

Golf course

2020 Market Report

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Quick stats

8.3 visits

In 2019 average visits per person decreased 1.1 visits compared to 2 years ago

805 billion

In 2020 1H transaction volume increased by 533% y-o-y

4.39%

In 2020 1H cap rate decreased 1%p y-o-y

50holes

In 2020 1H new holes increased by 39% y-o-y

27.1%

In 2019 operating margin increased by 6.5%p y-o-y

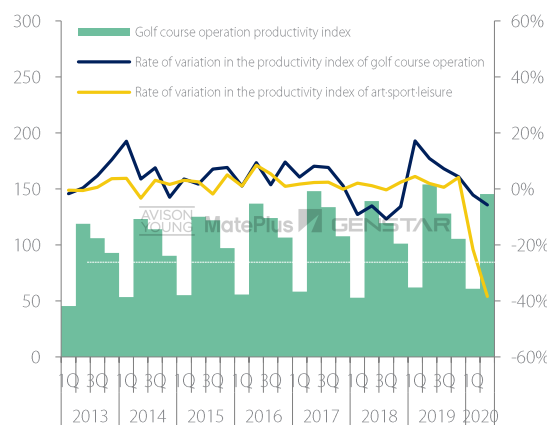
Domestic golf course industry

The golf course operation production index in 2019 increased by 8.9%p y-o-y due to relatively warmer winter and cooler summer days compared to the previous year. In particular, the production index for 1Q and 2Q of 2019 was high due to shorter rainy days (22.5 days) in the spring season from March to May. Full-scale implementation of a 52-hour workweek, a government-enforced rule to prevent chronic overwork, also worked favorably towards the operation of golf courses.

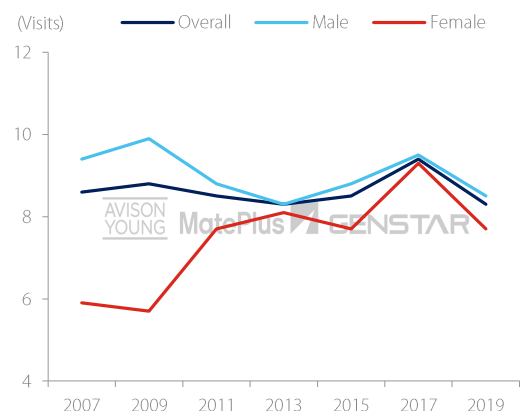
In 2020, the nationwide spread of COVID-19 led to a decline in the 2Q production index of the arts, sports, and leisure-related service industries to 38.4%p y-o-y. However, the production index of the golf course operation industry only fell 5.6%p y-o-y since golf gained

popularity as one of the few sports activity that allows social distance. Favorable weather towards golf helped, such as shorter rainfall in spring (19.9 days) and warmer winter weather.

On the other hand, the average number of golf courses use per person in 2019 decreased by 1.1 to 8.3 times. In 2017, the average number of golf course use per person recorded 9.4 times due to the increase in female golfers. The decrease is caused by the increase in green fees and caddie fees in the Greater Seoul Area. Japan experienced the same increase in golf fees which led to a subsequent decrease in golfers and stagnation in the golf course industry. Likewise, the excessive fee increase is likely to negatively affect the domestic golf course industry.



▲ Golf course operation productivity index and variation rate



▲ Average visits to golf course per gender

Source : Statistics Korea, Avison Young Korea Research Center

Transaction

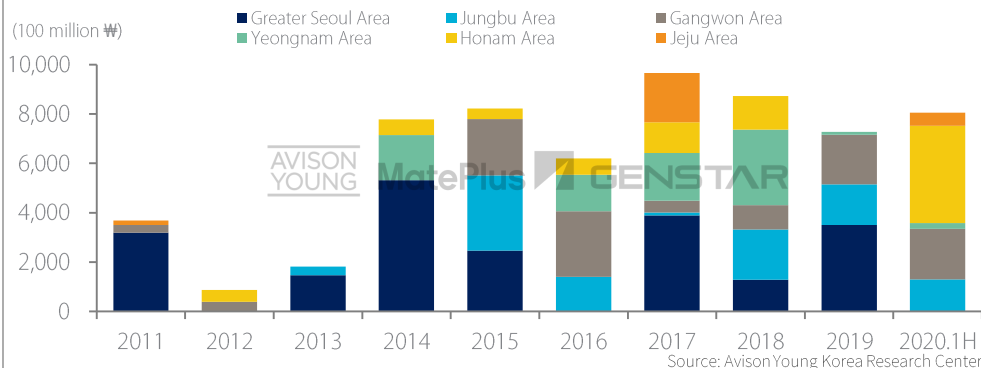
In 2019, there were a total of 11 cases of share deals (transaction of 100% of shares) and asset deals of golf courses combined and the total transaction volume reached 730 billion won. Golf courses in the Greater Seoul Area and nearby Jungbu Area and Gangwon Area accounted for ten of the eleven transactions. Most of the transaction cases were public golf courses. Some private golf courses undergoing the corporate rehabilitation procedure were transacted but those were also converted to public golf courses after changing hands.

In the past three years, golf course operators under court receivership have been acquired by mid-sized construction companies such as Hoban Construction and Kyeryong Construction, and private equity funds (PEF) such as MBK Partners and Q Capital Partners through share deals. However, from 2019 golf courses with no financial issues were traded in the market and these were bought in asset deals by real estate funds. ADF Asset Management and IGIS Asset Management bought Chuncheon Paganica Country Club and Boeun Club D Songnisan (formerly Arisol Country Club), respectively.

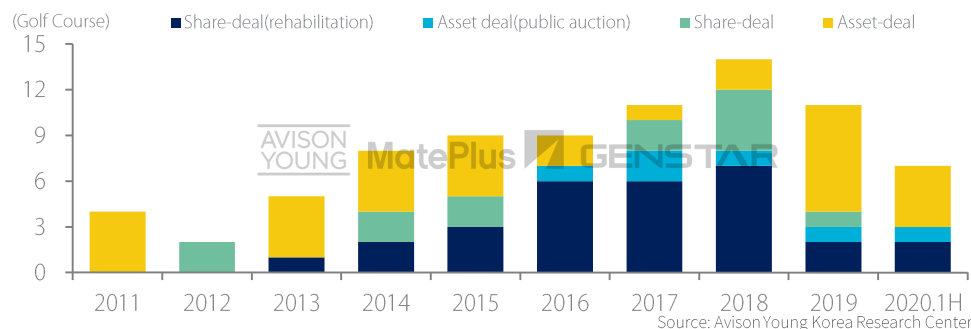
On the other hand, in 2019 the price per hole significantly increased to 5 billion KRW. This is a great increase from 3-4 billion KRW per hole price range from 2013 to 2018. The cap rate of the public golf course in 2019 was 4.86%, down 0.6%p from the previous year, and the 3-year government bond yield fell to a similar level. As a result, the cap spread recorded 3.33%p in 2019, similar to the previous year.

In the first half of 2020, golf course corporations under court receivership have declined significantly compared to the past, and public golf courses with no financial issues were traded in the market through asset deals by real estate funds instead of share deals by private equity funds. The transaction volume of the golf course exceeded 800 billion won in 1H 2020 and is expected to exceed 1 trillion won in 2020, considering the assets up for sale such as Club Mow Country Club.

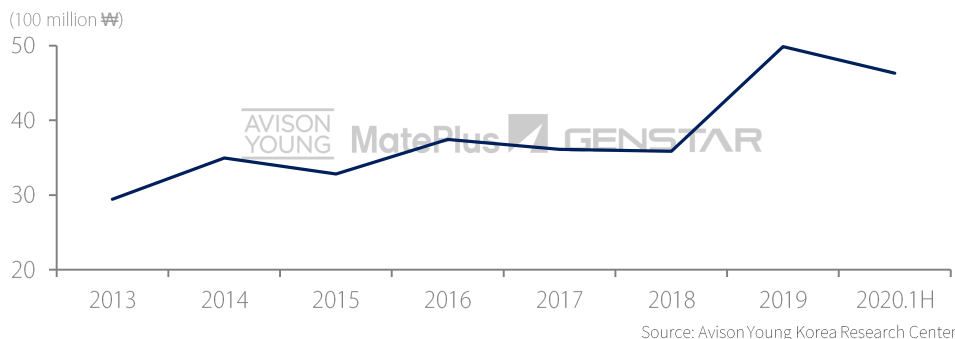
Transaction volume by major districts



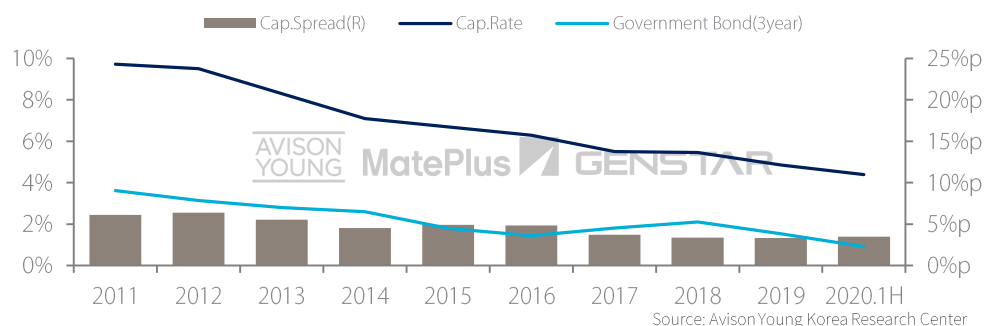
Cases of transaction by transaction type



Price per hole



Public golf course capitalization rate



Major transaction cases (2019 ~ 2020 1H)

Golf Course	District	Address	Holes	Price (100 mill ₩)	Date	Seller	Buyer
CLUB D Songnisan(former Arisol CC)	Jung bu Area	Chungbuk Boeun	18	600	2019	Shilla Construction Company	IGIS AMC
Golfzon county Hwarang(former Crystal County CC)		Chungbuk Jincheon	18	1,045	2019	Cheongsol Construction Company	Shinhan alternative AMC
Owners golf club	Gangwon Area	Gangwon	18	805	2020	Winner Tourism	KALON AMC
The players golf club		Chuncheon	27	1,242	2020	Players golf club	Capstone AMC

Source: Avison Young Korea Research Center

History of domestic golf course supply

Until the 1990s, domestic golf course developers purchased land site and received permission to create a golf course from the local government. For a while, the supply continued to be focused on a private golf course that procured construction costs from the sale of membership. Due to the regulation that companies should construct 6-holes of public golf course per 18-hole private golf course, the public golf course was constructed as a subsidiary of private golf courses. Due to the predominant supply of private golf courses, golf was considered a 'noble sport' that only wealthy people can enjoy. However, the historic victory of Seri Park in 1998 U.S. Women's Open, the big wins by Mihyun Kim, and other Korean golfers led Koreans to become interested in golf. Also, to overcome IMF in 1998, President Kim Dae-jung sought to popularize golf by providing tax benefits for public golf courses, such as exemption of individual consumption tax which provided a foothold for domestic public golf courses to flourish.

The tax incentives led to an increased supply of independent public golf courses. The President Roh Moo-hyun administration, which took over the DJ government's pro-golf course policy, announced "Plan for Improvement of Golf Course Construction Regulation" in 2004 to revitalize the domestic sports industry following the effectuation of a five-day workweek and to absorb the demand for overseas golf trip among domestic golfers. The number of new golf courses has increased significantly, from 10 before the plan, to 30 courses after the plan. The plan included abolishing the restriction of golf course land area, reducing traffic impact assessment, and simplifying administrative procedures.

Year	Party	Policy/Ruling	Contents
1999	President KDJ	Popularization of golf	Abolition of special consumption tax for public golf course
2004	President RMH	Plan for improvement of golf course regulation	Abolition of the restriction of golf course land area, reduction of traffic impact assessments and simplifying administrative procedures
2009	President LMB	Service industry advancement plan	Reduction of property tax and acquisition tax for golf courses
2011	Constitutional Court	Expropriation of land for golf course development ruled unconstitutional	Provision under the National Land Planning Act allowing expropriation of land for golf course construction was ruled unconstitutional

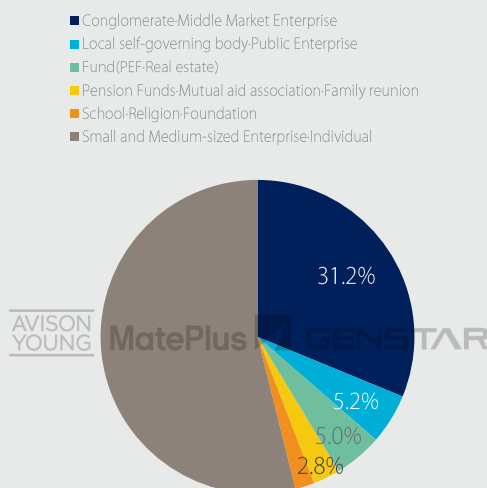
Source: Avison Young Korea Research Center

The opening of new golf course in Korea has temporarily stopped due to the global financial crisis in 2008. The same year, President Lee Myung-bak's 'Service Industry Advancement Plan' reduced property tax and acquisition tax for golf courses. As a result, 20 to 30 new golf courses were steadily supplied a year.

However, this trend stopped as the Constitutional court ruled that expropriation of private land for golf course development as unconstitutional in 2011. Previously, under the National Land Planning Act, private companies were allowed to expropriate private land for golf course development for the public cause of developing sports facilities. However, the Constitutional court ruled that it was against the Constitution to allow golf courses, which is difficult to deem as public sports, to be included in the "sports facilities" as public infrastructure. However, to prevent any confusion, the court decided that the law remain effective until 2012. The revision in law led to a dramatic decrease in golf course supply to 10 courses per year from 2014.



Golf course ownership



▲ Domestic golf course owners type

Source: Avison Young Korea Research Center

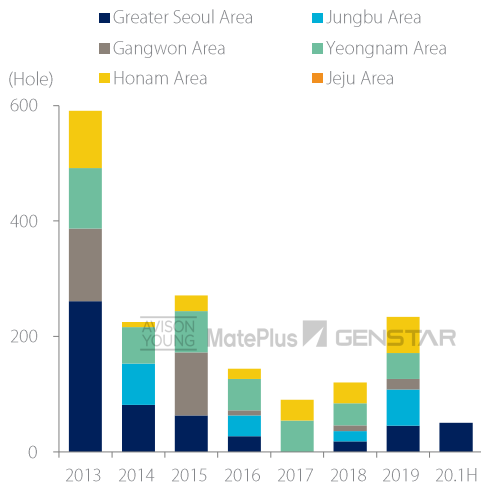
As of 1H 2020, small and medium-sized enterprises primarily established for golf course operations make up the majority of the domestic golf course owners. Large conglomerates and middle market enterprises own 31% of the total number of golf courses. The following are local self-governments, public enterprises, and privately-owned funds (PEF, real estate) which each own about 5% of the total number of golf courses respectively.

The top 10 listed companies by assets subject to disclosure in 2020 had more than one golf course in Korea through affiliates except for Nonghyup. Samsung Group owns the most golf courses with 162 holes through its affiliates such as Samsung Construction & Trading and Seoul Lakeside.

On the other hand, regardless of the size of the company, companies with construction and civil engineering as the main business accounted for 16.3% of the total golf courses. Their portion was higher than companies whose main business is hotels, resorts, and golf courses operation (14.5%). Particularly, the share of golf courses owned medium-sized construction companies with cash and cash equivalents is gradually increasing.

Supply

A total of 10 golf courses were opened in 2019, and a total of 218 holes were supplied. This is a slight increase from the number of golf courses opened in the last three years, but as the acquisition of private land for the construction of golf courses in 2011 was found to be unconstitutional, the number of golf courses declined significantly from about 30 before the revision, to 10 after the revision starting from 2014. Most of the new supply is public golf courses, and private golf courses are often operated together with public golf courses.



▲ New golf course holes by district

On the other hand, the supply in Jeju and Gangwon Area has decreased significantly compared to others due to reinforced environmental regulations. In particular, there has been no new supply in Jeju Island since 2013.

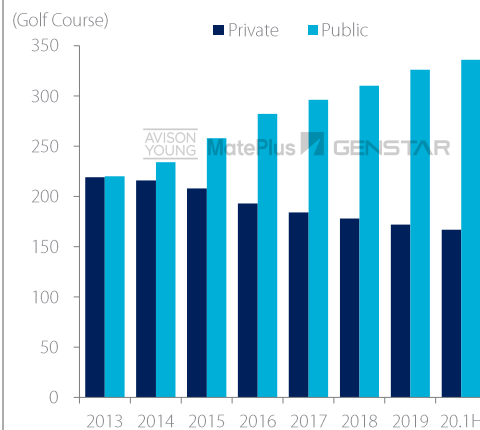
On the other hand, other regions except Jeju and Gangwon had less supply than in the early 2010s, but they continued to supply new public golf courses. In the past, the supply of new golf courses, including Icheon, Yeosu, and Anseong, in southern Gyeonggi province, has rapidly increased, and the opening of the Sejong-Pocheon Expressway has led to an increase in the supply of golf courses to the Pocheon and Yeoncheon areas, which have had little supply since the mid-2000s.

New Completions (2019 ~ 2020 1H)

Golf course	Operation	District	Address	Holes	Open date
Raycastle CC	Public	Jungbu Area	Sejong-si	27	2019
South Links Yeong-am CC		Honam Area	Jeonnam Yeong-am gun	45	2019
Shambhala CC		Greater Seoul Area	Gyeonggi Pocheon-si	18	2020
Lassa golf club		Greater Seoul Area	Gyeonggi Pocheon-si	27	2020

Operation

While most newly supplied golf courses are public due to development permit and tax issues, existing private golf courses continuously converted to public golf courses. Even after 2016, when numerous private golf clubs under court receivership converted to public golf courses, the conversion to the public system has continued as a corporate rehabilitation strategy. Since the number of public golf courses exceeded private golf course in 2013, the gap has continued to widen. In 2019 and 2020, Gwangju Curo Gyeonggi CC (formerly Blue Bird CC), Chungju Royal Foret CC, and Golf Zone County Jincheon (formerly Art Valley CC), which were private golf courses acquired by private equity funds (PEF) in the past converted to public golf course throughout the corporate rehabilitation procedure.



▲ Cumulative number of golf course by operation type

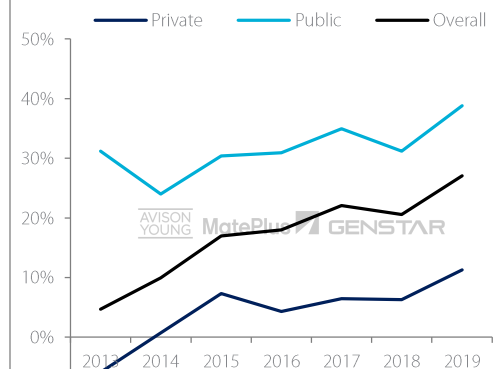
The nationwide golf course fee increase rate recorded 2.3%, consistently marking 2% level, compared to consumer prices, which rose 0%-level in 2019. This is due to the increased demand for the golf course in the Greater Seoul Area and nearby areas, but also some golf courses that converted from private to the public did not cut green fees. Also, the rise in the minimum wage increased the caddie fee.



▲ Rate of increase in golf course fee

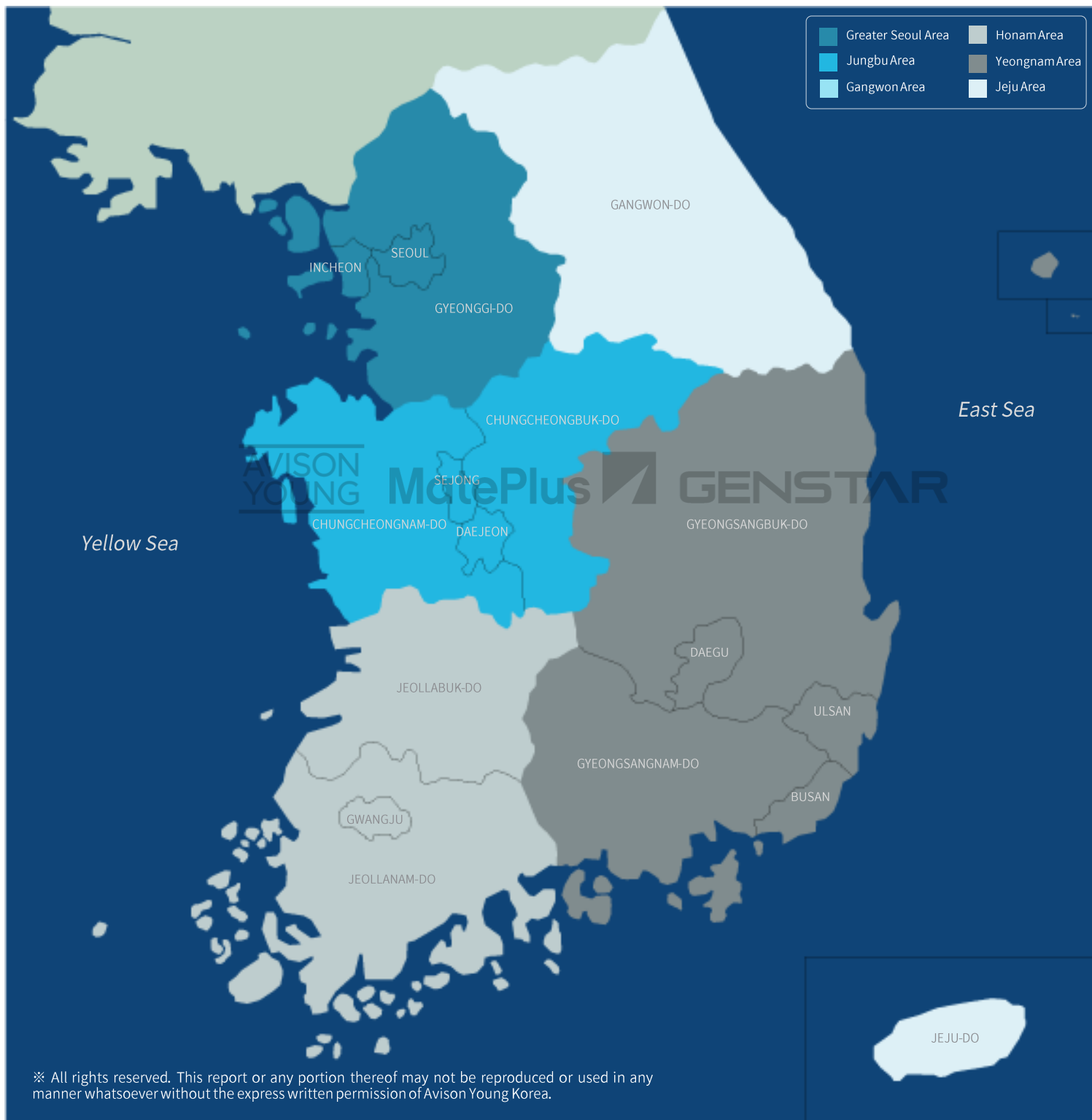
Source: Bank of Korea, Statistics Korea, Avison Young Korea Research Center

The golf course operating margin has been increasing from 2013 to 2019, and the public golf course has consistently exceeded the operating margin of the private golf course. The operating margin of the private golf course, which recorded a negative in 2013, improved significantly as the poorly-managed golf courses were converted into public golf courses through change of hands. In 2018, the operating margin decreased slightly, but in 2019, the operating margin of both the private and public turned upward. The factors that contributed to the increase were the increase in the number of business days due to the decrease in snowfall in January and February compared to the previous year and the decrease in the number of heatwaves in July and August. Also, 52-hour workweek enforcement in April and the increase in green fee and cart fee has contributed to the increase in operating margin. Top ranking golf courses in terms of operating margin for public system and the private system was concentrated in the Greater Seoul Area. The operating margin for Incheon Grand CC (public) was 60% and 38% for Lakeside CC (private).



▲ Rate of operating profits by 18-hole golf course operation type

Source: Avison Young Korea Research Center



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