Property Week supplement

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BOXING CLEVER

■ "Big box" out-of-town leisure parks are having to reinvent themselves to survive. **Christine Eade** reports

Big box leisure is becoming a lot smaller.

Out-of-town leisure parks – glitzy 20 years ago with their darkened nightclubs encased in anonymous boxes and bingo desks occupying thousands of square feet – are from another age.

Going clubbing out of town became unfashionable years ago. And bingo withered under higher taxes and the smoking ban.

As the concepts die away, the big boxes remain. Many are owned by pension funds (see table, overleaf), whose challenge is to release them before the value of the investment falls too far.

The strategy is to subdivide the 30,000 sq ft big boxes that no one wants any more.

Theoretically, small boxes should command more rent per square foot when they are carved out of one big redundant box. Although figures are not available, this appears not to be the case with the redundant Gala bingo hall on the Valley Leisure Park, Purley Way, Croydon.

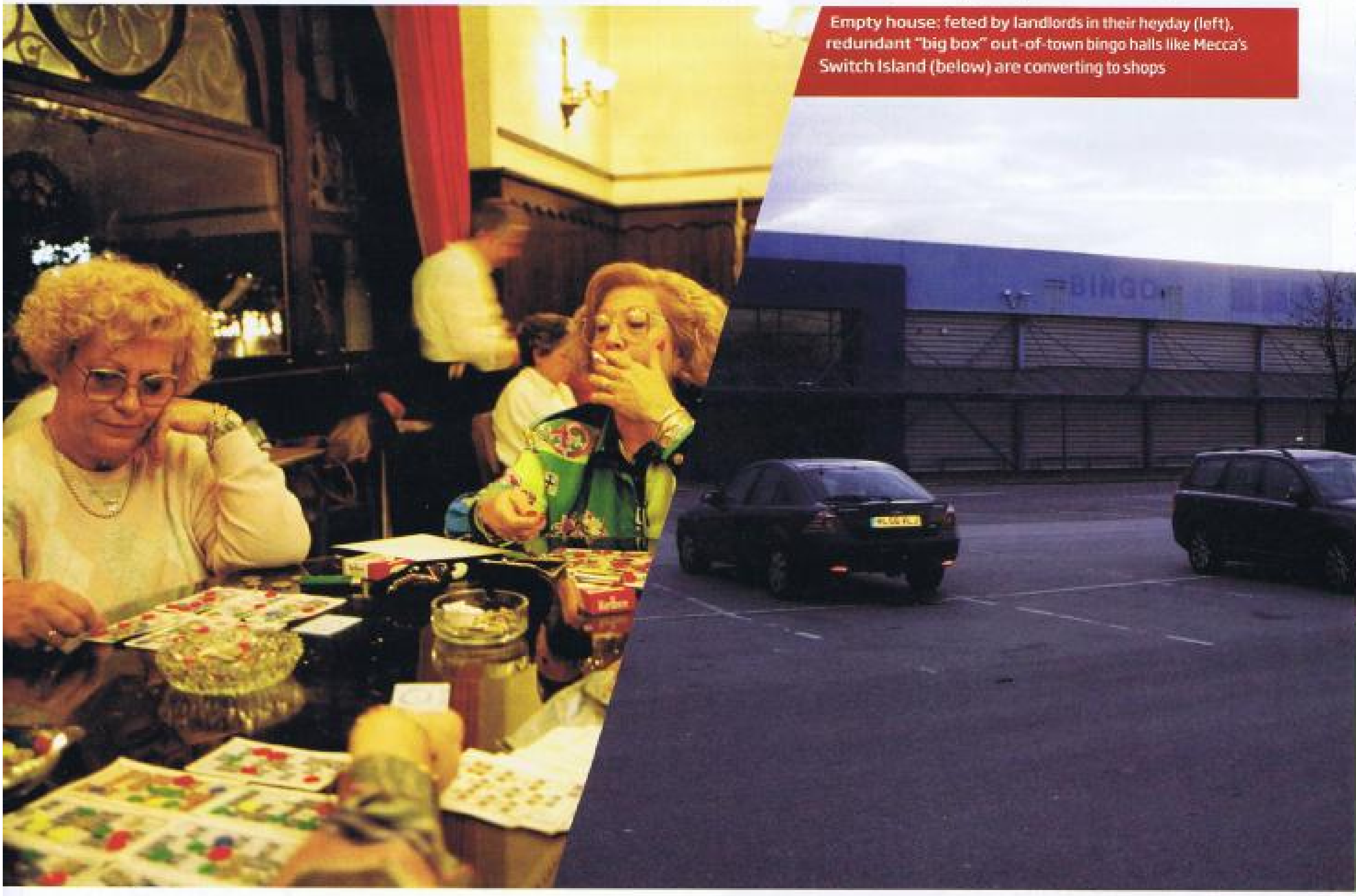
As recently as two years ago, Gala was considered such a desirable tenant that British Land paid it £4m to open on the Valley Leisure Park.

But today, British Land has taken back the lease and divided the unit. Cosmo, an Indian restaurant, took a new 15-year lease last year on 20,000 sq ft at £152,866 a year. The other newly carved unit was leased to the budget gym chain, Gyms 4 All.

But together, Cosmo and Gym 4 All pay less than Gala paid.

Other landlords are keeping up the value of their leisure parks by asking local authorities to change the planning consent to turn "big box" leisure »

BINGO PHOTOGRAPH: GETTY IMAGES



Empty house: feted by landlords in their heyday (left), redundant "big box" out-of-town bingo halls like Mecca's Switch Island (below) are converting to shops

Liquid asset: Legal & General bought Cardinal Park in Ipswich last month at an 8.4% yield

« into retail warehouses. Mecca's 35,542 sq ft bingo hall on Switch Island Leisure Park in Sefton, Liverpool, fell victim of the smoking ban. The landlord, Threadneedle Property Investments, is asking Sefton Council to change the redundant leisure use of the bingo hall into an A1 retail use. It already has a retailer lined up.

Toby Hall, a director at Colliers CRE, which is acting for Threadneedle, says that by Christmas, Mecca will probably have paid "a substantial reverse premium" to Threadneedle, to escape from a lease that runs until 2019. If planning consent is granted, Mecca's box becomes a shop.

Such asset management is ensuring that big box leisure is not losing its lustre as an asset class. But the leisure industry had to wait until last month to witness an investment sale that demonstrated just how much prime yields had risen.

Prupim sold Cardinal Leisure Park in Ipswich to Legal & General for about £19m – a yield of 8.4%.

This is much higher than that 5.5% yield that leisure parks were commanding in 2007.

But Legal & General property director Mike Barrie maintains: "This is a pretty attractive leisure yield. Leisure yields have moved out and now they have moved back in again, although three or four years ago, it would have been sharper than this."

The yield is respectable, because Cardinal has a cinema and several restaurants, without the deadening effect of a closed nightclub or bingo hall. Barrie says there is the potential to move tenants around, although there is only one small empty unit.

"We are faring pretty well," he says of the half-dozen Legal & General leisure parks, where nearly half the space is occupied by cinemas and nearly a quarter by restaurants.

"We don't have many bingo places, and only one casino, operated by Gala, but that is still faring OK."

Evidence of how leisure assets are made to work can be found at Legal & General's Valley Centertainment leisure park in Sheffield, where a failed nightclub was converted into four restaurants. Barrie points out that Brannigans, the nightclub, paid only £9/sq ft, while the four restaurants pay £20/sq ft.

Rob Lawson, partner in the leisure division of Montagu Evans, adds: "A lot of vacant nightclubs »

"We can't afford high rents, and we can't afford more than £8/ sq ft all in – £6.25/sq ft for the rent and £1.75/ sq for service charges

Jason Ward, Monkey Bizness

Top 20 leisure parks

Rank	Scheme	Location	Owner/investment manager	Size (sq ft)
1	Star City	Birmingham	F&C Reit Asset Management, Reit funds	392,993
2	The Quay	Glasgow	WG Mitchell	250,000
3	Parrs Wood Leisure Park	Manchester	X-Leisure, X-Leisure Fund	241,786
4	Fountain Park	Edinburgh	X-Leisure, X-Leisure Fund	230,314
5	Festival Leisure Park	Basildon	Aviva Investors, NU Linked Property Fund	218,917
6	Ozone Leisure Park	Oxford	Oxford United FC	200,000
7	Tower Park Leisure Complex	Poole	X-Leisure, X-Leisure Fund	199,451
8	Valley Centertainment	Sheffield	Legal & General Investment Management, Leisure Fund Limited Partnership	197,834
9	Norwich Riverside	Norwich	X-Leisure, X-Leisure Fund	197,638
10	Stevenage Leisure Park	Stevenage	Aviva Investors, NU Linked Property Fund	195,698
11	Grand Central	Stockport	Targetfollow Group	195,000
12	Cardigan Fields Leisure Park	Leeds	X-Leisure, X-Leisure Fund	185,381
13	The Coliseum at Cheshire Oaks (Phase 1)	Ellesmere Port	Legal & General Investment Management, Leisure Fund Limited Partnership	170,000
14	Barbican Leisure Park	Plymouth	Legal & General Investment Management, Leisure Fund Limited Partnership	167,801
15	Crawley Leisure Park	Crawley	Aviva Investors, NU Linked Property Fund	163,772
16	Colonnades Leisure Park	Croydon	Cordea Savills Investment Management, Europa Immobiliare No 1	161,697
17=	Rubery Great Park	Birmingham	Bass Leisure Developments, Canada Life, Canada Life Investment and Property Services, Credit Suisse Property Investment Management, GE Pensions Unit Linked Portfolio, private investors	160,000
17=	Taunton Riverside	Taunton	Undisclosed	160,000
19	Leisure World	Southampton	Triton Property Fund, UBS Global Asset Management	157,024
20	Medway Valley Leisure Park	Rochester	M&G Property Fund, Prupim	154,991

SOURCE: TREVOR WOOD ASSOCIATES

« are still paying rent. But it is a failed concept. The wet-led circuit doesn't work out of town."

Leisure investors have to face up to lack of innovation. Every since leisure first went out of town in the late 1980s, a new pastime has sustained big box leisure. In the 1980s it was nightclubs, followed by multiplexes and high-tech 10-pin bowling.

The less flamboyant 1990s brought laser game operators and gyms to the secondary upper floors on leisure parks.

This decade has been one of consolidation and low risk taking. An investor's dream leisure park is a multiplex cinema surrounded by restaurant chains such as Pizza Hut or KFC (see box, below).

Children's soft play areas like Kidspace and Monkey Bizness, where children come accompanied by adults to use play equipment are one of the few innovators. But soft play is a diversified business of no particular covenant strength and can only pay low rents. The good news for leisure landlords is that soft play is growing tired of cheap industrial space, leased after a change of planning use, because industrial parks do not provide enough free parking.

Play space operators like the plentiful free parking on leisure parks and the fact that they can lease an old nightclub under its existing D2 leisure consent.

Investor in play

Monkey Bizness director Alex Cheney believes its covenant strength has been helped by Octopus Investments' "major investment" in the company. This has enabled the operator to lease 15,000 sq ft on the ground floor of a redundant nightclub in X-Leisure's Fountain Park in Edinburgh.

"We're going into what was a feeder bar for the nightclub. There used to be a Soccer Circus [football centre] there, but that didn't work out," says Cheney.

Monkey Bizness expects to get a rent-free period of between 12 and 18 months when it signs up for the ex-nightclub.

Cheney's fellow director, Jason Ward, adds: "We can't afford high rents, and we can't afford more than £8/sq ft all in – £6.25/sq ft for the rent and £1.75/sq for service charges."

So far Cheney and Ward have not had to break that rule. They negotiated for 18 months with Prupim to take a unit in its newly opened Swan leisure centre in Eastleigh, Hampshire. But they walked away when Prupim refused to budge on its £9.50/sq ft rent.

The future looks unpromising for big box leisure. Most new development is planned on the edges of town. The best bet for big box out-of-town parks seems to lie in a multiplex surrounded by a variety of restaurants the cinema-goers can visit before or after a film. ■

Coming soon: city blockbusters

The future of leisure property development is in the hands of the cinema industry.

David Bell, associate director of Savills, says there is a pipeline of 100 cinema-anchored schemes awaiting development between now and 2015.

But he adds: "It is only after the last five years that both local authorities and development groups have woken to the power of cinema to bring vibrancy to their shopping centres. But taking into consideration the current economic climate, the question remains how many will actually open."

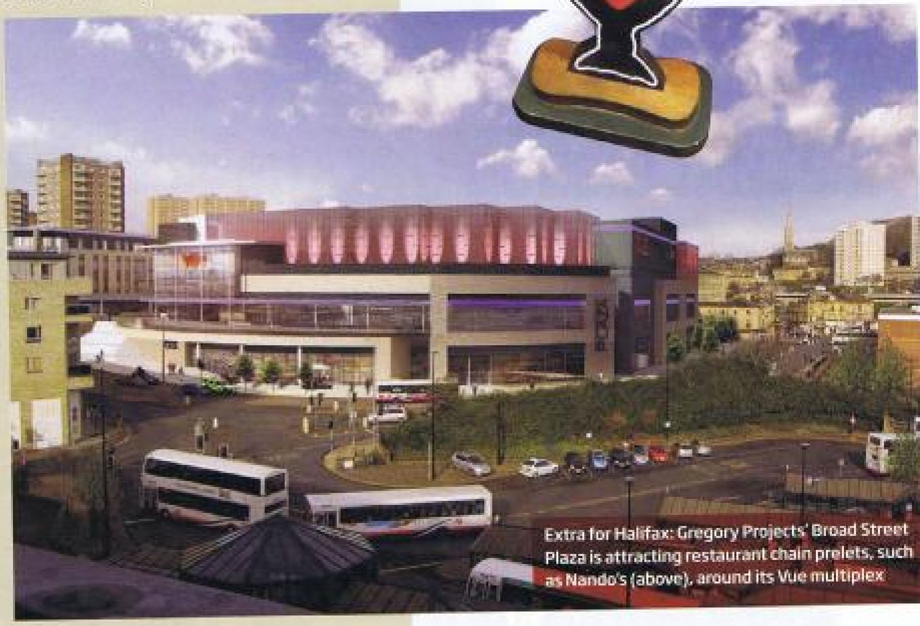
Most of the applications are for edge-of-town or town centre schemes. Next year a likely candidate for development is Broad Street Plaza in Halifax. Gregory Projects of Leeds has prelet three-quarters of the 280,000 sq ft scheme to strong covenants such as Vue Entertainments, which is taking a nine-screen multiplex, Premier Inn and its retail concept, Table Table.

The Plaza's letting agent, Nick Ferris, a partner in King Sturge, says he is now signing up restaurants that most commonly open near new cinemas, such as Frankie & Benny's and Nando's. He hopes to achieve rents of up to £22/sq ft.

All that remains is for Gregory to attract funding. It is talking to two banks for the scheme with an end value of £50m. One is the Yorkshire Bank, part of the Clydesdale, which in turn is owned by the National Bank of Australia that has suffered little in the banking crisis.

Barry Gregory, chairman of Gregory Projects, hopes to be on the site, once occupied by a pub and a supermarket in April. He expects to have senior debt in place before work begins at Easter. He insists that the scheme is viable because leisure rents have not fallen since the peak.

"The packages have been better for the tenants, but these goodies have been built in," he says. "The rent free has become part of the cost of the scheme. The scheme works financially."



Extra for Halifax: Gregory Projects' Broad Street Plaza is attracting restaurant chain prelets, such as Nando's (above), around its Vue multiplex

NANDO'S PHOTOGRAPH: DR STEPHEN DAWN