

Restaurant Properties Sell Across US as Investors Bet on More Demand for Dining Out Necessity Retail Sells 44 Eateries to Orion Real Estate Group; Four Corners Picks Up 13

By Mark Heschmeyer and Linda Moss

A pair of restaurant portfolio deals in the past week, following Darden Restaurants' purchase last month of Ruth's Chris Steak House, marks a return of investor interest as demand improves for sit-down dining across the country.

The Necessity Retail REIT has sold 44 Bob Evans restaurants for \$93 million to Orion Real Estate Group of Miami, the most active buyer of such properties over the past five years, according to CoStar data. In another deal, Four Corners Property Trust bought 13 Darden-operated properties for \$79.5 million.

Officials at Darden — parent of chains such as Olive Garden, LongHorn Steakhouse and Cheddar's Scratch Kitchen — have been trumpeting America's return to affordable luxuries like dining out in the wake of the pandemic and economic uncertainty. And Darden showed it's still bullish on sit-down restaurants when it said it agreed to buy the upscale Ruth's Chris chain for roughly \$715 million in a deal that closed June 14.

Restaurants have been hit with challenges beyond the onset of COVID-19 in the first quarter of 2020, including a shift in preference for some consumers to drive-thrus, rising costs, labor shortages and higher interest rates that increased economic uncertainty, according to real estate firm JLL's 2023 report on the industry.

Sales of restaurant properties suffered as a result, CoStar data shows. The sale of single-tenant restaurants totaled \$455 million in the first half of this year after a year of interest rate hikes, down from \$996 million last year and from \$652 million for the same time in 2021. The Darden-Ruth's Chris deal appears to be one of the largest restaurant sales this year, coming after indications that diners are again more willing to eat out.

JLL finds that consumer demand for dine-in eating is returning. Spending at food and beverage places has exceeded grocery spending since March 2021. As of February, for every \$100 consumers spend on groceries, \$130 is spent on dining out, according to JLL data.

As of February, dine-in restaurant traffic was still 6.8% below 2019, according to JLL. However, dine-in traffic is improving, with visits up 6.2% from February last year in a shift that preceded the recent sales.

Betting on Darden

Four Corners, based in Mill Valley, California, bought 12 Cheddar's Scratch Kitchen properties and one Olive Garden property that came with initial full-year cash rent of roughly \$5.4 million. The real

estate investment trust may acquire one additional Cheddar's in the near future pending further due diligence, according to the company.

Restaurant giant Darden has been expanding its portfolio, adding more fine-dining establishments — namely Ruth's Chris — to its holdings as the food-and-beverage business rebounds from the pandemic. Ruth's Chris has 155 locations around the globe, including 81 company-owned or company-operated restaurants and 74 franchised restaurants.

During an earnings call in March, Darden said it planned to open new eateries and reported double-digit sales increases. President and CEO Rick Cardenas said Americans didn't want to forgo eating out.

"There is a tension between what people want and what they can afford," he said at the time. "Consumers continue to seek value, which is not about low prices. Consumers are making spending trade-offs, and food-away-from-home is one of the most difficult expenses to give up because going out to a restaurant is still an affordable luxury for them."

Lingering high interest rates and a possible future recession could limit the speed of any recovery.

Four Corners, a net-lease REIT, recently reported rising sales for its three largest restaurant tenants, which are also benefiting from moderating labor and commodity costs. In a net-lease arrangement, the tenant pays a portion or all of the taxes, insurance fees and maintenance costs for a property in addition to rent.

Same-store sales for Olive Garden and LongHorn Steakhouse, Four Corners' two largest Darden-owned brands, increased 12% and 11% in the first quarter, according to the REIT.

Four Corners is now in position to surpass its average annual buying volume as this latest deal brings it close to a typical full year of activity, according to the firm.

"Our financial leverage remains within our target range, and we continue to find a buyer friendly market for new acquisitions," Patrick Wernig, managing director of acquisitions, said in a statement.

Back to the Market

Orion's purchase of the Bob Evans restaurants signals a return to portfolio purchasing for the company, CoStar data shows. Its previous major restaurant deal came in 2021. Over the past five years, it has acquired \$280 million of restaurant properties.

Court records from Franklin County, Ohio, where one of the Bob Evans restaurants is located, show Orion borrowing \$66.2 million from Wells Fargo Bank for acquisition financing.

The 44 restaurant properties are in Kentucky, Indiana, Ohio, Michigan, Delaware, Pennsylvania, Virginia, West Virginia and Maryland. Bob Evans has 14 years remaining on the lease of the

properties, according to seller Necessity Retail's most recent quarterly report.

Orion didn't respond to requests for additional information.

Necessity Retail found the timing of the deal right in an effort to maximize value for investors.

"We will continue to pursue the strategic sale of select properties as we focus on optimizing our portfolio and on building a pipeline of similarly favorable dispositions," Michael Weil, CEO of Necessity Retail, said in a statement.