## DETERMINE A PURCHASE PRICE

Usually, the listing price gives you an idea of the ballpark figure the seller/broker is expecting. Not that you can't offer less, but low-balling a seller for no reason will only irritate them. So you need to find a valuation that is fair.

There are several methods used in the industry to determine valuation of a laundromat. By far, the most significant driving factor in determining value is the net income. A typical formula is below, and it uses a 'favorability multiplier' to determine a valuation.

The main factors to consider when applying a multiplier are:

- Location
- Machine Age
- Lease
- Store Condition
- Competition

A lower multiplier would be used for a store that has deferred maintenance, outdated machines, old or missing fixtures, an unfavorable lease or is in a poor demographic location. A higher multiplier would be applied for a higher-end store, with newer equipment, modern decor and fixtures, a favorable lease and is in a premium demographic location.

### Estimated Valuation Formula

40 to 70 times the MONTHLY Net Income

| | | |
|---|---|---|
| **Example:** | \$3,500 | **Monthly Net Income** |
| (X) | 50 | **Multiplier** |
| = | \$175,000 | **Estimated Value** |

How do you determine the multiplier, you ask? Truthfully, there is no straightforward way to arrive at the favorability multiplier, so you just have to use your best judgment. What you're really trying to do is determine if the asking price is fair and reasonable.

Many prospective buyers start in the middle, around 55, and adjust upwards or downwards depending on the favorability of each of the main factors (location, machine age, lease, store condition, competition).

Once you arrive at a ballpark estimate, you need to keep in mind that it may be far different than the asking price because of very specific, logical reasons.

Let's use the example from the formula above as a hypothetical. We'll call our target Sam's Laundry. In calculating the valuation of Sam's Laundry, we used a monthly net income of $3,500 and a multiplier of 50 to reach an estimated value of $175,000. However, the listing price is $265,000. So we reach out to the listing broker to ask how they arrived at a $265,000 valuation. He tells us that $100,000 in brand new machines were installed 6 months ago. This explains the higher valuation. Your valuation, therefore, would need to be adjusted upwards by quite a lot.

We tell you this as a reminder that estimated value is strictly that; an estimate. Do not assume that because an asking price is higher than your estimate that it isn't accurate. Use the formulas to arrive at a ballpark, but circumstances such as nearly-new machines will move the valuation up significantly.

***Real-Life Example:*** When we made an offer on our first store, it was listed at $129,500. We had decided on a multiplier of 44 and a monthly net income of $2,740 to arrive at a valuation estimate of about $120,560. This wasn't *too* far off the asking price, so we decided to go in near our valuation amount and offer $119,500. And then waited.

To our pleasant surprise, it was accepted. (Hint: If you remember our "real-life example" from earlier, we negotiated further after review of the financial statements, and the purchase price dropped again to $105,000.)

Once you've arrived at a figure you're comfortable with, and you have a "good faith" deposit ready (usually around $2-$5k, depending on the purchase price) then you can let the listing broker know you're prepared to make an official offer.

Note: The "good faith" deposit is just a demonstration that you are a serious buyer. Buyers of real estate make similar deposits when putting in an offer to purchase. By putting a little bit of "skin in the game" up front, your offer will be taken seriously. Don't let this deposit worry you; your offer will clearly include clauses that provide for your deposit to be refunded if anything about the transaction is not agreeable to you. More on that next.