Latest Front in Food Delivery: Kitchens in Empty Malls

Delivery wars move to neglected retail space as competition heats up

Property developers are building kitchens in empty mall space and parking lots to fill food-delivery orders, a new approach in the fast-growing business of shuttling meals to customers.

The plan to make restaurant food for delivery in former retail space melds two industries that have been upended by e-commerce. Restaurants are struggling to find a cost-effective formula for meeting the growing demand for delivery of online food orders.
Meanwhile, developers say “ghost” kitchens can create new interest in retail and warehouse space vacated by merchants that have struggled to compete with e-commerce.

Retail developer Simon Property Group SPG +0.20% and hotelier Accor SA AC +0.27% said Sunday that they are working with hospitality company SBE Entertainment Group to develop some 200 commissary kitchens to cook up restaurant-quality food for customers at malls and hotels as well as delivery for people nearby. The first of those are planned for New York, Chicago, San Francisco, Los Angeles and Miami, said Sam Nazarian, chief executive of SBE.

The companies say that a 5,000-square-foot ghost kitchen in a Brookfield Properties development will provide delivery for the nearby Hudson Yards and surrounding areas in Manhattan. The group will also develop delivery-only locations in mall parking lots, storage areas and unused retail space.

The group has also signed four leases with CloudKitchens, the delivery-kitchen venture of former Uber Technologies Inc. CEO Travis Kalanick, to open additional delivery locations at some SBE properties in Los Angeles, executives said. “It’s relooking at all real estate that is obsolete,” Mr. Nazarian said. SBE is the biggest stakeholder in a consortium that it, Simon and Accor are calling Creating Culinary Communities. Accor, owner of 5,000 international hotels, has a 50% stake in SBE.

The companies declined to say how much they are investing in the partnership.

Delivery now accounts for roughly 9% of the $282 billion U.S. fast-food sector and is growing faster than dine-in and drive-through sales, according to a recent Bernstein analysis.
Restaurants are expanding their delivery offerings to generate sales despite the impact those orders often have on their operational efficiency and profits. The remote kitchens can reduce their real-estate costs while expanding their reach.

Wendy’s Co., Chick-fil-A Inc. and Sweetgreen are among chains turning to remote kitchens that don’t serve customers to move delivery orders outside their existing restaurants.

“It’s about unlocking additional demand,” Sweetgreen CEO Jonathan Neman said in an interview.

Some property developers and startups are seizing the opportunity to build and lease those “ghost” or “dark” kitchens.

The SBE-led consortium plans to build kitchens in empty space it owns at properties such as Pennsylvania’s King of Prussia Mall, one of the biggest shopping centers in the U.S., along with Lenox Square in Atlanta and the Sanderson London hotel.
Some restaurants and chefs that already operate at SBE properties, including Umami Burger and Masaharu Morimoto, will design menus for the kitchens, the companies said.

The group aims to open 85 kitchens this year and at least 100 more by the end of 2021. They anticipate spending about $60,000 on upfront costs at each location and reaching profitability in about six months if a kitchen manages to fill around 125 orders averaging $30 each a day, Mr. Nazarian said.

He said the kitchens will rely on established delivery companies to carry food to customers, such as Uber Technologies’ Uber Eats, DoorDash Inc. and Postmates Inc.

Mr. Kalanick’s CloudKitchens, Kitchen United and other venture-backed companies build delivery kitchens and sublease them to restaurants. Delivery companies, particularly Uber and DoorDash, are also creating their own leasable kitchens or online-only restaurants.

A 230-square-foot CloudKitchens site can be built in as little as two weeks at a cost of around $30,000, according to an investor presentation viewed by The Wall Street Journal. A traditional 3,500-square-foot restaurant can cost $1 million to outfit, the presentation said.

Venture-capital firms have invested nearly $5 billion in companies operating virtual kitchens since 2018, according to an analysis by data firm PitchBook. Investors include Sequoia Capital and SoftBank Group Corp., both of which are also invested in food-delivery companies.

Some in the restaurant industry are skeptical of ghost kitchens. Kitchen Fund, a restaurant investor group, predicted recently that the model will only be profitable for big brands that can generate high order volumes at more than one mealtime.

Some restaurants, such as Fat Brands Inc., are testing separate delivery-only operations at existing restaurants.
The company is preparing and delivering food for its Hurricane Grill & Wings brand out of some existing Fatburger locations. That is generating an average of $1,000 in additional sales at those stores each week, adding around 5% to overall store revenue, Fat Brands CEO Andy Wiederhorn said in an interview.

Those deliveries are helping generate sales outside the standard lunch and dinner rushes, he said. “We need to generate money all day. You can’t just sell burgers at lunch,” Mr. Wiederhorn said.

Write to Heather Haddon at heather.haddon@wsj.com