

THE REAL DEAL

Fast food good for landlords' fiscal health?

Building owners turn to burgers and fries to improve their financial well being

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By Catherine Curan



Jason Pennington of Ripco Real Estate

Mayor Bloomberg may have declared war on high-calorie, sodium-filled diets, but New York City's landlords seem to think fast-food joints are good for their health -- their fiscal health, that is.

Fast-food restaurants are under construction all over the city, gearing up to serve greasy burgers, fried chicken and burritos, as well as accompanying sugary sodas, which the Bloomberg administration portrayed as globs of fat in a glass in a recent public awareness campaign.

In this tough retail climate, food and beverage leases in the city are rising faster than any other category. While they generally make up the largest portion of leases on *The Real Deal's* monthly Deal Sheet, last month the category saw 19 deals for over 70,000 square feet of retail space. That's more than double the second most active category: fashion.

And the greasy diet that landlords have signed up for is, in many cases, long-term,

with 10- and 15-year leases.

In addition to stalwarts like Subway and Dunkin' Donuts, newer companies like the burger chain Checkers are entering the market. Also, fast-food giants Wendy's, McDonald's and Burger King are taking locations where asking rents have fallen to the fast-food-friendly level of \$100 per square foot, or less, in some corridors.

"Fast-food guys like Wendy's and McDonald's are now doing what they call in-fill, secondary and tertiary spots," said Timothy King, founder of Brooklyn-based CPEX Real Estate.

King recently represented a Wendy's franchisee on a 3,400-square-foot space at 291 Livingston Street in Brooklyn. The chain opened last month just a few blocks from another outpost run by the same operator, but New Yorkers' demand for cheap lunches during the recession gives the franchisee confidence that the newest location won't cannibalize the other store.

With retail vacancy rates topping 10 percent in many key retail districts two years into the recession, fast-food restaurants not only have their choice of spaces, but also have plenty of leverage with landlords. Many of them are using that leverage to score prime locations on avenues rather than side streets, and are even getting concessions to do so.

"Now that we've found a lot more vacancies and prices have come down, [fast-food operators] are seeing opportunities that weren't open to them in the past," said Joseph Isa, a managing director at Winick Realty Group. "Either rents were too high or it was a main avenue -- or landlords, if you said 'Dunkin' Donuts or Subway [is interested],' it wasn't their first choice."

Lower rents are fueling the chains' appetites; fast-food chains in Manhattan typically like to spend \$100 per square foot or less, said Isa, and now they are able to find those types of deals. On Third Avenue in Murray Hill, for example, rents have fallen 50 percent from their pre-recession level of \$200 a square foot.

Rents are down near Fifth Avenue, too. Isa recently did a deal for Subway at the

very high-profile 666 Fifth Avenue (on 53rd Street, not on the avenue), with an asking rent of \$115 a square foot. He declined to provide an exact asking rent, but noted it was "a little less" than the ask.

Jason Pennington, a retail broker at Ripco Real Estate, just closed a deal at 1123 Broadway at 25th Street for Hill Country Chicken, a fried chicken joint by the owners of the popular Hill Country barbecue restaurant on West 26th Street. He had talked to the landlord about bringing another food establishment to a different space in the same building two years ago, but the landlord wasn't interested.

This time around, Pennington was able to negotiate a 15-year deal for Hill Country for 2,700 square feet with sidewalk seating at 1123 Broadway. The landlord was flexible on rent and contributions towards the build-out, and was amenable to Hill Country's renovation plan.

"That was the irony of the whole deal -- I had talked to that landlord about the space probably two years prior ... and they were like, 'No chance, no food,'" said Pennington. "And then times changed."

David Taylor, vice president of operations at Kew Management, the building's landlord, said he expects success from an inexpensive restaurant, which will cater to the lunch crowd in Madison Square Park with pies and picnic baskets as well as its signature fried chicken.

But Taylor also acknowledged the new recession retail reality. He said: "Honestly, given the environment ... one of the few people doing deals are restaurants."