

SPECIALIST RETAIL CENTRES WITH FOCUS ON FOOD RETAIL

February 2025

DIWG

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EDITORIAL

The coronavirus pandemic, the war in Ukraine, inflation, increases in construction costs and high interest rates - rarely have so many crises and challenges occurred in such a short period of time. The property sector has been particularly affected by this.

The coronavirus pandemic has massively disrupted supply chains and permanently changed consumer behaviour. The war in Ukraine has led to a sharp rise in consumer prices and inflation, which is only slowly easing up again and it's still causing a general reluctance to spend - issues that have an impact on society as a whole. The rise in construction costs and high interest rates, on the other hand, are problems that primarily affect the property sector and reinforce each other. The volume of new construction has collapsed, not least because a number of large and well-known project developers have run into difficulties and the high level of interest rates means that projects with a high proportion of borrowed capital are no longer economically viable. Property investments have become less attractive due to the high financing costs and, last but not least, the attractiveness of individual property asset classes has changed permanently as a result of the aforementioned challenges.

THE PRODUCT „RETAIL PARK“

Specialist retail parks, local supply centre, stand-alone full-range retailer or discounter: in literature and in day-to-day business, these terms are often used to describe retail properties. But what are the differences and similarities? The definitions and distinctions between the individual property types are often not clear or are used in a misleading way. The following explanation should therefore provide a little more clarity.

RETAIL CENTRE

The retail park category includes properties that offer goods from several sector groups. A distinction is made here between retail parks with or without an anchor tenant from the food sector. Retail parks are characterised by a mix of product ranges for short, medium and long-term requirements. Typical tenants are discounters from the food and non-food sectors, full-range food retailers and drugstores, which are often supplemented by specialist drinks stores, specialist shoe stores or specialist pet shops. Shops in the food and drugstore sector are generally the „frequency drivers“ for the respective location, from which the other tenants benefit. As with specialist stores, typical locations are often commercial areas or suburban locations with a focus on good car accessibility. Retail parks are often located in areas that are designated as „special retail areas“ under planning law. Typical property sizes are between 5,000 and 30,000 m² of rental space - 30,000 m² usually only with a furniture or DIY store - but can also exceed this in individual cases, for example if a DIY store or furniture store is integrated. Depending on the positioning of the retail park, the price level of the product groups on offer is in the low to medium range.



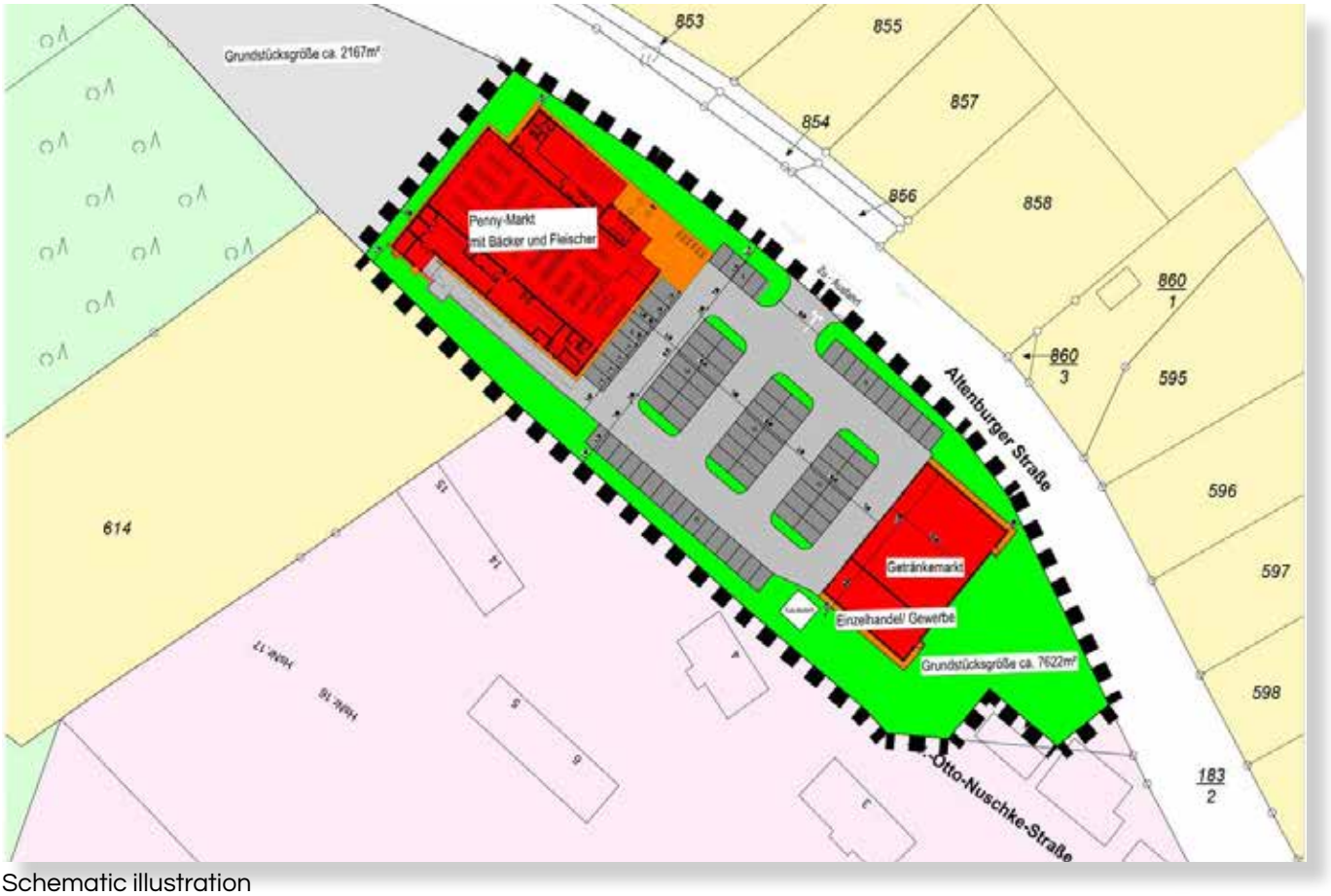


Schematic illustration

LOCAL SUPPLY CENTRE

Local shopping centres are also characterised by providers from several sector groups, whereby the focus of the offer tends to be on short and medium-term requirements. Accordingly, an anchor tenant from the food and/or drugstore sector is mandatory in this property category. To fall into the local shopping centre category, at least three independent rental spaces are required, but the total retail rental space may not exceed 5,000 m², otherwise the property would be classified as a retail park. Due to the stronger focus of the product range on short-term needs, the frequency of visits to local shopping centres is higher than for retail parks. Accordingly, although these properties are also conveniently located, they are usually integrated into residential areas or urban districts and are therefore not exclusively aimed at customers travelling by car. In addition to a supply function for the district, local shopping centres also act as a meeting point for regular customers. Accordingly, bakeries with adjoining cafés or catering outlets are often found as complementary uses. Other complementary uses can be services and service offerings such as doctors' surgeries, hairdressers or nursing services. While specialist stores and retail parks generally have a single-storey design, some local shopping centres also have rental space on the upper floor. However, due to the poorer accessibility, only the aforementioned supplementary services are usually located there.



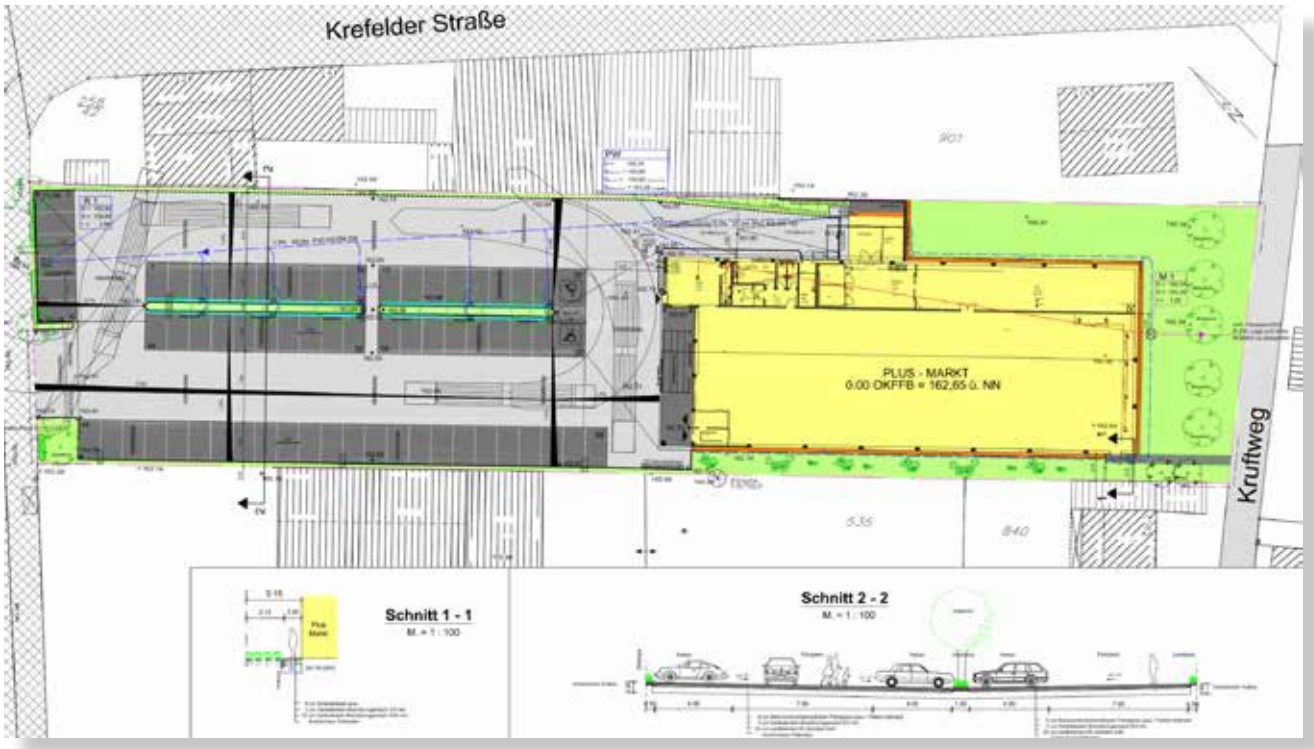


Schematic illustration

„STAND ALONE" FULL-RANGE OR DISCOUNT RETAILER

The so-called „stand-alone" properties with one tenant from the food sector are available both as discounters and as full-range stores. The latter are further subdivided into the categories supermarket (sales area 400 - 1,499 m²), hypermarket (sales area 1,500 - 4,999 m²) and hypermarket (sales area ≥ 5,000 m²) based on the sales area. The term „stand-alone" means that the property stands alone on a plot of land, i.e. there are no other users within the same property, as in the case of a retail park or local shopping centre. In terms of location, „stand-alone" properties can be found in more commercial locations, similar to retail parks, as well as within residential areas. In a more commercial location, however, these properties are often found in the vicinity of retail parks in order to exploit synergy effects.

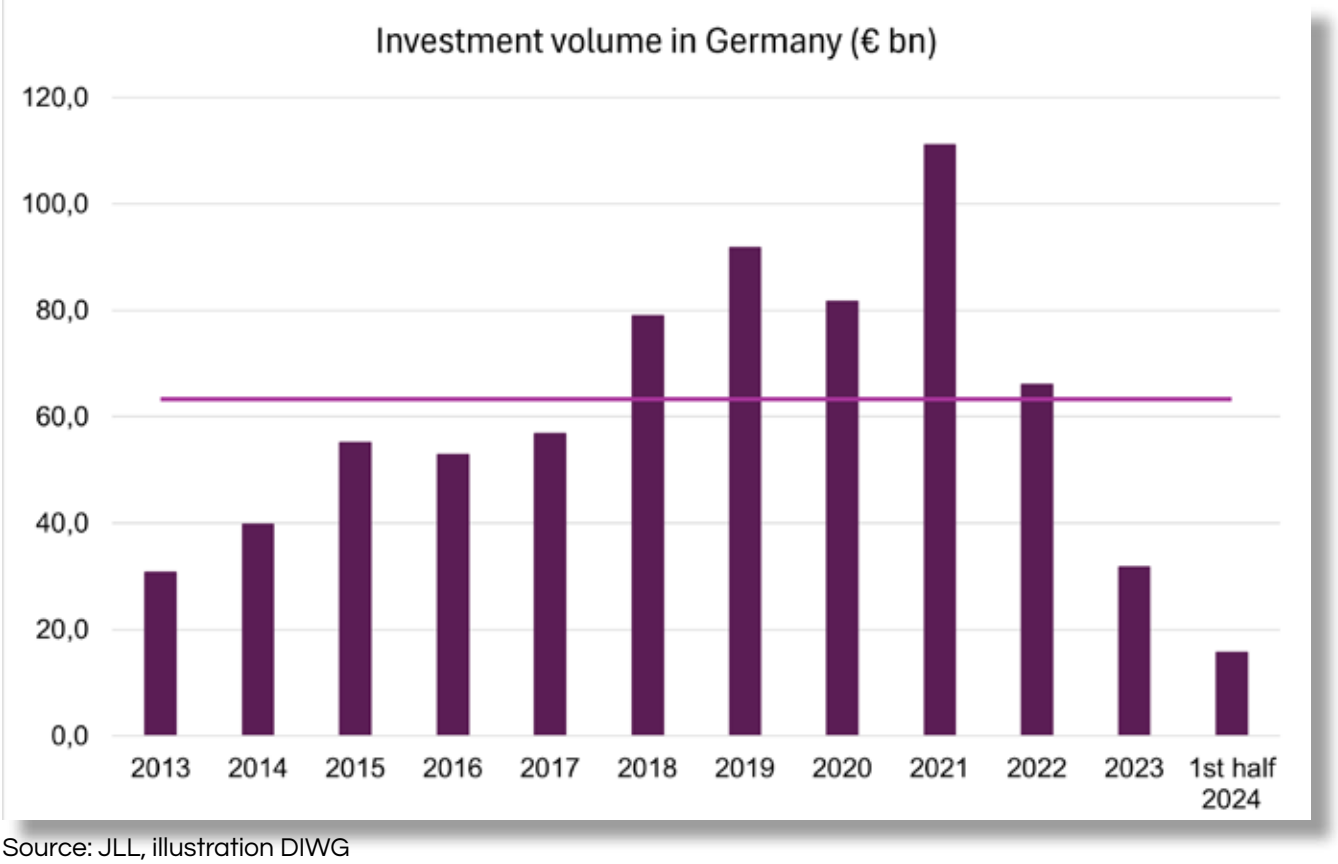




Schematic illustration

PROPERTY INVESTMENTMARKET

The signs of the crisis are also clearly visible on the property investment market.
After an almost constant upward trend between 2013 and 2021, the investment volume in the property sector has fallen massively since 2022 and was at its lowest level in the last 10 years in 2023. While the second-highest investment volume in the last 10 years was achieved in 2021 despite the effects of the coronavirus pandemic, the Ukraine war with the associated inflation, increases in construction costs and the sharp rise in interest rates hit the investment market hard. In the first half of 2024, the investment volume was at least slightly above the level of the weak previous year. The general conditions - a slowdown in inflation and the rise in construction costs as well as the stabilisation of interest rates on loans - give reason to hope that the investment market will slowly recover. For 2024, the investment volume is expected to be above the level of 2023 again.



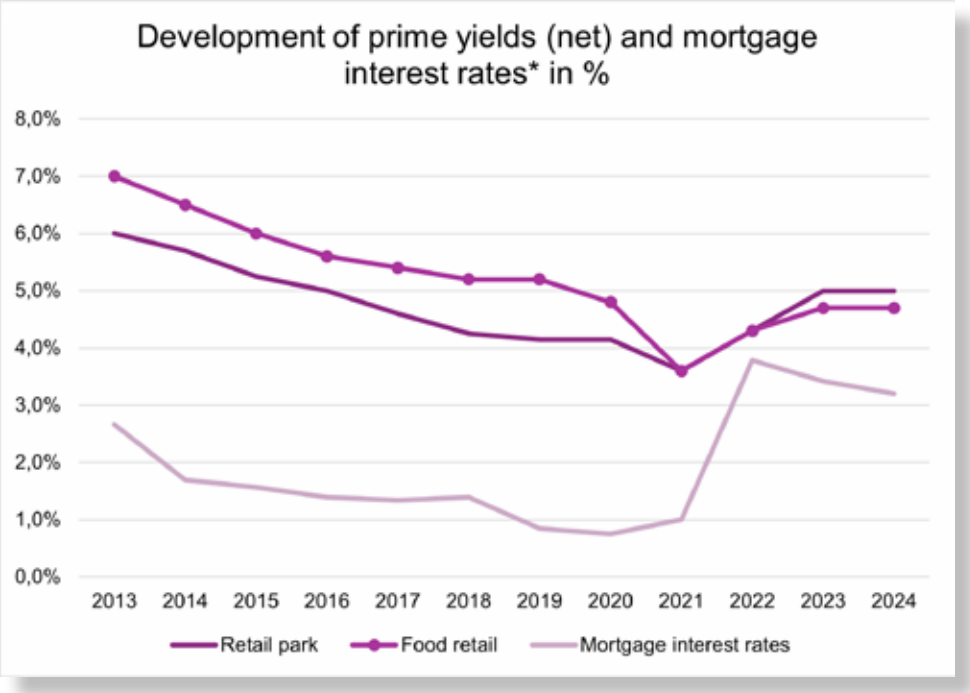
Source: JLL, illustration DIWG

INVESTMENTMARKET FOR RETAIL PROPERTIES

Looking at the property investment market by asset class, retail properties have generally accounted for 10 - 15 % of the total investment volume over the last 10 years. A further breakdown of retail properties shows that specialist stores and retail parks were the most sought-after property type, followed by prime retail properties, while the attractiveness of shopping centres as an investment has been declining for some years now.

The coronavirus pandemic has reversed this trend, which had been clear for years. With the first lockdown in March 2020, all retail shops - with the exception of food retailers and drugstores - were no longer allowed to open. As a result, many retailers lost the basis of their business from one day to the next, while fixed costs (salaries, shop rents, etc.) remained the same. In addition to government coronavirus aid, many retailers had to rely on concessions from landlords in the form of reduced or temporarily suspended rent payments. Overall, the coronavirus pandemic was a challenge for the retail sector - with the exception of food retail, which actually emerged stronger from the crisis. The crisis resilience of the food retail sector was evident by this point at the latest. As a result, yields for retail parks and food retail properties initially converged. Since 2022, higher yields and therefore lower purchase price factors have been achieved on the market for retail parks than for discounters and supermarkets. This also applies to local shopping centres with a predominantly food retail tenant base. As a rule of thumb, the higher the proportion of tenants from the food and drugstore sector in a property's rental income, the higher the yield factor tends to be compared to properties with a low proportion of food.

The popularity of retail parks and retail parks is based on the one hand on the favourable price level compared to prime retail properties, both in terms of the yield factor and the absolute purchase price, and on the risk diversification due to the existing tenant mix. The latter aspect in particular is also reflected in the development of prime yields, which were significantly lower for retail parks than for food retail properties between 2013 and 2021.



* 10 Jahre Zinsbindung, Zinsen Stand jeweils zum 31.12. des Jahres bzw. 30.06.2024; Nettorendite = Kaufpreis zzgl. Erwerbsnebenkosten

Quelle: CBRE, Interhyp, Darstellung DIWG

A further trend has also been evident since 2022. After yields had fallen continuously in previous years, an increase in prime yields for retail investments can be seen in parallel with the rise in interest rates, albeit to a somewhat lesser extent. Since 2023, yields have stabilised at a comparatively high level, as have mortgage rates. It can currently be assumed that the price adjustment on the investment market is complete. If interest rates fall again in the medium term, yields for retail investments are also likely to fall again. The ECB has now cut interest rates for the fifth time. After peaking at 4.00% (September 2023 to June 2024), the key interest rate has been at 2.75% since January 2025. If inflation continues to fall, further interest rate cuts are likely to follow.

The price differentiation between retail parks and food retail properties can also be seen in the usual valuation parameters. The study „Valuation of retail properties" by the HypZert Retail specialist group (6th edition April 2023) publishes the usual key figures for the property types. The following table shows excerpts of the most important key figures.

	Supermarket	Discounter	Local supply centre	Retail park
Standard market rent (€/m² u.a.)	6,00 - 15,00*	6,00 - 14,00*	11,00 - 17,00	8,00 - 16,00
Net sales €/m² sales area per year	3.300 – 6.500	3.400 – 9.800	3.400 – 5.000	1.500 – 4.000
Property interest (%)	3,5 - 6,5	3,5 - 6,5	3,0 - 5,5	3,5 - 6,5

Source: HypZert GmbH, *DIWG-comparative database, illustration DIWG

The gross profit factor for retail parks is generally at least two factors lower than for food retail properties and local shopping centres and directly reflects the investors' risk assessment. Due to the high proportion of non-food properties, particularly in the fashion and consumer electronics sectors, the risk of rent losses is significantly higher for retail parks than for properties with a predominantly or exclusively food retail share. In addition, the fashion and consumer electronics sectors, as a typical component of retail parks, are particularly affected by competition from online retailers and the general reluctance to spend. Numerous insolvencies, particularly of companies in the textile sector, clearly illustrate the increased risk. However, a price differentiation can also be seen between discounters and full-range retailers. On the investment market, full-range retailers are traded two factors higher than discounters.

During the coronavirus pandemic, full-range retailers were able to generate stronger sales growth on average than discount grocery stores. During lockdowns, many consumers wanted to spend as little time as possible in shops due to the risk of infection. As a result, grocery shopping was predominantly done at full-range retailers with their full range of products, which meant that they were able to record stronger growth than discount grocery stores. At times, this has led to familiarisation effects, as the full-range retailers initially grew faster than the discounters. On the one hand, a general trend towards higher-quality foods (organic products, regionality) is recognisable, while on the other hand, the full-range retailers have further expanded their range of low-priced own brands. Since the sharp rise in inflation, this trend has reversed again. Overall, however, the earnings situation in food retailing has deteriorated for both discounters and full-range retailers due to inflation. Numerous manufacturers of branded products have tried to push through a massive increase in purchase prices for retailers as part of the general price increase. However, due to the pronounced price sensitivity of consumers, retailers are unable or unwilling to pass on the price increases in full to consumers, not least due to strong competitive pressure. As a result, some branded products for which manufacturers and retailers were unable to agree on higher prices have disappeared from the shelves and been replaced by cheaper private labels. The bottom line is that retail companies are recording higher sales as a result of the increased price level, but margins are lower due to the price increases only being partially passed on to consumers.

The price differentiation between discounters and full-range retailers described above is also confirmed in the specific property offers. The asking prices for full-range retailers and discounters („stand-alone" properties) are around one year's rent above the retail parks. New-build properties („stand-alone") stand out from this again, trading at around 3 to 4 annual rents higher than existing properties, with the cost factor in particular being higher here. This is understandable from a market perspective, as the lease terms (usually 15 years plus options for new builds) are significantly longer than for existing properties, where the remaining term is usually between 5 and 8 years. In addition, developers have little room for manoeuvre to reduce prices for new builds due to the sharp rise in construction prices in recent years. For new-build properties in the top 7 cities, the usual gross yield factor is at least one year's rent higher than in locations outside the top 7 cities; at the peak, a difference of three years' rent is not unusual.

Between 2023 and 2024, no significant price differences are discernible in the properties on offer. This is in line with the market estimates of the major estate agents with regard to net initial yields and fits in with the stabilisation of interest rates for mortgage loans.

Property type	Factors DIWG / FIM
Existing food retail	**13 - 18-fold**
Existing retail park	**13 - 17-fold**
Food retail new construction	**17 - 18-fold**
Food retail new construction (top 7 cities)	**18 - 21-fold**

Source: DIWG, FIM Unternehmensgruppe

However, gross profit factors alone are not very meaningful. Other points that play an important role in the pricing of retail properties are the indexation of rents, the quality of the property location, the degree of modernisation of the property, the amount of ancillary costs remaining with the owner and the weighted remaining term of the rental agreements, which we will discuss in more detail below:

Rent indexation
Commercial rental agreements usually contain a so-called value indexation clause, which is based on the consumer price index („CPI"). The topic of rent indexation will be dealt with in more detail later.

Location
The location of a retail property is decisive for its success or failure. Criteria that play a role in this context are the competitive situation, purchasing power, centrality, accessibility and visibility.

Competitive situation
„You can only spend every euro once." This raises the question of where to spend it. If there are too many competitors in the catchment area, the profitability of each individual shop decreases. This is why, for example, there are never several shops of the same type (e.g. discount food stores) in retail parks. However, it is quite possible for several retail parks or stand-alone properties to be located in close proximity. If, for example, there are three discount food stores within a radius of 300 metres, personal preference will determine which shop is chosen for shopping. Low competition therefore tends to be favourable for sales and thus profitability. The situation is different when discounters and full-range retailers coexist, as they are often found in the same property. Here it is more likely that both will benefit from synergy effects. With regard to purchase price factors, it can be observed that properties in rural regions or small municipalities/cities are often traded at higher factors than comparable properties in urban centres. This is due to the low or, ideally, non-existent competition in rural regions and the expectation that no competitors will settle there in the foreseeable future due to the small population.

Purchase power
Purchasing power indicates the per capita income available for consumption purposes. For better comparability, the absolute values are converted into index values. The nationwide index value is 100 points. If the local value is higher, consumers have more money at their disposal; if it is lower, there is correspondingly less money available. Many cities and districts in the south of Germany have a high purchasing power index with values of over 110 or even over 120 points, while some rural regions in eastern Germany are at 80 to 90 points. These regional differences can also be seen in the food retail sector, where many regions with low purchasing power have a dense network of discounters but only a few full-range stores.

Centrality
(Retail) centrality indicates the inflow or outflow of purchasing power in a municipality or region and, like purchasing power, is given as an index value. A high retail centrality rate means that customers from other cities and municipalities spend on retail in the city in question. This applies to cities and municipalities with an above-average number of attractive retail outlets and often a rural hinterland. A low retail centrality rate, on the other hand, indicates that purchasing power is flowing to other cities and municipalities and is therefore not available to the local value chain.

Population development
While some regions in Germany are growing strongly, some rural regions in particular are suffering from a continuing decline in population, which in some cases has taken on dramatic proportions with a drop of 10 % or more over the last 10 years. This has a direct impact on the retail sector, which is losing sales and, in the worst case, profitability as the number of customers declines. This can lead to locations being abandoned, particularly in highly competitive regions, meaning that properties can no longer be let on a sustainable basis.

Accessibility
In the case of grocery shopping, practical considerations usually play a role. Grocery shopping is often done on the way home from work or in connection with other errands. So if the supermarket or discounter is on the way, all the better. The willingness to travel several kilometres to buy groceries is rather low. With this in mind, such shops are often located on major arterial roads. As shopping is usually done on the way home, the location on the side of the road leading out of town is usually more favourable.

Visibility
Good visibility is essential for customers to find the shop. A location on an arterial road is an advantage, as is often the case with retail parks. This means that customers who happen to pass by the location can also be reached.

Put simply, the attractiveness of a location and therefore also the rent level are measured by the sales expectations.

Modernisation level
The cycles in which shop interiors are modernised have become ever shorter in recent decades, particularly in the food retail sector. Shop concepts are constantly being analysed and further developed by operators. Major refurbishments are often combined with (premature) lease extensions. As a rule, the tenant receives a rent-free period or an expansion cost subsidy in return for extending the lease. Properties that match the tenant's current shop design are therefore traded on the market at a corresponding price premium.

„Non-Recs" (operating costs remaining with the owner)
In commercial tenancy law, in contrast to residential tenancy law, there is extensive freedom in the drafting of contracts, particularly with regard to the allocation of operating costs to the tenant. The decisive factor for the profitability of a retail investment is therefore the proportion of operating costs remaining with the landlord. The higher the proportion and the total of non-recoverable operating costs, the lower the return on the property. In the case of well-managed properties with appropriate lease agreements, the proportion of non-recoverable operating costs is around 5 - 7 % of gross profit.

WARLT (weighted average remaining lease term)
The WARLT is the weighted average remaining term of the rental agreements. It is weighted because the absolute rent amount has a significant influence on this indicator. To determine the WARLT, the rent payable from the reporting date to the end of the lease (fixed term, excluding renewal options) is first calculated for each individual tenant. The sum of the rent payments of all tenants up to the end of the contract is then divided by the current annual rent of all tenants, resulting in the average remaining term of the tenancy agreements. Accordingly, higher rents are weighted more heavily than lower rents. The WARLT is one of the key factors in determining the value of retail properties. The higher the WARLT, the higher the gross profit factor tends to be. However, it is important to check the rental agreements for existing special cancellation rights on the part of the tenant („break option").

LETTING MARKET FOR RETAIL PROPERTIES

There are significant differences in the standard market rent between the individual property types. Rents for full-range retailers are higher than those of food discounters, both at the top and on average. In comparison, local shopping centres and, in particular, retail parks achieve significantly lower rents on average and at the top. The reason for this is the higher non-food share among tenants with a generally lower rent level. In particular, tenants from the consumer electronics, fashion and non-food discount store sectors, which are often located in retail parks, pay lower rents on average than tenants from the food sector. The only exception is shoe shops, which have been able to pay significantly higher rents to date due to higher margins.

„Index clauses were invented by retailers and not by property owners."
Lease agreements in the commercial sector are usually structured with a capitalisation clause. The consumer price index usually serves as the basis. In the case of rental agreements for retail space, it is often agreed that the rent will be adjusted if the consumer price index changes by 10 %, although only in very few cases is the percentage increase passed on in full to the rent. In many cases, the rule has become established that if the CPI changes by 10 % („index threshold"), the rent is adjusted by 60 % of the change. This means that landlords only benefit proportionately from the general cost increase. In the long term, this is associated with a proportionate loss in value of the property. This is particularly the case with long leases or options that are still available. The following graph shows how, assuming inflation of 2 % per year with an index threshold of 10 % and a rent adjustment of 60 - 70 %, the absolute difference between the actual cost increase and the rent increase increases over a period of 30 years.

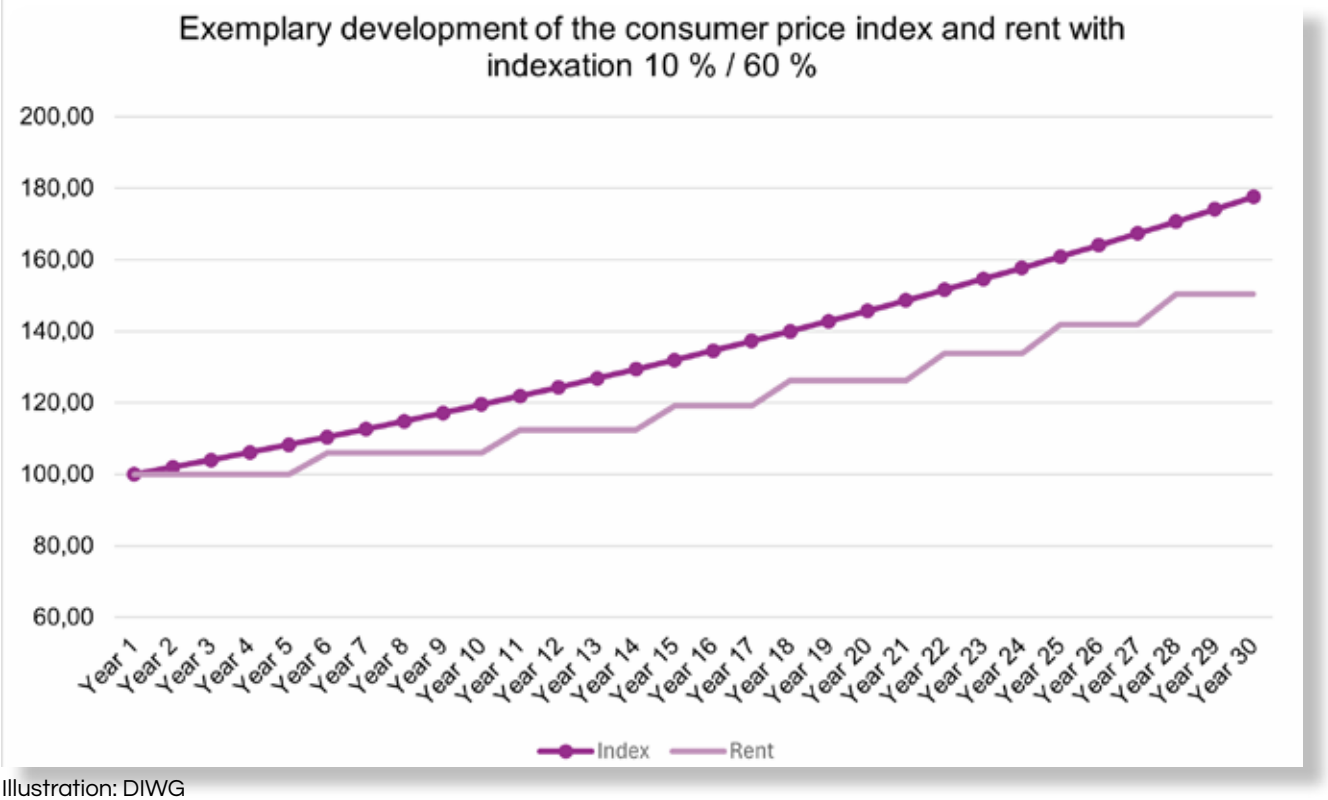
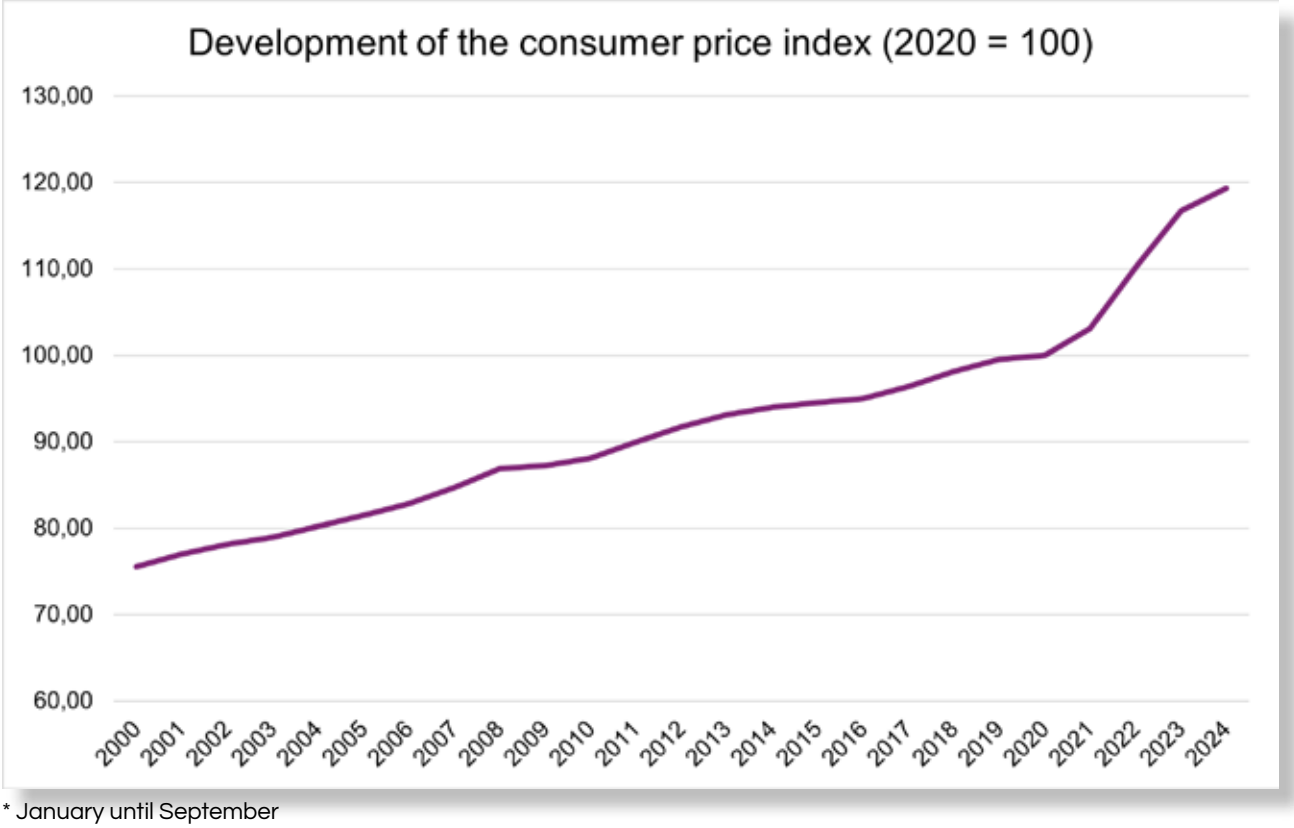


Illustration: DIWG

Until 2020, rent adjustments based on the change in the CPI were the exception rather than the rule due to low inflation. In the period from 2020 to 2023, the consumer price index rose by around 16.7%, which led to rent increases across the board. The largest increase was observed between 2021 and 2023 (index values 2020 = 100; 2021 = 103.1; 2022 = 110.2; 2023 = 116.7). As a result, investments in retail properties have become more expensive and therefore less attractive despite lower gross profit factors, but against the backdrop of the sharp rise in interest rates and higher rents. While tenants in the food sector are generally able to bear the rent increases due to stable sales, tenants in the fashion industry in particular are often forced to renegotiate with landlords due to the tense economic situation and customers' reluctance to spend. As a result, contractually possible rent adjustments are suspended or only partially realised in order to keep the tenant in the property. Renegotiations on rent levels and rent reductions have also become more frequent in recent years, but mainly affect high-priced shops in prime city locations.



* January until September
Source: Federal Statistical Office, illustration DIWG

EXCURSUS: FOOD RETAIL IN GERMANY

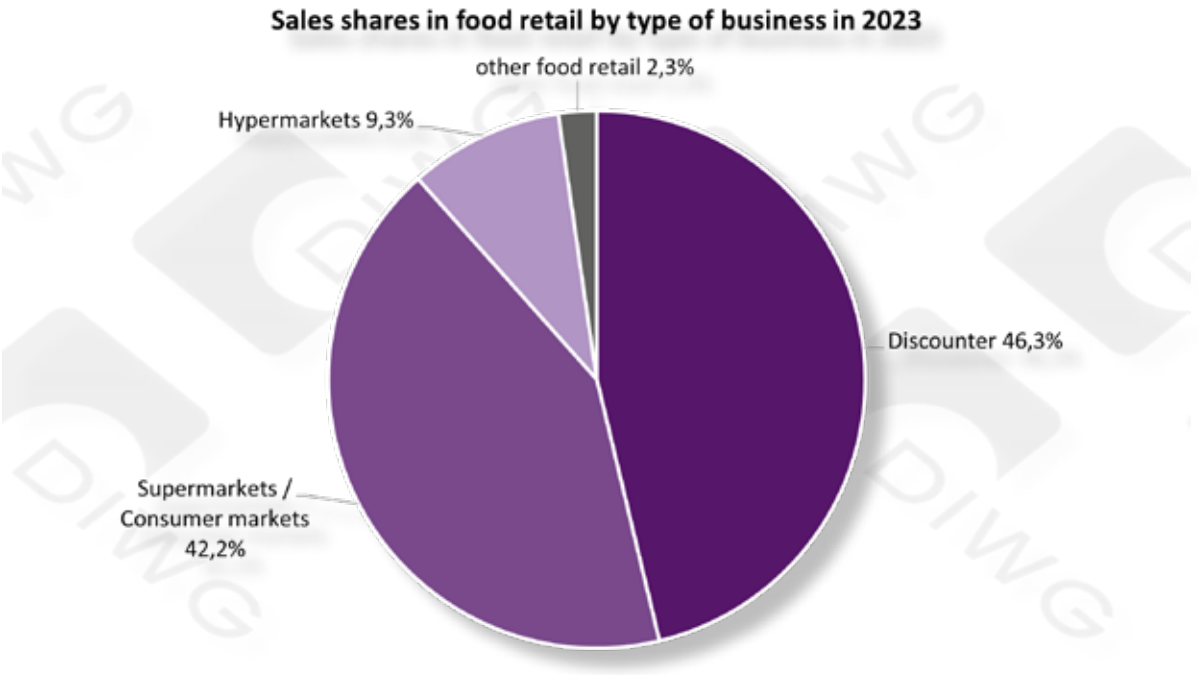
In recent years, DIWG has already published several trend reports on the topic of food discounters and full-range retailers. As the last publication was published some time ago, the following report is intended to provide an updated overview of the market and the most important players.

OPERATING FORMS IN FOOD RETAIL

Food retail in Germany is fundamentally based on three pillars:
1. Discounter
2. Full-range supplier
3. Owner-operated stores.

The full-range retailer segment is again subdivided according to the size of the sales area into
- Supermarkets (sales area > 400 m² to 1.499 m²)
- Consumer markets (sales area 1.500 m² to 4.999 m²)
- Hypermarkets (sales area > 5.000 m²)

Discounters accounted for almost half of food retail sales in 2023 (46.3%), with supermarkets and hypermarkets accounting for a slightly smaller share (42.2%). Hypermarkets only play a relatively minor role with a 9.3% share of sales, as do owner-operated food retailers with a 2.3% share of sales.



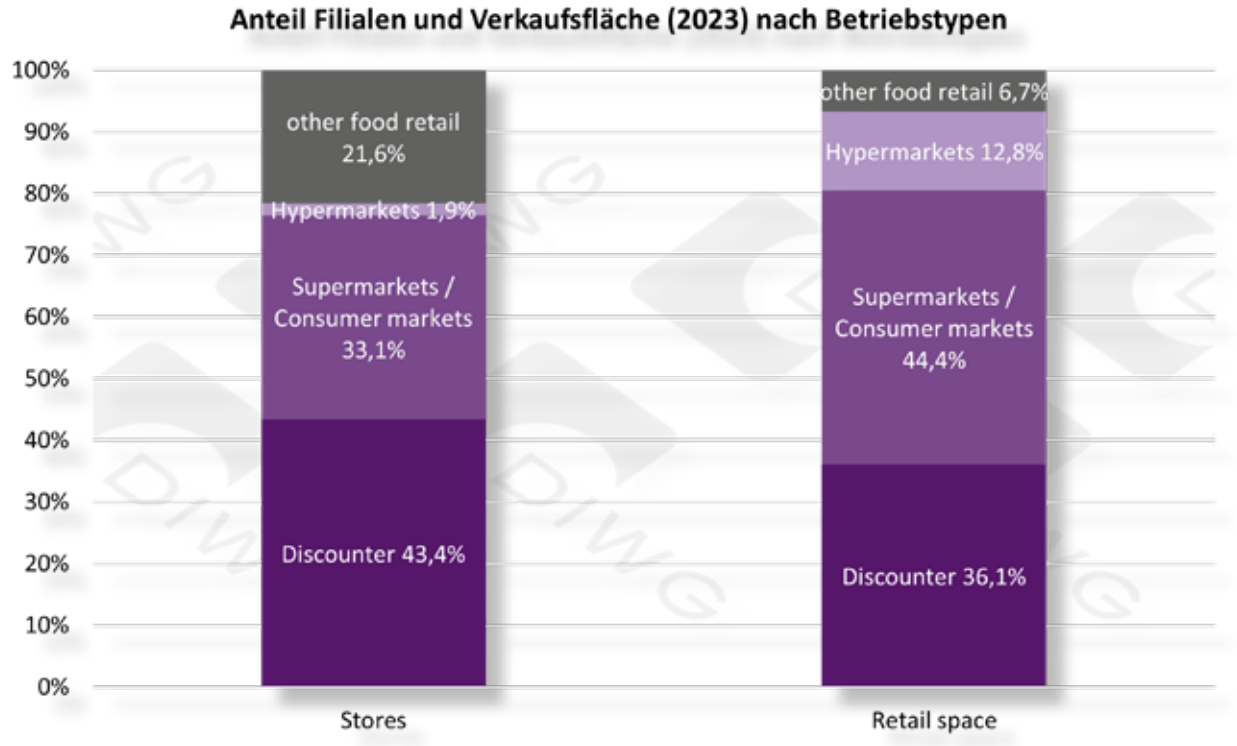
Source: EHI Commercial data, illustration: DIWG

Overall, sales in the food retail sector have risen by around 57.1% since 2009. While supermarkets / hypermarkets recorded above-average growth with sales growth of around 87 %, sales growth at discounters was roughly in line with general sales growth at 57.4 %. Hypermarkets only recorded sales growth of 3.3% between 2009 and 2023 and thus even shrank when adjusted for inflation. The fact that hypermarkets are now struggling to compete is shown by the disappearance of real from the German market after several rescue attempts failed. The remaining competitors Kaufland and Globus are now also shedding individual locations. One problem with hypermarkets is the large proportion of space taken up by non-food ranges, which generate little turnover compared to the food sector and therefore have a negative impact on profitability. The owner-operated food retail sector has shrunk even more, losing around 15.2% of its sales between 2009 and 2023. A slightly different picture emerges when analysing the development in the years 2020 to 2023. Here, discounters recorded the strongest growth with an increase of around 16.6 %, ahead of supermarkets / hypermarkets with 12.1 %. Hypermarkets and owner-operated food retailers each lost 2.1 % of their sales. It is striking that the growth in sales at discounters is almost exclusively attributable to the years 2022 and 2023. High inflation obviously plays a significant role here, meaning that many customers have switched from full-range retailers to discounters. However, it must also be taken into account that a large part of the increase in sales is due to inflation-related price increases and cannot be equated with an increase in profitability. A simple example: During the period under review, turnover increases by 10 %: In the same period, inflation is 15%. Adjusted for inflation, this means a real loss of sales.



© FIM

A different trend can be seen in the number of shops by type of business. Overall, the number of food shops fell by around 8.7 % between 2009 and 2023, meaning that the store network is being streamlined. While the number of outlets at discounters fell by around 0.1 %, the number of supermarkets / hypermarkets increased by 14.6 %. Hypermarkets and owner-operated shops lost approx. 22.6 % and 37.9 % of sales outlets respectively. The trend between 2020 and 2023 is again interesting: while discounters recorded slight growth (+ 0.6 %), all other types of business saw a decline, with hypermarkets experiencing a particularly sharp drop (- 13.2 %).
In terms of sales space, supermarkets / hypermarkets were in first place in 2023 with around 16.6 million m², followed by discounters with 13.5 million m². Hypermarkets play only a minor role with 4.8 million m² together with owner-operated food retailers, which account for 2.5 million m². Overall, sales space across all types of business increased by 36.1 % between 2009 and 2023, which is an indicator of larger stores. While the sales area of supermarkets / hypermarkets increased by 36.1 % more than twice as much as discounters (+ 17.4 %), hypermarkets (- 21.3 %) and owner-operated shops (- 28.6 %) recorded sharp declines.



Source: EHI trade data, illustration: DIWG

The trend that has already begun is expected to continue in the coming years: a streamlining of the store network, particularly in hypermarkets and owner-operated shops, with a simultaneous increase in the average sales area per shop.

THE MOST IMPORTANT PLAYERS ON THE MARKET

The food retail sector has been characterised by numerous market consolidations in recent years. After real recently disappeared from the market following several failed rescue attempts, this fate had already befallen Kaiser's / Tengelmann a few years ago. The following overview provides an overview of the most important chain stores in the food retail sector. Only the most important nationally active companies are listed. However, there are other providers with strong regional roots, such as Hit, Globus, tegut, Sky and Wasgau.

Company	Full-range supplier	Discounter
Edeka-Group	**Edeka Marktkauf**	**Netto Marken-Discount NP-Markt Diska**
Rewe-Group	**Rewe Nahkauf**	**Penny**
Schwarz-Group	**Kaufland**	**Lidl**
Aldi-Group		**Aldi Nord Aldi Süd**
Norma		**Norma**

Source: DIWG

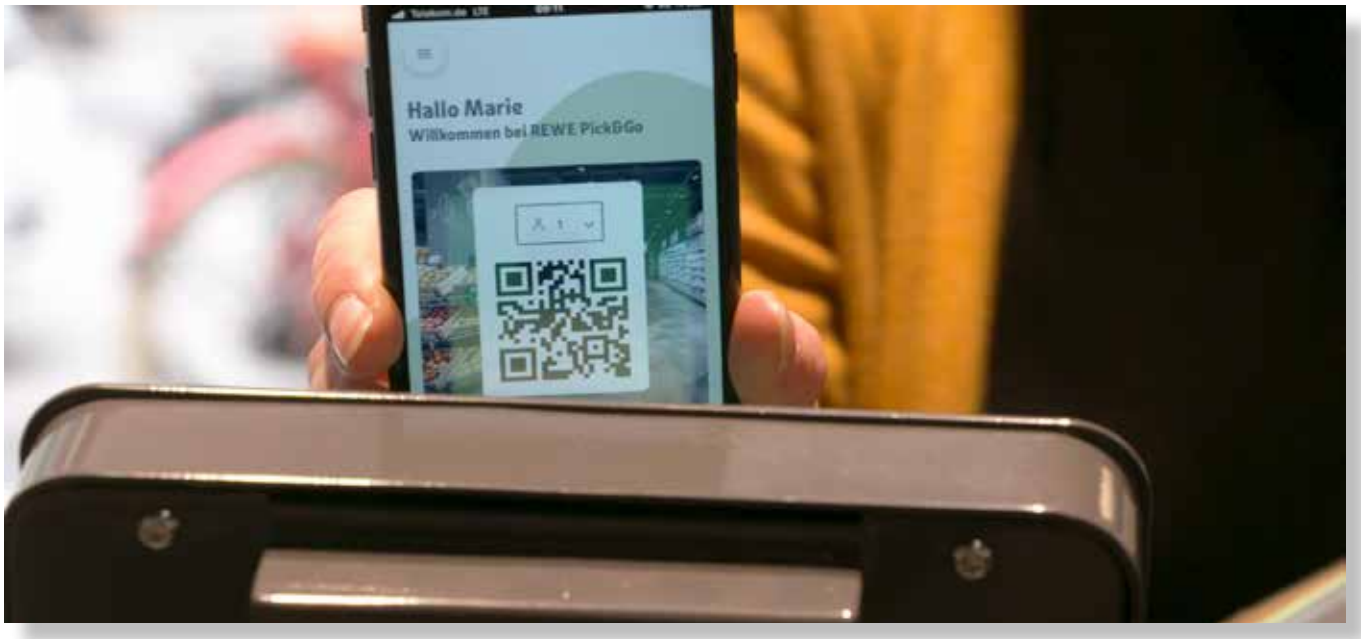
With the exception of Aldi and Norma, which focus exclusively on the discount segment, all other companies have sales divisions in the discounter and full-range segments. At Edeka and Rewe in particular, the sales divisions in the full-range segment are further subdivided, mainly according to the size of the stores or affiliation to a regional company. Edeka alone is currently represented by 13 different sales divisions in the full-range sector (e.g. E-Center, Edeka Aktiv Markt, nah & gut).

TRENDS IN FOOD RETAIL

Retail companies are constantly endeavouring to make the shopping experience more attractive through innovation and to set themselves apart from the competition in this way. The cycles in which shops are modernised have become significantly shorter in recent decades. However, technical innovations are also increasingly finding their way into discounters and supermarkets.

PICK & GO

One concept that Rewe and Netto have been trialling in selected stores for around two years is „Pick & Go". As the name suggests, customers in these stores take the goods from the shelves and leave the store after shopping - without a till. Payment is made automatically via an app, which must be downloaded before shopping. During shopping, countless cameras above the shelves and in the aisles record which products the customer places in the shopping trolley. The system is supported by scales on the shelves which, in addition to the cameras, record which product and how many the customer has taken from the shelf. When the customer leaves the store, payment is made by credit card or mobile phone. In practice, the concept is unfortunately still quite error-prone, so that in the end the products paid for do not always match the products actually taken. The technology reaches its limits in particular when goods are first removed from the shelf and then put back, especially if the returned products are not put back on the correct shelf. In addition, the technical and therefore financial costs are immense, as all shelves have to be equipped with cameras and scales. It is therefore questionable whether the technology will become widely accepted in the future.



Source: Rewe

SCAN & GO

Rewe has also been trialling the „Scan & Go“ concept for some time. Customers take a scanning device with them at the entrance and scan all products before placing them in the shopping trolley. Alternatively, scanning can also be done using the Rewe app. At the end of the shopping trip, payment still has to be made at an express checkout, but the purchases no longer have to be placed on the checkout conveyor belt, which saves a considerable amount of time. The technical effort involved is significantly less than with Pick & Go. However, the retailer must also rely on the honesty of the customer. The risk that not all products taken away will be scanned appears to be higher than with „classic“ shopping with staff at the checkout.



SELF CHECK-OUT / SELF-SCAN CASH REGISTERS

After full-range retailers have been increasingly using self-scan checkouts for several years, discounters are now also following suit. Aldi Süd in particular has now converted some shops accordingly. The concept is still very similar to traditional shopping, with the difference that customers scan the products themselves and then pay in cash, by card or smartphone. While the operators argue that this is a modern and innovative shopping experience for the customer, the real reason is more likely to be the general shortage of staff and labour costs. The self-scan checkouts are usually located in a separate checkout zone with 4 to 10 checkouts, which are managed by one employee. In fact, a staff ratio of 1 to 4 to 1 to 10 is required compared to 1 to 1 at a conventional checkout. Nevertheless, there is still a higher risk that customers will not scan all the products they have purchased, especially as the supervising employee cannot keep an eye on all the tills at the same time during busy periods. In addition, self-scan checkouts are more suitable for small purchases, for example during lunch breaks. As long as this shopping option is offered as a supplement to conventional checkouts, both customers and retailers will benefit. The customer saves waiting time and the retailer can deploy its staff elsewhere. The problem arises when customers are forced to scan their purchases themselves due to a lack of alternatives. Aldi Süd, for example, has remodelled individual shops so that there is only one conventional checkout, which is often not manned in practice. Customers therefore have no choice but to scan their purchases themselves. This is a hurdle for older people who are less tech-savvy, as well as for bulk purchases at the weekend. Products without barcodes, such as unpackaged fruit and vegetables or baked goods, also lead to delays at the self-scanning checkouts.

DELIVERY SERVICE

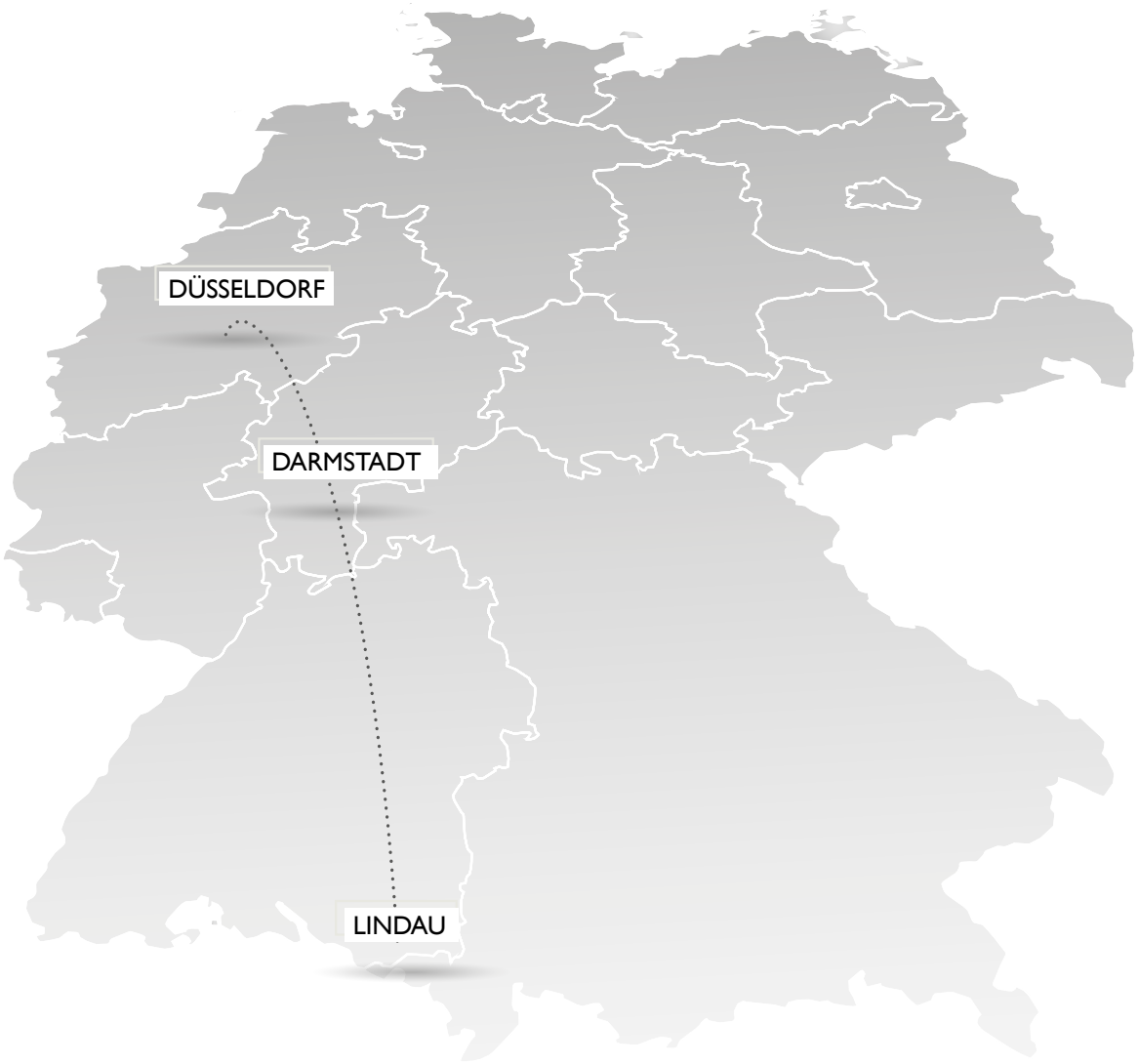
The delivery service for food has been an area of retail for several years in which many players have tried and mostly failed. At the discounters, delivery services still only play a minor role. At Aldi, the range is limited to non-food items. Its competitor Netto Marken-Discount also has a very limited range of food products, but mainly long-life products that do not require refrigeration. The full-range retailers are somewhat more present, with Rewe being the only competitor with a centrally organised delivery service. At Edeka, on the other hand, the delivery service is offered by individual retailers. Providers that have specialised exclusively in delivery services without maintaining their own store network take a completely different approach. The Dutch provider PicNic has been on the German market since 2018 and is active in 45 cities in North Rhine-Westphalia. Since 2023, the delivery area has also been expanded to include Berlin, Bremen, Hamburg and the Rhine-Main region. The minimum order value has been raised in several steps from an initial €25 to €60, which shows how tense the competitive and earnings situation is in the food retail sector. While PicNic has been on the market for several years now, delivery services such as Flink, Gorillas and Getir have already disappeared from the market or have failed to gain any significant market share. The basic problem with delivery services that are independent of the large retail chains is the cost side. Due to the small quantities purchased from manufacturers, delivery services are usually unable to offer consumers such low prices compared to supermarkets, which is a real competitive disadvantage, especially in a price-sensitive country like Germany. Added to this are the high costs associated with setting up a delivery infrastructure. In addition to storage space in close proximity to the customer, delivery vehicles and an IT infrastructure are required. Even if, as with Flink, deliveries are made using e-bikes and the jobs are in the low-wage sector, this model leaves hardly any profit margins overall.

OUTLOOK

The price spiral in the property sector, which lasted until 2021 and was fuelled by low interest rates, led to steadily rising property prices and a partly overheated investment market for years. The sharp rise in interest rates has brought this trend to an abrupt end since 2022. The price correction since then has led to gross yield factors and yields stabilising at a moderate level again. The price corrections have essentially been completed since 2023.

The short and medium-term development depends crucially on the cost of mortgage loans. Although the European Central Bank has lowered the key interest rate after peaking at 4.0 % in September 2023, it has now lowered it again to 2.75%, this has not yet had a lasting effect on mortgage rates. Mortgage interest rates are also based on government bond interest rates and inflation expectations. Lower mortgage rates can only be expected once these parameters have also been significantly reduced.

In the property investment market, there have been significant shifts in investment volumes in terms of asset classes in recent years, particularly since the coronavirus pandemic. Residential properties and retail properties with anchor tenants from the food sector are among the safest asset classes in terms of risk profile. In the case of office properties, the shift towards more home offices has led to a decline in demand for the corresponding space, resulting in an increased investment risk. In the medium term, demand for residential and retail property is expected to remain stable or increase slightly, while demand for office property is likely to decline further. With regard to the food retail sector, evolution rather than revolution has been recognisable in recent years. The topic of shop design and the shopping experience has gained in importance, and most discounters have now also put unadorned shop design to one side. Whether innovations such as „Pick & Go“ will prevail in the long term depends crucially on the reliability of the technology and therefore customer acceptance. In any case, the high investment costs are a major hurdle. When it comes to delivery services, on the other hand, the food retail sector is not really gaining momentum. Here, consumers‘ price sensitivity is proving to be a real barrier to market entry. While online retail is now firmly established in the fashion and consumer electronics sectors, customers clearly still prefer to do their grocery shopping themselves.


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