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That's the Spot!

Strategies for Finding the Ideal Restaurant Site

The old cliché about restaurant site selection is actually true: Success is all about three factors: "location, location, location." Unless your restaurant concept involves a food truck or a pushcart, you will probably be trying to find the optimal site for your restaurant at a price you can afford. It sounds easy, but it's not. Finding the right site requires patience, effort and a Sherlock Holmes-like ability to draw conclusions from many facts and observation.

Some restaurateurs develop their concepts based on an available site. You may have driven by a vacant storefront or seen a shopping complex under construction and thought, "That would be a great location for a [your idea here]." While this approach to restaurant development can work, it's risky. Sites that are vacant are usually vacant for a reason: high rents, low traffic counts, building problems, difficult landlords.

The site that has been five or six restaurants in quick succession is particularly difficult to turn around because most patrons in the area will probably have written off that location as a failure regardless of what concept goes in. Even if you bring in an entirely new menu, name, look and management style, many people will shy away from a location where they've had a bad meal experience in the recent past.

Should you pick a site and design your concept around it, or is it better to develop an idea for a concept and then go looking for a site? While the “site first” approach may work from time to time, the best approach to creating a successful restaurant is to identify a gap in the market, determine your target customer’s profile, and then find a site in the areas where these customers normally go. Having a good sense of what your market needs and wants will help you view potential sites with a more critical eye and make better location decisions.

First, Determine Your Market

Before you begin looking for a site, you need to do a little homework to find out where your target market can be found. For a project I worked on a few years ago, we identified our target market as professional singles and couples without children and then did some digging into U.S. Census data to find out where there were high concentrations of these groups. The American FactFinder website at www.census.gov has all kinds of excellent, free information that can give you demographic information about any city or town in the United States as well as helpful data on income, school enrollment, transportation use, and several other categories that can help you pinpoint clusters of the target market you’re seeking to serve.

This is a good starting point for developing a restaurant in a city you don’t know well. If you are a native of the area, however, you might already have a good sense of which neighborhoods and traffic routes are likely to have a high concentration of your target market during your intended hours of service. But even if you think you know where to find these customers, you’d be wise to do a little investigation to ensure that these customers will actually be where you need them to be. For example, in some areas big chunks of the population leave town at certain times of the year for vacations or to escape unpleasant weather, making your potential pool of customers much smaller in that location.

A good source for this kind of information is an experienced local residential real estate agent who will probably know where your desired customers live and work, right down to the city block. You can also do some reconnaissance in neighborhoods that you think are good possibilities. Look at people on the street, the makes and models of cars in nearby parking lots, and the kinds of businesses in the area to get a feel for the demographics that may be more nuanced than what the census data can indicate.

It’s quite possible that lots of other businesses will be chasing the same market segments, which means sites in areas where there is a high concentration of these customers will be expensive and likely dominated by the chains. Many restaurant startups look instead for a site in what might be termed “transitional neighborhoods,” particularly for concepts that cater to a young and adventurous crowd.

Finding a street-front space in a part of town that is beginning to attract artists, musicians, recent college grads and others who may be low on cash but high in creativity can be a great starting point for a lot of concepts because the rent for a space like this is likely to be relatively low and, provided that the restaurant’s offerings and price point fit the market, your neighbors will appreciate having a local spot they can make their own. Find that neighborhood that has the repurposed older homes or industrial buildings, the quirky gallery spaces, and the vintage clothing boutiques and you’ll probably have found an up-and-coming area before it gets too built up or expensive.

Get to Know the Neighborhood

Once you have identified where your target customers can be found, the real work begins. The most effective site selection involves spending considerable time on the ground, getting to know the neighborhoods before you pinpoint the site you want. One good approach to evaluating an area is to take a window seat in a coffee bar on a street you are considering for your operation and just watch. Look at who is on the street, what they are doing, and what kinds of businesses they are supporting. What demographic groups are represented? Are they strolling or are they rushing to a very specific destination? Are they carrying shopping bags or wearing backpacks or staring into their mobile devices? What side of the street do pedestrians take and which direction appears to be dominant for cars and for pedestrians? You can learn an enormous amount about the area just by observation, but it’s a good idea to do this multiple times in locations that show potential to ensure that what you’re seeing is consistent and appropriate for the day parts you hope to serve.

You can also just look for clusters of “flag” businesses and try to locate close to these. A flag business is a store or service that targets the same kind of customer you are hoping to attract. If you are looking for those professional singles and couples without children, Starbucks and Barnes & Noble might be good flag businesses. But be prepared: If you are going after a high-ticket market like this, you’ll probably be paying much higher rent.

Checking out the competition around a potential site should be high on your to-do list. You may even want to make a checklist so that you don’t forget an important item as you compare existing restaurants with your concept.

Specifically look at menu, pricing, number of seats, typical clientele, times when the restaurant is particularly busy, and overall dining experience. You don’t want to compete head-to-head on every aspect, but the clientele, traffic volume and perhaps pricing should be compatible with your concept. Sometimes you can get some great insights about how these competitive operations are performing by dining at them yourself and striking up a conversation with the server or the bartender. While it’s probably not a good idea to ask specific questions like, “What is your average

check?” you can generally get a sense of what the clientele is like and which shifts are most desirable (it translates to being the busiest and most lucrative).

Making notes on a map of the area will show you where there might be opportunities to explore. If a lot of your competitors are clustered on one or two streets, you will want to look at sites in those areas because there are benefits to restaurants that are located close to one another. Restaurant clusters tend to generate demand by regularly bringing hungry customers to the neighborhood and if one restaurant is full, the spillover can be picked up by the places nearby. This is the reason for the “restaurant row” phenomenon that you see in urban areas and along busy artery roads. A common rookie mistake, however, is to choose a site that is a bit too far out of the cluster’s orbit — perhaps a few blocks away, or down a rarely used side street. It is the rare operation that has the drawing power to attract customers to a spot that is out of their way.

Now that you’ve got a sense of where your customers are going and what kinds of businesses they’ll find when they get there, you can start hunting for an available site. You can certainly do this on foot or by cruising the streets but you’ll probably want to involve a real estate broker who may be aware of listings that wouldn’t be apparent during a drive-by. Prepare a list of your site criteria, broken down by “must-haves” and “would-be-nice-to-haves” — square footage preferences, ceiling height, presence of a kitchen or restrooms, potential for outside seating, and so on.

Also give a price range for rent that you can realistically support with your concept. A good rule of thumb is that your total occupancy costs — rent, common area maintenance (CAM) charges, insurance and property taxes — should represent no more than 10 percent of your anticipated revenues. So if a 2,500-square-foot (SF) site has a rent of \$50 per SF annually plus another 25 percent in additional charges for taxes, insurance and maintenance, you will be spending \$62.50 per SF per year on occupancy costs. That means your concept will have to generate at least \$1.5 million in sales to support this site’s costs. Is this sales volume realistic given your proposed number of seats, your likely average check and your anticipated table turns? Compare these calculations with what you have learned about the nearby competition. Are these operations able to perform at a similar level? If they aren’t, you may be kidding yourself that you can make this site work for you economically. Many startups fail because the operator took on a lease that couldn’t be realistically supported, even with the best concept going. Great food and good service are not enough if your fixed expenses are just too high to make a site profitable.

11 Factors

If the stars align, you will uncover a number of site choices that are proximate to your target market and that meet at least some of your criteria. The next step is to rigorously evaluate each site and compare its attributes with the most important factors for success for your concept. Here are 11 factors to consider:

1. Is the site the right size for your operation? Too small and you won’t be able to either get the number of seats you need to be profitable or you will have a “back of house” too small to be able to execute effectively. Too big and you’ll be paying for more space than you need. As a starting point, for a full-service concept, allow 22-25 net square feet per seat to ensure that you have enough space in both front and back of house. That means a 60-seat dining concept would need something like 1,300-1,500 square feet of usable space at a minimum. (Of course, menu, preparation needs, staffing and frequency of deliveries all can modify this number. But this is a good place to begin your analysis of sites.)
2. Is the site affordable? Ask for the space’s total occupancy costs, including all CAM charges, taxes and insurance. That number should be no more than 10 percent of your anticipated revenues for your operation to have a fighting chance at being successful.
3. What’s there now? If the site is presently a restaurant, what is the scope and condition of the existing kitchen, and what kind of shape is it in? It is no bargain to lease a former restaurant that requires a lot of reconfiguration or rehabilitation to be functional. If you will need to add additional cooking equipment to what’s there, the existing ventilation hood may not be sufficient and you’ll incur significant costs to expand its capacity to support that extra fryer or griddle. Restrooms that are undersized or don’t meet code will be costly to upgrade, and internal staircases in the back of house will cost you space and aggravation. However, things that can be fixed with just some elbow grease — greasy equipment, dingy paint, messy storage areas — shouldn’t deter you.
If the site is not presently a restaurant, how much work would it take to turn it into one? The biggest snags for converting space usually relate to ventilation and plumbing; you’ll need to be able to run your ventilator ductwork to the roof of the building and you’ll need to be able to go into the floor for drainage and grease traps. (These limitations help explain the popularity of concepts that don’t require a ventilation hood, like coffee bars.) These infrastructure improvements are expensive and time-consuming, especially in older buildings or in ones with multiple tenants above your site. If everything else about the site is positive, bring your contractor to the space for a walk-through before you sign any leases. You’ll want to know if you are looking at a major expense — or even a project killer — before you commit.
4. What are typical utility costs there? You should be able to obtain recent utility bills for the site, and it’s important to do so if you are taking over an existing restaurant. Make sure to ask for water and sewer bills as well as gas and electricity bills so that you can identify equipment that is wasting water. One water-waster to watch out for: ice machines or refrigeration that use nonrecirculated water for cooling. These will cost you an enormous amount in water bills to say nothing of the environmental hazards

of wasting water. Utility costs have been rising in recent years, and many restaurants will be spending 8 percent to 10 percent of their revenues on utilities. Be proactive and make sure your proposed site doesn't draw more resources than it needs.

5. Has the site got a good history? If your site is already a restaurant, the health department should be able to furnish you with recent inspection reports. Look carefully for violations related to pest infestations or problems with plumbing. And it wouldn't hurt to check with the police about any complaints or crimes in the building or nearby.
6. What's around your site? What kinds of businesses are upstairs, downstairs, next door or down the block? Having lots of restaurants nearby is actually a good thing for most operations because prospective guests will frequent restaurant clusters in greater numbers, and your concept will get both exposure and possibly spillover traffic. Look for businesses that are open and thriving during the times of day you want to be open, and that attract the kind of clientele you are seeking. Lots of empty storefronts, temporary operations and low-end retail such as "dollar stores" are usually a bad sign for most concepts.
7. How is the neighborhood changing? Your broker should be able to give you some sense of the rental history of the area and should be in the know about proposed new construction. But it helps to do some additional homework. Check with the municipal highways or transportation authority to find out if major road or utility construction is being proposed that would affect access and visibility. See if you can track down a longtime restaurant or retail tenant in the vicinity and ask them for their views on how the neighborhood has changed over time.
8. How does traffic move near the site? For most locations, you'll be relying on street traffic to bring you your customers. Which direction is the traffic moving during the day parts that are most important to your concept? Chains like Dunkin' Donuts look carefully for sites with high inbound morning traffic, while a restaurant that focuses on the dinner trade would want to be on the opposite side of the road with the outbound traffic at day's end. Most patrons will avoid making a left turn across traffic if they can avoid it, so encourage them to stop by making it as easy as possible for them to turn in and out of your site. In addition, take careful note of how busy the street is. Is there continual heavy traffic that might dissuade customers from coming to the neighborhood by car to dine? A street that is constantly blocked by stop-and-go traffic or trucks unloading will make your site less desirable to drivers.
9. What permits or variances will be required? Urban legend has it that to build a restaurant in New York City, you need to obtain more than 100 different permits. While in reality the number of permits you'll need isn't quite that high, it's still significant, making New York one of the toughest markets to create a restaurant. (San Francisco is

another attractive but challenging location for restaurant startups.) No doubt in many locations there are lots of administrative hoops to jump through to get a restaurant up and running. First, check that the zoning for your site permits restaurant use and, if relevant for your concept, whether you can obtain a liquor license for that location. (If your site is too close to a school or church, you may not be allowed to sell alcohol.) Find out whether you have to go before a community board of some sort to get a liquor permit. You may also find that special permits are needed for signage, outdoor seating or specialty ventilation. In some cases, all that is needed to get the necessary permits is an application accompanied by a fee, but for major changes to building use or configuration, don't be surprised if you have to apply for a zoning variance, which is a more costly and time-consuming process that's not assured of approval. If you need to obtain several variances to make your concept work in a given location, maybe it's time to look for a spot where you won't face so many administrative hurdles.

10. What is the reputation of the landlord? Find out who owns the site and who manages it. Then ask around to get a feel for how well tenants get along with the landlord. You can ask other tenants in the same building if there are any, or you may find a municipal tenant relations bureau or other entity that monitors landlord-tenant disputes. (These are often for residential tenants only but may also include commercial arrangements.) Ask restaurateurs in the neighborhood for their take on this particular landlord or management company; chances are, they will have heard something through the operator grapevine if nothing else.
11. What limitations will your landlord put on your operation? If your proposed site is part of a larger development, you will probably find that the landlord has restrictive covenants written into the lease. These may relate to how your operation appears from the outside, your hours of operation, the days you close (under the terms of the lease you may not be allowed to close for slow days or for vacations), or even the kinds of food you may serve. Shopping centers are more likely to have these kinds of restrictions than other sites, but you can still come across restrictions in almost any kind of development.

Convenient Location, Financially Viable

The most successful restaurants are in sites that are convenient for the target market and make sense financially. When you see what you think is a great site, it's tempting to want to jump right in and grab it before someone else does, but it really does pay to make sure that it's in the right location for your target customers, can support your concept physically without drastic modifications, and is financially viable. A little extra time in due diligence will pay you back in years of successful operation.

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