2023

GOLF INVESTMENT REPORT

LIPG

LEISURE INVESTMENT PROPERTIES GROUP

LIPG
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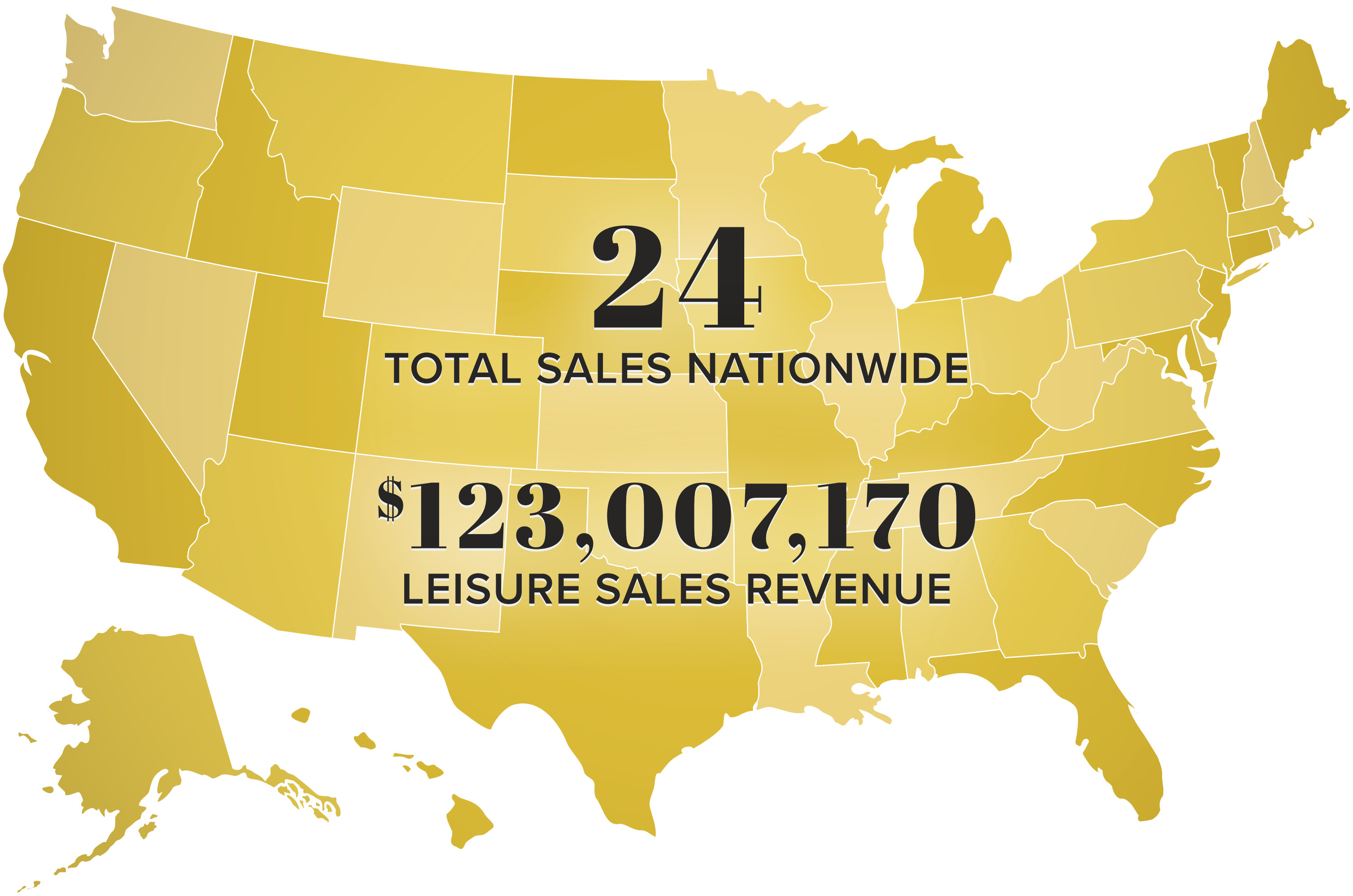
2022 YEAR IN REVIEW



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Vision

To be the preeminent leader in business-driven leisure investment real estate and advisory services.

Mission

To help our clients create and preserve wealth. We deliver exceptional transactional expertise, superior market knowledge, and the industry's most powerful marketing platform at a personal level, treating each client's best interests as our own.

Guarantee

Our clients will have the clarity, knowledge, and power to make sound business decisions that will maximize their investment strategies and achieve their vision for the future.

A TRUSTED VISION FOR THE FUTURE OF GOLF

The Leisure Investment Properties Group (LIPG) was founded in 2009. Formerly known as the National Golf & Resort Properties Group, LIPG has become the recognized industry leader in golf course and marina sales nationwide.

The firm provides brokerage and advisory services exclusively to the Leisure Investment Industry which includes golf courses, marinas, master-planned communities, RV Communities, resorts, and other leisure properties. Since its inception, the LIPG has sold more than 185 properties by utilizing its extensive database of prospective buyers, powerful platform, and proactive marketing techniques. The management team has more than 150 years of combined experience brokering golf courses, marinas, master-planned communities, and other commercial real estate assets.

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EXECUTIVE SUMMARY

This report, used by many golf industry owners, lenders, appraisers, management companies, consultants, and media outlets, is usually released in March, to provide the best sales statistics since pre-reporting agencies are usually 2 – 3 months behind in the reporting of golf sales. We will cover what happened to golf retrospectively in 2022 and look forward to what we believe will happen in 2023.

KEY 2022 GOLF MARKET TAKEAWAYS:

Revenue:	↑	Rounds & Membership:	↑
Median Price:	↑	Participation:	↑
Average Price:	↓	Off-the-course-Interest:	↑
Number of Transactions:	↑	Net Golf Course Closures:	↓
Interest Rates:	↑	Stock Market:	↓

Looking back at 2022 and looking forward to 2023, it reminds me of a formula. We all know IRR, (Internal Rate of Return) or e=mc2 the theory of relativity, but what is "I x I + SD=R"? (Interest, times Inflation, plus Supply Chain Disruptions = Recession)? We will examine this formula and what it means for golf course owners as well as examine what happened last year.

Overall, golf is on a hot streak. 2020 was better than 2019, 2021 better than 2020 and 2022 was again better than 2021, but the pace of both rate and dues increases has slowed, as did rounds of golf due mainly to weather. Hiring new staff was difficult for both the restaurant and maintenance side of the business and it was painful to find new or used golf carts. We had skyrocketing interest rate hikes, soaring inflation, and during all that, 2022 was a heck of a year. What lies ahead for 2023, we will discuss by looking at what happened in 2022, extrapolating how that is likely to affect 2023.

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Golf State of The Market: 2022 Wrap-up and 2023 Forecast

Steven Ekovich —Executive Managing Director – Partner

WHAT DOES THE FORMULA IISD=R HAVE TO DO WITH GOLF?

Looking back at 2022 and looking forward to 2023, it reminds me of a formula. We all know IRR, (Internal Rate of Return) or e=mc2 the theory of relativity, but what is “I X I + SD=R”? (Interest, times Inflation, plus Supply Chain Disruptions = Recession)? We will examine this formula and what it means for golf course owners as well as examine what happened last year.

Overall, golf is on a hot streak. 2020 was better than 2019, 2021 better than 2020 and 2022 was again better than 2021, but the pace of both rate and dues increases has slowed, as did rounds of golf due mainly to weather. Hiring new staff was hard as heck for both the restaurant and maintenance side of the business and it was painful to find new or used golf carts. We had skyrocketing interest rate hikes, souring inflation, and during all that, 2022 was a heck of a year. What lies ahead for 2023, we will discuss by looking at what happened in 2022, extrapolating how that is likely to affect 2023.

Despite IISD, skyrocketing Interest rate hikes, soaring inflation, supply chain problems in obtaining new or used carts and equipment, the golf industry had one hell of a year. “Let’s Go”2023?

Last year we had the least number of closures in about 10 years. Last year we said, **“Today we can declare we are not only in supply and demand balance, we have more demand than tee times”,** and at the Pellucid year-end report, they finally have not only agreed and trumped this, they see a path to more golf development. Yikes, we don’t need unbridled development, we need strategic development and fortunately, that is what they said.

As always, to determine the state of the golf industry from an “owners’ perspective’, we need to know if golf courses are increasing or decreasing in value, whether operations are getting better or worse. To draw relevant conclusions and forecast 2023, we have examined both the demand and supply side of golf as well as outside factors and their effect on value and operations.

THE DEMAND SIDE

The NGF’s research stated rounds backtracked to around 510 million, while The Pellucid Report stated Rounds dropped from 518M to 500M. What is most important is when you look at playable hours, according to Pellucid, which were down 7%, the courses utilization of the weather-shorted tee

LIPG - National Golf Course Sales History									
	# of Sales	Avg. Prices	% Change	Lowest Price	% Change	Highest Price	% Change	Median Price	% Change
2006	91	$ 7,326,883	N/A	$ 1,100,000	n/a	$ 39,500,000	n/a	$ 4,500,000	n/a
2007	97	$ 6,778,325	-7.49%	$ 559,000	-49.18%	$ 58,000,000	47%	$ 3,500,000	-22.22%
2008	108	$ 5,757,172	-15.06%	$ 595,000	6.44%	$ 50,575,000	-12.80%	$ 3,300,000	-5.71%
2009	97	$ 5,089,742	-11.59%	$ 500,000	-15.97%	$ 50,000,000	-1.14%	$ 2,900,000	-12.12%
2010	144	$ 4,873,308	-4.25%	$ 250,000	-50.00%	$ 40,000,000	-20.00%	$ 2,700,000	-6.90%
2011	110	$ 4,912,103	0.80%	$ 275,000	10.00%	$ 73,525,000	83.81%	$ 3,000,000	11.11%
2012	159	$ 2,700,215	-45.03%	$ 250,000	-9.09%	$ 30,000,000	-59.20%	$ 1,802,500	-39.92%
2013	145	$ 4,211,889	55.98%	$ 366,450	46.58%	$ 48,520,000	61.73%	$ 2,000,000	10.96%
2014	181	$ 4,661,645	10.68%	$ 266,800	-27.19%	$ 60,000,000	23.66%	$ 2,045,000	2.25%
2015	132	$ 5,012,316	7.52%	$ 263,250	-1.33%	$ 47,000,000	-21.67%	$ 2,195,000	7.33%
2016	123	$ 4,718,947	-5.85%	$ 500,000	89.93%	$ 50,000,000	6.38%	$ 2,300,000	4.78%
2017	114	$ 3,105,611	-34.19%	$ 520,000	4.00%	$ 30,700,000	-38.60%	$ 1,525,000	-33.70%
2018	107	$ 3,741,962	20.49%	$ 500,000	-3.85%	$ 41,948,500	36.64%	$ 2,046,418	34.19%
2019	96	$ 3,050,907	-18.47%	$ 500,000	0.00%	$ 16,750,000	-60.07%	$ 1,464,291	-28.45%
2020	79	$ 3,149,046	3.22%	$ 500,000	0.00%	$ 34,500,000	105.97%	$ 1,700,000	16.10%
2021	80	$ 4,399,889	39.72%	$ 500,000	0.00%	$ 45,333,000	31.40%	$ 2,225,000	30.88%
2022	98	$ 4,129,022	-6.16%	$ 550,000	10.00%	$ 47,000,000	3.68%	$ 2,580,900	16.00%
Total	1,961	$ 4,311,966	-39.95%						

Figure 1

times were up to 67% from 64% a year ago. What that means is factoring in weather and different time zones and the length of the day, there are a certain number of playable hours. Consequently, if weather is down and more people are playing during the shortened period of golf playable weather, that is a strong indicator golf is still growing.

On-course participation was up 2% and off-course was up 13% for a total participation in golf of 41M, an all-time high according to the NGF.

While the industry doesn't accurately report revenue for golf, we can tell you in working with hundreds of owners, golf revenue was up, dues were up, initiation fees were up and so was F&B revenue. When we look at F&B revenue, the industry has bounced back from the Covid induced reductions. In fact, we could be doing even better if facilities could adequately staff our F&B outlets. In summary, the demand for golf has NEVER BEEN BETTER.

THE SUPPLY SIDE

The number of 18-hole equivalent golf courses, (EHE) that closed their doors in 2022 was 105 according to the NGF, down to its lowest level in about 10 years and we had 10.6 EHE courses open. The golf supply continues to dwindle. Of the closed courses, most were public and 9-hole facilities, functionally obsolete 18-hole courses, where they can be redeveloped into other uses. The total number of golf facilities is just shy of 14,000 while

Average Historical Golf Course Prices

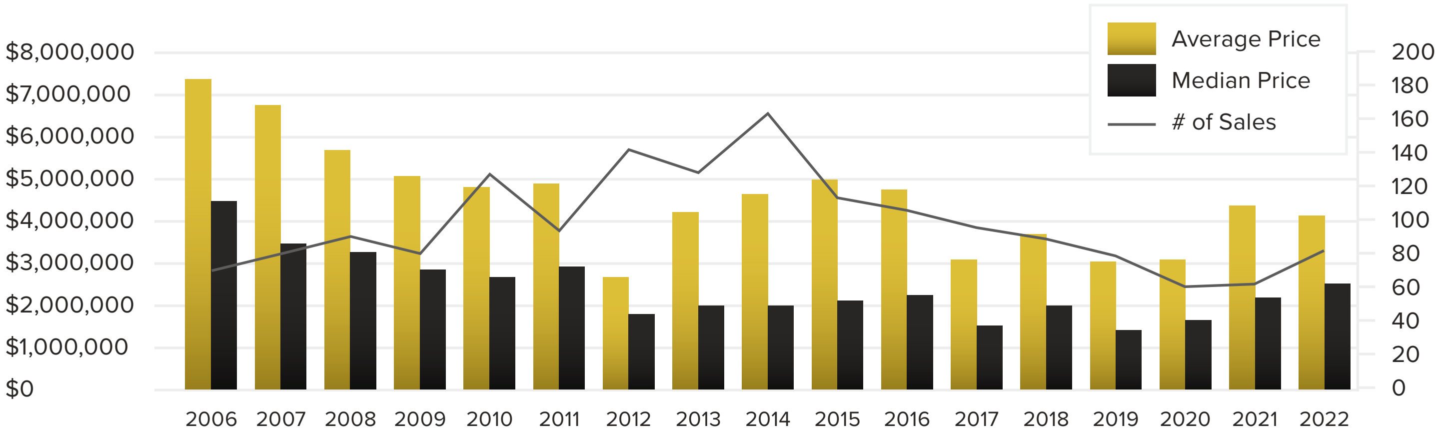

Figure 2

the number of 18-hole equivalents is around 16,000 courses.

We have never written about goods and services before but, in 2022, it became the year of the golf cart. Golf cart manufacturers were shutting down plants for up to 17 weeks in the spring of 2020. Once those plants reopened, with social-distancing protocols and new sanitation requirements, production resumed on a smaller scale. We've had clients tell us it is taking at least a year to receive golf carts. They are extremely affraid that if they canceled their orders, they would have to start the clock all over again because of the supply chain disruptions. Not only did it take longer to receive carts, but prices increased dramatically on new and used carts, if you could even get them (See chart 1).

There were also supply chain problems with clubs, bags, and shoes. There is a worldwide shortage of polycarbonate, which is used extensively in carts and other golf products. So, all the accessories have gone up in price, and acquiring them is taking an incredibly long time.

GOLF COURSE VALUES

Supply, demand, interest rates, inflation, all affect a golf course or facility's value. The good news for golf course owners is that the number of sales was up 22%, which shows more interest in golf. While the average price was down 6% from 2021, the median price increased by 16% (See figure 1 on previous page). Those numbers are huge in comparison to previous years. Since 2013 the median has increased steadily every year, except two, 2017 and 2019. The average sale price was $4,129,022 and the median sale price was $2,580,900, up $355,000. In both commercial and residential real estate, the median is considered the better indicator of value, vs. the average which can be affected by lots of small sales or a few large ones. (See figure 2). Why are the values up so much? Both gross revenue and EBITDA are up on just about every course in the country and that has continued a three-year trend. In addition, the buyer market for golf courses has exploded in the last few years.

With the media getting on the golf bandwagon, and other commercial real estate investment returns going down, non-golf investors are looking at golf as a good return. Case and point, the last three golf assets we closed, one was to a German Group, another was a portfolio we sold went to an apartment and retail owner, and the last was a golf master planned community with golf and excess land, went to an apartment developer. We expect more of the same this year with more money-chasing golf assets, like during the REO days of

2011-2013. We also expect values to remain steady as EBITDA and revenue go up, but instead of values going up, with a 400 bps raise in interest rates and more to come in 2023, that will hold golf course values and, in some cases, reduce their value.

THE ECONOMY AND GOLF

The economy is moving into a lower gear, following a historic post-pandemic recovery and expansion. The return of consumer and business demand was uneven, however, contributing to elevated inflation in 2022 that lingers into this year, with important implications. Golfers are having to adjust to higher prices across nearly every category in golf; greens fees, dues, initiation fees, hard & soft goods, food, etc.

A potential pullback in personal spending and corporate investment would dampen GDP growth in 2023, which seems inevitable. Case in point, many consumers are running out of available credit as cumulative revolving credit balances are nearing a record $1 trillion.

Multi-decade high inflation last year forced the Federal Reserve to dramatically tighten monetary policy. A series of successive hikes increased the federal funds rate from near zero in March to over 4 percent by the end of 2023, with additional increases anticipated (See figure 3). The speed and magnitude of the rate increases so far have substantially disrupted financial markets, yet once the Fed arrives at a holding position, more lenders and investors should be able to better determine valuations. The implications of this for all commercial real estate have driven cap rates up 200 bps, but as of this writing has not hit golf values just yet.

In January of 2021, the prime rate for an SBA Loan was 3.25% and with 2.5% margin, golf investors were looking at around a 6% interest rate. Fast forward to today, March 1, 2023, prime is at 7.75% adding a 2.5% margin moves golf interest rates to 10.25%. Yikes, that has a chilling effect on course values that are financed. Since so much of the EBITDA will need to be used to service debt, that will reduce loan values and the amount of dollars chasing certain assets.

Amid a less certain near-term economic outlook, capital providers have tightened underwriting criteria. Yet, the main hindrance is the higher cost to borrow. A narrowing spread between debt costs and golf EBITDA multipliers could lead to a greater disconnect between buyers and sellers.

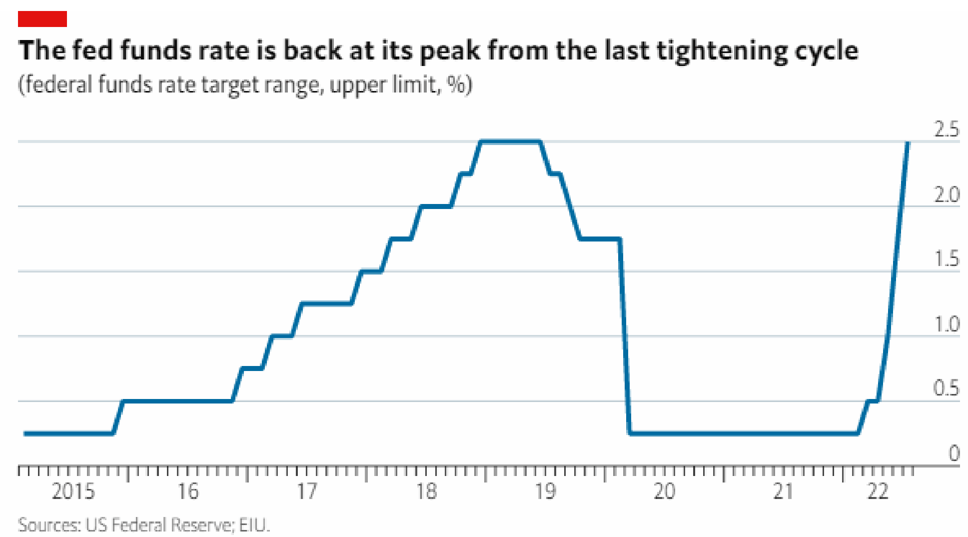

Figure 3

CONCLUSIONS AND PREDICTIONS

In the summer of 2022, we predicted, Golf rounds and membership would continue to be up over 2021, and a la carte F&B will be more normalized since 70% of adults are currently vaccinated. We also predicted that the banquet and outing business would be extraordinary as pent-up demand for weddings, banquets, and functions postponed in 2021, would be booked in 2022. Finally, migration out of cities has driven white-hot home prices in warm weather markets as demand for single-family

Figure 4

homes (particularly in the South and suburbs) has skyrocketed However, nationally except in the South home prices are down as demonstrated in figure 4. **All that we predicted came true in 2022!**

As we look forward to the rest of 2023 (written in mid-March), there are some brewing headwinds not just for golf but for all businesses. We are going to have the first interest rate increase of 2023. Gas prices have doubled but are starting to ease back down. Russia has been in Ukraine for a year now and, the world is cutting off commerce with Russia. Hiring and retaining hourly workers is tremendously difficult and rising hourly wages are out of control. Even with all of these challenges, we believe 2023 will be another outstanding year for golf because of the following reasons:

2023 PREDICTIOINS

- Private course demand, memberships and revenue will continue to increase just at a slower rate.
- F&B should have its first 100% back to normal year even in places like California which finally opened the economy.
- There will be a call-back to work for more employees who were working from home, softening afternoon golf demand during the week.
- Golf course values could remain steady or reverse the three-year rise as stifling interest rates force lower valuations and leave non-cash buyers with less loan to value.
- Experienced golf course buyers will be competing with new buyers entering the golf course industry chasing yield.
- Golf course conversions in major metros slow down because the first-time home market is so weak.
- There will continue to be more consolidation of golf into larger aggregators.
- Once sought-after struggling equity clubs will be healthier, so privately owned for profits clubs with $5M plus revenue and good EBITDA will create some bidding wars not seen in golf for many years.
- IIRSD? Will Interest Rates and Inflation Supply and Chain Disruptions = Recession? We believe we will have a slight recession, but you know the old saying, “when your buddy is out of work it is a recession, (we have the lowest employment we have seen in over 50 years) and “when you’re out of work it is a depression.” It seems anyone who wants a job can obtain one, so it is hard to see much of a real recession in 2023.
- 2023 will be a year of uncertainty for buyers in the golf market, which is why the Leisure Investment Properties Group is here to provide grounded guidance. If you would like us to look at your golf asset in our advisory capacity, provide ideas to increase the value, and or would like to know what your golf course is worth, **all complimentary**; contact one of our advisors on the back page of this report.

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Investor Sentiment

Terence Vanek —Senior Managing Director Golf Division – Partner

For the last fifteen years, commercial real estate investors have surfed a rising wave of increasing property valuations buoyed by abundant and cheap capital. However, only in the last couple years post-pandemic has the investment community for golf acquisitions experienced similar good fortune.

By almost every measure, the investment market for golf acquisitions exploded in 2022. But as 2022 came to an end, most global central banks had taken unprecedented steps to combat soaring inflation (Exhibit 1), ending the decades-long period of near-zero interest rates, and the corresponding access to essentially free financing capital. That leaves golf investors pondering, "How will the new cost of capital affect investor appetite as we enter 2023, and will golf still remain a highly desirable investment vehicle?"

The WSJ cleverly pointed out that the "next economic downturn has become the most anticipated recession in recent U.S. history. It also keeps getting postponed." That was until the Silicon Valley Bank collapse and subsequent

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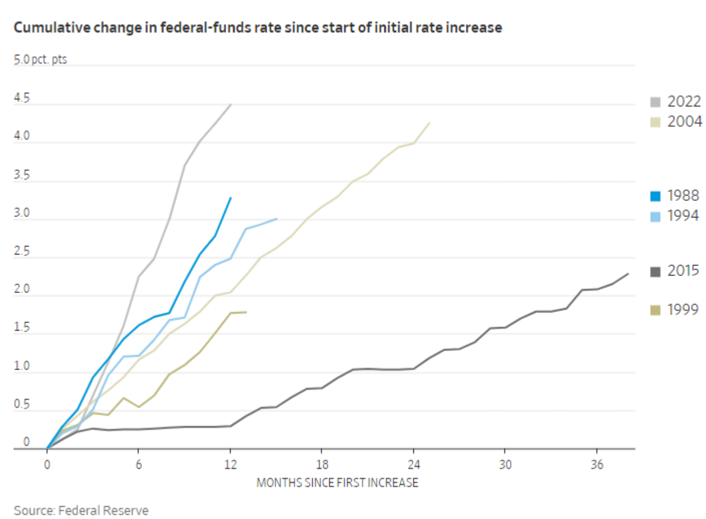

Exhibit 1

fallout caused most to portend the recession was now a more certain eventuality. The single greatest pressure for almost every investor we work with is now, “when and at what level will interest rates stabilize?” This will continue to challenge investors as we progress through 2023 and leave lasting implications on how to underwrite and value acquisition opportunities moving forward (Exhibit 2).

Steep interest rate increases normally lead to the re-pricing of transactions across all investment markets, impacting valuations, liquidity, capital formation and investment activity. As such, our golf buyers communicate a clear need to elevate risk premiums given the higher inflation and recession risks. The irrational exuberance that permeated investor calls in the beginning of 2022 has been replaced with patient preparation for a finality to future fed rate hikes and what many believe will be a market rebound to follow.

There is still much excitement in the golf airspace. Operating fundamentals remain strong. Consumer demand for memberships and tee times are still

> *“How will the new cost of capital affect investor appetite as we enter 2023, and will golf still remain a highly desirable investment vehicle?”*

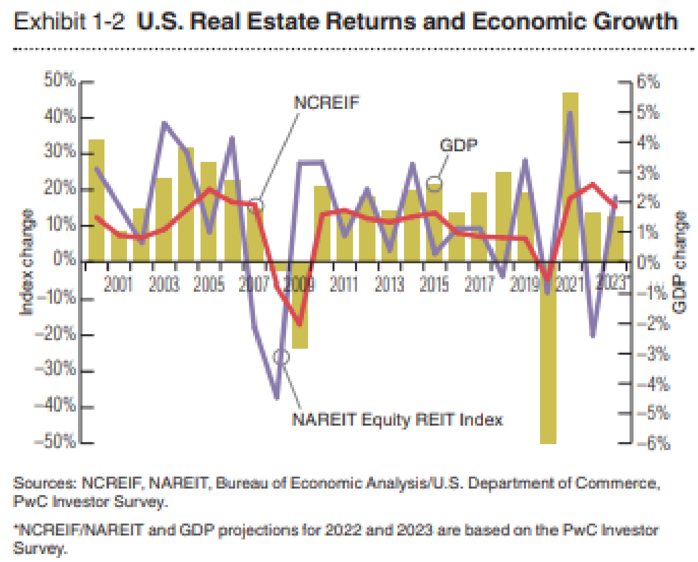

Exhibit 2

The PGA Merchandise Show in Orlando

"Two years down the road and COVID golfers are still here."

healthy from the pandemic-driven resurgence into golf. The PGA Merchandise Show in Orlando was one of the most energetic and positive shows in several years. "The energy on the PGA Show floor was fantastic," said PGA of America CEO Seth Waugh. "It is reflective of the [golf] industry, basically booming." Jim Koppenhaver, an industry consultant, reported onsite that rounds in 2022 were likely down 3% from a high of 518 million in 2021. But utilization was up to 67% for the first time, the golfer base was up, and revenue per available tee time was up 9%. "We eked out a gain despite terrible weather," he said. "Two years down the road and COVID golfers are still there."

In many ways that has buoyed investment demand for golf to a level not seen in nearly two decades, despite some of the macroeconomic uncertainty surrounding interest rates and possible recession. Heritage Golf Group, one of the most active current buyers of golf assets, expanded its portfolio to over 25 properties. Concert Golf brought its portfolio to 27 properties last year. And KemperSports acquired the iconic Streamsong Resort for $160M.

Even more exciting, there is continued increased demand from the long-awaited **"cross-over buyer",** or investors that typically transact in your core commercial property markets – apartments, retail, office, industrial, and hospitality. Interest and intrigue from these non-traditional cross-over investors has surged into our golf market, where cap rates can be found at three times the yield of core commercial property values. One such multifamily investor described his burgeoning interest in our airspace:

"The 360-degree turnaround that golf has done post Covid is nothing short of remarkable. If you believe in the sustainability of the strong interest in the sport then we are probably in the earlier innings of the cycle. Combine the fact that the cost of building a new course is not economically feasible together with development taking existing supply off the market and the result is a decrease in supply together with the increase in demand. Mix inflation with a shift in pricing power to the owner's side and you have a recipe for success. Of course, the threat of recession looms on the horizon and the aging population presents a challenge to the future so one needs to get paid for the risk but at this point I feel it is a calculated one with a tilt to the upside."

Despite the optimism, worries still loom on the horizon (Exhibit 3). While interest rates today are

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not that high historically speaking, the doubling of rates in a year has wreaked havoc on owners of commercial properties across markets and property types. The ongoing volatility is so consequential and long-lasting that the motto for investors may have to be changed to “location, location, the Fed.” In combination with a higher cost of capital, that ultimately means falling asset values. Some reports indicate we are not in a downturn but a return to normal conditions.

Exhibit 3

Interest rates are not the only threat to value. Property net operating income is shrinking due to higher operating costs. And property owners are feeling the impact of rising operating costs. Higher wages and insurance costs are long-term shifts, while utilities and building materials and supplies remain volatile. These higher expenses are shrinking property cash flows.

Exhibit 4

Even if the Fed backs down later this year or in 2024, higher interest rates are here to stay (Exhibit 4). Not knowing where rates will land will keep liquidity on the sidelines to an extent. The search for clarity won’t be solved in a few months, it will take time for sellers to capitulate to new pricing and for lenders to believe in the new valuations.

Despite these headwinds, golf continues to thrive. And investors have taken note. Memberships at many clubs are at capacity. Demand nationwide for tee times continues to rise. One national owner-operator believes the cost to finance acquisitions is “peaking in most markets and we foresee a slowdown in global central bank tightening, settling into a “higher resting heart rate” for both inflation and rates. And as interest rates stabilize, we think transaction activity will pick up in line with increasing access to capital. The profitability from golf operations has led golf assets to be considered a much more desirable real estate vehicle in the eyes of buyers moving into 2023 and beyond. Many believe the pandemic is behind us, but the impact on golf profitability is here to stay.

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Q & A with Jeff Dugas

Robert Waldron – Senior Managing Director Golf Division – Partner
Interviewee: Jeff Dugas, MAI, SGA, Principal, Leisure Appraisal LLC

Rob Waldron: Jeff thanks for taking the time to meet with me. I found your presentation at Golf Inc. in Kiawah very enlightening. As a Golf Course Appraiser what trends have you seen in course values post COVID?

Jeff Dugas: Rob, thanks for having me. We go back a long time and I always enjoyed working with you and your LIPG Partners Steve, Chris, and Terry. Crittenden had a nice turnout at Golf Inc. this fall. It was nice to see all the Golf Industry Professionals again.

We have definitely seen an increase in golf course values since COVID. Most of my clients are reporting increases in all revenue streams, Membership, Golf and F&B. In most cases this has translated into increased EBITDA hence increased values.

RW: I found your presentation regarding the number of rounds per 18-Hole equivalents over time a particularly interesting take on the golf market.

JD: The number of golf rounds per 18 holes is returning to a balance last seen decades ago, before the building boom that added over 4,000 courses to the U.S. market (see graph 1). This over saturation, coupled with the burst of the housing bubble and ensuing financial crisis, resulted in an imbalance between golfers and golf courses for much of the past decade or so. As seen below, the number of rounds played per golf course has reached levels not seen since 1990.

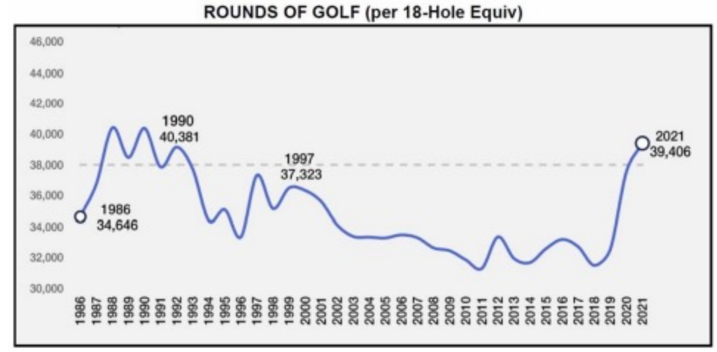
RW: Do you believe this increase in rounds is sustainable or merely a "COVID bump"?

JD: Absolutely sustainable! Amid the increase in golfers during the pandemic and the ongoing correction that's reduced the number of courses, there are indications of a supply/demand equilibrium not seen in years. Work from home/

remote will likely remain in place for some time going forward. And, most people will continue with outdoor activities that allow for social distancing, as fallout from COVID-19 remains ongoing.

RW: We have been advising our clients that they are better off buying an existing course and investing capital to make improvements than looking to develop a new course. The cost and time requirements to permit, develop and build a new course do not appear economically feasible. Maybe that is why according to the NGF there are only 23 new courses opening in world in 2023 and only 9 of those are in the US.

JD: We believe there is little threat of new construction given the rise in costs from chain supply issues. What's different today is that construction costs have grown so much that new construction in most cases it not financially feasible,



Graph 1

despite the rise in values. We have seen clubhouse construction costs rise from $200/SF to over $500/SF. The cost for a new irrigation system has gone through the roof, assuming you are able to source a contractor and the materials.

RW: Golf course operators are coming off three consecutive very successful years of operating results. How do you see 2023 and the future for golf?

JD: Considering the above factors, it is our opinion that the golf industry will continue to remain strong in 2023 and well into the future.

RW: Jeff, thanks again for your time. I look forward to continuing working with you.

LEISURE APPRAISAL

Leisure Appraisal was founded by Jeffrey R. Dugas, MAI, SGA. Mr. Dugas has more than 30 years of experience providing advisory services for recreational real estate including Golf Courses and Marinas.

Robert Waldron – Senior Managing Director Golf Division – Partner | rwaldron@thelipg.com

"The New Normal" of Golf Requires Patience

Robert Waldron – Senior Managing Director Golf Division – Partner

Rising inflation, supply chain issues, waiting lists, full tee sheets, dynamic pricing, labor shortages, and increased minimum wages have become the buzz words for the new normal in the golf industry. The message to operators is please have **PATIENCE!**

INFLATION

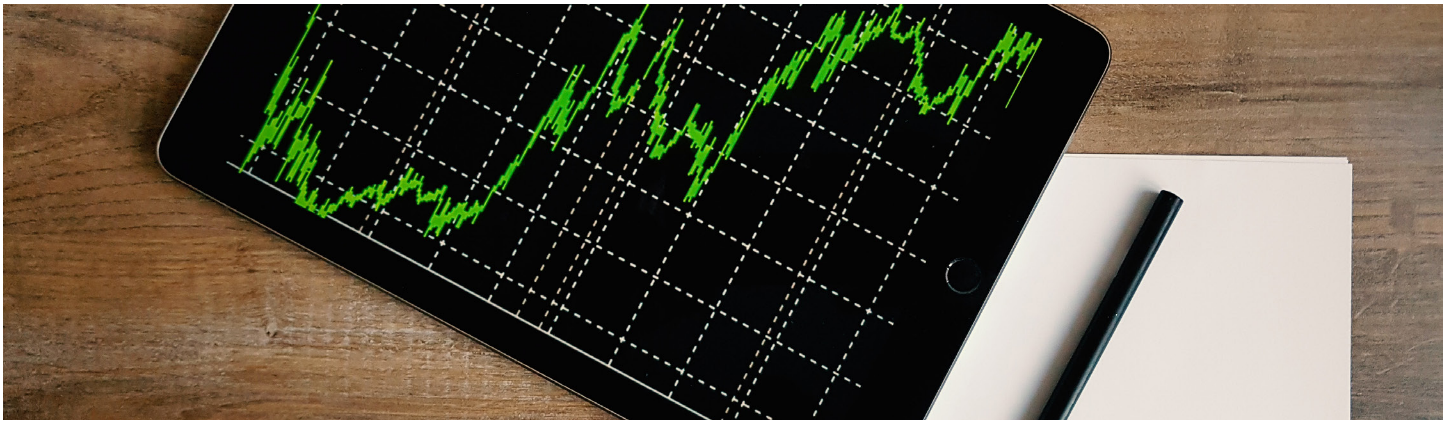
Inflation continues to impact both cost of goods and expenses in all aspects of golf course operations. Fertilizer, chemical, golf carts, maintenance equipment, parts, supplies, food and beverage and merchandise have all experienced price hikes. Golf course operating costs exceeded inflation last year squeezing operating margins. These costs have been passed along to the consumer in the form of higher dues, fees and retail prices.

Fortunately, many golfers have come to expect higher prices and have grudgingly accepted them. Golfers are dedicated to their passion and courses remain very busy. As long as demand outpaces supply, operators are able to maintain elevated pricing without having to discount.

> *"He that can have patience can have what he will. – Benjamin Franklin"*

ROUNDS STABILIZE WHILE REVENUE INCREASES

The increase in rounds during 2020 and 2021 demonstrated signs of stabilizing in 2022. Operators are very bullish moving into the 2023 season with the expectation of rounds to remain at 2022 levels. Despite stabilized rounds, operators anticipate growing their top line revenue through yield management. Many operators have successfully implemented dynamic pricing resulting in increased average revenue per round.



DYNAMIC PRICING

Golf operators have successfully implemented tee time yield management through dynamic pricing. The increase in demand for prime starting times has enabled operators to grow revenue per round by adjusting prices based on demand. Historically operators offered minimal daypart pricing with morning, midday and afternoon rates along with modest upcharges for weekends. By measuring the demand for tee times throughout the day, prices can be modified accordingly.

This is a perfect example of golf operators following the lead of other industries who have implemented yield management to increase revenue. The Airline industry introduced flexible pricing models many years ago by charging higher prices for premium seats.

Major League Baseball began charging higher prices for the same seat for "premium games" when more popular visiting teams like the Yankees or Dodgers were in town. AMC Theatres recently introduced multi-tiered pricing in their movie theatres by differentiating between premium and value seats. The result for golf operators has been increased revenue per round which has yielded higher total revenue even when rounds remain flat or decline slightly.

MAINTENANCE EQUIPMENT WOES

Equipment manufacturers continue to be hindered by supply chain issues particularly with respect to obtaining parts and micro-chips. The scarcity of micro-chips has driven the price of this essential part by much as 30X. The supply of equipment became backlogged nationally

in 2021 which subsequently increased the cost and diminished the inventory of used equipment nationwide.

As a precaution, operators have been forced to advance their ordering timeline by an additional six to nine months creating even larger backlogs. Evergreen leases which automatically renew at the end of the original lease term for another term of the same length, or on a month-to-month basis are being implemented in order to bridge the gap for operators until new equipment becomes available. Equipment suppliers have indicated that the larger rough units may require order lead times in excess of twelve months with smaller fairway units and utility vehicles requiring between nine to twelve months.

Operators who are being forced to extend the useful life of their equipment continue to be challenged by delays in obtaining parts. Three-to-five-day turnaround times have been extended to three to four weeks.

GOLF CART AVAILABILITY

Owners and operators seeking to replace their golf cart fleets continue to be delayed by supply chain issues. Increased cart usage created by an influx in rounds has resulted in advanced wear on golf cart fleets. According to distributors the manufacturers have begun allocating new cart availability while implementing multiple price increases. Delivery dates for new fleets have been extended from six to twelve months to twelve to eighteen months. The demand has created a heightened market for used carts with increased prices. The delivery delays impact not only the new fleet purchaser, but the purchaser of the used fleet who is delayed in having the old fleet refurbished. The increased cost of carts has resulted in increased rental rates for golfers.

BULLISH ON GOLF FOR 2023

Limited availability and shipping delays of consumables such as food and beverage, golf equipment, maintenance supplies and apparel which plagued the golf industry in 2020 and 2021 were in recovery mode through the end of 2022. Fortunately, the outlook for 2023 is looking much brighter as food, supplies and merchandise has become much more available. We anticipate rounds to be comparable to 2022 with increases in the average spend per round continuing to drive total revenue.

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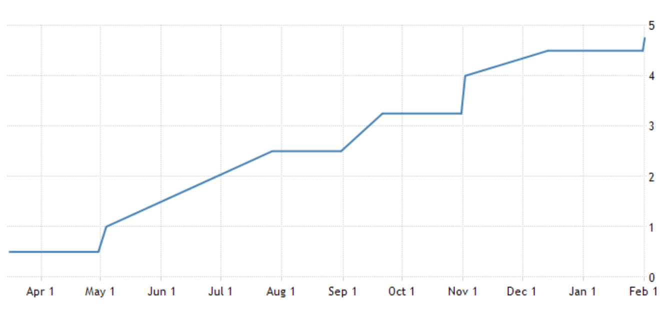
The Lending Landscape & Your Equity

Chris Karamitsos, PGA – Senior Managing Director Golf Division – Partner

Golf course owners tell us their clubs are experiencing much higher gross income and EBITDA since the year of COVID. Most clubs throughout the US are now financially healthy. Private clubs have waiting lists and daily fee clubs are breaking rounds records. We now have supply/ demand equilibrium, and SOME markets are actually under supplied. Congratulations, owners!

However, despite your club's success, your course is likely worth less than it was at the end of 2021 or even 2022. How is that possible? Enter the Federal Reserve. We're at the one-year anniversary of the first Fed interest rate hike of 25 basis points. Since then, we've experienced 450 basis points worth of rate hikes, (see figure) and no one believes the Fed is finished yet. So, how does that affect the value of your club? Simple; in general commercial real estate for every hundred basis point-increase in lending rates, you typically lose between 7% - 9% of your equity. Why is that? Because the cost of capital and servicing the debt is now more expensive, leaving less of a return on investment.



Federar Reserve
Source: Trading Economics

CASE STUDY:

A golf course EBITDA = $625K. Before the rate increases, the asset traded at 8X EBITDA or $5M. The acquisition was financed with 60% LTV (down payment of $2M and a loan of $3M). The terms were a 20-year amortization at 6.25% interest. Annual debt service calculated at $262K leaving a net income of $362K and a cash-on-cash (c/c) return of 18%. Now, the lending landscape has changed, and that loan is now at 10.25%. So, that same purchase would look like this; annual debt service is now $353K leaving a net of $271K or a c/c of 13.5%. For the investor to earn his 18% c/c the lending terms have to change, or the price needs to go down. Since you can't fight the Fed, we know who loses; but by how much? Here is the answer: with the terms of the loan being the same (60% LTV, 20-year amortization, and interest of 10.25%), that same 18% c/c, now requires a price of $4.3M. In this case, ownership would lose $700K or a 14% drop in value. Instead of being worth 8X EBITDA, the asset has lost 120 basis points down to 6.8 X EBITDA. For the owner to be able to command that original $5M price with the current lending parameters, EBITDA would have to increase by 16% or another $100K. Suppose EBITDA has increased by 10% or even 12% ? Well, is not unlike wages vs. inflation; you may have given your staff a 3% pay increase but if core inflation is at 6%, they actually got a pay cut of 3%. Similarly, rate-hikes are outpacing EBITDA growth.

WHERE ARE WE NOW?

So, what's the state of the golf transaction market? Is everyone losing between 15% and 20% of their equity? NOT YET. Here's a few reasons why: EBITDA is still increasing for the most part, albeit at a slower rate than the last 24 months. Also, cap rates are much higher than core commercial assets thus the airspace looks good to the bulk of investors. That is why owners who are contemplating monetizing certain golf investments should do so ahead of what is likely a pending recession and continued rate hikes by the Fed. Otherwise, owners may need to wait for the next cycle (2-4 years). Furthermore, do not rely on the "cash buyer" to save the day; that moniker is really a misnomer. Even if a buyer is using "all cash" he is still deploying private money requiring an interest rate or yield from the investment. In some instances, the cash buyer will place even more pressure on pricing given the discount associated with the surety of execution. Consequently, the environment will only become less conducive for divesting of golf assets as we approach 2024.

WHAT'S IN STORE FOR THE REST OF 2023 & BEYOND?

In the near term (next two quarters) we should continue to see some capital migration from core commercial assets into the leisure sector (especially golf) as cap rates remain attractive. We may even see capital currently in securities, diverted to real estate given the Dow is completely flat since Q-1 of 2021. By the beginning of 2024 there should be downward pressure on pricing for golf assets which tends to widen the bid/ask-spread and curb velocity. With interest rates high and going higher, expect to see sellers take a creative approach, and hold short-term debt to facilitate transactions that would otherwise be cost prohibitive with conventional lending. Additionally, keep an eye on core inflation. As inflation begins to recede, it should usher in a slowing, or even a halt to Fed rate-hikes which will result in greater velocity. Reason being, as rates eventually drop, values begin to rise, thus creating an arbitrage opportunity for investors who acquired assets during peak interest-rate periods.

THE TAKEAWAYS

- Industry achieved supply/demand equilibrium.
- Capital migration into golf expected through 2023.
- EBITDA growing but lagging behind rate hikes.
- Interest rates beginning to erode equity
- Downward pricing & recession on the horizon.
- More "cash buyers".
- Bid/ask spread to widen slowing velocity.
- More seller financing.
- Future drops in core inflation will spur buying.

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Swinging for Success: How to Finance Your Golf Passion and Achieve Your Goals

Brady Bodden –Financial Analyst & AIT Golf & Resort Divisions

As we learned in 2022, inflation can have a significant impact on the lending environment, making it more challenging for businesses to obtain financing. With rising prices and increased costs, lenders may be more hesitant to provide loans, and borrowers may struggle to meet the more stringent lending criteria. Obtaining financing during high inflationary times requires careful planning and a solid understanding of the lending landscape.

Chart 1 Unemployment Data
Source: Trading Economics

The Federal Reserve's decision to raise interest rates is often influenced by macroeconomic indicators, such as employment data, GDP growth, and inflation rates. In recent years, the United States has experienced relatively low unemployment rates, with the average rate in 2022 hovering around 3.6%. This strong labor market has put pressure on wages, which can lead to inflationary pressures. Additionally, GDP growth has been retracting but is still positive, with a growth rate of .9% in Q4 of 2022 (see chart 2). This growth over the past year, combined with the pandemic-related supply chain disruptions, has resulted in higher prices for goods and services, contributing to inflationary pressures. In

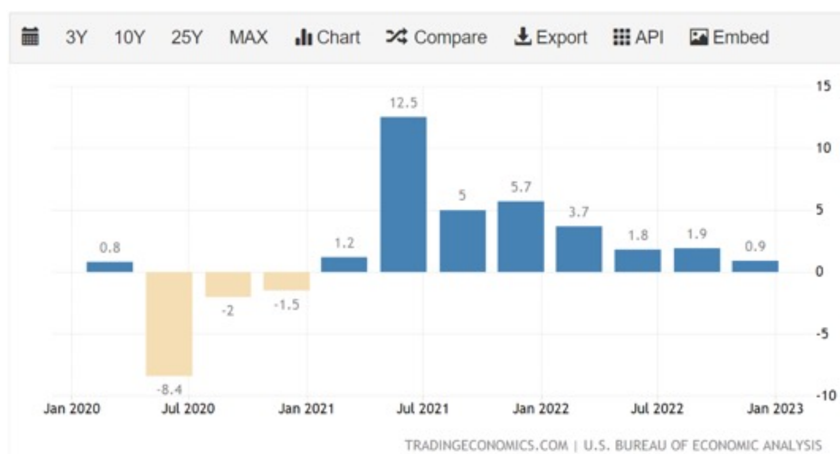

Chart 2 GDP Growth
Source: Trading Economics

Chart 3 Inflation Rate | Source: Trading Economics

Chart 4 Federal Funds Rate | Source: Trading Economics

response to these factors, the Federal Reserve raised the federal funds rate from near-zero levels in 2021 to combat inflationary pressures and maintain price stability.

An increasing federal funds rate (see chart 4) can have an impact on the ability of an investor to obtain a loan, although the specific effects will depend on various factors such as the lending environment, the type of loan, and the financial health of the property seeking financing. One effect of an increasing federal funds rate is higher borrowing costs. As the federal funds rate rises, the cost of borrowing for banks and other lending institutions also increases. Lenders may pass on the increased costs to borrowers by raising interest rates on loans, which can make loans more expensive for properties seeking financing.

Another potential effect is reduced lending activity. When borrowing costs are higher, borrowers may be less willing to take on debt, and lenders may become more selective in their lending decisions. This may require more stringent criteria for approving loans, making it harder for investors to obtain financing. An increasing federal funds rate can also lead to increased competition for loans. Higher interest rates may encourage businesses and individuals to secure financing before rates rise further, resulting in more borrowers competing for the same pool of funds. This could make it more challenging for investors to obtain financing if they are competing with other businesses for the same funds. In light of these factors, it is important for golf courses seeking financing to work with an experienced lender who understands the unique aspects of golf course financing and can help navigate the changing lending environment.

Golf course proprietors and managers can take several measures to improve their chances of acquiring financing from a bank.

1. They should create a robust loan application, including a comprehensive business plan, financial statements, and projections showcasing the golf course's ability to generate revenue and repay the loan.

2. Building a rapport with the bank can help golf course owners and managers acquire financing more efficiently. This entails establishing accounts, sustaining communication, and participating in local business events.

3. Collateral can be a decisive factor in obtaining a loan. Golf course owners and managers should be prepared to pledge assets such as real estate or equipment to secure the loan.

4. They should anticipate due diligence, which typically involves a review of financial statements, business plans, and interviews with key personnel.

By following these measures and working with an experienced lender familiar with the intricacies of golf course financing, golf course proprietors and managers can increase their chances of securing financing and continue to run a thriving establishment.

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Average Golf Course Financing In Today's Market				
Conventional Bank Loan	SBA Guaranteed Loan 504 Program	Life Company	Bridge Loan	Private Equity
Fixed Rate: 6 - 8% fixed	Interest: 6 - 7% fixed	Interest: 5 - 7%	Interest: 12 - 15%,	Interest: 18 - 22%
Points: Up to 1%,	Points: 0 - 50 bps	Points: 0 - 1%	Fees: 3%	Unleveraged IRR: 20%
Term: 3 - 7 years,	Term: 25 yrs.	Term: 3 - 10 yrs.	I/O Term: 12 - 18 Months	Preferred Returns: 12 - 15%
Amort: 20 - 25 yrs.,	Amort: 25 yrs	Amort: 25 yrs.		
LTV: 50 - 60%,	LTV: Up to 75%	LTV: Up to 60%	LVT: Up to 70%	
DCR: Minimum 1.3:1				
Loan Size: $1MM & Up	Loan Size: Up to $15MM	Loan Size: $25MM+		
Recourse: Likely	Recourse: Yes	Recourse: TBD	Recourse: TBD	Waterfall Structure: Deal by Deal on Profit

As of March 23, 2023
Source: Leisure Financial Group

2022 Golf Course Sales Activity – By the Region

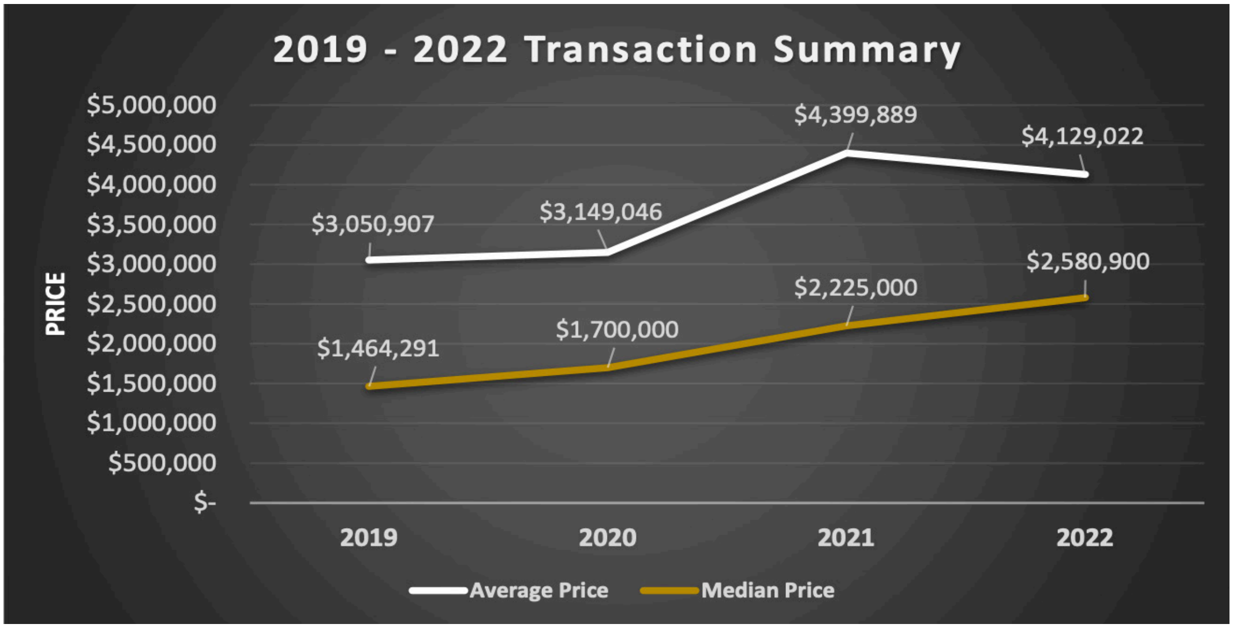
Kody Tibbetts – Senior Analyst

The purpose of this analysis is to provide insight on the direction/trend in golf course values. Any transaction that indicates the golf course will be repurposed or redeveloped has been removed from the data. In addition, we also remove resort and portfolio sales as the values allocated amongst assets are often incongruent with individual transactions. This article also pays special attention to the Core $1M - $10M Investment Tranche – generally considered the most important subset of golf-specific transaction activity. These values are driven primarily by property fundamentals specific to the business of golf, and therefore are most telling towards overall investment sentiment.

2019 - 2022 Transaction Summary

	2019	2020	2021	2022
Total # of Transactions	96	79	80	98
Average Price	$ 3,050,907	$ 3,149,046	$ 4,399,889	$ 4,129,022
Median Price	$ 1,464,291	$ 1,700,000	$ 2,225,000	$ 2,580,900
Total Sales Volume	**$ 292, 887,079**	**$ 248,774,648**	**$ 351,991,156**	**$ 404,644,117**

The Leisure Investment Properties Group tracked a total of 133 golf course transactions in 2022. Of those, 98 are expected to continue operations as a golf club post-sale and had available sales data at the time of recording. **The average sales price was $4,129,022 - down 6.2% from 2021, and the median sales price was $2,580,900 - up 16% from 2021. In comparison to the previous 3-year average 2019-2021**, transactions were up 15%, average sales price was up 17% and median sales price was up 44%.



TOTAL NUMBER OF TRANSACTIONS

The total number of transactions in 2022 increased by 22.5% over 2021 and surpassed the number of transactions recorded pre-covid in 2019. It was surprising to see the number of transactions recorded in 2021 lag as much as it did, but that was primarily driven by strength in demand for golf. Owner/operators prioritized strategic initiatives to grow revenue and cash flow rather than sell while the going was hot. In addition, there was uncertainty in how long that demand would last given how many individuals were still working from home full time. Luckily, that skepticism has mostly been quelled at this point as the NGF recently published their year-end 2022 report and noted that total participation increased by 10%. The more pressing concern looking forward to 2023 is the continued rise in interest rates and an inevitable widening of bid to ask spreads between buyers and sellers.

AVERAGE PRICE

The average price in 2022 is down -6.6% versus 2021, however since pre-covid in 2019, the average price is up 35%. Please keep in mind that the average sales price can be manipulated by a few high-end or low-end sales, unlike median price, which is why we prefer using median as the more accurate measurement of value.

MEDIAN PRICE

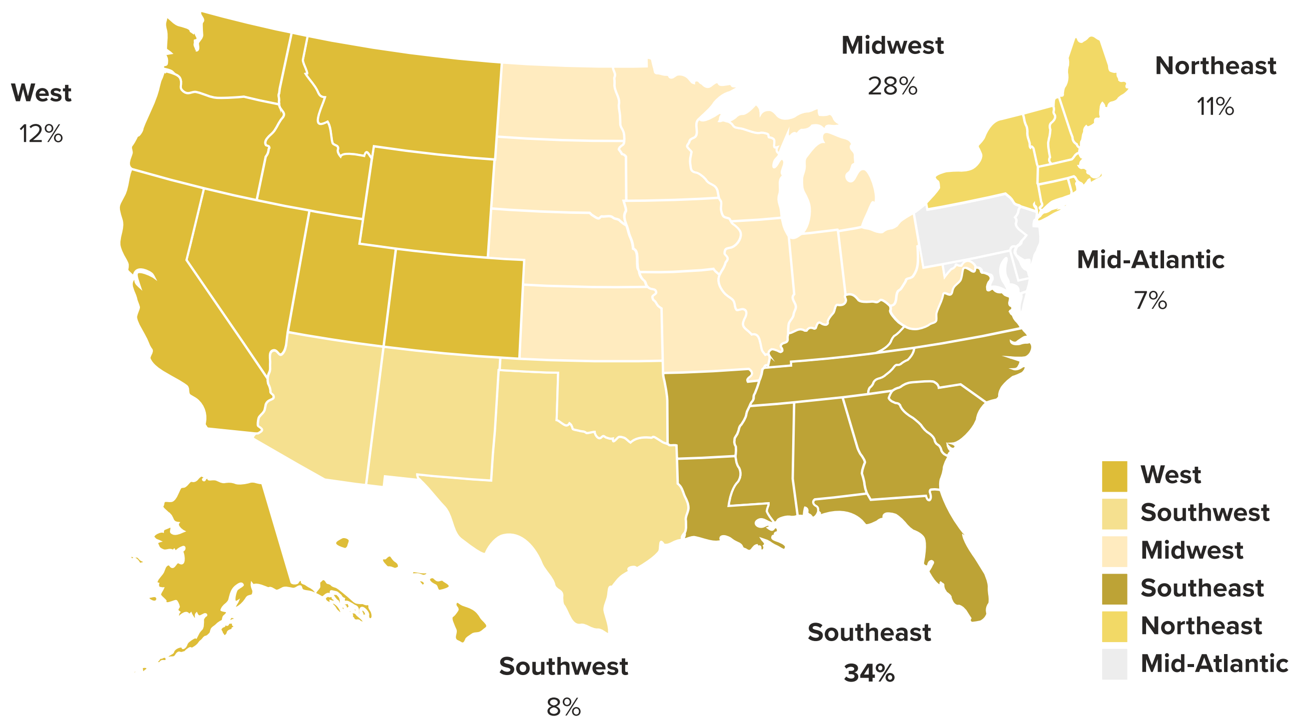
The median price in 2022 was $2,580,000 which represents the third consecutive year that the median has increased since pre-covid 2019. Continued demand has allowed owner/operators to raise green fees, membership dues, initiation fees, etc., boosting revenues and NOI/EBITDA to new highs resulting in higher valuations. In addition, more and more “core” commercial investors (apartment, office, industrial, and retail) who are used to paying mid-to-high single digit cap rates have infiltrated the golf airspace seeking yield after showing resiliency through COVID.

Focusing on the “core” data, the $1M to $10M Sales Tranche, we tracked a total of 79 sales or 81% of all recorded transactions in 2022. The average sales price jumped from $3,083,030 in 2021 to $3,524,531 in 2022 and the median sales price jumped from $2,450,000 in 2021 to $2,800,000 in 2022, which is an increase of 14% in both average and median prices.

Golf Course Sales Tranche Breakdown

Sales Tranches	# of Transactions	% Share	Average Price	Median Price
Core Tranches ($1M - $10M)	79	81%	$ 3,524,531	$ 2,800,000
$500K - $999K	13	13%	$ 759,038	$ 810,00
$1M - $2.99M	42	43%	$ 1,820,102	$ 1,671,250
$3M - $4.99M	19	19%	$ 4,138,868	$ 4,170,000
$5M - $9.99M	17	17%	$ 6,667,951	$ 6,257,170
$10M+	7	7%	$ 18,048,383	$ 12,417,680

Percentage of Golf Course Transactions by Region



2023 OUTLOOK

Golf course values are higher now than they have been in quite some time, however the current economic climate is drastically different than in years past and it will be interesting to see how resilient the golf industry will be. My prediction for the transaction side of the business is that the number of deals that trade will once again slow down due to the cost of capital and a widening bid to ask spread. For years now, investors have borrowed money for basically free which enabled them to make much higher offers then their return requirements would allow today. The problem is those days are gone for the foreseeable future and therefore offers will be inherently lower.

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