



JONES LANG
LASALLE®

Real value in a changing world

Market Update *Leisure*

November 2008



Our expertise

Jones Lang LaSalle's Leisure Agency team provides a professional, market focused advisory and agency service for clients with Leisure property interests.

With people spending more of their time and disposable income on leisure than ever before, the leisure real estate sector is evolving rapidly. To stay one step ahead of the market, you need a partner with wide-ranging experience of all types and sizes of leisure development. That partner is Jones Lang LaSalle.

We work on high-profile schemes across the UK and Europe, covering every aspect of leisure including:

- Cinemas
- Gaming
- Restaurants
- Bars and Clubs
- Family Entertainment Centres and Bowling
- Health & Fitness Clubs

We believe that leisure can't be viewed in isolation. With leisure often sitting alongside other uses – in particular, shopping centres – you need to see the bigger picture.

Our collaborative working style means we can tap into pools of talent across the company in complementary sectors such as retail (in town, out of town and shopping centres), hotels and residential. Add that to a comprehensive service ranging from development consultancy to sales and leasing, asset management, acquisitions, disposals and research, and we give you the widest possible perspective.

Introduction

This has clearly been a challenging year in the UK property market. The global financial economy is in turmoil and this has had an effect on each and every one of the leisure sub-sectors.

Key points:

- The first half of 2008 saw the majority of the leisure market holding up well comparatively against retail.
- Changing trends have meant that the UK population is now geared more towards a higher leisure spend per head.
- The leisure offers available to us are more sophisticated than ever before and with new brands and concepts constantly being introduced, there is healthy competition and innovation.
- Cinema remains a strong anchor to both leisure schemes and shopping centres and as a result, 2008 has seen a continued reintroduction of vibrant leisure offers into our town and city centres.

Whatever the year ahead, the leisure market is resilient due to its diversity and inventiveness. With numerous sub-sectors and a range of innovative brands and concepts, there is always something happening. In the turbulent economy ahead, there will be plenty of opportunities within this exciting sector.

Cinema

The cinema industry has traded well throughout 2008.

A combination of good consistent film product, poor weather and a number of new openings, have all helped to make 2008 a successful year to date. The recent release of Quantum of Solace is set to break UK box office records. New cinema openings have included National Amusement's Cine Delux in Derby and Leicester, and Bristol. This has raised the bar in the cinema market with a higher quality fit out and better level of service than other main operators.

Earlier in the year, the purchase of Mainline Cinema chain by Everyman Cinema Club has been the most notable event within the independent cinema sector.

This is an area which promises to grow and a number of deals are in the pipeline. The largest of these independent operators, City Screen (Picturehouse), are particularly active, as is the new cinema chain The Light, with their boutique offer.

The next couple of years propose to be an interesting time for the UK cinema industry. More corporate activity, new opportunities, digital projection, 3-D and even a renewed interest in IMAX will all play a part. Ultimately though the reliance is on good quality film product being delivered, to ensure a profitable industry.

In relation to new openings in 2009 and beyond, the delivery of opportunities is heavily dependent on the condition of the development market. For the main operators this means shopping centres, with new and reconfigured opportunities being offered. With development funding likely to remain difficult in 2009, there may be a reduced number of openings in 2010 and 2011.

Cinema Openings 2008

Operator	Location
Vue	Hull*
	Stirling
	Merthyr Tydfil
	Eastleigh
	Cwmbran
Cineworld	Camberley
	High Wycombe
	Haverhill
Showcase (Cine Delux)	Derby
	Leicester
	Bristol
Reel	Swadlincote
	Widnes
	York (rebranded Odeon)
Odeon	Liverpool
	Belfast

*UK's first fully digital new build multiplex



Expertise in action:

Acting for Capital Shopping Centres we advised on the reconfiguration of the leisure offer in the Metro Centre. This consultancy included the surrender of the existing cinema and the subsequent relocation of the Odeon cinema which will be re-housed in the Yellow Mall in 2009.

Gaming

The UK Gaming industry has had a challenging year. The smoking ban, restrictive changes in legislation, extra tax burdens, the internet and the current economy have all combined to ensure that trade has been significantly affected throughout 2008 in both the bingo and casino markets.

BINGO - There has been little or no acquisition activity in the bingo market in 2008 and it is predicted that little will take place going into 2009. Operators such as Rank and Mecca are continuing with their disposal programme, the majority of which are first generation conversion properties which don't offer the operational efficiencies required. There is a potential respite in the industry however, and challenges are being raised against the Government in relation to tax. These challenges have initially been successful but even so, the industry will still face incredibly difficult times in this economic climate and with the smoking ban in place.

CASINO - The UK casino market has the potential to be two-tiered once the new 2005 Act Licences are operated. The existing 1968 Act Licensed Casinos, are under threat from falling trade, increased tax and more restrictive legislation and this has been compounded by the smoking ban. Some UK operators are commencing a disposal programme on units which are no longer profitable and where there is potential to realise freehold asset value, sub-let surplus space or combine licences into one casino premises, thereby reducing overheads and costs.

The confusion and indecision that has been created over the last few years in relation to the new 2005 Act licences, has cast a large shadow over the sector. The Government has now approved the legislation and selected the 16 new locations (see table).

Hopefully these new licences will be issued in 2009 and provide some certainty and direction for the industry. As a result of the new licences, the sector will be divided between existing 1968 Licensed estates and the new 2005 Act 'small' and 'large' licences. Declining trade and disposals in the existing estates are being contrasted with optimism associated with new licences and the new business and regeneration they could create.

The issue of delivery of the new licences could be the catalyst to deliver sizeable leisure developments within these new locations. Local Authorities need to be organised to ensure that further delays are not endured. We wait with interest.



Expertise in action:

Our client, Stanley Casinos has been selected as the preferred development partner and operator for a new resort style casino to be situated at the NEC, Birmingham. The proposed £90m scheme is to include Casino, Hotels, Restaurants and Bars, developed within a modern and exciting leisure environment.

New 2005 Act Casino Locations

Large Casinos	Small Casinos
Great Yarmouth	Bath and North East Somerset
Kingston-upon-Hull	Dumfries and Galloway
Leeds	East Lindsey
Middlesbrough	Luton
Milton Keynes	Scarborough
Newham	Swansea
Solihull	Torbay
Southampton	Wolverhampton

Restaurants

The restaurant industry has fared up relatively well in 2008 although trade is beginning to show signs of slowing towards the final quarter of the year. This is reflected in the amount of promotions and offers being marketed by most of the large fast casual dining chains. Whilst this collective campaign is keeping competition fierce, this is relatively aggressive discounting and is perhaps more of an indication of how the sector is trading than anything else.

Acquisitions are likely to be affected in 2009 and some operators have pulled out of the most marginal deals already. The larger operators who have ability to fund new openings in 2009 will be doing so, but on a more cautious and reduced basis than the last two years, which saw huge growth.

Most operators are still taking key sites throughout this difficult period, although cash incentives and longer rent free periods are common place. The ability to de-risk the deal is an important factor for most operators. In town, prime sites are still attracting premiums, and shopping centres continue to improve their leisure offer. Restaurants are now an important and valued part of the shopping experience. The catering offer is considered increasingly important in improving dwell time, but the mix of restaurants has to be right. Any centres with a leisure offer, such as cinema, need to allow the restaurants to trade out of shopping hours, thereby creating an all day and night shopping and leisure attraction.

Throughout the last two years, new concepts and quality brands have been driven by private money, often with Venture Capital backing. 2009 could be a difficult year due to difficulty in raising finance and a pressure to release highly geared cash from these large chains. This may result in some further forced group sales or even closures.



Expertise in action:

Valley Centertainment, Sheffield. Acting for Legal & General Leisure Fund. With the decline of the out of town nightclub market came redundant large units on leisure schemes and parks. Capitalising on the demand for restaurant space we advised upon the surrender of a bar and nightclub and subsequent subdivision and letting to four prime restaurants and a childrens play operator.

Bars and Clubs

The smoking ban, reduced alcohol spend and changing trends have caused a significant number of closures in the UK licensed industry. In addition, rising rents, cost of sales and changing trends, have produced large portfolios of untenable or unsaleable public houses. In the past, pub co's would have continued to trade these large groups of under-performing assets, but in this current economic climate, funding for such large transactions, with weakening covenants, is very hard to raise.

However this is mainly confined to the traditional public house sector. The in-town bar circuits are where new brands continue to evolve. A greater emphasis on food and outside areas (where possible) gives the licensed sector a new dimension. Indeed, with some brands, the distinction between A3 and A4 is becoming blurred.

The nightclub sector also continues to trade under pressure. With bars taking advantage of the later licences on offer, the large-sized nightclub format offer is now reduced to a few key operators such as Luminar and Novus Leisure.

It is predicted that in 2009 very few bar and nightclub acquisitions will happen. The ones that do occur will be from the key operators in key cities where they are not already represented. Additional leisure concepts and joint ventures will be more common, as operators strive to differentiate from each other. Karaoke, live music venues and even casino (licensing permitting) are all concepts being trialled within their nightclubs by the main operators.



Expertise in action:

Deansgate Locks, Manchester. Acting for Scottish Widows, the Leisure Agency team has been successfully advising on one of the prime wet-led circuits in Manchester city centre. Active asset management in 2008 engendered a surrender of a poor performing bar and subsequent re-letting to Marstons t/a Pitcher & Piano, improving investment value, tenant mix and driving daytime footfall and trade.

Family Entertainment & Bowling

Ten pin bowling, children's play centres, indoor golf and covered snow slopes are just some of the concepts currently active in the UK market targeted at Family Entertainment. Whilst cinemas generally remain the key leisure anchor to most schemes, these new concepts are offering increasing improvement in innovation and quality, further adding anchoring effects to schemes. Indeed cinemas often benefit from additional footfall and the family focus generated by these big box leisure operators.

A number of factors have created opportunities for these operators recently. The death of out of town nightclubbing has left a number of schemes with large vacant units. Restaurants, childrens play and other family entertainment concepts have taken advantage of the opportunity to fill these voids. In town and in particular shopping centres, there have been a number of deals in 2008 introducing these large family orientated offers into their centres. Vacant awkward retail space often has no other obvious alternative use and these offers can add good family footfall into the mix.

Although the rents that such operators can afford are often not very attractive, and the covenant strengths of most of these emerging concepts is inevitably weak, it is this diverse and always innovative sector that gives leisure schemes and investments their unique character. This gives them good asset management potential.



Expertise in action:

Bentley Bridge Leisure Park, Wolverhampton: Acting for X-Leisure we advised on the surrender and produced a re-letting of a former Heath & Fitness unit. It is currently undergoing refurbishment to become a new AMF bowl. This letting will add a new dimension to this dedicated Leisure Park when it opens this month.

Ten Pin Bowl Openings 2008

Location	Operator
Camberley	AMF
High Wycombe	AMF
London (2)	All Star Lanes
Wrexham	Ten Pin

Health & Fitness

On the whole, there has been little organic acquisition activity in this sector throughout 2008, despite there being some corporate activity. This culminated with the purchase of David Lloyd from Whitbread by London and Regional. The corporate activity has mainly been within the middle to upper tiers of the market, centred around racquet and health clubs. This has been due to a need to consolidate in the upper end of the market. This end of the market is mature and considered saturated. These operators are concentrating on retaining membership fees and market share rather than expansion. In this market a shadow is still cast by the failed Esporta sale, and its holding company remains in administration.

It is the no frills end of the market which is likely to expand in 2009 and indeed we are now seeing signs of acquisition activity in this sector. New concepts such as The Gym, JJB's Mifit and Fitspace are gearing up for activity. They are models based on flexible membership (reduced or no fixed term contracts) and cheaper monthly or even pay-as-you-go fees. This pared down model is set to reinvigorate a declining sector and we anticipate developers once more speculating space for a health and fitness unit.

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