

<https://www.austinchronicle.com/food/2020-01-10/young-restaurateurs-learn-to-share-in-austins-real-estate-market/>

Young Restaurateurs Learn to Share in Austin's Real Estate Market

Traditional restaurateuring gets a millennial makeover

BY LINA FISHER, JANUARY 10, 2020, FOOD

One of the most common sayings about new restaurants is also the most discouraging for industry hopefuls: They fail within the first couple of years. The startup cost alone is likely much more than many plucky millennials can afford, not to mention the overhead, especially in a competitive, growing city like Austin. But every generation does it differently, and millennials have been marked as the DIY generation – wanting everything customized, wanting it now, and not afraid to do it for themselves. Which is exactly how they're making it work in the food and beverage industry: through pop-ups, food trucks, and sharing space.

One way to test a concept virtually risk-free is through pop-ups. Creature Coffee, an online coffee subscription that sources from sustainable roasters around Texas and delivers to your door, started out with a measly \$1,000 while owner Michael Craig was "gloriously unemployed." It didn't go very far. "I was like, OK, we need to advertise. So I started doing pop-ups. I wanted to learn about people's brewing habits." He found that there was an audience for what he was doing – "a Texas coffee club, if you will" – which enabled him to build his company to where it stands now, catering to Formula One, IBM, large weddings, and other high-end events.

Tom Rosen of Rosen's Bagels went with a similar model: "The economic reality of starting a food-based business is very expensive and very risky. So from the get-go, I wanted to do this on a small scale to see if people beyond my friends would actually buy and support the bagel company. I didn't want to necessarily put all of my life savings into testing that theory."

After selling out at a pop-up at Wright Bros. Brew & Brew, Rosen started selling to them daily, and now has his bagels in 18 different cafes and restaurants around town. He also shares a space with Tiny House Coffee in a WeWork on Barton Springs Road.

An iconic Austin landmark, the food truck, provides the most commonly identifiable starting point for green restaurateurs. To operate one, you only need a mobile vending permit rather than the astronomical permitting and building costs of a brick-and-mortar. Eric Mann of LeverCraft Coffee cites low costs as his reason for operating out of an Airstream trailer next to taco truck Trill Taqueria in the lot of his girlfriend Kristina Modares' real estate company, Open House. Mann took DIY to the next level, building out the old trailer himself into an elegant cafe.

"To buy a trailer that's outfitted like that would've cost probably \$70,000-100,000, and I think my cost was like \$25,000. And it was just materials and me not paying myself."

Brian Murphy of Ranch Hand, a health-conscious protein and grain bowl company that Murphy started as a class project at UT, found that the food truck route was affordable and convenient. "The food truck itself was not super expensive, but I think our long-term plan was to open up restaurants, and to open up a restaurant in a good location is just, like, ridiculously expensive." Native Hostel, a cool, affordable hostel smack in the middle of Downtown, had an extra prep kitchen and reached out to Ranch Hand to fill it. "To us, it was a great opportunity because they have existing people that come here every day or for events, and we can kind of tag along and use the assets they already have."

What was serendipitous for Ranch Hand was a calculated move by Native. Co-owner Antonio Madrid brought on Creature Coffee as Native's on-site cafe around the same time that Ranch Hand took over their food program. Madrid says the goal is for Native to be a community hub with myriad amenities. "What's beautiful about this place is that it has that sort of mashup of different experiences, and from a Native brand perspective, that was the goal. I just tend to think more creation in a space is generally a good thing."

Native's multifaceted atmosphere speaks to the short millennial attention span; Craig explains, "Whatever vibe you're in, whether it's work, play, we've got that for you. You wanna do tequila slammers, great. You wanna get a coffee in the morning and work all day. ... There's that element to covering all the aspects of what someone wants to do."

Sharing a space not only cuts down on expenses for businesses like Creature Coffee and Ranch Hand, but also provides them with a built-in customer base. The businesses support each other through cross-promotion and often collaborate on events at the hostel. Madrid says that since all the businesses align so well, things have been running smoothly in the shared space.

But even so, he foresees possible issues with a shared model: "From a traditional customer service standpoint, somebody comes to this space, you manage the service and their experience from the point of entry all the way through to the point of departure. So it gets a little bit trickier when they're going to a barista who works for Michael, and food is being run by Brian's crew, and then my crew is taking drink orders but also taking food orders, and every now and then iced coffee."

This necessary ceding of control for a shared space is something that led Deepa Shridhar, chef and owner of the popular Puli-Ra, to shift gears in late 2019 to her new supper club concept, 33Tigers. "What Puli-Ra couldn't achieve was that it was always in partnership with some other company, some other entity. What 33Tigers is about is essentially – we want to be in charge of it all. It doesn't reflect on the people that I've partnered with. It's mostly [that] when you become passionate about an experience, you start to realize how much further you can go. Instead of having a slice of the pie, what if you can own the whole pie? If that pie can be whatever the fuck you want, then I want that. If you're passionate, you're going to outgrow any space – not because of the space but because of what you're doing."

But establishing a stand-alone brick-and-mortar can be difficult for so many reasons that going it alone is almost unrealistic to many of these entrepreneurs. Zoning and permitting are relatively easy for food trucks, and sharing a space is basically like renting an already built-out room, while obtaining the correct permit and equipment for a restaurant can vary in expense. The timeline for obtaining such permits can also be a deterrent for those starting out without a huge amount of capital. Blake Thomas of Tiny House Coffee says, "It's a very competitive real estate landscape. If you don't say yes immediately, someone is right behind you ready for it, and it is so scary for us as small food companies to agree to a space not knowing with 100% certainty that the city is going to greenlight our operation."

"This city is growing so fast that you're basically required to sign a three-to-five-year lease on any commercial property," says Mann. "What if I wasn't sure the business was gonna make it after three years, and then it's failing after year one, and now you're stuck with this two-year lease? What do you do, file for bankruptcy?"

Specialized equipment for different kinds of food production can also present a roadblock. Thomas explains, "So you sign a lease and come to find out you don't have a grease trap, and you go to the landlord and they're like, 'Nope, we're not gonna let you do a grease trap,' and then all of a sudden you signed a five-year lease and the city says you can't do what you originally wanted to do. And you're like, 'How is this possible?'"

Rosen concurs: "It is a reality that you can buy expedited permits and kind of do things if you have deeper pockets. But we are not able to do that. That's why we've done a route that's kind of conservative."

Though these types of work-arounds would seem to be a reaction against the difficulties of a traditional permitting and building route, many of these businesses wouldn't change it if they had the chance. "It does seem like the natural progression in Austin is to start with a food truck and move to a brick-and-mortar," says Mann. "I could see that happening, but it would also be in probably some sort of shared space situation, where we would collaborate with maybe a brewery or a kombucha company or somebody who's also doing really fun things just to really make the best use out of the space."

Brian Murphy cites creativity and an immediate return on investment as his main impetus for this kind of model: "It's so much easier now to reach customers – [through] catering, online orders, serving people in the hostel – you can be really creative with how you're investing your money. Whereas with a coffee shop or restaurant build-out, if you're operating at maximum capacity and everything goes really well, you're still looking at a four-to-six-year payback. Which is like, whoa: Do you wanna sit around that long? Who knows what the world's gonna look like in four to six years? You can be really creative with how you're reaching people and see an immediate profit on customer one." Murphy is currently launching a line of canned cocktails with the money he saved from not opening a restaurant. "And that, to us, is a lot more exciting. The potential to reach more customers and do more creative things."

Mann says sharing space with other business owners is motivating. "A really incredible thing about Austin is that the entrepreneurial people tend to gravitate toward each other and they form this supergroup." Kristina Modares adds, "It's more fun and you save money that way. You can actually quit that day job if you're collaborating with other people and sharing that expense."