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A Changing Real Estate Landscape

A Changing Landscape

By Christy Simo

Georgia's restaurant real estate is up for grabs. Here's how to navigate the real estate market and find the place that's right for you.

The economy may have taken a hit over the past three years, but that doesn't mean restaurants aren't opening, closing and moving around as usual. Whether you are interested in opening a new concept or are a seasoned pro, the current real estate downturn may have changed the way you want to approach choosing a site for your next restaurant.

There are lots of things to consider, from what you can afford, to where you want to be located to even if you can get a loan. Still, experts note that restaurants are opening and concepts are expanding, just at a slower pace.

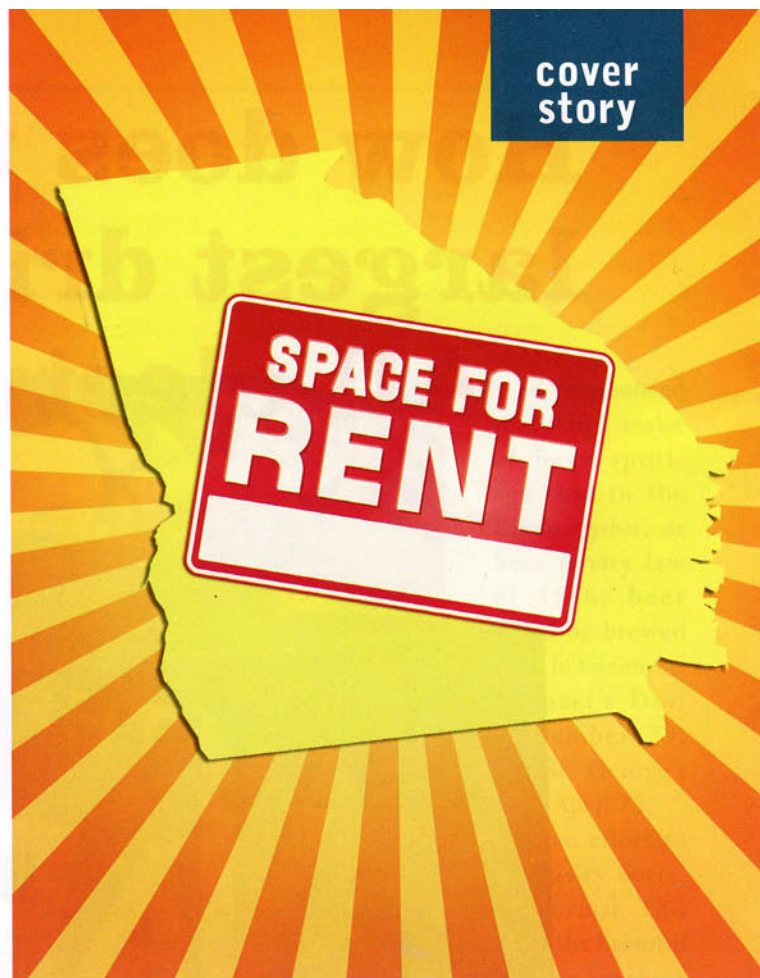
"There's still lots of growth, but it's a different kind of growth," says Steve Josovitz, Vice President and associate real estate broker for The Shumacher Group, an Atlanta-based company that specializes in site selection for regional and national restaurant and retail chains, and the sale of existing restaurants and businesses. "The money is slower to come by, so that's slowing up growth because the borrowed money is not there."

However, The Shumacher Group has noticed an up tick in the number of restaurants they've sold this year over last.

"The reason for that is that the fully equipped turnkey restaurant, for example, could be had right now for under \$100,000," he says. "It's a great time to open a restaurant because there's great deals to be had. There's a lot of empty restaurant space all throughout Georgia, and you can get it for a fraction of the price of what it would cost to build out a restaurant."

Josovitz points to two recent purchases, both great deals in a down market.

"A Doc Greens [location] was sold to Chow Baby, and they bought a restaurant that has hoods, it has grease traps, it has the infrastructure of a restaurant, and all they have to do is come in and do cosmetic changes," he says. "We sold a Mama Fu's recently to Saigon Café. Saigon Café, for a fraction of the price to build out a space, can go in, and technically, all they



have to do is different paint and cosmetics. They can be up and running in no time."

BANKS TIGHTENING BELTS

While there are deals to be had, one of the issues slowing restaurant growth is the same as in the residential real estate market: Banks are not lending as easily as in years past.

"It's harder," says Greg Vojnovic, Vice President of Development for Popeyes Louisiana Kitchen. "Restaurants are always one of the higher-risk opportunities, particularly independent restaurants."

The economy has made it "easier for restaurants, although it's harder for them to get the deals done," he adds.

That's especially true for small or independent restaurateurs who are not affiliated with a large franchisor.

"If they go into a local bank, they're going to have to explain their business to a local banker," Vojnovic says. "That banker may not understand the restaurant business, so it's going to be hard for him to get his arms around the cash flow, whereas it's much easier for a bank to finance an apartment complex."

To make sure you have the best shot you can of obtaining a lease, have all the paperwork and information prepared that a lender could potentially need to approve a loan before you set foot in the door.

"You need to prove to your lender that you're a winner, and you have to show why you're a winner — show them your cash flow statements," Vojnovic says. "You have to show them — walk them



Greg Vojnovic, vice president of development for Popeyes Louisiana Kitchen

through step by step—because you may know the restaurant industry intimately, but bankers look at hundreds of loan applications in different industries.”

A CHANGING GAME

The lending issue is affecting various aspects of the industry, from the decision of whether to buy or lease a space to selecting a site.

“The economy has hit [the restaurant real estate industry] pretty hard because it’s made lending very hard,” Josovitz says. “In terms of

major growth, it’s been hampered because of lending. The lending has not stopped; it’s just getting harder. It’s taking much longer, and the requirements are much more stringent.”

Despite the banks tightening up loan availability, interest has picked up in available restaurant sites across the state.

“There is a definite increase in interest in new locations,” says Harold Shumacher, President and managing broker of The Shumacher Group. “The good news is we’re probably seeing more activity from bigger restaurants.”

The other piece of good news is that there is less uncertainty today than there was even a year ago.

“Nobody knew where this was going to go. Nobody knew where the bottom was,” Shumacher recalls. “Now everybody acts and feels like they’re more busy, and there seems to be more deals in the offering. And they’re bigger deals for the most part, but I think ... we’re six to nine months away from seeing a solid recovery.”

However, even though the real estate industry is going through a rough patch, it does not mean restaurants can name their price.

“There’s a perception that because of the economy that every landlord and every seller is bending over backwards to give away the store,” Josovitz says. “That’s not happening.”

“What you’ll find is landlords are not willing to reduce their rates below market. What they’re willing to do is give you a rent abatement or free rent,” says Vojnovic. “We’re telling our franchisees don’t concentrate so much on the dollar per square foot, but concentrate on the total value of the lease for the lease term. Find out what you’re getting. In other words, don’t try to knock the rent down, but try to get more abatements on the front end.”

While landlords may be looking for creative ways to entice restaurant operators into vacant properties, the other benefit of the current economy is that premium locations that may have never been available in the past, may suddenly be up for lease or purchase.

“As an owner/operator, the really good deal that you’re getting is that you have the availability of getting that good piece of dirt. In this marketplace, there’s corners where out of nowhere, a business you thought would never go out becomes available,”



Vojnovic says. "So while the real estate might not be at a discount, your true discount is that you're able to get an extraordinarily strong site."

"Because of the economy faltering, we just have more leasing opportunities and more leasing of closed restaurants for sale," agrees Josovitz. "In terms of restaurants for sale that are really cheap, there's some really great deals out there."

Another event having an impact on the real estate market is the flood of people who either retired or were laid off who are interested in entering the restaurant industry.

"We're getting more calls now than we've ever had in 25 years, and one of the factors for that is that there's a lot of people out of work that have a chunk of money in the bank," Josovitz says. "They may never get another job at the level they were at, and they realize if they don't get a job real quickly or do something with their money, it's going to be gone."

BUY OR LEASE?

So should a restaurant buy or lease the space? That depends, although experts say if you have the means, purchasing the land or a building makes more financial sense.

"Owning the real estate gives you more flexibility in how you can take money in and out of the business, but it requires a greater amount of money in the business," Shumacher says. "Most start-up restaurants generally only have enough capital to get open."

Regardless of whether you purchase or rent the space, finding a high-quality spot is imperative. "You want to find the best piece of possible real estate because you're committing all of your investment into that piece of dirt," Vojnovic says. "You can't take it with you."

If for some reason, you need to or must close or move your business, you have a piece of real estate that will be in demand. "If you have a really bad site, it's hard to find somebody else to take it," Vojnovic says. "But if you have a really good site, there's going to be interest and value. People are going to want to take over that site."

Harold Shumacher, president and managing broker of The Shumacher Group



Another reason to consider purchasing the space, is that what's low rent today could become the hot area of town tomorrow.

"We always encourage people to buy the real estate if possible, because in 15 years you're going to own a physical asset, whereas if you're paying a lease, you don't own anything," Vojnovic

says. "Really, the only difference is you have to come up with a down payment. In 15 years, you're negotiating a renewal on your lease, and they're

going to [raise] your rent because real estate is going to be worth a lot more in 15 years."

Even if you do not have the capital to purchase real estate or the property is for lease and not for sale, still look for the best piece of property you can find.

"You really raise your money through the restaurant; you're not a real estate developer," says Vojnovic. "So it's a preference, but don't just pass on a deal because you can't own real estate."

CHOOSING YOUR SITE

What makes a site the best place to locate your restaurant?

"That's like saying what makes a girl pretty," Shumacher says. Still, he notes that there are a few basics no matter where you are located within the state. "The simple ones are visibility, access and presence. You know where it is — can you get in and out, and can you see it? Those are the basics."

"The fundamentals for all real estate are linked to two primary components," agrees Vojnovic. "No. 1 is the quality of the trade area, and the second is the quality of the physical piece of real estate."

Vojnovic notes that you don't always find places that have both components, but you need to have at least one.

"You can have a weak trade area if you have a very strong piece of real estate, or you can have a weak piece of realty but a great trade area," he says. "But what you absolutely cannot do is have a weak trade area and a weak piece of real estate. That's the challenge, in this marketplace, most people are encountering."

The other main factor in determining if a space is ideal for your concept, is the rental rate and other extra charges a shopping center or landlord will charge you.

"There's a certain percentage of what your sales have to be to cover rent. Normally, around 10% of your sales should be rent and no more," Josovitz says.

Common area maintenance (CAM) charges can also sneak up on you and make your monthly payment cost prohibitive.

"The problem is that you might have CAM charges anywhere from \$3.50 a square foot to up to \$10 a square foot," Josovitz says. "They may give an attractive rental rate, but your CAM charges are so high that it will take your rental factor up really, really high. You also have to factor in the taxes and the real estate insurance.



Steve Josovitz, vice president and associate real estate broker for The Shumacher Group

TIP JAR

Some Expert Tips For Navigating The Real Estate World

Make a good impression. "When you approach the landlord, you only have one shot to make an impression," says Greg Vojnovic, Vice President of Development for Popeyes. "So, your first approach needs to be a professional approach. Gather the paperwork that the landlord is going to be looking for, things like two years of PNLs on your business, your personal financial statements, a business plan. So when you go in, you have your act together. Be professional and be prepared."

Hire a professional. "We strongly encourage all of our franchisees to have a very good, professional tenant rep broker," Vojnovic says. "Use somebody that specializes in the restaurant business, who knows what's going on because in the negotiation, the landlord has all the power and all the knowledge. They have leverage, because in their trade area they know exactly how much every other shopping center is charging for rent, and you don't. Your real estate professional will know, and he'll know the deal terms of the marketplace. You need to have somebody on your side."

Crunch the numbers. "Analyze your budget and your needs, and see where your rent needs to be," says Steve Josovitz, Vice President and Associate Real Estate Broker for The Shumacher Group. "So that when you negotiate for the space, your negotiating from the start what that rents going to be. That's the most important thing that small business owners have to really understand. You have to crunch numbers, and if you don't know how to do that, then you really need to hire a professional CPA that specializes in restaurants or work with a restaurant consultant professional to really understand the rent factor in expenses and what it takes."

Know your market. "Do the research. Study the demographics, the car counts, really intimately know the market that you want to be in," Josovitz says. "That's really important."

Find sites with visibility and access. "Always choose visibility over access, but ideally you want both of them," Vojnovic says. "For access — how hard is it to turn into the parking lot? Can you drive straight into the shopping center, or do you have to make a U-turn or drive down a frontage road? If they can't see you, how are they going to figure out that you are there? Visibility is critical. You want to make sure you're not below grade, because if you're below grade it's hard for them to see your business. You want to be two or three feet above grade because that increases visibility to people in cars."

Ignore the deal. "Look at the real estate itself, don't look at the deal," Vojnovic says. "If you're looking at a conversion, ignore the conversion first. Look at the real estate on its own."

Be prepared to grow slowly. "You have to be prepared to pay their rental rate," Josovitz says. "You could out of the box hit it big, have lines out the door and be very successful. But you might have a period of growth over the first year. So you have to be prepared. What happens for a lot of people is that honeymoon period in the beginning is sometimes not a honeymoon when no one's walking through the door and you're paying above market rent and you're paying out of pocket every month from your personal savings account to pay rent. And that hurts."

Factor the cost of opening your doors. "There's a lot of factors within the restaurant that have to be determined prior to signing a lease. There's no guarantee that your current grease trap is marginal or that your kitchen floor is acceptable to the health department," Josovitz says. "You have to take into account a dollar amount of money that you're going to have to spend to open the doors."

Some places have association fees, then you have to factor in your fixed costs, including utilities, workers compensation and licenses.

"The successful person really has to budget and know what they can afford in rent," he adds. "When you know that, that's when it makes you much more educated when you're looking for a space. It really takes the guesswork out of what you can afford, and that will also ensure your success a lot more."

Lastly, consider the time and cost it will take to build out a raw space vs. converting an existing restaurant space.

"In this marketplace, there's a lot of opportunities to take over failed locations and do conversions," Vojnovic says. "What you have to do is look at that — why did it fail? Did it fail because the operator was poor, or did it fail because it was in a poor-trade area or poor real estate?"

"There's a great appeal right now in the marketplace for buying an existing restaurant business or leasing a fully equipped space, or one that was a restaurant — we call that second-generation

restaurant space," Josovitz agrees. "At a minimum, a second-generation restaurant space would probably have the structure of a restaurant, which would include the exhaust hoods, the kitchen, grease traps. It would have HVAC [heating, ventilation and air conditioning] systems. It would be set up so all you have to do is do some cosmetic work, add your furniture fixtures and equipment, and you could be open in a fraction of the time it would take to build out a space from scratch."

No matter how the market plays out over the next few years, don't wait too long to sign that lease or purchase that space.

"It's like having kids. There's no good time to have kids, but people have kids," Shumacher says. "There's no perfect time to open a restaurant, but there is a time when you say, you know, it's time to jump in."

"Good real estate is still good real estate," agrees Vojnovic. "In this economy, the smarter survive. The goal is to leave as strong as possible with the best possible real estate." ■