



Habona Report

Grocery Retail and Demographic Change: **Easier, Faster and More Feminine.**



statista 

savills 



Habona Report

2019



For the time being, Germany's population will not die out – in fact, it will keep growing during the next 20 years. But something growing even faster are the demands and expectations of active elderly consumers.

8 The New 2019 Habona Report



23
Not Shrinking in Number,
but Diversifying



51
Grocery Retail as New Anchor in
Unstructured Day-to-Day Lives



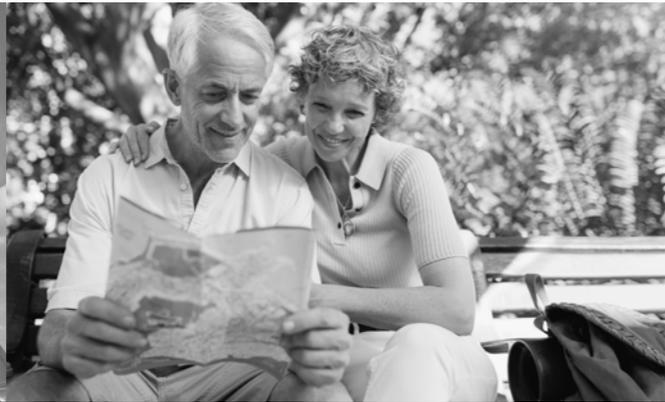
63
Customer Centricity – Focusing on
Shoppers' Needs



37
Consumption is Becoming a Stage for
Enacting Desires and Good Resolutions



44
Digression: Baby Boomers
Boosting Tourist Industry



87
Digitisation – the Catalyst
of Social Drivers



107
Grocery Retailing – a Core Investment



GROCERY RETAILING IN THE FAST LANE

THE NEW 2019 HABONA REPORT

Grocery retailing has received a tremendous amount of attention after the 2018 Habona Report made it the key topic of a real estate industry publication with a broad-based audience for the first time. In a parallel development, supermarkets and their ilk are outperforming and becoming more and more popular among investors, not least because of the weaknesses of other retail property types.

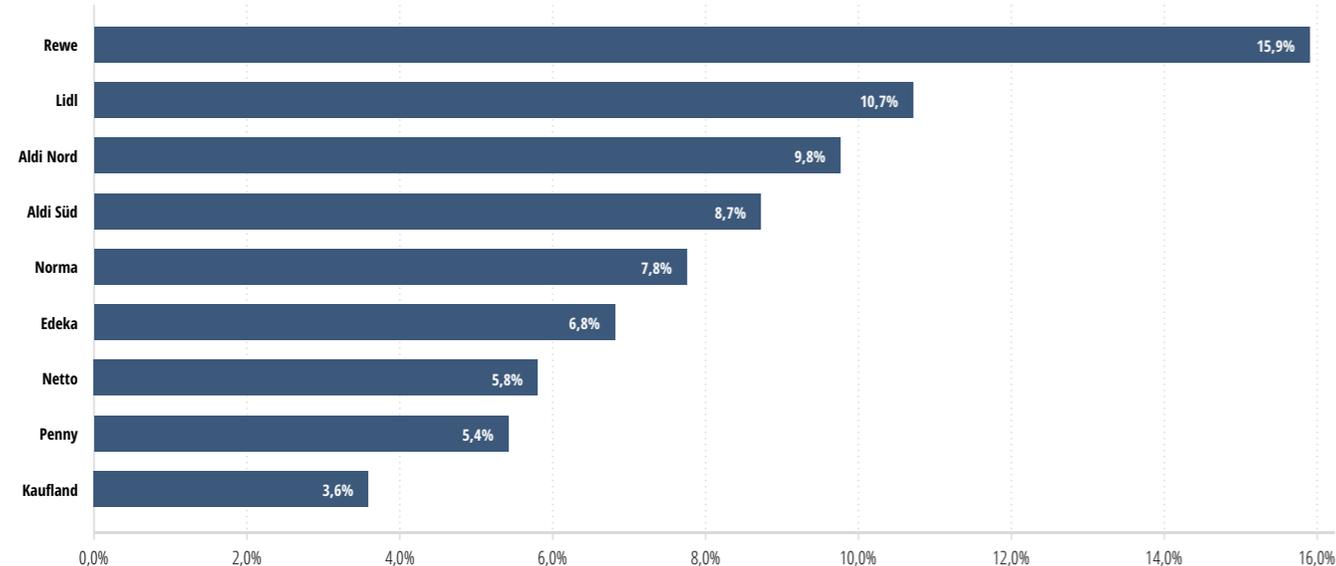
But will the upward trend be sustained in the future? Since today's supermarket leases tend to be signed for 15 years or more, it is of the essence both for tenants

and for landlords to know how consumer behaviour is likely to develop going forward. The demographic change with its ramifications for age structure and demand structure is often cited as the main risk not just for grocery retail properties, but there are other issues permanently on the political agenda, such as immigration and domestic migration.

It is against this background that we compiled the report, the goal being to clarify the terminology and contexts that come into play. To this end, we combined relevant opinions by scientists, retail insiders and investors

into a comprehensive picture. We are thereby giving grocery retailing the level of attention that it deserves and that does justice to its enormous macro-economic significance: Every year, Germans spend roughly 250 billion euros or well over 50 % of their retail purchasing power on non-discretionary needs. And each year, the sum total spent at local grocery outlets—including supermarkets and discounters, drugstores and pharmacies, cafés and restaurants—increases at a rate of c. 10 billion euros. Find out more in the all-new Habona Report 2019!

Fig. 1: Trend in revenues of German supermarket chains, 2015 – 2017



Proprietary chart, based on data by Statista (2018)





INTRODUCTION

GROCERY RETAILING AND DEMOGRAPHIC CHANGE

In Germany, the ongoing demographic change is mainly associated with a deep-felt anxiety over population decline, geriatrification and losses in purchasing power. These issues are anything but new, having worried municipalities and social security institutions for decades. But triggered by periodic swells in immigration, most notably since 2015, demographics as a political agenda item has gained in significance. At the same time, German policymakers have focused on domestic migration and its ramifications for rural regions. So, what assumptions should the retail real estate industry use as its planning basis, given the long-term nature of its investments? And what opportunities and risks are emerging specifically for grocery retail real estate?

Official projections of the demographic trend assumed until just a few years ago that Germany's population would suffer a continuous decline. Demographic change was seen as a se-

rious threat to consumption, as many places seemed destined to turn into ghost towns. The Habona Report 2019, however, shows that Germany's population total remains in ascent. Moreover, retail demand is increasingly dominated by aspirational consumer groups with growing purchasing power. Since changes in shopping behaviour and technological innovation impact the various segments, business types and locations in different ways, the retail sector and its submarkets presents a rather ambiguous picture. And all of it is subject to demographic trends that are overlapping with trends in the retail business, speeding them up or slowing them down.

To make future opportunities and risks for retail property predictable in a meaningful way, we need to differentiate between the sub-segments of the market more than we used to. The non-food segment, for instance, is evolving along entirely different lines than the food segment. Trading in luxury and

premium goods does not work the same way discount grocery retailing works. The situation in the major cities can in no way be compared with that of small towns. Shopping centres are visited for different reasons than retail warehouse parks. And superstores attract a different clientèle than neighbourhood centres.

The Habona Report responds directly to the inconsistent market development. As general market reports are less and less relevant for sub-segments, growing data gaps and blind spots in market intelligence have emerged. The purpose of the Habona Report with its focus on the grocery retail sub-segment is therefore to examine specifically the societal, technological and demand-related parameters that will be definitive for this sub-segment in the years to come. This includes in particular the demographic trend and its ramifications for the age structure and demand structure on the consumer side.



DEMOGRAPHICS

NOT FEWER IN NUMBER BUT HARDER TO SATISFY

Negative demographics count among the biggest threats to growth-focused consumer markets. In addition to the loss of revenues to online retailing, Germany's physical retail sector faced yet another threat: a contracting demand base. There was hardly a town in Germany for which no population decline had been predicted. Even the forecasts for most major cities projected not growth but stagnation at best. To this day, any mention of the country's future demographics will bring to mind lingering images of abandoned villages and

towns in East Germany during the 1990s.

Meanwhile, though, the number of permanent residents in Germany reached a record high, totalling 82.8 million persons in 2017. One of the key reasons for the growth is legal immigration, so far mainly from other EU member states and it has been noticeably higher than originally assumed, even in the long-term mean. Following the adoption of the Skilled Labour Immigration Act (FEG), Germany will most likely remain one of the most popular destinations in the world, so that its

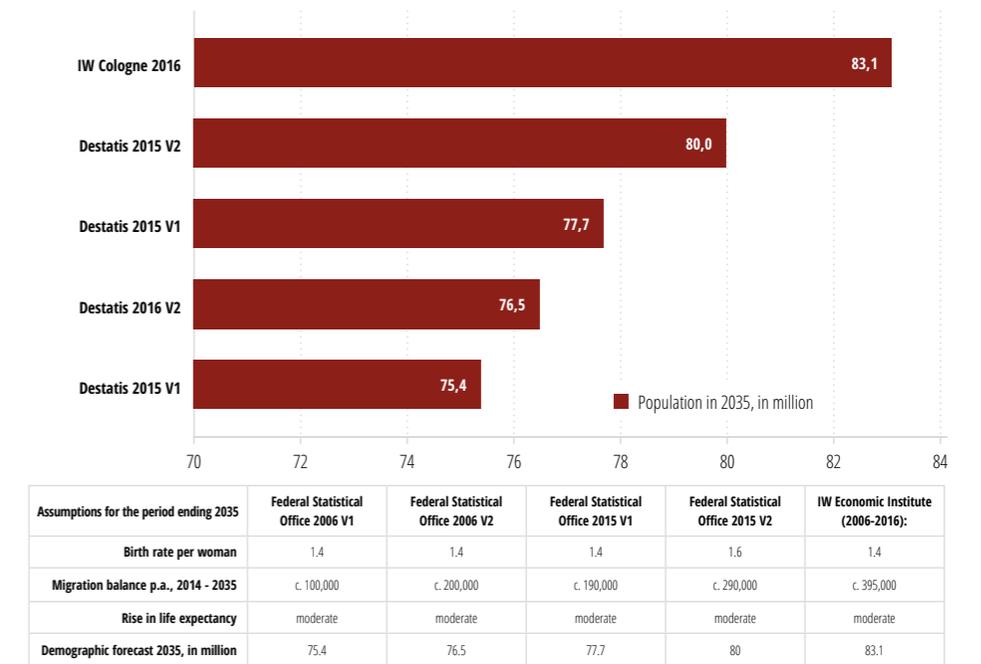
demographic growth could actually keep accelerating for the time being.¹ The steadily rising employment rate in Germany, with its positive correlation to purchasing power, improves the growth prospects for the retail trade even further.

At the same time, the potential base in the retail sector is boosted not just by quantitative growth but above all by a shift of the demand preference of a more mature population toward higher-end products and services. One thing is for sure, after all: Regardless of the rate of immigration, Germany's

population is ageing more than anything else. Especially those older than 50 years of age and below the age of 70 will constitute tomorrow's dominant group of consumers. Due to their increased labour market participation beyond the age of 67 and their auspicious health prospects, they will remain active members of society longer than people their age used to. Combined with robust educational and professional development profiles, this age group is emerging with particularly high quality expectations and will, as a demand factor, be much more relevant for consumption than people of the same age were in the 20th century.

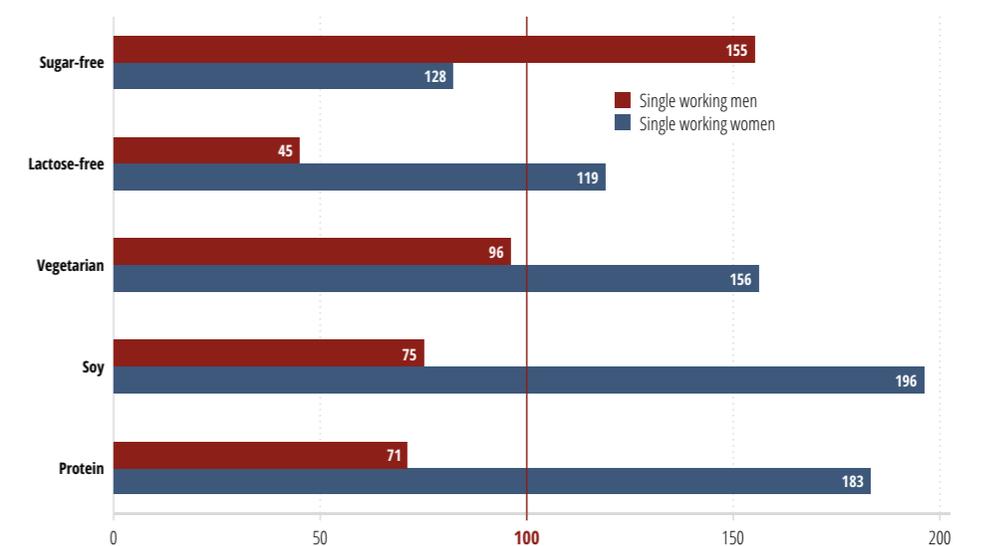
Women, too, are expanding their demand-side footprint: The number of women in the labour force will steadily increase through 2035, and generally cushion the anticipated phase-out of retiring males for an extended period of time. A shift toward higher quality standards is expected here as well because more and more women keep delaying motherhood in order to concentrate on a qualified professional career first.

Fig. 2: Population Forecast for Germany at a Glance



Proprietary chart, based on data by the cited institutes

Fig. 3: Food trends, by gender, indexed



Proprietary chart, based on the GfK ConsumerScan (2017)

¹ Cf. "IW-Bevölkerungsprognose: Entwicklung der Bevölkerung bis 2035," in *Perspektive 2035, Wirtschaftspolitik für Wachstum und Wohlstand in der alternden Gesellschaft*, Cologne Institute for Economic Research (2017)



In-store inspiration

KEY NOTE BY HABONA INVEST GMBH

GROCERY RETAIL FOLLOWS SOCIAL MEGATRENDS

Dear Reader,

Consumers, armed with their smartphones, reign supreme over space and time. Well-informed and sophisticated like never before, they love fast and communicative shopping experiences. The food sector benefits from the increase in demand more than others. But it is also the one sector where e-commerce is not making gains.

Smartphone, event, communication, swiftness: Each of these aspects alone already constitutes a mega-trend with massive consequences for the retail trade. The revision of outdated population projections has revealed an impulse that seemed inconceivable for a long time, but which is already becoming increasingly obvious in residential areas and the hubs of day-to-day life in many cities, namely in the form of strained resources, be they housing, teachers, underground lines, roads and similar infrastructure. Within the foreseeable future, there will not be fewer but more people in Germany. A more diverse, older, but also more informed and better educated population is developing much more aspirational consumer cravings than before.

Johannes Palla
Managing Partner



"Grocery retailing not only ensures that the population's basic supply needs are met, but it also contributes to the urban and settlement development in ways that should not be underestimated."

In this, our latest Habona Report, we focus on the retail segment that benefits more than others from the shifting expectations, which is the grocery retail trade. There are 28,000 locations in Germany that cover the bulk of the non-discretionary needs in supermarkets, neighbourhood centres and district centres. The job of the real estate industry in all of this is not just to translate the new expectations into retail venues that are fit for the future but also to contribute meaningfully to urban development.

Together with our collaboration partners Savills and Statista, and supplemented by the hands-on essays by this year's guest contributors Drescher & Cie, EHI, Kaufland, Lidl, Ratisbona, Rewe and WISAG, we wish to provide another balanced blend of hypotheses and assessments. We hope you find the report to be another informative and fascinating read.

Habona Invest, March 2019

Manuel Jahn
Head of Business Development



"The demographic trend presents more opportunities than risks for a differentiated and attractive consumer retail and service spectrum close to home."



KEY NOTE BY THE ZIA GERMAN PROPERTY FEDERATION

GROCERY RETAILING AS KEY COMPONENT OF PUBLIC SERVICES

Dear Reader,
 Many major cities and metro regions in Germany are bursting at the seams. Pursuing a modern and sustainable urban development policy thus counts among the major tasks of society. The city of tomorrow should be a place of short distances. Yet not just office properties and workplaces should be located where people live and spend their lives. After all, retail properties play a particular important role in the economic development of cities.

In the major cities, the retail sector is caught in a fierce competition with other planning use classes that is caused by the short supply of floor space. To make progress with infill

densification and inner-city renewal, we need new concepts: In future, urban mixed-use areas and quarters will become even more important for ensuring the liveability of cities where the retail sector is appropriately positioned.

The situation often presents itself quite differently in rural regions, in the small and mid-size cities. Providing shopping venues—in sync with existing jobs—for the people close to their homes is becoming a key factor that will help to determine whether these cities and regions will have a realistic chance to keep developing or not. Here, grocery retailing is even more essential as a public services component.

It is the responsibility of the body politic to keep upgrading the infrastructure both in the cities and in town outside the metro regions. We should not risk a loss of equilibrium, because we need both if we want to entice companies to settle in either: the attractive pull of the big cities and the regional economic strength of the smaller, rural areas.



Klaus-Peter Hesse
 Management Spokesman

KEY NOTE BY RICS GERMANY

THE CONTRIBUTION OF THE GROCERY RETAIL TRADE TO SUCCESSFUL URBAN RENEWAL

Dear Reader,
 The real estate industry plays an important role in the effort to shape our metropolises, towns and villages into sustainable, attractive, affordable and liveable places for future generations.

Our society is undergoing a transformation driven by digitisation, centralisation and economic structural change while the mega-trend of urbanisation has put the focus squarely on the issue of town-planning. Among the many topics currently under discussion is the question how to ensure the availability of qualified grocery retail options in future, even if the debate tends to centre on the metropolises while neglecting surrounding areas.

Which is odd insofar as the experiences made in the big cities could certainly be adapted: The needs of urbanites do not necessarily differ from those of the rural population. The desire for small-scale, diversified quarters with a vibrant mix of uses is readily apparent and synonymous with (the ideal of) life in small communities.

In our 8-point plan for strengthening the countryside we place a premium on grocery retailing. What is need-



ed are property types that will function outside the metro areas and that make a positive contribution to local development. We are convinced that mixing uses is an approach particularly fit for the purpose.

It could use grocery retailing as starting point for local development: Be it a store that stocks consumer staples or a multi-tenant centre that, in addition to groceries, features a varied line-up of everyday amenities such as a post shop, co-working spaces, multi-purpose areas for cultural events, gastronomy, club life or childcare and eldercare.

This approach opens up investment opportunities for municipalities of

any size that, while seeking to cover a differentiated demand, should orient themselves to local requirements.



Martin Eberhardt RICS
 CEO



KEY NOTE BY SAVILLS IMMOBILIEN BERATUNGS-GMBH

GROCERY RETAIL PROPERTY AS ASSET CLASS

Dear Madam, Dear Sir,

It is not the first time that grocery retail property emerged as a distinct asset class: During the previous real estate boom that ended in 2007, there was much talk about a global retail warehouse phenomenon. Up to the time of the so-called “financial engineering,” retail warehouse properties traded at yield rates of around 8 % or even 6 % at peak cycle in 2007. The market for this type of real estate was opaque and dominated by private players.

Following the recovery from the financial crisis, yield rates for grocery retail properties stabilised on a level of about 6.5 % to 7.0 %. Judging by its transaction volume, this segment still

lagged far behind commercial buildings and shopping centres.

Roughly three years ago, it finally became clear that real estate of the retail warehouse type and the type anchored by food retailers were again developing into a separate asset class that was subject to serious yield compression. In 2018, we noted for the first time that the yield level for this type of property had dropped below that for shopping centres.

The demand-led trend will continue in the coming years. It will coincide with rent and yield adjustments in the market for shopping centres.

The very nature of grocery retail property will change and open itself up

to the addition of other types of use, such as residential logistics or even hospitality. This way, it will metamorphose into a hybrid property type that will deliver a diversified cash flow while also serving changed customer needs.



Jörg Krechky
Head of Retail Investment
Germany, Chairman European
Retail Investment Board



Jennifer Gülerüz
Consultant Research



KEY NOTE BY STATISTA GMBH

THE OPPORTUNITIES AND POTENTIAL OF CUSTOMER-ORIENTED GROCERY RETAILING

Dear Reader,

In Germany’s fiercely contested food retailing market, the leading supermarket chains and discounters struggle to expand their market shares by continuously opening new outlets, enlarging their premises and widening their assortments. At the same time, all market players invest massively in upgrades of existing branches, and experiment with new concepts that orient themselves specifically to the local needs of customers in different locations. It marks the way major retailers have responded to important trends, which include the fast growth of many German conurbations and the new consumer focus on

convenience. In a parallel move, urban planners, property developers and investors active in Germany’s metropolises concentrate increasingly on vibrant quarters that blend living, working and shopping, and proactively demand and promote concepts such as the mixed use of food retailing and residential accommodation. Inversely, retail customers have high expectations in retailers of every sort, and will readily switch from one retailer or location to the next if it better serves their needs. As the socio-demographic differences between the customers of the various retailers are gradually levelling out, the orientation to the needs of customers

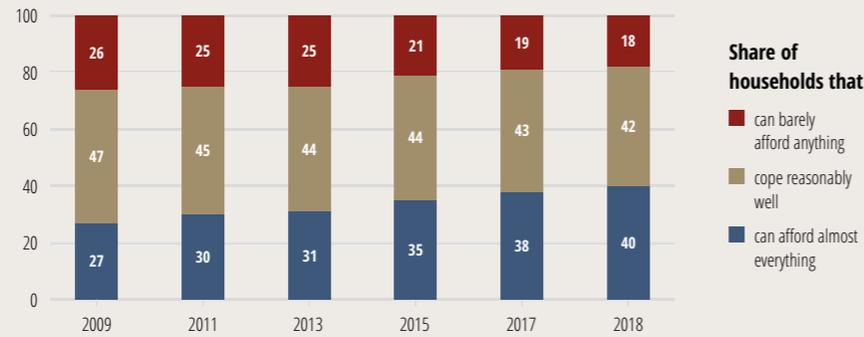
in their different locations are getting more and more important, cases in point being the availability of takeaway foods close to the office or of convenience stores on the way home from the underground. This trend presents major opportunities for retailers who are consistent in their implementation of grocery retail concepts.



Eike Hartmann
Head of Research Projects

SOCIO-DEMOGRAPHIC CHANGE ...

Fig. 4: Self-assessment of the financial situation



Proprietary chart, based on data by GfK (2019)

People can increasingly afford to spend more,

Fig. 5: Expenditures to cover everyday needs, indexed



Proprietary chart, based on the GfK ConsumerScan (2017)

with older generations in particular having more money to spend on groceries

Fig. 6: Perceived time pressure, by households type, in pro-rata shares

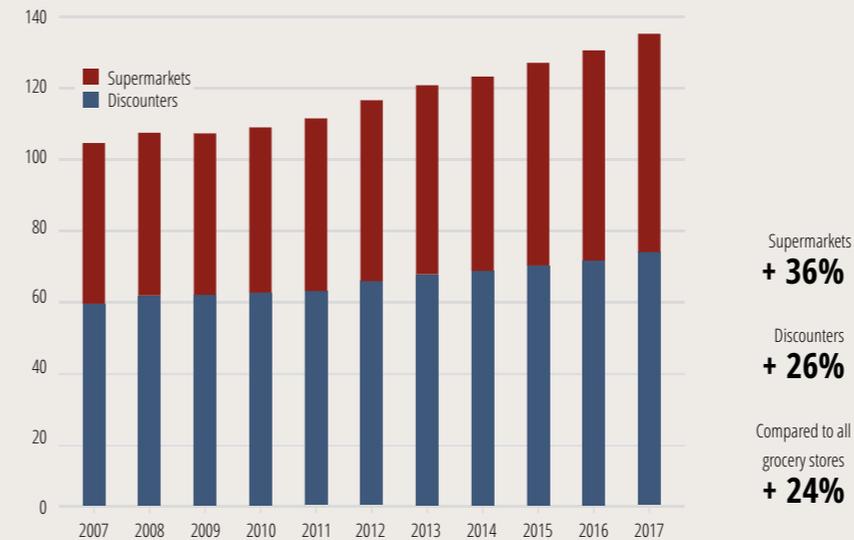


Proprietary chart, based on data by GfK (2019)

while being pressed for time and preferring quick shopping trips.

... SPURS THE DEVELOPMENT OF GROCERY RETAILING

Fig. 7: Revenues trend for discounters and supermarkets, 2007 – 2017, in bnEUR

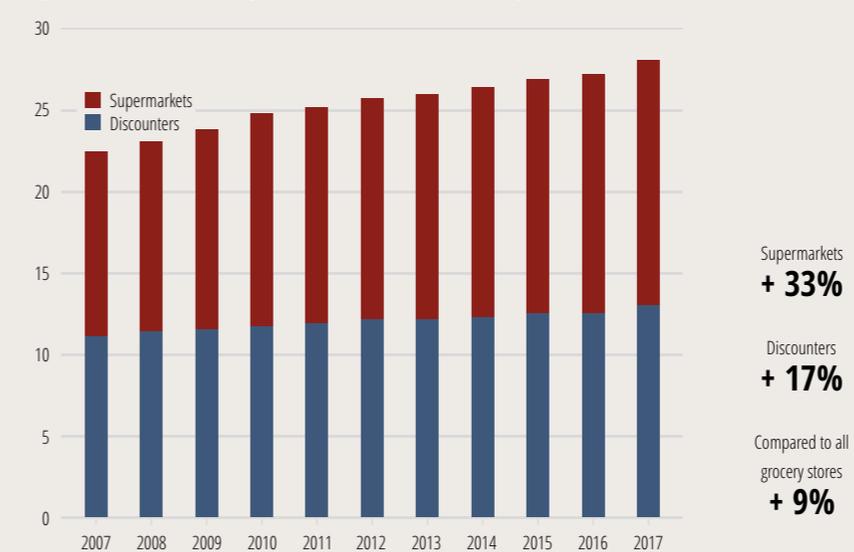


Proprietary chart, based on data by the EHI Retail Institute (2018)

Supermarkets + 36%
Discounters + 26%
Compared to all grocery stores + 24%

Accordingly, sales of supermarkets and related formats are growing at above-average rates.

Fig. 8: Sales area development of discounters and supermarkets, 2007 – 2017, in million sqm

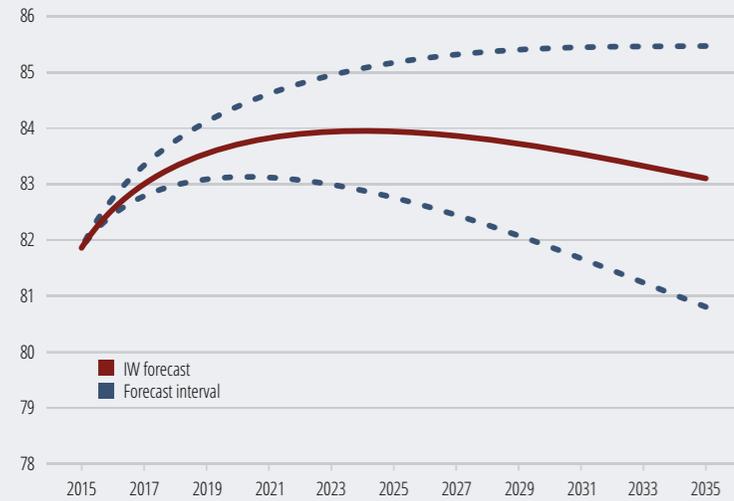


Proprietary chart, based on data by the EHI Retail Institute (2018)

Supermarkets + 33%
Discounters + 17%
Compared to all grocery stores + 9%

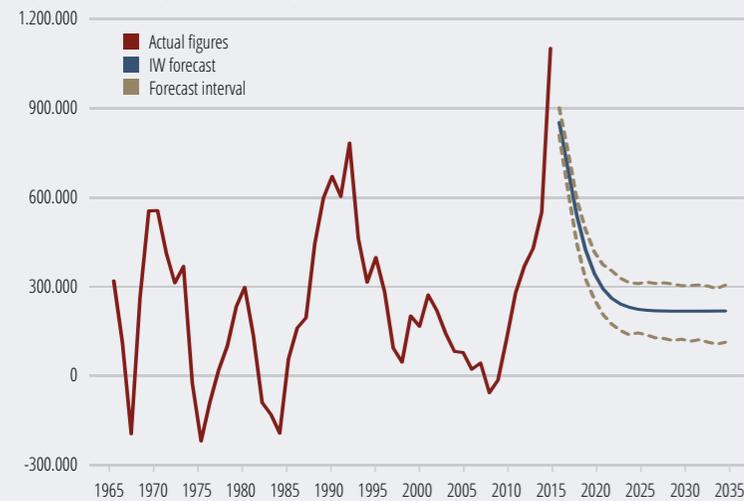
The trend also promotes the expansion of modern high-value markets.

Fig. 9: Demographic forecast through 2035, in millions



Proprietary chart, based on data by the Cologne Institute for Economic Research (2017), URL: <http://link.iwkoeln.de/330403> (date of last retrieval: 14/03/2019)

Fig. 10: Net migration development and forecast, 1965 - 2035



Proprietary chart, based on data by the Cologne Institute for Economic Research (2017), URL: <http://link.iwkoeln.de/330402> (date of last retrieval: 14/03/2019)

Notwithstanding the specific forecast figure, however, research institutes expect immigration to make German society more diverse and the demographic trend to have very different impacts from one region to the next. While rural regions in eastern Germany are not expected to see growth, large parts of western Germany stand to gain. Especially conurbations benefit from incoming migration even if the rising costs of rental housing and building land drive people increasingly out into the rural suburbs. And regardless of the geographic location, attractive university cities in either part of the country anticipate—in some cases significant—demographic growth.

Municipalities with positive net migration are responding with a flurry of measures to keep housing construction and infrastructure abreast with the growth. They take a dual approach, working both inside and outside the city by pursuing infill densification of existing quarters as well as greenfield housing developments. It takes a far-sighted urban-planning strategy to avoid the creation of bedroom communities, to ensure local amenities are in place and simultaneously to create attractive settlement cores with a unique identity. In the process, the expectations that an ageing and well-informed society has in regard to retail locations and concepts need to be taken into account. There is mounting evidence even today that the yearning for live experiences in physical premises is increasing in sync with the migration of more and more areas into the virtual realm of the world wide web. Accordingly, the local high-street location as bridge and supply line to the social environment in the physical world is massively gaining in significance when it comes to the sustainable development of town and country, regardless of the local pace of growth.



DEMOGRAPHIC MEGA-TRENDS

COHORTS ADVANCING UP THE DEMOGRAPHIC PYRAMID

Although the population of Germany is not about to shrink, it will generally keep ageing. After all, even immigrants get older, and will adjust their consumer aspirations. Understanding the age-structural shift is prerequisite for any assessment of future consumer expectations in regard to retail locations.

The large generational cohorts of the 1950s and 1960s, which add up to a total of around 20 million people, represent

the largest age- and thus consumption-relevant demand group in Germany. It is Germany's generation of baby boomers, which will not only shape the fate of the country in the following years, but will also have an echo effect during the next 10 years—albeit the last one for the time being—when their children will have children of their own.

A segment of the population that, while substantially smaller, will be of

high long-term significance because of their low age average, is the one of young people currently between the ages of 20 and 30, many of whom have immigrated from southern and eastern Europe in recent years. The increase of this segment reflects massive net immigration, which has levelled off on a significantly higher level than had been assumed in earlier forecasts.

IMPORTANT DEMOGRAPHIC MEGA-TRENDS AT A GLANCE

Demand Generated by the Baby Boomers Keeps Going Strong

Fig. 11: Trend in age cohorts until 2035



Proprietary chart, based on data by the Cologne Institute for Economic Research (2017), URL: <http://link.iwkoeln.de/330404> (date of last retrieval: 14/03/2019)

Given an average life expectancy of currently around 80 years—subject to an upward trend especially among women and men with a higher socio-economic status—baby boomers will still be highly relevant for consumption in Germany over the next 20 years. For the period between 2015 and 2035, the Cologne Institute for Eco-

nomics Research (IW), for one, predicts an increase by more than 30 % among those older than 70 and by over 20 % among those between 60 and just under 70 years of age.

The financial situation of the over 60-year-olds will improve in sync with their growth in numbers in the coming years despite the pension cap. Assum-

ing a sound wage development, financial assets will initially keep growing steadily as a result of pension adjustments, and will later be boosted further by inheritances. In addition, more than half of the households belonging in this category own-occupy their homes and therefore have no rent to pay.¹

¹ See also Accenture (2008): "Discounter am Scheideweg. Wie kaufen Kunden künftig ein?" Retrieved from <https://docplayer.org/126843-Discounter-am-scheideweg-wie-kaufen-kunden-kuenftig-ein.html> (date of last retrieval: 14/03/2019)

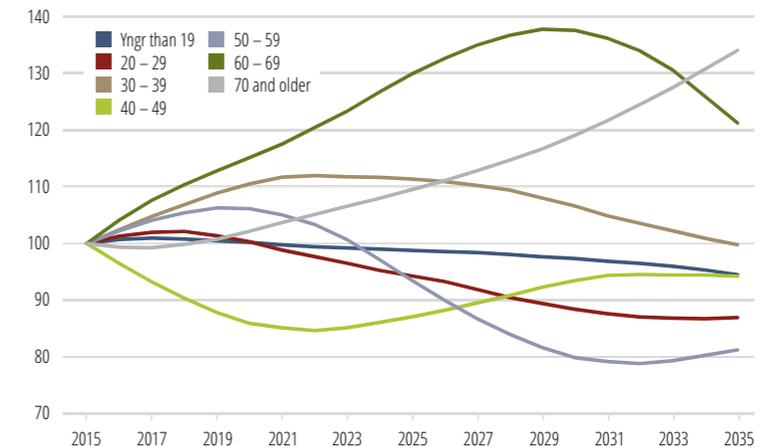
Immigration Boosting Young People's Demand Base

The share of the baby boomer generation who will successively scale down demand for reasons of health or age is likely to be compensated—or indeed overcompensated over a certain period of time—by younger consumption-oriented people with a migrant background. Overcompensation would become likely if the immigration law for Germany¹ that is about to be enacted permitted even higher and more effective integration services than those provided today – this being an aspect obviously hard to predict.

Generally speaking, it is safe to say that the younger the age groups studied, the lower the forecast security. The evolution of the younger age group has indeed been latently underestimated in recent decades, most notably as a result of overcautious assumptions regarding migration and birth rate. It is entirely possible that the age group of those who are in their mid-twenties today will be permanently dominated by immigration gains and thus cushion major demographic setbacks for a very long period of time, meaning beyond 2035.

¹ The Skilled Labour Immigration Act (FEG) is a draft law of 38 articles passed by the German Government on 19/12/2018 that primarily seeks to amend the Residence Act (AufenthG), the Employment Regulation (BeschV) governing the employment of foreigners, and the Residence Regulation (AufenthV). The plan is to have the new law enacted by the German Parliament before the end of 2019.

Fig. 12: Changes in age structure through 2035, indexed



Proprietary chart, based on data by the Cologne Institute for Economic Research (2017), URL: <http://link.iwkoeln.de/330405> (date of last retrieval: 14/03/2019)



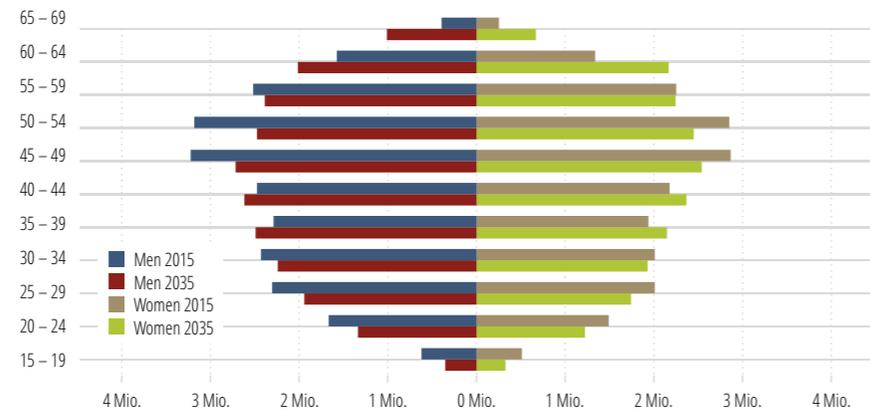
Consumption Boosted by Increased Employment Rates among the Elderly

The number of people above 60 in gainful employment will increase significantly as the statutory retirement age is moved back and because many people choose to remain in the labour market beyond that age. With the employment rate in Germany likely to ascend to around 80 % by 2035, consumption will continue to be covered by earned income to a high degree. During the short period between the years 2000 and 2015 alone, the employment rate among those aged 60 increased by 36 percentage points to 77 %. A Forsa poll on behalf of the Körber Foundation determined that roughly two out of three 50- to 64-year-olds embrace the idea of holding down a paid job into their retirement age if certain conditions are met.¹

But as people advance in age, so do their consumption aspirations: Since the final stage of their professional career tends to coincide with a peak in income and in many cases with senior



Fig. 13: Gainfully employed persons, 2015 – 2035



Proprietary chart, based on data by the Cologne Institute for Economic Research (2017), URL: <http://link.iwkoeln.de/330406> (date of last retrieval: 14/03/2019)

positions, they gravitate toward sophisticated and ultimately high-margin consumer line-ups.

Demand among the Gainfully Employed Shrinking, Getting more Feminine

As society ages, the working age population between 15 and 67 years old shrinks. Even with the rise in statutory retirement age taken into account, the number of employable people will decline by around 1 million by 2035. Despite the strong incoming migration, the share of the gainfully employed in the population total will thus drop from 69.1 % (2015) to 63.4 % (2035). Due to their already high employment rate,

the decline will be limited to the male labour force, especially in the below-20 age group, which will contribute about 40 % fewer employees in 2035 than it does today.²

The trend among female workers will be characterised both by a steep rise in their employment rate and by an extension of their labour market participation. Within a short period of time, the gainful employment of women aged 50 went up from 69 % (2000) to 84 % (2016) and from 18 % to an actual 66 % among women aged 60. So, despite the phase-out of the baby boomer generation from the labour market between now and 2035, the number of gainfully employed women will still be around 100,000 persons higher than today.³

1 See "Körber-Stiftung: Arbeit, Rente, unversorgt? Was uns übermorgen erwartet." A Forsa poll on behalf of the Körber Foundation. (2016)
 2 Cologne Institute for Economic Research, "IW-Trends" (2017)
 3 BIB Federal Institute for Population Research (2017)



Ageing Societies Undergo Transformations

The critical discussion concerning Germany's ageing society revolves essentially around the issue of pay-as-you-go social security schemes. The world of employment is also increasingly moving into focus as starting point for the further development and performance of a national economy. The renowned Berlin Institute for Population and Development points out the positive aspects:

"The demand for older hands will increase as soon as the labour market runs out of younger ones. From a gerontological point of view, this is a piece of good news because ageing becomes a boon and can imply an increase in competency and potential. The older people get, the less their age is indicative of their capacities, skills, behaviour patterns and sensibilities. The functionality of the various physical and mental-intellectual faculties (also known as the 'functional age') is not tied to a chronological age but co-determined by biological and social factors that remain influential

throughout life. This is where primary education, vocational training, lifestyle and coping skills, among other things, play a decisive role. [...] Even today's elderly are much healthier and more competent at an advanced age than their parents and grandparents were at the same age – and this trend will continue."



Source: Ursula Lehr: "Altern der Bevölkerung." in: Online-Handbuch Demografie des Berlin-Instituts (2007), retrieved from https://www.berlin-institut.org/fileadmin/user_upload/handbuch_texte/pdf_Lehr_Alterung.pdf (date of last retrieval: 07/01/2019)
 The Berlin Institute for Population and Development is an independent think tank that studies issues of regional and global demographic shifts. The institute was set up in 2000 as a non-profit foundation for the purpose of raising awareness of demographic change, promoting sustainable development, introducing new ideas into politics and creating concepts to solve demographic and development-policy issues.

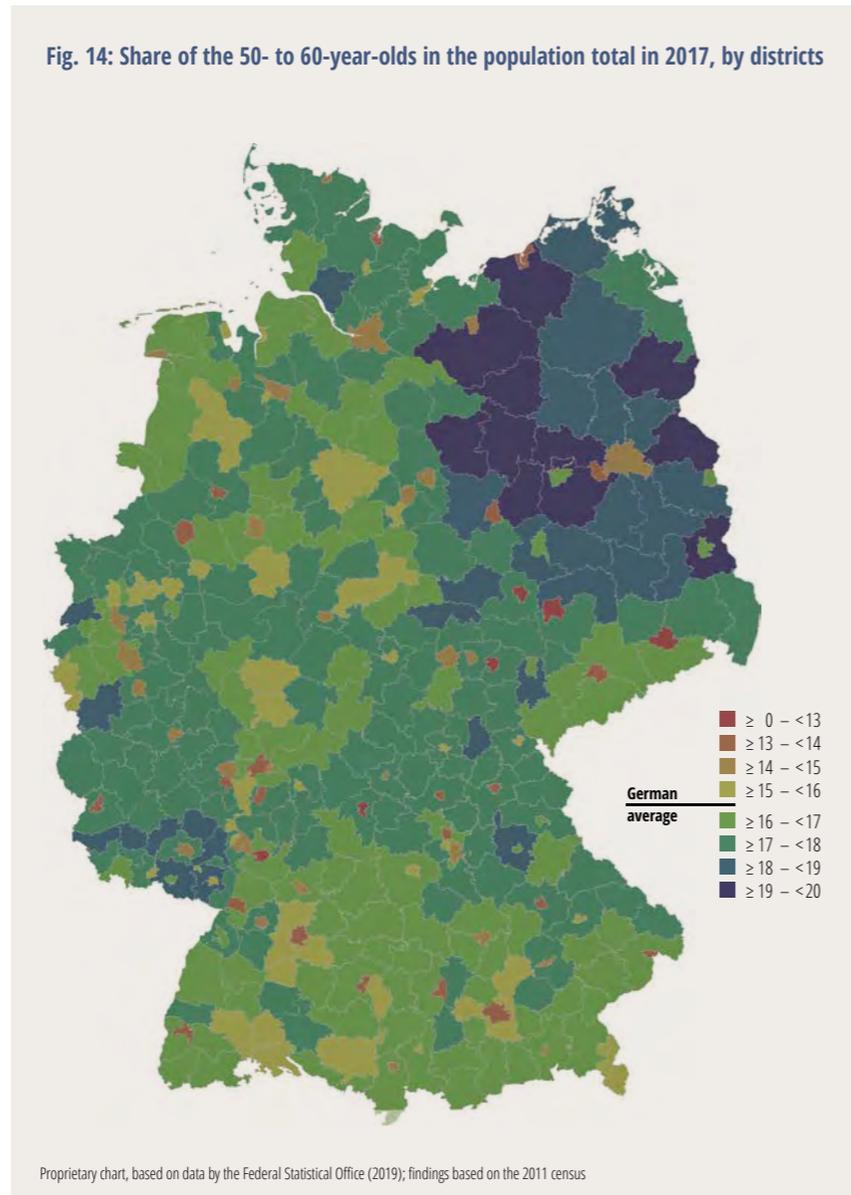
RETIREMENT OF SOME BABY BOOMERS MAY JEOPARDISE WEALTH OF THEIR HOME REGIONS

In many places, the baby boom generation has laid the bedrock of societal affluence. Mostly financial well-endowed, feeling younger than their age and leading active lives even in their retirement age, they will remain a stabilising anchor in German society for many years yet. Especially in the northern and north-eastern regions of Germany, the share of baby boomers is very high and thus brings cities and communities face to face with particular challenges.

For the next 20 years, the baby boomers will continue to serve as important mainstays of the local economies. But what will happen once their age causes them to retire and leave serious vacancies in the workforces of local small and medium-sized enterprises? Or what if owner-operated companies find no one to succeed them? The German Confederation of Skilled Crafts (ZDH) assumes that the next 5 to 6 years will around 200,000 transfers of undertakings while the succession in many cases remains to be sorted out yet.¹ What sort of assurances do municipalities have that young people will remain in town after finishing school or that others will move there?

If these issues are not resolved, many companies could be forced out of business and many jobs be lost in the pro-

¹ Source: German Confederation of Skilled Crafts (ZDH, 2018), in: "Dem Handwerk fehlen die Chefs," ZEIT ONLINE on 04/03/2018



cess. For with the retirement of the baby boomers, professional as well as organising and marketing know-how will be lost that is indispensable for maintaining a company's competitive edge.

Neighbourhood Centres as Anchor Points

The political objective is to preserve not just the technical ability of the affected municipalities to function but also their attractiveness. In addition to meeting basic needs, e.g. by ensuring that doctors' offices and grocery shopping venues are close at hand, this also includes options for socialising. Organising the local retail line-up is a task that plays a key role in the creation of central locations for socialising. Unless demand-oriented amenities are

properly bundled, they will not achieve the critical mass necessary to generate sufficient demand from a defined catchment area to make a given concept economically sustainable. The solution is to create modern grocery retail properties that cover food shopping while also pooling a complementary line-up of services and amenities like doctors' offices, restaurants and/or co-working spaces in a single location.

Converse Regional Developments

According to the regionalised population projection done by the BBSR Federal Institute for Research on Building, Urban Affairs and Spatial Development, nearly half of Germany's districts and

independent cities can expect the demographic growth to continue through 2035, not least due to a high net immigration in the coming decades. These districts will require not only further modernisation but also an expansion of their infrastructure.²

The age structure within the regions does not show any clear pattern. Although steep/unambiguous urban-to-rural gradients are identifiable, especially between major cities with an age average of currently over 42 years and particularly sparsely populated areas in Saxony-Anhalt or southern Brandenburg with a current average of nearly 50 years, it is by no means true that all rural region have a high age average. In some districts in north-west Germany, such as Vechta or Cloppen-

² Cf. BBSR Federal Institute for Research on Building, Urban Affairs and Spatial Development: *Die Raumordnungsprognose 2035 nach dem Zensus*. BBSR-Analysen KOMPA-KT05/2015. (2015), p. 11



burg, the average age is just over 40 years. Similarly, the rural population in parts of Bavaria and Baden-Württemberg is predominantly young.

Balancing Effect by Growing Number of Households

Potentially negative ramifications of regional population declines for consumption levels are cushioned by the anticipated rise in the number of private households. The figure is expected to go up by another 3 % nationwide before 2035. The dynamic of the household figures, which outpaces

demographic growth, is a phenomenon that has been known for decades. During the years since 1990 alone, the number of households in Germany has increased by over 12 %, the population total by merely 1 %. Even in the East German states, which lost almost 15 % of their population during the first 22 years after Germany's reunification, the number of private households increased by nearly 7 %.³

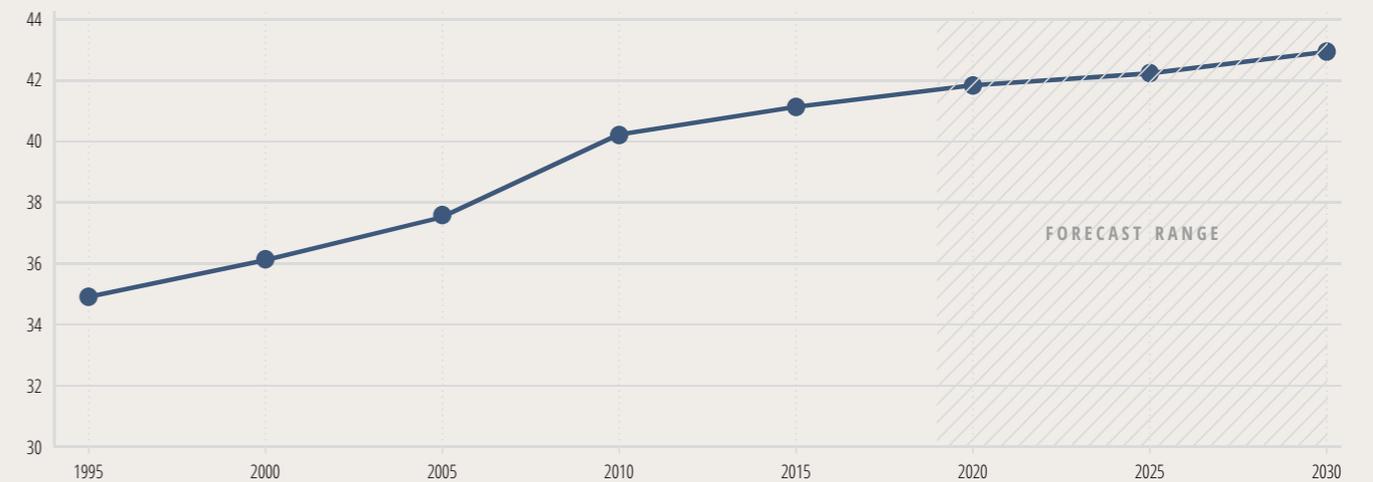
Against this background, governments on the federal and state level, municipal and trade associations keep pushing for measures to ensure equiv-

alence of living conditions across all of Germany's regions. The reorganisation of financial relations between the federal and state levels created a key prerequisite for helping rural regions to preserve their infrastructures, to revive town and village cores and to bolster the regional labour basis. Urban development funding was stepped up and expanded to include small and mid-size cities, which are to be strengthened to serve as anchor points in rural areas struggling with greater structural issues.⁴

³ Cf. BBSR Federal Institute for Research on Building, Urban Affairs and Spatial Development: *Die Raumordnungsprognose 2035 nach dem Zensus*. BBSR-Analysen KOMPAKT05/2015. (2015), p. 15

⁴ Confer also the steps taken by the Federal Government to help shape the demographic change. Federal Ministry of the Interior: *Jedes Alter zählt. „Für mehr Wohlstand und Lebensqualität aller Generationen* (2017), p. 20

Fig. 15: Share of single-person households out of all German households, in %



Proprietary chart, based on data by GfK (2018), cited by the Federal Statistical Office (2018)

Today, over 40 % of all households in Germany are single-person households, subject to an upward trend.

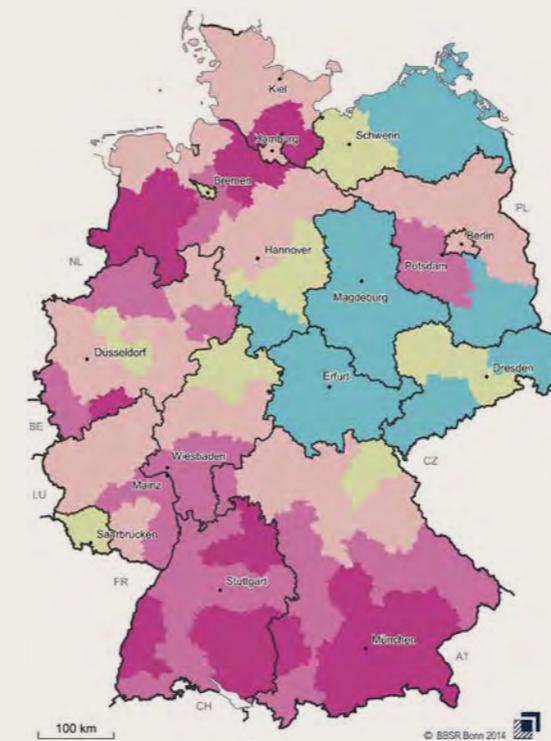


Fig. 16: Change in single- and two-person households by region, 2012 – 2035, in %

- less than -4
- -4 to just under 4
- 4 to just under 12
- 12 to just under 18
- 18 and more

Data source: BBSR-Haushaltsprognose 2012 bis 2035/Zensus
 Geometric basis: planning regions of the Federal Agency for Cartography and Geodesy (BKG), 31/12/2012
 Processed by: C. Schlömer

DEMOGRAPHIC CHANGE AS STIMULUS FOR GROCERY RETAILING

The ageing of the constituent population plays a major role for consumption and the development of the retail sector. Ageing is often equated with cuts in prosperity or purchasing power, at least in shrinking regions. But what really matters is how tomorrow's seniors will spend their money and on what. More time can also mean more enjoyment and boost demand for more valuable products. And a greater need for social exchange in the physical places of the real world can upgrade the function of grocery retail locations.

The successive proliferation of pensioner households suggests their members have more time to splurge. Conversely, an increase in pensioners implies fewer gainfully employed persons and thus setbacks in earned income. So, a thin line separates opportunity from risk. But since the labour market participation follows an upward trend, the decline in earned income is probably cushioned to a certain degree. The IW German Economic Institute in Cologne assumes that the number of people in the labour force and the volume of work will barely decline before 2035, meaning by less than 3%.

However, provisions for an ageing population will have to be set aside through taxes and premiums to cover rising social security payments and health benefits. A higher burden of taxes and levies for employees and pensioners, however, will imply proportionate cuts in the disposable pur-

chasing power. For this reasons, the IW German Economic Institute in Cologne predicts in its demographic forecast for 2035 that the shift in age structure alone will cause the growth of the gross domestic product to drop to an annual rate of around 0.75%. Historically, a generally positive trajectory of consumer demand presupposed a long-term growth trend of around 1.5% per year.

That being said, the institute elaborates that the risk of regression could be muted or eliminated altogether

through political measures boosting job growth, investments and technological progress.¹ The ageing of society itself, for instance, will predictably increase the future demand for labour in nursing and health care. Head-hunting will probably contract human resources to meet this demand abroad, and the resultant immigration will in turn boost the purchasing power.

On top of that, Germany can rely on considerable private wealth reserves. Private wealth, saved over generations, not only secures the prosperity of large

sections of the German population but can also help to cushion the costs of demographic change as—having been passed on through inheritances—it is successively returned to the economy's consumption and investment cycle.

The Elderly Staying Youthful

Even in 20 years' time, when the age average will have gone up from 44 to around 48 years, Germany will hardly resemble a retirement home. Neither will the massive increase in people over 60 necessarily imply a nose-dive in consumption levels. Embedded behavioural patterns, including consumption patterns, stand the test of time amazingly well while people stay youthful longer than they used to.

A recent whitepaper by the Körber Foundation elaborates that a 65-year-old's state of health today is roughly comparable to that of a 55-year-old in 1970. This means that the baby boomers, whose share in our society will remain high, not only live longer than their parents' generation but also retain their agility longer. For many, retirement is therefore not a threshold to "being old," but the beginning of a new, active stage in their lives.² And they consume readily and generously: Healthcare, premium and branded goods may cost a bit extra but prices seem to play a secondary role. This pattern



Mother of Albrecht Dürer, 63 years old (1514), charcoal drawing (image by Albrecht Dürer, in the public domain)



Marianne Rosenberg, 63 years old (image: Public Image GmbH, 2019)

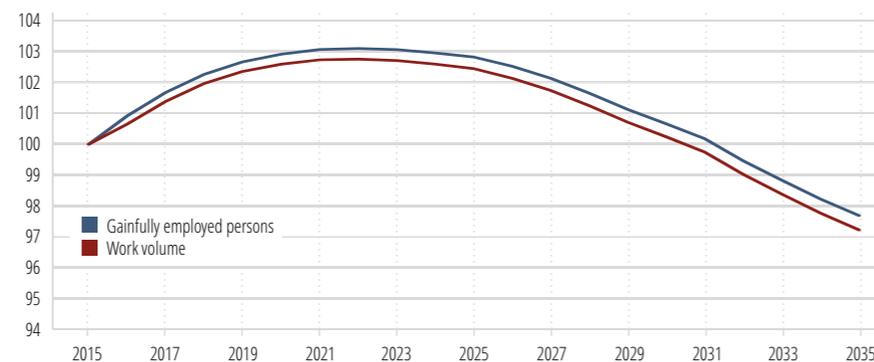
benefits the food retail sector in particular as it attracts a disproportionate share of the elderly's business.

Because the ageing processes are superimposed by the diversified aspirations and value orientations of a society characterised by immigration and diversity, new opportunities for the polarisation and segmentation of consumer markets keep opening up – which is an important basis for growth in the future, too.

Contradictory phenomena are just another feature typical of such differ-

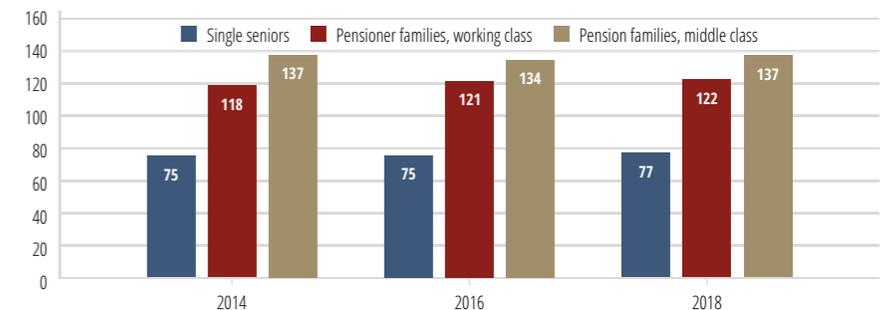
entiation processes. The rural exodus, for instance, coincides with the expansion of suburbs while the number of younger people living in cities will increase. The developments in the countryside are heterogeneous and volatile. In the years to come, the grandchildren of the baby boomers will be starting families in a boom of their own whereas the grandparents will spend a substantial share of their accumulated or inherited wealth during the next 20 years. Bright prospects in terms of consumption.

Fig. 17: Forecast of workforce and volume of work, 2015 – 2035, indexed



Proprietary chart, based on data by the Cologne Institute for Economic Research (2016), URL: <http://link.iwkoeln.de/330407> (date of last retrieval: 14/03/2019)

Fig. 18: Food expenditure index. 100 = all households



Proprietary chart, based on data by GfK (2019)

2 Körber Foundation: "Die Babyboomer gehen in Rente," press release of 15/11/2018, retrieved from <https://www.koerber-stiftung.de/presse-meldungen-fotos-journalistenservice/archiv/die-babyboomer-gehen-in-rente-1497> (date of last retrieval: 14/03/2019)

1 Demographic forecast by IW: "Entwicklung der Bevölkerung bis 2035", in: *Perspektive 2035, Wirtschaftspolitik für Wachstum und Wohlstand in der alternden Gesellschaft*, Cologne Institute for Economic Research (2017)

THE PREFERENCES OF DEMOGRAPHIC TREND GROUPS

NEW HOUSEHOLD-FORMERS BETWEEN TRADITION AND INNOVATION

Considering the Challenges of the intergenerational contract, this trend group addresses the issues of security, health and retirement planning. Needs for genuineness, trust and authenticity correspond with the desire for deceleration and a sensuous experience. Shared experiences are highly prized, and people are always eager to find new venues and occasions that facilitate them. Even the weekly shopping is conducted in a celebratory spirit, and should be convenient and entertaining. Using technical-digital apps to cope with everyday chores has become perfectly normal.¹



Implications for Consumption Patterns:

- Less free time, and the urgent need to use it wisely
- High standards in terms of personal engagement
- Feeling good and guilt-free when shopping
- Healthy, wholesome and regional foods
- Emotional proximity to product, in touch with producer
- Sharing meals and taking more time to eat
- Innovative goods and services with personal value-added
- Combining high quality of assortment with simplicity and time savings
- After-work offers
- Feel-good atmosphere and third-place function
- Increased gastronomy share for extended time of stay

Expectations in Future Store Concepts:

- Located close to the place of residence or work and the hubs of everyday life

¹ Also see: Claudia Gaspar (2017): "Wie tickt die nächste Generation von Haushaltsgründern?" GfK (2017), URL: https://www.gfk-verein.org/sites/default/files/medien/359/dokumente/die_naechste_generation_von_haushaltsgruendern.pdf (date of last retrieval: 15/03/2019)

SINGLE-LIVING PROFESSIONALS AGED 40 AND OVER FLEXIBILITY IS EVERYTHING

As it is, nearly 40 % of all households are headed by people living permanently or temporarily alone. This percentage is set to increase disproportionately among those below the age of 60 both because the households of baby boomers are disintegrating after the children have moved out and as a result of living-apart-together lifestyles where couples maintain separate households in different cities, usually for job-related reasons. Single-living people of medium age in newly-gained or elected freedom are loath to make permanent choices and as a result prefer urban living environments with diversified opportunity structures. Urban social networks and infrastructures supplement the personal environment and set the scene for frequent out-of-home activities.



Implications for Consumption Patterns:

- Time pressure necessitates the ability to combine work, shopping, eating and leisure time
- A balanced diet as basis for a high willingness to perform
- High importance of out-of-home consumption
- Demand for fast retail-related services
- Compatibility with sport as important leisure activity

Expectations in Future Store Concepts:

- Located close to the place of residence or work and the hubs of everyday life
- Proximity of fast, but high-quality gastronomic options
- Supply of convenience products
- Linking fitness offers with health services
- Use type of event character
- Options for after-work activities

OLDER MOTHERS (LATE MOTHERHOOD) ONLY THE BEST IS GOOD ENOUGH

The average age of mothers at the time they give birth has increased from 26.3 years (1975) to around 31 years (2015). Moreover, there is evidence that the share of households with children is decreasing in younger age groups and increasing in older ones. The trend toward starting a family or having children later in life obviously coincides with an increase in life experience and in financial security. As a result, older mothers are better informed and more self-assured in their maternal responsibilities, yet simultaneously more critical and concerned. Since the majority of them hold down jobs, at least part-time, this trend group often feels stressed for time.



Implications for Consumption Patterns:

- Time pressure increases the urge to practice multi-stop shopping and linking purchases
- Retail venue and brand awareness
- High propensity to spend on superior quality, especially when it comes to food
- Prioritising environmental and health criteria
- Focus on healthy without relinquishing enjoyment

Expectations in Future Store Concepts:

- Locations close to the place of residence
- High significance of grocery shopping, preferably organic or full-line suppliers for personal and children's needs
- Environmentally sustainable concepts
- Traditional sourcing
- Child-compatible shopping options

OLDER EMPLOYEES (SILVER PROFESSIONALS) ACTIVE EVEN AFTER WORK

Increased labour market participation is causing the trend group of silver professionals to grow. Compared to young pensioners, they have less time to spend but a higher income. Heavily committed to their job, silver professionals seek to compensate the strain in their spare time, mostly out of home and frequently in the form of active relaxations and sport. The sound financial situation is reflected in above-average expenditures for food and a strong focus on high-end retail formats. Silver professionals take part of modern life and are open to new trends and products. Pressed for time, they go shopping less often, but spend more when they do.



Implications for Consumption Patterns:

- Time pressure increases the urge to practice multi-stop shopping and to link purchases
- Retail venue and brand awareness
- High propensity to spend, especially on food
- Variety and quality important deciding factors
- Sport as important leisure activity

Expectations in Future Store Concepts:

- Located close to the place of residence or work and the hubs of everyday life
- Innovative goods and services with personal value-added
- Quiet and relaxed shopping environment
- Supply of convenience products
- Linking fitness offers with health services
- Options for after-work activities

Fig. 19: Which shopping trends are favoured by older demographic trend groups?

	LATE MOTHERHOOD	SINGLE-LIVING PROFESSIONALS		SILVER PROFESSIONALS	TOTAL
		Men	Women		
Shopping frequency	+	-	-	-	- -
Weekend-/late shopping	+	+	+	+	+ + +
Full-line grocer	+	+	+	+	+ + +
Promotion	-	+	-	×	-
E-commerce	+	+	+	-	+ +

Proprietary chart, based on data by the GfK ConsumerScan (2018)

Fig. 20: Which shopping trends are favoured by older demographic trend groups?

	LATE MOTHERHOOD	SINGLE-LIVING PROFESSIONALS		SILVER PROFESSIONALS	TOTAL
		Men	Women		
Premium	+	+	+	+	+ + +
Manufacturer brand	+	×	+	+	+ +
Innovation	+	-	+	+	+ +
Convenience	×	+	+	+	+ +
Sustainability	+	-	+	+	+ +

Proprietary chart, based on data by the GfK ConsumerScan (2018)



DIGRESSION

BABY BOOMERS BOOSTING TOURIST INDUSTRY

Demographic trend groups influence not only the outlook for the consumer goods industry but also affect other consumer sectors. Tourism, for one, benefits from the demographic trend more than others. The quality-oriented demand of the demographic trend groups along with the concentrated purchasing power of the baby boomers drives the further segmentation of the retail spectrum by boosting special growth areas related to the mega-trends of health, wellness and relaxation.

The desire for more enjoyment of life and a yearning for purpose grows in sync with the prosperity and maturity of a given society. Especially baby boomers like to remember their roots and want to unwind during their holidays more than anything else. Family, friends and shared experiences are gaining in importance, but so does exposure to the outdoors and to culture. It almost goes without saying that they crave bespoke holidays, and that seasoned travellers will hardly be satisfied with standardised hotel rooms anymore. Their reluctance to save on holidays makes the trend groups an attractive investment target.

They look for destinations and lodgings with a nice ambience and high-end amenities, more or less as a home-like retreat, that simultaneously offer sufficient flexibility in terms of scheduling, spontaneity or frequency. As a “need fulfiller” a holiday resort should provide local information, background

knowledge and actual sensations. Destinations within reach of the own car are at an advantage in this respect.¹

Harry Gatterer, Managing Director of Zukunftsinstitut GmbH, talks about disruption, the self-image of the hotel and tourism industry, the “global generation,” mindfulness and “future creators” in tourism.

“The term ‘tourism’ has ceased to be meaningful for the concept of life in the 21st century. Especially in a digitised world, human encounters and emotional experiences are regaining their importance and make a difference. It is of the essence to improve the liveability for guests and thereby to satisfy a deep-rooted human need—what I have in mind are recreation, inspiration, the need to meet friends and to have a good time with them.”

1 Cf. Prof. Dr. Hartmut Rein, Eberswalde University for Sustainable Development (2010)

Fig. 21: Advantages of holiday cottages. Views in % of respondents.

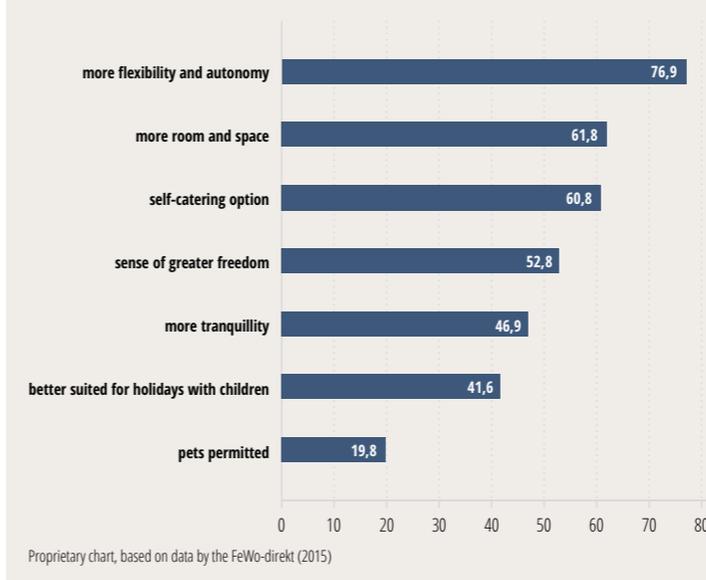
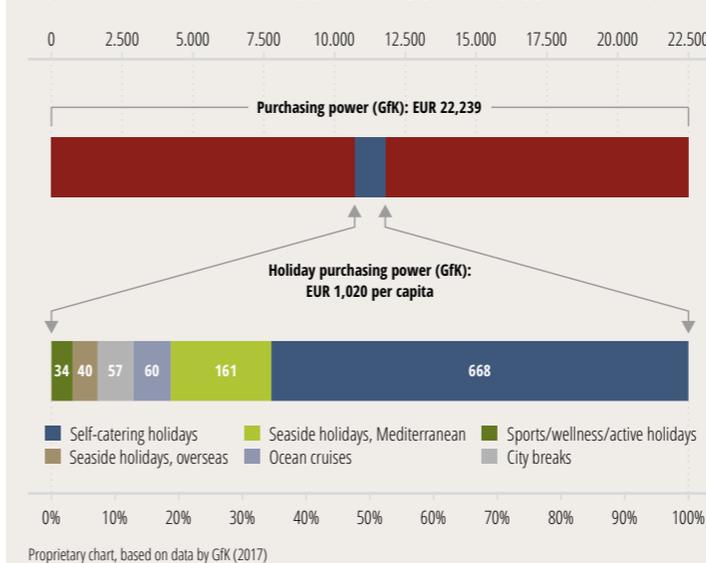


Fig. 22: Breakdown of holiday purchasing power by type of holiday



HOLIDAY FLATS AND HOLIDAY COTTAGES BENEFIT FROM TREND

According to a survey by FeWo-direkt, holiday cottages are more than just a hotel alternative – vacationers staying in holiday homes wish to retire to a place where they can feel “right at home.” Especially from a family’s point of view, holiday cottages live up to this standard much more so than any other type of accommodation. Despite the option to be self-sufficient, the majority of holiday cottage guests attach importance to having a gastronomic and cultural infrastructure on hand nearby. One out of two also likes to go shopping.¹

For many years, the 50+ generation has been particularly committed to the idea of vacationing in holiday cottages. They are particularly fond of the flexibility that holiday cottages afford. Their top three travel destinations include, apart from Germany (37.5 %), especially Italy (12.6 %) and Spain (12.5 %). Every other traveller of this type books during the affordable off-season and tends to spend longer breaks of two to three weeks at their favoured property.

In 2017, the national average for the amount Germans have at their disposal for holiday travel was c. 1,020 euros per capita. This equals nearly 5 % of the general purchasing power, meaning the disposable net income. It also means that the average amount spent on holiday travel exceeds car purchases by around 20 %.²

1 Cf. FeWo-direkt: “10. Deutsche Ferienhaus-Urlaubsanalyse. Daten, Fakten und Trends zum Ferienhaustourismus in Deutschland.” Compiled in collaboration with Engel & Völkers AG. 2015. Retrieved from https://www.fewo-direkt.de/info/files/shared/PDF/FeWo-direkt_10te-Deutsche-Ferienhaus-Urlaubsanalyse.pdf, date of last retrieval: 14/03/2019

2 GfK GeoMarketing (2018)



HOLIDAY COTTAGES AS INVESTMENT IN BASIC NEEDS

The demographic trend is rather auspicious for the holiday cottage market from two different angles: The baby boomer generation is starting to reach the retirement age and to look for destinations that are pleasant year-round, easy to reach and crisis-resistant. On the other hand, high-net-worth silver/single-living professionals between the ages of 40 and 60 who are nowhere near the end of their career look for second homes in promising locations with a view to letting them as much as possible in the years to come.

According to a poll conducted by the Fewo-direkt holiday home letting portal, roughly one in four owners of holiday cottages acquired their property primarily in order to let them. Nearly half of all investors expect the combination of owner- and tenant-occupancy to become a profitable investment and secondary source of income or at least to be an investment of lasting value. Collectively, investors spend around 188,000 euros for a holiday property per capita. Demand for holiday properties in the price range between 200,000 and 250,000 euros has been subject to particularly brisk growth. Roughly one in four properties was in the price segment of up to 500,000 euros and more.¹

The more clement the weather in a given region, the greater the chances of finding tenants. Generally speaking, however, the market is driven by the shifting holiday requirements of an ageing society.

¹ Source: FeWo-direkt: "10. Deutsche Ferienhaus-Urlaubsanalyse (2015)," URL: https://www.fewo-direkt.de/info/files/shared/PDF/FeWo-direkt_10te-Deutsche-Ferienhaus-Urlaubsanalyse.pdf (date of last retrieval: 14/03/2019)

GUEST ARTICLE BY PAREUS GMBH

HOLIDAY INVESTMENTS ON THE ADRIATIC COAST

One of every four Germans dreams of owning a holiday cottage outright. In addition to the baby boomer generation, younger consumer groups with higher incomes have lately begun to take an interest in holiday properties. Market researchers confirm that holidays are considered a fundamental need that few will skip to save

money and that is largely crisis-resilient. With this in mind, Habona's subsidiary Pareus sells and manages holiday homes as an attractive investment product.

Accordingly, Pareus is fully aligned with the property strategy of the parent company, which specialises in investments that serve the fundamental

needs of people and that are therefore permanently in demand and less susceptible to cyclic market movements.



The Project

Italy counts among the world's 5 most popular holiday destinations. The favoured region is Veneto, which offers a unique combination of art, culture and scenic outdoors as well as long sandy beaches along the Adriatic shoreline. The north-east region of Italy has proven to be a top location for holiday investments because of its attractive tourist infrastructure and excellent private motorised transport links to the neighbouring countries of Austria, Hungary and southern Germany and due to a high number of flights from international cities.

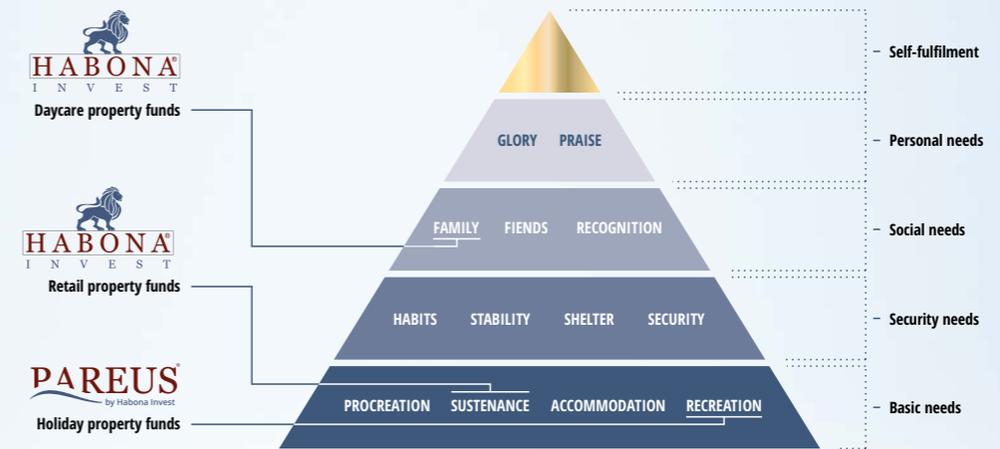
In the small port of Caorle, just outside Venice, Pareus is developing one of the most advanced construction projects along Italy's Adriatic coast on one of the few remaining plots with direct beach access that is still availa-



ble for sale. In line with the demand of the target groups, mansions and apartments are built according to German quality standards and operated under a full-service plan, which keeps the expenditure for the buyer low. Pareus takes care of the letting, administrative and maintenance end for the proper-

ties, preparing all the paperwork for the German owners in German. A guaranteed attractive rental yield, governed by a long-term master lease, ensures stable earnings. At the same time, the property may be owner-occupied from time to time, as the owner wishes.

Fig. 23: Maslow's hierarchy of needs and classification of Habona's investment targets



Proprietary chart, based on data by the FeWo-direkt: "10. Deutsche Ferienhaus-Urlaubsanalyse (2015)," URL: https://www.fewo-direkt.de/info/files/shared/PDF/FeWo-direkt_10te-Deutsche-Ferienhaus-Urlaubsanalyse.pdf (date of last retrieval: 14/03/2019)





3 GROCERY RETAIL AS NEW ANCHOR IN UNSTRUCTURED DAY-TO-DAY LIVES

How Grocery Retail Properties Benefit from the Demographic Trend

It is becoming obvious that socio-demographic changes will trigger or boost certain consumption trends. All of the trend groups of the future place a premium on a mindful and sensitive lifestyle. To the extent that everyday life is losing its rigid structures, grocery retailing becomes the mirror of value orientations and good intentions, more so than any other consumer sector.

The management of day-to-day life is the dominant theme of demographic trend groups. Quality, health and time are

fundamental goals of an ageing society, and they take centre stage every day. Thus, the simply chore of covering daily needs in consumer goods and personal services inevitably keeps coming in touch with lofty aspirations. The deliberations below will give you an idea of the opportunity this opens up for the further development of the grocery retail trade.

Anchor Function of a Shifting Everyday Culture

A phenomenon manifest across trend groups is how the rigid structures of day-to-day life are softening, and how trips to the store are less and less often planned in advance, least of all the spontaneous ones. Naturally, this is most relevant for those retail segments that serve immediate and short-term needs, especially for food retailing. Time slots for meals are kept short and flexible. Nutritional decisions are therefore made on the go. Moreover, since people often equate an unstructured lifestyle with nutritional deficits, their desire for healthy foods increases.¹ Here lies the great future potential in the grocery retail trade. Organic, regional fresh, convenience or super-food: They are all symbolic not only of the diversification of assortments but also of higher quality, higher margins and thus greater value added.

Balancing Science and Romance

The demographic trend groups, too, show signs of an ambivalent set of standards, demanding affordable, convenient, international shopping choices, on the one hand, and expecting high-end, personalised and regional goods,

on the other hand. For the food trade, however, this apparent paradox opens up a vast potential of options to combine reason and desire, supermarket and street market. Among the ideas gradually adopted by the supermarket chains are the integration of butchers, bakers and florists into supermarket formats, the expansion of service counters, and the seasonal or product-specific collaboration with local farmers and manufacturers.

Proximity Keeps Gaining in Significance

The demographic trends, paired with the desire for a more convenient, fresher and more regional line-up work in favour of easy-to-access formats close to places of residence and of employment. Proximity and accessibility will play a bigger role than size, which suggests that the diversification of store concepts and unit sizes will continue. Mixed formats combining convenience and freshness can be used to raise additional potential in residential neighbourhoods, depending on the local demographic composition in terms of age structure. If the costs of personal mobility were to experience disproportionate growth, the corner supermarket would stand to benefit more than other institutions.

¹ Cf. Nestlé Deutschland AG (2009): "So is(s)t Deutschland," 2008, URL: https://www.nestle.de/asset-library/documents/medien/broschueren/unternehmen/so_isst_deutschland_nestle_studie_2009.pdf



Hobenköök Hamburg



Kleinmachnow District Centre

Bundling Local Amenities Saves Time

An essential key commodity across demographic trend groups is time. Unplanned pauses are minimised, time reserves everywhere put to use. There is a strong feeling that chores should be bundled and taken care of en route while detours or extra trips ought to be avoided. Shopping takes time, and while it may be a necessity, it will increasingly have to answer to the time pressure underlying everything. This evolving situation calls for fast-paced concepts and central, easily reached locations that let you take care of other errands or else are easy to integrate into your daily routine. Sites near the place of residence or the workplace that offer a variety of use opportunities in the immediate vicinity or that feature a whole array of day-to-day amenities on location closely match the specific requirements of our daily routines even today.

Neighbourhood Centres as Winners of Demographic Change

From a real estate point of view, conveniently accessible food markets and drugstores represent the assets most effective in adapting to the socio-demographic trend and easiest to repurpose into zones of sensory experience. Their success is reflected in impressive revenue increases and in the fact that they are at the forefront of the modernisation drive in the German retail sector. Yet the gastronomy sector's performance has been equally brisk, especially in the fringe segments of daytime gastronomy. Against the background of the ongoing paradigmatic shift, a vast potential for the development and design of new grocery retail locations, district and neighbourhood centres is opening up. The need for authenticity and first-hand experience just outside the own front door encourages the clustering of food and gastronomic outlets, supplemented by other use types that are in demand on a daily basis: medical centres, pharmacies, fitness and treatment centres, postal and financial services, preschools, cultural venues, etc.

DEMOGRAPHICS AND THE REAL ESTATE ECONOMY

As demographic shifts impact consumption patterns, the effect will necessarily have consequences for the relevant retail real estate. In addition to the general trends in the needs of an ageing society to emphasise proximity, comfort and quality, the regional characteristics should also always be taken into account. Some of the formats in physical retailing are already under massive pressure to change, and it is felt even by owners and landlords of the properties hosting them. Despite the pronounced distinctiveness of each case, there are identifiable real estate trends driven by demographic change.

Non-Food as Real Estate Problem

So far, it has proven difficult to implement the elevated quality requirements, the personalisation trend or hedonistic orientation of an ageing population in non-food retailing. Despite a number of themed efforts in the up-market segment that are worth noting—primarily by major sports brands,

premium and luxury brands and in telecommunications—the breadth of the non-food segment is predominantly price-driven and is increasingly out of touch with the diversity of lifestyles and consumption styles.

Especially in the apparel industry, the former strength of the market leaders to control the entire vertical value chain, from design to production, from intermediate trade to distribution, has become its weakness as it cannot keep up with the ever faster cycles of presenting new products at ever lower prices. In addition to growing scepticism about the manufacturing and environmental conditions, a growing number of consumers feel overwhelmed by the deluge of products. Polarisation and segmentation strategies can overtax even well-known multiples, especially if they are already busy developing omni-channel models. And so the big mid-market segment of non-food retailing—be it offline or online—threatens to fade into insignificance.

The creeping decline of the mid-market affects all locations and property types that are dependent on the demand potential of these retailers. In contradistinction to prior market assessments, neither prime high-street pitches nor well-managed shopping centres seem immune to such threats.¹ This is likely to shorten the life cycle of real estate formats in non-food retailing while significantly increasing the pressure on investors to modernise and restructure their assets or to convert them to different use. According to research by the analytics firm GMA, more than 7 billion euros have already been spent on overhauling over 200 shopping centres in Germany since 2010.² And analyses done by the IFH Retail Research Institute in Cologne suggest that the footfall in German inner cities fell short of the prior-year level in 10 out of 12 months in 2018.³

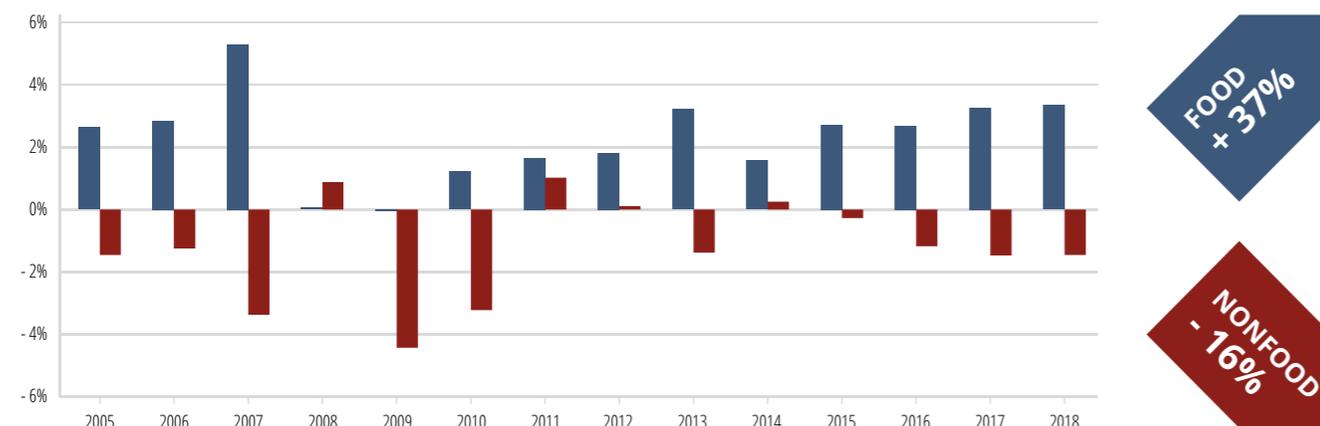
more or less the same, the sale area is expanding, which reflects the successful transformation of existing properties in future-ready concepts and locations.

The real estate potential for grocery retailers is also reflected in the fact that retailers have realigned their real estate strategies. On the one hand, real estate is not part of the core business of retailers and ties up capital that is needed to expand, but hidden reserves in the form of real estate will increase a retail company's eligibility for financing, on the other hand. Indeed, market evidence shows that full-line suppliers Edeka and Rewe have increasingly bought rental properties outright or else developed new sites under their own steam. Since their insider knowledge gives retailers an advantage over investors, particularly with regard to the profitability of locations, it is safe to assume that the retail companies with their long-term planning horizon maintain a very optimistic outlook. Another indication that today's investment and lease decisions lay the ground for the future grocery retail set-up of the next 20 to 25 years is the tendency of some major food multiples to sign their lease agreements far in advance or for long lifetimes of 15 years and more.

Real Estate Potential in the Food Sector

In the wake of the sustained shift in revenues from the non-food to the food market, Germany grocers and drug-store chains have largely repositioned themselves. To meet customer expectations in regard to quality and convenience, store networks were optimised, layout concepts diversified, stores modernised and upgraded. Not least due to the generally restrictive planning permission policy for new-build construction and expansion projects, suitable sites are scarce and cannot be multiplied at will. Prices and rents for grocery retail properties have been on the rise since 2009, indicating a high capital preservation and appreciation potential. However, while the number of permanent establishments has remained

Fig. 24: Trend in revenues in brick-and-mortar retailing, food – non-food, 2005 – 2018, YoY change and collectively



Proprietary chart, based on data by GfK (2019), German Retail Federation HDE (2019) and in-house calculations.



1 Cf. PwC (2007): "Handelsimmobilien in Deutschland – Renditechance oder Milliardengraben?" URL: https://www.pwc.de/de/handel-und-konsumguter/assets/pwc_handelsimmobilien-studie_mai2007.pdf
 2 GMA Gesellschaft für Markt- und Absatzforschung (2018): "Studie zur Revitalisierung von Einkaufszentren in Deutschland"
 3 IFH Köln (2018): "Studie Vitale Innenstädte." Press release dated 23/01/2019, URL: <https://www.ifhkoeln.de/pressemitteilungen/details/deutschlands-innenstaedte-verpassen-erneut-knapp-die-note-2/> (date of last retrieval: 14/03/2019)

BUSINESS TYPES OF THE FUTURE

Full-Line Grocery Stores

The emergent trend in food retailing in Germany will thus continue and consolidate. Full-line grocers, which are characterised by a pleasant quality of stay, clearly structured retail area and a positive shopping ambience as it is, will not only retain their appeal but are positioned to benefit—in the wake of their concept diversification to match the local situation—from the time pressure to which the demographic trend groups are exposed. This means that full-line grocers help to bolster their retail locations now and going forward.

Discount Grocers

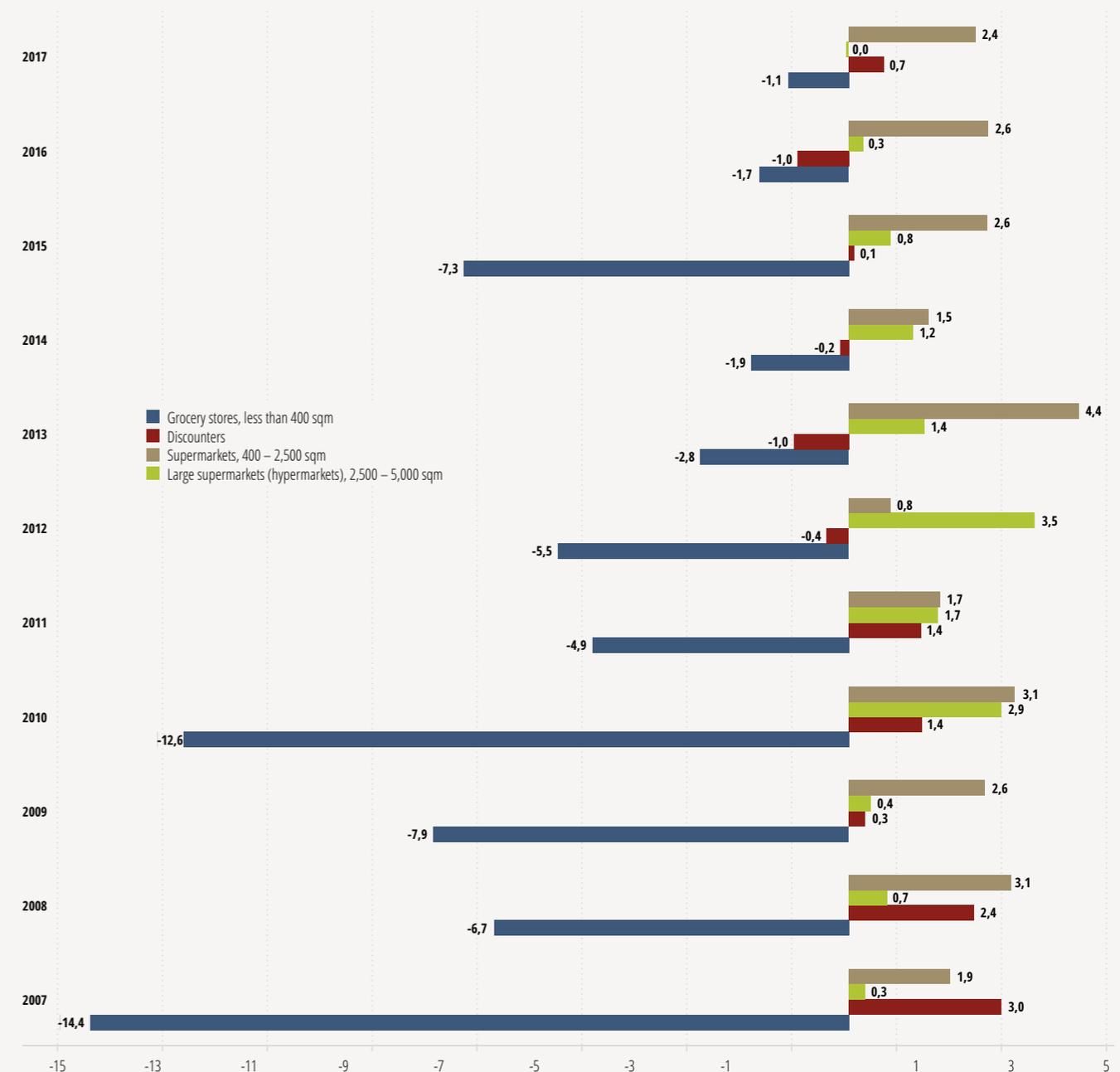
Analogously, the development of the discount grocers mirrors the convenience and amenity expectations among consumers. Recent new discount supermarket concepts like those of Aldi Süd, Aldi Nord or even Lidl shows a growing convergence among discounters and full-line grocers, at least with regard to store design but to some extent also through the expansion of the core assortment to include convenience and branded products. Although the high costs involved keep provoking heated debates on the senior management levels of retail companies, the client base has largely embraced the conversions and new-build developments. It seems

safe to assume therefore that the investments will pay off in the long term.

Hypermarkets

Following years of stagnation, especially for the superstore type of business, that were mainly caused by unresolved issues in the non-food segment, large supermarkets in particular have begun to benefit from the positive trend in food retailing, specifically the format of so-called hypermarkets, which operate sales areas between 2,500 and 5,000 sqm. The growing spread of this type of operation is driven by two converse developments, namely the downscaling of superstores after the reduction of the non-food share, on the one hand, and the enlarging of supermarkets after the expansion of fresh-food and convenience ranges. As part of this trend, the future themes of diversity and event are often staged in very attractively designed premises. An entertainment strategy is pursued to create visitor incentives and to increase the value added. The challenges involved differ from one corporate group to the next: While Edeka and Rewe selectively add new large-scale sites to their store networks within the framework of their overall strategy, Kaufland and Dohle have begun to upgrade their concepts in general.

Fig. 25: Development of business types in food retailing by number of branches, in %



Proprietary chart, based on data by the EHI Retail Institute (2019)

THE POTENTIAL OF MIXED-USE DEVELOPMENTS



"Güterhalle" project in Hamburg-Altona, mixing the uses food retail, gastronomy, commercial, residential (visualisation/image credit: moka-studio bR Hamburg on behalf of Aurelis Real Estate)

While the last few years have been marked by enthusiasm for the digital world and its social networks, the coming decades are expected to see a compensatory trend in response to the progressing digitisation: All demographic trend groups have articulated a preference for authenticity and genuine socialising. The desire for a social environment in a physical urban setting is therefore likely to keep growing. Grocery retail location meet this desire half-way if they are arranged in a mixed-use format. By bundling different uses, shoppers benefit from time-saving coupling effects, on the one hand. On the

other hand, the high basic footfall that motivates the decision to mix types of use creates attractive conditions that encourage shoppers to return daily as to a third place.

Against the background of the challenges currently facing the shopping centre industry, however, it remains unclear what the best way would be to synchronise the retail, gastronomy, services and leisure amenities in a given property in the manner that will satisfy consumers. So far, the grocery retail segment has mainly occupied sites along arterial roads or in trading estates, and while these retail sites have frequently expanded into agglomera-

tions, they tend to be poorly designed in urban planning terms. Mall solutions qualify as adequate response to the elevated expectations in regard to quality, short distances and quality of stay only if the functionality and flexibility of their property design have not been compromised. Given the generally lower trade margins in the grocery retail segment, the margin for service charge and ancillary cost allocations also needs to be borne in mind.

Depending on the specific location, local convenience centres will fulfil the desire for diversity, efficiency and a satisfying experience in many ways: in urban high-street locations, they may occupy the ground and basement floors of commercial buildings that provide flats and offices on the upper floors whereas in less urban or rural areas they could take the form of open-plan and flexibly structured buildings no higher than two storeys. Irrespective of the architectural language, the freshness, convenience and gastronomy themes should be communicated via the visual presentation of the exterior. Local convenience centres thereby contribute to an attractive mixed cityscape regardless of the urban-planning situation on the ground.

POTENTIAL OF THE RURAL AREA

Germany's demographic trend will differ from one region to the next, in some cases drastically so. At the moment, the focus of the body policy, government authorities, national interest groups and regional players rests squarely on the rural areas. Geriatrication and population decline can cause gaps in supply and demand, and the same is true for some of the rustbelt metro regions.

Few people realise that the countryside plays a more definitive role in Germany than is commonly assumed. The Expert Council for Rural Development (SRLE) at the Federal Ministry for Food and Agriculture (BMEL) states that 57 % of Germany's population live in rural areas and that—irrespective of their heterogeneity—they collectively account for a major share of the country's gross value added (46.2 %) and jobs (50.5 %). The contribution of manufacturing industry, including the trades, is quite significant (53.6 % by gross value added and 62.8 % by employment). Relatively speaking, the number of people employed in the knowledge-based economic sectors is actually higher in rural than in non-rural regions.¹

But it is also here, in rural areas, that

a drop in purchasing power as a result of declining population figures can drive shops out of business faster than elsewhere and jeopardise security of supply, or at least the supply quality for the local population. This has prompted legitimate concerns over a looming "supply shortage in rural areas."

Supply Nodes as Policy Objective

Policy makers have a vested interest in ensuring the availability of a basic supply in consumer staples as well as medical and social services. Approaches taken in the inter-municipal context to address the issue seek the cooperation of several towns to set up rural supply nodes. To this end, the catchment area of a supply node must be large enough to generate sufficient demand. The site of such a node may, but need not, be located in the centre of one of the municipalities. Ideally, it will be geographically associated with a residential area or other existing central institutions.

The core of a supply node consists of an attractive grocery line-up, around which other modules can be grouped: post office, pharmacy, bank/savings

bank, doctors' offices, drugstore, educational, sports and daycare facilities as well as small-scale retail outlets that supplement the grocery retail line-up.

Compatibility with the Expansion Policy of the Food Retail Industry

It is safe to assume that finding suitable retailers who are prepared to move into attractive properties to ensure that a basic supply is provided in locations of high potential—regardless of whether it be urban or rural—does not present an issue. Wherever the zoning requirements were in place, but especially in rural areas, modern grocery retail outlets were developed in recent years whose revenue potential is boosted by their appeal to shoppers from outside the local community. In many towns in Germany, the disappearance of small grocery stores with less than 400 sqm of sales area at a rate of 66 % over the past decade alone was offset by the expansion of new full-line grocers or by the expansion or modernisation of existing markets.² The moderate sales prospects in rural areas are matched by relatively affordable rent levels.

¹ Cf. also Sachverständigenrat Ländliche Entwicklung (SRLE) beim Bundesministerium für Ernährung und Landwirtschaft (BMEL): "Erwartungen an die Arbeit der Kommission 'Gleichwertige Lebensverhältnisse' und zu notwendigen Vorab-Maßnahmen zugunsten ländlicher Räume." 2018. Retrieved from https://www.bmel.de/SharedDocs/Downloads/Landwirtschaft/LaendlicheRaume/Stellungnahme-SRLE-2018%2004%2030.pdf?__blob=publicationFile (date of last retrieval: 14/03/2019)

² EHI Retail Institute (2018)

GUEST ARTICLES BY KAUFLAND DIENSTLEISTUNG GMBH

EXPANSION STRATEGIES BEYOND THE CONURBATIONS

Manuel Jahn talked to Dr. Angelus Bernreuther, Head of Investor Relationship Management at Kaufland Dienstleistung GmbH & Co. KG. He is responsible for real estate industry communications.



Jahn: Kaufland already operates 660 stores in Germany. What sort of role do regions outside the conurbations play in this context?

Bernreuther: A key role, actually. Of course, we are also present in the metro areas, but our aspiration has always been to anchor footfall with large-scale premises, even outside conurbations.

Jahn: Against the background of demographic change – do the opportunities of your expansion outweigh the risks or vice versa?

Bernreuther: Ultimately, it always boils down to the potential of a given location. We always strive to be the best provider in our segment. The sustainable potential in our catchment area should be just right. This means densifying the store network in growth regions and optimising the stores in shrinking regions.

Jahn: And how much potential do you expect?

Bernreuther: For our large supermarket concept, we check out towns with population of 10,000 or more and a catchment area of 25,000 or more. This alone tells you that we continue to see plenty of potential in Germany, especially in strong basic- and middle-order centres.

Jahn: That sounds rather small, though, by Kaufland standards.

Bernreuther: We will review any supermarket concept with a sales area of 2,500 sqm or larger. Here, the focus is on food and on a comprehensive grocery range. We have the option to add on other non-food ranges. In many towns, we are the retailer with the largest range because we stock around 30,000 items. Especially outside the conurbations, we act as genuine full-line grocers, and customers from a wider catchment area are prepared to travel to shop with us. We consider that rather large.

Jahn: Shoppers are getting more demanding. Does this go for rural areas as well?

Bernreuther: Absolutely. The shopping experience plays an increasingly important role in the food retail trade. We launched a large-scale modernisation drive to convert our network of branches to a new store concept. It makes shopping easier by introducing a



Fresh food emphasis in the produce section, including bake shop (image credit: Kaufland)

clearer structure, lower shelves and clear guidance via colour symbols for all departments. The focus here is on freshness and quality. This is reflected in the recently redecorated fresh food sections for fruit and produce, the bake shop and the fresh food counter for butchery, cheese and delicatessen.

Jahn: Let's talk about the shopping experience – how important, in your opinion, will certain sectors that complement grocery retailing, such as gastronomy or services, be in future?

Bernreuther: Kaufland has always considered this an integral part of things. For us, a comprehensive line-up means offering customers a one-stop shopping experience. They should look forward to coming back. So, our post-checkout areas are a key element of our markets. In this context, we rely specifically on the competence of regional partners, particularly in the bakery segment with its food-to-go options.

Jahn: Does that mean Kaufland follows the above-average growth trend in out-of-home consumption?

Bernreuther: Precisely. And in the process, we're also enhancing the quality of stay and lengthening the dwell time. Take, for example, our new appearance in Arnsberg where we massively enlarged the post-checkout area in order to give our tenant partners an entirely new

stage to present themselves, including outdoor seating.



The shopping experience in the post-checkout area (image credit: Kaufland)

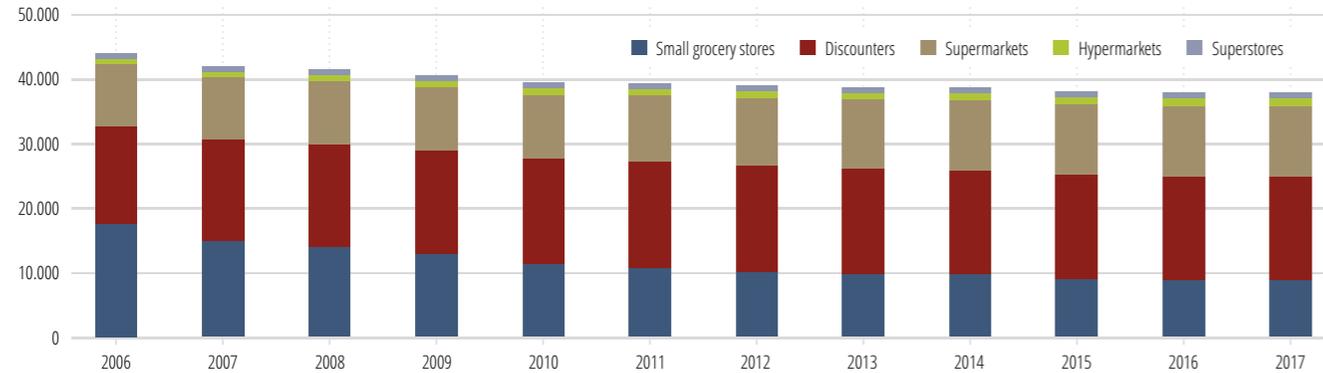
Jahn: In closing, let me ask you about the issue of online retailing in rural areas: Is there reason to worry about Amazon and their ilk?

Bernreuther: We keep a close eye on the way things are evolving. Food and grocery retailing however, will almost exclusively remain an in-store domain in the rural areas, even in the future. It's been reassuring to note that our concept has made us a true footfall anchor, especially outside the conurbations, and this is not about to change. You could say our role is to ensure stability in a given town. And this is true for any kind of retail pitch, be it as stand-alone, in a retail warehouse park, in a shopping centre or on high-street.



Dr. Angelus Bernreuther
Head of Investor Relationship Management

Fig. 27: Number of grocery stores by retail line



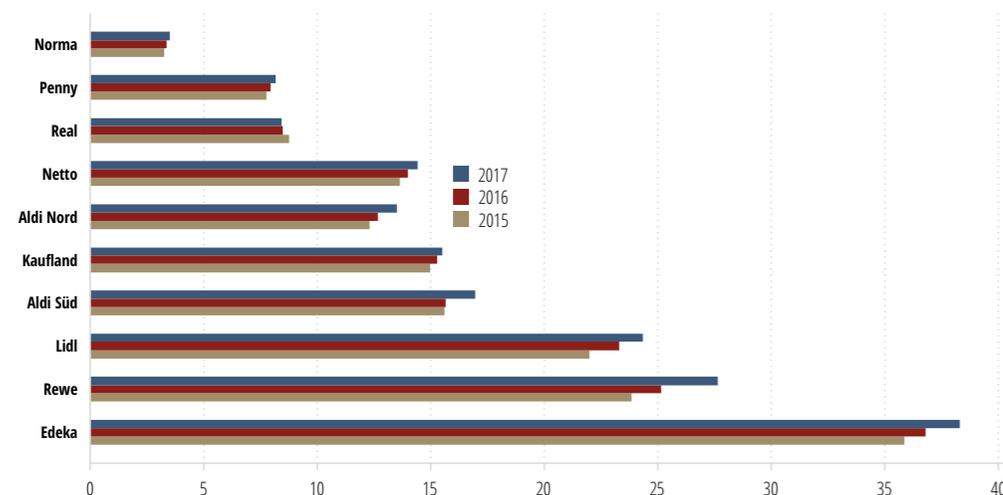
Proprietary chart, based on data by the EHI Retail Institute (2018)

Schwarz Group (Lidl, Kaufland), Aldi Süd, Aldi Nord, Edeka (Edeka, Netto, Marktkauf) and Rewe Group (Rewe, Penny) are the big players dominating Germany's food retail trade. The high density of branches and the strong market position of discount grocers keep fuelling the rivalry among the retailers.

That being said, the total number of grocery stores has gone down in recent years. This is due above all to the rapid rate at which small grocery stores with sales areas of less than 400 sqm each have been closing. Their number is down

to less than half of what it was roughly 10 years ago, having declined from 17,400 in 2006 to 8,650 in 2017. During the same time period, the number of supermarkets (between 400 sqm and 999 sqm) increased by around 14 %, that of discounters by 7 %. The large supermarkets with sales areas of more than 2,500 sqm saw 30 % growth, whereas the superstores with sales areas of more than 5,000 sqm recorded a decline by 4 % – although it should be added that they started with a much lower base figure of roughly 1,000 outlets in Germany.

Fig. 28: Revenues of selected grocers in Germany, in bnEUR



Proprietary chart, based on data by Retailytics (2018), cited according to Statista (2018)

Nearly all German grocers continued to increase their revenues in recent years.

A look at the trend in revenues for the major retailers shows: Most of the companies reported growth. The revenues generated by the Edeka full-line grocery stores, for instance, increased by 7 % between 2015 and 2017. During the same period of time, the Rewe full-line grocers actually increased their revenues by 16 %. Even discounters have matched the trend. Lidl and Aldi Nord, for example, achieved double-digit growth rates during the same two-year period as well. The fact that Aldi Nord ran a deficit for the first time is explained mainly by the large investments the group initiated to modernise its branches.

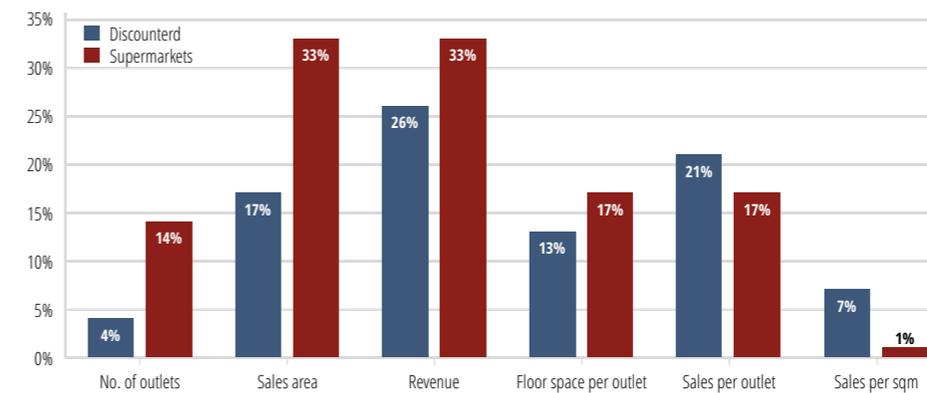
Both discount and regular supermarkets were able to push up their revenues by around 30 % between 2007 and 2017. In the case of the supermarkets, this coincided with an increase in the number of outlets by 14 % and an enlargement of the average market size by 17 %. Together, the two trends resulted in an expansion of the total floor area by 33 %, which implies the same rate of growth as the revenue increase. While the floor-space productivity of the Edeka and Rewe supermarkets—meaning the revenues per square metre—remained stable over the past 10 years, their total revenues were boosted by new and, above all, larger stores with an expanded product range.

The floor-space productivity of discount grocers increased by an actual 7 %. Revenues increased by more than a quarter (26 %), not least due to the upgrading of product ranges and



the decision to stock branded products, among other steps, while the total area grew by only 17 % and the number of outlets by a mere 4 %. This means that Germany's discounters are not just expanding but also becoming more productive as a result of range improvements. The discount grocers thus managed to increase their average sales per square metre by nearly 400 euros during the period under review. From 5,180 euros/sqm in 2007, they had climbed to 5,560 euros/sqm by 2017. This makes them by far the most productive retail format in terms of sales per square metre, whereas supermarkets have managed to maintain their level of c. 4,200 euros/sqm.

Fig. 29: Trend in key performance indicators of discounters and supermarkets, 2007 – 2017



Proprietary chart, based on data by the EHI Retail Institute (2018)

The KPI of discounters and supermarkets developed very briskly. Revenue growth was generated mainly through larger new premises as well as through the expansion and modernisation of existing outlets.

CONCEPTS AND MARKET POSITIONING IN GROCERY RETAILING

In qualitative terms, the food retailing sector has considerably improved in recent years. Shopping purely for the purpose of stocking up on staples is losing in appeal while shopping experience, convenience and feel-good ambience keep gaining in significance. The hybrid customer—who, depending on the situation, may opt for bargain hunting or luxury splurging, for a brand item or a trademark product and for the express-lane checkout or event shopping—is moving away from the silo mentality of traditional concepts and wants to see formerly separate ranges and formats linked. Discount grocers are upgrading their assortments by adding branded products, supermarkets offer home deliveries, and hypermarkets are re-inventing themselves as places of enjoyment. What are the latest activities in the market? Here is an overview.

ACTIVITIES OF THE DISCOUNT GROCERS

The rise in the discounters' floor-space productivity in sync with the expansion of retail areas is explained

by several developments. On the one hand, discount grocers have successively expanded their range of branded products, while, on the other hand, the stores have undergone increasingly valuable refits. Both steps were successful in engaging new customer groups.

Lidl and Aldi in particular now stock a large range of branded products that have been boosting their revenues per square metre. The total number of

items stocked by discount outlets has also increased by 13 % to 15 % since 2007. By stocking more products in general and more branded products in particular, discounters have attracted additional consumer classes. Moreover, Lidl and Aldi have largely shed their “bargain store” image.

Gone are the days when discounters sold straight out of the box, as they are spending billions now to reinvent them-



selves as premium value retailers where wooden surfaces and bright interiors are standard. Aldi Nord, for instance, started to introduce its ANIKO interior design concept in 2017, which features a new lighting scheme and fresh, bright colours. Special promotions like a weekly change of recipes by celebrities posted in-store along with instructions and ingredients, are supposed to make shoppers feel more at home. By the end of the modernisation drive, which was launched that same year, all of the 2,300 branches will be refitted. Aldi Nord is planning to invest a total amount of c. 5.2 billion euros to this end.

Apart from the massive investments in existing stores, the discounters are

toying with store concepts. Lidl, for one, announced a new branch concept in early 2019. The two stores so far planned under the new design will have a sales area of only 500 sqm and thus be considerably smaller than the average store. After all, even discount grocers have to adapt flexibly to conditions on the ground. The plausible way forward is precisely to focus on smaller stores in well-frequented urban locations.

The smallest of these modern discounters now operates in Munich. On just 290 sqm, Penny presents a streamlined but high-end assortment with special focus on convenience food in the high-street pitch of Karlstrasse.

Innovative collaborative ventures are another sign of the brisk dynamic currently at work in German food retailing. Aldi and Karstadt, for instance, announced that the discount grocer will open proprietary outlets in many branches of the department store chain. It is a good way to approach new consumer classes and to bypass the need for expensive proprietary high-street locations.

That said, the changes are creating supply gaps that competitors rush to fill. A case in point would be the market entry of the Russian discount grocer Mere (Torgservis), which market insiders are watching with great interest. The company recognised a gap at the lower end of the price range that has been created by the range expansion and higher-end store concepts of the established German discount grocers. Retail experts, however, are doubtful whether the German market will accommodate the concept because consumers have embraced the idea of more attractive branches with larger assortments. Worth noting is that price increases in the wake of the upgrades to ranges and stores have been rather modest.



Lidl Frankfurt Gallus, outlet for urban infill densification, including flats (image: SKAI Siemer Kramer Architekten Ingenieure)

Stephan Luxem
 Head of Property Office
 Rhine-Main Region



GUEST ARTICLE BY LIDL DIENSTLEISTUNG

FLEXIBILITY @LIDL

Flexible Branch Concepts as Basis for Successful Partnerships in the Real Estate Industry

As one of Germany's leading grocers, we have a clear-cut objective and a social responsibility: to supply all residents with high-quality groceries at affordable prices. It is complemented by a commitment to meet the needs of environment, customers and employees by developing modern and sustainable buildings with attractive shopping options and great working conditions.

Urbanity and Mobility Reloaded

Key aspects in this context are the new urban developments that are prompted by the strong inflow from rural regions and the parallel changes in the mobility behaviour of people. This next-level urbanity is changing urban-planning requirements and calls for innovative planning concepts for properties that combine uses, e.g. retail and residential, or that integrate retail units in repurposed buildings in the case of inner city locations with a high footfall.



Visualisation of a stand-alone Lidl branch with forecourt parking

(Image credit: imagestorm)

This sort of shift reflects the changed mobility and shopping behaviour of people: Urban shoppers tend to use public transportation to do their shopping or come on foot, and they shop several times a week, such as on their way home from work. With this in mind, it can even make sense to open a store entirely without customer parking. This contrasts with the situation in rural areas or the urban periphery where the traditional weekend shopping is still done by car. There, shoppers still expect sprawling single-storey stores conveniently accessed from surface parking lots.

Since we want to expand in additional locations all over Germany, we developed flexible solutions to meet the aforementioned requirements and implement them in different variants:

- Single-storey branches with forecourt parking lots are great for many sites, for example in rural areas, retail warehouse parks, industrial zones or peripheral locations. Using a modular type of construction enables us to adapt these branches to their respective plots and to customise

them, for example by adding rooftop vegetation or brick façades.

- In highly densified districts of major metropolises, land for retail and residential units are rare commodities. The creation of attractive locations calls for bespoke property developments that make optimal use of the few available sites and combine the goals of urban and neighbourhood development with flexible and customer-friendly retail trade concepts. One variant for this purpose is Lidl's metro store that stacks the retail area on top of a spacious ground floor parking lot. Depending on the location, the retail premises could in turn be topped with other types of accommodation, such as offices or flats.
- Our high degree of flexibility also ensures the optimal integration of branches in repurposed buildings. In this context, we adjust the layout individually and combine modern architecture with the existing building structure. This approach permit us to integrate stores even into

protected buildings without altering the streetscape as an option for introducing modern grocery retailing into urban centres with high footfall.

Reliable Partner for the Real Estate Industry

Lidl is also demonstrating flexibility in regard to the ownership of its branches, and has thereby proven a reliable partner for the real estate industry. In addition to acquiring plots for the purpose of developing them into stores, we are also prepared to take over premises and properties as trustworthy long-term tenant.

In addition, we love to develop properties on behalf of, or together with, partners from the real estate industry. We bring many years of experience in the construction of retail property to the table as well as properties of our own that lend themselves to combined uses. Indeed, Lidl's in-house property experts have the know-how to handle the development of entire quarters and projects.

ACTIVITIES OF THE SUPERMARKETS

The strong position of the discounters and the progressive amalgamation of concepts has prompted supermarket chains to follow suit. Their efforts to reinvent themselves are facilitated by the cooperative organisation of the two market leaders, Rewe and Edeka. Local retailers know the requirements of their home turf and are capable of designing flexible store concepts that are tailored to the needs of the relevant local consumer classes. Depending on location and concept, local merchants can make qualified decisions whether to operate big flagship stores or specialised boutiques. As a result, store concepts are becoming ever more diversified. Classic supermarkets are being rivalled by grocers who offer either large markets for event- and feel-good shopping or small stores whose target group shops on the go and lives close to urban nodes.

It is against this background that both Edeka and Rewe are diversifying their branch formats. Apart from modernising large-scale formats into event and themed venues, they also focus on niches that are best served with small fast-shopping formats. Several Edeka member companies launched the line “Edeka Xpress” (or “Edeka Express”) to this end. True to the maxim “it’s not a bug, it’s a feature,” the comparatively small retail units that Edeka took over from the defunct Tengelmann chain in Munich were turned into convenience



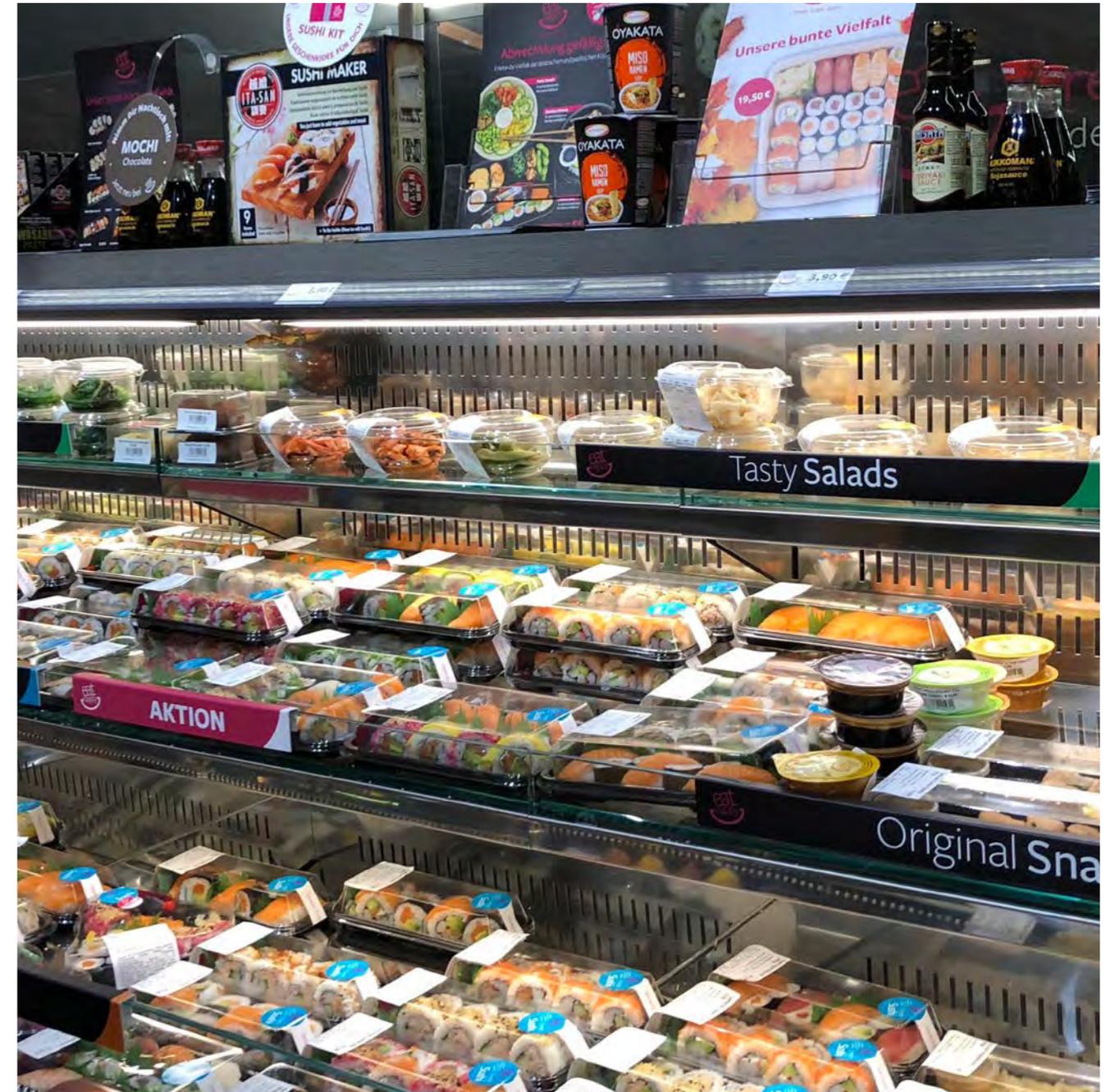
Rewe To Go

formats with an assortment adjusted for fast-shopping purposes.

Rival chain Rewe bases the diversification of its branch concept on its “Agenda 2020” strategy. The idea is to turn shopping at full-line grocers into an event-like experience by supplementing their exhaustive product selection with live events, such as the preparation of sushi on the premises. In dense residential areas and high street pitches, Rewe has responded to the convenience shopping needs of its client-base by launching the “Rewe City” format, which combines a small footprint with fresh food counters and out-of-home meals. In addition, “Rewe To Go” sells snacks and travel essentials

at railway stations, airports, service stations.

Given Germany’s strained real estate markets, smaller stores are actually expected to facilitate the expansion into densely populated urban areas where large-scale formats are no longer a viable option in terms of both floor space and profitability. The crucial factor is always high footfall because smaller formats are generally characterised by much lower receipts per customer than large-scale formats. Otherwise, it will prove impossible to shoulder the elevated rents in such locations.



Rewe at Zeisehallen in Hamburg. The industrial charm of the former factory was preserved and makes the supermarket as such a pleasure to visit.

(Image: Rewe)



GUEST ARTICLE BY REWE GROUP

“STATE OF THE ART” REWE AT ZEISEHALLEN IN HAMBURG

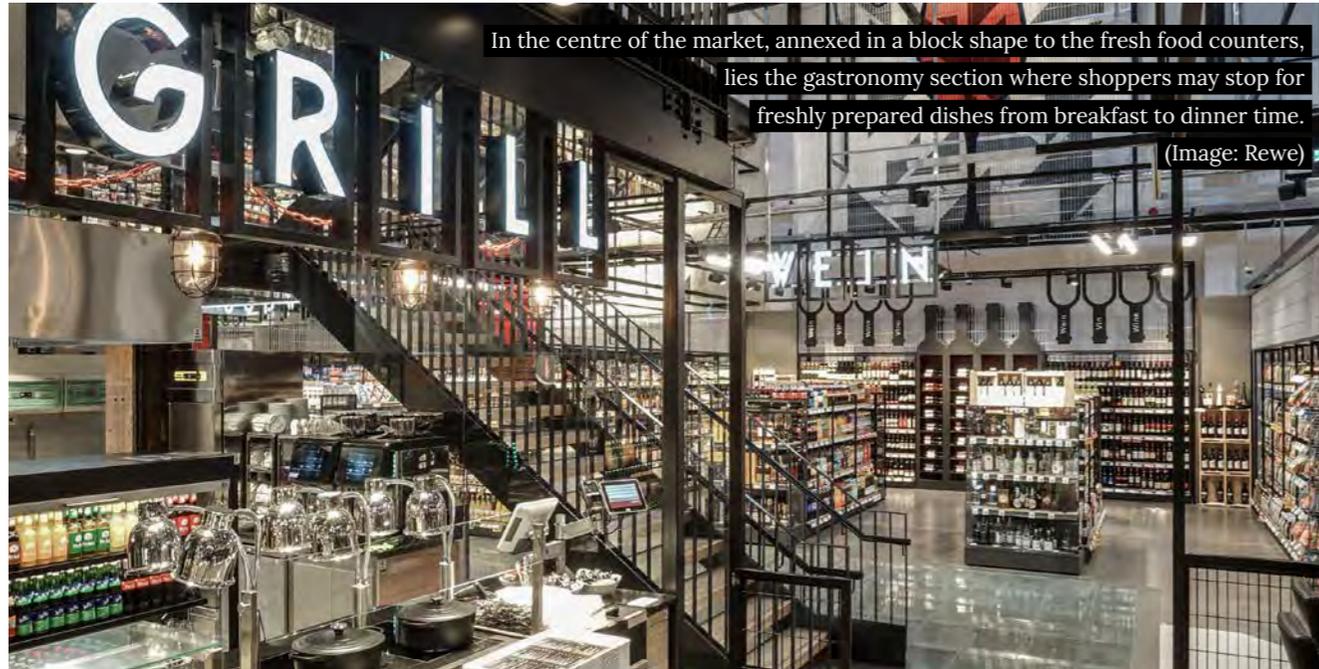
Here, where ship propellers of enormous size and weight were cast between 1882 and 1979, a supermarket now offers an urban shopping experience of third-place character. This is the new Rewe branch at the Zeisehallen industrial heritage site in the hip district of Ottensen in Hamburg’s borough of Altona. The changed use concept has made the historic property freely accessible to local residents and tourists both. Apart from the aesthetic experience this uniquely designed supermarket provides, it features a high share of fresh foods and gastronomy sections that are worth a visit in their own right.

“Markets with a feel-good ambience are a decisive success factor,” emphasises Christian Schneider, Head of Domestic Site Development at Rewe. “You see, customers have become more demanding over the past years. Aside from wanting to have stores close at hand that stock a richly varied range, people crave more comfort when shopping and spending time at the store. Rewe keeps meeting this need by designing all of its stores with wide aisles, low shelves and a harmonious, engaging structure.”

The supermarket of merchant Sasa Surdanovic is exceptional in several ways: On the ground floor, you will find small squares instead of long aisles of shelves, structured by product ranges and guiding shoppers through this retail venue. On a sales area of around 1,000 sqm, this grocery retailer addresses both the need to get the grocery shopping done

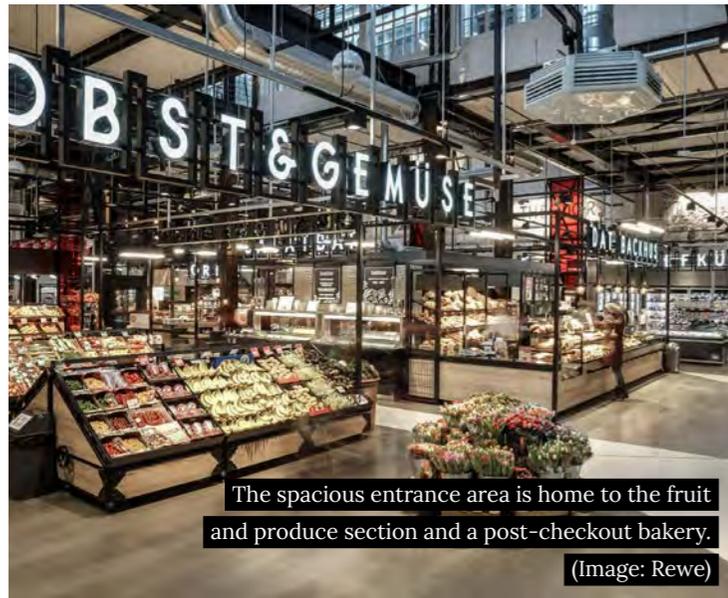
quickly and the expectations concerning the freshness, quality and regional sources of the products. The fresh food counters for butchery and cheese, which is stocked with a large number of goods produced in-house, represents the centrepiece of the store. The other departments radiate outward from here—be it the fruit and produce section including salad bar and fresh-squeezed juices, the exclusive wine selection or anything in between. Another central area of the store is occupied by its proprietary restaurant area. Shoppers have the choice of various dishes and snacks as well as a menu of lunch specials that includes vegan dishes.

A mezzanine with seating and even a piano was installed inside the existing steel structures of the historic factory building. The cosy area is used by shoppers to watch the action down in the supermarket from a bird’s eye perspective while having a chat in an easy-going ambience or simply taking a break. The area doubles as auditorium for internal or external events. The entire interior decoration of the supermarket references the building’s history, with great attention to detail. For instance, a former casting mould for ship propellers was covered by a glass floor and can be admired as one of many sights. Conclusion: The Rewe supermarket inside the Zeisehallen heritage site offers an event-like shopping experience by adapting perfectly to a complex location and has thereby become an asset to Hamburg’s trendy sub-district of Ottensen.



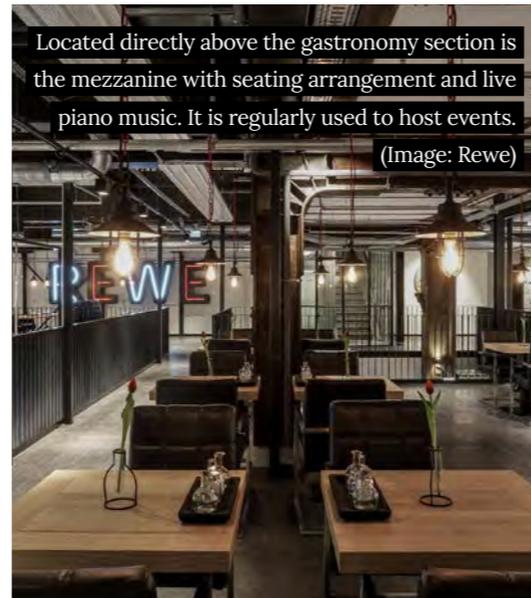
In the centre of the market, annexed in a block shape to the fresh food counters, lies the gastronomy section where shoppers may stop for freshly prepared dishes from breakfast to dinner time.

(Image: Rewe)



The spacious entrance area is home to the fruit and produce section and a post-checkout bakery.

(Image: Rewe)



Located directly above the gastronomy section is the mezzanine with seating arrangement and live piano music. It is regularly used to host events.

(Image: Rewe)

“It is of great importance to Rewe Group to install markets with a modern design concept in integrated urban locations close to consumers. And to do so in harmony with the cityscape, architecture and one-off usage requirements rather than going for off-the-shelf solutions. This is our ambition with every market that is to be developed, expanded or structurally altered. “The Rewe market at Zeisehallen certainly counts among the special gems in our portfolio and demonstrates impressively that we are willing to overcome an obstacle. Listed properties or protected parts of buildings present architectural and planning challenges that we are eager to take on for the purpose of creating a unique shopping experience.

Our efforts were recently rewarded with a coveted distinction: The Rewe branch in Zeisehallen was chosen as “Store of the Year 2019” in the “Food” category by the HDE German Retail Federation.



Christian Schneider
Head of Site Development
REWE National



Interior fit-out details

(All images: Rewe)



CONVERGENCE OF GROCERY RETAILING AND GASTRONOMY

As the daily routines of people become more flexible, traditional fix points such as the regular meal times of breakfast, lunch and dinner are dissolving. These days, people will eat wherever and whenever it suits them. In the wake of this development, the German gastronomy sector has registered high annual growth rates of up to 4%. In the process, the sector is not only diversifying into ever more sub-segments but is also permeating other sectors. Especially the common ground with the food retail trade keeps expanding.

Inversely, food retailing has started to encroach on the gastronomic domain. On one hand, the spectrum of products for direct consumption out of home has exploded while, on the other hand, more and more supermarkets offer products for in-store consumption. The case of the

Rewe supermarket at the Zeisehallen industrial heritage site in Hamburg (see guest article above) shows how supermarkets are evolving into socialising places and lifestyle destinations. The combination of retail and gastronomic options has been warmly welcomed by the target groups because they are perceived as third places more than as shopping venues.¹

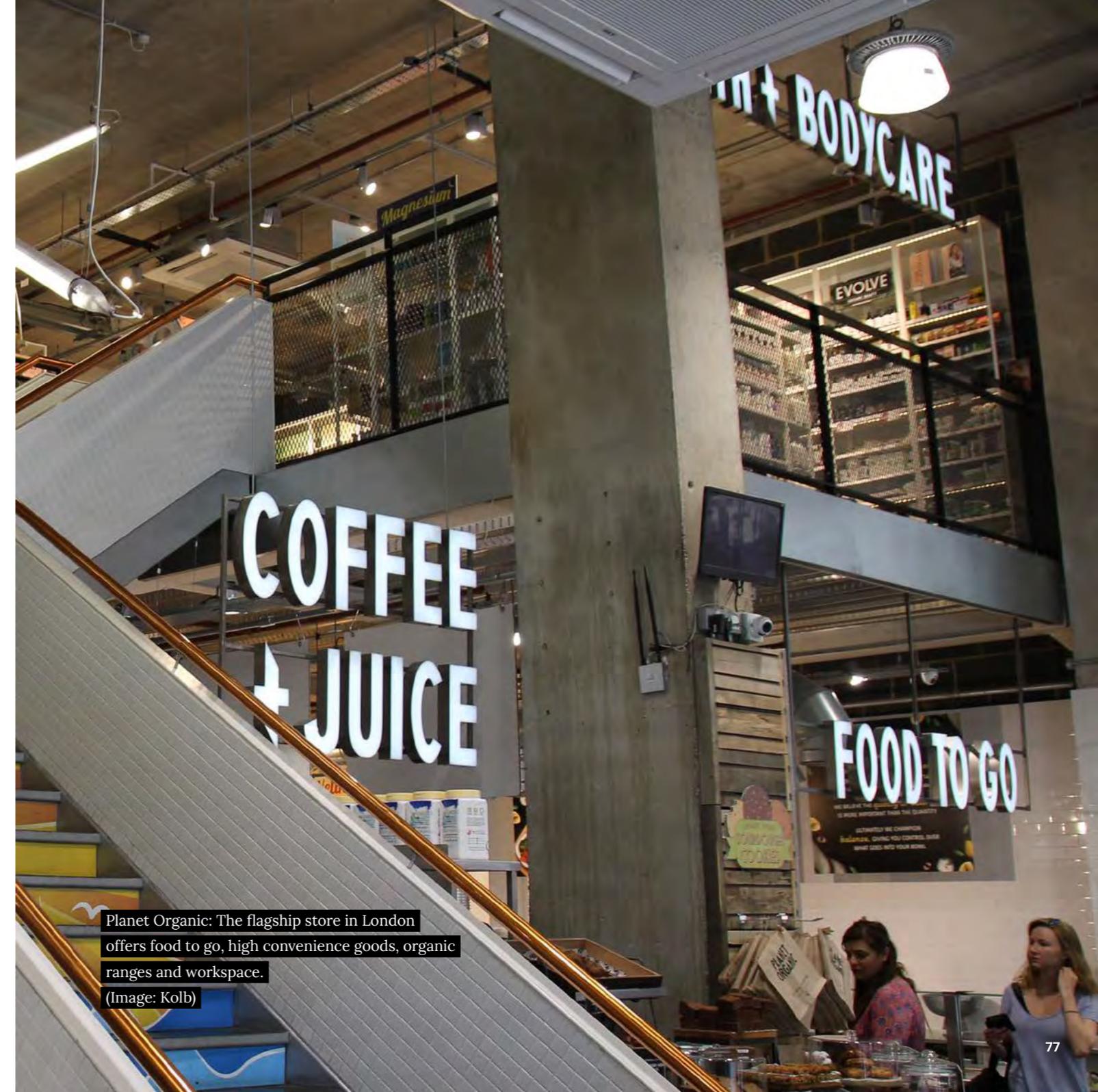
Apart from the interaction with the gastronomy sector, there are synergy effects generated by bringing in crafts and events that satisfy a desire for tradition and health, on the one hand, and a craving for live-experiences and entertainment, on the other hand. Grocery retailers have generally been getting more adept at thinking outside the box of their sector and at setting themselves apart from rival players.

¹ Cf Janine Seitz and Theresa Schleicher (2017): Retail Report 2018. Zukunftsinstitut GmbH (ed.), URL <https://www.zukunftsinstitut.de/artikel/retail-report-2018/> (date of last retrieval: 14/03/2019)

Fig. 30: Trend in revenues from out-of-home consumption, in bnEUR



Proprietary chart, based on data by the Federal Statistical Office (2019)



Planet Organic: The flagship store in London offers food to go, high convenience goods, organic ranges and workspace. (Image: Kolb)

GUEST ARTICLE BY THE EHI RETAIL INSTITUTE

THE TRENDS AND CHALLENGES IN RETAIL GASTRONOMY

83 billion euros reads the 2019 forecast by npdgroup Deutschland GmbH for Germany's gross sales in out-of-home gastronomy after years of steady growth. It is a great opportunity for the retail sector to reposition itself and to create an attractive line-up, following a wide-spread trend in other countries. Service stations generate extra sales by providing convenience and gastronomy options, fashion retailers and garden supply centres are rolling out café concepts to make their customers feel more welcome and at home, and food retailers flaunt their food competence in order to set themselves apart from the online and offline competition with added value as well as to boost footfall and length of stay. As a result, an alternative food-and-drink infrastructure with more than 9 billion euros in gross sales and over 33,000 retail outlets has emerged that rivals conventional food outlets: a hybrid range combining gastronomy and retail. Having studied the new phenomenon of retail gastronomy in Germany, the EHI Retail Institute summarised its findings in a ground-breaking survey ("Handels-gastronomie in Deutschland 2018").

The respondent companies represent roughly one quarter of the gross retail revenues in Germany.

Out-of-Home Consumption Continues to Grow, Convenience Shopping Gains in Significance

Underlying the trend toward out-of-home consumption are mainly societal factors. The quality of life and the disposable income have both improved for German consumers. In addition, society is now more mobile and informed than ever before. The trend toward urbanisation keeps going strong, while more and more people live in smaller households. Rigid meal times have long become a thing of the past, and the desire for entertainment and new sensations is getting ever more important in both the retail and the gastronomy sectors.

Shopping just to stock up is becoming less significant and few shoppers know how to cook, yet people shop more frequently just for the ingredients of specific meals. It has given rise to a premium convenience trend that is gaining popularity among retailers

and customers alike. Most interesting for the consumer is the combination of high quality goods—either for immediate consumption or as takeaway—at a moderate price.

Food is the "New Fashion"

People eating out have become more demanding but also more flexible lately, and they prefer to shop around rather than settling for the first place they find. This means that even hungry customers are prone to leave a shopping environment if it fails to offer them adequate food options. An aspect not to be underestimated is that many people identify with their diet and the places where they eat. People's eating habits and expectations need to be accommodated in stylish, modern, trendy and socially presentable ways. Add to this that there is an increased demand for bespoke arrangements of products and dishes.

Staff as the Key Factor

A particularly tricky issue at the moment is human resources. Finding and retaining chefs and service staff presents the biggest challenge for re-



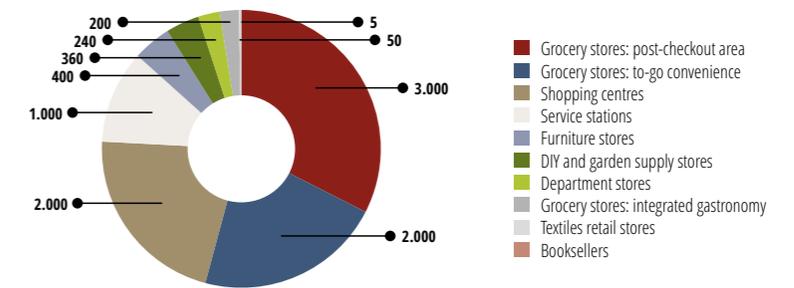
Mercato Metropolitan: socializing and entertainment in London. (Image: Kolb)

tailers. At the same time, two of three retailers also cite adequate staff as the key success factor because friendly employees are good for business as they casually create the desired feel-good ambience.

Red tape and necessary permits also present difficulties. Regulatory requirements and urban-planning restrictions in particular can impact costs and time lines to an extent that should not be underestimated. A major challenge for companies active nationwide is that the requirements specified by the competent authorities can vary from own town to the next.

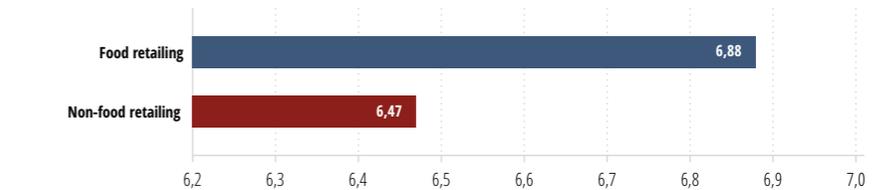
Ultimately, you also need to consider the commercial risk when bringing

Fig. 31: Retail gastronomy revenues in selected sectors, in mEUR/year



Proprietary chart, based on estimates by the EHI Retail Institute (2018)

Fig. 32: Average receipts in retail gastronomy in selected sectors, in EUR per visit



Proprietary chart, based on estimates by the EHI Retail Institute (2018)

in retail gastronomy. The main risk is posed by the high initial investments in shop fitting and equipment, the extra payroll costs and the initially lower floor-space productivity, and it is a risk hard to quantify. It can easily take half year or more to position a new food outlet and to attract the necessary footfall. In some cases, a new place does not begin to prosper until it has been in business for a year or two. Also to be taken into account is the running overhead and maintenance costs of food outlets and their associated units.

Outlook

The dissolution of boundaries between retail and gastronomy will con-

tinue, and it is generally safe to say that the gastronomy share in the retail sector will grow. In-store food retailing generates by far the largest share of retail gastronomic sales, which will keep going up, the same being true for such sales at service stations and shopping centres.



Moritz Kolb
Project Manager of the
Retail Gastronomy Research Unit

OPINION PIECE BY STATISTA GMBH

MIXED USE – A WIN-WIN SITUATION FOR RETAILERS, CONSUMERS AND THE REAL ESTATE INDUSTRY

An ageing population, more single-person household, (domestic) migration and urbanisation: Germany is changing. Especially urbanisation is intensifying the strain on real estate markets, the housing market being particularly hard hit by the sustained decline in the number of persons per household. According to figure released by the Federal Statistical Office, there were around 17 million one-person households in Germany in 2017. That is almost 50 % more than in the early 1990s. One of the consequences is the growth in property prices – especially in popular sub-districts. Rent rates in Berlin’s districts of Neukölln, Kreuzberg and Friedrichshain, for example, more than doubled between 2007 and 2017. Even in more mature real estate markets like Frankfurt (Bahnhofsviertel), Düsseldorf (Flingern) and Munich (Glockenbachviertel), rates climbed by 50 % during this time.

The most effective way to slow the fast rise in rents is obviously to match it with an adequate housing supply. In the densely populated inner cities, the best way to do so is infill densification. Aldi Nord announced in early 2018 that it in-



Mixed Use, Aldi Nord in Hamburg

tends to create more than 2,000 rental flats on top of its existing branches. It is a great opportunity for Aldi Nord to benefit from rising rents while having an easier time to obtain planning consents. Meanwhile, Hamburg’s densely populated district of Eimsbüttel has planned a “discounter strategy” within the framework of the “Eimsbüttel 2040” initiative and demands that any approval of new food retail outlets should be tied to the creation of new housing. So, this kind of mixed-use concepts in metro areas is evidently encouraged both by affirmative pressure from the municipalities and by the willingness of

the food retailers to implement these concepts. Better yet, there appears to be plenty of space: A study done by the University of Technology at Darmstadt in collaboration with the Eduard Pestel Institute for Systems Research showed that, even when based on conservative assumptions, there is enough potential for 400,000 new-build flats on top of single-storey retail units, discounters and supermarkets while preserving the retail areas.

Eike Hartmann
Head of Research Projects

CUSTOMER ORIENTATION AS SUCCESS MODEL IN FOOD RETAILING

The new concepts pursued by discount grocers and supermarkets as outlined above has caused the gap between the two types to narrow and their client bases to overlap more and more. The key word is customer orientation. A good example for the convergence of the customer groups is the attitude vis-à-vis regional produce and organic products. While these used to be unique propositions of the supermarkets, customers of discount grocers have also begun to expect them lately.

The findings of the Statista Global Consumer Survey suggest that customers of any retail format want grocers to stock regional and organic foods. For instance, 27 % of Aldi Süd’s customers state they prefer to buy organic products. This puts the discount grocer on a level with Rewe and just behind Edeka (28 %) whose customers also place the

greatest emphasis on regional products (60 %). In the latter regard, the gap between customers of regular and discount supermarkets, respectively, is negligible, only Lidl trail behind with 54 %. So, while more and more regional, seasonal and organic products find their way into the produce sections of the discount grocers, the expectations on the customer side have shifted.

The developments outlined above can cause the differences between individual outlets of the food multiples to be greater than those between the chains. A small urban “Rewe City” outlet tends to have more in common with its Edeka equivalent (“Edeka Express”) in terms of location, range and store outfit than with a “Rewe Center” supermarket. As the respective concepts of discounters and supermarkets increasingly overlap and the concepts are marked by growing diversification,

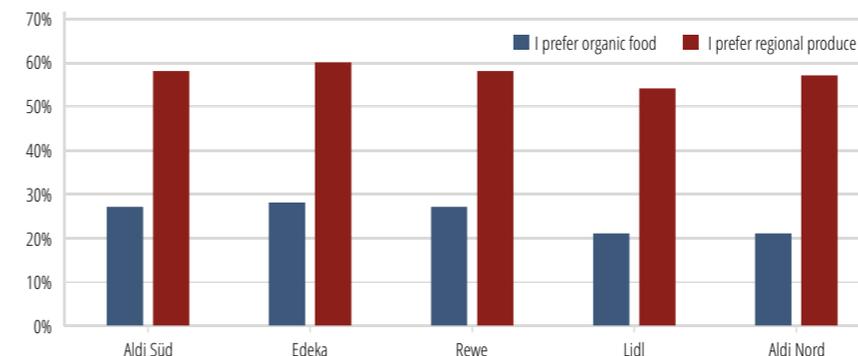
all customer groups now frequent all formats.

The decision on the part of discount grocers to include more branded products in their product ranges also coincides with consumer expectations. Specifically, 16 % of the Edeka customers and 17 % of the Rewe customers appreciate branded products. Worth noting is the comparatively high percentages among the discounters. Around 12 % of the Aldi and 14 % of the Lidl customers show express appreciation of brands. The hybrid orientation of the German food retailers—with supermarkets stocking low-priced store brands while discount grocers carry branded products—therefore appears to make sense.

Differences within the Customer Groups

That being said, a comparison of the retailers in terms of consumer classes

Fig. 33: Share of customers who prefer organic and regional products



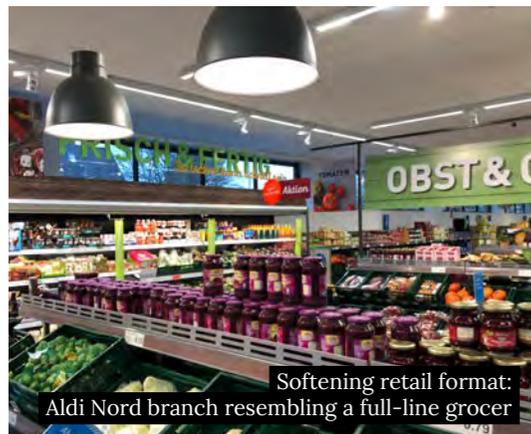
Proprietary chart, based on data by Statista Global Consumer Survey (2018)

Since there are hardly any differences in preferences for organic and regional products between customers of regular and those of discount supermarkets, the boundaries between the two business types are becoming increasingly blurred.

shows differences that are also suggested by differences in their regional distribution. If you look at the customer structure, for example, you will find that Norma is frequented by an above-average share of shoppers over 45 years of age. This is partly due discount grocer's strong market position in rural Germany and smaller cities with populations of less than 100,000 residents.

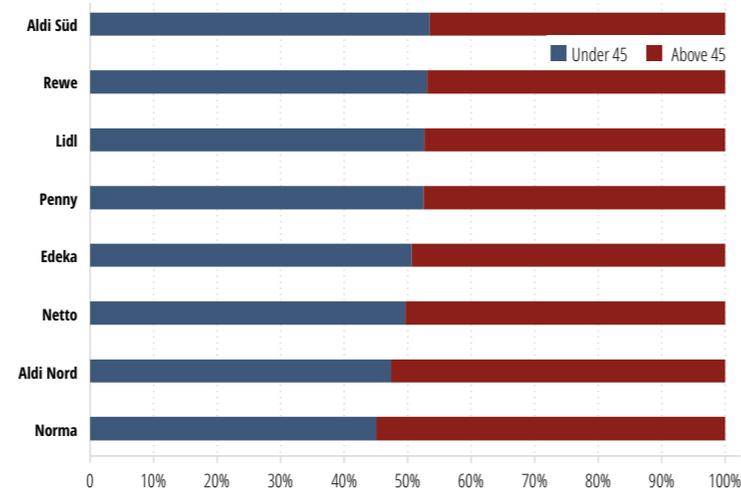
Across Germany, 52 % of the respondents to the Statista Global Consumer Survey were below the age of 45. Discount multiples Aldi Süd, Lidl and Penny have succeeded in attracting an above-average percentage of shoppers from these age group to their stores. Rewe also belongs in this group, whereas Edeka customer base has an above-average share of shoppers older than 45.

Overall, more than half of Germany's population say they shop regularly at Lidl, Rewe and Edeka. These multiples engage both younger and older customers with slightly different focal points. A similar picture emerges when you take into account the fact that Aldi Nord and Aldi Süd serve separate parts of Germany and add up their figures. But the differences are relatively small, on the whole, and all the retailers analysed have a relatively balanced customer base in terms of age.



Softening retail format: Aldi Nord branch resembling a full-line grocer

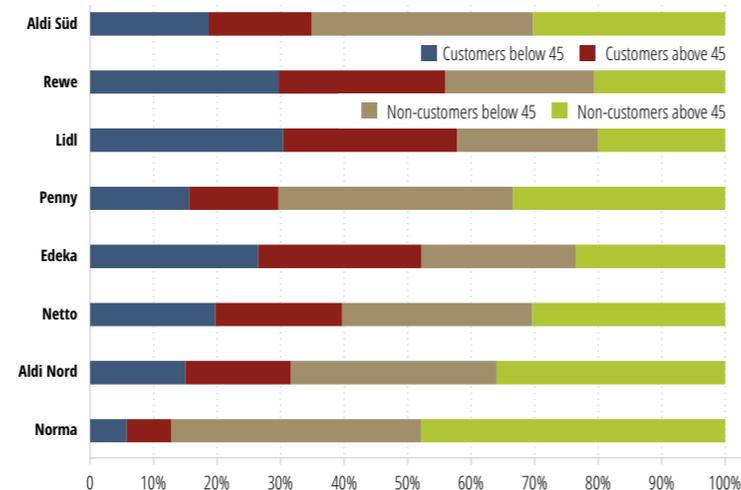
Fig. 34: Age distribution among customers of selected retailers



Proprietary chart, based on data by Statista Global Consumer Survey (2018)

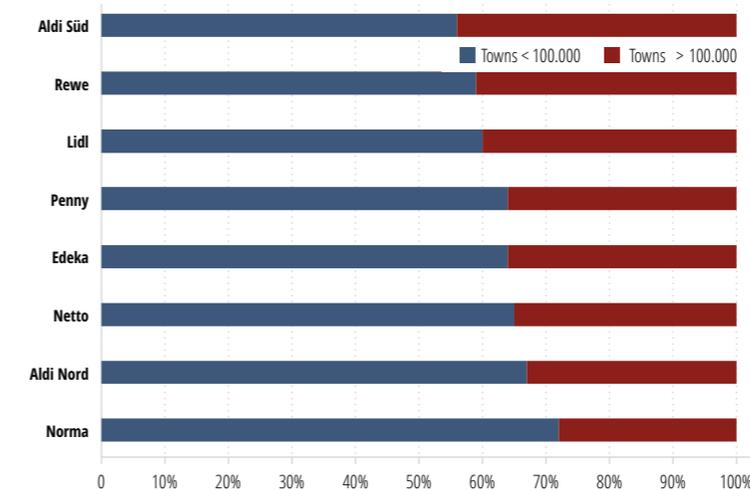
All of the retailers manage to engage older and younger customers in equal measure. Lidl, Rewe, Edeka and the two Aldi divisions each count more than half of the German population among their regulars.

Fig. 35: Age distribution among customers and non-customers of selected retailers



Proprietary chart, based on data by Statista Global Consumer Survey (2018)

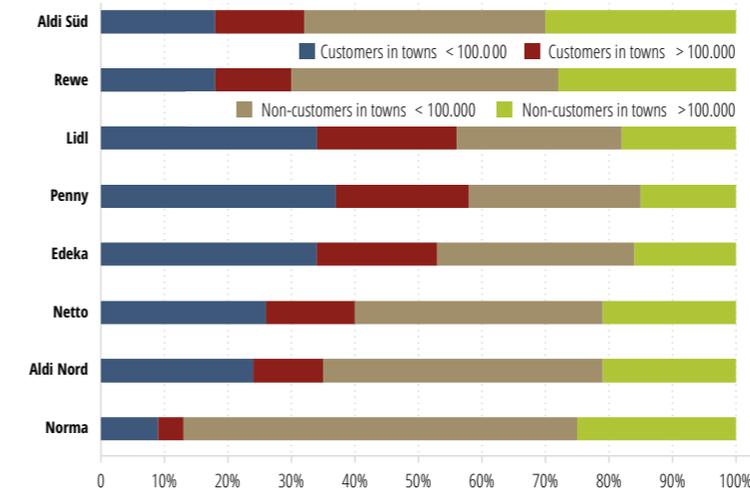
Fig. 36: Places of residence of customers of selected retailers



Source: Statista Global Consumer Survey 2018

The ways in which the composition of customer groups differ in regard to place of residence categories indicate differences between the retail chains in terms of reach and market penetration.

Fig. 37: Places of residence of customers and non-customers in the catchment areas of selected retailers



Source: Statista Global Consumer Survey 2018

URBANITY OF CUSTOMER GROUPS

The differences become greater when looking at the urbanity of the customer groups. Norma in particular has an above-average share of customers in smaller towns and in the countryside, in line with this discounter's strategy. By contrast, the branches of Aldi Nord focus more on the grocery retail business in cities, which is why it serves a more urban client base.

There are analogous differences between supermarket multiples Edeka and Rewe. Rewe serves an above-average proportion of city dwellers while Edeka has a higher-than-average number of customers from rural areas.

But generally speaking, all of the German food retail multiples who are active nationwide successfully serve all age groups and towns of every size. The differences between them are negligible.

Even in regard to the income levels of the various customers, the differences are relatively minor. Many customers of Edeka and Rewe belong in the above-average income bracket – about 56 %, to be exact. The client base of discount multiples Aldi Nord and Lidl represents the German average: Their shoppers are evenly divided between the higher- and lower-income half.

STATISTA GLOBAL CONSUMER SURVEY

New Market Research Approaches

Thorsten Gerbig, Senior Associate Research and Asset Management at Habona Invest, talked to Nicolas Loose, Head of Market Research at Statista Strategic Market Insights, about new ways in market research to analyse the consumption patterns of shoppers.

Gerbig: Nicolas Loose, the Statista Global Consumer Survey provides options for analysing customers and products, retailers and brands in a given country or for comparing these with the situation in other countries. What sort of insights did you gain concerning the German retail market?

Loose: The robust market position of the discount grocers is reflected in the names mentioned as regular shopping destinations. No less than 79 % of the respondents in Germany stated they regularly shop in discount supermarkets. This compares to a figure below 50 % in most of the neighbouring European countries. Another thing that became apparent is the growing health-consciousness. For example, 37 % of the German respondents said they steer clear of artificial flavour enhancers and preservatives. If you take a closer look at each re-

tailer, the tendencies barely vary from one to the next. Customers of Edeka and Rewe, for instance, are slightly more health-conscious, whereas customers of discounters are less worried about man-made additives.

Gerbig: What is the basis for these findings?

Loose: For the purposes of the Global Consumer Survey, more than 120,000 consumers are polled in 28 different countries, and the first poll was conducted between November 2017 and January 2018. In 2019, we are planning to expand the poll on a massive scale. A unique feature is the do-it-yourself analysis with its intuitive user interface.

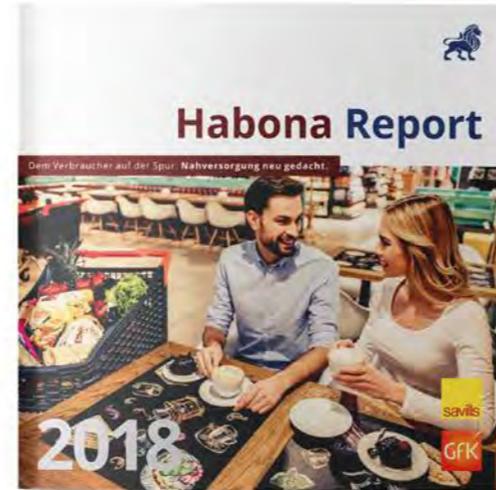
Gerbig: What else do the data tell you?

Loose: The Global Consumer Survey offers diverse analytic features, including the option to define your own target groups or to cross-analyse findings. Based on this option, I can tell you, for example, that 10 % of the Rewe customers used an online dating service during the past 12 months or that only 21 % of the Aldi customers who regularly use a car own a small car.

Fig. 38: Price focus vs. quality focus, in % of respondents



Proprietary chart, based on data by the GfK ConsumerScan (2018)



The societal and technical developments that have made customers the single-biggest factor in the retail business were previously discussed in the Habona Report 2018. The trend is driven by the following distinct aspects:

Smartphone

In their function as daily companions and decisive decision-facilitators, smartphones have condensed space and time in ways previously unknown or have indeed overcome their confines. Needs are stimulated here and now, generating demand. Digital networks create links that dissolve boundaries while making information, knowledge and opinions instantly available.

Saturated Society

For an ageing society, tradition, security and accountability are essential drivers of decisions made by people young and old. Consumption becomes a political act of sorts, used for a daily vote on the future.

Data Storage and Processing Speed

Without innovative database management systems, it would be quite impossible to provide the high access speeds and to handle the enormous data volumes required to follow consumers on their customer journey and to build individual customer relationships.

While these social and technological developments impact all aspects of consumption, the food segment has benefited from them more than others. As a so-called digitisation winner, the food retail trade is showing in more and more product ranges how standard articles of mass consumption—which for the longest time were primarily expected to be cheap—have turned into lifestyle products of enlightened, politically committed and responsible consumers, products that are expected to meet the following requirements:

- **sustainability**, as the key criterion when shopping for food is no longer its affordability but its wholesomeness, including the ways in which it reflects political leanings or simply makes you feel good;
- **enjoyment**, as supermarkets and hypermarkets ensure a positive quality of stay through refitted store interiors, tantalising assortments and gastronomic stimuli;
- **security**, as grocery retail venues are considered a key component of an attractive and liveable residential setting that influences contentment and well-being every day;

- **connectivity**, as the fulfilment of day-to-day needs comprises not just material goods but also covers immaterial needs such as socialising, communication and integration;
- **speed**, as grocery shopping forms part of everyday life, being integrated into the flow of other necessary errands so as to keep detours to a minimum, and being quicker than any app could be;

THE CURATING FUNCTION OF THE RETAIL TRADE

The outstanding performance of German supermarkets and hypermarkets in recent years shows that the strategic decisions made in the food retail trade must have been more or less spot-on. Take the modernisation of ageing stores, new store concepts or range diversification: customer expectations were accurately predicted.

Although online retailing is unlikely to build up a sustained threat to in-store food retailing in the future, new markets and formats are emerging, especially through the development of mobile shopping, that make it impossible to say at this time whether the sales generated thereby will benefit new competitors or ultimately end up in the tills of conventional retailers anyway. So far, one of the most effective instruments to deflect outside attacks has been the curating function on which customer satisfaction in food retailing is based to a large extent. While the individual item is rarely interesting or prestigious enough to make it worth customising or personalising, the retail sector has been at liberty to concentrate on efforts to emotionally charge



the retailing environment and to freely reiterate mobilising themes like organic quality or regional sourcing.

Growing consumer expectations in regard to product customisation and unlimited choices, which are giving many segments of the non-food sector a run for their money, are defused in the food sector through positive storytelling and the clever selection of a yet manageable range of items.

Specialised shop concepts, product-related events or the installation of

themed sets inside stores all enhance the expertise and credibility of the merchandise curator for the customer; the whole act being backed by an IT infrastructure running in the background, matching article and customer details in real time and controlling process flows.



DIGITAL INNOVATIONS IN RETAILING

SCANNER TILLS, ELECTRONIC DATA EXCHANGE AND THE CUSTOMER BENEFITS OF IT ALL

Digitisation is a game changer, but it comes in all sorts of guises. Of course, related media attention is largely absorbed by the subject of online retailing. But what has actually created the prerequisites for today's product availability in the retail sector over the past 20 years are technological innovations running in the background. At the same time, this process put in place the technological basis for serving the evolving demand of the future. In short, the future of retailing is largely paced by the advance of information technology.

Digitisation in the retail trade started in the 1990s with the introduction of barcodes and scanner tills. Interest at the time focused on the merchandise and the corresponding sales forecast. For the first time, it was possible to base stock analyses and range decisions on verifiable data via the exact knowledge of retail sales down to the article. After the turn of the millennium, the focus shifted to the coordination and synchronisa-

tion of sales processes with upstream logistics processes. This presupposed the linking of various different IT worlds and the development of an efficient data exchange between the systems. Vertically integrated retailers who controlled the supply chain from raw material to storefront counter were at the top of their game in terms of efficiency and speed.

Against the background of social changes in consumption patterns, which are accelerated by the ongoing demographic change and reinforced by the spread of mobile endpoints, ensuring the availability of standard products alone is no longer enough to ensure success. An ever larger share of retail sales is determined by spontaneous and selective customer behaviour that is getting harder and harder to predict via conventional sales analyses and rigid target group systems. One and the same person may demand different custom options, depending on the current situation. If a given retailer is unable to satisfy the need, the customer will quickly switch to another provider.

The outlined scenario undermines established retail business models, but it also opens the door for alternative approaches. It has become an accepted fact in the retail sector that no matter how efficient the distribution of goods is, the new expectations on the customer side will never be fully met. What the situation calls for instead is a reorientation of a company's structure along lines of customer centricity, meaning that even IT projects are aligned with the customer benefit.

The solution is to be found in the complex linking of logistics, customer and usage data as the only way to customise assortments. This organisational, technological and—not least—mental shift is a prerequisite for being able to provide tailored or flexibly adaptable product options. The question whether the eventual delivery is made online or offline plays a secondary role. Of primary significance, by contrast, is the ability to stand your ground in the competition – and to do so through service features and customer information that are hard to copy or replace. Relevant solutions enable retailers not only to optimise supply chains and avoid running out of stock, but also to offer services in attractive bundles that are unavailable from other providers such as IT giants or digital start-ups who are not at home in the retail industry.

IT as Key to Customer Details

Digitisation in retailing means first of all to improve processes and products. While the purpose of the retail trade in the pre-digital era was to pass industrial products on to end consumers in return for a trade margin, it is now possible to use knowledge of customers and customer behaviour to generate added value, for example in the form of product refinements, supplementary services or links with other sectors. Precondition here is the deployment of a high-powered IT platform and a meaningful customer information system in order to combine and reconcile different types of information, be they qualitative or quantitative, structured or unstructured data.¹

But the potential of the customer information system can be exploited only to the extent the quality of the data permits. Especially sectors like food retailing, whose online customer

base tends to be small, will also need to generate customer data from other sources such as customer cards and credit cards. These sources permit both an identification of customers and access to their socio-demographic data and shopping preferences. In addition to these personal customer characteristics, their behaviour in social networks can also be very useful.

Customer Data through Social Media

Whether it be through the proprietary homepage, social media contents or PayPal: In order to feed valid data into the customer information system, retailers depend more than ever on information about consumer opinions and consumer behaviour. Recent evidence suggests that communication with customers via online channels such as YouTube, Instagram or Facebook has soared. According to the already cited Nestlé survey "So is(s)t Deutschland," young household-formers are particularly active on these channels and uses them as sources of inspiration. The survey goes on to say that the subject of food and nutrition is therefore high on the social media agenda anyway and therefore perfectly suited for communication between food retailers and consumers. Consumers love sharing pictures of their meals with the online community, 46 % of them in the form of food photos and 29 % via food videos. One in seven shares preparation tips or entire recipes several times a month.²

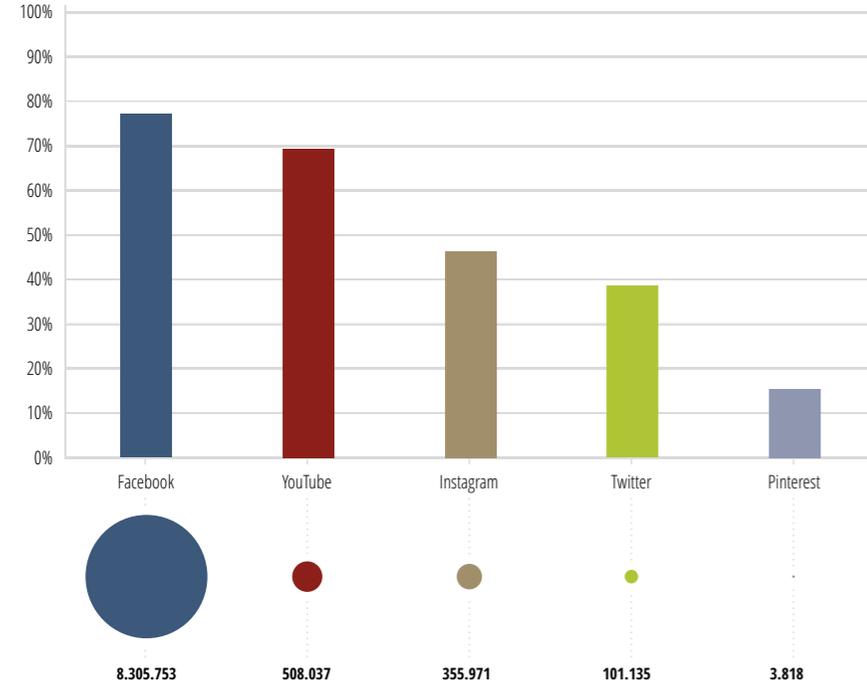
So-called influencers with a large number of followers on several online channels therefore count among the main multipliers in social networking websites even for the food retail sector. Particularly popular for placing commercial messages are Instagram and YouTube. The concept has become an integral part of the food industry's marketing concept and is used by retailers and manufacturers alike.

While a successfully digitised trading entity thus generally increases the share of "information" in the value-added process, the share of the "bare product" decreases in reverse proportion. Another effect of the concept is that it reduces the exposure of the "bare product" to competition. Naturally, companies with a dense network of branches like the major

¹ On this aspect, also see Reinhardt Schütte and Thomas Vetter: "Analyse des Digitalisierungspotentials von Handelsunternehmen." in: Gläss R., Leukert B. (eds.): *Handel 4.0*, 2017, pp. 75+.

² Cf. Nestlé (2016): So is(s)t Deutschland, URL: <https://www.nestle.de/unternehmen/publikationen/nestle-studie/2016> (date of last retrieval: 16/03/2019)

Fig. 40: Social-media participation by the food retail sector in % and by number of followers/users



Proprietary chart, based on data by the IFH Retail Research Institute (2018), poll among 20 retail lines, cited from HDE German Retail Federation (2018)

food multiple retailers have access to customer information in much larger quantities and of a far more differentiated than is available to companies that only serve certain niches on the demand side. The frequency of checkout procedures, the drilldown of demand to the local level and access to very different lifestyle groups represent details that are essential for a robust customer master data basis and thus create a very auspicious baseline situation for

the further development of Germany's food retail industry with its more than 28,000 points of sale.

Big Data Drive by the Food Retail Trade

Collecting, structuring and evaluating enormous quantities of data from the most varied sources requires cutting-edge technology. Big data technology and in-memory technology make it possible to analyse a wide

variety of data almost in real time, to detect patterns and thus to make more qualified predictions for the future. The objective is to obtain precise sales forecasts, adequate staff planning, high product availability, sufficient inventory levels and ultimately a high degree of customer satisfaction. But the data collected is only as valuable and meaningful as your ability to structure and feed it into an end-to-end digitised process chain. For retailers like Aldi, Kaufland, Lidl or Rewe, the automation of decisions and processes has now become a key IT issue. They rely primarily on machine learning algorithms, for example to optimise their merchandise planning, pricing and customer engagement.³

One Big Data pilot project pursued by the Rewe Group seeks to optimise its central inventory management system "zDispo" which automatically generates restocking orders based on actual sales. In order to improve the forecasting quality important for such systems, a tool was programmed that factors in things like current trends, weather impact, holidays, promotions and location-specific features. Interesting to note, the tool expressly permits the branch management to intervene in the order process and is therefore open to qualitative empirical evidence.

BEST PRACTICE: REWE SYSTEMS

- A Rewe subsidiary with about 1,000 employees, responsible for planning, developing, configuring and operating IT systems and applications
- Transmitting and processing more than 10 million data sets per day, exchanged between 80 logistics centres, 7,500 stores, 23,000 local network connections and 26,000 scanner tills
- IT support for the entire supply chain:

Purchase Ordering

Based on demand calculations by the warehouse controllers and markets, ordering the right delivery quantities. Shipment of the goods to the respective distribution location via supply logistics. Payment processing via SAP-based central settlement.

Warehouse Order Picking

Linking order picking strategies in the intermediate warehouses and route planning of the HGV fleet for efficient delivery to the branches. Issuing electronic wholesale invoices to independent merchants as an adequate substitute for conventional paper invoicing.

Store Inventory Planning

Providing detailed sales forecasts. Preparing order proposals for the store management by combining

the automated inventory management of a given store (quantity of goods in stock), batch information (remaining shelf life of the goods) and the delivery cycle between warehouse and store.

Supporting the branch management in its daily price updates, weekly specials and promotions as well as in the listing of new products, shelf space management, inventory, etc. Gradual introduction of electronic shelf labels that permit wireless price updates.

Customer Area

Updating electronic scales and scanner tills daily with the latest prices and price changes. Optimising cashless payment transactions and mobile payment systems. Supporting the online shop and the delivery service of the Rewe digital subsidiary.

Headquarters

Operating the enterprise resource planning system, controlling the central processes as well as the computer and telecommunications infrastructure. Tools for strategic purchasing when negotiating prices and conditions. Operating a SAP Customer Competence Centre.



3 Cf. August-Wilhelm Scheer: "The Big Change. Auswirkungen der neuen Technologien von Industrie 4.0." in: Gläss R., Leukert B. (eds.): *Handel 4.0*, 2017, pp. 51+.

OPINION, HABONA INVEST GMBH

WIFI, BEACONS, ROBOTS: SERVING THE CUSTOMER OR MISSING THE POINT?

While background digitisation makes enterprise resource planning (ERP) fit for the pinpoint provision of products in the right place at the right time, digital applications that are supposed to provide more in-store convenience and service are pushing into the market. Many players hail them as the answer to the needs of the generations of digital natives. But will sophisticated gadgets ever live up to the high expectations?

The possibilities of the mobile internet have turned the retail business on its head. Never before have customers felt as well-informed, and at no time did they have a wider range of products and services to pick from. Industry and trade face the task of transforming from an interchangeable provider into a caring host who pampers and delights, who gives customers what they want before they have actually become aware of their need for it.

The food retail sector has showcased in recent years how to turn shelf space into stage sets presenting freshness, organic goods and super-food. Meanwhile, large parts of the non-food retailing still have homework to do. Trends that can be summed up with the buzzword “digitisation” are forcing operators and their advisers to upgrade their technology. Yet changes in consumer behaviour do not in and of themselves imply a need for technical services. Rather, change in Germany’s ageing and mature society is

driven primarily by the desire for more empathy, authenticity and sensory experience.

Brick-and-mortar retailing should therefore win over shoppers on the strength of in-store amenities rather than by seeking to copy the entire online universe on the ground. There is nothing gained by offering WiFi in and of itself. Customers will certainly not visit your store just to use the free WiFi.

But whether online or offline – a satiated consumer society needs to be entertained, which is where storytelling comes in as a proven means of guidance and temptation since the days of the Romans. WiFi, beacons and robots are no good at telling stories but will only garner brief media attention at best. Then again, the in-store use of touchscreens or tablet PCs can be a sensible extension of the store counter. Having your purchases delivered to your home clearly makes sense in terms of customer service.

In short, digitisation should be seen not so much as the need for technical wizardry but as an opportunity to align a given business model consistently with customer needs.

Manuel Jahn

Head of Business Development

GUEST ARTICLE BY RATISBONA GMBH

DIGITISATION IN THE RETAIL PROPERTY DEVELOPMENT CONTEXT

Not everything will have to go digital in future. To be sure, though, digital processes and tools make many things easier. Digitisation is neither a catch-all solution nor a threat to be kept at bay. In fact, “digitisation” is not a clearly delineated process you start and conclude. Rather, it is an umbrella term for a variety of technologies and tools used for a variety of applications. Nor does every process or product have to be digitally transformed.

The slogan that a leading German consultancy firm for the construction and real estate industry used for its digitisation campaign puts it in a nutshell: “The optimal degree of digital? Right mix, real value.”¹ It almost reads like a cautioning appeal not to go for every fad and innovation on the market, but to take a critical stance when selecting measures to satisfy user needs. Another keyword that often enters the discussion of advancing digitisation, of its opportunities and challenges is innovation. But it would be misguided to assume that every innovative service and product should be of digital nature.



Data management by Ratisbona. (Image: Ratisbona)

Store of the Future

We at Ratisbona, a retail real estate developer, are currently working on the “store of the future” as part of a cross-corporate team effort. In addition to digitisation, subject areas such as sales, production, architecture, infrastructure and sustainability are examined for optimisation potential so as to plan a holistic innovative store.

For the innovation process, the focus is primarily on the future needs of end customers, operators and real estate companies, down to local communities and the respective micro-environment. At the same time, the examination covers the building’s entire service life.

¹ Drees & Sommer, slogan used at the EXPOREAL 2018 trade fair

Building Information Modelling

As property developer, investor and asset manager, we cover the entire life cycle of a property. Some of our assets are undergoing a second assessment after years in service. In these cases, it is exciting to see not only how a given food market developed in the course of past decades, but also how its data management has changed. At the same time, it shows us how our own working methods have evolved. As a company that is actively preoccupied with digitisation, we opted for a modern working methodology called Building Information Modelling (BIM) several years ago. It is a working method that represents all data about a given building in the form of a 3D model. In-house and third-party planners can collaborate on such a model in order to prevent errors and to cut costs. Since the complexity of projects, the flexibility required from us and the number of completed properties have steadily increased, BIM has become an important tool for us. It permits integrated planning with a smart, component-oriented data structure and will, in future, provide the option of seamless transitions between life cycle phases. Apart from its in-house benefits, a 3D model is also a much better tool than a two-dimensional floor plan, especially when it comes to the communication with external stakeholders. It makes it so much easier for us during the development process to communicate the project to local councils, mayors, local residents and investors in or-

der to ensure high level of acceptance and to speed up the process.

Augmented Reality

Last year, in the construction execution context, we tested the option to use augmented reality in our construction site management for the first time. Imagine using data glasses or smartphones and tablets that let you view the real, undeveloped environment via the camera. At the same time, the computer-planned 3D building will be displayed in the right place in the real-life landscape. This means you can view the building on site before it has been built. Such a virtual template of the structure will bring possible conflicts at the site to light early on. We already started to commission aerial drone surveys to obtain as much information as possible on a given plot and to integrate it into the 3D planning process. Using photogrammetry technology, we capture every detail. It permits a much more accurate calculation of earthworks such as excavation and backfill with the help of a digital terrain model.

Digital Models in Facility Management and Property Management

But what happens after planning and construction? Any life cycle analysis is dominated by a building's service life. Within the framework of the so-called life cycle cost calculation, this operating phase is allocated up to 80 %. This is precisely what will make it so important in the future to link the

planning data with the actual property. Networked systems can be used to show disruptions in the digital model. The approach not only makes monitoring the market so much more efficient but also implies potential energy cost savings of up to 30 % through analyses. This presupposes, of course, that the occupiers are willing to disclose these data. Property companies have an increased responsibility to ensure a high level of data protection and cybersecurity.

We believe a transparent and trust-based interaction of this sort will pay off in the areas of facility management and property management above all. Here is an example: Let's assume a heating system goes down in the middle of the night. Normally, the store manager would not become aware of it until the next day. Depending on the time of the discovery, the disruption will be reported to the operator. The information is forwarded to the landlord the next day, who then contracts a local tradesman, depending on availability. Warranty claims may need to be clarified beforehand. Up to three days may pass this way before the disruption is remedied. In future, the heating system itself will use integrated sensors to communicate any incident to an automated platform. The latter has the data of the competent service company on record. Service technicians can tend to the trouble the very next morning. All relevant contracts, including possible manufacturer warranties, are also automatically checked. Sensor-based

monitoring permits predictive maintenance. They will, for instance, analyse the vibrations of technical building systems for anomalies. Preventive checks thus represent a good way to avoid potential equipment failures and replacements.

Buildings as Data Collectors

Especially in the consumer area, big data analytics open up entirely new possibilities in the field of prediction. Who buys what, when and why? Does the building respond optimally to user behaviour? Artificial intelligence (AI) will soon become available on the regular market. Both operators and end customer have intensified their use of digitisation, be it to optimise shelf organisation via in-store analytics or using the smartphone to pay for purchases via near-field communication (NFC). Current information on customer flows, purchasing power and catchment areas help moreover to select the optimal location during the acquisition phase.

Digitisation helps to streamline processes and offers a high potential for improvement. Our objective is to ensure a responsible and resource-conserving approach during modernisation measures or demolitions, too. Here as elsewhere, the BIM work method gives you the option to use data management to enhance transparency. The use of hazardous materials during the construction of older buildings is rarely documented and therefore often



unknown. A virtual model that includes the manufacturer's specifications and safety details can be attached to a given digital structural element and thereby help to address the issue.

Digitisation is a versatile process that is ultimately defined by the acceptance among all project stakeholders as well as by the users' requirements and routines. As a forward-looking company, we need to keep an eye on all trends, analyse them and select the

ones that help us drive forward the innovation process. After all, we are the ones who plan retail properties and who want to create stores that stand the test of reality.



Tobias Drasch
Senior Management

INTERVIEW WITH WISAG GEBÄUDETECHNIK HOLDING GMBH & CO. KG

SENSOR TECHNOLOGY, ROBOTICS AND ALL THE REST OF IT – THE FUTURE OF THE FACILITY MANAGEMENT SECTOR

Hans-Christian Schmidt, Managing Director of Habona Invest, talked to Gerrit Egg, Managing Director of WISAG Gebäudetechnik Holding GmbH & Co. KG, about digitisation in the service industry. Digitisation is the lodestar pointing toward a more efficient future – including at WISAG. Gerrit Egg shares insights in latest developments.

Schmidt: What steps has WISAG already implemented that involved new technologies and services?

Egg: We are currently still in a discovery phase. Together with our clients, we are using several different pilot projects to test together with our clients what sort of options the new technologies provide. A good case in point is sensor technology, which will permanently change the entire operation of properties. The technology is not fully mature, but going forward, it will be used to measure all sorts of things and to do so at lower costs. For example, it will notify you if a technical device is about to fail or whether there is snow on the ground. In our shopping centre customer segment, both active and passive sensors are highly relevant. Feedback from the passive sensors will tell the

service manager how many people have visited the sanitary facilities, for example. This gives the management a chance to have them cleaned more often in times of heavy use. So, it is a great way to ensure a constant quality standard. Active sensor technology includes IoT buttons. It is a kind of call button that triggers a message within the internet of things (IoT) and thus permits customers to call security or service personnel, for example.

Schmidt: What kind of projects are next on WISAG's to-do list?

Egg: We are going to engage a whole variety of subject areas. We intend to put new technologies to optimal use. Long-term, the subject of robotics and artificial intelligence will keep gaining in significance. This is explained above all by the fact that virtually all sectors are desperately hunting for personnel. Artificial intelligence can relieve the workload of many employees in meaningful ways, be it at the reception or in facility cleaning. Little mechanical helpers that stay busy night and day would be particularly useful in large shopping malls. But robots will not create redundancies over the next few

years yet. On the contrary, we will probably need more human resources going forward to handle tasks that keep getting more complex. For the time being, the development of artificial intelligence is still in its infancy.

Schmidt: What form does the digital evolution take in the facility service sector?

Egg: Everything that can be digitised will be digitised eventually. New technologies lay the ground for new forms of services that we would not even have dreamt of a short while ago. A lot of small start-up companies play a part in driving digitisation forward in different areas of the industry, but no single breakthrough solution is currently in sight. We collaborate with many partners in various segments to accelerate existing processes and to develop new services. Particularly important for our industry would be digital solutions that cover the interface to the customer, such as the development of apps that customers may use to place digital queries and orders with their service providers, involving anything from the status of the heating system to lawn care. For the time being, the subject remains a major challenge.

Schmidt: To what extent can your insights be applied to the retail real estate sector as a whole?

Egg: In the retail real estate sector, the subject area of digitisation has for some time

been dominated by the issue of omnichannel retailing. Over the next few years, brick-and-mortar retailing will have to make an effort to turn its perceived drawbacks compared to pure online retailing into an advantage. Linking online and offline worlds presents excellent opportunities for doing so. We at WISAG monitor the ongoing development of the retail sector and adapt our services accordingly. Conceivably, we could deliver the goods of physical retailers or shopping centres to their customers' homes. As a service provider, we proactively approach retail real estate players in order to keep developing our know-how in a joint effort.

Schmidt: Together with Statista, WISAG compiled the so-called ORIX Survey on every aspect of omnichannel strategies. What does it include?

Egg: ORIX—meaning “Omnichannel Readiness Survey & Index”—permits companies to check their range of services from the consumer's point of view, and to do so along their entire customer journey. The services at issue are those that retailers use or could use to achieve holistic cross-channel customer engagement. ORIX integrates objective analyst assessments as much as subjective customer reviews. The survey teaches companies how to get a better understanding of their customers' needs.



Gerrit Egg
Managing Director of WISAG
Gebäudetechnik Holding GmbH & Co. KG
based in Frankfurt am Main

You may order the ORIX survey conveniently from Joaquin Jimenez Zabala, Head of Shopping Centre Sales at WISAG, by sending an e-mail to: Joaquin.JimenezZabala@wisag.de.

ONLINE SHOPPING

ASPIRATION AND REALITY IN FOOD RETAILING

Not least because of its enormous market size of around 190 billion euros, the German food segment has fired the imagination of startups and internet groups to develop online solutions. Despite, or perhaps because, of the still low market share in food retailing, revenue potential running in the billions is beckoning. But even after more than 10 years of development, the solutions are having

a hard time outgrowing their niche. Here are some of the reasons why.

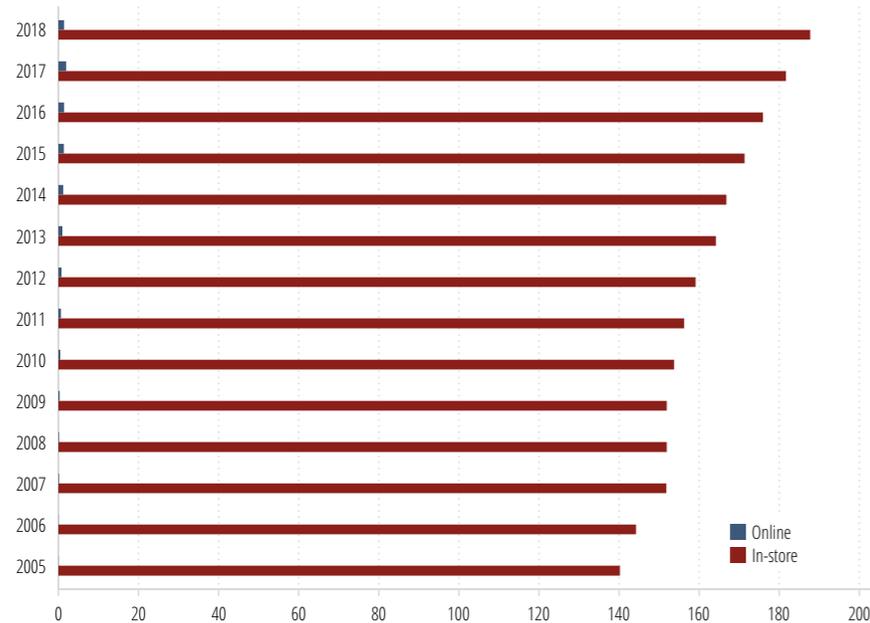
Online retailing of FMCG¹ climbed to well over 3 billion euros in 2018, with food accounting for barely 1.4 billion thereof and the bulk of this sum representing package goods rather than fresh foods. Even 8 years after it was set up, Rewe's store remains the fastest-selling online stockist of food, grossing c. 124 million euros in 2017.

Amazon is said to have sold nearly 50 million euros worth of food through its platform. All other online shops are niche players with less than 20 million euros in annual sales.

Online retailing of non-discretionary goods is making no headway but growing slower than in-store retail sales.

¹ FMCG = fast-moving consumer goods: food, toiletry products, OTC pharmaceuticals, flowers, among other things.

Fig. 41: Trend in food sales: in-store versus online, in bnEUR



Proprietary chart, based on data by HDE (2018) and GfK (2019)

The online retailing of non-discretionary products is not just slow to grow, but is growing slower than in-store grocery sales.



Challenging in Terms of Technology and Logistics

Compared to non-food, the schedule and time requirements in food retailing are far more demanding. Not least, the market entry threshold for fresh foods is raised further by requirements such as statutory hygiene regulations or the need to maintain an uninterrupted refrigeration chain. The degree of automation, especially for fresh and loose goods, is limited. In fact, gathering the products ordered by the customer into a consignment requires a great deal of manual work. An incoming order actually leaves very little time to hand-pick the fresh food order in the warehouse, assign it to a delivery route and have it delivered by

a courier. In the case of fresh foods, of all things, where customers expect very fast deliveries, time is the main problem. Empirical evidence suggests that a delivery can take up to 4 days.

High Costs for a Low-Margin Business

Even though technical solutions could remedy the situation, the financial scope for food stuffs and toiletry products is very limited. Unlike with high-margin items such as clothing, books or automotive parts, technical innovations put excessive strain on the business concept of the food industry. This explains why big players like Rewe, Edeka, Aldi and Lidl are slow to expand their activities at present and why

others, like Kaufland, have suspended them altogether.

The situation is exacerbated by new costly standards in online food retailing that govern the refrigeration chain and that became effective in 2018. In the past, meat, fruit, frozen food and dry goods were often shipped together in a the same parcel although the products require storage at different temperatures. A new DIN standard now dictates separate shipping of refrigerated and non-refrigerated products. In addition to yet higher packaging costs, the regulation also requires an extra tracking effort to monitor the refrigeration chain.

Customer Response Less than Enthusiastic

You may not remember but in 1998, when making its market entry in Germany, Walmart tried to win over shoppers by providing a bagging service American-style at the checkout. It proved a complete flop because German shoppers were loath to let strangers handle their groceries. To this day, they prefer to pick, bag and haul their purchases because they seem principally sceptical whether a third-party service would apply the same standards in terms of quality, price and time as they themselves would. This lack of faith has arguably been encouraged by the fact that Germany is home to one of the densest and most competitive supermarket networks in the world. Thus, the drawbacks of doorstep deliveries outweigh their benefits: One, there is

little faith in the delivery quality, secondly, it is faster to go to the nearest supermarket, and thirdly, the delivery fees are deemed inflated.

No Industry Standard

For this reason, neither a uniform standard nor any e-commerce giant have emerged in the grocery retail sector to date. Even Amazon has had a hard time with its evident strategy to split up its grocery line-up among the three service formats Prime Now, Pantry and Fresh, each having its own drilldown of assortments, delivery areas and pricing models. The rest of the market is just as opaque and fragmented, presenting a jumble of delivery areas, availabilities, page navigation, payment methods, shipping and handling costs, and times to delivery.

Players and Concepts

Germany's online food retailing sector can be broken down by the providers' main distribution channels and by the scope of the product range. Apart from the pure players of e-commerce, there is a flurry of manufacturers, physical retailers and mail-order houses who operate their own online shops for groceries and related ranges. What sets these retailers apart is mainly the breadth of the assortment. Here, a product range covering fresh foods, chilled goods, beverages and other dry foods qualifies as a full-line grocer. However, few of these retailers offer a truly full-line assortment, and the particularly demanding assortments of fresh and chilled goods are offered only by a handful of specialists which—to make things worse—often cover very limited delivery areas only.

A look at the ranking of Germany's 10 largest FMCG retailers will also reveal three peculiarities:

- The biggest of these is HelloFresh, but its revenues are exclusively generated by selling meal kits. In a sense, this overlaps typologically with the gastronomy sector.
- The biggest FMCG seller is Amazon, although it should be added that its proprietary business accounts for a minor share of the revenues, the bulk of it being generated by the platform business. As mentioned, Amazon's grocery range divides into three service lines: Fresh, the line with the largest fresh goods range, only available to subscribers in Ber-

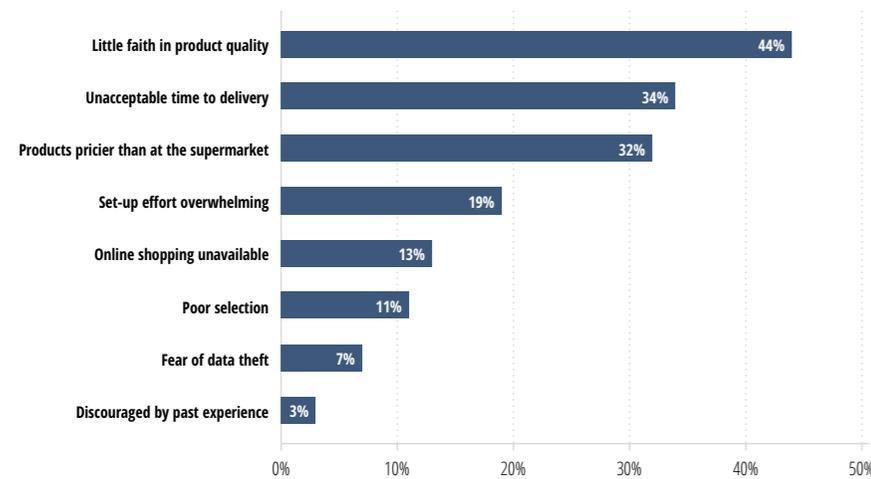
Fig. 43: FMCG online shops, sales and product range coverage

Rank	Domain	Main shareholder	Ranges covered ¹				Group revenue in €m	Groceries of total revenue
			Fresh	Chilled	Beverages	Dry		
1	hellofresh.de	Rocket Internet	✗ ²				479.4	100%
2	amazon.de/fresh	Amazon ¹	✗	✗	✗	✗	222.4	2%
	amazon.de/amazonprime				✗	✗		
	amazon.de/pantry				✗	✗		
3	shop.rewe.de	Rewe Group	✗	✗	✗	✗	130.4	85%
4	hawesko.de	Hawesko			✗		55.8	96%
	vinos.de				✗			
5	allyouneedfresh.de	Delticom ³	✗	✗	✗	✗	40.0	6%
	lebensmittel.de		✗	✗	✗	✗		
	gourmondo.de			✗	✗	✗		
	alnature.de				✗	✗		
6	lidl.de	Schwarz Gruppe	✗ ⁴		✗		27.8	4%
7	belvini.de	Oetker Group			✗		22.6	94%
8	wine-in-black.de	Viva Group			✗		22.1	100%
9	bringmeister.de	Edeka Gruppe	✗	✗	✗	✗	19.1	85%
10	whisky.de	Theresia Lüning			✗		17.5	100%

1: Acc. to in-house calculation 2: Meal kits only 3: Acc. to in-house calculation, revenues estimated 4: No longer stocked as of 2019

Proprietary chart, based on in-house research (2019) and based on data by Statista and HDE (2018)

Fig. 42: Arguments against online sales of meat & produce



Proprietary chart, based on data by Statista (2017)

lin, Potsdam, Hamburg and Munich; the express delivery service Prime Now, only available to Prime customers in Berlin and Munich; and Pantry, a generally available delivery service for consumer staples.

- The ranking includes a high proportion of beverage delivery services, most notably wine retailers.

Even after a development effort of many years, the online trading of food and other non-discretionary consumer goods remains a research area and testing ground for the retail sector. Even for fast-selling retailers like HelloFresh or Rewe, it is still an unprofit-

able business, and the stock of listed companies in this segment shows a highly volatile performance. Indeed, the situation explains why so many start-ups and even established players in this segment keep changing hands.

Food Retailing Remains the Domain of the Big Guns

There is no reason to assume that the major market-dominating food retailers will in any way compromise their competitive advantage of operating a nationwide supply network with extremely consumer-friendly opening hours in the foreseeable future. Follow-

ing the most recent market shake-out that eliminated the Tengelmann chain and the marginalisation of the “real-” chain of superstores, the remaining players have probably staked out their market territory and will be able to coexist long-term. This means that consumers will continue to have ready access to a spectrum of grocery retail formats with a fair value-for-money ratio from which any of various formats may be frequented and combined as needed. Stocking fresh foods and having themed environments in combination with tastings and gastronomy will remain the domain of physical retailers, who will expand their high-margin ranges and thereby finance their technical and logistics infrastructure.

While E-Grocery is Making Waves, its Revenue Potential Remains Low

Due to the special requirements for freshness and quality, online food retailing remains a major logistical challenge. From the customers' point of view, the question also presents itself just how appealing it is to have the accustomed flexibility of in-store shopping compromised by scheduled deliveries. So, the fate of e-grocery retailing will depend on its capacity for short-term deliveries. As it is, the conversion rate is declining rapidly the longer delivery times are.² That said, online retailing will be sure to establish itself as yet another—albeit small—player in the portfolio of shopping formats, although it will specialise in product ranges and customer group that are less price- and time-sensitive.

Customers Gravitate toward Established Retailers even when Shopping Online

The prospering business of food delivery service Lieferando is a great example of the best way the online retailing of groceries could work: as a multi-channel service package of

widespread reach that is provided by established physical retailers who cleverly combine logistics and pricing. Only if consumers have faith in their brick-and-mortar retailer around the corner will they give them with their online business as well, regardless of whether the items are stocked in-store or picked at a fulfilment centre. This would seem to lay the future of online grocery retailing squarely at the doorsteps of Rewe, Edeka and the other major chains. Edeka, for one, holds a stake in the Picnic delivery service start-up. The decision whether or not to expand this niche market will be made by future management boards.

Social Media Becoming the Sounding Board for Discussing Health and Diet

Against the background of the shift toward the customer, which will keep gathering momentum as Germany's society gets older and more demanding, the food retail trade will evolve from a supplier into a service provider delivering health and enjoyment. Since not every standard product in a range of 5,000 to 50,000 articles can be emotionally charged, both the retail prem-

ises and the media coverage play an increasingly important role. The sector's digital communication activities will pay off if they manage to connect to demographic trend groups. In its role as point of first contact for consumers, the food retail trade will moreover improve its standing with the industrial world, most notably with brand manufacturers. Even today, quite a few German food retailers are prepared to take on global food multiples as far as pricing and quality goes.³

² Market evidence shows that during the 2018 pre-Christmas season, delivery services like AllyouneedFresh, Bringmeister or Rewe required a lead time of 3 to 5 days. Accordingly, people wishing to schedule a delivery in time for the holidays had to place their orders a week earlier.

³ In 2018, for instance, Edeka got into a widely publicised row with Nestlé and Mars—as did Kaufland with Unilever—over cost prices, and temporarily took their products off the shelves.

6 GROCERY RETAILING – A CORE INVESTMENT

Status quo: Grocery Retail Property in Light of Recent Developments in the Retail Sector

The investment market of grocery retail real estate is currently driven by three distinct developments: One, by the general price trend of the real estate industry within the persistently low interest environment, secondly by the favourable fundamentals of the food retail market, and thirdly by the emerging trend among institutional investors to embrace this sector at a time when other retail markets are increasingly exposed.

Trend in Prime Yields

The 2018 year in real estate made history. More than 60 billion euros were invested in commercial real estate in Germany – a new high-water mark. Analogously, the investment market for retail property made its own mark: The prime yield rate of retail warehouse parks dropped to a new all-time low of 4 %, undercutting the level of shopping centres (4.2 %) for the first time. The gap between the two yield curves had been narrowing for the past 2 to 3 years. The development should be seen as a clear sign for a changed risk awareness on the part of investors. Grocery retail property benefits from it more than other types of use.¹ Specifically the standing of retail warehouse parks and supermarkets has gained among investors, some going so far as to call it the “asset class of the day.”

The prime yields of supermarkets are trailing the yield compression of retail warehouse parks with a more or less stable lag of around 100 basis points, and are now down to 5 %. The yield gap is also explained by the fact that supermarkets are interesting to major capital depositories only in the form of homogeneous portfolios and that such packages are rarely ever put on the market.

¹ In its definition of the “grocery retail” asset class, Savills includes any small-scale retail property of less than 10,000 sqm, i.e. even small retail warehouse parks, shopping galleries and shopping arcades as long as their assortment focus is in the short- and medium-term demand. It also considers typical food retailing properties such as supermarkets, superstores and discounters.

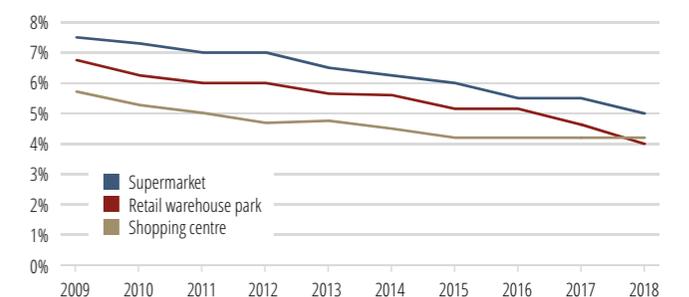
Trend in Asking Prices

Moreover, the transaction database of Habona Invest provides valuable insights concerning the trend in average asking prices. The nearly 4,500 data sets, mostly representing small-scale properties with less than 5,000 sqm of lettable area and strong regional spread, also point to a fast upward trend. In the core and core-plus segments (as-new state-of-the-art assets and new-build assets), price expectations on the seller side increased by an average of 28 % between 2012 and 2018, meaning by over 4.6 % annually.

Trend in Rent Levels

The rise in selling prices of grocery retail properties corresponds largely to the performance of the rent level. As far as supermarkets and discounters go, the assets included in Habona’s supply-side database show an average rental growth of over 16 % during the time between 2012 and 2018. This implies an annual growth rate of nearly 2.7 %. These figures show that the rental uplift has gathered momentum lately. Against the background of the significant trading-up of the grocery assortments with higher margins, the growing share of refurbished and upgraded markets with sometimes higher branch

Fig. 44: Trend in Prime Yields



Proprietary chart, based on data by Savills (2019)



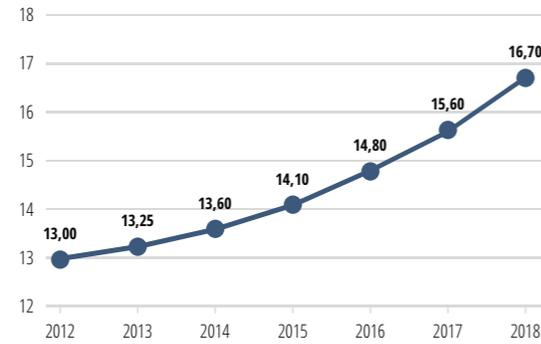
revenues, and the expansion into pricier high-street and district locations, rental growth follows essentially the qualitative upgrades of the properties.

Performance of the Transaction Market

Due to the declining availability of attractive portfolios in 2018, last year's transaction total in grocery retail properties dropped by a significant 28 % year-on-year, down to 1.93 billion euros (cf. Fig. 47). This contrasts with 2017, a year dominated by portfolio sales, including big-ticket transactions by Quest (385 million euros), Leopard (150 million euros) and Bordeaux (120 million euros), among others. That said, the long-term trend of growing demand for grocery retail property remains in place.

The rising appeal of the grocery retail asset class for institutional investors is reflected not just in the increasing transaction volumes but also in the large number first-time buyers in this market: More than half of the identifiable buyers in the grocery retail sector entered the market in 2018 as investors for the first time in 10 years. These investors account for around 40 % of the entire transaction volume. This makes it safe to assume that the significance of grocery retail property will keep growing, no least because more and more vehicles are being launched that focus on this asset class.

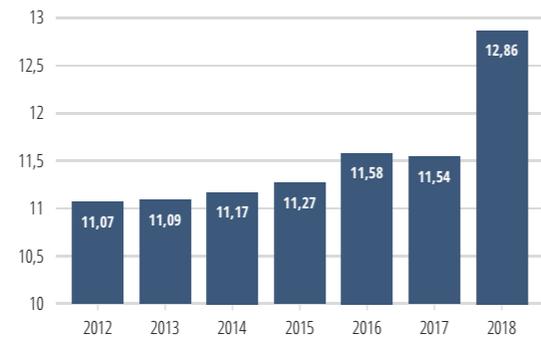
Fig. 45: Trend in average multipliers of individually acquired supermarkets and discounters



Proprietary chart

The long-term price increase for supermarkets and discounters gathered additional momentum in recent years.

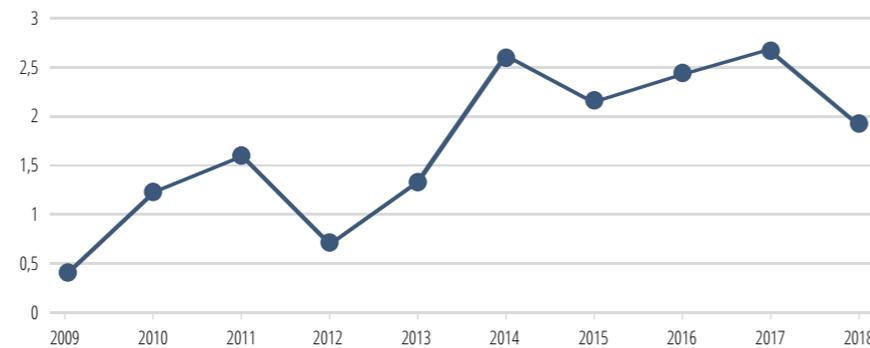
Fig. 46: Trend in the average rent level of supermarkets and discounters, in EUR/sqm



Proprietary chart

Rents for discounters and supermarkets, which used to be rather modest for the longest time, have seen very brisk growth lately.

Fig. 47: Trend in transaction volume, in bnEUR/year



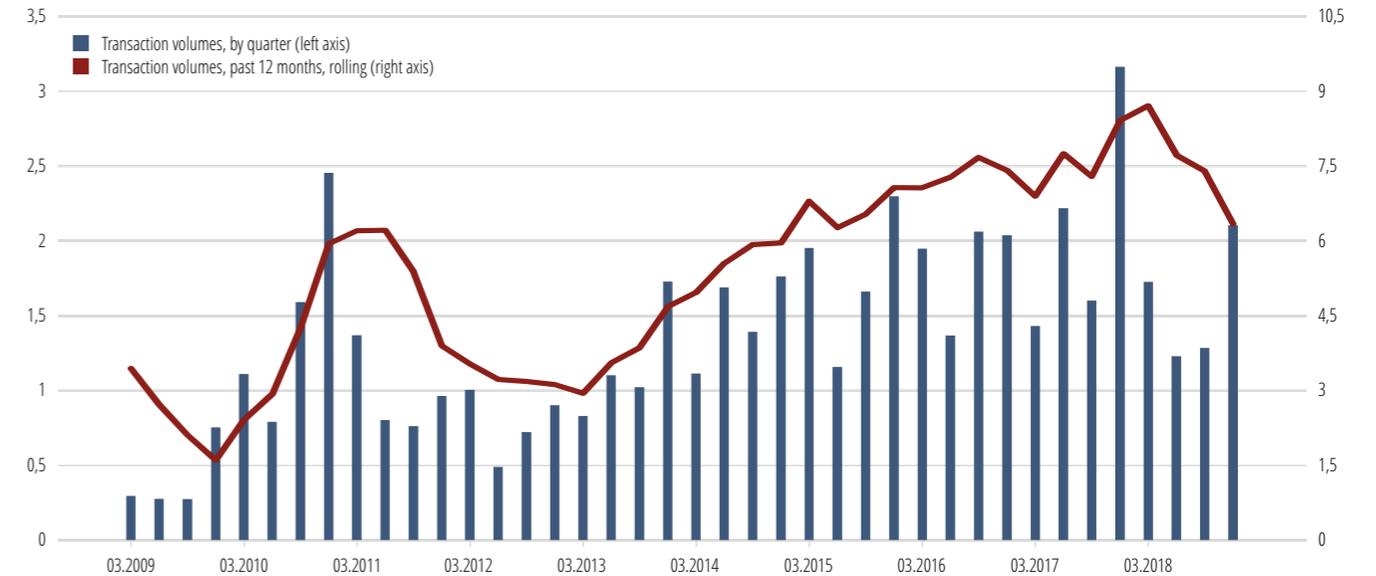
Proprietary chart, based on data by Savills (2019)

THE GROCERY RETAIL ASSET CLASS IN THE EUROPEAN CONTEXT

Interest in food retailing has been growing not just in Germany. The transaction volume of supermarkets and retail centres anchored by grocery outlets has also increased substantially elsewhere in Europe in recent years. Particularly two relevant trans-

actions made headlines in 2018: Generali's acquisition of 53 Monoprix assets in France for c. 600 million euros and the acquisition of 40 supermarkets and 7 hypermarkets in Italy by BNP Paribas REIM for c. 250 million euros. Not only do these count among-

Fig. 48: Trend in transaction volume for grocery retail property in Europe, in bnEUR



Proprietary chart, based on data by RCA and Savills (2019)

Fig. 49: Top 20 supermarket buyers in Europe

Buyer	Country	Type of investor	Volume (mEUR), past 24 months	Volume (mEUR), past 5 years
Patrizia	Germany	Investment manager	638	1,029
TLG Immobilien AG	Germany	Property PLC	612	612
Universal-Investment	Germany	Investment manager	600	1,066
Generali Group	Italy	Insurance	600	680
GPEP	Germany	Investment manager	560	869
Fortress (NLD)	Netherlands	Developer	501	501
Redos Real Estate	Germany	Investment manager	455	467
Supermarket Income REIT	United Kingdom	REIT	345	345
Nuveen Real Estate	United Kingdom	Investment Manager	343	606
German Retail REIT	Germany	REIT	304	479
Tesco	United Kingdom	Corporate	298	976
BNP Paribas	France	Bank	272	302
Otto Group	Germany	Corporate	257	270
Warburg-HIH Invest	Germany	Investment manager	236	256
x+bricks AG	Germany	Investment manager	210	210
Habona Invest	Germany	Public closed-end funds	200	400
Bayerische Versorgungskammer	Germany	Superannuation scheme	200	330
Prudential plc	United Kingdom	Insurance	190	724
AG2R La Mondiale	France	Insurance	184	184
Union Investment	Germany	Open-ended institutional funds	177	234
Ores Socimi	Spain	REIT	173	173

Proprietary chart, based on data by RCA (2019), plus self-disclosures Habona Invest (2019)



WHICH WAY FORWARD FOR GROCERY RETAILING?

Grocery retailing is part of everyday life, and forms a relationship between traders and consumers that keeps renewing itself. Concepts vary considerably from one retailer to the next. While there are plenty of fascinating examples in Germany, it also makes sense to a look across the border.

Proliferation of Mixed-Use Concepts

In Hamburg's St. Pauli district, Lidl has joined forces with hotel operators Prizehotel to develop a property that would not have been a profitable investment as a standalone grocery store. Elsewhere in Hamburg, Lidl is planning to build a branch with crèche and student flats on the upper floors.

But Lidl is also proactively fielding new ideas abroad. In London's suburb of Twickenham, the company is currently developing a hybrid building that will house a school and a supermarket. The idea is to have people shopping for

groceries on the ground floor while pupils attend their classes upstairs. Just as unusual is the implementation: An online petition has been launched to solicit public approval of the project.

In addition to economic considerations, mixed-use concepts are also an effective way to speed up permit procedures, as the planning offices seek densification, especially in central locations. On top of that, mixed uses also have advantages from a shopper's point of view: what would be more convenient than having a grocery store in the same building?

Unchecked Trend toward Convenience

Apart from easy accessibility, aspects such as convenience and shopping experience are increasingly seen as success factors in site development for grocery retail purposes. These include to-go concepts, express check-outs or "pedestrian drives" of the type

currently rolled out for the smaller inner-city stores of the French supermarket chain Carrefour. The latter lets customers pick up their online purchases in the nearest participating branch.

Development potential in grocery retailing could also be raised by creating links to complementary services. In Hamburg, for instance, Germany's first multi-label parcel shop opened for business. On a footprint of about 60 sqm, the parcel shop provides space for more than 400 parcels shipped by DPD, GLS, Hermes and UPS. It plays a role in the grocery retail sector insofar as it generates additional footfall daily.

There is one thing all these possibilities seem to confirm: The future of grocery retailing will be characterised by mixed-use formats. The sooner investors get used to the idea and adjust their investment profiles accordingly, the better their chances in this investment market are likely to be.

GUEST ARTICLE BY DRESCHER & CIE IMMO CONSULT AG

GROCERY RETAILERS – EN ROUTE TO BECOME A DISTINCT ASSET CLASS?

During the past 20 years, the property investment fund sector underwent a paradigmatic shift. Prior to the credit crunch, large investment companies, often with a background in banking, used to offer their market know-how in the form of widely diversified real estate investment strategies, whereas in the years since the keyword has been specialisation. The enormous success of master AIFM and third-party AIFM suggest as much.

Many institutional investors have started to develop and implement their own asset allocations. To this end, they rarely require investment companies anymore that, while offering this service, are not specialised in specific market segments or strategies. Instead, they seek out the finest asset management specialists in their segments. This explains the impressive performance of the asset managers Art-Invest in Cologne and BEOS in Berlin, for instance. The latter company has demonstrated compellingly how to develop the specialisation in a niche segment into a distinct new asset class.

As part of my experience of over 20 years in the property fund business, I vividly recall the debate whether refurbished and repositioned Unternehmen-simmobilien—meaning multi-use and

multi-let commercial real estate—qualify as an investment-grade asset class for institutional clients. The majority of fund managers and investors did not think so at the time. Which is too bad for those who opted out and good for those who understood the story early on and committed themselves.

Let us take a closer look at the key factors that were definitive for their amazing success:

Strict Specialisation

In the best case, the respective market segment has not become part of the competitors' strategy yet and the asset manager is highly competent in this niche market, with an excellent track record to prove it.

High In-house Management Share

For an asset manager, the best way to manage complex investment strategies is to generate the value-added as much as possible in-house in order to avoid information loss and interface issues.

Avoidance of Overlapping Strategies

A new investment approach should be a unique addition to the existing investment spectrum. Investors will rec-

ognise a repackaged prior scheme as such and reject it.

Superior Performance Compared to Established Asset Classes

The market will see the opportunity in a new development only if it stands a realistic chance to outperform comparable established assets.

As far as I can see, grocery retailing definitely meets these key criteria. Moreover, I see the following added success factors, which are significant:

Decentralised Focus

Your best bet on today's markets is to make the most of diversification. Grocery retailers proactively seek out sub-centres as well as B- and C-class cities—wherever people live. Most investors and asset managers steer clear of these locations and focus on Germany's established “Big Seven” investment destinations instead. Properties focused on the grocery retail business therefore have a genuine diversification advantage over mainstream assets.

Availability of Assets

The pipeline of available assets is well filled. Many asset managers refrain

from buying mixed-use properties because they do not match their strategy focus and lack the management competence. At the same time, cities outside the metropolises need to increase or at least maintain their attractiveness in the competition of locations. A great way for them to accomplish this is by developing and preparing attractive local convenience centres, and to support property developers and investors.

In my eyes, the grocery retail sector therefore definitely has the potential to establish itself as an asset class in its own right. In addition, it is largely online-resilient and thus a plausible way forward in the further development of the retail sector. The diversification advantages are as relevant for institutional investors as they are for private investors.



Oliver Weinrich
Member of the Board



Habona investment in Waldfeucht

KEY TAKEAWAYS

The Anticipated Population Decrease Failed to Happen

The high rate of incoming migration compensates for Germany's low birth rate more than expected. German society and its consumption patterns are diversifying, while consumers get older and more mature. That being said, the demographic trend varies considerably from one region to the next.

Consumption is Becoming the Stage of Desires and Good Resolutions

In an ageing society, security, health, enjoyment and tradition are ideals pursued not just by the elderly. Mass consumption and the instant gratification of needs should be secondary to retirement planning and high-quality expectations. In addition, grocery shopping is increasingly turning into an expression of lifestyle and values.

Grocery Retail as Demographic Winner

Food and drugstore markets were quick to respond to the socio-demographically motivated trends in the needs of an ageing society for shorter distances, more convenience and higher quality. They are now at the forefront of a general modernisation drive in the retail sector, as evidenced by impressive revenue growth.

Desire for Authenticity Favours Mixed Uses

All of the demographic trend groups prefer authentic shopping environments and options for socialising. Using mixed-use concepts to structure grocery retail locations comes particularly close to meeting this need while offering time-saving coupling effects. Experiential value, convenience and well-being are gaining in appeal.

Groceries and Gastronomy – Two Sides of a Coin

Fixed routines like set meal times are dissolving. These days, people will eat wherever and whenever it suits them. Supermarkets therefore not only offer more and more products for direct out-of-home consumption, but are also developing new concepts for in-store consumption.

Customer Centricity – the New Benchmark

Business types like discounters and supermarkets increasingly resemble each other, not least because the boundaries between their customer groups are dissolving. The distinction between business type as such is being replaced by the single angle of customer needs.

Not Online Retailing but Data Analytics is the Key Criterion in Digitisation

Information technology will pace the future of retail, because efficient data exchange is the only way to create the prerequisites for the pinpoint fulfilment of customer requests. The question whether the eventual delivery is made online or offline plays a secondary role.

While E-Grocery is Making Waves, its Revenue Potential Remains Low

Due to the special requirements for freshness and quality, online food retailing remains a major logistical challenge. From the customers' point of view, the question also presents itself just how appealing it is to have the accustomed flexibility of in-store shopping compromised by scheduled deliveries.

Grocery Retailing – a Core Investment

Compelling criteria of this investment type include long-term leases, high net worth tenants and the idea of fulfilling basic needs close to the client base. Safety-oriented investors appreciate the reliability and the low management intensity. Opportunistic investors, by contrast, are gradually backing away from the segment – which suggests that the asset class has undergone a maturing process.

Grocery Retailing en Route to Become a Distinct Asset Class

In the years since the credit crunch, specialisation has emerged as the essence of sound real estate investment strategies. But specialising in a niche is the first step toward the development of a distinct new asset class. Grocery retail property presents opportunities outside the mainstream that thrive on success factors rooted in fundamental needs.

GLOSSARY

Food Retailing Terminology

Food: In addition to food and beverages, the term is used for groceries in general.

Near-food: The term covers goods related to food and beverages such as toiletry products, detergents and cleaning agents, hygiene articles, body care products, flowers and over-the-counter drugs..

FMCG (fast-moving consumer goods): Originating in market research, the term captures the wide variety of products attributable to personal consumption, everyday needs or other short-term consumption products in the food and near-food product segment.

Food retailing: In a narrow sense, the term denotes the retail trade in supermarkets, hypermarkets, discounters and superstores, provided that FMCG account for more than 50 % of the revenues. In a broader sense, it also covers supply outlets such as service station shops, bakeries, butcher shops, direct sellers, online retailers, mail-order companies and cash & carry wholesalers.

Operating Types in the Retailing of Groceries and Toiletry Products

Discounter: The term is largely synonymous with discount grocer, referring to a physical retail format whose distinguishing features include a narrow and flat assortment of 800 to 3,500 articles, a low number of brand listings, a plain product presentation and low pricing. Sales areas range from 600 sqm to 800 sqm, or lately as large as 1,200 sqm, and sites include both integrated and non-integrated urban locations. Examples: Aldi, Lidl, Netto, Penny, Norma.

Supermarket: This operating type of brick-and-mortar grocery retailing stocks a deep and broad product range of 4,000 to 15,000 items, depending on the sales area, maintains a high share of branded goods and thus represents a so-called full-line assortment. Sales areas of 400 sqm (often labelled “city concept”) or located near transport hubs) and up to 1,500 sqm are mainly found in integrated urban-planning locations. Examples: Rewe, E aktiv, Tegut, Wasgau.

Hypermarket/large supermarket: The term serves a statistical distinction

in market research to highlight the large-scale footprint and with it the superior supply competence. This type stocks a deep and broad product range of 15,000 to 40,000 items in combination with brand listings in the full-price range but also trademarked products in the low-price range. Recent features include increasingly costly product displays and the integration of gastronomic options. Sales areas range from 1,500 sqm to 5,000 sqm in semi- or non-integrated urban locations. Examples: Rewe Center, E-Center, Kaufland, Hit.

Drugstore: In contradistinction to local owner-operated community pharmacies with their offer of in-depth pharmaceutical advice, this term refers to pharmacy-led retail multiples whose self-serve assortments feature a variety of manufacturer brands and low-priced store brands. This type stocks a broad and sometimes deep product range of 15,000 to 20,000 items. Sales areas run from 400 sqm to 800 sqm, but can be larger in certain sites and for different operator concepts. Examples: Rossmann, dm, Budnikowski, Müller (large-scale).

Market Research Terminology

Consumer sentiment: This expectation index is determined by the GfK consumer research society via a monthly poll among a cross-section of German consumers 14 years of age or older regarding personal income and consumer expectations. While representing a consumer climate index, its score also reflects propensity to buy and macroeconomic expectations.

Private consumption: Synonymous with general purchasing power, this term refers to the disposable income in private households for consumption purposes after the deduction of all regularly recurring payment obligations (e.g. rents, loan payments, insurance premiums).

Retail-relevant purchasing power: This term covers the general purchasing power that may be spent in the retail sector for consumption purposes. The balance is earmarked for other consumer sectors like travel, transport, telecommunication and gastronomy.

Grocery-relevant purchasing power: Part of the retail-relevant purchasing power that is spent on food and near-food for consumption purposes. Not taken into account are expenses that relate to food and near-food shopping, such as for services and non-food products.

Grocery-relevant sales: The term refers to the estimated total revenues generated by the stores of a

given local convenience centre that contribute to the rental income from that centre.

Catchment area: The geographic area that covers the sphere of influence of a central location, taking into account its intrinsic attractiveness, connecting routes, geographic obstacles and competition. Relevant for the performance of a grocery outlet is the product of multiplying the population total by the grocery-relevant purchasing power of a given catchment area.

Grocery Retail Terminology

Routine shopping: The regular fulfilment of predominantly short- and medium-term demand for personal consumer goods, meaning FMCG.

Local amenities: In its narrow sense, the term covers the availability of fast moving consumer goods (FMCG), and refers mainly to groceries but also some services that are centrally located and lie within easy walking distance. In a broader sense, it also refers to that complementary spectrum of goods and services that tend to be in demand and used in conjunction with routine shopping, including low-priced textiles and household goods, public and private services such as banks, post office, gastronomy, schools, pharmacies, medical amenities and cultural venues, among others.

Neighbourhood centre: Agglomerations of this type, either purpose-built with an integrated de-

sign or historically evolved, include outlets of brick-and-mortar retail businesses specialising in food and near-food product ranges. The assortments of these outlets generate synergy both for retailers and for consumers as the site’s coupling effects outweigh the threat of competition and make the site more attractive than a stand-alone outlet would be. Large-scale grocery retail outlets often function as footfall magnets. They cover retail areas as large as 5,000 sqm.

Digitisation Terminology

Big data: This umbrella term is used for large amounts of, initially unstructured, data that are captured via digital technology either with or without mandatory objectives. The usefulness of the data for specific purposes depends entirely on subsequent processing and analysing steps.

Digitisation: Originally, the term meant the processing and conversion of analogue information into digital signals suitable for further electronic data processing. High transmission speeds and high data volumes are prerequisites not only for acceleration, but also for changes in processes and procedures that now affect all aspects of societal development.

E-commerce: Also known as online retailing or internet retailing, this term refers to any commer-

cial transaction that is carried out through electronic data transmission. In a broader sense, it refers to any type of business transaction in which providers—even those who do not represent trading entities—use electronic communications technology for the purposes of service initiation, agreement and provision vis-à-vis prospective customers.

Customer centricity: In contradistinction to the strategy of product centricity, this term refers to the focus of a company as a whole and of its marketing unit in particular on the demands and needs of individual customers. Gathering customer data and recording customer behaviour through digitisation opens up entirely new dimensions for the customer orientation of the retail trade and thus for the development of new business models.

Online sales: In contradistinction to in-store sales, this term refers to those of a retail company's revenues that are generated by closing transactions on the internet. The product or service can be delivered directly from the warehouse or via the storefront retail outlet (Click & Collect). Monitoring online sales is fraught with serious difficulties because various methods are used for the purpose: They may be collected according to where the sales are predominantly generated, either online or in-store (Federal Statistical Office), based on corporate

surveys (bevh E-Commerce and Distance Selling Trade Association) or through regular household polls (GfK consumer research society).

Real Estate Industry Terminology

Sales area: The part of the shop area that is normally used for selling, which under German law includes the space for displaying goods (retail area) and the space for transacting sales (checkout area plus post-checkout area and draught lobby). An 800 sqm footprint currently marks the limit beyond which a sales area is legally defined as large-scale and assumed to have urban-planning ramifications that are relevant for planning consent approvals.

Retail space productivity – sales per square metre: This variable measures the trading performance of a given retail tenant relative to the floor area occupied. One needs to differentiate between reference values for square metres of shop space, lettable area or sales area, as well as net or gross sales performance.

Price-to-rent multiplier: This factor is used for rough appraisals of properties on the basis of their annual rental income and thus represents the reciprocal value of the property yield. You need to distinguish between net and gross multipliers if incidental acquisition costs are to be factored in.

Asset class: A group of investments with common characteristics, such as bonds, equities or real estate. It is common practice in the real estate industry to gather properties with similar characteristics into (real estate) asset classes. A good case in point in this context would be the asset class of “office real estate.” Since the conditions and development trajectories in the various segments of the retail trade have less and less in common, Habona introduced the term “grocery retail” as a distinct asset class.

Institutional investor: Body corporates engaging in commercial business and having the function of a capital depository who invest extensively in financial markets, examples including banks, insurance companies, pension funds and investment companies.

PARTNER PROFILES



STATISTA

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Based and listed in London, Savills is one the leading real estate service providers active worldwide. Founded in 1855, the company looks back on a long history of tremendous growth. Rather than following trends, Savills sets its own, and today has more than 600 offices and partners in the Americas, Europe, Africa, Asia Pacific and the Middle East, and employs over 35,000 professionals.

In Germany, Savills employs a staff of around 200 professionals at 7 offices in the country's leading real estate locations – Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart. Today, Savills provides expertise and best-of-class market intelligence in the following areas to its clients:

Investment – Agency – Portfolio Investment – Debt Advisory – Valuation

A unique combination of industry insider know-how and an entrepreneurial mindset and action offers our clients access to real estate expertise of the highest quality. Our employees, their creativity and their willingness to perform represent our true capital, and they are valued both for their innovative thinking and for their strong negotiating skills. Savills specialises in a select client base, delivering a highly professional service to these companies and individuals to help them achieve the common objectives. The name Savills is synonymous with a premium brand and a high-end quality range of services that takes a bespoke approach to real estate and invests in strategic relationships.

ABOUT HABONA

Habona Invest GmbH is an initiator for alternative investments specialising in real estate and based in Frankfurt am Main. A key component of Habona's formative idea is the investment focus on real estate and locations that will permanently meet the basic needs of people. In this line of business, Habona covers three market segments so far: grocery retail property, child daycare centres and holiday properties. Its holiday properties are developed, marketed and managed as full-service investments by its subsidiary Pareus based in Bolzano.

So far, Habona Invest has launched seven prospering real estate funds, with transactions in the grocery retail segment adding up to more the 600 million euros. At the moment, it has 400 million euros worth of assets under management. The senior management team has more than 30 years of experience both in the institutional and in the private-sector real estate business. Relying on extensive market analyses, Habona Invest handles all phases of successful real estate investing, from the acquisition and development of plots all the way to the asset management and eventual disposal of properties.



To ensure a pleasant reading experience, it was decided to refrain from the simultaneous use of both male and female word forms. All references to individuals equally refer to either gender.

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