The impact of the new Licensing Act together with a difficult trading environment and other new legislation on capital and rental values of UK nightclubs

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Abstract
This paper examines the impact on capital and rental values in the nightclub sector of various matters including a change in the Licensing regime with the implementation of the Licensing Act 2003, changes to the Town and Country Planning (Use Classes) Order 1987 together with a generally difficult trading environment. We also consider the threats and opportunities that face this sector including the forthcoming ban on smoking in public places. This paper relates to nightclub premises in England and Wales with Scotland having a different legislative framework. Many of the themes and issues, however, explored in this paper are equally applicable to Scotland.

Keywords:
difficult trading environment, permitted capacity, smoking ban, new legislation, fair maintainable trade, rental value, capital value

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STRUCTURE OF THE NIGHTCLUB SECTOR

Table 1 shows the corporate nightclub operators in England and Wales and the number of premises they operate. This details the corporate nightclub operators within England and Wales and also includes, where applicable those properties operated in Scotland but excludes solely Scottish operators.

Table 1: Corporate nightclub owners in England and Wales

Company	Number of operations
Luminar Leisure	283
Alchemy (Tattersall Castle Group and Inventive Leisure)	223
Regent Inns	60
CanDu Entertainment	45
Herald Inns (Brannigans etc)	43
Novus	37
Ultimate Leisure	30
Barvest — now known as Bar Club Trading (Po Na Na)	18
Brook Leisure	17
Nexum	14
Absolute Leisure	14
Vimac	8

The nightclub and late night sector is dominated by Luminar Leisure who is the largest nightclub operator in the UK. Luminar leisure has grown both organically and inorganically over a number of years with the largest single inorganic acquisition being of Northern Leisure in 2000.

Otherwise the nightclub sector comprises of small, often regionally based specialist operators such as Ultimate Leisure and Brook Leisure. A number of large corporate organisations such as Regent Inns and Alchemy have late night and nightclub operations as part of their larger licensed property portfolios. The number of properties detailed in the above table relates to their total portfolio of which nightclubs comprise a small part. Particularly in mid and small towns, the market is often dominated by individual private operators, with the corporate sector being most often located in large towns and cities.

Nightclubs are almost exclusively run as owner operated or as managed operations with the entrepreneurial nature of the business not being suited to tied tenancy and tied lease agreements as is common in the public house sector.

In order to analyse rents and prices, we have subcategorised the nightclub and late night sector into the following.

Super clubs

These clubs have the largest capacities with permitted numbers generally upwards of 1,500 persons with floor areas over 15,000 sq ft. These Super Clubs control a comparatively small overall market share in terms of property numbers; however, they tend to dominate the market relative to turnover. These clubs tend to be located in the major towns and cities. A number of such clubs were also developed in out of town locations in the mid to late 1990s on retail and leisure parks. Many of these units have failed and closed and have reverted to other more profitable uses. Super Clubs are almost exclusively operated within the corporate sector.

Mid market clubs

These are clubs with occupancies ranging from 600 to 1,500 persons and tend to be located in peripheral city centre locations or where they are most often best suited in town centres. These are operated by a mix of corporate, multiple and private operators.

Small clubs

These are smaller clubs with occupancies with less than 600 persons. These tend to be situated in either peripheral city centre locations or smaller towns and quite often are niche operations targeting a specific market. These are almost exclusively within the private domain.

Chameleon clubs

In recent times we have seen the development of the Chameleon Club, which includes the likes of Tiger Tiger operated by Novus. These operate from large retail units from 8,000 to 25,000 sq ft or more. These operations combine a variety of trading formats including circuit bars, restaurant areas and nightclubs. These Chameleon Clubs attract trade during the daytime hours but predominantly trade as evening and early morning venues. Such operations are located on or close to established city centre drinking circuits in the major cities throughout the UK. These are primarily operated by the corporate sector. These Chameleon Clubs are closely aligned to and affected by many of the same issues and factors which currently surround the High Street pub market.

Licensing Act 2003

The Licensing Act 2003[1] came into force on 24 November 2005. Prior to considering the impact of the new Licensing Act, it is perhaps worthwhile considering what defines a nightclub and how this might have been affected by the Act. The general public have a fairly clear picture of what a nightclub is. It is a venue that trades with later hours than public houses where there is an admission charge to gain entry and entertainment is provided in the form of dancing with music often supplied by a disc jockey.

Until the mid-1990s nightclubs were readily identifiable with a clear distinction in operating style between public houses and nightclubs. With the rapid expansion of the High Street pub sector this distinction became less clear with large town centre licensed operations being developed often from retail units, redundant banks or similar buildings. These new High Street bars were in a different trading format and style than had been hitherto seen and certainly different from the traditional pub sector. Many of these new High Street bars often, however, traded the same hours as traditional pubs with town and city centre nightclubs catering for the post High Street pub trade.

Prior to the Licensing Act 2003 the principle statute governing the licensed sector was the Licensing Act 1964[2] and at least in licensing terms it was relatively easy to define a nightclub. The Licensing regime was administered by the Licensing Magistrates who granted Justices Licenses permitting the sale of alcohol both off and on the premises.

Under the Licensing Act 1964 trading hours were defined by ‘permitted hours’, which generally dictated that public houses were unable to serve alcohol after 2300 (2230 on Sundays). Nightclubs were able to trade beyond normal permitted hours by virtue of them being able to obtain Special Hours Certificates, which enabled the premises to trade normally to 0200. Special Hours Certificates or Section 77 Certificates as they were otherwise known were granted for premises where music, dancing and food were provided, to which the sale of alcohol was ancillary.

When the Licensing Act 1964 was enacted it was clearly a different trading environment than today. The type of late night operation at the time and envisaged in the Act was clubs often in the style of cabaret clubs, where the prime reason to attend was to dance or enjoy an evening of live entertainment. This style of operation is not what one would now understand or identify as a Nightclub. With this style of operation it was envisaged that the sale of alcohol would be ancillary to music, dancing and the provision of food.

Under the old licensing regime there was a clear distinction between licensed premises closing at 2300 — pubs; and those closing at 0200 — nightclubs. Many of the High Street bars that were developed from the mid to the late 1990s, however, sought subsequent to their development to obtain Special Hours Certificates in order to extend their trading day. This led to a large number of contested applications for Special Hours Certificates where the nightclub operators sought to preserve their monopolistic position. A number of cases set legal precedents as to how such applications should be dealt with. It is not the intention of this paper to go into detail as to the relevant case law and its application, however, suffice to say that there was a continuing trend for High Street pub and bar operators obtaining Special Hours Certificates, which enabled them to trade beyond normal permitted hours.

It is worth mentioning here that premises operating with a Special Hours Certificate also required a Public Entertainment Licence, which was granted by the local council. Public Entertainment Licenses often included a number of conditions primarily concerned with health and safety matters. Specifically Public Entertainment Licenses imposed a maximum permitted capacity on premises.

The Licensing Act 2003 transferred control of licensing from the Licensing Magistrates to local councils. The Justices on Licence was abolished and two new forms of licenses were created — the Personal and the Premises Licence. The concept of permitted hours disappeared with operators being able to apply for hours that suited their particular style of operation and trading profile. This led to media speculation of a 24 hour drinking environment, which in reality failed to materialise. Indeed many pubs and bars had, as already stated earlier in this paper, extended their trading day through stealth by obtaining Special Hours Certificates. The new Licensing Act regularised the situation and local councils still have wide discretion on various grounds in determining applications for longer trading hours. Generally licensed premises obtained ‘grandfather rights’ under the new system mirroring the same hours and conditions imposed under the old licensing regime, unless applications were made to the local council for a variation.

We now find ourselves in the position shortly after the introduction of the Licensing Act 2003 that pub and bar operators have to a degree extended their trading day but not to the extent that was widely predicted by the media.

The consequence on the nightclub sector has been twofold. First, under the old licensing regime nightclubs effectively benefited from three later trading hours above that enjoyed by public houses. With many public houses and bars having now extended their day beyond 2300 often to midnight or 0100 the benefit enjoyed by many nightclubs has been eroded. The reaction to this is that many nightclubs have also sought to extend their hours with many now trading till 0300 and in some cases later. The impact of this has been to shift trade to later in the evening particularly on peak trading times on Friday and Saturday evenings. Secondly, the ability of nightclubs to sustain quite often significant door admission charges has become more difficult as the hitherto monopolistic ability to trade beyond 2300 no longer exists. Pubs and bars that trade beyond 2300 rarely operate door admission charges.

A recent study by CGA Centro, the Bar Entertainment and Dance Association (BEDA) and Galaxy Radio[3] has confirmed that drinking habits on city centre pub circuits have fundamentally changed following the new Licensing Act, with younger people now heading out much later in the evening. This study states that 61 per cent of drinkers now leave home later under the new regime according to a survey of 1,113 18–35 year olds. One quarter (24 per cent) stated that they did not leave home before 2300. In a similar survey one year ago, just 4 per cent left after 2200. The most popular time to leave home is now between 2100 and 2200 with 41 per cent departing at this time.

Another interesting fact that has emerged from this study is that people are buying fewer drinks on an evening out. The most common number of drinks to have in one evening is between 5 and 7 whereas last year it was 8 to 10. The survey also highlighted that people are having fewer nights out per week with 2 to 3 drinking occasions being the most common at 46 per cent but this has declined by 9 per cent in the last year. Forty-three per cent of the study stated that they only drink out once a week compared with 26 per cent in 2005.

The clear implications are that people tend to be going out later, less often and consuming fewer drinks, which is clearly detrimental so far as the town centre bar, pub and nightclub sector is concerned.

PLANNING USE CLASSES ORDER

Important changes to the planning Use Class Orders came into force on the 21 April 2005 with amendments to the Town and Country Planning (Use Classes) Order 1987.[4] The statutory amendments to the Use Classes Order stated that so far as nightclubs were concerned that they did not fall specifically into any Use Class and are ‘sui generis’, that is, in a class of their own. Previously, nightclubs were not specifically referred to within the Use Classes Order. Quoting directly from the statutory instrument it states ‘confirming that nightclubs are sui generis provides an element of certainty over use as a nightclub and ensures such premises, which can have significant environmental impacts, are subject to planning considerations before development can take place’.

Prior to the amendment to the Use Classes Order, it was generally accepted that nightclubs fell within Use Class D2 'general assembly and leisure'. As such it was possible for uses within this Use Class to change from one use to another without the necessity of obtaining planning permission for change of use. This was a valuable benefit for nightclubs who had the opportunity to change to potentially more valuable uses such as cinemas, casinos, etc. Equally important nightclub operators could seek to acquire redundant uses within the Use Class D2 again such as cinemas, bingo halls, etc., without then having to obtain planning consent for change of use. Planning permission would of course have been required, as would building regulations approval, for physical alterations to the premises. In addition, the appropriate licensing consents would also have had to be obtained.

With the amendment to the Use Classes Order specifically stating that nightclubs are sui generis such premises no longer have automatic rights to change to potentially more valuable uses and equally planning permission will be required for conversion of a building from another use into nightclub use.

The historic food and drink Use Class category of A3 is now split into A3 — restaurants and cafes, A4 — drinking establishments and A5 — hot food takeaways. Uses can move down the order without the necessity of obtaining planning permission for change of use, that is, a hot food takeaway can convert to a drinking establishment, restaurant or café. Also a drinking establishment can convert to a restaurant and café. Uses cannot, however, move up the order. That is to say a restaurant cannot become a drinking establishment or takeaway without express planning permission.

Great care needs to be taken if public house or bar operators are contemplating a change in the style of trading from what could be considered to fall within Use Class A4 for drinking establishments to a sui generis nightclub use. Now, that there is no clear distinction in licensing terms between pubs, bars, chameleon clubs and nightclubs one could find that the actual use moves towards a late night establishment, i.e. nightclub. The implications of this are twofold. First, such change of use may in the first instance require planning permission. Secondly, if this use becomes established and the operator wishes to revert back to use as a drinking establishment then planning permission may be required. Equally nightclubs who in order to compete for business extend their trading hours earlier into the day may in the process perhaps change to a drinking establishment which will require planning permission. Quite subtle changes in the operational style of business could have serious valuation implications. Generally public houses, bars and other uses falling within Use Class A4 are more valuable than nightclub uses. Often bars are more valuable than restaurants but not universally so.

THE TRADING ENVIRONMENT AND OTHER FACTORS AFFECTING THE NIGHTCLUB SECTOR

Other factors that affect the nightclub sector tend to be common with the High Street pub sector to which it is closely aligned. The increases in the minimum wage and utility prices both well in excess of inflation have seen the cost base for such operations rise. The general town and city centre trading environment remains difficult. The difficult trading conditions stem from, in part, the rapid expansion in the number and size of new licensed premises, which occurred in many towns and city centres from the mid-1990s onwards.

Many High Streets and town centres reached saturation point around 2000–2001, which led to deep price discounting in order for competing operations to attract their share of custom with many companies going into receivership, administration or reporting negative trading statements.

Notable casualties in the nightclub sector included Springwood Leisure, the Midlands based nightclub company which was placed into administrative receivership in February 2004. First Leisure at the time Britain's second biggest nightclub operator was placed into receivership in May 2004. In September 2005 Bakersfield Entertainments was also placed into administrative receivership. The Nightclub Company was placed into administrative receivership in November 2005 with a number of their sites being acquired by Luminar Leisure. The Nightclub Company had been formed by a number of ex First Leisure executives following the demise of First Leisure a year earlier.

In June 2005 Luminar Leisure sold 49 of their branded smaller nightclubs to a management team trading as CanDu Entertainments. Luminar continues to dispose of smaller unbranded units and in March 2006 Mintgate Investments were reportedly contemplating making a bid for the company. At the time of writing this paper, Luminar Leisure's Entertainment division was widely reported as being for sale with speculation surrounding this division being rife for sometime.

Also in recent times both Ultimate Leisure and Luminar Leisure have issued negative trading statements and profit warnings.

At the time of writing in June 2006, Entrepreneurial Leisure had just been put into receivership as had Barvest (Po Na Na) as part of a restructuring process.

Throughout 2005 and 2006 takeover speculation was rife in the sector with most nightclub companies being linked to some form of merger and acquisition activity. It is likely that this activity will continue.

The licensed sector has been the focus of much government attention with concerns about the effect that alcohol plays on crime and disorder and the 'binge drinking' culture in the UK. This has resulted in a number of government initiatives which will no doubt lead to further legislation.

The nightclub and late night sector has in addition to the Licensing Act 2003 had to deal with the impact of the Registration of Door Supervisors which is administered by the Security Industry Authority (SIA) which followed on from the Private Security Industry Act 2001.[5] This led to a shortage of suitably qualified door staff with consequent increased costs and bureaucracy. The Alcohol Harm Reduction Strategy (Cabinet Office 2004)[6] highlighted alcohol related crime, disorder and antisocial behaviour with a particular emphasis on the problem of 'binge drinking'.

The Violent Crime Reduction Bill,[7] which at the time of writing this paper is passing through Parliament proposes further measures to reduce alcohol related crime and antisocial behaviour including the introduction of ‘Alcohol Disorder Zones’.

Other threats going forwards include the smoking ban in public places, which is due to come into effect in July 2007. This poses a particular threat to nightclubs, which may not be able, due to the physical layout of many nightclub premises to provide external areas where people are able to smoke without leaving the property. Whereas in public houses and bars people can temporarily leave the premises to smoke there is a particular difficulty for nightclubs in managing a situation where people wish to leave for a temporary period to smoke and then require to be readmitted and where an admission charge is payable.

Drinks prices continue to be an issue both directly and indirectly. Low prices in the off trade, particularly with aggressive supermarket pricing, has contributed to people going out later and drinking at home unsupervised. ‘Tanking up’ before visiting public houses, bars and nightclubs is thought to be a major contribution to town centre disorder and drunkenness. The CGA Centro survey highlighted that many young people now drink at home before departing for an evening’s entertainment.

WHAT DOES THIS MEAN FOR RENTAL AND CAPITAL VALUES

Fleurets produce annually a survey of prices[8] for the licensed and leisure sector which has a specific section dealing with nightclubs. Fleurets also produces an annual rental survey,[9] which similarly details movements of rents in the nightclub sector. Due to our involvement in the nightclub sector both at an individual level and at a corporate level where we have been involved in providing advice on a large number of recent transactions, we have access to an unrivalled amount of detailed tenure and trading information.

We are therefore able to analyse rents and prices relative to time, floor area and permitted capacity from a database of well over 200 properties. With our continued involvement in this sector this database is increasing on an ongoing basis.

RENTS

We have published a detailed analysis of rental movements in our 2005 and 2006 Rental Surveys, which analyse rents over a six-year period in both cases. Rents are also analysed by reference to maximum permitted occupancy and in relation to the overall gross internal floor area (GIA)[10] of the property.

Table 2 shows the results of 2006 survey, which details rental movements over the preceding six years. The figures in parenthesis after the main figures detail the results of the previous years survey.

We analyse rents by the same categories of nightclubs as referred to earlier in this paper. We separately identify London nightclubs as a category in their own right due to the unique nature of the London nightclub market.

Table 2: Changes in nightclub rents in 2005

	Total % increase 2000–2005 (1999–2004)	Rent (£) 2005 per max. permitted occupancy (2004)	Rent (£) 2005 per square foot gross internal area (2004)	Average rent (£) 2005 (2004)
Super Clubs	13.5 (20.0)	101 (111)	6.89 (8.50)	192,905 (204,346)
Provinces Mid Market	27.0 (46.0)	110 (84)	9.92 (5.65)	97,655 (98,520)
Provinces Small	10.1 (27.0)	135 (100)	10.89 (8.00)	48,713 (38,605)
Provinces Chameleon	7.1 (N/A)	141 (140)	11.36 (13.00)	135,172 (184,828)
London (all)	6.98 (11.0)	291 (293)	14.07 (20.00)	277,167 (211,951)
Total	12.9 (25.0)	136 (138)	9.40 (9.74)	139,257 (125,084)

This is not necessarily a like for like comparison of the same properties. While the 2005 and 2006 surveys contain many of the same properties, as the database evolves many new properties are added. In addition, where a business has ceased trading or has reverted to an alternative use it is obviously excluded. Great care is also taken to exclude properties where we are unable to verify the information.

As can be seen the overall results show a 12.9 per cent increase in rent to the end of 2005 over the six year period for all sectors of the nightclub industry. This compares to a 25 per cent increase for the six years up to the end of 2004. This could suggest a slow down in the market which to a point is true. In addition, we have seen a large number of properties where rent reviews are outstanding, which also has a depressing impact on the statistics up until such time as the reviews are settled. Overall rent per maximum permitted occupancy and rent per square foot remain remarkably consistent for the two years of the survey. Both are marginally down comparing 2005 to 2004 with the average rent for 2005 being just over 11 per cent higher than 2004.

Super Clubs show a 13.5 per cent growth over the six year period to the end of 2005 with rent per permitted occupancy decreasing, at £101 as well as rent per square foot GIA decreasing at £6.89. The average rent for Super Clubs is marginally down at £192,905, which compares to £204,346 for 2004.

Mid Market Clubs showed the highest rental increase at 46 per cent to the end of 2004, which has slowed to 27 per cent in 2005. Rent per permitted occupancy and per square foot GIA have both increased although the average rent is marginally down.

Provincial small clubs, which arguably are the most vulnerable to changes in the licensing regime, shows a rental growth over the six year period to 2005 of 10.1 per cent.

Rent per permitted occupancy is £135 and rent per square foot GIA is £10.89. Both of these indicators are higher than the respective figures for Super Clubs and provincial Mid Market Clubs. This is not surprising and is entirely consistent with the general principal that smaller properties command higher rents per square foot and permitted capacity than their corresponding larger counterparts. Indeed, one will note the consistent downward trend of both rent per permitted occupancy and rent per square foot GIA from London Clubs up to Super Clubs in the table above.

In the 2006 survey, rental growth for chameleon clubs was included for the first time. This showed a modest growth of 7.1 per cent, but as at the beginning of this period in 2000 there was a limited number of chameleon clubs in existence and there are currently a number of rent reviews outstanding and ones where reviews will fall over the next year or so. We would expect, all things being equal, that this percentage will increase in future years.

Again London Clubs not unsurprisingly show the highest rent per permitted occupancy and rent per square foot GIA but somewhat interestingly shows the lowest rental growth of any of the nightclub sectors, closely behind Chameleon Clubs. Rent at £14 per square foot GIA is arguably more affordable than the figure of £20 per square foot GIA in the 2005 Rental Survey but rent per permitted occupancy remains consistently high at £291 versus £293 for 2005.

CAPITAL VALUES

Over the last two years or so most of the activity in terms of sales has been in the corporate arena with mergers and acquisition activity. At present, we have an insufficient database of individual nightclub sales to carry out a detailed statistical survey of nightclubs by the various sub-nightclub sectors as we do for rental purposes.

It is usual to analyse sales of licensed premises by reference to turnover and profit. The valuer will assess the fair maintainable level of trade (known as FMT) and the fair maintainable adjusted net profit (FMANP) that can be achieved by a reasonably efficient operator of the business upon which a potential purchaser would, in the opinion of the valuer, be likely to base an offer. The FMANP is stated prior to deductions for depreciation, amortisation, loan interest and director's salaries.[11]

In our 2005 Survey of Prices, we had sufficient data to analyse nightclub sales across all of our designated sectors and regions. For freehold nightclubs we found that nightclubs sold at marginally less than one times their annual fair maintainable turnover, exclusive of VAT. Prices achieved equated to just over 3.6 times FMANP. Evidence of nightclub sales subsequent to the publication of the 2005 survey in December 2005 have broadly confirmed these figures.

The majority of the individual nightclub sales are at the bottom end of the market. One would expect multiples of FMT and FMANP to be generally less than for properties at the top of the sector. The prices achieved analysed by reference to maximum permitted occupancy equates to £749 per person.

You will note that from earlier in this paper that rent per permitted capacity for 2005 was £136. Expressed another way nightclubs sell for an average 5.51 their rental value. Obviously, these are not the same sample of properties but is nonetheless an interesting comparison.

Our 2005 survey of prices shows that for leasehold sales the average sales price equates to 0.45×FMT and 1.92×FMANP, after rent. Subsequent leasehold sales have confirmed the broad accuracy of these data.

With leasehold properties, as well as normal trading and locational issues effecting price, tenure details such as level of rent, length of lease, rent review provisions and other terms influence the price achieved.

It is interesting to compare the above to the latest reported **corporate transactions.**

The Luminar Leisure sale of the Enterprise division to CanDu Entertainment Limited was for a total cash consideration of £27.2m. In the year to February 2005 turnover and EBITDA (earnings before interest, tax and depreciation) was £45.6m and £5.7m, respectively. This estate comprised a mix of freehold and leasehold properties.

Therefore, the price equates to 0.596×turnover and 4.77×EBITDA.

Electra Partners successfully acquired Urbium (now renamed Novus) by way of the existing share capital at a price equating to approximately £113m.

The 2004 turnover for Urbium was £75.3m and group EBITDA before exceptional items was £17.5m. Therefore, the price equates to 1.5×turnover and 6.46×group EBITDA. This estate was essentially entirely leasehold and the share offer reflected the level of debt in the business.

While we do not have any detailed financial or trading information with regards to the Luminar Leisure acquisition of 10 clubs operated by The Nightclub Company in November 2005, it was reported that the transaction represented 3.5 times historic earnings. The average rent per site was £275,000. Luminar were reported as paying £9.5m cash for the 10 leasehold clubs.

For both Freehold and Leasehold sales, the corporate transactions reflect multiples greater than those achieved on individual nightclubs forming part of our surveys. This is to be expected for a number of reasons.

First, group transactions such as this tend to attract a ‘lotting premium’, where the sale price of the whole is greater than that of the individual property values. Secondly, the quality of the properties contained within the CanDu, Urbium and Nightclub Company portfolios is well above average in comparison to those properties included in our sample of individual sales. Particularly the Urbium properties are of a very high calibre, of ‘chameleon’ type venues with appreciably higher turnover and profitability per unit. One would expect these to sell for higher multiples.

OTHER KEY PERFORMANCE INDICATORS

Other useful measures of performance of a nightclub are turnover (fair maintainable trade) per maximum permitted capacity and turnover per square foot GIA (Table 3).

Again to be consistent with how we have analysed rent and prices, we set out below an analyses based upon the various sub sectors. To be consistent we have adopted 2005 turnover.

As perhaps one would expect turnover per permitted capacity is the highest for Chameleon Club and London Clubs. What is perhaps more surprising is that turnover per permitted capacity for Small Clubs is twice as high as that for Super Clubs. This would suggest that Small Clubs are more efficient, perhaps being full to capacity more times per week.

Table 3: Nightclub turnover

	Turnover per permitted occupancy (£)	Turnover per square foot gross internal area (£)
Super clubs	1,056	73
Provinces mid market	1,193	65
Provinces small	2,142	148
Provinces chameleon	2,178	130
London (all)	2,890	N/A*
Total average	1,646	99

**Note*: Due to an insufficient sample size we are unable to analyse turnover per square feet Gross Internal Area for London Clubs.

It would be wrong to assume however that Small Clubs are more profitable as their fixed and variable costs may be much higher. Indeed, Fleurets rental survey shows that Small Clubs command a higher rent per square foot than Super Clubs.

The same trend occurs with turnover per square foot GIA with Small Clubs and Chameleon Clubs having a higher turnover per square foot than Super Clubs and Mid Market Clubs.

CONCLUSIONS

The nightclub sector has come under pressure from a variety of sources with increased competition from pubs and bars, indirect competition from the off trade with a raft of legislation adding to bureaucracy and cost. These pressures are likely to continue. In particular, the forthcoming smoking ban in 2007 poses a further threat although the impact on turnover, prices and rent is unknown at present.

Rental growth in our 2006 Survey — which tracks rent up to and including 2005 showed that growth had slowed. Many rent reviews remain outstanding perhaps as operators fight more vigorously to restrict rent rises but as these are settled a clearer picture will emerge. Most commercial leases contain upward only rent review clauses and in reality therefore rents will not go down and the likelihood is that the rental growth will slow as is indicated by our research.

The impact of the Licensing Act 2003 has yet to filter down into these statistics. The Act came into force in November 2005 and the direct trading impact will only emerge over time.

In terms of prices there is no evidence of a fall in values; however, the better trading clubs tend to be retained by their owners with most transactional evidence on an individual basis being at the bottom end of the market where multiples of profit and turnover to price are relatively low. This may be explained by actual turnovers and profits often being below fair maintainable levels due to businesses being run down. As well as leading to higher risk associated with forecasting a return to fair maintainable levels, prices will also reflect the capital sums necessary to bring clubs up to operational standards required by a more demanding public.

There have been a number of group transactions that demonstrate an appetite for good trading outlets although we are also aware of nightclub groups and companies that have been discreetly offered for sale, which have not been sold often due to them being over priced or the vendors having unrealistic aspirations. The market is therefore cautious to this extent.

As is often found in difficult and more challenging times the good operations will survive and often prosper and poor operations will fail. Small and Mid Market Clubs with no clear point of difference to pubs and bars will come under most pressure with Chameleon Club and Super Clubs which are better placed to provide a distinct offer will fair better as they offer a real alternative to late night bars and pubs.

Many companies have positioned themselves accordingly most notably with Luminar Leisure investing in their large-scale nightclubs such as Oceana and seeking to dispose of their smaller unbranded clubs.

These are challenging times for the nightclub sector and it perhaps only over the next 12 months or so that we will be able to gauge the impact on rents and prices that the various legislative changes and trading environment have had on the sector.

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