Trefethen

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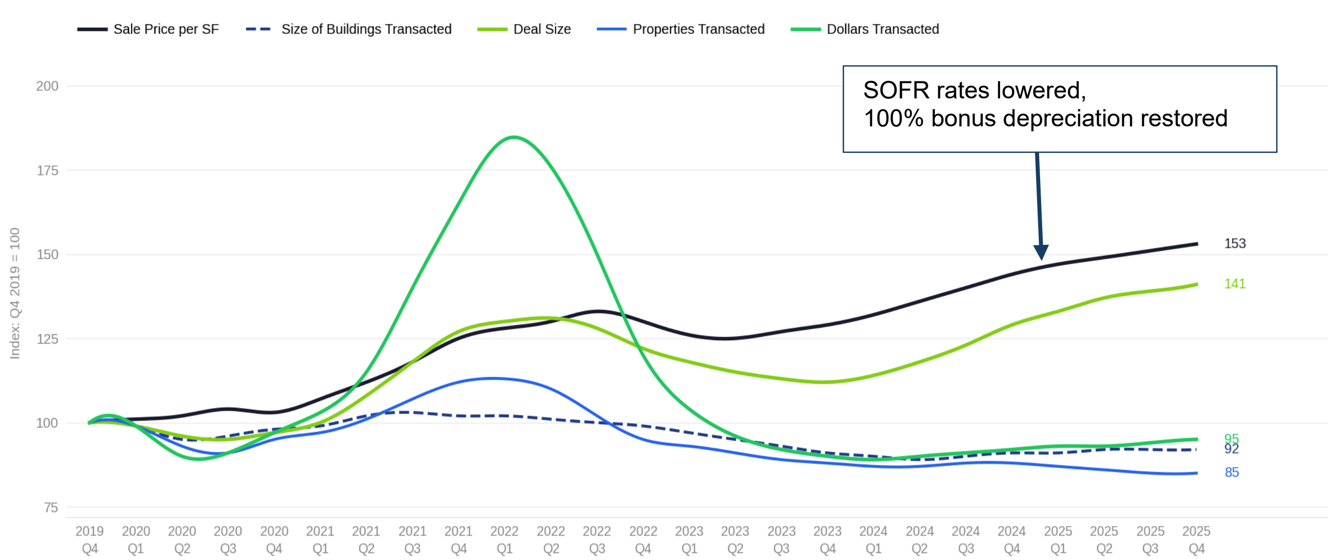
Car Wash Sale-Leasebacks are on the Uptrend

Market Snapshot & Key Takeaways

- Car wash cap rates compressed 1 bps to 6.25% in Q1 2026
- Sale-leaseback transaction volume is up 3% year-over-year
- 100% bonus depreciation has been permanently restored, triggering a 36% surge in car wash equipment inventory

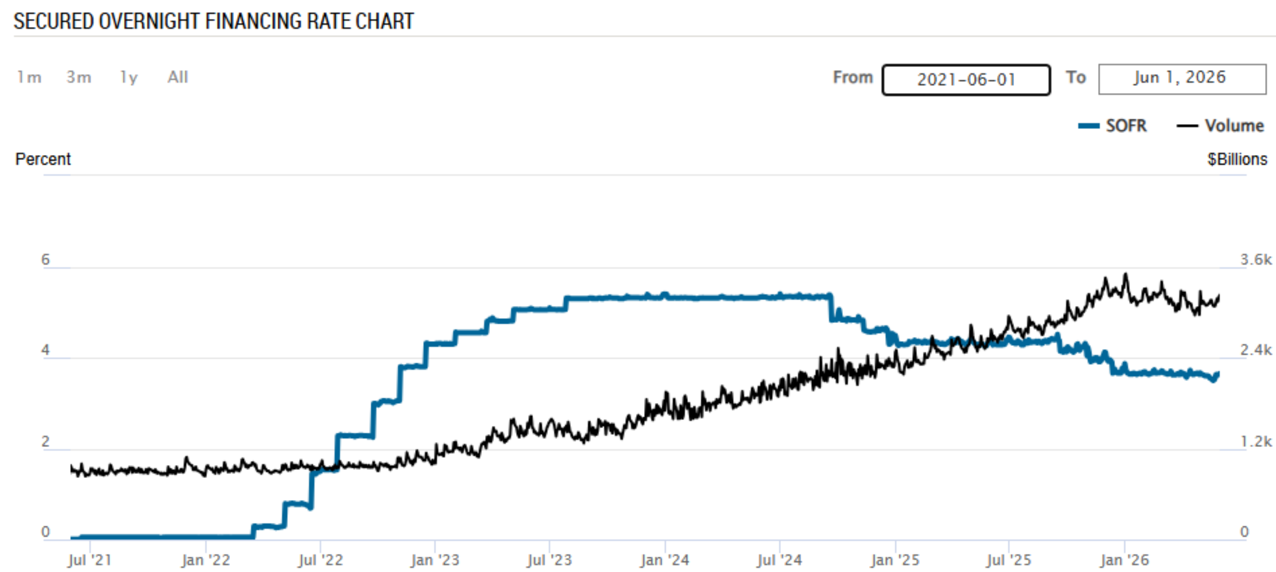
How the Sale-Leaseback Market Has Shifted in the Last 12 Months

Taking a birds-eye view of the broader market, 2025 was the first year since 2021 where price growth, transaction counts, deal sizes, and building sizes of U.S. commercial real estate grew in tandem. This recovery goes hand in hand with the resurgence of sale-leaseback transactions, which reached a volume of $14.4B — a 3% year-over-year gain. For the car wash market specifically, supply decreased 11% year-over-year compared Q1 2026 to Q1 2025, and cap rates have compressed slightly to 6.25%. Together, these dynamics create a highly competitive environment for single-tenant net lease assets for car wash companies.



Source: Altus Group US Research Team, Reonomy

The bid-ask impasse that froze deal flow in 2023 and 2024 is finally starting to resolve. Sellers who remained anchored to 2021-2022 valuations are succumbing as the rate environment normalizes. For context: SOFR hit a historic low of 0.05% in 2021, surged to 5.30% at its 2023-2024 peak, and has since retraced to approximately 3.60% today. That rate relief has been a catalyst for transaction volume, which has grown 0.1T on a quarterly basis. It is worth noting, however, that ongoing geopolitical conflict in the Middle East has tempered expectations for further rate cuts.



Source: Federal Reserve Bank of New York, SOFR Data, assessed June 2026

The permanent restoration of 100% bonus depreciation is reshaping operator behavior across the sector. This provision allows investors to immediately expense 100% of qualified tangible property with recovery periods of 20 years or less applicable to both new and used assets (land excluded). The practical effect has been a 36% surge in car wash equipment inventory, including conveyors, water recycling systems, dryers, vacuums, pumps, and control systems. The California car wash market illustrates this most clearly: where greenfield permitting timelines stretch three to five years, operators are redirecting capital toward existing site conversions that qualify for the full depreciation benefit on day one.

Where Sale-Leaseback Deals Are Getting Done

Mister Car Wash provides the clearest read on transaction velocity in the sector. For the last twelve months, ending March 31, 2026, the company's sale-leaseback volume increased 7% to $31.8M in total. This signals that essential-use net lease properties continue to attract institutional capital even as broader credit conditions remain uncertain.

One notable development for market observers: as of May 19, 2026, Mister Car Wash has completed its transition to a private company and will no longer trade as a public entity. Since Mister Car Wash was the only publicly traded car wash operator, this delisting eliminates the primary source of publicly accessible operating and transaction data for the sector. Investors and analysts will need to rely increasingly on proprietary deal flow, broker data, and private disclosures to assess market conditions going forward.

Marcus & Millichap completed sale-leasebacks of two single-tenant Super Star Car Wash properties in Tucson and Glendale, AZ for a combined $9.7 million on May 29, 2026. Super Star Car Wash is ranked #9 among the top Car Wash companies in the U.S by site count. They operate at approximately 192 locations across Arizona, California, Colorado, and Texas.

A Cautionary Tale: ZIPS Car Wash and the Limits of Sale-Leaseback Strategy

While the sale-leaseback market is broadly constructive, ZIPS Car Wash stands as a reminder that execution risk is real. In February 2025, ZIPS filed for Chapter 11 bankruptcy following a severe liquidity crisis driven by maturing term loans, inflation-driven operating costs, and off-market lease agreements, and many of which resulted from an aggressive sale-leaseback program intended to pay down debt.

The structural flaw in ZIPS's approach was straightforward: the company converted owned assets into lease obligations at above-market rents, permanently raising its fixed cost base at exactly the moment the car wash market was becoming more competitive, and its operational efficiency was deteriorating. Unlike a mortgage, which can be renegotiated if a business encounters stress, a lease obligation runs regardless of revenue performance. ZIPS freed up capital to pay down debt in the short term but locked in costs that proved unsustainable on a larger scale.

The lesson for operators and investors alike: sale-leasebacks are a powerful capital strategy, but only when lease terms are at or below market, rent coverage is adequately stress-tested, and the freed capital is deployed into genuine value creation rather than debt service. ZIPS did none of those things with sufficient discipline, and the market penalized it accordingly.

Outlook: Selective Opportunity in a Competitive Market

The car wash sale-leaseback market enters the second half of 2026 in the strongest position it has seen since the 2021 boom. Cap rate compression in the sector, declining supply, and the tailwind of restored bonus depreciation are creating genuine deal flow for well-capitalized investors with the diligence infrastructure to underwrite operational quality and lease structure simultaneously.

The bid-ask tension that paralyzed deal flow in 2023 and 2024 is easing up, and transaction activity is accelerating into 2026. However, the ZIPS bankruptcy is a recent data point that the market has not fully internalized: not all sale-leaseback opportunities are equal, and above-market lease structures in operationally challenged platforms can erode returns quickly. At Trefethen, we continue to favor multi-unit retail assets with demonstrated cash flow and institutional-quality operators.