



Golf Course Valuation

Department of Local Government Finance

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Golf Course Valuation

- Basic Definitions and Information
- Example
- Data Collection Sheet



Golf Course Valuation

- HEA 1001 – 2009 (ss) stipulated that for assessments after January 15, 2010 (i.e., starting with the March 1, 2010 assessment), the true tax value of a golf course will be determined by applying the income capitalization approach. The income approach should provide for the uniform and equal assessment of golf courses of similar grade quality and play length. The value of personal property, intangible property, and the income derived from personal property or intangible property is excluded.



Golf Course Valuation

- Golf carts are considered to be personal property; hence, the DLGF has interpreted this statute to exclude the income derived from the rental of golf carts from the income approach to valuation. This could have a significant impact on the valuation of the golf courses. Assessing officials should closely review the income and expense statements of the taxpayer to ensure golf cart rental income and expenses are not included in the valuation.



Golf Course Valuation

- For assessment dates after January 15, 2010 and before March 1, 2012, a township assessor (if any) or the county assessor shall gather and process information from the owner of a golf course to carry out these provisions. For assessment dates after February 28, 2012 (i.e., the March 1, 2012 assessment date), the DLGF is to establish uniform income capitalization tables and procedures for the assessment of golf courses. Assessing officials shall use these tables and procedures to assess, reassess, and annually adjust the assessed values of golf courses.



Golf Course Valuation

- In the December 15, 2009 memo, it was requested that counties forward copies of the income and expense statements in an electronic format to the Department. Assessing officials are again requested to electronically submit income and expense statements for 2008, 2009, and 2010. The data and information collected by the assessing official and subsequently forwarded to the Department is considered **confidential** to facilitate full disclosure by the golf course owner.



Golf Course Valuation

- If an assessor cannot obtain income and expense information for golf courses in their jurisdiction, to derive a value, prior year information may have to be used.
- Other resources, such as appraisals, which may contain information like capitalization rates, may be used in the process to derive an estimated value.



Golf Course Valuation

- Although each situation is different, great deference is given to local control. In other words, the assessing official will make a determination on what the assessed value should be placed on the property.
- If a zero or negative assessment exists, the assessor should first carefully review the financial information to ensure that all income and expense information is accurate, and also review the capitalization rate.



Golf Course Valuation

- If the assessment is still a zero or negative value after the review, the assessor should at least assess the land value of the property, as the property would carry some value if the golf course owner tried to sell the property.
- Additionally, as part of the annual adjustment process, each assessment year stands on its own. The assessor should review the income and expense information (if available) to determine if a change is warranted, and not simply carry-over the assessed value from year to year.



Golf Course Valuation

- The DLGF has provided guidance on golf course valuation issues:
- <http://www.in.gov/dlgf/files/090817> - Wood Memo - Valuation of Golf Courses - Legislative Changes.pdf
- <http://www.in.gov/dlgf/files/091215> - Wood Memo - Golf Course Valuation Guidance Supplement.pdf
- [http://www.in.gov/dlgf/files/Golf Course DataCollection Sheet.xls](http://www.in.gov/dlgf/files/Golf%20Course%20DataCollection%20Sheet.xls); and <http://www.in.gov/dlgf/files/110505> - Wood Memo - Golf Course Guidance.pdf



Golf Course Valuation

- The Income Capitalization approach is one of three approaches to the valuation of real property. The appraiser derives a value indication for income-producing property by converting the anticipated benefits through ownership of property. (Source: International Association of Assessing Officers – Course #102 “Income Approach to Valuation”).
- It is based on the economic principles of:
 - Anticipation
 - Change
 - Supply and demand and competition
 - Substitution
 - Balance and contribution



Golf Course Valuation

Real estate competes with other investments for the investor's dollars. All investors want a return **on** their investment. All investors want a return **of** their investment.

- “**IRV**” – A Generic Capitalization Formula
- I (income) = Rate x Value
- R (rate) = $\text{Income}/\text{Value}$
- V (value) = $\text{Income}/\text{Rate}$



Golf Course Valuation

- For example, a corner lot in a business district is used as a parking lot. The monthly income earned is \$2,000. The owner's required rate of return for this type of property is 6.5% per year. What is the value of this property?

Monthly Income	\$2,000
	<u>x 12</u>
Annual Income	\$24,000

IRV Formula: $V = I/R$ $\$24,000/.065 = \$369,230$

Capitalization can be defined as the process to convert income into an estimate of value.



Golf Course Valuation

- **Basis of Income:**

For a golf course, there may be several different sources of income, including green fees, membership dues, concessions, and other miscellaneous sources.



Golf Course Valuation

■ Income and Expense Statement:

Reconstructed from the owner's statement. Format:

- Gross Income Estimate (potential gross income)
- Miscellaneous Income
- Effective Gross Income
- Allowable Expenses
 - Operating
 - Replacement Reserves
 - Real Estate taxes (deducted under certain conditions, for example, when calculating for property tax purposes)



Golf Course Valuation

- **Allowable Expenses (continued):**
 - Management fees/expense
 - Insurance
 - Salaries
 - Benefits
 - Utilities
 - Advertising
 - Repairs
 - Supplies
 - Legal and Accounting Fees
 - Miscellaneous Expenses
 - Replacement Reserves



Golf Course Valuation

■ Non-allowable expenses:

- Depreciation (reflected in the recapture rate)
- Capital improvements
- Franchise fees and special corporation costs
- Owner's personal expenses (income taxes, etc.)
- Debt service (principal and interest on mortgage)
- Payments on loans for capital improvements
- Real Estate taxes (not deducted as an expense under certain conditions – reflected in the effective tax rate).



Golf Course Valuation

- Total Operating Expenses
- Replacement Reserves
- Total Expenses

- Net Operating Income



Golf Course Valuation

■ Income and Expense Statement for the “Missing Links” Course:

INCOME	2010	2009	2008	3-Year Average
Rounds Played	1000	900	950	
GOLF INCOME				
Green Fees	\$33,000	\$32,000	\$33,500	
Annual Golfing	\$75,000	\$68,000	\$70,000	
Member Dues				
Driving Range	\$10,500	\$8,750	\$9,000	
Miniature Golf Sales	\$8,500	\$7,000	\$7,800	
Club Storage	\$1,200	\$900	\$1,000	
Total Golf EGI	\$128,200	\$116,650	\$121,300	\$122,050



Golf Course Valuation

- **Income and Expense Statement for the Missing Links Golf Course:**

NON-GOLF INCOME	2009	2009	2008	3-Year Average
Pro Shop Sales	\$5,000	\$4,000	\$4,750	
Food & Beverage Sales	\$37,500	\$35,000	\$36,000	
Annual Non-Golfing	\$16,000	\$13,000	\$14,500	
Member Dues				
Other Income	\$1,200	\$1,000	\$1,500	
Total Non-Golf Income	\$59,700	\$53,000	\$56,750	\$56,483
Total Enterprise Income				\$178,533



Golf Course Valuation

- Income and Expense Statement for the Missing Links Golf Course:

GOLF EXPENSES	2010	2009	2008	3-Year Average
Course Maintenance	\$16,000	\$15,250	\$14,750	
Course Maintenance Salaries	\$27,000	\$25,500	\$28,750	
Irrigation	\$7,500	\$7,000	\$6,500	
Advertising/Promotion	\$1,000	\$1,000	\$1,000	
@ 50%				
Facilities Insurance @ 25%	\$3,500	\$3,500	\$3,500	
Management @ 10%	\$12,820	\$11,665	\$12,130	
Golf EGI				
Replacement Reserves	\$2,000	\$1,800	\$1,900	
@ \$2/round				
Total Golf Expenses	\$69,820	\$65,715	\$68,530	\$68,022



Golf Course Valuation

- **Income and Expense Statement for the Missing Links Golf Course:**

Non-Golf Expenses	2010	2009	2008	3-Year Average
Other Real Estate	\$5,000	\$3,500	\$4,750	
Maintenance				
Other Salaries	\$30,000	\$27,800	\$29,250	
Other Utilities	\$5,500	\$5,000	\$4,750	
Advertising/Promotion	\$1,000	\$1,000	\$1,000	
@ 50%				
Facilities Insurance @ 75%	\$10,500	\$10,500	\$10,500	
Cost of Pro Shop Sales	\$3,000	\$2,750	\$2,500	
Cost of Food/Beverage Sales	\$14,250	\$13,500	\$16,000	
Management @	\$5,970	\$5,300	\$5,675	
10% Non-Golf EGI				



Golf Course Valuation

- **Income and Expense Statement for the Missing Links Golf Course:**

	2010	2009	2008	3-Year Average
Total Non-Golf Expenses	\$75,220	\$69,350	\$74,425	\$72,998
Total Enterprise Expenses				\$141,020
Total Enterprise NOI				\$37,513
Capitalize @ 13%*				\$288,562
				\$288,600
Market Value In Use of Real Estate			\$288,600	

* Capitalization rate for illustrative purposes only.



Golf Course Valuation

■ Capitalization Rate:

Determining the Net Operating Income is a key determinant in establishing the value of a property in the income approach. The other key component that can have a significant effect on the total value of the property is the capitalization rate.

We will focus on the “Overall Capitalization Rate” (OAR) which expresses the relationship between net operating income and the market value of the property.



Golf Course Valuation

Capitalization Rate (continued):

It can be developed using the following:

- Market Extraction
- Effective Tax Rate
- Mortgage & Equity
- Discounted Cash Flow



Golf Course Valuation

Capitalization Rate (continued):

- Contrary to popular belief, the OAR is not always “10”!
(Different classes of property will have different rates)
- The OAR reflects risk, liquidity (or lack thereof), potential for growth in net income, and general requirements of the investor.
- To determine the value of the property (simplistically), divide the Net Operating Income by the Overall Rate.



Golf Course Valuation

■ Missing Links Golf Course:

For example (using our previous NOI):

- \$37,513 divided by a 7% OAR = \$535,900
- \$37,513 divided by a 10% OAR = \$375,130
- \$37,513 divided by a 14% OAR = \$267,950



Golf Course Valuation

So now that we know the capitalization rate can have a significant impact on the value of the property, what other things can make a difference?

- Replacement Reserves: This allows a fund to be collected to replace items that will wear out. For example, an apartment complex may establish a replacement reserve for the roof, furnace, water heater, carpet, etc. These items are deducted after the operating expenses (included in the total expenses).
- For a golf course, these items could possibly include a roof or carpeting for the clubhouse, a water heater, furnace, etc.
- The amount of income and expenses are the other things that will obviously have an impact on the bottom-line.



Golf Course Valuation

- **Steps to Determine Value:**
 - Determine Effective Gross Income from Golf
 - Determine Non-Golf Income
 - Total Enterprise Income
 - Deduct Expenses and Replacement Reserve



Golf Course Valuation

- **Steps to Determine Value (continued):**
 - Net Operating Income
 - Capitalize
 - Does one size fit all – not necessarily!



Golf Course Valuation

■ Data Collection Sheet:

Course

Name: _____

Date: _____

Address: _____

Parcel #'s _____

Ownership: _____

Course

Designer: _____



Golf Course Valuation

- **Data Collection Sheet:**
 - Course Type/Operation:**
 - Regulation
 - Executive Par 3
 - Public/Semi-Private
 - Private Resort
 - Land:**
 - Total Acreage
 - GC Acreage
 - Type of Terrain



Golf Course Valuation

- **Data Collection Sheet:**

- Course Layout:**

- # of Holes
- Par
- Yardage
- Slope
- Rating
- Annual # of Rounds



Golf Course Valuation

- **Data Collection Sheet:**

- Course Ownership:**

- "S" Corporation
- U.S. Corporation
- Partnership
- Sole Proprietorship



Golf Course Valuation

- **Data Collection Sheet:**

- Golf Rates:**

- Membership Rates Type/Amount
- Green Fees (Off-Season)
 - Weekday
 - Weekend
- Green Fees (In-Season)
 - Weekday
 - Weekend



Golf Course Valuation

- **Data Collection Sheet:**
 - Cart Fees (Off-Season)
 - Weekday
 - Weekend
 - Cart Fees (In-Season)
 - Weekday
 - Weekend
 - Other Rates
 - Type/Amount



Golf Course Valuation

- **Data Collection Sheet:**

Other Rates:

- Driving Range
- Bucket Price
- Season Pass
- Club Storage
- Other



Golf Course Valuation

- **Data Collection Sheet:**
 - Clubhouse Amenities:**
 - Bar/Restaurant
 - Snack Bar
 - Banquet Facilities
 - Pro Shop
 - Full-Line
 - Basic-Line



Golf Course Valuation

- **Data Collection Sheet:**

Other Amenities:

- Pool
- Tennis Courts
- Rain Shelters

Miscellaneous Comments



Contact The Department

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