



Ahwatukee Lakes Golf Club Redevelopment Assessment

February 10, 2017



True Club
SOLUTIONS
A Division Of TROON



Qualified, real-world answers

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On Behalf of The True Life Companies
February 9, 2017

PURPOSE

True Club Solutions (TCS) was engaged by The True Life Companies to perform a redevelopment budget and report for the Ahwatukee Lakes Golf Club (ALGC) in Ahwatukee, AZ. The True Life Companies are in process of evaluating the cost associated with re-opening ALGC and the on-going expense involved in operating the facility.

METHODOLOGY

Jeff Poling, Troon Director of Golf Course Construction, performed a site visit on January 12, 2017 to determine scope of work, current golf conditions, and evaluate salvage-ability of current golf course infrastructure. From his findings and by applying Troon's golf course construction metrics that have been applied to hundreds of facilities across the US, TCS will deliver, as part of this report, a redevelopment budget of the course to bring it back to its previous condition.

In addition, Rich Carter, President of True Club Solutions, formulated a three year operating pro forma for the facility based on comparable industry metrics, previous property performance, and current condition of the golf market in the Great Phoenix, Arizona market.

OVERVIEW

The results of this report will allow The True Life Companies to have a better understanding of the viability of redeveloping ALGC and if the operations can provide a return on the investment and are financially sustainable moving forward.



EXISTING CONDITIONS AND SAVALAGE-ABILITY

Golf Course

Currently the golf course is completely fallow. There is no turf remaining from its prior existence as a golf course – only weeds and some rouge grass types can be found on the property. Cart paths are in fairly good shape, but there are areas where cart path replacement will have to occur. Irrigation Lakes have significant silt and runoff soil accumulation and would have to be dredged as part of golf course construction. Bunker outlines can be seen, but all bunkers would have to be reconstructed given the level of erosion and soil contamination.



Maintenance Building

There is no maintenance building on property as the prior operation used the maintenance facility at Ahwatukee Country Club (as the owner of each property was the same). As such, a maintenance facility will have to be constructed as part of the redevelopment ALGC. The location of this facility could be problematic given the dense housing surrounding the golf course. Wherever this building is located, there will be unhappy residents as the site will produce noise early in the morning and throughout the day.

Irrigation

As there is currently no water in the irrigation lakes, TCS did not have the ability to test the system. From our site inspection, there is significant silt contamination within the well and it is customary that if this is the case, contamination would exist throughout the rest of the system. The pump station itself appeared inoperable, but without power and water, this could not be determined. TCS recommends a full replacement of the pump station as part of redevelopment as the reliability of the current unit is questionable at best. Leaks within the current irrigation piping cannot be determined until the system is functional, but TCS's expectation is that the majority of irrigation piping will have to be replaced during the construction of the golf course.



On-Site Restrooms

While currently not functional, the on course restrooms do not need to be rebuilt. They can be refurbished as part of redevelopment.



Clubhouse

There is currently no Clubhouse facility on site. The redevelopment budget includes the construction of a 5,000 square foot Clubhouse and a 2,640 square foot Cart Storage area. These two areas will be housed in the same building. The cost of Furniture, Fixture, and Equipment has not been included in this budget as these appointments can be highly subjective. TCS does not have an indication as to what these appointments were prior and to add any at this point would be speculative.



GOLF COURSE CONSTRUCTION BUDGET

The following is the estimated Golf Course Construction Budget for Ahwatukee Lakes Golf Club. This budget is separated into the following areas:

1. **Land Costs:** this would include any expense in the acquisition of the land on which the golf course resides. This has been initially left blank as land costs were assumed at zero to eliminate any discrepancies in valuation.
2. **Professional Fees & Permitting:** this includes the costs of construction management, irrigation design, surveys, permitting, lake and landscape design, utilities connections, etc.
3. **Building Construction:** this area includes the costs associated with the construction of any structures on the property to include the maintenance building, clubhouse, on-course restrooms, pump station, etc.
4. **Golf Course Construction:** this includes the actual hard costs associated with the specific construction of the golf course.
5. **Grow-In & Pre-Opening:** these costs cover the period of time between the completion of golf course construction and the opening of the facilities. Expenses associated with this area include the cost of utilities, equipment, labor, operating supplies and merchandise, golf cars, and furniture, fixtures, and equipment (FF&E) for the maintenance building.

Construction Budget Assumptions

- This budget reflects the intention to restore ALGC to its prior condition in terms of design, turf coverage, and quality.
- Golf turf area is estimated to be 73.1 acres of fairway and rough and 4.76 acres of tees and greens. Total golf envelope is 93.16 acres.
- The routing for ALGC will remain the same, thereby eliminating the need for a golf course architect. Those estimated fees have been omitted from the budget.
- In order to show some expense savings, to reduce future operational expenses, and to fall in line with more current trends in golf course design, the existing bunker square footage has been reduced by 15%.

- The shells of the existing restrooms and pump house will remain and will be refurbished.
- 50% of the existing cart path are in acceptable condition and will remain.
- The Clubhouse (5,000 SF) and Cart Storage (2,640 SF) are planned to be of similar size and appointments as prior and will remain in the same building. The estimated space for golf car storage will accommodate 44 cars.
- Ops Start-up costs do not include FF&E for clubhouse and other amenity buildings.
- Pricing reflects that the irrigation system is not salvageable or reusable.
- There are no expenses included for pre-opening marketing, advertising or a grand opening event.
- Pricing is estimated based on recent Troon projects. Actual pricing may vary at time of construction.

AHWATUKEE LAKES					1/19/17
Phoenix, AZ					
Executive 18-Holes					
I.	Land				
		<u>Quantity</u>	<u>Units</u>	<u>Unit Price</u>	<u>Total Amount</u>
	TOTAL LAND		Is		\$ -
II.	Professional Fees & Permitting				
		<u>Quantity</u>	<u>Units</u>	<u>Unit Price</u>	<u>Total Amount</u>
	A Golf Course Architect	1	Is	\$ -	\$ -
	B Construction Management	1	Is	\$ 90,000	\$ 90,000
	C Irrigation Designer	1	Is	\$ 55,000	\$ 60,000
	D Engineering & Survey	1	Is	\$ 105,000	\$ 105,000
	E Permitting & Misc. Fees	1	Is	\$ 85,000	\$ 85,000
	F Lake and Landscape Design	1	Is	\$ -	\$ -
	G Utility Connections	1	Is	\$ 80,000	\$ 80,000
	TOTAL PROFESSIONAL FEES & PERMITTING				\$ 420,000



III. Building Construction					
		<u>Quantity</u>	<u>Units</u>	<u>Unit Price</u>	<u>Total Amount</u>
A	Architect(CH, CS, MB, RR, PH)	9.0%	of	\$ 2,483,000	\$ 223,470
B	Interior Design/Procurement	15.0%	of	\$ 350,000	\$ 52,500
C	Engineering & Survey	1	ls	\$ 75,000	\$ 75,000
D	Clubhouse/Cart Storage, (w/ site work)	7,640	sf	\$ 325.00	\$ 2,483,000
E	Permits and Fees	1	ea	\$ 25,000	\$ 25,000
F	FFE, OSE Clubhouse & Cart Storage	1	ls	\$ 350,000.00	\$ 350,000
G	Maintenance Building	6,000	sf	\$ 105.00	\$ 630,000
H	Maintenance Facility Site Work	1	ls	\$ 175,000	\$ 175,000
I	Re-furbish On Site Restrooms	2	ea	\$ 35,000	\$ 70,000
J	Pump House	1	ea	\$ 45,000	\$ 45,000
				SUBTOTAL:	\$ 4,128,970
K	Contingency	8%	of	\$ 4,128,970	\$ 330,318
	TOTAL BUILDING CONSTRUCTION				\$ 4,459,288
IV. Golf Course Construction					
		<u>Quantity</u>	<u>Units</u>	<u>Unit Price</u>	<u>Total Amount</u>
A	Mobilization, Survey, As-builts	1	ls	\$ 180,000.00	\$ 180,000
B	Tree/Stump Removal, Pruning, & Clean-up	1	ls	\$ 75,000.00	\$ 75,000
C	Erosion and Dust Control	1	ls	\$ 115,000.00	\$ 115,000
D	Mass Excavation	55,000	cy	\$ 2.50	\$ 137,500
E	Topsoil Screening and Management	0	cy		\$ -
F	Rough Shaping	1	ls	\$ 125,000.00	\$ 125,000
G	Golf Course Drainage	1	ls	\$ 150,000.00	\$ 150,000
H	Storm Drainage	1	ls	\$ 110,000.00	\$ 110,000
I	Tee Construction	125,000	sf	\$ 0.70	\$ 87,500
J	Greens Construction & Grassing (TifEagle Sprigs)	82,500	sf	\$ 4.85	\$ 400,125
K	Bunker Construction	100,000	sf	\$ 3.50	\$ 350,000
L	Bunker Sand	2,200	ton	\$ 56.00	\$ 123,200
M	Finish Shaping	1	ls	\$ 175,000.00	\$ 175,000
N	Seedbed Preparation and Soil Amendments	76.1	ac	\$ 2,050.00	\$ 156,005
O	Grassing & Sod Allowance	1	ls	\$ 400,000.00	\$ 400,000
P	Irrigation System & Pump Station	1	ls	\$ 1,500,000.00	\$ 1,500,000
Q	Cart Paths (50% of Existing is satisfactory, 6' wide)	55,000	sf	\$ 6.00	\$ 330,000
R	Cart Path Curbing	0	lf	\$ 4.50	\$ -
S	Lake Construction	13	ac	\$ 91,840.00	\$ 1,193,920
T	Concrete Lake Shoreline (5' wide)	11,300	lf	\$ 20.00	\$ 226,000
U	Lake aeration, overflows, interconnects	1	ls	\$ 225,000.00	\$ 225,000
V	Landscape	1	ls	\$ 200,000.00	\$ 200,000
W	Construction Water	1	ls	\$ 25,000.00	\$ 25,000
				SUBTOTAL:	\$ 6,284,250
X	Bonds	1.25%		\$ 6,284,250	\$ 78,553
Y	Contingency	8%	of	\$ 6,284,250	\$ 502,740
	TOTAL GOLF COURSE CONSTRUCTION				\$ 6,865,543



V. Grow-In & Pre-Opening		Quantity	Units	Unit Price	Total Amount
A	Irrigation Water (5 months)	1	ls	\$ 420,000	\$ 420,000
B	Golf Course Equipment	1	ls	\$ 760,000	\$ 760,000
C	Maintenance Bldg FFE	1	ls	\$ 175,000	\$ 175,000
D	Golf Course Grow-in (5 months)	1	ls	\$ 465,000	\$ 465,000
E	Golf Cars	44	ea	\$ 4,900	\$ 215,600
F	Range Picker	1	ea	\$ 13,000	\$ 13,000
G	Operations Pre-Opening	1	ls	\$ 97,700	\$ 97,700
H	Operations Start-Up	1	ls	\$ 268,000	\$ 268,000
I	Operations Beginning Inventory	1	ls	\$ 64,510	\$ 64,510
TOTAL GROW-IN & PRE-OPENING					\$ 2,478,810
TOTAL DEVELOPMENT COST					\$ 14,223,641

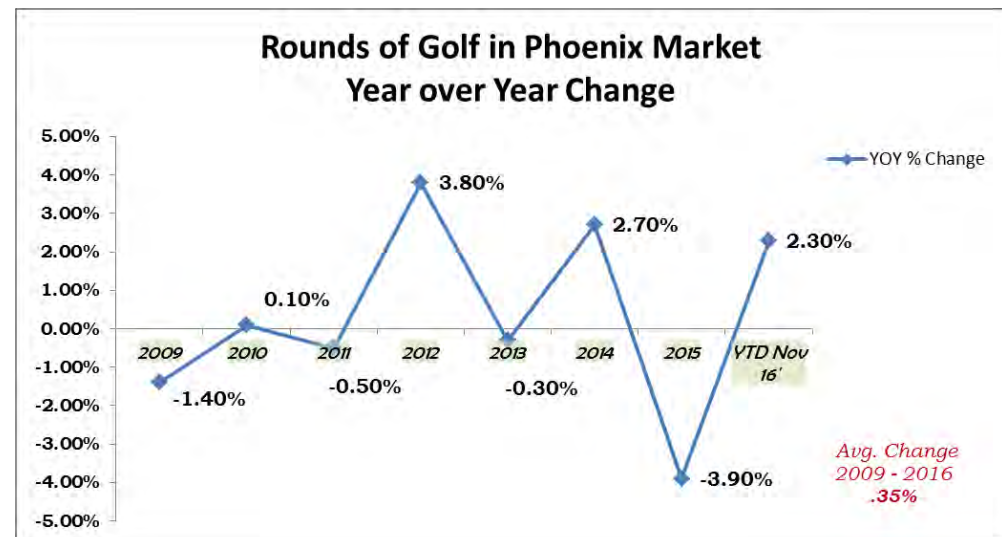
The information contained in this budget is based on an executive 18-hole golf course and clubhouse. It does not take into account, nor make provision for, any rise or decline in local or general economic conditions and other circumstances that may have a significant adverse effect on actual costs. The budget has been based on the information available concerning the planned golf club. Troon cannot guarantee that actual costs at the time of construction will match the projections contained herein. The information contained in this budget is not intended to be used as inducement for action and has been prepared in an effort to show the expected costs related to the construction of the golf course and clubhouse.



CURRENT AND HISTORIAL GOLF MARKET CONDITIONS

As of the end of 2015, golf participation nationally remained relatively flat for the 5th consecutive year at +/- 25 million core golfers¹ with the number of total golfers (anyone who has played one 18 hole round in the last year) equaling +/- 29 million. While popularity has stabilized, the industry faces headwinds on several fronts:

- The age of core golfers continues to advance. In 2015, the average of age of the core American golfers was 54, which falls on the tail end of the Baby Boomer Generation (ages 51-69). In addition, 61% of core golfers are over the age of 50.
- As of 2015, Baby Boomers represent the 2nd largest generation in the US population at approximately 74.9 million individuals – less than a million people behind the Millennial generation (ages 18-34). This gap is expected to grow substantially over the next 20 years, with Baby Boomer numbers dropping to +/- 40 million by 2040.²
- With less than 5% of rounds played in the US done so by individuals under the age of 30³, there is increasing pressure to backfill the aging core demographic in the game of golf. This issue is compounded by the fact that traditional game of golf



* NGF Annual Rounds Report - PHX

1. National Golf Foundation Annual Industry Overview
2. PEW Research Center tabulations of US Census – December 2014 and 2015.
3. www.statisticbrain.com



(playing 18 holes) is increasingly seen as less attractive to the younger generation – primarily due to time, expense, and shifting interests.

- As indicated in the graph, TCS believes that the golf market in the great Phoenix metro area will mirror national trends with rounds of golf basically remaining flat over the next 5 years. Greater challenges will arise post this period as a greater number of Baby Boomers will become physically unable to play as often with fewer younger players filling the gap.
- It is important to note, that the recovery of the US economy and the increase in disposable income over the last 8 years has not translated to the same improvement in the golf market. Nationally, while disposable income has risen approximately 23.1% from 2008 to 2015, golf participation has declined 14.5% over the same period.



- There is growing interest in non-traditional forms of golf (TopGolf, Foot Golf, Frisbee Golf), but it has yet to be determined whether these activities translate into a greater migration into the traditional game.



THREE YEAR OPERATING PRO FORMA - ASSUMPTIONS

General

- It was assumed in the financial projections that ALGC will operate in a similar fashion as to what existed prior to course closing. As described in the previous pages and considering the state of the golf market in the greater Phoenix metro area, TCS does not project any substantial improvement to the operating model in the foreseeable future. To assume anything else would be, in TCS's opinion, highly speculative.
- The information contained in these projections is based on an executive 18-hole golf course and clubhouse. It does not take into account, nor make provision for, any rise or decline in local or general economic conditions and other circumstances that may have a significant adverse effect on actual results. These projections have been based on the information available concerning the planned golf club. TCS cannot guarantee that actual results will match the projections contained herein. The information contained in these projections is not intended to be used as inducement for action and has been prepared in an effort to show the expected revenues and expenses related to the operation of the golf course and clubhouse.

Revenues

- Since there has been little change in the market, the first full year of operations (Year1) assumes that golf rounds will be the average of the prior two full operating years of ALGC – namely 2011/2012. TCS did not utilize 2010 numbers as it felt that 2010 was still a recovery year in the industry and as such these negative results would weigh too heavily on an accurate representation of the future performance of ALGC.
- Year 1 rounds are projected to be 39,359 and are estimated to rise by 1% per annum thereafter through Year 3 – slightly ahead of the overall market projections. This number of rounds is in line to slightly ahead of round counts to comparable 18-hole facilities in market.
- The revenues contribution to the departments of Food & Beverage, Merchandise, and other Golf related revenues are directly tied to the number golf rounds.
- Given that rates in the greater PHX market have remained relatively flat in the last several years*, average rates for Golf, Food & Beverage, and Merchandise were projected to be an average of the prior two full years of operation. Average Annual Fees in Year 1 stand at \$13.78/round for golf, \$1.61/round for merchandise, and \$2.78/round in Food and Beverage. These rates are projected to rise 2% per annum thereafter through Year 3. Given the price sensitivity of the surrounding market, TCS does not see a substantial rise in these rates in the coming years.

* Scottsdale Convention & Visitors Bureau, Golf Assessment Report - 2016



Cost of Sales

- COS % for both Merchandise and Food & Beverage are calculated as an average of the prior two full operating years. These percentages have remained flat thereafter through Year 3.

Payroll & Operating Expenses

- Keeping with the assumption that ALGC would re-open with the same operating structure it had at closing, both payroll and operating expenses are calculated as an average of the prior two full operating years (2011/2012) growing at 2%/year thereafter.

Capital Improvements

- Projected at 3% of annual revenues. These capital improvements would be for general repair and replacement outside standard operating expenses. Any major replacement of equipment, such as turf care equipment and pump and irrigation equipment or major repairs, would have to be funded by other means and would exist outside this three year projection.

Management Fee

- Owners assume that a professional management company will be responsible for day to day operations of ALGC. An estimated fee of \$65K per year has been assumed in this model.

Net Income (Loss)

- Despite a sizeable improvement over prior operational years, these operational projections estimate a negative cash flow of negative 2.3% in Year 1 and remaining negative through Year 3. Once again, these percentages are based on operational performance only and do not take into consideration land or development costs.



THREE YEAR OPERATING PRO FORMA

AHWATUKEE LAKES GOLF CLUB		Phoenix, AZ				2/10/2017		
Pro Forma								
		<i>(partial year)</i>						
	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Year 1	Year 2	Year 3	
Revenues								
Golf Fees - Daily-Fee / Resort	528,049	544,253	516,772	212,561	542,465	558,848	575,725	
Range, Rental & Other	73,855	90,330	68,675	20,480	79,503	81,888	84,344	
Golf Lessons	-	1,135	-	-	-	-	-	
Merchandise	42,961	91,001	45,582	21,283	63,430	65,986	68,645	
Food & Beverage Revenue	72,715	127,480	100,302	37,955	109,257	112,556	115,955	
Total Revenues	717,580	854,199	731,331	292,279	794,654	819,277	844,669	
Cost of Sales								
Merchandise	32,675	68,542	33,726	16,434	47,572	49,489	51,484	
Food & Beverage - Total	31,105	41,785	40,141	13,206	40,568	41,793	43,055	
Total Cost of Sales	63,780	110,327	73,867	29,640	88,140	91,282	94,539	
Gross Profit	653,800	743,872	657,464	262,639	706,514	727,995	750,131	
Operating Expenses								
Payroll	251,289	271,607	276,147	107,013	273,877	279,474	285,186	
Other Operating Expenses	366,842	334,074	305,939	86,177	320,007	326,407	332,935	
Total Operating Expenses	618,131	605,681	582,086	193,190	593,884	605,880	618,120	
Operating Profit	35,669	138,191	75,378	69,449	112,631	122,115	132,010	
Other Expenses								
Insurance	10,973	12,501	11,105	5,743	11,803	12,039	12,280	
Property Taxes	21,591	24,000	28,810	22,973	30,600	31,212	31,836	
Total Other Expenses	32,563	36,501	39,915	28,716	42,403	43,251	44,116	
(Depreciation)	-	-	-	-	-	-	-	
Capital Improvements	(3,224)	-	(8,842)	-	(23,840)	(24,578)	(25,340)	
Property Lease	(280,002)	(280,002)	(280,002)	(280,002)	-	-	-	
Management Fee	-	-	-	-	(65,000)	(65,000)	(65,000)	
Fees for Lakes Project	(10,443)	-	-	-	-	-	-	
Equity Reserve Fund	(7,200)	(7,200)	(7,200)	(7,200)	-	-	-	
Capital Bookkeeping Expense	(2,188)	(2,188)	(2,188)	(2,188)	-	-	-	
Net Income (Loss)	(299,951)	(187,700)	(262,769)	(248,657)	(18,612)	(10,715)	(2,446)	



EXECUTIVE SUMMARY

Overview

The redevelopment of Ahwatukee Lakes Golf Club is expected to be approximately \$14M without any consideration for land costs. This includes not only the construction of the golf course, but also the construction of a maintenance facility, a clubhouse, and the refurbishment of the on-course restrooms and pump house. The moderate operating projections of this executive 18-hole golf course shows the facility generating approximately a negative 2% Net Loss off of top line revenues of +/- \$800K. Cash flows, however, remain negative throughout this operating model when consideration is given to both capital improvements and the professional management of the facility. Considering the state of the golf market in the greater Phoenix metro area, TCS does not project any substantial improvement to the operating model in the foreseeable future.

Financial Viability

Generally when facilities like Ahwatukee Lakes are developed, owners commonly recoup the construction cost of the golf course through the sale of homes. This opportunity does not exist for the current owners. Therefore, any return of investment falls squarely on the facility's ability to produce operational profitability which, as the enclosed financial projections show, is minimal at best. Given this fact, True Club Solutions does not believe that ALGC would be a viable operating business if redeveloped as a golf course. If redeveloped, it would serve more as an amenity to the surrounding homeowners than as a sustainable business capable of producing enough cash flow to cover the cost of redevelopment and provide a fair return for the investment.

