



**NORTHEAST  
CAMPGROUND  
BROKERS**

# **Selling 101: A Guide to Selling Your Campground in Today's Market**

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# Preparing To Sell

- Whether you want to sell today or in 5 years, the market has changed dramatically
- Buyers are coming back—increase in buying activity since 2009
- Lenders are coming back slowly—but still not many willing to finance campgrounds, and underwriting requirements for buyers are much harder today than several years ago during the market “boom”

# Corporate House Cleaning

- Whether you hold your campground individually or in a legal entity (LLC or corporation), record keeping and organization is key!
- If you are not organized—get organized!
- If you are not reporting your income—**START REPORTING ALL OF YOUR INCOME!**

# Corporate House Cleaning—cont.

- If you do not prepare Profit and Loss Statements (P+Ls), you should start
- A P+L is a statement that shows in detail all categories of income and expenses—tax returns do not show this detail
- Buy QuickBooks software (its about \$100) and start using it!
- Lenders and buyers want to see the tax returns, but they also need the P+Ls to see where the money comes in and goes out in more detail

# Valuation

- Highest and Best Use—CAMPGROUND!
- Formulas—Cash Flow vs. Land Valuation
- Land value has dropped significantly—you will get more for your campground by valuing it as a business rather than valuing the land (some exceptions: oceanfront or very small campgrounds)
- There are very few buyers looking for land to develop—and there are ever fewer lenders who are lending on developments

# Valuation—cont.

- ❑ **UNREPORTED INCOME DOES NOT HELP YOUR VALUE!**
- ❑ If you are not reporting everything—start! Lenders want 3 years of tax returns so start planning your exit in the future...
- ❑ Today's values are based on operating your campground as a business
- ❑ We do look at the gross (or total) income *before* expenses
- ❑ We do look to see if there is additional land for expansion
- ❑ We look to see how many sites are there...make sure you have a permit for all of your sites!
- ❑ Using the “cash flow” formula often brings the highest value—if there is no cash flow, then we cannot use this method

# Valuation—cont.

- What the Market is telling us: Buyers are looking for a return on their investment—anywhere from 9-12%
- Lenders are also requiring sufficient cash flow to pay their loan—if there is no cash flow then there usually is no loan, which means no sale...***Debt Service Coverage Ratio (typical ratio is 1.40-1.65)***
- Cash Flow Valuation—*Example*: 10 X cash flow (or “10-Cap”)
- When calculating “cash flow” or Sellers Discretionary Earnings (SDE)—we use EVERYTHING that benefits the owner and family (salary, car payments, health/life disability insurance, cell phones, other expenses that may be expensed under the business that are not required to operate the campground)
- We also “add-back” interest, amortization and depreciation to calculate cash flow
- Once we add all of this together, we multiply it by a formula (suggested 8-10X—again most buyers and lenders want to see at least 10% return). So if you show \$100k cash flow at a “10-cap rate” the value would be \$1,000,000
- If a buyer pays \$1m cash for a property and nets \$100k, that is a 10% return

# Valuation—cont.

- ❑ 2007 values were based on the Real Estate Boom
- ❑ Today's values are based on operating your campground as a business...
- ❑ If you sold your campground in 2007 where would you have put your money? Maybe into the stock market? What would it be worth today?
- ❑ Lenders are also key factor in driving the sales prices—if they won't lend then we often can't sell a park (unless you hold the note yourself)

# Brokers

- ❑ There are business brokers, real estate brokers and campground brokers
- ❑ They charge anywhere from 5-10% of the price (depending on the size of the deal)—cheaper is not always better; you want to maximize your sale price and to do that you need to reach the market. Most of the buyers are NOT local!
- ❑ Do they Co-Broke? Most campground or business brokers will not split the commission! This is an outdated approach that could hurt the seller. 100% of zero is still zero!
- ❑ Real Estate Brokers—ask if they have any experience with campgrounds *or* businesses—many can't read financials statements and do not know how to properly value, market or negotiate your sale. Just make sure they have experience!
- ❑ Do they go to all buyer showings? Many do not show up to showings especially if they are out of state—make sure you ask!
- ❑ Do they advertise confidentially? Most real estate brokers only advertise in MLS or Loopnet—both of these systems require an address!
- ❑ Ultimately you want to pick a broker you are comfortable with and someone you and the buyers can work with easily—this process is a LONG process and you need confidence in the person you are working with...

# Selling Process

- Typical time to sale (IF PRICED RIGHT): **6-24 months!** Even if you find a buyer *immediately* the lending process usually takes 4-6 months...
- Lending today requires appraisals (takes up to 6 weeks), environmental studies (takes up to 4 weeks), ALTA surveys (takes up to 6 weeks)—these are all third parties so timing is out of the control of the buyer and seller
- Lenders go over financial information with a fine tooth comb now! Tax returns, P+Ls and they will require all the back-up showing the add-backs. They will NOT consider unreported income in their calculations!!

# Listing and Marketing

- Keeping your sale CONFIDENTIAL
- This is often a reason sellers want to hire a broker—but make sure the broker has a plan to market confidentially (not on MLS or in other media showing address or giving too much in the ad so someone can easily google it and figure out who you are)
- If you try to sell on your own you do not want to use an email with the campground name, or a phone number with a voice message saying “thank you for calling [Name] campground” in your advertisement online or elsewhere
- Make sure everyone signs a confidentiality agreement before receiving any info—whether you are marketing it or a broker is marketing it—many callers are “tire-kickers”!

# Advisors

- ❑ Speak to an attorney and an accountant if you plan to sell...
- ❑ A good long-term plan on how to hold your campground (corporation, LLC, family trust, etc) can often save you THOUSANDS in taxes upon sale
- ❑ This can take years to transition so even if you don't want to sell now, figure out what your exit strategy is and talk to your advisors now. Don't give the IRS any more than you have to!
- ❑ Estate planning—speak to your lawyer about the best way to structure a sale for estate planning—again you can save ALOT of money in capital gains and in estate taxes upon death if you plan correctly for the future!
- ❑ Financial Planning—you need to figure out what you will do with the proceeds from a sale—don't wait until closing!

# Offer Process

- Once you have a buyer who is interested, they will make an offer. The offer is not like the standard residential house offer form you may have seen. Often called “offer letters” or “letters of intent” or “term sheets”, they can be very lengthy (5+ pages) and are often non-binding
- Your broker should be able to negotiate the business terms of the offer and explain to you what they mean, but you should have an attorney review the language before you sign anything
- Offers allow buyers a period of time to review everything and to ask questions—this is called a “**Due Diligence period**”

# Offer Process—cont.

- You will want a deposit with the Offer. Often a smaller amount (i.e. \$10k) will be give at the offer stage—you want some skin in the game
- A larger deposit is given at the signing of P&S
- Deposits are usually refundable at this point
- There usually is a period of time to complete the “diligence” and during this period of time the buyer can usually walk away and get their deposit back (if they find something they don’t like)

# Purchase & Sale Agreement

- ❑ The offer letter will allow time to negotiate and enter into a Purchase and Sale Agreement (“P&S”).
- ❑ A P&S will not look like a house P&S. It is VERY detailed and requires you to make representations about your campground regarding factual information, such as financial information or the condition of the property
- ❑ You should have an experienced lawyer review and negotiate the P&S—NOT the lawyer you may have used for your car accident or to do your will! Would you go to a dermatologist if you broke your arm? Don’t go to a litigator to negotiate your business sale!

# Purchase & Sale—cont.

- A larger deposit is usually given at P&S signing (I try to push for at least 10%)—this amount is the amount that *could* be forfeited if the buyer walks away after the diligence period
- There will be contingencies in the P&S similar to a house sale (financing, inspection, etc). There may be other contingencies that are different such as “no-shop” or “exclusivity” (where you can’t market it any longer), diligence (where they can review the books and records of the company for a period of time) and others
- Be careful about the length of time for such periods and any extensions given—a recent deal had a campground locked up for 6+ months before the P&S could be terminated and sold to someone else...and the buyer wanted more time!

# Due Diligence Period

- Buyers (and Lenders) will want to learn as much as possible about your campground—but they only have a short period or time to do it.
- Typical time periods for diligence are 30-90 days
- Examples of typical items requested: tax returns, financial records, bank statements, utility and other vendor bills, insurance policies, advertising materials, seasonal contracts, transient reservations, permits and licenses, recent capital improvements/expenditures, tax bills, employee information, electrical and engineering plans, site plans, inventory and equipment lists, summary of any litigation in last 5 years, septic and water reports/inspections, site breakdowns

# Due Diligence—cont.

- ❑ To save you money your broker should be coordinating all of the diligence materials and managing the process with the buyer or buyer's counsel—if your broker does not do this then you usually end up paying your attorney to do it.
- ❑ This is also when inspections of the property are done (property, building, septic, etc)
- ❑ Once the “Diligence Period” is up, then the deposit usually becomes non-refundable
- ❑ If they find something they don't like in this period they will either walk away or try to renegotiate
- ❑ Buyers are looking for any issues that could be a problem after they close—they also need to find any issues that a lender might have a problem with (if borrowing)
- ❑ “Financing periods” usually run at the same time as the diligence period.

# Financing Periods

- Similar to financing a home, a buyer will often build into the P&S Agreement that obtaining financing is a contingency of the deal. If they can't get financing (on terms usually outlined in the P&S) then they can walk away from the deal and get their deposit back.
- This period of time is called a “Financing Period”
- Usually runs at the same time as the Diligence Period (but not always)
- Before the end of the period the lender usually has to submit a financing commitment letter
- If the buyer cannot get financing within that period of time then they can get their deposit returned
- Once contingency periods expire - deposit is nonrefundable

# Financing Options

- ❑ Standard lender financing (banks and other traditional lenders)
- ❑ Most require 30% down since they consider this category “hospitality”
- ❑ UNLESS they can get a “guarantee”—this is usually from the SBA or USDA
- ❑ SBA and USDA guarantees give more comfort to the lenders (since the government will pay most of the loan if the borrower defaults)
- ❑ SBA and USDA down payments can go as low as 15% down
- ❑ SBA requires MORE than 50% of the income be generated from transient sources (less than 30 day stays)—so most seasonal campgrounds will not qualify for SBA loans
- ❑ USDA loans are more flexible regarding income sources but must be located in a “rural zone”
- ❑ Both require personal guarantees and 3% guarantee fee paid to the government (by borrower)

# Financing Options—cont.

- ❑ Buyers often request seller's hold "paper" or finance part of the deal
- ❑ Buyers like to see seller's "stand behind the numbers" and have some "skin in the game" after closing in the event issues arise after the closing and to ensure a smooth transition
- ❑ Sellers are NOT required to hold any paper—but it often helps to get the deal done
- ❑ If a seller holds paper behind a bank, they are in "second position" and in a foreclosure situation there may not always be anything left to distribute to the second mortgage holder
- ❑ If you are in a position to hold all of the financing (you don't have your own bank to pay off), there may be tax advantages to doing so (again consult accountant before selling!)

# Closing

- If the attorneys and brokers have done their jobs, the actual closing will be easy! You show up to the attorney's office and sign everything and the attorney will disburse the funds. Should take about an hour.
- The days leading up to the closing can be hectic! There will be last minute pro-rations (tax bills, utility bills, deposits-including seasonal camper deposits, vendor accounts, etc), review of settlement sheets (making sure the money goes where it needs to go), transferring licenses and permits, possibly attending a town hearing to approve the transfer of such permits (local laws differ)
- There is a lot of coordination because there are usually 3 law firms involved (seller's, buyer's, and lender's)—your broker should not just stand back and wait to collect a commission! This is where the broker needs to coordinate all parties and push to get the deal closed. The more your broker does, the less time your lawyer will spend and your legal bill will be lower!

# Post Closing

- Transition Services—there is always a period of time where the new buyer is learning the business and needs your help. We see anywhere from 2 weeks to the entire season. If it is a lengthy period of time (more than a month) additional compensation in the form of consulting fees or salary is often paid.
- Transition includes training on computer reservation system (if any), showing where all of the shut-offs and access panels for electric, septic, water, etc, introducing the buyer to the seasonals and vendors, and showing them all other day to day operations
- You need to make sure you have a good financial plan in place *before* the closing...every penny of interest you earn is that much more for you!

# RETIREMENT!!

