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The Ups and Downs of Development in Major Metro Areas

Opening a full-service restaurant in a major metropolitan area delivers a different set of challenges than opening one in a smaller city or rural area.

The Melting Pot is planning its first foray into New York City, and considering less costly real estate such as basements, second-story sights, and multi-level units.

Most notably, property purchase and lease costs are an increasing trial in attractive urban locations, a fact borne witness when Danny Meyers announced that skyrocketing rent costs is forcing the 2015 closing of his popular and critically acclaimed Union Square Café in New York City, after nearly 30 years in its current location.

In urban areas such as Washington, D.C., and Chicago, as well as New York, median occupancy costs (such as rent, taxes, and insurance) of a typical fine dining restaurant are close to 7 percent of sales, reports Annika Stensson, the National Restaurant Association's senior manager of research. "If it goes significantly higher than that, cost management will have to tighten in other areas, which in turn can be tough on the typical 4.5 percent profit margin of such a restaurant."

Restaurants in these major metro areas, which are denser in both population and restaurant quantity, must contend with enormous market competition.

"Competition from other table service restaurants is more of a challenge this year than it was last year," Stensson says. "And, nearly two in five believe attracting new customers will be a bigger challenge this year. In an environment with more locations in a condensed area, that competitive intensity is highly likely to heat up."

In New York, the challenges center around real estate and cost of doing business, acknowledges Dan Stone, vice president of franchise development for The Melting Pot. The fondue specialist is looking for a franchise partner to open its first New York location, and is considering Manhattan or a neighboring borough.

“Lease rates are easily upwards or in excess of $100 per square foot,” Stone says. “Add union construction rates to the development cost, high labor costs, and high taxes, and you have a recipe for a high cost of doing business. The flip side is the revenue potential and marketing power of being in New York City is tremendous given the density of consumers and tourists. The immense competition makes site selection even more critical in New York City than most markets.”

The Melting Pot is considering a variety of locations to avoid paying top dollar for sites, including basements, second-story sites, or multi-level locations. “With little direct competition, we have a competitive advantage when entering a crowded restaurant space such as New York City,” Stone says. “Having a franchisee experienced with building restaurants in the city will pay dividends during the development phase and the ongoing operations that make New York City a challenging market for a franchisee new to doing business in the city.”