

BUSINESS COLUMNISTS **JAMIE HERZLICH**

Credit costs chill market for small business sales



Craig Buchstein and Jennifer Rock bought Sardo's Pizzeria in Greenlawn in June. It was formerly Spinelli's. Credit: Stephen Rock

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Just as the housing market has cooled in the wake of higher interest rates, so has the small-business sale market.

After five consecutive quarters of year-over-year growth, small business acquisition activity slowed in the third quarter of this year, according to BizBuySell's Q3 Insight Report, which tracks and analyzes U.S. business-for-sale transactions.

And because capital is more expensive now with rising interest rates, selling prices have been on a downward slope, experts say.

"The higher interest rates are causing challenges for transactions," says Adam Debussy, senior marketing director at BizBuySell, a San Francisco-based business-for-sale online marketplace.

The number of closed deals reported nationally in Q3 dropped 2% year-over-year to 2,237, and was 4.5% lower than the number reported in Q2, according to BizBuySell's

report. Notably, small business asking prices in Q3 dropped 13% year-over-year and sale prices dropped 14%, respectively, correlating with weaker financials, according to BizBuySell.

These declining numbers suggest that sellers are reducing prices to accommodate buyers who are facing rising interest rates and higher acquisition costs, according to the report.

Long Island data was unavailable, but local experts say it is a more “challenging” environment than a year ago.

“It’s a unique time,” says Ken Stein, managing director of Kensington Company & Affiliates in Roslyn Heights, which specializes in mergers, acquisitions and franchise sales and development. “It’s taking longer to get deals funded, but deals are still coming through.”

With fear of recession, lenders are looking at the deals more carefully and at the same time interest rates are going up, which is causing loan payments to increase, he says.



Ken Stein, managing director of Kensington Company & Affiliates in Roslyn Heights. Credit: Kensington Company

This can impact the amount that a potential buyer can borrow to satisfy loan payments, he says, noting the amount they can borrow has to be less to still afford the “debt service” (the money needed to repay both the principal and interest on the loan).

With that said, Stein said asking prices are coming down.

For New York, the median asking price was \$350,000 in Q3 2022 compared to \$537,000 in Q3 2021 and the median sale price was down from \$370,000 in Q3 2021 to \$300,000 Q3 2022, according to BizBuySell data. The largest category – 41% of the transactions – was for service businesses, followed by restaurants at 36%.

Anthony Citrolo, a managing partner at The NYBB Group, a Melville-based merger and acquisition firm, says “you have to be creative to get a deal done.”

Buyers have concerns with the state of the economy, he says.

“If someone feels there’s more risk they’re not going to pay more, they’re going to pay less for the business,” Citrolo says.



Anthony Citrolo, a managing partner at The NYBB Group, a Melville-based merger and acquisition firm. Credit: NYBB Group

To get deals done, Debussy says sellers are more open to offer seller financing. This is where the seller would hold a note for part of the payment over a set number of years.

“A normal seller financing note is three to five years,” says Citrolo.

It’s a way for the buyer to get more affordable financing and “the owner has skin in the game,” Debussy says.

In this market, sellers may also have to be more flexible with price.

Craig Buchstein, co-owner of Sardo’s Pizzeria & Restaurant in Greenlawn, said the pizzeria, formerly Spinelli’s, was “priced to sell” when he and co-owner Jennifer Rock, purchased it in June.

After 40 years, the previous owners were looking to retire and not renew their lease, he says.

Buchstein said he and his partner knew the area and knew Greenlawn Plaza, where the pizzeria was located, was a busy shopping center, which made it attractive.

But the pizzeria needed upgrades, part of the reason they got a fair price on the business, he says. Buchstein didn't disclose the sale price, but said he and Rock invested six figures worth of renovations to update the pizzeria.

He said thankfully, with interest rates high, they didn't have to rely on loans, but self-financed it with savings from he and his business partner.

Finding labor was the toughest challenge, but they now have enough staff, Buchstein says.

While the uncertain economy is concerning, he said "so far it's been a good first few months. "

"We're happy the direction, it's going in," he says.

To be sure, restaurants was a bright spot in Q3, says Debussy.

The number of restaurants sold grew 14% year-over-year while service business grew a modest 4%, according to BizBuySell.

On Long Island, though, there's still strong demand for service businesses such as mental health services, employment agencies, vending businesses, laundromats and children's services, along with franchises and distribution and manufacturing companies, says Stein.

/ Since COVID struck, many distributors/manufacturers have improved their operations and also got COVID relief money, he says.

A bright spot is even with a slowdown, it's not as bad as the recession of 2008/2009 or even the pandemic's height, says Citrolo.

"We're cautiously optimistic," he says. "There's going to be people who want to be in their own business and sell their company. It's a constant evolution."

U.S. small business closed transactions this year:

Q1: 2,412

Q2: 2,342

Q3: 2,237

Source: BizBuySell (<https://www.bizbuysell.com/insight-report/>)