

Market Value Assessment in Saskatchewan Handbook

Golf Course

Valuation Guide



© Saskatchewan Assessment Management Agency 2012

This document is a derivative work based upon a handbook entitled the "*Market Value and Mass Appraisal for Property Assessment in Alberta*" ("Alberta Handbook"), which has been adapted for use by the Saskatchewan Assessment Management Agency under license granted by the co-owners of the Alberta Handbook, the Alberta Assessors' Association and Alberta Municipal Affairs, Assessment Services Branch.

Table of Contents

	<u>Page No.</u>
Golf Course Valuation Guide	
Market Value Based Assessment Legislation in Saskatchewan.....	1
1.0 Introduction.....	2
1.1 Golf Courses Covered in this Valuation Guide	2
1.2 Scope of Valuation Guide	2
2.0 Analysis of Valuation Approaches	4
2.1 Basis for Valuation	4
Development	4
Ownership Issues.....	4
2.2 Approaches to Value	5
Sales Comparison Approach	5
Income Approach	5
Cost Approach	6
2.3 Recommendation	6
2.4 Practical Valuation Process.....	7
3.0 Golf Course Valuation Process.....	8
3.1 Overview of the Procedure	8
3.2 Collect the Appropriate Data	8
Supporting Information	8
Property Information	8
Income Data	10
Sales Data	10
Construction and Development Costs	11
An Issue to Consider in the Collection of Data - Comparability	11
3.3 Classify the Golf Course	12
Classification of Golf Courses	12
Comparison of Courses	13

3.4	Analyse the Data and Select the Valuation Process	13
	Data Analysis	13
	Valuation Parameters by Class of Course	14
	Issues to Consider - Valuation Parameters.....	14
	Figure 1: Valuation Parameters by Class of Course Example	15
4.0	Cost Approach to Value	16
4.1	Application of the Cost Approach	16
	Establishing Cost New (Building and Course Improvements)	16
4.2	Cost Approach – Overview of the Procedure	17
4.3	Establishing Land Values	17
4.4	Estimating Replacement Cost New.....	18
	Building Improvements	18
	Course Improvements.....	18
4.5	Deduct Depreciation and Obsolescence.....	18
	Age-Related Depreciation	18
	Functional and/or External Obsolescence	19
4.6	Add / Deduct Other Values.....	19
4.7	Market Value Based Assessment of Property using the Cost Approach	19
5.0	Income Approach to Value	20
5.1	Application of the Income Approach.....	20
	Income Approach Methods	20
	Overview of the Direct Capitalization Method	20
	The Direct Capitalization Method	21
5.2	Income Approach – Overview of the Procedure	21
	Golf Course Revenue	22
	Figure 2: Determining Potential Golf Course Revenue Example	23
	Deduct Typical, Stabilized Operating Expenses	24
	Net Effective Income (Net Income Less Non-Real Estate Items).....	25
5.3	Capitalize the Net Effective Income into Value	26
	Establishing Base Capitalization Rates	26
	Selection of a Capitalization Rate	26
	Capitalization Rate Guidelines	26

Effective Tax Rates	27
Figure 3: Direct Capitalization Value Example	28
Issues Arising from the Income Approach	28
5.4 Add / Deduct Other Values.....	29
5.5 Market Value Based Assessment of Property using the Income Approach	29
6.0 Validation of Results.....	30
Valuation Parameters	30
Check against Sales Values	30
7.0 Golf Course Valuation Analysis Example	31
Figure 4: Golf Course Data Entry Example	32
Figure 5: Golf Course Cost Data Example.....	33
Figure 6: Golf Course Cost Analysis Example	34
Figure 7: Golf Course Valuation Summary – Cost Approach Example	35
Figure 8: Golf Course Valuation Summary – Income Approach Example	36
8.0 Appendices.....	37
A. Request for Property Information Example.....	37
B. Course Information Example.....	38
C. Income and Expense Information – Request Form Example	39
D. Classification of a Regular Golf Course Using a Quality Index	40
9.0 Subject Index	43

Golf Course Valuation Guide

Market Value Based Assessment Legislation in Saskatchewan

Saskatchewan has different assessment legislation¹ than other jurisdictions in Canada that must be taken into account when valuing properties for assessment and taxation purposes. There are specific definitions in Saskatchewan for “base date”, “market value”, “Market Valuation Standard” and “mass appraisal”. It is important to understand how these definitions relate to one another and the requirement for market value based assessments to be determined in accordance with the Market Valuation Standard.

Base Date is defined as “...the date established by the agency for determining the value of land and improvements for the purpose of establishing assessment rolls for the year in which the valuation is to be effective and for each subsequent year in which the next revaluation is to be effective;”

Market Value is defined as the “...amount that a property should be expected to realize if the estate in fee simple in the property is sold in a competitive and open market by a willing seller to a willing buyer, each acting prudently and knowledgeably, and assuming that the amount is not affected by undue stimuli;”.

Market Valuation Standard means the “standard achieved when the assessed value of property:

- (i) is prepared using mass appraisal;
- (ii) is an estimate of the market value of the estate in fee simple in the property;
- (iii) reflects typical market conditions for similar properties; and
- (iv) meets quality assurance standards established by order of the agency;”

Mass appraisal is defined as “...the process of preparing assessments for a group of properties as of the base date using standard appraisal methods, employing common data and allowing for statistical testing;”.

Assessment legislation in Saskatchewan requires that non-regulated property assessments be determined pursuant to the Market Valuation Standard. Throughout this Handbook the term “market value based assessments” is used to refer to non-regulated property assessments. Unlike single property appraisals, market value based assessments must be prepared using mass appraisal and “...shall not be varied on appeal using single property appraisal techniques”. All Handbook references to market value are subject to the requirements of the Market Valuation Standard.

¹ The following Acts provide the statutory basis for property assessment in Saskatchewan:

- *The Assessment Management Agency Act*
- *The Interpretation Act, 1995*
- *The Cities Act*
- *The Municipalities Act*
- *The Northern Municipalities Act, 2010*

For more details on how to access this information refer to Appendix 2: Resources - Section 2a (Queen’s Printer).

1.0 Introduction

Golf courses are unique properties as they can vary in terms of their size (length or gross area), quality, location, ownership/membership structure, and service levels (i.e. restaurants, pro-shops, concessions, locker rooms, tennis courts, etc.). The unique characteristics associated with golf courses can make the determination of market value based assessments very challenging.

There are many types and qualities of golf courses:

- **Short courses** have 9 to 18 holes, and are typically up to 4,800 yards in length. Examples included in this category are par 3, pitch and putt, or executive type courses;
- **Regulation courses** refer to full-size courses of 18 holes that may vary in length (i.e. up to 7,000 yards or more);
- **Championship courses** have 18 holes, and are similar in length to regulation courses; however, they are of better quality and are more challenging due to contouring, number of trees, size and placement of bunkers and greens, etc.

Golf course operations and ownership structures can vary in terms of profit versus non-profit focused or exclusive membership versus public access. There may also be some variations that fall between these types.

1.1 Golf Courses Covered in this Valuation Guide

This valuation guide addresses all types of golf courses, except for:

- Driving ranges,
- Mini-putt courses, and
- Recreational, sports or social clubs not centered around golf courses.

1.2 Scope of Valuation Guide

- This valuation guide is designed as an aid for the valuation of golf courses for assessment purposes.
- It sets out procedures to follow to derive market value based assessments for golf courses using the:
 - cost approach to value
 - income approach to value
- The valuation guide provides a practical tool to evaluate and determine market value based assessments of golf courses.
- Valuation parameters provide the guidelines that establish statistically sound market value based assessments for golf courses as of the base date.

- This valuation guide is designed as a tool to aid the assessor in deriving market value based assessments; it is not intended to replace the assessor's judgement in the valuation process.
- The methods presented in this valuation guide are aimed at deriving assessment values for a number of different groups of golf courses.

Hypothetical data and analysis are provided throughout this Valuation Guide in the narrative and in various examples, tables and forms. These examples are provided for illustrative purposes only. The exact form of the market value analysis is up to the discretion of the assessor subject to the Market Valuation Standard and other relevant legislation.

2.0 Analysis of Valuation Approaches

2.1 Basis for Valuation

The basis for understanding golf course valuation arises from analysis of the process behind the development of a course, and the rationale behind the ownership and operation of courses.

Development

It usually takes one to two years before play can start on a golf course, and a further five to ten-year period before the course matures into its full playing potential. The steps involved in the development of a golf course are:

- Acquisition of land;
- Providing the water supply;
- Planning the course layout;
- Grading and shaping;
- Installing drainage and irrigation systems;
- Constructing building improvements; and
- Seeding and landscaping.

Direct and indirect costs of development can vary significantly depending on the type of golf course. Direct costs are yard, building, and course improvements. Indirect costs include:

- Consulting and planning fees (which can be considerable for a designer or signature course);
- Permit and legal fees; and
- Taxes, insurance, and financing costs during the construction phase.

One of the key elements for any course is the availability of water and an irrigation system, which may range from a more expensive, fully automated system to a lower cost, quick-coupling manual system.

Ownership Issues

The motivations of ownership vary. The owner(s) may be seeking the exclusive rights and privileges of a limited membership, cost recovery (municipal courses), or a maximization of income profit-oriented facilities.

However, there are three logical approaches to valuing golf course properties:

- 1) The market value is considered to be equal to the sales price of the fee simple real estate, i.e. the sales comparison approach.

- 2) The market value is considered equal to the present value of the future benefits or income attributable to the assessable real estate, i.e. the income approach.
- 3) The value as new is considered equal to the cost of replacing the property. As the property ages and depreciates, this cost new value can be adjusted to reflect current market value, i.e. the cost approach.

2.2 Approaches to Value

Sales Comparison Approach

Since golf courses do not sell frequently, sales data tends to be limited. Even if sales data is available, there are a number of problems with this approach:

- The sales price does not typically reflect the fee simple value of the assessable real estate. The price includes such items as equipment, non-tangible interests, and non-assessable personal property. Therefore, analysis of the sales price often requires a number of adjustments to reflect non-assessable items to represent the fee simple value of rights to the property. Such adjustments are challenging to determine due to a lack of sales information. This lack of data and absence of uniform guidelines does not allow for the proper application of mass appraisal principles, i.e. commonly available data and statistical testing of results.
- Golf courses are specifically designed to be unique or different. Because of variance in amenities, difficulty of play, location, competition, and condition of the course, it is difficult to apply the sales price of one course to the valuation of any but the most similar of courses that are located in a similar marketplace.
- The sales price of a golf course may be difficult to reconcile as the size or length of a course may not be a direct measure of its value. A per hole or per acre comparison may be misleading. The reliability of the sales comparison approach is limited to the quality and quantity of data available.

When and where this information is available, the sales comparison approach can produce appropriate conclusions and should be considered. Also, any golf course sale that does occur should be researched and verified. Such analysis may also be useful in establishing capitalization rates and confirming the values derived by using other approaches to value.

Income Approach

The income approach establishes value based on the present worth of future benefits. Information that is available from profit-oriented courses makes this approach applicable.

At profit-oriented golf courses, there is an attempt to maximize the income produced. It follows that the income streams attributable to the real estate can be analysed to determine property assessments. Such analysis entails the segregation of income into amounts attributable to the real estate and other forms of income; for example, the income attributable to management and personal property, such as golf carts

and restaurant equipment. Given the appropriate financial information, assessors may be able to analyse the expected income to determine the present worth of such golf course properties.

The valuation information garnered from analysis of income streams should be transferable to similar golf courses in other locations. Given sufficient information about income-type courses, assessors should be able to establish performance standards, or valuation parameters, for using the income approach to value a number of classes of golf courses.

Information from non-profit golf courses can also provide insights into the value of the real estate.

At non-profit golf courses, the objective is not, by definition, to maximize net income. Therefore, it is probably not appropriate to analyse their actual net income to establish market value based assessments. However, at many of these courses the members pay fees in the form of initiation fees and annual dues. Again, where this income can be delineated into amounts attributable to the real estate, assessors should be able to analyse these fees or benefits to estimate a value of the course.

At courses where memberships are sold, each member is buying a right to use the real estate. In equity situations the members actually own the property collectively. Non-equity members are purchasing the right to use the property; this is somewhat akin to a number of tenants leasing stores in a shopping centre.

At a minimum, the value of non-profit courses should reflect the current value of all the initiation fees paid, plus capitalized value of the annual dues that are attributable to the real estate.

Cost Approach

In the cost approach, the value of an improved property is estimated by adding the estimated land value and the estimated cost new of the improvements less depreciation. The cost approach is preferred when neither reliable sales nor income data are available.

If land values can be determined and depreciation properly accounted for, then the intrinsic logic of the cost approach holds for many sale/purchase decisions. In these instances, and where no other approach suffices, the cost approach can be a valuable tool for the valuation of golf courses.

The cost approach also has other attributes that are worth consideration:

- It is the only approach that can be applied to all types of golf courses, regardless of income or ownership motivations, and
- It avoids the issue of valuing non-real estate interests – an issue that must be considered when using either the income or the sales comparison approach.

2.3 Recommendation

The cost approach is recommended for the valuation of golf course properties for assessment purposes. The income approach is an alternate approach to value that can be applied if the appropriate information is available.

2.4 Practical Valuation Process

In this valuation guide, the cost approach and the income approach have been developed into practical valuation tools with guidelines on:

- Collecting data;
- Analysing information;
- Developing valuation parameters;
- Determining market value based assessments; and
- Testing the quality of assessment values. (Refer to the Valuation Parameters Guide for a general discussion on statistical testing.)

3.0 *Golf Course Valuation Process*

3.1 Overview of the Procedure

1. Collect appropriate information:
2. Analyse data and classify the golf courses into homogeneous groups.
3. Select the appropriate approach to value:
 - Cost approach
 - Income approach
4. Apply the cost approach or the income approach to derive market value based assessments.
5. Add/deduct for other appropriate value, if required.
6. Determine a market value based assessment of the property.

3.2 Collect the Appropriate Data

More than any other factor, the type and quality of information available dictate the methods that can be used to value properties. Uniform and accurate values for golf course properties require correct, complete, and up-to-date property data. The effort put in at the information collection stage will determine the quality of the final analysis.

Supporting Information

Sources of supporting information include: golf course owners or managers, real estate consultants and brokers, real estate publications (i.e. cost guides and handbooks), industry associations and government sources.

Other sources of data that can be used in the valuation of golf courses include:

- *Marshall Valuation Service*;
- Royal Canadian Golf Association (RCGA)² or Golf Canada; and
- Golfing publications such as *Golf the West*.

Property Information

In order to compare and properly classify each golf course for valuation purposes, it is necessary to gather adequate physical data. To collect the appropriate information the assessor could send a Request for Information Form to the golf course owner or manager (or designated contact person). (*Refer to Section*

² The RCGA/ Golf Canada officially measures and rates most courses for difficulty. Such ratings are a combination of course handicap rating and course slope rating.

8.0 for examples.) The following is a sample of the physical data that could provide assistance during the valuation process:

- Size/ length / layout of course site;
- Design / quality of course;
- Irrigation system/ water supply;
- Building plans and drawings;
- Facilities available;
- Topography;
- Age;
- Landscaping; and
- RCGA/ Golf Canada ratings (course and slope ratings).

Assessment Records

Where possible the assessor will verify the existing assessment record information when inspecting the property. Where the information is not available or obtainable from inspection, the property owner or manager (or the designated contact person) is typically contacted to provide the following types of information:

- Site size;
- Year built; and
- Building dimensions (i.e. floor area, number of floors and height, etc).

Property Inspection

To keep records up to date, all assessed properties are generally inspected from time to time. Along with the physical measurements, the following types of items may be noted when inspecting a golf course property:

- Buildings on site;
- Condition of improvements;
- Construction materials;
- Condition of course;
- Quality of building space;
- Type of heating/ air conditioning;
- Location/ access;
- Recent renovations;
- Development pressure; and

- Photograph of property.

Income Data

To collect the appropriate property income related information the assessor could send a Request for Information Form to the golf course owner or manager (or the designated contact person). If possible, request the following types of information.

Revenue

- Green fees;
- Typical annual entry fee revenue paid to the club;
- Membership dues;
- Locker and other club house fees;
- Cart rental;
- Driving range rents;
- Restaurant rents (including food, beverage and concessions);
- Pro shop rents; and
- Other non-golf club operations.

Expense

- Water supply;
- Heat and utilities;
- Insurance; and
- Other costs.

Sales Data

The assessor should collect sales data whenever possible. Even though there may not be a sufficient number of sales to use the sales comparison approach, the following sales information could be useful in:

- Determining the depreciation rate employed in the cost approach; and
- Establishing the appropriate capitalization rates to apply in the income approach.

The assessor can request the following type of information:

- Property address and legal description;
- Sales price;
- Date of transfer;
- Instrument number;
- Name and address of vendor and purchaser;

- Interests transferred (fee simple or other);
- Financing conditions; and
- Value of chattels.

It is important to ascertain as much information as possible regarding each sale, including local market factors. All interests in the property sale must be isolated and separated to derive realistic values for the assessable property. Golf course sales include non-assessable items, such as inventory, personal property (FF&E), intangibles (business value), that contribute to the improvements.

In most cases, the assessor will analyse sales from a broad geographical area to determine appropriate values, and analyse local market conditions to reconcile the sale prices. Given that golf course sales are rare, a thorough analysis of the components is typically undertaken before comparing the sales results.

Construction and Development Costs

The construction and development costs of a golf course and its associated buildings can be estimated from a number of different cost publications such as *Marshall Valuation Service*. These are complete, authoritative guides for developing estimates of costs and depreciation for commercial buildings and other improvements.

In determining the value of a particular type of property, it is also useful to analyse local construction and development costs. It may also be useful to consider the information provided on any building permit. The analysis of local cost data will also assist in confirming rates found in cost publications.

When analyzing construction and development cost data, exercise caution to ensure that the local costs reflect the cost of all assessable items only.

An Issue to Consider in the Collection of Data - Comparability

Success in determining the value of any property depends to some degree upon knowledge of the market conditions for that property. Evaluating the supply and demand for golf courses starts with an inventory or tabulation of all golf courses in the area. One way this data can often be determined is through golf course associations or the internet.

To establish comparability between golf courses, the assessor may inspect and analyse the golf courses in the area. The assessors would typically consider the number, character, and quality of competing golf courses.

Another means of determining the comparability of golf course properties is to analyze the number of rounds and the average green fee per round.

Number of Rounds and Average Green Fee

The demand for a golf course relates to its price and the attractiveness (or utility) of playing the course. The market-based principles of supply and demand also dictate the amount of money that can be generated from a golf course. As the price of a round of golf goes up, the demand for that recreational option goes down - either in comparison to other golf courses or in comparison to other activities.

If the assessor has adequate information about profit-oriented courses of a comparable quality, course rating, and location, then the typical potential income of these types of golf courses can be determined by analysing the number of rounds and the average green fee.

$$\text{Potential Income} = \text{Number of Rounds} \times \text{Average Green Fee}$$

Given sufficient data, similar income determinations can be made for a variety of course types. Implicit in determining the typical green fee by class is the direct relationship between the market characteristics, i.e., demand, location, overall design, condition, desirability, and the fees chargeable. Refer to the valuation parameters examples established for the income approach in *Section 5.0*.

3.3 Classify the Golf Course

The assessor should try to group golf courses into homogeneous classes so that meaningful comparisons can be made in the process of establishing valuation parameters and assessment values.

Classification of Golf Courses

Using a site inspection and course rating data the assessor can class golf courses by:

- Length;
- Typical green fee;
- Quality/design/condition; and
- Course par and slope rating.

The classification system used should relate to the types of courses found in that jurisdiction and/ or market area. The following example of a classification system covers most types of courses.

The *Marshall Valuation Service* provides the following golf course classification system:

(Note: The content associated with each of the classifications is an abbreviated version of what is in *Marshall Valuation Service*, however, the classification labels (e.g. A, B, 4, 4.1, etc) were added for illustrative purposes in this valuation guide.)

Short Courses

Class A Pitch and putt: Nine-hole courses on 10 to 15 acres; short overall length of 1,000 yards.

Class B Par 3: Nine-hole courses on 15 to 20 acres; 1,400 yards in length.

Class C Executive course: 18-hole courses on 50 to 60 acres; 4,800 yards in length. Rated par 60.

Regular Courses

Regular 18-hole courses generally measure in the range of 5,500 to 7,000 yards in length. They generally require 100 to 170 acres to construct.

Class 1 Minimal quality: simply developed, budget course on open natural or flat terrain, few bunkers, small greens and tees.

Class 2 Simply designed course: relatively flat terrain, natural rough, few bunkers, small built-up tees and greens, some small trees.

Class 3 Typical private-type club: undulating terrain, bunkers at most greens, average elevated tees and greens, some large trees moved in or clearing of some wooded areas, driving range.

Class 4.1 Better championship type course: good undulating terrain, fairway and greens bunkered and contoured, large tees and greens, large trees transplanted, driving range, may have name architect, standard course.

Class 4.2 Good championship course: with some high-cost features.

Class 4.3 Excellent championship course: with extensive features.

Section 8.0 – Appendix D contains a method that can be used to classify regular golf courses into the Marshall Valuation Service categories. This method rates 15 golf course attributes to arrive at a “Quality Index”.³

Sub-Classes of Courses

(Note: The use of golf course sub-classes is another means of categorizing golf courses.)

The following is a hypothetical example of sub-classes used to categorize golf courses by location:

Type I Rural - not close to large market draw.

Type II Peripheral - in proximity to large market.

Type III Urban - close to urban centres.

Comparison of Courses

Classifying a course makes it easy to compare similar properties. If no data is available on a property, the assessor can still establish typical property values on the basis of golf course class and type.

3.4 Analyse the Data and Select the Valuation Process

Data Analysis

Data collected should assist in determining the appropriate valuation method.

For the assessor to gain full value from the data collected, the data should be organized in such a way that meaningful comparisons can be made and valuation conclusions drawn. By collecting and organizing the data on a number of golf courses it becomes possible to establish the typical performance, characteristics, and valuation parameters to apply in the valuation of other golf courses.

Collecting and tabulating such data also enables the assessor to distinguish between the typical value of real estate components and the actual performance of a specific property. A market value based

³ Moore, George J., *Mass Appraisal of Golf Courses*, (International Association of Assessing Officers, July/August 1999, Volume 6 – Number 4 Assessment Journal, pp. 41-48)

assessment determined through mass appraisal methods demands the application of a property's typical performance in the marketplace, not its actual performance. As noted in the Valuation Parameters Guide, this requirement is established in the Market Valuation Standard mandated in legislation in Saskatchewan's municipal Acts.

Valuation Parameters by Class of Course

Depending on the valuation approach chosen, classifications provide a basis for valuing by either the income or cost approach. Analysis of data will produce the following types of valuation parameters:

- Typical cost per hole or acre;
- Typical price per round;
- Number of rounds per year; and
- Operating expense ratios.

This exercise should result in unit values that are representative of varying course qualities and designs. (*Refer to Figure 1 – Valuation Parameters by Class of Course Example*).

To help determine the valuation parameters to be applied in the cost approach, each property should be compared to the typical course of the same classification. Similarly, in the income approach these parameters should be used to compare and derive appropriate units of measure.

Issues to Consider - Valuation Parameters

No matter how property owners or managers report the information, the objective is to establish common valuation parameters that can be applied to a class of golf course property, i.e., stabilized annual expense, average golf course revenue, cost per hole, etc.

Availability of Comparable Income Information

Relevant information may not be available in all instances. For example, few private courses allow public play. This makes it difficult to determine a typical price per round. The objective in this case is to explore the data as much as practical to be satisfied that the resulting valuation parameter (or lack of parameter) is a reasonable conclusion.

If the income information is insufficient to develop parameters for a certain class of golf course property, the cost valuation approach may then be applicable.

Figure 1: Valuation Parameters by Class of Course Example

Parameter	Class 1			Class 2			Class 3			Class 4 - Championship		
	Type I	Type II	Type III	Type I	Type II	Type III	Type I	Type II	Type III	Type I	Type II	Type III
Typical Number of Rounds	19,800	23,500	27,800	21,000	25,000	26,000	18,000	17,400	19,200		18,600	
Average Green Fee	\$ 11.00	\$ 14.50	\$ 16.50	\$ 19.50	\$ 24.50	\$ 26.50	\$ 31.20	\$ 40.40	\$ 47.00		\$ 44.00	
Typical Golf Course Revenue	\$217,800	\$340,750	\$458,700	\$409,500	\$612,500	\$689,000	\$561,600	\$702,960	\$902,400		\$818,400	
Gross % Rents												
Restaurant	5.0%	5.0%	5.0%	5.5%	6.0%	6.5%	6.0%	6.3%	6.5%		6.5%	
Pro Shop	9.0%	9.0%	9.0%	9.0%	9.5%	9.5%	10.0%	10.0%	10.0%		10.0%	
Driving Range	8.0%	8.0%	8.5%	8.0%	9.0%	10.0%	8.5%	9.0%	9.5%		9.0%	
Golf Carts	12.0%	11.0%	11.0%	11.0%	11.5%	12.0%	11.0%	12.0%	12.0%		12.0%	
Expenses												
Maintenance & Operations	27.5%	27.5%	28.0%	32.0%	30.6%	32.5%	31.8%	31.0%	33.0%	33.0%	33.6%	
Management & Admin.	9.6%	10.5%	11.0%	10.5%	11.0%	11.0%	11.0%	12.0%	12.0%	12.0%	12.5%	
Water	1.8%	1.9%	2.0%	2.0%	2.0%	2.1%	2.1%	2.1%	2.1%	2.0%	2.2%	
Heat & Utilities	2.1%	2.2%	2.4%	2.2%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Insurance	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Reserve for Replacement	4.0%	4.0%	4.0%	4.5%	4.5%	4.5%	5.5%	5.5%	6.0%	6.0%	6.0%	6.0%
Base Capitalization Rate	13.5%	12.6%	12.5%	12.9%	12.2%	11.5%	12.0%	11.3%	11.0%		11.0%	

4.0 Cost Approach to Value

4.1 Application of the Cost Approach

The theory behind the cost approach to value follows the principle of substitution: a purchaser will pay no more for a property than the cost of replacing it with a substitute of equal utility.

In the cost approach, it can be a challenge to estimate the costs to construct a golf course given the variety of designs and qualities of construction. Discussions with the course owner or manager may provide insights into the overall costs involved in development. Given the potential length of the economic lives of golf courses, the theory of contribution must also be considered. If costs are derived without consideration of the unique features, the values may be out of line.

Two principle tasks are involved in estimating the value of a golf course property using the cost approach:

1. Valuing the land, and
2. Valuing the buildings and course improvements.

Land value is usually established through analysis of comparable market sales data.

To value the improvements (building and course improvements):

- Inspect the buildings and course improvements, quantify areas, note conditions, and analyse utility.
- Estimate the cost new of the assessable improvements as of the base date.
- Deduct from the cost new value an amount that reflects applicable depreciation.

The resulting value will be an estimate of the contribution of the improvements to the market value based assessment of the property, depreciated for all causes.

The market value based assessment for the golf course property is the sum of the land plus improvement values.

Establishing Cost New (Building and Course Improvements)

Cost new can be estimated from a number of sources including:

- Nationally recognized cost publications such as *Marshall Valuation Service* (The cost analysis per hole for golf course improvements is outlined. Other sections cover building improvements. Once established, the cost new is then adjusted by the applicable local and current cost multipliers.)
- Other cost guides such as *SAMA's Cost Guide*, and
- A study of actual costs from golf course owners or managers or local contractors.

Actual cost information is useful in verifying the estimates generated by using a cost publication.

The cost of improvements may be estimated using either the reproduction or replacement cost method. (Refer to the Introduction Chapter and Depreciation Analysis Guide for a general discussion of replacement versus reproduction costs.) If a reproduction cost analysis is used, the assessor must ensure that all forms of depreciation are considered to arrive at a market value based assessment. However, replacement cost is typically the preferred method used in mass appraisal as it reflects what would likely be built if the improvements were to be reconstructed.

4.2 Cost Approach – Overview of the Procedure

- 1) Establish land values using the sales comparison approach.
- 2) Classify the golf course according to the classes established.
- 3) Estimate replacement cost new of building improvements.
- 4) Estimate replacement cost new of course improvements based on the class of the course.
- 5) Determine normal age-related depreciation, based on the quality and condition of building and course improvements. Deduct this amount from the cost new.
- 6) If present deduct typical functional and external obsolescence to determine the market value based assessment of the building and course improvements.
- 7) Add / deduct other appropriate values, as required.
- 8) Add the market value based assessment of the land to the market value based assessment of the improvements to determine the market value based assessment of the property.

4.3 Establishing Land Values

The cost approach requires valuation of the land along with analysis of building values. Land is typically valued using the sales comparison approach.

Preferably, the comparable land sales will be of sites having approximately the same area with similar zoning, and situated in a comparable location. Additionally these sales should reflect values as of the base date.

Assessors should exercise caution in establishing the land value of a golf course that also incorporates a residential development. The value per acre for the golf course lands is probably not the same as the value per acre for the residential lands.

Land values may be established on the basis of dollars per acre (or dollars per hectare).

Adjustments to value may have to be made for the following points of comparison:

- Location;
- Size of site;
- Zoning;
- Topography;

- Soil conditions; and
- Date of sale.

4.4 Estimating Replacement Cost New

Building Improvements

The following are typical building improvements at a golf course:

- Clubhouse;
- Restaurant;
- Greenhouse;
- Maintenance building;
- Golf cart storage buildings / garage;
- Golf starter booth; and
- Other assessable improvements.

Note: The cost analysis example in *Section 7.0 Figure 5* and *Figure 6* is designed to cover most of the improvements found in a typical golf course. For items not covered, refer to cost publications.

Course Improvements

Since tees, greens, and obstacles such as bunkers, water hazards, landscaping, slope, rough, and trees add to the value of land for the purposes of a golf course, they may be valued in addition to the raw land value. The *Marshall Valuation Service* breaks down such costs per hole according to course classification. The costs per hole represent the replacement cost of the course improvements. *SAMA's Cost Guide* also presents a Standard Golf Course: Development Cost Schedule on a dollar per hole basis.

The course improvement costs are entered into the assessor's valuation system. (*Refer to Section 7.0 Figure 6 Golf Course Cost Analysis Example.*)

4.5 Deduct Depreciation and Obsolescence

Age-Related Depreciation

Depreciation due to age reflects the physical deterioration of the property over time. This form of depreciation may apply to building and course improvements. (Refer to the Depreciation Analysis Guide for a detailed discussion of physical deterioration.)

Functional and/or External Obsolescence

Obsolescence reflects the “abnormal” depreciation that arises in some properties due to functional and/ or externally generated factors.

With respect to functional obsolescence, knowledge of current trends and building designs for golf courses are important in recognizing this form of obsolescence. Functional obsolescence can usually be recognized through poor design and layout, poor or inferior construction, and the existence of excess operating costs.

Building improvements at a golf course do not typically have functional/ utility problems. If such problems exist, the owner or manager should clarify the extent of the problem and the assessor should determine the appropriate functional replacement to reflect the functional obsolescence concerns.

The obsolescence factor is a reflection of the simple proposition that people pay less for items or properties that are obsolete. A loss of functionality, attractiveness, or utility translates to a corresponding loss in market value.

Any functional and/or external obsolescence is deducted from the replacement cost new less normal depreciation of the building and course improvement costs as if new in order to arrive at the market value based assessment of the improvements. (Refer to the Depreciation Analysis Guide for a detailed discussion of functional and external obsolescence.)

4.6 Add / Deduct Other Values

There may be certain properties where the entire value of the property is not completely captured by the foregoing application of a given valuation approach. In these situations a lump sum adjustment may be required. For example, a property may have surplus or excess land which is not developed due to current market conditions. This land may be valued separately and added to the market value based assessment for the entire property. A similar lump sum adjustment may also be applied for improvements if warranted.

4.7 Market Value Based Assessment of Property using the Cost Approach

After evaluating the appropriate amount of depreciation, deduct it from cost new to determine the market value based assessment of the improvements.

The market value based assessment of the land is added to this amount to determine the market value based assessment of the total property using the cost approach.

A cost approach example is presented in *Section 7.0*.

5.0 *Income Approach to Value*

5.1 Application of the Income Approach

The theory behind the income approach to value is that a property's value reflects the present worth of anticipated or forecasted future benefits from the real estate. As such, the income approach analyses the income attributable to the real estate and converts this typical net revenue into an estimate of value.

Income Approach Methods

In general, there are two methods available to convert future income into a present value:

1. Direct capitalization, and
2. Yield capitalization (discounted cash flow analysis).

The direct capitalization method is most applicable to the valuation of income-producing properties in a mass appraisal environment. It requires the least amount of data to apply, reflects typical rents and market conditions, and is best suited to the use of statistical analysis. The yield capitalization method is not suitable for use in mass appraisal valuations in Saskatchewan due to its consideration of individual investor preferences (reflects personal versus typical market conditions), its need for more market data and numerous estimates of rents, holding periods and projected reversions, and its lack of suitability for statistical analysis. For these reasons the yield capitalization method will not be further detailed in this Guide.

Overview of the Direct Capitalization Method

The analysis in this section presents a direct capitalization method that is suited for mass appraisal applications.

Direct capitalization converts or "capitalizes" the expected level of potential net income into a market value based assessment using an overall capitalization rate. The conversion factor or capitalization rate is a reflection of all of the investor's relative and comparative feelings and aspirations about the property in light of the investment characteristics offered by the asset and in comparison to other investment opportunities on the market.

In its most basic form, the direct capitalization method is an elementary mathematical ratio involving the estimation of typical net operating income (NOI), as of the base date, which is then capitalized into value to produce a market value based assessment.

- 11) Add/ deduct other values to determine the market value based assessment of the property.
- 12) Test results.

Golf Course Revenue

Golf course revenue reflects the income-generating capability of the property from golfing activities such as:

- Green fees;
- Typical annual entry fee revenue paid to the club;
- Membership dues; and
- Locker and other club fees (exclusive of restaurant minimums).

Revenue to Reflect Market Conditions

In the assessment of property, the objective is to determine the typical market value of the assessable real estate. To establish the typical income-generating capability of a golf course, the assessor must determine the typical or expected number of rounds played and the expected average green fee. The location and quality of the course influence both the expected number of rounds played and the average green fee charged.

Information on the number of rounds played is typically available from the course owner or manager. The average green fee is equal to the total green fee revenue divided by the number of rounds.

In private clubs, the number of rounds played may be significantly lower than at a public course of similar quality and rating. In such cases, the typical green fee would most likely be higher for a private course.

As supply goes down (or is limited by membership) the price goes up. There is an equilibrium point between the price, supply, and demand – a point where revenue will be maximized. Profit-oriented courses strive to achieve this point. As profit orientation is the typical market motivation factor, all types of golf courses may be valued in comparison to profit-oriented courses. Therefore, the potential income from a public course may be the same as for a private or semi-private course of similar quality and rating.

The market value based assessment of a golf course is generally not affected by variances in the management or ownership of the course. From a market perspective, the principle for determining golf course gross revenue potential is:

Public Course	=	Semi-Private Course	=	Private Course
---------------	---	---------------------	---	----------------

At public courses, gross revenues are generated from green fees (number of rounds per year x average green fee) and other revenues associated with the club house or golf game.

Calculating Golf Course Revenue for Private and Semi-Private Clubs

Golf course revenue may be the total of the following:

- Typical annual entry or initiation fees generated in a year. Clubs that sell memberships or retain a fee from the transfer of a membership use these transactions as a source of revenue for the course;
- Typical annual membership dues (not including bar or restaurant minimums);
- Typical annual green fees and/or guest green fees; and
- Locker and other club fees (fees associated with non-golf activities).

These revenues may be established on a stabilized basis by analysing income statements over a number of years.

The revenue potential of all courses can be evaluated on the basis of the maximum revenue that can be generated from the real estate over time. (*Refer to Figure 2.*)

Figure 2: Determining Potential Golf Course Revenue Example

	Public	Semi-Private	Private
Number of Rounds	30,000	25,000	20,000
Average Green Fee	\$25.00		
Green Fees – Total	\$750,000	\$420,000	
Guest Green Fees	\$0	\$0	\$130,000
Annual Membership Dues	\$0	\$250,000	\$600,000
Typical Entry Fee Revenue	\$0	\$5,000	\$20,000
Locker & Other Club Fees	\$0	\$10,000	\$0
Total Golf Course Revenue	\$750,000	\$685,000	\$750,000

From a market point of view, the income generation potential tends to be the same for all golf courses of a similar quality. If these courses are similar in class and type, they all can be valued on the basis of a \$750,000 income-generating potential as provided in the example of *Figure 2*.

Difficulties with the income approach arise when there are no profit-oriented courses of a similar quality to be used for this type of revenue comparison.

Gross Rental Income

Many golf courses have other operations that contribute to the income generated from the property, including:

- Cart rentals;

- Driving range;
- Restaurant, including food, beverages, and concessions;
- Pro shop; and
- Other – health club, locker room.

A number of approaches can be used to capture the real estate value of these components. Gross rents are considered instead of net rents to ensure that the revenues generated from these operations are comparable to the gross revenues generated from the golf course. Deductions for management and administration expenses can be completed in one step.

Gross rents can be established using either of two methods:

1. Gross rents per square foot based on analysis of existing leases for pro shops, restaurants and health clubs, or
2. Gross rent as a percentage of sales.

Gross Rents per Square Foot

A number of pro shops, restaurants, and other tenants may lease space from golf courses. Analysing these leases, or leases for other similar retail outlets, may help the assessor to arrive at typical gross rental rates per square foot.

Multiplying gross rents by the number of square feet produces a gross rental income for these elements of a golf course.

Gross Rents as a Percentage of Sales

In many instances, golf course restaurants, cart rentals and other operations are not leased to tenants. Also, it may not be possible to compare gross lease rates per square foot for typical retail operations to the rents that would be charged at a golf course location that is closed for a good part of the year. For any retail operation (store, service, or restaurant) there is a relationship between the amount of sales generated and the amount that can be spent on the costs of the space (rent, operating expenses, and taxes). Therefore, it may be possible to establish gross rental rates as a percentage of sales.

Gross percentages can be determined by analysing the sales and lease costs held by pro shops, restaurants, driving ranges, and cart operations (if available). It may also be possible to develop appropriate gross percentage rent rates by analysing the typical lease costs as a percentage of sales from shops and restaurants in shopping centres or hotels. (Since the rents charged under a percentage rent clause relate to the volume of sales, it does not matter whether the golf course operations are closed for part of the year.)

Deduct Typical, Stabilized Operating Expenses

Expenses for golf courses are typically comprised of maintenance for grounds and equipment, supplies, and employee costs. Interviews with the owner or manager coupled with a site inspection may reveal the level of expenses associated with annual maintenance and the class of golf course being valued.

As with revenue generation, the expense standards set by the profit-oriented facilities may be the same as those experienced at other courses of similar quality. Therefore, maintenance and operating costs and management, marketing, and administration expenses can be established by analysing several years of income and expense statements from profit-oriented courses. These expenses can be expressed as a percentage of total potential revenues by class and type of course.

Other Operating Expenses

Given sufficient data, it may also be possible to establish typical expense levels for other types of expenses such as:

- Water supply;
- Heat and utilities;
- Insurance; and
- Other costs (not costs associated with non-golf club revenues).

Net Effective Income (Net Income Less Non-Real Estate Items)

Two additional deductions are required to reflect the appropriate amount of income attributable to the real estate.

Non-Real Estate Items

The net income for a golf course includes a limited amount of income attributable to non-assessable items. To achieve a fee simple value of the assessable real estate, the assessor deducts the income attributable to non-assessable items from the net income.

- Examples of non-assessable items that may be deducted from net income are: the restaurant FF&E, liquor license, golf cart rentals, and range balls).
- Regular maintenance and operation expenses may cover the costs of purchasing and operating golf course equipment and maintaining the golf course. Income attributable to maintenance equipment and other such items has already been allotted in the deduction for typical operating expenses. However, there are a number of other short-lived elements that must be replaced and therefore require some capital expenditure.

Reserve for Replacement

In addition to supporting the value of the real estate, income generated by the golf course operation may support funding for periodic replacement of short-lived real estate items such as golf greens, tees, traps, and irrigation equipment, tennis courts, swimming pools, parking lot, roofs, heating, ventilation and air conditioning systems, and interior finishes (carpets, wall finishes) in the club house. Therefore, a typical reserve for replacement can be determined by class of golf course and deducted from the net income, unless it has already been deducted as an ongoing operating expense.

An example of a summary of the income and expense analysis is presented in *Section 7.0 Figure 8*. Deducting expenses and other non-assessable income from the net income produces the net effective income. The net effective income is then capitalized into value.

5.3 Capitalize the Net Effective Income into Value

After estimating the net effective income, the market value based assessment is produced through the direct capitalization of the income.

$$\text{Value} = \text{Net Effective Income} \div \text{Capitalization Rate}$$

Establishing Base Capitalization Rates

Sales of Golf Course Properties – Recommended Approach

Turning the equation in the capitalization method around produces the appropriate formula for establishing capitalization rates:

$$\text{Capitalization Rate} = \text{Net Effective Income} \div \text{Value (Sale Price)}$$

In the same manner that income and rents are analysed for property valuation purposes, the income and other data should be analysed for golf course properties that have sold as of the base date in order to establish the capitalization rates to be applied to golf course properties.

Other Approaches

If there is insufficient market sales evidence to establish capitalization rates, there are other possible ways such as the mortgage-equity or band of investments to derive rates. These other approaches are not suitable for use in mass appraisal valuations in Saskatchewan.

Selection of a Capitalization Rate

Selection of an appropriate capitalization rate is essential for the determination of an equitable market value based assessment for a property. The selection task starts with an analysis of the capitalization rates demonstrated in the sales of similar golf course properties.

Capitalization Rate Guidelines

The income approach is based on the present worth of future benefits. When analysing capitalization rates the assessor considers the expected future income.

The assessors can consider the class and specific quality and nature of the property. Such things as age, state of repair, and location affect the risks associated with the property and the capitalization rate that should be applied. Generally speaking, superior and/or newer properties have lower capitalization rates.

The following factors can affect the capitalization rate:

- Economic conditions;
- Number of rounds per year;
- Competition, and expected changes in competition;
- Location – access;

- Course condition; and
- Course design.

In general, favourable conditions may lower the capitalization rate and raise the value. Negative or below average conditions may raise the capitalization rate and lower the value.

Effective Tax Rates

There are two ways to deal with the impact of property taxes when valuing a golf course using the income approach:

1. The first is to deduct the actual property taxes charged as part of the fixed expenses (before determining net income) and then apply a base capitalization rate. Under this approach, the net income produced is entirely attributable to the rental income stream of the property.
2. The second method is to determine the effective tax rate and add this amount to the base capitalization rate.

Effective Tax Rate Calculation

Property taxes	\$300,000
Market value based assessment of property	\$10,000,000
Effective tax rate:	$\$300,000 / \$10,000,000 = 3.0\%$

Using this method the effective tax rate of 3.0% is added to the base capitalization rate to determine the market value based assessment as presented in *Figure 3*.

Figure 3: Direct Capitalization Value Example

Net Income	\$ 589,000
Base Capitalization Rate	11.5%
Effective Tax Rate	3.0%
Total Capitalization Rate	<u>14.5%</u>
Value	\$4,062,069

Issues Arising from the Income Approach

Market Green Fees

Potential golf course income is set when establishing the class and type of golf course. Using the income approach, the assessor determines the potential golf course income by analysing typical incomes for that class and type of course.

Relevant Expenses

To determine the net income, the assessor can stabilize the expense statement to reflect a typical year's operating expense. (A typical stabilized reserve for replacement can be determined by class of golf course and deducted from the net income, unless it has already been deducted as an ongoing operating expense.)

Income and expense statements often contain accounting items that do not form part of the income approach procedure and therefore should be removed from the analysis of expenses.

- Income taxes;
- Depreciation;
- Interest and debt service;
- Capital improvements; and
- Owner's business expenses (over and above reasonable expenses incurred in regard to the property's generation of income).

Fee Simple Interest and Income Attributable to Real Estate

As a general rule, only income directly attributable to real estate is considered assessable. Income attributable to the business enterprise, personal property, or to management of the course is considered non-assessable income.

To properly analyse income from a golf course, the assessor may take these two factors into account:

- 1) Since investors in golf courses base their purchase price on the expected net income, a good way to value property is to employ a method that follows the rationale and actions of the marketplace. Therefore, the valuation method described in this guide is based on determining net income.
- 2) From an assessment perspective, income analysis should capture all interests in the property. Therefore, all potential income should be analysed.

The market value of a property for assessment purposes is a fee simple value. “Estate in fee simple” is also referred to as “fee simple estate”. It is defined (*The Appraisal of Real Estate, 3rd Canadian Edition, 2010*) as “absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the four powers of government: taxation, expropriation, police power, and escheat.” In other words, fee simple interest reflects the ownership of all of the rights inherent in the real estate, including the right to use the property, sell it, lease it, etc.

In a private or semi-private golf course where actual average green fees can be difficult to derive, it may be necessary to attribute the potential value based on the potential market revenue as of the base date. The analysis of potential income from the market, as opposed to application of actual revenues, will capture the fee simple of the course in its most profitable use as of the base date.

5.4 Add / Deduct Other Values

There may be certain properties where the entire value of the property is not completely captured by the foregoing application of a given valuation approach. In these situations a lump sum adjustment may be required. For example, a property may have surplus or excess land which is not developed due to current market conditions. This land may be valued separately and added to the market value based assessment for the entire property. A similar lump sum adjustment may also be applied for improvements if warranted.

5.5 Market Value Based Assessment of Property using the Income Approach

An income approach example is presented out in *Section 7.0*.

6.0 Validation of Results

The strength of an assessment system rests on two tenets: (1) its ability to produce appropriate market value based assessments, and, (2) its treatment of similar properties in a fair and consistent manner.

To accomplish these ends, the valuation process reflects the views and methods used in the marketplace. The process is applicable to all properties.

There are two areas where the quality of the results can be ensured quickly and efficiently.

- 1) Valuation parameters, and
- 2) Check against sales values.

Valuation Parameters

The assessor's valuation system has valuation parameters that have been researched, collected and analysed by local assessors. Appropriate statistical measures (median, mean, range, etc.) can be determined for each valuation parameter. When the assessor applies these valuation parameters to all similar properties, then the market value based assessments will be fair and consistent

Check against Sales Values

To ensure that the market value based assessments developed are in line with the local market, the assessment values will typically be checked against any sales of similar properties that took place. Such sales also have inferences for values of similar properties.

7.0 Golf Course Valuation Analysis Example

This section presents a hypothetical example of a market value based assessment analysis of a golf course employing either the cost or income approaches.

(Note: Although the cost and income approaches to value are illustrated in this example, the recommended method for valuing golf course properties continues to be the cost approach. The cost approach is the only valuation approach that can be applied to all types of golf courses. In addition, the cost approach avoids the issue of valuing non-real estate interests.)

Figure 4: Golf Course Data Entry Example

Example of typical general descriptive data for a property, including address, class and type of course.

Figure 5: Golf Course Cost Data Example

Example of more detailed description of the improvements.

Figure 6: Golf Course Cost Analysis Example

Example of typical cost data that applies to various improvements, including golf course holes, as well as the effective age, cost-to-cure, normal depreciation and obsolescence.

Figure 7: Golf Course Valuation Summary – Cost Approach Example

Example of cost approach summary data that would enable the assessor to calculate the appropriate market value based assessment for the property.

Figure 8: Golf Course Valuation Summary – Income Approach Example

Example of income approach summary data that would enable the assessor to calculate the appropriate market value based assessment for the property.

Figure 4: Golf Course Data Entry Example

Address			Base Date:		
Course Name			Measurements in:		feet
Municipality			Data from:		
Assessment Roll #			Rounds Played		
Opened in	1974		Average Green Fee		
Class	Class 2		CPGA Course Rating		
Type	Type III		CPGA Slope Rating		
Ownership	Semi-private				
No. of members in:		250	# of Holes Quality		
Initiation fee in:		\$6,000	18	Class 2	
Annual club dues in:		\$1,200	9	Class 1	
Restaurant dues in:		\$900	1	Driving Range	
			Land Area, Acres		158.70
Inspection Notes					
Inspection date	Sept. 12, 1996				
Driving range	Yes, pay per bucket				
No. & comment on golf carts	30 carts, 50% new last year				
Other recreational facilities	No				
Comment on restaurant	Low key menu and service, medium quality finish				
Comment on banquets	Not held frequently				
Irrigation system					
Condition - course	Good				
Condition - buildings	Good				
Comment on maintenance					
Comment on use	Busy on weekends during most of season				
Comment on access	Close to highway				
Comment on location	Good - serves a wide area				

Figure 5: Golf Course Cost Data Example

Address		Base Date:	
Course Name		Measurements in:	feet
Municipality		Data from:	
Assessment Roll #		Rounds Played	0
Opened in	1974	Average Green Fee	\$ -
Course Type	Class 2 - Type III	Course Rating	
Ownership	Semi-private	CPGA/ Golf Canada Slope Rating	

Occupancy Code	Area in Sq. feet	Flr. Ht: feet	# Flrs.	Volume in cubic feet	Dimensions	Perimeter feet	Build Date	Occupancy Type	Const. Class	Const. Quality
Clubhouse	4,600	12.0	1.0	55,200	50 x 92	284	1974	Clubhouse	S	Good
Pro shop	1,200	10.0	1.0	12,000	40 x 30	140	1977	Shop	C	Average
Maintenance	3,000	14.0	1.0	42,000	50 x 60	220	1974	Standard	C	Average
Golf cart storage				0						
Restaurant				0						
Booth				0						
Other				0						

# of Holes	Quality
18	Class 2
9	Class 1
1	Driving Range

Land Area, Ac.	158.70
----------------	--------

Yard Improvements	No.	Comments
Bridges	2	
Waterscaping	3	Man-made ponds
Pavement, Sq. feet	190,000	Parking area
Fence (linear), feet	5,000	
Lighting		Poles
Other Yard		
Other Yard		

Improvement Inspection Notes	
Inspection date	Sept. 12, 1996
Bldg. construction	Wood frame, concrete block and brick walls
Interior construction - finish	Drywall partitions, carpeting, average
Heating/ cooling	Heating and ventilation - moderate weather, A/C in clubhouse
Sprinklers	Wet system throughout clubhouse, none in other buildings
Irrigation system	Single row automatic system - town water
Special course improvement	
Extra features - yard	Large paved parking lot
Condition - course	Good
Condition - buildings	Good

Figure 6: Golf Course Cost Analysis Example

Address		Base Date		Building Area: Sq. feet	8,800
Municipality		Local Cost Multiplier (LCM) X		Number of holes	27
Assessment Roll #		Current Cost Multiplier (CCM)		Type / Class	Class 2 - Type III

Replacement Cost Analysis

Item	Units in square feet	Base Rate	HVAC Addn	Sprkler Addn	Total Rate	Area Mltpler	Height Mltpler	LCM x CCM	Final Rate	Costs New	Effective Age	Life Expcy	Cost-to-Cure	Dpn %	Costs New less Dpn
Clubhouse	4,600	\$62.00	\$2.00	\$1.00	\$65.00	0.859	1.181	1.2416	\$81.87	\$376,602	1966	50		36%	\$241,025
Pro shop	1,200	\$51.09	\$2.00		\$53.09	0.859	1.181	1.2416	\$66.87	\$80,244	1966	50		36%	\$51,356
Maintenance	3,000	\$17.38	\$1.00		\$18.38	0.859	1.000	1.2416	\$19.60	\$58,800	1976	50		18%	\$48,216
Golf cart storage	0								\$0.0	\$0				0%	\$0
Restaurant	0								\$0.0	\$0				0%	\$0
Booth	0								\$0.0	\$0				0%	\$0
Other	0								\$0.0	\$0				0%	\$0
Bridges	2	\$35,000			\$35,000			1.2416	\$43,456	\$86,912	1975	40		35%	\$56,493
Waterscaping	3	\$18,000			\$18,000			1.2416	\$22,349	\$67,046	1982	30		35%	\$43,580
Lighting	0				\$0				\$0.0	\$0		yard		50%	\$0
Other Yard	0				\$0				\$0.0	\$0		yard		50%	\$0
Other Yard	0				\$0.00				\$0.0	\$0		yard		50%	\$0

Total Buildings										\$669,604			\$0	34.2%	\$440,670
------------------------	--	--	--	--	--	--	--	--	--	------------------	--	--	------------	--------------	------------------

Course Improvements – Holes

Class 2	18	\$60,000			\$60,000			1.2416	\$74,496	\$1,340,928	1982	30	\$300,000	35%	\$676,603
Class 1	9	\$45,000			\$45,000			1.2416	\$55,872	\$502,848	1974	30		63%	\$186,054
Driving Range	1	\$20,000			\$20,000			1.2416	\$24,832	\$24,832	1974	30		63%	\$9,188

Course Improvements –Hole Development Costs

\$1,868,608

\$871,845

Obsolescence Note		Less Obsolescence%, See Note	0.0%	\$0
There does not appear to be any abnormal depreciation or obsolescence				
Value per hole is within the range of the market sales evidence		Value of Improvements (Building and Hole Development. Costs)		\$1,312,515

Land Value	
Site Area	158.70
Value per Ac.	\$18,500
Land Value	\$2,935,950

Value Summary	
Land Value	\$2,935,950
Building Value	\$1,312,515
Value Conclusion	\$4,248,465

Figure 7: Golf Course Valuation Summary – Cost Approach Example

Address		Base Date	
Course Name			
Municipality			
Assessment Roll #		Number of Holes	27
Opened in	1974	Number of Rounds	0.0
Class	Class 2	Average Green Fee	\$ -
Type	Type III	Course Rating	
Ownership	Semi-private	RCGA Slope Rating	

Cost Approach	Building Improvements	Course Improvements
Effective Age	1967	
Condition	Good	Good
Construction Class	S, Good	Class 2
Costs New	\$ 669,604	\$ 1,868,608
Cost-to-Cure	\$ -	\$ 300,000
Normal Depreciation	34.19%	44.42%
Other Obsolescence	0.0%	0.0%
Market Value	\$ 440,670	\$ 871,845
Total Improvements		\$ 1,312,515
Land		\$ 2,935,950

Value Subtotal	\$4,248,465
Other Value	\$0
Market Value Based Assessment	\$4,248,000

Figure 8: Golf Course Valuation Summary – Income Approach Example

Address	
Course Name	
Municipality	
Assessment Roll #	
Opened in	1974
Class	Class 2
Type	Type III
Ownership	Semi-private

Base Date	
-----------	--

Number of Holes	27
Number of Rounds	0.0
Average Green Fee	\$ -
Course Rating	
RCGA Slope Rating	

Income approach	%	
Total Course Revenue		\$ 1,012,500
Total Gross Rents		\$ 79,901
Potential Income		\$ 1,092,401
Operations Expense		\$ 355,030
Management Expense		\$ 120,164
Other Expense		\$ 67,645
Net Income		\$ 549,562
Reserve for Replacement Intangibles	4.5%	\$ 24,730
	1.0%	\$ 5,496
Income to Real Estate		\$ 519,336
Base Capitalization Rate		8.5%
Effective Tax Rate		3.5%
Overall Capitalization Rate		12.0%
Value Conclusion		\$ 4,327,800

Value Subtotal	\$4,327,800	
Other Value	\$0	None
Market Value Based Assessment	\$4,327,000	

8.0 Appendices

A. Request for Property Information Example

As part of the ongoing assessment process the Assessment Department requires certain income and expense information from you pertaining to the property identified as:

Course Name	
Address	
City	
Assessment Roll #	

Any information received will be treated in a confidential manner.

Failure to provide information has potential consequences.

Information Required

- * **Income and Expense Statements covering the past three years.**
- * **Financial Statements indicating major expenditures on course improvements, furniture, fixtures, equipment, carts, or building renovations over the past three years.**

Submission

Information can be submitted in the format used by the owner or manager or entered onto the enclosed form.

Minimum Information Requirement from Income and Expense Statement

- * Income breakdown
- * Green fees
- * Gross sales - pro shop, cart operations, driving range, restaurant & other
- * Membership sales & transfer fees - number and amount
- * Membership dues
- * Restaurant dues
- * Expense breakdown

B. Course Information Example

Course Name:
Address:

Date:

Course type*

Municipal	<input type="checkbox"/>	Private - equity	<input type="checkbox"/>
Public	<input type="checkbox"/>	Private - non-equity	<input type="checkbox"/>
Semi-private, some members	<input type="checkbox"/>		

<u>Number of holes</u>	No.	Par	RCGA/Golf Canada Slope Rating	Typical weekend fee
Championship	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Regulation	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Executive	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Par 3	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Land area:

Year opened:

	20__	20__	20__
Days open	<input type="text"/>	<input type="text"/>	<input type="text"/>
Number of rounds started**	<input type="text"/>	<input type="text"/>	<input type="text"/>
Number of members	<input type="text"/>	<input type="text"/>	<input type="text"/>
Number of new members	<input type="text"/>	<input type="text"/>	<input type="text"/>
Average initiation fee	<input type="text"/>	<input type="text"/>	<input type="text"/>
Average membership dues	<input type="text"/>	<input type="text"/>	<input type="text"/>
Average restaurant dues	<input type="text"/>	<input type="text"/>	<input type="text"/>

Facilities*

	<input type="checkbox"/>	Area (Sf)		<input type="checkbox"/>
Health club	<input type="checkbox"/>	<input type="text"/>	Driving range	<input type="checkbox"/>
Dining room	<input type="checkbox"/>	<input type="text"/>	Lockers	<input type="checkbox"/>
Lounge / bar	<input type="checkbox"/>	<input type="text"/>	Sauna	<input type="checkbox"/>
Banquet facilities	<input type="checkbox"/>	<input type="text"/>	Tennis courts	<input type="checkbox"/>
Pro shop	<input type="checkbox"/>	<input type="text"/>	Other: _____	<input type="checkbox"/>

* Check where appropriate.
 ** Rounds should be expressed in terms of 18 hole rounds.

C. Income and Expense Information – Request Form Example

THE INFORMATION REQUESTED ON THIS FORM CAN BE SENT IN YOUR OWN FORMAT (HARD COPY). THIS FORM TO BE FILLED OUT IN CASES WHERE INCOME AND EXPENSE INFORMATION IS OTHERWISE NOT AVAILABLE.

Course Name:	Date:	
Address:		

Revenues	20__	20__	20__
Total Green Fees			
Total Membership Dues			
Total Initiation & Transfer Fees			
Other Club / Locker Revenues			
Gross Rents (Pro shop, Restaurant, etc)			
TOTAL REVENUE			

Gross Sales			
Restaurant/ Lounge/ Concessions			
Pro shop			
Driving Range			
Golf Cart			
Other			

Expenses			
Maintenance and Operations			
Management, Admin. & Marketing			
Water			
Heat & Utilities			
Insurance			
Other golf course expense			
Total Operating Expenses			

Property Taxes			
----------------	--	--	--

Net Operating Income			
-----------------------------	--	--	--

Capital Expenditures			
Expenditure on:			

D. Classification of a Regular Golf Course Using a Quality Index

(The Quality Index System is based upon an article by J. George Moore titled Mass Appraisal of Golf Courses. Refer to the International Association of Assessing Officers, July/August 1999, Volume 6 – Number 4 Assessment Journal. Although the article has a U.S. context, it can also be applied to Canadian golf courses.)

The Quality Index can be used to determine the classification of a regular golf course using the following steps:

1. Assign points, as outlined in the quality index point system table.
2. Total all points to arrive at the Quality Index.
3. Classify the course by matching the calculated Quality Index with the proper classification:
 - Class 1 (Minimal Quality Course) 0 - 274 points
 - Class 2 (Simply Designed Course) 275 - 499 points
 - Class 3 (Typical Private-Type Club Course) 500 - 724 points
 - Class 4.1 (Better Championship Course) 725 - 799 points
 - Class 4.2 (Good Championship Course) 800 - 874 points
 - Class 4.3 (Excellent Championship Course) 875 - 949 points

The Quality Index can be utilized to determine the classification of grass green golf courses within Saskatchewan that would have typically incurred some engineering, design, landscaping, and irrigation costs in their development. Golf courses that do not meet the criteria may be valued at the same base land rate as similar land uses.

The Quality Index consists of fifteen items that take into consideration difficulty of play, age, condition, size and cost to construct. The items are:

- Total course acreage: This includes the land under the golf courses(s), clubhouse, parking lots, swimming pools, tennis courts, maintenance areas, and nurseries and other similar areas.
- USGA slope⁴ rating: This number is an indication of difficulty of play.
- Yards from the longest tee.
- Par.
- Golf course age.
- Acres of greens: The larger the greens, the more costly to build.

⁴ The “Slope Rating” in Canada is established by the Royal Canadian Golf Association (RCGA)/ Golf Canada, and is the measure of the relative playing difficulty of a course for players who are not scratch golfers. A golf course of standard playing difficulty would have a RCGA/ Golf Canada slope rating of 113. The lowest RCGA/ Golf Canada slope rating is 55 and the highest is 155.

- Number of sand traps and bunkers: Properly designed sand traps and waste bunkers will drain quickly after a hard rain, allowing play to resume within minutes.
- Maintenance costs: Higher maintenance costs indicate, for example, the presence of hard-to-maintain features that would preclude the use of gang mowers. Lower maintenance costs would indicate, for example, that the course is flat and featureless.
- Berms, undulations and moguls: These features may be above average, average, or below average.
- Elevated tees and greens: These features may be above average, average, or below average.
- Course condition: The general course condition may be rated above average, average, or below average.
- Irrigation system: The irrigation system may be manual, on a timer, or computerized.
- Golf cart bridges: A costly construction and maintenance expense item that adds interesting features to a course.
- Built to USGA specifications: Building to USGA specifications indicates a more expensive course as they are designed for maximum drainage, allowing play to resume quickly after a storm.
- Bulkhead tees, greens, and island greens: These added features to the course indicate a more expensive course.

Quality Index Point System Table

Total course acreage	<u>Acres</u>	<u>Pts</u>								
	20	10	60	50	100	90	140	130	180	170
	30	20	70	60	110	100	150	140	190	180
	40	30	80	70	120	110	160	150	200	190
	50	40	90	80	130	120	170	160	210	200
USGA slope rating	<u>Rate</u>	<u>Pts</u>								
	110	10	116	40	122	70	128	100	134	130
	112	20	118	50	124	80	130	110	136	140
	114	30	120	60	126	90	132	120	138	150
Yards from longest tee	<u>Yards</u>	<u>Pts</u>								
	1500	10	5000	40	5600	70	6200	100	6800	130
	2500	20	5200	50	5800	80	6400	110	7000	140
	3500	30	5400	60	6000	90	6600	120	7200	150
Par	<u>Par</u>	<u>Pts</u>								
	50	20	60	30	70	40	71	60	72	80
Course age	<u>Years</u>	<u>Pts</u>								
	1	30	7	24	13	18	19	12	25	6
	2	29	8	23	14	17	20	11	26	5
	3	28	9	22	15	16	21	10	27	4
	4	27	10	21	16	15	22	9	28	3
	5	26	11	20	17	14	23	8	29	2
	6	25	12	19	18	13	24	7	30+	1
Acres of greens	<u>Acres</u>	<u>Pts</u>								
	1.0	1	2.0	3	3.0	5	4.0	7	5.0	9
	1.5	2	2.5	4	3.5	6	4.5	8	5.5	10
Number of sand traps and bunkers	<u>No.</u>	<u>Pts.</u>								
	0	1	30	4	60	7	90	10	120	13
	10	2	40	5	70	8	100	11	130	14
	20	3	50	6	80	9	110	12	140	15
Maintenance costs (000's)	<u>\$</u>	<u>Pts</u>								
	0	0	300	30	600	60	900	90	1200	120
	100	10	400	40	700	70	1000	100	1300	130
	200	20	500	50	800	80	1100	110	1400	140

<u>Berms/undulations/moguls</u>	<u>Pts</u>	<u>Elevated tees and greens</u>	<u>Pts</u>	<u>Course condition</u>	<u>Pts</u>	<u>Irrigation System</u>	<u>Pts</u>
(1) Below average	20	(1) Below average	20	(1) Below average	20	Manual	10
(2) Average	40	(2) Average	40	(2) Average	40	Timer	20
(3) Above average	60	(3) Above average	60	(3) Above average	60	Computer	30

Golf cart bridges = 1 point each
 If greens are built to USGA specifications, add 10 pts.
 Add 5 points each for bulkheaded tees, greens, and island greens.
 For an accurate quality index number, interpolations within the group should be made.

9.0 Golf Course Valuation Guide

Subject Index

A

Actual Costs 16
Adjustments to Sale Prices 5, 17
Administration Expenses 21, 24-25
Approaches to Value
 Cost 2, 5-8, 10, 14, 16-17, 19, 31
 Income 2, 5-8, 10, 12, 14, 20-21, 23, 26-29, 31
 Sales Comparison 4-6, 10, 17
Assessed Value 1
Assessment Records 9
Assessors 3, 6, 8, 9, 10, 11, 12, 13, 17, 19, 22, 24, 25,
 26, 28, 30

B

Base Date 1-2, 16-17, 20, 26, 29
Building Improvements 4, 16-19

C

Capital Expenditure 25
Capitalization Rate 5, 10, 20-21, 26-28
Classification 8, 12-14, 17-18, 21, 40
Comparability 11-12, 14
Competition 5, 26
Construction and Development Costs 11
Conversion Factor, see Capitalization Rate
Cost Analysis 16-18, 31
Cost Approach 2, 5-8, 10, 14, 16-17, 19, 31
Cost Publications 11, 16, 18
Cost New, see Replacement Cost New
Cost per Acre 14
Cost per Hole 14, 18
Course Development 4, 11, 16, 18, 40
Course Improvements 4, 16-19

D

Data Analysis 13
Depreciation 6, 10-11, 16-19, 28, 31
Development Costs 4, 11, 16, 18, 40
Direct Capitalization 20-21, 26, 28
Discounted Cash Flow Analysis 20-21

E

Economic Life 16
Effective Tax Rate 27-28

Entry Fees (Annual) 10, 22-23
Excess Land 19, 29
Excess Operating Costs 19
Expense Statements 25, 28

F

Fee Simple 1, 4-5, 11, 25, 28-29
Furniture, Fixtures and Equipment (FF&E) 11, 25
Future Benefits 5, 20, 26

G & H

Green Fees 10-12, 22-23, 28-29
Gross Income 21
Gross Rental Income 23-24
Gross Rents 21, 24
Gross Revenue Potential 22

I

Income Analysis 29
Income Approach 2, 5-8, 10, 12, 14, 20-21, 23, 26-
 29, 31
Income Statement 23
Income Stream 5-6, 27
Information Sources 8, 16
Inspections 9, 12, 24

J, K & L

Judgement 3
Land Value 6, 16-18
Leases 24
Legislation, Market Value Based Assessment in
 Saskatchewan 1, 14
Location 2, 5-6, 9, 12-13, 17, 22, 24, 26

M

Management Expenses 24
Market Conditions 1, 11, 19, 20, 22, 29
Market Valuation Standard 1, 14
Market Value 1, 4-5, 19, 29
Market Value Based Assessment 1, 2-3, 6, 8, 13-14,
 16-17, 19, 20-22, 26, 29, 30
Market Value Based Assessments Definition 1
Marshall Valuation Service 8, 11, 12-13, 16, 18,
Mass Appraisal 1, 5, 13-14, 17, 20, 21, 26
Municipal Courses 4

9.0 Golf Course Valuation Guide

Subject Index

N

Net Effective Income 21, 25-26
Net Income 6, 20, 21, 25, 28-29
Net Operating Income 20, 21
Non-Assessable Items 5, 11, 25
Non-Golf Course Operations 10, 23, 25
Non-Profit Courses 2, 6

O

Obsolescence 17, 19
Operating Costs 25
Operation Expenses 21, 25
Other Values (Add/Deduct) 19, 22, 29
Owner's Business Expenses 28
Ownership 2, 4-5, 6, 22

P & Q

Personal Property 5-6, 11, 28
Potential Income 12, 21, 22, 29
Present Value 5, 20
Price per Round 11, 14,
Private Club Courses 22
Profit Oriented Courses 2, 4, 5-6, 12, 22-23, 25
Public Course 2, 22-23
Quality 2, 9, 11-13, 22-23, 26,
30
Quality Index 40-42

R

Recommendation 6
Rental Income 23-24
Rents 10, 20, 21, 24, 26
Replacement Cost New 17-19
Reproduction Costs 17
Reserve for Replacement 25, 28
Revenues 21, 22-25, 29
Rounds 11-12, 14, 22-23, 26

S

Sale/Purchase Decision 6
Sales 5, 11, 17, 21, 24, 26, 30
Sales Comparison Approach 4-6, 10, 17
Sales Data 5, 10-11, 16
SAMA's Cost Guide 16, 18
Semi-Private Course 22, 29
Single Property Appraisal Techniques, Use on
Appeal 1

Stabilized Expenses 21, 24-25
Stabilized Income 21
Stabilized Revenues 21, 23
Statistical Testing 1, 2, 5, 20, 30

T

Taxes 27, 28
Tenants 6, 24
Types and Sub Types of Courses 12-13

U, V & W

Valuation Approaches, see Approaches to Value
Valuation Parameters 2, 6, 12, 13, 14-15, 30

X, Y & Z

Yield Capitalization see Discounted Cash Flow
Analysis
Zoning 17