UK Commercial – 2024

SPOTLIGHT

Savills Research

UK Leisure Spotlight 2024

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

> *"Although it may seem counter-intuitive, elevated performance in certain leisure sectors is not unusual when consumers seemingly swing into belt-tightening mode"*

UK leisure market: key consumer and occupational trends

Leisure spending has seen a continued uptick in performance over the last 12 months, in spite of consumer belt-tightening and cost of living increases

When headlines regarding the cost of living, surging product prices, and a recessionary environment took hold in 2022, we saw a dramatic uptick in inflation; the Consumer Prices Index (CPI) reached double-digits for the second time in September that year and remained there until the end of Q1 2023.

Since last April, however, inflation has been trending steadily downwards. Most recently, CPI rose by 4.0% in the 12 months to January 2024, the same as the previous month but up from 3.9% in November. Despite this marginal increase, it remains a significant improvement on its most recent peak in October 2022 at 11.1% and represents the first time the rate has increased at all since February of last year.

At the same time, we have seen a steady rise in consumer confidence. Currently the GfK index stands at -29.3 on a rolling 12-month basis, below the -10.9 average of the last two decades but 12.8 points higher than in March last year, the lowest point the index has fallen in the last 20 years.

The obvious conclusion to any improving customer fortunes is a similar uptick in the performance of each of the UK's leisure subsectors. Revolut card spend data supports this notion; both entertainment and pub, restaurant and fast food spend collectively, have been trending above their long-term averages for some time, on a rolling seven-day basis (figure 1).

This is perhaps unsurprising considering the comparatives include the doldrums experienced through the Covid era. Nevertheless, entertainment spend, which includes membership clubs, cinemas, ticketed events, sports, galleries, and tourist attractions, has also performed above its pre-Covid benchmark at a number of significant points throughout 2023. Easter and the summer months saw the biggest spikes in entertainment spend, peaking in July at 240 basis points above the mean for February 2020.

Meanwhile, pub, restaurant and fast food spend has seen even more impressive results. Spending between May and November 2022 indexed above pre-Covid levels. Most recently, February to November 2023 saw the same level of performance, peaking in the summer months at 400 bps above the February 2020 benchmark. In both 2022 and 2023, there was a brief hiatus in pub, restaurant and fast food spend in the run-up to Christmas, where, once again, performance indexed above the criterion before typically slowing in the post-festive period.

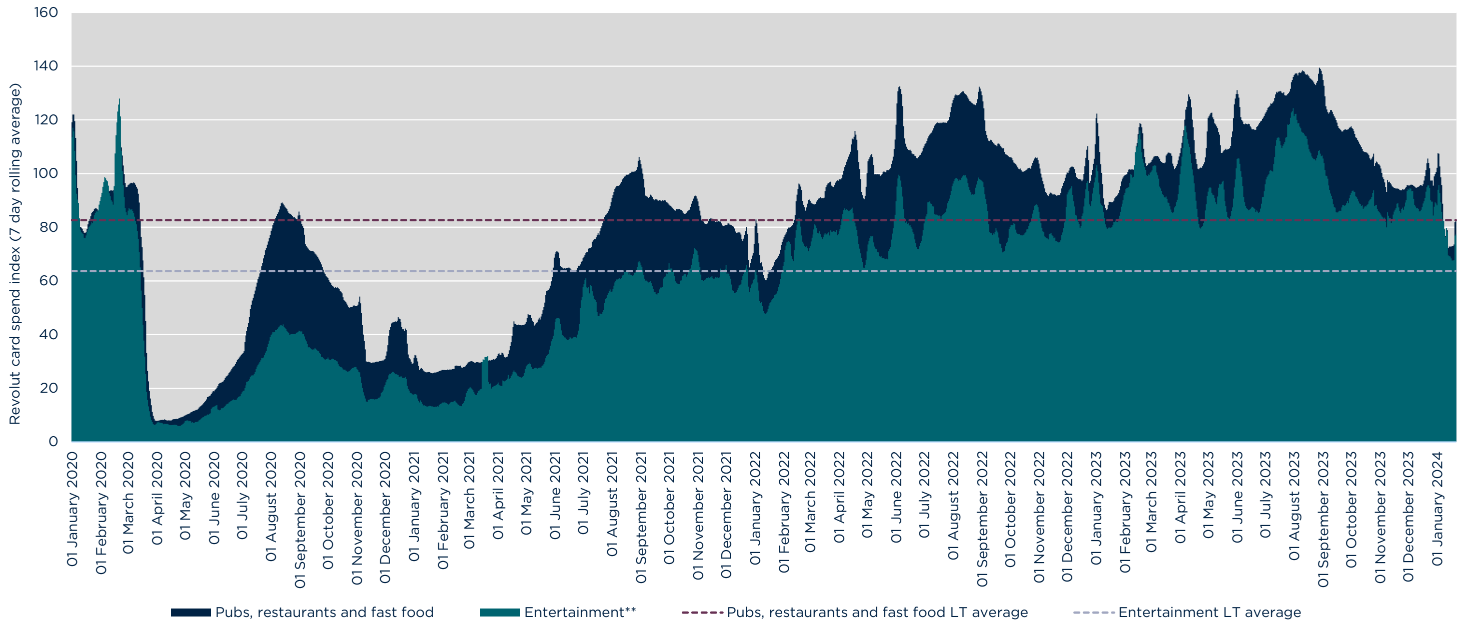
GlobalData's monthly survey of 2,000 consumers,

+10.3%
Barclaycard spend growth on hospitality and leisure in 2023

+12.8

GfK consumer confidence improved by 12.8 points since March last year

Figure 1: Revolut debit card spend on leisure activities



Index: 100 = February 2020 mean value
Entertainment spend includes membership clubs, cinemas, ticketed events, sports, galleries, and tourist attractions

Source Savills Research, Revolut

> “The strong performance of pubs compared to restaurants suggests the consumer has been opting for a more affordable casual dining experience than a more formal restaurant meal.”

and their monthly spending activity (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 (figure 2). It suggests consumer spend on leisure activities has remained elevated for some time. It has, in fact, trended significantly above the August 2018 index base since April 2021, as we emerged from the pandemic-driven dip in participation that came with the government’s lockdown initiatives. December 2023 saw the index reach 142.4, which implies we saw 42.4% more spent on leisure as people geared up to celebrate over the festive period, compared to the pre-Covid benchmark. This is an increase of 15.8 on the previous month and 21.9 versus December the previous year.

Although it may seem counter-intuitive, elevated performance in certain leisure sectors is not unusual when consumers seemingly swing into belt-tightening mode. With the austerity we have witnessed over the last two years, the retail market has seen an increased focus on trading down and value-orientated shopping. This, in turn, has allowed consumers to make savings in their everyday, essential purchases and elevate the funds at their disposal that allow them to prioritise experiences – with many consumers still keen to make up for lost opportunities during the pandemic or keen to escape the pressures of a tightening economy.

Figure 3 highlights Barclaycard spend in 2023, in which hospitality and leisure spending grew by 10.3% over the year. There was growth across a number of subcategories too, including eating and drinking (7.1%), pubs, bars and clubs (6.8%) and takeaways and fast food (7.8%) – undoubtedly a positive result for the leisure market. Meanwhile, it was the bigger-ticket and non-essential spend that saw the largest declines, including DIY (-4.7%), electronics (-2.9%) and furniture sales (-4.8%) as consumers look to make savings and redistribute their expenditure elsewhere.

Despite an uptick in performance across several leisure pursuits, restaurants actually saw a spending decline of -6.3% in 2023 on Barclaycard card transactions, despite the overall uptick in eating and drinking spend. The strong performance of pubs compared to restaurants suggests the consumer has been opting for a more affordable casual dining experience than a more formal restaurant meal.

This certainly rings true when we consider the fortunes of the food and beverage (F&B) sector in the out-of-town market, which continues to see such significant appetite for growth, it is deserving of some specific focus.

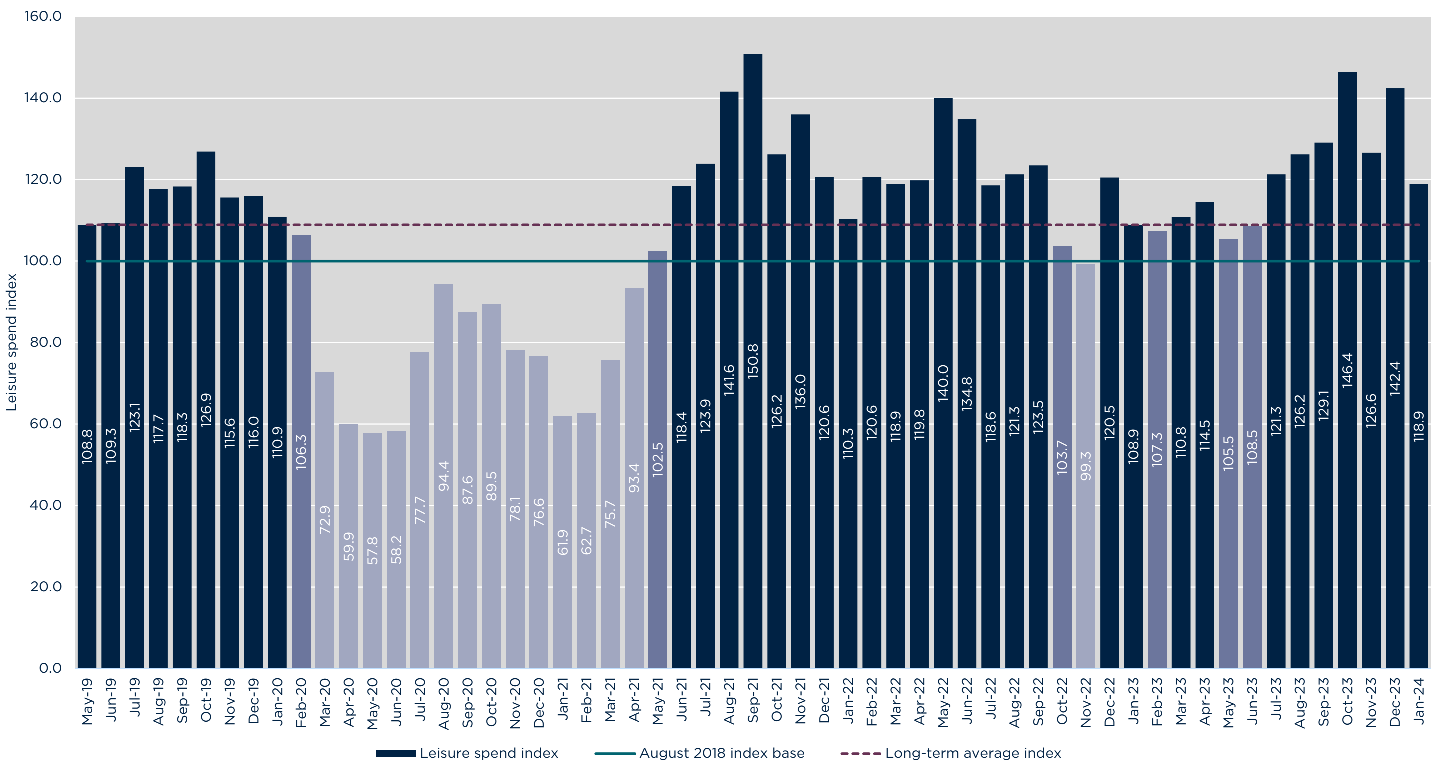
The pandemic brought with it an explosion in the take-up and space requirements of a number of F&B operators across retail parks when social distancing was a key part of the public’s consciousness. What is clear is the factors that made retail parks appealing to consumers since their inception, namely convenient, easily accessible, highly visible roadside locations with large units and adjacent free parking, is why we continue to see such strong consumer demand for such schemes, particularly for drive-thrus.

In 2023, the out-of-town market has seen 733 new openings. 20% of those are F&B operators (leisure, as a whole, accounts for 30% of all new openings). Figure 4 highlights the top 20 most acquisitive brands in the retail warehouse sector in 2023. Eight F&B operators appear in the top 20, accounting for as many as 97 units.

+6.8%
Barclaycard spend growth on pubs, bars & clubs in 2023

+7.8%
Barclaycard spend growth on takeaways & fast food in 2023

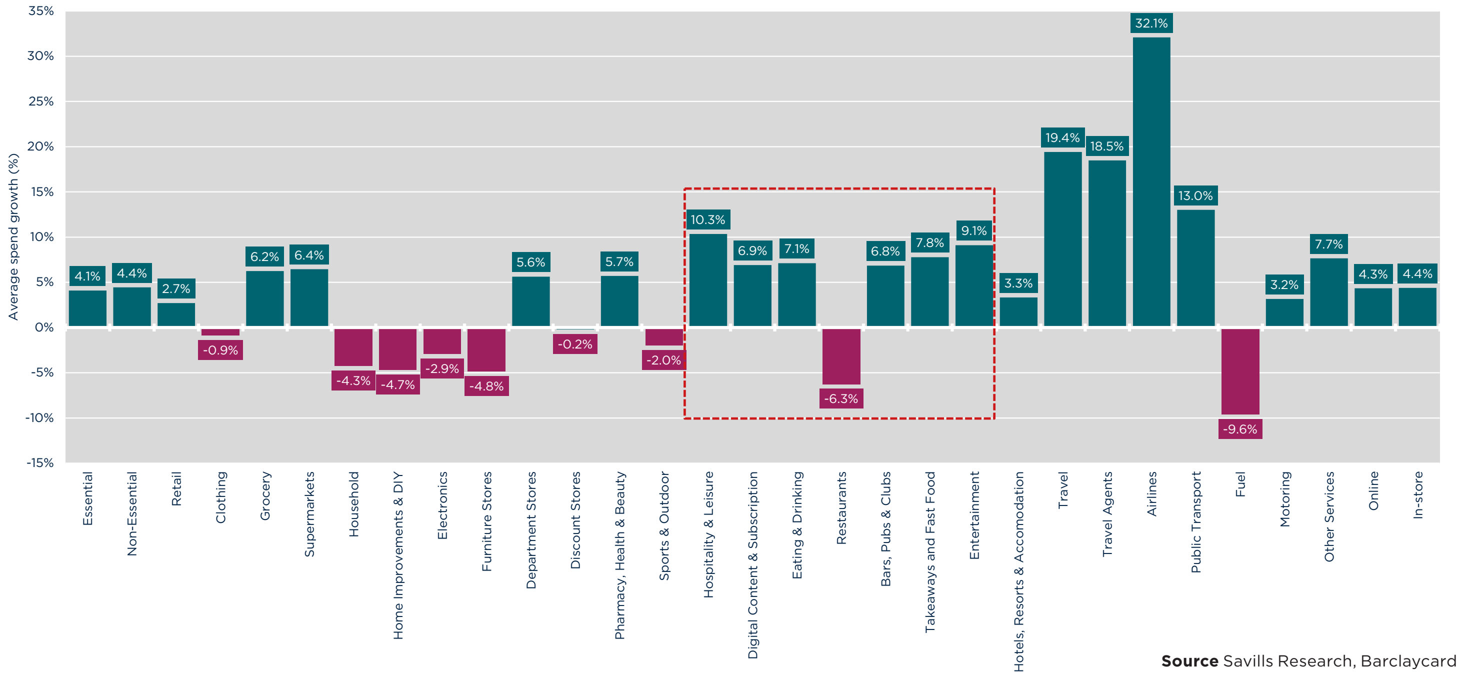
Figure 2: GlobalData’s leisure spend index



Source Savills Research, GlobalData

> “Consumer spending patterns on F&B and leisure are polarising in a way we have not seen before.”

Figure 3: Barclaycard sales – average spend growth in 2023



Source Savills Research, Barclaycard

Figure 4: Top 25 most acquisitive out-of-town operators in 2023

Fascia	New units	Total sq ft	Average unit size (sq ft)
PureGym	34	412,900	12,100
Starbucks	26	55,500	2,200
Greggs	25	48,100	1,900
Aldi	20	368,200	19,400
Home Bargains	20	511,500	32,400
Lidl	20	384,300	21,400
B&M	19	597,500	30,200
Poundland	17	301,500	17,700
Costa	14	28,600	2,700
Farmfoods	10	163,900	16,400
Bensons	9	54,000	6,000
JD Sports	9	84,200	10,500
Hobbycraft	8	61,600	7,700
Jollyes Pet Centre	8	55,100	6,900
One Beyond	8	68,800	8,600
Burger King	7	19,800	2,800
JD Gyms	7	94,300	13,500
Taco Bell	7	13,400	2,200
Barnardo's	6	52,800	8,800
Iceland/Food Warehouse	6	78,100	13,000
KFC	6	8,800	2,200
McDonald's	6	11,400	3,700
Nando's	6	21,300	3,500
Superdrug	6	46,200	7,700
M&S	5	112,900	22,900

Source Savills Research

Food and Beverage

The F&B market has faced much adversity over the past few years, and 2023 did little to improve fortunes, with a number of market challenges almost universally affecting operators. These included the tightening of consumer spending in the second half of 2023 (the cost of living crisis), high cost of finance impacting expansion potential, foodservice inflation, energy cost inflation, political uncertainty, higher occupational costs and staff shortages, retention issues and wage inflation. That being said, it is certainly not all doom and gloom, and outcomes have varied significantly from brand to brand, particularly in how they have navigated these challenges - broadly down to how well they are capitalised - as well as across the various subsectors of the market.

What's true is that consumers are still prioritising spending on eating and drinking out, as well as at-home delivery, yet driving a good profit from that spend is more challenging than ever. Consumer spending patterns on F&B and leisure are polarising in a way we have not seen before. When belts tighten, people seek 'value' in how they spend their money, and that doesn't mean just cheap eats. Actually, the rise of 'eatertainment' and 'experiential' dining and drinking venues has demonstrated how the perception of value also rings true at higher price points. It is those stuck in the middle, that offer little incentive for customers to be loyal, who deliver poor service and value for money that have borne the brunt of the wider economic challenges.

As such, we can broadly categorise the trends we are seeing in the F&B market into the following subsectors, where we highlight the varying fortunes of brands:

The Fast and the Furious: QSR

Quick Service Restaurants are flourishing for the most part. The rise of franchising and new entrants (particularly from the US) has driven a flurry of activity in site acquisition and resulted in rental growth. Wingstop is an excellent example, going from zero sites to 38 in the space of five years and reporting exceptional trade. With other chicken-based entrants such as Chick-fil-A, Raising Cane's and Wingers all looking for sites, it appears that we are about to enter the 'chicken wars' years in the same way as with the burgers a decade prior. However, it is not just the new entrants performing well; Greggs remains in high-growth mode, targeting a further 140-160 net openings in 2024, off the backdrop of like-for-like (LfL) sales up 8.2% in 2023. On the flip side, Papa Johns have announced it will be shutting 50 company-owned stores, citing the cost of doing business (ingredients and materials) for the most part.

The (un)steady Stalwarts?

The middle-market brands and 'big chains' have much more varied performances, in the most part down to how they are financed and their level of debt, as they grapple with generating profits for shareholders against a backdrop of the cost of living crisis. Mitchells & Butlers, one of the largest operators straddling both drink and food occasions with brands All Bar One, Miller & Carter, Toby Carvery etc. appear to be holding their own against new challengers, reporting a strong end to the year. Equally, Azzurri Group – operators of ASK Italian, Zizzi, Coco di Mama and Boojum - reported a 9% increase in revenue to £258m in YTD 30 June 2023 and margins now back to pre-Covid levels. It is also looking to roll-out Mexican QSR brand Boojum on mainland UK in 2024. On the flip side, TGI Friday's reported flat revenue for the second half of 2023, a slight improvement on the previous results. After announcing it will not open any more sites until 2025, it is in money-saving mode as it grapple with financial restructuring. Meanwhile, it was all change at The Restaurant Group, as it accepted a take-over by private equity firm Apollo, alongside paying £7.5m to Big Table Group (owner of Café Rouge, Las Iguanas, Banana Tree and Bella Italia) to take on the remaining Frankie & Benny's and Chiquito units.

The Coffee and Brunch Crowd

The UK branded coffee shop market now exceeds over 10,000 outlets and is valued at over £5.3bn, growing sales by 9.2% over the last 12 months (Project Café UK 2024). Greggs and Starbucks were responsible for 73% of the 353 new openings in 2024, and Costa has a 26% market share in the UK. Yet as the larger brands have largely succeeded, some have lost their place in the market, such as Le Pain Quotidien collapsing into administration in summer 2023, its second administration since 2020, as well as poor-quality independents and cafés. The (all-day) brunch and dining offers also prove that driving spend across all day-parts is key to success in a challenging marketplace. Loungers, now one of the largest chains, recently opened its 250th site. Loungers has been going from strength to strength by retaining an independent feel (each Lounge has its own identity) and targeting underserved, smaller markets.

The Agile Independents

Whilst consumers have largely turned away from mass mid-market brands, they have flocked towards local and small chains that deliver on authenticity, sustainability and community. Such examples include Maki & Ramen, the Scottish casual dining Japanese concept, which has expanded from the capital into Manchester and Leeds. Equally, London-based pizza brand Zia Lucia has signed its first lease outside of the capital in Reading, while northern brand Rudy's Pizza prove that it's not all one-way traffic, expanding into the capital with an opening in Shoreditch, with Fitzrovia to follow in early 2024. Driving loyalty through social media is often key to these brands' success, as well as agility and fast decision-making through (mostly) organic growth.

Eat-ertainment and Experiential

The emphasis now on value and experience is undisputed, and there are plenty of success stories across the competitive socialising, premium dining and bar markets to prove this. Gaucho and Hawksmoor – premium steak brands - both reported an 'outstanding' 2023, with Gaucho owner Rare Restaurants reporting revenue reaching £75.3m across the 22-strong-group (a further 30 sites in the pipeline) and double-digit turnover. Hawksmoor saw turnover up to £90m (2022:£73.9m) across its 12 restaurants. Both reported EBITDA margins in excess of 20%. Flight Club and Electric Shuffle owner Red Engine saw sales rise to more than £100m in 2023 across its 25 sites as it demonstrate how successful an activity-driven but drink-focussed brand appeals to consumers seeking an experience for date nights and corporate gatherings alike. LfL revenue grew 10% and sales by 28% against 2022 figures.

Reading
Zia Lucia's first lease outside of London

26%
Costa's share in the UK coffee market

Manchester & Leeds
Maki & Ramen has expanded from the capital

Maki & Ramen Edinburgh

The Kings of Convenience – Drive-Thrus

The popularity with the consumer of the drive-thru format has seen an escalation in their requirements. In turn, this has fuelled a significant increase in rents, with the latest data from Savills open market lettings and regears showing that average annual headline rents on new F&B drive-thrus increased 25.9% in 2023 on the previous year.

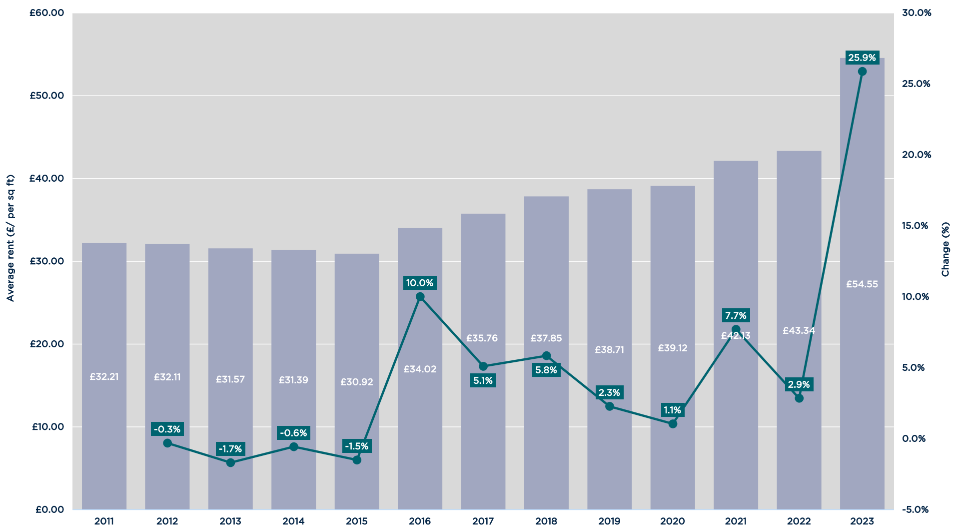
2023 saw 44 new drive-thru openings across existing retail and shopping parks throughout the UK. McDonald's, Burger King and KFC remain active in this market having consistently sought drive-thru space in recent years. This made up 31% of all new F&B openings and is slightly above the average annual number of drive-thru openings over the last decade. Nevertheless, this represents less than half the number of drive-thru openings seen in 2022, which is, in fact, a consequence of a lack of supply and difficulties and delays in delivering new drive thru developments rather than a reduction in operator appetite. Vacancy is particularly low in the out-of-town market at 4.6% ,and a number of other factors, such as delays in the planning system, financial viability challenges due to rising development costs and more stringent restrictions imposed by existing retail tenants preventing development in car parks, are reducing the pipeline of opportunities. Operators are therefore finding it increasingly difficult to find and secure appropriate space to expand on existing retail and leisure schemes.

As a result, the competition for drive-thru space has become increasingly fierce, with fast food operators innovating to develop smaller format drive-thrus to compete with other grab-and-go and coffee operators in the smaller format size range of 1,800-2,000 sq ft. This has resulted in headline rents for new drive thrus for all brands in this smaller format climbing to just under £55 per sq ft on average for 2023 (figure 5).

Starbucks and Costa have been the sector's most acquisitive brands in recent years, opening 26 and 14 new drive-thru units, respectively, across existing out-of-town retail and leisure schemes in 2023, in addition to their other drive thru openings in traditional locations on mixed-use and solus roadside developments. McDonald's, Burger King, and KFC have also remained consistently active; however, there have also been a number of new entrants to the drive-thru sector in the last five years. Tim Hortons, Wendy's, Greggs, Popeyes and Taco Bell amongst others, are all competing for space and have appeared in the top 20 most acquisitive drive-thru brands over the last 12 months.

Despite the varying fortunes seen across the sector, there are reasons to be positive for hospitality as a whole. Falling foodservice price inflation is now a clear trend, having decreased for the fifth consecutive month and energy costs are also beginning to fall. Many F&B businesses have spent the last couple of years driving efficiencies across supply, front-of-house and restructuring finances to give them a surer footing going forward. There have been plenty of exciting new openings across the sector, and challenger brands to watch. Overall, we remain positive about the prospects for 2024 and summarise the key openings in 2023 in figure 6.

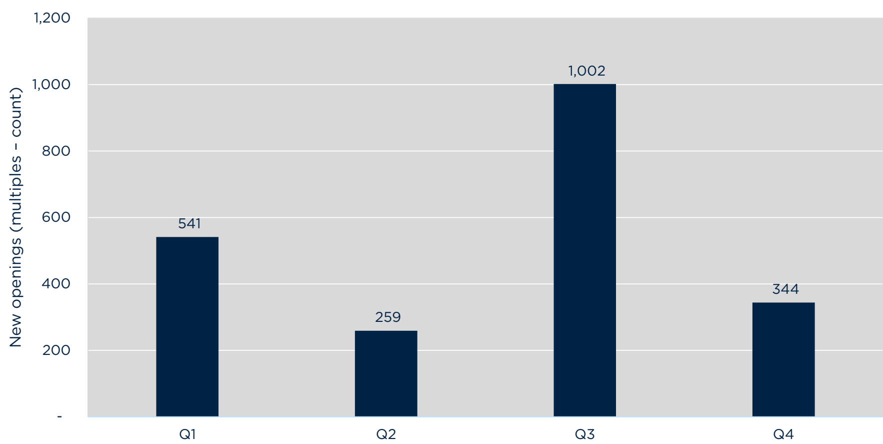
Figure 5: Savills Drive-Thru annual headline rents (year on year)



Source Savills Research

Costa's 300th Drive-Thru Peel Centre, Washington, Sunderland (opened in August 2022)

Figure 6: New multiple brand F&B openings - UK 2023



Source Savills Research, Propel

“The key to future-proofing this sector is either bringing multiple concepts together under one roof as a cluster of brands or via a ‘combo’ style operator, or having a clear brand identity backed up with a high-quality offer or IPO”

Competitive socialising has firmly established itself as a stalwart of the leisure market

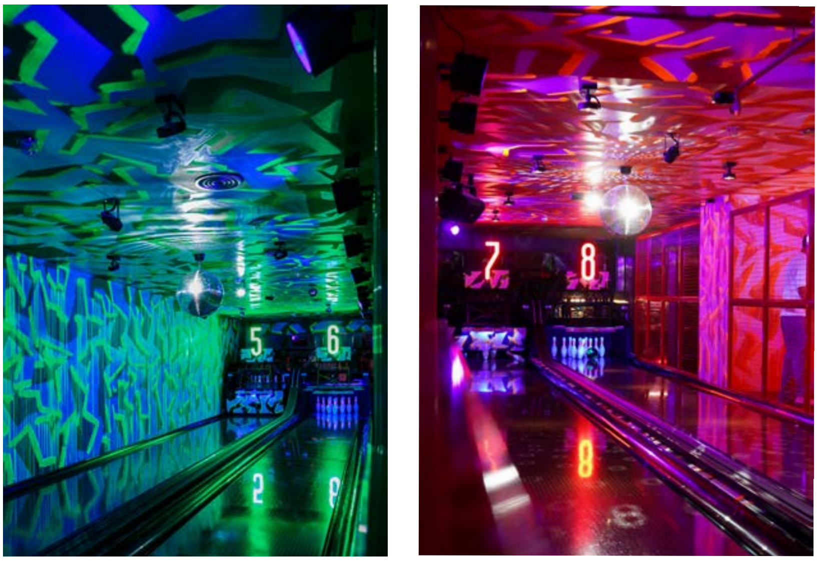
The competitive socialising (CS) sector has grown at unparalleled levels over the past five years. Renewed appetite for in-person experiences and interactions post-pandemic has fuelled demand for the sector, continuing the growth we first reported five years ago, but with key changes in the direction of this growth. The CS concept has been a constant leisure pick for us for a number of years, seeing a 40% increase in supply since 2018. This is set to continue, with new concepts on the horizon and an ever-increasing focus on quality of offer.

CS encompasses a mix of experiential leisure activities, such as urban mini golf, stop the clock (which includes breakout rooms), bowling and virtual reality (VR). There are also ‘solo’ operators that focus on a single sport concept and ‘combo’ brands that have multiple CS concepts under one roof. The market was in its relative infancy in 2018, and whilst the market has grown since then as a whole, some subsectors have accelerated at a faster pace than others. Auditing this growth is challenging, given its fragmented nature and almost constant new entrants. Our focus has been on locations where the leisure offer is a key differentiator of the business, rather than an add-on (e.g. a bar with beer pong is not included).

Several operators have established themselves as blended ‘combo’ brands, with a more varied entertainment experience proving popular with consumers and extending dwell times. The likes of Boom Battle Bar, Lane7 and Roxy have contributed to the 455% increase in ‘combo’ attractions over the past five years, whereas cinema operator The Light has adapted its most recent developments to incorporate a broader leisure offering. ‘Solo’ competitive socialising, which defines venues marketing one singular activity such as darts, axe-throwing and ping-pong, has grown by 162%. Urban mini golf, a more established sector, but one which has been revolutionised through innovative design and imaginatively themed layouts, has also seen an increase of 96%.

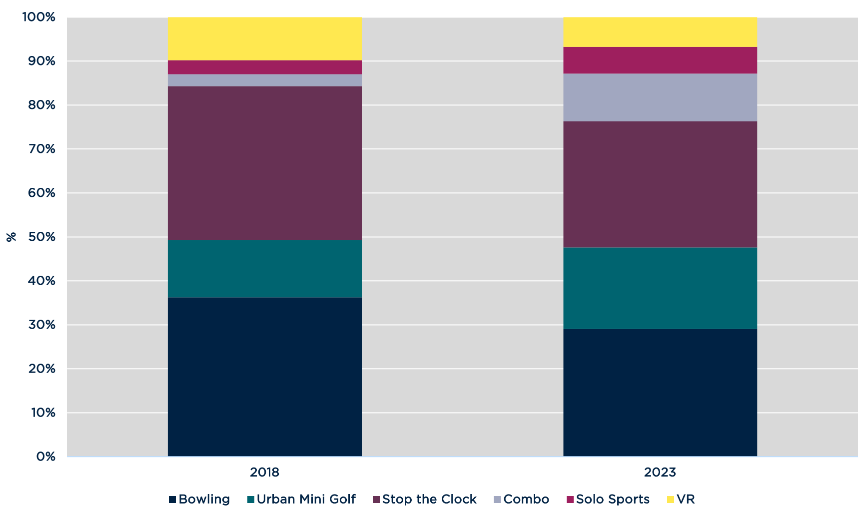
By comparison, bowling, whose presence in the market spans decades, has increased by 10% largely due to its growth within combo markets, and Stop The Clock by 13%. Brands with the most investment, or IPO relationships, tend to be the most resilient or expansive. Standalone VR is the only sector to have declined (-5%); however,unlike its peers, it is now more likely to be incorporated into blended rather than standalone concepts and remains an important growth area for new entrants. In each case, the more successful operators are utilising the draw of a bar, with F&B sales providing a significant proportion of revenue.

Bunkers Romford



Lane 7 London

Figure 7: Competitive Socialising Supply 2018-2023



Source Savills Research

As with much of the wider retail and leisure markets, the last five years have seen a significant flight to quality. Many of the original pioneers of the sector, particularly independents with little financial backing, failed to survive through the Covid years. Those small businesses that worked hard at their quality of offer and targeting PE funding have expanded having created more established covenant and confidence with landlords. The high setup costs often require landlord contributions, but land longer than average lettings.

While greater London is the biggest market, on a per capita basis, the largest regional cities have a more significant supply and experience more growth. Manchester remains the second largest market, but Birmingham has seen the fastest growth in CS over the past five years, with the city seeing a net influx of 14 operators; a 74% uptick in site openings and with more planned for the Bullring & Grand Central estates in

2024. Liverpool has seen a net increase of nine new operators, with five brands alone in Liverpool One shopping centre, including Junkyard Golf, Gravity Max, Escape Live, Roxy Ballroom and Esports venue, Level Tap, with Flight Club set to join the lineup in 2024. London has seen a smaller proportionate rise in openings at 6%, which is largely due to a lack of affordable opportunities with the right footprint rather than saturation.

The key to future-proofing this sector is either bringing multiple concepts together under one roof as a cluster of brands or via a 'combo' style operator, or having a clear brand identity backed up with a high-quality offer or IPO. We've already seen several underinvested pioneers in the sector disappear, but otherwise, the growth in competitive socialising has been remarkable despite a dampened consumer backdrop, and shows that there remains a strong appetite for good leisure experiences. As such, we will continue to see further growth and new market entrants in the years to come.

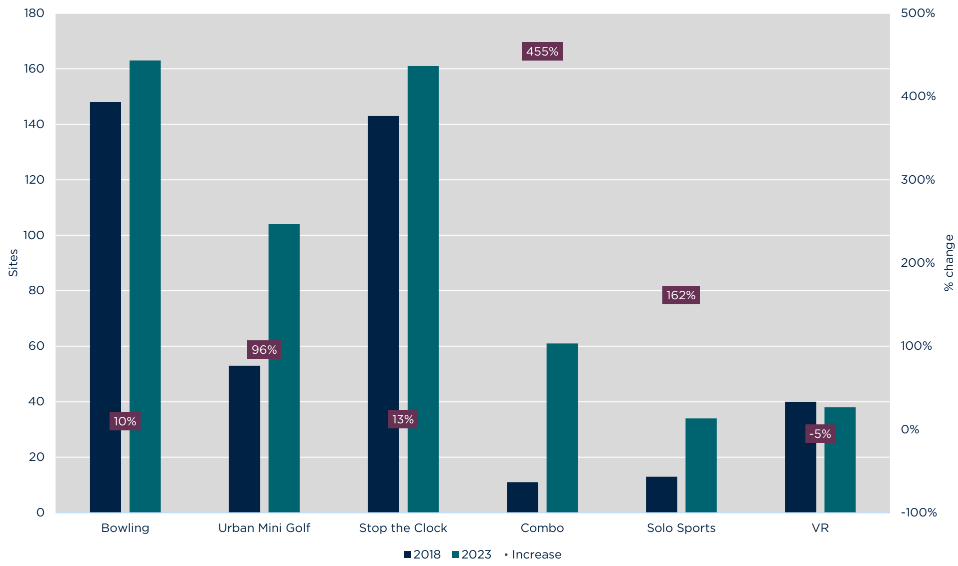
Immersive leisure is the fastest-growing sub-sector in the UK's major city centres

The leisure market is rarely described now without the term 'experiential', but a key difference is how a visitor can genuinely feel transformed into another world. A parallel leisure subsector to competitive socialising is taking hold around interactive and immersive experiences, with operators particularly favouring major city centres across the UK where domestic and international visitors have returned. What once was a sector in its infancy has grown exponentially over the last three years. Whilst it remains difficult to clearly define the parameters of the 'immersive' leisure sector given the variety of concepts categorised under this banner, there are distinct themes, each of which works to satisfy all senses. Much of this revolves around the arts (theatre, music etc), digitisation or bringing known TV, Film and Entertainment IP (intellectual property) to life. The likes of ABBA Voyage, The War of The Worlds, BBC Earth and Monopoly Lifesized show the importance of a strong IP in appealing to consumers.

How much of this becomes a relatively short-term fixture remains to be seen, but the cost of a good fit-out and the increasing inward investment certainly resonates with a more permanent offer. We have witnessed national and international expansion encouraged by a 375% increase in funding in this subsector (365 Finance) while continuing to be polarised by short-term activations (typically three to six months) and longer-term five-year-plus leases. Shorter-term live requirements include Fever (partnering with Netflix for *Money Heist* and *Stranger Things*), as well as Immersive Everywhere (with brand tie-ups such as *Doctor Who* and *Peaky Blinders*).

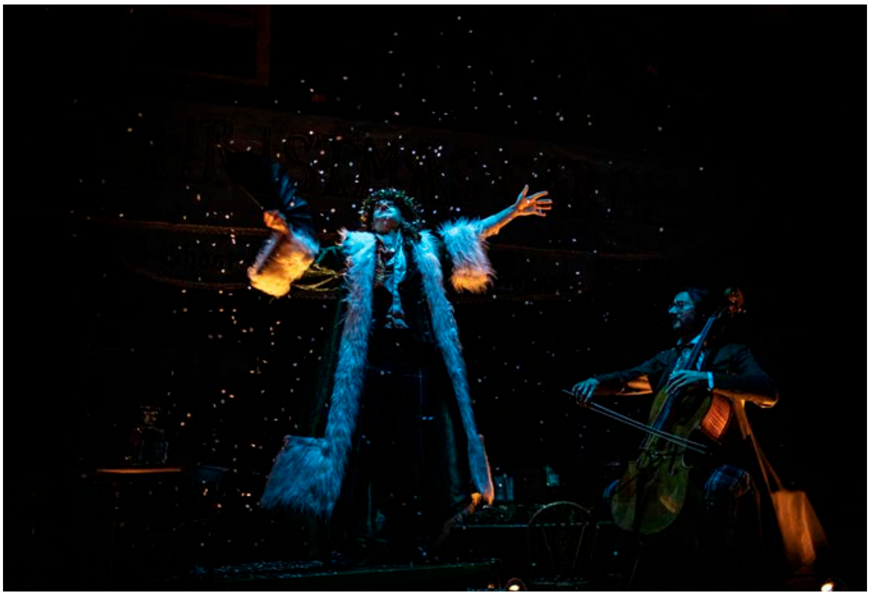
Permanent site openings have so far been skewed to London, including Frameless at Marble Arch (soon to be joined on the Portman Estate by Moco Museum), Monopoly Live (Tottenham Court Road) and The Paddington Experience (County Hall later in 2024). Further requirements in the market include Spyscape, The Lost Estate (actively seeking a permanent home to follow its West Kensington location) and Secret Cinema, following its buy out from Today Tix. Museum of Illusions has 40

Figure 8: Competitive Socialising growth by sector (2018-2023)



Source Savills Research

The Greatest Night of the Jazz Age The Lost Estate



The Masked Ball The Lost Estate

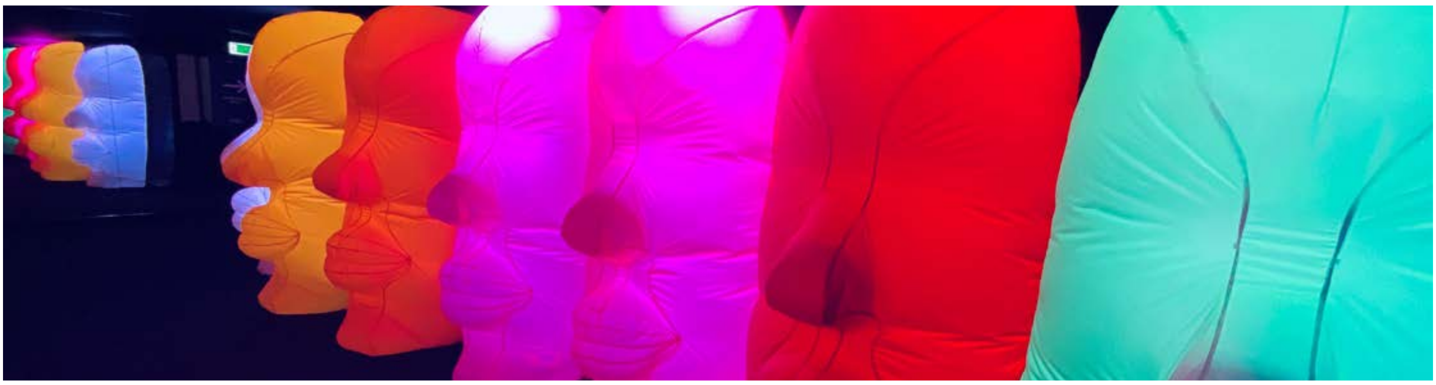
“The immersive sector is no longer new and untested, it has evolved, and with it has the property market.”

Secret Cinema Bridgerton

global locations, but a significant pipeline, including London, Birmingham, and Manchester, showing that major regional cities are also on the radar for expansion.

The immersive sector is no longer new and untested, it has evolved, and with it has the property market. The challenge to growth is limited by suitable store units. Given the influx of acquiring operators, occupier demand continues to outweigh supply and resultingly, prime locations are gathering good competitive tension and driving up rents (£50 psf+). Operators are typically looking for 20,000–40,000 sqft, open-plan spaces and 4m+ head height for ‘showstopper’ installations. Incentives remain a key negotiation point, particularly as operators continue to structure their growth via SPVs; however, increasingly they have sufficient trading history to demonstrate a proven concept, steady income and improved covenant.

Counter to the positive growth story, there has been some waning excitement from Landlords who have followed the immersive market for some time, and who, given the sheer number of requirements, have found it hard to identify those who truly have the necessary funding, longevity of concept and property knowledge to successfully transact a deal. Differentiation is a necessity in this crowded market. Technological advancement and strong IPs will help operators build an identifiable brand and protect themselves against copycats and competition, but with limited supply in the regions, growth continues to remain inevitable if good sites can be acquired.



Balloon Museum London

Gym memberships continue to improve alongside appetite for expansion, particularly in the out-of-town retail sector

Another sector that has undoubtedly recognised the benefit of location on or adjacent to retail parks – namely easy access and plenty of parking - is health and fitness. The out-of-town market has seen an additional 45 gyms open in 2023, the majority from PureGym (34), who, in fact, top the chart for the most acquisitive operators across the whole sector. In addition, JD Gyms has opened 7 new outlets across the UK's retail and shopping parks, cementing its place in the top 20 most acquisitive operators in 2023 (figure 4). Nevertheless, we are expecting to see a slowdown in openings across retail and shopping parks in particular moving forward, as low void rates and subsequent rising rents are making opportunities more scarce.

Leisure DB's State of the UK Fitness Industry Report published mid-2023 suggests member numbers are up 3.9 % versus 2022. Penetration rates are also still recovering positively, with 15.1 % of the UK population now a member of a gym: 10.2 % members of private health clubs, while the public sector has a 4.9% penetration rate. Falling short of pre-Covid highs, nonetheless, both figures are now moving in the right direction. Meanwhile, the upward trajectory in market value – +11.5% since the 2022 report – is being driven by rising average membership fees. This trend has seen some brands move out of the low-cost bracket altogether, leading this market segment to shrink for the first time since it emerged in 2011.

PureGym's more recent Fitness Report for 2023/24 seems to echo these findings, where encouragingly, despite the cost of living crisis, the research reveals that 24% of the population has actually increased their spending on exercise within the last year. PureGym's research suggests UK gym members have grown by 2% since last year, with as much as 16% of the population now currently gym members. Beyond this, a further 16% of people have stated that they plan on joining the gym in 2024.

The boutique market has fared less well in the post-pandemic market, as the shift to work from home has impacted membership retention and consumer appetite for such outgoings. Although we are seeing an uptick in requirements through 2023, demand still remains muted compared to pre-pandemic levels.

At the premium end of the sector, the health club ('wet-club') market is performing well, although there is a disparity between those city centre offerings and suburban locations. The already established trend of working out of coffee shops and health clubs has benefited the likes of David Lloyd and Virgin Active significantly, with offers of business lounges and private areas for meetings, luring in members. In 2023, David Lloyd opened a new facility at Rugby and is investing in the roll-out of its spa retreats, with 25+ facilities now open.

David Lloyd is also installing padel tennis courts in its facilities as it acknowledges the potential of embracing the world's fastest-growing sport. Worthy of a section in its own right, padel is certainly a burgeoning sector in the health and fitness market. Since 2018, the number of players has increased 60x in the UK, with 175,000 active players, according to the Lawn Tennis Association (LTA). However, the number of facilities still lags behind other European countries, with 130 more courts being built in the last year, to a total of 280 (Spain has 4,000 in comparison!).

The Gym Group Coventry

Rocket Padel Battersea

+8.2%
Increase in box office revenue in 2023 versus previous year

Box office revenues improve as Hollywood gets its act together, which comes at the right time for mutiscreen operators

According to the UK Cinema Association, 2023 was another important step in the recovery of the UK cinema sector post-Covid, with an increase in box office revenue of 8.2% on the previous year, resulting in revenues reaching over £978.5m. At the same time, admissions were also up 5.3% on 2022 at £123.6m (figure 9).

The fortunes of the cinema sector are, of course, largely influenced by Hollywood. 2023 saw a significant improvement in the number of blockbuster releases, as the hangover from Covid-driven production delays receded. While 2022 brought recovery in the overall volume of films, there had remained a shortfall in the number of 'saturation' releases – those playing in over 250 cinemas - falling from 186 in 2019 to 135 in 2022.

However, this improved to 174 saturation releases in 2023, almost back to the levels seen pre-Covid and undoubtedly welcome news for the UK cinema industry. Such titles included *The Super Mario Bros. Movie* which saw box office revenue reach over £50m in April, followed by *Barbie* passing £50 million in just eleven days to reach the top spot for 2023 with a revenue totalling £87m. *Oppenheimer* was the other big mover of the year, finishing in second place with a revenue of £52.8m.

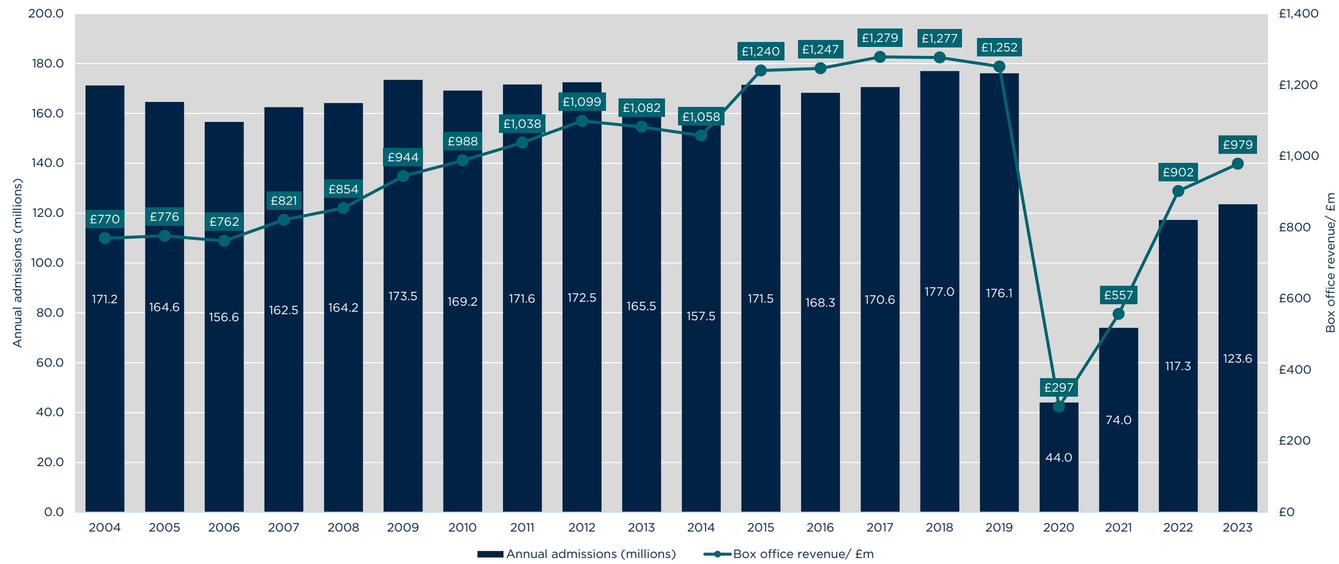
Nevertheless, 2023 was a tough year for the bigger operators, with Cineworld and Empire Cinemas filing for administration in the UK last summer. The Empire administration had a silver lining however, with Ireland's Omniplex Cinema Group acquiring five of the six closed cinemas as part of its ambitions to expand in the UK market.

Vue also completed a debt-for-equity swap with lenders in the early part of 2023, which saw £470m of debt wiped out and has recently announced a fresh debt restructuring this quarter, as the Hollywood strikes pushed out timetables of blockbuster releases key for recovery in 2024.

Everyman Group bucked the trend, with revenue growth of 16.7% for 2023 (to £90.9m), coupled with the acquisition of the two Tivoli sites in Bath and Cheltenham from the Empire administrations and a further four new openings expected in 2024.

Overall, the cinema sector will remain under pressure in 2024, but the successes of 2023 prove that the fundamentals of the sector and consumers enjoying the cinema-going experience remain true.

Figure 9: Annual UK cinema admissions and box office revenue



Source Savills Research, UK Cinema Association

> “Leisure deals have in fact been falling year on year since 2016, each below the long-term average of c.£500m per annum”

The UK leisure investment market

Concerns over occupier credit post-pandemic and the trade performance of UK cinemas have resulted in a lack of interest in multi-let leisure schemes; however, recent transactions suggest a brighter year ahead for the leisure investment market.

There is no doubt the last four years have been an incredibly challenging trading environment in the UK leisure investment market, with volumes falling further below already depressed levels of transaction activity in that time period (volumes exclude pubs and hotels).

Leisure deals have in fact been falling year on year since 2016, each below the long-term average of c.£500m per annum. They inevitably reached an all-time low in 2020 with the onset of Covid – lower than the impact the global financial crisis had on the market back in 2008/9.

However, the post-pandemic recovery has been tepid - since 2020, transaction volumes have struggled to return to the below-average levels seen pre-Covid. In fact, 2023 saw UK leisure investment volumes reach only £127.9m, the lowest they have been since the millennium, with the exception of the two economic shock events mentioned above. Last year's performance represents a -63% fall in transactions since 2019, and -46% on the previous year.

What, therefore, has been driving the depression in leisure investment activity? The answer to this question is essentially 'concerns around occupier credit'.

If we compare the leisure sector to retail warehousing for a moment, it is our belief that the risk and return relationship in the latter looks much more favourable than it does in other sectors, when you consider the strong occupational fundamentals and financial stability of the sector's key occupiers.

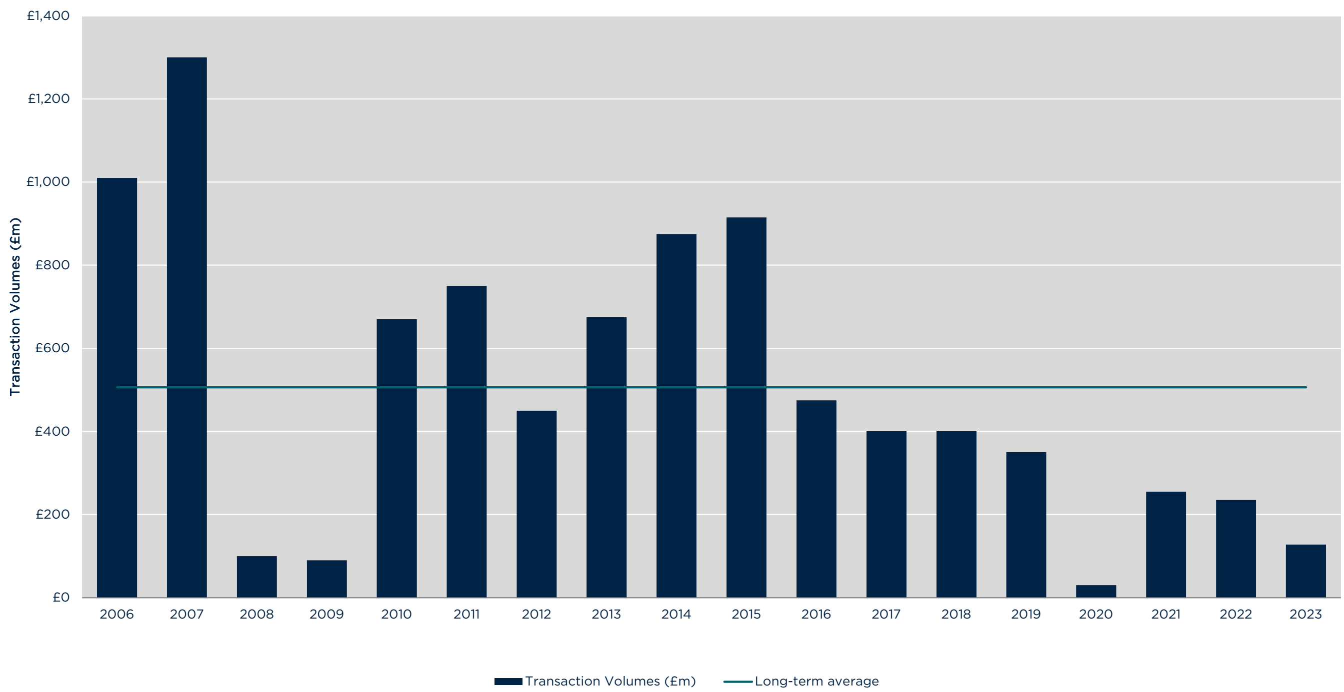
Assessing the INCANS Tenant Global Score, which is a measure of the financial strength and stability of a retailer based on its public accounts, tells us the financial stability of the out-of-town markets' top operators is solid. Of the top 25 larger format operators, in terms of the number of units they have across retail, leisure and shopping parks combined (excluding F&B and gyms), 20 are considered 'low risk' or 'very low risk' in terms of financial failure.

However, for occupiers of predominately leisure-focused schemes, a disparity in credit lines is much more apparent, which, in turn, has been affecting investor demand. This may seem a little unfair when you consider the strong post-pandemic occupational recovery across a number

£127.9m
UK leisure investment volumes in 2023

-63%
fall in leisure transaction volumes since 2019

Figure 10: Leisure investment volumes (excl pubs & hotels)



Source Savills Research

> **“With the strength of the occupational market continuing to build, 2024 and beyond looks brighter in terms of the depth of investor appetite for leisure schemes.”**

of leisure subsectors, alluded to earlier in this report. Nevertheless, this recovery varies from subsector to subsector and even operator to operator that exist within them.

More importantly, the most significant concerning factor for investors in multi-let leisure schemes has undoubtedly been the trade performance of the UK cinema market. With Cineworld and Empire Cinemas filing for administration in the UK last summer, and Vue also needing to restructure its debt position in a swap for equity with its lenders in the early part of 2023, investor confidence has remained muted.

Potential suitors have continued to be much more circumspect as they have done since the pandemic, through fear of saddling themselves with a sizeable liability should an occupier need to vacate – essentially a large unit that is difficult to let without significant capital expenditure to make limited repurposing options more viable.

This has been compounded by the fact the US writers’ and actors’ strikes during the summer caused a number of blockbuster titles to be pushed into 2024 to allow for shoots to finish and promotional activity to resume (including *Ghostbusters: Frozen Empire, Kraven The Hunter* and *Dune: Part II*), which, in turn, has impacted box office performance and the fortunes of the UK’s cinema operators.

As a result of all the negative noise on cinema performance, we have inevitably seen a disparity emerge between the strength of the occupational market and the post-pandemic recovery of other leisure subsectors, and investor interest in multi-let schemes.

Nevertheless, it appears we are at a crucial turning point in the market. The fundamentals in the cinema market are improving. According to the UK Cinema Association, 2023 was another important step in the recovery of the UK cinema sector post-Covid, with an increase in box office revenue of 8.2% on the previous year, resulting in revenues reaching over £978.5m. At the same time, admissions were also up 5.3% on 2022 at £123.6m. Furthermore, ‘saturation’ releases – those playing in over 250 cinemas – were almost back to pre-Covid levels and with the delayed blockbusters following Hollywood strikes now imminent, the fortunes of the sector are beginning to build.

This is especially true when you consider the continued rebasing of rents across the cinema sector. The size and nature of cinema units and the lack of alternative uses and/or occupiers continue to drive landlords to the negotiating table with purveyors of cinema space, which of course means any potential investor is buying off tomorrow’s rent rather than today’s, providing them with a more stable occupier base.

Combine this with the uptick in occupational performance across a number of other subsectors, it is no surprise we therefore saw some significant transactions toward the end of 2023. In October last year, we saw Croydon Council sell Colonnades Leisure Park to Melford Capital for £30m, reflecting a 7.75% yield. Meridian Leisure Park, in Leicester, was also traded, bought by Greenridge Opportunities LP from Legal & General Investment Management (LGIM) for £25m, reflecting a yield of 8.5% in December; this scheme contains a recently regeared eight-screen Vue cinema as well as a gym, bowling alley, soft play centre, nursery and a number of F&B options.

With the strength of the occupational market continuing to build, 2024 and beyond looks brighter in terms of the depth of investor appetite for leisure schemes. One factor that may help convince potential buyers is pricing, especially when considered in relativity to other sectors and longer-term averages..

Prime yields at c.8% in multi-let leisure look favourable when compared to the high watermark level of 2016/17 when it reached its lowest point in the last 15 years at 5%. If we look at the yield trajectory over that time period, the market started at 9% in early 2009, fell to 5% by mid-2016 and has since risen to where it currently sits at 7.75%. This cycle suggests leisure yields are arguably more attractive in terms of their relative longer-term performance and the ability to capitalise on value accretion over time.

It is true across the wider leisure market, there are always a number of immature businesses without a well-established, robust financial footing, which, of course, places some question marks over their credit lines and, ultimately, their longevity. This is particularly true for new and emerging F&B operators, competitive socialising concepts or immersive leisure operators that are yet to establish a foothold in their respective subsectors. That said, this is part of the natural ebb and flow of a dynamic market so closely linked to the changing tastes of the consumer.

However, as broader subsector performance continues to improve occupationally, the depth of investor interest is set to build, particularly amongst those that recognise the longer-term potential evidenced by the yield trajectory of the last 15 years.

Meridian Leisure Park Leicester

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