



nerej

As in all aspects of business the strong owners survive and the weak are absorbed

January 30, 2014 - Spotlights

As restaurant specialists, we've never seen it so busy. Restaurant chains are expanding everywhere... either through opening company-owned units or through the sale of franchises. Well-located vacant retail space is quickly gobbled up, and independents with one unit are looking for their second; those with two are looking for number three. Conversely those marginal operators who've survived the Great Recession are either being rewarded for their efforts and are doing well or those with limited resources are slowly succumbing to the inevitable. As in all aspects of business the strong survive and the weak are absorbed.

Much like our body, the life blood of our economy is the small business, with 70% of all small business food and liquor related. If a healthy body pumps 'bright red' blood, the small business community is pumping 'pink'.

The battery that keeps the blood pumping is the optimism, resilience, and fortitude of the American spirit.

As of the first quarter of 2014, it appears that consumer confidence is going to continue to grow -albeit slowly- as consumers find themselves with more disposable income. Particularly in the fast food and casual dining sectors with brands like Chipolte Mexican Grill, Panera, Texas Roadhouse, and Firehouse Subs....leading the way. "Casual dining has really been the success story of the past few years" says Serpone. "Consumers have traded down from traditional table cloth restaurants to those with more diversified menus and more value-added." However, competition is severe in all sectors of the industry.

Nowhere is the competition more severe as in the hamburger wars...from the leaders like McDonald's, Wendy's , and Five Guys to the smaller independents like Wild Willy's, and soon to be a factor... Wahlburgers.

On the other hand, with chicken prices set to come down by 7%, I anticipate seeing more chicken-oriented places opening like Buffalo Wild Wings, Wingstop, and Popeye's Louisiana Kitchen. This growth though will be most apparent in high traffic pedestrian places like down town office areas and life style centers.

There is meanwhile a real concern looming above the heads of a significant segment of the restaurant industry. That concern is in that sector that serves alcohol. With the high cost of operation

and the diminishing profit margins, restaurants need the profits derived from the sale of alcohol. However the changes provoked by activists...like MADD, and instituted by our legislators is giving immense discretionary power to the police to close down any restaurant or bar that they see fit to target. With the blood alcohol level so low, almost anyone who has one or two drinks will fail. Failing a breathalyzer could cost you \$3,000-\$5,000 and cause you to lose your license for 3 months or longer.

Cops have been known to wait outside a bar, nightclub, or restaurant and just start stopping cars and finding everyone beyond the legal limit.

We'll see more and more people substituting that 2nd drink, or after-dinner-drink with tea or coffee. Our already over-regulated industry is fair game for the activists. This will only grow stronger. We'll start seeing food and drinking pairings of coffee and tea replacing 'wine pairings' as matches for meals.

People are living longer...the baby boomers have much more disposable income than their parents at this stage of their life and are much more able to get out and about during their retirement.

With 20 active brokers, we're still having trouble keeping up with the amount of activity generated by independents and chain operators. Fortunately, there appears to be a new willingness for banks and the SBA to help fund deals in the hospitality sector.

There will be a number of chains sold this year as deals that have been in the works for years get completed throughout this year. The National Restaurant Exchange, our sister company, is representing the owners in the sale of three regional chains.

With most people in reasonably good health and finding themselves in fairly good shape financially, anticipate further growth in the eating out and prepared food sectors over the next year. The restaurant industry employs more than 13 million people and will generate more than \$700 billion in sales in 2014, an increase of 3.8% over 2013 sales, as stated by the National Restaurant News.

Dennis Serpone is president of New England Restaurant Brokers and The National Restaurant Exchange of Wakefield and a member of the Mass. Restaurant Association.

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