



## SOUTHEAST

# Higher real estate costs have many Southeast restaurateurs predicting conservative growth

BY JACK HAYES & ELISSA ELAN

**E**xpecting profits to be pinched in the months ahead by exorbitant hikes in development and operating costs, some foodservice players in the Southeast are projecting 2007 to be a year of more conservative growth.

In fact, operators in concept-saturated major markets like Atlanta; Nashville, Tenn.; Charlotte and Raleigh, N.C.; and Orlando and Tampa, Fla., see a further squeeze ahead as competition could force menu price cuts in the face of shrunken profits.

"We saw some flattening back in October, and that got our attention," says Nick Vojnovic, president of Tampa-based Family Sports Concepts, parent company of the 200-unit Beef 'O' Brady's family-oriented casual brand, and chairman of the Florida Restaurant and Lodging Association.

The caution expressed by Vojnovic and others slightly contradicts more positive projections made by other operators in the region, as well as by the National Restaurant Association in its 2007 Restaurant Industry Forecast. The NRA projects foodservice sales of \$99.16 billion for the 12-state region, an increase of 5.9% from 2006, the second highest growth rate among the six geographical regions.

However, operators' concern is in concert with recent reports of softening same-store sales by casual-theme operators across the region.

Believing the extended pace of casual development in major markets is beginning to take its toll, Vojnovic and his team scaled their same-store sales growth projection back to 2 percent to 3 percent in 2007, compared with 5 percent to 6 percent in 2006.

Like many operators across the region, but particularly those in Florida, where a statewide minimum-wage increase took effect in 2005, Vojnovic speaks of "multisystemic" inflation.

He enumerates that utility costs rose in many corners of the region during 2006, as did property and casualty insurance rates after hurricane-related losses along the Gulf Coast in 2005. A tight labor supply also is driving up wages in key markets regionwide, and competition is growing.

"Still, there's good opportunity in undeveloped markets where housing projects are underway or completed and where new strip centers are going in," Vojnovic says. "We'll continue growing this year — it just won't be as fast."

According to Jeff Warne, president of the O'Charley's chain, owned by Nashville, Tenn.-based O'Charley's Inc., his chain also is cautious about growth in 2007.

With 236 O'Charley's in 17 states, Warne says he sees increased real estate costs as a major factor in slowed expansion.

"Real estate prices continue to defy gravity because everyone is competing for the same sites," he says.

O'Charley's Inc. also operates the 113-unit Ninety Nine Restaurant and the 10-unit Stoney River brands.

"The costly real estate market is also one of our key concerns looking ahead," says Gary Bryant, president and chief executive of the Cary, N.C.-based Bear Rock Cafe group, which

**Bear Rock Cafe, based in Cary, N.C., expects to open 10 locations in 2007, with units planned for Florida, Virginia and North Carolina.**



### 2007 SOUTHEAST FORECAST

STATE	RANKINGS		EATING-PLACE SALES* (\$000)		
	BY SALES	BY % CHANGE	2006	2007	% CHANGE
Alabama	8	7	\$4,982,877	\$5,232,021	5.0%
Arkansas	10	5	\$2,872,808	\$3,027,940	5.4%
Florida	1	1	\$24,010,645	\$25,715,401	7.1%
Georgia	2	2	\$12,587,345	\$13,392,935	6.4%
Kentucky	7	10	\$5,073,595	\$5,306,981	4.6%
Louisiana	9	11	\$4,843,143	\$5,050,358	4.3%
Mississippi	11	9	\$2,716,222	\$2,846,601	4.8%
North Carolina	3	3	\$11,183,355	\$11,865,539	6.1%
South Carolina	6	6	\$5,563,851	\$5,858,736	5.3%
Tennessee	5	8	\$7,759,537	\$8,139,755	4.9%
Virginia	4	4	\$10,198,459	\$10,789,969	5.8%
West Virginia	12	12	\$1,856,212	\$1,932,317	4.1%
<b>Total Region</b>			<b>\$93,648,049</b>	<b>\$99,158,553</b>	<b>5.9%</b>

\*Includes managed services and nonpayroll food-and-drink places

SOURCE: NATIONAL RESTAURANT ASSOCIATION/NATION'S RESTAURANT NEWS

opened four locations last year, including a unit in Arlington, Va. The company expects to open 10 units in 2007, including stores in Florida, North Carolina and Virginia.

"Rising occupancy costs [force operators] to re-evaluate footprints and make sure they're maximizing square footage," Bryant says. "This is a trend we see continuing."

Still, Phil Greifeld, chief executive of Huddle House, the 440-unit, Decatur, Ga.-based family-dining chain, remains optimistic about 2007.

"Some in the industry are bemoaning fallen traffic, but I don't have those concerns," Greifeld says. "The Southeast seems to be in a good place businesswise. Interest rates are in check, and gas prices have stabilized. And corporate earnings look good, so I'm bullish."

Greifeld acknowledges that soaring real estate costs are an issue. Still, his group, which expects to end fiscal 2006 in April with 42 to 44 new restaurants, plans to add another 45 to 46 in fiscal 2007.

Huddle House isn't the only family-dining brand that sees potential in 2007.

because the first brand to open is always a winner."

Grill-buffet leader Golden Corral Corp. of Raleigh, N.C., also is expanding within and beyond its southeastern base.

"We're opening a new store about every nine business days," says Larry Tate, senior vice president of franchise sales for the 485-unit group.

Maitland, Fla.-based Home Restaurants LLC, parent of Golden Corral franchisee Metro Corral Partners, has three new Central Florida restaurants under development, according to chief executive Eric Holm.

"Our newest starts will open this year in [the Florida towns of] Celebration, Clermont and Kissimmee," Holm says.

In the upscale-steakhouse segment, Heathrow, Fla.-based Ruth's Chris also is upbeat about prospects in the Southeast, particularly Florida. With 90 U.S. units at the end of 2006, Ruth's Chris is operating a third of them in the region, including 11 in Florida.

"We see the Southeast as a prime growth region. More than half of our 15 to 17 planned openings this year will be here," says Craig Miller, chairman and chief executive of Ruth's Chris.

Meanwhile, aggressive quick-service operators are looking at design and menu upgrades in a bid to lure back guests from hoards of fast-casual competitors that are relentlessly invading their markets.

In Alabama, a franchisee of 340-unit, Charlotte, N.C.-based Bojangles' Famous Chicken 'n Biscuits says his fiercest competition is not from fast feeders, but casual diners and fast-casual concepts.

"The dinner segment here has gotten extremely competitive," says Justin Haddock, who operates a Bojangles' in Athens, Ala., and plans to open two others in 2007 in the Alabama towns of Huntsville and Florence.

"All of our units will have oak trim, tin ceilings, stainless steel countertops and ceiling fans," Haddock says, noting that Bojangles' corporate officials have no known plans of adopting his modifications, which include classical music in the dining rooms.

Still, Bojangles' is anticipating growth in 2007. The company operates in 15 states and plans to open between 40 and 50 new stores in 2007, according to chief executive Joe Drury. ■