

Valuing Your Store

Learn exactly what appraisers are looking for when they decide your restaurant's worth. [By Deborah I. Cohen](#)



Appraisals often are associated with annoyance—the mere thought of paying good money for someone to come into your restaurant and snoop around everything from the kitchen to your bookkeeping makes many operators cringe.

But these valuations are a necessary part of doing business, particularly in the fast-food arena, where changes like the expiration of leases or the failure of businesses are constant.

The list of reasons for valuing your restaurant is lengthy, with time and costs varying based on specific requirements. Luckily there are only three common types of appraisals used to value quick-service—business, real property, and machinery and equipment.

Sometimes practitioners in a specialty are brought in individually to provide an overview of the worth of a specific part of the business. In more sophisticated scenarios, they might work together as a team, with a lead appraiser assigned.

At the minimum, an appraiser must be state certified or licensed. Appraisers must also adhere to industry standards defined by the Uniform Standards of Professional Appraisal Practice (USPAP). The organization is overseen by The Appraisal Foundation, a nonprofit group based in Washington that has been authorized by Congress.

Appraisers will often hold additional accreditation with a national professional society like the American Society of Appraisers (ASA) or the Appraisal Institute.

Beware of so-called experts with little valuation experience or those lacking background in the restaurant industry. And don't give much credence to Internet-based models offering quick or inexpensive valuations for your business; they are often based on very simple mathematical formulas that experts say are inherently flawed.

Certified appraisers look at your restaurant business with the most comprehensive eye to determine the economic value of an owner's interest. Their reviews are often used to determine the selling price of the business for buy-sell agreements or to resolve disputes related to estate and gift taxation.

They review everything from cash-flow statements to intangibles such as trademarks, employment agreements, securities, and goodwill, which includes the value of a company's name and relationship with its customers. They also analyze the market from a national and regional perspective.

Business appraisers often work with attorneys, accountants, and company management to prepare merger and acquisition studies, feasibility plans, or other analyses.

"We're focused on the overall value of the business," says Timothy Robertson Lee, ASA, with Mercer Capital in Memphis. The challenge, Lee explains, is to take multiple methods—"cost, income, and market"—and determine which provides the best value for the specific needs of the company.

"Under each of these methods we might get different numbers," Lee says. "The purpose might decide whether we like the higher or lower numbers."

Costs to hire Mercer, which has a dedicated business valuation practice, begin around \$7,000 and can run into the tens of thousands of dollars, Lee says.

Also, expect several phases for the project, including: engagement, where the appraiser identifies what type of valuation needs to be done and why; information collection of financial statements, operational data, legal documents, tax returns, and the like; a tour of the operations; and meeting with management. The final product comes in the form of a report.

Start-to-finish timeframes vary widely, but can often exceed several months.

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Real Property Appraiser

Real property valuations, which look at buildings and land, are essential for acquisitions and dispositions, lending, and insurance, as well as estate and property taxes. Leaseholds, common in the quick-service industry, can also be valued.

Like business value appraisers, real property appraisers use a variety of methods, based on the purpose of the appraisal, says Raymond B. Mattison, ASA, a commercial appraiser based in Santa Rosa, California.

The different methods include market value, or the price at which the real estate would trade. Value-in-use determines the value the assets generate for a specific owner and is usually less than market value.

Meanwhile, investment value is value to a specific investor and typically tracks above market value.

“Restaurants are among the highest-risk businesses in the world,” Mattison says. “Any time a loan is involved, you’re going to need an appraisal.”

He adds that restaurants are also among the most challenging properties to value because unlike many other commercial sites, they have very customized interiors and strict compliance codes.

“We do the site inspections, so we need to be aware of the issues,” Mattison says. “We need to know everything about the property, fires in the kitchen, tenant improvements that they have done with permits and without. Don’t hide anything from us.”

Mattison expects to review everything from the current lease to building plans and specifications, recent property tax bills, and other documents pertaining to the property.

Anticipate about a four- to six-week turnaround for a real property appraisal, Mattison says, with costs ranging from \$3,500 to \$6,000, depending on the complexity of the site.

Machinery & Equipment Appraiser

Appraisers specializing in machinery and equipment (M&E) are adept at valuing all types of industrial properties. They perform market and liquidation value appraisals for purposes ranging from sales and acquisitions to insurance and a host of other needs.

Helpful Appraisal Resources

- **American Society of Appraisers**
(<http://www.appraisers.org>)
- **Appraisal Institute**
(<http://www.appraisalinstitute.org>)
- **Appraisal Foundation**
(<http://www.appraisalfoundation.org>)

Like their colleagues in other appraisal disciplines, they use a variety of valuation methods, depending on the purpose of the appraisal.

“The auction value is completely different than someone would want if they were selling the business,” says Carl Miceli, ASA, with Westminster, Maryland-based American Auctions and Appraisals. He notes

there are 11 values that can be put on machinery, ranging from installed value to scrap.

When an M&E appraiser values the tangibles of a restaurant, he goes over everything from the tables and chairs to fixtures, displays, and ovens. What appraisers don't put a value on is inventory or foodstuffs, Miceli says, because it has a shelf life.

An M&E appraiser will spend anywhere from two to four hours at a location, delivering a report within five to 10 days. Typical fees range from \$1,500 to \$3,000.

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