

# Food distribution in Spain



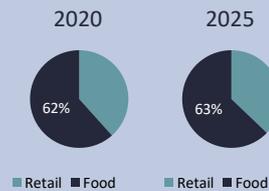
# The food sector in Spain

Supermarkets are reinforcing their position as the most popular format with Spanish consumers, with traditional stores gaining prominence.

## Spanish food sector growth forecast



## Shopping basket % expenditure (food vs. retail)



## Spanish food sector sales increase



## On-line shopping market share



Source: Global data

## Economy

Spanish economic activity in the last period of 2021 has shown less dynamism than in previous months, with anticipated GDP growth reduced to 4.5%. An increase in costs and consumer prices, and the persistence of bottlenecks in some production processes have been some of the factors that impacted forecasts.

By 2022, this figure is projected to increase to 5.4%, which would allow a return to the pre-crisis level by the beginning of 2023. All these projections are subject to certain downside risks due to the rapid spread of the omicron variant, the possible emergence of new variants of the virus, the impact of the energy prices and the geopolitical situation on the Eastern European countries. However, for the time being, there are positive references that support good perspectives for the Spanish economy.

The data published on the labour market confirm the recovery trend: the year 2021 closed with 776,500 more registered workers than in 2020, and 416,400 more than in 2019. On the other hand, the unemployment figure, dropped to 3,105,900 unemployed due to the increase of 62,000 permanent contracts, a figure higher than in December 2019, together with the increase in temporary hiring (284,400 contracts), an amount which, however, did not offset the fall in 2020 (-377,900).

After remaining high during the first months of 2022, inflation is expected to decelerate gradually, with a pronounced slowdown in energy prices expected in the first months of 2022

An expenditure boost is anticipated due to improved private companies' confidence and labour market conditions, as well as the extended favourable financial conditions, and the deployment of projects linked to the Next Generation EU (NGEU) programme.

## Consumption

According to BBVA Research forecasts, household spending growth is expected to be around 4.5% in 2021, less than forecast three months ago, due to the decline in household purchasing power and disruptions in production chains.

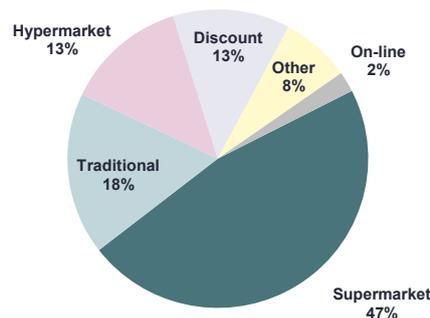
However, by 2022, private consumption could accelerate to around 5.5%-6.5%, favoured by the increase in disposable income, more contained inflation, the absorption of part of the accumulated savings and the surge from the Next Generation European funds (NGEU).

## Distribution chains

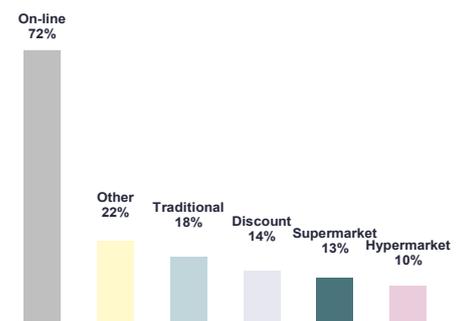
According to the latest report published by the Ministry of Agriculture, Fisheries and Food, the preferred purchasing channel for Spanish consumers is supermarket and self-service, which in 2020 accumulated 47% of total turnover. However, and as expected, this channel experienced a decrease of 0.8% compared to its 2019 figures.

The traditional store is in second position, with a share of 18% and a variation of 0.6% with regard to the previous year, followed by the hypermarkets (13% and down 0.5%) and the discount store (13% and

## Market share distribution channels



## Turnover Evolution 2019-2020 by distribution Channel



Source: Anuario de la distribución 2020/2021

unchanged compared to 2019).

On-line food shopping has been the main driver in 2020, even though its total volume is still a minority (2%). It has seen an increase of 72% compared to the previous year, driven in part by the growth of fresh food purchases and mobility restrictions.

In 2021, according to the latest Kantar study, on-line sales growth will stabilise, while supermarkets and hypermarkets will regain some of the share lost during the health crisis.

### Current Stock, formats and densities

Total food retail space stock in Spain now stands at 16.7 million square metres and 24,522 stores. The figure includes hypermarkets, supermarkets, discount stores, cash & carry, convenience stores and specialised stores. This represents an increase of 1% in the sales area and 8% in the number of stores compared to 2019.

Increase in the sales floor is mainly due to the 33% area growth of the convenience channel together with a 36% increase in the number of stores. This model includes stores no larger than 500 sq.m. and which in many cases are located within petrol stations.

### Sales

The changing rules of the game in the FMCG sector in 2019 has favoured an increase in sales for most retail brands.

With a market share of 28.44% and almost 27,000 million euros in sales (6% more than in 2019), Mercadona is the undisputed leader in the sector. It is followed by Carrefour with a considerable difference (10,000 million Euros and a market share of 10.57%) and in third place the Eroski group (5,377 million Euros and a share of 5.68%).

### Prices

According to the Organisation of Consumers and Users (OCU), the coronavirus impact has caused food prices to rise by 2.8% in 2020.

This increase affects 64% of the products that are part of the shopping basket. The OCU points out that this increase is particularly significant in the case of fresh products, which are expected to rise by 4%.

In mid-September 2021, the OCU conducted a survey of the main Spanish retail chains and was able to find increases of more than 5% in basic products.

Price evolution has been uneven among the different chains, with Eroski Center, Supersol and Mercadona being the supermarkets where prices have increased the most, while Carrefour is the only chain that has lowered prices.

Along with the French chain, Family Cash stands out as one of the most economical chains.

The new scenario caused by the increased price of raw materials and energy will force the food market to introduce changes in its pricing policies, in order to reduce the impact of cost increases on consumers.

### E-commerce

E-commerce set a record in 2020 in Spain, exceeding 51.6 billion euros, 5.8% more than the previous year. However, this breaks with the trend of recent years of double-digit growth, due to the decreased volume of transactions in activities that traditionally have a greater weight in the on-line channel (travel agents and tourism operators, etc.).

On the other hand, retail activities volume increased by 38% of the total transactions volume, compared to 29% the previous year.

According to the latest data published by the Comisión Nacional de los Mercados y la Competencia, this trend will continue during the first quarter of 2021. E-commerce grows in total by 2% (compared to 12% in the first quarter of 2020), while the volume of retail activities grows by 50% (compared to 17%).

On the other hand, the food retail sector has undergone a revolution in the on-line channel, even though it currently accounts for only 4.5% of all electronic transactions. During

the last five years, its volume has increased by almost 600 million euros, while during the first quarter of 2021 it increased by 106%, reaching the second largest share of on-line transactions. In the first quarter of 2021 it increased by 106%, reaching second place in the ranking of categories with the highest increases. Catering is leading with a growth of 275%.

### Trends

Consumer habits are changing and retailers, aware of this, are rapidly integrating technology in all their processes. Delivery has changed the rules of the game and the supermarket can no longer be just a place to shop, but must incorporate the latest technologies, personalise offer and guide the customer through their visit.

### Differentiation

One of the main challenges facing the Spanish retail sector is the need to make business models more flexible with new concepts that create differential values.

The value proposal of food chains must go beyond buying at low prices and include factors such as quality, service and experience

In Spain, the acquisition by El Corte Inglés of 10 supermarkets of the Madrid-based chain specialising in premium food, Sánchez Romero, is a clear example of a broad and differentiated commercial proposal, thus gaining position as a leader in this segment.

Outside Spain, Lidl has tested in the city of Lokeren (Belgium) a new store concept of 1,500 sq.m. with sections that include different world gastronomic varieties and where the customer can buy in a fast and efficient processing of fresh, frozen and chilled foodstuffs. One of the novelties is the *De Keuken van Lidl* (Lidl cuisine), a corner where customers will try to inspire them with recipes and where they will be able to taste the products directly.

## Main indicators of food chains in Spain

Brand	Sales 2020 (€ billions)	on-line Sales (%)	Average area (sq.m.)	Stores (nº)
Mercadona	26.9	1.2%	2,000	1,641
Carrefour	10.0	1.1%	2,120	532
Eroski	5.3	2.2%	929	1,624
Lidl	4.8	nd	1,524	624
DIA	4.5	5.6%	600	1,525
Alcampo	4.4	0.9%	2,436	113
Consum	3.3	0.5%	2,500	461
Grupo El Corte Inglés	2.9	1.9%	1,200	659
Ahorramás	1.8	0.0%	1,800	263
Coviran	1.5	0.0%	172	2,876

Source: Global Data / Anuario de la distribución 2020/2021

## 🗨️ New products, sustainability and technology are the three pillars that will support innovation in the food sector 🗨️

### Technology changes the way we shop

#### Just walk out

Amazon's technology allows customers to walk into the store choose their shopping basket and pay with a credit card without having to interact with anyone.

Amazon has been testing its cashier-less supermarket model in the United States for several years and has announced that it will open 260 physical shops called Amazon Go in the next few years, in different countries around the world, including Spain.

Sainsbury's, one of the UK's largest food chains, has been the first to adopt this technology, through what they call 'SmartShop Pick & Go' whereby customers open an app, scan the QR code included at the entrance of the shop and make their purchases as they normally do. On leaving the store, they scan the app again and the amount of the products purchased is automatically charged, and they receive the invoice by email.

#### Delivery, Q-commerce and the timing war

The so-called Q-commerce, which focuses on ultra-fast deliveries, is making unstoppable progress in the food sector.

In France, Grupo Casino has reached an agreement with Germany's Gorillas to deliver on-line orders for Monoprix and Franprix, while Carrefour has launched an express delivery service called Sprint, which delivers its products in less than 15 minutes, an initiative that includes Uber Eats and Cajoo's dark stores.

In Spain, Glovo's entry in the supermarket platform sector has brought about a revolution in the food market, and in a short time it has managed to absorb more than half of the business generated by this segment in our country, excluding the on-line distribution platforms of large supermarket chains such as Mercadona, Carrefour, Lidl, Dia or Eroski.

London-based start-up Dija guarantees home delivery in Madrid in less than 10 minutes, and if they fail to do so, they provide 3 months of free delivery. Its operation is based on the use of six dark stores located in densely populated areas of the capital and with more than 2,000 products available at a similar price to conventional supermarkets.

Turkish giant Getir, a pioneer of ultra-fast delivery, acquired the emerging on-line shopping delivery firm Blok, currently present in several southern European cities, including Madrid, Barcelona and Milan.

In the summer months of 2021, Gorillas began its landing in Spain by opening centres in the Salamanca and Chamberí neighbourhoods of Madrid, in Barcelona and in other cities and tourist areas, such as Valencia, Marbella, Alicante, Murcia, Ibiza, Malaga and Mallorca.

The major supermarket chains are joining this trend. This is the case of Alcampo, which is taking another step forward in its proximity policy by closing 2021 with five new collection points in the centre of Madrid. These centres provide a service for the brand's on-line shopping, being one of the options offered at the end of the shopping process.

#### New concepts

In the race to gain market share, brands are testing and developing new types of products and outlets, that create added values to face growing competition.

Q Take and Go is a supermarket located in Tel Aviv (Israel) developed by Bee Smart Trade Group. It is a modular, automatic, and portable container open 24 hours a day, seven days a week, which allows residents to buy basic products from the supermarket. Customers enter their name, phone number, credit card and fingerprint, and the registration will allow them to access the shop.

The Aldi supermarket chain, which is in process of testing new business models, has introduced two new types of sales:

1. In Belgium, 'ANIKo 2.0', has implemented a new concept focused on the consumer's growing concern for healthy eating. With a totally different design, it gives fresh products a greater prominence, including an interior layout similar to that of traditional food markets.
2. In Zurich (Switzerland), a new pioneer service for express delivery from the shop has been launched in a parallel scheme, ensuring that all on-line orders placed before 11.30 a.m. will be delivered the same day with a small delivery charge.

### Operators expansion

#### Amazon

Digital retail leader Amazon, which has so far made its first venture into the food sector through its Amazon Fresh format, is looking to gain a foothold in this sector through mergers and acquisitions with other companies (as it has already done with the recent acquisition of Whole Foods or the alliances with Bartell's in Seattle, Morrisons's in London or Monoprix in Paris) that help to increase its market share by reinventing the food sector.

With these alliances, the customer will be able to buy on-line any food brand, selecting their products or establishing a predetermined shopping list in the application or through Alexa.

Amazon's aim is to make this business not just a mere supplier of food products, but a service that helps customers to plan and organise their needs by being aware of their shopping preferences.

In Spain, Amazon and the DIA supermarket chain continue to expand their partnership, which is already available in 14 cities. This alliance allows Amazon Prime customers to choose from a range of more than 5,000 non-perishable, local, fresh and non-refrigerated products.

#### Mercadona

The Mercadona supermarket chain continues its expansion process in Portugal by announcing the opening in 2022 of its first two stores in the Lisbon Metropolitan Area, in Setúbal and Montijo.

So far, Mercadona has 27 stores in locations such as Matosinhos, Valongo, Vila do Conde, Felgueiras, Santa Maria da Feira, Valongo and Vila do Conde, among others. and Santa Maria da Feira. In addition, the Valencian company also has an innovation centre in Matosinhos and a logistics block in Póvoa de Varzim

#### Dia

The company has continued to promote reopenings as a result of the changes it is making from the DIA Market, Maxi and La Plaza supermarkets to the new DIA shop model. In total, until August 2021, the company has made 464 changes in its commercial network, of which 11 are new supermarket openings.

With this strategy, the brand aims to modernise its supermarket network and focus on proximity, fresh products, and an appropriate combination of its private label -which is also in the process of renewal - and the manufacturer's brands.

#### Carrefour

The company has accelerated its expansion plan in the Supeco network, reaching 40 stores in Spain, to which it plans to add another 16 in 2022.

## “ A further step in delivery is the ultra-fast delivery of products: Dija, Gorillas or Sprint are some examples of the speed at which this segment is advancing ”

The autonomous communities that have this Carrefour format are: Andalucía, Cantabria, Castilla La Mancha, Castilla and León, Cataluña, Comunidad de Madrid, Comunidad Valenciana, Extremadura and Galicia.

The chain is committed to fresh products with butcher's, delicatessen, bakery and fruit and vegetable counters, a specific assortment aimed at the catering sector, together with an assortment of own brands.

Carrefour has doubled the number of "Express" supermarkets over the last five years and has reached a thousand outlets under this banner in Spain, with growth based on franchising.

### HD Covalco

The distribution group based in Granollers (Barcelona) closed 2020 with more than 1,100 sales points throughout Spain and presence in almost all provinces. During 2020, it added nearly 20,000 additional square metres to its network of stores.

### Covirán

The growth of the neighbourhood supermarket format is reflected in the strategy of the Granada-based company Covirán, a food cooperative and drugstore retailers.

It is the second largest chain in Spain in terms of number of stores and has a significant number of stores in Portugal (10% of its business), while in Spain it continues to grow.

The company is open to possible acquisitions or mergers and is preparing to enter Latin America.

### GM Food

Recently acquired by the Swiss company COOP, through Transgourmet, it is one of the companies that form part of the Coop Group and operates in the wholesale sector. It closed 2020 with 70 Cash&Carry centres acting as a wholesale distributor for some 800 supermarkets under the Suma, Proxima and Spar brands, as well as for an additional 2,500 outlets.

### Condis

The company has recently given the go ahead for the Portobello Structures Partnerships Fund to become a shareholder with a 45% stake. For this new stage, Condis will implement a new development and expansion plan to boost its growth, both organic and inorganic, in its main catchment area: Barcelona, Catalonia and Andorra.

Condis has decided to expand in these areas where it has the second largest presence after Bon Preu, and to this end, it has put up for sale its entire network of stores located in Madrid and the central zone.

Furthermore, the company has also made it one of its priorities to cooperate closer with its extensive franchise network to boost its commercial development.

### Lidl

Lidl continues to expand its network of stores in Spain, opening last October 4 new stores in the Community of Madrid, Catalonia and Andalusia. The supermarket chain, which has invested more than 23 million Euros in the four projects in San Sebastián de los Reyes (Madrid), Valdemoro (Madrid), Kansas City (Seville) and Vic (Barcelona), continues with its national expansion plan with 28 stores opening in 2021 and a forecast of opening around 150 stores and four logistics platforms until 2024.

### Aldi

In 2021 Aldi opened 35 new stores in Spain, reaching a total of 350 supermarkets.

The company's target is to maintain its expansion plan in Spain in the coming years, anticipating around 50 new openings in 2022.

### New entrants

#### Dealz

The British discount chain has closed 2021 with a total of 30 openings in Spain, totalling almost 60 establishments in the provinces of Malaga, Alicante, Valencia, Granada, Huelva, Cantabria and Cadiz.

In recent months a new exclusive brand, PepCo Home, has been added to the decoration section.

#### Amazon Go

Amazon's line of supermarkets, Amazon Go, could arrive in Spain in 2022, after the company tested its business model in the UK.

However, the multinational's plans to boost its line of supermarkets could be affected by the upturn in the pandemic in the last weeks of 2021. In this regard, the company has only opened six shops in the UK in 2021, despite its plans for 26 shops in the UK in 2021.

#### Mere

At the beginning of 2020, Mere, the trade name of the Russian hard discount operator Svetofor, announced its intention to expand its brand in Spain. The chain, with more than 800 stores in Russia, in 2021 had eight supermarkets in Valencia and Madrid. They decided to close three of them in February 2022.

In its initial expansion plans, it envisaged growing in Spanish municipalities of more than 15,000 inhabitants, although this project is on standby for the time being and might be affected by the geopolitical situation.

#### Rents

The historical evolution of rental levels has shown the resilience of the food sector to the negative impact of economic downturns. Combining this factor with longer lease terms (currently around 25 years, with break option on 10th year) and strong covenants from some operators, we have a very attractive product for investors looking for a secure and stable product in an increasingly volatile market.



### THE CHEAPEST SUPERMARKETS



### THE MOST EXPENSIVE SUPERMARKETS



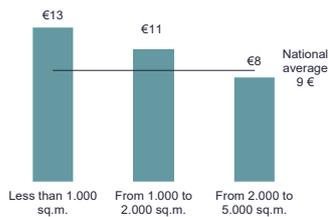
SOURCE: OCU

👉 In 2021, food stores accounted for 46% of investment in retail products, thus becoming the main driver of activity 🗨️

However, over the last two years, two factors have emerged that are affecting rent evolution by reducing the landlords' negotiating power: on the one hand, food operators are already aware of their growing prominence and are more rigid in negotiations and, on the other hand, the very saturation of the market makes it necessary to be more selective in the choice of locations.

Despite this, the ambitious expansion plans of both national and regional food operators by making the leap to the national level, keep this market alive and with interesting opportunities for investors.

**Rent/m<sup>2</sup>/month of supermarkets by size**



Source: Savills Aguirre Newman

The best positioned supermarkets in terms of location can achieve rents of more than €10/sq.m./month, while the national average sits around €9/sq.m./month.

Areas with higher purchasing power, such as Madrid or the Basque

Country, or with lower expansion possibilities, such as the Canary Islands, might achieve rents close to (€10/sq.m./month). Other regions like Catalonia (€8.6/ sq.m./month) or the Valencian Community (€8.1/ sq.m./month) have lower rents than expected, mainly due to the minor weight of prime locations over the total stock of supermarkets in that area.

Hypermarkets, on the other hand, do not show the same performance depending on size and the sale & leaseback impact. The average rent of these categories range from €9/sq.m./month to €10/sq.m./month

**Investment**

During 2021, and despite the lower activity in the retail investment market, the food sector has continued its upward trend with the second highest figure in the historical series. In 2020, a record year for investment, 675 million euros were signed, (10% of the investment in the tertiary sector) while over the year 2021 just over 452 million were invested in 2021 (more than 50% of total retail investment).

In addition, probably there were more individual asset deals by private investors and family offices, as well as small developers developing supermarket boxes as a means of investment.

98% of the 2021 investment was in supermarket portfolios with an average volume of EUR 4.3 million per asset.

The two main portfolios were transacted in the last two quarters of the year: the package of 27 supermarkets acquired by the Israeli fund MDSR for 103 million euros and the 27 Caprabo supermarkets acquired by Realty Income Corporation for 100 million euros.

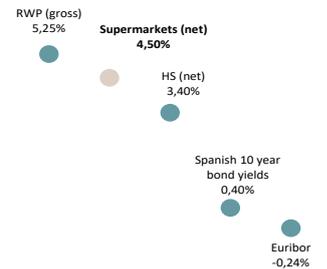
The sale-leaseback formula continues to be one the investor's preferred option with a 43% share of total investment.

The supermarket investor's profile is very varied, as there are international investors, who, to achieve their investment levels, focus mainly on portfolios or stand-alone supermarkets, and private investors who have less financial muscle and buy individual assets at higher capital value. 98% of total investment in supermarkets was made by funds, of which 57% were of American origin, 44% of the vendors were food operators, while 35% were REITs. Spanish vendors accounted for 59% of the volume, while French vendors accounted for 21%.

**Yields**

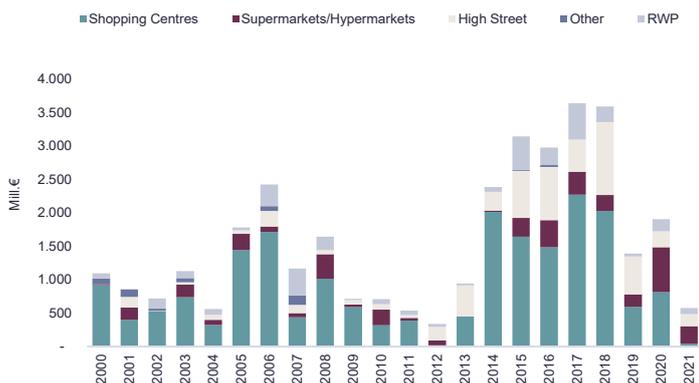
The latest deals signed show the trend of supermarket yields compressing to an average prime yield of 4.5%, 100 percentage points lower than in 2019.

**Prime retail yields by type of product**



Source: Savills Aguirre Newman

**Evolution of retail investment volume by type of product (M€)**



Source: Savills Aguirre Newman

**Retail investment vs. supermarket investment (M€)**



Source: Savills Aguirre Newman

👉 Regardless of the uncertain economic evolution, the main food chains are continuing with expansion plans 👉



### Mercadona Portfolio\*

Price:	100M€
Area:	76.000 m <sup>2</sup>
Yield:	Confidencial
Seller:	Mercadona
Purchaser:	MDSR Investments



### Caprabo Portfolio

Price:	100M€
Area:	64.252 m <sup>2</sup>
Yield:	nd
Seller:	Merlin Properties Socimi
Purchaser:	Realty Income Corporation



### Carrefour I Portfolio\*

Price:	93M€
Area:	100.600 m <sup>2</sup>
Yield:	Confidencial
Seller:	Carrefour
Purchaser:	Realty Income Corporation



### Carrefour II Portfolio\*

Price:	64M€
Area:	32.000 m <sup>2</sup>
Yield:	Confidencial
Seller:	Confidencial
Purchaser:	Realty Income Corporation

## Forecasts 2022

**1** Vaccination progress and the lifting of movement restrictions will favour a slight increase in private consumption and a certain boost to the retail market in 2022.

**2** Food spending is expected to continue to gain market share of total consumer spending (62.8% share in 2025 compared to 61.6% in 2020).

**3** Retailers' efforts to increase on-line sales will pay off in the coming years, with the on-line share expected to reach 10% of total turnover by 2025.

**4** Although the traditional store has gained prominence for the consumer during the pandemic, supermarket and hypermarket

formats will tend to regain their importance in the medium term.

**5** Local food chains will continue to seek growth through locations outside their geographies.

**6** Operators will seek alliances or portfolio acquisitions to gain market share.

**7** Differentiation will come from developing new types of products and improving delivery. Q-commerce companies such as Dija or Gorillas will continue to grow in our country.

**8** Despite the slowdown in the expansion of certain retail segments, the main food operators continue with important expansion

plans in Spain.

**9** Market saturation and the increased role of the supermarket in commercial schemes will make rent negotiations with operators more complex.

**10** In 2021 the food sector has been the main driver of retail investment in Spain. We expect this trend to continue in 2022, although, due to the lack of product, there could be unmet demand.

**11** The latest deals signed show that the trend of prime yield compression could reach 4.5% and even lower through 2022.



---

## Savills Aguirre Newman Research

We carry out a rigorous and impartial analysis of the real estate market in order to provide our clients with information on the real situation in each of the sectors, thus helping them to make the best decisions at all times.

---

### Research

#### Alicia Corrales

Associate Research

+34 91 319 13 14

[alicia.corrales@savills-aguirrenewman.es](mailto:alicia.corrales@savills-aguirrenewman.es)

---

### Retail

#### Luis Espadas

Executive Director

+34 91 319 13 14

[luis.espadas@savills-aguirrenewman.es](mailto:luis.espadas@savills-aguirrenewman.es)

---

### Retail | Capital Markets

#### Salvador González

National Director

+34 91 319 13 14

[salvador.gonzalez@savills-aguirrenewman.es](mailto:salvador.gonzalez@savills-aguirrenewman.es)

---

### Retail | Services

#### Patricia Dias

National Director

Retail Services Shopping Centres

+34 91 319 13 14

[patricia.matias@savills-aguirrenewman.es](mailto:patricia.matias@savills-aguirrenewman.es)

---

#### Carolina Ramos

National Director

Shopping Centres

+34 91 319 13 14

[carolina.ramos@savills-aguirrenewman.es](mailto:carolina.ramos@savills-aguirrenewman.es)