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Dennis Serpone - Is there long term growth in our economy or is this just an unsupportable economic spike?

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The world is caught up with financial distress around the world, climate catastrophes in our country, and incessant political garbage coming from our politicians. 'Nero fiddles while Rome burns.'

Yet the stock market keeps reaching new highs and gold is at a record peak. Wait a minute, we were taught that one offset the other. When consumer confidence is high, speculation takes over and stock prices rise. When consumer confidence is low, people buy gold as a safety net. Looks like people are confused.

Compared to January 2009, a gallon of gas is up 84%...corn is up 78%...sugar is up a whopping 164%...the number of long-term unemployed is up 146%...43 million people live in poverty in the US...and over 50% of the people living in the U.S. don't pay any Federal income tax. PRETTY SOBERING NUMBERS.

Yet like the rise in the stock market and gold, restaurants in most categories are seeing increased traffic. It seems that, across the board, full service, fast food, or limited menu places are popping up everywhere. The strong survive, the weak disappear. Especially notable in Boston and the South Shore...Quincy, Weymouth, Abington, Norwell...as soon as retail space is built, it gets committed...for the most part. Drive almost anywhere and vacancies are filling up and names are being changed... "under new management". Whether it's a small strip along the Rte. 18 corridor at $18-$25 per s/f + $3 nnn or a new lifestyle center in the suburbs at $45, $50, or more per foot there's a resurgence of the confidence that was there before the recession.

But with all this action and confidence displayed by developers and restaurateurs, is there long term growth or is this just an unsupportable spike?

When people or companies decide to build a restaurant, or buy an existing restaurant, one of the most important factors is an evaluation of the sales figures both present and future. In today's economy the pressure to maintain or achieve profitability has never been greater. To the extent that one can control food costs for a full service restaurant (averaging 27-35%) and payroll costs of 27-34%, a good operator or professional manager should be able to control the myriad of other expenses.

The expense that seems to be uncontrollable is the lease and the accompanying triple net charges...real estate tax, property insurance, and maintenance. The somewhat disinterested landlord gives up the use of his property, usually on a triple net basis so the tenant pays for the property and he has a stream of income for the life of the lease.

Having been a restaurant broker for over 30 years I've seen it all...the cooperative landlord, the hands-off landlord, and the scourge of property owners..."I'll put you out of business if you don't pay me on time." Hey, it is their right by the lease signed and agreed to.

In today's unsettled economy, the lease is one of the most crucial components of success. Because lease span 5, 10, 20 years, what you sign for today that seems like a good deal can put you out of business. Brigham's went out of business because their old leases, with built in escalators, couldn't sustain huge drop in per unit sales with extraordinarily high rents. Bickford's paired down to less than 10 stores for the same reason. When you have to deal with lower sales, high rents, ever increasing costs to operate and overwhelming local and Federal regulations, the solution many times is to close the doors...Borders is a prime example of huge, national companies failing just like the Mom & Pops.

The success of a restaurant location is directly attributed in a great way to attention to food quality, affordability, customer service, atmosphere and a firm grasp of net operating income. As success is somewhat more attainable with greater and greater sales, failure is easily a result of decreasing sales. Thus it can be said that 'sales' is the great mitigator of an unsustainable lease. Cost per s/f is only a number...sales is the delineator.

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