2/26/19

Eagles Point Golf Couse Q&A Session #1

Presenters:

- Golf Course Advisory Committee -Shaun Purdue
- Eagles Pointe Board Member - Gary Bailey

NOTE - Details of the general presentation are not covered in these notes as that will be covered in a similar fashion in future meetings.

Shaun presented a key question for resident's consideration:

- What do residents want Eagles Pointe to be over the next 5-10 years?

Shaun started by providing a history of Old Carolina's golf course bankruptcy and subsequent experience.

Question:
Has the Eagles Pointe current golf course owner declared bankruptcy?

Response:
No. The owners have told us that they will close the course, pay off the loan, padlock the facility and walk away. They are wealthy individuals but have experienced enough losses that they want something to happen to the course.

Question:
Can they just walk away from it if they are still the owners without maintaining it?
Response:
Business is held in an LLC. The only asset of the LLC is the course and the associated debt. If they wanted to (not saying that they would), they could pay off the debt, padlock the doors and walk away. If there are any outstanding debts or they do not pay the property taxes, it could be forced into foreclosure, or bankruptcy, or someone could come along and buy it. The people at Traditions Carolina indicated in their experience, once you close the course and depending on the time of year the greens die off fairly quickly. Once the greens are dead, should someone want to come in and operate it as a golf course, the greens would have to be replaced and that is not an inconsequential sum of money.

Question:
So they have no obligation to maintain the course after they padlock it?
Response:
No. They can padlock it and let it go back to nature like Traditions did.

Question:
What about the lagoon, are they obligated to maintain those?
Response:
They are supposed to. But, if they padlock the doors, they probably wouldn't maintain them.

Question:
Who do we call if they don't? Is there someone in the State or Army Corps of Engineers that will enforce that?
Response:
What are they going to enforce? It's an LLC and you can only go after the LLC but can't reach through to the owners. You can phone the State and the State could come down and tell them what they need to do. There might be a fine, there could be court proceedings, bankruptcy or something else. It's tough to get enforcement when the only asset is the golf course and there is no money.

Question:
We have 1 billionaire and 2 millionaires who want us to subsidize because of their bad management?
Response:
You are right. These guys got themselves into this golf course and they made a mess of it. They were silly investors. Absolutely. I don't disagree with that. The problem is, we didn't create it but it now becomes part of our problem because what happens with that golf course could impact the values of our homes and the value of this community. I am not saying that these guys were marvelous or good, they were idiots and I am as mad as you are. But I also recognize the fact that what happens with that golf course impacts the community and impacts the value of our homes. So, we have to deal with it.

You may decide you want to do nothing. And that's fair and your decision. We are going to present the four options to you. We are going to give you as much information as we possibly can. You get to think about that information and then you are going to vote. If the community votes to do nothing – then we do nothing, and we take the risks associated with that.

Question:
I have lived here 21 years I think this is probably the fifth owner of this course, what seems to be the problem? Too many golf courses and not enough golfers?
Response:
Golf courses turn over. It's 20 years old. We have only had three owners. Links Corp, Textron and Triple Crown. Crown was the golf course manager.

Question:
Crown Golf is a subsidiary of Triple Crown Corporation which is a real estate developer. Are we in jeopardy of Triple Crown taking over and just deciding to develop it and put houses here?

Response:
What they (Mark Santos – primary owner of Triple Crown Development) have said to us that they didn't buy this course with the intent of developing it. They have purchased others in PA with that intent, but that is not why they bought this course and it is too far away from their primary businesses to be of interest to them.

Question:
So, this is not why they bought this?
Response:
No. The story they told us was that Mark Santos had bought a golf course for development and were running it. They lost a significant amount of money. He met John Brown and hired him to run the course. Brown turned it around from the perspective of Santos. They had one perfect year. Some years passed and Brown is looking for investors to buy courses in our area. Ended up buying Island West, Pinecrest and 3 others on the island. Eagles Pointe and Crescent were up for sale and Brown went to Santos and said he had a great investment opportunity. You don't have to do anything – you'll make lots

of money. Mark and two others subsequently bought the course. They were passive investors. Far too passive. After a couple of years, they saw the value of their investment had deteriorated significantly and they put some money into the course. They need to put lots of money into the course to make it viable. They did not pay attention for a good 2 ½ years.

Question:
Are we at risk now for them to say one way out is to develop it and put in more houses?
Response:
Indicated that question would be answered later during the Legal discussion.

Question:
Say we assume their debt, what's to say the same thing won't happen 5-10 years same things font happen again?
Response:
They said if we decide to subsidize them, they are prepared to stay for a maximum of two years. They want out. If they can sell before the two years is up – they would. You are right – if a new owner comes in, they could face the same issue down the road.

Question:
Regarding the earlier LLC question...have we checked with counsel to see if we can reach through the LLC and reach deeper into their organization or to the individual owners?
Response:
Our counsel says they are protected. If they are individual responsible for any of the debt outside of the LLC – they have said they would pay off the debt, close the course and walk.

Question:
Who is paying the attorney fees for advice on this deal?
Response:
We (the residents) are.

Question:
Is that a conflict of interest for the lawyer? He represents the community but he is representing you on this particular issue.
Response:
We (all of us here) are part of the community. He is Eagles Point's lawyer.

Question/Comment:
Maybe everybody doesn't want to do anything about the golf course, so he is not representing all of us. Who is paying the bill?
Response:
POA (all of us) are paying the bill. Everyone here is paying. We need that information to give you your options.

Discussion of what the Golf Course Advisory Committee is, why it was formed and its mandate from the Eagles Pointe Board.

Question:
Can we get back to Old Carolina and what happened to their property values?
Response:
We will discuss that when we get to the Real Estate portion of the presentation.

Shaun continued the discussion by providing a history of Rose Hill's golf course experience.

Question:
So, there was no difference in year over year housing price during that time frame between a golf course community, non-golf course community or community with golf course closure?
Response:
No. We looked at Traditions and Rose Hill and compared them to Crescent and Eagles Pointe. Looked at the year before they went into bankruptcy, then looked at that year and the following year did their home values fall where our stayed steady or go up. And the trend lines for Traditions and Rose Hill were similar to Eagles Point.

Question:
Isn't Old Carolina $/sq ft home values currently trending higher than Eagles Point right now?
Response:
We didn't look at what is happening now. That comparison was for 07, 08 and 09. The premium for Eagles Pointe vs Traditions during those three years was from 10% – 30% higher for Eagles Pointe. We didn't look at 2015, 16, 17 and 18.

Question/Comment:
We did look at 18. We did look at 16.
Response:
We looked at comps of homes sold at Eagles Pointe for 2015, 16, 17 & 18. Was Eagles Pointe, because it was on a golf course, getting a premium as compared to Lawton Station, Cypress Ridge, Hidden Lakes, Woodbridge and Seagrass Place. That was the 2015, 16, 17 comparison. The 2007, 8 and 9 comparison was related to the Traditions golf course closure, where we compared to Crescent, Eagles Pointe and Island West. When you look at those numbers, there was a premium at that point of 10-30%. We did not look at that same thing for Eagles Pointe today. If you want us to look at that – we can.

Question/Comment:
Every property lost value between 2008 – 11.

Shaun discussed speaking with counsel about ways Eagles Pointe could end up in Development and the risks of closure.

Question:
Can the bank unilaterally break the zoning convents if the property were in bankruptcy?
Response:
The Bankruptcy Court has pretty unfettered rights to make those determinations. If the owners fail to pay taxes, the county could force it into foreclosure. In foreclosure, somebody could then buy it. If the new owners wanted to re-zone the land, they would have to go to the county and go through a re-zoning process. The community would have the opportunity to intervene in that process. We would need lawyers. It would take time and cost money. Whether or not we would be successful is uncertain.
Board Comment:
What you have to look at and everybody in here knows, what does Beaufort County need? Affordable Housing. So, if it goes to Bankruptcy, the judge appoints separate party to look at every situation.

Reports back that it won't make any money as a park, won't make any money as a golf course best thing you can do is build houses.
Response:
The other thing that could happen is they could sell it to a developer. Re-iterated re-zoning process previously described. Over time we could see development.

Question:
At one time, weren't we zoned for more homes?
Response:
Yes. 366 at one time. Then it went to ~311.
Question:
Can that still happen under the original zoning?
Response:
No. We asked counsel that question. There is a green space requirement for than number of homes (~170 acres) which cannot be met if you built homes on the golf course. Whatever happens with development will have to go through a process with the county.

Question/Comment:
Re-zoning can be two different things. It can be re-zoned residential but it could also be re-zoned commercial.
Response:
It could be re-zoned for anything.

Question/Comment:
My recollection is that Rose Hill somebody was interested in taking the holes along 278 and turning it into a shopping plaza.
Response:
That's what drove Rose Hill to go to the county. The County said that if a zoning application came in, it would be supported. [NOTE – there is additional discussion on this point later in the discussion]. But that added to Rose Hill deciding they needed to do something with the land.

Board Comment:
Rose Hill believes they paid $1 – $1.2M more by waiting than if they had first bought it when it initially went into bankruptcy. They acted because it was rumored that there would be some sort of development.

Question:
I was under the impression that originally, 20 years ago, Eagles Pointe owned the golf course and hired a management company. That changed somewhere apparently?
Response:
No. It never was. They were always separate.
Question:
Can we get it back?
Response:
Purchasing the course will be one of your options. You will have to decide.

Question:
What happens if we subsidized? They stay for two years and then what?
Response:
They would want to sell to a new owner and they will run the golf course.

Question:
Can they do the same thing in two years like the are talking about now…just walk?
Response:
Yes.

Question:
If we were paying the annual fee for 10 years, do we continue to pay that regardless of what they choose to do in two years.?
Response:
If you look at their proposal – which is not the final proposal you would negotiate – it's a 10 year proposal. They would only stay as operators of the golf course for two years or less if the could find one and pass that subsidy on to the new owner.

Question:
So, they can sell the revenue stream we are providing?
Response:
Yes. That is what they would want.

Question:
What guarantee is there that that subsidy will remain at $50/month?
Response:
The community is going to vote on this. If the community says $50 – the contract with Triple Crown will say $50. The contract will say how many years and the amount of the subsidy. For the subsidy option, we will negotiate the best deal possible and present that to the community for consideration.

Question:
Before we vote on this – are we going to get hard numbers?
Response
Yes.
Board Comment
We are having all these meetings. Then we will have a big meeting for the whole community just like the Crescent had. This is not it. [Discussion about the Crescent Meeting] The Crescent residents had no information prior to the meeting. Crescent Board did not send out any information. The Eagles Pointe Board want our community to be informed. When we have the community meeting the Board will have all the information and present the selected options to the community at a full meeting.

Response
We are still tightening down the costs associated with buying the course and keeping it as park land on an annual basis. We hired an evaluation person to tell us what the fair market value of the course is – because one of our options will be to purchase the golf course. So, we need to know its value, cost of deferred maintenance so we have hard numbers on that. We have spoken with three banks and know what they would lends us and the terms. The idea is that when the Board comes to the final meeting, you will get a summary sheet of the four options. You can provide a subsidy to the course – the Board will tell you what they have negotiated, and you will know the details and the associated increase in POA fees of that negotiated option. If we bought the course to maintain it as parkland, you will see what

those costs are and the increase in POA fees. If you bought the golf course and ran it as a golf course you will see what the incremental POA fees will be. The final option will be to do nothing and there will be some risk of these things happening. When we get those final things, you will clearly have those dollars and cents in front of you, what the incremental impact to your fees are and for what period of time.

Question:
Is there a certain percentage of votes we need to have for it to pass?
Response:
If the fee increase is over 10% it requires a 2/3 majority vote. Board can increase fees up to 10% without community approval.

Question:
Is there a recognized property status where the property is tax free?
Response:
Common property in the POA carries a market value of $500, which is minimal. Then they apply a rate to that common property. IF we decided to use it as parkland – we would look at it becoming part of the common area and part of the $500/acre valuation against which a rate would be applied. So looking a property tax of ~ $2000.

Question:
What is the $250,000 that Rose Hill is paying?
Response:
That was their number for maintaining 18 holes at a certain standard for parkland. Mowing, fertilizing, etc. The quotes we have asked for are for 11 holes that the community see and the ret could go fallow. That removes a fair amount of cost. We want to mow it and maintained as a park. We don't have final numbers yet but in the range of ~$100,000/ year.

Question:
Many times, investors buy into an LLC and they don't treat is as a Corporation. They begin to pay corporation debt, treated it as their personal property or received other gratuities from the ownership. Courts have often recognized that and broken the corporate shield or limited status and made those investors personally liable. Has our counsel looked into that?
Response:
No. We are making a list of things to give to the attorney as we go along. Our attorney is Weston Newton who is also our State Rep. He is on board to do anything we ask him to do. Trying to find the best possible solutions to present to the community.

Question:
Suppose we do nothing and they pay off the debt and walk away. Would we be allowed to keep the greens looking nice (not to golf standards).
Response:
It's still their property. The question is would they allow it. They might take the attitude that well you didn't want to buy the course or help in anyway – why should we do anything for you. That could be their negotiating position. They could say sure. We don't know.

Question:
Is it more likely that they would say know just due to liability issues?
Response:
Possibly.

Question:
Is there a possibility to just lease the 11 holes that are of interest to the community? So we have access to it and only leasing the 11 holes that we want to maintain at a less that golf course standard. Then you have a legal relationship. They get an income instead of walking away from property that would just go fallow anyway and be a liability to them.
Response:
Uh huh.

Question:
If something like that happens, and they let us lease certain holes, who would take care/be responsible for the lagoons?
Response:
If they do a lease, they are still responsible for the 18 lagoons. We are only responsible for the lake. The only way we are tied in is our lake goes into the lagoons. Technically, whoever owns the golf course is responsible for those lagoons. Will they take care of them, hard to say. It may well come to the day where they say the POA is going to have to ante up the cost.

Question:
Does that include the lagoons and fountains at the entrance, club house, gate house and storage facility?

Response:
Golf course owns front entrance and the lagoons there. They own the main road, the clubhouse, the cart storage building, and parking lot. We have access agreements. We share cost of road maintenance (58% us/42% them) and 50/50 for the front entrance maintenance. We will still maintain the front entrance. But not the club house.

Question:
Can Crown leave and not maintain the lagoons?
Response:
As previously stated, they can walk away., Beaufort County goes after them – cant get anything and we are back into this situation.

Question:
We don't own it. Just because we are next to it doesn't give the county authority to make us pay for it. Is it also equally or more likely that since it's an environmental issue the state or county would have to step in and absorb that cost - because it's an environmental issue and not our responsibility?
Response:
The attorney is looking into that.

Question
The golf course is about 185 acres. Have we looked at how much of the 185 acres is not wet land and is actually available to be rezoned to be built on? If there is no buildable land – this is a moot subject.
Response:
No, we haven't we will add that to the questions for the Attorney.

Question/Comment
The only place that isn't wet lands are the driving range and the holes around the driving range (16, 17 & 18). That would likely be where any development would be.
Response:

Question:
As part of the risk assessment to do nothing, you mentioned that because Rose Hill waited for the bankruptcy, it was more expensive. Can we get a ballpark idea of what the cost of waiting might be? Is there a way to do that?
Response:
It depends on who shows up at bankruptcy court [Audience comment – that's assuming it even goes to bankruptcy. There is no indication that that is a likely outcome since the owners have said they will pay it off and leave.] …I have no idea of if there would be any buyers or not at a bankruptcy proceeding. We can tell you what the fair market value of the land is.

Question:
What was the fair market of Rose Hill?
Response:
They said admitted they overpaid but the did it to make sure they got the land. They didn't say by how much they thought they overpaid. [Audience Comment – It was priced at $1.8M] So they paid 2.3M.

Question:
If someone were to come in and build homes, would they be part of the Eagles Pointe Association and have access to our facilities?
Response:
At Traditions, the developer that built the apartments wanted them to become part of the community. But the community had to vote to change their master covenants. The community did not vote in favor of the proposal. It would be a similar process here if that were to happen.

Question:
We don't own the front entrance, but we have been maintaining it 100%. Is there an imminent domain issue given that we have been paying for the front entrance? Couldn't we gain ownership and deny access to anyone? We should ask our lawyer about that.
Response:
We have only been paying 100% for the last few years. I will ask the lawyer.

Question:
Do we know what the Crescent is going to do?
Response:
No. They are supposed to decide/vote in the middle of March. We will see what happens.

Question:
What kind of credit line did the banks give us and when is the golf course valuation report expected to be completed?
Response:
We asked the bank for up to $1M. The report is due middle to late March.

Question:
In the previous discussions, the financial impacts to delay were related to recovering the golf course to golf course playing standards. If your options are other than running it as a golf course, is there any

other perceived risks to waiting? Rather than buy it outright at full market value when you don't intend to operate it as a golf course, relative to those other options, don't you have a better negotiating position if the course has less golf course value after they have walked away?
Response:
The risk is always, is there another buyer. The real question is – is valuable enough that we should move on it earlier rather than later.

Question:
You haven't said anything specifically about their proposal with the $50/month.
Response:
The Board's intent is to negotiate the best deal possible relative to providing a subsidy. The results of that negotiation will be one of the options the community will be presented with to consider. When you get the options to vote on – you will see what the actual numbers and terms are.

Question:
So that is the way the board is leaning?
Response:
No. That is just one of the four options that is being explored for the community to consider and vote on. Those Option are: 1) Buy the land and run it as a golf course. We will tell you the cost of doing that and tell you what the POA fee increase will be. 2) Buy the land and maintain it as a park. We will tell you the cost of doing that and tell you what the POA fee increase will be. 3) Pay a subsidy to them. The board will negotiate the best deal the can. So again, you will see what that dollar amount will be and for how long. 4) Do nothing and there will be some risk that you will have to consider with that as well.

Question:
So, the offer Crown gave us has no bearing on what the final offer will be.
Response:
Crown gave us an offer. Maybe at the end of the day, that will be what it is. I don't know. The Board will try to negotiate and whatever the outcome of the negotiation is what the community will have to review.

Question:
Where does the Board stand on that now?
Response:
They want to negotiate it. The final proposal could be different, or it could be the same. The Board is waiting for the valuation analysis to understand it actual value and cost needed to bring it back to where it needs to be. They also want to have the club house assessed to see its condition. All that information will help with the negotiations. When the final information is given to the community on the 4 options, you will have hard numbers. The Board will make a recommendation at that time as to what option they support.

Question:
The reason for the subsidy in the first place is to allow them to find a buyer for the golf course. Can we tell them that if they don't find a buyer, we get the option to buy and what we have paid gets credited against the purchase price?
Response:
That is part of the process. We need to put clear options in front of the community. Thee are many options and permutations – but for this process, we need clear options. But those are Board considerations.

Question:
You indicated earlier that in the case of Rose Hill that Beaufort County said they would support any zoning change request. So, Beaufort County was pre-deciding issues before it came before the county board? How does that happen? The County says they are in favor before any public hears or anything?
Response:
They were talking to the land use folk… you are talking to the bureaucrats. You ask if they would support a re-zoning and they say absolutely. It would still have to go through the process and the County Council. It wasn't the county officially – it was the land use staff saying it.

Question:
Isn't the golf course already zoned "light commercial"?
Response:
No. This one isn't.

Question:
You said Crescent only had till March 15th to make a decision. Do we only have 'til March 15 until they close the course?
Response:
No. That is just what Crescent told Crown.

Question:
So, there is no deadline for us?
Response:
No. They first told us 12/31, then 3/1 and now its sometime in April.

Question:
If we buy the course, who would be responsible for things green repairs – would be assessed for green repairs or would it come out of POA funds?
Response:
When we get the valuation report. It will tell us the fair market value of the course, the cost of deferred maintenance, and here is what it cost to bring it up to standard. So then you can determine a purchase price given and you want to spend all that capital you would have to borrow that money and build it into the POA fees.

Question:
Are we going to make it viable and are we going to make a profit if we buy it or are we going to end up in bankruptcy? Then we have this big liability on the POA.
Response:
That is why the Rose Hill model is interesting. Rose Hill has covenants in place that do not allow assessments for any operations or losses from the course. They have a golf management company that takes all the risk, all the profits and all the losses. They have found 3 companies over 10 years to do this. Not a bad run. If that was the option we choose, that's what we would do. If we couldn't find a golf management company, we could revert to the parkland option and we know our operating costs would be the ~$100,000 annual cost of maintenance. That's how you would protect yourself.

Question:
Are there any golf courses in the area similar to us that are making a profit? Millennials aren't playing – so is anyone making a profit?
Response:
We aren't. and golf overall is down. But lots of developments are going in like Argent and Margaritaville. They are older people – if even 5% of them play golf, that's a lot of people. Now that won't happen tomorrow, that's over the next 5 years. Hilton Head is a golf destination and people play off island golf. This area is building up and there are not going to be anymore golf courses built here. So, I think there is a chance you could make a profit.

Rose Hill hasn't paid a dime since their initial assessment ($2,850) for 10 years. The Management Co has taken on all the cost. There cost to keep it as a park would have been $250,00 per year. So, the management company option has saved them $2.5M over the 10 years over the parkland option.

Question:
If we partner with Crown with a subsidy, where is their business plan to make this a viable operation? They do nothing currently. Can we demand they bring on a professional to make it viable?
Response:
The reality is, you want Crown out as soon as possible. Even if they stay for two years, a subsidy could help them sell it. If you give them a subsidy, they don't get to spend it anyway they like. Their issue is revenue (tied to rounds of golf played). Given the condition of the course – it will take them a couple years to get there anyway.

Have to remember that if we go that route – we would have a contract that specified what the money could be used for. We agreed to do a 2 & 2 representative committee to decide how money would be used. If you can't come to a agreement – it just doesn't happen. It will all be in a contract. We have already discussed their lack of marketing. They felt they needed the course to be in better shape before they did that. We didn't really buy that explanation. They understand that more marketing is an expectation. There are courses in the region like Eagles Pointe that make money – they start by putting a sign out that says – it's a golf course. 375,00 cars a week go between 95 and Moss Creek – and none of them know there is a golf course here. Put a sign out and attract players. Create affordable memberships, etc.

Question:
How do the finances compare between Rose Hill and Eagles Pointe. They have 1000 homes for 27 holes and we have 249 for 18. We have more cash outlay and risk.
Response:
When we get the valuation report – we will know exactly what that cost is and the associated time frames. You can compare that to the other options and make your decision.

Question:
We are a mixed community and have families with young children – that are expensive. Adding money to the fees is a big impact. When they bought into the community – they weren't planning on this financial hit and we need to be sensitive to that.
Response:
The key question is what do you want this community to be in the next 5-10 years? It's a difficult question. But we will give everyone the information from which they can make their own decisions.

Question:
Earlier in the Real Estate section of the presentation you glazed over the 2015 and 2016 real estate values and appreciation numbers but you didn't share them with us. [Some confusion over what presented and what was asked]

Response:
We asked the question – "did Eagles Pointe get a premium on its house sales because its surrounded by a golf course. We looked at 2015-2018 for comparable communities (Lawton Station, Cypress Ridge, Hidden Lakes, Woodbridge and Seagrass Place). The premium for Eagles Pointe compared to all of those non-golf course communities was somewhere between 4% - 28%.

For 2005, 2006 & 2007 (the year before, the year of and the year after they closed the course) we compared Rose Hill to Eagles Pointe, Crescent and Island West to see if Rose Hill housing values dropped in comparison to the other golf course communities. The trends lines were the same. Course closure did not seem to have an impact on housing values as compare to us.

Question:
If we raise our POA fees to one of the highest for comparable properties (except for Crescent) , have we considered the impact to home sales due to the higher POA fees over the next several years?
Response:
No, we didn't. But it wouldn't be forever.

Question:
Can we look in to it?
Response:
Yes.

Question/Comment:
In one of the articles that the committee sent out, it indicated that the community would pay one way or the other – either in course maintenance costs or lost home value.
Audience Member Response:
That situation is not comparable. That was during the recession years and all property values declined.
End of meeting