

TECHNOLOGY

How Tech Companies Disrupted Silicon Valley's Restaurant Scene

By NICOLE PERLROTH SEPT. 18, 2016

PALO ALTO, Calif. — It wasn't so long ago that the aroma of Moroccan spiced prawns and wood-oven pizzas wafted out to a downtown street here from the open-air patio of a once popular eatery called Zibibbo.

Today that patio is behind locked doors, obscured by frosted glass. The pizza oven is gone. The formerly crowded bar has been converted into a sparsely populated start-up space of a dozen engineers, their bikes and whiteboards. After 17 years in operation, the restaurant closed in 2014. The space is now an American Express venture capital office and a start-up incubator.

All told, more than 70,000 square feet of Palo Alto retail and restaurant space were lost to office space from 2008 to 2015, as the tech bubble drove demand for commercial space downtown.

It is a story playing out across Silicon Valley, where restaurateurs say that staying afloat is a daily battle with rising rents, high local fees and acute labor

shortages. And tech behemoths like Apple, Facebook and Google are hiring away their best line cooks, dishwashers and servers with wages, benefits and perks that restaurant owners simply cannot match.

Silicon Valley technologists love to explain how they have disrupted the minutiae of daily life, from our commutes to the ways we share family photos. But along the way, they have also managed to disrupt their local restaurant industry.

That may not be an issue for tech workers with access to free, farm-fresh cuisine in corporate cafeterias, but for everyone else here it is leaving a void between the takeout cuisine popping up around Palo Alto — picture bento boxes ordered on iPads at a counter — and \$500 meals at high-end restaurants.

“Restaurants as we know them will no longer exist here in the near future,” said Howard Bulka, a chef and owner of Howie’s Artisan Pizza in Palo Alto and another restaurant in nearby Redwood City. “Palo Alto is just too tough a row to hoe. A lot of people are looking into getting out in one piece or are thinking of leaving the business entirely.”

With razor-thin profit margins, restaurateurs find they can increase wages only so much. Paying a livable wage is a struggle in Palo Alto, where the average one-bedroom apartment rents for \$2,800, the same as in New York City, according to Rent Jungle. Workers have also been driven out of surrounding towns that were previously affordable, like Cupertino and San Jose, where demand from a new influx of tech workers has driven up the average cost of a one-bedroom apartment to more than \$2,500.

The cost to lease space in downtown Palo Alto, according to the city’s planning department, is now \$7.33 a square foot, up more than 60 percent from four years ago. Landlords have also put the onus of building improvements on the tenants.

Palo Alto requires restaurants to pay fees for things like sidewalk improvements, tree maintenance and parking. Restaurants that lease 1,000 square feet or more must provide four private parking spaces or pay an in-lieu parking fee of \$63,848 per space, for a total of \$255,392 — the highest such fee in the country.

Successful restaurants often pay 4 to 6 percent of gross sales in occupancy costs, which include rent and other fees like insurance and property taxes. But in Palo Alto, restaurateurs say the combination of high rents and staffing challenges has pushed their occupancy costs to 12 percent of gross sales.

“From an operating standpoint, it’s crushing,” Mr. Bulka said. “There’s just not enough profitability in this. Period.”

“Help wanted” signs are now ubiquitous, and not only among restaurants. On a recent Wednesday, a sign outside a florist read: “Call our associate. We don’t have enough people to run the shop here right now.”

Understaffed “fast casual” restaurants — frozen yogurt, cupcake and tea shops; poké bars; and salad stations where customers order from the counter — have replaced older mom-and-pop restaurants. Other newcomers are well-heeled chains like Nobu, the global sushi empire that announced plans to open a restaurant in Palo Alto, and Sweetgreen, the salad chain start-up that has raised \$95 million in venture capital funding and can offset the costs of doing business in Palo Alto with sales from its more than 50 other locations.

Not everyone is so fortunate. “We’re competing more for staff than we are for guests at this point,” said Craig Stoll, a James Beard Award-winning chef and co-owner with his wife, Annie Stoll, of Delfina.

The Stolls own four restaurants in San Francisco and two in Silicon Valley — one in Burlingame and the other in Palo Alto. They have not been able to fully staff their Silicon Valley locations since they opened about two years ago. They used to require their line cooks to have particular experience. “Now we’re just selling ourselves on Craigslist, posting pictures of cooks butchering pigs, sautéing, and good-looking waitresses to recruit staff,” Mr. Stoll said.

In the last year, the Stolls have lost several of their best servers and their director of operations to Twitter and Airbnb in San Francisco. To compete, the couple have been increasing pay and perks as much as possible, but they say they still often have to close off entire sections of their Silicon Valley restaurants simply because there is not enough staff to service them.

Recently, they have resorted to hiring their 14-year-old daughter and her friends to step in. “We’re breeding our own work force at this point,” Mr. Stoll joked.

Just a few blocks from Pizzeria Delfina in Palo Alto, JC Andrade, an owner of Vino Locale, a family-run wine bar, said his bar lost its previous chef to Facebook. His family increased workers’ pay and now offers a 401(k) program, but Facebook and Google continue to offer his staff higher wages than Mr. Andrade said he makes as owner. Increasingly, he said, he has to beg his 15-year-old brother to pick up shifts.

Last year, Brigitte Lau and Chamath Palihapitiya, founders of the venture fund Social Capital, opened Bird Dog, a stylish restaurant downtown. They had backing from other Silicon Valley investors eager to bring a slice of younger, innovative and relatively affordable San Francisco-style cuisine to downtown Palo Alto.

But even with Silicon Valley’s backing and their own substantial means — Mr. Palihapitiya is part owner of the Golden State Warriors basketball team — Ms. Lau said operating a restaurant in Palo Alto was not for the faint of heart.

“I’m supportive of the start-up community, but not at the expense of the community,” she said.

Walk around downtown Palo Alto and you will probably stumble on an enticing dining space where seasonal menus with dishes like Cuban braised pork tease passers-by. But do not try to enter without a badge. The space is Palantir Technologies’ private, fully staffed, employee-only cafeteria. The privately held software company now occupies over 12 percent of the rentable commercial office space downtown, according to the research firm PrivCo.

The newest options for locals include Zume Pizza in nearby Mountain View, where robots cook the pizza. Zume delivers to Palo Alto — perhaps in driverless cars in a few years.

On Palo Alto’s main street, adult-size robots, with screens featuring real people speaking from their homes in Bermuda or Kansas City, greet pedestrians and escort

them into a Beam robot shop, which is unstaffed and empty save for the other robots selling themselves.

“We joke that we’re all going to end up like Beam robots,” said Mr. Andrade, of Vino Locale. “It’s only a matter of time before someone hands them a tray.”

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