

LEISURE INVESTMENT PROPERTIES GROUP

GOLF ♦ RESORTS ♦ PLANNED COMMUNITIES ♦ MARINAS

GOLF & RESORT INVESTMENT REPORT

Semi-Annual Market Update

2015 Year in Review

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STATE OF THE GOLF INVESTMENT MARKET

By Steven Ekovich ♦ Steven.Ekovich@MarcusMillichap.com

GOLF ECONOMY MAINTAINS GROWTH TRAJECTORY AMIDST STOCK MARKET UNCERTAINTY AND INTEREST RATE HIKES

With rounds and revenue both up for the third year in a row (aided by a few more golfing days, better expense management, course closings, and consumer's growing pocketbooks), it is time to officially declare "we are in a changed golf market".

For the third straight year, both the average and median golf course values are up. *What is causing these trends?* While there are a number of variables, job growth, tighter labor market conditions, expanding payrolls, and a volatile stock market are all factors which are major contributors to elevating both golf's operational performance and property values. These positive factors affect not only golf, but the entire U.S. real estate market, and led to the first increase in interest rates in nine years.

RECENTLY SOLD



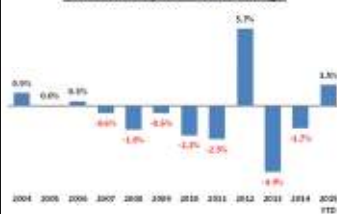
Indian Springs Golf Club
Indio/La Quinta, California

ROUNDS YTD NOVEMBER 2015

U.S. TOTAL YTD: +1.5%
PUBLIC ACCESS: +2.2%
PRIVATE: -0.9%



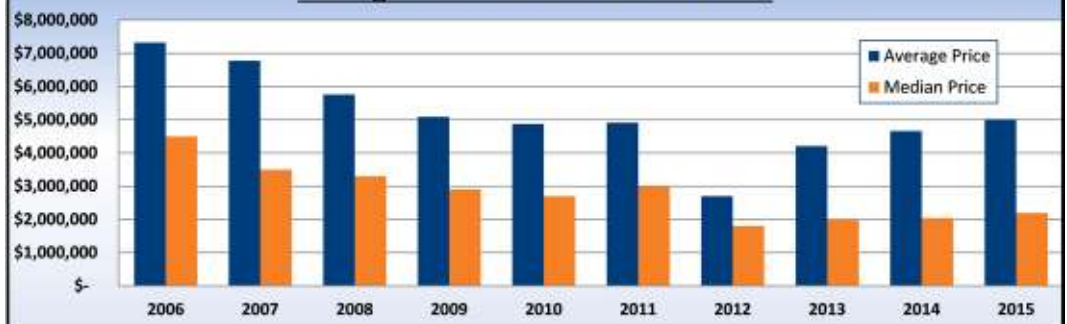
Rounds Played - YoY Change



Acquisition Yields

The low-yields available in the stock and bond markets in 2015 have caused strong interest in all types of commercial real estate. That insatiable demand for yield is beginning to cascade down to non-core assets like golf, as investors have driven down returns for core commercial real estate to record levels. Apartments, retail and office properties are trading in low single-digit cap rates, while golf courses are still trading in double digits. (An 8.0x EBITDA multiple is a 12.5% cap rate). We have been predicting an end to golf's distressed, REO product and a return to more cash-flowing assets over the last year and a half.

Average Historical Golf Course Prices



While many golf course buyers are still looking for distressed assets, other new buyers are stepping in to fill the void. The market is beginning to pass by many of golf's traditional buyers, as it is increasingly difficult to find the off-market deals they seek, where the sellers are unsophisticated and will let the property go at distressed pricing. Many are missing deals that in a few years, they will surely wish they had bought. These buyers have previously avoided stabilized, cash-flowing assets with earnings that could be accretive to their portfolios. As investors recognize that the add-value, turnaround, and otherwise distressed and underpriced assets will continue to become more and more rare moving forward, these buying philosophies will need to change. **(Continued on Page 6)**

WANT TO CREATE VALUE? DRIVE YOUR REVENUE

By Robert Waldron ◊ Robert.Waldron@MarcusMillichap.com

Golf course owners are always looking for ways to enhance the value of their golf course assets. The first step is to identify the current property value, which can be obtained through a Broker Opinion of Value (BOV) from a qualified golf investment specialist. Understanding the price range that the market will execute on a given property is an important club in a golf course owner's bag of business tools. The BOV serves as a valuable point of reference which can impact business decisions regarding capital expenditures, refinancing and timing for the sale of the property.



Golf Property Valuation

For most real estate asset classes, investors rely on capitalization rates (cap rates) as the primary metric to measure asset values. On the other hand, golf courses fall into an asset class of their own since the values are comprised of multiple components: land, FF&E, improvements, intangible assets and the profits derived from the business as a going concern. Subsequently, the market perception of golf course values typically relies on two industry metrics: EBITDA Multiple (the reciprocal of a cap rate) and the Gross Revenue Multiple (GRM). In recent years, an increase in the number of golf courses operating at a minimal profit or a loss has served to complicate the valuation process. The result has been an even greater reliance upon the GRM as an initial starting point for determining value. When determining what multiple to use, one must consider a multitude of factors. These include (but aren't limited to) location/demographics, local competition, quality and condition of the course and clubhouse, non-golf amenities offered, potential upside in revenue growth or expense reduction, etc. Other factors then must be considered and accounted for, including any capital expenditure needs for new ownership, potential development opportunities, and/or the assumption of retained liabilities from refundable membership deposits.

Owners seeking to improve the value of their golf course assets can do so by increasing revenue and cash flow from operations (NOI/EBITDA). Having analyzed golf course financial statements for more than two decades, I have found that the most successful operators manage their courses utilizing the best business practices of a "revenue-centric" or "top-line" mentality.

Data is Key

A "revenue-centric" mindset is most effective when the entire management team and all employees buy into the concept. This strategy focuses on attracting new guests to the facility while retaining the existing guest base, then maximizing the spending by each guest during their visit.

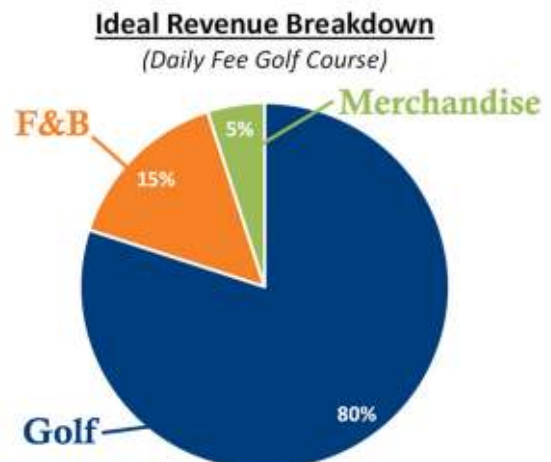
The days of "if you build it, they will come" are long gone in the golf industry. Owners must be proactive with their marketing efforts and actively involved in the use of social media and data capture. The tracking of daily, weekly and monthly rounds as well as each individual revenue stream is essential data to a golf course operator. The collection of this data is vital. A long time ago, I learned that "Data is King". If you are not using a daily revenue flash report, you should implement one immediately! The data must be consistently analyzed by management in an effort to identify

trends. The findings will serve as the basis for the design and implementation of marketing action plans. Of course, the results of every marketing initiative must be measured in order to determine the progress and levels of success for each campaign. *If you do not measure the results of your marketing efforts, why bother?*

"If you are not using a daily revenue flash report, you should implement one immediately!"

All Revenue is Not Valued Equally

High-margin revenue streams (like those found in golf operations) typically yield higher profit margins and are therefore favored by investors. One rule of thumb states that the ideal revenue mix for a typical daily fee course is 80% golf, 15% F&B and 5% merchandise. Consider that the operation of a golf course is largely a fixed-cost business, with pre-determined budgets for maintenance expenses and golf shop operations. Once the breakeven revenue is achieved, every additional round is pure profit (i.e. higher marginal benefits) since there are little-to-no additional variable costs. On the other hand, every dollar generated by the food and beverage operation requires a certain amount of food cost and labor expenses for preparation and service. Merchandise revenue requires a significant cost of goods and carrying costs. ***By focusing on the golf revenue generated from the sale of green/cart fees, membership dues, and driving range fees, course owners can increase net profits, leading to higher property values.*** ◊



THE CHINESE BUYER MYTH

By Matthew Putnam Matthew.Putnam@MarcusMillichap.com

As brokers, we are hearing more and more buzz about the influx of Chinese investors buying up deals in the U.S. Many times, when a seller's price expectations are not in line with what the market will bear, they will jokingly (and maybe not so) say, "Go find me a Chinese buyer." There are a myriad of articles, data and statistics that may seem to support this line of thinking and, if you own a luxury home in a major metropolitan area or a condo in Los Angeles or Manhattan, it may be 100% accurate. The direct tie to golf course investment however, is not nearly as strong.

The recent turmoil in the Chinese stock markets and economy as a whole, combined with currency factors and more investor-friendly regulation from the Chinese government, have all led to record amounts of money leaving China. According to Fitch Ratings, \$590 billion moved out of China from July of 2014 to June of 2015, nearly triple historical averages.

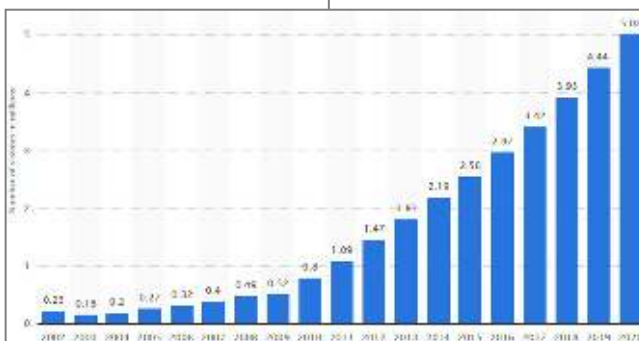
Chinese Investment in U.S. Real Estate

Measurable effects of that can be seen by the investments the Chinese are making into residential real estate in the U.S. In 2015, Chinese buyers purchased one in 14 homes that sold for more than \$1M. According to a National Association of Realtors survey, the average cost of a home in China is \$831,800. There was also significant capital invested into commercial real estate. According to statistics from Rhodium Group, an economic consulting firm based in New York, Chinese investors bought 15 deals in the hospitality and real estate sector in the U.S. in 2015 totaling \$3.7B. 2014 saw 38 similar deals take place totaling \$2.8B. While this is a significant increase in capital, it is not representative of the golf industry, as these transactions were large, institutional assets in traditional (non-golf) product types. For example, the 2014 data includes the \$1.95B purchase of the Waldorf Astoria by Chinese firm Anbang Insurance in October 2014.

Case Study: Myrtle Beach

As with most general real estate trends over the last few years, (including the increased availability of debt/equity and cap rate compression, among others) *some* of the capital infusion is trickling into the golf airspace. Also, as with all statistics, they can be manipulated to a certain extent to prove whatever point is at hand. For instance, the Bloomberg headline from July of 2015 reads "Chinese Buyers of U.S. Golf Courses Tee Up Revival Plan". Taken on its surface, this headline has served to provide excitement for some would-be sellers. Looking at just the stats, 22 golf courses being bought for \$105M over eight months and paid for in cash further stokes

the excitement. However, this excitement wanes when you read further and learn that all 22 were bought by the same investor and in the same 60-mile stretch of real estate (Myrtle Beach and the Grand Strand Region). Further investigation reveals that there were also about 2,000 lots for homes or condos included in those sales, which would account for a significant portion of the \$105M combined price. For the Founder's Group (the courses' new owner), this opportunity affords them the ability to sell a golf destination vacation to Chinese tourists where they control the booking, the golf, and in many cases, the real estate and/or accommodations. The reality is, there may not be another market in the country that could offer any investor the opportunity Founders saw in Myrtle Beach. They plan to invest capital into the clubs and market to the growing number of Chinese-to-U.S. tourists, but this strategy is hardly widespread.



More travel friendly Visa agreement signed at APEC summit November 2014. In 2013, 1.8 million Chinese visitor spent 21.1 Billion. Business Insider Jan 2015.

Other Investments in U.S. Golf

Pacific Links and its owner Du

Sha, one of China's most well-known and respected businessmen, is another example of visible Chinese investment into U.S. golf courses. Until recently (when they have seemingly shifted acquisition focus back to China and even sold U.S. assets), they had followed a more traditional approach of buying U.S. assets in markets frequented by Chinese tourists (such as Hawaii, Southern California and Las Vegas) and creating a network of reciprocal memberships between more than 100 clubs in 13 countries. Outside of these two groups, there have been limited other one-off sales. In the vast majority of these cases, the Chinese buyers fit into the passion or vanity buyer category and have bought assets near where they have family ties or like to vacation.

Conclusion

Yes, there is significant Chinese capital being invested in the United States right now. However, this trend has been grossly overstated within the golf industry. Several large, high profile transactions have formed a narrative that is not representative of the market as a whole. No matter what stats are used or how you try to skew them, they all show that Chinese investors are interested in U.S. real estate in general, with a small portion of that going towards golf assets. The type of golf properties they do invest in are specific types (hospitality/resort properties or those with residential development) in very specific areas (popular tourist destinations). With that said, there is not an abundance of Chinese golf course buyers. The evidence is just not there yet to warrant getting excited that Chinese investors will overpay or buy any golf course they can get their hands on. ♦

PRIVATE EQUITY AND THE LEISURE PROPERTIES MARKET

By Christopher Karamitsos ◊ Christopher.Karamitsos@MarcusMillichap.com

Many private equity funds have taken significant positions in commercial real estate in recent years, including moving into the golf airspace. In fact, real estate private equity funds have attracted record amounts of capital since 2010. According to Market Realist, it is estimated that these funds account for well over \$700 Billion in assets under management (AUM). Some of the largest funds, such as Blackstone Group, have as much as 38% of their holdings in real estate (see adjacent Chart 1). Part of this investment strategy can be directly attributed to a low-yield environment of fixed-income investments. In order to offset these low yields, this strategy has encouraged the deployment of capital into opportunities which offer higher, risk-adjusted returns such as golf and other leisure assets.

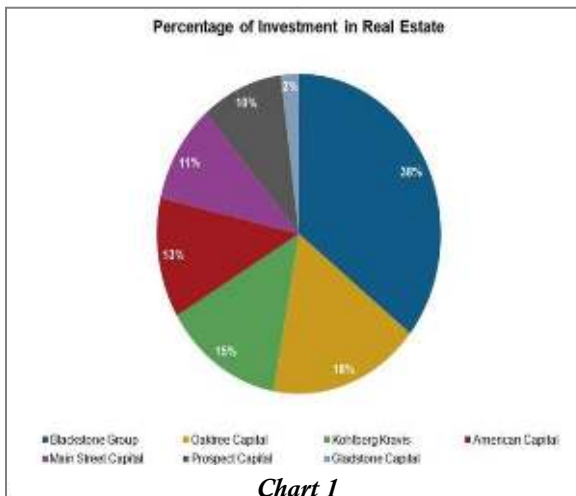


Chart 1

Why Golf?

There are several factors that have elevated the broad appeal of leisure assets, particularly golf. Golf course closures have outpaced new openings, moving the industry toward supply/demand equilibrium. As income and performance of golf assets continue to stabilize, investors are evaluating these assets on fundamental metrics such as cap rates and EBITDA multiples. As the transaction market went through the REO phase, many acquisitions were predicated upon turnaround strategies for distressed assets with negative income. Now that the

majority of REO product and large portfolio opportunities have cleared the system, values have been reset and income has begun to recover. Stabilized assets with upside remaining are more prevalent than they have been in a decade. This enables investors to buy a healthy income stream from an asset with the potential for significant capital appreciation. Additionally, these types of assets have once again become financeable, allowing for leveraged acquisitions and greater cash-on-cash returns.

Private Equity & Golf

While core commercial real estate assets (apartments, office, retail and industrial) garner the majority of real estate investment capital, non-core assets (including leisure properties) have become sought-after investment vehicles among the private equity community. In 2012, a boutique private equity fund from California raised \$50 million for golf course acquisitions and has been steadily purchasing courses that meet its strict acquisition criteria. In 2014, Fortress Investment Group financed Arcis Equity Partners' purchase of a 46-course portfolio from CNL for \$306.5 million. The year before, Tower Three Partners purchased a majority stake in Heritage Golf Group, an owner-operator of high-end golf facilities throughout the U.S. C-Bons, a Dallas-based fund, acquired the Walton Street portfolio consisting of 26 courses. Kohlberg & Company, consisting of seven private equity funds with aggregate commitments of \$5.3 billion, purchased a majority interest in Troon Golf Management in 2014.

Yield Compression

PE funds are considering the aforementioned factors as they diversify portfolio holdings to include non-core assets. Core assets have seen steady yield compression since 2010 (see Chart 2 below). While apartment cap rates in primary markets have fallen to around 5% (see Chart 3 below), leisure property cap rates remain in the double digit range. This too is expected to change, as core assets traditionally lead the broader market. As industry EBITDA grows and cap rates compress, this should further enhance the capital appreciation of leisure properties over the ensuing 24 to 36 months. Consequently, we expect to see more funds with institutional or family-office capital chase investments that will outperform the broader market, putting golf squarely in their sights. ◊



Chart 2

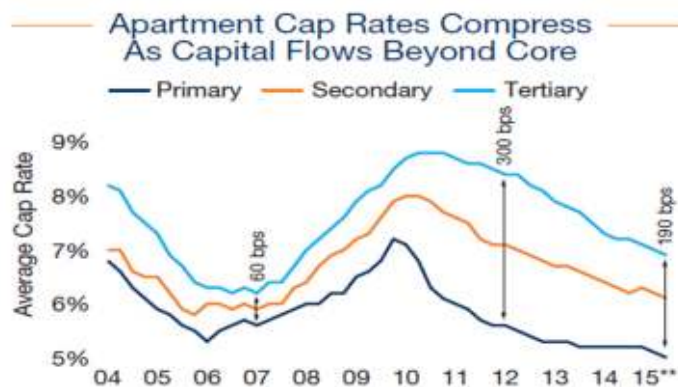


Chart 3

List of Exclusive Offerings Now Available

LEISURE
INVESTMENT PROPERTIES GROUP

GOLF ♦ RESORTS ♦ PLANNED COMMUNITIES ♦ MARINAS
A DIVISION OF Marcus & Millichap



Actual Property NOT Shown

CONFIDENTIAL FIVE-COURSE GOLF PORTFOLIO

Five 18-Hole Golf Properties

Major MSAs | \$76,000,000

Lead Agents: Steven M. Ekovich & Christopher Karamitsos



CASTLE BAY COUNTRY CLUB

18-Hole Semi-Private Club

Hampstead, NC | \$1,800,000

Lead Agent: Raymond Demby | Broker of Record: Raj Ravi



CONFIDENTIAL THREE-COURSE GOLF PORTFOLIO

Three 18-Hole Semi-Private Golf Clubs

SC & GA | \$11,550,000

Lead Agent: Terence M. Vanek | Broker of Record: R. Ravi, M. Fasano



HERITAGE GOLF CLUB

18-Hole Private Country Club

Columbus, OH | \$3,800,000

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



FROG HOLLOW GOLF CLUB

18-Hole Daily Fee Golf Club

Middletown, DE | \$1,550,000

Lead Agent: Rob Waldron | Broker of Record: Donald MacLaren



BLACK CREEK MOUNTAIN

18-Hole Private Golf Club & Development Opportunity

Chattanooga, TN | \$2,500,000 Golf/\$4,460,000 Land

Lead Agent: Steven M. Ekovich | Broker of Record: Anne Williams

TO VIEW ALL CURRENT LISTINGS, COME VISIT US AT:

www.LeisurePropertiesGroup.com



SKYLINE COUNTRY CLUB

18-Hole Daily Fee Club

Berkshire County, MA | \$995,000

Lead Agent: Raymond Demby | Broker of Record: Tim Thompson



THE CROSSINGS GOLF CLUB

18-Hole Daily Fee Club

Glen Allen, VA | \$2,550,000

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



High-End Master Planned Community

Private Golf Club, Marina and Development Opportunity

Tennessee | \$14,950,000

Lead Agent: Steven M. Ekovich | Broker of Record: Anne Williams



SCOTLAND YARDS GOLF CLUB

REO OPPORTUNITY - 18-Hole Daily Fee Club

Dade City, FL | \$1,150,000

Lead Agent: Raymond Demby



Actual Properties NOT Shown

CONFIDENTIAL TWO-COURSE GOLF PORTFOLIO

Two Million Dollar Price Reduction

Michigan | \$4,500,000

Lead Agent: Terence M. Vanek | Broker of Record: Steven Chaben



CONFIDENTIAL MASTER PLANNED COMMUNITY

2,000 Acre MOL Golf & Lakefront Community

New York | \$29,000,000

Lead Agent: Christopher Karamitsos | Broker of Record: J. D. Parker

BUYER SENTIMENT — 2015 YEAR IN REVIEW

By Terence Vanek ◊ Terence.Vanek@MarcusMillichap.com

Halfway through January of 2016, the U.S. stock market had erased over \$1 trillion in value, with CNN Money's Fear & Greed Index flashing "extreme fear". RBS warned clients to sell everything in face of a "cataclysmic year". Falling oil, volatility in China, shrinking world trade, rising debt, and deflation had most all talking heads prescribing safety.

Against this backdrop, commercial real estate provided record performances in 2015. Falling unemployment, exceptional demographic trends, and modest (but consistent) wage growth contributed to significant performance gains across all core commercial categories. As a result, the outlook for 2016 has PricewaterhouseCoopers and the Urban Land Institute stating that "the next 24 months look doggone good for real estate."

Golf Competes for Capital

So where does this leave the golf investment community? Turbulent times in equity markets typically ignite a flight to alternative investments which are considered more safe or stable, including hard assets such as real estate. America's economy is in good shape, still growing and more importantly, still hiring. Shockwaves throughout Wall Street are due mostly to internationally spawned headwinds, the restraints of which could impair U.S. economic momentum. Nonetheless, most economic indicators at home still point toward growth, and investor demand for commercial real estate in particular. International investors still see the U.S. as a safe haven – with all of this capital pouring into U.S. real estate, the golf industry should surely benefit as well.

Compressed yields and intensifying construction levels in primary commercial real estate categories (apartments, retail, office etc.) have pushed investors to consider a wider array of investment options. This has propelled increased capital toward secondary and tertiary markets, as well as alternative real estate categories (hospitality, golf, leisure etc.), which tend to trade at higher cap rates (as discussed in "Private Equity and the Leisure Properties Market" on Page 4).

Traditional Buyers Stuck in the Past

As a result, we increasingly see crossover buyers calling our firm to learn about the golf business, the opportunity to acquire golf assets, and the strategy to capture yield arbitrage outside of the crowded core asset classes. Favorable economic demand drivers and readily available capital have caused more investors to enter the golf airspace. Opportunities are not always easy to see, but with traditional golf buyers still stuck in the past looking for 1x gross multiple deals and REO property heists, a number of new players are capturing excellent cash flow at comparatively compelling yields. These new buyers often have a more creative approach. Jack Dillon of Golf Inc. Magazine put it well when he stated that "Opportunities are not always easy to see. They come masked as hard work, and lots of effort much of the time. This opportunity will also take hard work, but the opportunity I believe is very real."

Buyer Criteria

The U.S. real estate market is *dynamic*, and an ever-changing golf landscape has investors moving away from the value opportunities pre-2012 and toward the safety of consistent,

cash-flowing golf course assets. Inflows of new capital are now competing for fewer opportunities, pushing values to the top of the quality stack. Major players backed by private equity continue to pursue \$3M+ gross revenue deals in primary markets. Passion buyers still eye deals in the \$1M - \$2M tranche. And boutique buyers still look for geo-centric cluster acquisitions. Job numbers serve as reassurance that the U.S. expansion remains on solid ground. According to the fed, our downside economic risks relate mostly to the influence of bad things happening to the rest of the world. **Expect more buyers to compete for fewer deals in 2016, asset values to continue their push upwards, and keep an eye on capital outflows from foreign investment rushing away from problems abroad.** ◊

CRE Yields Compelling – Wide Range of Risk/Reward Options Driving Capital Flows

	Tier 1	Tier 2	Tier 3	National Average
Alternative Yields	0.3% (Money Market)	2.2% (10-Year Treasury)	5.5% (Baa Corporate Bonds)	
Apartment	4.2%	5.6%	7.1%	5.5%
Retail-ST	5.1%	6.1%	6.9%	6.2%
Self-Storage	6.0%	6.8%	7.8%	6.5%
Manufactured Housing	6.3%	7.0%	8.1%	7.0%
Seniors Housing	6.1%	7.0%	7.8%	7.0%
Office	5.8%	7.2%	7.9%	7.3%
Retail-MT	5.7%	7.3%	8.1%	7.3%
Industrial	6.0%	7.4%	8.7%	7.4%
Hospitality	6.7%	8.2%	9.2%	8.2%

As of December 26, 2015.
Sources: CoStar Group, Inc., Real Capital Analytics, Fidelity, Reserve Bank, Moody's Investors Service

CAPITAL MARKETS / COURSE FINANCING

By Steven Ekovich ◊ Steven.Ekovich@MarcusMillichap.com

The first interest rate rise in nine years, along with the Fed signaling 25 bps (basis points) quarterly increases, will have an impact on future golf property valuations. However, there doesn't appear to be any adverse effects on pricing today. Chinese stock and currency market gyrations, together with European stock declines, have added to global uncertainty and a push towards the safe haven of U.S. Treasuries and real estate. The latest decline in oil prices may also delay inflation to the central bank's two percent target. **So what do future interest rate increases mean for golf investors?**

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

In short, with China facing a recession, the high level of global terrorist activity, and the U.S. remaining the one constant for stability, more money should continue to flow into the U.S. This will keep values going up in golf, while the still low interest rate environment will benefit anyone wishing to finance a golf acquisition or to refinance. The still historically low cost of money allows for higher loan to values and/or lower loan payments. That translates to more cash flow after debt service and higher returns for investors. **As interest rates slowly increase, the value of all real estate (including golf courses) will decrease.** Because of debt coverage ratios (DCR), a property's EBITDA will not be able to support as high of loan to values. Similarly, higher mortgage payments translate into less cash flow and smaller returns, resulting in a lower valuation.

Who is currently lending in golf? Banks with and without SBA guarantees, Bridge Loan lenders, Private Equity, Insurance Companies and Hard Money Lenders. *Who is not lending in golf?* Conduits and National Lenders, who don't have golf divisions willing to lend on golf in any geography. However, every time we write this article, the financing market's stranglehold on the golf faucet seems to loosen a little more to increase the flow of golf financing. Lenders aren't about to finance everyone, but if you have the right asset, the experience as an operator, and the required debt coverage ratio, it will get done. ◊

Conventional Bank Loan:	Fixed Rate —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+ Variable Rate —Interest: Prime + 1.5-2% = 4.75% to 5.25%, Term: 10 yr., Amortization: 20-25yrs
SBA Guaranteed Loan 7A Program:	Interest: Prime + 1.5-2.75%, Points: 0%, Term: 25 yrs., Loan Size: Up to \$5M, Amortization: 25 years
Life Company:	Interest: 4.75-5.25%, Points: 1%, Term: 5, 10, 15 or yrs., Amortization: 15, 20 or 25 yrs., Loan Size: \$750K+, Land Collateral Value is Important
Bridge Loan:	Interest: 9-14% I/O, Term: 1-2 years, LTV: Up to 65%, Primary Markets & Cash-Flowing Assets
Hard Money:	Interest: 10-15% including Points, Term: 1-3 yrs., LTV: 50-60%, Usually Interest-Only
Private Equity:	Interest: 0%, Unleveraged IRR: 20%, Preferred Returns: 8.8-12%, LTV: 60-70%, Waterfall Structure: Deal-by-Deal on Profit Splits

Updated 1/15/16

STATE OF THE GOLF INVESTMENT MARKET

(CONT. FROM PG 1)

2015 Golf Course Sales Data

Note that while the overall trends have remained the same, we are constantly updating our database of golf course sales data. As a result, historical sales figures may differ between publications of this Research Report. The prior year, in this case 2014, is typically the most affected, as public records can delay the reporting of sales transactions for months. This means that since we published the 2014 Year in Review issue one year ago, we had added dozens of sales to our database from that time period, giving us a more accurate reflection of the market activity for the year. **Even with that new data, the trends we discussed at the time (higher average/median price) haven't changed.** As we compare the 2015 data to the updated information from 2014, keep in mind that while the exact figures for 2015 will change slightly in the future, the overall trends (higher average/median price) should remain the same.

As you can see from the graph on page one, 2015 has continued the steady improvement in golf course values we've experienced since bottoming out in 2012. Average price for

golf course sales increased over 7.5% between 2015 and 2014 – comparable to the 10% growth experienced between 2014 and 2013. It's worth noting that **the average price topped \$5,000,000 for the first time since 2009.** Meanwhile, median price increased as well – up 7.33% over 2014 and more than 20% total since 2012. Taking into account the delay in reporting, 2015 appears to have sales velocity somewhere between the 2014 figure of 181 transactions and the 2013 figure of 145. The graph on page one clearly shows that while the current golf real estate market is still below pre-recession figures, it is trending upward at what appears to be a sustainable rate. Based on that graph, it appears that golf has room to continue growing within this market cycle.

Golf is Returning to “Normal”

Economic growth (as measured by GDP) has been steady at approximately 2.2% per year over the past five years. Most prominently, the addition of approximately 200,000 jobs per month in 2015 has reduced the labor force slack that lingered since the beginning of the recovery. The accompanying

STATE OF THE GOLF INVESTMENT MARKET

(CONT. FROM PG 6)

declines in the unemployment and under-employment rates remain primary justifications cited by the central bank for a rate hike. Forward-looking employment indicators, including

a record level of job openings and high CEO confidence, point to further gains in staffing in the near term and intensifying inflationary pressure, causing wages to rise.

For golf owners, this is both good and bad news. Over the last

nine years, golf course salaries have been virtually stagnant – as we continue to lower unemployment, expect the cost of salaries/wages for golf employees to creep up, increasing payroll expenses. Total U.S. payrolls across all industries currently exceed the prior high by roughly 4 million workers and job growth has broadened to encompass most of the country, not just major cities. The number of full-time workers is also hovering near its pre-downturn high. The good news is expanding payrolls, solid consumption growth, and housing market momentum all set the stage for higher consumer spending (including discretionary spending), meaning more money can and will be spent on golf.

We believe it is time to declare **we have entered a more normalized cycle in the golf industry.** Cash flow and growing EBITDAs will once again become the norm, as opposed to major distress and negative cash flow assets. With positive forecasts for employment and consumer spending, golf operations should benefit from higher demand, leading to revenue growth which will more than offset any increased payroll expenses. There are currently buyers entering the golf airspace that have never before invested in golf. These investors are chasing higher yields relative to alternative investments such as stocks, bonds, or core real estate assets. And while they are looking for good deals, they will buy golf assets that the traditional investors won't. Healthy financial operations combined with increased investor demand for cash-flowing deals will result in the new "normal" for the golf industry. Refer to articles entitled "Private Equity and the Leisure Properties Market" and "Buyer Sentiment—2015 Year in Review" on pages four and five for more on this subject.

Fed Raising Interest Rates

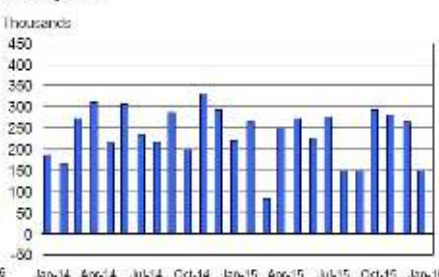
Against this backdrop of growing employment, the Federal Reserve raised its benchmark rate for the first time in more than nine years. The central bankers will deliberately raise the benchmark rate slowly and in small, measured increments of 25 bps to ensure that their actions will not disrupt domestic

economic growth and further rattle unstable global equity markets. The increase in the Fed Funds Rate has raised questions among both golf course and all commercial real

Chart 1. Unemployment rate, seasonally adjusted, January 2014 – January 2016



Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, January 2014 – January 2016



estate owners and investors regarding its potential effect on borrowing costs, spreads between rates, and asset valuations. In the Special Capital Markets Report we sent in early December (the day the Fed announced its

increase in the discount rate), we discussed the effect of the interest rate increase on golf assets.

You may ask, "How does the increase in rates actually affect the value of my property?" As interest rates come down, there is more cash flow after debt service, leading to higher cash-on-cash returns. These higher returns result in higher property values. The opposite holds true as rates increase—property values decline due to smaller returns. While we face rising interest rates in today's market, we can take solace in the fact that this trend will occur gradually over time.

For every 100 bps (1.0%) increase to interest rates, investment property values decrease by approximately 9%

Conclusion

It's becoming more and more clear that the golf market is stabilizing, with a healthy U.S. economy that will continue to affect golf in positive

ways. Increased employment and earnings have caused an increase to consumer spending, with some of that bound to go towards golf. Improved operating fundamentals, increased demand from a growing economy, and reduced competition due to course closures all lead to expanding revenue and EBITDA for golf course owners over time. This improved performance has meant fewer distressed properties in the market and more buyers from outside of the industry, driving property values higher. The increase in asset values is supported by three years of consecutive growth in average and median golf course sales pricing. As this happens, traditional buyers will need to adjust if they want to acquire new assets and compete with the new wave of investors.

The 25 bps quarterly increases to interest rates should have a negligible immediate effect on golf values, but the cumulative effect over time may significantly lower golf property valuations. With that said, rising EBITDA and compressed yield requirements could mitigate the expected decrease in values from interest rates hikes moving forward. In other words, if prices do remain level or continue to increase, it means that buyers will be paying the same amount (or more) for less cash flow in a couple of years. ♦

2015 SALES ACTIVITY — THE \$1M-\$10M INVESTMENT TRANCHE

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The below analysis focuses specifically in the \$1M - \$10M investment tranche – generally considered the most important subset of golf-specific transaction activity. These values are driven primarily by property fundamentals specific to the business of golf, and therefore most telling towards overall investor sentiment. All sales figures previously presented in the “State of the Golf Investment Market” are derived from analysis of a larger universe of golf transactions, those between \$250K—\$75M, and therefore may be different.

As discussed in the State of the Golf Investment Market article, we have seen an increase to both the median and average price of golf course sales in 2015. As we further parse this data to focus on only sales in the \$1M - \$10M investment tranche, some similar patterns emerge. Last issue, this article focused on the effects of 2014’s huge portfolio transactions and the “Portfolio Hangover Effect” experienced in their aftermath.

Through the first half of 2015, there were clear effects from 2014’s unusually high number of large portfolio sales, which we labeled the “Portfolio Hangover Effect”. This included fewer sales in the \$1M - \$10M sales tranche, as these deals were already sold within the 2014 portfolio deals. The second half of 2015 has helped to make up for the Portfolio Hangover effect we saw through the first half of the year, with more sales reported in total and a higher proportion within the \$1M - \$10M investment tranche (69%). As a whole, the data from 2015 shows that the golf course sales market continues to improve and that we are gradually returning to a normalized state after years of distressed sales and 2014’s mega-transactions.

In 2015, the average price of golf course sales within the \$1M - \$10M investment tranche was \$3,641,725, or a 13.5% increase over the 2014 value of \$3,209,076. Median price was nearly unchanged, showing a 1.8% decrease between 2015 and 2014 (\$2,700,000 vs \$2,750,000). Accounting for the delay in reporting of golf course sales, velocity (i.e. the number of sales transactions) appears stable. Please note that we are continually updating our database of sales data, leading to differences in the exact figures being published between reports. With that said, the same overall data trends (e.g. rising average price) have traditionally held true after accounting for the updated transactional data. ◊

RECENT SALES										
Course Name	Sale Price	Sale Date	Market	State	# Holes	Acres	Club Type	Gross Revenue - EBITDA		
The Club at Carlton Woods	\$ 29,500,000	11/10/2015	The Woodlands	TX	36	227	Private	Confidential		
President Country Club	\$ 26,000,000	8/27/2015	West Palm Beach	FL	18	137	Private	Confidential		
Miliani Golf Club	\$ 20,500,000	11/5/2015	Oahu	HI	18	165	Daily Fee	Confidential		
Winnepesaukee Country Club	\$ 16,210,000	7/22/2015	Minneapolis MSA	MN	18	117	Private	Confidential		
Hudson Valley Resort and Spa	\$ 15,800,000	1/9/2015	Middletown	NY	18	306	Resort	Confidential		
Kapalaia Village Center	\$ 12,000,000	8/15/2015	Lahaina	HI	36	100	Resort	Confidential		
Rodgers Park Golf and Country Club	\$ 11,500,000	8/1/2015	Hollister	CA	36	157	Private	Confidential		
Golf Club at Echo Falls	\$ 10,000,000	11/5/2015	Everett	WA	18	155	Daily Fee	Confidential		
Angelos National Golf Club	\$ 8,800,000	7/16/2015	Sunland	CA	18	165	Semi-Private	Confidential		
The Bridges Golf Club	\$ 8,500,000	12/21/2015	San Ramon	CA	18	195	Private	Confidential		
Riviera Country Club	\$ 7,200,000	8/23/2015	Dublin	OH	18	165	Private	Confidential		
Paradise Preserve	\$ 7,000,000	10/23/2015	North Ft Myers	FL	18	275	Daily Fee	Confidential		
Great River Golf Course	\$ 6,000,000	10/30/2015	Milford	CT	18	150	Daily Fee	Confidential		
Maple Lane Golf Course	\$ 4,920,000	8/12/2015	Detroit MSA	MI	18	296	Daily Fee	Confidential		
Indian Springs Golf Club	\$ 4,300,000	10/5/2015	Indio	CA	18	124	Daily Fee	Confidential		
Hastings Country Club	\$ 3,800,000	11/13/2015	Hastings	MN	18	200	Private	Confidential		
Legacy Golf Club	\$ 3,400,000	11/18/2015	Bradenton	FL	18	200	Daily Fee	Confidential		
Rosedale Golf And Tennis Club	\$ 2,800,000	10/1/2015	Bradenton	CA	18	166	Daily Fee	Confidential		
Dove Valley Ranch Golf Club	\$ 2,700,000	7/24/2015	Phoenix	CA	18	165	Daily Fee	Confidential		
Bernardo Heights Golf & Country Club	\$ 2,700,000	12/18/2015	San Diego	CA	18	161	Private	Confidential		
Fort Myers Beach Golf Club	\$ 2,400,000	12/1/2015	Ft Myers	FL	18	56	Daily Fee	Confidential		
Magnolia Greens Golf Course	\$ 2,310,000	7/31/2015	Leland	NC	27	260	Daily Fee	Confidential		
Highem Hills Golf Club	\$ 2,190,000	7/23/2015	Kalamazoo	MI	27	230	Daily Fee	Confidential		
Riverwatch Golf Club	\$ 2,050,000	9/1/2015	Sparta	TN	18	200	Daily Fee	Confidential		
Blinnagle Golf Club	\$ 2,000,000	10/5/2015	Colorado Springs	CO	18	104	Daily Fee	Confidential		
The Evergreen Club	\$ 2,000,000	10/30/2015	Palm City	FL	18	146	Private	Confidential		
The Bog Golf Course	\$ 1,992,000	7/2/2015	Milwaukee MSA	WI	18	297	Private	Confidential		
St Denis Golf Course	\$ 1,750,000	12/4/2015	Cleveland	OH	18	200	Daily Fee	Confidential		
Plum Tree National Golf Course	\$ 1,500,000	8/4/2015	Harvard	IL	18	460	Daily Fee	Confidential		
Palmbrook Country Club	\$ 1,500,000	8/24/2015	Sun City	AZ	18	150	Private	Confidential		
Lac La Belle Country Club	\$ 1,300,000	7/16/2015	Milwaukee MSA	WI	18	140	Private	Confidential		
Grand Reserve Golf Club	\$ 1,300,000	9/4/2015	Bunnell	FL	18	447	Daily Fee	Confidential		
Mesa del Sol Golf Course	\$ 1,300,000	9/4/2015	Yuma	AZ	18	134	Daily Fee	Confidential		
Glen Flora Country Club	\$ 1,300,000	11/19/2015	Chicago MSA	IL	18	118	Private	Confidential		
West Orange Country Club	\$ 1,265,000	7/15/2015	Winter Garden	FL	18	156	Private	Confidential		
Woodmoor Pines Country Club	\$ 1,250,000	8/14/2015	Monument	CO	18	143	Private	Confidential		
The Links at Challenged	\$ 1,200,000	12/11/2015	Mount Airy	MD	18	149	Daily Fee	Confidential		
Deer Park Country Club	\$ 850,000	10/31/2015	Ogleby	IL	18	110	Private	Confidential		
Jordan Point Golf Club	\$ 825,000	8/25/2015	Prince George	VA	18	154	Daily Fee	Confidential		
Coyote Creek Golf Club	\$ 752,000	10/30/2015	Bartonville	IL	18	135	Daily Fee	Confidential		
Turquoise Valley Golf	\$ 660,000	8/27/2015	Nasco	AZ	18	192	Daily Fee	Confidential		
Pagosa Springs Golf Club	\$ 650,000	7/15/2015	Pagosa Springs	CO	27	100	Daily Fee	Confidential		
Bay Pointe Golf Club	\$ 600,000	7/5/2015	Seminole	FL	18	42	Daily Fee	Confidential		

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