

KEEPING UP WITH THE FALLING VALUE OF A LIQUOR LICENSE

By: Michael J. Brown/February 2002

Everyone would agree that it just keeps getting harder and harder to make it in the bar and restaurant business. Changing attitudes about social drinking, increased government regulations, higher insurance and employee wage costs, among other factors, make it increasingly difficult to survive in the hospitality industry. As if that were not problem enough, now it is even getting harder to get out of being a bar owner.

Two recent events have occurred in Michigan that may have sharply decreased the value of your Class C or Resort liquor license. The first event was passage of Act 58 of 1998. This new law now allows for transfer of licenses anywhere within a county. The only exception is Kent County, which continues to operate under the old system of allowing transfers only within local governmental units. In all of Michigan's other 82 counties, you may now transfer an on-premise escrowed license located in any local governmental unit to anywhere within the county.

This seemingly small change in the law has had a significant impact on the value of liquor licenses. Before, if you owned a license in a locality that had used up all of its "quota" licenses, your license had significant resale value. This was particularly true if you were in a location where national chain restaurants, hotels, or other "big spenders" would need a license. Under the old rules, it was not uncommon for liquor licenses to fetch \$75,000-\$100,000 in the open market.

Now, however, those same national chains, hotels, and other "desperate" buyers can almost certainly find a license in escrow somewhere within the county. Accordingly, instead of having only a few (or maybe even only one) licenses to pick from, prospective buyers now usually have several options when choosing a new license. Currently, there are literally hundreds of liquor licenses in Wayne County available in escrow for sale. This has caused the value of those licenses for resale to drop to approximately \$10,000-\$20,000, or perhaps a little more in certain circumstances. There is no reason for anyone doing business in Wayne County, or moving into Wayne County, to pay anything close to the "old" price for a liquor license.

Thus, for those people who got out of the bar business prior to 1998, they were likely able to achieve a significantly higher selling price than they would obtain if selling their bar/license today.

Information about licenses for sale is also more readily available today than it was a few years ago. The Michigan Liquor Control Commission recently began listing on its website all of the licenses currently in escrow. This list, broken down by county,

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can easily show an intended purchaser how many licenses are available for sale at any given time. This gives the buyer important information in negotiating the price with any potential seller. The buyer can also learn how long a license has been in escrow, which may have some bearing on the desperation of the seller to unload the license before it is revoked by the MLCC. This also contributes to a downward pressure on the price or value of the liquor licenses held in escrow.

The second recent development in Michigan that will lead to a falling value of liquor licenses in certain parts of Michigan is the reshuffling of the "quota" caused by the 2000 Census. In areas of the state that are growing in population (Northern Michigan, Livingston County, etc.), the number of liquor licenses assigned to local governmental units under the quota has increased significantly. The increase in population means that more liquor licenses are available for prospective purchasers in these parts of the state, thus making a license held in escrow for resale less valuable. A bar/restaurant owner in these parts of the state who is looking to sell the business, or at least the license, may see a significant drop-off in the price a buyer is willing to pay now that several new "quota" licenses are also available. Of course, in other parts of the state where population declines, previously unused "quota" licenses may have been taken away and thus caused an increase in value of other licenses in escrow within that particular county, but those examples are few and far between. Mostly, the number of quota licenses has increased and thus will cause the value of existing licenses to decrease.

Recent sales transactions that I have been involved with indicate that the market for liquor licenses is slowly adapting to these new rules of the game. Many licensees are still overpaying for a license because they do not realize the county-wide transfer system is now in place and they have failed to research all of their license options. I expect, however, that eventually the market will adjust to the point where liquor licenses are very seldom sold for more than \$10,000-\$20,000 throughout the State of Michigan. Thus, if you are considering selling your business/license, you may be well advised to list it for sale sooner rather than later. A quick check of the MLCC website and the list of current escrowed licenses in your county will give you a good indication of how much competition there will be for the sale of your license. If there are only a few other licenses listed for your county, you may still be in good shape. On the other hand, if you have a license in Wayne County or in other parts of the state where there are several licenses available in your county, you should anticipate that the value of your license has already dropped significantly, and will likely only drop further in the future.

Like all aspects of your competitive and highly-regulated business, the more informed you are, the better off you will be.