Restaurant scene could be another bubble ready to burst
By Dirk Perrefort Updated 10:13 am, Monday, February 15, 2016

There’s another bubble in Fairfield County that looks ready to burst. And it’s not in the real estate market this time — at least not directly.

With more restaurants than almost anywhere else in the country and a pipeline of openings, the dining-out landscape, most experts agree, is oversaturated.

“In downtown Stamford alone there are more than 100 restaurants,” said Steve Matsis, the senior managing director of Group with nearly three decades of experience in the industry. “It’s pretty obvious that not all of them are going to survive. The odds at this point are stacked against them. There are a lot of restaurants out there that are still open, but they are hanging on by their fingernails just trying to survive.”

Linda Kavanagh, president of the New England Culinary Group, pointed to a study by Trulia economist Jed Kolko showing Fairfield County has more restaurants per capita than anywhere else in the United States except for San Francisco.

According to Kolko’s research, southwestern Connecticut has about 27.6 restaurants per 10,000 households, compared with 39.3 in San Francisco. And the culinary group notes that the restaurant industry also employees more than 147,000 people throughout the state.

“A lot of people when the study first came out viewed it as a positive for the county,” Kavanagh said. “But really the opposite is true. There are too many restaurants and not enough customers for the restaurants we already have. The market in Fairfield County is oversaturated.”

Kavanagh and Matsis said the reasons for the restaurant explosion are many: a desire by restauranteurs to expand to several locations; trend-setting millennials who aren’t regular diners at any one or two places; inexperienced people opening restaurants; and declining rents in strip malls.

“It seems like everyone wants to have a restaurant these days,” said Kavanagh. “But to have good food and a good atmosphere is just not enough to survive these days.”

Many new restaurants spend most of their money on the physical space, staffing, and food and drink, leaving little working capital left to properly advertise and market the business through traditional ad campaigns, social media and attendance at off-site events, Kavanagh said.

“Just to say you’re going to build it, doesn’t mean they are going to come,” she said. “You need to play the game and let people know where you are.”

Higher costs
A growing trend in the industry, Kavanagh said, is rapid expansion into new locations.

“It seems like one restaurant just isn’t enough these days; most people want two, three or four,” she said. “Sometimes they don’t even wait a few years — as soon as they open one, they are already working on the next. A lot of these entrepreneurs are looking to build a business, show it’s a viable brand and then sell it. Unfortunately … that can be a pipe dream.”

Danbury restaurateur Elmer Palma, who has operated Elmer’s Diner in the city for many years, decided to expand two years ago with the Waterfall Restaurant near his existing location on Padanaram Road. Despite an eclectic menu and unique views of a nearby waterfall, the restaurant closed within a year.

Waterfall was successful for the first few months, he said, and then the crowds began to dwindle following Palma’s decision not to sell liquor.

“I thought having good food and a good atmosphere would be enough, but unfortunately it didn’t work out that way,” he said, adding that he is now looking another use for the space, such as offices.

‘Cool’ millennials
Ray Harper, the founder of the Maggie McFly’s chain of restaurants with locations in Brookfield, Southbury, Glastonbury, Middlebury and Manchester, said his locations in southwestern Connecticut do about 25 percent less business than in the central part of the state amid a more saturated atmosphere and denser population.

“The Manchester location is very strong and it helps to carry some of the other restaurants,” he said.

But with an increasingly higher cost of doing business in Connecticut and a slimmer profit margin than in years past, Harper is expanding elsewhere, with plans to open a new location in Rockaway, N.J., this summer.

“Just by going out of state, I’ll experience a $250,000 swing in my bottom line,” he said.

Harper also agrees that the millennial generation is helping to drive some of the local growth in the industry.

“The millennials seem to be very educated when it comes to food, and they are always looking for the coolest and hottest place to hang out,” he said. “But when it becomes popular, they want to move on to the next undiscovered location.”

Matsis said he’s been so busy that he doesn’t even bother advertising for listings anymore.

“It’s really a buyer’s market right now,” he said about the industry. “The valuations of restaurants have decreased when people try to sell because there are so many out there. These days, if someone tells me they want to buy a restaurant, I have to vet them. As a broker, it’s my responsibility to bring a responsible operator or buyer to the table.”

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