STATE OF THE GOLF INVESTMENT MARKET
By Steven Ekovich  Steven.Ekovich@MarcusMillichap.com

FIRST HALF 2017 SHOWS WEAKNESS IN GOLF COURSE VALUES

Both exogenous and internal factors can affect golf course operations and asset values. During the first half of 2017, we have experienced several newsworthy events impacting the current state of the golf industry with repercussions into the future. Recent events include, the proposed sale of ClubCorp, reductions in golf course values, increased interest rates and, of course, the first six months of the Donald Trump Presidency.

HEADLINE: Apollo Spends $1.1 Billion to Make Golf Great Again (Forbes)
The Golf Industry was shocked to hear the news of the proposed sale of industry giant ClubCorp to Apollo for $1.1B. We have analyzed the impact the sale may have on the golf industry. First, the media only reported half of the story. The $1.1B was only the Equity from Apollo, it did not include the assumption of the debt of $1.1B and refundable fees of $300M, consequently the enterprise value is $2.2B. (Think of it this way, when you buy a course and put down $2M and assume a note for $3M, you paid $5M, not $2M). From a positive point of view, a private equity firm just took a multi-billion-dollar position in the golf industry, at a 31% premium equating to $17.12 per share. On a trailing multiple of EBITDA it was a 9X acquisition and on forward looking EBITDA about a 7.5X. Anybody in the institutional brokerage business will tell you a 9X acquisition price is healthy, not a steal, (on a cap rate basis about 11%). An analyst from Stifel Financial Corp opined, the sale at 7.5X EBITDA is low on forward looking EBITDA and should have been 8.5X, which would equate to approximately $20 per share. Our postulation is that (cont. pg. 7)
WHAT IS YOUR GOLF COURSE WORTH? AND WHY YOU SHOULD KNOW.

By Christopher Karamitsos ◊ Christopher.Karamitsos@MarcusMillichap.com

There is a question that is asked to nearly every skydiving instructor: “If my parachute fails to deploy, how long do I have to pull my reserve?” Answer: “The rest of your life.” Simple, amusing and truthful, all at the same time. The question we receive most often from course owners is, “What is my golf course worth?” Answer: “Whatever someone is willing to pay for it.” That’s equally truthful an answer but far more complex in nature.

In my last article, Your Strategic Direction in a Transitioning Market, I pointed out how the current macroeconomic picture, along with a transaction market in flux, besides causing confusion, will have some effect on your asset value & equity. As such, formulating your “buy-sell-hold” strategy moving forward was imperative. The best place to begin is to know what your golf asset is worth. You won’t know this by looking at the appraisal you had done in 2014 when you refinanced, or by pointing at the course a mile down the road that recently sold for $3.2M (and of course, YOUR’S is far superior). Knowing, and more importantly understanding, your asset’s value on an annual or semi-annual basis will assist you in making sound business decisions. After all, you would not embark on a four-hour car-ride without first looking at the gas gauge.

Broker Opinion of Value (BOV)

A Broker Opinion of Value or BOV is just that; a competent golf expert telling an owner where the investment community will execute offers if their property were to go out to market today. Unlike an appraisal, we do not take into consideration, replacement cost, price per acre or price per hole. We evaluate an asset in terms of three main criteria: Gross Revenue, Multiple of EBITDA/Cap Rate and Internal Rate of Return (IRR). We also understand and consider that, as an investment vehicle, a golf asset competes with other opportunities such as core commercial real estate and the stock market. This value is as real as it gets. It’s like Googling the stock price of GE and finding out the per-share price.

Another reason a BOV is so accurate is because we are in constant communication with investors regarding the courses we have for sale and the metrics that are most crucial to investment success, depending on the investment objective. For example, an investor looking for an accretive income deal will be focused on cap rate and IRR, while someone seeking a good turnaround opportunity will be less concerned with the EBITDA and look more at the gross revenue & upside potential. Each has his own range of value based on his individual yield requirements.

The Metrics & The New Normal

Prior to the Great Recession, it was not uncommon to see some golf course transactions selling over 2X gross revenue (see chart) and cap rates in the mid to high single digits. All of that changed when the market was flooded with REO assets once the economic meltdown ensued. While many assets were breaking even at best or even experiencing negative EBITDA, the only metric upon which to value an asset was the GRM. We saw most money-losing courses trading between 0.6 X to 0.9X gross revenue. Top of the market became 1.5X gross revenue. However, until just recently we saw income, and subsequently prices, begin to stabilize. Courses with positive EBITDA that showed as viable assets would trade between 6X and 8.5X EBITDA. Yet we now seem to be witnessing another market transition. We have evidence that transaction prices are down through the first half of 2017. This could be due to a number of factors, such as new monetary policy, risk-adverse investment strategies, or lack of any significant growth in operating EBITDA. Consider that interest rates look increasing, the 1031 Tax Exchange program may be significantly overhauled and that the stock market is at an all-time high. All of this is sure to have some effect on the real estate market and influence the value of your asset.

What You Need to Know

If you own any sort of leisure asset you should be asking yourself “Is my property today worth more, less or the same as it was a year ago? Is the value trending up, down or remaining flat? What are my options in light of the answers?” These are all questions the LIPG answers for investors on a weekly basis. We take into consideration our knowledge of the entire commercial real estate market, the leisure investment market and the economy on a macro level. We then determine an investor’s position and formulate strategies for the future. Contact the LIPG to learn more about the valuation process and how we might assist you. ◊
“We live in an increasingly complex world. One where technology, the economy, and evolving demographics are changing how Americans spend their free time. It is increasingly important to understand why people become sports fans in the first place and how they engage with sports throughout their lives.” - Dr. Richard Luker

Dr. Richard Luker, a social psychologist, has been studying American life for more than 25 years. Rich is best known for his creation of the ESPN Sports Poll in 1994, which was the first ongoing intelligence tool for the American sports industry. At the NGF Golf Business Symposium, Dr. Luker presented “Luker on Trends”, a new initiative that delivers strategic intelligence and consulting to help companies develop better relationships with their customers, with a focus on how Americans spend their free time. What follows are his insights into golf and the future possibilities for growth, which reveal an industry poised for great opportunity.

Free-Time Priorities
Interest in all sports, not just golf, has been declining dramatically. Why? According to Dr. Luker, the problem is not “something wrong” with sports, i.e. golf is too hard, too exclusive, too stuck in the past. The declines are a result of an explosion of competitive free-time alternatives…. The most significant being the advent of the internet. Growing amounts of time spent online have changed the dynamic in which people, especially young people, make decisions.

In 1995, 67% of Americans used the newspaper as their first source for sports information. By 2000, television had taken over, but with only 50% of Americans, and the internet was still ascending. By 2010, the internet was the first source for sports news for 62% of Americans. And by 2014, for the first time, the internet tied with TV in percentage of respondents identifying it as an “important or very important” source of entertainment.

GET OFF THE NET!
However, that does not mean time online is a high priority among today’s consumer. In fact, in many ways it is now viewed as an anchor. Before 2014, people saw the internet as a tool but not a destination. Americans are now aware of the amount of time they spend online, and generally know it is taking time away from things that otherwise provide greater satisfaction. Unattended, time online will eat up time in the same way one might go online to check the weather and two hours later end up watching cat videos. It seems, thankfully, that people are starting to get sick of cat videos.

Which begs the obvious question; what do we as consumers prioritize/value most? The chart at right provides the mean priority scores (on a 0-10 scale where 10 is the highest priority) for each of the 10 free time contexts from Luker on Trends research done in 2016. For 30 years, time with family and time with friends have been the top priorities by a considerable margin. “Outdoor” has consistently been the top primary fun context and is the context that maintains the most consistent priority throughout life. “Play and exercise” is an even mix between attending to health and having fun.

Where Does This Leave Golf?
Changes like trying to speed up the game, modernize it, make it younger, and incorporate more fun things to do can buy time while golf owners and operators study, design and invest in strategies to increase dedicated, high-priority fans for the future.

So... 1) Time with Family and Friends, 2) Time spent Outdoors, and 3) Time spent Playing Sports are three of the top activities Americans value most in their given free time. Sounds familiar.

Think about the things that get a higher priority (cont. pg. 7)
IDEA FAIR
By Robert Waldron © Robert.Waldron@MarcusMillichap.com

One of the biggest challenges facing golf course operators these days is overcoming underutilized capacity both on the course and in the clubhouse. Many owners and operators have discovered creative ideas which provide alternative revenue sources to supplement typical golf course income streams.

For many years, one of the highlights of the National Golf Course Owners Association’s Annual Conference was the Idea Fair. Owners and operators submitted their unique revenue generating ideas that proved successful at their Clubs. Finalists were selected to present their ideas to the entire group, who voted to determine the best ideas. While attending numerous NGCOA Chapter Meetings across the U.S., I have always enjoyed networking with owners and exchanging successful business ideas. I would like to share some of the great ideas and suggestions I garnered from owners during the past year.

Alternative Routings
Increasing personal and business obligations have created time constraints often limiting the ability of golfers to play 18-holes. I spoke to several course operators who are now marketing 3-hole, 6-hole and 12-hole pricing in addition to the traditional 9-hole and 18-hole rates. Golfers with limited time find this an enjoyable way to spend time with their family on the golf course while filling underutilized tee times.

A creative twist on the alternative routing concept is the 9-hole Par 3 course. By creating Par 3 tees on nine holes golfers are provided a completely different experience that can be played in less time. One Pennsylvania owner told me that one of her leagues exclusively plays the Par 3 course routing one night per week.

A Private Club in Florida uses the yardages of the Par 3 Course at Augusta National Golf Club as a model for their Par 3 Course. The Club also incorporates a full week of Masters themed activities, which begins with an annual 9-hole, Par 3 Tournament the Wednesday before the actual Masters Par 3 event.

Love Those Golf Leagues
9-hole leagues have long been a popular way for owners to fill unused morning and evening starting times. One Midwest owner shared his unique recruiting strategy. During the winter months, he visits area bowling centers and solicits the organizers and participants of the bowling leagues. He offers to coordinate golf leagues at the same time of the day during the summer months. Since many bowlers also play golf he has significantly increased the number of golf leagues.

In an effort to drive member activity to the Club on Tuesday evenings during the summer months, a private Club in Maryland introduced a Tuesday Evening 9-Hole Four Ball Golf League. Participants register as either two-player teams or as individual alternates. All available spots are quickly filled each year. The beverage cart is kept very busy during league play and the majority of participants retreat to the bar and grill after play is completed. The League has turned traditionally slow Tuesday evenings into one of the busiest nights of the week at the Club.

Family Entertainment Center
In an effort to expand food and beverage sales many successful operators are now providing take-out and delivery services. A Virginia owner who operates a course situated in an upscale residential community, upgraded his restaurant to include a pizza oven. He now provides delivery service to the community creating a new source of food and beverage revenue.

In Pennsylvania, a course owner whose clubhouse serves as the centerpiece of a residential community aggressively markets his facility as a social and entertainment gathering place for local residents. Once a week, he promotes a “Community Night” by hosting a block party at the Club. He sets up outdoor grills and beverage stations while providing games and activities for both adults and children. By reaching out to the residents he has created a relationship which has resulted in increased food and beverage and social activities all year long.

A Maryland public course owner has taken the concept of his golf course as a family entertainment center to a whole new level. He hosts a “Deck Party” on Thursday evenings throughout the summer. Live bands and multiple portable bars enhance the festive atmosphere for golfers and non-golfers alike. This owner also promotes live evening concerts between holes on his course using the driving range as a parking lot. He sells tickets in advance and welcomes concert goers to bring blankets and lawn chairs. Concession stands and exclusive VIP areas with table service provide additional revenue streams.

The days of “If you build it, they will come” have long been over for golf course owners. To be successful, owners must maximize the utilization of their golf courses and clubhouse facilities. Successful operators are discovering new ways to increase activity at their Clubs that generate additional sources of revenue.
In our 2016 Year End Investment Report, we discussed how the election of Donald Trump and a potential change in monetary policy could affect the golf investment market. Since our previous issue, The Federal Reserve has issued a pair of rate hikes in 2017, signaling the central bank believes our economy is on solid ground; this is coupled with the unemployment rate falling to 4.3%, its lowest level since 2001. An improving economy doesn’t solely benefit the core commercial assets, it means the golf airspace should improve as well.

As rates gradually go up, the consensus is that U.S. Treasury yields and rates on credit cards, mortgages, auto loans and other consumer loans will slowly rise as well. This should also hold true for golf courses and all other real estate loans.

The Fed’s small adjustments in interest rates are a necessity but, if done slowly and incrementally, they should impose little pain on those looking to leverage their way into a golf asset. Interest rates trending upwards means people utilizing savings accounts will start to earn a little more for keeping their money in banks; on the other hand, carrying a credit card balance or taking out a loan, such as financing a golf course, will become more expensive.

It’s understood that the cost to finance a golf course, or any other commercial asset, will continue to increase as The Fed raises its rates. But even with another rate increase scheduled for later this year, when compared to the historical cost of debt, interest rates are still considerably low. With the nation’s economy continuing to improve through job creation, wage growth and consumption, the higher cost of money should easily be combated by a stimulated, growing economy. An expanding workforce paired with an increase in pay should lead to more disposable income for consumers, which should allow for more spending on leisure activities - such as rounds of golf.

In closing, the one common thread with lenders willing to finance a golf course is a good borrower. Are lenders willing to finance everyone? No. But with the right loan-to-value, experience as an operator and the required debt coverage ratio, it should still get done.

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<td><strong>By Zachary Hadsall</strong>  <a href="mailto:Zachary.Hadsall@MarcusMillichap.com">Zachary.Hadsall@MarcusMillichap.com</a></td>
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**Conventional Bank Loan:**
- Interest: 4.75-6.25%, points: 1%, term: 3-10 yrs., amortization: 20-25 yrs., LTV: 60-70%, DCR: 1.3-1.4, loan size: $750,000 and up/ Variable/ floating rates: prime +1.5-2%=5.25% to 5.75%, term 10 yr., amort. 20-25yrs.

**SBA Guaranteed Loan 7A Program:**
- Interest: 1.5-2.75% over prime, points: 0%, term: 25 yrs., loan size up to $5M, amortization: 25 years,

**Life Company:**
- Interest: 4.75-5.25%, points: 1%, term: 5,10,15 yrs., amortization: 15, 20 or 25 yrs., LTV: 55-65%, loan size: $750K and up, pure land collateral value is important

**Bridge Loan:**
- Interest: 9-14% I/O term: 1-2 years, LTV: up to 65%, desire primary markets, cash flowing product

**Hard Money:**
- Interest: 10-15% including points, term: 1-3 yrs., LTV: 50-60%, usually interest only

**Private Equity:**
- Interest: 0%, unleveraged IRR: 20%, preferred returns 8.8-12%, LTV: 60-70%, waterfall structure: deal by deal on profit splits

Updated 7/15/2017
List of Exclusive Offerings Now Available

**GATEWAY GOLF & COUNTRY CLUB**
18-Hole Private Golf Club  
Fort Myers, FL  |  $4,700,000  
Lead Agent: Steven M. Ekovich  |  Lead Agent: Christopher Karamitsos

**WINCHESTER COUNTRY CLUB**
18-Hole Private Country Club  
Meadow Vista, CA  |  $3,300,000  
Lead Agent: Terence Vanek  |  Broker of Record: Kent Williams

**BULLE ROCK GOLF CLUB**
18-Hole Daily Fee Golf Club  
Havre de Grace, MD  |  $5,250,000  
Lead Agent: Rob Waldron  |  Broker of Record: Bryn Merrey

**SIGNATURE OF SOLON COUNTRY CLUB**
18-Hole Private Golf Club  
Cleveland, OH MSA  |  $4,000,000  
Lead Agent: Steven M Ekovich  |  Broker of Record: Michael Glass

**RIO VISTA GOLF CLUB**
18-Hole Semi-Private Golf Club  
Rio Vista, CA  |  $1,400,000  
Lead Agent: Christopher Karamitsos  |  Broker of Record: Kent Williams

**BRICK LANDING PLANTATION GOLF CLUB**
18-Hole Daily Fee Golf Course  
Ocean Isle Beach, NC  |  $1,150,000  
Lead Agent: Terence Vanek  |  Broker of Record: Raj Ravi
TO VIEW ALL CURRENT LISTINGS, COME VISIT US AT: www.LeisurePropertiesGroup.com

CLEVELAND GOLF PORTFOLIO
Two 18-Holes Private Country Clubs
Cleveland, OH MSA | $7,000,000
Lead Agent: Steven M. Ekovich | Broker of Record: Michael Glass

RIVER RUN GOLF CLUB & COMMUNITY
18-Hole Semi Private Golf Club & Development Opportunity
Berlin, MD | $6,350,000
Lead Agent: Rob Waldron | Broker of Record: Bryn Merrey

SAPONA RIDGE COUNTRY CLUB
18-Hole Private Country Club
Lexington, NC | $1,600,000
Lead Agent: Steven M. Ekovich | Broker of Record: Raj Ravi

AUBURN VALLEY GOLF CLUB
18-Hole Semi-Private Golf Club
Auburn, CA | $2,400,000
Lead Agent: Terence Vanek | Broker of Record: Kent Williams

CONFIDENTIAL GOLF COURSE REDEVELOPMENT
130 Acre Residential & Commercial Opportunity
South Florida | Market Bid
Lead Agent: Steven M. Ekovich

POLO FIELDS COUNTRY CLUB
18-Hole Private Country Club
Ann Arbor, MI | $2,650,000
Lead Agent: Terence Vanek | Broker of Record: Steven Chaben
2017 has seen uncertain prosperity in the economy, transition & unrest in the government, and one of the hottest real estate markets in history. However, other than the recent $2.2B ClubCorp sale, the front nine of the year has been par at best. Investors across all product types have taken notice and many have grown wary, wondering if the market has peaked again or questioning when it will. While the year is only half over, investor caution within the golf investment market may be ahead of the curve, evidenced by a decline in the average and median transaction sales price by 34% and 24%, respectively. This can be attributed to several factors: the run up over the past couple of years, larger golf companies still digesting their new stock of properties acquired, ambivalent buyers leaving the market, and lack of any real growth in dues or rates, resulting in less competition and lower sales prices. The truth is, influence from some or all of these factors resulted in the first decline in values since 2012.

Who Are the Buyers?
While it may have seemed like a slow first half, the number of golf course transactions was right on pace with years past. However, unlike years past, we have witnessed a larger number of non-traditional and first time buyers in the market. Traditional golf buyers continue to look for that needle in the haystack: distressed assets with huge upside at a discounted price. Lower bid prices have resulted in Sellers holding performing assets that provide satisfactory cash flow. They just don’t see an alternative investment opportunity that warrants a sale.

National and regional owners who prefer major metro markets continue to look at deals, however they have not been active during the first half of the year. Assets in secondary or tertiary markets with strong income and/or proximity to other managed assets, rarely fit their criteria anymore leaving the door open for smaller groups and first time buyers. Recent hikes in interest rates, and the perception of future hikes to come, have tempered the non-cash buyer pool for the time being. But the cost of capital for private equity is still historically low, as such, they continue to be the dominate players in the golf airspace.

But What is it That Golf Buyers Want?
In today’s uncertain economic environment, one must determine an investor’s motivation and strategy associated with their commercial real estate investments. When it comes to investing in golf assets, we see a mixed bag of buyers seeking income, capital appreciation, and operational upside. With fewer (high quality) distressed golf assets available for sale than in years past, buyers have started to shift their focus back towards properties with stabilized operations. But these buyers have also remained very disciplined and patient while analyzing potential acquisitions. Even cash-flowing deals listed at 8X to 10X EBITDA (10%-12% cap rate) still need upside, otherwise they are largely viewed as overpriced. On top of that, given systematic industry concerns and perceived lower participation rates, we have seen investors no longer bite off on blue sky potential. Some buyers now doubt their abilities to cut expenses and/or assume current ownership has already cut any available fat. Strictly income producing clubs just aren’t attracting buyer attention right now.

In short, buyer sentiment is that the prices they are willing to pay should not be considered below market value, because they feel they are redefining market value. In order to achieve top dollar, buyers must be blown away by the opportunity. That means a well located asset with good bones and little deferred maintenance, historically strong golf revenue, legitimate revenue upside, expense reduction opportunity and potential development or redevelopment potential.

Have We Peaked?
The U.S. real estate market is a dynamic, ever changing landscape. Values across all product types, including, up until recently, golf courses, have rebounded from the great recession to near record highs. Value add opportunities in golf are still present, but fewer and farther between. At some point investors will have to move away from value add opportunities towards the safety and consistency of cash flowing golf course assets. But have values peaked?

Golf has been a four letter word for lenders since the Great Recession and they are just now starting to consider adding golf course assets to their portfolio. Recent interest rate hikes in concert with anticipated future increases have made the cost of money higher and the value for owners lower. This does not necessarily mean that we have peaked. Assets in major MSAs with cash flow and/or significant upside will still command the price point and attention they did during previous bull markets. Resort and destination golf courses also still hold values above the average and median.

Buyer sentiment can be described as curious, but willing to wait for the next great buy. Currently there is a disconnect, with sellers offering opportunities with healthy EBITDA at attractive cap rates, but buyers preferring gross revenue turnaround opportunities. As such, properties with negative or low EBITDA continue to rely on Gross Revenue Multiples (GRM) as a means of determining value. Valuing high cash flow deals has become a balancing act between GRM and EBITDA multiples. Still though, recession or not, equilibrium in the market or not, tax reform or not, fiscally sound investment opportunities in the golf industry are ever present and worthy of pursuit.

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for you in your free time. Time with family and friends likely comes first. Then stuff you have to get done, or the things you are committed to doing. Playing a round of golf, for example, is a much lower priority than playing golf in your Thursday league. Golf is not broken. It just has to fight for attention, time and investment in a world now dominated by cell phones and social media.

Time with family and friends: These are the highest free-time priorities. As a golf owner/operator, make the golfing experience about a better way to be with family and friends, not just about your score to par. It is no coincidence that the most successful operators in our airspace, Arcis and ClubCorp, seem to be doing just that. “We don’t like to consider ourselves a golf company. We’re in the membership business, and we make money by creating an environment that would be [appealing] to people that aren’t just golfers.” - Eric Affeldt, ClubCorp.

This article is an edited version of Dr. Luker’s presentation on how golf can improve its standing with fans. The work and ideas herein are entirely his own.

**STATE OF THE GOLF INVESTMENT MARKET**

there could be some synergies between ClubCorp and recently acquired Diamond Resorts International. In addition, Apollo does not tend to make moves that are not calculated to return an above market IRR.

Critics will point out that the purchase price of $1.1B is $700M less than KSL paid in 2006, and lower than the outstanding debt of $1.99B. They also noted that ClubCorp had a net loss of $7.9 Million during the first quarter of 2017. However, the critics got it wrong, we know the ostensible purchase price was twice $1.1B

Club Corp has openly discussed the fact that they are not a golf company, but rather a membership company. In reality, they are a member based leisure company with a significant position in both golf clubs and non-golf clubs. During the past several years, ClubCorp has been implementing their capital reinvention plan with a focus on all the leisure activities that a family might desire as opposed to strictly golf. This fact is elaborated on page three in “How American Free Time is Changing & Its Impact on Golf”, which discusses Richard Luker’s earth shattering research.

A high-profile Wall Street analyst, who reportedly shorted ClubCorp’s stock, trumpeted golf participation is waning, younger players are not picking up the game and golf courses are intensive to operate. Could they have skewed this information to drive the stock value down, or is the industry really hurting as they and others suggest?

NGF refutes notion: “golf is dying, millennials are not interested and golf is just a bunch of old white guys.”

Who didn’t know golf courses were capital intensive? That is not news. The perception that the golf industry has cratering participation and that younger players are not taking up the game needs to be analyzed further. At the NGF conference this past May, it was reported that golf participation has indeed slipped again from 24.1M to 23.8M golfers, however the NGF suggests the standard deviation is about +/- 900K, so the slide could actually be a gain. We have seen precipitous declines from 2007-2012 and starting in 2013, the declines have been significantly slower. Below are some bulleted highlights of my notes from the NGF conference. In my opinion, it suggests golf is going to be okay. (cont. pg. 8)
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(CONT. FROM PG 7)

So the wall-street short-sellers commenting on the waning participation in golf and millennial lack of interest in golf mean that ClubCorp, or for that matter the industry, is in trouble? I won’t call it fake news. It is repeated news that is not entirely wrong, but certainly would leave one to believe golf is in trouble without further investigation into the numbers. It may be more accurate to say, the face of golf is changing and, as a result, how we measure it should change. In addition, maybe the future is brighter than what the naysayers seem to think. If you look just at statistics and read them one way, anyone could say golf is in trouble. But the same media pundits who are decrying the fall of golf said Apple computer was dead in the mid 1990s. Here is a quote from Fortune Magazine, 2/19/1996:

Woops, not only did Fortune magazine get it wrong, Apple is the largest capitalized firm in the world. Let me repeat, 80%-90% of analysts and newspaper writers left Apple for dead.

NGF Changing how we measure golf:
Looking at the NGF research, Millennials represent 1/3 of all golfers, however, many are being introduced to the game later in life because the cost made golf prohibitive during the recession. Another explanation for the delay of millennials taking up the game of golf is family commitments. Millennials are having babies and getting married later than baby boomers and gen-xers did. These 28-32 year olds with young families and busy work schedules, want to spend more time with family and friends and simply don’t have time to play golf on the weekend. Some other encouraging statistics from the NGF research, show participation by women and non-Caucasians are both on the rise. Roughly 8M beginners and novices have been exposed to golf at alternative golf facilities such as Top Golf and golf simulators. It is not a stretch to consider them to be our industry’s farm team. The introduction to the game and these non-threatening entertainment venues create curiosity and interest in both playing golf and challenging one’s skills on a real golf course. The research has shown that people who go to these facilities are five- times more likely to play golf on green grass facilities.

Research shows: Declining Interest In All Major Sports
The most exciting research that I have seen, the Eureka moment of the last five years, came from Richard Luker’s company Luker on Trends. In January of 2011, Luker on Trends began managing the ESPN Sports Poll. Since its launch in January of 1994 by Richard Luker, the ESPN Sports Poll has conducted interviews on a nearly daily basis. Luker states, “The depth of our interviewing allows us to analyze fans extensively and provide breakthrough strategic intelligence to our clients”. He has been hired by the NFL, Major League baseball, etc. to study interest in major sports since the 1994. He is the world’s authority on the amount of interest in a sport, what causes that interest, what is driving that interest and how to measure it. He stated this fact: “Interest in all sports is going down, golf is not unique.”

Please reference our article on Page Three “How American Free Time is Changing & its Impact on Golf” for a full discussion of Dr. Luker’s research. But one thing is very clear: I never heard these facts in the news. We certainly did not see them appear in the Wall Street Journal, Bloomberg, USA Today or CNN. All we heard from those publications was that golf’s participation was going down and the sport of golf is on life support, nearing death. Luker’s research suggests all sports are losing their base. And guess what caused it? There is a mathematical correlation between time spent on the internet and a reduction in participation in both watching sports and interest in sports. His research shows the steady increase in different tranches of age group individuals and how their time on the internet has increased over the years. In fact, internet usage has usurped so much of people’s time, research shows they actually want to find ways to get away from being on-line so much. Luker’s study demonstrates what people value and how they prioritize what they value most.
The number one priority in people’s lives is spending their free time with family, followed by spending time with friends, doing something physical combined with being outdoors. Golf is the only sport that combines these top four values, suggesting that, in the future, both millennials and non-millennials alike will find that golf is ideally suited as a high demand free time activity.

Average and Median Golf Values Down
For the first time since 2012, the average and median sale prices for golf courses were both down, 34% and 24% respectively, year over year. This is only mid-year data, and these numbers could change significantly by the end of the year. However, we don’t see 2017 ending up as it did in 2013, 2014, 2015 and 2016. Recent golf course sales trends: smaller golf deal sizes, transactions where the sellers are not walking away with cash, (meaning some buyers will pay off debt and provide cap-ex capital, but no value beyond that), lack of available financing and buyers that fattened up on acquisitions at great yields during the recession, have resulted in investors becoming much more selective. We believe the rest of 2017 will be similar.

Fed Increases Interest Rates:
On top of a market that was already lending restricted, we had another interest rate hike and likely one more by year end, making the cost of money more expensive. Higher cost of funds results in decreasing values for Sellers.

Trump’s Affect on Golf
Trump’s election has had little effect on golf course values or operations, although the proposed payroll legislation that stated that a person had to earn $47K to be salaried did not pass. The imposition of health care on small businesses looks like it may be repealed this year if the republicans can stop fighting each other and unify for this one piece of legislation.

Removing the burden of healthcare on course owners along with restrictions and legislation, should make it easier for all businesses, including golf, to operate.

Conclusion:
While golf values are down significantly in the first half of 2017, by the end of the year, they may not be as bad as it looks. And we, the golf industry, just like what happens with the stock market, were due for a correction. The reason we were due, is that we had four consecutive years of increasing values without the corresponding material increases in rounds, dues or average revenue per round. Sales prices in all commercial real estate are driven by EBITDA/NOI. If EBITDA/NOI is not increasing, values typically are flat. A significant amount of golf REO (bank foreclosures) hit the market in 2011-2014, driving values artificially low. We believe much of the bounce back from 2013-2016 was due to the fact buyers were betting they could fix poorly operated distressed properties and gain immediate value increases. Now with very little distressed supply on the market from lenders, the golf industry will need real material gains in revenue and EBITDA/NOI to move the value needle.

Will Trump’s policies help? Yes. Will interest rate increases hurt? Yes. Will the ClubCorp sale acting as a bell weather for the industry, be good for us or bad? We are hoping for good and betting on a good outcome as Apollo has some very bright people working for them. We think they will provide more resources for ClubCorp to work with. The NGF research clearly shows the face of golf is changing. It is more diverse, attracting more females, millennials and minorities. Non-green grass golf facilities like Top Golf and simulators have a roll to play in our industry and could be a great farm team for our industry in the years to come. Finally, for green grass golf facilities, Richard Luker’s research shows among all sports, GOLF IS THE ONLY ONE that fulfills what people want and value in their free time: to spend time with friends and family, be outdoors and do something recreationally. We are going to be okay.

◊

STATE OF THE GOLF INVESTMENT MARKET
(CONT. FROM PG 8)
**2017 Sales Activity — The $1M-$10M Investment Tranche**

By Kody Tibbetts ◊ Kody.Tibbetts@MarcusMillichap.com

The below analysis focuses specifically in the $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 most telling towards overall investor sentiment. All sales figures previously presented in the “State of the Golf Investment Market” are derived from analysis of a larger universe of golf transactions, those between $250K—$75M, and therefore differ.

The Leisure Investment Properties Group tracked 67 golf course transactions during the first half of 2017, of which 56 were made available with price and sales information. Through the first half of 2017, the volume of transactions was on pace with 2015 & 2016, but fewer high-end asset sales and many more smaller transactions led to a significant decrease in both average and median golf course sale prices. Although both average and median values are down, keep in mind that this only reflects the first half of the year and could change significantly by the end of 2017.

Focusing on the “core” data, the $1M to $10M investment tranche, we saw 36 transactions take place, or 64% of the total transactions. The average sales price in this range was $3,165,799, down approximately 6.2% from 2016’s total of $3,360,881 and down 6.3% from 2015’s average of $3,363,985. The median price point also took a slight dip from $2,800,000 to $2,725,000, approximately 2.8%, but the 2017 median price is still actually higher than 2015’s median price of $2,700,000. The numbers show that, by focusing on what we call the “core” data in golf, it writes a vastly different story, showing average and median golf course sale prices only taking a slight dip in the first half of 2017, whereas, if you were to compare the average and median values for all transactions in 2017, it would show we are down 34% and 24%, respectively when compared to 2016.

As discussed earlier in the State of the Investment Market, average and median values could significantly change by the end of the year, however, we don’t see 2017 ending up as it did in previous years due to smaller transaction sizes, transactions where the sellers are getting no walk away cash, tougher financing terms and political unrest. For these reasons, investors have become very picky and we believe this trend will continue through the end of the year.

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**Recent Sales**

<table>
<thead>
<tr>
<th>Course Name</th>
<th>Sale Price</th>
<th>Sale Date</th>
<th>Market</th>
<th>State</th>
<th># Holes</th>
<th>Acres</th>
<th>Club Type</th>
<th>Revenue - EBITDA</th>
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<tbody>
<tr>
<td>Lynx Golf Club</td>
<td>$3,250,000</td>
<td>April</td>
<td>Davis</td>
<td>CA</td>
<td>18</td>
<td>105</td>
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<tr>
<td>The Bona Club</td>
<td>$2,750,000</td>
<td>June</td>
<td>Hilltop</td>
<td>CA</td>
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<td>$2,500,000</td>
<td>June</td>
<td>Griffith</td>
<td>IL</td>
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<tr>
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<td>Winfield</td>
<td>IL</td>
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<td>The York</td>
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**Sales Data - $1M Not Shown**

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