

MEMORANDUM

THE CHANGING NATURE OF USES AND ACTIVITIES RELATED TO FOOD DELIVERY SERVICES, SHARED COMMERCIAL KITCHENS AND GHOST KITCHENS

Uses That Are Under Consideration for Zoning Text Amendments to the Arlington County Zoning Ordinance (ACZO) as Part of the Commercial Market Resiliency Initiative (CMRI)

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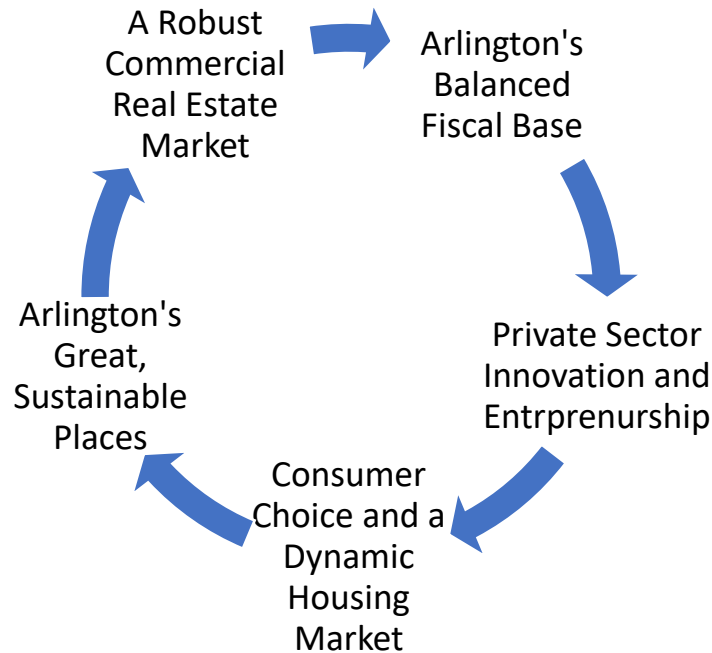
This memorandum intends to provide clarification on how food delivery service, shared commercial kitchen and ghost kitchen uses and activities have changed, particularly over the pandemic, and why consideration of incorporating these uses into commercial mixed-use districts throughout the County are an important component of the Commercial Market Resiliency Initiative (CMRI).

This memorandum is meant to be an informative thought piece as a prelude to a formal zoning amendment process. It is not intended to provide the more technical discussions of the specific zoning text language and formatting that would potentially expand and clarify these uses in the ACZO. Such technical discussions will go through the standard CMRI process, with a County Board action to advertise the public hearing (anticipated in April 2023), an online portal for public comment, a review by the Planning Commission's Zoning Committee (ZoCo), and Planning Commission and subsequent County Board public hearings (anticipated in June 2023).

The CMRI and Food Delivery and Shared/Ghost Kitchen Concepts

The CMRI was created to match the County's zoning and process regulations with a rapidly shifting economic model driven by innovations in business practices and accelerated by business and consumer responses to the pandemic. Specifically, the CMRI seeks to support outcomes in five critical and interrelated areas as shown below.

The CMRI is often most associated with "filling vacant office space" with alternative uses, and this is certainly a specific focus of the initiative. However, inclusive to the CMRI objectives is to support innovations in non-office sectors, such as retail, restaurants and services. Incorporating new and emerging uses and activities into the ACZO supports business innovation, especially small businesses. It also creates the interesting places that attracts employers (and their workers as many companies are still navigating their "return to work" policies), residents and visitors.



Reflecting the reshaped landscape of business practices in the areas of food delivery, food production and sales, and better meeting changed consumer needs and expectations within Arlington's mixed-use neighborhoods, is thus a critical component of commercial market resiliency.

The Changing Landscape of Food Delivery

The restaurant sector has experienced a significant shift over the past decade in how they serve their customers. There is now a greater reliance on delivering food directly to customers, as opposed to relying more heavily on diners visiting a restaurant itself, for a much wider range of restaurant concepts than had been seen in the past. What has driven this change?

- Changing consumer expectations for hyper-convenience and the ability to access a wider range of food concepts in addition to the traditional delivery-reliant models (e.g., local and national pizza chains, take-out, etc.).
- The emergence of third-party delivery platforms (e.g., UberEats, GrubHub, Doordash, etc.) has led to a greater share of total sales from a wider range of restaurants reliant on delivery models.
- The pandemic – which limited many restaurants to a delivery or take-out only model and further cemented consumer behavior and expectations.

Currently, in the ACZO, food delivery is considered a primary use that can be approved only through a Use Permit approved by the County Board. The Use Permit process adds an extra cost and time, for an activity that has become fully engrained into the business operations of a restaurant for reasons stated above.

During the Continuity of Governance Ordinance (COGO) established in response to the COVID-19 state of emergency, zoning enforcement on food delivery from restaurants was suspended. This was critical to restaurant survival during the pandemic but also fundamentally changed the restaurant's business operations.

The result is that restaurants, as the COGO expires on August 15, 2023, are left with pursuing the existing Use Permit process or continuing sole reliance on third-party delivery platforms. The fees charged by third-party operators has often been cited as placing a significant burden on restaurant economics during a time when the sector is still struggling to recover and create resiliency post pandemic.

The consideration of food delivery as a by-right accessory use to all restaurants (and other prepared food concepts) better reflects in the ordinance the now inherent nature of food delivery activity to restaurants as well as providing Arlington restaurants a less obtrusive process to creating in-house delivery models as an alternative to reliance on third-party operators.

The Future of Delivery of Convenience and Grocery Goods

This body of this memo addresses the changing landscape of food delivery from food establishments such as restaurants or shared/ghost kitchens. However, the CMRI is also addressing the delivery of grocery and convenience staples from brick-and-mortar locations.

Completed: Micro-Fulfillment

In October 2022 the County Board approved zoning text and use table amendments that allows for Micro-Fulfillment Centers in commercial mixed-use districts. Inclusive of the Micro-Fulfillment Center concept is e-convenience models, where basic (typically non-perishable) products are delivered to consumers within minutes of app-driven ordering systems.

Next Step: Clarifying Land Use Regulations Around Deliveries from Brick-and-Mortar Grocery, Pharmacy and Convenience Stores

Third-party delivery models have already expanded into delivery from non-restaurant retailers such as grocery and convenience stores. At the same time major retailer chains have tested in-house delivery/distribution models.

Later this the year the CMRI team intends to study further the land use implications and impacts of established brick-and-mortar grocery, pharmacy and convenience stores further developing and refining in-house delivery models.

Shared Commercial Kitchens

[LA Cocina VA](#), now known as ‘Kitchen of Purpose’, has been operating as a shared commercial kitchen in Arlington since 2020. The nonprofit’s Small Business Incubator program offers shared kitchen membership packages to those to who own and operate a food business. This includes professionally equipped stations, video surveillance, utilities and trash removal, and a business center with Wi-Fi. Members of the program who complete training modules on food business operations can receive a 30 percent discount on shared kitchen fees, allowing new food businesses to grow and become profitable at a faster rate. Kitchen of Purpose also offers a café, which allows small businesses to sell their product direct to consumer.



[Union Kitchen's](#) Washington DC location offers similar shared commercial kitchen services. Their accelerator program also helps small business owners grow a product from conception to market. The company’s highly successful outposts around the DMV sell many of their own businesses’ products, and act as showcases for their own small business success stories – transitioning into viable retail concepts.

Shared Commercial Kitchens

In November 2021 the County Board approved a range of new ground-floor uses in the form-based code districts along Columbia Pike.

Included in this action was the introduction of shared commercial kitchens as a permitted by-right Food Establishment use with the C-FBC and N-FBC use tables.

The current definition for shared commercial kitchens in the ACZO is as follows:

Shared commercial kitchen. An establishment for preparing, processing, canning, or packaging food and beverage products for on-site consumption, delivery, or small-scale distribution, and whose principal method of operation includes one or both of the following characteristics: (1) Two or more operators utilizing the same facility for a fee. (2) One or more operator utilizing the same facility for food and beverage related workshops.

The CMRI team's study of the shared commercial kitchen concept will focus on the nuanced uses and activities, including:

- **Training/incubator:** Many shared commercial kitchens have an education, training or incubator mission. These activities can serve a wide variety of positive community benefits from economic empowerment to entrepreneurial training to providing labor market depth for local restaurants.
- **Food production or preparation for off-site sales:** Entrepreneurs such as farmer's market purveyors or food truck operators utilize the shared commercial kitchens to prepare food for sales in an off-site location. The value of the shared commercial concept is the scale and quality of food production equipment that can't be easily replicated in a home kitchen or within a food truck.
- **Small scale catering:** Already a permitted use in many of Arlington's commercial/mixed-use districts, this use does reflect some of the activities that can commonly occur within shared commercial kitchens. This CMRI study will look how best to coordinate the existing permitted use within the shared commercial kitchen concept.
- **Food production for on-site sales/delivery:** Many shared commercial kitchens have transitioned into displaying, selling and delivering food prepared on site. This often allows for training to transition into entrepreneurship with lowered barriers to entry than food trucks or smaller-scale brick-and-mortar locations. Ghost kitchens, discussed in greater depth below, represent a shared commercial kitchen concept focused primarily on sales, often through delivery services.

The expansion of shared commercial kitchens into a wider number of commercial/mixed-use districts AND the further consideration of the variety of uses that occur in these types of spaces and their impacts is viewed as a critical CMRI effort, particularly given the wide range of benefits these uses can provide, including: support of entrepreneurs and innovative business practices; creative and unique placemaking elements that support the attractiveness of our mixed-use neighborhoods; filling commercial spaces that are in locations more challenging for traditional restaurant concepts; economic empowerment; and, labor force support for the broader restaurant sector.

The CMRI study will analyze the land use impacts of these variety of activities within a shared commercial kitchen use, and where necessary, mitigate any negative impacts on use of right-of-way and the activity level of the adjacent streetfront.

So What is a Ghost Kitchen?

While sharing some of the attributes of a shared commercial kitchen as discussed above, ghost kitchens are often distinguished given a typically more singular focus on for-profit leasing of

space to tenants. Much like the disruption that co-working spaces caused within the leased office market sector more than a decade ago, the ghost kitchen model tries to capture a specific niche of restaurant start-ups and entrepreneurial ventures. The value of the ghost kitchen model for these entrepreneurs includes:

- Flexible lease terms that allow for testing of restaurant concepts without the burden of longer-term lease liability;
- An alternative to the instability of operations and consumer access associated with food trucks;
- Limited upfront capital costs relative to opening a food truck or brick-and-mortar operation;
- Shared operational expenses such as cleaning, maintenance and security;
- Cobranding opportunities, to help expand an existing restaurant's portfolio;
- In some models, convergence with private incubator/investment/venture capital models; and,
- Ability to operate in an attractive location, with strong access to a depth of consumer demand.

Ghost kitchens come in different forms. Early iterations that continue to be utilized today are existing restaurants leasing excess commercial space and/or an entire kitchen during times the primary establishment is not open for business. Land use regulations around these activities may need to be clarified, without unintentionally creating obstacles for this organic market innovation.

A more obvious example of ghost kitchens is a purpose built, multiple-kitchen facility that rents the kitchen "pods" to restaurant entrepreneurs and startups. As mentioned above, this is a similar market strategy as the now established co-working office spaces. There are now regional and national investor groups looking to establish these types of facilities in high-density, attractive-demographic areas such as Arlington. Typically, these types

A Cost-Saving Alternative

Brick-and-Mortar Ghost Kitchens

Brick-and-mortar ghost kitchens give up-and-coming and established restaurants an opportunity to enter new food markets. Northern Virginia's own food business, Frolick, used a DC ghost kitchen to expand their chef-prepared meal delivery service into the DC market. The ghost kitchen is part of Frolick's cost structure that they believe will allow them to grow into a national brand.

A Unique Take on Ghost Kitchens

REEF NBRHD Kitchens

During the pandemic, a national innovator in the ghost kitchen concept (REEF) established a temporary ghost kitchen hub in the heart of Clarendon. REEF capitalized on Arlington's robust market by offering new and established business a local delivery outpost. It has provided an entry way for local entrepreneurs seeking an alternative to mobile food trucks, but its land use impacts post-COGO need to be analyzed.



Source: Arlnow

of facilities rely on delivery services and often have little to no restaurant/retail presence.

Another emerging concept nationally and locally has been the formation of “open-air ghost kitchens,” or mobile-food units (MFU’s), where food trucks or trailers are located in surface parking lots to serve emerging restaurant concepts. While walk-up customer service is accommodated in certain instances, these open-air models rely heavily on delivery services. The key land use distinction between ghost kitchens located within a commercial building or space and those that rely on MFUs is how to identify what is truly a mobile unit placed for a temporary period of time (such as a temporary food truck corral concept) and what become a more permanent land use where the MFUs act more like establishments. Open-air ghost kitchen concepts have also raised questions about how zoning ordinances could regulate other land use impacts, such as noise, parking and trash removal, in addition to other regulatory factors related to building and fire codes.

The distinction between some shared commercial kitchen concepts and the ghost kitchen concept is important to consider given the potential differences on impacts on the surrounding environment. Consideration of how to incorporate ghost kitchens is a critical CMRI effort given the support they provide to entrepreneurs, the ability to home grow unique concepts that support authentic placemaking elements, and meeting consumer expectations of convenience and diversity of food product offerings. Further, through the analysis of potential land use impacts of ghost kitchen concepts, it will be important to parse out potentially different impacts of facility-located ghost kitchens versus open air or mobile concepts.