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Nostalgic Niche

Hi-Lo Diner's unique building brings interstate highway dining to Minneapolis



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Monroe

Editor's note: Each month, Dennis Monroe reviews a new restaurant's business proposition, based on his years of being active in the restaurant industry both as a business attorney, an owner and operator.

THERE ARE ONLY 38 DINERS ON the National Registry of Historical places. Before coming to rest at 4020 East Lake Street in Minneapolis, the Hi-Lo Diner was a 1950s Fodero Diner, from Gibsonia, Pennsylvania. It has that classic silver-bullet look, but an addition off the back of the original structure allows for the modern kitchen and storage needed for a high-volume restaurant. Located just over the bridge from St. Paul, the diner found the perfect niche in a southeast Minneapolis neighborhood known for its popular, original restaurants.

Hi-Lo has a classic diner menu—three to four meal parts—but with a culinary twist. Both times I dined at Hi-Lo, there was a 20- to 40-minute wait, and customers were happy to line up.

Among the signature items are the Hi-Tops, fluffy doughnuts topped with either sweet or savory fillings. The Kim Jong Yum is filled with braised Korean short rib and apple bacon slaw, the perfect appetizer. The classic diner menu includes breakfast favorites like eggs benedict, a Tex-Mex dish, and classic waffles and pancakes; sandwiches range



The Kim Jong Yum doughnut at Hi-Lo Diner, filled with braised Korean short rib and apple bacon slaw.

from burgers to crispy chicken to a Reuben; and entrées included an open-faced turkey sandwich, beef commercial with mushrooms, and fish and chips. There's a fully stocked back bar that serves "adult" milkshakes, beer, wine, cocktails and specialty drinks. The bar may come into bigger play for the after-dinner crowd.

For a diner the prices are a little on the high side. The tossed salad is \$5.50. The double-patty burger is \$13, \$10 for a single. Breakfast is on the moderately high side with a waffle at \$8.50 and smoked salmon at \$11.50. Entrées range from \$12 to \$15. While the prices may feel hefty, the customers Hi-Lo attracts most likely won't balk at paying more for well-prepared Americana food with

a nostalgic feel.

Revenue: There are 12 counter seats, plus about 50 more seats, counting the booths lining the front of the diner and patio seating. I think that number could be stretched to 70 seats.

Assuming there are four to five turns a day, with a check average of \$15 (which I believe is probably a good average for 3.5 meal sectors (breakfast, lunch, dinner, late night) my educated guess is Hi-Lo could do \$2 million to \$2.5 million per year. Given the popularity of the diner (and the lines of people waiting to get seated), that's not out of the question.

Rating: For the size the facility, I give Hi-Lo 3.5 out of 4 stars. If they have the opportunity to build a permanent

structure where the patio is, I think this will help them reach the revenue goals.

Ambiance and Capital Investment: The ambiance is like stepping back to the 1950s—a little worn, but authentic. There are mirrors on the ceiling and a classic tile floor. A hostess station by the front door also sells merchandise. All in all, you feel like you should be looking out the big windows at some interstate highway, rather than a residential street.

As to return on capital investment, I did not have an opportunity to confirm this with the owners, but my estimate is it cost \$600,000 to \$700,000 to get the diner on the lot, with probably another \$600,000 to \$700,000 on the build-out of the new kitchen area and back space for a total of \$1.2 million to \$1.4 million.

If they do \$2 million in sales with a 15 percent store-level operating profit and normal corporate overhead, I estimate the return on investment is probably around 20 percent. This obviously will increase if they have appropriate financing, but it does seem a little bit low for the risk factor

of this large investment.

Rating: 2 out of 4 stars.

Labor: Like many opening restaurants, Hi-Lo is overstaffed to meet consumer expectations. This strategy paid off—the service was great. They had been open a couple of weeks when we dined there, so I think their labor will come more in line the longer they're open. It is a fun place for the servers to work (no pink uniforms with white aprons, thank goodness), and therefore they should be able to attract appropriate labor. But it is very tight quarters, so labor has to come in line to make this project work.

Rating: 2.5 out of 4 stars

Food Costs: Hi-Lo is not a high-end restaurant. Historically diners have a good handle on food costs by keeping the protein percentage down to a reasonable level. Doughnuts—the perfect food when it comes to simplicity—would keep the food costs down by themselves.

Rating: 4 out of 4 stars

Overall Rating: Since Hi-Lo is in a special niche I think it will have exceptional

volumes. They need to get the labor costs under control while they build a loyal clientele in the neighborhood and attract fans from outside. The owners do have a very robust investment, which will require them to carefully managing the P&L.

Rating: I would give the overall chance for success 3 out of 4 stars.

If the long run by Mickey's, the other silver diner in the Twin Cities, is any indicator, Hi-Lo should be feeding the locals in southeast Minneapolis for years. A diner can normally survive on lower volumes so the risk factor is fairly low. Just don't take the Kim Jong Yum off the menu.

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Dennis L. Monroe is a shareholder and Chairman of Monroe Moxness Berg PA, a Minneapolis-based law firm specializing in multi-unit franchise finance, mergers and acquisitions, and taxation. In addition to this column, he writes a monthly column for the Restaurant Finance Monitor and is often quoted in industry publications. He was CEO of Parasole Restaurant Holdings from 2009 to 2011. You can reach him at dmonroe@mmlaw-firm.com.