STATE OF THE GOLF INVESTMENT MARKET

By Steven Ekovich  Steven.Ekovich@MarcusMillichap.com

THE YEAR OF THE MEGA DEAL

In every Year in Review recap, we try to tell you what happened on a macro scale, what we think will happen in the future and what that means to investors.

If you look at golf’s dashboard, there are two main gauges that are the most important: operations and valuations (golf asset values, sales velocity, sales metrics). The golf value gauge was up squarely for a second year in a row, but the operations gauge was down slightly (although revenue was actually up). While it is clear golf still has some worrisome stats – rounds were down 1% and depending on whose numbers you use, participation was slightly down – revenue was still slightly up. These negative metrics are offset by improved operating fundamentals, net supply reduction of golf courses and golfers who are playing more frequently. After six years of decline, (2007-2012) if operations are only down slightly (and gross income is up), that is still good.

Golf’s landscape has been forever changed by six mega deals that transacted this year. When nearly a BILLION dollars trades hands in the golf market, affecting almost 10% of the stock, that capital brings with it two side benefits: the ability to infuse more funds into capital projects for courses in need and a significantly reduced capital/debt basis for investors. If you look at the golf industry as a patient that has had a seven-year flu, this billion dollar infusion is like receiving the most powerful Penicillin known to mankind. What does this mean going forward? To answer that question, let’s begin with a look at golf course sales data from 2014.

Golf Values

The median value of all golf course sales in 2014 for properties between $500K and $75M is up 15%, from $2,000,000 in 2013 to $2,305,300 in 2014. This is the second year in a row of increasing golf values after significant YoY growth in 2013 of 11%. This is positive for golf owners, golf lenders and the industry in general. (Excluded in both the median and average golf prices are golf courses over $75 million, major resort sales where golf is de minimis, golf repurposing sales and major portfolio sales.) The average golf sale was also up 1%, from $4,211,000 in 2013 to $4,260,000 in 2014. This is after a 56% run up in golf’s average pricing in 2013. If we were to add in just one of the portfolio sales (Arcis’ purchase of CNL’s golf portfolio), the average price paid would increase significantly (since the CNL average was around $6M per course). We now have two years in a row of increasing pricing (the median being the most important barometer). The Fed considers two quarters of positive growth the end of a recession. I would submit two years of price growth shows an end to golf’s slide in value and proves we have reversed...
Why have golf values increased two years in a row? The answer lies in a number of areas. According to the NGF, the golfer population seems to be stabilizing at around 25 million (some publications still have it eroding), rounds and revenue have been up or flat the last few years, and the economy is getting stronger. All of these factors have signaled to investors that we have bottomed out and are on the way back up. In addition, there is more financing entering the golf marketplace. At the Crittenden golf conference in October, a number of new golf lenders were introduced to the audience that will lend nationally, along with the existing SBA financing platforms and local lender financing. If more buyers can obtain financing, theoretically that will translate into higher prices, as more people can afford the down payment and utilizing cheap debt allows for the same cash-on-cash return at higher prices (when compared to an all-cash purchase). Another way to look at it is if you pay all cash, you can buy at a discount (which is the only way golf purchases were being made during the recession). Another reason values have gone up is that crossover buyers from different investment real estate classes (who have chased yields down severely) look at golf and its returns as very enticing.

Foreign buyers, particularly the Chinese, are interested in golf as foreign economies are weakening and their real estate prices provide high barriers to entry. With the U.S. economy picking up steam, the U.S. is a stable haven for foreign investment. Golf is a commonality that we all can enjoy as a pastime and is not as available in foreign countries. Finally, since most of the REO (bank foreclosures) have cleared the market, there are a lot of buyers chasing a few good deals, driving values up with more demand for good product than available supply.

**Mega Deals Change Golf’s Landscape**

The golf industry’s landscape changed forever and we will never see (in our lifetime) another year like this. As to why these transactions are taking place now, our view from the investor side is this: The transactions were completed for different reasons relating to yield, fund terminations, low cost of capital and opportunity capital buying at a discount. When ClubCorp went public, Wall Street could see that margins in golf were real and sustainable. The IPO was at $18/share and went as high as $20 before stabilizing at $18 after nine months. It allowed Eric Affeldt, CEO of ClubCorp, to take a stagnant company and revitalize it with growth projections in earnings and assets. They now had the funds to both acquire opportunities that will provide cost reduction and efficiencies while providing capital expenditure funds to revitalize aging properties. Consequently, when Joe Guerra, CEO of Sequoia, was looking for financing, ClubCorp saw an opportunity to accelerate growth, bring accretive earnings to the table, while cutting between $6M and $8M of duplicate overhead costs.

Arcis acquired CNL’s portfolio with a book value of $555 million, as referenced in their most recent annual report which did not take into consideration depreciation and additional owner investment. They reset the basis at $306M or 55% of the original acquisition cost. Arcis, led by industry veteran Blake Walker, has yield upside built into the acquisition already and based on a number of initiatives that are confidential, will yield significant returns to the Equity Fund in the near future.

New Castle acquired American Golf, but it was really the Mezzanine holder of the debt, so they restructured their existing debt in National Golf Properties for $49M in which they were the $47 million senior loan holder and paid only $2M of equity. (This was hailed as a sale but it was more like a second note holder foreclosing on their interest of $49M and giving the mortgagor $2M to not fight the foreclosure.)

C-Bons acquired the Walton Street Portfolio, (we can’t divulge the price as it is not public yet) and received 26 golf assets. They are being managed by Century Golf. Jim

---

**STATE OF THE GOLF INVESTMENT MARKET (CONT. FROM PG 1)**

**Mega Deals Change Golf’s Landscape**

The golf industry’s landscape changed forever and we will never see (in our lifetime) another year like this. As to why these transactions are taking place now, our view from the investor side is this: The transactions were completed for different reasons relating to yield, fund terminations, low cost of capital and opportunity capital buying at a discount. When ClubCorp went public, Wall Street could see that margins in golf were real and sustainable. The IPO was at $18/share and went as high as $20 before stabilizing at $18 after nine months. It allowed Eric Affeldt, CEO of ClubCorp, to take a stagnant company and revitalize it with growth projections in earnings and assets. They now had the funds to both acquire opportunities that will provide cost reduction and efficiencies while providing capital expenditure funds to revitalize aging properties. Consequently, when Joe Guerra, CEO of Sequoia, was looking for financing, ClubCorp saw an opportunity to accelerate growth, bring accretive earnings to the table, while cutting between $6M and $8M of duplicate overhead costs.

Arcis acquired CNL’s portfolio with a book value of $555 million, as referenced in their most recent annual report which did not take into consideration depreciation and additional owner investment. They reset the basis at $306M or 55% of the original acquisition cost. Arcis, led by industry veteran Blake Walker, has yield upside built into the acquisition already and based on a number of initiatives that are confidential, will yield significant returns to the Equity Fund in the near future.

New Castle acquired American Golf, but it was really the Mezzanine holder of the debt, so they restructured their existing debt in National Golf Properties for $49M in which they were the $47 million senior loan holder and paid only $2M of equity. (This was hailed as a sale but it was more like a second note holder foreclosing on their interest of $49M and giving the mortgagor $2M to not fight the foreclosure.)

C-Bons acquired the Walton Street Portfolio, (we can’t divulge the price as it is not public yet) and received 26 golf assets. They are being managed by Century Golf. Jim

---

**ClubCorp went Public: Raised $168.8m**

**ClubCorp Acquired Sequoia: $265m for 30 Courses, 17 Management Contracts and 3 Leases**

**Kohberg and Co Acquired Majority Interest in Troon**

**Arcis Equity Acquired CNL Portfolio: $306.5m for 46 Golf Courses**

**New Castle Investments Acquired American Golf for $219m**

**C-Bons Acquired Walton Street Portfolio (Price is Confidential): 26 Golf Courses**

Continued on page 3
Concluded from page 2

STATE OF THE GOLF INVESTMENT MARKET

Hinckley, who incidentally is the CEO of Century, is also the new CEO of American Golf, which is now owned by New Castle.

Troon’s new equity partner, Kohlberg and Co, infused capital that will enable Troon to continue to grow its third-party management business. They already are the largest management company in the world with 207 courses.

What this means to golf stakeholders is that almost a billion dollars of investment flooded into golf in one year. The firms that participated have management companies with core competencies in running golf, economies of scale, a reduced debt basis, and lower costs of capital. Those advantages translate into higher returns for these companies. They also gained the ability to finance the courses while maintaining healthy cash-on-cash returns. Finally, they have the balance sheets to inject capital into deferred maintenance projects or to make major renovations and upgrades to courses for the millennial generation to come.

Operations
According to Performance Trak, rounds year to date in October are down 1.2%, The Pellucid Report indicates golf playable days are down 1% and overall golf revenue is up 1.4%. If playable days are down 1% and rounds are down 1%, they go hand in hand and that makes sense (i.e. utilization remains unchanged – people are playing as much as they did last year, weather permitting). So the huge desertion of golfers from our industry is not as bad as some suggest – we may be losing golfers, but the people that are playing golf are playing it more often.

There have been dire predictions by both the media and some of golf’s pundits that participation could drop to 16 million (if you follow the tennis historical curve) and that we are witnessing the sale of numerous courses operating at a loss, resulting in a greater reliance on GRM for determining value. Following the golf market downturn in 2008, we have witnessed the sale of numerous courses operating at a loss, resulting in a greater reliance on GRM for determining value. With GRM’s generally ranging from .65x to 2.5x, the source and quality of the revenue (as perceived by a prospective buyer) can significantly influence the eventual price they are willing to pay.

However, in the 1980’s I saw the Savings & Loan crisis unfold and listened to industry pundits say that vacant office space in the country would take 20 years to fill up if you do the math. Although the data can be convincing, the recession that started in 1989 was over in 1993 and by 1995, we had a healthy office market. The data-driven pundits were off by 16-18 years. Two consecutive years of positive or stable operating numbers, the rise of 2014’s mega transactions, a continued increase in property values and lenders reentering the golf airspace (albeit slowly) all indicate that there is a belief that golf will be healthy in the future.

A lot of educated people who are stakeholders in the industry are putting their money where their mouths are. What I have seen in the last 25 years is that all of the factors can’t always be accounted for in the “math models”. Sometimes you have to add to the equation other influences, like what you can learn from historical events in other industries or major events that affect the subject industry which are not already known. These include future demographic shifts and industry innovations. For example, a new golf phenom could emerge that creates increased golf interest in younger players, new inventions can make playing golf more fun (such as skateboards on the course or hovercrafts), millennials’ careers becoming more stable, or the effects of 70 million baby boomers retiring.

There are a billion new reasons to bet on the golf industry. I am not being blind with denial and saying we don’t have issues, because they are well documented. However, with all the things we discussed in this article (closing/repurposing of 150 courses per year, improved operating fundamentals and economies of scale, market consolidation, lower debt/capital basis, stabilizing course utilization, etc.), it looks and feels like the industry is healthier after 2014.

NOT ALL REVENUE IS VALUED EQUALLY
By Robert Waldron  Robert.Waldron@MarcusMiliap.com

Golf courses serve as a unique asset class for real estate investors since value can be found in both the actual real estate and the going concern of the business. Golf course properties sometimes provide alternative use opportunities, such as residential re-development, which may serve to enhance the value above that derived from the business operation. This analysis will focus on the value of a golf course based exclusively on the quality of the revenue streams and their associated net operating income.

Metrics
The primary metric for valuing a golf course asset is the Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) Multiple or Capitalization of those earnings (CAP Rate). In the absence of significant EBITDA, the Gross Revenue Multiple (GRM) is often used as an alternative valuation metric.

Following the golf market downturn in 2008, we have witnessed the sale of numerous courses operating at a loss, resulting in a greater reliance on GRM for determining value. With GRM’s generally ranging from .65x to 2.5x, the source and quality of the revenue (as perceived by a prospective buyer) can significantly influence the eventual price they are willing to pay.

Continued on page 4
Revenue Streams
In an effort to maximize operating revenue, course operators have discovered a variety of creative programs and uses for their golf course amenities. A golf course typically consists of multiple profit centers: golf, membership, food & beverage, racquet sports, aquatics and fitness. Each business segment provides opportunities for a variety of revenue streams: green fees, cart fees, initiation deposits, membership dues, a la carte dining, banquets & events, driving range, camps, clinics, player development programs, fitness, swimming pool, tennis, locker rental, handicap fees, etc.

When underwriting a golf course, we have found that golf course buyers often value the contribution from each revenue stream differently. In assessing the quality of revenue streams, low risk/high margin revenue is deemed more valuable than high risk/low margin revenue. This higher quality revenue will enhance the value of the property to an educated buyer, thereby resulting in higher trade values for the property. The quality of the revenue stream can be directly attributed to the ability to generate profit from the revenue.

Profit Margins
We have found that most golf course buyers would prefer that the majority of revenue be generated by golf operations versus food and beverage operations or other profit centers. Buyers generally prefer 60% to 75% of the property’s revenue to come from golf services. Courses with a higher proportion of golf revenue versus food and beverage revenue are generally considered more valuable. When assessing the quality or value of these revenue streams, buyers take into account the higher profit margins typically associated with golf operations when compared to other profit centers such as food & beverage, racquet sports and swimming pools. Successful golf operation can generate profit margins exceeding 40%, while a food and beverage operation can be considered successful operating at a 10% margin. Other sports amenities and programming, which at best may operate at breakeven, are typically viewed as added member benefits and serve as a marketing tool to sell membership.

Golf Course with a Restaurant or Vice Versa
Golf-related revenue is generally considered the most valuable because of the low amount of variable expenses associated with each additional round played. Most golf expenses tend to be considered fixed, as opposed to variable expenses which increase with each unit sold. Once revenue exceeds the cost of maintaining the course, staffing the golf shop and paying for the cart lease, the majority of the additional revenue falls directly to the bottom line. This higher marginal benefit is the main reason that investors value golf revenue streams so highly. Within that, membership dues revenue is often the most desired, as it is less affected by annual changes in weather (compared to daily fee golf revenue).

Conversely, food & beverage revenue will always be offset by cost of goods and labor for both preparation and service. Within food & beverage, banquet and catering revenue is deemed more valuable than a la carte revenue due to the higher profit margins derived from large food and beverage events. Alcoholic beverages generate higher operating margins than food, so this revenue is also considered more valuable.

Example: a golf course grossing $2.5 million with $1.8 million of revenue from golf and $700K of revenue from F&B will typically generate more interested buyers and subsequently trade at a higher price than a course grossing $2.5 million with $1.8 million from F&B and $700k from golf.

Based on our observations, golf course buyers find much more value and are willing to pay higher prices for golf courses with a restaurant as opposed to restaurants with a golf course, based on the quality and potential profit of those revenue streams.
Buyer sentiment within the golf investment market in 2014 can best be described as a year of transition. There is currently a disconnect between buyers and sellers, especially with regard to well performing (significant, positive EBITDA) properties. While deals with negative, breakeven or a small positive EBITDA are still valued using GRMs (Gross Revenue Multiples), high cash flow deals are trying to find a balance between GRMs and EBITDA Multiples. While buyers are still looking for sub-performing “turnaround” deals, many sellers with improved operations in recent years are looking for an exit. So here we are – buyers want distressed assets with huge upside (which are becoming more and more rare), while sellers are looking to capitalize on their improved financial operations. Golf asset valuations have become more complex in 2014 and will continue to be in 2015. (You can contact our group for a free valuation of your golf course at any time!)

In the 1st Half 2014 Golf & Resort Investment Report, we stated that “There will likely be an adjustment period where buyers’ expectations take time to conform to the market.” This is already underway, as several buyer groups remain active despite the general incongruence between buyer and seller expectations. The major private equity deals described throughout this report are a perfect example of the type of buyer that remains active. In our last report, we predicted that “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.” By pairing with established operators, those major acquisitions allow the private equity groups to benefit from massive economies of scale, with each future acquisition also benefiting as well. The following are some of the most active buyer groups from 2014, along with a description of who they are, what golf assets they’re buying, where they are buying, and most importantly, WHY they are buying.

Private Equity Firms
- **Who:** Arcis Equity, Fortress Investments, C-Bons, etc. paired with established operators (e.g. Kohlberg & Co. with Troon, C-Bons with Century Golf, ClubCorp utilizing IPO and stock capital from private investors)
- **What:** Portfolios (as previously described), $5m+ value properties, private clubs preferred (want recurring dues revenue over weather-influenced public golf)
- **Where:** Major Metropolitan Areas, avoid Tertiary locations and most oversaturated markets
- **Why:** Diversify portfolio, greater returns compared to alternative investments, golf market cycle still behind stock market, greater upside in golf vs. other commercial real estate, expense management through economies of scale, desirable REO assets are gone, reset debt basis on well performing assets

Foreign Investors
- **Who:** High net worth individuals or groups from China, Korea, England, Canada, etc.
- **What:** Public and Resort Courses, Development Opportunities
- **Where:** Tourist Destinations, major golf markets (Orlando, Myrtle Beach, Southern California)
- **Why:** Variety of reasons – passion, growing interest in the sport internationally, instability in home country/economy, arbitrage, EB-5 program, relative pricing for real estate in home country

Local/Regional Owners
- **Who:** Small owner-operators who typically own 1-5 courses
- **What:** Courses under $5m (typically $1m - $3m), public or private
- **Where:** Based on current portfolio – properties grouped together geographically
- **Why:** Establish economies of scale with current portfolio, take advantage of distressed assets after years of competition, establish reciprocity between clubs, local market consolidation removes competition

Developers
- **Who:** Single Family or Mixed-Use Residential homebuilders
- **What:** Either infill MPC (platted lots ready to build around existing course) or course repurposing/redevelopment
- **Where:** Still focused on major metropolitan areas, some small repurposing in tertiary markets (value deals under $1m)
- **Why:** Lot inventory is drying up, home values rebounding, few developable tracts in major metros still available while too many golf courses remain, land values

Continued on page 6
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

INDIAN SPRINGS GOLF CLUB
18-Hole Daily Fee Club
Indio / La Quinta, CA  |  $6,000,000
Lead Agent: Raymond Demby  |  Broker of Record: Kent Williams

IMPERIAL LAKEWOOD GOLF CLUB
18-Hole Daily Fee Club
Tampa, FL  MSA  |  $1,750,000
Lead Agent: Terence M. Vanek

THE CLUB AT MORGAN HILL
18-Hole Daily Fee Club
Easton, PA  |  $1,695,000
Lead Agent: Robert Waldron  |  Broker of Record: Mark Taylor

PASADENA YACHT & COUNTRY CLUB
18-Hole Private Club, Marina & Development Opportunity
Gulfport, FL  |  $9,500,000
Lead Agent: Matthew Putnam

WIKIUP GC REDEVELOPMENT OPPORTUNITY
9-Hole Daily Fee Club - 36 Acre Redevelopment Opportunity
Santa Rosa, CA  |  Market Bid
Lead Agent: Raymond Demby  |  Broker of Record: Kent Williams
TO VIEW ALL CURRENT LISTINGS, COME VISIT US AT:
www.LeisurePropertiesGroup.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* | **$4,250,000**
Lead Agent: Steven M. Ekovich | Broker of Record: Bryn Merrey

**CONFIDENTIAL SEMI-PRIVATE GOLF COUNTRY CLUB**
45-Hole Semi-Private Club & Residential Community
*North Carolina* | **$21,500,000**
Lead Agent: Christopher Karamitsos | Broker of Record: Allen Smith

**EAGLE RIDGE GOLF CLUB**
18-Hole Daily Fee Club
*Ft. Myers, FL* | **$2,100,000**
Lead Agent: Matthew Putnam

**WEDGEFIELD GOLF CLUB**
18-Hole Daily Fee Club
*Orlando, FL* | **$1,300,000**
Lead Agent: Matthew Putnam

**SOUTH PADRE ISLAND GOLF COMMUNITY**
18-Hole Daily Fee Club & Development Opportunity
*Laguna Vista, TX* | **Market Bid**
Lead Agent: Steven M. Ekovich | Broker of Record: Timothy Speck

UNDER CONTRACT

UNDER CONTRACT
BUYER SENTIMENT — 2014 YEAR IN REVIEW  
(CONT. FROM PG 5)

still low compared to market peak, local governments more open to repurposing already closed courses

Passion Buyers

• Who: Golf Professionals, Superintendents, GMs (often paired with an equity partner), high net worth individuals from other industries
• What: Courses under $3m, public or private
• Where: Generally secondary or tertiary markets
• Why: Passion for golf, trophy asset to use in conjunction with other business interests (host meetings, outings, etc.), apply existing business acumen to golf

Despite the pricing disconnect described above, 2014 was a huge year for golf with approximately $1 BILLION of capital infused into the market. We believe that ClubCorp and the PE firms that made major investments into golf this year are ahead of the game, and smaller investors will soon follow suit. These buyers have realized that the sales market is changing – the REO “steals” and quick turnaround deals are virtually gone. Instead, they still recognize the opportunity currently available in the golf industry and have identified a number of other reasons why golf is a desirable investment class.

We expect market consolidation to continue, putting additional pressure on the already stressed individual owners. Two ownership groups particularly affected are municipal golf courses and member-owned private clubs. More and more cities are considering options for their courses, which continue to operate at a loss. Expect more of them to be leased or managed by third-parties, sold, closed and/or redeveloped into residential or other uses. Meanwhile, member-owned clubs are finding it more difficult to compete with the reciprocity and lower expense structure of the major private club owners. Expect more of these clubs to be sold to (or at least managed by) these major owner-operators. 2015 should be another exciting year for the golf investment community, as the market recovery continues and the transition towards buyer/seller equilibrium inches closer.

CAPITAL MARKETS / COURSE FINANCING

By Steven Ekovich  Steven.Ekovich@MarcusMillichap.com

With the Fed looking to “normalize” monetary policy and presumably stay on track to raise interest rates in the second half of 2015, the market is focusing its attention on core prices as a means of deciphering the true impact of falling oil prices on inflation. A bleed over from oil into a broader array of goods and services could prompt the Fed to further delay rate increases as a means of tempering deflation and an associated downward spiral in wages and consumption. In response to these concerns, the yield on the 10-year Treasury stood at 1.96%. So what do stable interest rates mean for golf investors?

In short, lower interest rates will benefit anyone wishing to finance a golf acquisition or to refinance, as the low cost of money allows more free cash flow after debt service. This translates into higher loan to values and overall lower payments. Conversely, if interest rates increase that will reduce the value of all real estate (including golf courses) because the course’s EBITDA will not be able to cover as much debt service, resulting in lower loan to values and asset pricing.

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, especially with gas prices falling.

Who is currently lending in golf? National Lenders (lenders who historically had a golf division willing to lend on golf in any geography) and Conduits. However, every time we write this article, the financing market’s stranglehold on the golf industry seems to loosen a little more. Lenders aren’t about 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.

<table>
<thead>
<tr>
<th>Lending Type</th>
<th>Interest Rate</th>
<th>Loan to Value</th>
<th>Debt Coverage Ratio</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional Bank Loan</td>
<td>5.5-6.5%</td>
<td>60-70%</td>
<td>1.3-1.4</td>
<td>15, 20 yrs</td>
</tr>
<tr>
<td>SBA Guaranteed Loan 7A Program</td>
<td>1.5-2.75%</td>
<td>50-70%</td>
<td>0%</td>
<td>25 yrs</td>
</tr>
<tr>
<td>Life Company</td>
<td>4.75-5.25%</td>
<td>10-15%</td>
<td>5, 10 yrs</td>
<td>20 yrs</td>
</tr>
<tr>
<td>Bridge Loan</td>
<td>9-14%</td>
<td>65%</td>
<td>10 yrs</td>
<td>25 yrs</td>
</tr>
<tr>
<td>Hard Money</td>
<td>10-15%</td>
<td>60-70%</td>
<td>1-3 yrs</td>
<td>60-70%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>0%, unleveraged IRR</td>
<td>up to 8-12%</td>
<td>50-60%</td>
<td>deal on profit splits</td>
</tr>
</tbody>
</table>

Every year our team is represented on the golf finance panel at the annual Crittenden Conference and there seems to be a
On only a few short years ago, acquisition opportunities for Master Planned Communities (MPC) saw few takers. The housing market had just crashed and the Great Recession was upon us. Many golf courses that were the focal amenity for driving MPC lot sales were either going dark or selling for pennies on the dollar due to the stall in home building. This in turn led to a lack of the “captured audience” originally envisioned to keep the golf course a sustainable asset. Developers also found themselves competing with the short sale, foreclosure and resale markets, furthering the lack of new housing starts. Today MPCs have seen a complete reversal of fortune.

Though economic growth remains slow, investor confidence has been healthy and there is once again a strong appetite for development deals, and not only among those whose core business is developing MPCs. A significant number of the golf-centric investors we spoke to in 2014 expressed an interest in golf assets with an additional development component. This is primarily due to the surging velocity and absorption rates in both lot sales and housing starts, as well as most of the foreclosure product clearing the market.

2011 marked a turnaround year for MPCs and it has only gotten better since then. One of the perennial leaders among MPCs, The Villages in Sumter County, FL, has seen steady growth over the last four years. In 2011 they led the nation with 2,307 lot sales. In 2014 they again led the nation delivering over 3,100 lots and through Q2, realized new housing starts of 3,447. This also illustrates how a MPC in a tertiary market can grow to become a full-fledged city. Located an hour northwest of Orlando and two hours north of Tampa, The Villages now has a population of 51,000 people, 29,000 residences and is currently 80% built out. It is success stories like this (coupled with current industry trends) that have sparked investor demand for development deals.

Florida and Texas Lead the Way

The two leading markets for MPCs are still Florida and Texas. These two states lay claim to 12 of the top 20 MPCs in the country. Most MPCs in these markets have seen steady year-over-year growth. In fact, 75% of the top communities in Florida combined to average a 21.3% increase in new housing starts from 2013 to 2014. Houston, TX, which has six of the top 20 MPCs in the country, had all but one of its communities realize positive growth in new housing starts. The combined average of new housing starts among the...
Continued on page 9
THE RESURRENCE OF THE MASTER PLANNED COMMUNITY

(Cont. from pg 8)

CC&R Mandate – In addition to (or instead of) requiring compulsory membership to the golf club, some developers have written into the Conditions Covenants & Restrictions that the Property Owners Association pay for the maintenance of the golf asset up to a certain dollar amount. This will generally ensure that the golf club will always remain a viable asset and that the course will never adversely affect the property values in the community.

2015 MPC Outlook

Despite a sluggish finish to 2014 housing starts, the outlook for 2015 is positive according to Metrostudy. They predict modest increases in both single family and multi-family starts. That is based on builders having been aggressive in land and lot acquisitions over the past three years and that the number of new lots being delivered each quarter is rising rapidly. Metrostudy is forecasting an increase in housing starts for 2015 based on builder intentions and lot supplies. If job growth continues, then new home demand will as well.

There are two trends for golf MPCs that we expect to continue through 2015. First is the buying of distressed or poorly located golf courses to be closed for redevelopment, a trend which has been growing in recent years. Major developers now see the advantages of buying these large tracts of land at a discount and starting with a clean slate to create their community, despite the risk associated with gaining zoning, land use and development plan approvals.

The second area where golf course MPCs should continue to see significant interest is for communities with a large inventory of ready-to-build home lots. These locations are typically located outside of major metropolitan areas and less than 50% built out, but already have all of the necessary approvals to begin construction immediately. By purchasing these “broken” communities at a significant bulk discount, the new developer-owner can reset the lot pricing to be more competitive within the local market.

With its track record of success in the golf and resort airspace and its continuing evolution towards the most complete national platform in the industry, the group rebranded itself in 2014, changing its name from the National Golf & Resort Properties Group to the Leisure Investment Properties Group. As part of the rebranding, the group has expanded its focus on resorts and master planned communities and bolstered its Marina Division by naming Matt Putnam the National Director and hiring Andrew Cantor as an Investment Advisor. Mr. Cantor brings 15 years of financing, brokerage and underwriting experience in the marina airspace to the team. In total, the Leisure Investment Properties Group now has nine full-time leisure asset brokers.

In 2014, the National Golf Division of the Leisure Investment Properties Group continued its torrid pace of sales volume, averaging more than one course sold per month, with 14 total for the year. That brings the group’s total to 63 courses in the last few years. Highlights from the second half of the year include the sale of Limestone Springs in Onetona, AL by Steven Ekovich and the sale of Pelican Bay in Daytona Beach, FL by Matthew Putnam. Limestone Springs is a master planned community and top five golf course in the state of Alabama, while Pelican Bay is a 36-hole course with potential for residential redevelopment.

As a testament to the group’s success, and certainly his own hard work and ambition, Ray Demby was recognized as one of the top 30 “Up and Comers” under 30 years of age by the Tampa Bay Business Journal in November. This award highlights local business executives quickly moving up the ranks in their respective fields. Ray started as a Financial Analyst with the group in 2012 and in 2014 was promoted to Investment Advisor and Head of Research & Analysis.

With 2014 in the rearview mirror, a look ahead shows that the table is set for the LIPG to have its most successful year yet in 2015. The group currently has nearly $50M of sales in contract and more than $75M in exclusively listed inventory. The group also has several exclusive buy-side agreements with groups that are aggressively looking to expand their portfolios.

In the coming weeks we will publish our second annual Golf Investor Sentiment Survey. We look forward to getting all of your responses and sharing our findings, continuing our efforts to provide our clients with the most salient and prescient data in the golf industry. We are looking forward to a very exciting year and are here to help make it a great one for you as well!

Pelican Bay Golf Club
In 2013, the improvement in average price per transaction exceeded 10%, the first such improvement in over six years (2007). Average price per transaction in 2014 held onto those gains, rising modestly from $3,312,007 to $3,320,594, or 0.26%. However, this DOES NOT include the four major portfolio deals. For example, the Arcis purchase of CNL’s 46 courses for $306.5M averages to $6.66M per transaction, and if included would measurably improve the YoY average.

Though exact figures are impossible without further valuation detail on the underlying pieces within the four portfolios, it is safe to say that 2014 benefitted from a massive recapitalization of the industry’s golf stock, and all average, median, and velocity metrics were measurably up. The Leisure Investment Properties Group tracked 117 golf course transactions within the industry’s Investment Tranche during 2014, NOT including the four mega-portfolio deals. Including the portfolios, over 200 golf courses traded, up significantly from the 137 and 151 Investment Tranche transactions in 2013 & 2012, respectively. Further evidence of a healthier investment environment in golf is that only 20% of all deals occurred in the smaller rural and agricultural < $1M sales tranche, while 72% of deals occurred in the $1M - $10M investment tranche, with the remaining 8% of deals transacting over $10M. As such, median price improved in 2014 from $2,750,000 to $2,975,000, or 8.18%

Including the portfolios, total transaction volume totaled nearly $1.5 Billion, the largest such activity level for the golf airspace in history. Golf asset pricing continued to push forward from its 2012 bottom, despite reports of stagnant operational metrics and concerns of falling demand and popularity. In fact, after seven years of operational declines at the facility level, a bump in 2012 followed by a very mild, weather-deflated 2013 and 2014, the investment market grasped onto the positive and further signaled their bullish optimism by injecting historic levels of capital into the course stock.