Golf Investor Sentiment Survey - 2014

NATIONAL GOLF & RESORT PROPERTIES GROUP
A DIVISION OF Marcus & Millichap

Volume 1 - 2014

The Return of Golf Investor Confidence

In order to continue providing our clients with the most unique, prescient and predictive market research in the golf industry, the National Golf & Resort Properties Group of Marcus & Millichap has instituted a new annual Golf Investor Sentiment Survey for golf asset owners, managers, prospective buyers, appraisers, lenders and other consultants. These participants largely agree – golf is on its way up. *Unlike most golf market research, our survey focuses on owners' investment strategies and future expectations, rather than the past operational performance of their golf course or courses.* The following report contains analyses of several of the most intriguing themes deduced from the survey results, evidenced by accompanying survey data. Several of these and other survey topics will be explored in greater depth in our upcoming *Golf & Resort Investment Report – 1st Half 2014*.

2014 Golf Investment Index

63.2

As an annual survey, our research team will continue to track and publish this data year-over-year in order to establish an industry benchmark for the overall health of the U.S. golf market from an investor's perspective. We'd like to thank all of the survey participants who completed the online questionnaire and appreciate your thoughtful input. Keep an eye out for the next survey installment to come out in early 2015. Participants who provide an email address and complete the survey will also receive a detailed report on the survey results, which includes response breakdowns for each survey question.

What is the Golf Investment Index (GII)? The Golf Investment Index is a proprietary scale developed by the National Golf and Resort Properties Group in order to track golf investor confidence. The GII can range from 0.0 (a dead economy) to 100.0 (a perfect golf investment economy), with a score of 50.0 representing the baseline of a normalized market. The survey questions used to create this index focus on forecasting which direction the golf industry is heading, rather than the current state of the industry today. Another way to interpret the Golf Investment Index is that a score of 50.0 means that the industry is evenly divided between *golf optimists* who believe the market is on the way up, and *pessimists* who doubt golf's recovery. **The Golf Investment Index for 2014 is a solid 63.2, which means that the majority of the investment community has a positive outlook for their golf assets and the entire industry over the next 12 months.** Only a few years ago, this was definitely not the case.

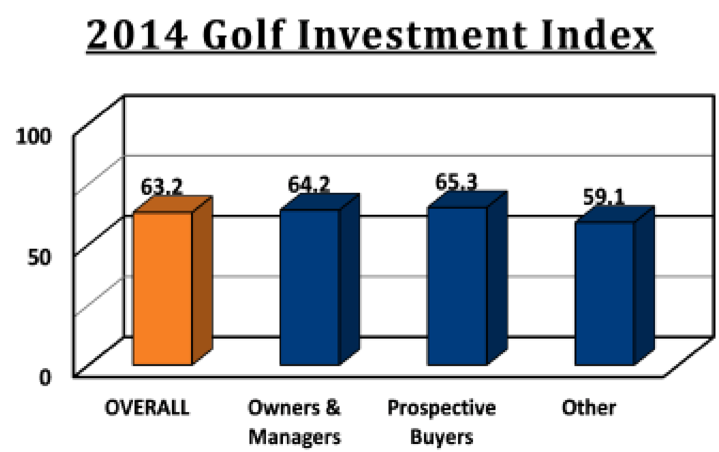

Figure 1

Significant Findings

- **86% of investors believe that the EBITDA from their golf course(s) will increase over the next twelve months**
- **Only 8% of investors believe that public rounds played or average rates at their golf course(s) will decrease**
- **98% believe that their private membership dues will either increase or at least stay the same in the coming year**
- **81% of participants believe that the U.S. golf industry will improve or stay the same over the next twelve months**
- **90% of respondents stated that golf property values will either increase or at least stay the same this year**

Golf Portfolio NOI/EBITDA

- **86% of participants believe that their EBITDA will increase over the next 12 months**
- Only 5% believe that their EBITDA will decrease
- Respondents believe more in revenue growth than cost-cutting
- Strong sign of investor confidence – Most owners plan on making more money this year
- This operational optimism does NOT extend to the general U.S. Economy

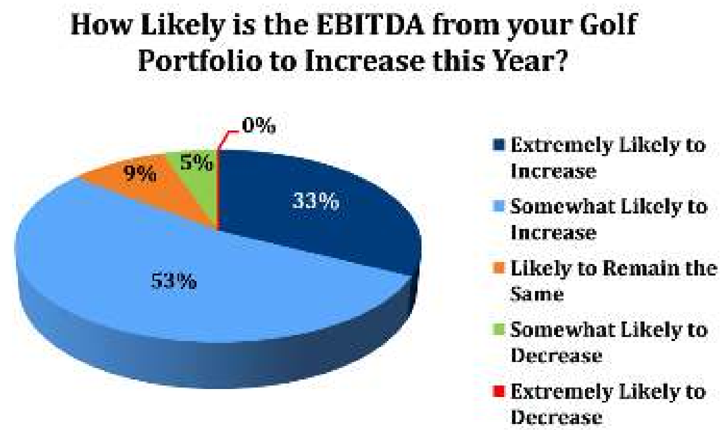

Figure 2

Researcher's Interpretation of Survey Data

The most interesting aspect of this question is not only how confident golf owners and managers are in their ability to generate more operating income (NOI/EBITDA) this year, but how this optimism compares to their faith in the U.S. economy and golf industry as a whole. As discussed on the following page, investor sentiment towards the general U.S. economy and the U.S. golf industry is lukewarm, or perhaps cautiously optimistic at best. With that said, golf owners and managers overwhelming believe that they can grow the profitability of their golf assets this year by increasing both public and private revenue (see following sections). The data suggests that respondents have more faith in their own skill set and operational ability than in the market's ability to recover in the coming year.

Public Golf Outlook

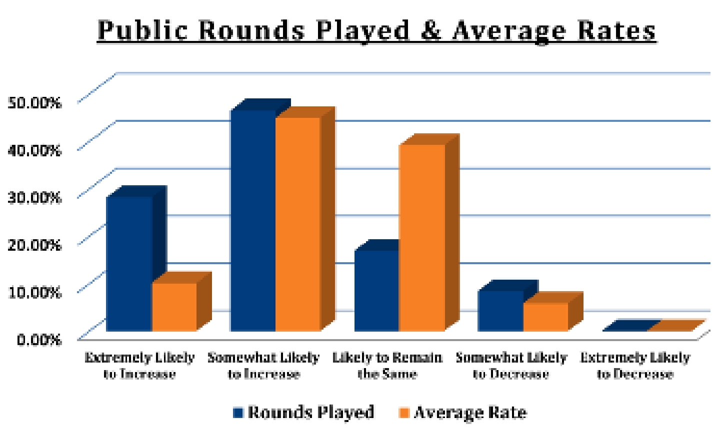

Figure 3

- **Only 8% believe public play at their golf course(s) will decrease over the next 12 months**
- Confident in their ability to grow rounds (75% likely to increase) versus rates (55% likely to increase)
- 92% - 94% believe rounds and rates will either increase or at least remain the same
- More optimism toward public golf (growing revenue) than private clubs (maintaining revenue)

Researcher's Interpretation of Survey Data

In general, investors appear to be more positive as to the future of public golf when compared to their outlook for private country clubs (see following section). While the majority of investors (75%) believe that golfers will be playing more rounds at courses they own in the coming year, a significant portion also believes that these players will continue to be sensitive to changes in public greens/cart fee pricing. This raises several questions as to the cause of the projected increase in rounds played – possible factors include improved weather over 2013, an improving economy leading to existing golfers playing more rounds, golf course closures reducing competition, stabilizing golfer participation rates, etc.

Private Golf Outlook

- **98% believe their membership dues will either increase or stay the same**
- Member growth less optimistic (64% likely to increase) than public rounds growth (75% likely)
- Initiation fees are more difficult to grow than dues and membership
- Very few owners think their private golf revenue will decrease
- More closely correlated with the overall U.S. economy

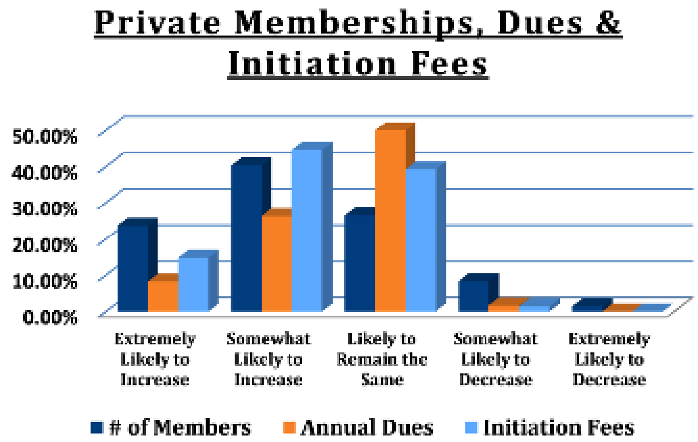

Figure 4

Researcher's Interpretation of Survey Data

While not quite as optimistic as the 'Public Golf Outlook' with regard to growth potential, investor sentiment regarding private clubs is still quite positive. Virtually all of the respondents indicated that they expect their member counts, initiation fees and member dues rates to either increase or at least remain the same this year – a strong sign that we are past the bottom of the golf market cycle. While still more optimistic than the outlook for the overall U.S. economy and golf industry, these responses more closely match the participants' sentiments towards these macroeconomic factors. The comparison between the outlooks for Public versus Private golf in relation to the overall economy makes logical sense. Private clubs require a greater financial commitment than their public counterparts and therefore are slower to recover, given the modest rate of recent economic recovery.

U.S. Economy vs. Golf Economy

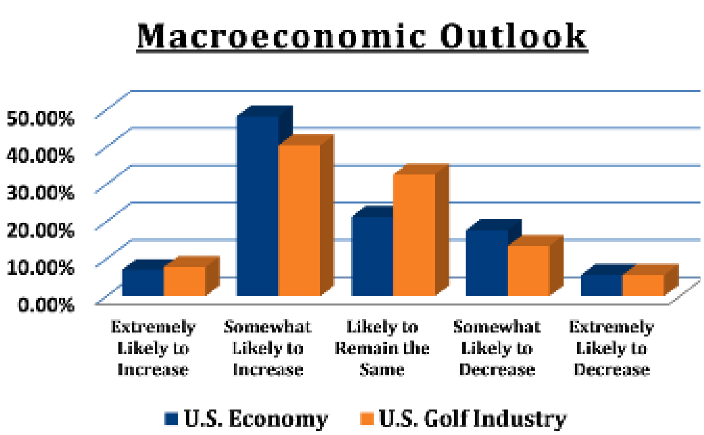

Figure 5

- **81% of all participants believe the golf industry will improve or remain the same this year**
- Reflects a slow and steady economic recovery
- Very few "Extremely Likely" responses (either positive or negative)
- Golf industry versus overall economy relatively equal – golf recovery lags slightly behind

Researcher's Interpretation of Survey Data

Given the overwhelmingly positive outlook described in the previous sections, we would expect to see a more positive outlook toward the overall U.S. economy and golf industry. The vast majority of investors do not have strong expectations either positive or negative, as less than 8% of participants answered "Extremely Likely" for either question. This likely is a reflection of the slow (but steady) economic recovery we've experienced in recent years. Based on the similar responses, most investors recognize the relationship between the health of the general U.S. economy and its impact on the golf industry as a whole. With that said, the golf industry lags slightly behind improvements in the general economy as increased consumer earnings/spending takes effect.

Property Values & Financing Availability

- **90% believe that golf course values will either increase or stay the same**
- Evidence that we are past the bottom of the market
- Corresponds with Macroeconomic Outlook
- Matches with sales data (values increasing) from our 2013 Year in Review Golf & Resort Investment Report

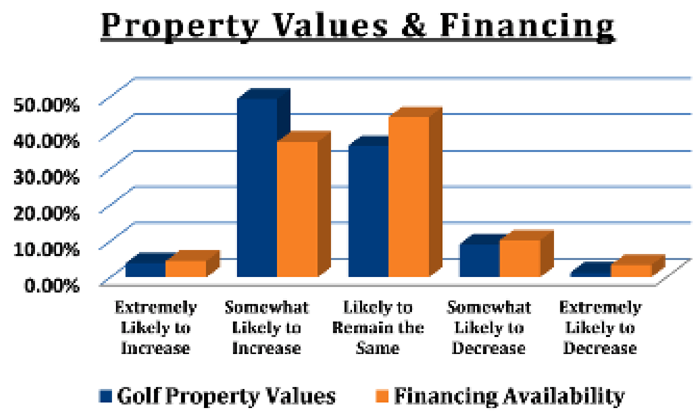

Figure 6

Researcher's Interpretation of Survey Data

Property values and financing availability are two of the clearest signs of the overall health of the national golf real estate market. When things are going well, values and financing increase, and vice versa. According to our most recent Semi-Annual Investment Report, golf property values experienced strong improvement in 2013, compared to annual declines between 2006 and 2012. Investors appear to recognize this appreciation – an expected increase in property values would explain the overwhelming preference towards buying versus selling a golf asset in the coming year (see Conclusion of Findings below). Another notable finding is the correlation between these specific market factors (property values and financing availability) and the macroeconomic factors from the previous section. A comparison of Figure 5 and Figure 6 shows a clear relationship between these two subjects, especially the concentration of "Somewhat Likely to Increase" and "Likely to Remain the Same" responses.

Conclusion of Findings

Our 2013 Year in Review Golf & Resort Investment Report opened with a clear premise, **"The golf industry has turned the corner."** Based on data from golf course sales transactions, property financial operations, conversations with golf owners and investors and our own experience underwriting over $1 billion of golf and resort assets, we made a clear prediction. **"A solid, though muted, pace of economic growth will drive improvement in national golf course performance, as well as asset pricing, in 2014."** With the introduction of our Golf Investor Sentiment Survey, we turned towards the investment community to substantiate our prediction. Throughout this report, we've determined that the golf investment community largely agrees, as a modest outlook towards the overall U.S. economy appears to be linked to increased expectations regarding golf course performance. This increase in performance may also be linked to an expected increase in property values and would explain why 53% of owners are likely to buy a golf asset this year, while only 15% plan on selling.

Moving forward, *where does the data suggest the golf investment market is heading?* We believe, barring any major, unforeseeable events, the golf market will continue to improve gradually. 2012 represented the bottom of the market cycle with regard to course pricing, with 2013 showing considerable improvement. This improvement should continue moving forward, while more investors will likely "get on board" with a positive outlook. One thing is clear from the data – the golf industry believes that the worst appears to be over. Cautious optimism is appropriate, given the steady (but slow) economic improvement of recent years. Golf will always be tied to consumer confidence, earnings and disposable income. Until considerably more people are employed making more money (and we significantly reduce the supply of golf courses), the golf market will continue to modestly improve while owners rely on their operational expertise. Despite legitimate concerns regarding national trends such as participation rates and changing demographics, investors remain optimistic towards the future of golf, and so do we. ◊

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With the introduction of the National Golf & Resort Properties Group's Golf Investor Sentiment Survey, the team has named Raymond Demby as the Head of Research & Analysis. Ray joined the NG&RPG in early 2012 as a Financial Analyst & Marketing Coordinator. Since that time, Ray has personally underwritten over $500,000,000 of golf and resort assets. He has also contributed to the ongoing evolution of the team's semi-annual Golf & Resort Investment Report, writing several articles per issue and assuming a role in the editing and composition of the report itself. Ray was promoted to Senior Financial Analyst in 2013 and also took on the role of Investment Advisor beginning in 2014. In addition to his duties as the Head of Research & Analysis, Ray will continue to represent buyers and sellers as an Investment Advisor.

Ray has been heavily involved in the team's research since joining the group in 2012. This data has been quoted or referenced in a number of high profile publications, including Bloomberg (LINK), Forbes (LINK), the National Golf Foundation (NGF) (LINK) and more. In addition to these written articles, Bloomberg TV featured the team's sales research as their "Single Best Chart" on April 11th of this year (LINK). Ray will continue to oversee the team's research moving forward and plans on further expansion of NG&RPG research initiatives, including the introduction of this annual survey.

Survey Methodology and Participation

Breakdown of Responses by Participant Type: Owners & Managers = 54.6% | Prospective Buyers = 12.8% | Other = 32.6%

Golf Investment Index (GII) is a weighted score based on participant responses to the survey questions, although not all questions were used in the Index calculation. The survey was administered online over a period of 2-3 months. Invited participants included verified golf course owners, managers, prospective investors, consultants, etc. The "Other" participant category referenced in this report includes appraisers, lenders, attorneys and other consultants. The survey was administered to a statistically significant sample size according to established market research benchmarks.