RETAIL NEWS

WELCOME TO THE LEISURE DOME

ISSUE 5

FOOD & BEVERAGE

Under-served and over-supplied markets

A NATION OF LEISURE LOVERS

Why spend is no longer discretionary

CLIENT INTERVIEWS

Loungers, Adventure Leisure and Oxygen Freejumping

KEY TAKEAWAYS

- LEISURE IS BIG BUSINESS. SPEND TOTALLED £238BN IN 2016, ACCOUNTING FOR 20% OF CONSUMER SPENDING.
- LEISURE SPEND IS SUSTAINABLE – CHANGING CONSUMER PRIORITIES NOW MAKES LEISURE SPENDING FAR LESS DISCRETIONARY.
- F&B IS THE TRAILBLAZER. NEW SHOPPING CENTRES TYPICALLY ALLOCATE 20%+ OF SPACE TO F&B AND MANY EXISTING SCHEMES ARE BEING BACKFILLED.
- THE F&B MARKET IS GEOGRAPHICALLY POLARIZED. SOME MARKETS ARE OVER-SUPPLIED AND SOME RENTS ARE UNSUSTAINABLE – SOME FALL-OUT IS INEVITABLE.
- CONVERSELY, SOME TOWNS ARE STILL UNDER-SERVED F&B MARKETS, INCLUDING MANY REGIONAL CENTRES.
- THE LEISURE MARKET CAN'T AFFORD TO STAND STILL – AND IT ISN'T. SUB-SECTORS SUCH AS CINEMAS AND BOWLING ARE EVOLVING AND THE RISE OF "COMPETITIVE SOCIALISING" IS SPAWNING A RAFT OF INNOVATIVE NEW OPERATORS.
- LEISURE HAS BECOME A RECOGNISED ASSET CLASS. IT IS NOW AT THE TOP OF MANY INVESTORS' SHOPPING LISTS.

INTRODUCTION

I would like to think I have seen most things over the past 15/20 years in the leisure sector, but I have never seen such a disparity between investor demand and market supply as today.

Before leisure became "institutional", the definition of prime was tiny, and the domain was sub £20m, 15+ year income with rent indexation. Prime remains the "golden egg", but significant emphasis is now placed on the scheme/tenant performance, and the opportunity that gives the owner to leverage genuine open market rental growth.

As a positive consequence, most pro-active owners now understand that the relationship with their tenants is more than just rent collections. However, more now than ever, if any operator or owner becomes complacent, the scheme or brand can quickly fall out of favour. Ownership and operation in the leisure world is extremely "hands on", and we try to take the same view when advising in such a vibrant and progressive market.

ANDREW MCGREGOR
PARTNER - HEAD OF OUT OF TOWN RETAIL AND LEISURE INVESTMENT

LEISURE DASHBOARD

LEISURE SPEND – CONSUMERS PUTTING MONEY WHERE THEIR MOUTH IS

£238BN
ESTIMATED LEISURE SPEND IN THE UK IN 2016

+5.7%
AVERAGE ANNUAL GROWTH IN LEISURE SPEND OVER THE LAST 30 YEARS

+429%
TOTAL GROWTH IN LEISURE SPEND (1985-2016)

£1 IN EVERY £5
AMOUNT OF CONSUMER SPEND CHANNELLED INTO LEISURE

F&B – STILL HOT OR JUST OVER-HEATING?

42%
EATING OUT AS A PROPORTION OF ALL LEISURE SPENDING

6%-7%
PROPORTION OF SHOPPING CENTRE SPACE HISTORICALLY DEVOTED TO F&B

22%
PROPORTION OF SPACE DEVOTED TO F&B AT TRINITY LEEDS

£150/SQ FT+
F&B RENTS IN CERTAIN CENTRAL LONDON HOTSPOTS

NON F&B KILLER LEISURE STATS

800/4,244
NUMBER OF CINEMAS/ SCREENS IN THE UK IN 2016

33%
PROPORTION OF UK POPULATION WHO HAVE BEEN 10 PIN BOWLING OVER THE LAST YEAR

5.4M
ESTIMATED TOTAL UK GYM MEMBERSHIP

100+
NUMBER OF TRAMPOLINE PARKS ALREADY IN THE UK

"THE WALL OF COSTS"

£7.50 vs £7.20
MINIMUM WAGE INCREASE (AS OF APRIL 2017)

+26.2%
THE AVERAGE INCREASE IN BUSINESS RATES ALL RETAIL/LEISURE OUTLETS IN LONDON FACE FROM APRIL 2017

42.0%
THE UPPER CAP IN TRANSITIONAL RATE RELIEF AVAILABLE FOR UNITS WITH RV> £100K

-4.1%
THE LOWER CAP IN TRANSITIONAL RATE RELIEF AVAILABLE FOR UNITS WITH RV> £100K

A COMPELLING INVESTMENT CASE FOR LEISURE PROPERTY

£482.5M
LEISURE PROPERTY INVESTMENT VOLUMES 2016

50%
PROPORTION OF TRANSACTIONS (BY VOLUME) IN 2016 BY UK INSTITUTIONS

£108M vs £98M
PRICE ACHIEVED FOR PRINTWORKS IN MANCHESTER VS ASKING PRICE

5.00%-
PRIME LEISURE PARK YIELDS (AS OF MARCH 2017)

A NATION OF LEISURE LOVERS

WORDS: STEPHEN SPRINGHAM, PARTNER, HEAD OF RETAIL RESEARCH

Enjoying ourselves is no longer a luxury, it is a priority – and high levels of leisure spend are sustainable despite economic headwinds.

Fact: leisure accounts for an increasing share of our hard earned cash. Hard and fast figures on total leisure spend are hard to elicit due to the multitude of sub-sectors it encompasses, but all tangible evidence suggests that leisure accounts for a growing proportion of the consumer wallet.

How big is the UK leisure sector? Aggregating the two "coarse" ONS consumer spend categories that incorporate leisure ('Recreation & Culture' and 'Restaurants & Hotels'), leisure spend in the UK totalled around £223 billion in 2015. Extrapolating the first three quarters of 2016, we estimate that this figure rose to around £238 billion last year. Leisure is clearly big business.

How fast is it growing as a sector? The short answer is faster than most other facets of consumer spending. Over the last 30 years, consumer spending overall has increased at a compound average annual growth rate (CAGR) of 5.3%. Leisure spending has increased at a CAGR of 5.7% over the same period. A small difference numerically, but over such a long timeframe, this represents substantial outperformance.

Perhaps the absolute figures tell a more impressive story still. Leisure spend in the UK has more than quadrupled over the last 30 years (+429%). Even over the last decade, which, lest we forget included the worst recession in living memory, leisure spend expanded by 29%, a net increase of nearly £50 billion.

As a result, leisure spend as a proportion of the overall consumer wallet has slowly but surely crept up. Back in 1985, leisure accounted for 17% of overall consumer spending. At its peak in the early 2000s, this proportion reached as much as 21%. A dip during the financial crisis and subsequent recession has since been arrested and this share is again on the rise – in 2016, we estimate that it was just shy of 20% (19.7%). Expressed another way, £1 in every £5 spent in this country is channelled into some form of leisure-based activity.

> "Leisure spend in the UK has more than quadrupled over the last 30 years (+429%)."

Growth sectors

Probing a bit more deeply into the numbers, which are the fastest growing leisure sub-sectors? There are three "fine" spend categories that correspond most closely to what are widely perceived as the key leisure segments – Restaurants & Cafes, Recreational & Sporting Services and Cultural Services.

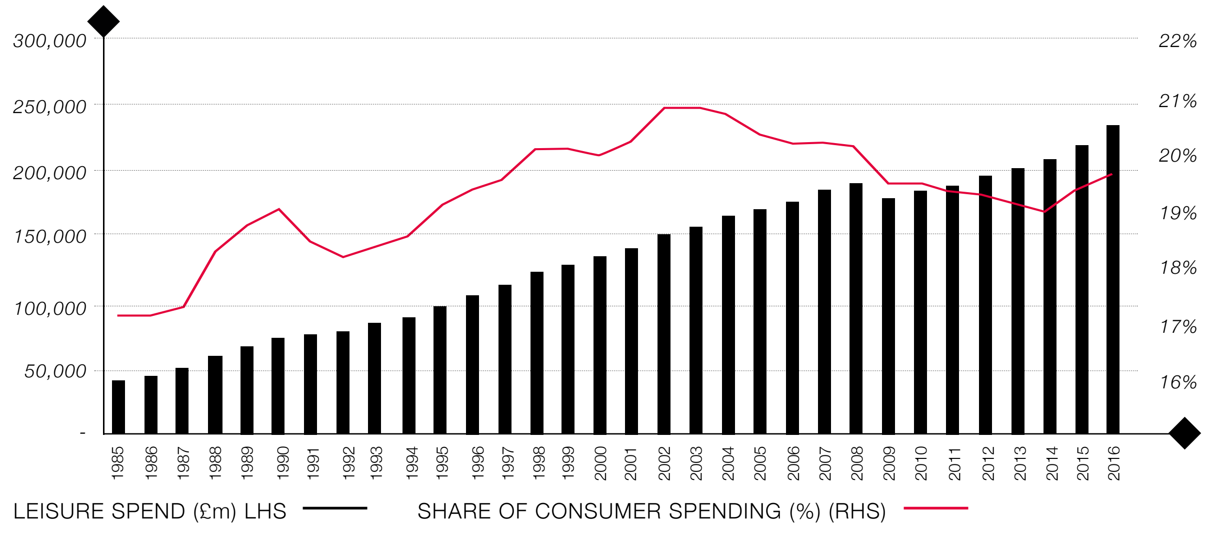
Purely in terms of growth, Recreational & Sporting Services has been the trailblazer. Fuelled by higher participation in sporting activities and a far more health-conscious consumer, spend has skyrocketed sixfold over the last 30 years and the sector is now worth ca. £9 billion annually. This translates to a CAGR of 6.9%, significantly ahead of both All Leisure (+5.7%) and All Consumer Spending (+5.3%). As the most obvious standard-bearer for the Recreational & Sporting Services sub-sector, gyms have enjoyed almost meteoric growth over the last 30 years. Mintel estimates that there are now more than 3,000 health & fitness clubs across the UK and membership continues to grow.

The slightly more ambiguously-titled Cultural Services sub-sector (which includes a wide range of leisure pursuits including cinema, theatre and museums) has also witnessed stellar growth over both a short and longer-term. A 30 year CAGR of 6.2% is comfortably above both All Leisure and All Consumer Spending. Cultural Services spend surpassed the £20 billion mark for the first time in 2016. Over the past 30 years, spend levels have increased fivefold. Over the last decade, growth has even outstripped that of Recreational & Sporting Services (+55% versus +40%).

Perhaps surprisingly, the growth trajectory of Restaurants & Cafés has been slightly less dramatic. The sector has grown at a CAGR of 5.1% over the last 30 years, which is slightly below All Consumer Spending (+5.3%). Given the extent to which the food & beverage market has evolved in the intervening period and the fact that the concept of eating out has become so commonplace

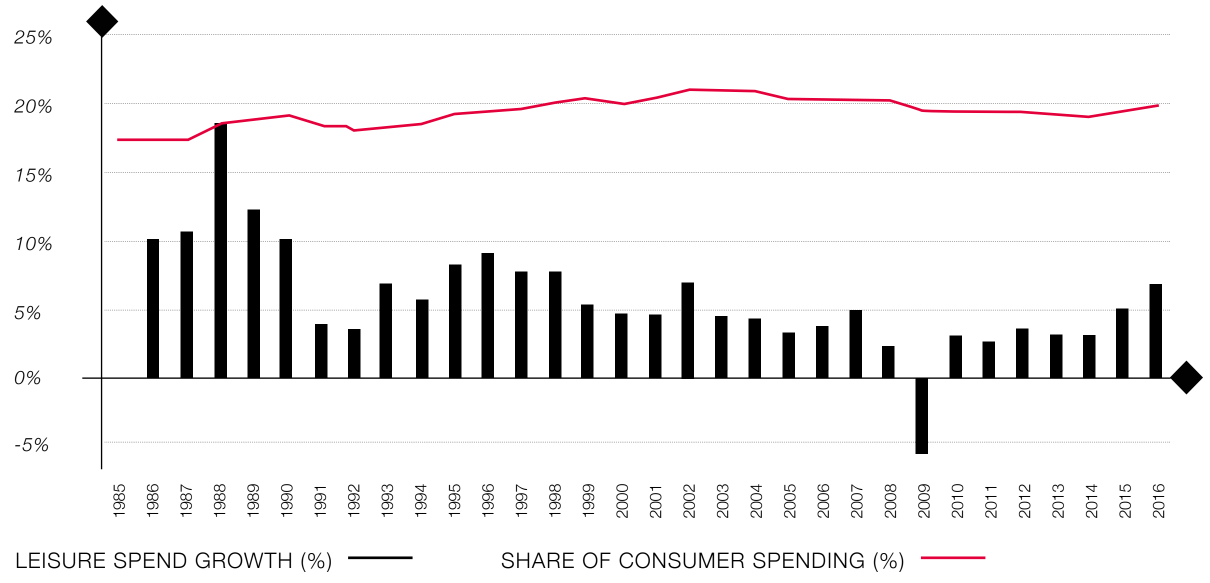
LEISURE SPEND 1985-2016

Source: ONS, Knight Frank
'LEISURE' DEFINED AS 'RECREATION & CULTURE' AND 'RESTAURANTS & HOTELS'.



LEISURE SPEND ANNUAL GROWTH 1986-2016

Source: ONS, Knight Frank
'LEISURE' DEFINED AS 'RECREATION & CULTURE' AND 'RESTAURANTS & HOTELS'.



among consumers (particularly families), this growth rate appears surprisingly low. However, the figures do need some qualification. Restaurants & Cafés is by far the largest of the leisure sub-sectors, with estimated spend of ca. £80 billion in 2016, so any growth is being leveraged off a much higher base. For all its evolution, it is also the most mature of leisure sub-sectors, so is likely to achieve less spectacular growth than some of its newer peers.

But even allowing for these caveats, the absolute figures are still very impressive. The sector has seen spend expand by around £19.8 billion over the last decade alone and continues to enjoy growth of ca. £3 billion per annum. On this basis, "underperformance" compared to All Consumer Spending is largely relative.

"Discretionary" spending is being redefined

If there is a question mark over the leisure sector it is the durability of this spend – the leisure market is perceived to be more fickle than other spend categories, particularly those over which the consumer has minimal influence, such as housing and transport. Even retail is regarded to be far less volatile as a spend category.

Leisure is ostensibly still at the most discretionary end of the spending spectrum. Economic wisdom would therefore dictate that it is the first category to give way in times of hardship and austerity. History certainly supports this view. Leisure may have consistently outperformed all consumer spending over the last 30 years, but during the last recession (2008-2012) this broader trend was reversed.

> “There is evidence to suggest that leisure may have undergone a redefinition of priority in consumers’ minds. For many, it is less “discretionary” than economists would have us believe.”

Indeed, in the nadir of the financial crisis (2009), the decline in leisure spend was more severe (-5.6%) than in overall spending (-2.4%).

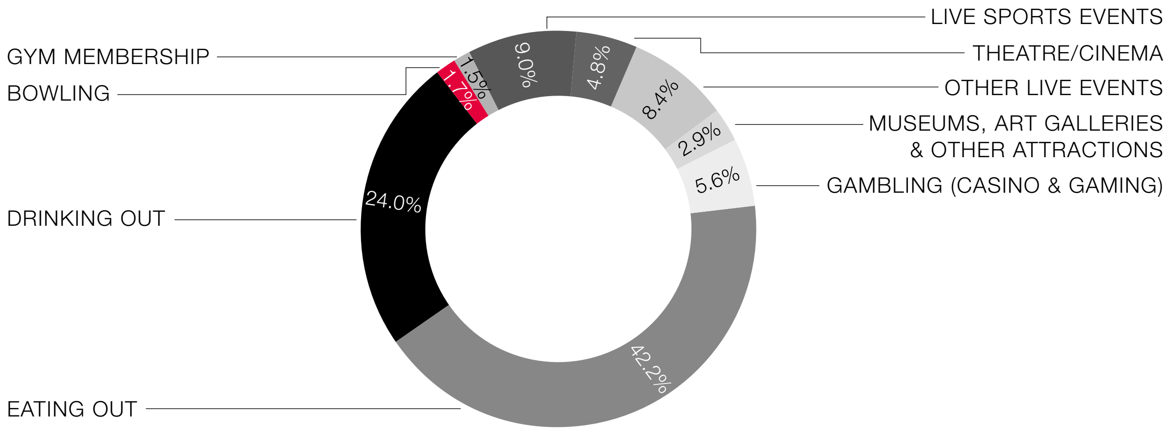
Will history repeat itself as we again enter a period of political and economic uncertainty? There are parallels within the retail sector to suggest that this will not necessarily be the case. Within retail, there is a distinct hierarchy of discretionary spend sub-catories. Broadly speaking, food is rarded as non-discretionary and comparison goods items (e.g. clothing, household goods) as discretionary. Most economists predicted a collapse in non-food spend during the last recession that simply did not materialise. The reason? The consumer had scant regard for economic logic and continued to spend on clothing as they had done before. What constituted “discretionary” previously had been redefined. For many consumers, fashion shopping was no longer a luxury, it was a necessity.

In the intervening period, there is evidence to suggest that leisure may have undergone a similar redefinition of priority in consumers’ minds. For many, it is far less “discretionary” than economists would have us believe and therefore far less vulnerable to an economic downturn or forced austerity.

Enjoying ourselves is no longer a privilege nor a luxury, it is a priority. And share of wallet will be allocated accordingly, whatever the prevailing economic climate.

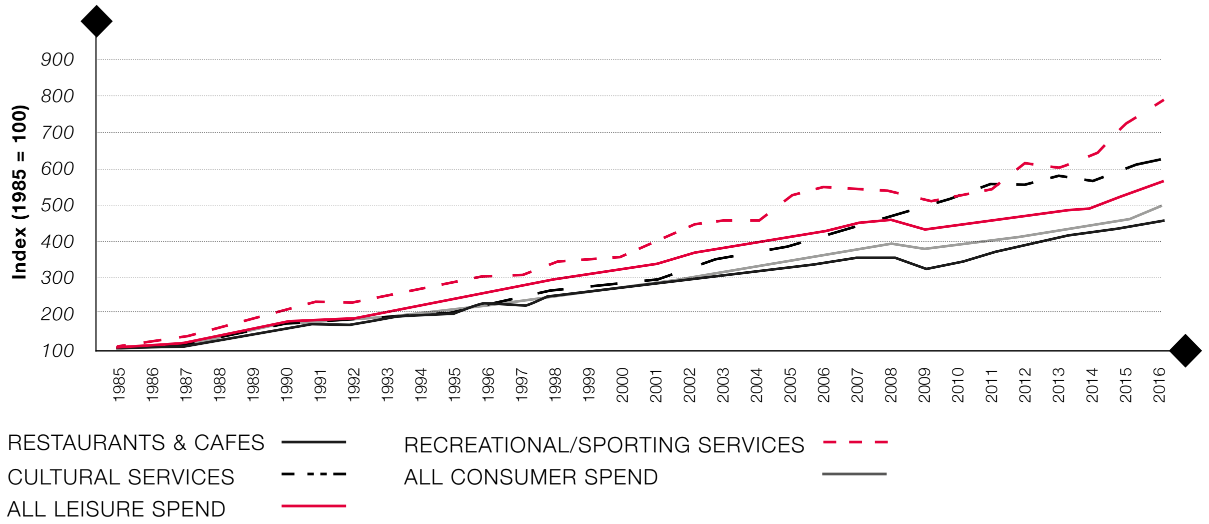
BREAKDOWN OF LEISURE SPEND – DECEMBER 2016

Source: GREENE KING LEISURE SPEND TRACKER, JANUARY 2017



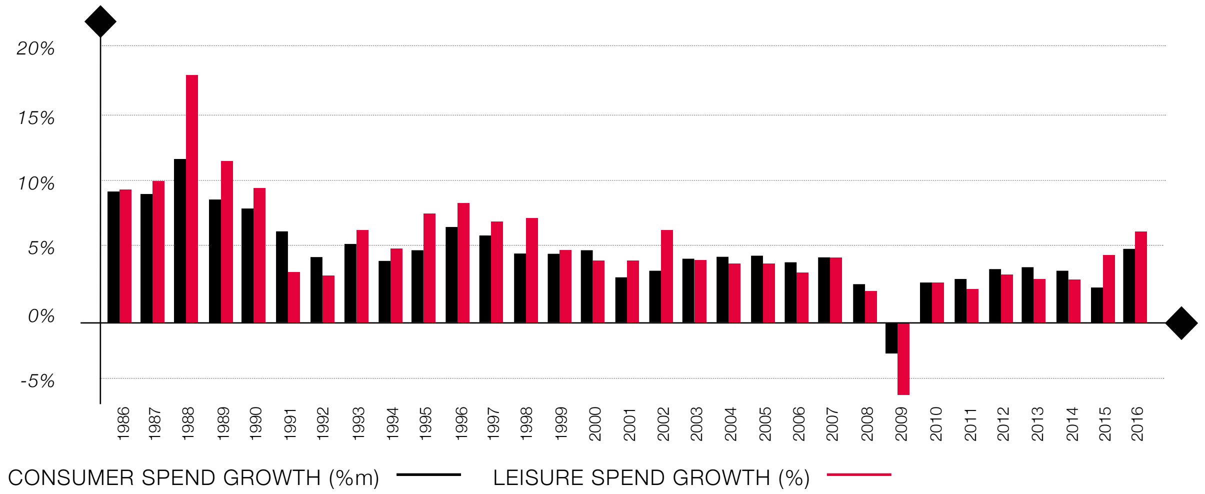
LEISURE VS CONSUMER SPEND INDEX (1988 = 100) 1985-2016

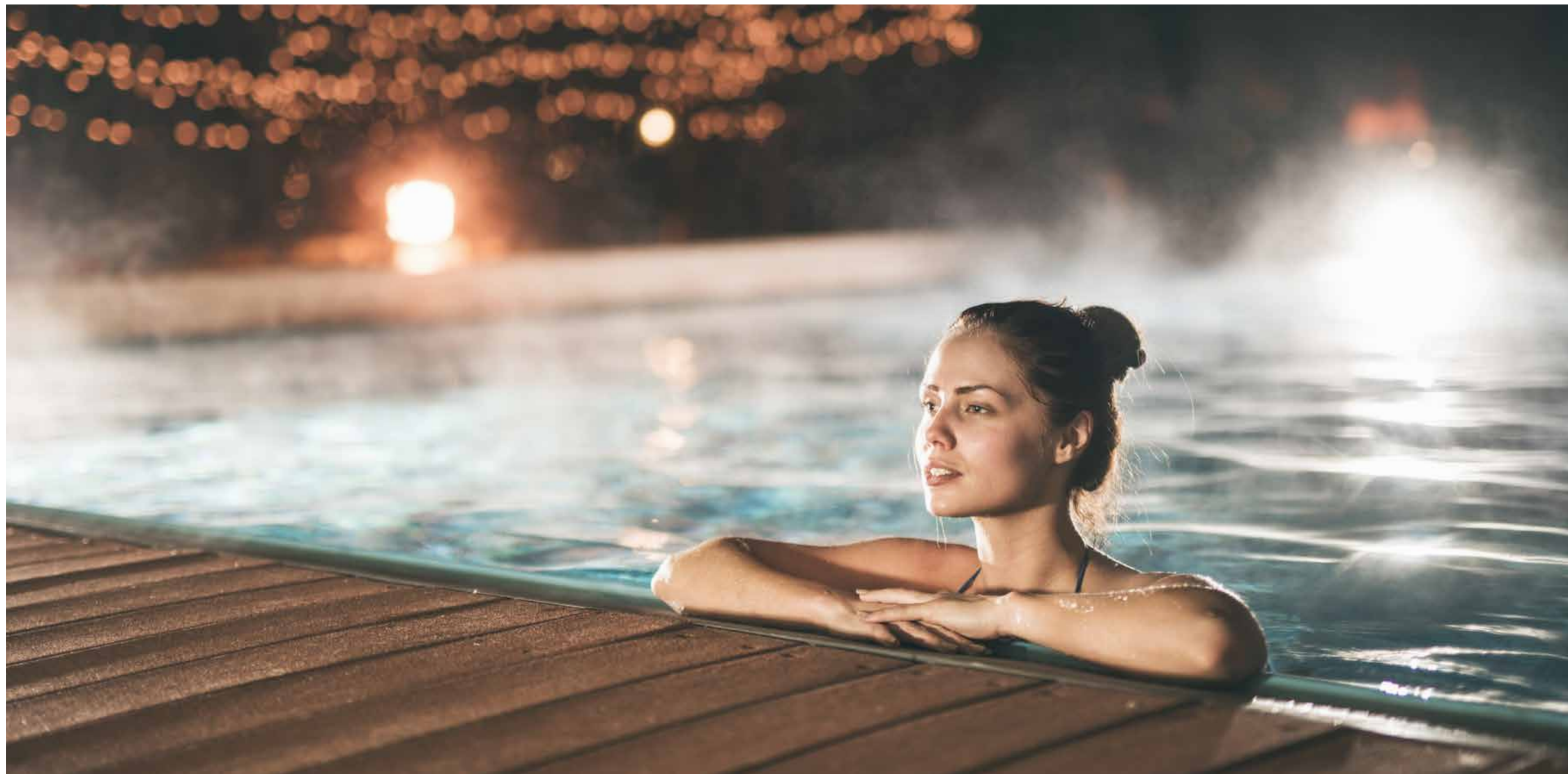
Source: ONS, Knight Frank
‘LEISURE’ DEFINED AS ‘RECREATION & CULTURE’ AND ‘RESTAURANTS & HOTELS’.



LEISURE SPEND GROWTH VS CONSUMER SPENDING GROWTH 1986-2016

Source: ONS, Knight Frank
‘LEISURE’ DEFINED AS ‘RECREATION & CULTURE’ AND ‘RESTAURANTS & HOTELS’.





F&B: STANDARD BEARER FOR THE LEISURE INDUSTRY

WORDS: DAVID LEGAT, PARTNER, RETAIL AGENCY

The role of F&B in retail has changed dramatically. Historically an after-thought, it is now a vital component of any location trying to create a "sense of place" – and it more than pays it way.

Leisure is a catch-all term for what is actually a highly diverse sector. The array of pursuits that fall under the wider umbrella of leisure is both broad and expanding. However, eating out is by far the largest and most conspicuous facet of the whole leisure market. Indeed, F&B is not only a standalone market in its own right, it is invariably a complementary component of virtually every leisure concept. In many cases, it is where the leisure operators actually make their money, the main event itself largely being a device to pull people in.

No longer the poor relation to retail

For all its maturity as a concept, F&B continues to evolve at a fairly rapid pace. Recent history has seen increasing proportions of leisure, especially F&B, being integrated into retail schemes, both in-town and out-of-town. The number of casual dining restaurants in the UK has boomed in the last five years as consumers continue to embrace a huge variety of new, fun dining concepts.

Landlords are working hard to accommodate this demand; on existing shopping centres they are working to adapt outdated first generation space to meet modern requirements, while on new schemes developers are dedicating an ever increasing proportion of their floor space to leisure. The historic "rule of thumb" was that F&B typically made up 6%-7% of floorspace in a shopping centre. However, this proportion has trended upwards in recent years, in some cases substantially so. Westfield Stratford City raised the bar considerably when it opened, with around 17% of space dedicated to F&B and in excess of 70 dining options. Trinity Leeds originally proposed around 10% leisure floorspace – when the scheme finally opened in March 2013, this allocation had increased to 22%. The narrative behind the higher space allocation to leisure is to increase dwell time and create "a sense of place". But beneath the rhetoric, the net result of this higher proportion of leisure is often far more commercial – higher levels of customer spend. While F&B may have been seen in the past as something of a space-filler and primarily a driver for the retail floorspace, it is increasingly a money-spinner its own right.

London versus the regions

While London does have the highest concentration of casual dining restaurants and also the highest growth rates in terms of new openings since 2012, this leisure focus is by no means confined to the capital and the rest of the UK is not far behind. Brands on the whole still favour London as their training ground before branching out to the rest of the nation, perhaps as consumers are so faddy and always want to try the latest concept.

> "The F&B market in Central London is facing something of a reality check in 2017."

But the F&B market in Central London is facing something of a reality check in 2017. On the back of the rates revaluation there is likely to be a significant (and imminent) rise in property costs, over and above the expected inflationary price rises and additional cost of both produce and staff. Ongoing uncertainty around Brexit is not helping matters, with the fate of the skilled migrant workers, upon which the Central London restaurant scene relies, far from certain.

Against this uncertain backdrop, rents are already at record levels in Central London. Mayfair is £150/sq ft+ and Soho is reportedly not far off this level. These record rents are bound to claim a few casualties, taking into account expected higher operational and occupancy costs, despite the transitional relief that some operators will benefit from when it comes to the rate increases. In the face of a potentially over-heating market, we expect rents to plateau and operators to take a more considered approach in assessing the viability of opportunities when they present themselves.

As the capital becomes ever more saturated with operators, some restaurateurs are choosing to buck the trend and start up in regional cities. One example is Mowgli, an Indian street food restaurant which started life in Liverpool and now has three restaurants open and trading all in the North West, with a small number of more on the horizon and no doubt a London debut will follow.

Those towns, cities and shopping centres which are undersupplied with casual dining are likely to see the largest levels of growth in new concepts over the next few years as restaurateurs try to exploit this undersupply and escape the highly competitive London market. We assess the extent to which individual markets and towns are under- or over-supplied in the next section of this Newsletter.

> "Those towns, cities and shopping centres which are undersupplied with casual dining are likely to see the largest levels of growth in new concepts over the next few years."

F&B: the ideal complement to other leisure activities

It is not just the scale of provision that has changed. The nature of F&B has also evolved considerably in recent years, particularly within shopping centres. Over the years, leisure provision has come a long way from the traditional food courts, typically banished to the upper or lower reaches of schemes. The mix and type of leisure necessary to increase footfall is diversifying significantly.

In the majority of cases, a cinema is still seen at the anchor for a traditional leisure scheme. In The Arndale Eastbourne Extension, for example, the pre-leasing of a 32,000 sq ft Cineworld provided the comfort to the casual dining brands that there would be day and evening leisure spend within the scheme, and so brands such as Carluccio's, Wagamama, Nando's, Ask and Byron all committed to the scheme.

Beyond the traditional cinema anchor, landlords are seeking other ways to differentiate the leisure offer. We have seen concepts such as KidZania opening in Westfield London, and this tendency is spreading throughout the spectrum of the shopping centre hierarchy with soft play, trampolining, crazy golf and various other concepts being introduced to not only help enhance the shopper experience, but in many cases help to solve the problem of what might otherwise be empty spaces.

From space-filling, low rent after-thought to front-of-house revenue-generating necessity, the rise of F&B within the retailing hierarchy has been significant. Its role as a bridgehead between the mainstream retail offer and destination leisure elements should also not be under-estimated.

LOUNGERS INTERVIEW

WORDS: RAJ MANEK, PROPERTY DIRECTOR

With a dual-brand strategy (Lounges and Cosy Clubs), Loungers is one of the new breed of highly successful informal food-led café/bars. The business is highly acquisitive and is poised to open its 100th site.

Q For those unfamiliar with your brand and concept can you explain what you offer and how it works?

A We are a true all-day A3 operator. We have two distinct concepts: Lounges and Cosy Clubs. Lounges are traditionally located in towns and suburb locations. Lounges are homely, relaxed and slightly eccentric and they offer quality, value-for-money, casual dining and drinking. As a result they attract a diverse customer base including young professionals, mums, families, over 60s and students. The concept is informal, resulting in a rolling customer base where customers use "their Lounge" to fulfil different needs at different times of the day.

Cosy Clubs are playful and unashamedly celebrate all-things Blighty; think "gent's club meets village hall meets cricket pavilion". Cosy Clubs are more formal and a "grown-up" model with a premium food and drink offering, although the Loungers value-for-money ethos still prevails. We focus on prime city centre retail locations, for example Liverpool One, Cardiff St Davids and Bath Southgate.

"Cosy Clubs are playful and unashamedly celebrate all-things Blighty; think gent's club meets village hall meets cricket pavilion."

Q What drew you to Loungers?

A I joined in June 2013. Piper Private Equity had invested a year earlier and the annual site rollout was in the process of being ramped up from 12 to 20 per year. It was a fantastic opportunity to get involved in the growth of such a unique and successful concept.

Q How and when did Loungers begin in the UK?

A Loungers was founded in Bristol in 2002 by Dave Reid, Alex Reilley and Jake Bishop. Having spent years in the restaurant and bar trade they decided it was time they did their own thing. They found an empty opticians on North Street in Bedminster, raised £30,000 between them and with the help of a £20,000 small business loan opened The Lounge on Tuesday 29th August 2002. The original Lounge is still open today.

Q Loungers operate in a highly competitive market, can you tell us what differentiates you from your competition?

A We are able to appeal to a wide range of demographics and age groups; we focus on providing a homely/informal atmosphere and we offer a quality value-for-money menu. We are successfully able to attract customers back on multiple occasions – you might come in for a panini at lunch during the week, a quick dinner and glass of wine with friends in the evening and then again for breakfast on the weekend.

Q With so many different A3 operators in the UK market and more emerging brands each day almost, do you think the current number of restaurants is sustainable?

A We have already seen some long-established operators cut back on new openings and look closely at their offer and brand. The availability of staff in our sector stands to be negatively impacted due to Brexit. Business Rates are going to be a big headache for those with "London/South East heavy" estates. However, it seems that every week there is a new concept being launched, so there is still healthy customer demand out there.

Q How many sites do you currently have across the UK? And how many more units are you planning?

A We will be up to site 100 in May this year. At the moment we are aiming for between 20-30 new sites per year. The concept is scalable and we believe in our ability to have 500+ sites nationally. Are there any overseas expansion plans? At the moment no, there is still a lot to do in the UK.

Q Loungers often trade under individual names in each location, what is the rationale for this?

A Yes, all Lounges have a different name and the name always ends in the letter 'O'. Each Lounge fitout is tailored to the history of the building or the location. With a unique name and a unique fitout for each restaurant we can create the feel of an independent restaurant (as opposed to a chain) – in this way we give each Lounge a better opportunity to become more quickly established within the local community. Cosy Clubs are just called Cosy Clubs but even here each fitout is unique.

Q What are your key requirements when considering a site for a new acquisition?

A For Lounges we are looking for a healthy high street, with limited vacancies and a good variety of types of retailer. To us this indicates that residents in the surrounding community use this pitch, and are therefore likely to use us. For Cosys, the focus is on character buildings (e.g. Grade II Listed former Midland Bank for Cosy Club Birmingham) or very prominent shopping centre locations (e.g. Cosy Club Liverpool located on the first floor site in the middle of Liverpool One).

Q Which of your competitors are you impressed with most and why? Are you happy to trade alongside your competitors?

A To be honest, there is something impressive about almost every competitor – whether it is the menu, consistent quality of food, quality of fitout – everyone is good at at least something, otherwise they wouldn't still be here. Nando's are a fantastic model, a very specific menu offer but they continue to be successful everywhere they open. Turtle Bay have seen phenomenal growth here in the UK and are now expending into Europe, with sites in Germany. The real challenge that everyone faces is being flexible enough to evolve with changing demand.

Q What is the biggest hurdle in the UK to acquiring new stores?

A For Lounges it is challenging to find 3,500-4,500 sq ft units in some towns and centres, due the limited supply of large units. This is in line with many retailer requirements, who can move much more quickly than us (no planning/licencing required, shorter fitout periods). We are also very strict with our rent levels, which often means that we cannot get to landlord expectations for high demand sites.

Q What is next for Loungers?

A We recently received significant backing and investment from Lion Capital in a transaction valuing the business at £137m. They bring with them significant experience (Wagamama, Weetabix, Kettle Foods). With site 100 around the corner, we are now making plans to get to site 200.

F&B: OVER- AND UNDER-SERVED MARKETS

WORDS: STEPHEN SPRINGHAM

The F&B "gold rush" of recent years has given rise to a very polarised market. Some markets are already over-heating, while others have been left behind. Where's hot and where's not?

The UK leisure market bears many of the traits of a Wild West Gold Rush – identification of a gilt-edged opportunity; a mad, chaotic pursuit from speculators (with limited forward planning); inevitable winners and losers; a degree of consolidation and fall-out; subsequent transition to a more stable, mature and sustainable market.

A consumer more pre-disposed to eating out and the need for retail locations to offer a more rounded, experiential proposition are the two gilt edged opportunities. The speculators are the growing masses of F&B operators, which include long-established domestic players, new upstarts and fledgling brands/concepts, plus fresh entrants from overseas. The gold rush itself started a few years ago now and is still ongoing. However, the final two acts still have to play out.

The chase for space has been a frenetic one. In a bid to remain competitive, operators have often put on the blinkers in their pursuit of sites and potentially lost sight of the bigger picture. As was the case with retailers when they were in gold rush mode in previous retail booms, there has also been something of a herding mentality – A3 operators will inevitably gravitate to locations where their peer group, and indeed competitors, have already ventured.

This approach has inevitably given rise to a very polarised F&B market. What were previously leisure hotspots have, in some instances, tipped over to become over-supplied in F&B – in simple terms, there is not sufficient consumer demand to justify the number of eateries that are in some towns and locations. In others, rents have also skyrocketed and the desire amongst operators to trade there has overridden their financial modelling. However good these locations are, rents have become unsustainable for operators to maintain a profit.

Nor is rent the only cost pressure in many locations. F&B hotspots are also very exposed to aggressive business rate revaluations. Even allowing for Transitional Reliefs, many restaurants in Central London particularly have been subjected to a 42% business rate hike in April this year (and, as things stand a further 32% in 2018 and 49% in 2019). Throw the increase in The National Living Wage into the mix, margins for operators will inevitably come under severe pressure.

Some over-supplied markets will undoubtedly see a shake-out. Conversely, at the other end of the spectrum, there are still plenty of towns and locations that do not have an adequate F&B offer. In the rush to acquire sites and keep with the herd, many locations have slipped under the radar and there are still plenty of back-fill opportunities for operators.

Well served markets – overheating?

Which towns fall into which category? There are no set parameters or metrics to determine the optimum level of F&B provision, but there are various methodologies which can be applied to provide a useful high-level steer.

The table on page 14 provides counts of F&B outlets by centre from Experian's GOAD classification. As there are nuances of definition e.g. whether a bar is just that, a pub or indeed a hybrid restaurant, we have included five F&B sub-categories and provided the Top 20 centres by aggregated counts. CACI's overall Retail Ranking for that centre has also been appended, as an indicator of where that centre sits in the overall national hierarchy.

To a certain degree, the Top 20 leisure locations throws up few surprises in that London and major regional cities pre-dominate – it's logical that the largest locations will have the highest proportion of F&B options. Major regional cities such as Manchester, Leeds, Glasgow, Birmingham and Liverpool all feature in both Top 10 lists, with the odd change in order e.g. Glasgow ranks a place above Manchester in CACI's list, but one below in the leisure list.

But cross-comparisons between the centres do reveal some interesting variations. For example, Birmingham emerges as very light on pubs relative to its peers, with just 28. Combining pubs and bars/wine bars to iron out any nuances of definition expands this number to 85 – this is still less than half the equivalent figures for both Glasgow (177) and Manchester (183).

If any of the Top 10 centres were light on the F&B side, this top-line analysis would suggest Liverpool. 67 Restaurants and 47 cafes/coffee shops are the lowest figures of any of the Top 10 leisure locations. Liverpool One has clearly significantly enhanced the city's F&B proposition, although not to the point of over-supply.

TOP 20 LEISURE LOCATIONS BY COUNT OF OUTLETS

Source: Goad, Knight Frank

LEISURE RANK	CENTRE	TAKE AWAYS	BARS & WINE BARS	CAFES & COFFEE SHOPS	PUBS	RESTAURANTS	TOTAL	CACI RANK
1	London West End	301	183	470	236	991	2181	1
2	London City	357	191	280	164	379	1371	104
3	Manchester	101	117	88	66	137	509	3
4	Glasgow	96	120	82	57	120	475	2
5	Birmingham	73	57	69	28	106	333	4
6	Brighton	49	45	75	47	110	326	22
7	Leeds	65	75	56	35	83	314	5
8	Nottingham	44	55	62	50	78	289	11
9	Newcastle upon Tyne	50	70	55	28	75	278	18
10	Liverpool	54	51	47	47	67	266	6
11	York	32	38	62	49	68	249	46
12	Aberdeen	57	49	36	28	59	229	25
13	Cardiff	37	48	53	18	61	217	26
14=	Leicester	52	34	46	25	55	212	19
14=	Norwich	41	29	52	24	66	212	21
16	Edinburgh - Princes Street	26	44	45	30	58	203	13
17	Bath	28	20	54	31	60	193	24
18	Edinburgh - Old Town	20	37	46	36	53	192	13
19=	Belfast (NI)	35	26	55	22	51	189	N/A
19=	Islington	27	20	40	25	77	189	75

London inevitably heads the list, with the West End and City occupying the top two places. Some parts of the capital are already over-heating in the face of huge demand from occupiers. Rents are already at record levels in some areas e.g. Mayfair is £150/sq ft, with Soho not far behind. The prospect of significant business rate rises across the capital will further test the resolve of what is undeniably a hugely vibrant, but at the same time, expensive and possibly over-supplied market. London is at both the cutting and bleeding edge of F&B nationally.

Nor is it just Central London where there are potential pinchpoints. There are a whole host of London fringe leisure hotspots at possible risk of over-supply. Islington ranks as one of the Top 20 leisure locations in the UK, yet only makes it into the Top 75 in CACI's overall ranking. Camden Town is another similar example.

Which centres punch above their weight in a positive way? The vibrancy of Brighton as a leisure-based centre is clear from even this top line analysis – it ranks 22nd in CACI's ranking, yet is as high as 6th in our leisure ranking. Newcastle and Cardiff's reputations as "party central" destinations are also underlined by these figures. More surprising perhaps is the appearance of York in the upper echelons of the leisure ranking. Clearly, a strong tourist market is also key component of leisure demand, hence also the fact that Bath ranks so highly.

Leisure lightweights

So much for the well-supplied extreme, what of the other end of the spectrum? Which towns do not currently have a sufficiently balanced F&B offer and, by extension, offer opportunity to both occupiers, landlords and possibly even developers?

To provide indicative rather than prescriptive answers to these questions, we have undertaken two pieces of analysis. The aim is to explore the relationship between the quality of F&B relative to a centre's other fundamentals, notably the quality of its overall retail offer and its catchment potential i.e. population that it serves. For both exercises, we have used PMA's Café & Restaurant Scores. These are calculated by assessing the multiple operators that trade in each location, weighting their respective draw as an operator and deriving an overall score that reflects the overall quality of the F&B proposition.

SELECTED "LEISURE-LIGHT" LOCATIONS – F&B OPPORTUNITIES?

Source: PMA, Knight Frank

REGIONAL CENTRES	SUB-REGIONAL/AVERAGE RESILIENT TOWNS	SUB-REGIONAL WEAK TOWN	AVERAGE WEAK TOWNS
Belfast	Burton-on-Trent	Middlesborough	Ayr
Kingston-upon-Thames	Truro	Doncaster	Bradford
Plymouth	Kendal	Portsmouth	Oldham
Derby	Chesterfield	Stockport	Scunthorpe
	Telford	Ipswich	Blackburn
		Hull	East Kilbride
		Stirling	Stevenage
			Mansfield

F&B versus Retail Provision

In the first analysis, we have played this off against PMA's Overall Retail Provision Score. This is a total score for each Retail PROMIS Centre, based on the presence of national and regional fashion and non-fashion multiples and key anchors within each town or city. The score reflects both the size and quality of these operators.

The distribution of the 300 PROMIS centres covered is best illustrated as a dual-axis scatterchart. Each dot represents one of the 300 centres under review, with some of the towns/cities highlighted and labelled. In very broad terms:

- Centres which fall on or near the trendline broadly correlate (i.e. the F&B offer is commensurate with the overall retail proposition)
- Centres above the trendline are well-supplied in F&B
- Centres below the trendline are potentially under-supplied in F&B

"Maybe leisure has succeeded where retail has failed?"

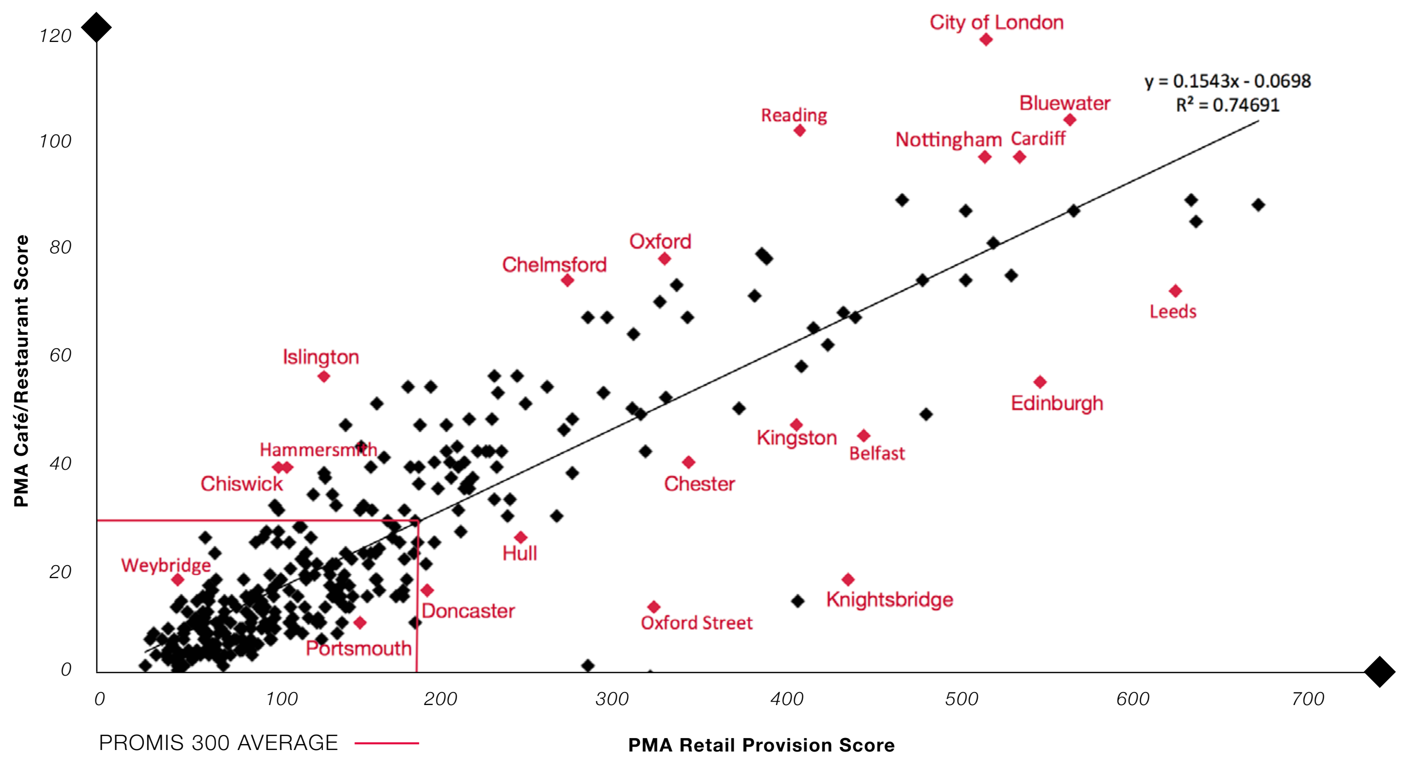
For the mathematical purists, comparing the two datasets across the 300+ centres yields a correlation index of 0.75 – in very crude terms, around three quarters of all the 300 centres follow a distinct pattern, this being that the quality of F&B offer matches that of the overall retail offer. As ever, more interesting than those that do follow this pattern are those that don't (referred to as "outliers").

Interestingly, much of the analysis is consistent with our more two-dimensional leisure ranking. Most of the major regional cities (Leeds, Glasgow, Manchester, Birmingham) have an appropriate F&B offer relative to their standing as an overall retail destination. In contrast, many centres in London are leisure-heavy. The City of London is the most obvious example, but Islington also features prominently at this end of the scale. Other London centres that emerge as being strong (possibly over-supplied) in F&B include Ealing, Wimbledon, Hammersmith, Chiswick, Clapham Junction and Wandsworth. Well-supplied tourist-based markets in the York and Bath mould include Oxford, Canterbury, Windsor and Salisbury.

Some interesting other centres also emerge as being well-served F&B markets. Reading has the third highest PMA Café and Restaurant Score of all 300 PROMIS Centres (behind the City of London and Bluewater), which bears testament to the city's improvement over the years. Some of the other "above the line" towns are perhaps more surprising still, including the likes of Chelmsford, Woking, Camberley, Wokingham, Staines and Bishops Stortford. The cynical explanation is that the retail offer in these locations isn't all it should be, so this is merely skewing the analysis. But it is worth stressing that all these locations benefit from strong, affluent catchments – maybe the leisure offering is attracting people into these towns in a way that the core retail offer has been unable to? Maybe leisure has succeeded where retail has failed? It's an interesting point as to the role of F&B in an overall modern-day town centre proposition.

RETAIL VS F&B PROVISION

Source: PMA, Knight Frank



Matrix cross-comparing the quality of 300 towns' retail and F&B offers. Above line = F&B-heavy, Below line = F&B-light. Each dot represents one town, selected outliers highlighted in red.

There are equally a whole host of under-supplied locations. By a quirk of analysis, the most under-supplied markets to emerge from this analysis are the main retail thoroughfares of Central London, Bond Street, Oxford Street and Regent Street (plus Knightsbridge and Chelsea's King's Road). This is an interesting contradiction to the Goad-based ranking (which does not distinguish between individual street's within the wider West End definition), underlining the fact that F&B is conspicuous by its absence on the main retail drags due to high rental costs.

But there are a number of interesting "leisure-light locations" away from the capital. The list of larger centres includes Kingston-upon-Thames. Leisure-based schemes such as The Rotunda and Kingston Riverside have not fully redressed historic under-supply. Other heavyweight retail centres that fall into the same bracket include Chester, Hull and Plymouth. A tier down in size, the list also includes Portsmouth, Doncaster, Ipswich, Middlesborough, Ayr, Stockport, Truro, Oldham and Stevenage.

F&B versus shopper population

In the second analysis, we have correlated the same PMA Café & Restaurant Scores with CACI's shopper population figures. By way of definition, shopper population is a modelled estimate of the number of people that actually use that centre for their main comparison goods shop, as opposed to catchment population which purely reflects the number of people that live there. In essence, we are comparing the quality of the F&B offer relative to the size of the town's overall audience.

In the second scatterchart:

- Centres which fall on or near the trendline broadly correlate (i.e. the F&B offer is commensurate with the town's shopper population)
- Centres above the trendline are well-supplied in F&B
- Centres below the trendline are potentially under-supplied in F&B

Even taking a slightly different angle, this second analysis largely reinforces the outputs from the first, with many of the same centres common to both. If there is a difference, the second analysis suggests that there is possibly still some headroom for F&B in the very largest regional cities (Glasgow, Leeds, Liverpool, Birmingham and Manchester).

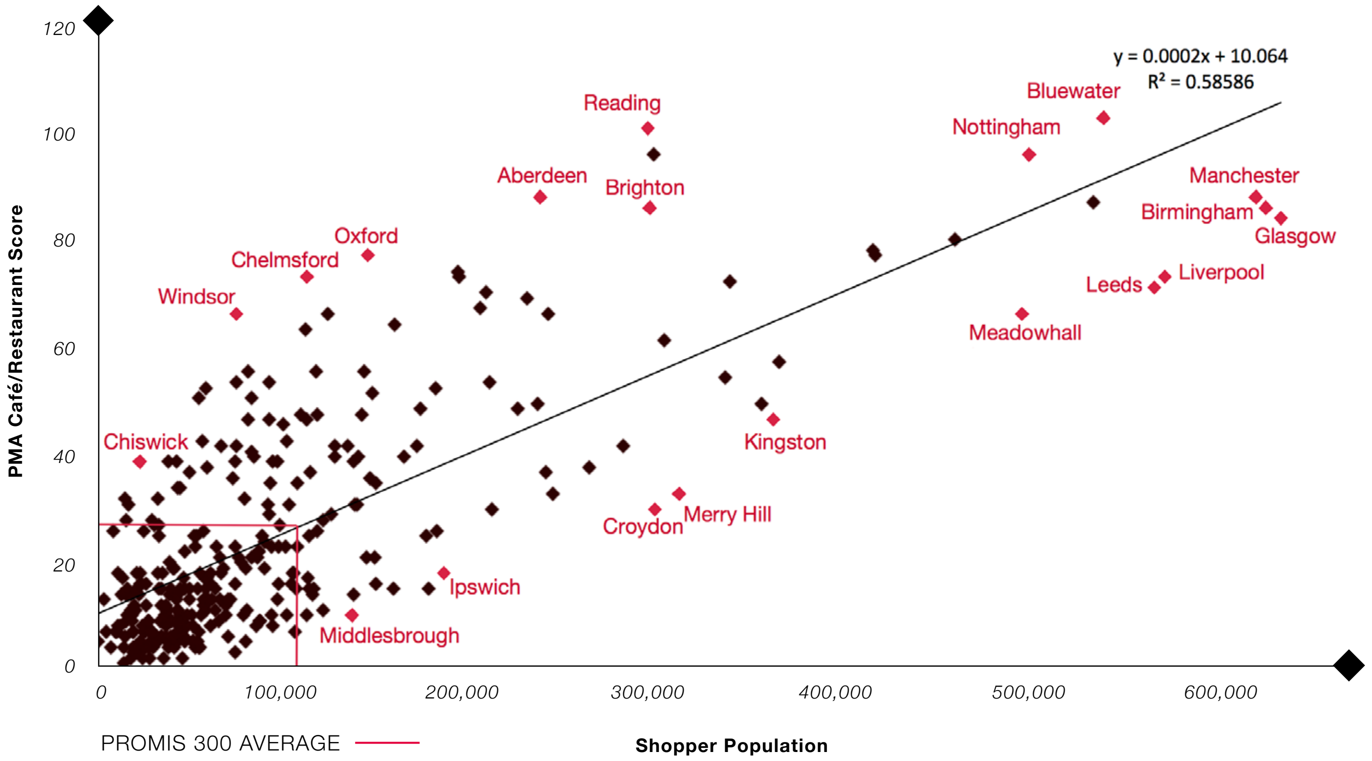
If anything, the shopper population analysis highlights even more where so many F&B operators have focussed their efforts. In very general terms, there has been considerable herding around:

1. Outer London Centres (e.g. Richmond, Wimbledon, Chiswick, Hammersmith, Clapham Junction)
2. Tourist Destinations (e.g.Windsor, Oxford, Cambridge, Bath, York, Durham, Stratford-upon-Avon)
3. Affluent market towns in the South East (e.g. St Albans, Winchester, Salisbury, Canterbury, Guildford, Henley-on-Thames).

Doubtless all strong leisure locations, but there must be question marks as to whether at least some of these are now over-supplied and facing a degree of fall-out.

F&B PROVISION VERSUS SHOPPER POPULATION

Source: PMA, Knight Frank



Matrix cross-comparing the quality of 300 towns' F&B offers and shopper populations. Above line = F&B-heavy, Below line = F&B-light. Each dot represents one town, selected outliers highlighted in red.

Demographics – still a divide?

A number of under-supplied centres identified through both analyses are somewhat "demographically-challenged." There is an obvious logic to this in that less affluent consumers are likely to have less disposable income to spend on eating out, which has historically always been at the most discretionary end of consumers' priorities.

But does this historic view still carry weight? One of the biggest misconceptions in retail is that the most affluent people spend the most money. This notion is increasingly being challenged. Affluent consumers often have huge conflicts within their wallet, with shop-based spend often subordinate to housing, school fees, healthcare, holidays, cars and transport. In contrast, less affluent consumers may have less cash, but what they do have they are for more predisposed to spend in traditional retail and leisure channels.

Family-based dining out is not the preserve of the middle classes. When the initial F&B Gold Rush is over, there may well be a few nuggets left in some of the less celebrated locations (yes gold, not chicken).

TRENDS IN LEISURE AND FORMATS OF THE FUTURE

WORDS: STEPHANIE GRAY, SENIOR SURVEYOR, OUT OF TOWN RETAIL AND LEISURE INVESTMENT

Diversity is one of the hallmarks of the leisure sector. And new, innovative concepts and formats continue to hit the market. At the same time, more established sub-sectors continue to evolve.

Leisure, in its many different facets, is becoming an increasingly important feature of our daily lives, with £1 of every £5 spent in this country being spent on leisure activities. But we are demanding more from our social lives and want to be tempted with new activities and experiences. So how are operators keeping up with our demands? We explore the emerging trends in the leisure sector, but also begin to consider the threats that occupiers are facing.

Cinemas – a mature market continuing to evolve
Let us first consider the trends appearing in the more traditional leisure sectors. The cinema is still a hugely popular leisure activity in this country, with admissions hovering around the 170 million mark and average annual spend per head just under £20 in 2015 and 2016. Compared to other EU countries, we have the biggest box office figures with gross box office numbers of €1.7bn compared to €1.3bn in France, €1.2bn in Germany and €570m in Spain.

"We have the biggest box office figures in the EU with gross box office numbers of €1.7bn compared to €1.3bn in France, €1.2bn in Germany and €570m in Spain."

There are now over 4,000 screens in the UK, but we have noticed a shift away from the tired and dated screens that were previously commonplace. There is a new focus, with operators seeking to provide an enhanced cinematic experience with improved visual and sound systems. Odeon, Cineworld, Vue and Showcase have all been investing in their cinemas to provide more intimate screens with fewer but better quality, reclining seats. They often serve alcoholic drinks and a better quality food offering, with some even having waiter service. We will need to wait to see the approach of new Odeon owner, AMC, but we anticipate them following a similar strategy of investing and upgrading their screens.

Surprisingly, this approach doesn't necessarily result in obvious ticket price hikes for the customer; cinema operators often claim to keep prices the same for the improved screens in the hope that the enhanced experience will attract more customers away from the competition and spending more on ancillary products in their cinemas. Nonetheless, average ticket prices have been rising ahead of inflation with the average ticket price in 2016 being £7.41, an increase of 2.8% from 2015. In 2015, the average ticket prices rose by 7% in a year when consumer inflation at 0.2% for the year barely shifted (Cinemagoing, Dodona Research).

Gyms – remaining fit for purpose
The gym sector has seen a polarisation of operators, with the best performing sectors in the market being the budget gyms and the premium end operators. Since its acquisition of LA Fitness in 2015, Pure Gym has become the UK's largest gym operator both in terms of number of gyms (over 170) and also number of members (c.450,000). This is a major success for a gym operator which only started in 2009 with four sites. At the other end of the market, there is now also a trend for boutique gyms and studios, especially in London but also spreading across the UK. These gyms offer small class sizes, personal training sessions, dedicated and tailor-made routines, body composition checks and luxury toiletries. They often specialise in one area such as yoga, boxing or classes but all command exceptionally high membership prices.

Bowling – rolling on
Even bowling is undergoing a revamp. Previously the domain of children's birthday parties with sticky carpets and warm beer, the bowling world is being transformed. New operators such as All Star Lanes and Lane 7 have reinvigorated the sector targeting a more grown-up clientele and offering quality food, fine cocktails and craft beers. They appeal to young professionals looking for an alternative night out or venue for a quirky party or corporate event.

Trampolining – providing plenty of bounce
At this point, it is impossible to ignore the overwhelming rise in popularity of trampolining. Perhaps five years ago, you may have scoffed at the notion, but it has proven to be a phenomenally successful and growing sector. The first trampoline park in the UK opened in May 2014 but there are now already around 100 parks across the country, with additional ones planned.Our interview with David Stalker of Oxygen Freejumping gives a fascinating insight into this world of trampolining and its appeal to the market. The benefits to landlords of this phenomenon are obvious – trampoline operators are now a key target for landlords with problematic 20,000-30,000 sq ft empty boxes. They bring a new audience to existing leisure schemes, retail parks and shopping centres with footfalls of circa 200,000 per annum. The rents they pay vary for different locations but as a rough guide, rents can be circa £7-£12/sq ft. For a landlord with a tricky empty big box, they are a tempting tenant. But David Stalker warns that as the sector becomes more competitive, there will be a consolidation of operators with the basic model being pushed out as the smarter operators develop their models.

"Trampoline operators are now a key target for Landlords with problematic 20,000-30,000 SQ FT empty boxes."

The rise of "competitive socialising"
In our modern society where everyone is looking for the "next big thing", the latest craze seems to stem from the hype for "Competitive Socialising" and offering a fully immersive experience. This trend began in London but is quickly spreading to major regional cities. We can play table tennis at dedicated ping pong venues such as Bounce, which has two venues in London or at Twenty Twenty Two in Manchester. Flight Club (which was co-founded by the founder of Bounce and co-founder of All Star Lanes) hails itself as the home of the "social darts" phenomenon and has a spectacular bar, supercharged games and bespoke technology.

Indoor golf has been transformed with the likes of Swingers, Urban Golf and Adventure Leisure aiming to

provide full social experiences. Junkyard Golf began in Manchester, but now also has a venue in Shoreditch.

Swingers has also capitalised on the incredible popularity of street food with vendors such as Pizza Pilgrims and Patty & Bun serving up food on site, all served alongside cocktails, craft beers and fine wines. As previously mentioned, Lane 7 has reinvigorated the bowling market but also offers ping pong, pool and karaoke. They are currently in Newcastle but are looking to expand into other regional cities. A whole host of other alternative leisure experiences are appearing and all are tapping into our desire to try something new whilst we socialise. There are new Crystal Maze type experiences, adult soft play and ball pools, even axe-throwing has become a new way to spend your evening and weekends! It seems that anything goes in the world of leisure.

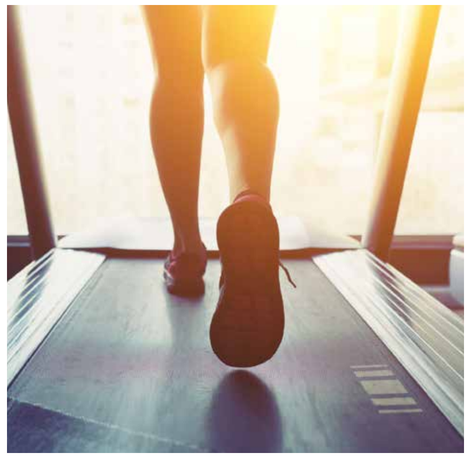
However, we mustn't view "competitive socialising" as a fad. As long as operators are able to stay flexible in their offering and bang on trend with their ways of keeping the fickle customer amused, then "competitive socialising" is here to stay. For landlords, this can only be a good thing as there is a bigger pool of operators to take on difficult units, they add diversity to old-fashioned tenant line ups and they drive footfall in existing schemes. As the operators become more recognised and successful, their covenants will improve and the rents they can pay will become more established.

> "If operators are able to stay flexible in their offering and bang on trend with their ways of keeping the fickle customer amused, 'competitive socialising' is here to stay."

The challenges

However, we must be mindful that operators face other threats aside from keeping up with customer demands. The "wall of costs" faced by operators is a significant and worrying reality. The overdue Business Rates Revaluation means that many businesses are facing a significant hike in rates. It is estimated that some restaurant and hospitality businesses will see rates rise by as much as 42% in 2017, largely (but not exclusively) in and around London. Adding this to the costs associated with the rise in The National Living Wage, as well as increased training and regulatory costs, means that many occupiers are facing real financial threats.

It is clear that we are a nation of leisure lovers who are excited by new concepts and experiences. The operators use this to their advantage and seem to be able to continually evolve their offering to meet our demands. Aside from the very real threats they face from other external pressures, operators must continue to be flexible and to stay on trend if they are to keep us spending our hard earned cash in the world of leisure.



INTERVIEW WITH ADVENTURE LEISURE

WORDS: HUGH KNOWLES, OPERATIONS AND DEVELOPMENT DIRECTOR

Golf itself may be a mature sporting pursuit, but the concept of a scaled-down, fun, family version is relatively new. Hugh Knowles, Operations and Development Director of Adventure Leisure, talks Knight Frank through the concept and the business' expansion plans.

Q For those unfamiliar with Adventure Leisure, can you explain what we could expect from a trip to one of your sites?

A We have a range of units from indoor to outdoor. The best way I can describe it is a cross between crazy golf and mini golf but modernised and in some cases "Disney-fied". No skillsets required, the customers are provided with a club, ball and then it is either 1 or 2 courses (games) of fun. Dependant on the site, we offer food and beverage with licensed bars. Being both indoor and outdoor, our portfolio is well balanced to take advantage of the UK climate! All ages are welcome, whether you are 3 or 93.

Q Do all your sites trade under the same name?

A We have an IP trade name called Mr Mulligans, which is given the site name, such as Pirate Golf, Dino Golf, Lost World Golf and we are in the middle of developing our new and exciting Space Golf. Our creative team can come up with many themes, we start with the mini golf base and we build the theme on top to excite the audience, all based on our due diligence and target demographic.

Q How and when did Adventure Leisure begin?

A Adventure Leisure is a subsidiary of, Burhill Group Limited, who own and operate 10 golf course destinations as well as an estate portfolio. The company is owned by the Guinness family. I previously worked within this business as their Operations Director. "Real golf", as I'll refer to, has been challenging with high maintenance costs and a competitive market. During this period, we recognised a potential opportunity to develop Adventure Golf on some of our existing portfolio. I studied in America and identified the opportunity, with a key difference being the US market caters more for holiday destinations but the UK would be reliant on the local population to support the new businesses. We mused that we were very early UK adopters, sold the idea to the Board and agreed we would develop one of these concepts on our existing golf facility in Milton Keynes.

We opened our first Adventure Golf course in 2011, which was a great success. We built a further two within the existing Burhill Group portfolio and then defined our growth strategy for new units and the strategic path for Adventure Leisure. Last year, we opened our first indoor adventure golf unit, which has been very successful along with a simple food and beverage offer.

Q You currently have six sites. Are you planning further expansion?

A Yes, we are forecast to open an outdoor site in Tonbridge in Kent on 29 April, we have signed the lease for an indoor unit at The Brewery, Cheltenham and we are in final negotiations on an indoor unit in the North East along with a further indoor unit just north of London. At the end of this year, we will have added four sites to the portfolio and are looking for a further 16 units.

Q The UK is spending increasing amounts of their income on leisure activities. Have you noticed increasing footfall and spend?

A We have seen within the parent company that there is more relaxation of the disposable spend towards food and beverage and positively noted growth over the last five years. On the Adventure Golf side it's difficult to quantify as it is still in its infancy. We have growth on our sites but whether that is down to the public loosening their leisure wallet is not possible to say. We do see the potential for offering quality food and beverage with the golf.

Q Who would you consider to be your main competitors? What do you think differentiates you from your competitors?

A It is important that we separate ourselves from the market and hence our IP to ensure we add tangible commercial value. Swingers in London is mini golf for the 18+ corporate market, which is heavily geared towards food and beverage. We operate in different markets; therefore, we co-operate rather than compete. Paradise Island, who offer Adventure Golf but without the licensed bar or F&B, cater more towards the family market. We are currently positioned in the middle – we will have a licensed F&B, but we also cater for the family market. At around 7pm/8pm we "adapt" the business to the DJ and the mood changes so as we cater to both elements. We are currently "adapting" our brand to facilitate our new unit openings.

Q Do you tend to benefit from repeat visitors?

A Yes we do, this is a very important area for us. We are developing our key performance indicators and we forecast an average of four repeat visits. Being leisure, we must refresh the theme and constantly evolve, otherwise the business will suffer fatigue. Standing still is not an option.

Q What types of location do you think are best for adventure golf? Is it better to be linked with other leisure activities such as cinema, bowling and restaurants and/or near a shopping centre?

A Ideally, we look for city centre sites and our preference is to be within leisure or mixed used destinations, to take advantage of the footfall. Being close to cinemas, parking and transport is also good for us. There are a few caveats when it comes to shopping centres including opening times. We wouldn't want to be in a shopping centre that closed at say 5.30pm; therefore, we would need to be supported by a cinema, but these are opportunities we are exploring. Destination leisure parks also work well for us.

Q What would you consider to be the ideal size and layout for Adventure Leisure and what sort of start-up costs are involved in setting up?

A Our optimum space is 17,500 sq ft and we range from 15-20,000 sq ft dependant on the location. Our fit out is circa £1.5m. That includes F&B, golf and the theming. We spend a great deal of time on the theme and flow of the courses. Our objective is for customers to play with the family and have fun without it being too difficult, but also play as an adult and have fun without it being too easy! We are unique in the fact that I have experience of working in the golf market that allows me to pull my knowledge of golf through to the design. My team becomes incredibly involved in the design to ensure it's a sustainable business, and of course fun for everybody.

Q What sorts of rents are you able to pay?

A With up to 17,000 sq ft, it is an expensive fit out; therefore, our financial feasibilities are strict with their hurdle rates. As with the majority of businesses, our rent needs to be commercially attractive for us to achieve our feasibilities and we need to be attractive to the landlord, which is aided by our covenant strength. What we will bring is footfall and a wide demographic of customers. The tenants we partner can leverage from the customers, which will assist the landlord in their portfolio for the micro destination. We aim to work with the landlord to benefit the whole scheme. Golf is a very sustainable business and we look at our landlords as long term business partners.

Q Are you affected by the rates rises going on?

A The majority of our businesses are new and valued at the time of opening; therefore, we are not seeing a spike. The parent company has also been shielded by the increases which are averaged at 2.5%.

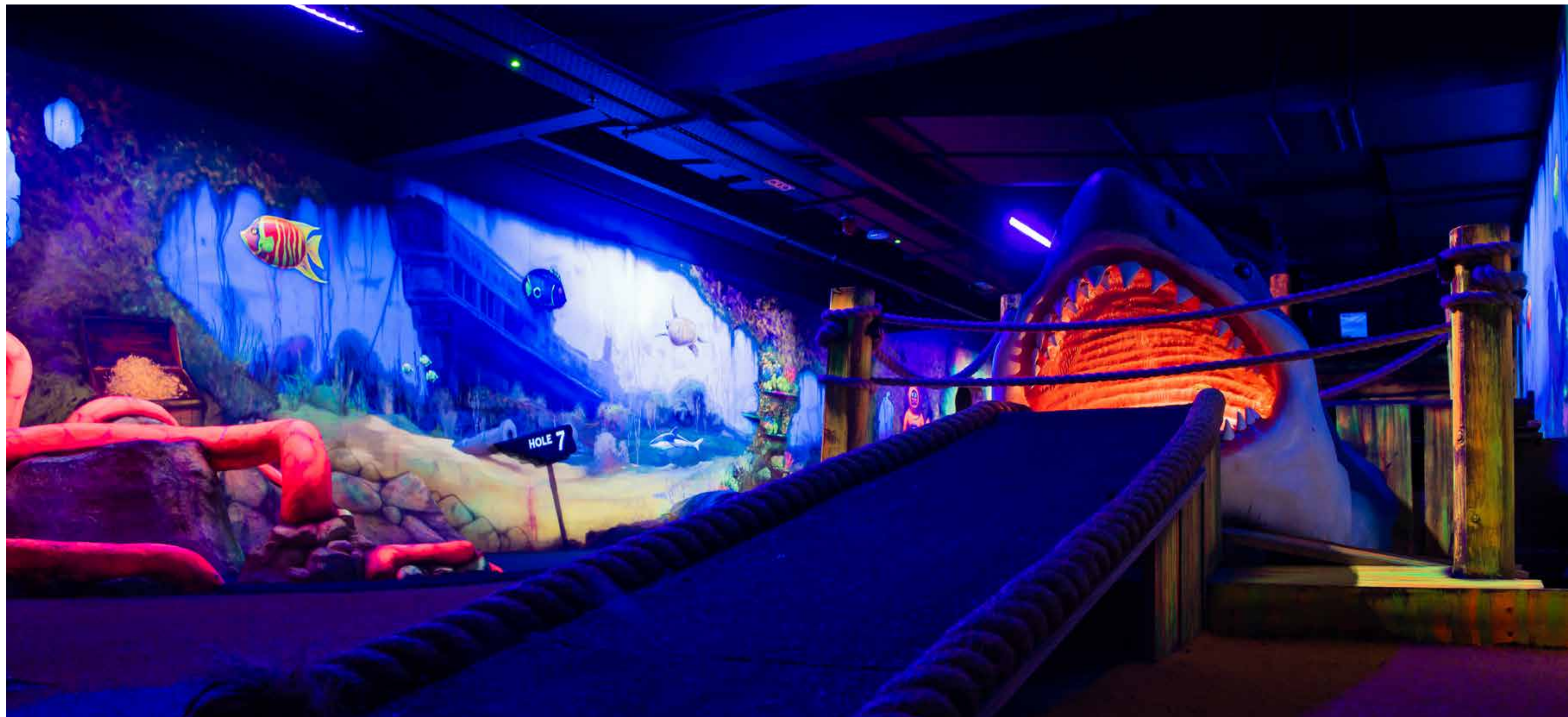
Q Are there any other key issues you would say affect your market and may impact on its growth?

A Competition will impact on any business, which is why we spend a good amount on the design and fit to ensure the longevity of our businesses. Expenditure goes hand in hand with good management and the payroll costs being above inflation could erode profit margins in the future and we will need to pass on these costs to the customer.

Adventure Golf is our core and it is also our belief that it is a sustainable market. Mini golf was around in the 1950's, located in London (Hammersmith) and in New York; customers could play and also eat and drink; business can be very circular and we have come back round again. We take the view that it is a very sustainable leisure business which can be evolved and adapted accordingly. Other factors are of course the competition for the space. Circa 17,500 sq ft of "good" space is challenging to find, recently eroded by the trampoline market; however, where we differ is that we can take all types of shapes and sizes, along with supporting pillars!

Q What is next for Adventure Leisure?

A We are on an agreed growth strategy for the next four years, where we are looking to grow at an average of four units per year. We are presently evolving our brand which will ensure we have flexibility to adapt to our markets, whilst enhancing our food and beverage offer. We continue to develop and look for new opportunities.



INTERVIEW WITH OXYGEN FREEJUMPING

WORDS: DAVID STALKER, CEO

The leisure market is characterised by its diversity and continuing evolution. Trampolining is one of a number of growth areas. Having recently welcomed their millionth jumper, Oxygen Freejumping's CEO David Stalker talks to Knight Frank.

Q For those unfamiliar with the concept of trampoline parks, can you explain what you offer and how it works?

A The "core" trampoline park offer is typically a 20,000-30,000 sq ft unit with wall to wall trampolines, with angled trampoline beds lining the walls, and typically an airbag, and dodgeball court. The core products are then an hour of jumping, toddler sessions and parties.

This is very much the "basic" end of the market. We are also doing things very differently in our parks with unique training programmes, new concepts and designs. We are not your typical trampoline park.

Q You are considered the UK's favourite trampoline park, what differentiates you from your competition?

A I think we have three key differentiators. Firstly, we are not satisfied with people treating Freejumping as a one-off "play experience", rather we focus on helping our jumpers to improve every week. It is impossible not to have fun when you're Freejumping, so we think it's our job to make sure you get better and keep coming back.

So, we actually have British Gymnastics instructors who deliver our School of Trampolining which helps you to go from novice to a flipping expert. Equally, we deliver five different formats of fitness classes for all abilities, have a Freerunning academy, and of course our partnership with Bear Grylls provides the first indoor obstacle course in the UK. Secondly, our parks are for everyone. A lot of trampoline parks try to focus on teenagers, whilst others attempt to attract very young children and families.

> "A lot of parks try to focus on teenagers, whilst others attempt to attract very young children and families. We actually attract all ages and abilities."

We actually attract all ages and abilities. In a normal day you will see a group of thirty something chaps training in our Bear Grylls Course for their next tough mudder, whilst a school group may be going through the gymnastics curriculum, and a collection of parents will be doing an Airbourne fitness programme, whilst their children Freejump.

Thirdly, our parks are quite simply the safest in the UK. Safety is of paramount importance to us and we regularly achieve an accident rate of below 0.15%.

Q The first trampoline park in the UK opened in May 2014, there are now around 100 parks with further planned. Why do you think the trampoline market has seen such a dramatic expansion rate and to what do you owe the success of the trampoline market?

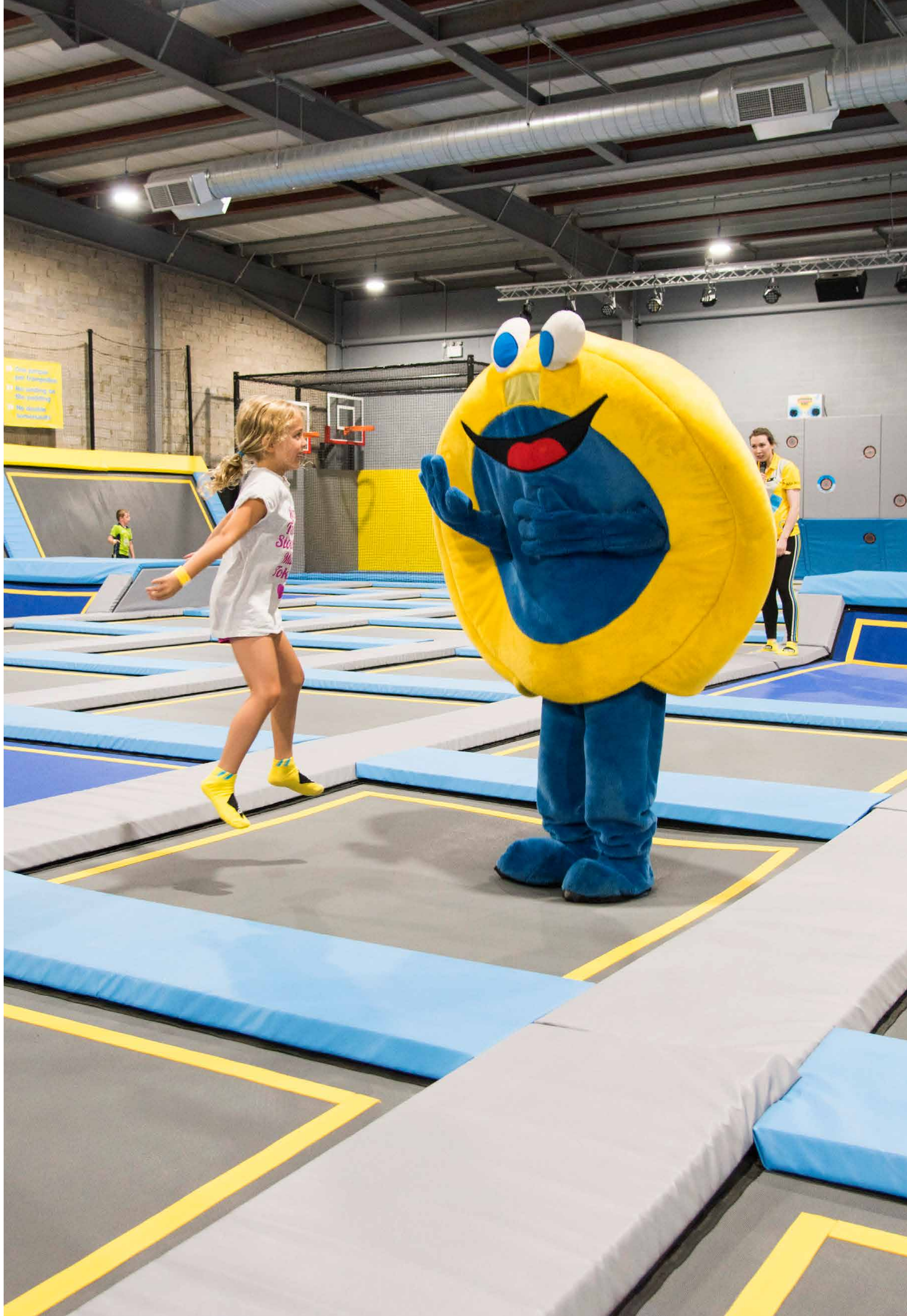
A The market has grown so quickly largely because of the "basic" model I mentioned earlier not providing any barriers to entry. In effect anyone with circa £750,000 and access to an industrial unit could roll out the basic model.

That model was initially successful simply because it is accessible for all ages and is tremendous fun.

Q Do you think the current number of parks in the UK is sustainable?

A I believe the UK can support somewhere between 250-300 sites so the current number is sustainable, however the exact current operations are not.

The basic model is no longer realistic. The operations



are poor, and the product mix does not support any retention of customers. As such I expect to see a programme of consolidation and closure set against continued net growth. The three or four quality operators, led by ourselves, will continue to grow and the basic model operators will close in competitive catchments.

Q What is the demographic of your customers? Do you tend to benefit from repeat visitors?

A The average age of our jumper is 15, with 60% of our jumpers aged between 6-16. We have a roughly equal split of male to female jumpers, however the "booker" of our activities tends to be 33 years old and female.

Understandably, we target an AB affluent social profile however the low upfront ticket price means that we can be flexible.

Q What is a typical annual footfall for a trampoline park?

A It varies, for instance in its first year our first site, West Acton, saw 360,000 visitors. This is an exceptional performance, and we generally forecast circa 180,000-240,000 visitors per annum.

Q What sort of start-up costs are involved in setting up?

A We invest between £60 and £65 per sq ft in our park. Meaning that our typical investment is £1.6-£1.9m per park. Our capital investment per site is far higher than the industry norm which we believe is closer to £800,000.

Q We have seen trampoline parks set up in a variety of locations – ex-warehouse units in industrial estates; vacant units in leisure parks; multi-storey, city centre buildings; retail warehouse units etc. What is important for you in picking a location? Do you think the concept works in all of these types of locations?

A The concept can work in each of these locations, however there is no doubt that as the sector becomes more and more competitive, the successful sites will be within the leading leisure parks. For instance, there are currently three trampoline parks within Leeds, including our own, and I have no doubt that our site on the Cardigan Fields Leisure Park will be the most successful.

Q With so many different types of locations, there must be large variations in rents being paid. How do you determine an affordable rent to pay?

A It depends on numerous factors including the size, building format, service charge and catchment. For instance, the model can at times sustain rents in excess of £15 per sq ft, however we then require a building that can support our entire product offer ranging from Bear Grylls Obstacle Courses to Performance Trampolines, both of which require over 7m clear height.

> "I believe the UK can support somewhere between 250-300 sites so the current number is sustainable, however the exact current operations are not."

Q There have unfortunately been accidents associated with trampoline parks. Safety must be an important issue for you. What are you doing to ensure safety in your parks? Do you anticipate more "regulation" in this regard?

A As I mentioned earlier our accident rate is exemplary, and we achieve it by:

- Training everyone in our sites, from the General Manager to the Cleaner, in a Level 2 First Aid
- Ensuring our management teams, six people per site, have all undertaken a five day First Aid Course
- Limiting our capacity to well below the sector norm, meaning there are fewer instances of more than one person on a trampoline
- Designing our parks with key zones so we can segment ages and abilities
- Securing our primary authority status with Northampton Council who we work with to refine our procedures

I would encourage greater policing by Environment Health Officers who should use the now available PAS Specification for trampoline parks to review the sites within their catchments.

Q Are there any other key issues you would say affect the trampoline market and may impact on its growth?

A The rapid rollout of the sector in certain catchments, such as the North West, will disrupt the growth of the sector as numerous operators "battle it out" for market share. This process could take well over a year during which time the growth of the sector will slow.

Q What is next for Oxygen Freejumping?

A The immediate landmarks are the launch of our second London site, Croydon, on 10 April and the launch of our Bear Gryll's Obstacle Courses in Manchester and Derby.

Later this year we will be opening our third London site, and several other sites whilst also delivering our Bear Grylls concept to Southampton.

LEISURE INVESTMENT MARKET

WORDS: ANDREW MCGREGOR, STEPHANIE GRAY

A flurry of high-profile investment deals over the last six months underlines leisure's "coming of age" as an asset class. The case for investment is a compelling one.

Leisure – going beyond a niche investment class
Leisure has become a fully recognised asset class and is now at the top of many investors' shopping lists. A lack of stock has put additional pressure on the pent up demand which is leading to a hardening of yields for prime leisure stock. We take a look at the key transactions of 2016 and review why leisure has become a target for investors' portfolios.

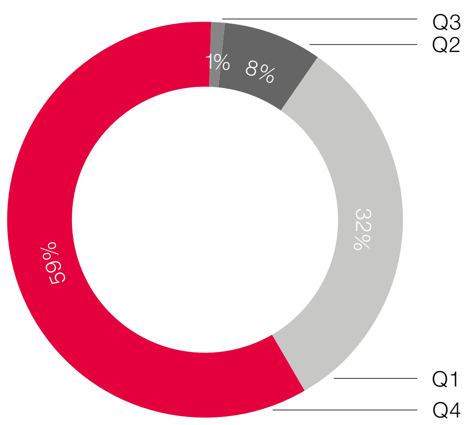
2016 snapshot
2016 started promisingly with the £42.75m sale of Albert Docks in Liverpool to Aberdeen Asset Management reflecting a NIY of 5.6%. This multi-let leisure scheme in the heart of Liverpool required significant asset management and was not a cinema anchored scheme but the sale was well received by the market due to its iconic status and strong tenant line-up.

Other notable transactions in Q1 and beginning of Q2 2016 included the sale of two Odeon cinemas by London Metric. Both had 22 years unexpired on the leases with annually received RPI linked rental increases. Preston was acquired by BlackRock for £10.2m (5.82%) and Taunton was acquired by OLIM, on behalf of Asda Pension Fund, for £9.1m (5.50%). However, in the lead-up to Brexit and throughout the summer, there was a dearth of leisure stock on the market (in common with most other property classes). This slowdown in transactions was noticeable with less than 10% of the year's total transactions taking place in Q2 and Q3.

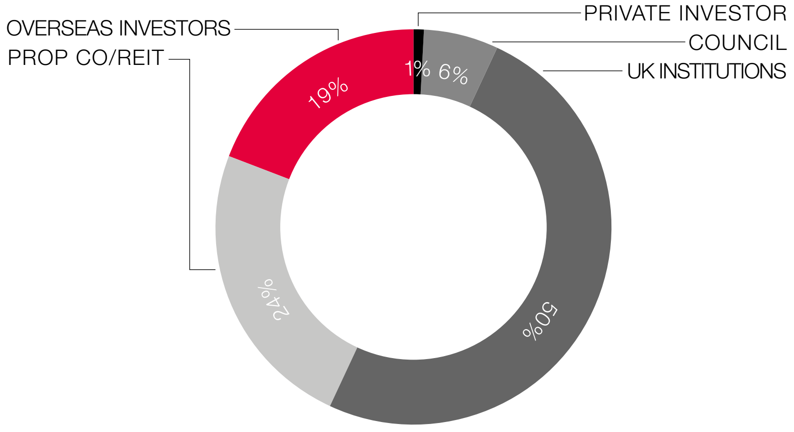
Finishing with a flourish
However, Q4 was a whirlwind of activity with £288m of transactions completing in Q4 (nearly 60% of the year's total transactions). The first of the notable transactions was The Exchange in Aylesbury which Aviva brought to the market in October. It attracted good interest due to its strong South East location and asset management potential. Threadneedle bid competitively at closing date and acquired for £13.47m reflecting a NIY of 5.47%. Given that the Odeon had just eight years unexpired, arguably this cap rate reflects a post re-geared Odeon lease, but the strong price reflects sector support and strong location fundamentals.

The largest transaction of the year was Omni leisure scheme in Edinburgh, also sold by Aviva. The "Scottish Factor" led to a slow start in the marketing but as the

% VOLUME OF TRANSACTIONS



PURCHASERS BY VOLUME OF TRANSACTIONS



year end approached, interest soon gathered pace. After a competitive bidding situation, it was acquired by TH Real Estate for their European Cities Fund for £74.8m. Despite some investors ruling out committing to Scotland, with over 15 year WAULT and over 75% index-linked income, this looked good value at a NIY of 6.4%. The year ended positively with Land Securities putting the landmark Manchester leisure scheme, Printworks, under offer to DTZIM. Its completion was in February 2017 and so not included within the 2016 figures but was sold for £108m reflecting a NIY of 5.86%. Trading numbers from most of the operators at Printworks were phenomenal which, combined with the undoubted macro and micro location, made this asset appealing to both private equity and institutional money.

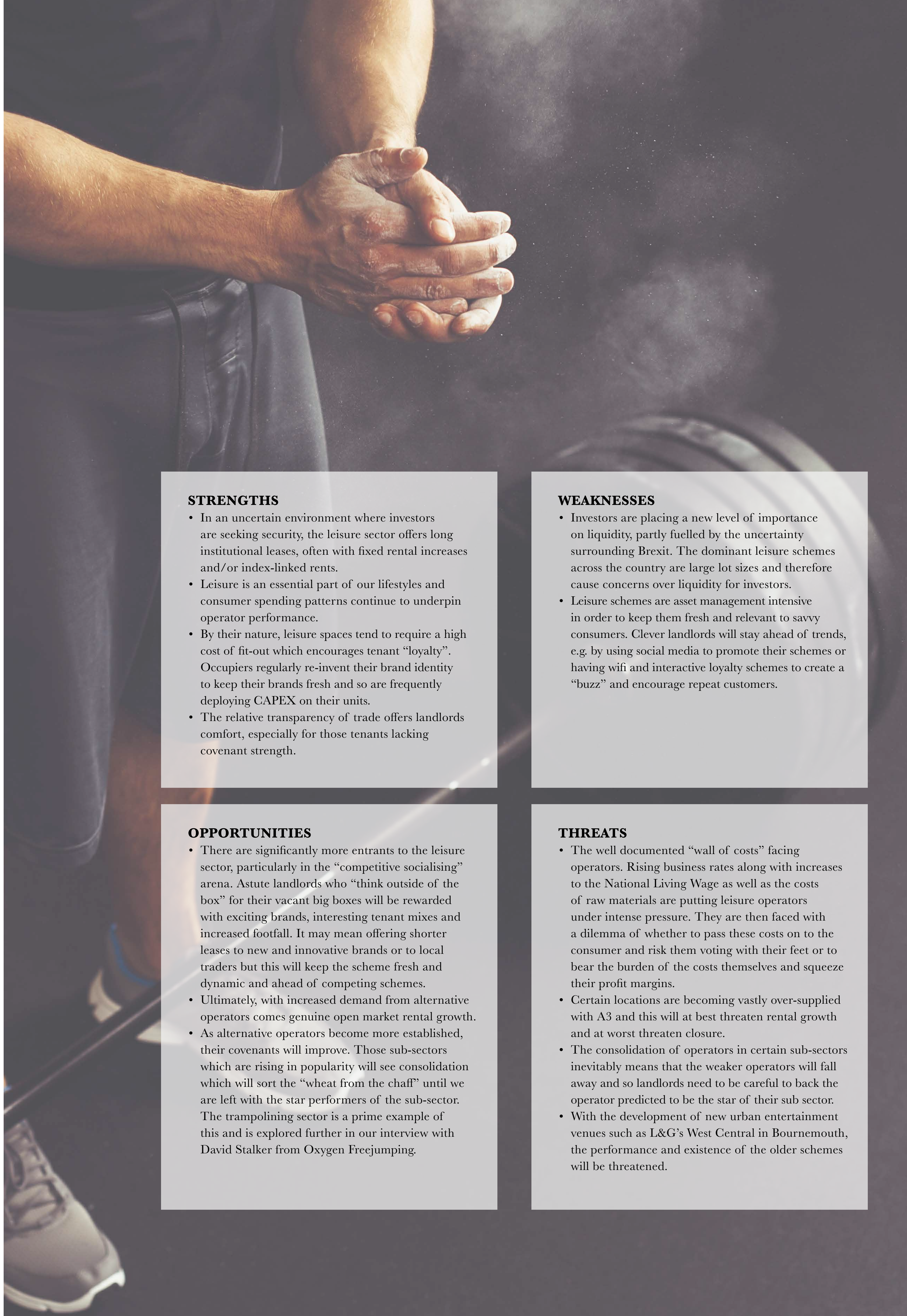
New investors
A total of £482.46m of leisure transacted in 2016. Given the ambiguity of the term "leisure", it is prudent to clarify that we have excluded hotels, pubs, single let restaurants, London transactions, portfolios and those transactions under £5m. We have therefore excluded the £350m David Lloyd Sale and Leaseback Portfolio acquired by M&G. We are beginning to see new entrants to the leisure market by way of councils and overseas investors. For example, Surrey County Council acquired Worcester Leisure Complex for £12m reflecting 6.1% and Aprirose acquired Marine Point in New Brighton for £42.5m, reflecting 7.25%. However, UK Institutions remain the dominant purchaser in the leisure market with over 50% of all transactions (by volume) being acquired by UK institutions. 24% were acquired by Property Companies/REITs.

Unfortunately, we have seen this lack of stock trend continue into 2017. The dominance of institutional ownership combined with institutions' requirement for longevity and security of income has led to a reluctance for them to dispose of their top leisure assets. We have seen yields harden in the last 12 months with prime leisure park yields now standing at 5.00% from 5.25% in Feb 2016. Whilst this is a stable and supportive level of pricing, we wouldn't be surprised if an absolute prime asset, in the "sweet spot" of value (£10m to £30m) achieved sub 5% or even 4.5%.

> "Investors have now realised the attractiveness of the leisure sector with its long institutional and index linked leases, especially in an uncertain post-Brexit environment."

Why leisure?
So why is leisure such a sought after sector? Opposite we take a look at the strengths, weaknesses, opportunities and threats for the leisure market to understand why leisure has become such a key target for investors and offer a word of warning on the leisure sector.

Leisure is a dynamic and constantly evolving sector with exciting brands and occupier types. Investors have now realised the attractiveness of the leisure sector with its long institutional and index linked leases, especially in an uncertain post-Brexit environment. Improving covenants and increasing spend in the leisure sector ensures the sector is firmly on the radar for investors. Inevitably there are threats for the leisure sector to contend with, not least of which is the "wall of costs". However, demand for leisure from investors is showing no sign of waning. The difficulty we will have is finding enough stock to meet this demand.



STRENGTHS
- In an uncertain environment where investors are seeking security, the leisure sector offers long institutional leases, often with fixed rental increases and/or index-linked rents.
- Leisure is an essential part of our lifestyles and consumer spending patterns continue to underpin operator performance.
- By their nature, leisure spaces tend to require a high cost of fit-out which encourages tenant "loyalty". Occupiers regularly re-invent their brand identity to keep their brands fresh and so are frequently deploying CAPEX on their units.
- The relative transparency of trade offers landlords comfort, especially for those tenants lacking covenant strength.

WEAKNESSES
- Investors are placing a new level of importance on liquidity, partly fuelled by the uncertainty surrounding Brexit. The dominant leisure schemes across the country are large lot sizes and therefore cause concerns over liquidity for investors.
- Leisure schemes are asset management intensive in order to keep them fresh and relevant to savvy consumers. Clever landlords will stay ahead of trends, e.g. by using social media to promote their schemes or having wifi and interactive loyalty schemes to create a "buzz" and encourage repeat customers.

OPPORTUNITIES
- There are significantly more entrants to the leisure sector, particularly in the "competitive socialising" arena. Astute landlords who "think outside of the box" for their vacant big boxes will be rewarded with exciting brands, interesting tenant mixes and increased footfall. It may mean offering shorter leases to new and innovative brands or to local traders but this will keep the scheme fresh and dynamic and ahead of competing schemes.
- Ultimately, with increased demand from alternative operators comes genuine open market rental growth.
- As alternative operators become more established, their covenants will improve. Those sub-sectors which are rising in popularity will see consolidation which will sort the "wheat from the chaff" until we are left with the star performers of the sub-sector. The trampolining sector is a prime example of this and is explored further in our interview with David Stalker from Oxygen Freejumping.

THREATS
- The well documented "wall of costs" facing operators. Rising business rates along with increases to the National Living Wage as well as the costs of raw materials are putting leisure operators under intense pressure. They are then faced with a dilemma of whether to pass these costs on to the consumer and risk them voting with their feet or to bear the burden of the costs themselves and squeeze their profit margins.
- Certain locations are becoming vastly over-supplied with A3 and this will at best threaten rental growth and at worst threaten closure.
- The consolidation of operators in certain sub-sectors inevitably means that the weaker operators will fall away and so landlords need to be careful to back the operator predicted to be the star of their sub sector.
- With the development of new urban entertainment venues such as L&G's West Central in Bournemouth, the performance and existence of the older schemes will be threatened.

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