The Market for Franchisors

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Some of the more prominent owners of commercial real estate in the United States are the franchisors of the well-known brands frequented every day. McDonald's, for example, is well-known to have an extensive real estate portfolio. However, there are also many lesser known franchisors – often regional – who operate anywhere from 50 to several hundred free-standing units, particularly in the restaurant field. Some of this commercial real estate is used for company-owned units, and some is leased to franchisees.A majority of these properties are also net leased to investors. Though it is somewhat unknown, there is actually a viable market for these franchisors.

Typical investors in the franchisor market include:

- Private equity buyers
- Strategic players wishing to buy out competition in their relevant field
- Real estate investors and companies wishing to acquire portfolios of commercial real estate that comes with ownership of the Franchisor.

Market factors such as low interest rates, lack of high quality net lease product and an ease in financing conditions has made the acquisition of franchisors a more popular and realistic goal for many investors. In-fact, a new website – Franchisor Pipeline – has even sprouted up that serves as a specific marketplace for these deals.

According to the founder of Franchisor Pipeline, Bret Lowell, a long-time franchise and M&A attorney, franchisor sales are proceeding at a relatively rapid pace, and include recent sales of such well-known brands as Benihana, Curves, Huddle House, Midas, O'Charley's, Party City, Payless Shoe Source, Taco Mac, and more. When transactions of this sort include real estate owned, the new owners often look to bifurcate the real estate from the franchise operations in order to unlock the equity in the real estate and to maximize the value of the acquisition.

The number of future franchisor transactions is hard to predict. Yet, the significant returns that past acquirers of franchisors have realized — along with the characteristics of many franchisors (i.e., recognized brand, proven and replicatable business, recurrent revenue, low capex, and real estate owned) — are likely to encourage an increase in the number of such deals.