



CLEANING UP

An Introduction to the Coin Laundry Business

While the economy and retail sector seem at times to be spinning out of control, one business keeps spinning along, unaffected by the global recession. Vended laundries continue to post solid returns — the kind of returns that make them extremely attractive to developers and owners of shopping center properties. That's made Dan Bowe, national sales manager of IPSO, a manufacturer of laundry equipment and developer of vended laundries, an extremely popular person of late.

"We are definitely seeing increased interest over the past year from developers of shopping centers and strip malls," Bowe said. "Noteworthy, is that more than half the developers who approach IPSO with available space to lease to investors, actually end up developing the stores themselves. I think that says quite a bit about vended laundries as business," Bowe added.

A GREAT INVESTMENT

Rob Bodner, president of Park Ridge, N.J.-based EFR Inc., a laundry equipment distributor active in building new stores, noted the variety of investors showing interest in his services.

"The volatility of the stock market and real estate has made safe investing significantly more complicated," Bodner said. "High caliber investors are now very interested in our business and the 25 to 35 percent ROI that comes with it on average," he added.

Bodner said while the ROI of vended laundries is attractive to new investors, the stability of the market reinforces the idea for many newcomers.

"How many businesses can you get into that have virtually a 100 percent success rate?" Bodner said. "After five years, coin laundries have almost a 100-percent rate of success ... that's pretty compelling in any environment, but particularly in our current economic situation," he added.



According to Coin Laundry Association figures, vended laundries are a roughly \$5 billion-a-year business in North America and growing. And while small mom-and-pop operations may have been prevalent in years past, today's vended laundry is far more high-tech and can be run from afar.

"Obviously, the ROI vended laundries can deliver is great, but it's the ease of operation that's opened the door to the next generation of owners," Bowe said, adding that for 2/3 of new investors, the store is not their primary means of income.

Today's advanced control systems, card payment options and networking capabilities enable owners to manage their business from off-site, including checking in or changing vend prices from their office, home or anywhere with an internet connection.

GETTING STARTED

Required starting capital will vary by the size of the store, but for an average project, coin laundry investors will possess roughly \$150,000 in up-front capital. The general rule is a 30 percent equity position in the entire project, including build-out, equipment and installation.

The average store will need about 3,500 square feet of space, though some laundries may go as low as 2,200 square feet or as high as 7,000 or above.

"I caution investors against building too small," Bodner said. "We design a store to fit what the demographics and market will support. Building too small serves as a signal for other investors to come in when your store is unable to handle peak periods of business quickly and efficiently," Bodner added.

THE BASICS

As with many businesses, the biggest variable in the success of vended laundries is location.

"At IPSO we spend a great deal of time analyzing the demographics of the area to ensure success," Bowe said. Along with that comes careful analysis of competitors in the area.



So what makes a great location? Oncho Kerian, owner of Automated Laundry Systems in Burbank, Calif., said many of the basics mirror what shopping center developers are looking for.

"The starting point for any good store is a location in a densely populated area with lower to middle income residents," Kerian said. "You also want to see a high percentage of rental units," he added.

Good ingress/egress, high traffic counts, good visibility, ample parking and locations with solid anchors such as grocery stores or retail centers also are key ingredients in the recipe for success.

Likewise, shopping center developers appreciate what successful vended laundries add to their project and other businesses.

"These are big, bright and modern businesses," Kerian said. "They offer a variety of amenities and are family friendly, which makes them a perfect fit in most retail centers."

LOOKING AT THE LONG TERM

A number of factors have made vended laundries desirable renters for owners and developers of shopping centers. Long-term leases are a major part of that.

"Investors are looking for a minimum of a 10-year lease with at least two five-year options," Bowe said. "Certainly, those longer terms have made this business attractive property owners," he said adding they also get much more.

Coin laundries are complementary to retail developments. First, they do much of their business on the weekend. Second, the average coin laundry customer is a 37-year-old female with children. Because the laundry chore involves waiting for cycles to be completed, other adjacent business tend to benefit from customers seeking to fill that time by multitasking with additional shopping, etc.

WHY IS IT GROWING?



Bowe said that while the coin laundry concept is a mature business concept, it should see growth for many years to come due to increasing numbers of renters.

"A renter population that's expected to keep growing well past the year 2020 is a great sign for our industry," Bowe said. "Because many rental developments either don't have an on-site laundry or have small, inefficient laundry rooms, renters seek out vended laundries."

The time savings coin laundries offer increases their popularity among customers. Our society moves at an ever-increasing pace and people are placing a premium on their free time. Fast food franchises, quick oil change garages and drive-through coffee shops are just a few of the businesses catering to our desire to complete tasks faster.

"Coin laundries apply that same concept with large capacity laundry equipment," Kerian said, "something that could take a household half a day to complete, can now be accomplished in just one hour. And if your laundry offers wash-dry-and-fold service, convenience is taken to the next level as customers drop off dirty laundry and pick up clean folded laundry later in the day ... for a premium rate, of course," Kerian added

This time savings as well as wash-dry-and-fold service has enabled vended laundries to tap in to a customer base outside of just renter populations. Those with laundry equipment at home are utilizing coin laundries to save time or even to just wash bulky items such as quilts more effectively.

"When we look at the popularity of coin laundries, I think it's important to not overlook the efficiency of these cutting edge machines," Bowe said. "The average family washes eight loads of laundry per week. If they're doing that in a topload washer at home, they could be using between 40 and 50 gallons of water per load," he added. A vended laundry will cut those figures down dramatically, Bowe said, adding that faster drying times also help laundries present a far more environmentally friendly option.

"As society attains a higher level of environmental awareness, I think you'll see vended laundries rise further in their popularity," Bowe said.



A NEW IDEA

While individual investors make up the majority of store owners, others experienced in the industry are helping newcomers benefit from the business without having to commit to actually running a store day-to-day.

Bob Schwartz, owner of Virginia-based Super Suds Management, is harnessing his more than 10 years of industry experience to generate returns for equity investors.

"Our expertise is in finding locations, building the stores and managing them," said Schwartz, whose company already manages 20 of its own stores in Virginia, Pennsylvania, New Jersey and Washington DC. He added that it's a natural extension to work with investors in an already proven arrangement.

"It's really no different than the hotel business or real estate partnerships that people have been doing for 50 years," Schwartz said.

Under this plan investors contribute capital investment (often matched by Super Suds). Super Suds then finds a location, develops the store or stores and manages them. Investors benefit from a 7 to 10 percent return cash on cash as well as 18 to 20 percent annual return on investment from store profits. The advent of card payment systems and their audit capabilities ensure peace of mind that all parties are sharing equally in the store's returns.

Schwartz said the timing is right for these partnerships, as in the current real estate market landlords are selective to ensure the viability of those leasing their property.

"Landlords want to know who's operating the business and what they're going to be bringing to the table," he said, adding that Super Suds' track record of success is an important part of lease negotiations.

Timing he believes also is right as other investment opportunities appear significantly more risky in our economic downturn. There's building interest in Schwartz's idea from investors, who see the same benefits that lured him out of a Wall Street job and into the coin laundry business in 1996.



"The returns are good, it's a cash business, no receivables ... it's just a good business," he said.

Bowe takes things a step further in explaining why investors as well as shopping center developers have taken to the coin laundry concept.

"When times are tough, I can choose not to dine out or shop," he said, "but clean clothes are a necessity. There are very few businesses out there that are as recession-proof as ours. I think that's why you're seeing interest in our business from developers and other investors."