



Supermarkets - In Good Shelf?

Bull: Good morning, Bear.

Bear: And a very good morning to you too. You know, I read something this week that made me think of you.

Bull: Did you? I hope it was flattering.

Bear: Actually, it was a comment on wholesale beef prices. Apparently, there's been a rise recently, due to a tight squeeze in supply.



Bull: GOOD! It's about time the UK laid off the beef for a bit. I was out for dinner on Friday night and the lady on the next table ordered beef carpaccio followed by a whopping great Beef

Wellington. Aside from the slightly odd starter/main combination, I thought it was a bit insensitive. I was literally sitting right there! Anyway, a good price rise ought to give us cows a break.

Bear: Bad news, I'm afraid, Bull. Appetite for beef doesn't seem to be slowing down demand. The UK spent roughly £5.2bn on beef in the year to March 2025 which was a 4.6% increase year-on-year. In fact, the main reason there is such a supply shortage is because there aren't enough calves.

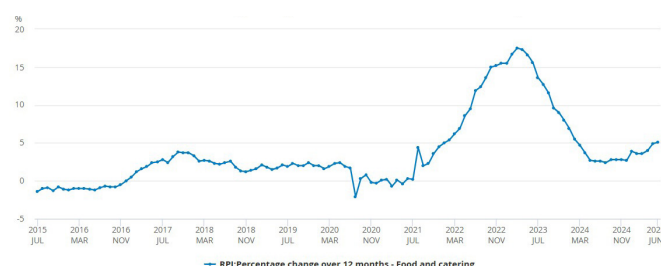
Bull: What are you saying, Bear?

Bear: It seems to me that you Bulls need to up your game, if you know what I mean! Fewer calves mean fewer cattle reaching slaughter weight.

Bull: Yes, yes ... thank you, Bear, I'm perfectly aware of how breeding works.

Bear: But the consequence of your half-heartedness is that the UK's beef breeding herd has shrunk by 13% since 2022 and is directly contributing to food price inflation which was back up to 5.1% in June (ONS). Whilst that was well below the staggering heights of 17.5% for the year to March 2023, it still remains above the long-term average of 2.7%. And it is trending in the wrong direction.

RPI: Percentage Change Over 12 months - Food & Catering)



Source: ONS

Bull: You can't blame me for the rate of inflation. Don't forget that the Government's recent fiscal policy, including the rise in the

National Minimum Wage and National Insurance Contributions, has compounded farmers' costs. And don't get me started on the effect environmental changes are having on production and delivery costs.

Bear: Okay ... keep your hat on. What is interesting though is that whilst food inflation has continued to rise, it hasn't stopped consumers from shopping. Supposedly, British shoppers still made 490 million trips to the supermarket in the four weeks to June 15th. That's the highest recorded number since March 2020.

Bull: Wow! I thought consumer confidence and food price inflation were inextricably linked.

Bear: It usually is. However, according to Savills' UK Grocery Report (2025), the current trend is towards maximising convenience, whilst still offering best value, as households continue to adapt their budgets by switching at least part of their grocery shop to the discount operators. It seems that strong conversion rates (footfall -> sales) are driving positive performance and GlobalData are expecting the UK's food and grocery market to grow by 9.6% by 2028, as consumer financial confidence improves.

Bull: That's good to hear. Let's just hope the Autumn Budget, as well as global geo-political factors such as Trump's tariffs and the conflict in the Middle East, doesn't set that back.



Bear: Do you remember the last time we discussed the Supermarkets sector? It was over two years ago when Asda were in the midst of de-gearing through a series of sale and

leasebacks, and all the other grocers were on the hunt for smaller sites to help expansion.

Bull: I certainly do. Their sale and leasebacks really helped the investment transaction numbers and whilst yields on other property sectors were flying outwards, supermarket yields held (comparatively) stable.

Bear: That's right, and today, the occupational market is still in a pretty good place. Most of the leading operators are performing well, despite intensifying competition. The key has been their ability to pivot their offering.

Performance of UK Supermarkets - 2025 So Far

Supermarket		
Tesco	5.7%	Rise in UK sales for 13 weeks ending 24 May 2025
Sainsbury's	4.9%	Total retail sales growth (excl fuel) for the 16 weeks ending 21 June 2025
Morrisons	2.4%	Total revenue growth for Q1 2025, rising to £4.0 billion
Waitrose	5.5%	Strongest sales growth in three years for the twelve weeks ending 14 June 2025

Source: Savills

Bull: How so?

Bear: On the product side, operators have bolstered better value pricing initiatives like Tesco's Clubcard savings, and/or increasing their premium ranges, such as Sainsbury's 'Taste the Difference'. And on the operational side, they have been taking smaller sites for convenience stores.

Bull: Ah yes. I read somewhere that hybrid working has increased reliance on local stores for top-up purchases and food-to-go. As a result, Tesco announced last year that it planned to open 150 new 'Tesco Express' stores by 2027 and Waitrose wants to open 100 new convenience stores by 2029, as part of a £1bn investment plan announced in August 2024.

Bear: Exactly, but these smaller stores also support rapid delivery for omnichannel shoppers and serve as convenient click-and-collect hubs. Whilst online grocery sales rose by 3.7% to £19.6bn in 2023, market penetration declined slightly in 2024, suggesting consumers were edging back to physical stores. Online grocery shopping was always predicated on convenience but the shift towards value for money, limited control over product quality, poor substitutes and limited shelf life are all contributing to a change of heart.

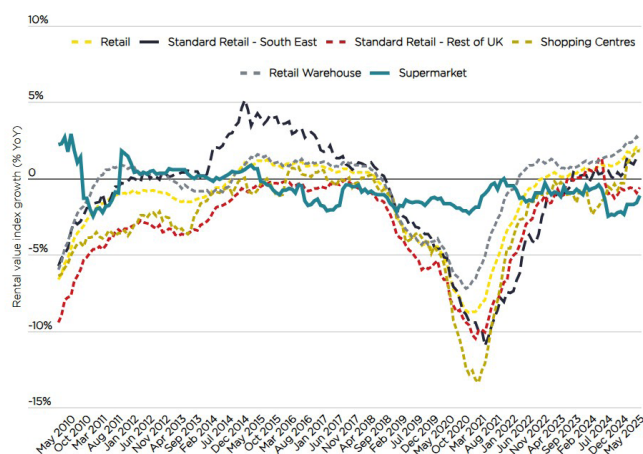
Bull: This sounds rather like the traditional high street retailers, where their online shopping channels are working much more in conjunction with their physical stores, where their customers can try on and return items, as well as click and collect. Omnichannel retailing seems to be the name of the game.

Bear: It is. And perhaps this drive for smaller sites in top locations might be contributing to the rosier occupational story on the UK's high street. No wonder CBRE are reporting that investment demand on the High Street continues to show positive trends.

Bull: Could well be. It sounds to me like supermarkets are, once again, doing pretty well as investments. Strong occupier demand, limited new development and consistent grocery sales performance is a winning formula.

Bear: Yep. The MSCI rental value growth index is showing improvement of late and has been easily the most consistent of the retail sub-sectors over the last 15 years. It can be difficult to be too prescriptive due to the lack of lease events and limited transactional evidence, but as grocery operators prioritise long-term occupancy in well-performing sites, lease regears and renewals are becoming increasingly popular.

MSCI Rental Value Index Growth (YoY) - Retail



Source: Savills Research, MSCI

Bull: As a savvy property investor looking for some long-income, I like the sound of that. And look, yields are trending stable at 5.00%, having compressed by 25 bps back in March.



Bear: Hold your horses, Bull. Whilst it might look attractive on paper and investors are undoubtedly keen to get involved, good luck trying to find a deal! There's a serious dearth of new supply and the long-income and annuity funds who currently hold these supermarkets aren't looking to sell up any time soon. And if they do, it's probably because the lease length has dipped below their minimum threshold.

Bull: Hmm, okay. So, if I'm struggling to get in through direct means, why shouldn't I look at buying shares in one of the big retail REITs. Didn't I spot that Supermarket Income REIT released a debut bond this week, raising £250m at a coupon of 5.125% over 6 years. Apparently, the offer was four times over-subscribed. Moreover, its shares offer a handsome annual dividend of 7.7% and trade at about 10% discount to NAV.

Bear: Or you could consider investing in some shares of the actual supermarket operators, given how well they seem to be performing and their positive growth prospects. Granted, you'd only get a yield of 3.20% for Tesco, or 4.30% for Sainsbury's, but that just shows the relative strength of the operators.



Bull: I tell you what I'd like to do, Bear. I'm really keen to get in on the action here and my dream is to own a portfolio of direct supermarket assets at c.5.00%. The problem is, I'm going to have to wait until one of the annuity or long-income funds sells up, or the supermarkets embark on another sale and leaseback campaign. No matter, I'm happy to wait. In the meantime, I'm going to satisfy my need by investing a little into the Supermarket Income REITs 6-year bond, a little into the REITs shares themselves, and a little into the shares of an operator or two. That ought to give me a blended yield of around 5.50%.

Bear: Hmm. Okay ... I can understand that. It's a holding position.

Bull: Exactly. Think about it, Bear. It helps me immediately get a piece of the action, comfortable in the knowledge that I'll be able to trade my holdings quickly when the time comes to pick up a direct asset or two. Then, a quick regear, if necessary, to 25 years by offering some rent free ... because (let's be honest) a well performing supermarket retailer in a good location isn't going to risk giving that pitch away to a competitor. Thanks very much. Job done!

Bear: You know, Bull. Sometimes you do have some quirky ideas, but in this instance I'm here for it.

Bull: Thanks, Bear. Right, I'm not going to see you for a few weeks, am I?

Bear: That's right, I'm jetting off on holiday tomorrow and I believe you're going away too?

Bull: Yep. Shall we agree to reconvene on the 31st August?

Bear: Sounds good. Come on then, time to roar on the Lionesses. LET'S GO!