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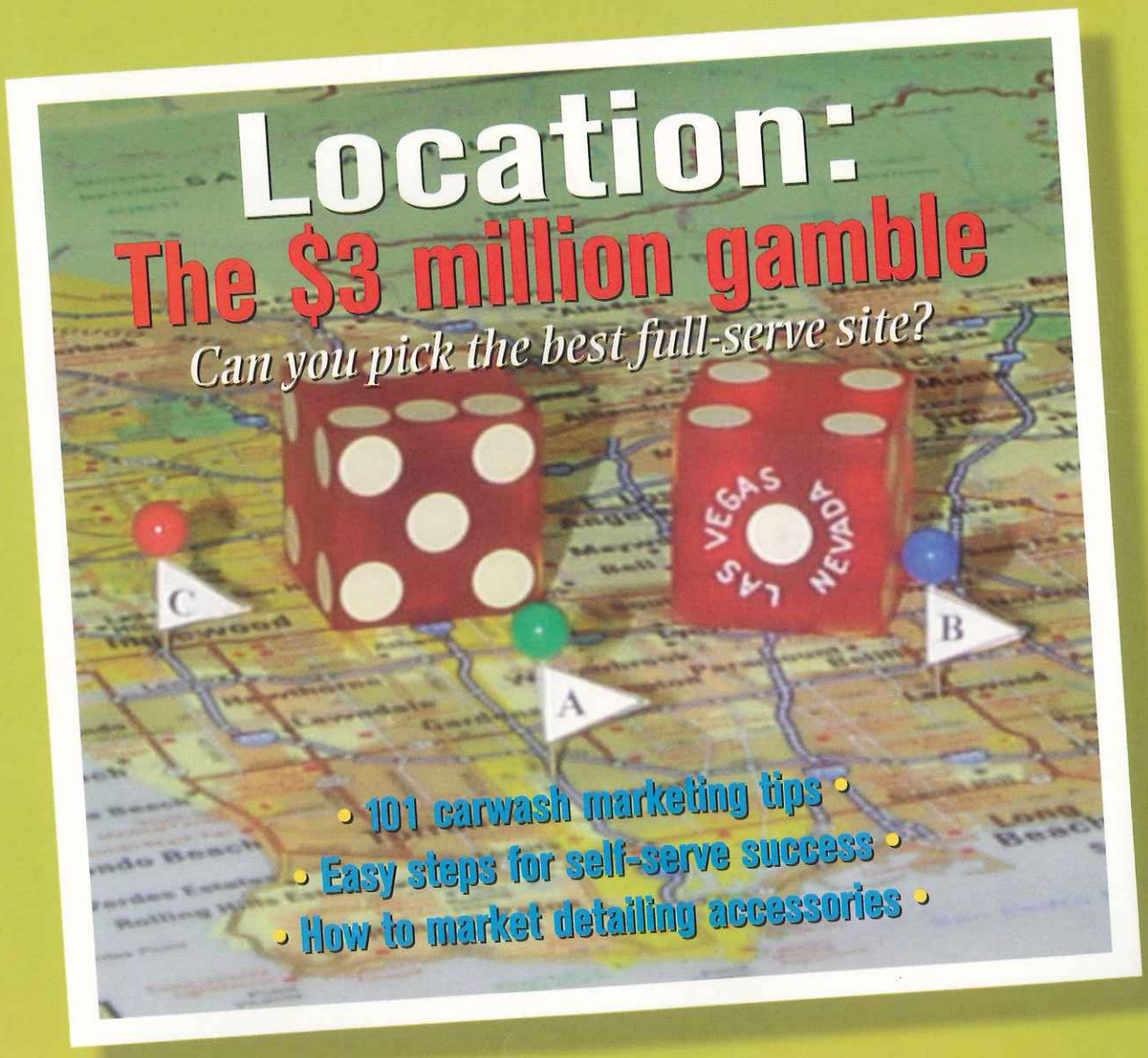

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Location: The $3 million gamble

A case study and analysis of choosing a full-serve site.

Summary: *Just how good is your intuition? Are you willing to gamble $2 million to $3 million on a carwash investment based on a hunch or someone else's opinion? American Carwash Valuations Counselors, a California-based appraisal firm, was faced with picking the right site for a large full serve. We've outlined the potential sites and variables to provide an interesting test of your ability to assess risk and pick a winner; then we show you the choice that was made and the reasoning behind it.*

By Steve Herron and Jeff Key

No matter how you roll the dice, an investment in a carwash is a big gamble. As the level of competition increases, the stakes get higher.

Political barriers to entry are formidable as well. The few remaining vacant sites that have "Class A" potential may come with astronomical prices that make financial success next to impossible. Insurance anyone?

Not long ago we had a call from a customer who had tied up two potential sites but wanted to build only one large full-service carwash. He engaged us to help him determine which was the best choice. Which one would you pick?

The sites: A look at population, traffic, household income and other variables

Site 1 – Vickridge

The site fronts on a street called Douglas Avenue that carries 30,000 vehicles per day. The mid-block site is four lots east of the intersection of Grove Avenue, with another 15,000 vehicles.

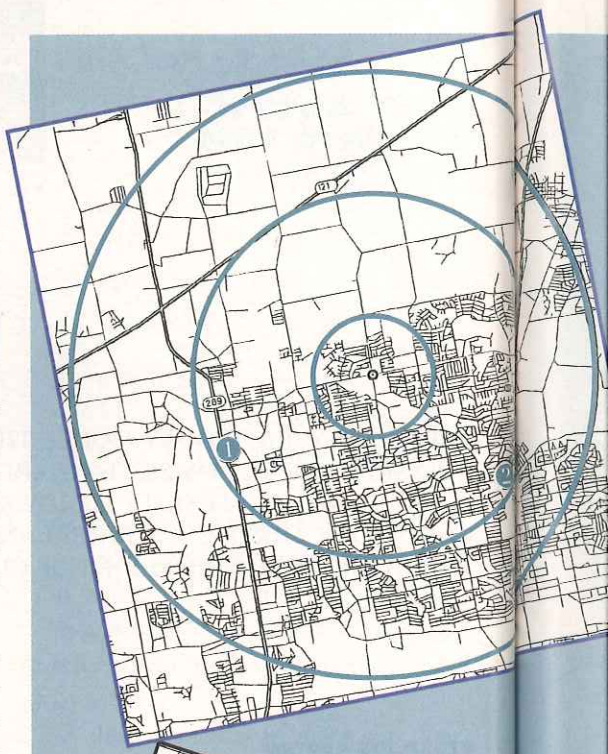
The developer could find interest from only one major gasoline company — Texaco. Others contacted weren't interested.

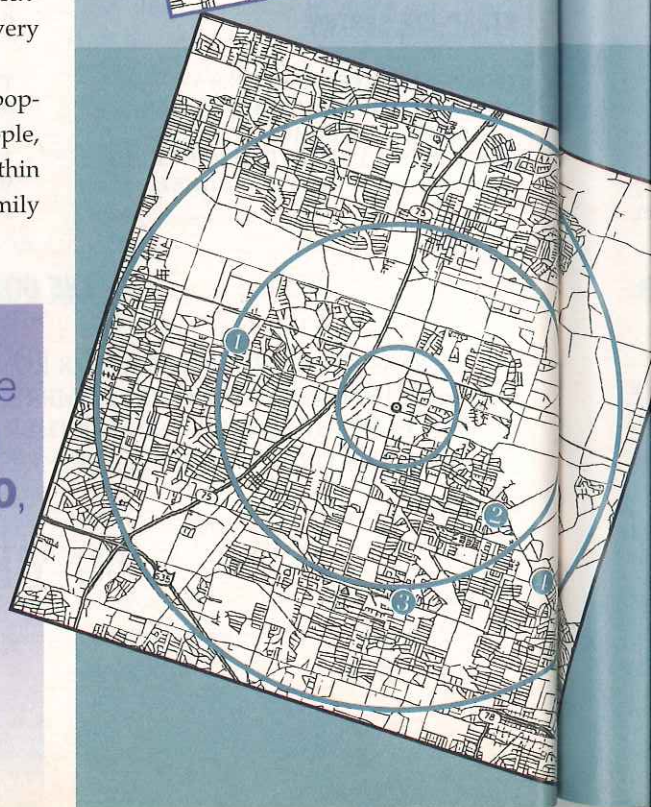
However, there is already a Texaco service station on the corner with a small, rollover carwash, so this site offers no opportunity to obtain major gasoline branding.

The site itself lacks frontage. It is a deep-lot configuration, a definite negative. There are no major office complexes in the immediate vicinity and very few apartment buildings.

To the site's benefit, however, the population within one mile is 12,000 people, which increases to 80,000 people within three miles. There is new single-family development all around.

The demographics are exciting. **Household income is $75,000**, and the average home prices are well above $200,000.





While the nearest freeways are two miles away, the intersection has two major shopping centers with supermarket and drug store anchors. There is only one existing competitor within three miles and another under construction.

The demographics are exciting. Average household income is $75,000, and average home prices are well above $200,000.

Site 2 — Eastborough

This site is just 100 feet south of the intersection of 21st Street, not 500 feet like the Vickridge parcel.

It has almost double the traffic count on the fronting street, Rock Road, at 27,000 cars per day, and 21st Street has 30,000 cars. Unfortunately, both streets have medians — there is no left-turn possibility into the site.

A Shell station is on one corner, Mobil on another and Exxon on a third. Texaco is eager to join in the competition and willing to sign up at this location, but is not interested in participating in the investment.

Diagonally across the intersection is a major new health club with interesting cross-marketing possibilities. There are several large office buildings in the area, so daytime population density is impressive. There are also five restaurants within a block.

On the other hand, the population within one mile is 6,500 people, about half that of the Vickridge site. The density increases to 85,000 people within three miles, roughly similar to Vickridge.

The average housing value in the one-mile radius is lower at $120,000, but average household income is still reasonably good at $67,000. The nearest freeway is only one mile away. There are virtually no competitors within one mile and only one competitor in three miles.

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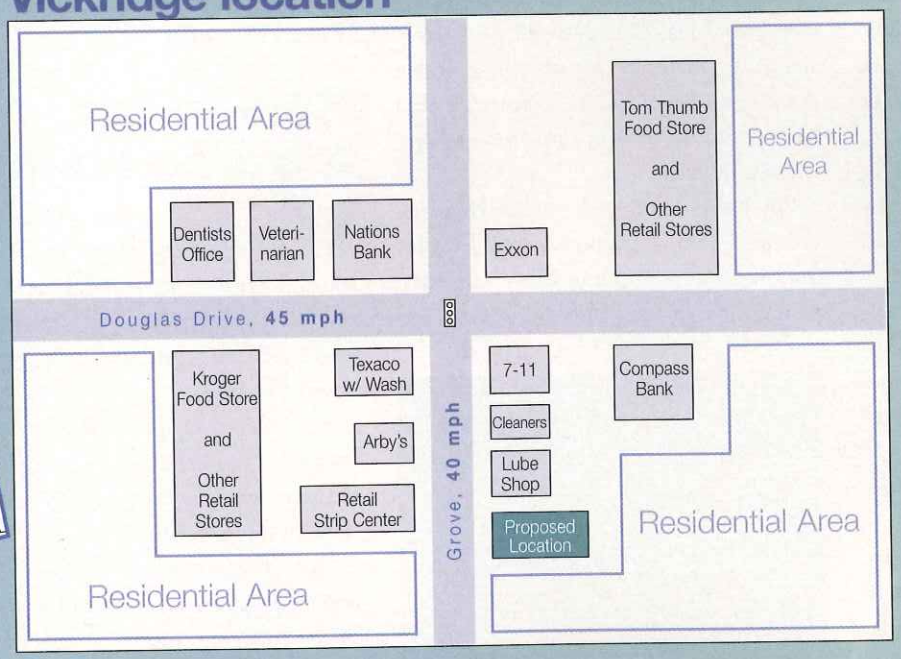
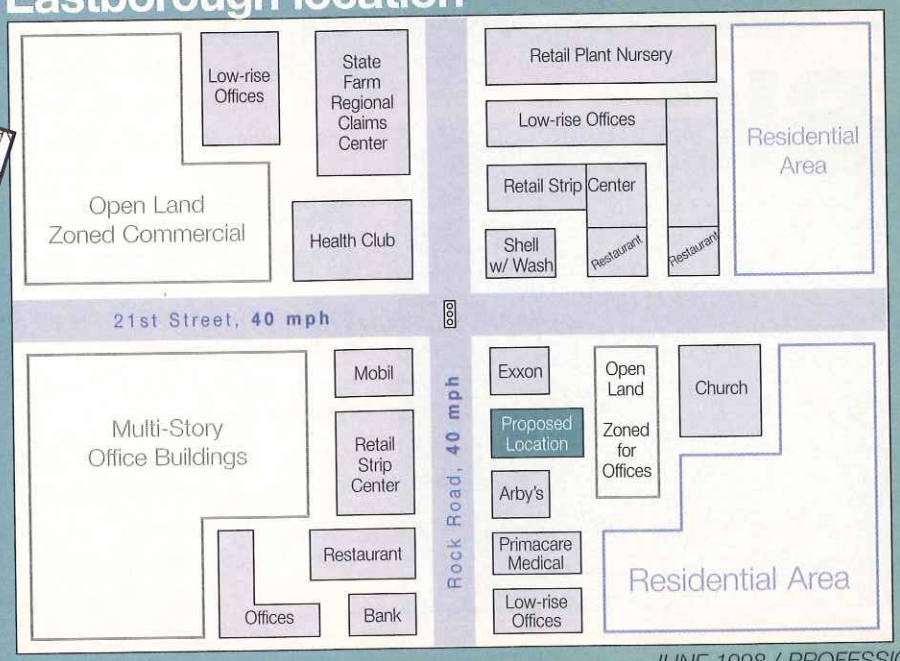
Vickridge location



Eastborough location



There are several large office buildings in the area, so the **daytime population density** is impressive.

Analysis:

Determining which location variables are most important to a successful site.

One of the main problems when choosing between these two locations is that there are too many conflicting variables to rely solely on intuition:

- One has higher traffic, the other has higher density and income.
- One will have branded gas and is closer to the intersection. The other has no median and direct access.
- Both have a deep-lot configuration.
- One has two shopping centers nearby, the other has numerous office buildings plus a health club on the opposite side of the street, a large daytime population and five restaurants.

So, which is really better? How do you decide between the two?

The first rule is to resist the urge to compare one to the other. Analyze each on its own merits. However, there needs to be some rational approach that can be used consistently each time and that accommodates a multitude of variables.

Over time, we have developed a model which allows for a number of what we consider the most important variables. We know of no purely scientific formula for this, but have developed an empirical approach that has served us well in hundreds of carwash analyses.

We have validated actual carwash volumes with our model to the point that we have become fairly comfortable in measuring potential volume for a given location. We'll pit our model against intuition gained through years of experience. Here's a closer analysis of each variable.

> The first rule is to **resist the urge to compare** one location to another. **Analyze each on its own merits.**

Site analysis answers the BIG questions

- How do you know when you have the right deal?
- Given two or three potential locations, which does one select?
- How much should you offer when you have identified a potential gem?
- How does one determine the worth of a carwash?

How to get a traffic count

While traffic count perhaps isn't the best variable, it *is* reported in the same unit of measurement (cars per day) that we ultimately seek to estimate wash volume. But what traffic count should be used?

Some carwash builders, because their property backs up to a freeway, say the freeway traffic should be counted when developing a capture rate.

Our philosophy is simple — count any traffic that can turn directly onto the property. Other large volumes of traffic are nice to have around. They actually may be sources from which traffic in front of the site is composed.

However, all of the wash patrons for a given site must use the street in front. That's where the traffic calculations begin.

How to determine the capture rate

Next on the agenda is an estimate of how many cars from the total traffic will pull in for a carwash — the "capture rate."

Professional Carwashing & Detailing magazine has been perfecting its annual survey of automatic carwashes for years. The average capture rate from the

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most recent survey is 0.56 percent.

The problem is that no location is exactly like the national average. In fact, the difference can be quite substantial. The easiest way to deal with these differences is to modify the capture rate — increase or decrease it.

We have analyzed other potential statistical models but find that the measurement variables are complex and not highly reliable. This is partly because the numerous onsite variables and managerial styles are extremely subjective and difficult to quantify. So far, our current model works best for us.

Count any traffic that can turn directly onto the property.

Composition of traffic: commuter vs. local. Categorize traffic into two groups; "commuter" vs. "local." It should come as no surprise that people who are commuting (on their way to or from work or traveling from one city to another) are less likely to pull off for a carwash than a motorist who is running errands to the market, the cleaners, the bank and the post office. There are several ways to consider the composition of the traffic.

Pause for a moment and think like a commuter. If your goal is to get from Point A to Point B quickly, speed is an important factor. Traffic signals and congestion are factors to avoid.

Ideally, a freeway is the optimum way to travel for a commuter. If the traffic artery has freeway-type characteristics (it carries large volumes of cars at speeds regularly over 40-50 miles per hour, with few interruptions such as traffic signals) the projected potential wash volume needs to be reduced.

Another trick we use to rate the quality of traffic is to look at the hourly counts, or the peak volumes. A strong commuter artery will have very large volumes at early morning and evening rush hours, but flatten out considerably during other times of the day.

For example, one direction will peak at 7 a.m. and the other at 5 p.m. These two hours will account for 12 percent to 20 percent of the total daily traffic.

A local traffic artery, however, will have smoother flows with lower peaks, and the peaks will tend to be later in the morning, at 8 a.m. instead of 7 a.m., or both directions will peak at the same time. The two hours might account for only 8 percent to 12 percent of the total daily traffic.

Also, take a look at a good road map. Is the subject midway between residential neighborhoods and downtown (commuter) or is it surrounded by residential development (local)?

We found that the Vickridge traffic had a high percentage of local traffic while the Eastborough location tended to have greater commuter volumes.

ADVANTAGE: Vickridge

Traffic access to the site. Visibility and access are greatly important, although we don't have the time or space here. A corner location on two primary arteries with access from each is optimal.

Traffic signals help slow down passing cars. A corner site with primary artery frontage and access from a secondary side street produces greater site utility because less space is needed for turning and maneuvering cars onsite. This means faster service.

There is frequently a high volume from passing impulse buyers; onsite visibility and signage are crucial. Visibility can be augmented by the use of local billboards, signs and other forms of streetside advertising close to the exact location.

In this case, these two sites have roughly similar deep-lot characteristics, with access only from the front.

ADVANTAGE: Even

Traffic arteries with medians. A median is a significant impediment to impulse traffic. Although there are no formal studies on the matter, it isn't hard to imagine that possibly half of those who might have been impulsively inclined to pull in may abandon the idea if it means traveling a quarter to half a mile beyond, then negotiating a U-turn, and finally returning the same distance for access.

For the Eastborough location, we reason that half the traffic on the far side of the artery, which might have purchased a carwash, will not. So we have reduced the available traffic count by 25 percent (50 percent of 50 percent).

ADVANTAGE: Vickridge

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Analysis helps quantify your 'intuition'

There are a handful of seasoned carwash veterans who can drive around an area, observe the environment, study a facility or a site, and predict with amazing accuracy just what the total volume of a carwash is likely to be.

While that type of intuition may be invaluable, appraisers generally are tasked with providing an independent, third-party review of those variables in support of a volume projection and subsequent value estimate.

As a result, we have had to develop a tool that covers numerous variables influencing carwashes and then describe the use of that tool in such a fashion that a skeptical banker or unknowledgeable investor might clearly understand how a value was developed.

It isn't enough for lenders to hear that the value estimate given by an apraiser was based on 200 carwashes over a dozen years. That may impress them for a few seconds, beyond which they demand to see supporting evidence.

How to measure synergy

Commercial synergy should be considered paramount in a good site location. There are two ways to examine synergy — external and internal.

External synergy. What major commercial anchors are in the immediate vicinity that will pull local shoppers to our neighborhood?

In the case of Vickridge, there are two major grocery/drug-anchored shopping centers, along with several banks, service stations, a cleaners, a lube shop and some fast-food restaurants. All are complementary to a carwash facility.

The Eastborough location also has some positives. Although no food/drug anchors are nearby, one "plus" is the health club, while another is the five restaurants.

The large daytime population of office workers can be a source of carwash patronage, but it takes more marketing and public relations. Although there are some exceptions, large daytime office populations generally do not provide as many impulse patrons because they are already mentally engaged in their workday by the time they pass by a carwash in the morning. At quitting time, carwashes are closed, and for half a year it's nearly dark by 5 to 5:30 p.m.

Office and factory populations can be enhancements, but certainly no match for convenience retail synergy that comes from anchored neighborhood shopping centers.

Internal synergy. Another component of the synergy variable relates to onsite profit centers.

Certainly, offering gas is an old standard. All the better if it can be made available to passing motorists on a 24-hour basis. There are also full convenience stores rather than small boutiques.

Some of the more recent projects even have small fast-food outlets like Subway, Taco Bell, Pizza Hut and others. Fast lube bays, detail shops and automotive-related retail uses are additional profit centers designed to enhance crossover patronage, as well as provide income on inclement days when a carwash might otherwise be dark.

ADVANTAGE: Even

How to take into account oil company branding

Brand affiliation with oil companies is still somewhat important. Their credit card marketing offers a decided advantage. However, it is not nearly as important as it was 10 or 15 years ago.

Significant changes are occurring in the credit card market. For example, a widespread proliferation of MasterCard, Visa, ATM and other cards which offer rewards such as free air miles and discounts on new car purchases are eclipsing oil company credit cards, which do not offer as many of these additional freebies. Operators are generally seeing more bank cards at the gas pumps.

One exception to look for is a large

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Another trick we use to rate the quality of traffic is looking at the **hourly counts** or the **peak volumes.**

COMPARISON CHART

	Vickridge	Eastborough
Traffic/day (Primary)	15,545/day	26,930/day
Traffic/day (Secondary)	29,735/day	29,550/day
Median	None	Yes
Distance to intersection	500 feet	100 feet
Population 1-mile radius	11,833	6,499
Population 3-mile radius	79,066	85,730
Median property values	$189,228	$119,497
Median income	$76,714	$67,647
Competing carwashes 1-mile radius	Site + 0	Site + 0
Competing carwashes 3-mile radius	Site + 2	Site + 1
Branding for gas	None	Texaco
Commercial synergy	2 neighborhood centers	Health club
	Convenience retail	5 restaurants
	Low office concentration	High office concentration
Site configuration	Deep lot	Deep lot
Freeway proximity	3 miles	Under 1 mile

population of government workers near a site. The government frequently will issue branded oil company credit cards to employees. These government (or government-subsidized) automobile expenses can make up a sizeable portion of the revenue for a carwash.

In this example, we gave the Vickridge location a downtick for lack of major branding, just as we might to a carwash without gas.

ADVANTAGE: Eastborough

How to measure competition

One of the most important variables in a carwash analysis is the trade area and defining its size. For example, we draw our trade area radius no smaller than one mile and usually consider two to four miles relevant:

- ***In more rural parts of the country,*** we draw it wide enough, five miles or more, to capture at least one or more competitors or include a population of 35,000 people or more.
- ***In busy urban areas*** such as auto-crazed Southern California, a radius of two or three miles is adequate.

In some rural settings, we have had to expand that radius to eight or 10 miles to include all likely carwash customers for the site. Of course these lower-density areas carry more risk for a full-service carwash operation. There is a point beyond which an exterior-only wash or a coin-op may make better sense.

Once the trade area is defined, we count competing carwashes and rate them. A simplified overview of the rating scale would count a standard, typically run carwash as one competitor. A new, state-of-the-art carwash with multiple profit centers and high-volume patronage may be equivalent to 1.5 typical carwashes, while an older, run-down operation may equate to only 0.5 carwashes.

In the case of the Vickridge location, there is an existing, typical carwash and one proposed carwash within a three-mile radius, bringing the total to three carwashes, including the subject. The population within three miles is 79,066, or 26,355 people per carwash.

A median is a significant impediment to impulse traffic.

Because our model begins with a process of modifying the capture rate statistic which was derived from a study that assumed the average population per carwash was 36,000 people, our 26,355 count is inferior and requires an adjustment downward.

The Eastborough parcel benefits from 85,000 residents within three miles and only one competitor; an average of 42,500 per wash. This is well above standard.

ADVANTAGE: Eastborough

We draw our trade area radius no smaller than one mile and usually consider two to four miles a relevant radius.

How to make the final adjustments

A few other manipulations to the model were made; one because both areas have such high income levels relative to national averages. Another accounts for the lack of carwash competitors within two miles for both locations.

Income levels and housing values are two of the more important variables in the study of carwash demand. While income levels are not too dissimilar between the two locations, the Vickridge housing value is clearly an advantage over Eastborough.

ADVANTAGE: Vickridge

Conclusion: Which hand takes the pot?

If you were gambling on building another wash, would you have placed your bet on the Vickridge or the Eastborough location?

For Vickridge, we estimated an average daily wash volume of 268 cars, assuming reasonable talent and management.

Based on its location, we subtracted 60 days for rain and 5 holidays, multiplied by the remaining 300 days, and divided by 12 months. The total estimate for Vickridge was 6,710 cars per month after one year of operation.

Our model developed an estimate of 4,780 cars per month for the Eastborough location.

In this case, the clear winner was Vickridge.

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Three primary factors of difference weighed heavily in our thinking:

- Although Vickridge had a lower total traffic count, there was no median.
- It had a higher one-mile population, higher household income and much higher housing value.
- One clear giveaway to the advantage in this location is the presence of two new supermarket/drug-anchored neighborhood convenience retail centers. Not only are they good magnets for a carwash, they have likely located at this intersection because of the excellent demographics in the immediate area. These same demographics would positively influence our decision on a carwash location.

Our feasibility study went on to include a survey of competing carwashes in the region so a recommendation for pricing could be made. Along with pricing and estimated wash count, we developed a potential gross income, estimated expenses and derived a value. Much more goes into these steps than can be relayed here, however.

Site selection can be terribly complex. There are some locations that are so simple even an amateur could intuit a reasonable range of potential carwashes per month. But when the variables become more numerous — as they can in urban locations — a larger model with the capability of handling many variables becomes tremendously helpful.

When one considers the $2 million to $3 million price it takes to buy or build a quality carwash with a reasonably good future in today's market, any method that can improve the odds may be worth the cost of insurance. □

Steve Herron and Jeff Key are MAI appraisers who have specialized in carwash valuation for more than 10 years. They operate American Carwash Valuations Counselors, which appraises carwashes throughout the United States.

Talk to us What do you think? We'd like to hear your opinions on this special feature and how you've tackled the problems of finding the right location. Send your comments to:

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