# Campground Pricing Guide

Regardless of what approach is used to establish a value of any commercial property, the primary concern a lender will have is "Can the potential buyer make their payments?"

The following is based on information obtained from a reputable commercial lender.

There are two primary approaches to pricing any commercial property.

Real Estate and Improvement value:

This approach is primarily used if there is either no existing operating business or if the potential use of the real estate exceeds the value of an existing business. For this approach we would search for comparable properties that are actively on the market so we could see what our competition would be, and use sold comparable properties to see what other similar properties have actually sold for. If this approach is used, there is no need for any financial information related to the subject property. A lender will require a buyer using this approach to provide a business plan for the property showing how they plan to generate enough income to make the necessary payments.

Net Profit / Capitalization Rate Formula:

This is the most common approach for an existing business including campgrounds. It uses net profits (as established by a potential lender) and then divides that amount by a Capitalization amount (usually between 8-11). The current average capitalization rate is 10.

A lender will require financial information showing all income (Gross Income) along with all expenses needed to effectively run the business. There then needs to be enough left over for the buyer to live and still make their mortgage payments. This amount will vary depending on if the business effectively pays for some of the owner's normal living expenses. Examples of living expenses often time paid by the business would include home (if the sale includes living quarters) / utility / automobile / food / etc.

Expenses that are "backed out" from this formula include: Depreciation / Interest Paid / IRA or other investments and any other expenses that even though they may be deductible on the seller's taxes, would not apply to the normal operation of the campground.

There are some variables like labor expenses that the seller may have, but that a buyer may choose to do themselves. If this is claimed to be the case, the lender would need to be convinced that the buyer would be able to do the work previously done by the seller's employee(s) in addition to running the business.

Let's say that your campground shows an average Net Profit of $100,000 / year for the past 3 years. We would divide $100,000 by a capitalization rate of.10 ($100,000 ~ .10 = $1,000,000). This would assign a value of $1,000,000 to the property. If the lender used a capitalization rate of 11, our formula will be $100,000 ~ .11 = $909,090.91 or a value of $909,091. A lender is also going to expect that all equipment needed to run the campground will be included.

Another way to calculate what a lender will loan on your campground is to calculate what the payment would be based on a given sale price. Most lenders will require 20% -25% down / offer a 5% loan for a period of 20 years. Let's use a proposed sale price of your campground of $1,000,000. If we allow for 20% down ($200,000), it leaves a balance of $800,000. If we then apply that amount to a 20 year loan at 5% interest we get a monthly payment of about $5,280 / month x 12 months = $63,360. If the total net profits are $100,000 and we deduct $63,360 from that amount, we have $36,640 left for the new owner to live on. This is where there could be an allowance for less money left for the new owner if living quarters and some personal living expenses are already built into the expenses for the business. A buyer could get by on a smaller net profit if these variables apply.

No matter which approach we use to assign a value to your campground, the final sale price will need to make sense to a lender.

Another variable that could increase the value of your campground above what these formulas conclude would be undeveloped land that had an obvious and practical use to increase net income.