

Great Deal of Personal and Financial Thought Required for Park Purchase

Woodall's Campground Management – November 2003

Over the last few months I have had several clients who were seriously looking for a RV park to purchase. I have been impressed with their qualifications. Each was outgoing and already engaged in some type of business that allowed them to use their people skills. Each was financially qualified - meaning they had the necessary money for the down payment and, in some case, ample reserves to make some improvements on the parks they were considering.

They were examples of the new breed of buyers I have worked with recently - well educated, business backgrounds and approaching the purchase of a park in a business-like manner.

My job as a consultant is to help potential buyers make a *business decision* about the financial feasibility for entering this great industry with the purchase of a particular park. Sometimes, like the most recent client, it was to determine if either of two different parks was right for them.

The decision that clients make must not be an emotional one but a cold, calculated, unemotional one based on facts and figures.

There are two things that I review with each such client:

First, is this area a place where they will be completely happy living for at least the next few years? If they have school-aged children, have they investigated the school system those children will attend? Are they satisfied that their children will obtain a good education in that system?

Second, does the purchase of this park provide them with the income they need? This is usually where trouble is first encountered.

If you are considering placing your park on the market, you must consider whether a buyer of your park will be making a financially feasible purchase. You may have been making a satisfactory wage for your time and investment but you must consider if a new buyer will also be able to do so. I have found that most park owners do not draw a paycheck, but consider the total bottom line of net profit as their wage and investment return. That may work for them, but a new buyer will face a higher property tax than the current owner pays.

In pricing your park, assume that you get your asking price and that the new tax assessment will be based on that. Take out your last property tax bill, calculate the new tax, and add that to your current operating expense statement. To calculate if the buyer will be able to make a living, subtract that amount from your net profit on the statement you intend to furnish to them.

Next you should consider the amount of the down payment you are requesting. Your potential buyer already has that money invested and is earning an interest income from it. When the buyer gives you that money as a down payment, he will lose that income. Therefore, you must estimate what that interest may be.

Let's say you are asking \$500,000 down and the buyer is currently getting only 3% interest on that money. Multiply \$500,000 by 3% to arrive at the amount the buyer is currently receiving or \$15,000 per year. Now, subtract that amount from the amount of net you are showing after you have subtracted the increase in property tax. After doing this, you must calculate the monthly payments on the second mortgage you are willing to carry. We will assume that the first mortgage is assumable; therefore, you have been paying that and the monthly payments are included in your operating P&L statement.

Let's say that the second is \$400,000 and you are willing to carry it at 5% interest for 20 years. That is \$2,639.84 per month or \$31,678.08 per year. Now we must subtract that from the net figure you have left after deducting the increased property tax and the loss of interest income from using that money as a down payment. After doing this, you now have the figure the buyer will have as a net. Take an honest look at that figure.

Next, estimate the hours you and your family have worked in the park during the past year, if you don't know the exact amount. Divide that number into the net figure and see how much they will make per hour if they continue to operate the park as you have. Now ask yourself, "Is that a livable 21st century wage?"

Put yourself in the potential buyer's shoes. Ask yourself, "If I were the buyer, would I be willing to take on the debt and responsibility of this park if I knew this was what I was going to make per year?" Sure, you can add to that net amount a realistic value of the housing and other benefits such as utilities, car, insurance, etc. But don't overestimate those advantages. I have seen listings that indicate those at a \$20,000 value when the actual value should have been considerably less. Most potential buyers are knowledgeable in these things and will consider an overstatement as an indication that the value of the park is overstated also.

There are other things that a buyer may need to include in the expenses. These may

include interest lost on additional money they will need to invest to upgrade the park, and cost for additional employees, if they don't want to work the hours that you have been working. However, the above are the minimum that most educated buyers will consider in evaluating the potential of your park.

Again, all of the buyers I have dealt with over the past few months have been professional people already employed at good paying jobs. The appeal of the lifestyle was evident in each of them, yet they were not willing to assume the risk of a change unless they could see a potential for at least a reasonable wage.

In pricing your park it might be a good idea to go through the above calculations to be sure that your asking price is realistic to a buyer. If not, you may need to consider a lesser price or be in a position to take the park back at some point in the future. I do not believe that you want that option, because every time it occurs this industry suffers another black eye.

Although it may shock you, based on my experience, today's serious buyers are looking at a RV park as an investment, not as a hobby or fun business. They are aware it is work and are willing to do that, but they also want more than just a change of jobs. They are seeking opportunities for improvement in their lives, but are unwilling to work at minimum wage or perhaps even less to achieve it. They appear to be willing to accept some decrease in pay in exchange for other benefits, but also reluctant to assume added responsibility for what they consider a retirement of the rich and famous - the current owner.

[Return to John's Articles](#)