



CELEBRATING
55 YEARS

nerej

It's nice to be the king! - by Dennis Serpone

September 29, 2023 - Spotlights



Dennis Serpone

When you're the landlord, you're the king.

Every business, once a location is secured, has to prepare for dealing with a landlord, a build-out, personnel, and then the customers. At the top of this pyramid is the 'landlord'. Be it an individual or, in many cases, the landlord's representative.

Ideally there should be a symbiotic relationship between the landlord and the tenant with each party having an undivided interest in the success of the new business.

If you're a retail landlord, the tenant's investment is fairly limited...new décor, shelving, bathrooms, and office area.

In the case of leasing to a restaurateur, the investment is significantly higher with extensive high-capacity plumbing and electrical requirements, handicap bathrooms, kitchen equipment and refrigeration, special walls and flooring in the kitchen, ventilation, and constant scrutiny by local health and building inspectors.

Typically, the landlord wants a 'triple net' lease. Essentially he wants to own the property with the tenant carrying all his operating expenses. This is not an unreasonable business model...in good times.

However, when the economy collapsed in 2020, it's relatively easy for the retail tenant to close his doors and walk away. In the case of the restaurateur, his investment is so significant that, when his operating numbers fall into the red, he typically seeks the cooperation of the landlord when he's having trouble paying his rent. The landlord at this point is holding all the cards. Subject to the terms of the lease, the landlord could force the tenant to go out of business, take over the location, and re-lease the, now fully equipped restaurant, to another operator. The problem here is that the operator may have invested his life's savings in this venture and fights to keep his business going, many times to the point of filing a Chapter 11 bankruptcy. The question that arises is, "isn't there a better, less confrontational way of avoiding all this animosity?"

Simply put, both tenant and lessor would benefit from being represented by a restaurant real estate broker. Because restaurant leases are so complicated, it takes years of practical experience and an ongoing education to properly negotiate them. The National Restaurant Exchange is both a restaurant and real estate specialist, well aware of these complexities and is uniquely qualified to address and manage the contingencies contained therein.

There are two very distinct actions that the landlord can do to avoid losing the tenant and that the operator can do to avoid going out of business. Both solutions are a function of the steps taken at the very beginning of this journey that the landlord and tenant are taking.

First and foremost, the tenant should engage the advice of a restaurant real estate specialist who

can provide an unbiased opinion of the appropriateness of the location for his concept. All too often serious conditions exist which the optimistic lessee can't see through his rose-colored glasses...many times risking his life's savings. Conversely, a restaurant specialist can justify to a landlord a tenant's background and experience and help negotiate the language of a lease that helps ensure that both parties understand the mutual interest each party has in each other. Success of the tenant ensures a peaceful, uneventful stream of income for the landlord.

This is an exciting time to be living in New England. Know that there is an influx of hundreds of thousands of students flooding into our area spending their parents money in our restaurants and bars has to warm our hearts. Then we have the euphoria that comes with the 'draw to the mountains', first to see the change of the color of the leaves, then to ski over them when they fall. During that same period we get excited over Halloween. What better place to own a bar, restaurant, or ice cream take out than in Salem...or anywhere celebrating this holiday.

Beyond Halloween and foliage, we have two of the biggest holidays of the year to look forward to, Thanksgiving and Christmas. With consumer confidence under control, with restaurant visits increasing both for families and individuals, and dining-in again growing back to pre-pre-pandemic levels, industry prognosticators anticipate a strong season. Of special note, the largest number of Mexican and Latin restaurants have opened up this year and for every restaurant that closed this year, three opened in their place. Massachusetts is hot!

Dennis Serpone is the founder of National Restaurant Exchange, Wakefield, Mass.

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