RESTAURANTS DELIVER DEMAND FOR INDUSTRIAL SPACE

Food delivery has placed a palpable strain on restaurant facilities and kitchen staff, which is why many popular eateries are looking to take their online orders off-site and into industrial spaces.

By Nellie *Day, REBusinessOnline.com*

Online shopping and delivery models aren't just for had and soft goods anymore. The dark horse bringing up the rear is one that has been embraced by pizza and Chinese restaurants long ago. It's food delivery. Online food deliver was a $30 billion industry in 2017, accounting for 5 percent of a restaurant's total sales, says Dan Hunker, research analyst at CBRE. This market is growing by about 20 percent a year, however. Today, it is a $35 billion-plus market that is forecasted to swell to $365 billion worldwide by 2030, according to Morgan Stanley. By 2022, online food delivery orders are expected to account for 30 percent of total restaurant industry growth.

Home Chef will relocate its West Coast production facility to 200,000-square-feet of space at 1445 S. Tippecanoe Ave. in San Bernardino, Calif., to even better serve its ever-increasing customer base

This spells good news for restaurants…or does it? The issue lies in the additional strain these orders, which are generally placed through apps like Uber Eats, DoorDash and Postmates, place on the restaurant's cooking facilities and kitchen staff.

"While convenient for the consumer, this does, inevitably, place additional strain on food and beverage operators to keep up with a deluge of additional orders," Hunker explains.

Going Virtual

The response for some has been to take their operations off-site and into virtual kitchens, a no-frills industrial space that simply focuses on the on-line food orders. The trend is particularly popular in foodie destinations like San Francisco and Los Angeles. CloudKitchens resides on Washington Boulevard in Los Angeles; The Colony occupies space on Santa Monica Boulevard in West LA; and Kitchen United has outposts in Pasadena, West Covina, Los Angeles and on the ground-floor of the Adobe offices in San Francisco.

The popularity of off-premise consumption in the restaurant industry through both third-party delivery and pick-up has quickly evolved from something that's exciting and interesting to talk about to something that is an absolute must for many restaurants across the country," says Massinmo Noja De Marco, chief culinary officer and founder of Pasadena-based Kitchen United. "The opportunity to improve the customer experience by providing food for consumption outside the four walls of the restaurant space is undeniable."

Part of the beauty of these centers – also referred to as ghost kitchens, dark kitchens or black kitchens – is that they offer turnkey facilities where multiple operations can work under one roof. Kitchen United's facility on

Madison Avenue in Pasadena, for example, services seven restaurants, including Grilled Cheese Heaven, the Halal Guys, Tokyo Riso, Amazebowls and Center's Deli, among others.

For Thomas Pham, CEO of Halal or Nothing, a franchisee of the Halal Guys, the benefits of off-site production were inherent.

"As a brand that started as a food car in New York City, we know firsthand the value of providing an off-premise experience for our customers," he says. "As we continue to grow our footprint, the addition of delivery-and takeout-only kitchen made perfect sense for us as we seek out ways to bring our food directly to our consumer in a convenient way."

Many of these virtual kitchens offer 200 square feet to 400 square feet for each individual eatery with flexible lease terms that range from less than one year to five years. The Colony notes its Santa Monica facility can reduce the labor costs associated with a typical restaurant by about 75 percent, while the average projected revenue is more than $1,500 per rentable square foot. The company's location also places I near the 10 and 405 freeways, adjacent to a 51-unit luxury residential complex that will open in 2020, and within five miles (a 15-minute drive on the Westside) of a densely populated office and residential basin. The demographic within this five-mile radius spends an average of $5,882 per year dining out. It includes notable LA offices like Fox Studios, Hulu, Sony, Yahoo!, Red Bull, Lionsgate, Google, Apple, HBO and WeWork.

Though Garrick Brown, vice president and Americas head of retail research for Cushman & Wakefield, sees the virtual kitchen trend occurring, he notes there are a few barriers for this market-especially in California.

"There is a delivery app and virtual kitchen gold rush," he says. "But you need a quick delivery time and you're not going to find cheap industrial space in San Francisco. But you will find cheap restaurant space. The fees involved also make it only marginally profitable for restaurants. Virtual kitchens may make it more competitive, but the challenge will come down to space. Why not have all channels available to you (sit-down, pick up, delivery) at your restaurant if you have accessible parking?"

Hunker notes the fees can be a challenge to some operators, which may require additional refining in this new sector.

"Online food ordering is looking to be a massive money maker for food and beverage operators in the years to come, but that isn't to say there won't be bumps along the way," he clarifies. "Ordering apps reportedly take a 20 to 30 percent cut of each sale. With some small restaurants operating on razor-thin margins, this may be too high a price to pay."

Make Way For Meal Prep

Another user looking for food-prep space is meal kit companies. Far from your average TV dinners, these bundles of packaged ingredients, ready-to-heat meals and recipes have been embraced by everyone from Walmart and Kroger to Weight Watchers. This has spawned the meal kit subscription service market that has also gained popularity as of late. Companies like Hello Fresh, Blue Apron and Home Chef, which was acquired by Kroger for $700 million in May 2018, require food preparation and kit assembly spaces similar to restaurants.

Home Chef recently tripled the size of its San Bernardino, Calif., op-eration to keep pace with produc-tion. The meal kit delivery company relocated to a 204,683-square-foot space at Rockefeller Group's Tri-City Industrial Complex. Home Chef has operated a facility in San Bernardino since 2015. The new space will accom-modate both the ecommerce and retail branches of the business.

"Our secret sauce has always been our customer-first approach," says Pat Vihtelic, Home Chef's founder and CEO. "Everything about our experi-ence is designed with the customer at the center. By keeping our West Coast facility in San Bernardino, we will be able to continue to provide the best possible cooking experience."

The new digs contain 107,134 square feet of warehouse space, 79,642 square feet of food preparation space and 17,907 square feet of office space to support Home Chef's growing distribution operations. The concrete tilt wall facility features storefront elements, a 32' clear height, an ESFR sprinkler system, 30 truck docks and one drive-in door. Amenities include a vestibule, conference rooms, a locker room, bathrooms, a frock room and a break room. McShane Construction Company completed the project and provided site improvements, including a revised parking lot layout with 208 parking spaces.

"Home Chef's lease at Tri-City shows the strong demand for smaller spaces in infill locations like San Ber-nardino along the I-10 corridor," says James V. Camp, senior vice president and regional development officer for Rockefeller Group's West region. "Rockefeller Group was able to rede-velop the site by razing an outdated metal building and constructing two modern facilities that attracted an investor and now a major food distribution company."

Though the meal kit trend is heat-ing up, many believe we will see a retraction as not all concepts will make it in this $3. l billion market. San Francisco-based Munchery, which delivered microwavable meals and meal kits, maintained kitchens in South San Francisco and Los Angeles, along with Seattle. It closed up shop this January. There has been similar fallout from Spoonrocket, Pronto, Maple, Bento and Sprig.

"No question, I'm sad that the Sprig model did not work out - but the food delivery space on the whole is growing," said Gagan Biyani, CEO of Sprig, in a letter to customers posted on the company website. "The demand for Sprig's convenient, high-quality food was always incredibly high, but the complexity of owning meal production through delivery at scale was a challenge."

Brown believes that while both food delivery and meal kit platforms can deliver convenience, there will likely be more downsizing before the true category winners emerge.

"These programs are here to stay but there will be consolidation," he predicts. "The sector is not in contraction but those concepts that are grow-ing are slowing their growth as we see more failures and closures creep up."

Though it may be too soon to tell who the winners are in their given sectors, there's no question that food delivery will continue to be an on-demand asset for consumers.

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