STATE OF THE GOLF INVESTMENT MARKET
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In 2012, based on a number of market indicators, we predicted that the market had bottomed and a turnaround in golf asset values was imminent. We were subsequently questioned (and even ridiculed) by some for that forecast. However, both the average and median sales price of golf courses increased in 2013 for the first time in seven years, by 56% and 11% respectively. Now, two years removed from our prediction, market evidence suggests we were correct in our assessments. While only time will tell if the current correction is sustainable, it is our belief that it will be.

After the 2013 numbers were reported, not all industry owners, operators and golf industry publications were ready to agree with the notion that we had turned the corner. Even though utilization was up (according to the Pellucid Report) and Performance Trak stated that revenue was up (despite significantly fewer playable days), many industry experts still believed that we were in the same year-over-year slide experienced between 2006 and 2012. For the remaining skeptics, is it a coincidence that in 2014 the golf industry has had mega transactions that have not been seen in decades? The American Portfolio was purchased by Fortress Investments, the CNL portfolio was purchased by Arcis Equity and our team is involved in another major (confidential) portfolio sale. In addition, ClubCorp went public, thereby providing more capital for both acquisitions and capital expenditure needs, Heritage recapitalized with a new equity firm and others are following suit. If those portfolio buyers, course operators and private equity partners thought that the golf market would not recover, would they have made these investments?

Marcus & Millichap has been studying investors’ behavior for 45 years and our research strongly supports the notion that investors are optimistic about the future. We have personally witnessed this increased buyer interest, as the NG&RPG sold 11 golf courses in the first half of 2014 and looks to outperform that number in the second half of the year.

As the recession depressed golf asset values, many portfolios and individual properties were upside down (debt was significantly higher than the market asset value). The write-downs of the debt on portfolio acquisitions reset asset values to market values. Investors now have a lower basis in their properties, which will allow for a more healthy return on capital for new owners. This reset is good for golf and for the new owners of these assets, as well as the golfing public. When golf assets are upside down, owners typically spend much less on the property. The recapitalization that occurred (with both the portfolio sales and other major transactions previously mentioned) will make resources available for these clubs that will take them into the next decade and beyond of sustainable golf. This, in turn, will help the asset’s value grow in the future and benefit golfers, members and the staff. But why staff?

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(CONT. FROM PG 1)

When golf course owners are capital constrained, they cut staff and staff hours, hire cheaper labor, etc. With new renovations, other capital projects and better course conditioning, clubs can hire more workers to complete these projects and offer a higher level of service to guests. Golf owners should be able to hire more workers and pay better wages as better course conditions and updated amenities should attract more revenue dollars.

NG&RPG Golf Investor Sentiment Survey
Whether you are a major portfolio buyer or seller, or a firm buying golf assets one at a time, it is important to have a sense of the future. How we make these predictions is based on proprietary trip wires that we have both borrowed from our research department regarding traditional commercial real estate and have developed from our experience working in the golf air-space. As a professional golf brokerage company, it is important to provide our clients with both prescient and predictive information that will allow them to make the best business decisions. With that in mind, we published our inaugural Golf Investor Sentiment Survey earlier this year. It was conceived to measure the overall health of the investment market from an investor’s perspective, as well as to derive some grounded data never before asked of the golf industry. If you want research on historical golf industry operations, the NGF and the NGCOA are as good as any of the industry’s research providers. In addition, the Pellucid Perspective also provides data on weather and its effects on golf operations. However, we look to fill the void in the investment and transactional side of the golf business with ever-growing research initiatives for our client’s benefit.

The Golf & Resort Investment Report (which we have been publishing for years) is used by major insurance companies, banks, equity funds, management companies, trade magazines, national newspapers and even by golf owners looking to raise money for golf course syndications. Despite the success of this report, there were still some questions that needed to be answered, leading to the creation of the new “Golf Investor Sentiment Survey”. We sent a four-page report of the survey results to our database of clients, but as a bonus to those who participated and provided their contact information, we also included a detailed breakdown of each question based on all participant responses. For more information on the 2014 Golf Investor Survey Report, refer to the follow-up article on page 8.

Alternative Investments & Buyer Sentiment
The conclusion of the 2014 Golf Investor Sentiment Survey is that most respondents believe what we have been asserting for two years: the golf investment market has turned the corner, much like other commercial real estate assets did 2-3 years ago. As apartment cap rates are in the 5% range, retail 6-7% and office 7-8%, golf assets with cash flowing yields will look attractive to traditional commercial real estate investors and equity providers. These potential “crossover buyers” will chase yield and drive up values for traditional golf course buyers. This is especially true given the volatility of the stock market and the low yields offered by bonds.

“Crossover” and non-traditional golf buyers chasing yield often look to utilize third-party management companies to oversee this unique business operation. Refer to the article below to learn what to look for when choosing a management firm for your property.

Finally, with financing loosening up and low interest rates, the ability to leverage cash flowing golf assets should also propel golf values higher.

Sales Activity
The number of golf course sales through the first half of 2014 is up compared to 2013 figures, not including the major portfolio sales and funding previously discussed. Including these major transactions would dramatically increase velocity (the number of sales) to unprecedented levels.

Focusing only on the $1M-$10M investment tranche, velocity, average and median price are all up. (Refer to the article entitled “2014 Sales Activity—The $1M-$10M Investment Tranche” for more details.) Looking at all transactions (between $250K and $75M), the average price is nearly unchanged, while both the median price (+19%) and number of transactions (+28%) are up considerably. If this trend continues, it may be proof that more buyers are and will continue fighting over the few remaining REO and post-foreclosure assets, while more private sellers should slowly begin to enter the market.

CAN THIRD-PARTY MANAGEMENT BENEFIT YOUR GOLF COURSE?

According to National Golf Foundation (NGF) third-party operators were managing 1,472 facilities in 2001. By 2014, that number had grown by 53% to 2,245. The NGF reports that since 2008, golf courses managed by third parties has grown from 11% of the total market to 15%. Why are more golf course owners relying on third party operators to manage their business? Or is the question why are more owners not putting their golf courses into the hands of professional management?

There was a time when nearly all golf courses were operated...
CAN THIRD-PARTY MANAGEMENT BENEFIT YOUR GOLF COURSE?
(CONT. FROM PG 2)

as “not for profit”. Golf for the masses was primarily made available at municipally owned and operated courses. Meanwhile, private equity clubs served as playgrounds for the wealthy. During the past few decades, the number and quality of public access golf courses ballooned as developers, investors, owners and even municipalities became determined to operate golf courses “for profit” and the concept of “country club for a day” was born.

In recent years, shrinking numbers of golfers in the market has resulted in a decline in rounds and revenue. Increased competition, together with enhanced investor demands for returns on their investment, has raised the bar with respect to the level of sophistication in golf course management. Golf course operators have transitioned from inexperienced parks and recreation employees and private club boards to well-trained business professionals. Club Managers, PGA Professionals, and certified Golf Course Superintendents now form the management teams at most golf courses providing expertise in all areas of the operation including golf operations, customer service, course conditioning, marketing, data capture and financial reporting.

Profitability is contingent upon maximizing all revenue sources, while controlling rising operating expenses. Single course owners often experience a competitive disadvantage when compared to multi-course operators. When an owner hires a GM, Pro and Superintendent, he is counting on them, their knowledge and experience in concert with their circle of industry contacts to effectively manage the operation. When an owner retains a third-party management firm, he is placing his asset in the hands of a “team” of industry professionals. If an owner’s current structure is not delivering the desired results, third-party management should be considered.

Management companies offer resources and benefits typically unavailable to single-course owners:

- Experienced Department Heads (Golf, Maintenance, Food & Beverage)
- Supervisory Support for Field Personnel
- Staff Training Programs
- Purchasing Power via Discounts Provided though National Account Programs
- Cross-Marketing Opportunities
- Centralized Accounting Function
- Group Health Care and Insurance Benefits
- Marketing, Public Relations and Advertising Programing
- Economies of Scale

For Owners contemplating hiring third-party management, several key factors weigh into the decision:

- Value Provided by 3rd-Party Manager
- “Vision” for the Course’s Future
- Amount of Control Desired

- Level of In-House Expertise
- Supplemental Benefits
- Familiarity with Local Market

Third-party management may not be the answer for every owner, but it can be a godsend in the right situation. Owners who prefer to be actively involved with the day-to-day operation are probably not the best candidates for third-party management. Courses with a history of low gross revenue may not be able to afford the fees commanded by a third-party operator. A good rule of thumb when considering hiring a third-party manager is, “If the additional revenue and purchase savings provided by the management company cannot, at a minimum, cover the cost of the management fees, then you may want to think twice about hiring them.”

We have seen increased buyer interest from investment groups seeking to add golf to their portfolio. These are typically passive investors who own other classes of real estate ranging from office buildings and retail centers to apartments and hotels. They have found that third-party management can provide a seamless transition of the operation and the opportunity to quickly achieve stabilization. For a new or inexperienced owner, third-party management can provide a solution to “hit the ground running” by implementing operating procedures and service standards which have been proven successful.

A good management company provides the opportunity for the owner to give himself a promotion from managing the property to managing the management company. In this role, the owner reviews and approves the work of the operator. Working documents typically provided by the management company include:

- Business Plan
- Marketing Plan
- Agronomic Plan
- Manpower Plan
- Budget
- Capital Improvement Plan
- Financial and StatisticalReports
- Cross-Marketing Opportunities
- Centralized Accounting Function
- Group Health Care and Insurance Benefits
- Marketing, Public Relations and Advertising Programing
- Economies of Scale

At the end of the day, golf courses that are well-positioned in the market, deliver superior playing conditions, provide excellent customer service and offer a good value will continue to succeed. Retaining an experienced, reputable third-party management firm can provide a good alternative for an owner looking to separate his course from the competition.

No two management companies are alike. Some operate on a national platform, while others are content to operate regionally. Several take pride in their ability to turn a profit operating private clubs, while others provide a strong daily fee platform. An owner considering third-party managers should always verify references from owners of similar properties. For many owners, selecting the right third-party management company is imperative to being successful.
Since the “Great Recession” of recent years, most golf buyer interest has been in distressed assets with significant upside to add value to the property through improved financial operations. For several years, the ideal situation for investors would be: a Bank REO asset (post-foreclosure) with a signature course architect in a major metropolitan market. These distressed courses often generated negative or near-break-even cash flow (NOI/EBITDA) while under bank ownership, but also featured significant upside through cutting expenses and modest revenue growth under golf-centric ownership. This would allow investors to significantly increase the property value in a short period of time, leading to a greater overall return on investment. Unfortunately for today’s buyers, these types of deals are becoming few and far between. Major national lenders such as Textron or Capmark have already liquidated their golf assets, while improving market conditions and operating fundamentals mean less distressed assets becoming available for sale. As more golf assets begin to generate increased positive cash flow, how will buyers’ acquisition criteria and valuation methodology change?

Golf Asset Valuation – GRM VS. EBITDA Multiple

For the past five years, the majority of golf course valuations have been based on the metric of Gross Revenue Multiples (GRM), or the purchase price divided by the annual gross revenue. This valuation method grew in popularity due to the high number of distressed assets generating either limited or negative net operating income (NOI/EBITDA). Before the market became flooded with these distressed assets, the majority of valuations were based on EBITDA Multiples (or Capitalization Rates, the inverse of an EBITDA Multiple). The graph below illustrates this shift.

As you can see from the adjacent graph, GRMs (in blue) varied greatly prior to late 2008, but stabilized at that point between 1.0x and 1.5x. Alternatively, EBITDA Multiples (in orange) were stable around 10.0x prior to 2009, and have since been all over the chart, including both positive and negative figures. As the golf market continues to improve, more courses have returned to generating positive cash flow, a trend which should continue moving forward. So how will potential investors address this shift from “distressed” to “stabilized” assets?

### 2014 Golf Investor Sentiment Survey

As discussed in the article entitled Follow Up – NG&RPG 2014 Golf Investor Sentiment Survey, we introduced a new survey and accompanying report in early 2014. Go to our website or click [THIS LINK](#) to download a copy of the full report. A number of the questions focused on which valuation metrics investors are using, how they rank their acquisition criteria, and where they envision the golf investment market heading over the next 12 months. Below is a brief summary of these results (Rankings based on average weighted scores from ALL participant responses):

**Priority of Valuation Metrics Used**

1) EBITDA Multiple / Cap Rate
2) GRM (Gross Revenue Multiple)
3) IRR (Internal Rate of Return)
4) C/C % (Cash-on-Cash Return)

**Priority of Acquisition Criteria**

1) Present Cash Flow
2) Capital Appreciation - CapEx or Management
3) Capital Appreciation - Market Conditions
4) Additional Development Component
5) Alternative Land Uses

**Market Expectations**

- Increasing EBITDA
- Public & Private Golf Improving
- Higher Property Values
- More Financing Available
- More Buyers than Sellers

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**Buyer Sentiment—1st Half 2014**

(Cont. from PG 4)

It is worth noting that EBITDA Multiple is the most important valuation metric being used, while the present cash flow of the property is considered the most significant acquisition criteria for investors. Furthermore, 86% of investors believed that the EBITDA generated by their golf asset(s) will increase over the next twelve months. There is a strong belief among investors that both public and private golf should improve short term, while property values continue to increase and traditional financing becomes more available. Below are several recent transactions that demonstrate the level of confidence that today’s buyers have in the future of the golf investment industry.

**Major Portfolio Transactions & Equity Funding**

- **Arcis Equity to Buy CNL Portfolio**
  - 48 Properties / $320m
- **Fortress to Buy American Golf**
  - Approximately 100 Courses
- **ClubCorp IPO & Acquisitions**
  - $252m IPO
  - $1.11b Market Cap
- **Heritage Secures Capital Source**
  - Tower Three Partners (PE Firm)
  - Details Confidential

**Who is Currently Buying?**

Increased financing availability and low interest rates (combined with more positive cash flow deals for sale) means lower barriers to entry and higher cash-on-cash returns. Many (cash flowing) courses have received loan quotes of between 65% and 75% LTV, or required down payments of only 25% - 35% of the purchase price. Assuming a $2,000,000 property for sale, there are a lot more Buyers with $500,000 to invest than the full $2,000,000. Increased financing availability and more stabilized deals for sale, as well as a number of other factors, should draw both new and increased interest from a number of buyer types. While demand from management companies, private equity firms, existing owners and “passion” buyers has remained steady, the following investor types have shown increased interest in 2014:

**Crossover Buyers**

- There is a large spread between Cap Rates for golf assets versus traditional commercial real estate, as discussed in the article entitled “Golf Investing in 2014—Why Golf and Why Now?”.
- These investors are likely to begin to diversify between product types and seek out the higher returns offered by golf, especially as traditional bank financing becomes more readily available.

**International Investors**

- With the state of the Chinese real estate market, arbitrage opportunities, the EB-5 Immigration Program and an increased interest in golf, Chinese investors are the most active of the international buyers.
- Strong interest in resort markets (Southern California, Florida, Myrtle Beach, etc.) and development opportunities.
- While China is the most significant, we have also seen significant interest from Korea, England and Canada.

**Master Planned Communities/ Development Opportunities**

- Residential home sales have improved dramatically in recent years, leading to increased buyer interest in semi-completed Master Planned Communities.
- Many buyers are also seeking courses with additional development acreage, or an opportunity to redevelop a portion of the existing course (e.g. going from 36 holes to 18 holes with either residential, healthcare, hospitality or mixed-use development).
- Despite concerns about the golf industry, golf course communities protect home values and the variety of amenities offered (pool, fitness, F&B, etc.) appeal to non-golfers in the family.

**Where is the Industry Heading?**

With fewer (high quality) distressed golf assets available for sale, Buyers will eventually shift their focus back towards properties with stabilized operations. The truth is that many Buyers “missed the boat” over the past five years, and we are already beyond the bottom of the market cycle. There will likely be an adjustment period where Buyers’ expectations take time to conform to the market. Gradually, instead of “turnaround” deals, investors will seek golf courses which fit their geographic profile and will allow them to establish greater economies of scale and reciprocity between clubs. While post-acquisition upside will still be desirable, the lack of distressed opportunities will diminish its significance – buyers will instead direct their attention towards in-place cash flow.

Valuations should return to a focus on EBITDA Multiples (or CAP Rates), mirroring the change between 2008 and 2009 demonstrated by the GRM and EBITDA X graphs on the previous page. This change will occur gradually, as many investors will have a “GRM Ceiling” that they will not exceed, despite the amount of positive EBITDA being generated. With that said, this ceiling will continue to grow as more buyers compete for fewer assets. For buyers, one thing is certain—there are a lot less “steals” to go around.

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List of Exclusive Offerings Now Available

THE CLIFFS RESORT
18-Hole Course, Marina, Resort & Development Opportunity
Graford, TX | $11,500,000
Lead Agent: Christopher Karamitsos  Broker of Record: Timothy Speck

CONFIDENTIAL PRIVATE COUNTRY CLUB
18-Hole Private Club
Oklahoma | $9,975,000
Lead Agent: Steven M. Ekovich  Broker of Record: Paul Mann

IMPERIAL LAKEWOOD GOLF CLUB
18-Hole Daily Fee Club & Development Opportunity
Tampa, FL MSA | $6,500,000
Lead Agent: Terence M. Vanek

GRAYSBURG HILLS GOLF COURSE
27-Hole Daily Fee Club & Development Opportunity
Tri Cities Region, TN | $3,475,000
Lead Agent: Terence M. Vanek  Broker of Record: Anne Williams

THE CLUB AT MORGAN HILL
18-Hole Daily Fee Club
Easton, PA | $1,750,000
Lead Agent: Robert Waldron  Broker of Record: Mark Taylor

CONFIDENTIAL SEMI-PRIVATE CLUB
18-Hole Semi-Private Club
New Jersey | $6,700,000
Lead Agent: Steven M. Ekovich  Broker of Record: Michael Fasano
TO VIEW ALL CURRENT LISTINGS, COME VISIT US AT: www.NationalGolfGroup.com

**BIG FISH GOLF CLUB**
18-Hole Daily Fee Club & 10 Residential Lots
Hayward, WI | $1,700,000
Lead Agent: Raymond Demby | Broker of Record: Matt Fitzgerald

**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 | $2,950,000
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 | $1,300,000
Lead Agent: Matthew Putnam

**CONFIDENTIAL DAILY FEE CLUB**
18-Hole Daily Fee Club
Washington D.C. MSA | $6,500,000
Lead Agent: Christopher Karamitsos | Broker of Record: Bryn Merrey

UNDER CONTRACT

Actual Property NOT Shown
Interest rates remain historically low, as the 10-year Treasury yield stands at 2.47%. Inflationary fears were temporarily put to rest by a government report showing consumer prices rose 0.3% in June and 0.4% in May. The slow growth in prices is seen as an indication that there is room for significant economic expansion without putting upward pressure on interest rates. This comes as the International Monetary Fund (IMF) reduced its growth forecast for the United States this year to 1.7% based on the severe contraction that occurred in the first quarter. In June, the IMF had predicted that the economy would grow by 2% annually. So what do stable interest rates mean for golf investors?

In short, a lower interest-rate environment will benefit anyone wishing to finance or refinance a golf property. The low cost of money will allow more EBITDA to be available to service debt, which translates to higher loan to values and overall lower payments. Conversely, if interest rates increase, the value of all real estate (including golf courses) would decrease because the property’s EBITDA would not be able to cover as much debt service. Loan to values would decrease in this situation, which would result in golf value depreciation.

When will rates go up is an open question, but the consensus is that U.S. Treasury yields and rates on credit cards, mortgages, auto 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. However, every time we write this article, the financing market’s avoidance of the golf industry seems to loosen a little more to increase the flow of golf financing. Lenders aren’t ready 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 client we recently sold several courses to currently has three lenders chasing them to finance their acquisitions. That is right! I did not say the golf owner was chasing the lender, there are three lenders chasing him. Other clients have financed purchases with the SBA 7A program, while others obtained traditional financing through local lenders. With that said, most of our transactions this year have been financed with private equity.

The one common thread with all lenders 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, must have cash flow and they look to the underlying land value more than other lenders. Bridge loans need to have a yield the lender wants. Hard money loans for non-stabilized deals have quick turnaround times, but also 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. This relationship is typically not about one transaction—it usually starts before the asset is located and is for multiple purchases over time. For help acquiring financing for a golf property, contact us and we can refer you to the right lender.

### Golf Investing in 2014—Why Golf & Why Now?

Since the founding the National Golf and Resort Properties Group in 2008, the golf investment market has continued to evolve. The landscape of golf investment has changed from purchases of distressed, turnaround operations towards cash flowing, stabilized assets. The presence of these stabilized assets has started a movement in golf course valuation back towards capitalization rates (or the inverse, EBITDA multiples), rather than the gross revenue multiples golf investors turned to during the downturn for break even and distressed properties. As the market shifts to more golf courses with stabilized cash flow, properties should once again be purchased based on cap rates. As such, these assets can more readily be compared to other common types of alternative investments. This presents a difficult decision for many investors, as they try to balance risk versus reward and choose whether to invest in various commercial real estate assets, a real estate investment trust (REIT), stocks or bonds.

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Golf Investing in 2014—Why Golf & Why Now? (Cont. from Pg 6)

Commercial Real Estate

When comparing various commercial real estate product types, there are factors to consider such as yield, the opportunity to improve yield and the level of owner involvement. We reviewed the latest research reports published by Marcus & Millichap and Real Capital Analytics for other commercial real estate asset classes, which reported the following market cap rates:

- Stabilized golf assets with no deferred maintenance trading between 9.5% (high-end) and 14% (lower-end), with respect to location, demographics, upside, etc.
- Apartment cap rates are approximately 6% for the industry.
- Retail/net leased properties vary depending on the type of tenant (i.e. casual dining, drugstores, quick service) and ranges from the low 4’s up to 7%.
- Offices report an average cap rate of 7.2% in primary markets.
- Below is a chart provided by Real Capital Analytics showing the average cap rates for the entire U.S. broken down by type and recorded each fiscal quarter (Q2 2014).

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<th>Quarterly Cap Rates</th>
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<td>Hotel</td>
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Not only does golf offer a larger return than other classes of commercial real estate, but golf course ownership offers a level of flexibility and control that these other product types simply do not. Furthermore, golf course ownership allows owners to avoid many of the headaches and issues that come with these other types of assets. Apartments, for example require significant capital expenditures to renovate units and support charging higher rates to grow revenue and NOI/EBITDA. Additionally, apartment ownership involves rent collection and, depending on location, can expose owners to things such as rent control, rough neighborhoods and drug or violence problems. Retail/net leased properties expose owners to fixed rents for the life of the lease, which may prevent owners from collecting market rents. Furthermore, in small strip centers comprised of four or five tenants, the loss of one tenant could eliminate 20% to 25% of gross collections.

Finally, office buildings can be particularly tricky, as they are most directly tied to the health of the economy due to the expansion and recession of the business landscape. Also, with occupancy anywhere from 60% to 95% depending on the market, there can be a significant amount of “wasted space”. There are also high costs in regards to tenant improvements ($10 - $15 per square foot), leasing commissions, concessions and a high difficulty of attracting new tenants, as changing office locations can lead to high transfer costs such as reprinting stationary, business cards, moving and the time spent to complete these tasks.

Unlike the aforementioned asset classes, golf course ownership affords owners an alternative way to improve revenue and NOI/EBITDA beyond capital expenditure projects and increasing rates. Better marketing, customer service, tee sheet utilization, pro shop stocking/inventory or a new F&B menu can grow revenue without the need for capital expenditures. With more flexibility in operating expenses, improved operational efficiency can offer golf course owners better margins, leading to growth in NOI/EBITDA.

Real Estate Investment Trusts (REITs)

Many investors who look to invest in real estate have historically turned to real estate investment trusts. Investors have been drawn to this sector to diversify risk in their portfolios and to capture the high dividend yields provided by these investments. These high yields result from U.S. law, which states that REITs are required to distribute 90% of their annual taxable income in the form of dividends to their shareholders annually. While REITs have been one of the hottest sectors in the stock market this year due to the unexpected decline in long-term interest rates, the FTSE NAREIT All REITs (an index that covers all U.S. REITs and publicly-traded real estate companies) returned approximately 7% in 2013. With REITs up more than twice that amount this year, they appear to be an enticing investment. However, with these returns come risk due to the sensitivity REITs have to interest rates. Due to their position in the market as dividend-yield investments, prices will fall as rates begin to rise. Also, mortgage backed securities (which are often held by REITs) require being marked to the market when interest rates begin to go up, which leads to losses on these assets. Finally, unlike private real estate ownership, investors have virtually no operational control of the properties themselves.

Stocks & Bonds

In 2013, we saw incredible growth in the stock market. The bears on Wall Street continue to predict a market correction and although we have seen hiccups of valuations regressing to more defensible levels, the S&P 500 continues to climb to new all-time highs. From 2004-2013 the geometric mean (which is used for calculating averages of percentages) was 7.34% for the S&P 500. Based on this, the return of the market is more than 2% below the bottom of the range of cap rates for
Golf Investing in 2014—Why Golf & Why Now? (Cont. from pg 7)

stabilized golf assets. Again, the lack of control leaves stock market investors with a wait-and-see approach, rather than an active role in increasing the value of their investment.

Investors looking for low risk often turn to treasury bills and bonds to secure their money and earn a small return on their investment. Again looking at returns from 2004-2013, treasury bills (3-month bill) have had a geometric mean of 1.54% and treasury bonds (10-year bonds) returned 4.27%. While these types of investments are safe vehicles for your money, most investors are looking to earn the largest return possible while limiting their exposure to risk.

Why Golf?

Not only does golf course ownership currently offer a yield greater than any other commercial real estate product type, the most recent 10-year returns from both the stock market and treasuries, or the 2013 NAREIT REITs index, but golf properties offer another attractive feature for investors. Unlike traditional investments (i.e. stocks and bonds) and other classes of commercial real estate, golf course ownership offers a level of control over the investment that is exclusive to golf.

Golf course owners have an opportunity to increase both gross revenue and total return on their investment by improving the business operation through expense management and/or implementing programs aimed at attracting more play. This control over growing the operating margin is unique to golf when compared to other investments, which tend to be locked into leases (preventing short-term rate changes) and feature a limited number of revenue streams. Not only can courses manage golf rates more effectively to maximize revenue, but they can introduce new programs in other departments (F&B, fitness, lessons, banquets, etc.) to achieve even greater revenue growth. Furthermore, golf operations tend to feature a higher percentage of variable expenses, allowing investors to be hands-on with their investment and manage operating expenses as they see fit.

2014 Golf Investor Sentiment Survey—Follow-Up

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The previous edition of our Golf & Resort Investment Report (2013 Year in Review) was optimistic towards the future of golf. Despite a number of legitimate concerns regarding the future of the sport, it was our opinion that (based on a number of market factors) golf was past the bottom of the market. While this semi-annual research report is our interpretation of the golf investment market, this year we decided to look towards the golf investment community to get their opinion. With that in mind, we put forth an impartial “Golf Investor Sentiment Survey” in early 2014. While most golf market research is focused on looking through the “rear-view mirror” at historical operating data (e.g. rounds, revenue, weather, participation, etc.), our questionnaire instead focused on looking through the “windshield” at investors’ future expectations. Stock market values are based mainly on future expectations and projected earnings. Similarly, golf courses (and all real estate) are purchased in part based on where the buyer envisions the market is heading. With a sales process lasting anywhere from 3-12 months, golf course values next year are largely based on how investors feel today. With no one in the industry tracking golf investor confidence, we felt that the industry could benefit from such an analysis.

Investor Outlook

The participant responses were statistically analyzed and the data determined that overall, the golf investment community is cautiously optimistic about the future outlook for their assets. We created a proprietary 0-100 scale entitled the Golf Investment Index (GII) in order to summarize the results of the survey. With an aggregate score of 63.2, the data verified that the majority of golf course owners, managers, appraisers, lenders and other consultants are optimistic about golf’s future, at least from an investment perspective. Other highlights of the survey include:

- EBITDA: 86% Likely to Increase
- Public Golf: Rounds & Rates Likely to Increase
- Private Golf: Members & Dues Likely to Increase
- Macroeconomy: Golf Industry 81% Likely to Improve
- Values/Financing: 90% Likely to Increase/Stay the Same

Many people were surprised that the industry was this optimistic, however there are a number of factors which explain why we are not surprised.

Industry Factors

There is no denying that there are a number of legitimate concerns for the golf industry as a whole. Participation has been decreasing for years and barring new, creative ideas for growing the sport, appears destined to continue declining short-term. A large reason for this is the lack of participation from younger generations, as the number of golfers under age 30 continues to represent a smaller portion of the total golfing population. While this is a genuine concern for future of the sport, it is important that we differentiate between how this affects course owners compared to the rest of the golf community.

Course Closures

The industry is aware of the recent number of course closures happening across the U.S. According to the NGF, there were 143.5 net closures in 2013 (18-hole equivalents), and 423 total

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over the past three years (2011-2013). This reduction in supply is a long overdue natural market correction which is expected to continue moving forward. While this reduction in supply may not be great for golfers, it will undoubtedly help the vast majority of golf course owners. By reducing the overbuilt supply of courses built in the late 1990s/early 2000s, the industry should come closer to a natural equilibrium between supply and demand. The end result is less competition and higher market share for the courses that do make it through the rash of closures. For example, between 2007 and 2013, total rounds played in the U.S. decreased by an average of 1% per year. Assuming this same pace continues moving forward, the number of courses closing would completely negate the loss in rounds. Do the math – if 1% of courses continue to close each year (145/14,500), we could lose 1% of rounds annually and it won’t affect those courses that remain open. This doesn’t take into account an owner’s ability to raise rates due to the lessened competition. Unlike in the past, people now consider the viability of the course before building.

Improved Operating Fundamentals
Golf is no longer viewed as only an amenity to sell real estate or a hobby for member-equity club owners. There are fewer municipal clubs and more private courses opening up to public play in an attempt to turn a profit or mitigate losses. Most industries eventually evolve towards market consolidation where fewer investors control a greater share of the total market. As this happens throughout the golf industry, owners are able to establish economies of scale and other operational efficiencies, allowing for greater profitability.

Lower Debt/Capital Basis
Even after significant improvement in 2013, the average sales price for golf courses is down considerably since 2006. Many owners were able to restructure debt during this time, and those that did not were typically foreclosed upon and the courses sold, leading to a new owner with a lower basis in the property. With less acquisition capital and less debt encumbering the property, investors in today’s golf market have a much better opportunity to generate an appropriate return on their investment and benefit from appreciation in property values throughout the market cycle. These factors, among many others, all point to a recovering golf investment market capable of adapting to changing industry conditions.

The National Golf & Resort Properties Group—Update

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The National Golf & Resort Properties Group had its highest sales volume in a six-month window through the first half of 2014, closing 11 golf course sales. Highlights include the sale of two nationally-renowned TPC Golf Clubs (Ekovich), a member-owned private equity club (Vanek), a two-course portfolio outside of Washington D.C. (Demby) and a member-operated non-profit club (Putnam). These sales ranged from $1M to over $5M, averaged more than 90% of the list price and had an average contract to closing time of just 43 days. The group expects to more than back up a strong first half, as it heads into the second half of the year with 10 courses in contract and more than $60M in saleable inventory.

Now with six full-time investment advisors, the NG&RPG recently promoted Justin Leith to Financial Analyst. Justin earned an MBA from the University of Tampa in 2013 and began with the group as a Junior Analyst after graduation. In addition to representing buyers and sellers as an Investment Advisor, Ray Demby was appointed Head of Research & Analysis in the first quarter of 2014. Ray and Justin were responsible for spearheading the NG&RPG’s first Golf Investor Sentiment Survey, which was published in June. This survey was intended to take the pulse of golf industry from an investor’s perspective. As with the aforementioned sales data, the survey suggested that investors feel the worst is behind us. The expectation is for things to continue to improve, both on a macroeconomic level and within the golf industry.

Members of the group continued to be active at many of the industry’s educational events. Rob Waldron was the featured Keynote Speaker at the Annual New Jersey Golf Course Owners Meeting held at Trump National Philadelphia in Pine Hill, NJ. Rob’s topic was “What is my Golf Course Worth?” Rob, along with Chris Karamitsos, also attended the NGCOA’s annual conference in Orlando, FL. In July, Steve Ekovich appeared in an HBO Real Sports special with Bryant Gumbel focusing on the current state of the golf industry.

Looking ahead, the group looks to have a banner year, on pace to shatter group records for number of transactions and dollar volume in a year. The group will continue to expand its presence in the brokering of other recreational property types such as marinas and hybrid resorts. Many of the group’s investment advisors will attend the Crittenden Conference in Phoenix, Arizona in October. Steve Ekovich will be part of a panel discussion entitled “Golf Course Financing”. As always, if you are thinking about buying or selling a golf or resort property, we can help. We are always here to answer questions, provide the most up-to-date industry research, value your golf property or just talk about why that hybrid club always goes left! Just give us a call.
The below analysis focuses 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. Larger transactions above $10M are generally value driven by some non-golf component (residential development, hospitality component, alternative use, portfolio sale 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.

In our last semi-annual Investment Report, we noted that 2013 marked the first year in six (since 2007) that average sales price for golf courses achieved significant improvement, as average price per transaction increased from $3,145,963 in 2011 and $3,022,400 in 2012 by 10.82% to $3,349,342 in 2013. That improvement held firm moving into the first half (1H) of 2014, with average price per transaction of $3,312,007 among the 43 deals that traded in the $1 - $10M Investment Tranche. Comparing the first half of 2014 to 2013, the Year over Year (YoY) average price improved 8.88% from $3,041,824, YoY velocity was up 19.44% (and up massively if you include the larger portfolio sales), and YoY median price up 42.98% from $2,151,250 to $3,075,803.

From an investment perspective on asset valuations, 1H 2014’s ability to hold onto pricing gains made in 2013 (and improve from a YoY comparison) provide further evidence of a golf investment market that has turned the corner. The airspace continues to lower its debt profile, and fewer REO opportunities are being replaced by cap rate deals with stabilized cash flow.

After five years, many believe the U.S. economy is finally taking off. Economic growth and consumer confidence are catching up to a job market that has hit unemployment of 6.1%, down from 7.5% a year ago and 10% during its 2009 peak. Consumer confidence reached a seven-year high, and consumer spending doubled its first quarter pace. As stronger wage gains take shape, and investors become more comfortable with improving market conditions, eager capital will ultimately move away from lower yield alternatives and into riskier, alternative asset classes that offer the prospects of higher returns. Look for values of golf assets to continue their push away from the 2012 bottom.