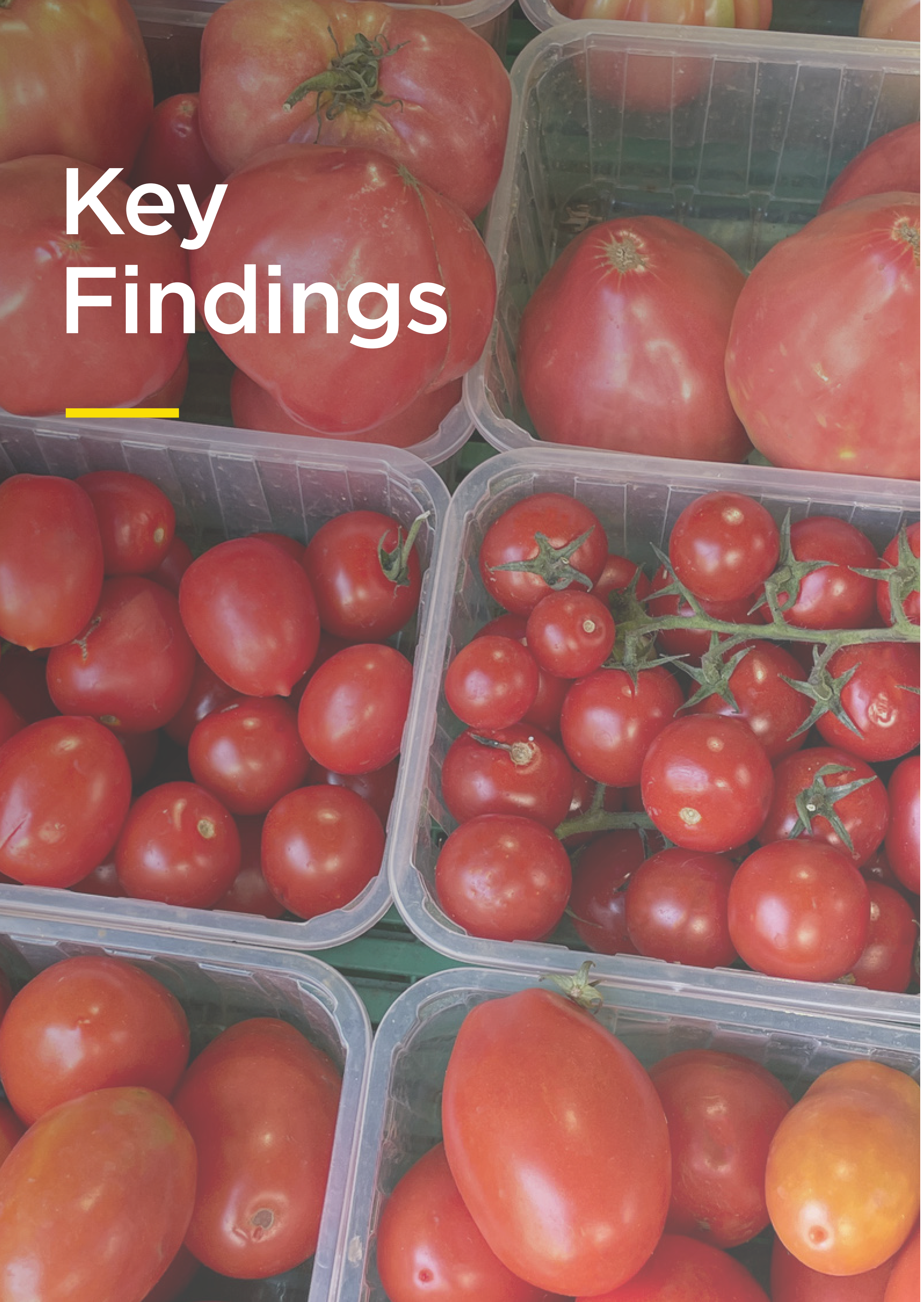
EUROPEAN GROCERY MARKET 2024



Key Findings

01

ECB interest rate cuts, inflation moving towards 2.00% target and rising consumer confidence bode well for European economy.

02

Grocery sales forecast to rise by 2% in 2024 and a further 3% in 2025 as a result of the improved outlook.

03

Supermarkets have proved to be a defensive asset in the face of lockdowns, changing consumer behaviours and e-commerce.

04

Online grocery exposure remains low, with traditional retailers favouring omni-channel strategies.

05

Maintaining a healthy margin while trying to limit price increases for the consumer continue to characterise many retailer strategies.

06

Preferred retail formats are evolving to local, centrally-located stores, and discount and value stores have fared well with the rising cost of living.

07

There is an increasing sustainability focus in the grocery market for both consumers and retailers.

08

Investment in the grocery market proved to be more resilient in 2023 compared to other commercial real estate.

09

Strong fundamentals allowed supermarket yields to compress in 2020 and 2021, softening the least of all retail sectors since the pandemic.

Economic Overview

First ECB rate cut signals positive movement for European economy

The European Central Bank (ECB) announced it will cut rates for the first time in five years in June 2024, lowering the deposit rate by 25 bps to 3.75%. This comes after a period of record high levels at 4.00%, the highest since the launch of the Euro.

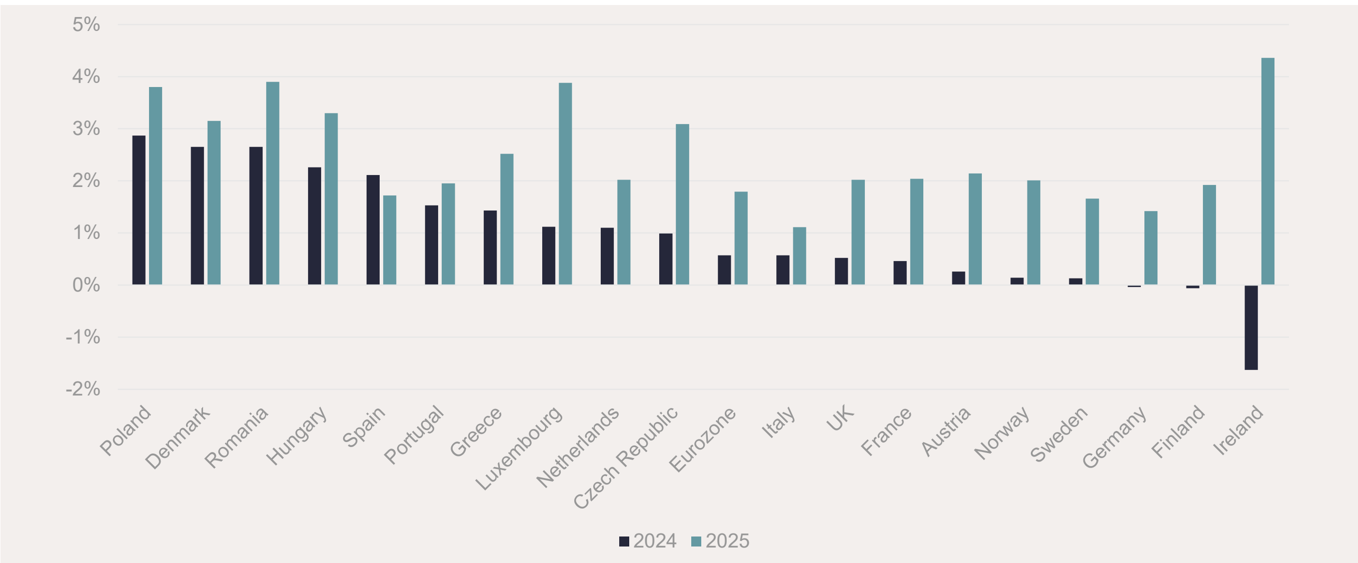
The preceding period of continuous rate hikes that started in 2022 were used as a tool to curb rapid inflation across Europe, where levels reached record high 10.60% in October 2022. As price pressures began to ease, headline eurozone inflation reached 2.50% in June 2024, down from 2.60% in May 2024, and is edging closer to the 2.00% target. Progress made tackling inflation has allowed the ECB to start on the path of gradual rate decreases.

But despite progress over recent quarters, domestic price pressures remain along with wage growth elevation. Economists now predict inflation will stay above target into next year, and, as a result, projections have been revised up for 2024 and 2025, with headline inflation averaging 2.50% in 2024 and 2.20% in 2025. Financial security should begin to improve somewhat later in the year as the difficulties associated with persistently high rates begin to dissipate.

The unemployment rate across Europe remains historically low at 6.03% in 2024, slightly up from level 6.01% in 2023 and is forecast to reach 5.86% in 2025. The employment expectations indicator in the EU and eurozone also remain above the long-term average. A tight labour market bodes well for consumer finances but will continue to affect wage growth pressures.

Turbulent market conditions resulted in flat GDP growth in 2023 at 0.55%, with little movement forecast for 2024 at 0.57%. This is expected to pick up in 2025, with growth forecast to reach 1.80%. The announced cut in interest rates should boost economic activity by making it cheaper for consumers and businesses to borrow, re-stimulating the economy.

GDP growth



Source: Oxford Economics

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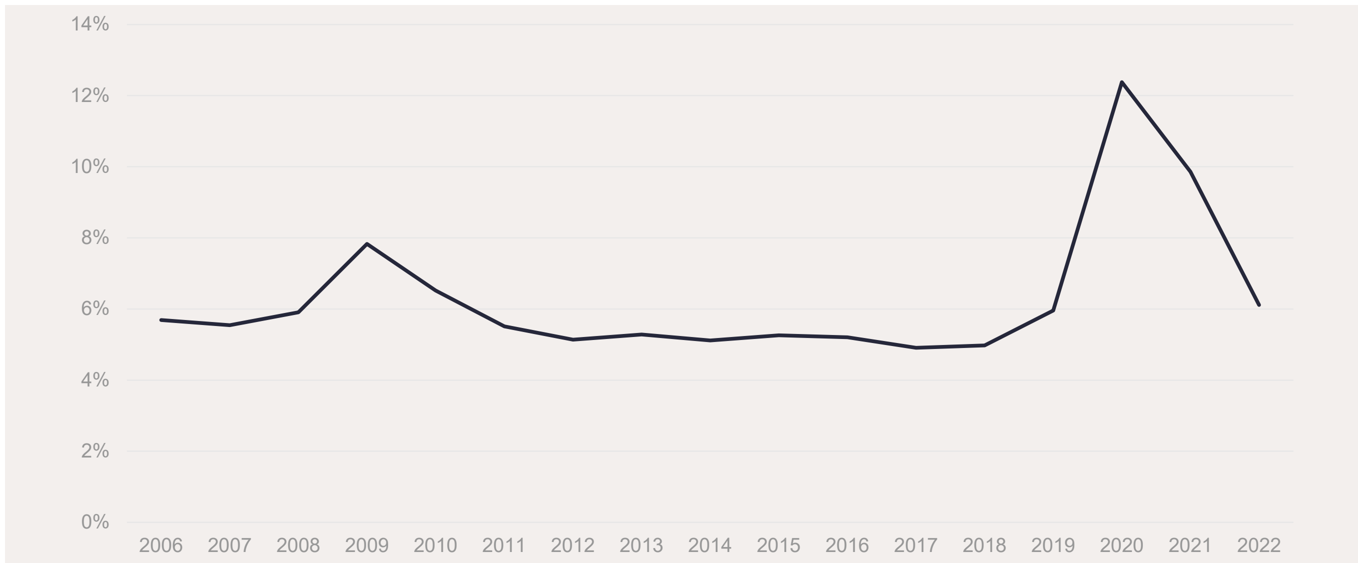
Consumer Landscape

Improving consumer confidence as economic landscape beginning to improve

The shift of the economic landscape into unsteady territory over the last couple of years has seen consumer confidence fall to the lowest levels seen historically across Europe. Reaching the record low of -28.6 in September 2022 after the beginning of unprecedented interest rate hikes from the ECB, a level lower than recorded during both the global financial crisis (GFC) (-22.4) and the pandemic (-27.4), consumer confidence is now beginning to slowly increase. In May 2024, consumer confidence was at -14.3 in the eurozone, the highest this has been since February 2022.

OECD data shows household savings (as a percentage of disposable income) declined by an average of 4 percentage points in 2022 from the year before, partly attributed to the high inflationary environment at a time where consumer disposable income was squeezed and less money was attributed to saving as a result. This was also partly the result of excess savings build up during the pandemic. 2020 was a record year for household savings, whereby lockdown restrictions during the pandemic meant many were able to save higher than usual amounts.

Household savings ratio in Europe



Source: OECD

Retail Sales

Essential nature of the grocery market shows stability in retail sales

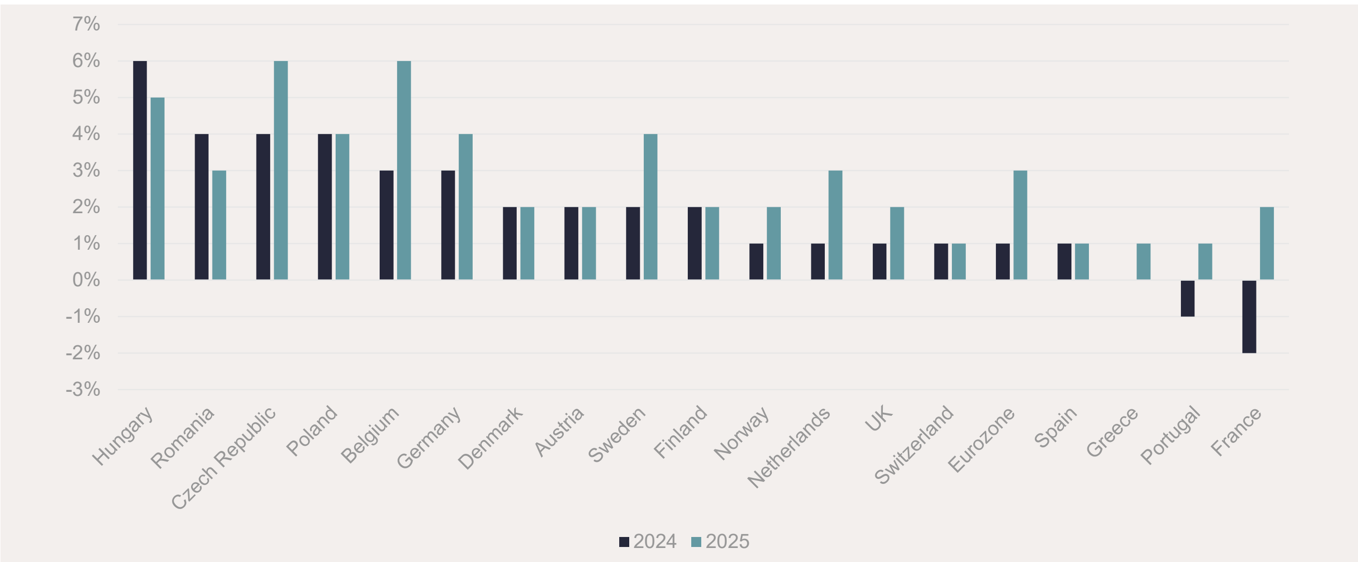
The overall economic and consumer landscape in Europe has resulted in total retail sales declining by 6% in real terms in 2023 as consumers cut back on spending. The drop in sales was felt across all major retail sectors, showing consumers uniformly drew back on spending. As a result of improving economic conditions forecast for the second half of the year, Oxford Economics forecasts retail sales to increase by 5% in 2024 and 4% in 2025, depicting a more positive retail outlook in the near future.

In light of the wider economic landscape, the grocery sector is better armed against macro-economic headwinds due to the essential nature of food sales. Tightening purses mean consumers are having to balance spend between essential, discretionary and experience retail, with the former more insulated from consumer cutbacks as it is a necessary spend category.

Comparing retail sectors, the food and grocery market has shown to be much more stable over time, with annual growth fluctuation between -5% and 5%. Generally food sales growth remains broadly in line with total retail sales growth. Though when looking at fashion sales, larger fluctuations can be observed, with growth figures ranging from as low as -12% and as high as 13%. This is due to the non-essential nature of the fashion market, where changing market conditions can significantly impact sales. So while fashion sales declined less than food sales in 2023, this can be attributed to consumers 'catching up' on fashion spend after the pandemic halted store visits and sales declined by 12% in 2020.

Both the grocery sector and total retail sector are forecast to have a 2% CAGR between 2023 and 2028, remaining consistent with the long-term average five-year CAGR and highlighting the stability of the sector. The CAGR of the fashion sector

Retail sales growth in Europe



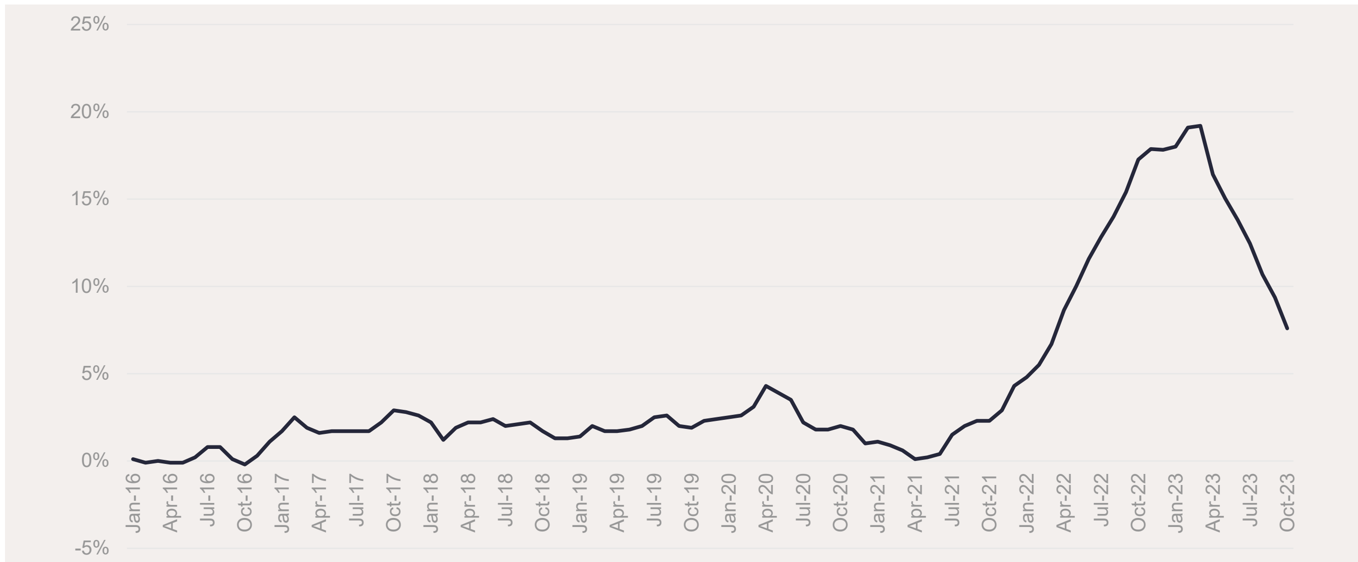
Source: Oxford Economics

between 2023 and 2028 is slightly higher at 3%, though down from the 4% long-term average.

Though even with the essential nature of the grocery market and associated stability, consumer spending on food declined by 4% in real terms in 2023. The rate of food inflation reached the peak in March 2023 at 19%, causing consumers to tighten their belts in anticipation for a prolonged period of inflationary pressures. The result of which led to significant downtrading, whereby consumers switched from expensive brands to cheaper alternatives, ultimately impacting sales figures. A reduction in food consumed will also have impacted retail sales, but ultimately consumer switches to savings on everyday items would have been the main driver of lower sales.

Although price consciousness will persist among the majority of consumers, as inflation pressures ease, we can expect to see consumers return to previous spending behaviours. Those with a higher disposable income will be able to trade up again through purchasing more expensive brands, supporting the growth of the market. 2024 looks to be a brighter year in Europe, with food sales forecast to increase by 2% and a further 3% in 2025.

EU food inflation



Source: Statista

Retail Trends

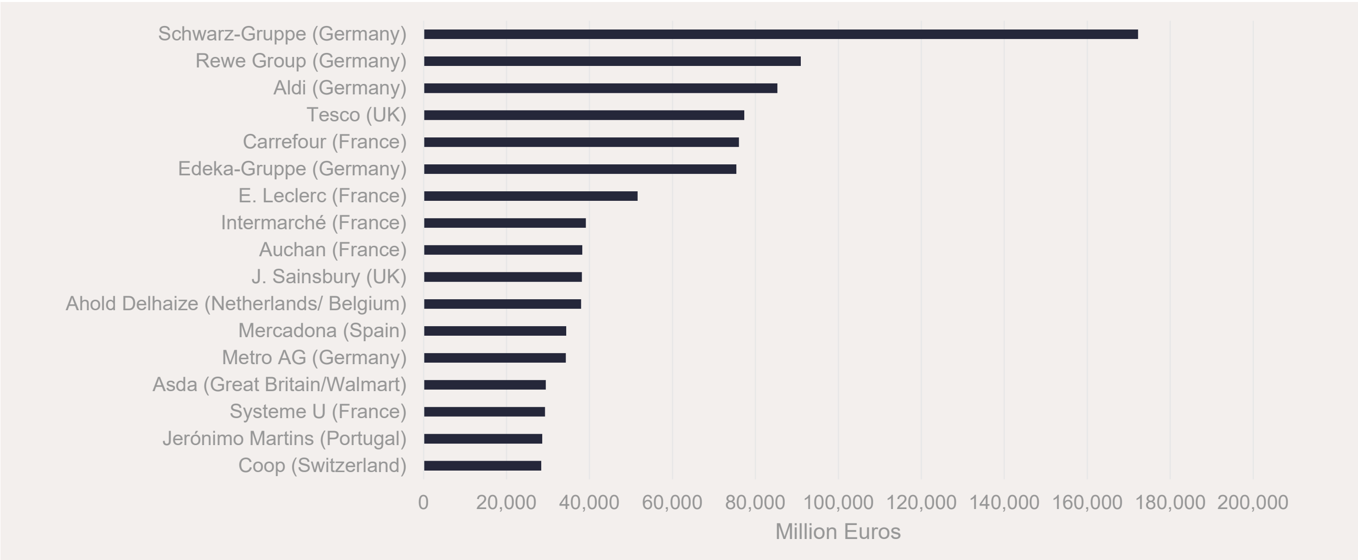
Retailer margins under pressure from record-high inflation

Heightened over the past couple of years as a result of strained economic conditions, margin pressures remain a top priority for retailers given rising food price inflation and associated costs such as wage growth. Balancing maintaining a healthy margin with trying to limit price increases for the consumer continue to characterise many retailer strategies. In some markets, governments have mandated or urged retailers to absorb price increases and refrain from passing these on to consumers, as we have seen in France and Spain. Mandated or not, many retailers have been incentivised to do this in a bid to retain their customer base and compete with other retailers by retaining market share. For smaller retailers who have become more financially exposed over the past few years as a result of cost pressures, we may begin to see a rise in the number of mergers and acquisitions as the larger grocery players move in to increase their market share.

Lidl, Europe's largest leading discount grocery store, continues to target cost-saving consumers by limiting the transfer of the increase in cost associated with operations in the final sales price of items. Their permanent price containment policy aims at keeping products below the food CPI. The most successful retailers will enhance loyalty benefits beyond pricing, especially during seasonal periods to attract and promote customer loyalty. This is a strategy used by Sainsbury's, who have invested in initiatives that focus on keeping prices low and reducing costs across its business, that have subsequently been passed on to the consumer. Its 'Low Everyday Prices' offering has allowed it to compete with the discounters.

Another way retailers can remain price competitive is improving operating efficiency measures and implementing automation. This will help to minimise operational costs by mitigating the impact of wage growth and can include implementing self-checkouts in store and efficient warehousing technology.

Top European food retailers by revenue (2023)



Source: Statista

European Grocery Market | July 2024

Preferred retail formats evolving to local, centrally-located stores

The type of grocery format is also relevant to retailer strategy. We are starting to see a rise in consumer preference for convenience and smaller formats, leading to many retailers focusing on city-centre 'express' stores and reducing the larger hypermarket format. This role of convenience and independent stores has become increasingly prominent since the onset of the pandemic. They allow consumers to make smaller and more frequent, essential, 'top up' purchases in smaller units close to their homes. As a result, shoppers have become much more reliant on what is local, in addition to larger, less frequent supermarket shops. This is resulting in many retailers to rethink their hypermarket footprint.

For grocery stores located outside of city centres, for example those located in shopping centres, the best assets need to be decentralised from the main shopping centre so that consumers can easily access the store by car and utilize the click and collect service. These types of supermarkets also need a good retail mix provided by the anchored centre to ensure high footfall to the location.

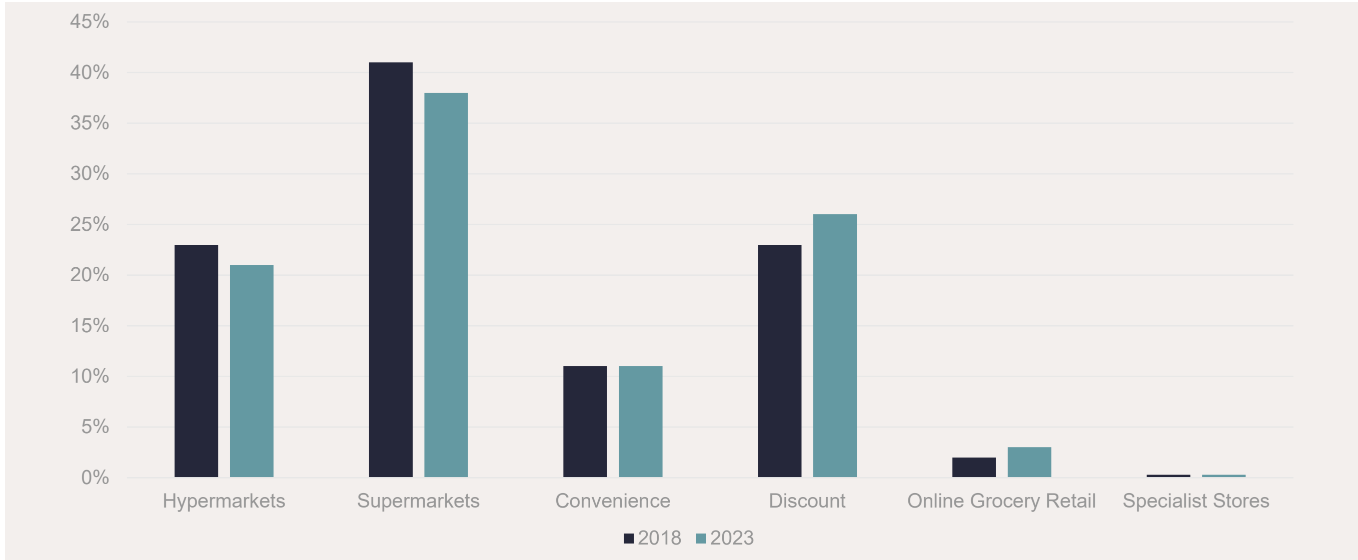
The sustainability-conscious consumer

A sustainability focus within the real estate industry is gaining momentum, and this is becoming more pertinent in the grocery sector for occupiers and consumers alike. Sustainability can encompass all aspects of the sector, from the credentials of the physical building to the supply chain and sale of food goods.

Regarding the physical store, sustainability initiatives have resulted in retailers improving the green credentials of their asset, such as incorporating solar panels and electric vehicle chargers. Additionally, food retailers offering locally sourced produce appeals to consumer preference to shop locally, both shortening the supply chain and reducing air miles where applicable, also supporting local businesses and farmers. As a result, consumers are often more willing to pay a higher price for organically grown food in support.

For some retailers, initiatives encouraging consumers to shop more healthily and sustainably have been developed. In Belgium, the Delhaize chain have created an online app that can suggest healthy alternatives to customers, with a discount of 5 percent or more included to incentivise the switch. In the UK, retailers such as Waitrose and Marks and Spencer are increasingly offering products in unpackaged formats, such as rice and pasta, with the idea to reduce plastic waste by encouraging consumers to use reusable containers.

European grocery sales by channel



Source: Statista

Online Grocery

Online grocery exposure remains low, but international retailers favour omni-channel strategies

The grocery market is perhaps one of the few retail sectors that has remained largely unaffected by the growth of online retail, with physical stores remaining consumer preference. While sectors such as fashion has increased its presence online and seen online revenue shares grow rapidly in the past couple of years, the grocery sector is evidently less exposed to e-commerce.

In Europe, the online revenue share of the grocery market is only 3.5% in 2024, and is forecast to reach 4.8% in 2028. In contrast, the online revenue share of fashion is currently much higher at 26.0%, forecast to reach 35.6% in 2028. It is undeniable that grocery delivery services have grown to be an important aspect of food retailers distribution strategies with many incorporating omnichannel strategies, but securing physical bricks and mortar stores will remain a high priority for occupiers given most revenue is generated in-store. Stores that have the infrastructure to offer an omni-channel approach benefit from increased investor interest.

In the online grocery space, the scale is often influenced by the consumer, the brand and the location. For the consumer, while the reach of the online grocery market is growing, physical grocery stores continue to remain bolstered by sentiment that consumers can get best deals in stores rather than online, translating into high activity levels.

Additionally, an online presence is not offered by all operators, and the market is typically more fragmented among smaller players who predominantly operate in-store only. International supermarket brands such as Auchan, Coop and Carrefour all have well-established channels offering online grocery shopping and incorporate omni-channel strategies into their business models, but this is not the case for all grocery retailers. Large discounter Lidl does not offer this service, along with Aldi, and smaller players in the market without the infrastructure will also not operate in this space, choosing to prioritize the physical store.

Online grocery shopping also varies per country, with climate and culture playing more of a role in physical store attendance in Mediterranean countries which encourage shopping at local markets and stores.

For the portion of grocery retailers who do operate online, advancing technology will be key in the future to keep up to date with evolving consumer expectations in store. Carrefour, who operate in the likes of France, Spain and Italy, has integrated OpenAI technology to launch a shopping assistant called Hopla. This offers consumers the opportunity to ask for help in choosing products for their basket based on budget and food constraints, and can also suggest anti-waste solutions for reusing ingredients. Enhancing the consumer experience when shopping for groceries both online and in-store with the development of such technology will be key for retailers.

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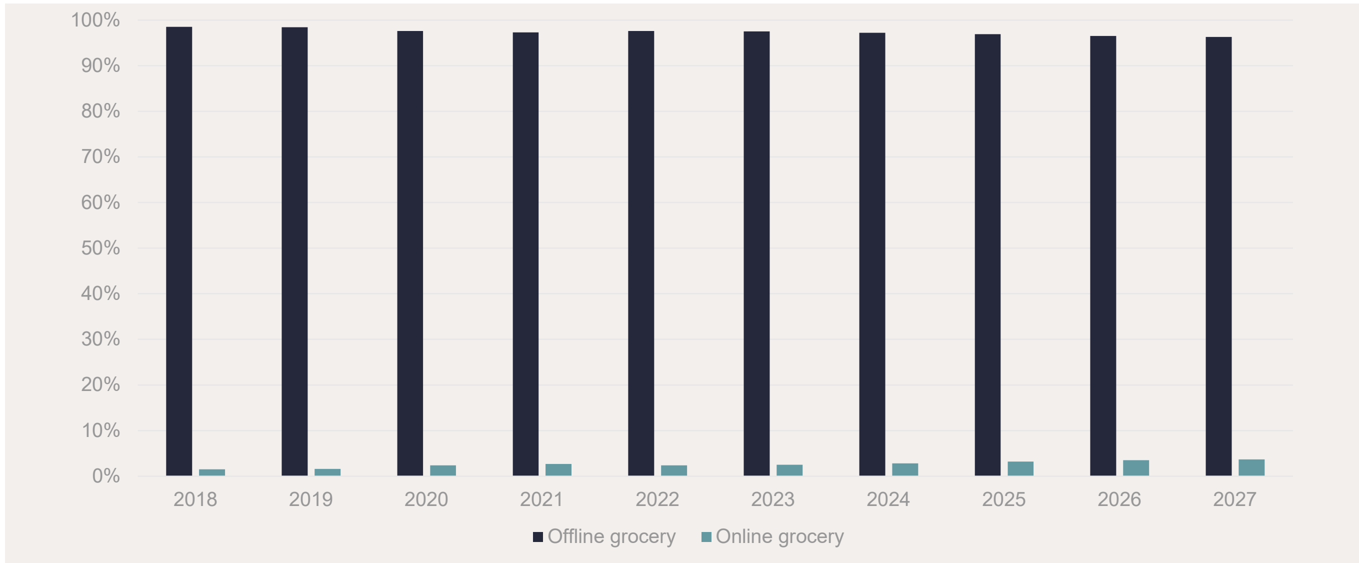
Online versus on-site grocery sales in Europe



Source: Statista

Investment

Winners and losers emerging from fragmented market

Investment in the grocery market proved to be more resilient in 2023 compared to other commercial real estate as Europe grappled with historically low transaction volumes. Grocery investment in Europe reached €6 billion in 2023, a 19% decline year-on-year (yoy) and 28% decline on the previous five-year average. In comparison, the total investment volume in Europe declined by 42% yoy and was down 44% on the previous five-year average. In the first two quarters of 2024, European grocery investment has reached €2.7 billion, 20% down on the same period last year and 31% down on the previous five-year average. Though there are now signs of recovery, as grocery investment recorded a 9% yoy increase in Q2 2024, reaching €1.2 billion, while total investment was down 14% yoy.

In 2023, Germany and the UK were the only two markets reporting an increase in annual investment volumes. In Germany, the transaction volume was driven by two large portfolio transactions. The acquisition of the X-bricks properties by Slate Asset Management (188 properties; €1 billion) and the Royal Blue portfolio (76 properties; €240 million), in which Aldi Süd bought over seventy of its own stores from Allianz. In the UK, the sale of the Sainsburys Reversion Portfolio (26 properties; €960 million) from Supermarket Income REIT to Sainsbury's following a sale and leaseback significantly boosted investment volumes.

In the first two quarters of 2024, Spain, Italy, France, Norway and Portugal all report yoy increases in H1 2024 grocery investment volumes. The volatility in the grocery market means that those who see positive investment growth one year may see negative growth the following year. In Italy, the €155 million sale of a 13 asset portfolio in significantly boosted investment in H1 2024.

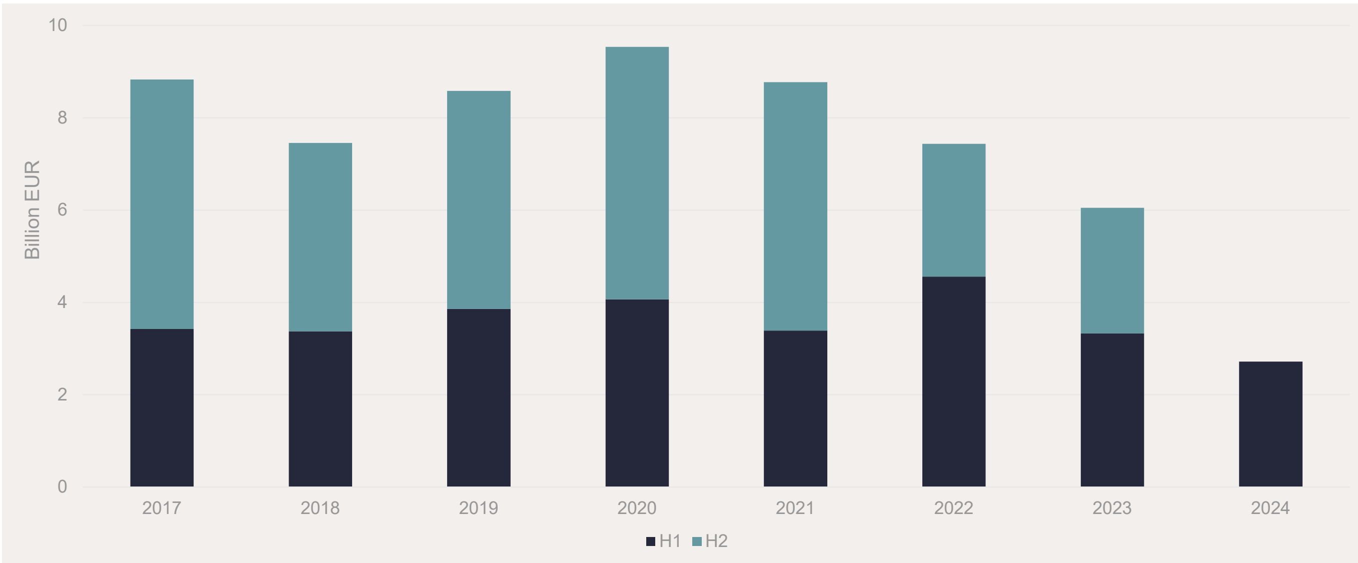
Investor interest in the grocery market remains robust, driven by strong fundamentals that have been further emphasised by the pandemic and the cost-of-living crisis in Europe. The essential nature of groceries has underscored the sector's defensive and resilient qualities over recent years. Additionally, the economic uncertainty environment of the past 18 months has led investors to focus on assets that offer high returns through strong profit growth and favourable supply and demand dynamics. The stability and longevity of income streams from supermarket assets make the grocery market an attractive option for investors seeking long-term revenue.

However, despite being a desirable asset class, investment in the grocery market is highly fluctuating. This is notably due to a limited supply of available stock and the large share of M&A and sale and leaseback transactions in the market, resulting in large fluctuations in investment volumes.

A notable trend noticed over the past 18 months is the buyback of stores by retailers through sale and leaseback agreements, as seen with the large Sainsbury's portfolio. Major supermarket property portfolios are often owned by the retailers themselves, and sales and leasebacks allow investor-landlords, like Supermarket Income REITs, to increase their market exposure. Retailers sell these assets to bolster their balance sheets, and current market pricing makes it an opportune time for them to repurchase their properties. Sales and leasebacks have become more prominent as they provide retailers with an efficient way to raise capital amidst high debt costs. By acquiring their locations, retailers secure their sites and mitigate potential rental price increases.

The grocery sector is fragmented, comprising both large and small players. Margin pressures over the past few years have created clear winners and losers, with some retailers able to shield themselves from rising costs better than others. As the larger players become more active, mergers and acquisitions are expected to continue, boosting investment as investors seek to consolidate their portfolios and expand their market presence.

European grocery investment volumes



Source: Savills Research based on RCA

Yields

Supermarket yields more resilient against other retail assets

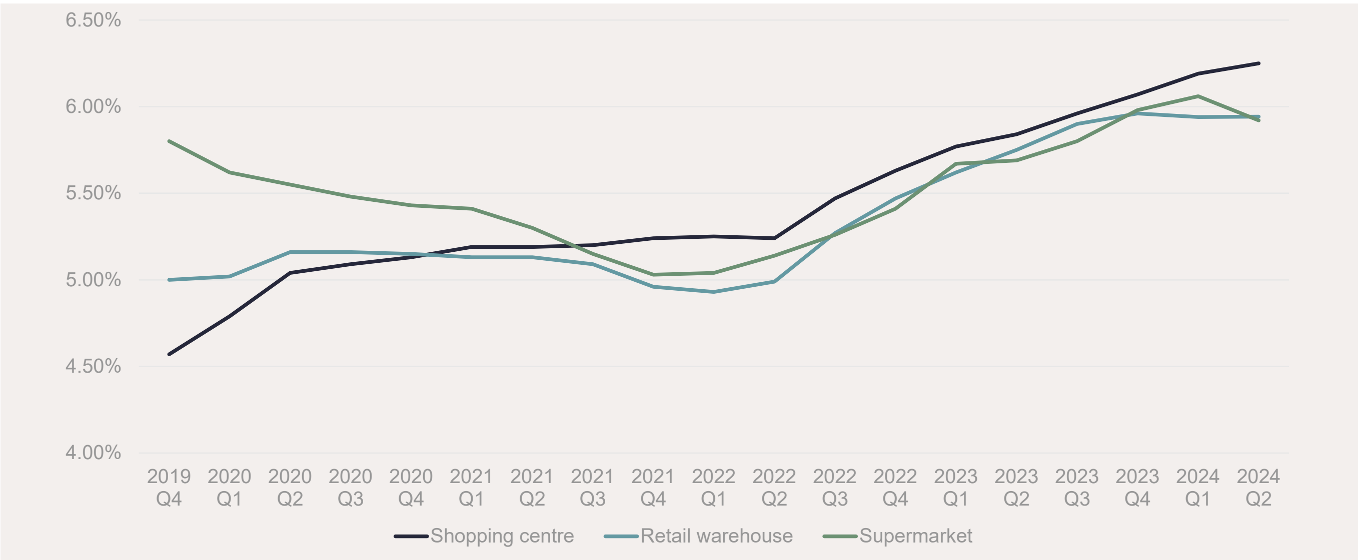
Upward pressure on European retail yields has persisted since the pandemic, and has been further exacerbated by interest rate hikes beginning in 2022. In Q2 2024, prime retail yields have moved out by an average of 97 bps since Q4 2019, 27 bps in the past 12 months and remained stable during the last quarter, showing that yield softening is slowing.

Yield softening has not been consistent among all retail formats. European supermarket yields have softened the least since before the pandemic by only 10 bps, taking the average prime yield to 5.90% in Q2 2024. Since 2020, strong fundamentals have allowed the average supermarket yield to compress while all other retail yields moved out. The pandemic exposed the resilience of the sector and triggered strong interest in the grocery market. Though, the sector has not escaped the current economic environment, meaning yields have softened by an average 23 bps yoy. Though between Q1 and Q2 2024, supermarket yields have hardened by 14 bps.

Experiencing the most decompression since 2020, European shopping centre yields have moved out the furthest by an average of 168 bps since before the pandemic to 6.25% in Q2 2024. Yields softened 41 bps yoy and 6 bps during the last quarter. Retail warehouse yields have moved out by 94 bps to 5.94% since before the pandemic, 19 bps yoy and remained stable during the last quarter.

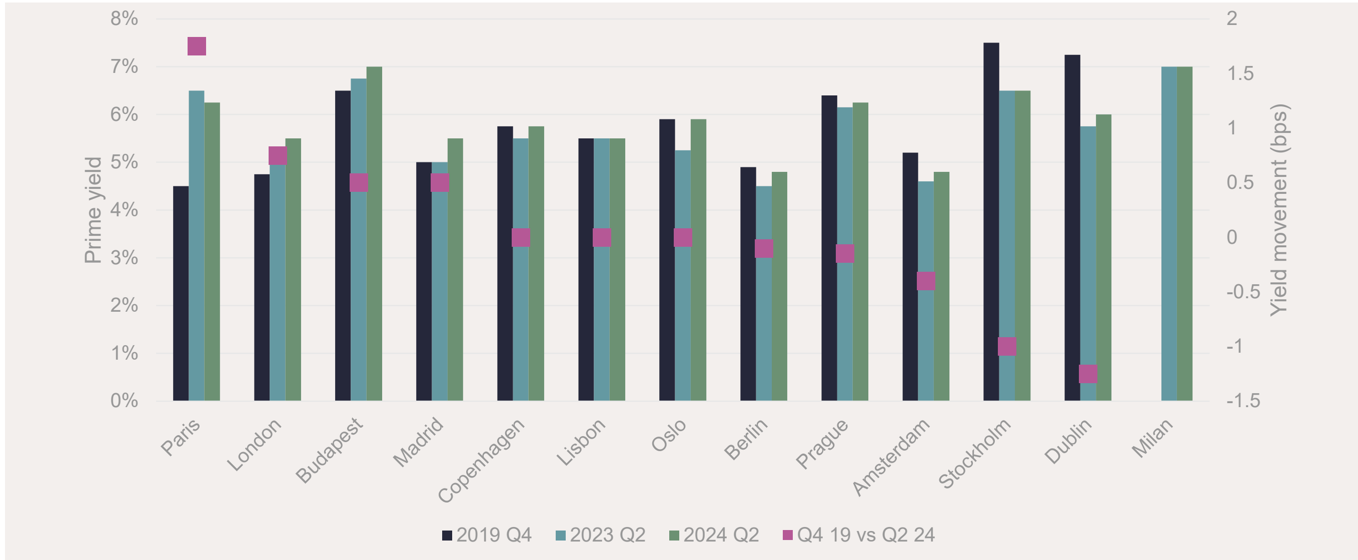
Supermarkets have proved to be a defensive and resilient asset type in the face of lockdowns, changing consumer behaviours and the rise of e-commerce. Continued demand for grocery assets could see yields begin to tighten by year-end as economic conditions improve.

European retail yields



Source: Savills Research

European supermarket yields



Source: Savills Research

Outlook

A bright outlook for the grocery sector as economic constraints subside

The European grocery sector has a positive growth outlook for the coming years ahead. Improving consumer confidence, inflation slowly moving back to target and a forecast rise in retail sales bode well for consumers, retailers and investors alike. Increased spending will help retailer margins to recover and drive growth expansion plans, accelerating the occupier need for space. These factors will play a significant role in fuelling investor appetite and increasing investment volumes in the sector.

While a lack of stock can limit the number of transactions, sale and leasebacks and mergers and acquisitions will support activity in the market. As market concentration among the larger retailers grows we expect to continue to see consolidation of portfolios as the big grocery players look to increase their market share, with winners and losers emerging from a fragmented market. Supermarket yields are expected to remain stable for the remainder of the year and begin to harden in 2025 as interest rates across Europe decrease and investors increase their exposure to the market.

France

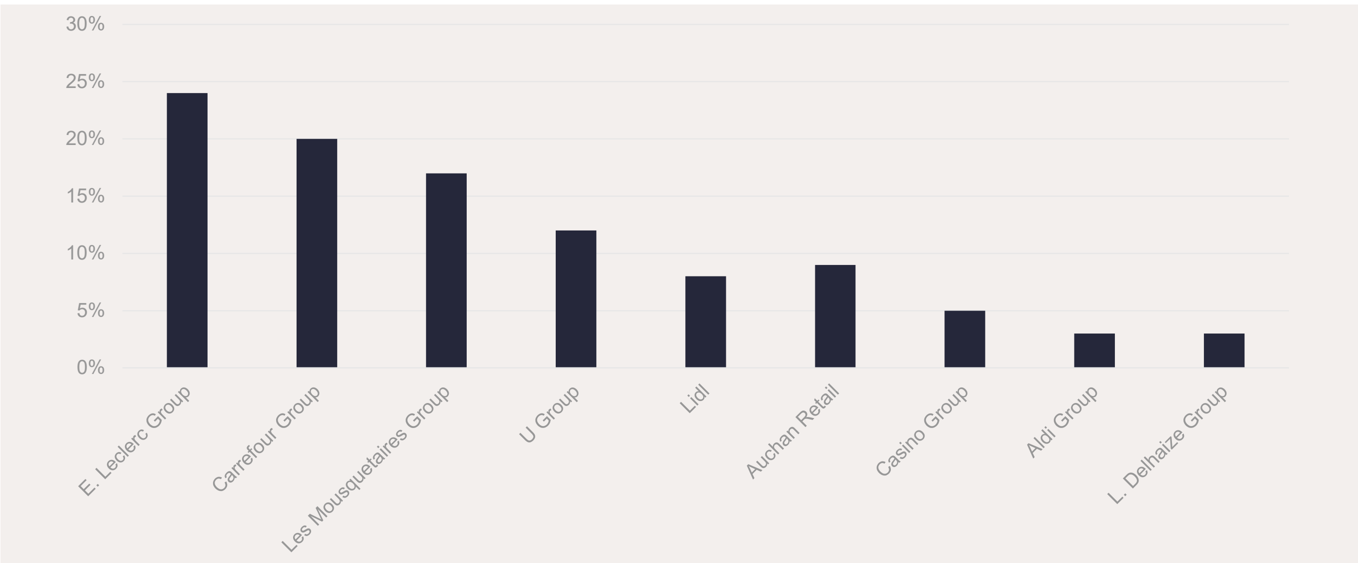
Trends and Threats

Proximity has become a major trend that has been strongly accentuated in the aftermath of the pandemic. Indeed, in recent years, major brands have been returning to city centres, reversing their previous trend of moving to the outskirts. Over the past decade, urban convenience stores have multiplied, with food retailer groups now operating around 40 brands and 14,000 points of sale. Despite consumer's preference for independent retailers like bakeries, local butchers and pastry shops, small supermarkets, have seen a 49% increase in turnover since 2019. This growth has occurred despite the inflation affecting Europe since the war in Ukraine. Notably, neighbourhood convenience stores such as Carrefour City, U Express, Franprix, and Casino Shop have experienced a 48% rise in sales. As a result, convenience stores now account for nearly 11% of mass distribution turnover, while hypermarkets have seen declines of between 2.5% and 36.5%.

Persistent inflation over the past two years has significantly altered the consumption patterns of French consumers, forcing them to make choices to manage daily expenses. With food product inflation averaging 12.8% over the past year and peaking at over 15% between March and July 2023, grocery sales have increased by 8.6% compared to 2022, resulting in a total turnover of €134 bn—entirely due to inflation. However, unit sales have decreased by 3.1% as consumers prioritise essential food items and cut back on superfluous or luxury goods. Hygiene product sales, including items like moisturising cream, deodorant, mascara, and laundry detergent, have declined by 6.1%, reflecting a shift in spending priorities. Additionally, the appeal of organic products, which are 30-40% more expensive than conventional ones, has diminished, with unit sales dropping by 12.5%. In response to declining purchasing power, the French have increasingly turned to private-label products, which are approximately 35% cheaper than national brands, highlighting a broader trend towards cost-saving measures.

Faced with strong government pressure to combat excessive food price increases, many retailers have made significant efforts to offer attractive and affordable deals to price-sensitive customers. However, these measures have further squeezed their profit margins, which were already under strain due to rising wages, increasing energy costs, and supply chain reorganisation. This explains the recent consolidation movements within the industry.

Top food retail chain by market share (2024)



Source: Statista

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Most active retailers

Last year saw a significant reshuffling among the main French grocery retailers amidst a stagnant market facing intensifying competition, including from abroad, and persistent inflation. Indeed, Carrefour made a strategic acquisition by purchasing Cora hypermarkets and Match supermarkets in France. This move, valued at €1.05bn, boosts Carrefour's turnover by €5.2bn, putting it on par with Leclerc. This transaction, which is set to be completed by the summer of 2024, marks Carrefour's first major acquisition in France in over two decades.

Casino's decline has also significantly disrupted the grocery retail landscape. Intermarché and Auchan, ranked third and fifth in food retail, respectively, are acquiring 313 hypermarkets and supermarkets from Casino for over €1.3bn. Specifically, Auchan will take over 98 units, while Intermarché will acquire 190 units, reselling 26 of them to Carrefour. This reshuffling also includes plans by Auchan and Intermarché to establish a joint purchasing centre to streamline negotiations with major national brands. Amidst these changes, E.Leclerc remains the dominant player with nearly 25% market share, largely due to its reputation for low prices—a crucial factor for consumers during high inflation. Leclerc's exceptional performance in 2023 underscores its strong position in the market, making it the brand to beat.

Investment trends

With the objective of achieving net zero artificialisation (ZAN) of land by 2050, and intermediate targets already in place, there is a significant shift towards transforming existing buildings and brownfield sites rather than new developments. This trend is reinforced by the economic climate, which has led to cautious investment in large-scale projects, evidenced by the lowest retail property production in 20 years. The limited number of new projects pushes prices up, making existing assets more valuable. As a result, investors are increasingly focusing on existing assets that can be redeveloped into mixed-use spaces, integrating retail with residential and commercial uses. This move towards urban densification and environmentally-friendly projects enhances the appeal and value of retail assets, creating a more resilient and adaptable investment landscape.

In this context, retail assets have regained investors' interest. Despite this renewed attention, investment volume last year was €320 million, representing a 68% decline from the previous year. This decrease is attributed to the market's inherent high volatility, primarily due to significant entity and portfolio transactions. Additionally, elevated interest rates and the high cost of debt made financing large deals challenging, resulting in fewer substantial transactions.

Nevertheless, there are signs of recovery in the sector, as investment in Q2 2024 reached €164 million, a 113% increase on Q2 2023, and H1 2024 volumes reached €235 million, a 79% increase on H1 2023. The sale and leaseback of 17 Carrefour supermarkets to Supermarket Income REIT for €75.3 million is one of the most notable deals so far this year.

Germany

Trends and Threats

Stagnation in the German economy is set to recover at a slow pace in 2024, but easing inflation will help to improve real household incomes for consumers. While food retail sales declined by 2% in real terms in 2023, sales are forecast to rise by 1% in 2024 and 3% in 2025.

In 2024 real estate developers continue to face difficulties in Germany, particularly as elevated interest rates are making developments unviable due to rising costs. This has led to project postponements in the grocery market, affecting even financially strong players. But despite the challenges posed by the economic landscape, some German retailers continue to build on their expansion plans as the appetite for the grocery market grows among retailers and investors. The retail network of the top 30 retailers in Germany grew by approximately 600 locations in 2022 compared to 2021, reaching a total of almost 37,000 locations. The majority of this growth is attributable to the four largest companies, highlighting the increasing market concentration.

Though expansion plans are becoming more difficult in some areas, as it can be assumed that the market is now largely saturated as far as new openings are concerned and there are very few vacant spaces left. Many food retailers are now looking at the redevelopment of existing or older stores as a way to tackle the lack of space on the market, eager to increase their footprint. Mixed-use developments are another way for retailers to access the market, specifically in city-centre locations closer to residential areas in which decision-makers are more likely to grant planning permission.

Within the grocery sector, discount and value stores continue to play a large role in the German market. In 2023, the revenue share of discount grocery stores grew to 38% from 37% the previous year, up from 35% in 2020. Market competition between a number of large and established retailers drives pricing lower, attracting habitually price sensitive consumers.

Most active retailers

Edeka is the largest German supermarket group with a 25% market share of grocery sales. The business comprises seven regional companies that are categorised as separate entities The regional companies act as wholesalers for the independent Edeka retailers, but also operate their own stores. One particularly active company, Edeka Minden-Hannover, allocated €300 million for new store openings and renovation projects in 2023, adding 76,000 sqm of sales space to its network. Edeka Nordbayern also remains active, with a goal to add at least 2% of sales area annually.

The Rewe Group is another large real estate buyer in the German grocery market and takes the second largest market share of grocery sales (21% in 2023). Seizing opportunity from current market uncertainty, Rewe aims to expand their presence by raising their budget for the purchase of grocery real estate, which include projects from developers currently in financial difficulty owing to the economic landscape. Rewe are also expanding into the convenience and 'to go' market, having recently partnered with convenience specialist Valora as part of a larger convenience strategy with the aim to expand the 'Rewe-To-Go' network as consumer preference for small, local stores intensifies.

The Schwarz Group, which includes the likes of discounters Lidl and Kaufland, are another of the largest German retailers in the food market. Taking an 18% market share of sales, the group reported an 8.5% increase in revenue in 2023. A large part of the groups success is the growth of Lidl, now one of Europe's leading discount store (€125 billion revenue in 2023, up 9.4% on 2022). The Schwarz Group now has 13,900 shops, 12,200 of which are under the Lidl banner. Highlighting the increasing importance of an online presence for grocery brands, the Schwarz group founded 'Schwarz Digits' in 2023 to improve digital infrastructure and understand how to better deploy artificial intelligence for the groups brands.

Investment trends

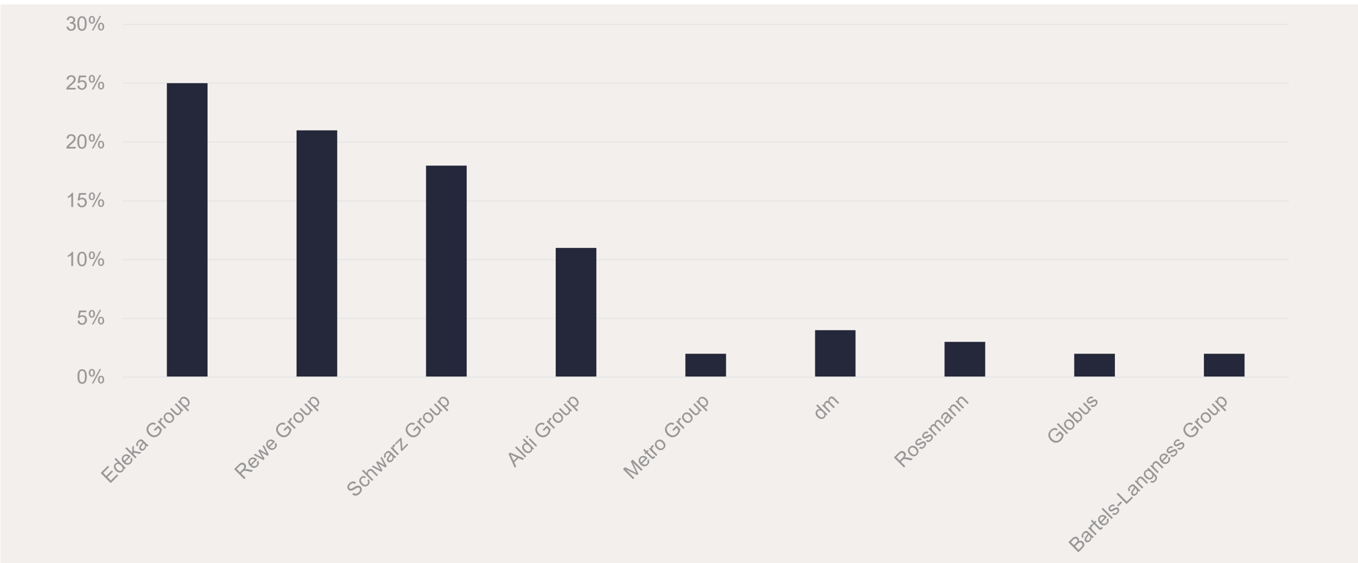
Grocery investment in Germany reached €2.2 billion in 2023, a 94% increase on the previous year and an 11% increase on the previous five-year average. The surge in investment volume was due to the sale of the X+Bricks portfolio for a total volume of €1 billion. The Canadian asset manager Slate, which became one of the largest landlords in the German supermarket and discount segment after purchasing the portfolio of 188 assets, plans to acquire more locations. The share of grocery investment grew to 10% of total commercial investment in 2023, up from 2% in 2022 and the 3% long-term average. However, the high share is primarily due to the relative weakness of other sectors, such as the office market.

Deals such as the X+Bricks portfolio highlight the volatility of the market, pushing up annual changes in investment volumes. Looking at Q2 2024, the transaction volume for supermarkets and discounters was 44% below the same quarter of the previous year at €116 million, while the €295 million H1 2024 volume is 39% down on H1 2023. Though, any declining investment volumes in the supermarket sector cannot be equated with a drop in investor interest, but rather it is due to product scarcity. This is because food retail is on the agenda of almost all investors in Germany, and the number of investors is likely to continue to rise. Whether there will be an increase in offerings at the same time is questionable, as the willingness of large portfolio holders to sell is currently considered low.

Investor appetite for this retail sector has remained at a very high level since the onset of the pandemic. The supermarket sector experienced strong yield compression during 2020 and 2021 as strong fundamentals highlighted the resilience of the grocery market in the face of lockdowns and pandemic restrictions. Despite yields moving out as interest rates increased, yield levels are similar to those seen before the period of compression. As a result, all owners who bought before the price correction were still able to realise capital gains and the number of potential sellers is significantly higher than in other asset classes.

At the same time, demand remains high, as the attractive fundamentals have not changed. The growth potential for the sector has been exacerbated since the pandemic: higher home-office ratios and increased demand for local supply promote more decentralised structures in retail, opening up opportunities for expansion in the grocery retail market. This could additionally increase the availability of investment properties and, in the case of new-build properties, should also meet the ESG requirements of investors.

Top food retail chain by market share (2024)



Source: Statista

European Grocery Market | July 2024

Italy

Trends and Threats

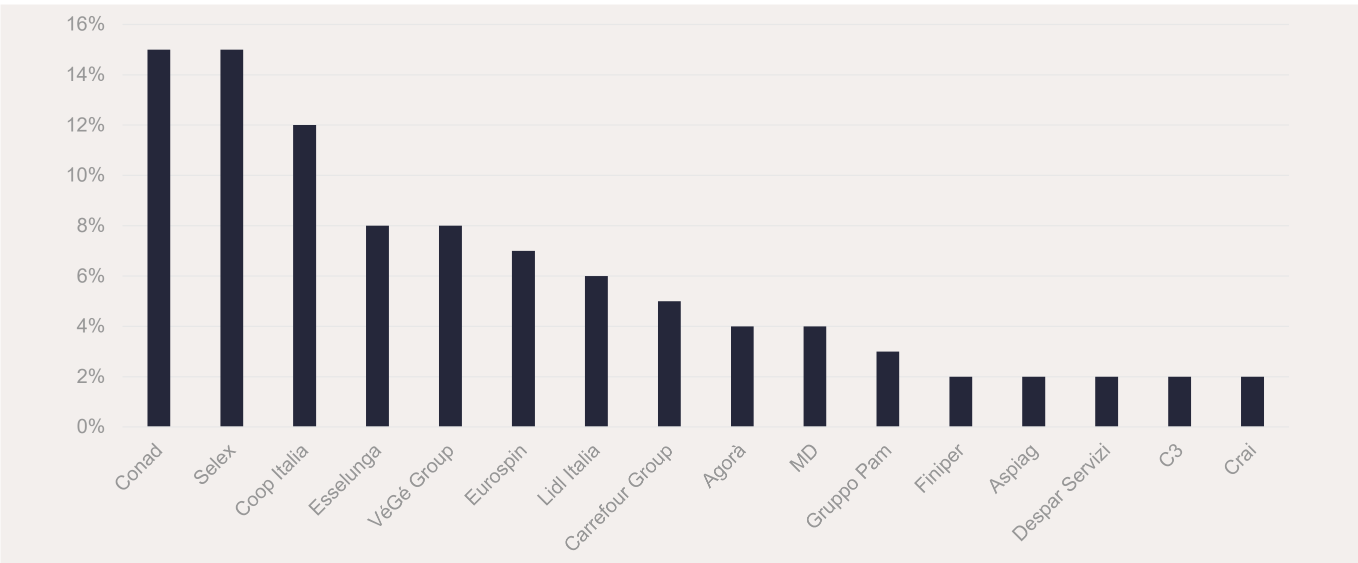
Italy is currently going through a period of settling, consolidation and reorganisation of the main grocery retailers, with several of them expanding their presence and taking new positions in different locations. Consumer preference for closer-proximity local supermarkets is growing, resulting in many occupiers to re-focus their attention to smaller to mid-sized assets. The outcome of this is a larger number of openings of small supermarkets in city centres, so-called 'superettes' or express stores where consumers can access groceries more easily.

Changing behaviours also mean there is a drive for more value and discount formats, especially pertinent in the current economic environment where consumers are looking to find the best deals and make the most savings. The market share of discounts increased from 19% in 2019 to 23% in 2023. Although increasing, the number of discounters still remains lower compared to other European countries, but with value retailers reporting stronger sales and turnovers we expect this segment to drive the grocery market over the next few years.

The grocery sector is being increasingly characterised by digitisation and an integration between physical and digital distribution channels, with growing potential for retailers to implement artificial intelligence. Growth of the online grocery market does not present a huge threat to physical stores as these stores will continue to play a central role in food distribution, with many e-commerce models such as click and collect remaining linked to the physical store. Looking ahead, operators will continue to develop omnichannel strategies to ensure customers' needs are met both online and in-store.

There is a growing focus and commitment to sustainability within the grocery sector. Social and environmental policies are gaining traction and becoming embedded within food retailers strategies as a result. These include: the increase of local and sustainable foods; growing pressure for eco-friendly and recyclable packaging; reducing plastic waste and increased initiatives to collaborate with charities and small businesses. Retailers are also looking toward the environmental impact of their suppliers which aims to ensure transparency and traceability along the supply chain in response to consumer expectations.

Top food retail chain by market share (2024)



Source: Statista

European Grocery Market | July 2024

Most active retailers

Conad (Consorzio Nazionale Dettaglianti Società Cooperativa) is the largest food retailer in Italy covering all types of retail formats: hypermarkets, superstores, supermarkets, discount stores and neighbourhood shops. The value of planned investments made by the Italian food cooperative has seen a steady growth between 2019 and 2024, aimed at strengthening market position and promoting development. Over recent years Conad has aimed investments at network improvements, new openings in areas with a lower market share, renovations, digitisations and sustainability. Between 2022 and 2024, €2.08 billion have been allocated for continued development, the highest investment to date.

Selex Group comprises 18 different national food brands with 3,328 units across the country. Diversifying to capture every part of the food retail market, the Selex distribution formats cover local supermarkets and hypermarkets, superstores, discount stores and the cash & carry format. Selex also offer an e-commerce channel, the 'CosiComodo' platform, that is used by ten of the Group's brands to offer click and collect and home delivery services to consumers and has been earmarked for continued development.

Lidl Italia is another active retailer in Italy continuing a rapid expansion plan. The store count increased from 660 in 2020 to 730 in 2023, where openings have averaged 50 new stores per year in the past few years. In 2022, a €1.5 billion investment plan was announced which set out to create 300 new stores. The grocer is not only expanding physical grocery stores but also expanding logistics opportunities. In 2022, the construction of Lidl Italia's first logistics hub in Sardinia was announced, the twelfth in Italy and due to complete in 2024.

Investment trends

Investment in the Italian grocery market tends to fluctuate due to the limited amount of stock available for purchase, meaning volumes can fluctuate highly year to year. In 2023, investment volumes slowed down compared to 2022 to total €75 million, 27% down year-on-year. In 2024, investment reached €185 million in the first two quarters of the year, a 539% increase on H1 2023. The volume recorded in H1 2024 is 151% higher than the volume recorded for full-year 2023. Investment into the sector is certainly showing signs of recovery with four deals recorded in 2024, one of which was a large portfolio of 13 assets that sold for more than €150 million.

Due to the volatile nature of the grocery market, market share has fluctuated over the past few years. Reaching the peak in 2018 at 21% after high volumes invested in the sector, little activity over the following two years means the grocery market share has stabilized at 10% in 2021, 2022 and 2023.

Typically the market in Italy is characterised by smaller to average sized deals around €10 million, domestic owner-occupier deals and some portfolios transactions.

Over the next twelve months we expect the sector will remain fragmented and continue to show limited volumes but still attract interest from investors. Assets related to the food sector, such as discounters and supermarket anchored retail schemes have been attracting multiple bids. The stability and length of income streams make this segment desirable especially for investors with long-term liabilities.

Poland

Trends and Threats

The high inflation observed in 2023 and 2022 (11.4% and 14.4%, respectively) is one of the reasons why the growth of retail sales (in real terms) was negative at -2.7% in 2023, and in the food, beverages and tobacco category at -3.1%. The markedly lower inflation in 2024 is reflected in the growth of retail sales, which in the first four months of the year were 5% higher than in the same period of the previous year, but in the food, beverages and tobacco category, the increase was minimal but positive at 0.3%

NIQ (based on the Household Panel) indicates that in 2023, discounters in Poland owned 37% of the value of the grocery market, while local grocery stores took the second-highest share with 31%. This is followed by supermarkets at 14%, and chemical and cosmetics stores, liquor stores, kiosks, and gas stations account for 12% of the value. Hypermarkets take only a 7% share.

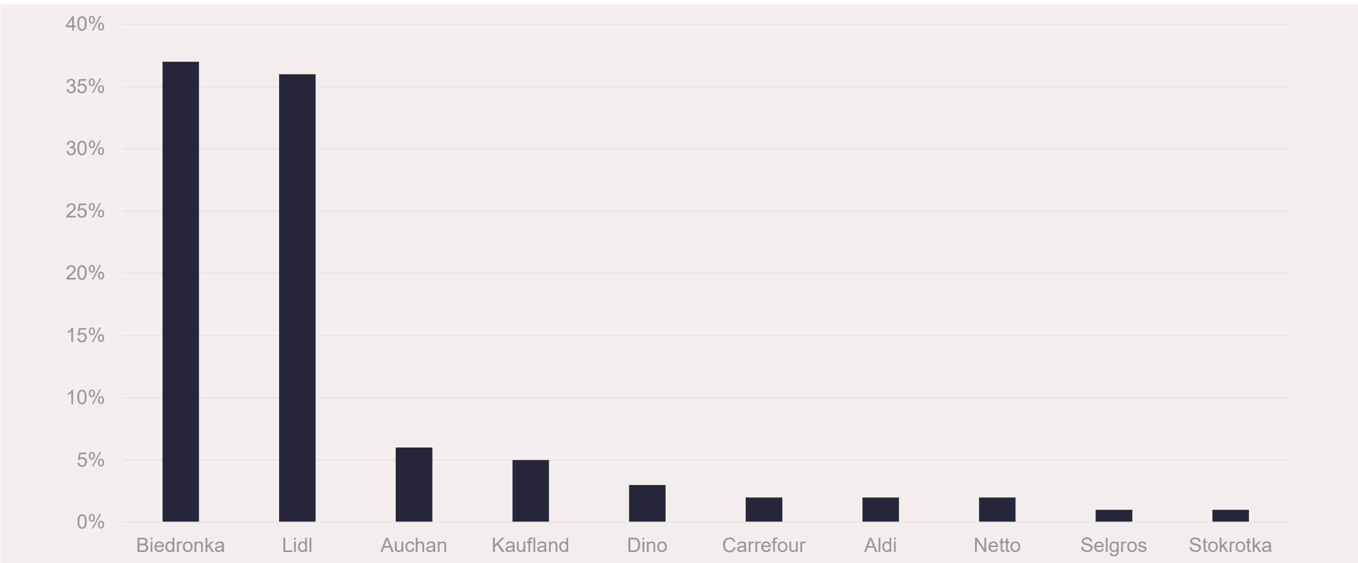
These values are also reflected in the activity of various players in the Polish market. Discounters have been well-established in the market for years and still plan to grow quite strongly, while traditional hypermarket chains are optimising their portfolios, often reducing leased space and developing other, smaller formats.

The share of food, beverages and tobacco products sales via online is rather low at less than 1% (source: Statistics Poland), but the projected share of e-commerce of grocery sales in 2027 nationwide is 2.7% (source: Strategy&). However, online grocery will be concentrated in large metropolitan areas/ agglomerations, and small towns will mostly be denied the opportunity to organise their daily grocery shopping through digital channels due to the lack of infrastructure.

Most active retailers

Biedronka, owned by Portuguese JerÓnimo Martins, is a dominant grocery store with a revenue in 2023 of €20 billion and approximately 3,600 stores across the country. In 2023 over 200 new stores were opened. Continuing their expansion, Biedronka plan to add 130-150 more stores to the network in 2024, and their refurbishment program will cover approximately 300 stores. The long-term goal of the retail giant plan is to expand into Slovakia and invest in green energy and ESG solutions.

Top food retail chain by market share (2024)



Source: Statista

Lidl, a discounter with around 900 stores and an €8 billion revenue is the retailer with the second highest share of revenue in the grocery sector. The brand opens approximately 50 stores per year and the pace of growth is expected to be at similar level in the coming years. Typically standalone stores, they are often located in the direct vicinity of a convenience centre to create a retail hub for the local market. Other formats, such as units in shopping centres, are also an option for further growth.

Polish chain Dino opened close to 1,000 stores over a three year period and plan to develop dynamically in the future. Eastern Poland is less saturated with Dino stores, but the chain operates mostly in very small towns and villages. At the end of Q1 2024, Dino had 2,438 stores nationwide of which 32 new stores opened between January and March. In 2024 and 2025 more stores will open than in 2023, in which 250 openings of Dino stores were recorded. The company has four logistics centres under construction adding to the eight already in operation.

Żabka is a leader in terms of the number of stores with over 10,400 units operating in Poland. Their stores are much smaller than most other retailers, with a minimal size of unit of 45 sqm. The network is developing through franchising (8,900 franchisees) with approximately 50 new stores opened each month. Żabka operate one of the largest autonomous store networks across Europe, Żabka Nano, which use a camera system and technology based on AI to remove both cash registers and staff in store.

Investment trends

Until 2019, shopping centres constituted a significant part of investment transactions and the share of transactions for other retail formats was relatively small, but the focus of investors has gradually shifted towards small retail schemes anchored by supermarkets or discounters.

In 2023, investment volumes slowed down compared to 2022 to a total €429 million, 70% down year-on-year.

Investment into the sector shows signs of recovery in 2024, with 10 transactions concluded already, including a large (approximately €285 million) portfolio transaction of 6 shopping centres in regional markets, including grocery assets. In H1 2024, investment into the retail sector reached €500 million, an increase of 151% on the H1 2023 volume.

The retail investment market share has fluctuated over the past few years. Reaching a peak in 2015 at 55% and a trough in 2020 (just above 13%), the retail market share reached 22% in 2023.

Over the next twelve months, we expect the sector to still attract interest from investors (some looking for potentially large deal sizes). The stability and length of income streams make this segment desirable, especially for investors with long-term investment strategies.

European Grocery Market | July 2024

Portugal

Trends and Threats

Persistent high inflation in 2023 lead to increased consumer caution in spending, particularly for the more price-sensitive.

Competitive food retailers like Pingo Doce, Continente, Lidl, Mercadona, and Aldi have benefited from more cautious consumer behaviour who have been driven towards value pricing, prompting them to pursue expansion plans for the coming years. Both national and regional food retail operators expanding to the national level have very ambitious growth plans, which are influencing rental trends.

The grocery store industry is highly competitive, with numerous brands trying to offer the most varied type of services to its customers. Small grocery stores have been facing tremendous pressure from larger brands, as they either open grocery stores in the same neighbourhood or acquire existing ones.

Many of the small grocery stores are also getting behind in terms of customer experience, with many still not accepting contactless payments or offering self-checkouts. New entrants must also compete with established brands that have loyal customer bases and strong relationships with retailers if they want to hold their ground.

In 2024, major retail companies in Portugal are set to enhance the shopping experience with personalised journeys and faster checkout automation.

While consumers are increasingly concerned about buying food products from brands whose production process is environmentally friendly the price factor is undoubtedly the most important of all when it comes to purchasing. Grocery stores that offer a more competitive quality-price ratio, combined with the concept of novelty and promotions, have a competitive advantage over their competitors.

Most active retailers

Mercadona are expanding in Portugal where the grocer plans to open 11 new supermarkets during 2024, reaching a total of 60 shops. In addition, during the second half of 2024, the second logistics centre will open in Almeirim (Santarém), which will be the company's largest on the Iberian Peninsula.

Lidl are another active food retailer. Construction of the logistics warehouse in Loures has begun, and should be operational in the second quarter of 2024. It will be the brand's largest logistics centre in Portugal, with an area of 54,000 sqm. During the first months of 2024, the brand has already opened 4 stores across Portugal, with 3 of them being in Greater Lisbon and the other in Algarve, contributing to the existence of over 270 stores across the country.

In Portugal, Aldi has been investing around €150 million per year since 2006. Since 2021, the German discount chain has accelerated its expansion plan in Portugal, opening more than 40 stores. In 2023, Aldi opened 19 stores adding to a total of 141 shops of the brand. By 2025, they aim to reach 200 stores throughout the country, and the brand plans to reach the city of Porto in the near future. In 2024, the store has opened 3 stores already with plans to open with 3 more this year.

In August 2023, the Auchan group announced the purchase of the Minipreço supermarket chain for €155 million, substantially increasing the group's weight on the streets of Lisbon. The French group has increased its number of shops in Portugal from 100 to 583 and also includes 30 petrol stations, four logistics/warehouses and a digital shop. The group plans to invest a further €100 million. In 2023, Auchan opened 13 new spaces and another petrol station, as well as remodelling several shops. The company also inaugurated a new concept dedicated to health, wellness and beauty, opening the My Auchan Saúde and Bem-Estar spaces. In total, around €40 million were invested.

Based on a strategy of proximity, Jerónimo Martins who operate Pingo Doce want stores to be on every corner and in every neighbourhood as the retailer continues its expansion plan throughout the country, either through new openings or remodelling of existing shops.

Investment trends

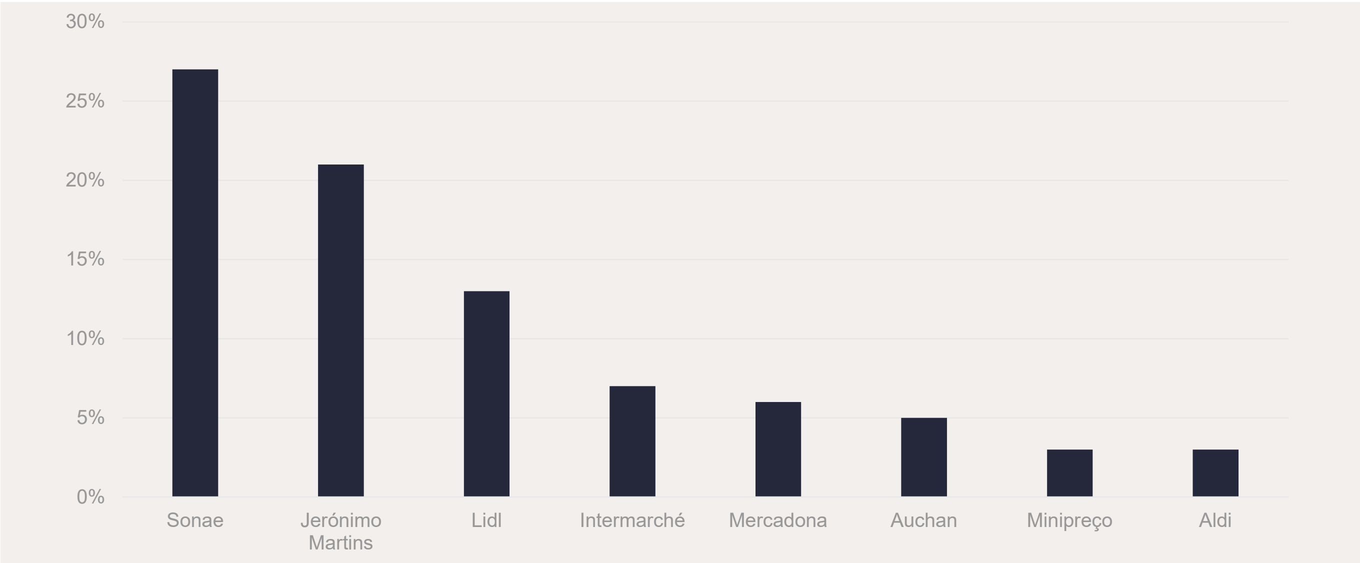
In Portugal, supermarket transactions have been gaining increasing importance in the national retail investment market in recent years.

In 2023, the grocery market accounted for an investment volume of €245 million, of which €200 million were allocated to portfolios of top brands spread across the country in strategically located high-traffic areas. The largest transaction involved the sale of a portfolio consisting of 49 supermarkets, acquired by LCN Capital Partners for a total volume of €150 million. In Q2 2024, grocery investment reached €25 million, bringing the H1 2024 volume to €58 million, a 49% increase on H1 2023.

Investor interest in this asset class has been steadily increasing, primarily bolstered by the pandemic and subsequently greatly supported by the future-proof resilience of these assets, which enjoy strong market fundamentals that withstand economic cycles.

The trajectory of investment volumes demonstrates a consistent upward trend since 2020, corresponding to the entry of portfolios into the market. In 2020, supermarkets accounted for 4% of the total volume invested in retail in Portugal. However, by 2023, this share had risen to 46%. Nevertheless, the fluctuations in market share over the years demonstrate the dynamic nature of this segment but also a high level of competition and a more limited product offering.

Top food retail chain by market share (2024)



Source: Statista

European Grocery Market | July 2024

Spain

Trends and Threats

Spain has been affected by inflationary pressures over the past couple of years and, despite easing, consumers are still looking to spend cautiously. Increasing food prices mean discount stores such as Lidl are well-positioned to increase their market share in times of economic insecurity as consumers look to find cheaper and own-brand alternatives. As a result, more discount operators, such as Aldi or Supeco, are expanding into the market.

Some grocers are redoubling their efforts to offer attractive and affordable deals to price-sensitive customers to combat excessive food price increases. This strategic move reflects a direct response to consumers' economic concerns and the need to maintain consumer loyalty in a changing and challenging retail environment. Government intervention in Spain, namely tax cuts and reductions on basic foods such as bread, cheese and eggs (0% VAT in 2023, extended into 2024) have also aided inflationary pressures for the consumer.

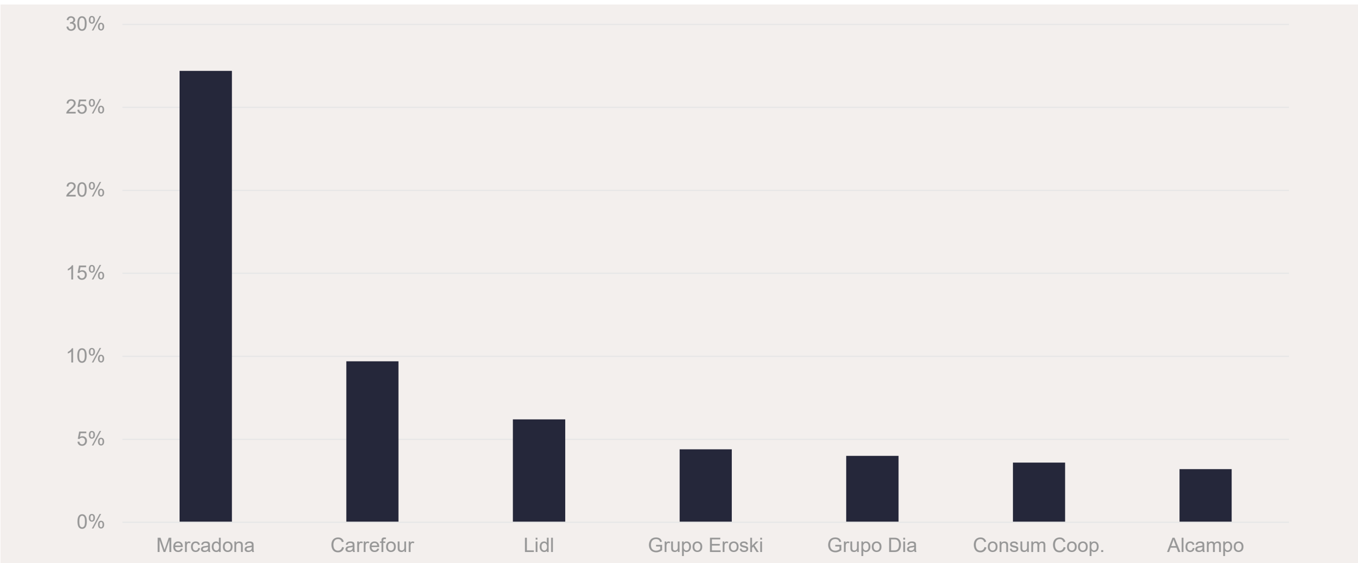
Most active retailers

Spanish supermarket giant Mercadona remains Spain's dominant grocery store with a 27% share of market sales. In 2023 the sales value reached €35 million, the highest volume ever recorded and represents a 15% annual increase in turnover. The number of stores across Spain has significantly increased in recent years on the back of expansion plans, with over 1600 now available to consumers. Immersed in its commercial concentration process, the company continues to adapt its Spanish network to transform its stores towards an eco-efficient format, optimising energy consumption and making them more attractive to consumers. Its expansion is mainly focused in Portugal, where 11 new supermarkets are planned for 2024, totalling 60 stores.

Carrefour has the second-highest market share, 10%. Continuing its growth trend in recent years, Carrefour reported a 2.8% increase in turnover in 2023, reaching €11 million. Thanks to its recent acquisition of 47 Supercor stores, it has reached more than 1,500 points of sale in Spain.

Discounter supermarket Lidl places third with a 6% share of the market, though it can be said to be gaining traction in Spain after recording an 18% increase in turnover in 2022 with sales reaching €6 million. While growth can partly be attributed to inflation, the organic growth of Lidl in Spain is supporting the grocer as a strong operator in the grocery market. With plans to open 30 new stores in 2024, Lidl's expansion plans also include new logistics projects: the first in Madrid on a 145,000 sq m plot; another in Tarragona on a 185,000 sq m plot with a provisional warehouse in operation by mid-2024; and a third warehouse in León on a 158,000 sq m plot.

Top food retail chain by market share (2024)



Source: Statista

While having a much lower share of the market, in 2023 Aldi opened 46 supermarkets in Spain, making it the year with the highest number of openings since 2019 for the supermarket. During 2024 the grocer aims to continue growing and maintaining the growth of recent years, with 50 new shops. In addition, these openings will be accompanied by the establishment of a new distribution centre in Miranda de Ebro (Burgos) with more than 40,000 sq m, supporting the northern part of the country. The new distribution centre in Sagunto (Valencia) has also recently been launched.

The DIA Group is the fifth largest grocer in Spain with plans to expand. The transfer of 235 shops to Alcampo and the sale of Clarel to the Trinity Group will allow this chain to grow in the Spanish market with a clear commitment to its new proximity shop model. By 2024, the company will complete the renovation and transformation of its shops in Spain and will open up to 35 shops. Its value proposition is based on its commitment to a neighbourhood shop, where you can make a complete purchase quickly and at an affordable price.

Investment trends

Investor interest in supermarkets has been steady over the years. However, the slowdown in shopping centre investment coupled with the pandemic has increased the supermarket segment's share of total retail investment. Today, investor appetite for this segment remains high, but the lack of product means that deals are fewer than in previous years. From 2015 onwards, demand interest has focused on a few large-volume portfolio deals.

The lack of supermarket portfolios for sale reduced investment in the grocery sector to €202 million in 2023, almost 70% less than in 2022 when one of the highest volumes historically was reached. During the first half of 2024, investment amounted to €122 million, 12% of total retail investment.

The largest transaction in the past few years was the Carrefour Property's sale & leaseback to Realty Income Corporation for €272 million. Over the past twelve months, there have been very few transactions: the Portfolio Goya from AEW to MDSR Investments is the most notable.

In 2023, institutional investors were the top buyers in Spain, taking 69% of the total investment in the supermarket sector, while private investors (20%) and food investors (11%) shared the rest. Sellers, on the other hand, were mainly food operators, with almost 80% of the volume sold. This is followed by funds (9%), private (8%) and Spanish Real Estate Investment Trusts (SOCIMI) (3%).

Sweden

Trends and Threats

Grocery market dynamics in 2023 were characterised by consumers' price sensitivity and changing shopping behaviours as a result of high inflation. Given the latest statistics from Handelsfakta, total retail sales in Sweden as of the fourth quarter of 2023 amounted to €83 billion, an increase by 3.50% from the same period in 2022. Retail sales have therefore seen an upside trend, projecting a higher turnover year-end compared to 2022. The growth is mainly driven by increased sales in the sectors cosmetics and beauty, and retail with a wide range of products.

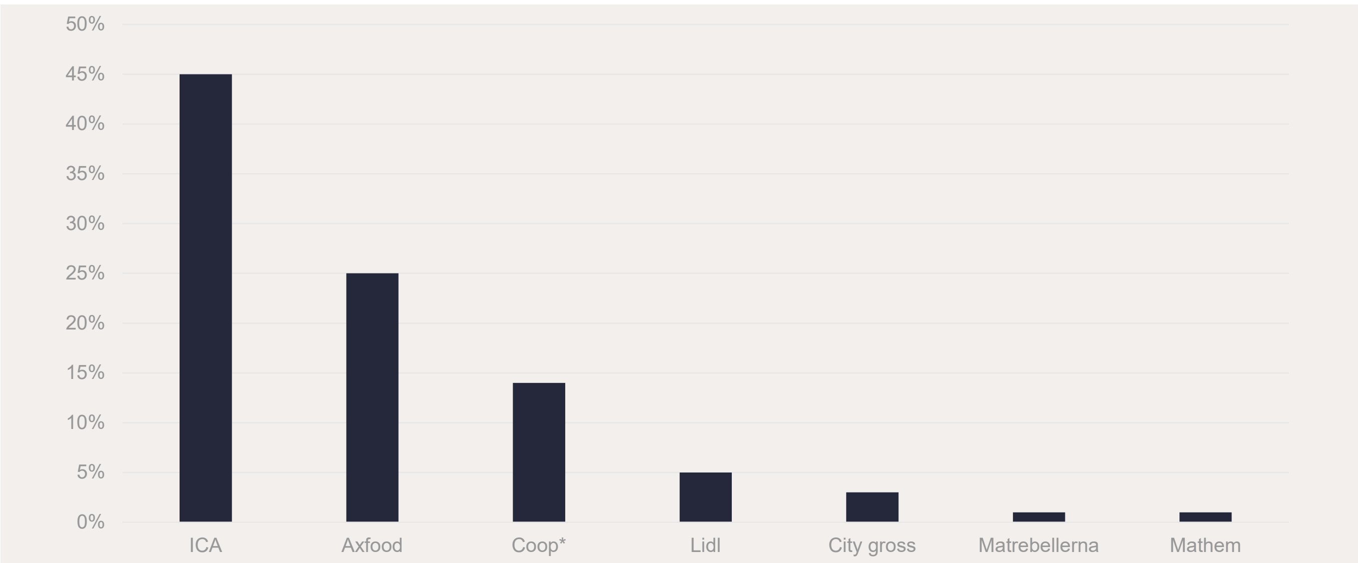
The food retail market in Sweden is mature, and the three largest players – ICA, Axfood and Coop – together account for approximately 80% of sales in 2023. The grocery format in Sweden is split between discount stores, hypermarkets and traditional grocery stores which include supermarkets. Discounters and hypermarkets are commonly located outside of city areas, though some have a presence in residential areas. Traditional grocery stores of a larger format are present in city centres, residential areas and also pure-play online retail, while smaller formats are often present in residential areas.

One prominent trend over the past few years is an increased share of online grocery retail which accelerated significantly during the pandemic between 2020 and 2021. This was not exclusive to online only grocery companies, but the traditional giants of grocery retail, like ICA, Axfood and Coop were also part of this trend. The subsequent return to shopping in physical stores is clear as online grocery sales began declining in 2022. Though e-commerce still accounts for a small share of the market, around 4.1% in 2023. Sales within e-commerce are relatively evenly distributed between store pick-up and home delivery.

Most active retailers

In 2023 the total turnover of the Swedish grocery market was €29 billion. Sweden is heavily dominated by ICA with a €13 billion turnover during 2023 and approximately a 45% market share of the total turnover, the largest grocery operator in Sweden. With its 1,300 locations ICA offers hyperstores, superstores, supermarkets and local stores. Most of its turnover comes from the concepts "Maxi" and "Kvantum" which are the largest stores. To meet consumer demand, ICA is investing around €100 million during 2024 to decrease prices for the consumer.

Top food retail chain by market share (2023)



Source: Statista *Turnover as of 2022

European Grocery Market | July 2024

Axfood consists primarily of two separate brands, Hemköp and Willys, but is the parent of 12 companies. With a turnover of €7 billion in 2023, Axfood claims a market share of approximately 25%. The retailer has recently acquired store chain City Gross. In 2023 they had 603 stores, consisting of supermarkets and superstores, as well as local stores. Axfood has inhouse solutions for e-commerce and logistics, as well as owning a pharmacy chain. They invested €150 million in 2023, with a significant portion being in a logistics centre in Bålsta, outside of Stockholm, which is a new addition to their inhouse logistics solutions.

Coop offers its members to be a share owner of a consumer association that owns the stores. Coop had around 800 stores as of 2023 and a turnover of €4 billion, which results in a market share of approximately 14%. Coop ended 2023 with a loss, having difficulties with increasing costs in logistics, rent and staff. Their main investments of €26 million in 2023 went into renovations of existing stores.

Investment trends

The retail sector has experienced profound changes over the past decade, and uncertainties in the sector have led investors to reduce their exposure to retail. Concurrently, escalating distribution requirements have led to a surge in demand for logistics space. This, in turn, has attracted more capital investment. Moreover, after market rates increased, the sector has become more susceptible to shocks from higher raw material prices and lower household purchasing power.

Looking ahead, a trend shift might be in the works for the sector. There has been a less dramatic shift in retail capital values due to pricing corrections that took place before and during the pandemic. Additionally, the current recession and uncertainty surrounding consumer finances can increase the appeal of value-for-money retailers, discount stores, and outlet centers.

The transaction volume in the retail sector amounted to approximately €582 million in the first two quarters of 2024, accounting for 13% of the total transaction volume. Within this sector, the investment volume for retail warehouses and grocery stores amounted to €236 million, accounting for 40% of the total retail transaction volume during the same period. For the full year of 2023, the retail sector saw a transaction volume of €762 million, corresponding to 8% of the total volume. Foreign investors accounted for 6% of the total retail volume. Within the retail warehouse and grocery store sector, the transaction volume represented 37% of the total retail transaction volume for 2023.

The largest deal made within the retail sector for the first two quarters of 2024 was Citycons's acquisition of the remaining 50% of Kista Galleria. As for 2023, the largest deal in the sector is Niam's acquisition of a retail portfolio from CBRE IM, consisting of two properties: Port 73, a retail park, and Citygallerian Nian, a shopping centre, of which both include grocery assets. The purchase price amounted to approximately €135 million.

In 2023, a notable number of retail transactions transpired within the subsegment of retail parks including grocery store. This surge can be attributed to a growing presence of such properties in the investment market, due to an increasing investor appetite.

UK

Trends and Threats

Rising costs over the past couple of years have had a direct impact on the UK grocery market. Operators have suffered from smaller transaction values, shopper desertion and trading down, which in turn has made market share growth particularly difficult, with operating profits declining for some of the UK's major brands.

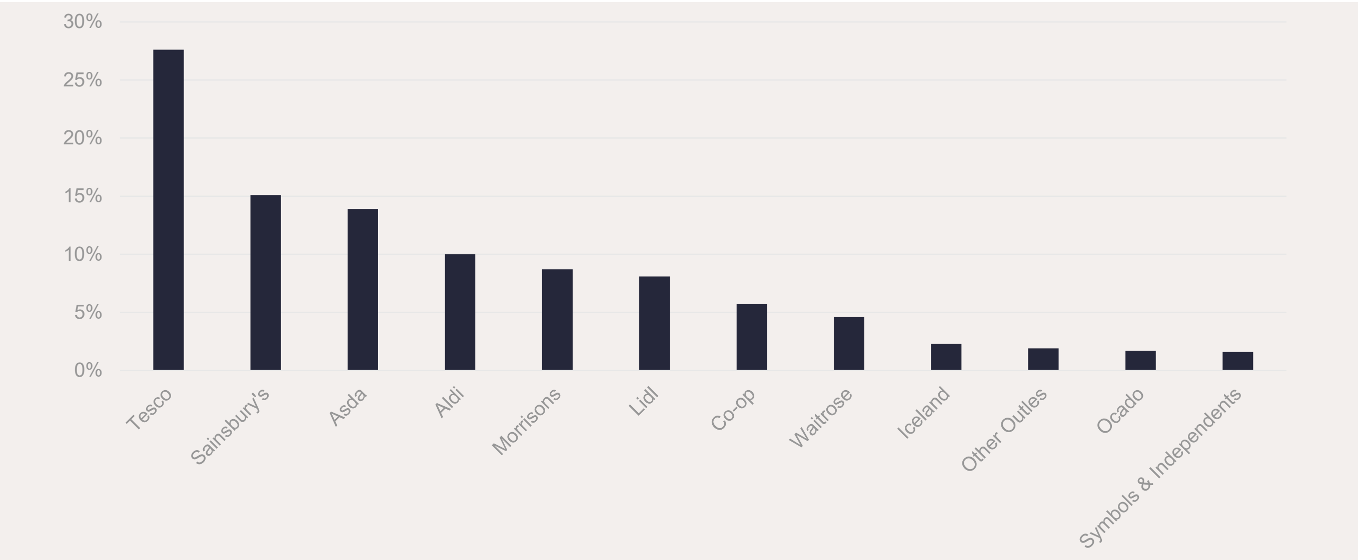
Retailers with a focus on essential product categories have continued to drive footfall to schemes over the last year. The discounters or indeed those operators that offer value for money across a significant proportion of their product lines have been best positioned to mitigate the impact of the economic headwinds in recent years. It is indeed those operators that sell essential goods and/or focus on value that have been driving new openings in the market over the last 18 months.

Discount grocery saw a 7% increase in occupier floorspace over the past decade, the largest growth of all out-of-town retail sectors. Discount and value stores now account for 9% of all floorspace off the back of the aggressive growth strategies of operators such as Aldi, Lidl and Iceland / The Food Warehouse. In 2023, 82% of all new out-of-town grocery openings were value operators, a record high.

The sharply rising cost of living has prompted many retailers to help alleviate inflationary pressures for the consumer. Initiatives designed to relieve cost of living challenges were not limited to discount stores. Many traditional supermarkets also introduced initiatives marketed for customer savings, thus mitigating the impact of discount operators in order to retain market share.

Regarding grocery e-commerce, the UK grocery sector has led the way in last mile fulfilment and omni-channel retail provision. Online grocery demand increased by 180% in the 18-months following the onset of the pandemic, forcing many retailers to expand their delivery capabilities. 80% of all UK online orders are now fulfilled via omni-channel stores and, in order to keep fulfilment costs low, the average drivetime to customers is kept to thirty minutes.

Top food retail chain by market share (2024)



Source: Statista

European Grocery Market | July 2024

Most active retailers

Tesco maintains its leading position in the UK grocery market with a 27.6% share, up from 27.1% a year ago, owing to positive sales performance. In 2022, Tesco made the decision to forgo any significant profit growth and commit to prioritising investment in its customer offer, as a result boosting sales. The brands 'Aldi Price Match', 'Clubcard' and 'Low Everyday Prices' have continued to drive footfall and sales. Committing to operating sustainably, Tesco aims to be carbon neutral across all of their own operations by 2035 and across their suppliers and partners by 2050.

Sainsbury's positive sales performance in 2023 has allowed the grocer to achieve a 0.3% uplift in market share versus the same time last year, reaching 15.1% as of the end of May 2024 and thus fending off the pricing competition from the discount food operators. Sainsbury's has invested over €500 million across the past two years in both its 'Food First' strategy and, most recently, the launch of 'Nectar Prices' to help shoppers save – increasing its focus on value goods, keeping prices low and reducing costs across its business, enabling them to remain price competitive. Sainsbury's has 600 supermarkets in the UK and over 800 convenience stores.

While Asda maintain their third place, poor performance in 2023 resulted in the grocer losing market share which fell to 13.1%, from 13.9% a year ago. Most ground was lost to discount operators. Despite this, Asda still have ambitious growth plans. This includes a recently announced proposal for a significant mixed-use redevelopment of its ten-acre Park Royal site in London to redevelop the Brownfield site. Subject to planning approval, the proposal includes a new flagship Asda superstore and up to 1500 new homes are planned. On the convenience side, Asda has plans to have opened 300 convenience stores by the end of 2026 as part of Asda's long-term strategy to become the UK's second-largest supermarket.

Between 2015 and 2024, Aldi have been able to expand their market share in the UK grocery market from 4.9% to 10.0% percent. This meant that Aldi overtook Morrisons as the grocery store with the fourth largest market share in the UK for the first time. The high cost of living in the UK and subsequent change in consumer shopping behaviour have allowed such high levels of growth for this food retailer.

Investment trends

Investment in the grocery market reached €1.5 billion in 2023, a 47% increase on the levels reached in 2022. This was a 3% share of total investment. While annual investment volumes were up, grocery investment saw a 13% decline on the previous five-year average. The Sainsbury's Reversion Portfolio deal (26 properties, €960 million) pushed volumes into positive growth in 2023. In H1 2024, investment in this sector was approximately €1 billion, 24% down on H1 2023.

Investor appetite continues to be driven by the strong underlying fundamentals of the grocery market. Lease tenures tend to range from 15-25 years, equipped with upwards only rent reviews (either RPI/CPI-linked, or fixed annual growth), providing buyers with long-term secure investment opportunities, while strong tenant covenants provide an element of security. This continues to suit long leased funds and institutions, that remain particularly active.

Supermarket Income REIT remain the most acquisitive buyer in the market. Its approach to investment continues to be centred around well-located larger stores with online fulfilment capabilities, with 93% of its current portfolio involving omnichannel stores.

The sale and leaseback trends appear to have switched over the last 15 years. Tesco and Sainsbury's, who accounted for the majority of sale and leaseback activity between 2010 and 2014, now have strong financial positions to allow them to acquire assets and lower their rental overheads. Sainsbury's/ Supermarket Income REIT reversionary buy somewhat epitomises this trend.

Supermarket investment remains a comparatively secure investment option for long-term income, which is particularly pertinent in the face of current economic uncertainty. Investment companies are likely to continue dominating the buyer market, with sale and leaseback deals set to generate capital for new owners in the supermarket sector.

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