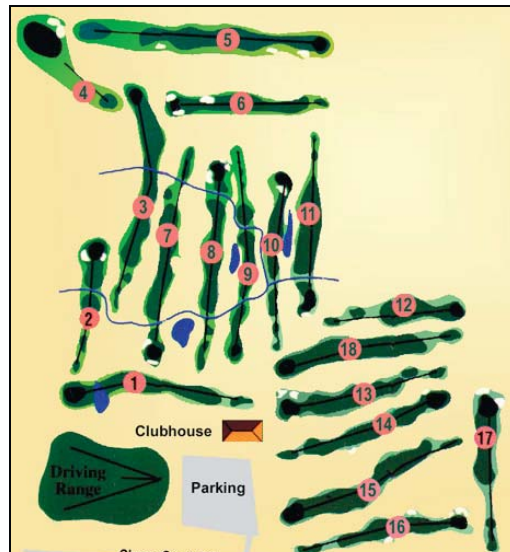


## **SAMPLE INCOME APPROACH VALUATION**

**INCOME APPROACH VALUATION  
OF  
THE ODYSSEY GOLF & COUNTRY CLUB**



Course Name: The Odyssey  
Location: Mid-sized city.  
Green Fees at Sale Date: \$54  
Site Size: 130 acres  
Slope (Back Tees): 121  
Length (Back Tees): 6,632  
Year Built: 1996 Clubhouse, 1996 Maintenance Building  
Clubhouse Size: 10,380  
Depreciated Value of Bldgs: \$1,044,000  
Course Class/Type: Class III, Type II  
# of Holes: 18  
Comments: Good quality, well maintained, popular course and clubhouse.



The Odyssey Clubhouse



The Odyssey Maintenance Building

## INCOME APPROACH VALUATION

An example of the income approach methodology has been applied in the valuation of a hypothetical golf course known as The Odyssey Golf Club. Actual income and expenses from an operating golf course have been utilized in order to provide factual figures in the valuation.

As discussed earlier in the module, the income approach, like the other two approaches to value, involves a series of steps that lead to an estimate of value. In order to establish an estimate of value for The Odyssey Golf Club, the following steps are required:

1. Gather pertinent information regarding the physical characteristics of the golf course and buildings.
2. Analyze and stabilize three years of detailed financial statements.
3. Enter the stabilized income figures to the valuation input form.
4. Select the appropriate economic expense ratio after reviewing the actual expenses.
5. Select golf course sales as similar as possible to The Odyssey.
6. Determine and enter an appropriate capitalization rate on the valuation form.
7. Complete the golf course valuation and establish an estimate of value.
8. Utilize the gross income multiplier (GIM) method to determine if the value estimate falls between an acceptable range.

The figures relied upon in the following example are for illustrative purposes only. Market data from local areas should be relied upon wherever possible.

**The Odyssey - Actual Income & Expenses Stabilized**

	2005	2006	2007	3 YEAR AVG	STABILIZED
<b>Revenue</b>					
Food and Beverage Sales	\$ 625,680	\$ 705,658	\$ 839,920	\$ 723,753	\$ 835,000
Pro Shop Sales	\$ 166,325	\$ 176,422	\$ 220,042	\$ 187,596	\$ 215,000
Cost of Sales	\$ 346,081	\$ 386,208	\$ 476,982	\$ 403,090	\$ 475,000
<b>Gross Profit</b>	<b>\$ 445,924</b>	<b>\$ 495,872</b>	<b>\$ 582,980</b>	<b>\$ 508,259</b>	<b>\$ 575,000</b>
<b>Other Revenue Sources</b>					
Green Fees	\$ 719,481	\$ 795,242	\$ 840,244	\$ 784,989	\$ 840,000
Membership Fees	\$ 439,101	\$ 472,852	\$ 545,051	\$ 485,668	\$ 538,000
Driving Range	\$ 50,023	\$ 45,223	\$ 52,324	\$ 49,190	\$ 50,000
Cart Rentals	\$ 177,915	\$ 180,932	\$ 203,767	\$ 187,538	\$ 200,000
Gain (loss) on Capital As- sets	\$ 5,220	\$ 8,771	\$ 9,163	\$ 1,871	\$ 0
Interest	\$ 14,727	\$ 27,661	\$ 28,001	\$ 23,463	\$ 30,000
Miscellaneous	\$ 2,839	\$ 14,704	\$ 23,687	\$ 13,743	\$ 13,700
<b>Total Other Revenue</b>	<b>\$1,409,306</b>	<b>\$1,527,843</b>	<b>\$1,702,237</b>	<b>\$1,546,462</b>	<b>\$1,671,700</b>
<b>Total Revenue</b>	<b>\$1,855,230</b>	<b>\$2,023,715</b>	<b>\$2,285,217</b>	<b>\$2,054,721</b>	<b>\$2,246,700</b>
<b>Expenses</b>					
Advertising & Promotion	\$ 56,346	\$ 73,227	\$ 84,383	\$ 71,319	\$ 80,000
Amortization	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Bad debts	\$ 1,438	\$ 885	\$ 861	\$ 1,061	\$ 850
Equipment Rental	\$ 22,970	\$ 17,795	\$ 10,378	\$ 17,048	\$ 15,000
Fertilizers & Chemicals	\$ 46,479	\$ 49,396	\$ 46,614	\$ 47,496	\$ 47,500
Gas and Oil	\$ 36,585	\$ 43,361	\$ 46,896	\$ 42,281	\$ 48,000
Insurance	\$ 21,934	\$ 27,888	\$ 31,011	\$ 26,944	\$ 32,000
Interest & Bank Charges	\$ 27,987	\$ 34,508	\$ 37,172	\$ 33,222	\$ 37,000
Licenses, Dues & Fees	\$ 3,631	\$ 8,502	\$ 8,249	\$ 6,794	\$ 8,300
Management Fees	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 80,000
Office	\$ 37,904	\$ 33,204	\$ 43,462	\$ 38,190	\$ 38,000
Professional Fees	\$ 57,830	\$ 45,194	\$ 33,615	\$ 45,546	\$ 35,000
Property Taxes	\$ 54,438	\$ 48,477	\$ 39,223	\$ 47,379	\$ 42,000
Repairs & Maintenance	\$ 153,571	\$ 165,244	\$ 286,960	\$ 201,925	\$ 185,000
Supplies	\$ 47,703	\$ 71,749	\$ 69,595	\$ 63,016	\$ 65,000
Utilities	\$ 59,544	\$ 69,544	\$ 70,787	\$ 66,625	\$ 70,700
Wages & Employee Benefits	\$ 690,695	\$ 773,267	\$ 881,390	\$ 781,784	\$ 882,000
Total Expenses	\$1,419,055	\$1,562,241	\$1,790,596	\$1,590,631	\$1,666,350
<b>Net Income</b>	<b>\$ 436,175</b>	<b>\$ 461,474</b>	<b>\$ 494,621</b>	<b>\$ 464,090</b>	<b>\$ 580,350</b>
<b>Expense Ratio</b>					<b>74.2%</b>

**Name of Course:** The Odyssey Golf Course  
**Assessment No.:** 1222.555

	2005	2006	2007	3 YEAR AVERAGE	ECONOMIC STABILIZED
Number of Rounds:	37,500	38,000	38,400	37,967	<b>38,300</b>
<b>Income Reported</b>					
Green Fees:	\$ 719,481	\$ 795,242	\$ 840,244	\$ 784,989	
Membership Fees:	\$ 439,101	\$ 472,852	\$ 545,051	\$ 485,668	
<b>Total Golf Income:</b>	\$1,158,582	\$1,268,094	\$1,385,295	\$1,270,657	
<b>Average Green Fee:</b>	\$ 30.90	\$ 33.37	\$ 36.08	\$ 33.45	<b>\$ 36.00</b>
Driving Range:	\$ 50,023	\$ 45,233	\$ 52,324	\$ 49,193	<b>\$ 50,000</b>
Other Income:	\$ 2,839	\$ 14,704	\$ 23,687	\$ 13,743	<b>\$ 13,700</b>
<b>Total Other:</b>	\$ 52,893	\$ 59,970	\$ 76,047	\$ 62,970	
Food & Beverage Gross Sales	\$ 625,680	\$ 705,658	\$ 839,920	\$ 723,753	<b>\$835,000</b>
Pro Shop Gross Sales	\$ 166,325	\$ 176,422	\$ 220,042	\$ 187,596	<b>\$215,000</b>
Golf Cart Rental:	\$ 177,859	\$ 180,992	\$ 203,767	\$ 187,539	<b>\$200,000</b>
<b>Total Income (Golf &amp; Other Only):</b>	\$1,211,475	\$1,328,064	\$1,461,342	\$1,333,627	
<b>Expenses</b>					
Expense Ratio (Total Expenses/Total Income on Valuation Form):					<b>70%</b>
<b>Add:</b> 3% Reserve for Replacements					<b>3%</b>
<b>Overall Expense Ratio:</b>					<b>73%</b>

Economic Expense Ratio Analysis				
COURSE	ADMIN %	COURSE MAINTENANCE %	TOTAL EXPENSE %	MAINTENANCE COST/ACRE
1	35	41	76	\$4,787
2	35	38	73	\$4,790
3	39	38	77	\$4,657
4	39	39	78	\$4,852
5	31	37	68	\$4,400
6	37	33	70	\$3,897
7	32	37	69	\$5,486
<b>AVG</b>	<b>35.4</b>	<b>37.6</b>	<b>73.0</b>	<b>\$4,696</b>
Range is 68% to 78% with an average of 73%				

### COMPARABLE SALES CHART

	SALE # 1	SALE # 2	SALE # 3	SALE # 4	LISTING
<b>Course Name</b>	The Plains	View Royal	Granite Rock	Spring Meadows	Edgewater
<b>Location</b>					
<b>Sale Date</b>	Feb-08	Apr-07	Mar-05	Jun-06	Feb-08
<b>Sale Price</b>	\$3,450,000	\$3,900,000	\$4,300,000	\$6,500,000	\$7,350,000
<b>Cap Rate- Stabilized Economic</b>	7.0%	7.3%	8.3%	8.5%	6.2%
<b>GIM- Stabilized Economic</b>	4.2	4.1	3.3	3.8	5.9
<b>Green Fees at Sale Date</b>	\$44	\$37	\$55	\$60	\$65
<b>Site Size</b>	135 Acres	118 Acres	112 Acres	148 Acres	140 Acres
<b>Slope (back tees)</b>	118	122	117	133	125
<b>Length (back tees)</b>	6,275 yards	6,157 yards	6,052 yards	7,134 yards	6,120 yards
<b>Year Built</b>	1980	1988	1994	1998	1991
<b>Clubhouse Size</b>	4,800 sq ft	3,940 sq ft	10,834 sq ft	8,700 sq. ft.	13,200 sq ft
<b>Depreciated Value of Buildings</b>	\$650,400	\$568,600	\$912,000	\$1,160,000	\$1,354,000
<b>Course Class/Type</b>	3/I	2/II	3/II	3/III	3/II
<b>Number of Holes</b>	18	18	18	18	18
<b>Sale Price per Hole</b>	\$191,667	\$216,667	\$238,889	\$361,111	\$408,333
<b>Comments</b>	Course in rough shape at sale.				Listing only

## CAPITALIZATION RATE SELECTION

The following sales have occurred throughout the province over the past few years. The selection of sales has been limited to those deemed to be the most comparable to the subject property.

### **Index 1**                      The Plains Golf Club

The Plains golf course is semi-private club located just outside the urban area of a mid-sized city. The property has suffered from two years of severe winter damage and consequently golf income was affected. The golf course is considered a class 3; it has a spacious clubhouse and older maintenance building. There is no driving range. The capitalization rate indicated by this recent sale is 7.0% and the GIM is 4.2.

### **Index 2**                      View Royal Golf Course

This course sold in April 2007 and is an average quality course located on edge of a major city. The course is popular due to its reasonable green fee, ease of play and practice facility with a natural grass driving range. The clubhouse is basic but adequate for the market they cater to. The cap rate indicated is 7.3% and the GIM is 4.1.

### **Index 3**                      Granite Rock Golf Course

This March 2005 sale is the most dated of the five comparable properties. The course is one of several class 3 courses located in this area that caters to the summer tourist. The altitude limits the playing season and creates challenges for course maintenance. The clubhouse is somewhat oversized for the location. The cap rate indicated is 8.3% and the GIM is 3.3.

### **Index 4**                      Spring Meadows Golf & Country Club

This semi-private, championship quality, course is considered the highest quality course of the five comparables. It is located within a mid-sized urban city and is very popular and busy throughout the golf season. With \$60 green fees they attract more experienced and affluent golfers. The high quality clubhouse's food and beverage revenue is high due the course's popularity for weddings and banquets. The cap rate indicated is 8.5% and the GIM is 3.8.

### **Index 5**                      Edgewater Golf Course

This comparable is an active listing of a semi-private class 3 course located just outside a major urban centre. The clubhouse is popular for weddings and banquets; it also has a driving range with covered stalls. The low cap rate of 6.2% and high GIM indicate the course may be overpriced for the amount of revenue it generates.

**Golf Course Valuation Summary**

Year: **2008**  
 Roll# 1222.555

**The Odyssey Golf Course**

**GOLF INCOME**

38,300 rounds p.y. x \$ 36.00 average rate per round = \$ 1,378,800

**CLUBHOUSE AND OTHER INCOME**

	<b>Gross Sales</b>		<b>% of Sales</b>			
Food & Beverage	<u>\$835,000</u>	x	<u>6%</u>	=	<u>\$ 50,100</u>	
Pro-Shop	<u>\$215,000</u>	x	<u>5%</u>	=	<u>\$ 10,750</u>	
Cart Rental	<u>\$200,000</u>	x	<u>10%</u>	=	<u>\$ 20,000</u>	
Other	<u>\$0</u>	x	<u>0%</u>	=	<u>\$ -</u>	
						<u>\$ 80,850</u>

**OTHER INCOME**

Driving Range	<u>\$ 50,000</u>
Other (i.e. locker rental)	<u>\$ 13,700</u>
Miscellaneous	<u>\$ -</u>
	<u>\$ 1,523,350</u>

**GROSS INCOME**

**TOTAL EXPENSES**

**73%** \$ 1,053,025

**NET OPERATING INCOME**

\$ 470,325

Capitalization Rate	8.0%
Indicated Value	<u>\$ 5,879,063</u>
Less Non-Assessables	<u>\$ 400,000</u>

**TOTAL VALUE INDICATED BY THE INCOME APPROACH**

**\$ 5,479,063**

**COMMENTS:**

Other income is locker rental.

Sample Disclaimer:

*This information is obtained from various sources and is determined as of specific dates set out in the Municipal Government Act. While we provide this summary information in good faith, it does not warrant, covenant, or guarantee the completeness and accuracy of this information.*

### **Capitalization Rate Summary**

The five comparable properties indicate a capitalization rate that ranges from a low of 6.2%, for the one listing, to 8.5% for the 2006 sale of the Spring Meadows Golf & Country Club. The average of the four sales is 7.8%. The two best comparables are Index 3 at 8.3% and Index 4 at 8.5%, but both are older sales. The most recent sales indicate a trend to lower capitalization rates therefore a rate of 8.0% is considered appropriate for the subject property.

### **Gross Income Multiplier Analysis and Summary**

When the comparable sales chosen and the subject property share many of the same attributes, the gross income multiplier (GIM) method, can be utilized to establish a reasonable range of value for the subject. The five comparable properties, considered to be similar to the subject, indicate a GIM range of 3.3 to 5.9.

By excluding Index # 5 which is a listing, not a sale, the GIM range narrows to 3.3 to 4.2.

By excluding Sale #5, the Subject's economic gross income figure of \$1,523,350, applied against the GIM range of 3.3 to 4.2, would indicate a value range of \$5,027,000 to \$6,398,000.

### **Income Approach Summary**

The direct capitalization method indicates a value of \$5,879,063 for The Odyssey Golf Club, before an allowance for non-assessables has been considered. This value estimate is considered reasonable, as it falls within the acceptable range indicated by the gross income multiplier method.