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Hungry investors being courted

By Michael S. Rosenwald
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WASHINGTON — Restaurant owners are dreamers. In many ways, they are like developers, who look at plots of dirt and see tall buildings. For instance, take the corner of M and 21st streets Northwest, in the district's increasingly fashionable West End neighborhood.

When Alan Popovsky, the restaurateur behind Felix and the Spy Lounge, looks at the location, he dreams about — get this — Henry Hudson, a 17th-century sea explorer. He sees a third place: It's not exactly home, and it's definitely not work. Popovsky imagines "hip and home," a place to explore for food and drink.

But when he is awakened from his exhilarating little exploration dream, Popovsky also sees dollar signs — not money being deposited in his pockets, at least not yet, but the money he will need to turn this location into a restaurant he is going to call, of course, Hudson.

PART OF THE ACTION

Opening a restaurant can cost from several hundred thousand dollars to several million dollars, and Popovsky had several options to choose from. There's his money, of course. There's the bank's. And there is an increasingly popular third option: restaurant goes themselves, particularly those with deep pockets and a desire to reap not only big investment gains but also the psychological income that comes from being part of the action.

For a good chunk of his funding, Popovsky tapped Martin Bashir, a D.C. gastroenterologist. He tapped Anthony Dobranski, a former AOL technical manager. Like 10 other investors, they wrote Popovsky checks for at least \$25,000 — with the hope that they would get a 5 percent return on investment per year, plus a share of any profit. And if Popovsky decides to buy them out, it will be at 2 1/2 times their initial investments. But Bashir and Dobranski also frequently dine out, and Popovsky is counting on them to generate buzz in the food world for the new restaurant. They know it's a risky enterprise.

"You hope to get the money back, but these things are not mutual funds," Dobranski said. "It's less risky than buying art, but there's still a lot of risk."

Many restaurant owners and chefs around the country rely on wealthy private investors with an appetite for risk to help open the doors their new restaurants. Chef Robert Wiedmaier recently tapped private investors for sums of \$50,000 to \$200,000 for the more than \$3 million he needed to open Brasserie Beck in Washington. Michel Richard, the world-famous chef behind the seriously expensive Citronelle, raised about \$3 million from 44 investors to open Central Michel Richard, a modern bistro.

FASCINATION WITH FOOD

The restaurateurs are leveraging an increasingly hot celebrity chef and foodie culture, bred partly from hot TV shows like "Top Chef" and "Hell's Kitchen," which feature some of the world's best chefs cajoling, judging and celebrating the culinary creations of unknown chefs and amateurs who can spring to stardom during sweeps week.

It is not unusual these days to overhear heated debates concerning who chef Gordon Ramsay kicked off "Hell's Kitchen" the previous night. The popular food culture is such that Philadelphia magazine, in an article referencing that city's foodies, told the story of a man who was having trouble putting his 9-year-old daughter to bed. The girl said, "But Daddy, they're getting ready to plate!"

"The country is just extremely interested in food right now, much more than ever before," said Mark B. "Chipp" Sandground Jr., a lawyer at Kalbian Hagerty who represents Wiedmaier, Richard and many other D.C. chefs and restaurant owners. "People use restaurants so much now. They are not just for going out for their anniversary. People go out all the time. Pretty much everyone has an opinion on a new restaurant."

But that does not mean the opinions are always positive. The American palate is fickle, and a few bad meals served up to a particularly chatty customer base — or, worse, a powerful reviewer — can quickly sink a restaurant. That, in large part, is why Sandground and his chef clients constantly remind potential investors this: Investing in restaurants is not for everyone. As Wiedmaier says, a restaurant investor must be able to say, "If I lose it all, great, at least I had fun." Asked who should invest in restaurants, Sandground said: "Easy. ... People who can afford to lose 100 percent of their investment."

The deals are expensive even for celebrity chefs, who have to sacrifice much of their early profit. If a restaurant is really hot for the first few years, as often is the case after a successful opening, investors would get most of the profit. And only later, perhaps after the hype dies down, would much of the profit go to the chef. Richard said the risk for him is worth it: "They help me achieve my dream of a restaurant."