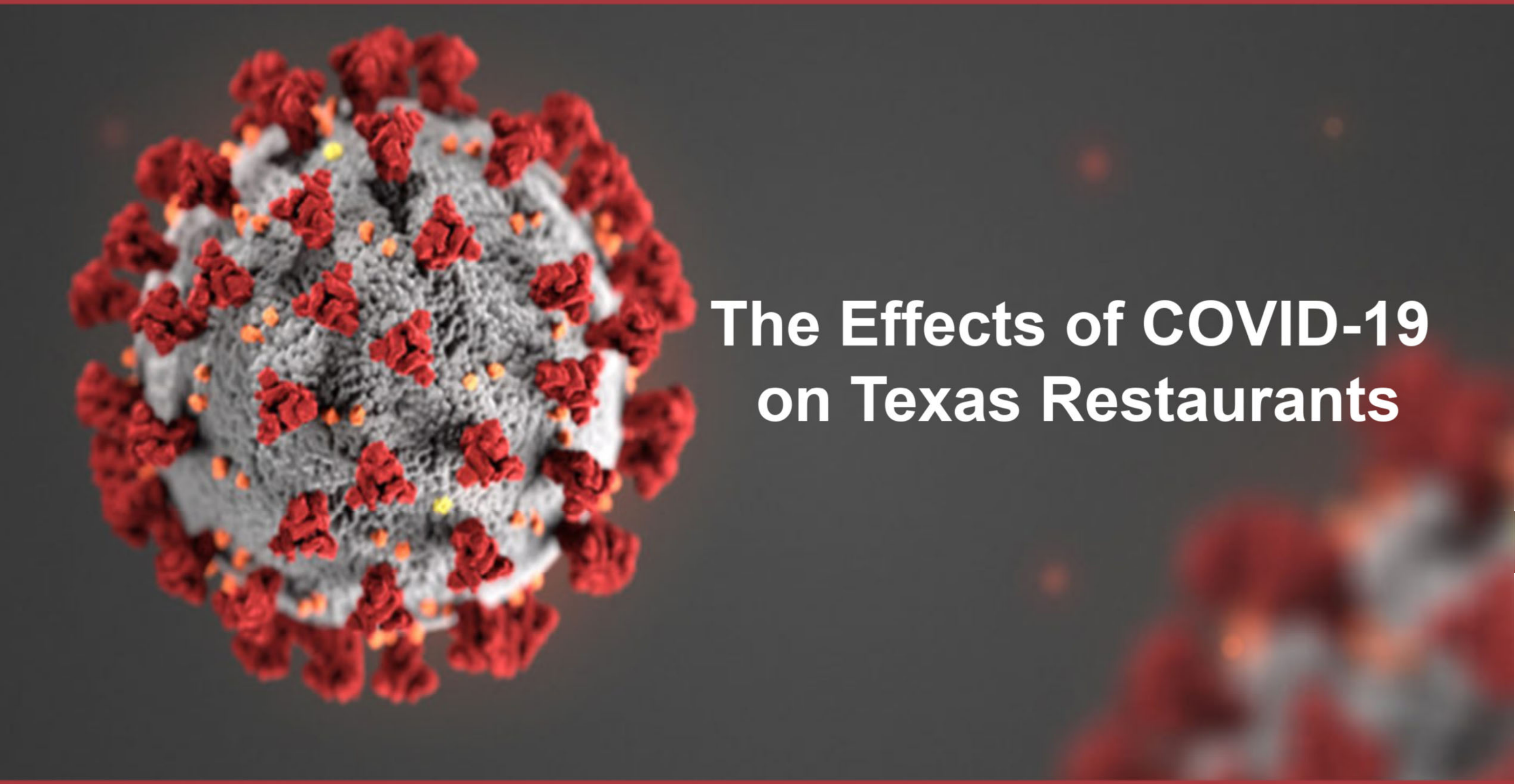

The Effects of COVID-19 on Texas Restaurants

HOBBY
SCHOOL OF PUBLIC AFFAIRS
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Research Team

Principal Investigators

Mark P. Jones, Senior Research Fellow, Hobby School of Public Affairs; James A. Baker III Institute for Public Policy's Fellow in Political Science, Rice University
Pablo M. Pinto, Director, Center for Public Policy & Associate Professor, Hobby School of Public Affairs

Researchers

Gail Buttorff, Co-Director, Survey Research Institute & Assistant Instructional Professor, Hobby School of Public Affairs
Francisco Cantú, Co-Director, Survey Research Institute & Associate Professor, Department of Political Science
Renée Cross, Senior Director & Researcher, Hobby School of Public Affairs
Jim Granato, Executive Director & Professor, Hobby School of Public Affairs
Richard Murray, Lanier Chair in Urban Public Policy & Professor, Department of Political Science
Yewande O. Olapade, Post-Doctoral Fellow, Hobby School of Public Affairs
Savannah Sipole, Post-Doctoral Fellow, Hobby School of Public Affairs
Agustín Vallejo, Post-Doctoral Fellow, Hobby School of Public Affairs
Sunny M.C. Wong, Professor, Hobby School of Public Affairs

The Effects of COVID-19 on Texas Restaurants

The COVID-19 Pandemic is the greatest challenge faced by the United States since World War Two. The virus and the government shutdown and stay-at-home mandates in response to the outbreak have had a profoundly negative impact on the U.S. economy and on large, medium, and small businesses that are at the heart of the nation's economy, and integral to its long-term well-being.

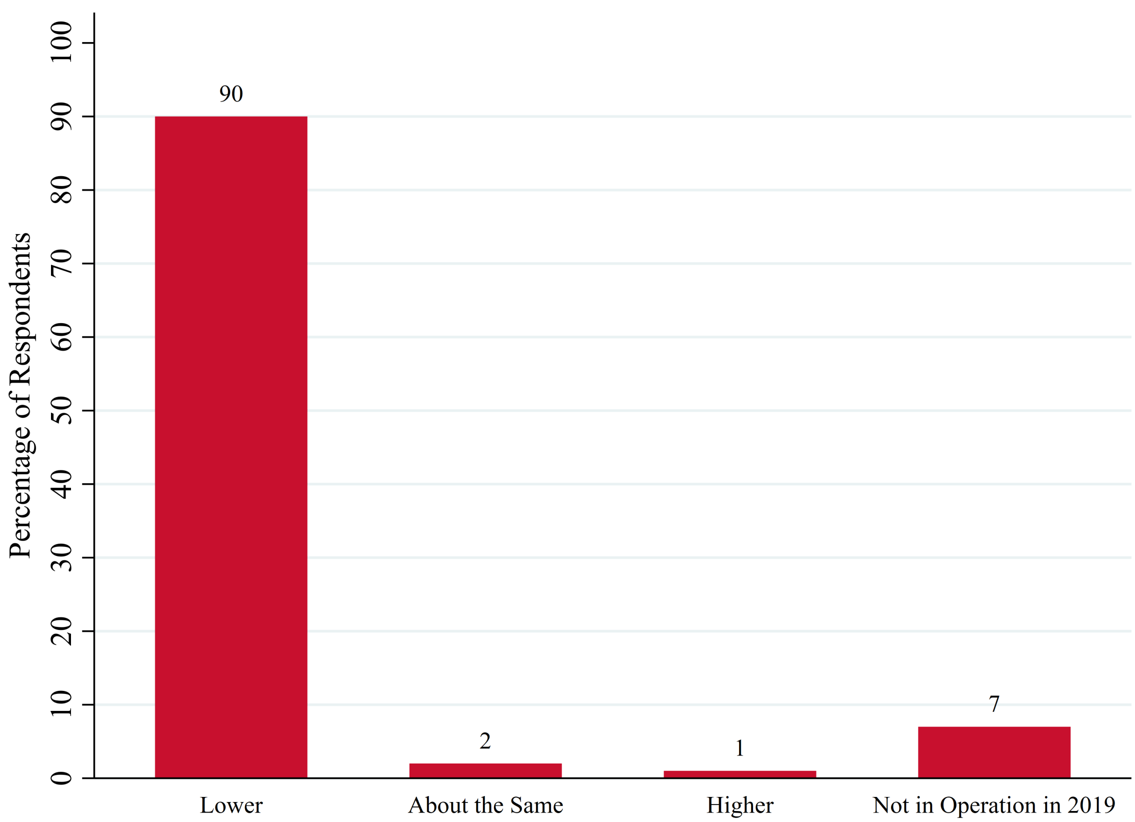
The restaurant and bar industries are among one of the most adversely affected areas of the nation's economy as a result of the COVID-19 Pandemic shutdowns. At the start of 2020, one out of every ten working Texans was employed in the restaurant industry at one of the state's close to 50,000 eating and drinking establishments, underscoring the pivotal role the industry plays in the Lone Star State's economy. With this in mind, the University of Houston Hobby School of Public Affairs partnered with the Texas Restaurant Association (TRA) to conduct a survey of its members.

A representative group of restaurant and bar owners were surveyed between April 8 and April 22, 2020 via an online survey sent to their e-mail address on file with the TRA. All together, the 340 restaurant and bar owners surveyed own 1,342 restaurants and as of March 1, 2020 employed 30,905 Texans full-time and 14,005 part-time. Those surveyed included 189 owners of a single restaurant along with 151 owners of multiple restaurants whose median and mean number of restaurants owned were three and eight respectively.

Restaurant Sales

In the survey, the owners were asked to compare their sales between March 23 and April 6 of 2020 to those from the same period in 2019. Figure 1 displays the results, and underscores the stark negative reality faced by the Texas restaurant industry, with 90% of owners experiencing lower sales compared to a mere 1% with higher sales and 2% with sales equal to those during the same period in 2019. Another 7% of respondents were not in business during March and April of 2019 and therefore had no 2019 sales numbers to compare their 2020 sales to.

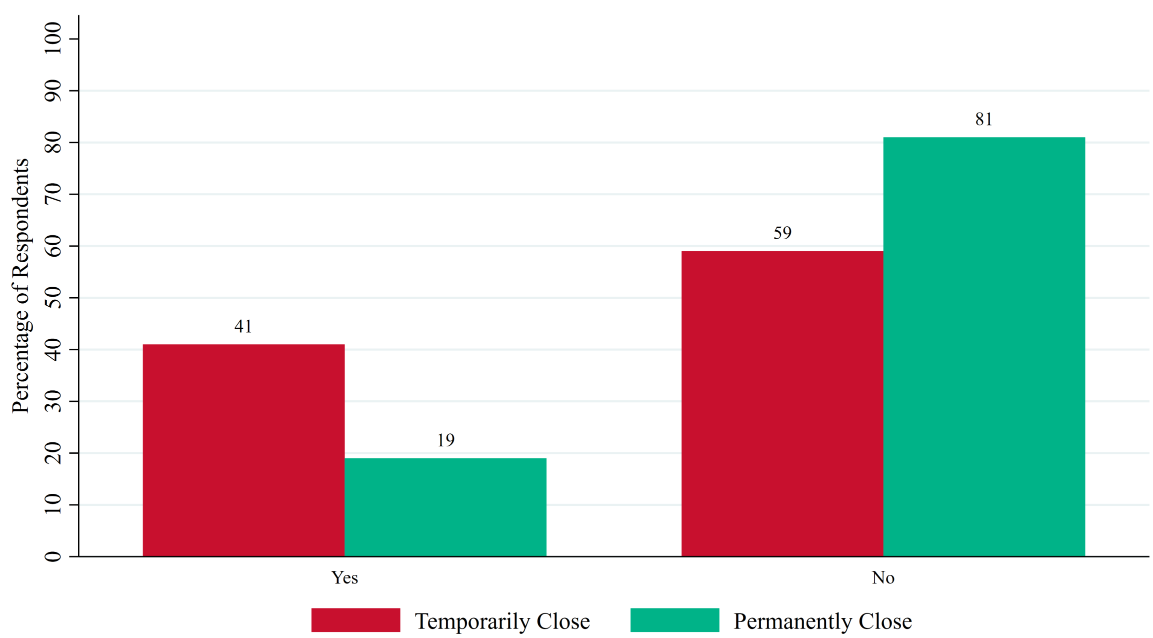
Figure 1: Restaurant Sales Between March 23 & April 6 Compared to the Same Period in 2019



Restaurant Closures

Owners were also asked if between March 19 and April 6 they had been forced to permanently or temporarily close any of their restaurants. Figure 2 reveals that 41% of these owners temporarily closed one or more of their restaurants while 19% permanently closed one or more of their restaurants.

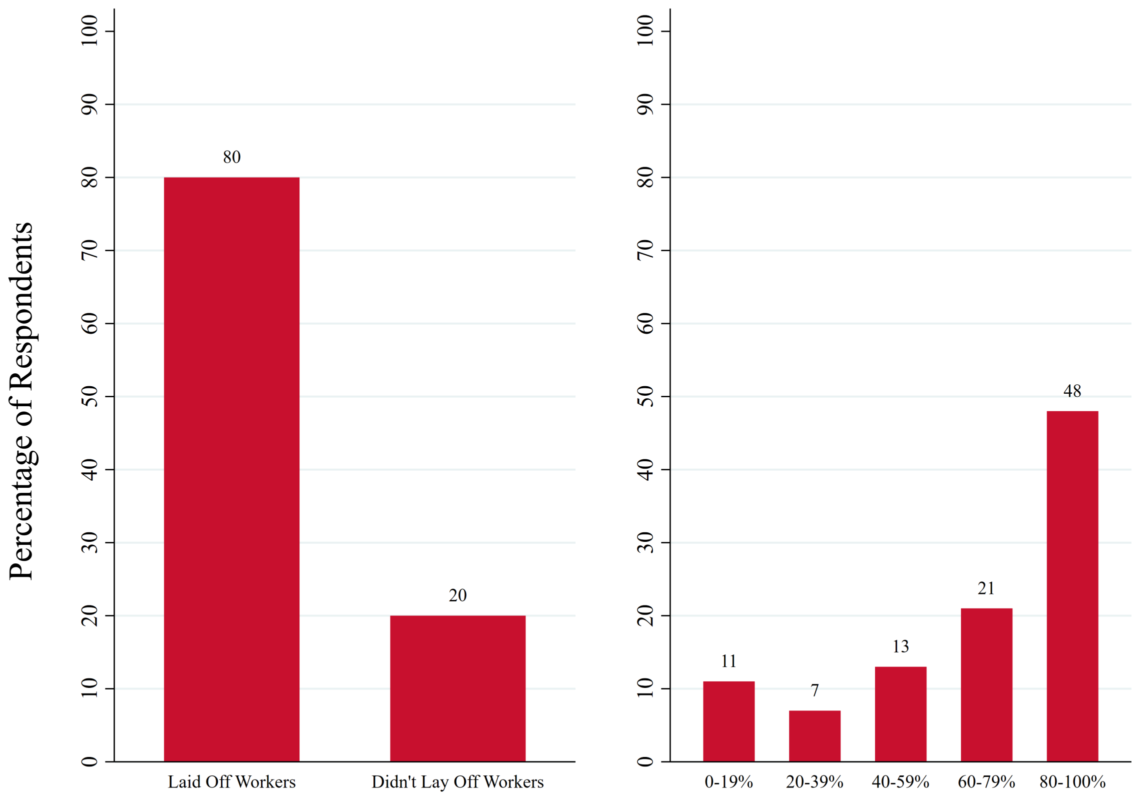
Figure 2: Between March 19 & April 6 Were You Forced To Temporarily or Permanently Close One or More of Your Restaurants?



Restaurant Employee Layoffs

Figure 3 highlights that in response to the pandemic 80% of restaurant owners had to carry out layoffs of their employees between March 19 and April 6. Among the four-fifths that laid off workers, nearly half (48%) laid off 80% or more of their employees (compared to the number employed prior to March 1), and more than three-quarters (76%) laid off more than half of their workers.

Figure 3: Restaurant Layoffs Between March 19 & April 6

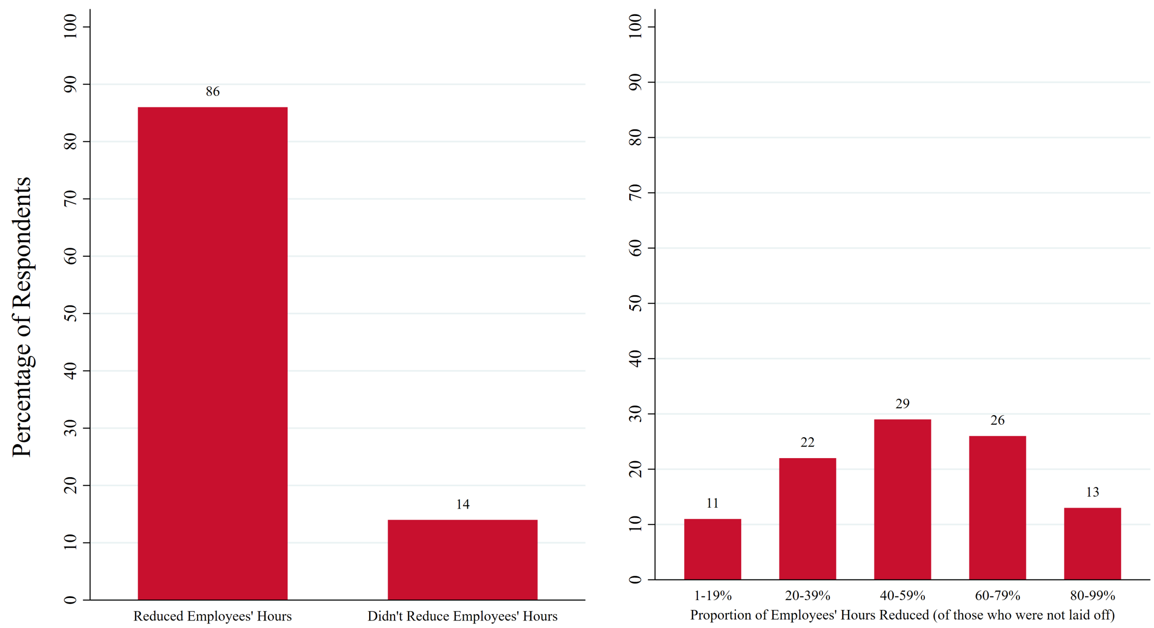


Restaurant Employee Hour Reductions

Even more common than layoffs were a reduction in the number of hours worked by the employees who were not laid off between March 19 and April 6 (compared to the hours worked prior to March 1). In all, 86% of owners reduced the number of hours their employees worked (see Figure 4), with the median worker being employed for less than half of the hours she/he worked prior to the onset of the COVID-19 Pandemic in the United States.

Three-fifths of restaurant owners (60%) have provided free meals for their workers who were laid off or had their hours reduced.

Figure 4: Restaurant Employee Hours Reduced Between March 19 & April 6



Business Strategy Amidst COVID-19

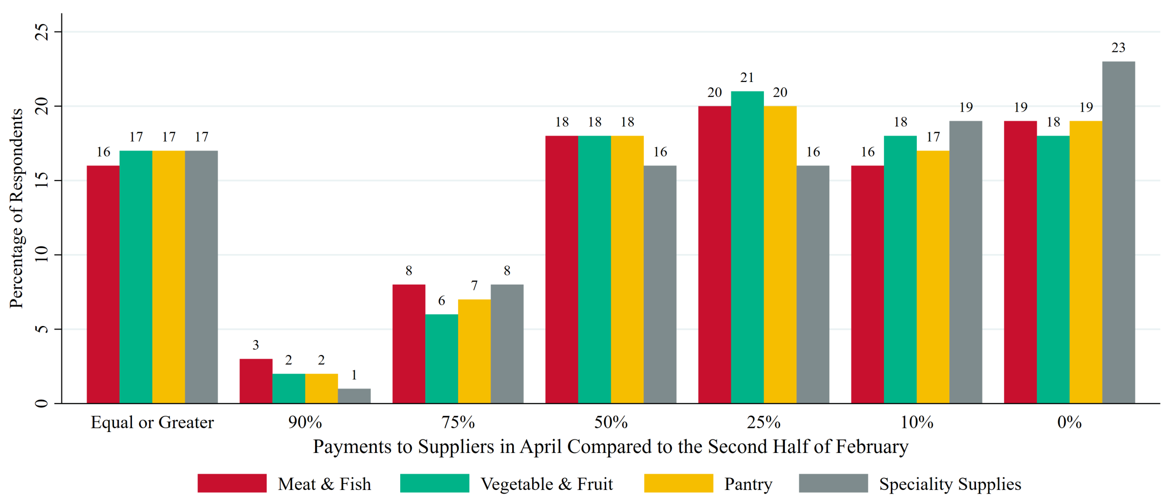
A substantial number of Texas restaurant owners have attempted to adjust their business model in response to the government-mandated closure of all indoor and outdoor dining. Prior to the COVID-19 Pandemic, 38% and 21% of these restaurant owners offered takeout and delivery respectively. Following the ban on dine-in service however, virtually all restaurants still open offer delivery and takeout. One in four owners (25%) has pivoted to also offer bulk food and specialty items to make ends meet. Less common is the preparation of food for sale in supermarkets or other outlets, a strategy that has only been possible for 3% of restaurateurs due to difficulties locating grocery outlets willing to sell their products.

Payments to Suppliers and Vendors

The restaurant industry is not an island unto itself. It indirectly supports a myriad of other businesses that supply it with food and provide it with vital services. Restaurant owners were asked about the amount of payments being made to these suppliers and vendors during the first half of April 2020 compared to the second half of February 2020.

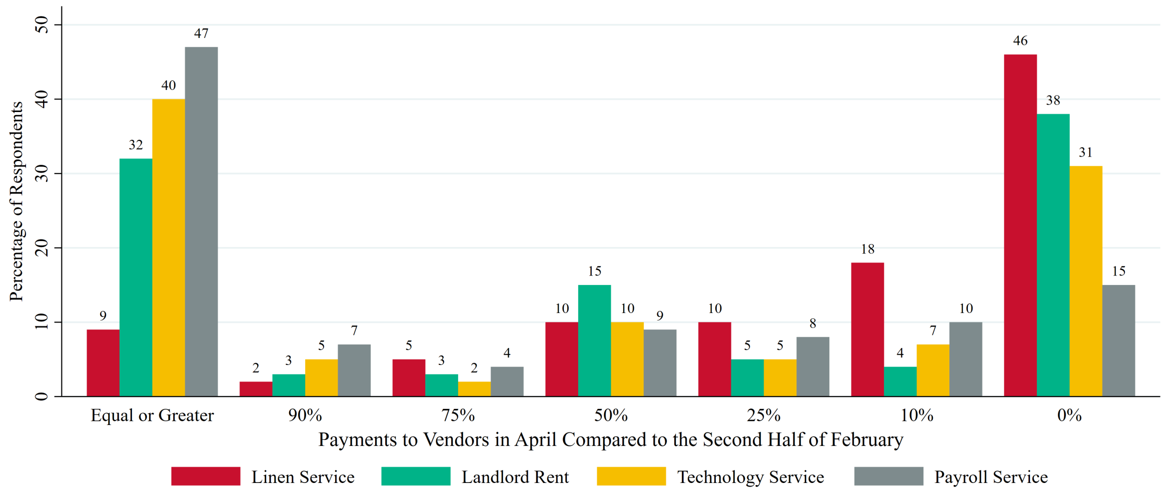
Figure 5 provides information on the change in payments to four different types of food suppliers: Meat and Fish suppliers, Vegetable and Fruit suppliers, Pantry suppliers, and Specialty Supplies suppliers. The values for all four items are quite comparable, with the partial exception of the payments to the Specialty Supplies suppliers (where logistics, especially related to imported items, play a more prominent role). The figure shows that almost a fifth of owners are making payments to suppliers that are 90% or greater than those during the latter half of February. At the same time, however, three-quarters are making payments to their food suppliers that are one-quarter or less of those made during the second fortnight of February.

Figure 5: Change in Payments to Food Suppliers in April Compared to February



Some of the restaurant food suppliers may have been able to partially shift a portion of their sales to grocery stores, wholesalers or private individuals. That is not the case, however, with the set of vendors in Figure 6: Linen, Payroll and Technology Service providers along with Landlords (86% of owners make payments to landlords for some or all of their establishments). And for these vendors, the net drop in revenue received from restaurants has in most instances not been compensated for by increases in revenue from already existing or new clients.

Figure 6: Change in Payments to Vendors in April Compared to February



The vendors who have suffered the least from a reduction in payments from their restaurant industry clients are Payroll Services. Over half (54%) of restaurant owners are still making payments to their Payroll Service providers 90% or more of what they were paying during the second half of February, with 47% making payments equal to or greater than those made back then. And, only 15% of owners are no longer making any payments to their Payroll Service providers.

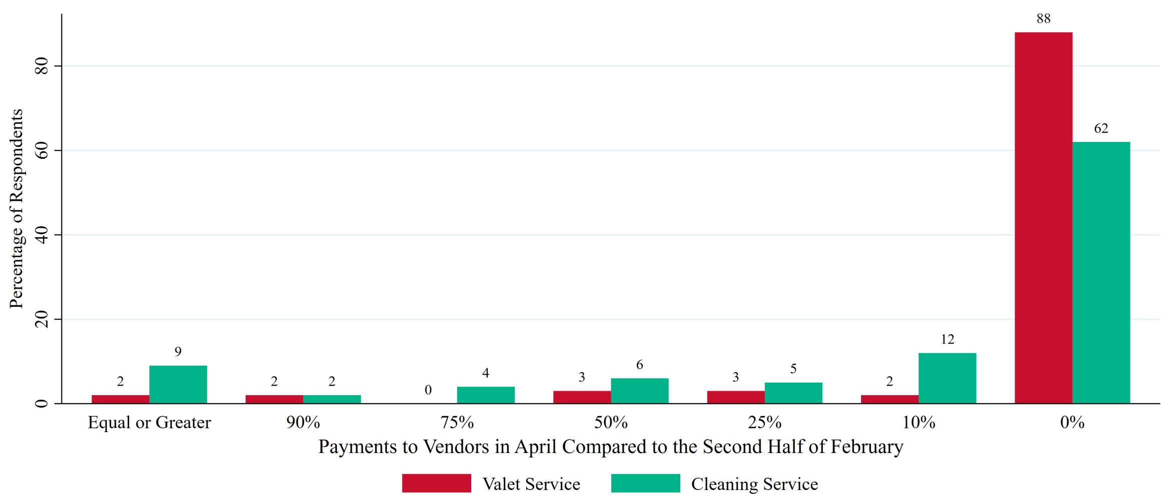
Faring next best are Technology Service providers, with 40% of owners making payments equal or greater than during the second half of February. However, nearly a third of owners (31%) are no longer making any payments to their Technology Service providers, and over half (53%) are making payments that are one-half or less of what they were paying in February.

A full-on rent strike is not taking place in Texas, yet. But, close to two-fifths (38%) of these embattled restaurant owners are no longer making rent payments (at least in April) to their landlords while, conversely, nearly a third (32%) are still making their full rent payment. The remaining 30% of owners are on a sliding scale making rent payments that represent between 90% (3%) and 10% (4%) of what they were paying in February, with the median sliding scale landlord paying one-half of their February rent.

Among the eight suppliers and vendors in Figures 5 and 6, those hardest hit by the drop in payments from restaurant owners are the Linen Service providers. Nearly half of restaurant owners (46%) are no longer making any payments to Linen Service providers, with another 28% making payments that are only a quarter or a tenth of what they were paying during the latter half of February. A mere 9% of owners are still making payments to their Linen Service providers that are equal or greater to those in February.

Finally, a notably smaller proportion of the restaurant owners employ Valet Services (20% of owners) and Cleaning Services (46% of owners) compared to the eight suppliers/vendors examined in Figures 5 and 6. Figure 7 highlights how payments by restaurant owners to Valet and Cleaning Services have collapsed in the aftermath of the COVID-19 Pandemic. Nearly nine out of ten restaurant owners (88%) are no longer making any payments to their Valet Service providers while more than three-fifths (62%) are no longer making any payments to their Cleaning Service providers.

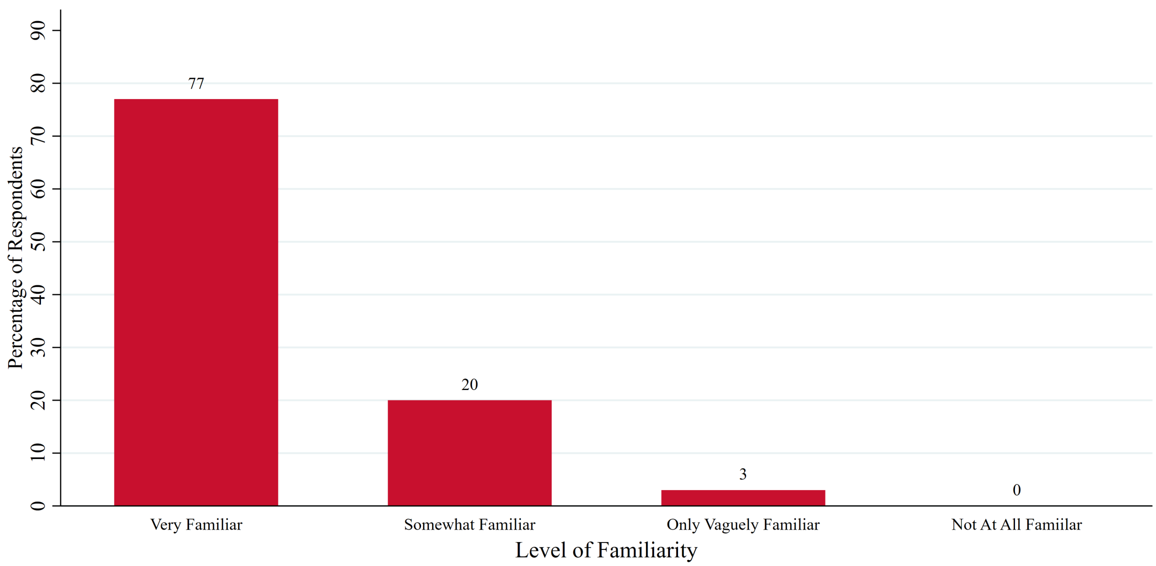
Figure 7: Change in Payments to Less Common Vendors in April Compared to February



The SBA's Paycheck Protection Program

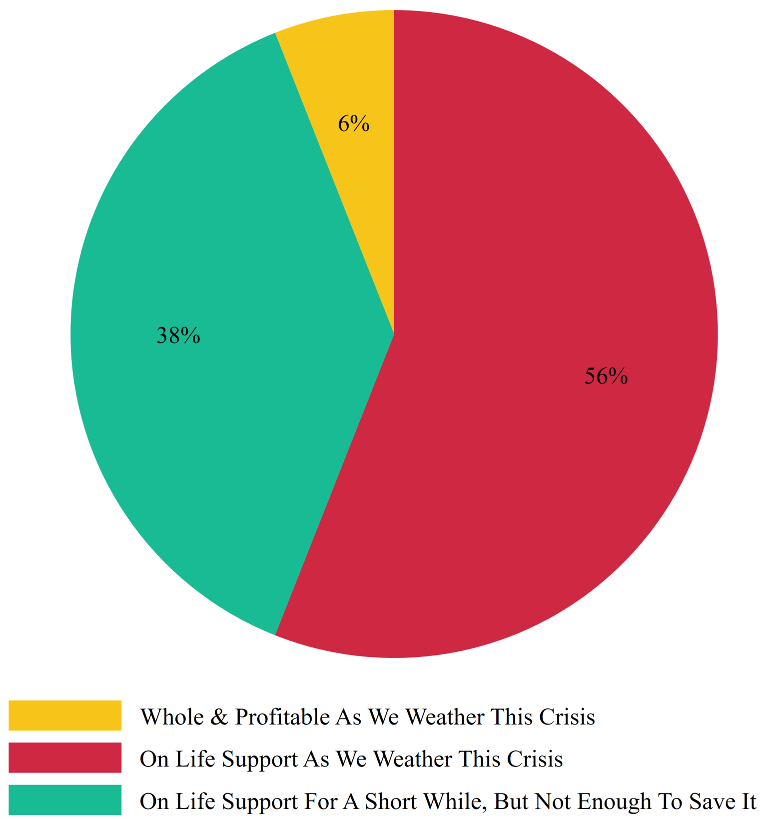
An overwhelming majority (97%) of the restaurant owners are familiar with the Small Business Administration's Paycheck Protection Program (PPP), with 77% Very Familiar and 20% Somewhat Familiar (see Figure 8). A mere 3% are Only Vaguely Familiar and not a single owner indicated they were Not At All Familiar with the PPP. And, 94% of restaurateurs have already applied for, or are planning to apply for, a PPP loan, versus 3% who don't plan on applying and another 3% who are unsure if they are going to apply.

Figure 8: Restaurateur Familiarity With the SBA's Paycheck Protection Program



Restaurant owners were asked which of three phrases best described their view of the Paycheck Protection Program as it related to their business (see Figure 9). A majority (56%) indicated they considered the PPP to be enough to keep their business on life support as they weather this crisis. Close to two-fifths (38%) however opted for a more pessimistic view of the PPP, believing that the PPP is enough to keep their business on life support for a short while, but not enough to save it. Only 6% of owners thought the PPP was enough to keep their business whole and profitable as they weather this crisis.

Figure 9: The Paycheck Protection Program is Enough To Keep My Business:



What if Governor Abbott Extends His Dine-In Closure Beyond April 30?

Governor Abbott's current order banning dine-in services expires on April 30. The restaurant owners were asked about what their response would be if Abbott extended this current ban on dine-in services beyond April 30.

Figure 10 indicates that if Governor Abbott extends the dine-in service ban, 21% of owners will temporarily close additional restaurants while 11% of owners will permanently close additional restaurants. And, another 36% and 43% respectively are unsure if they would temporarily or permanently close restaurants, with the decision most likely based on the length and conditions (e.g., allowing dining only at tables six feet apart or only on patios) of any extension of the ban.

Figure 10: If Governor Abbott's Order That All Dine-In Restaurants Remain Closed Extends Beyond April 30, Do You Plan To:

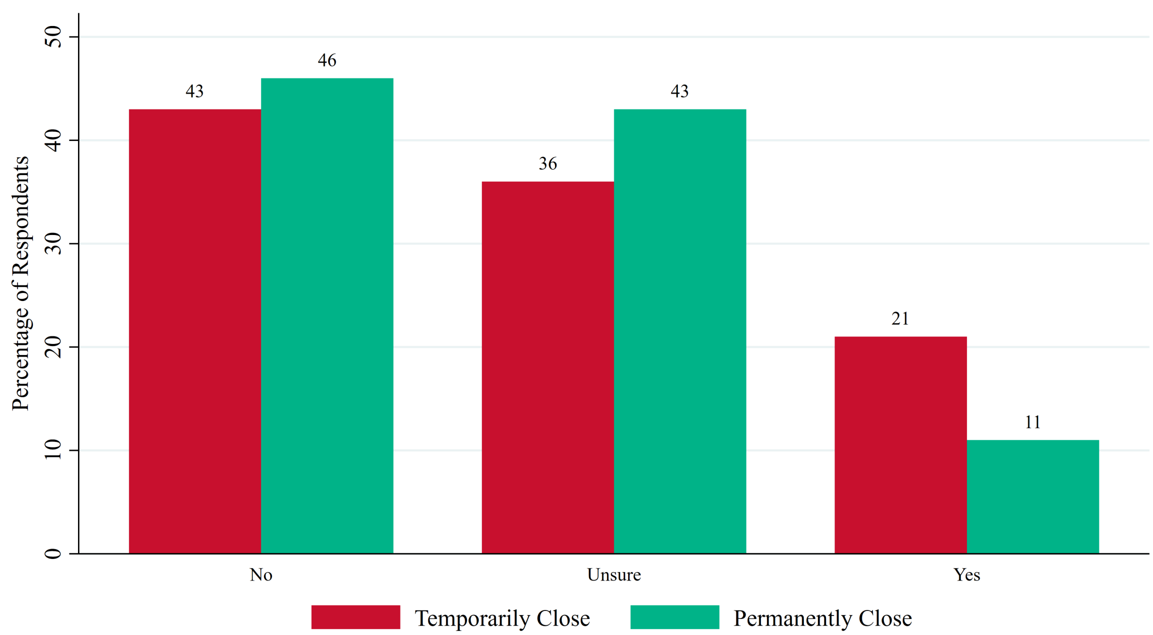
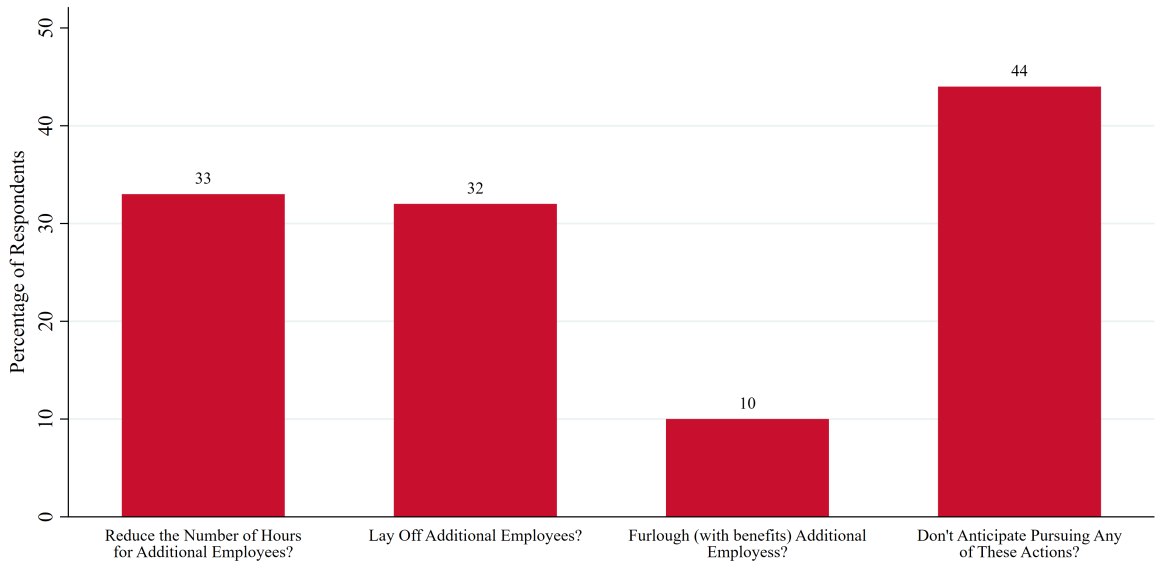


Figure 11 highlights that if the ban is extended, a third (33%) of restaurant owners would reduce the number of hours currently worked by their employees and lay off (32%) an additional group of employees, with 10% furloughing additional employees while still providing them with health benefits (more than one response was possible to this question). More than two-fifths (44%) however indicated that an extension of the ban would not cause them to reduce the number of hours of additional employees or to lay off or furlough additional employees.

Getting Back to Where They Started

Finally, the restaurant owners were presented with the optimistic scenario that starting on May 1 they would be allowed to offer full dine-in service in their establishments. They were then asked that based on this optimistic scenario, how long they thought it would take them to get back to where they were on January 1, 2020 in terms of their level of sales and number of employees. Figure 12 details their responses. The most common response, by 27% of the owners, was that it

Figure 11: If Governor Abbott's Order That Dine-In Restaurants Remain Closed Extends Beyond April 30, Do You Plan To?



would take them six months to get back to where they were on January 1, followed by 21% indicating it would take 12 months and 18% who thought it would take only three months. The most pessimistic believed it would take 24 months or longer (8%) or never would happen (3%).

Figure 12: If Dine-In Restaurants Are Allowed to Open on May 1, How Long Would It Take To Get Back to Level of Sales Number of Employees You Had January 1, 2020?