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RESTAURANT SITE SELECTION



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This publication provides basic information to help restaurateurs and prospective restaurateurs to better understand the process of site selection. It is designed to focus attention on those factors that must be considered when choosing a restaurant site. Its purpose is to assist the restaurateur to analyze the site selection factors before he commits his resources to a particular site.

RESTAURANT SITE SELECTION

Neil P. Quirk¹
Robert F. Lukowski
Dante M. Laudadio

Restaurant site selection is a complex decision often made without proper planning or sufficient information. It is generally held that the site selection process is more art than science and therefore difficult to quantify. The most important aspect of site selection is to assure that *all* factors that could possibly have any bearing on the decision are considered carefully.

Small restaurateurs do not give enough attention to site selection. Too often it is a hit or miss proposition because the restaurateur places too much emphasis on his personal experiences including management and marketing skills as a means of attracting and holding customers. Those skills are very important—but are only partial substitutes for a good location.

Chain operations, on the other hand, have considerable background information on their customers (customer profile) and will try to find locations where their establishments will attract the same type of customers. The success of national multi-unit operations indicates that more than intuition is being used in selecting the “right” location. Armed with comprehensive data, including demographic data, present and planned transportation routes, city and downtown land uses, municipal restrictions and other related factors, they are relying less and less on intuitive decisions. However, single unit or small multi-unit operations rely almost exclusively on intuitive decisions in site selection.

Most small restaurateurs cannot afford a detailed feasibility study that may cost as much as \$5,000. What they need is a simple site selection criteria model designed to focus attention on those factors that must be considered when choosing a restaurant site. The site selection criteria model discussed in this manual can be thought of as an extensive systematic check-off list. It is not a complex quantitative device requiring sophisticated input, computer analysis, or “expert” interpretation. The model is a simple, straightforward approach

¹Neil P. Quirk is Management Assistance Officer, Small Business Administration, St. Louis. Robert F. Lukowski and Dante M. Laudadio are State Extension Specialists, Food Service and Lodging Management, University of Missouri-Columbia.

The information in this publication is based on Mr. Quirk’s Research Project for the Master of Science Degree.

to site selection. It can be used by any restaurateur who faces the problem of finding a suitable site for his operation.

A few of the factors listed may be of little importance to some restaurateurs. However, the majority of the factors are very important—worthy of close scrutiny. The model serves only one purpose: to assist the prospective restaurateur in reviewing the list of site selection factors and in considering the ramifications that each may have on the prospective location(s) before he commits his resources to a particular site.

Feasibility Considerations

The considerations outlined here, while the most important, are only a few items that should be considered prior to site selection. It must be remembered that each situation is unique and therefore possesses its own set of considerations. What applies to one situation may have little or no bearing on another.

Money. The *first* consideration when attempting to determine the feasibility of a restaurant operation is money. Does the prospective restaurateur have the necessary capital and is he capable of borrowing any additional funds he needs? The monetary requirements for establishing a new foodservice facility include:

1. Initial cash or down payment
2. Interim financing
3. Long term financing
4. Equipment and fixture financing
5. Reserve for contingencies
6. Working capital

If the estimated cost of the proposed facility is beyond the prospective restaurateur’s financial capabilities then the project cannot (should not) be undertaken.

Management Ability. The *second* consideration must be a close look at the prospective restaurateur’s management abilities. A thorough analysis (or self-analysis) of the individual, partnership, or corporation must be completed. The operation of a successful restaurant, regardless of size or type, depends on good, steady management.

Henry Fayol stated that management is basically composed of *planning, organizing, actuating (directing)* and *controlling*. Later students of management

have added *staffing* to his initial list. Staffing is of particular importance to the foodservice industry. Thousands of books and articles have been written about the art and science of management. Therefore, it would seem unlikely that such a huge amount of information can be reduced realistically to five principles. However, if a prospective restaurateur would explore and honestly grade his capabilities in these five areas—planning, organizing, directing, controlling and staffing—many doomed operations would never be started.

PLANNING. Does the prospective restaurateur possess the ability to formulate a comprehensive plan that will carry him through the process starting with the initial ‘idea’ to the ‘grand opening’ and beyond? This overall plan (the dream phase) must be workable and adaptable.

ORGANIZING. Does the prospective operator have the skills to form a coherent plan? Can he establish appropriate priorities that lead to an orderly achievement of goals? The organizing segment (the structural phase) is the blueprint for success.

DIRECTING. Does the prospective restaurateur have the leadership skills to set the organization into motion? Does he know how and when to direct? Can he use his organizational resources: men, money and materials, to best achieve the objectives laid out in his plan? The directing process (the motion phase) is the successful blending of men, money, and materials into a workable operation that is capable of achieving the restaurateur’s goals.

CONTROLLING. Does the prospective operator have the capacity to maintain the efficiency of his organization by continuous inspection, testing, and verification? Is he aware of how his operation fits into the environment and how each affects the other? Does he have the ability to make the necessary changes if his operation lags behind or gets off course? The controlling task (the inspection phase) is the continuous policing process of the organization. It is designed to assure that the methods and the people chosen achieve the goals of the organization.

STAFFING. Does the prospective restaurateur possess the skill to handle the awesome task of developing an efficient and compatible team? Does he have the capacity to train them and orient them to his particular operation? Can he cope with a union should his personnel decide to organize? The staffing problem (the people phase) is continuous by nature and will never cease requiring constant attention and understanding.

Analysis of Operation. A *third* consideration is an analysis of the actual type of operation proposed. Is there an indication of demand for the product? How much volume, considering the anticipated mark-up, will the operation need to make a profit? Considering the volume, is it necessary to locate in a community with a population of a certain minimum size or income level?

Labor Market. A *fourth* consideration is the quality and quantity factors of the labor market. What are the

minimum acceptable labor standards required for the type of operation? Does the selected community possess these minimum standards? A restaurant desiring to use a particular ethnic staff for example, must be certain that the personnel are available and willing to work.

Supply. A *fifth* consideration is one of supply and logistics. Does the operation require food items that can be purchased from almost any purveyor or does it require ‘specialty’ items available only from specialty suppliers? What state of freshness is necessary? Fresh seafood, especially exotic varieties, might be impossible to find in many inland areas. Special air shipment charges often drive prices above the point at which the item can be sold in sufficient volume. Is the nature of the business one that requires frequent or even daily deliveries? If these questions are answered positively then many remote locations do not qualify for consideration simply because many suppliers will not make deliveries as often as necessary.

Assuming then that the venture is considered feasible to this point, the next step is to determine the best site available for the proposed restaurant.

Site Selection Consideration Model

Selection of a suitable site should come after the restaurateur has gathered the pertinent information and organized, analyzed, and evaluated it. The investigation should be exhaustive and follow a logical process. Decision factors will vary in importance depending on the individual and the type of restaurant under consideration. The amount of money available and the availability of property also play a part in most site selection decisions.

The decision-making process in site selection must include large amounts of information assembled and presented in a clear manner. If this is not done, the chance of making a wise choice is very slim. The site selection model illustrated on Page 3 helps the restaurateur assemble and analyze the pertinent information in a clear and orderly fashion.

Discussion of Factors

Region and State. It might seem too fundamental to begin a site selection criteria list with such a broad consideration as region and state. However, if one has lived in, and enjoyed, the desert Southwest most of his life, the opening of a restaurant in northern Minnesota may prove ill-advised. Many large fast food franchisors assign new locations to prospective franchisees by the position occupied on their waiting list with little or no consideration given to geographic preference. Therefore, if a prospective restaurateur and his family would not be happy in a particular region or state it should be avoided.

Municipality. The criteria for determining the optimum size of the municipality in which to operate is governed by many considerations. The type of restaurant planned, the capital investment, the prospective restaurateur’s desires, and the whims of franchisors are just a few.

Site Selection Considerations Model

1. Region and State
2. Municipality
 - Large city
 - Intermediate city
 - Small city
 - Rural community
 - Highway interchange
3. Locational Factors
 - Residential areas
 - Industrial areas
 - Central trade areas
 - Shopping centers
 - Recreation areas
 - Sports facilities
 - Education facilities
 - Other attractions
4. Locale
 - Type of neighborhood
 - Customer profile criteria
 - Site(s) available
 - Other types of businesses in neighborhood
 - Pattern of growth
 - New construction or remodeling under-way
5. Appropriate Zoning and Codes
 - Restaurant specifically allowed
 - Parking space(s) criteria
 - Sign code
 - Use permits
 - Building height and setback restrictions
 - Lot width and depth requirements
 - Building size to lot ratio restrictions
 - Curb breaks
 - Foodservice and liquor license requirements
6. Competition
 - Total number foodservice facilities in area
 - Total number of operations selling like foods
 - Total number of operations selling similarly priced foods
 - Total number of seats in each category
 - Type(s) of food available
 - Level of service
 - Alcoholic beverage availability
 - New competition under construction or planned
7. Specific Lot Characteristics
 - Clear title or lease considerations
 - Exact size and shape diagrammed
 - Boundaries measured and walked
 - Total square footage computed
 - Minimum building square footage determined
 - Parking square footage determined
 - Additional square footage required
 - Soil analysis
 - Leveling, grading or filling requirements
 - Geological engineering study
 - Natural drainage of site and adjacent property
 - Landscaping and other features
8. Traffic Arteries
 - Traffic counts
 - Street patterns and flow direction
 - Number of lanes
 - Surface type and condition
 - Curbs and sidewalks
 - Type and quality of lighting
 - Ingress/egress to site
 - Obstacles and hazards
 - Public transportation
 - Distance(s) from intersections, transit terminals, landmarks
 - Other characteristics
9. Utilities and Municipal Services
 - Electricity
 - Gas
 - Other energy source(s)
 - Water
 - Sewers
 - Police protection
 - Fire protection
 - Hydrant(s) existing or proposed
 - Trash collection
10. Visibility
 - Driving
 - Walking
 - Degree of obstruction
 - Sign location and height
11. Cost Data
 - Site cost
 - Cost per square foot
 - Site improvement cost(s)
 - Taxes
12. Comparables
 - Professional appraisal
 - Highest and best use

Many types of operations require large cities because they must meet volume and average check minimums. A roadside chain will open on highways that have a specified minimum traffic volume. A clean, well-managed cafe on the other hand, can operate successfully almost any place. The main concern is simply matching the prospective operation with the appropriate size municipality.

Locational Factors. Simply stated, the habits of certain customers tend to dictate the location of a restaurant.

Great restaurants generate their own traffic; unfortunately, the vast majority of restaurants are not of this quality. So the "average" foodservice facility must depend, at least in part, on other traffic generators. It might be a busy regional shopping center or a downtown central business district or even a sports facility.

When considering a site for a new location, restaurateurs must determine the market "segment" they are after and attempt to locate in a place most convenient to that segment. A pizzeria might be located adjacent to or in some cases even on a college campus because a major segment of the market is found in nearby dormitories, fraternities, and sororities. A major sports facility might attract a lively establishment with a limited menu concept that caters to pre- and post-game merriment.

Locale. Tentative selection of a particular neighborhood for a restaurant site depends on considerations such as: median income, ethnic make-up, site availability, competition, existing businesses, and growth patterns. An area having a relatively large Italian population most likely will have several restaurants featuring Italian cuisine. A particular Italian restaurant may cater to the affluent customer who for the most part lives outside the "ethnic" neighborhood. Therefore, the restaurant is located some distance from its customers but is near staff and specialty suppliers.

The intangible value of authenticity is highlighted when an "Italian Ristorante" is located in an Italian neighborhood. If this particular operation were to move to an affluent suburb could it maintain its clientele? This is an important consideration. One of the finest restaurants in the country is located in a rundown, depressed area of a large midwestern city and as far as anyone can determine, the owners have never considered a move to the suburbs. Why should they? Business is so good they turn away large numbers of customers every night.

For example, a prospective restaurateur is thinking of building a specialty steakhouse variety, with "camp" decor, limited menu, and alcohol. In this case the restaurateur will require a middle class to upper-middle-class neighborhood with a particular population concentrated in the 21-35 age group with a median income of \$15,000. This is the restaurant's customer profile. The Bureau of Census and the Department of Commerce provide detailed data on neighborhood make-up.

Some areas are so exclusive or otherwise desirable that sites are not available or are exorbitantly priced. If no site is available or existing sites are priced too high, there is no alternative but to look elsewhere. The return on investment must be acceptable to the prospective restaurateur or he will be unable to meet his obligations and make a profit. Again the type of operation will necessarily determine just what is feasible regarding site quality and cost.

Other businesses in a particular locale must be considered. An area with heavy industry might be ideal for a quick-service bar and restaurant operation. Many restaurants of this type might serve in conjunction with factory shifts to take advantage of workers coming to and going home from work. Truck stop restaurants are similar in nature.

It is necessary to know the growth patterns of neighborhoods to determine if a particular type of restaurant will be in demand for the foreseeable future. A big investment in a declining neighborhood might not be recoverable whereas an operation "tailored" to the neighborhood decline could be profitable provided the investment was proportionate. Another phenomenon occurring in many large cities is restoration projects of entire neighborhoods. "Getting in on the ground floor" of this type of project could provide long-range dividends.

Anytime an area has large scale construction and major remodeling projects underway, or planned, that is evidence that other prospective investors have faith in the neighborhood's future. Municipal projects such as convention centers or sports complexes almost overnight have changed blighted downtown areas into thriving neighborhoods.

Appropriate Zoning and Codes. Before purchasing or leasing a site take the time to personally check with the municipality's planning and zoning commission, the mayor's office or whomever controls land use to insure before hand that the prospective restaurant can be opened.

There have been many cases where prospective restaurateurs have purchased commercially zoned property that they planned to convert to a foodservice facility only to discover too late that local ordinance(s) prohibit such use. An example of this type of restriction that is quite common is a local ordinance that requires a minimum number of off-street parking places for all restaurants, regardless of size. Other ordinances specify the number of parking places required, in arbitrary ratio to seating capacity. Parking is just one example of the many restrictions that can prevent or seriously delay the opening of a restaurant.

Sign codes, use permits, building and lot requirements, curb breaks, and food and liquor licenses must be explored before buying property or signing a lease. A prospective restaurateur who delegates these inquiries to anyone not totally trustworthy and thorough is placing himself in a dangerous situation.

Competition. A thorough analysis of the competition includes an accurate count of all foodservice facilities in the trade area. The deminsions of this area will vary depending on the type of operation. A downtown cafeteria might have a trade radius of 300 yards while a gourmet restaurant might have a 50-mile radius.

Once the exact size of the trading area is established, a survey must be made of existing and planned foodservice facilities that fall within its boundaries. A good survey will encompass all foodservice facilities, including factory commissaries, hospitals, schools, etc., not just those that are open to the public. The survey should also place the various facilities into categories, specify what kind of food each features, determine the number of seats in each outlet, note the level of service provided, and specify whether or not alcoholic beverages are available.

Personal visits and sharp observation will enable the prospective restaurateur to estimate his competitors check average and gross sales. During the busy serving periods, an observant individual can glean enough information to make reliable estimates of check averages and the number of covers served per day. Armed with these two figures, a reasonable estimate of gross sales can be calculated. If food cost and labor cost estimates are fairly reliable then a profit margin can be surmized.

There are neighborhoods that are saturated with restaurants, yet practically all of them seem to fare well. On the other hand, there are areas that are marked with one restaurant failure after another. When selecting a new site make sure the competition has been thoroughly considered.

Specific Lot Characteristics. Until now we have been discussing the environment of the site and not the real property itself. It is important to be able to visualize that a specific lot is unique, one of a kind and that it would not be the same anywhere else. (Realtors call this "fixity of location.") Unlike other forms of property a restaurant cannot be moved once it is built; therefore it is important that restaurateurs select the very best (most feasible) site available.

Specific precautions must be taken whether a site will be purchased or leased. If the site is acquired by purchase it is imperative that the seller(s) be able to provide a clear title. Anything less than unrestricted, fee simple title (clear title) is normally unacceptable. Neven sign a lease until all stipulations are read and understood by the principals and their counsel. Many attorneys specialize in real estate sales and leasing and can provide invaluable services to a prospective restaurateur. Getting a restaurant open is a tremendous task; the last thing needed is a legal dispute.

Often real estate is sold with loosely defined dimensions. Its not uncommon to see a statement that reads "2¾ acres *more or less*." Always find out *exactly* what you are getting for your money. Considering the high

cost of commercial sites, a professional survey might well be a wise and proper investment.

Square footage figures have such a bearing on the situation that knowing exact dimensions is necessary. Minimum building size, parking lot size, driveway width, sidewalk width, green belt size, and easement width are factors that require an exact knowledge of the lot's dimensions. It is advisable to accompany the architect or surveyor and personally walk the boundaries. Pay attention to grade/natural drainage, soil conditions, existing landscaping, and other features. Often the expense of preparing a lot for construction is underestimated. Get sound professional advice including a soil analysis if there is any doubt about a site's suitability.

Traffic Arteries. The old saying, "you can't get there from here," comes to mind when discussing a restaurant's location in relation to streets and highways. Before limited access highways and trafficways were common the only concern was traffic count when picking a typical restaurant site. Now, with interstate highways, inter-belts, outer-belts, outer roads, local traffic access roads, one-way streets, restricted curb-breaks, and so forth, it is mandatory that ease of access be a major consideration.

Normally, patrons will not go out of their way to seek out a restaurant, especially if a competitor provides them with a more convenient alternative. Fast food operations need ample traffic passing by their door, easy and safe means of getting in and out, and well-lighted streets. A gourmet restaurant on the other hand might actually fare better if it is "off the beaten path," away from neon lights and noise. Consider the "nature" of the particular type of restaurant and then choose a compatible lot. Usually building sites that are not on major arteries can be purchased for much less money than those that are. Money saved on the lot can buy more quality in the building.

Utilities and Municipal Services. The monopolistic nature of utilities and municipal services in practically every instance rules out "shopping" for such services. However, some services such as fire and police protection will vary immensely from community to community and sometimes even from neighborhood to neighborhood. A restaurateur has a responsibility to his patrons to assure them that they are not exposed to possible danger. A clean, safe building and a well-lighted parking lot, or even valet parking, are examples of responsible management. Other energy sources such as solar heating and cooling are on the horizon and should be considered now as an alternative to fossil fuels.

Visibility. In most cases food and beverage cannot be sold unless the patron comes to the property. If the customer cannot readily see the restaurant then the chance of selling him anything is very small. A good

Table 1
Restaurant Site Comparison

	Cost per	
	Front Foot	Square Foot
Site A. 150' X 150', 22,500 sq. ft. 150' front Price - \$100,000 Footage cost Taxes, \$2,000 Site improvement cost, \$1,500	\$666.67 13.33 <hr/> 10.00	\$4.44 .09 <hr/> .07
Total	<hr/> \$690.00	<hr/> \$4.60
Site B. 140' X 170', 23,800 sq. ft. 140' front Price - \$115,000 Footage cost Taxes, \$2,500 Site improvement cost (none)	\$821.42 17.85 -0-	\$4.83 .11 -0-
Total	<hr/> \$839.27	<hr/> \$4.94
Site C. 175' X 175', 30,625 sq. ft. 175' front Price—\$120,000 Footage cost Taxes, \$1,800 Site improvement cost, \$1,000	\$685.71 10.28 <hr/> 5.70	\$3.92 .06 <hr/> .03
Total	<hr/> \$701.69	<hr/> \$4.01

restaurant site has visibility. Of primary concern is a restaurant's ability to attract attention to itself with pleasing architecture, good lighting and landscaping, and an appropriate sign. Normally, visibility to passing automobile or bus traffic is the major concern. However, for some types of operations, high visibility is also needed to attract pedestrian traffic.

The restaurant sign must be an integral part of the restaurant's total marketing strategy. It must reflect the type and quality of the restaurant. The sign must be "in step" with the operation and communicate an image that the restaurateur desires. It is useless to spend money for a sign that is obstructed by a building, tree, or other sign.

Cost Data. After the culling process has reduced the prospective sites to a few, a value decision must be made. Each site that is still an acceptable alternative has been priced by its owner. Cost per square foot and cost per front foot are then computed. Tax and site improvement cost are determined on a per-square-foot basis as well. Table 1 illustrates a comparison between three sites using a cost-per-square-foot format. This breakdown allows a simple straightforward interpretation.

Of the three examples in Table 1, no one site can be considered the "best" buy unless the exact site requirements are known. For example, if 150' X 150' lot (site A) is more than adequate for the prospective

restaurant then there would be no point in spending the \$15,000 or \$20,000 more for the larger lots (site B and C). However, if greater frontage and more square footage are preferred then the 175' X 175' lot (Site C) would be the "best" value. It is not necessary to purchase an oversized lot unless one anticipates a need for additional space in the near future.

Comparables. When what seems to be the best site is selected it should be appraised by an expert. The local real estate board can provide the names of appraisers who are members of the Appraisal Institute or similar organization. Part of the appraisal in addition to placing a dollar value on the site will be a determination of the "highest and best use." It might be that the property is best suited for something else. On the other hand, it might be exactly what you thought it would be—a fine restaurant site.

Conclusion

The site selection criteria can be tailored or modified to fit most restaurant types. Specific criteria may play a larger role in one endeavor or have little or no importance in another. If nothing else a list such as the one outlined above should reveal the almost endless number of factors that should be considered in selecting a restaurant site.

For Further Information

The following publications provide additional information that may be helpful in site selection. They are available from your nearest Small Business Administration office.

“Business Plan for Small Retailers”	SMA 150
“Checklist for Going into Business”	SMA 71
“Knowing Your Image”	SMA 124
“Locating or Relocating Your Business”	MA 201
“Retailing”	SBB 10
“Sales Potential and Market Shares”	SMA 112
“Using Census Data to Select a Store Site”	SMA 154
“Using Traffic Study to Select a Retail Site”	SMA 152

Sources of Federal Statistical Data

Most of these sources may be purchased from the U.S. Government Printing Office, Washington, DC 20402 or are available for use at the United States Department of Commerce Field Offices and many libraries. Other sources of statistical data for developers and researchers include state agencies, planning boards, Chambers of Commerce, universities, financial institutions, real estate boards, and so forth.

Population, Income and Housing

United States Census of Population and Housing
Area Trends in Employment and Unemployment
Employment and Earning Statistics for States and Areas
Statistics of Income - Individual Income Tax

Wholesale and Retail Trade

Census of Business: Wholesale Trade
Census of Business: Retail Trade

- Area Statistics
- Major Retail Centers
- Retail Merchandise Line Sales

Current Retail Trade

- Weekly Retail Sales
- Advance Monthly Retail Sales
- Monthly Retail Trade

Monthly Department Store Sales in Selected Areas

Manufacturing

Census of Manufacturers
Annual Survey of Manufacturers

Construction

Current Construction Reports

- Housing Starts
- Sales of New One-Family Homes
- Value of New Construction
- Housing Authorized by Building Permits and Public Contracts

Services

Census of Business: Selected Services
Census of Business: Hotels, Motor Hotels and Motels
National Travel, Census of Transportation

General Business Data

Statistics of Income - United States Business Tax Returns
Survey of Current Business
United States Industrial Outlook

General Statistical Data

Statistical Abstract of the United States
Pocket Data Book - U.S.A.

Directories of Statistical Data

Federal Statistical Directory
Directory of Non-Federal Statistics for States and Local Areas
Guide to Census Bureau Data Files and Special Tabulations
Measuring Markets - A Guide to the Use of Federal and State Statistical Data

Regulations

The following agencies can help you determine the local regulations that apply to your business.

Zoning Boards
Town or City Clerk
Public Health Department
Water and Light Departments
Fire Department

NOTES



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