

1. Summary of Salient Data and Conclusions

Property:	Lake Oswego Golf Course
Course Characteristics	18 hole par 3, par 54, 2,274 yards Netted driving range
Site Dimensions	40 acres, 40 irrigated acres
Clubhouse Characteristics	Existing clubhouse with pro shop, concessions area, club storage, offices
Maintenance Facilities	One mechanics maintenance building, equipment storage building, containment cleansing station
Location:	17525 Stafford Road Lake Oswego, Oregon
Date of Inspection:	27-Sep-04
Date of Executive Summary:	December 27, 2004

Nature of the Assignment

The objective of the Market, Financial, and Highest and Best Use Study is to evaluate the supply and demand factors affecting the market for golf facilities in Lake Oswego, for the purpose of determining the future financial potentials for the Lake Oswego golf course.

Competition

Portland-Vancouver MSA:	76 Courses, 1,161 Holes,
Primary Trade Area:	17 Courses, 288 Holes, 12 Ranges
Trade Area Breakdown:	4 Private, 13 Public; Ranges—8 Public 4 Private
5 Mile Trade Area	8 Courses, 126 Holes; 6 Ranges-2 Public 4 Private
3 Mile Trade Area	3 Courses, 54 Holes; 3 Ranges---2 Public 1 Private

<u>Trade Area</u>	<u>Private</u>	<u>Daily Fee</u>	<u>Alternative Facilities</u>
2003 Average 18 hole Rounds	37,324	35,028	25,498
2004 Average 18 hole Rounds:	37,625	32,570	23,547

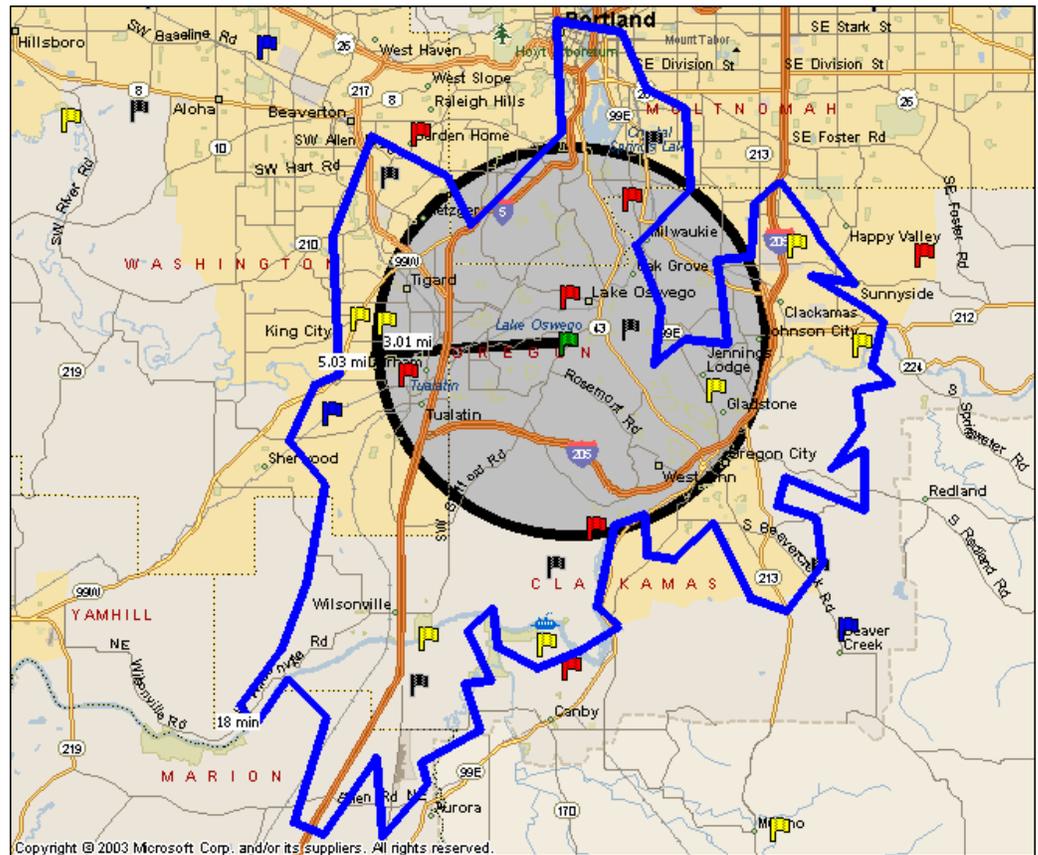
*The rounds for daily fee or alternative facilities do not include semi-private courses

Trade Area Peak Season Fees	Executive	Par 3	Regulation	Overall
2004 9-Hole Average Rack Rate Weekday:	\$11.67	\$8.60	\$19.13	\$14.00
2004 9-Hole Average Rack Rate Weekend:	\$12.67	\$9.50	\$21.13	\$15.39
2004 18-Hole Average Rack Rate Weekday:	\$22.00	\$14.70	\$37.00	\$27.79
2004 18 -Hole Average Rack Rate Weekend:	\$24.67	\$16.10	\$42.44	\$31.56

* It should be noted that the Lake Oswego par 3 golf course is of higher quality than many of the par 3 golf courses in the sample and its rates are expectedly higher.

Regional Golf Market

The primary trade area for Lake Oswego Golf Course is delineated by the blue line in the map. The trade area is outlined in blue and is irregular in size, due to Interstate 5 and 205 and the proximity to the river. The shaded gray area represents the five mile radius that surrounds the site. Each flag represents a golf course. The green flag is the Lake Oswego Golf Course. Red flags symbolize private courses, yellow flags are executive or 9 hole facilities, blue flags are driving ranges, and black flags are regulation daily fee facilities.



Golf trends show the participation rate in Oregon is lower than the Pacific region as well as the United States average. The number of rounds per player is also lower in Oregon than the region and the U.S. Similarly, Oregon has a lower population per course than both the Pacific region and the United States as a whole. A comparison of demand for golf based upon participation and play frequency rates illustrates that demand per 18-hole golf course (residents only) is 42,104 rounds in the United States. The Pacific region demand is 83,009 rounds compared to 24,647 rounds in Oregon, which is significantly below the US average. The trade area shows better prospects than the State of Oregon at 31,250 rounds per 18-hole course. The five-mile radius shows 26,163 and the three-mile radius shows 20,901. While the total number of rounds played in the trade area has increased by nearly 10% between 2002 and 2004, the number of rounds per course has actually declined by 10% due to added competition.

Region	Population	Number of Holes	Population per Hole	Golfers	Golfers per Hole	18 Hole Equivalent Demand per Course
United States	288,339,967	263,115	1,096	28,203,961	107	42,104
Pacific	45,175,494	23,391	1,931	4,104,697	175	83,009
Oregon	3,559,596	2,961	1,202	318,000	107	24,647
Primary Trade Area	597,263	288	2,074	59,486	207	31,250
5 Mile	212,096	126	1,683	21,822	173	26,163
3 Mile	65,660	54	1,216	7,445	138	20,901
Demand is from residents only Includes only existing courses						
Source: HVS Golf Services, Inc. and US Census						

The utilization rate for public golf courses in the area is relatively high at 54.6%, and reaches nearly 68.8% during the high season. The utilization rate in the off season is only 30.6%. The average number of 18 hole equivalent rounds played at regulation length golf courses in the trade area is 43,300, while the average played at alternative facilities is 23,675.

	Public Utilization (Daily)		
	Public Capacity	Public Utilization	Utilization Rate
Annual	361	197	54.6%
Off	260	80	30.6%
Shoulder	350	171	48.7%
High	446	307	68.8%

Source: The Astronomical Almanac and HVS Golf Servi

The demand for practice range use is extensive because of the high household income of the area residents and the lack of numerous public competitors.

Salient Conclusions

The golf facility has experienced declining levels of usage in all areas during the past several years and has seen corresponding decreases in the facilities revenues. These declines were caused by the development of new facilities, general economic malaise and trends affecting the golf industry nationally. The current golf facility has a significant level of deferred maintenance, and the advent of technological advances in the game has the intensified the size limitations of the site from the perspective of the par 3 golf course and practice range. We have noted the following locational and site advantages and disadvantages.

Advantages

- Location to demand generators and large potential market base
- Highly accessible via main roads
- Located on a strategic parcel near downtown
- Maintenance facilities and water treatment area

Disadvantages

- Parcel is too small to safely include 18 par 3 holes and a driving range
- Practice range is small and unsafe due to deteriorating conditions of the support system
- The irrigation system is failing, resulting in added maintenance and labor costs
- Numerous drainage problems exist

Operational Analysis

A review of golf operations was performed in two key areas, revenue generation and operating expenses.

On the revenue side, the analysis illustrated that the golf facility has taken the necessary steps of augmenting their pricing structure to conform to the market and to the area competitors. This has been accomplished by having off season discounts, limiting senior and junior play to weekends and increasing the green fees. Because there have not been capital improvements to the course, it has become relatively more expensive and therefore is having a difficult time keeping market share. The range fees likewise have been increased, and are near the top of the market. There is some potential to increase revenues through demand pricing and getting higher prices for the highest demand tee times. There is little that can be done from a pricing standpoint to increase revenues in the practice range. The marketing efforts at the golf course are not extensive due to insufficient infrastructure. The potential exists for improvement in marketing efforts at all levels.

The decrease in activity at the course has caused difficulty for the sales of concessions at the golf course and the department has been downsized substantially. Because the concession sales area is located some distance from the pro shop sales area, it requires additional staffing for operation and thus makes it unprofitable to operate with existing levels of clientele. Its current operation with vending machines is creating a net profit, and is appropriate for the level of business at the golf course.

The pro shop generates good revenues for a facility of its size and is operating efficiently. The course also generates additional revenue through City classes and other lessons. These courses are popular and play an important role in the community as well as providing a point of entry for new golfers.

The operational costs at the golf course include labor, operating expenses as well as administrative expenses. The golf course is very well maintained for a course primarily serving seniors and an entry level clientele. While the maintenance costs are not out of line with those of similar facilities, there is

the potential to trim some operational costs through changes to the current maintenance practices, such as mowing frequency and machinery improvements.

The golf operations include staffing for the pro shop to administer tee times and sell goods, assisting in concessions sales where necessary, maintaining the range and the restocking of the balls as well as providing instruction and teaching. The total labor costs in this department are above what would be expected at a facility of this size and there are a number of reasons for this discrepancy.

- The staffing for the learning and teaching aspects of the facility are included in this budget, and are at least partially offset by lesson and instruction revenue.
- The costs for union labor are substantially higher than at other privately operated facilities.
- The costs for the Food & Beverage Department are included in this department.
- The costs for maintaining the range area are included in this department.

There has been little in the way of capital improvements to the facilities and the golf course in recent years. This factor has led to deterioration of the facilities as well as the golf course. The course has become too tight due to technological advances and there are numerous safety issues that need to be addressed. The irrigation system is dated, and the additional labor and parts costs are higher than necessary and result in more difficulty with golf course maintenance. The driving range is dated, and there are some structural issues with the support system. In addition the practice range is insufficient for today's user because of its short distance and the fact that the range is sloped away from the user. The clubhouse is somewhat underutilized and difficult to staff.

A final operational consideration involves seasonal operation of the golf course. While most golf courses in the region remain open on a year round basis, play drops off substantially during the off season. It is apparent that for the Lake Oswego golf course, it is not profitable during this time frame and closing the facility for the winter months would increase the overall profitability.

It should be noted that the golf operations are integrated with other city operations. In the past, the golf course has provided excess revenues to the city and also transfer funds to pay for City services. These transfers are significant and represent up to 20% of gross revenues, a number that is comparatively high. These costs have been internalized into the cashflow estimates.

"As Is" Potentials

If Lake Oswego golf course is to continue at its existing site several factors are needed to maximize profitability. These suggestions have been mentioned above, and are summarized here.

- The golf course should be operated March through October only and closed for the winter months.
- Demand pricing should be used to maximize green fee revenues during peak times and increase play during the off peak times.

- Maintenance practices should be reevaluated to achieve greater efficiency.
- A review of pro shop objectives should be undertaken to look for potential costs savings.
- It is assumed that necessary and ongoing capital improvements are in place.

The following “as is” revenues and net operating incomes are based on that assumption. The revenue to be generated at the Lake Oswego Golf Course golf course will be derived primarily from greens fees. Additional golf departmental revenues and profits will be generated from concessions, merchandise sales, club rentals, the practice range, and additional miscellaneous revenues. The summary of revenues generated at the golf course show operating revenues of \$742,935 in 2005, growing to \$1,106,266 by 2014. The golf course will generate \$32.65 per 18 hole round in 2005 and \$41.73 per 18 hole round in 2014.

The summary of operating revenues and costs for the Lake Oswego Golf Course golf course are shown in the adjacent table. The capital expenses required to update the facility have been estimated at around \$2.5 million. **These improvements would be necessary in order to achieve the projections presented in the adjacent table.** These calculations present the net operating income of the golf course before any debt service payments, depreciation, land costs, etc. The net operating income will range from about (\$45,622) in 2005 to \$56,472 in 2014.

It is clear that the income stream from the improved golf course would not be sufficient to pay for these capital improvements, although it may be possible to pay for a portion of the improvements.

Year	Revenue	Expenses	Income
2002/2003	\$763,927	\$772,979	(\$9,052)
2003/2004	\$722,660	\$761,353	(\$38,693)
2005	\$742,935	\$788,557	(\$45,622)
2006	\$783,724	\$815,143	(\$31,419)
2007	\$826,292	\$842,615	(\$16,324)
2008	\$870,708	\$871,002	(\$294)
2009	\$917,045	\$900,333	\$16,712
2010	\$952,226	\$928,420	\$23,806
2011	\$988,692	\$957,382	\$31,310
2012	\$1,026,489	\$987,246	\$39,243
2013	\$1,065,664	\$1,018,040	\$47,624
2014	\$1,106,266	\$1,049,794	\$56,472

Conclusions

It is clear that the golf course has been losing market share over the past several years because the facility has become dated. Technological innovation along with better more modern competitors have left the golf course and the practice range at a competitive disadvantage. The current economic climate and changes in golf participation have further exasperated the facilities position. Without the requisite capital improvements it is unreasonable to expect the golf course to gain market share and return to its former level of profitability, or to even become a break even proposition. While there are marginal potentials to increase the revenues and rounds play as well as become more efficient, these changes will be ineffectual without improvements to the basic facilities. Further it is apparent that a capital infusion would not pay for itself, and thus the overall financial position of the golf course would remain unchanged.