

Smart Restaurant Relief

When and How to Provide Rent Relief for Restaurants

By Phyllis Ann Marshall, President, Food Power, Costa Mesa, CA

BAILOUTS ARE A BIG — NOT TO MENTION CONTROVERSIAL — TOPIC THESE DAYS. *First Wall Street, then the automakers. “Who’s next?” we can’t help but wonder.*

For certain, the restaurant industry will not be high on the list of those receiving relief packages. So, for the foreseeable future, it’s going to be up to individual owners and chains to assess their situations and do what’s needed to stay afloat in these challenging economic times.

For restaurateurs who do not own their building, a good place to look is their lease. Restructuring rental agreements — or “rent relief” — can be a key step in decreasing overhead, channeling rental dollars saved to other costs and keeping the doors open. That’s from the restaurant industry’s point of view.

For landlords facing requests for rent relief, the question is the same one the nation has faced about aiding the financial and auto industries. How do we know the relief granted is going to achieve the intended results? How do we know we’re wasting money on institutions that are beyond rescue, no matter how much relief they get?

In other words, if you are a landlord asked to restructure a lease, how can you decide if doing so is a smart move? On one hand, you have compassion for your tenant, you understand their dilemma and you recognize the importance of restaurants as “anchor” destinations and hospitality zones that benefit other businesses in your center.

On the other, rental relief means income loss of your

own. So how can you reliably tell if this sacrifice will pay off in the long run? Will rent reduction help the restaurant stay open and functional until the economy turns around?

Answer: Rent relief is a smart move when three conditions are met:

- It is needed on short-term basis only.
- The restaurant’s fundamentals are sound. It has a viable “brand” that attracts customers and contributes to the vitality and profitability of your property or shopping center, and therefore is a business well worth supporting. (Losing a restaurant can create a conspicuous and depressing gap in your center).
- The owner understands the overall situation, wants to address it aggressively and has a clear, well thought out plan for improving the business.

So far, so good, you may think. But you manage real estate, not restaurants, so how do you evaluate your tenant’s business, determine if a restaurant warrants rent relief and empower yourself to negotiate

successfully to create a win-win situation for yourself and your food service tenants?

To begin, let’s ask: *What do restaurant insiders know that can help you achieve these goals?*

An invaluable rule of thumb is the basic “restaurant success quotient:”

Good Food + Friendly Service + Pleasing Clean Décor + Convenience ÷ Price = VALUE

To fill in the variables in this formula, review guest surveys and results from focus groups and intercept studies. By all means, Google the restaurant in question and check out the blogs. What do customers say about their experience at the restaurant?

Next, if the value equation appears to measure up and if the restaurant is financially close to breakeven, has perhaps paid overage in its prime and contributes traffic and energy to your center, then a one-on-one meeting with the owner to explore the situation is wise.

One goal of the meeting is to build confidence and a sense of shared purpose. Landlord and lessee are much better off working together than trying to go it alone. Also, your restaurant tenant may know his situation is dire but require some convincing to *develop a plan and take action* — not just passively wait for a bailout from you. A meeting can go a long way toward taking needed action.

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Two additional tips:

■ **Before the meeting**, ask the restaurant to bring you a plan in writing of what specific changes the restaurant would like to make to improve the operation and help revenues grow.

■ **At the meeting**, go over the specifics of the plan to ensure that you have a clear understanding and are in agreement with these actions. Rent relief is conditional on having a plan and being committed to following it. Getting such agreement may be easier with independent owners than with larger chains. A good plan can include any one or a combination of the following actions. These are classic strategies often recommended by industry consultants whose job it is to help restaurants solve problems and improve their business:

1. Retrofitting the space or food delivery systems to add more seats, to provide faster service or additional services like grab and go, to “blow out” the entrance to increase visibility or efficiency, to add a private party room, to improve the efficiency of the kitchen. Also consider adding a cart, kiosk or another service outlet.

2. Downsize the menu and/or the scope of the products offered, care-

fully eliminating the weaker performers, thereby reducing inventory and waste at the same time. Replace the slow sellers with recession-proof specials at value prices that efficiently use products not currently promoted or going to waste.

3. Reduce labor with the cross-utilization of talent and staff, asking management to assume operating roles, streamlining service in both the front and back of the house and carefully adapting service style to various parts of the day and/or week. It helps for the restaurant to be given permission to shorten hours.

4. Start a web-based campaign via the social networks and/or direct email newsletters to be sent to current guests and neighborhood contacts offering event-driven specials targeted to the current demographic with a flair for fun.

5. Best of all, add a Wow Factor. Introduce a new energetic public relations or marketing idea that establishes the restaurants’ unique selling proposition, builds the brand (always using the logo) and is directly targeted to the appropriate community group. Include the promotion of popular menu items tied to local sustainable

foods at competitive prices in lieu of couponing. Participate in tastings and events, tying events to vendors to the restaurant.

I have worked with several restaurants that received generous help from their landlords only to pay them back by remaining in business, continuing to build traffic and resuming their rent responsibilities. These restaurants are located across the country in centers both large and small. Some now act as anchors, successfully driving traffic to otherwise unpopular areas, and one went from \$1.4 million to \$5 million in sales in just four years. All used some combination of the above steps to achieve a makeover.

The lesson?

Rent relief can pay off for both landlord and tenant, but remember rule Number One: No plan, no relief, no exceptions! ■

Marshall is the president of FoodPower, Inc., a full-service restaurant consulting firm that coaches industry leaders to leverage strengths, create concepts, build a brand, develop the Wow Factor, tell their story, refine menus and identify opportunities to increase revenue and capitalize on the changes to today’s dining-out patterns.