

# RESTAURANT *insider*

## Restaurant lending in New York

**How North Fork Bank carved a niche in New York's competitive lending business**  
by Ted Glowacky

Opening a restaurant – especially in New York – is not a step for the financially faint of heart. The cost of building out a high-profile restaurant in Manhattan can often easily exceed \$10 million, a steep price tag for even the most well capitalized restaurateur.

While banks might seem a logical source of start-up capital, banks often get queasy when it comes to restaurant financing.

"Most U.S. banks shy away from the restaurant business," says Marcel Doron, Executive Vice President and CFO of The Dinex Group, which oversees Daniel Boulud's restaurants and related businesses. "They don't seem to understand that just because some restaurants go out of business, it doesn't mean that every one will."

This hesitation helps explain why investors have been the traditional – albeit expensive – funding source for chefs looking to open places of their own. But a growing number of high-profile chefs have discovered that not all banks think alike when it comes to restaurants. In fact, many of New York's top chefs, restaurateurs and restaurants actually share a common partner – North Fork Bank.

North Fork, whose rise from a small Long Island-based bank to a major New York financial institution has been well chronicled, has established itself as the preeminent restaurant lender and servicer in New York. North Fork has always taken a flexible, innovative approach to meeting customer needs, but there's an even bigger reason why it has become the dominant player in Manhattan restaurant financing: North Fork's second-ranking executive knows the restaurant industry better than any banker in the country because he's a restaurateur himself.

### Born Into the Restaurant Business

North Fork Bank Vice Chairman John Bohlsen literally grew up in the restaurant business. His German parents owned restaurants on the Lower East Side and on Long Island, and Bohlsen pitched in whenever and wherever help was needed. After studying restaurant management at Michigan State and running officers' clubs in the Navy, Bohlsen decided to enter the restaurant business himself, and opened an Arby's franchise in 1969. He had obviously learned the ins and outs of the restaurant industry well – Bohlsen ultimately amassed more than 50 fast-food franchises, which he sold in 1983.

Recruited as a director of North Fork Bank in 1986, Bohlsen became North Fork's Vice Chairman in 1992. Despite enjoying phenomenal success as a banker, he never lost the restaurant bug, and today owns four Long Island-based restaurants – Tellers, a prime chophouse located in an 80-year-old bank building in Islip; H2O, a high-end seafood restaurant located in Smithtown; the Beachtree Cafe, an East Islip-based casual dining establishment; and a new waterfront steakhouse being redeveloped on the former site of CoCo's Water Café in Huntington.

Bohlsen's restaurant experience not only gives North Fork unique perspective on the financial needs and challenges of restaurants, but also provided the impetus for North Fork Bank's full-throttle entry into the restaurant lending business.

### Seizing Opportunity

While North Fork had a few restaurants in its loan portfolio, Bohlsen felt that restaurants offered a strong business opportunity that wasn't being served by other banks.

"Most banks are reluctant to deal with restaurants because most bankers are uncomfortable with restaurants' traditionally high failure rate," says Carmen Mastroianni, North Fork Bank's Divisional Senior Vice President, Middle Market Lending. "Restaurants also pose other challenges. Unlike other businesses, restaurants don't have receivables or hard assets behind them. So if a restaurant fails, you're likely to get only 10 cents on the dollar for the equipment, because a new chef coming in with a new place is going to want his own stoves and ovens. Banks also tend to view restaurants as cash businesses, which can raise repayment concerns. But restaurants have really become credit card-based businesses now, which makes it much easier to project a repayment schedule."

Once Bohlsen recognized a business opportunity, North Fork Bank pursued it aggressively. Bohlsen brought in a team of bankers with restaurant lending experience including Peter Mozzone, Vice President, Middle Market Lending. Mozzone brought more than 20 years of restaurant-related experience to North Fork, and has been instrumental in adding top names to North Fork's restaurant portfolio, which now totals approximately \$130 million.

Since making restaurant lending a priority, North Fork Bank has provided everything from build-out financing to equipment loans, real estate loans and working capital to an impressive array of Manhattan's highest-profile chefs and restaurateurs.

### Targeting the A List

North Fork's success as a restaurant lender owes much to its strategy of concentrating primarily on the higher end of the market.

"We target clients who have a following and typically operate multiple restaurants," notes Mastroianni. "When you're talking that part of the market, you're looking for enterprises with aggregate sales in the tens of millions – very substantial, viable businesses."

North Fork's first major Manhattan restaurant deal involved financing the buildout of the third and fourth floors of the Time Warner Center, home to such notable establishments as Per Se and Café Gray. Other deals quickly followed.

Today, North Fork serves as banker to Bobby Flay, Union Square Hospitality Group, and The Glazier Group, among other notables. Restaurants financed by North Fork include Aquavit, Nobu and SushiSamba.

While such a high-profile clientele provides North Fork with benefits that extend beyond the bottom line, North Fork's Mastroianni notes that chefs and restaurateurs also benefit from dealing with a bank, rather than an investment group.

"Investors want a substantial piece of a restaurant's ongoing business," he says. "Also, when an owner works with a team of investors, there are going to be disagreements, which can easily lead to cost overruns and dissension. When we provide financing, however, our clients know that they'll work with us for five years until their loan is paid off, and then we're gone."

## **Rave Reviews**

Although they may be tough customers, New Yorkers always appreciate top-notch service.

"North Fork really understands the financials of the restaurant industry - the structure of the balance sheet, and the leverage needed in this business," says Peter Glazier, CEO of The Glazier Group. "It has a strong team focused on restaurants, and understands all the components of the business, including efficient credit card processing."

Shelly Fireman echoes Glazier's appreciation of North Fork's restaurant-industry sophistication.

"In 1900, you went to work in the restaurant business with a cigar box that had \$20 in it. At the end of the day, if you had \$40, you were profitable. That's how some banks still perceive the restaurant industry," he says. "But North Fork understands the business - the balance sheets and financial statements."

Phil Suarez, business partner of Jean-Georges Vongerichten, is another client who values a bank that speaks his language.

"North Fork knows the restaurant business, so when I'm talking to them, we're not talking apples and oranges - we're talking turkey," says Suarez. "That makes it easier for me to make my pitch. I don't have to over-explain myself, or my business. What really impresses me, though, is North Fork's team approach. I'm always meeting with two or three people who are available whenever I need them."

For The DineX Group's Doron, North Fork has been a welcome exception to banks' traditional "hands-off" attitude toward restaurant lending.

"Even though we are pretty well capitalized, I felt that we needed a relationship with a bank that went beyond a checking account," he says. "North Fork came to the plate, so to speak, and worked with us. Even after we closed the deal, they continued to be very service-oriented all the way down the line - from the lending department to the banking department."

To Giuseppe Cipriani, North Fork Bank has been a valuable business partner, pure and simple.

"We've worked with North Fork for about five years, and they've been an integral part of our growth," he says. "North Fork knows how to structure financial arrangements to fit the needs of true hospitality companies like Cipriani, and without them, we wouldn't be doing what we're doing today."

## **Expanding the Menu**

While North Fork enjoys its status as the preeminent lender to New York's preeminent chefs and restaurants, it has never hesitated to pursue business opportunities wherever they appear. To that end, North Fork has begun to expand its restaurant-related business, and now finances several more moderately priced establishments including well-known gourmet delicatessens and popular franchises.

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