

WHAT IS THE WORTH OF THE ROYAL REGINA GOLF CLUB?



BY PETER LAWREK, AACI, P.APP, FELLOW (IN COLLABORATION WITH THE AIC APPEAL SUB-COMMITTEE)

The purpose of this article is to cover some of the factors considered in golf course appraisals. This information is presented for education purposes – it is not an appraisal, since it was not prepared in accordance with the *Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP)*.

I would like to thank the Royal Regina Golf Club for their permission to share information on operations. I also received valuable input from several Appraisal Institute of Canada (AIC) Members who are subject matter experts, as well as two Regina investor/developers, golf professionals, mortgage lenders and others.

Any discussion of a specialized area of appraisal starts with a consideration of Ethics Standard Rule 4.3.7, which states that it is unethical to undertake an assignment lacking the necessary competence. If competence is lacking, there are steps laid out in *CUSPAP* for members to follow, when completing work outside of their normal practice.

ROYAL REGINA GOLF CLUB

Created in 1899 and moved to its current location in 1901, the Royal Regina lies on the west side of Regina, just north of the airport and only five minutes from downtown. Originally used by the adjacent RCMP training headquarters, the golf club eventually purchased the land from the federal government. In 1999, it received the 'Royal' designation from Queen Elizabeth II, since it was then 100 years

old and royalty had visited the club in the past. There are only five other golf courses in Canada with the Royal designation. The Royal Regina has hosted many prestigious events in the past. It is owned by the members and has not-for-profit taxation status (however, the club does pay property tax). The course is semi-private, which means it allows non-members to play at non-peak hours. It allows outside tournaments, generally booked on Mondays, which has been a good revenue source. The pro is paid a wage, but also receives the pro shop profit from clubs, shoes, clothing, etc.

The Wascana Creek winds through the east portion of the 122-acre site, and 36% of the course lies within a floodway zone. In 2011, there was a devastating flood, and 2013 also had some flood damage. There are 18 holes plus two extra short par 3 holes, a driving range and small practice area. The course is 6,468 yards in length with a par 71, slope of 133 and course rating of 71.8. It is a challenging course to play. The one-storey, 8,918 square foot clubhouse was built in 2001. There are also storage and maintenance buildings.

2015 INCOME AND EXPENSES

2015 was an exceptionally good year, with 33,000 rounds played. Rounds played are counted as the number of people that teed off, whether or not they finished. There were 198 days of golf, factoring in days when play is not possible due to weather. The dining area and bar income includes events like weddings, receptions, non-member golf tournaments, etc.

GROSS INCOME

Membership fees	\$1,428,793
Green fees	319,392
Course improvement fees	119,255
Power carts (net of expenses)	142,246
Sundry	<u>102,047</u>
Total Revenue	\$2,111,733

Dining/bar gross sales:	\$1,135,318
	(and \$62,023 net)
Total Income	\$3,247,051

Income including net from dining/bar	\$2,173,756
--------------------------------------	-------------

Operating expenses	\$1,738,462
Net income	\$ 435,294

Notes

- Operating expenses include course maintenance, administration and general, clubhouse expenses and golf service expenses.
- The net is higher than the three previous years, which ranged from \$369,826-\$407,873. It could be argued that the average net income of the four years should be used for the valuation.
- 2011 was the big flood year and net income was only \$254,689. 2013 also had a flood and net income was only \$369,826, despite property tax reduction as a special concession to the club for the 2011 flood.
- The net income of 13.4% of gross is below the 17.6% ratio of another private (but operated as not-for-profit) golf course outside Regina.

WHAT IF IT WAS OPERATED AS FOR-PROFIT?

- The 33,000 rounds in 2015 was an exceptional year. Based on local information, 30,000 rounds would be a realistic average year.
- The green fee at the local municipal courses is \$48.50. Public green fees at the Royal Regina are \$90, or \$60 if the player is a guest of a member.
- Based on 30,000 rounds x \$60 green fee = \$1.8 million. Add \$150,000 power cart revenue, which is slightly higher than net for 2015.
- The total would be \$1,950,000 gross income from golf, which is less than 2015 actual revenue. Based on this and discussions with others, it appears the club would not make any higher income if it was privately owned and run for profit. Food and beverage income would be difficult to increase due to the out-of-the-way location. Extra revenue could come from the pro shop, but this is a competitive market segment, with low margins.
- A majority of the appraisers consulted thought a replacement reserve should be added as an expense. As a comparison, in hotel appraisals, a reserve for replacements is typically used, which would be 3-5%. It would be appropriate to have a reserve for replacements (equipment, power carts, etc.) and course upgrades. Based on the discussion, a \$50,000 allowance, or 1.5% of the 2015 gross income, is reasonable.

FINANCING

A local lender indicates the following:

Loan-to-value ratio: 50%-65%, with amortization of 10-15 years, depending on the strength of the borrower.

Interest rate: 4.25%-4.75%. Golf courses have more risk due mainly to weather and because they are not typical loans.

These financing options are not as favourable as good quality commercial properties, which would normally get a 75% loan to value ratio, 20-25 year amortization, and a rate less than 4%.

CAPITALIZATION RATE AND MARKET VALUE

The Royal Regina Golf Club has a substantial flood risk. When the Government of Canada sold the land to the club, it included a clause that would

give the government the first right to purchase. The adjacent RCMP would likely object to any use for residential purposes. Considering the flood risk and proximity to the CPR mainline and airport, the subject land would not be ideal for residential development. The available financing for golf courses is less favourable than other investments.

In Regina, a limited service hotel capitalization rate would be near 10%. There is consensus that a golf course like the Royal Regina is a higher risk.

Based on discussions with two local investor/developers as well as appraisers across Canada, it appears that a 12% capitalization rate would be appropriate. Appraisers in Canada report golf course capitalization ranging from 9-16%, depending on location, quality, etc.

Therefore: 2015 net income of \$435,294, less \$50,000 replacement reserve = \$385,294/12% = \$3,210,783.

DIRECT COMPARISON APPROACH

This approach could be added, based on a sale price per hole comparison. However, in this case, there is only one local comparable available and it sold inclusive of development land. If applied, the best comparables should be similar golf courses, considering factors such as whether they are public or private, whether they include significant non-golf revenues (such as banquets, cart-only green fee policy, any club fees not related to golf operations), whether they have similar clubhouse and maintenance facilities, and whether assets used in the operation are owned or leased.

Based on information provided by appraisers in Canada, we can report the following:

The consensus is that golf courses in large urban centres sell for land value, due to high real estate prices. Many of the secondary courses are not making any money, or if any, very little. Prices in markets such as Toronto and Vancouver will often have higher sale prices since they might be purchased for more than just their income. In general, demand to purchase is weak for golf courses that do not have development potential.

COST APPROACH

A land valuation is often required as part of this type of assignment. In the subject case, the highest and best use of the land is complicated due to possible lack of servicing capacity for a residential development, which, besides park space, would be the only other alternative use other than the RCMP for expansion. There is also the fact that 36% of the land is flood prone. More important, as discussed above, the government of has right of first refusal to purchase the land back for only \$200,000. Approval from the Government of Canada is also required to erect any signs or buildings, or to alter the contours of the land.

Using depreciated cost to value improvements is extremely challenging for golf course appraisals. In the current market, costs far exceed the recent prices for the few golf course transactions available for analysis. This approach could only be valid if there is an accurate estimate of economic obsolescence to account for the difference between cost and sale price based on potential income.

In Saskatchewan, properties are reassessed every four years. The subject's current assessment is \$5,184,400, and the 2016 property taxes are \$90,168. The assessment is first based on the value of the bare land, and then, based on the assessment manual, additional value is given based on cost for the greens, fairways, underground water, etc. The buildings are valued on depreciated cost.

Also in Saskatchewan, specific property appraisals cannot be given any weight in appeals because assessment is based on mass appraisal. In addition, the subject land assessment was appealed on the basis that 36% of the subject is in the floodway zone and, therefore, a lower land value should be used. The appeal failed because the assessor had no flood prone land sales to use.

There is a general reassessment for 2017-2020 and the assessment will be higher. It appears the Royal Regina Golf Club paid an extra \$34,000 in property taxes in 2016, due to the high property tax assessment. The assessed value is a good example of how the cost approach can lead to an incorrect valuation.

CONCLUSION

Golf courses are difficult to appraise, so the assistance of other appraisers and course owners/managers is highly recommended. 🌈