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EST 1963 CELEBRATING 55 YEARS

Market fairly active as compared to recent years, with relatively high volume of sales being transacted

May 28, 2015 - Spotlights

Our appraisal and consulting business requires that we track transactions involving golf course properties along the east coast, from Maine to Florida where we regularly work. Through our contacts in the industry, we spend a good deal of time and effort in the investigation of transactions as they occur. In addition to researching the particulars of each transaction, a complete analysis can only be completed by discerning motivations of the parties that lead to the deal. As we look back over the past 18 months, the market has been fairly active as compared to recent prior years, with a relatively high volume of sales being transacted. There appears to be an emerging pattern wherein the price being paid is becoming a function of the specific buyer type or price point.

For quite some time now, investors have been looking more so at Gross Income Multipliers (GIMs) and less so at Overall Capitalization Rates when making acquisition decisions. Certain properties are attracting more aggressive buyers on revenue, both trailing and anticipated. Generally speaking we find that those superior assets in larger markets are attracting institutional and multi-course buyers. These buyers are typically seeking better operating assets with superior physical attributes that also meet strategic goals with respect to market location. The dollar amount has to be significant enough to warrant a national investor. It must have gross sales of $3 million and up and priced $4 million or more. A common denominator among most of these investors is available private capital for acquisition. As a result, we have seen this type of golf asset trading on GIMs of between around 1.25x and 1.5x, or sometimes higher.

Deals smaller in nature will attract a more local or nongolf buyer and those are the ones that are going for the best bargains. Our research of market transactions finds that lower quality properties located in more secondary markets are attracting prices that indicate much lower GIMs, often well below 1.0x on trailing revenues. As opposed to the larger investors chasing high-profile golf assets and paying cash, this class of investor tends to be private individuals, often a local resident or business person that requires bank financing. As a result of tight lending practices, debt is quite tight for golf, especially for turnaround deals with poor historic performance. So, despite the clubs gross revenue, the bottom line can adversely impact a buyer's ability to get debt and fund an acquisition.

As example, we provide the following illustrative examples of recent transactions:

* Here in Connecticut, the member-owned Chippanee Country Club sold this past February at a price of under $2 million. The property features an 18-hole golf course on 140 acres of land, supported by a full service clubhouse, pool and tennis courts. In response to a declining membership over recent years, the club had been experiencing financial difficulties which led to a decision to sell. The acquisition price indicated a GIM of around 0.70x on trailing revenues, because numbers were trending down, thus adding to the risk.

* In a similar transaction, the member-owned Pawtucket Country Club in R.I. recently sold at a price

of just under $2 million. The property supports an 18-hole golf course designed in 1924 by Willie Park, Jr., a large, full service clubhouse and a pool amenity. Like Chippanee Country Club, a declining membership roster precipitated a sale by its members, in this instance to a group of three members. Like Chippanee, it too was experiencing declining membership and revenue and it was bought by a local group of investors with no prior golf experience.

* The member-owned Panther Valley Golf Club & Country Club in N.J. sold in 2014 at a price of under $3 million. Again, its revenue and price point was not enough to attract national investors, so it sold at a disappointing 0.80x on trailing revenues.

The above transactions are contrasted with recent sales of golf assets that attracted a different type of buyer consisting of multi-asset owners.

* The Dominion Club is a private membership club located in Glen Allen, near Richmond, VA. After being widely marketed for sale, the property sold in January of 2015 at a price of $8 million. The property supports an 18-hole golf course designed by Curtis Strange that opened for play in 1992, a full-service clubhouse and pool and tennis amenities. The sale resulted in a GIM of around 1.35x on trailing revenue. Furthermore, the buyer is investing $2 million in immediate capital, resulting in an adjusted GIM of about 1.65x.

* Golf Club of Georgia is a private membership club located in Alpharetta, north of Atlanta. The property sold in August of 2014 at a price of $15 million. It supports two high-quality 18-hole golf courses and a full-service clubhouse but no pool or tennis amenities. The indicated GIM was about 1.7x on trailing revenue.

As one can see by the transactions profiled, those assets being chased by the institutional type investors are trading at far more aggressive GIM's. This is as a result of the difficulty in financing this class of asset, declining trends and negative cash flow.

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