Investor Confidence Remains High, Despite Challenges

In order to continue providing our clients with the most unique, prescient and predictive market research in the golf industry, the Leisure Investment Properties Group of Marcus & Millichap publishes an annual Golf Investor Sentiment Survey for golf asset owners, managers, prospective buyers, appraisers, lenders and other consultants. Despite concerns regarding the golf industry as a whole, investors remain confident in their ability to gain market share and improve operations in 2015. Unlike most golf market research, our survey focuses on owners’ investment strategies and future expectations, rather than the past operational performance of their golf course or courses. The following report contains analyses of several of the most intriguing themes deduced from the survey results and accompanying survey data. Several of these and other survey topics will be explored in greater depth in our upcoming Golf & Resort Investment Report – 1st Half 2015.

As an annual survey, our research team will continue to track and publish this data year-over-year in order to establish an industry benchmark for the overall health of the U.S. golf market from an investor’s perspective. We’d like to thank all of the survey participants who completed the online questionnaire and we appreciate your thoughtful input. Keep an eye out for the next survey installment to come out in early 2016. Participants who provide an email address and complete the survey will also receive a detailed report on the survey results, which includes response breakdowns for each survey question.

What is the Golf Investment Index (GII)? The Golf Investment Index is a proprietary scale developed by the Leisure Investment Properties Group in order to track golf investor confidence. The GII can range from 0.0 (a dead economy) to 100.0 (a perfect golf investment economy), with a score of 50.0 representing the baseline of a normalized market. The survey questions used to create this index focus on forecasting which direction the golf industry is heading, rather than the current state of the industry today. Another way to interpret the Golf Investment Index is that a score of 50.0 means that the industry is evenly divided between golf optimists who believe the market is on the way up, and pessimists who doubt golf’s recovery. The Golf Investment Index for 2015 is 63.4, or essentially unchanged from the 2014 figure of 63.2. This means that the majority of the investment community still has a positive outlook for their golf assets and the entire industry in 2015.

Significant Findings

- The most popular region for golf ownership of those surveyed was the Southeastern United States
- Only 5% of investors believe that public rounds played or average rates at their golf course(s) will decrease
- 90% think that private membership counts and average dues rates will increase or stay the same in 2015
- The most important valuation metric for golf assets for those surveyed is EBITDA Multiple / CAP Rate
- 72% of all participants are confident that the U.S. Economy will improve in 2015
Participant Data

Researcher’s Interpretation of Survey Data
- Developable Land is the Most Popular Non-Golf Real Estate
- 39.6% of Participants Only Own Golf Assets
- Nearly Half of the Owners Hold Their Assets for 3-10 Years
- No Participants Plan on “Flipping” Courses within 2 Years
- Southeast is the Most Popular Golf Ownership Region
- 24% Own Golf Assets in Multiple Regions
- Nearly 75% of Owners & Managers Do NOT Outsource
- F&B Operations are the Most Likely to be Outsourced

Public Golf Outlook

Researcher’s Interpretation of Survey Data
For the second consecutive year, participants are extremely optimistic regarding the outlook for public golf. Nearly half of the respondents believe that average daily fee rates at their course(s) will increase in 2015, while 75% of respondents are confident in their ability to similarly grow public rounds played. Alternatively, only 5% believe average rates are “Somewhat Likely to Decrease” in 2015 and 3% answered the same regarding public rounds played. Not a single participant answered that public rounds or rates were “Extremely Likely to Decrease” in 2015. As you can see from the curves on the graph above (Figure 3), participants are more optimistic regarding their ability to grow rounds (likely to increase) versus average rates (likely to remain the same).
**Private Golf Outlook**

- Most Participants (~90%) Believe that Member Counts, Dues Rates and Initiation Fees Will Each Increase or at Least Stay the Same in 2015
- 61% of Participants Believe that Initiation Fees Will Remain Flat this Year
- 55% Believe Private Dues Rates Will Increase
- 58% Believe Membership Counts Will Increase
- Slightly More Confident in Their Ability to Increase Private Dues Rates than Public Daily Fee Rates

**Researcher’s Interpretation of Survey Data**

While not quite as optimistic as their outlook towards public golf, participants exhibit a similar attitude towards the future of private golf in 2015. The data indicates that initiation fees do not appear likely to rebound to pre-recession levels in the near future, as evidenced by the second consecutive year where the majority of respondents expect initiation fees will remain the same in the coming year. On the positive side, a similar majority also believes that both private membership dues rates and membership counts are either “Somewhat” or “Extremely Likely to Increase” in 2015. Another third of participants predict that both dues rates and member counts will at least “Remain the Same” this year. If you consider the relationship between rates and volume (i.e. public rounds & membership counts), participants have a more balanced outlook for private golf compared to public. While participants are more confident in their ability to grow public rounds (75%) over daily fee rates (47%), they are almost equally optimistic in their outlook towards private member counts (58%) and dues rates (55%).

**Acquisition Criteria & Valuation Metrics**

**Researcher’s Interpretation of Survey Data**

We asked all participants (owners, managers, prospective buyers and consultants/other) to rank the acquisition criteria and valuation metrics listed above in order of importance (1 = most important, 4/5 = least important). Above are the weighted rankings across all respondents. Note that the most important valuation metric (EBITDA Multiple / CAP Rate) is used to measure the most important Acquisition Criteria (Present Cash Flow) relative to price. Furthermore, the second valuation metric (Gross Revenue Multiple) is typically used to underwrite distressed or “turnaround” deals, which are bought based on their ability for Capital Appreciation (Acquisition Criteria 2 & 3). Long-term investment strategies (Development/ Alternative Land Use) were the least important criteria used in potential acquisitions.

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U.S. Economy vs. Golf Economy

- 72% of All Participants Are Confident that the U.S. Economy Will Improve in 2015
- The Golf Industry Outlook is Less Optimistic, with 47% Confident It Will Improve this Year
- Very Few “Extremely Likely” Responses (Either Positive or Negative)
- U.S.: 70% Optimistic | 20% Neutral | 10% Pessimistic
  Golf: 50% Optimistic | 30% Neutral | 20% Pessimistic

Figure 7

Researcher’s Interpretation of Survey Data

Compared to 2014’s results, participants are much more optimistic regarding their outlook for the overall U.S. Economy in 2015. While 55% of respondents were either “Somewhat” or “Extremely Confident” in the ability of the U.S. Economy to improve in 2014, this figure grew to 72% in 2015. Similarly, 2014’s negative response rate of 23% was more than cut in half by 2015 (10%). Alternatively, the data regarding participants’ outlook for the future of the U.S. Golf Industry was almost unchanged between 2014 and 2015. Both years’ data showed just under half (48%) of respondents were either “Somewhat” or “Extremely Confident” in the future of the Golf Industry, with approximately 20% of participants providing negative responses. This data leads to an interesting conclusion – participants believe that the U.S. Economy is poised for a better recovery in 2015 than the golf industry. With that said, we know that the golf industry typically lags behind the overall U.S. Economy, as increased disposable income and discretionary spending directly impacts golf participation and utilization. If the U.S. Economy does follow participants’ projections, expect to see more optimism toward the golf industry in 2016.

Conclusion of Findings

In this space of last year’s 2014 Golf Investor Sentiment Survey, we concluded that “Despite legitimate concerns regarding national trends such as participation rates and changing demographics, investors remain optimistic towards the future of golf.” This appears to hold true in 2015. As described above, the difference in expectations towards the U.S. Economy compared to the Golf Industry means there are investor concerns within the golf industry. Investors believe that although more people will be employed, making and spending more money, it may not translate to similar market-wide increases to golf. Despite these concerns, investors remain confident in their own unique ability to improve operations, meaning they likely expect to “steal” market share from competitors or otherwise outperform the overall golf market. While 48% of owners and managers surveyed expect the golf market to improve in 2015, 82% expect the EBITDA from their golf portfolio to increase this year.

Last year, 68% of owners and managers expected public rounds played at their facilities to increase – according to the NGF (National Golf Foundation), public rounds played actually decreased 2.2% throughout 2014. Despite last year’s results, 75% of the same respondents remain confident that public rounds played at their course(s) will increase in 2015.

Is this a sign of investor denial, or other market factors? Based on the available data, we may be able to explain the variation between individual investor expectations and industry-wide totals. By utilizing improved operating fundamentals (including large economies of scale), owners can minimize expenses, helping to explain the optimism regarding golf portfolio EBITDA described above. According to the NGF, there were 144 net golf facilities closed in 2014, or approximately 1% of the total industry supply. This decreased competition could explain why investors remain confident in their ability to increase public play, despite lacking the same confidence towards industry-wide totals. Regardless of the concerns they perceive within the overall golf industry, investors remain very confident in their personal investment strategy and the future of their golf assets.
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Ray joined the Leisure Investment Properties Group in early 2012 as a Financial Analyst & Marketing Coordinator. Since that time, Ray has personally underwritten over $1 BILLION of golf and resort assets. Ray was named Head of Research & Analysis for the team in 2014, spearheading the creation of LIPG Golf Investor Sentiment Survey. He has also contributed to the ongoing evolution of the team’s semi-annual Golf & Resort Investment Report, writing several articles per issue and assuming a role in the editing and composition of the report itself. Before being named Head of Research & Analysis, Ray was promoted to Senior Financial Analyst in 2013 and also took on the role of Investment Advisor beginning in 2014. In addition to his duties as the Head of Research & Analysis, Ray continues to represent buyers and sellers as an Investment Advisor.

In addition to industry-wide market research, such as this report, the LIPG also offers clients individualized advisory services. Feel free to contact our team for a Strategic Analysis of your golf asset(s) at no cost. This analysis takes into account your property's financial performance, competitive market positioning, demographics and other factors to determine the owner's best course of action moving forward. Each Strategic Analysis ends with a personalized recommendation which may include bringing in professional management, adding capital improvements to grow revenue, refinancing or selling the golf asset. This recommendation is created with each individual client’s short and long-term investment goals in mind. Combined with an accurate and current market valuation, this advisory report provides owners with the data necessary to make informed business decisions moving forward.

Survey Methodology and Participation

Breakdown of Responses by Participant Type: Owners & Managers = 39.7% | Prospective Buyers = 16.6% | Other = 43.7%

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