LIPG

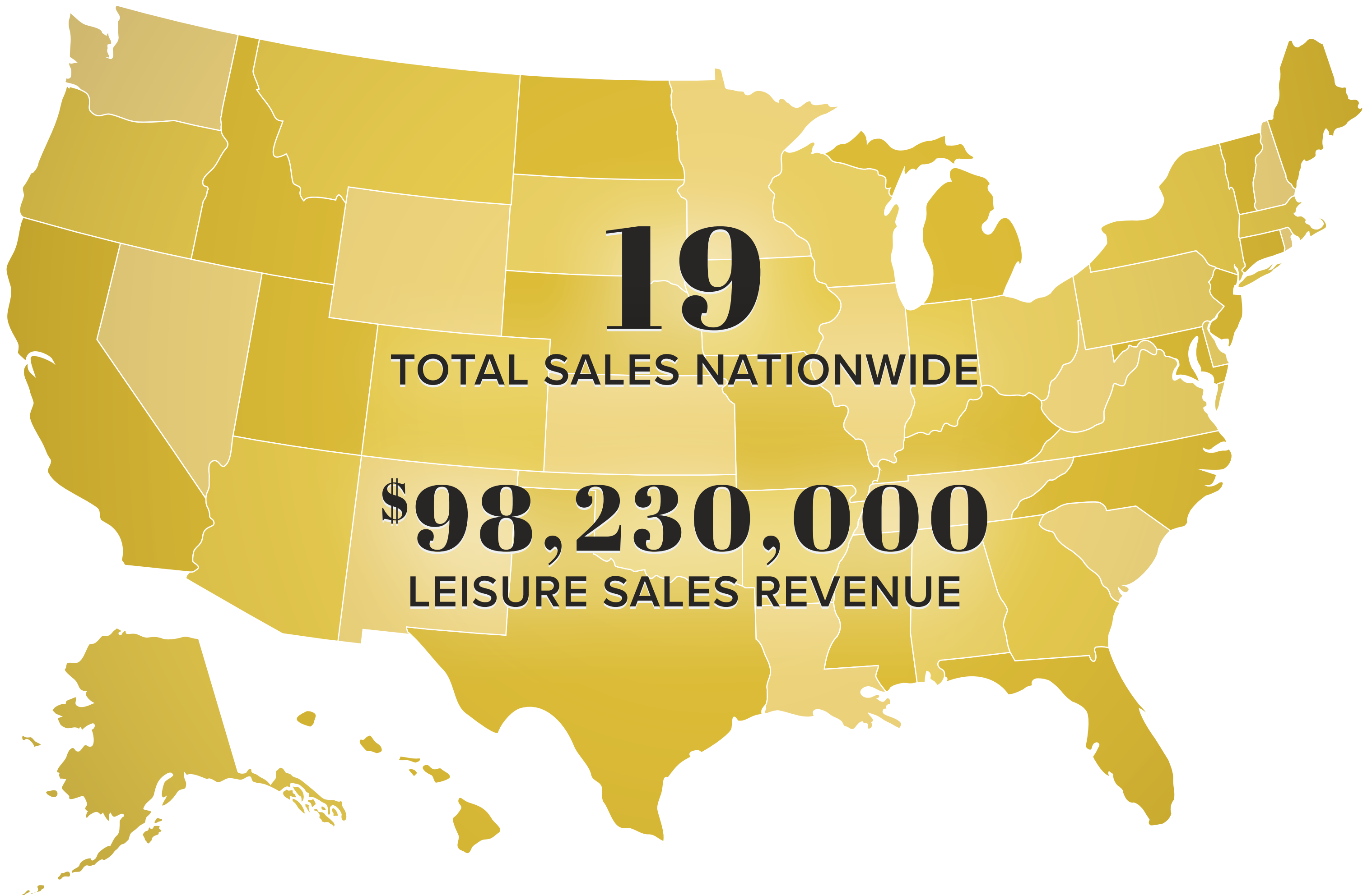
LEISURE INVESTMENT PROPERTIES GROUP

2024

BOUTIQUE HOTELS INVESTMENT REPORT

LIPG
LEISURE INVESTMENT PROPERTIES GROUP

2023 YEAR IN REVIEW



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VISION

To be the preeminent leader in business-driven leisure investment real estate and advisory services.

MISSION

To help our clients create and preserve wealth. We deliver exceptional transactional expertise, superior market knowledge, and the industry's most powerful marketing platform at a personal level, treating each client's best interests as our own.

GUARANTEE

Our clients will have the clarity, knowledge, and power to make sound business decisions that will maximize their investment strategies and achieve their vision for the future.

A TRUSTED VISION FOR THE FUTURE

Leisure Investment Properties Group (LIPG) was founded in 2009. Formerly known as the National Golf & Resort Properties Group, LIPG has become the recognized industry leader in golf course and marina sales nationwide.

The firm provides brokerage and advisory services exclusively to the Leisure Investment Industry which includes boutique hotels, resorts, golf, marinas, master-planned communities, RV Communities, and other leisure properties. Since its inception, LIPG has sold more than 185 properties by utilizing its extensive database of prospective buyers, powerful platform, and proactive marketing techniques. The management team has more than 150 years of combined experience brokering boutique hotels, golf courses, marinas, master-planned communities, and other commercial real estate assets.

INSIDE THIS ISSUE

7 State of The Market Boutique Hotels

12 The Dept Hangover: Will It Hurt The Hospitality Market

15 Meet Our Newest Team Members

16 LIPG Contact Information

Editor-in-Chief
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Announcement From Leisure Investment Properties Group

Steven Ekovich —Executive Managing Director – Partner

We are thrilled to share the exciting news of two esteemed additions to the LIPG family. Greg Lewis, formerly the Managing Director at Leisure Financial Group and Textron Financial Corporation, has joined LIPG to lead our capital markets group. With over 30 years of experience in corporate lending, Greg stands as the top originator of golf and marina loans nationwide. Greg also has extensive experience in hospitality, RV parks, and commercial origination.

Additionally, we welcome Jeff Dugas from Leisure Appraisal, a distinguished figure in the field of golf, marina, hospitality, and RV appraisals. As an MAI and SGA, Jeff brings three decades of expertise, having worked closely with some of the largest golf and marina companies in the nation on their appraisals, asset allocations, and tax appeals.

Their inclusion in the LIPG team expands our range of services, including Advisory, Brokerage, Research, Capital Markets, Appraisals, and Tax Appeals, making us the sole firm in the nation to offer such comprehensive solutions.

The motivation for gathering these industry leaders in one collaborative space is straightforward: our clients consistently sought guidance on financing, appraisals, and tax appeals. Considering this demand, we have assembled a team of exceptionally skilled professionals to cater to our clients' needs in a manner unmatched by any other firm.

At LIPG, the foremost golf, marina, RV, and boutique hospitality firm in the nation, our mission is to protect our clients' equity in their assets. We accomplish this by guiding them both, to seize opportunities when they are available and navigate foreseen challenges with the expert guidance we provide. Our client-centric approach is devoted to fostering long-term relationships, serving as a bridge to a prosperous future.

For more information on our new partners, please refer to the resumes provided in this report.

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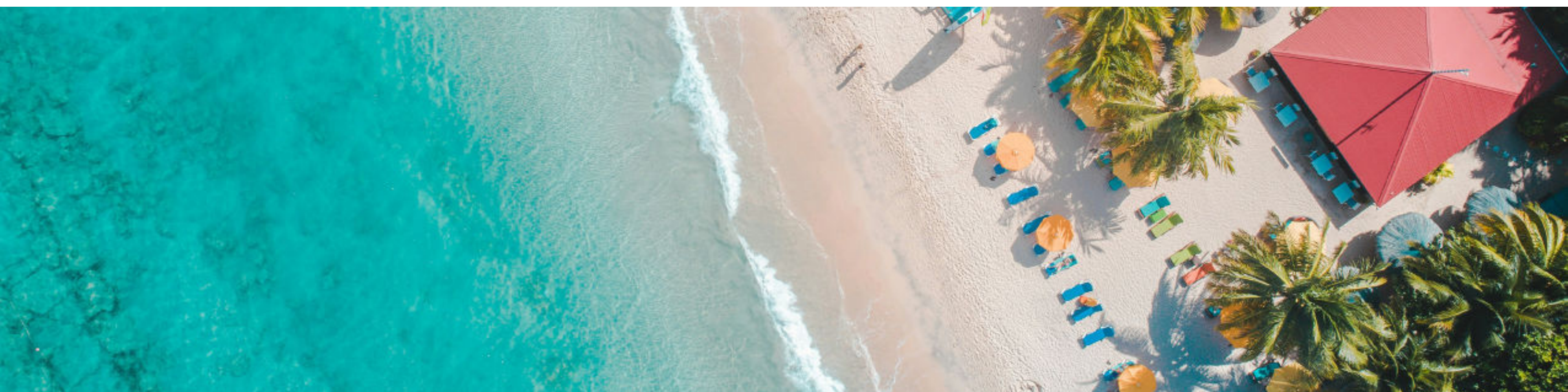
EXECUTIVE SUMMARY

Over the last 24 months, the Caribbean has experienced significant growth, with the region reaching an all-time high in major hotel performance metrics in 2023: occupancy, ADR, and RevPAR. This positive trend is expected to continue, although subject to the region's vulnerability to hurricane activity. Travel to the Caribbean is anticipated to increase, making investment in trophy properties appealing, while smaller boutique property transactions may become less frequent but remain an attractive entry point for investors. Despite challenges like financing difficulties and increased insurance costs, interest in new hotel and resort developments persists, driven by sustained demand that outpaces supply. With minimal hurricane disruption in 2023 and ongoing improvements in air routes and cruise ship ports, the Caribbean remains poised for further growth in ADR and demand throughout 2024 and beyond.

KEY 2023 BOUTIQUE HOTELS MARKET TAKEAWAYS:

Demand Levels:		Soft Brand Hotels Recovery:	
Room Venues:		Luxury Boutique Hotels:	
Lifestyle Hotels Performance:		Annual Supply:	



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State Of The Market: Boutique Hotels

Robert Marro, CCIM —Vice President of Investments, Hospitality Division

Boutique hotels continue to report solid occupancies and healthy ADRs, and collectively achieved increases in all performance indicators according to the Boutique Hotels: Mid-Year 2023 report.

Lifestyle (LS) upper-upscale-luxury, and independent (indie) luxury hotels were the only classes slightly below ADR compared to the same period last year. The strongest RevPAR increases were in the LS upscale-upper midscale, and soft brand (SB) upper-upscale class. At mid-year 2023, boutique hotel occupancy levels indexed ahead of all U.S. hotels, while ADR, RevPAR, and revenues were behind compared to mid-year 2022.

Each segment of boutique hotel product has a positive story to tell whether in occupancy, ADR, or revenue increase, compared to the previous interest in the development of the boutique hotel product is justified by continued solid performance.

- Demand up 8% and room revenues up 9% year-to-date.
- LS hotels average largest increases in performance.
- 5 percentage point premium for SB hotels in RevPAR recovery compared to U.S. hotels.
- Luxury boutique hotels stabilize in rate growth.
- 29% annual supply increase projected for branded boutiques through 2027.

OPERATING PERFORMANCE

Boutique hotel supply was approaching 135,000 rooms at mid-year 2023. Supply fluctuations include a decline in SB upscale-upper midscale hotels largely due to an upgrade in the Tapestry Collection brand to upper-upscale. Some slower-than-average performance growth for this segment currently results from the removal of this brand. In addition to class changes, other factors that impact supply include conversions and de-flagged hotels. Through June, the overall boutique hotel supply was slightly ahead of 2022 at an increase of 1% and at parity with same-class U.S. hotel supply growth. LS upscale–upper-midscale hotels led at 2.4%, which compares to all U.S. upscale hotel at 1% and all upper-midscale hotels at 0.8%.

STR reports boutique hotel room revenue increased at a strong pace, up 9% through June, however, behind the same class of U.S. hotels at 11%. Revenue increases vary widely by class groupings and are led again by LS upscale–upper midscale hotels at 16%. This is compared to U.S. hotel revenue increases for upscale and upper midscale hotels of 13% and 9%, respectively.

Demand for boutique hotels increased at 8% through June 2023 compared to the same period in 2022. This is stronger than same-class U.S. hotels which reported growth of 6%. Demand rose within a range of 0.2% to 12.4% year-to-date through June, and was led by LS upper-upscale-luxury hotels.

This compares to all U.S. upper-upscale hotels and all luxury hotels at 10% to 7%, respectively.

Through June, boutique hotel occupancies increased 4 points year-to-date, reflecting a change of 7% and higher than same-class U.S. hotels at 5%. LS upscale-upper midscale and SB upper-upscale hotels achieved 69% occupancy during this period.

INTEREST IN BOUTIQUE RESORT REMAINS STRONG.

The global Boutique Hotel Market size is valued at USD 99.5 Billion in 2023, and is projected to reach USD 155.7 Billion by 2030, growing at a CAGR of 6.6% during the forecast period 2024-2030.

Collectively, boutique hotels reported a modest increase in ADR through June. Changes vary widely per segment, with the largest increase led by LS upscale-upper midscale hotels at 7%. Luxury-class boutique segments either declined or barely increased during this period. By comparison, U.S. luxury class hotels increased ADR by only 0.4% year-to-date through June. Although ADR growth seems to have stabilized year to date for luxury boutiques, ADR achieved during this period for SB and indie luxury hotels was higher than all U.S. luxury hotels at $338.

RevPAR increased for all boutique classes at a total of 7% compared to last year. Once again, LS upscale-upper midscale hotels led with an increase of 13% compared to June 2022. This increase is compared to U.S. upscale and upper midscale, which reported respective RevPAR gains of 12% and 8% during this period.

What has been recently prevalent, is boutique resorts are sourcing restaurant operations to third parties. While some control is lost, partnering with a reputable operator provides an additional income stream without some of the operational headaches associated with running and operating a restaurant.

This has resulted in Cap rates to exceed the industry norm.

THESE ARE THE FASTEST GROWING SEGMENTS OF THE BOUTIQUE INDUSTRY.

- **Luxury Boutique Hotels:** Designed for travelers seeking a high-end, indulgent experience with top-notch amenities, fine dining, and exclusive services.

- **Budget Boutique Hotels:** Offering boutique-like features and aesthetics at a more affordable price point, these cater to cost-conscious travelers.

- **Adults-Only Boutique Hotels:** Geared toward couples and adults seeking a quiet and romantic getaway, often excluding families with children.

CAPITAL MARKETS OUTLOOK

While a potential economic slowdown will have impact throughout the hotel industry, one of the areas poised to see the biggest challenge is the hotel lending market, according to several experts.

While the signs [of an economic slowdown] point to a soft landing, if the economy goes into recession, it will put downward pressure on hotel performance.

The second significant risk is the expiration of interest rate protection on deals closed in 2021 and 2022. This may cause significant expense due to the continued rise in short-term rates during the past 18 months.

COVERAGE CHALLENGES

The number one challenge is that benchmark rates have risen quickly and cashflow from the hotels has not.

Many hotels right now are challenged with coverage. A lot of the private hotel lending market is a floating-rate market. When the benchmark rates accelerated as quickly as they did, a lot of people were protected for some period because they bought interest-rate caps. They had one or two or three years of protection as those caps burn off. The cost to replace those caps has gone up tremendously. It's really, really expensive to hedge the benchmark rate now.

The credit-market spreads have blown out because several lenders have pulled out of the market. We think of the spreads like a pendulum—when lenders come into the market, the spreads come in. When the supply of lenders pulls back out and fewer lenders are quoting, the spreads widen. The unusual factor is that benchmark rates have accelerated quickly, and the spreads have also widened. It's like the markets got hammered twice on the rates side.

There are 32% fewer lenders in the market today than there were 12 months ago. I think for borrowers overall, there are fewer lenders out there willing to lend. When you micro that down to the hotel [market] specifically, it depends on what you're trying to purchase.

Today, there is a diminishing pool of individuals ready and willing to engage in construction loans, paralleled by a decreasing number of banks inclined to extend credit for hotel projects. This scenario opens a window for private capital to step in and facilitate lending for boutique and resort hotels.

The overarching challenge is the dialing back of capital availability to the hotel sector, and additional real estate sectors by banks and other institutional lenders, said Don Braun, president of Hall Structured Finance. "Deals are simply harder to pencil with the increase in interest rates and other costs. Borrowers seeking to refinance existing assets need to prepare to bring in additional equity to execute."

Not everyone is as concerned about the lending market for hospitality today—in fact, some have said there is a "relatively strong lending market for hospitality right now."

Frankly, [the hospitality lending market] is much stronger today than it was 12 months ago—that might come as a surprise, but there's several reasons for that. First, is that operating fundamentals in hospitality have continued to be strong and have strengthened over the course of the past year, and as a result, lenders are responding by lending in the space.

If you look at some of the other asset classes like multifamily and industrial, they were on a tear [in 2021 and 2022], so there's a significant amount of debt capital that was being allocated to those sectors. But those are highly rate-sensitive sectors. When the Fed started their tightening campaign in March of 2023, those sectors were adversely impacted. It's adversely impacted the capital markets as it relates to hospitality and values, but at the end of the day, we have the ability to reset rates every night. We could respond in an inflationary environment by increasing our ADRs, as a result, our NOIs have held in strong. You are seeing lenders being attracted to the space. A lot of the capital has migrated from other asset classes into hospitality.

MARKET RISKS

Coming out of the COVID pandemic there was a fair amount of pro forma underwriting—effectively underwriting a ramp-up scenario for hotels. Traditionally, lenders have favored extending loans based on established operational performance. However, the widespread downturn in hotel performance due to the COVID-19 pandemic has disrupted this pattern. If you aimed to be a lender in the hospitality sector between 2021 and early 2023, you were compelled to finance based on anticipated income that often failed to materialize. While some properties experienced a gradual income increase as the sector recovered, others didn't meet anticipated performance levels. The challenge with some assets where the loan was made based on pro forma underwriting, was the cashflow never reached the level in the business plan, and the cost of debt had also gone up by 500+ basis points over the past 20 months.

Tamarind Reef Resort Spa & Marina - St. Croix, U.S. Virgin Islands

As a result, there are situations where the asset is unable to support the debt service because it hasn't ramped up in accordance with the business plan.

Another risk in the lending market right now is those deferred PIPs. Hotel owners have survived COVID but deferred their PIPs, and they've put a lot of capital into these deals to survive until now. Instead of putting that capital into the actual asset, they've put that capital into carrying it for two or three years.

The industry will have a lot of borrowers who simply do not have any money left. And they're going to throw the keys at the lender. If your borrower was not well-capitalized to get through COVID, they've been carrying an asset for a lot of years and will have a big PIP that's due. It is going to be pretty difficult for them to be able to do it. Either it has value and they will sell it, or they are going to give the keys back to the lender.

Regarding new originations, the primary risk lies in the increased interest rates. If you're dealing with debt ranging from nine to 13 percent and can only secure a debt yield of 10 percent, you'll end up with a loan that will never generate positive cash flow.

The industry economic risks will be mitigated the old-fashioned way, making sure that you are putting loans on strongly positioned assets owned by borrowers who can weather the short-term risks that may occur. The most important thing for the users of capital to understand is that they need to have realistic expectations. Unfortunately, interest rates and underwriting requirements are not the same in the 2020s as they were in the 2010s.

In many respects, experts expect the 2024 hotel debt market to play out much like 2023. The pulling back by banks and other institutional lenders will

be more pronounced than it has been building throughout this year, creating a larger need and opportunity for private lenders and other alternative financing sources to fill the void.

We expect private lenders to play a more critical role in filling the capital void created by the pullback by banks and other institutional sources. There is a real opportunity to provide hotel construction financing in 2024, as we believe this is an attractive time for developers to consider the prospect of delivering a new hotel in two to three years. It is likely that we will see a dramatic reduction in new supply coming online at that time, coinciding with a potentially lower interest rate environment. We also see continued opportunity to partner with C-PACE lenders in selective instances to provide combined loans that can be highly cost efficient compared to a single source loan.

As a result, there are situations where the asset is unable to support the debt service.

TRANSACTION VELOCITY

Transactions are down. The total global transaction volume in the 1st half of 2023 was down 46.1% from 2022, and down 41.8% from 2019.

Buyers who are well capitalized and less reliant on leverage will have a great advantage going forward.

There was a resurgence in Hospitality investing right after the lockdown. Capital was readily available, with a plethora of investors eager to make investments. When people started traveling again, occupancy shot up, ADR increased, and RevPAR increased. Demand was at a pre-covid level. Before the lockdown, the benchmark for pricing typically stood at three times revenue, a level at which transactions could be effectively structured and financed. Excess demand caused that benchmark dreamt explode. Revenue multipliers shot up to 4-5 times revenue depending on product type, Select Service, and full serve, etc.

So what happened? People began to recognize that they didn't necessarily require that vacation; they had already satisfied their urge to travel. Moreover, they found the rates to be excessively high, coinciding with a rise in gas prices and increased food costs. Under these circumstances, taking a vacation seemed less pressing at the moment.

Hotel buyers spent too much for that property. This is what is happening right now.

There will be opportunities for investors needing less leverage to grab some good properties.

Twenty-five percent of global hotel deals are initiated by first-time buyers.

ADR-REVPAR

ADR looks at how well you're doing at keeping your rates high while RevPAR tells you if you're still able to sell at those rates. ADR only includes your revenue from the rooms you sold. RevPAR takes your entire inventory as well as your rates into consideration, giving you a more complete picture of your performance.

Revenue per available room (RevPAR) is a performance measure used in the hospitality industry. RevPAR is calculated by multiplying a hotel's average daily room rate by its occupancy rate. RevPAR is also calculated by dividing total room revenue by the total number of rooms available in the period being measured.

An index above 100 indicates a positive outcome, whereas an index below 100 suggests a less favorable situation. To calculate your RevPar index you'll divide your RevPAR ($80) with that of your chosen group (let's say $74), then multiply by 100, which in this case equals 108 – a good RevPar index.

The Debt Hangover: Will It Hurt The Hospitality Market

Greg Lewis - Senior Managing Director of Capital Markets

Commercial real estate borrowers operated for more than a decade in a historically low interest rate environment. Independent owners and operators of "specialty assets", hotels, golf courses, marinas, RV parks, and the like, have traditionally relied on regional lenders for their debt financing needs. Property values increased and debt financing was plentiful. Cap rates on core assets were low, leverage percentages climbed steadily, and transaction volume increased year over year. Trillions of dollars were deployed to buy, sell and develop real estate. Banks thrived during this period and most institutions from the global money center banks to local community banks loaded their balance sheets with commercial real estate loans.

ALL GOOD THINGS MUST COME TO AN END

With Covid in the rear-view mirror, and after years of buying billions of dollars in bonds to stimulate the economy, the Fed turned its focus to inflation. Concerned that the economy was overheating, the Fed began their systematic attempt to tame inflation. Unfortunately, inflation proved to be resistant to initial rate increases, so the Fed accelerated their efforts. What ultimately unfolded was a nearly historic increase in interest over next 18 months. Eleven increases totaling 5.25%.

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
July 26, 2023	+25	5.25% to 5.50%
May 3, 2023	+25	5.00% to 5.25%
March 22, 2023	+25	4.75% to 5.00%
Feb 1, 2023	+25	4.50% to 4.75%
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.50%
June 16, 2022	+75	1.50% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

Forbes, January 26, 2024

While these increases may not have extinguished inflation, they certainly cooled the commercial real market. Transaction volume dropped dramatically as did loan volume. What did increase was the rapid divergence in buyer-seller expectations. Fueled by years of artificially low interest rates, buyers derived high returns with a favorable capital stack - high leverage at low rates.

THE NEW NORMAL

The initial shock of these rapid and multiple rate increases is over. Buyers off hotels have had to accept the consequences of a higher interest rate environment - lower leverage. All new transactions require more equity and presumably lower returns as a result. Borrowers still reminisce however about the not so distant good-ol' days and therein the market struggles to acquire a new equilibrium between buyer and seller expectations.

A STORM IS BREWING

Anyone who follows the capitals markets, particularly the debt market has no doubt read or heard recently about the **concerns of a potential banking crisis.** At the heart of the matter is more than a half trillion dollars in commercial loans maturing this year. Borrowers must refinance these assets at higher rates with potentially lower asset values. Many banks balance sheets are loaded with CRE loans, and there is going to be increased scrutiny for the foreseeable future as regulators and the government watch for increasing defaults.

Of particular concern is the amount of CRE debt held by regional and community banks. CNN recently reported, "…US banks hold about $2.7 trillion in commercial real estate loans. The majority of that, about 80%, according to Goldman Sachs economists, is held by smaller, regional banks — the ones that the US government hasn't classified as "too big to fail". Additionally, according to the AEI, a recent study by the National Bureau of Economic Research underlines the dimension of the prospective regional bank crisis. It estimates that should interest rates stay at their current levels, a wave of commercial property loan defaults could result in the failure of up to 385 regional banks.

WHY THIS MATTERS

As I mentioned heretofore, hotels, golf courses, marinas, RV Parks, and the like, have traditionally relied on regional lenders for their debt financing

Average Hospitality Financing In Today's Market				
Conventional Bank Loan	SBA Guaranteed Loan 504 Program	Life Company	Bridge Loan	Private Equity
Fixed Rate: 7 - 8% fixed	Interest: 7.5 - 8.5% fixed	Interest: 6.5 - 7.5%	Interest: 12 - 15%,	Interest: 18 - 22%
Points: Up to 1%,	Points: 50 bps	Points: 0 - 1%	Fees: 3%	Unleveraged IRR: 20%
Term: 3 - 7 years,	Term: 25 yrs.	Term: 3 - 10 yrs.	I/O Term: 12 - 18 Months	Preferred Returns: 12 - 15%
Amort: 20 - 25 yrs.	Amort: 10 yrs	Amort: 25 yrs.		
LTV: 55 - 65%	LTV: Up to 75%	LTV: Up to 60%	LVT: Up to 70%	
DCR: Minimum 1.25:1				
Loan Size: $2MM & Up	Loan Size: Up to $15MM	Loan Size: $25MM+		
Recourse: Yes	Recourse: Yes	Recourse: Carve-out	Recourse: TBD	Waterfall Structure: Deal by Deal on Profit

As of March 11, 2024

needs. Larger lenders particularly in higher risk environments, tend to focus on the core four asset groups. Community based lenders by definition tend to rely and focus on local businessmen and businesses that operate in their footprint. While the community lenders still prefer multi-family and industrial loans, nobody understands local economies and property values better. Subsequently, even though securing good loan execution on specialty assets often feels like trying to find a needle in a haystack, there is a qualified lender out there even during periods of heightened risks where there is a natural "flight to quality". We have been successful at that for over 30 years and continue to find that proverbial needle in the haystack for our clients.

The key to success in any loan solicitation is to view your debt from a lender's perspective. What are the unique risks associated with this asset and how do we access for that risk. Because specialty assets are operating businesses, it is important to clearly identify the competitors in the market, and where this particular asset falls within this comp set. Lenders increasingly focus on trend analysis, so have your KPI's clearly identified and educate them about your past and future performance. Whether or not a lender ever articulates this to a borrower, the final credit decision maker is always asking themselves one final question "in a worse case scenario, what is our exit strategy for this property?". If you can put yourself in their shoes and anticipate that question, you're on your way to securing a loan.

With more than 30 years of experience in the Capital Markets, I am uniquely qualified in the structing and arrangement of financing for "specialty assets" (hotels, golf courses, marinas, and RV parks). These properties don't fit neatly into conventional underwriting boxes. I work with the borrower and lender to help quantify and access both the risk and reward associated with providing debt on these type of assets. In doing so, we help achieve the best possible execution on each transaction.

Meet Our Newest Team Members

Greg Lewis
Senior Managing Director of
Capital Markets

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Gregory E. Lewis ("Greg") was Managing Director – Real Estate and Business Lending at Leisure Financial Group. Greg has more than 30 years of corporate lending experience. His background includes vendor finance, asset-based lending, and 14 years at Textron Financial Corporation in real estate finance under hotel, resort, and golf industries. During his tenure with Textron, Greg was responsible for originating first mortgage loans, including refinancing, acquisition financing, warehouse facilities, take-out financing, construction financing, and mezzanine financing on hotel, resort, and golf assets throughout the U.S.

Greg's career began at NCR Credit Corporation where he provided off-balance sheet financing to Fortune 500 companies, followed by a period at Norwest Bank where he originated and developed private-label finance programs for life science and technology companies. Greg was also a Vice President at Deutsche Bank where he enlisted and managed product and subject area specialists from the Bank's Corporate Investment Bank and Commercial Lending divisions for ultra-high net worth individuals and families.

Greg helped launch DYH, a high-tech sports equipment firm based in Philadelphia, PA, and served as the organization's President. In addition to managing day-to-day operations, he successfully raised $3 million in a Regulation D private placement offering to recapitalize the business and position the company for future growth.

Jeff Dugas
Senior Managing Director of
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Jeffrey R. Dugas, MAI, SGA, has been active in commercial real estate since the mid-1980s, with over 30 years of experience in recreational real estate. He has completed more than 3,000 golf and marina appraisal assignments in 24 different states. After 27 years of a successful partnership known as Wellspeak Dugas & Kane, he formed Leisure Appraisal to better portray the focus of the firm and his work history. He is one of a select group of invited specialists to the prestigious (SGA) Society of Golf Appraisers, and he holds the acclaimed MAI designation from the Appraisal Institute.

Jeff has taught an Advanced Income Capitalization course for the University of Connecticut and has spoken at various public forums including the International Association of Assessors, National Golf Club Owners Association, Golf Inc., and the Club Managers Association. He has been quoted in many industry publications, and his appraisals have helped establish legal precedent. Two of his lower court favorable decisions on golf course valuation have been upheld by the court of appeals. Jeff has maintained an exemplary record on the stand. He has achieved favorable decisions in state, federal, and supreme courts in MA, CT, RI, NJ, NH, PA, FL, & NY.

Jeff has also worked on some of the most prestigious clubs in the country including Sleepy Hollow, Friars Head, Larchmont Yacht Club, Manuring Beach Club, The Bears Club, Liberty National, and National Golf Links, to name a few. He has worked as a consultant where he helped negotiate several lease agreements. Furthermore, he represents numerous clubs in assessments that have led to over $500 million in aggregate reduced values, resulting in substantial savings for these clubs in property taxes.

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