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**Resilience in consumer grocery spending increases investor appetite in European grocery real estate**

**New report from JLL & Union Investment highlights growing grocery real estate market, with the share of European grocery real estate investment as a proportion of total retail real estate investment reaching 22% in 2020, up from 6% in 2016.**

The European grocery real estate market has remained resilient in the face of economic uncertainty, as the COVID-19 pandemic provided new opportunities for growth and increased investor appetite. According to *‘*[*The European Grocery Real Estate Market*](https://ui-link.de/groceryreport)*’ a new* report, by JLL and Union Investment, the grocery real estate market, which attracted €6.7bn of the capital flows targeting retail real estate in 2020, is set to continue to flourish through 2021.

The report findings show that real estate investors have historically under-allocated capital towards grocery real estate assets, accounting for only 10% of Europe’s overall retail investment volumes, on average, between 2014 and 2020. In comparison, grocery stores have attracted 37% of the total retail consumption in the EU (27 countries) in 2020.

The sector’s resilience during the pandemic has led net initial yields for quality grocery stock in Europe’s key retail markets continuing to see compression, demonstrating increased investor appetite.

**Although there is still uncertainty around the long-term implications of the pandemic, the report seeks to identify longer term trends that will affect the grocery real estate market:**

* **Despite growth in online food sales through the pandemic this rate of growth post pandemic is expected to slow.** We see retailers embracing both online and bricks and mortar retail opportunities. Low profit margins will not sustain widespread online sales and retailers continue to invest in their physical stores, enhancing the shopping experience and in some cases using physical stores as distribution hubs for online sales.
* **Grocery anchored real estate investment has shown itself to be one of the most resilient parts of the retail investment environment.** The comparative recent performance of food retailers compared to, for example, fashion and the strength of grocer covenants has reinforced the attractiveness of the grocery anchored real estate sector through the pandemic. The sector is able to offer both core long term income for more risk adverse investors as well as more value add product where shorter leases and older assets are put to the market.
* **Rising investor interest in supermarkets and grocery-anchored real estate.** Average grocery investment in Europe has been reasonably consistent year on year at approximately €4.5bn annually over the last 6 years but grew by over 40% to approximately €6.7bn in 2020 compared to 2019.
* **Growing urban populations are set to create opportunities for well-connected grocery stores.** Despite the pandemic, employment opportunities and social considerations will continue to drive migration to cities, with urban populations across Europe expected to rise 3.4% by 2035 (3.7% including UK). This means that well-connected grocery stores within growing conurbation can attract new customers and offset periods of weak GDP growth. Developers are also increasingly looking to transform some larger stand-alone sites into urban logistics hubs. Among the key grocery markets, urban population growth by 2035 is forecast to be strongest in Sweden (+14.7%), the Netherlands (+8.4%) and France (+8.3%).
* **Changes in customer preferences will be the key drivers of grocery consumption with sustainability, affordability and quality leading the charge.** The overall revenue growth of the grocery sector is heavily tied to consumers’ purchasing power and therefore a change in customer preferences will require continual assessment of current store portfolios. Changing shopping preferences driven by demographics, changing work patterns, technology and sustainability will all be key drivers for floor productivity for the various grocery store formats. Adaptability will be key for the grocery sector to quickly pivot in response to these changing preferences.

**Mike Bellhouse, Director, Head of Retail Investment, International Capital Markets, JLL, said:** “The European grocery real estate market is proving itself to be a secure and defensive sub-sector within the wider retail investment market. Over the years, it has been among the most stable commercial real estate asset classes in Europe in terms of pricing. Despite an uncertain economic environment and pressure from online retail, well-located food stores remain an irreplaceable part of the food distribution process and the European grocery real estate sector continues to attract investors looking for longer and more secure income streams.”

**Henrike Waldburg, Head of Investment Management Global, Union Investment, said:** “Despite a sharp rise in demand for home deliveries, physical stores continue to fulfil an irreplaceable role in the food distribution process, supporting both in-store and online grocery sales. While many grocery retailers increased their investments in strengthening their online capabilities and infrastructure, growing conurbations are set to increase demand for physical stores in urban areas which will offset shifts in retail spending.”

**For more information, visit** [**https://ui-link.de/groceryreport**](https://ui-link.de/groceryreport)**.**

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