

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 this month 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 that 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 months fixed costs. Here's how those numbers look in summary :

◆	\$850,000 purchase price WIWO
◆	Stamp Duty \$30,000 (Qld)
◆	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

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. Until next time, happy hunting.

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