



City of Watauga, TX
Feasibility Study: Watauga Food Business Incubator

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Prepared for:

Watauga Economic
Development Corporation

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Introduction and Executive Summary

The City of Watauga, Texas and the Watauga Economic Development Corporation (WEDC) intend to develop the Watauga Food Business Incubator consisting of 1) an outdoor site for culinary entrepreneurs to start up their businesses in a mobile food vendor format; and 2) an education and training program to prepare entrepreneurs to successfully run food service businesses.

The site will be located at 6200 Watauga Road in the City of Watauga and consist of six pad sites, a shared indoor kitchen / food prep area, parking space, restrooms, electrical service, water and sewer service, promotional signage, and a stage area. Tenants will be required to participate in tailored training programs provided by the City of Watauga, the Northeast Tarrant Chamber, and other partners, covering such topics as local government and regulations, business development, and business financials, and tenants will also benefit from City-provided assistance with obtaining loans and addressing legal and other technical matters.

MRB Group was engaged to study the feasibility of the proposed Watauga Food Business Incubator. Our key findings are as follows:

- MRB Group projects that the six spaces at the Incubator site will be readily absorbed by the demand associated with strong forecasted growth in food services industries in Tarrant County and the surrounding region.
- The subsidized (below-market-rate) spaces, shared kitchen, and proposed training address demonstrated hurdles in successful restaurant entrepreneurship.
- The site's strategic location would contribute to the tenants' successful growth of their businesses and customer bases, due to its proximity to roads with high traffic counts; to storefront businesses; to residential areas; to office uses and their employees; and to culinary-related workforce development facilities.
- The concept capitalizes on Watauga's emergent reputation as a destination for dining.
- There are no sites in the surrounding area that offer directly comparable facilities combined with the services and programming of the proposed Watauga Food Business Incubator.
- After the WEDC undertakes the site improvements using U.S. Economic Development Administration grant funds and its committed cost share, the cost of maintaining the site and conducting the Incubator's training programs will be low and sustainable.

Population Trends

MRB Group considered population growth as an indicator of future demand for food services, since individual consumers are the direct buyers of most services analyzed in this study.

Tarrant County, the Dallas-Fort Worth-Arlington Metropolitan Statistical Area, the North Central Texas Council of Government region, and Texas are all projected to experience much more rapid population growth as compared to the country as a whole. This population expansion and the associated increases in consumer spending can be expected to support sustained growth in food services industries in Watauga.

Population Growth Projections					
	2020	2030	2040	2050	Growth (2020-2050)
Tarrant County	2,143,755	2,507,170	2,862,672	3,196,603	49%
MSA	7,688,739	9,263,558	11,094,305	13,186,434	72%
COG	7,874,046	9,459,868	11,297,784	13,396,235	70%
Texas	29,677,668	34,894,452	40,686,496	47,342,105	60%
United States	332,600,000	355,100,000	373,500,000	388,900,000	17%

Source: Texas Demographic Center, U.S. Census Bureau, MRB Group

MSA: Dallas-Fort Worth-Arlington Metropolitan Statistical Area

COG: North Central Texas Council of Governments

Industry Trends

To facilitate this analysis, MRB Group studied historical and projected growth trends for industries that the Watauga Food Business Incubator tenants will fall under, both in terms of their “Mobile Food Services” status at the Incubator, and in terms of the types of businesses they may later establish themselves as. The industries studied at the six-digit NAICS code level were:¹

- Mobile Food Services
- Full-Service Restaurants
- Limited-Service Restaurants
- Cafeterias, Grill Buffets, and Buffets
- Snack and Nonalcoholic Beverage Bars
- Caterers
- Food Service Contractors

Together, these industries have grown at a healthy pace in Texas over the past ten years, with job growth of 41%—far exceeding national growth of 28%. Texas’s addition of over 300,000 industry jobs during this period is attributable to unique competitive advantages of the state: If Texas had instead mirrored nationwide growth trends for these industries, it would have been expected to add about 100,000 fewer jobs. Mobile Food Services grew most rapidly, followed by Snack and Nonalcoholic Beverage Bars, Caterers, and Limited-Service Restaurants. Only the Cafeterias, Grill Buffets, and Buffets industry lost jobs over this period.

In Tarrant County, job growth in these industries was even stronger, at 43% over the ten-year period. This reflects the addition of nearly 25,000 jobs in these food services industries.

Food Service Industry Trends: Historical					
	2009 Jobs	2019 Jobs	Job Growth 2009-2019	% Change	Competitive Effect
Tarrant County	58,001	82,768	24,767	43%	8,780
Texas	766,098	1,079,184	313,086	41%	100,141
United States	9,178,195	11,757,404	2,579,209	28%	N/A

Source: Emsi, MRB Group

Industries included: 722310, 722320, 722330, 722511, 722513, 722514, 722515

¹Some tenants are expected to be specialty food product manufacturers, which are not easily categorized in NAICS codes. Such manufacturers may independently sell their products directly to consumers via independent storefronts or e-commerce, or sell into broader retail and distribution channels.

Statewide and in Tarrant County, these food service industries are collectively expected to add jobs over the next ten years, growing by a more moderate 22%, which significantly outpaces projections for the country as a whole (14%).

Food Service Industry Trends: Projected					
	2019 Jobs	2029 Jobs	Job Growth 2019-2029	% Change	Competitive Effect
Tarrant County	82,768	101,244	18,476	22%	6,516
Texas	1,079,184	1,317,617	238,433	22%	84,057
United States	11,757,404	13,456,113	1,698,709	14%	N/A

Source: Emsi, MRB Group

Industries included: 722310, 722320, 722330, 722511, 722513, 722514, 722515

In Tarrant County, the highest numbers of new jobs will be in the Limited-Service Restaurants industry (9,035 new jobs) and Full-Service Restaurants industry (7,679 new jobs). Mobile Food Services and Snack and Nonalcoholic Beverage Bars are projected to grow most rapidly (by 65% and 48%, respectively), though at lower overall job counts.

Food Service Industry Projections for Tarrant County						
NAICS	Description	2019 Jobs	2029 Jobs	Job Growth 2019-2029	% Change	Competitive Effect
722513	Limited-Service Restaurants	37,115	46,150	9,035	24%	3,517
722511	Full-Service Restaurants	36,789	44,468	7,679	21%	3,074
722515	Snack and Nonalcoholic Beverage Bars	4,344	6,427	2,083	48%	687
722330	Mobile Food Services	282	465	183	65%	48
722320	Caterers	320	252	(68)	(21%)	(83)
722514	Cafeterias, Grill Buffets, and Buffets	1,269	1,060	(209)	(16%)	(131)
722310	Food Service Contractors	2,648	2,422	(226)	(9%)	(595)
Totals		82,768	101,244	18,476	22%	6,516

Source: Emsi, MRB Group

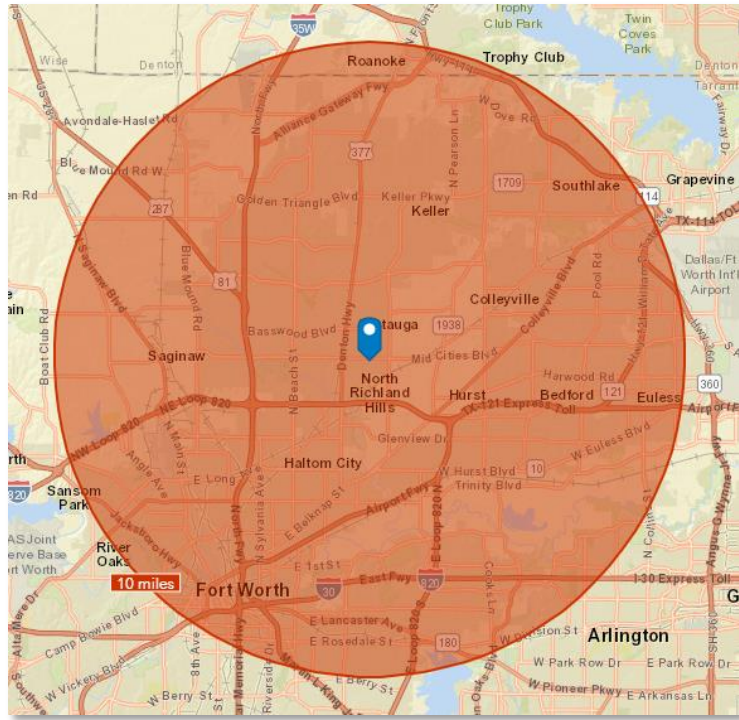
Indicators of Local Interest

Since 2018, six would-be restaurant entrepreneurs have approached City of Watauga staff expressing intentions to open a food service business. In each case, the entrepreneur’s plans faltered due to lack of capital to invest in a traditional storefront business and/or lack of knowledge of the fundamentals and available resources relevant to running a food service business—challenges that the Watauga Food Business Incubator’s site and programming will address. More recently, established restauranteurs impacted by the COVID-19 pandemic have indicated to the City that a mobile food service platform would either temporarily replace their struggling storefront business or provide an additional pathway to growing their customer base. Letters from restaurant

entrepreneurs expressing interest in utilizing the proposed Watauga Food Business Incubator are attached to the EDA grant application.

Site Considerations

Research examining the area around the Watauga Food Business Incubator site reveals a relatively balanced existing market in the Food Services & Drinking Places industry. In 2017, within a 10-mile drive radius from the site, there were a total of 1,774 businesses in this category that generated nearly \$1.48 billion in retail sales, while the demand (or “retail potential”) of this area was \$1.34 billion. The resulting negative “retail gap” of about \$136 million represents spending by people coming from outside the trade area to spend at those establishments; this is considered a relatively low surplus factor. We can conclude that on net, the food and drinking places in Watauga are meeting local demand and attracting a modest level of spending from visitors.



Leakage Analysis for 10-Mile Radius of Site: Food Services & Drinking Places				
Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage / Surplus Factor	Number of Businesses
\$1,339,788,387	\$1,475,847,911	(\$136,059,524)	(4.8)	1,774

Source: Esri Business Analyst, MRB Group

The Leakage/Surplus Factor presents a snapshot of retail opportunity. This is a measure of the relationship between supply and demand that ranges from +100 (total leakage) to -100 (total surplus). A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area.

Although this data taken alone does not indicate great unmet immediate demand for new restaurants in Watauga, the small “surplus factor” may reflect the City’s emergent reputation as a destination for dining, anchored by the famous Chef Point Bar & Restaurant. Chef Point became a sensation beginning in 2011 following its appearance on *Diners, Drive-ins, and Dives*, its status as one of Guy Fieri’s favorite restaurants, attention from the *New York Times*, and winning multiple awards. Serving gourmet southern cuisine in a former gas station, the business attracts visitors from all over the country to Watauga in an era of food-driven tourism.

The proposed Watauga Food Business Incubator site is on Watauga Road near several major thoroughfares, on a stretch that is developing rapidly as a professional corridor complemented by the growth of restaurants and other dining options. This section of Watauga Road is zoned for general business and is walkable from surrounding residential areas, professional offices, and commercial buildings.

A key advantage of the site chosen for the proposed Watauga Food Business Incubator is its proximity to relevant training programs and ecosystem partners. The site is within three miles of two culinary workforce development facilities and programs, and the Incubator plans to leverage them to facilitate internships and job shadowing that supports both the workforce pipeline and the success of the Incubator tenants.

- 3 miles away: Culinary arts facility at the Keller Center for Advanced Learning, part of the Keller Independent School District. This culinary arts program is providing critical workforce development programming for a field with high labor demand, and its curriculum includes nutrition, food preparation, industry certifications, and entrepreneurship-oriented courses. It also features work-based learning activities including job shadowing and internships.
- 2 miles away: Culinary arts facility at the Birdville Center of Technology and Advanced Learning, which features a large commercial kitchen, student-operated restaurant, and culinary curriculum.

Another consideration for this site is its proximity to many full-service restaurants within one mile. B2B relationships between the Incubator tenants and these restaurants may include use of those restaurants' kitchens as prep space and flex space during days or hours when they are not open for dining.

Comparable Sites and Programs in the Region

Many communities across the country have sought ways to encourage food and restaurant entrepreneurship in order to promote business growth and economic vitality, and these often complement broader strategies for placemaking, downtown revitalization, or agriculture-led economic development.

Stimulating growth in a local food service industry often requires intervention and assistance, as culinary start-ups are unlikely to receive venture capital or bank financing because profit margins are too slim and volatile for such a highly competitive market. Food products must be tested and tweaked over time before they are economically viable. Even once proven viable, the entrepreneur must navigate a complex network of regulation, food safety standards, packaging, and distribution before running a profitable enterprise. Food entrepreneurs often lack a business background and

an understanding of what is involved in the start-up process. Start-up costs in the food space are high and can range, as of 2013, from \$15,000 to \$100,000.²

As a result, there has been a proliferation of models and strategies for helping such businesses avoid the high overhead of investing in an independent brick-and-mortar storefront while establishing their products, markets, and business models, and simultaneously meeting community demand for greater culinary diversity and quality of life. These include the following, all of which MRB Group has found to be distinct from the unique model proposed by the WEDC.

- Food truck parks: These typically offer a stable location for mobile food vendors and may feature amenities like parking, restrooms, and entertainment, but do not provide restauranters with subsidized space, a shared kitchen, or business assistance programming, and are not focused on graduating tenants into established brick-and-mortar restaurants or food businesses. (Example: The former Fort Worth Food Park featuring six trucks and an entertainment stage.)
- Food truck rodeos: Also known as food truck corrals or similar monikers, these are typically organized by municipalities as monthly or periodic community events to draw visitors to an area and promote its culinary scene, but do not provide a stable dedicated site or business assistance programming, and may heavily feature established restaurants that also operate food trucks. (Example: The Comanche County, TX Food Truck Rodeo hosted by the local chamber of commerce.)
- Food hubs: These offer a combination of production, distribution, and marketing services to help facilitate connections in local and regional food systems. As demand for locally-sourced foods continues to rise, communities typically establish food hubs to help smaller farmers and producers access larger markets, such as institutional and wholesale buyers. Food hubs, however, are not retail-oriented or consumer-facing, and are generally limited to agricultural produce and food products that have been minimally processed, rather than prepared foods.
- Farmers markets: These are physical retail marketplaces intended to sell foods directly from farmers to consumers, but are not focused on retailers serving prepared foods and do not offer business assistance programming.
- Culinary incubators and shared commercial kitchens: These target start-up food service businesses, renting food preparation space (often at a below-market rate) to entrepreneurs so that they can benefit from the shared kitchen instead of spending capital to build or lease their own facility. They may also provide additional services like business development training and access to ecosystem services such as legal aid, packaging, and distribution. (Example: The Brewery Incubator in Houston, TX featuring commercial kitchens, workshops, tastings, competitions, and other activities.)

² "Estimated Cost for a Commercial Kitchen in a Small Business," *Houston Chronicle*, April 5, 2019, <https://smallbusiness.chron.com/estimated-cost-commercial-kitchen-small-business-74630.html>.

- General business incubators and accelerators: Some non-sector-specific business incubators and accelerators serve food-related start-ups, but these generally do not offer programming and services tailored to the needs of food businesses, and are not well-positioned to help facilitate beneficial B2B industry relationships for food-focused clients. (Examples: RevTech Ventures in Dallas, TX, a seed fund and venture accelerator with a focus on technologies for the retail industry, but that serves several food-related startups, leveraging the founders' connections to some of the nation's largest restaurant operators; and SKU in Austin, TX, a consumer products startup accelerator program with a portfolio that includes some food companies.)

The proposed Watauga Food Business Incubator represents a unique hybrid model that combines 1) a focus on prepared foods and processed food products, 2) a focus on start-up businesses, 3) subsidized semi-permanent space to enable development of a customer base, and 4) business assistance services tailed to helping food entrepreneurs graduate to established businesses. It provides a shared kitchen space, so tenants will be able to delay the significant entrepreneurial hurdle of establishing their own compliant food preparation areas.

In summary, although other communities in Texas are home to programs or facilities that are meant to foster the growth of the food and restaurant industries by reducing initial overhead, there are none like the one proposed by the WEDC. In light of the strong population and industry growth projections covered earlier in this analysis, this Food Business Incubator will increase appeal to industry operators attempting to enter the food service sector for the first time; to existing restaurateurs piloting a new food service business; and to operators that have not been able to sustain a storefront restaurant during the pandemic-induced recession and restrictions. We therefore project that the six spaces at the Food Business Incubator at this location will be readily absorbed by the demand associated with food service industry growth.

Moreover, WEDC analyzed the City of Watauga and surrounding area, and its board found no other "property which is both available and affordable for use as a small business incubator."

Financial Feasibility

The Watauga Economic Development Corporation owns and will continue to maintain ownership of the site, providing below-market-rate space ("license agreements") to the Incubator tenants. After the WEDC undertakes the site improvements using U.S. Economic Development Administration grant funds and its committed cost share, the cost of maintaining the site and conducting the Incubator's training programs will be low and sustainable.

- Site maintenance will be performed by the City of Watauga's Department of Parks & Community Services.
- The training programs will be conducted using existing City of Watauga staff time, the time of advisors such as the City's attorney that are already under contract, and already-

dedicated staff time at partner organizations such as the Northeast Tarrant Chamber, which will provide a tailored business development course.

License agreement fees from the tenants will help the City of Watauga cover costs associated with site maintenance, garbage service, insurance, and debt service on the improvements. These costs are estimated to amount to \$81,987 per year (without the grant), and six license agreements of \$1,200/month each will generate \$86,400/year in fees, as shown below. Therefore, per guidance of our U.S. Economic Development Administration regional representative, a pro forma is not included in this analysis.

INCUBATOR SITE FINANCIAL FEASIBILITY	
Item	Amount (Annual)
Insurance (TML Quote)	
Commissary (\$130)	\$130.00
State/Tables (\$100)	\$100.00
Restroom (\$100)	\$100.00
Liability - Covered by WEDC	
Parks Maintenance	
Mowing Contract	\$4,375.00
Janitorial - 300 Hours	\$2,558.40
Landscape & General Repairs	\$4,528.16
Landscape Supplies & Gen Supplies	\$5,000.00
Debt Service (at \$500,000)*	\$57,000.00
Garbage Service	
12 Toters 2x/Week = \$593.16/month	\$7,117.92
4 yrd 1x week \$89.79/month	\$1,077.48
TOTAL ANNUAL COST TO WEDC	\$81,986.96
Per Lease (6 Leases)	\$13,664.49
Per Lease Per Month	\$1,138.71
Recommended Monthly Lease Amount	\$1,200.00

*Note: If grant is approved, debt service will be lower.

Appendix: Other Industry Considerations

MRB Group examined market research reports from IBISWorld to understand broader nationwide industry trends and predictions that may affect the prospects of the Watauga Food Business Incubator tenants, both in their “mobile food services” format while at the Incubator, and later as established restaurants, snack shops, or caterers. All such industries are expected to experience growth over the next five years.

Mobile Food Services³

Mobile Food Services have grown substantially nationwide over the five years to 2019 due to renewed consumer demand for unique products. It is “a particularly bright spot within the larger food service sector [that] has managed to surge ahead of other food service sectors.” Many new industry entrants have sought to fill growing demand for healthy products, gourmet items, or specialty food items.

Moreover, while the larger food service sector relies heavily on consumers with moderate levels of disposable income to drive revenue, the Mobile Food Services industry is not as susceptible to volatility in consumer spending and confidence due to the relatively inexpensive nature of its products—making such ventures a more feasible start-up format for restaurant entrepreneurs in the wake of the pandemic-induced recession.

The Mobile Food Services industry is still in the growth stage of the industry life cycle, despite evidence that the “food truck craze” is beginning to subside. Nationwide, industry revenue is projected to grow at a slower pace of 1.6% per year from 2019-2024, reaching \$3.9 billion. However, IBISWorld notes, there are still opportunities for sustained growth in areas that are experiencing population expansion and increased consumer spending. As noted earlier, Tarrant County and the surrounding area are projected to experience much more rapid population growth as compared to the country as a whole, and the associated increases in consumer spending can be expected to support sustained growth in food services industries.

A key barrier to entry and success for mobile food vendors are local and state regulatory environments, including health permit conditions, safety standards, and constraints on where they can set up shop. MRB Group believes that the proposed Watauga Food Business Incubator therefore represents a significant “leg up” to such businesses because of the designated site and the technical assistance and advisement tenants will receive on these topics.

Independent Restaurants⁴

The Single Location Full-Service Restaurants industry is notoriously competitive, characterized by a high level of turnover, and subject to continuously changing consumer preferences. Due to the

³ “Street Vendors in the US,” IBISWorld Industry Report 72233, March 2020.

⁴ “Single Location Full-Service Restaurants in the US,” IBISWorld Industry Report 72211b, August 2020.

nature of being a single-location establishment, the majority of operators are small, family-run businesses, which causes the industry to be highly fragmented.

To the detriment of the industry, the coronavirus outbreak and the associated closures and restrictions on non-essential businesses is expected to hurt industry revenue in 2020. However, the industry is expected to recover over the five years to 2025 as consumer spending strengthens and households increase spending on discretionary purchases, such as meals outside the home. Over the five years to 2025, consumer spending is expected to increase at an annualized rate of 3.8%, representing a higher growth rate compared with the prior period. Moreover, the Consumer Confidence Index, a leading indicator of spending patterns, is expected to recover strongly, which will boost industry growth over the next five years. Additionally, an increase in the number of households earning more than \$100,000 annually further contributes to the industry growth, supporting industry operators that offer more niche, higher-end products. As a result of these trends, industry revenue is projected to increase at an annualized rate of 8.6% to \$223.9 billion over the five years to 2025. The industry will also likely benefit from population and immigration growth.

There will also be an increased emphasis on product innovation and service quality to compete with more nimble competitors, such as fast-casual chains. Many restaurants will introduce new product lines, emphasizing healthy and gourmet meals. Major operators will seek to expand revenue and profit by offering alternatives to red meat, such as chicken and tofu, and providing a variety of other meal options, including fresh salads.

The industry is constantly going through creative disruption, whereby new restaurant concepts open to cater to evolving consumer preferences at the expense of outdated restaurant concepts. Over the 10 years to 2025, industry value added (IVA), which measures an industry's contribution to the overall economy, is expected to grow at an annualized rate of 3.4%. This is a higher rate than that of the US GDP, which is expected to grow at an annualized rate of 1.9% during the same 10-year period.

Despite growing competition, demand has been increasing for independent operators amid changing consumer preferences. Over the past five years, consumers have increasingly preferred to patronize local establishments oriented around a single chef or singular concept rather than large, homogenous chains with stale menu and decor concepts. Areas of particular opportunity for restaurant entrepreneurs such as the Incubator tenants will be niche concepts and products that respond to rising health consciousness and ethical consumerism. Such concepts may involve premium products that allow for greater profitability and revenue.

Coffee and Snack Shops⁵

This industry comprises operators that prepare or serve specialty snacks and nonalcoholic beverages including ice cream, frozen yogurt, cookies, doughnuts, bagels, coffee, juices, smoothies and sodas. Purchases may be consumed on-site, taken to go or delivered.

Demand for coffee and snack shops has increased at a faster rate than most segments of the food service sector over the past five years, prior to the onset of the coronavirus. The change in the industry landscape involves the closure of many businesses that may or may not be able to successfully re-open, but the industry itself is expected to recover and grow at a faster pace from 2020-2025 (2.4% annualized) than the prior period, suggesting an opportunity for new operators and offerings. Additionally, many existing operators are expanding into markets that have not become oversaturated or that experienced significant losses in 2020. As with the Full-Service Restaurants industry, consumers are anticipated to return to spending on discretionary items such as coffee and snacks.

The industry's high level of competition is expected to intensify over the next five years, with significant price-based competition and an increased emphasis on the regular introduction of new products. Operators will likely continue to stimulate renewed interest in their products by expanding their menu options to any changes in consumer preference.

⁵ "Coffee & Snack Shops in the US," IBISWorld Industry Report 72221b, April 2020.

Caterers⁶

This industry includes companies that provide individual event-based food services. These companies generally have equipment and vehicles to prepare food off-site and transport it to events.

Increased corporate profit over the past five years has led to larger marketing budgets that have supported a larger number of events requiring catering services. Post-pandemic, a rebound in corporate profit and household spending levels is expected boost demand for catering services over the next five years. In particular, increased corporate marketing budgets will bolster demand from holiday parties, product launches and investor celebrations. Caterers will also benefit from robust private demand as rising consumer spending and disposable incomes encourage consumers to splurge on weddings, private parties and other catered events. Overall, IBISWorld expects industry revenue will continue to rise at an annualized rate of 1.4% to \$14.4 billion over the five years to 2025.

Catering has traditionally been more profitable than other food service operations, but industry operators must continually seek to distinguish themselves in this highly competitive industry. Going forward, it is anticipated that customers will expect operators to amend practices to reduce food waste and eliminate items such as plastic straws, and to respond to a culinary environment that has become increasingly innovative.

⁶ "Caterers in the US," IBISWorld Industry Report 72232, February 2020.