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It's a dilemma. Should I stay or should I go? - by Dennis Serpone

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Dennis Serpone

It's everywhere, for all the good news about the recovery from the pandemic we have the media blasting away at all the negative influences affecting our economy. However, there's a built-in fortitude that comes with building, managing, and growing a restaurant.

For those restaurateurs who had already begun the downward spiral, the pandemic was the kiss of death. For those who survived the last couple of years, today's problems are just a hiccup to be dealt with.

That being said, there are a percentage of owners who've reached a point of wanting to sell, not necessarily because of the economy, but as a result of health issues or dreams of retirement. One owner that I interviewed was candid enough to confess that he's been able to sock away a tidy sum of money. "How much more money do I need?"

Whatever the reason, a number of owners have decided to sell. However, in volatile times that we're living through, some restaurants are not perceived by buyers as good deals. Hence the question, "Why hasn't my restaurant sold?"

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 40 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.

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. Overpriced. 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 is worth.
2. Low 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 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 buy both pragmatically and emotionally.

4. 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 tears in them, the buyer is going to assume that the seller is losing money and can't afford to do the repairs.

5. Location, location, location. Ever wonder why successful companies pay exorbitant rents to be in a new lifestyle center, the Seaport District, or Newbury St.?

6. 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 market value in the beginning, the business typically won't sell.

7. The biggest factor why a business hasn't sold, is that the seller isn't motivated enough to compromise with a serious buyer.

We only sell the products that we have an expertise in, namely food and beverage businesses. We understand their values and the various nuances that come with pricing a business to sell.

Today for every business that closes, three new businesses open.

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