LEISURE

The leisure market has been defined by a number of sizeable, single asset transactions this year as well as some key corporate deals, albeit fewer than in previous years, while the 'alternatives' property sector overall has seen keen interest from investors, which looks set to continue.

JON PATRICK
Head of Leisure & Development

Between 2015 & 2018:

Domestic: +15.8%

INVESTOR INTEREST

Investors active in the 'alternatives' space comprise a diverse group ranging from private investors, real estate investors, and more recently, public sector funds as well as investors looking to take on operational risk in pursuit of potentially higher returns. Private equity continues to be attracted to the sector looking for a mix of real estate backed operational businesses with long term and diverse income streams.

We anticipate pension fund activity to continue to target key UK markets demonstrating robust business, leisure and education metrics whilst local authorities may be required to underpin development plans in more secondary towns and cities in the UK, in order to unlock potential regeneration and development.

LEISURE MARKET ACTIVITY

Yields in the leisure market have continued to harden for well let developments which deliver long, unexpired lease terms in prime locations. Investor interest is greatest for quality business operations or covenants prepared to enter into 25 to 35 year lease terms with indexed rent reviews and, where businesses are delivering long term established multiple income streams.

Most of the activity we have seen during 2018 has involved more opportunistic acquisitions of individual and smaller package deals, with the larger transactions involving quite diverse segments. These include Epiris LLP acquiring the Club Co in a secondary buyout from Loan Star Funds, with its significant landbank, Blackstone purchasing The National Exhibition Centre Group in an £810 million transaction, following continued interest in entertainment and experiences, and Midlothian Capital Partners acquisition of PGL Holidays from Cox & Kings for £467 million. This is in addition to bolstering its investment in the Dobbies Garden Centre chain following a number of high profile deals with Wyevale Garden Centres.

The breadth of variety in leisure assets means that those most appealing to investors typically have a strong concept, high quality product offering, an accessible and defendable location with well invested real estate and of course, quality management. Demand from consumers invariably drives the market and with interest in health and fitness inspired and informed by social media, the number of gyms and fitness centres in the UK continues to grow. The market had around 10 million members in 2018 and a value reported to be around £5 billon with user penetration rates nearing 15%. We have also seen growth in smaller HIIT-style facility openings as the barriers to entry for these premises, typically 2,500-5,000 sq ft, remain lower than for the mainstream.

Between 2015 & 2018:

c. 64%

of overnights are domestic

Between 2015 & 2018:

International: +13.2%

CASE STUDY

City Green, near Geneva

We conducted an off-market acquisition of the City Green sports and health club on behalf of David Lloyd Leisure as their first health club in France, situated 10 minutes' drive from the centre of Geneva. A post acquisition investment programme of £5 million was implemented ahead of the club's re-opening in September 2018.

Whilst the major gym operators continue to expand, businesses without the added security and steady revenue of a membership income model, such as bowling alleys and many indoor trampoline venues, now appear to be focusing on reinvestment or reformatting the concept in existing sites, rather than on expansion.

Caravan and holiday parks remain in high demand due to the range and quality of income streams where annual pitch fees are treated as quasi-investment income. We see this set to continue, particularly with the phenomenal summer in 2018 and low exchange rates on the Sterling seeing staycations enjoy maintained growth, along with increasing international visitor numbers, as travel agents such as Thomas Cook and TUI reported a weak summer for holidays abroad.

MULTI-USE SITES

As the shift in consumer habits moves increasingly from the high street towards online platforms, there is some risk to leisure operators in locations affected by a decline in consumer footfall, though this depends on the nature of the business. Multi-use leisure sites which cater to more than one consumer type and act a 'one-stop shop' are more likely to be able to avoid these challenges.

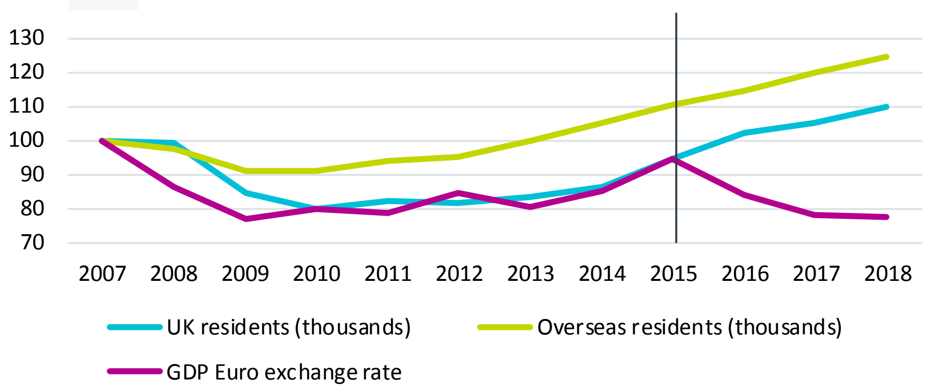
One type of multi-faceted business that we have seen performing extremely well is the garden centre, proving popular with consumers and investors alike. Following our instruction on the sale of the Wyevale Garden Centres portfolio across the UK, interest has been considerable. The retail experience here bears little resemblance to the high street and dwell times are significantly longer. Noticeably, the availability of quality food and beverage provision drives footfall and spend per head, there are a broad base of concessions offering a wide product range and additional features such as children's play areas extend the appeal to a wider consumer market and demographic.

BREXIT

Staffing and employment costs are clearly going to be key issues following Brexit given the customer facing workforce in leisure and hospitality comprising many EU workers and the result of any immigration policy changes could reduce this employment pool. With fewer people available to fill this gap, wage competitiveness may become a factor for some operators to attract and retain staff for positions which have become harder to fill.

In relation to the economic landscape following Brexit, if Sterling falls to lower levels, as it has done in general since the vote to leave, this would be encouraging for UK holiday parks that benefit from a rise in staycations, which also benefit from low exchange rates.

UK AND OVERSEAS VISITORS TO AND FROM THE UK (BASE = 100)



Sources: ONS, Christie & Co Research & Analytics

CASE STUDY

Buchan House, St Andrew Square, Edinburgh

On behalf of Associated British Foods Pension Fund, we acquired the investment of a new 72 key Malmaison hotel due for completion in September 2019.

CASE STUDY

David Lloyd Leisure, Harrogate

We were instructed on the off-market disposal of the freehold investment of a 65,000 sq ft racquets club formerly known as the Academy Health Club and Spa which was sold to CBRE Global Investors on behalf of Academy Leisure Limited.

MARKET PREDICTIONS

We will see an increasing number of lease renewals and lease re-gears as a number of leases within the UK's purpose-built leisure parks from the 1990s near expiry. We anticipate pre-emptive lease extension terms in return for capital contributions in the face of weak rental growth.

We may see increasing distress experienced within certain indoor, "big box" leisure operations as a result of the extended spring/summer/autumn weather conditions in 2018. Casualties could include those weaker offerings within a variety of leisure sub-sectors including trampoline centres, escape room formats, nightclubs and some tenpin bowling centres. Conversely, outdoor leisure pursuits including golf and cycling are likely to have benefitted.

The health and fitness market will continue to see consolidation following the likes of Pure Gym's acquisition of Soho Gyms and The Gym Group's acquisition of easyGym together with increased activity from the not for profit/social enterprise operators such as GLL and Places for People Leisure.