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What's a landlord supposed to do when The Perfect Storm hits? - by Dennis Serpone

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Drive through Boston, meander along Rtes. 128 and 495...the skyline is dotted with huge construction cranes for completed or semi-complete apartment buildings and condo towers. In many of these new projects the ground floor has been dedicated to retail but, today, that retail space has few takers.

COVID-19 is causing havoc on the restaurant industry, and subsequently on the general commercial real estate industry, specifically landlords. Reminiscent of the last recession—when the government gave stimulus packages to banks—stimulus checks have now been provided to business owners and individuals to provide relief both at home and to help keep the economy going. As of now, that first round appears to not have been enough.

For those restaurant owners who haven't already thrown in the towel, the increase in operating costs, today at significantly reduced operating capacity, social distancing of tables, and the lack of in-house entertaining, has caused many owners of food and liquor businesses to consider the possibility of selling. This is certainly why we see so many restaurants, both big and small, on the market.

In order to more clearly view the movement of the restaurant industry, each segment should be looked at separately. The pressure has never been greater for the marginal independent operator, but since early March the chain operators are also feeling the pain.

As you might suppose, the market has never been this active with some of the more well-known regional and national chains spinning off their under-performing units...did you ever expect to see a closed McDonalds? Thousands of chains and independent Mom & Pop operators have been unable to cope with the rising costs and have either sold or simply created a deal with the landlord to get out of a lease, sold off their equipment, and moved on.

It has always been said that if you can generate cash flow, you can be successful. Well, that's not the case right now. There are plenty of restaurants that are 'churning' dollars but there's little or no profit at the end of the month when the rent and taxes are due. If you look closely, you can see where the restaurant operators are 'between a rock and a hard place.' They have a significant investment to recover, they need to keep their staff busy, they need to keep the seats full...COVID has halted that.

Most independent restaurants run on a very small margin. In most cases, though, the ability to stay in business begins with being able to pay their monthly expenses—employees first, food purveyors secondly, the landlord is next, and then taxes.

With 20 restaurant specialists in the field, I get to evaluate the entire spectrum of the market. Simply put, fast food, even with limited seating is doing the best...by a long shot. The National Restaurant Exchange, even though 'national' in scope, is primarily local in operation and in such a capacity has a broad view of the entire New England commercial real estate industry.

COVID-19 has created such chaos in just about all industries that it'll take years to get back to what used to be 'normal.'

Before this crisis, selling a restaurant was fairly easy—take the financials, review the lease, calculate a fair market value, and advertise. Today I realize that those were the 'good old days.'

The reality is that the longevity of your business is almost entirely reliant on your relationship with your landlord. Obviously, there's a myriad of other factors but if you don't pay your rent, your landlord can't pay his mortgage. Landlords need to keep that restaurant space churning dollars so that some of them flow down to him. However, when the unforeseen happens, the obvious choice for a landlord is to find a specialist to refill his vacant space with a more financially sound and seasoned tenant. The National Restaurant Exchange, in the last six months, has been almost overwhelmed with attending to the needs of buyers, sellers, and landlords. The Fall is here, Winter is around the corner, your favorite restaurant needs your attendance. Use some of your stimulus money to support your favorite restaurant.

As long as people need to eat and people need to be entertained, food and liquor businesses will always survive, the only thing that changes is the face of the operator.

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