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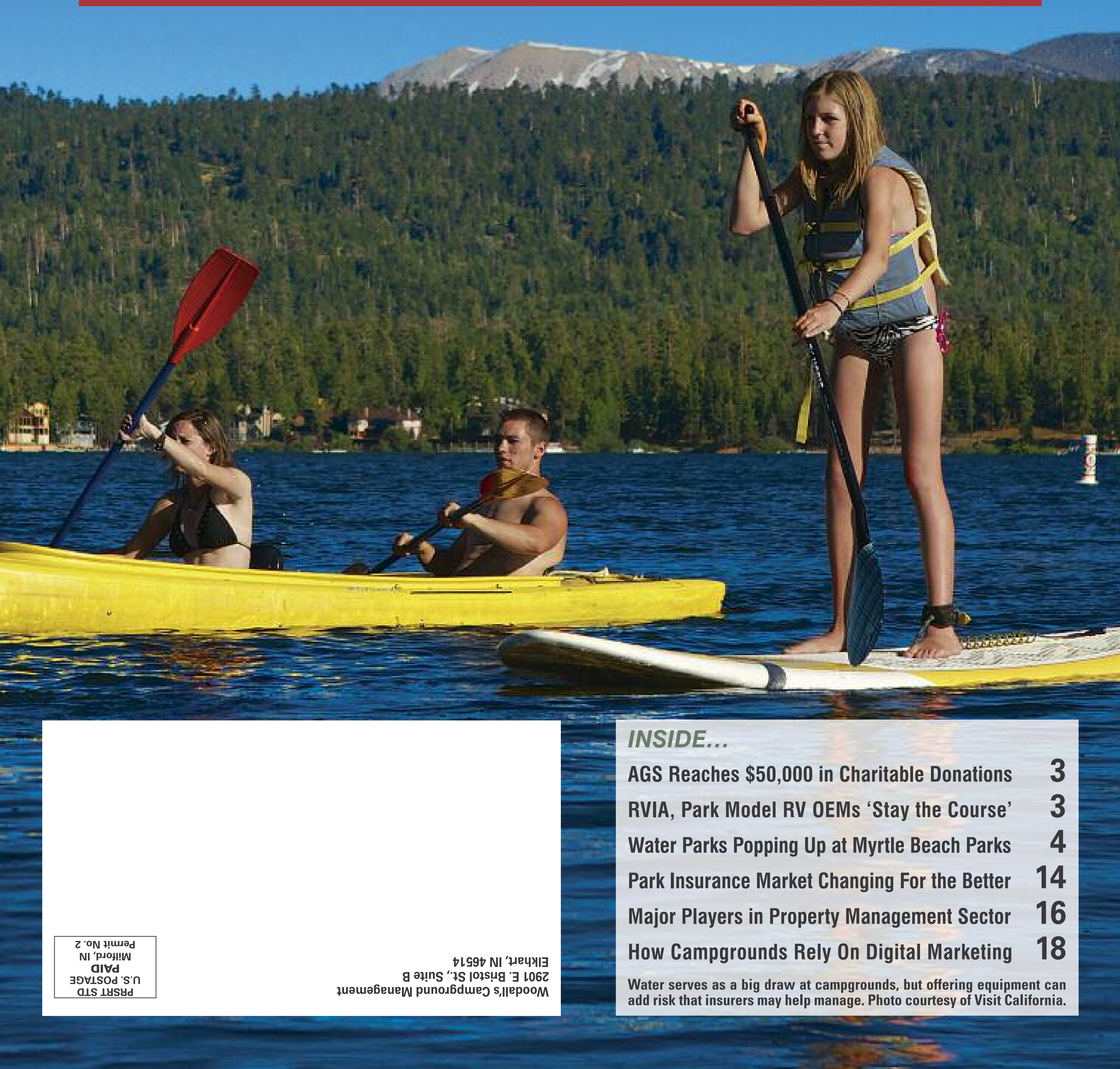
Risky Business?

Things Are Changing in the Campground Insurance Market — Mostly for the Better



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INSIDE…

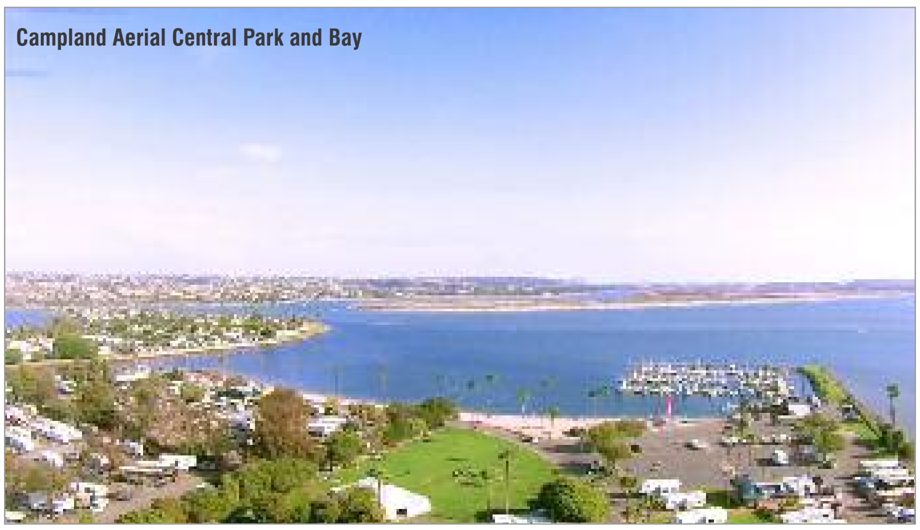
Water serves as a big draw at campgrounds, but offering equipment can add risk that insurers may help manage. Photo courtesy of Visit California.

Players In Property Management

"Whatever success you may have enjoyed in your former life, that is in no way indicative of success in this industry...Very smart people can do very dumb things in this industry — and we try to help people avoid that," said Randy Hendrickson of Horizon Outdoor Hospitality Group.

Randy Hendrickson

If you ask **Randy Hendrickson**, there's never been a better time to be in the property management industry — especially if you specialize in outdoor recreation properties. "I've been in the industry for 17 years and I've never seen it more vibrant, more active or more full of potential," he told *Woodall's Campground Management*. "I get a little animated when I talk about this business."



Campland Aerial Central Park and Bay

As the founder and CEO of **Horizon Outdoor Hospitality Group**, Hendrickson knows the potential first-hand. What started in 1995 — as somewhat of a favor to a friend when he agreed to manage a single resort in Central Texas — has grown into a multi-tiered business of managing 15 properties in nine states as well as completing 24 feasibility studies in the past year and negotiating the sale of more than $17 million in RV resorts over the past few months.

"We're a relatively small player in the grand scheme of things, but that's strategic, it's not because we don't have the opportunity to manage more properties," he said. "We've never been concerned with volume for volume's sake."

According to an **Allen Report** survey, the title of largest company in the industry goes to **Equity LifeStyle Properties (ELS)** in Chicago, which owns controlling interest in 370 properties in 32 states, though there are more than 500 other companies in the field. While many of those companies have a mixture of mobile-home parks and RV parks, the sheer number of players makes property management a sizeable chunk of the overall outdoor recreation industry, which brought in $646 billion in 2012, according to the **Outdoor Industry Association**.

One of the things that makes his company unique, said Hendrickson, is that it focuses solely on the RV Resort market, but does so in three different ways. "RVs are our core discipline, but through three divisions," he said. "First, we have our 'development' division, which provides the feasibility studies — everything from raw dirt and ideas to opening day. Then we have a 'management' division that provides third-party, turn-key management; lastly, we have the 'brokerage' division. I don't know a lot of other companies that can manage everything from raw dirt to the eventual sale of the asset and everything in between."

While some companies can succeed at managing mobile-home, RV and multifamily properties like apartment complexes, Hendrickson said it's commonly known that RV resort management is one of the most time-consuming and complex specialties.

"There's a far more intensive energy requirement in terms of time and resources that it takes to be prosperous," he said. "It's truly a hospitality asset. In an apartment community, you collect rent once a month and keep things maintained and that's fine, but in our industry you might have 150 check-ins a day and many have unique requirements. We're doing barbecues and get-togethers and outdoor movies, and so it's much more labor- and payroll-intensive because it is truly a hospitality venue as opposed to a static multifamily venue."

Like Hendrickson, **Terra Vista Management (TVM)** owner **Michael Gelfand** has an affinity for RV resort management, although his company also manages mobile home communities. And TVM also purposely limits its holdings, growing with a specific purpose. "We have a bit of a unique focus in that we only want to operate properties that are fun for us, which usually means properties with some complexity in their structure and some potential for development," he said. "We also specialize in properties on the water, because we have so much experience dealing with marinas, docks and everything that goes with that."

Michael Gelfand

Gelfand entered the management business 35 years ago when he joined his father's company, which began in 1969 with the purchase of a 700-site mobile home/RV community on the water in San Diego. The company began getting involved in property management, and Gelfand took the reins in 1994. By that time, through partnerships, the company had acquired an interest in 40 properties in seven states. Gelfand negotiated the sale of most of those properties, forming a new management company that retained three properties in California. TVM has since added **Newport Dunes RV Resort** in Newport Beach to its portfolio.

Rory Williams, principal at **AC Commercial** in Orlando, Fla., is another executive who entered property management through family. "My father was in the business for 40 years as a developer and owner/operator," he said. "I worked for him for 10 years, then started my own management company in 2010."

Unlike TVM and Horizon, AC Commercial (ACC) runs both RV and MH communities (15 properties/2,000 sites in two states), as well as five apartment communities (400 units) and some office and retail. Its focus is also broader based, although Williams said its specialty is probably turning around properties in some sort of challenged state.

"We feel like we can help people turn things around," he said. "And we feel like we can be more agile than bigger companies in the business. We just took over two mobile home parks where we mobilized to take over in about five days. That would probably be challenging for a larger company."

The Basics of Third-Party Property Management

Third-party management can look very different, depending on the company offering the management service and the desires of their clients. In some cases, the management company is willing to serve in a limited role, almost like a consultant, where it might simply focus on managing the client's books, marketing or some other narrow aspect of the business. Both Horizon and ACC offer some version of this type of tiered service.

The more common approach, however — and one that all three company leaders preferred — is turn-key management, where the third-party organization takes over all aspects of management: Staffing, accounting, marketing, maintenance, insurance and entertainment.

The most common fee structure for these services is for the management company to take a percentage of gross receipts. In the case of ACC, Williams said the percentage is anywhere between 3% to 5% of total income, where lower income results in a lower fee. At TVM, Gelfand said that 5% of the profits is also a baseline, but that the fee structure can vary based on the extent that TVM has equity in the properties.

"We also offer reimbursement of expenses that would normally be at the property level but that we've centralized for efficiency," Gelfand said. "So the percentage can change depending on several variables."

For Horizon, Hendrickson said the fee structure is specifically tailored to the individual services that each client desires, although there are minimums. "We can also be creative in structure of fees based on the seasonal cash flow of the property, which I think also makes us unique," he said.

But when it comes to cost, Hendrickson said that Horizon doesn't think in terms of fee-for-service, but rather in terms of investment with an expected return.

"There should be a return on investment," he said. "If we can increase the client's revenue or decrease their expenses, then we've made the fee either almost free or paid for it completely. Then there's also the factor of increasing the overall value of the property. If we help increase the value by $100,000, then at a 10% capitalization rate, we've increased the value by $1 million. At that point, our fees start to look pretty darned inexpensive."

Rory Williams

Because of varying degrees of selectiveness, some management companies will turn down potential clients. At TVM, Gelfand said they turn down management opportunities if they don't fit the company's niche for complex, water-oriented properties of a certain size, while Hendrickson said their main criteria is compatibility of goals.

"The only time we would think about not taking business is if it's clear that our goals are incompatible with the client's goals," he said. "If the potential client is just looking for a caretaker or an employee then that might not serve either of us very well."

As a newer company, Williams said ACC is ready to take on nearly all comers, although some properties could possibly be too far away from their current center of operations.


Dunes RV waterfront site.

The size of the parks they're willing to take on is another slight variation between the companies. Gelfand said the sweet spot for TVM is a community from 150 sites and up. For Hendrickson and Horizon, the baseline number was 100. At ACC, Williams said they tend to stick to 75. But all three agreed that they'd consider communities with fewer sites depending on location, average daily rates, market and demographics.

Measuring Success

For property management companies, the bottom line is definitely the most common measuring stick for success. For Willams and ACC, "The budget is the basis for our metrics," he said. "As long as we're able to outperform the budget, minimizing expenses while growing, then we feel like we're doing a good job."

Because of the partnership structure of TVM, Gelfand said that other factors come into consideration, including measuring success for the management company and measuring success for the partners. For the company, he said that success is simply based on increasing income each year and keeping the assets of the management company growing.

Hendrickson and the team at Horizon have broken down metrics into several more nuanced categories.

"There are some intangible and some tangible measurements of success," he said. "On the intangible side, have we freed up the owner's time so they're able to pursue other interests? Are the assets being run professionally? Have we helped them avoid some of the mistakes that someone new to the industry might be prone to? Those can't be quantified — but they're incredibly important."

On the tangible side, Hendrickson said that Horizon has created its own proprietary suite of reports detailing performance in all the key income and expense categories, comparisons to prior periods, comparisons to budgets.

"There are so many mechanisms that we can use to quantify the results and plan accordingly," he said. "All the income and expense information is updated daily and we have weekly, monthly and quarterly reviews, so there really is never a time when a client can't call and say, 'How are we doing today in comparison to a prior year?' It's real-time information."

The learning curve for new owners of RV parks and campgrounds can be steep, and when it comes to doling out advice based on their experience, Hendrickson, Williams and Gelfand, are happy to share — though most of their guidance can be distilled down to the concept of doing a ton of research before jumping into ownership of such an energy sink. They all stressed the importance of having a realistic estimate of the time requirements and financial requirements involved.

"Understanding the specific market for your property is extremely important," Hendrickson said. "There are markets that don't support a specific property, for example, markets that don't support a five-star resort. There is a science to it, it's not 'voodoo.' Learning to right-size your business based on the market and competition, you don't just pick that up overnight."

Gelfand added that a lot of the resources necessary for the proper research aren't necessarily a major expense. "The assumption that you can do everything yourself is probably misplaced," he said. "You need some assistance or consulting. Get involved with your state campground owners association because they provide informational seminars and workshops. You can meet other park owners and network with people who can give you all kinds of feedback."

While the range of beginner mistakes runs from understaffing and overstaffing to advertising in the wrong places or making improvements at the wrong pace, Hendrickson said that they can happen to anyone.

"Whatever success you may have enjoyed in your former life, that is in no way indicative of success in this industry," he said. "Just because you've been very good as an attorney or a banker or an apartment owner doesn't mean that it will translate to the outdoor hospitality industry without any hiccups. Very smart people can do very dumb things in this industry — and we try to help people avoid that." ***—Ty Adams*** WCM


AC Commercial manages the Floridian park, a mix of RVs and mobile homes.