



**NORTHEAST
CAMPGROUND
BROKERS**

Thinking of Buying a Campground?

A Buyer's Guide to Finding, Researching and Financing

Mia Caetano Johnson, Esq.

Northeast Campground Brokers & Johnson Law Associates

401-499-8360 www.necampgroundbrokers.com

Preparing To Buy

- Whether you want to Buy today or in 5 years, you need to prepare and make a plan
- Complicated Process—Saving for Down Payment, Finding One, Making an Offer, Financing One...
- Have you ever owned your own business? Can be scary but rewarding!

LIFESTYLE CHANGE! You are buying a job, a home and a business all in one!



What's Right For You?

- ❑ Have you ever camped before? If not, GO!
- ❑ Are you handy or good with numbers? You will be the President, CEO, chief cook and bottle washer!
- ❑ No perfect Campgrounds—you need to find one that fits your needs, talents and lifestyle—often you can change certain things about it, but some you can't
- ❑ Certain Areas of the Country— in the Northeast most are open 6 months and owners go south in the winter
- ❑ Transient vs. Seasonal campgrounds
- ❑ Franchise (KOA or Jellystone) vs. Independents
- ❑ Fixer-upper or first class operation?

Be Realistic

- Be realistic about your price range
- Downpayments are at least 25% PLUS additional money for closing costs (usually at least \$25k or more for bank fees, appraisal, survey, inspections, title insurance, attorney fees, SBA guaranty fee) and working capital (what you will need to run the business and live on)

Cash Requirements

- Usually you need to have at least \$200,000 cash available -- NOT equity in a home that is not even on the market yet
- Sellers usually will not accept an offer with such contingencies
- Prepare a plan for when you want to buy – this might require you to sell your house first
- Identify other sources of money which you will use to buy and run the campground when you first close

Searching

- ❑ You can look online (Bizbuysell, Loop Net, RV Parkstore, etc.)
- ❑ You can work with a broker (real estate, business, campground)
- ❑ You can contact campground owners directly

Brokers

- ❑ There are business brokers, real estate brokers and campground brokers
- ❑ Seller usually pays the fee if the campground is listed with a broker
- ❑ There are Buyers Brokers also—where buyer pays in some cases
- ❑ 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 or negotiate your purchase. Just make sure they have experience!
- ❑ BUT real estate brokers may be better if you want a very specific area
- ❑ Ultimately you want to pick a broker you are comfortable with and someone you can work with easily—this process is a LONG process and you need confidence in the person you are working with...

Buying Process

- Typical time to buy: **6-24 months!** Even if you find a campground *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!!

Financing Options

- ❑ Standard lender financing (banks and other traditional lenders)
- ❑ Most require 25-30% down
- ❑ 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)—paid at closing and NOT part of your down payment
- ❑ 401k loans or Pension Transfer Trust Plans
- ❑ Seller Financing – easiest and cheapest way to finance but some are not able or not willing to hold paper

Financing with Traditional Lenders

- ❑ Lenders will require you to submit up to 3 years of your personal financials statements (or tax returns)
- ❑ They will pull your credit report
- ❑ They will review how much money you have as a down payment, closing costs, and what you will need to run the business after closing (working capital)
- ❑ They require 25-30% down payment--CASH
- ❑ They want to see experience—if you don't have any experience in the campground industry, they will look for other experience running your own business
- ❑ They will require a business plan and proforma (future projected numbers on the campground)
- ❑ KOA lender (Independence Bank) works with first time buyers

You have found the right one! Now what?

- ❑ **How much do you offer them?**
- ❑ **UNREPORTED INCOME SHOULD NOT BE USED TO CALCULATE VALUE!**
- ❑ If the seller is claiming there unreported income, it does not help you since you cannot prove it. Lenders want 3 years of tax returns supporting the debt payments...
- ❑ 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 there is a permit for all of the sites!
- ❑ Does the campground need updating?
- ❑ Look at “cash flow”—if there is no cash flow, then how will you pay your loan or other expenses?

Valuation

- 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

Offer Process

- Once you have identified a campground then you 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 (if you have one) 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 - continued

- You will need to place a deposit with the Offer. Often a smaller amount (i.e. \$10k) will be give at the offer stage—they will 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 you can usually walk away and get your deposit back (if you find something you 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 acquisition!

Purchase & Sale—cont.

- A larger deposit is usually given at P&S signing (usually around 10%)—this amount is the amount that *could* be forfeited if you walk 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 diligence (where you can review the books and records of the company for a period of time) and others

Due Diligence Period

- You will want to learn as much as possible about the campground—but you only have a short period of 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

Post Closing

- Transition Services—there is always a period of time where you are learning the business and needs 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 you to the seasonals and vendors, and showing you all other day to day operations

BEING YOUR OWN BOSS!

