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## **Selling and Appraising Restaurants**

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The traditional mantra of "location, location, location" may still be viable for residential housing and retail shops; however, it no longer applies for the restaurant industry. Today's formula is a good location, the right concept at that location and the right sales to investment ratio. The most important ingredient for any successful restaurant business is that the concept be well defined and properly articulated.

Most restaurateurs have a specific concept in mind and their site selection efforts are directed toward markets that would be appropriate for their menu and style of service. Other operators may have a specific location or community in mind. Their challenge is to determine what concept would do best in that market. Typical site selection criteria that should be considered for any restaurant opening are the demographics, competition, activity generators, traffic patterns, zoning ordinances, signage and accessibility.

The investment required to open a new restaurant from scratch today is almost double what it was ten years ago. Increased construction costs, the availability of materials, permitting and the enforcement of local, state and federal code requirements has put new restaurant development beyond the means of many independent operators.

An alternative opportunity for a new entrepreneur is to purchase an existing business and customize it to their concept. The benefit being that there is a lease in place, there are financial statements for review and the space has the necessary licenses and permits. In this situation, it may not be necessary to meet all the new code requirements as an existing business is often "grandfathered" and is exempt from the most current regulations.

In terms of valuation, as an industry benchmark, operating restaurants are typically sold at a multiple of from 30% to 40% of annual revenue: the differential being dependent upon the potential for sales and earnings growth, the condition of the furnishings and fixtures and the terms of the lease. While there are benchmarks and rules of thumb that are available for valuing businesses, every restaurant is different and needs to be considered on its own merit.

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