



U.S. KITCHEN INCUBATORS AN INDUSTRY UPDATE

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EXECUTIVE SUMMARY

This report provides a snapshot of today's shared food facility industry, presents a view into the industry's future trajectory, and highlights best practices and recommendations for improving outcomes for entrepreneurs and operators. In addition to sharing data and recommendations, this report seeks to put shared kitchens into greater context as operations with the potential to play an outsized role in expanding the inclusive economy – bringing entrepreneurs that face significant barriers to entry into the fold of supportive business ecosystems. A comprehensive measure of the quantitative and qualitative impact that shared kitchens have on local economies remains a gap. However, the data in this industry report can support public, private, and foundation stakeholders in understanding the value of codifying the economic and social impacts of these facilities on their local communities.

KEY FINDINGS & RECOMMENDATIONS

Analysis of the 2019 industry survey results yielded the following findings and recommended actions to support the burgeoning shared use food facility industry:

Entrepreneurs and facility operators alike are in need of greater support, including professional development, capacity building, and technical assistance. In-demand support includes operations and planning; product development; branding, sales and marketing; affordable sourcing; accessing trained labor; and distribution/logistics support. Operators are seeking support with evidence-based entrepreneur programming and development.

Fund cross-training among shared kitchens to build industry capacity and reinforce standards of practice.

Formalize and distribute evidence-based training curriculum to execute industry best practices.

Missing industry data limits understanding of overall economic impact – particularly the industry's contribution to advancing economic inclusion – thus limiting the case for funding.

Formalize coordination between facility operators and public economic and market development agencies, academic institutions, and municipal governments to establish appropriate metrics and support codification of economic impact. Work together to leverage the cluster effect and advance incubation efforts.

A lack of industry formalization detracts from the industry's legitimacy. Missing standards and regulations lead to inconsistent practices and may contribute to perceived risk, hindering support.

Establish a professional association to develop regulatory policies and standards of practice, and to advocate for these policies, incentives, funding, and other resources. The association should bolster member access to market intelligence, including facilitating the sharing of market research across facilities to cultivate an informed community of coaches and entrepreneurs.

Access to working capital poses a major barrier to facility operators and member businesses

Increase direct public and private investment in operator and entrepreneur working capital and technical assistance providers to support the sustainable incubation of nascent food businesses.

INTRODUCTION

The U.S. Kitchen Incubator industry in 2019 continues building a supportive ecosystem for one of America's key economic pillars: small business entrepreneurs. The U.S. Small Business Administration cites the small firms share of all domestic businesses at over 99 percent, with start-ups comprising 8 percent therein.ⁱ And while 8 percent may appear small, new businesses aged 0-5 years are a powerful force driving innovation and over 20 percent of gross job creation. "The question of who benefits from the success of entrepreneurship is of great significance, particularly as municipalities and regions interrogate current economic development approaches and look for strategies that enable a more dynamic and inclusive economy. Entrepreneurship remains a critical pathway for people facing myriad barriers to entering the economy or accessing quality resources and networks. In 2018, the largest proportion of new entrepreneurs had completed less than a high school degree, the rate of minority entrepreneurs was increasing and immigrants accounted for nearly 30 percent of new entrepreneurs."ⁱⁱ This report analyzes a survey of shared kitchen operators across the U.S., following earlier surveys in 2013 and 2015. This work aims to support economic inclusion among these mission-driven business owners who have limited access to traditional pathways.

In 2019, 82 percent of surveyed kitchen facility operators pointed to supporting entrepreneur success as some part of their primary mission. Yet, entrepreneur success requires no less than an entire community of actors and resources to develop, guide, connect, fund, and champion fledgling concepts. This supportive community is of even greater importance when working with immigrant, refugee, and women entrepreneurs, who disproportionately lack resources and networks. Shared use food facilities, when employing industry best practices, realize the promise of business incubation and economic clusters to meet these requirements. In fact, 30 percent of the 2019 shared use food facility survey respondents cited business incubation as the primary function of their facility. Incubators have been shown to markedly improve the long-term survival rates of small businesses: incubated businesses have over double the success rate of those without the benefit of incubation

after six years in operation.^{iv} The survival of new businesses depends on ready and continued access to professional skill building, business development, and operations support, which are staples of an effective business incubation model.^v

In addition to incubating food businesses, shared kitchens act as economic clusters where food entrepreneurs can benefit from co-location and cooperation. Clusters bolster start-up success and survival by growing the pool of specialized resources, improving access to suppliers and cooperative purchasing, knowledge sharing and accelerating paths to market.^{vi} Although only 4% of survey respondents identified as part of a food innovation district or food cluster, arguably each shared use facility lays the groundwork for accessing the positive benefits associated with a highly localized economic business cluster. These micro-clusters warrant direct public investment to deliver on the promise of strengthening the connective tissue and supports for burgeoning businesses. The multiplied impacts of these micro-clusters should be measured by cities and states to better understand the direct and indirect value created by kitchen incubators.

As incubators and micro economic clusters, shared use food facilities are supporting businesses with critical services, expertise, networking, and linkages to financial resources. Among the hundreds of shared use kitchen facilities, those leading the industry in best practices take an intentional approach to incubation, network building, and inclusive recruiting – connecting a growing community of entrepreneurs of color and women entrepreneurs to expert supports. And while success is the shared goal, as La Cocina Executive Director Caleb Zigas puts it, *"La Cocina is designed to give people a space to fail and land on their feet. If the [shared kitchen] industry is going to make an impact, then we have to acknowledge that serial entrepreneurship is having the privilege of failing until reaching success. People on the margins are not afforded this privilege. Incubators need to be in the position to absorb that risk."* Shared kitchens will need more robust public, private, and foundational partnerships to maintain and expand this critical position.

DEFINITIONS AND BEST PRACTICES

DEFINITIONS

Shared Use Food Facility: A facility dedicated to renting commercial kitchen space for shared use to a variety of food entrepreneurs, local businesses, and catering services. Within this umbrella term are included commissaries, commercial kitchens, and kitchen incubators, which offer business incubator services to provide startup food businesses with professional development and training.

Best Practices: A set of procedures that have been found to be the most effective in a given industry.

Economic Inclusion: The practice of including all people, regardless of race, gender, or socioeconomic status, in a given industry or economy. This is only accomplished through the intentional development of inclusionary strategies such as tiered pricing, diverse leadership, and additional support for those in need.

Food Innovation District: A geographic cluster of food-related businesses intended to foster business collaboration. These clusters often include markets, shared-use food facilities, and business incubators that work together to grow the regional food economy and support local businesses.

Ghost Kitchens: Food businesses that make food in a commercial kitchen space and deliver it right to consumers through food delivery apps, rather than through a traditional restaurant.

Local Food Economy: The group of local food growers, producers, and distributors that help provide food for a region.

Micro-clusters: Shared-use food facilities can also act as their own micro-cluster, allowing food entrepreneurs to collaborate and work with one another in areas where there is not a food innovation district.

BEST PRACTICES

Leaders in the shared kitchen industry serve as inclusive economic engines, creating environments for entrepreneurs to build wealth, create jobs and bolster the local community. While the industry has yet to develop formal standards and regulations, there is a core set of best practices employed by industry leaders:

- Provide ongoing regulatory, operational, and business management support and curriculum to build entrepreneur capacity - at start-up, second-stage growth, and beyond. This includes formal and informal coaching on go-to-market strategies, product development, branding, and sales and distribution support.
- Establish a clear culture of economic inclusion, often beginning with directed recruitment, screening, and interviewing of women, minority, and refugee entrepreneurs.
- Curate a member mix with an eye toward collaboration, mutual respect, cross-pollination, and product diversity for a sustainable operation and maximum benefit to the food community being built.
- Offer accessible, sliding scale pricing that transitions alongside the growth of the business until they reach market parity.
- Help entrepreneurs achieve scale by cultivating relationships along the food value chain, from suppliers, to skilled labor, to sales channel partners.
- Develop a supportive network and community of support beyond the walls of the kitchen facility. Bring in experienced mentors including industry experts, regulators, consultants, institutional and funder contacts. Build industry as well as community networks.

INSIDE THIS REPORT

Current Characteristics (Section I) presents an update on the shared use food facilities industry through the results of a national survey and related analysis. Of the more than 600 identifiable shared kitchen facilities that operate across the U.S., 180 responded to the 2019 industry survey, providing key data points and highlighting emerging trends and opportunities to improve the impact and collective understanding of the industry. This section includes data in ten categories:

- **Location and Context** shows the distribution of facilities across 44 states. While about half of facilities are in urban areas, the regional distribution is fairly even.
- **Characteristics** detail the expanding operator landscape of younger facilities with mission-based goals. While a majority of operators remain for-profit, less than 10 percent cited a primary objective of making money.
- **Financial Status** explores the viability of operators. Most respondents are stable but a greater proportion in 2019 also experienced financial losses.
- **Facilities** details size, equipment offerings, and additional uses. The majority of respondents operate in less than 5,000 square feet. Event space, classrooms, and food testing labs are popular additional revenue sources.
- **Operating Models** shows varying staffing, costs, and revenue streams. Over 80 percent of facilities are run on a budget of less than \$500,000. Most shared kitchens report few, if any, full-time employees.
- **Members/Tenants** highlights select details of users, including minority, women, and refugee entrepreneurs and duration of stay. 45 percent of respondents cited “business closure” as a frequent reason for tenants leaving a facility.
- **Products** outlines trending items being developed and sales channels. Ready-to-eat and baked goods are most popular and data suggests room for capturing more online and foodservice business.
- **Rates and Payment** shows industry approaches to setting and accepting fees and rental rates. The majority of kitchens increase their accessibility through sliding scale rates for low-income entrepreneurs or incubator program members.
- **User Interface** provides additional operational insights. Kitchens still depend largely on human-facilitated bookings, although there is a trend toward software solutions.
- **Business Supports** details how shared use food facilities provide incubator and food cluster benefits. While a majority offer licensing and business counseling, only 30 percent of operators track member outcomes, creating a major gap in understanding the industry and its impacts.

Looking Ahead (Section II) provides a closer look at the industry’s evolution from 2015 to 2019 and its future direction. The shared use food facility industry is growing as the food industry is changing shape. This section offers some reflection, as well as insights into how shared kitchens are being challenged and how they might respond:

- **Comparison to 2015 Survey** examines what the data says about how the industry has changed and remained constant from 2015 to 2019.
- **What the Industry Thinks About Its Future** highlights kitchen operators’ optimism about the direction of shared kitchen industry. Core challenges and needs of operators are discussed in greater detail.
- **Maturation and Evolution** addresses marketplace changes introducing new competition and opportunities. Shared use food facilities are poised to differentiate themselves as foundations of inclusive economic development.
- **Technical Assistance Needs** focuses on the types of supports needed for the sustainability of operators and entrepreneurs.
- **Technological, Consumer, and Social Disruption** identifies select trends that may change how entrepreneurs go to market and potential revenue opportunities for shared kitchens.

SECTION I: CURRENT CHARACTERISTICS

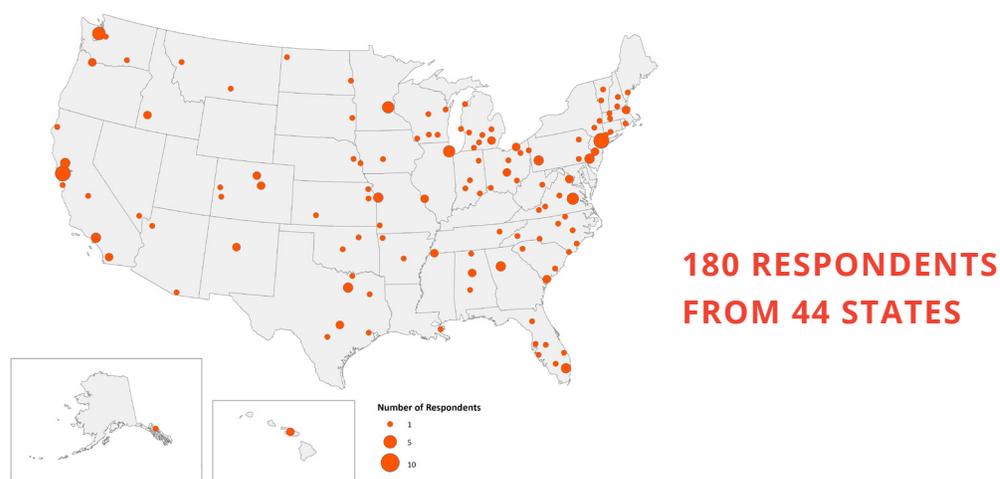


LOCATION AND CONTEXT

Shared use food facilities have a presence in 44 states throughout the country, with a slightly higher representation in the South. Shared use food facilities continue to be found mostly in urban and suburban contexts with concentrations in the largest cities.

INCUBATORS HAVE A NATIONAL REACH ACROSS THE U.S.

Nationally, over 600 shared use food facilities exist across 48 states and the District of Columbia. Survey respondents, 180 facilities in total, came from 44 states – an increase of 4 states and almost 120 respondents since 2015.



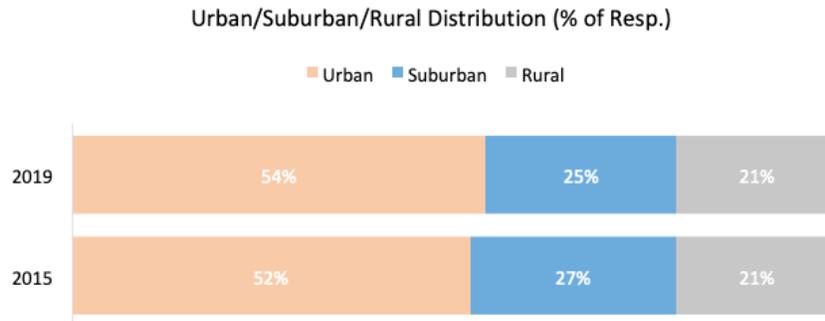
REGIONAL DISTRIBUTION BUT MORE REPRESENTATION IN THE WEST AND SOUTH

While incubators are represented relatively evenly across regions, the large numbers of incubators in California (19), Ohio (9), and Texas (9) drive higher representation in the West, Midwest, and South.

Region	Respondents (%)	
	2019	2016
South	31	29
Midwest	26	24
West	26	31
Northeast	18	16

HALF OF ALL INCUBATORS CONTINUE TO BE IN URBAN AREAS

54 percent of kitchen incubators identify as being in an urban area in a distribution similar to the 2015 results of 52 percent urban, 27 percent suburban, and 21 percent rural.



CONCENTRATION NEAR MAJOR CITIES

Kitchen incubators continue to be an urban trend and are concentrated in certain metropolitan areas. The fifteen cities with the most incubators represent almost half of all national incubators. The map below shows the concentration of shared use food facilities in metro areas around the U.S., indicating that incubators cluster around cities in every region.

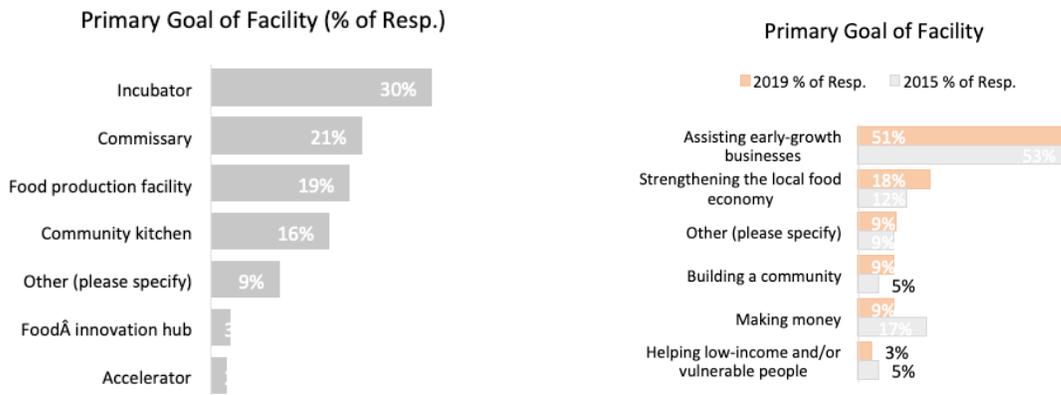
City	Respondents	
	Count	Percent
New York City	38	7.2
San Francisco	25	4.7
Seattle	23	4.4
Chicago	23	4.4
Los Angeles	17	3.2
Washington, D.C.	13	2.5
Miami	11	2.1
Boston	11	2.1
Portland	10	1.9
Denver	10	1.9
Minneapolis	10	1.9
Austin	9	1.7
San Diego	8	1.5
Pittsburgh	8	1.5
Dallas	8	1.5
TOTAL	224	42.5

CHARACTERISTICS

Over 50% of respondents identify the primary goal of their facility as assisting early-growth businesses, even while 52% operate as for-profit entities that rent access to commercial space, storage, and services. Shared use food facilities remain a fairly new phenomenon, as over 40% have been established since 2015.

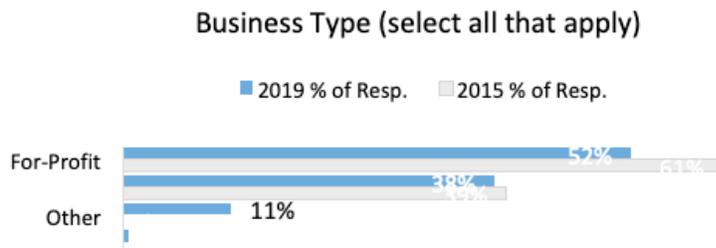
OVER HALF VIEW A MISSION-BASED FOCUS AS THEIR PRIMARY GOAL

Asked about the primary goal of their facilities, a majority of respondents claim to prioritize a basic mission of incubators: assisting early-growth businesses. This response, in addition to another 18 percent who chose "strengthening the local food economy," indicate that, regardless of corporate classification, many kitchens are mission-focused. In addition, these facilities identify primarily as an incubator, with only 19% identifying first as a food production facility.



A MAJORITY OPERATE AS FOR-PROFIT

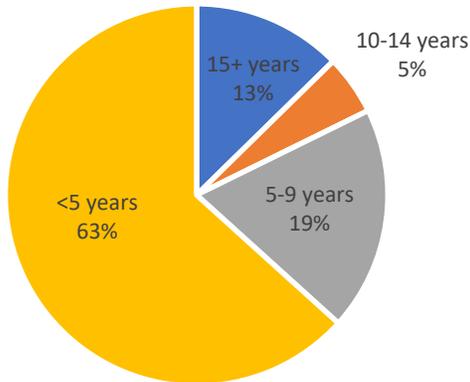
The majority of incubators classify as for-profit, but at a lower rate than 2015. Other responses indicate private-public partnerships, or facilities functioning as for-profit arms of non-profit organizations.



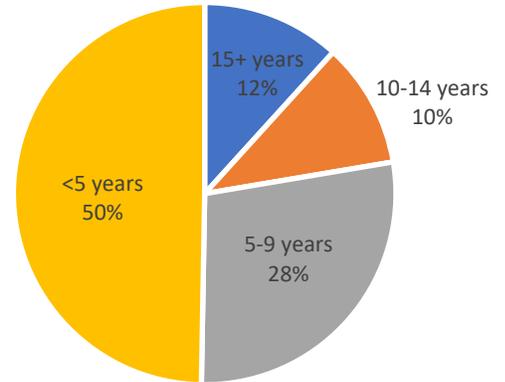
TWO-THIRDS ESTABLISHED AFTER 2010

Most incubators were recently established, similar to the 2015 results. Over half of survey respondents were formed after the 2015 survey or are currently forming, indicating continued growth in the sector.

Years Established, 2015 Survey



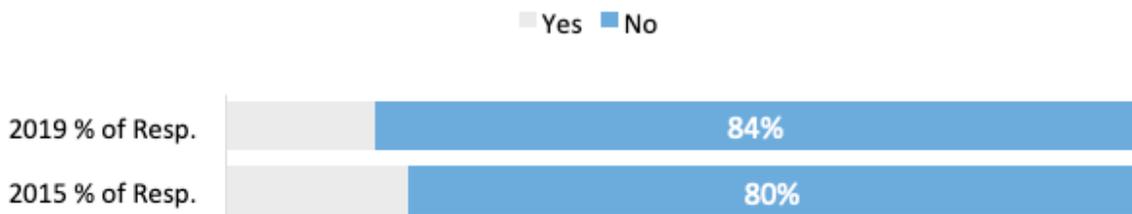
Years Established, 2019 Survey



ONE-IN-FIVE ARE CERTIFIED BY THE USDA

Sixteen percent have a specific USDA certification for processing meat, poultry, and egg products, similar to the results of the 2015 survey. USDA certification entails a facility undergoing a technical approval process that may involve submission of production plans and/or technical proposals, product samples for evaluation, and on-site assessments of facilities and procedures.

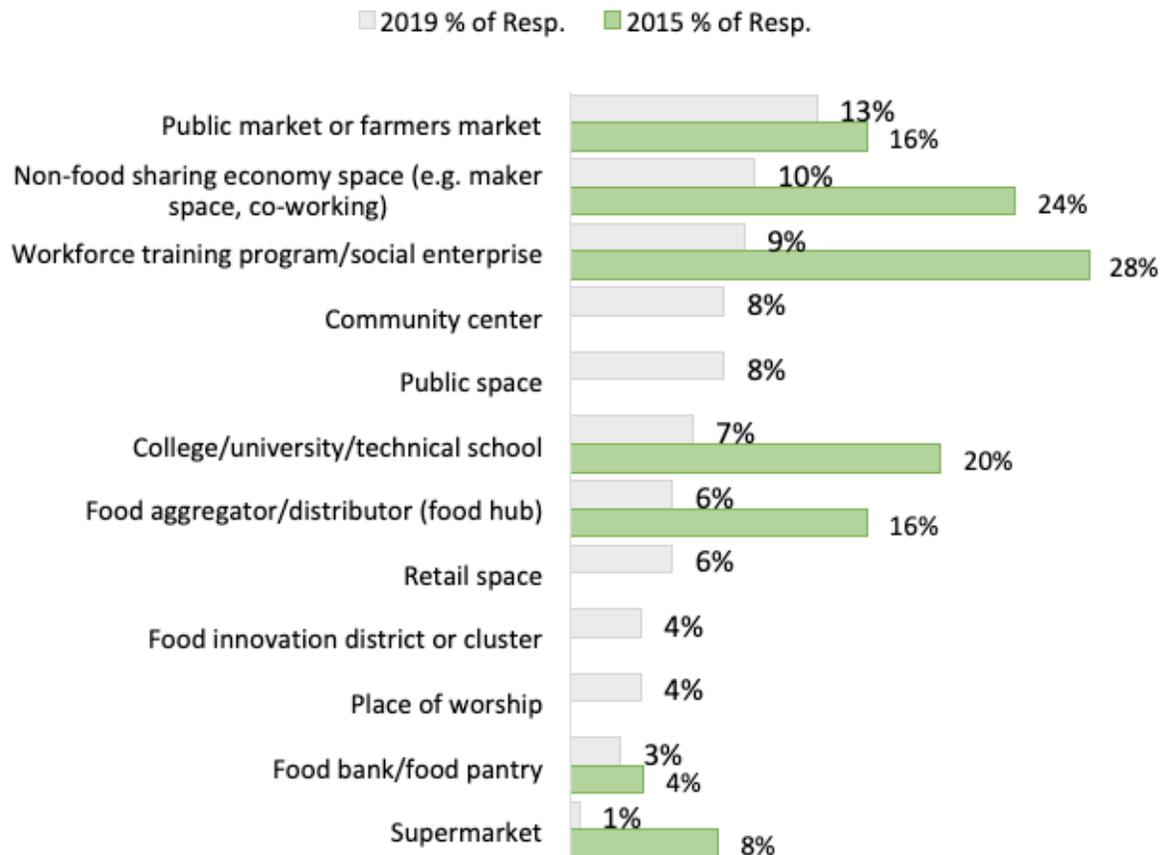
Is your facility USDA certified?



40% OF INCUBATORS INVOLVED IN AT LEAST ONE PARTNERSHIP

Many of the incubators are involved in some type of partnership, whether it be aligned with professional development or food product distribution.

Does your facility include or are you part of any of the following?



THE ROLE AND MISSION OF INCUBATORS EVOLVE OVER TIME

As an emerging sector, change is expected in order to meet the needs of the community. Below are a selection of the range of responses when asked "Has the name, function, or mission changed over time?"

"We started with the primary goal of making money, and although that is still a priority of ours, helping small businesses grow has become our main focus and selling point."

"Initially funded as an incubator, but due to low use in our rural area we diversified to promote it as a commissary and teaching kitchen as well."

"Yes, it was originally designed to provide a location for local farmers to create value-added manufactured products from their produce. Now, the majority of our clients are food trucks, caterers, meal delivery or part-time hobbyists."

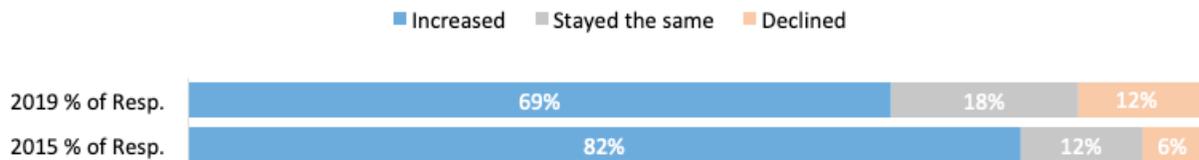
FINANCIAL STATUS

The financial status of many shared use food facilities appears to be about the same/slightly declining. Approximately the same portion of facilities report making money compared to 2015 and nearly 70% report earning more revenue than three years ago, compared to 82% report earning more revenue in 2015.

69% OF INCUBATORS HAVE SEEN REVENUE INCREASE IN PAST THREE YEARS

Encouragingly, 69% of incubators have seen revenue increase as compared to three years ago or when opened if less than three years old. However, an increasing number of facilities have seen similar revenue, or declining revenue since the same time. Increases in revenue can largely be attributed to diversification, specialization, and reputation.

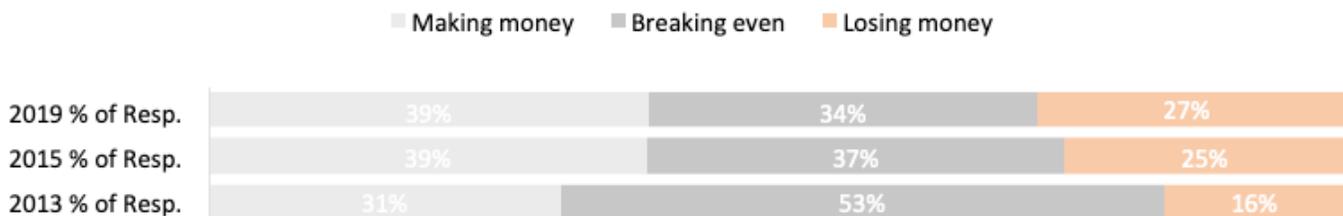
Has your revenue increased, decreased, or stayed the same compared to three years ago?



MANY ARE PROFITABLE, BUT MORE ARE LOSING MONEY TOO

A growing number of shared use kitchens are reporting that they are profitable, although the number losing money also increased.

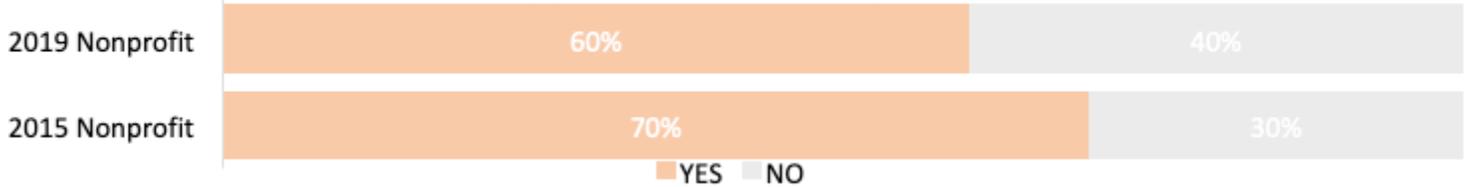
Facility's financial status in the last year:



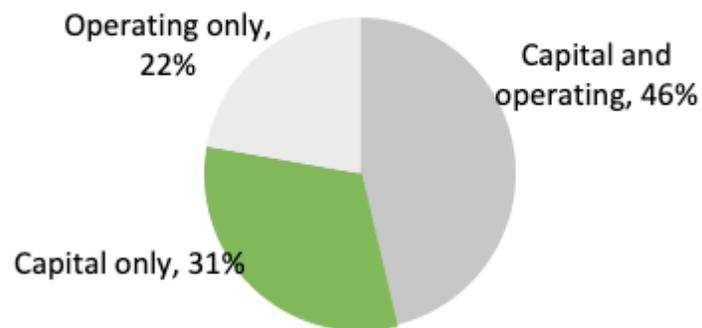
MOST NONPROFIT INCUBATORS HAVE RECEIVED GRANT SUPPORT

60% of nonprofit kitchens have received grant support, as opposed to 5% of for-profit facilities. For all grant recipients, grant support typically covered both capital and operating costs. Grant sources may range from local initiatives to federal programs.

Any Grant Support Received? Among Nonprofits (%)



If facility has received grant support, what was this grant for?



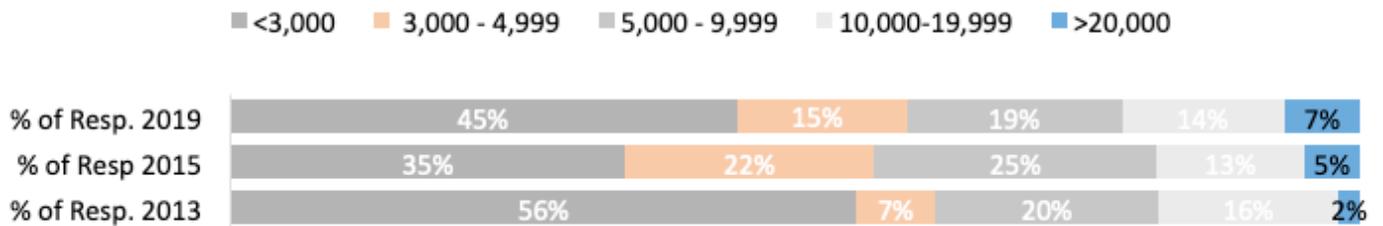
FACILITIES

Many shared use food facilities are small facilities, with almost half occupying less than 3,000 square feet and almost 80% occupying less than 10,000 square feet. Most facilities have cold storage, classroom space, food science/testing labs, packing rooms, and permanent food production spaces for rent or lease.

MORE SMALL INCUBATORS LESS THAN 5,000 SQUARE FEET

With 45% of facilities reporting a size of less than 3,000 square feet and 15% reporting between 3,000 and 4,999 square feet, the number of small facilities has grown, contrary to some expectations that the industry would see more consolidation into larger facilities.

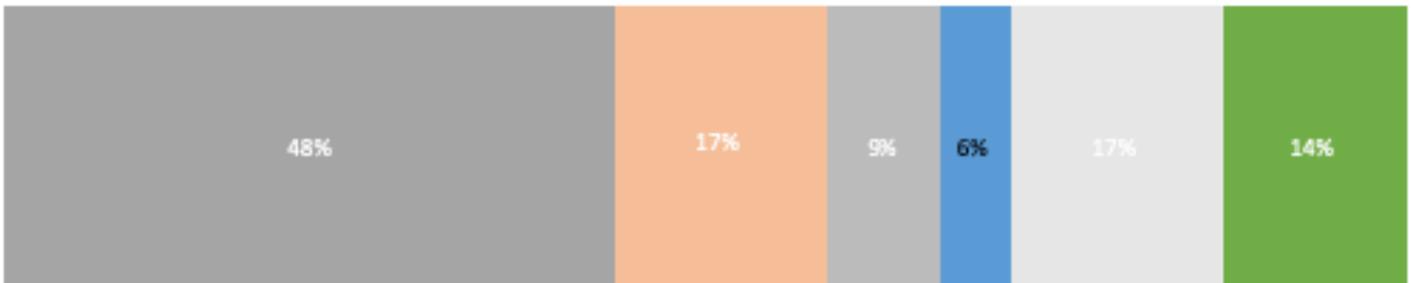
Total square footage of facilities



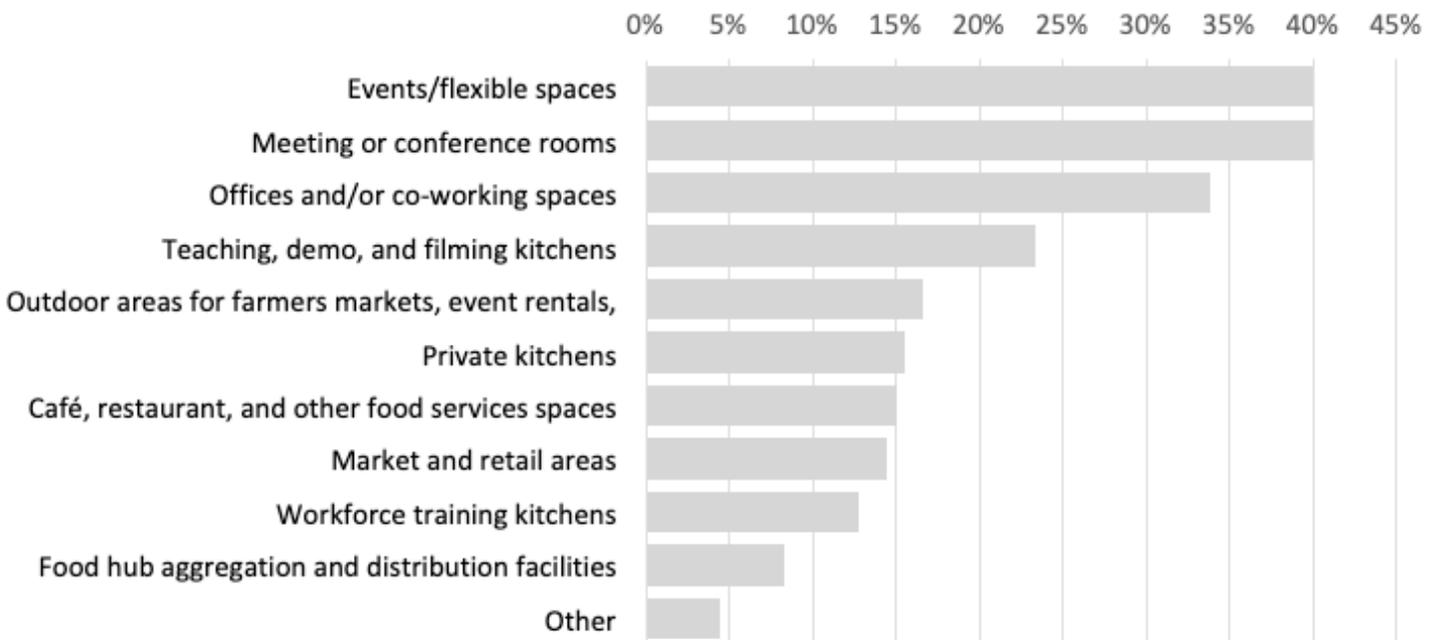
KITCHEN SPACES MAKES UP ABOUT HALF OF THE TYPICAL FACILITY

Appx. % of sq. ft. dedicated to each of the following uses (Average of all responses)

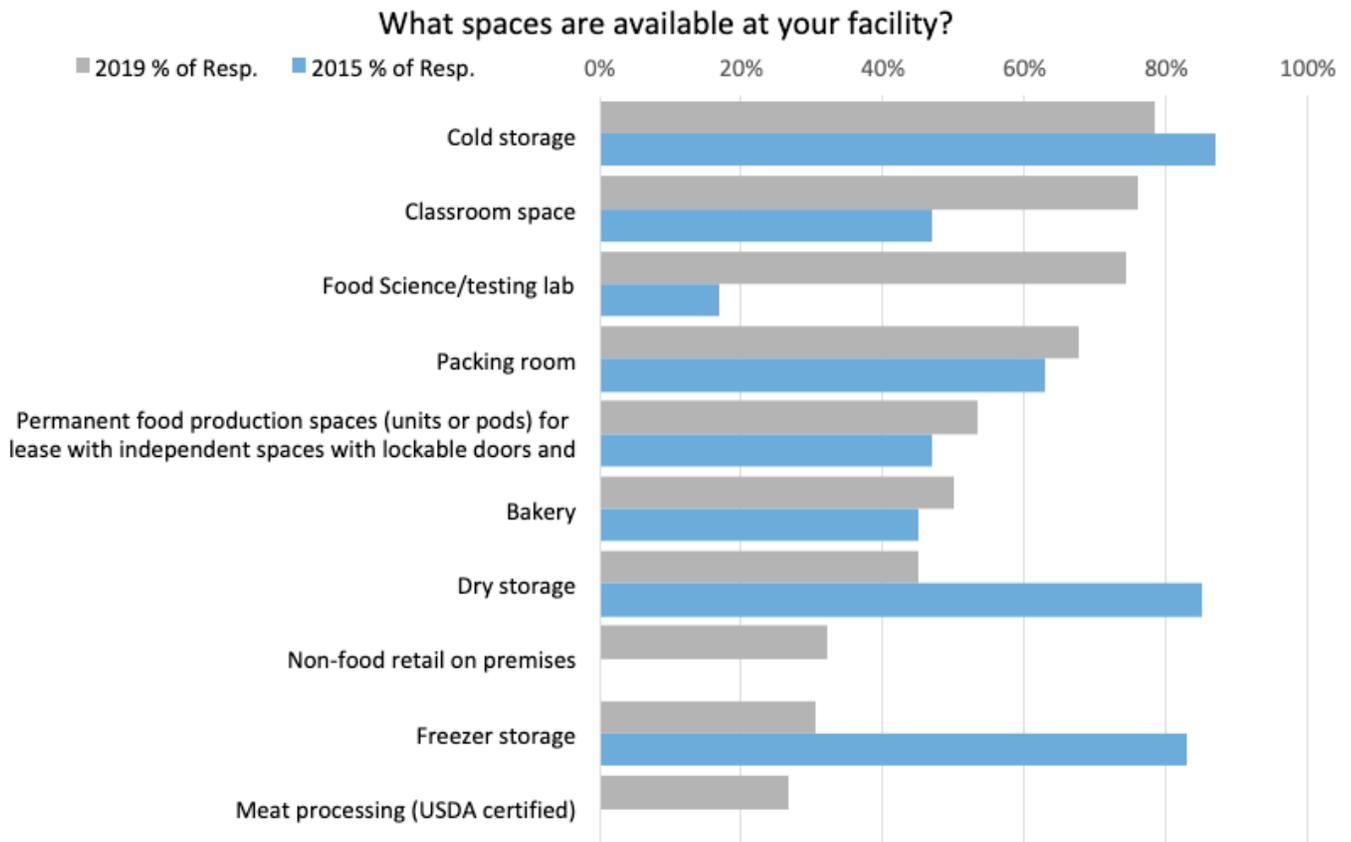
■ Kitchen ■ Dry Storage ■ Refrigerator Storage ■ Freezer Storage ■ Event Space ■ Other (office, non-kitchen uses, etc.)



What additional services are available at your facility? (% of Resp.)

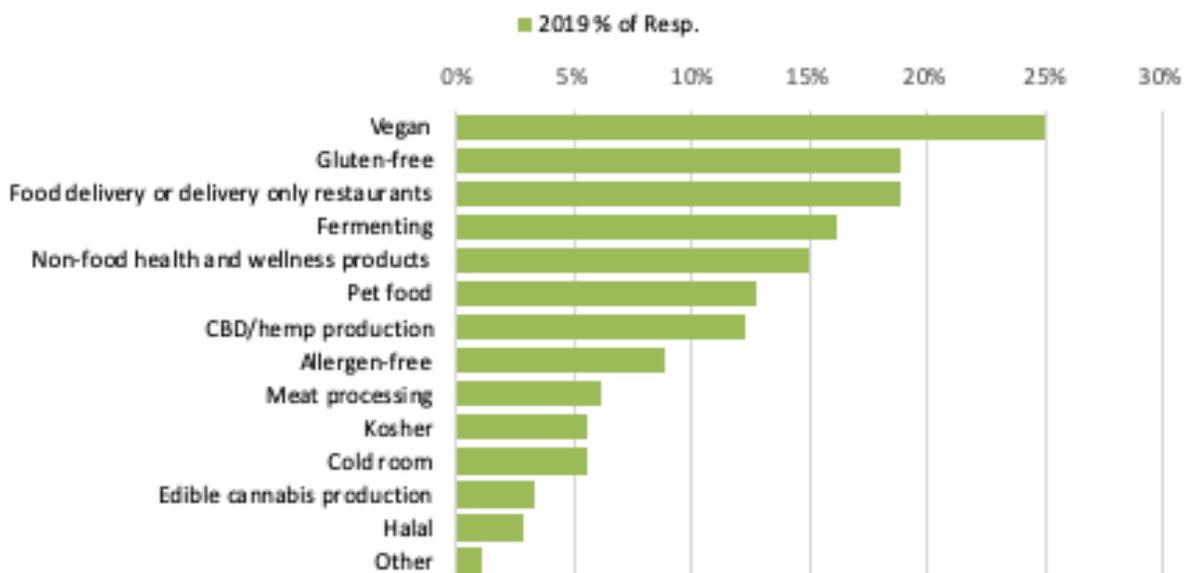


STORAGE AND CLASSROOM SPACE ARE THE MOST COMMON FACILITIES



25% OF FACILITIES ACCOMMODATE VEGAN PRODUCTS

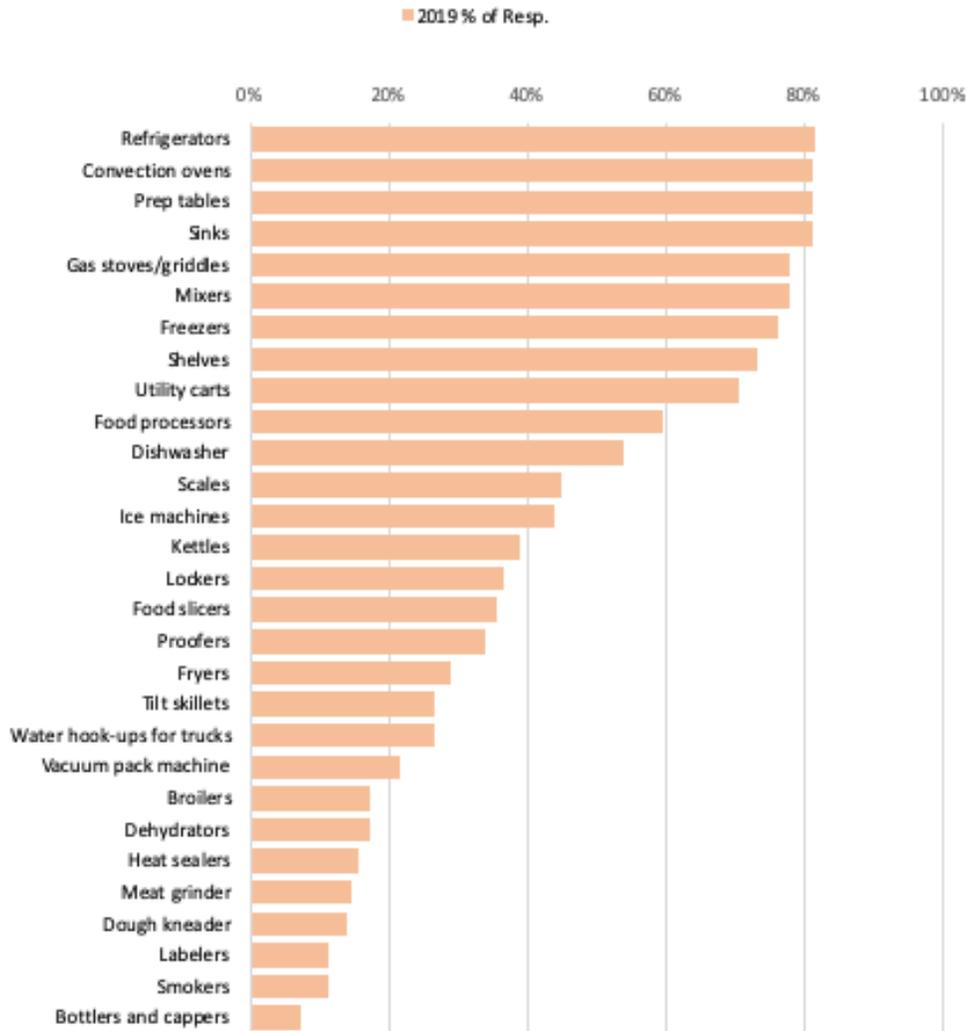
Do you accommodate specialty production for any of the following?



Note: 2015 survey results were not included for comparison due to significant changes in categories used.

REFRIGERATORS AND CONVECTION OVENS ARE THE MOST COMMONLY PROVIDED EQUIPMENT

What equipment do you provide to members/tenants?



FROM SURVIVOR TO CHAMPION: BINI'S KITCHEN

Nepal native and domestic violence survivor Bini Pradhan was supporting herself by selling momos out of the back of her car. Her food was so good, she built a following of about 100 families and it was time to find production space to meet this demand. Bini came to La Cocina with her brother-in-law as support for her interview. She launched Bini's Kitchen at La Cocina, where she was connected with catering clients, farmers markets and other sales channels, growing to \$1 million in sales from inside the shared kitchen. La Cocina helped Bini negotiate space in an affordable housing development and worked with Bini to find investors. Bini's Kitchen is now a \$2 million business with 22 employees. Select Bini's dishes are featured in the new cookbook, "We are La Cocina".

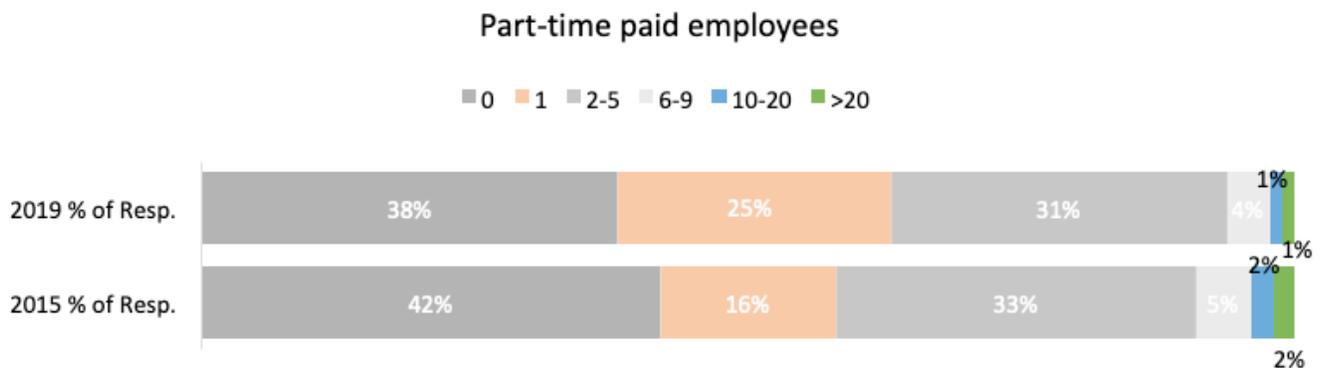
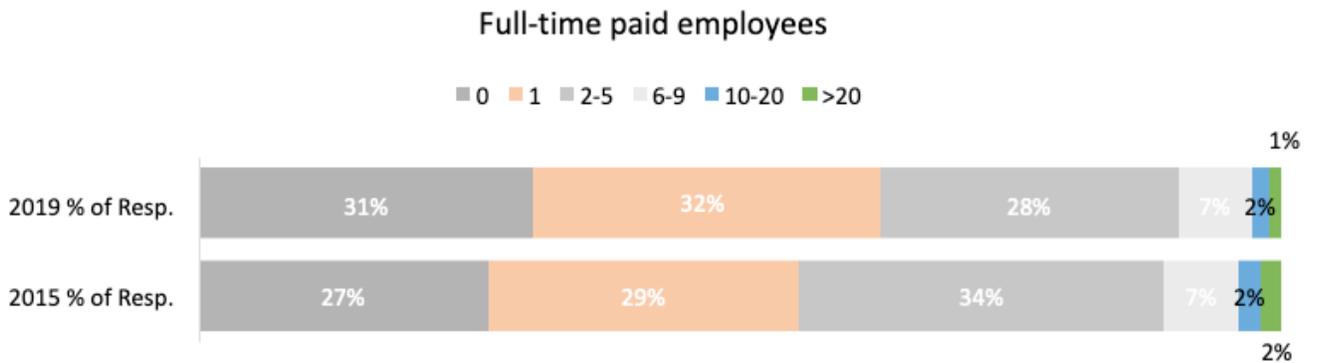


OPERATING MODEL

Shared use food facilities have very lean operations with few employees and modest operating budgets. Most costs go towards rent and salaries with lesser amounts to utilities and maintenance. Most revenue is generated from renting shared or permanent commercial or flexible space, or through a variety of smaller revenue-producing activities.

KITCHEN INCUBATORS HAVE FEW, IF ANY, EMPLOYEES

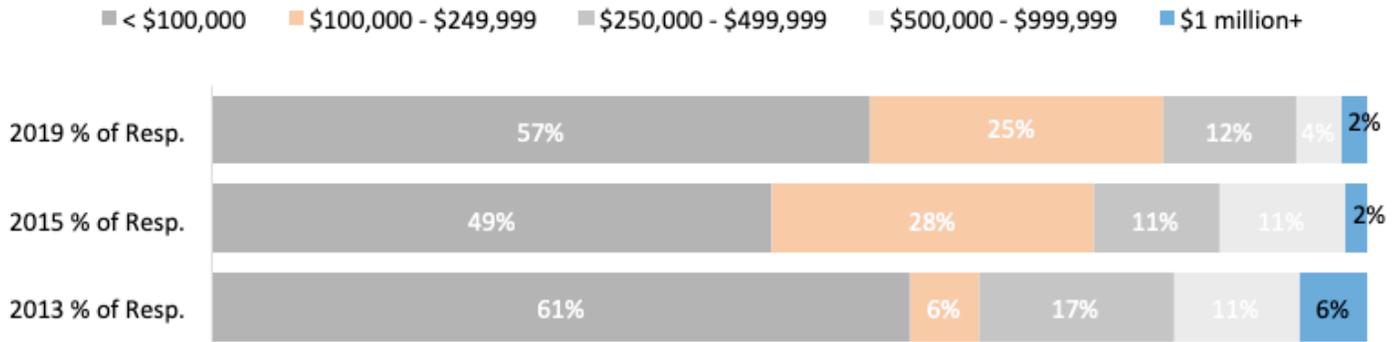
Most shared kitchens have very few full- and part-time employees, including 31 percent and 38 percent of facilities respectively that claim to have no full- or part-time employees at all. Ninety-one percent have five or fewer full-time employees, similar to 2015 when 90 percent had five or fewer.



HALF OPERATE ON LESS THAN \$100,000

Shared kitchens with operating budgets of less than \$100,000 make up more than half of all respondents, up from 49% in 2013. Those with a budget of \$500,000-\$999,999 had the largest decrease, going down to 4 percent of respondents in 2019.

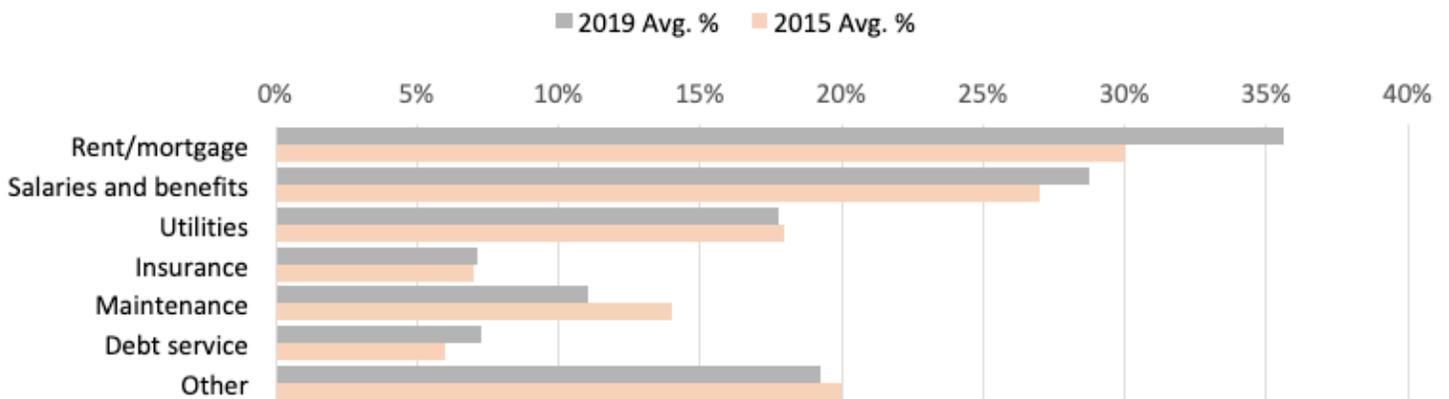
Annual Operating Budget



LARGEST OPERATING COSTS ARE RENT AND SALARY

The highest operating costs for incubators are rent/mortgage, salaries and benefits, and other costs, with utilities, maintenance, insurance, and debt service making up smaller, but still significant portions of costs.

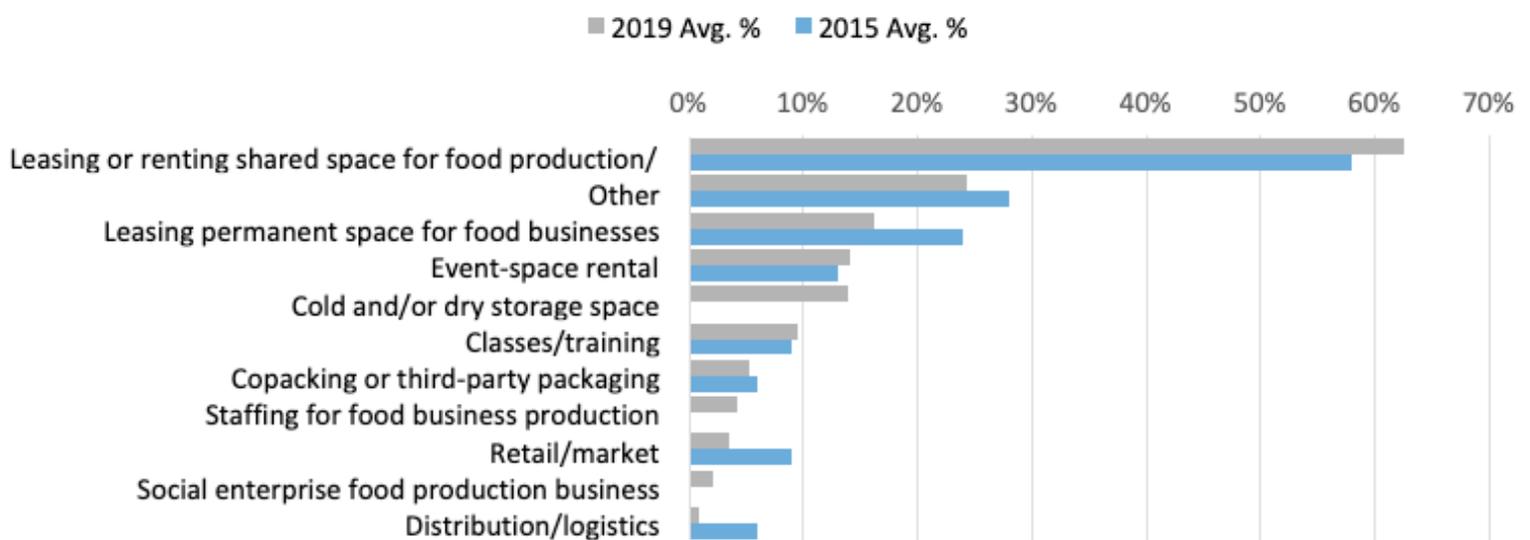
Average Total Operating Cost by Type (Avg. %)



LEASING SHARED SPACE IS THE PRIMARY REVENUE SOURCE FOR MOST SHARED KITCHENS

Leasing shared space for food production is by far the biggest revenue source for incubators, making up an average of 63% of total revenue across respondents. Leasing permanent space makes up a high portion of revenue for several respondents, indicating a greater focus for some facilities on full-time tenants than shared space. Other revenue generating sources include renting storage space, serve-safe or training classes, event space rentals, or offering food production labor-as-a-service.

Please provide the approximate percentage of your total revenue for each of the following sources of revenue (Avg. %)



LEVELING UP: JAMAICA Mi HUNGRY

Chef Ernie Campbell worked in the restaurant industry in Jamaica. As a new immigrant in the US, Ernie took hotel line cook jobs but his heart was in launching his own business. He had a vision of bringing authentic Jamaican food to Boston. Ernie established a small business as a personal chef, later rolling out two food trucks and a beach town cafe. Then Ernie joined the members at Commonwealth Kitchen, occupying a takeout kiosk on-site. At Commonwealth Kitchen, Ernie received business coaching and learned to grow smartly. He used the shared facility at reasonable rates and was able to hire local community members. When the time was right, Ernie received support securing a ready space and he is now breaking ground on his very own brick-and-mortar location in Boston. Commonwealth Kitchen provided a platform for Ernie to level up sustainably, transitioning from a mobile to permanent location within 5 years.



Photo source: The Bay State Banner

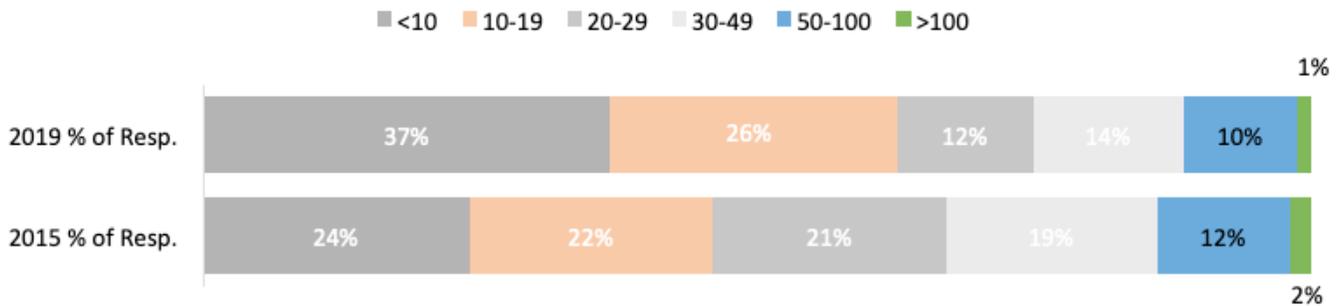
TENANTS

Three-fourths of shared use food facilities have fewer than thirty members/tenants who utilize a small number of shared spaces. Members/tenants generally stay longer than a year. Nearly half of facilities have majority women tenants and for most facilities, people of color make up less than 30 percent of tenants.

75 PERCENT HAVE FEWER THAN 30 TENANTS

Most shared kitchens have between less than 30 users/tenants. The median range of users is between 10 to 19 members/tenants.

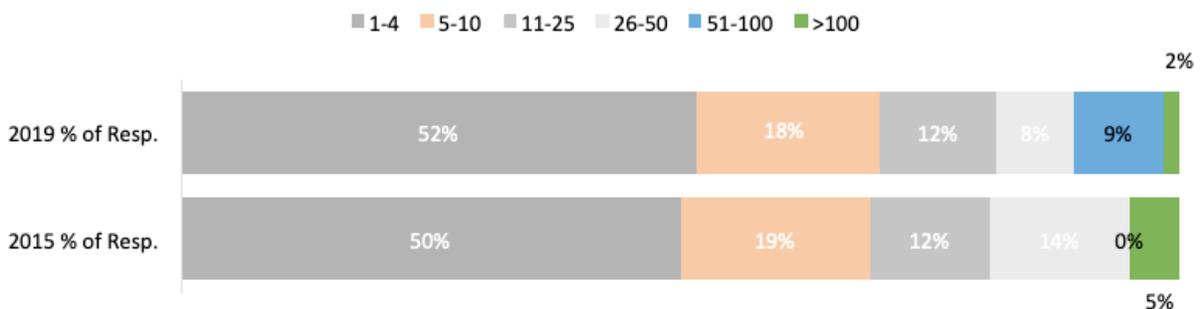
How many shared-space members/tenants do you have?



HALF CAN ACCOMMODATE UP TO FOUR SHARED USERS AT A TIME

Shared kitchens accommodate small numbers of shared users at a time. A majority of facilities accommodating 1-4 shared users are less than 5,000 square feet, suggesting that these facilities are primarily used as a shared kitchen space.

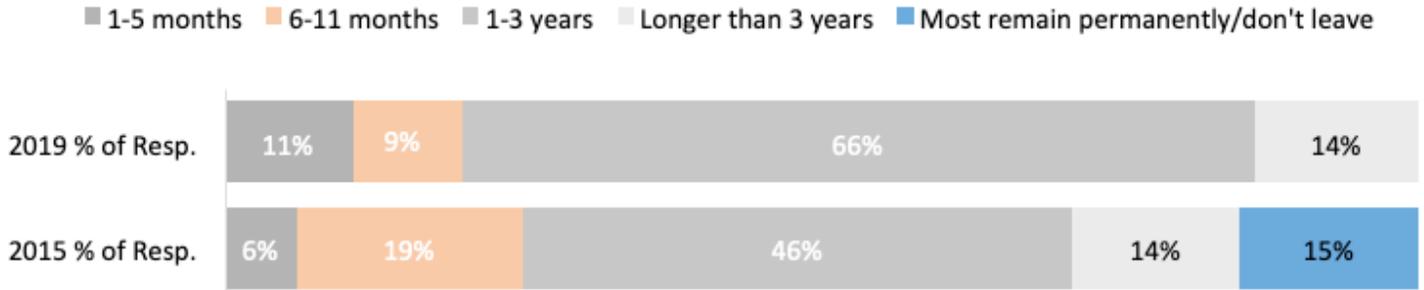
How many shared users (i.e. different businesses) can you accommodate at one time in your shared-use space?



80 PERCENT OF TENANTS STAY ONE YEAR OR LONGER

Respondents report long stays for their members/tenants, as more than half said their tenants stay 1-3 years and another 14 percent report tenancies of longer than three years. In 2015, 75 percent of respondents reported tenants stayed one year or longer, continuing this trend.

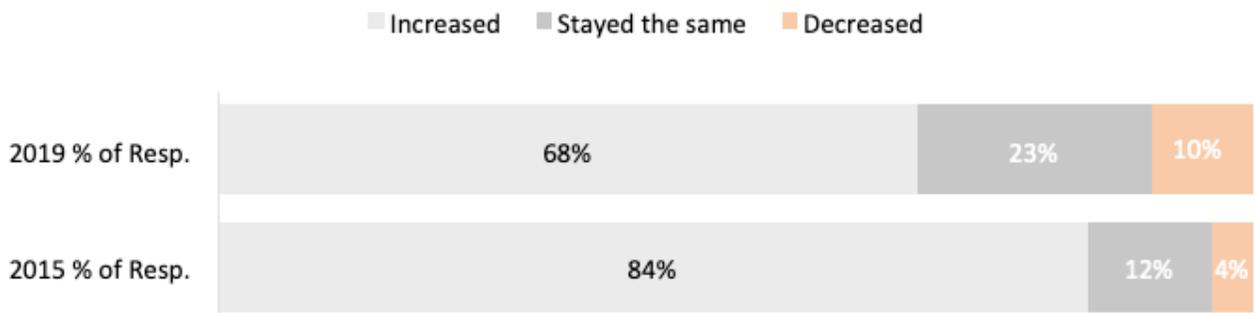
How long do tenants/members typically stay in your facility before moving out?



68% HAVE SEEN AN INCREASE IN USERS/TENANTS IN THE PAST THREE YEARS

A majority of respondents indicated that their membership has increased over the past three years. This is a decrease from the 2015 report, which reported 84 percent. However, membership appears to remain steady, with 90 percent of respondents stating membership has increased or stayed the same in the past three years.

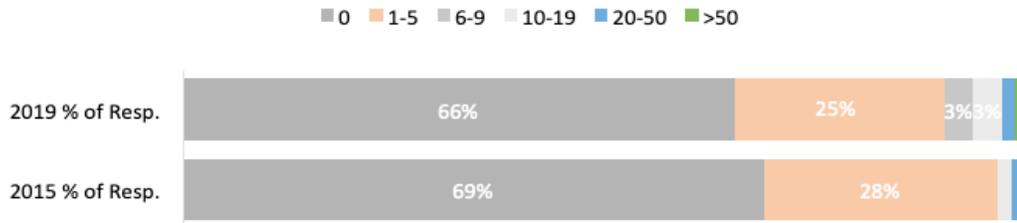
Has the number of your members/tenants increased, decreased, or stayed the same over the past three years?



ONE-THIRD LEASE FULL-TIME PRODUCTION SPACE

Thirty-four percent of respondents report having at least one tenant who leased full-time production space – defined as space that is exclusive to one tenant and is not shared with others. These tenants are often called "anchor tenants."

How many members/tenants do you have that lease full-time production space (leased space that is exclusive to the one tenant)?

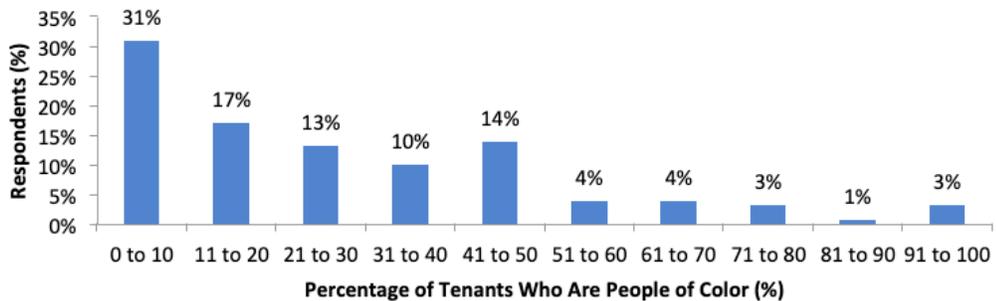


52 PERCENT OF TENANTS ARE WOMEN AND 30 PERCENT ARE PEOPLE OF COLOR

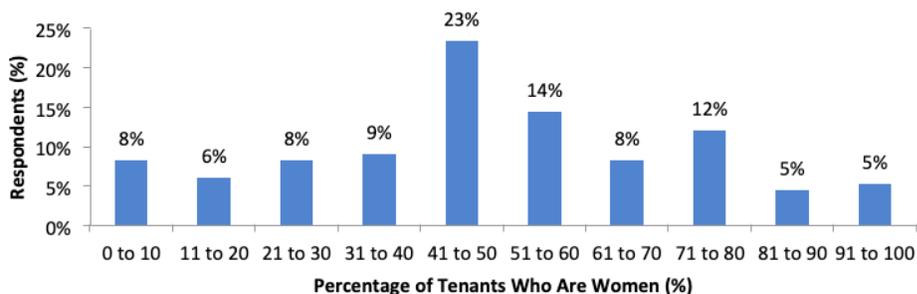
On average, women make up 52 percent of tenants, slightly down from 53 percent in 2016. People of Color average 30 percent of tenants across respondents, up slightly from 28 percent in 2016, although 41 percent of respondents report that between 21 percent and 50 percent of their tenants are People of Color.

However, respondents located in larger metropolitan areas reported higher proportions of tenants who are people of color, with facilities located in the Greater New York metro area reported on average 57 percent of tenants are people of color.

What percentage of your current tenants are people of color?

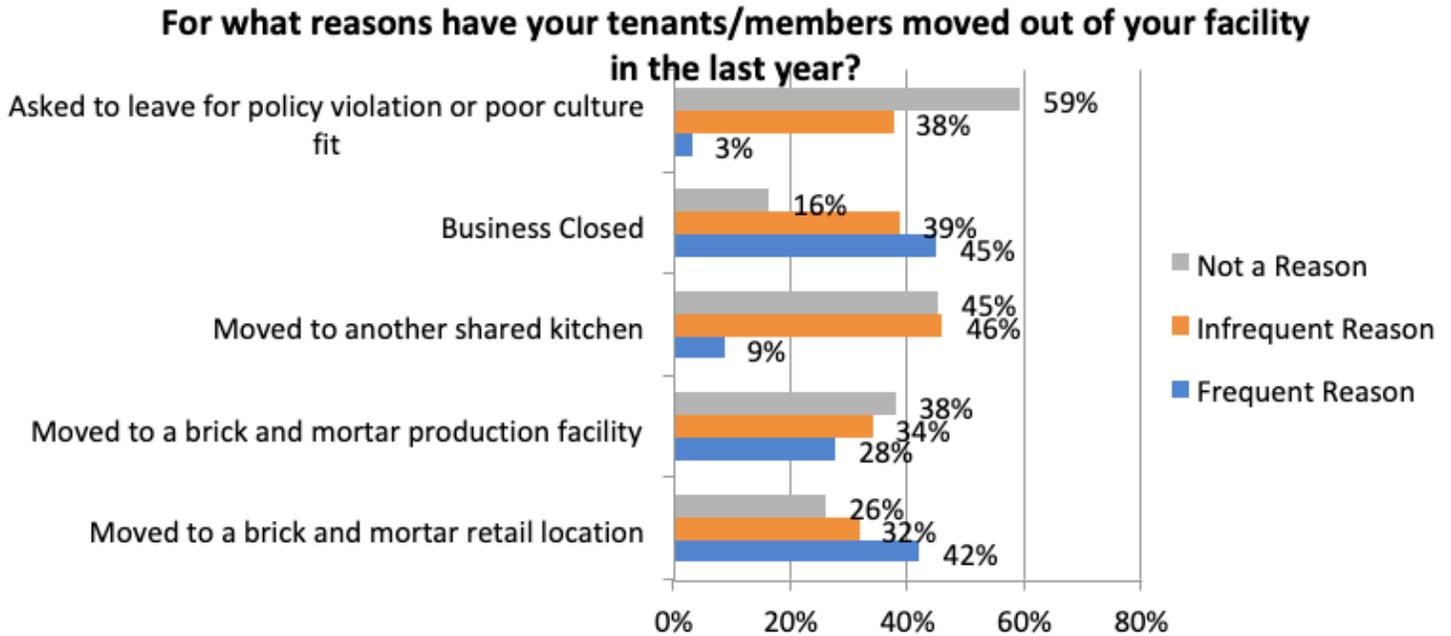


What percentage of your current tenants are women?



TOP REASONS FOR MEMBERS/TENANTS LEAVING THE FACILITY ARE MOVING ON TO A NEW LOCATION OR BUSINESS FAILURE

In 2019, we asked facilities what were frequent or infrequent reasons tenants/members leave their facilities. 42 percent of respondents list moving to a brick and mortar location as a frequent reason for tenants leaving the facility. However, 45 percent of respondents list business closure as a frequent reason for tenants moving. This shows the variable success rates for shared kitchens focused on business success.



“If the [shared kitchen] industry is going to make an impact, then we have to acknowledge that serial entrepreneurship is having the privilege of failing until reaching success. People on the margins are not afforded this privilege. Incubators need to be in the position to absorb that risk.”

- Caleb Zigas, Executive Director of La Cocina

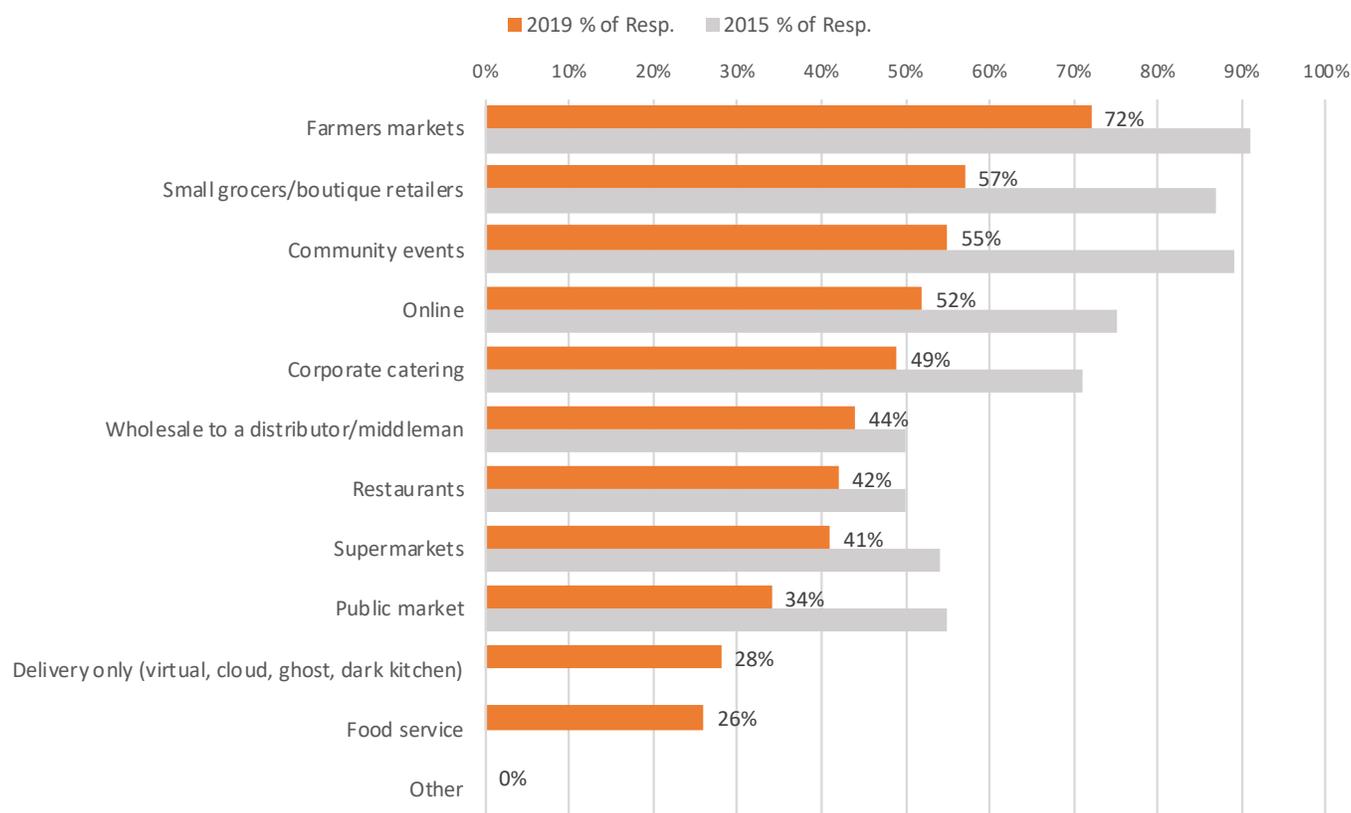
PRODUCTS

Ready to eat foods and baked goods are some of the most common business products of facilities. Food trucks and prepared meals are also quite popular. Sales are made mostly in the local community, although over half of respondents report that their tenants sell online, as well. Ready to eat foods and baked goods are some of the most common business products of facilities. Food trucks and prepared meals are also quite popular. Sales are made mostly in the local community, although over half of respondents report that their tenants sell online, as well.

PRODUCTS CONTINUE TO BE SOLD AT LOCAL SPACES AND ONLINE

Businesses are selling products direct to consumer at local events and through retailers similar to the 2016 survey, although “Delivery only” kitchens, a new option asked in 2019, are already found in more than one-in-four facilities.

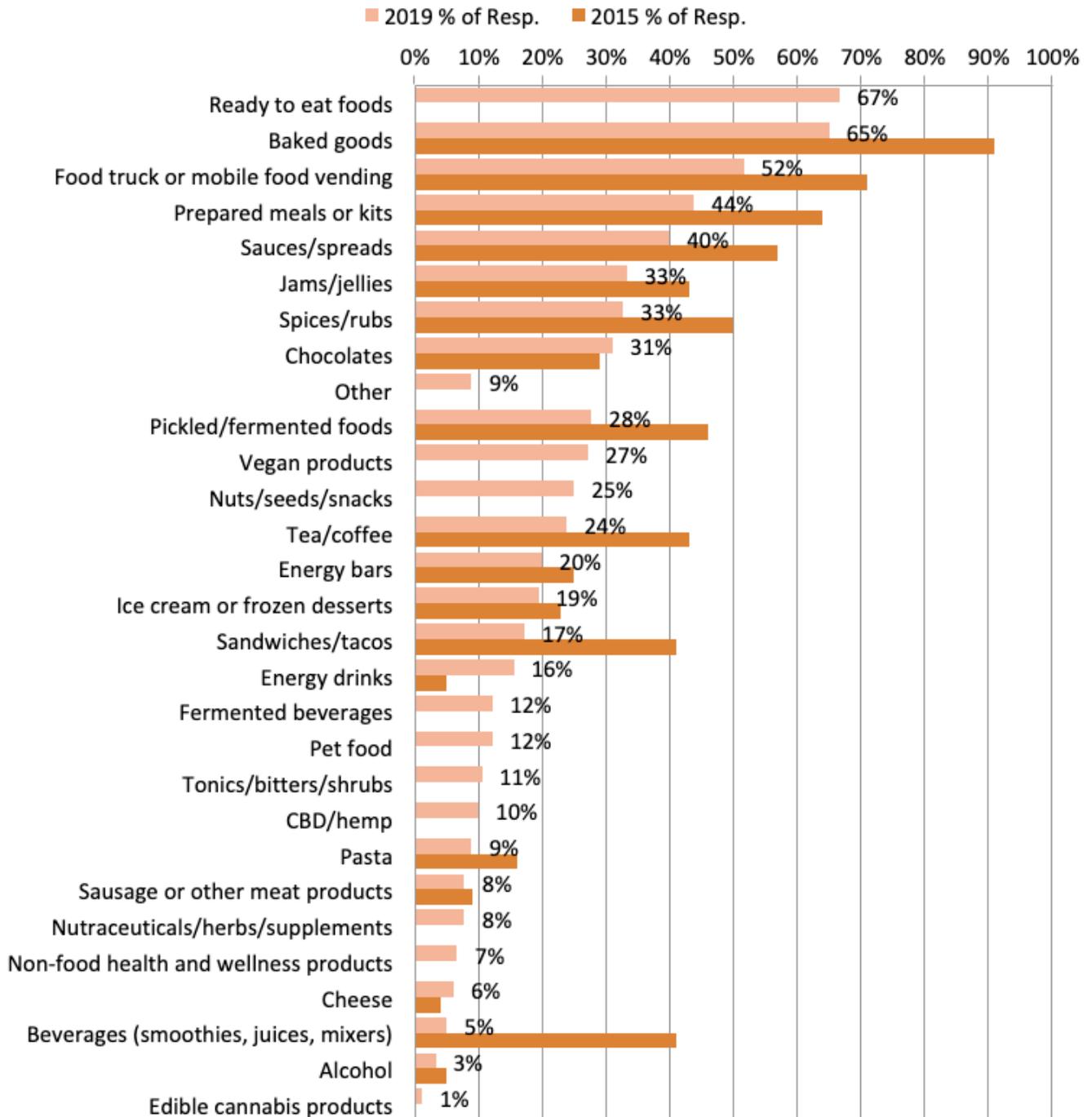
Where do your members/tenants sell their products?



READY TO EAT FOODS ARE THE MOST COMMON PRODUCT

Ready to eat foods and baked goods are the most common business products at shared use kitchens in 2019 – a shift from baked goods, the top product in 2016. The trends in delivery may be contributing to this growing trend.

What types of products are your members/tenants producing?



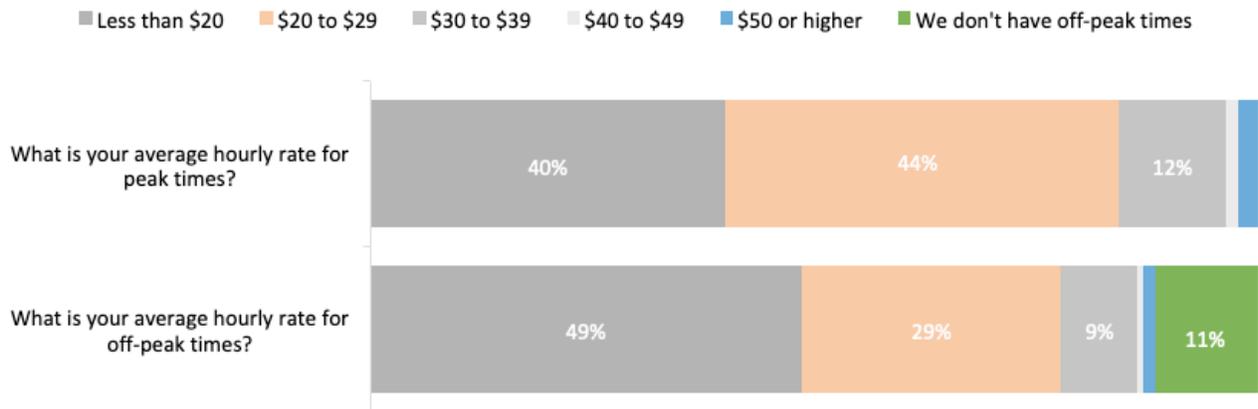
RATES AND PAYMENTS

Typically, shared use food facilities charge tenants for using shared space, storage, and prep space at rates calculated by the hour. Some variable rates are offered, which are most commonly price breaks for renting more hours or renting during off-peak times.

HOURLY RATES DEPEND ON PEAK USAGE AND TARGETED USES

Forty-four percent of respondents charge between \$20 to \$29 per hour during peak usage time. For non-peak usage time, 49 percent of respondents charge less than \$20 per hour. When compared to non-profit and for-profit facilities, 58 percent of non-profit facilities charge less than \$20 per hour during peak usage time, while only 35 percent of for-profit facilities charge less than \$20 per hour.

Average Hourly Rates - % of Resp.



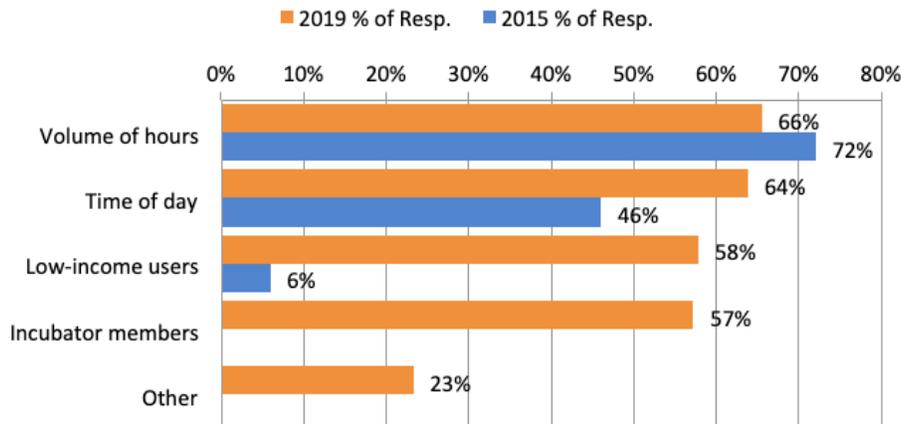
Average Hourly Rates for Off-Peak Times - Non vs. For-Profit



SHARED-USE FOOD FACILITIES CONTINUE TO OFFER FLEXIBILITY IN ACCESSING FACILITIES

Hourly rates are also offered on a sliding scale based on volume of hours, time of day, low-income users, and incubation membership. More than half of respondent facilities stated they offered sliding scales for these reasons. Other reasons listed for a sliding scale includes offering discounted rates for targeted users such as emerging entrepreneurs/new businesses, non-profits, users only using limited spaces, culinary students, and farmers renting for value-added production.

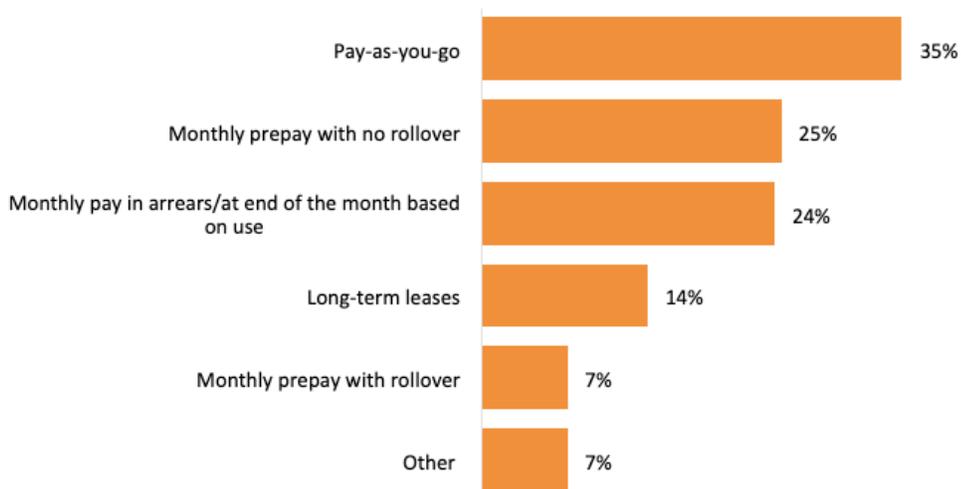
Do you have a sliding scale/different rates for any of the following?



70 PERCENT OF FACILITIES HAVE A MEMBERSHIP PLAN

For facilities that charge a monthly membership, a plurality of respondent facilities (25 percent) stated that they have monthly plans that are paid in advance with no roll over of hours. The next most common option is that facilities bill at end of the month based on monthly usage.

For membership plans, how do you bill tenants? (% of Resp.)



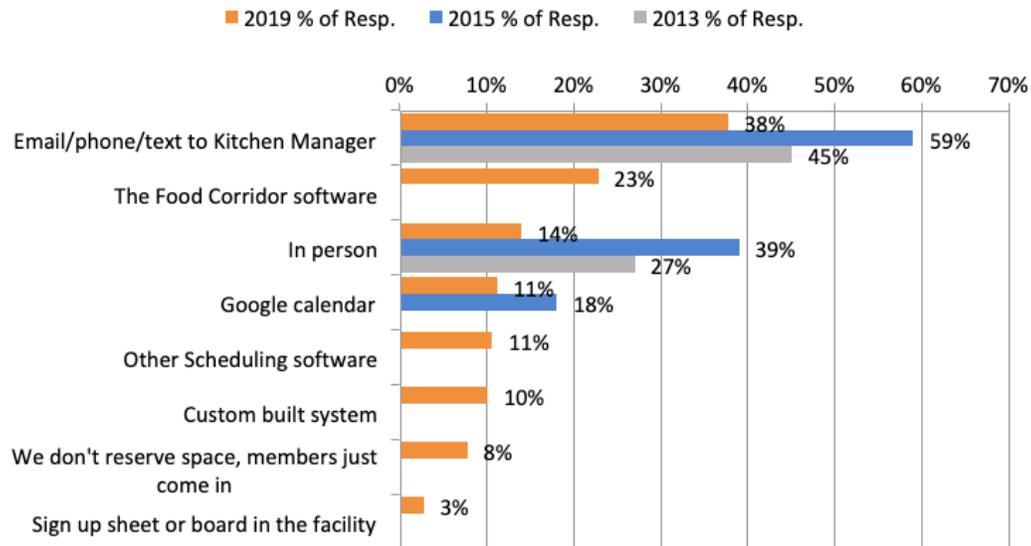
USER INTERFACE

While many manual methods continue such as reserving space by phone and accessing facilities by key, shared use food facilities are making technological advances by offering online services for members and using digital entry to facilities.

SCHEDULING SOFTWARE IS NOW THE MOST COMMON WAY TO RESERVE SPACE

About 81 percent of respondents reported that they use some of scheduling software to manager reservations. The industry leader is The Food Corridor software. This is a shift from 2016, in which most respondents reported using email and phone to manage reservations.

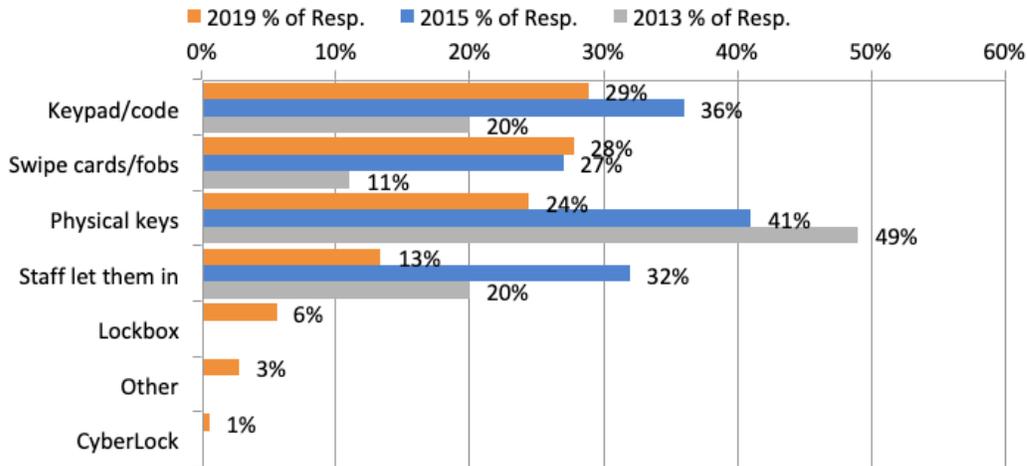
How do member/tenants reserve space?



SHARED-USE FOOD FACILITIES CONTINUE TO OFFER FLEXIBILITY IN ACCESSING FACILITIES

Members/tenants most frequently access the facilities using a keypad/code, swipe card, or cyberlock, with the use of physical keys decreasing in popularity since 2015.

How do tenants/members access the facility?

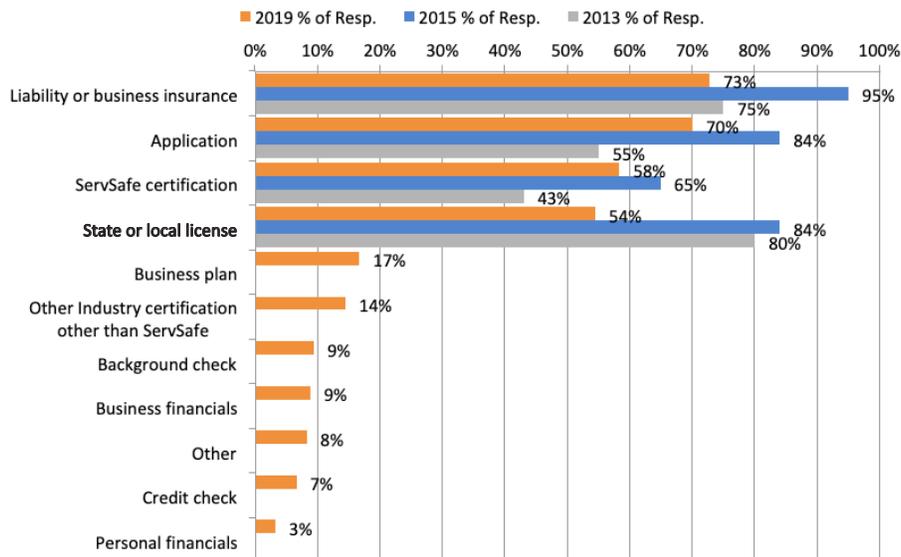


87% offer 24/7 access to members, a 2% decrease since 2015

MOST REQUIRE FORMAL DOCUMENTATION FOR NEW MEMBERS/TENANTS

Similar to the 2016 study, compliance documentation required consists of formal paperwork such as insurance, applications, and licenses and certifications. The most common requirements of shared kitchen facilities are liability insurance, applications, and proof of food safety training.

What documentation do you require for new tenants/members?



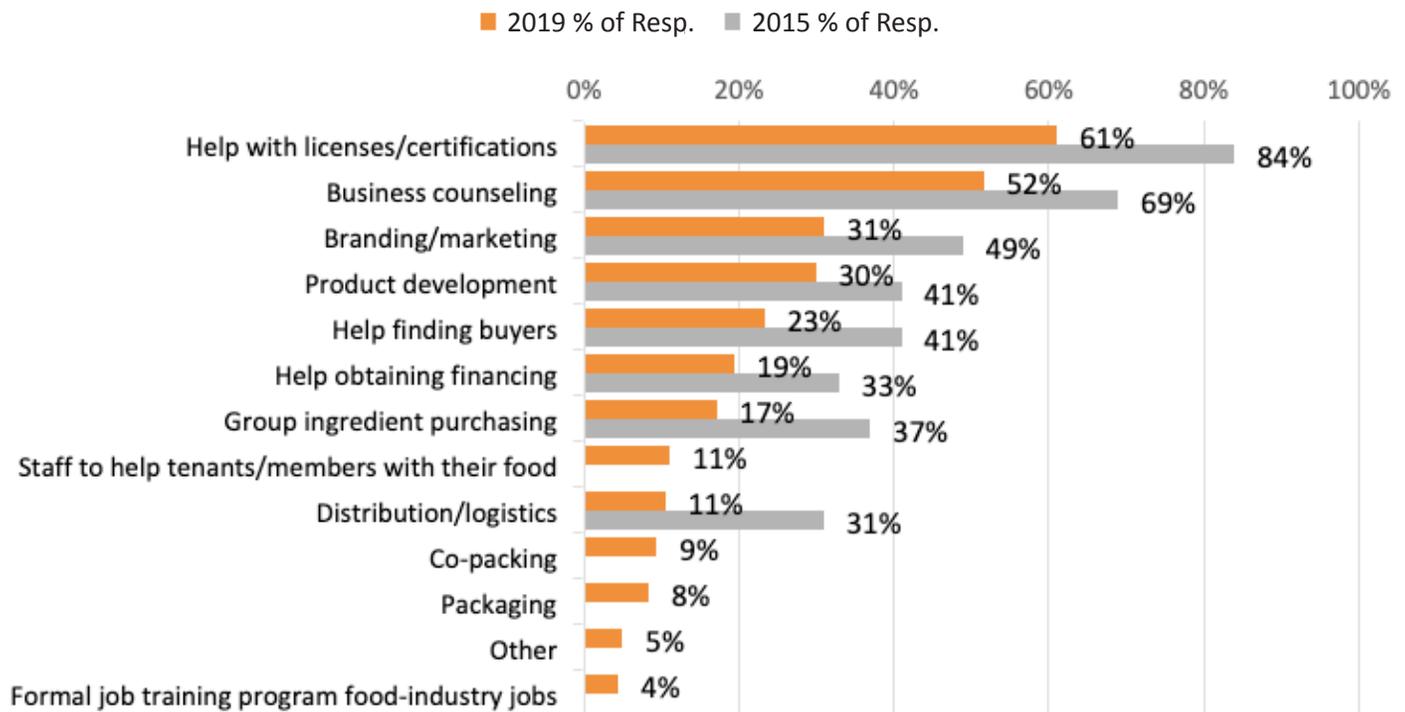
BUSINESS SUPPORT

A core purpose of shared use food facilities is support for tenant businesses. Assistance with accessing or navigating required licenses and certifications, as well as business planning and counseling are among the top services offered and needed by tenants. Over a quarter of respondents track success outcomes, with job creation, product growth, and revenue growth as the most common. A majority of facilities are mission oriented, with a few models offering programmatic support to help low-income, women, or immigrant business.

HELP WITH LICENSES AND CERTIFICATIONS AND BUSINESS COUNSELING ARE THE MOST FREQUENTLY OFFERED SERVICES

Similar to 2015, business services continue to be offered in-house and through partnerships. However, it appears that a share of facilities offering in house business services are decreasing, offering potential opportunities for external partnerships and organizations to offer technical assistance.

What service do you provide your members/tenants?



TENANTS NEED ACCESS TO OPERATING CAPITAL AND MARKETING OPPORTUNITIES

Overall, apart from access to the kitchen space itself, tenants need access to operating capital and business assistance such as marketing and planning. Both incubators with large and small operating budgets listed the same primary needs for its members/tenants.

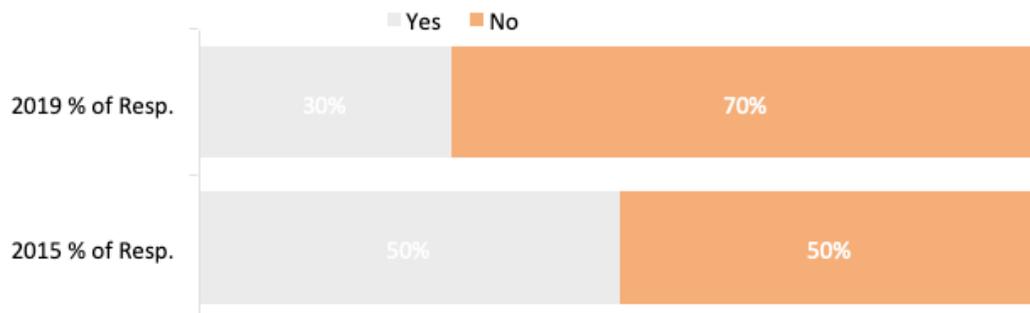
What are the greatest needs of your members/tenants?

1. Access to Kitchen Space and Equipment
2. Access to Operating Capital
3. Market opportunities for selling their product
4. Branding and marketing
5. Product development
6. Access to affordable ingredients
7. Business planning
8. Accessing trained labor
9. Distribution/logics

ONLY 30 PERCENT TRACK SUCCESS OUTCOMES OF TENANTS

In 2015, about 50% of facilities tracked at least one business progress outcome, which is 20 percent lower in 2019.

Do you track outcomes from your tenants/members such as business growth or job creation?



“What’s different about us is that we know success rates for food entrepreneurs are low. In response, we offer wraparound business supports and access to markets and capital. We offer what folks who have the resources would go out and pay for through consultants. Business is so skewed in terms of representation, and women and minority entrepreneurs succeed only if they have access to relevant tools and knowledge.”

-Bonnie Rosenbaum, Director of Communications, Commonwealth Kitchen

"MOM! QUIT YOUR JOB AND SELL SAUCE!": FRESH ZEN



Ruby Chan started Fresh Zen three years ago. Her journey into entrepreneurship completes the circle started by her parents decades ago. Ruby's mother and father were engineers in China but upon arriving in New York City found that no one would hire them. This white-to-blue collar flip required them to make their way sweeping floors, washing dishes and working sweatshops. Lower East Side housing projects were home. After nearly 20 years, Ruby's dad saved enough to start his own to-go restaurant, the setting for Ruby's childhood.

Ruby obtained an MBA, setting her on a career path doing marketing and PR work for CPG companies. To manage the stress of coming home and making dinner for four kids who had been in daycare all day, she started making stock sauces for the week and freezing them. Her ginger and scallion sauce and an Asian chimi churi sauce could be whipped up in the Cuisinart and make for a quick gourmet meal. Neighbors and friends love them. Ruby's daughter implored, "Mom, you need to quit your job and sell sauce!" inspiring her to follow this passion.

To get started, Ruby dove into research on food manufacturing and supply chains, which led her to Commonwealth Kitchen (CWK). Ruby called them up, went through the intake process and learned they could help her figure out startup costs, where to get financing and set her up with mentors and coaches. CWK connected her with the right industry experts. One of her mentors is a soy sauce maker while another is a nutritionist who works for major company. They helped Ruby navigate industry

regulations, product testing and other processes. Culinary experts on-staff helped her understand how to cook safely and properly. All these pieces of support helped her put the entire business together in a fraction of the time and cost it would otherwise take to go to market.

Thanks to the Commonwealth Kitchen relationships, Fresh Zen is rapidly scaling up. Ruby recently received approval for regional distribution into a major national grocer and she is supplying local university foodservice with her bulk sauces. This new business will grow her business ten-fold. CWK coached Ruby in the direction of foodservice for sustainable revenue. Retail margins are so slim, entrepreneurs like her need to keep the balance of sales in favor of higher margin wholesale/bulk business.

Ruby also received advice on women/minority certifications and promoting that aspect of the business. She won a cohort spot with WIN Lab for professional development and now takes on entrepreneurship mentees from Tufts University.

CWK is a special place that brings life experiences full circle for Ruby. If a place like this existed in the Lower East Side while she was young, she believes they would have hired her parents and given them training and opportunities to propel themselves forward. "My parents started from the ground-up without any support and it took the better part of 20 years. Commonwealth Kitchen would have been a great place for my parents to get started."

SECTION II: LOOKING AHEAD



COMPARISON TO 2015 SURVEY

Trends in the shared use food facilities industry point in the direction of more users, a wider variety of products, and a growing professionalism among food businesses and the operations themselves. Challenges remain, such as maintaining the facility and managing operations with lean resources and limited technical and financial support. Facilities are also attracting more emerging food businesses with a wider range of products that require greater technical assistance to help test their product and formalize their business.

The 2019 survey has been designed to continue to evolve and grow with the industry, representing a broader and more refined effort than in past years. As such, the survey includes revised options for responses that expand the information collected from respondents, but also somewhat limiting direct comparisons to past surveys. The 2019 survey also includes a greatly expanded look at more facilities throughout the country, due to a sample size three times that of the 2015 survey- aided by the growth of the Network for Incubator and Commissary Kitchens (NICK), an online network facilitated by the staff of The Food Corridor.

Given the significant growth in sample size from the last survey, some questions surprisingly still received very similar results. For example, the breakdown of for-profit vs. non-profit facilities remained similar at 52 percent and 38 percent respectively in 2019 (with 11 percent in a newly-added "Other" category), compared with 61 percent for-profit and 39 percent non-profit in 2015. In addition, respondents described the primary goal of their facility in a very similar breakdown, with 51 percent focusing on assisting early-growth businesses, compared with 53 percent in 2015. The respondents also displayed similar characteristics between surveys in the percentage of tenants who are women and people of color, the number of shared users that can be accommodated by the facility, and the percentage of facilities reporting making money, breaking even, and losing money.



On the other hand, responses to several questions have differed from past surveys. The 2019 survey shows an increase in the number of facilities less than 3,000 square feet at 45 percent, compared with 35 percent in 2015. Accordingly, the survey group also has more facilities with operating budgets less than \$100,000, at 57 percent versus 49 percent in 2015, and more facilities with fewer than 10 tenants, at 37 percent versus 24 percent in 2015. Further, 58 percent of respondents in 2019 offer different rates for low-income tenants, compared with only 6 percent in 2015. More tenants are also staying for 1-3 years, at 66 percent compared with 46 percent in 2015.

These results paint a mixed picture, but one that seems to indicate that many shared food facilities continue to be mission-focused with a desire to support new businesses. It appears that the industry is trending towards smaller facilities, even as the industry matures and attracts increased levels of investment. Similar challenges remain, as well, with respondents echoing concerns from past surveys of finding quality tenants, maintaining the facility, navigating regulations, marketing the facility, and attracting and retaining staff.

WHAT THE INDUSTRY THINKS ABOUT ITS FUTURE

The outlook on the shared use food facility industry is positive. Nearly 70% of respondents noted they think the industry will be growing over the next five years. Many predict this rise may be attributed to increased connections with the food delivery network, which has been rising in popularity as over one-third of respondents' clients only sell their products through a delivery channel. Many see a potential for franchiseable or multiple locations operated by one company, favoring the most efficient management practice, strong brand, and a history of successful incubated or graduated companies. In any case, differentiation and specialization will be key. However, many facilities noted their greatest challenge to be the regulatory climate of the industry, particularly in reference to licenses and legislation.

Many local municipalities lack a regulatory framework for commercial kitchens looking to rent space to multiple tenants, representing unique challenges for food safety and storage. There is considerable complexity around food production of various types all requiring different regulatory frameworks from various agencies. Operators must determine the applicable regulation under which the food produced will be regulated. (local, state food safety regulations, FDA Code, Good Manufacturing Practices (new) federal (USDA/FDA). These are different for fish and fishery products, juice products, acidified foods, low-acid canned foods, alcoholic beverages, ready to eat foods, delivery-bound foods, meat and dairy, frozen foods, and increasingly complicated: hemp, CBD and marijuana foods. Some of which require HACCP plans and traceability. A HACCP (Hazard Analysis and Critical Control Points) plan is a food safety monitoring system that is used to identify and control biological, chemical, and physical hazards within the storage, transportation, use, preparation, and sale of perishable goods. It also determines critical control points (CCP) in the process of food production.



For many shared kitchen facilities and their users, unclear federal or local regulations in regards to kitchen operations and product distribution limit the facilities' full operational potential. In order to better respond to these challenges and scale with the industry, the ability to partner with other organizations seems to be valuable for many facilities. Nearly half of respondent facilities have sought out relationships with other organizations, and others have noted that forming partnerships are currently useful or would be useful to them in the future. The result of strengthening partnerships may provide the ability to better leverage ecosystem services that support the commercial kitchen industry like operational software, equipment purchases, equipment maintenance, sanitation services, laundry, HVAC, sensors, security, labor. In addition, secondary services that support food entrepreneurs like insurance, branding, business development, supplies, ingredients, packaging, distribution, and sales and marketing channels pose big opportunities. A desire for a harmonized, evidence-based food business curriculum was another opportunity that emerged.

MATURATION AND EVOLUTION

Shared use kitchens are important institutions connecting small to medium-sized food entrepreneurs to an evolving consumer market. Operators and their facilities tend to be the center of local food systems as micro clusters and are a key entry point for new entrepreneurs, the largest proportion of whom have a high school education or less.^{vii} As such, shared kitchens play a key role as a nexus point of the local economy. A unique feature of the industry is that it serves a diverse set of entrepreneurs and end-users, meeting different needs of the overall food system. This diversification creates stability and puts shared kitchens at the center of the food entrepreneurship ecosystem.

The shared use food facility industry has an opportunity to differentiate itself from other commercial kitchen businesses by focusing on the impacts of the kitchen incubators on reducing the racial wealth gap through entrepreneurship. According to the Kauffman Foundation, self-employed people hold 37 percent of all wealth in the US.^{viii} With people of color severely underrepresented in this category and experiencing higher rates of failure than other entrepreneurs,^{ix} the inclusionary practices and robust supports offered through shared kitchen best practices are moving the needle. Focus on creating opportunities for low-income entrepreneurs are another key differentiator. Low-income entrepreneurs are more likely than others to establish their businesses in their neighborhoods and hire from their communities, creating a compounding benefit for low-wealth neighborhoods.^x The challenge at hand is measuring that movement.

In 2019, food delivery sales totaled more than \$21 billion in 2019 are projected to grow at an annual rate of 6.5 percent, with restaurant-to-consumer business comprising the biggest share of this opportunity.^{xi} Due to the demand in online food delivery services, ghost or cloud kitchens are being built to meet the specific needs of food business that only offer delivery services. Large companies with venture capital backing are starting to build out facilities that meet these specific space needs. Current and future shared use food facilities will have to compete with these larger and more capitalized firms for users/tenants, creating an opportunity to support entrepreneurs in capturing this growing

market. Shared use food facilities can differentiate themselves through their community-oriented experiences, established history of helping users, and additional services such as technical assistance and procurement services. This is also an opportunity to support underrepresented entrepreneurs in capturing the growing delivery-only market share.

As the industry grows to adapt to emerging business models and competition, demand for formation of a larger advocacy and support network has grown. While industry support groups have been created specific to geography, through social media, or online communities, many facilities have expressed a desire to establish standard guidelines and resources on the day-to-day operations of a shared-use food facility. Specifically, the Network for Incubator and Commissary Kitchens is the largest informal network of shared kitchens and is facilitated by the staff of The Food Corridor. This private Facebook Group is home to over 1400 shared kitchen owners, operators, and community partners that currently ask questions, share best practices and opportunities, and provide support. In October of 2019, The Food Corridor hosted the network in Austin, Texas for the 2nd annual Food Incubation Summit. The two-day event was geared at food incubator administrators, commissary kitchen operators, and ecosystem service providers supporting the industry. The Summit's educational sessions in the form of panels, quick-fire talks and 1:1 mentoring covered topics ranging from innovative approaches to membership, operations, and policies to designing and implementing incubation programs. Networking events were designed to encourage conversation and collaboration among attendees.

Formation of a membership-based national business association or network presents an opportunity for sharing best practices in key areas like tenant business development, as well as better advocating for shared use kitchen facilities and offering resources for further education and accreditation. By providing a shared set of resources, facilities can better synthesize programming and metrics for tenant success across multiple regions, generating increased financial reputability for businesses seeking financing. Shared kitchens can begin to capture and share better data to improve operations and the flow of resources to the industry.

TECHNICAL ASSISTANCE NEEDS

A common challenge for many respondent facilities centers on the theme of further establishing the shared use food facility industry. The industry demands increased awareness, consistency in regulations, and more financing opportunities. Most respondents reported not receiving any tax credits, and many voiced a need for increased access to grant support. There was a great desire to raise awareness to financiers in order to raise capital for their facility or operations. In addition, mission-oriented facilities stated that they track the outcomes of their users/tenants; however, most respondents stated they do not track any outcomes of their users. The industry currently lacks benchmarking for tenant success, i.e. when a business begins to mature and requires

different needs such as additional financing.

Established standards of operation will further help to formalize the industry and provide financial reputability to businesses in the industry seeking financing. Partnering with larger associations of incubators and economic development organizations also represents an opportunity for facilities to better understand their economic impact. Government and institutional partners can help fill the data gap and add critical capacity where small operators are lacking. By addressing these needs, facilities are better able to advocate for funding and address user needs.

TECHNOLOGICAL, CONSUMER, AND SOCIAL DISRUPTION

As food delivery services become a larger part of how consumers find, buy, and eat their food, there is a growing demand for the disintermediation of the food supply chain. Consumers around the country are looking for readily available, on-demand options for eating, and are prepared to pay a higher price for a more convenient product. Shared use kitchen facilities can take advantage of this demand by providing space for virtual restaurants or meal delivery businesses, perhaps including delivery or other such services. This new wave in the growing sharing economy also requires special attention be paid to integrating equity into the mission, strategies, and policies of shared use kitchen facilities.



APPENDICES

APPENDIX A

ENDNOTES

ⁱ US Small Business Administration Office of Advocacy. Frequently Asked Questions. August 2017. <https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2017-WEB.pdf>

ⁱⁱ “The Importance of Young Firms for Economic Growth.” Economic Policy Digest. Ewing Marion Kaufmann Foundation, Updated September 14, 2015. Available from: https://www.kauffman.org/-/media/kauffman_org/resources/2014/entrepreneurship-policy-digest/september-2014/entrepreneurship_policy_digest_september2014.pdf; internet.

ⁱⁱⁱ Fairlie, Robert, Sameeksha Desai, and A.J. Herrmann. (2019) 2018 National Report on Early-Stage Entrepreneurship, Kauffman Indicators of Entrepreneurship, Ewing Marion Kauffman Foundation: Kansas City. Available from https://indicators.kauffman.org/wp-content/uploads/sites/2/2019/09/National_Report_Sept_2019.pdf

^{iv} Patti Wilber, and Leonard Dixon. The Impact of Business Incubators on Small Business Survivability, Association of Small Business and Entrepreneurship Annual Conference 2003 proceedings; available from <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.598.6767&rep=rep1&type=pdf>; Internet.

^v Ibid.

^{vi} Mercedes Delgado, Michael Porter, and Scott Stern, “Clusters and Entrepreneurship,” *Journal of Economic Geography* 10, No. 4 (2010): 495–518. (http://www.clustermapping.us/sites/default/files/files/resource/Clusters_and_Entrepreneurship.pdf)

^{vii} “The Importance of Young Firms for Economic Growth.” Economic Policy Digest. Ewing Marion Kaufmann Foundation, Updated September 14, 2015. Available from: https://www.kauffman.org/-/media/kauffman_org/resources/2014/entrepreneurship-policy-digest/september-2014/entrepreneurship_policy_digest_september2014.pdf; internet.

^{viii} Ibid

^{ix} Ibid.

^x Kahliah Laney, with Jonathan Bowles and Tom Hilliard. “Launching Low-Income Entrepreneurs.” Center for An Urban Future. April 2013. Available from: <https://nycfuture.org/pdf/Launching-Low-Income-Entrepreneurs.pdf>

^{ix} Statista.com Industry Outlook (<https://www.statista.com/outlook/374/109/online-food-delivery/united-states>).

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