

Valuation Guide
Golf Courses

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Golf Course Valuation Guide

1.0 Introduction

Golf courses are unique properties, both in their design features and location. Golf course clubhouses range from simple meeting facilities to elaborate halls used for banquets. These variances add to the playing appeal of the courses, but make direct comparisons difficult and complicate their valuation.

There are many types and qualities of golf courses:

Short courses from 9 to 18 holes, up to 5,000 yards in length,

Regular 18 hole courses, from 5,700 to 6,500 yards in length, and

Championship courses from 6,500 to 7,200 yards in length.

Some of the larger golf course properties have 27 or 36 holes. Golf courses also offer a range of service levels, from a simple check-in booth to restaurants, pro-shops, concessions, locker rooms and other recreational facilities such as tennis courts.

The types and objectives of golf course ownership also vary across a broad spectrum:

Private equity facilities cater to an exclusive number of members and their guests. They are generally operated on a non-profit basis.

Private non-equity facilities may operate on either a non-profit or profit-oriented basis.

Semi-private facilities combine membership rights with being open to the public at specific times, on a fee-paying basis. They generally operate on a profit-oriented basis.

Municipally owned public courses are open to the public on a fee-paying basis and are provided as part of the community's recreational facilities. The financial objectives of municipal courses are generally to recover operating costs.

Courses purchased for their future development potential.

Tax-exempt courses.

1.1 Types of Golf Courses Covered in This Guide

This 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 This Valuation Guide

This valuation guide, which is designed as an aid for the valuation of golf courses for assessment purposes:

Sets out a procedure to follow to derive golf course market values using the *cost approach*,

Sets out a procedure to follow to derive golf course market values using the *income approach*,

With the accompanying spreadsheets, provides a practical tool for estimating the market values of golf courses, and

Sets out guidelines and controls that establish statistically sound market values for golf courses as of various valuation dates, by application of valuation parameters in the cost manuals and those established for the income approach.

This valuation guide is designed as a tool to enable the assessor to derive market values; it is not meant to replace the assessor's judgment. The methods presented in this valuation guide are aimed at deriving values for a range of golf courses with typical attributes and under typical conditions.

2.0 *Analysis of Valuation Approaches*

2.1 Highest and Best Use Considerations

The minimum value of a golf course is represented by its unimproved land value.

Since golf courses consist of large tracts of ostensibly undeveloped land, assessors should always consider the highest and best use and development potential, if any, when determining their market value.¹ A property with a higher value under an alternate permitted use should **not** be valued as a golf course.²

The valuation procedures contained in this guide are based upon the assumption that the highest and best use of the property is as a golf course.

Restrictions on the Land Value

To value the land being used as a golf course assessors should take into account only the zoning and other restrictions on the use of the land imposed by governments. **Land title restrictions or other legal arrangements between private parties, such as those found in some privately run golf clubs, do not affect the value of land and buildings for assessment purposes.**

¹ City of Toronto v Ontario Jockey Club Ltd. [1950] 3 D.L.R. 730 (C of A, Ont.)

² Brampton Golf Club v Town of Mississauga [1972] 3 D.L.R. 816 (C of A, Ont.)

2.2 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, from \$30,000 per hole to over \$250,000 per hole for championship courses. 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 for and aims 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. The premise for valuation is therefore somewhat confused. However, in valuing real estate for assessment purposes we are guided by the words of J. Taschereau in *Sun Life Assurance Co. of Canada v City of Montreal*.³

The 'real value' is the market value or the 'value in exchange', and in order to ascertain it, one must necessarily, even if there has been no sale of the building, try and find what would have been the price of the building in the open market. The rule is not that because there is no buyer and no seller, as in the present case, the well-known theory of willing buyer and willing seller does not apply. We must ask ourselves the question: What would occur if there was a buyer and a seller?

These comments were subsequently approved by the Privy Council of the House of Lords on appeal from the Supreme Court of Canada⁴.

In consideration of the question posed by J. Taschereau 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 *market 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*.

³ [1950] 2 D.L.R. 786 2 @ p. 807.

⁴ [1952] 2 D.L.R. 81

2.3 Approaches

Market 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 generally subjective, due to difficulties in developing valuation guidelines. They are also difficult to make, 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 in that 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 *market sales comparison approach* is limited to the quality and quantity of data available.

When and where this information is available, the *market 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 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 analyzed 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 should be able to analyze 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 experience with and 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 analyze their actual net income to establish market value. 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 analyze 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

The *cost approach* is fairly easy to apply to the question posed by J. Tashereau in *Sun Life Assurance Co. of Canada*⁵: “What would occur if there was a buyer and a seller?”

Logically it can be assumed that the seller would want to recover the depreciated costs of the property and that the buyer might expect to pay for the replacement costs of the property. These assumptions run into difficulty when the seller feels that the property is worth more than the original costs of construction because land values have risen, and/or the purchaser feels the property is worth less than the replacement cost because the income is not sufficient to support that price.

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 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 cost approach.

2.4 Recommendation

In the assessment of golf course properties in Alberta:

- The *cost approach* is recommended as an approach to value.
- The *income approach* is an alternate approach to value that can be applied if the appropriate information is available

⁵ *ibid* # 3

2.5 Application of the Cost Approach

The theory behind the *cost approach* 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 is a challenge to estimate the costs to construct a course, given the variety of designs and qualities of construction. Discussions with the course superintendent 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.⁶

Estimating Replacement Costs

Two principle tasks are involved in estimating replacement cost value:

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

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

To value the improvements:

Inspect the buildings and other improvements, quantify areas, note conditions, and analyze utility.

Estimate the cost new of the assessable improvements as of the valuation date.

Deduct from costs new value an amount that reflects all forms of depreciation, including:

- Physical (curable and incurable),
- Functional (curable and incurable), and
- External (economic obsolescence).

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

⁶ Re: *Brampton Golf Club Ltd. v Town of Mississauga* [1972] *op.cit.* and *Montreal Golf Club v Dorval* [1964] 1 D.L.R. 50

The final sum of **land value** plus **improvement value** is the estimated market value of the real estate at the subject location.

Establishing Costs New

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

The *Marshall & Swift Valuation Services Manual*,

Other cost manuals, and

Actual costs.

Cost manuals provide uniformity and transparency of results. Given the same data, the analysis of costs new can be duplicated by another valuator, and the results can be compared to the results for similar courses.

Using actual costs can produce more accurate results for a particular property, but this approach relies on data that may:

Be out of date,

Be improperly reported,

Capture the cost of non-assessable items, and/or

Not produce results that are transferable to similar properties.

The cost analysis demonstrated in this guide relies on the costs indicated in the *Marshall & Swift Valuation Services Manual*. In a thorough approach, where possible, such costs should be compared to actual current costs.

Other manuals could also be used to estimate costs new.

The cost analysis per hole for golf courses is outlined in section 67 of the *Marshall & Swift Valuation Services Manual*. Other sections of the manual cover building improvements. Once established, the cost new is then adjusted by local and current cost multipliers applicable in Alberta.

Replacement Versus Reproduction Costs

There are two approaches to determining the costs new of improvements: *reproduction costs* and *replacement costs*.

There tends to be some confusion between the reproduction costs and replacement costs of a property. A *reproduction* simply duplicates the existing structures; it is an identical replica of the design, layout size and volume of the existing building. It may be possible to substitute more modern replacements for some of the construction materials used in the original buildings, but this does not constitute a full determination of functional obsolescence. Neither does it necessarily constitute a determination of market value.

On the other hand, a *replacement* building reflects what actually would be built if the improvements were to be reconstructed. Replacements are designed therefore to replace the existing functions and capacity of the property. To this end, replacements take advantage of advances in technology in the design, layout, and construction of the improvements. Replacement costs take into account many of the elements that give rise to the functional obsolescence inherent in the property.

If the valuator starts with a reproduction cost analysis, he or she must ensure that all forms of depreciation are considered in order to arrive at an estimate of market value. If a replacement cost analysis is utilized, some elements of functional obsolescence have already been considered.

In golf courses, the issue of reproduction or replacement costs arises only in the analysis of building values. Although there is a range of facilities, golf course buildings tend not to be overly complex structures. The assessor may begin with either reproduction or replacement analysis.

Recommendation

*Analysis of golf course building improvements should begin with the **cost new** of the existing improvements, utilizing the existing layout of the buildings.*

Establishing replacement costs requires the proper application of obsolescence. In analyzing obsolescence, the assessor must often rely on information from and the experience of the property owner regarding the functionality of the improvements.

Overview of Depreciation

Depreciation is defined as:

"The loss in utility and hence value from any cause" (*Basics of Real Estate Appraising*, Appraisal Institute of Canada, 1991 p. 284). The concept of depreciation is simple, but all encompassing.

With the *cost approach*, determining the appropriate amount of depreciation inherent in the property can entail some detailed analysis. This approach generally starts with the amount it costs to **reproduce** the property as new. Given this amount, the valuator is charged with the task of producing an estimate of what the market would pay for such a property. The difference between the cost new and the amount the market would pay for the property is the **depreciation** inherent in the property. Therefore, the process of estimating value using the cost approach is not just an exercise in tabulating numbers. It is a process that involves analysis and judgment.

2.6 Application of the Income Approach

The theory behind the *income approach* to value is that **property values reflect the present worth of anticipated or forecasted future benefits from the real estate**. As such, the *income approach* analyzes the income attributable to the real estate and converts this net revenue into an estimate of current value.

Income Approach Methods

In general, there are two methods available for converting future income into a present value:

A direct capitalization method⁷, or

Discounted cash flow analysis.

⁷ Re: Campeau Developments Ltd. and the Regional Assessment Commissioner Region No. 29 (1982) 144 D.L.R. (3d) 632 (C.A.) Leave to appeal to S.C.C. refused 51 N.R. 154 m.

British Columbia v. 359042 B.C.Ltd. [1997] BC No. 1459

Either type of analysis recognizes that money has a time value. That is, given a choice, people would rather receive \$100 today than \$100 one year from now. However, certain people would rather receive \$110 (\$100 + 10%) in one year than \$100 today. The interest rates applied to convert future dollars to cash in the pocket today reflect the time value of money.

The valuation technique commonly used by assessors across Canada is based on the **direct capitalization method**, which is widely accepted as a mass appraisal technique and under existing jurisprudence.⁸ Also, it is relatively easy to use.

The valuation method presented here employs the direct capitalization method.

The Direct Capitalization Method

The analysis in this section presents a direct capitalization method that is suited for mass appraisal applications. Therefore, the analysis focuses upon typical golf course properties.

Direct capitalization converts or capitalizes the expected level of current net earnings into an estimate of market value using a capitalization rate. Therefore, 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 current net operating income (NOI), which is then capitalized into value to produce an estimate of current market value. The overall capitalization rate captures the return **of** and return **on** investment.

Market Value	=	<u>Net Annual Operating Income</u> Capitalization Rate	V =	<u>NOI</u> R
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For example:

NOI	=	\$100,000	
Cap Rate (R)	=	10%	
Market Value	=	\$100,000 ÷ 0.10	= \$1,000,000

⁸ Bramalea Ltd. v. British Columbia Assessor Area # 9, Vancouver (1990) 76 D.L.R. (4th) 53. (C.A.) Leave to appeal to S.C.C. refused 79 D.L.R. (4th) vi. 135 N.R. 318 m.

Although there are other methods of converting expected future income into an estimate of current value (e.g., discounted cash flow), the direct capitalization method lends itself to mass appraisal applications. It is possible to ascertain market values under this formula through proper evaluation of the expected net income and through the selection of an appropriate capitalization rate. However, there are two reasons why it is difficult to achieve precise accuracy with the direct capitalization method:

A large number of investment characteristics that may be evaluated within the selection of the overall capitalization rate, and

The value outcome is predicated on a snapshot of the income that is expected to be produced from the property.⁹

The capitalization rate employed in the valuation of a golf course must also reflect the investment characteristics of the property in comparison to other similar investment opportunities in the market.¹⁰

Due to limited information, the capitalization rates for golf courses may be difficult to determine through analysis of sales.

⁹ Manufacturers Life Insurance Co. v British Columbia [1996] B.C.J. No. 3046 p.14

¹⁰ Tall Timber Golf Course v Assessor of Area # 15, Supreme Court of British Columbia, Cole J. Dec 5, 1997 Docket A962772

Net or Gross Income?

In establishing the appropriate market values using the *income approach*, the objective is to evaluate the income generated by the real estate. For golf courses, this task is made difficult because the income received is gross income. Income goes to support the value of the real estate, the operation of the course, the value of non-assessable property, and any other interest associated with the course. Therefore, the determination of the net income attributable to a golf course requires some analysis of the income, expense, and financial statements.

Stabilized Income

In applying the *income approach*, assessors should consider the stabilized performance of the courses. As with many outdoor activities, golf course income can be affected by the weather. Therefore, to establish the typical revenues and expenses arising from a course of a particular class, it would be beneficial to have income and expense statements that cover a period of three to five years – for that course and for a number of similar courses. The potential incomes that result should be supported through market surveys and normalized to reflect typical rates.

2.7 Practical Approach

In this valuation guide, the *cost approach* and the *direct capitalization income approach* have been developed into practical valuation tools utilizing spreadsheets.

Guidelines and instructions follow on:

- Using the spreadsheets,
- Collecting data,
- Analyzing information,
- Applying valuation techniques,
- Developing valuation parameters,
- Developing market value, and
- Controlling the quality of assessment values,

3.0 Steps in the Valuation Process

Overview of Golf Course Valuation Procedure

1. Collect appropriate information:

- Property data,
- Sales data,
- Income and expense data, and
- Construction cost data.

2. Classify the golf course.

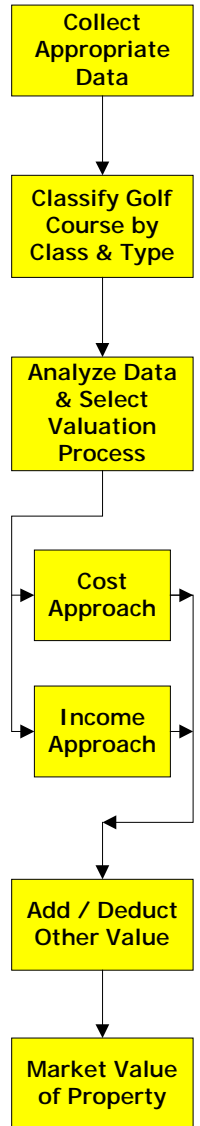
3. Analyze the data and select the valuation process.

4. Apply the *cost approach* or the *income approach* to derive value.

5. Add/deduct for other assessable or non-assessable items – if required.

6. Reach a final market value conclusion.

All golf course valuations involve steps 1 through 3, and 5 through 6.



Income Analysis

The challenging part of the income approach is to properly identify the net income attributable to the real estate by taking into account the income attributable to factors such as personal property, management, and other intangible factors. In addition, the capitalization rates employed in the process should be derived from market transactions involving sales of similar golf courses subject to similar zoning restrictions.

Since the notion of market value is based on typical marketplace conditions, the income approach to value for any golf course should be considered in respect of the income, expenses, and capitalization rates of market-motivated, profit-oriented courses. The results of analyzing these typical market situations can then be translated and applied to non-profit or municipal courses **of a similar quality**.

If the property is comparable to a number of profit-oriented, income-generating courses, its value can be established by using typical income valuation parameters generated from the analysis of income and expense statements.

Cost Approach

To complete a *cost approach* analysis, the assessor requires more detailed descriptions of the course and building improvements. If actual costs are available, the costs new can be established on that basis. If actual costs are not available, or if they are dated, then the costs new can be established from cost manuals.

With a *cost approach* analysis, it is possible to identify only the items that are assessable before beginning the valuation exercise.

3.2 Collect the Appropriate Data

The first step in the valuation process is to make sure there is enough information to value the property.

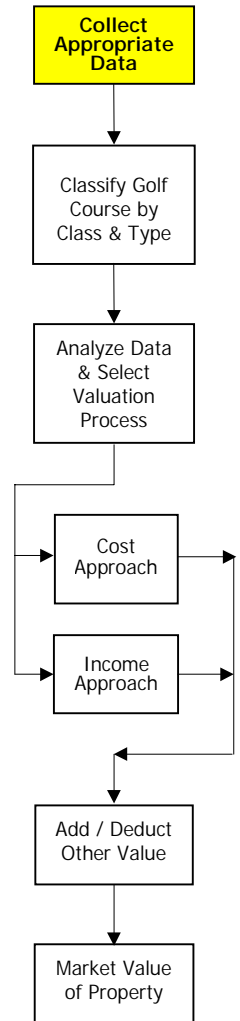
Much of the information required for golf course valuations can be obtained from owners, industry, and cost manuals as well as the golf course's **income and expense statements**. Information that assists in deriving appropriate assessments includes:

- Information from owners and taxpayers,
- Property information and inspection,
- Information about the property's competitive position in market,
- Information on sales of golf courses,
- Zoning information, and
- Information about market characteristics.

To facilitate the valuation process a Request for Information Form is included in Section 6.1 appending this guide.

Other sources of current market information:

- Marshall & Swift Valuation Services Manual,
- Royal Canadian Golf Association (RCGA)¹¹ and the Canadian Golf Foundation,
- Assessment appeal reports,
- Golfing publications such as *Golf the West*,
- Remodeling costs for existing golf courses, and
- Development costs for new golf courses.

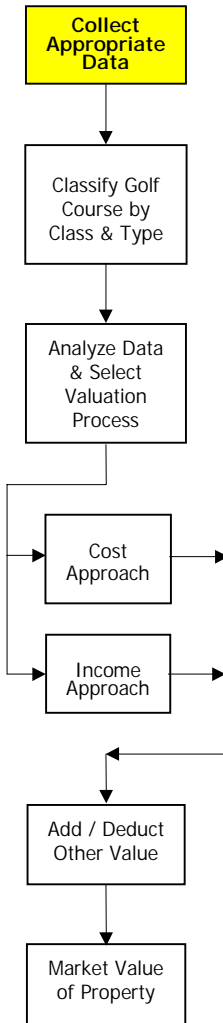


¹¹ The RCGA officially measures and rates most courses for difficulty. Such ratings are a combination of course handicap rating and course slope rating.

See comments of McGillivray J. at page 818, Re: *Brampton Golf Club v City of Mississauga*, *op.cit* at footnote 2.

Information from Owner / Manager

In order to compare properties, properly classify each golf course, and develop appropriate market values, it is necessary to obtain pertinent physical and descriptive information about each golf course, as follows:



Average green fees,
Number of rounds per year,
Development costs,
Building plans and drawings,
Site layout,
Income and expense statements over a period of years,
Budgets and financial forecasts,
Type of irrigation system/ water supply, and
Course and slope rating.

The information from an owner or manager can be obtained by the *Request for Information Form* found in section 6.1, and should be confirmed through an interview with the course manager or owner either over the telephone or at the time of inspection. The information collected should be entered on Form GC-1: Golf Course Data Entry, *see Figure 1*.

Information on the Property

To complete a golf course valuation the assessor should establish the following information:

Size / length / layout of course,
Design / quality of course,
Facilities available,
Topography,
Age,
Landscaping, and
RCGA ratings.

Assessment Records

There should be some historical information on file in the assessment records. Where possible the assessor should verify this information when inspecting the property. Where the information is not available or obtainable from inspection, the property owner should be contacted to complete the data collection on:

- Site size,
- Year built,
- Floor areas,
- Building dimensions, and
- Heights.

Property Inspections

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

- Buildings on site,
- Condition of improvements,
- Construction materials,
- Condition of course,
- Quality of building space,
- Type of heating/ air conditioning,
- Location/ access,
- Activity at the property,
- Recent renovations, and
- Development pressure.

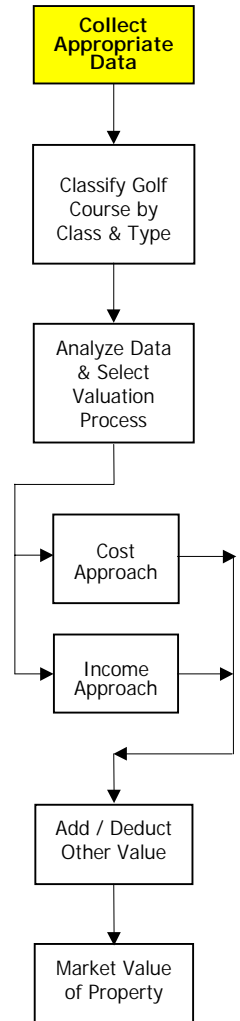


Figure 1: GC1 - Golf Course Data Entry Form

1.1	Address	1010 23rd Street
1.2	Course Name	Lethbridge Golf & Country
1.3	Municipality	Lethbridge
1.4	Roll #	123456
1.5	Opened in	1974
1.6	Class	Class 2
1.7	Type	Type III
1.8	Ownership	Semi-private

Value Date:	Jan-01
Measurements in:	feet
Data from:	1996
Rounds Played	
Average Green Fee	
CPGA Course Rating	
CPGA Slope Rating	

1.9	No. of members in: 1996	250
1.10	Initiation fee in: 1996	\$6,000
1.11	Annual club dues in: 1996	\$1,200
1.12	Restaurant dues in: 1996	\$900

# of Holes	Quality
18	Class 2
9	Class 1
1	Driving Range
Land Area, Ac.	158.70

Inspection Notes	
1.13	Inspection date Sept. 12, 1996
1.14	Driving range Yes, pay per bucket
1.15	No. & comment on golf carts 30 carts, 50% new last year
1.16	Other recreational facilities No
1.17	Comment on restaurant Low key menu and service, medium quality finish
1.18	Comment on banquets Not held frequently
1.19	Irrigation system
1.20	Condition - course Good
1.21	Condition - buildings Good
1.22	Comment on maintenance
1.23	Comment on use Busy on weekends during most of season
1.24	Comment on access Close to highway
1.25	Comment on location Good - serves a wide area

Competitive Position on the Market

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. Newspapers or golf course associations often publish this data. A rough measure for determining whether there is an over-supply or under-supply of golf course properties can be established by comparing the number of courses per capita and the average green fee per round.

To establish the competitive position, the assessor should inspect and analyze the area in the zone of influence of the course. The assessors should also consider the number, character, and quality of competing golf courses.

Golf Course Sales Data

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

Determining the depreciation rate employed in the *cost approach*,

Establishing the appropriate capitalization rates to apply in the *income approach*, and

Confirming final market values.

Sales data to be collected includes:

Property address and legal description,

Sales price,

Date of transfer,

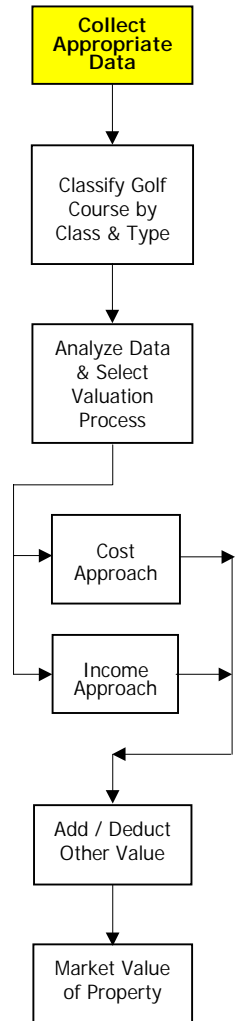
Instrument number,

Name and address of vendor and purchaser,

Interests transferred (fee simple or other), and

Financing conditions.

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), as the contributory value of the improvements.

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

Issues to Consider in the Collection of Data

Data collected should assist in determining the appropriate valuation method.

Actual Development Costs

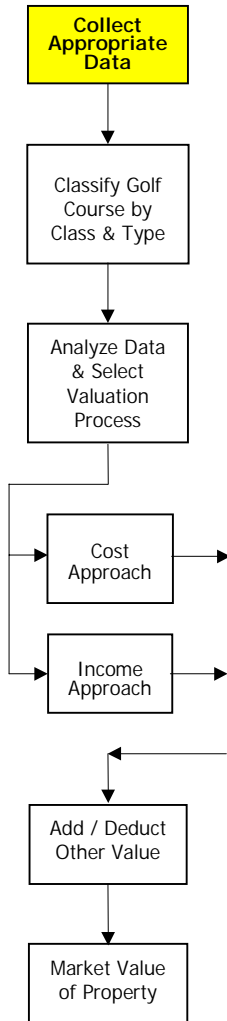
Actual costs reflect the actual amount of money spent to develop a course. They take into account local terrain and conditions, as well as local cost factors. However, since actual costs may be spread out over a period of years, the assessor may not be able to obtain all the details. In addition, actual costs may have very little relationship to current costs new or current market values for either the subject or for other similar courses.

Actual costs **may** be appropriately applied in the analysis of the values of individual properties, especially when such properties have been recently developed. However, actual costs **may not** be as appropriate for establishing typical values of golf course properties and in establishing values for older golf courses.

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. Good management and good pricing strategy can maximize the amount of income.

If the assessor has information about three or more profit-oriented courses of a comparable quality, course rating, and location, he or she should be able to arrive at the typical potential income of these types of golf courses by analyzing the number of rounds and the average green fee.



$$\text{POTENTIAL INCOME} = \text{NUMBER OF ROUNDS} \times \text{AVERAGE GREEN FEE}$$

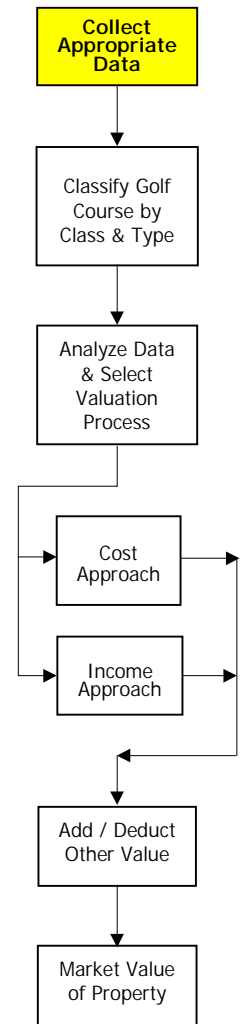
Given sufficient data, similar income determinations can be made for a variety of course types. Implicit in determining the typical green fee by class is the direct relationship between the market characteristics, i.e., demand, location, overall design, condition, desirability, and the fees chargeable. (The better the market characteristics, the higher the fee). *See the valuation parameters established for the income approach in section 3.6.*

Stabilized Data

The weather, economic conditions, and competition for the recreational dollar affect the number of rounds played in any given year. Therefore, the income-generating potential of a golf course should be stabilized over a period of approximately three years to reflect typical conditions.

Zoning

In Alberta, the zoning of a typical golf course limits higher density uses. Generally, the zoning proscribes recreational or agricultural uses and supports the maintenance of green belts. If a golf course is sold with the intention of redevelopment (to a higher use), the sale price reflects the value of land under that alternate use.



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 property values. Physical or market characteristics may be the only way to estimate market value when:

- The course is not run under market or profit-oriented conditions, and/or
- There is insufficient information.

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.

The following proposed classification system covers most types of courses.

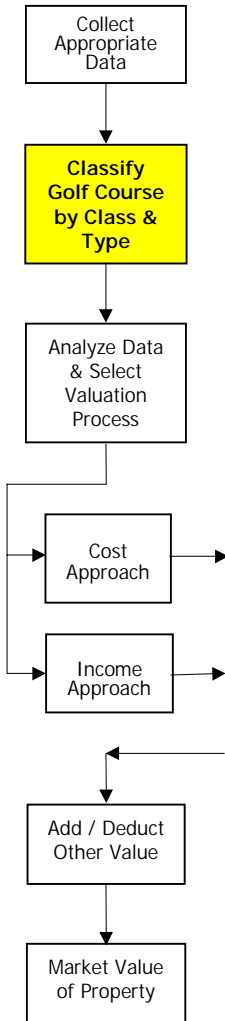
The Marshall & Swift Valuation Services Manual identifies the following course types:

Short Courses

- Class A.** Pitch & putt: Nine hole courses on 10 to 15 acres. Short overall length of approximately 1,000 yards.
- Class B.** Par 3: Nine-hole courses around 1,500 yards in length on 15 to 20 acres.
- Class C.** Executive courses: Nine to 18-hole courses from 2,200 to 5,000 yards in length. Most holes are set at par 3 with the remainder at par 4. Such courses can range in difficulty but tend to be less developed, with few obstacles.

Regular Courses

Regular 18-hole courses generally measure in the range of 5,800 to 6,500 yards in length, usually consisting of four par 3 holes, ten par 4 holes and four par 5's. They generally require 115 to 135 acres to construct.

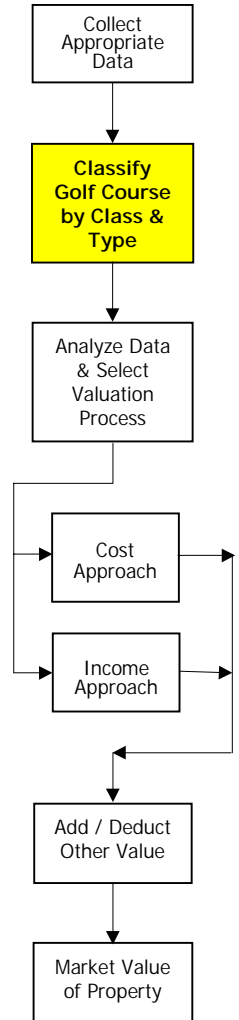


- Class 1.** A minimal quality course of simple design on open or natural terrain. These courses typically lack obstacles such as trees or bunkers; greens and tees are not well developed. They are the least challenging to play and have the lowest course/slope ratings.
- Class 2.** A regular course of simple design on relatively undeveloped terrain. The difficulty of play is increased by the introduction of a few bunkers, some small trees, and natural rough. Tees and greens have received some landscaping treatment.
- Class 3.** A typical private club or better public course on undulating terrain. The greens and tees are elevated, with bunkers on most holes. The difficulty of play is increased by the introduction of water hazards, specialized vegetation, larger trees, and additional landscaping.
- Class 4.** Long, challenging, championship courses generally 6,500 to 7,200 yards in length. These are the most difficult courses to play because of the extra length, good undulating terrain, large tees and greens, and additional obstacles. These courses have the highest course/slope ratings.

Sub-Classes of Courses

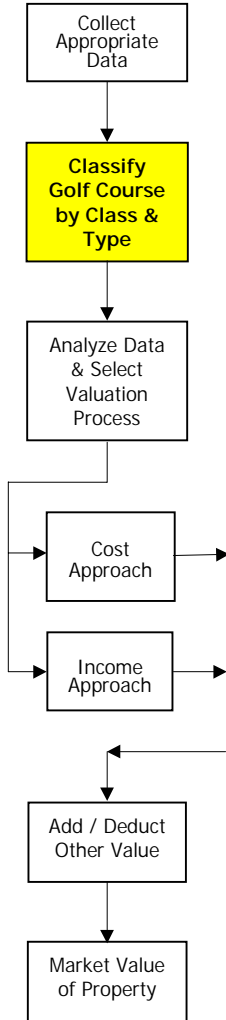
The class of course provides an indication of the facilities. Each course may also be categorized by location, or type, as follows:

- 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 Analyze the Data and Select the Valuation Process

Analyze the Data

Data collection to determine the type, quality, and overall characteristics of the property provides a foundation for making reasonable estimates of value. The data available will also dictate the method or methods that can be employed to value the golf course property.

To gain full value from the data collected, the assessor must organize the data so that meaningful comparisons can be made and valuation conclusions drawn. By collecting sufficient data on a variety of types and classes of golf courses and organizing the data into classes, it becomes possible to establish typical characteristics and values attributable to each classification for both income and cost estimates.

Valuation Parameters by Class of Course

Depending on the valuation approach chosen, classifications provide a basis for valuing by either income or costs. 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. *See Figure 2 – Example of Golf Course Valuation Parameters by Class.*

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

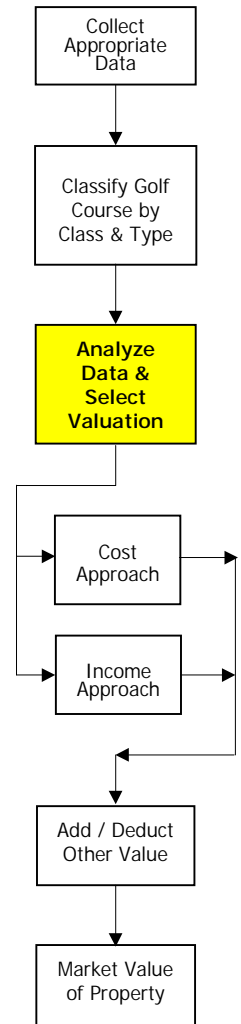


Figure 2: Example of Valuation Parameters by Class of Course

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%	

These numbers are for illustrative purposes only and are not to be used in property valuations.

Issues to Consider - Valuation Parameters

No matter how property owners 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 properties, then the cost approach has to be used.

Valuing With Parameters Outside the Ranges Provided

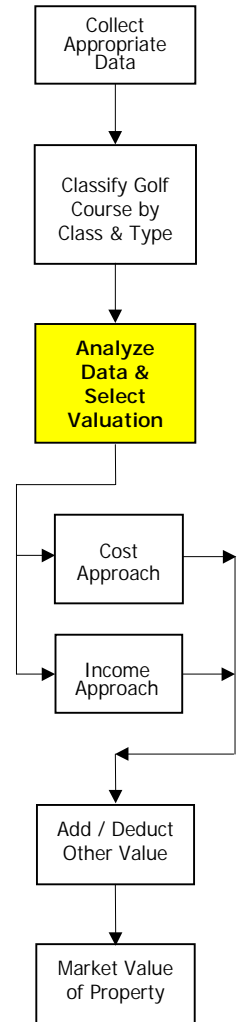
All valuation procedures employ valuation parameters to assist in the valuation of properties (*refer to guide on valuation parameters*). These parameters:

- Assist in determining the fee simple values of property,

- Enable the valuation of property where appropriate information is not available, and

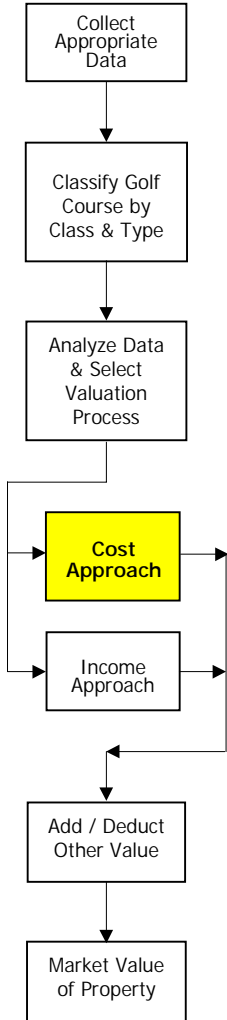
- Provide some uniformity and standards in the values produced.

If the assessor decides to value the property with a parameter outside the indicated range, he or she should note the reasons for the decision on the assessment working papers.



3.5 The Cost Approach Procedure

Overview of Procedure



1. Establish land values using the market sales comparison approach. Preferably, comparable sites are of similar size, have similar zoning, and are located in a similar area.
2. Classify the golf course according to the classes established.
3. Estimate **replacement** costs new of building improvements, based on the classification in the cost manual or on actual costs (if relevant).
4. Estimate **replacement** costs new of course improvements based on the class of the course.
5. Determine normal age-related depreciation, based on the quality and condition of improvements and on the course. Deduct this amount from the cost new.
6. Add building and course improvement depreciated costs as if new to derive the total depreciated replacement costs as if new.
7. Deduct any other form of depreciation outstanding to produce:

THE MARKET VALUE OF THE IMPROVEMENTS.
8. Add the market value of the land to the market value of the improvements to produce:

THE INDICATED MARKET VALUE OF THE PROPERTY.

Establishing Land Values

The *cost approach* requires valuation of the land along with analysis of building values. Land should be valued using the *market sales comparison approach*.

Preferably, comparable land sales should have approximately the same area as the subject site, similar zoning, and a comparable location. Ideally, these sales should have taken place close to the date of valuation.

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 should 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 between the subject and the sites that have sold:

- Location,¹²
- Zoning,
- Topography,
- Soil conditions, and
- Date of sale.

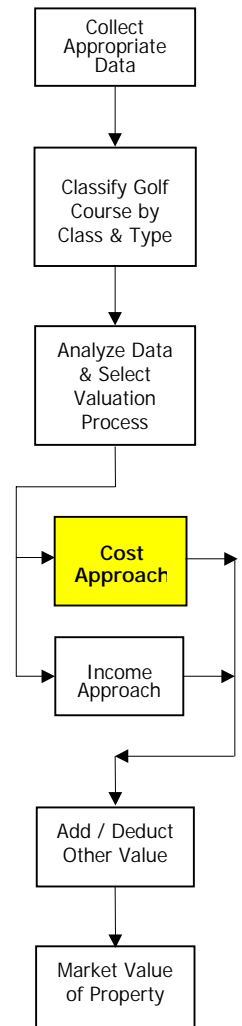
Classifying the Golf Course

Inspect the property and classify it according to the guidelines provided in section 3.3.

Estimating Replacement Cost New of Building Improvements

Typical building improvements at a golf course include:

- Clubhouse,
- Restaurant,
- Greenhouse,
- Maintenance building,



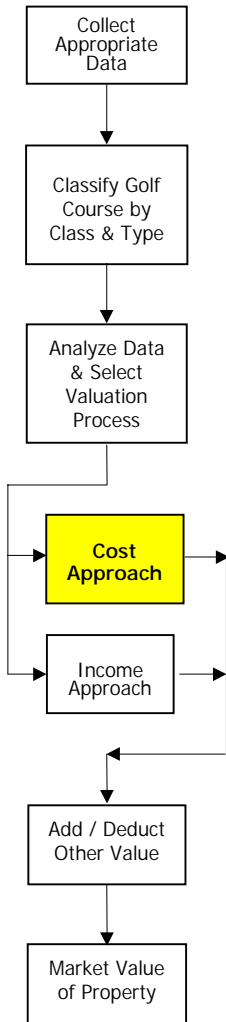
¹² Re: Brampton Golf Club Ltd. v Town of Mississauga [1972] 2 O.R. 816

Drive shed / garage,
 Starter's and other booths, shelters, or huts,
 Bridges, and
 Paving and fencing.

Three approaches can be used to establish costs new:

1. Historical construction costs - useful for relatively new courses (5 to 10 years).
2. Reproduction cost technique - used more often in analyzing unusual and/or special-purpose building improvements.
3. Replacement cost technique – applied in the analysis of typical building improvements and course improvements.

The spreadsheet that accompanies this guide sets up an example of a cost approach analysis based on the *Marshall & Swift Valuation Services Manual*. See section 5.0 of the guide. A summary of cost process can be found at Figure 4: Form GC3 – Golf Course Cost Valuation Summary.



Using the Golf Course Cost Spreadsheets

Form GC1 – Golf Course Data Entry (Figure 1) and Forms GC2 and GC3 (Figures 3 and 4) – Golf Course Cost Data and Golf Course Cost Valuation Summary work in conjunction with each other. The property information entered in Form GC1 is carried forward to Forms GC2 and GC3.

These forms, which allow for the costing of up to 7 different building improvements plus yard and golf course improvements, are based on Marshall & Swift's calculator cost methods.

To use these forms the assessor must establish the *base cost rate* (by square foot or by square metre) and then make two types of additions and up to four rate adjustments as follows:

Additions

Heating, ventilation and air conditioning, and/or
 Sprinkler.

Rate Adjustments

Floor area/perimeter multiplier,
 Height multiplier,
 Local cost multiplier, and

Current cost multiplier.

The costs so developed should include all assessable items associated with a golf course operation.

Note: The cost analysis example on Figures 3 and 4 is designed to cover most of the improvements found in a typical golf course. For items not covered, refer to the cost manual.

Estimating Replacement Cost New of 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 should be valued in addition to the raw land value. The Marshall & Swift manual breaks down such costs per hole by class of course. The costs per hole represent the replacement cost of the course improvements.

The course improvement costs should be entered on Form GC3 as illustrated in Figure 4 on the previous page.

Deducting Age-Related Depreciation

Depreciation due to age reflects physical deterioration of the property over time and the normal decline in value as the functionality of a property also declines. Such depreciation is usually expressed as a percentage of costs new.

Physical depreciation acknowledges that all improvements deteriorate over time and as a result have limited life spans. Therefore, physical depreciation generally relates to the age of the property. Some forms of physical depreciation are curable while others are not economically viable to correct. A loss in value from deterioration is reflected by the fact that a prospective purchaser would pay less for an older building in poor shape than a similar building in good shape. Such depreciation is determined by establishing the current condition of the property and estimating the effective age and the remaining physical life of the improvements.

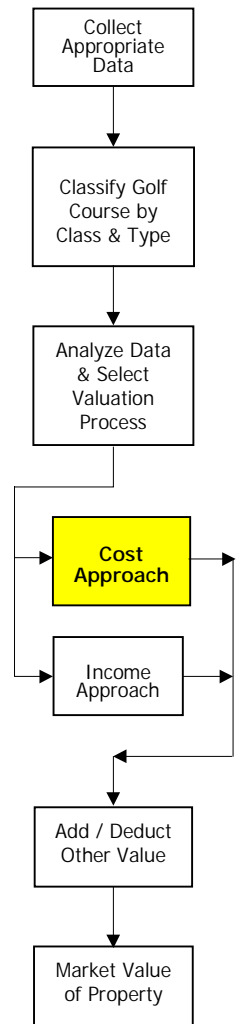


Figure 3: Form GC2 – Golf Course Cost Data

2.1	Address	1010 23rd Street	Value Date:	Jan-97
2.2	Course Name	Lethbridge Golf & Country	Measurements in:	feet
2.3	Municipality	Lethbridge	Data from:	1996
2.4	Roll #	123456	Rounds Played	0
2.5	Opened in	1974	Average Green Fee	\$ -
2.6	Course Type	Class 2 - Type III	Course Rating	0.0
2.7	Ownership	Semi-private	CPGA Slope Rating	0.0

	Improvement	Area in Sq. feet	Flr. Ht. feet	# Flrs.	Volume in cubic feet	Dimensions	Perimeter feet	Build Date	Building Type	Bldg Class	Const. Quality
2.8	Clubhouse	4,600	12.0	1.0	55,200	50 x 92	284	1974	Clubhouse	S	Good
2.9	Pro shop	1,200	10.0	1.0	12,000	40 x 30	140	1977	Shop	C	Average
2.10	Maintenance	3,000	14.0	1.0	42,000	50 x 60	220	1974	Standard	C	Average
2.11	Drive-shed				0						
2.12	Restaurant				0						
2.13	Booth				0						
2.14	Other				0						
	Totals	8,800	12.4		109,200		644	1974			

	# of Holes	Quality
2.15	18	Class 2
2.16	9	Class 1
2.17	1	Driving Range
2.18		
2.19	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		
2.22	Inspection date	Sept. 12, 1996
2.23	Bldg. construction	Wood frame, concrete block and brick walls
2.24	Interior construction - finish	Drywall partitions, carpeting, average
2.25	Heating/ cooling	Heating and ventilation - moderate weather, A/C in clubhouse
2.26	Sprinklers	Wet system throughout clubhouse, none in other buildings
2.27	Irrigation system	Single row automatic system - town water
2.28	Special course improvement	
2.29	Extra features - yard	Large paved parking lot
2.30	Condition - course	Good
2.31	Condition - buildings	Good

Figure 4: Form GC3 – Golf Course Cost Valuation

3.1	Address	1010 23rd Street	Value Date	Jan-97	Building Area: Sq. feet	8,800
	Municipality	Lethbridge	Local Cost Multiplier	1.280	Number of holes	27
3.2	Roll #	123456	Current Cost Multiplier	0.970	Type / Class	Class 2 - Type II

Replacement Cost Analysis

Item	Units in square feet	Base Rate	HVAC Addn	Sprkler Addn	Total Rate	Area Mltpler	Height Mltpler	Final Rate	Costs New	Effective Age	Dpn Table	Cost-to-Cure	Dpn %	Costs New less Dpn
3.3	Clubhouse	4,600	\$62.00	\$2.00	\$1.00	\$65.00	0.859	1.181	\$81.87	\$376,600	1966	MS50	36%	\$241,024
3.4	Pro shop	1,200	\$51.09	\$2.00		\$53.09	0.859	1.181	\$66.87	\$80,200	1966	MS50	36%	\$51,328
3.5	Maintenance	3,000	\$17.38	\$1.00		\$18.38	0.859	1.000	\$19.60	\$58,800	1976	MS50	18%	\$48,216
3.6	Drive-shed	0				\$0.00	0.859	1.000	\$0.00	\$0			0%	\$0
3.7	Restaurant	0				\$0.00	1.000	1.000	\$0.00	\$0			0%	\$0
3.8	Booth	0				\$0.00	1.000	1.000	\$0.00	\$0			0%	\$0
3.9	Other	0				\$0.00	1.000	1.000	\$0.00	\$0			0%	\$0
3.10	Bridges	2	\$35,000			\$35,000			\$43,456	\$86,900	1975	MS40	35%	\$56,485
3.11	Waterscaping	3	\$18,000			\$18,000			\$22,349	\$67,000	1982	MS30	35%	\$43,550
3.12	Pavement, Sq. feet	190,000	\$1.50			\$1.50			\$1.86	\$353,900		yard	50%	\$176,950
3.13	Fence (linear), feet	5,000	\$8.10			\$8.10			\$10.06	\$50,300		yard	50%	\$25,150
3.14	Lighting	0				\$0			\$0.00	\$0		yard	50%	\$0
3.15	Other Yard	0				\$0			\$0.00	\$0		yard	50%	\$0
3.16	Other Yard	0				\$0.00			\$0.00	\$0		yard	50%	\$0

Total Buildings	8,800								\$122.01	\$1,073,700			\$0	40.1%	\$642,703
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Course Improvements - Holes

3.17	Class 2	18	\$60,000			\$60,000			\$74,496	\$1,340,900	1982	ms30	\$300,000	35%	\$676,585
3.18	Class 1	9	\$45,000			\$45,000			\$55,872	\$502,800	1974	ms30		63%	\$186,036
3.19	Driving Range	1	\$20,000			\$20,000			\$24,832	\$24,800	1974	ms30		63%	\$9,176

Obsolescence Note

3.20	There does not appear to be any abnormal depreciation or obsolescence	Less Obsolescence%, See Note	0.0%	\$0
3.21	Value per square hole is within the range of the market sales evidence	Value of Improvements		\$1,514,500

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

Value Ratio	
\$ per hole	\$158,929

Value Summary	
Land Value	\$2,935,950
Building Value	\$1,514,500
Market Value	\$4,450,000

Cost to Cure

In addition to the normal depreciation for age taken from the Marshall & Swift depreciation tables, Form GC3 – Golf Course Cost Value Summary (Figure 4) allows a deduction for cost to cure.

The easiest way to recognize functional obsolescence at a golf course is through analysis of the cost to cure a deficiency and/or through capitalization of lost income. Depreciation so calculated should be entered in the appropriate row in the cost-to-cure column on Form GC3.

To prevent double counting of depreciation any cost to cure amounts will be deducted from costs new *before* deducting normal age-related depreciation.

Deficiencies corrected through cost-to-cure expenditures should have a positive effect on the effective age and remaining life of the improvement.

Depreciation Schedules

Most valuation manuals contain depreciation schedules that are intended to reflect the typical amount of normal, physical, and age-related depreciation in a property.

Automatic Application of Depreciation Schedule

The spreadsheet provided to assist in the valuation of golf courses has a built-in depreciation schedule based on the *Marshall & Swift Valuation Services Manual*. If desired, the assessor can alter the schedule contained in the spreadsheet to reflect other depreciation rates and schedules.

To determine the appropriate amount of age-related depreciation, the assessor must analyze and enter the following on Form GC3:

Effective age for each improvement (e.g., 1983), and

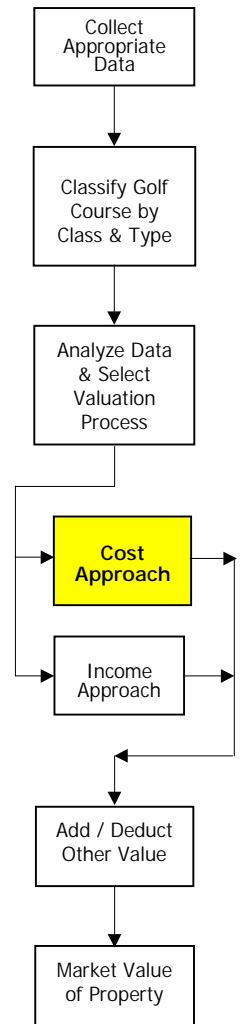
Expected life of each improvement (e.g., 40 years indicated by the value “MS40” in the depreciation table column).

Information from golf course managers indicates that the average life expectancy of greens and tees subject to heavy traffic is 20 years, and that greens subject to light use can last up to 40 years.

The GC3 spreadsheet (Figure 4) also allows the flexibility to apply a uniform depreciation rate to all improvements as a whole or an individual rate to each improvement.

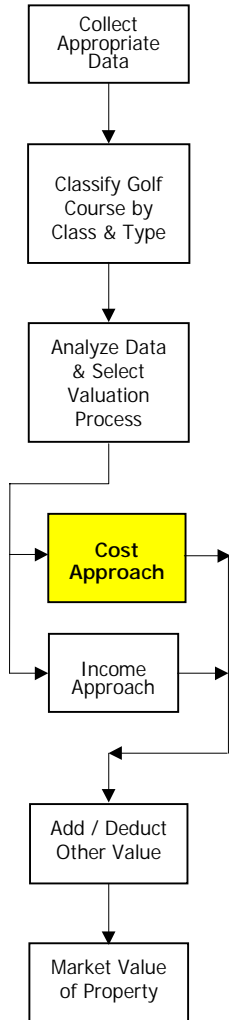
Add Building and Course Improvement Costs

Adding the depreciated costs of the buildings with the course improvement costs produces the total replacement costs new less normal depreciation (RCNLD).



Deduct Any Other Form of Depreciation Outstanding

Since the depreciation schedules found in the *Marshall & Swift Valuation Services Manual* are developed on the basis of sales evidence, they reflect the depreciation typically found in properties.



Overview of Obsolescence

Obsolescence reflects the abnormal depreciation that arises in some properties due to functional and/or externally generated economic problems.

Functional obsolescence can be the result of numerous factors: poor or outdated designs, inadequate areas, excess operating costs, etc. Obsolescence is not related to the age of the property but to its ability to adequately perform its intended functions.

The key to determining whether obsolescence exists in a property is addressed in the question:

Could the existing facility be replaced with a more modern, efficient substitute and if so, what would constitute this modern unit?

Knowledge of current trends and building designs for golf courses are important in recognizing 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.

After the amount and degree of functional obsolescence, if any, have been determined, the end result should reflect the replacement costs new of the building improvements.

Economic obsolescence is sometimes referred to as external depreciation, or locational obsolescence. Economic obsolescence or external depreciation is generally created from conditions existing outside a property. Changes in building technology and design, competition, economic conditions, and government legislation can all lead to loss of utility through no fault of the property itself.

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.

Analyzing and recognizing obsolescence conditions generally requires answers to the following types of questions:

1. Do functional obsolescence conditions affect this property?
2. Are there excess operating costs inherent in the operation of the course?
3. Are there inefficiencies in the existing property?
4. Do external depreciation conditions affect this property?
5. Could the existing improvements be replaced with a more modern, efficient substitute? If so, what would the modern unit consist of?

Quantifying Obsolescence

There are a number of procedures for estimating various aspects of obsolescence.

Market Sales Analysis

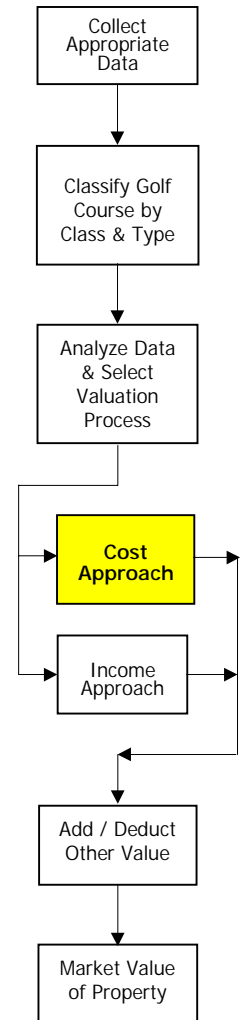
In market sales analysis all forms of depreciation and obsolescence are quantified in an open, market sale of a property. A study of market sales of golf courses in combination with analysis of their costs new will indicate the total depreciation inherent in such properties. However, for such sales data to be applicable to the property valuation process, the value of the non-assessable items and interests must also be considered and deducted from the total sales price.

Breakdown Analysis

In a breakdown analysis, the assessor considers various elements that may be contributing to obsolescence, and determines the total obsolescence at the end of the process.

1. Capitalize Rent Loss (Income Properties)

The valuator establishes the rent or income level expected from a property that has no obsolescence problem and compares that finding to the current rent or income generated. Capitalizing this rent loss reflects the impact of obsolescence on the property.



2. Analyze Elements of a Building and Deduct for Lack of Utility

The valuator makes a subjective judgment about each component of the property improvements, in terms of remaining economic life and functionality in relation to the rest of the property. Considering the functionality of a building component continually addresses the question: *Does this building or improvement serve a purpose?*

3. Capitalize Excess Operating Costs

A prudent purchaser will take into account all cash outlays when considering the price of a property. Excess operating costs are the result of inefficiencies inherent in a property in comparison to a more efficient operation. These costs negatively impact the value and, like rental loss, can be measured by capitalizing the amount of excess costs.

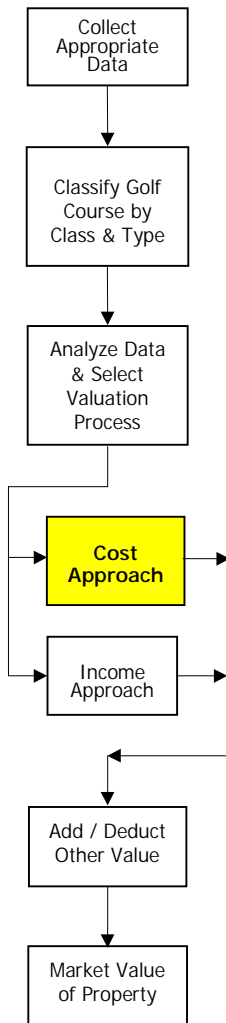
4. Substitute or Model Approach

The so-called model or green field approach starts by designing improvements that will replicate all the functions present in the existing property. The model is constructed in a way that takes advantage of construction advances and technological changes in the field. The exercise should be a realistic evaluation of the requirements and capabilities of the existing property and what would be required to replace it. Constraints such as current location, site size, and zoning bylaws should be taken into consideration when designing the model.

The difference between the costs new of a model and the costs new of the existing improvements represents the amount of functional obsolescence inherent in the existing facility.

5. Judgement

In some instances obsolescence is easily recognized but is difficult to quantify. Therefore, a judgment call has to be made on the basis of a thorough understanding of the property, the nature and condition of its business, the nature and condition of the entire industry, and how the specific problems occurring in the property affect its ability to function. This judgment must be made in the context of current competitive standards and/or typical operating conditions.



Entering Obsolescence on Form GC3

Once obsolescence has been quantified, it can be assigned to the affected component in the cost-to-cure column as a deduction, or it can be applied on an overall basis to the entire property as a percentage deduction in row 3.20 on Form GC3. The reason for the obsolescence should be entered in the space provided in rows 3.20 and 3.21.

Double Counting Depreciation

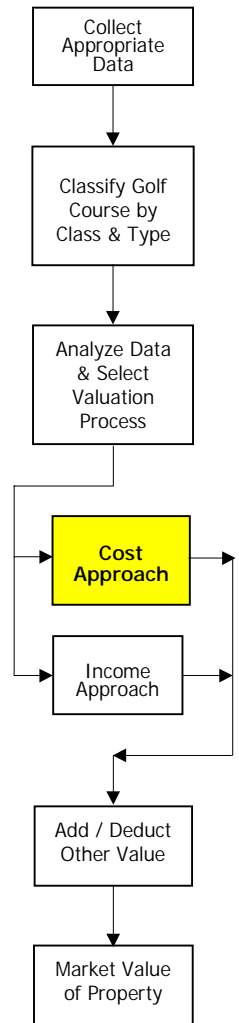
Apart from analysis of market sales, all other methods of quantifying depreciation consider only a part or component of the total amount of depreciation. While it is important to quantify all aspects of depreciation, it is equally important not to “double count” any of the depreciation components while using various other approaches.

Indicated Market Value

After evaluating the appropriate amount of depreciation, deduct it from costs new to produce the market value of the improvements.

Add the market value of the land to this amount to determine the estimate of market value of the total property using the *cost approach*.

Examples of the cost approach application and the *income approach* are presented in Section 5.0 at the end of this guide.



3.6 The Income Approach Procedure

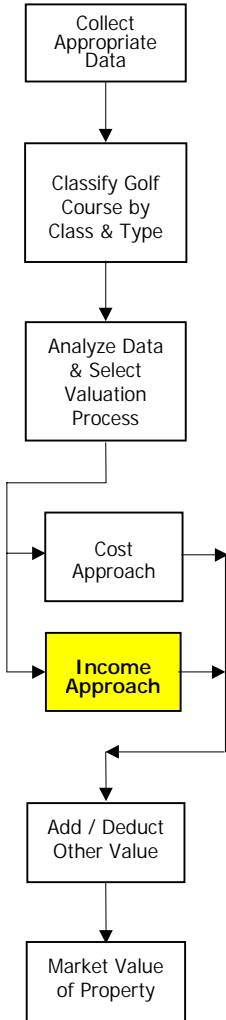
To use an income approach, an assessor must first have certain types of information available.

The income approach converts the income attributable to real estate into an estimate of value. This procedure works best when income and expense data can be stabilized over a period of years, and information on capital improvement expenditures is available from a number of golf courses. The spreadsheet provided in Figure 5 allows for a three-year history of income and expenses.

To account for all aspects of real estate value, the gross annual rents or gross rental rates as a percentage of sales must be established for the following elements of a golf course (by class of property):

- Pro shop,
- Restaurant,
- Driving range, and
- Cart rental operations.

Potential income and rental rates for municipal and non-profit courses may have to be imported from figures determined from profit oriented courses or from other sources of rental information. Establishing the appropriate capitalization rate will require some evidence of golf course sales.



Overview of Procedure

- 1) Classify the golf course according to the classes provided in section 3.3.
- 2) Establish **typical and stabilized** (over a period of 3 years) **golf course revenues** by type of course, analyzing:
 - Green fees
 - Typical annual entry fee revenue paid to the club
 - Membership dues
 - Locker and other club house fees
- 3) Establish **typical gross rents** for the following operations:
 - Cart rental
 - Driving range
 - Restaurant including food, beverage, and concessions

Pro shop

Other non-golf club operations

- 4) Add golf course revenues and gross rents from other operations to establish stabilized gross potential income.
- 5) Establish **typical and stabilized** operating costs for:
 - Maintenance and operation expenses (expressed as a percentage of gross potential income)
 - Management, marketing, and administration expenses (expressed as a percentage of gross potential income)
- 6) Establish **actual, stabilized operating costs** for:

Water supply

Heat and utilities

Insurance

Other costs

Do not include costs associated with the operation of:

The restaurant

The pro shop

The driving range

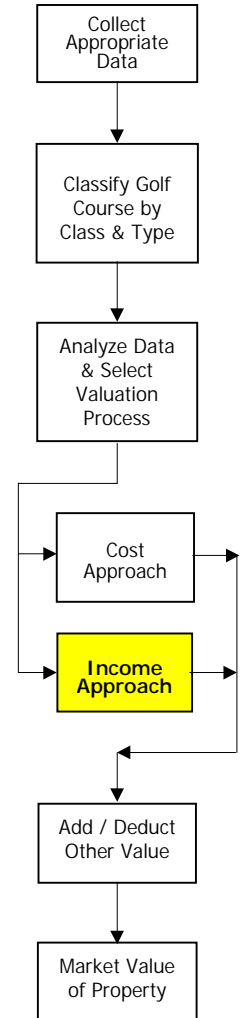
Any other non-golf-club operations

- 7) Deduct expenses from the gross potential income to determine the net income.
- 8) Deduct income attributable to non-real estate items (e.g., reserves for course improvements, and other intangibles) to produce:

**NET OPERATING INCOME ATTRIBUTABLE
TO THE REAL ESTATE**

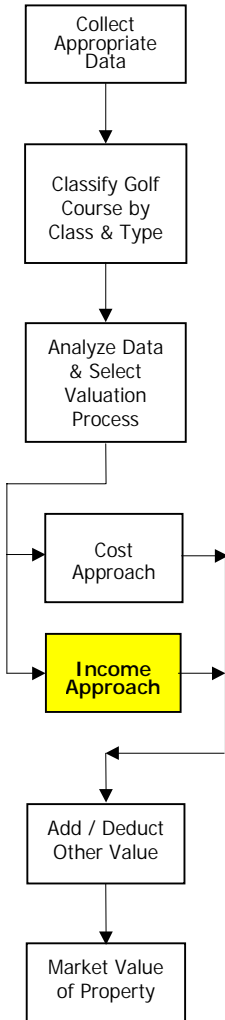
- 9) Determine the capitalization rate from analysis of market sales by class of golf course. Add the effective tax rate and convert income into value.
- 10) Add/ deduct other value to produce:

MARKET VALUE OF THE PROPERTY



Valuation Parameters – Income Approach

The income approach requires the following valuation parameters for each class and type of course:



Median and range of expected **golf course revenues**

Gross rental rates for various other income-generating activities at a golf course

Typical operating costs for course maintenance and operations, and for administration, management, and marketing

Reserve for replacements

Capitalization rates

For an example of these parameters refer to Figure 2.

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

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 course management. 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 should be valued in comparison to profit-oriented courses. Therefore, the potential income from a public course should be the same as for a private or semi-private course of similar quality and rating.

The market value of a golf course should not be 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
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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 should be the **total of:**

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

Locker and other club fees (fees associated with non-golf activities)

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

The revenue potential of all courses should be evaluated on the basis of the **maximum revenue that can be generated from the real estate over time.**

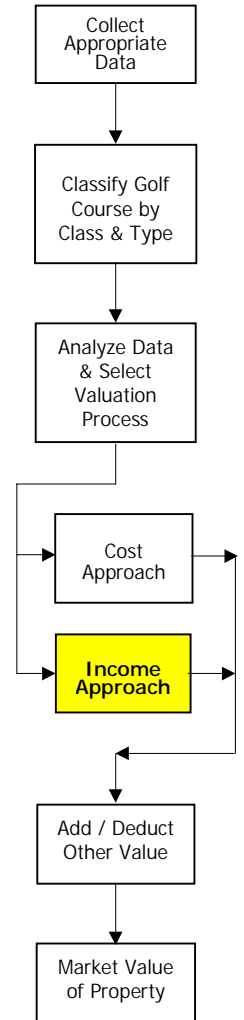
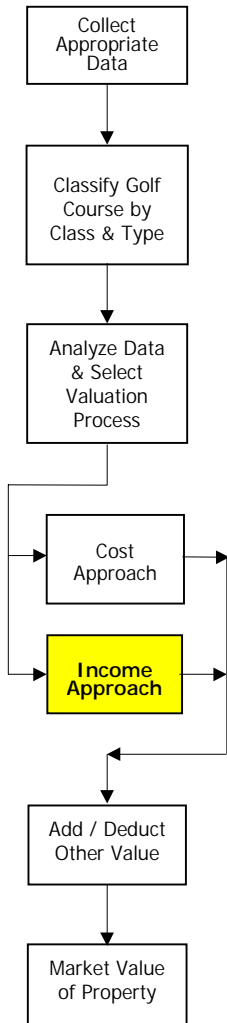


Table 1: Determining Potential Golf Course Revenue

	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 should be the same for all golf courses of a similar quality. If these courses are similar in class and type, they all should be valued on the basis of a \$750,000 income-generating potential.

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
- 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. Analyzing 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 should be possible to establish gross rental rates as a percentage of sales.

Gross percentages can be determined by analyzing the sales and lease costs held by pro shops, restaurants, driving ranges, and cart operations (if available). It should also be possible to develop appropriate gross percentage rent rates by analyzing 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.)

Add the gross rental income to the golf course revenues to establish the **potential income** from a golf property. Refer to Figure 5 – Form GC4: Income Valuation Proforma Analysis.

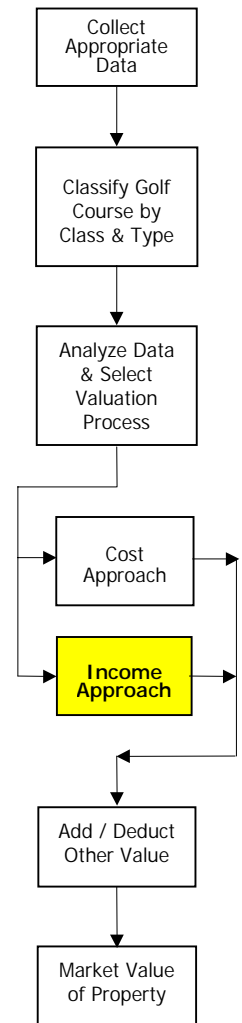


Figure 5: Form GC4 - Income Valuation Proforma Analysis

LINE / COLUMN:	E	F	G	H	L	
Course	Lethbridge Golf & Country	Class :	Class 2			
Address	1010 23rd Street	Type :	Type III	Stabilized Data	% Rent	
Roll #	123456	Ownership :	Semi-private	Weighted average	Norms	
					Typical Data	
					Class 2 Type III	
4.1	Fiscal Year	1995	1996	1997	1997	1997
4.2	Weight (For averaging)	30.0%	30.0%	40.0%	100.0%	
4.3	Number of Holes	27	27	27	27	
4.4	Number of Members	252	250	250	251	
4.5	Membership Dues - Total	\$ 378,000	\$ 374,500	\$ 375,000	\$ 375,750	
4.6	Number of New Members	6	5	4	5	
4.7	Typical Entry Fee Revenue -Total	\$ 6,000	\$ 5,000	\$ 4,000	\$ 4,900	
4.8	Other Club/ Locker Revenues	\$ -	\$ -	\$ -	\$ -	
4.9	Total Gross Rents: Pro Shop, Rest.*	\$ -	\$ -	\$ -	\$ -	
4.10	Green Fees - Total	\$ 621,320	\$ 588,934	\$ 626,580	\$ 613,708	
4.11	Number of Rounds	39,780	36,891	39,500	38,801	37,500
4.12	Average Fee per Round	\$ 25.27	\$ 26.25	\$ 25.46	\$ 25.63	\$ 27.00
4.13	Total Golf Course Revenue	\$ 1,005,320	\$ 968,434	\$ 1,005,580	\$ 994,358	\$ 1,012,500
	Gross Sales (Non-golf)					
4.14	Restaurant *	\$637,000	\$588,300	\$640,212	\$ 623,675	6.5%
4.15	Pro Shop *	\$136,200	\$130,940	\$142,750	\$ 137,242	9.0%
4.16	Driving Range	\$5,000	\$4,100	\$5,500	\$ 4,930	10.0%
4.17	Golf Cart	\$240,650	\$221,500	\$239,000	\$ 234,245	11.0%
4.18	Other*	\$11,000	\$8,000	\$9,200	\$ 9,380	8.0%
4.19	Total - Gross Rental Revenue					\$ 79,901
4.20	Total Potential Income					\$ 1,092,401
	Expenses				% of Total Income	
4.21	Maintenance and Operations	\$ 344,600	\$ 335,800	\$ 349,550	\$ 343,940	32.5%
4.22	Mgmt., Admin, & Marketing	\$ 109,400	\$ 112,000	\$ 115,210	\$ 112,504	11.0%
4.23	Water	\$ 18,400	\$ 16,000	\$ 19,333	\$ 18,053	2.1%
4.24	Heat & Utilities	\$ 22,500	\$ 22,700	\$ 25,430	\$ 23,732	2.5%
4.25	Insurance	\$ 6,000	\$ 6,500	\$ 6,500	\$ 6,350	0.5%
4.26	Other Golf Course Expense**	\$ 9,466	\$ 12,400	\$ 11,213	\$ 11,045	
4.27	Total Expense				\$ 515,624	49.7%
4.28	Net Income					\$ 549,561

* For these operations use either gross rents per sq. ft, OR gross rents as a % of sales. Where rents per sq.ft. are used do not input any sales figures.

** Do not include non-golf course expenses in this item - no pro shop, cart, driving range or restaurant expenses.

Deduct Typical, Stabilized Operating Costs

Expenses for golf courses are typically comprised of maintenance for grounds and equipment, supplies, and employee costs. Interviews with the superintendent or the owner coupled with a site inspection should 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 should be the same as those experienced at other courses of similar quality. Therefore, **maintenance and operating costs** and **management, marketing, and administration expenses** should be established by analyzing several years of income and expense statements from profit-oriented courses. These expenses should be expressed as a percentage of total potential revenues by class and type of course.

Since the values of the non-golf operations are established on the basis of rental income, no inventory or operating expenses attributable to these elements should be considered in estimating the net income to the property.

Other Operating Costs

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

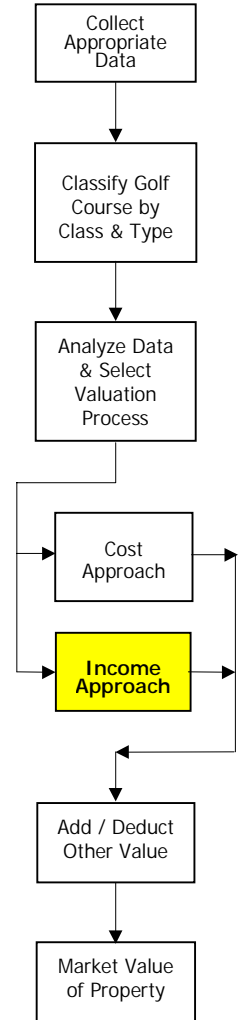
Other costs (not costs associated with non-golf club revenues)

Since varying circumstances may make it difficult to establish industry norms for these expense items, it is acceptable to use actual, stabilized operating costs.

Deduct other operating costs along with typical operating and management costs from the potential income to establish **net income**.

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.



Since non-golf-course operations (pro shop, restaurant, golf carts, driving range) are valued on the basis of rent, no further income need be attributed to non-assessable items involved with these operations (e.g., the restaurant FF&E, liquor license, golf carts, and range balls).

Regular maintenance and operation expenses should 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.

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

Reserve for Replacement

In addition to supporting the value of the real estate, income generated by the golf course operation must 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** should be determined by class of golf course and deducted from the net income.

Other Intangible Items

Some income (usually 1% of the potential income) can be attributed to other **intangible items** such as goodwill. A well-run property attempts to enhance the business value of the venture.

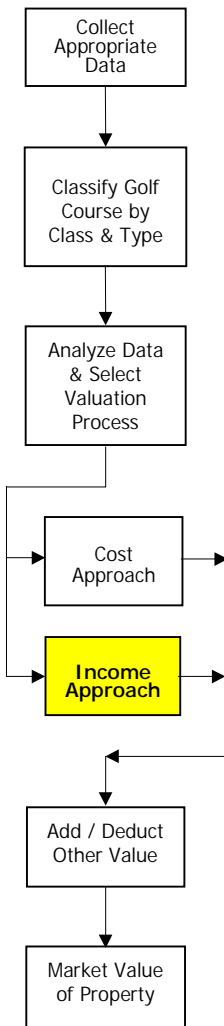
Net Effective Income

A summary of the income and expense analysis is presented on Figure 6. 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.

Establishing Base Capitalization Rates

The capitalization rate to be applied to value a golf course property arises from analysis of two types of information:

1. Sales of similar properties (e.g., a similar classed course or comparable course).



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

$$\text{CAP RATE} = \text{NET OPERATING INCOME} \div \text{PROPERTY VALUE}$$

Just as income and rents are analyzed for market valuation purposes, the income and other data should be analyzed for the golf course properties that sold in and around the valuation date in order to establish the capitalization rates to be applied.

2. Competitiveness with other investment opportunities.

From an investment point of view, the more similar the characteristics of the associated income stream (i.e., frequency of payment, potential for growth, and risks associated with the income), the more comparable the investment and the more comparable the capitalization rate.

Where golf course sales information is unavailable, golf course capitalization rates are often established in comparison to mortgage rates and a combination of mortgage and equity rates. However, this and other methods of establishing capitalization rates should be contemplated only when appropriate sales data is not available or as a check on the results of the sales analysis.

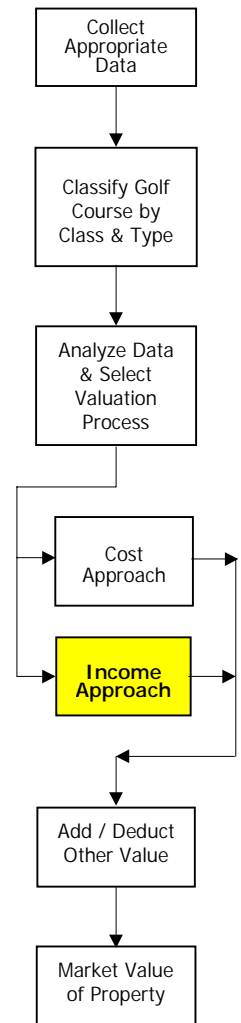
Capitalization Rate Guidelines

The income approach is based on the present worth of **future** benefits. When analyzing capitalization rates the assessor should consider expected future income.

The assessors should consider the class and specific quality and nature of the property. Such things as age, state of repair, and location affect the risk 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 could affect the capitalization rate. In general, favourable conditions should lower the capitalization rate and raise the value. Negative or below average conditions should raise the capitalization rate and lower the value.

- Number of rounds per year
- Competition, and expected changes in competition
- Location - access
- Course condition
- Course design



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. Deduct the actual property taxes charged as part of the fixed expenses (before determining net income) and then apply a base capitalization rate.
2. Determine the effective tax rate and add this amount to the base capitalization rate. The effective tax rate is the amount or percentage of real estate taxes per dollar of market value. (This is the approach being recommended in this guide.)

Effective Tax Rate Calculation

Property real estate tax	\$200,000
Property business tax	<u>\$100,000</u>
Total Taxes	\$300,000

Market Value of Property \$10,000,000

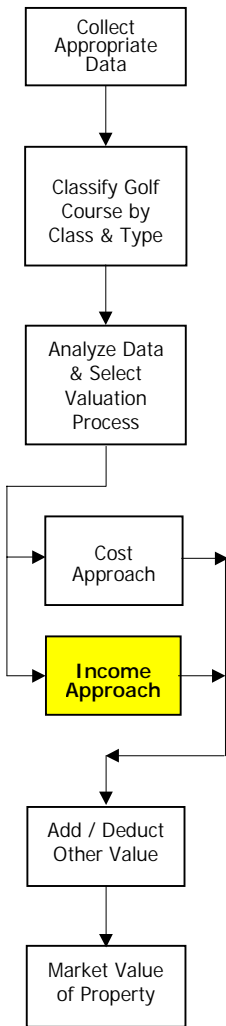
Effective Tax Rate: $\$300,000 / \$10,000,000 = 3.0\%$

This effective tax rate of 3.0% would be added to the base capitalization rate to determine the market value of the income stream as per the example below:

Table 2: Example of Income Value Capitalization

Net Income	\$ 589,000
Base Cap Rate	11.5%
Effective Tax Rate	3.0%
Total Cap Rate	<u>14.5%</u>
Value	\$5,770,000

In jurisdictions where taxes are based on assessments at 100% of market value, the effective tax rate is equal to the sum of the mill rates for property and business taxes.



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 analyzing typical incomes for that class and type of course.

Relevant Expenses

To determine the net income, the assessor should stabilize the expense statement to reflect a typical year's operating expense. (Capital expenditures on items accounted for in the reserve for replacement should be ignored.)

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

Income taxes

Depreciation

Interest and debt service

Capital improvements

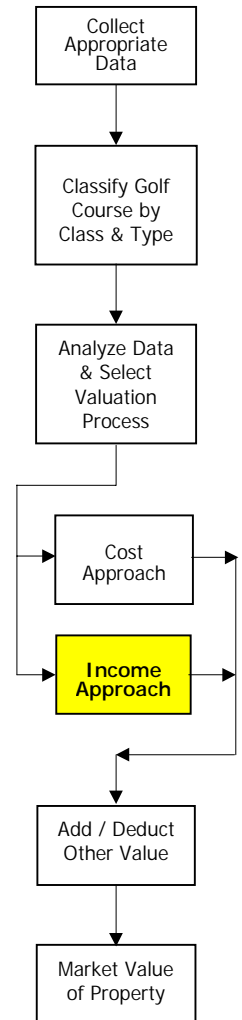
Owner's business expenses (over and above reasonable expenses incurred in regard to the property's generation of income)

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 analyze income from a golf course, the assessor should take these two factors into account:

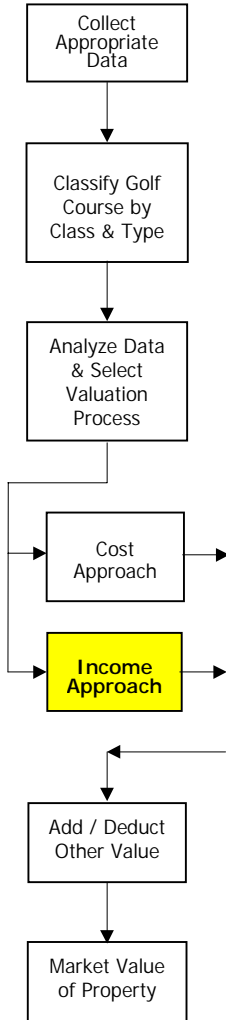
- 1) Since investors in golf courses base their purchase price on the expected net income, a good way to value property is to employ a method that follows the rationale and actions of the marketplace. Therefore, the valuation method described in this guide is based on determining **net** income.



- 2) From an assessment perspective, income analysis should capture all interests in the property. Therefore, all **potential** income should be analyzed.

The market value of a property for assessment purposes is a “fee simple” value. A fee simple title is regarded as an estate without limitations or restrictions. (*The Appraisal of Real Estate*, 8th Edition, American Institute of Real Estate Appraisers, pp. 8-9.) 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 valuation 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 valuation date.



Non-Real-Estate Issues

The assessment system is not intended to reward poor management and penalize good management. The valuation of a property should, therefore, attempt to limit the influence of such non-real estate issues. However, it is possible that factors such as poor attendance are beyond the control of the owner and this must be recognized in the valuation process.

3.7 Add / Deduct Other Components of Value

In some properties, the value will not be captured entirely by the foregoing application of the income approach. A lump sum addition or deduction will be required. For example, a single property may encompass a hotel and a golf course. In this instance, the value of these other components can be estimated independently and added to the value of the golf course component to derive an overall market value for the property. Form GC5 – Golf Course Value Summary (Figure 6) has been set up to accommodate such eventualities in the Add/Deduct space at row 5.7.

The assessor should consider a number of potential sources of additional value before arriving at the final value of the golf course.

Excess Land

The major source of additional value is excess land which is land in excess of the requirements of the golf course buildings, fairways, and parking. Such land is generally held in anticipation of expansion to 27 or 36 holes.

To determine excess land values, the assessor should analyze local zoning bylaws, current development of the property and market sales of similar parcels.

Deductions

Deductions might include extraordinary repair items not otherwise accounted for in the valuation process.

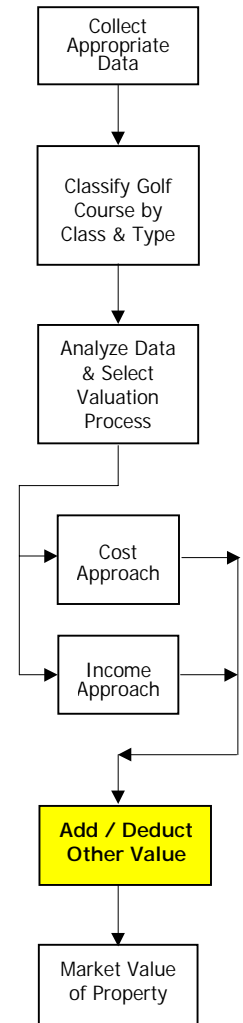


Figure 6: Form GC5 – Golf Course Value Summary

Address	1010 23rd Street
Course Name	Lethbridge Golf & Country
Municipality	Lethbridge
Roll #	123456
Opened in	1974
Class	Class 2
Type	Type III
Ownership	Semi-private

Value Date	Jan-97
------------	--------

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

Cost Approach	Building Improvements	Course Improvements
Effective Age	1967	
Condition	Good	Good
Construction Class	S, Good	Class 2
Total Area in Sq. feet	8,800	
Costs New	\$ 1,073,700	\$ 1,868,500
Cost-to-Cure	\$ -	\$ 300,000
Normal Depreciation	40.1%	44.4%
Other Obsolescence	0.0%	0.0%
Market Value	\$ 642,703	\$ 871,797
Total Improvements		\$ 1,514,500
Land		\$ 2,935,950
Value Conclusion - Cost Approach		\$ 4,450,450

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		\$ 542,840
Reserve for Replacement Intangibles	4.5%	\$ 24,428
	1.0%	\$ 5,428
Income to Real Estate		\$ 512,984
Base Capitalization Rate		11.5%
Effective Tax Rate		3.5%
Overall Cap Rate		15.0%
Value Conclusion		\$ 3,419,891

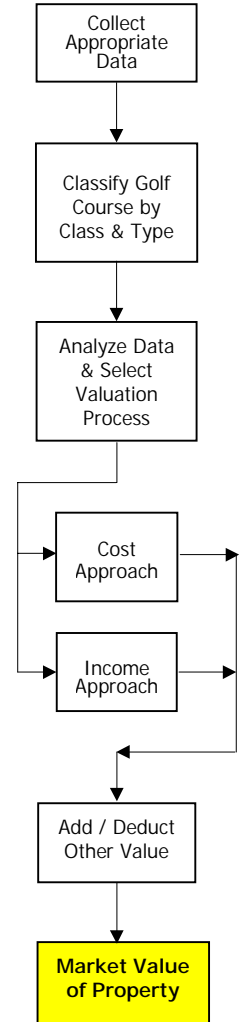
Consolidation of Market Value		% of Total
Cost Approach	\$4,450,000	60.0%
Income Approach	\$3,420,000	40.0%
Value Consolidation	\$4,038,000	100%
Other Value	\$0	None
Market Value	\$4,038,000	

Value Breakdown	
Site Area (Acres)	158.70
Land Value per Acre	\$ 18,500
Land Value	\$ 2,935,950
Building Value	\$1,102,050
Market Value	\$4,038,000

Market Value per Hole	\$149,556
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3.8 Market Value of Property

The spreadsheets accompanying this guide provide a means of completing a market value analysis of a golf course. Both the cost approach and/or (providing the appropriate information is available) the income approach methods are outlined. Form GC5-Golf Course Value Summary (Figure 6) finalizes the market value findings.



4.0 *Validation of Results*

The strength of an assessment system rests on two tenets: its ability to produce appropriate market value, and its ability to treat similar properties fairly and consistently.

To accomplish these ends, the valuation process should reflect the views and methods used in the marketplace. The process should be applicable to all properties, but it should have enough flexibility to deal with the variations and market conditions encountered.

Valuation Parameters

The proposed system sets up a table of valuation parameters. Ideally, this information would be collected by local assessors, and then assembled and researched by a central committee and the results disseminated to local assessment offices. For each valuation parameter, a median and appropriate range of potential values could be provided.

If the assessor stays within these valuation parameters, the whole system will be applied fairly and consistently, i.e. the results of any golf course analysis is validated within certain parameters.

The process also requires an assessor to give a reason for applying a different parameter. In this way, the process incorporates flexibility and accountability.

Check Against Sales Values

To ensure that the assessment values developed are in line with the market, the assessor should check them against any sales. Sales have inferences for the values of similar properties. A level of comfort can be developed about the assessment values on a dollar per hole measure.

Data Filters

Another way to ensure consistent and reliable results is to place data filters on the input. For example, green fees for a Class 3, Type III golf course must fall between \$35 and \$60 per round.

5.0 Example of Golf Course Valuation Analysis

The five forms shown on the following pages illustrate an example of a golf course valuation employing both or either of the cost or income approaches. The analysis is set up on a five-page spreadsheet (or worksheet). Enter values and pertinent data in the blank (white) cells. All shaded cells are either formulas or look-up cells and should not be over-written.

Form GC1 – Golf Course Data Entry

The assessor enters the general descriptive data for the property, including address, class and type of course. The data entered on this worksheet will be carried forward to the remaining forms as required.

Form GC2 – Golf Course Cost Data

The assessor enters a more detailed description of the improvements. The form is set up to employ the calculator cost method found in the *Marshall & Swift Valuation Services Manual*. It does not actually “look-up” costing rates.

Form GC3 – Golf Course Cost Valuation Summary

The assessor enters the cost rates that apply to various improvements, including, golf course holes, as well as the effective age, cost-to-cure, normal depreciation and obsolescence.

Form GC4 – Income Valuation Proforma Analysis

The assessor enters the appropriate income, rents, and expenses to be applied to the property. Both typical and actual income figures are required to complete this analysis.

Form GC5 – Golf Course Valuation Summary

This final form summarizes the analysis. Some additional parameters are required to complete the income approach. If both methods are employed, the results can be consolidated on this form.

Figure 7: Form GC1 - Golf Course Data Entry

1.1	Address	1010 23rd Street
1.2	Course Name	Lethbridge Golf & Country
1.3	Municipality	Lethbridge
1.4	Roll #	123456
1.5	Opened in	1974
1.6	Class	Class 2
1.7	Type	Type III
1.8	Ownership	Semi-private

Value Date:	Jan-97
Measurements in:	feet
Data from:	1996
Rounds Played	
Average Green Fee	
CPGA Course Rating	
CPGA Slope Rating	

1.9	No. of members in: 1996	250
1.10	Initiation fee in: 1996	\$6,000
1.11	Annual club dues in: 1996	\$1,200
1.12	Restaurant dues in: 1996	\$900

# of Holes	Quality
18	Class 2
9	Class 1
1	Driving Range
Land Area, Ac.	158.70

Inspection Notes		
1.13	Inspection date	Sept. 12, 1996
1.14	Driving range	Yes, pay per bucket
1.15	No. & comment on golf carts	30 carts, 50% new last year
1.16	Other recreational facilities	No
1.17	Comment on restaurant	Low key menu and service, medium quality finish
1.18	Comment on banquets	Not held frequently
1.19	Irrigation system	
1.20	Condition - course	Good
1.21	Condition - buildings	Good
1.22	Comment on maintenance	
1.23	Comment on use	Busy on weekends during most of season
1.24	Comment on access	Close to highway
1.25	Comment on location	Good - serves a wide area

Figure 8: Form GC2 - Golf Course Cost Data

2.1	Address	1010 23rd Street
2.2	Course Name	Lethbridge Golf & Country
2.3	Municipality	Lethbridge
2.4	Roll #	123456
2.5	Opened in	1974
2.6	Course Type	Class 2 - Type III
2.7	Ownership	Semi-private

Value Date:	Jan-97
Measurements in:	feet
Data from:	1996
Rounds Played	0
Average Green Fee	\$ -
Course Rating	0.0
CPGA Slope Rating	0.0

	Improvement	Area in Sq. feet	Flr. Ht: feet	# Flrs.	Volume in cubic feet	Dimensions	Perimeter feet	Build Date	Building Type	Bldg Class	Const. Quality
2.8	Clubhouse	4,600	12.0	1.0	55,200	50 x 92	284	1974	Clubhouse	S	Good
2.9	Pro shop	1,200	10.0	1.0	12,000	40 x 30	140	1977	Shop	C	Average
2.10	Maintenance	3,000	14.0	1.0	42,000	50 x 60	220	1974	Standard	C	Average
2.11	Drive-shed				0						
2.12	Restaurant				0						
2.13	Booth				0						
2.14	Other				0						
	Totals	8,800	12.4		109,200		644	1974			

# of Holes	Quality
2.15	18 Class 2
2.16	9 Class 1
2.17	1 Driving Range

2.18	
2.19	Land Area, Ac. 158.70

2.20
2.21

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

Figure 9: Form GC3 - Golf Course Cost Valuation Summary

3.1	Address	1010 23rd Street	Value Date	Jan-97	Building Area: Sq. feet	8,800
3.1	Municipality	Lethbridge	Local Cost Multiplier	1.280	Number of holes	27
3.2	Roll #	123456	Current Cost Multiplier	0.970	Type / Class	Class 2 - Type II

Replacement Cost Analysis

Item	Units in square feet	Base Rate	HVAC Addn	Sprkler Addn	Total Rate	Area Mltpler	Height Mltpler	Final Rate	Costs New	Effective Age	Dpn Table	Cost-to-Cure	Dpn %	Costs New less Dpn
3.3	Clubhouse	4,600	\$62.00	\$2.00	\$1.00	\$65.00	0.859	1.181	\$81.87	\$376,600	1966	MS50	36%	\$241,024
3.4	Pro shop	1,200	\$51.09	\$2.00		\$53.09	0.859	1.181	\$66.87	\$80,200	1966	MS50	36%	\$51,328
3.5	Maintenance	3,000	\$17.38	\$1.00		\$18.38	0.859	1.000	\$19.60	\$58,800	1976	MS50	18%	\$48,216
3.6	Drive-shed	0				\$0.00	0.859	1.000	\$0.00	\$0			0%	\$0
3.7	Restaurant	0				\$0.00	1.000	1.000	\$0.00	\$0			0%	\$0
3.8	Booth	0				\$0.00	1.000	1.000	\$0.00	\$0			0%	\$0
3.9	Other	0				\$0.00	1.000	1.000	\$0.00	\$0			0%	\$0
3.10	Bridges	2	\$35,000			\$35,000			\$43,456	\$86,900	1975	MS40	35%	\$56,485
3.11	Waterscaping	3	\$18,000			\$18,000			\$22,349	\$67,000	1982	MS30	35%	\$43,550
3.12	Pavement, Sq. feet	190,000	\$1.50			\$1.50			\$1.86	\$353,900		yard	50%	\$176,950
3.13	Fence (linear), feet	5,000	\$8.10			\$8.10			\$10.06	\$50,300		yard	50%	\$25,150
3.14	Lighting	0				\$0			\$0.00	\$0		yard	50%	\$0
3.15	Other Yard	0				\$0			\$0.00	\$0		yard	50%	\$0
3.16	Other Yard	0				\$0.00			\$0.00	\$0		yard	50%	\$0

Total Buildings	8,800							\$122.01	\$1,073,700			\$0	40.1%	\$642,703
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Course Improvements - Holes

3.17	Class 2	18	\$60,000			\$60,000			\$74,496	\$1,340,900	1982	ms30	\$300,000	35%	\$676,585
3.18	Class 1	9	\$45,000			\$45,000			\$55,872	\$502,800	1974	ms30		63%	\$186,036
3.19	Driving Range	1	\$20,000			\$20,000			\$24,832	\$24,800	1974	ms30		63%	\$9,176

Obsolescence Note		Less Obsolescence%, See Note	0.0%	\$0
3.20	There does not appear to be any abnormal depreciation or obsolescence			
3.21	Value per square hole is within the range of the market sales evidence	Value of Improvements		\$1,514,500

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

Value Ratio	
\$ per hole	\$158,929

Value Summary	
Land Value	\$2,935,950
Building Value	\$1,514,500
Market Value	\$4,450,000

Figure 10: Form GC4 - Income Valuation Proforma Analysis

Course		Class :		Stabilized Data Weighted average	% Rent Norms	Typical Data	
Address		Type :				Class 2 Type III	
Roll #		Ownership :					
Lethbridge Golf & Country		Class 2					
1010 23rd Street		Type III					
123456		Semi-private					
4.1	Fiscal Year	1995	1996	1997	1997		1997
4.2	Weight (For averaging)	30.0%	30.0%	40.0%	100.0%		
4.3	Number of Holes	27	27	27	27		
4.4	Number of Members	252	250	250	251		
4.5	Membership Dues - Total	\$ 378,000	\$ 374,500	\$ 375,000	\$ 375,750		
4.6	Number of New Members	6	5	4	5		
4.7	Typical Entry Fee Revenue -Total	\$ 6,000	\$ 5,000	\$ 4,000	\$ 4,900		
4.8	Other Club/ Locker Revenues	\$ -	\$ -	\$ -	\$ -		
4.9	Total Gross Rents: Pro Shop, Rest.*	\$ -	\$ -	\$ -	\$ -		
4.10	Green Fees - Total	\$ 621,320	\$ 588,934	\$ 626,580	\$ 613,708		
4.11	Number of Rounds	39,780	36,891	39,500	38,801		37,500
4.12	Average Fee per Round	\$ 25.27	\$ 26.25	\$ 25.46	\$ 25.63		\$ 27.00
4.13	Total Golf Course Revenue	\$ 1,005,320	\$ 968,434	\$ 1,005,580	\$ 994,358		\$ 1,012,500
Gross Sales (Non-golf)							
4.14	Restaurant *	\$637,000	\$588,300	\$640,212	\$ 623,675	6.5%	\$ 40,539
4.15	Pro Shop *	\$136,200	\$130,940	\$142,750	\$ 137,242	9.0%	\$ 12,352
4.16	Driving Range	\$5,000	\$4,100	\$5,500	\$ 4,930	10.0%	\$ 493
4.17	Golf Cart	\$240,650	\$221,500	\$239,000	\$ 234,245	11.0%	\$ 25,767
4.18	Other*	\$11,000	\$8,000	\$9,200	\$ 9,380	8.0%	\$ 750
4.19	Total - Gross Rental Revenue						\$ 79,901
4.20	Total Potential Income						\$ 1,092,401
Expenses						% of Total Income	
4.21	Maintenance and Operations	\$ 344,600	\$ 335,800	\$ 349,550	\$ 343,940	32.5%	\$ 355,030
4.22	Mgmt., Admin, & Marketing	\$ 109,400	\$ 112,000	\$ 115,210	\$ 112,504	11.0%	\$ 120,164
4.23	Water	\$ 18,400	\$ 16,000	\$ 19,333	\$ 18,053	2.1%	\$ 22,940
4.24	Heat & Utilities	\$ 22,500	\$ 22,700	\$ 25,430	\$ 23,732	2.5%	\$ 27,310
4.25	Insurance	\$ 6,000	\$ 6,500	\$ 6,500	\$ 6,350	0.5%	\$ 6,350
4.26	Other Golf Course Expenses**	\$ 9,466	\$ 12,400	\$ 11,213	\$ 11,045		\$ 11,045
4.27	Total Expense				\$ 515,624	49.7%	\$ 542,840
4.28	Net Income						\$ 549,561

* For these operations use either gross rents per sq. ft. OR gross rents as a % of sales. Where rents per sq. ft. are used do not input any sales figures.

** Do not include non-golf course expenses in this item - no pro shop, cart, driving range or restaurant expense.

Figure 11: Form GC5 - Golf Course Valuation Summary

Address	1010 23rd Street
Course Name	Lethbridge Golf & Country
Municipality	Lethbridge
Roll #	123456
Opened in	1974
Class	Class 2
Type	Type III
Ownership	Semi-private

Value Date	Jan-97
------------	--------

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

Cost Approach	Building Improvements	Course Improvements
Effective Age	1967	
Condition	Good	Good
Construction Class	S, Good	Class 2
Total Area in Sq. feet	8,800	
Costs New	\$ 1,073,700	\$ 1,868,500
Cost-to-Cure	\$ -	\$ 300,000
Normal Depreciation	40.1%	44.4%
Other Obsolescence	0.0%	0.0%
Market Value	\$ 642,703	\$ 871,797
Total Improvements		\$ 1,514,500
Land		\$ 2,935,950
Value Conclusion - Cost Approach		\$ 4,450,450

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		\$ 542,840
Reserve for Replacement	4.5%	\$ 24,428
Intangibles	1.0%	\$ 5,428
Income to Real Estate		\$ 512,984
Base Capitalization Rate		11.5%
Effective Tax Rate		3.5%
Overall Cap Rate		15.0%
Value Conclusion		\$ 3,419,891

Consolidation of Market Value		% of Total
Cost Approach	\$4,450,000	60.0%
Income Approach	\$3,420,000	40.0%
Value Consolidation	\$4,038,000	100%
Other Value	\$0	None
Market Value	\$4,038,000	

Value Breakdown	
Site Area (Acres)	158.70
Land Value per Acre	\$ 18,500
Land Value	\$ 2,935,950
Building Value	\$1,102,050
Market Value	\$4,038,000

Market Value per Hole	\$149,556
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6.0 Appendices

6.1 Request for Property Information

Province of Alberta Assessment Department			
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		
	Roll #		
Authorization for such requests arises out of section 295 of the Alberta Municipal Government Act (the <i>Act</i>).			
Any information received will be treated in a confidential manner as outlined in the <i>Act</i> .			
Failure to provide information has potential consequences as outlined in the <i>Act</i> .			
Information Required			
*	Income and Expense Statements covering the past 3 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 entered onto the enclosed form.			
<u>Minimum Information Requirement from Income and Expense Statement</u>			
*	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		

Course Information

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"/>		

Number of holes

	No.	Par	RCGA Slope Rating	Typical weekend fee
Championship	<input style="width: 20px;" type="text"/>	<input style="width: 20px;" type="text"/>	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Regulation	<input style="width: 20px;" type="text"/>	<input style="width: 20px;" type="text"/>	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Executive	<input style="width: 20px;" type="text"/>	<input style="width: 20px;" type="text"/>	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Par 3	<input style="width: 20px;" type="text"/>	<input style="width: 20px;" type="text"/>	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>

Land area:

Year opened:

	1995	1996	1997
Days open	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>
Number of rounds started**	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>
Number of members	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>
Number of new members	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>
Average initiation fee	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>
Average membership dues	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>
Average restaurant dues	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>

Facilities*

		Area (Sf)		
Health club	<input type="checkbox"/>	<input style="width: 100px;" type="text"/>	Driving range	<input type="checkbox"/>
Dining room	<input type="checkbox"/>	<input style="width: 100px;" type="text"/>	Lockers	<input type="checkbox"/>
Lounge / bar	<input type="checkbox"/>	<input style="width: 100px;" type="text"/>	Sauna	<input type="checkbox"/>
Banquet facilities	<input type="checkbox"/>	<input style="width: 100px;" type="text"/>	Tennis courts	<input type="checkbox"/>
Pro shop	<input type="checkbox"/>	<input style="width: 100px;" type="text"/>	Other: _____	<input type="checkbox"/>

* Check where appropriate.

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

Income and Expense Information – Request Form

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:
Address:

Date:

Revenues	1996	1997	1998
Total Green Fees			
Total Membership Dues			
Total Initiation & Transfer Fees			
Other Club / Locker Revenues			
Gross Rents (Pro shop, Restaurant, etc)			
TOTAL REVENUE			

Gross Sales	1996	1997	1998
Restaurant/ Lounge/ Concessions			
Pro shop			
Driving Range			
Golf Cart			
Other			

Expenses	1996	1997	1998
Maintenance and Operations			
Management, Admin. & Marketing			
Water			
Heat & Utilities			
Insurance			
Other golf course expense*			
Total Operating Expenses			

Realty Taxes			
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Net Operating Income			
-----------------------------	--	--	--

Capital Expenditures			
-----------------------------	--	--	--

Expenditure on:			
------------------------	--	--	--