

# Neighborhood Fare



Tools for Connecting  
Local Food Systems

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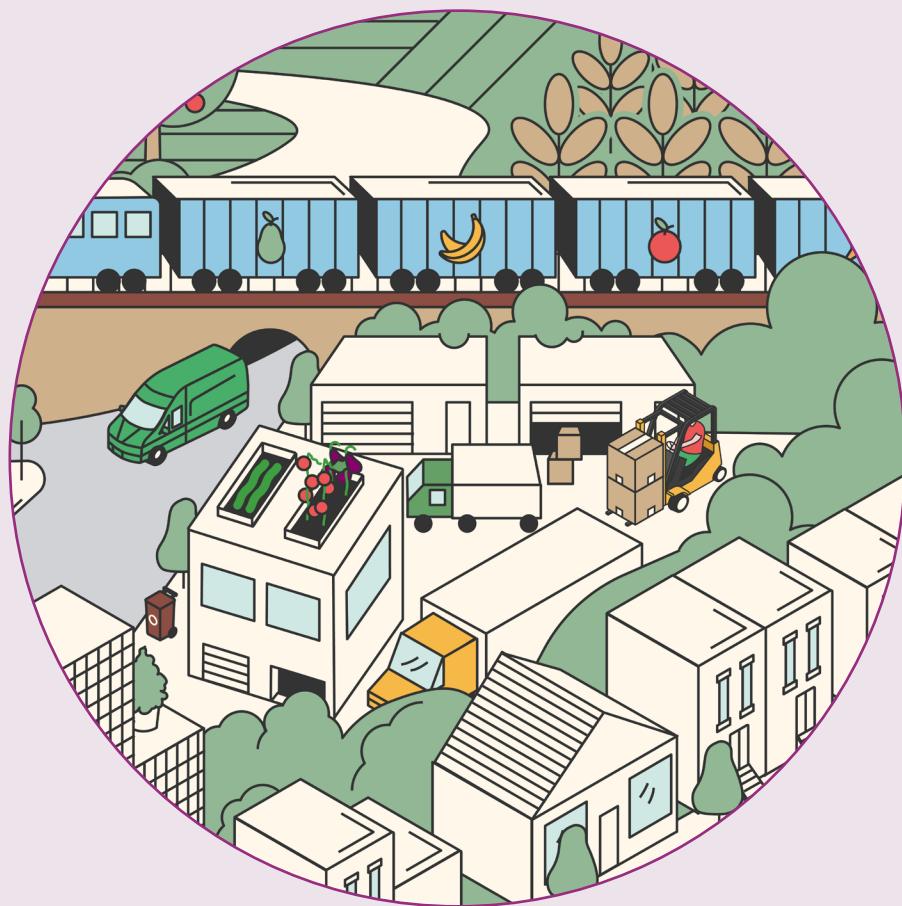


# Small-Scale Processing

## PROCESSING

**In a food-forward neighborhood, distributed facilities for small-scale food processing support local economies.**

Food processing transforms raw agricultural products into readily consumable food items, sometimes called “value-added” products. This briefing focuses on secondary processing, which is most prevalent in New York City.



# OBSERVATIONS

## Small-scale processors create supply chain connections and build New York City's economy.

The most common form of food processing in New York City is secondary processing, which turns ingredients into finished food products for consumption — like turning milled flour into bread or transforming pasteurized milk into ice cream.

As the food supply chain has undergone massive consolidation over the last 100 years, small-scale processors struggle to compete with large agribusiness corporations. Yet New York City's food manufacturing industry continues to play an important role in the local economy and food supply chain, with over 1,000 food manufacturers operating in the city in 2013, supporting over 15,000 jobs.

Small-scale food processing is entrepreneurial in nature. These businesses are net job creators, albeit often part-time, intermittent and minimum wage jobs. Food processing accounts for about 20% of the manufacturing workforce in New York City, and these jobs overwhelmingly go to people of color (73% in 2013) and those with lower formal education attainment.

Support for this sector can help build wealth in BIPOC communities. Reducing cost burdens for entrepreneurs could make their products more accessible to local communities.

## Processing facilities vary in scale and operations, from industrial manufacturing facilities to home kitchens.

Thriving small-scale processing relies on a variety of facilities, from industrial manufacturing facilities to home kitchens, each with its own constraints.

- **Processing facilities** are typically located in industrial zones, which are often located in or adjacent to BIPOC communities with limited food

access. But the conversion of manufacturing spaces and land to housing and offices has marginalized industrial activities over the last twenty years in New York, and appropriate manufacturing spaces are often priced out of reach for longstanding and start-up businesses alike. While larger scale food processing facilities may co-locate with aggregation hubs and distribution centers (for example, Baldor Specialty Foods has onsite food processing at its distribution facility in Hunts Point), smaller scale processors are more likely to co-locate with retail storefronts (for example, Breads Bakery has a cafe at Union Square).

→ **Shared-use commercial kitchens** provide shared production equipment to multiple businesses at lower costs. This creates a flexible model to keep small-scale food processors operational, by allowing businesses to share the costs and use of space across distinct shifts throughout the day. Shared use can finance expensive commercial food processing equipment through collective purchasing or by letting rent offset costs for the entity that likely took on debt to acquire the equipment. Businesses who work in a shared space can save additional costs by collectively purchasing raw ingredients to achieve economies of scale, though the potential for amassing collective purchasing power across businesses is limited by lack of staff coordination.

→ **Co-packing facilities** manufacture and package foods for other companies to sell under their own label. Many co-packers have moved out of New York City to New Jersey, Connecticut, and the Hudson Valley because of the size of footprint and costs of this equipment needed, which varies widely based on industry. The departure of co-packers from the city ripples across the supply chain, as local small-scale food businesses either have to continue manufacturing products themselves as they scale up or arrange for travel across state lines to pick up their product, thus opening themselves up to secondary tax and food safety regulations.



- **Community kitchens** make standard cooking equipment available for multiple community uses, from small start-up food businesses to mutual aid groups. They are typically located within larger social service agencies, like churches, shelters, and community-based organizations, and rely on subsidized overhead costs from the host organization.
- **Home kitchens** are only approved to produce a limited list of commercial products per state law and are not permitted to prepare meals by Department of Health & Mental Hygiene (DOHMH) regulations. Nonetheless, home kitchens house a large and flourishing informal economy. Given the high costs of industrial operations and the low barrier to entry for starting a home-based food business, many low-income and immigrant entrepreneurs operate at a high risk of fines and penalty.

Investment in small-scale processing facilities and shared-use commercial kitchens could transform the processing landscape in New York City.

## **Finding appropriate spaces for small-scale processing facilities and shared-use commercial kitchens is a shared obstacle.**

Outfitting and operating a food processing facility is capital-intensive. Small-scale processing facilities and shared-used commercial kitchens generally require:

- Appropriate manufacturing facilities that meet federal, state and local food safety requirements with specific equipment, power capacity and plumbing specifications
- Footprint that accommodates industrial-sized production and packaging equipment, roughly in the range of 3,000-10,000 square feet
- Dry & cold storage that is protected from the elements, pests and vermin, ranging in size from a single shelf in an incubator kitchen to a full warehouse room

- Accessible location by public transportation for workers (many of these activities are hands-on and labor-intensive, even when automation is involved) and to commercial trucking routes

Food processing facilities must also accommodate multiple distinct modes of transportation and storage for products both before and after processing. In smaller-scale processing, this means facilities can ideally utilize loading docks to accommodate pallet deliveries via truck or train, while also being able to easily connect to last mile distribution, whether that be personal vehicles, third-party distribution partners or even bike cargo delivery.

Navigating New York City's decentralized infrastructure can be a challenge. New microprocessors frequently do not know where to go to find processing services, even for simple processing lines, and entrepreneurs might need to visit multiple different facilities to produce a product fit for consumption.

## Supply chains, pricing, and distribution channels limit the integration of small-scale processors into local food systems.

Supply chain consolidation makes it hard for start-ups to source inputs at the volume and prices needed in early stages of the business. Smaller processors lack access to larger institutional pricing and supply side partnerships because they are unable to meet large order minimums. If businesses meet these large order minimums, storage of the product presents an immediate concern.

Small-scale processors traditionally develop retail partnerships to supply products regionally, rather than nationally. Their cold and hot chain infrastructure is limited, making it easier to distribute in a tight geographic perimeter, and they do not possess the wholesale production capabilities to be able to supply to larger grocery or big box stores. However, the small retailers that they often rely on to help build their businesses are closing due to the same rent and price pressure that small-scale processors face.

High rent, along with high production and input costs, force smaller scale entrepreneurs to seek higher prices

in order to be viable. This can mean they tend to prefer direct-to-consumer sales, as the margins are higher, but this exacerbates inequitable access to locally-processed goods.

When food processors do contract with distributors, wholesalers, retailers, or tertiary processors, these third parties can then dictate where the products end up. This may further limit the ability of small food processors to supply to communities of color.

## Access to funding limits opportunities for BIPOC-owned businesses.

Small-scale food processors are primarily privately funded and owned businesses. Entrepreneurs may rent space in shared-use kitchens to lower costs, but start-up costs like legal fees, applications and permits, labor, payroll, inventory management systems, sales tracking, and distribution systems remain high.

Access to finance dictates the viability of the venture, and BIPOC business owners face systemic barriers in accessing financing. Investment funding in small-scale food businesses overwhelmingly goes to white entrepreneurs who are more affluent and can access sufficient collateral to obtain business loans or raise funding from families and friends.





## Case Study

# The Entrepreneur Space

## Site Size

**5,500 sq ft kitchen space**

## Site & History

The Entrepreneur Space is a shared commercial kitchen in Long Island City, Queens that provides infrastructure and training for micro entrepreneurs who are looking to commercialize their production in a low-cost, guided manner. Located in a two-story building, the site houses commercial kitchen space, office space for rent, and classrooms. The space was founded in 2011.

## Operation

The Entrepreneur Space is operated by Queens Economic Development Corporation (QEDC). The commercial kitchen space is open 24/7, operating on three 8-hour shifts a day. There are four mini-kitchens in a larger space, with equipment including burners, ovens, grills, cold storage, dry storage, specialty kitchen appliances, a bottle-filling machine, pots, pans, and cookware. Clients can rent the kitchen space by shift; they can also rent storage (dry or cold), office space, a classroom, a conference room, and a production room. Demand for storage is high.

## Activities

Through low fixed costs, The Entrepreneur Space provides early-stage food businesses with processing space to establish and expand their businesses. The application process, which can take several months to a year, requires entrepreneurs to come with tested recipes and an informal business plan. By doing more work with entrepreneurs before they enter the kitchen, to ensure they are ready to take the next steps with their business, The Entrepreneur Space has cut business failure rates to just 5%.

Clients must rent kitchen space a minimum of once a month. Costs range from \$165 to \$235 per shift, depending on time of day. Each client is allowed to use an Entrepreneur Space staff member for two hours per shift, which helps train businesses to use staff efficiently. Clients come from a wide geographic range, including beyond New York City. The Entrepreneur Space does not proactively advertise, relying instead on word of mouth.

In partnership with QEDC, the space provides business counseling; training on topics like profit and loss, marketing, and productivity; loan recommendations; and support with MWBE certifications.

Businesses typically remain with the program for 2-5 years. It currently serves about 75 small businesses, and has supported over 750 businesses since its founding.

## Loading Requirements

Parking area with loading dock

## Cold Storage

Three refrigerators, one freezer

## Funding Sources

The Entrepreneur Space received public start-up funding from NYCEDC. After six years of operation, the space became self-sustaining through rent revenue.

## Products

Wide variety of value-added products, including tacos, dumplings, baked goods

## Food System Connections

Some businesses procure their ingredients from regional farms. Through the incubator, businesses can move from selling to friends, to selling to local small businesses, to selling to local restaurants, to selling to a distributor to get into supermarkets. Some companies may also go on to sell their businesses to larger food conglomerates. The Entrepreneur Space has been able to connect clients with distributors and grocery stores like Whole Foods and Wegmans through staff's network connections. After leaving this space, some clients will go on to co-packing spaces or other shared processing spaces. Shared spaces like this foster cohorts of food entrepreneurs, impart technical know-how, and provide regulatory guidance in navigating the New York City food processing landscape.



Case Study

## The Entrepreneur Space

Site Size

5,500 sq ft kitchen space



## RECOMMENDATIONS

### → Expand affordable, distributed spaces for small-scale food processing.

The City should explore incentives and regulations to preserve and create manufacturing spaces within and beyond manufacturing zones and established Industrial Business Zones (IBZs). Incentive programs could encourage leasing underutilized manufacturing infrastructure for food, modeled on the Pfizer Building's transformation into a food manufacturing hub. Commercial rent control for processors can protect these essential service providers from real estate pressure and gentrification. This program could encourage more inclusive and diversified food production by preferencing small-scale processors that employ less than 25 or 50 people. New York State should also invest in co-packing facilities in areas of the region where industrial land is more available, providing a key missing link in the supply chain.



### → Make it easier to share space and costs.

Expanding shared use of food production spaces would be a tremendous boon to entrepreneurial activities and support for community-led food access services. DOHMH should relax or even encourage shared uses, such as allowing underutilized restaurant spaces to be used for off-hours processing or as a community kitchen. The Department of Education (DOE) and Department for the Aging (DFTA) should encourage public facilities with production kitchens to make their kitchens available after hours for light to medium processing to private enterprises.

### → Expand allowances for food processors and food service operations to use shared kitchens.

Shared use kitchens and community kitchens remain a regulatory gray area because state and city agencies split licensing and inspection of food businesses, creating confusion for processors looking to comply with requirements. The New York State Department of Agriculture & Markets should expand home food processing allowances to allow commercial sale of processed foods made in community kitchens. At the local level, DOHMH should expand allowable home processing and community kitchen use to include ready-to-eat meals. The City should develop training language for frontline inspectors and educational resources, as are available at the state level, to help small businesses and the sector grow. All new resources should be multilingual to reach immigrant entrepreneurs.

### → Create flexible spaces and new resources for decentralized small-scale processing.

The City should expand and allow decentralized small scale processing combined with street vending to support entrepreneurs, modeled off of market stalls in

other countries. The new outdoor dining allowances could serve as a starting point for these outdoor stalls, which could be publicly or privately owned. The City should also create a searchable database of existing licensed processing facilities, which could be structured as an open data registry for businesses to opt in to. This would enable entrepreneurs to more readily find facilities that meet their needs.

#### → **Bolster access to financing through creative mechanisms.**

The City should create public funding streams to invest in incubator, community, and shared use spaces. The Department of Small Business Services (SBS) could establish a first loss reserve guarantee to

underwrite loans, modeled off of the U.S. Department of Agriculture's Farm Service Agency loans, or create equity-based financing for entrepreneurs and developers to access commercial capital. The City – through the Mayor's Fund to Advance NYC and other agency-affiliated foundations – could partner with private foundations to develop blended financing tools that match public and private funds to invest in decentralized processing facilities. The City could also direct grant funding for establishment, start-up capital, or incubation expenditures to Community Development Finance Institutions (CDFIs) to support decentralized funding, modeled off of New York State's Healthy Food and Healthy Communities Fund and the Pennsylvania Fresh Food Financing Initiative, both of which focused on food retail.





## **Neighborhood Fare: Tools for Connecting Local Food Systems**

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