



HOW TO VALUE A LAUNDROMAT & INCREASE IT'S VALUE

Q: What does the term “value” mean when related to a small business like a Laundromat?

There are many variables in considering “value” as it relates to the Laundromat business. The actual value in Laundromat ownership is often seen as the income stream that can be increased or decreased by ownership input. Value cannot be specifically defined and is most often understood from a personal perspective. There are at least seven different reasons to own a Laundromat, but most owners assume that the only reasons others would consider for value is a variation of their own view. Value is a function of personal perspective and not an absolute.

Q: What is the most common method for placing the value of a self-service laundry?

Unfortunately, the most common method of placing value on a Laundromat is probably the least reliable. Using a multiple of net income to determine the value of a Laundromat is a limited and an extremely unreliable method to follow in establishing value. It is useful in the analysis of the purchase of residential and commercial income property, but not in the evaluation of an income flow. It’s familiarity to many investors with prior investments in real property resulted in it being adapted for a simple method to be used in sales presentations, but really is not appropriate in placing value on a self-service laundry. Dilemma example: Laundromat “A” nets \$10,000.00 a month, but owner does his own repairs and cleaning and operates fifteen year equipment and has a twenty year lease. Laundromat “B” nets \$10,000.00 a month, expenses all repairs and cleaning and operates three year old equipment, unfortunately the lease expires in two years and cannot be extended. Based on a purely net multiple, how can both stores be worth the same?

Q: What aspects of a Laundromat, including the lease, equipment, visibility, population density, the surrounding housing and income of the neighborhood tend to have the greatest impact on value?

Demand (density), visibility and parking are the most important aspects of Laundromat success and income generation. This is often determined by examining a professional demographic study specific to the needs of the business. Demand would be followed by customer parking (at least one unrestricted parking space for every 400 SqFt of a store) and finally visibility. These three items are often called the three legs of the stool of Laundromat success. The lease can also cripple the success of a Laundromat and may be the most overlooked aspect of due diligence. Existing competition (apartment laundry rooms and other Laundromats) and potential new Laundromats being built or planned in the marketing area need to be carefully included in any due diligence process. An often overlooked aspect of value of a Laundromat investment is potential; can the income be grown in a reasonable and likely effort.

Q: Should the owner assess his or her store valuation on a regular basis? If so, why would that be important?

If you are making money, paying attention to your business and charging a reasonable price for your services the regular consideration of value is not necessary. The appropriate time to consider an evaluation of your asset would be upon a potential sale or partnership breakup. Otherwise, there are more valuable ways to spend your Laundromat time investments.

Q: Has the nature of valuation changed during your time in the industry?

Laundromats have gotten larger and brought in a wave of more sophisticated, higher income investors who have changed the nature of valuation during the last forty or fifty years. The major consideration in the past was how much cash was left over after paying rent, expenses and a loan payment. The benefits of tax deductions were never much of a factor in value consideration in the early years. Today, few new buyers actually use Laundromats on a



regular basis. They want to invest in a business they haven't used since their college days. Yes, valuation and buyer types have changed and brought with them their own opinions of value.

Q: What kind of impact, if any, did the pandemic have on store valuation?

The pandemic has impacted finances of most self-service owners. It has driven some in our industry to believe that the self-service aspect of our business is declining and the future of our facilities will be WDF (Wash-Dry-Fold) and pickup and delivery services. It is possible, and some say likely, that as the pandemic recedes, the self-service business will be come back to pre-Covid levels and auxiliary services of WDF and delivery will decline. The cost of self-service washing is up to ten times cheaper that using delivered WDF, so these services may decline.

Q: How can competition influence the value of a laundry?

Every mature industry faces competition. Laundromats are a mature industry. Smarter, richer and more experienced competitors are now a reality to any existing owner of a Laundromat compared to previous decades. Specific to a particular location, the impact of competition can be huge. One of the major surprises of a new owner is to discover that the actual reason your Laundromat was being offered for sale is the knowledge that a large, new Laundromat is being planned or actually under construction in your neighborhood. As part of due diligence, every potential owner needs to explore any surrounding commercial space that might be in the process to conversion to a Laundromat. Potential sellers and brokers often don't feel the necessity to explain the impact that the construction will have on the cash flow of a Laundromat they are offering for sale.

Q: Do you have any tips or suggestions that you could share about maximizing a store's value?

If a Laundromat owner keeps their eyes on their own business, staff and their equipment condition, the value of a store will be maximized throughout the term of ownership. It is a mistake to allow your facilities to deteriorate which an idea of a future renovation. Every month, a wise owner evaluates what needs to be done to make his Laundromat appealing. I advise owners to have a "once a month improvement" plan. Every year owners can plan out a year ahead of what they are willing to do to have their customers feel welcome. A new clock, paint restroom, new fan, entry rugs, remove bulletin board, add a bulletin board, new trash cans, new paper towel dispensers, a new lighting fixture for the restroom, maybe even replacing or adding some equipment. Let your customers regularly see that you care about your business and the services you provide. This will help maximize customer interest and increase the value of a store.