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Standing Out in the Coffee-Shop Sector

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Philz

headquarters in San Francisco.

ENCINITAS, CA—**Philz Coffee** embraces each neighborhood where it sets up shop and invites the local community in, setting it apart from most other **retailers** today, **Gould & Ratner LLP**'s real estate partner **Linsey Cohen** and Philz VP of real estate **Tracy Chiao** tell GlobeSt.com. The company, which is headquartered in and has several [locations in San Francisco](#), is adding stores nationwide, with Philz Encinitas opening in January 2017, a 6th store being added to the [L.A. region](#) with an **Arts District** opening in early 2017 (current L.A. locations can be found here:) and Boston

targeted as the next East Coast market for 2017 (a Washington, DC, shop opened in March). The company has nearly 40 stores in California and DC.

Founded by **Phil Jaber** in San Francisco's Mission District in 2002, the company has since turned into a national coffee chain with a cult-like following for its unique "one cup at a time" approach to coffee that allows it to craft cups to customers' individual tastes. We spoke with Cohen and Chiao about why Philz is unique and what other retailers can learn about its approach to business and real estate.

GlobeSt.com: *What is unique about Philz Coffee as compared to other coffee companies?*

Cohen: When Philz opens a new shop, it's not as if Philz comes into the neighborhood. Rather, Philz embraces the neighborhood and invites the local community into the shop. Philz is a coffee company that values not only having the best coffee, but it values the communities and people who walk through its doors daily. When we negotiate with landlords, we make sure to discuss some of the various qualities that make each a Philz location coffee shop unique and inviting to each of the specific locations that we have chosen. When considering sites, we look for ways to bring the neighborhood into the shop. We like to give our neighborhood customers a sense of ownership.



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Chiao: Philz is unique in that we are the only coffee purveyor that is completely dedicated to the art of hand-crafted coffee. You won't find any espressos, lattes, or frappes; just amazing custom blends by Phil Jaber—who transformed his corner store in the Mission neighborhood of San Francisco to the first Philz location in 2002—and his son Jacob, now CEO. Each cup is freshly ground and hand brewed by the cup so it is made for each customer's taste. We view each store the same way we view crafting the perfect cup of coffee; it is all about creating something just right for each community we are a part of.

GlobeSt.com: How is this company capitalizing on coffee's popularity in the retail real estate realm?

Cohen: Philz has been able to take its exceptional product to the consumer by opening locations in everything from small **shopping centers** to larger multi-building/**multi-tenant** centers and in stand-alone locations. The popularity of the brand and the remarkable reputation has had landlords very interested in the Philz concept for their centers.

Chiao: In a world where Internet and app life has vastly changed the **retail** landscape, Philz is thriving because coffee is a part of people's daily lives, and our shops are often ingrained in the community as a student's study, a tech founder's first office and a kitchen table for old friends. We also live in a world where there is a greater appreciation of craftsmanship and quality so consumers, and thus landlords, will seek out more-diverse retail partners besides the traditional players. So, we are in the fortunate position that coffee is often a must-have for landlords and appreciate that we are often the preferred coffee tenant.



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GlobeSt.com: What retail strategies is this company employing in its approach to real estate?

Cohen: Philz is experiencing measured and smart growth, focusing on its core markets in California, DC and soon to be Boston. Overall, the retail **leasing** market is pretty healthy, which can cut both ways. Healthy markets tend to have higher rents, but they also have other retail and public transit and foot traffic that less healthy markets don't.

Chiao: Our philosophy is to lead with people—both internally and externally. Like every retailer, we are subject to the forces of the market, but our people are at the heart of our business. We take our store team and retail leadership into account so our store growth is calibrated to match our ability to

grow a great team and externally; we listen to all requests and suggestions from customers. Similar to our “one cup at a time” approach, we take a “one store at a time” approach when it comes to our expansion efforts.

GlobeSt.com: Has the real estate leasing market been favorable for your company and business?

Cohen: Because of Philz’s reputation and fan base, it has become a sought-after brand in the retail market. This provides Philz with great opportunities to enter great retail centers. Urban real estate can occasionally be tricky in terms of negotiations due to greater regulation by cities and neighborhoods. There also can be challenges in various urban areas from neighborhood to neighborhood in terms of rents. However, the real estate strategy does tend to follow the marketing/positioning/branding strategy, and we work hard to preserve and enhance the brand first and foremost.

Chiao: It really depends on the focus of the parties involved. The retail market has definitely been a bit frothy as of late; so, if the focus of a landlord is purely driven by hitting certain pro forma numbers and returns, then that could be a challenge. Luckily, many landlords we work with are looking to break the formulaic approach and will place a higher weight on community and a brand’s value and passionate customer base, which works well for us.

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