XTEAM RETAIL ADVISORS

The Great Grocery Shake-Up

How Format, Footprint, and Frequency are Reshaping the Grocery Store Scene

RETAIL TRENDS

Evolving consumer habits are reshaping grocery offerings—and the real estate they occupy.

Grocery shopping isn't what it used to be. The days of the single-stop, one-size-fits-all supermarket are fading fast. Across the country, consumers are embracing smaller, nimbler formats that deliver speed, savings, and specialization. At the same time, retailers are rethinking every-thing from store size to site selection. In this white paper, X Team Retail Advisors explores what's driving the grocery shake-up, how consumer habits are evolving, and what it all means for real estate.

For decades, Houston's grocery scene was predictable: anchored by full-service giants like H-E-B and Kroger, with consumers typically completing their entire weekly shopping trip at a single location. But that era is rapidly fading. Over the last several years, disruptors like Aldi, Trader Joe's, and Sprouts have redefined grocery shopping for Houston residents and beyond, nudging shoppers toward a more fragmented, multi-stop approach to food buying. These smaller-format stores offer savings, curated selections, and a leaner shopping experience—and they've gained serious traction.

Baker Katz's Jason Baker says, "Legacy brands haven't stood still. H-E-B, Kroger, and other major grocers have adapted with smaller urban formats, digital platforms, and new in-store experiences. The result is a grocery market in flux, with real estate decisions and shopping habits being reshaped at a fast pace. While Houston serves as a compelling case study, these dynamics are playing out nationwide. To compete in this evolving landscape, both retailers and landlords must pivot because grocery, once a one-size-fits-all model, is now anything but."

DISRUPTORS ON THE RISE

It's not just that grocery stores are getting smaller—they're getting smarter. Brands like Aldi and Trader Joe's have built their business models around compact footprints, typically under 20,000 square feet, and offer tightly curated product selections with a heavy emphasis on private label and value pricing. Meanwhile, Sprouts blends health-focused offerings with a fresh produce-forward layout, appealing to wellness-conscious consumers who don't need (or want) 20 aisles of national brands.

"There's a part of the premise that grocery stores are getting smaller. I don't think you can argue with that," says Velocity Retail Group's Darren Pitts. He cites Aldi as a leading example, with 20,000-square-foot stores emphasizing value, convenience, and visibility, often located on "drug store real estate," like corners and high-traffic nodes. Likewise, Sprouts, once a 32,000-square-foot grocer, has steadily shrunk to around 22,000 to 23,000 square feet, reflecting a broader trend toward efficiency and cost-effectiveness.

Recent data from Placer.ai underscores that fresh-format grocers like Sprouts have emerged as the fastest-growing segment in 2025, primarily driven by affluent shoppers who prioritize health and wellness.

Beyond these brands, newer players such as Amazon Fresh and Thrive Market are bringing tech-forward, hybrid models to urban areas and digital spaces alike. Regional chains like Wild by Nature or Natural Grocers are expanding quietly but steadily. The shared DNA among these disruptors? Smaller spaces, higher efficiency, and laser-focused branding.

"From a commercial real estate standpoint, these shifts have created fresh demand for smaller, strategically located spaces with flexible loading and parking. Unlike traditional grocers that require expansive footprints and high-throughput centers, these brands can thrive in urban infill sites, strip centers, and even unconventional anchor spots," adds Baker.

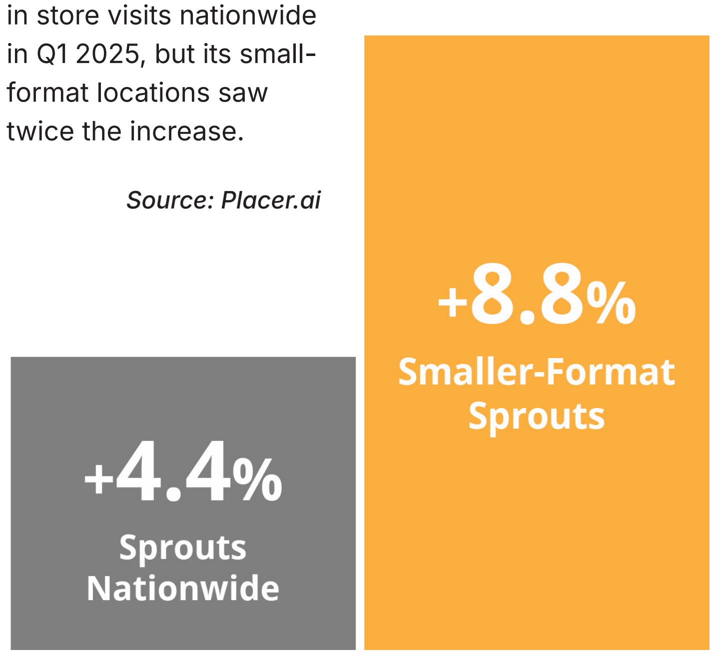
DOING MORE WITH LESS SPACE

Chains like Aldi and Lidl have long thrived with limited-assortment, small-box models, delivering high sales per square foot and low development costs. These stores are ideal for "foundational shops" that customers later supplement at full-service grocers, notes The Providence Group's Darren Wood.

Smaller Formats, Focus on Fresh Drive Big Gains for Sprouts Market

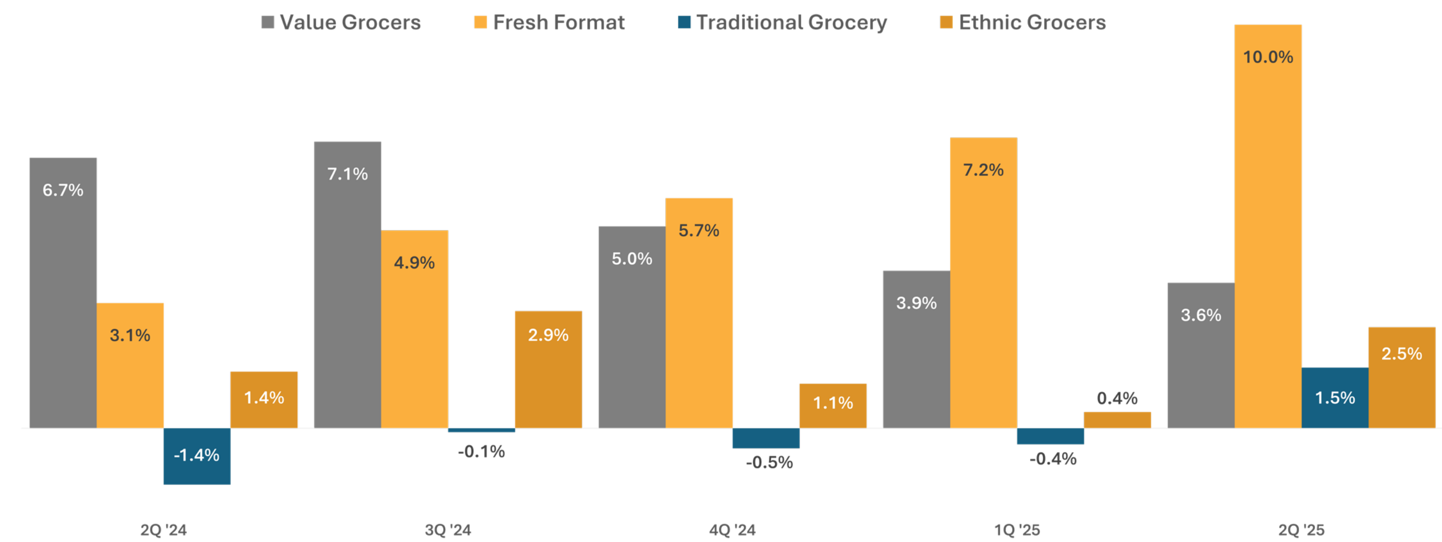
A focus on fresh foods and rollout of diverse concepts have helped Sprouts maintain healthy shopping patterns across its portfolio. The grocer saw a 4.4% annual uptick in store visits nationwide in Q1 2025, but its small-format locations saw twice the increase.

Source: Placer.ai



Affluent Shoppers Propel Fresh-Format Grocers' Growth

Outpacing all other segments, fresh-format grocers have seen strong, consistent growth in consumer traffic in recent quarters, driven by wellness-minded, higher-income shoppers. *Source: Placer.ai*



He's seeing growing momentum toward smaller-format grocery stores, emphasizing that they allow both discount and full-service grocers to expand into dense, urban markets. "These formats allow a more precise, lower-risk and lower-impact investment," he notes.

Smaller footprints also let grocers move into tight, high-density locations often near daytime populations—ideal for shoppers looking to grab essentials during lunch breaks or on the way home. "These stores provide time-saving opportunities for customers stretched for time," Wood explains, offering compact selections of essentials and high-margin items like prepared foods and meal kits.

As an example, Woods points to BJ's smaller format stores for helping boost average visits per month and allowing the brand to enter smaller or infill markets that don't support a larger footprint. "Placer.ai data showed that 55% of customers visited the small BJ's format twice a month, versus 38% at larger locations," he notes. Sprouts' small-format experiment has met similar success. While the average number of visits per Sprouts location nationwide rose 4.4% over the year in Q1 2025, its smaller-format stores reported double that figure, an 8.8% increase in visits.

Grocers will continue to extract the most from shrinking footprints. As Paragon Commercial Group's Jim Dillavou says, "Grocers are figuring out how to generate more sales out of smaller footprints, which helps lower occupancy costs and boost revenue."

As smaller-format grocery stores continue gaining momentum, their appeal is undeniable: efficiency, convenience, and strong performance metrics. But the shift hasn't gone unnoticed. Legacy grocers are no longer simply observing these changes—they're actively adapting and innovating, reinventing store formats, deploying new digital strategies, and elevating in-store experiences to remain competitive in a rapidly shifting landscape.

RETHINKING THE TRADITIONAL GROCERY MODEL

Across the U.S., major grocery retailers are actively responding to the trend, transforming their operations and real estate strategies to stay ahead. H-E-B, for instance, continues to be a dominant force in Texas, but it's not relying solely on its traditional model. The company has introduced smaller footprint stores in urban cores and is doubling down on digital innovation, curbside pickup, and personalization. Its development pipeline remains one of the most aggressive in the nation, focusing on flexible formats that cater to different neighborhood needs.

Traditional grocers in Southeast markets, including Whole Foods, Sprouts, and Publix, are also rolling out smaller, urban-centric stores with innovative layouts, says The Providence Group's Wood.

Kroger, meanwhile, is investing heavily in its fulfillment network—partnering with Ocado to create automated warehouse facilities—while simultaneously refining its in-store experience with expanded private-label offerings, prepared meals, and lifestyle-driven departments, notes Baker of Baker Katz.

Even legacy brands are embracing hybrid approaches. Through multi-format stores, omnichannel strategies, and enhanced in-store dining and merchandising, they're meeting consumers where they are physically and digitally.

Still, Velocity Retail Group's Pitts warns against generalizing too broadly: "If you looked at H-E-B and Kroger, I don't think they're getting smaller; they're getting bigger." Kroger banner Fry's Marketplace, for example, has expanded its stores dramatically, from 50,000 square feet to as large as 120,000 square feet in some markets.

THE STRATEGIC POWER OF GROCERY ANCHORS

Lea Clay Park of Axiom Retail Advisors sees intensifying competition as a major force shaping grocery trends, especially in Southern California, which she describes as "one of the most competitive markets in the U.S."

Over the past two decades, specialty grocers like Sprouts and Trader Joe's have chipped away at traditional players like Kroger and Safeway by focusing on fresh, specialty products. In response, these big chains are competing more aggressively on price for center-store staples while shrinking store footprints to better support curbside pickup and delivery logistics.

New concepts launched by Texas powerhouse H-E-B include Main Street, a food hall featuring five casual restaurants and a full-service bar in Austin, and Joe V's, a smaller format that's grown to 13 locations thoughout the state.

Despite the growth of online grocery shopping, Park notes consumers still strongly prefer purchasing fresh produce and meats in-store, reinforcing brick-and-mortar's enduring importance. She emphasizes the strategic power of grocery-anchored centers, particularly if it's a premium brand like Trader Joe's.

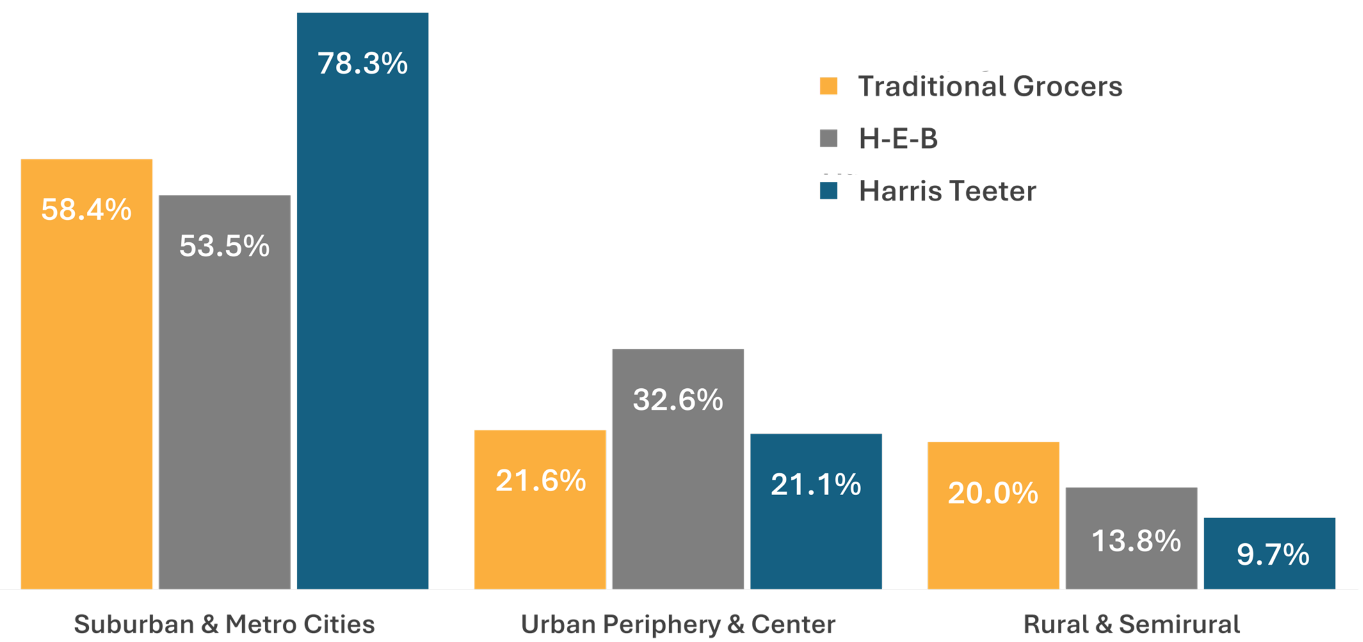
"A strong grocery anchor can lift an entire shopping center," she explains. In Encinitas, CA, for example, the presence of both Ralphs and Trader Joe's drove rents from $30 to $70 per square foot over five years by attracting better tenants and stronger credit profiles.

It's important to note, however, that not all grocery-anchored properties perform equally. Tenant mix and grocer type can greatly influence outcomes. Centers anchored by value-oriented stores like Grocery Outlet may follow different trajectories compared to those anchored by premium brands.

Flexible Formats Give Grocers a Broader Reach

By offering the right products in the right locations, grocery retailers have been able to meet consumers where they are and tap into new markets and demographic pools. Smaller, more focused concepts are finding success in urban and middle-income markets, while larger, more traditional models are holding strong in suburban cores.

Source: Placer.ai



ABOVE ALL, LOCATION REIGNS SUPREME

The Econic Company's James Chung emphasizes that the grocery game is still all about securing the right trade areas, and retailers are forced to adapt their size and strategy based on site availability and market density. Retailers are becoming more comfortable adapting to sites that aren't perfect but offer unbeatable access to key consumers.

"These brands are doing whatever it takes to get into the right location," he says. "In urban and infill markets where land is scarce, this means being flexible on format size, taking over second-generation spaces, or engaging in long entitlement and redevelopment processes. We're seeing older grocery boxes being reimagined to bring in higher-performing concepts."

Clearly, the grocery sector is bifurcating. Retailers are either investing in massive "bomber" formats to compete head-on with Costco and Walmart, or they're scaling down to nimble, neighborhood-centric formats emphasizing value and convenience. At the heart of both strategies lies a common driver: the evolving behavior of today's shopper—and the shifting real estate dynamics that must keep pace.

CONSUMERS IN CONTROL: CRE'S RESPONSE

With both disruptors and incumbents retooling their formats, the real story lies in what's driving the change: consumers. Evolving shopping behaviors and lifestyle preferences are now reshaping not just grocery offerings, but also the physical spaces where grocery retail takes place, creating fresh opportunities and new challenges for retailers and landlords alike.

Consumer behavior is driving a multitude of trends now showing up in the size, location and product mix of grocery

OVER

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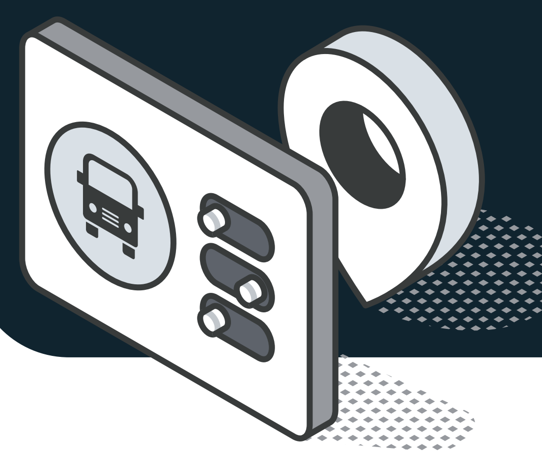
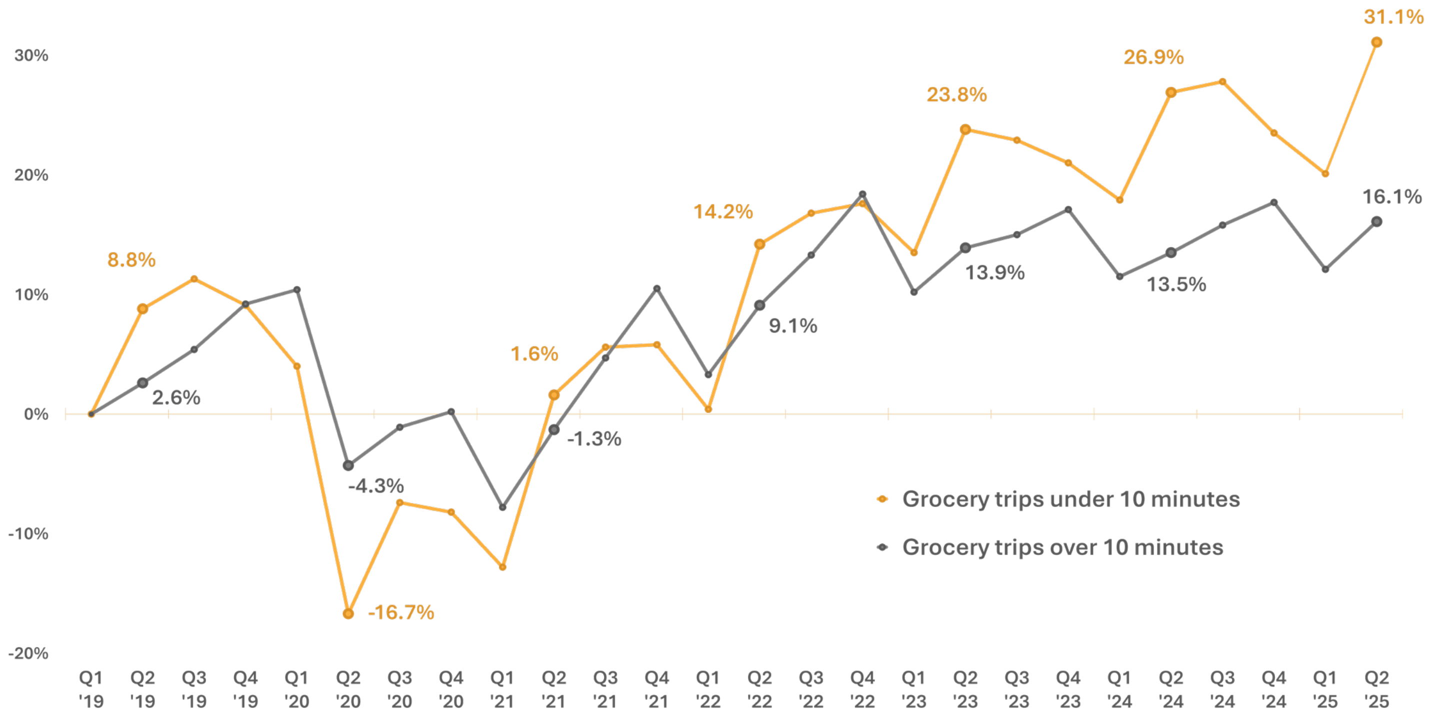


Quick Stops, Big Shift: Grocery Shoppers Prioritize Speed

Shorter grocery trips are on the rise, with visits under 10 minutes climbing to 31.1% in Q2 2025, up from just 8.6% in early 2019. The trend reflects a growing consumer focus on convenience, mission-driven shopping, and a shift toward buying different items across multiple channels and formats. *Source: Placer.ai*



stores. The Econic Company's Chung points out that grocery shopping has become increasingly fragmented. Consumers now make multiple trips to different stores—such as ethnic markets, Trader Joe's, Whole Foods, and Safeway—based on specific needs or occasions. "It's not a one-stop shop anymore," he says.

Supporting this observation is Placer.ai's latest report, which found that while people are making more shopping trips, they're increasingly spending less time inside. A notable trend is the rapid rise of short grocery trips (under 10 minutes), now a significant factor influencing store format strategies. Fresh-format grocers, in particular, benefit from this convenience-driven behavior, capturing quick, specialized shopping missions rather than traditional weekly stock-up trips.

Velocity Retail Group's Darren Pitts concurs. "Customers are splitting their shopping based on what they're buying," he explains, citing Aldi for value items, Kroger for selection and fill-in shopping, and Costco for bulk items on weekends. High-income shoppers often prefer Whole Foods, AJ's, or Erewhon for the overall shopping experience and specialty offerings, with price being less of a concern.

CONVENIENCE IS KING FOR SHOPPERS

Paragon Commercial Group's Dillavou highlights that today's shoppers prioritize efficiency, convenience, and frequent trips with smaller baskets. The rise of work-from-home trends further fueled demand for prepared foods and neighborhood convenience.

A 2025 Nielsen study reinforces this, reporting that over 90% of consumers blend online and in-store shopping, emphasizing the need for "click and collect" services and accessible surface parking to facilitate easier pickup. Parking is also a safety factor, Dillavou points out, particularly for women, who tend to prefer open parking lots to enclosed garage structures.

From the grocery store's perspective, current trends reinforce why neighborhood centers, not malls, are the preferred retail format. As destination tenants, grocers draw consistent traffic independently of co-tenancy. "They're not dependent on critical mass," says Dillavou, making them more adaptable to standalone or smaller centers.

And as always, cost and logistics play a large role. Grocers benefit from materially lower rents and CAMs in neighborhood centers, allowing them to operate more efficiently. These locations also provide easier loading access for multiple deliveries from large and small trucks, while the physical layout must accommodate growing channel fluidity, seamlessly supporting e-commerce, in-store, and even social platforms. "That level of flexibility is much harder to achieve in a mall," Dillavou explains.

International grocers are strategically targeting diverse U.S. markets. H Mart's successful expansion into Houston highlights how precise site selection can tap into demand for authentic global foods. Meanwhile, ethnic grocers like El Super and 99 Ranch Market are gaining prominence by catering to specific customer segments with tailored, high-quality assortments.

SEGMENTATION IS DRIVING STORE STRATEGY

Inflation, shifting demographics, and data-driven segmentation also significantly influence retailer strategies. "The market is more sophisticated than ever," with distinct niches emerging, Pitts points out.

Inflation has accelerated demand for value-oriented brands like Aldi, Lidl, and ethnic grocers, while midstream names, such as Safeway and Albertsons, are caught between price competition and premium experiences. Today's players are embracing the use of data and segmentation to micro-target consumer penchants. HEB, for example, customizes its salsa and chip offerings store-by-store.

> **Today's players are embracing the use of data and segmentation to micro-target consumer penchants.**

Targeting specific customer segments has also helped push ethnic grocers into the spotlight. Brands like El Super, Food City, Ranch Market, and H Mart are thriving by offering culturally tailored, high-quality assortments. "It's really product-driven," explains Chung. "In diverse communities like mine, we'll shop at Korean markets for items we can't get elsewhere, but we still go to traditional grocers and Costco for everyday needs and value."

Pitts echoes that observation, adding, "There's a different level of product quality—handmade tortillas in multiple flavors and shapes." He points out that specialty markets are typically taking over mid-sized footprints (~50,000–55,000 square feet), often repurposing former Safeway or Bashas' stores, to become fixtures in their communities.

Some of these global grocers like T&T and Northgate are emerging as category leaders. Chung says these brands are "setting a new standard" by responding to long-underserved needs within their core communities while also generating new demand. "They're attracting a broader, more curious customer base by offering an elevated, approachable experience," he observes. "There's much more accessibility now to authentic global products. It's making the world smaller."

EXPANSION—WITH PRECISION

International grocers planning to enter the U.S. are also banking on America's growing appetite for food discovery. These brands are taking a highly analytical approach to site selection. "Retailers aren't gamblers," says Chung. "They're incredibly data-driven, and their entry strategy is typically years in the making."

This is especially true in emerging secondary and tertiary markets that haven't traditionally been top-of-mind for global brands. Chung points to Houston as an example. The market is more often associated with barbecue than Asian cuisine, but it's now home to a growing footprint of grocers like H Mart, thanks to its sizable and evolving Asian population. These brands aren't just tracking demographics; they're diving deep into psychographics, education levels, income, and even geofencing and traffic flow data to determine precise market entry. "It's really the collision of art and science," Chung says. "Smart retailers look at how people live—not just where they live."

Breaking into new territory isn't without risk. From widely varying rents to local permitting challenges, the U.S. presents a complex retail landscape. Still, for brands that do their homework, the payoff can be significant.

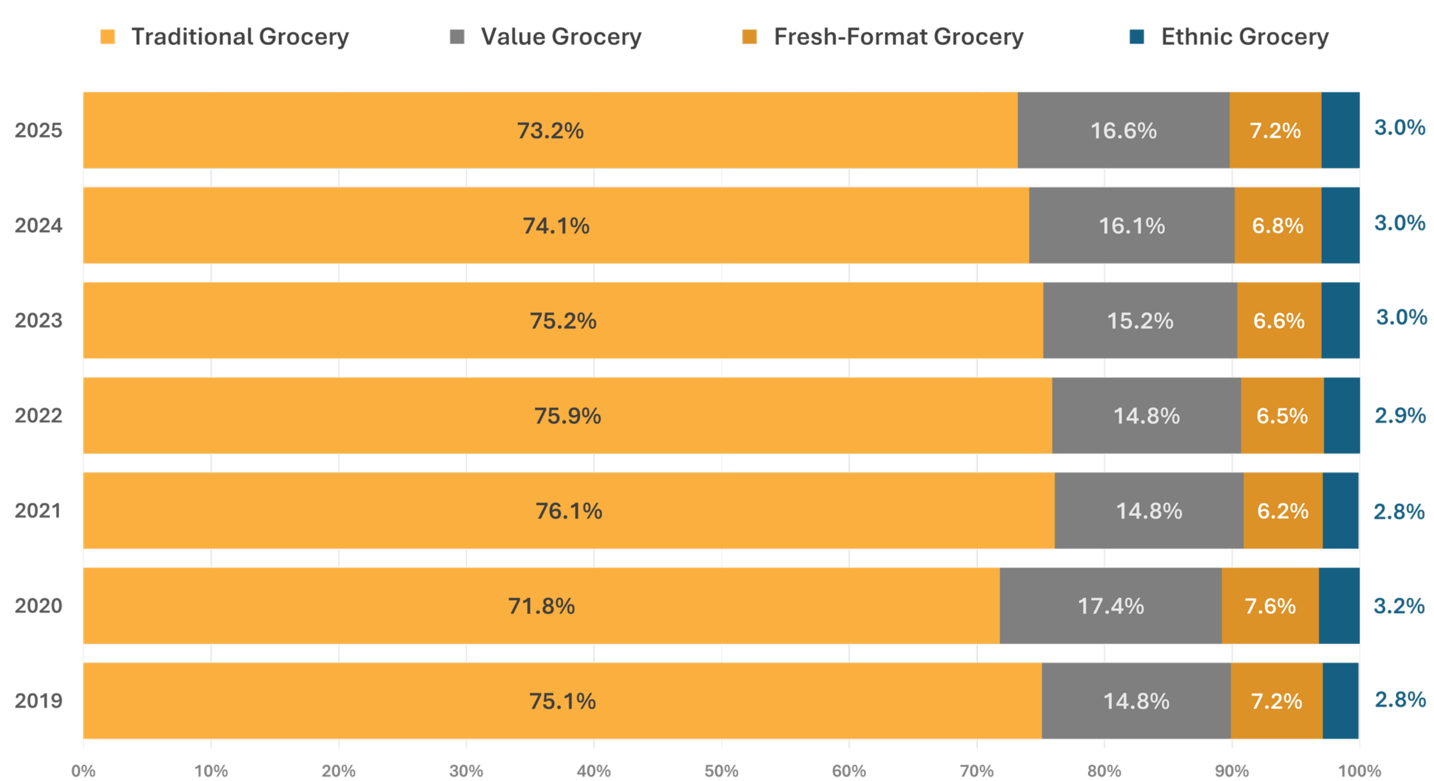
ONE LABEL CAN'T COVER IT ALL

Despite the complexities, grocery-anchored centers remain among the most resilient assets in retail real estate. But what "grocery-anchored" means is changing. No longer are landlords relying on a single 60,000-square-foot tenant to drive traffic. Centers are increasingly being designed around multiple, complementary grocery operators, each appealing to distinct consumer needs and enhancing overall synergy.

Baker says, "For grocers, success depends on understanding trade area behaviors. What used to be a demographic model now requires psychographic insight. People may live near each other but shop very differently, and retailers must adapt accordingly. Flexible site selection, omnichannel capabilities, and tailored product assortments are no longer optional—they're required."

Grocery Goes Granular: Shoppers Split Trips Across Formats

While traditional grocers still lead, steady growth in value, ethnic, and fresh-format stores points to a more fragmented market. Shoppers are now splitting trips across formats—choosing different stores for different needs, with convenience and product mix driving the shift. *Source: Placer.ai*



This detailed approach requires landlords and investors to remain agile. Chung warns landlords to stay attuned to both local shifts and national trends; understanding what's happening in other markets can help them stay ahead of shifts that may soon reach their own backyard. For retailers, success hinges on execution. "You need the entire team—brokers, architects, general contractors—all dialed in," Chung says. "Time kills deals. One weak link can compromise everything."

THE FUTURE BELONGS TO THE FLEXIBLE

Ultimately, retail isn't a formula; it's a balance of data-driven decision-making and instinct. Even great-looking opportunities on paper can fall short in execution. That's why, Chung says, retail, and especially grocery, is "a collision of art and science," where preparation, partnership, and judgment all play a vital role. "Those who win are the ones who innovate—and who keep evolving with their customers and communities as they change," says Chung.

The grocery store of 2025 looks very different than the one from 2015, or even 2020. Reinvention, renewal and adaptation will continue to shape the grocery store landscape. With macroeconomic headwinds accelerating shifts in consumer behavior, staying relevant requires a proactive, forward-looking mindset

Pitts says, "Grocery-anchored centers will remain a staple in real estate. REITs like them, investors like them—they'll continue to trade better than centers without a grocer. The grocery business isn't going away. It's evolving. The winners are doing the fundamentals really well."

The shake-up isn't over; the winners will be those retailers and landlords who adapt swiftly and smartly to meet changing consumer needs head-on. *X*

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