

**Client:** Rayuela

**Media Outlet:** MSNBC.com

**Circulation:** 37,600,000 Daily

**Date:** October 10, 2008

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## NYC restaurants slammed by financial crisis

*As food prices soar and crisis worsens, restaurateurs battle for survival*



Danny Meyers' restaurants that specialize in moderately priced comfort food — like barbecue at Blue Smoke and burgers and frozen custards at Shake Shack — are going “gangbusters.”

By Gina Pace  
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updated 1:42 p.m. ET, Fri., Oct. 10, 2008

As customers start to fill his Lower East Side tapas eatery, New York City restaurateur Héctor Sanz is going over every detail of his menu.

He's examining the wine list for his other restaurant, a high-end pan-Latin spot called Rayuela. About 16 months after opening to good reviews, Rayuela is still full, but tables are ordering less — sharing an appetizer or an entree, maybe skipping dessert and getting a glass of wine rather than the bottle.

To be able to offer the same amount of food — and quality — at the prices he's set, Sanz looks for better deals to put on the wine list as well as ingredients he can buy in bulk to get lower rates. He also feels that the opening of his casual tapas restaurant over the summer was good timing because he sees many diners seeking restaurants with lower price points.

“My biggest worry is that I don't know what's going to happen,” said Sanz of the uncertain economic future. “Many restaurants are not going to make it.”

Sanz, like other restaurant owners in New York City, is seeing the first wave of the financial crisis rocking Wall Street and the world. Industry analysts say people are dining out less often, and when they do they are spending less per check.

Business at full-service restaurants is declining nationwide, according to Technomic, a Chicago-based restaurant consultancy. Preliminary figures for the third quarter show that sales at restaurants open at least one year fell 2.6 percent from year-earlier levels, despite higher prices. The figure is based on restaurants that are part of publicly traded companies.

Adding to the malaise is the soaring cost of food — about 9 percent over the last year according to the Bureau of Labor Statistics — as well as a fear that the tourism dollars that have buoyed New York's economy may disappear as the crisis goes global.

“This is really the toughest operating environment for the industry in 20 years,” said Hudson Riehle, senior vice president of research and information services for the National Restaurant Association.

Restaurants tend to run on tight profit margins — an average of about 4 percent before taxes, Riehle said. “When that margin is under pressure, there is less room for error,” Riehle said.

Food writer and blogger Andrea Strong said she thinks the downturn will translate into restaurant closures, citing the recent shuttering of the contemporary American eatery Sheridan Square, after less than six months, and its sister restaurant Tierra, which was open only two days.

“The chef got middling reviews, but it's nothing that would have closed a restaurant a year ago,” Strong said.

“If a new restaurant is starting out and doesn't have the roots and the following of a Daniel or Picholine, they may shutter quite quickly even if the food is excellent and the hospitality is exquisite,” she said, referring to two of the city's best-known restaurants.

Australian-born chef Shaun Hergatt knows the stresses of opening up a restaurant in the current financial climate. His eponymous restaurant SHO Shaun Hergatt is set to open this autumn in the financial district, and like any high-end restaurant, has been years in the planning.

Because of the financial crisis playing out right next door at the New York Stock Exchange, Hergatt has decided to offer a more casual a la carte menu in the front of the modern, Asian-tinged French restaurant in addition to the prix fixe menu he's planning for the main room.

"You have to be very sensitive to the trends, and now that the market is very soft, you're not going to be opening with extravagant prices," Hergatt said.

The time of ultra-extravagant outings in New York is waning, said Lalia Rach, a dean with New York University's Tisch Center for Hospitality, Tourism and Sports Management.

"There was a time in the past few years that there was a drink in this city where they rimmed the glass in gold. That time just simply is gone," Rach said. "People are talking about delaying their retirement because they've lost so much in the past few days. You're then looking with a different eye at your discretionary income and how you are using it."

For many people, that may mean trading down. Long-time New York restaurateur Danny Meyer said that while he's still able to fill his banquet rooms, the wait list has gotten shorter. His restaurants that specialize in moderately priced or inexpensive comfort food — like barbecue at Blue Smoke and burgers and frozen custards at Shake Shack — are going "gangbusters."



Diane Bondareff /  
AP file  
New York City  
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"The restaurants that have a neighborhood feel are way up," Meyer said. "People tend to stay close to home, and the ones that are a big night on the town are flat or maybe a little bit down."

"People are pulling back from restaurants right now, and the forecast shows a net decline in terms of restaurant traffic and sales," said David Henkes, a vice president with Technomic.

Henkes said full-service restaurants are expected to see a 5 percent decline in sales this year after adjusting for inflation. "That doesn't happen very often," he said. "Restaurants are somewhat recession-resistant."

To help bring in traffic, many New York restaurants are offering special deals. Lavish sushi restaurant Megu, which has two New York locations, will introduce a \$55 prix fixe menu next week in addition to their seven-course \$125 tasting menu. Realizing that a \$180 9-ounce Kobe beef Chateaubriand was beyond the reach of many customers, Megu has started offering an appetizer portion for \$35.

Hali Horn, who runs Mama's Mudsliders, a sandwich and dessert shop in the West Village, is trying to find lower-cost ingredients, such as pumpkin, to use in her desserts, and recently lowered prices, cutting into her profit margin.

“I look forward to the day when we are out of this crisis and I can add a couple specialty ingredients again,” Horn said. “I hope that people understand that in a few months when I raise the prices, it’s because I have to and not because I want to.”

Other chefs are trying marketing blitzes to get the word out. “Top Chef” Season One contestant Dave Martin has been attending food festivals as well as events like cooking for Google to get the word out about his midtown American restaurant Crave on 42nd.

“This is when being a chef is not just cooking and having fun but being a businessman,” Martin said. “I’m trying to use my business skills to help pull us through.”

