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Leisure property trends: How much do we know?

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Abstract

This paper examines trends in leisure property markets, as revealed in the limited published statistics available. Recent trends support the strong interest in leisure shown by property investors. However, it is suggested that the market is about to enter a more uncertain period. To retain investor confidence, it is argued, improved market transparency will be required in the form of performance benchmarks. It is hoped that IPD and surveying practices will publish more and better data in future.

INTRODUCTION

Up until around five years ago leisure property was seen by the UK's major institutional investors as a highly specialist, and sometimes impenetrable, market. Today, commercial leisure property is a market in which probably several billions of pounds has been invested by institutional investors and specialist investment funds. The fact that the exact amount of money invested is not known is characteristic of a lack of transparency across the leisure property market as a whole.

Whereas investors have access to copious amounts of published performance data for office, retail and industrial properties, the recent leisure property boom has happened generally without access to quality information on any of the key measures of performance — on demand, on supply or on investment performance.

So far, lack of transparency has not been a serious issue for investors looking at the UK leisure property market for the first time. Leisure operators' willingness to sign up to long leases, and agree to guaranteed rental uplifts at review, has proved very attractive to institutional investors¹ by removing a significant portion of the risk involved in 'new' markets. These attractive lease terms appear especially so in comparison with established office, retail and industrial investment sectors, which have produced frequently volatile rental growth and where leases have generally shortened in recent years. Moreover, by inventing the now-familiar leisure park concept — and thus going some way towards homogenising the leisure property market 'product' — operators and developers have removed one of the major hurdles to institutional investment.²

The following review looks at data that are available for leisure

**Strong investor
interest**

**Lack of market
transparency**

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Leisure data

markets and suggests that, as the market matures and investors become more demanding, industrywide performance benchmarks will need to be developed. Although leisure activities clearly happen in a wide variety of outlets, the discussion concentrates on leisure parks — including the all-important multiplex cinemas — since this has been the sector that has most captured the attention of property developers and investors in recent years. Selected data are presented to illustrate UK leisure consumer trends, growth of the multiplex market, leisure parks' supply and recent property performance.

LEISURE CONSUMER TRENDS

Leisure consumer spending

National newspapers and the leisure trade press ran a headline-grabbing story at the beginning of the year which claimed that British households now spend more on leisure than anything else. The reports were based on the government's newly published *Family Spending* survey³ which provides a detailed breakdown of how UK households spent their money in 1998–99. The survey does, indeed, show that spending on leisure goods and leisure services together amounted to more than on any of the other 12 major categories identified.⁴

Even more significantly, the survey showed that the proportion that households spent on leisure goods and services grew from 8 per cent of the total in 1968 to 17 per cent in 1998–99, with leisure services generating most of the increase. The average household's spending on leisure services in real terms (ie excluding inflation) increased nearly four-fold over the past two decades, from £10 per week in the late 1960s to £39 in the late 1990s.

Also significant have been shifts in food and alcohol consumption patterns, which have fuelled the rise of casual out-of-home dining and food-led pubs. The proportion of household food budgets spent outside the home has been growing steadily in the last 25 years, and over the last four years has been rising at around 1 per cent each year. The *Family Spending* survey suggests that over 30 per cent of spending on food is now outside the home, amounting to £9 per family per week in restaurants and a further £6 per family on take-aways. As might be expected, the richest households spend much more than the average — at nearly £40 per week on food outside the home. In contrast to food, spending on alcohol has gone in the opposite direction, with increasing shares (of a fairly stable overall volume) being drunk at home. According to the *Family Spending* survey, nearly two-fifths of all alcohol bought in the UK is now purchased at off-licences.

Food & alcohol trends

Taking a long-term view, then, the recent leisure property boom is clearly built on a large and growing part of the economy. However, leisure consumer markets have a tendency to be volatile over the short term because of the discretionary nature of the product, or entertainment, on offer. Inevitably, as household finances become stretched during economic downturns, leisure

spending tends to be cut back disproportionately. This was clearly evident in the early 1990s' recession, when spending on eating out, for example, fell dramatically, as Figure 1 shows.

Sustained growth

The extended consumer boom from 1992 has produced a sustained period of growth in both eating out and leisure service markets, as Figure 1 also shows. However, leisure markets remain susceptible to sudden changes in sentiment, as the dip in consumer confidence in 1998 and early 1999 proved. Quarterly data from the Office for National Statistics⁵ indicates a marked slow-down in leisure spending growth during this period, although renewed growth in the last quarter suggests this may have been a temporary blip.

Future leisure spending

In fact, organisations that produce forecasts for leisure markets envisage continuing strong growth, on the back of sustained increases in consumer spending overall. For example, the Leisure Industries Research Centre, based at Sheffield Hallam University, has just revised its forecasts for leisure spending, which are now much more optimistic than they were this time last year.⁶ The LIRC forecasts indicate much stronger growth in leisure than in consumer spending overall, with leisure growing in real terms by 6.2 per cent in 2000 and 3.3 per cent in 2001, while consumer spending grows by 3.8 per cent in 2000 and 2.6 per cent in 2001. Unfortunately for leisure property, the LIRC expect holidays, gardening and home entertainment to be the strongest performers, although eating out is expected to grow faster than consumer spending overall — by 5.4 per cent in 2000 and 3.4 per cent in 2001.

Figure 1: Trends in leisure consumer spending

Multiplexes & leisure parks

Growth in cinema audiences

The all-important multiplex market

While these trends in leisure consumer spending are impressive, and are important measures of the likely financial health of leisure occupiers, they have not been the sole — or even the principal — cause of the growth of leisure parks. It is generally agreed that developments in the multiplex cinema market have been the principal catalyst behind the emergence of leisure parks, with other uses, such as bingo, bowling and, more recently, health and fitness, taking advantage of sites that have secured planning permission for leisure uses. It could be argued that without multiplexes there would not be leisure parks, and without leisure parks, institutional money would not have been attracted to leisure property. Monitoring trends in the multiplex market is, therefore, key to thinking about the future of leisure property investment.

There is now a well-rehearsed, and empirically based, argument that multiplexes have reversed trends in UK cinema audiences, which were in decline until the mid-1980s. From a low of only 54 million in 1984, the number of cinema visits increased to 140 million in 1997.⁷ According to cinema analysts Dodona, from completion of the first UK multiplex in 1985, a further 114 had been built by 1997. Competition for sites by multiplex operators, in parallel with growing cinema audiences, created a clear opportunity for property developers (Figure 2).

In the last two years, however, both operators and the property industry have begun to express concerns about the potential for

Figure 2: New multiplex screens

Multiplex development

saturation in the market. In the early days of leisure parks in the mid-1990s, operators and property agents often talked about raising UK cinema visiting rates from around two per person per year to between four and six, the levels achieved in more mature multiplex markets like Australia and the USA. While both admissions and box-office spend have indeed grown substantially (with the exception of a small dip in 1998), neither have increased at anywhere near the rates needed to reach these predicted market shares. Indeed, Dodona's figures for 1999 show that visits per person have increased to only 2.4.⁸

More importantly, Dodona also demonstrate that supply of screens has increased much faster than consumer demand, and this is likely to continue to do so over the next few years at least, with more than 100 new multiplexes due to be opened during 2000–01. There is some anecdotal evidence, from discussions with property agents that cinema rents are already suffering from dilution of admissions in some locations. On a more positive note, however, Dodona suggest that multiplex building will reach a peak in 2000 and various spending forecasters (eg Dodona, LIRC and Mintel) remain optimistic about future growth of cinema box-office receipts. The property industry will, nonetheless, need to keep a close eye on how increasing levels of supply impact on operators' turnover and profits.

Leisure parks supply

Unfortunately, monitoring leisure park supply is no easy task, since few comprehensive data exist in the public domain. DTZ produced a useful survey in 1997, which listed all UK leisure parks existing at that time, but an updated version has not been published.⁹

More recently, TW Research Associates, with property consultants Lunson Mitchenall, researched and published a listing of UK retail parks and leisure schemes. The authors suggest that there are currently over 100 significant commercial leisure developments, together with 24 hybrid retail-and-leisure parks.¹⁰ The report provides a very useful pen portrait of key schemes in each region, identifying size, occupiers and agents. A confidential database of all existing and proposed UK leisure schemes, compiled by Property Market Analysis (PMA) for use by their institutional investor clients, also puts the current stock in the order of 100 major schemes.¹¹

Future supply

According to TW Research and Lunson Mitchenall, a significant number of new leisure schemes are likely to be built in the next four years — amounting to 70 leisure parks and town-centre leisure schemes. In addition, their report points to the emergence of a new format of hybrid retail/leisure park, such as Middlebrook in Bolton which has a Warner Village cinema alongside traditional retail park occupiers such as Comet and Currys. PMA's research similarly shows that the leisure development pipeline is substantial, with some 3 million square feet likely to be completed on leisure parks

during 2000 alone, and that integration with retail schemes is increasing. Data from DTZ's leisure database point to an even larger volume of completions this year, at over 9 million square feet.¹²

Leisure property performance data

While trends in consumer markets can be identified, and there is some limited information on trends in supply, comprehensive property market information is very thin on the ground. Clearly, high quality advice is available on an individual basis from the property agents who have specialised in this sector for many years, as well as newer leisure parks specialists.¹³ However, the lack of common, and transparent, performance benchmarks must put leisure property at a disadvantage to other sectors when investment funds are being allocated by the institutions.

Rental growth

Anecdotal evidence — from recent lettings, conferences and discussions with agents — confirms that there has been significant growth in headline market rents for different leisure uses in recent years. Yet it is impossible to be precise about how much rents have grown and, more importantly, whether they are continuing to grow in the face of expanding supply. To retain investors' interest in the sector, the author would argue, the leisure property market needs to develop, or push for, its own widely available, and consistent, performance data.

Leisure property performance data

The most obvious source would be Investment Property Databank (IPD) which is widely regarded by investors as the 'industry standard' benchmark. Enquiries to IPD suggest that, while they hold data on a number of leisure parks and town centre catering units, they do not intend to publish this separately in the near future. They are, however, willing to provide these data as a special analysis, at a cost. PMA has used such specially commissioned data from IPD in their analysis for investor clients.¹⁴ The data confirm that leisure park performance — measured in terms of total returns — has been strong in recent years but that this has been driven more by a fall in yields than strong growth in rents (ERVs).

While information on rents is limited and anecdotal, agents Knight Frank, however, do produce a very useful overview of UK leisure property markets every six months which contains the only consistently published series on leisure yields (as well as other useful commentary on consumer spending, leisure operators and Europe).¹⁵ It, too, shows that prime leisure yields have fallen dramatically in the last three years, driving strong capital growth (Figure 3). Significantly, in their latest report (winter 1999/2000) Knight Frank indicate that leisure yields have bottomed out and that the period of strong investment performance in the last three or so years is probably over. As well as pointing to stabilising yields, they say 'In addition there is corporate turmoil amongst operators, so that the rental income, as well as capital side, of the equation looks less certain, with rents falling in the short term.'¹⁶

Source: Leisure Review Winter 1999/2000, Knight Frank

Figure 3: Prime leisure yields

A strong leisure economy but uncertainty in property markets

This brief review of leisure market trends supports the interest shown by the property market in recent years. Leisure consumer markets are steadily capturing a rising share and volume of consumer expenditure. Based on expectations of a stable economy, most forecasters predict further growth in leisure spending which will, undoubtedly, continue to create new investment opportunities for operators and property investors, not only in leisure parks but in all sorts of leisure property formats.

Supply-side risks

At present, the key risks to leisure property investments come from the supply side rather than from underlying demand. Multiplexes have been, and remain, central to the development of leisure parks. But industry specialists suggest that this wave of development is peaking and the amount of supply may begin to eat into operators' and investors' returns. What, then, is the future for leisure parks?

Without better marketwide data it is difficult to make sensible predictions. Yet this is exactly what the institutional investors who have been attracted to the sector in recent years will need to be able to do to justify their continued exposure, at a time when the risks appear to be increasing (or at least are not quantifiable). Publication of this new *Journal of Leisure Property* will fill some of the gaps in

**Appeal for leisure
performance
benchmarks**

information, and is therefore very timely for investors. It is to be hoped also that leisure property agents are encouraged to produce rental data series in the same way that others have developed highly respected published statistics for other property classes.

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