UK Commercial – Winter 2022

SPOTLIGHT

Savills Research

UK Leisure Spotlight 2022

Key consumer trends ● Occupational market trends ● Outlook for the leisure sector

34% and 22%
Spend on both entertainment and pubs/restaurants/fast food continued reporting strong year-on-year growth of 34% and 22%, respectively, in September, outperforming retail growth of 12% over the same period

Key Consumer Trends

Leisure spend reported strong growth over the summer; however, mounting financial pressures will challenge the sector in the short term

Following a relatively robust summer period for leisure consumer spend, the UK is now wrestling with further economic uncertainty, an inflationary-linked squeeze on discretionary spending and weakened consumer sentiment.

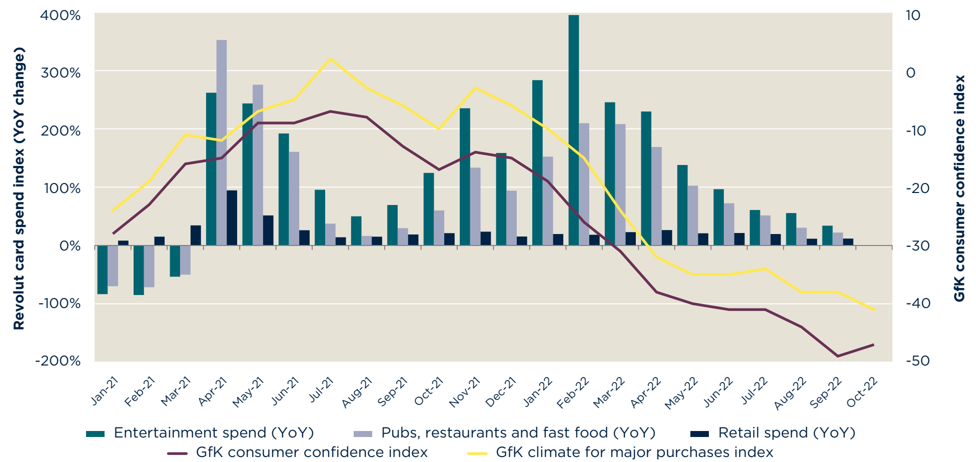
GfK's October consumer confidence index reported further decline into record-low territory, with the climate for major purchases dropping a further three points to -41 (down 31 points from its 2021 equivalent levels).

This has fed through into card spend data, as households begin to reign in on non-essential spending. Revolut's index is somewhat telling of the current trend, with total card spend in September reporting a -6.3% decline month-on-month, the largest monthly fall since January 2022.

Nevertheless, spend on both entertainment and pubs/restaurants/fast food continued reporting strong year-on-year growth of 34% and 22%, respectively, in September, outperforming retail growth of 12% over the same period (figure 1). However, this does represent softening compared to the heightened growth rates reported through the summer months, with September reporting the first month-on-month declines since May 2022 for both of the leisure indexes (figure 2).

The question, therefore, must be, is a retraction in spend a short-term reaction as consumers 'wait and see' what impact their rising monthly costs will have on their disposable income?

Figure 1: Year-on-year change in card spend vs consumer confidence



Or are we seeing the beginning of a longer-term trend, as the public swing into belt-tightening mode, particularly over the winter months when energy costs are likely to be at their highest?

A cursory look at past economic downturns, particularly the GFC, coupled with the fact that this year will see a first Christmas in the last three with no restrictions on the movement of consumers, means we shouldn't necessarily be quick to assume the worst. As this report will discuss, the answer will undoubtedly lie somewhere in the middle, with the next six months seeing both periods of elevated spend as well as consumers cutting back, typical in the run-up to the festive period and subsequent post-Yuletide cut-back. The question is how much will spend be tapered in both the period of heightened consumer engagement and, in a post-Christmas period when consumer leisure spend is typically reduced anyway?

Figure 2: Month-on-month change in card spend vs consumer confidence

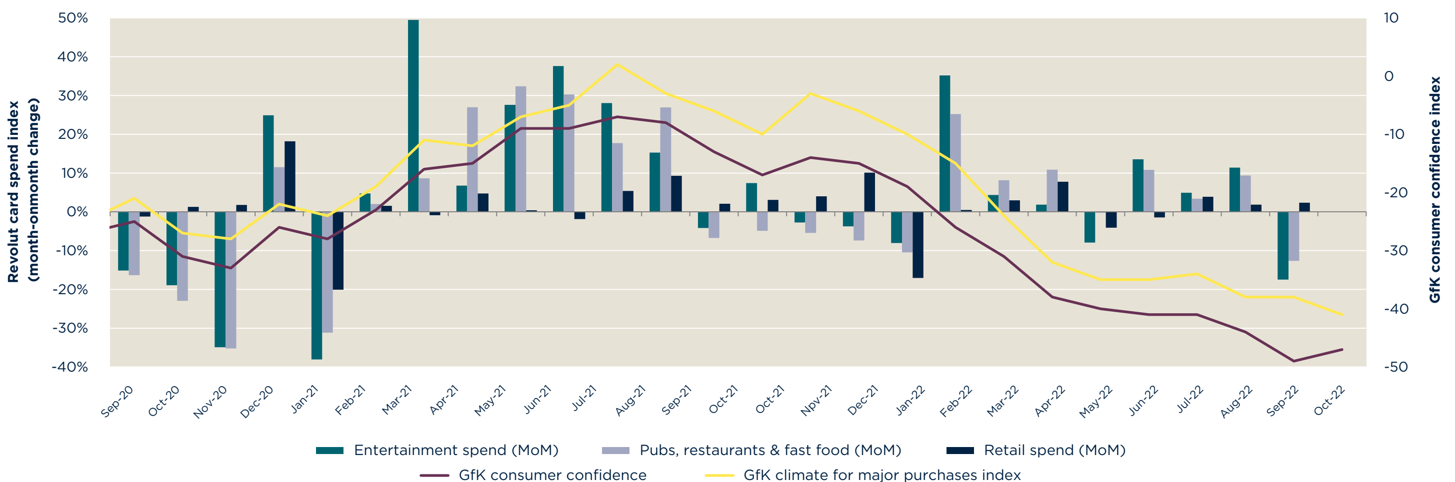


Figure 1 & 2 Source: Savills; ONS, CoStar, Oxford Economics

Occupational Market

Consumer engagement in leisure activities sees leisure spend increasingly improve, as lockdowns become a thing of the past

In order to look forward, we must first look back. It would be difficult to underestimate the challenges the leisure market faced during the grip of the global pandemic. Indeed, some sectors of the market fared better than others, and the impact of physical closures, diversification of business streams and the rise in takeaway spend have all been well documented. So what did all of this mean for operator performance, new openings and closures across the various sub-categories since the end of 2019?

Takeaways and fast food outlets went from strength to strength; the segment reported sales growth of 71.5% in August 2021 vs August 2019. This has been evidenced through the overall increase in the number of units, with a net growth of c.8,900 units since Q4 2019, representing the fastest-growing UK retail/leisure subsector.

For other sectors of the leisure market that couldn't 'cash in' on lockdowns like fast-food and delivery, and who faced long periods with no trade whatsoever, the end of lockdown has provided, for some, exceptional resurgence in spend, with consumers keen to return as much as possible to a pre-pandemic 'normal' in their spending habits

GlobalData's monthly survey of 2,000 consumers (carried out among a representative sample of the population in terms of demographics and geography), does much to support the findings of Revolut's card spend index and the strong year-on-year growth we have seen in spend in entertainment and pubs, restaurants and fast food (figure 1).

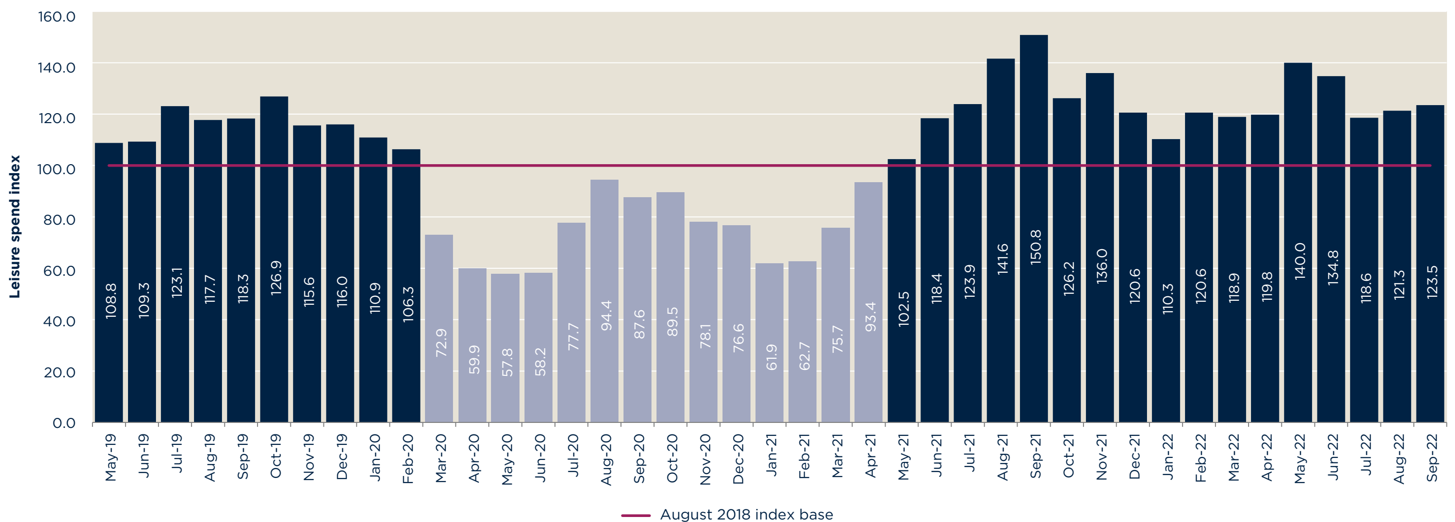
From May 2021 and the end of the UK's national lockdown programme, leisure spend has remained above the mid-2018 benchmark. Currently, the index stands at 123.5, suggesting we are seeing 24% more spend on leisure in September of this year, compared to that in August 2018.

Despite leisure spend indexing -27.3 points lower than the same month last year, the result is somewhat masked by such high post-lockdown-driven comparatives in the previous year's performance. August and September 2021 saw particularly high index scores in reaction to a considerable amount of pent-up demand.

In fact, for the first time, the Bank of England's data highlighted that household savings in August 2021 remained 116.6% above the 2015-2019 monthly average, albeit reporting a -29.0% drop compared to monthly averages in 2020; whilst UK households were continuing to save above pre-Covid levels, the level of saving was quickly beginning to fall in line with the reopening of various retail and leisure sectors, subsequently driving an uplift in household disposable income spend.

As the market has settled after a period of elevated spend post-lockdown, it is pleasing to see the current outlook remains positive. GlobalData's leisure index reporting 2.2 points increase in September on the previous month and remains well in excess of the levels seen pre-pandemic. As a result 15.1% of all monthly consumer spend is thought to have been spent on leisure activities this September. In February 2020, the month before the pandemic struck, leisure accounted for 14.5% of all consumer spend.

Figure 3: GlobalData's leisure spend index highlights the improvement in consumer spend on leisure post-pandemic, remaining above the August 2018 benchmark since May 2021



The end of lockdown has seen improvements in acquisition activity for leisure operators across high streets, shopping centres and retail parks

Alongside the improvements in consumer spending, the leisure sector has seen a return to growth in the number of operators acquiring space. As this report will demonstrate, rather positively this is true both for the UK as a whole and by asset class. A more detailed look at the relationship between openings and closures suggests this is not universal for all leisure subsectors, with parts of the hospitality market seeing a reduction in representation.

In our analysis of operator growth/decline, Savills has included what it considers to be the key leisure sectors, namely restaurants, pubs, bars and clubs, cafés and takeaways, gyms, and other entertainment venues (including cinemas, casinos, bowling-alleys and competitive socailising venues). Figure 4a shows the total number of multiple and independent leisure units nationwide, across these categories, comparing the numbers seen in Q4 2019 (just before the onset of the pandemic), and every six months thereafter until the present day.

Covering these key sectors, it is evident there has been a net gain of c.14,000 leisure units since Q4 2019. Taking both store closures and new openings

Figure 3 Source: GlobalData

into account, the number of leisure units in the UK increased from c.132,500 to c.146,500. This represents an overall increase of 10.4%.

Breaking this down further, we can see it is the independent operators that have seen the most significant and steady growth, accounting for a 14.26% increase in unit representation between Q4 2019 and the present day, compared to 0.39% for multiples, who have seen a recovery in numbers following an inevitable dip, as more stores closed than opened during the height of the crisis (figure 4a).

Figures 4b, 4c and 4d highlight how we have seen a return to growth in the number of multiple leisure units across the different asset classes; high streets, shopping centres and retail, leisure and shopping parks, following a period of Covid-related decline.

For high streets and shopping centres, it is true to say we are not yet quite at the same level we were at in the quarter before the pandemic struck, although the numbers are indeed close enough to suggest we are back to where we were pre-Covid, bar the shouting; high streets and shopping centres are currently only 1.2% and 1.9% below the numbers we saw in Q4 2019.

In fact, for both retail property types, even in Q2 2021, when each saw the number of leisure operators fall to their lowest since the onset of the pandemic, provision was still only 2.2% and 4.3% lower than it had been at the start. High street and shopping centres have both seen growth since that period, with numbers increasing by 1.0% and 1.4% respectively, from the end of Q4 last year.

For independent leisure operators in shopping centre locations, we saw a mirroring of the multiple operator pattern of retraction and recovery seen across the UK leisure market as a whole. Despite a decline in independent leisure operators up to Q2 2021, numbers have since recovered and currently sit at 9.3% above what they were at the end of 2019.

However, both high streets and retail, leisure and shopping parks combined have seen nothing but a steady and continuous growth pattern for independent leisure operators since the onset of Covid-19, currently 7.9% and 22.7% higher than in Q4 2019. This has a lot to do with the explosion in the number of cafés and fast food takeaway outlets, as new operators looked to take advantage of the increased propensity for consumers to order food to their homes.

At this juncture, it is important to make the point that despite this positivity, the leisure market has not been without its fair share of pain. This analysis is a look at leisure provision overall. Yes, we may have seen a return to growth and, in some cases, an improvement on the amount of provision seen pre-Covid; however, as we will see throughout this report, this is essentially a balancing effect. For example, the UK's licensed sector has begun to see significant net decline in the third quarter of 2022, whilst at the same time we are seeing strong growth in food & beverage operators, particularly in the out-of-town retail market.

Figure 4d highlights how retail, leisure, and shopping parks combined have seen steady and continued growth, not just for independent retailers but, more commonly, for multiple leisure operators. This has been largely driven by the number of food and beverage operators competing for space in this market.

Figure 4: UK multiple versus independent leisure units by asset class – December 2019 to September 2022

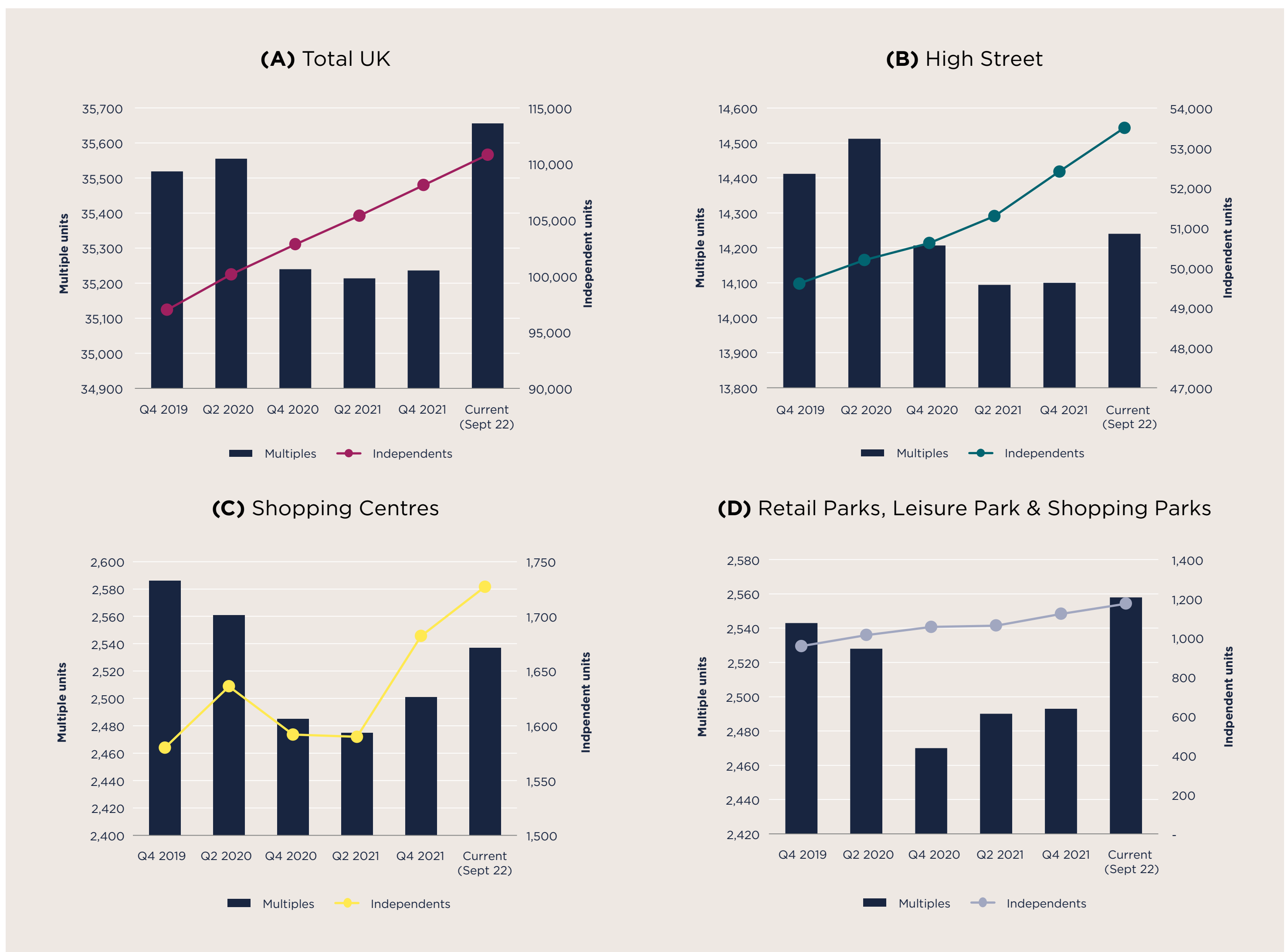


Figure 4 Source: Savills Research; LDC

Out-of-town retail destinations have seen increasing competition for F&B space as consumers continue to recognise the convenience of their locations, leading to a significant uplift in the rents that can be achieved at this format

It is clear that what has made retail parks appealing to consumers since their inception, namely convenient, easily accessible, highly visible roadside locations with large units and adjacent free parking, is what helped them outperform other retail assets during the pandemic, when social distancing was a key part of the public's consciousness, helping to accelerate a pre-existing trend in the sector, namely the propensity for landlords to increase F&B provision on their retail parks.

As a result, we have seen an explosion in the take-up and space requirements of a number of F&B operators, including, but not limited to, Costa Coffee, Starbucks, Tim Hortons, Five Guys, McDonald's, Burger King and Greggs.

So far this year, the out-of-town market has seen 794 new openings (up to the end of Q3). 31% of those are F&B operators (leisure as a whole accounts for 42% of all new openings). Figure 5 highlights the top 20 most acquisitive brands in the retail warehouse sector in 2022. Six F&B operators appear in the top 20, accounting for as many as 101 units.

This level of competition has had a strong, positive impact on the rents landlords are able to achieve with such operators, evidenced in the distinction in performance of Savills' deals by size of unit. By far and away the strongest performance was in those units under 2,500 sq ft in 2021, with net effective rental growth of 26.0%, taking the average to £33.83 psf (by comparison the average for the rest of the out-of-town retail market was £18,59 psf, with a growth of 10.3%).

Figure 5: Out-of-town new openings by fascia (top 20) – Up to Q3 2022

Rank	Operator	Category	Pitch	Units	Total floor space (sq ft)	Average Unit Size (sq ft)
1	Lidl	Grocery	Value	30	565,000	21,700
2	Tim Hortons	Food & Beverage	Value	24	80,700	3,400
3	Greggs	Food & Beverage	Mass	23	31,600	1,700
4	PureGym	Leisure	Value	22	254,100	11,500
5	Costa Coffee	Food & Beverage	Mass	21	43,400	2,600
6	B&M	Variety Stores	Value	19	491,200	29,300
7	Home Bargains	Variety Stores	Value	17	438,900	25,800
8	The Gym	Leisure	Mass	17	148,100	9,300
9	Aldi	Grocery	Value	16	282,500	21,100
10	Iceland	Grocery	Value	13	164,200	12,600
11	Bensons	Home	Mass	12	97,800	8,100
12	McDonald's	Food & Beverage	Value	12	20,900	5,300
13	Starbucks	Food & Beverage	Mass	12	24,900	2,100
14	M&S	Fashion/Grocery	Mass	10	426,800	69,600
15	Tapi	Home	Mass	10	94,100	9,400
16	Burger King	Food & Beverage	Mass	9	28,100	3,700
17	Easy Bathrooms	Home	Mass	9	45,400	5,000
18	Poundland	Variety Stores	Value	9	134,400	14,900
19	Jollyes Petstore	Variety Stores	Value	8	51,100	6,400
20	Mountain Warehouse	Sportswear & Equipment	Mass	8	50,400	7,200

Looking at the data on our drive-to and drive-thru deals in isolation, average net effective rents are even higher at over £40 psf. This is simply down to the volume of occupiers competing for space at this format. The likes of Costa Coffee and Starbucks are still as acquisitive as they have been in recent years; however, we are also seeing a number of new entrants to this market, all vying for space in this area, including Greggs, Tim Hortons and Five Guys (figure 6). Figure 5 clearly demonstrates the pattern of growth in this sector is likely to continue as we continue to see appetite for acquisitions at this format into Q4 2022.

Figure 6: The annual net effective rental growth in 2021 highlights the strength of the drive-thru and drive-to market at present

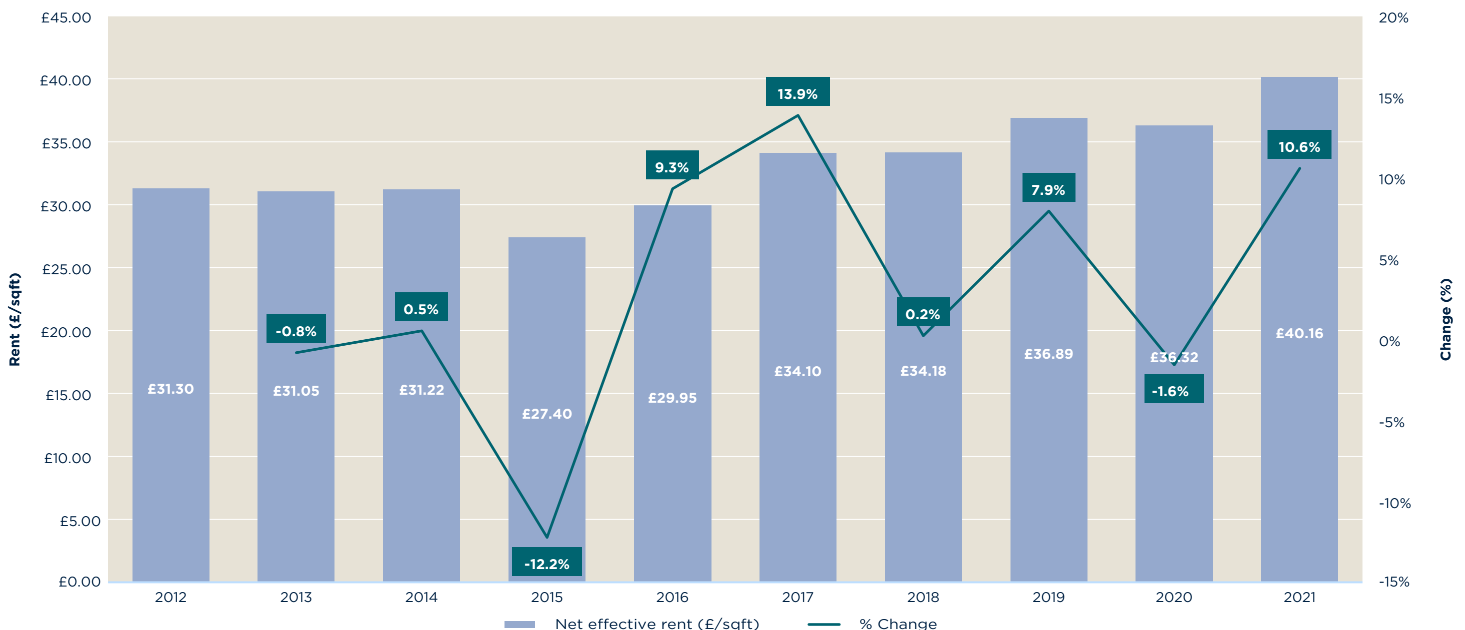


Figure 5 & 6 Source: Savills Research

Despite the food and beverage sector seeing some improvement in consumer engagement and operator acquisitions in town and city centres, it is regional locations that have seen a significant uptick in fortunes, allowing business to return to profit

Despite the particularly strong competitive environment that has established itself in the out-of-town F&B market, we have also seen improvements in consumer engagement and operator acquisitions across the rest of the UK retail and leisure landscape. Figure 7 highlights just how many units the top 20 most acquisitive brands have taken since Q4 2019, highlighting the significant amount of activity from the UK's most established operators, as well as a number that are new to the market.

Figure 8 highlights further how, despite the pandemic, we have seen a steady and continual growth in the number of cafés and takeaways nationwide, both for multiple and independent operators. However, the picture for the UK as a whole somewhat belies what is going on at the local level, with stronger growth found in regional high street locations than has been evident in town and city centres.

Pret A Manger, for example, saw revenue across the UK surpass pre-pandemic levels for the first time in May this year, making the café/takeaway brand profitable again, after consumers resumed eating out following a return to offices post-lockdown.

The coffee and sandwich chain, which has traditionally relied very heavily on office workers, said half-year revenue hit £357.8 million, soaring by 230% compared to last year when Covid lockdowns widely impacted many retail businesses. This puts Pret's revenue up 160% on the same period in 2020.

That said, this success was largely down to a strategy implemented during the pandemic. The brand chose to expand the number of units in suburban locations, recognising that since its outset, more employees are working from home, at least for part of the week and targeting the 'hybrid' working crowd. Currently, 66% of Pret's UK shops are outside of the capital's Square Mile, with 36% of UK shops located in regional cities and towns.

Whilst we have seen people return to the office, supporting the recovery in city centre locations, it is now evident we are seeing higher instances of homeworking compared with that seen before the pandemic. This will continue to support a resurgence in local high streets, attracting new entrants, from both independents and larger players.

Similar to the recent success shared by Pret, Caffè Nero has reported strong trading for the first four months of its financial year (June-September 2022), with sales 107% of pre-pandemic levels, opening four UK stores in that period including a flagship store in Stansted Airport, with plans for seven new openings by year end.

The brand also began a major refurbishment programme that saw an initial 140 stores upgraded over the past six months, and a continued emphasis on the growth of its mobile application, with more than 30% of all UK store transactions now taking place via this method, equating to more than two million people now using it in the UK. Furthermore, Caffè Nero has added Just Eat as a delivery partner, alongside Uber Eats, driving growth in delivery sales during the same period by 10%. Clearly the brand has maximised the potential of such additional routes to market born out of necessity during the pandemic. As such, it has capitalised on its appeal as a convenient way for a consumer to make a purchase. This has led to a strengthening of its resolve as it looks to expand its store portfolio despite the substantial economic headwinds the market is currently facing.

However, despite this positivity, there is concern in the sector over the impact such headwinds will have in the coming months. Soaring food and energy costs have led to calls for the government to reduce VAT, business rates and loosen controls on immigration, to improve conditions in both this sector and the economy at large. One way Pret A Manger has attempted to tackle the inflation crisis and continue its recent success is to adapt its offer further, launching a new affordable menu range in the UK, seeking to increase options for consumers struggling to make ends meet.

Deliveroo has recently reported a fall in orders in the third quarter of 2022, which is perhaps a sign consumers have begun to cut back on discretionary purchases. Gross Transaction Value (GTV) growth was up 11% year-on-year in the first quarter in the UK and Ireland, but down 2% from the second quarter. Orders were up 5% year on year in the same period but down 4% on the second quarter. Similarly, Just Eat saw orders and GTV fall 15% and 5% in the UK, respectively, during its third quarter.

Figure 7: Top 20 café & takeaway acquisitions since December 2019

Rank	Operator	New Openings
1	Costa Coffee	256
2	Starbucks	198
3	KFC	105
4	McDonald's	92
5	Domino's Pizza	87
6	Papa John's	83
7	Subway	77
8	Mooboo	66
9	Pret A Manger	58
10	German Doner Kebab	57
11	Pepe's Piri Piri	55
12	Burger King	52
13	Taco Bell	50
14	Caprinos Pizza	49
15	Five Guys	42
16	Tim Hortons	33
17	Bubble CiTea	31
18	Chaiiwala	29
19	Dixy Chicken	28
20	Morley's	28

Figure 8: UK café & takeaway units - December 2019 to September 2022

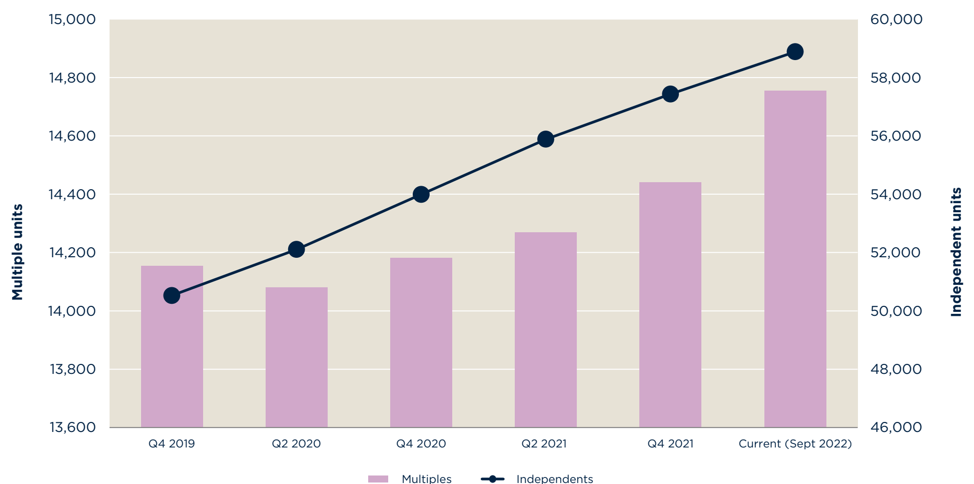


Figure 7 & 8 Source: : Savills Research; LDC

Black Sheep

Founded in Camden in 2013, Black Sheep Coffee has undergone rapid expansion. It wasn't until 2019 that it began acquiring a large number of sites, now totalling over 70, including sites in France, the Philippines and the US. Several of these occurred during the pandemic, where Black Sheep was able to benefit from softer deals. As the coffee industry becomes increasingly competitive, continuing to expand at this rate may be necessary to avoid losing out to competitors.

Gail's

Gail's has become a much-loved brand, once found only in affluent London suburbs but more recently locating outside of London to towns such as Harpenden and Guildford. The move to flexi working has been a great benefit to Gail's model as these high street markets have thrived, particularly with the brand's local and independent feel. Totalling over 75 sites, we expect there to be much more room for Gail's to expand further in the UK.

Restaurants have seen a similar pattern of behaviour to the rest of the food and beverage market

Although we haven't seen the continuous growth in numbers that we have seen for cafés and takeaway multiples, restaurants have seen a marginal return to growth this year. Currently, the number of multiples in the UK are 9.9% down on the numbers seen pre-Covid, but this is a 0.9% increase on the total seen at the end of 2021. Independent restaurants, on the other hand, have fared much the same way as the rest of the F&B industry – steady growth resulting in 9.7% more units than Q4 2019.

According to Fleurets, deal activity is currently high in the restaurant market. Demand remains strong and, unlike the wider hospitality sector, supply has increased. It states that the number of restaurants falling into insolvency has increased by 64% in the past year as a result of the well-publicised headwinds. UHY Hacker Young reported that 1,406 restaurants in the UK closed their doors in the 12 months to May 2022.

However, this increased supply has created significant opportunity for new concepts to get a foothold and for the expansion of others.

A growth in restaurant numbers, be it small and short-lived, as is the case with the multiple operators, or larger and longer, as we have seen with the independents, is a positive outcome for the sector in a post-Covid era and has a lot to do with the elevation in consumer engagement we have seen over much of the last 12 months. Figure 10 highlights how 2022 has seen restaurant covers consistently above the levels seen in 2019 for the UK as a whole, currently standing at 18.4% higher in the week ending 3rd of October versus the same week the previous year. Manchester sees a similar pattern of engagement to the rest of the UK, with restaurant covers 14.2% in the same time period.

This is a positive result for the restaurant sector and goes some way to explaining why a number of both established and emerging operators have sought additional space in the market. Figure 11 highlights the 20 most active multiple restaurant brands since the end of 2019.

Figure 9: UK restaurant units - December 2019 to September 2022

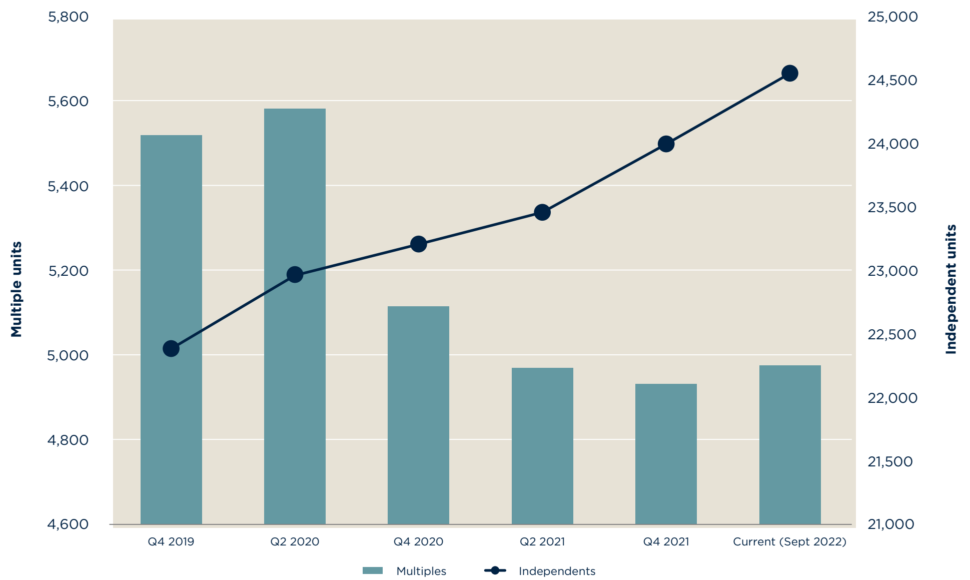


Figure 10: Weekly restaurant covers versus 2019 levels

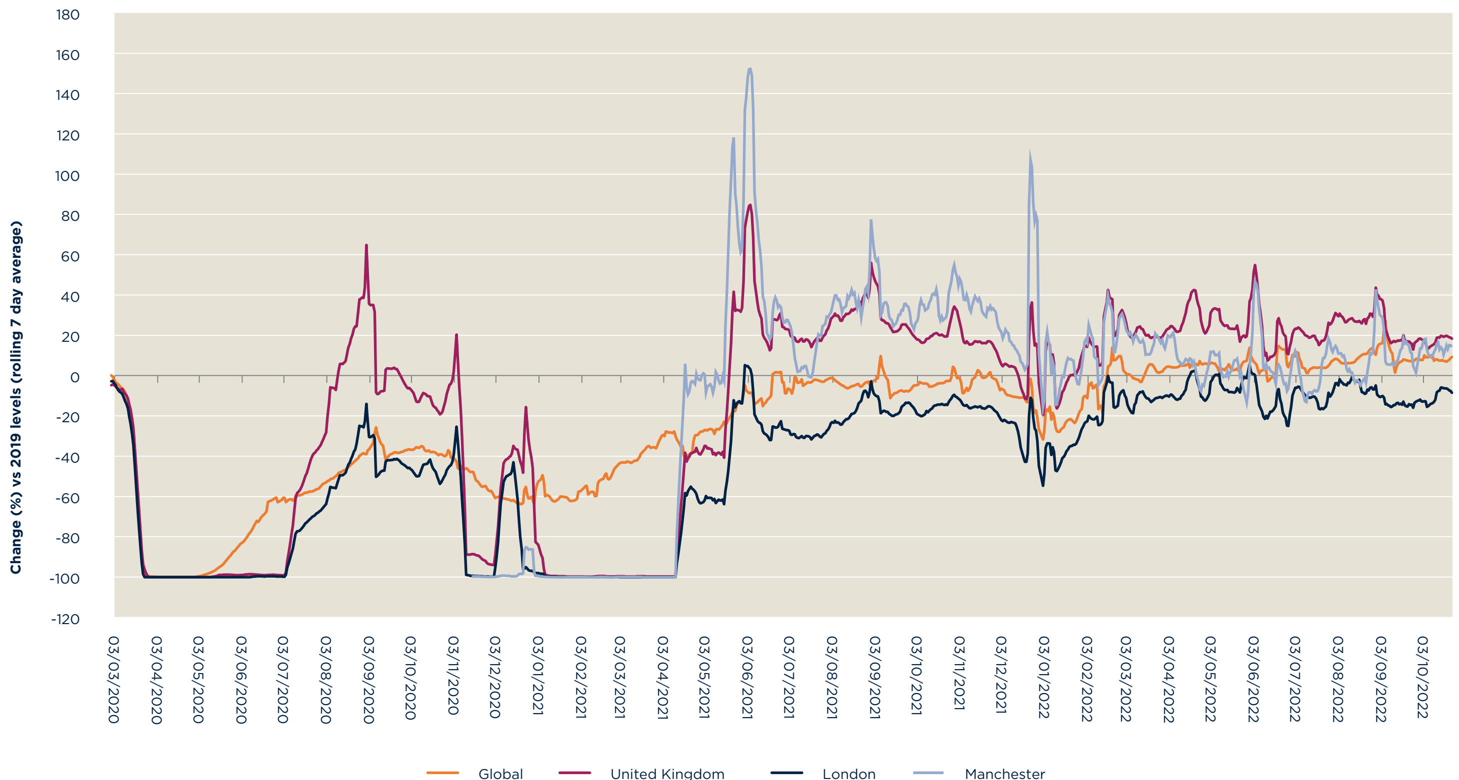


Figure 9 & 10 Source: : Savills Research; LDC; OpenTable

Nevertheless, London does not fare quite as well in terms of restaurant covers. OpenTable's data suggests the capital is down on the number seen at the beginning of October 2019. Like the rest of the F&B market, this has a lot to do with the reduction of commuters into the city, who instead are choosing to work from home with more frequency, which in turn has bolstered the performance of regional locations and local high street centres

Fulham Shore, which operates Franco Manca and The Real Greek restaurant brands, appear 10th and 13th in the UK's most acquisitive operators since the onset of the pandemic (figure 11). It echoes the findings from OpenTable in so much as its performance has been much stronger outside of London.

In its financial report for the year ending March 2021, the group reported a 41.3% decrease in revenue to £40.3m due to Covid-19 trading restrictions, resulting in earnings before interest, tax, depreciation and (EBITDA) of £8.7m compared to £14.3m the prior year, and a pre-tax loss of £7.5m.

Nevertheless, the operator has stated that it has the financial headroom for a controlled expansion programme, with plans to open ten locations during the current financial year and top 110 restaurants across the UK by the end of 2025 across both its brands.

Fulham Shore also reported a stark disparity in that performance between city centre locations and other restaurants, with the group's 17 West End of London and city centre office locations seeing revenues down 41% on a two-year like-for-like basis for the eight weeks 21 June to 15 August 2021.

Meanwhile, its regional and suburban restaurants, especially sites in coastal towns and university city locations, were over 30% ahead of 2019 figures because of the UK government's working-from-home requirement and the rise in coastal town staycations. The company has said it believes there will be sales growth to come from city centre sites as we progress through 2022 as workers increasingly return to the office and tourism returns to these locations, bringing an end to the disparity.

This appears to tally with the OpenTable data on restaurant covers in so much as both the UK and Manchester (an example of a regional city location) have seen engagement well above the levels seen in 2019 for most of this year, while at the same time, London is lagging behind, experiencing negative growth in consumer participation. It seems the elevated cost and time of the daily commute in the nation's capital, is still proving more of a hindrance to performance than it is in other locations around the country.

Where brands such as those outlined in figure 11 chose to grow and in what numbers, will give an indication of the strength of the restaurant market going forward.

Figure 11: Top 20 restaurant acquisitions since December 2019

Rank	Operator	New Openings
1	Fireaway	97
2	Lounges	42
3	Nando's	32
4	Kokoro	22
5	Wagamama	21
6	Little Dessert Shop	19
7	Slim Chickens	14
8	Gordon Ramsay	12
9	IRO Sushi	11
10	Franco Manca	10
10	Giggling Squid	10
10	Rosa's Thai Cafe	10
10	Tomahawk Steakhouse	10
11	JKS Restaurants	9
11	PizzaExpress	9
12	Pho	8
12	YORI	8
12	Wendy's	8
13	Mowgli	7
13	The Real Greek	7

Loungers

Loungers PLC, consisting of both Loungers and Cosy Club brands, has perfected an all-day dining concept that works in the majority of markets, but particularly those that others would shy away from. Loungers, being the original fascia, provides an independent feel to each site by giving each location its own name and identity. Cosy club works to complement loungers by providing an offering of a slightly higher price point, meaning in any one market, the group can potentially locate two sites. Overall, the group has done well to target secondary locations wherein their entry to market has been easier and occupational costs lower, with the latter being a key strategy for the brand since inception.

Figure 11 Source: Savills Research; LDC

Wendy's

Wendy's represents part of the mass migration of international QSR brands into the UK, along with brands such as Popeyes, Jollibee and Wingstop. The nature of this sector has become incredibly competitive, with each brand expanding firstly by acquiring high street stores (Savills has secured the first nine Wendy's locations in the South East) to establish brand presence, and then turning to drive-thru sites - many of which are more difficult to secure due to rising construction and material costs. Wendy's continues to compete with traditional players like McDonald's and KFC but is also up against brands such as GDK and Pret who are now turning to drive thru having seen its success. To maintain its ambitious expansion plans, Wendy's is pursuing the enrolment of franchise partners which will enable them to grow at scale.

Looking forward, the performance of restaurants, as well as the rest of the hospitality industry, may prove to be more tapered as it attempts to navigate the current economic headwinds

Like-for-like sales in the UK's top managed pub, bar and restaurant groups were 3.0% behind the levels of September 2021, according to the latest edition of the Coffer CGA Business Tracker, but still ahead of pre-pandemic levels for the eighth month in a row, with like-for-like growth of 4.0% compared with September 2019. However, the dip from 12 months ago demonstrates the headwinds currently facing the hospitality sector – and with inflation, as measured by the Consumer Prices Index (CPI) at c.10.1%, sales are much further behind last year's numbers in real terms.

Pubs were the strongest performing of the tracker's three hospitality segments in September, with year-on-year sales growth of 1.7%. Restaurants' like-for-like sales were down by 7.9% on September 2021, and bars' sales by 16.0%.

Nevertheless, the tracker has better news from the London market, as groups' sales within the M25 rose 3.1% year-on-year. This suggests that the capital may be on the precipice of turning a corner, following a steady return of visitors and office workers to the capital. That said, September did see a dramatic influx of people after the death of Queen Elizabeth II, so it will be interesting to see if London can sustain this improvement in the coming months.

Despite this growth, the licensed leisure sector appears to be the part of the leisure market that has been hit first and hardest by inflationary pressures and the rising cost of living, particularly the wet-led pub, bar and club industry.

Revolution Bars Group, for example, saw a return to profit for the year ending July 2022. The company reported turnover increased to £140.8m compared with £39.4m the previous year, making a pre-tax profit of £2.1m compared with a loss of £26.3m the previous financial year, however, in the first quarter of this financial year the group points to like-for-like sales of minus 9.1%, showing trade to be impacted by train strikes in the capital as well as softening of consumer confidence in light of the rising cost of living.

Despite this, the firm has implemented a refurbishment programme and has resumed its expansion with two new leases, the first in four years, resulting in the opening of two Revolution bars in Preston and Exeter. The operators young adult guest base does, however, somewhat protect it from the ongoing cost pressures, more so than other wet-led operator's, with many still living at home or without the burden of family and mortgage payments, are more able to prioritise experiences and their freedom.

REKOM and Nightcap PLC are other examples of wet-led operators looking to expand in the market following a period of trading success. For many other operators in the current climate however, their footing is not as strong. According to the latest Hospitality Market Monitor from CGA and AlixPartners, the licensed sector, which covers pubs, bars, restaurants, cafés, and hotels, has lost 2,200 sites in the third quarter of 2022, the equivalent of one closure every hour as business cost challenges mount. It follows a year of relative stability as hospitality built back from Covid, with the number of sites at June 2022 virtually the same as 12 months earlier. The number of nightclubs has fallen by 5.6% in the last three months alone, and the sector now has around a quarter fewer sites (down 309) than it did before the pandemic.

The report also reveals a sharp contrast in the fortunes of managed hospitality groups and independent operators. While the number of managed sites is 3.0% below pre-Covid levels, it increased by 0.9% (+179 sites) in the last three months, but the independent sector contracted by 2.6% (-1,751 sites). It reflects the greater resources and buying power of larger businesses compared to smaller firms, many of which are now very fragile.

In contrast to the managed-independent divide, the trend of steady closures over the last quarter has been notably consistent across different locations. High street, suburban and rural locations all recorded the same net decline of 2.1% in licensed premises between June and September. By region, quarter-on-quarter declines varied only slightly, from a low of 1.6% in the South and South East to a high of 2.9% in Scotland.

It is clear that despite the growth in representation we have seen in the café and takeaway and restaurant sectors over the last year, be it through multiple or independent operators, this recovery is now under threat from rising costs for businesses and consumers alike, particularly for pub, bar and club operators.

OpenTable's weekly restaurant cover data suggests, so far, consumer appetite for eating and drinking out is undimmed.

However, the recent fall in representation suggests thousands of businesses, particularly independents, are in need of financial support if they are to stay afloat. The government's energy support package has provided some relief on businesses' energy bills, for the time being, however, many operators are calling for further support to include business rates reform and lowering the rate of VAT. Given that this decline is already happening before an expected slowdown in consumer spending, it is reasonable to conclude that without increased support from government, the closure rate will in all likelihood accelerate.

REKOM

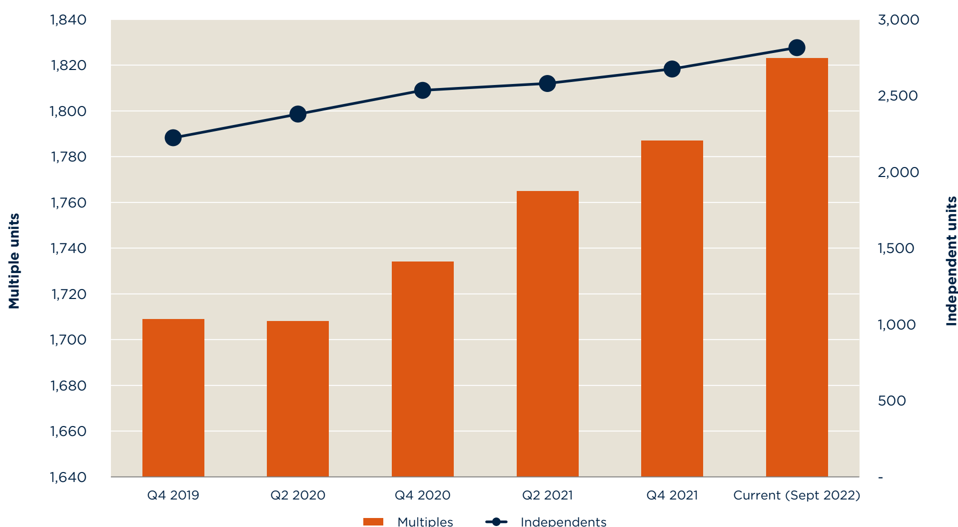
Having bought the Deltic group in 2021, REKOM has established a large brand presence across the UK. Whilst this is partly due to the sites they inherited, REKOM operates over 100 different brand fascias in Scandinavia and is in the process of rolling out several in the UK, including Heidi's Bier Bar and Proud Mary's. Its preference is to take on a large proportion of space in which they can operate several different brands and control consumer movement, often encouraging them towards one of REKOM's late-night concepts such as PRYZM or ATIK.

Nightcap PLC

Nightcap comprises three brands: The Cocktail Club, The Adventure Bar Group, and Barrio. Nightcap has been working on expanding each brand out from London, targeting regional cities and affluent towns. The Adventure Bar Group is unique in its targeting of female consumers. Fascias such as Blame Gloria and Tonight Josephine, which have proved successful in providing a female-orientated night-time venue, are a key part of the group's strategy and have already opened regionally in Birmingham.

Gym operators go from strength to strength as health, fitness and wellbeing is perhaps no longer considered a discretionary spend by the UK consumer

Figure 12: UK gym/health club units - December 2019 to September 2022



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 sector's perceived risk to the public.

Despite this, the gym market has continued to expand, both through the crisis and since the end of restrictions on the movement of consumers. Figure 12 looks at the total number of units in the UK, both multiple and independent, highlighting a steady growth in numbers since 2019. In total, there are c.700 more gyms now than there were pre-pandemic, representing a 6.7% growth in the number of multiples and a 26.6% growth in the number of independents. Energie Fitness (99), PureGym (72), The Gym (48), Anytime Fitness (38) and JD Gyms (38) have seen the biggest portfolio growth in that time.

Gyms, of course, reopened in the UK around spring last year. It appears the appetite for consumers to visit the gym since then has been strong. PureGym, for example, has reported strong trading in the first quarter of its financial year, following on from its recent private equity investment.

The group, which operates more than 300 venues across the UK, reported adjusted EBITDA of £25m on total revenue of £116m for the quarter ending March 2022. This compared to an EBITDA loss of £25m in the equivalent period of 2021, when its venues were closed due to Covid-19 lockdowns. Revenue in Q1 2022 was also up 7% on the same period of 2019, with group membership totalling £1.68 million at the end of the quarter, up 21 % on March 2021.

As a result, a total of £11.3m was spent on expansion in Q1 2022, including eight new corporate-owned sites, growing its estate to 514 sites. Furthermore, last December, PureGym announced a £300m investment from private equity firm KKR to support its expansion. There are plans to more than double the size of the group to more than 1,000 sites over the medium term.

Similarly, Anytime Fitness reached an impressive landmark in January, opening its 200th club across the UK and Ireland, after completing on 20 deals in 2021. The continued performance and unwavering growth in the sector's representation suggests that despite consumer concerns over the cost of living increasing, for many health, fitness and wellbeing is perhaps no longer considered a discretionary spend by many UK consumers.

Time will tell whether this proves to be the case and will of course be dependent on how bad inflation gets over the next few months. It is likely that the operators at the value end of the market will therefore thrive the most as consumers look to make savings on their monthly outgoings.

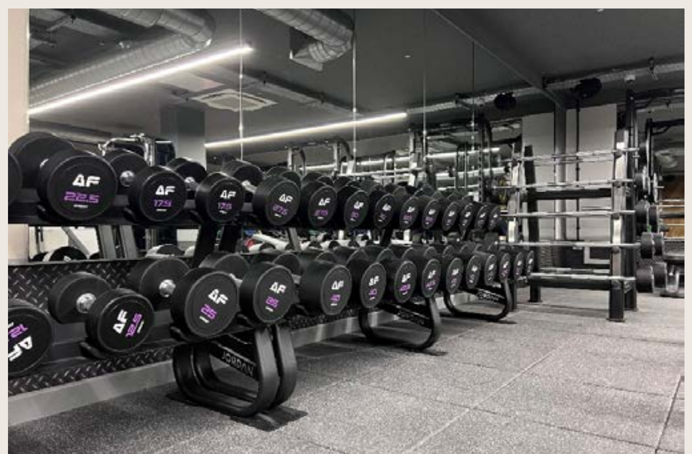
Figure 12 Source: Savills Research; LDC

Pure Gym

PureGym (along with its main competitor The Gym) continues to dominate the low-cost gym market. Whilst expansion was put on hold during the pandemic, PureGym is now back on the acquisitions trail, moving away from the smaller high street format and towards the traditional bigger box starting from around 10,000 sq ft up to 20,000 sq ft. The strength of the PureGym covenant is almost unmatched in a sector where the majority of operators are franchise-led or start-ups. This has meant it has been able to agree much more favourable terms. Despite operating over 300 sites already, PureGym has aspirations for further expansion across the UK.

Anytime Fitness

Anytime Fitness is the largest franchise gym operator in the UK with over 180 sites. This forms only a small fraction of its portfolio however, as it covers over 4,000 locations in 50 different countries. Anytime has been able to differentiate its offer by focusing on a smaller footprint of c. 6,000 sq ft, meaning it can fit into units proving too small for its competitors PureGym and The Gym. Anytime operates several different models of fit-out, which flex to suit the consumer demographic –this means costs for the club and members can be kept aligned with affordability.



Cinema admissions recover post-Covid; however, profits stall for large operators whilst high-end and small-chain operators fare much better

2022 has, so far, seen 90.7m admissions in the nine months up to the end of September. By July, admissions were already more than for the whole of the previous year at 74.0m. 2021 did see the market closed for the first four months of the year due to the social distancing measures in place nationwide. However, UK cinemas were open for a full nine months, thus, in 2022, admissions exceeded the total for 2021 with two months less trading.

Comparing this year's admissions to the first 9 months of 2019, the last full year of trading before the onset of Covid-19, the industry is currently at 70% of admissions. If we assume the industry achieves the monthly average for 2022 admissions for the remainder of the year, the total admissions for 2022 will finish at around 69% of those seen in 2019.

Of course, the remainder of this year's releases will go some way to determining the success of the industry this year. The Marvel film, *Black Adam*, is one such film that executives hope will help to reverse several months of slow trading as it launched in October. However, a dearth of blockbuster movies that attract audiences to the big screen means box office takings are expected to finish further off pre-pandemic levels than originally hoped.

Cineworld, which is in the middle of bankruptcy proceedings, admitted its sales recovery would take at least two more years. Industry observers believe competition from streaming services and a permanent shift in viewing habits, cemented by Covid lockdowns, has made circumstances more difficult for operators.

That said, smaller chains seem to have escaped the worst of the industry pressure. Curzon recorded a £4.7m loss before tax in 2021 when it was forced to shut its doors, according to recent Companies House filings in the UK. However, it has swung back into the black, with its cinemas expected to make £2.3m in pre-tax profits this year.

In the UK, high-end, dine-in cinemas have tended to rebound much faster than larger format rivals. Everyman, which offers plush sofa seating and a waiter service for food and drink, has increased its market share to 4.5%, up from 3% in the first half of 2019. For brands such as these, the ethos is about bringing people out for an evening of hospitality, food and drink and not just a film, making them less reliant on blockbusters. Everyman's losses before tax narrowed to £798,000 in the six months to the end of June, down from a hefty £9.19m loss in the same period a year earlier.

Figure 13: UK annual cinema admissions

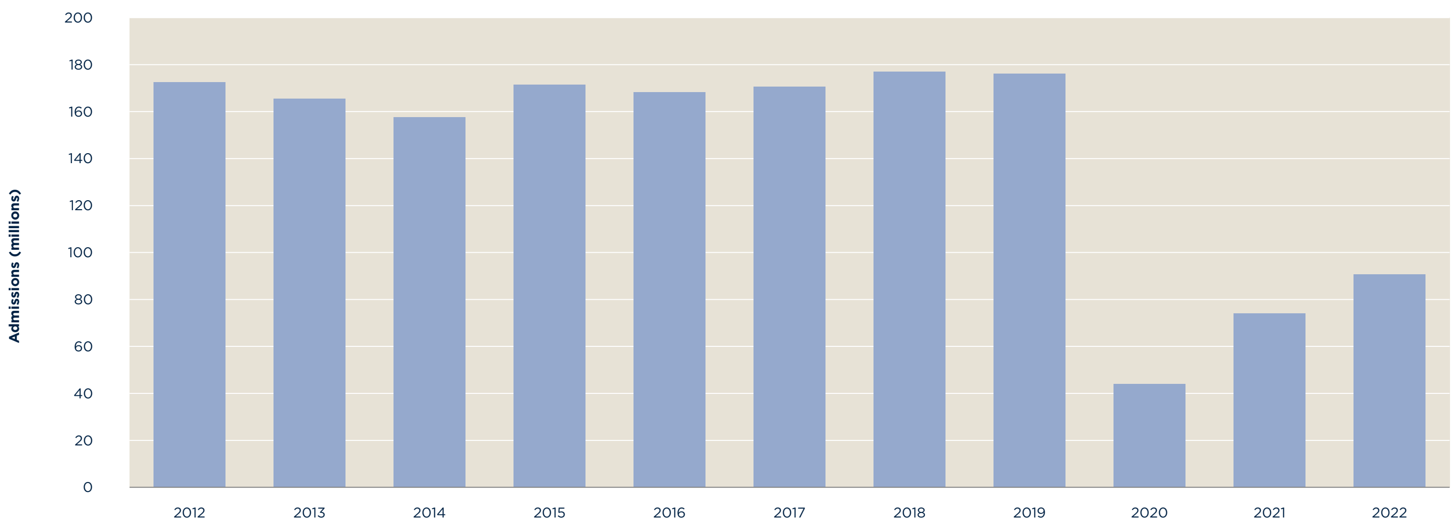


Figure 13 Source: UK Cinema Association

So, what's the outlook for the UK leisure sector?

The latest Oxford Economics forecasts are suggesting real personal disposable income will decline -3.8% year-on-year in Q4 2022, the largest decline since Q3 1994, and is not expected to return to positive territory again until Q3 2023. This would suggest ongoing downward pressure on non-essential spending over this period.

However, an optimistic viewpoint would be to look at some parts of the leisure market that could surprise on the upside through the Golden Quarter. Leisure operators could be supported by a relatively uninterrupted winter in terms of Covid restrictions leading to more Christmas parties, festive socialising and inbound tourism flows compared to 2020 and 2021. The first-ever winter FIFA World Cup is also likely to drive up food and drink sales in late November/early December.

Where we are predicting a more meaningful dip in leisure spend is in early 2023, amidst ongoing double-digit inflation and real disposable incomes continuing to decline, coupled with uncertainty lingering regarding what measures might replace the energy price cap from April onwards.

The same uncertainties are facing operators, with leisure tenants particularly exposed to uplifts in energy prices, given the often more intensive energy usage compared to other sectors. UKHospitality's September survey revealed that over 70% of businesses had experienced energy prices more than double, resulting in average energy costs as a percentage of turnover increasing from 5% to 18% between 2019 and September 2022.

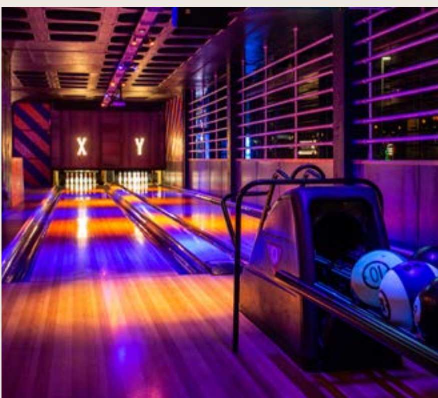
The increasing costs of goods is also a cause for concern. Some businesses will be passing the price increase on to the customer, although others will find this difficult whilst maintaining demand in the face of a cost of living crisis, thus potentially hindering operator profit margins.

Operator failures have subsequently begun to creep up again, following a period of relatively low number of closures. CGA reported that the number of smaller businesses under severe financial pressure is climbing, reporting a net decline in licensed premises of 2.1% between June and September 2022. As headwinds continue intensifying, it's likely to drive up insolvency activity, particularly through early 2023, following a possible short-lived respite during the festive period.

Despite this, LDC's latest forecasts are suggesting vacancy across the leisure market is not likely to increase to any significant extent. H1 2022 vacancy rates stood at 10.6% for the UK leisure market, up on the 2019 equivalent of 8.8%, although still below the retail vacancy rate of 15.4%. However, current forecasts suggest leisure vacancy has peaked, with a very marginal 0.3% decline expected over the following 12 months, despite the current challenges facing the sector.

Roxy Ballroom

Roxy Ballroom forms part of a growing industry of entertainment centres featuring a combination of competitive socialising offerings such as bowling, shuffleboard and ping pong. Originating in Leeds, Roxy now has over 10 sites across the regions, even as far as Edinburgh. With three sites in Leeds alone, Roxy certainly sees scope for multiple locations in each of the big cities which will aid their growth of market share. Being a wet-led model, Roxy not only relies on bookings but on passing trade, meaning accessibility and visibility are important. Most recently, Roxy has expanded its portfolio to include a new concept - King Pins. This should open up potential for much greater expansion.



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