

HOW RESTAURANTS AND BARS ARE PLANNING TO REOPEN

From 2006 to the advent of the pandemic in March 2020, the restaurant and spirits industry experienced a new birth. Customers enjoyed a variety of dining choices unparalleled in the history of American dining: from build-your-own-bowls and fast-casual to food trucks, farm-to-table, and brewpub craft cocktails - to name just a few of the options. This renaissance supported a thriving food industry and culinary culture. More than 100,000 restaurants were created in the past ten years.¹ These restaurants, moreover, became dominant cultural hotspots. They completely changed the mix between retail and restaurants in malls. And their speed to market increased considerably during this golden age: from four or five new restaurant concepts a year to multiple new concepts per month.² All of this changed, however, with the arrival of COVID-19. Restaurants and bars have been among the hardest-hit businesses during coronavirus quarantines. While some establishments will reopen with limited capacity sooner rather than later, the industry is likely to face sector-wide reductions. According to OpenTable, one-quarter of American restaurants won't reopen.³ Since widespread lockdowns began in March, more than 8 million restaurant industry employees have lost their jobs or have been furloughed, according to the National Restaurant Association. That equates to a loss of \$80 billion through April, and up to \$240 billion by the end of the year.⁴ This report will highlight the challenges, considerations, and strategies the restaurant industry is thinking through and will possibly use as it seeks to reopen.

RESTAURANT GROUP		REPRESENTATIVE BRANDS
1	Darden	Olive Garden, LongHorn Steakhouse, Yard House, The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's, Cheddar's Scratch Kitchen
2	Landry's	Morton's Chart House, Bubba Gumps Shrimp Co, Joe's Crab Shack
3	Sage	Urban Farmer Steakhouse, Hello Betty
4	Jose Andres Think Food Group	Jaleo, China Chilcano, The Bazaar
5	Dinex	Daniel, Boulud Sud, Epicrerie Boulud
6	Union Square Hospitality	Anchovy Social, Gramercy Tavern, Blue Smoke
7	Invest Hospitality	L'Atelier del Joel Robuchon, Le Jardinier, La Table
8	Cameron Mitchell	Ocean Prime, Del Mar SoCal Kitchen, Molly Woo's Asian Bistro
9	American Blue Ribbon	99 Restaurant & Pub, Baker's Square
10	Souther Proper Hospitality	The Southern Gentleman, Gypsy Kitchen, The Blind Pig, Milton's Cuisine & Cocktails, The Big Ketch Saltwater Grill,

Source: <https://bit.ly/2Zlaj83>

1. MANY RESTAURANTS WILL ONLY REOPEN AFTER THE SUMMER

Almost all the states are reopening their economies in a multi-stage process. In stages one and two, restaurateurs may reopen provided they keep their restaurants between 25-50% physical occupancy. Unfortunately, that is not economically feasible for most restaurants. Therefore, many are choosing to reopen their doors only after the summer when stage three of the economic relaunch has set in. In the interim, restaurants will continue to offer takeout and delivery as 60% of U.S. consumers order delivery or takeout once a week.⁵

2. THE ECONOMIC COSTS FACING THE INDUSTRY ARE IMMENSE AND OFTEN ARE PROHIBITIVE

When you calculate the cost to rehire staff, payoff invoices, and replace spoiled ingredients, restaurant owners are facing steep costs to reopen. Even the country's best restaurants won't bounce back from prolonged closures. The California Restaurant Association estimated in late March that 30% of the state's 90,000 restaurants would not survive the crisis.⁶

Usually, rents account for around 8% of sales at restaurants. But, with the pandemic causing restaurants to shut outlets or cut capacity, it can represent as much as 20% of sales. Consequently, even national restaurant chains are insisting on rent relief from their landlords. A number of blue-chip companies that made rent payments the past two months have indicated they've reached their limit with June. Chipotle and Shake Shack said they are lobbying property owners to renegotiate the leases or offer deferred rent payments. Starbucks sent a letter to landlords asking for a range of concessions, including changes to lease terms and base rent for at least 12 months, starting next month.⁷

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3. THE DECISION TO REOPEN IS NOT JUST AN ECONOMIC ISSUE, BUT ALSO A PUBLIC HEALTH AND CONSUMER CONFIDENCE QUESTION

Even if restaurants find it economically feasible to reopen, there is no guarantee Americans would feel sufficiently comfortable to dine out. In fact, 68% percent of Americans say they would feel uncomfortable eating at a restaurant, according to a late April survey from SAP's Qualtrics.⁸ So reassuring customers and rebuilding consumer confidence are imperative for restaurants. However, rebuilding confidence becomes a chicken-and-egg question, as the current lack of consumer demand will likely cause many restaurants and bars to stay closed.

At the same time, restaurants in Asia are providing U.S. restaurateurs a set of protocols to follow and a model of how to reopen their restaurants. Among other things, create wider spacing between tables, require customers to sign health declaration forms before entering the restaurant, offering a hygienic way to store masks during a meal, employ customer temperature checks, and ensure all staff are masked.

To avoid using some of the more drastic measures—such as taking every customer's temperature upon entrance—employed by their counterparts in Asia, California restaurants have already drafted their own plan to allow the industry to reopen with an array of safeguards, like requiring servers to wear masks and placing hand sanitizer on every table.

4. THE TREND TOWARD RESTAURANT CONSOLIDATION INTO RESTAURANT-GROUPS WILL CONTINUE APACE

Even before the advent of COVID-19, most mom and pop restaurants were becoming extinct. The profit margins of the industry were so thin that for restaurants to thrive they had to mitigate their risk by becoming part of a large diversified restaurant-group. The pandemic has only exacerbated this trend.⁹

5. EXPECT FAST-FOOD CHAINS TO RECOVER QUICKLY AND FIRST

Due to their drive-thru lanes, delivery, and lower prices, fast-food chains have for the most part weathered the coronavirus quarantines. Compared to last year, same-store sales declined less than 2% in the week ending on April 26th. As a result, most fast-food restaurants aren't in a hurry to serve people in person using their dine-in capacity.¹⁰

6. MANY MUNICIPALITIES AND STATES MAY PERMANENTLY LEGALIZE TO-GO COCKTAILS

Across the country, cities and states have allowed for the sale of to-go cocktails and other types of alcohol for off-premise consumption. Although it won't save the bar business by itself, it has become a lifeline for many purveyors of spirits, cocktails, liqueurs, and other fine drinks.¹¹ To-go drinks were initially allowed on a temporary, emergency basis. But under various proposed changes in cities such as D.C., and states such as Texas, those emergency rules would be made permanent. If passed, this would be an obvious boon to bars and restaurants.

Third-party data sources:

[1] NPR: <https://n.pr/2WLBLKs>

[2] LBBJ, "Restaurants and Experiences are Taking Over Retail": <https://bit.ly/3gaoB1e>

[3] Bloomberg: <https://bloom.bg/36iVC7e>

[4] Restaurant.org: <https://bit.ly/3e8blbB>

[5] Fsrmagazine.com: <https://bit.ly/2AKhJaJ>

[6] CNBC: <https://cnb.cx/3bQxAkQ>

[7] WSJ: <https://on.wsj.com/2Xe2L4u>

[8] CNBC: <https://cnb.cx/3bQxAkQ>

[9] Fsrmagazine.com: <https://bit.ly/2zR4g0z>

[10] CNBC: <https://cnb.cx/36eP8pO>

[11] Reason.com, barredindc.com, and cbsaustin.com: a. <https://bit.ly/2LMpa3m> b. <https://bit.ly/2WLOOM8> c. <https://bit.ly/2ZmsFpq>

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