

Selecting Real Estate Locations For Your Entertainment Business

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Over the years, I've noticed that there seem to be two distinct approaches toward acquiring real estate venues for entertainment development. Half the world focuses on securing a site, after which traditional market research and concept planning begins. The other half of the world handles the process in reverse, leaving the real estate piece until the end. Which is correct?

To help us arrive at an answer, I'm hoping to share both the good and bad aspects of each approach. For a point of reference, I tend to subscribe to the latter approach, however, it's important to examine all of the specific variables present in the market you're targeting.

Early Site Acquisition

Quite often, a new client will come to our firm with property deed in hand, ready to begin development of an indoor or indoor/outdoor entertainment venue. Whether it be a purchase of raw land or lease of an existing structure, one thing is clear - there's no second-guessing the decision - the obligation is absolute. The phrase we've all grown accustomed to in real estate over the years is "location, location, location", and entertainment venues will certainly be no exception. The reasons I most often hear from clients who have already purchased/leased land tracts or buildings are:

- the price was right
- there was nothing else available
- the tax credits on the deal made it worth it
- approvals will be easier on this site
- it's the farthest point from the existing competitor
- my neighbor/brother/father-in-law owned it previously

First and foremost, all of these reasons represent legitimate reasons for acting upon a real estate transaction. After all, in virtually all areas of the country, real estate values are literally on fire. Even if a project was never built on the site, I think it's fair to say that market appreciation is likely in most populated markets. But are these reasons also a sufficient basis by which to make a large business investment on? I'll run through each one by one. The first, which references attractive pricing, is a strong consideration, but only if the price is substantially below the market prices of adjoining parcels or buildings. As we've all learned, you get what you pay for - especially in real estate. Try to avoid buy real estate based upon price - instead focus more on the revenue generating capability of the site and its distance and pathway to the targeted consumer groups. The second point, in which nothing else is available, is also a challenge, as many new developers become frustrated when they learn that only one or two sites are currently listed for sale or lease. As the pressure of the situation builds, one becomes disillusioned with the "waiting game" and chooses the best choice from what is available. The dilemma, of course, often shows up down the road, when the inferior nature of the selection causes friction with the project's potential lenders, investors, and even support vendors. Without a strong foundation, a project often ends up in harms way.

Tax credits have become all the rage of late. It seems that many cities and towns have opted to stimulate development through issuance of such credits, which in turn have been proven effective in increasing the overall investment returns for investors. But once again, while the real estate investment might be a home run, the operation of an entertainment facility on the land parcel may prove unfeasible. The site might be better served for alternate development that might not depend upon frequency of patron visitation or high visibility.

The next common reason, ease of approvals, has significant merit and should be carefully studied. Entertainment facilities, particularly those that maintain outdoor attractions, are often incongruent with bordering residential neighborhoods. Months upon months of strategy planning, added costs associated with the hiring of architectural, engineering, and specialty experts, and the questionable outcome of zoning board approvals have swayed many developers toward properties that more comfortably match local zoning standards. Sometimes, it not worth fighting city hall. If you're building a 40,000 square foot entertainment venue, chances are that it will need to be placed in a suitable commercial zone free from traffic pattern impacts. The key will be to select the most optimum site that offers these attributes without venturing too far from the area's residential hubs.

At times, a new developer has chosen to position his entertainment facility as far away from the existing competitor as

possible. The philosophy has often been that doing so would help to segregate the market, allowing the new developer to "carve out" its own share of the patron audience. Unfortunately, this has not proven to be a sound approach, as physical location is often a determining factor in whether patrons will visit a facility at all. There's nothing wrong with two entertainment facilities sharing a similar locations. In many cases, the targeted age groups differ from one facility to another, and in almost all cases, the consumer enjoys the variety. In essence, Chuck E. Cheese's and Dave n Busters could effectively co-exist in the same venue without severe overlap of patrons.

Perhaps the most common of all reasons to commit to a specific real estate parcel has been out of convenience. Here's where the biggest damage can be done. When real estate is secured out of convenience, it is often at the expense of suitability. If you've ever wondered by the "ABC Funhouse" is located off the main artery in a light industrial park, chances are it arose from the "convenience" method of real estate acquisition.

A New Way To Look At Real Estate

I've been beating to a different drummer these days when it comes to real estate. The dramatic surge in real estate values have put tremendous pressure of entertainment center cash flows. In fact, price growth has essentially surpassed the capabilities of most every retail business in the ultra prime markets. Instead of adding this immense burden to your project development costs, consider looking at real estate more from an "occupancy cost" rather than an investment. If you must buy/build, separate the real estate transaction from the business transaction. You might even consider having a different investor group for the real estate to allow the two enterprises to exist without financial intrusion. I look at the leasing of real estate more as a means of accomplishing the larger goal - generating cash flows from entertainment operations - rather than as an investment. This philosophy may also prove necessary to allow the project to actually reach existence, as today's lenders are more concerned about "overall exposure" than years past. As an example, if you buy land and build a building, you might need, say, a \$3 million mortgage. This is on top of the \$2 million you'll need to outfit your entertainment facility. That's a \$5 million obligation to your lender. If you lease a structure, your upfront real estate costs will be negligible, thereby lowering the lender's exposure to you. Some would argue that lenders like real estate collateral, however, the fact is that real estate collateral is only worthwhile to a lender if it contains a bunch of equity. Without the equity, it's a zero sum game.

The Other Approach

We've walked through the more common reasons why real estate is softened purchased in advance of investigation and concept. Now let's look at the alternative. As I've mentioned, I subscribe to the other philosophy, which is to perform market analysis before selecting real estate. Here's why:

? understand where the consumers are currently concentrated and where growth is occurring

- understand which age targets will prove to be the most lucrative in the area
- confirm the road networks and paths of travel most commonly used by area patrons
- assess upcoming changes to road networks and well as placement of new large-scale municipal projects
- determine the necessary size of the planned entertainment structure and land area required
- uncover potential or planned competitors in the regional markets
- investigate the anticipated placement of upcoming big box retail to avoid ending up on the 'no man's land' side of town
- uncover overnight visitor markets that were not previously recognized

You might be amazed how early stage analysis will influence your ultimate decision regarding real estate acquisition and placement. Over the years, I've found that this approach allows the developer to do three critical things: 1) match the style and age targets of the planned facility to the market that currently exists, 2) right size the 'occupancy' investment, whether it be a lease or buy, and 3) position the business for success by eliminating the barriers that commonly plague retail businesses before making financial commitments.

Making The Choice

Decisions regarding real estate will arguably prove to be the "make or break" point of any new retail business, and should not be taken lightly. A good deal today may quickly become a bad deal tomorrow. By starting with a solid foundation, you won't waste time looking back, and more importantly, much needed financial resources, which are almost always in short supply. When you're ready to pull the trigger on opening an entertainment venue, spend the most time on the choices you can't easily reverse later. You'll be glad you did.

On a personal note, I am sad to report the death of my mother, who passed away in early February after a continuing battle

with Alzheimers. As she was always the proverbial teacher, I vow to do my part in sharing my firm's knowledge base with you, my entertainment family.

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