

ARROWCREEK

ArrowCreek Community Club Committee



Update on Community Club Proposal



Recap of Prior Meeting Recommendations

- Three alternatives were discussed
 1. Let the course go brown, but perform necessary work to ensure fire safety for the community
 2. Maintain the course as a park for community access
 3. Run the club as a community club in partnership with a professional management company
- Alternative (3), Community Club, was recommended because
 - Protected against significant negative effect on property values
 - Most cost effective of the three alternatives
 - HOA would own the club and control future use of the property
 - Homeowners would benefit from club activities, professional management and convenience of restaurant/bar within the gates



Developments Since Last Meeting

- Friends of ArrowCreek acquired the club
 - Successful bid in bankruptcy court and closed on Oct. 15th
 - Renamed to “The Club at ArrowCreek”
 - Hired Arnold Palmer Golf as professional management
 - Addressing substantial deferred maintenance
- ACCC continues to meet, focusing on:
 - Structure of partnership
 - Financial impact to homeowners
 - Communication plan



Partnership Structure

- Arnold Palmer Golf (APG) continues to be our intended partner
- HOA will acquire the club property via a loan for an estimated \$2.5 million
 - Purchase from FOA for the amount they paid, plus any losses to date of purchase, plus interest, plus improvements – approximately \$1.6 million
 - Approximately \$900 thousand in back due payments to the County will be paid up front to avoid 10% interest on late payments
- HOA and APG will form a 50/50 joint venture partnership for purposes of operating the club and Residents Center
- The club and Residents Center will be leased to the JV under a long term lease
- Operating expenses for the club and the Residents Center will be paid by the JV - Residents Center expenses of approx. \$200 thousand will come out of HOA budget



Partnership Structure

- All homeowners will become social members of the club at an estimated \$80 per month – a total of \$1.04 million per year
- HOA will perform fire fuels management mitigation over a 10 year period (to be discussed) – initially \$44 thousand per year. JV will pay for maintenance following mitigation.
- APG will receive \$150 thousand per year management fee – waived for first two years and then deferred until JV reaches positive cash flow
- HOA and APG will split positive cash flow 50/50
- Reserves required for the club will be paid over to the HOA for inclusion in our Reserve Fund (reserve study underway)



Financial Impact

- Previous estimated cost per homeowner per month was \$99. We continue to refine the numbers. Below estimates are subject to change.
- Still need to understand and agree on a list of intended capital improvements in the next 5 years – only rough estimates below.

Total Cost to HOA Homeowners					
	Inflation rate: 2%				
	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue to HOA	0	0	0	35,600	246,700
Expenses					
<i>Loan (purchase & County payments)\$2.5M @8%</i>	220,129	220,129	220,129	220,129	220,129
<i>Fuels Management - mitigation</i>	44,000	44,880	45,778	46,693	47,627
<i>Transfer Res Center Expenses to JV</i>	-203,000	-207,060	-211,201	-215,425	-219,734
<i>Capital Improvements (rough estimate)</i>	175,000	150,000	100,000		
<i>Homeowners' Social Dues</i>	1,042,560	1,042,560	1,042,560	1,042,560	1,042,560
Total Expenses	1,278,822	1,256,111	1,208,554	1,111,155	1,113,921
Net Expenses	1,278,822	1,256,111	1,208,554	1,075,555	867,221
Net Expenses / Homeowner / Mo.	98	96	93	83	67



Communication Plan

- Subcommittee has been formed to include residents with relevant expertise
- Initial communications will address voting process, Arnold Palmer Golf background
- Investigating use of focus groups to understand community questions, areas of confusion
- Once legal and financial details are reasonably certain we will begin full communications program:
 - Series of Town Halls, addressing each of our sub-communities
 - Neighborhood get-togethers, hosted by volunteers
 - Presentations and Q&A's available on our web site
- During the vote, door-to-door canvassing to get out the vote
- After the vote deadline, follow-up with non-voters to get their vote

Communication Principles

- Critical that this should not be a “sales pitch”
- Focus on presenting homeowners with available facts and relevant information from which they can make an informed decision
- Seek to understand sources of mis-information and to encourage correction
- Discourage arguments which are purely opinion-based – everyone is entitled to their opinion and their vote, and should respect the opinions of others
- Provide communication time and channels for alternative views from within the community

Recent Questions from Homeowners

“The argument that property values will go down if the golf courses close doesn’t really paint the proper picture. Between 2008 and 2011, property values declined in Arrowcreek with the golf courses. Values have increased the last few years with the golf courses being in bankruptcy.”

- Major swings in real estate values from 2008-2014 have been largely a result of the housing bust and moderate recovery
- Committee identified 3 academic studies showing that a golf course or manicured park enhances property values by 10-28% within ¼ mile of the course/park. It is reasonable to assume that elimination of the course/park would have a similar negative impact.
- Committee gathered comparative sales data from ArrowCreek and D’Andrea from 2011 - 2014. From the time their course closed (Mar 2012) D’Andrea properties have gained only 5% value, while ArrowCreek has gained 21% - a 16 percentage point advantage. While the ArrowCreek club was in financial difficulty, it was not CLOSED, which is a fundamentally different problem.

Next Steps

- Meeting with APG on Nov. 13th to discuss joint venture structure and related contract points
- Recommendation to Board for acceptance of joint venture structure – December BOD meeting

Applicable background slides from the August BOD presentation

APPENDIX

Bankruptcy Highlights Significant Risks

- Threat to property values in the range of 10-28%
 - Committee identified 3 academic studies showing that a golf course enhances property values by 10-28% within ¼ mile of the course
 - Committee gathered comparative data from the D'Andrea course closing. From the time their course closed D'Andrea properties have gained only 5% value, while ArrowCreek has gained 21% - a 16 percentage point advantage.
- Potential change in use
 - Property is zoned for recreational/resort use, leaving open the possibility of substantially greater non-resident traffic
 - Zoning can be changed, although changes to create more residential housing unlikely. Still, this is not a process that we can control.

Bankruptcy Highlights Significant Risks

- Instability of the Golf Course business in Golf Communities
 - The course has never made money, and that same story is seen in many Golf Communities
 - Continuing to have the Club run by poorly funded and unqualified management will only lead to this same discussion at a future date.
 - Success stories are driven by strong partnerships between professional golf management companies and HOA's who seek to make the Club a community center.



Recommendation

Summary - Cost Per Homeowner per Month

\$(000)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Let the Course go Brown	85	79	80	61	63	39	40	42	43	45
Keep it Green	143	138	141	124	127	106	109	113	116	120
Operate as Community Club	99	99	99	77	61	60	60	59	59	59

- **Proceed with the “Operate as Community Club” alternative**
 - Protects property values
 - Creates a center for our community
 - Much better cost/benefit value than the other alternatives



Property Value Studies

Augmenting Housing Sales Data to Improve Hedonic Estimates of Golf Course Frontage, Steven D. Shultz and Nicholas J. Schmitz, University of Nebraska, January, 2009

- “Private non-equity courses had the greatest impact on adjacent housing prices (28%), followed by public courses (15%), municipal courses (9%), and private-equity courses (5%).

Does Proximity to a Golf Course Matter, Kwame Owusu-Edusei and Molly Espey, Clemson University, January, 2003.

- “Results also show that houses abutting golf course generally sell for 27 percent more than those beyond 1100 feet. Houses between 300 and 1100 are 15 percent more in value than those beyond 1100 feet.” “For ... attractive medium size parks, there was a positive impact on houses within 200 feet but no significant impact between 200 and 1500 feet. Houses within 200 feet are 23 percent more in value.”

Property Value Studies

The impact of open spaces on property values in Portland, Oregon, B. Bolitzer and N. R. Netusil, Journal of Environmental Management, 2000.

- “Open space size is statistically significant in both models. Using the mean size of public parks (20 acres) and golf courses (116 acres) in the sample, the effect of being near a 20 acre public park is estimated to equal US\$2780 in the linear and US\$1360 in the semi-log model. The effect on the sale price of a home located with 1500 feet of a 116 acre golf course is estimated to equal US\$6408 in the linear and US\$6926 in the semi-log model.” (The median home value in this study was \$66,000)



D'Andrea vs. ArrowCreek Values

- We compared the average sale price per sq. ft. during the one year prior and 2 years after the D'Andrea golf course closing for both D'Andrea homes and ArrowCreek Homes.
- While both communities showed increased values, ArrowCreek values increased by 16-18 percentage points more than D'Andrea between the two periods.
- During that same timeframe, home value increases favored less expensive homes, which should have worked in D'Andrea's favor, but clearly did not.

Sales excluding Short Sales and REO	# Sales	Avg \$ per sq ft
D'Andrea pre-closing	14	\$118
D'Andrea post-closing	71	\$124
D'Andrea change in home value		5.10%
ArrowCreek pre-closing	19	\$153
ArrowCreek post-closing	96	\$185
ArrowCreek change in home value		20.90%
Difference between D'Andrea and AC		15.80%

Sales including Short Sales, excluding REO	# Sales	Avg \$ per sq ft
D'Andrea pre-closing	21	\$111
D'Andrea post-closing	111	\$115
D'Andrea change in home value		3.60%
ArrowCreek pre-closing	32	\$146
ArrowCreek post-closing	119	\$178
ArrowCreek change in home value		21.90%
Difference between D'Andrea and AC		18.30%