

URBAN DEVELOPMENT

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Developers, restaurateurs find recipe for success

■ *Restaurateurs can fill vacant commercial space and attract other tenants.*

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As space, feasibility and brand consultants focusing on restaurant clients, our team is often asked by tenants and landlords alike to review site conditions, establish pre-lease financial and design packages, and provide the architectural conceptualization needed to create unique yet cost-effective restaurant plans. The result is the tenant or landlord/developer is able to make an informed decision about where to place a restaurant and how that space will successfully fit his or her business model.

In the development, retail and restaurant industries, there is often frustration in working together. However, the needs of landlords and tenants can be symbiotic. With a restaurant project, the landlord gains activity in a retail center because the restaurant attracts traffic during multiple times of the day. For the restaurant, if the food, drink and price points are attractive, word will spread and more customers will be attracted to the location.

When considering restaurant placement the landlord must take into account the practicality of tenant allowances, such as the amount he or she will contribute to construction build-out, free rent during a restaurant launch, and the added value a restaurant brings to a center. In general, restaurants, cafes and lounges attract traffic, providing more consumers for a retail space during less popular hours of the day, therefore upping space value for other tenants.

Restaurant tenants have to take different factors into account. In general, restaurant tenants need space that enhances their menu and exposes their food to the right demographic. Of course, with legendary margins, it is essential that a restaurant tenant receive favorable lease terms.

Restaurants in urban areas often act as an anchor. A successful mix of restaurants and retail creates optimum customer flow. In the suburbs, restaurants bring families and friends together and act as a destination. Driving customer traffic to a center not only creates demand, but also sustains lease rates at the upper end of the market, resulting in less work for the landlord and more consistent customer flow for all tenants in the center.

Tough negotiations

If restaurants drive customers, are anchor tenants and serve as a destination, why are landlords having such a hard time negotiating with them?

Often, landlords perceive restaurants to be high-maintenance businesses who request significant concessions up front only to close shop all too early, leaving the landlord with an uncomfortable level of risk or exposure.

While this assessment is not untrue, it does perhaps lack perspective.

Restaurant owners are a mixed bag. From first-time operators who worked in restaurants, to investors looking to create a home run, to chef-owned, to successful chain operators searching for more locations and everything in between, restaurant operators can leave any experienced landlord in a quandary.

In today's market, all of these restaurateur stereotypes have the potential for success. In the past, landlords viewed experienced restaurateurs as preferable clients. With more and more non-traditional restaurateurs and investment groups interested in opening their first restaurants, astute landlords will recognize the opportunity to accept some risk and welcome new food concepts to their vacant spaces.

Additionally, the "new-economy restaurateur" is a smart combination of dreaming former restaurant worker or passionate foodie backed by a funding source. The model is similar to a start-up company and is working in several locations around town.

A landlord considering such a restaurant client should look for key plan components including:

- Unique customer experience — physical plan, service execution and menu
- A well thought out business plan with reasonable and supportable projections based on similar and surrounding restaurants
- Construction and schedule projections — typically design through permitting takes six months in a new space and four months in an existing space
- Operations and training costs which are at least six months post opening
- A well-known chef, or chef with experience attracting positive attention
- A documented budget for marketing, public relations and events

Landlords should also consider the restaurant's conceptual team. Examine the background of the general manager, design strategists, and financial and operations consultants. Consider the amount of experience this team has in understanding front- and back-of-the-house planning, design and infrastructure. With the right team and counsel, a new restaurateur can make up for lack of experience.

While new concepts are important, it is more important to know which ones will fit in a center's neighborhood. Throughout the Seattle area casual dining concepts are hot. More formal "white table cloth" restaurants are hard to fill on a consistent basis and often rely on high bar sales and a consistent happy hour.

Restaurants that emphasize local ingredients and organic food are forecasted to continue to experience an increase in traffic, especially in the Pacific Northwest. Bakery, café and bistro concepts are also expected to do well. And, dining with a great wine and/or beer menu continues on the upswing throughout our area.

Across the U.S., restaurant trend forecasters are predicting an increase in casual dining restaurants, with a comfy atmosphere, high-value menu items and fun gourmet twists.

Landlords should use this information to weigh their decisions when reviewing new restaurant opportunities.

Restaurateurs' true costs

Restaurateurs need to be especially aware of best practices, regulations and the true costs of building their dream.

Often when a restaurant tenant is looking at a newly built project, he or she is asked to use a large part of the tenant allowance for the build-out. Many times most of the allowance goes toward space infrastructure improvements, which are not glamorous and rarely add significant aesthetic appeal. This money is often used for costly grease interceptors, tying into a hood vent shaft that is far from the space, or other infrastructure upgrades.

It is important for the restaurateur to know this up front in order to negotiate for preferable lease terms and remain realistic.

Leasing space in an existing center where infrastructure exists changes lease terms.

It is essential that the restaurateur work with an architect and design team to gain a comprehensive understanding of the back-of-the-house/front-of-the-house plan and obtain pricing on preliminary construction and fixtures, furnishings and equipment. Having a budget to share with a landlord helps the landlord understand costs and how to allot for potential upgrades to the project.

As a restaurateur is equipped with this information, lease rates, build-out allowances and free rent (or when rents start relative to timing for permitting and construction) can be negotiated.

These points do vary with new and existing projects, and the landlord typically desires to contribute as little as possible, while the tenant desires as much as possible. With all of the right information, both sides should be able to reach a mutually beneficial agreement.

To be successful in the long term, outlasting this economy and the next, restaurants and landlords need to act in partnership and continually work to add value to their agreement. Tenant allowances that are higher tend to attract successful restaurant concepts and often result in higher lease rates.

Restaurateurs with new concepts and strong backers are just as relevant as established food service brands and help create buzz in the community. Fresh and dynamic restaurant concepts must be offered to attract and build traffic for both parties, resulting in highly effective business scenarios.

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