

# CARWASHING

& DETAILING

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 CHEVROLET



## NEW CAR DEALER WASH PROMOTIONS

*Compliments of  
S.S. Herron & Associates*

- Winterizing Your Carwash
- The ABCs of Building Self Serves
- Getting a Carwash Appraised
- Tips for Cleaning Wheels

# How to Get Your Carwash Appraised

Make sure all 'value centers' are taken into account.

By Steven Schmidt Herron and Jeffrey M. Key

If you've been in the carwash business for any period of time, it's likely that you have needed to obtain an appraisal of your facility. If you originally developed the property, you probably paid for an appraisal prior to obtaining your construction financing. Even if you purchased an existing carwash, the odds are that when you obtained financing, either through the Small Business Administration (SBA) or conventional sources, an appraisal was a part of the loan package.

But even if you have been able to avoid lender financing altogether, you may wish to have an appraisal someday, if only as part of your estate-planning process.

A qualified appraiser can help tremendously in explaining your business operation to an outside lender, lawyer, buyer or IRS auditor. A carwash operation can be a very complex entity, with multiple profit centers, making it difficult to understand and appreciate by a third party. Your appraiser must have a knowledge of regulations, business plans and the carwash industry.

## The Lender's Perspective

If you expect to apply for a loan, there are some important facts you need to be aware of. Recognize that your carwash not only is real estate collateral for the desired loan, but it is also the primary source of income for making your loan payments.

This situation is much different from a mortgage on your home; in that case, the house provides the

real estate collateral. The lender then looks at your income and your ability to make the loan payments. Your income is generally not generated by your home.

With so many eggs in one basket, the lender on a carwash must look very carefully at the basket. Furthermore, lending regulations make it

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necessary to separate the real estate value from the business value.

## Complying With Regulations

Your conventional lender is under tremendous scrutiny from regulatory agencies. These regulatory exam-

iners often arrive as a team to look over each of the loans in great detail.

Financial institutions have been put out of business with a combination of non-performing loans, improperly documented portfolios and/or inferior appraisals. For this reason, the appraisal and other loan documentation must be performed in a thorough manner, so that they will stand up to scrutiny.

There are very specific standards and guidelines which have been created as a result of congressional legislation over the past few years. The good news is that these standards have improved the quality of appraisals. The standards also decrease the probability that a loan will be made on a poorly conceived development or a problem property. The flip side is that the days of "quickie" drive-by carwash apprais-

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## Choosing an Appraiser

Carwash appraisals can be expensive, so it's important that you get the most for your money.

Here are several suggestions that could be helpful if you need to order a carwash appraisal, though the list is by no means complete. Provide a copy of these suggestions to your lender before they select an appraiser:

- Make sure the appraiser has experience in valuing carwashes. That is paramount. You proba-

bly don't want to (or could not afford to) pay for the inevitable learning curve.

- To assess the appraiser's level of expertise and ability to appraise a carwash and its business value, have your lender review a sample before placing the order. This is vital because it will tell him whether the appraiser knows the industry well enough to give you a credible esti-

### **Choosing an Appraiser** *continued...*

mate of value.

- Be sure the appraisal will have a substantiated estimate of carwash volume. For an existing facility, a good history of carwash volume will be a good place to start. Keep in mind that this is a very competitive property type, and if a competing carwash is about to open down the block, the wash volume had better be adjusted to compensate.

- The demographics within a 1- to 5-mile radius will profoundly impact the wash volume, or the potential for washes, at a given location. A full demographics report should usually be included in the appraisal.

- Because carwashes are highly competitive and offer very special-

ized services, they require a certain density of population and automobiles to thrive.

Too many carwashes in a market will spread the base of demand so thin that many facilities may suffer. So a carwash appraisal should assess the number of competitors within the same 1- to 5-mile radius. The strength of these competitors is an important criterion that will impact carwash volume.

- The traffic characteristics of a site are crucial to its ability to attract customers. Traffic count, traffic speed, the corner or interior orientation of the site, its width versus depth ratio, signalization, visibility, access, medians, freeway proximity and other factors all play very important roles in estimating

capture rate, hence wash volume.

- Gasoline brand affiliation is an important consideration because some credit card companies are heavily engaged in marketing for certain geographical locations.

In Southern California, for example, Chevron, Mobil, and Unocal are heavily engaged in marketing credit cards to the types of consumers who are frequent users of carwash facilities. Shell, Exxon, and Texaco are also in the game; ARCO is peculiar unto itself with the enormously successful AM/PM markets.

Any way you view it, this is an important criterion in estimating carwash volume. If you are developing a proposed carwash, obtain whatever documentation possible as

als are a thing of the past.

If you are obtaining a loan from a federally insured lender (member of the Federal Deposit Insurance Corporation (FDIC), for example), the guidelines and regulations fully apply. This includes SBA-backed loans, although some variation exists in the documentation and processing of such loans.

If you are obtaining financing from an insurance company, pension fund or other similar institution, you will likely find similar, although perhaps slightly relaxed, requirements. A private lender may be the least rigorous in its appraisal requirements and documentation procedures, but many private lenders institute the same policies as institutional sources.

#### **Lender Owns Appraisal**

Another area in which recent legislation hits close to home is that the lender must now have their name on the contract with the appraiser. That is, the lender must "own" the appraisal report. There is not much

flexibility in that respect, so there is little point in arguing otherwise.

However, you, the borrower, can negotiate up front to ensure that you receive a copy of the report so that if you decide to go with a different lender, it will be possible to transfer ownership of the report to your new lender. A loan broker can

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usually serve as an authorized representative of the ultimate lender, thereby putting his name on the contract. He should be aware of the procedure for legitimately "shopping" your loan.

With proposed carwashes, the appraiser can sometimes perform preliminary feasibility analyses for the owner directly. Later, when operators are ready to obtain construction

financing, the appraiser produces a complete appraisal report for the lender, making sure that the lender understands the existing relationship with the borrower.

This approach reduces the uncertainty, because all parties have a good idea of approximate value before the lender orders a full appraisal.

Be aware that the lender will probably want the entire appraisal fee up front before ordering the appraisal. Sometimes, the appraiser receives a retainer, but frequently they are paid only after the report is submitted.

#### **A Proper Appraisal**

When your lender calls appraisers for estimates, you're likely to get fee quotes ranging from \$2,000 to \$10,000 or more to appraise your carwash. Part of the contrast in fees may be loosely related to the widely divergent quality and technical expertise represented in the final reports.

However the primary reason for these dramatic differences is that not many appraisers have a firm grip on

evidence to the appraiser that you will provide brand-name gasoline.

- Once the carwash volume is estimated, a full pricing study based on the competition should be included, resulting in a recommended pricing structure for the proposed project.

- A preliminary feasibility study may help you determine whether your proposed design is the highest and best use of the site. We have found developers who build monuments to themselves at a location where the local population is insufficient to support anything but a very modest facility. On the other hand, adding a convenience store at a prime location could create very desirable "synergy."

— S.S.H., J.M.K.

the key components of value in a carwash property. Without a body of common knowledge and standardized carwash appraisal procedures available to the profession, appraisers are left to their own devices to concoct something that might pass as a carwash appraisal. Hence, the wide range in fees, final report quality and values. To a lender or carwash owner, this is not reassuring. In fact, it compounds the risk in an already risky business.

There are basically four components that contribute to the value of a carwash: the land, the building improvements, the equipment or fixturing and the business value. An appraiser who does not have a good understanding of carwash valuation methodology will probably gather a few sale "comps" of comparable land sites, add in some standardized costs out of a cost-estimating handbook, and use these figures to value the wash. The fee for this type of appraisal is usually \$2,000 or \$3,000.

The problems with this simplified approach are significant. First, carwashes seldom sell for just land value plus building and equipment costs. They almost all sell with the business component as well.

### The Business Component

Like a hotel, motel, restaurant or other specialty property type, a transfer of the property will include a transfer of the business. A glorified cost approach will fall far short of the mark in estimating the sales price of a good carwash in the real world.

But there is a more pervasive problem in such a simplified approach. Without a business component in the valuation, nothing will be said about the carwash's ability to generate the kind of returns necessary to sustain the investment in land, improvements and equipment, or to repay the loan. If the business fails because there are five other highly competitive carwashes nearby, any money spent or lent on building or equipment will be for naught.

To disregard the business end of a carwash would be like appraising a leased retail center without assessing the credit-worthiness of the tenants. The problem is magnified even more with the carwash, however, because there is always some other purpose to which a vacant retail building could be applied. Not true with a carwash. If it doesn't materialize into a viable operation, what are the alternative uses for carwash improvements? Not many.

One of the reasons appraisers don't generally get into the details of valuing all the components in a carwash facility is that it is very difficult to obtain reasonably accurate information on a carwash which may have been involved in a recent sale transaction. Owners contacted for comparisons are hesitant to share sensitive operating data.

### Cash Not Reported

As a cash-intensive business, real income of carwashes is, unfortunately, not always reported. The tremendous physical variations among carwash properties make adjustments very hard to determine.

For example, some carwashes are of the old standard steel canopy design, while newer carwashes can have convenience stores, lube stations, 24-hour gas and so forth. They may be of concrete block or stucco and are usually extensively landscaped.

Although sales data are difficult to obtain, an experienced appraiser must have at least a few market indicators from actual sales, in the form of gross income multipliers or overall capitalization rates. The appraisal valuation then becomes a matter of estimating revenues and expenses.

These values are what a buyer would consider most relevant in determining a market value purchase price. The analysis should be structured in a way to permit the separate valuation of the business component from the real estate portion. The appraisal process then should be described to a level of detail that provides comfort to the members of the executive loan committee at the lending institution as well as any regulatory examiners who may enter the picture down the road.

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A poorly done appraisal or an inflated, unrealistic estimate of value will probably be rejected in the review process.

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## A Fair Fee

Because it is so important for a carwash appraisal to accurately reflect the contribution of the real estate and business components to total project value, it requires specific expertise on the part of the appraiser. A certain amount of market data required to convert projected income into a value estimate also must be available.

It takes time to deal with all of the pertinent issues. In most circumstances, an appraisal fee toward the middle of the \$2,000-\$10,000 range should do the job.

A \$2,000 fee may indicate the appraiser will not spend sufficient time on the assignment to adequately address both real estate and business values. A poorly done appraisal or an inflated, unrealistic estimate of value doesn't do anybody any good — it will probably be rejected in the review process.

A \$10,000 fee indicates the appraisers are either very busy with a healthy backlog or they are building time into the assignment for training in this specialization. Naturally, there will be complicated deals with multiple-profit centers and other factors which could result in a \$10,000 fee, but that will typically be the exception.

Generally speaking, borrowers can help themselves by being quick to contribute income and expense statements, blueprints, cost estimates and contacts in the local marketplace which may lead to comparable sales data. Make sure the appraiser understands the physical plant — the mechanical systems, various profit centers, efficiencies in operation, advantage over the competition and a description of the typical customer.

Recognize that the appraiser will probably not be able to discuss his conclusions with you without the

permission of the lender (who is the client). Although you may not be able to directly influence the choice of the appraiser, you can politely request that your lender ensures that the appraiser understands all of the components that contribute to the value of a carwash.

Go over the accompanying list with your lender (see sidebar). If handled properly, obtaining an appraisal can be a very meaningful, relatively painless, unbiased evaluation of your facility. □

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