

insights

TYPES NOT MAPPED YET October 07, 2019 | TTR not mapped yet | Jeffrey N. Brown, Aya Elalami

Ghost kitchens: A scary-good real estate opportunity in California

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I have to admit that I was caught by surprise when my children's school circulated a message last year informing parents that the school was being inundated with lunchtime deliveries. Apparently both well-intentioned parents and perpetually hungry students took advantage of food delivery services such as Grubhub, Postmates and Uber Eats to have meals delivered to the school. Due to the logjam of deliveries, the school sent out a politely worded missive to inform the parents that the food deliveries would no longer be accepted at the school.

No matter the attempted location of the food delivery, there's no denying that consumers are flocking to ecommerce apps to order an astonishing variety of meals, from national chains to local restaurants. And where will all that food be prepared?

While the concepts of commissary kitchens for food preparation and food delivery are nothing new, the volume and velocity thanks to ecommerce create a challenge for restaurants to keep pace. Enter the concept of ghost kitchens and "Kitchens as a Service" (or KaaS).

Ghost kitchens or KaaS are essentially the "back of house" of a restaurant: an entire food preparation buildout of ovens, ranges, prep stations, and refrigerators, and populated with chefs and line cooks.

These facilities create unique opportunities from a real estate perspective, as outlined below.

Location and zoning

The biggest issue for a ghost kitchen operator looking to facilitate the preparation and delivery of meals is one of logistics. While commercial commissary kitchens have been around for decades, those kitchens were usually located in light industrial areas and not near the residences and offices ordering the meals. Now operators are looking for high-delivery-rate and high-traffic areas to locate the kitchens. Likewise, landlords considering building out a kitchen as a service concept to attract potential ghost kitchen users will want to assess its location and undertake a similar demographic analysis.

This creates an adaptive reuse proposition. What would otherwise be available space in office buildings, retail centers, and other commercial and residential areas can be turned into a kitchen. Of course, this is not as simple as it sounds once the locations are identified on a map. The ghost kitchen operator will need to confirm that the proposed kitchen use is permitted under the applicable zoning codes.

Building code compliance

Additionally, the ghost kitchen operator will need to ensure that the buildout of the kitchen complies with applicable building codes. Depending on the location and the nature of the native building, the kitchen design may need to account for additional fire suppression and insulation, and ventilation to ensure that neighbors do not complain about odors.

Licensing

While "ghost kitchen" may conjure the idea of pirate popup kitchens set up in abandoned warehouses, the reality is that ghost kitchen operators must comply with California's business licensing and commercial kitchen requirements. While some of these steps may be satisfied if the ghost kitchen is a part of an existing restaurant concept, the operator must obtain a business license from the applicable city or municipality, register its business



name with the Secretary of State, obtain a federal tax identification number from the Internal Revenues Service, and obtain the sales tax license from the California State Board of Equalization.

Additionally, California law requires anyone involved in food preparation and handling to obtain a California Food Handler Card or a Certified Food Protection Manager certificate, both of which require several hours of training. Finally, California code also may require the operators to obtain additional licenses depending on the nature of the food being prepared.

Once the locations have been identified and the various real estate, business, and food safety regulatory steps have been addressed, ghost kitchen operators can focus on preparing and cooking their meals and utilizing vendors with on-demand delivery fleets like Uber Eats to deliver the meals. Just don't deliver them to my children's school.

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