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REAL ESTATE INVESTMENT SERVICES

GHOST KITCHENS

A NEW ERA OF RESTAURANTS



The pandemic has accelerated delivery trends, as restaurants were forced to comply with occupancy restrictions, limited operations, and in some cases, closed locations. Even before the virus, online delivery trends were revolutionizing the restaurant industry with an entirely new type of business. While some restaurants begin to reopen, customers are still cautious about returning to their favorite dine-in establishments. As a result, restaurants are looking for ways to capture more off-premise business, directing national chains and mom-and-pop restaurants to ghost kitchens, otherwise known as dark kitchens or virtual restaurants.

Within the first five months of the pandemic, restaurants lost \$131 billion in sales, according to the National Restaurant Association.



RECENT POPULARITY

Restaurateurs view ghost kitchens as an incredible value-add that boosts sales and reach. Depending on the company that operates a ghost kitchen, they focus solely on fulfilling online orders and delivery. For the most part, virtual-only restaurants operate out of a space that consists of a single kitchen. Sometimes a restaurant serves an assortment of menus from different brands, but all the food is prepared in the same space. Ghost kitchen owners will work with various chains to optimize its use, boost sales, and hand over the order to their partnered third-party deliverer. More recently, tech companies have entered the food delivery market by partnering with food brands to create menus and branding.

Ghost kitchens give restaurants the opportunity to deliver straight to customers at home that otherwise wouldn't have the capability. They allow restaurateurs to focus on cooking and preparing food rather than dealing with the headaches associated with cost and management of opening and operating a restaurant business. In a sense, the restaurant wouldn't even

have to physically exist so long as a ghost kitchen is licensed with the restaurant brand. Brick-and-mortar landlords are eager to transform their vacancies into ghost kitchens as the demand from such tenants continues to increase, making them the perfect solution for struggling landlords looking to fill long-term vacancies. Ghost kitchens do not require an appealing storefront and do not need to be on a major retail corridor, so even a less desirable unit can be filled with ghost kitchen operations.

Food establishments that had to close during the peak of the pandemic referred to these virtual kitchens as a means to continue sales. Some dark kitchens lease out unused kitchen space in an existing restaurant. For fine dining establishments, ghost kitchens served as a lifeline as many decided to lease out their underutilized kitchen, running several menus in one location. Customers who order from these ghost kitchens are generally under the impression that they're getting food from a restaurant with its own storefront.

Since the closure of indoor dining, food delivery sales grew 174% year-over-year as of August.

SOURCE: CARDLYTICS

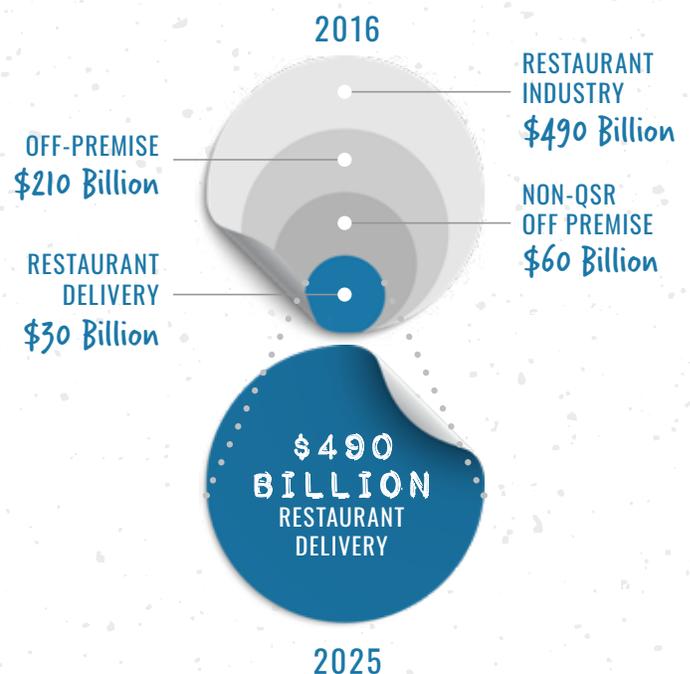
Delivery apps like GrubHub, Postmates & DoorDash grew 300% faster than dine-in over the last 5 years.

SOURCE: ROAMING HUNGER



CAPITALIZE ON A MARKET OPPORTUNITY THAT'S ONLY GROWING

SOURCE: CLOUDKITCHENS





HERE ARE THE KEY PLAYERS IN THE SHARED KITCHEN INDUSTRY.

CLOUDKITCHENS

PARTNERED CHAINS: Tacos 1986, Joe's Pizza, The Halal Guys, SweetGreen, CoolHaus, Fat Sal's

Uber's former CEO Travis Kalanick started CloudKitchens, which subleases delivery-only kitchens through monthly memberships. This concept avoids the upfront costs associated with equipment, monthly rent, and the lengthy ground-up construction process. According to the Wall Street Journal, the company has been quietly building an empire, buying more than 40 properties across the country over the last two years. Moreover, CloudKitchens is buying real estate strategically located in Opportunity Zones that offer tax benefits and employment to these neighborhoods. According to Technomic, the Los Angeles-based company could be the largest ghost kitchen network in the U.S. with at least 70 locations so far, providing menus and branding for virtual restaurants.

KEY PLAYERS

Tech entrepreneurs have pierced the food delivery industry, positioning dark kitchens as a digital marketing business. Already, an estimated 100,000 virtual kitchen concepts exist on third-party apps, according to the CEO of Chowly, Sterling Douglas. These tech-based delivery companies are equipped with valuable data that illustrate popular cuisine and target geographic areas with the most demand, operating similarly to Amazon or Netflix.



Chipotle recently opened its first digital-only restaurant after seeing online orders soar during the pandemic. This excludes a dining room or lines for ordering and can be delivered from any third-party deliverer.

SOURCE: BUSINESS INSIDER

CLOUDKITCHEN'S VALUE PROPOSITION

SOURCE: HNGRY

TRADITIONAL RESTAURANT		CLOUDKITCHEN LOCATIONS
2,500 SF	REAL ESTATE FOOTPRINT	200+ SF
15+ employees	EMPLOYEE COUNT	2-5 employees
\$300K	UPFRONT INVESTMENT	Small deposit + cost of specialized equipment
12-18 months	TIME REQUIRED TO OPEN	2-4 weeks
35 minutes	DELIVERY TIME	25 minutes
Risky investment, long payback	OVERALL RISK	Low capital risk, quick payback

POSTMATES

PARTNERED CHAINS: N/A

New to the ghost kitchen game, Postmates launched its first dark kitchen concept in Los Angeles. Their model assembles a three-way partnership between top-performing food brands, caterers, and its marketplace. Postmates is responsible for hiring employees, managing inventory from the brand's suppliers, operating the business, and the kitchen, while the brands receive a royalty of its sales. Dubbed as a virtual food hall, the kitchen offers five to six brands, which has picked up traction with locals.

Postmates has already expressed interest in opening another location in West Los Angeles. Their fast-track momentum and penetration in the virtual kitchen market has garnered so much interest that Uber bought Postmates for \$2.65 billion in late 2020. The partnership allows Postmates to operate as a separate service and brand, while merging back-end logistics, such as drivers. This impressive acquisition indicates the shifted investor sentiment toward the value of delivery.

KITCHEN UNITED

PARTNERED CHAINS: Chick-fil-A, Wendy's, The Halal Guys, Wetzels Pretzels

Aiming to help independent restaurants, Kitchen United offers shared kitchen space, back-of-house labor, and technology that works with delivery providers and ordering platforms. Kitchen United focuses on off-premise sales beyond delivery, so their locations allow customers to pick-up their orders. Their sites entail a healthy mix of local, regional, and national providers, determined by their geographical demand data. Garnering a lot of attention even before the pandemic, Kitchen United raised \$50 million in investments. Kitchen United emphasizes ambiance and aims to create a food court experience with outdoor seating, onsite ordering, and drive-thru/pick-up windows.

DOORDASH KITCHENS

PARTNERED CHAINS: Chili's, Cheesecake Factory, Italian Homemade, RT Rotisserie

DoorDash Kitchens debuted in the Bay Area in 2019 and operates out of a facility as a third-party deliverer. As the largest delivery provider in the U.S., it naturally transitioned into the virtual restaurant space. Pick-up options extended to 13 suburban markets and allows customers to mix-and-match menu offerings from different brands. Their goal is to help food merchants discover effective ways to reach customers more efficiently. Eliminating delivery fees to their DoorDash Kitchens until the end of the year, the delivery-only kitchen promotes new customer acquisition without the costs associated with opening a new store. DoorDash is responsible for logistics, marketing, and delivery. The third-party delivery service stays true to its dedication to empowering new restaurateurs through its platform.



ADVANTAGES & DISADVANTAGES

As ghost kitchens take off, it appears as if restaurants may permanently adopt these rent-a-kitchen facilities.

ADVANTAGES



PSEUDO-BRANDING

Tech companies that offer all the essentials, including marketing and branding, for startup brands allow entrepreneurs the chance to focus solely on the food. This also gives established food brands the opportunity to test new menu offerings under a different name.



LOWER OVERHEAD COSTS

Ghost kitchens typically charge a monthly membership fee or rent to utilize their equipment and services so that restaurateurs don't have to worry about the additional expenses that come with building a restaurant from the ground-up, licenses, and much more.



OPTIMIZES SPACE

Ghost kitchens are often around 200 to 300 square feet or less and utilize employees more efficiently through optimized kitchen workflows. Sites are usually located near major highways, allowing for more efficient deliveries to customers.

DISADVANTAGES



MISLEADING CUSTOMERS

As of late, some customers expressed their shock in discovering that the no-name mom-and-pop restaurants they were ordering from were actually owned by big-name chains. Customers are loyal to brands that are transparent.



DATA-DRIVEN INSIGHTS

While this is advantageous for tech companies, as they are given the upper hand with algorithms and data, it could lead to undercutting prices to fight off the competition.



HIGH TENANT TURNOVER

While virtual-only restaurants boast affordable rental costs for their services and equipment, the brand is charged around \$250,000 and would need to generate at least \$650,000 to break even. Ghost kitchen concepts are more favorable to established food brands.

A standard kitchen that prepares one menu would typically get 20-30 orders a day, whereas ghost kitchens accumulate 30-50 orders a day for six different brands.

SOURCE: HNGRY

Cloudkitchens charges from \$3,600-\$5,700 in monthly rent for a 200 square foot space.

It would cost \$60,000 to lease a food truck and third-party delivery platforms charge a 25% fee.

SOURCE: QSR MAGAZINE, LA TIMES

Strong restaurant brands could generate about 50 to 75% of the delivery sales in a new market through ghost kitchens compared to a physical location.

SOURCE: KITCHEN FUND

OUTLOOK FOR GHOST KITCHENS

Before the COVID-19 crisis, consumer habits were already changing. The demand for delivery reached all-time highs, illustrated by the various channels that people can order food from today. Ghost kitchens offer a one-stop-shop for restaurateurs. For quick-service and fast-casual restaurant brands, their focus is on leveraging lower-cost infrastructure to access demand in new markets. As restaurants reopen, we will likely see these brands remain in the ghost kitchen space.



ON AVERAGE, VIRTUAL RESTAURANTS THAT PARTNER WITH UBEREATS SAW SALES INCREASE MORE THAN 50%.

SOURCE: UBEREATS

Ghost kitchens were initially viewed as a short-lived trend when first introduced, but with the new demand for delivery, they are likely part of the post-pandemic life and beyond. As consumers shift priorities to accommodate the new norm, foodservice operators turn to new revenue sources, such as delivery-only concepts. Offering all the amenities and labor, virtual restaurant concepts provide a helping hand to restaurateurs, both large and small. Ghost kitchens are helping revive the restaurant industry in navigating new consumer preferences that include delivery logistics, technology, and branding. Dark kitchens will affect how restaurants operate, redefine the leasing environment, and refresh restaurant concepts. For more information on ghost kitchens, please contact a specialized Matthews™ agent.





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