

Restaurant market forecast: There is a silver lining in this bleak picture

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There must be a silver-lining somewhere in this bleak picture. With government mandates unending, with Obama and the Congress promising to raise everyone's taxes, with the burgeoning costs on the books for Universal health care, some sort of amnesty for 10 - 20 million illegal immigrants in our country, banks that haven't loosened up commercial credit, a stock market that has devastated everyone's savings and retirement programs, and looming over everyone's head this promise to the unions that the government will support the free-wheeling attempts of unions to make it easier for them to infiltrate every business...why would anyone want to start or own a small business in our country, let alone the capital intensive, labor intensive food & beverage industry?

The answer is very simple...because it can be a very profitable and it doesn't take a college degree or years and years of training to join this crowded industry. With a few months working in a sub shop or breakfast place, you can learn enough to make you dangerous. With some minimal training and experience, you can learn to run a pub. With the assemblage of a couple of experienced partners and some cash, you can buy a successful restaurant. And with some luck and an optimistic attitude, you can end up owning several places.

The restaurant industry can be broken down in several ways for comparison purposes...independent ownership vs. chain (or franchised), basic vs. complex, cash-based vs. credit-card based, and leased facility vs. owned property.

For the factory worker (are there any left) or the mainstream business worker who feels he might get laid off, taking what's left of his savings and buying a small food operation could be a great long term move. A short learning curve with sellers staying on to train, usually less than \$100,000 cash is required and cost of goods are relatively low. In this scenario, help is relatively easy to find and you can typically earn \$50,000 to \$150,000 per year if you like to work long hours and have family support. For this category of independent operators, the future is not as clouded as for the larger independent or chain operators.

For the larger restaurant operators, because of the complexities and multitude of economically sensitive areas, the outlook is somewhat direr. The larger restaurants operations can be likened to piranha in a river attacking a water buffalo. The poor huge animal is bitten on all sides by hordes of these vicious little fish until it bleeds to death. That is what is happening to the larger food & beverage businesses through out the country.

We've elected politicians who are mostly lawyers, who have no business experience, and who make their mark in life by writing laws...laws that impact every aspect of our lives without and concern about how it effects our society. As we know, politicians react to lobbyist who effectively bribe them to satisfy their interpretation of how they think the world should look like. Supported by the ACLU, these piranha are slowly killing our economy, specifically severely impacting the restaurant industry.

Let's ban smoking, eliminate trans fats, paid sick leave, calorie counts on the menus, handicap access, liquor liability, sexual harassment, age discrimination, signage restrictions, affirmative action, and a myriad of other smaller local, state, and federal requirements dumped upon operators. Some are good and needed, many are just an intrusion on our freedoms...but all make operators subject to fines and lawsuits.

The ill effects of what government has done to small business is evidenced by the thousands, upon thousands, of stores closing in malls and small shopping centers, the number of restaurants close to closing as evidenced by the huge increase in Federal and State tax liens, and by just driving around and seeing big, once-successful restaurants 'closed for renovations'...indefinitely.

The final nail in the coffin for credit-card based businesses is the still-to-be experienced reduction in the use of credit cards. It's getting to the point where the average user has very little if any credit available. In the past, a card user could max out all his cards, refinance his home, use the money to clear all his cards and still paint the house or take a vacation. Today, that cavalier attitude is burying most people; cards are maxed out and the credit card companies are severely cutting spending limits and raising interest rates to the 30% range.

Within the framework of small businesses in general, next to governmental influences, the next biggest enemy is the landlord (who could also be your bank). I see it every day...astute, once successful business owners in horrible leases. It doesn't matter if it's a large operation or a successful chain, food or otherwise...it's so easy to enter into an imposing lease when the future looks bright, expectations are high, and 'the sky is the limit'.

However, in today's climate, with our economy in such shambles, you would think that landlords would be extra cooperative to save a tenant. However, the opposite seems to be true. Landlords seem to think that because a tenant signed a lease, probably signed personally, and is bound by that contract that they're better off seeing a tenant lose their business, their life savings if they can't pay the rent. The fact of life is that when a food operator is paying 12, 15, 18% of their sales for rent (plus the triple net charges)...they aren't going to make it. Yet these landlords seem to think that there will be another naïve tenant in line waiting for his space. Landlords need to realize that we're all in this mess together and when they force a tenant out, they run the risk of not being able to pay 'their' mortgage. Does it make sense for a landlord to sit on empty space, with no income and with the ownership expenses each month, rather than cherish the tenant he has and work with him so both can succeed over the long haul.

As a restaurant broker for over 26 years and former owner of a chain of restaurants, I've seen this economic cycle twice...but not to this degree.

People will continue to eat out, or order in. Some people will trade down from upscale restaurants to the mid-range pub-style. People who used to go out to dinner twice a week will scale back there also. Some people who looked forward to going out for 'dinner' on the weekend will go out for 'lunch' on the weekend.

From my perspective I see the pizza/subs, breakfast/lunch, pubs, and sports bars continuing to be profitable and growing. I see, in 2009, the larger, more recognizable restaurants struggling to stay alive with innovative marketing techniques to draw customers.

Fortunately, as restaurant specialists, we're experiencing a much greater level of cooperation with general business brokers along with a huge influx of first time buyers. The deals that are coming together are those that have a motivated seller, willing to provide financing for the buyer, and with a buyer who has a realistic business plan and who is willing to take a risk. Most economists indicate

that, much like buying a stock whose value has dropped significantly, any chance of recovering that value probably won't be realized until we get through to 2010 or 2011.

For the right buyer, 2009 can be a wonderful opportunity for a restaurant buyer. For the appropriate seller, 2009 may give him the chance to move on to some other endeavor.

There is always a silver lining!

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