MUNICIPAL
PROPERTY
ASSESSMENT
CORPORATION

METHODOLOGY GUIDE

VALUING GOLF COURSES IN ONTARIO

Valuation Date: January 1, 2016

AUGUST 2016

MUNICIPAL PROPERTY ASSESSMENT CORPORATION

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The Municipal Property Assessment Corporation (MPAC) is responsible for accurately assessing and classifying property in Ontario for the purposes of municipal and education taxes.

In Ontario's assessment system, MPAC assesses your property value every four years. This year, MPAC is updating the value of every property in the province to reflect the legislated valuation date of January 1, 2016.

MPAC is committed to provide Ontario property owners, municipalities and all its stakeholders with the best possible service through transparency, predictability and accuracy in values. As part of this commitment, MPAC has defined three levels of disclosure of information in support of its delivery of this year's assessment update. This Methodology Guide is the first level of information disclosure.

This guide provides an overview of the valuation methodology undertaken by MPAC when assessing golf course properties for this year's update ensuring the methodology for valuing these properties is well documented and in alignment with industry standards.

Property owners can access additional information about their own properties through aboutmyproperty.ca. Login information for aboutmyproperty.ca is provided on each Property Assessment Notice mailed this year. Additional information about MPAC can be accessed at mpac.ca.

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1.0 Introduction

The Municipal Property Assessment Corporation (MPAC) – mpac.ca – is responsible for accurately assessing and classifying property in Ontario for the purposes of municipal and education taxation.

In Ontario, property assessments are updated on the basis of a four-year assessment cycle. In 2016, MPAC will update the assessments of Ontario's nearly five million properties to reflect the legislated valuation date of January 1, 2016. Assessments updated for the 2016 base year are in effect for the 2017–2020 property tax years.

The last Assessment Update was based on a January 1, 2012, valuation date. Increases are phased in over a four-year period. Any decreases in assessment are applied immediately.

It is important to ensure that the valuation methodology applied is capable of providing a realistic estimate of current value at the relevant valuation date, which, in turn, enables all stakeholders to understand the valuation process and have confidence in the fairness and consistency of its outcome.

This Methodology Guide has been prepared for the benefit of MPAC assessors, property owners and their representatives, municipalities and their representatives, Assessment Review Board members, provincial officials, and the general public.

This guide outlines the valuation process to be followed by an assessor, including steps that require appraisal judgment. It is incumbent upon the assessor to make informed decisions throughout the valuation process when arriving at estimates in current value.

1.1 Properties Covered by This Methodology Guide

This Methodology Guide applies to golf courses in Ontario.

The types of golf course ownership and operation vary and can include:

- daily fee
- semiprivate
- executive
- high-end public
- private for-profit

- private not-for-profit
- resort
- exclusive

Golf courses also offer a range of service levels from a simple check-in booth to more extensive facilities, including restaurants, pro shops, concessions, locker rooms and other recreational facilities (such as tennis courts).

The types and objectives of golf course ownership vary and can include:

- private equity facilities, which cater to an exclusive number of members and their guests and are generally operated on a not-for-profit basis
- private non-equity facilities, which may operate as either a for-profit or not-for-profit facility
- semiprivate facilities, which combine membership rights with public access (at specific times and on a fee-paying basis) and generally operate as for-profit facilities
- daily-fee facilities, which are open to the public on a fee-paying basis and generally operate as for-profit facilities
- municipally-owned public courses, which are open to the public on a fee-paying basis and run as not-for-profit facilities

MPAC uses a series of property codes to categorize different types of properties. The property code for golf courses is 490.

An assessor may also make reference to additional methodology guides for properties that do not fall precisely within the description of the property code listed above.

1.2 Legislation

The main legislation governing the assessment of properties in Ontario for property tax purposes is contained in the Assessment Act.[1]

The Act contains important definitions and states what property is taxable and how it should be valued. Section 19(1) of the Act requires that land be assessed at current value, which is

[1] Assessment Act, R.S.O 1990, c A.31: https://www.ontario.ca/laws/statute/90a31.

defined to mean, in relation to land, “the amount of money the fee simple, if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer.”

The Minister of Finance filed Ontario Regulation 430/15 on December 18, 2015, which added additional rules affecting the valuation and classification of properties on which a third-party sign (billboard) is located. To comply with the regulation, the income attributable to a third-party sign will not be included in the valuation of any property for assessment purposes.

1.3 Classification

MPAC’s role is to accurately assess and classify all properties in Ontario in accordance with the Assessment Act and its associated regulations established by the Government of Ontario. The classification of a property will determine which tax rate will be applied by the municipality or taxing authority. All properties are classified according to their use, and Ontario Regulation 282/98 of the Assessment Act sets out how various property uses are classified.

The classification of golf courses is covered in Section 3(1)2.vi, which includes in the Residential Property Class “land used as a golf course, including buildings and structures used for the purpose of maintaining the golf course, but not including any other buildings and structures and the land used in connection with those buildings or structures.”[2]

In addition to being included in the Residential Property Class, the assessed value allocated to the food/beverage and pro shop components of a golf course falls into the Commercial Property Class.

If a portion of the property is used for other purposes, for example hotel use, it may be necessary to value those components separately and sum the component values to achieve the correct total current value. It may also be necessary to apportion the total value of the property between the various uses to ensure that the appropriate tax rate is applied to the relevant parts of the property.

1.4 The Use of This Methodology Guide

This Methodology Guide is intended to:

- Ensure MPAC’s assessed values for these properties are fair, accurate, predictable and transparent.

[2] Ontario Regulation 282/98, GENERAL: https://www.ontario.ca/laws/regulation/980282.

- Provide direction to assessors and clear explanations to municipalities, taxpayers and Assessment Review Board members.

- Ensure that MPAC's methodology for valuing these properties is well documented and aligns with industry standards.

- Explain the thought process/decision-making process that an assessor should undertake to apply the valuation methodology.

- Ensure a consistent approach to valuing these property types.

- Support MPAC assessors in conducting their due diligence in:

    - applying Ontario's legislation and regulations
    - adhering to industry standards for market valuation in a mass appraisal environment

It should be noted that this Methodology Guide is not intended to be a substitute for an assessor's judgment in arriving at a market value–based assessment (i.e., current value) for a particular property. However, given that the Methodology Guide explains industry standards for property assessment, conforms to valuation industry norms, and adheres to provincial legislation and regulation, MPAC assessors are expected to follow the procedures in the Methodology Guide and be able to clearly and satisfactorily justify any deviations from it.

1.5 Consultation and Disclosure

MPAC is committed to providing municipalities, taxpayers and all its stakeholders with the best possible service through transparency, predictability and accuracy. In support of this commitment, MPAC has defined three levels of disclosure as part of its delivery of the 2016 province-wide Assessment Update:

- **Level 1** – Methodology Guides explaining how MPAC approached the valuation of particular types of property

- **Level 2** – Market Valuation Reports explaining how the methodology outlined in Level 1 has been applied at the sector level for the purposes of each assessment

- **Level 3** – Property Specific Valuation Information available to property taxpayers, their representatives and municipalities

2.0 The Valuation Process

The valuation process always begins with a determination of the highest and best use of the subject property.

Golf courses consist of large tracts of land, often in close proximity to existing development. MPAC assessors must always consider the highest and best use and development potential of the property. A property with a higher value under an alternate permitted use should not be valued as a golf course.

The highest and best use of the property must be determined as vacant and improved. The four highest and best use tests are that the alternative, higher-value use of the property must be physically possible, financially feasible, legally permissible and maximally productive.

Any reliance upon this guide is made only after the assessor has determined that the highest and best use of the subject property is that of a golf course.

Assessors determine the value of a property using one of three different approaches:

- the direct (sales) comparison approach
- the income approach
- the cost approach

2.1 Outline

In the **direct (sales) comparison approach**, value is indicated by recent sales of comparable properties in the market. In considering any sales evidence, it is critical to ensure that the property sold has a similar or identical highest and best use as the property to be valued.

In the **income approach** (or, more accurately, the income capitalization approach), value is indicated by a property's revenue-earning power, based on the capitalization of income. This method requires a detailed analysis of both income and expenditure, both for the property being valued and other similar properties that may have been sold, in order to ascertain the anticipated revenue and expenses, along with the relevant capitalization rate.

In the **cost approach**, value is estimated as the current cost of reproducing or replacing improvements of the land (including buildings, structures and other taxable components), less any loss in value resulting from depreciation. The market value of the land is then added.

MPAC primarily uses the income approach to value golf courses. The value of an income property such as a golf course is based on the present worth of anticipated future income.

MPAC uses the direct capitalization method to establish current value assessments in a mass appraisal context.

This method estimates the annual revenue that can be generated by the golf course, deducts operating expenses, and then applies a capitalization rate to the net income to arrive at an estimate of current value for the property.

The direct capitalization approach involves the following steps:

1. Determine stabilized revenues for the golf course
2. Deduct the stabilized cost of sales
3. Determine the gross margin
4. Deduct stabilized expenses to determine the net operating income (NOI) before municipal taxes
5. Establish the capitalization rate from sales data
6. Determine the effective tax rate (ETR) used to represent property taxes. To determine the ETR, a percentage of each the municipal commercial and residential tax rates are used and adjusted to account for the subsequent personal property deduction from the capitalized value.
7. Add the effective tax rate to the capitalization rate
8. Capitalize the NOI into an estimate of value
9. Deduct personal property from the capitalized value, with the result being the current value assessment.
10. Add the value of any other land and buildings not captured in the value of the golf course.

2.2 Approach

There are three main phases in the valuation process used by MPAC:

- data collection
- analysis of the data collected
- valuation

2.3 Data Collection

The data required for golf course valuations come from a number of sources:

- MPAC conducts periodic inspections of golf courses.
- Property owners are required to provide MPAC with details including actual income and expenses.
- MPAC also collects information about sales and transfers of golf courses.
- There are a number of guides and other published information about golf courses.

MPAC generally collects the following types of data for golf courses:

- general data
- financial data
- property description
- sales data
- improvement data
- land valuation data
- green fees and membership data

Information from Owner or Manager

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

- 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
- course and slope rating
- size/length/layout of course
- design/quality of course
- facilities available
- topography
- age
- landscaping

Financial Data

A golf course owner or manager is the main source of a golf course's financial data. A written request for the pertinent financial information is made to each golf course owner. A copy of the operating statement, including revenue and expenses, is required annually.

Revenue data required on an annual basis includes:

- green fees – non-member and guest fees, package deals, tournaments, etc.
- cart rentals – rental fees, trail fees, storage and battery charging fees
- membership fees – all types of membership fees and annual dues players pay for the current golf season
- range – all revenue earned from pay and play at a driving range and/or revenue from driving range memberships
- lessons – all revenue derived from golf lessons after commission is paid to the instructor
- pro shop – revenue from sales of all merchandise
- food and beverage – food, alcoholic beverages and non-alcoholic beverages from all sources, including banquets and tournaments
- other revenue – breakdown of all other revenue

Cost of sales data required on an annual basis includes:

- pro shop – the direct cost of purchases to supple the golf shop with golf merchandise for sale
- food and beverage – the direct cost of purchases of food ingredients, alcoholic beverages and non-alcoholic beverages for re-sale

Expense data required on an annual basis includes:

- wages and benefits from all sources at the golf course, shops and restaurants, including management, direct labour and associated benefit costs, employer health tax, vacation pay, staff on-site accommodations, staff meals, clothing allowance, etc.
- administration dues and subscriptions, all telecommunication costs, automotive costs, cost for travel/education/training, office supplies, computer supplies, donations and bank credit card charges
- pro shop supplies, including all consumable costs associated with the operation of the golf shop (for example, uniforms for golf shop personnel, scorecards and pencils)

- food and beverage supplies, including all consumable costs associated with the operation of restaurants (for example, uniforms and napkins)
- marketing expenses, including all charges for promotional advertising in print, radio, television and online
- turf operations, including the cost of fertilizer, pesticides, aggregates and fuel to operate the turf equipment (but not including costs to purchase or lease equipment)
- professional fees for external consultants (for example, legal and accountants/auditors, including travel and disbursements)
- repairs and maintenance, including all expenses related to repair buildings and associated furniture and fixtures (but not including capital expenditures)
- all utilities associated with the operation of the facilities, including hydro, propane, gas, heating oil, water and sewage, and cable and satellite
- all types of insurance related to the operations and buildings of a golf course (excluding insurance related to employee benefits, which is accounted for under fringe benefits by department)
- a breakdown of all other expenses

Please note that none of the expense categories should include any interest payments, mortgage payments, loan payments, property taxes, amortization, depreciation, capital improvements or purchases of capital assets.

Personal Property Data

If owned, details of ownership should include the depreciated cost of the following equipment and/or furnishings:

- golf carts
- maintenance equipment
- kitchen equipment
- clubhouse furnishings

If leased or leased to own, details of the lease should include terms and payments for the following equipment and/or furnishings:

- golf carts
- maintenance equipment
- kitchen equipment
- clubhouse furnishings

Golf Course Sales Data

MPAC also collects data with regard to sales of golf courses. This information is required for establishing the appropriate capitalization rates to apply in the valuation and confirming final market values.

Sales data to be collected includes:

- property address and legal description
- sales price
- date of transfer
- name and address of vendor and purchaser
- interests transferred (fee simple or other)
- purchaser motivation
- financing conditions

It is important for MPAC 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, intangibles (business value) and the contributory value of the improvements.

MPAC assessors will analyze sales from a broad geographical area to determine appropriate values and analyze local market conditions to reconcile the sale prices.

Confidentiality

As outlined above, it is important to be aware that, in order to enable MPAC to produce an accurate valuation of the property concerned, information needs to be obtained from a variety of sources.

This will include information from MPAC's records, from the owner or operator of the property, from the municipality in which the property is located, from the assessor's visit to the property, and from other sources.

All stakeholders in the property tax system have an interest in ensuring that the current value provided by MPAC is correct; in order to achieve this, it is necessary for all parties to cooperate in the provision of information.

It is appreciated that some of the information outlined above may be of a commercially sensitive nature. MPAC recognizes the need to ensure that any information provided to it is properly safeguarded and only used for the purpose for which it is supplied. Assessors must appreciate the nature of this undertaking and ensure data is treated accordingly.

If, after an appeal has been filed, MPAC receives a request for the release of actual income and expense information, or other sensitive commercial proprietary information, the usual practice is to require the person seeking the information to bring a motion before the Assessment Review Board (ARB), with notice to the third parties, requesting that the ARB order production of the requested information. The release of such information is at the discretion of the ARB and commonly accompanied by a requirement for confidentiality.

The Assessment Act outlines in section 53(2) that disclosed information may be released in limited circumstances "(a) to the assessment corporation or any authorized employee of the corporation; or (b) by any person being examined as a witness in an assessment appeal or in a proceeding in court involving an assessment matter."

2.4 Data Analysis

Having carried out the data collection outlined previously, the assessor needs to analyze the data and reach a conclusion regarding the appropriate valuation method to use and how it should be applied. The process includes the analysis of the sales data and the analysis of the revenue and expense data.

Analysis of the Sales Data Collected

Sales data is analyzed to establish benchmarks and the capitalization rate (R) – the net operating income (NOI) of the golf course divided by its sale price – which can then be used to value similar properties. MPAC maintains a database to enable the data from different properties to be analyzed and compared. The data is classified so that it can be sorted into appropriate groups, which reflect the different types of golf courses in various locations.

Analysis of the Revenue and Expense Data Collected

The first step is to stabilize income and expenses.

Golf course income and expenses can vary significantly from one year to the next. Because the valuation of golf courses looks to the income returned over the long run, it would not be appropriate for MPAC to value golf courses on the basis of one year's poor performance or one year's excellent performance. By stabilizing the income and expenses over a three-year period, the peaks and valleys of incomes and expenses can be reduced and the value of the golf course becomes based upon a more stable picture of the golf course's performance.

Once the data has been collected and the assessor has established stabilized revenues and expenses, the next step is to compare the actual revenue and income performance of a golf course to the industry norms.

By compiling the income and expense information into a database and then classifying all of the golf courses, MPAC is able to establish a range of valuation parameters. These parameters can then be compared to published industry data and industry norms and can be used to anticipate expected performance levels.

MPAC works with the National Golf Course Owners Association in order to establish certain industry norms that are applied to the assessment of all golf courses across the province. These norms include:

- round ranges
- discount rate factor
- cost of sales from pro shop (percentage)
- cost of sales from food and beverage (percentage)
- overall expense (percentage)

- capitalization rate (range)
- personal property deduction (percentage)

2.5 Valuation

Having undertaken the necessary steps outlined above, the assessor should now be in a position to apply the appropriate valuation model.

2.6 Validating the Results

Once the assessor has completed the valuation, it is necessary to carry out a series of checks to ensure that all relevant parts of the property have been included in the valuation, there has been no double-counting of any adjustments, the resulting valuation has been compared with any market evidence that may be available in relation to similar properties, and the final valuation is in line with the valuation of other similar properties in Ontario.

3.0 The Valuation

3.1 Approach

Regardless of the type of golf course, MPAC values every golf course (assuming the property's highest and best use is a golf course) as if it were a public for-profit course. This ensures consistency in the valuation of golf courses.

First, the assessor determines the golf operations' revenue by identifying the course's prime green fee rate, then multiplying it by a standard discount rate to determine the average green fee. The average green fee is then multiplied by the number of rounds applied to the subject golf course.

Other projected stabilized revenues are added to this golf operations income including carts, range, lessons, pro shop, food/beverage, etc., in order to establish the property's total revenue.

Costs of sales are then deducted from the pro shop and food and beverage revenues to determine the gross margin.

Finally, to calculate the Net Operating Income, expenses are subtracted from the Gross Margin.

The Capitalization Rate

MPAC analyzes market data to determine a golf course's capitalization rate. The capitalization rate appropriate for the property will depend on a wide range of factors, including the location, population base, size, length, age, quality, condition, etc.

The capitalization rate is derived by using the following formula:

$$\text{Capitalization Rate} = \frac{\text{Net Operating Income}}{\text{Property Purchase Price}}$$

The capitalization rate also includes an adjustment to reflect the effective tax rate as the valuation is based on the net income of the property before property tax.

Value Attributable to Personal Property

A portion of the value of a golf course is attributable to and goes to support personal property. This amount is deducted from the income value of the golf course.

Add/Deduct Other Components of Value

From time to time, a property's value is not entirely captured or is overstated by the application of the income approach. An adjustment to the value is then required. An example may be an addition for excess land.

Excess Land

In some situations, there may be surplus lands as part of the property, which, because of market conditions, may be undeveloped. This surplus land must be valued separately and added to the market value determined for the golf course portion of the property.

The determination of excess land involves a review of current zoning bylaws as well as the current density and configuration of the property. Excess land value is typically derived using market sales studies.

Finalize the Valuation

The final step in the process is to consolidate a market value for the property.

3.2 Sample Valuation

A sample golf course valuation is shown below:

Number of rounds	25,000
Prime Rate	$100
Factor	58%
Golf operations revenue	$1,450,000
Cart rental revenue	$200,000
Golf range revenue	$200,000
Lessons revenue	$100,000
Other revenue	$200,000
Pro shop revenue	$100,000
Food and beverage revenue	$400,000

Total revenue	**$2,650,000**
Less: Cost of sales	
Pro shop	$74,000
Food and beverage	$180,000
Gross margin	**$2,396,000**
Less: Expenses	$1,892,840
Net operating income	**$503,160**
Capitalization rate (9%)	
Effective tax rate (1.07%)	
Overall capitalization rate	**10.07%**
Indicated value	**$4,996,624**
Less: Personal property (9%)	$449,696
Net value	**$4,546,928**
Rounded	**$4,546,000**

3.3 Conclusion

This guide sets out how MPAC assessors approach the valuation of golf courses for property assessment purposes.

Although it outlines the general approach adopted, it does not replace the assessor's judgment and there may be some cases where the assessor adopts a different approach for justifiable reasons.

For further information about MPAC's role, please visit mpac.ca.