

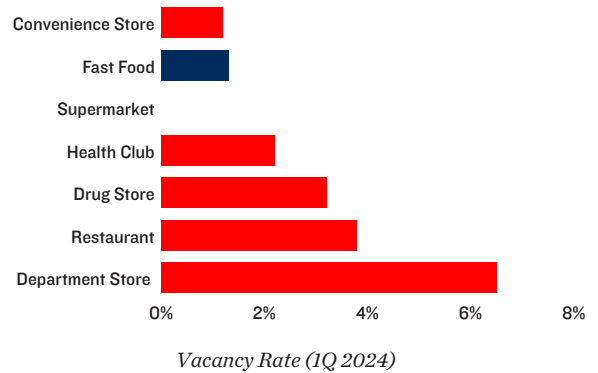
### Legal Challenge Puts Landmark Merger in Question; Grocery-Anchored Centers Well-Positioned for Consumer Trends

**Historic conditions support optimistic outlook.** As the second half of 2024 approaches, the grocery sector's purveyance of consumer necessities continues to provide strength, even as concerns arise from consolidation and increasing competition from discount retailers and superstores. Grocery store spending in each of the past 23 months through March accounted for 24 percent of all store-based retail sales, which exclude purchases made online and at restaurants and bars. This consistency is facilitating standout property metrics, with vacancy in the low-2 percent band and average asking rent nearing its prior peak. Recent food inflation has been concentrated in restaurants, which if it continues, should help maintain groceries as a focal point for consumers and keep foot traffic consistent. These dynamics will benefit owners of net-leased grocery stores and supermarket-anchored shopping centers when executing renewals or attempting to lease available space.

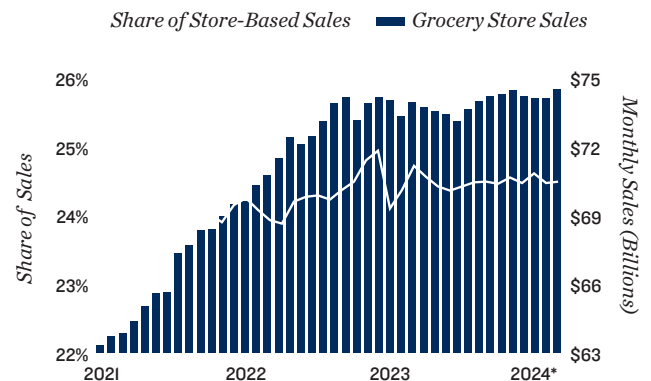
**Headline-grabbing merger deemed anticompetitive.** In late February, the Federal Trade Commission sued to block the proposed Kroger-Albertsons merger, with the first preliminary hearing set for August 26. The suit is challenging the two chains' plans to assemble nearly 5,000 stores under one ownership umbrella, claiming the deal would raise prices for essential items and alter grocer competition. The hearing is a welcomed proceeding for shopping center owners that lease space to one of the 500-plus stores slated for divestiture to C&S Wholesale Grocers. Still, the merger is far from blocked, with Microsoft's acquisition of Activision Blizzard, following a FTC hearing last year, serving as a cautionary tale.

**Dual grocers execute Southeast acquisitions.** While the Kroger-Albertsons merger has been challenged, several other consolidations have closed this spring. Most notably, Aldi completed its acquisition of Southeastern Grocers Inc., the parent company of Winn-Dixie and Harveys Supermarkets. Per the company, approximately 50 of the roughly 400 stores across the two chains will be converted to Aldi, with the others continuing to operate under their current banners. Also focused on southeast expansion, Grocery Outlet acquired discount retailer United Grocery Outlet, which operated 40 stores and a distribution center. Under both mergers, shopping center owners with stores not slated for conversion will see their circumstances adjust nominally, apart from operational changes. Meanwhile, owners with stores pinned for conversion will see the credit quality of their grocery tenants improve.

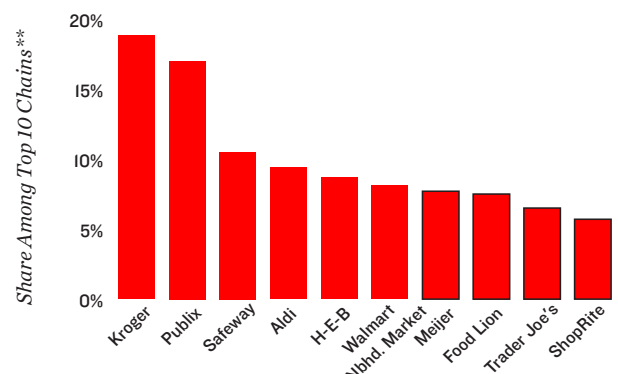
#### Grocery Sector a Single-Tenant Standout



#### Supermarkets Feed Brick-and-Mortar Sales

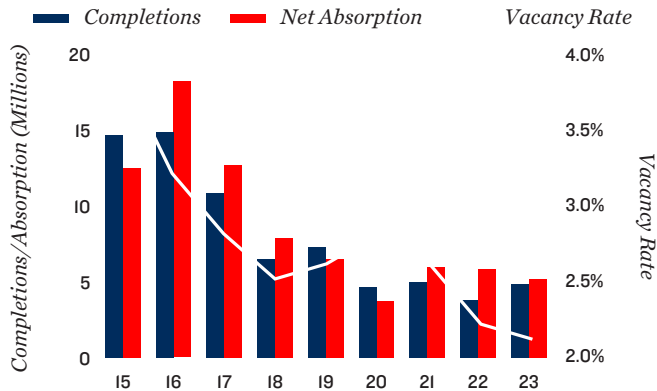


#### Most Visited Pure Play Grocery Chains

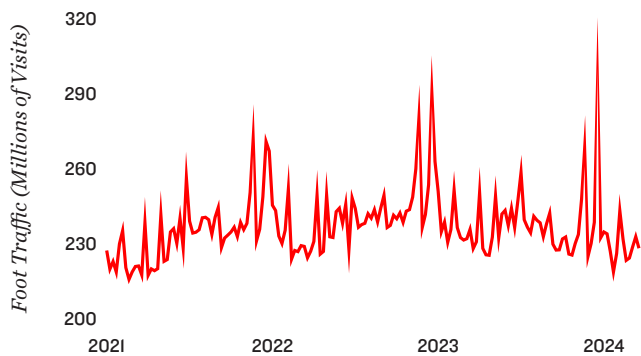


\* Through March  
 \*\* Ten most-visited chains together comprised nearly 43 percent of total grocery visits in 2023  
 Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; U.S. Census Bureau

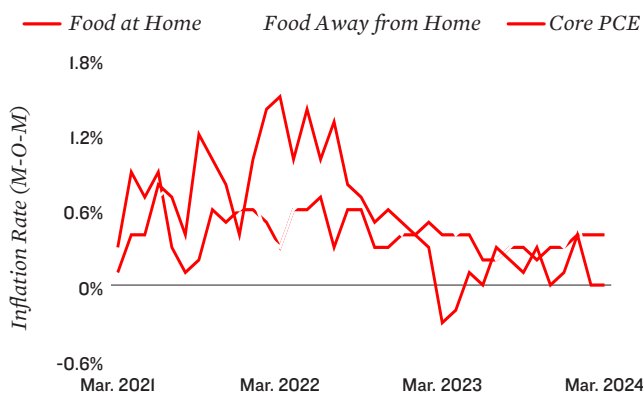
Grocery Sector Supply and Demand



Annual Grocery Store Foot Traffic Stable



Grocery-Related Inflation Shifts Course



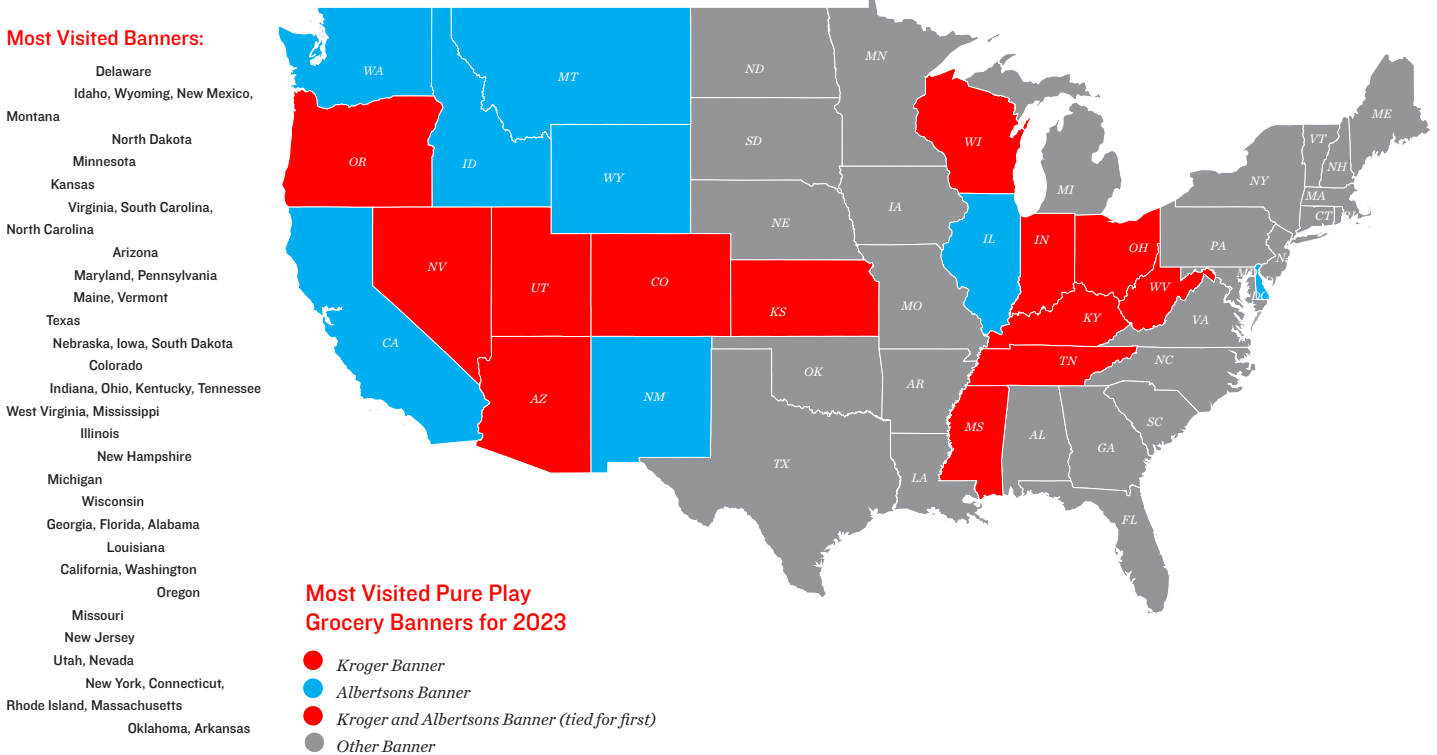
Broader Trends Shape Competition

**Pure-play grocers contend with other retailers for market share.** Inflation and household budget tightening continue to shape consumers' behavior, with recent surveys revealing more than half of all individuals hunt for deals as a popular cost-cutting strategy, and another cohort buying in bulk more frequently. These findings appear to benefit not only discount grocers, but also superstores and dollar stores. As such, some chains that operate in the latter group are increasing their food offerings, increasing competition for nearby supermarkets. This January, Dollar General announced it was offering fresh produce options in more than 5,000 of its stores, with Dollar Tree recently disclosing that its sales mix has been shifting more toward consumables. Still, the impact of dollar stores on overall competition may be reaching its limit, with the upcoming closure of all 99 Cents Only Stores and 1,000 Family Dollar locations potentially creating an opportunity for expanding grocers to reach new consumer bases.

**In-person shopping widespread.** After registering exponential growth at the onset of the pandemic and becoming a staple of many consumers' shopping routines in the year-plus to follow, the online grocery market has edged down. In 2023, sales declined by 2 percent on a year-over-year basis amid a pullback in both order frequency and value — with 14 percent of all grocery-related spending taking place online. Early data from this year points to this trend continuing, with online grocery sales down nearly 11 percent in February when compared to the same month in 2023. This dynamic bodes well for patronage at brick-and-mortar grocers following a three-year span in which visitations were generally stable, with average weekly foot traffic per year ranging from 232 to 240 million people.

**Success of new store prototypes may inspire other grocery chains.** Mirroring initiatives by big-box retailers, including Macy's, Bloomingdale's and Ikea, some supermarkets are launching small-store formats with the goal of catering to specific customer bases. Geared toward urban residents seeking quick shopping trips, Whole Foods will debut its Market Daily Shop in New York City later this year, with plans to expand the 7,000- to 14,000-square-foot store model to other cities nationwide. Trader Joe's has already launched its smaller format in New York's Union Square this year. Dubbed Pronto, the 2,800-square-foot shop centers around a grab-pay-and-go concept. While not as drastic, and likely driven by operating costs, Sprouts Farmers Market's future expansion will be accomplished via a new store model that is roughly 25 percent smaller than its existing locations. Southeast staple Publix, meanwhile, is going the opposite direction. The regional grocer is shelving its GreenWise stores, which are 25,000 square feet in scope, in favor of a larger prototype that can accommodate more food-service items, upstairs and outdoor seating, and an adjacent Publix Liquors.

## Regionality Apparent Across the Grocery Industry

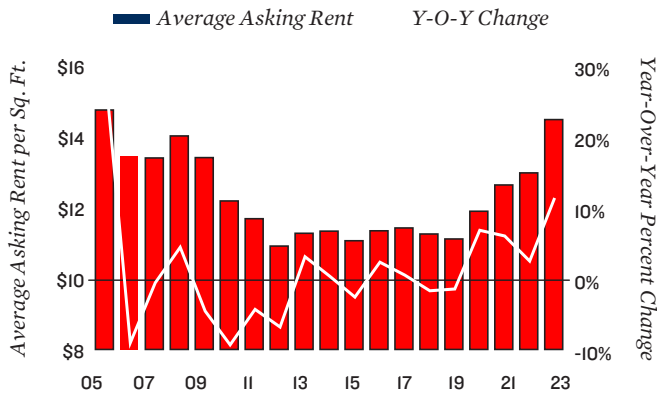


GROCER	EXPANSION PLANS
Aldi	Add 800 stores nationwide by the end of 2028
Publix	Construction underway on at least seven stores as of April (opened a dozen locations in 1Q)
H-E-B	Underway or expected to break ground on multiple stores in both Dallas-Fort Worth and Austin
Hy-Vee	Break ground on stores in Indiana, Tennessee, Alabama and Kentucky in 2024, along with a distribution center in Nashville
Grocery Outlet	Open 55 to 60 stores in fiscal year 2024
Sprouts Farmers Market	Open 35 stores in 2024
Trader Joe's	Open at least 17 stores across 12 states in 2024
Whole Foods	Add at least 100 new locations
Fry's Food Stores	Open four stores in Arizona during 2024

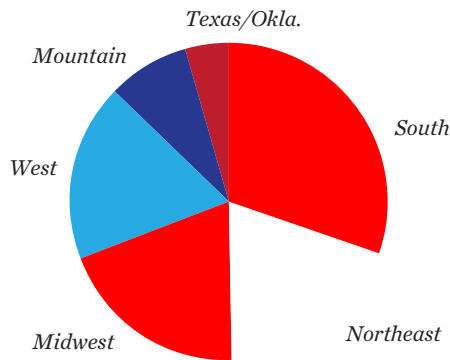
**Supply-demand dichotomy facilitates leasing.** The 2.8 million square feet of grocery space slated for delivery this year — the lowest total since at least 2000 — and the sector’s modest planned pipeline indicate many grocer expansions will be accomplished through backfilling existing spaces. This activity may be most visible in West Coast and Mountain markets, where completions are sparse in 2024. Leasing, however, should be noticeable across all zones as no region adds more than 1 million square feet. Grocers that pass on expanding their store counts may renovate their existing stores instead. Food Lion and Stop & Shop are among the chains actively upgrading their locations, with Lidl incorporating outdoor garden centers to 75 of its stores this spring. Together, these growth dynamics will benefit shopping center owners with available anchor space or tenant rosters that include these chains.

Note: The most visited banners in Alaska and Hawaii were Fred Meyer and Safeway, respectively.  
 Sources: Placer.ai; Supermarket News; Winsight Grocery Business

### Grocery Rent Nears Peak



### Grocery Transactions by Region\*



\*Includes transactions for full-year 2023 and preliminary sales data from 1Q 2024  
Sources: CoStar Group, Inc.

### Diverse Pool of Buyers Browse Listings

**Sector allows for various investment strategies.** The grocery segment’s prolonged stretch of sub-3 percent vacancy will make the acquisition of net-leased supermarkets and shopping centers anchored by these tenants an attractive option for more investors in 2024. A recent pullback in construction and a 30 percent boost to the segment’s average asking rent over the past four years should also heighten interest for listings among buyers, including those seeking to create value through leasing. Private investors targeting less owner-intensive assets will compete for single-tenant properties net-leased to grocers, as many of these buildings have recently traded below \$10 million. Meanwhile, institutions may expand their portfolios through multi-property transactions, which accounted for roughly one-third of all supermarket-related trades over the past 15 months ending in March. Regardless of focus, many investors are poised to pursue opportunities in regions and markets with favorable population growth projections. As such, major metros in Florida, North Carolina and Texas are positioned to record an increase in competition for listings, as are rapidly-expanding Phoenix and Las Vegas.

**Greater financing availability fosters deal-making.** Net-leased supermarkets and well-located shopping centers with high-credit grocery chains and long-term leases in place were extremely approachable properties for lenders last year. This trend will carry over into 2024, with a potential rise in yield-focused investors entering the sector poised to support a more diverse composition of lenders. Sales data from last year and the first quarter of 2024 indicates many net-leased grocery stores and supermarket-anchored shopping centers are providing investors with first-year returns in the low-6 to high-7 percent range, with valuations holding relatively steady. Expectations for a Federal Open Market Committee interest rate cut at some point in 2024 should also ease financing hurdles for borrowers. Together, the combination of modest cuts, increased lending activity by national banks, insurance providers and CMBS sources, and encouraging consumer spending at grocery stores is likely to enhance the attractiveness of grocery-related investment.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Grocery Dive; Insider Intelligence; Mercatus; Placer.ai; Supermarket News; The Food Industry Association; U.S. Census Bureau; Various grocers’ websites; Winsight Grocery Business