

Semi-Annual Market Update

2nd Half 2011

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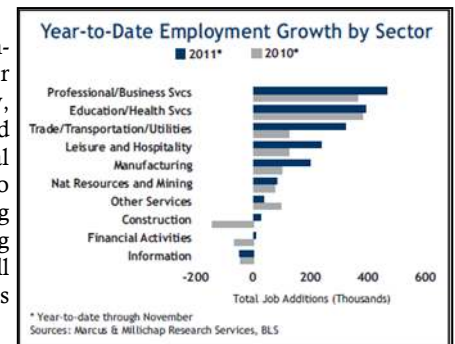
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THE ECONOMY & GOLF

By Steve Ekovich Steven.Ekovich@marcusmillichap.com

Commercial real estate investors have not been dissuaded by the economic and political turmoil that has dominated headlines in recent months. The same can be said for **GOLF COURSE AND RESORT INVESTORS**. The last 12 months showed year-over-year golf course sales are up by 11% by number of transactions.

December capped a solid year of job growth as the economy generated positive hiring every month in the year for the first time since 2005. The private sector led the way, marking its most substantial growth in six years. This trend should continue, with the labor market generating gradual momentum during 2012 as employers continue to re-staff to meet rising demand for goods and services. Lingering downside risks, however, will repress hiring from achieving breakaway growth. Political posturing in Washington will fuel uncertainty through the year while eurozone troubles will restrain the U.S. economic outlook in 2012.



The unemployment rate fell 20 basis points in December to 8.5%, the lowest level since early 2009, as all of the 10 private-employment sectors added workers for the year. In December, 212,000 private-sector positions were created, offsetting a loss of 12,000 government posts and yielding a net gain of 200,000 total jobs. A seasonal surge in retailer and package delivery hiring supported the creation of 90,000 trade, transportation and utilities jobs, while education and health services continued its year-long expansion, adding 29,000 workers. The holidays also contributed to the hiring of 21,000 leisure and hospitality employees, with nearly all of the gains recorded in bar and restaurant employment.

Despite the supply-chain ripples of the natural disaster in Japan, political gridlock at home and the U.S. debt downgrade in August, the labor market staged a respectable broad-based recovery for the year. The private sector led the way, hiring more than 1.9 million employees, with only the information sector completing the year in negative territory. Factoring in a loss of government positions, more than 1.6 million jobs were created in 2011.

For the **GOLF INDUSTRY** the news is vitally important as, so goes the economy, so goes golf revenue. Golf is a disposable income item and the more workers feel comfortable they will continue to

Continued on page 4

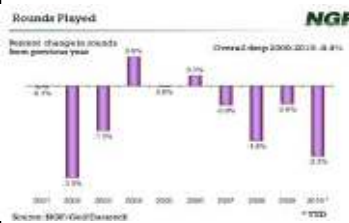
RECENTLY SOLD



Hammock Bay Country Club
Naples, Florida

ROUNDS YTD

U.S. TOTAL YTD: -3.8%
PUBLIC ACCESS: -3.6%
PRIVATE: -4.3%



CAPITAL MARKETS / COURSE FINANCING

By Michael Balan, Michael.Balan@marcusmillichap.com (Marcus & Millichap Capital Corporation)

Like the spring, that is obviously months away, the credit markets continue to show signs of new life forming as the long winter thaws. Banks continue to shed unhealthy assets and warm to the necessity that providing debt is critical to their becoming or remaining profitable. Something they are no longer taking for granted. Trepp reports that banks could be as much as 70% through their loss recognition process on commercial real estate. We see new bank lenders entering the market and rejuvenated bank lenders returning to the market now that the light at the end of the tunnel is clearly daylight and not an oncoming train.

2011 saw the reemergence of CMBS lending in the form of CMBS 2.0, which unfortunately was derailed early in 2011 with a lack of investor appetite for bonds rated below AAA. Currently, the CMBS market appears to be back to where we left off in early 2011 and looks like it could be the darling of the credit market in 2012. That is especially so if you consider the amount of debt maturing this year and

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BUYER SENTIMENT—2ND HALF 2011

By Chris Karamitsos Christopher.Karamitsos@marcusmillichap.com

Investors understand that as a commercial real estate investment, golf competes with all other asset classes for investment dollars. Those who are heavily invested in income-producing properties know that there are plenty of options available for commercial investment. Core assets (Multi-family, Office, Industrial and Retail) are the market trend-setters. Non-core assets, such as golf tend to lag behind their less volatile counterparts. Even as the debt market for traditional income-producing properties began to tighten in 2008, we still saw golf assets trade on multiples of gross income near 2X and cap rates in the single digits in some cases. Currently, traditional commercial real estate core assets are very attractive to investors. Financing is readily available and there is a historically high spread between Treasuries and core asset cap rates. This has put a great deal of downward pressure on non-core assets, especially golf courses. Buyer sentiment is such that a leveraged investment in an income-producing core asset is like a safe layup shot on a tricky par-5. So, what makes an investor want to go for the green in two? The answer is irresistible metrics. In 2011, some courses with negative EBITDA have traded in the 0.5X to 0.7X. For assets with positive EBITDA we saw courses trade in the 1X to 1.5X thus pushing cap rates to numbers well above traditional core real estate returns which has helped stoke velocity in golf transactions. We are beginning to see buyers who are heavily invested in commercial real estate core assets allocating capital for acquisitions in golf. Nearly 50% of the transactions closed by the NGRPG in 2011 involved principles purchasing their first golf assets. Smart money is betting on what it perceives to be purchasing at the bottom of the market with healthy returns from golf properties on a 5 to 7-year holding period. Buyers are taking advantage of opportunities in the golf market where underwriting courses with unleveraged internal rates of return are in the low 20% range. We believe that investors will continue to buy according to the aforementioned metrics for the next 4-8 quarters or until such time as core asset cap rates begin to compress. ■

2011 CALENDAR YEAR SALES ACTIVITY— HISTORICAL PERSPECTIVE

By Terence Vanek Terence.Vanek@marcusmillichap.com

While more golf course assets traded hands in the 2nd half of 2011, both total dollar volume traded and average sales price per transaction fell. Of the 55 market transactions where details were made available, total dollar volume in aggregate was approximately \$197 million, compared to \$251 million in the 1st half of 2011, and average sales price fell to \$3,590,210 from \$5,404,035 in the 1st half of 2011. However, that difference was largely a result of the two big ticket course and land sales in January, Desert Mountain & Tuscany Reserve, totaling \$104 million on their own. With those outliers removed, the average price actually improved \$268,774 per transaction versus 2010.

In addition, 2011 saw a significant rebound in dollar volume traded, increasing \$154 million from \$297 million on 90 market transactions in 2010, to \$451 million on 100 market transactions in 2011 (transaction volume for this report is derived only from published sales; total transactions tracked by the NG&RPG including confidential sales numbered 134). Days on market for 2011 numbered 348 – compared to 328 in 2010. 66% of sales fell in the \$1 to \$5 million price range. ■

RECENT SALES

	Price	Date	Market	ST	# Holes	Acres	Club Type	Gross Revenue - EBITDA
Hamlet Wind Watch Golf & Country Club	\$ 18,725,599.00	6/8/2011	Long Island	NY	54	297	Private	Confidential
Green Gables Country Club	\$ 15,250,000.00	6/17/2011	Denver	CO	18	152	Private	Confidential
President Country Club	\$ 11,000,000.00	7/27/2011	West Palm Beach	FL	36	133	Private	Confidential
World Houston Golf Course	\$ 10,023,000.00	10/3/2011	Houston	TX	18	133	Public	Confidential
The Georgia Club	\$ 10,000,000.00	9/15/2011	Statham	GA	18	1500	Private	Confidential
The Palm Aire Country Club	\$ 7,500,000.00	11/18/2011	South Florida	FL	54	420	Semi-Private	Confidential
Colonia Country Club	\$ 6,500,000.00	11/1/2011	Colonia	NJ	18	105	Private	Confidential
Red Tail Golf Club	\$ 6,200,000.00	12/12/2011	Orlando	FL	18	480	Private	Confidential
Links at Windy Knoll	\$ 6,100,000.00	11/16/2011	Springfield	OH	18	n/a	Public	Confidential
Currahee Club	\$ 5,000,000.00	7/26/2011	Toccoa	GA	18	1200	Resort	Confidential
Hammock Bay Golf Course	\$ 4,750,000.00	11/17/2011	Southwest Florida	FL	18	159	Private	Confidential
Orange Tree Golf Resort	\$ 4,700,000.00	9/9/2011	Phoenix	AZ	18	131	Resort	Confidential
Feather Sound CC	\$ 4,500,000.00	8/1/2011	Tampa	FL	18	180	Private	Confidential
Orencia Woods Golf Club	\$ 4,475,000.00	---	Hillsboro	OR	9	41	Public	Confidential
Stonetree Golf Course	\$ 4,384,265.00	7/29/2011	Marin/Sonoma	CA	18	135	Public	Confidential
Dos Lagos Golf Course	\$ 4,000,000.00	9/9/2011	Inland Empire (California)	CA	18	154	Public	Confidential
The Club at Foxland Harbor	\$ 3,800,000.00	7/1/2011	Gallatin	TN	18	n/a	Private	Confidential
Stallion Mountain	\$ 3,800,000.00	6/30/2011	Las Vegas	NV	18	204	Private	Confidential
Canterwood Golf & Country Club	\$ 3,628,835.00	8/9/2011	Gig Harbor	WA	18	170	Private	Confidential
Cedar Point Club	\$ 3,550,000.00	8/1/2011	Suffolk	VA	18 (4E)	191	Private	Confidential
Lakeville Country Club	\$ 3,200,000.00	10/5/2011	Boston	MA	18	180	Public	Confidential
The Eagles	\$ 3,200,000.00	9/26/2011	Tampa/St Petersburg	FL	36	399	Public	Confidential
Brynwood Country Club	\$ 3,000,000.00	9/9/2011	Milwaukee	WI	18	178	Private	Confidential
Heathrow Country Club	\$ 3,000,000.00	7/15/2011	Orlando	FL	18	257	Private	Confidential
Colony West	\$ 3,000,000.00	12/27/2011	Tamarac	FL	36	157	Public	Confidential
Oak Tree Country Club	\$ 2,625,000.00	7/4/2011	Pt. Lauderdale	FL	18	n/a	Public	Confidential
Riverview Country Club	\$ 2,600,000.00	10/15/2011	Appleton	WI	9	77	Private	Confidential
Emerald Greens	\$ 2,500,000.00	---	Tampa	FL	27	n/a	Private	Confidential
Falls Village Golf Club	\$ 2,350,000.00	10/18/2011	Raleigh/Durham	NC	18	n/a	Public	Confidential
The Foothills Golf Club	\$ 2,350,000.00	12/29/2011	Phoenix	AZ	18	166	Semi-Private	Confidential
Hunters Oak Golf Club	\$ 2,300,000.00	12/20/2011	Baltimore	MD	27	448	Resort	Confidential
Green Valley Country Club	\$ 2,286,000.00	7/1/2011	Greenville	SC	18	160	Private	Confidential
Somers Pointe Golf Course	\$ 2,247,000.00	11/14/2011	Westchester/So Connecticut	NY	27	206	Private	Confidential
The Grand Club Cypress Course	\$ 2,000,000.00	11/23/2011	Palm Coast	FL	54	506	Public	Confidential
Grand Haven	\$ 1,700,000.00	12/28/2011	Palm Coast	FL	18	214	Resort	Confidential
The Country Club at Boca Raton	\$ 1,650,000.00	7/12/2011	Boca Raton	FL	18	n/a	Private	Confidential
Twelve Stones Crossing Golf Course	\$ 1,613,350.00	6/30/2011	Nashville	TN	18	n/a	Public	Confidential
Mequon Country Club	\$ 1,600,000.00	9/6/2011	Mequon	WI	27	338	Private	Confidential
Tomoka Oaks Golf and Country Club	\$ 1,500,000.00	11/22/2011	Deltona/Daytona Beach	FL	18	147	Public	Confidential
Golf Club of Indiana	\$ 1,500,000.00	7/7/2011	Indianapolis	IN	18	150	Public	Confidential
Oak Grove Golf Club	\$ 1,500,000.00	---	Texarkana	TX	18	n/a	Public	Confidential
Palm Desert Country Club	\$ 1,150,000.00	9/9/2011	Palm Desert	CA	27	180	Public (Closed)	Confidential
Wildwood Resort	\$ 1,050,000.00	5/25/2011	Tallahassee	FL	18	161	Public	Confidential
Forest Dunes Golf Club	\$ 1,000,000.00	10/1/2011	Northern Michigan	MI	18	1200	Public	Confidential
Tanyard Country Club	\$ 1,000,000.00	9/28/2011	Richmond	VA	18	63	Public	Confidential
Muskogee Country Club	\$ 1,000,000.00	7/1/2011	Tulsa	OK	18	133	Private	Confidential
Golden Hills Golf & Turf Club	\$ 965,000.00	6/24/2011	Ocala	FL	18	195	Public	Confidential
Crescent Oaks Country Club	\$ 900,000.00	9/15/2011	Tampa/St Petersburg	FL	18	175	Private	Confidential
Brick Landing Plantation Golf Course	\$ 800,000.00	8/5/2011	Ocean Isle Beach	NC	18	125	Resort	Confidential
Brackenridge Heights Country Club	\$ 720,000.00	11/4/2011	Pittsburgh	PA	9	68	Public	Confidential
Barnm Hollow Golf Course	\$ 700,000.00	7/29/2011	Northern New Jersey	NJ	27	n/a	Private	Confidential
Sandhill Golf Club	\$ 688,500.00	5/31/2011	Daytona	FL	18	136	Public	Confidential
Siren National Golf Club	\$ 650,000.00	8/12/2011	Siren	WI	18	150	Public	Confidential
Asheboro Country Club	\$ 642,000.00	11/15/2011	Greensboro/Winston-Salem	NC	18	197	Public	Confidential
Meadowcreek Golf Resort	\$ 610,000.00	6/17/2011	New Meadows	ID	18	146	Resort	Confidential

GOLF COURSE VALUATION— “SELLER’S VALUE VS. MARKET VALUE” (A TWO PART SERIES)

By Matt Putnam, Matthew.Putnam@marcusmillichap.com and Steve Ekovich, Steven.Ekovich@marcusmillichap.com

If you talk to anyone that owns a golf course for more than five minutes, you will quickly learn what it is that makes that owner’s golf course better than its competition. It may be that the greens are the smoothest in town, their club has tennis courts and a pool, their layout is the most “player friendly” or that they have the friendliest staff in town, including the prettiest beverage cart girls! Whatever the perceived advantages may be, they all add to the challenge of comparing one course to its competitors and further, defining exactly a particular course’s competitive set during the valuation process.

In broad strokes, the NGF, NGCOA and other industry researchers provide a plethora of useful statistical data, typically by region or state and by course type. This data may tell you what the average gross revenue for an 18-hole private course in the Southwest is or it may show that rounds in the Northeast are up 5.6% year over year. It may suggest that for a healthy daily-fee club in South Carolina, overall salaries should be about 35% of total gross revenue. For the most part, these statistics deal in the macro and do not account for local market variables. These national statistics may be unbiased and unaffected by emotion or attachment to a particular course, but they are only a starting point to truly understanding how a course should be performing within a given market and the true value of the asset.

Just as it is unrealistic to compare a private course in Victoria, TX (population 65,000) to golf courses from the nearby metropolises of Houston and San Antonio, it is equally unreasonable to look solely at macroeconomic factors when valuing a golf course. Further, on the micro level, tagging courses with a market GRM, CAP Rate or EBITDA multiplier can provide huge distortions in value. In order to accurately derive a value for a particular asset, one must understand how the macro level data applies to both the internal and external course specific (micro level) factors.

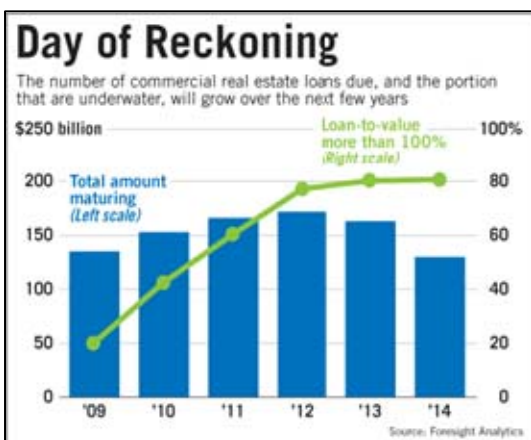
Externally, we identify the course’s competitive set, examine weather patterns of the area when looking at a particular year’s financial statements and look at demographic trends as well as other economic drivers such as new development or new businesses coming to or leaving the area. All of these factors and others help give us a clearer picture of how the readily available macro data applies to the subject course and its competitors. Internally, we examine the course’s business model, course design, cap-ex needs, staffing and organizational chart. By studying the local market and understanding the external factors, we are able to identify the subject property’s strengths and weaknesses and formulate a grounded business plan so that we can explain the upside opportunity to investors.

In the next edition, we will drill down further into the specific internal and external microeconomic factors that affect a course’s value. In the meantime, if you are thinking of a disposition and need a grounded opinion of value, we may be able to help, just give us a call. ■

CAPITAL MARKETS / COURSE FINANCING (CONT. FROM PG 1)

the level of debt it will require to renew a significant portion of it. Credit standards for CMBS 2.0 are much more conservative than the original CMBS, especially considering the loss retention aspect, so I do not think we will see CMBS lenders considering “specialty asset types” like golf courses, before filling up enough bonds with their main food groups (multifamily, retail and office buildings).

Life insurance companies expanded their allocations in 2011 and some exceeded their allocations once they realized the high quality of the deals they could do. Life companies hope to lend even more in 2012 than they did last year, but again, they typically limit themselves to trophy properties in large metropolitan markets with low leverage needs.



Improvements in U.S. GDP, employment and consumer confidence will support the notion that 2012 should see more rounds played. In addition, an increase in course sales activity should help stabilize course values, to some degree. These trends should help operators attract lenders to both finance, purchase and refinance transactions. Loan-to-values will remain more conservative than the current favorite, multifamily, but that’s a fact that isn’t likely to change anytime soon. Golf and resort buyers will need to show more liquidity, operational experience and lenders will continue to focus on “global cash flow”. Golf course loan options are improving with local and regional banks as well as credit unions taking up most of the slack. To name a few, PNC and Wells Fargo have recently financed golf assets however, the majority of these loans were credit loans based more on the borrower’s financial strength than the golf asset being purchased. The grass is getting greener on “this side” but we have a ways to go until we can play on it consistently like we used to! ■

Conventional Bank Loan:

Interest 5.5% - 6.5%, 1% fee, Term 3-7 years, 20-25 year amortization, LTVs 50-65%, DCR 1.3x.

SBA Loan

Interest floating at Prime + 1.75-2.25%, fully amortizing, 80% LTV, 1% fee, some seller seconds allowed, DCR 1.40x.

Hard Money Loan

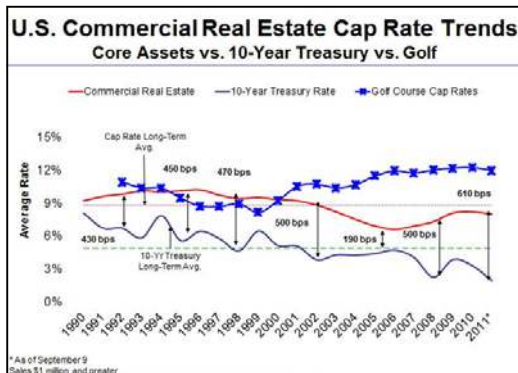
Interest: 9.0% - 15%, term 1- 3 years, 2 - 4% fee, 50-60% LTV, interest only.

Michael Balan is an Associate Director with Marcus & Millichap Capital Corporation. He has spent more than 20 years in the commercial financing business and has structured or arranged more than \$500 million in capital. For more information, contact Michael at Michael.Balan@marcusmillichap.com, (786) 522-7034.

THE ECONOMY & GOLF (CONT. FROM PG 1)

have a job and feel comfortable they have paid down enough of their debt, the more they will feel that need to take care of themselves with a liberating game of golf as a reward for spending four years trying to put their financial house in order. Evidence of the foregoing is that saving rates are up in the U.S. to 5.3% in 2010 compared to 2.4% in 2007 and debt is down, consequently, we believe golfers will begin to return to the leisure activity that once captivated over 30 million Americans.

2011 was a tale of two halves. The first half was fraught with cold weather challenges in parts of the country like the northeast and drought conditions in Texas contributing to loss of play days hiding a slightly strengthening golf market. In some markets during 2011, we saw an increase in revenue while in others there was a fifth straight year of declines. We believe 2012 will be the first demonstrative turnaround in revenue for most clubs. As we alluded to above, a strengthening economy, job security and years of pent up demand will begin to drive golfers back to our industry. Furthermore, with Tiger Woods' first win in years, you can't underestimate the interest that Tiger could bring to our industry. Interest in the form of playing golf, buying golf merchandise and sponsorships for golf could be icing on the cake, but only if he is winning.



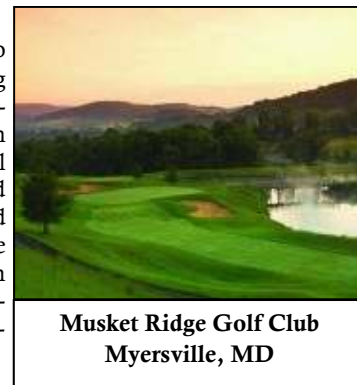
From a transaction standpoint, the first half was very strong with buyers from Asia, Europe, Canada and the US placing bets on the US golf market. These savvy investors believed a market at the bottom of the economic trough would soon rebound creating upside value. In the second half of the year, summer news of a double dip recession caused buyers to reassess their underwriting to become more conservative, driving values down and ultimately buyers' offers down (see cap rate vs core assets graph above). In addition, re-trades (buyers asking for price reductions while under contract) increased as nervous buyers tried to capture their fear in asset offering prices. We believe this was a temporary concern for two reasons: new money enters the market at the beginning of the year and there will be more encouraging economic news this year versus last year. The effect will be to cause more buyers to enter the market in 2012 erasing the more conservative under-

writing. Buyers will have to compete with other buyers paying a little more than they want but certainly not what sellers wish for. We believe 2012 will be a good year for owners, sellers and buyers. ■

THE NATIONAL GOLF & RESORT GROUP—YEAR IN REVIEW

By Chris Karamitsos Christopher.Karamitsos@marcusmillichap.com

The year 2011 was another excellent year for the NG&RPG. In addition to adding staff and brokers to better serve its expanding client base, the Group ended the year having sold 14 golf courses totaling \$44,775,000 at an average of 95.9% of list price. Steve Ekovich credits the Group's front-end due diligence, expert underwriting and unparalleled marketing platform for being able to achieve such a high percentage of list-to-sale. The national presence of the firm enabled the NG&RPG to list and or sell courses in California, Florida, Georgia, Indiana, Maryland, Ohio, Pennsylvania, Tennessee, Texas and Virginia. Among the courses sold this year by the Group were the trophy-class assets of Black Diamond Ranch in Lecanto, FL, Hammock Bay in Naples, FL, and Horseshoe Bend in Roswell, GA as well as the renown Palm Aire Country Club, a 54-hole facility in the Fort Lauderdale market. Another feather in the cap of the NG&RPG was the amount of repeat business and referrals received from lenders, developers, private clients and management companies. We appreciate all of it and are thankful for both the loyalty and support of our clients.



Musket Ridge Golf Club
Myersville, MD

Steve Ekovich and Chris Karamitsos were both featured panelists again at the Crittenden Golf Conference in Phoenix last fall lending their knowledge of the economy as it pertains to the golf transaction market. Additionally, Ekovich was recognized by Marcus & Millichap with the firm's National Achievement Award, which is earned by only a small number of the company's 1,300-plus brokers.

The NGRPG currently has a number of high-profile opportunities available for purchase throughout the U.S. To learn more about these quality golf assets visit www.nationalgolfgroup.com. ■

WWW.NATIONALGOLFGROUP.COM

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