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INTERNATIONAL

EXPERTS TO THE FUTURE OF REAL ESTATE

SUPERMARKET REPORT

JULY 2019

ONLINE GROCERY SHOPPING HARDLY IMPACTS PHYSICAL SUPERMARKET



The supermarket plays a central role in our daily lives. Of the 60 billion euros the Dutch spent on food and drink last year, it took more than half. Although people are increasingly shopping online, the number of supermarkets is still rising. More and more also have a clear focus: speed, experience, or convenience. They are becoming more popular with investors too. In 2018, the amount invested in them rose to a record high of 309 million euros. But how bright is the future of a supermarket investment if our online spending continues to grow?

SUPERMARKET LANDSCAPE KEEPS EXPANDING

The supermarket has conquered an important place in Dutch shopping culture. There are now 6,338 in the country, with more being added all the time – an average of 100 per year since 2015. Last year saw a new record, with 193 opening. Most of these were in the smaller “to-go” segment. As a result, the supermarkets’ total retail area has grown substantially, to almost 4.7 million square meters. A seventh of all retail space in the

Netherlands is now a supermarket. Nevertheless, expressed in square meters per inhabitant (0.27) this is still less than in Germany (0.42) or Denmark (0.42). The Dutch level is more in line with the UK (0.24) and Poland (0.26). Viewed this way, our supermarket sector does not seem that large.

Total turnover is also growing. In 2018, it reached 38.7 billion euros, up 3.5% on the previous year. According to the Statistics Netherlands, this makes supermarkets one of the country’s best performing retail types. Sales at clothing stores grew by only 0.5%, for example, and shoe stores actually declined by 3.5%. This year promises to be another good one, with sector

organization CBL expecting total supermarket turnover in 2019 to exceed 40 billion euros.

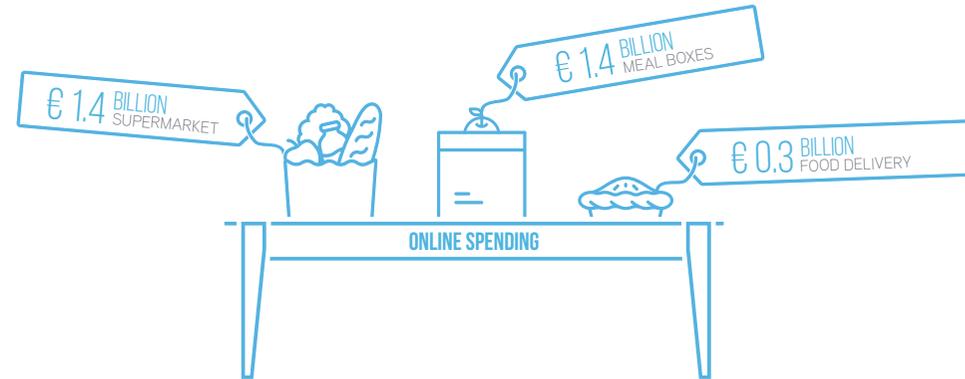
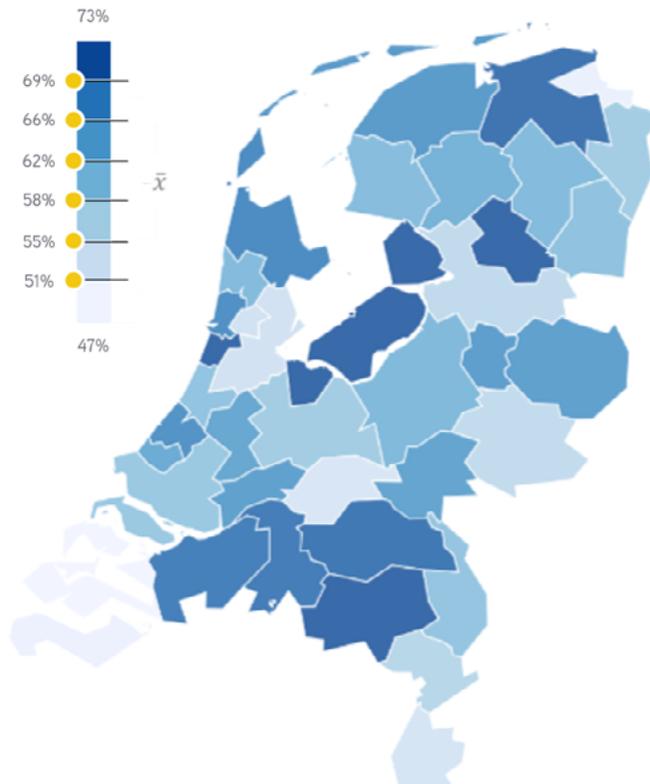
But these figures do not mean that supermarkets are having it easy. Their margins are often small, and competition fierce. To survive and increase their market share, they have to be innovative and competitive. Favorite strategies are opening new, often smaller stores and taking over other formulas. For example, the acquisition by Jumbo of Agrimarkt and large parts of Emté. Albert Heijn is still the largest player, but Jumbo is now hot on its heels.

TOP FIVE SUPERMARKETS BRANCH NUMBERS	JANUARY 2018		JULY 2019			
	Locations	Surface	Locations	Difference	Surface	Difference
Albert Heijn (including to go & XL)	959	1,201,900 sqm	971	+1%	1,223,300 sqm	+2%
Jumbo (including City & Foodmarkt)	582	743,800 sqm	670	+15%	865,600 sqm	+16%
ALDI	494	371,000 sqm	493	0%	384,700 sqm	+4%
Lidl	413	404,800 sqm	424	+3%	432,200 sqm	+7%
Plus	260	281,500 sqm	267	+3%	293,000 sqm	+4%

A STEADFAST SECTOR

Despite the dynamics in the retail industry, many supermarkets are remarkably steadfast. Of those operating fifteen years ago, six out of ten are still open on the same site – albeit sometimes with a different formula. This amounts to an extremely low attrition rate of less than 3 percent a year. For comparison, in retail as whole the rate is usually 10 to 12 percent. There are regional differences though. In the province of Zeeland, just under five out of ten supermarkets are still where they were, whereas in the Gooi and Vechtstreek regions the figure is a little more than seven in ten.

PERCENTAGE STEADFAST SUPERMARKETS



TRADITIONAL SUPERMARKETS DOMINATE ONLINE

The question is whether the supermarket sector will remain stable in the future. As we all know, online shopping is on the rise. Currently, three out of ten Dutch people sometimes buy their groceries in this manner. According to the Statistics Netherlands, this makes us a frontrunner in Europe, where the overall average is half as much. FSIN, the Food Service Institute of the Netherlands, reports that we bought groceries worth 1.4 billion euros online in 2018. This amounts to a 3.6 percent share of total supermarket turnover, up from 2.9 percent in 2017. That may seem like limited progress, but online sales grew by 30 percent in one year while total supermarket sales “only” increased by 3.5 percent.

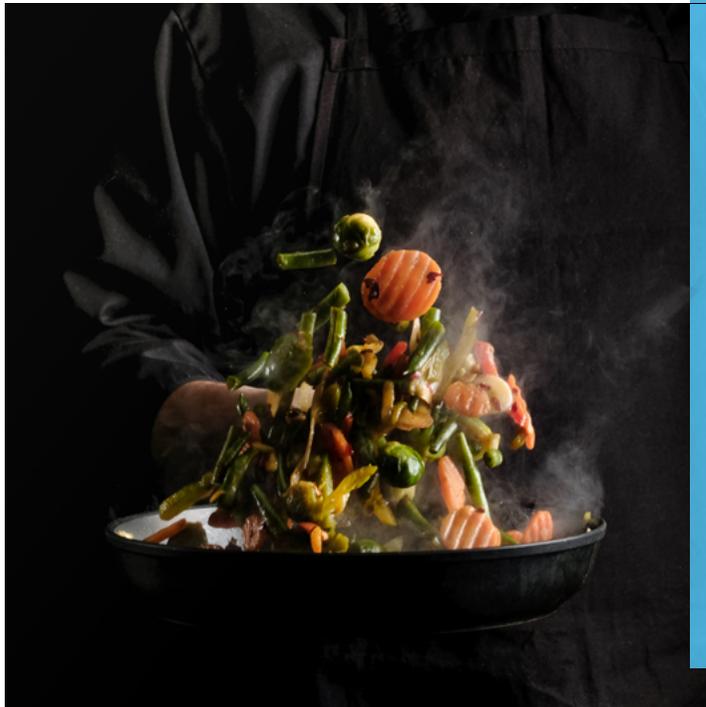
Albert Heijn controls almost half of the online groceries market and is therefore the largest supermarket in this domain. Its share has been declining for several years, however, due in part to the growth of Jumbo, which currently has approximately 20 percent of the market. Traditional chains thus dominate online sales, too, meaning that their growth does not necessarily pose a threat to the established players.

POSSIBLE THREATS

Despite this situation, newcomers have been eager to enter the online fray. The two fastest growing in 2018, Picnic and Takeaway.com, were set up specifically in response to consumers’ increasing desire to have groceries and meals delivered to their homes. Picnic has built up a market share comparable with Jumbo’s since it was established in 2015, and according to business analyst GfK is now market leader in some cities. In addition, services delivering ready-made meals like Takeaway.com and suppliers of meal boxes like HelloFresh and Marley Spoon are growing. While not delivering groceries as such, ultimately these businesses are competing with the supermarkets for consumer “stomach share”. People at home are increasingly opting for convenience and speed, even if that is more expensive. According to the FSIN, the two markets have a combined turnover of 1.7 billion euros. We estimate that the meal-box suppliers currently account for some 287.5 million euros of that.

INNOVATING WITH NEW CONCEPTS

To cope with this competition, supermarkets are innovating all the time. The proportion of fresh foods on their shelves is increasing as more and more consumers use supermarkets as a refrigerator. And more stores are opting to provide a focused service: small “to-go” outlets for speed, medium-sized supermarkets with a comprehensive product range close to home for convenience, and “XXL” ones for a complete shopping experience.



TO-GO SPEED

- 2635 supermarkets
- Less than 500 sqm
- Strong growth: no fewer than 143 opened in 2018, representing about three-quarters of all new supermarkets
- Primarily in city centers, busy shopping streets, and public transportation hubs
- Also increasingly on campuses and at filling stations
- Used by commuters and tourists

CONVENIENCE SPEED

- 3665 supermarkets
- Between 500 sqm and 2400 sqm.
- 45 openings in 2018
- Clustered with other supermarket formulas

EXPERIENCE ENTERTAINMENT

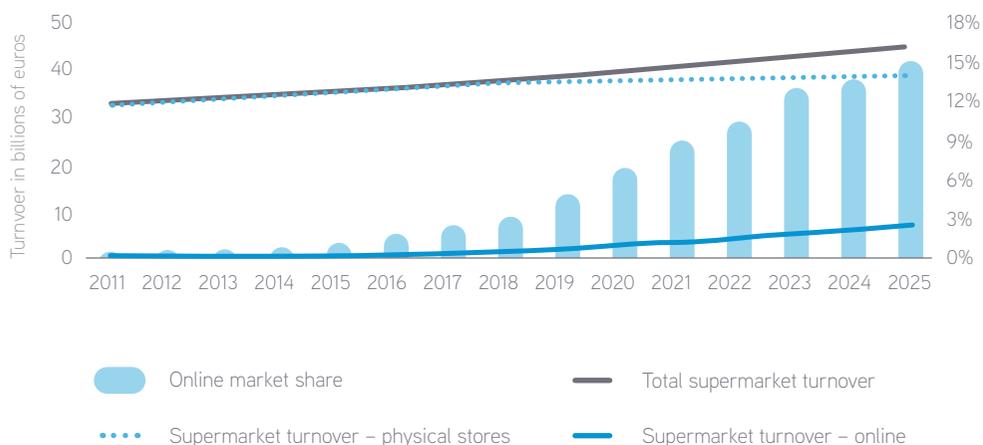
- 76 supermarkets
- More than 2,400 sqm
- Two openings in 2018
- Primarily in city centers, near large parking lots
- Pioneered by Jumbo with Foodmarkt, but Albert Heijn is also adding more “experience” to its XL branches – for example, chefs preparing dishes on site



Supermarkets are also trying to conquer a share of other submarkets. Nowadays, you can buy meal boxes in some of them – often at keener prices than from the dedicated suppliers. Albert Heijn is currently experimenting with a variant in which chefs prepare meals for home delivery. And some supermarkets are testing collaborations with retailers in other segments. One example is a pilot by Albert Heijn and HEMA, allowing people to buy products from both chains under one roof. In addition, there are supermarkets that double as mini distribution centers. In the Leidsche Rijn Centrum shopping district, for instance, delivery staff collect groceries for people who have ordered online. Such initiatives allow traditional supermarkets to continue taking advantage of their physical presence in a locale.

HARDLY ANY ONLINE IMPACT ON PHYSICAL SUPERMARKETS

Nevertheless, the question remains whether there is still room for so many physical supermarkets as more people buy their groceries on the internet. We expect online's market share to rise from 3.6 percent in 2018 to 15 percent in 2025. At the same time, the population is increasing and we forecast that supermarket spending per person will grow from about 2,300 euros a year now to more than 2,500 euros. As a result, total turnover in the sector will increase further and the figure for physical stores will stabilize at around 37 to 38 billion euros per year. At the national level, therefore, the impact of online grocery shopping on physical stores will be limited. But in regions where the population is falling or stable, a negative effect can be expected. Fewer mouths to feed and more online spending will mean less need for supermarket space in these parts of the country. So-called "hidden vacancy" is already emerging: the area operated as a supermarket is smaller than the space actually available, with the excess screened off or (with the freeholder's permission) available to sublet. The reverse is true in growth regions, however, where there is room for more supermarkets.



SUPERMARKETS: THE STABLE INVESTMENT

Even in the future, the supermarket is going to remain a familiar sight on Dutch shopping streets. This stability is one of the reasons why national and international investors are increasingly interested in supermarkets. In this respect, their often long leases are also a positive factor: they guarantee a stable rental income over an extended period, thus steadily decreasing the investment risk. Moreover, supermarkets are one of the few retail investment categories the Dutch banks are prepared to finance. They too, regard the sector as stable.

Investors are interested mainly in stand-alone supermarkets and in local shopping centers with 60 percent occupancy by a supermarket. As a result, total investments in supermarkets in the Netherlands rose by 20 percent in 2018 to a record high of almost 309 million euros. The expectation is that this volume will continue to increase.

Before making any investment, it is of course important to check that the specific location and its local population trends match the size and segment of the supermarket in question. A comprehensive analysis of its future prospects is therefore essential. In general, however, their low rate of attrition, relatively modest area per consumer, and resilience to the impact of online shopping make supermarkets the most stable element in the Dutch retail landscape for investors. Not only now, but also for the future.



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