

Question of the Month: Why has my broker not found a suitable buyer for my fantastic restaurant?

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For the most part this question is asked not only of restaurant brokers but also of general business brokers, and as well of other commercial real estate brokers.

The scenario is that an owner seeks out what he feels is a competent professional to help him exit a business that has provided him with the luxuries of success or the pains of failure. In either case, if we take on the listing, we're promising the seller, and therefore morally obligated, to do everything in our power to extricate the owner from his business with the best price and most favorable terms.

However the buyer's needs also come into play. The buyer's concern, as opposed to those of the seller, is to find the minimum price that the seller will accept with terms that are most favorable to him. What a dilemma for a conscientious broker.

For over 35 years, I've had to straddle this invisible line...satisfying the needs of the seller while appreciating the position of the buyer. The advantage of being a restaurant specialist is that we know the market value of every listing. In the same way that a doctor looks at your x-ray and determines that the spot on your lung is pneumonia and not cancer, a restaurant broker determines that your business is worth \$900,000, not the \$1.2 million that you're looking for.

Many times National Restaurant Exchange (NREX) is called into a listing after a general business broker has exhausted the listing. The question always asked is "Why hasn't my listing sold?"

The factors for not selling are very basic, first of which is that you haven't had fully qualified potential buyers. It's easy to get the phone to ring, but deals are made with qualified, seasoned buyers with sufficient working and reserve capital, not just the down payment.

Further, the reasons are many that a place hasn't sold:

1. OVER PRICED: Many times the seller tells the broker what to sell it for and the broker accepts it because he wants the listing and doesn't know what it's worth.
2. HIGH DOWN PAYMENT: Most restaurants don't qualify for traditional bank financing so many sales rely on 'seller-financing'. Having the same concerns as a bank loan officer, the broker should make the parties aware that the monthly debt service to the seller and the rent, including triple net charges to the landlord, should be kept below 10% of sales.

Review of the rent factor using 'present' sales figures against 'potential' sales figures both rising and dropping after purchase is critical.

3. SHOWING A BUSINESS WHEN IT'S CLOSED: "So the employees don't know I'm selling", is heard so often. Restaurants need to be discretely shown at its busiest times...buyers purchase both pragmatically and emotionally.

4. 'CLEANLINESS IS NEXT TO GODLINESS': Would you invite people to your home if there were dirty dishes in the sink? So many sellers don't see what a buyer sees.

5. DEFERRED MAINTENANCE IS A DEAL KILLER: If a seller doesn't repair a poorly functioning air

conditioner, replace some broken tiles in the kitchen, and reupholster booths with rips in them, the buyer is going to assume that the seller is losing money and can't afford to do the repairs.

6. LOCATION, LOCATION, LOCATION: Ever wonder why successful companies pay exorbitant rents to be in a new lifestyle center, the Seaport District, or Newbury St.? Many uneducated buyers focus on the cheapest rent and the cheapest purchase price when buying a restaurant. It's the job of the broker to determine an accurate market value and then encourage the seller to appreciate that value and help the buyer to accept that same market value.

7. COMPETITION: One of the first challenges for a broker is to determine how much competition this business has, who the major competitor is, and then find a buyer who has a 'competitive advantage' strong enough to bring the business to a higher level. If a broker doesn't determine a realistic market value in the beginning, the business typically won't sell.

Our companies are staffed with experienced hospitality professionals with an expertise in food and beverage businesses.

We understand their values and the various nuances that come with pricing a business to sell. EVERY business sells at some point...once the seller understands and accepts the price and terms that will compel a buyer to buy.

Along with a plethora of independent buyers, the specialists of the National Restaurant Exchange and New England Restaurant Brokers are actively working with many other business and commercial brokers, shopping center developers, and a large number of national franchisors.

After 35 years, we're able to see clearly through the fog that exists at the beginning of a deal, keeping it on track to its final conclusion.

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