

**HOW TO USE A COURSE'S INCOME TO CHECK
THE COST APPROACH VALUE**

How to Use a Golf Course's Income to Check the Cost Approach Valuation

The subject is a well maintained, good quality, regulation size, 18-hole course with a cost approach generated value of \$4,700,000. The financial statements for the property are detailed on the following page.

The following information is available or has been ascertained:

- Capitalization rates on known golf course sales range from 6.5 to 10%.
- Other competing investment property cap rates range from 7 to 10%.
- Typical stabilized expense ratios on golf courses range from 60 to 80%.

Procedure:

Multiply the cost approach value by the selected capitalization rate. As the subject is located in a strong urban location, the lower range of the value is chosen.

$\$4,700,000 \times 8\% = \$376,000$ of net income required to derive a value of \$4,700,000 by the income approach.

The second step is to take the required net income of \$376,000 and divide it by the inverse of the chosen stabilized expense ratio. As this is a good quality course, that is well maintained, a 70% expense ratio is selected.

$\$376,000 / .30 = \$1,253,000$ of gross profit is required to generate an income approach value of \$4,700,000.

As the subject property's stabilized gross profit is \$1,171,500, it would appear that the cost approach valuation is slightly high based on the income generated by the course by approximately 7% ($\$1,253,000 / \$1,171,500$).

If the assessed value of the same course by the cost approach was \$3,800,000, the same procedure would indicate a gross profit of \$1,013,000 would be required to support the indicated cost approach value. As the subject generates \$1,171,500 of stabilized gross profit, it would appear the cost approach value of \$3,800,000 is conservative.

Actual Stabilized Income & Expense Statement

| REVENUES | | | | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2005 | 2006 | 2007 | Stabilized |
| Memberships | \$ 303,838 | \$ 329,612 | \$ 354,097 | \$ 350,000 |
| Green Fees | \$ 516,224 | \$ 527,837 | \$ 563,907 | \$ 570,000 |
| Food and Beverage | \$ 329,192 | \$ 359,659 | \$ 393,286 | \$ 395,000 |
| Cart storage and Trackage | \$ 7,196 | \$ 7,764 | \$ 8,144 | \$ 8,500 |
| Other | \$ 18,079 | \$ 21,979 | \$ 28,175 | \$ 26,000 |
| Total Revenue | \$1,174,529 | \$1,246,851 | \$1,347,609 | \$1,349,500 |
| Cost of Sales | \$ 145,789 | \$ 167,593 | \$ 186,800 | \$ 178,000 |
| Gross Profit | \$1,028,740 | \$1,079,258 | \$1,160,809 | \$1,171,500 |

| EXPENSES | | | | |
|---------------------------------|------------------|--------------------|------------------|------------------|
| | 2005 | 2006 | 2007 | Stabilized |
| Expenses | | | | |
| Administrative | \$ 6,293 | \$ 9,711 | \$ 4,436 | \$ 6,500 |
| Advertising and Promotion | \$ 12,816 | \$ 15,190 | \$ 12,902 | \$ 13,000 |
| Amortization of Capital Assets | \$122,139 | \$ 130,288 | \$ 91,743 | \$118,000 |
| Audit and Legal | \$ 9,842 | \$ 7,300 | \$ 8,063 | \$ 8,100 |
| Bad Debts | \$ 340 | - | - | - |
| Bank Charges | \$ 10,082 | \$ 8,388 | \$ 10,417 | \$ 1,000 |
| Course Maintenance | \$ 27,027 | \$ 46,368 | \$ 45,385 | \$ 46,000 |
| Employee Benefits | \$ 34,880 | \$ 35,148 | \$ 34,360 | \$ 35,000 |
| Equipment Rent and Leases | \$ 2,883 | \$ 2,860 | \$ 3,039 | \$ 3,000 |
| Fertilizer, Seed and Chemicals | \$ 40,210 | \$ 44,199 | \$ 52,861 | \$ 50,000 |
| Food and Beverage Operations | \$154,570 | \$ 164,611 | \$166,607 | \$184,450 |
| Insurance, Licenses and Permits | \$ 20,891 | \$ 25,868 | \$ 22,781 | \$ 23,000 |
| Interest on Long Term Debt | \$ 80,156 | \$ 68,472 | \$ 63,194 | - |
| Junior Development | \$ 1,063 | \$ 1,107 | \$ 686 | \$ 2,000 |
| Memberships and Dues | \$ 10,298 | \$ 20,118 | \$ 16,447 | \$ 17,500 |
| Property Taxes | \$ 1,769 | \$ 1,959 | \$ 794 | \$ 1,000 |
| Repairs and Maint - Blgs | \$ 10,054 | \$ 20,029 | \$ 14,788 | \$ 15,000 |
| Repairs and Maint - Equip | \$ 29,133 | \$ 25,492 | \$ 25,383 | \$ 25,000 |
| Repairs and Maint - Irrigation | \$ 14,734 | \$ 16,633 | \$ 14,900 | \$ 15,000 |
| Telephone and Utilities | \$ 24,424 | \$ 23,777 | \$ 24,347 | \$ 25,000 |
| Travel and Meetings | \$ 3,895 | \$ 5,261 | \$ 2,323 | \$ 3,500 |
| Wages and Contracts | \$319,677 | \$ 341,007 | \$357,251 | \$360,000 |
| Weather Event Damage | \$ 1,196 | \$ 5,001 | - | - |
| Subtotal | \$938,372 | \$1,018,787 | \$972,707 | \$952,050 |