The popularity of online food delivery platforms such as Postmates and Seamless has fueled the “food-on-demand” explosion and provided a marketplace for restaurants to connect to would-be diners across a much broader geographical area. According to the IMARC Group, the global online food delivery market is expected to grow by double digits annually, hitting $164.5 billion by 2024. This soaring growth has left many existing restaurants scrambling to address consumer demand and most remain unprepared for the future. In high-density urban areas where the burdens of online orders are most acute, operators of commercial kitchens and food preparation facilities, also known as “ghost kitchens,” are quickly opening multiple locations. CloudKitchens, a ghost kitchen operator founded by former Uber CEO Travis Kalanick, frames the market opportunity as follows:

“Restaurants are not built for the delivery experience. Everything about the restaurant experience is designed for walk-ins and reservations. And while delivery is an increasing percentage of the business, many operators are forced to trade-off the dine-in experience with a booming delivery business...Today, online delivery is a high priced luxury product with a very poor experience.”

Ghost kitchens drastically shrink restaurant overhead expenses by eliminating dining fixtures and waitstaff and, perhaps most significantly, by reducing the cost...
of purchasing or leasing real estate. Unlike desirable restaurant and storefront space that can command premium rents, ghost kitchens are not dependent on being located in “destination” corridors and are instead taking over industrial and commercial spaces in close proximity to delivery areas. Kitchen operators also have access to large amounts of customer data and are able to optimize this business model by identifying where best to locate kitchens, what days and times food is being ordered and the pace of delivery fulfillment. The synergies created between kitchen operators and delivery platforms have even prompted new entrants into the restaurant business. Digitally native restaurants enjoy lower expenses made possible by renting space in multi-tenant ghost kitchens, outsource customer service obligations to delivery platforms and use online consumer reviews to build brand visibility.

**A PERMANENT ALTERNATIVE ASSET CLASS?**

While ghost kitchens are bringing new utility, value and attention to real estate assets once perceived as unappealing, some investors and landlords remain skeptical of the business model. The flexible leasing and fee structures offered to tenants and the model’s overall reliance on third party delivery platforms are viewed by some as vulnerabilities. Landlords may also be apprehensive of the hidden costs ghost kitchens may add to their buildings and stresses to utilities, shared parking and common areas suddenly required to accommodate to high-volume food delivery. Compliance requirements vary across jurisdictions and legal analysis of zoning codes and evolving regulations in this space can help minimize this risk.

Despite concerns and growing pains, ghost kitchens are becoming a fixture in major urban markets such as London, New York, San Francisco and Los Angeles. The increasing popularity of the business model suggests that its combination of technology, data science and highly functional space is a recipe for success.