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The economy is beginning to recover: How much is my restaurant worth?

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It's been a long haul, but, like all cycles, what goes up, comes down...and what was down is on its way back up. God bless America!

That said, recovery for the food and beverage industry is not equal in all sectors and areas.

It appears that those independents that were not over-leveraged and well-capitalized have not only weathered the storm but are posturing for growth. As far as food chains go, it wasn't long ago that it was rare to see McDonald's, Pizza Hut, or KFC sites to close down. Now the landscape is dotted with the availability of premier sites. The question is why are they available? How is it that, with sophisticated site selection systems, with financially secure franchisees, with competent real estate managers that a situation becomes so intolerable that a decision to close is made?

Brigham's is a perfect example of how a decades-old, staple of New England can disappear from the landscape. The problem is emblematic of the situation that all optimists experience...when times are good, expand...when times are bad, consolidate. However, when times are good companies tend to throw caution to the wind. If your company is grossing \$2 million a year with low food cost, it's easy to justify a 10% rent factor for a mall or prime highway location. However the picture changes dramatically when the volume drops in half. The recession, as it always does, caught a lot of businesses off guard...look at the general real estate market. In a sense it's the same mentality that caused the recession...house values were going to continue to go up ad infinitum and stock values were on a daily quest for higher ground.

Sadly, the government has fueled, and continues to fuel policies that make recovery that much more difficult. However, as of today, the euphoria that is at hand with the anticipation that the socialistic direction of today's President and congress is about to shift to a more business-friendly environment is pushing stocks higher and raising the levels of consumer confidence.

The danger that we all face is that a lame duck congress, joined at the hip with a President that is bent on changing the face of capitalism, may do irreparable harm to a sustained recovery. Between reinstituting the "death tax," not renewing the Bush tax cuts, the increasingly visible imposed costs of Obamacare, and taxing everything within sight directly impacts our disposable income for out-of-home dining.

So, taking all these issues into consideration, how is the value of a food operation decided. On one hand a formal business appraisal can be ordered at a cost of thousands of dollars analyzing replacement cost, cap rates, discounted cash flows, and area comps or a market evaluation can be commissioned that will yield a more representative value and will tend to be more realistic in determining an actual saleable value.

The most relevant facet of value is the goodwill as represented by "traffic" or, in essence, "sales." With most expenses being controllable, sales is what determines profit. In the late '80s, New

England Restaurant Brokers sold the Hilltop Restaurant, the highest grossing independent restaurant in the country for \$15 million with sales of approximately \$43 million per year...a factor of just under 19 of weekly gross sales.

Another contributing factor in determining market value is the quality of the lease. When a rent exceeds 8% of sales and a term drops below 7 years, a business's value begins to become significantly compromised. The other facets that directly affect value such as profit margins, age of equipment, retention of staff, competition, and competitive advantage must not be minimized.

Today, out of the ashes of failed restaurants rise Panera Bread, Summer Shack, Sal's and Upper Crust pizza chains. Unknown for the most part north of Boston, MaryLou's Coffee, a chain of over 20 units spread south of Boston to Cape Cod is crossing the great divide into Rhode Island. While the larger restaurants are somewhat more negatively impacted by health activists, union agitators, and misguided government mandates due to size, the smaller independent restaurants and fast food operators tend to be somewhat insulated and able to fly under the radar.

What does this all mean? With the anticipated control of one of the houses of congress by the Republicans, with the return of two-party rule, with the specter of controlled government spending, and a renewed appreciation and support of entrepreneurs the food and beverage industry should see a slow, but sustained recovery.

From our brokerage perspective, we haven't seen this much activity in years with owners transitioning into retirement, selling to upgrade their concept or space, fear of insurance reform, or more frequently selling due to the issues that result from mismanagement, insufficient financial reserves or the inevitable result of optimistic exuberance. On the other hand, the food and beverage industry is a direction for the multitude of those individuals and groups who see the highways, the downtowns, the shopping centers heavily populated with apparently successful sports bars, fast food chains, and dinner houses. Interestingly both perspectives are correct. As in the stock market and commercial real estate brokerage, someone is selling because they're convinced that their value is at a high and will likely fall and simultaneously someone is buying that same item because they "know" the real value is yet to be seen.

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