

# Shopping Habits to Drive Cold Storage Demand, UBS Says

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Increased demand for fresh food and online deliveries will boost demand for cold storage, leading to a reduction in food waste. Supermarkets are likely to seize the opportunity for improved efficiency by shipping products direct from the factory to consumer's homes, which will require delivery hubs with cold storage located onsite.

These are the upcoming trends seen by Darren Rabenou, head of food and agriculture and head of ESG investment strategies at UBS Asset Management's Real Estate and Private Markets business. "Instacart in the U.S. really accelerated during the pandemic when people were stuck at home," and longer term, "consumers will likely strike a balance between ordering food online and buying from the supermarket," he told BloombergNEF in an interview.

Supermarkets will need to adapt to retain data ownership around the consumer and not lose further market share to direct delivery companies, he said.

"Cold storage today is typically located in transport hubs... that are not designed to have 1,000 or more small delivery trucks coming in and out," so will need reconfiguring for the flexible needs of direct delivery, said Rabenou. New storage delivery locations with cold storage "would facilitate less food waste" because they would reduce the quantity of fruit and vegetables rotting on supermarket shelves.

UBS Asset Management owns about \$2 billion of farmland in the U.S. across 15 different states, and so has a good platform from which to invest "across the whole food vertical", said Rabenou.

Rabenou also discussed alternative proteins and vertical farming in the following interview with BNEF.



*Darren Rabenou, Source: UBS*

**BNEF: Could you give us an overview of your role and a key trend you see?**

**Rabenou:** My role involves overseeing around \$2 billion of farmland business. UBS is one of the largest institutional owners of farmland in the U.S. – we own more than 270,000 acres across 15 different states and 30 different major crops.

Most of our investors are large pension funds and farmland is a consistent performing asset class. We invest in everything from dry farm commodities, such as corn, soybeans, wheat and potatoes to more

perishable crops such as citrus, vegetables, apples and nuts.

UBS has an interesting platform that can evaluate investing opportunities across the whole food vertical – from farmland, to food infrastructure and to food processing, and to perishable food storage.

U.S. consumers now eat much more perishable and fresh food than our parents did – so cold storage is seeing increasing demand. The U.S. imports more than \$16 billion of perishable foods every year from Latin America – and we need a place to properly store it.

**Q: Where do you see the growing opportunities for cold storage?**

**A:** The average cold storage facility in the U.S. is 40 to 50 years old, so there has been very little new development of cold storage, despite demand increasing. That involves everything from perishable foods to what will evolve into a last-mile market, where food is delivered directly to the household.

The 'Amazon Effect' hasn't happened in food delivery yet – but [the effects of] Covid-19 initiated it. Instacart in the U.S. really accelerated during the pandemic when people were stuck at home. Some of that growth will be temporary, while some is indicative of wider market trends.

Consumers will likely strike a balance between ordering food online and buying from the supermarket. If we order food online, particularly perishables like dairy products and vegetables, then the supermarkets will think that rather than shipping that food from a cold distribution center to a store to then be selected for home delivery, it would be much more efficient to ship products directly to customers' homes. But the infrastructure to enable that does not exist at wide scale today.

If supermarkets are not careful, direct food delivery companies like Instacart and Ocado will start to replace the role of the supermarket because they will collect data on the consumer.

Supermarkets have very expensive footprints in town centers and large malls – and they might be able to reduce that if more consumers get direct delivery. That would reduce spontaneous purchasing of high-margin products, so supermarkets need to come up with ways to attract consumers in different ways and to be able to track their consumption habits through data collection.

**Q: Why is that important for cold storage?**

**A:** Cold storage today is typically located in transport hubs – next to an airport or port – that are designed to have very large lorries come in and collect a vast amount of items. They are not designed to have 1,000 or more small delivery trucks coming in and out. So maybe shopping malls will be reconfigured into mini storage delivery places with cold storage. Cold storage is also often needed on farms, particularly for certain perishable goods that need to be kept cold straight after picking, but the bigger investment opportunities are at large transport hubs.

Consequently, these new facilities would facilitate less food waste and as a result be more sustainable.

**Q: So you see increased uptake of many small, modular fridges?**

**A:** Yes, over time, although it is difficult to predict when that will happen. The market will likely evolve as companies develop the way they do business.

**Q: How are companies tackling the sustainability impact of cold storage?**

**A:** New refrigerator technologies have significantly less and/or no impact on the ozone and are more energy efficient. Cold storage does use a lot of power, but it also reduces food waste significantly. Food waste produces lots of emissions. Also, the U.S. needs cold storage to facilitate economic growth in Latin America, which is dependent on exporting perishable goods.

**Q: How does this fit into your investment strategy?**

**A:** Our view is that the "build-to-suit" market, rather than making speculative investments, can be particularly opportunistic. We have cold storage

exposure throughout some of our strategies as opposed to the operational side.

**Q: What is your wider agricultural strategy – are you getting involved with alternative proteins or regenerative farming?**

**A:** There is growing demand for alternative protein. From the farming side, alternative proteins are driving an increase in demand for peas, which are grown in certain states in the U.S. We need to consider whether we have enough farmland to meet those raw material needs.

Although there is demand, it may just be a temporary trend. Trends also vary across the world – developing markets are seeing increased demand for animal proteins due to improved affordability and living standards, while markets like the U.S. and Europe are seeing positive trends in alternative proteins.

Regenerative farming is interesting. However, there are some “unintended negative consequences” that are typically misunderstood by investors. As an example, while greenhouses and vertical farming use significantly less water than traditional farming, their energy footprint is huge, particularly in cold climates. The benefits of locating food close to demand may be disproportionately outweighed by the power use of these facilities. From an ESG [environmental, social and governance] perspective, this must be considered. Vertical farming likely has more relevance for countries like Singapore which have a small land mass, as it improves food security and reduces food imports.

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### Contact details

#### Client enquiries:

Bloomberg Terminal: press <Help> key twice | Email: [support.bnef@bloomberg.net](mailto:support.bnef@bloomberg.net)

Bryony Collins

Editor, BloombergNEF

Ben Vickers

Chief editor, BloombergNEF

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