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Don’t be afraid: What the ghost kitchen trend could mean for real estate investors

BY MATT BUCARO

A ghost kitchen – otherwise known as a dark kitchen, cloud kitchen or virtual restaurant – is a restaurant that does not provide dine-in or takeaway services to customers. It is primarily virtual and is reliant on food delivery apps, such as Grubhub, website/web portal orders and/or calls to generate sales. The global-cloud kitchen market size was estimated at $43.1 billion in 2019 and is forecast to reach $71.4 billon by 2027.

Ghost kitchens – cooking facilities that produce food only for delivery, with no dine-in or customer-faci – could create a $1 trillion global opportunity by 2030, according to Euromonitor. The firm predicts cheap ter and more reliable delivery could help this segment capture 50 percent of drive-thru service ($75 billion), 50 percent of takeaway foodservice ($250 billion), 35 percent of ready meals ($40 billion), 30 percent of packaged cooking ingredients ($100 billion), 25 percent of dine-in foodservice ($450 billion) and 15 percent of packaged snacks ($125 billion).

Diners are becoming more comfortable with food delivery, and restaurant closures (in the wake of the novel coronavirus pandemic) will drive a change in how physical restaurant formats are being used, especially as shuttered businesses leave empty real estate behind, according to a presentation by Euromonitor. This will prime the industry for an acceleration in ghost kitchen development. Global food-service delivery sales more than doubled from 2014 to 2019, and 52 percent of global consumers are comfortable ordering from a delivery-only restaurant with no physical storefront.

Types of ghost kitchens

Incubator/pop-up ghost kitchen. An incubator/pop-up ghost kitchen is affiliated with a traditional restaurant but focuses primarily on online orders and deliveries. Because the restaurant already owns the space, all it needs to do is create a separate workflow and delivery model that allows staff to work in an isolated kitchen, reducing online orders' pressure on the brick-and-mortar restaurant crew. Incubator kitchens are ideal for restaurants looking to add a new revenue stream and see how the local market reacts to a new food concept. If a particular idea doesn't succeed, all that was lost was time, but not large sums of money, and it's easy to move on to try another one. Another reason to open an incubator kitchen is to align the business with current trends. For example, high search traffic for a particular meal might indicate an increased local demand. Opening a pop-up kitchen is a great way to meet the rising demand while still serving the restaurant's loyal customers' regular menu items.

Kitchen pods. For an operator looking to launch a ghost kitchen as quickly as possible and on a low budget, a kitchen pod might be the ideal solution. Kitchen pods are small shipping containers that come with outfitted kitchens. On the one hand, kitchen pods are convenient because they are customized for effectiveness and efficiency. They are also usually cost-effective because a movable container eliminates the expense of a rented space.

However, kitchen pods do have limitations to consider. For one thing, zoning laws are complicated for these spaces, and might limit you from installing a kitchen pod in rooms or driveways. More importantly, working conditions are not always up to par. Maintaining safety measures in a small space with no windows is tricky. And in today's reality, it might be best to pay close attention to employee safety.

Commissary kitchens. By far one of the most well-known and successful ghost kitchen models, commissary kitchens are shared kitchen spaces owned and operated by a third-party company or entrepreneur rather than a restaurant. They usually house multiple restaurants, brands, or concepts under one roof, where staff shares everything from refrigerator space to frying pans. Virtual restaurants typically pay for a membership or rent out cooking space, alongside other food entrepreneurs, by the hour. A commissary kitchen is an excellent option for restaurants looking to leverage a ghost kitchen's benefits without having to shell out substantial up-front costs.

A typical commissary kitchen provides virtual restaurants with ventilation, sinks, cooking space, storage space, lockers, and cleaning supplies. Some may also offer kitchen equipment and dishwashing services. The more advanced might even offer expediting resources, data analytics, and even bookkeeping guidance. A commissary kitchen offers an obvious financial advantage for operators looking to start a business using a ghost kitchen. Keeping a restaurant, even a virtual restaurant, open every single day is expensive. Whether it is electricity costs or rent, many overhead costs are involved in the functioning of the business. Not to mention start-up co[illegible] as leasing a building or purchasing kitchen supplies and equipment. Working from a shared kitchen he[illegible] reduce these costs significantly.

Market drivers

One of the main drivers of the growth of the ghost kitchen market is the changing cost structures of the food-service environment. Ghost kitchens push restaurant cost structures toward delivery rather than in-person dining, and the reduction of employees that comes with a delivery-focused model can significantly bring down rent and staffing costs for restaurants, and grow thin margins.

For example, 60 percent of the price paid for a Starbucks latte goes toward the cost of rent and staffing, leaving very little per-serving profit, according to Euromonitor, which cited data from *Financial Times.* As delivery becomes less expensive, and ghost kitchens grow and become more centralized, reducing food delivery times in the process, restaurants could find financial gains in optimizing their business for off-premises, rather than dine-in, experience.

The United States currently has 1,500 ghost kitchens, putting it ahead of the U.K. market (750) but behind China (7,500+) and India (3,500+), according to Euromonitor data. The global restaurant industry was marked by third-party delivery expansion from 2010–2015, as restaurants wanted to get in the off-premises game but didn't have the capacity to launch their own delivery. 2020 and beyond will be defined by a proliferation of ghost restaurants driving a rise in virtual restaurants, or prepared food brands that exist only online with no physical locations.

Venture capital investment in ghost kitchens is said to be on the rise. *Forbes* opined that ghost kitchens are attracting big investments and becoming an industry unto themselves, built around the internet.

- Investments in the sector have risen since 2016, with deal values increasing by 2.4 times.
- In 2019, ghost kitchens saw a $1.9 billion investment across 16 deals.
- In 2020, the industry closed 199 deals, seeing a $55 billion capital investment from 507 investors.
- The likes of former Uber CEO Travis Kalanick and Alphabet Inc. venture capital division GV have invested heavily in the concept.
- An example is New York– and Dubai-based Kitopi, a self-acclaimed world-leading managed cloud kitchen, that said it raised $60 million for expansion in the food-delivery space. The funding comes from Knollwood, Lumia Capital, BECO, CE-Ventures, GIC, Rise Capital, Reshape, Global Ventures, MSA Capital, and Wilshire Lane Partners.

Impact on brick-and-mortar restaurants

To streamline purchasing for their restaurant tenants, the owners of ghost kitchen facilities can acquire or start their own food-purchasing groups. Using data collected through their ghost and virtual restaurant tenants, they can analyze food costs and usage, reduce waste, and negotiate lower rates for food purchases.

When the owners of ghost kitchens have built out this infrastructure, they'll be enticed to experiment with operating their own virtual restaurants, which means they will become direct competitors to their brick-and-mortar and virtual tenants (think about how AmazonBasics competes with merchants on their marketplace that sell similar products). The owners could use the vast trove of data about the most popular and profitable cuisines in their ghost kitchens, and other data points not available to their tenants, to optimize sales and operate data-driven virtual restaurants. They can then charge tenants higher fees for their restaurants' menu items to be listed before their own in search results and paid advertisements. Celebrity chefs and well-known restaurants may benefit when they're tapped to create and inspire menus for the virtual restaurants owned by the kitche[illegible]rs.

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