

# Commercial Market Insights

## Deliveries: Ghost Kitchens June 2020

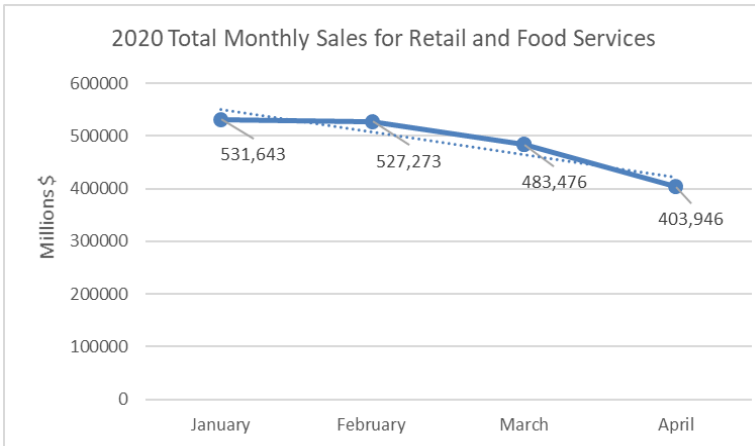
National Association of REALTORS®  
Research Group



NATIONAL  
ASSOCIATION OF  
REALTORS®

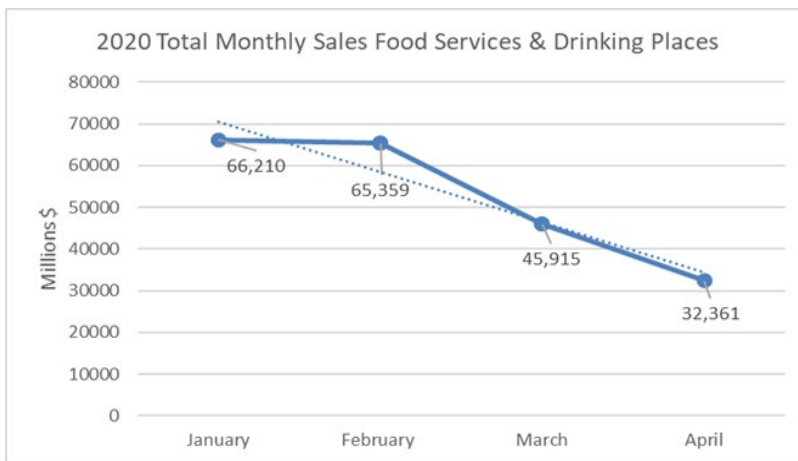
### Deliveries: Ghost Kitchens

The coronavirus has impact every aspect of the U.S. economy and posed massive obstacles as stay-at-home orders were implemented and business operations ceased with the exception of “essential businesses”. The impact of the coronavirus has resulted in the closure of many restaurants and bars.

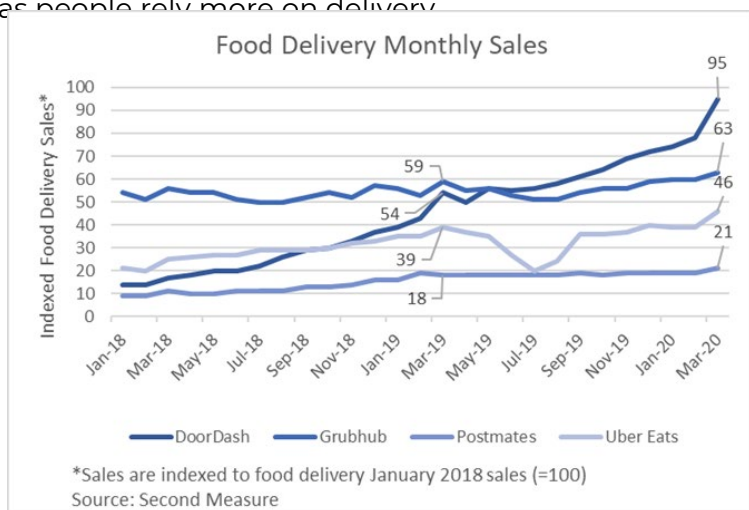


As individuals made preparations for sheltering-in-place, food services & drinking places total sale estimates for the month of March, came in at \$48 billion which is a 26% reduction from February. April 2020 is the largest monthly reduction recorded according to advanced estimates. Advanced monthly sales for retail and food services for April 2020 were \$403.9 billion. This figure represents a decrease of 16.4% (+/-0.5%) from March figures.

The downward trend of food services & drinking places total sale estimates continued as well as advanced estimates indicate a decrease of 29% from March to a total of \$32 billion.



The downturn in retail and food service sales is synonymous with the 7.5% contraction of consumer spending realized in March. The decline in consumer spending is, in part, due to the reaction of the coronavirus pandemic, as governments put “stay-at-home” orders into effect. The result of the order caused changes in demand, as businesses and schools transitioned into remote work operations or ceased operations completely and thus consumers adjusted accordingly by restricting, rerouting and eliminating non-necessary spending. The combination of shifts in consumer spending, “social distancing”, stay-at-home orders in these difficult and unprecedented times, has had a tremendous effect on food service and drinking place employees. As restaurants adjust to the new norm of providing no dine-in service in an effort to curb the coronavirus pandemic, there was a significant reduction in food service and drinking place employment. Preliminary BLS employment figures for March and April 2020 are 11.8 million and 6.3 million respectively. Whilst the March employment figure was a 3% reduction from February, food service and drinking place employment in April was nearly cut in half as only 6.3 million individuals were employed. Despite the downturn in retail trade sales, food services and drinking place sales and employment, food delivery sales for some of the largest delivery firms are quite the contrary as people rely more on delivery.

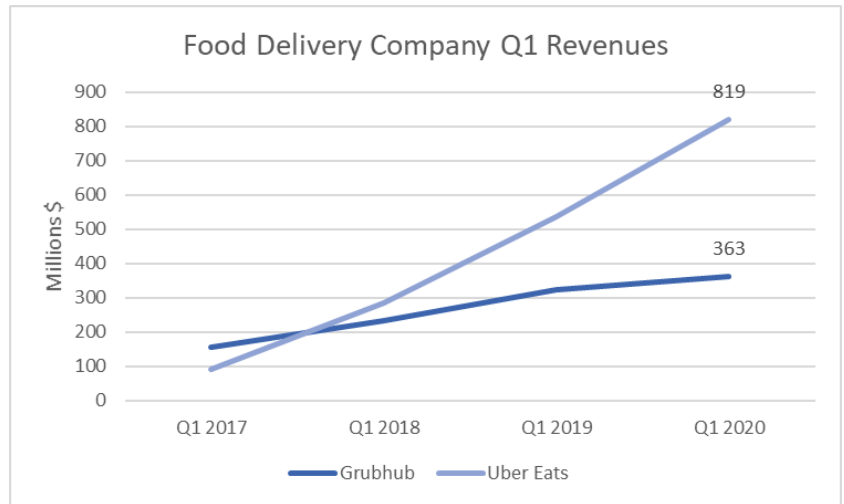


When restaurants closed their doors to dine-in operations, the remaining means of servicing customers was via either delivery, drive-thru or curbside pickup. While delivery is not wholly making up for lost dine-in sales and is not the most popular choice for sourcing meals and snacks according to research firm NPD Group Inc, today’s on-demand delivery culture is continuing to grow. According to data collected from Second Measure, a data analytics company, monthly sales for food delivery companies such as Grubhub, DoorDash, Uber Eats, and Postmates continues to grow and has grown over the past few months during the coronavirus pandemic as millions of people are stuck at home and craving their favorite restaurants.

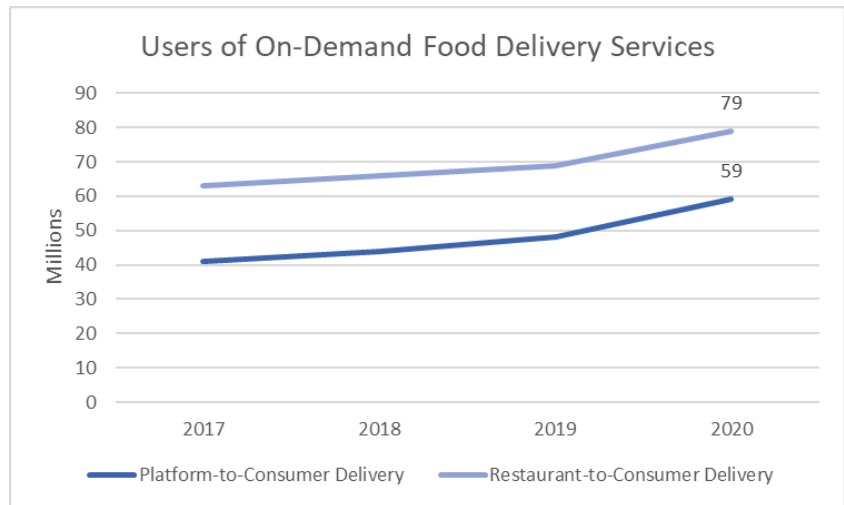


The increase in monthly sales is contributing towards record revenue highs. Delivery companies generate revenue by charging restaurants fees for joining the companies’ networks and for delivering food to consumers which

ultimately puts pressure on the restaurants profit margins. The delivery companies also charge the diners for delivering their food. According to company financial statements, despite the coronavirus pandemic, results for first quarter 2020 indicate increased revenue for food delivery companies such as Uber Eats and Grubhub. Uber Eats revenue for three months ending on March 31 grew 53% year-over-year to \$819 million and Grubhub had an 12% year-over-year increase for \$363 million.



Not only are revenues increasing but the number of users of on-demand delivery services are increasing as well. It is not simply one type of on-demand food delivery service that is increasing but rather both, platform-to-consumer delivery and restaurant-to-consumer delivery. For many restaurants such as McDonald's, Wendy's, Burger King, Little Caesars and others, in an effort to provide delivery services to customers, they collaborate with delivery companies as there may not be enough capacity, demand or desire for them to pursue deliveries at their assorted locations. The collaboration between restaurants and food delivery companies is continuing an upward trend and is a contributing factor towards the increase of total users of on-demand services.



**GRUBHUB™**

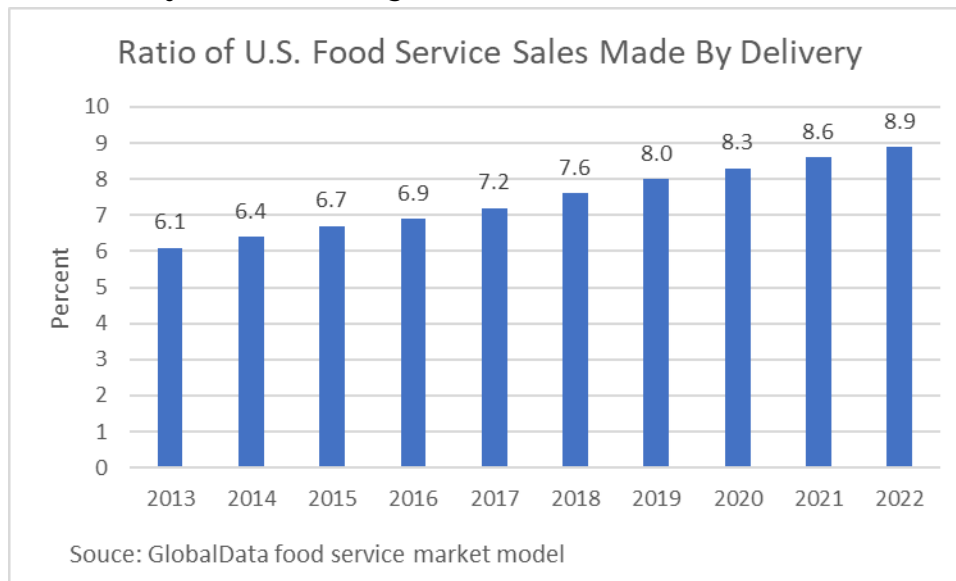
Brandon Hardin, Research Economist  
[bhardin@nar.realtor](mailto:bhardin@nar.realtor) | Research Group

[www.nar.realtor/research-and-statistics](http://www.nar.realtor/research-and-statistics)



The resultant dine-in closures and increase in delivery growth, in essence, has converted every operational restaurant into a ghost kitchen. Ghost kitchens, otherwise called dark kitchens or cloud kitchens, are facilities that contain the necessary kitchen equipment to facilitate off-site food preparation and cooking solely for on-demand food delivery without a traditional dining area for walk-in patrons.

While the concept has been receiving notoriety in recent months, more restaurants, third-party delivery platforms and startups have pursued this path as a means to manage the demand for delivery services, increase efficiency and by reducing rent and labor costs. The ghost kitchen model not only services higher delivery volume, but in addition, they can be staffed exclusively with kitchen employees, thus lowering overall labor costs. The reduction of rent can be realized as a larger facility is not necessary as there is no need for a traditional dine-in area and the site can be in a less preferable location provided it is within close proximity to customers. Ghost kitchens have grown in size and scope with an estimated 1,281 global operational facilities occupying space in densely packed cities as consumers pivot towards food-service delivery, which is estimated to account for more than 8.9 percent of U.S. food service sales by 2022 according to the GlobalData food service market model.



Restaurants pursue the ghost kitchen model primarily in an effort to access new markets, address increasing demand of delivery, operation requires lower initial investment, the kitchen is optimized for delivery, integrate robotics and as a answer to margin problems originating from delivery firm fees. Ghost kitchens are not limited to only restaurant companies though, as other businesses are in pursuit of the model such as mall developers, supermarket chains, delivery providers and many more. Here are a few examples of ghost kitchens ventures:

Brandon Hardin, Research Economist  
[bhardin@nar.realtor](mailto:bhardin@nar.realtor) | Research Group

[www.nar.realtor/research-and-statistics](http://www.nar.realtor/research-and-statistics)



1. Malls located in Pennsylvania and Georgia have seen investors prepare to repurpose mall space for ghost kitchens. The Simon Property Group, who owns and operates the 1,558,678 square foot Lennox Square shopping center located in Buckhead district of Atlanta, Georgia and the 2,793,200 square foot King of Prussia Mall located in King of Prussia, Pennsylvania, will repurpose shuttered restaurant space as dark kitchen space. Simon Property Group, the largest retail real estate investment trust (REIT) and the largest shopping mall operator in the United States, and multinational hospitality group Accor formed a partnership with hospitality company SBE Entertainment Group in 2019 to form C<sup>3</sup>, also known as Creating Culinary Communities. Accor has a 50 percent stake in SBE. C<sup>3</sup> will occupy space that was previously occupied by one brand. C<sup>3</sup> will then bring in nearly 6 of SBE's brands to share the new space. SBE brands include Krispy Rice, Plan Nation, Sam's Crispy Chicken, Umami Burger and many more. C<sup>3</sup> then intends to deliver consumers their food in under 30 minutes for less than \$30. C<sup>3</sup> intends to open more than 250 ghost kitchens by the end of 2021 with 140 opening by the end of 2020 in major cities across the U.S. including Chicago, Miami, New York, Los Angeles and San Francisco.
2. Wendy's began experimenting with ghost kitchens in 2019 as they announced the intention to utilize ghost kitchens as a significant portion of their expansion strategy at the company's investor day. Wendy's intends on using the model in high delivery volume areas and underserved regions where its physical locations are deficient. Wendy's opened two delivery-centric kitchen locations, one in Kitchen United's Pasadena, California facility in late February and one in Chicago.
3. The supermarket chain, Kroger partnered with delivery-only kitchen operator ClusterTruck, an Indiana-based ghost kitchen that utilizes proprietary software to optimize kitchen and delivery operations to expand their delivery services in a partnership that blends grocery and restaurants together. The partnerships result in the Kroger Delivery Kitchen. The Kroger Delivery kitchen fueled by ClusterTruck meets consumers demands for fresh prepared food and delivers it to them in less than 30 minutes.
4. Chick-fil-A has numerous ghost kitchen facilities. They have a ghost kitchen presence in Louisville, Nashville, Chicago, Redwood City among others with more to follow.
5. Applebee's is currently experimenting with the idea of utilizing ghost kitchens to increase their presence in underserved cities. Applebee's is doing its due-diligence with respect to determining the right ghost kitchen model to pursue, whether that be operating its own ghost kitchen, partnering with third-party ghost kitchen providers such as DoorDash or partnering with a ghost kitchen provider such as Kitchen United, Cloud Kitchens, among others.

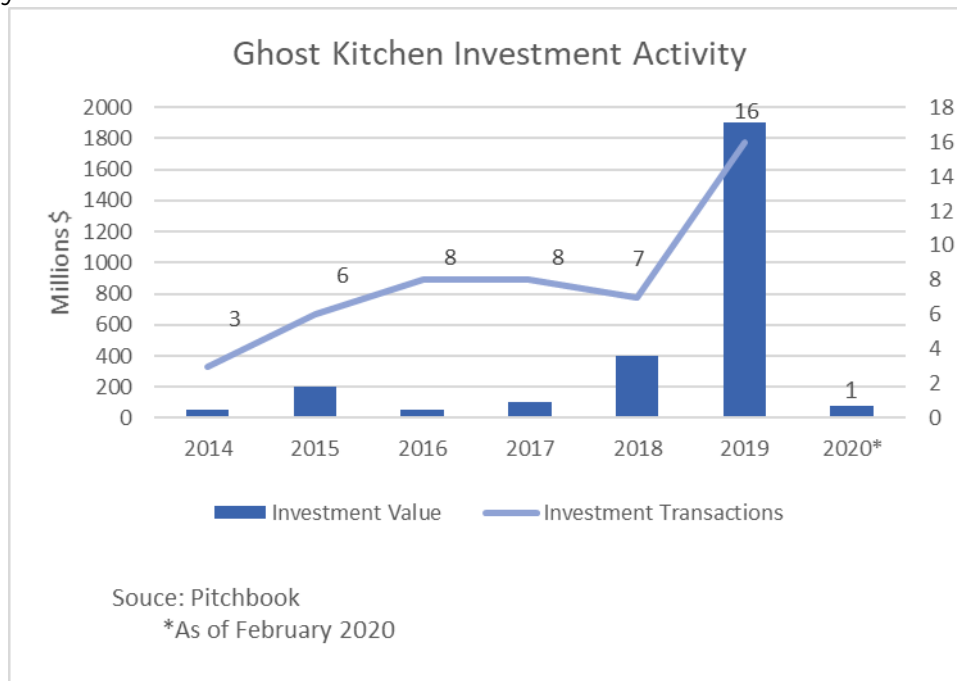


Brandon Hardin, Research Economist  
[bhardin@nar.realtor](mailto:bhardin@nar.realtor) | Research Group

[www.nar.realtor/research-and-statistics](http://www.nar.realtor/research-and-statistics)



While food delivery is increasing and with the ghost kitchen model gaining traction pre-Covid-19, more Ghost kitchens are opening to meet the demand for on-demand food delivery. According to Pitchbook Data Inc, a data, research and technology company, global investment in ghost kitchens and their operators continues to increase with investments totaling \$1.9 billion in 2019 spanning 16 transactions. Ghost kitchen investment has increased by almost 2 ½ times each year after 2016. Investment in ghost kitchens are likely to continue as they are performing well during the coronavirus pandemic as a result from an increase in food delivery demand as consumer habits continue to shift.



Ghost kitchens can range from providing a new use for vacant mall space to simply meeting newfound customer food delivery demand as they provide companies with a method to offer food for delivery, a way to meet the increase in consumer demand for food delivery via companies such as DoorDash, Uber Eats, Grubhub or by sharing kitchens in a existing ghost kitchen space and all without the expense of opening a brick-and-mortar location and without placing substantial burdens on current operational locations. Companies just need a substantial amount of demand to make the food delivery only model work. To the degree that consumers' food delivery habits continue post-COVID-19 pandemic, ghost kitchens are another technology-driven initiative that could potentially encounter a boost as restaurants search for alternative delivery models.