Eco-Tourism Resort Valuation

A Traditional Appraisal Methods Approach

As eco-tourism increases in popularity, eco-tourist resort use may become a factor in highest and best use (HABU) and valuation analysis in appraisals of environmentally significant real estate (ESRE). For those not yet familiar with this field, eco-tourism is defined here as persons taking vacations for the primary purpose of experiencing ESRE.

Eco-tourist resorts (ETRs) are a class of resort emerging to satisfy economic demand for the experience of protected ESRE. ETRs, which range from rustic to luxurious, are designed to minimize the adverse effects on ESRE and maximize tourists' experience of ESRE. ETRs tend to be placed in locations on or near the ESRE that allow resort and habitat managers to channel the tourist's experience in ways that limit harm to the ESRE and to the tourist.

By Donald C. Wilson and Craig D. Hungerford

ETRs may be owned and/or operated by a variety of private sector conservation, investment, hotelier and resort enterprises. For example, a large conservation land trust and a large hotelier plan an ETR in Hawaii. And ETRs are emerging not only in the United States, but also in Africa, Latin America and elsewhere around the world.[1]

Basically, ETRs may occur wherever a) there is ESRE that can attract sufficient tourists and tourist spending to justify capital costs of development, and b) this same ESRE can be controlled sufficiently to warrant such real estate investment and development.

Physically, ETRs break down into four components: the environmentally significant land (or water or both) to be experienced, the site for the resort, the resort facility and the resort infrastructure. The resort infrastructure includes not only traditional infrastructure like roads and utilities, but experiencing infrastructure as well, such as, trams, or trails, or roads, or fencing, etc., used to channel the experience of the eco-tourist consumers.

ETR enterprises may own, lease, or simply be granted public rights of access to the land to be experienced depending on the circumstance.[2]

ETR enterprises may own, joint venture, or lease the site for the resort, the resort improvements, and the resort infrastructure.

For the sake of comparison, an ETR is analogous to a golf resort. The golf resort includes a resort structure where golfing tourists stay. The resort structure is on a site that is usually on, adjacent or near the golf course and the golf course(s), itself, is a combination of landscaping, maintenance and experiencing infrastructure improvements to land with an environment considered conducive to attracting golfing recreation.

Estimating the market value of ETRs and/or the land they utilize for development financing, long-term financing, transfer, exchange or, for that matter, condemnation hinges significantly on the nature of interests being appraised, of course. Is the ESRE to be acquired, leased or piggybacked via public access rights? Will one entity own everything, or will there be joint ventures or partial interests to consider? Will ownership foot the bill for the entire infrastructure or will government bare part of the burden? If the property already exists, complex tax and depreciation issues may arise.

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As with golf resorts, it makes sense to value ETRs via the three traditional approaches to estimating market value: the Cost, Sales Comparison and Income Approaches.

Obviously, the Cost Approach offers insight in a new project, but the Cost Approach may also be useful in cases where usefully comparable sales are in short supply.

The Sales Comparison Approach will provide the appraiser with a market benchmark, when sufficient recent sales activity of usefully comparable sales is available. However, as with land uses like golf resorts, the frequency of sales may often be relatively low, the comparability of the sales may be relatively low (resorts are often significantly differentiated in terms of the quantity and mix of the attributes they offer) and the market may often evidence significant inefficiency. Therefore, the Sales Comparison Approach may often inspire confidence only over a broad range of value.

The Income Approach is usually quite significant, because ETRs generate significant annual cash flows, as do other types of resorts. Any lender or investor should be crucially interested in the ETRs ability to repay debt and/or satisfy equity requirements.

Equity requirements merit a brief comment here in terms of investment and income analysis. Equity requirements may vary considerably depending on the nature of the ownership entity. Specifically, is the ownership entity a for-profit or not-for-profit organization? Either or both entities may be involved in an equity position in an ETR. Either or both entities might be probable buyers or Joint Venture developers. The appraiser needs to research the market and analyze assumptions about probable equity expectations to effectively value ETRs.

Since most appraisers are technically proficient at valuing proposed or existing developments by the three approaches, and since we have distinguished the basic components of an ETR development, an example would be mastering the obvious (one might look to various kinds of resort valuations for models to adapt). Some less familiar situations may arise, however, when the appraiser is asked to appraise land for a proposed ETR development.