

## **GOLF INDUSTRY OVERVIEW**

The following information was taken from the Nation Golf Foundation. Prior to the mid-1960s, ownership and investment in golf courses and country clubs was primarily limited to local owner-operators that operated the facilities as a family business, or in the case of member-owned courses, at a break-even level. There was not an active investment market for golf courses and clubs.

During the mid-1960s through the 1980s, development of golf courses and clubs grew dramatically, due to the attraction of golf courses as a part of residential development projects and resorts. The development of Planned Unit Developments (PUDs) usually included recreational amenities such as golf courses and clubhouses as marketing tools to enhance sale prices and shorten sales absorption periods. Resorts used golf courses to keep visitors on the premises rather than playing at a competitive course, to expand the activities available and retain visitors longer, and as a result capture more dollars per visitor. The inventory of golf courses grew by about 40% during this period. Overall this was not necessarily an exorbitant amount of new construction because, although the number of golf facilities about doubled, golfers and golf rounds tripled during the same period.

Most of the new courses built during this time were located in the Sunbelt states of Florida, Texas, California, North Carolina and Arizona. A disproportionate number of these new courses were operated as private facilities despite the fact that the explosive growth in golfers and rounds had been in the daily fee/public play sector. By the end of 1995, of the 15,390 golf facilities in the United States, 31% were private clubs. The highest percentage of private versus municipal and daily fee courses constructed during this time frame was in 1986-1988, 39% of which were private.

Many of the new courses built as residential development amenities became distressed when the real estate did not sell as projected. With the demand for golf at an all-time high and growing, but surrounding real estate not being absorbed, an investment market developed for the golf course amenities themselves in the late 1970s. This is the period when Club Corporation of America began creating an empire relying on its expertise in long-term management and ownership of private clubs.

Sales and investment activity in golf grew due to a number of factors. Developers sold to course operators or club members after successful sellout of a project. Developers also sold to operators or members due to the financial distress of not selling out a project. Additionally, lenders sold clubs and courses after foreclosure of development loans in failed projects. Buyers during this period were often syndicated operator-owners and investors, due to federal tax rules and income tax shelters available at the time.

Golf course development and sales activity experienced a lull in the early 1980s due to a national recession. However, 1984 brought an invasion of the United States golf market from the Pacific Rim. Golf-crazed development companies, partnerships and investors began accumulating high profile resorts and trophy golf properties in Hawaii and California in the mid-1980s, which spread to the East Coast into New York by 1990. According to a study of Japanese Investment in U.S. Real Estate by the Kenneth Leventhal Company, Japanese investment in the United States reached its peak in the late 1980s and almost totally stopped by early 1991. The availability of inexpensive capital and enthusiastic investors bid up the prices of desirable United States golf properties beyond levels feasible for American buyers, or what the properties were worth on a typical economic operating basis.

The bubble burst in 1989-1990 with the United States economy sliding into recession and the Japanese markets becoming overheated. The Bank of Japan cut off funding availability for United States real estate investments and the Japanese investment frenzy was over by March 1991. During the 1980s and early 1990s, typical investment golf course deals were based on 11% to 12% capitalization rates on first-year projections with trophy properties perhaps as low as 10%. However, during the late 1980s and 1990, Pacific Rim investments were often made at 4% to 7% cap rates based on optimistic projections that did not materialize. Golf oriented resorts, especially in Hawaii and California, sold at 2% to 5% returns.

By late 1991, large-scale Pacific Rim investment in United States golf properties was essentially over. Further, the United States economy was in recession, real estate projects were overbuilt in most areas with few buyers, developer funds were scarce, banks were not lending, and many golf courses were under-performing despite the growing golfing population and golf rounds. With favorable demographics for golf participation over the next 20 years, there seemed to be many opportunities for knowledgeable golf course and club operators who would accumulate capital to buy distressed or under-performing golf facilities and apply sound management principles.

During the mid-to-late 1990s, large pools of investment capital were accumulated by golf oriented owner-operator groups to buy and operate golf facilities nationally. The trend began with potential purchasers seeking under-performing courses for operation as semi-private or daily fee operations. However, by 1997 to 1999, the golf course market became a seller's market with prices increasing dramatically and capitalization rates falling.

Development activity during the 1990s changed dramatically from the late 1980s when most new courses were private. The 1990s trend was for public daily fee; with many being upscale daily fee, or semi-private courses. These upscale daily fee operations offered private club quality golf and atmosphere on a pay per use basis as opposed to a required private dues structure that is sometimes not utilized by the member. Examples of this trend include The Grand National courses designed by Robert Trent Jones in Alabama, Emerald Dunes in Palm

Beach County, Florida; Kemper Lakes in Chicago, Illinois; Pelican Hill in Newport Beach, California; and numerous courses near Myrtle Beach and Hilton Head Island, South Carolina.

In the mid to late 1990s a number of national golf course investors/operators were active in acquisitions and were well capitalized to buy and develop courses. These companies included Club Corporation of America (CCA), U.S. Golf, Western Golf, Paloma Golf Corporation, Linkscorp, Cobblestone Group, National Golf Properties Corporation, and National Fairways Group. Resort operators such as Marriott, Hyatt and Hilton management groups also increased their golf activities during the period. Wall Street saw potential in golf operations and several major investment houses entered the golf business. Still, only about 5% of the nation's non-private golf courses were owned or leased by the 15 largest golf course operators. Hence, the U.S. golf business remained fragmented, but moved toward institutional ownership and operation.

However, more recently from 2000 to the present, several of the previously acquiring organizations, such as Club Corporation and Golf Trust of America, have been divesting properties including many in Florida. For example, Golf Trust of America Inc. was established in 1997 as a self-administered real estate investment trust or REIT. It was formed to capitalize on the consolidation opportunities in the ownership of golf courses in the United States. During 1999 Golf Trust of America's portfolio climbed to 47 golf facilities, operated by 19 lessees, with locations in 17 states (Alabama, California, Florida, Georgia, Illinois, Kansas, Kentucky, Michigan, Missouri, Nebraska, New Mexico, North Carolina, Ohio, South Carolina, Texas, Virginia and West Virginia). However, currently (2008) the portfolio has fallen to include an interest in 2 golf courses.

Further, in the mid to late 1990s golf-oriented lenders provided golf course financing with specific underwriting guidelines, including NationsCredit, Textron Financial Corporation, Orix Financial, Imperial Golf Finance, Finova, and local and regional commercial banks. As of 2004, many lenders had suffered due to the lending practices of the late 1990s. It is our understanding that former conduit lenders Wells Fargo and Bank of America are essentially out of the golf lending market. Locally, at the end of 2000 seven courses in western Florida, formerly owned by now defunct owner/operator Kollstar, were deeded to the special servicer of the mortgage-backed security pool of which they were collateral. During the summer of 2003, Bank of America acquired ten courses including two in Hillsborough County, from Westbrook EAGL. These courses were previously purchased for steep prices during 1999 and were resold at substantial discounts in late 2003. Major lenders currently active in the golf market include Textron, Pacific Life, General Electric, First Union, SouthTrust, AmSouth, SunBank, and relationship-oriented local lenders. However, these lenders are generally more cautious in lending on golf courses and seek a proven financial record and/or a course as an amenity to a residential subdivision.

The period from the mid-to-late 1990s was a seductive period to investors and lenders because of the perceived strong golfer demographics (baby boom generation) and growing golfing population. However, current statistics provided by the National Golf Foundation indicate the number of rounds played in the United States has been decreasing and the number of golfers per 18 holes has also been declining. This is due to the increased construction of new golf course facilities outpacing the increase in new golfers.

Investors perceived that golf course supply, particularly public courses, lagged demand and golf course owners and managers were becoming more sophisticated and profit-oriented. While the growth of supply exceeded population and golfer growth, the characteristics of supply also changed. The nation's supply of golf courses became more oriented toward the public golfer. In 1990 daily fee courses accounted for 44.8% of the total followed by private courses (39.2%) and municipal courses (16.0%). By 2000 the percentages shifted to 54.9% daily fee, 29.5% private, and 15.6% municipal. Thus, the proportion of daily fee courses increased by 10.1% from 1990 to 2000 while private courses declined by a similar number (9.7%). The percentage of municipal held essentially stable (-0.4%). From 2000 to 2007 the proportion of daily fee courses continued to climb to 55.6% while the proportion of private and municipal courses continued to fall to 29.3% and 15.1% respectively.

Growth in golf course development has exceeded player growth since 1994. Total supply of courses increased 23.25% since 1994 while player growth increased only 13.37% during this same period. Since 1990, an average of 237 new courses opened per year nation-wide. Recently this number has decreased to 120 new courses in 2006 and 113 new courses in 2007. It should also be noted that many urban areas have experienced closings of many golf courses for the redevelopment of residential projects, therefore decreasing the total number of golf courses in many areas.

Golf courses and country clubs tend to be very sensitive to the economy. During the 1990s, they became a very desirable investment and prices soared. It was not uncommon to see sales of golf courses between \$250,000 and \$300,000 per hole. That all seemed to come crashing down during the recession in the early 1990's. As disposable income diminishes, members drop their memberships and guests spend less on entertainment. In turn, the golf course owners look for ways to cut costs, which often result in reduced maintenance and hold off on renovations. That condition magnifies the depreciation of the course, which causes a buyer in the future to make a major capital improvement further reducing sale prices. While the recession of the early 1990's is long over, we are currently in another time of economic uncertainty. Therefore, we expect to see further reduction in rounds played and decreasing golf course values over the next couple of years. The most recent statistics provided by Golf Datatech indicates the number of rounds played in Florida in August 2008 is down 15.3% from August 2007. The number of rounds for the Tampa area is down 11.8% over the same period.