Savills World Research
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CASUAL DINING IN THE UK 2016

Examining the key shifts in trends, locations and consumer behaviour in the UK casual dining market

savills

INTRODUCTION
Despite mixed fortunes in retail since the downturn, the restaurant market and in particular the casual dining market has seen considerable growth over the last five years; 1,800 restaurants opened in the UK during the 12 months to October 2015 (a 6.9% increase yoy), with branded restaurants increasing 55% in the past decade. This report examines some of the key shifts in trends, locations and consumer behaviour that has been at the core of this growth.

Market size

Casual dining spend at household level is increasing

£22bn
The value of the branded dining market within five years
EY

Last ten years has seen a reduction of 24,000 drink-led venues and an increase in 9,200 food-led venues
CGA Peach

There are over 56,000 restaurants in the UK, of which fewer than 10% are branded casual dining locations. Additionally, there are 100,000 pubs, takeaways and cafés, each vying for a share of the elusive consumer pound. Yet consumers have proven increasingly willing to spend on eating out of the home at the same time as they have tightened their belts with regards to grocery and comparison goods shopping.

The dining out market has recovered well from the economic turmoil of the last eight years. Restaurant spend has increased in all regions in the last five years, with the Southwest and Yorkshire/Humber expanding most significantly with spend on dining out estimated to be £580 more per household than five years ago.

Economically things have been in a good place for the restaurant sector, with rising incomes, growing employment and low interest rates. Clearly a rise in the latter would have a direct impact on many mortgage bound households and their disposable income, but the wider economic benefits that would support such a rate rise must be good for the sector.

The next five years are expected to see household spend growth slow and the longer trend shows that we are still spending less on eating out than we were back in 2008. It will be another decade before household restaurant spend is expected to be at pre-recession levels. This is with the exception of Northeast, Wales, Southwest and Northern Ireland regions, where spend already exceeds 2008 levels.

Even London, the leader for dining out culture in the UK, is not expected to reach 2008 household spend levels until after 2026.

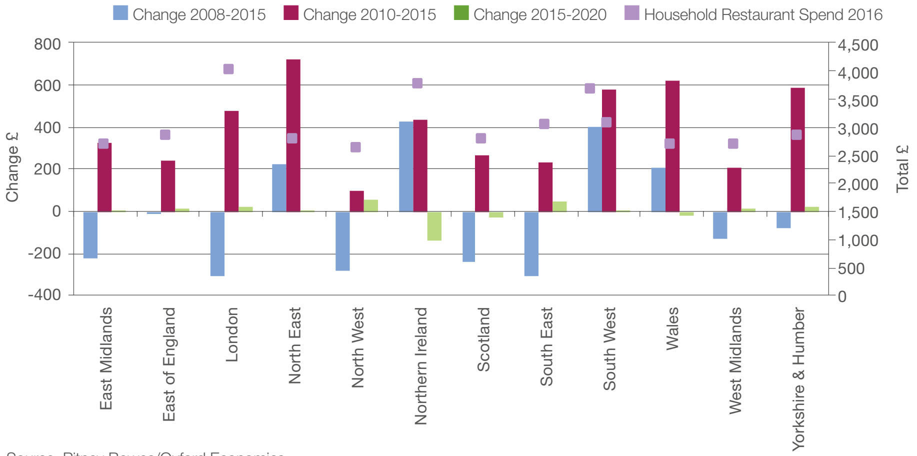
However, the total pool of available consumer restaurant spend surpassed pre-recession levels in 2015 to over £81bn and will exceed £85bn by 2020 and £91bn by 2026 (Pitney Bowes). Clearly then, while household restaurant spend levels growth is slowing, overall market capacity is growing rapidly.

Perhaps more critical with regards to casual dining/branded restaurants, is that this sector accounts for only a modest proportion of the overall market. According to Horizons, branded restaurants account for 7% of the overall eating and drinking market. This is equivalent to a market size of around £5.9bn in 2015, from a total pool of £81bn in consumer spend.

While proportionately small in terms of the overall eating and drinking market, the potential for expanding the branded restaurant market is significant, because it only needs to see a small gain in market share to see a vast increase in trade. CGA Peach Brand Tracker suggests that visitation to small restaurant brands has doubled since 2013, in what appears to have been largely diverted from quick service restaurants and take-away establishments.

Increasing specific casual dining spend at the household level is therefore less about increasing eating out spend and more closely aligned with changing the kind of places that people choose to eat out in. To this end the rising casual dining market is linked to a shift in attitudes away from a drink-led culture towards a higher quality, yet informal dining experience.

FIGURE 1: Change in average household spend on restaurants Considerable increase from 2010-2015



Source: Pitney Bowes/Oxford Economics

The chart shows how average household spend has changed over time in the various UK regions. There has been a considerable increase from 2010-2015, but much of this has been offset by a significant fall in spending following the 2008 downturn. Growth to 2020 is expected to be minimal. The highest restaurant spend per household is for London, which with £4,000 pa and smaller average household size, reflects an increased visitation and average spend per visit and the consequent occupational demand for restaurant space.

Changing consumer behaviour

Millennials and families are leading the way

The culture of casual dining, in the UK at least, has been long embedded in Central London on the back of both a constant stream of affluent white-collar workers aged 25-34 with few family commitments, and a thriving tourism economy. Outside of the capital shopping centres and leisure developments have been the primary access that diners have had to these brands. In both cases, dining would often only form part of the overall evening's entertainment, either being tied with a visit to the cinema, or other drinking establishments.

Post-recession however, has seen the UK consumer rethink how they want to use their leisure time. In retail, while many shoppers held back on all but the most basic purchases, one of the areas to recover most quickly was with indulgent purchases. Restaurants struggled for several years to draw diners and there was a brief time when the meal voucher was the difference between drawing custom and having an empty restaurant, but as the economy has improved the nice-to-have meal-out has become integral to our social time.

The UK demand for dining is catching up with London, first with the major city centres and affluent market towns, but gradually we would expect over the course of the next decade many casual dining brands to find success in smaller and more secondary locations. Much in the way that the coffee revolution has become imbedded in the fabric of UK society, we foresee casual dining to be much more prevalent a dining format across the country.

Casual dining has reached a point where it is both influencing and being influenced by a change in consumer trends that impacts on a wide range of demographic groups. However, certain groups are leading the way, or have the potential to result in significant growth if their spend can be captured. The two main groups on the radar are Millennials and Families.

In 2015, 60% of people aged 18-24 ate out at least weekly; 5% more than 25-34s, twice the frequency of people over-60, and ahead of the GB average (44%). So while restaurant visitation is up for all demographic groups, younger diners, with lower financial commitments and more free time are helping to drive market growth. Millennials are particularly adventurous, dynamic, social and tech-savvy. They are a key group to target, but as they also lack brand loyalty building a solid network of repeat customers is challenging. These diners are very trend focussed, like to try new places and have wide culinary tastes.

Casual diners, in particular those under the age of 34, are particularly quick in becoming aware of new restaurant brands and are keen to share their experiences with their peers, usually via social media. This makes them very valuable customers for brands to attract and is causing operators to be more innovative in how they reach and interact with them.

Millennials might lead the way with some brands, but having family appeal and attracting the UK's largest consumer group, is a key influencer. Pre-Millennium, parents would have been less likely to regularly visit restaurants with their children, instead using takeaways and quick service restaurants that were more convenient and less costly. Casual dining brands have an improved proposition for families, with less formal environments, kids' activities and menus, quicker service and an affordable offer.

As the market has grown, more families are being drawn to the sector and there has become an increased expectation for experience, value, quality and adventure in order to differentiate the brand. Families in particular seek consistency of service and offer and unlike Millennials, are far more brand loyal. In delivering these requirements, casual dining has in effect made it more attractive and affordable for families to dine out.

However, there is another as yet untapped consumer group that may provide further opportunity for casual dining brands. The government social trends survey shows that 72% of 45-64s eat out; the highest share of any age bracket, but one that is skewed towards pubs and traditional restaurants. Given a below average propensity for this group to eat in casual dining restaurants this is an area with huge potential. This trend is likely to be in part due to the nature of the locations casual dining brands have focussed their offer in to date, such as cinema anchored leisure schemes and city centres. As casual dining increasingly opens in smaller, predominantly affluent locations this will prove a good demographic group to target.

80%

Of the GB population have visited a casual dining brand in the last six months

FIGURE 2: % Awareness of brand Millennials are quick on the uptake of brands, with high awareness of new concepts that is possibly influenced by social media

	FIVE GUYS BURGERS and FRIES	CHIPOTLE MEXICAN GRILL	SHAKE SHACK	TURTLE BAY	Burger & Lobster	MEAT liquor	RED'S TRUE BARBECUE
GB	19%	13%	7%	9%	9%	4%	4%
18-34s	33%	24%	16%	15%	14%	9%	8%

Source: CGP Peach Brand Track

Growth brands

Small chains have witnessed sharp increase in growth

Casual dining has increased by 11.6% (2009-2014), while traditional restaurants have declined 11.4% in the same period (NPD Group). With so many small chains appearing in the UK, defining casual dining is not straightforward and is difficult to monitor in such a fast paced sector. We tend to view it as brands that:

- Have 2+ locations
- Located in city centres, leisure schemes and in affluent market towns
- Doesn't include pub chains, more formal dining options, or independents.

The casual dining sector remains dominated by long established brands, such as Pizza Express, Nando's and Frankie and Benny's. In fact, eight brands with more than 100 restaurants in their portfolios represent 44% of all casual dining restaurants from portfolios that were already mature pre-downturn. Yet almost 80% of the market is made up of brands with fewer than 25 restaurants and it is this area that has seen the starkest growth in the last few years. Small chains have increased by 39% in the last three years, versus large chains increasing by 13%.

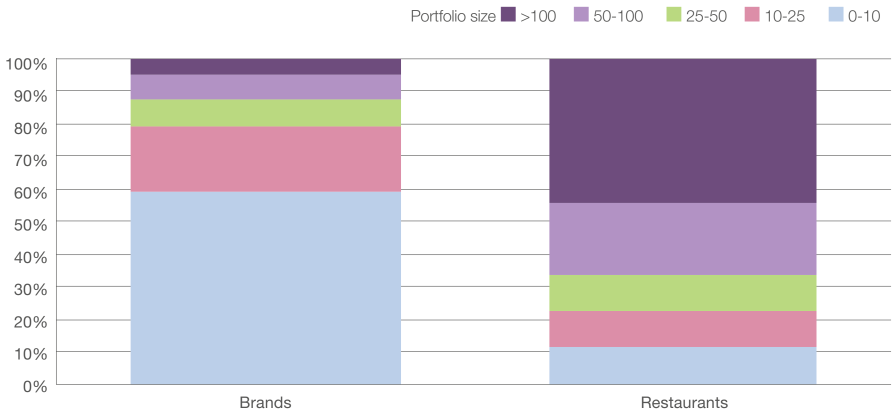
The increased choice and range has been driven by a surge of investment in the leisure sector at a time when retail continues to have lack lustre growth; 7 out of 10 of the most frequently visited restaurant brands in the UK are Private Equity owned.

Private Equity demands growth through store openings and it is easier to find this growth from smaller portfolios. Hence Franco Manca has doubled its portfolio in 12 months to over 20 locations and Côte have increased their portfolio by 50% to over 70 restaurants in under two years.

New developments in some of the largest UK cities (Grand Central, Birmingham; Corn Exchange Manchester) have highlighted the importance of casual dining at the heart of their retail and leisure offer. However, new restaurant pitches are also becoming more prevalent (Hanover St, Liverpool; Charlotte Street, London), with pitch clearly being a key factor in a restaurant's success. These developments and 'quarters' provide an opportunity for some of the smaller brands, like Wahaca, Busaba and Pho, to get a foothold as a national chain.

▼ Corn Exchange, Manchester

FIGURE 3: Market by brands & portfolio size. This chart shows how the market is apportioned between established brands and new entrants. 60% of brands have fewer than 10 stores, while those with >50 stores account for 13% of brands, but 2/3 of restaurants



Source: Savills Research

FIGURE 4: Market share and outlet growth Recent growth in the sector has often come from smaller brands, emphasising the development of new concepts

	UNDER 25 SITES	25 TO 99 SITES	OVER 100 SITES
MARKET SHARE	23%	34%	44%
	Wahaca Red's Turtle Bay Handmade Burger Co Franco Manca Cau	Carluccio's Five Guys Yo! Sushi Las Iguanas	Pizza Express Nando's Pizza Hut Ask Italian Wagamama Prezzo Frankie & Benny's
OUTLET CHANGE IN PAST 3 YEARS	+489 outlets +39%	+288 outlets +27%	+297 outlets +13%

Source: Savills Research/CGA Outlet Index

FIGURE 5: CASUAL DINING CULINARY TASTES AND TRENDS Consumers are becoming increasingly adventurous with their tastes

The UK restaurant market is undergoing a cultural shift in the kinds of food and experience that consumers seek when dining out.

Italian and pizza remain the most numerous and popular of all casual dining cuisines; their combined offer accounting for 45% of all branded restaurants. However, 80% of pizza and 56% of Italian offerings originate from pre-2008.

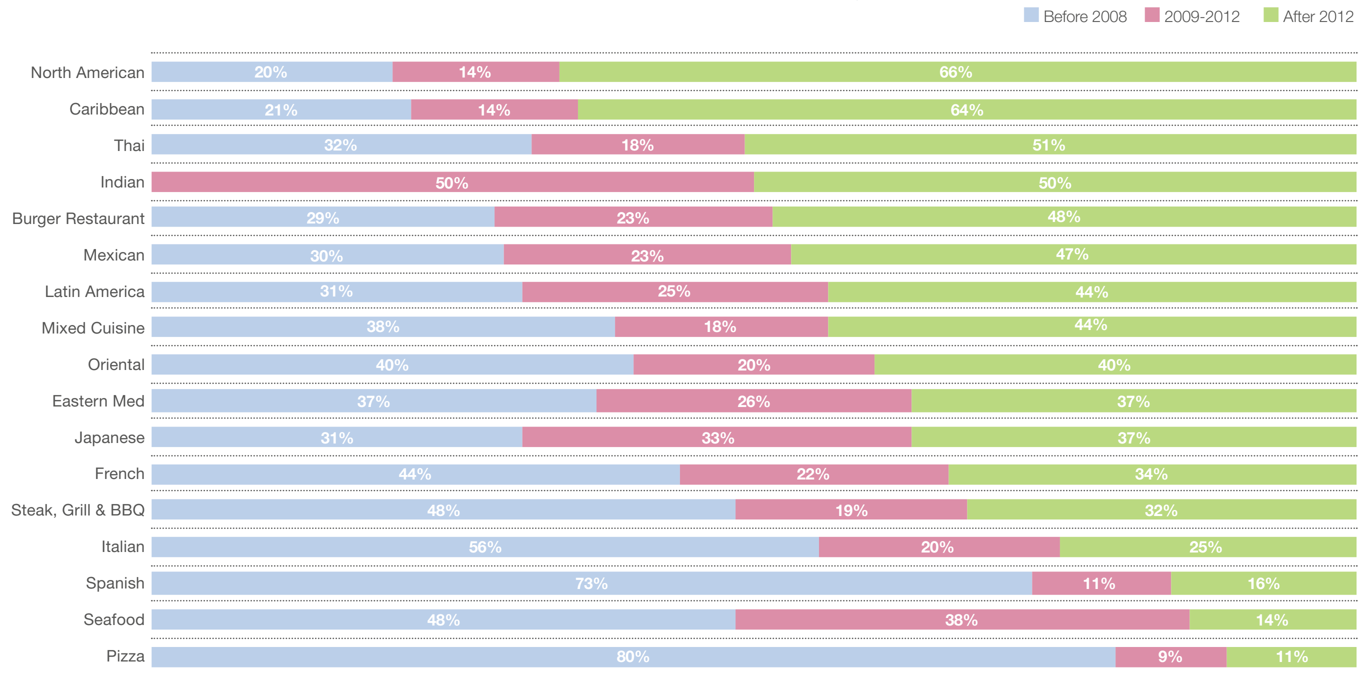
Since then, there has been a clear shift in trends to North American, burger, and BBQ/Steak restaurants, with an 80%, 71% and 52% increase in restaurants since the financial crisis, respectively.

Dining choices are often synonymous with the desire to seek good quality meat, or fresh and healthy 'world' food. Consumers are becoming increasingly adventurous with their tastes, as Caribbean, Thai and Mexican brands have expanded rapidly since 2012, albeit from a smaller base.

There is a clear distinction in food styles between longstanding Chinese and Indian restaurant concepts and the Oriental Wok and Street Tiffin operations that have appeared on high streets in the last five years; two thirds of East Asian Cuisine brands are now Thai and Japanese.

Source: Savills Research

FIGURE 6: Opening by cuisine and year The cultural shift in styles is clear from the rate of growth experienced in the last four years



Source: Savills Research

Market opportunity & saturation concerns

Increased demand for diversity and quality of experience

There has been a considerable difference for many years between the dining culture of London and the rest of the UK. Central London, in particular, is well established as a global centre for restaurants from all culinary corners of the world, while for decades regional cities were more dominated by Chinese and Indian restaurants and cinema anchored leisure schemes that promoted a relatively small pool of national chains. Meanwhile, wet led pubs across the country have provided consumers with the vast majority of eating out opportunities.

Gradual changes in food culture through the availability of ingredients, cookery programmes and health awareness, have increased demand for more diversity and quality of experience in the dining market. People are drinking out less and eating out more and as a consequence, drink-led eateries are growing much more slowly than in the past and food-led establishments are surging. This provides a great opportunity for further casual dining growth across the UK.

Outside of London, the major city centres have led the growth in eating out and are the key battlegrounds. New schemes in, Leeds, Liverpool and Manchester have changed the casual dining landscape. Brands are competing for premium space, committing to punchy rents and speculating on expensive fit-outs and long leases in order to secure the best sites.

The cosmopolitanisation of the UK diner is also feeding down into smaller towns and cities, further reflecting a swing from drink-led to food-led eating establishments. Hence in the last three years drink-led establishments have declined/stalled in towns like Cheltenham, Southport and Worthing, while food-led locations have grown significantly (Alix/CGA Monitor).

While the Alix/CGA analysis in Fig 7 is not specifically casual dining, it reinforces the point that the UK eating out market, of which the branded restaurant element remains a relatively small but growing share, is incredibly dynamic and expansive in the current climate. Furthermore, regionality and affluence have become less of a governance to limiting expansion, with smaller less saturated markets providing some excellent opportunities; provided of course that there is the market capacity.

So what part of the casual dining market is the most expansive? Small businesses tend to be more optimistic than large established players and it is easier to grow small-medium businesses on a like-for-like basis. The latest CGA Peach & Korn Ferry Survey of Business Leaders indicates that 30% of the largest businesses lack optimism for market growth.

However, 27% of business leaders surveyed also said they expect to open more than 10 sites in 2016. Much of this growth is anticipated to be from bigger more established companies as businesses under private equity or stock market ownership are under pressure to meet investor demands, while smaller companies are typically more prepared to grow organically.

Given the modest share of the overall eat-out market we are not unduly concerned about saturation on a macro-market level and expect the growth in branded restaurants to continue, with further new brands and concepts yet to appear and many parts of the country still underserved.

There are however, concerns felt by operators at the local-market level, where at times there are more restaurants appearing than there is the consumer spend, or inclination to support them. Eating-out culture is changing at pace towards the casual dining model and while critical mass of restaurants is important to drive this trend, where the pace of supply outstrips the pace of demand some operators will struggle.

CGA Peach report that trip spend is expected to increase, but frequency of visit is expected to decrease in the sector, largely because more choice

FIGURE 7: Restaurant outlet growth (year-on-year) Drink-led leisure has fallen behind food-led outlet growth in major city centres and many sub-regional towns, eclipsing London for the first time

MAJOR CITY CENTRES	**London: +2.9%** Drink-led: **+0.6%** Food-led: **+3.8%**	**Bristol: +5.1%** Drink-led: **+4.7%** Food-led: **+4.8%**	**Liverpool: +5.6%** Drink-led: **+2.7%** Food-led: **+7.7%**
Manchester: +1.6% Drink-led: **-1.4%** Food-led: **+3.5%**	**Cardiff: +5.9%** Drink-led: **+4.3%** Food-led: **+8.4%**	**Leeds: +4.4%** Drink-led: **+0.8%** Food-led: **+7.7%**	**Glasgow: +4.1%** Drink-led: **+3.0%** Food-led: **+4.5%**
SUB-REGIONAL TOWNS AND CITIES	**Cheltenham: +3.3%** Drink-led: **0.0%** Food-led: **+6.0%**	**Taunton +3.7%** Drink-led: **+2.8%** Food-led: **+5.2%**	**Coventry: +7.5%** Drink-led: **+6.1%** Food-led: **+10.8%**
Solihull: +4.1% Drink-led: **+3.2%** Food-led: **+5.3%**	**Southport: +4.1%** Drink-led: **+0.9%** Food-led: **+7.0%**	**Worthing: +3.6%** Drink-led: **-2.2%** Food-led: **+7.6%**	**Stockton-on-Tees: +3.0%** Drink-led: **+0.0%** Food-led: **+10.9%**

Source: Alix Partners CGA Peach Market Growth Monitor results in decreased loyalty. This could prove challenging for chains taking space in crowded markets, or for brands with limited menu choice.

Operators with <50 stores are significantly less concerned about increased competition and market saturation than operators with >50 sites and in particular >200 sites, presumably because they can be more flexible over location and growth. There can be clear challenges with upscaling portfolios, which is likely to be most felt by some brands that lack funding, or are already well represented.

Local market saturation is forcing operators in all tiers to up their game and innovation is at an all-time high. Creative but costly fit-outs, improved service levels, social media tie-ins and more convenient payments via mobile are all designed to improve the customer journey and increase footfall. Further concessions are expected following tie-ups between Rossopomodoro in John Lewis, Burger & lobster in Harvey Nichols and Ed's Easy Diner in Debenhams.

For consumers at least, competition is a good thing; it forces improvements in standards, which in turn increases appeal.

The five formats most expected to thrive in the next few years are:

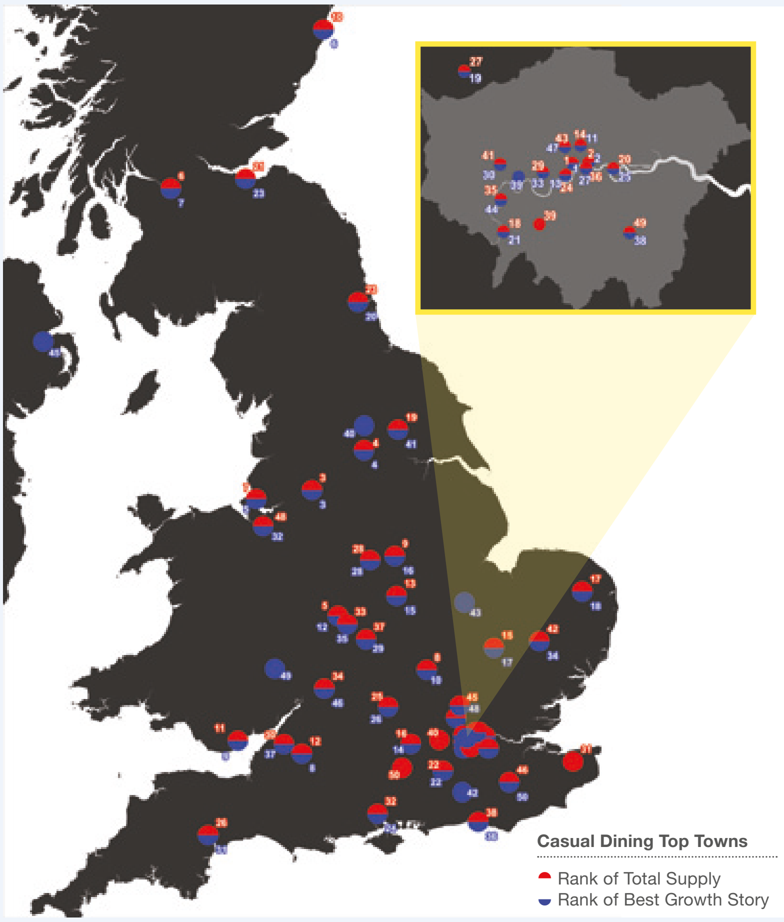
- Premium fast food
- All day/flexible formats
- Street food/pop ups
- Premium casual dining
- Third party delivery services

THE LONDON CONUNDRUM

Despite London leading the way in its dining offer, there are increasingly concerns over capacity issues. 180 new restaurants open in Central London each year, but 35% of these close down in the first two years. Total sales remains good and there are still queues around the corner of the trendiest restaurants, but trade growth is not increasing at the rates witnessed in recent years.

The Coffer Peach Business Tracker shows that for 2015, restaurant like-for-likes within London have fallen for 8 months in the year, while outside of London sales grew in all but one month of the year. Despite this, demand for space in London remains high and given the large amount of spend available and the high propensity for dining out, it is a market that all brands will inevitably want to crack.

FIGURE 8: Top growth cities for casual dining: The reality of today's eating-out market is that, beyond the M25, there are more expansion opportunities for the leading branded operators, as shown by the presence of cities such as Leicester, York and Milton Keynes in the top-50 growth towns



Town	Rank of Total Supply	Rank Of Best Growth Story
London West End	1	1
London City	2	2
Manchester	3	3
Leeds	4	4
Birmingham	5	12
Glasgow	6	7
Liverpool	7	5
Milton Keynes	8	10
Nottingham	9	16
Aberdeen	10	6
Cardiff	11	9
Bath	12	8
Leicester	13	15
Islington	14	11
Cambridge	15	17
Reading	16	14
Norwich	17	18
Kingston upon Thames	18	21
York	19	41
Canary Wharf	20	25
Edinburgh	21	23
Guildford	22	22
Newcastle upon Tyne	23	20
Victoria Street	24	13
Oxford	25	26
Exeter	26	31
Watford	27	19
Derby	28	28

Town *(continued)*	Rank of Total Supply	Rank Of Best Growth Story
Kensington	29	33
Bristol	30	37
Canterbury	31	
Southampton	32	24
Solihull	33	35
Cheltenham	34	46
Richmond upon Thames	35	44
London Bridge	36	27
Leamington Spa	37	29
Brighton	38	36
Wimbledon	39	
Windsor	40	
Ealing Broadway	41	30
Bury St Edmunds	42	34
Camden Town	43	47
St Albans	44	48
Tunbridge Wells	45	50
Chester	46	32
Bromley	47	38
Basingstoke	48	
Chiswick	49	39
Horsham	50	42
Peterborough		43
Belfast		45
Harrogate		40
Hereford		49

Source: Savills Research

DELIVERY POINT

A new trend is further shaking up the sector as many casual dining operators are now branching out into providing takeaway services in addition to their restaurant operations with the help of third party delivery services. This is not a new concept in itself; Just Eat and Hungryhouse have been around for over a decade. However, their business model is to link consumers to small businesses predominantly from the traditional take-away sector.

▲ Deliveroo drivers: a familiar sight in our cities

Unlike its competitors, Deliveroo provides the delivery service as well as marketing and order taking, via an 'Uber' friendly mobile app. This allows it to provide food from restaurants that do not normally offer a delivery service, including a growing tranche of casual dining operators. Diners now find it as easy to order a Byron burger or Wagamama pad-thai as an Indian takeaway into their homes.

Given increased consumer demand for a higher quality and fresher food offer, the upshot for the sector is clear. Tapping into the pool of consumer restaurant spend that doesn't typically leave the home, increasing sales in restaurants without using tables, and having staff efficiencies in serving an increased number of customers. Pizza Express have seen the benefit of adding delivery services to their offer, but are going it alone, while Chiquito's are the latest brand to embrace Deliveroo with plans to trial the offer from a dozen of its restaurants.

Incepted in 2013, Deliveroo already operates from 13 countries and is rapidly expanding across the UK, having successfully raised almost $200m in funding. Their ever growing network of delivery riders are already a familiar sight in our major cities.

Looking ahead

Significant potential exists for casual dining sector

■ Casual dining accounts for 7% of the overall eating-out market. The potential for expanding branded restaurants is therefore significant, as it only needs to see a small gain in market share to see a vast increase in trade and demand for restaurants.

■ Consumers are becoming more informed with food trends and styles, more expectant of good service, value and experience, more confident with preferences and sharing of opinion, and more tech savvy, social media connected and open to innovations and new concepts. The most successful casual dining brands will be streamlining these demands into their offer.

■ While pre-family adults under 34yrs are the most tuned into these cultural shifts, other demographic groups, in particular families, are not far behind.

■ Eight brands with more than 100 restaurants in their portfolios represent 44% of all casual dining restaurants, yet almost 80% of the market is made up of brands with fewer than 25 restaurants. It is this area that has seen the starkest growth in the last few years; a trend that is expected to continue.

■ While Italian and pizza restaurants account for 45% of branded restaurant provision, recent changes to culinary preferences have been rapid; American style brands restaurants have alone increased by 80% since the financial crisis.

■ Major city centres have witnessed significant growth in the casual dining sector in recent years, but some of the biggest growth in casual dining is now being seen in more regional towns and cities across the UK, like York, Leicester and Cheltenham.

SAVILLS LEISURE AGENCY: Savills Leisure team have the strongest presence in the UK market. As a result of our continued dedication, we were recognised as market leaders by Property Week and named Leisure Agency Team of the Year 2013 and again in 2015.

We advise on over 3.5 million sq ft of UK cinema anchored schemes, over 20 leisure development projects and have 11 retained acquisition clients, including The Restaurant Group, one of the largest casual dining groups in the UK. Last year alone, we acquired over 70 sites for our retained clients.

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