WE SELL RESTAURANTS®

The Indispensable Restaurant Leasing Guidebook

Everything you should know Before Leasing a Restaurant

Introduction

The restaurant industry is a $604 billion dollar industry according to National Restaurant Association research. The Association's 2011 *Restaurant Industry Forecast* projected an industry sales increase of 3.6 percent in 2011 over 2010 sales, which equals 1.1 percent in real (inflation-adjusted) terms.

There are nearly one million locations, or one restaurant for every 320 Americans. Sales represent 4 percent of the U.S. gross domestic product. Restaurant industry employees make up nearly 10 percent of the U.S. workforce. Its total economic impact exceeds $1.7 trillion, as every dollar spent in restaurants generates $2.05 spent in the overall economy. Restaurants are the nation's second-largest private sector employer with 12.8 million employees.

On any given day 20 percent of the nearly one million United States restaurants, bars, and nightclubs are on the market. New restaurants, old restaurants, successful restaurants, and restaurant failures end up for sale in the hands of a restaurant broker.

The ***Indispensable Restaurant Leasing Guidebook*** is designed to help you make a smarter, more informed decision among the many restaurants available for lease. You will learn why the landlord is not your friend, who the leasing agent is working for and why it matters, how to undertand landlord math, the most common lease mistakes and why free tenant improvement money is never "free."

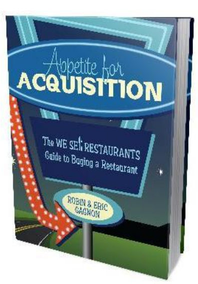
About We Sell Restaurants

We Sell Restaurants is the industry leader in restaurants for sale and restaurants for lease. Our name says it all! We specialize in selling restaurants, franchise restaurant sales and restaurants for rent.

The We Sell Restaurants brand is known nationwide for professionalism, industry knowledge and unmatched service in the restaurant sale. The We Sell Restaurant website is an invaluable resource. More than just another "restaurantforsale" portal, we focus on sharing knowledge, information and of course, restaurant for sale listings.

We Sell Restaurants is now franchising nationwide! The restaurant industry has overwhelmingly told us they want and need a national brand with systems and methods to close these specialized transactions. We Sell Restaurants is perfectly positioned to meet the growth needs of the industry in the transfer and sale of restaurants. For more information on owning a We Sell Restaurants Franchise, please contact us at 1-888-814-8226 or complete an inquiry online.

The We Sell Restaurants leadership team is headed by Eric and Robin Gagnon, industry experts and authors of the national book release, ***Appetite for Acquisition***. Ths book was a 2012 nominee for the Small Business Book Award.



"This is the definitive guide for anyone looking to enter the restaurant industry! Full of hands-on practical advice and real-life examples, Robin and Eric provide you with the expertise necessary to avoid common pitfalls and navigate your way to owning the restaurant of your dreams!'

—**Herb Mesa, Finalist, The Next Food Network Star**

We Sell Restaurants hosts the nation's most sophisticated website for restaurant buyers and restaurant sellers. We deliver an online confidentiality agreement, 24 hour access to restaurant listing information, photographs, the address, and even videos via our state of the art platform. Register as a buyer today for access to the latest restaurant listings first.

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The Landlord Is Not Your Friend

The landlord/tenant relationship shares a lot in common with a marriage. Both parties go in with the best of intentions and there's a lot of love on both sides. However, if the relationship ends in a break up (roughly 50% of all U.S. marriages end in divorce), things get a little rocky on the back end and usually no one remains friends. We never recommend negotiating a lease on your own with a landlord. The landlord (or his leasing agent) has done this hundreds of times. For you, it may be the first time. Before you pick up the phone and call on that vacant restaurant space, consider the following reasons why that landlord is not your friend.

The landlord drafts the lease document.
Assume that the lease will be landlord friendly, meaning unfavorable to the tenant, in most cases. That's not to say it can't be modified but make sure you have someone on your side that's familiar with the language of the document so you can get the best business terms going into the lease.

The person answering the phone from the sign <u>doesn't represent you.</u>
The person handling the restaurant space works for the landlord. He has one goal and one goal only: lease this space for the landlord. The only properties he shows you are from the person that pays his salary. If a better location for your concept is a quarter mile away and he doesn't represent it, he will not tell you about it.

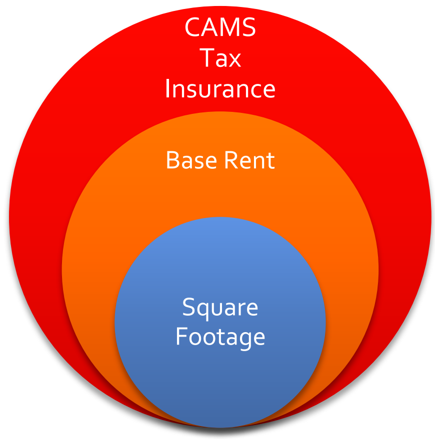
There is usually no cost to you for using a restaurant broker (and no additional fee to the landlord)
The landlord has already predetermined commission on the space. If you aren't represented by a broker, the commission is the same amount except the landlord's leasing agent gets 100%. There's no financial gain if you do not have representation. Be sure and ask the broker if there are any fees. Our firm does not charge to represent buyers.

The landlord's representative doesn't specialize in restaurants
A restaurant broker can advise you on restaurant-specific infrastructure. Items like the grease trap, HVAC, and hood system are exclusive to the industry, and only someone familiar with the business knows this. The landlord's representative is not a restaurant specialist. He would never purposely hide information, but he may not know that the HVAC unit is right-sized for retail but dramatically undersized for a restaurant operation. Once you move in and begin operating your restaurant/sauna and customers are passing out from the heat, added HVAC capacity is up to you.

Understanding Landlord Math

Restaurant Lease Formula

The standard formula for a restaurant lease is quoted as a price per square foot plus CAMS, Taxes and Insurance. This is the total cost of the lease for a year. Divided by the twelve months in a year, it equals the monthly lease rate.



Example
1200 square feet
$32.00 per square foot
7.85 CAMS, Taxes & Insurance

1200 X 39.85 = $47,820
$47,820/12 months = $3985.00 per month

CAMS Explained

CAM is an acronym for "Common Area Maintenance." Landlords typically charge base rent plus CAMS, Taxes and Insurance. Common area maintenance refers to expenses for the common good of the shopping center which are distributed among those who benefit on a square footage basis. CAMS can include anything from garbage pickup to landscape and exterior lighting. They are calculated on a pro-rata basis or "in proportion" to the square footage. Taxes and Insurance are typically (in shopping centers) charged on the exterior of the building and a tenant is still responsible for taxes on personal property and insurance within his four walls.

Triple Net Lease

A Triple Net Lease is also known as Net, Net, Net Lease or NNN Lease. This is often associated with a free standing building and refers to the fact that the tenant pays all or part of the taxes, insurance, and maintenance associated with use of the property. The fees are paid in addition to the tenant's regular monthly rent.

Most Common Lease Mistakes

Exit Strategy Tips

- LEASE TRANSFERABILITY
- EXPERIENCE CLAUSES
- TRANSFER CHARGES
- TRANSFER TIME
- CONFIDENTIALITY

Exit Strategy

The most common error in negotiating a lease is the failure to plan for an exit strategy. No one enters business expecting to fail, but it happens. Partners get sick or walk out of partnerships. Couples divorce, or liquor licenses get pulled. On the flip side, businesses sell. You get an offer you can't refuse. There are many reasons why a business owner will need to get out of the lease. We recommend you have an exit strategy as you enter into a lease. Generally, this will not be found in the initial version of the landlord's lease and the broker needs to fight for these terms.

To avoid these common lease mistakes, negotiate on these five elements before signing a long term document.

Lease Transferability
Lease transfer is the single most contentious issue in the sale of a business and kills more deals than anything else. Your only power in this negotiation is at the outset of the lease, not when you're ready to sell. Make sure the terms of the lease spell out how it will transfer it to another party.

Experience Clauses
You may enter into a lease with a landlord with lots of experience, but always think in terms of selling the store at a later date. Plenty of successful individuals enter the restaurant industry without experience, but that doesn't preclude their eventual success. Landlords often will try to sneak language into the lease that requires restaurant experience, even for franchise operators and it can severely limit the pool of buyers for your business later on.

Transfer Charge Clause
Determine up front what the amount of the transfer charge will be. Don't agree to loose language like "reasonable attorney fees" as you have no idea what the cost will be. Identify the amount you'll pay in a transfer so you know what it is and insure that it's minimal ($500 to $1000 is appropriate).

Transfer Time
Try to force a time period on the transfer, such as "transfer shall occur within thirty days of submission of a formal request." Landlords are famous for dragging out deals. When you're negotiating the original lease, you're in the driver's seat. When you want to transfer it later on, you're no longer a priority.

Confidentiality
The landlord should be held to confidentiality on the terms of any future sale of your restaurant.

How Much You Should Pay For Occupancy?

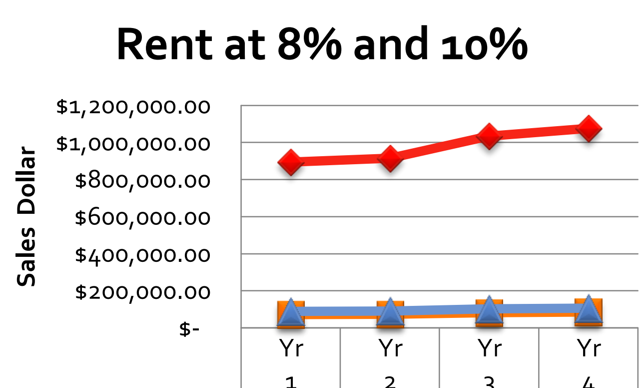
Occupancy is the sum total of Rent, CAMS, Taxes and Insurance – all the costs associated with the lease. In major metropolitan markets, the CAMS, Taxes and Insurance can be as much as 30% of the base rent price so the calculation for rent on its own is incomplete without the addition of these costs.

Physcial location is very important to the restaurant owner. The length and value of the lease and its costs as a percent to total sales is a fixed expense that continues whether you have a single dollar of sales. Competition to be in the most desirable part of the dining scene can drive rents to very high levels. A restaurant tenant should focus on how much space he actually needs before signing up for a large recurring expense. Carefully look at the cost of a lease in terms of the total occupancy expense.

Total Occupancy costs should be 8% to 10% of total sales of the restaurant. Rent is a fixed expense and one of the most difficult to overcome One word of caution when looking at second generation or empty restaurant space. Often a restaurant operator will base his or her forecast on the prior operator's sales. Your forecast should be based on your menu, average ticket sales and gross sales rather than a prior operator that may have had a radically different concept.

Sales and Rent Relationship

Rent as a percent to Total Sales should be 8% to 10% of Sales. Every dollar you do not pay in rent becomes additional income to the restaurant. In the chart on the right, rent is contrasted between 8% and 10% and demonstrates additional earnings of nearly $20,000 a year on the same sales volume.



	Yr 1	Yr 2	Yr 3	Yr 4
Sales	$895,0	$915,0	$1,035	$1,075
Rent at 8%	$71,60	$73,20	$82,80	$86,00
Rent at 10%	$89,50	$91,50	$103,5	$107,5

Questions a Restaurant Tenant Should Ask

How much will I benefit from this location to justify the rent?
Under my most conservative forecast, what will my occupancy cost be as a percent to sales?

There's no such thing as a Free Lunch

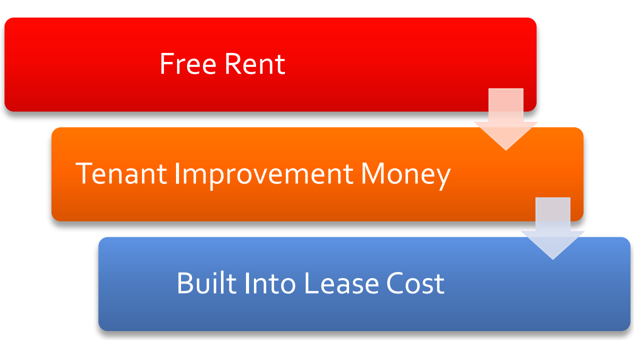
Tenant Improvement Allowance, Tenant Improvement or TI

A Tenant Improvement Allowance, commonly referred to as the "TI" allowance, is the amount of money offered by a landlord to the tenant for improvement to the space. The funds are generally offered one of two ways: dollars per square foot of the leased premises or set dollar amount. These funds are to be used strictly for the improvements to the leased space. They cannot be used for the purchase of equipment or inventory for your restaurant.

Here are of the little known details about TI money you should know. First, the money is not advanced to the restaurant owner. Typically, both the tenant and landlord meet to agree upon the plans or design and then the tenant pays the contractor for the expenses. The landlord later reimburses the tenant based on a fully accounting. Sometimes the landlord will add language that if the project is not completed within a certain amount of time than the TI money is not reimbursed. Sometimes he will only repay funds if he chooses the contractor. Make sure you have control over who does the work and what you're paying.

Secondly, tenant improvement money is expected to supplement the expense for build out. It does not cover the entire cost. The landlord's contribution is for long term improvements to his property. He wants to see you invest as well and fully expects your contribution to the project at least match his.

This is a word of warning to the would-be tenant. Tenant improvement money, or TI, is not free money. You will be paying this back in the rent amount at some ridiculous rate of interest that's never clearly calculated for you. It's all part of the landlord's top secret formula for arriving at a square footage price. It may seem like a huge amount of money when a landlord is offering up $20 a square foot for a 2000 square foot space or $40,000 of "free" money. However, a typical build out of a restaurant will be much more than that. Average expenses range from $15,000 for a grease trap (in ground 1500 gallon) to $1000.00 per linear foot for a hood (average 12-14 foot or $12,000 to $15,000). Installation of mechanical, electrical and plumbing can easily run another $40,000 before you build any walls, add flooring, put in a bar or purchase any equipment. That's why a "second generation" space or even the purchase of an asset sale is often less expensive and less work.



Free Rent

Free rent is often a part of the lease negotiation as well. Expect to get about 90 days or three months free rent on a new lease. However this is also added into the formula for rent being charged.

Landlord Concessions

Concession in the rent amount, free rent and tenant improvement money are never a sure thing in the negotiations on a lease. A landlord is going to look at the new tenant along with their credit history and experience. He or she will also look at what the new tenant is investing in the property.

Some restaurant buyers expect free rent when they are simply transferring an existing lease. That's rare since the landlord already has one tenant paying him and there's going to be no change in the property. If you expect the landlord to invest in your concept, prepare a strong business case, complete a full business plan and make sure your financials are in order before you approach a landlord. If you use a restaurant broker in the transaction, he or she will help you in assembling a full package that presents your concept in the best possible light and gives you an advantage when entering into negotiations with the landlord. Ask a broker up front whether this is part of his services.

Learn More about Leasing a Restaurant

Visit www.wesellrestaurants.com

For dozens of articles and the latest information on how to lease a restaurant, visit our website. You'll find articles, news, videos, listings and more.

Register as a Restaurant Buyer on www.wesellrestaurants.com

WeSellRestaurants.com is the nation's most sophisticated website for restaurant buyers and those seeking restaurants for lease. We deliver an online confidentiality agreement, 24 hour access to restaurant listing information, photographs, the address, and even videos via our state of the art platform. Register as a buyer today for access to the latest restaurant for lease listings.

Buy our Book

Appetite for Acquisition has been described in the business as the "definitive guide for anyone looking to enter the restaurant industry." Nominated for the 2012 Small Business Book Awards, it is full of tips, ideas, worksheets and more on how acquire a restaurant in a way that is less painful, more profitable and delivers a better return on your investment.

Read our Blog – Advice for Buying a Restaurant and Selling a Restaurant

Our blog is updated every few days with more articles and information on the process of buying a restaurant. For the latest information on line, visit www.blog.wesellrestaurants.com

Call Us Toll Free: 1-888-814-8226

Our agents are available to assist you in your search to find a restaurant and answer your questions.

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