

Franchises

Low-risk entrepreneurs can't find lenders, create jobs

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By: Polyana da Costa

Jack Flechner, a Five Guys Burgers and Fries franchise owner in Miami, planned on opening two or three new stores this year and another two or three next year.


[Franchises: Tough to secure financing](#)

From a real estate point of view, it would be a great time to do so, he said. South Florida retail property owners, who have seen storefronts sit empty for months, would certainly welcome Flechner with attractive rental rates, incentives and concessions such as free rent and generous allowances to complete interiors.

But Flechner can't get the financing to fund the \$400,000 to \$500,000 cost of opening a new store.

Last month, he opened his second store, in Miami Beach's South Beach area, by investing his own cash. But that is all he can afford for now.

"When I opened my first store in December 2007, financing wasn't an issue at all,"

 Flechner said. "I had two loan commitments for my second store [late last year], but I got a call from the lenders saying they could no longer do it. I approached three or four other lenders, and they said they were on hold or weren't lending for restaurants."

There are dozens of other entrepreneurs like Flechner eager to expand and occupy the dark retail spaces that populate retail centers throughout South Florida, said Matt Martinez, a principal at Beacon Hill Property Group, who represents several franchisors in Miami and who assisted Flechner in leasing his South Beach store.

"If profitable businesses — that have a track record of success and multiple locations open — are not able to secure financing to pay for the build-out of a location, then who can? And what kind of impact will that have on retail centers that go vacant?" Martinez asked.

Franchises accounted for 36 percent of retail leases in the U.S. in 2008, according to Javelin Solutions, a company that represents franchisees seeking to lease space.

HIGH DEMAND

Small businesses, including franchises, are the core tenants of most retail centers in South Florida, Martinez said. And if small-business owners are unable to launch operations or expand, he said, the retail market will deteriorate even further.

The demand from new franchisees and businesses that want to expand is there, Martinez said. If they had access to capital, a large portion of empty retail spaces could gain new tenants.

While more than 11 million square feet of retail space sits vacant in South Florida, "franchisors have waiting lists of people who want to open stores," Martinez said. "But it has been nearly impossible to get the financing."

Franchise lending in the U.S. is expected to decline by 40 percent this year, which will represent a loss of 200,000 jobs and will have a \$5 billion economic impact in the economy, according to recent research by the International Franchise Association.

With the uncertainties of the job market and thousands of workers being laid off, the idea of becoming a franchisee can be enticing to many who want to become their own bosses.

"This is the busiest I have been in a while," said Michael Bush, a franchise consultant who works with FranNet, a company that helps match entrepreneurs with franchisors.

He said there has been a lot of interest in what he calls recession-proof franchises, those in the senior care and pet service fields. But even for those types of businesses, it has been "frustrating" to secure financing, he said.



Jack Flechner

Bush said it is easier for franchisees who already have several stores, but for those who are starting up, the obstacles are greater.

Franchises are viewed as lower-risk businesses because the new store would be part of an already established, successful model, Bush said, but lenders are simply saying they are not lending money for a new business, regardless of whether it is a franchise.

"It's very difficult: From the large, national banks to the local, small banks and even credit unions, they say they are not really interested in start-ups," Bush said.

Bush opened a Huntington Learning Center, a tutoring franchise, in Coral Springs last year. He had to use his 401(k) funds and a home-equity line as capital because lenders rejected his requests for money.

That is what most of his clients are doing, he said. But because of the decline in real estate values, most homeowners have had their equity lines reduced or eliminated as well.

One of the biggest franchise lenders in the U.S. was the CIT Group, which is seeking to avoid bankruptcy after posting \$5 billion of losses in the past nine quarters.

Flechner's first loan for a franchise was with CIT, but when he went to the lender last year, he was told they had halted lending for franchises.

"You have to look for other financing alternatives," Bush said. "Those types of financing are not an option anymore."

He said some developers of recently built retail properties are considering helping franchisees pay for start-up costs and do the build-up themselves so they can lease space in their centers.

And some franchisors also have stepped in to try to cover the gaps. Sandwich company Quiznos started a micro-loan program for franchise owners who want to expand and open new locations and others are selling franchise rights at discounts.

But despite these alternatives, small business owners say they can't open new locations until they have access to loans.

The Small Business Administration received \$730 million for the American Recovery Capital Loan Program, which passed earlier this year. It has raised its guarantee thresholds on small business loans from 75 percent to 90 percent.

Yet, that money has not made its way to the hands of many of these entrepreneurs in South Florida, Bush said.

"The SBA has got its programs in place," he said. "It's just that the banks are still not lending. It's very frustrating."

Alissa Harrison, spokeswoman for the International Franchise Association based in Washington, D.C., said the association is "trying to get more lenders to participate in the SBA program, because with CIT essentially out of the market there are few lenders offering those loans."

Click play to listen to Manny Sohr

Manny Sohr, a long-time Subway franchisee who owns 13 stores in Miami, said franchise owners should not get discouraged. He recently was able to secure financing to open a new store on South Beach, after a lot of back-and-forth discussions with the bank.

"I used to get loans in one day," he said. "That doesn't happen anymore, even though all my finances are the same and my stores are profitable. But it has become harder, not impossible."

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