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“Buying a Car Wash – 10 Tips”

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Anyone looking to buy, sell or build a carwash needs to read this first.

BY ROGER A. PENCEK | CONTRIBUTING WRITER

For more information on this topic, go to www.carwash.com and enter keyword(s): **financing, loan, value, economy.**

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, is the tricky part. All the instructions for a buying a basic business can be collected off the internet, but I assure you 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 9 states in the Pacific South West, I have delivered lots of good advice be trumped by commission driven car wash equipment sales people 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 buying a wash is doing your OWN home work 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, logically, because no 2

washes are alike. Each wash defiantly has its “own personality”, as I see it. The myriad of characteristics are demographics, traffic count, equipment, and competition just to name a few that make up the DNA. I will offer my brief “tips” below so to guide you in buying a car wash, but my golden rule of “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’, is about 75-90 days.

1) Location, location, location.

Generally, the real estate location is your greatest element for success. In the biz, we look for “the going home side on a Stop n Go light” not in the middle of a 45 mile an hour commercial street. With that said, most existing washes and the corners command the market due to easy ingress and egress. These are coveted commercial retail locations that separate the average from the exceptional washes that you ultimately wished you purchased and seems at first you over paid a little; but glad you did it. Notwithstanding, bedroom communities and multi dwelling locations are also locations that bear success depending on the car wash audience you are attracting. If you are to be an onsite owner, be geographically selective, you are married to it

2) Full Service, Express and Self Service.

Qualify the type of wash that fits your buying appetite. There are 3 types of washes. Briefly, Full Service basic wash is generally \$14.00, labor intense, traditional high gross income, multiple profit centers such as fuel, detail, and convenience-store and often lube: Sales Price \$3-6M. Express has generally a \$3, 5, 7 or \$12 price point, 4 employees, thrives on volume (8-12K cars per month); Sales price \$2.7-\$6M. Self Service is a coin car wash with often one or two separate automatic bays for recreation vehicles and high profile trucks and cars, the average customer pays \$3.75-\$6 per visit; Sales price \$350K-\$2.5M. The future of the full service washes is being diluted since 2008, except for affluent niche areas that demand for auto pampering is expected where price is no object, and waiting time (20 min) is no worry. However, the evolution (2008) of the express wash has met the majority of the car wash customers’ demands by providing speed (5 minutes), economy (Nat’l average \$5.85 per wash), security (customers stay in the car) and free self-vacuums. Self-service is 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 is applicable. Making the right choice between these 3 washes is the first step in searching for the wash that fits your investment and determining if you want an absentee or on site ownership profile. This is a car wash business is a combination of employees and the public; you have to like them both. Full service washes need daily on site ownership operators, express and self-service are managed easily as semi-absentee ownership.

3) Find an expert in car wash business.

Nothing better, than selling a sound car wash to an energetic well informed buyer. *Nothing worse* than “unscrambling an egg”, let me explain. I have spent more than half of my career in reselling some neophytes wash they purchased, from either a cunning seller or worse inexperienced real estate person who only knows intimately exactly how much commission they are making on the deal, with no regard for the buyers best interest. I must say, *the greatest culprit* is the general practitioner real estate agent intentionally or negligently leading new buyers into this ‘cash business’ by showing the washes on Saturdays, when even crumby washes are busy. The reality is that there are 7 days in the week. *Close second scoundrel*, is the commission hungry car wash equipment sales person, who illegally practices real estate without a license; by steering innocent newbie’s to a wash they know of for sale; of course that needs equipment. The truth is there are a myriad of signals that separate a good wash from a fledgling one. Be armed with a respected attorney, accountant consultant and or real estate broker (not an agent) who has direct experience in the wash market.

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. This Due Diligence (DD) period is what we commonly call in commercial real estate “the free look” time to investigate all aspects of the operation. This is traditionally commences 30 days from opening escrow so to ‘lift the kimono’ investigate the good, bad and the ugly of the business. This period is essential for the buyer to validate the gross sales, expenses and basic general hygiene of the wash. There should be time frame caveats specifically but not limited to obtaining financing, equipment inspections and 3rd party contractors all need to be specified in the PSA with assurances buyers earnest monies are returned, without nonrefundable exposure. The provisions and time periods are absolutely 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 for a fee their own PSA’s or use promulgated forms for buyers and have their attorney red line the PSA for convenience, (depending on the real estate regulations for each state).

5) Books and records.

Get ready for your first shocking indoctrination to the wash business, there is discretionary income. There is a lot of cash paying customers in this business; owners and cunning employees are all concerned as to who gets to keep it. Validating 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 too can compare the water, 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 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. However, to the novice, YOU need to get deep into the numbers of the P&L and bank deposits to confirm the sellers representations.

FROM SELLER: (PURCHASE AND SALE AGREEMENT (WITH ASSET ALLOCATION BREAKDOWN)

- YEAR-TO-DATE BUSINESS FINANCIALS (*INCOME STATEMENT & BALANCE SHEET*)
- Sellers last 3 year IRS Tax Returns
- Sellers last 3 years P & L's with Balance sheets
- Last 12 month rolling P & L's
- DRB 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 (DRB)
- Copy of current appraisal (if available)
- Current surveys, if available
- Current Phase I, if available
- Current plot map, if available

6) Financing

Get pre-qualified from your local banker or a lender that specializes in car wash loans, before you even start looking at washes to buy! The rumor that SBA will give a 10% down loan is not applicable to a 'single purpose' business, such as a car wash or gas station. Be advised you can save a lot of time before you even start looking at washes to make sure you have the liquid funds or commonly called a "proof of funds" letter from your lender. Additionally, this can get you more traction from the seller when negotiating the deal, knowing you have the funds to close the deal and not a waste of time. Here is some *breaking news* about the lending process. Banks and Borrowers have a "**Love – Hate Relationship.**" Banks "love" to talk lending money but "hate" to give it up easily, and "relentless" to collect 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" When a car wash is typically listed for sale the seller transfers "Bit by Bit" information relating to the business to a broker for a potential buyer. The "Big Problem" is in the preparation and accumulation of all the data regarding the business for sale. Paramount to the sales / financing process is to get all the complete information up front for multiple lenders to review. The buyer's accountants and lenders can then immediately start mustering the seller's books and records and simultaneously appraisers can begin their study since all the facts are available. The obvious delay factor "*time*", which is the common "**deal breaker**", is avoided when a proper "Package" is prepared and a deal can commence.. Any Lender will require specific items to do an "Acid Test" or (letter of interest) on the Borrower as well as the strength of the car wash. Remember, the borrower and car wash business are both under the Banks microscope, both have to be financially strong and history clean.

The alternative is **SELLER FINACING**. This form of carry back financing is when the car wash owner (Seller) is the “Bank”. As an example, the Buyer will put typically 20 – 35% cash down and the Seller will take a promissory note for the

- \$1,000,000 Sales Price, \$250,000 down (25%), \$750,000 Promissory Note from Seller to Buyer including 8% interest amortized over 10 years payable in equal amortized payments of \$_____ (no prepayment penalty) commencing 30 days from Close of Escrow. 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. The absolute caveat here is that the Sellers have to have a long and desirable lease on the property, if sell has no debt on the property and is “fee real estate”. This form is becoming more popular due to the strict lending requirements today; a good tax advisor and attorney are advised to review this option regarding the repercussions. This creative form of lending can be a “win-win” situation for both, buyers not having to go through all the lenders ‘red tape’, and seller tax advantages from an installment sale. These are a few 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.

7) Due Diligence (DD)

As previously mentioned in the PSA section of this article, this is a critical time period for the buyer to satisfy their investigation of the business. There is a time generally 30-45 days from opening escrow the earnest monies go hard, as we say in the business, “buyer has skin in the game”. The buyer will immediately show proof of application for a loan, simultaneously reconciling, sellers books and records, employee list, suppliers vendors, fleet accounts, preliminary title report, Planning and zoning road construction plans, confirm surveys, and all other related to the organization of the wash. If there is any concern of the daily receipts, a negotiated on site buyer observation period is occasionally granted. Remember the employees are the greatest asset that you will inherit most likely through the sale; they are not to know of the sale until you close. The buyer does not want to make their presence too obvious on site so to spook the employees to leave, due to a rumor of a sale. After this period the sale is contingent only on the lender engaging an appraisal and Phase 1 on the soil which takes about 21-30 days. Upon acceptable results from these 2 studies, the buyer’s monies are non-refundable. Closing generally commences 10-15 days later, and buyer takes possession.

8) Car wash values

Like all businesses, there is a value equation used to value a wash. Here is in general a guide to test the value of a wash. Full service is more complicated since there is several profit centers that have profit margins that differ. In general, full service is calculated by taking the EBIDTA (Earnings, Before, Interest, Depreciation, Taxes, and Amortization) including the land times 5.8-6.8. Express is calculated at 4-4.8 times the gross sales. Self

Service uses the multiplier of 3-5 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 3 continuous years. Goodwill, the reputation and sweat equity generated during the time the business has been in place is the MOST difficult element to allocate for each business. There is a common valuation called a BOV (broker opinion of value) that for a fee of \$3K a buyer or seller can have crafted to give a more specific value of the wash. These BOV's are not typically accepted by lenders since the authors are not MAI appraiser certified. However, when lenders hire appraiser they are general practitioners in commercial real estate, and often call car wash experts to contribute to their ultimate appraisal.

9) **Art not a Science.**

The buying process is defiantly an “art” with many intangible values. 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 of covering all the bases to see if the wash has ‘smoking guns’ that are obvious, then it is all up to the new owner’s skill and tenacity. I have found that one should buy a wash based on your skills and what YOU believe the operation can produce under your command. All the fancy equations can be in line with predicted results, but **a true entrepreneur does not have defeat in their vocabulary.**

10) **Exit strategy**

Yes, this is part of buying a car wash. The exit has to be in place upon buying the wash. Buyers may find out the business consumes more time than expected, health, absentee ownership, divorce, and burn out, is just a short list of involuntary situations that arise after any venture. As you were, when buying the wash, the new buyer will rely on the same criteria to purchase when you are ready or not to sell. Keep records that are impeccable!

Summary:

Golden rule for buying a car wash “do your own homework”.



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