<u>Car Wash Financing!</u>

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Chicken Little said “the sky is falling, the sky is falling”. Chicken Little, although a children’s story character, was really an economist, pragmatist, an accountant, and OH! by the way worked for your local bank as a loan officer! Chicken Little wasn’t referring to the literal sky but was forewarning us about the importance of fiscal responsibility, being diligent about our planning, cautious on our spending, keeping real numbers, and developing realistic forecasts. If you doubt that Chicken Little isn’t working for your local bank go in tomorrow and ask for a loan!

Car wash borrowers need to heed Mr. (Ms) little’s warning. Car washing has a number of challenges as it relates to financing either a start up, additional sites or an ongoing operation!

First is the issue of understanding the unique attributes of car washing? Car washes are capital intensive, minimal inventory, cash generators. Most conventional financial institutions don’t like car washes; fortunately for us the SBA dos How come?

Car washes are single purpose buildings. This means if the bank has to take it back they can’t easily be converted to another use. As a result institutions are hesitant. The SBA looks at car washes and says the failure rate is minimal, profit margins are high, learning curve is quick, and they are good employers. Car washers are notoriously poor record keepers say the banks. Virtually no car washer could provide audited financial statements so the banks are cautious. Car washers respond by saying audited statements are too expensive,” I’m a small business owner, why should I provide this detail”. Of course the answer is, the more the documentation the easier it is for a lender to make a decision. Audited statements give the banker something to sink their teeth into, and a document that more thoroughly validates performance of a given business.

Car washes are very site specific. It is the preverbal story of trying to fit a square peg into a round hole, if you think that the three various types of car washes, self serve, in-bay automatic, and tunnels will work on any site, they won’t.

Self serve or wand style car washes (where you provide the washing stall and the motorist provides the labor) are financially predict actable, which is to say they that the amount of debt to revenue is site specific. Part of the reason is that “self serve” car washes are limited in the amount of revenue they can produce and as such are constrained in how much you can invest and still remain profitable. Using the attached model (you will need to local results) you can estimate the return you should expect.

Where self serve car washes are population dependent, automatics, and tunnels rely on traffic. As with the self serve the automatics are also relatively predictable. The difference between the self serves and the automatics is the ability to process larger amounts of vehicles and as a result the ability to afford a larger investment.

A single automatic in the right location under the right circumstances could wash 200 plus cars a day at a 70%(+-) gross margin. Automatics and tunnels are traffic dependent and as a result we can estimate the potential of a given site. The rule of thumb used is .5 to 1.5 % of daily 24 hour traffic count. For example if there were 30,000 cars a day passing a site the potential, at 1%, would be 300 cars a day. Add to this the number of washing days, lets say 300, a year in your market and you have forecasted annual volume for this site of 90,000 cars per year.

Over time we have seen that, on average, that one automatic can easily do 30,000 cars per year. Therefore if the site potential is 60 or 90,000 cars per year the site could support two or three automatics. The average tunnel car wash averages slightly better than 60,000 cars per year. So if your site was in that rang or better than a tunnel may be the best investment.

All car washes fall into relatively simple financial models. Self serve revenues, for a specific area are predictable we can therefore back into what investment can be made and too meet our financial goals. For most self serves ground cost peaks close to $8 per square foot. For in-bays the ground cost can be as much as twice that number. We normally look at “B” sites for self serve washes and “A” sites for automatics. “A” sites sell to those users who have a predictable capture rate. As a car wash investor you are competing against the fast food and other chains for a commercial site. It is not uncommon to pay $25 plus per square foot for a top notch location. It really falls back to site potential and intestinal fortitude. If the site can do the unit or dollar volume to deliver you the required return you do it. Why? Because underlying all this talk about car washing is the real investment premise of being a “real estate developer”. As such the first rule of thumb is “highest and best use” which is to say that as long as the revenue generated from the business generates the required return on the ever appreciating value, it is the “highest and best use”.

Realistically we all know there will come a time where the car wash cannot support the land value and at that time we exit. Until that time we have the responsibility and obligation to be profitable, never losing site of our main objectives of managing both the balance sheet as well a as the income statement. You must always remember that your asset is appreciating and that to maximize your return, especially if you exit, is to constantly keep revenues in pace with value.