
U.S. Grocery Tracker 2019



Grocery expansion

was back on the rise in 2018

Grocers are focused on customer convenience and are working to create seamless shopping experiences by investing in autonomous vehicle delivery, new distribution networks to speed up delivery times and smaller, more curated stores.



Grocery expansion was up in 2018

Grocery openings were up 29.4 percent in 2018, with over 17.0 million square feet of new stores across the U.S. Florida welcomed the largest share of new grocery space in the country, making up 9.7 percent of the total. New Publix stores helped Florida's growth and will likely continue to boost the state's numbers in the future. The grocer recently announced that it will be expanding its headquarters in Lakeland, FL.

California and Texas each accounted for 7.8 percent of total new grocery square footage. California growth was boosted by Sprouts Farmers Market and Aldi expansions, as well as Grocery Outlet and Smart & Final. Texas also benefited from Aldi's expansion, as well as Kroger and the state-favorite H-E-B.

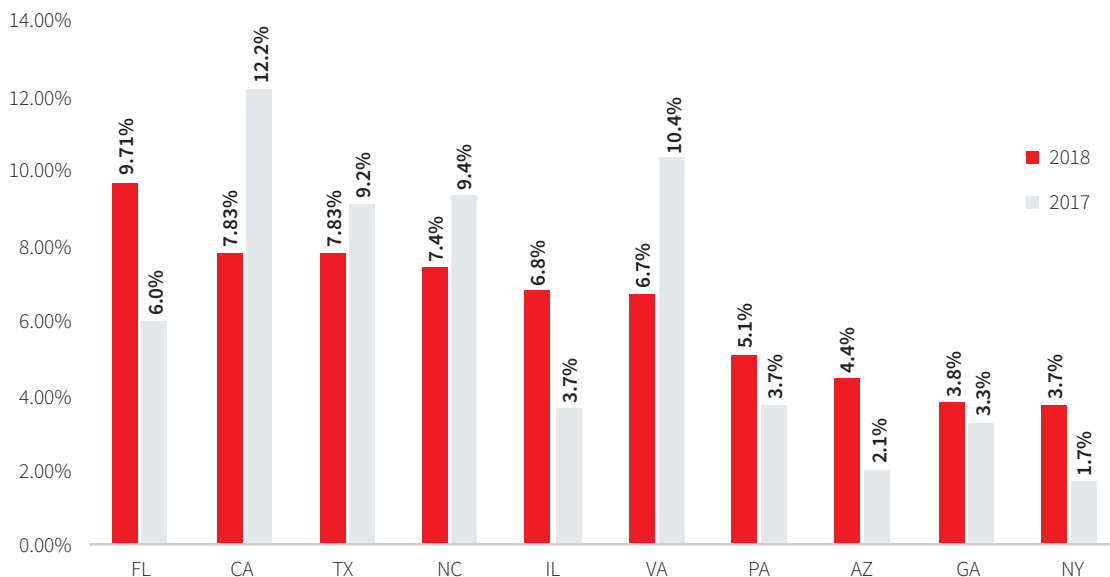


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Much like 2017, Aldi saw another year of strong growth. The small-format grocer opened 82 stores that accounted for 15.6 percent of all new grocery square footage in the U.S. Sprouts also continued growing at a fast pace, with 30 stores in 2018 and plans for another 30 in 2019.

Lidl adjusted its real estate strategy in 2018 and opened stores at a more cautious pace. After opening its first U.S. store in 2017, Lidl opened another 50 that year. In contrast, 2018 saw only 15 new stores, five of which were in Virginia. Lidl has announced plans to buy 27 Best Market stores in New York and New Jersey, furthering its East Coast footprint.

Percentage of total new grocery square footage



Top grocery assets remain a bright spot in retail investment sales

Investment in grocery real estate totaled \$9.9 billion in 2018. While this is down significantly year-over-year, grocery remains a bright spot in the retail investment world. Investor appetite for grocery product remains elevated, with top grocery seeing aggressive pricing. Investors are looking for retail sectors that are reinventing themselves to stay ahead of changing consumer preferences, and grocery fits that criteria. Grocery is also a necessity-based industry that investors see as able to weather the wave of retail closures.

While single-asset grocery transactions have declined 5.8 percent since 2016, the average price per square foot has increased by 7.8 percent across the U.S. In primary markets, the average price per square foot has increased by 9.5 percent over the past two years. The grocery market is bifurcated between underperforming assets in non-core locations, often anchored by non-commodity grocers, and strong assets in primary market, highly trafficked locations with national and regional grocers. These best-in-market grocery transactions were rare to market in 2018 but fetched premium pricing and saw aggressive buyer pools.

Tightening underwriting standards keeps grocery deals desired but slow to close. Grocery cap rates saw some softening at year-end 2018, increasing 11 basis points from 2017. However, this can be attributed to the lower number of Trophy and Class A grocery-anchored center deals on the market last year. Despite this, assets like Safeway-anchored Diamond Heights Shopping Center in San Francisco achieved cap rates near 4.0 percent, with pricing at \$635 per square foot for best-of-best grocery locations. We anticipate an uptick in these types of deals in 2019 as REITs continue to dispose of some neighborhood and community centers.

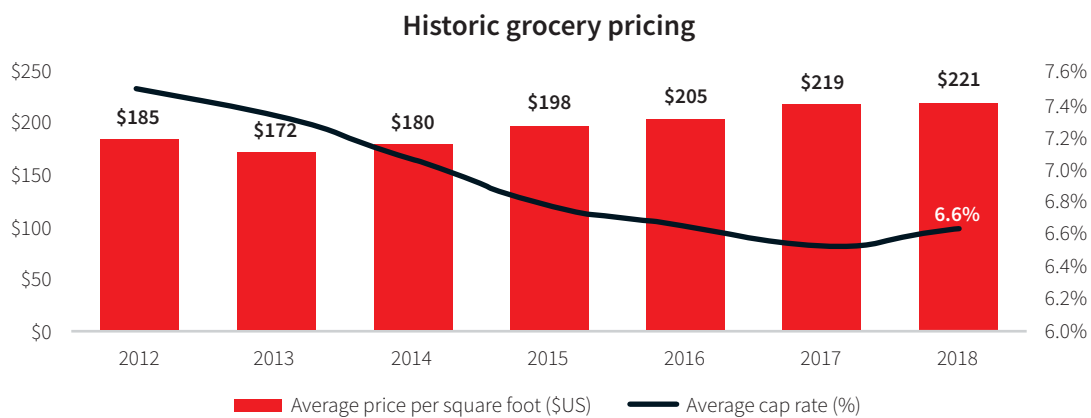


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Investing in convenience and flexibility

2018 grocery trends are all about shopper experience—both online and in store. Grocers are making investments to impact the shopping experience by providing the consumer with flexible and reliable choices. These include trials of autonomous grocery delivery, micro-distribution centers and smaller, curated stores.



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Robots will deliver your groceries sooner than you think

Grocers are investing heavily into driverless technology and experimenting with autonomous grocery delivery. Kroger was an early pioneer of the technology and has been working with Nuro on a trial in Scottsdale, AZ. The small autonomous vehicle drives to a customer's home, prompts the consumer to enter a unique code and then opens a compartment revealing the shopper's groceries.

Walmart has partnered with Waymo, the self-driving technology company owned by Alphabet; Stop & Shop is planning to pilot driverless grocery delivery with Robomart in the Boston area; and Udelv has been working with Farmstead, an online grocer that primarily serves the Bay Area—all to test autonomous vehicle grocery delivery.

Kroger leads innovation on many fronts

Kroger has been at the forefront of grocery innovation for years.

- **Kroger Edge**—digital shelf labels that make it easier for customers to navigate and find products in store. Kroger has partnered with Microsoft to focus on this type of IoT (internet of things) technology.
- **Restock Kroger**—utilizes shopper data to optimize store experience through pricing, personalized communications and product assortment.
- **Zero Hunger | Zero Waste Innovation Fund**—a program that looks for emerging technologies and solutions focused on food waste prevention and recycling.
- **Home Chef expansion**—500 additional Kroger stores will have Kroger's Home Chef meal kits this year. The meal kit line also launched a customizable feature that allows online shoppers to tailor their kits.
- **Automated warehouses**—partnering with British e-grocer Ocado, Kroger will build out an automated warehouse to improve delivery speeds. The companies have plans for about 20 of these facilities in locations across the country over the next several years.
- **Kroger Express**—mini-Kroger's inside Walgreens with more than 2,000 items including Home Chef meal kits. The companies will test the concept in 13 locations.
- **Kroger Pay**—a mobile payment platform that combines shoppers' payment information and promotions through the Kroger app.



Grocers ensure speedy delivery with new distribution centers

To keep up with the demand of grocery delivery and click-and-collect programs, grocers are building new fulfillment centers. Giant Foods opened its first e-commerce pickup and fulfillment hub in Lancaster, PA, in February called “Giant Direct, Powered by Peapod.” This new facility will have dedicated click-and-collect lanes for drivers and a walk-up area where shoppers can place orders on the spot. The e-commerce facility will also be able to handle more grocery deliveries, reaching 40.0 percent more customers than the original store this facility replaced, according to Giant.

Kroger is partnering with Ocado, the British e-grocer, to build out high-tech, automated warehouses across the country. The first will be in the Cincinnati area near Kroger headquarters, and the next two will be in Central Florida and the Mid-Atlantic region. The warehouses will cost an estimated \$55.0 million and will have robotics that can fulfill online grocery orders.

Ahold Delhaize, the grocery group that owns Giant Food and Stop & Shop, is testing small-scale fulfillment centers attached to existing stores. These micro-fulfillment centers help reduce last mile costs by locating closer to the customer.

Albertsons is piloting a similar concept by partnering with Takeoff, a tech company that works to automate warehouses for grocers, to utilize robot-powered technology in mini-warehouses. Walmart also has a 20,000-square-foot automated micro-fulfillment center next to a supercenter in Salem, NH.

Smaller stores carry big appeal

Many shoppers make short, frequent trips to the grocery store for items needed that day. Shorter trips are best served by smaller stores that are easier to navigate. Grocers are responding by building smaller stores and focusing on local offerings that appeal to the community.

Giant Food recently opened its first Giant Heirloom Market in Philadelphia and has plans to open three additional stores in the city in 2019. Heirloom Market is 9,500 square feet and has a produce chef preparing fresh fruits and vegetables daily, kombucha on tap and a craft-your-own olive oil stand. The store also carries locally sourced goods. Heirloom Markets provide “endless aisle” technology that allows shoppers to order products that aren’t available in the store for next-day delivery through Peapod. This gives shoppers the ease of shopping in a smaller store and access to the larger Giant Food network.

Hy-Vee Fast & Fresh opened in Iowa with 10,000 square feet. This store is the second of Hy-Vee’s smaller-format stores. The first was HealthMarket, a store targeting health and fitness consumers that opened in Des Moines in the summer of 2018. It has a full-service pharmacy, a health clinic and a sports nutrition area. Meijer has Bridge Street Market, which operates at about 37,000 square feet, significantly smaller than a typical 200,000-square-foot Meijer store.

Publix opened its first GreenWise Market in Tallahassee in October 2018. GreenWise has a large selection of prepared foods, craft beer and a lounge. GreenWise Markets are about 29,000 square feet. Four additional GreenWise Markets are scheduled to open in 2019, with two more in the pipeline.

Amazon Go, at an average of 2,000 square feet, opened 10 locations across the country after debuting in Seattle in 2018. These small-format stores operate more as convenience stores but do provide prepared foods, meal kits and a few grocery items specifically designed for quick entry and exit.



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Kombucha fountains, craft beer and beauty boutiques

Grocers are curating stores to appeal to some of the latest trends in F&B, which include craft beers, kombucha and DIY kiosks.

- **Hy-Vee** has opened four in-store Wahlburgers, the fast-casual burger restaurants, with the plan to operate a total of 26. Hy-Vee has also partnered with beauty retailer Basin that has opened 16 boutiques in existing grocery stores.
- **Winn-Dixie** opened a tap room in its Neptune Beach, FL, location.
- **Stop & Shop** invested \$70.0 million in the transformation of 21 stores around Hartford, CT. The newly renovated stores have in-store smokers, a focus on local produce, kombucha fountains, DIY stations for olive oil and vinegars and an informational craft beer kiosk.
- **Wegmans** opened its first New York City store at the Brooklyn Navy Yard in February that has an in-store café with a full bar with food, wine, beer and spirits.

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