

AN INDUSTRY RECOVERING...WE HOPE

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Are we there yet? The economy's journey to the bottom has been a long and brutal ordeal. Many are hanging on white-knuckled wondering just when the pain is going to end.

There have been recent stirrings we might have reached the bottom. The national unemployment rate, after topping out at 10.1% in October 2009, has retreated back to 9.6% and held steady over the last three months. While not terrific, it indicates that the general economic bleeding may have stopped for the time being. Debt markets also seem to be loosening to a small degree as insurance companies have stepped up to fill part of a huge lending void in the larger real estate market. It is noted that in most recent news, manufacturing and housing numbers still continue to plague the nation's economy indicating that recovery will remain slow.

The carwash industry remains in a unique position as a special use property type. Unlike other types of commercial real estate where revenues are often tied to long-term lease agreements, carwash owners have more flexibility and tools to maximize revenues and cut operating expenses in the wake of harsher economic conditions. This has allowed the savviest operators to better weather the storm and preserve the value of their business and real estate.

The carwash industry also benefits SBA backed financing. Lenders familiar with the property type or with the help of SBA financing are stilling willing to invest in well-located properties with a solid operating history. There have even been new construction loans for a handful of well-located projects.

While these do serve as a glimpse of sunlight in stormy skies, waning demand hurt carwash revenues significantly in 2008 and 2009 in most markets and owners are uncertain if they can regain the income levels of 2005 to 2007. Spending is down by owners and customers alike and several owners have also been forced into foreclosure. The increase in REO properties hitting the market at discounted prices has led to an overall rise in buyer expectations (and decrease in sale prices)—a trend similar to most types of commercial real estate.

Our opinion is we have gone from a full blown tsunami to still foreboding skies, heavy rain, and mere 20 foot swells. Overall capitalization rates are continuing their upward trend, though at a much slower pace. Interest rates have remained historically low, but are bound to rise as fears of inflation increase. It appears that the captains of this industry as well as most in the commercial real estate world will have to hold on a little longer.

The silver lining of the story is that well-located and well-run carwashes are holding their own against multi-family, office, retail, and industrial investments. The industry continues to innovate with improved technology as well as a more sophisticated approach to business operations. It is likely that this trend will lead to a gradual consolidation or formation into more regional and national chains or brands. With better investment returns throughout the recession as well as growing sophistication and due diligence by owners, there is hope the industry will come out of the storm less scathed and with more momentum and respect than ever before.

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