

Private Profiting from Sales of Oceanfront, Time-Share Condominiums at A State Park: The Case of Jekyll Island State Park

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Summary Paper
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Foreword

My research and professional work has shown clearly that public lands, such as state parks, are of high interest and value to today's society, and I think we can rest assured that they will be of high interest to future generations. For many public park lands, however, a difficult issue is being played out. That difficult issue is whether some of the operations and facilities will be privatized, or, in some cases, whether all operations will be privatized. The potential for making private profits from very low cost rights to develop and do business in public parks creates political pressures because the profits can be very lucrative. Public parks such as state parks are highly desirable to private developers and commercial operations because they are usually scenic, have abundant wildlife, offer a visitor base, and are rich in natural amenities. In this short paper, I examine one such park facing this private, for-profit development issue, Jekyll Island State Park on the coast of Georgia.

The Situation

Most of the privately-owned portions of the coasts of the United States are heavily developed. In fact, most coastal locations worldwide have been developed. Those few places left, those not yet fully developed, those still retaining much of their natural character, are mostly public lands, i.e., citizen-owned lands. But, it is the agenda of private development corporations to exploit and profit from development of these last, remaining undeveloped coastal places, whether they are privately or publicly owned.

In December of 2008, the Jekyll Island State Park Authority, at the urging of the Authority's Director, signed a long-term, exclusive, non-competitive contract with a commercial, private development corporation. That corporation is Linger Longer Development Company based in Greensboro, Georgia. Linger Longer is known for developing and managing luxury private club communities. The purpose of the Authority's contract with Linger Longer is to develop hotels, condominiums and

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commercial space on the ocean front of Jekyll Island State Park for sale to private individuals and for profit.

When commercial development is planned for private oceanfront land, the private owner will surely insist on fair market compensation for the rights to develop and sell properties on his or her land. This would include rents and profit sharing. Currently, prime, commercially-zoned ocean-front land is worth at least \$3 million per acre, or more. Properties worth \$3 million or more per acre obviously benefit from good location with highly desirable amenities (such as ocean views, ocean frontage and beach access). Aside from a few hotels and a convention facility, the oceanfront along the east side of Jekyll Island is one of the least developed stretches of beach in the country.

Low development, high-amenity properties such as Jekyll Island are worth far more than other properties. They are becoming more scarce and therefore of much greater worth through time. This added worth is referred to in real estate economics as a **Price Premium**. The higher the price premium on land to be used commercially, the higher should be the financial returns to the owners. In the instance of the Linger Longer-Jekyll Island Authority development contract, however, it seems the value premium of the highly desirable publicly-owned Jekyll Island oceanfront was not fully assessed. In negotiating financial arrangements between the Jekyll Island State Park Authority and Linger Longer, the beach front location premium for the land proposed for development should have been the primary consideration for determining fair returns to the people of Georgia who own that beach front land.

To properly address the question of what “fair returns” should mean for Jekyll Island, published economics and real estate appraisal journal research literature was consulted. The objective for consulting this research was to identify the credible range of applicable land value premiums (percentage increases in market value) associated with properties having a view of and/or being located on oceanfront.

Using the Ocean View/Oceanfront Price Premium as a Basis for Setting Returns to the State

Summary of the Research

Research across a number of economics, real estate, and other disciplines has clearly shown that natural amenities positively and often dramatically affect land and residential property value. This includes properties such as condominiums and single family housing. Natural amenities include views and access to forests, water, wildlife, clean air, oceans and many others. Crompton (2007) reported that studies of real estate indicate a positive impact of adding approximately 20 percent (this is the sales price premium) onto the values of residential properties abutting or fronting open spaces. Studies in the 1970s in Florida showed sales premiums of at least 20 to 30 percent for homes with lake views, and a study in Ramsey County, Minnesota, showed premiums in excess of 25 percent for houses with a lake view. Filippova (2009) looked at over 53,000 residential sales transactions and surmised that value premium added was 54 percent for ocean views in posh communities. Benson, Hanson, Schwartz, and Smersh (1997) found that relative to

no view, an ocean view added 32 percent. In 2004, Bourassa reported the impact of ocean views on property values that on average added 59 percent to the value of a waterfront property. Taylor and Smith (2000) estimated that weekly property rentals at North Carolina beaches produced an average 26 percent premium for oceanfront units, as compared to units on the ocean side of an access road, but not oceanfront.

The Land Policy Institute at Michigan State University (2003) reported that properties located within 15 meters of bodies of water reflected an 81.9 percent gain in property value, properties located within 15 to 75 meters gained 38.5 percent, and properties located within 75 to 150 meters gained 22.9 percent in value. A study by Seiler, Bond and Seiler (2001) showed that having an ocean-like view increased home value by approximately 56 percent, while having a home on the shoreline of Lake Erie increased home prices 93.3 percent. Benson, Hanson, Schwartz and Smersh (1998) studied ocean frontage properties and found that frontage added 147 percent to the price of residential property, while non-frontage properties with ocean views added 32 percent. Christopher (2004) looked at distance to oceanfront and revealed that distance was inversely related to the sales premium and that the oceanfront premium was 156 percent.

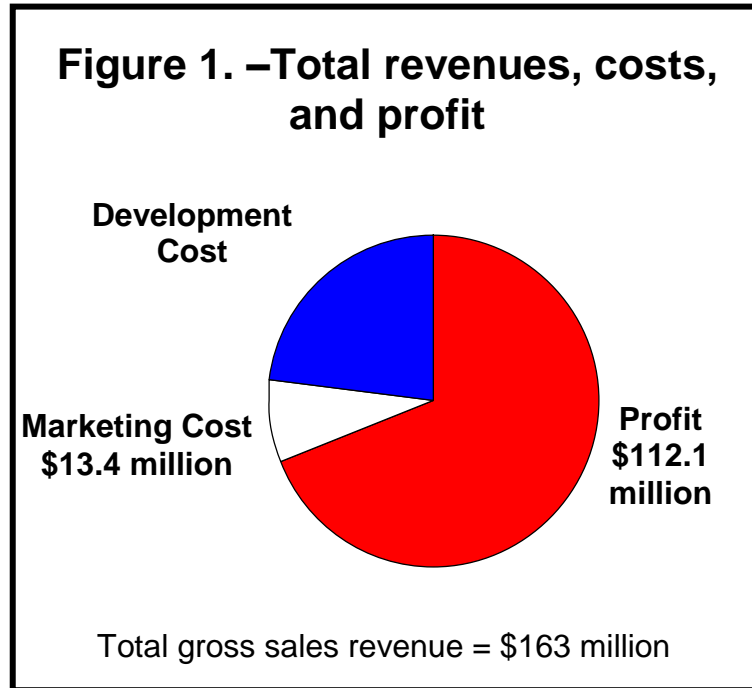
In summary, ocean and other waterfront locations with water views add roughly 55 to over 150 percent to residential property sales values. Commercially zoned oceanfront land along the Southeastern U. S. coast, with ocean view and direct access to wide beaches, is currently worth at least \$3 million per acre (about \$70 per square foot). These research results are applied below in determining a fair, market-based return to the public owners of Jekyll Island State Park for the right to use oceanfront land with beach access and to develop and sell time-share condominiums to private interests.

Applying the Oceanfront Price Premium in Determining the Profit Share for the Citizen Owners of the Island

Sales of the time-share condominiums by Linger Longer on Jekyll Island State Park are predicted to produce gross sales revenues of approximately \$163 million (Bleakly Advisory Group, 2009). Total development investment cost for the planned condominiums is estimated at \$37.5 million. Advertising and promotion costs for selling the time shares can be estimated using research from Texas A&M's Real Estate Center and the National Association of Realtors (NAR). NAR's estimated median marketing costs is about 8.2 percent of gross revenues (6.6 percent advertising and 1.6 percent for sales promotion). Thus, efficient marketing of the planned time-shares on the identified prime oceanfront Jekyll Island park property should not cost more than \$13.4 million.

A reasonable estimate of profit yield on the Linger Longer time-share sales, therefore, would be roughly \$112.1 million ($\$163\text{M} - (\$37.5\text{M} + \$13.4\text{M}) = \112.1M) (see **Figure 1**). The contracted financial arrangement signed by the JIA with Linger Longer requires a payment total over the life of the project of just \$1.63 million. This is about 1 percent of gross revenues and about 1.4 percent of profits beyond development and marketing costs. While Linger Longer is also required to pay rental on an annual ground lease for the time-share site, this payment does not affect profits from the sale of time-shares because lease payments and after-sale site rental and maintenance costs for the time-share

condominiums will be paid by the time-share buyers.



A return of just 1.4 percent of time-share profits does not adequately reflect the value of the citizen-owned, oceanfront property relative to the value of the condominiums to be built. The published research summarized above indicated that oceanfront land premiums range from about 82 percent (The Land Policy Institute at Michigan State University, 2003) to 156 percent (Christopher 2004). Taking a mid-point between the lower and upper values of this range shows that the condominiums to be developed and sold by the Linger Longer will be worth around 119 percent more than the same condominiums if they were located elsewhere, not on oceanfront land. To illustrate how this price premium would benefit a developer who is selling oceanfront condominiums, we reasonably assume that well designed and constructed condominiums would normally sell for about \$400,000, if not on oceanfront land. On oceanfront with the oceanfront price premium added, these same condominiums would sell for around \$876,000. Thus:

The condominium units of the planned quality, including landscaping and other amenities, will account for roughly 46 percent of the total market value of the oceanfront time-shares, while

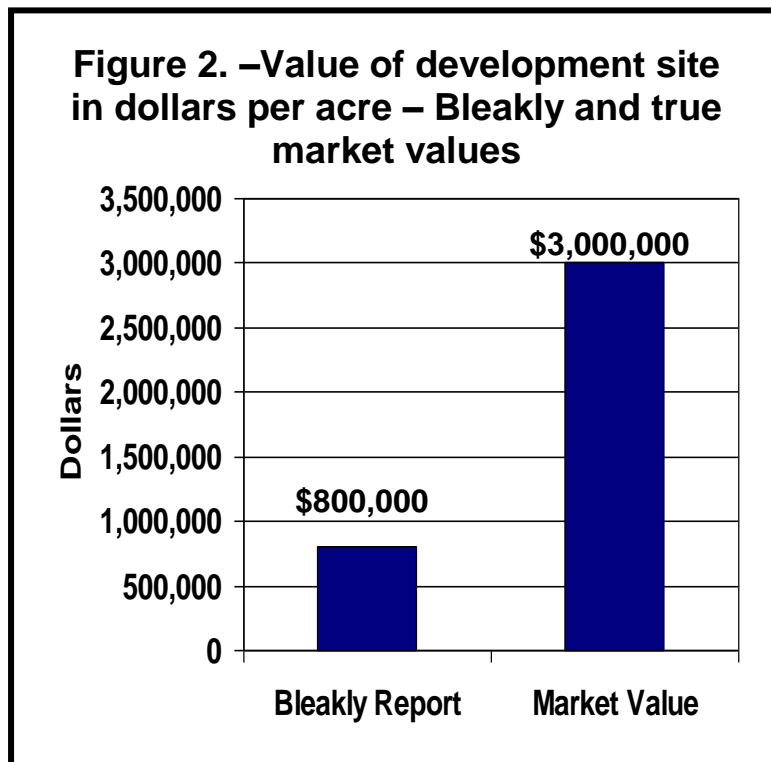
The citizen-owned oceanfront site where the condominiums are to be developed will contribute roughly 54 percent of market value.

It appears then, that a more equitable profit sharing arrangement would be to distribute 46 percent of profits to the commercial condominium developer and 54 percent to the public park owner. (This same reasoning should be applied to any other residential condominium or other commercial development that might be attempted for Jekyll Island State Park.)

A 46 percent share of the \$112 million in profits is approximately \$52 million, which seems a generous return to a private investor who does not own the land to be developed. This is more than a 100-percent profit (\$52mm profit beyond the \$50.9mm cost = 102% return above cost). A 54-percent return share of the estimated \$112.1 million in profits to the citizen owners, for use in improving and protecting Jekyll Island State Park, would be approximately \$60 million. Anything less than \$60 million would seriously undervalue the commercially zoned state park oceanfront location, which is not only oceanfront, but is also surrounded on 3 sides by highly desirable state park land.

Adding Rent for Use of the Land

In addition to profit sharing from sales of time-share condominium units, a fair market rent should be paid for the right to occupy the development site, which will essentially prohibit recreational use by citizen Jekyll Island visitors in perpetuity. Given that commercially zoned, oceanfront land, with ocean view, wide beaches and direct access is currently selling for at least \$3 million per acre, one could question whether the ground lease of approximately \$400,000 annually given to Linger Longer is an appropriate rental. The analysis performed by the Bleakly Advisory Group reported that the per-acre value of this site is just under \$800,000 per acre, only 27 percent of the true per-acre market value (see Figure 2). In addition, new infrastructure to the time-share site is to be provided through public financing by the state and the Authority, which adds to the profitability of the project for the developer.



In a free market economy, owners of residential and commercial development would have to pay fair market rent for the right to occupy oceanfront land. From economics we know that rent is the product of the market value of land multiplied by its capitalization rate. Oceanfront, commercially developable land can easily carry a 7-to-9 percent capitalization rate. At \$3 million per acre, the 5.5 acres on which the time shares are to be developed is worth a total of \$16.5 million. At a 7-percent capitalization rate, a fair market-based rental should be $\$16.5 \text{ million} \times 0.07 = \1.155 million annually. At a 9-percent capitalization rate, a fair market-based rental should be $\$16.5 \text{ million} \times 0.09 = \1.485 million annually. Even if the fair market capitalization rate were as low as 5 percent, the rental would be $\$16.5 \text{ million} \times 0.05 = \$825,000$, still twice the ground lease negotiated by the Authority. Ground lease rent and all other costs of the time-shares will be borne by the buyers after sale and thus will not affect the sale profits. A \$400,000 ground lease rental annually (a rental that is waived during the two-year construction period) is less than 30 percent of the rent that should be paid to the owners of this land, the people of Georgia.

Closing Observations

A number of independent professional reviews of the plans and studies done, or being done by or for the Jekyll Island State Park Authority have made the point that management aimed primarily at maximizing revenues and profits is highly inappropriate as criteria for deciding the future of Jekyll Island as a State Park. Emphasizing commercial land development, development and sale of condominiums, and maximization of profits and revenues misses entirely the purposes of a state park. What the Authority should be emphasizing is production of high quality state park recreational experiences for the established visitor client base and sustaining beaches and recreation opportunities for future generations of Georgians. As well, management should emphasize careful stewardship of the island and protection of its natural and cultural resources. These emphases are universally understood by professional park managers as the primary purposes of public parks.

If we assume, however, that development and commercialization will proceed on Jekyll Island State Park, a fair return should be negotiated and assured for the island's owners, the citizens of Georgia. The value premium of any commercially-zoned oceanfront property involved in such development should be the basis for determining what the fair, market-based return should be. Commercially zoned oceanfront land, surrounded on three sides by highly desirable state park land with wide beaches and maritime forests, is worth at least \$3 million per acre. This is at least four times the value of non-oceanfront coastal land. In addition, any commercial residential development on oceanfront land is worth at least 150 percent more than non-ocean front land.

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