Marcus & Millichap

NATIONAL GOLF & RESORT PROPERTIES GROUP

Semi-Annual Market Update

GOLF & RESORT INVESTMENT REPORT

1st Half 2012

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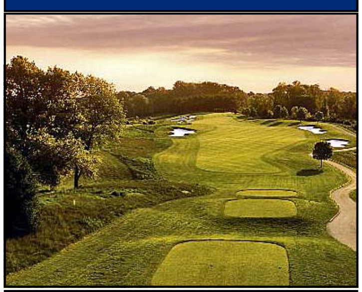
RECENTLY SOLD



Hartefeld National Golf Club
Avondale, Pennsylvania

ROUNDS YTD
May 2012

U.S. TOTAL YTD: +15.9%
PUBLIC ACCESS: +17.6%
PRIVATE: +10.2%

The Economy & Golf — Is there light at the end of the fairway?

By Steve Ekovich ◊ Steven.Ekovich@marcusmillichap.com

In our First Half Semi-Annual Market Update in January of 2012, we stated that *2012 would be the turnaround year; a year that would see revenue increase after five straight years of decline. We posited a strengthening economy, a feeling of renewed job security, better weather (we have had numerous consecutive bad years, extreme cold or rain), which together, would translate into both more rounds and revenue.* How are we doing?

The NGF in conjunction with Golf Datatech, reported that year-to-date through April 2012, rounds are up 20%. When you look at Performance Trak in conjunction with the NGCOA, they state rounds in 2012 are up for a **seventh month in a row**. Private facilities were **up 9.9%**, daily-fee / semi-private facilities were **up 11.0%**, municipal facilities were **up 9.1%** and resort facilities were **up 4.7%** this month. May 2012 also continues the **increase** in monthly revenues compared to May 2011 for all four of the revenue metrics tracked by Performance Trak. For May year-to-date 2012, golf fee revenue was **up 16.5%**, merchandise revenue was **up 16.1%**, food & beverage revenue was **up 12.5%** and total facility revenue was **up 8.2%** when compared to May year-to-date 2011 data. Will this trend of higher rounds and higher revenue continue for the rest of the year?

While our economy started out strong in the first quarter of the year, the economic reports are now suggesting we are weakening. What does this mean for golf? In looking at the trend analysis, we see rising demand for goods and services has supported the expansion of payrolls for 20 consecutive months through May of this year. While job creation in April and May came in less than expected, with only a net 146,000 positions added, Chart 1 shows total non-farm employment and how far we have come from 2010. Yes we have slowed the rate of employment growth, but we are growing. The Commerce Department reported that the overall economy grew at an annual rate of 1.9 percent in the January-March quarter.

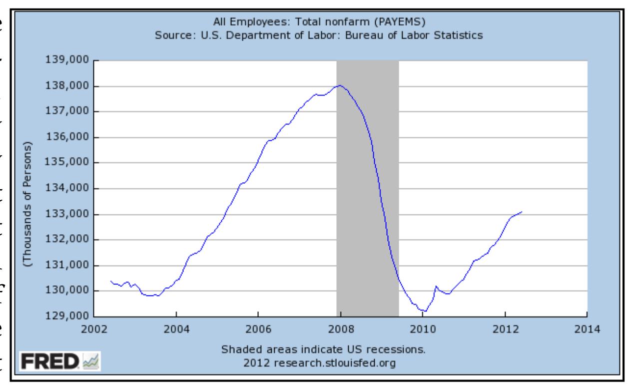


Chart 1

Consumer spending, which accounts for 70% of economic activity, grew at only a 2.5% rate, below the previous 2.7% estimate, while business investment was stronger. What this means is that we are slowly climbing out of the economic abyss and the golf amylase of the past five years. As the economy continues to pick up steam, as fear of job loss abates, as we continue to close 100-150 golf courses a year (net closings after additions), the demand from golfers

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THE ECONOMY & GOLF (CONT. FROM PG 1)

should intensify in 2012 and 2013. I realize this is contrary to golf pundit proclamations and research, but an improving employment picture will boost consumer confidence, disposable income and discretionary spending. The US Government stopped tracking discretionary spending in 2010 (the amount of income after all bills are paid), but still keeps track of disposable income (income available after all personal taxes are paid), as shown in Chart 2. As disposable income (represented by the blue graph line) continues it's upward trend from 2010 and the resultant consumer confidence continues to grow, the more apt the public will be to spend on golf.

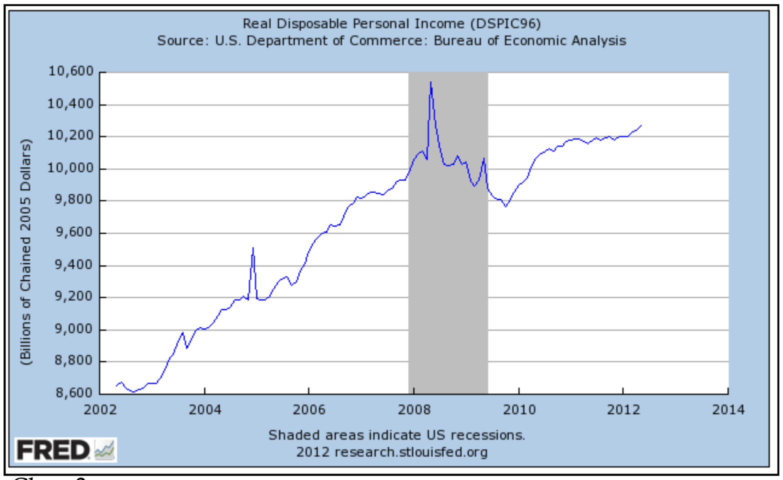


Chart 2

From a transaction standpoint, the first half of 2012 has mirrored 2011 and 2010. It has been dominated by sellers who have to sell (REO sales, bankruptcy sales, note sales, private clients needing to sell because their note is due and developer sales). Many appraisers suggest that this is not a real market. It is a distressed market and while values are low, if it wasn't distressed and you could wait 24 months to sell a property, you could get a higher price. Our belief is this is not a distressed market, **"it is the market"**. There is not a distressed market and a non-distressed market. Values are appropriate considering where we are in the cycle, the five year decline in revenue, both low EBITDAs and operating margins, lack of financing and overall risk in the golf market. Investors with a long term view and liquidity will take advantage of purchasing in this market. Over the long term, these investors will show solid returns. Part of the big news in the first half of the year was both the Capmark and Textron portfolio note sales. We underwrote parts of those portfolios for eight of the note buyers. These buyers see a spread between less risky core commercial real estate note discounts and the higher spreads they achieve by buying golf notes. The interest from note buyers, most of whom we counseled and did not really understand the golf asset class, give credence to the fact that equity will chase yields and as other product type yields narrow, golf will attract more capital. We stated in our Investment Report in January*, more and more capital will enter the golf air- space as spreads narrow in other product types*. Note sales are the first signal that it is happening and will continue to happen.

Another positive sign is the re-engagement of lenders in the golf airspace, once thought to have gone the route of the dinosaurs. We are seeing banks, life companies, private equity and the SBA all quietly willing to finance the right golf deal. For the rest of the year, large investors will continue to dominate sales activity in both primary markets and transactions over $5 million in sales, driving smaller, regional investors to secondary and tertiary market areas. Well located, underperforming properties will receive most of the buyer interest, while older courses which are both poorly maintained and poorly located will either be sold to a local buyer, re-purposed or closed. As investors infuse both cash and vision to stabilize balance sheets, fix the neglected maintenance conditions and employ fresh market positioning, these acquisitions will flourish in this lower leverage environment.

Many developers who built during the mid to late 2000s will likely be unable to refinance distressed properties with maturing debt. They will be forced to sell at a discount or lose the property to the lender or a note sale. Private equity funds and high net worth individuals seeking double-digit returns are scouring the nation to negotiate with overleveraged owners and REO lenders to try and steal assets before they can be properly marketed, so they can buy without competition. We are seeing the most international interest from Korea, China, Europe and Canada. National interest stems from major golf owners, high net worth individuals, passion buyers, vanity buyers, value-add buyers, private equity funds and regional golf owners. As we said in January*, "if you are a buyer and don't stretch this year for an acquisition, a few years from now you may be bemoaning the fact that you didn't stretch to acquire that asset"*. We are either at the bottom of the market, past the bottom of the market, or within a gnat's-whisker of the bottom. On the other hand, if you are a seller, it is a good time to sell if you have a reason to sell; there is equity chasing deals, there is financing coming back into the market and it is as good a time as any to recycle capital.

BUYER SENTIMENT—1ST HALF 2012

By Chris Karamitsos ◊ Christopher.Karamitsos@marcusmillichap.com

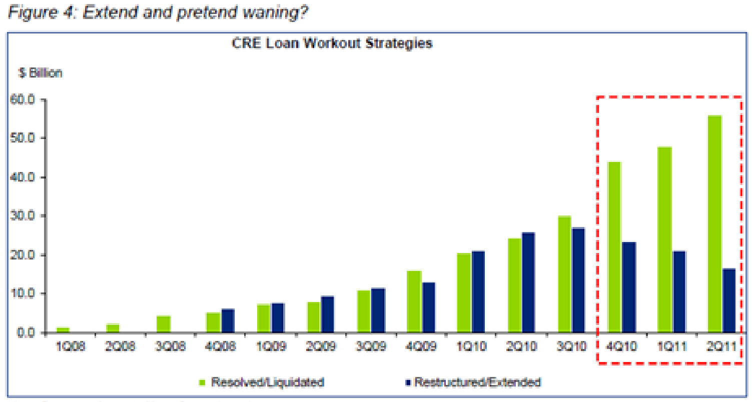
Is this a good market or a bad one? It depends on who you ask and whether or not they have a vested interest in your perception. Of course, for investors who have maturing loans and properties with market values below their debt, we know the answer. But for those who have weathered the economic storm thus far and are well capitalized, this market represents unparalleled opportunity. This will not always be the case and savvy investors understand that. Golf course closures continue to outpace the number of openings for the third consecutive year, eliminating unviable inventory. Golf assets have been trading on metrics never before seen, with cap rates in the low-to-mid teens and GRM's around 1 times gross. Yet contrary to the perception of many, this market is not stagnant. *How do we know?* Non-core commercial assets (which include golf) always follow core assets into recovery and core assets are on the move. Cap rates for core assets have been compressing since 2009, an indication that the bottom of the market for those properties has already come and gone. *Is golf far behind?* Perhaps not quite as far as one might think. Of course, the lack of financing precludes investors from taking advantage of spreads in cap rates relative to the 10-year treasury, as opposed to core assets with readily available financing. Additionally, by the end of 2012 it is estimated that $363 billion in commercial real estate loans will mature. Some of those will be golf assets that find their way into the REO basket, which could extend the current "Buyer's Market" to a degree. Still, golf is an industry driven by the disposable income of consumers. Spending has begun to trend upward among consumers due to improved financial health and stronger wage growth. Household debt-service payments as a percentage of disposable income have fallen sharply from 2008 levels, while private sector wages rose 5.3% in 2011 and personal consumption rose 4.7%. These indicators may very well signal that stronger days are ahead for the golf industry. So, in 6 or 12 months from now, how will you answer the question, **"Is this a good market or a bad one?"** ■

CAPITAL MARKETS / COURSE FINANCING

By Steve Ekovich ◊ Steven.Ekovich@marcusmillichap.com

In the last 3-4 years, as both a panelist and attendee at golf industry conferences, speakers have decried the fact that there is no lending in golf. However, the long extinct golf lender may be down for the count but not knocked out. Like a prize fighter, lenders are staggering to their feet to continue to lend. Strengthened lender balance sheets due to loan modification and extensions caused fewer write-offs. Fierce competition for core commercial real estate loans are driving lenders to non-core product types like golf to capture yield. With lenders shedding portfolios, improved property fundamentals and fewer golf loan defaults, more lenders have been open to lending on golf. According to Deloitte, the tax and consulting firm, nearly 77% of the total loan work outs of $66 billion were resolutions. The remainder was restructured (see chart). Banks are dealing with troubled loans based on size and asset location. They are modifying larger notes with assets located in distressed regions and liquidating smaller ones, again as evidenced by the Textron and Capmark portfolio sales.

Figure 4: Extend and pretend waning?



Note: Data pertains to trailing 12-month total
Source: Real Capital Analytics, August 2011

Who is lending in golf? Banks, 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.

Some banks have gotten so aggressive that for certain borrowers they have called us directly on their behalf. We had one property in Texas, Cypress Lakes Golf Club, which we sold a few months ago,where the President of the bank called on behalf of a potential buyer saying, "We want to loan on this course. What is it going to take for our borrower to win

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GOLF COURSE VALUATION— "SELLER'S VALUE VS. MARKET VALUE" (PART TWO OF A TWO PART SERIES)

By Matt Putnam ◊ Matthew.Putnam@marcusmillichap.com

In the last edition, we examined some of the flaws in using "broad stroke" data from industry associations to determine a golf course's value. Given that each golfing market across the country is unique and that each course in those markets has its own intricacies, the keystone to valuing courses in today's market is having an intimate understanding of the subject property. In this edition, we will examine what some of those key micro level factors are and how they affect value.

Without question, the most important (and most obvious) part of the valuation equation is the club's most recent 12 month performance. As opposed to recent history during the real estate boom, golf course investors will not buy solely on projections or pro forma income. That is not to say investors will only buy a club that is operating in the black, most are just unwilling to pay a premium for what the club could be at some point down the road.

Within the 12 month operating statements, there are several key areas that affect value. On the revenue side, the source of the revenue is the most important. Typically, membership dues are valued the highest, followed by daily-fee golf, other golf categories and finally food and beverage revenue. A club that does $2M in revenue with $800K in dues and $1.2M in F&B, would not be worth as much as a club doing the same revenue with $1.5M in dues and $500K in F&B. This is a simple case of the F&B margins usually being the lowest of any of the other revenue centers. Revenue trends over the past 3 to 5 years are also an integral factor in determining the value of a club's revenue stream.

The expense side of the P&L is a bit less cut and dry. This is where the NG&RPG and professional golf course operators alike rely on experience to craft a credible operating budget to determine if a club, holding the revenue as a constant, has room to improve its margins and become a (more) viable investment. We have many complex property metrics gleaned from evaluating hundreds of courses that help zero in on a course's true value. For example, factors such as salaries as a percentage of revenue and total course maintenance budget relative to greens fees per round are some of the areas that are first looked at to establish if a club has value that is not being capitalized on. If a club has salaries totaling 50% of revenue and an operator concludes they can run it with salaries totaling 40% of the same revenue, they can create value through their expertise. Similarly, if the market only warrants a club charging $30 per round, spending $750,000 on course maintenance is probably not cost effective. That club could likely continue to charge $30 per round and drop the maintenance budget significantly. Table A illustrates a financial abstract of a well-run value-priced club with very healthy operating ratios. Table B shows a similar value-priced club with more revenue, but an expense load that is far off from industry standards. After a detailed analysis of both, these clubs had very similar valuations for a variety of reasons.

TABLE A

Gross Scheduled Income	**$1,328,137**
Total Cost of Sales	$155,719
Gross Profit	$1,172,418
Total Expenses	**$937,030**
NOI / EBITDA	**$235,388**
Operating Expense Ratio	71%
Salaries as % of Revenue	35%
F&B Margin	28%

TABLE B

Gross Scheduled Income	**$1,600,069**
Total Cost of Sales	$238,948
Gross Profit	$1,361,120
Total Expenses	**$1,643,874**
NOI / EBITDA	**($282,754)**
Operating Expense Ratio	103%
Salaries as % of Revenue	62%
F&B Margin	-18%

This is just the tip of the iceberg when it comes to the valuation discussion. Our standard pricing proposal averages 50-70 pages and includes recent comparable sales and a demographic analysis (macro factors) as well as a detailed financial analysis and pro forma business plan to help sell the upside (micro factors). Just because the club next door to yours sold for $5M doesn't mean that your club is worth $5M. It could be significantly higher or lower depending on all the factors discussed above and many others. To determine value, it takes an expert with an understanding of not only the big picture golf market but also the inner workings of each club being scrutinized and each competitor in the market. The NG&RPG has that expertise and would be happy to put together a grounded opinion of value, just give us a call! ■

The National Golf & Resort Properties Group — Year in Review

By Chris Karamitsos ◊ Christopher.Karamitsos@marcusmillichap.com

With velocity remaining steady in the golf course transaction market, the NG&RPG has been able to maintain its pace of selling on average at least one course per month through the first half of 2012. This comes at a time when many brokers are reporting in trade magazines that they are expiring listings or that their properties are experiencing lengthy periods of time stuck on-market. Among the highlighted sales were the trophy-class asset, **Hartefeld National** in Avondale, PA, and a two-course portfolio consisting of **Royal American Links** and **Bent Tree Golf Club** in the Columbus, OH market. The second half of 2012 is shaping up nicely as the NG&RPG currently has no fewer than nine courses in contract and several new top quality listings to arrive on market this summer. The Group has underwritten in excess of $155 million in assets for its clients so far in 2012 and is looking forward to robust 3rd and 4th quarters.

Eagle Ohio Portfolio
Columbus, OH
Royal American Links

Steve Ekovich, Chris Karamitsos and Matt Putnam attended the NGCOA and GIS conferences in Las Vegas and had the opportunity to network and continue to foster relationships with current and future clients. Thank you to all the industry leaders who took the time to meet with us and exchange information on the state of the industry.

The NG&RPG continues to grow, adding Ray Demby to the team as a financial analyst. Mr. Demby is a graduate of Case Western Reserve University in Cleveland, OH and holds a degree in Business Management. Terry Vanek has been promoted to Broker *and* Investment Sales Associate, bringing the Group up to four full-time golf course investment brokers.

Ray Demby
Financial Analyst &
Marketing Coordinator

Capital Markets / Course Financing (cont. from pg 3)

the bid and get into contract?". Banks are usually not interested in crossing state lines, but in the last six months we are seeing a willingness from the buyer's banks to do just that. The one common thread with all the lenders willing to lend was a well-qualified borrower. With commercial banks we have seen a willingness to lend without substantial cash flow as long as there is a good sponsor. With insurance company loans, the asset has to be one they want in the portfolio and must have cash flow. Bridge loans need to have a yield the lender wants. Hard money loans for non-stabilized deals have quick turnaround times but have 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. However, this is usually not about one transaction, it typically starts before the asset is located and covers multiple purchases over time.

Conventional Bank Loan:	Interest: 5-6.5%, points: 1%, term: 3-7 yrs., amortization: 20-25 yrs., LTV: 60-70%, DCR: 1.3-1.4, loan size: $750,000 plus
Life Company:	Interest: 6-7%, points: 1%, term: 3,5,10 yrs., amortization: 15, 20 or 25 yr., loan size: 1.5M +, escrow for cap-ex
Bridge Loan:	Interest: 9-14%, term: 1-2 years, LTV: up to 65%, desire primary markets, cash flowing product
Hard Money:	Interest: 12-15% including points, term: 1-3 yrs., LTV: 50-60%, usually interest only
Private Equity:	Interest: 0, unleveraged IRR: 20%, preferred returns 8.8%-12, LTV: 60-70%, waterfall structure: deal by deal on profit splits

2012 Calendar Year Sales Activity— Historical Perspective

By Terence Vanek ◊ Terence.Vanek@marcusmillichap.com and Raymond Demby ◊ Raymond.Demby@marcusmillichap.com

The NG&RPG tracked 86 golf course transactions during the first six months of 2012, of which 68 were made available with price and sales information, compared with only 45 similar transactions reported during the first half of 2011, **for a year over year increase of 51%.** However, despite this increase in the number of golf course sales, if we focus exclusively on golf assets where excess land or hotel and resort amenities are excluded, average price per transaction fell from $3,008,351 in the first half of 2011 to $2,215,037 in the first half of 2012, or 26%. Importantly, the main reason for the decline was due to the increase in transactions under $1 million, as well as the lack of transactions over $10 million. Looking only at courses selling between $1—$10 million, average sale price fell from $3,145,963 to $3,024,402, or only 3.86%. Total dollar volume traded increased from $251 million in 2011 to $409 million in 2012, although two sales—Doral Golf Resort & Spa in Miami and Grand Cypress in Orlando—accounted for over half of this total, selling at $150 million and $57 million, respectively. Over the past 24 months, golf courses have sold at an average of 1.06 times their annual gross revenue, or GRM. The NG&RPG has outperformed that benchmark by 25 basis points, selling courses at an average of 1.36 times GRM. ■

RECENT SALES

Course Name	Sale Price	Sale Date	Market	State	# Holes	Acres	Club Type	Gross Revenue - EBITDA
Siasconset Golf Club	$ 8,700,000	4/27/2012	Nantucket	MA	9	66	Public	Confidential
Orange County National	$ 7,000,000	3/15/2012	Orlando	FL	45	607	Resort	Confidential
Boston Golf Club	$ 6,525,000	1/31/2012	Boston	MA	18	114	Private	Confidential
Green Garden Country Club	$ 5,900,000	3/30/2012	Chicago	IL	45	415	Public	Confidential
Makaha East Golf Club	$ 5,559,900	3/30/2012	Hawaii	HI	18	236	Public	Confidential
Chestnut Ridge Country Club	$ 5,300,000	1/30/2012	Baltimore	MD	18	228	Private	Confidential
Ocean Dunes Golf Links	$ 5,000,000	2/28/2012	Portland	OR	18	140	Public	Confidential
Tahoe City Golf Course	$ 4,530,000	4/3/2012	Lake Tahoe	CA	9	45	Public	Confidential
Stonewall Golf Club	$ 4,500,000	5/1/2012	Washington, DC	VA	18	154	Public	Confidential
Whitney Oaks Golf Course	$ 3,950,000	4/4/2012	Sacramento	CA	18	219	Public	Confidential
Hartfeld National Golf Club	$ 3,750,000	4/17/2012	Philadelphia	PA	18	259	Private	Confidential
Northville Hills Golf Club	$ 3,650,000	1/31/2012	Detroit	MI	18	218	Public	Confidential
Mountain Springs Golf Course	$ 3,500,000	3/23/2012	Little Rock/N Little Rock	AR	18	397	Semi-Private	Confidential
Shaker Hills Golf Club	$ 3,400,000	4/12/2012	Boston	MA	18	n/a	Public	Confidential
Western Skies Golf Club	$ 3,380,000	4/25/2012	Phoenix	AZ	18	138	Public	Confidential
Paradise Preserve	$ 3,000,000	3/16/2012	Southwest Florida	FL	18	450	Private	Confidential
The Point Lake and Golf Club	$ 3,000,000	4/11/2012	Charlotte	NC	18	193	Private	Confidential
The Ridge Club	$ 3,000,000	2/23/2012	Cape Cod	MA	18	24	Private	Confidential
Hermitage Country Club	$ 2,800,000	1/19/2012	Nashville	TN	36	181	Municipal	Confidential
Blue Heron Pines Golf Club	$ 2,750,000	6/1/2012	Atlantic City	NJ	18	111	Public	Confidential
RiverTowne Country Club	$ 2,600,000	1/30/2012	Charleston	SC	18	180	Semi-Private	Confidential
Blue Ridge Shadows Golf Club	$ 2,500,000	5/1/2012	Washington DC	VA	18	n/a	Resort	Confidential
Cypress Lakes Golf Club	$ 2,435,000	5/15/2012	Houston	TX	18	185	Semi-Private	Confidential
Oakbrook Golf & Country Club	$ 2,335,000	4/27/2012	Seattle/Puget Sound	WA	18	133	Private	Confidential
Olympia Country and Golf Club	$ 2,250,280	5/9/2012	Olympia	WA	18	n/a	Private	Confidential
Southern Hills Plantation	$ 2,200,000	2/1/2012	Tampa	FL	18	194	Semi-Private	Confidential
The Golf Club at South Hampton	$ 2,194,100	2/24/2012	Jacksonville	FL	18	201	Semi-Private	Confidential
Bent Tree Golf Club	$ 2,000,000	6/15/2012	Columbus	OH	18	167	Semi-Private	Confidential
Broad Run Golf Club	$ 1,850,000	5/3/2012	Philadelphia	PA	18	372	Public	Confidential
Village Green Golf Course	$ 1,800,000	1/4/2012	Tampa/Sarasota	FL	18	41	Public	Confidential
Crestview Country Club	$ 1,700,000	3/24/2012	Hartford	MA	18	406	Public	Confidential
Blue Ridge Country Club	$ 1,650,000	5/1/2012	Philadelphia	PA	18	133	Private	Confidential
Bull Valley Golf Club	$ 1,525,000	2/29/2012	Chicago	IL	18	179	Private	Confidential
Oak Lane Country Club	$ 1,450,000	1/10/2012	Westchester	CT	18	173	Public	Confidential
West Hills Country Club	$ 1,425,000	3/27/2012	Northern New Jersey	NY	18	78	Private	Confidential
Hawthorne Hills Golf Club	$ 1,414,000	2/14/2012	Lima	OH	27	240	Semi-Private	Confidential
Hampden Country Club	$ 1,400,000	2/10/2012	Hartford	MA	18	295	Private	Confidential
The Preserve at Spruce Creek	$ 1,325,000	1/24/2012	Ocala	FL	18	179	Semi-Private	Confidential
Carrington Golf Club	$ 1,275,000	4/18/2012	Detroit	MI	18	119	Public	Confidential
Silver Lake Golf Resort & Spa	$ 1,260,000	6/11/2012	Buffalo	NY	18	n/a	Public	Confidential
Pine Valley Golf Resort	$ 1,200,000	5/22/2012	Louisville	KY	18	165	Resort	Confidential
Hickory Ridge Country Club	$ 1,050,000	3/15/2012	Boston	MA	18	150	Semi-Private	Confidential
Hidden Valley Golf Club	$ 1,016,000	5/9/2012	Raleigh/Durham	NC	18	154	Public	Confidential
Royal American	$ 1,000,000	6/15/2012	Columbus	OH	18	190	Semi-Private	Confidential

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