



## Wage Hike Has Restaurant Owners Hesitant to Expand in California

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By Richard Berger | April 19, 2024 at 10:27 AM

On April 1, a new California law went into effect that [increases the minimum wage to \\$20](#) for restaurants that have at least 60 locations nationwide.

The move has caused havoc in the restaurant industry, with JLL advising restaurant owners and landlords about its impact, such that some restaurant franchises are being very cautious about expansion in California.

“If we do see restaurants vacate California, this will create [much-needed restaurant space](#) for others to occupy, given a lack of supply in many areas,” said JLL managing director Blake Kaplan.

Some restaurants are well-positioned to handle the wage increase and will look to backfill vacant space from exiting restaurants.

JLL said it's hearing that some restaurants have started to adapt their operation to the new wages with hopes of remaining in California.

California is a key state for many restaurant franchises because of its sales, population, quality of life and access to labor.

This measure will end up eliminating jobs and pushing restaurant operators towards an automated approach, such as digital kiosks for ordering, according to Kyle Gulock, managing director and founder of California-based Century Partners.

"Restaurant margins are already razor thin, and this is an added burden, as restaurants continue to try and recover from restrictive policies passed down during the pandemic," Gulock tells GlobeSt.com.

John Few, managing principal at SRS Real Estate Partners, tells GlobeSt.com that the irony is that wages have in many cases naturally risen to this level already post-Covid, but has only raised concerns now that it is "official."

"Combined with the fact that California does not have 'tip credits' for operators, the minimum wage increase is just another factor limiting profits in an already challenging environment," Few said.

"This will most likely hurt entrepreneurial start-ups and mom-and-pop operators the most because they are generally not as sophisticated in combating other factors on the P&L to compensate."

Pierre Debbas, partner and founding member of Romer Debbas, said politicians need to proceed with caution when enacting policies of this nature.

“Inflation and labor shortages have hurt the profit margin of many small businesses and particularly restaurants,” he said. “If additional costs outside of the pressures from inflation are implemented, it will likely result in small businesses and restaurants seeking to relocate to a different state and will certainly bring down the demand for retail real estate in areas such as California.”

Bob House, president of BizBuySell, a platform for buying and selling small businesses and a CoStar Group brand, said rising minimum wages are no doubt causing strain on small businesses across the U.S.

“This new California fast-food law just adds complexity,” he said.

In early April, BizBuySell surveyed small businesses and 44% of all business owners said rising minimum wages have negatively impacted their business.

“That number increases to 73% when looking at restaurant owners specifically,” House said. “This, despite 81% and 74% saying they’re already paying above minimum wage, respectively.”

House said the issue is that rising wages compound an already challenging labor market, where 54% of restaurant owners surveyed said they’re having difficulty simply finding applicants.

“Rising wages just make it harder to compete for a limited pool,” House said. “But business owners are dynamic and notorious for finding ways to overcome obstacles. One such way is the addition of a tipping system during the checkout process.”