

Real Estate, The right Investment for the Right Site!

**By Fred Grauer, Executive Vice President
Ryko Manufacturing Company**

Whether you are buying, selling, building, or holding real estate the question becomes; is it the right site?, does it fit the economic axiom of highest and best use?

If you are leasing a site the question has a slightly different economic twist, is it the right site, does it fit the bill of being the “location, location, location”, does the lease fairly represent the value, hence the economic potential meet my needs?

Regardless of which tact you take, buy or lease, there exists the question, is the business or structure “the highest and best use”?

Highest and best use is a short way of asking if the revenues from the site will support the value of the land and improvements, while at the same time being able to meet my investment requirements. Think of it as a teeter totter, on one end of the board is the cost for the land and improvements, on the other the net revenue from the business. If either the investment is too great, or the revenue too little you have either spent too much or, have an enterprise whose net is too small.

Most investors look for a return on their capital in the 10-20% range, the variation is a question of degree of risk. If after you have done your profit and loss statement the net income is below your investment range you may have chosen the wrong project.

Most businesses whether they are apartments, office buildings, drugstores or gas stations have fairly predictable revenue streams. If you know, control and manage costs and expenses you can accurately predict what your incomes will be. Therefore, accounting for normal fluctuations, you can arrive at net profit and as a result back into what is an acceptable investment in land and improvements. If it meets or exceeds your return criteria you are on the right track.

In the car wash business the three main types of car washes have relatively predictable revenue streams. There is a good deal of regional public information available on site criteria, selection, and revenues. Therefore with the assistance of a qualified (experienced, honorable, realistic) car wash representative you should be able to match revenue with the site, being balanced, and showing an acceptable return on your capital.

Between the moments you decide to be a real estate mogul and you become one you must make lots of decisions. Assuming your real estate plan involves placing a revenue generating opportunity on your property then you need to establish your investment criteria. If I were to create a decision tree to establish my boundaries it would probably look something like this.

1. How much do I want to risk (invest)?

2. What is my required return on capital?
3. What types of risk are acceptable to me? (types of businesses)
4. How active do I want to be in this venture?
5. How am I going to finance this investment?
6. Will this be a business that requires employees?
7. What is my exit strategy?

Once your basic plan is established, assuming you don't own your real estate, it now becomes an issue of finding property. Most people will seek the advice and council of a trained real estate professional. Finding one qualified in commercial properties is not easy. Most firms do a land office business in residential but are not as familiar with commercial, especially specialized business needs.

If your decision is to build a car wash you will need the guidance of a car wash professional. Car wash needs are different. Property choices will vary depending upon the type of car wash. If you have decided on a self serve (wand) car wash, typically a "B" site, you will be looking for (+-) a half acre. If it is strictly a self serve then property in the \$3-\$7 per square foot range should work. If you are looking for an automatic site, then you would be looking for something more expensive. It is not unusual for "A" properties to sell in the \$15 to \$35 range per square foot.

The key to all car washing is roof tops. In the automatic business we look for traffic count. The car wash industry knows that there is a certain percentage of daily traffic we should be able to capture. From this capture rate we can estimate what a given site is capable of on an annual basis. If we are looking at a self serve we know that each "wand bay" requires approximately 1500 people within a 3 mile or less radius for support. Competitive car washes, demographic information, traffic speed, type and quantity all play a role in the decision as to whether it is a good or mediocre site.

Once you have narrowed down your selection to a number of sites a further culling occurs. This is the process of economic and strategic planning. Questions like what is the true usable space, what infrastructure improvements are required, is the site in an increasing market, what will I have to spend to conform to the wishes of the city, are all utilities present, and is it permitted, are just a few of the questions you must answer.

After gathering all this data you will now plug this into your "financial" model. If when you get to the bottom and the return meets your goal this is good. If on the other hand you are not there your investment is unbalanced, not enough revenue or too much capital is invested. In either case its time to revise the model or look for a new site.

What is really important is to be incredibly honest in your evaluations and being ultra conservative in your revenue estimates. Understanding your cost down to a gnats eyebrow is mandatory.

Car washing like so many other businesses has its own real estate quirks, rules of thumb, and known performance criteria. Without a seriously qualified car wash professional on your team to guide you through the maze you're a ship with limited steerage, no charts and limited navigation. Always get the best team possible, happy hunting and good washing.