



Ten Tips - Buying a Car Wash

Buying a car wash is easy. It's buying the right one, under acceptable conditions, with an exit strategy in place when you close escrow that's tricky. All the instructions for a buying a basic business can be collected off the Internet. I assure you, however, a car wash is a unique business with lots of hidden characteristics that determine your success or failure.

By Roger A. Pencek, MBA

09/01/14



Buying a car wash is easy. It's buying the right one, under acceptable conditions, with an exit strategy in place when you close escrow that's tricky. All the instructions for a buying a basic business can be collected off the Internet. I assure you, however, a car wash is a unique business with lots of hidden characteristics that determine your success or failure.

Over 30 years of car wash specific experience as a broker — not just a real estate agent — in nine states in the Pacific South West, I have seen lots of good advice being trumped by commission-driven salespeople promising inflated proformas, inexperienced real estate agents, shady sellers, and impatient buyers. Wow, I'm going to get a lot of mail from that, but the truth of the matter is that, when buying a wash, you need to do your own homework while relying on experienced experts that know the car wash business.

Please understand a car wash is not like buying a house where there are comparable sales, because no two washes are alike. Each wash defiantly has its "own personality." Among the myriad of characteristics that make up the car wash DNA: demographics, traffic count, equipment, and competition, to name just a few. I will offer my brief tips below to help guide you in buying a car wash, but my golden rule — do your own home work — trumps all the advice your new car wash friends will cunningly attempt to have you believe. This process — from opening escrow to recordation, commonly called the "closing" — takes about 75 to 90 days.

TIP #1: LOCATION, LOCATION, LOCATION

Generally, the real estate location is the most important factor for future success. In this business, we look for a location on "the going home side" of a stop-and-go street, not a site in the middle of a 45-mile-an-hour commercial street. With that said, corners command the market due to easy ingress and egress. These are coveted commercial retail locations that separate the average from the exceptional wash that you wish you had purchased or, if you did purchase it, you're glad you did even though, at

first, you thought you overpaid a little. Bedroom communities and neighborhoods with multi-family housing are also locations that bear on success, depending on the car wash audience you are planning to attract. If you are to be an onsite owner, be geographically selective, you are married to it.

TIP #2: WASH FORMAT

Qualify the type of wash that fits your buying appetite. For our purposes, there are three types of washes. Briefly:

Full Service

A basic wash generally runs around \$14.00. The operation is labor intensive; traditionally has high gross income; usually has multiple profit centers such as fuel, detail, and convenience store; and often has a lube shop. Figure a sales price in the \$3 million to \$6 million range.

Express

This wash type generally has \$3, \$5, \$7 or \$12 price points, four employees, and thrives on volume (8,000 to 12,000 cars per month). Sales price varies from around \$2.7 million to \$6 million.

Self Service

These locations feature DIY wash bays, often supplemented by one or two separate in-bay automatics. The average customer spends between \$3.75 and \$6 per visit. Sales prices range from \$350,000 to \$2.5 million.

The future of full-service washes has been diluted since 2008 — except for affluent niche areas where demand for auto pampering remains high, price is no object, and waiting time (20 minutes plus) is no worry. However, the advent in 2008 of the express wash has met the majority of the car wash customers' needs by providing speed (5 minutes), economy (national average of \$5.85 per wash), security (customers stay in the car), and free self-vacuums.

Self service will be a rural staple soon, with some of the existing urban washes being converted to the express type of wash if the existing land profile allows. Making the right choice among these three wash formats is the first step in finding the wash that fits your investment criteria and determining if you want an absentee or onsite ownership profile. Full-service washes need daily onsite owner/operators; express and self-service are managed easily as semi-absentee-owner operations.

TIP #3: FIND AN EXPERT

There is nothing better than selling a sound car wash to an energetic, well informed buyer. There is nothing worse than “unscrambling an egg.” Let me explain: I have spent more than half of my career reselling some neophyte's wash that he purchased from either a cunning seller or, worse, some inexperienced real estate people who only know intimately exactly how much commission they are making on the deal, with no regard for the buyer's best interest.

The biggest culprit is the general practitioner real estate agent who intentionally or negligently leads new buyers into this “cash business” by showing the washes on Saturdays, when even crummy washes are busy. The reality is that there are seven days in the week. Coming a close second is the commissioned equipment sales person who, without a license, plays real estate agent and steers innocent newbies to a wash that is for sale and just so happens to need equipment. The truth is there are a myriad of signals that separate a good wash from a floundering one. Be armed with a respected attorney, accountant, consultant, and/or real estate broker who has direct experience in the car wash market.

TIP #4: PURCHASE AND SALE (PSA)

The PSA is the road map for the sale. There are several caveats in the PSA that are essential for your ability to exit if the business is not as represented. The due-diligence period, what we in commercial real estate commonly call “the free look,” is the time to investigate all aspects of the operation. This traditionally commences 30 days from opening of escrow and allows for the investigation of the good, the bad, and the ugly of the business. This period is essential for the buyer to validate the gross sales, expenses, and general health of the wash. There should be timeframe caveats specifically with regard to, but not limited to, obtaining financing and equipment inspections with assurances that the buyer’s earnest monies are returned, without nonrefundable exposure. All third party contractors need to be specified in the PSA. The provisions and time periods are so critical in the crafting of this PSA that even most attorneys lean on car wash experts for the specific car wash particulars. Some car wash experts craft their own PSAs for a fee or — depending on the real estate regulations for each state — use promulgated forms for buyers and have their attorney red line the PSA for convenience.

TIP #5: BOOKS AND RECORDS

There are a lot of cash-paying customers in this business. Owners and cunning employees are all concerned about who gets to keep it. Validating the seller’s records to bank deposits is vital to convince the buyer and lender of the actual income. Fortunately, computer technology has evolved with cash registers having to match car wash tickets being written with customers to match the gross sales. A car wash expert can also scrutinize the electric and water bills and come pretty close as to the gross sales on a monthly and yearly basis. My point is: most experienced wash buyers can just observe the wash and determine the approximate gross sales. Additionally, most car wash experts can calculate a fair sales price on the spot, from just the average revenue per car and monthly car wash count. The novice, however, needs to get deep into the numbers of the P&L statement and bank deposits to confirm the seller’s representations. The following are important sources:

- Year-to-date business financials (income statement and balance sheet)
- Seller’s last three years of tax returns
- Seller’s last three years of P&Ls with balance sheets
- Last 12 months of rolling P&Ls
- Tunnel controller or comparable monthly report for last rolling 12 months

- All leases (including, but not limited to, landlord lease, if applicable)
- Complete list of all equipment
- Complete list of personal property
- Complete list of all employees with payroll records
- Copy of current appraisal (if available)
- Current surveys, if available
- Current Phase I Environmental

Site Assessment Study (Phase I ESA), if available

- Current plot map, if available

TIP #6: FINANCING

Get pre-qualified by your local banker or a lender that specializes in car wash loans. You can save a lot of time by making sure you have the liquid funds or what is commonly called a “proof of funds” letter from your lender before you even start looking at washes.

Additionally, this can give you more traction in negotiating the deal with the seller, knowing you have the funds to close the deal.

Banks have a love-hate relationship with their lending function. Banks “love” to talk about lending money, but “hate” to give it up easily, and they’re relentless in collecting debt. To make the process easier, borrowers need to be prepared with what lenders require. The “perfect” information that a banker wants is commonly accumulated in what is called a “package.” Essential to expeditiously move the sales/financing process along is getting complete information upfront for multiple lenders to review. The buyer’s accountants and lenders can then immediately start perusing the seller’s books and records, and appraisers can simultaneously begin their study since all the facts are available. Delays are a common deal breaker, which can be avoided by having a package properly prepared in a timely manner. Any lender will require specific items to do an “acid test” on the borrower as well as the strength of the car wash. Remember, the borrower and car wash business are both under the bank’s microscope, both have to be financially strong and have a clean history.

The alternative is seller financing. This form of carry-back financing is when the car wash owner (seller) acts as the bank. For example, the buyer will typically put down 20 percent to 35 percent cash, and the seller will take a promissory note for the remainder: sales price of \$1 million; \$250,000 (25 percent) cash down; \$750,000 promissory note from seller to buyer, including 8 percent interest amortized over 10 years, payable in equal amortized payments of \$_____ (no prepayment penalty) commencing 30 days from close of escrow. The buyer will give a personal guarantee note with a due-on-sale clause. This type of financing is typically designed when the car wash is on leased land or if there is soil contamination. In the case of the former, an absolute caveat is that the seller has to have a long and desirable lease on the property. This form is becoming more popular due to the strict lending requirements today. A review by a good tax advisor and attorney is advisable. This

creative form of lending can be a win-win situation for both parties — buyers not having to go through all the lender's red tape, and sellers enjoying tax advantages from an installment sale. The following are some of the items found in a typical carry-back note:

- Prepayment penalties
- Due-on-sales clause
- Personal guarantees
- Balloon payments
- Interest increases
- Note assignment
- Acceleration clause
- Cross collateralization

TIP #7: DUE DILIGENCE

As previously mentioned in the PSA section of this article, this is a critical time period for buyers to satisfy their investigation of the business. This generally lasts 30 to 45 days from opening escrow. The buyer will immediately show proof of application for a loan.

During the due-diligence period the buyer will simultaneously reconcile seller's books and records; employee list; suppliers; vendors; fleet accounts; preliminary title report; planning, zoning, and road construction plans; surveys; and all other issues related to the organization of the wash. If there is any concern about the daily receipts, a negotiated onsite buyer-observation period is occasionally granted. Remember, the employees are likely one of the greatest assets you will inherit through the sale; they are not to know of the sale until you close. Therefore, the buyer does not want to make his presence on site too obvious and consequently spook the employees into leaving due to a rumor of a sale. After the due-diligence period the sale is contingent only on the lender obtaining an appraisal and a Phase 1 ESA, which takes about 21 to 30 days. Upon acceptable results from these two studies, the buyer's monies are non-refundable. Closing generally commences 10 to 15 days later, and buyer takes possession.

TIP #8: CAR WASH VALUES

As in all businesses, there is a value equation used to appraise a wash. Here, in general, is a guide to test the value of a wash:

- Full service is more complicated since there often are several profit centers that have differing profit margins. In general, however, full-service value is calculated by taking the EBIDTA (Earnings Before Interest, Depreciation, Taxes, and Amortization) and multiplying by between 5.8 and 6.8.

- Express value is calculated at 4 to 4.8 times the gross sales.
- Self-service value is derived by using a multiplier of 3 to 5 times the gross sales.

All the above equations are only a starting point. Be advised the real estate is included in these basic values, and each wash has to be in business for at least three continuous years.

Goodwill — the reputation generated and sweat equity expended during the time the business has been in operation — is the most difficult element to allocate a value to for each business. There is a common valuation called a BOV (broker opinion of value) that, for a fee of \$3,000, a buyer or seller can have crafted to give a more specific value of the wash. These BOVs are not typically accepted by lenders, since the authors are not MAI appraiser certified. However, when lenders hire an appraiser they are usually general practitioners in commercial real estate who often call car wash experts to contribute to their ultimate appraisal.

TIP #9: ART NOT A SCIENCE

The buying process is definitely an art requiring many intangible skills. The goal is to find a wash that has the ability to repay the buyer a reasonable return after debt service. In a perfect world the aforementioned values would prevail. However valuing a business has too many variables. I am a firm believer in covering all the bases to see if the wash has any telltale signs of problems. Then it is all up to the new owner's skills and tenacity. I have found that a buyer should purchase a wash based on his skills and what he believes the operation can produce under his command.

TIP #10: EXIT STRATEGY

Yes, this is part of buying a car wash. The exit plan has to be in place upon buying the wash. Buyers may find the business consumes more time than expected. Health, absentee ownership, divorce, and burnout are just a few of the unexpected situations that could arise after any business purchase. As you did when buying the wash, the new buyer will rely on the same criteria when deciding whether or not to make the purchase. Be sure you are ready to sell. Keep records that are impeccable.

SUMMARY

Golden rule for buying a car wash: Do your own homework.

Roger A. Pencek, MBA, is president/broker of Scottsdale, AZ-based Car Wash Brokers Inc. He can be reached via e-mail at roger@carwashbrokers.com.

testAll content copyright © 2014 EW Williams Publications Company. All rights reserved. No reproduction, transmission or display is permitted without the written permissions of the publisher.