

FEATURE Prices are soaring as eateries move to the top of investor food chain across Metro Vancouver

Restaurants on the menu

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A competitive market is boosting prices for B.C. restaurants as entrepreneurs seek opportunities in a sector that's benefitting from economic good times.

"The market is pretty good," said **Roger Chan**, who with partner **Peter Chow** of **Sutton Group West Coast Realty** in Vancouver sells about three to five restaurants a month.

Many of the entrepreneurs he works with view restaurants as good business opportunities in a province that's enjoying buoyant economic times as well as the prospect of additional business opportunities following the 2010 Winter Olympics.

Indeed, according to **B.C. Statistics**, growth of the food and beverage sector has been steady since 2003. B.C. restaurants saw GDP rise 18.2 per cent between 1998 and 2006. Last year, revenues topped \$7.6 billion.

Moreover, federal stats indicate that B.C. residents spent \$1,830 per capita on food at restaurants and licensed premises in 2006 – more than residents of any other province. Only an abstemious attitude towards alcohol made B.C. second to Alberta as the top-spender overall in terms of food and beverage services.

"As consumer spending is forecast to remain strong over the next few years, the food services and drinking places industry will likely continue to reap the benefits," stated a commentary produced earlier this year by B.C. Stats.

But it's not just a rosy economy that's giving buyers an appetite for restaurant properties.

Many buyers are paying a premium of between 30 per cent and 50 per cent to secure properties with desirable zoning and no parking issues. Demand for existing properties is also strong as buyers seek to avoid the premium newly built properties developed in an environment of rising construction costs demand.



Sample active listing: \$48,000 for a lease-space, 60-seat Chinese restaurant on Granville Avenue, Richmond, near No. 3 Road. Lots of parking. Listing courtesy of Roger Chan of Sutton Group West Coast Realty.

While many people would like to find a business with property, rather than just a business in leased premises – the common arrangement for most restaurants – there are few available.

"The property price is too high for a free-standing building," Chan said. "The investment is huge."

Yet even restaurants that lease space face significant challenges.

Property taxes

Rising property values have boosted property taxes, putting upward pressure on rents, and now rising food costs are also putting the squeeze on operators in a cost-conscious sector. "Everything is going up," Chan said. "So the cost of running a restaurant right now is much higher than before, and also, you can't increase the price of the food too much because the competition is so keen."

The result has been significant turnover, with some businesses selling more than once a year. While new restaurants are opening all the time in Vancouver, the actual number of licensed

premises in the city is steady at approximately 1,500, give or take 10 or 20.

Chan noted that while a standard multiple for gauging a restaurant's value in the U.S. is four times net income, in Vancouver the pressure on operations is so great it's more common for restaurants to sell at twice net income.

Christian Piché, a senior valuation consultant with **Colliers International's** hospitality division in Vancouver, said that some industry estimates suggest only about 10 per cent of restaurants are actually making money. "It's a very tough business, very narrow margins," he said. "It's not very profitable."

The real value of most restaurant businesses lies in the management, Piché said.

Since most restaurants operate out of leased premises, the financial value depends on the cash flow of the business, but the real value lies in the ability to meet or beat the competition.

"The traditional rule of the restaurant business in Vancouver is if your rent is more than \$25 a foot, you'd better have a really, really incredible product," Piché said. ♦

Tips on selling

Restaurant owners seeking to sell their business can take a number of steps to improve potential buyers' impression of the property, said **Roger Chan**, a broker with **Sutton Group West Coast Realty** in Vancouver.

The first step is making sure the restaurant has a clean inspection record from the local health authority, he said. Since the information is typically available online, potential buyers can quickly find out what the reputation of the restaurant has been, and whether there are any outstanding issues that could pose problems in the future.

Second, since the sale price will depend in large measure on the cash flow the business is able to generate, Chan recommends taking steps to boost sales.

Advertising or promotions to boost traffic can help increase sales and show what a property is capable of achieving. This would in turn boost a restaurant's worth, and may even leave a loyal clientele for the purchaser.

By the same token, purchasers should typically look beyond the financial statements when considering acquiring a business. While the financial statements may show solid cash flow, several other factors play a role in creating a successful business.

Some restaurants do well under one owner because of the owner's reputation, a connection with guests and the overall environment the owner creates at the premises, Chan said. These are factors that don't show up on a balance sheet.

He urges buyers to consider whether they can keep the staff who worked with the previous owner, and if not, if the quality of the food and service can be maintained. "This is very important for the buyer when they are looking to buy a good restaurant business."