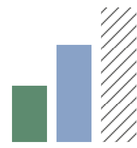
UK Commercial – 2021

SPOTLIGHT
Savills Research

UK Leisure Spotlight 2021

● Consumer market trends ● Occupational overview and outlook ● Leisure investment market



+15.4%
UK consumer spend in August 2021 increased to +15.4% compared to August 2019 levels, representing the highest post-Covid growth.

UK leisure market: key consumer and occupational trends

Spend on leisure activities rallied through the summer period, driven by the staycation boom and return of largescale events.

The successful vaccination rollout across the UK, coupled with the easing of restrictions significantly improved the consumer environment in time for the summer period, supporting green shoots of recovery across the leisure industry. Despite month-on-month falls reported in September driven by concerns over rising living costs, GfK's consumer confidence index remains upbeat in comparison to 2020 levels, with some indexes continuing to exceed pre-Covid, 2019 averages. This includes the general economic outlook and personal financial situation outlook index, with the latter index peaking in August at its joint-highest levels since pre-GFC in October 2007.

As per Bank of England data, household savings in August 2021 remained 116.6% above the 2015-2019 monthly average, albeit reporting a -29.0% drop compared average monthly levels reported in 2020. This suggests that while UK households continue to save above pre-Covid levels, the level of saving is falling in line with the reopening of various sectors driving an uplift to household disposable income spend.

The below chart outlines spending data across various leisure subcategories. Following 17 months of declines, hospitality and leisure spend returned to growth (+6.4%) in August 2021 compared to equivalent 2019 levels. This has been largely driven by the return to socialising through the August summer holiday period as well as a boom in the domestic leisure holiday segment. Meanwhile, spend on eating and drinking saw its highest post-Covid growth of 40.5% in August, up from 34.7% in July, and owed to the easing of social distancing restrictions across pubs and bars (+43.4%) and restaurants (+0.1%). The ongoing strength of takeaways and fast food outlets has continued, with the segment reporting sales growth of 71.5% vs August 2019 levels. This has been evidenced through net openings in H1 2021, with fast food takeaways reporting a net growth of 333 units, according to LDC data, representing the fastest growing UK retail/leisure subsector.

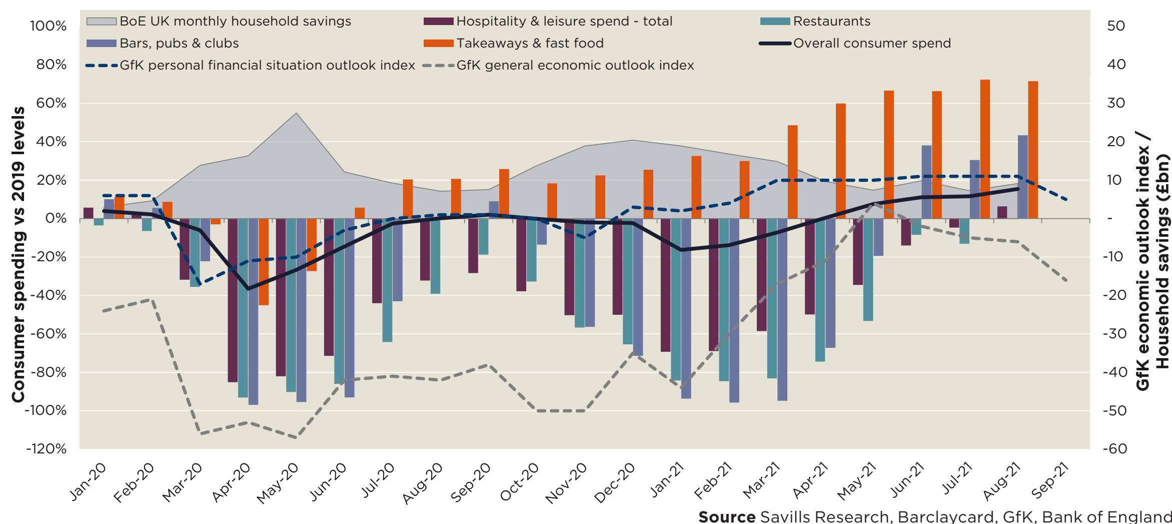
The widespread inoculation process allowed for the return of largescale events and festivals in August, subsequently boosting entertainment spend, which reported a +24.2% increase in August compared to 2019 levels. This represents its highest post-pandemic levels while increasing dramatically compared to the 8.1% growth reported in July.

Looking ahead - the opportunities and challenges facing the leisure sector

In line with the trends arising pre-Covid, the leisure sector continues to play an increasingly pivotal role in retail destinations in terms of boosting footfall, dwell time and meeting consumer demand for recreational and experiential offer. This was evidenced following the initial reopening of the leisure sector in May, which boosted UK high street footfall dramatically.

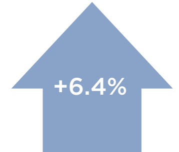
Furthermore, a great deal of pent-up demand to spend this year and next will lie within domestic leisure markets, particularly whilst cross-border restrictions persist, supporting substantial growth opportunities for key UK staycation and day-trip markets. Meanwhile, city centre footfall continues to

Figure 1: UK consumer confidence index and monthly spend by leisure sector

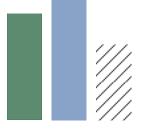


Source Savills Research, Barclaycard, GfK, Bank of England

Household savings in July remained up 68.5% compared to the pre-Covid average, despite reporting a -34.9% drop on a month-on-month basis.



Total hospitality and leisure spend returned to positive territory in August, up 6.4% compared to equivalent 2019 levels.



Net closures across the UK leisure sector improved in H1 2021, reaching -200, compared to -1,263 in H1 2020.

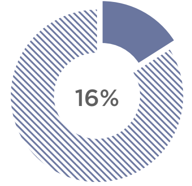
> **Staffing remains a cause for concern, with staff shortages and a smaller pool of potential employees generating upwards pressure on wage inflation.**

lag behind the national average, albeit a gradual return to the workplace in September has begun to support recovery across city-based operators.

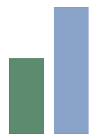
Staffing remains a cause for concern across some parts of the market. According to the latest CGA Q3 2021 Business Confidence Survey, 16% of roles are currently vacant and open for application, with business owners experiencing both staff shortages and a reduced pool of potential employees since restrictions eased. The National Restaurant Association have announced that the industry has recorded a shortfall of over one million jobs compared to pre-Covid levels. This comes as a result of some employees reskilling during Covid lockdowns, as well as a movement of workers from the European Economic Area (EEA) back to mainland Europe - a cohort which accounted for a large proportion of workers in the accommodation and food service sector in 2019 (12.8% UK-wide and 31.3% in London). Consequently, a smaller talent pool, homegrown recruitment, as well as the increased National Living Wage from April 2021, will be generating upwards pressure on wage inflation.

The gradual removal of the remaining government support packages (such as the end of furlough as of 30 September, the commercial eviction moratorium ending in March 2022, and a return of both business rates and pre-Covid VAT rates) will undoubtedly hinder recovery for some operators, potentially resulting in casualties. As a result, LDC expect leisure vacancy rates to rise by 0.5% between H1 2021 and H1 2022, to reach 11.8%. Regardless, this does remain significantly lower than the UK retail vacancy forecast of 16.5%, up 0.7% over the same period.

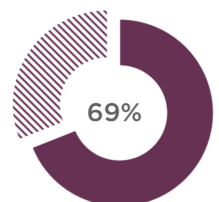
Generally speaking, most UK leisure business owners remain inherently positive, with 77% experiencing performance in line with or ahead of expectations, according to CGA's Q3 2021 sentiment survey. Meanwhile, 69% of leisure business have returned to profit, up from 16% in Q2 2021. As a result, the number of closures across the sector has been relatively muted in 2021 thus far, compared to both historic levels and the wider market. In the first half of 2021, the UK leisure sector reported a net decline of -200 units, representing the strongest performance since H1 2017. By contrast, the comparison goods sector and service retail saw net declines of -3,268 and -1,311 units respectively in H1 2021.



According to CGA, 16% of staff roles in UK leisure businesses are currently vacant and open for applications.

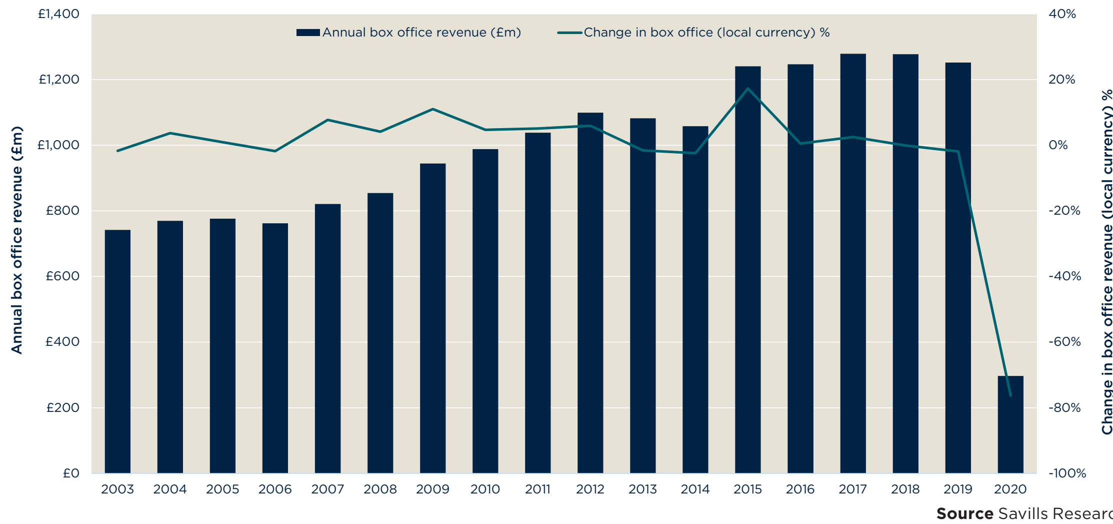


UK leisure vacancy is forecast to reach 11.8% by H1 2022, significantly lower than the retail vacancy forecast of 16.5%



As of Q3 2021, 69% of UK leisure businesses were making a profit, up from 16% in Q2 2021.

Figure 2: Box office revenue by year



Source Savills Research, UK Cinema Association

Occupational market by sector

The UK cinema sector sees admissions rise, buoyed by 'staycation' consumers

It would be difficult to under estimate the challenges that 2020 brought to the UK cinema sector. The irony is that until COVID-19 hit in late March and cinemas were required to close (or operate under significant restrictions), performance in the sector was exceeding even the most optimistic expectations. With the success of the BAFTA-winning 1917 in particular, both box office and admissions were up by a fifth in January and February compared to the same point in 2019 (figure 2).

That performance was buoyed by the success of other BAFTA nominees such as Parasite (which eventually garnered £11 million at the UK box office, the highest-ever amount for a foreign language film), Little Women and Jojo Rabbit, as well as some more mainstream titles such as Sonic the Hedgehog, Bad Boys for Life, Dolittle and The Gentlemen. Furthermore, the positivity in the sector came off the back of exceptionally strong admissions in the previous two years also, with much owed to the continued big screen success of Star Wars: the Rise of Skywalker, released towards the end of 2019.

Figure 3 highlights how much of that early positivity sadly came to an immediate halt with first, the required closure of all UK cinemas in mid-March and for the following 3 months, and secondly, with a number of restrictions in place from July onwards. This resulted in total annual admissions of just under 44 million, a dramatic 75% down on 2019.

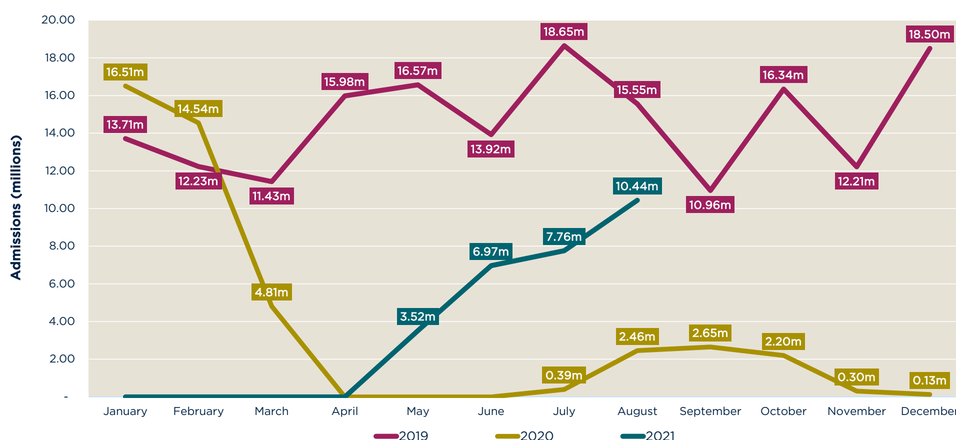
One of the key consequences of these and similar closures across most major global cinema territories was a reluctance on the part of the US studios in particular to release films at a time when they could not be confident of reaching sufficient screen numbers to justify significant marketing and other financial costs. As a result, even when cinemas were able to re-open at various points during the year, the absence of major titles – alongside social distancing and other restrictions on capacity – made cinema operation extraordinarily challenging. With the lack of major titles and the stop-start nature of cinemas re-opening and closing across the rest of the year, we unfortunately saw a similar impact on box office revenue, which at £297 million was 76% down on 2019.

As a result the UK Government offered a wide range of financial support during 2020 to help the industry survive the challenges of COVID-19. These included both general business support as well as more targeted funding. The governments Job Retention Scheme for example, was designed to meet up to 80% of an individual's salary costs, which according to the UK Cinema Association supported as many as 97% of cinema employees during the initial lockdown. Other measures included business rates holidays, VAT discounts on tickets and concessions to encourage consumers back to the cinema, local authority business support grants and targeted funding support by way of a £1.5 billion Culture Recovery Fund.

Despite the very obvious downturn in fortune for the cinema industry in 2020, the sector did see some positive signs that pointed to the light at the end of the tunnel, through which the market is now slowly beginning to emerge. The initial 'unlock' saw cinemas in England able to re-open from 4 July, with the requirement to remain closed being subsequently removed for cinemas in other UK nations over the weeks that followed. As a result audiences returned in their thousands. £65.7m was spent at the cinema in the four weeks after lockdown released on July 19th, a positive result considering the circumstances, albeit half of what Cinema-goers paid over the same period in 2019 at £129m.

Now the UK's retail and leisure market is fully open, the early shoots of recovery we saw back in July last year have returned once more, continuing to improve month on month. The UK Cinema Association saw total box office takings in the UK and Ireland reach £18.7 million in the last week of July this year, with £10.9 million taken over the last weekend of the same month - British screens' best performance since February that year. Takings for the last weekend in July were therefore up 64% on the previous weekend, and most positively, 1169% up on the same weekend in 2020. In fact August saw the largest number of admissions since the onset of the pandemic, buoyed by the number of consumers who have chosen to 'staycation' this summer. Figure 3 highlights over 10.4m admissions for August 2021, which is 67% of the numbers seen in the same month in 2019. With the slate for the rest of the year arguably packed with a number of blockbusters, including Black Widow, Top Gun: Maverick, The Eternals, The Suicide Squad, Venom: Let There Be Carnage and James Bond: No Time To Die, the immediate future for the UK cinema sector looks to be a positive one.

Figure 3: Monthly cinema admissions (last 3 years)



Source Savills Research, UK Cinema Association

Pubs, bars and clubs see a return to sales growth in August 2021

Both total and like-for-like sales remained well below 2019 levels in the first 5 months of this year, as all but essential retail was closed to the public including the hospitality sector. Despite the reopening of outdoor drinking and dining on April 12th, total sales for pubs remained 66.8% lower than the same month in 2019, whilst for bars it was as low as -74.6% (figure 4). As a result two of Britain's largest pub groups – Mitchells & Butlers and Marston's – reported significant half-year losses, highlighting the impact of the COVID-19 pandemic on the hospitality industry.

All Bar One owner Mitchells & Butlers reported a pre-tax loss of £200m in the half-year to April 10, a fall of 79%, and an increase compared to the £121m loss in the same period last year. Revenue at the business fell to just £219m for the period, down from nearly £1.04bn during H1 in its previous financial year. The embattled pub group was so badly hit by the effects of COVID-19 restrictions it was forced to raise £350m in emergency funding after shareholders took control, with the share price falling 2.45 per cent only an hour after the market opened. Marston's meanwhile, fell to a £105.5m pre-tax loss in the 26 weeks to April 3, compared to the £31.1m loss reported in the first half of last year, with revenues during the six month period down £343.3m to £55.1m.

The six months to the end of April was of course dominated by the effects of COVID-19, with various restrictions taking place, including the introduction of regional tiers and eventually a full national lockdown that saw all pubs being shut. More than 99% of Mitchells & Butlers staff were placed on furlough during the closures. The Economies Of Ale report by The Office of National Statistics (ONS) revealed that furlough rates were in fact significantly higher than the UK average in the hospitality industry, with 55% of all pub staff still on furlough in early May, compared with around 8% of the UK's wider workforce.

Confidence levels also proved weaker than in most other sectors. The survey, published in early June, showed that just over a fifth (24%) of pub businesses had high confidence of surviving the next three months, compared with around 44% for all types of company. Nevertheless, the ONS said this reflects a recovery in optimism, with only 1% of pub owners saying they were highly confident about their future in early February.

The statistics body also said there has been a recent rebound in the number of pub landlords reporting 'low confidence' in their future. In November 2020, around 63% of business operators said they had low confidence, with this plunging to 3% by April 2021, amid the reopening of beer gardens and outdoor spaces. However, the latest survey, taken shortly before the indoor reopening on May 17,showed 19% of firms reporting low confidence over their future prospects.

Many believe that throughout 2020, the hospitality as an industry , particularly the pub sector, were not considered fairly, with the transmission risk of pubs treated far more seriously than in non-essential retail, and the restrictions placed on the businesses therefore more onerous. Inconsistent messaging and a sense of moving goalposts frustrated the sector and drained the financial reserves of publicans and breweries, particularly troubling giving the economic and social vitality of the sector, as well as its potential importance to economic recovery and growth. Pubs support more than 884,00 jobs across the UK, £12.1bn of wages, and £23.4bn of GVA across the country according to Localis 'The Power of Pubs' report.

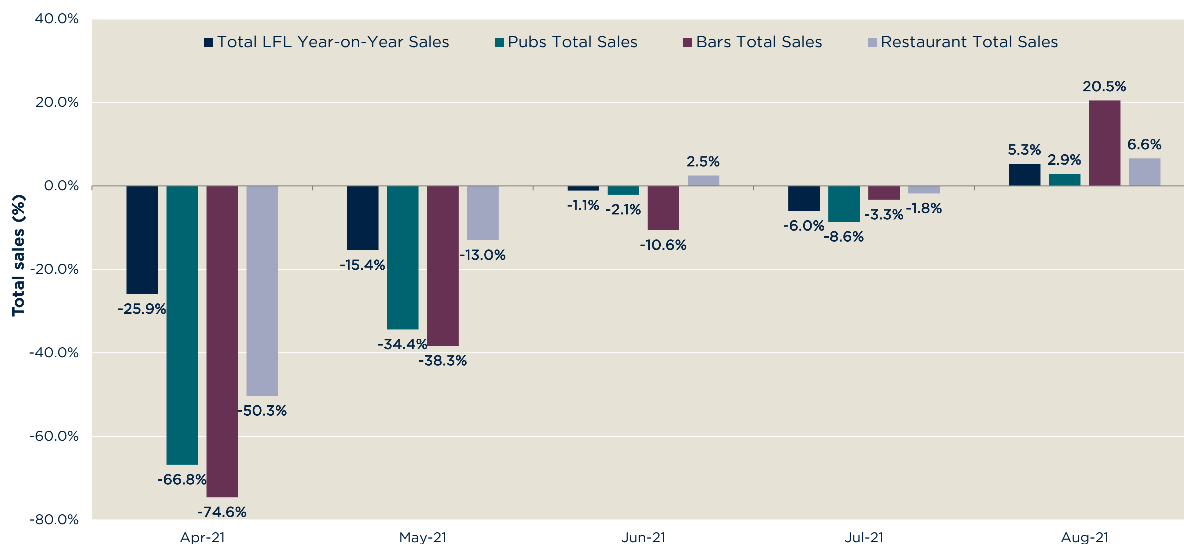
In all, 9,930 licensed premises across Britain closed for good in 2020. However, while 2019 saw nearly 6,500 sites start trading for the first time, 2020 recorded fewer than 4,000 new launches. In other words, for every new site opening up last year, there were 2.5 closures—double the ratio of 1.3 in 2019. The sector has always had a high level of churn, with restaurants, pubs, bars and other licensed premises coming and going at a brisk pace. The big difference in 2020 was that with the market in such turmoil, far fewer operators were willing to move into sites that had been closed. As a result, the fall in numbers was far steeper.

Nevertheless, like with most sectors the doom and gloom has begun to lift for the licensed leisure industry. The British Beer and Pub Association (BBPA) highlights the huge investment the sector made in leased and tenanted pubs ahead of the outdoor reopening. The trade association, representing brewers and pubs, revealed that pub operating businesses invested more than £285 million in supporting their leased and tenanted publicans as they prepared to reopen on April 12th.

The investment came in the form of rent and other costs waived or reduced during the COVID-19 pandemic and is on top of significant financial support they received to help ensure pubs were COVID-secure before re-opening (including marquees and tepees in pub gardens that meet government guidelines, along with outdoor heaters and outdoor beer pumps and fridges). The BBPA are now urging the government to recognise the investment the pub industry has made itself, and continue to support the long term recovery of UK pubs, addressing the disproportionate tax burden faced, through permanently lower VAT rates extended to all food and drink, a cut in beer duty and Business Rates reform.

Looking at total sales in 2021 versus the same period in 2019, the recovery signs are finally looking strong for the licensed leisure sector. Pubs (-34.4%) and Bars (-38.3%) saw their reduction in sales shorten considerably in May compared to the previous month, after the opening of indoor hospitality (albeit with social distancing restrictions still in place). As those measures have been increasingly relaxed we have seen performance improve further, total sales for pubs and bars only 8.6% and 3.3% down respectively in July 2021, compared to the same period in 2019. However, with 'Freedom Day' and the easing of final restrictions on July 19th, August has seen the most impressive recovery for the sector since the onset of the pandemic. Pubs (2.9%) and bars (20.5%) saw total sales growth for the first time since February 2020, with bars out performing total sales growth by some margin, despite the difficulties around staffing which was impacted further by 'pingdemic' absences caused by employees being told to isolate by NHS Test and trace over the summer period.

Figure 4: Food & beverage: 2021 total sales versus 2019 total sales



Source Coffer Peach

> “In March 2021, Just Eat reported that it had seen a 600% increase in orders in the first two months of the year compared to 2020.”

Food & beverage operator recovery proves strong, with the takeaway and drive-thru sub-sectors growing rapidly

According to OpenTable restaurant covers took a huge swing from negative territory to positive growth compared to 2019 levels, with significant surges over both the Spring and Summer bank holidays of 167% and 104% growth respectively (figure 5). This performance is much stronger than that seen globally however, London still remains a cause for concern. With many still not returning to the office with any degree of regularity the change in restaurant covers still remains negative in the capital, compared to the performance seen in 2019.

A number of restaurant chains have begun to post positive trading results. Wagamama for example, traded at around 85% of its comparable 2019 sales levels from the c.130 of its restaurants that were open for outdoor trading between April and May, according to brand owner The Restaurant Group (TRG).

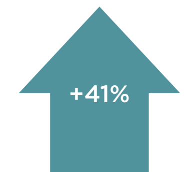
One very positive story for the food and beverage sector has been the growth of fast food takeaways, the fastest growing sector in H1 2021 with 333 units according to The Local Data Company. Consumers have increasingly come to rely on and enjoy the convenience of takeaway food during the long months of lockdown. Furthermore, this sector also benefitted from the closure of pubs, bars and restaurants leading to a huge rise in demand for takeaway food and drink. In March 2021, Just Eat reported that it had seen a 600% increase in orders in the first two months of the year compared to 2020. Growth was especially pronounced in the North West, where takeaway units increased by 5% in the first 6 months of the year.

Another winner from the pandemic was the drive-thru sector, triggering a scramble to buy drive-thru sites across the UK by some of the world's biggest café and restaurant chains. LDC point to 56 new openings so far in 2021, more than any other full year figure for each of the past five years. With this pace of growth, competition is likely to intensify with premiums to secure drive-thru venues from developers on the rise.

The reasons for the sector's success is unsurprising in so much as customers increasingly valued this format during the pandemic, which offered the convenience, and perceived levels of safety with not having to leave your car. There were 121m visits to the UK's 2,500-plus drive-thrus between September and November last year, according to market research firm NPD Group, up 14% on the year before as drivers rushed to take advantage of one of the few dining options which was relatively unaffected by pandemic restrictions.

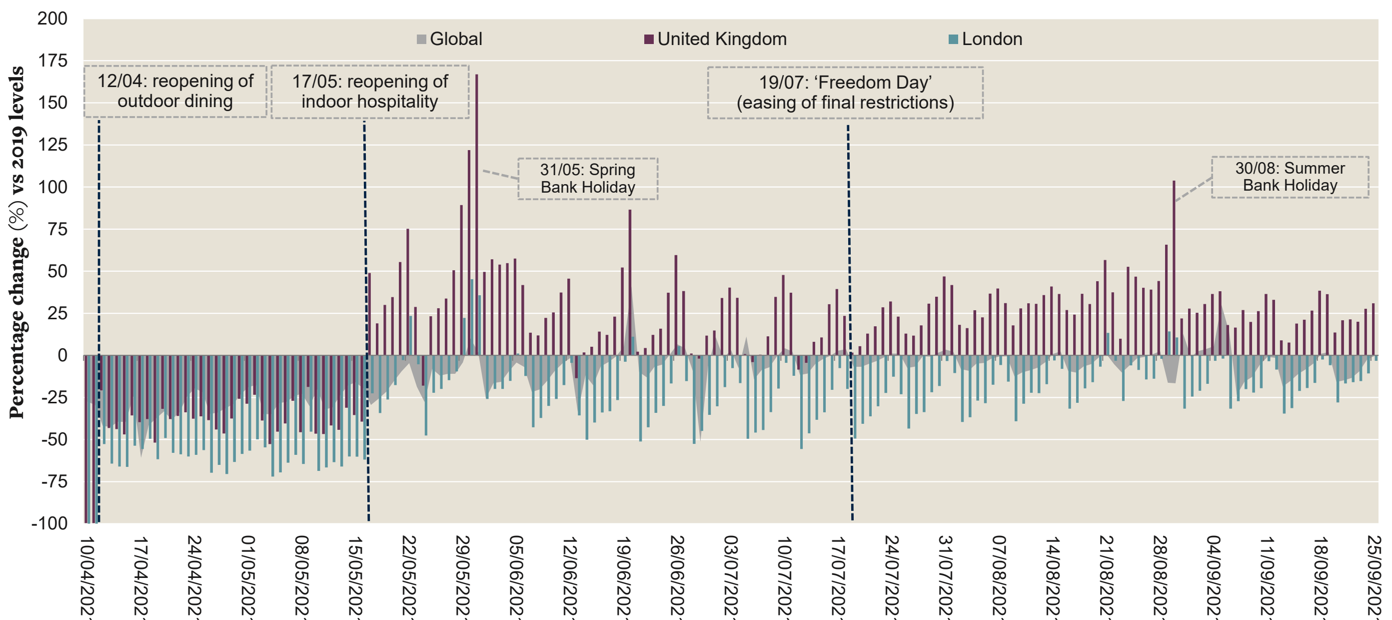
Costa and Starbucks have been expanding this concept quickly and have been leading the way for some years. Starbucks has opened 38 drive-thru sites since last September whilst Costa opened 63 stores in 2020. Increasingly a number of fast food brands such as Greggs, McDonald's and KFC have also stepped up the pace with their drive-thru acquisitions. Fast food chain Leon and burger restaurant chain Five Guys are examples of new entrants, opening their first drive-through sites in Gildersome, West Yorkshire, and Stockton-on-Tees in County Durham, respectively. The sub-sectors resilient trading has pushed the number of drive-thru's up 41% over the past five years, according to Altus Group. Demand for drive-thru's increased by 25% since the pandemic began, with restaurant chains planning to open a total of 200 sites a year. An extra 40m visits were made to the UK's estimated 2,500 drive-thru's in the year to April 2021, taking the number to almost 490m.

Fast food takeaways was the fastest growing sector in H1 2021 with 333 units (LDC)



The number of drive-thru's has grown by 41% in the last 5 years (Atlus Group)

Figure 5: Restaurant covers across the UK and London since reopening vs 2019 levels



Source Savills Research, OpenTable

Gym operators see memberships improve with value operators adopting strong acquisition strategies

Like all other leisure sectors, gym operators struggled to turn a profit during the pandemic with nationwide closures coming even earlier than other parts of the retail and leisure market due to the sectors perceived risk to the public. Scientists advising the government were concerned that vigorous exercise would inevitably cause a person to breathe more rapidly and deeply, therefore potentially producing droplets or aerosols that could go on to infect other people. Coupled with the fact there are lots of areas of gyms that people touch, like handles and equipment, before touching their faces, it is no surprise that gyms were not permitted to trade during much of the last 18 months.

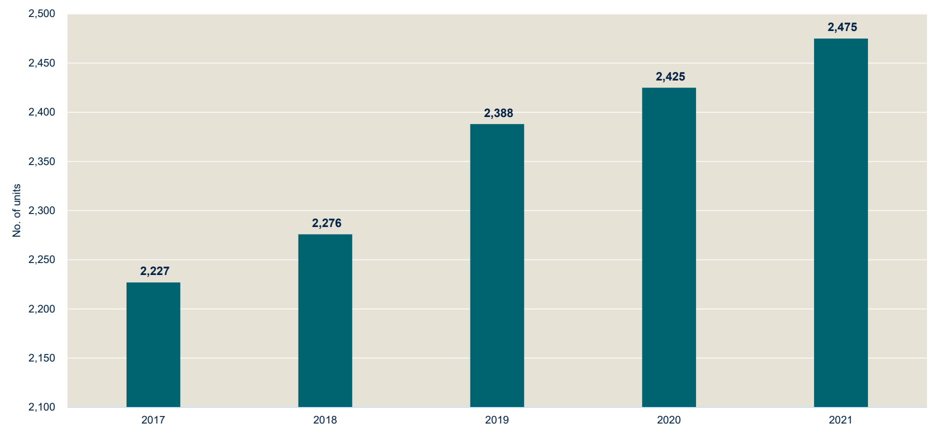
Despite this the gym market has continued to expand. Figure 6 looks at the total number of units across the key operators in the out of town market, each with currently 10 or more units spread across the UK, in this sector. These include PureGym (155), TheGym (91), Snap Fitness (49), Anytime Fitness (37), JD Gyms (25), Bannatyne Fitness (23), Everlast Fitness Club (20), Virgin Fitness (16), Fitness First (15), BetterGym (12) and Energie Fitness (11). In 2017, these operators accounted for 2,227 units in total (4.9m sqft). That has grown considerably in the last 5 years to the 2,475 units (6.3m sqft) we see currently, an increase of 11% (248 units, 1.5m sqft). PureGym and The Gym Group have seen the largest expansion in that time, increasing the number of units they have in the out-of-town market by 72 (87%) and 61 (203%) respectively. Everlast Fitness and Bettergym are both new entrants, having had no units in the sector five years previous. Only Virgin Fitness and Fitness First have seen a reduction in the number of units they have in the market in that timeframe.

Gyms of course reopened in England on 12th April, followed by reopening's in Scotland on 26th April and Wales on 3rd May, with group exercise allowed to resume from May 17th. It appears the appetite for consumers to visit the gym since then has been strong. The Gym Group for example, have stated their membership had jumped by a third since February as its sites reopened. With over two-thirds of its members under the age of 34, it has been young people strapped for space at home that have helped to drive a rapid recovery in membership numbers. With all 187 sites is now open and trading, The Gym Group total membership has increased from 547,000 at the end of February to 729,000 by 24th May.

PureGym have announced similar positive results. The group, which reported a £214.6 million 2020 loss, returned to profitability in the second quarter of 2021 with adjusted EBITDA of £16 million. Memberships stood at 94% of 2019 levels by August 15, and June revenues were at 99% of pre-pandemic levels as it opened new sites and members paid more on average. The group has indeed opened 13 sites in the UK in the first half of the year and is aiming to accelerate expansion in 2022.

Likewise, the Gym Group has also already opened seven new sites this year and plans to open an additional 40 by the end of 2022. The increasing number of vacant retail spaces on the high street, which has seen the closures of chains such as Debenhams and Topshop, has led to the availability of better quality units at a more affordable rent which many in the sector are keen to take advantage of. Operators are also keen to expand in the out-of-town market as retail parks offer consumers accessible car parking and clear signage.

Figure 6: The growth of out-of-town gym operators with more than 10 units in 2021



Source Savills Research

The leisure market sees a new wave of competitive socialising concepts

The competitive socialising market has been well established for some time. From the boom of urban mini golf to escape rooms to bowling, even prior to Covid-19, we were beginning to see some saturation in the market, with over 200 operators throughout the UK. However, since the pandemic we have seen a flurry of new operators with fresh and innovative concepts, entering the market. Despite the challenges, the second wave of the pandemic allowed businesses to gather their ideas and resources and as restrictions have lifted, has led to an influx of activity across the entire leisure market, including the emergence of a new wave of competitive socialising concepts.

These new brands have introduced a host of new sports to the market, creating a differentiation from the traditional golf and darts concepts, with TOCA (football), Sixes (cricket), Sluggers (baseball) and Tejo (a popular South American sport) all having recently entered the sector. Fuelled by a Summer of sport, with the Olympics and the Football European Championships bringing the nation together, the appetite for sports-based concepts continues to grow. Furthermore, the team-led nature of each sport also draws on the social aspect of this market – aptly fitting the competitive socialising mould.

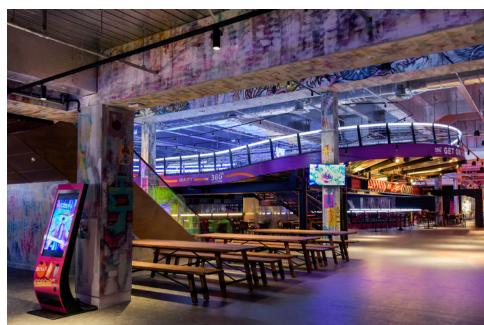
TOCA opened its first site at the O2 in London in August, spanning 30,000 sq ft, and is now actively seeking a second location to open next year. Sluggers, Sixes and Tejo also have active requirements in the market, albeit for smaller sized spaces (circa 4,000 - 9,000 sq ft), and are therefore in a good position to acquire former restaurant units. However, whilst a number of restaurants became available during the pandemic, availability is surprisingly low as a result of the rent memorandum. Therefore we expect to see greater opportunity for these operators to expand following the end of the memorandum in March 2022, in addition to the redevelopment of former Debenhams and House of Fraser units coming to fruition.

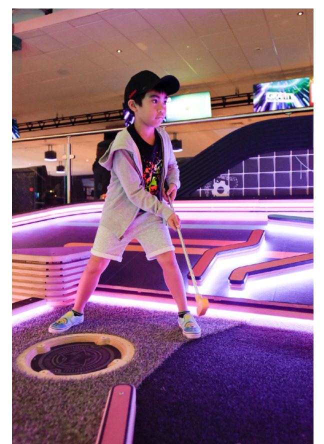
It will be those operators that position themselves early on and are able to curate their space within such developments that will benefit the most. This has already been witnessed by the likes of Gravity, which has recently taken 80,000 sq ft in the former Debenhams in Wandsworth with the capacity to facilitate up to 1,000 consumers at any one time. The scheme is a state of the art multi-level space that includes G-Bowl, a fourteen-lane bowling alley that offers augmented reality and other hi-tech features, a digital darts zone, AR Shuffleboard, Funbox Arcade offering retro gaming, Urban Street Golf, console-based gaming via an E-Sports Gaming Arena and an immersive adventure experience in its Electric Gamebox.

Furthermore, the unit also offers consumers Gravity GT, an electric go-karting experience with a track that winds around the venue, as well as a number of food and beverage options. This is a good example of the leisure industry having an important part to play in repurposing some redundant retail space left behind by some of the more recent high profile casualties of the high street.

As a result of the demand in this sector, and a lack of readily available space particularly for larger sized units, the market is yet to see a significant drop in rental tone, with the majority of recent deals replicating the numbers seen pre-pandemic. What's more, these emerging leisure operators benefit from having seen the successes and failures of other businesses throughout the pandemic. Therefore should another lockdown be on the horizon, those that are able to use this to their advantage - learning from operators that have maintained engagement with their consumers through adaptations e.g. at-home versions - will undoubtedly come out the other side in a stronger position than others.

Gravity, Southside, Wandsworth

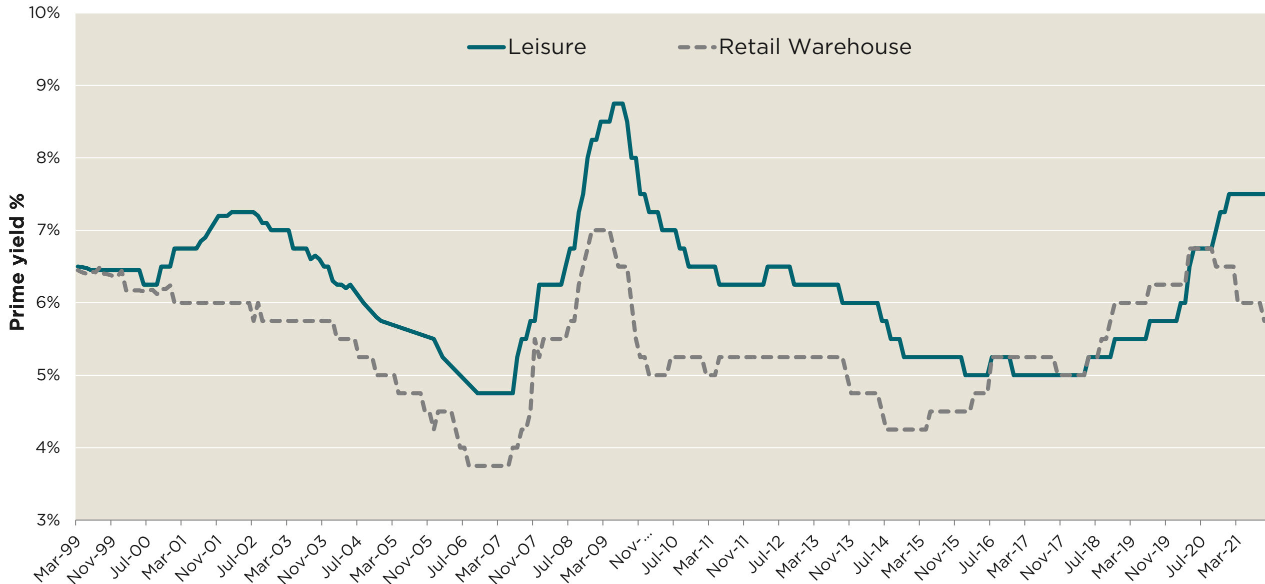




£1.6bn
H1 2020 investment in leisure

£1.3bn
H1 2021 investment in leisure

Figure 7: Prime leisure yields remain high, despite the strong recovery in trade



Source Savills Research

UK leisure investment market

A gradual recovery in activity is underway, and we expect more robust turnover in 2022 as the occupational story improves

Leisure investment activity has picked up steadily during 2021, totalling £1.3bn at the half year, and looking likely to reach £1.7bn for the first three quarters. The bulk of this activity remains in the longer-leased hotels, pubs and health & fitness sectors, though we expect to see more interest in the multi-let leisure space as the occupational and consumer stories continue to improve.

An indication of how far the investment market has to go to get back to "normal" is the fact that monthly trading volumes into leisure are up 10% on 2020's levels, but still 61% lower than was seen in 2019.

Geographically there appears to be a stronger than normal bias towards London, which is interesting given the fact that consumer activity has been slower to recover in London than elsewhere. We suspect that London's volumes are skewed upwards by a more persuasive re-purposing story inside the M25 than elsewhere.

Lot sizes remain comparatively small, with a relative absence of multi-let trading from the whole of the last 18 months. The most notable transaction in this space this year was Fiveways Entertainment Centre in Birmingham. This scheme is let to 11 tenants including Cineworld, PureGym, a nightclub and seven restaurants with a combined WAULT of just over 11 years. It sold for £25.1m in June 2021 reflecting an initial yield of 9.5%, a marked reduction from the £40m that it traded for in 2018. It is interesting to note that this is the second reasonably large leisure asset that AEW have bought this year, perhaps a reflection of the fact that institutional interest in leisure as a recovery play is beginning to rise.

While some green shoots of opportunistic interest in the sector do appear to be beginning to emerge, there is still considerable investor caution around leisure covenants and credit ratings. This is understandable given the lack of income for many tenants for nearly two years (and lack of rental income for many landlords of leisure). However, given some of our earlier comments in the occupational section of this report about the pace of the return to normality in terms of consumer behaviour, we believe that investor confidence in leisure could and should begin to return soon.

As far as the pricing of prime leisure assets goes, our prime yield has now been stable at 7.5% for nine months. While footfall has not quite recovered to the same degree as we have seen in the retail parks market, it is certainly a lot closer to normal than in some other parts of the retail market. This, in our opinion, starts to make prime leisure look quite attractive in yield terms against retail warehousing where yields have compressed by 100bps since the start of 2021 to around 5.75% to 6.00%.

As the chart above shows, the pace of hardening in prime leisure yields when it happens can be fast, with yields hardening by 200bps in 12 months after the Global Financial Crisis. While there are behavioural differences to that period today, we also see little reason to doubt the trend that a high proportion of the savings that consumers have built up over the lockdown periods will go into leisure in the remainder of 2021 and throughout 2022.

Looking ahead to the next 12 months the big test for the leisure scheme market will be the first truly prime asset that is traded. While this will undoubtedly show that capital values have fallen over the last two years, we expect that it will also show that they haven't fallen by as much as the market believes. Thereafter, the rising acceptance amongst investors that good schemes and good operators are trading well, should bring the market back to both normal levels of trading and pricing by the second half of 2022.

> **"Monthly trading volumes are still 61% below their average in 2019"**

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