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BUSINESS STRATEGIES

Get Real (Estate)!

How to Land a Better Retirement

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"The best investment on earth is earth."
-Louis J. Glickman, real estate investor

For many dry cleaners struggling to stay above water, life may seem to be a downward spiral, and the only anchor their business has is the land they've committed to. While expenses continue to mount, revenue stays steady, or quite likely, plummets like rock on quicksand. Some firmer ground sure would be nice.

Putting metaphors aside, chances are solid ground is exactly what cleaners need. As several members explain, purchasing real estate can be a strategy to help improve long-term financial footing, even propelling an owner's exit strategy. For these cleaners, purchasing real estate has helped ensure a comfortable retirement that might not have other wise been possible.

The dream of becoming a millionaire-or even having a carefree, luxurious, and/or early retirement-may seem out of reach. At IFI's Clean 01 seminar, "So You Want To Be A Millionaire," all the panelists espoused a similar formula for success, which included maintaining tight controls on the cash flow of your business, living beneath your means, and acting as a CEO instead of a foreman. In addition, the businessmen advocated reinvesting in your own operation and buying your own real estate, so as to pay yourself rent rather than a landlord.

This month, *Fabricare* explores real estate investment, the "golden parachute" that is allowing some members to find the elusive financial peace of mind others envy.

Real Men, Real Success

Together, Jim Barry, Lang Houston, and Greg Myers have 75 years of experience in real estate investment. Thought they have been successful as dry cleaners, the three men have found real success through prudent land purchases over the last 30 years or so.

Now the CEO of GreenEarth Cleaning, Barry, a former Navy pilot, built his fortune in part by buying dry cleaning establishments. Having been in the distribution business for seven years, in 1983, he bought Pride Cleaners in Kansas City, Missouri, a chain of 10 stores, all "in-line" locations in strip malls, via a bank loan and good negotiations. Two years later, he was paying $1 million in rent a year.

"In 1985, I had started quite a few locations-around 30. I started looking at how much I was paying someone else each month in rent, "Barry said. "Escape paying rent to someone else, so you can pay it to yourself," he advises.

If you can accomplish that, you may soon find your cash flow greatly unclogged. With good planning and bit of luck, your company will pay off all the mortgages on your store properties, and you, the business owner, will reap the rewards.

I have made far more money in real state than in dry cleaning, "Barry said, though he once owned as many as 50 stores in Kansas City.

"It makes a hell of a difference," said former IFI President Houston, owner of Crest Cleaners in Cocoa, Florida, talking about the financial freedom that eventually comes from owning land, whether it is used for your dry cleaning company or not.

When Houston started, his wife's parents had two locations, and he bought them out. He purchased his first piece of commercial real estate in 1970. Today he has stores on 11 properties, of which he owns 10.

Another cleaner, Greg Myers, owner of Southside Cleaners in Lakeland, Florida, got into real estate about 18 years ago. Now 53 years old, he started in real state by purchasing the property his original plant was on when he was in his thirties. "It really was not a plan; I didn't go looking for real estate investments," he said.

It was more related to control over the dry cleaning business-all the issues we've had about pollution, dry cleaners losing their leases, etc." he said. "I wanted to control the property so my dry cleaning business was safe from having to move or relocate."

Within the last year or two, his wife and he began thinking about what they would need during their retirement in monthly income in order to maintain their current lifestyle.

"As it turns out, the buildings we own will provide more than half that amount, whether we rent to the person who buys the dry cleaning plant or someone else. Also, we could sell the buildings outright and invest the money so that it produces an income stream from the investments."

Getting Real (Estate)

Concerned that his lease might not be renewed one day, Houston began looking into acquiring his own locations beginning in the 70's. His approach was simple, consisting mainly of courage and determination. "I'm aggressive. I've done this all on my own. I didn't go to any realtor. I have enough driving ambition for five or 10 people," he said.

Houston approached property owners, including the landlords to his stores, directly. Of course, as Houston says, it can't always be done.

"All they can say is 'no.' I've been turned down a time or two, but overall I've been very successful."

Having been in the community for years, Houston built up a good reputation. He says some landlords would say, "Let me think about it," and later return to sell the property.

So what does it take for dry cleaner to supplement his retirement through real state purchases? How does one begin? And does everyone have shot at it?

Barry says yes. By going to a new growth are of town, and, in some cases, by being willing to buy before the land is developable, it's possible for any cleaner to be successful with real estate investment.

First, Barry recommends talking to developers. "Go out and talk to the various developers in the community and let them know that you're expanding in the dry cleaning business. Look for a high visibility, free-standing store."

He believes a freestanding site is a key to success. He describes his business plan as "in every instance, if I could buy the location, I'd do it."

"Free-standing properties tend to be the higher-volume stores. I've found that although many of them were across the street, they far outdid the in-line shopping centers-without a doubt and without exception."

Barry says developers typically sell of-pad sites in front of a supermarket or other development first. Getting in on the ground floor, before the property is built on, can make a big difference. Being ahead of the curve, that is, keeping your eyes open and focused on seeing where growth will be, is crucial.

These guys have got to know that you're interested in that kind of property. They have to go to the bank and ask for $10 million. They're eager to have a deal [in hand]."

Another method, although much more difficult, is simply finding a piece of land that is for sale in a good demographic area. "Look for land that properly trafficked. Ask yourself, 'Does it have an ingress and egress [good entry and exit]?'" Barry said.

Southside's Myers shares another story. "One time I was renting space in a shopping center for drop store. It grew and grew and grew," Myers said. He asked himself," Should I rent more space or build?" The answer came quickly. "Instead of paying more and more rent to someone else, we decided to go down the road," he said.

Rather then go to a third-party landlord, Myers went down the street and found vacant property. With the property under his control, he then set up a triple net lease, where the tenant, in this case, Southside Cleaners, agrees to pay not only rent, but also for common area expenses, which included maintenance and improvement to the building, landscaping, and property taxes. "It's more the rule than the exception, "he says.

As Myers states, "If you think about it, you're controlling the company that rents the building, and it's paying you rent, your mortgage…You're building, and it's paying you rent, your mortgage…You're building equity in property, and you don't have to worry about the tenant-because it's you."

He says instead of charging his company the going rate for rent, he charges an amount equivalent to a mortgage payment and any improvements, so, for example, if the mortgage payment is $1,000 a month, he might charge $1,300 to his dry cleaning company, so some money is put away for repairs.

"I don't know that it's cheaper for the company to rent that way, but it's cheaper for the building owner."

Illustrating another way to succeed with real estate purchasing, Barry tells another story. He had two inline stores within two blocks of a Hardee's restaurant. When Hardee's left Kansas City, he bought the property and remodeled it, converting it into a large store with a drive-thru.

But that's not the kicker. As the leases ended on the other two stores, he closed both of them. The stand-alone site received lots of comments, as it was easily the most visible one on the corner, whereas the other two locations were small and less noticeable. The new store received three times the volume of the other two stores combined.

"You have to be able to make an impact on the consumer's mind." Barry said. "A larger store looks more successful, whether it is or it isn't. Therefore, the customer has more confidence in your company, just from a visual standpoint."

Additionally, sometimes Barry has taken a piece of ground that was larger than what was needed for his purposes and asked himself, How am I going to make it work financially?"

In those cases, in order to have the ground pay for itself, he built a structure large enough for, say, spaces for two other tenants. In one case, it was a hair salon and dog groomer. "That was about 12 years ago. One is a different tenant, but the businesses are still the same."

To succeed with real estate investment, "basic knowledge of what real estate is worth-its potential for wealth," is needed, Houston said. "You have to know what it cost to build a building per square foot and the value of the real estate it's setting on."

"I try to pay for building in 10 years-all costs and expenses. That's my goal."

Sinkholes

So you're convinced. You're tired of your landlord raising rent, adding on new expenses and taxes, and you think you're a good candidate to buy a property. What do you need to look out for?

Richard and Judith Stone own and operate **Dry Cleaning Plus**, a brokerage, consulting, and advertising business that operates exclusively in the dry cleaning industry. They specialize in "matchmaking" to help people enter, expand, or retire from the industry. They see both the advantages and the possible pitfalls of dry cleaners purchasing real estate.

"It's a wonderful idea if it's available. The advantages far outweigh the disadvantages. And if the building is available right away, it's even better; you start paying off your mortgage right away," **Judith** said. "You're not at the mercy of a landlord for tax increases, rent increases, or environmental concerns. You're controlling your own destiny, kind o like the difference between working for someone and owning your own business."

As **Judith** explains, an owner should think carefully before getting into such an investment.

"A good candidate is someone who has their financial house in order and does not have other debt. There's what's considered bad debt and good debt. Bad debt includes credit cards, auto loans-things that been used, but have no further value. Good debt is debts such as purchasing a house or a commercial building, where every payment is building equity."

One query posted on Yahoo's Fabricare Forum asked about purchasing a space three blocks down the street, expressing concerns about going into debt again.

"If the man on the Forum had cleared up bad debt and then had the opportunity to take on a good debt, I would have advised him to go ahead," **Judith** said.

"Some people get a little nervous with going into a little bit of debt," Barry acknowledged.

"Don't overpay for the ground. In order to do that, you have to be a student of the real estate market and know what other ground is going for. It's quite simple to research that."

Barry says you can contact real estate brokers in your market place and have them looking for you as well. What has sold recently and how much it has sold for is a matter of public records, which are part of broker or county records.

"Don't get blindsided by price," Barry warns. "Cheaper isn't necessarily better."

Richard Stone says many business people who buy a property make a mistake by not having their cleaning company pay rent because they don't have a true sense of their actual overhead. Once a property is purchased, owners should be honest with their accounting, **Judith** advises. Otherwise, owners delude themselves into thinking they've made more than they have as a dry cleaner (by not factoring in the expense of rent). "It makes it easier to buy land or sell a business or a property," **Judith** said.

To make things easier, it's advisable to have two corporations, one that leases the real estate and the dry cleaner itself. Having two companies has several advantages, including limiting liability and tax benefits. "What a messy situation you have if you're selling only one of the two entities. If you have a business, land and one corporation, they'd be buying just one part [of the corporation]," **Judith** said.

By far the biggest sinkhole is the concern over environmental issues. All those *Fabricare* spoke with mentioned the issue of possible contamination and the need to test land. Of course, whether you rent or won, the potentials still exist for contamination depending on the solvent used and company's handling practices. So, all the things being equal in regards to contamination, it is still better to own than rent the property.

"It's the biggest [pitfall]. A seller definitely should have an environmental test before putting it on the market…You cannot get a mortgage unless they know the land is clean,' **Richard** said.

"You've got to test every piece of land," Houston said. Barry agreed. "Absolutely test land. Most banks require you to test it," he said.

Barry also recommends having a good relationship with a dependable real estate lawyer so mistakes aren't made. It's also necessary to form a close relationship with a banker who understands you and your business. Finally, your accountant is the key to putting together a plan.

"Ultimately, it's speculation…You have to be pretty educated. It has to be part of an overall investment strategy," **Judith Stone** said.

Terra Firma

The ins and outs of real estate investment are tricky, to say the lease. Like any aspect of business ownership, it's important to do your homework and thoroughly investigate your options before making a decision. As real estate executive Deil O. Gustafson once said, "Inequality of knowledge is the key to a sale."

While rent may be an unrelentingly harrowing expense, it would be foolhardy to purchase a property rashly to escape a landlord's clutches. However, if entered into wisely, real estate investment can clearly improve your lot in life (see sidebar).

As said on the Fabricare Forum, "The intricacies of an exit strategy are not unique to the dry cleaning industry…This topic is so important to each of us, yet it seems we spend twice as much time trying to determine which soap is best as we do trying to learn how to successfully market our businesses when we reach retirement." Perhaps the biggest lesson to take from the real estate moguls profiled-and others like them-is to remember: You're not just a cleaner. You're a business owner.

With that in mind, one way or another, sooner or later, you're sure to find your terra firma.

Improving Your Lot in Life

So you don't have enough capital for a real estate purchase. Or maybe there just aren't any available properties in your area at the moment. You can still improve your lot in life.

Rent Management, Business Management

Richard Stone of Dry Cleaning Plus brokerage, consulting, and advertising agency advises cleaners primarily in the New York metropolitan area. He tells cleaners to reinvest their revenue whenever possible, but says most cleaners live above their means and many never get to the point where they can put money away. "Real estate is very rarely available in the city," he said.

He urges owners to be bold in their landlord relations. "When times are tough, don't be afraid to tell a landlord you need a reduction in rent. You may find them when they're losing tenants [so they may be receptive]. All they can say is, "no."

Judith Stone said in the December 2000 *Drycleaners News*, "Optimally, a fair rent should range between 10-13% of the gross sales volume. If your rent is too high, speak to the landlord about a reduction."