Hard Discounters – Easy Money?

IN A NUTSHELL

- Hard discount supermarkets such as Aldi and Lidl are among the few areas where space-driven growth in grocery retail is still a feature.
- As an investment, they potentially offer attractive income returns alongside low capex requirements.
- The expansion of these brands into underpenetrated areas of Europe presents an opportunity to gain exposure to the supermarket sector with some yield premium compared to most other mainstream real estate sectors.
- Discounter-anchored retail parks are also potentially attractive route to gain exposure to the sector given the benefits both to retail park performance and positive outlook for returns in the retail park sector.
- The fundamentals in Southern Europe and the UK look attractive for the discount grocery sector in view of the ongoing growth in discounter market share here and an attractive entry price point.

Over the last decade, many investors have focused on reducing exposure to physical retail, against a backdrop of rising e-commerce sales and faltering retailer demand for space. Food retail, however, is another story. The sector has remained relatively immune to the rise in e-commerce and as a result we have not seen the same weakness in rents in recent years.

As an investment, supermarkets can offer a long-term, stable income stream with well-established tenants and minimal drag on returns from capex. However, with prospects for rental growth hampered by the long, inflation-linked leases and tight operating margins for most tenants, a strategy of purchasing standing assets can deliver limited upside.

The expansion of the hard discounter supermarkets in the UK and Southern Europe, however, offers a window of opportunity. Their growth, funded through sale-and-leaseback of assets nearing completion, allows investors to enter the sector at a yield premium and achieve some capital value appreciation. Targeting discounter-anchored retail parks can also achieve potentially attractive returns, given the halo effect of discounter tenants to park footfall, positive outlook for rental growth in the current context of low vacancy, and strong investor appetite for retail park assets.

Defining the Discounters

The so-called 'Hard Discounters' have been around since the 1960s. These stores initially offered little convenience and a "no frills" experience, with minimal store décor and limited number of SKUs (stock-keeping unit, i.e., products on offer). In terms of brands, Aldi and Lidl are the clear market leaders in Europe, but there is also a universe of smaller, local players to note, including Dia in Italy and Netto in Northern and Eastern Europe.

Grocery formats

	Hypermarket	Standard supermarket	Convenience	Hard Discounters
Store size range (sqm)	6,000-15,000	1,400-6,000	200-300	300-1,500
No. of SKUs (000s)	60-90	15-30	3-10	1.5-2.5
Sales density (per sqm)	€8,000-€11,500	€11,000 – €12,500	€18,500 – €25,000	€13,500 – €14,800
Locations	Out-of-town, retail park	Out-of-town, shopping centre, retail park, high street	Urban, shopping centre, high street	Retail park, high street

Source: Green Street, November 2023; The Guardian, February 2015; Sainsbury's Supermarkets, 2025

A typically smaller store size of between 300 sqm and 1,500 sqm gives hard discounters a competitive edge against mainstream supermarkets which until recently had been progressively expanding to accommodate ever larger product ranges at the expense of customer convenience. Smaller stores can fulfil customers' need for product range without compromising on convenience, driving relatively high sales densities. Running costs are also lower as the area to heat, light, and cool is smaller, driving generally lower occupancy cost ratios.

In common with other food retailers, hard discounters tend to do well during economic downturns as consumers prioritise spending on essentials over discretionary purchases. The sector is also resilient during inflationary periods, as seen in 2021-23, as households switch to lower cost options. In addition, minimal in-store staffing allows the discounters to maintain competitive pricing in periods of high wage inflation.

Characteristics as an investment

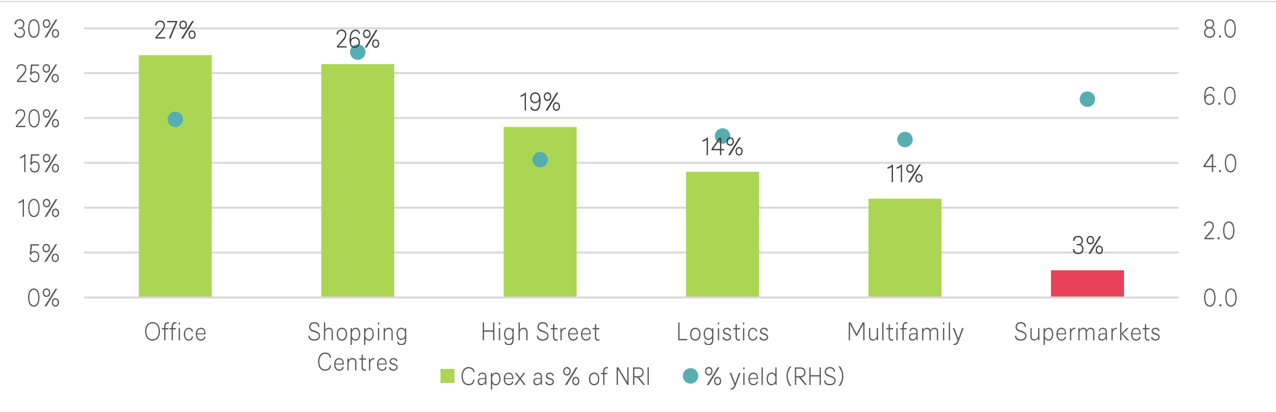
Stable, long-term income stream

Typical leases in the supermarket sector are long, with an initial period of 10 years followed by another 5 until the lease expires. During this time, rental growth is aligned with inflation, usually with a cap. The capped rental growth protects the tenant from runaway rental growth during periods of high inflation in a sector where margins are in the mid- to low single digits and competition on pricing is relentless. For the investor, the result is that during periods of particularly strong inflation, full protection from eroding rents in real terms cannot be achieved. The income stream, however, is reliable, and comes at an attractive entry pricing point relative to other sectors, as shown in the chart below.

Asset management needs are generally low given leases are triple net, have a long WALT, and only have one tenant. Capex is therefore minimal compared with other sectors, particularly retail, where annual capex can amount to over 20% of rental income. This is a significant boost to returns over the hold period.

Yields relative to capex, UK

Capex as % of NRI



Source: Green Street, June 2026

Strong covenant but dependent on strength of local country market

The reliance on a single tenant is the most important risk factor given the long lease profile in this sector. On first glance, given the ongoing growth of the hard discounters in Europe, covenant strength seems reliable. Projected default risk for Lidl, for example, is very low (1.4% in 10 years).[1] However, the covenant on the lease is likely to be different to that of the parent company: individual leases are usually signed with the country entity, where covenant strength will depend on the size and profitability of the retailer in that country. Lidl in Italy, for example, is going from strength to strength, whereas Aldi in France has a history of loss making. Care is therefore required in assessing exactly who is accountable at an asset level.

[1] Income Analytics, May 2026

Strategic Opportunities

There are many routes into the discount supermarket sector for investors, ranging from purchasing a standalone asset in an out-of-town location, to a high street store in a gateway city. In choosing between possible routes to invest, the three key determinants of performance: current income return, outlook for income growth, and change in yield, need to be assessed. As shown in the summary table below, discounter-anchored retail parks or sale-and-leaseback of a portfolio offer the best outlook for returns, combining stable, inflation-linked income streams with some potential for yield compression, and will be explored in further detail in the following section.

Routes to investment, key return drivers

Investment Pathway	NIY – est. typical range	Outlook for ERV growth	Outlook for yield compression	**Verdict**
Discounter-anchored retail park	5%-7%	Tenant demand strong and low vacancy.	Good liquidity today and pricing attractive with yields in most markets >5%. Modest yield compression possible.	
Sale-and-leaseback of portfolio of discount supermarkets with % of assets nearing completion	5%-6.5%	Depends on mix of locations. Low ERV growth potential in rural locations. Higher growth likely in or next to urban areas.	Modest yield compression likely if some or most assets are not yet operational given higher yield on cost than valuation yield.	
Discounter-anchored shopping centre	5.5%-8%	Wide disparity in vacancy rates between assets so outlook for ERV growth likely to vary significantly based on quality of shopping centre and presence of other food retailers.	Yield compression unlikely to be main driver of returns given liquidity is still limited in most markets and lot sizes are typically large	
High Street store	4%-6%	Low high street availability and strong tenant demand boost outlook for rental growth.	Low yields today – limited scope for compression.	
Single standing discount supermarket	4.5%-7%	Depends on mix of locations. Low ERV growth potential in rural locations. Higher growth likely in or next to urban areas.	Not likely to see yield compression given low liquidity in small, regional markets.	

Source: DWS Research, July 2026; CBRE, June 2026; Green Street, July 2026

Discounter-anchored retail parks

The tailwinds boosting retail park performance in terms of consumer trends and retailer location strategies have been outlined in recent DWS market reports.[2] Retail parks are also sought-after by investors at present: investment volumes have held up better than most sectors and yields are holding firm despite the prevailing geopolitical uncertainty. The lot size between €15 and €30m[3] is large enough for individual assets to appeal to institutional investors, but also small enough to aggregate into a portfolio. Discount supermarkets are also a useful retail park anchor as they tend to draw footfall and the long WALT with strong covenant underpins occupancy and improves liquidity potential.

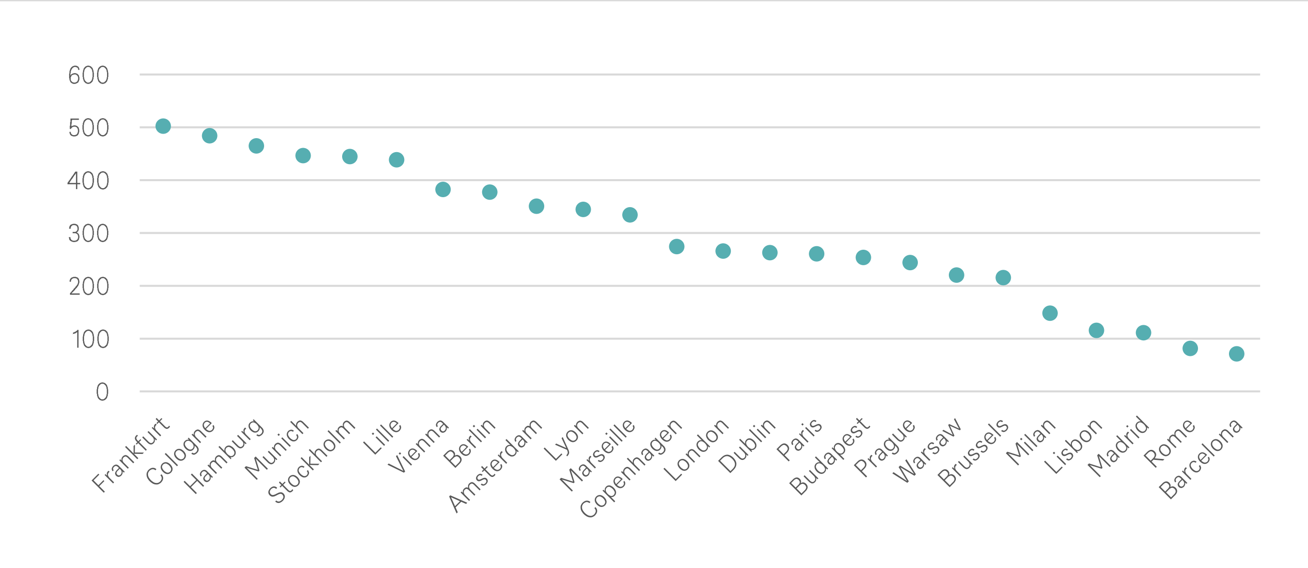
[2] Real Estate Strategic Outlooks: Mid-Year 2026 | DWS
[3] CBRE, June 2025

A strategy of purchasing a retail park where the anchoring supermarket has a short WALT may allow for a higher entry yield, as the chances of renewal are high and should the tenant leave, there is a ready pool of other retailers looking for retail park space. ERV growth for retail parks is also well-supported given vacancy rates are currently low, potentially allowing for rental reversion at lease expiry.

In terms of geographies, the most favourable retail park markets from the perspective of consumer demand are likely to be those with healthy real disposable income growth. Spain and the CEE markets tend to top the table on this metric. Retail parks also tend to perform well in well-connected fast-growing suburbs of large cities, where population is displaced from the core to the periphery due to affordability challenges. The largest Spanish cities are especially prone to these dynamics, experiencing several years of double-digit rental growth following the covid-19 pandemic.

On the supply side, Southern Europe stands out as having a relative lack of retail park stock, while the concept is more developed in Germany, France, and the UK. Looking ahead, there are very few markets where any meaningful supply pipeline might threaten performance. Madrid has the strongest development pipeline but the city already has a shortage relative to its population. There is some pipeline in Italy but again, this represents both a small volume relative to stock and city size.

Retail park supply
Sqm per 000 pop.



Source: PMA, April 2026; Oxford Economics, July 2026; Trevor Woods, July 2026. London data based off UK ratio of stock to population.

The final element of the retail park picture to analyse is relative pricing. On this metric, Southern Europe also performs well: prime retail park yields are over 6% in Italy and Spain at present.[4] Pricing in the UK is tighter, but with almost no new stock likely to be built in the foreseeable future, and availability trending down, rental growth could compensate.[5]

[4] CBRE, June 2026
[5] PMA, May 2026

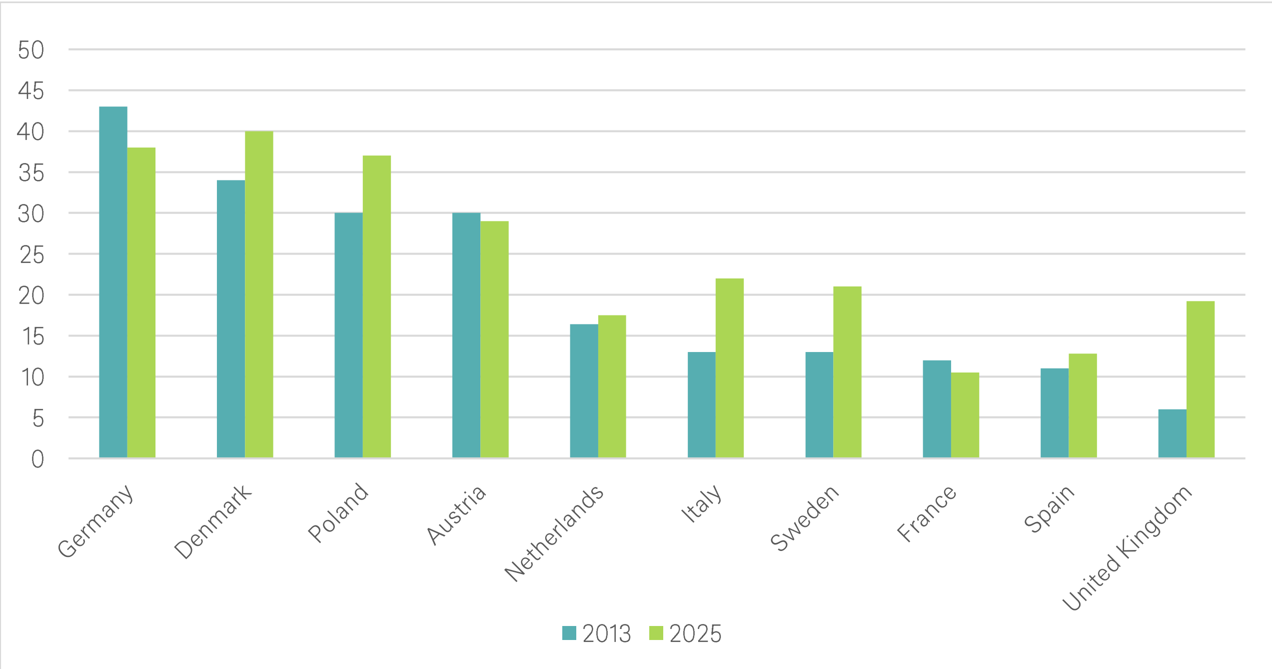
Sale-and-leaseback portfolio

Another strategy that has been successfully tried in recent years is the sale-and-leaseback of discounter portfolios to fund expansion. The mechanism works where the discounter acquires the land and handles planning and construction. Once built or nearing practical completion, the freehold is sold to institutional investors and the building immediately leased back on a long-term basis. A recent example includes a 24-store portfolio in the UK, Ireland, and Spain for an estimated yield of 5.25%.[6]

To mitigate liquidity risk, it is important to retain portfolio integrity as assets sold individually could realise a lower value.[7] Lot sizes are typically small at €5-10m and many discounter locations are in tier 2 and 3 locations as, contrary to other retail formats, discount supermarkets often do well in catchments with below average incomes.

Future portfolios of this nature are likely to be found again in the UK and across Southern Europe where discounters are focusing their expansion plans. Discounter market share has plenty of room to grow given market share is currently around half the level of mature markets such as Germany.

Discount supermarket share (%)

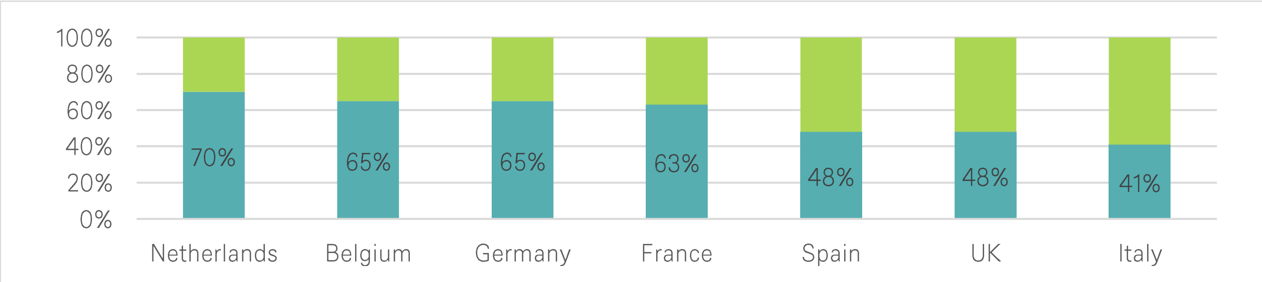


Source: PMA, March 2026; CBRE, March 2026; Beragua, 2013; Swedish Food Retail Index, 2025; Discount Retail Consulting, 2026; EHI Retail Institute, 2025; Distrifood, 2022; Retail Trends, 2025

These markets may also offer discounters an easier path towards growth, being more fragmented, with lower market share concentrated in a few domestic players. In Italy, even the largest brands, such as Gruppo Selex operate under multiple brand names in different regions, including Famila, A&O, and Emisfero. Smaller, local or regional players are less likely to be able to compete in terms of price with hard discounters given their more limited scale and pricing power.

[6] Green Street, November 2025
[7] RCA, May 2026

Market share of top 3 grocers, 2023
% sales



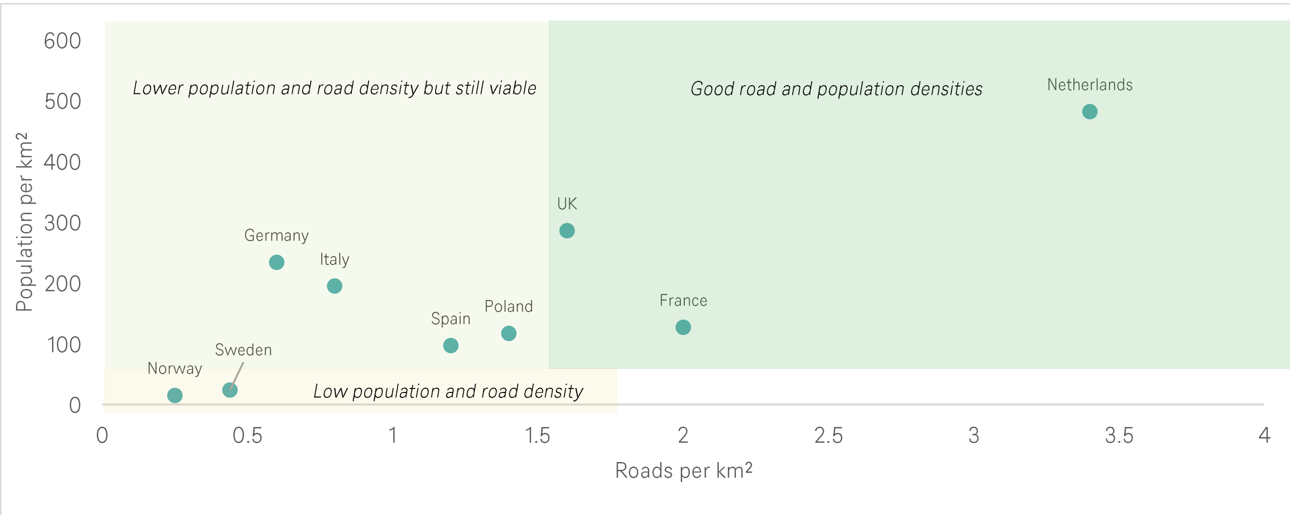
Source: Osservatorio GDO Mediobanca, PMA, March 2026

Markets to be cautious about

With the portfolio strategy, the success of the investment is dependent to a large extent on the tenant remaining in situ. It is therefore important to analyse from the tenant's perspective how successful their business in that location is likely to be. The risk for discounters in entering a new market is that store profitability is only possible with a sufficiently large network of stores that offset the costs of setting up and delivering from the regional distribution centres (RDCs) necessary to deliver goods to the store network. Long-term store profitability is most likely in markets where the cost to serve each customer is sufficiently low.

Both Lidl and Aldi entered the UK in the Midlands, as this location represents the geographic centre of the country where 90% of the population live within 4hrs drivetime, minimizing the distance between the stores and RDCs and reducing cost to serve each store. Low population density and/or poor road connectivity are both factors which will increase the cost to serve, and reduce the likelihood of discounter success. The following chart compares European countries on these metrics to rule out markets where cost to serve is likely to be too high for discounters to operate.

Discounter viability according to population density and ease of access



Source: Oxford Economics, June 2026; ERF Road Network, 2025; UK Department for Transport, 2024

Of course, good population and road density do not guarantee success (Aldi and Lidl have struggled to secure market share in France and the Netherlands against highly consolidated domestic incumbents), but comparing this data with store numbers per country gives an idea of where viability might be stretched. In Norway, where population and road density are both low, Lidl exited its 50-store portfolio in 2007.[8]

Conclusion

Hard discounters offer one of the more investable growth niches within the European grocery market. Their operating model combines a compact store format, limited SKU range, high sales densities and low staffing requirements, allowing Aldi, Lidl and selected local operators to compete aggressively on price and increase market share. For investors, the appeal lies in a dependable income stream with very limited capex, supporting attractive cash-on-cash returns at entry yields over 5%.

For institutional investors, discounter-anchored retail parks or sale-and-leaseback are likely to offer the best risk-adjusted returns. Discounter-anchored retail parks offer low vacancy risk, good liquidity, and potential rental upside, while sale-and-leaseback portfolios can provide long-term income and scale exposure. Portfolio integrity and location quality remain important, as small lot sizes and tier 2 or 3 catchments can create liquidity risk if assets are broken up or assessed individually.

Combining the analysis on consumer fundamentals, pricing, headroom for growth in discounter market share, retail park saturation, and population and road density, the UK, Spain, and Italy stand out as the most promising target markets.

Spain and Italy are attractive target markets for discount supermarkets due to their low discounter penetration rate and fragmented grocery sectors, providing scope for discount operators to gain market share. The particular strength of Spain's consumer market is also likely to support ongoing food sales growth. Retail parks are performing well in both markets, and there is further room for development given the relatively small number of parks currently operating. While the lack of population and road density in certain regions (Southern Italy, parts of the Spanish interior) is likely to prove a challenge for discounter development, there is sufficient concentration of population in Northern Italy, coastal Spain, and the Greater Madrid area, to make the discounter concept work in these regions.

The United Kingdom is also a strategic focus despite higher discounter penetration than Southern Europe, as discounters continue to gain share while consumers remain focused on value and grocery affordability. For retail parks, the UK benefits from a near standstill in new supply, low vacancy and strong occupier demand.

Other markets screen well on individual factors but fall short on the full investment case for a sale-and-leaseback strategy. Selective acquisition of discounter-anchored retail parks, however, is a more universally suitable approach. Germany and Poland, for example, are already mature discount markets, limiting opportunity in the sale-and-leaseback strategy, but there may be scope to acquire discounter-anchored retail parks, particularly in Poland where retail parks are still a developing concept and disposable income growth is strong. France and the Netherlands combine a concentrated grocery market with weaker local covenant evidence for Aldi, but again, retail parks are working well in the context of low current availability rates and an almost non-existent development pipeline. Markets in the Nordics with low population density, weaker road connectivity or insufficient store scale should be approached more selectively, as the cost-to-serve may undermine tenant profitability and long-term discounter covenant strength.

[8] The Grocer, June 2007

Real Estate Research Team

Office Locations

Frankfurt
Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: +49 69 71909 0

London
45 Cannon Street
London, EC4m 5SB
United Kingdom
Tel: +44 20 754 58000

New York
875 Third Avenue
26th Floor
New York
NY 10022-6225
United States
Tel: +1 212 454 3414

San Francisco
101 California Street
24th Floor
San Francisco
CA 94111
United States
Tel: +1 415 781 3300

Singapore
One Raffles Quay
South Tower
15th Floor
Singapore 048583
Tel: +65 6538 7011

Tokyo
Azabudai Hills Mori JP Tower
1-3-1 Azabudai
Minato-ku
16th Floor
Tokyo
Japan
Tel: +81 3 6730 1300

Sydney
Level 16, Deutsche Bank Place
Corner of Hunter and Phillip Streets
Sydney NSW 2000
Australia
Tel: +61 2 8258 1234

Teams

Global

Kevin White, CFA
Global Co-Head of Real Estate Research

Simon Wallace
Global Co-Head of Real Estate Research

Americas

Brooks Wells
Head of Research, Americas

Liliana Diaconu, CFA
Office & Retail Research

Ross Adams
Industrial Research

Sharim Sohail
Self-Storage Research

Europe

Ruben Bos, CFA
Head of Real Estate Investment Strategy, Europe

Tom Francis
Property Market Research

Siena Golan
Property Market Research

Rosie Hunt
Property Market Research

Carsten Lieser
Property Market Research

Martin Lippmann
Head of Real Estate Research, Europe

Asia Pacific

Koichiro Obu
Head of Real Estate Research, Asia Pacific

Seng-Hong Teng
Property Market Research

Matthew Persson
Property Market Research

AUTHORS

Siena Golan
Property Market Research

Important information

For North America:
The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries, such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas, Inc. and RREEF America L.L.C., which offer advisory services.

This material was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. It is intended for informational purposes only. It does not constitute investment advice, a recommendation, an offer, solicitation, the basis for any contract to purchase or sell any security or other instrument, or for DWS or its affiliates to enter into or arrange any type of transaction as a consequence of any information contained herein. Neither DWS nor any of its affiliates gives any warranty as to the accuracy, reliability or completeness of information which is contained in this document. Except insofar as liability under any statute cannot be excluded, no member of the DWS, the Issuer or any office, employee or associate of them accepts any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage whether direct, indirect, consequential or otherwise suffered by the recipient of this document or any other person.

The views expressed in this document constitute DWS Group's judgment at the time of issue and are subject to change. This document is only for professional investors. This document was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. No further distribution is allowed without prior written consent of the Issuer.

Investments are subject to risk, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time.

An investment in real assets involves a high degree of risk, including possible loss of principal amount invested, and is suitable only for sophisticated investors who can bear such losses. The value of shares/ units and their derived income may fall or rise.

War, terrorism, sanctions, economic uncertainty, trade disputes, public health crises and related geopolitical events have led, and, in the future, may lead to significant disruptions in US and world economies and markets, which may lead to increased market volatility and may have significant adverse effects on the fund and its investments.

For Investors in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence. This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS Group. Without limitation, this document does not constitute an offer, an invitation to offer or a recommendation to enter into any transaction. When making an investment decision, you should rely solely on the final documentation relating to the transaction you are considering, and not the document contained herein. DWS Group is not acting as your financial adviser or in any other fiduciary capacity with respect to any transaction presented to you. Any transaction(s) or products(s) mentioned herein may not be appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand such transaction(s) and have made an independent assessment of the appropriateness of the transaction(s) in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with DWS Group, you do so in reliance on your own judgment. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates, and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results. The distribution of this document and availability of these products and services in certain jurisdictions may be restricted by law. You may not distribute this document, in whole or in part, without our express written permission.

For EMEA, APAC, LATAM & MENA:
DWS is the brand name of DWS Group GmbH & Co. KGaA and its subsidiaries under which they do business. The DWS legal entities offering products or services are specified in the relevant documentation. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document is for information/discussion purposes only and does not constitute an offer, recommendation, or solicitation to conclude a transaction and should not be treated as investment advice.

This document is intended to be a marketing communication, not a financial analysis. Accordingly, it may not comply with legal obligations requiring the impartiality of financial analysis or prohibiting trading prior to the publication of a financial analysis.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models, and hypothetical performance analysis. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements. Past performance is no guarantee of future results.

The information contained in this document is obtained from sources believed to be reliable. DWS does not guarantee the accuracy, completeness, or fairness of such information. All third-party data is copyrighted by and proprietary to the provider. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast, or estimate set forth herein, changes or subsequently becomes inaccurate.