Motel and Caravan Park Guide

Management Rights & Accommodation Specialists

mike phipps finance

A message from our founder

Hello and welcome

After more than 30 years in the finance and banking industry I had a lightbulb moment. An epiphany if you will. Banks had become inwardly focused and slow to react to customer needs. Service suffered and outcomes were rarely designed primarily to meet client expectations. So, in 2009 I made the life changing decision to quit the system and set up Mike Phipps Finance. My sole aim was to give borrowers in the accommodation sector a better service experience and a choice.

From those early days as a one-man band MPF has now grown to be the preeminent finance broking provider for the accommodation sector, Australia wide. Our award winning company is recognised across the banking industry for our strong prudential practices, professionalism and client focus.

We have deliberately resourced our head office to ensure that every client has no less than two points of contact, a senior broker and a client manager.

Someone once asked me how we had become so successful. I told them it was a very sophisticated and highly researched strategy. We return our phone calls and do what we say we will do.

On behalf of the MPF team I wish you every success and assure you that we are with you all the way.

Mike Phipps
Director - MPF

Content

About Us

We are a boutique finance brokerage and consultancy with a focus on client service and access to customised finance solutions. As Australia's preeminent accommodation finance broker with contacts among both the professional and financial services industries we can cater for a wide range of our client's requirements. While we specialise in motels, caravan parks rights and accommodation finance, a full range of products and services are available.

Fee Free

With access to all lenders within the motel, caravan park and accommodation sector we will ensure the appropriate funding structure is negotiated for your particular needs. In most instances raising new finance or refinancing existing facilities is provided at no cost to you, in respect of our services. With pressure on costs, lenders are happy to pay a fee to industry experts to ensure transactions are managed in a professional manner. This is the fee free service we offer.

Our Service

Our process is highly personalised. If you are new to the industry we will take the time to assess your requirements, explain the purchase and finance process and provide a summary of your likely purchasing range. Introductions to industry professionals will be undertaken and constant support throughout the purchase process is provided.

We understand that the motel and caravan park purchase process can be complicated. Our service ensures that each step is closely monitored and any possible problems quickly identified and rectified. You transaction will be managed by a senior broker and our highly experienced support staff. We pride ourselves on being well resourced and we never leave our clients high and dry.

Post settlement we remain in touch to ensure your banking relationship evolves smoothly. It's very reassuring to know that even if your bank manager moves on you will continue to have a trusted advisor who knows you providing advocacy on your behalf.

> "Thank you to Mike Phipps Finance for ensuring the purchase process was smooth and problem free from the get go."
>
> Sophia Cook And Billy Sutton, Managing Partners, Stillbrook Estate

Finance Broker : How Does That Work

The role of a finance broker seems greatly misunderstood, even by the very people who use their services.

To better understand the value an appropriately qualified broker can add it's worthwhile reviewing some recent history. As banking and finance have become ever more competitive the variety of finance options available to borrowers has grown exponentially. Sadly, at the same time the service and expertise levels offered by the finance sector have not kept pace with this increase in product offerings. Throw in ever changing staff, credit policies and loan conditions and it's a bit of a minefield for the borrower. The role of the finance broker is essentially to be the minefield guide.

Of course, as things have become more complicated, time poor borrowers have relied more heavily on finance brokers and various advisors. Over the past few years there's been an explosion in the number of finance brokers operating in the domestic market. Sadly, the qualification levels and ethics of some of these parties are, at best, questionable. As a result the lenders have almost completely stopped dealing directly with individual finance brokerage companies and have gone to an aggregator model. This means, in essence, that individual brokers belong to a larger "brand" and deal with the lenders via that particular overarching company. For large volume simple transactions like housing loans this model works fine. The lenders have intermediary divisions who solely look after transactions introduced by finance brokers. Unfortunately the process works less well for niche transactions like management rights, motels and accommodation funding.

For these highly specialised transactions it's essential that your finance broker be accredited directly with the lender and have access to the specialists within that bank. Direct accreditations are almost unheard of in the current environment and are generally only achieved in areas where the banks recognise a specific expertise within the finance brokerage business. We are delighted that our company has achieved the necessary direct accreditations to provide a seamless funding process for borrowers.

So, what should you expect from a finance broker specialising in management rights, motels and accommodation finance? Proven industry expertise is a given, as is a long professional career in banking and finance. Qualifications and membership to professional bodies is a must. Your broker should have a substantial network of industry contacts and be able to introduce new industry entrants to a range of services and advisors. Your broker will be able to analyse your funding requirements and provide a range of possible solutions. They will personally know the management rights, motel and accommodation industry experts within the banks and have a strong understanding of credit policy and likely loan conditions. Importantly, the broker should also have a sense of the likely direction of credit guidelines within the sector and among the various lenders. Funding arrangements should reflect a long term view, not a point in time approach. The best deal today may turn into a nightmare if the lender decides to alter credit policy "on the run".

The question most people I talk to finally get around to asking is "How do you get paid"? . It's surprisingly simple. The banks are continually looking at ways to cut costs and staff is the big ticket item. At the end of the day the use of finance brokers by lenders is simply outsourcing of the business development and credit assessment function. The banks get to source new business from a third party without the associated acquisition costs that come with employing staff. The cost savings are used, in part, to compensate the intermediaries who introduce the business. For our clients the net result is that they receive a level of technical expertise not generally available at their local bank branch combined with a singular focus on the transaction. For the lenders, working with an industry specialist intermediary assists them in better understanding the transaction, structuring facilities in a competitive and tax effective manner and ensuring there are no surprises along the way. It's a "win win" for all concerned.

Frequently Asked Questions

01

I've had no previous experience running a park or motel. Can I apply for finance?

You certainly can. Part of our process is to present your transaction to lenders in the most positive way possible. A great business plan with cash flow forecasts and a detailed CV will help enormously. Ensuring you surround yourself with industry expert advisors and having a reasonable financial position are also great strategies.

Can't I just use my family lawyer and accountant?

You certainly can. But unless they have specific expertise in these types of transactions and this asset class we recommend you engage industry experts. In many cases those experts are recognised by the banks and the outcome of their work will be highly regarded by your lender.

02

How much can I borrow?

Generally, up to 50% for leaseholds and 65% for freehold going concerns and investment only purchases. You can also borrow up to 80% of residential real estate assets less what you owe. If you have sufficient equity in real estate but no cash, it's possible to borrow the lot. Of course, with increased borrowings we have to make sure the debt servicing numbers work.

03

How much money do I need on top of my deposit?

We recommend at least 10% of your purchase price. This allows for purchase costs, stamp duty (if applicable) and working capital. As an example, for a leasehold that means having 60% of the purchase price. We have detailed some specific cost areas in the breakout box.

- Purchase price
- Stock
- Rent in advance adjustments
- Stamp Duty
- Legal and accounting due diligence
- Finance costs
- Valuation costs
- Licencing
- Deed of Consent costs
- Working capital allowance (not a cost but needs to be allowed for)

A word on stamp duty*

In relation to average stamp duty for a motel lease purchase, every state is quite different, so we have set out below each state/territory separately based on an approximate average purchase price of $1,000,000:

1. QLD: $38,025;
2. NSW: No duty payable on goodwill and each party may apportion the purchase price between goodwill and plant/equipment at their own discretion. Most of our clients apportion the purchase price 50/50, in which case stamp duty would be $17,590;
3. VIC: NIL;
4. WA: $42,615.50;
5. NT: $49,500;
6. ACT: NIL;
7. SA: NIL;
8. TAS: Similar to NSW, no duty is payable on the business sale alone, but duty is payable on 'goods' transferred as part of the arrangement where there is an interest in land (i.e. a lease). Assuming the amount apportioned towards the 'goods' is 50% of the purchase price, then stamp duty would be $18,247.50.

**This information courtesy of industry experts Pevy Lawyers*

04

How do I work out my maximum purchase price?

We can do this for you. But, if you want to do a quick calculation it's pretty simple. We've provided an example in the breakout box. It assumes you have a house you are going to keep.

Cash $250,000

House $800,000 x 80% = $640,000
less current mortgage $210,000
leaves $430,000

Total available $680,000

Divide total available by 60 and multiply by 100 to give you a maximum leasehold purchase price of $1,133,000. This calculation allows for purchase costs and a working capital allowance.

05

What about loan repayments?

Good question. Because every deal is different, and everyone has individual circumstances it's not possible to provide generic debt servicing numbers. However, if you find a property you are interested in, we will tailor a debt servicing scenario to your individual circumstances. No obligation, no fees.

06

What will the bank want as security?

Your lender will take a charge over the lease and a first mortgage over any supporting real estate security. With lease finance the lender will want a Deed of Consent and Right Of Entry. If you are buying a freehold the lender will take a mortgage. Your personal guarantee will also be required.

07

Can I get interest only finance?

If you are borrowing 50% for a lease, then the debt secured by that lease will usually be on P and I repayments over 10 years. Additional debt secured by real estate can usually have an interest only option.

08

Can I use my super fund?

Short answer. If you want to borrow money…. No. There are some limited circumstances where you may be able to acquire a freehold (just the real estate) in a SMSF so best to chat to us first if that's your plan.

09

How do I know a good opportunity from a risky one?

All going concern businesses have risk. Our job is to review any purchase you are considering and where possible point out the good, the bad and the ugly. We have a duty of care to do so. Of course, if the price is right taking a well-judged risk may not be a bad idea.

10

What should I expect from the agent?

Hopefully you will be dealing with an industry expert agent. In fact, many agents have also owned and operated accommodation businesses and can be a very valuable source of information. Your agent should provide a Sales Information Memorandum describing the property and containing all the pertinent information you will need to assess the opportunity. You should also be provided with accountant prepared Profit and Loss Statements.

11

Is the price negotiable?

Maybe. It doesn't hurt to ask. If you want an idea of what to offer we are happy to provide market data but we won't tell you what to pay.

12

How are these businesses valued?

Like all businesses motels and caravan parks are valued on a range of variables. However, central to the value will be the sustainable net profit or, in the case of a passive freehold investment, the rent. In all cases valuers will apply a yield to the net income. That's essentially a percentage return that they believe reflects the market and the risk in the specific business.

For example, let's assume a leasehold motel in an attractive geographic location with a 25 year lease and a net profit of $425,000. Let's also assume a market average yield or capitalisation rate of 30%.

$425,000 divided by 30% x 100 = $1,416,000

It's important to appreciate that yields vary and the higher the risk the higher the yield. It's simple risk and return. A good example is a short lease. If our example lease was 10 years instead of 25 we'd expect the yield to rise accordingly with the result of a lower price.

$425,000 divided by 40% x 100 = $1,062,500

Banks will lend on short leases albeit the loan term will also be pretty short. As such repayments will be higher but this is balanced by a lower purchase price for a substantial net profit.

13

When I buy a lease, what exactly am I buying?

In essence you are buying a right to operate a business. Your rights and obligations are detailed in the lease. You are also buying the chattels associated with the operation of the leasehold business. A good way to think about this is to imagine you could pick the motel up, turn it upside down and give it a good shake. Everything that falls out is yours. Anything that doesn't is owned by the landlord.

With caravan parks it is not unusual for the lessee to own cabins on the site.

14

Do I need a licence?

Licences are only required if you are serving liquor or preparing food on site. Consult your lawyer for more information.

15

Can I extend the lease?

You sure can. The industry standard is to purchase more years on the lease via a payment to the landlord. This can be a cash payment, or it may be an agreement for the lessee to make improvements to the property. For example, a lessee may offer to refurbish bathrooms in exchange for a lease extension. This benefits both operator and landlord as the operator has better rooms to sell and the landlord has a property with improved amenities. It's a win win.

How Much Can I Borrow?

It is possible to borrow against existing property assets rather than sell these to free up equity. Particularly with leasehold purchases the capacity of these assets to service debt means that many purchasers choose to retain property assets and borrow against these to raise the deposit necessary to complete the purchase. The following scenarios are designed to give you a very broad idea of the way in which cash equity and geared equity transactions work.

Leasehold Example: Cash Deposit

Clients are looking to purchase a leasehold motel for $600,000 that is currently providing a 28% return on investment. Their accountant advised they should allow $60,000 for purchase costs and working capital. They have $360,000 in savings they would like to contribute and would like a loan for the remaining amount.

Purchase Price	$600,000
Costs and working capital	$60,000
Total required	$660,000
Cash deposit	$360,000
Loan @ 50% gearing $300,000	$300,000
Total Available	$660,000

Debt Servicing

Net Profit @ 28% ROI	$168,000
10-year loan @ 8% P&I repayments	$43,677
Income after debt servicing	$124,323

Leasehold Scenario 2: Gearing on Equity in Property

Clients are looking to purchase a leasehold motel for $600,000 that is currently providing a 28% return on investment. Their accountant advised they should allow $60,000 for purchase costs and working capital. They currently own an investment property that they rent out for $23,000 per year. They have an $80,000 interest-only mortgage over the property and are wanting to use the available equity to purchase the motel. The interest rate on the home loan is 6%.

Purchase Price	$600,000
Costs and working capital	$60,000
Total required	$660,000
Property $580,000 @ 80% $464,000	
less existing mortgage $80,000	$384,000
Loan @ 50% gearing $300,000	$300,000
Total Available	$684,000
Excess available for additional working capital	$24,000

Debt Servicing

Net Profit @ 28% ROI	$168,000
Rental Income	$23,000
Total Income for servicing	$191,000
$80,000 home loan interest only repayments @ 6%	$4,800
$384,000 residentially secured business loan	
interest only repayments @ 6.5%	$24,960
$276,000 10-year business loan @ 8% P&I repayments	$40,176
Income after debt servicing	$121,064 before tax

These calculations are generic in nature and are for general example purposes only. Acceptable gearing ratios, loan terms and interest rates may change without notice. Calculations specific to your circumstances are available upon request. Our services are fee free.

Commonly Used Abbreviations and Terminology - Qld

Lessee	The operator of a leasehold business who pays rent to the landlord.
Lessor	The landlord.
Deed of Consent and Right of Entry : DOC and ROE	Security document taken by a lender when relying on a lease as loan security.
Leasehold Business	The operating portion of a motel or caravan park where the freehold is owned by the landlord.
Freehold Going Concern	Operating business where the business and freehold are owned by the operator Freehold Investment. Also referred to as The Investment or The Passive. Freehold motel and caravan park held by an investor as a passive asset. Lessee pays rent to the owner.
Chattels	The non fixed assets owned by the lessee. For example, beds, tables and chairs.
Lease Top Up	An arrangement where a lease is extended based on a financial consideration between lessee and lessor.
Outgoings	The costs the lessee will pay on top of the monthly rent. Typically, that's insurance, rates and utilities.
Option	Many leases are worded as a series of terms. Say, 5+5+5, so a total of 15 years. After the first 5 years the remaining terms are called options. The lessee has a right to exercise these options with no additional payment owed to the lessor.
Rent	The amount paid to the landlord (lessor) by the tenant (lessee). Usually monthly in advance.
Confidentiality Agreement - CA	In order to ensure that sensitive information is kept confidential your agent may ask you to sign a CA. Make sure you get clearance to share the information with your advisors.

> We highly recommend Mike Phipps Finance to people like us who are investing and buying a small business.
>
> David Addenbrooke & Keith Bellis

Offer and Acceptance – O and A	Often referred to as a handshake in writing. This is a non-binding agreement that sets out the agreed term of the sale including the price and any special conditions. While the O and A is not a legally binding contract it should not be entered into lightly.
Bank Guarantee	Leases will often insist on 1 to 3 months' rent via a bank guarantee. The guarantee can be called up in the event that the lessee defaults. For shorter guarantee periods many buyers lodge cash.
Due Diligence and Financial Verification	The process by which a buyer's lawyer and accountant review documentation associated with the asset and also review the financial records. Typically this process includes a review of the terms and conditions of any lease and verification of the net profit.
Adjusted Profit and Loss	Refers to a Profit and Loss Statement which has been edited to remove discretionary expenses and non-cash expenses such as depreciation. Expenses specific to vendor such as loan interest are also removed.
Depreciation Schedule	Certain assets within motels and caravan parks can be depreciated and as such present tax planning opportunities. The specific calculations are predicated on a Depreciation Schedule which can be provided by an industry expert in the field.
Occupancy	A percentage measurement of the number of room nights sold for a given period.
Average Rate	Dollar value of the average nightly tariff achieved.
REVPAR – Revenues per available room	The outcome of combined total available room nights as applied to occupancy and tariff.
Vendor Finance	An arrangement whereby a vendor accepts payment in part or in full via regular loan repayments.

“Mike has a wealth of knowledge and experience in the field which, coupled with his integrity and enthusiasm, ensures his clients are very well looked after.”

John Mahoney, Mahoney Lawyers

Business Plans and Cash Flows Explained

Most lenders are now enforcing a need for the dreaded business plan and cash flow in support of credit applications, particularly for motels and caravan parks.

In the lead up to the GFC if you were upright and breathing and had a deposit you could borrow money. The banks were very excited about the way things were going and not a lot of attention was paid to the capacity of the borrower to successfully operate the asset being purchased. After all, the economy was going gang busters, the miners were having a great old time, what could possibly go wrong?

My, how things have changed !

The past few years have seen a steady tightening of credit policy among the banks with particular focus on new entrants to business with management rights and motels no exception. In fact, some banks will simply not lend to first timers regardless of how much deposit they have. Others are insisting on past experience and/or qualifications in a similar type of business. Most lenders are now enforcing a need for the dreaded business plan and cash flow in support of credit applications, particularly for motels and caravan parks. Never fear, it's not as bad as most people think. In fact, done correctly business plans and cash flow projections can actually be fantastic business tools.

Let's start with business plans. There are numerous templates and guides available online and frankly most of them look horrible to me. A business plan should be a pretty simple document and certainly not one full of motherhood statements and vague suggestions around wonderful guest experiences and the like. For me, a business plan starts by asking some key questions and then answering them.

Typically these will be the same questions you've asked yourself when making the decision to purchase.

They include things like:

- What attracted me to this business in the first place?
- How is the business operating at the moment?
- Why are clients spending their money here? If they are not, why not?
- How am I going to maintain current performance if things are going well or improve performance if things are not going well?
- What is my fall-back position if my plans fail?
- Can the business be improved and how?
- Do occupancy rates and tariffs seem about right or is there room for improvement?
- Who are my competitors and how can I steal some of their business?
- What's on the horizon that might present an opportunity or a threat?
- Do I have any regular clients, why do they stay and what happens if they stop coming?
- Are my key staff happy and reliable? Who are they?
- When am I going to be really busy or a bit quiet and how will I manage the business to cope?
- Do I need to invest money in equipment and capital items to maintain my standards and retain guests? If so, what and when?
- Will I have to promote the business and if so, how? What advertising and promotion is the current owner doing?
- Am I getting lots of business from third party channels? If so, what's our website like and how can we connect with more guests directly?
- Have I sought advice from industry experts and if so, who? What did they think about the venture?
- If things don't go to plan who are my support team and where will I go for advice and guidance?

This is certainly not an exhaustive list and there will be questions peculiar to your specific purchase but it's a good place to start. Once you have answered these questions the outcomes pretty much become the assumptions that drive your cash flow forecast. We see cash flows from time to time with no assumptions. This is a bit like trying to read a map with no towns on it. You have a vague idea where you're going but no idea if you've arrived. Assumptions are pretty simple. They are the core operating metrics that will result in the cash flow you are forecasting.

If you have a motel in a town with a big event each year you can assume 100% occupancy at a tariff say twice the yearly average for that week. That's an assumption. If you are operating a holiday building on the Gold Coast you can assume peak season tariffs and 95% to 100% occupancy over Xmas. That's an assumption. The council are planning to widen the road out front and potentially disrupt your business for 2 months. Occupancy may fall but you might also get the contractors to stay. That's an assumption. You have a motel lease with the rent linked to CPI, it's going up every year, that's an assumption. You get the picture.

We recommend developing your cash flow forecast in conjunction with your accountant. The first 12 months will include your cash contribution and the bank loan/s as a starting balance and reflect your purchase price, costs and any preliminary expenses you are planning to incur as well as the day to day operating income and expenses of the business. I see a lot of cash flows that are what we term as at line. That is, every month is the same. In the real

world business simply isn't like that so be sure to take into account specific operating dynamics on a month to month basis.

This includes things like BAS payments and tax payments. I am also a fan of having a below the line personal cash flow that takes up all your personal expenses to give you a net cash position each month. We run a dynamic cash flow for our business that includes both personal and business expenses and also allows for future expected taxation and BAS liabilities. When we receive a bill we pay it and update the cash flow with the amount and timing of the bill. We do the same as our expected revenue changes. That way we keep track of costs and income as they change and we don't get any nasty surprises.

We also find it useful to use the cell based notes function in Excel to make notes about particular income and expense items. At my age it's just too easy to forget otherwise and this saves me having to go back over countless files looking for a clarifying document.

All of this takes a little discipline but I suspect people who track their cash flows sleep better than those who simply pray that all will be well. Even if your projections don't always provide good news at least you can be prepared.

"Thank you for your advice and referrals you gave to assist us with our purchase of Grafton Lodge Motel. Everything went so smoothly and we are very happy to start our new adventure.

Andrew & Donna – Grafton Lodge Motel

Leasehold Motels and Caravan Parks Deeds of Consent and Right of Entry

If you need to borrow money to purchase a motel or caravan park lease you will at some point encounter the dreaded Deed of Consent and Right of Entry (ROE).

If, like almost all buyers, you need to borrow money to purchase a motel or caravan park lease you will at some point encounter the dreaded Deed of Consent and Right of Entry (ROE). I say dreaded because if these seemingly innocent documents are not managed properly the transaction could well crash and burn!

Here's how it works.

The bank lends against the value of the lease and takes a charge over said document. The landlord needs to consent to the charge and usually that's the easy part. The bank lending the money for the lease needs to be able to take over the motel operation if you go broke. Not a likely scenario but it does happen occasionally.

The bank secures its position by entering into a Right of Entry agreement with the landlord that sets out the rights and responsibilities of the parties in the event of a leasehold borrower default. The landlord (and their lawyer) and the bank will both have their own views on who should have the most power in this scenario so there is typically a bit of negotiation in respect of the content of the document.

Now here's where things get complicated. Most landlords have borrowed money for their freehold investment motel so they have a mortgagee. That lender will also want a say in what goes into the Deed of Consent and Right of Entry document. So now we have the incoming lessee, the lessee's lawyer, the lessee's bank, the landlord, the landlord's lawyer and the landlord's bank all trying to agree on the content of a document in which every party would prefer to have the upper hand. It's like trying to herd cats. Inevitably the parties come to an agreement but the time frames can drive you crazy as the document goes back and forth between the lawyers and the banks.

The problems can be compounded by the fact that the Deed of Consent (DOC) and ROE are typically drawn up by the bank once finance is approved. By that stage weeks may have passed since contracts were signed and now we have the possibility of losing further weeks while the document does the rounds.

Our process is to have pro forma copies of the banks documents and, once a lender is chosen, to provide your lawyer with a draft of the expected DOC. By being proactive we can get the DOC circulated early, invite any requests for amendments from the landlord and the landlord's bank and hopefully have an agreement hammered out pretty early in the process. By taking this strategy we inevitably save our clients a lot of time and angst during what can be a pretty stressful period.

Of course, not needing the DOC at all would be a much better solution. Here's some good news. One of the major banks we deal with is increasingly taking the view that the DOC is more trouble than it's worth and the chances of it being needed are generally so remote as to not warrant the hassle of trying to get the parties to agree. This is great news for clients and a sign of the continuing confidence the banks we deal with have in the leasehold accommodation sector.

Motels and Caravan Parks

There are three distinct asset ownership and operating models available to people wishing to make an investment in the motel and caravan park industry

The purchase of an interest in a motel or park can either be by way of freehold or leasehold acquisition. As the term suggests, a freehold purchase is the acquisition of the physical motel property. The purchaser can either be intending to manage the motel as owner operator or to act as an investor. In the latter case the motel would be operated by a lessee who would pay rent to the freehold owner. The more common motel transaction involves the purchase of the leasehold business. In this case the freehold title to the motel is owned by an investor who has sold (or is selling) the lease. The incoming lessee purchases the leasehold interest either from the outgoing lessee or the freehold owner. In essence the purchaser (lessee) is buying a business (the leasehold) from the current business owner (either the existing lessee or the landlord, also known as the freehold owner or lessor). As well as purchasing the business (including any equipment, chattels and stock) the lessee pays a monthly rental to the landlord (lessor).

In essence we can see that there are three distinct asset ownership and operating models available to people wishing to make an investment in the motel and caravan park industry:

Investment Freehold Owner (Lessor)

Owns the freehold and collects rent. Much like the owner of any other form of freehold property investment. Very much a passive investment. Bank lending to 65% loan to valuation ratio available subject to meeting debt servicing requirements. Returns average 8% to 10% return on investment.

Owner Operator (Owns the freehold)

Owns the freehold to the property and also operates the asset on a day to day going concern basis. Pays no rent as the owner of the freehold and derives income from operation of business. Hands on business model although some operators will employ managers and take a more passive role. Bank lending to 65% loan to valuation ratio available subject to debt servicing requirements. Returns average 12% to 16% return on investment.

Lessee (Owns the lease to the business)

Owns the leasehold to the property and operates the asset on a day to day going concern basis. Pays rent to the freehold owner of the property and derives income from operation of business. Hands on business model although some operators will employ managers and take a more passive role. Bank lending to 50% loan to valuation ratio available subject to debt servicing requirements. Returns average 28% to 32% ROI (return on investment.) For experienced operators and/or particularly strong transactions gearing in excess of 50% may be available.

Specialised Process

The purchase of a motel or caravan park lease should be approached with the assistance of industry professionals. It is essential that an industry expert accountant review the financial records of the business and ensure that the net profit after rent can be verified. The accountant will also provide tax planning advice, assist with the setting up of business entities including companies and trusts and complete cash flow forecasts for the business. The accountant can also be of invaluable assistance in framing the business plan that will be required by the lender in support of the finance application.

The purchaser's lawyer should be familiar with commercial leases and particularly motel and caravan park leases. The validity of the lease, rent review triggers and terms, the vendor's right to sell and the obligations of the lessee are all areas requiring specialist legal advice.

Motel and caravan park leasehold finance is also highly specialised. Most banks will lend around 50% of the value of a going concern motel lease. Terms will usually be dictated by the term of the lease with 15 years Principal and Interest being common. The lender will require security by way of a charge over the motel lease together with a landlord's Deed of Consent and Right of Entry. The Deed of Consent is required as most motel leases include a provision which obligates the lessee to have the landlord's approval in terms of the lease being used as security for a loan. The bank will require a Right of Entry as this allows them to enter the motel and operate it should the borrower default on the loan.

Lenders will require the motel or caravan park lease to be valued by an industry expert valuer. The costs can be substantial and must be covered by the borrower. Likewise, the costs of preparing the specialised security documents required can also be significant and should be allowed for when the motel or caravan park lease purchaser is calculating the total costs of purchase and finance.

Many motels and caravan parks continue to generate a significant return on investment and can be a great opportunity for operators to derive substantial returns on capital invested. While the purchase and finance process can be intimidating for first time entrants the use of specialists in all fields will certainly make the process that much easier.

Accounting Due Diligence

For purchasers buying a going concern motel or caravan park (either freehold or as lessee) it is essential that an industry expert accounting firm undertake a review of the historical and potential future trading performance of the business. This review should include a physical visit to the premises, an interview with the vendor and full access to all booking and financial management systems. The accountant's verification report is the key document in both the purchase and the finance process. Your accountant will also assist with ensuring you purchase in the appropriate entity structure and plan to maximise any taxation advantages associated with your new business. We are happy to recommend suitably qualified accountants to assist you in this process.

Insurance

There are a number of insurable risks that should be covered when purchasing a motel or caravan park. The nature of these risks will depend on the individual business and whether you are operating the business or simply purchasing the freehold as an investment. The lease will certainly outline the insurance obligations of the parties. The lender will also need to know that you have insured for Public Liability and property damage as a minimum. It is considered prudent to look at insurance for business interruption, loss of income and to cover management costs should the operator fall ill. We are happy to recommend a suitably qualified accommodation industry expert insurance advisor.

Licensing

There is no specific licence required in order to operate a motel or caravan park. However, dependent on the individual business there may be a need for licenses pertaining to the service of liquor and the preparation of cooked meals. In the case of liquor licenses there may also be a need to attend a training course and seek a specific qualification in terms of the responsible sale of liquor (RSA). Licenses are generally transferred at settlement.

Legal Due Diligence

You should engage an accommodation industry expert lawyer to assist you with the transaction and review the contracts, lease and associated documents. A lawyer experienced in leasehold motel and caravan park transactions will provide essential advice as to the commercial risks associated with individual leases. Your lawyer will also assist with licence transfers and the execution of bank documents once finance is approved. We are happy to recommend a suitably qualified accommodation industry expert lawyer appropriate to your individual situation and geographic location.

Business Plans, Resumes and Cash Flows

Your lender will place significant importance on your future plans for the motel or caravan park you are purchasing. This is especially true if you have not operated such a business before. You should draw up a business plan outlining your plans for the business and your objectives in terms of future improvements, marketing, management and risk assessment. Your plan should include a start-up cash flow reflecting appropriate working capital allowances which would include acquisition costs, rent in advance and day to day operating capital requirements. A personal resume outlining your past business, work and life experience together with details of any formal qualifications will also be highly regarded by the lender. We are happy to assist you with feedback once you have prepared your draft business plan and resume. Your motel industry expert accountant will also be able to provide assistance with business planning and cash flow forecasts.

Leasehold Motels and Caravan Parks Purchase Costs & Equity

Over allocating for costs and working capital has never sent a business broke. I'm pretty conservative when it comes to making these allowances so we are going to take a pessimistic look at costs and allocations associated with purchasing a leasehold motel. The same basic rules apply to leasehold caravan parks and indeed to many going concern businesses.

Banks will generally lend 50% of the value of a leasehold. Many purchasers still look at the all up purchase price and provided they've got half plus a few bob they charge off and start making offers. It's not quite that simple. Yes, you will need to come up with half the purchase price in equity, either via cash or by offering the bank supporting security such as a mortgage over your house. Remember that equity in your house is calculated as the value of the property x 80% less any current debt = available equity for business purposes.

Next you need to decide if you are buying WIWO (walk in, walk out) or purchase price plus SAV (stock at valuation). Typically SAV will be capped at $5,000 but you need to allow for it. Now we come to the terms of the lease. At best you'll need to allow for one month's rent in advance so if the rent's $110,000 per annum that's an allowance of around $9,000. Some leases call for a rental bond that could be as high as three months' rent. Your bank can provide this via a bank guarantee but you'll need the cash or equity to secure that facility.

Different states have different stamp duty costs and these can be substantial. For example, an $850,000 leasehold motel or park purchased in Queensland attracts stamp duty of around $30,000. The costs of any licences associated with serving alcohol or food need to be factored in with these costs best clarified via your lawyer. It would be usual to have an industry expert accountant review the financial records of the business and to have an expert lawyer review the lease. Factor in around $15,000 for these professional fees including searches.

Bank fees will generally reflect .5% of the loan amount plus the cost of valuing the lease and any supporting security. A leasehold valuation can be a costly exercise so factor in around $3,000 plus GST.

If the motel or park is a bit tired and the web site less than inspiring you may need to factor in a CAPEX (capital expenditure) and marketing budget. $10,000 doesn't go far these days. Last but not least you'll need a working capital budget. To some degree your allowance for WC will depend on the individual trading characteristics of the property you are planning to buy. Settle on a motel in Bathurst the week before the famous motor race or in Tamworth just before the music festival and chances are you'll make enough money straight up to cover future WC requirements. However, this sort of fortuitous timing is relatively rare so best to have your accountant do up a cash flow budget and plan your WC requirements accordingly. As a minimum, I would expect an allowance equivalent to one month's fixed costs. Here's how those numbers look in summary:

$850,000 Purchase Price WIWO
Stamp Duty $30,000
Professional Fees and Searches $15,000
Bank Fees and Valuations $6,000
One Month Rent in Advance $9,000
Capex and Working Capital Allowance $25,000
Total all up purchase including costs and allocations $935,000
Stamp duty varies from state to state. Consult your lawyer.

As you can see the allocation for all up costs and capital is 10% of the purchase price. Not an exact science but not a bad rule of thumb when making initial enquiries about a particular lease.

Motel and caravan park leases generally show quite high return on investment numbers so it's sometimes possible to go into one while flying by the seat of your pants in terms of capital. The problem is that if there's some unexpected cash flow turbulence the landing can be rough. Best to take off with a full tank of fuel and hopefully not need to use it all.

Mike Phipps - Director

Mike Phipps
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Mike Phipps has been a career banker for more than 30 years. Over recent years he has specialised in management rights and accommodation finance. Mike was previously National Business Development Manager, Management Rights and Strata Sector for a large Australian bank.

Over many years Mike has built a network of industry contacts, advisors and advocates. He is uniquely placed to assist both new entrants and existing operators in all facets of management rights and accommodation funding.

In an ever more complicated and regulated banking and commercial landscape businesses need well informed, timely and accurate assistance. Mike is able to facilitate smooth transactional capability through an intimate knowledge of the industry and the people who operate within it.

Mike is a Fellow of the Financial Services Institute of Australasia (FINSIA). He is a member of the Australian Resident Accommodation Managers Association (ARAMA) and a member of the Mortgage Finance Association of Australia (MFAA).

Mike speaks regularly at industry seminars and forums. He has been a guest speaker at various ARAMA and other industry information events. Mike presented and was a forum member at the 2008 Australian College of Community Association Lawyers (ACCAL) national conference. He holds a Diploma in Finance and Mortgage Broking Management.

> " Your communication and commitment with your clients is second to none. The Mike Phipps Finance team have helped us follow our dream."
>
> Kim and Anthony Plackett

Paul Grant - Credit Representative

Paul Grant
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Paul is a senior finance broker who joined the business in 2013. He has two decades of experience in the finance sector as both a chartered accountant and prior to joining Mike Phipps Finance as a senior commercial lender with a large Australian Bank.

After attending university Paul commenced his career in the accounting sector working with both government and big 4 accounting firms.

Paul successfully transitioned to a senior commercial lending position in early 2010. Paul's banking career had a predominant focus within the Management Rights industry while he also facilitated motel, licensed hotel and wider commercial transactions.

Since joining Mike Phipps Finance, Paul has facilitated over 750 transactions with a value of over $1B. Paul services clients throughout Australia and is recognised nationally for his expertise and service ethic.

During his accounting career Paul was a member of the Institute of Chartered Accountants in Australia (ICAA), he holds a Bachelor's Degree in Commerce and a Diploma of Finance and Mortgage Broking Management. He is an MFAA accredited Credit Advisor.

Why do you recommend using a Finance Broker when applying for a loan?

Clients get to deal with an expert who has access to all the available lenders. We have a fully staffed office who will make the process as easy as possible. Because we pre-qualify our clients the chances of unhappy and potentially expensive surprises are greatly reduced.
Our finance tender process creates competitive tension between lenders and ensues the very best result for our clients. Unfortunately, banks are getting slower and harder to deal with. Our job is to keep them honest!

What do you like to do in your spare time?

As a dad to twin boys I'm pretty busy supporting them in a myriad of sports as well as their educational needs. Luckily my wife is a school teacher so there's plenty of advice as and when required.

The family love to travel and when time permits I'm working on my training for next year's Noosa Triathlon. As a swimmer, I'm a really good runner!

What is your best piece of advice for clients that are new to the accommodation industry?

Surround yourself with experts. Build a network of trusted advisors who are not trying to sell you anything (at least not straight away) and build your industry knowledge. Learn to pick the risks and understand the opportunities.

What is your favourite thing about working at Mike Phipps Finance?

I work with a great group of people and we all genuinely enjoy helping people achieve their goals. Being out of corporate life allows me to have a direct input into how the business operates without the need for endless focus groups and meetings. We are genuinely a team who get a real kick out of what we do.

Cameron Wicking - Credit Representative

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Through more than 22 years of experience in Commercial Banking and Finance, Cameron has developed an extensive operational knowledge of both the accommodation industry and commercial lending practices.

Prior to commencing with Mike Phipps Finance, as a Senior Commercial Relationships Manager with a larger regional Australia bank, Cameron specialised in the provision of finance and services to Management and Letting Rights operators.

Cameron is an active member of the Management Rights industry, participating in ARAMA and specialist forums. He has achieved professional success in expanding and managing strong portfolios and prides himself on building lasting relationships with his clients, facilitating the provision of finance to management rights and accommodation industry buyers throughout Queensland, New South Wales, and Victoria.

Cameron holds a Bachelor's Degree in Economics, as well as a Diploma of Finance and Mortgage Broking Management. He is also an MFAA accredited Credit Advisor.

As a family man, Cameron loves spending time with his wife and children. He enjoys camping, archery, and appreciates a nice drop of red wine.

Why do you recommend using a Finance Broker when applying for a loan?

It gives you choices! Approaching one bank for a loan means that you are tied into just the one option in respect to policies, types of loan available etc. Using a broker (especially one that is specialised in a field) gives you the comfort that you are getting the right product for your circumstances. The broker can do the running around with the Banks & makes sure that your position is maximised. It also helps as they deal with Banks on a regular basis, so they speak the language and know what can be achieved.

On a separate note, they also should be able to add other value to your business such as referrals to other specialists. This can be invaluable in industries such as the accommodation industry.

What do you like to do in your spare time?

I love being in the outdoors, camping or hiking. When I am at home I try & stay fit, but also enjoy a good glass of Red and time with the family.

What is your best piece of advice for clients that are new to the accommodation industry?

Surround yourself with specialists that you can talk to, feel comfortable with and can trust. Nothing is more important than having the confidence to be able to ask questions knowing that you will be provided the right advice in a way that you can understand.

What is your favourite thing about working at Mike Phipps Finance?

For me it would be the caring nature of everyone that works within the business. This may sound silly, but I work remotely from the office, and it is always very reassuring that everyone from Mike down cares about what happens & is willing to go the extra mile in everything that they do to assist. This is reassuring both as an individual as well as professionally as I know that every one of my clients is getting the absolute best service that we are able to offer.

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