



FOOD RETAIL DISCOUNTER

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EDITORIAL

The year 2023 has been and continues to be marked by drastic changes due to international political tensions, increased inflation, rising energy costs, supply chain difficulties, labour shortages and the resulting price increases. Compared to other retailers in the current environment, food retailing has so far survived the crisis unscathed. In the now 6th edition of the Trend Report Food Retail Discounter, in addition to the continuation of time series on, among other things, the development of the leasing and investment market, the current effects of the national and international challenges on food discounters are explained in more detail.

FOOD RETAIL DISCOUNTER

The trading landscape for food discounters is characterised by great stability. Due to the price sensitivity of German customers, the five major competitors Aldi, Lidl, Netto, Norma and Penny are generating stable sales. Not least because of this stability, retail properties continue to be very popular with investors. This applies in particular to food-anchored retail properties such as discounters, which continue to be the focus of investors in a subdued market environment, as they are said to develop independently of the economy. The

product range of discounters also tends to be online-resistant. In addition to the property types, sustainability aspects are also increasingly being taken into account in investment decisions.

STRONGEST SALES FORM IN FOOD RETAILING

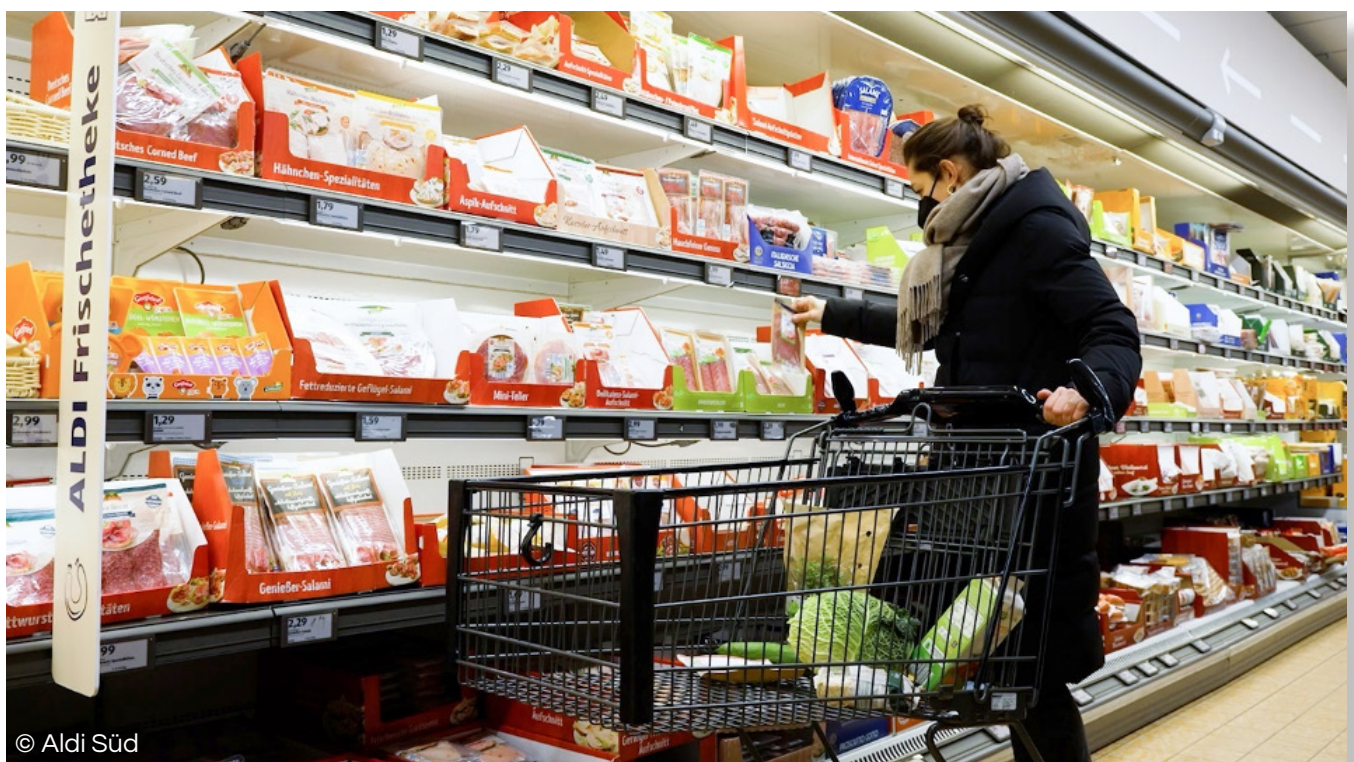
The population in Germany is doing well economically for the most part. Despite the current challenges, the unemployment rate is still comparatively low. Nevertheless, the population in Germany is extremely price-sensitive when it comes to spending on food. According to the Federal Statistical Office, the share of expenditure on food and non-alcoholic beverages in private consumer spending in Germany was only 11.5 % in 2023. This puts Germany in fifth place among the 28 EU countries (excluding the UK). For comparison: in Romania and Lithuania, food accounts for significantly more than 20 % of private consumption expenditure on food and non-alcoholic beverages. In Italy, food and non-alcoholic beverages account for 15.5% of private consumption expenditure and in France 13.9%. Price sensitivity is one of the main reasons for the success of food discounters in Germany. Discounters accounted for around 45% of total sales in the German food retail sector in 2023, making them the strongest form of sales in the stationary retail sector, ahead of supermarkets / hypermarkets with around 42% and hypermarkets with around 10%. Other food retailers, which include shops with a sales area of less than 400 m² as well as speciality shops, play practically no role with a turnover share of around 2 %. However, a long-term comparison clearly shows that the discounters are nevertheless in strong competition with full-range retail-

ers. The discounters' share of turnover fell from 46.2% to 45.0% between 2009 and 2021. In the same period, the share of sales of supermarkets and hypermarkets rose from 35.4% to 43.46%. The strongest decline was in the share of turnover of hypermarkets with a minus of 30 percentage points. De facto, supermarkets and hypermarkets have grown at the expense of discounters and self-service department stores over the last 10 years.

During the lockdown in March and April 2020, the discounters also lost sales shares to the full-range stores. Due to the more difficult conditions for shopping (limited number of customers per shop, low availability of goods for certain product groups), many customers preferred to visit only one shop for all their purchases instead of several. This is naturally easier with full-range stores than with discounters due to the greater variety of products. In addition, the return to values such as the high quality and regionality of food was strengthened by Corona. Here, too, the full-range stores scored more points than the discounters. And last but not least: Corona meant that many holidays and other leisure activities such as going to restaurants or the theatre were cancelled. Many consumers were happy to spend the money saved there on somewhat higher-priced food.

Contrary to the expected increase in consumer spending at the end of the Corona pandemic, consumers are reacting to the price increases by strategically using their limited household income. Food prices are rising particularly sharply and the propensity to save is at a new high. Year-on-year, food prices increased by around 22% in March 2023, making it the third month of the year that the increase has intensified (February +21.8%; January +20.2%). Cereal pro-

ducts, dairy products and eggs (+34.6%), vegetables (+23.8%) and fish products (+22.2%) were particularly affected. The reasons for these price increases include international political tensions, increased energy costs, supply chain difficulties, labour shortages and hidden price increases. Empty shelves are an increasingly common sight for many consumers. This is due to disputes between food retailers and manufacturers over price increases. Branded products from large international companies such as Coca-Cola, Mars, Milka etc. are affected. As a reaction to the price increases, consumers in Germany, who are already price-sensitive, are paying more attention to the price tag and tend to forego larger purchases and higher-quality consumer goods. On the other hand, a general renunciation of food is hardly possible, which is why many consumers resort to special offers and cheaper private labels. Especially brand-name and organic products are being dispensed with. Discounters are benefiting from this changing consumer behaviour and are once again becoming more popular with customers.



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In 2022, all types of food retailing operations were once again able to record a growth in turnover, but this was by far the most pronounced in the discounters with an increase of 8.06 %. As a result, the gap in turnover shares between the discounters and the supermarkets/consumer stores widened again. With a turnover share of about 45 % of the discounters, Germany is the European leader. In no other European country is the share of food discounters higher. Bringing up the rear is Italy, where discounters only achieve a turnover share of around 7 %. Even in our direct neighbours the Netherlands (share around 18 %) and Belgium (around 17 %) the food discounters are clearly less successful than in Germany. But what is the reason? While it can be argued that food is more important in Italy than in Germany, the Netherlands and Belgium are not necessarily famous for their culinary cuisine. Above all, consumers' price sensitivity plays a decisive role. A visit to discounters in neighbouring countries makes it clear that one has to spend considerably more money there for comparable products than in Germany - the price differences between discounters and full-range stores are smaller. Added to this is the strong competition in German food retailing. Although the retail landscape is essentially divided among only four large companies (Aldi Group [Aldi Nord, Aldi Süd], Edeka Group [Edeka, Netto Marken-Discount], Rewe Group [Rewe, Penny] and Schwarz Group [Kaufland, Lidl]), there is a relentless price war between the companies. Especially in the so-called corner products - several hundred articles that account for about a quarter of the turnover - the competitors try to undercut each other on price. This severely limits the scope for price increases, which is good for the consumer and for competition, but bad for the profitability of the trade.

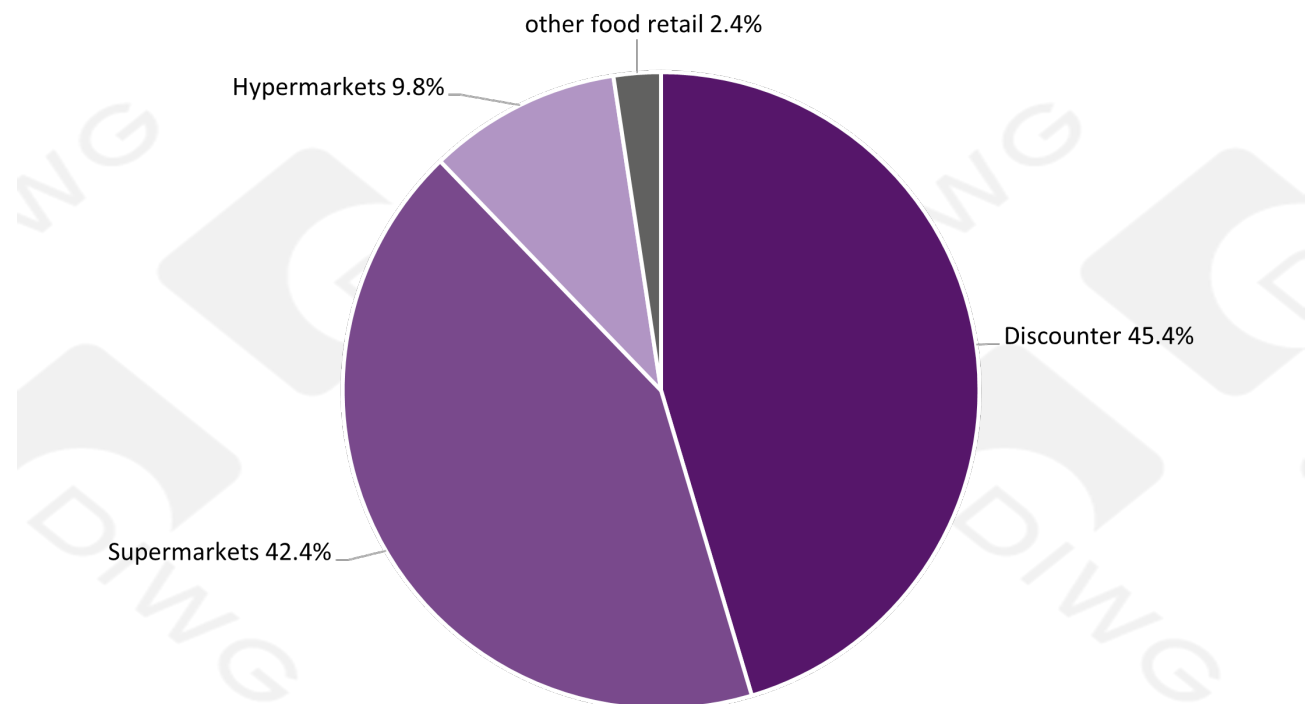
During the Corona pandemic, sales growth was mainly characterised by quality improvement, the so-called trading-up, and the price increases this made possible. Currently, the sales growth of the food discounters results from the price increases of the food, which can be successfully passed on to the consumers.

The ongoing discussions in Germany about excessively low prices for meat and dairy products are currently fading somewhat. In view of the price increases, total meat consumption in Ger-

many is declining. The price of rump steak from beef, for example, rose from €16.99 per kilo to €26.99 per kilo at the discounter Lidl.

Discounters also benefit from the well-developed branch network. Discounters account for around 43% of all branches in food retailing and almost 36% of the sales area. Compared to 2009, the discounters were able to improve both key figures compared to the full-range retailers.

TURNOVER SHARES IN GERMAN FOOD RETAILING BY OPERATING FORM IN %



Source: EHI Retail Institute, Presentation DIWG

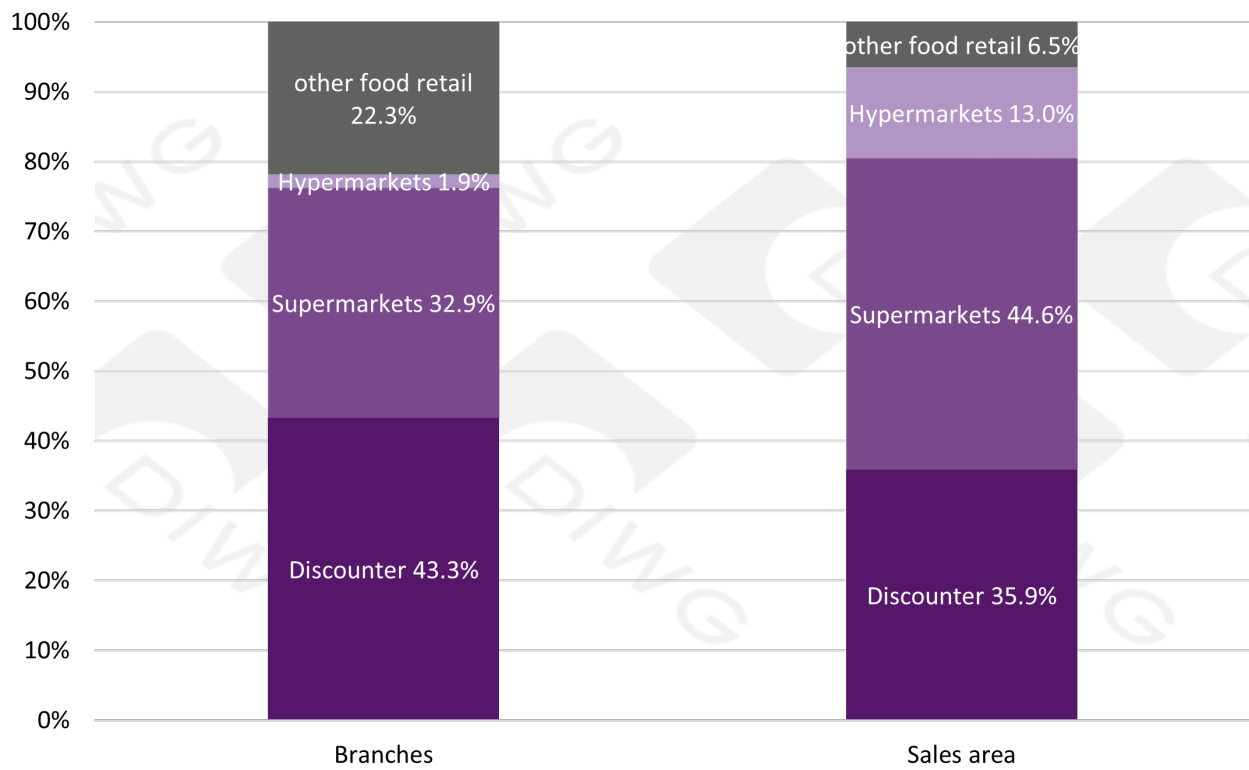
SALES AREA GROWS WITH A DECLINING NUMBER OF BRANCHES

In 2022, there were around 36,900 grocery shops in Germany with a sales area of around 36.8 million m². While the number of sales outlets has declined by 8.3 % since 2009, the sales area has increased by 10.5 % in the same period. With around 15,970 shops, discounters have by far the largest distribution network (share around 43 %). Supermarkets and hypermarkets have about 12,160 branches (share of about 33 %), while the number of hypermarkets is manageable at about 720 (share of about 2 %). Remarkable is the high number of about 8,050 branches of the other food retail trade (share about 21.8 %), which, however, only account for 6.5 % of the total sales area.

Contrary to the general trend of the past years towards a decline in the number of discounters, they increased their total number by 62 stores last year in the course of the upswing in food retailing. Similarly, supermarkets and hypermarkets were able to expand their shop network significantly,

while hypermarkets and other food retailing continued to decline in importance. Overall, the discounters - apart from the outlets of the other food retail trade - have by far the largest branch network and are also represented almost nationwide in rural areas, where they take on the important function as basic suppliers. While the number of locations for discounters declined slightly over the long term, the sales area increased by 10.5 % between 2009 and 2023. The trend towards larger sales areas is directly noticeable here. While older locations often only have areas of 1,000 - 1,100 m² (sales area incl. ancillary areas), new locations often have total areas of 1,400 m² or more.

SHARES OF BRANCHES AND SALES AREAS BY TYPE OF OPERATION IN %



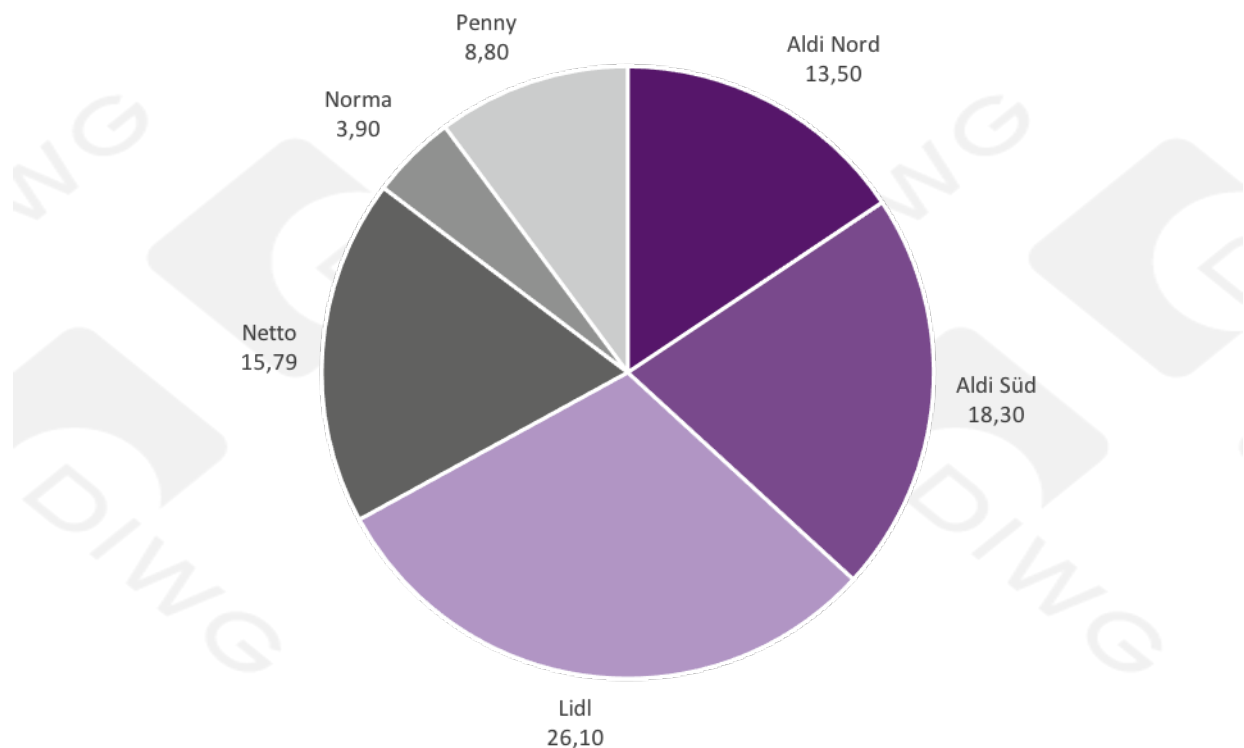
Source: EHI Retail Institute, Presentation DIWG

TURNOVER CONTINUES TO RISE

The turnover of the leading food discounters in Germany was around € 86.4 billion in 2022, 7.5 % higher than in the previous year. With a turnover of € 31.80 billion (share of turnover 36.81 %), the Aldi Group achieved the top position. Aldi Nord achieved sales of € 13.50 billion (15.63 %), Aldi Süd € 18.30 billion (21.2 %) despite a significantly smaller store network. Lidl with a turnover of € 26.10 billion (30.2 %) is behind the Aldi Group but clearly ahead of Aldi Nord and Aldi Süd when considered separately. In the other places follow Netto with a turnover of € 15.79 billion (18.3 %), Penny with € 8.80 billion (10.19 %) and Norma with € 3.90 billion (4.5 %). Compared to the previous year, all discounter operators recorded

sales growth, with Penny (+ 9.7 %), Lidl (+ 8.3 %) and Norma (+ 8.0 %) in particular recording above-average sales growth. The lowest increase in turnover is recorded by Aldi Nord with 6.3 % and Aldi Süd with 6.4 %. The shift in turnover shares between the five large discounters is also remarkable. While Lidl, Norma and especially Penny have gained further turnover shares within the last two years, Aldi Nord, Aldi Süd and Netto have lost turnover shares to their competitors.

NET SALES OF THE LEADING FOOD DISCOUNTERS IN 2022 IN € BILLION



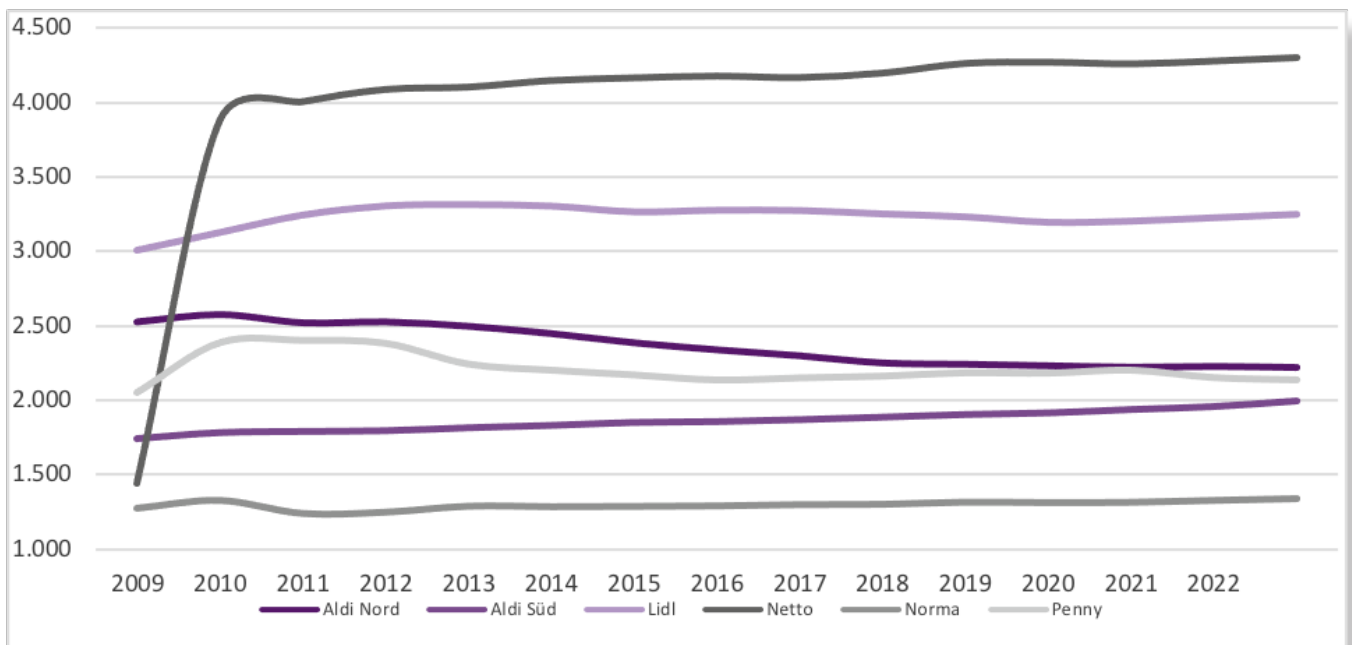
Source: EHI Retail Institute, Presentation DIWG

ALDI AND NETTO WITH DENSEST BRANCH NETWORK

In 2022, there were a total of 15,972 branches of food discounters in Germany. Of these, 15,239 shops - this corresponds to a share of around 95 % - were accounted for by the five largest suppliers Aldi Nord, Aldi Süd, Lidl, Netto, Norma and Penny. Other competitors such as Diska and NP [Edeka Group] as well as Netto [Dansk Supermarked] are only represented regionally and play practically no role in the overall market. Netto

Marken-Discount has the densest branch network with 4,304 shops and has thus further extended its lead over the Aldi Group with 4,216 locations. Lidl with 3,248 outlets, Penny with 2,135 outlets and Norma, bringing up the rear with 1,336 outlets, follow at a considerable distance.

BRANCHES OF THE LEADING FOOD DISCOUNTERS IN GERMANY



Source: EHI Retail Institute, Presentation DIWG

The development of the store network in the period between 2008 and 2022 shows clear differences between the competitors. While Aldi Nord saw an almost continuous decline in its store network from 2,530 to 2,218 locations (- 12.3 %), Aldi Süd increased the number of locations almost to the same extent. It rose from 1,742 to 1,998 shops (+ 14.7 %). At Lidl, the number of sales outlets increased by 8.1 %, but the growth here was not uniform and has been characterised by a decline in the number of locations since 2015. The branch network has only been expanding again since 2021. In a comparison of competitors, Netto's store network has grown by far the most and has almost tripled since 2008. The reason for this was the takeover of the competitor Plus in 2009, which caused the number of shops to jump from 1,422 to 4,008. With 4,304 locations in 2022, Netto is thus once again ahead of Aldi in terms of the number of shops (Aldi Nord and Aldi Süd in total), albeit only just. In contrast, Norma is the smallest competitor with 1,336 shops. After a de-

cline in the number of stores between 2009 and 2010, growth has been recorded again overall since 2013, albeit at a low level. In addition, Norma achieved the lowest overall growth among its competitors with an increase of 3.8 % between 2008 and 2022. At Penny, the number of locations initially increased between 2008 and 2010, followed by a continuous decline until 2015. Since 2016, however, the number of locations has been increasing again. Currently, Aldi Süd, Lidl and Norma are increasing the density of their branch networks, while the number of Penny locations is decreasing significantly. For the other competitors, only slight fluctuations can be observed at present. Overall, however, no major store closure programmes are planned at any of the competitors.

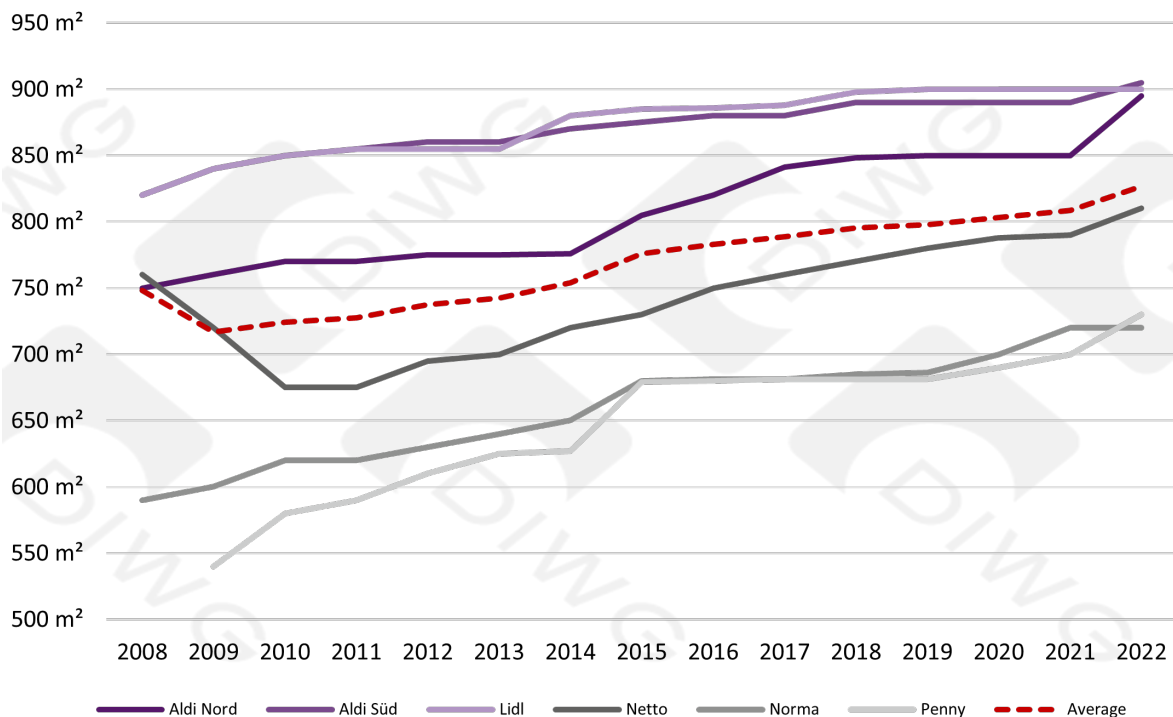


SALES AREA GROWS

The growth of food discounters has changed noticeably in recent years. The absolute number of shops is only slowly increasing for most competitors or is even slightly declining. Often, older locations with small sales areas are being abandoned in favour of new buildings with larger areas. In particular, the expansion of the product range in recent years (baking stations, organic products, fresh meat, branded products) as well as the deposit machines with the necessary storage capacities for the cans and bottles taken back within the framework of the one-way deposit make it necessary to expand the sales area as well as the ancillary areas. The average sales area of the leading food discounters rose from 748 m² to 827 m² between 2008 and 2022, which corresponds to an increase of 8.1 %. Penny (+ 29.6 %) and Norma (+ 22.0 %) saw the largest increase, while Netto saw the smallest increase in average sales area, up 3.9 %. In 2022, Lidl and Aldi Süd shops had the largest sales areas with an average of 905 m² and 900 m² respectively. Aldi Nord is also above average with 895 m², Netto just below with 810 m². The smallest branches are those of Penny and Norma, which have an average sales area of 730 m² and 720 m² respectively. The comparatively below-average sales area of Penny and Netto is largely due to the structure of the store network, as a higher proportion of the shops are located in district centres compared to the competitors. There, the shops are often located in commercial buildings, where the size and layout of the shop spaces do not necessarily correspond to the ideal conceptions of the discounters. Nevertheless, these locations are often more attractive than locations in commercial areas, which can often only be reached by car, due to the high population density in the immediate vicinity and the synergy effects from the retail structure in the neighbourhood. For a long time, Penny and Netto were also the only providers to adapt their location requirements to central city centre and district locations, where branches with smaller sales areas and without their own

parking spaces are rented. The shops under the name „Netto City“ have a somewhat thinned-out assortment (especially in the non-food area), but as local suppliers they can easily compete with the larger shops. Penny does not have a special name for its shops, but follows a similar strategy as Netto. For some years now, Lidl has also been increasingly moving into central city centre and suburban locations, accepting locations without their own parking spaces and with less attractive floor space. In 2019, for example, a branch was opened on Königsallee in Düsseldorf within sight of the existing Aldi location there. The shop does not have the rectangular layout with three or four aisles that is common in discounters, but is extremely winding. In addition, the entrance and exit areas are physically separated from each other and the sales area is significantly smaller than at other new Lidl locations. The focus here is clearly on local supply for the employees of the numerous companies in the immediate vicinity. The assortment is adapted accordingly, with a higher proportion of convenience products.

AVERAGE SALES AREA OF THE LEADING FOOD DISCOUNTERS IN M²



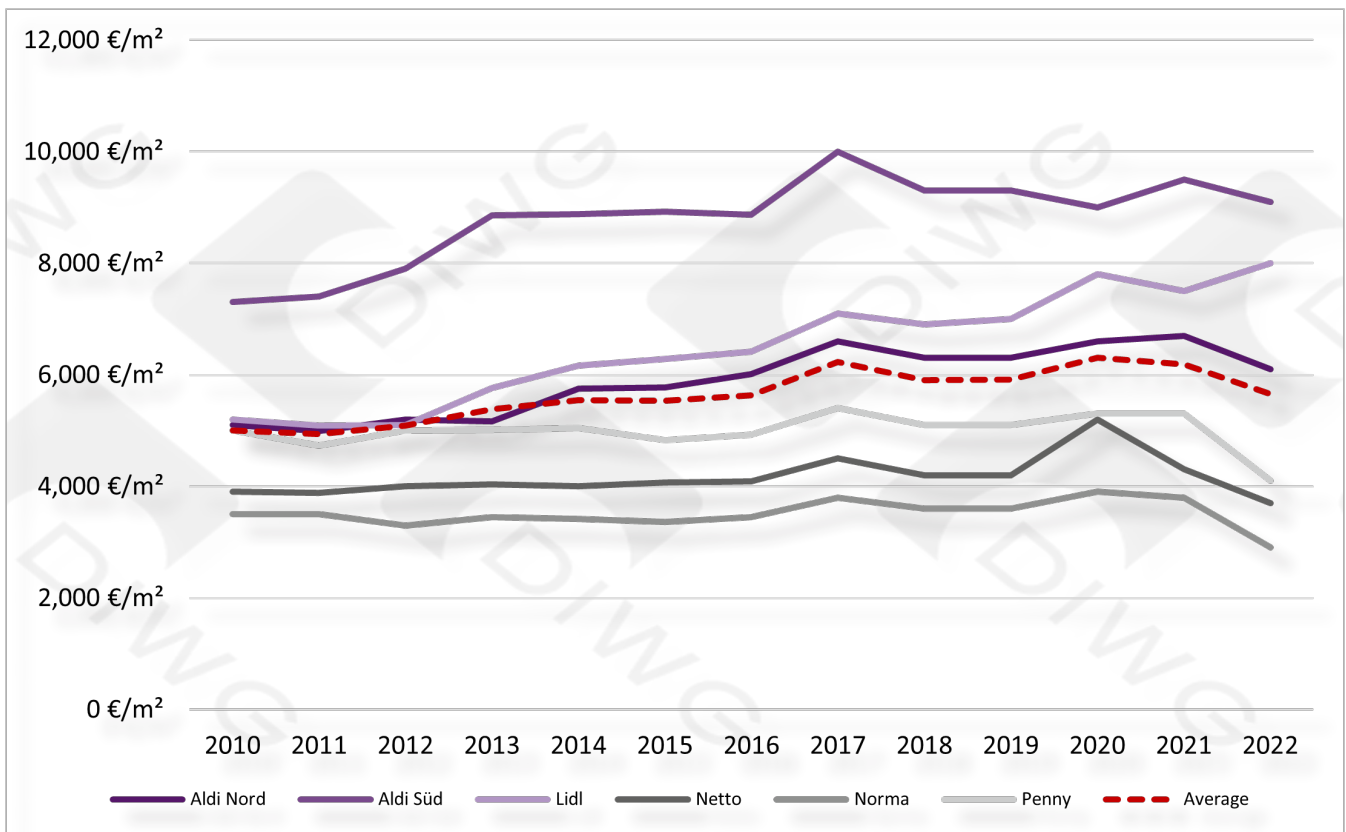
Source: EHI Retail Institute, Presentation DIWG

AVERAGE SALES AREA OF THE LEADING FOOD DISCOUNTERS IN M²

The productivity per unit area, defined as gross sales per m² of sales area and year, is an important indicator for assessing the profitability of a branch. On average, discounters achieve significantly higher values here than full-range stores, as the assortment is predominantly concentrated on so-called „fast-moving items“, i.e. products of which high quantities are sold in a short time. The leading food discounters achieved an average productivity per unit area of 5,650 €/m² in 2022, which corresponds to an increase of 13 % compared to 2010. The leader here is Aldi Süd with a productivity per unit area of 9,100 €/m², which is far above the average of the leading food discounters of 5,800 €/m². Lidl with a productivity per unit area of 8,000 €/m² and Aldi Nord with 6,100 €/m² are also above average. The food discounters below are close to each other in terms of productivity per unit area. Area productivities of 4,100 €/m² (Penny), 3,800 €/m² (Netto Marken Discount) and 3,700 €/m² (Norma) are clearly below average.

The figure shows that Lidl was able to achieve the strongest growth in space productivity during this period with 53.8 %. Aldi Süd with 24.7 % and Aldi Nord with 19.6 % also achieved moderate growth. It is also noticeable that Lidl is the only discounter among the leading discounters that was able to achieve an increase in productivity per unit area in 2022. Netto's floor-space productivity fell particularly sharply after Netto was able to reach its own record high of €5,200/m² in the Corona year 2020.

FLOOR SPACE PRODUCTIVITY OF THE LEADING FOOD DISCOUNTERS IN €/M²/YEAR



Source: EHI Retail Institute, Presentation DIWG

DISCOUNTERS ARE BECOMING MORE AND MORE LIKE FULL-RANGE RETAILERS

The triumph of the discounters in Germany began in the 1960s and started with the Aldi company, which is still the market leader today. Essential ideas of the discount principle were narrow and flat assortments, dispensing with perishable fresh goods, dispensing with price labelling of individual products, dispensing with rearranging the goods, dispensing with expensive shop fittings, dispensing with shop decoration and advertising as well as dispensing with credit sales, in short: the art of omission. Many of these factors no longer play a role in discounters today; instead, the tendency can be observed that discounters are increasingly moving in the direction of supermarkets and hypermarkets. Although the assortment is still leaner than at Edeka, Rewe & Co., branded articles, a standard assortment of organic articles, fresh produce, an appealing shop design, EC card payment, cash withdrawal at the checkout as well as advertising are now a matter of course at the discounters as well, although clear differences between the leading discounters can be

seen. Meanwhile, some of the leading discounters have also entered e-commerce.

FRESH PRODUCE

For some years now, (pre-packed) fresh meat has been part of the standard assortment at all discounters. Gradually, all suppliers have also started to sell fresh baked goods. Here, however, the suppliers are taking different approaches. While Lidl has a large-scale bakery with a self-service counter in front of it, Aldi has so far taken a completely different approach with baking machines from which the fresh goods fall into a dispensing tray at the push of a button. In the meantime, as part of the restructuring programme „Branch of the Future“, Aldi has converted more and more locations to a concept comparable to Lidl, as the baking machines were apparently less well received by customers. Netto, Norma and Penny have self-service systems for fresh bakery products, while the ready-to-bake products are baked by the store staff right next to the shelves. The fruit and vegetable department is also becoming increasingly important for discounters. At most competitors, this now takes up a significantly larger share of the shop floor than it did just a few years ago. In addition, at Netto and Aldi, for example, the fruit and vegetable department is located directly in the entrance area of the sales floor, as this conveys the competence in the area of freshness particularly well to the customers. This concept was adopted by the full-range stores.

BRANDED ARTICLE

In the battle for market share, discounters have increasingly added more and more branded articles to their product range in recent years. Well-known brands such as Chipsfrisch, Coca-Cola, Ferrero, Haribo and Red Bull are permanently on offer at more and more discounters. In addition, the drugstore assortment is being expanded to include brand-name articles. The listing of Nivea products at Aldi caused a furore in this context. This leads to a price war among discounters, between discounters and full-range stores and increasingly between discounters and drugstores. As far as the number of branded articles in the assortment is concerned, Netto has so far been ahead. Aldi and Lidl have also caught up strongly and have successively increased the number of branded articles permanently in their assortment over the last few years. Penny and espe-

Another topic in fresh produce has been gaining momentum for a few years now: doing away with plastic packaging. Just a few years ago, fruit and vegetables were almost exclusively sold in plastic containers at discounters for reasons of simplicity in stocking goods and at the checkout. This form of avoidable waste is increasingly being criticised by consumers, which is why all discounters are offering more and more unpackaged products in the fruit and vegetable departments. This change in thinking has another decisive advantage with regard to food waste - another topic that has gained a lot of importance in social discourse. On the one hand, the containers sold in the past were often so large that households with only one or two people could not consume the fresh products in time before they spoiled. On the other hand, as soon as a product inside the packaging had spoiled, the entire packaging with the partially still edible contents was often disposed of. Here, the discounters have reacted to the growing criticism from environmental organisations and consumers.

cially Norma have the thinnest range of articles from well-known brand manufacturers in comparison. Due to the price increases of the brand manufacturers, which are partly unjustified from the discounters' point of view, the own brands are increasingly advertised again.

ORGANIC PRODUCTS

Organic products, which used to be a niche product and could only be found in organic markets and health food shops, first conquered the supermarkets and then the discounters. As a result of the ever-widening distribution, organic products are now affordable for broad sections of the population. For some years now, all large

discounters have had a standard range of organic products. Although the breadth and depth of the assortment cannot keep up with the classic organic supermarkets, they offer an inexpensive alternative for many customers, at least for the basic products.

SHOP DESIGN

The topic of shop design played practically no role in discounters just a few years ago. Unadorned tiles on the floor and sometimes also on the walls, simple shelves and lighting as well as a presentation of goods in cardboard boxes were the rule and did not necessarily create a feel-good atmosphere in the shops. In the meantime, this has changed thoroughly. Lidl was a pioneer in this area, where all shops are being successively renovated with floor-to-ceiling windows, new tiles, new lighting and new building technology. The presentation of goods is being fundamentally changed - appealing photos, more unpackaged fruit and vegetables and wine in wooden crates instead of cardboard boxes create a much higher quality atmosphere and are clearly aimed in the direction of Edeka and Rewe. Aldi Nord is currently converting all stores with the „Store Layout 2.0 DE“. The arrangement of the goods in the entire Aldi Nord store is being fundamentally changed. Whereas breakfast utensils and promotional products used to be placed at the front of the entrance, the new layout will soon place the fruit and vegetable section at the entrance. In this way, Aldi Nord is trying to meet changing customer behaviour with the desire for more freshness and own brands. In addition to a high-quality presentation of goods on shelves instead of in cardboard boxes by discounter standards, the new store concept is characterised by appealing lighting, flat screens in the checkout area, coffee machines and, in some cases, customer toilets. Penny, too, is trying to increase the quality of stay in the shops with more appealing colours, higher-quality floor coverings and modern lighting in the context of new buildings or renovations. Netto is less innovative in its shop design. Although there is a difference between the old and new shops, it is not as significant as in the competitors' shops. In comparison, Norma has changed the least;

the branches are still most reminiscent of a classic food discounter, where the focus is on quick shopping and less on the shopping atmosphere. In addition to the design of the salesrooms, the quality of the architecture is also becoming more and more important. Here, too, Aldi and Lidl are leading the way. Only a few years ago, discount stores as free-standing properties always looked the same. Distinguishing features were the shape of the roof and the colour of window and door frames in the context of the respective brand image. In the meantime, the quality of architecture plays a role that should not be underestimated as a business card for companies. More individual architectural designs with a high proportion of glass surfaces in the entrance area, greater ceiling heights, large-format floor tiles in muted colours as well as higher-quality building technology are becoming increasingly important. While Lidl at times even built two-storey stores with an atrium in the entrance area and offices and social rooms on the upper floor, the company has since returned to somewhat less prestigious buildings, as some of the details have proven to be too high-maintenance, too expensive and impractical in practice. In addition to the basic conversion of shops to new concepts, however, the rotation of regular smaller adjustments has also increased significantly. For example, Aldi is already carrying out modernisations again at branches that were already converted to the „branch of the future“ two or three years ago.



BRANCH CONCEPTS

As already indicated in the previous section, just a few years ago the typical discounter shop was standardised and interchangeable - both within a discounter brand and between brands. The most striking distinguishing feature between the discounters were the colours of the window and door frames, which were adapted to the respective corporate design. This has now changed fundamentally, especially at Lidl. The company has now defined five basic store types that pick up on very different architectural styles and thus blend in much better with the surroundings than the previously known standard types. In addition, the company does not shy away from realising branches very individually in unique buildings, which goes hand in hand with an individual plan-

ning concept and thus also significantly higher costs. In the following, the basic characteristics of the store types are explained using Lidl as an example.

Basic branch: standard type, but architectural-ly and technically state-of-the-art, designed for plots of 6,000 m² or more, own parking spaces

Special branches: individual architecture, integration into historical and/or listed buildings (e.g. railway station, stadium), possibly waiving own parking spaces

City centre branch: central location, integration into existing commercial buildings, smaller floor space (VKF from 600 m²), no own parking spaces, adapted assortment

Retail park: integration in retail parks, Lidl as anchor tenant with synergy effects for non-food area, VKF from 1,000 m², own parking spaces

Metropolitan branch: central location in district centres, multi-storey construction (e.g. residential on the upper floors), weather-protected parking spaces, plots from 3,000 m², designed for new construction

There is also an increasing trend among competitors towards locations in central (inner city) locations. Aldi, for example, has now not only established its location on Düsseldorf's Königsallee, but has also opened a location in Kö-Bogen II in the prime retail location Schadowstraße. Before that, Aldi had already moved into a space in the basement of the Karstadt department stores' on Schadowstraße.

ADVERTISING

Advertising, for a long time rather neglected by discounters, is playing an increasingly important role. Whereas a few years ago advertising was limited to flyers and newspaper advertisements with special offers, print, TV and radio advertising are now standard at almost all discounters, only Norma is still holding back with advertising measures. The fact that there is still a high competitive pressure is shown by the introduction of more and more campaign days with special offers. While these offers used to be limited to two days per week, three promotion days are now standard. At Aldi and Netto, the special offers are now spread over four days: Monday, Thurs-

day, Friday and Saturday. This is an attempt to lure customers into the shops as often as possible. Nevertheless, many promotional products are still available in the stores one or two weeks after the end of the campaign. Apparently, the market is slowly showing signs of saturation in this area, especially since many promotions are repeated on a regular basis.

CITY CONCEPTS

For some years now, living in central locations of cities has been gaining in importance again, not least due to the ageing population, which attaches importance to a good infrastructure in the immediate vicinity of the flat. This includes, in particular, shopping facilities for daily needs. Since the ideal sales areas with a rectangular floor plan, a sales area of around 800 - 1,000 m² and 60 - 120 parking spaces at the property, which have been preferred by discounters up to now, are only available to a limited extent in central locations of inner cities or district centres, many stores are located on the outskirts of the districts or in commercial areas in locations that are difficult to reach on foot. In order to ensure that the population is supplied close to home, some chain shops have reduced their minimum sales area requirements and established special city centre shops on the market, which are adapted to the central locations in terms of assortment (higher proportion of convenience products, fewer non-food items) and often longer opening hours. The leaders here are Netto and the Rewe Group, which have already been on the market for several years with the Netto City and smaller Penny shop concepts. Competitors Aldi Süd, Aldi Nord, Lidl and Norma are also looking for shop spaces of 600 m² or more. Aldi Süd is taking a completely new approach in large cities and replacing stand-alone shops in central locations with residential and commercial buildings with

an Aldi store on the ground floor and flats above. In this way, Aldi is practically entering the housing construction market - but not entirely altruistically. The background is that the company wants to expand many older and smaller shops. However, since many municipalities do not approve sales areas over 800 m², or only very restrictively, Aldi is accommodating the cities by creating urgently needed living space and in return receives permission to expand sales areas to 1,000 to 1,200 m². For this purpose, Aldi has opened its own project development offices in Cologne, Frankfurt am Main, Offenbach, Stuttgart and Munich. This cooperation brings numerous advantages: in addition to the creation of living space, the migration of discounters to non-integrated locations (e.g. commercial areas) is prevented and the supply of the population close to home desired by the cities is ensured. This has advantages especially for older and less mobile people. In the medium term, a further expansion of city concepts is to be expected. Aldi's concept, however, is likely to be limited to large cities with housing shortages, where the higher construction costs are recouped through the achievable housing rents. Lidl is also increasingly looking for locations in central areas. For example, a city centre branch with a sales area of around 650 m² was opened in the best city centre location of Düsseldorf at Carlsplatz 2020.

ONLINESHOPS

According to us, e-commerce plays a subordinate role in food retailing, even though the online share of groceries increased to 2.2 per cent last year. Netto was the first of the five large market participants to be represented on the market with a broad-based online shop. With the exception of fresh produce, the online shop covers the complete food and non-food assortment. Aldi Süd and Aldi Nord now work together in e-commerce with the „Aldi Onlineshop“. This merges the previously separately operated delivery service „Aldi liefert“ (Aldi delivers) and expands the limited range of goods from special offer items such as garden furniture to items from the electronics, lifestyle and leisure sectors. Aldi Süd is currently testing a food delivery service for the first time in Mülheim an der Ruhr, Duisburg and Oberhausen. However, this is only for a limited period of time and a nationwide implementation in Germany is not planned due to the high costs for personnel and logistics. The online shops of Lidl and Norma also only offer non-food items

and not yet fresh food. Penny, on the other hand, has completely discontinued the business operations of the „Penny Online Shop“ as of 01.01.2022. The high growth rates of the last two years, which were driven by the restrictions of the Corona pandemic, will probably no longer be achieved in the near future due to the current environment. This can be seen, among other things, in the delivery services, whose general conditions have deteriorated significantly. Due to the reluctance of investors, some delivery services are downsizing or pulling out of Germany altogether, as is the case with the Berlin delivery service bring.de, for example. The step-motherly approach to online retailing affects discounters even more than full-range retailers. There is still a lot of catching up to do in the area of e-commerce. It remains to be seen whether the discounters will expand their range in the medium term.

SUSTAINABILITY IN FOCUS

In line with the growing awareness of environmental and sustainability issues, food discounters have greatly increased their efforts to design their stores sustainably. With rising environmental awareness and growing pressure to find resource-saving solutions, discount grocers are increasingly adopting sustainable practices in the design, construction and operation of their shops. These developments not only make ecological sense, but can also lead to long-term cost savings and a positive image for the companies.

Sustainable food discounters rely on energy-efficient technologies to minimise energy consumption. LED lighting systems, solar energy, climate-friendly refrigeration systems with roller blinds for refrigerated shelves at night and intelligent control systems that regulate energy consumption depending on use are used. Furthermore, the use of environmentally friendly and sustainable building materials is an important aspect in the design of sustainable branches, as is optimised insulation. This includes the use of recycled materials, wood from sustainable forestry and environmentally friendly paints and coatings. To

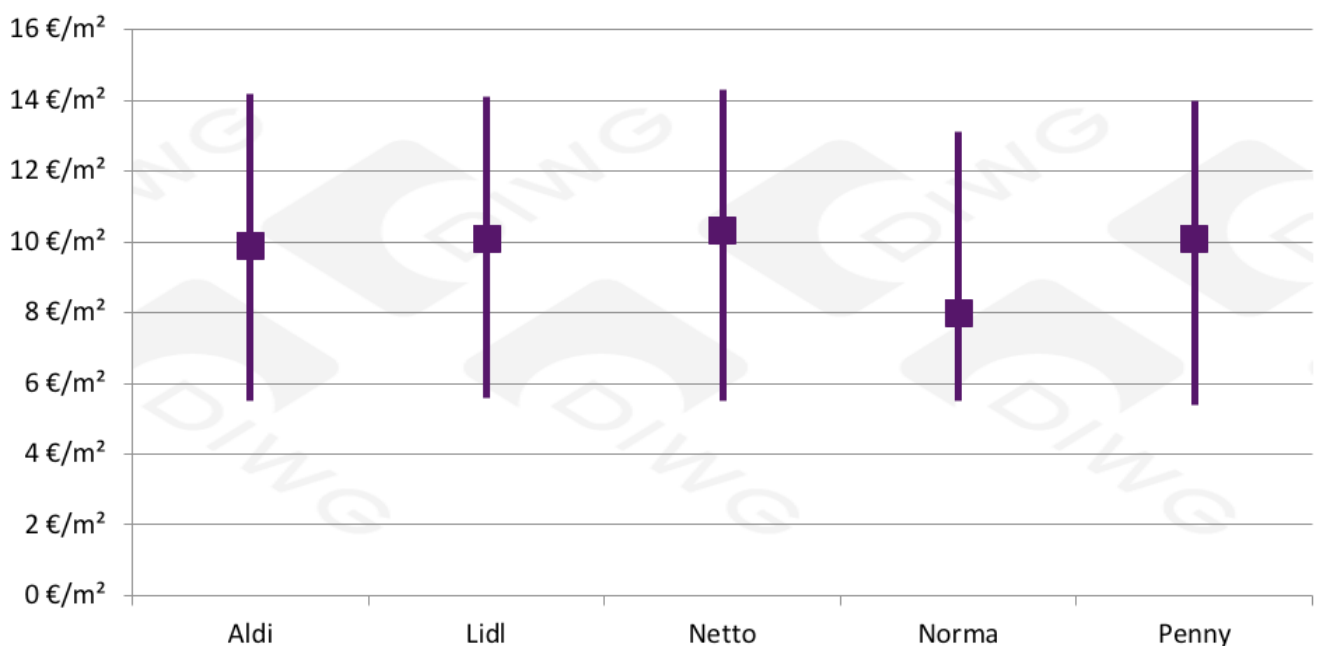
improve the environmental impact of their properties, some discount grocery stores are integrating green roofs and green facades. These measures not only support the environment, but also offer additional benefits such as temperature control and improved air quality. Successively, all discounter operators are expanding the range of e-charging points in their car parks and photovoltaic systems on the roofs. Aldi Süd states that it has already installed photovoltaic systems on more than 1,320 shops and uses some of the electricity generated there to power its own technology. Many operators have the sustainability of their property confirmed by the certifications they seek, such as LEED (Leadership in Energy and Environmental Design) or BREEAM (Building Research Establishment Environmental Assessment Method). These certifications show that the property meets certain environmental and sustainability standards.

RENTS AT DISCOUNTERS

At first glance, the average rents and rental price ranges of the five leading food discounters appear to differ relatively little - with one exception: Norma pays significantly lower rents than its competitors. On the basis of the evaluation of a good 1,000 leases of food discounters, a normal market rent range of around 5.40 €/m² to around 14.20 €/m² emerges, whereby in individual cases rents of up to 20.00 €/m² are paid for locations in particularly high-turnover areas. At the lower end of the range, however, there are also locations in rural regions with low purchasing power, where rents well below 5.00 €/m² are achieved. The average rent of 9.90 €/m² at Aldi and 10.30 €/m²

at Netto is relatively close together. Only Norma falls significantly behind with an average rent of 8.00 €/m² and a peak value of 13.10 €/m². However, this does not mean that Norma pays lower rents per se. Rather, Norma is not represented at all or only to a lesser extent in many centres of population and thus in regions with rather above-average rent levels, but it is frequently found in rural regions and in eastern Germany, where the rent level tends to be below average.

AVERAGE RENTS AND RENTAL PRICE RANGES FOR DISCOUNT GROCERY STORES (BASIS: 90% CONTROL INTERVAL)

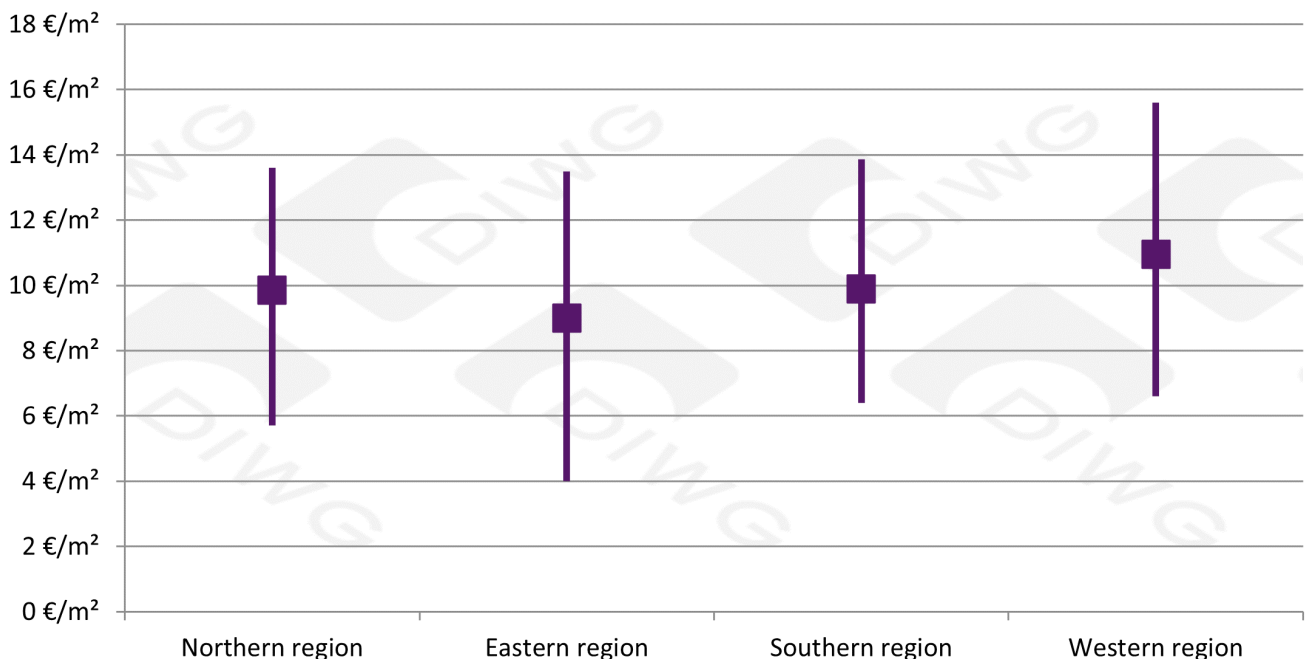


ONLY MINOR DIFFERENCES IN RENTS BETWEEN REGIONS

The average rental prices for grocery discounters are subject to relatively little regional fluctuation. However, the rental price ranges between the regions are very different. While in the East region the range is widest at 4.00 - 13.50 €/m², prices in the South region are comparatively closer together at 6.40 - 13.90 €/m². Average rents range from 9.00 €/m² in the East region to 11.00 €/m² in the West region. In terms of top rents, the North, East and South regions are almost on a par with 13.50 - 13.90 €/m², only the West region stands out clearly with 15.60 €/m². Depending on the region, the lower end of the rental price range is between 4.00 €/m² in the East region and

6.60 €/m² in the West region. This shows that the regions are becoming more and more differentiated with regard to rents. This experience is also evident when looking at the development of rents for individual properties. In locations with low purchasing power, rents are often significantly reduced in the course of contract extensions, while for well-frequented locations in cities with high purchasing power, significant upward rent adjustments are not uncommon.

RENTAL PRICE RANGES ACCORDING TO DIWG DATABASE (BASIS: 90 % CONTROL INTERVAL)



Source: DIWG

DEMAND FOR SPECIALIST MARKETS WITH A FOCUS ON FOOD RETAILING IS STEADY

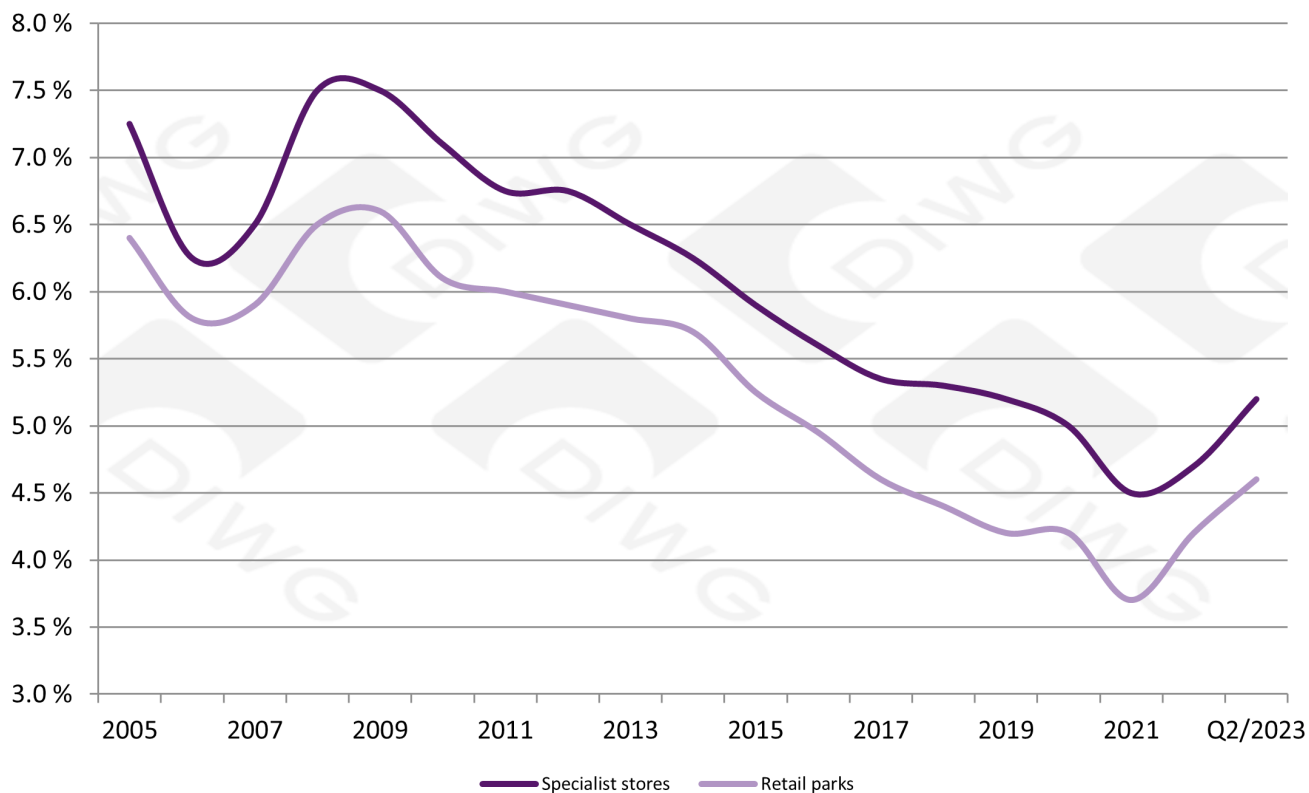
In 2021, a new turnover record was achieved on the German investment market with a transaction volume of almost 112 billion euros. This means that the €100 billion mark was exceeded for the first time. Retail properties accounted for the fourth-largest share of this transaction volume with a share of €9.7 billion, but fell 21 % short of the previous year's result. The background to this is primarily the effects of the Corona pandemic, which particularly affected shopping centres and high-street properties. These were not able to continue their high transaction volumes of previous years. The supply could hardly keep up with the strong investment demand for supermarkets, discounters and food-anchored specialist stores and retail parks.

In the middle of 2022, the transaction volume decreased significantly in the environment of uncertainties due to the Ukraine war, the continued disrupted supply chains, the high inflation rate and the significantly increased financing costs. The transaction processes were prolonged due to the different price expectations of buyers and sellers and the ongoing re-pricing. In this environment, commercial properties in particular proved to be preferred investment properties due to the indexation of rental contracts and the protection gained from this against a possible decline in value. With a total investment volume of around €66.0 billion in commercial real estate, retail properties accounted for a share of around 14 % in 2022. This corresponds to an investment volume of around €9.2 billion. In the first half of 2023, the investment market continues to be thoroughly shaken up by the inflationary environment. At just under €2.6 billion, the retail investment volume in the first half of 2023 is around 36% lower than in the same period of the previous year. The market is currently characterised by investor restraint in the trading of real estate, as a result of which

transaction dynamics continue to be strongly curbed. Compared to other market segments, retail properties are nevertheless in demand. The strongly changed interest rate landscape and uncertainties about price developments are the cause of ever-increasing property yields in almost all asset classes. It is likely to take some time before interest rates have fallen significantly again and thus more liquidity is available, especially since further interest rate hikes are to be expected in view of the still high inflation rate. However, the volatility of yields has eased considerably. For individual retail parks, the yield in the second quarter of 2023 is 5.20 % and for retail parks 4.60 %. Further yield increases can be expected by the end of the year.



DEVELOPMENT OF PRIME YIELDS FOR RETAIL PROPERTIES IN THE GERMAN TOP 6 LOCATIONS



Source: DIWG

SPECIAL FEATURES OF VALUATION

When valuing discount grocery stores, there are a number of factors in addition to the location characteristics that are included in the valuation. Of particular note are the characteristics of the property, the tenants and the form of the

commercial lease agreement concluded. These topics are explained in the following sections. Finally, there is an overview of the most important key figures for food discounters.

LOCATION CHARACTERISTICS

The location characteristics can be divided into macro-location factors, micro-location factors and the existing competitive situation. The macro-location is the entire city or region of the valuation object. Macro-location factors relevant to the assessment are the existing infrastructure and transport connections, population development, the local unemployment rate, commuter movements if applicable, the development of purchasing power and the binding of purchasing power in the location.

The micro-location of discount food stores is predominantly characterised by a convenient location on busy arterial roads with good visibility, location in communities with at least 3,000 inhabitants in the local area and at least 10,000 inhabitants in the catchment area and location in commercial or special areas. Of increasing importance is the synergetic location in retail parks, where consumers can buy food as well as other „daily necessities“ in one place. Locations in inner-city areas are also becoming increasingly attractive for discount food stores. An important criterion for locations of discount grocery stores outside inner-city areas is good accessibility, which should be guaranteed from both traffic directions of the adjacent street if possible. The clear design of the car park with a sufficient number of parking spaces also plays an important role. Besides the location on the outskirts or on arterial roads, food discounters are again increasingly attracted to city centre locations or shopping centres. For these locations, a high pedestrian

frequency and good accessibility by public transport are important. In view of the increased use of bicycles in inner-city areas, appropriate parking facilities must be taken into account. The competitive situation is the last important component in the location analysis. In this part, the potential demand is compared with the existing supply. Only when there is a sustainable surplus of demand does the location gain in importance. Here, both the existing sales area on site and the areas still under construction or in the planning stage must be taken into account.



PROPERTY FEATURES

The five largest food discounters Aldi, Penny, Lidl, Netto and Norma are predominantly oriented to-

wards the property criteria listed in the table below:

	Aldi Nord	Aldi Süd	Penny	Lidl	Netto	Norma
Property size	from 3.500 m ²	from 3.000 m ²	from 4.000 m ²	from 3.000 m ²	from 4.500 m ²	from 3.500 m ²
Sales area	from 1.100 m ²	from 800 m ²	from 800 m ²	from 600 m ²	800 – 1.200 m ²	700 – 1.200 m ²
Secondary area		Not specified	ca. 250 m ²	Not specified	Not specified	from 150 m ²
Sales area in centres/city centre	from 600 m ²	from 600 m ²	from 500 m ²	from 600 m ²	ca. 400 - 799 m ²	Not specified
Customer parking	Not specified	Not specified	from 60	Not specified	from 60	from 40

In the past, food discounters were predominantly built as single-storey structures with simple fittings and plain architecture. However, the design of the stores has changed in recent years: the cubature of the discounters is still determined by almost rectangular structures with flat roofs or flat pitched gable and monopitch roofs, but the façade and interior design is increasingly kept more modern. This is achieved above all through generous window fronts in the entrance area as well as the selection of „more noble“ materials or eye-catching colours in the customer area. With a view to ecological awareness, new buildings are also based on completely new energy concepts, so that the newly developed and designed branch architecture no longer has much in common with the former design concepts of the discounters. Overall, a comparison of the individual competitors clearly shows the standardised overall concepts with the corresponding corporate design, so that a high recognition value on the part of the customers is guaranteed.

In view of the ongoing operation of a discounter, it is desirable to have a delivery zone that is as functionally designed as possible for the high frequency of goods turnover that is specific to the use of the store - especially in view of the high demand for „fresh“ goods. The floor plan design should be kept simple and ensure a high degree of flexibility, which is achieved, among other things, through an individually adaptable ratio between storage and sales space (freedom from columns, lightweight walls). This fact is also a decisive criterion

when assessing third-party usability. The entrance and checkout areas should be attractively designed and sufficiently large to ensure a smooth flow even with high customer frequency.

In addition to the criteria listed above, the year of construction and the condition of the building of the individual property, attention should also be paid to possibilities for structural expansion, especially in the case of smaller properties that may already be reaching their capacity limits, since in recent years there has been a trend towards increasing sales space per branch, e.g. due to the increased space required by deposit machines as well as the expansion of the product range.

For the sake of completeness, it should be mentioned that some discounters use the roof areas for the installation of photovoltaic systems to generate additional cash flow.

TENANT AND TENANCY AGREEMENT

Typically, leases for new buildings are concluded for between 10 and 15 years plus option rights, whereas the lease terms for existing properties were still up to 10 years. In addition to the long term of the lease, the agreed effective rent is important. This must be compared with market information. Therefore, within the framework of the valuation, it must be assessed whether the agreed effective rent is above, within or below the local market level. This is particularly important with regard to the aspect of a sustainably achievable rent. Furthermore, the type of tenancy agreement (single-net, double-net or triple-net agreement) has an influence on the value of a property, as the share of costs for the owner differs significantly depending on the type of agreement. For example, in a single-net contract only the incidental costs of the property to be defined are borne by the tenant, whereas in a triple-net lease the costs for maintenance and repair are also passed on to the tenant. When valuing a discount store with a short remaining lease term (of usually less than 5 years), it is advisable to ask for information about a possible use of the option rights by the tenant in the conversation or to weigh up the corresponding probability. Knowledge about the existing turnover of the market to be evaluated as well as the competitive situation is helpful here.

The current rent paid should be checked for plausibility by the valuer on the basis of available turnover figures (if available) or on the basis of key figures. If it can be assumed that the tenant will not renew his lease, then the expected vacancy costs should be taken into account in terms of value. These may include costs for upgrading and remarketing the space as well as possible incentives in the form of financial participation in development work or the waiver of rental income for a certain period of time. In the case of an outdated concept, a high building age or questionable building condition, it often makes sense to demolish the property and replace it with a more modern new building. Typically, discount stores have a total useful life of 30 - 40 years.

In addition to the conditions agreed in the lease contract, there is another special feature in the

valuation of discount food stores. Increasingly, tenants secure their investments in a property by entering a first-ranking limited personal easement (tenant's easement) in the land register in order to circumvent special termination rights of the landlord pursuant to § 111 InsO and § 57 ZVG. From the tenant's point of view, a positive side effect can also be to ward off an ordinary termination by the landlord before the expiry of the agreed rental period - for example due to a breach of the statutory written form (§ 550 BGB in conjunction with §§ 578, 126 BGB). This entry plays a decisive role in particular in mortgage lending value appraisals. If tenant easements are entered in the land register and these are not „vdp-compliant“, i.e. agreed in accordance with the regulations of the Association of German Pfandbrief Banks, this defect can lead to financing possibly being granted at worse conditions or even refused.

KEY FIGURES

Discounter	HypZert	DIWG	Notes
Property size (m ²)	4.000 - 8.000	3.000 - 6.000	
Parking requirements (piece)	70 - 120		In central locations (city concepts), a smaller number of parking spaces, in some cases even completely without own parking spaces
Rental area	800 - 1.500		Large margin through the introduction of small-scale city concepts
Sales area		800 – 1.500	
Relation NFA / GFA	rd. 90 %		
Relation Sales area / Net area	rd. 75 %		
Building costs (excl. outdoor facilities, €/m ² GFA)	1.000 - 1.900	1.345 – 2.110	BKI 2023
Ancillary building costs	ca. 15 - 20 %		
Maintenance €/m ² /year	5,00 - 9,00		
Administration per year (% of gross profit value)	1,0 - 2,0 %		
Loss of rental income risk per year	≥ 3 %		
Service life in years	≤ 40 %	30 - 40	
Net sales per m ² sales area/year (€)	3.400 – 9.800	2.900 – 9.100	Adjustment according to EHI evaluations
Usual market rent share of net sales	3,5 - 5,5 %		
Usual market rent per month (€/m ²)	9,00 - 20,00	5,40 - 14,30	
Market value / Gross profit (factor)	12,0 - 20,0		Typical range over long term
Prime yield		rd. 4,7 %	

Source: Study „Valuation of retail properties“ by HypZert GmbH (2023), DIWG

In the current good market situation, prices with a factor of 20 are being paid for new buildings with

long-term leases (>12 years) in good and very good locations.

CONCLUSION

In times of subdued market activity caused by the current geopolitical situation, interest rate developments and consumers' savings intentions, many investors are behaving cautiously. In these times, the creditworthy food discounters, which also demand long leases, remain an attractive market segment.

Despite the price sensitivity of customers, the topics of shop design, fresh products as well as branded articles are also becoming increasingly important for discounters and are leading to the differences between full-range food stores and discounters becoming smaller. Aldi, Lidl & Co. have long since said goodbye to the principle of the spartan hard discounter and are thus making room for new concepts that take up the original discount idea from the 1960s again with a reduced range and very simple shops. Whether the established providers will enter this newly created niche themselves or leave the field to

other providers remains to be seen. The topic of e-commerce has so far been treated rather step-motherly by the discounters. There is still more catching up to do here than with the full-range grocery stores, especially if providers like Amazon Fresh introduce their services nationwide in Germany. So far, the offer is still limited to a few regions.





ABOUT DIWG

Since 2005, DIWG has been an owner-managed group of companies with the Asset Management and Valuation divisions.

In addition to German and international banks and investors, DIWG valuation GmbH's clients also include pension funds, fund companies and private clients.

Our consultants at the various locations have an excellent expertise and many years of experience to reliably support you in the field of real estate valuation due to their diverse professional qualifications - such as HypZert (F) real estate valuer, Chartered Surveyors (RICS), Dipl.-Ing. / Dipl.-Sachverständiger and BaFin accreditation.

Due to the regular publication of articles in specialist journals or books, our trend reports, speaker activities, regular valuation assignments and our advisory activities for various investment companies, we are very close to the market.

Within asset management, DIWG offers investment, property and project management as well as transaction services.

In addition, DIWG Capital invests in joint ventures with international partners nationwide in existing properties with optimisation potential and in project developments.



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