



nerej

This is the best of times for those with a dream, fortitude, and financial stability

July 28, 2009 - Spotlights

An investment group, led by a very well-known chef, finds a great Boston location for his new, upscale dinner concept. The visibility is the best, parking is validated, the space overlooks the water, and it's close to a major interstate. Almost two years in the planning and \$3 million later, the place just changed hands for less than a third of its cost. Why?

How could this happen to such a great chef, with a great following, and an impeccable track record? The answer is simple...the market changed before the restaurant opened. The rent was budgeted too low, the cost of goods increased, on average, 8%, and getting a qualified support staff proved to be a daunting task. That said, the bigger issue was the mind-set of the consumer. Even those that we refer to as 'affluent', or upper middle class, are trading down...they're adjusting their lifestyle, like most of us, but probably not to the same degree. If you remember, in the not-too-distant past, everyone lived on 'plastic'. When your cards maxed out, it was a common practice, if you owned a home, to refi and start anew.

Today, as we all know, that practice has pretty much disappeared. If you don't have cash, you don't buy. Today the consumer is shell-shocked. The "no new taxes" that we heard last year during the presidential campaign, is a dream. Everywhere you look fees, costs, and taxes are piling on. Subsequently a good portion of the customers who might have patronized this upscale restaurant have gone elsewhere.

That said, we all have to eat. Eating out is not for sustenance alone, it has become a form of entertainment. Subsequently, for those who've not succumbed to eating home, some of the 'affluents' have traded down to the Ninety-Nine, Applebees, and The Chateau where the food is good, the prices are reasonable, and the ambiance satisfactory.

Even though the government is mandating that we eat healthier by requiring calorie counts on every menu item. With trans-fats eliminated, smokers exiled, and salt declared a killer, fast food is still tastier than broiled haddock and broccoli.

On the other side of the coin, the restaurant industry is booming. Breakfast-lunch places are always busy, pizza/sub shops are in high demand, pubs are bringing in big numbers, and coffee & dessert places are so profitable that owners are starting to realize that their business is an annuity.

Having been in the restaurant brokerage business since 1982 I've seen the various cycles-the ups and downs in the real estate market, the general economy where the restaurant industry is directly affected. The strong and smart survive. Today people are losing jobs, they fear losing their homes...how does one survive? Certainly not on welfare.

They're buying themselves a job, a new career, a freedom that you don't get working for someone else. This facet of the restaurant industry is solid.

Hamid, a displaced software engineer, with no food experience, bought himself a small bagel and

muffin shop for \$170,000. In his first year he netted over \$100,000 in cash for his efforts.

Bob, a former property manager, bought a pizza/sub shop doing \$8,000 per week for \$165,000. He is now doing over \$20,000 per wk. and taking home over \$300,000 per year in cash.

A few years ago, a local fisherman got an idea...I'll sell hot dogs...not the traditional hot dog, but one that becomes a meal with all the condiments and side orders. Mark Scaglione, creator of Popo's Old Fashion Hot Dogs, opened in Swampscott, and within a couple of months was receiving accolades from the local newspapers and the Phantom Gourmet. Now he has additional stores in Gloucester and Abington. The concept is simple and the market gigantic...who doesn't like hot dogs, ice cream, Italian slush, and lemonade on a sunny day? He's now embarking on a franchising program.

These are but a few examples of success stories that abound for the seasoned operator or the true novice.

'This is the best of times' for those with a dream, fortitude, and financial stability.

'It's the worst of times' for those minimally funded, projects with grandiose pro formas, and who cater to the 'elite'.

This economy has provided a unique opportunity for seasoned operators, with a stable of investors, to take advantage of someone's mismanagement or just bad luck.

Where getting bank financing, or investor interest, in a \$1 million upscale restaurant is a monumental task, maybe the best vehicle for growth and profits is a low-tech, 1,000 s/f Popo's that cost less than \$60,000 to open, or a 2,000 s/f pizza pub that costs \$150,000 to open and will net \$100,000 per year.

Today your perspective on the restaurant industry is really a function of what side of the table you are viewing from. If its the full service, middle to high end dinner house, your opinion will be somewhat more pessimistic than someone on the other side that owns Wakefield House of Pizza and is trying to decide if he should be buying a Lexus vs. a Cadillac.

Dennis Serpone is president New England Restaurant Brokers, Wakefield, Mass.

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