



VIEWPOINT
U.S. RETAIL

COVID-19 Implications for Reopening Restaurants

CBRE

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EXECUTIVE SUMMARY

- COVID-19 has hit the \$2.5 trillion food & beverage industry harder than any other sector of the economy, with restaurants accounting for 60% of the 16.8 million jobs lost between March 19 and April 9. The National Restaurant Association estimates the industry lost more than \$50 billion in sales in April as a result of closures.
- Some restaurants with preestablished takeout/delivery service and the ability to mobilize for curbside pickup have been able to cover minimum expenses with ongoing off-premises services. However, this often generates only 10% to 20% of total sales and is insufficient to sustain the business full-time or, in many instances, until reopening.
- There is growing concern about permanent closures due to the loss of sales, mounting debt and the uncertainty of loan issuance and forgiveness under the Paycheck Protection Program. A survey conducted by the James Beard Foundation on April 16 revealed that 28% of small and independent restaurant owners don't believe they can survive another month of closure. Furthermore, only one out of five are confident they can sustain their businesses until normal operations resume.
- As the U.S. prepares for phased reopening over the coming months and cautious consumers reemerge from lockdown, restaurant operators and their landlords must prepare for operational and economic challenges.

RESTAURANT REOPENING AMID COVID-19

In preparation for the easing of stay-at-home restrictions, restaurateurs are devising comprehensive reopening plans following guidance from the National Restaurant Association's ServSafe and government agencies that addresses employee, consumer and food safety to meet public health standards. Properly executed, these plans will demonstrate social responsibility to reopen safely and help ease any reluctance by consumers to dine out.

Many operators plan for an extra two to four weeks after easing of restrictions to gauge consumer patterns and fully institute best practices before resuming business.

Employee health monitoring and personal hygiene training are paramount before staff can return to work. The expected measures include wearing gloves and masks, taking temperatures and staggering the shifts of customer-facing staff. However, restaurant owners may wrestle with how to pragmatically enforce social distancing by kitchen staff while meeting the volume of resumed dine-in and off-premises services. Service dry runs will be conducted to ensure smooth execution of all the new safety measures by staff before opening to the public.

Safety measures likely will include provision of hand sanitizer, disposable menus, single-use cutlery and plates, digital ordering, contactless payment and frequent sanitization of high-touch surfaces. Restaurant owners also may require that customers wait in outdoor queues or in their cars to avoid overcrowding. Many restaurateurs will reopen outdoor seating and patios first, followed by in-room dining and bar seating.

Physical barriers, such as plexiglass partitions around hostess stands and registers, will provide additional protection. Unless required by public health officials, the use of telethermograph systems to take temperatures of customers may be controversial due to privacy concerns.

Efforts to maintain social distancing likely will require up to six feet between tables and limiting the number of guests per table, resulting in temporary reduction of seating capacities by as much as 50%. Potential reductions in seating, dine-in operating hours and bar-service hours will mean significantly less revenue, increasing the pressure to reduce food and labor costs. Many restaurant owners will limit their menus to higher-margin offerings, thus requiring less kitchen staff.



IMPLICATIONS FOR LANDLORDS

Landlords must prepare for some restaurants not reopening. Those that do reopen in this pre-vaccination environment will face significant economic and operational challenges, exposing landlords to a potential second wave of fallout if sales do not adequately rebound and operators are unable to remain solvent.

Beyond rent deferrals during closures, restaurant operators are seeking longer-term landlord assistance. As they work diligently to recover sales and generate supplemental revenue to help stabilize their businesses, restaurants are seeking restructuring of rents, modification of leases and permission to shift uses (i.e., changing menus or establishing a market component).

Landlords can also support restaurants by providing additional marketing resources, infrastructure for curbside pickup and space for the storage of more takeout containers, cleaning supplies, tables and seating during reduced capacities.

The restaurant industry's revival will require collaboration, communication and compromise with landlords during the reopening and long-term stabilization phases.

WHAT'S NEXT?

Food & beverage is perhaps the most dynamic segment of retail, but it will reopen cautiously as a more sterilized, controlled environment and will not immediately return to the active, social experience it once was pre-COVID-19.

Restaurant owners must explore new ways of generating revenue as seating capacity is limited and future virus-related shutdowns are possible. More restaurants will offer drive-thru only where available, curbside pickup and no-contact home delivery for expanded food service, including picnic packs and family meals. There may also be an extended relaxation of liquor laws permitting restaurants to provide takeout in select markets.

During the initial reopening phase, restaurateurs likely will forego any major capital expenditures on structural changes that may become outdated with new guidelines.

However, restaurant layouts may eventually change for the long term to maximize dining and bar areas that provide for closer-knit socializing while maintaining social distancing. New kitchen layouts will incorporate enhanced safety measures, and many will have dual lines to accommodate increased off-premises dining demands.

Food & beverage has been a capital-intensive anchor segment of the retail sector. Deal structures will further evolve into partnerships between restaurants and landlords for long-term stabilization. Creative new lease structures and management agreements are being struck for ongoing capitalization and operation of key tenants as occupancy thresholds are being reset.

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