

## ENTREPRENEUR

## SMALL BUSINESS STRATEGIES

*Owning, not leasing, property drove auto shop to new heights*

Joseph Burns

When a bank officer referred Autoworks-Autosports, Ltd. owner and founder Matt Hodges to the Hawaii Small Business Development Center in

Honolulu, Hodges had been in business for about 10 years.

As an independent automotive repair shop focusing on imported cars, especially Volvo and Lotus vehicles, the business was operating on leased land. Matt's challenge: How to buy a property to eliminate the risk that he might be forced to move after establishing himself in a location that served his customers well, and to be sure he would realize a good return on his planned investment in shop expansion and improvements.

Our first step with Hodges was to help him reformat his existing financial statements to better

reflect the realities of his business.

After that, we were able to model a range of strategic alternatives such as adding employees to generate additional revenue, as well as covering loan payments in the event he found a suitable property to buy. We also looked at overhead and direct costs, which allowed him to assure that his shop rate and parts markup were sufficient to cover all expenses. Finally, we encouraged him to think of profit as a cost to be covered, not something that is left over at the end of the work process, hoping it will be sufficient. It turned out that that the property Hodges was renting came up for sale, and, due to our efforts, he was in a favorable position to apply for a [U.S. Small Business Administration] 504 loan, which is an advantageous way to finance long-term assets such as real estate, build-outs and equipment. Strengthening and clarifying his financial statements helped the bank see

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the value-producing processes in his company, and gave them a clear way to measure cash flow and financial ratios such as debt coverage and liquidity.

"The biggest challenge in acquiring the property was coming up with the money," Hodges reports. "I had to liquidate my investment and retirement accounts, [but] I reasoned that the property was more likely to allow me to retire than my retirement accounts were."

There were challenges along the way, such as meeting the SBA qualifications along with the bank

underwriting standards, and this drew out the process, but by working together to address these issues, the bank closed the loan and the purchase was completed. The new monthly loan payment turned out to be less than the previous rent due to income from two residential rental units on the property along with the shop.

Hodges has since completed the shop expansion and improvement plans, and construction will begin before the end of the year. He also is enjoying tax deductions for interest and ownership costs, as well as the appreciation potential of the property. We have also been discussing prospective long-term uses, one of which is to convert the property to 100-percent residential rentals, or alternatively having someone lease and run the shop. Ownership of the property has created these and other options.

*Joseph Burns is the director of the Oahu office, Hawaii Small Business Development Center.*