AUGUST 2010

Golf and Resorts – Why Golf is Still Relevant

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Golf development in the United States like other real estate asset classes, is cyclical, with booms occurring in the 1930's and the 1960's. The modern golf boom started in the 1990's and stretched into the mid 2000's. This latest stage of golf course development began at an unprecedented rate of 400 courses a year. Although new golf course development started out as for-profit endeavors, numerous alternative motives for development were also at work. Eventually these forces led to an overbuilding of the market, and a question of the relevancy of the future of the golf market.

In order to understand these forces, it is necessary to understand who is developing golf courses and for what purpose. There are myriad of reasons for creating golf courses, but the commonality is that the primary motivations in the past decade had little to do with the long term profitability of the golf course, and even less to do with short term profitability.

The entities seeking to develop golf courses were diverse and included real estate developers, resort developers, municipal agencies, economic development, reclamation projects, as well as wealthy individuals. While the profit motive was in play, the vehicle that generates the profit has rarely been the golf course. It's the real estate, the resort, as a service to citizens, to develop a property tax base, or even ideas further afield. Our involvement with projects includes motivation such as reclamation of a superfund site, a source to utilize gray water from an adjacent treatment plant, or the allure of golf to create a private playground, or to attain status among peers.

The addition of a golf course or club to a residential community, and the corresponding impact has been fairly well documented. The golf course or club ends up increasing the pricing of the for sale real estate, and provides for faster absorption rates for the for sale properties. At a time when golf courses were profit-making ventures, this was a win-win proposition.

As the supply of golf courses increased, market share declined, and the profit margins eroded to the point where there are now significant annual deficits at many of these properties. These deficits are causing golf course closures of more than a hundred courses a year. With the market turned on its head, the allure, motivations and intentions of building the golf courses are having the exact opposite of the intended impact.

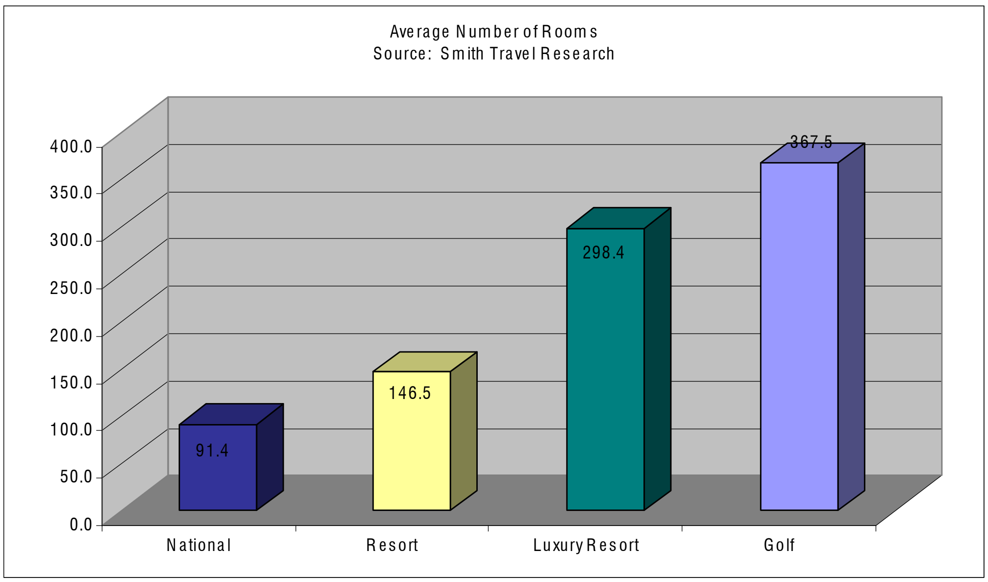
There has, however, been little analysis on the financial impacts to hotel properties of having onsite golf available to guests. This article will review and analyze the current status of golf resort properties in the United States, and provide an understanding of the dynamics at play.

This article utilizes the extensive HVS hotel database, as well as independent data from STR Analytics to gain an understanding as to how resort hotels are impacted by having an onsite golf course. The first data analyzed includes the luxury and first-class hotels in the United States as well as internationally that are part of the HVS Database hotel operating statements and statistics which includes over 4,000 first-class and luxury properties and over 20,000 records. The second was gathered through STR Analytics. By in large, both databases produced similar conclusions, and the primary data presented is comes from STR analytics.

The first important aspect of resort golf properties is that although there is a limited number of mid level golf resorts, the majority of hotels with golf courses operate in the luxury end of the market and are full service hotels.

Secondly, golf resorts are typically larger than luxury resorts without golf, all resort properties as well as the general hotel stock. According to statistics provided by STR Analytics, the average number of rooms for golf properties is 367.5, while the average number of rooms for luxury resorts is 298.4, and 146.5 for Resort properties. Viewed from an alternative perspective, larger, luxury resort properties tend to have golf courses.

Luxury and First Class Rooms



Performance Measure National Resort Statistics

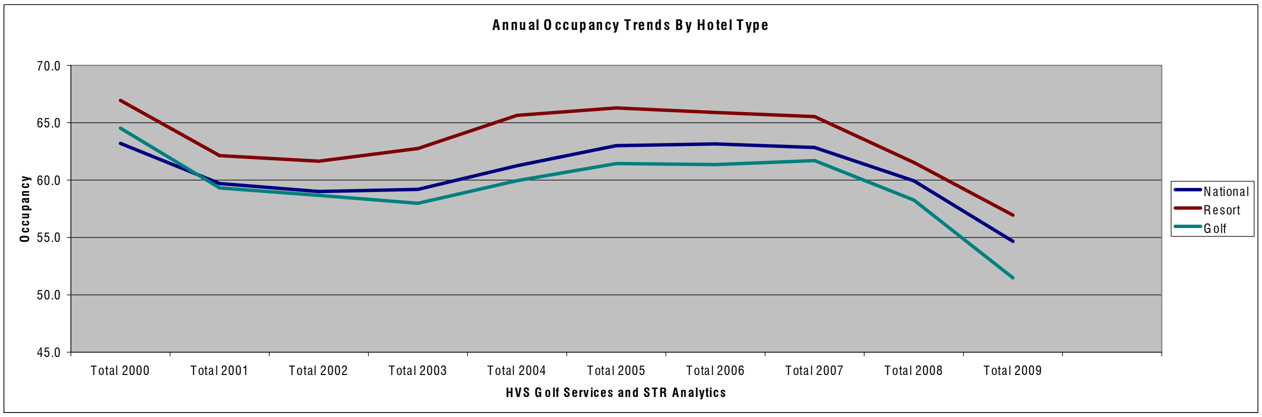
The performance of the resort properties are measured on three different levels; occupancy, average daily rate and revenue per available room. The analysis was structured to look at the past ten years performance for each of these measures, and understand how the presence of the golf course impacts hotel operations, and how these dynamics have changed over the past 10 years, as well as in the current economic environment.

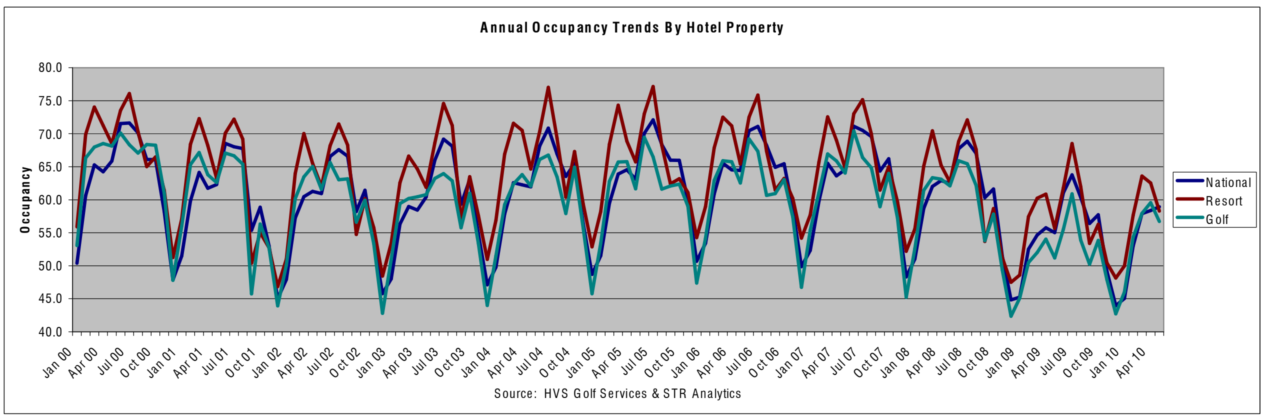
Occupancy

A most interesting trend over the past decade is that while annual average golf resort occupancies were similar to national averages in 2000, the events of September 11, 2001 led to a steady decline in occupancy relative to national averages through 2003. The occupancies of golf resorts eventually settled at around 1% below national averages, and the margin remained fairly consistent through 2008, when the global financial crisis impacted the markets again. This current crisis has seen the spread grow to about 3% below national averages, where they have settled for the time being.

Another notable trend is that seasonal variations in occupancy favored golf resorts in and around 2000, as the resorts had a longer high season, although a more severe off season. The latest data after the financial crisis show that the seasonality of occupancy at golf resorts is now very similar to national averages.

Occupancy--STR Analytics Data



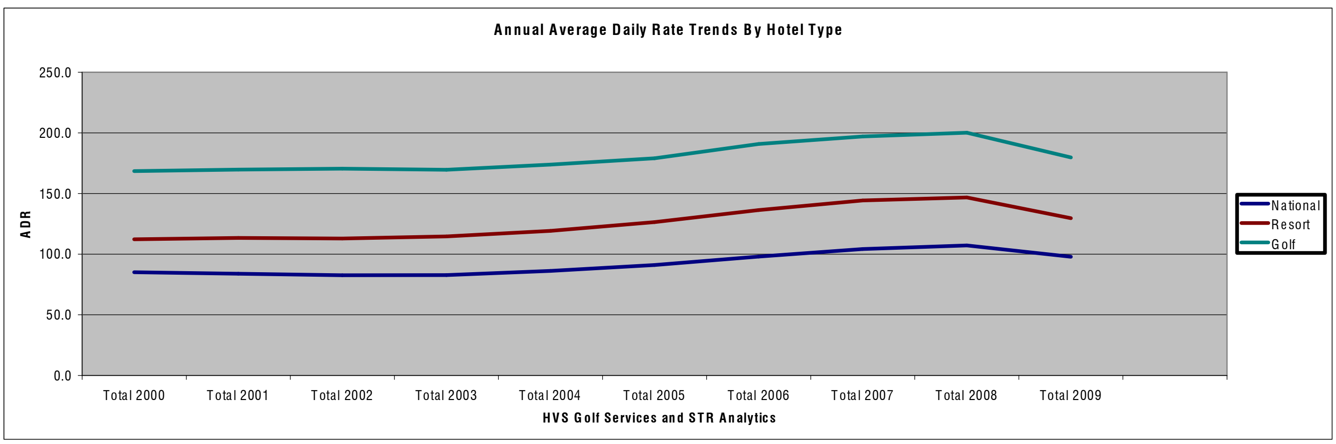


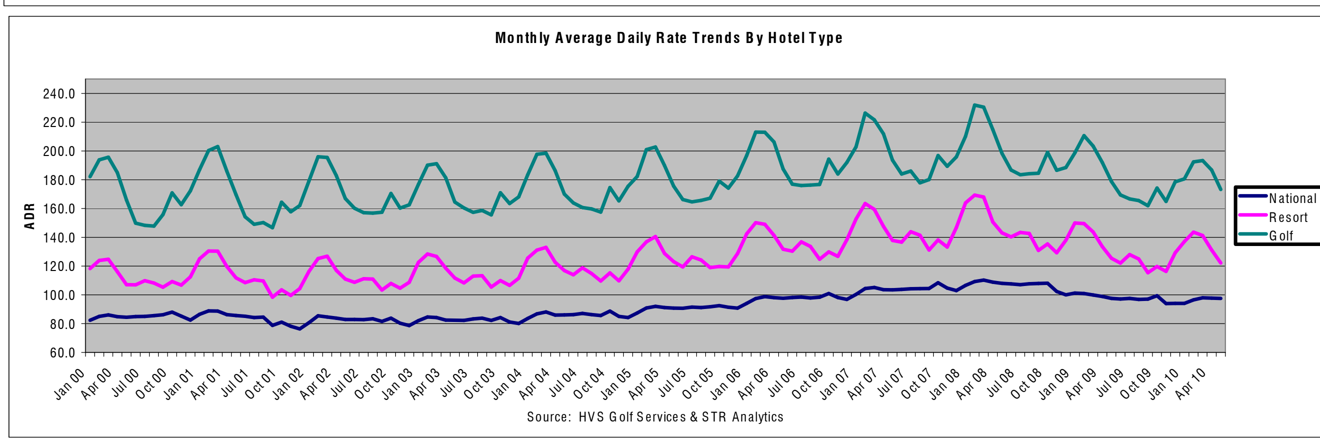
Average Daily Rate

An analysis of the average daily rate for golf resorts illustrates a primary motive for the development of golf courses as a part of the resort. The golf properties have the ability to generate significantly higher average rates than non-golf properties.

The statistics illustrates approximately $50.00 in difference in the average daily rate for golf properties in comparison to resort properties, and an additional $30.00 difference over all properties. Thus the golf course serves as an integral lever for the market positioning of the resort hotel.

Average Daily Rate -- STR Analytics





The spread in the rates over time had also proven to be fairly consistent until 2005. From 2006 through 2008, during the bubble preceding the global financial crisis showed that the margin over national averages actually increased to $40.00. It should also be noted that the difference between resorts and golf resorts average daily rates has been eroded by about 10% during the past decade. Data in 2009 show a return to historical margins.

Average Daily Rates--Annual Changes

	National	Resort	Golf	Golf/Resort Difference	Golf/National Difference
Total 2000	85.1	112.3	168.5	56.1	83.4
Total 2001	83.9	113.4	169.7	56.3	85.8
Total 2002	82.7	112.9	170.4	57.5	87.7
Total 2003	82.8	114.6	169.6	55.0	86.8
Total 2004	86.2	119.2	173.8	54.6	87.6
Total 2005	91.1	126.5	179.0	52.6	88.0
Total 2006	98.0	136.3	190.9	54.5	92.9
Total 2007	104.2	144.3	197.0	52.7	92.7
Total 2008	107.2	146.7	200.2	53.5	93.0
Total 2009	97.8	129.6	179.8	50.2	81.9

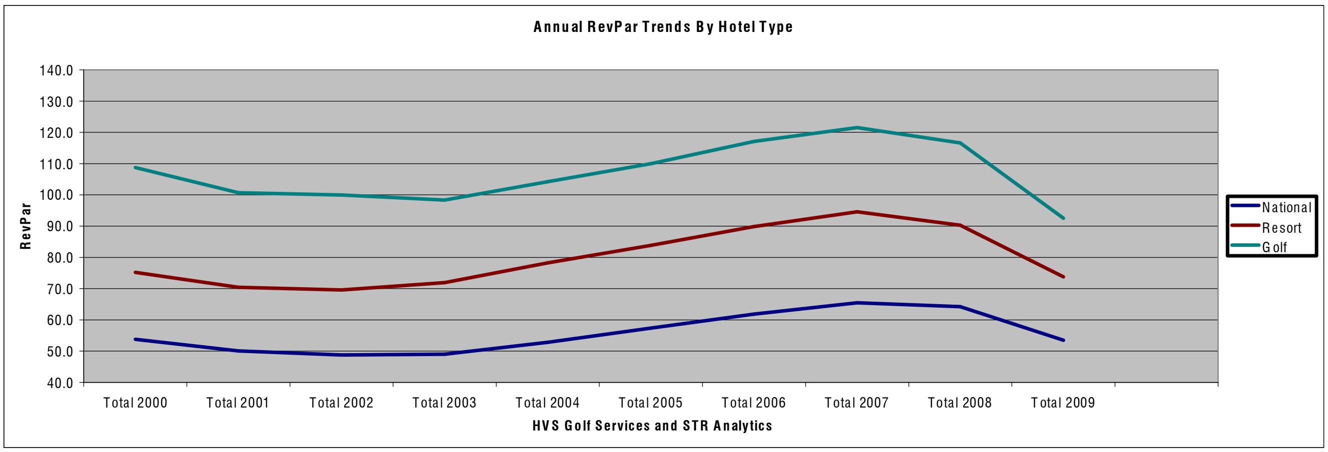
Source: STR Analytics

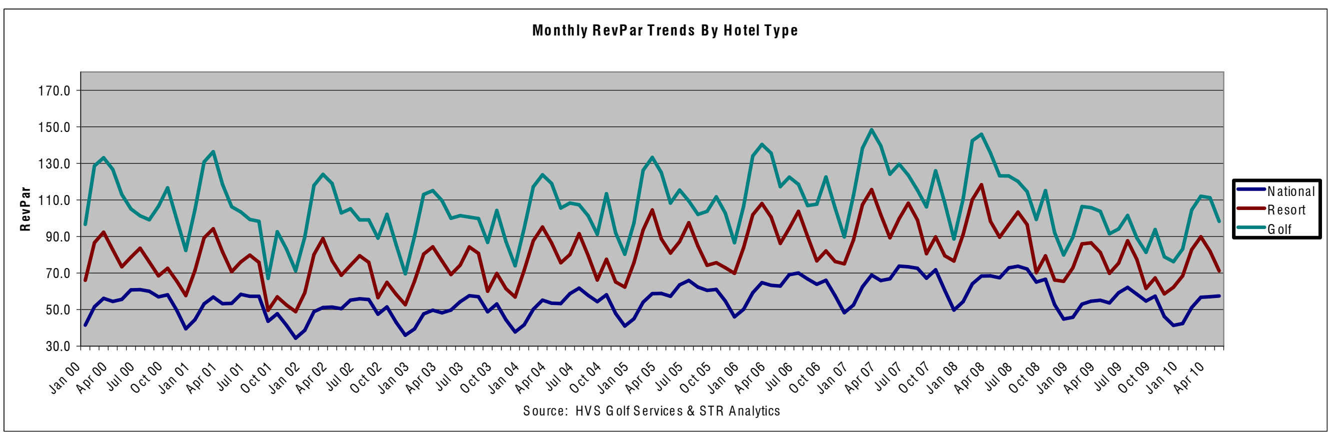
Revenue per Available Room

In the final analysis, the most important metric for hotels is Revenue per Available Room, or REVPAR.

Factoring in both the occupancy and the rate, the REVPAR for golf resorts was $33.50 greater than resort properties and $54.90 greater than all properties in 2000. The REVPAR margin for golf over resort properties began to erode in 2003, but leveled and remained constant through 2008. In 2009, it is apparent that while REVPAR was down for all property types, golf resorts suffered to a greater degree, and the margins were decreased to about $20.00 above resorts and $40.00 above all properties. But while REVPAR is down, there is still a substantial benefit to having golf as part of the resort, even in the midst of the current economic malaise.

REVPAR--STR Analytics





Average REVPAR--Annual Changes

	National	Resort	Golf	Golf/Resort	Golf/National Difference
Total 2000	53.8	75.2	108.7	33.5	54.9
Total 2001	50.1	70.5	100.7	30.2	50.6
Total 2002	48.8	69.6	100.0	30.4	51.2
Total 2003	49.0	71.9	98.3	26.4	49.3
Total 2004	52.8	78.3	104.2	25.9	51.4
Total 2005	57.4	83.8	110.0	26.2	52.6
Total 2006	61.9	89.8	117.1	27.3	55.2
Total 2007	65.5	94.6	121.5	27.0	56.0
Total 2008	64.2	90.3	116.6	26.3	52.4
Total 2009	53.5	73.8	92.6	18.7	39.1

Source: STR Analytics

Conclusions

It's pretty clear that for larger resort properties operating in the luxury end of the market, there are substantial benefits to the hotels performance from having a golf course onsite. Golf properties can expect higher rates, which more than offset the slightly lower occupancy rates of the typical golf resort. While the benefit of golf has deteriorated over the past decade, there remains a significant impact from presence of the golf course at the resort, in the most important indicator of REVPAR. Consequently, golf is likely to remain key part of the resort development equation at the high end of the market, and for larger hotels in the future, and it is the expectation that golf will remain relevant at resorts well into the coming decade.

About the Author

Darius Hatami is Managing Director of HVS Golf Services, based in Boulder, Colorado. Darius is a graduate of the University of Colorado and has been involved in various aspects of golf and community development for over 20 years. In 1995, Darius founded Golf Catalyst after beginning his career with THK Associates. In 2004, Darius became part of the HVS family, and provided studies to hundreds of golf and resort community clients throughout the Untied States, Canada, Mexico, the Caribbean, Central America, Asia and Europe. His expertise encompasses valuation and feasibility studies as well as strategic, financial, residential economic planning, membership planning as well as integrating golf with residential and resort aspects of master planned communities.

Darius worked with a variety of clients, including investment bankers, developers, exclusive private clubs and communities, resorts, as well as municipal and governmental entities. Specific clients have included international lenders and owners such as Lehman Brothers, Deutsche Bank, Barclays Capital, Club Corp, and CNL. Mr. Hatami has also provided litigation support, and testified as an expert in US Bankruptcy court. Properties appraised include Pinehurst, Peninsula Papagayo, The Yellowstone Club, Vilamoura, PGA West, PGA National TPC Sawgrass, La Quinta, Boca Raton CC, and Cordillera. He is a certified general appraiser in numerous states and has been a guest speaker on golf community and feasibility issues.

From 1998 until 2005, Darius served as Managing Partner of the Rio Grande Club, a high end resort/private golf club in South Fork, Colorado. This course was named as the 6th Best Upscale Public Course by *Golf Digest* in 2003. As Managing Partner, Darius has been involved in the day to day management of facility, as well as the integration of the golf club with the residential and resort aspects of the community. The range of responsibility included, defining the membership structure, assisting on management and personnel decisions and consulting on amenities and clubhouse design.

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980 by President and CEO Steve Rushmore, MAI, FRICS, CHA, the company offers a comprehensive scope of services and specialized industry expertise to help you enhance the economic returns and value of your hospitality assets.

Steve began his career in the 1970s as a consultant in the hospitality division of a prominent New York City real estate firm. Through that experience, Rushmore noted the limited body of knowledge available to assess the value of hotels and motels, taking into consideration both the business and real estate components. Rushmore's first book, *The Valuation of Hotels and Motels*, quickly became the definitive work on the subject, and soon after, HVS was born. The HVS method of providing an economic study and appraisal for hotels and motels immediately became, and continues to be, the industry standard.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 400 seasoned industry professionals, gives you access to an unparalleled range of complementary services for the hospitality industry:

Consulting & Valuation
Investment Banking
Asset Management & Advisory
Hotel Management
Hotel Parking Consulting
Executive Search
Food & Beverage Services
Gaming Services
Convention, Sports & Entertainment Facilities
Interior Design
Sales & Marketing Services
Shared Ownership Services
Golf Services
Eco Services
Risk Management

Our clients include prominent hotel owners, lending institutions, international hotel companies, management entities, governmental agencies, and law and accounting firms from North America, Europe, Asia, Latin America, and the Caribbean. Our principals literally 'wrote the book' on hospitality consulting, authoring numerous authoritative texts and hundreds of articles. HVS principals are regarded as the leading professionals in their respective regions of the globe. We are client driven, entrepreneurial, and dedicated to providing the best advice and services in a timely and cost-efficient manner. HVS employees continue to be industry leaders, consistently generating a wide variety of articles, studies, and publications on all aspects of the hospitality industry.

HVS is the industry's primary source of hotel ownership data. Our 2,000+ assignments each year keep us at the forefront of trends and knowledge regarding information on financial operating results, management contracts, franchise agreements, compensation programs, financing structures, and transactions. With access to our industry intelligence and data, you will have the most timely information and the best tools available to make critical decisions about your hospitality assets.

For further information regarding our expertise and specifics about our services, please visit www.hvs.com.