Marcus & Millichap
NATIONAL GOLF & RESORT PROPERTIES GROUP

GOLF & RESORT INVESTMENT REPORT

Semi-Annual Market Update

1st Half 2011

INSIDE THIS ISSUE:

THE ECONOMY & GOLF

By Steve Ekovich Sekovich@marcusmillichap.com

The Great Recession exacted an expensive toll on both the commercial real estate sector and more particularly the golf industry. While in past recessions, when golf was the last to enter the recession and first out, this one was different. As the economy continues its slow crawl out of the recession, there are some storm clouds on the horizon as the June unemployment numbers edged up to 9.5%. In all asset classes, from apartments, retail to office and industrial, vacancies are approaching or exceeding prior cyclical highs as 8.4 million jobs were lost and sales volume plunged 85% from the peak. Despite much hype regarding the lackluster recovery, expectations should be more realistic about what it will take to repair the damage of a recession, so different from the typical downturn, and much more severe than the worst contractions since the 1930s. The economy has come a long way from what seemed like a freefall in GDP and employment. To many golf operators, the last three years have been the roughest they have ever had to endure. With core retail sales, corporate earning and initial unemployment claims back to pre-recession levels as well as private sector job growth totaling 1.2 million, these numbers bode well for golf operators and the return of core golfers back to the tee-boxes. During the worst part of the recession, the golf industry only lost 9% of the rounds. Other industries would die for just under 10% decline. While golf industry margins are not that great, as the economy strengthens, it will drop directly to the bottom line because we really do not need to hire many more people or spend more to accommodate increased play and spending. We have learned to do more with less and that is healthy for our industry.

While the national economy continues to gain steam, uneven employment growth will lead to a choppy recovery for golf operators in 2011. Nationally, two million jobs will be added this year, providing

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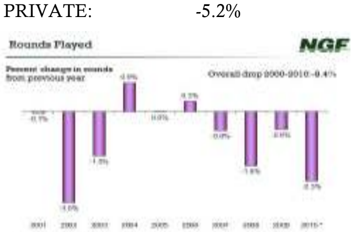
RECENTLY SOLD

Black Diamond Ranch
Lecanto, Florida

ROUNDS YTD

U.S. TOTAL YTD:	-6.3%
PUBLIC ACCESS:	-6.6%
PRIVATE:	-5.2%



CAPITAL MARKETS / COURSE FINANCING

By Steve Ekovich Sekovich@marcusmillichap.com

Debt availability has increased dramatically from the trough two years ago, but the overall supply remains limited and selective. Institutional debt is still virtually nonexistent unless you are seeking private equity funds. Golf transactions are getting funded at the local level with banks that believe in both the property and the course's location, with an owner that has a financial statement that would allow carrying the golf course if need be. This type of funding, while available, has both a process and qualification process that are more challenging than other asset classes such as retail and apartments. A large number of properties remain in limbo with respect to refinancing without re-capitalization or lender write-downs. Maturing golf mortgages will weigh on the market in 2011 as reduced market values in all categories (from high end private to low end muni-golf) will make refinancing a struggle. Higher loan-to-values (LTVs) as a result of this recession will create shortfalls for owners in need of

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BUYER SENTIMENT

By Chris Karamitsos ckaramitsos@marcusmillichap.com

The current compression of GRMs and EBITDA multipliers, have many investors of golf assets off the sidelines and aggressively pursuing acquisitions. With many assets running negative EBITDA, investors are using Gross Revenue Multipliers to assign value to properties. Given certain expense ratios and class of asset, GRMs can range from .60-3X gross revenue. We have been selling courses to international and institutional investors, as well as those looking to enter the industry for the first time. The nonexistent debt market for this asset class has forced investors to resort to mostly private and portfolio equity in the procurement of properties. Thus, investor yield requirements are such that list prices are finally meeting the market, leading to increased velocity. Some companies that primarily perform third-party management are expanding their portfolios not only with new management contracts, but also through real property acquisition. The most attractive acquisitions are underperforming assets and opportunities with a residential development component. This was not the case as recently as 24 months ago. Bank REOs are also on the hot-list just as they are in all asset classes. We predict that a strengthening economy, along with a shrinking of course inventory will make golf properties an ever-more attractive investment.

2011 SALES ACTIVITY—TRENDS & VELOCITY

By Terence Vanek tvanek@marcusmillichap.com

Average sales price during the first half of 2011 was $5,569,770 for the 45 market transactions tracked by the NG&RG where details were made available. Total transactions including confidential sales numbered 63. However, if we focus exclusively on golf assets, excluding deals where excess land was a contributing factor to price paid, average price was $3,008,351. (Caveat: The following metrics are meaningless in pricing individual golf courses.) Average price per hole was $154,274 and average price per acre was $17,224. Median sales price was $2,750,000. Total dollar volume in aggregate for the first half of 2011 was approximately $251 million on 45 known market transactions—compared to approximately $297 million on 90 market transactions during the entire year of 2010. Obviously, if this trend continues 2011 will see a significant spike in dollar value traded. Days on market for 2011 numbered 274—compared to 293 in 2010.

The story of 2011, like in 2010, continued to be the number of bankruptcy filings and foreclosure proceedings that led to a majority of distressed market transactions. All eyes now turn to the high profile billion dollar plus CNL—AB bankruptcy proceeding and subsequent fate of the Arizona Baltimore, Grand Wailea, La Quinta, Doral and their complementary golf components. Course purchases with financing has begun to re-emerge, though only in special situations, and typically only by seller carry-backs, local banks, and some REO financing. Few REO lenders will finance their own REO asset, however of late, that mindset has loosened when bank funds are required to motivate buyers on bank-held properties.

RECENT SALES

	Price	Date	Market	ST	# of Holes	Acres	Club Type	Gross Revenue	EBITA
Desert Mountain Golf Club	$ 73,525,000.00	1/3/2011	Scottsdale	AZ	108	1600	Private	Confidential	
Tuscany Reserve Golf Club	$ 31,000,000.00	1/31/2011	Southwest Florida	FL	18	460	Private	Confidential	
Green Gables Country Club	$ 15,000,000.00	6/17/2011	Denver	CO	18	152	Private	Confidential	
Black Diamond Ranch	$ 13,500,000.00	3/9/2011	Central Florida (Gulf)	FL	45	1239	Private	Confidential	
Black Bull Run Golf Course	$ 6,100,000.00	3/1/2011	Bozeman	MT	18	485	Private	Confidential	
Horseshoe Bend Country Club	$ 6,150,000.00	3/24/2011	Atlanta	GA	18	110	Private	Confidential	
The Club at Fairvue Plantation	$ 6,000,000.00	5/4/2011	Nashville	TN	18	205	Private	Confidential	
Spanish Wells	$ 4,548,020.00	3/16/2011	Southwest Florida	FL	27	226	Private	Confidential	
Arrowhead Golf Club	$ 4,542,000.00	3/2/2011	South Florida	FL	18	134	Public	Confidential	
Cimarron Golf Club	$ 4,500,000.00	4/27/2011	Inland Empire (California)	CA	36	224	Resort	Confidential	
Tapatio Springs Golf Resort	$ 4,500,000.00	4/8/2011	San Antonio	TX	27	250	Resort	Confidential	
South Shore Golf Club	$ 4,500,000.00	2/17/2011	Las Vegas	NV	18	130	Private/Resort	Confidential	
Hillcrest Golf Club	$ 4,350,000.00	2/24/2011	Minneapolis/St Paul	MN	18	112	Public	Confidential	
Temeku Hills Golf Course and Country Club	$ 4,250,000.00	4/26/2011	Inland Empire (California)	CA	18	150	Public	Confidential	
Woodlands Country Club	$ 4,222,700.00	4/20/2011	South Florida	FL	36	280	Private	Confidential	
The Fox Hill Club	$ 3,940,000.00	3/9/2011	Denver	CO	18	141	Private	Confidential	
Stallion Mountain Golf Club	$ 3,800,000.00	6/30/2011	Las Vegas	NV	18	204	Private	Confidential	
Westview Country Club	$ 3,735,400.00	4/29/2011	South Florida	FL	18	180	Private	Confidential	
Makaha Golf Club	$ 3,400,000.00	4/15/2011	Hawaii	HI	18	258	Resort	Confidential	
Peacock Gap Golf Course	$ 3,400,000.00	4/18/2011	Marin/Sonoma	CA	18	137	Public	Confidential	
Musket Ridge Golf Club	$ 3,350,000.00	2/4/2011	Washington DC	MD	18	342	Private	Confidential	
Green Valley Country Club	$ 3,326,000.00	4/13/2011	Providence	RI	18	150	Public	Confidential	
Family Golf Center-9 Hole Course	$ 3,250,000.00	1/5/2011	Phoenix	AZ	9	39	Public	Confidential	
Augustine Golf Club	$ 2,750,000.00	2/1/2011	Washington DC	VA	18	191	Public	Confidential	
Woodhaven Country Club	$ 2,500,000.00	2/15/2011	Inland Empire (California)	CA	18	106	Public	Confidential	
Adobe Creek Golf Course	$ 2,500,000.00	3/21/2011	Marin/Sonoma	CA	18	165	Public	Confidential	
Windermere Country Club	$ 2,450,000.00	4/29/2011	Orlando	FL	18	144	Private	Confidential	
Sedgefield Country Club	$ 2,210,000.00	2/1/2011	Greensboro/Winston Salem	NC	18	102	Private	Confidential	
Rolling Hills Golf Course	$ 2,200,000.00	3/18/2011	Seattle	WA	18	135	Public	Confidential	
Plantation Palms Golf Club	$ 2,175,000.00	4/26/2011	Tampa/St Petersburg	FL	18	165	Public	Confidential	
Kissimmee Oaks	$ 2,170,000.00	1/26/2011	Orlando/Kissimmee	FL	18	135	Public	Confidential	
Beacon Woods Golf Club	$ 1,740,000.00	1/21/2011	Tampa/St Petersburg	FL	18	98	Public	Confidential	
Normanside Country Club	$ 1,575,000.00	4/5/2011	Albany/Schenectady/Troy	NY	18	268	Private	Confidential	
Copperhead Golf Club	$ 1,500,100.00	3/31/2011	Southwest Florida	FL	18	139	Public	Confidential	
Meadowbrook Country Club	$ 1,425,000.00	4/8/2011	Milwaukee/Madison	WI	18	151	Private	Confidential	
Pinecrest Golf Club	$ 1,400,000.00	3/1/2011	Beaufort	SC	18	186	Private	Confidential	
Sycamore Canyon Golf Club	$ 1,300,000.00	3/3/2011	Bakersfield	CA	18	159	Public	Confidential	
Grande Valley Ranch Golf Club	$ 1,241,419.00	1/5/2011	Phoenix	AZ	18	203	Public	Confidential	
Palisades Country Club	$ 1,200,000.00	2/26/2011	Orlando/Clermont	FL	18	140	Public	Confidential	
Pinemoor Golf Club	$ 1,100,000.00	3/1/2011	Southwest Florida	FL	27	327	Public	Confidential	
Plum Creek Golf Club	$ 1,100,000.00	3/2/2011	Austin	TX	18	207	Public	Confidential	
Bel Mar Country Club	$ 550,000.00	2/1/2011	Chicago	IL	18	126	Private	Confidential	
Cardinal Creek Golf Club	$ 300,000.00	4/13/2011	Rochester	NY	18	184	Public	Confidential	
All Vets Golf Course	$ 214,000.00	3/7/2011	Clear Lake	IA	9	55	Public	Confidential	
Cedar Valley Golf Club	$ 150,000.00	3/1/2011	Bloomington	IN	18	122	Public	Confidential	

Revenue & Expense Trends

By Matt Putnam mputtnam@marcusmillichap.com

Pinpointing an all encompassing revenue trend for 16,000 courses across the United States for a five to six month period of time is a difficult task. According to ***PerformanceTrak***, the median total revenue per facility was up 0.1% for the period from January 1st to May 31st. Since this five month period includes most of the winter and spring season when weather is the supreme influence across much of the country, it is necessary to dig deeper to find meaning in this statistic. With extremely unfavorable conditions across most of the Northeast and Midwest extending well into playing season, many states in these regions were open significantly fewer days than in 2010. Notably, Minnesota, New York, Michigan, Vermont, New Hampshire and Wisconsin were all closed 20% to 30% more days than they were in the previous year. On the contrary, golf facilities across the South experienced a much milder winter and, in turn, more rounds and revenue. Mississippi, Oklahoma, Georgia, Louisiana and Texas all experienced more play days and double digit rounds growth from 2010 to 2011. In all though, 26 states were open less in 2011 than in 2010. As a result, golf revenue was down 3.2% across the country. However, merchandise sales and F&B revenue were up 6.2% and .9% respectively in the same period. This suggests that people are spending more time and money at the golf course and leads us to believe that when the weather begins to cooperate golf revenue will see a similar uptick.

A much more definitive trend across the United States is on the expense side of the income statement. Three years ago, owners and management companies alike were resigned to expenses increasing 3% per year. Over the last six to 12 months however, expenses have been decreasing significantly for many course owners. This is not a result of prices for supplies or labor decreasing, but rather an overall change to the business plan and a better allocation of resources. A great real life example of this is the recent renovation of Pinehurst No. 2 in North Carolina. In part, to return the course to Donald Ross's original vision, but also to significantly reduce the maintenance budget, Pinehurst removed about 35 total acres of turf and replaced it with natural sand and wiregrass "waste" areas. They widened the fairways, removed every inch of rough and removed about 650 sprinkler heads in order to save water. This is just one example but, if owners can implement some of the cost cutting practices learned during these hard times, the light at the end of the tunnel will be even brighter.

Capital Markets / Course Financing (cont. from pg 1)

refinancing. This may result in more acquisition opportunities as many owners opt for a sale over additional equity contributions. While Fannie Mae and Freddie Mac provide apartments with a financing advantage, this type of agency loan is not available for golf. As our economy begins to grow and with better weather/more play days than in 2010, increases in golf property income and resultant property values, particularly for high-quality assets, will relieve some pressure and lead to more sales and refinancing. Some level of distress at the local and regional bank level, with high exposure to lower-quality assets and notes coming due, will persist into 2013, especially in older private clubs.

Conventional Bank Loan:
Interest 7% to 11%, Points 1% to 1.5%, Term 3-7 years, 20-25 year Amortization LTVs 50% to 75%
Interest 6%, margin 275 BPS over WSJ prime Rate, points 2%, term - 25 yrs., 25 year amortization

SBA Loan
Interest 2% to 2.75% BPS floating over Prime, 70% first mortgage with Gov. Guarantee up to $3 million loan amount, points 2%, 20% seller second allowed, DCR 1.25-1.5 and with USDA loans up to $10M but must be in a town of less than 20,000 population

Hard Money Loan
Interest 9-10 points over LIBOR, term 3-5 years, points 2-4, 60% to 65% LTV, 20-25 year amortization

Private Equity
The Private Equity wants a successful operator, a 20-30% IRR and is built on a relationship.

The Economy & Golf (cont. from pg 1)

the opportunity for job-seeking residents to migrate to healthy employment hubs. Several coastal markets will account for an outsized share of payroll expansion, including New York City, Washington, D.C. and Seattle-Tacoma. As more individuals relocated to these areas in the first half of 2011 and downsized residences, indicators of a stronger recovery in golf property operations will begin to emerge. Seattle-Tacoma will boast the highest average occupancy rate in the nation in most rental product types such as apartments, office, retail and self storage. Consequently, this signals a strong local economy that could drive green fees up. Sun Belt States are also adding jobs at an accelerated pace but improvements in golf operations will remain bifurcated. Markets without a significant amount of oversupply, including major areas like Maryland, D.C., Texas and California will register steady revenue growth. Many formerly overheated housing markets however, are challenged with a supply glut, as golf course construction chased residential communities in the suburbs of Arizona, Nevada, Florida and the High Desert region of California. These are the areas most at risk of coming out of the recession behind the rest of the country, yet there are great opportunities in these markets for acquisition and future profit.

Golf course investment activity will increase this year as banks sell off REO properties, drawing new private equity funds off the sidelines to target higher end assets throughout the Sun Belt and Gateway cities. In the past, a great economy from the 5's (1995-2005) buoyed many poorly run golf courses. As a result of maturing loans with few refinancing alternatives and soft operations, these golf owners will be pushed into foreclosure. In this economy only well run, well managed, well located assets will thrive.

Banks are still hesitant to refinance well located assets on pro forma numbers, let alone devalued and under-performing assets. Financing for new buyers seeking properties below $5 million with stable operating history, will emerge in the form of SBA loans and local banks who believe in the asset and strength of the operator. This will accelerate sales activity. It is predictable that cash-heavy, private equity firms vulture funds and major golf course operators will move back into the golf course acquisition arena, leveraging operating efficiencies to add value to their existing portfolio, or to fill geographic holes in their platforms, taking advantage of market cycle pricing. In conclusion, you have nothing to fear if you have core competencies in golf operations along with well-located golf assets, and everything to gain by taking advantage of buying great opportunities in this market.

The National Golf & Resort Group—Year in Review

By Chris Karamitsos ckaramitsos@marcusmillichap.com

Adobe Creek Golf Club
Petaluma, CA

The NG&RG has had a busy 12 months selling 17 courses since September of 2010. This year the Group has closed deals from the west coast to the mid-Atlantic and southeast regions of the U.S. Most notably was the sale of the famed, Black Diamond Ranch in Lecanto, FL. The NG&RG has courses under contract throughout the U.S. and will be bringing to market, in addition to our current national listings, a number of high-profile properties and portfolios throughout the country that are certain to attract a great deal of attention from the investment community. The NG&RG's website, www.nationalgolfgroup.com, enables investors to view all of the groups' exclusively listed properties. The website has also become a valuable resource for investors, appraisers and golf industry writers needing critical market data.

Team Update

Associate, Matthew Putnam, closed his first deal outside the state of Florida as the lead broker in the facilitation of the transaction for Adobe Creek in Sonoma County, CA. His marketing efforts lead to an at-list sales price after procuring no fewer than 18 credible offers in the short time period that the course was on the market. PGA Professional, Chris Karamitsos, NG&RG's co-founder, was elected to membership in Who's Who Among American Business Executives and conducted seminars regarding golf course acquisitions for the North Florida PGA. He will also be a panelist at the Crittenden Golf Conference in Phoenix this September. Steve Ekovich, Director of the NG&RG, joined an esteemed group of panelists at the GolfInc Conference in Palm Harbor, Florida to lend his knowledge of the economy and its current effect on the golf industry. He was the lead broker on a number of notable closings such as Black Diamond Ranch in FL, Horseshoe Bend in Atlanta and Musket Ridge in Maryland. Sandy Nicora, the most recent member of the group is the operations manager and executive assistant to Steve Ekovich.

VISIT US AT:
WWW.NATIONALGOLFGROUP.COM

Prepared and Edited by:

STEVE EKOVICH
Vice President Investments
Director, National Golf & Resort Properties Group
Steven.Ekovich@MarcusMillichap.com

CHRIS KARAMITSOS
Associate, Investment Advisor
Co-Founder, National Golf & Resort Properties Group
Christopher.Karamitsos@MarcusMillichap.com

MATT PUTNAM
Associate, Investment Advisor
National Golf & Resort Properties Group
Matthew.Putnum@MarcusMillichap.com

TERENCE VANEK
Senior Financial Analyst, National Golf & Resort Properties Group
Terence.Vanek@MarcusMillichap.com

SANDY NICORA
Operations Manager, National Golf & Resort Properties Group
Sandy.Nicora@MarcusMillichap.com

7650 Courtney Campbell Causeway, Ste 920 ◊ Tampa, FL 33607
Tel: (813) 387-4700 ◊ Fax: (813) 387-4710

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STEVE EKOVICH
Vice President Investments
Director, National Golf & Resort Group
813-387-4791
steven.ekovich@marcusmillichap.com

CHRIS KARAMITSOS
Associate, Investment Advisor
Co-Founder, National Golf & Resort Group
813-387-4738
christopher.karamitsos@marcusmillichap.com

MATT PUTNAM
Associate, Investment Advisor
813-387-4809
matthew.putnam@marcusmillichap.com

TERENCE VANEK
Senior Financial Analyst
813-387-4847
terence.vanek@marcusmillichap.com