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## **The Tale of Two Cities: Sales are up, profits are down, new restaurants are opening, costs are up**

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In a Tale of Two Cities, the famous line, "these are the best of times, these are the worst of times", appears to be the basis of everything we do and see today...black & white, liberal & conservative, positive & negative, success & failure, ying & yang, and the driving force of our society optimism & pessimisms.

Speak to some restaurateurs and you hear that sales are up, dinner counts are up, but profits are down.

Talk to other restaurateurs and he's complaining that competition for the lunch crowd has never been greater, so he cut back on hours and his profits are much better.

"Americans are beginning to eat out again, with restaurant industry sales projected to reach \$631.8 billion in 2012, according to the National Restaurant Association."

The stock market is returning lost value to everyone's 401(k) and other retirement programs. Some of the financial confidence is being translated to being able to return to your favorite restaurants of yore, buying new cars, and even vacationing once again. However, stating the obvious, there's them that have and there's them that don't (but they act as if they 'do'). The well-to-do, the fortunate whose home is not underwater, who has a job, whose kids are out of school, they're eating out more consistently. The others are still eating out but have traded down to the fast casual and basic fast food.

If you look around, there are more restaurants, of every description, opening up everywhere. As brokers, we see operators buying existing businesses or taking vanilla boxes at new developments. Who would have even considered a lease of \$100 per s/f. Plus triple net.

Investor/management teams are more and more evident...hooking up with a well-known chef, putting together a grandiose business plan that touts expansive sales, excessive profits, and unbridled acceptance by the public at the direct expense of its competitors.

Case-in-point, the seaport district of Boston where rents would choke a horse, where cost to build are in the stratosphere, but a location that draws the affluent, the young professionals, and the status-seekers at the expense of the Newbury St. and Beacon Hill landmarks...the lines are gone.

New life-style shopping meccas all over the region are in various stages of development after a couple of years of being mothballed at the early stages of the recession...Fan Pier is finally getting off the drawing boards, there's the beautiful Market St. development in Lynnfield, The Launch in Hingham, Southfield in Weymouth, Assembly Row in Somerville, and Karp's creative redevelopment of Newburyport's waterfront district into a Nantucket-style village.

With all the new developments, with the increased restaurant traffic, with the reemergence of consumer confidence, one would surmise that being in the restaurant/hospitality business is the way to go.

However, if we revisit that line, 'the best of times, and the worst of times', on the surface the restaurant industry looks 'hot', and the stock market looks even 'hotter', however if you look deeper you'll find that along with sales being up and optimism across the board, also 'up' are costs, frustration is up, regulations and mandates are up, financial pressure is up, government control is up, IRS scrutiny is up and, guess what, profits are down.

So what does the industry look like coming into Summer, cruising into the November elections, the restaurant industry will continue to recover, you'll be going out to eat more, Obama will manipulate the cost of gas down to a tolerable level until the elections are over, the stock market will continue on its rage, and the banks will make money more available to buy a home or refinance. The health of the hospitality industry is really just a function of how comfortable each & every one of us is with our families and jobs. As always, the strong will survive and the smart will outmaneuver their competition.

This all presupposes that Israel doesn't nuke Iran, that North Korea doesn't sell nukes to Syria, that Iraq doesn't fall into a civil war, that China doesn't use all our trillions of dollars to buy up our country's core industries & resources, and that Obama doesn't totally decimate our military & defense industries.

Then again, if you watch the History channel and the doomsday prophecies of December 21, 2012, none of this matters. Good luck.

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