



INVESTMENT ANALYSIS & MARKETING OVERVIEW

Falmouth Country Club
630 Carriage Shop Road
East Falmouth, MA 02536



AUTHORIZED BY:

Heather B. Harper
Assistant Town Manager
Town of Falmouth
59 Town Hall Square
Falmouth, MA 02540



EFFECTIVE DATE OF REPORT:

May 7, 2014

PREPARED BY:

Wellspeak Dugas & Kane, L.L.C.
55 Realty Drive, Suite 305
Cheshire, Connecticut 06410
Phone: (203) 699-8920 / Fax: (203) 699-8938
www.wdk95.com



*Real Estate Appraisal
& Consulting*



WELLSPEAK DUGAS & KANE, L.L.C.

Real Estate Appraisal & Consulting

July 21, 2014

Ms. Heather B. Harper
Assistant Town Manager
Town of Falmouth
59 Town Hall Square
Falmouth, MA 02540

Re: Falmouth Country Club
630 Carriage Shop Road
East Falmouth, MA 02536

Dear Ms. Harper:

Per your authorization, we have examined the above-referenced property for the purpose of providing consulting services as described in the scope of work presented as follows:

Scope of Work: *In your review the Town is interested in a reasonable Benchmark for Annual Revenues and Expenses for Falmouth Country Club. We are also interested in an opinion of the potential for a management agreement to include capital improvements such as a \$700,000-\$900,000 irrigation system repair. Further, we'd be interested in your thoughts about (1) the potential additional food and beverage/tournament revenue that may be generated if clubhouse and grille improvements were made; and (2) if the Town were to make these improvements outside of the lease agreement if they are recoverable in revenue projected within a lease. Lastly, we are interested in the length of term you are see in the industry and the term you recommend as necessary to meet our financial goal to meet our annual debt service payment and make capital investments in the property.*

We have based our findings on the condition of the subject property and the status of the local market as of May 7, 2014, coincident with the date of our last inspection. The intended use of this report is to assist the town of Falmouth in making strategic decisions relating to the operation of its golf course property. A copy of the signed engagement letter is included in the Addenda to this report as Exhibit A.

The subject of this report is Falmouth Country Club, a municipal golf course owned by the town of Falmouth and leased to Billy Casper Golf. The lease commenced originally on January 7, in 2005 and called for a five-year term running through January 6, 2010. The original lease included the provision for a five-year extension that was subsequently triggered, extending the lease through January 6, 2015.

The Falmouth Country Club property comprises an area of 157.1 acres that are improved with a 27-hole regulation size golf course that was constructed in stages over time. The first nine holes opened for play in 1967 with a second nine holes following in 1970 and the final nine holes (plus a redesigned existing hole) opening in 1997. The golf course is complemented by a modest-sized, very informal clubhouse building of approximately 4,598 square feet that provides a small pro shop and only limited food and beverage service.

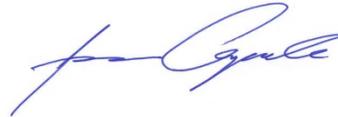
The basic assumptions and limiting conditions on which our report is based are detailed within the body of this report. These include all assumptions regarding environmental conditions and the Americans with Disabilities Act.

The report that follows set forth in self-contained form pertinent data and analyses leading to the conclusions presented.

Very truly yours,



Jeffrey R. Dugas, MAI
State of CT: License No. RCG.0000179
State of MA: License No. RA 2915 CG



James Casapulla
State of CT: License No. RCG.0000658

TABLE OF CONTENTS

SCOPE OF WORK, CRITICAL DISCLOSURES AND LIMITING CONDITIONS.....	1
EXECUTIVE SUMMARY	2
MARKET TRENDS	3
MARKET OVERVIEW.....	10
PROPERTY DESCRIPTION.....	14
BENCHMARK FOR ANNUAL REVENUES AND EXPENSES.....	32
CAPITAL IMPROVEMENTS	55
INDUSTRY TERM LENGTHS	64
CERTIFICATION.....	66
ASSUMPTIONS AND LIMITING CONDITIONS	67
PROFESSIONAL RESUME OF THE APPRAISER.....	69
GLOSSARY OF TERMS.....	71
ADDENDA	76

SCOPE OF WORK, CRITICAL DISCLOSURES AND LIMITING CONDITIONS

SCOPE OF WORK

According to the contract for services with our client, the town of Falmouth, the scope of work is as follows:

As In your review the Town is interested in a reasonable Benchmark for Annual Revenues and Expenses for Falmouth Country Club. We are also interested in an opinion of the potential for a management agreement to include capital improvements such as a \$700,000-\$900,000 irrigation system repair. Further, we'd be interested in your thoughts about (1) the potential additional food and beverage/tournament revenue that may be generated if clubhouse and grille improvements were made; and (2) if the Town were to make these improvements outside of the lease agreement if they are recoverable in revenue projected within a lease. Lastly, we are interested in the length of term you see in the industry and the term you recommend as necessary to meet our financial goal to meet our annual debt service payment and make capital investments in the property.

The report was developed after inspecting the subject property, inspecting the subject market area and reviewing and analyzing historic sales and operating data for the property. Furthermore, we analyzed comparable operating data and lease data obtained from local brokers, property owners and public land records. Specific information relating to the subject property was provided by the club General Manager, Matthew Burgess.

CRITICAL DISCLOSURES AND LIMITING CONDITIONS

The conclusions presented in this report are subject to the following critical disclosures and limiting conditions, in addition to the standard Assumptions and Limiting Conditions located at the end of this report.

Standards: This report satisfies appropriate federal (FIRREA), and industry (USPAP), standards.

ADA: We have not made a specific compliance survey and analysis of the improvements to determine whether or not they would be in conformance with the various detailed requirements of the Americans with Disabilities Act (ADA), nor have we considered possible noncompliance with the requirements of ADA in estimating the market value of the property.

Hazardous: This report is predicated on the assumption that hazardous substances do not exist at the subject property. Hazardous substances cover any material within, around, or near a property that may have a negative effect on its value, including, without limitation, hazards that may be contained within the property, such as friable asbestos or lead paint; and external hazards, such as toxic waste or contaminated ground water. No apparent evidence of contamination or potentially hazardous materials was observed or reported on the date of inspection. Members of this appraisal office are not qualified to determine the existence of, nor is any certification made as to the presence or absence of, any hazardous substances. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them.

EXECUTIVE SUMMARY

FINDINGS & CONCLUSIONS

Falmouth Country Club is a well-run public golf course, serving the community of Falmouth and greater Barnstable County. We found the property to be in good overall physical condition, there was no deferred maintenance and playing conditions were consistent with its price point and targeted audience. The staff was well-trained, which comes from being part of a large organization with resources, policies and procedures in place.

In comparison to other competing municipal courses on the Cape, Falmouth CC is appropriately priced at \$35/\$52 for residents and \$49/\$64 for nonresidents; it supports rounds of between 40,000 and 44,000 and generates between \$1.45 million and \$1.65 million in total revenue. Operationally, the course is performing well and as good as can be expected in this tough economic climate.

The average rate per round at Falmouth CC actually increased from \$30.77 in 2010 to \$33.46 per round in 2013, at a time when most courses are reporting flat to declining income. The average rate was just under 50% of its mid-point (mid-point = average peak weekday and weekend green fee). Again, in comparison to the other municipal courses on the Cape, golf revenue ranged from \$29.30 per round at Sandwich Hollow to \$41.64 at the Barnstable courses, whereby the subject fell within the middle of the range. And, the yield rate of Falmouth CC, which averaged 46.5% over the past four years, falls within the range as well, or between 37.4% (Dennis) and 58.6% (Sandwich).

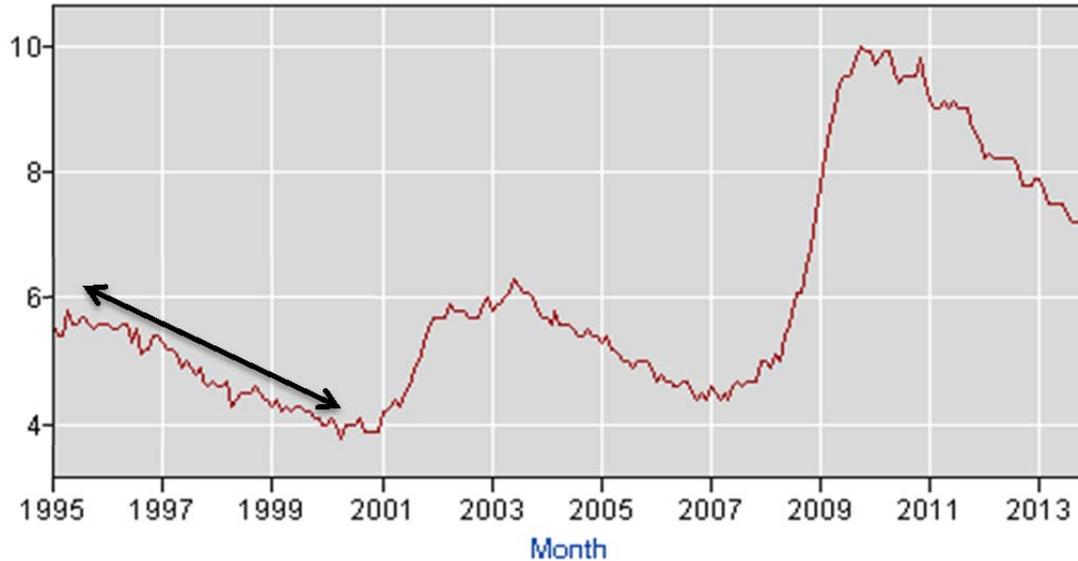
Income from other sources also appear reasonable and consistent with other public and municipal operations on the Cape. Pro shop and Food & Beverage sales are however at the low-end of the range because of the physical make-up of the clubhouse. The facility at Falmouth CC limits the ability to stock merchandise and provide food service typically found at other like courses. The clubhouse lacks a functional kitchen and refrigeration units, therefore patrons have access to a limited menu of pre-packaged sandwiches, hot dogs and cold drinks. The subject is missing out on its ability to better serve a captive market and generate additional profit from F&B sales. In addition, it is diminishing the golf experience by not providing a more suitable environment to gather after a round. Currently, F&B sales have been around \$3.50 per round, while with a modest build out we feel sales could increase to \$11 per round. In addition, improved clubhouse conditions would justify a slight premium in the average rate, whereby golf revenue would increase as well. The net effect is an increase of about \$120,000 in net earnings, or an increase in rent to the town of approximately \$60,000 a year. Based on comparable construction costs we have reviewed at other clubs that went through similar renovations, the return on investment would warrant the investment and the project would be financially feasible.

Lastly, we explored the idea of replacing the dated but operational irrigation system. While the system is original and beyond its normal life expectancy, it is not uncommon to patch systems together and replace components over time, because benefits do not justify the cost. The golf course is being well maintained despite the age and utility of the system. And while more breaks are common with an aging system, the potential savings in repairs would not be enough to pay for the new system. That said, it would be prudent to make upgrades over time in order to ensure against a catastrophic collapse of the system. The town should continue to make improvements to the system as funds become available.

MARKET TRENDS

In the late 1990's, the economy was thriving as evidenced by low unemployment, and the impact on the golf industry was very positive. Unemployment nationally had dropped from 5.6% in January 1995 to a low of 3.8% in April 2000. This meant that people had more disposable income, something golf depends greatly on. Here, in Massachusetts, the trend was similar. Unemployment in the state declined from 9.1% in 1992 to 2.6% in October of 2000.

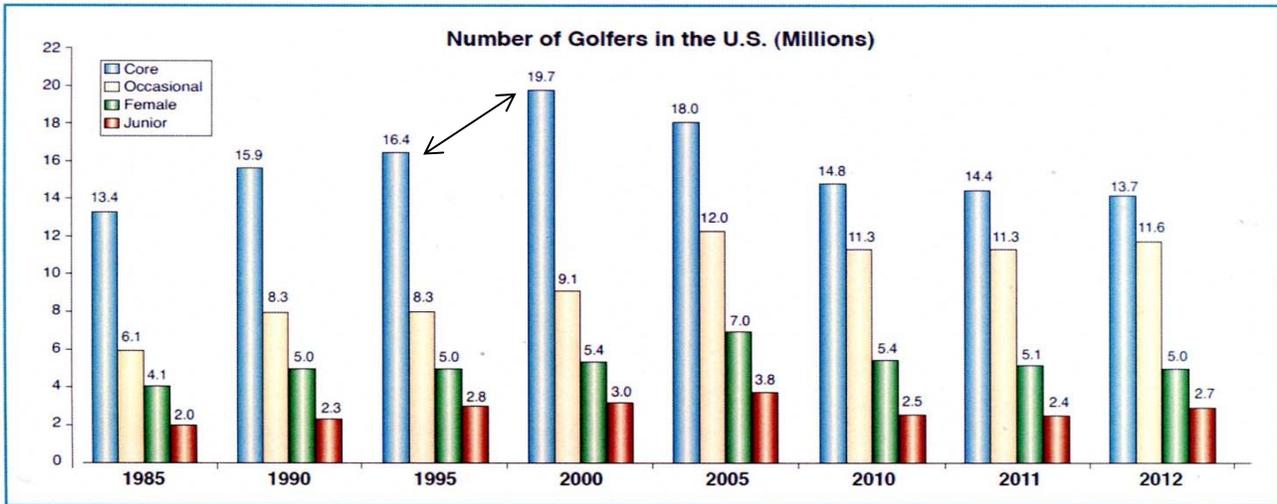
National Unemployment Rate



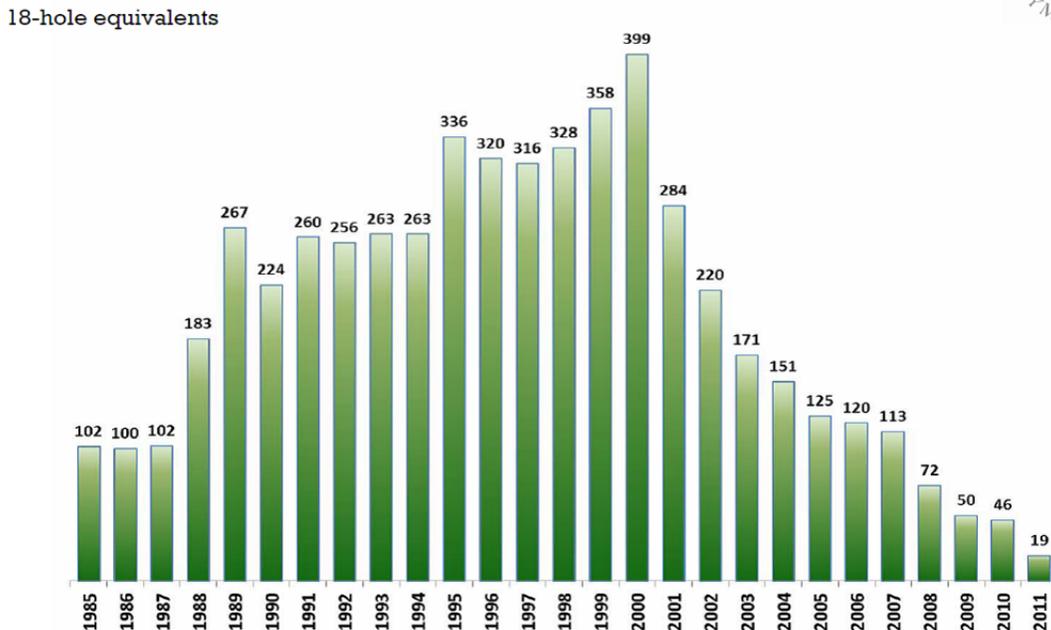
At the same time, Tiger Woods brought excitement to the game. He turned pro in 1996 and by 1997 he was already the money leader on the PGA tour after winning his 1st Masters. In 1998 he was ranked No. 1 in the world; in 1999 he topped PGA earnings and won a record 8 PGA events including his 2nd Major. During the 2000 golf season, he won the Grand Slam, or each of the four majors.



The secondary mortgage market created by Wall Street fostered competition among banks, forcing them to look to lend to non-traditional property types, golf being one of them. The golf industry was in a state of euphoria, for the first time public money was flowing into the golf business. Companies like Golf Trust, National Golf Properties and Family Golf were flush with cash, and they were aggressively trying to add product through development or acquisition. The stars aligned in the 1990's for the golf industry; it had everything it needed to support a boom market: disposable income, available capital and attention to the sport by a dominant athlete chasing the record books. With heightened demand came an increase in prices (values) and new development opportunities. The following chart shows that the number of core golfers grew from 16.4 million in 1995 to 19.7 million in 2000, a change of 20% in that one category alone.



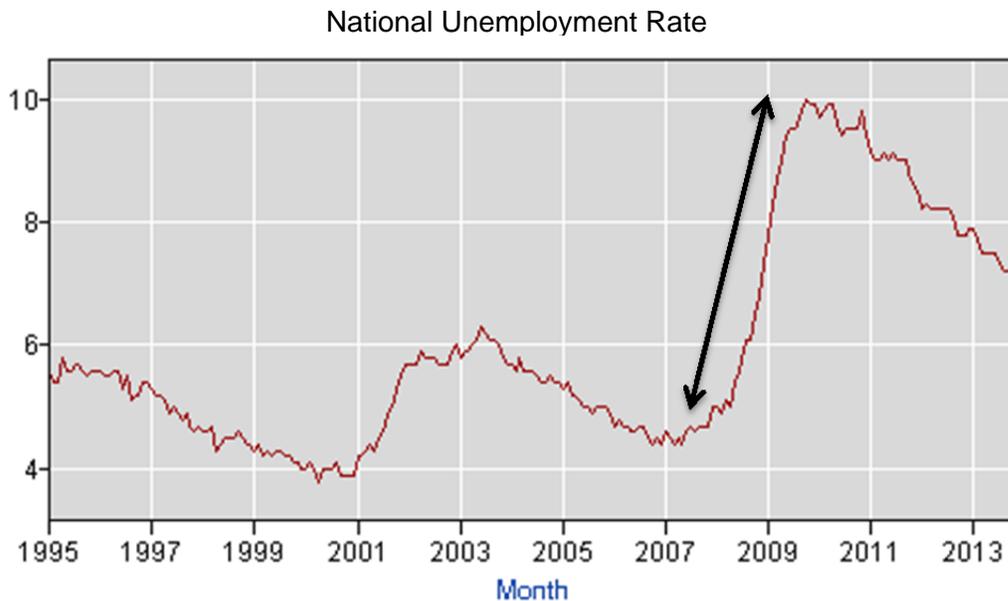
The chart below tracks new course openings, as published by the National Golf Foundation. Between 1995 and 2000 more than 2,000 courses were added nationwide, more than one a day on average. In the year 2000 a total of 399 courses opened, representing the peak of the golf market.



Source: NGF Facility Tracking

Locally a number of new courses came on line, especially in the town of Plymouth, a town that offers good highway linkage and more than land than another community in the commonwealth. Plymouth is located at the entrance to the Cape, therefore it can have an influence on the subject. Since Waverly Oaks Country Club was completed in 1998, Plymouth has seen a considerable amount of new development. An executive golf course known as Souther's Marsh opened in 2000. Crosswinds, an upscale 27-hole public course built on 250 acres along Route 3 opened late 2002 with 9-holes and 27-holes were in play by the 2005 season. They just constructed a new clubhouse last year. Directly across Route 3 is the Pine Hills Community, a 3,037 acres master-planned development. This community supports currently three courses, the first, a Rees Jones layout opened mid-year 2001 to rave reviews. The second course represents a Jack Nicklaus Jr. design that opened in May of 2002. The third course built as part of Pine Hills is a private Ben Crenshaw and Bill Coore design, known as Old Sandwich Golf Club. So even though these courses are not located on the Cape, they can cut into the flow of business from shoreline towns to the north along the Route 3 corridor.

While the events of 9/11 created economic uncertainty, the ensuing credit crisis proved to be an even bigger blow to the golf industry. The US economy has suffered in the wake of a severe credit crisis that was first brought to light by the failure of Lehman Brothers in September of 2008. Unemployment spiked from 5% in May 2008, to 10% in October 2009. In the state of MA, unemployment went from 4.5% in May 2007 to 8.7% in December of 2009. It has since fluctuated around 7% in recent years, or through 2013.



With years of over-building coupled with a national recession the effects on golf have been catastrophic. At the same time, Tiger Woods made more headlines off the golf course than on. From December 2009 to early April 2010, Woods took a leave from professional golf to focus on his marriage after his admitted infidelity. This was followed by a loss of golf form, and his ranking gradually fell to a low of No. 58 in November 2011.

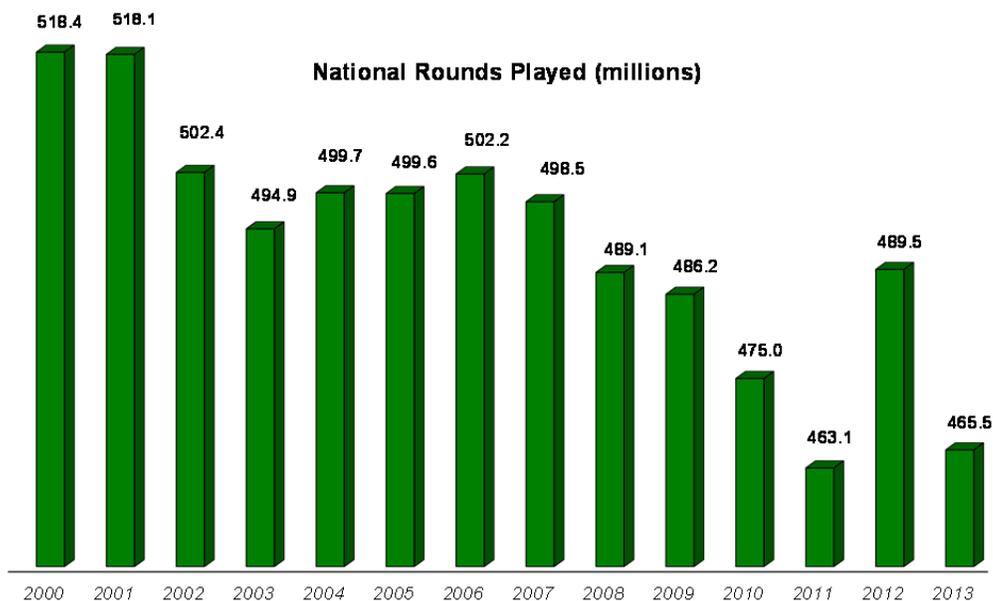
The very things that propelled the sport of golf in the 1990's and early 2000's was bringing it down in the late 2000's; too much supply, little available credit/capital and lost affection for the game's star player.

According to estimates compiled by the National Golf Foundation (NGF), total rounds played in the U.S. have dropped off significantly from 518.4 million in 2000 to 486.2 million in 2009 and 463.1 million in 2011 before increasing to 489.5 million in 2012. In 2013, rounds fell again to 465.5, down 4.9% from the year prior. Overall, between these dates the number of rounds played dropped by 10.2% while at the same time, US population rose 12.02%. The increase in play in 2012 was a result of ideal weather conditions, Golf Datatech estimates that the number of available golf days was up 6.5% in that year. The following table illustrates the substantial decrease in golf participation over the decade.

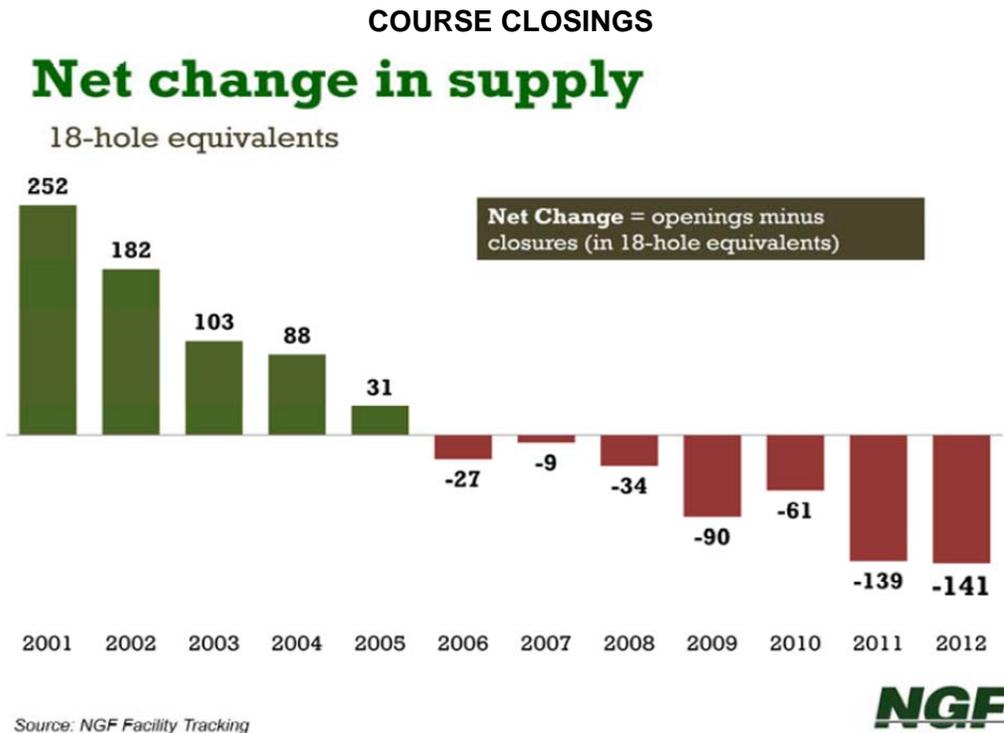
Year	Rounds Played (millions) ¹	Percent Change	US Population As of July ²	Percent Change	Rounds Played per Person	Percent Change
2000	518.4	n/a	282,216,952	n/a	1.84	n/a
2001	518.1	-0.06%	285,226,284	1.07%	1.82	-1.11%
2002	502.4	-3.03%	288,125,973	1.02%	1.74	-4.01%
2003	494.9	-1.49%	290,796,023	0.93%	1.70	-2.40%
2004	499.7	0.97%	293,638,158	0.98%	1.70	-0.01%
2005	499.6	-0.02%	296,507,061	0.98%	1.68	-0.99%
2006	502.2	0.52%	299,398,484	0.98%	1.68	-0.45%
2007	498.5	-0.74%	301,139,947	0.58%	1.66	-1.31%
2008	489.1	-1.89%	303,824,640	0.89%	1.61	-2.75%
2009	486.2	-0.59%	307,212,123	1.11%	1.58	-1.69%
2010	475.0	-2.30%	309,326,295	0.69%	1.54	-2.97%
2011	463.1	-2.51%	311,582,564	0.73%	1.49	-3.21%
2012	489.5	5.70%	313,873,685	0.74%	1.56	4.93%
2013	465.5	-4.90%	316,128,839	0.72%	1.47	-5.58%
2000 to 2013		-10.20%		12.02%		-19.84%

¹ Source: NGF (National Golf Foundation); ² Source: US Census

The largest decrease in golf play occurred in 2002, however the trend has continued generally downward in subsequent years, with the single exception in 2012 when play actually rose. However, 2013 showed a continued decline, falling back to 2011 levels.



The following graphs illustrate the drop off in new construction, and the increase in course closings, resulting in a net loss of 34 courses in 2008, 90 in 2009, 61 in 2010, 139 in 2011 and 141 in 2012.



Starting in 2008, in conjunction with the credit crisis, there has been a severe shortage of capital available to the golf business. Long-term national golf lenders Textron Financial, Capmark, Pacific Mutual and GE Capital have exited the golf lending business. Capmark in fact sold its golf portfolio to Deutsche Bank for \$0.70 on the dollar, while Textron Financial has spent the past 6-7 years selling off its REO and golf loans at discounts.

The current economic downturn appears to have hit private course harder than public ones. This is evident by the rather large decreases in memberships at many of the well-established private clubs. Many are facing decreasing membership rosters forcing increases in fees and assessments, thus leading to still more departures, creating a downward spiral. Because of the decline in memberships and increasing costs to operate these clubs, several had sold at discount prices, like The Ridge Club (Sandwich), Willowbend (Mashapee) and Boston Golf (Hingham).

We have presented the following sale activity which is used to show the adverse impact on market conditions stemming from the weak economy and decline in the number of golfers.

- **Tekoa Country Club**, located in Westfield, MA, represents an 18-hole public golf course set on 114 acres that was purchased by a local investor in May 2005 for \$2,650,000 and was later re-sold on April 6, 2009 for \$1,433,000 via auction. This property lost **45%** of its value over the four year period.
- **Hickory Ridge Country Club** in Amherst, MA represents an 18-hole public golf course that was bought in April 2003 for \$3,500,000. Between 2007 and 2010 the property was being marketed for sale, initially with an asking of \$2.9 million, then \$2.2 million. In 2011 there was an offer at \$1.4 million which included 100% seller financing, that deal ultimately fell through. In 2012, the club was sold by the bank at auction for \$1,050,000 to a multi course operator. It included a modest amount of equipment and personal property. This property declined in value by **70%** since 2003, and 25% since 2009-2010.
- **Hampden Country Club**, located in Hampden, MA, represents a good quality 18-hole public golf course set on 289 acres and improved with an 18,000 square foot clubhouse. The property was purchased in January 18, 2006 for \$3,350,000 by a local golf professional and a financial backer. The owners were unable to afford their debt and their lender, TD Bank North foreclosed on the property in late 2011; it sold at a well-attended auction in January 2012 for \$1.7 million, indicating a loss of **49%**.
- **Sterling Country Club** represents an 18-hole private golf club on 256 acres in Sterling, MA. The club was generating \$3.8 million in gross sales, of which \$1.3 million was from food & beverage. The property sold in November 2005 for \$7,250,000. Subsequent to the sale the buyer spent about \$1.5 million on a new pool complex and upgrades to the clubhouse. Despite the capital infusion, sales remained flat at \$3.8 million in 2008 and in 2009 the property was marketed for sale at \$5.0 million. It ultimately sold in May 2010 for \$4.2 million, indicating a 42% decline since 2005, or **52%** if one were to add on capital improvements invested.
- **The Ridge Club** represents a private 18-hole country club on Cape Cod, it is located in a gated community and famed hockey player Bobby Orr lives across from the clubhouse. The property had once charged as much as \$35k for initiation and it was generating about \$4.2 million in gross sales. It has a 25,000 sf clubhouse, pool, tennis and driving range, off Route 6 or the Mid Cape Highway in Sandwich. Our firm represented the owner in a sale to Pegasus Golf in September 2007 for \$8 million. The buyer lost the property to the bank, Capmark Financial who foreclosed on the property in late 2011, and in early 2012 it sold to a group of members for \$3.0 million. This property lost **63%** of its value over the last 4.5 years.
- **Wentworth Hill GC** was developed by two parties, Mr. Mark Blanchette, and Dennis and Kelli Baker. Shortly after the course was completed and opened, the partnership decided to split, and the Bakers bought out Mr. Blanchette on May 2, 2003 for a price of \$5,850,000. The price proved to be too high, a foreclosure auction occurred in December 2005 and the course sold for \$3.7 million. That buyer filed for bankruptcy in 2011, after more than a year of legal maneuvering, the property re-sold in February 2013 for \$2.1 million to a local course operator. This property lost **43%** of its value between 2005 and 2011.

In regional surveys conducted by this firm we have found in fact that public play courses are reporting generally stable round counts from 2008 through 2013, with variances typically blamed on weather variances and not demand factors. However, we also see more discounting in the form of special deals being offered, typically lowering revenue per round. This trend which had been ongoing for the past several years appears to have accelerated the past couple of years.

We have seen a steady deterioration in the value of golf properties, not only here in MA but nationwide. It first stemmed from years of over-building, coupled with a general erosion of the economy. Most recently, the US economy is operating in a severe credit crisis which was brought to light by the failure of Lehman Brothers in September of 2008. As demand started to decline post 2008, clubs began to discount heavily, both public and private alike.

The town of Falmouth has fared better than most because of its long term lease with Billy Casper Golf. While revenue is down from 2004 and projections made by our office at that time, they have remained strong despite added competition and rising unemployment. Based on most recent revenue figures, golf revenue has remained stable for the past four years, ranging from a low of \$1,435,893 in 2011 to a high of \$1,496,093 in 2012. This is unlike many clubs that have seen declining revenue, due to fewer rounds and heavy discounting.

The lease has provided the town with an average income stream of about \$400,000 a year, which based on its total sales of \$1,625,000 would approximate 24%. Prior to 2007, when golf was still in favor and the outlook was positive, golf companies were willing to pay between 20% and 30% on leases, while today that figure has declined significantly. Our office was involved with the recent lease of the Rockland Golf Course in Rockland, MA. This 18-hole public par 3 course is being leased for around \$150,000 a year, or 15% of sales inclusive of taxes. This property does however generate a higher percentage of F&B sales, thus an upward adjustment is required.

In 2003 the town of Abington MA, put out an RFP to lease the Strawberry Hills GC, and three local golf companies responded. The bids were all very close, ranging from \$115,000 to \$125,000 a year with escalations. Gross revenue was being projected at between \$571,000 and \$600,000 and the average rent equated to 20% of sales at that time. Since then a new lease was signed in April 2009 for this same course, a five deal year was negotiated at \$36,000 in Year 1, and \$43,200 for years 2-5 based on projected gross sales of only \$325,000. The new percentage rent is 12.8%. There have been no changes to the property or inventory of competitors, the only change was the economic impact the market has had on golf, and what operators can expect to pay in rent.

In 2001, American Golf was paying \$1 million to lease Long Island National GC, in Suffolk County (Long Island), NY. They had high expectation, but in 2010 when their option to terminate came due, they exercised it since they were losing \$800,000 a year after making rent payments. Also in 2001 American Golf had offered to lease Great River CC in Milford, CT for \$1.5 million in Year 1 going to \$2 million in Year 3 then increase by CPI thereafter. The owner decided to forgo a lease and operate the club himself. For the past several years the club has lost money, versus a lease that would have paid him millions.

The Town of Falmouth has been well-serviced by Billy Casper Golf, and because they secured a long term lease they have been able to weather the downturn in the market to some degree. The property is well maintained and customers appear pleased with its price point and service level. The town was fortunate to lease the property in 2004 when economic conditions were much stronger than they are today. And, if certain capital is expensed and improvements are made to the property, the town could expect to receive higher rent payments in the future and golfers could experience even a higher degree of satisfaction.