



SAMPLE

SMART RESTAURATEURS TURN PROSPECTORS

TOP OPERATORS FIND GOLDEN OPPORTUNITIES TO EXPAND THEIR BRANDS WHERE OTHERS HAVE CLOSED SHOP.

By Fern Glazer

As the economic crisis continues, so do the number of retail and restaurant closures. While this is the misfortune of some operators, it's turning out to be the good fortune of others. Instead of playing it safe and just maintaining existing stores amid what is being called the worst economic crisis in generations, some intrepid restaurant companies are taking advantage of the mercurial real estate environment to grow their brands.

"It's definitely a buyer's market," said Scott Griffin, president of Griffin Properties and Griffin Restaurant Group, a Southfield, Mich.-based commercial real estate brokerage and developer focused on restaurants and hospitality. "This is a great time to be building infrastructure."

The increasingly high vacancy rate not only means operators have more venues from which to choose, but also more money to develop them, as landlords who are losing money by the minute have suddenly become more flexible, offering reduced rents and previously unheard-of amounts of tenant improvement money.

Small chains such as Tilted Kilt Pub & Eatery, a Tempe, Ariz.-based sports bar, are taking advantage of lower sale prices and increased tenant improvement dollars to build out existing spaces and expand their brand, and larger chains such as Arlington, Va.-based Five Guys Burgers and Fries are finding themselves able to pick and choose prime sites that they otherwise would have had to fight competitors for. At the same time, other operators are using the changing real estate market as an opportunity to expand through alternative sites, such as Beef 'O' Brady's, a Tampa, Fla.-based sports pub chain, which recently began opening units in shutdown hotel restaurants.

Last year Tilted Kilt opened just 14 stores, but is currently on track to open nearly 35 by the end of 2009. Part of the increase in openings is due to the fact that the company has been able to take advantage of the growing number of real estate deals.

"We certainly have found some amazing real estate deals out there," said Tilted Kilt vice president of franchise development Mark Hanby.

For example, the bankruptcy of Bennigan's last year enabled

Tilted Kilt to purchase a former Bennigan's building in Chicago Ridge, Ill. for just \$1.4 million that a few years ago would have been priced at \$3 or \$4 million.

"I'm not saying it's easy," Hanby said. "It's a very tough market for capital. But we're scratching and fighting for every dollar to grow. Prior to August of last year we were pursuing and getting traditional financing. [Now] we're using private-equity funds, hedge funds. That's where we've found success."

Another deal Hanby cited was in Pittsburgh, where the company was able to lease a space that needed to be built out at a cost of \$1.1 million to \$1.2 million. The landlord offered to put \$1 million toward the improvement, leaving the Tilted Kilt to pay just monthly rent.

"I've never seen T&I dollars anywhere near the numbers we're seeing right now," Hanby said.

But even though there are empty properties and amazing deals out there, not every brand should take advantage of them and expand, Hanby said.

"There's no question that if you have a brand that has the ability to thrive, not just survive, now is a great time to expand," he said. "No matter how inexpensive the real estate is, it's not a good deal if you don't open the restaurant and do volume and make a profit."

Over the past few years Five Guys Burgers and Fries has been rapidly expanding due in part to consumers' increased desire for hamburgers. With the economic crisis forcing many of the chain's competitors to bail out on previously agreed-upon lease deals or close existing sites, Five Guys has not only been able to continue to expand, but also to do it in prime locations.



LEFT: Over the past few years, Five Guys Burgers and Fries has been rapidly expanding due in part to consumers' increased desire for hamburgers.

BELOW: Beef 'O' Brady's has been expanding by opening in failed hotel restaurants.



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—Mark Hanby, vice president of franchise development, Tilted Kilt

"We're very lucky to be able to expand at this time," said Greg deCelle, chief development officer for Five Guys. "We get to pick the site we want ... [and there's] not as much competition as, say, two years ago."

He characterized the hard-to-come-by sites as those in lifestyle centers with great visibility, ideal demographics, traffic generators such as a Target or a movie theater, and a thriving daytime population.

"The A-plus site ... we're able to meet that definition more today than two years ago," deCelle said. "We're saying no to a lot more sites that three years ago we may have decided to go into."

While many operators are taking advantage of the real estate market to grow traditionally, Beef 'O' Brady's has been expanding by opening in failed hotel restaurants. The sports pub chain known for its wings currently has more than 257 units and plans to open a total of 25 more by the end of the year. So far this year, the chain has put two Beef's in hotels and has plans to add several more by the end of the year.

Other brands that are taking advantage of the economic crisis to grow nontraditionally, as previously reported by *Nation's Restaurant News*, include Chili's, which has opened units in airports, and T.G.I. Friday's, which opened four casino locations late last year.

"It's the silver lining to the worst recession in the last 30 years," Beef 'O' Brady's president Nick Vojnovic said of the

buyer-friendly real estate deals now available.

Beef 'O' Brady's first hotel opening was in the TradeWinds Island Grand Resort in St. Petersburg, Fla. The chain recently invested a mere \$200,000 to replace an indie concept in Best Western Hotel and Conference Center in Braden, Fla., and dropped just \$75,000 to open a Beef's in a Holiday Inn in Elmhurst, Ill. In addition, Vojnovic said the chain just signed a contract to open another Beef's in the Admiral Hotel in Arlington, Texas, and one in a Ramada Inn in Mississippi.

The benefits of such deals are not only money, but time. Not only is the initial investment lower, but the remodel of an existing restaurant typically takes about two months, versus the usual six months for a brand new build-out, Vojnovic said. In addition, it's a win-win situation for the hotel and the chain. For example, Vojnovic said that the Best Western site has been getting a 60-percent to 70-percent capture rate for dinner, as compared to the 6-percent or 7-percent rate of the independent restaurant that was previously there.

While the chain has been seeing soft sales overall in the last year, Vojnovic says the hotel locations have all been positive.

The move toward hotels is one that would

be less likely in a different economy, Vojnovic said.

"Hotels [are] starting to feel the stress. [They are] looking for ways to not lose as much money," he said of why the hotels are considering branded restaurants in favor of independents. "There's a great opportunity to make money. The way to do it is on other people's mistakes." ■

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