What is the Executive Golf Course in EDH really worth?

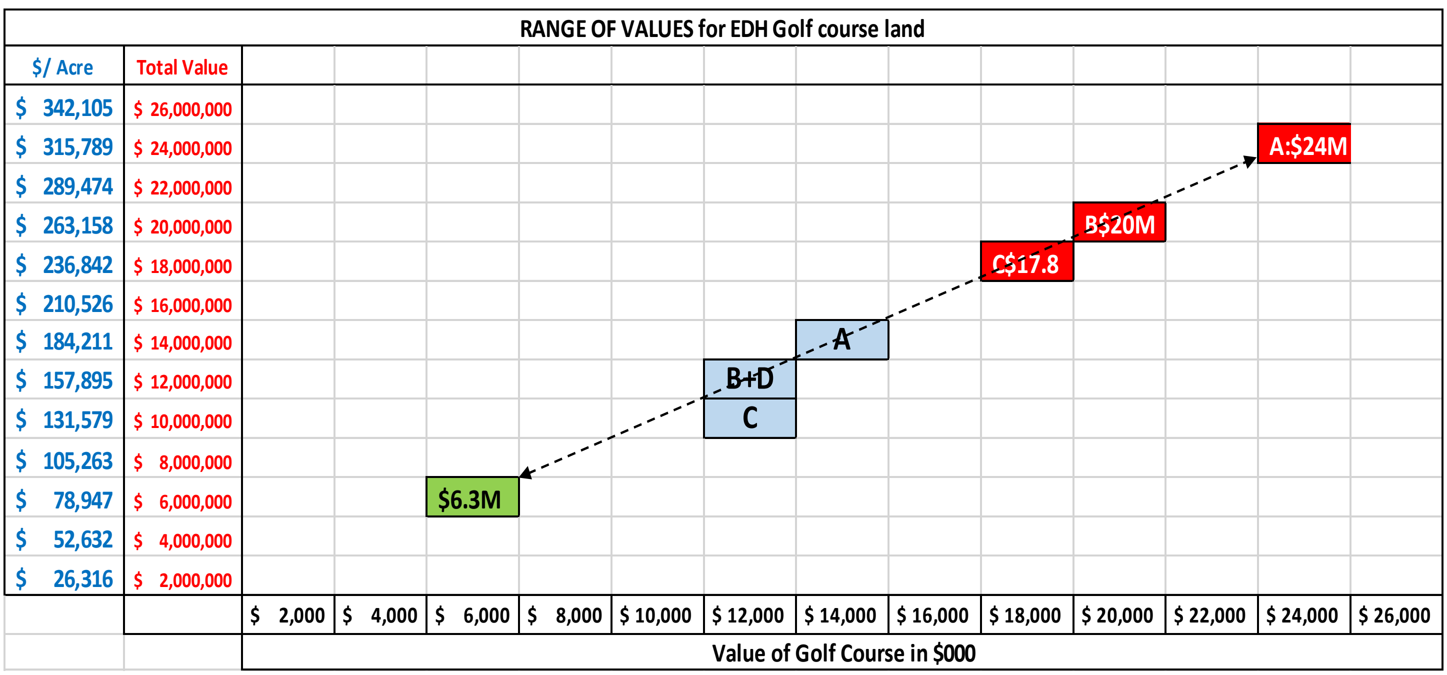
By Alastair C. Dunn*
30 May, 2022

Purpose
The purpose of this memoranda is an attempt to put into perspective the possible values of the Exec. Golf Course in EDH. I say “perspective” because too many numbers have been bandied about in public which makes any negotiation to purchase the parcel, difficult. Appraisals - that estimates a value- are qualified by conditions and are issued with several caveats or qualifying factors, which, in this case is relevant to the $24million valuation by David Jarrette.

I also include in Exhibit 1, an article in the New York Times of 25th May 2022, to bring home the reality of the situation around the country similar to our case in EDH. Obviously we are not alone in grappling with this situation. And, it is also obvious that the right to develop a public golf course should not be a foregone conclusion. It is worth reading.

The memoranda is offered to EDH-APAC and EDH-CSD as a point of information should they wish to consider it.

Summary of values
Last chapter first. Below is a graph I developed to illustrate the various values given certain qualifying conditions. Also remember, we are not talking about “the project” as proposed by Parker, but the 98 gross acres (78 net acres) comprising the actual golf course alone.



How can there be a $17.7 million dollar swing! Well, it depends on qualifying conditions. I will discuss each valuation in turn. It is important to note that, in R.E. appraisal there are three methods of valuation, they are: 1. Sales Comparison Approach; 2: Cost Approach; 3: Income Capitalization Approach.

The estimate provided by myself on the “as is” basis and Jarrett’s “highest and best use” valuation, only use the Sales Comparison Approach without “adjustments”. You will note the qualifying factors as we proceed.

Value “as is” (Sales Comparison Approach without adjustments)
The property is a golf course, even if it is not functioning. This is often referred to as an “as is” valuation. There are many golf courses for sale in the US. LoopNet provided some comparable current examples on the market in California.

Holes	Golf Course	Acres	Price	$/ Acre	$ Per Hole
18	**Tahoe Paradise GC**	**50.10**	**$ 6,950,000**	**$ 138,723**	**$ 386,111**
9	Escalon CG	30.16	$ 2,988,888	$ 99,101	$ 332,099
18	Rio Pravo Co.Club (Nr. Bakersfield	328.00	$ 4,900,000	$ 14,939	$ 272,222
18	Summerly , Lake Elsinore	169.00	$ 6,980,000	$ 41,302	$ 387,778
18	Duke @ Rancho El Dorado, Phoeniz AZ	137.00	$ 8,000,000	$ 58,394	$ 444,444
18	**Rancho Duarte, Calif. San Bernardino**	**33.58**	**$ 6,200,000**	**$ 184,634**	**$ 344,444**
18	Foothills Gclub, Phoenix, AZ	166.19	$ 5,000,000	$ 30,086	$ 277,778
	AVERAGE = Subject	**98.00**	**$ 6,286,825**	**$ 64,151**	**$ 349,268**

Those golf courses **in bold** are the most “comparable”. The subject property’s valuation is driven by the value per hole. As you can see the values per acre are not highly correlated. Differences in values in some cases (particularly Duke at Rancho Dorado) are due to the size and quality of the club houses.

Golf Course	COMMENT
Tahoe Paradise GC	**Summer executive 18-hole 66 par golf course measuring +/-4,036 yards from the tips.**
Escalon CG	
Rio Pravo Co.Club (Nr. Bakersfield	The 18-hole "Rio Bravo" course at the Rio Bravo Country Club facility in Bakersfield, California features 7,000 yards of golf from the longest tees for a par of 72.
Summerly , Lake Elsinore	The Links at Summerly’s stunning par-72, nearly 6,800-yard layout
Duke @ Rancho El Dorado, Phoeniz AZ	Par-72, 18-hole, daily-fee golf club located 15 minutes west of I-10 on Queen Creek Road in Maricopa, Arizona.
Rancho Duarte, Calif. San Bernardino	**Redevelopment opportunity - Approximately 7+ acres of land that could be permitted to build residential, commercial, or hotel projects**
Foothills Gclub, Phoenix, AZ	
AVERAGE = Subject	Based on avg cost / hole

This value of $6.3M is based on a value per hole of $349,268 for an 18 hole couse with no adjustments for club house size, quality and course location. It is at best, a rough estimate, but no different than Jarrett’s valuation. It is offered here only as a point of departure.

Discounted Cash Flow (DCF) analysis (aka Income Capitalization Approach)

I will not go into this methodology, but suffice is to say that it takes into account the time value of money AND market / business ”risk” by assuming a “discount rate” (or capitalization rate on income property). In this case the discount rate is assumed to be between 15% and 25%. Most residential developments command a 25% discount … or higher! This methodology is often avoided by appraisers when the project is “too far out” or encumbered by specific business risks such as “difficult entitlements” or simply have many offsite and assessment or bond financing conditions affecting value; the case here.

Note that Jarrette specifically exempted this methodology.

As it happens, in examining the “fees” affecting the subject property, I did undertake a land residual analysis for this project to determine the value of a paper lot* given the extraordinarily high development impact fees in ED County. (*the paper lot value is generally the gauge used in buying and selling development land with an approved Tentative Map. i.e. a lot on paper, nothing more, but valuable to a builder). As an extension of this valuation commonly used by RE brokers, I undertook a DCF analysis of different alternatives (A to D see table below. That is to say, I included a market absorption (time dimension) over 10 years and a risk rate (discount rate) to further define value. DCF analysis is **THE** methodology most land development corporations use in project acquisition valuation, albeit with many more variables than used here. Below are the results.

	A	B	C	D
	EPS' Assumptions	The Poject: Parker	Parker's Lotting Schematic	ACD's Assumptions
Total Units	**1000**	**1000**	**863**	**723**
Total Acres	**134**	**123**	**124**	**125**
Avg Density	**7.5**	**8.1**	**7.0**	**5.8**
$ Millions:Land Value = NPV@20%	$ 16.72	$ 14.18	$ 13.14	$ 14.95
Net Value:(Less builder TMapproval costs)*	**$ 14.22**	**$ 11.68**	**$ 10.64**	**$ 12.45**
* NPV with $2.5M for all costs to an approved finished lot				

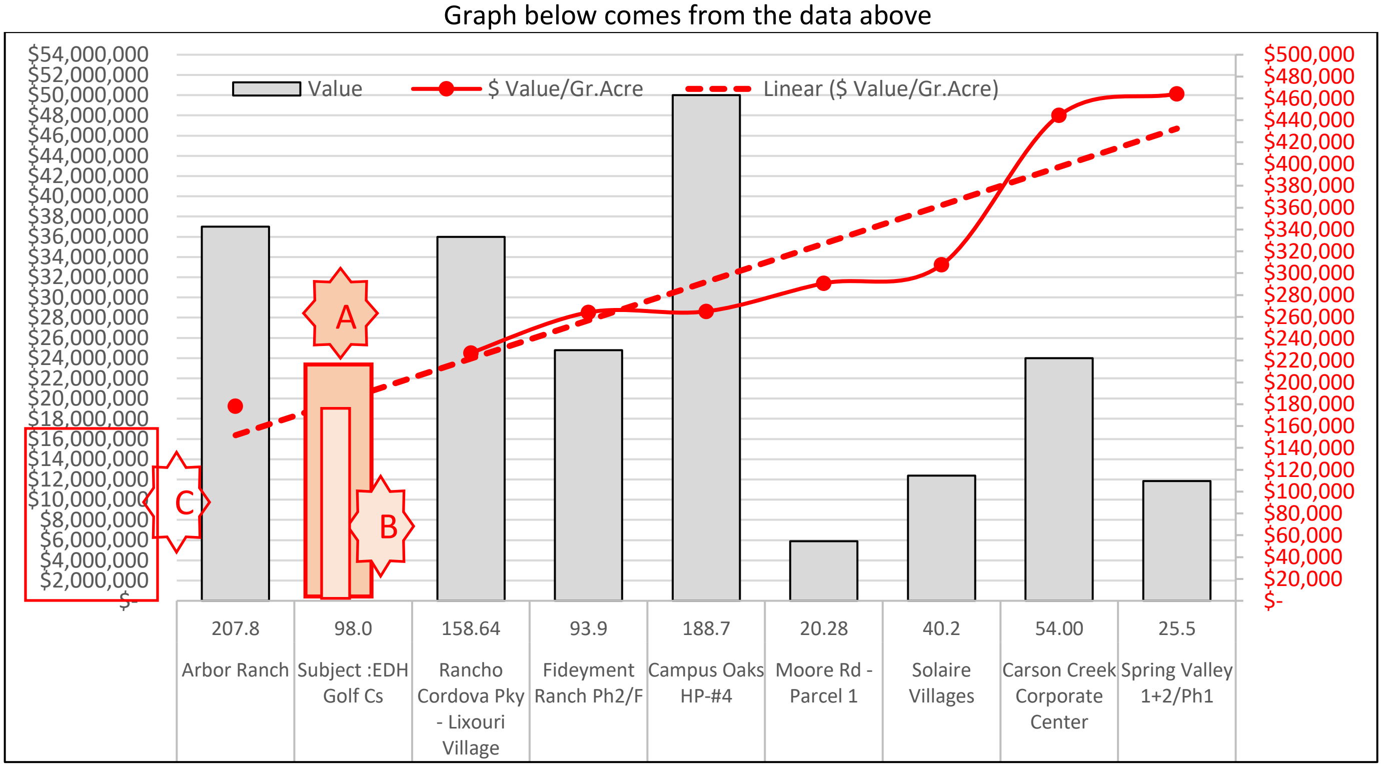
Note: Alternatives A & C are based on unit numbers given by Parker & EPS. Alternatives C & D are based on Parker's unpublished land plan and my land plan representing market densities not Parker's high density project. All land use plans include both the golf course and Pedregal. The acres given are "net developable" as measured by Google Earth on land plans I developed since I had no originals by Parker).

Jarrette's highest and best use valuation

The methodology used here was the Sales Comparison Approach. Below, I provide a table with data from Jarrett's valuation **(bold in blue)** and some additional listings I found on LoopNet which add to the valuation analysis. Note, they are current asking prices. I note that all of Jarett's comps have sales dates between 2013 and 2015, that are extremely old to be "comps", but also actual transactions.

		Gross Acres	Value	$ Value/Gr.Acre
5	Arbor Ranch	207.8	$ 37,000,000	$ 178,064
	Subject :EDH Golf Cs	**98.0**	**$ 24,000,000**	**$ 244,850**
	Rancho Cordova Pky -	158.64	$ 36,000,000	$ 226,929
2	**Fideyment Ranch Ph2/F**	**93.9**	**$ 24,793,000**	**$ 264,092**
4	**Campus Oaks HP-#4**	**188.7**	**$ 50,000,000**	**$ 264,999**
	Moore Rd - Parcel 1	20.28	$ 5,895,000	$ 290,680
1	**Solaire Villages**	*40.2*	$ 12,377,000	$ 307,667
	Carson Creek Corporate	54.00	$ 24,000,000	$ 444,444
3	**Spring Valley 1+2/Ph1**	**25.5**	**$ 11,837,272**	**$ 464,207**

Graph below comes from the data above



Observations on the $24million value:
Jarrette makes no distinction between Large Lot TM (Parker's conditional approval) vs. a project with a Small Lot TM approval assumed in the comparable values listed, it is a BIG entitlement difference; apples and oranges!
More importantly, there is the time value of money factor, an inescapable part of land valuation. To avoid applying it is a failure in appraising. To be fair to Jarrette, he did tell you. Now you will see the value of that difference.

To illustrate the effect that **time and risk** has on Jarrette's valuation of $24million, by applying additional criteria, we obtain the following values:

1. **Case "A":** Jarretet's valuation of $24M is above the trend line (with the subject as a data point "A").
2. **Case "B".** At the trend line intercept, a value of $20M is indicated, a full $4.0M difference.
3. **Case "C"** reflects the present value of the $24million paid by a builder by discounting at a discount rate of 8% that cash payment when he actually obtains his small lot TM*. The lower 8% discount rate reflects the builder's value by purchasing a Large Lot TM but has to take it to a small lot TM, in addition to the conditions stipulated in the – yet to be defined – Development Agreement) to give a PV of $17.8M. This may seem highly technical, but the $6.2M differential reflects real differences not accounted for by Jarrette. (* a typical land acquisition deal structure over three years to obtain all required entitlements and permits is assumed).
4. By doing this we are submitting Jarrett's $24M value – albeit very crudely – to two new present values, which to indicate very large differences that Jarrette does not account for, but to a builder developer, is reality.

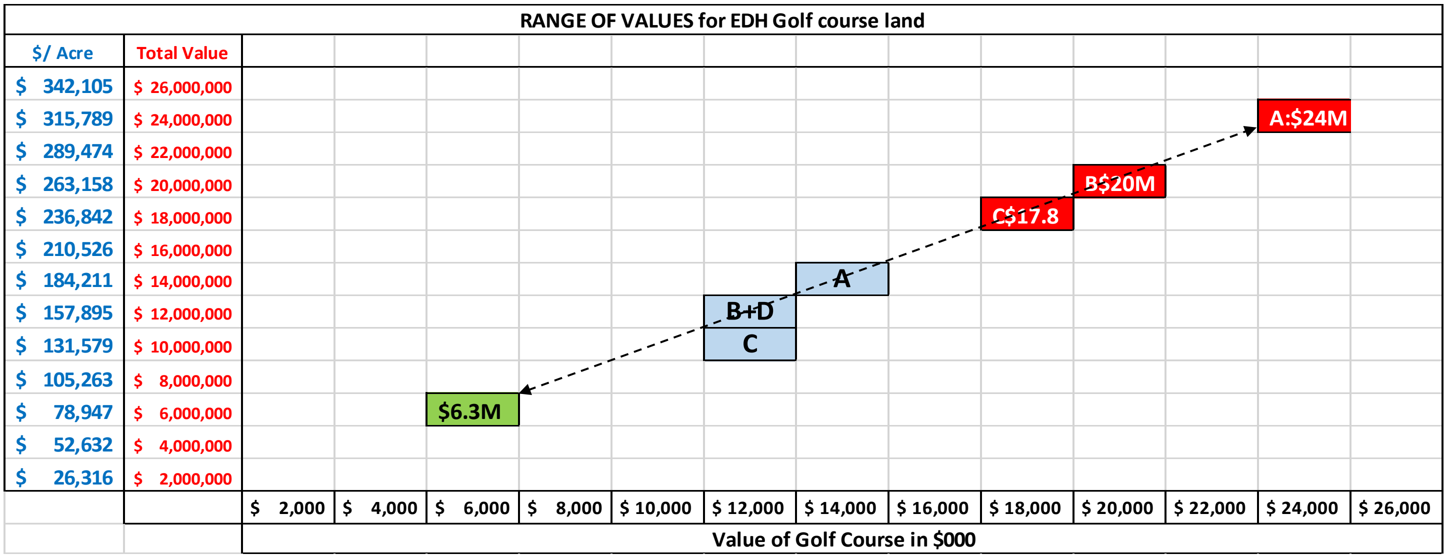
Overall observations to Jarrett's valuation

1. Exhibit 3, is a Summary of Jarrette's appraisal. He must have submitted a more robust report to the CSD to which I have no access. My observations are therefore, highly "qualified".
2. This (so called) appraisal does not mention that it was executed under USPAP* rules. (see insert below). In short there are appraisals and appraisals. USPAP was brought into being because valuations were abused for purposes of lending in the 1990s. Jarrette must have given additional specific conditions to give a value as published; if done so these conditions should have been clearly noted.
3. There is no mention of "adjustments" to the comps as this – sales comparable data - methodology would require. If Jarrette did adjust, this step is critical to know; If no adjustments were done, it is a gross misstep.
4. There is no mention of terms of finance for each comp. Transactions such as those given are generally "conditional" as to time, entitlements, offsite improvements and very probably bond financing, all of which are conditions that influence value.
5. The sales dates are old, one cannot reasonably expect to have seven year old data as "current". Note, Jarrette rightly caveats by saying that it is a 2015 value, which too me, violates the definition of "market value" which is always is assumed to be based on current market conditions.
6. Given #5 caveat, how can anyone accept a seven year appraisal as indicative of current market value as a basis from which to negotiate?

(*) "The purpose of the Uniform Standards of Professional Appraisal Practice (USPAP) is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. It is essential that appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading". http://www.appraisalinstitute.org/assets/1/29/VAA9AE3QagDbATAG.pdf.

Summary

The point in my presenting the opening graph – and here below - is simply to underscore the immense range of values one can obtain by merely tweaking the conditions of appraisal.



It is obvious that Parker's Appraisal – though commissioned by the CSD - as a basis of negotiation, excluded certain conditions that benefited Parker to the detriment of the CSD. My gut feel tells me that a full DCF valuation as an urban development project with approvals to a Small – NOT large - Lot Tentative Map would be in in the B to C value range. This isa far cry from the $24 million bandied about as "the" golf course cash value

EDH APAC has provided public comments that indicate that an "as, is" condition would be lower. Here I suggest a value of about $6.3 million that would be a feasible acquisition by the CSD. Furthermore, whether or not an Eminent Domain* valuation that stipulates a "fair market value" for a defunct golf course would be similar to my off the cuff valuation, I do not know. It should be noted that Eminent Domain does NOT require highest and best use valuation, which of course is the point.

(*) It is noted that "valuation in eminent domain cases **turns on the "fair market value" of the property at the time of the taking**. However, the issue of fair market value is often hotly debated between the landowner and the government. the government must prove that the four elements set forth in the Fifth Amendment are present: **(1) private property (2) must be taken (3) for public use (4) and with just compensation**. These elements have been interpreted broadly.

IF the Board of Supervisors denies Parker's rezone project, as an acquisition alternative the CSD should consider eminent domain even though it is a lengthy, expensive and uncertain litigious. Accordingly, I believe it would behoove the CSD – in representation of the EDH community - to commission an appraisal reflecting the current condition of the golf course to qualify as the basis for an Eminent Domain proceeding, if only to strengthen the EDH Community's hand in negotiating with Parker. If so, it must be a full appraisal* and contracted to qualify under USPAP; precisely to avoid an "estimate of value" by the market approach to be misconstrued and accepted by the community as a true "appraisal".

* "Full appraisal" means that all three valuation methods must be applied. There are appraisers that specialize in Golf Course appraisals. It is a unique specialty since a NOI - Net Operating Income - of golf course operations would be required.

(*) In his professional life, Alastair Dunn held both a California Certified General Real Estate Appraiser, and a CCIM (Certified Commercial Investment Member of the Real Estate Institute) credentials, Real Estate Broker's license at TRI Commercial as a land broker, and undertook land acquisitions for Mobil Land Development Corporation and Kimball Hill Homes Inc.