

If You are Starting a Restaurant, Will You Build One From Scratch, Buy an Existing Restaurant or Lease a Vacant Space?

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When starting a restaurant, a restaurateur is faced with basically three options: build one from scratch, lease space that has been vacated by a restaurant, or buy an existing restaurant. The method used will ultimately depend on a number of factors including budget, concept type, experience of the restaurateur with past openings, the availability of space, time frame for opening, site location, and other considerations. So which option is better? It all depends. It boils down to what you can afford and what is available in the marketplace. Here are the pros and cons of each option.

Building a Restaurant from Scratch

Building a restaurant from the ground up is probably the most time consuming and most expensive of the three options. This option is out of reach for most restaurateurs & traditionally is only reserved for large National & regional multi-unit brands. Nevertheless, these deals are done regularly; there is always an individual or group that finds this route beneficial to their development strategy regardless of the investment required or complexities inherently associated with building out a space.

Pros

- Ability to choose from more variety of locations available on the market.
- You have options on size and position of the space. Options include inline, end cap and/or free standing building. And if you want a patio, you can look for space that will allow for such.
- You have complete control with the layout, design, décor, and size. Depending on the size of the space, you can make the kitchen, dining room, and restrooms as big as you want or as small as you want. You build your restaurant to match your concept not the other way around.
- You will have an opportunity to negotiate a brand new lease on terms and rate that are mutually acceptable.
- Generally you have more control over your brand's overall identity.
- If you have significant restaurant experience, have good credit, and a healthy financial statement, Landlords are sometimes willing to help with Tenant Improvement Allowance, free rent, or a combination of both while you build your restaurant. Sometimes you can even negotiate a better rate per sq. ft. compared to existing restaurant space in the area.

Cons

- Forget about doing a Grand Opening anytime soon. You might be looking at months and months of construction. Sometimes even years (hopefully not the case). Since these empty locations will not have the basic restaurant mechanicals such as drains, grease traps, exhaust systems etc., the culprit of the delay is basically the time it takes to get the necessary permits for construction.
- Since you will be building a restaurant for the very first time, and in order to get permits, you will have to deal with zoning, planning commissions and health departments.
- It can be and most likely is the most expensive option out of the three. You have to build everything from the ground up. And I mean everything. From drains, to the grease trap, to the exhaust system and all the way to the restrooms.
- Most likely you will go over budget. I've never known a client that has gone under budget. Usually it is over, way over. You need to be prepared with significant capital as these construction projects can sometimes put people in the red hundreds of thousands of dollars and sometimes even millions of dollars!
- Risk of running out of money if not well capitalized. I've known people that started construction, ran out of money quickly, and never even got to open the doors. Others have been able to open the doors but have gone over budget and are left with very little working capital. They usually end up closing a few months down the road.

Leasing Restaurant Space that is Vacant

This is an excellent option for most restaurateurs. The trick is finding available restaurant space in desirable locations. In most markets, there is high demand and low inventory of available restaurant space.

Pros

- This is more or less a turn-key operation. Most of the restaurant mechanicals such as a grease trap, drains, and exhaust system are already in place. Sometimes even the FF&E (furniture, fixtures, and equipment) are thrown into the mix.
- The amount of capital needed with this option is usually lower than the other two options. Most of the expense of building the restaurant was already absorbed by the previous operator. Your gain, his loss.
- Since these places have been restaurants, they have been fully permitted to operate as such. Permits do not take as long as when building a restaurant from scratch.
- As when building a restaurant from scratch, you will have an opportunity to negotiate a brand new lease with terms and rate that are mutually acceptable.
- Most of these spaces you can lease with only the first month's rent and a security deposit. This frees up your money to be used as working capital.

Cons

- Good luck trying to find a vacant restaurant in a prime location. There are countless restaurateurs seeking these types of opportunities. By the time you do find what looks like an empty restaurant for lease, the Landlord is probably in the final steps of negotiating a lease with someone else. Most of them are gone before they even hit the market.
- You have no control of the layout. Bathrooms might be in the wrong place or the kitchen might be too small. Fixing or changing the layout can be pricey.
- You have no control of the location. This could be smaller or bigger than what you are looking for. Maybe not in the right location or facing the wrong side of the street.
- If it is fully equipped, the Landlord might require some key money for the FF&E or even charge you a higher rate because of this.

Buying an Existing Restaurant and Converting it

In a tight market for available vacant restaurant space like San Diego, buying an existing operation might be the only option if you want to start a restaurant. I've seen more and more clients take this route within the last 12 months. And this trend looks like it will continue for a while.

Pros

- This is completely turnkey. Change the name, the décor, the sign, and you are in business. Short time frame to Grand Opening.
- You are buying a business that is operating as a restaurant, has all the permits, the mechanicals, FF&E, etc. etc.
- There are some bargains if you know where to look. The key is finding a very motivated seller.
- The biggest expense has already been absorbed by someone else: that of building the restaurant from scratch.

Cons

- Must purchase the restaurant straight out to get the location you desire. In highly desirable locations, this is the only way to get into a restaurant space. You will need to buy somebody out.
- Some owners can be very unrealistic with what they want for their restaurants.
- As in vacant restaurant space, you have no control of the layout, size, or location.
- No way to negotiate the lease. You are stuck with a lease assignment as is. It can be a good lease in favor of you or a very bad one in favor of the landlord. Most likely the latter.
- FF&E might be in bad shape. You will have to buy it in order to replace it! Double whammy.

- Place might have a bad reputation. Or a lengthy track record of restaurant closings at the same location. This is always hard to overcome.

So there you go. If you have an unlimited budget and not concerned about time, then you should go the build from scratch route. But I don't think there are too many people out there that can afford or have the time to build from scratch. Especially when that first month's rent is coming due.

For most of us, the easiest and least expensive way seems to be that of leasing a vacant restaurant space. But again, there is more demand than inventory. In the absence of vacant restaurant space, and if working within a budget, the only option might be to buy a restaurant that is struggling and convert it to your concept. That is if you can find one in the location you desire. If you do find one and think the owner is asking for too much money, think again. This can be a blessing in disguise. Most of the expense of building this restaurant from scratch has already been absorbed by the person who built it. You are basically buying a location for 30 cents on the dollar, if you were to put a dollar amount to it. It makes sense to go this route in most cases.

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Jose has more than 10 yrs experience in brokering Restaurant business transactions. He is a former business owner having owned his own chain of fast food restaurants. He has an MBA and holds the CBI designation from IBBA and CBB designation from CABB. He is a member of the California Restaurant Association, San Diego Food & Beverage Association, IBBA, CABB, and International Council of Shopping Centers.