2019 U.S. FOOD IN DEMAND SERIES: RESTAURANTS

CBRE RESEARCH

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Steady restaurant sales growth has been fueled by increases in consumer spending, delivery options and technological innovations such as “ghost kitchens” and dining-in services.

ABOUT THIS REPORT

This third installment of CBRE's Food in Demand series examines expected changes that will impact fundamental operations and real estate strategies of the U.S. restaurant industry.

A NOTE ON TERMINOLOGY

Total restaurant sales are reported under the Food Service & Drinking Places classification by the U.S. Census Bureau, which consists of the following industry groups: Full-Service Restaurants, Limited-Service Eating Places, Special Food Services and Drinking Places (alcoholic beverages).

INTRODUCTION

KEY TAKEAWAYS

Sales Growth

Restaurant sales growth continues to outpace total retail sales growth.

Fast Food

Fast casual and fast food remain highly competitive, as new operators have entered the market and consumers demand healthier options.

Food Delivery

Rising consumer demand for restaurant delivery options is causing dramatic shifts in restaurant operations and partnerships with third-party providers.

Ghost Kitchens

Investment in technology and delivery-only "ghost kitchens" is creating cost-effective ways for restaurants to expand and increase customer reach.

KEY PREDICTIONS

1

While restaurant sales growth will continue to outpace total retail sales growth based on consumer demand and rising prices, landlords must be careful not to weaken profitability with too many competing uses.

2

Restaurants will continue refining solutions to delivery challenges, including the exchange of consumer market and demographic data, as well as data needed to personalize in-app services—a critical component of partnerships between restaurant operators and third-party service providers.

3

Delivery-only restaurants, known as virtual restaurants or ghost kitchens, will become a primary growth vehicle of restaurant delivery platforms.

4

Restaurant operators will continue investing heavily in consumer-facing and back-of-house technology to help control rising costs through automation and to improve customer experience.

5

Rapid growth in fast-casual dining will continue among traditional concepts as well as regional and specialty startups entering the market due to lower barriers to entry.

6

Fast food continues evolving to meet consumer demand for healthy food options, technological conveniences and modern designs.

7

As "eatertainment" operators downsize to smaller, tech-driven formats, they will infill urban locations and be a catalyst for revitalization of urban main streets in select markets.

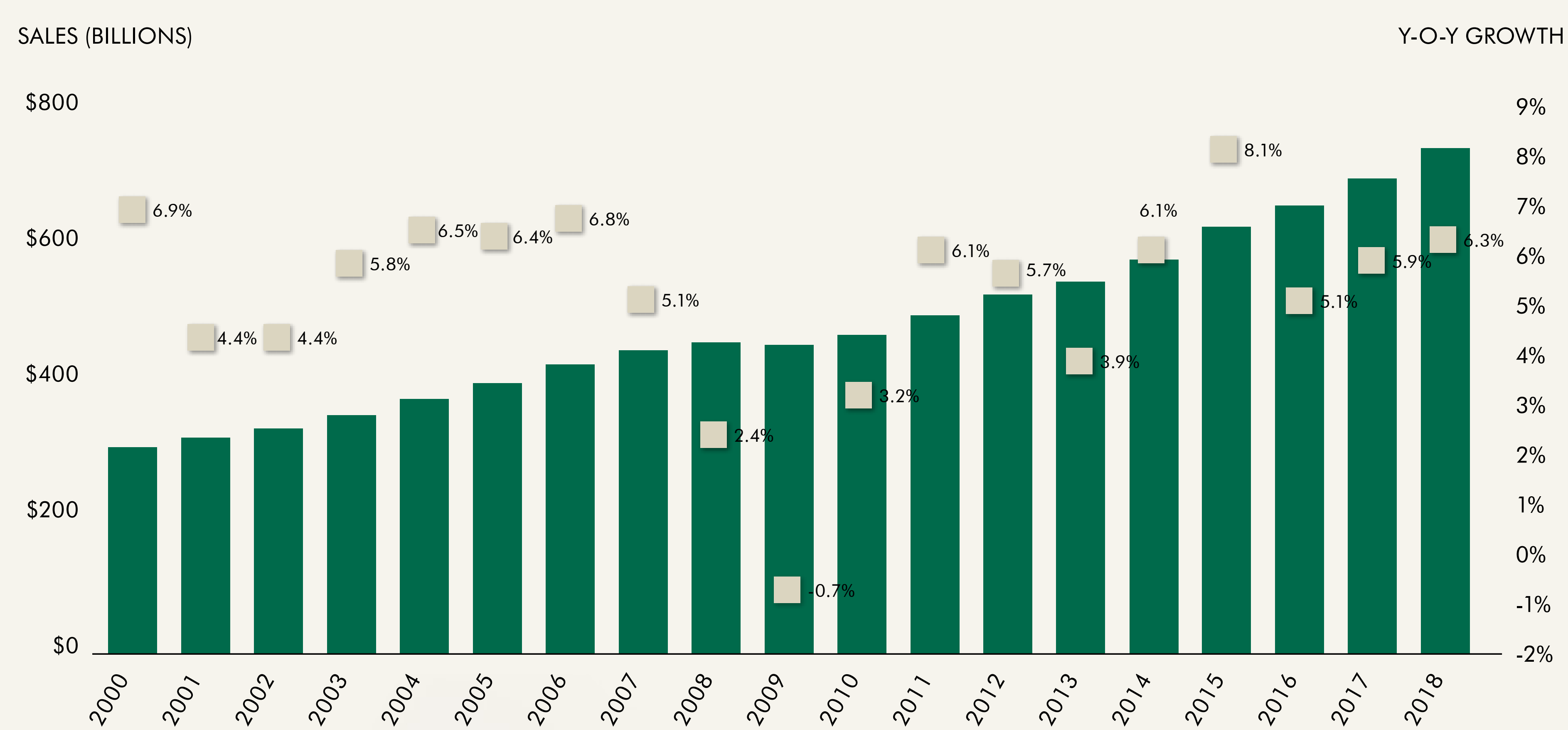
8

Diverse food halls will expand further into suburban markets but must be executed and operated correctly to be successful.

PREDICTION 1

While restaurant sales growth will continue to outpace total retail sales growth based on consumer demand and rising prices, landlords must be careful not to weaken profitability with too many competing uses.

FIGURE 1: Historical Restaurant Sales & Growth



Source: U.S. Census Bureau, August 2019.

PREDICTION 1

While restaurant sales growth will continue to outpace total retail sales growth based on consumer demand and rising prices, landlords must be careful not to weaken profitability with too many competing uses.

FACTS

$738 BILLION

Total restaurant sales grew by 6.3% in 2018 to more than $738 billion. Restaurants make up 17% of retail sales, the largest share of any brick-and-mortar retail category.[1]

5.6% vs. 4.4%

Restaurant sales have grown faster than all other brick-and-mortar retail categories combined over the post-recession decade, with an average annual increase of 5.6% vs. 4.4%. This trend has been largely driven by consumer shifts toward dining out. By contrast, groceries only averaged 3.2% annual growth over the same period. Other retail categories also trailed restaurants, such as clothing and accessories (3.2%), department stores (-2.9%), health and beauty (3.5%) and building material and garden supplies (4.2%).[1]

CONSISTENT INFLATION

Restaurant price growth has outpaced that of all other retail categories. What a dollar bought in 2000 took about $1.60 last year. For groceries, it is about $1.40.[1] As reported in Part 1 and Part 2 of this series, restaurant prices have increased largely due to rising costs of food, labor, construction, occupancy and delivery. Yet there's a silver lining: price declines driven by supply-chain efficiencies and globalization in key retail categories like apparel, toys and furnishings have freed up disposable income for more expenditures at restaurants and grocery stores.

MORE OF THE PIE

Restaurants (excluding food courts) currently occupy an estimated 43 million sq. ft. of mall gross leaseable area (GLA), up by 18% or 6.6 million sq. ft. from 2007.[2]

1. U.S Census Bureau, August 2019.
2. ICSC, CBRE Research.

REAL ESTATE IMPLICATIONS

Although restaurant deals remain risky, complex and expensive to build out and operate, landlords are increasingly structuring creative deals to capitalize on expansion of this segment while other retail uses contract.

Restaurants are an attractive new class of anchor tenant that draws customers to retail properties, promotes social connection and is a key component of successful placemaking.

Landlords are converting a greater percentage of GLA to food-and-beverage uses in shopping centers and malls than ever before. Owners and investors must carefully curate and delicately balance the mix, menu offerings and concentration of food-and-beverage operators to avoid dilution of sales.

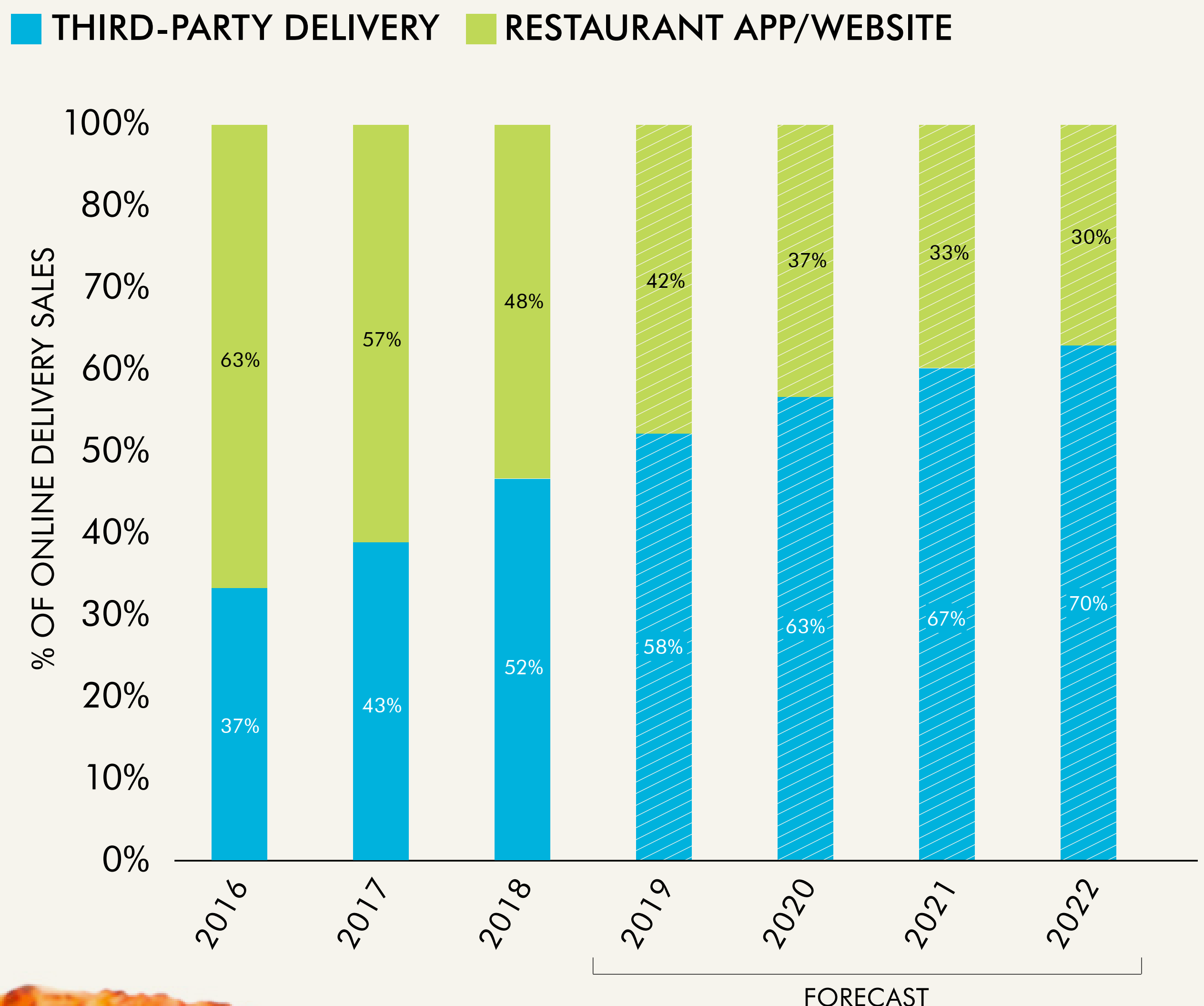
Demand for restaurant space is increasing without a corresponding supply increase. Compounded by rising construction costs, this is resulting in higher occupancy rates and rent inflation.

Although the overall retail industry is benefiting from continued growth in food & beverage, there will be a tipping point. The growth of the restaurant category has fueled many new exciting concepts, cuisines and expansions. However, competition is fierce and if too many competing restaurants open, sales growth may erode.

PREDICTION 2

Restaurants will continue refining solutions to delivery challenges, including the acquisition of consumer data—a critical component of partnerships between restaurant operators and third-party service providers.

FIGURE 2: DELIVERY FEES ARE EATING AWAY AT PROFITS



Source: William Blair, 2019.

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FACTS

$34 BILLION

U.S. food-service delivery sales reached $34 billion last year, up 13% from 2017.[3] Third-party delivery accounts for a growing share of restaurant delivery sales. In 2019, third-party sales are expected to comprise 58% of all delivery and will increase to 70% by 2022—up from just 37% in 2016.[4] About 38% of U.S. adults and 50% of millennials say they are more likely to have restaurant food delivered than they were two years ago.[5] Delivery is considered to be the new drive-thru by industry leaders, including Modern Market founder Anthony Pigliacampo.[6]

THIN MARGINS

Restaurants often lack the infrastructure for direct delivery and the customer reach that third-party delivery operators like Grubhub, Seamless, Eat24 and DoorDash provide. While third-party delivery gives restaurants greater exposure and represents the largest proportion of delivery service, utilizing these providers is expensive. Transaction fees and commissions erode profit margins for a typical meal. Given the cost challenge, restaurant operators are continuing to improve their in-house delivery systems.

NATIVE DELIVERY

The concept of native delivery, whereby consumers use a restaurant's own digital platform to order direct delivery, is gaining traction. More and more restaurateurs are investing in native delivery platforms to offset third-party fees and provide more personalized in-app experiences than are generally possible through third-party platforms.

Controlling the delivery process also provides a unified brand experience for customers. Restaurants are teaming up with ordering and app development platforms to offer their menus and loyalty programs directly to consumers. The system is being used by large and small brands alike, such as Chipotle Mexican Grill, Panera Bread, Modern Market Eatery and Dos Toros.[7] Meanwhile, restaurateurs are starting to negotiate more favorable deals that include greater data exchange with third-providers, such as the recently announced deal between Shake Shack and Grubhub.

3. Euromonitor International, 2019.
4. William Blair, 2019.
5. National Restaurant Association, 2019.
6. National Restaurant News, 2019.
7. National Restaurant News, 2019.
8. Kitchen United, 2019.

REAL ESTATE IMPLICATIONS

Restaurant formats and layouts will evolve to expedite convenient delivery and pickup, either directly or by third party. More space will be dedicated to delivery and pickup areas to avoid counter congestion and impact on dining areas, so the in-restaurant dining experience is not compromised. For example, fast-casual restaurants like SweetGreen and Chop't have added separate areas for pickup orders and Cava also prepares pickup orders on a separate side of the kitchen.

Industrial & logistics also will increasingly support restaurant operations, particularly as delivery volume increases. Cold storage will see great growth trajectory not only from home delivery of groceries as reported in CBRE's Cold Storage Marketflash, but the proliferation of restaurants with highly perishable farm-to-table offerings.

While third-party delivery will dominate, restaurants will invest in the physical and technological infrastructure required for a direct-delivery platform to control the brand experience, build upon loyalty programs and collect consumer data.

PREDICTION 3

Delivery-only restaurants with no dining area, wait staff or traditional retail storefronts— known as virtual restaurants or ghost kitchens—will become a primary growth vehicle of restaurant delivery platforms.

FACTS

DELIVERY CREATES A SUBSECTOR

Restaurant operators are quickly establishing delivery-only ghost kitchens to help serve the growing delivery market. Existing operators use ghost kitchens to accommodate high-volume takeout and delivery without impacting the dine-in restaurant experience during peak serving periods. For entrepreneurs and startups short on capital, ghost kitchens offer an efficient and cost-effective way to try new brands and types of cuisine, while expanding overall sales in a delivery trade area. Leading investors and venture capital firms are betting on expansion in the burgeoning sector, particularly in the U.S., Canada, U.K., China and India.

RISE OF AGGREGATORS

Food aggregators with a new business model called "cloud kitchen space"—shared kitchen spaces made for delivery-only restaurants using online ordering—have big expansion plans and are attracting investor capital. Kitchen United plans to open 400 kitchen centers housing more than 5,000 individual ghost kitchens in high-demand locations within the next four years.[8] These aggregators identify and fulfill delivery gaps in the market by integrating with major delivery brands like Uber Eats, Postmates, Eat24, DoorDash, Caviar and Grubhub. They also offer software and logistics support to get a ghost kitchen operating in days rather than months.

LOWER BARRIERS TO ENTRY

Whether a ghost kitchen for a single operator or an individual unit within a multi-operator virtual-cloud kitchen, this revolutionary delivery-only model is a cost-effective and space-saving expansion strategy that lowers labor, real estate and operating costs. Ghost kitchens can open in as little as 200 sq. ft. of space, and they have a decided advantage of not having to dedicate space to seating or the overhead costs of running a full-service restaurant. A traditional restaurant can easily cost millions of dollars to build and open. Ghost kitchens can start up for as little as $20,000.

8. U.S. Bureau of Labor Statistics, March 2019.

REAL ESTATE IMPLICATIONS

The emergence of ghost kitchens marks a shift in delivery-only restaurants locating and operating in industrial and secondary retail space for lower costs. This is leading to the reuse of underutilized real estate in shopping centers, sometimes carved out of repositioned anchor or big-box spaces, so long as the ghost kitchen is within quick-delivery range of a major consumer trade base.

Full-service restaurants will still rely on retail space for the dine-in experience, but in the coming years the growth of startup brands will accelerate through expansion of ghost kitchens.

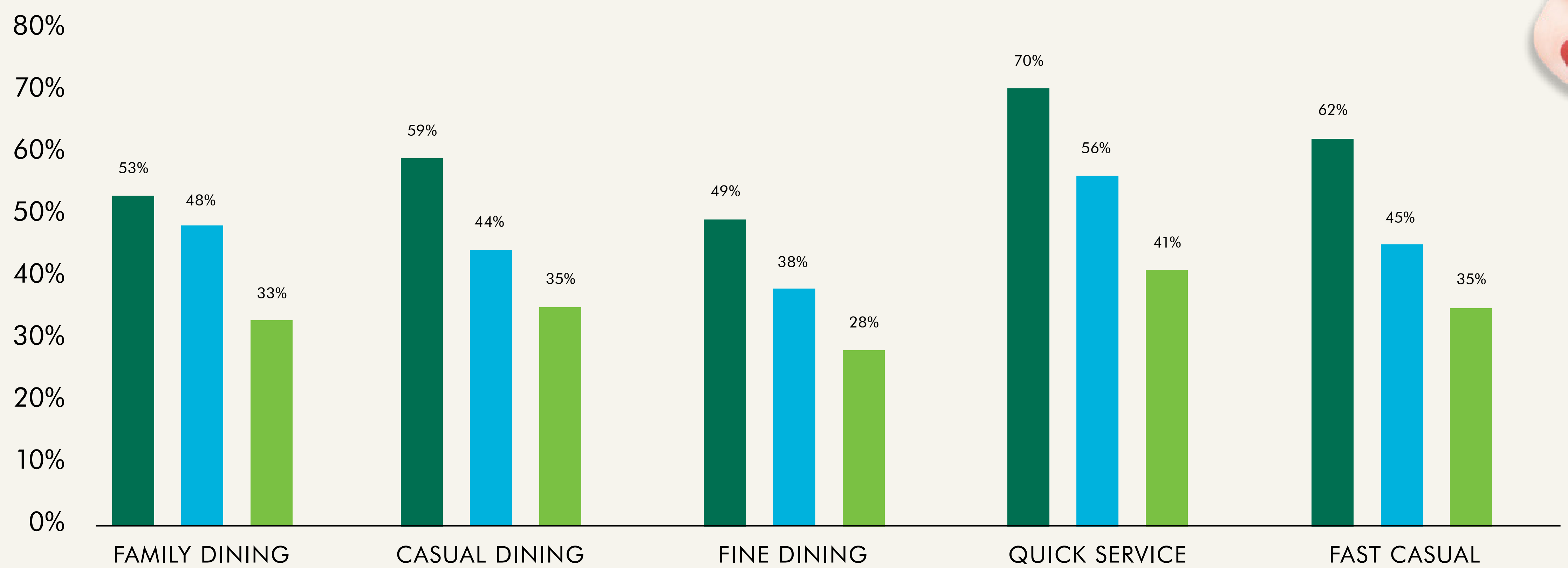
Ghost kitchens are expanding rapidly as consumers increasingly become comfortable ordering meals online, and as restaurants and delivery services better integrate to produce a seamless and efficient ordering and delivery platform.

PREDICTION 4

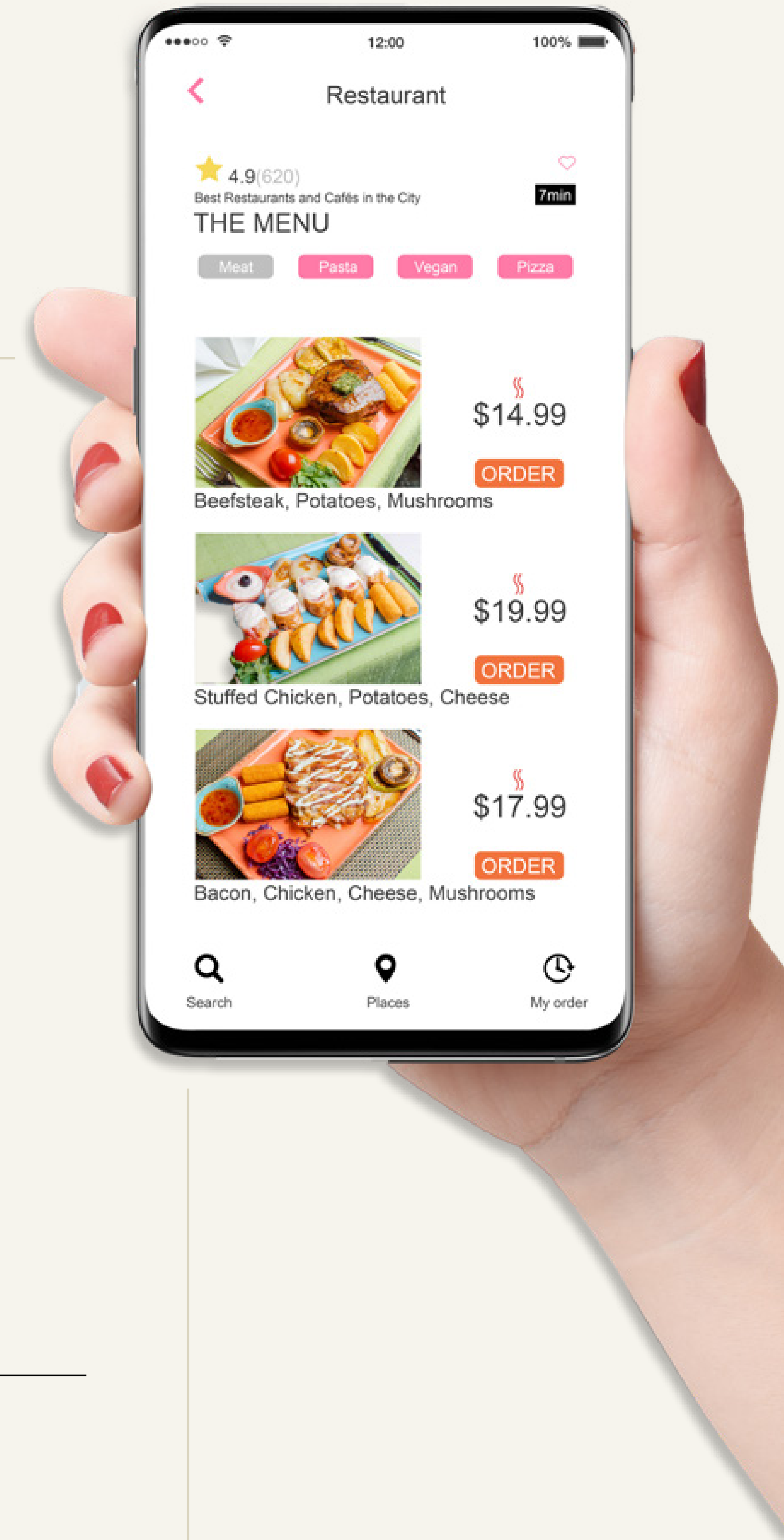
Restaurant operators will continue investing heavily in consumer-facing and back-of-house technology to help control rising costs through automation and to improve customer experience.

FIGURE 3: PERCENT OF RESTAURANT OPERATORS, BY TYPE OF OPERATION, WHO PLAN TO DEVOTE MORE RESOURCES TO TECHNOLOGY IN 2019

- ONLINE OR APP ORDERING, RESERVATIONS, MOBILE PAYMENT, DELIVERY MANAGEMENT
- POINT-OF-SALE, INVENTORY, OR TABLE MANAGEMENT
- TABLETS, IPADS, TABLESIDE ORDERING SYSTEMS, ORDERING KIOSKS



Source: National Restaurant Association, Restaurant Trends Survey, 2018.



PREDICTION 4

Restaurant operators will continue investing heavily in consumer-facing and back-of-house technology to help control rising costs through automation and to improve customer experience.

FACTS

8 IN 10

More than eight in 10 restaurant operators agree that their use of technology provides a competitive advantage, and many are planning to increase tech investment in 2019.[9]

GROWTH IN TECH INVESTMENT

Restaurants are investing in software to improve the customer experience but must not do so at the expense of service. These software platforms are used to determine customer preferences and personalize the dining experience accordingly. More than half of operators say they will invest in front-of-house technology, such as online or app ordering, reservations, mobile payments and delivery management.[10] This technology is being used across all retail categories. For example, fast-food chain McDonald's recently invested $3.7 million in mobile app developer Plexure, while fast-casual chain Shake Shack upgraded its "Shack App" to accept Venmo and Apple Pay.

BACK-OFFICE INVESTMENT

Many operators say they will invest in back-office technology for point-of-sale, inventory and table management. More than a third of fine-dining establishments and at least half of operators in all other restaurant categories said they would invest in back-office technology.[11] A key goal is to improve the employee experience to attract and retain workers amid a tight labor market and high turnover. Another objective is to better manage food inventory and manage costs. Restaurants use an average of three technology vendors to manage the back office.

HARDWARE INVESTMENT

About a third of restaurateurs said they will devote more resources to customer-facing devices such as tablets, iPads, tableside ordering systems and ordering kiosks.11 This is expected to drive the self-service kiosk market to an estimated $30.8 billion by 2024.[12] Panera and McDonald's have successfully used kiosk ordering for several years. KFC plans to have kiosks in 5,000 restaurants by 2020, while sister chain Taco Bell plans to have every U.S. store outfitted with this technology by the end of 2019. This automation serves as a solution to rising labor costs and difficulty retaining quality employees, while allowing operators to conveniently serve more customers. With more than half of consumers stating that self-service kiosks, electronic receipts, wearable tech for restaurant servers and payment options on a smartphone app are good ideas, many operators, including Burger King, Tim Hortons and Dunkin, have announced plans to invest in such technologies.[11]

[9] National Restaurant Association – 2019 State of the Restaurant Industry
[10] National Restaurant Association – 2019 Restaurant Trends Survey
[11] Toast Inc. 2019.
[12] Tillster, 2019.

REAL ESTATE IMPLICATIONS

As restaurants use more technology, especially in consumer-facing and front-of-house operations, the physical layouts of restaurants will change. For example, the installation of check-in kiosks will help streamline the arrival process and seating of customers thereby reducing the amount of space devoted to host areas.

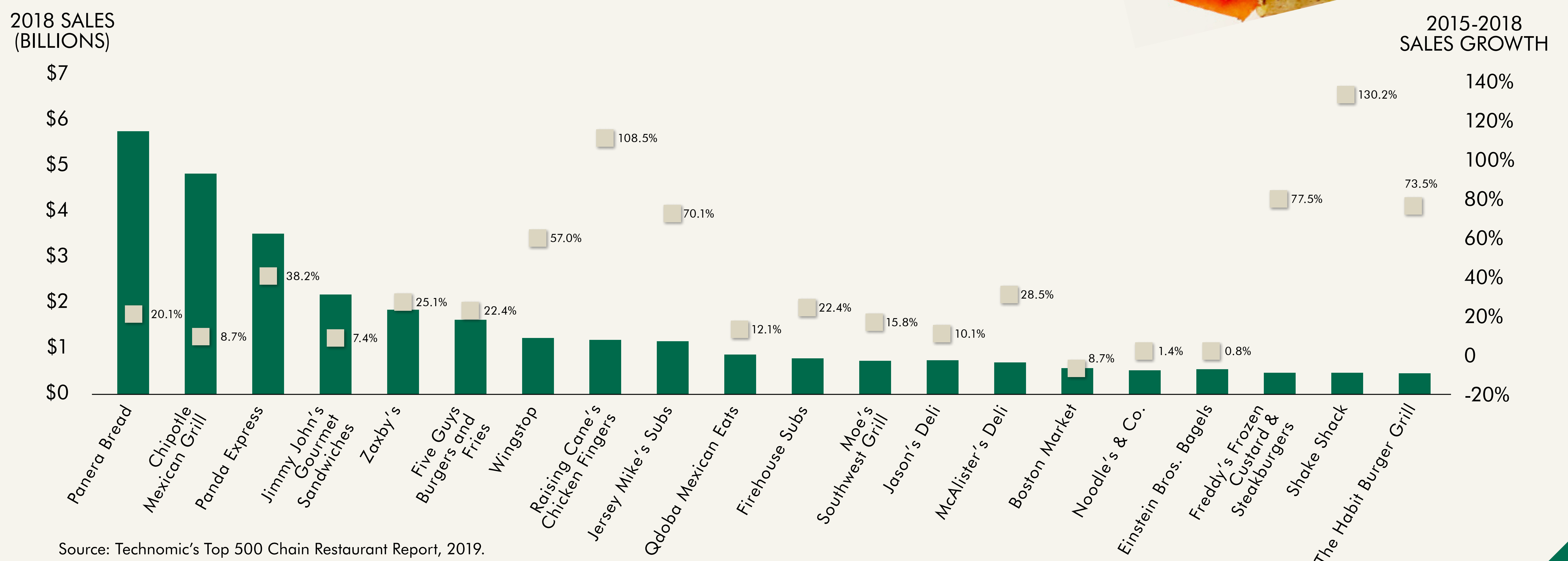
Service and experience will still be critical to consumers as restaurants continue to innovate and employ more technological advances. Restaurants must balance investment in technology with the constant challenge of providing an excellent service and dining experience to retain customers.

While technological innovation will greatly enhance cost effectiveness and convenience, it must not come at the expense of the consumer dining experience.

PREDICTION 5

Rapid growth in fast-casual dining will continue among traditional concepts as well as regional and specialty startups entering the market due to lower barriers to entry.

FIGURE 4: TOP 20 FAST CASUAL RESTAURANT SALES IN 2018



Source: Technomic's Top 500 Chain Restaurant Report, 2019.

PREDICTION 5

Rapid growth in fast-casual dining will continue among traditional concepts as well as regional and specialty startups entering the market due to lower barriers to entry.

FACTS

24% IN THREE YEARS

The top 20 fast-casual chains had average sales growth of 24% between 2015 and 2018.[13] The fast-casual dining segment's rapid growth in post-recession years has expanded consumer access to affordable dining and contributed to increased frequency of and overall spending on dining away from home. Driven by wealth constraints of millennials, who want higher-quality food at a good price, sales grew by 7% in 2018 and 9% in 2017.[14]

RAPID GROWTH IN UNITS

Almost four in five restaurants opened by top 500 chains in 2018 were a fast-casual concept. Unit growth of the top 20 fast-casual restaurants over the past three years averaged 19%, whereas the unit growth of more mature fast-food brands in shifting markets averaged only 1.4%.[15] Among all categories, the 500 largest restaurant chains added 1,569 restaurants in 2018. The fast-casual sector alone added more than 1,200 locations, according to Restaurant Business magazine.

DIFFERENTIATION & QUALITY

The fast-causal segment is growing much faster than fast food (quick service). Consumers demand better-sourced food and healthier options more often and will pay a higher price for quality food served in a fast manner. Yet with so much competition, fast-casual chains must differentiate themselves through savvy use of technology platforms, excellent food and a good experience.

The category growth is buoyed by health-conscious consumers who are more willing to try new foods and cuisines. This curiosity has been spurred by a modern food culture promoted by celebrity chefs, food competitions and travel television shows. Operators are responding to this by creating more diverse menu choices and entirely new concepts to test markets and consumer demand. Additionally, farm-to-table concepts are increasingly popular, as regional players like Mendocino Farms and Dot x Ott focus on fresh, regionally sourced and sustainable ingredients that were once offered only by fine-dining restaurants and upscale purveyors.

13. Top 500 Chain Restaurant Report 2019, Technomic.
14. Top 500 Chain Restaurant Report 2019, Technomic.
15. IBIS World Fast Food Industry Report, 2019.

REAL ESTATE IMPLICATIONS

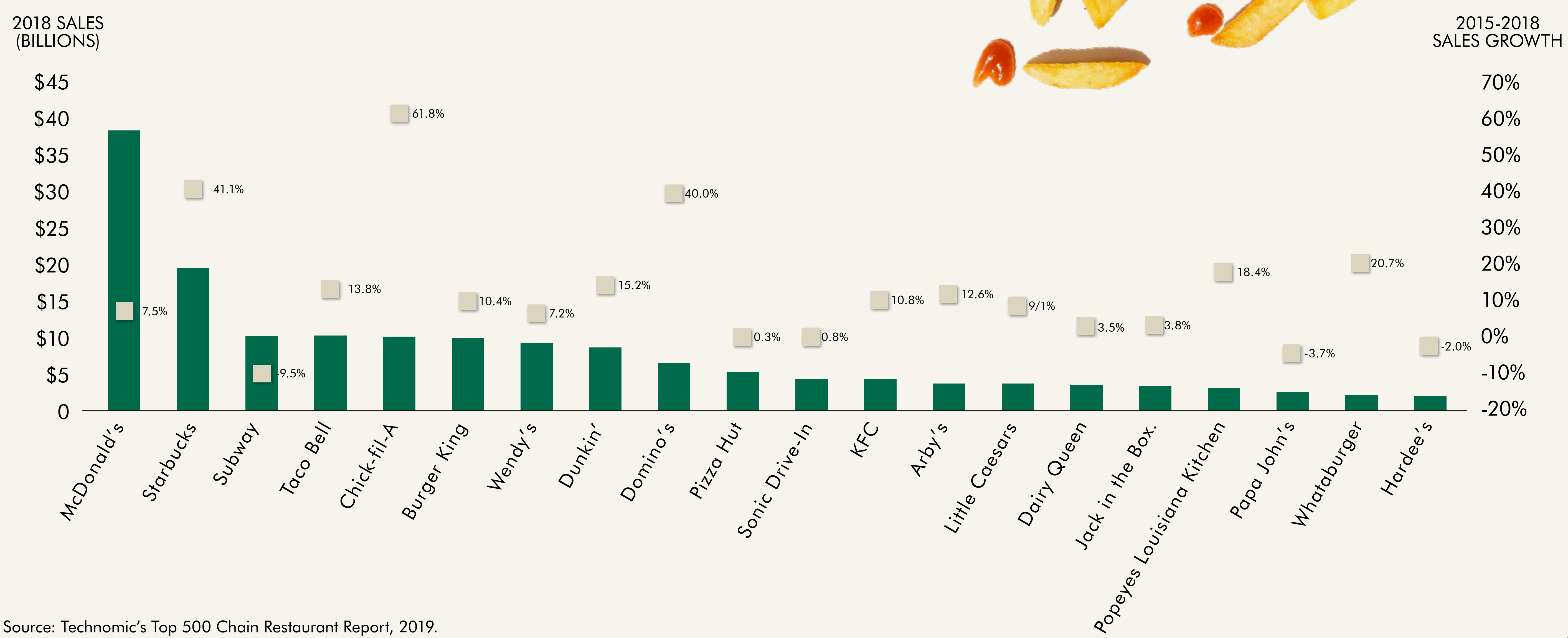
Historically, the barriers to entry for regional players and startup fast-casual concepts were prohibitive given the cost of real estate and very high failure rates. As landlords seek to attract new and relevant dining concepts to fill vacant retail space and improve merchandising and placemaking, deals have become more palatable and creative. This has given rise to a new generation of operators and created a very dynamic and competitive sector in the restaurant world.

Despite potential economic headwinds, people will still want to eat out and will adjust to budgetary reductions by moving down the "food chain" of restaurants, from fine dining to full service to fast casual to fast food. The biggest beneficiary of this trend will be fast casual.

PREDICTION 6

Fast food continues evolving to meet changing consumer demand for healthy food options, technological conveniences and modern designs.

FIGURE 5: TOP 20 FAST FOOD RESTAURANT SALES IN 2018



Source: Technomic's Top 500 Chain Restaurant Report, 2019.

PREDICTION 6

Fast food continues evolving to meet changing consumer demand for healthy food options, technological conveniences and modern designs.

FACTS

FAST-FOOD SALES REACH $237 BILLION[15]

Fast-food sales grew at an annual rate of 4.1% over the past six years to nearly $237 billion in 2019.[16] While fast-food sales are the largest nominal amount of all restaurant categories, their growth rate is much slower than that of the fast-casual segment. And fast-food sales are projected to slow further. Over the next five years, fast food's projected annual growth rate is just 1.2%, according to IBIS World. The fast-food industry is realizing it can no longer benefit solely from being quick and cheap; it must evolve to meet consumer demand and fight a growing perception of being unhealthy.

UNIT GROWTH JUST 1.4%

Unit growth of the fast-food segment has been sluggish. For the top 20 fast-food restaurants, units were up by just 1.4% since 2015 to more than 128,000. Stores of industry bellwether McDonald's fell 2.4% over the same period, while other established players grew locations significantly: Chick-fil-A by 22%, Dominos by 13%, Dunkin by 12%, Starbucks by 12% and Taco Bell by 7.6%.[16] While unit growth has been slow overall, many of these fast-food chains are more than 20 years old and their customer base has shifted away from their original locations. In many cases, chains would rather relocate or close than remodel a restaurant that is no longer properly located or does not fit within the chain's current strategy.

HEALTHIER EATING

People are increasingly turning to vegetable-based foods - to limit or eliminate their meat and poultry intake. For example, McDonald's has introduced Healthy Kids Meals and is testing an international menu. Burger King has placed a plant-based burger on its menus across the United States.

MODERNIZATION CONTINUES

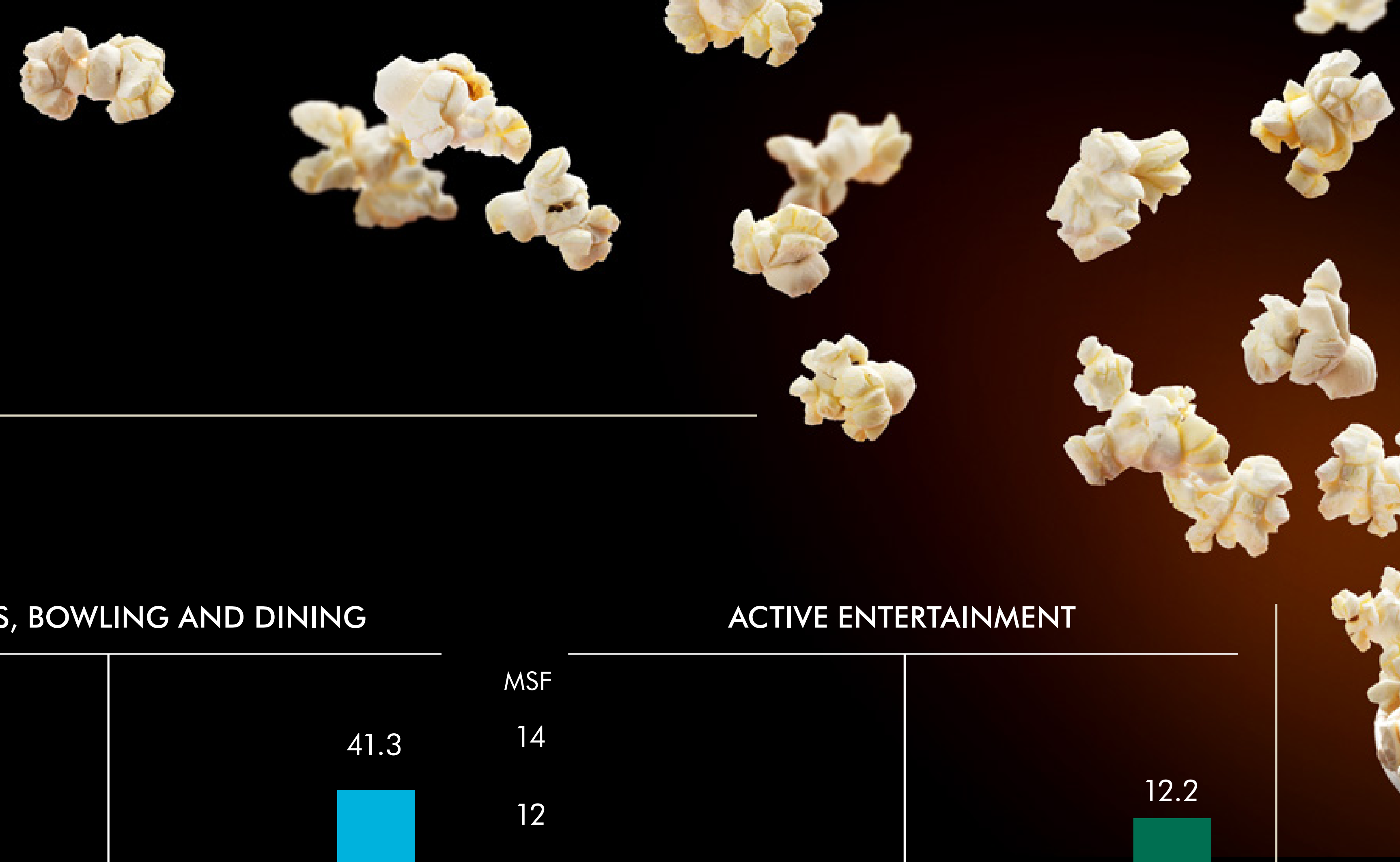
Some established players are undertaking significant renovations of their stores. McDonald's is in the midst of a $6 billion modernization plan, scheduled to continue through 2020. The renovations include the addition of self-order kiosks, digital-menu boards, designated parking spots for pickup of mobile orders and remodeled table-service layouts. Chipotle has added "Chipotlanes," a mobile-order and drive-thru concept.[17] And fast-food chains have also partnered with third-party delivery services, since 72% of their customers eat off-premises.[18]

15. IBIS World Fast Food Industry Report, 2019.
16. Top 500 Chain Restaurant Report 2019, Technomic.
17. QSR, 2019.
18. NPD Group, 2018.

REAL ESTATE IMPLICATIONS

Fast-food restaurants must modernize their menus and store design to stay relevant. Providing healthier menu options and redesigning portfolios to connect with consumers and communities are imperative to recapture lost market share.

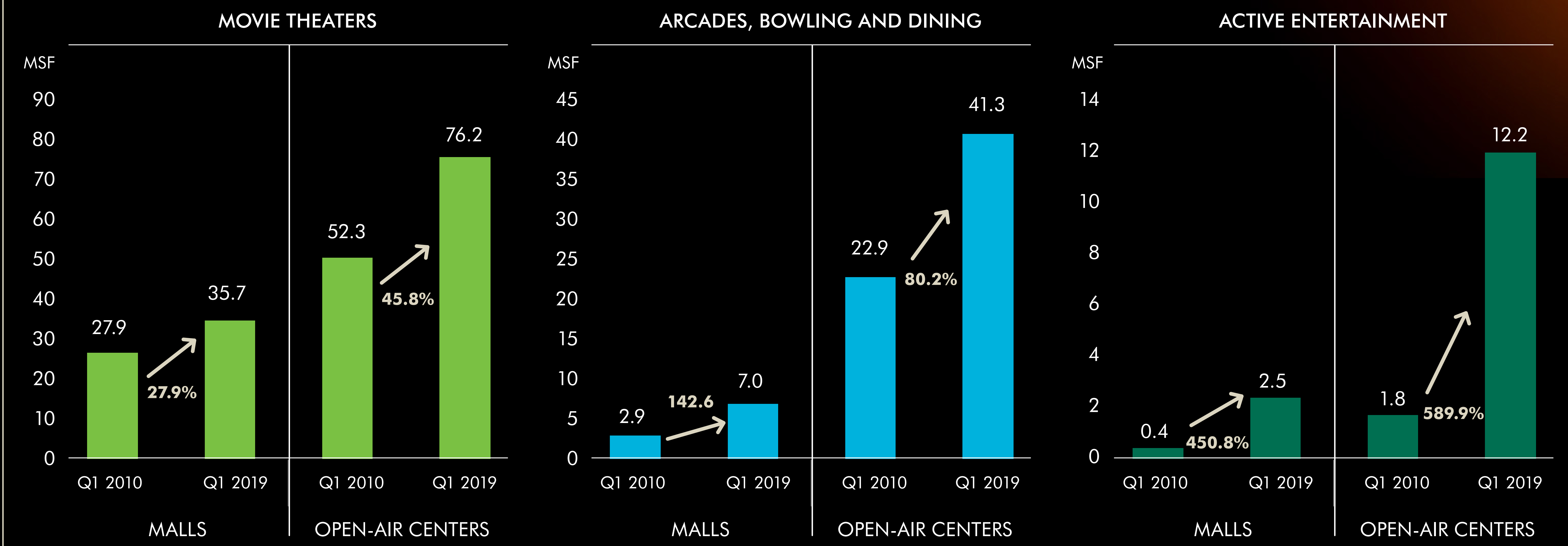
Although fast-food restaurants traditionally have been very prevalent in low-income neighborhoods, there is an evolution underway to make healthy food options more accessible in these communities. There is tremendous opportunity to leverage existing store portfolios in less affluent markets to serve this growing need.



PREDICTION 7

As "eatertainment" operators downsize to smaller, tech-driven formats, they will infill urban locations and be a catalyst for revitalization of urban main streets in select markets.

FIGURE 6: ENTERTAINMENT TENANTS CONTINUE TO EXPAND



Source: ICSC, CoStar Realty Information, Inc.

PREDICTION 7

As "eatertainment" operators downsize to smaller, tech-driven formats, they will infill urban locations and be a catalyst for revitalization of urban main streets in select markets.

REAL ESTATE IMPLICATIONS

As operators open new smaller prototypes with technologically enhanced services, more expansion opportunities will arise. Since eatertainment concepts generally require large footprints, it has been more difficult for them to open in city centers or densely populated urban areas.

Eatertainment venues are revitalizing urban main streets and shopping centers in select markets by drawing traffic and consumers seeking high-quality service, diverse entertainment and unique dining experiences.

FACTS

'EATERTAINMENT'

Consumer demand is rising for more experience-rich recreation and dining options in retail properties. This growing trend has been dubbed "eatertainment" and its incorporation in malls and non-mall settings has grown by 44.7% and 68.5%, respectively, since 2010.[19]

Consumers increasingly want food, drink and entertainment all in one place, creating "eatertainment" destinations. About 70% of consumers prefer to visit eatertainment venues for group outings, rather than casual dining.[20] And 21% of diners are willing to pay more at eatertainment venues than traditional bars and restaurants.[21]

F&B GOES UPSCALE

Food & beverage offerings are becoming a primary draw for eatertainment venues. Emerging operators such as Topgolf, Punch Bowl Social and Ace Eat Serve have sophisticated culinary offerings, differentiating themselves from earlier entrants such as Dave & Buster's and Chuck E' Cheese. In response, Dave & Busters recently revamped three-quarters of its menu, offering more premium and healthier items.[21]

SMALLER FOOTPRINTS

Operators are experimenting with smaller-sized stores to open more locations. Topgolf, whose 55,000-sq.-ft. large-format standard location features driving ranges, announced "Topgolf Lounge" earlier this year. The smaller tech-driven prototype is about 7,800 sq. ft. and features a broad selection of virtual games, music, locally curated dishes and hand-crafted desserts and cocktails. Dave & Buster's is trying a smaller-size concept, such as a 17,000-sq.-ft. format it opened in smaller markets in Texas and Arkansas last year. Punch Bowl Social is opening a 22,000-sq.-ft. venue in downtown Austin's Scarbrough Building this year.

19. ICSC Industry Insights, 2019.
20. National Restaurant Association, 2019.
21. Restaurant Dive.

PREDICTION 8

Diverse food halls will expand further into suburban markets, but must be executed and operated correctly to be successful.

FACTS

CONSUMER CURIOSITY

American consumers are spending more on dining out, seeking new experiences and new cuisines. The exponential growth in food-hall development has helped meet this demand by appealing to a broad range of palates and promoting social connection. Whether multi-cultural or single cuisine, the immersive culinary experience offered by food halls encourages exploration and introduces global trends with a local twist.

NOT FOOD COURTS

Food halls should not be confused with food courts, which generally offer shoppers and store employees a quick, convenient format with lower-price fast-food and fast-casual offerings. Unlike food courts, food halls offer a social food experience built on elevated contemporary dining. Expertly merchandised food halls offer best-of-the-best menu options in a carefully curated environment to provide connection, community and entertainment.

DESIGN MATTERS

Food-hall design must create a unique experience. The opportunity and the risk of food halls are that no standard formula or size applies across geographic regions or portfolios. Each one must uniquely reflect the environment, history and origins of the local community.

Food halls range in size from 5,000 to 50,000 sq. ft. and generally offer unique cuisines. For example, 8asia—a new food hall opening in New York this fall—is an intimate venue featuring five vendors offering Asian cuisine in a fast-casual format. On the opposite end of the spectrum, Time Out Market will open a 50,000-sq.-ft., three-level food hall in Chicago's Fulton Market this year, with 18 diverse food offerings, three bars, a demonstration kitchen, retail, a rooftop terrace and event space.

Attention to detail is imperative in food-hall operations to create a vibrant social environment. They must also be designed to balance the technical requirements and efficiency for vendors with site-specific architectural elements and placemaking.

Integration of entertainment and events is essential to drive traffic and encourage customers to linger, explore and return. Many food halls include farmers markets, cooking demonstrations, wine tastings, live music and local artist events. Amenities often include concierge service, delivery, bag and coat check, technology and employee locker rooms.

UNIQUE OPERATIONAL NEEDS

The traditional business models and leases for food courts and restaurants do not apply to food halls. Leasing agents and property managers must understand the many nuances of these economic and operational deal structures. Lease terms, rent, percentage rent structure and build-out vary greatly whether the food hall is a single purveyor, master operator, incubator space or independent lessee or licensee.

Property teams must be educated on the food hall model to understand the operational impact on a mall or building infrastructure and budgets to support long-term viability. Dedicated marketing is also critical for success. Marketing teams must build relationships with the individual operators to understand their brands and special needs given the pace, volume and customer engagement required for food halls to thrive.

REAL ESTATE IMPLICATIONS

When executed and operated properly, food halls can rejuvenate properties by creating a social, community and culinary draw that epitomizes successful placemaking. However, food halls are not formulaic and will not be successful in every project. They must have the right demographics to drive strong lunchtime and evening traffic, and they must be expertly designed, curated and merchandised. Unlocking the value as a project amenity and revenue source requires an in-depth understanding of cuisine categories, deal structures and operations to incorporate the food hall into the local environment.

The most successful food halls have traditionally been in high-traffic urban markets and dominant suburban trade areas often with a rich historical connection. Urban food hall trends and concepts are expanding into suburban markets through malls, college and corporate campuses, hotels and mixed-use projects across the U.S.

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