THE VELD GROUP – RESTAURANT & BAR TRANSFORMATIONS VIA BUSINESS SALES

This includes a summary of why landlords are typically the largest beneficiary in a tenant's business sale. It including illustrative before and after photo comparisons of venues that underwent dramatic transformations via business sales.

Increased Property Values Regularly Delivered to Landlords via Dramatic Tenant Improvements, Increased Premise Entitlements & Quality Operators …

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Value Proposition to Landlords

Property Transformations & Value Enhancements

One of the many challenges in a restaurant or bar sale is the landlord's issuance of a new lease to the business buyer, approval of a lease assignment, or granting of a lease option or extension. Paradoxically, it is <u>the landlord who typically benefits the most</u> from a tenant's business sale!

Restaurant & bar buyers usually differ from existing tenants in that they typically bring significant capital, experience and a well thought out vision for the improved retail space to the table. If they did not, they would not be willing to compensate the business seller. Regardless of whether they are maintaining the existing hospitality concept, bolstering it or launching a new one, business buyers tend to be very different from the founders. They tend to be risk averse – thus their preference to purchase cash flow, invest in a proven location or acquire a pre-existing build-out and/or entitlements (e.g. alcohol license). Buyers seek a relatively stable or turnkey opportunity with fewer unknowns. Founders tend to be entrepreneurs who are risk loving and bootstrap their investment to launch with the lowest budget possible. The list of benefits this provides landlords is lengthy, but includes:

- *Property Improvements*
- *Premise Entitlements*
- *Compliance / Zoning*
- *Past Due Rent / CAM Collections*
- *Transaction Cost Savings*
- *Highest & Best Use w/Built In Buyer*

Property Improvements

Business buyers almost always make improvement to the lessor's property. While these may be minor, oftentimes they are dramatic – with the property owner being the largest beneficiary.

In the first example, Highland Park's Mr. T's Bowl landlord and business owner sought a new tenant and engaged The Veld Group for the buyer search. While the premise has a storied history dating back to when it opened in 1927 as Highland Park Bowl, which was Los Angeles's first bowling alley, it needed tremendous work and had issues with its Alcohol and Beverage Control (ABC) License, entertainment permit status, heath department compliance and Department of Building and Safety classification. The prospective tenant had to be a party that The Veld Group and the landlord felt had the grandest vision for the property, was a proven operator with a solid track record, and who possesses the ability to navigate the governing entities necessary to facilitate a relaunch. This was The 1933 Group. Prior to launch, they invested over $2 million into the project in the highly gentrified area. The results are astounding as they not only restored the bowling alley to its former glory, but they transformed the entire property into a virtual hospitality complex complete with two large bars, a mezzanine seating and dining area that overlooks the bowling alley, a new restaurant with a modern kitchen and a speakeasy in what was formerly a separate vacant retail space. The results are remarkable.

A second example is no less dramatic, albeit on a slightly smaller scale. Duke's coffee shop had originally opened in Sandy Koufax's famed Tropicana Motel on Santa Monica Boulevard. The greasy spoon served rock icons from 1968 onward at that location, and then in its new incarnation in the heart of the Sunset Strip next to the Whisky a-Go-Go since 1988. In 2010, The Veld Group assisted the then owner-operator of Duke's in obtaining a beer and wine license. This initial entitlement then helped facilitate a transformation that can be credited to the Lore Group with their opening of Pearl's Liquor Bar. The single level diner became a first class three level hospitality venue that includes a swanky first floor lounge, a garden style mezzanine, and an open air rooftop deck that boasts skyline views. Once again, the landlord obtained a property value windfall as a result of the buyer's multi-million dollar improvements, the premise's upgraded conditional use permit that took it from a beer and wine license to a liquor license with three full-service bars, and perhaps most importantly, a successful concept with a solid long term multi-location operator.

Premise Entitlements

As in the prior two examples, business buyers often enhance a hospitality venue's entitlements. This may take the form of a business buyer implementing a beer and wine or liquor license, to then upgrading an existing license to a more coveted one, or also obtaining a dance or entertainment permit. Any such improvements are costly undertakings that business buyers incur the expense for and rarely ask landlords for tenant improvement allowances or rent abatement in exchange for, however once again, they significantly increase the property's value.

Since the mid 2000's it has become common for the city to place 5 – 7 year expiration dates on a property's Conditional Use Permit ("CUP"). While a liquor or beer and wine license are the property of the tenant, the CUP is a property entitlement that belongs to the landlord. A tenant with these coveted licenses requires a premise with a current CUP. The combination of both allow the landlord the ability to command increased market rate rents, and offer their tenants a higher probability of success.

When businesses change hands landlords are rarely asked to cover the costs of CUP renewals, however they are almost always expected to incur this expense if their properties are vacant. These complex renewals often cost between $15,000 and $20,000 and may require the assistance of an expeditor. If existing operators are unaware or are unable to afford this expense, they may put their business on the market prior to the CUP renewal period. Once again, this expense tends to be built into the business's sale price, without any detriment to the landlord – although the landlord should champion any entitlement or their renewals in order to maximize their long term value.

Compliance / Zoning

Hospitality venues typically require a Health Department Permit, and the facility needs to be compliant in several arenas. Similar to the changing regulatory environment of the Conditional Use Permit, health codes and facility compliance have changed over time and the governing agencies seek to ensure that premise are up to the most recent specifications. An obvious facility improvement that draws a great deal of attention is American with Disabilities ("ADA") compliance. Bringing any structure up to code to meet ADA standards is a costly affair as widened doors, access ramps or elevators, dedicated parking ratios, etc. are required. Once again, if this occurs within the scope of a sale it's incorporated into the business's sales price. Otherwise, the landlord foots the bill, one way or another.

Other compliance issues or standards that come into play include updates to a facility's grease trap, a hood's ansul system (the equipment may belong to the tenant, but the ansul system is part of the affixed hood, which tends to be the landlord's responsibility), as well as maintaining an active health permit. While physical fixtures and equipment can be replaced, once a venue loses its health or other permits or entitlements they may be extraordinarily difficult or impossible to restore.

Along the same lines, landlords are often surprised to learn that their properties are not zoned for the types of tenants they have (e.g. it is not uncommon for a full-service restaurant to be zoned as a take-out or catering only venue). While it's to the landlord's benefit to ensure their properties are zoned for their current use with the Department of Building and Safety, this is a hassle and expense that business buyers usually incur in a business sale – once again helping the landlord ensure or maintain the 'highest and best use' of their property.

LES DEUX CAFÉ …

When Les Deux Café was about to lose its alcohol entitlement in 2006, The Veld Group's Ryan Clark worked with the landlords to locate the venue's founder in France. Mr. Clark coordinated with the ABC and the City of Los Angeles to reinstate the license, which ultimately facilitated a sale to operators who revived the once highly popular venue to its former glory. Short of this, this Hollywood success story likely would have reverted to the arts and crafts bungalow it formerly had been, and the landlords would have suffered an entirely unnecessary property value decrease with the entitlement loss.

SAFARI SAM's …

Safari Sam's was once a highly popular Sunset Boulevard live entertainment venue. Due to a loss of entitlement, they became a church for a period of time and is now a 6,000 square foot banquet hall. Naturally, the landlord would prefer that it hadn't lost its alcohol, dance and live entertainment entitlements.

Past Due Collections

Many venues fail. It's an unfortunate reality of the hospitality industry. Fortunately, landlords are usually able to be made whole on past due rent or other monies owed when one of their tenants sells since a lease assignment, extension or new lease has to go through the landlord. After all, a failing tenant likely lacks the capital to reimburse them for back due rent or common area maintenance expenses. A failing tenant's liquidity event provides the landlord the mechanism necessary to recoup monies owed to them and move forward with a new tenant.

Transaction Cost Savings

Unlike when leasing a vacant property, landlords usually do not pay broker commissions when a tenant sells their business as the fees are typically paid by the seller. Not only does the business broker not ask the landlord for a commission, but paradoxically once again, the broker usually provides a more qualified operator who has more 'skin in the game' than a lease-only tenant! Also, it is unlikely that the landlord will be asked to provide the tenant improvement allowances or rent abate terms common with a vacant property. Once again, the landlord remains the largest beneficiary of our client's business sale.

Built-in Premium Property Buyer

Who is more likely to pay a premium for a property than a highly successful tenant? No one. Trading a tenant that no longer wishes to remain at a location for an enthusiastic, well capitalized one should be embraced - especially when it comes to creating an ideal future buyer for the landlord's property!

In Closing

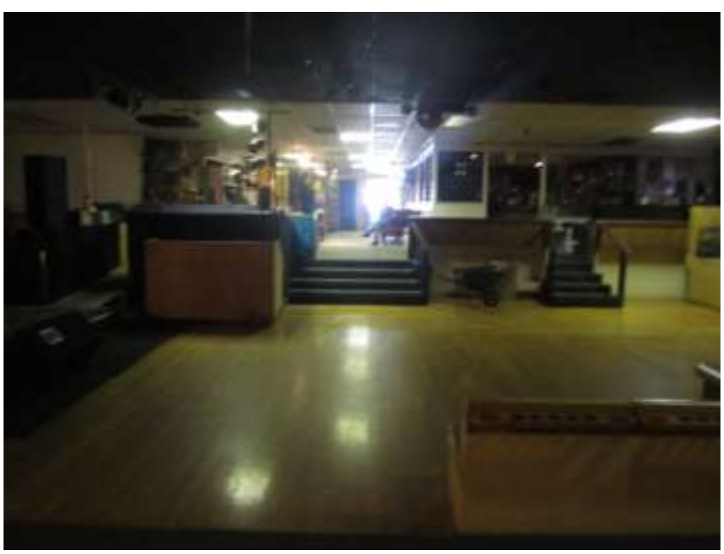
After more than 1,000 transactions we've found that the best thing the landlord can do is to have the most seasoned and secure tenant operate a highly successful business on their property. This not only allows them to achieve the lowest capitalization rate for the property's income stream, but the highest resultant property valuation!

Since most property owners are usually wise, long-term strategists, it seems counterintuitive to potentially forego massive property value benefits when an existing tenant sells, or worse yet, embrace potential short term gains realized by dooming a new tenant with an unrealistic lease rate (this unsustainable practice is touted by commercial agents who seek turnover, which creates new listings). The following before and after photos illustrate remarkable transformations via bar and restaurant sales in which the landlord's cooperation in a business sale was truly rewarded …

BEFORE *AFTER*

Mr. T’s to Highland Park Bowl (Figueroa St. - Highland Park)

BEFORE *AFTER*



BEFORE *AFTER*






BEFORE *AFTER*

BEFORE *AFTER*

Duke's to Pearl's Whisky Bar (Sunset Blvd. – West Hollywood)

BEFORE *AFTER*

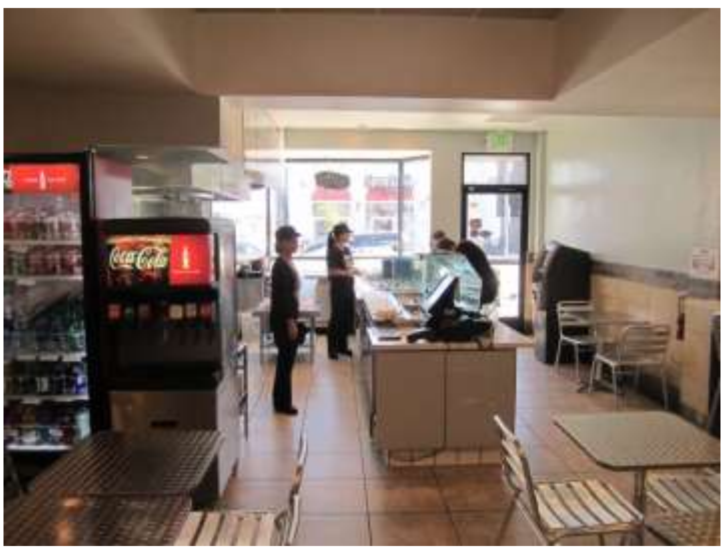
Tochka to Seoulos to Ink Sack (Sunset Blvd. – West Hollywood)





BEFORE *AFTER*

Seoulos to Ink Sack (Sunset Blvd. – West Hollywood)



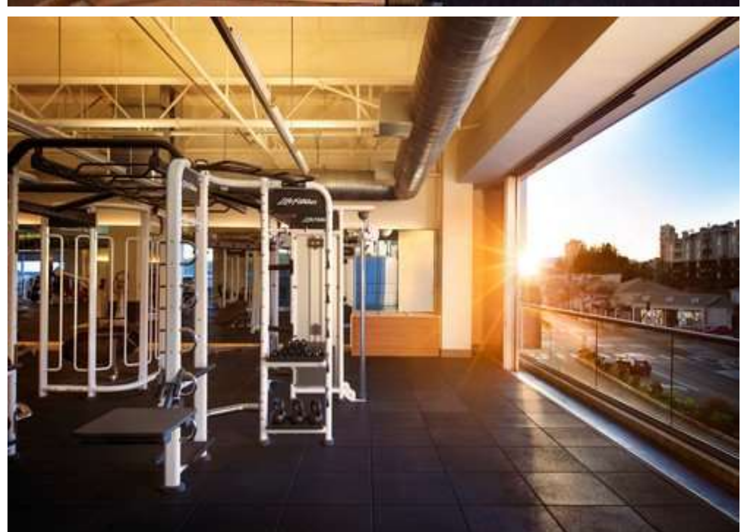
BEFORE *AFTER*

Mirabelle to Maia (Sunset Blvd. - West Hollywood)

BEFORE *AFTER*

Ketchup to Equinox (expansion) - (Sunset Blvd. – West Hollywood)



BEFORE *AFTER*

Kikuchi Japanese to Vito's Pizza - (La Cienega – West Hollywood)

BEFORE *AFTER*

Orso to AOC Wine Bar (3rd Street – Beverly Grove / Beverly Hills)

BEFORE *AFTER*

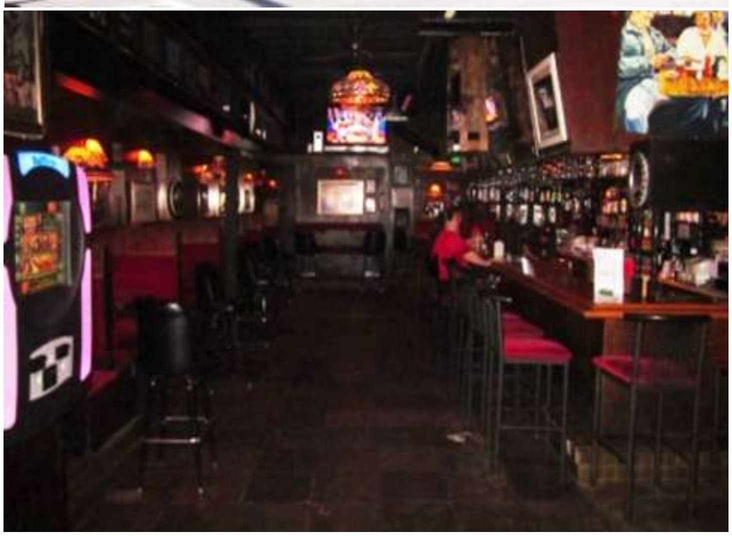
8486 Café to 3rd St. Station (3rd Street – Beverly Grove)

BEFORE *AFTER*

3rd St. Station to Link (3rd Street – Beverly Grove)

BEFORE *AFTER*

St. Nick's Pub to Toca Madera (3rd Street – Beverly Grove)



BEFORE *AFTER*

Masquer's Cabaret to Goal Sports Bar (3rd Street – Beverly Grove)

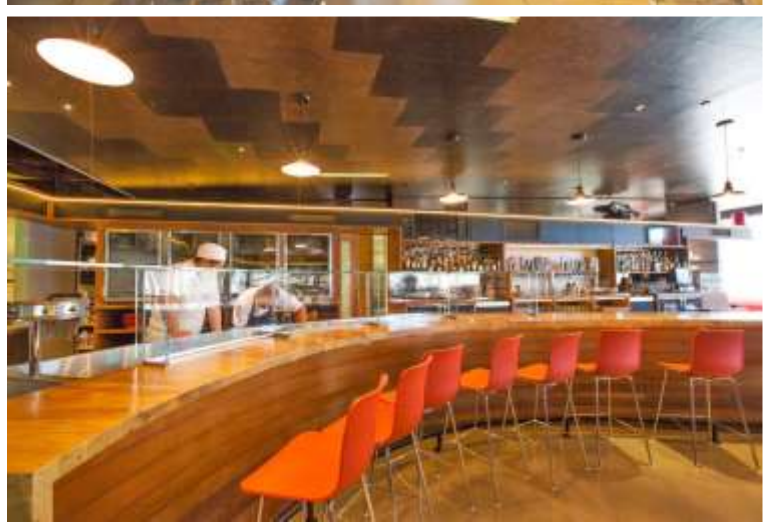
BEFORE   *AFTER*

Celedon Asian to Mercado (3rd Street – Beverly Grove)

BEFORE *AFTER*

Silver Spoon to Connie & Ted's (Santa Monica Blvd. – West Hollywood)



BEFORE

AFTER

BEFORE *AFTER*

Dar Maghreb to Acabar Lounge (Sunset Blvd. – West Hollywood)





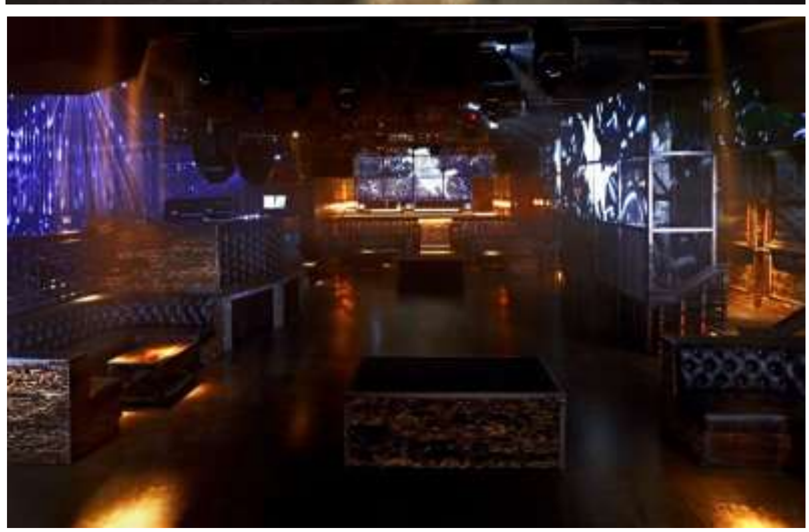

BEFORE *AFTER*

Vogue Theater to Supperclub L.A. (Hollywood Blvd. – Hollywood)

BEFORE *AFTER*

BEFORE *AFTER*

Club Blue to Sound Nightclub (Las Palmas – Hollywood)



BEFORE *AFTER*

Les Deux (original) to Sadie (Las Palmas – Hollywood)

BEFORE *AFTER*

Flying Leap Café to Hyperion Public (Hyperion – Silverlake)

BEFORE *AFTER*

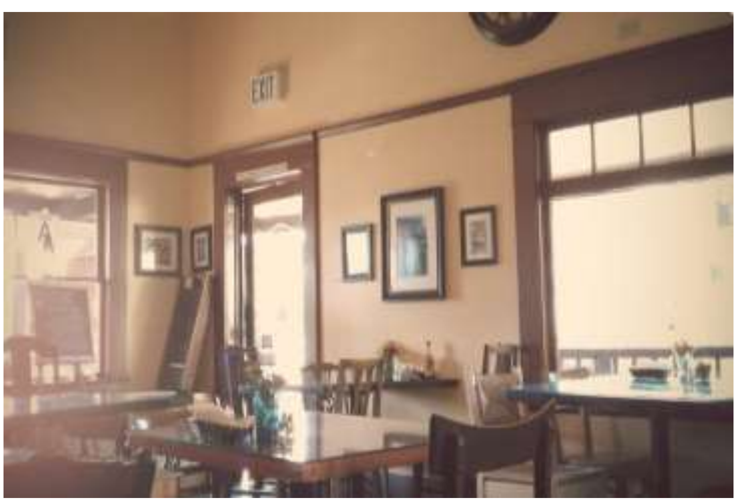
Carnival Café to Café 50's (Vermont – Los Feliz / Melrose Hill Area)

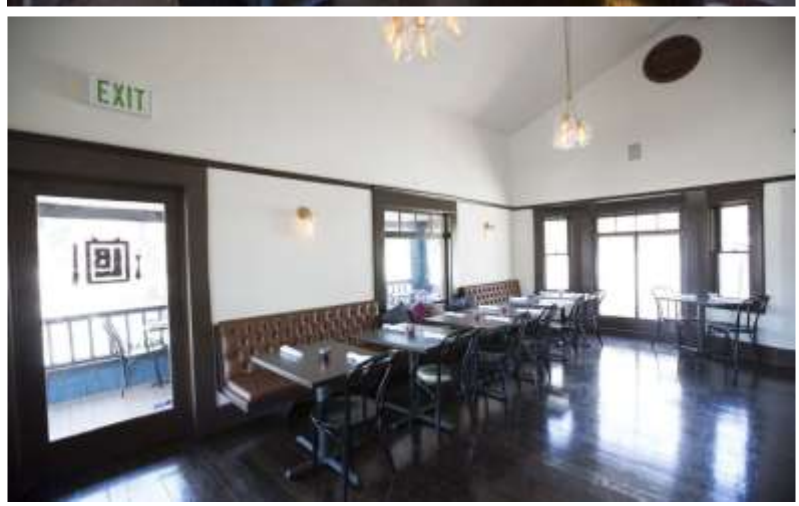
BEFORE *AFTER*

L.A. Bread to The Village Bakery (Los Feliz Blvd. – Atwater Village)

BEFORE *AFTER*

Larkins to The Little Beast (Colorado Blvd. – Eagle Rock)





BEFORE *AFTER*

Cozy's Bar & Grill to The Local Peasant (Ventura Blvd. - Sherman Oaks)

BEFORE *AFTER*

Winnetka Inn to Crazy Harry's (Saticoy St. – Winnetka)

BEFORE *AFTER*

AC Supperclub to Wurstkuche (Lincoln Blvd. – Venice)






BEFORE *AFTER*

Blue Laguna to Mare (South Coast Highway – Laguna Beach)