

RETAIL RAP OF THE MONTH

October 2009



STATE OF THE PLATE

Years ago, while staying at a converted farmhouse in an old Tuscan village, my husband awoke in the middle of the night exclaiming of seeing a ghost. From the look on his face, I believe he did indeed see a woman weeping in the corner of our room. I've always thought that if there is anything to a ghost, it has to do with one holding on to something from the past so tight they were unable to move on.

Perhaps the nature of a ghost speaks to all of us at times. This new environment has brought on its share of reflecting on the past... the "what if's," "how could we," and "if only's." With most of today's deals not meeting old expectations or proformas, letting go is a must. Creative collaboration between parties is required for moving forward.

Each month, we will focus on a retail or restaurant category, and share where we see it going. With respect to food uses, this downturn is proving that restaurants are one category that satisfies multiple consumer desires: food, leisure time, socializing and entertainment. People do go out, continue to go out, and as consumer confidence increases... people will go out more. Their preferences are different, and restaurateurs are already quick to adapt. We see:

- **Concepts are going smaller:** 3,000 to 4,000 square feet for both emerging and established concepts that would opt for 6,500 square foot footprints in the past.
- **Landlord tenant improvement contribution critical to the deal.** The paucity of available debt and private equity is the underlying challenge tenants are facing, leading to the necessity of landlord improvement contributions as the major source of funding.
- **Revenue projections are lower, therefore base rents have followed.** Sales across the board in the restaurant industry are down and average retail rents throughout the Bay Area followed -- having declined by approximately 20 percent.
- **Downtown retail cores are contracting.** Expanding concepts are looking for locations on tried and true blocks and secure co-tenancy.

"When you argue with reality, you lose, and only all of the time."

~ Byron Katie

- **Increased competition and supply of sites.** In urban areas, landlords seeking national tenants find themselves competing against other market choices where rents are lower, incentives are higher, and higher urban market sales forecast do not necessarily support a better profitability model.
- **"A+" site shortage.** While an increased supply of sites has led to lower rents and higher incentives, restaurateurs share that there are fewer closures of A+ sites than they would have hoped for. Rents for A+ sites have not dropped significantly.
- **Construction costs are down.** Tenant improvement dollars are going further with 15-25% reductions in construction costs in some cases.
- **Consumer Appetite.** Consumers are hungry for authenticity, connectivity, community and an occasional escape. Restaurants fulfill desires beyond just a place to get fed.

Prominent 2009 Bay Area openings include:

- **Michael Mina's RN74**
- **Rick Hackett's Bocanova, Jack London Square (Oakland)**
- **Charles Phan's Out-the-Door, Fillmore District**
- **Hubert Keller's Burger Bar, Union Square**
- **Michael Chiarello's Bottega, Yountville**
- **Quince, Jackson Square**

In summary, restaurants are looking for smaller footprints, increased landlord contributions, and tried and true projects, locations, and cotenancy. Successful restaurants can change the shape of a city, neighborhood, or project. They revitalize projects and neighborhoods, and attract a host of new businesses and residents.

Yet in some neighborhoods, ghosts remain... like at our charming little Tuscan farmhouse. We cut our intended four night stay to two. Calmly, the innkeeper checked us out, and when done, asked why we had decided to leave early. Despite my husband's "don't you dare" glance, I whispered that he had seen a ghost. Unruffled, the innkeeper shared that many guests have seen him (never her)... And that an exorcist has even been called in to help him move on!

At which point, the story of the past unfolded...

Here's to getting rid of ghosts... Happy Halloween!!!

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Rhonda Diaz and Jessica P. Birmingham of Terranomics Urban Retail Group are based in San Francisco specializing in urban retail projects and tenants. Terranomics, with 33 retail agents, represents 99 National and Regional tenants and is involved in 24 million square feet of retail GLA – nearly every existing/development site and tenant rollout – in the Northern California market.