

Thinking About a Restaurant!

By Brian Madigan

The franchises are pretty expensive, with the franchise fees alone often amounting to over \$1 million. After that, you have to acquire the site, furnish the restaurant and pay regular monthly fees to the franchisor.



Did you ever consider going it alone? There are many good restaurants available from \$ 250,000.00 to \$ 400,000.00 and they are making money. There's no point buying a place that's going out of business, unless you're a turn around expert.

Look for a good restaurant and the first place to start is with the financial statements. The most important feature is to make sure that it is making money consistently. After that, you will want to visit the site and conduct your inspection. How good is the equipment, from ovens and stoves to fridges and freezers? Are they new, or is this the reason the owner is selling?

Review the records of the Health Inspections over the last two years. Consider the source of profit from both food and beverages. What hours did the owner maintain and what group constituted the major component of the clientele?

A recent listing shows a 5,000 sq. ft. restaurant producing a yearly profit of \$ 125,000.00. It is listed at \$ 375,000.00, or 3 times earnings. Is this a good deal? Well, it all depends on how you look at it. If you bought a share in the ownership of a company on the stock market, you would have to pay about 12 to 14 times earnings. But, you wouldn't have to cook any meals! So, you have to deduct the reasonable wages of the owner from the profits.

In this case, the financial statements confirm that all staff are paid; servers, bartenders, busboys, chefs and the duty managers. The owner's return comprised management fees, supervising services and shareholder dividends. The owner only spent 5 hours/month on all activities related to

the restaurant. So, all in all, the price represented just a little more than 3 times before tax earnings.

In addition, the financial statements disclosed that almost \$ 100,000.00 had recently been spent on equipment and another \$ 150,000.00 had been spent on leasehold improvements. If the business appears to be a viable one, and you have studied the financial statements, an individual restaurant with a good track record can represent a very attractive alternative to the national franchises.

Whatever your choice, you should look into the matter of financing before you submit your offer. Some institutions shy away from restaurants and particularly single locations. However, there are other investors who specialize in restaurants and can provide valuable advice, as well as financing.

So, this brings us right back to our question, is this a good investment or not! Probably, it all depends on the lease. If the lease is about to expire, what does the restaurant owner really have to sell? If it provides renewals at rates substantially higher than the market; that is not good either. What about rights to renew at rates below market? That would increase the profitability in the years to come. And, higher rates could wipe out the profit in its entirety. If you're planning to buy a restaurant, negotiate a good lease with the landlord, with guaranteed renewal terms at favourable rents before you agree acquire the business from the present owner. Make this a condition in your offer.

A realtor experienced in restaurant acquisitions can be very helpful in such circumstances. And, don't forget a good accountant and lawyer too!

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