

Coffee Wars:

Market Share Battles and Investment Opportunities from Starbucks to Startups

November 2024



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Like oil, coffee is one of the world's most traded substances, with around 2.5 billion cups consumed daily. Roughly 60% of the American population drinks coffee every day, and there are nearly 40,000 Starbucks stores worldwide, including almost 18,000 in North America alone.

But it's not just Starbucks feeding the planet's caffeine addiction. In the United States, hundreds of operators are fighting for market share in the coffee space, making it a highly competitive and compressed industry. The coffee shop franchising subsector remains particularly buoyant, with at least 44% of coffee drinkers getting takeaway coffee from franchise cafes several times a week. That said, corporate coffee chain sales grew 10% from June 2021 to June 2022, nearing pre-pandemic levels.

In recent years, private equity and venture capital have driven the sector, providing plenty of opportunities for growth and returns. You'll often see a story about a coffee company receiving millions of dollars of funding, with investors hoping to buy up — and extract wealth from — shiny new startups.

U.S. Coffee Brands

As mentioned above, the U.S. coffee market is incredibly competitive. Starbucks remains the industry leader with \$27.5 billion in sales, followed by Dunkin' at \$11.2 billion. In total, there are 29 national players — a mixture of big-name national coffee chains and smaller regional businesses.

VIEWPOINT

ESPRESSO

Espresso	2.85
Macchiato	3.00
Americano	3.20
Americano Misto	3.75
Cortado	3.75
Cappuccino	3.75 4.00
Flat White	3.75 4.00
Latte	4.45 4.65
Mocha	4.55 4.95
Pink Espresso Latte	4.25 4.75

TEA &

Tea	3.25 3.75
Matcha	3.25 3.75
Matcha Latte	4.30 4.65
Hot Chocolate	4.30 4.65
London Fog	4.30 4.65
Pink Latte	3.25 3.75
Chai Latte	4.25 4.55
Chai	4.25 4.55

DRIP COFFEE

8 oz	2.00
12 oz	2.35
16 oz	2.50

ICED

Tea	2.95
Latte	4.45
Americano	3.20
Mocha	4.55
Misto	3.75



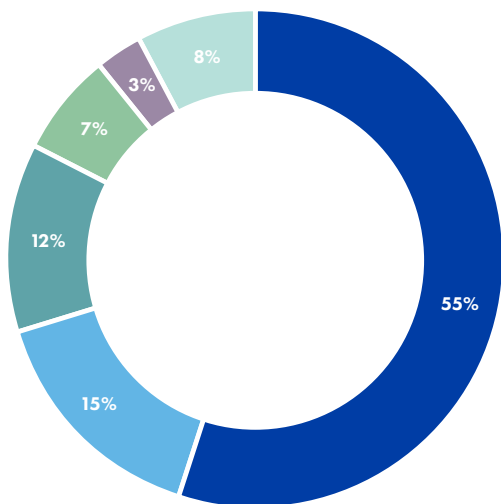


Chain Expansion and Number of Locations

Many brands are actively expanding, with Starbucks planning to open 17,000 new stores globally by 2030. The company is focusing on international markets and achieving a 4% annual growth rate in the U.S. market. Regional chains like Caribou Coffee and Scooter's Coffee are also growing, with the former adding 159 new stores in 2023 and planning similar growth this year.

Despite expansion from up-and-coming brands, established names dominate the industry. Perhaps unsurprisingly, Starbucks maintains a 40% share of the coffee market in terms of number of outlets, with more than 16,000 locations in the U.S. Other popular chains include Dunkin' with more than 9,100 U.S. locations, Dutch Bros Coffee with over 900 units and Tim Hortons with approximately 640 U.S. restaurants.

Market Share:
Percentage of On-Market Listings



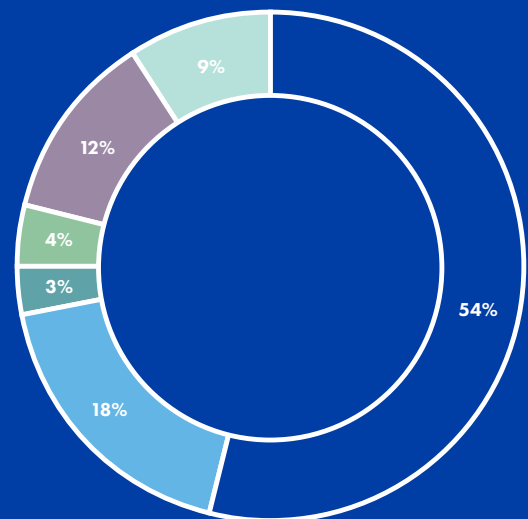
- Starbucks
- Dutch Bros Coffee
- 7 Brew Coffee
- Scooter's Coffee
- Dunkin
- Other Brands

VIEWPOINT

On-Market Listings and Sales

When it comes to the percentage of on-market listings between 2018 and 2024, Starbucks also reigns supreme, with 55%. Up next are Dutch Bros Coffee (15%), 7 Brew Coffee (12%), Scooter's Coffee (7%) and Dunkin' (3%). Other brands make up 8% of on-market listings.

Market Share:
Percentage of Units Sold (2018-2024)

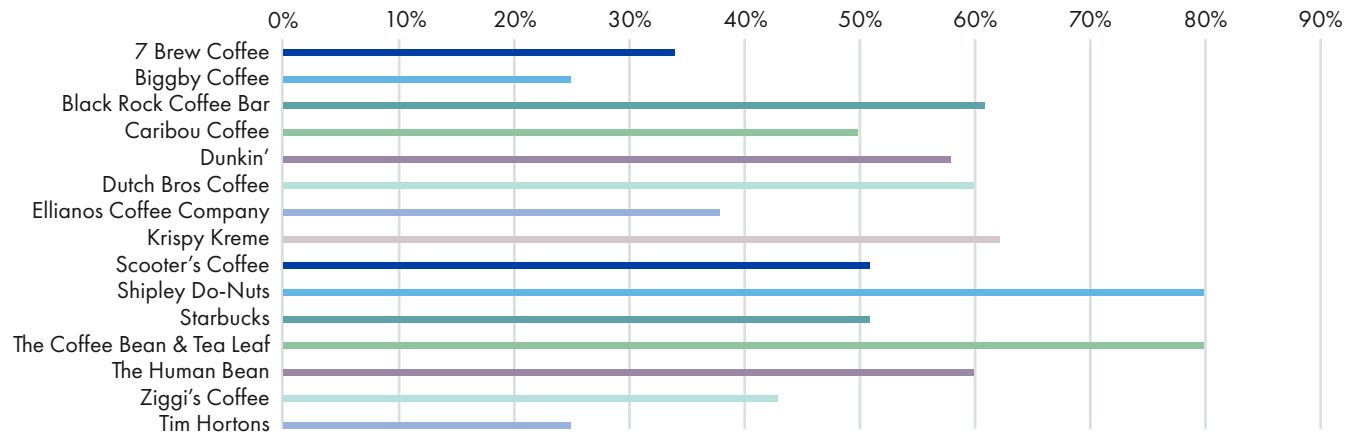


- Starbucks
- Dutch Bros Coffee
- 7 Brew Coffee
- Scooter's Coffee
- Dunkin
- Other Brands



But which brands actually sell? For coffee concepts with 15 or more transactions, Krispy Kreme has a 62% success rate with 31 transactions. Black Rock Coffee, with 34 transactions, boasts a success rate of 61%. And with 286 transactions, Dutch Bros Coffee has a 60% success rate.

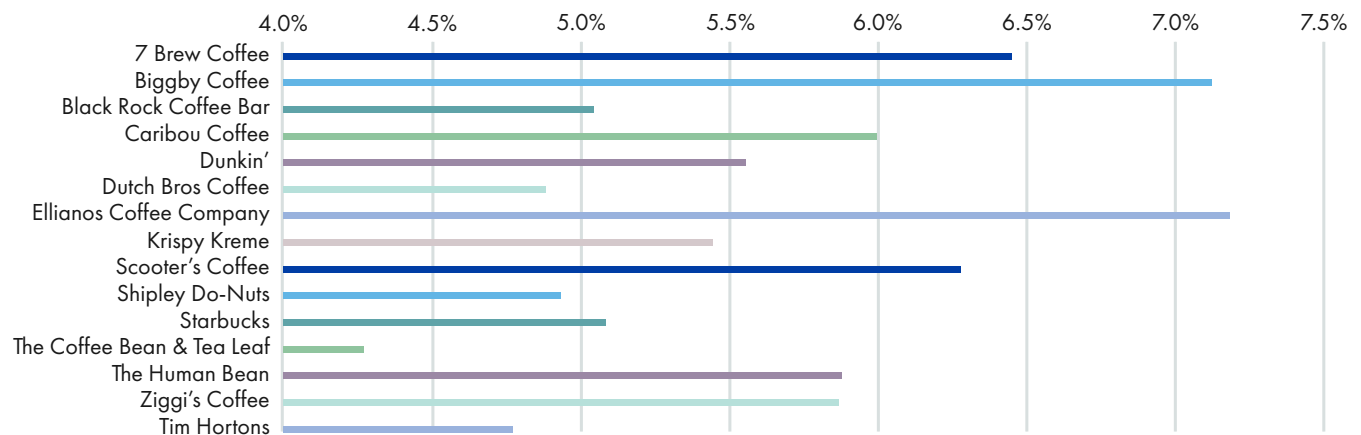
Success Rate: Units Listed vs. Units Sold



Cap Rates

Although it depends on the brand, cap rates in the coffee sector have generally fluctuated in the last few years, dipping greatly during COVID and its subsequent inflationary period before rising above pre-COVID levels in 2024. For example, Starbucks had an average cap rate of 5.32% in 2019, 5.05% in 2020 when the pandemic hit, 4.84% in 2021, 4.78% in 2022, 5.29% in 2023 and 5.60% in 2024. Other brands, including Dutch Bros, followed similar trajectories, with average cap rates falling downward during COVID and inflation and then generally increasing again in 2022 and 2023.

Average Sold Cap Rate (Units Sold 2018-2024)



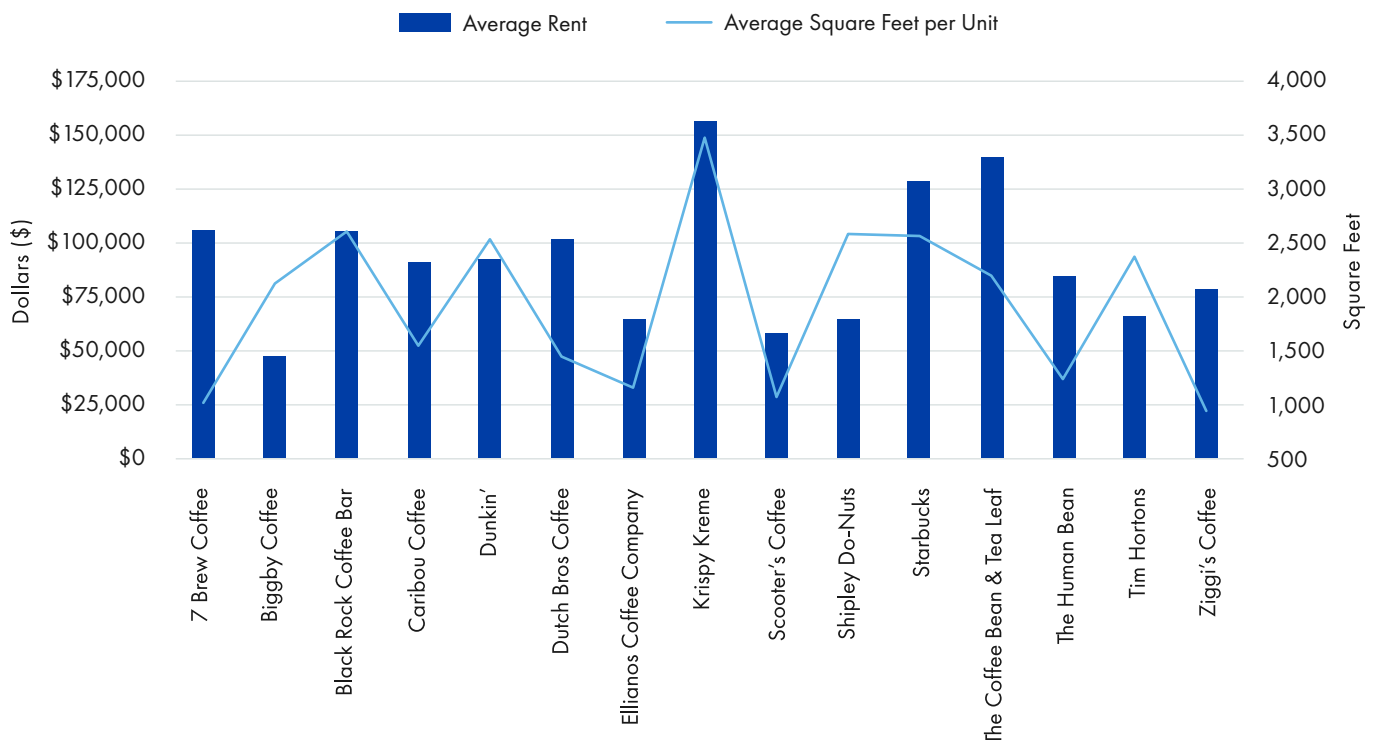
For units sold between 2018 and 2024, The Coffee Bean & Tea Leaf had the lowest average sold cap rate (4.28%), followed by Ziggi's Coffee (4.78%), Dutch Bros Coffee (4.89%) and Shipley Do-Nuts (4.94%).

Rents

Rents in the coffee sector have followed a similar course to cap rates — sometimes dropping, or at least plateauing, during COVID and subsequent inflation, before recording even greater increases. Take national leader Starbucks, for example. The company's average rent went from \$130,940 in 2019 before decreasing to \$120,748 in 2020 — a drop of about 8%. Average rent ticked up to \$129,006 in 2021, dropped again to \$126,419 in 2022, and increased to \$134,481 in 2023. Starbucks had an average rent of \$145,593 in 2024.

But how do rents compare to unit sizes? Krispy Kreme has the highest average rent versus average square feet per unit of any coffee chain between 2018 and 2024, followed by The Coffee Bean & Tea Leaf and Starbucks. Biggby Coffee has the lowest average rent versus average square feet per unit.

Average Rent vs. Average Square Feet per Unit (Units Sold 2018-2024)



From a dollar amount standpoint, Starbucks generally commands the highest rents of any chain. As previously mentioned, the company had an average rent of \$145,593 in 2024. Compare this to Dunkin', the chain with the second highest national revenue, which had an average rent of \$86,381 in 2024 — nearly 41% lower.

Rent is typically higher for a Starbucks compared to other brands, as Starbucks gravitates to higher-end locations with steeper land and construction costs. Starbucks has also been developing more units than any other brand in the high-cost environment of 2024, requiring them to sign leases with higher rents to ensure feasibility. With one of the highest average unit volumes (\$1,795,000), the chain can afford to do this easier than most other coffee competitors. However, its properties are becoming harder to sell. Many investors don't want to purchase a property with an irreplaceable rent, suggesting Starbucks real estate might struggle in the future as their rent factor grows.

Location Size

Starbucks also tends to have larger properties than many other national chains, with an average rentable square footage of 2,411 in 2024. Compare this to Scooters or Dutch Bros Coffee, which have average rentable spaces closer to 950 square feet. The larger the property, the more it costs to build. Construction costs therefore translate to a higher rent, which can impact its ability to sell if the market interprets the rent to be unsustainable.

Average Rent per Square Foot (Units Sold 2018-2024)



Planning Your Next Investment in the Coffee Industry

The demand for store-bought coffee has never been higher, with around 8% of American consumers visiting a coffee shop daily and nearly 30% visiting a coffee shop a few times a week. So, the rush is real, and the industry shows no signs of fading.

While a handful or more of the major players dominate the sector, newer brands are certainly making their mark and resonating with consumers. For example, Dutch Bros just achieved a tremendous 39% year-on-year sales growth in the first quarter of this year, with future growth expected.

Some of these companies will undoubtedly continue to skyrocket as they build brand loyalty with consumers, while growth for other brands may stabilize. Other chains, however, won't be as successful and may fade into obscurity as competition across this sector remains fierce.



SPOTLIGHT

ON EMERGING COFFEE BRANDS

Emerging coffee store brands are distinguishing themselves with innovative practices such as sustainable sourcing and a focus on specialty brews that appeal to coffee enthusiasts. These brands are also enhancing community engagement by creating welcoming spaces that encourage local interaction and support social initiatives. For commercial real estate investors, this may offer lucrative opportunities to invest in dynamic retail spaces that cater to these forward-thinking coffee brands and their growing customer base.

A Few Brands to Watch

1

Blue Bottle Coffee

Operates approximately 100 locations primarily in California and the Northeast; in August, the brand debuted in Southeast Asia with a pop-up café in Singapore

2

Bluestone Lane Coffee

Plans to grow to a total of 80 locations by the end of 2024; target markets include Los Angeles, New Jersey, New York City and the greater Washington, DC metro

3

The Human Bean

Planning at least 19 café openings in 2024 across Georgia, New Mexico, Ohio and Texas, among other states

4

Foxtail Coffee Co

Opening locations in Florida, Michigan, Nevada and Virginia, with 30+ locations slated for the Tampa Bay area and long-term plans for 300 new locations to open by 2028

Source: Northmarq Restaurant Group

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