Golf Club,** in **Gainesville, VA.**

golf property analysts
2213 Forest Hills Drive, Suite 3
Harrisburg, PA 17112
800-775-2669 717-652-9800
http://www.golfprop.com

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