Finding the Right Location in Today’s Changing Restaurant Landscape
As the Greek philosopher Heraclitus so succinctly stated, “The only thing that is constant is change.” While his belief may have been derived from observing the natural world that is always in a state of flux, he could just as well have been transported to the 21st century as a restaurateur. Theirs is a world that is changing sometimes quicker than they can adapt. Bloomin’ Brands, parent company to the likes of Outback Steakhouse, Carrabba’s and Fleming’s Steakhouse, is closing dozens of locations after seeing overall profits of 127.3 million in 2015 dwindle to 41.7 million in 2016. Last year also saw the closure of 359 Subway Restaurants and 46 Applebee’s, with another 40 to 60 of the brand-challenged restaurant expected to close this year.

Why? While some point to the onslaught of fast-casual newcomers, others suggest the demise of the brick-and-mortar retail industry plays a part. And they do seem to have a few things in common. Apparel companies such as Urban Outfitters and Ralph Lauren have stocks that are hitting multi-year lows and once big-time retailers such as Macy’s and RadioShack announced 100-plus store closures this year. That seems like a big coincidence in an economy that, while not raging, is holding its own in somewhat challenging times.

So we’ve decided to talk to someone on the front-lines—Ashley Robinson, Vice President of Emerging and Emerging Concepts—a restaurant real estate consultant that has been in the business for 15-plus years and has seen the changing restaurant landscape first hand.
Reimagining Retail

“Since the Roman times, people have always wanted to ‘see and be seen’ and participate in a community. The experience people seek from a restaurant or entertainment anchor seems to make them more resilient in these changing times, and thus they are now the driving factors behind new developments, as well as developers’ efforts to remodel and increase relevance for existing shopping centers.”—Ashley Robinson.

A hot topic of conversation these days is the closure of America’s malls. But, according to Robinson, higher-end malls are taking advantage of the present retail environment to reinvent and reimagine their shopping centers.

With the big chain retailers that were once shopping mall’s anchor stores going the way of the dodo, fitness centers, indoor entertainment centers, and restaurants are stepping in to fill the role. Make that a lot of restaurants. Robinson references a time when malls only allowed 2 full-serve restaurants along with a mediocre food court in a shopping center of 1 million square feet of retail with 3 fashion anchors. Nowadays, she says, “A restaurant will often be 1 of possibly 7 full-service restaurants, plus a food hall with 7 to 10 unique, fresh QSR concepts with alcohol. Chef-driven concepts are growing more than many chains, and many have paid incredibly high rents that inflated the market to unsustainable rates when the sales dollars are that diluted.”

Many are blaming retail’s demise on Amazon and other e-commerce brands, and rightly so. Almost half of all U.S. households have an Amazon Prime membership. Amazon’s net revenue for 2016 reached $135.99 billion, up from $107.01 billion in 2015. That’s a big chunk of the consumer change. But Robinson believes there’s more to the story than the boom of online spending and that there is a way restaurateurs can take advantage of the changing times.
The Bargaining Table

Real estate and restaurant consultants such as Robinson are trying to educate landlords regarding the changing climate. She’s pointing out that historical rent comps are no longer valid and cannot determine rent expectations—not when two competitors have turned into ten. Add the fact that visits to the mall declined by 50 percent between 2010 and 2013, and are still on the decline, and you begin to wonder why any restaurant would take the plunge into the retail Armageddon. But landlords and developers actually are listening to the likes of Robinson and others of reasonable inclinations. There are deals to be found. Smart developers are changing with the times and offsetting the decline of retail with other traffic generators, and mixed-use as a term is expanding to mean something other than retail and office.

Robinson suggests restaurants pay more attention to those mixed-use traffic drivers and not just the standard co-tenancy language of the past.

She explains it this way, “Historically, we would always focus on what co-tenancy would be joining our client in a new location, and that is still important, but now I also need to craft language that protects them from TOO MUCH co-tenancy in the food category. A problem we have not faced so far in my career.”

Landlords, Robinson points out, are optimistic as they make these merchandising changes, as well they should be. According to an article in The Atlantic, “Since 2005, sales at ‘food services and drinking places’ have grown twice as fast as all other retail spending. In 2016, for the first time ever, Americans spent more money in restaurants and bars than at grocery stores”
Millennials and Gen Z seem to be at the core of making restaurants the fastest-growing industry in retail. Their generations seem to value “experiences” over “stuff” and dining out is one of those experiences they’ve chosen. Landlords in the know are taking this lifestyle alteration to heart and are searching out traffic drivers of services and experiences—and that would be you, Mr. Restaurateur. In fact, some landlords are scrambling to attract the best restaurant tenants to their properties, and that makes for interesting negotiations.

A few more facts to bring to the table with you:

CBRE Research reported that Millennials are dining out twice as often as Gen X and three times as often as Baby Boomers. They may not be spending as much money, but they will be climbing up the corporate ladder, which will lead to an increase in expendable income in the future. And they are bringing their smartphones and sending out Snapchats and Instagram shots of their latest “foodie” experience as well as posting it on Facebook. In addition to reaching their social network, these frequent customers are creating additional opportunities for the neighboring retail venues.

75% of mobile searches on restaurant lead to:

- Restaurant visit
- Phone call
- Purchase
- Further research
- Word-of-mouth sharing

Within the 1st hour
Taking Advantage of Change

Because of this shift, landlords are contributing significant amounts of capital to needed physical and structural changes, making entrance into the sanctum of what was once a retail space a little easier to bear for incoming restaurants. Other landlords are becoming partial investors. One such example is the Trinity Groves mall in Dallas which has created a Restaurant Concept Incubator program. Their vision is to “encourage chefs and restaurateurs to create and present unique restaurant concepts to a team of experienced restaurateurs who will then support them to bring their ideas to reality.” In addition to restaurants and retail, Trinity Groves has a culinary events center that hosts chef cook-off competitions.

Trinity Leeds, a 1-million-square-foot shopping center in the U.K. has created the Trinity Kitchen—an open space that hosts a dozen food trucks and is designed to offer diverse and unique food. Others are hosting food truck festivals or weekly food truck events.

Westfield Mission Valley Mall in San Diego has just recently launched a weekly food truck gathering on Friday evenings in order to entice shoppers. According to an article in The San Diego Union-Tribune, Brandon Matzek, the mall marketing director, said, “The idea sprang from a desire to create a unique atmosphere that will differentiate Westfield Mission Valley from other malls around town.” He hopes to attract the “culinarily adventurous.”
This offers first-time restaurateurs a unique opportunity. Food trucks offer a much lower price of entry and, in a situation such as San Diego, a chance to show malls just what they offer and the potential traffic increase they may provide. This could, in the future, get them a brick-and-mortar location in that same mall.

While Robinson applauds developers that are in tune with these factors and building well thought out mixed-use centers, she acknowledges that there are more dynamics at play than just retail demise that is changing the shape and scope of the restaurant industry. One such trigger is the government.
New Minimum-Wage Laws

In a national survey, 24 percent of restaurant owners said rising minimum wage was going to be the biggest challenge in 2017. A study conducted by the Harvard Business School revealed that a $1 increase in the minimum wage increased the overall likelihood of a restaurant going out of business in the San Francisco Bay area by 4 to 10 percent. For medium rated restaurants, that rate went up to 14 percent. While many restaurants have moved on due to the infiltration of new minimum-wage laws, others have adapted.

The use of tablets, kiosks, and touchscreens are on the rise as restaurants across the nation look for solutions to reduce rising labor costs. But even in the midst of technological solutions, restaurants are still closing their doors. Seattle’s $15 minimum wage prompted a rising trend in restaurant closures. Flagstaff’s Proposition 414, causing incremental increases until their minimum wage reaches $15 in 2021, has caused a number of restaurants to shut their doors for good. The recent hike in 2017 hit one of Robinson’s clients hard with a $1 Million hit to their bottom line. Robinson reports seeing increasing disparity these last 15 years.

“In many communities, servers are earning 6 figures and making more than the owners while the back of house staff is making minimum wage. In markets like San Francisco, back of house staff are traveling 2 hours just to get to work due to the high cost of living in and around the city. It’s understandable why min wage issues are being addressed, but it puts a huge burden on those high min wage markets to deliver higher sales volumes.”
The Market Wage

While restaurateurs are taking into account rising minimum wage and tip credits when determining their location, Robinson points out that one of the integral components of this equation is often not considered—the “market wage” or the wage a restaurant needs to pay to be competitive in the labor field. So although Massachusetts has a min wage of $11.00/hr. and a tip credit of $3.75. The market wage for skilled labor is above national avg. at $18.00/hr. So minus the $7.25 credit you would now be looking at an effective min wage of $10.75, which puts you in line with CA, OR and WA—states known for their high labor costs.

Robinson put together a Proforma Analysis which takes into account all of these factors. It defines the following in order to help restaurant’s make good location decisions:
For one full service client, Ashley determined that even with the same economic deal, this restaurant could do $4.9M in sales in a low wage state like Utah compared to a benchmark of over $13M in CA and hit the same return on investment by year 3. Take Washington as an example: Most of the state has an $11 minimum wage and no tip credit. Depending on what city you’re in will determine your market wage.

A 6500-square-foot restaurant requiring high skilled labor may have to do over three times their gross sales to match the return on investment in other low wage states like Texas. The only state that has a higher required yearly income is California.

Robinson is quick to point out that, despite the cost of business, there are many successful restaurants in these “high labor” states. “This doesn’t mean restaurants should avoid these states, it just means they need to be prepared and use every tool in their tool belt to drive maximum sales. It’s my job to make sure they understand these factors, and help them build their ‘tool belt’.”
The Fundamentals

The fundamentals of good restaurant real estate remain location, access, parking, visibility and co-tenants. You may think that your unique concept and outrageous culinary offerings will trump any inconveniences getting to your establishment, but, as Robinson points out, a customer has experienced your brand before even walking through your doors.

If the customer has had to sit in traffic, drive around looking for your location, motor through 3 levels of a paid parking garage looking for a space, then walk through construction and wait for a crosswalk signal, they will not be as easy to please once inside your establishment and operations will have to work that much harder to create a loyal and repeat guest. On the other hand, if you give them a convenient and pleasant experience from their home, office or hotel to the restaurant doors, they will associate that experience with your brand and, if your food and service are top-quality, a customer-for-life will be much easier to establish.
Mindshare vs. Market Share

There’s a book on the market titled Capture the Mindshare and the Market Share Will Follow. While that may be slightly overstated, Robinson councils on both, believing knowledge in market and mindshare are important considerations when choosing a location. Market share is determined by dividing a restaurant’s sales by the total sale of the industry over a certain period of time. According to Robinson, mindshare asks this question: “How is the location informing the perception the customer has of your brand?” She explains the importance of mindshare in this manner: If you have two similar concepts, both with great food, yet one has captured the mindshare through marketing, choice of location, brand considerations, and social outreach, they will, in most cases, also capture more of the market share. Mindshare is just that—how much of your customer’s mind is taken up thinking about you. And remember, the new generations are looking for an “experience.” Become the experience they’re looking for and you’ll be not only in their minds, but in the minds of those that they tweet, post, and snap to—their social network.

Technology to the Rescue

Technology is making Robinson’s job a little easier. Knowing the markets, understanding all the external factors that influence a restaurant’s success or failure, as well as keen observations, some intuition, and analytics such as demographic trends are all requirements when scouting out that perfect location. But Robinson feels this decision is such an important one that Emerging has rolled out a new technology called Acutely. It utilizes traditional demographics with advanced technology and metadata to capture active traffic trends. She believes that “When you create tenant specific learning models that are intended to be used as a tool in conjunction with real estate professionals, you can deliver incredible results.” The bottom line: The more you know, the better choices you can make.
Tips for Future Success

Successful restaurants are weathering the changes by adaptation. Just as animals and insects have changed their colors and their activities in order to adapt to changing environments, so too must the restaurateur. Changes that appear to be in the making include:

- Taking orders through platforms such as social media.
- Going digital and increasing to-go orders and online ordering systems. Some are going so far as to consider drone delivery.
- Digital and in-app menus are allowing for dynamic pricing. Is your duck confit not selling as expected? One click of the mouse and you’ve lowered the price to meet demand.
- An online reservation system that allows customers to pay a premium price for select tables.
- Chef-driven dining destination venues are revitalizing third-tier cities and defunct neighborhoods and getting low rents in the process.

Fearless

While there is no shortage of change in the restaurant industry, there are people creating unique and innovative concepts to ensure and fight for success. It seems to be the creative and the fearless that thrive even when economic trends would suggest a downward spiral is eminent. Robinson reminds us what real estate consultants and restaurateurs have in common and helps us remember why we got into this crazy business in the first place.
Sources