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From the San Francisco Business Times:

<http://www.bizjournals.com/sanfrancisco/print-edition/2016/02/12/restaurant-labor-shortage-sf-business-costs-bubble.html>

Cover story

As Bay Area living costs add up, restaurants struggle with labor shortage

Heated job competition from inside and outside the food business, San Francisco's soaring apartment rents and a dwindling pool of young people spell staffing trouble for restaurants

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When Ne Timeas restaurant group's Flour + Water prepared to open in 2009, it put out a call for servers. Almost 200 people showed up, and the restaurant also had a long list of applications from cooks seeking work, said chef Thomas McNaughton, a Ne Timeas partner. Today Flour + Water and the group's four other San Francisco restaurants struggle to find enough workers to staff the kitchen or the serving floor.

It's an increasingly critical shortage in San Francisco, restaurant owners say.

To be sure, concern about the dwindling pool of San Francisco workers isn't unique to the restaurant business, or new to it.

But the problem is worse than restaurateurs say they've ever seen it, as a combination of factors crunches the workforce.

Competition for workers is increasing as the city continues to be a hotbed for restaurant openings. The difficulty of making ends meet between an average cook's wages of \$13 an hour and apartment rents of \$3,500 in San Francisco or \$2,000 in Oakland is pushing workers out of the region or out of the industry. A city where unemployment was just 3.3 percent at the end of 2015 offers plenty of career opportunities, many of them paying a lot better than restaurant work.

One restaurant manager tells of a competitor who recently lost a store manager candidate. To Google.

Meanwhile, the proportion of people in the 20-24 age group — a cohort from which restaurants



TODD JOHNSON | SAN FRANCISCO BUSINESS TIMES
Obie Ostergard of Au Bon Repas group, which owns Gaspar. "They're shopping around with multiple job offers," he says of today's applicants.

typically hire heavily — is dropping in San Francisco, according to U.S. Census estimates. It fell from 7.3 percent of the population in 2010 to 6.6 percent in 2014.

It's hard to say exactly how many new restaurants have opened in recent years, because neither the city nor the Golden Gate Restaurant Association tracks openings. But most people in the industry agree that the number of restaurants in San Francisco has increased dramatically in the last several years. The Health Department estimates the number of food facilities — including restaurants, food trucks, cafeterias, cafes, coffee shops and other food producers and retailers — at 3,000.

"I just read an article about the top 45 (San Francisco) restaurants that just opened," McNaughton said. "There's a lot of money around to open restaurants. That drives up demand for the labor pool."

Akop Paronyan, who is the general manager of 19-year-old San Francisco restaurant E&O, said the flood of new high-end restaurants makes it harder for his restaurant to attract new staff, particularly servers.

"There are new restaurants opening all the time that can offer more money, or a (different experience), and with the economy being so good, there are more restaurants opening and not enough people to go around," he said.

It's not simply that the inability to maintain a workforce spreads staff thin. It can ripple through all parts of the operation, Paronyan said. Because he has to pull from a labor pool that may not be as experienced as in the past, he needs to spend more time and money on training.

"Because you're training people who might not have as much experience, it takes you away from operations or things you might want to do that are a little more innovative," he said. "In order to keep the service level up, we have to have more staff around." That cuts further into margins for the restaurant and tips for the on-duty staff.

"We're still seeing multiple candidates applying for jobs. But there are a lot of people replying and then not showing up," said Obie Ostergard, president of the Au Bon Repas Restaurant Group, the owner of Gaspar, Gitane and Café Claude. "They're shopping around with multiple job offers."

Ostergard said he is networking much more than ever before to find a new chef for Gaspar. He's also been experimenting with technology for short-term staffing solutions. Some websites, for example, connect cooks with restaurants for short-term gigs. He's also expanding beyond the typical restaurant go-to job search site — Craigslist — and looking at LinkedIn and other networking sites. But those are either short-term solutions or ones that don't really address the problem.

Eliminating tipping hasn't worked, either.

A selection of restaurants across the country and in the Bay Area have tried to abolish tipping, in part to raise kitchen wages and level the playing field between tipped servers and untipped kitchen staff.

But the concept is a tough sell for servers, and without a system-wide change, makes it harder for those restaurants to attract front-of-the-house workers. Ten months after eliminating gratuities at his popular San Francisco restaurants Bar Agricole and Trou Normand, owner Thad Vogler reverted to the conventional tipping model.

Ritual Coffee owner Eileen Hassi Rinaldi called attention to her labor woes early this year with signs

in her four locations explaining why she was raising prices. “We’ve never had a hard time hiring great people, but unfortunately our workers are being priced out of San Francisco. For the first time in our 11 years, we don’t have a flood of people moving to San Francisco to work in coffee,” she wrote, adding that to stay competitive, she now pays 90 percent of her workers’ health insurance premiums and has introduced a matching 401(k) plan. “Don’t be surprised if we have to do this again in six months to stay ahead of employment costs.”

Rinaldi said she is exploring ways to address her employees’ struggle to find housing — including putting money into employer-owned housing.

University of California, Berkeley economist Enrico Moretti disputes restaurants’ contention that there aren’t enough workers to go around. As he sees it, it’s simple supply and demand.

“What they call a ‘labor shortage’ is really that they need to raise wages, and it’s a natural adjustment of the market,” Moretti said. “We see this over and over again: when the labor market tightens, the cost of living increases, and service jobs cost goes up. What they are really saying is that for the prevailing wage, they’re not finding workers.”

It’s actually the sign of a healthy economy, Moretti said. And while the “labor shortage” has repeated itself historically, it seems more dramatic this time due to how quickly housing costs have risen.

But restaurateurs insist that due to the high cost of food and of doing business in San Francisco, raising pay is easier said than done. To do that means raising menu prices. The high number of restaurants means stiffer competition, and no one wants to have menu prices that are out of line with their competitors.

Restaurateur and chef Mourad Lahlou said that because of rising wages, many full-service restaurants are going to get “squeezed out,” in between the efficient, low-cost fast-casual concept and fine dining places that can charge more.

Lahlou said more chefs are running fast food eateries because it makes financial sense.

“More restaurants will open with (that) business model, because with rent structure, a lease, minimum wage, Healthy SF fees — all this s*** is factored into an equation, and people want food to be relatively cheap,” Lahlou said. “There is a huge trend of very talented chefs opening awesome restaurants and realizing for them to make a living, they need to open a bunch of lower-end places with high volume and low-skill employees.”

By the numbers

U.S. Bureau of Labor Statistics 2014 data on the restaurant industry.

193,890: Workers in food preparation and related occupations

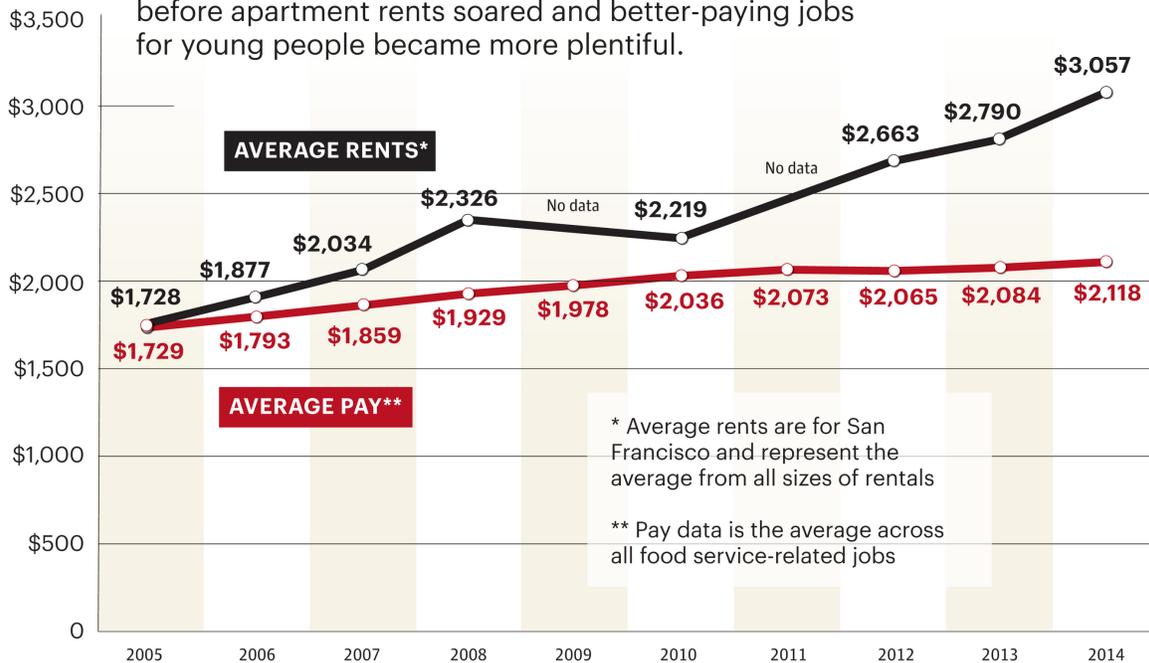
\$25,410: Average annual income in food prep and related jobs

\$49,230: The average salary for chefs and head cooks

Affordability Gap

THE AFFORDABILITY GAP

The low wages of food service weren't such a problem before apartment rents soared and better-paying jobs for young people became more plentiful.



SOURCE: RENTAL DATA FROM PARAGON; SALARY DATA FROM THE BUREAU OF LABOR STATISTICS

Annie Sciacca

Reporter

San Francisco Business Times



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