

ALDI ACQUISITION OF SOUTHEASTERN GROCERS *Implications for Investors*

AUGUST 2023

Regional Play Has Positive Impacts for Southeast Shopping Center Owners

German grocer expands while avoiding construction risk. One of the nation's fastest-growing supermarket chains over the past two years, Aldi has inked a deal that will significantly increase its Southeast market presence. Under the agreement, the company will acquire Southeastern Grocers, owner of Winn-Dixie and Harveys Supermarkets, throughout Florida, Alabama, Georgia, Louisiana and Mississippi. Anticipated to close in the first half of 2024, the acquisition will more than triple the discount grocer's current Florida footprint, which comprises 210 stores, while also expanding its reach in tertiary and rural areas of the Southeast. A portion of the acquired stores will be converted to the Aldi brand, with others keeping their original name. The latter is most likely in markets where overlap currently exists between the grocers. Shopping center owners with a Winn-Dixie or Harveys that is not converted will see their circumstances adjust nominally, apart from operational changes and potential property upgrades. Meanwhile, owners with a store slated for Aldi conversion will see the credit quality of their grocery tenants improve, equating to greater interest from active investors.

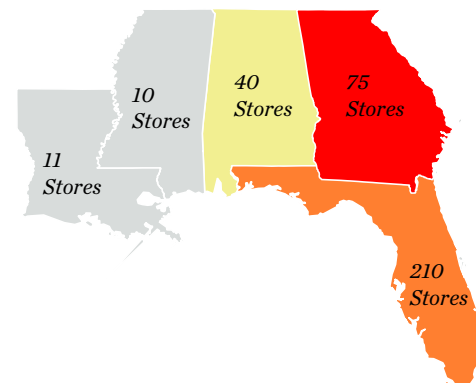
Deal highlights broader discount retailer growth. Aldi's acquisition of Southeastern Grocers appears well-timed, as continued inflation and consumers' greater reliance on credit are influencing more households to seek out lower-priced necessities. This trend may gain additional traction in the coming quarters, with the resumption of federal student loan payments in October negatively impacting the spending power of more than 43 million borrowers. A more price-sensitive consumer is likely to motivate more Southeast discount stores, including Dollar General and Save-A-Lot, to increase their food offerings. This will generate additional competition for Aldi who will also battle pure-play grocers Publix and Piggly Wiggly for regional market share.

Larger merger looms. Aldi's acquisition plans represent another recent example of grocery sector consolidation. Late last year, the proposed union of Kroger and Albertsons was announced, a deal that will attempt to assemble nearly 5,000 stores under one ownership. Currently under antitrust review by federal and state regulators, the agreement will alter grocer competition and create numerous possible scenarios for owners of shopping centers with a tenant subject to the merger. As part of the \$24.6 billion deal, the two companies are willing to divest up to 650 stores to secure regulatory clearance. If unable to divest stores outright, a "SpinCo." consisting of various properties would be spun off to Albertsons' shareholders and operate as a standalone public company.

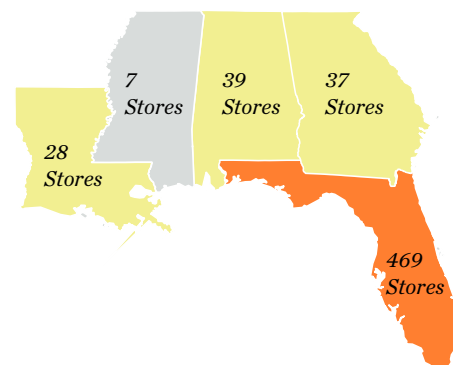
Acquisition Highlights

- Aldi will acquire all outstanding shares of Southeastern Grocers, the parent company of both Winn-Dixie and Harveys Supermarkets, for cash. The purchase price, has not been disclosed.
- Southeastern Grocers is also selling its Fresco y Más operations, which includes 28 stores and four pharmacies, to investor Fresco Retail Group.
- In 2018, Southeastern Grocers filed for bankruptcy and closed over 100 stores. The company also attempted to become a publicly traded entity twice in its history.
- As of the second quarter of 2023, Aldi ranked fifth among pure-play grocers in terms of U.S. market share — 2.3 percent.

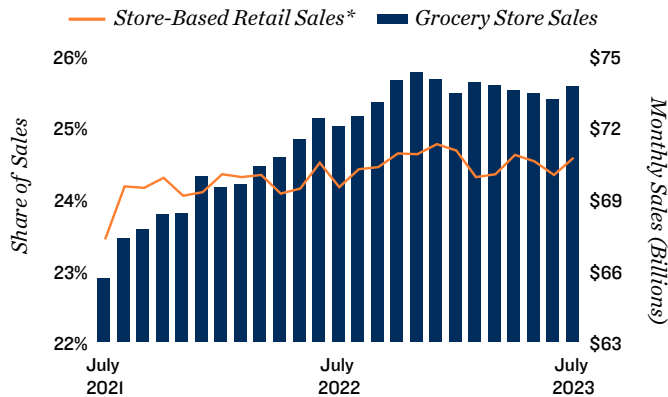
Aldi's Southeast Footprint



Winn-Dixie & Harveys Southeast Footprint



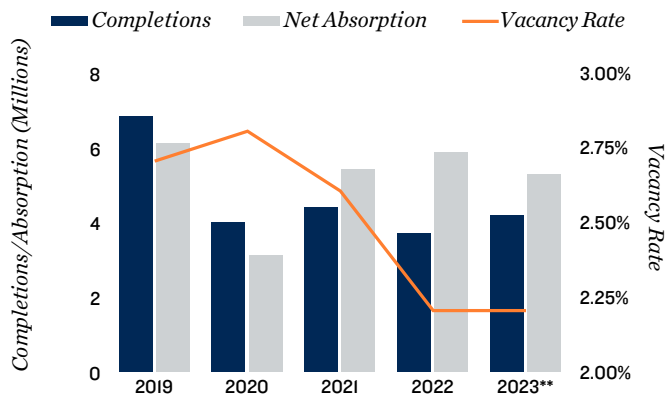
Grocers Feed Brick-and-Mortar Sales



Grocery Sector Outlook Remains Strong

Foot traffic improvements bolster grocers' confidence. The proposed acquisition by Aldi is occurring alongside encouraging spending at supermarkets. Prior to August, 17 of the last 24 months recorded a rise in grocery store sales on a month-over-month basis, with segment spending accounting for 24 to 25 percent of all store-based retail sales during this span. Of late, grocery spending has been notably consistent, with sales hovering in the \$73 billion range during each of the first seven months of 2023. More telling, the collective total for this stretch, nearly \$515 billion, exceeded the tally from the same period in 2022 by 3.8 percent. This performance can be attributed to heightened in-person shopping and a recent decline in online grocery sales, which were down 7 percent year-over-year in July. Across Aldi stores, combined foot traffic rose by 50 million visits during the yearlong span ending in April 2023 when compared to the prior 12-month window. Total visitations at Winn-Dixie stores also rose over the same yearlong interval, with an average of nearly 12.6 million monthly visits registered. These foot traffic trends may foster tenant demand for available space in grocery-anchored shopping centers at a time when multi-tenant vacancy, 5.4 percent, matches its prior low.

Supermarket Supply & Demand Trends



Available grocery space extremely sparse. Consumers' prioritization of necessity goods is backing strong property fundamentals. As of June, vacancy in the grocery sector was at 2.2 percent, its lowest level since 2003, holding steady for three straight quarters. During this nine-month stretch, tenants absorbed a net of nearly 4.1 million square feet, mirroring the prior three-quarter period. Tight conditions and consistent leasing velocity are supporting rent growth, with the average asking rate up 9 percent year-over-year. However, the average marketed rate for available grocery space still trails the prior peak, suggesting room for further gains exist as construction activity moderates. During the yearlong interval ended in the second quarter, developers expanded the nation's supermarket stock by just 0.7 percent. Moderate inventory growth is poised to continue over the near term, as roughly 3 million square feet was underway as of mid-August, a total well below the long-term mean.

*Store-based sales exclude purchases made online and at restaurants and bars
 **Trailing 12 Months through 2Q 2023
 Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; U.S. Census Bureau

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Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Mercatus Grocery Shopping Survey; Numerator; Placer.ai; ScrapeHero; U.S. Census Bureau