



nerej

Simply put, both tenant and lessor would benefit from being represented by a restaurant real estate broker

January 26, 2012 - Spotlights

Every business, once a location is secured, has to prepare for dealing with a landlord, a build-out, personnel, and then the customers. At the top of this pyramid is the 'landlord'...be it an individual or, in many cases, the landlord's representative.

Ideally there should be a symbiotic relationship between the landlord and the tenant with each party having an undivided interest in the success of the new business.

If you're a retail landlord, the tenant's investment is fairly limited...new dÃ©cor, shelving, bathrooms, and office area.

In the case of leasing to a restaurateur, the investment is significantly higher with extensive high-capacity plumbing and electrical requirements, handicap bathrooms, kitchen equipment and refrigeration, special walls and flooring in the kitchen, ventilation, and constant scrutiny by local health and bldg. inspectors.

Typically, the landlord wants a 'triple net' lease...essentially he wants to own the property with the tenant carrying all his operating expenses. This is not an unreasonable business model...in good times.

However, when the economy stumbles as we've seen in the last few years, it's easy for the retail tenant to close his doors and walk away. In the case of the restaurateur, his investment is so significant that, when his operating numbers fall into the red, he typically seeks the cooperation of the landlord when he's having trouble paying his rent. The landlord at this point is holding all the cards. Subject to the terms of the lease, the landlord could force the tenant to go out of business, take over the location, and re-lease the, now fully equipped restaurant, to another operator. The problem here is that the operator may have invested his life's savings in this venture and fights to keep his business going, many times to the point of filing a Chapter 11 bankruptcy. The question that arises is, "isn't there a better, less confrontational way of avoiding all this animosity?"

Simply put, both tenant and lessor would benefit from being represented by a restaurant real estate broker. Because restaurant leases are so complicated, it takes years of practical experience and an ongoing education to properly negotiate them. A restaurant real estate specialist is well aware of these complexities and is uniquely qualified to address and manage the contingencies contained therein.

There are two very distinct actions that the landlord can do to avoid losing the tenant and that the operator can do to avoid going out of business. Both solutions are a function of the steps taken at the very beginning of this journey that the landlord and tenant are taking.

First and foremost, the tenant should engage the advice of a restaurant real estate specialist who can provide an unbiased opinion of the appropriateness of the location for his concept. All too often serious conditions exist which the optimistic lessee can't see through his rose-colored

glasses...many times risking his life's savings. Conversely, a restaurant specialist can justify to a landlord a tenant's background and experience and help negotiate the language of a lease that helps ensure that both parties understand the mutual interest each party has in each other. Success of the tenant ensures a peaceful, uneventful stream of income for the landlord.

Dennis Serpone of Wakefield is, president of New England Restaurant Brokers and The National, Restaurant Exchange, Wakefield, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540