


BUILDING BLOCKS

Three Steps to a Successful Restaurant Project

Earlier today I was in a meeting with an international restaurant group from India. This group is developing a new multi-unit fusion restaurant concept in the Mid-Atlantic and Northeast regions. There are always lots of moving parts with large projects like this, but, wisely, the owners had invited the entire team to this meeting to make sure that everything gets started on the right foot.

The team, which includes their construction manager, leasing people, architect, and our construction company, is acutely focused on how we could work together to manage the project. With the direction and guidance of their in-house real estate department, we talked specifically about how each team member would structure the wide range of duties and responsibilities to control costs and ensure the project is a success.

With the deadline looming for my column this month, it struck me that, while most of you reading this probably don't have access to your own dedicated real estate divisions, there are still valuable lessons to be learned for smaller independent owners or those who are opening restaurants for the first time.

So what can you do to make sure that your own project gets off on the right foot? You need to take care of three critical components as early in the process as possible:

Negotiate a Fair Lease

Without the right lease, you start off the process at a financial disadvantage you can never recoup. For example, leasing a space that has existing adequate utilities and HVAC



BY JOHN KLAKAMP

is obviously the most favorable scenario. But what if the HVAC system is underpowered or out of date? Landlords will often offer "tenant improvement" allowances to offset the cost of any deficiencies, but who pays if the tenant allowance isn't enough to cover the required improvements? If you've signed the lease, you're stuck.

Although every lease is different, in general it is reasonable to negotiate for a space or receive a tenant improvement contribution to get the space in "shell condition." This would offset a large chunk of the costs associated with mechanical, electrical and plumbing work and would yield restrooms and a demised space ready for paint. Since costs associated with the shell work can approach 50 percent of the total project cost, you can see the importance of negotiating this as part of your lease.

Do Your Due Diligence

Performing your due diligence is your best and perhaps only opportunity to manage risk. It is only by thoroughly evaluating the proposed lease space for code compliance, legalities, deficiencies and other challenges that you can accurately determine the true cost to design and build your restaurant.

In my thirty years of experience, I have seen two basic approaches used to perform due diligence. The first is linear in nature, where the restaurateur goes down his or her checklist and works with their broker, attorney, architect, contractor systematically and sequentially.

Often there is no overlap or interaction among these separate entities. In the second approach, the various disciplines work together as a team to make their concerns known, decide how to evaluate each of these concerns, and brainstorm solutions.

Build a Cohesive Team as Early as Possible

By assembling and involving your

entire team, which includes your broker, architect, and construction team, from the earliest stages, you make it much less likely that anything will fall through the cracks. For example, you've decided to take over an existing restaurant and remodel the dining area. Unfortunately, it's very easy to exceed the amount of work allowed under the rehabilitation code for your location. As a result, you would be required to bring the entire restaurant up to current code at a much higher cost than originally anticipated. Your construction partner could catch that if he were involved early in the process.

When using the teamwork approach, deficiencies, concerns and the scope of work are all identified upfront. The team then agrees on viable and cost effective solutions

and uses this information to develop budgets, applying costs based on square footage and costs of similar projects and finishes.

Conclusion

To make sure your project gets off on right foot these days, managing costs is critical. By paying specific attention to your lease negotiation, performing proper due diligence, and assembling your team as early in the process as possible, you can give your project the best chance of success.

JOHN KLAKAMP has more than 30 years experience in restaurant construction and is owner of Annapolis, MD-based Encore Construction (www.encoreconstruction.net), a firm that specializes in providing pre-construction, construction and project management services to the restaurant industry.



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