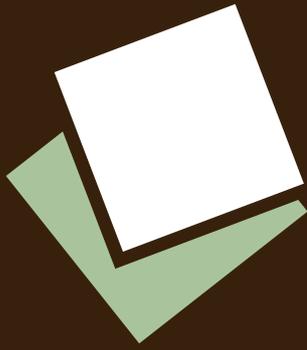


Industry Profile

Motels and Caravan Park Guide



mikehippsfinance

management rights and accommodation specialists



-  Management Rights Finance
-  Funding Pre-Qualification
-  Motel and Caravan Park Finance
-  Accommodation Sector Consultancy

Industry Profile; Motel and Caravan Park Guide

About Us

We are a boutique finance brokerage and consultancy service with a focus on client service and access to customized finance solutions. As experienced bankers 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 **management rights** and **accommodation finance** a full range of products and services are available.

- ◆ Finance for Management Rights and Accommodation Assets
- ◆ Initial Assessment of Funding Requirements inc Off The Plan
- ◆ Assistance with Lender Annual Reviews
- ◆ Housing and Consumer Finance

- ◆ Freehold & Leasehold Motel & Caravan Park Finance
- ◆ Loan Refinancing and Renegotiation
- ◆ Business, Commercial and Equipment Finance
- ◆ Case by Case Consultancy

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 service we offer.

Personal Profile

Mike Phipps has been a career banker for more than 30 years. Over recent years he has specialized 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 motel and caravan park 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.

Our Service

Our process is highly personalized. 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.

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 providing advocacy on your behalf.

Motels and Caravan Parks

The purchase of an interest in a motel 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. Banking 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 25% 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 specialized. 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 land lord'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 maximize 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 license 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 license 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.

How Much Can I Borrow?

Your borrowing capacity will be determined by a number of factors which include:

- ◆ Cash deposit available
- ◆ Experience
- ◆ Quality of the asset being purchased
- ◆ Equity in existing property assets
- ◆ Debt Servicing Capacity

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 Scenario : Cash Deposit

- ◆ Purchase Price \$600,000
- ◆ Costs Estimate \$36,000
- ◆ **Total \$636,000**
- ◆ Deposit \$336,000
- ◆ **Loan \$300,000 @ 50% gearing x 10 years**
- ◆ Repayments \$43,677 per annum @ 8% P and I
- ◆ Net Profit \$168,000 @ 28% ROI
- ◆ NP after debt servicing \$124,323

Leasehold Scenario : Gearing on Equity in Property

- ◆ Motel Lease Purchase Price \$600,000
- ◆ Costs Estimate \$36,000
- ◆ **Total \$636,000**
- ◆ House Value \$580,000 / Mortgage \$80,000
- ◆ \$580,000 x 80% gearing = \$464,000
- ◆ **Less \$80,000 mortgage = \$384,000 available**
- ◆ **Total Available**
- ◆ \$600,000 @ 50% gearing = \$300,000
- ◆ \$580,000 @ 80% gearing less existing debt = \$384,000
- ◆ Total funding available = 684,000
- ◆ Total funding required = 636,000
- ◆ Excess available for working & fall back capital = \$48,000

Debt Servicing Scenario : Gearing On Equity in Property

- ◆ **Business Loan \$300,000**
- ◆ Repayments \$43,677 p/a @ 8% P and I
- ◆ **Housing Loan \$464,000**
- ◆ Repayments \$32,480 p/a @ 7% Interest Only
- ◆ Motel Net Profit \$168,000 p/a @ 28% ROI
- ◆ House Rental Income \$23,200 p/a @ 4% ROI
- ◆ Total Income \$191,200
- ◆ **Total Debt Servicing \$76,157**
- ◆ Income after debt servicing \$115,043



no surprises

We're with you, step by step

Mike Phipps Finance have developed a systematic approach to financing and purchasing new and existing management rights, motels and caravan parks. Inbuilt checks, triggers and alerts ensure that the process stays on track. We will personalise the process, helping to ensure that you are aware of what is required at every stage, and that you stay in control.

Disclaimer: The purpose of this document is to provide general information only. You should carefully evaluate the accuracy, currency, completeness and relevance for the purpose. You should also obtain independent professional advice relevant to your specific circumstances. The information provided does not constitute financial advice and is not a recommendation of any sort in respect of any matter, including the acquisition of assets or the purchase of financial products and services. Gearing ratios, finance products and interest rates may change without notice and are provided for information purposes only. Phippsfin Pty Ltd makes no warranty or undertaking whatsoever as to the accuracy of the information provided. Returns (ROI) are quoted for illustration purposes only. You should consult your accountant to calculate your specific taxation obligations under any proposed funding and purchase arrangements and also discuss funding structure and entities most appropriate to your circumstances.



**PREFERRED
SUPPLIER**



mikehippsfinance
management rights and accommodation specialists

4/31 Mary Street Noosaville QLD 4566 PO Box 183 Noosa Heads QLD 4567

Office. 07 5470 2194 Fax. 07 5455 6626 www.mikehippsfinance.com.au Mike Phipps Finance ACL (364 314)

Mike Phipps. 0448 813 090

Paul Grant. 0448 417 754

Cameron Wicking. 0477 776 859

Email. mike@mikehippsfinance.com.au

Email. paul@mikehippsfinance.com.au

Email. cameron@mikehippsfinance.com.au