

Semi-Annual Market Update

2013 Year in Review

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THE ECONOMY AND GOLF

By Steven Ekovich ◊ Steven.Ekovich@MarcusMillichap.com

The golf industry has turned the corner.

Despite a number of influences intent on holding back the golf industry, 2013 emerged as a pivotal year of improvement. Operators fought through headwinds of poor weather conditions, economic uncertainty, political gridlock and stubborn unemployment rates. Moving into 2014, operators instead ride the prevailing tailwinds of improved financing, fewer distressed asset sales and a clear rise in investor sentiment. These improvements present both opportunities and challenges. Due to an ever-evolving golf economy, it is imperative that owners and operators stay consistently informed. This Investment Report addresses these issues and provides pertinent data for golf owners and operators to assist in achieving their investment goals.

Overview of Findings

A solid, though muted, pace of economic growth will drive improvement in national golf course performance, as well as asset pricing, in 2014.

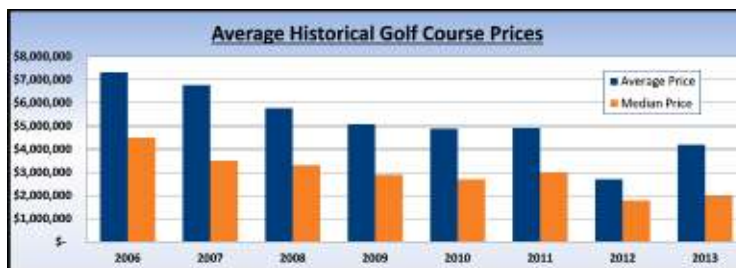


Chart 1

Nationwide, golf courses

are riding positive momentum from stabilized revenue. One year ago today, this Investment Report predicted that the golf industry was six months or more past the bottom for both golf asset pricing and performance. Despite ominous 2013 weather forecasts (which proved true), we made a bold prediction based upon a number of industry tripwires, stating 2013 would be better operationally and asset pricing is on its way up. Research into nationwide transaction activity supports our assertions from January 2013 (see Chart 1 above). The industry has, in fact, turned the corner.

The Economy & Golf

For the past four years, the US economy grew at an average annual rate of only 2.0%. That's well below its historical average of 3.3% annual growth since 1947. During that time, the economy and golf course owners alike were slowed by successive roadblocks in the form of political battles, budget cliffs, the inability of our government to pay its own bills, the installation and other problems with Obamacare, inclement weather and tax uncertainties. With that behind us, or in the process of being rectified, it is now time for our industry to focus on the business of cultivating our economy to grow golf revenue and EBITDA.

GDP (Gross Domestic Product) has grown steadily since 2010. Corporate America is lean and mean and continues to rely on cost control. Coupled with improved consumer spending habits, corporate sales growth translates into higher corporate earnings, ultimately affording the opportunity to hire more workers at higher pay rates. The more money that flows into the economy, the more golfers' wealth continues to grow. And the more wealth golfers

RECENTLY SOLD



TPC Eagle Trace
Coral Springs, Florida

ROUNDS YTD NOVEMBER 2013

U.S. TOTAL YTD:	-4.8%
PUBLIC ACCESS:	-3.6%
PRIVATE:	-9.4%



Rounds Played - YoY Change



PREPARING YOUR GOLF COURSE FOR A SALE

By Robert Waldron ◊ Robert.Waldron@MarcusMillichap.com

A golf course owner’s options of holding or selling their golf course must be a proactive decision. Several factors must be considered, including estate planning, tax implications, long and short term investment strategies and the current market conditions. Once the decision to sell is made, owners must be prepared to provide access to the golf course and make available for inspection a certain amount of confidential information.

A Great Presentation

While the physical presentation of the golf course is very important in making a good first impression to prospective buyers, all too often owners sell themselves and their golf courses short by providing inadequate or poorly-organized financial information about their property. Owners may unwittingly limit their attention to only the physical condition of their property and neglect the all-important financial records and statistical data. Most buyers will not waste time with a site visit without first analyzing the course financial performance.

Make A Good First Impression

Buyers will carefully evaluate course conditions, including turf, irrigation, drainage, cart paths, pump stations, bridges, etc. All vertical structures (such as clubhouse, cart storage and maintenance facility) will also be assessed in order to identify necessary repairs and deferred maintenance. A fresh coat of paint on the building exteriors and a trip to the junkyard to dispose of old equipment and cart parts will only enhance the first impression.

Financial Data

At a minimum, monthly and annual reports documenting rounds and membership statistics, as well as revenue and expense details should be readily available. Buyers always prefer consolidated operating statements which are supported by

departmentalized financial records, consistent with the financial statement presentation supported by the NGCOA. A current balance sheet will also be required. Analysis of these reports reveals historical business trends and can be used to develop financial forecasts and a pro forma financial statement.

Determining Value

The standard golf industry metrics used for evaluating golf course values are Gross Revenue Multiple (“GRM”) and EBITDA (“Earnings Before Interest, Taxes, Depreciation and Amortization”) Multiple. The commercial real estate community gives more consideration to the CAP (Capitalization) Rate (reciprocal of the EBITDA Multiple) and IRR (Internal Rate of Return). This information would also be used by a qualified golf course broker to provide a Broker’s Opinion of Value (“BOV”) to determine the market price range.

Organize Your Records

Buyers will request a long list of information as part of due diligence. Organizing these documents will put you ahead of the game and accelerate the overall sales process:

- | | |
|---------------------------|-------------------------|
| ◊ Recent Survey | ◊ Equipment Lists |
| ◊ Membership Information | ◊ Phase I ESA |
| ◊ Photographs | ◊ Appraisals |
| ◊ Permits & Licenses | ◊ Copies of Leases |
| ◊ Club By-laws and CC&R’s | ◊ Floor Plans |
| ◊ Service Contracts | ◊ Employment Contracts |
| ◊ Blueprints | ◊ Function Deposit List |
| ◊ Personnel Records | ◊ Maintenance Logs |
| ◊ Marketing Materials | ◊ Cap-Ex Budget |

By providing complete information, prospective buyers are more likely to give their full attention to your property, thereby eliminating delays in closing on the sale. ◊

THE ECONOMY & GOLF (CONT. FROM PG 1)

believe they have, the more golf owners can hold rates and drive round growth. Let’s make no mistake about it—golf is a luxury item, not a necessity. Therefore, the more disposable income golfers possess, the more likely golf owners are to experience a growth in rounds and revenue.

The much maligned contraction in supply of total golf consumers over the past decade has haunted industry experts and caused great debate over the future of our game. We perceive this contraction over the long term like a tire with a slow leak. The faster you go, air heats up and pressure inside the tire increases. The slower you go, the more noticeable the leak. With both an expanding economy and over 77 million baby boomers entering into retirement, the leak in our tire

won’t look nearly as bad moving forward.

Standard & Poor’s 500 Index posted its biggest annual advance since 1997, as gains in consumer confidence and housing prices bolstered confidence in the world’s largest economy (See Chart 2 on page 3). The more wealth an individual perceives they have, the more money they spend indulging in leisure activities. We predict stock market wealth will have an even greater effect on private clubs. Private club members tend to be more invested in the stock market, better educated and better off than your average public, occasional golfer. Demographically, they tend to be older, so they would logically have more time to amass the funds to invest.

THE ECONOMY & GOLF (CONT. FROM PG 2)

As for golf's ancillary business lines, banquet and outing business should also benefit from improved household wealth. As the stock market goes up, it makes it easier for dad to say yes to his daughter's \$40,000 wedding, opposed to three years ago when \$15,000 was out of the question. And as corporate America creates healthier balance sheets, tournaments and charity events should also grow in size and spending.



Chart 2

Consumer sentiment is the last part of our predictive pie, because consumer sentiment takes into account an individual's feelings toward his or her own current financial health, the current health of the economy and the prospects for longer term economic growth. Critical to golf's reliance on discretionary spending, consumer confidence is at a six-year high. When viewed against prior headwinds of a dysfunctional congress, looming government shut downs, slow economic growth and 10.9 million unemployed, the resilience of the American consumer continues to shine through – a fact that has major ramifications on golf revenue.

As a consumer, the golfer who feels better about their current financial situation is less apt to worry about the cost of a private membership and more apt to look at the value he is receiving. And for the public golfer who may have played once a month, armed with improved economic outlook that golfer is more apt to increase the frequency of play, or spend more after their round. He might also consider playing different and newer, more expensive courses. The better a golfer feels, the more likely cost of play becomes less of an impediment to hitting the links. If you believe studies that suggest money is not the number one concern for golfers, then why were golf courses generally healthier before the market crash of 2007, and why did courses lose so many players during the recession? Did they have an epiphany and decide to become mountain bikers, ride Harleys or fit into their Yoga pants? Or was golf eating into their living funds? I suggest the latter.

Golf Metric Outcomes

According to *PerformanceTrak*, YTD through October rounds played were down 4.2%, and days available for play were the lowest in the history of the index - 14.6 fewer days open than YTD 2012. **But total median revenue was up 0.5%.** Though median golf revenue was down 2.7%, merchandise and F&B

revenue were up 2.5%, suggesting total club revenue remained essentially neutral.

When analyzed alongside Pellucid's utilization report (a measure of how golf course revenue and rounds trend taking weather impact out of the picture), all top-ten markets they track - save one - showed higher utilization through September. And Pellucid's Sharper Edge data showed every client beat what the weather gave them. Across all clients, Course Utilization increased 4%, and Revenue Per Available Round (weather removed) increased 9%. Furthermore, the overall revenue increase was driven by volume, not by rate, because revenue per round played was up 1%, while total revenue was up 5% and rounds were up 4%.



Chart 3

So it would seem we have turned the corner in operations, but is that showing up in higher transaction prices? The National Golf & Resort Properties Group has been tracking 18-hole golf course sales since 2006. The data shows there were fewer sales under \$1M than in 2012, as we predicted in our 2012 End-of-Year Investment Report. Of the 106 transactions in 2013 with sales price available, nearly half (47) fell between \$1M - \$3M (44.3%) – roughly the same as the 43.3% from the previous year. However, only 20 sales traded under \$1M (18.9%) – compared to 30.7% (46/150) the previous year. Therefore, as we discussed at the beginning of 2013, a lot of the distressed, lower-end product cleared the market in 2012, and moving forward 2013 would showcase a healthier market with buyers focused on healthier, revenue-driven asset purchases.

We also predicted a reduced supply of high-end, quality courses available for sale, and what was available would drive values up as more buyers fought over fewer Class A properties. **During 2013, average price was up 56% and median price 11% for all transactions between \$250K and \$75M.**

Conclusion

2013 provides a full year's worth of transaction data that supports rebounding median and average sales prices. We have *PerformanceTrak* and Pellucid's Reports showing that despite ominous weather that should have depressed revenue, it has held steady, as both course utilization improved and round rates held firm.

THE ECONOMY & GOLF (CONT. FROM PG 3)

Data supports that the golf industry has turned the corner. We have seen a definitive uptick in values and operations over the last year and few years, respectively. Now the real test begins, as we question whether 2013's value increases were an aberration or a trend.

Our contention, based on our own internal proprietary research and the evidence presented herein, is that brighter days are ahead, that we have turned the corner, and that we are on our way up. ♦

BUYER SENTIMENT—2ND HALF 2013

By Christopher Karamitsos ♦ Christopher.Karamitsos@MarcusMillichap.com / Raymond E. Demby III ♦ Raymond.Demby@MarcusMillichap.com

Last issue we spoke of capital appreciation as the driving force behind most golf investment. We stated that the golf industry sales cycle had bottomed out in 2012, meaning values had nowhere to go but up. The opportunity for distressed “turnaround” golf deals meant that an investor could add significant property value in a short period of time, all the while benefiting from an improving golf economy. Capital appreciation is still one of the major factors driving buyer demand, although the industry now features a greater sense of urgency amongst investors. Since pricing has started to rebound and the golf market is showing signs of recovery, investors are beginning to realize that prices aren’t going to stay low forever and that there are fewer distressed deals (e.g. bank REOs, bankruptcy/foreclosure auctions, etc.) available today. Savvy investors are purchasing courses now with the understanding that prices are on the rise and may never be this low again (at least not for years to come). Other factors driving golf investment include development opportunities, operational efficiencies for multi-course owners and increased interest from foreign buyers.

Golf Market Recovery

Much of this issue of our Investment Report discusses the various signs that the golf industry is improving. Increased conventional lending on golf assets, improved financial performance and increasing average sales prices all lead us (and potential investors) to believe that the market is on its way up. Refer to the articles “The Economy & Golf” and “2013 Sales Activity” for more information on these trends. This recovery is driving groups such as PE (Private Equity) firms who see the higher returns and a better chance of capital appreciation in golf versus other investments. Stocks are at record highs, but volatile; bond returns are non-existent due to interest rates and fiscal policy; most other “core” real estate markets have recovered already – for example, apartment sales metrics are back to the pre-2006 height of the market. With CAP Rates between 12% - 14% for profitable golf courses, there is a significant spread over other real estate assets (such as apartments, single-tenant retail or self-storage), which have CAP Rates as low as 5%. Not only are initial returns from golf properties better than alternative investments, these stabilized “core” assets also have less potential for significant capital appreciation when compared to golf due to their respective sales cycles.

Expanding Current Portfolios

While first-time golf investors (such as PE firms and foreign

buyers) are entering the market to take advantage of these higher returns, current golf owners are also taking advantage of the opportunity to expand their portfolio. Many owners realize that they can buy courses for so much less than 5-10 years ago and don’t want to miss this window by waiting too long. A multi-course ownership strategy allows for many operational efficiencies and other strategic benefits. For example, economies of scale between courses can reduce expenses; reciprocity between clubs and an established marketing platform allow for revenue growth; **owning multiple, similar courses in one market effectively reduces competition and allows the owner to better control pricing.**



Development & Land Values

Golf is often tied to other real estate. Whether it’s closing and redeveloping the property, adding to the course by developing hospitality on-site or building residential housing around the property, buyer interest in golf

courses with development opportunities increased significantly in 2013. As you can see from the adjacent graph, the value of “ready-to-build” residential home lots has been increasing since 2011, with 2013 showing the biggest gains. According to the Wall Street Journal, “Nationally, lot prices have gone from a gain of nearly 7% in the first quarter of 2013 compared with the previous quarter, to gains of about 6% in the second quarter and 4% in the third quarter.”

While the rate of growth may slow down moving forward, it is clear that land values will continue to improve due to a lack of available inventory. While major metropolitan areas have rebounded to almost pre-recession levels, this trend is beginning to move into secondary and tertiary markets as well. Industry experts and developers agree, as the NY Times reported in September, that “Already, developers report that the cost of land in the most desirable areas is double what it was two years ago... The race has even sent builders back to outer suburbs.” Development tied to golf properties features even

NEW IRS TIPS & SERVICE CHARGE RULING—EFFECTIVE JANUARY 1, 2014

By Robert Waldron ◊ Robert.Waldron@MarcusMillichap.com



Effective January 1, 2014, the Internal Revenue Service (IRS) implemented new rules differentiating tips from service charges for the purpose of calculating employee wages. The IRS will begin classifying automatic gratuities as service charges—which it treats as regular wages, subject to payroll tax withholding—instead of tips, which food service operators leave up to the employees to report as income.

The enforcement of these rules (which were originally established in June of 2012) was delayed until now in order to provide operators sufficient time to prepare. The ruling may have a significant impact on golf courses that routinely add service charges to weddings, functions, outings and à la carte dining chits and have been classifying them as gratuities.

The Ruling

The IRS issued Rev. Rul. 2012-18 to address an employer's tax withholding and reporting of "mandatory tips," (often identified as "service charges") which are often automatically added to the bill at many clubs. While tips subject the employer to tax withholding and reporting only to the extent disclosed by the employee, the Ruling clarifies that automatic gratuities are service fee wages that the employer is responsible for monitoring, withholding and reporting to the IRS.

Tip Criteria

In order to determine whether a payment is a tip or a service charge, the IRS has identified four factors necessary to be a tip. Payments must meet all of the following criteria to be classified as a tip:

- ◆ The payment must be free from compulsion
- ◆ The customer must be able to determine the amount of the payment without restriction
- ◆ The payment cannot be negotiable or dictated by the employer
- ◆ The customer should generally have the right to decide who receives the payment

Service Charges

Service charges are generally defined as anything not meeting these four criteria, and as wages, are subject to all required payroll tax withholding. Examples of specific interest to clubs that have been deemed service charges include:

- ◆ An amount paid by a customer for catering, banquets, weddings, functions and other amounts (frequently referred to by the service industry as "auto-gratuities") that are dictated by the policy of the employer.
- ◆ A club determines amounts distributed to employees from a fund made up of contributions by club members
- ◆ Amounts collected by a club through mandatory charges to members' bills were distributed to employees.

Possible Consequences

The designation of "mandatory tips" as wages may have not only employment tax implications, but also wage rate implications since, as wages, mandatory tips may impact the regular rate of pay for hourly employees. If the mandatory tip amounts are not properly incorporated into the employee's hourly rate, the employee's overtime wages will be calculated incorrectly. These changes will have significant impact on record keeping and could affect pay structures in many facilities.

Suggestions

Here are several suggestions that may assist golf course owners with compliance to the new Ruling:

- ◆ Indicate a "suggested gratuity" on the customer's receipt but do not add it to the total on the receipt, allowing the customer to designate the gratuity voluntarily
- ◆ Charge sales tax on all service charges, regardless of the amount paid to the employee
- ◆ Eliminate all service charges and automatic gratuities
- ◆ Consult with your tax advisor or attorney to determine the proper method of taxing service charges and paying your employees ◊

CAPITAL MARKETS / COURSE FINANCING

By Steven Ekovich ◊ Steven.Ekovich@MarcusMillichap.com

Treasury 10-year note yields reached just under 3%, the highest level in more than three months after initial jobless claims fell more than expected and the Fed prepares to cut back on its stimulus. The Federal Open Market Committee announced after its last policy meeting on December 18th that it would reduce its bond buying in January based on "growing underlying strength" in the economy. "The economy is gaining strength; rates will go higher," says David Coard, head of fixed-income trading in New York at Williams Capital Group LP, a brokerage for institutional investors.

So what do rising interest rates mean for golf investors?

In short, the higher interest-rate environment will benefit savers, but can be mixed bag for golf investors, as borrowing money is eventually going to become more expensive. If interest rates soar, that will reduce the value of all real estate, including golf courses, because of something called the band of investment or the cost of capital.



GOLF CLUB OF DUBLIN

18-Hole Semi-Private Club

Dublin, OH | \$2,950,000

Lead Agent: Steven M. Ekovich | Broker of Record: Michael Glass



BOCA LAGO COUNTRY CLUB

27-Hole Private Club

Boca Raton, FL | \$6,950,000

Lead Agents: Steven M. Ekovich & Christopher Karamitsos



PELICAN BAY GOLF CLUB

36-Hole Semi-Private Club & Development Opportunity

Daytona Beach, FL | \$3,950,000

Lead Agent: Matthew Putnam



MONROE GOLF & COUNTRY CLUB

18-Hole Private Club

Monroe, MI | \$1,850,000

Lead Agent: Terence M. Vanek | Broker of Record: Jonathan Dwoskin



MEADOWS FARMS GOLF CLUB

27-Hole Daily Fee Club

Locust Grove, VA | \$1,750,000

Lead Agent: Robert Waldron | Broker of Record: Payton Banks



BINKS FOREST GOLF CLUB

18-Hole Semi-Private Club

Wellington, FL | \$2,650,000

Lead Agent: Steven M. Ekovich

TO VIEW ALL CURRENT LISTINGS, COME VISIT US AT:

www.NationalGolfGroup.com



BLACK BEAR GOLF CLUB

18-Hole Semi-Private Club

Eustis, FL | \$1,995,000

Lead Agent: Matthew Putnam



Actual Property NOT Shown

CONFIDENTIAL PRIVATE COUNTRY CLUB

18-Hole Private Club

Washington D.C. MSA | \$4,500,000

Lead Agent: Steven M. Ekovich | Broker of Record: Bryn Merrey



LIMESTONE SPRINGS GOLF CLUB

18-Hole Semi-Private Club & Residential Community

Oneonta, AL | \$3,950,000

Lead Agent: Steven M. Ekovich | Broker of Record: Eddie Greenhalgh



MAJESTIC GOLF CLUB

18-Hole Daily Fee Club

Lehigh Acres, FL | \$1,200,000

Lead Agent: Terence M. Vanek



WEDGEFIELD GOLF CLUB

18-Hole Daily Fee Club

Orlando, FL | \$1,600,000

Lead Agent: Matthew Putnam



BOS LANDEN GOLF CLUB

18-Hole Daily Fee Club

Pella, IA | \$1,395,000

Lead Agent: Terence M. Vanek | Broker of Record: Barry O'Hearn

CAPITAL MARKETS / COURSE FINANCING (CONT. FROM PG 5)

How fast and how far interest rates will actually go up is an open question, but the consensus is that U.S. Treasury yields and rates on credit cards, mortgages, auto loans and other consumer loans will rise slowly.

Who is currently lending in golf? The answer: banks with and without SBA guarantees, Bridge Loan lenders, Private Equity, Insurance Companies and Hard Money Lenders. Who is not lending in golf? National Lenders (lenders that have a golf division willing to lend on golf in any geography) and Conduits. There are very smart people who are working on the golf financing piece and in our previous investment report (Mid-Year 2013) I stated that, “I expect for national golf lenders to emerge in the next few years, but selectively. They won’t be able to finance everyone, but if you have the right loan to value, the experience as an operator and the required debt coverage ratio, it will get done.”

One of our clients recently refinanced two courses; both had cash flow with a lender that was working with a national golf broker and was not an SBA lender. Other clients have financed purchases with the SBA 7A loan program and local lenders. However, most of our transactions this year have been financed with Private Equity.

The one common thread with all lenders who are willing to lend was a good borrower. With commercial banks, we have seen a willingness to lend without substantial cash flow, as long as there is a good sponsor. With insurance company loans, the asset has to be one they want in the portfolio and

must have cash flow. Bridge loans need to have a yield the lender wants. Hard money loans for non-stabilized deals have quick turnaround times, but the highest interest rates. Private Equity is concerned with the relationship between the investor and lender and works well when an IRR hurdle rate can be reached. Private Equity financing is usually not about one transaction—it typically starts before the asset is located and is for multiple purchases over time. ♦

Conventional Bank Loan:	Interest: 5-6.5%, Points: 1%, Term: 3-7 yrs., Amortization: 20-25 yrs., LTV: 60-70%, DCR: 1.3-1.4, Loan Size: \$750,000 plus
SBA Guaranteed Loan 7A Program:	Interest: 1.5-2.75% Over Prime, Points: 0%, Term: 25 yrs., Loan size up to \$5M (possible to \$8M with USDA program), Amortization: 25 years. Contacts for SBA Loans: Chris Balestrino, Park Place Financing 212-729-5802, Robert D. Kelley, Jr. Kelley Consulting Inc. 561-704-8479
Life Company:	Interest: 6.5-7.5%, Points: 1%, Term: 3,5,10 yrs., Amortization: 15, 20 or 25 yrs., Loan Size: \$1.5M plus, Escrow for Cap-Ex
Bridge Loan:	Interest: 9-14%, Term: 1-2 years, LTV: Up to 65%, Desire Primary Markets, Cash Flowing Product
Hard Money:	Interest: 12-15% 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 12/24/13	

THE NATIONAL GOLF & RESORT PROPERTIES GROUP — UPDATE

By Matthew Putnam ♦ Matthew.Putnam@MarcusMillichap.com

Growth. With six more golf courses sold in the last six months, six more in contract scheduled to close in the next few months and more than \$50 million in inventory heading into the New Year, the NG&RPG continued to grow our team in an effort to best serve our clients. With the promotion of Raymond Demby to Senior Financial Analyst and Investment Advisor, the group now has six full-time investment specialists. Stepping into the analyst role, Justin Leith joined the team full-time in January after earning his MBA from the University of Tampa in December. Justin has been with the group in a part-time capacity for the last two years while completing his coursework.

The group also welcomed Kelly Conlon into the role of Operations Manager and Executive Assistant. Kelly brings more than 25 years of marketing and public relations experience to the team. Rob Waldron, who joined the team from Billy Casper Golf Management in March, hit the ground running with the team, securing several listings. His experience on the acquisition and management side of the business

has been invaluable, as we continue to underwrite and position listings in an ever-changing market. Terence Vanek, one of our rising stars, sold three courses in six months throughout the Midwest.

Steven Ekovich and Matthew Putnam successfully closed nationally renowned Sea Trail Golf Resort in July via a 363 bankruptcy sale. This marked one of the first sales transactions in the Myrtle Beach market in more than three years. Other notable closings include Tartan Fields in Ohio, a high-end private club next to Muirfield Village, and TPC Eagle Trace, which closed in only two weeks and is part of a port-



Tartan Fields Golf Club

THE NATIONAL GOLF & RESORT PROPERTIES GROUP — UPDATE (CONT. FROM PG 6)

folio of golf assets listed for GE Capital.

As these distressed sales continue to clear the market, more private client (and in many cases cash-flowing) deals are hitting the market again. Terence Vanek sold Quail Crossing in Indiana for a private client and has private client listings in Florida, Iowa and Michigan heading into the New Year. This will continue to be the trend as the market further normalizes.

Several of the group’s members attended and spoke at various events across the country, serving to not only provide infor-

mation about course valuation and the investment sales market, but also to continue to learn, monitor trends and keep an ear to the ground to better understand the market sentiment. Steven Ekovich was on a panel at the Crittenden Golf Conference in Phoenix, while Robert Waldron and Terence Vanek spoke at several of the state-level NGCOA chapter annual events. Our team is planning on instituting an annual “Golf Investor Sentiment Survey” in early 2014. Keep an eye out for this online survey to be released in February and take part in this unprecedented research into the golf investment market. ♦

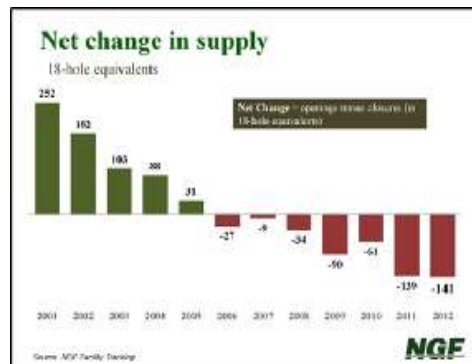
GOLF COURSE CLOSURES AND ALTERNATIVE LAND USES

By Raymond E. Demby III ♦ Raymond.Demby@MarcusMillichap.com

What can you do if your golf course is no longer viable?

Current State of the Golf Industry

The 1990’s brought an unprecedented rise in the number of golf courses being built, culminating in 399 openings of 18-hole equivalent courses in 2000. While there are a number of reasons for this sudden increase, one of the driving forces was the trend of pairing golf and residential real estate. With golf course views for homeowners and a variety of community amenities offered by the club, this pairing drove up home values and maximized returns for developers. An unintended consequence of this growing trend is that many golf courses were never meant to be profitable as a standalone business. Instead, the course would function as the centerpiece amenity for the residential community and act as a loss-leader to drive home sales. When combined with the other factors affecting the golf industry at this time (including a surge in the game’s popularity following the arrival of Tiger Woods), the end result was a significant oversupply of golf courses being built. By the time of the U.S. economic downturn in 2006, dwindling demand from golfers and a surplus of golf courses disrupted the supply and demand equilibrium necessary in any industry. As a result, we’ve seen a dramatic (but natural) market correction, with



over 130 net golf course closures per year since 2011.

According to data provided by the NGF (National Golf Foundation), **2013 saw 157.5 closures and only 14 openings** of 18-hole equivalent

regulation golf courses in the United States, or 143.5 net course closures. As you can see from the above graph, this is part of a decade-long trend that is expected to continue moving forward.

What types of courses are closing? The overwhelming majority of closures (96% in 2013) were public, daily-fee golf courses. Many of these properties were located in rural areas or tertiary markets, but some are in major metropolitan areas and are either functionally obsolete or suffering from high competition. According to the NGF, 66% of total closures were public facilities with peak green fees under \$40. Age is another factor, as these courses often required significant capital expenditures or otherwise displayed noticeable signs of aging.

Alternative Land Uses

So what do you do if your course is one of these properties closing its doors? Many course owners have been faced with this dilemma in recent years and have responded in a number of ways. Below are some of the most popular alternative land uses for closed golf courses with examples from 2013:

♦ Agricultural

Given the acreage of golf courses and the high number of rural course closures, many farmers have begun to look to golf properties for fertile soil for agriculture or livestock. This only seems appropriate, considering the number of courses which started as family farms years earlier.

Tall Chiefs Golf Course – Fall City, WA

In December of 2013, King County spent \$4.5 million on the 191-acre property formerly known as Tall Chiefs Golf Course. Tall Chiefs started as a dairy farm in the 1900’s before being developed into a golf course in the 1950’s and subsequently closing in 2009. This land was purchased with Conservation Future Tax funding in order to prevent the proposed residential development of the property.

♦ Open Space/Recreation

Depending on the state/county, many golf properties are subject to strict land use as open space/recreation. This zoning classification prohibits any significant development of the land, instead designating its future use as “Green Space.” As a result, closed golf courses can be relatively easily converted into recreation space, such as a city park. Cart paths become hiking/biking trails, water hazards become fishing lakes and

GOLF COURSE CLOSURES AND ALTERNATIVE LAND USES (CONT. FROM PG 7)

fairways can become soccer fields or baseball diamonds.

Of the alternative land uses proposed in this article, this is likely the least common situation. Converting the property to (non-golf) recreation use requires a unique buyer such as a school, city or other public group not interested in the profitability of such a project. The most likely courses for such a project are often smaller nine-hole or executive-length courses, or aging municipal facilities.

Ballinger Lake Golf Course – Mountlake Terrace, WA

In September of 2013, the City of Mountlake Terrace opened the 42-acre Ballinger Park, formerly known as Ballinger Lake Golf Course. The nine-hole golf course had been in operation for more than 50 years before closing in late 2012. While the park is currently open to the public, the Recreation and Parks Advisory Commission is continuing plans to develop the area into a “Passive Recreation” space, a designation which allows for the preservation of natural habitats and typically includes benches, picnic areas, trails and signage.

◇ *Residential*

Redeveloping a golf course into residential homes remains the most desirable option for course owners. Despite a number of land use/zoning issues and potential setbacks, residential development offers property owners the highest potential return on their investment. Depending on the location and zoning requirements such as lot size and density, a residential community is usually worth many times more than a golf course covering the same acreage. Certain amenities can also be utilized by the residential community, such as converting the clubhouse and pool into a community center and office. Residential development is not feasible in some situations, as city or county zoning and planning may prohibit changing the property from open space to other land uses. With that said, many local governments are becoming more receptive to this possibility, given the impact it would have on local property tax revenues for the city/county involved.

Cypress Bay Golf Club – Myrtle Beach, SC

Cypress Bay Golf Club was sold to a residential real estate developer in December 2013. Mungo Homes, the new owner, plans on closing the course on March 1, 2014 in order to build additional homes on top of the 6,500-yard Russell Breeden design that opened in 1972. The golf course is zoned as a “Planned Development District,” or PDD, and already has both single family homes and condominiums surrounding the course. This will be Mungo Homes’ third residential development in the Grand Strand region.

◇ *Mixed-Use/Other*

A number of owners have chosen a combination of the above scenarios. The common denominator in these situations is some degree of residential development, which is typically offset by open space land uses such as recreational parks or agricultural tracts. This allows the developer to maintain the required lot density for the overall project, while leaving open/green space helps to increase the probability that the development plan will be accepted by not only the city/county, but the local community as well. In addition to those

named above, there are also a number of other, less common land use alternatives available to golf course owners. Some of these include mining (natural gas, oil, sand, soil, etc.), cemeteries and ecological-asset development or tax credits.

Palm Aire Golf & Country Club – Pompano Beach, FL

The 54-hole Palm Aire Golf & Country Club had five courses and closed two to begin hauling 10,000 tons of dirt from the site each day. The nearby Fort Lauderdale-Hollywood Airport expansion needs the soil to extend runways and reroute local traffic, while the Palm Aire Golf & Country Club was looking for a way to beautify an area that had previously contained 36-holes of golf. Palm Aire has sold this dirt and plans on replacing the craters left with eight lakes totaling 80 acres where the courses once stood. Planning for the “Lakes Project” began in 2012, with the majority of the mining being completed in 2013.



RYAN

Palm Aire Golf & Country Club

11-11-13

Palm Aire Golf & Country Club
“Lakes Project” as of November 11, 2013

Changing Land Use - Process and Common Pitfalls

Owners looking to repurpose their golf property will likely face a number of potential setbacks throughout the process. While the above examples show that it is possible, changing zoning and land uses away from a golf course can often be a long process with no certainty of success.

Owners need to be aware of not only city/county zoning and planning restrictions, but HOA/POA agreements, title policies and any other limitations imposed by community CC&R’s (covenants, conditions and restrictions). Additionally, owners should be aware of the response from local residents, especially with regard to potential residential development. There are numerous cases throughout the U.S. of local homeowners suing property owners in order to prevent residential development of their golf course. In some cases, even recreational and agricultural projects have experienced significant resistance from the local community. Zoning and land use restrictions vary dramatically by state – owners considering a land use amendment to their property should consult with the appropriate experts (real estate brokers, land use attorneys, etc.) in order to determine the viability of their proposed project. ◇

BUYER SENTIMENT—2ND HALF 2013 (CONT. FROM PG 4)

greater benefits than standalone residential projects. Not only do developers benefit from cash flows from selling/building homes, but each sale also benefits the course in turn, as it creates more homeowners to sell memberships to. Similarly, on-site hospitality development benefits the golf course by providing “stay & play” accommodations for out-of-area guests, further increasing club revenue.

Foreign Investment

The U.S. golf industry has also seen significantly increased demand from foreign investors, with China, Korea and Canada leading the way. There are many factors driving this increased interest from foreign buyers, including the growth of golf’s popularity overseas, arbitrage opportunities based on monetary policy and real estate values in their home countries and other factors regarding the current economic and investment situation in each respective country. Golf courses here are extremely inexpensive compared to countries like China, while U.S. real estate investment also offers an opportunity to diversify investment portfolios and hedge against risk in their home country. The National Golf & Resort Properties Group has personally seen this increased interest in 2013, especially with regard to Chinese investors. In July our

team sold Sea Trail Golf Resort and Convention Center in Sunset Beach, North Carolina to a Chinese investment group. We also have a first-time golf investment group from China under contract on a private country club in Florida and received one of our strongest offers on the TPC Golf Portfolio from another Chinese investment group in 2013. Additionally, our team sold TPC Eagle Trace in December 2013 to ClubLink, Canada’s largest golf ownership company.

In conclusion, buyer demand for golf assets is increasing as the market recovers. With other real estate assets priced at levels near the pre-recession market peak, golf is one of the few asset classes just beginning its recovery. Improved land values and development opportunities are driving some sales, while other investors are using this opportunity (beginning phases of recovery in the market cycle) to increase their portfolio geographically. Golf course prices should continue to gradually improve, while we believe that the next phase for investors is a trend towards more stabilized, positive cash flow assets trading based on CAP Rates/EBITDA Multiples. The general sentiment within the golf investment community is the same: “Now is the time to buy!” ♦

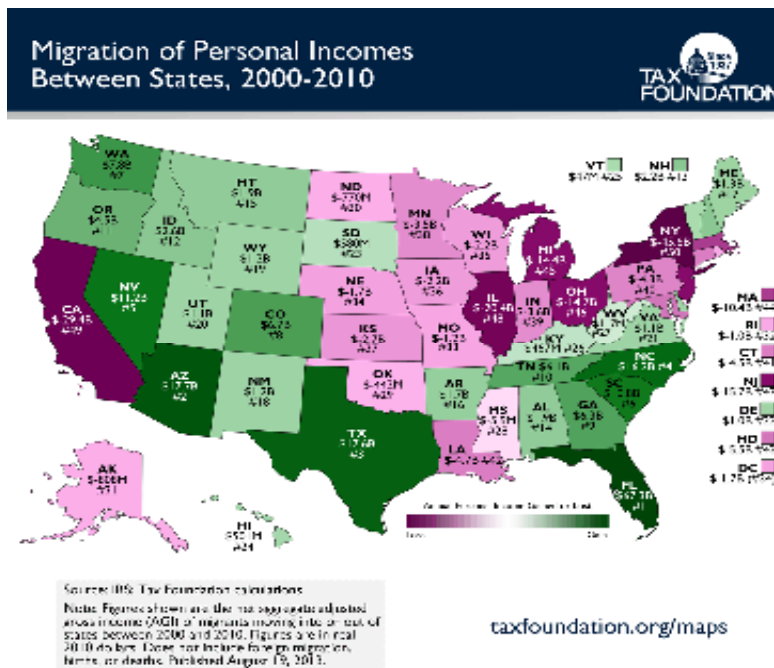
U.S. INCOME MIGRATION AND ITS EFFECT ON GOLF

By Christopher Karamitsos ♦ Christopher.Karamitsos@MarcusMillichap.com

One question we are asked frequently is, “where should I invest my capital?” Golf is a product type that depends on weather and the disposable income of its customers for its success. With that in mind, the most recent Census Bureau report states that there has been a migration of personal income from cold weather states (with what many consider to be draconian tax policies) to Sunbelt states with more favorable tax policies for both businesses and individuals.

The top five states that have benefited the most from such a migration are all warm-weather states containing numerous golf-centric markets: Florida, Arizona, Texas, North Carolina and Nevada (see map). Florida leads the way, having received an average of \$67.3B in personal income annually. According to the New York Times, Florida will exceed the population of New York State in 2014.

Contrast that with the similarly golf-centric state of California, which sees nearly \$30B leave the state annually. Since both states have favorable weather, a reason for this incongruence may be the tax policies in each state. Florida has no state income tax, while California has one of the highest effective tax rates in the U.S. The Tampa Bay region has the fastest growing economy in the state and ranks 16th nationwide out of 363 Metropolitan Statistical Areas surveyed by the U.S. Conference of Mayors. A quick glance at Texas will reveal that the Lone Star State has six of the top ten fastest growing cities in the nation to go along with its \$17.6B of annual income migration.



We understand that there are very sound acquisition opportunities in every state and each golf owner has their own investment strategy and criteria. However, given the aforementioned economic trends, we are bullish on the Sunbelt over the long term. ♦

2013 SALES ACTIVITY — THE \$1M-\$10M INVESTMENT TRANCHE

By Terence Vanek ◊ Terence.Vanek@MarcusMillichap.com

By all accounts, 2013 issued a strong recovery for commercial real estate, and golf was no exception. In fact, 2013 marked the first year in six (2007) that average sales price for golf courses achieved significant improvement, specifically in the \$1 - \$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. Transactions above \$10M are generally value driven by some non-golf component (residential development, alternative use, portfolio scale, etc.), and transactions under \$1M are generally value driven not by performance returns or real income growth through golf operations, and therefore deserve little investment attention.

Of the 79 golf course transactions recorded in the \$1M - \$10M investment tranche during 2013, average price per transaction increased from \$2,995,923 in 2012 by **11.02% to \$3,326,215 in 2013**. Median price was similarly up 9.73%, from \$2,415,000 to \$2,650,000. Second Half (2H) 2013 average price improvement was even better, at an average of \$3,619,359 per transaction. Moreover, 2013's 79 transactions marked a 19.39% drop in YoY velocity from the overwhelming 98 transactions during 2012, and a return towards the average of 73 transactions per year between 2006 and 2011. Stabilized velocity and healthier pricing suggest less bargain hunting in the REO department moving into 2014. As the real estate recovery takes hold, investors will shift focus to fundamentals at the property level and a search for operational returns from the primary drivers of real income: growth in rounds and pricing power in rates.

For alternative investment assets like golf, 2014 should be a year where prospects for profitability improve as rising interest rates compress capitalization rates in core product types (apartments, offices, retail, etc.) and push eager capital looking for higher yields into a wider set of markets and investment strategies. As sources of capital become more comfortable with improving market conditions, golf asset values will continue to improve under the competitive demand of a wider capital allocation. ◊

RECENT SALES									
Course Name	Sale Price	Sale Date	Market	State	# Holes	Acres	Club Type	Gross Revenue - EBITDA	
Ocala Palms Golf & Country	\$ 8,800,000	9/6/2013	Ocala	FL	18	160	Private	Confidential	
Sea Trail Golf Resort & Convention Center	\$ 8,500,000	7/16/2013	Sunset Beach	NC	54	2000	Resort	Confidential	
Legacy at Alaqua Lakes	\$ 7,900,000	10/4/2013	Longwood	FL	18	189	Private	Confidential	
Legend Trail Golf Club	\$ 7,800,000	12/3/2013	Scottsdale	AZ	18	155	Daily Fee	Confidential	
TPC at Snoqualmie Ridge	\$ 7,637,300	7/24/2013	Snoqualmie	WA	18	264	Private	Confidential	
Trilogy Golf Club at Glen Ivy	\$ 6,500,000	8/9/2013	Corona	CA	18	89	Semi-Private	Confidential	
Thistle Golf Club & Estates	\$ 6,100,000	9/19/2013	Sunset Beach	NC	27	312	Semi-Private	Confidential	
Long Island National Golf Club	\$ 6,000,000	7/17/2013	Riverhead	NY	18	150	Semi-Private	Confidential	
Tarhan Fields Golf Club	\$ 5,950,000	12/9/2013	Dublin	OH	18	220	Private	Confidential	
LakeRidge Golf Club	\$ 5,500,000	12/30/2013	Reno	NV	18	108	Daily Fee	Confidential	
Stallion Mountain Golf Course	\$ 5,500,000	10/18/2013	Las Vegas	NV	18	204	Semi-Private	Confidential	
Firerock Country Club	\$ 5,500,000	7/29/2013	Fountain Hills	AZ	18	232	Private	Confidential	
Brookfield Country Club	\$ 5,200,000	7/8/2013	Roswell	GA	18	145	Private	Confidential	
Standard Country Club	\$ 4,700,000	12/13/2013	Louisville	KY	18	150	Private	Confidential	
The Club at Emerald Hills	\$ 4,700,000	6/30/2013	Hollywood	FL	18	116	Semi-Private	Confidential	
Shackamaxon Golf & Country Club	\$ 4,500,000	7/16/2013	Scotch Plains	NJ	18	130	Private	Confidential	
Longaberger Golf Club	\$ 4,036,000	12/31/2013	Nashport	OH	18	547	Daily Fee	Confidential	
Ravenwood Country Club	\$ 4,005,462	9/3/2013	Hermitage	TN	18	181	Semi-Private	Confidential	
Kiln Creek Golf Club	\$ 3,500,000	12/23/2013	Newport News	VA	18	290	Resort	Confidential	
Polo Golf and Country Club	\$ 3,500,000	8/6/2013	Cumming	GA	18	175	Private	Confidential	
TPC Eagle Trace	\$ 3,400,000	12/31/2013	Coral Springs	FL	18	170	Private	Confidential	
Woodbine Golf Course	\$ 3,300,000	12/30/2013	Homer Glen	IL	18	102	Daily Fee	Confidential	
Independence Golf Club	\$ 3,000,000	10/13/2013	Midlothian	VA	27	260	Daily Fee	Confidential	
Fox Hollow Golf Club	\$ 2,852,833	8/20/2013	New Port Richey	FL	18	175	Semi-Private	Confidential	
Woods Valley Country Club	\$ 2,704,000	10/18/2013	Valley Center	CA	18	163	Semi-Private	Confidential	
The Golf Club at Hawk's Prairie	\$ 2,700,000	7/25/2013	Lacey	WA	36	141	Semi-Private	Confidential	
Highlands Reserve Golf Club	\$ 2,650,000	9/19/2013	Davenport	FL	18	148	Semi-Private	Confidential	
Eagle Point Golf Club	\$ 2,250,000	9/1/2013	Eagle Point	OR	18	181	Daily Fee	Confidential	
Shenandoah Valley Golf Club	\$ 2,000,000	6/1/2013	Front Royal	VA	27	140	Semi-Private	Confidential	
Mill Creek Golf Club	\$ 1,750,000	7/15/2013	Salado	TX	18 (27)	150	Semi-Private	Confidential	
Chalet Hills Golf Club	\$ 1,550,000	12/18/2013	Oakwood Hills	IL	18	196	Daily Fee	Confidential	
Cimarrone Golf Club	\$ 1,489,300	10/29/2013	Jacksonville	FL	18	169	Daily Fee	Confidential	
Cleanview at Horn's Point Club	\$ 1,475,000	11/15/2013	Jacksonville	MD	18	134	Semi-Private	Confidential	
Quail Crossing Golf Club	\$ 1,400,000	10/30/2013	Boonville	IN	18	230	Daily Fee	Confidential	
Countryside Golf Course	\$ 1,365,000	12/5/2013	Norwalk	IA	18	135	Daily Fee	Confidential	
Sims Oak Hills Golf Course	\$ 1,345,000	10/19/2013	Middlebury	IN	18	213	Municipal	Confidential	
Westbury Country Club	\$ 1,334,500	11/1/2013	Yukon	OK	16	157	Semi-Private	Confidential	
Woodmont Golf Club	\$ 1,292,312	8/31/2013	Canton	GA	18	178	Semi-Private	Confidential	
Glengarry Golf Links	\$ 1,275,000	7/1/2013	Latrobe	PA	18	279	Daily Fee	Confidential	
Lake San Marcos Golf Course	\$ 1,250,000	12/27/2013	San Marcos	CA	18	161	Semi-Private	Confidential	
Wedgfield Plantation Country Club	\$ 1,150,000	12/19/2013	Georgetown	SC	18	168	Semi-Private	Confidential	
Wasco Valley Rose Golf Course	\$ 1,150,000	9/18/2013	Wasco	CA	18	157	Daily Fee	Confidential	
Sugar Creek Canyon Golf Club	\$ 1,100,000	8/19/2013	Hinton	OK	18	250	Daily Fee	Confidential	

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