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SMALL BUSINESS

With profits down, firms just aren't changing hands

Sales of businesses in L.A. County fell 32% last year from 2008, and the median price also dropped. Still, there are signs that the number and value of deals will improve this year.

By Cyndia Zwahlen

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Scroll the more than 7,000 small businesses for sale on a statewide website and Frenchy's Bistro & Wine Bar pops up alongside the flower shops, manufacturers and other companies that are listed like so many used cars.

Like everything else in this down market, they're going cheap. Frenchy's owner and chef Andre Angles, who opened his Long Beach restaurant 14 years ago, is asking \$250,000 -- less than he'd prefer -- and may end up financing part of the sale just to get a deal done.

The story is similar statewide. Small businesses are selling for less than they would in better times -- if they sell at all.

Sales of businesses in Los Angeles County fell to 3,769 last year, down 32% from 2008, according to a report released this month by the California listings website BizBen.com, which also tracks escrow closings. That decline follows a 33% plunge in 2008 and a 12% drop in 2007.

The median selling price for a small business is also down, falling to \$230,000 at the end of last year in Los Angeles County from \$238,000 at the end of 2008, according to the listings website BizBuySell.com.

Driving the lower prices, business broker Joseph Goldberg said, is that the market value of a business is based on its profits -- and they're down. Money is tight and small-business loans are scarce, making it hard to relieve cash-flow problems.

"I am an eternal optimist. On the other hand, I can tell you that our business is tied directly to businesses' bottom lines, and businesses are in fact not making any money," said Goldberg, a veteran business broker and president of Sunbelt Business Brokers in Tarzana.

Nationwide, the number of business sales that closed escrow in 2009 was down 28% but began to rebound in the last half of the year, according to data released last week by BizBuySell.com.

Depressed values for commercial real estate will continue to be a drag on small-business sales. Businesses that own the land on which they sit will be worth less, and potential buyers with real estate holdings in their portfolios will have a harder time qualifying for loans. Real estate businesses in general will sell for somewhat less than they might have during the boom. Overexposure to commercial real estate loans, many of which are now souring, has made some banks reluctant to lend at all.

Potential buyers also had a hard time finding credit last year, and that difficulty will probably continue.

The number of Southern California loans backed by the Small Business Administration fell to 3,000 last year, down about 60% from 2008.

Tight credit has largely frozen sales of businesses priced from \$250,000 to \$1 million, because those sales have relied heavily on access to SBA loans in recent years, said broker Ron Hottes, owner of Business Team offices in Torrance and St. Louis.

Last year his Torrance office closed no deals in that price range, the former president of the California Assn. of Business Brokers said. Any deals that did close involved seller financing. Hottes expects that trend to continue, even if the SBA boosts loan volume.

Still, there is some indication that the value of small businesses -- and the pace at which they are bought and sold -- may pick up in California this year.

Demand may increase as laid-off employees consider purchasing a small business, said Mike Handelsman, general manager of BizBuySell.com. The supply may also grow to include more relatively stable businesses as owners who had delayed retirement during the worst of the recession begin to consider selling. Lending is also beginning to pick up, Handelsman said.

Broker Azi Manoussi of Prudens Business Advisors, a small brokerage in Beverly Hills, said she was already seeing an increase in activity. Manoussi is now dealing with two local banks that are actively lending, up from none last summer. By comparison, Manoussi said, a year ago she was doing business with half a dozen institutions that were making loans to buyers of small firms.

At Frenchy's, Angles said he was aware he might need to finance the sale of the 75-seat restaurant himself.

He's willing to carry up to \$100,000 of the purchase price. But the prospect makes him nervous.

He has heard of buyers bailing out after a few months, leaving a seller unpaid and back in charge of a business that may have been changed or damaged beyond control.

Even if he is able to sell for a decent price it will be a bittersweet victory for Angles, 45, who has enjoyed the freedom he has as a business owner and the customers who have become friends over the years.

"It's not easy to decide when it's time to stop," he said. "But you have to draw the line somewhere."

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