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Restoring Glory

It'll need high volumes, but The Lexington's three revenue sources put it in a position to succeed



**Dennis
Monroe**

IT WAS A LONG TIME COMING, BUT the newly refurbished Lexington in St. Paul appears to be worth the wait. The beautiful, old building, once the sipping grounds for St. Paul notables, has been restored to its original glory, creating a sensory experience that goes beyond the tastebuds. All that carved wood, two bars, the long hallway to the bathroom lined with vintage pictures, the intimate nooks and crannies—all lend themselves to the renewed grandeur. The vibe, the loud chatter, the constant shaking of cocktails provide an old-fashioned vibe, which is as modern today as it was 40 years ago. In many ways The Lexington reminds me somewhat of Murray's in its heyday or Mancini's or even present-day Manny's. But the real question remains: Is it a good business proposition?

It certainly will get awards for a great piece of real estate, and a great asset to the community. Also, it has potential for high volume, thanks to its three distinct dining areas, separate bars, the rooftop (eventually), and private-dining opportunities that should be in high demand. One drawback to take into account is the parking. There is some offsite parking across the street, but it's city parking, and there's no valet. My concern would be: Is The Lexington going to be a special

occasion restaurant or is going to be a true neighborhood place where people dine once, twice, or three times a month? And is it going to be a watering hole like it used to be for the politicians dining on \$12 martinis? Certainly the menu is priced to generate revenue, but not at scary levels. It's what I would call "Minnesota-high."

Chef Jack Riebel, one of The Lexington's three principles (alongside Smack Shack owners Josh Thoma and Kevin Fitzgerald), is an incredible long-time restaurateur, and he's excited about reviving this St. Paul institution. His pride in redeveloping The Lexington, special to him because of his St. Paul upbringing, is evident.

So, let's take a look at the individual components important to this restaurant's future success.

Revenue

The appetizers are intriguing and priced from the low \$10 for mushroom cap escargot to liver and onions with foie gras for \$26. A half-dozen raw oysters were \$18. There's enough variety and intrigue on the menu that a group of four is likely to find multiple items they are eager to try. The \$18 relish tray was a bargain and delightfully misnamed, unless it meant it was a tray to be relished, because it contained whitefish pâté, liver mousse and rooster eggs, among other house-made items.

Entrées cover all the bases and are priced to drive up the check average, but not break the bank.

What I love to see from a revenue standpoint are three key sources: Here there are two bars, a rooftop bar opening



Grab a Lex Cup during social hour at The Lexington, another revenue opportunity for the restaurant.

in July, and the massive 26,000-square-foot space which seats 260 and offers a ton of potential to maximize revenue. Riebel estimates the check average at \$45. While I assumed a much higher average, he contributes this figure to customers stopping in for just a drink and ordering an appetizer off the bar menu. We know the revenue will be steady because weekends immediately were booked through May, and week-night reservations are hard to come by. This points to continued success.

Riebel estimates revenue at \$8 million with the addition of the 125-seat private dining room on the second floor and the eventual lunch service. If this all falls into place, I believe the \$8 million is quite possible.

Rating: 4 out of 4 stars.

Food Costs

The food cost is a 60-40 split of food to liquor mix, which supports

the profitable bar menu. The main dining menu is protein-packed, which increases overall food costs. Riebel confirmed food costs currently run around 34 percent, but I believe that will be reduced to 30-32 percent once the restaurant hits its stride. This is typical for new restaurants, and will be one of their biggest challenges going forward.

Rating: 3 out of 4 stars.

Labor Costs

Labor is pretty interesting at The Lexington because of the veteran servers and stellar back-of-the-house team. But, because of the nature of the space, with the three dining rooms, multiple bars, and adding in the rooftop, it didn't appear to be incredibly efficient. It will be challenging to keep labor costs around 30 percent, particularly with the competition for good people, and the tendency for servers and chefs to flock to the latest restaurants that open. Maintaining this quality staff, especially once they're operating a lunch menu and private dining options, will be another large challenge.

Rating: 2 out of 4 stars.

Return on Investment

This is a tough one. I asked Riebel what they spent on the space, and while he didn't outright answer, when I mentioned word on the street is that it was \$5.5 million, he didn't dissuade me from that number. He said if they hadn't purchased the real estate, it probably would have been a \$2.5 million buildout. While no expense was spared, there is still some work to be done. With the building and the restaurant owned together, thus eliminating rent payments, it allows for extrapolating the cost of a \$3 million building. Even looking at this and applying a 9 percent return on the building, plus the restaurant, I think they will have a hard time meeting my threshold of a 20 percent return on restaurant assets. Long-term it should have good cash flow, and assuming it will have 10 percent operating profits, \$800,000 on a \$5.5 million investment doesn't meet the kind of thresholds I like. But I think this property is a work of love for Riebel and his partners and that contributes to the drive to make it work. Real estate is not going to go down in value on Grand Avenue, so that must be factored in. This

is going to be the cornerstone to Grand and continued development and viability to St. Paul.

Rating: 3 out of 4 stars.

Overall Rating

I'm giving The Lex an overall rating of 3.5, even though it really is a 4-star type restaurant. I'm doing so because I think anytime you put that kind of money into a facility, particularly real estate, and have to operate at relatively high volumes to make it work, it puts a ton of pressure on the business. Let's just hope that along with the dinner crowd, the movers and shakers of the St. Paul government and business community return for those \$14 martinis and a tony place to see and be seen.

Rating: 3.5 out of 4 stars 

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