

## **Both Parties Must Profit For a Successful Sale**

*Woodall's Campground Management – March 1997*

Recently, I received a call from a couple who were anticipating the purchase of a park for which the owner claimed he did not have any business records at all. This should have brought a great big red stop sign into focus at once; unfortunately, it did not.

The prospective buyers were trying to figure out the value of the property on the basis of the existing facilities without any business. They wondered if I could help them analyze the value of the roadways, restroom buildings and other elements of the infrastructure.

Perhaps such things have some value from a purely cost of replacement standpoint. That value diminishes rapidly, however, if there is no business. What value are roadways if no campers drive over them to reach a site? What value are electrical pedestals if no RVs occupy the sites they serve? What value is a restroom building if no campers are inside it enjoying hot showers? My answer to these questions is a simple "Not much!"

I recently drove through a 285-site park located on 119 acres with restrooms, store, pool and a 250,000 gallon water tank. What would you guess was the value of the park? The asking price was less than \$1,500 per site, and I've heard that it sold for even less than the asking price.

Why? Very simple. There was very little, if any, camper business. The store was doing well from the local neighborhood, so at least the buyer knew he would probably make enough to pay for the property. If the park never did any business, he had 119 acres of land, lots of water and a pool to enjoy.

### ***Information for all buyers***

The point is this. Accurate, honest, authentic records of income from every source, the day by day occupancy and detailed expenses should always be kept. If an owner is serious about selling, this information should be made available to any prospective buyer. If such information is not available, any prospective buyer should be extremely cautious.

We live in an age when the practice of the Golden Rule is often laughed at in the business world. Pulling the wool over an uninformed, trusting buyer seems to be accepted. Operating upon the "I am all that is important" philosophy seems to be the norm. While we must all watch out for our own interests, this must be coupled with a sense of awareness that "we are also our brother's keeper."

If you could hear some of the stories I hear! If you could see the frustration on the faces and hear the fear in the voices I have heard when individuals who have been that uninformed, trusting buyer come to me! Those buyers stir anger in me - not at them but at the sharpie seller who knew very well that he had outfoxed them.

The buyers invested their life savings and assets in what they hoped would be a pleasant and enjoyable experience of owning their own business and being their own bosses. They had pictured a future with a new, less stressful lifestyle. Now those dreams were shattered. They were barely eking out a living. The taxes were due; the mortgage was overdue; and their dreams had turned into a gigantic nightmare.

There wasn't less stress; there was more. It seemed worse than any other stress because it was financial stress. Was there any way to keep from losing everything? Was there any way to avoid a dreadful bankruptcy?

You might ask: "Aren't you being overly dramatic?" No, I don't think so. I believe it illustrates my points well. Every seller has wrestled with the problem of how to price his park once he decided to sell it. Over and over. Would be buyers ask: "How do I know if the price being asked is in line with what I should pay?"

There are several theories regarding that issue. Often the price is set by multiplying the park's gross by a certain factor or number ranging up to a high of 4 or 5. Others suggest a price determined by a dollar factor for camper nights.

Others simply look around for comparable properties recently sold or on the market. Finding such a property is almost impossible because no two parks are exactly alike. There are just too many variables to develop a comparison.

Perhaps others just pull some number out of the sky or figure what they feel they need to retire.

Is there another method that ought to be considered if a park is to be priced reasonably or justifiably? I believe so, and it's fairly simple.

### ***Another method***

For example, let's say that park A has an asking price of four times its gross of \$250,000 or \$1 million.

It has 80 sites and runs at 50% occupancy year round. The average daily rate is \$18, but, with weekly, monthly and other discounts, the average site rental is \$13.70. Income from site rentals, then, is \$200,020. The store grosses \$40,000 and the laundry \$10,000.

The park is open 365 days a year from 8:00 a.m. to 10:00 p.m. The owners work five days a week, 10 hours each day. The owners have been taking \$500 per week draw in addition to the other labor cost. Note, this \$500 per week might sound okay if housing is supplied, but it amounts to only \$5 per hour for the hours worked - hardly a livable wage.

Total expenses for the park including payroll, taxes and cost of goods sold amount to \$146,573. This leaves an operating profit of \$103,427. Sounds pretty good, doesn't it? But, wait, there are a couple of more things to consider! Let's look at them.

The owner is asking \$200,000 down, and there is an existing first mortgage on the property of \$450,000 at 10% running 20 years. The payments on this run \$4,342.73 per month or \$52,112.70 annually. This leaves \$51,314.30 operating profit.

The current owner (the seller) is willing to carry back a second mortgage in the amount of \$350,000 at 8% interest amortized over 20 years. The payments on this second mortgage are going to be \$2,927.58 monthly or \$35,130.90 annually.

The operating profit now is \$16,982, and we still are not done. There's a 15% self-employment tax due to the IRS on the \$26,000 draw, and the \$3,900 IRS bill shrinks the operating profit to \$13,082.

Since the down payment is \$200,000, the capitalization rate or return on investment would be 6.5%.

Let us look at this situation in another way. We have two people working 50 hours a week for \$5.00 - hardly a realistic 20th century wage, right? So, let's add the wages (\$26,000) to our operating profit (\$13,082) and see what our wages per hour and ROI really are. If we divide \$39,082 by the 5,200 hours our couple has worked, we see that they have made a whopping \$7.52 per hour with no return on their \$200,000 down payment.

In this situation, there are only three things the current owners can do if they are to present a viable park to potential buyers.

- 1) Raise prices and average site rental to \$18 per night while holding costs steady.
- 2) Raise the annual occupancy average to 65%.
- 3) Lower the asking price for the park.

Reducing the asking price to \$800,000 with all other amounts being the same as in the preceding scenario, except amortizing the second mortgage of \$130,000 over 15 years, leaves an actual operating profit of nearly \$31,000. This is still a close call for the buyers. If, we were to raise their wages to a reasonable level of even \$10 per hour, we still basically have no return on the \$200,000 down payment investment.

### ***The only logical way***

To me, the only logical way to determine the proper selling price or, for that matter, the asking price of any park anywhere is simple. If a buyer cannot make a livable wage, a decent return on his down payment investment and pay the expenses and payments on a park, both the buyer and seller are headed for disaster.

Without an owner's furnishing prospective buyers with complete and accurate information relative to a park's profit history, the prospects will be incapable of making accurate projections for their own operation of the facility.

Undoubtedly, prospective buyers will envision improvements and changes that they want to make in the operation and amenities of the park. Unless they have good records of the park's history, they won't be able to do that.

### ***Easy to over-simplify***

Even with such records, doing so is a difficult task for those entering the industry. Improving the park and increasing the occupancy and income seems simple to buyers who are blinded by their own emotions and the anticipated fulfillment of their dream.

Just as overly enthusiastic individuals planning the building of their own parks have a tendency to overestimate the simplicity of building a successful and profitable clientele, so do new buyers often view a purchase.

Prospective buyers should be extremely careful about estimating the cost of anticipated upgrades and changes to a park. The same cautions needed in estimating the time required to increase occupancy and revenues.

### ***Other factors to consider***

There are other factors a prospective buyer must consider:

1) Often the design and utility hookups are outdated. RVs being marketed today require more space to handle their slideouts and more power at the electrical pedestal. The demand for telephone connections at the pedestal is constantly increasing.

Accommodating today's RVs might require an almost total revamping of the sites and utilities. Efforts to turn two sites into one will drastically reduce park revenue and operating profits unless there is land for expansion available. Either approach will be costly.

2) Deferred maintenance is also a significant problem in some parks where the profit margin has been slim. Astute owners who are serious about selling their parks should make every effort to eliminate any such condition prior to listing the park for sale.

3) Deposits might be required. One new owner recently told me that he and his partner were totally surprised by the nearly \$10,000 in utility security deposits they were required to post since they did not have a history with the utility companies in that area.

The fair market price has always been defined in the real estate industry as the price on which a willing seller and a willing buyer agree.

Should we say that an honest, fair market price is that which the seller has arrived at after examining his own complete, accurate, detailed records regarding the financial affairs of the business and determining that a new owner can make a livable wage and a reasonable return on his investment under a proposed purchase agreement. At that point, he shares those records with the prospective buyer who feels comfortable with them and is willing to consider the purchase price.

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