June 2021

1. Leisure Market Commentary

1.1. Headlines

- **Economic impact:** GDP contraction of 9.9% in 2020, the UK economy has begun to see an uptick in activity following the recent relaxation of lockdown measures. Measures of mobility and spending on credit and debit cards have already proven the beginning of a strong rebound, whilst retail sales and employment have both also increased.
- **Consumer confidence:** UK Consumer confidence index increased by six points to -9 in May, up notably from -15 in April. May's result marked the strongest reading since March 2020 and was likely driven by the substantial lockdown easing.
- **Government launches business rates revaluations consultation:** The review, launched in July 2020, conducted a call for evidence which found more frequent revaluations to be a priority for respondents. The government has therefore set out specific proposals through the consultation on how a system of revaluations every three years might be achieved.
- **UK Lockdown Reopening:** The retail, leisure and hospitality sectors have all been boosted by the reopening of non-essential shops on 12th April and restaurants, pubs, gyms, hairdressers and cinemas on 17th May as the UK moves out of national lockdown. Social distancing measures remain, with a proposal to remove these from 19th July 2021.
- **Business Rates holiday ends in England:** Businesses in England will start to pay reduced Business Rates now that the tax break has ended. The UK government applied a full discount for firms from 1st April to 30th June, with a 66% discount rate after that date, which will impact profitability after reduced occupational costs over the last 12 months.

1.2. Economic Impact

- **UK GDP decreases in Q1:** Gross Domestic Product (GDP) contracted by 1.5% in January to March 2021, with the size of the UK economy 8.7% smaller than pre pandemic levels. However, GDP is estimated to have grown by 2.1% in March 2021, the fastest monthly growth since August 2020, as schools in some parts of the UK reopened throughout the month.
- **OBR predicts 'swifter and more sustained' economic recovery:** The Office for Budget Responsibility now expects a faster economic recovery due to the success of the UK's vaccine programme. Independent forecasters expect growth of 4% this year and 7.3% in 2022, which would see the economy hit its pre-pandemic level by the middle of 2022 – six months earlier than previously estimated.
- **Inflation falls short of forecasts:** Figures released in June showed the consumer prices index (CPI) measure of inflation rose sharply to 2.1% in the 12 months to May, up from 1.5% in April. The Bank of England and most City economists have forecast that inflation will rise to about 3% over the rest of the year before falling back to the central bank's target of 2% next year.
- **Labour market rebounding:** The LFS unemployment rate fell to 4.8% in Q1 from 5.1% in the previous three months, despite GDP falling over the quarter. April's single month LFS rate dropped further, to 4.6%. According to PAYE data, the number of paid employees for that month alone increased by 100,000, the biggest gain since the start of 2015, and took the level of employment back to that of last summer. ONS data also showed 750,000 job vacancies in April, up from 659,000 in March. This is not far from the pre-pandemic figure of 795,000, and was primarily driven by hospitality, with most sectors seeing at least some increase.

- **Tourism & Demand:** As a result of Covid-19, London airport arrivals dripped 75% in 2020, compared to 2019. While official data has not yet been released, we expect overnight stays to have dropped at a similar, if not sharper rate, given most London hotels had to close their doors during the city's lockdown. Occupancy levels across London remain at an all-time low and are expected to stay at these levels until lockdown restrictions are lifted and international travel returns.

1.3. Occupational Market

- **Retail and Leisure Rent Collection:** Total commercial property rent collection increased from 57% to 89% two months on from the March quarter day. In isolation, the leisure sector increased from 18% to 37% in this period, demonstrating the impact that lifting lockdown restrictions has had on the sector. Additionally, the hotel sector saw a rise from 33% to 63% over the same period, achieving its highest collection rate since June last year.
- **UK dining out market to make full recovery in 2022:** The UK dining out market is expected to grow by 33.4% in 2021, to £63.6bn. By the end of 2022, the market is set to be worth £91.9bn, exceeding its pre-pandemic value of £91.3bn. The total dining out market declined by 47.8% to just £47.7bn in 2020, with just 11 weeks of normal trading.
- **UK bookings growth continuing with upward momentum:** Despite the temporary delay is lifting lockdown restrictions, which has now been pushed back to 19th July, the UK hotel sector continues to bounce back with a sustained recovery.
- **Vacancy rates on the rise:** The first half of 2020 saw 7,834 closures across all sectors of which 1,264 were classed as leisure. This trend was exacerbated by Covid-19 and is expected to continue, resulting in a further 30,000 closures by the end of 2022. Without government intervention this figure would have undoubtedly been much higher.
- **The Federation of Small Businesses (FSB) calls for new strategy to help UK hospitality sector:** A new FSB report outlines a package of recommendations to help get the £130bn tourism and hospitality sector back on track. A Menu for Recovery calls for the development of a UK hospitality and tourism sector strategy, asking that red tape is reduced currently holding back small firms.
- **Moratorium on Commercial Tenant Evictions:** The British Property Federation (BPF) has estimated total unpaid rent for UK commercial property between March 2020 and June 2021 will be up to £7bn. The BFP have called for an end to moratoriums for non-payers starting from June, controversially there has been a recent extension to March 2022.
- **Head of Premier Inn sees more room to grow in the UK:** It's possible for the company to grow their network to around 110,000 rooms, based on demand today without substantial growth in demand in the U.K. hotel market, so that gives them headroom of about 30,000 rooms they can still add. They have been carrying on signing sites and buying land in the last year or 18 months, which will get them to about 90,000 rooms, so they've still got an opportunity of about 19,000 bedrooms beyond those that they have open or in the development pipeline.
- **Repurposing agenda gathers pace:** Following Landsec/Invesco's plans to develop the 70,000 sq ft Wandsworth former Debenhams store into an amusement centre, US based Reef technology has reportedly signed an agreement with Capital & Regional to find new uses for parts of the landlord's schemes in Luton and London. Reef typically finds alternate uses for under-utilised car parks and shopping centres, turning them into urban farms, fulfillment centres and neighborhood kitchens.
- **Cinemas report strong post-Covid return in the UK:** Cineworld and Odeon have reported a strong return in the UK market as lockdown restrictions are eased. Odeon sold more than 300,000 tickets over the week commencing 17th May, making it the chains busiest week in over a year, more than double the attendance of any weekend during the July to November period in 2020, when UK cinemas reopened during a lull in the pandemic.
- **US Restaurant chain Popeyes Plans to launch 250 Restaurants in the UK:** Popeyes said it will enter the UK market as part of an agreement between PLK Europe. It has already been growing in Europe with rollouts in Spain in 2019 and Switzerland last year. The first Popeyes restaurant in the UK is expected to open by the end of 2021 and will represent

the brand's 11th country in the Europe, the Middle East and Africa region, which already has more than 350 Popeyes restaurants.

- **Changing consumer patterns are now emerging in the retail and leisure sector.** Customers are seeking experiences rather than to simply purchase products. Leisure has become an excellent way to drive customer engagement and diversify the income profile away from traditional retail. We are witnessing the breadth of leisure offer increasing to include trampoline parks, Escape Rooms, or branded attractions like Lego, SeaLife Centres or Nickelodeon alongside the more established competitive socialising concepts of crazy golf, axe throwing and of course ten pin bowling.
- **An exciting new concept is being launched by Electric Gamebox.** This is a brand new concept which invites customers to step into a Gamebox and enter a fully-private, interactive digital room featuring projection mapping, touch screens, motion tracking and surround sound creating a hyper-immersive 60 minute adventure.
- **Another exciting new entrant is the launch of The Now Building at the eastern end of Oxford Street.** Outernet Global create immersive entertainment districts offering live music, arts & culture & events. The London launch is set for Winter 2021.
- **A fast-growing new trend in the leisure sector is the use of mobile phones to order food and drink on the go.** Mobile ordering has become the next iteration after the quick-service restaurant drive-thru lane to provide speed and convenience for customers. As mobile ordering becomes more popular, retailers are rethinking how they can accommodate 'grab and go' stations to avoid long waiting times.

1.4. Operator Performance

- **Cineworld:** The group reported an annual operating loss in 2020 the first in its history of £1.7bn. In the 12 months to December, revenues dropped four-fifths year on year as their cinemas across the world were closed. One to watch as things reopen in mid-2021.
- **Angus Steakhouse:** The operator is reportedly seeking rent concessions. The steak house chain has reportedly appointed KPMG to assist in its negotiations with landlords.
- **Fullers:** The operator has reported that, on average, its pubs will have been open on only 27% of the 388 days between 20 March 2020 and 12 April 2021. As a result, the operator has reported that its revenues from its pubs/hotels are expected to be c.80% less than the previous 12 months ended 28 March 2020. Net debt is currently £216 million (February 2020: £152 million).
- **The Restaurant Group:** The operator has revealed that it had a cash loss rate of £5.5m per four-week period during the lockdown and has signed commitments in relation to £500m new debt facility (comprising of a £380m term loan facility and a £120m super senior revolving credit facility).
- **Virgin Active:** Virgin Active has won High Court backing for its restructuring plan as they look to implement the restructuring using a Restructuring Plan, which is a new, court-supervised business rescue procedure introduced last year by the Corporate Insolvency and Governance Act 2020.
- **City Pub Group:** The group generated revenue of £25.7m in 2020, compared to £60m in 2019 for the 52 weeks to 27 December.
- **Whitbread:** Whitbread has reported total sales in its 2021 financial year were down 71.4% year-on-year reflecting the impact of restrictions and closure of hotels and restaurants for substantial periods of the year. However, it has reported it is planning to invest more than £350m this year as part of its recovery.
- **Wetherspoon:** The pub group reported it was raising up to £93.7m to assist in the last lockdown (having already raised £137m during the first lockdown).
- **Revolution Bars Group:** Bar chain Revolution closed six sites permanently and cut 130 roles after its restructuring was given the go ahead. 88% of creditors supported its CVA, which also cut rents at seven bar locations.

- **Stonegate Pub Co:** Stonegate Pub Company has reported a £746m pre-tax loss after the coronavirus regulations forced it to close the majority of its pubs and turn to investors and debt markets for an extra £1.4bn funding.
- **Drake & Morgan:** The London-based bar and restaurant group, is planning to enter into a CVA. It has been reported that it will lead to the closure of three of the group's 22 bars and restaurants.
- **Loch Fyne:** Greene King (owner of Loch Fyne) has received approval for the CVA of its Loch Fyne restaurant business. The company has been working with restructuring firm to resolve on the process, which will see it exit leases on 11 sites, which have already been closed. The process leaves the brand with ten trading sites one to monitor.
- **Comptoir:** Comptoir has reported revenue of £12.5m in the year to 31 December 2020, down by 62.6% (2019 was £33.4m). Loss after tax was reported as £8.1m (2019 was a £0.7m loss).

1.5. Investment Market

Whilst investment transactions reached a record low in 2020 as a result of the pandemic, there has been noteworthy activity within the market over recent months as investor sentiment starts to return now that leisure schemes have reopened:

- **Aviva puts eight Marston's Pubs portfolio on Sale:** Aviva Investors has appointed CBRE to sell a portfolio of eight recently constructed Marston's-operated freehold public houses in the UK, seeking offers in excess of £21.6m reflecting a 5.75% net initial yield. The pubs all include guarantees from the Marston's topco. The leases expire in 2055 and have retail price index (RPI) annual kickers. Additionally, the tenant has a £1 buyback option at lease expiry.
- **PIMCO Finances Marathon's £180m UK Hotel Portfolio Acquisition:** Investment management giant PIMCO wrote the five-year whole loan at a circa 65% loan-to-value ratio. The debt priced at around 500 basis points. The portfolio consists of 17 branded, full-service hotels located in key regional markets across the UK including Leeds, Leicester, Reading and Southampton and comprises a total of 2,374 bedrooms across 15 Holiday Inns and two Crowne Plazas.
- **AEW UK Core Property Fund acquires Fiveways Entertainment Centre:** The fund has acquired entertainment centres in Birmingham for £25.1m, reflecting a purchase yield of 9.5%. The property is let to 11 leisure tenants, including: Nando's, and Five Guys. It also retains two leases to Euro Car Parks, reflecting an overall WAULT of over 11 years to expiry.
- **Yield Matrix:** We have detailed our yield view of the sub-category groups within the leisure sector and denoted investors sentiment towards each category:

	JLL Yield View Q3 2021	Trending
Hotel	4.50%	Stable
Fast Food Retailers	6.00%	Stable
Casual Dining Restaurants	8.00%	Stable
Cinema	8.00%	Stable
Leisure – City Centre	8.25%	Stable
Leisure – Out of Town	8.25%	Stable