

# Golf Industry Forum 2007



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# The Golf Course Deal TIC vs. REIT?

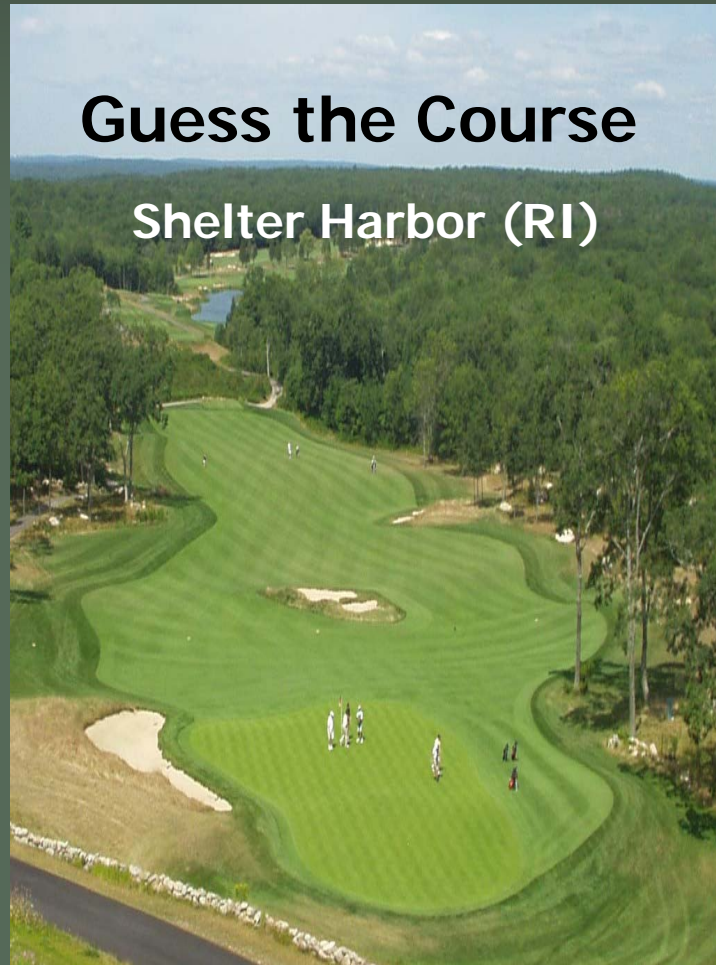
Team TIC

Team REIT



# Who sells?

- Subdivision Developers
- Municipalities/ Governments
- Family Owners
- Investor-Owner
- Multi-Course Mgmt Firms
- Owner in Distress
- Private Clubs



# Who buys?

- Investors
- Private Clubs
- Management Firms
- Municipalities
- ***REITS***
- ***TICS***

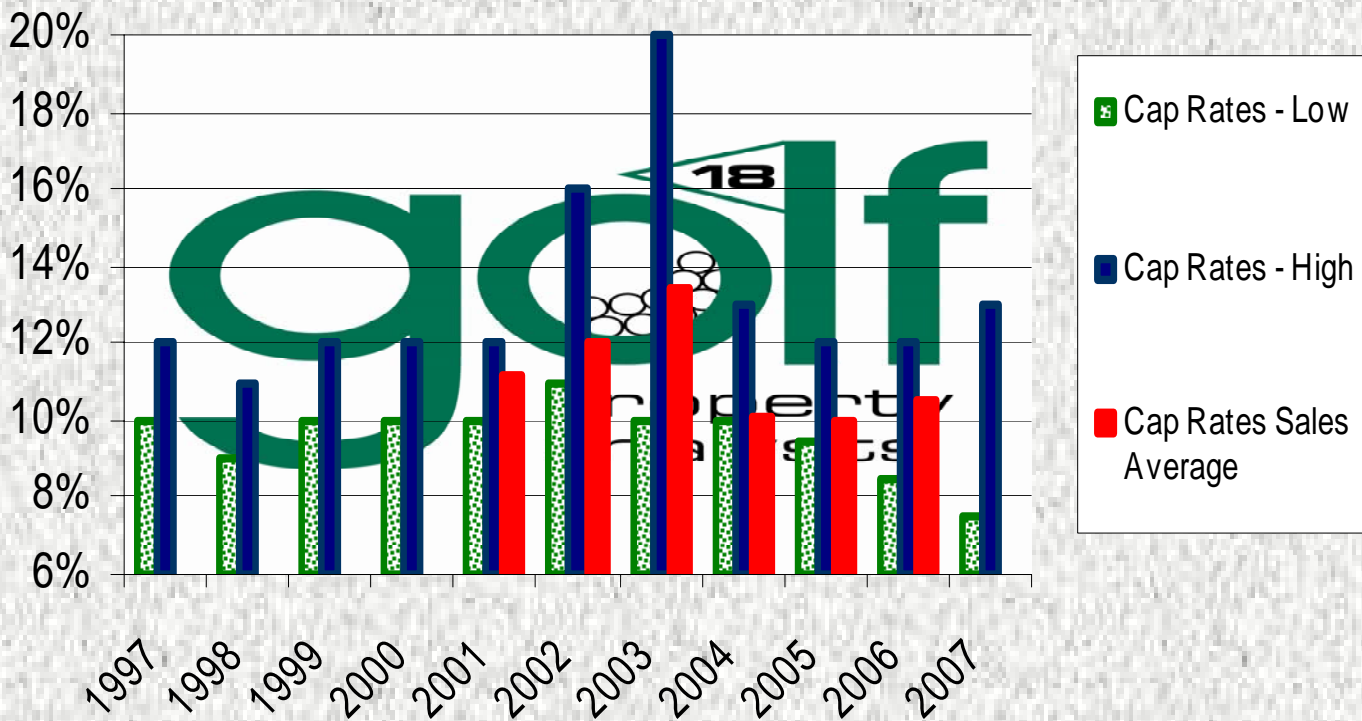




<b>Number of Golf Rounds</b>		<b>35,000</b>
<b>Average Greens Fee</b>		<b>\$55.00</b>
<b>Greens Fees Revenue</b>		<b>\$1,925,000</b>
<b>Cart Rental Fee/Round</b>		<b>\$9.00</b>
<b>Cart Rental Fee Revenue</b>		<b>\$283,500</b>
<b>No. of Annual Members (all categories)</b>		<b>100</b>
<b>Average Membership Fee</b>		<b>\$3,100</b>
<b>Membership Fee Revenue</b>		<b>\$310,000</b>
<b>Food &amp; Beverage Rev/Round</b>		<b>\$20.00</b>
<b>Food &amp; Beverage Revenue</b>		<b>\$700,000</b>
<b>Pro Shop Sales/Round</b>		<b>\$12.00</b>
<b>Pro Shop Revenue</b>		<b>\$420,000</b>
<b>Range Rev/Round</b>		<b>\$3.00</b>
<b>Range Revenue</b>		<b>\$105,000</b>
<b>Other Revenue/Round</b>		<b>\$1.00</b>
<b>Other Revenue</b>		<b>\$35,000</b>
<b>Revenue/Round</b>		<b>\$107.96</b>
<b>GROSS ANNUAL INCOME</b>		<b>\$3,778,500</b>
<b>DEPARTMENTAL COSTS &amp; EXPENSES (Including Cost of Sales)</b>		
<b>Golf Course Maintenance (incl. Payroll)</b>		<b>\$700,000</b>
<b>Carts (76 leased carts)</b>		<b>\$58,800</b>
<b>Food &amp; Beverage COGS</b>	<b>40%</b>	<b>\$280,000</b>
<b>Food &amp; Beverage Expenses (incl. Payroll)</b>	<b>40%</b>	<b>\$280,000</b>
<b>Pro Shop COGS</b>	<b>50%</b>	<b>\$210,000</b>
<b>Pro Shop Expenses (incl. Payroll)</b>	<b>110%</b>	<b>\$462,000</b>
<b>Range Expenses</b>	<b>25%</b>	<b>\$26,250</b>
<b>UNDISTRIBUTED EXPENSES</b>		
<b>Administrative &amp; General</b>		<b>\$200,000</b>
<b>Management Fee</b>	<b>3.5%</b>	<b>\$132,248</b>
<b>Marketing &amp; Promotion</b>		<b>\$75,000</b>
<b>Profess'n'l Fees (Consultants)</b>	<b>0.7%</b>	<b>\$50,000</b>
<b>Utilities</b>		<b>\$70,000</b>
<b>Repairs &amp; Maintenance</b>	<b>1.5%</b>	<b>\$56,678</b>
<b>FIXED CHARGES</b>		
<b>Real &amp; Pers. Property Taxes</b>		<b>\$100,000</b>
<b>Property Insurance</b>		<b>\$50,000</b>
<b>Reserves/Capex</b>	<b>3.0%</b>	<b>\$113,355</b>
<b>TOTAL EXPENSES</b>		<b>\$2,864,330</b>
<b>NET OPERATING INCOME</b>		<b>\$914,170</b>
<b>Operating Expense Ratio</b>		<b>75.8%</b>
<b>Capitalized at:</b>	<b>10.5%</b>	<b>8,706,381</b>
<b>Rounded to:</b>		<b>\$8,700,000</b>



## Cap Rates



# Market Value

- Property Characteristics
- Most Likely Purchaser
- REITS & TICS only Interested in “larger” properties/portfolios
- Revenue Levels
- Cap Rates

Guess the course

Yale GC

# The TIC

- Adj. NOI = \$914,170 (includes 3% Management Fee)
- Available for Rent – \$914,170
- Cap Rate = 8.75%
- “Value” = \$10,400,000
- Equity = 40% (\$4,160,000)
- Costs = 20% of Equity (\$832,000)
- “Cost” = \$11,232,000
- Proceeds to Seller = \$10,400,000
- Lease payment = \$910,174





# The REIT

- Adj. NOI = \$1,046,418 (Does not include Management Fees)
- Coverage ratio desired = 1.15
- Available for Rent –  
( $\$1,046,418 / 1.15$ ) =  
\$889,445
- Cap Rate = 9%
- “Value” = \$9,882,932  
( $\$9,900,000$ )
- Costs = 3%
- Cost to Buyer = \$10,197,000
- Selling Costs = n/a for  
Sale/Leaseback  
(Up to 4% if broker is involved  
in non sale-leaseback deal)
- Security Deposit Required –  
50% Cash, 50% LOC =  
\$444,727
- Proceeds to Seller =  
\$9,900,000
- Lease Payment = \$882,047



# Conventional

- Adj. NOI = \$914,170
- Cap Rate = 10.5%
- "Value" = \$8,700,000
- Costs = 5%
- Cost to Buyer = \$9,135,000
- Selling Costs = 4%
- Proceeds to Seller = \$8,334,600



# Side by Side TIC/REIT/CONV. Analysis

	TIC	REIT	Conv.
Property NOI (TIC & Conv. NOI includes 3% Management Fee)	\$ 914,170	\$ 1,046,418	\$ 914,170
Coverage Requirement	1	1.15	
Tenant Management Fee/Retained Funds (REIT Only)	0	(156,963)	
Amount Available for Rent/Debt Service	914,170	889,455	914,170
Cap Rate	8.75%	9.00%	10.50%
"Value"	10,447,657	9,882,832	8,706,381
<b>Selling Price Rounded Up</b>	<b>10,400,000</b>	<b>9,900,000</b>	<b>8,700,000</b>
Debt	60%	0%	70%
	\$ 6,240,000	\$ -	\$ 6,090,000
Equity	40%	100%	30%
	\$ 4,160,000	\$ 9,900,000	\$ 2,610,000
Costs	20%	3%	5%
	\$ 832,000	\$ 297,000	\$ 435,000
Total Equity Investment	\$ 4,992,000	\$ 10,197,000	\$ 3,045,000
<b>Cost to Buyer</b>	<b>11,232,000</b>	<b>10,197,000</b>	<b>9,135,000</b>
<b>Seller's Position</b>			
Closing Costs & Commissions	incl.	4%	4%
		407,880	365,400
Reserves	incl.	inc	
Security Deposit - 50% Cash / 50% LOC		444,727	
<b>Proceeds to Seller @ Closing</b>	<b>\$ 10,400,000</b>	<b>\$ 10,233,847</b>	<b>\$ 8,769,600</b>
<b>Tenant's (Seller) Position</b>			
<b>Calculation of Lease Payment</b>			
Lease Basis		\$ 10,197,000	
Lease Rate		8.65%	
Debt Principal	\$ 6,240,000		\$ 6,090,000
Interest Rate	7.25%		7.25%
Amort.	30		2
L/V Ratio	60%		70%
<b>Annual Mortgage Payment</b>	<b>\$510,814</b>		<b>\$577,606.77</b>
Equity Payment			
Equity	\$ 4,992,000		
Rate	8.00%		
E/V Ratio	40%		
<b>Annual Equity Payment</b>	<b>\$ 399,360</b>		<b>\$ 336,563.23</b>
Effective Cost of Equity with Load	9.60%		
<b>Lease</b>			
Year 1 Lease Payment	\$ 910,174	\$ 882,041	N/A
Opp. Cost on Cash Portion of Security Deposit 8%		\$ 35,578	
Net Costs	\$ 910,174	\$ 917,619	
<b>Equity Cap Rate</b>	<b>8.00%</b>	<b>8.29%</b>	<b>12.90%</b>
<b>Overall Cap Rate (OAR)</b>	<b>8.10%</b>	<b>8.62%</b>	<b>10.01%</b>



# Why TIC?/ Why Not?

- More cash proceeds
- Less due diligence
- No security deposit
- No FORMAL reserve
- More operating upside
- FMV purchase option
- Less Reporting
- Limited Track Record
- Higher Lease Payment
- More complex transaction
- Limited Market
- One-off transaction



# Why REIT?/Why Not?

- More flexibility in options
- Simpler transaction
- Higher certainty of closing (Tried & Tested)
- Long Term Capital Partner capable of "repeat business"
- Less cash (than TIC)
- Security deposit ties up cash
- Percentage Rent
- No FMV option to purchase

# Why Conventional?/Why Not?

- “Comfort” Zone for buyers & sellers
- Wider range of buyers
- Simpler Transaction
- Return on equity (buyer)
- No future obligations
- Less Cash
- Lose control of property
- No future rewards from property







# QUESTIONS

Guess the course

Stone Harbor

