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Take Out Restaurants
In A Post-Covid World?**



WILL TAKEOUT TAKE OUT RESTAURANTS IN A POST-COVID WORLD?

The ease, convenience and safety of drive-thru and walk-up services has helped both restaurants and consumers navigate this pandemic, and these trends show no signs of slowing down.

By Nellie Day

California is largely credited with inventing the drive-thru in 1931. The first restaurant of its kind was a Los Angeles franchise of the Pig Stand, a barbecue sandwich outpost that allowed drivers to pull up to a window to order their food, rather than parking and waiting for a carhop. The state is also responsible for revolutionizing the drive-thru, which In-N-Out did when it opened its first location in Baldwin Park in 1948, complete with the first intercom system.

The drive-thru enjoyed a great run

in car- and speed-obsessed California until the past 20 years or so when some municipalities began restricting drive-thrus. Many cited the noise, traffic, obesity epidemic and “low-brow” nature of ordering fast food from your car as the reasons why.

Yet 2020 changed everything for drive-thru and walk-up services.

“Drive-thrus — especially during the time of social distancing — have become lifelines to communities looking for a sense of normalcy as well as a safe way to dine out,” says Adam Chandler, author of *Drive-Thru*

Dreams: A Journey Through the Heart of America’s Fast-Food Kingdom. “They have the unique status of being both iconic and commonplace as a way for millions to eat quickly and cheaply everyday.”

A DRIVING TREND

The drive-thru business really took off when the pandemic did, with market research firm NPD Group noting that U.S. fast food drive-thrus generated \$8.3 billion in revenue in March 2020 alone. This was compared to \$300 million in March 2019.

“When the global pandemic hit, the drive-thru became a mission-critical sales channel for preserving store revenue and it continues to prove to be extremely effective,” says Bill Asher, executive vice president of Hanley Investment Group Real Estate Advisors in Corona del Mar. “COVID-19 pushed many consumers to favor drive-thru lanes as a safer and more convenient option for both the consumer and the employee.”

Panera Bread’s CEO noted the QSR’s drive-thru sales have doubled during the pandemic, while Wendy’s said its drive-thrus have accounted for 90 percent of sales since March.

This car-centric trend has become so popular that many fast food and QSR outlets are embracing the drive-thru-only approach. This includes Starbucks, Chipotle and Dutch Bros. Coffee.



Eggies was built out of a desire to satiate would-be patrons of Breakfast Republic, an adjacent sit-down restaurant in the Pacific Beach area of San Diego that often boasted long wait times.



Chipotle has found success with its "Chipotlane" concept, a drive-thru model that accommodates mobile orders both directly from consumers and via online delivery apps. The company is testing its first Chipotlane-only store now, with plans to include a Chipotlane in 60 percent to 70 percent of its future locations.

"Starbucks is betting that by flooding the market with new types of stores, including ones that are drive-thru-only, it can achieve greater market share," Asher states. "Starbucks has a particular focus on high-volume, high-margin, suburban drive-thrus."

So far, this bet is paying off. Hanley arranged the sale of an 800-square-foot, drive-thru-only Starbucks in San Pedro this past August for more than \$3 million (the 0.30-acre site worked out to \$3,844 per square foot). This represented a 3.58 percent cap rate, the lowest cap rate for a Starbucks drive-thru only in California in 2020. According to Starbucks, it seeks out infill spaces on high-commuter-traffic routes with additional pedestrian traffic. The coffee giant also looks for spaces with convenient ingress and egress, as well as drive-thru signage and wayfinding that is clearly visible from the main path of traffic.

Though these features are also important to Aaron Harris, vice president of real estate and construction

at Dutch Bros Coffee, his big focus is on fitting as many cars through his drive-thru-only locations as possible without inconveniencing the neighborhood.

"Our drive-thrus require a large lot that allow line stacking of at least

24 cars without interrupting traffic or neighboring businesses," he says. "The landlords we work with are willing to accommodate our drive-thru concept, especially now as it's really the business model of the future. We don't use static order points, so we're able to alleviate congestion and noise complaints that can come with standard drive-thrus."

Grants Pass, Oregon-based Dutch Bros is adding new locations in Northern and Central California and entering Southern California, where it recently opened in Apple Valley and Bakersfield. Another location is set to open in Indio in May.

The pandemic has clearly been a boon for drive-thru business, but Tabassum Zalotrawala, chief development officer at Chipotle, believes there's more to its recently popularity than that.

"Without a doubt, we've seen a dramatic difference in the sales at Chipotle locations that feature a drive-thru," she says. "Our digital business was already on the rise before the pandemic, but with folks being limited to their homes, our loyalty program, paired with drive-thrus, has definitely changed everything for us."



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The Newport Beach-based QSR had eight million active loyalty members in March. By October, it boasted 17 million users who had been active in the past 90 days. Chipotle also saw its digital sales triple year over year in the third quarter of 2020. These factors, combined with the popularity of online food delivery apps, has caused Chipotle to get creative.

It opened its first digital-only store 40 miles outside Manhattan in November. This location only accommodates digital orders for pick-up and delivery. The company is also experimenting with a digital order, drive-thru-only concept, which will launch in Kansas City in 2021. Both of these stores are still in test pilot mode, though Chipotle's stance on stores with drive-thrus — known as Chipotlanes — remains bullish. The chain plans to include the Chipotlane concept in more than 60 percent of its new-store openings going forward.

"In the past two years, we've grown to more than 150 Chipotlanes," Zalotrawala says. "It has become very clear that that access point provides a meaningful percentage of our business. We know we want to have Chipotlane as a type of restaurant. It enables us to get into trade areas where real estate isn't available or occupancy costs are too high."

While some fast food and QSR establishments are exploring (or have found success with) the drive-thru-only model, others are seeking to increase the number of cars they can serve at one time.

"We're now seeing triple drive-thru concepts with QSR operators already known for traditional single and double drive-thru sites," notes Jimmy Slusher, vice president of CBRE National Retail Partners - West in Newport Beach. "During the pandemic, CBRE's National Retail Partners - West sold two drive-thru locations in Orange and Los Angeles counties that featured a drive-thru-only or



A Carl's Jr. with a double drive-thru in Anaheim received five bids and sold over asking during the pandemic. The sale, handled by CBRE's National Retail Partners West, resulted in a 3.75 percent cap rate.

tenant-modified increased drive-thru lane. Both locations saw incredible investor interest."

This includes a Carl's Jr. in Anaheim with a double drive-thru. The asset received five bids and sold over asking, resulting in a 3.75 percent cap rate. The second sale involved a 600-square-foot Taco Bell in Downtown Los Angeles that offered drive-thru and walkup service only. This listing received nine bids and also sold over asking, representing a 3.2 percent cap rate.

"Operators with drive-thru and takeaway-only locations benefit from increased sales volumes with a relatively similar operating cost due to increased customer access, operating efficiencies with dine-in business and ideal product transfer to third-party delivery services," Slusher continues. "Landlords with existing freestanding drive-thru availability or the flexibility to offer a drive-thru or takeaway concept benefit from a wider range of potential tenants willing to pay a premium over traditional inline retail."

A TAKEAWAY CONCEPT

Landlords and traditional restaurateurs have also found success with the revival of the takeaway window.

Like the drive-thru concept, a takeaway window allows guests to place or pick up an order, then be on their way. The footprint is small, the menu is typically limited and the location is extremely pedestrian-friendly.

Jeff Goodman, CEO of American Gonzo Food Corporation, wasn't thinking about a global pandemic when he created The Win-Dow, a takeaway-only concept attached to the company's American Beauty Steakhouse in Venice.

"We wanted to do something for lunchtime that was really oriented to the neighborhood," he says. "Something that would be a delicious, casual, fun and an everyday kind of experience."

The Win-Dow soon took off after a couple write-ups in LA foodie blogs. Goodman notes the concept's sales grew weekly, eventually giving the team confidence they could expand the walk-up concept outside of their steakhouse.

"When COVID-19 shut down other restaurants, we were able to continue operating safely through The Win-Dow," he says. "We decided that we could open another standalone now, which we did on the Venice Board-



The Win-Dow was originally a takeout window attached to American Gonzo Food Corp.'s American Beauty steakhouse in Venice. Its casual lunchtime menu was so popular – and such a great solution during the pandemic — that the owners have opened a second stand-alone location with a third in the works.

walk at the end of the summer.”

A third location is also in the works, though the details are under wraps. What Goodman will say is that he and his partners seek out locations with good foot traffic, ample outdoor space for nearby dining and an edgy, stylish neighborhood. Based on his and others’ success, Goodman believes we’ll see the addition of similar walk-up concepts in the future.

“We are already seeing restaurants punching holes in walls to create take-away opportunities, at least in Venice,” he notes. “I do believe this will be a part of many operators’ future growth plans and that, when appro-

priate, extra space should be carved out to ensure you execute well. For us, an additional 500 square feet does the trick.”

While Goodman initially created The Win-Dow to accommodate the daytime crowd, Johan Engman, CEO and founder of San Diego-based Rise & Shine Restaurant Group, created one of his walk-up concepts to pacify the long lines at his sit-down breakfast joint.

“At many of our Breakfast Republic locations, we are often on a wait,” he explains. “Eggies was conceptualized after seeing so many guests choose to not wait. Prior to Eggies, this meant

we would ultimately lose those guests altogether. This, coupled with the underserved — in my opinion — take-out breakfast market, was how Eggies came about.”

Engman purchased shipping containers and converted them into the Eggies takeout windows that sit adjacent to existing Breakfast Republic restaurants. The takeaway concept can now be found in San Diego’s Pacific Beach, East Village, Liberty Station and La Jolla (coming soon).

Engman’s next walk-up concept had been right in front of him the whole time, though it took him a while to realize it.

“California Taco Club is housed in an area of the existing Breakfast Republic Pacific Beach building in the back corner, which was being underutilized,” he explains. “There had been a window there for years and years, and it finally hit me that this would be the ideal set up for us to add a takeout window that paid homage to the quintessential California surfer.”

Goodman and Engman aren’t the only ones to find success with walk-up windows in this pandemic. There’s APL Hole in the Wall in Hollywood, Belle’s Bagels in Highland Park, Es Todo in Downtown Los Angeles, MacLeod Ale Brewing’s new take-away window in Van Nuys and G.E. Chano’s in Lincoln Heights, which also offers a drive-thru.

“The need to pivot and keep up with the seemingly ever-changing regulations might influence more concepts to adopt this set-up,” Engman adds. “It would essentially be a means to survive in this COVID-stricken dining climate.”

Though the takeout concept may take off, Engman cautions restaurateurs to grow these add-ons organically.

“I would not recommend taking on larger spaces simply because someone might eventually add a take-out window to their existing concept,” he



continues. "If it makes sense right off the bat, that is one thing, but to lease a larger space solely for the possibilities it might hold in the future is a risky game. Adapt and grow as you see fit – flexibility is an asset. I've seen enough in the industry to know that biting off more than you can chew because you anticipate growth can really hurt you down the road if you're not careful. Be strategic and set attainable goals."

Goodman adds that restaurateurs should also avoid committing to excessive rent or overhead, which provides a little wiggle room as you evolve and "figure things out."

Much like the takeaway windows, Chipotle and Dutch Bros are part of a larger trend that emphasizes digital ordering and drive-thrus over sit-down experiences. In addition to these tenants, the drive-thru-only concept is being explored by KFC, Arby's, Wendy's, Panera Bread, Burger King, McDonald's and El Pollo Loco.

Asher has some advice for these players as well.

"Drive-thru line stacking has dramatically increased during COVID, putting more pressure on tenants to be more efficient with completing or-



Dutch Bros. is expanding its "party in the parking lot" concept to Southern California. The drive-thru-only coffee chain opened in La Quinta in late December. Cars began lining up at 1 a.m. the morning of the grand opening.

ders and adding employees to help expedite the ordering process during the lunch and dinner rush," he says. "In the majority of cases, drive-thru customers are more time-constrained

than walk-in customers and expect a faster transaction. With more competition comes higher expectations from consumers. The other challenge is finding real estate sites that can fit a tenant's site and demographic requirements. And, with more tenants competing for the same site, it can create a bidding war."

Still, the novelty and ease of walking or driving up to an establishment, grabbing your order and going is clearly attractive to millions of Californians, especially during lockdown. With that in mind, creativity and convenience are likely to prevail, even in ordinance-drenched cities that have previously tried to discourage the ease these concepts provide.

"The response has been very positive," Engman says. "Overall, it makes sense to make the best use out of the square footage we're already paying for. Landlords, for the most part, applaud the innovation and desire to create revenue during this challenging time." **CC**



CBRE's National Retail Partners West also sold a 600-square-foot Taco Bell in Downtown Los Angeles during the pandemic. The location, which only offered drive-thru and walkup service, received nine bids and sold over asking, representing a 3.2 percent cap rate.