Marcus & Millichap

THE RETAIL Spotlight

Evolving Restaurant Landscape Presents Opportunities and Challenges for Operators

Shifting consumer preferences and the rise of social media applications such as Yelp and Urbanspoon are driving rapid change in the restaurant sector. These online tools are directing consumers toward the best-reviewed concepts that offer menu differentiation, upbeat atmospheres and enhanced customer experiences. As a result, new chains and local eateries are gaining market share, while many older chains struggle with declining revenue and slowing traffic counts. While this is not a new phenomenon, the pace of change has accelerated in recent years, providing new opportunities for property owners to drive additional traffic.

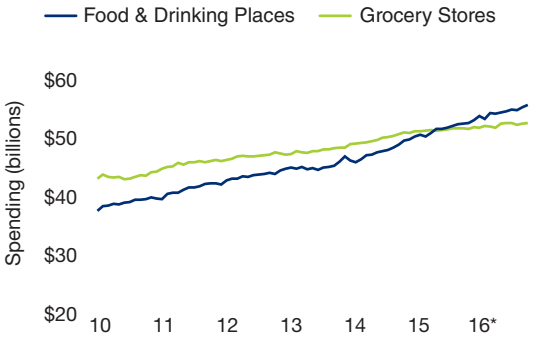
Sales at restaurants and bars advanced 6.1 percent to more than $55 billion over the year ending in September, exceeding the $52 billion spent at grocery stores. The increase in restaurant and bar spending is the fastest rate of growth among all retail categories outside of online shopping, signifying broad strength in the segment. The vast improvement in household balance sheets and discretionary spending underpinned a 33 percent increase in sales at bars and restaurants since January 2010, while grocery store spending advanced 18 percent.

Several restaurant chains in the fast-casual and delivery segment performed incredibly well lately, highlighted by significant growth at Del Taco and Domino's Pizza. Both chains posted same store sales growth in the mid to high single digits during the past 12 months. Additionally, fast-casual chains Jersey Mike's Subs and Wingstop will expand locations by 22 percent and 17 percent, respectively, by the end of 2017, representing the most dynamic growth in the sector.

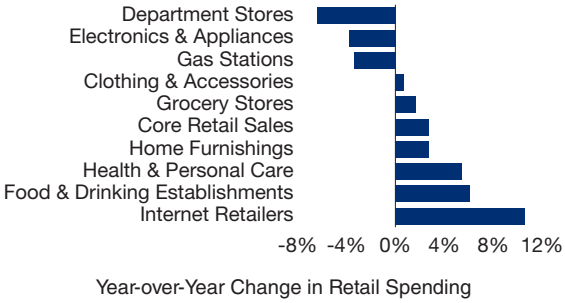
The growth in fast-casual restaurant sales has occurred as the consumer appeal of older competitors fades. Ruby Tuesday recently revealed it will close up to 100 underperforming locations to reduce its store count to less than 500. Bob Evans is also trimming 27 underperforming locations from its footprint of more than 500 units, highlighting the slowdown in traffic at sit-down restaurants. Diminishing sales have even led to the recent bankruptcy filings of Cosi, Don Pablo and the parent company of Souplantation and Sweet Tomatoes, Garden Fresh Corp.

The transforming restaurant environment is having a positive effect on overall retail vacancy, which ended the second quarter at 5.8 percent nationally, down 40 basis points from year-earlier levels. Since the recessionary peak in 2010, retail vacancy has fallen nearly 200 basis points, spurring a rent gain of 8.1 percent during the same time frame to more than $18.80 per square foot at midyear. Improvement in single-tenant net-leased space has been even more pronounced, with vacancy sliding to 5.1 percent by the end of the second quarter.

Dining Out Surpasses Grocery Stores



Restaurant Spending Outstripping Numerous Consumer Segments



* Through September
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Moody's Analytics

Prepared and edited by

Aaron Martens
Research Analyst | Research Services

For information on national retail trends, contact:

John Chang
First Vice President | Research Services
Tel: (602) 687-6700
john.chang@marcusmillichap.com