

## **Planning Inquiry Proof of Evidence**

**of**

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**Regarding the Proposed Redevelopment of Ingol Golf Course**

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Appendix MAS 2	Raw 10, 20 & 30 minute drivetime data for Ingol from CACI Ltd
Appendix MAS 3	Matrix of supply of all golf venues within or just outside the primary catchment area (a 20 minute drivetime)
Appendix MAS 4	Maps showing golf venues in relation to the 10 and 20 minute drivetimes
Appendix MAS 5	Golf courses for sale on the open market through Humberts Leisure in recent times
Appendix MAS 6	Extracts from the sales particulars for Duxbury Park Golf Course in Chorley and other relevant information
Appendix MAS 7	Extracts from the sales particulars for Barnehurst Golf Course and other relevant information
Appendix MAS 8	Humberts Leisure sales particulars for Gloucester Golf Club

## 1. Introduction

1.1 Ingol Golf Course ('Ingol') comprised an 18-hole golf course situated on the edge of Preston which opened around 1981. According to the Humberts Leisure sales particulars it was designed by Cotton Pennick Lowrie and Partners. Henry Cotton was one of Britain's most revered golf professionals having won the Open Championship three times (1934, 1937 and 1948). He was involved in the design of a number of golf courses and so Ingol was designed by a reputable firm of golf course architects.

1.2 The golf course had a length of 6,254 yards and was set in a site of about 172 acres. In addition to the golf course was a clubhouse, a bungalow, a greenkeepers complex, an area for a practice ground and car parking. The golf course was part of a substantial masterplan development and formed a significant green space area to complement the new residential development. Given the pedigree of the golf course architects they would have designed it to blend in with the residential development including taking account of safety/security issues in relation to golfers, the general public and the nearby fairway housing.

1.3 Ingol closed for business in January 2010 with the reasons for closure blamed on an oversupply of golf courses in the area and deteriorating market conditions for golf making the business unviable.

1.4 I have been asked by Preston City Council to provide my independent professional opinion on two main questions in respect of Ingol:

- Is there a need for the golf course from a golf demand/supply perspective?
- Is Ingol a viable golf business?

1.5 In answering these questions the structure of my proof of evidence is as follows:

- I have set out details of my professional experience in the UK golf sector which is very relevant to the questions above.
- In Section A I have covered general background factors which set the scene for answering the two questions. These primarily focus on the general supply/demand

factors for UK golf on a national basis (as opposed to the specific local circumstances for Ingol) and the key principles of financial viability for UK golf courses.

- In Section B I have then focused on answering the question as to whether there is a need for Ingol Golf Course from a golf demand/supply perspective. Broadly, I have considered the demographic quality of the location which includes the definition of the primary catchment area (a 20 minute drivetime) and then plotted all of the golf courses within the local area. I have analysed the data and then provided my conclusions.
- In Section C I have then focused on answering the question as to whether Ingol is a viable golf business taking account of its physical characteristics. I have provided information on other golf courses in the UK, some of which are similar to Ingol in quality and standard (or perhaps worse). I have relied solely on using data on such courses which is in the public domain to avoid the complications of client confidentiality.
- I then provide my summary conclusions plus a statement of truth and declaration. The latter is in accordance with the requirements of the Royal Institution of Chartered Surveyors Practice Statement: 'surveyors acting as expert witnesses'.

## **2. My Professional Experience in the UK Golf Sector**

- 2.1 I am a general practice chartered surveyor who specialises in virtually nothing else but UK golf courses and their related property/business matters. I have done this for 20 years. My livelihood effectively depends on understanding the strategic property and business aspects relating to UK golf courses. The work that I do is somewhat specialised in that only a handful of other individuals in the UK have similar roles.
- 2.2 I attach in Appendix MAS 1 two background information sheets on myself and my firm, Smith Leisure. I use these general information sheets when potential new clients ask for background information on myself and the services that I provide.
- 2.3 Specific services which I provide to the golf industry, and which are very relevant to the issues of whether there is a need for a golf course at Ingol and whether it is a viable business, include the following:
- i. I am a golf course property agent who has experience in buying, selling and leasing golf courses in the UK. I understand how to market a golf course for sale or lease in order to get a successful transaction for my instructing client.
  - ii. Between 1991 and 2000 I worked for William Hillary Leisure & Hotels and Strutt & Parker in their golf property divisions. For Strutt & Parker, a leading firm of property advisers/agents, I became their national head of golf course property brokerage. This means that I was in charge of handling the selling, buying or leasing of golf courses for the whole of the UK for the firm. For details on Strutt & Parker see [www.struttandparker.com](http://www.struttandparker.com) .
  - iii. Between 2000 and 2004 I worked for a golf course owner/operator (Property Golf & Finance Group Ltd who owned Horton Park Golf & Country Club in Epsom) to gain an element of 'hands-on' operational experience (I was the property director handling property matters) and then set up my own golf property consultancy business thereafter.
  - iv. For the last seven years, I have still been substantially involved in marketing golf courses for sale or lease (and will continue to do so) but in a slightly different way to my role in the early years of my career (1991 to 2000). These

days I do not handle fully publicised open market sales of proprietary golf courses because I do not have the backup administrative staff support and a London office (which is helpful to the process) but I do get involved in the confidential marketing of proprietary golf courses to known commercial golf operators in the UK (such as Crown Golf, Burhill Golf & Leisure, Glendale Golf, Mack Trading Amenity Management, Mytime Active, Wescom Group, Altonwood Group and Jack Barkers Golf Company). This is a different approach to looking to attract 'lifestyle buyers' who could be anyone interested in buying a golf course but who may not be looking at it as a pure profit-motivated venture but more for the enjoyment/kudos of owning a golf course. To find such buyers you need to advertise the property for sale on the open market and have a comprehensive website presence.

- 2.4 A key strategic business objective of mine over the last seven years is to be a leading adviser to UK local authorities on how to secure the long-term future of their municipal golf courses. I chose this objective because I could see that there was good potential in helping local authorities who were struggling with the financial performance of their municipal golf courses. I believe that I have achieved my objective in this area. Arguably my firm, Smith Leisure, and Humberts Leisure (who marketed Ingol for sale on behalf the appellant) are the UK's two leading advisers in this particular niche sector of the golf market.
- 2.5 The relevance of this is that municipal golf courses, which used to be highly profitable for local authorities 20 years ago have, over the last three to five years or so, started to go 'cash negative', i.e. losing money which arguably puts a question mark over their viability. The normal reasons as to why they go 'cash negative' are that local authorities lack the skill and know-how to run them effectively plus they have neglected to invest properly in their golf venues in recent years and they have become run-down. In my opinion, some of these golf courses have poorer future prospects in respect of financial viability than Ingol's.
- 2.6 Local authorities invariably don't want their golf courses to close because they are useful in supporting the local provision of sport and leisure in a community. My role is to structure transactions which get specialist third-party golf operators to take over the poorly performing golf course on a lease, invest in it to make it 'fit for purpose' and to run it profitably and pay the local authority an annual rent. This therefore turns a loss-

making golf operation (which some might have deemed as financially unviable) into a profitable one which is sustainable for the long-term.

2.7 I have successfully repeated the above formula for a number of local authorities. I have never experienced a need for closure regarding any of my local authority clients' municipal golf courses. We have always been able to find a satisfactory solution to the issue of a loss-making golf course and thus secure its long-term future as a golf course, and avoid the need for closure. If these venues' futures can be turned around then it seems that a similar process could be adopted for Ingol provided that the circumstances were right and there was a willingness to achieve it.

2.8 Local authority municipal venues which I have been/am involved with in terms of viability studies, option reports and finding new operators to operate the venues in the last seven years include the following:

- Letting the 18-hole Grange Park Golf Course in Rotherham on behalf of Rotherham Metropolitan Borough Council.
- Letting the nearby 18-hole Duxbury Park Golf Course in Chorley to Glendale Golf on behalf of Chorley Borough Council. This included the building of a £1 million plus clubhouse and improved course drainage as part of the deal.
- Letting the 18-hole Moors Valley Golf Course in Dorset to Mack Trading Amenity Management on behalf of East Dorset District Council. This includes an obligation on the operator to build a brand-new clubhouse at its own cost.
- Letting Haste Hill, Uxbridge and Ruislip Golf Courses (all 18 holes plus a driving range at Ruislip) to Mack Trading Amenity Management on behalf of the London Borough of Hillingdon.
- Producing a study for Derby City Council on their future options for keeping their two loss-making 18-hole municipal golf courses viable (Allestree Park and Sinfyn Golf Courses). These courses have now been let this year to Mack Trading Amenity Management.



- Granting a short-term management contract on the London Borough of Ealing's three golf courses to Mytime Active. These comprise Brent Valley (18 holes), Perivale Park (9 holes) and Horsenden Hill (a 9 hole par three venue).
- Letting the nine hole Barnehurst Golf Course to Mytime Active on behalf of the London Borough of Bexley.
- I am just about to offer the 18-hole Malkins Bank Golf Course in Sandbach, Cheshire on the open market via a lease for Cheshire East Borough Council.
- I am currently advising New Forest District Council on the future of its 27 hole complex near Southampton.
- I am currently the retained golf property adviser for Birmingham City Council as they go through the tender process to externalise the management of their seven municipal golf courses - which is the largest ever single municipal offering to the market in the UK. The venues are currently 'cash negative' for the Council and they are looking for an operator to take over the entire portfolio and avoid any course closures, if at all possible. Given progress to date, all seven venues are likely to remain open for golf use in the future.

2.9 As well as providing property/business consultancy advice to clients within the UK golf industry I am also involved in the management of five different golf courses. These are courses where clients (all proprietary owners and thus profit driven) have struggled with financial performance in recent years and I have played/continue to play a role in turning around underperformance. The fundamental characteristics of these golf courses regarding quality of location, supply/demand balance for golf and their physical quality have some similarities (or indeed are worse than) Ingol's.

2.10 These courses are as follows:

- The 18-hole Wrag Barn Golf & Country Club in Swindon, Wiltshire. This is a relatively upmarket proprietary membership-based golf course with visitor green fees. See [www.wragbarn.com](http://www.wragbarn.com). This is a better quality golf course than Ingol but its trading location is weaker in terms of local catchment population. It

is some distance from Swindon and has a much lower number of people than Ingol has living within 10, 20 and 30 minute drivetimes.

- Hurtmore Golf Course in Surrey (18 holes), Crane Valley (27 holes) and Bulbury Woods Golf Courses (18 holes), both in Dorset. These are 'mid-market' venues run on a membership/pay and play basis. All venues are owned by one client. See [www.hoburnegolf.com](http://www.hoburnegolf.com) . Hurtmore is a very short course (only 5,530 yards) and is inferior in quality to Ingol as a test of golf. Bulbury Woods and Crane Valley are in areas which are much more rural to Ingol and so have much smaller catchment populations.
- The 18-hole Windwhistle Golf Club in Somerset. This is a distinctly average to poor quality venue in a rural area and is predominantly membership-based. See [www.windwhistlegolfclub.co.uk](http://www.windwhistlegolfclub.co.uk) . The golf course is in an attractive landscape but is inferior to Ingol in quality, and the clubhouse is in poor condition and has a dated 1970's/80's feel to it with squash courts – not dissimilar to the clubhouse at Ingol. The location is far inferior to the commercial quality of Ingol with a very low local catchment population.

2.11 I was also involved in turning around the historic poor performance of Pedham Place Golf Centre which is located on the eastern side of the M25 near the Dartford Bridge. It had made no profits for many years primarily due to poor management. I helped the owners restructure the business, brought in skilled management and marketing, and the venue is now performing very well. The owners have now had the confidence to invest in building a £1.25 million clubhouse which opened this spring. See [www.ppgc.co.uk](http://www.ppgc.co.uk) .

2.12 Given my consultancy work within the UK golf industry and my practical operational experience within it, I believe that I am well qualified to provide independent expert evidence on the issues that I have been asked to comment on in relation to this planning inquiry.

### **3. SECTION A: GENERAL BACKGROUND FACTORS**

#### **3.1 General Supply/Demand Factors for UK Golf**

3.1.1 I have broken this down into the following areas:

- Market segmentation: the make-up of the types of venue/operation and their primary motives: traditional private members clubs, municipal golf courses, proprietary golf courses and their variations.
- Trends in the supply of such golf courses over the last 20 years or so. This will also cover the golf course construction boom in the late 1980's/early 1990's to the current position.
- Trends in golfer demand over the last 20 years or so.
- The net effect of the changes in the supply/demand balance between the provision of golf courses and golfer demand over the last 20 years or so.
- Likely supply/demand trends in the future.
- The importance of considering the national and local circumstances.

#### 3.1.2 Market Segmentation

3.1.3 There are three main types of golf venue in the UK:

- traditional private members clubs
- municipal golf courses
- proprietary venues (which can vary in form)

3.1.4 The bulk of the golf courses in the UK are still mainly traditional private members clubs. Most comprise 18 holes, a clubhouse and ancillary elements - and were constructed roughly around 70 to 120 years ago. They came about as golf became very popular in the UK around that time.

- 3.1.5 They are non-profit distributing by nature. In essence, they are run by the members (via a committee structure) for the benefit of the members. The majority of rounds are played by members with a lesser proportion being 'pay as you play' (i.e. visitor green fees, society/corporate golf days).
- 3.1.6 For long-term sustainability, their financial aim is normally to look to produce a small but sufficient annual cash surplus each year from their trading (income less expenditure) so that they can build up a reasonable amount of cash reserves to be able to i) spend on likely future expensive capital expenditure requirements to continually keep the club in good order (such as renewing a clubhouse roof, renewing an irrigation system etc) and ii) to have a contingency fund to cover unexpected events or a poorer than budgeted year of trading.
- 3.1.7 Municipal golf courses came about in response to the private membership structure above. Years ago, many people were unable to gain access to a private membership club (golf was seen as exclusive/upmarket in some people's eyes). Local authorities therefore started building their own golf courses with the primary aim of them being affordable to play and 'open to all' so as to increase participation in the sport for those who may not be able to afford to get into a private members club or who did not have the social connections to get such membership. Although municipal courses are primarily about affordable 'pay as you play' golf they normally offer season tickets to regular users which is a discounted form of pay and play for regular use.
- 3.1.8 The UK golf industry operated with the above two main types of operation for many years right up to the late 1980's. There was also a third type of golf operation - that of a proprietary venue but relatively few of these existed pre-the late 1980's. A proprietary golf venue is owned by a 'proprietor' who could be an individual, a family, a company etc - and a key characteristic of a proprietary golf club is that it is profit-driven. The proprietor normally looks to achieve a reasonable return on his golf course investment in owning/running the venue.
- 3.1.9 There was a huge golf course construction boom in the late 1980's/early 1990's with a large number of new golf courses being built in the UK during this period and a significant number of new course openings continued each year until about the new millennium. Virtually all of these new developments were proprietary venues and 700 plus were built during the period from the late 1980's to the present day. I will explain the reason for the construction boom in the next section.

- 3.1.10 The proprietary golf venues that exist today can be wide ranging in nature and quality: from a very basic “farmer’s field” 9 nine hole short course, to golf academies with large driving ranges right up to large golf hotels and ‘trophy’ standard venues. They can be pay and play, membership based or a combination of the two.
- 3.1.11 Trends in Golf Course Supply of over the Last 20 Years
- 3.1.12 By the late 1980’s the UK golf industry was characterised by very long membership waiting lists at the traditional private members golf clubs and golfers queuing up at the break of dawn to get a tee time to play on their local municipal golf course. There were even stories of golfers sleeping out in the car parks at their municipal courses in order to secure their morning tee time on a summer’s weekend.
- 3.1.13 The popularity of golf in the UK had increased very substantially in the 1980’s compared to the decade before as a result of the achievements of high-profile European golfers on the world stage (Severiano Ballesteros, Sandy Lyle, Nick Faldo, Bernhard Langer, Ian Woosnam etc) and Ryder Cup wins after years of previous dominance by American professional golfers.
- 3.1.14 In short, the supply of golf courses in the UK appeared to fall way below the actual demand from golfers. The game’s governing body, the Royal & Ancient, produced a report in 1989 entitled ‘The Demand for Golf’ which suggested that the UK needed an extra 700 new golf courses.
- 3.1.15 The market’s response to this was a golf course construction boom from around 1989 lasting for a decade or so because, coupled with the actual demand from golfers, there was also an economic boom at the time (mid to late 1980’s).
- 3.1.16 From the period of the late 1980’s to the present day over 700 new golf venues have been built in the UK (as suggested was needed by the Royal & Ancient report of 1989), representing an increase in the UK’s stock of golf courses by approximately 30% - but it has been ‘a bumpy ride’ along the way for those entrepreneurs who did build new venues. The vast majority of these new venues have been proprietary in nature - i.e. profit driven.
- 3.1.17 ‘Boom’ turned to ‘bust’ in the period from the early 1990’s to about the mid-1990’s for a significant number of the new proprietary golf developments. The economic recession

of the early 1990's coupled with very high interest rates caused many new golf developments to get into financial difficulty. Golfers had less disposable income at the time so could less afford the high joining and membership fees of some clubs; and as the cost of credit increased for those developments who borrowed large sums of money on variable bank interest rates, some ran out of cash. A number of the new golf course developments went into receivership and then got sold on to new buyers, often at a price well below the cost of construction.

3.1.18 Today very few new golf courses are now being built in the UK. The perception, in broad terms from those who own and operate golf courses (but not applicable in all UK locations), is that there is an ample supply of golf courses already in existence.

### 3.1.19 Trends in Golfer Demand over the Last 20 Years

3.1.20 There are a number of sources who provide general statistics regarding golfer participation numbers and trends in the UK including Mintel, Sport England and the English Golf Union. Pan-Leisure Consulting Ltd ('Pan-Leisure') refer to these and quote various relevant statistics in paragraphs 3.8 to 3.14 of their July 2010 report. Whilst data from such sources can be comprehensive for the last few years, I am not aware of any data which exists which reliably compares the position today to that which existed 20 or so years ago.

3.1.21 I do, however, have a general view on the trend in usage over the last 20 years or so based on my daily observations of dealing with golf courses over this period of time. In very broad terms, it is my view, that there are no more rounds of golf being played in the UK today than there were 20 or so years ago. We may have more golfers today compared to 20 years ago, but on average, they play less often.

3.1.22 The relevance of this is as follows: in simplistic terms, if the total supply of golf courses in the UK has increased by 30% or so over the last 20 years - and yet the total number of rounds of golf played in the UK has stayed broadly the same then, as a general average, the volume of golf played today per year on each venue (i.e. total rounds per annum) must have fallen by 30% compared to what those venues that existed 20 years ago were achieving.

- 3.1.23 Even if the volume of golf played in the UK has increased by say 10% over the last 20 years, if the supply of golf courses has increased by around 30% or more, then on average, the volume of golfer usage at golf courses must have fallen by around 20%.
- 3.1.24 This has a fundamental bearing on viability, and I will cover this aspect in a later section of this report.
- 3.1.25 My observation above is consistent with what I have seen in practice at a substantial number of golf venues in the UK when I study their trading figures and roundage numbers. Typically, a commercially well-located and busy municipal golf course in the UK in the heady days of the late 1980's might have been comfortably achieving 50,000 rounds per annum or more. Today, that same golf course might typically only be achieving around 35,000 rounds per annum or less, indicating a 30% plus drop in volume.
- 3.1.26 I have also seen drops in the volume of usage at the membership-based clubs, be they a traditional private members club or a proprietary membership-based club although the fall, on average, may not be as large as 30%.
- 3.1.27 In my opinion, whilst the total number of rounds of golf played in the UK may have stayed broadly static over the last 20 years or so, how those rounds are played has changed somewhat. There has been a definite movement towards more casual / pay and play golf.
- 3.1.28 In the late 1980's typically a member of a golf club would have very strong loyalty to that club. Today, many more golfers prefer variety and are more likely to 'roam' in playing their golf, choosing to play at a number of different local venues on a 'pay as they play' basis rather than just paying a full annual subscription to play virtually exclusively at their own 'home course'. For those involved in running a golf course, this trend in playing patterns can either be regarded as an 'opportunity' or a 'threat' depending on how you strategically position your golf business in the marketplace.
- 3.1.29 The Net Effects of Supply and Demand for Golf over the Last 20 Years
- 3.1.30 The effect of the above is that the UK golf industry has followed a classic market life-cycle model for products and services. The stages of this are broadly as follows:

- 3.1.31 *A market where the demand for the product from customers exceeds the supply of the product (the embryonic stage).* This was the position of the golf market in the mid to late 1980's characterised by huge pent-up demand from golfers culminating in long membership waiting lists at the private members golf clubs and golfers queuing up in the morning to secure their tee time at their local municipal golf course.
- 3.1.32 *Rapid growth to meet the market demand (initial fast growth stage).* This was the time of the golf course construction boom which started in the late 1980's. A characteristic of markets in the early stage of fast growth is that there is less sensitivity to pricing from customers as they are more willing to pay a higher price to buy the product or service. This happened in the golf industry where the membership-based golf clubs were able to charge golfers substantial one-off joining fees to join their clubs.
- 3.1.33 *Slowing growth as a market moves towards maturity (latter growth stage).* A typical characteristic of a market in this stage is very competitive pricing as more of the product or service becomes available as more organisations provide it, and thus customers have more choice. This has happened in the golf industry as more new golf venues opened up. Golfers began to have much more choice as to where they could play.
- 3.1.34 The result is membership waiting lists dwindling over the years to the point where only the very best golf clubs now have waiting lists. In addition, since there is considerable competition between golf venues to attract customers they are prepared to 'do deals' to attract golfers - resulting in generally lower pricing for golf compared to some years ago (when one strips out the effects of inflation).
- 3.1.35 *Market maturity/saturation and possible decline/obsolescence of the product or service (maturity stage).* A market in the stage of maturity is one where some products or services may become obsolete due to a lack of demand making them financially unviable. It is the natural law of the survival of the fittest and the weakest die off.
- 3.1.36 We are starting to see signs of this mature market in the UK golf sector as there has been a number of closures of golf courses in the UK in recent years on the basis that they have been deemed to be 'financially unviable'.
- 3.1.37 However, I must stress that the number of closures of golf courses in the UK in relation to the total supply of venues has been incredibly small. We have well over 2,500 golf



venues in the UK and only a tiny proportion have closed in recent years. They are not closing 'en masse'. What is happening is this:

- i. The very weakest golf businesses - normally those that are located in very poor trading locations (i.e. in the middle of nowhere and not close to a substantial population centre) are closing and being returned to farmland. Examples of this include Mid-Dorset Golf Course in the very rural village of Okeford Fitzpaine and Chedington Court Golf Course, also in Dorset.
- ii. Some are being zoned for commercial/residential development by the relevant regional/local planning authorities to meet the strategic planning needs of a community. The owner of the golf course will therefore close it to meet those needs at the appropriate time, and will normally get paid very handsomely for doing so in relation to the actual worth of the property for use as a golf course. An example of this is the relatively recent closure of West Bowling Golf Club in Bradford which is now being redeveloped by Prologis, the world's biggest developer of distribution warehouses.
- iii. Others may close (or are being considered for closure) where their owners believe that there is a 'greater prize' in terms of redevelopment value by taking their own initiative to get planning consent for a more valuable alternative use of the property (or parts of the property). In such cases, owners are simply making a commercial decision that development, such as housing, will generate much more money than the value of a golf course for its existing use. Golf course oversupply and financial unviability may or may not be the cause of the decision to redevelop and each situation needs to be very carefully looked at on its own individual merits. In my opinion, if the golf course oversupply was as severe as the appellants have suggested (as per the general conclusions of the Pan-Leisure report) then the UK should now be experiencing mass closures of golf courses but this is clearly not happening, and I do not see this position changing for the foreseeable future.

### 3.1.38 Likely Supply/Demand Trends for Golf in the Future

3.1.39 There is no doubt that the UK golf market has had a difficult time over the last five years or so. There was an unusual run of prolonged poor summer golfing weather in several of the years (stiflingly hot or heavy rainfall/flooding) plus the effects of major

summer sporting events (such as the Olympics and the football World Cup) disrupting people's appetite to play golf at prime times. In the areas of the UK where there was a particular local oversupply of golf courses, trading conditions were more acute, but we have still not seen mass golf course closures in these areas.

3.1.40 Whilst the last few years have been difficult, in my experience, many golf operators in the UK have got off to a flying start in 2011 in terms of trading for the first four months of the year despite the general mood of economic austerity. The good trading in the first few months, in my opinion, is mainly down to favourable weather conditions as the financial performance of a golf course is somewhat weather dependent.

3.1.41 The general mood within the industry is that trading conditions will undoubtedly remain competitive for several years to come but that is not to say that the UK golf industry is in dire trouble meaning that many golf courses have to close on viability grounds.

3.1.42 In my opinion, taking the UK as a whole, then on balance the country probably has marginally more golf courses now than it actually needs - i.e. the supply of golf courses marginally exceeds the current demand from golfers. But that certainly does not mean that we should have mass closures of golf courses. It simply means that in a competitive market, golf courses these days are not as profitable as they used to be when the demand from golfers far exceeded the supply of courses in the late 1980's.

3.1.43 In addition, it is important to bear in mind that in the UK we have a generally ageing population - and this is a good characteristic for attracting golfers in the future, since people aged 50 and over are likely to have the time and disposable income to play golf. Given that more new golf courses are unlikely to come on stream, the existing supply of golf venues are well-placed to pick up this new demand in the future.

#### 3.1.44 The Importance of Considering National and Local Circumstances

3.1.45 Whilst in strategic terms there may be a case to say that on a national basis there are marginally more golf courses in the UK than are actually needed, in my experience that does not mean that every part of the UK has an oversupply of golf courses.

3.1.46 Indeed, there are still areas where there is a distinct under-provision of certain types of golf venues (i.e. there is still good demand from golfers for a certain type of golf product). Where such under-provision exists, I find that the golf courses which are

correctly pitched to the right target market generally trade well, and in excess of the market norm.

3.1.47 Therefore, when looking at the supply/demand balance for a golf course it is important to consider both the national trends and the local market demand for that particular property. I have covered this situation in detail in Section B of my report.

### **3.2.1 The Key Principles of Financial Viability for UK Golf Courses**

#### **3.2.2 Sources of Income and Expenditure**

3.2.3 In the UK for the majority of 18-hole golf courses with clubhouses plus normal ancillary elements (and Ingol falls within this category) there are five main income streams for annual revenue. These are as follows:

- membership subscriptions
- green fees
- food & beverage
- golf retail
- sundry/other

3.2.4 If a golf course owner/operator runs the whole operation 'in-house' then it will derive income from each of these headings. Sometimes, however, golf course owners/operators franchise the food & beverage operation to a third party and/or the golf retail. For the latter, they employ a golf professional to stock the golf shop at his/her own cost.

3.2.5 Sundry items can include things like room hire (conferences, parties etc), rental from residential accommodation on site or perhaps revenue from squash courts (relevant for Ingol).

3.2.6 If one is looking to maximise the profit potential of a golf course then the norm is usually to run all parts of the operation in-house rather than franchising parts out. The income headings can be subdivided into general profit centres. For example:

- The golf income profit centre: membership subscriptions plus green fees less the direct running costs of the golf element (things like greenkeepers wages, sand & fertilisers, water for irrigation, fuel & lubricants, machinery maintenance and repairs etc).
- The food & beverage profit centre: food & beverage sales less the direct cost of stock (buying the food & beverage to sell) less other running costs for the food & beverage element (things like wages of the bar and kitchen staff, uniforms, crockery and cutlery etc).
- The golf retail profit centre: sales of golf balls and sundries, golf clubs, clothing etc less the direct cost of buying the stock to sell, less other running costs for the golf retail element: shop staffing costs, training, uniforms etc.

3.2.7 There is then a further heading regarding general expenditure and administration which covers other essential costs of running the business such as: other wages and salaries (a general manager and other administrative staff); heat, light & power (utility costs); insurance; general repairs & maintenance; business rates; sales and marketing; printing, postage & stationary, legal and professional fees, bookkeeping and audit fees etc.

3.2.8 From all of the above it is possible to calculate the annual profit or loss of the golf course. The term 'profit' or 'loss' can be very general indeed and in order to be able to form a clear view on viability, in my opinion, it is absolutely fundamental to clearly define what constitutes a 'profit' or a 'loss' since how it is defined can have a profound effect on what is deemed viable or not.

3.2.9 EBITDA: the Golf Industry Benchmark of Financial Viability

3.2.10 'EBITDA' stands for earnings before interest, tax, depreciation and amortisation and is a specific definition of 'profit'. Annual EBITDA is generally used by the experienced golf course operators and their professional advisers as a key benchmarking statistic within the UK golf industry to assess the underlying profitability (or otherwise) of a golf venue. It allows direct comparison between the trading performance of one golf course against others on a 'like-for-like' basis.

- 3.2.11 Annual EBITDA, in simplistic terms, can be thought of as the amount of cash a golf venue generates as a form of operating profit before the payment of interest on any loans in respect of the property, any taxation due (normally Corporation Tax), depreciation of the fixed assets of the business and amortisation. Normally it is also quoted as before the payment of rent to a landlord, if relevant. This can also be expressed as 'EBITDAR' where the 'R' represents the property rental element.
- 3.2.12 A key distinction of EBITDA is that it separates the underlying profitability of the golf course from factors which are somewhat personal to the owner/operator of it. For example, irrespective as to who owns a golf course, it will generate revenue streams from the five income sources above and will have relevant recurring annual costs directly associated with that business such as staff wages, utility costs, business rates, etc. Once all of these costs associated with the property have been deducted you arrive at annual EBITDA.
- 3.2.13 'Below the EBITDA line' costs then give you an annual bottom line profit or loss which may be stated in a set of statutory annual accounts that might be submitted to Companies House.
- 3.2.14 These 'below the EBITDA line' costs can have a profound effect on whether a golf course is deemed to be a viable business or not. My table over the page illustrates this point. It shows what a fairly typical but hypothetical summary annual profit and loss account statement might include for an average quality 18-hole proprietary course in an average location run by a modest quality (but not good) golf operator.

<b>Income</b>		
Membership subscriptions	£230,000	
Green fees	£120,000	
Food & beverage	£250,000	
Golf retail	£40,000	
Sundry/other	<u>£20,000</u>	
<b>Total Income</b>	<b>£660,000</b>	
<b>Cost of Sales</b>		
Food & Beverage at 35% (ie 65% gross profit)	£87,500	
Golf retail at 75% (ie 25% gross profit)	£30,000	
<b>Gross Profit</b>	<b>£542,500</b>	
<b>Operating Expenses</b>		
Golf & greenkeeping	£180,000	
Food & beverage	£80,000	
General & administration	<u>£170,000</u>	
<b>Total Operating Expenses</b>	<b>£430,000</b>	
<b>EBITDA</b>	<b>£112,500</b>	<b>£112,500</b>
(earnings before interest, tax and depreciation)		
Interest on bank/company loans, say	£0	£130,000
Tax, say	£10,000	£15,000
Depreciation, say	<u>£30,000</u>	<u>£50,000</u>
<b>below 'the EBITDA line' Costs</b>	<b><u>£40,000</u></b>	<b><u>£195,000</u></b>
<b>Stated Net Profit/Loss</b>	<b>£72,500</b>	<b>-£82,500</b>

3.2.14 One can see from the above table that the hypothetical golf course produces an annual EBITDA of £112,500. However, if that golf course does not have substantial 'below the EBITDA line' costs (which are somewhat personal to how an owner/operator might run it) then it can be deemed to be profitable, and thus viable. That same golf course, if the 'below the EBITDA line' costs are substantial can be substantially loss-making, and therefore appear financially unviable.

3.2.15 An example of the 'personal nature' of the 'below the EBITDA line' costs is that of long term bank loans. If an owner owned the above golf course free of long term bank loans then no interest would be payable on this aspect – which is akin to the figure of £nil interest on the left hand side of the table above. However, if that same owner had a bank loan of £2 million on the golf course at a 6.5% interest rate, then the annual interest payments would be £130,000 as per the column on the right hand side above.

- 3.2.16 The underlying annual EBITDA of the golf course is the same in both examples (£112,500) but one set of accounts shows a significant bottom line net profit (£72,500) and the other a significant bottom line net loss (-£82,500). What it suggests in this particular example, in broad terms, is that if there is no long-term debt on the golf course then it is a viable business but with £2 million of debt secured upon it the golf course is not. This makes sense because freehold 18-hole courses in reasonable order are typically worth around £1 million to £1.5 million which means that the debt, at £2 million, is higher than the asset value as a golf course.
- 3.2.17 When one considers viability it is important to calculate the historic annual EBITDA of the golf course over say the previous three to five years. One then needs to consider what the EBITDA potential of that property might be in the future if it was assumed to be competently managed, marketed and maintained to a good standard. This latter figure is known as 'fair maintainable EBITDA' and in the hands of a good, dedicated and competent golf operator can often be significantly better than the achieved historic annual EBITDAs by a current owner/operator.
- 3.2.18 Thus, the fact that a current owner may be producing poor annual EBITDA figures is by no means a conclusive reason to say that a golf course is fundamentally unviable. It could be that a current owner is not running the business effectively enough. In my experience this is a commonplace occurrence in the UK golf sector.
- 3.2.19 Many average quality 18 hole golf courses with an average/poor quality clubhouse in provincial locations (i.e. similar to Ingol) produce annual EBITDAs below £100,000 per annum in the hands of a current operator, and sometimes the current annual EBITDA is actually a negative figure.
- 3.2.20 If that same golf course is then run by a good and competent operator that annual EBITDA can often be increased to say £125,000 to say £250,000 depending on how well suited the course is to its local market, and whether there is an over or under-supply of golf courses within the primary catchment area of a 20 minute drivetime.
- 3.2.21 In providing my commentary in Section C of this report on the financial performance of other similar golf courses in the UK I have therefore focused on the annual EBITDA figures of those businesses as the benchmark for viability.

#### 4. SECTION B: IS THERE A NEED FOR A GOLF COURSE AT INGOL?

##### 4.1.1 My Methodology

4.1.2 In this section I have considered the current supply/demand balance for golf at Ingol. In my practical experience the primary catchment area for a golf course such as Ingol is a 20 minute drivetime. Normally over half of one's regular golfers for a property such as this live within this drivetime. In my opinion a 20 minute drivetime is a much more reliable indicator of the true primary catchment area rather than an arbitrary fixed mileage radius (which is what Pan-Leisure use in their July 2010 report: 10 and 20 miles) because the latter takes absolutely no account of the effects of the nearby road network which can have a profound effect on how close the relevant population clusters are for the golf course in question.

4.1.3 Other relevant drivetimes are those for 10 and 30 minutes, but 30 minutes is of less relevance unless the property is of an unusually high standard (and I don't believe that Ingol is). I have obtained from CACI Ltd, leading providers of demographic data (see [www.caci.co.uk](http://www.caci.co.uk)), the drivetime data for all three catchment areas for Ingol (postcode PR2 7BY) and attach key extracts from this in Appendix MAS 2. The leading UK golf industry specialists regularly use CACI data for assessing the demographic quality of a golf course.

4.1.4 I have plotted all of the golf courses that fall within or close to the 20 minute drivetime boundary and I attach the raw data (maps and summary table) in Appendices MAS 3 and MAS 4. In plotting the data I have used various sources including the internet, the Sport England website – [www.activeplaces.com](http://www.activeplaces.com), the Royal & Ancient Golfer's Handbook 2006, and online maps from [www.bing.com](http://www.bing.com). I have also had reference to the list of local courses identified in the Pan-Leisure July 2010 report.

4.1.5 A 20 minute drivetime broadly extends at its furthest point to around 12.5 miles from Ingol and a 10 minute drivetime is broadly within 5 miles at its furthest point.

4.1.6 Having done the above I then analysed the data and I have set out in the various headings below my conclusions.



#### 4.2.1 How Good are the Local Demographics for Ingol?

4.2.2 The CACI data for Ingol in Appendix MAS 2 shows the following:

- 356,000 people live within the 20 minute primary catchment drivetime.
- Over 1 million people (1,091,000) live within the secondary catchment drivetime of 30 minutes.
- 95,000 people live within the very localised 10 minute drivetime catchment.

4.2.3 Looking at the CACI ACORN Category Index diagrams in Appendix MAS 2 they generally show that the percentage of 'wealthy achievers' and those 'comfortably off' living within the three catchment areas in comparison to the population as a whole are broadly similar to, or marginally better than, the Great Britain average.

4.2.4 Those who are of 'moderate means' within the three catchment areas represent a significantly higher percentage of the local population compared to the Great Britain average, whilst the percentage of those who are 'hard pressed' within the local catchment is somewhat below the Great Britain average.

4.2.5 In summary, these are an excellent set of demographic figures for a golf course in the northern part of England. The population numbers are very healthy for a provincial location - anything over a population of 250,000 for a 20 minute drivetime and 1 million people for a 30 minute drivetime is very good compared to the majority of other golf courses in the UK, and reflects the fact that Ingol is situated within an urban area and close to motorways. In short, in my opinion, Ingol is well located in commercial viability terms.

4.2.6 Furthermore, the general affluence of the locality is also good, being broadly in line with or better than the Great Britain average benchmark as shown on the CACI data in Appendix MAS 2.

4.2.7 A good set of demographic figures is extremely important for the viability of a golf course. If the demographic figures are poor then it makes it that much harder for a golf course to trade well. However, I have seen plenty of demographic figures which are much worse than Ingol's for other golf courses in the UK - and yet the vast majority of

those other golf courses are still viable businesses and do not have to close on viability grounds.

4.2.8 In my opinion the quality of the demographic data for Ingol should not be a supporting reason for its closure as a golf course. For example, I set out below the demographic figures for Ingol compared to the five courses that I am involved in running:

<i>Venue</i>	<i>10 minute drivetime population</i>	<i>20 minute drivetime population</i>	<i>30 minute drivetime population</i>
Ingol, Lancs	95,000	356,000	1,091,000
Wrag Barn, Wiltshire	53,000	218,000	339,000
Hurtmore, Surrey	28,000	172,000	486,000
Crane Valley, Dorset	18,000	68,000	255,000
Bulbury Woods, Dorset	19,000	185,000	393,000
Windwhistle, Somerset	18,000	61,000	168,000

4.2.9 Whilst looking at the demographic make-up of the local population is a very important part of the equation for viability (and Pan-Leisure did not refer to the relevant population demographics at all in their July 2010 report), the second half of the equation is the extent of local competing golf courses.

4.3.1 The Current Supply of Golf Courses within the Primary Catchment Area - the 20 Minute Drivetime

4.3.2 My first map in Appendix MAS 4 identifies all of the local golf venues within the 20 minute drivetime boundary plus those that fall just outside of it. The map is colour coded as follows:

- Those venues which I do not consider as competition of real significance are coloured grey. If a venue is a very short nine hole golf course or a stand-alone driving range then it is in a different competitive market to Ingol (which is a

proper 18-hole venue). I define a 'short-course' as one which has an 18-hole equivalent length of 5,500 yards or less (2,750 yards for 9 holes). The norm for a full-length 18-hole course is between 5,800 and 6,600 yards. The latter allows a good and balanced combination of par 3, par 4 and par 5 holes.

- Those venues which are proprietary (i.e. profit driven) are colour-coded yellow. They can be anything from a proper length nine hole course, to an 18-hole course through to a destination golf hotel.
- Those venues which are traditional private members clubs (i.e. non-profit distributing) are colour-coded green. Virtually all comprise 18 holes layouts.

4.3.3 As a starting measure, there is a general rule of thumb yardstick used by a number of experienced UK golf industry professionals which, in my opinion and experience, is uncannily reliable in assessing the overall supply/demand balance of a location for golf use.

4.3.4 It is that a golf market is broadly in supply/demand equilibrium when the provision is the equivalent of one 18-hole course per 20,000 to 25,000 people in the primary catchment market (i.e. a 20 minute drivetime for the majority of UK golf courses).

4.3.5 Thus, if a location had the equivalent of one 18-hole course per 15,000 people living within a 20 minute drivetime, then the initial indication is that there are a lot of golf courses chasing the business of too few people living nearby. However, if that same location actually had the equivalent of one 18-hole course per 30,000 people living nearby, then that suggests that there are plenty of local residents living near the various golf courses for those golf courses to get enough custom to be viable.

4.3.6 What is the equivalent ratio for the 20 minute drivetime for Ingol?

4.3.7 My table in Appendix MAS 3 is colour-coded in red to easily identify all of the venues that fall within the 20 minute drivetime. The colour coding is further simplified by highlighting the relevant competition within that 20 minute drivetime as the venues colour-coded yellow (proprietary venues) and green (private members clubs). Whilst I have listed all of the venues in the locality in Appendix MAS 3, I have not highlighted those venues which would fall within the 20 minute drivetime which are not serious

competitors (i.e. short 9 hole courses and stand-alone driving ranges). These would be the venues that are colour-coded grey on my map in Appendix MAS 4.

4.3.8 Extracting the relevant courses within the 20 minute drivetime from my raw data in Appendix MAS 3 produces the following key table of proper local competition:

No. on Map	Name	Type	Description
X	Ingol	Proprietary	18 holes, opened 1981
2	Preston	Private Members	18 holes, opened 1892, 16 bay driving range
3	Ashton & Lea	Private Members	18 holes, opened 1913
4	Penwortham	Private Members	18 holes, opened 1908
5	Fishwick Hall	Private Members	18 holes, opened 1912
15	De Vere Herons' Reach	Proprietary	18 holes, opened 1994, 174 bedrooms
23	Blackburn	Private Members	18 holes, opened 1894
24	Pleasington	Private Members	18 holes, opened 1891
26	Oak Royal	Proprietary	9 holes, opened 2007
28	Leyland	Private Members	18 holes, opened 1924
29	Shaw Hill Hotel	Proprietary	18 holes, opened 1925

4.3.9 The above comprises the equivalent of 10½ 18-hole courses within the 20 minute drivetime. Given that the total resident population is 356,000 people then this is the equivalent of one 18-hole course per 33,900 people. In my opinion, this is a very healthy supply/demand ratio indeed for golf course viability, and this assumes that Ingol is open and trading. If closed, there are only 9½ 18-hole courses which is a ratio of one 18-hole course per 37,500 people.

4.3.10 It confirms that within the primary catchment area there are (contrary to the conclusions of Pan-Leisure in their July 2010 report) relatively few golf courses serving the needs of a substantial total resident population. In short, using this yardstick, it is my strong opinion that this demonstrates the strategic need for a golf course at Ingol rather than the opposite.

- 4.3.11 My conclusions on the local need is consistent with the statement on the existing supply of courses in the Preston area within paragraphs 5.3.18 and 5.3.22 of Sport England's written statement dated April 2011 in respect of Ingol.
- 4.3.12 The one course per 20,000 to 25,000 people yardstick is my first strategic measurement of the supply/demand balance for golf in the locality. In my opinion, as well as looking at this yardstick, it is also fundamentally important to look further at the make-up of the local competitors.
- 4.3.13 What immediately stands out to me is that within the primary 20 minute drivetime catchment area, and particularly around the really local 10 minute drivetime, Ingol does not have a single competing 18-hole proprietary pay and play or municipal golf course. Yes, there are a couple of 18-hole proprietary golf hotels which do offer pay and play golf - but primarily their business is that of an hotel, and their golf offering is ancillary to that (golf for hotel visitors – which tends to be much more expensive than a high volume affordable stand-alone pay and play golf course).
- 4.3.14 Almost always when I look at the supply/demand balance for 20 minute drivetimes for golf courses in the UK I identify a number of competing 18-hole pay and play/municipal venues within it; and the absence of this at Ingol is very unusual. My immediate conclusion to draw from this is that the locality really does need a high-volume affordable but reasonable quality pay and play golf course (which might also include affordable membership) to cater for a mass market who may not wish/may feel intimidated to play at the nearby traditional private members clubs. Ingol can be used to service this need, although it does not have to be run on this basis to be successful, given the underlying quality of the demographics.
- 4.3.15 My next observation is that Ingol does not have any real competitor proprietary golf venues close by. The nearest proprietary venues: Oak Royal, Shaw Hill and De Vere Herons' Reach are all close to the 20 minute drivetime boundary (as opposed to being say 10 minutes away). One of these venues (Oak Royal) only has nine holes and so is a limited competitor; and the other two are golf hotels pitching mainly for a different segment of the market (hotel visitor golfers with higher green fee rates than low cost pay and play).
- 4.3.16 This means that Ingol does not appear to have really stiff proprietary competition on its doorstep which, in my opinion, is a substantial competitive advantage compared to the

norm for most other parts of the country. Historically, private members clubs have not proved to be really stiff competitors to well-run proprietary golf courses because private members clubs are run for the benefit of the members by committees, who tend to be not as business savvy as a hard-nosed commercial golf operator looking to make a golf business work (and whose livelihood may depend on its successful trading). Again, this suggests to me that the area is not at all oversupplied with golf courses, which is contrary to Pan-Leisure's conclusions in their July 2010 report.

4.3.17 Traditional private members golf clubs typically have policies that strongly favour their members and not pay as you play visitors. For example:

- At the prime playing times (Saturday and Sunday mornings) usually only club members will be allowed to play and 'pay and play' visitors will be mainly barred.
- Green fee rates, in many cases, are set at higher levels compared to most pay and play golf courses thus making them look expensive to play for visitor golfers unless they are an invited guest of a club member.
- Dress code can be somewhat restrictive at some golf clubs (jacket and tie required to be worn at certain times in the bar and restaurant) which is at odds with the generally open and informal policy of a pay and play golf course.

4.3.18 Municipal golf courses and the proprietary pay and play ones (plus those that are low-cost membership-based) set out to counter the policies of the traditional private members clubs above in that they are much more available for use by the general public who may not be a member of a golf club. That is why there is a need for them in a local golfing marketplace; and from my analysis of the specific situation for Ingol, Preston is in real need of an affordable 18-hole pay and play venue within the built up area of the city.

4.3.19 Furthermore, in paragraph 3.1.22 I make reference to the national supply of golf courses increasing by 30% plus over the last 20 years or so. When one looks at the make-up of the golf courses within the 20 minute drivetime only two new venues have opened up in the last 20 years (Oak Royal - nine holes in 2007; and De Vere Herons' Reach - the 18-hole golf hotel in 1994). Of the serious competitors, the supply was therefore the equivalent of nine 18-hole units in 1990 compared to 10½ in 2011 an increase of only 17% compared to a national average of 30% plus). The increase in competition over this 20 year period of time is therefore not so severe in the Preston

area as to warrant Ingol being oversupplied with golf courses compared to other parts of the UK.

4.3.20 Indeed Pan-Leisure cite, in paragraph 4.4 of their July 2010 report, an unusually high increase in the supply of commercial (i.e. the equivalent of 'proprietary') golf venues within the 10 mile radius over this period as their reason for the overly competitive nature of golf in the locality (53% of the 10 mile supply compared to a UK average of 25%). From my research of the real primary catchment area (a 20 minute drivetime) the reality is just the opposite: a smaller increase in the commercial supply compared to the UK average.

4.4.1 The Current Supply of Golf Courses within the 10 Minute Drivetime

4.4.2 I have carried out a similar analysis as above for the very local catchment area of a 10 minute drivetime. My findings and conclusions are as follows:

4.4.3 Extracting the relevant courses within the 10 minute drivetime, which is colour-coded orange in my raw data summary in Appendix MAS 3 and with the venues plotted on the second map in Appendix MAS 4, produces the following key table:

<b>No. on Map</b>	<b>Name</b>	<b>Type</b>	<b>Description</b>
X	Ingol	Proprietary	18 holes, opened 1981
2	Preston	Private Members	18 holes, opened 1892, 16 bay driving range
3	Ashton & Lea	Private Members	18 holes, opened 1913
4	Penwortham	Private Members	18 holes, opened 1908

4.4.4 The above comprises the equivalent of four 18-hole courses serving a resident population of 95,000. This equates to one 18-hole course per 23,750 people which falls within my previously defined range of supply/demand equilibrium (one 18-hole course per 20,000 to 25,000 people) assuming that Ingol is open for play. This suggests that there is not an oversupply of golf courses within the 10 minute drivetime but it is broadly in equilibrium - the supply of golf courses is in balance with the demand from local golfers.

- 4.4.5 Again, there are no pay and play or municipal golf courses within this area - suggesting that Ingol might be suited for such purposes.
- 4.4.6 Very importantly, the competing supply of golf courses within this area has not changed at all in 20 years. Whilst most other parts of the country have experienced a 30% plus increase in the supply of golf courses in their locality, there has been no change (nil % increase) within the 10 minute drivetime for Ingol over the last 20 years.
- 4.4.7 If you exclude Ingol from the calculations above (i.e. assume that it is closed) then there are only three 18-hole golf clubs within the 10 minute drivetime (all private members clubs and not a single pay and play venue) which equates to one 18-hole course per 31,700 people which demonstrates an under-provision of golf in the area given the supply/demand equilibrium yardstick of one course per 20,000 to 25,000 people.
- 4.5.1 The Current Supply of Golf Courses within the Secondary Catchment Area - the 30 Minute Drivetime
- 4.5.2 In my opinion the 30 minute drivetime area is secondary to the primary catchment area of a 20 minute drivetime, and therefore less weight needs to be given to the characteristics of the golf competition falling within the drivetime area of 21 to 30 minutes.
- 4.5.3 I have therefore not plotted all of the competition situated within the 21 to 30 minute drivetime in detail but I am aware that if one took say, a 20 mile radius from Ingol (as adopted in paragraph 4.1 of the Pan-Leisure July 2010 report as their 'secondary supply area') that there would appear to be, on the face of it, a large number of golf courses in the area - which may appear to suggest that the area is oversupplied with golf.
- 4.5.4 In my opinion, a large number of golf courses being located within a 20 mile radius is a perfectly normal phenomenon in comparison to other parts of the UK - and certainly does not automatically indicate that an area is oversupplied with golf courses.
- 4.5.5 By way of illustration, if one uses the Sport England website tool ([www.activeplaces.com](http://www.activeplaces.com)), one can readily identify and calculate the number of venues within any chosen mileage radius for any part of the country. The table below illustrates



some examples (I have adopted areas which have reasonable population centres nearby, as is the case for Ingol, rather than remote and sparsely populated areas):

<b>Name</b>	<b>Postcode &amp; Location</b>	<b>Golf Venues within a 20 mile radius</b>
Ingol Golf Course	PR2 7BY, Preston, Lancashire	86
Duxbury Park Golf Course	PR7 4AS, Chorley, Lancashire	144
Regent Park Golf Course	BL6 4AF, Bolton, Lancashire	163
Grange Park Golf Course	S61 2SJ, Rotherham, Yorkshire	79
Calverley Golf Course	LS28 5QY, Pudsey, Leeds	106
Sinfin Golf Course	DE24 9HD, Derby, Derbyshire	63
Pype Hayes Golf Course	B76 1EP, Birmingham	109
Haste Hill Golf Course	HA6 1HN, Middlesex, London	199
Cobtree Manor Park Golf Course	ME14 3AZ, Maidstone, Kent	83
Barnehurst Golf Course	DA7 6JU, Dartford, London	161

4.5.6 All of the golf courses in the above table, other than Ingol, are courses which I have been involved with in giving property consultancy advice. None of them have closed, or are planning to close, and that strongly suggests that they are viable. If they were not viable they would have gone into receivership and then permanently closed for trade as an administrator would not be able to find a buyer for the golf course as a going concern. Some have vastly more golf courses within a 20 mile radius than Ingol.

4.5.7 Interestingly, the nearby Duxbury Park Golf Course in Chorley, is a golf course that I let to a specialist third-party golf operator on behalf of Chorley Borough Council. Between the Council and the third-party operator (Glendale Golf) they then invested well over £1 million in a new clubhouse and improved course drainage. They did all this in spite of having 144 golf courses within a 20 mile radius (compared to Ingol's 86). Duxbury Park Golf Course today is a thriving golf venue and cannot be described as 'unviable' otherwise it would have gone into receivership and closed on the assumption that an administrator would not be able to find a golf buyer. I provide further details about Duxbury Park in Section C regarding viability.

- 4.5.8 Likewise I let Barnehurst Golf Course, which was loss-making at the EBITDA level, for Bexley Council to a specialist golf course operator (Mytime Active) who is investing in the venue. It has 161 golf courses within a 20 mile radius and yet is considered a viable operation by the specialist golf operator. There are absolutely no thoughts about closing it as a golf course. I also provide further details about Barnehurst Golf Course in Section C regarding viability.
- 4.5.9 If there are many other areas in the UK which have considerably more golf courses within a 20 mile radius than Ingol, and yet we are not seeing mass closures of golf courses in these areas on the basis of golf oversupply and financial unviability, then why should the position be any different at Ingol which has less competing venues? In my opinion, the appellants want Ingol closed so they can seek planning permission for a vastly higher value alternative use residential development scheme. It is not because there are fundamentally too many golf courses in the area to make it unviable as a golf course.
- 4.6.1 Likely Future Changes in the Local Supply/Demand Balance for Golf
- 4.6.2 The huge golf course construction boom of the late 1980's/1990's is well and truly over. Very few new golf courses are being built in the UK these days and so it is highly unlikely that a number of new golf courses will be built in the Ingol area in the foreseeable future. This is partly because it is normally now cheaper to buy an existing golf course than build one from scratch which puts people off building them.
- 4.6.3 The supply of golf courses is therefore unlikely to increase, however, if Preston sees an increase in its resident population in the coming years, by allowing a significant number of new houses to be built then this is likely to further increase the demand for golf from local residents. I understand that there are a number of areas earmarked for substantial future residential development in the city so the resident population will increase at some point in time in the future.
- 4.6.4 On balance, it is my view that for the foreseeable future, the local supply/demand balance for golf in the area is unlikely to deteriorate from the current position (i.e. resulting in less future demand from golfers) and is more likely to improve (i.e. resulting in more future demand from golfers).

#### 4.7.1 My Conclusions on Need

- 4.7.2 Based on the above research and my general golf market experience it is my strong opinion that there is a need for a golf course at Ingol which arises from two viewpoints.
- 4.7.3 Firstly, that of strategic community leisure provision from a local authority's perspective. One would expect for a local planning authority, as part of its strategic planning framework, to aim for a reasonable provision of affordable open to all 18-hole golf courses in its locality (as opposed to simply a provision of relatively expensive membership-based clubs, be they proprietary or traditional private members clubs).
- 4.7.4 Such provision could be in the form of a municipal golf course or a proprietary golf course which plays a similar role - either as a purely pay and play course with no members, or a hybrid pay and play/membership/annual season ticket based course which is aimed at reasonable pricing and high-volume usage.
- 4.7.5 Secondly, it is my opinion that some of the relevant experienced commercial golf operators in the marketplace would recognise such a need if Ingol was marketed to them with the background facts that I have highlighted above about the local supply/demand balance for golf (as opposed to the negative situation stated by Humberts Leisure when they marketed the property in October 2009).
- 4.7.6 From a commercial perspective those relevant golf operators would see the future profit potential as a golf course as an attractive business opportunity for them, and would be keen to operate Ingol provided that the asking price for the property (either freehold sale, long lease or medium-term lease with an annual rental) was not unrealistically high so as to make the commercial proposition unviable. I will cover this aspect in Section C on the issue of financial viability.
- 4.7.7 Finally, my observation is that the primary need for golf at Ingol is that of an 18-hole course, as opposed to say a nine hole golf course with an attached driving range. The reason for this is the lack of provision of affordable 18-hole open to all golf courses within the 20 minute drivetime. Furthermore, there is already a golf driving range within a mile of Ingol (Preston Golf Driving Range).

## **5. SECTION C: IS INGOL A VIABLE GOLF BUSINESS?**

### **5.1.1 My Methodology**

5.1.2 In this section I consider the issue of viability for Ingol as an 18-hole golf course with a clubhouse. I will firstly provide my observations on general factors which can strongly affect financial viability and I will then look at the trading performance of a number of other golf courses so as to form a general benchmark on which to judge Ingol.

5.1.3 I will also make reference to my work in helping local authorities secure the future of their municipal golf courses, as this provides some useful practical insights on supposedly 'problem golf courses' and how they can be turned into profitable and viable businesses.

### **5.2.1 General Factors Which Can Strongly Affect Financial Viability**

5.2.2 These fall into two distinct areas: financial and non-financial although one is dependent on the other.

5.2.3 Regarding the non-financial factors, one must take great care when looking at a set of financial accounts in determining whether a golf course business is financially viable or not. One must not assume that because the financial numbers are poor that the inherent potential of that golf course is also poor.

5.2.4 My starting point on the financial viability analysis of a golf course is to separate this into three key areas which I define as follows: 'the external environment'; 'the internal environment - property related' and 'the internal environment - business related'.

5.2.5 The distinguishing feature between 'external' and 'internal' is that of control and influence. For the former you have absolutely no control but for the latter you have some degree of control and influence.

5.2.6 Applying this to Ingol - 'external environment' factors include such things as the general economic climate in the UK, the national supply/demand trends for golf in the UK, the local supply/demand balance for golf in the specific Ingol area, the weather etc.

5.2.7 Since you have absolutely no control over the external environment factors the best chance that you have for creating a viable and sustainable golf business is to match your 'internal environment' factors to best meet the opportunities and constraints of the external environment. This is because you have some degree of control over your internal environment factors - for example what the physical property comprises and how you maintain/look after it for its long-term benefit as a golf course; how you position the business in terms of strategic direction, sales and marketing, tight control on operational costs, motivation of staff etc.

5.2.8 The above is what is termed as taking a 'market driven' approach: you understand your marketplace and adapt and respond accordingly.

5.2.9 I liken the distinction between the external environment and the internal environment to someone swimming in the sea. The sea represents the external environment and the swimmer the internal environment:

- i. If the tide is 'mildly strong' or 'strong' then if the swimmer is an excellent swimmer he can readily swim back to shore and safety. If he is a poor swimmer then he may be swept out by the tide and drown.
- ii. If the tide is very strong and the swimmer is excellent then he might just hold his own, swim back to shore and survive.
- iii. If the tide is violently strong, then no matter how good he swims he will most likely drown.
- iv. If the tide is weak then even if he is an average swimmer he will do okay and will be able to swim back to shore and not drown.

5.2.10 How does this analogy compare with golf courses in general and in particular in relation to Ingol?

5.2.11 If all of the external factors in golf are strongly against you - for example severe economic recession, huge excess supply of golf courses in relation to demand from golfers (both nationally and locally) and consistently terrible weather (collectively akin to the swimmer in point iii above) then you might be looking at a significant number of golf course closures in the UK because the businesses arguably would not be viable.

The reality is that in the UK only a tiny percentage of the total stock of golf courses are closing so this scenario does not currently exist in the UK. Furthermore, I do not see it as a likely scenario for the foreseeable future.

5.2.12 If all of the external golf factors are very supportive of you - and you are only an average golf property and only an average quality operator then you ought to do okay in terms of financial viability, if not well. This is akin to the swimmer in point iv) above and represents the UK golf market of the late 1980's - economic boom, demand from golfers exceeding golf course supply and golf courses being highly profitable for many owners/operators.

5.2.13 In my opinion the swimming comparison for Ingol's specific circumstances is that of point i) above. The tide at this point in time is the equivalent of 'mildly strong' because even though we are going through a period of economic austerity (which will not last forever) and golf market conditions on a national basis are tough (which collectively might be the equivalent of a 'strong tide'), as my research in Section B has highlighted, I think that there is a genuine and proper need for the 18-hole golf course at Ingol because the local demand from golfers significantly exceeds the current supply of golf courses within the primary 20 minute drivetime catchment area (hence the downgrading to 'mildly strong').

5.2.14 If Ingol was maintained well and was kept 'fit for purpose' by say a specialist golf operator who was committed to the long-term success of the venue as a golf course; and who was effective in the areas of sales and marketing, customer care, controlling costs, investing in staff and machinery etc, then they can successfully swim against the 'mildly strong' tide and have a profitable venue because they are looking after their internal environment factors (over which they have some degree of control) in an effective way. Fundamental to this approach is having an owner/operator who wants to run the golf business profitably rather than an owner who has no real interest in the success of the golf course but wants to redevelop the site for another more valuable use.

5.2.15 If you are not a good operator and do not maintain the property to a reasonable standard so that it is 'fit for purpose' for golf use; nor do you run the business as effectively as a good commercial golf operator then given the 'mildly strong' tide, you could sink and drown - i.e. the business appears unviable because you have not

effectively looked after the internal environment factors over which you have/had a substantial degree of control.

- 5.2.16 It appears from evidence provided by local residents and ex-golf club members of Ingol that the appellants have run Ingol over the last five years or so without properly looking after the internal environment factors - for example an unwillingness to invest in the property to keep it 'fit for purpose'. This is indeed confirmed by Humberts Leisure in the 'Business' section on page two of their sales brochure, where they explicitly acknowledge a lack of investment in the property, despite the appellants having the financial resources to do so if they wanted to.
- 5.2.17 I am aware that a related company to the appellants some years ago bought another operational golf course in Wiltshire, known as Thoulstone Park, and then closed it on the grounds that it was not viable as a golf course. They then sought planning permission for alternative use development on it.
- 5.2.18 A record of buying two operational golf courses and then closing them both, in my opinion, raises a substantial question mark as to whether the appellants can be considered effective golf course operators who are serious about running profitable golf courses or whether, because they are substantial house builders, their strategy is to buy sites, close them down for the existing use and then redevelop them into residential.
- 5.2.19 In my opinion an issue for consideration is whether the current owner can be regarded as a 'good swimmer' or a 'poor swimmer' in my sea/swimmer analogy for the golf market. I think the evidence suggests that they are not good golf course operators. This raises the following question: if the inherent golf potential of Ingol is reasonable to good from a physical perspective and the external environment is only 'mildly strong', then would putting in one of the best golf course operators make a difference to Ingol's financial viability?
- 5.2.20 It is certainly my experience that a number of the local authorities that I have acted for in recent years have been akin to 'weak swimmers' in 'strong tides' in that their golf courses, which used to make healthy cash surpluses, have gone 'cash negative' as a result of neglecting the essential need to keep the property 'fit for purpose' so as to attract and retain golfers; and they have also run the business poorly.

5.2.21 The turnaround formula in such situations for local authorities and their municipal golf courses is generally straightforward – you replace the 'weak swimmer' with a good one. If you hand over the management of the golf course to a committed and experienced commercial golf course operator and they maintain the property to a 'fit for purpose' standard then there is a viable business which was looking unsustainable and hence ultimately unviable in the hands of the local authority.

5.2.22 I think that this formula could readily be applied to Ingol provided that the asking price for selling or leasing the property as a golf course was not set deliberately too high. In addition, conditions should not be imposed on the incoming operator which are unduly restrictive for successfully operating the golf course so as to put potential bidders off.

### 5.3.1 Ingol's Historic Trading Performance

5.3.2 I am aware of the historic trading figures for Ingol via the Pan-Leisure July 2010 report. They quote very basic trading figures in paragraph 5.9 of their report which cover the four year period 2005/06 to 2008/09.

5.3.3 My observations are as follows:

5.3.4 *The annual golf revenue figures (membership plus green fees):* these were woefully low for an 18-hole golf course given the generally favourable demographics of the 20 minute catchment area and the supply/demand balance for golf in that area. For the four years 2005/06 through to 2008/09 they totalled less than £200,000 per annum with the best annual total being £186,500 and the worst being £135,200.

5.3.5 These figures are simply abysmal and cannot be blamed on golf course oversupply and inherent property problems at Ingol. I believe that more factors are at play. Given that Ingol is within a built-up area (hence plenty of people living nearby), the demographics are generally above the UK average in terms of wealth and the healthy supply/demand balance for golf in the area, in the hands of a good commercial golf operator I am very strongly of the opinion that they would have been significantly better. Even poorly performing municipal golf courses can normally achieve around £250,000 plus per annum in golf revenue. This suggests to me that there is a high probability that the business was managed very poorly and/or that it was deliberately run into the ground to produce poor figures.



- 5.3.6 *Change in mode of operation:* I understand that the mode of operation of Ingol changed from being a membership-based club to pay and play in 2008. In my experience time is needed to allow for the adjustment in market positioning, and improved revenue figures do not automatically happen in a short period of time. Ingol would have had a local reputation as a membership-based golf course for a number of years, and to change this needs systematic and repeated advertising and marketing over a reasonable period of time. It is my view that it would take between two to three years for the local market to fully adjust to the idea of Ingol being an open to all pay and play golf course. Therefore, the historic trading figures may not reflect a position of the business operating at optimum maturity on a pay and play basis which in turn should significantly improve the trading position.
- 5.3.7 In my opinion the Pan-Leisure July 2010 report fails to demonstrate whether an effective sales and marketing plan was professionally implemented to raise the profile of Ingol as a good quality pay and play venue. Its only reference to marketing initiatives is a wide-ranging reference in paragraphs 5.11 and 5.12.
- 5.3.8 As part of a comprehensive sales and marketing plan to promote the change to a pay and play golf course I would expect a good golf course operator to do a number of things including a public relations exercise, obtaining media coverage via magazine editorials, targeted mass postcode leaflet drops with offers/golf promotions, adverts in local papers, possibly radio advertising, building a large database of golf course users for email marketing, online tee time booking facilities, text messages to mobile numbers etc and a very good website presence.
- 5.3.9 I believe that it is important for the appellants to provide comprehensive details of what they did in each of these areas and when, and to show how they measured the results to establish what worked well and what did not. A key to successful performance in the sales and marketing area is to systematically repeat the processes and campaigns that produce positive results rather than proceed in an unenergetic and ad hoc way (which many average to poor quality golf course operators do). There is no detailed evidence in the Pan-Leisure July 2010 report as to what was actually done.
- 5.3.10 *The operating deficits and EBITDA:* the trading figures show substantial annual operating deficits however, as I have explained earlier in paragraphs 3.2.8 to 3.2.20, the operating deficit is not linked to EBITDA so the figures quoted may look worse than what the true EBITDA figures would be for these years. The accounts do not provide

enough detail to form a view on what the actual annual EBITDA position was. The appellants need to provide much more detailed trading information so that the EBITDA position can be properly quantified. In my opinion, without such information, the appellants have failed to demonstrate that the golf course is not viable.

#### 5.4.1 Examples of Trading Performance and Viability of Other Proprietary Golf Courses

5.4.2 An issue I have is that of client confidentiality. Whilst I have seen a great many sets of trading figures for UK golf courses over the years and have a large database of confidential trading information within my office it is not appropriate to reproduce it for consumption within the public domain at a public planning inquiry.

5.4.3 What I have therefore done to illustrate examples of trading performance and viability of other golf courses is to list a substantial number of the golf courses that Humberts Leisure (who marketed Ingol for sale on a long leasehold basis in late October 2009) have on their website at <http://www.humberts-leisure.com/>. The website provides copies of the sales particulars for most of the golf courses that they currently have for sale together with those that they have sold in recent years. I attach this list as Appendix MAS 5.

5.4.4 The list in Appendix MAS 5 highlights the following:

- The resident population number of 356,000 for Ingol, in terms of the primary catchment area of 20 minutes, is healthy and in line with other quoted venues. In particular, four of the venues on the list which quote such figures are those which are/were owned by Crown Golf, Europe's leading dedicated golf course operator with a portfolio of 30 plus venues. These are Pyrford, Traditions, Chelsfield Lakes and Cotgrave Place Golf Courses.
- My view that the primary catchment area is a 20 minute drivetime is reinforced by the fact that Crown Golf used this measure for describing the locational characteristics of the properties that they were selling (which had the benefit of good local 20 minute drivetime statistics) rather than quoting mileage radii (which is what the Pan-Leisure July 2010 report relies on).

- To my knowledge all of the golf courses on this list, with the exception of Ingol, are being sold/have been sold on the basis that they are viable golf courses for the future. A couple have even lower annual turnover figures than the historic figures for Ingol and some even have very low historic annual EBITDA figures (which I define as below £100,000) or worse still, a negative figure. In comparison to this list, I see no reason why Ingol could not have been sold as a viable golf business if it was comprehensively marketed and reasonably priced without any unduly onerous sale/leasing conditions.
- Based on my practical experience, I think that Ingol is in a much better commercial location than a number of the courses in my schedule in Appendix MAS 5, some of which are in rural locations, yet the latter still remain viable golf businesses. I would rather own a poor quality golf course in a good trading location than a good quality golf course in a poor trading location. The former is generally potentially more profitable. The property saying about the importance of 'location, location, location' applies equally to golf courses, and in my opinion, Ingol is in a good trading location for a north of England golf course.

#### 5.5.1 Examples of Turnaround Performance of Municipal Golf Courses

5.5.2 In recent years I have helped a number of local authorities secure the future of their municipal golf courses. Invariably such golf courses had very low annual EBITDAs (say £50,000 or less) or had negative EBITDAs. When one takes into account central recharges that local authorities often put on their municipal golf courses (which is a 'below the EBITDA line' item) the quoted net annual loss can run into a figure of well over £100,000 and the position, on the face of it, might look even worse than the historic trading figures quoted for Ingol.

5.5.3 I set out below a couple of examples of turnaround situations (and these are not isolated 'successes' - I have other examples as well):

5.5.4 *Duxbury Park Golf Course for Chorley Borough Council:* in 2006 the letting of this golf course was successfully completed with the tenant being Glendale Golf, a leading provider of affordable golf in the UK. I attach extracts from the sales particulars in Appendix MAS 6 which highlight some of the relevant data.

- 5.5.5 Interestingly, the 20 minute drivetime catchment for Duxbury Park is significantly inferior to Ingol - 266,000 people versus 356,000 people, and the 30 minute drivetime catchments are similar for both at just over 1 million people. In addition, Duxbury Park has 144 golf venues within a 20 mile radius whereas Ingol has only 86 (see paragraph 4.5.5).
- 5.5.6 Duxbury Park suffered from very poor winter drainage and was regarded as a course playable for only seven or eight months of the year. In addition, the clubhouse was very poor indeed. Annual golf revenue figures from green fees and season-ticket sales (called 'contract holders') was consistently between £277,000 and £320,000 despite the poor drainage and the poor clubhouse facilities.
- 5.5.7 Duxbury Park was run reasonably well (but not exceptionally well) by Chorley Borough Council and given that Ingol is arguably in a better commercial trading location and has less local competition, Ingol really ought to have been capable of producing much better annual golf revenue figures than the feeble amounts quoted in paragraph 5.9 of the Pan-Leisure July 2010 report referred to earlier.
- 5.5.8 The problem with Duxbury Park was that a new clubhouse was required together with improved drainage and the Council was not prepared to fund all of this cost if it was very substantial.
- 5.5.9 The deal agreed with Glendale Golf resulted in a capital investment programme of over £1 million in building a new clubhouse (which has now been open for some time) and improved course drainage with the investment shared between the Council and the tenant, and with the tenant paying a healthy rent to the Council. The rental made the capital investment justifiable for the Council. Glendale Golf brought a firm commitment to invest in Duxbury Park together with excellent commercial golf operational skills. Today it is a good business.
- 5.5.10 *Barnehurst Golf Course for the London Borough of Bexley*: this comprised a short nine hole golf course but with a busy food & beverage operation. I attach extracts of the sales particulars in Appendix MAS 7. Annual turnover was just over £500,000 (the Council's budget figure of £618,000 was overly optimistic) of which the annual golf revenue in 2007/08 was just £194,000. It is worth noting that this course, which only has a short nine hole layout, in the hands of an inefficient Council operator still produced a higher annual golf revenue than the feeble annual golf revenue figures

quoted by Pan-Leisure for Ingol (which had the benefit of a proper length 18-hole course in a good trading location).

5.5.11 Whilst the annual 2007/08 EBITDA figure for Barnehurst was not quoted in the sales brochure I can confirm that it was a negative sum, and the business appeared on a general decline. Despite this trend of poor financial performance I had significant interest from the market to lease it, even though it comprised only nine holes, and terms were agreed for Mytime Active, a non-profit distributing leisure trust, to take the property on a lease at an annual rental and its future as a golf course is secure.

5.5.12 Interestingly, Barnehurst has 161 golf venues within a 20 mile radius compared to Ingol's total of 86 (see paragraph 4.5.5).

#### 5.6.1 Who Might Be Interested in Running Ingol and on What Terms?

5.6.2 In my opinion, if Ingol was offered to the market in an attractive way at a reasonable price and without overly penal golf operating restrictions, then there would be a healthy level of interest in it from the market. The 'market' would include commercial golf operators who look to take on pay and play/affordable for all golf courses - and there are a number of organisations who look specifically to do this, together with local entrepreneurs, lifestyle buyers and perhaps even a consortium of local residents who are keen to secure the future of their nearby golf course as a golf course. The latter might prefer Ingol to be run on a membership basis rather than pay and play.

5.6.3 It seems to me that the marketing campaign by Humberts Leisure looks somewhat half-hearted when one considers how thorough and comprehensive their marketing campaigns appear for their other golf properties for sale. Typically they produce a comprehensive 16 page colour brochure when selling a golf course yet only a two page brochure was produced for Ingol - see my schedule in Appendix MAS 5 which provides the comparisons.

5.6.4 By way of a full example of the difference in approach between a comprehensive Humberts Leisure sales brochure and that which they produced for Ingol I attach, in Appendix MAS 8, an example of the 16 page brochure for Gloucester Golf Club which Humberts Leisure marketed for sale in September 2009 (Ingol was offered for sale by them just a month later than this) and then sold around 10 months later in June 2010.

This property has similarities to Ingol in that its trading performance was very poor (annual turnover circa £300,000).

- 5.6.5 It is, of course, vitally important not to misrepresent the facts in a sales brochure, however if one is serious about selling a golf course on the best possible terms then the normal strategy is to generate as much initial interest in the property as possible via the sales brochure, and then once you have the interest and attention of the market you then supply 'the bad news' (if indeed there is any) via follow up information in a separate information pack to the sales particulars.
- 5.6.6 That way, you have not misrepresented the facts of the property early on and you have generated interest in it, hopefully by getting a number of parties to go and view the property to get a feel for it. Once you have this interest you are then in a much stronger position to get some serious bids from the market by generating an element of competition between bidders.
- 5.6.7 If 'the bad news' is put upfront in the sales brochure then there is a high probability that a substantial proportion of parties who would normally show interest in something like Ingol won't even pick up the phone to ask for more information nor go and look at it. From a golf property agent's perspective of trying to sell something for a client this is not a good position to be in.
- 5.6.8 Therefore, whilst Ingol was marketed for a very short period of time during the winter months (launched on the open market on 20 October 2009 and which never shows a golf property off to its best condition/weather-wise); and was done so at a time when the UK was still trying to get to grips with the effect of the banking crisis and the difficulty for prospective purchasers to raise bank finance to buy golf courses, if marketed in a different way then I think good interest could have been shown in it.
- 5.6.9 To sell a golf course in a difficult property market normally takes at least 4 to 12 months depending on the strength of interest. My table in Appendix MAS 5, which lists all the recent golf course sales on the Humberts Leisure website, states when they launched various properties on the market and when they sold them. My suggested period of 4 to 12 months is consistent with this schedule.
- 5.6.10 Sometimes it takes longer than 12 months to sell a golf property. For example, Humberts Leisure have been trying to sell Lostwithiel Hotel Golf & Country Club (which

is on the list in Appendix MAS 5) for a number of years. If one does not sell a golf property within a reasonable period of time then what often happens is that it gets temporarily withdrawn from the market for a while and then gets relaunched on the market at a later date so as to have a fresh attempt at selling it.

- 5.6.11 If Ingol was offered on a medium-term lease (say around 25 to 40 years) with the tenant undertaking capital investment in the property at its own cost to make Ingol 'fit for purpose' and paying the appellants an annual rental (instead of a large lump sum premium), then I think that there would have been reasonable to good interest in it. This is the model that I am familiar with in leasing municipal golf courses on behalf of local authorities. It is an option that the appellants chose not to offer to the market.
- 5.6.12 By way of a local example of this model, Mack Trading Amenity Management took over the management of Stanley Park Golf Course in June 2010 on behalf of Blackpool Council. They now operate around 10 municipal golf courses in the UK. This transaction occurred just a few months after Ingol closed in January 2010. Stanley Park is an 18-hole golf course which sits just outside of the 20 minute drivetime catchment area for Ingol. Mack Trading have taken a lease of the property and pay the Council an annual rental. If Humberts Leisure had offered Ingol to Mack Trading Amenity Management on the basis of a medium-term lease at an annual rental then, in my opinion, they would have been very interested in taking Ingol on.
- 5.6.13 Alternatively, if the freehold property was offered for sale at a price which was deemed suitably attractive to buyers then, in my opinion, it is highly likely that a buyer could be found to take Ingol on as a golf course. Everything 'has a price', and if the price is favourable enough then interest from buyers invariably follows. If the price is too high in the first place and/or the terms on offer are too restrictive then this simply puts the market off.
- 5.6.14 In my opinion the wording used in the Ingol sales brochure is also unusually negative for a set of Humberts Leisure sales particulars. The front page is excellent with the headline "*An established 18-hole pay and play golf centre (est. 1980) situated on the edge of Preston offering great potential for commercialisation*". This sends a 'first impression' message to the reader that this is something worth looking at.
- 5.6.15 On page 2 'The Business' section then states that the "*highly competitive local/regional golf market (coupled with a lack of investment) has impacted on the trading*

*performance of the business. The historic trading records (year to 31st March) for the business can be summarised as follows".*

5.6.16 Instead of quoting the market norm of annual EBITDA to assess the underlying historic performance of the business (which Humberts Leisure usually do in their other brochures) they go to print upfront in the brochure with some very bad looking trading losses and say "*Despite the business' historic trading losses Ingol Golf Course is considered to offer potential for commercialisation.*"

5.6.17 In my opinion the way 'The Business' section is worded is a major turn off to the market. It will put off a lot of people even bothering to ask for more information about Ingol, particularly if the asking price is high (and I believe that it was) because the brochure implies that:

- Ingol is in an area oversupplied with golf courses both locally and regionally (the message communicated to a buyer is this: "this is a tough trading location – beware!").
- Ingol is in need of capital investment (the message communicated to a buyer is this: "because there has been a lack of investment in the past by the current owner I need to be prepared to spend substantial money on this").
- Ingol is already making substantial annual losses (although the annual EBITDA figure is not quoted). The message communicated to a buyer is this: "I need to be prepared to fund annual losses in the early years of my operation".

5.6.18 The sales brochure under 'Tenure' then explains the basis on which someone can take on the business. It states "*a long-term full repairing and insuring lease is offered over the property at a peppercorn rent. The lease User Clause will restrict the use of the property to a pay and play golf course and associated facilities.*"

5.6.19 This means that alternative non-golf development potential of the site is expressly excluded (which is not an unusual clause in itself). Therefore, anyone who takes on the lease can only use Ingol as a golf course. Having such a restriction is fine but it means that you, if you are the owner, need to state a lower asking price (if you are really



serious about selling) to reflect the adverse nature of this condition compared to an unconditional freehold sale.

- 5.6.20 Furthermore, the lease restricts the golf use to pay and play golf only. Whilst I think that pay and play golf is particularly suitable for Ingol, I see no obvious golf related reason for the appellants, as to why they deemed it necessary to restrict the use in this way as it will preclude some potential tenants who might want to use it as a membership-based golf club.
- 5.6.21 For example, it is not inconceivable that a serious local consortium might get together to buy the leasehold interest to secure the future of Ingol as a golf course and would look to raise money by way of new golf members' loans or some form of equity scheme, and in return the lenders/investors would run it as a members golf club. That way the appellants might get a fair price for Ingol in relation to its worth for golf use.
- 5.6.22 However, this option is precluded by way of the user clause being restricted to pay and play use. I do not understand why such a user clause is necessary for Ingol unless the owner did not really want to actually sell the property because of the desire to build houses on it. It is common for local authority municipal golf courses to have pay and play only user clauses because fundamentally a council, as landlord, has a duty to provide a leisure facility that is open to all, but that is not the case with the appellants.
- 5.6.23 Furthermore, the owners are asking for a lump sum premium for the leasehold interest on the basis of a peppercorn rent. When I lease municipal golf courses for local authority landlords the norm is not to ask for a lump sum premium upfront with no rent, but to ask for an annual rental that is linked in part to the performance of the business.
- 5.6.24 The latter approach makes the business proposition that much more viable than asking for a lump sum premium upfront, particularly if that premium is substantial. I understand that Humberts Leisure were seeking a premium in the order of a seven figure sum, which in my opinion, is very substantial given the quoted poor historic trading performance of Ingol and the previous lack of investment in it; and would be a big turn off to the market if the user clause restricted usage to that of a pay and play golf course as well as offering no alternative use development potential.

5.6.25 The collective message of 'The Business' and the 'Tenure' sections together with the substantial asking price in the Humberts Leisure sales brochure to good potential golf operator buyers/tenants is likely to get them thinking along the following lines:

*"I am being told upfront by the agents that there are too many golf courses in the locality and region already - this is a tough trading area. Should I even be looking at this?"*

*I am being told upfront that the owner hasn't invested in the property in recent years - I wonder why they didn't? Perhaps it is because the market is too competitive in the area? It could be expensive to get this property 'fit for purpose'.*

*I am being told that this property makes big annual losses (although I haven't been told what the EBITDA position is) - not only am I going to have to spend money on getting this property in good order but I'm going to have to deal with the initial negative cash flow position as well. This won't be easy to get bank funding on.*

*The owners want around a seven figure lump sum of money upfront instead of an annual rental, and I don't even get to own the freehold plus they are keeping the alternative development use value with their user clause restriction. They want me to take all the risk of the business and not have an annual rental linked to trading performance. Ouch, this is going to be extremely difficult to get bank finance on.*

*The timescale for making an offer is also tight with the Christmas holiday period. It sounds like the owners really don't want to sell this at any sort of sensible price. I wonder what they really want to do with it?*

*I shall not bother with even looking at this; it is all too negative and I expect that there are much better alternative opportunities in the golf market to look at."*

5.6.26 Likewise, the collective message of 'The Business' and the 'Tenure' sections together with the substantial asking price in the Humberts Leisure brochure will most likely have 'lifestyle buyers' or a local residents' consortium thinking along the following lines:

5.6.27 The lifestyle buyer:

*"I fancy buying a golf course and quite like this location as I live in the area. I can afford to pay a decent price for something that may not be capable of making me a big return on my investment because I have just turned 55 and I have sold my main business for a decent sum and am now looking for a new challenge. Making money is no longer my primary motive - I think I would enjoy the challenge of turning around the fortunes of Ingol and running it. I've always wanted to own a golf course.*

*If I am going to buy a golf course then I want it to be membership-based. But the user clause in the lease is restricted to pay and play only and this is no good to me. I shall not bother with looking at this any further - there are other things to look at."*

5.6.28 A local consortium:

*"It would be fantastic if we could put together a group to buy Ingol so as to keep it as a golf course and green space. How might we raise the money to buy it? One solution is to create a members club where potential new members either grant a loan to the new club or buy shares in the business as a part of their membership package. This could have appeal to a number of local residents and would provide the necessary capital to buy the lease and pay a peppercorn rent. But the owner is restricting the future use of the property to that of a pay and play golf course which is a massive barrier to our ability to raise the capital via loans and equity to buy the lease. That is a massive shame - we think that we could have raised the money to buy this."*

5.6.29 If I compare the wording of the two-page Humberts Leisure Ingol brochure with the typical wording in the standard Humberts Leisure 16 page brochure I reach the firm conclusion that the Ingol brochure was unusually negative compared to their normal upbeat wording in their 16 page brochures.

5.6.30 I attach the 16 page Humberts Leisure sales brochure for Gloucester Golf Club in Appendix MAS 8. They marketed this in September 2009, just one month before they put Ingol up for sale. If the owners of Ingol were fully intent on selling the property then surely they have the financial means to stretch to the cost of producing the normal 16

page Humberts Leisure brochure rather than the lightweight and negatively phrased two page effort?

- 5.6.31 Gloucester Golf Club has a similar trading performance in terms of annual turnover to Ingol (and so one might reasonably assume that it made a similar annual EBITDA to Ingol) and yet Gloucester Golf Club is stated in the brochure as having a positive annual EBITDA whereas Ingol does not quote EBITDA but instead focuses on a six-figure loss which looks much worse.
- 5.6.32 The Gloucester brochure does not talk about an oversupply of golf courses in the area or a lack of past investment but the Ingol brochure does. In my opinion, one is upbeat with the full intention to sell (and did sell in just under a year) and the other is downbeat with an underlying intention to put people off because the appellants did not really want to sell Ingol but instead wanted to focus on the land's prospects for very valuable residential development. Ingol was withdrawn from the market after a period of only three months of marketing which included the Christmas holiday period.
- 5.7.1 My Conclusions on Viability
- 5.7.2 It is my opinion that Ingol is a viable golf business. The 'external environment' factors - general economic conditions and the national trading conditions for golf set against the positive local supply/demand balance for golf for Ingol means that this is a reasonable business opportunity.
- 5.7.3 Many other golf venues in the UK have much tougher external environment factors and yet they continue as viable golf businesses, and get traded on the open market as such (as shown by the Humberts Leisure website which demonstrates numerous sales of other golf properties) so Ingol should be no different in this respect.
- 5.7.4 In my opinion, if Ingol was marketed in a different manner to that carried out by Humberts Leisure with more flexibility on the financial terms required (such as granting a lease at an annual rental as opposed to a large upfront lump sum premium with no rent) and/or the user clause restrictions in the lease were relaxed to allow membership golf (as well as pay and play) then there would be a much better response from bidders looking to take the property on as a golf course.

- 5.7.5 This would be further improved if the position of the positive supply/demand balance for golf (and hence need), as explained in Section B of this report, was clearly and enthusiastically set out in a sales brochure for interested parties rather than stating a very negative and downbeat picture of the situation, as set out in the 'The Business' section of the Humberts Leisure sales particulars for Ingol.
- 5.7.6 In my opinion, the reasons why Ingol is losing money for the appellants are that they are not as effective at operating golf businesses compared to the best specialist golf operators in the UK golf industry and/or because they want to redevelop it for housing, and therefore have no real commitment to run the golf course viability. A lack of investment in the facilities (as acknowledged by 'The Business' section in the Humberts Leisure sales particulars) coupled with less than market leading golf operational skills has resulted in poor financial performance.
- 5.7.7 In my opinion a good solution (but it is not the only solution) to turning around historic poor financial performance is to bring in a specialist third-party golf operator who will invest in the property to make it 'fit for purpose' and who will then operate it effectively. This is a solution which I have implemented on numerous occasions for local authority clients who found themselves in a similar situation to the current owners of Ingol in that they have a golf course which has been starved of investment in recent years and which is loss-making.

## **6. My Conclusions on Need and Viability**

- 6.1 Having carried out my research in respect of Ingol Golf Course it is my professional opinion that there is not an oversupply of golf courses in the area. Indeed, the situation is actually the opposite - I believe that there is a quantifiable need for an 18-hole golf course at Ingol and that the strongest need is for an affordable pay and play/low-cost venue which might include an element of membership golf.
- 6.2 Despite the reported historic financial losses for Ingol, it is my professional opinion that in the hands of a specialist UK golf operator, whose core business is built around running golf courses, that Ingol is a viable golf course provided that the terms imposed by the owner/landlord on the specialist golf operator are not unduly restrictive so as to make the business unviable.
- 6.3 In my opinion if the property was offered for sale on reasonable terms with a sufficient amount of time allowed to properly market the property then a buyer/tenant would be found to take it on for future long-term golf use which could be pay and play or membership-based or a combination of the two.

## 7. Statement of Truth and Declaration

- 7.1 I confirm that insofar as the facts stated in my proof of evidence are within my own knowledge I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.
- 7.2 I confirm that my report includes all facts which I regard as being relevant to the opinions which I have expressed and that attention has been drawn to any matter which would affect the validity of those opinions.
- 7.3 I confirm that in preparing this proof of evidence I have assumed the same duty which would apply to me when giving my expert opinions in a court of law under oath or affirmation. I confirm that this duty overrides any duty to those instructing or paying me, that I have understood this duty and complied with it in giving my opinions impartially and objectively, and that I will continue to comply with that duty as required.
- 7.4 I confirm that I am not instructed under any conditional fee arrangement.
- 7.5 I confirm that I have no conflicts of interest of any kind in producing this proof of evidence.
- 7.6 I confirm that my proof of evidence complies with the requirements of the Royal Institution of Chartered Surveyors (RICS), as set down in the *Surveyors acting as expert witnesses*: RICS practice statement.



**Mark Anthony Smith BA MRICS MBA**

Date: 17 May 2011