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Food halls and “micro-business” aggregation dominate downtown Boston - by Adam Barnosky

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As start-up and operational costs in the hospitality industry increase, food halls and “micro-tenant” aggregation continue to gain popularity in New England’s urban commercial real estate markets. From Boston Public Market to the recently introduced High St. Place (Boston Financial District), Lisbon’s Time Out Market (Fenway’s Landmark Center), or Bow Market (Union Sq. in Somerville), real estate developers are banking on vast multi-operator ventures to drive business and hedge risk among various operators. New England is likely to see this concept flourish in 2019 with several such developments currently underway.

The micro-tenant concept aggregates numerous businesses with short-term leases or licenses, each utilizing a mix of exclusive and common spaces within a marketed, hospitality-based development. The organization and legal structure is not dissimilar to a shopping mall or traditional food court. However, micro-tenant ventures are cultivated and marketed much differently, usually with a focus on high-end culinary tastes and locally-sourced products. The entire retail space is often between 10,000 to 30,000 s/f with some 15 to 30 different micro vendors utilizing 100 to 500 s/f of exclusive space.

The micro-tenant concept has a host of advantages for developers and start-up businesses. The start-up costs are relatively low compared to traditional stand-alone establishments, thereby minimizing tenants’ need for substantial startup capital or financing from traditional lending institutions. Each micro-tenant’s permit, design and buildout obligations are also comparably minimal as the developer usually takes the reigns to permit the full-scale project with municipal and state authorities. Micro-tenants are spared the burden of zoning review, permitting, and licensing for their specified use, which reduces upfront expense and lead time relative to traditional space. Carefully crafted liquor license structures allow numerous businesses to operate under a single license. Such arrangements can spare start-ups the need to purchase a liquor license at market price, a figure expected to near $500,000 in 2019. Along with standard lease considerations, start-ups looking to enter a micro-tenant development should focus their review on timelines for

delivery, relocations terms, operating costs, and co-tenancy provisions that can be nuanced with a multi-tenant concept.

For the developer, the concept provides a sophisticated anchor attraction and unique feature to differentiate a project from others that rely on one or two large retail, recreational, or restaurant anchors. This also provides an important hedge for the developer as the operation's success does not depend on a stand-alone concept; rather, the risk is spread among operators with varying degrees of notoriety and popularity. Group marketing provides a spotlight for the venture and drives unique visitors who may try a variety of operators in one visit. However, there can be drawbacks for the developer as with any large scale project. Unlike a single entity tenant, developing an operation with numerous micro-tenants comes with comparably larger administrative oversight in the planning and operations phases, including schematic design review and lease administration. Tenant turnover can also exacerbate this burden.

Forecast: The hospitality industry will likely see the trend toward multi-tenant facilities increase in 2019. This trend is consistent with other co-working, co-living and shared economy concepts that are here to stay. Expect the micro-tenant restaurant concept to transition into other sectors of hospitality service, including beer gardens and potentially cannabis establishments. The new year may also bring the concept farther into New England's suburbs as "place making" continues to thrive with developments such as Assembly Sq. and Westwood Station. Underserved communities may also benefit based largely upon increased demand as a result of the Opportunity Zone program.

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