

# RESTAURANTS:

## INDUSTRY UPDATE 2014

Compliments of The Boston Restaurant Group, Inc., a commercial real estate firm specializing in selling restaurants, leasing restaurants and restaurant appraisals (978) 887-9895

[www.bostonrestaurantgroup.com](http://www.bostonrestaurantgroup.com)

### WHAT DO CUSTOMERS WANT

2004	2014
Good Food	Great Food
Good Service	Great Service
Casual Atmosphere	A Killer Concept
Affordable Prices	Outstanding Value

### OPENING A NEW RESTAURANT?

*To be on the safe side:*

- Discount your sales projections by 15% - 20%
- Increase your cost projections by 15% - 20%
- Target first year sales at 2.5 times the investment
- Target total occupancy costs at 8% of sales

### WHAT IS A RESTAURANT WORTH

*Factors that determine the value:*

- The potential for sales growth
- The potential for cash flow growth
- The condition of the LHMp & FFEq
- The length of the lease - 10 year minimum
- Rent at the Industry Average

### VALUATION APPROACHES

#### Top Line Value

*"Sales are a much better indication of value than bottom line numbers."*

Source: Business Reference Guide 2009

#### Bottom Line Value

*"We tend to keep a 1 to 1 sales to investment ratio (including real estate) and typically pay three times store level EBITDA."*

Source: Metz, John, Restaurant Finance Monitor 10/10

### OBSERVATIONS

*From the limited vantage point of a broker specializing in the sale of restaurant business:*

- Many operators have no idea as to what their costs should be
- Many operators do not really "work" the business rather they put time in
- Many business operate at less than 75% efficiency
- Many restaurants could improve their bottom line by as much as 5%
- The best operators have the best systems and the best profit

### MARKET SHARE

*Number of Full Service Restaurant in the U.S.*

INDEPENDENTS	212,000	54%
CHAINS	256,000	46%
TOTAL RESTAURANTS	570,000	100%

### UNIT ECONOMICS

*As a Percent of Sales*

Food Cost	28% - 32%
Spirits Cost	18% - 20%
Bottled Beer	24% - 28%
Draft Beer	15% - 18%
Soft Drinks	10% - 15%
Payroll (Full Service)	30% - 35%
Payroll (Fast Food)	25% - 30%
Management Salaries	10%
Rent (Full Service)	6%
Rent (Fast Food)	10%

Source: Restaurant Start-Up & Growth

### LOCATION

*It is no longer location, location, location. Today the mantra is location, the right concept at that location and the right sales to investment ratio.*

### VALUING A DOMINO'S PIZZA

#### RULES OF THUMB

45% of the first 400K in annual sales,  
50% of the next 100K (400k to 500K)  
55% of the next \$250K (from 500K- 750K)

Source: Business Reference Guide 2014

### MARKET RENT

Ten years ago base rent in excess of \$30 psf was pushing the envelope. Today \$40 to \$50 psf NNN seems to be the norm

### CUSTOMER SERVICE

*Good service can save a bad meal; however, a good meal cannot save bad service.*

Source: Tim Sullivan, NRN, 07/08/13

### NEGOTIATING A LEASE

**A partial checklist of key points:**

- Hire an attorney with restaurant experience
- Request a minimum of 5 years with options
- Try to limit any personal guaranty
- Assignment - "not unreasonably withheld"
- Base rent at the Industry Average
- Scope of Landlord and Tenant improvements
- Condition of space at delivery

### RESTAURANT FAILURE RATE

*"The 90% first year failure rate is a myth that makes it difficult to get funding."*

Source: Restaurant Hospitality, Nov. 2007

*"A Cornell University study showed a first year failure rate of only 27 percent."*

Source: NRN, March 2006

### OPENINGS & CLOSINGS

New Openings	Recent Closings
The Bancroft	Hilltop Steakhouse
Merrill & Co.	Locke Ober
The Abbey	Anthony's Pier 4
La Brasa	Metropolitan Club
Liquid Art House	Rendezvous
Red Bird	Chez Henri
Legal Osteria	Casablanca
Alden & Harlow	Appetito
Savvor	Davide
Il Casale	La Verdada

### MARKET SHARE

#### Independent Restaurants

With 312,000 units they control 54% of the markets

#### National / Regional Chains

With 160,000 units they control 46% of the market

Source: Nation's Restaurant News 03/17/

### FINANCING START-UPS

*One of the great victims of our economic turbulence has been access to capital for small business."* Source: Restaurant Business 02/11

### BUYING A RESTAURANT

Documents to be requested

- Copy of the Lease
- Tax Returns for 3 years
- Financial Statements - 3 years
- Complete Equipment List
- Latest Health Inspector's Report

### DEFINITIONS

#### Full Service Restaurant

The customer is seated, places an order at the table and pays at the conclusion of the meal.

#### Limited Service:

The customer stands at the counter, places an order and pays prior to receiving the meal.

### MOST POPULAR RESTAURANTS

Abe & Louie  
Border Cafe  
The Chateau  
224 Boston Street  
L'Espalier  
Oleana  
Craigie on Main  
Mistral  
Blue Ginger  
Aquitaine

Source: Zagat Boston 2014

### WEALTHIEST ZIP CODES

Weston  
Dover  
Carlisle  
Sherborn  
Waban  
Wellesley Hills  
Sudbury  
Lincoln  
Boxford

Source: Book of Lists 2012

