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BEFORE YOU SIGN • GUIDE 05

The Restaurant Edition

What every restaurant owner needs to know about commercial space before they sign the lease.

05

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A Note Before We Start

Opening a restaurant is one of the most exciting things a person can do. It is also one of the most expensive mistakes you can make if the real estate decision goes wrong. The lease you sign will follow your business for years. The space you choose will either support your concept or fight it every single day.

This guide is not designed to scare you out of it. It is designed to make sure you walk into that negotiation knowing what questions to ask, what numbers to run, and what clauses to push back on. The landlord's attorney has done this hundreds of times. Now you will be more prepared than the average first time tenant.

We cover five areas: your space requirements, the permit and licensing picture, the buildout reality, the lease terms that matter most for food service, and how to figure out what you can actually afford. Every section ends with the questions you should be asking before you commit.

SECTION 1

Know Your Space Requirements

Restaurant space is not just square footage. It is infrastructure, flow, zoning, and utility capacity all wrapped into one lease. Getting the physical requirements wrong at the beginning is expensive to fix and sometimes impossible to fix without breaking your budget before you open the doors.

Square Footage: What You Actually Need

Most full service restaurants operate between 1,500 and 5,000 square feet. Fast casual and counter service concepts can work in 800 to 1,500 square feet. Fine dining and high volume operations may need 5,000 or more. The breakdown that matters is this:

Dining Room	Typically 60 to 65 percent of total square footage. The rule of thumb is 15 square feet per seat for casual dining, 18 to 20 for full service.
Kitchen	Plan for 30 to 35 percent of total square footage minimum. Undersizing the kitchen is one of the most common and costly errors in restaurant buildouts.
Storage	Dry storage, walk in cooler and freezer space, and receiving area. Budget at least 10 percent of total square footage or you will be stacking product in places it should not go.
Restrooms	Ohio code requires separate accessible restrooms. Square footage counts against your total. Factor this into your seat count math.

IMPORTANT

Avoid the temptation to maximize seating at the expense of kitchen size. A cramped kitchen slows ticket times, increases food costs, and burns out staff. The dining room sells the experience but the kitchen determines whether you can deliver it.

Ceiling Height

Kitchen ventilation hoods, walk in units, and commercial equipment all have height requirements. A standard commercial kitchen needs a minimum of 10 to 12 feet of clear ceiling height. If the space has drop ceilings at 8 feet, factor in the cost of removal and what is above them before you fall in love with the location.

Parking

Most municipalities require a minimum number of parking spaces per seat for restaurant uses. The standard is roughly one space per three to four seats, but this varies by jurisdiction. In Northeast Ohio, suburban municipalities tend to have stricter parking requirements than urban cores. Confirm the parking ratio with the local zoning office before you plan your seat count. Shared parking agreements with adjacent properties are possible but require review of the lease and any recorded easements.

Grease Trap and Utility Requirements

This is where restaurant space gets expensive fast. Every food service operation that uses fryers, ranges, or produces FOG (fats, oils, and grease) is required by municipal code to have a grease trap or grease interceptor. Here is what you need to know:

- Grease traps can be interior (under the sink) or exterior (in ground interceptors). Most municipalities now require exterior interceptors for full service operations.
- Installation costs for a new exterior grease interceptor typically run between 5,000 and 25,000 dollars depending on size, access, and site conditions.
- If the prior tenant was also a restaurant, there may be an existing interceptor. Confirm its size, condition, and whether it is properly permitted before assuming you can reuse it.
- Municipalities have the right to inspect grease traps and issue violations. Pumping and maintenance are your responsibility as the tenant in most leases.

Electrical and Gas Capacity

Commercial kitchens are heavy electrical users. A typical full service restaurant needs 200 to 400 amps of three phase power. Many older commercial spaces in Northeast Ohio were not built to food service standards and will require an electrical service upgrade. Before you sign, ask for documentation on the current electrical service capacity and get a licensed electrician to assess whether it is adequate for your equipment list.

Natural gas is required for most commercial cooking equipment. Confirm that gas service is available to the space, identify the meter location, and have a plumber size the gas line for your planned equipment load. Undersized gas lines cause equipment to underperform and can create code issues.

HVAC and Ventilation

Restaurant kitchens generate significant heat, grease laden air, and moisture. A properly designed commercial kitchen requires a Type I or Type II exhaust hood connected to a dedicated ventilation system that exhausts to the exterior of the building. This is not optional and it is not cheap.

- Type I hoods are required over cooking equipment that produces grease. They include a fire suppression system.
- Make up air systems are required to replace the air exhausted by the hood. Improperly balanced make up air creates negative pressure, causes doors to slam, and can pull carbon monoxide back

into the kitchen.

- If the space has never been a restaurant, budget 20,000 to 60,000 dollars or more for full hood and ventilation installation depending on the scope.
- If there is an existing hood system, have it inspected and tested before assuming it works and is properly permitted.

QUESTIONS TO ASK BEFORE YOU COMMIT

- What is the current electrical service capacity and has it ever been upgraded?
- Is there an existing grease interceptor and what is its condition and permit status?
- What is the ceiling height in the kitchen area?
- What are the parking requirements for restaurant use in this municipality?
- Is there an existing Type I hood and what is its age, condition, and last inspection date?
- Has this space ever been used as a restaurant? If not, what infrastructure upgrades will be needed?

SECTION 2

Permit and Licensing Pitfalls

Restaurant permitting is layered, time consuming, and often misunderstood by first time operators. The permit process is not just a formality. It is the mechanism through which the city, county, state, and health department all sign off on your ability to operate. Getting caught off guard by a permit requirement after you have signed a lease is a cash flow crisis.

Building Permits

Any buildout work requires a building permit from the local municipality. This includes structural changes, electrical upgrades, plumbing modifications, HVAC work, and most finish work. The permit process involves plan review, and for restaurant space, the plans are reviewed not just by the building department but often also by the health department and fire marshal simultaneously.

Plan review timelines in Northeast Ohio municipalities typically run four to eight weeks but can extend to twelve weeks or longer in busier jurisdictions. Build this timeline into your opening projections. A lease that starts running while your permits are still in review is a cash drain before you have made your first dollar.

Ohio Department of Health: Food Service License

Every food service operation in Ohio must be licensed by the Ohio Department of Health or the local board of health, depending on the jurisdiction. The license is tied to the specific location and must be obtained before you open. Here is what the process looks like:

- Submit a plan review application to the local health district before construction begins. This is not optional. Starting construction without health department plan review approval can result in required tear outs.
- Plans must show equipment layout, handwashing sink locations, ventilation, water heater specifications, and surface materials.
- A pre opening inspection is required before the license is issued. The inspector will check that the as built space matches the approved plans.
- Licensing fees vary by jurisdiction and are based on facility size and type.

WATCH OUT

Ohio requires a certified food protection manager on staff. This means at least one person in your operation must hold a valid food handler certification such as ServSafe. Factor this into your hiring plan before opening.

Fire Code and Suppression

The fire marshal reviews restaurant plans independently of the building department. Key areas of review include:

- Hood suppression system: Type I hoods require an UL 300 compliant fire suppression system. These must be inspected every six months once operational.
- Occupancy load: The fire marshal determines your maximum occupancy based on square footage and egress. This directly affects your legal seating capacity.
- Emergency egress: Exit signs, emergency lighting, and door hardware must meet fire code. Older buildings sometimes require upgrades.
- Ansul system permits: Installation of a new suppression system requires a separate permit and must be done by a licensed contractor.

Liquor License

If you plan to serve alcohol, the Ohio Division of Liquor Control issues liquor permits through an application process that takes considerably longer than most operators expect. Here is the reality:

- A new D 1 (beer) or D 2 (beer and wine) permit can take 60 to 90 days to process once a complete application is submitted.
- A D 5 permit (full liquor) involves a quota system in most municipalities. Quota permits are issued based on population ratios and may require purchasing a permit from an existing holder, which can cost 10,000 to 80,000 dollars or more depending on the market.
- The permit is tied to the specific premises. If the address has had liquor violations in the past, it can complicate or delay your application.
- Do not plan your opening around having a liquor permit in hand until you have received written approval. Opening without it and then adding alcohol service later is common but adds cost.

Zoning and Use Approval

Not every commercial space is zoned for restaurant use. Even in a strip center that currently has restaurants, individual units may have use restrictions. Before you sign:

- Confirm the zoning classification allows food service as a permitted use, not just a conditional use that requires a hearing.
- Check for drive through restrictions. Many municipalities have separate approval processes for drive through service lanes.
- Outdoor seating and patio areas may require a separate zoning or right of way permit.
- Late night hours may require a conditional use approval in some municipalities. If you plan to operate past 11 PM, confirm this before you negotiate the lease.

ADA Compliance

The Americans with Disabilities Act applies to all places of public accommodation, including restaurants. New construction must fully comply. Existing buildings trigger compliance requirements when the scope of renovation exceeds a certain threshold of construction cost. Key areas to assess:

- Accessible parking spaces in the required ratio and proximity to the entrance.
- Accessible entrance with compliant door hardware and clearances.
- Accessible restrooms with compliant turning radius, grab bars, and fixture heights.
- Accessible seating throughout the dining room, not clustered in one area.

QUESTIONS TO ASK BEFORE YOU COMMIT

- Has this address been used as a food service establishment before? If so, were all permits properly closed out?
- What is the current zoning and does it permit the type of food service I am planning?
- Which health district has jurisdiction over this location?
- Has the fire suppression system been inspected and is it permitted?
- Does this location have an existing liquor permit associated with it?

SECTION 3

Buildout Reality Check

Restaurant buildouts are expensive. That is the honest starting point. The question is not whether the buildout will cost more than you expected. It is how much more, and how to structure the lease so the landlord helps carry as much of that cost as possible.

What Does It Actually Cost

Industry benchmarks for restaurant buildout costs in the Midwest typically run in the following ranges:

Cold Dark Shell	A space with no finishes, no plumbing, no HVAC, and bare concrete floors. Expect 150 to 300 dollars per square foot or more for a full restaurant buildout from this starting point.
Warm Vanilla Shell	Basic HVAC, electrical to a panel, and stubbed plumbing. Still requires full kitchen infrastructure, finishes, and equipment. Budget 100 to 200 dollars per square foot.
Second Generation Space	A prior restaurant tenant has left some infrastructure in place. Costs vary widely depending on condition and compatibility with your concept. Always have infrastructure inspected before assuming it saves you money.

REALITY CHECK

A 2,000 square foot full service restaurant buildout from a cold dark shell at 200 dollars per square foot is a 400,000 dollar project before equipment, furniture, and soft costs. Budget conservatively and verify with a contractor before you sign.

Tenant Improvement Allowance

The tenant improvement allowance (TI) is the landlord's contribution to your buildout. It is negotiated as part of your lease and expressed as a dollar amount per square foot. For restaurant space, TI allowances vary widely based on market conditions, landlord motivations, and lease term length. Here is how to approach it:

- Longer lease terms typically justify higher TI allowances. A landlord offering 30 dollars per square foot on a three year lease may offer 60 dollars or more on a ten year term.

- Get a preliminary contractor estimate before you negotiate TI. Walking in with a real number gives you leverage.
- TI is usually paid in draws as construction progresses or as a lump sum after the certificate of occupancy. Confirm the disbursement process before you start construction.
- Ask whether unused TI can be applied to free rent. Some landlords will agree to this rather than cutting a check.

Contractor Red Flags

Restaurant buildouts attract contractors who overstate their experience with food service construction. Choosing the wrong contractor is one of the leading causes of cost overruns and delayed openings. Watch for these warning signs:

- No experience with health department plan review submissions for food service. This is a specialized process and a contractor unfamiliar with it will slow you down.
- Vague or missing line item bids. A legitimate contractor gives you a detailed scope of work. Walk away from lump sum bids that cannot be broken down.
- No references from other restaurant clients you can actually contact. Ask for references and call them.
- Requests for large upfront deposits without a draw schedule tied to construction milestones.
- Unfamiliarity with commercial kitchen equipment rough in requirements. Plumbing, gas, and electrical rough ins must coordinate with your equipment specifications. A contractor who has not done this before will make errors that are expensive to correct.

The Gap Between TI and Reality

In most restaurant buildouts there is a gap between what the landlord's TI allowance covers and what the buildout actually costs. That gap is your problem to solve. Common sources of cost that operators underestimate:

- Grease interceptor installation: not always covered by TI and can cost 10,000 to 25,000 dollars.
- Hood and fire suppression system: 15,000 to 40,000 dollars depending on scope.
- Walk in cooler and freezer: 8,000 to 20,000 dollars installed.
- Equipment: commercial kitchen equipment packages for a mid size restaurant typically run 75,000 to 150,000 dollars before installation.
- Furniture, fixtures, and decor: budget separately from construction. Operators routinely underestimate this line item.
- Soft costs: permits, design fees, health department fees, equipment delivery and installation. Budget 10 to 15 percent of hard construction costs for soft costs.

QUESTIONS TO ASK BEFORE YOU COMMIT

- What shell condition is the space being delivered in and what exactly does the landlord's delivery include?
- What is the TI allowance and how and when is it disbursed?
- Has the landlord worked with restaurant tenants before, and do they understand the permitting timeline for food service?
- Are there any landlord required contractors or vendors for specific scopes of work?
- What happens if construction takes longer than expected? Is there a rent free period built in?

SECTION 4

Understanding Your Lease

Restaurant leases have specific clauses that matter more for food service than for any other tenant type. General commercial lease knowledge is a starting point, but there are provisions specific to your business that require attention. Here are the ones that matter most.

Use Clause

The use clause defines what your business is permitted to do inside the space. For a restaurant, you want the broadest use clause you can negotiate. A narrowly written use clause can prevent you from adding catering, changing your menu concept, adding a bar program, or hosting private events. Push for language that covers food and beverage service in all its forms rather than a description tied to a specific cuisine or service style.

Exclusivity

If you are opening in a shopping center or multi tenant building, an exclusive use clause prevents the landlord from leasing to a direct competitor. Define your exclusivity carefully. Broad exclusivity (no other food service tenants) is unlikely to be granted. Specific exclusivity (no other full service Italian restaurants, no other coffee shops, etc.) is more achievable. Get it in writing and define the protected radius.

Hours of Operation

Some leases include required hours of operation or restrict your ability to operate outside certain hours. If you plan to open early for breakfast or stay open late for bar service, confirm that the lease permits this. Operating outside permitted hours can constitute a lease violation. Also confirm whether there are common area hours that affect your ability to access the space for deliveries and prep.

Odor and Noise Provisions

Restaurant operations produce cooking odors and noise. Some leases include provisions that allow a landlord to require you to address neighbor complaints about odors or sounds. Understand what these provisions require before you sign. Proper ventilation design is your best protection, but knowing what the lease holds you to is essential.

Assignment and Subletting

At some point you may want to sell your restaurant, bring in a partner, or franchise your concept. The assignment clause governs whether and how you can transfer your lease to another party. Most landlords require consent, which is standard. What matters is whether consent can be withheld

unreasonably. Push for language that says consent cannot be unreasonably withheld or delayed, and confirm whether you are released from personal guarantee obligations upon an approved assignment.

Percentage Rent

Some retail and restaurant leases include a percentage rent provision in addition to base rent. This means you pay a percentage of gross sales above a defined threshold to the landlord. For example, base rent plus six percent of gross sales above a natural breakpoint. Understand how gross sales are defined in the lease and what reporting obligations come with it. If you can negotiate a high natural breakpoint, percentage rent may never kick in.

Demolition and Recapture

In longer term leases, especially in urban or redevelopment area properties, landlords sometimes include demolition clauses that allow them to terminate your lease early if the property is to be redeveloped. This is more common than most tenants realize. If your buildout investment is significant, push back on demolition clauses or negotiate a buyout provision that compensates you for unamortized buildout costs.

Personal Guarantee

Most landlords require a personal guarantee from the business owner, especially for new businesses without operating history. This makes you personally responsible for the lease obligations if the business cannot pay. Key things to negotiate:

- Guarantee burn down: the personal guarantee reduces or expires after a period of on time payment. For example, after 24 months of clean payment history, the guarantee drops to one year of remaining rent exposure.
- Good guy clause: allows you to terminate the personal guarantee by vacating the space and giving notice, stopping your personal liability from that point forward.
- Limited guarantee: caps your total personal exposure at a fixed dollar amount rather than the full lease value.

QUESTIONS TO ASK BEFORE YOU COMMIT

- Does the use clause permit every revenue stream I am planning, including catering, delivery, alcohol service, and private events?
- Does the lease restrict my operating hours in any way?
- Is there a percentage rent provision and how is gross revenue defined?
- What are the assignment terms if I want to sell the business?
- Is there a demolition or recapture clause?

- What are the personal guarantee terms and is there a burn down or good guy provision?

SECTION 5

What Can You Actually Afford

The number one financial mistake restaurant operators make in commercial real estate is calculating affordability based on rent alone. Your lease obligation is just one component of total occupancy cost. Understanding the full picture before you sign is how you protect your business.

The Restaurant Rent Rule

The food service industry standard is that rent and occupancy costs should not exceed six to eight percent of gross revenue. This is the benchmark. Some high volume quick service concepts can sustain up to ten percent. Fine dining with lower table turns often needs to stay at or below five percent. Use this as your starting framework, then pressure test it against your specific revenue projections.

Total Occupancy Cost

Rent is not your only lease obligation. Total occupancy cost includes everything you pay to be in the space:

Base Rent	The fixed monthly amount stated in your lease. This is the number most people focus on.
CAM Charges	Common area maintenance. Covers parking lot, landscaping, exterior lighting, and shared area upkeep. In a shopping center this can add 3 to 8 dollars per square foot annually.
Property Taxes	In a triple net lease, you pay a proportional share of property taxes. Ask for the prior year's actual tax figure, not an estimate.
Insurance	Your required insurance plus any landlord required contributions. Restaurants carry higher insurance costs than most commercial tenants due to liquor liability, fire risk, and slip and fall exposure.
Utilities	Restaurants are high utility users. Gas, electric, water, and sewer costs need to be projected separately. Ask for 12 months of prior utility data if the space has been occupied.

The Affordability Formula

Here is the basic math to run before you sign. This is your quick sanity check:

STEP 1: ESTIMATE YOUR ANNUAL GROSS REVENUE (BE CONSERVATIVE)

Step 2: Multiply by 0.07 (7%) to get your maximum annual occupancy budget

Step 3: Divide by 12 for your maximum monthly occupancy budget

Step 4: Subtract CAM, taxes, and insurance from the monthly budget

What remains is your maximum affordable base rent.

Example

Projected annual gross revenue: 800,000 dollars. Maximum occupancy budget at 7 percent: 56,000 dollars per year, or 4,667 dollars per month. Estimated CAM and taxes: 1,200 dollars per month. Maximum affordable base rent: approximately 3,467 dollars per month. At 2,000 square feet, that is 20.80 dollars per square foot annually. Compare that number to what the landlord is quoting before you fall in love with the space.

Build Out Financing and Pre Opening Costs

Your buildout budget and pre opening costs are separate from your lease obligation but directly affect your ability to sustain the lease in the early months. Common pre opening costs that operators underestimate:

- Security deposit: typically one to three months of total rent. In restaurant leases, landlords sometimes ask for more.
- First and last month rent: often required before you take possession.
- Equipment deposits and delivery fees.
- Initial food and beverage inventory: budget four to six weeks of projected food cost.
- Staff hiring and training payroll: you will be paying people before you open.
- Marketing and opening event costs.
- Working capital reserve: most financial advisors recommend having three to six months of operating expenses in reserve at opening.

RULE OF THUMB

If your buildout is fully funded and you still do not have enough capital to cover three months of total operating expenses before opening, you are likely undercapitalized. This is the most honest thing I can tell you in this guide.

QUESTIONS TO ASK BEFORE YOU COMMIT

- What are the actual prior year CAM, tax, and insurance charges for this space?
- What are the average monthly utility costs based on prior tenant data?

- What is the total occupancy cost per square foot annually when everything is included?
- Does my revenue projection support this total occupancy cost at the seven percent rule?
- Do I have adequate capital reserves to sustain the lease through my ramp up period?

The Restaurant Edition: Cheat Sheet

The Affordability Formula

Formula	Your Numbers
Projected Annual Revenue x 7%	$_____
Divide by 12 = Monthly Occupancy Budget	$_____
Minus: CAM + Taxes + Insurance	($_____)
Max Affordable Base Rent (Monthly)	**$_____**

Key Benchmarks to Remember

Rent to Revenue Ratio	Keep total occupancy cost at 6 to 8 percent of gross revenue. High volume fast casual can push to 10 percent.
Kitchen Size	30 to 35 percent of total square footage minimum. Do not sacrifice kitchen for seats.
Electrical Service	200 to 400 amps three phase power for a full service kitchen.
Buildout Cost Range	100 to 300+ dollars per square foot depending on shell condition and scope.
Liquor Permit Timeline	60 to 90 days minimum. D 5 permits may require purchasing from an existing holder.
Capital Reserve	Three to six months of operating expenses in reserve before opening day.

Pre Opening Permit Checklist

	Item	Notes
☐	Building permit application submitted	*Required before any construction begins*
☐	Health department plan review submitted	*Before construction; tied to building permit*

☐	Grease interceptor permit obtained	*Confirm size and location approved*
☐	Hood and suppression system permit obtained	*Required for Type I hood installation*
☐	Certificate of occupancy issued	*Required before opening to the public*
☐	Food service license obtained from health district	*Pre opening inspection required*
☐	Certified food protection manager on staff	*Ohio requirement; ServSafe or equivalent*
☐	Fire marshal inspection passed	*Occupancy load confirmed in writing*
☐	Liquor permit application submitted (if applicable)	*Start this process as early as possible*
☐	Signage permit obtained	*Many municipalities require separate signage approval*
☐	Outdoor seating permit obtained (if applicable)	*Check municipality requirements*
☐	Zoning use confirmed in writing	*Get confirmation that your use is permitted*

QUESTIONS TO ASK YOUR LANDLORD BEFORE YOU SIGN

- What is the shell delivery condition and what exactly does the landlord provide?
- What is the TI allowance and what is the disbursement process?
- What are the prior year actual CAM, tax, and insurance charges?
- Can you provide 12 months of utility data from the prior tenant?
- Has there been a restaurant in this space before and were all permits properly closed?
- Is there an existing grease interceptor, hood system, or exhaust penetration?
- What is the electrical service capacity?
- Are there any restrictions on hours of operation or outdoor use?
- Is there a demolition or recapture clause in the lease?
- What are the personal guarantee terms?

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This guide is for educational purposes only and does not constitute legal or financial advice. Always consult a licensed attorney and accountant before signing a commercial lease.

QUESTIONS ABOUT COMMERCIAL SPACE?

Let's talk it through.

Hey, I'm CiCi Caver, Licensed Real Estate Sales Agent at Kowit and Company Real Estate Group. If you're looking at a space in Cuyahoga County and want a second set of eyes before you sign, reach out.

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