BOROUGH OF WILDWOOD CREST

CONSUMPTION LICENSING ANALYSIS

An Assessment of the General Fiscal and Economic Impacts Associated with Granting A Liquor License to a Full-Service Restaurant in The Borough’s “Crest Station” Central Business District and Qualified Hotels

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RESTAURANT CONSUMPTION LICENSE IMPACT ANALYSIS
For the Borough of Wildwood Crest, New Jersey
Dr. Jonathan Halket, PhD

INTRODUCTION
The Borough of Wildwood Crest is located within a highly competitive, New Jersey shore-based market. As such, the Borough is considering a number of options to enhance its competitive retail advantage – one of which is to provide for liquor licensing in the community.

The current system of liquor licensing in New Jersey places a quota on the number of restaurants that can serve liquor in a municipality. Currently, the Borough of Wildwood Crest is a dry community. It is considering whether to auction one Class C “32” or “33” license for use in a restaurant. The license may be geographically restricted to be used in a certain area of the Borough. This report is an analysis of the potential economic benefits that such an auction would have, outside of the direct revenue benefits from the auction itself.

The Vision
Providing for the sale of liquor and ultimately attracting a new, full service restaurant to the Borough is just one component of an exciting and comprehensive vision that the Borough has for its downtown. A plan for the development of “Crest Station,” provides a creative and attractive vision for the revitalization of a six (6) block area of New Jersey Avenue. See the graphic below.

Providing for the sale of a liquor license will enhance the market potential and contribute to the Borough’s ability to secure a new, mid-sized, full-service restaurant operating within Wildwood Crest. This restaurant would likely have service for between 50-100 customers at a time, operating

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seven days a week during the peak season and on reduced hours during the off season. During peak months, 25-35 new jobs would be created. Several possible dining options to leverage the effect of the license on the surrounding economy are explored. A new restaurant, which provides a unique and creative venue would complement both the existing retail and service economy of the Borough as well as the vision for revitalization of downtown.

**THE RETAIL AND DINING MARKET TODAY**

Currently options for dining in Wildwood Crest, particularly after 6pm or during shoulder/off-seasons are limited. Though there are commercial areas, the Borough nevertheless has lacked a well-defined “downtown” area for shopping or dining. Public infrastructure, such as well-lit, pedestrian friendly areas to support contiguous retail shopping and encourage browsing and shopping in area stores is limited. Traffic and parking during high season can be difficult. While this is typical in many resort areas, successful downtowns with a vision such as that proposed for “Crest Station” are able to overcome limitations that might otherwise discourage tourists to travel by car for lunch or dinner during key weekend times. New Jersey Avenue, the main avenue through the proposed redevelopment zone, is not presently very bike-friendly and the surrounding area is not well lit at night. However, its right-of-way is well suited to accommodate safe pedestrian and bike access to retail and restaurants as proposed in the “Crest Station” Plan. As many tourists prefer to walk or take the Trolley or Boardwalk Tram, retail and restaurants face obstacles to attracting cliental from outside their immediate vicinity. That is why the proposed “Crest Station” redevelopment project is so important. It will enhance significantly, the attractiveness of downtown and offer an environment that will help attract a new restaurant and promote the successful sale of the Class C Liquor License.

A new, full-service restaurant would cater to both the resident and tourist populations of the Borough and region. Consumer statistics indicate that of the full-time residents within three miles of the site, approximately 76 percent of them reported going to a family restaurant at least once in the last six months, with over 25 percent reporting that they go on average at least four times per month to such restaurants. The typical monthly spend for those that dined out at a family restaurant is between $50 and $100 per person per month, with an average annual total spend per household at full service restaurants (for breakfast, lunch and dinner) of about $1500 (a few hundred dollars lower than the average for Cape May households as a whole). There are almost sixty thousand year-round residents living within a 25 minute commute of Wildwood Crest – a distance that most people are willing to travel in order to have a quality dining experience.

The recently released (May 2019) report on New Jersey Tourism indicates that visitors to the Garden State spend an average of $104 per capita on food and beverage services. The food and beverage industry has been growing at a rate of 3.7% annually for the past five years and generates $12 in indirect and induced spending for every $100 spent. This extremely favorable, growing and vibrant market is one that Wildwood Crest must capitalize on to enhance its competitive advantage.³

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² [https://capemaycountynj.gov/DocumentCenter/View/1306/Wildwoods-Transportation-Study-PDF](https://capemaycountynj.gov/DocumentCenter/View/1306/Wildwoods-Transportation-Study-PDF)
³ [https://www.visitnj.org/new-jersey-tourism-research-and-information](https://www.visitnj.org/new-jersey-tourism-research-and-information)
THE ECONOMICS OF RESTAURANTS AND THE LICENSES

When it comes to their integration within a potential main street, retail environment, not all full-service restaurants are the same. Setting aside “fast-casual” restaurants (such as Chipotle or Panera), various restaurant typologies differentially blend and enhance with neighboring retail.

- **Casual dining**: Typical dining time is between 30 and 60 minutes. Most diners have two courses with or without alcohol. Examples include the national chain Olive Garden and the local Ravioli House. Casual dining establishments are typically a “follower” - they benefit more from neighboring retail and night activity and do not typically draw shoppers to their area by themselves. Therefore, the integration of retail, restaurants, and residential uses, as envisioned in the plans for “Crest Station” is essential to the project’s success.

- **Fine dining**: Nearby examples include Peter Shield Inn & Restaurant and Washington Inn. Diners are frequently willing to make a special trip to go to such restaurants. Fine dining establishments draw clientele from a larger area and destination or desirable locations are a plus. Diners at these establishments are not as likely to do significant shopping as those that go to a casual place.

Because other communities on the island and within easy access to the mainland offer a wide variety of dining venues, a liquor license (at the right price) and some further planning as proposed for “Crest Station” seems to be crucial to attracting and retaining a mid-sized, full-service restaurant in the New Jersey Ave corridor.

**Retail Restaurant Characteristics**

Liquor licenses from nearby municipalities have resale values in the hundreds of thousands of dollars. This indicates that there remains strong demand from restaurants for such licenses. The type of full-service restaurant desired by the Borough typically might reflect the following characteristics:

- Alcohol will typically comprise at least 25 percent of sales for a successful restaurant with a liquor license.
- A successful mid-size restaurant in this market could earn around $300,000 in annual gross profits from alcohol alone.\(^5\)
- Annual costs to holding the license could be approximately $40,000 per year in this market,\(^6\) leaving the remainder to cover the various other costs to operating.

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\(^4\) For a fuller list, see “The Successful Integration of Food & Beverage Within Retail Real Estate,” https://www.icsc.com/uploads/t07-subpage/ICSC-Food-Beverage-Study-US.pdf

\(^5\) Typical mid-sized restaurants have seating for between 50-100 customers and in this market likely range from 2000-4000 square feet in size. As an example, a full-service restaurant could average 200 customers per day (including dinner, lunch/brunch) during the high season and 100 per day in the shoulder and off-seasons could. If customers averaged $50 per meal then a restaurant could expect about $9 in gross profit from alcohol per meal or about $300,000 per year.

\(^6\) Professor Aswath Damodaran estimates a 6.3 percent current (as of January 2019) cost of capital in the restaurant industry for the U.S. restaurant industry as a whole (See http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/wacc.htm). These are for large restaurant chains. A more conservative cost of funds for a potential restaurant in this market might be around 10%. If the market value of the license were $400,000, then the annualized cost of buying a license would be around $42,500, including the $2500 annual fee.
• A new fine dining or casual dining establishment would likely mean 25-35 new jobs. Most of these jobs would likely be seasonal and near minimum wage. The exceptions would be three to five head-of-house, management and chef jobs, depending on the size of the establishment.

• The direct draw of a single restaurant is likely to be around 200 diners per day during peak season, of which a large portion of them will be during dinner hours.

• A mid-sized, full-service, casual or fine-dining restaurant with service for 50-100 will want at least 25 parking spaces nearby. Patrons with a car will park nearby and will generally only walk 100-200 feet to potentially browse in neighborhood stores. In this regard, the Borough has identified properties that are available for acquisition for additional off-street parking in the immediate area to meet any increased demand for parking space.

The Importance of a Unique Venue

Because the existing range of restaurant venues is well defined, Wildwood Crest finds itself in a strong position to attract a new restaurant to the island that is different from the types of establishments that currently exist on the island. This difference will be a critical component of a successful establishment.

From the perspective of neighboring retail, the ideal area eating establishment(s) will (a) offer something distinctive, (b) offer an array of dining options – from full-service meals to quicker bites, (c) be nimble enough to change its stripes during the low season and (d) be integrated into its neighborhood. With only one liquor license to auction, it may be desirable that establishment that held the license met some or all of these criteria. Casual and fine-dining restaurants do not typically tick all these boxes. Recently, developers and planners have begun exploring other dining models that may better mix with (existing or potential future) surrounding retail uses. While this report focuses on and asserts the feasibility of a mid-sized casual dining restaurant, some other ideas/options for venues that would benefit from a liquor license might include:

• The Craft Brewery-restaurant (nearby examples: Cold Spring Brewery and MudHen Brewery). Brewery-restaurants offer a variety of experiences in addition to sit-down dining, including potentially tours and tastings, events, outdoor service, and merchandise. Craft breweries attract a different, often more retail-friendly demographic mix (e.g. higher incomes and more 25-39 year olds) than other full service dining options.

• A Food court with alcohol service: The modern food court has come a long way and offers towns and small cities an array of benefits that a traditional restaurant does not. Examples include Santa Barbara, California’s Santa Barbara Public Market, The Pizitz in Birmingham, Alabama8 and Pine Street Market in Portland, Oregon9. These upscale food courts vary in size but typically feature at least several “pop-up” style restaurants from local chefs situated around shared areas to sit.

• A Mixed Use Entertainment Venue. Fixed or rotating entertainment of some sort, mixed with a quality dining opportunity can also offer the type of destination that enhances its chance for success and promotes a more year-round dining market.

• A Unique Outdoor Dining Venue. There are not many locations on the island where there is an opportunity for large-scale outdoor dining. This is particularly attractive in the summer months, where such an option can distinguish itself from other nearby eateries.

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7 http://sbpublicmarket.com
8 https://www.thepizitz.com/
9 https://pinestreetmarket.squarespace.com/
The plans for “Crest Station” include opportunities for outdoor dining which will contribute to a distinctive, casual dining experience.

**SUMMARY**

The sale of a liquor license to a full-service restaurant seeking to locate in the Borough’s downtown is just one component of a larger, longer-term strategy to enhance tourism and retail viability in Wildwood Crest. Hotels and motels, with the required number of rooms, would be eligible for a different type of liquor license. However, the actual number of licenses issues/sold will be a subject for review and approval by the governing body. According to a report prepared by Triad Associates, the one-time sale of a mix of liquor licenses might exceed $1.3 million dollars. In addition:

- A new, Class C liquor license in the proposed “Crest Station” area of the Borough will lead to the introduction of a new, mid-sized, full-service dining establishment.
- The “Crest Station” Redevelopment Program will enhance the potential for a new restaurant and promote the potential for complementary retail activity.
- The Borough’s leadership in promoting innovative dining opportunities may be the best way to “turn around” an area, attract shoppers and leverage a new license.
- The Borough’s vision for New Jersey Avenue’s “Crest Station” revitalization is integral to the long-term success of any dining venue and offers an exciting environment for the development of additional retail, dining and entertainment venues.