SPOTLIGHT
Savills Research

Spanish food sector

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AGUIRRE NEWMAN

> "The food sector in Spain is facing a new stage. Differentiation, technology and in-store experience will be the key to growth"

Summary

The economic crisis triggered by COVID-19 has changed the landscape of Spanish grocery distribution.

Urban supermarkets and hypermarkets have been the big winners, given that consumers avoided long trips during quarantine.

Despite the boost given to online shopping, this channel continues to be the great strength of many brands.

During the lockdown, shortcomings in the management of orders, stock shortfalls and high transport costs have become apparent.

In the future the market share of the online channel will continue to gain weight, although the physical store will continue to be the preferred option, therefore investment in the in-store experience is still very important.

During 2020 major challenges are posed by market saturation and the consequent reduction in productivity per store, as well as the essential incorporation of technology in the sector.

New delivery formulas (Shop & Go, Click & Collect, Click & Car or Pedestrian Drives), hybrid models where you can taste and buy, as well as Dark Supermarkets are some of the trends that are beginning to take shape and will define the model of the future.

The resilient performance of supermarkets during the crisis makes this type of product a good option for the investors, and as a result the number of transactions associated with supermarket portfolios has increased.

Spanish food sector

Food distribution has played a major role during the health crisis, regaining prominence in our society

The economy

After stabilising temporarily around mid-May, the number of new coronavirus cases per day has started to rise again, affecting consumer confidence. The latest data confirm that global economic activity bottomed out in the second quarter of 2020 and began to recover in line with the progressive lifting of the containment measures, starting from mid-May.

According to the Quarterly National Accounts, GDP fell by -18.5% quarter-on-quarter in the second quarter and by -22.1% year-on-year, the largest drop in the historical series, dragged down by all components except public consumption (+0.4% quarter-on-quarter), with falls of more than 20% in private consumption and investment, and around 30% in exports and imports, standing out.

By sector, the negative contribution of trade, transport, hotels and restaurants (-40.4% quarter-on-quarter), artistic, leisure and other services (-33.9%) stand out.

Similarly, the Labour Force Survey for the second quarter of the year shows a sharp fall in employment (-6% inter-annual), although this is moderated by the implementation of the ERTE, while the hours worked show a fall of 26.6%.

This decline in occupancy was partly reflected in the unemployment rate, which increased to 15.33% of the working population, while the inactive population increased sharply.

By product, this favourable evolution was due to the slower rate of decline in personal equipment and service stations (moderation of the double-digit fall to around 23% year-on-year, both) and the upturn in household equipment (over thirty points to 9.6%).

Retail activity is outstanding, increasing strongly in June for the second consecutive month, as well as preliminary consumer prices, which intensified the fall in July.

In August, the Retail Trade Index continued to recover, posting a 1.8% month-on-month growth, after 19.4% in May, and highlighting the positive contribution of the food sector in department stores, which accumulated a 0.7% increase in August.

The progressive return to normal of social activity and consumption, the recovery of the global economy and fiscal and monetary stimuli will allow for a clear recovery in activity in 2021, which will, however, be insufficient to return to the level of activity or employment witnessed in 2019.

Consumption

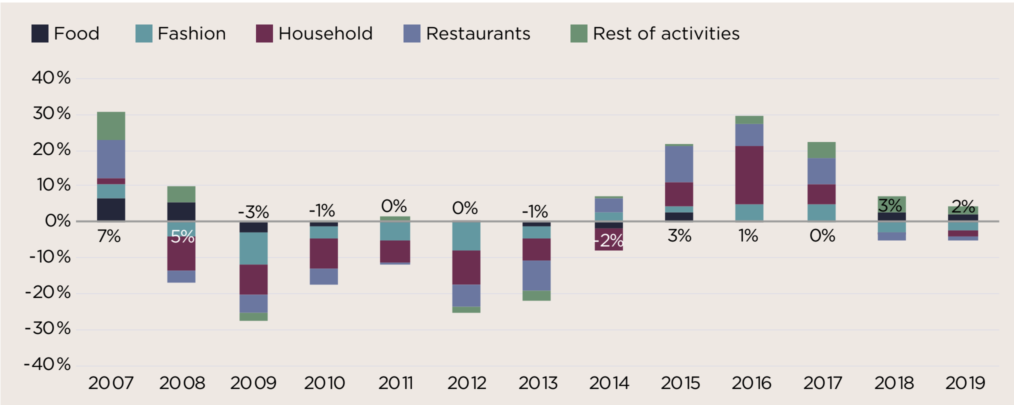
During 2019 the average annual expenditure per household in Spain was €30,243, which meant an annual increase of 1.2% with respect to 2018. 14% of this expenditure, i.e. €4,233, was spent by families on food and non-alcoholic beverages, representing an increase of 1.9%.

Comparing in-home and out-of-home consumption, 86% of the volume of food and beverages is consumed at home, and only 13.9% is consumed outside the home. The evolution of the pandemic means that this value is expected to fall in favour of household consumption.

The preferred shopping channel for Spanish consumers is the supermarket and self-service which received 47.8% of total expenditure, with a growth of 2.5% with respect to 2018. The traditional store is the second preferred channel (17%), but it reduces its weight by 2.3%.

The hypermarket has a 13.6% share of total

Graph 1: Family consumption evolution



Source Spanish food consumption report 2019 . Ministry of Agriculture, Livestock and Fisheries

> "Market experts anticipate the online food market share could reach 3.5% this year"

turnover and discount stores have a 12.6% share.

The lock-down caused by the Covid-19 crisis has meant a before and after for the online channel of the food sector, and although its weight on total expenditure represents only 1.5%, it is important to note that in 2019 it will register a growth of 18.7%. Experts from Aecoc (Spanish Association of Manufacturers and Distributors) point out that the market share could reach 3.5% after lock-down and above 5% in 2025.

Current stock, formats and densities

The total stock of food retail areas in Spain now reaches 16.6 million square metres and 23,701 stores. The figure includes hypermarkets, supermarkets, discount stores, cash & carry, convenience stores and specialist stores.

The hypermarket retail formula emerged in Spain in 1973, basing its growth on its assortment and lower prices. Its increase in openings was based on price competitiveness due to its greater purchasing capacity and cost efficiency.

However, in the nineties the hypermarket model faced the restrictions introduced by the 1996 Trade Law, which imposed an additional licence on department stores and the increasing competition from supermarkets, which had the advantage of being closer to the consumers and had a sales volume that allowed for economies of scale.

The increased importance of the supermarket format, to the detriment of hypermarkets and specialised stores has been unstoppable, and today it is already the preferred channel for consumers.

The density of food retail areas in Spain is 353 sq m per 1,000 inhabitants. By region, Galicia and Asturias are in the top of the ranking, with 496 sq m and 448 sq m respectively. On the opposite side are Ceuta and Melilla with a density of 251 sq m and 198 sq m respectively.

Type	Stores (no)	Sales area (mill. sq m)
Super / Discount	19,846	11.3
Hypermarkets	512	3.4
Cash & Carry	674	1.5
Convenience	1,593	0.3
Specialized	1,076	0.1
	23,701	**16.6**

Source Food distribution yearbook 2020/2021

It is interesting to note that regions such as Madrid (281 sq m) or Murcia (293 sq m), which have a high density of shopping centres, occupy the last places in the ranking of densities in grocery areas, with values below the average for Spain.

Groups

In Spain, the distribution market is dominated by five large groups: Mercadona, Carrefour, Auchan, Día and Eroski. Except for Mercadona, all of them operate under their own brand and other affiliated brands, the result of strategic purchases, with the objective of taking control of local markets; such as the case of the acquisition of Caprabo by Eroski in 2007.

Mercadona is the leader in the food market in Spain, with more than 1,600 points of sale and an area of 2.4 million sq m, representing a share of 15.88%. The family-owned Spanish company currently represents 28.6% of the sales share (3 out of every 10 euros spent on mass consumption ends up at Mercadona).

During 2018 it focused its strategy on refurbishing its establishments. In 2019 it opened ten supermarkets in Portugal and plans to open another ten in 2020, with a total of 150 supermarkets.

One of the most important milestones was reached between 2009 and 2010 when the company opened 134 new stores and refurbished another 53.

There are six autonomous regions where Mercadona leads the market share: Murcia (22.96% of the total area of the region), Valencia (22.14%), Andalusia (19.88%), Ceuta and Melilla (20.77%), Castile-La Mancha (18.06%) and Catalonia (14.76%).

In 2020, the company has put three supermarket portfolios on the market, having recently closed the sale of one of them. The aim of this strategy is to have the liquidity to cope with the process of updating its assets, the acquisition of logistics production and the expansion in Portugal.

Carrefour (12.47%), in Spain is the result of the merger in 1999 between Carrefour and Promodes. Its growth was affected by the decreased visits to hypermarkets and its strategy is now focused on increasing its network of proximity stores.

In 2015, the French company will purchase 36 hypermarkets, 22 petrol stations and 8 shopping centres associated with the stores from Eroski.

In 2020 Carrefour has reached an agreement to purchase 172 stores under the Super Sol banner in Spain, in a move that it claims will strengthen its number two position in the country.

Following the transaction (Q1 2021), Carrefour plans to convert the acquired stores to convenience and supermarket formats under its Express and Market banners, respectively, as well as to its Spanish discounter Supeco format.

Currently, Carrefour is the leader in Madrid where it occupies 17.60% of the region's foodstuff area.

Eroski is in third place with 6.83% of the total area, made up of the Eroski cooperative and other companies such as Vegalsa and the Caprabo Group. In 2010 it transferred eleven supermarkets in Castile-La Mancha to Eco Mora and Sabeco supermarkets and sold 15 centres in Andalusia and the Valencia region, opening its first hypermarket in the Canary Islands.

A year later it negotiated with Leclerc the sale of its hypermarkets in the Community of Madrid and in 2015 it sold 160 supermarkets to the Día Group and 36 hypermarkets to the Carrefour Group.

After this long restructuring process, Eroski dominates the market in the Basque Country (42.72%), Navarra (32.00%) and the Balerares (27.43%).

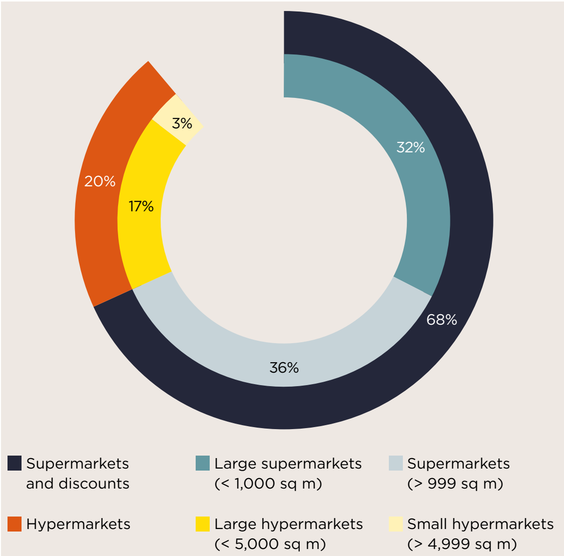
The DIA Group (6.29%) remains the fourth largest operator in Spanish distribution. In 2008 the company opted for its new DIA Market and DIA Maxi format, renewing the image of its logo and its centres. In 2012 it launched Dia Fresh and acquired the Schlecker household and cleaning products chain, and in 2015, after purchasing the El Arbol Group, the new format La Plaza del Día was born.

In 2019 Letterone Investment Holdings, the investment group led by Russian tycoon Mikhail Fridman, takes over 75% of the company and in 2020 it has offered the company's bond owners to buy its shares, in a transaction that could reach 450 million euros.

Día is currently the leader in the autonomous communities of Extremadura (22.91%) and Castilla y León (19.88%).

Lidl (4.21%) is the leading Hard discount company in Europe. It landed in Spain in 1994. In 2008 the company

Graph 2: Spanish food area distribution by format



Source Food distribution yearbook 2020/2021 bought 7 establishments Día, in 2009 it opened 34 stores and between 2010 and 2012 more than 40 stores, continuing its expansion process over the following years. In 2018 it launched its online platform with an App that allows the client to access exclusive advantages and services.

Auchan (3.72%) started its activity in Spain in 1981. In 1996, it acquired all the Jumbo hypermarkets in Spain and Portugal and the Sabeco supermarkets. In 2017, supermarkets began to open under the Alcampo brand, renaming the stores which had previously operated as Simply.

Since 2018 it continues with its project of converging its stores into the unique Alcampo brand. It also ceases to operate under the Simply brand, converting all its stores to “Mi Alcampo” and “Supermercados Alcampo”.

It is currently immersed in a process of consolidating its network of hypermarkets by renovating and improving its image. Auchan leads the markets of Aragon (25.47%) and La Rioja (21.76%)

El Corte Inglés (4.48%) is the leading Spanish distribution group, with an important network of department stores, hypermarkets and branches. The group’s dominant company is El Corte Inglés, SA, which has a direct stake in the other subsidiaries (El Corte Inglés, Hipercor, Supercor, Opencor and Gespevesa convenience shops).

Major milestones in the year 2019 included setting up a new real estate business unit, for the development and management of real estate assets, and the agreement signed with the GIFI group to integrate El Corte Inglés (Iecisa) into the French group.

Most investments during the year 2019 were aimed to maintain the quality standard of its shopping centres, and to reinforce the digital business. In this regard, the group’s strong commitment to omni-channel development is worth noting, thus reinforcing interconnection between physical shops and the online environment.

Sales

In 2019 Mercadona was the undisputed market leader in terms of turnover (€25,500 million) with 28.64% of the market share and a 4.9% increase in sales compared to 2018. It is followed by Carrefour (€9,723 million) with a market share of 10.92% and an increase in sales of 0.4% and Auchan with 5.22% of the market share and a decrease in sales of 0.2% (total sales in 2018 of €4,652 million).

Prices

As indicated by the latest results of the survey carried out by The Consumers and Users Organisation (2019) Dani, Tifer, Alcampo, Familia and Vidal are the cheapest supermarkets in Spain.

On the other hand, Sánchez Romero is the most expensive chain with a shopping basket of €3,247 more expensive than Alcampo.

By cities, the towns with the lowest prices are Vigo (Pontevedra), Zamora, Jerez de la Frontera (Cádiz), Almeria, Ciudad Real, Palencia and Puertollano (Ciudad Real). By Autonomous Community, Galicia and Murcia are the cheapest, with the Balearic Islands and Catalonia being the most expensive. Palma de Mallorca is the city with the most expensive prices in Spain, being 11% higher than the average prices in the cities with the cheapest supermarkets in the country.

Alcampo de Coia in Vigo (Pontevedra) is the hypermarket with the cheapest shopping basket on a national level, compared to the three most expensive, that are the Sánchez Romero supermarkets in Madrid and Alcobendas.

E-commerce

The increase in online commerce is unstoppable. In 2019, and as shown by the National Commission of Markets and Competition (CNMC), the volume of electronic transactions in Spain grew by 24%, accumulating the sixth consecutive year of double-digit growth.

During the first quarter of 2020 the impact of the pandemic on consumption can be seen, as the increase in volume has been 12%, below 30% of the first quarter of 2019.

The penetration of this channel in the food sector is residual, and currently the so-called FMCG (Fast Moving Consumer Goods) only represent 1.8% of the total electronic transactions and according to Kantar they represent 2.4% of the total sales of this sector, a value far below that of economies such as the United Kingdom (7.6%) or France (6.2%).

Despite this, the annual growth figures in Spain are high: in 2019 the volume of electronic transactions for food products grew by 26% and the number of transactions by 38%.

Some of the reasons that point to the low penetration of this channel are the difficult management of fresh products in the online basket, both from the logistics point of view, the quality of the product, and the shopping experience for the consumer, and the low

Graph 3: Food densities by region

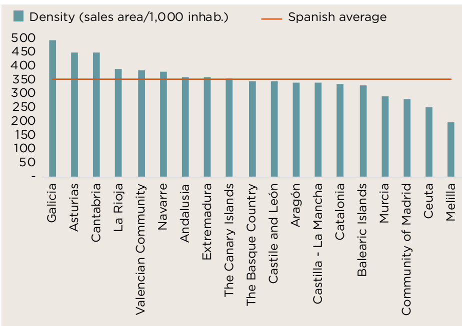
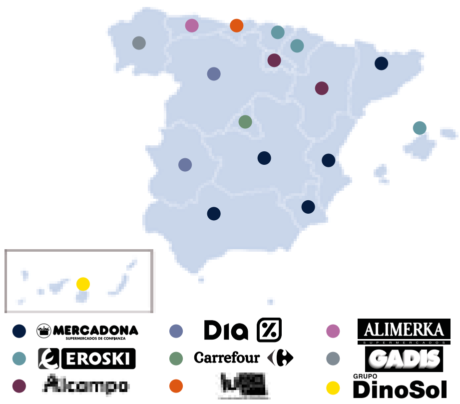
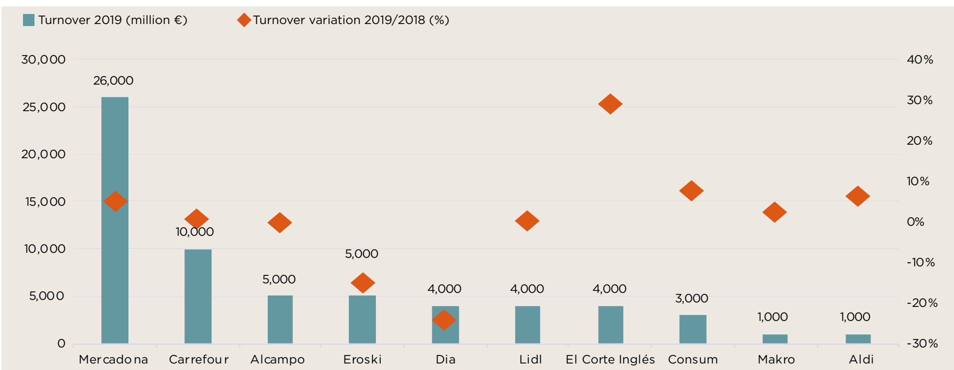


Image 1: Main branches by region



Source Food distribution yearbook 2020/2021

Graph 4: Top 10 food branches 2019



Source Food distribution yearbook 2020/2021 profitability, given that online shopping is structured in most cases as an additional service and orders are prepared from the shop itself.

According to Nielsen the chains should increase their prices by 15-20% to be able to compensate for the shipping costs of the product.

On a logistical level this transaction poses many structural gaps:

- There is no central warehouse, the orders and stocks are those of the physical store.
- The preparation of the order requires labour.
- Transport must maintain and respect the temperature and be adapted to time slots.
- The seasonality and expiration of perishable products that require immediate delivery
- High transport and distribution costs due to the delicate conditions required by the products.
- Impact on the customer of the cost due to the reduced economies of scale as it is still a minority channel.

There are many efforts made by large distributors to promote online commerce. In 2018, Mercadona invested €20 million in updating its online sales website and has recently set up a 15,000 sq m distribution centre exclusively for online services, El Corte Inglés and Carrefour, which offer deliveries in less than two hours or collection from stores, and DIA has an agreement with Amazon for delivery and distribution in different parts of Spain.

The online supermarket has experienced a major boost since the start of the lock-down, and it is foreseeable that this channel will continue to gradually gain ground as a result of a new, more digitised consumer and more solid and efficient platforms. However, according to the study "Observation of the evolution of electronic food trade 2020" carried out by ASEDAS (Spanish Association of Distributors, Self-Service and Supermarkets), the health crisis has led to an increase in the number of individuals who compare prices before buying (+5%), but not a decrease in those who do not use the online channel to make their purchases, which remains at 33%.

Trends

The retail sector is undergoing one of the greatest change processes in its history due to the increase in online shopping, the appearance of pure players (Amazon, Alibaba), the rise of hard discounters and changes in consumer habits.

Some of the changes that are already taking place in food retail areas are:

- The increase in online shopping is one of the main priorities of groups. The Schwarz Group, which owns Lidl, has bought one of the largest e-commerce sites in Germany, and food giant Walmart has closed a deal with Canadian e-commerce platform Shopify.
- There have also been alliances in the distribution sector with delivery companies. As examples, in Spain, Glovo has signed agreements with Carrefour the Dia group, and in Dublin Aldi has signed an agreement with Deliveroo. Taking a step further, WhatsApp has launched a digital payment platform in Brazil following in the footsteps of WeChat in China.
- Shop & Go, Click & Collect, Click & Car or Pedestrian Drives are some of the delivery formulas that are gaining more weight every day. The aim is to make shopping easier for the customer by adapting to his or her lifestyle. BonÁrea supermarkets offer the possibility of delivering the products in boxes so that they can be picked up later during the day and at the time that is most convenient for the customer. In Europe, home delivery systems are already being tested at times when the customer is not there (While you're away) or in the boot of the car itself.
- Dark supermarkets: Most supermarkets prepare the orders from the shop itself with the consequent impact on cost or the lack of available product at the time of the order. Dark stores arise to respond to these needs. These are operational warehouses for the preparation and shipment of orders arriving from the online shop (such as the Mercadona warehouse mentioned above). Located in densely populated areas, their distribution is the same as that of a shop, however, the main point of difference is that they have not been designed for direct sales.
- Catering and food come together and the concept of "Grocerants" is created as a hybrid concept between a food shop and a restaurant. Such is the case of Carrefour and Glovo that have joined to sell ready prepared meals or Dia&Go where they have a breakfast service in the supermarket, Lidl to go, that offers instant hamburgers and hot dogs, El Mercado de Carrefour that offers food halls with different spaces dedicated to food or Mercadona that has included a take-away section in its supermarkets.
- The global pandemic has produced a surge in sales where the client does not interact with anyone. "Amazon Go" has launched supermarkets without cashiers (self-check out) and hypermarkets have assigned more and more spaces to cashiers without a salesperson where the client does not interact with anyone during the whole purchase process.
- Sustainability marks the path of the supermarkets. As a result of the growing concern of the consumer for the environment, more and more people are opting to consume vegetable origin food, reduce plastic and sell in bulk or consume seasonal products exclusively,
- The coronavirus crisis has highlighted the importance of proximity shopping. Spar has diversified its commitment in the Netherlands with the launching of Spar City Small, aimed at

Graphs 5 / 6: Annual shopping basket

Source OCU (The Consumer and User Organization)

> “The supermarket of the future will invest in reducing delivery times, minimising the use of plastic and creating an experience based on convenience and unique moments”

a young urban public, with an offer adapted to each moment of the day and focusing on prepared food. The supermarket chain has also launched Spar mini mobile, an 18 sq m individual shop format that offers a new solution to ensure social distance due to the pandemic.

• 2020 has changed the food industry in ways no one could have forecast..

People choosing to cook at home more and then reaching for more healthy choices in supermarkets.

Expansion of groups

The food distribution market in Spain continues to expand. The increase in consumption of food products has meant that even amid a pandemic, this process continues to the point where an in-depth analysis of locations is beginning to be necessary in order to avoid saturation.

This factor has led to a decrease in the profitability of supermarkets and some local groups such as BM, Bonpreu, Condis, Consum or Gadisa are beginning to set their sights on markets outside their region in order to continue growing.

The market leader in Spain, Mercadona, has closed its expansion in the number of stores in Spain and is focusing its efforts on improving the experience of its current supermarkets, strengthening online shopping and growing with new openings in Portugal.

Recently Carrefour has reached an agreement to acquire the business of the Supersol supermarket chain, owned by the Lithuanian retail group Maxima, in a transaction that will be consolidated in early 2021. The transaction involves the purchase of 172 of the chain's supermarkets in the national market, located mainly in Andalusia and the Community of Madrid. In addition, the chain has a portfolio of five hypermarkets for sale, which it intends to sell under the sale & lease back formula.

Alcampo closed 2019 with 366 stores, 7% more than in 2018. The company is focused on the transformation and renovation of stores, changes of brand name (from Simply to Alcampo), digital transformation and incorporation of sustainability measures.

In 2019, the company opened six new stores: five supermarkets and a hypermarket, the latter located in the Finestrelles shopping centre in Esplugues de Llobregat (Barcelona), which occupies an area of 4,100 sq m. The company has also made progress in its franchising project, setting up a total of 11 assets under this business model.

The Aldi supermarket chain maintains its commitment to Spain and will open four new establishments in less than a month: one in Castellón de la Plana, another in Huércal de Almería and two in Madrid. The new supermarkets form part of the company's expansion plan, through which it plans to open more than 20 new stores this year.

At the end of 2019, Tesco, the largest supermarket chain in the United Kingdom, made the leap to Spain, specifically in the Port of Mazarrón (Murcia), where the company has opened a 1,000 sq m supermarket under The Food Co brand, with which it hopes to expand both in Spain and Portugal over the next decade. In 2021, the company is considering the landing of Tesco in both Madrid and Barcelona.

Lidl has boosted its expansion in Spain with the opening of 7 new supermarkets in Catalonia, Valencia, the Canary Islands, La Rioja and Castilla y León.

BM, the Guipuzcoa-based chain belonging to the Uvesco Group, has announced the opening of 50 new stores throughout Spain, which will be added to the 12,000 sq m of sales space located in Vizcaya that it acquired from Simply.

The food distribution company GM Food has made progress in implementing its growth plan for the retail area with the opening of 45 franchised supermarkets during the first half of the year. Specifically, the new centres, 27 Suma and 18 Proxim, are distributed in 11 autonomous regions. This year, this chain also sold what will probably be the second biggest transaction of the year, with a portfolio of 37 cash & carry.

In May this year, the Basque firm Eroski closed a purchase transaction for 10 supermarkets that had previously operated under the Simply firm in Biscay, totalling 8,500 sq m.

The Valencian chain Family Cash has embarked on a major expansion process following the purchase in 2019 of eight Eroski hypermarkets in different regions. The recent sale and leaseback of seven of its hypermarkets located in Murcia and the Valencia region to the French fund Corum AM has provided the company with a capital boost that will enable it to tackle an expansion process of 16 new stores in 2020 and 2021.

The supermarket investment market

The first outstanding transactions were performed by Eroski, which in 2008 put part of its assets up for sale, and which were then acquired and subsequently transacted again. These transactions made popular the so-called sale & lease back transactions in which the operator, owner of the retail unit, remained as the tenant by means of long-term leases.

In general terms, the market for investment in food areas has a wide range of investors who choose assets according to location, type of brand and contract conditions. With greater economic capacity, institutional investors are more focused on supermarket portfolios that allow them to achieve the minimum investment volume required by the fund, while private investors prefer to acquire individual assets at lower prices.

Despite this, it has been noted that during recent years the institutional investors are also actively seeking out individual supermarkets (as is the case with Ores Socimi).

Among the most outstanding transactions in 2019 is the purchase by the American fund Barings from Kennedy Wilson, of a portfolio of six Carrefour supermarkets with a total gross built area of 38,800 sq m located in different locations and for a total amount of €72.3 million.

As stated, in March, Family Cash sold a portfolio of seven hypermarkets located in the Community of Valencia and Murcia to a pan-European fund

NEW TRENDS THAT HAVE EMERGED SINCE COVID-19

- FMCG shows maintained growth.
- Consumers are eating more at home and less outside.
- Demand for healthy food, snacks, ready-to-cook food and prepared meals is increasing.
- Own brand is losing share and the price differential is tending to diminish.
- Online sales will continue to grow and could reach 5% by 2025.
- Hard Discount formats are reinforced.
- The consumer pays more attention to local brands at a good price.
- An increase in the unit price is detected with respect to 2019, although with a more stable trend.

> “2020 will be a record year in terms of investment in food areas, with an expected closing volume of more than €643 million”

Corum AM. Specifically, the properties are located in the towns of Xátiva, Ontinyent, Gandía, Museros (Valencia), Vinaroz (Castellón), Alcoy (Alicante) and Molina de Segura (Murcia) and have a gross leasable area of 54,300 sq m.

The sale of 27 Mercadona supermarkets to the American fund LCN Capital Partners for 180 million is the largest transaction of the year. An amount that will allow this company to progress in its digital transformation and which it hopes to complete in 2023. In addition, the company has another 40 supermarkets for sale in different portfolios.

Lar intends to sell a portfolio of retail units occupied and operated by Eroski and distributed throughout Spain. Specifically, there are 22 assets located in the Basque Country, the Balearic Islands, Navarre, Cantabria and La Rioja, which together account for a total leasable area of around 28,000 sq m, and Eroski is expected to remain in these retail units until at least March 2031.

Yields

Yields are defined in terms of the following variables:

- Operator: 90% of operations are focused on the top 5 operators in Spain.
- Break Option: The longer the term, the lower the yield. Conservative investors are asking for at least 10 years break option.
- Design and condition: It is important that the asset is well maintained and with the latest brand image. Thus the investor is sure that the operator is investing in this location.
- Micro Location: The urban location of the asset and its real estate value are also important in its valuation.

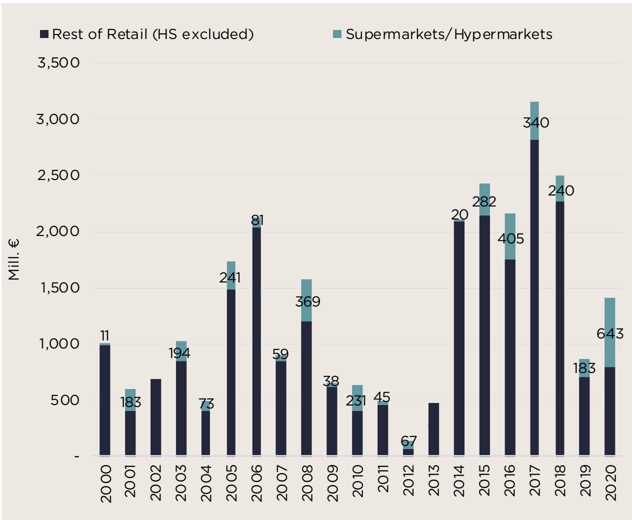
If an asset meets all of the above, yields will vary between 5% and 6%. However, the yield may still vary depending on the city where it is located. In Madrid and Barcelona yields could fall by up to 50 bp. On the other hand, cities with a reduced catchment area would boost yields.

As we can see in the graph on the right, there is a strong connection between break options and yields. Nevertheless factors such as operator and micro location are also very important. The best example is CrossRoad’s portfolio, where despite having a 7 year break option, having Carrefour as an operator, excellent locations and a low capital value, yields dropped.

Graph 7: 2020 forecast investment 2020. Food sector (mill. €)

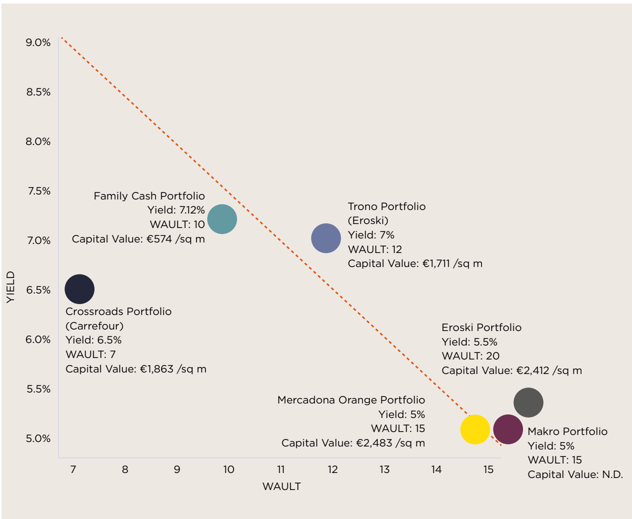
Source Savills Aguirre Newman

Graph 8: Retail investment volume by type of product (mill. €)



Source Savills Aguirre Newman

Graph 9: Correlation between yields and WAULT



Source Savills Aguirre Newman

HOW IS THE EXPERIENCE IN THE SUPERMARKET OF THE FUTURE?

Unique and convenient

The client not only chooses the supermarket for the product but also for the experience: gourmet areas, cooking classes, wine tasting or restaurants in the supermarket, as well as improved delivery times or good after-sales service.

The essential artificial intelligence

In the future there will be new apps, robots and currently non-existent technology. The key factor is to find the balance between AI and human interaction that is so important at certain points in the customer’s purchasing process.

Let’s not forget Young people

Generation Z/Y values the experience more and is willing to pay more for a product that brings you in return more experiences to remember.

Sustainability

More and more supermarkets in Europe are offering a sustainable way of shopping: no more plastic packaging. The first “plastic-free” supermarket in Europe opened in 2018 in Amsterdam where customers can choose from a range of 700 products without plastic packaging.

Data analysis

Customer analysis is essential. The American chain Kroger has transformed half of its shelves into digital showcases that light up when the customer is nearby and there is a selected product on the shopping list provided in the app.

Offering more than just food

The supermarket of the future will feature the latest health trends with the aim of making shopping easier and inspiring the customer. In addition to health, they want convenience, affordability, clear labeling, food safety, taste, and transparency.

2020

Table 1: Main deals

Orange Portfolio

(Mercadona)

€180 M

Yield: Approx 5%

Seller: Mercadona

Purchaser: LCN Capital Partnerts

Eroski Portfolio

(27 supermarkets)

€85 M

Yield: 5.55%

Seller: Eroski

Purchaser: WP Carey

Portfolio GM

(37 Cash & Carry)

€150 M

Yield: 6.5%

Seller: GM

Purchaser: Sagax

Family Cash Portfolio

(7 supermarkets)

€33 M

54,295 sq m

Yield: 7.12%

Seller: Family Cash

Purchaser: Corum AM

Invesco Portfolio

(6 Eroski hypermarkets)

€119.5 M

Yield: Approx. 6.25%

Seller: Invesco

Purchaser: Pradera

Forecasts

2020

2020

1 Even though the current crisis keeps many retail product investors in wait-and-see mode, the food market is still active and arouses great interest from institutional and private funds.

2 2020 will be a record investment year with a forecast of over 643 million euros in closing.

3 Yields in the food market depend on the assets and the location. In Madrid and Barcelona it varies between 4.5 and 5%, in prime provincial capitals between 5% and 5.5% and in the rest of the locations 5.5% and 6%.

4 There is a certain compression of yields in prime food portfolios in Madrid and Barcelona, and although there are still no references, if there is an intention to sell, it is foreseeable that we will see an adjustment in prices.

5 Current saturation levels of supermarkets anticipate a reduction in the rate of openings and greater investment in improving the shop experience.

6 The online channel continues to be the sector's workhorse and in which brands must invest greater efforts through improved order management.

7 New delivery systems will appear (Click & Collect, Click & Car or Pedestrian Drives), human interaction will progressively decrease, and technology will progressively increase in the shop.

Savills Aguirre Newman Research
We carry out a thorough and objective analysis of the real estate market in order to provide our clients with accurate information on the current situation in each of the sectors, helping them make the right decisions at each moment.

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