EAST MIDLANDS DEVELOPMENT AGENCY

MARKET APPRAISAL & ECONOMIC IMPACT ASSESSMENT OF A POTENTIAL LOCATION FOR A REGIONAL CASINO IN THE EAST MIDLANDS REGION

EXTRACTS FROM A FINAL DRAFT REPORT BY SCOTT WILSON KIRKPATRICK & CO LTD
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Contents

Appendices (not included)

1 Introduction

1.1 This report has been prepared to assist East Midlands Tourism (EMT)/East Midlands Development Agency (emda) develop a corporate position on the Birchall development. As such, the analysis has been relatively cursory and this report does not constitute a full impact analysis or a due diligence report and should not be relied upon as such. It does however reflect our professional opinion based on the available information from the sponsor and our knowledge of the UK leisure and visitor attraction market. It should be noted that the UK gaming market is undergoing major changes and evidencing future performance of these facilities is consequently very difficult.

1.2 The objectives of this review are to provide: -

i) An assessment of the Birchall Estate development, covering:

   a. job creation analysis;

   b. indirect benefits;

   c. delivery against RDA target framework; and

   d. overnight stays.

ii) An outline appreciation of other similar development options in the region.

1.3 The resulting outputs are intended to be an estimate of the likely economic benefits in the form of:

- overall jobs (Full Time Equivalents) created
- direct and indirect economic benefits
- delivery of other RDA targets such as learning opportunities
- tourism impact in terms of overnight stays and indirect benefits.

1.4 In the process of undertaking the study, a higher level of emphasis was place on a market assessment of the individual components of the proposed development, particularly in determining visitor appeal and market penetration potential.

1.5 As such, the study provides: -

- A summary of the Birchall Estate development.

- A market overview, including:
    - Day Visitor Market;
    - Overnight Visitor Market; and
    - Overseas visitor market.
- An appraisal of the market for each of the individual components.
- An appraisal of the impact on the development on tourism in the East Midlands region.
- An appraisal of the economic and employment (Full Time Equivalents) impact for the East Midlands region through direct, indirect and induced effects.

2 Background

Birchall Estate Development Summary

2.1 The Birchall Estate, which covers some 300 acres, is located on the outskirts of Chesterfield, and five miles south of Sheffield. It is also located near to the Peak District National Park, which can be accessed by means of footpaths and bridleways directly from the site.

2.2 The site is a former open cast-mining site, and forms part of the Former Coal Communities Action Area of North Derbyshire. In terms of positioning, the site is centrally located within the context of the main cities in England, with 5 of the 6 largest population centres within 70-miles of the site.

2.3 Raven Leisure Limited (RLL), who acquired rights to the site at the end of the open site period, wholly owns Birchall Estate. Planning permission has been granted for "a leisure centre consisting of a dome containing a hotel with indoor and outdoor related leisure and educational facilities, provision of accommodation lodges and a lake".

2.4 A master plan has been established to create the UK's premier all-weather entertainment and business resort, including:

- 2000 beds of holiday and overnight accommodation – 500 rooms from hotel accommodation; 266 woodland lodges;
- a world standard indoor waterpark – 12,000m^2;
- an exhibition and convention centre – 5,000-10,000m^2;
- a regional casino – 80 tables and 1250 slot machines, over 6,000m^2;
- an on-site spa facility;
- an 18-hole golf course; and
- a country club.

2.5 Altogether, it is anticipated that the project will cost in the region of £300million to develop.

2.6 RLL have entered an agreement a US Casino Operator who will act as the operator of the casino. Combined, the two parties have allocated £60million equity for the development of the scheme, with the remainder of the finance being through mezzanine finance, senior and subordinate debt. CIBC are to be the source of the debt finance.

2.7 Further discussions have taken place with operators for other components of the site, including Center Parcs for the woodland lodges; De Vere Group for the hotel; and with the operators of Earls Court & Olympia for the Convention Centre. It is intended that Raven will enter a management contract . The sales and lease of service plots will provide the balance of the equity required.

2.8 It should be noted that: -

- The 500-room hotel accommodation provision would represent the largest single site provision in the East Midlands. The site has actually been given consent for 2,000-hotel rooms altogether, and therefore has further growth potential in terms of accommodation stock.
- The 12,000m^2 waterpark would be the largest waterpark in the UK, with the Alton Towers Caribia Creek a third of the size.
- The planned convention space would represent the largest convention space within the EMDA region.
- Only one regional casino is currently planned for the UK, and would thus have a truly national audience. However, this may be reviewed once the initial regional casino is established. The market catchment of further regional casinos will ultimately depend on how many regional casino licenses are finally issued.

Birchall Estate – Review of Raven Leisure Limited Assumptions

2.9 Overall, RLL believes the Birchall development will be a major attraction that will have a wide-ranging audience appeal, the basis of which is formed on the various components of the offer that combine to create a 'resort destination'.

2.10 The development aims to appeal to both the leisure and the business, either for overnight stays or day visits.

- **Leisure market** - RLL are gearing the development to attract a more up-market group, either at the pre-family stage, families with older aged children (late teens), empty nesters and the newly emerging 'silver-surfers'. It is envisaged that these groups will be attracted by the range of leisure facilities provided, including indoor and outdoor water activities, golf, spa, and other country pursuits; and the ability to easily access the Peak District National Park, including via linked walkways, cycle ways and bridleways. Visitors will use both types of on-site accommodation, though families and friendship groups are more likely to steer towards the lodge accommodation.

- **Business market** – RLL, through the planned convention centre, believe their facilities will offer a new type of provision certainly for the East Midlands, if not further afield. The provision of flexible, moveable space will allow for a whole range of activities to be accommodated, including concerts and exhibitions. It is envisaged that these visitors will primarily use hotel accommodation, with RLL believing that the proposed 500 bedspaces could ultimately be insufficient. The benefit of using on-site accommodation for delegates and visitors is the provision of leisure facilities such as the waterpark, spa, golf course and countryside pursuits, which could also be utilised.

2.11 RLL have provided an estimation of visitor nights, which are as follows: -

- 181,700 visitor nights in a 350 room leisure-based hotel, based on an average 75% occupancy with 90% of rooms being double occupancy;
- 51,465 visitor nights in a 150 room conference hotel, based on an average of 75% occupancy, with 25% of rooms being double occupancy; and
- 252,945 visitor nights in the 266 lodge unit accommodation, based on an 80% lodge occupancy, of which 40% have 4 persons and 60% have 2 persons.

2.12 Combined, this brings the total number of visitor nights to 486,180 per annum.

2.13 With reference to concerns over some of the more negative aspects of casino gaming, RLL believe that the resort feel of the development would be the main emphasis rather than the gaming itself, and that the design would be of sufficient scale to provide separation of the leisure and gaming elements. A key emphasis of the final product will be of an 'entertainment and gaming' experience with an emphasis on evening culture, and which is relatively detached for the leisure and business components which will be utilised during the day.

2.14 Casino gaming is expected to be the key revenue earning activity on site. RLL's partner for the development and operation of the casino, has provided a breakdown of their revenue calculations. These are: -

- Conservative = £107.5million.

- Expected = 143.3million.
- Optimistic = 179.2million.

2.15 This projected range represents the project income from the casino alone. At its highest level, this figure matches the combined performance of Rank Groups 35 Grosvenor/Hard Rock Casino's in operation in 2003.

2.16 As a result of all the operations, RLL believe that Birchall will generate at least 2,500 direct FTEs, a large proportion of which will be borne of the casino (700). RLL have applied the Sherwood Forest Center Parcs' employment multiplier of 1:1.4 derived from a Henley Centre study, to determine that the overall benefits will be in the region of 3,500 FTE's.

East Midlands Tourism

2.17 Birchall Estate is situated in the East Midlands region, an area comprising of the six counties of Derbyshire, Leicestershire, Lincolnshire, Nottinghamshire, Northamptonshire and Rutland.

2.18 EMT, the regional tourism organisation, aim to develop tourism within the region. Key targets described by EMT's corporate plan 2005-2008 is to:

- increase visitor spend by £230million, over half of which (£122million) is to come from staying visitors;
- the creation of 7,500 new jobs;
- the creation of 1,500 new businesses; and
- move the East Midlands from its current position of eight out of the nine regions in the tourism league to sixth.

2.19 EMT believes that the region has a strong proposition, but that improving awareness of all of its assets is a key issue. In this respect, EMT outline in its tourism strategy that branding and marketing will be essential is defining and building a powerful set of destination brands, appealing to clearly defined customer segments.

2.20 In addition, the Strategy also seeks investment in products and experiences that relate to the lifestyles of contemporary visitors and are capable of attracting high value visitors.

East Midlands Visitor Market Overview

2.21 The following sections provides the market context for the Birchall Estate development, and identifies:

- the current tourism setting in terms of key assets of the East Midlands Region,
- the day visitor catchment and characteristics; and
- the overnight visitor volume, value and characteristics.

Tourism Setting

2.22 The East Midlands region provides a range of tourism opportunities, with the strength of its offer mainly in relation to its the mix of countryside, coastline and heritage attractions.

2.23 The key tourism assets of the region are the Peak District, the UK's first National Park which receives 30million visitors a year; and Sherwood Forest.

2.24 The region has few large-scale built visitor attractions. According to Visit Britain's Visitor Attractions report for 2003, the key visitor attractions in the region are:

- Wicksteed Park – 750,000 visitors in 2003 (individually priced rides);
- Chatsworth House – 687,000 visitors in 2003 (admission charging); and
- Twycross Zoo – 476,000 visitors in 2003 (admission charging).

2.25 Wicksteed Park, as free to enter attraction, is the only East Midlands attraction to generate a high proportion of visitors, and appears in the top 20 free admission attractions in the UK. In contrast, the main visitor attractions in the UK are Blackpool Pleasure Beach (6.2million – individually priced rides), the British Museum (4.5million – free); the National Gallery (4.3million – free) and the Tate Modern (3.8million). The main admission charging attractions in the UK are the London Eye (3.7million); Alton Towers (2.5milllion); and the Tower of London (1.9million).

2.26 The remainder of the attractions in the region receive fewer than 200,000 visitors.

2.27 In terms of accommodation, the region also lacks a high proportion of high quality hotels. A brief review of accommodation establishments has revealed that the region does not have any 5* rated hotels. However, the region does have a limited number of branded 4* operations including De Vere, Marriot, Menzies, Holiday Inn and Moat House. Each establishment has a bedroom capacity of between 100 and 188 rooms (Holiday Inn, Leicester City). Most of the more up-market hotels have associated Spa and Health facilities. Only a hand-full have on-site golf provision.

2.28 Nearly all 3* and 4* hotels in the region offer some form of meeting and/or conference facilities.

2.29 The most high profile destination resort in East Midlands is the Center Parcs development at Sherwood Forest.

Volume and Value of Tourism to the East Midlands

2.30 The overall worth of tourism to a region is derived through the combined worth of domestic day visitors, domestic overnight visitors, and overseas overnight visitors.

2.31 The following section summaries the main findings of Appendix 1 (Visitor Markets).

2.32 Overall, the East Midlands region receives 348million day visits and 10.6million overnight visits, with a combined worth of over £6.6billion to the local economy (table 2.1).

Table 2.1

Volume & Value of Tourism & Day Trips to the East Midlands Region 2003

	Trips (m)	Nights (m)	Spend (£m)
Day Visits	348	-	£4,960
Domestic	9.6	28	£1,352
Overseas	0.96	6.6	£291
Total	**358.56**	**34.6**	**£6,603**

Source: UKTS, IPS, Day Visitor Survey 2004

2.33 The comparison with other regions shows that the East Midlands:

- has a visitor catchment of nearly 3million within a 60-minute and over 15million within a two-hour drivetime. This represents a large catchment, and includes four of the England's largest cities with the exception of London.
- is ranked eighth out of the nine English Regions for day visits, though spend per head of tourism day visits (3 hours+) is higher than average (£33.20).
- has a higher than average proportion of day visits to the Countryside (31%) within the region, with a strong link to the Peak District.

- is ranked eighth out of the nine English Regions for volume of domestic overnight visits.

- is ranked is ranked seventh out of the nine regions in terms of volume of overseas visits.

2.34 Despite the comparison showing a relatively weak position of tourism for the East Midlands, its value to the local economy is demonstrated by the fact that the spend of all visitors directly supports 7.5% of the total workforce in the region, with the direct and indirect benefits of the visitor spend actually worth 4.1% of the region's GVA.

Tourism Overview

2.35 In an increasingly competitive and sophisticated market, it is imperative that the tourism product and offer is maintained and enhanced.

2.36 Despite the comparative low performance in terms of volume and value of tourism, the actual impact of the sector is considerable in terms of employment and revenue for the regional economy.

2.37 One of the key weaknesses of the East Midlands as a tourism destination is that it lacks an iconic city or major visitor attraction to raise its profile to a wider or new audience. The Peak District and Sherwood Forest remain the regions main tourism assets, but further utilisation of these environmental resources could be detrimental by putting greater pressure on already sensitive areas.

2.38 In order to boost volume and value of tourism in the region, and match emda's tourism aspirations, new investment is required in unique offers that are distinguishable from the regions' other assets but is also complimentary.

2.39 The Birchall Estate development certainly provides one such opportunity. This is a unique proposition for the region, and would provide a new resort destination for both the leisure and business market. The advantage of the outline proposition is that it is an all-weather destination and would thus be an all year destination, and less subjected to tourism seasonality.

2.40 In addition, the catchment is of a significant size from which to draw day visits, and all of the surrounding regions are significant generators of day visits. The unique proposition, particularly from the casino and the on-site leisure facilities, has the potential to generate further day visits for the region.

2.41 The casino element is dependent upon obtaining the regional license, of which there is only likely to be one issued at least in the immediate future. Wherever the license is granted, and on the basis that only one is granted, the regional casino is likely to be of national rather than just regional significance in terms of market penetration.

2.42 Finally, whilst there is representation of both accommodation types within the region, there is still sufficient demand and scope for furthering the accommodation stock of high quality hotels and lodge accommodation.

2.43 Estimation as to the potential impact of the Birchall Estate development in terms of volume and and value is detailed further in Section 5.

3 Observations

Product-Market Mix

3.1 The following sections outline some observations about the product mix and the possible impacts that this could have on the development.

3.2 The project as outlined is still clearly at the final stages of the concept development, with some of the details about the types of facilities to be included still unclear, with RLL continuing to initiate discussions with various operators to determine how best to utilise the site. In this respect, we would advise that careful consideration is given to the design and traffic flows of the final proposition to ensure the successful integration of the different components with regards to the different markets, especially with the addition of the casino.

3.3 To place our views in context, the following is a quick synopsis of the market dynamics for a proposition both excluding and including a regional casino.

Concept excluding Casino

3.4 The hotel and lodge accommodation, mixed with the spa and 'activities' (waterpark and countryside pursuits) builds upon a proven market opportunity.

3.5 Center Parcs offers a local example whereby the combination of lodge accommodation, on-site activities and spa offer work successfully in tandem. Likewise, the more up-market hotel establishments are expanding into both the spa and leisure sector, both to attract greater overnight trips, and attract day visitors to utilise on-site facilities and therefore drive revenues. In addition, Alton Towers provides a successful case study of the amalgamation of a hotel and waterpark, which has helped to build the UK's first theme park resort destination.

3.6 The Birchall Estate proposal, therefore, presents a development that combines the leisure and spa facilities with both accommodation types. Whilst this is not a totally unique offer, with De Vere building luxury lodge accommodation on a small number of their hotels (including Belton Woods, Lincolnshire), it does represent an early opportunity for the East Midlands to develop this type of proposition on a large scale.

3.7 In addition, it appears that the waterpark and countryside pursuits will be open to the local catchment. The provision of the waterpark provides a unique component which could attract an audience from a relatively wide catchment (60 minutes), and act as a leisure day visitor attraction in its own right particularly drawing upon the large catchment of Sheffield.

3.8 Market positioning will be crucial to attract consistent audience typologies for the combined elements. In summary, we feel that these are:

- affluent couples, pre-family and empty-nesters looking for pampering and relaxation short breaks, and activities – overnight visitors staying in hotel & lodge accommodation, and day visitors using spa and on-site activity facilities;
- affluent family and friendship groups on short breaks looking for relaxing breaks or activity breaks, and as a base for visiting the Peak District – overnight visitors staying in lodge accommodation; and
- business market utilising the on-site conference facilities – overnight visitors staying in hotel accommodation and day visitors for conference events and meetings.

Concept including Regional Casino

3.9 The addition of the regional casino brings a different dimension to the general mix.

3.10 Casinos represent a form of gambling, and although gambling is a substantial industry in the UK, it has certain negative connotations attached to it, i.e. associations with crime and social deprivation, particularly for those who become clinically addicted to gambling. Whilst there are exceptions to this - the National Lottery as the money is going to a good cause; and bingo which is seen more as social entertainment than gambling by participants – casino gaming, possibly because of a lack of public exposure and scope for high personal losses, receives very little in the way of favourable attitudes in the UK (see Section 4).

3.11 The more mature gaming industry in the US has generated a more acceptable image for casino gambling, but this has only been realised over time and through considerable cost in complimentary products. Las Vegas for example is now regarded as a holiday destination, including for families. This has been achieved through mixing gaming with nightlife entertainment and show-biz glitz and glamour (current acts include Elton John, Gladys Knight, Aretha Franklin and Avril Lavigne); and the introduction of theme-park style rides and attractions (Adventure Dome at Circus Circus Hotel; Manhattan Express at New York-New York; Insanity-The Ride at the Stratosphere). The theme for Las Vegas, therefore, is very much geared towards entertainment, thrill and excitement, of which casino gaming forms a key activity for visitors.

3.12 The development at Birchall, with the exception of the casino, is geared towards an up-market offer appealing to families and young affluent adults, seeking a relaxing, pampering and self-satisfying experience. The addition of the casino, with a more entertainment focus mainly geared around nightlife, and delivering emotional extremities (win = high; lose = low), does not appear to continue this theme, certainly at first glance.

3.13 Due to the lack of market information detailing the characteristics of the UK casino gamer, it is difficult to predict the impact that this could have on typologies of visitors to Birchall Estate. However, we feel that the affect that this could have on the other components of the mix is as follows: -

- Casino, Hotel and Spa – short break, emphasis on gambling with a pampering element. This could appeal to a similar market as described above, but would rely on those who have a propensity to gamble which, according to our market intelligence, could be smaller – i.e. only 4% of the adult population currently game in casinos.
- Casino, Lodge and Spa – in our opinion, it is unlikely that families with young children will find this type of offer appealing, particularly in light of social pressures and the heads of the family are unlikely to want to expose their children to gambling.
- Casino, waterpark and country pursuits – all of these would be predominantly aimed at attracting day visitors, and are unlikely to be effected.
- Hotel and conference – with a likely shift away from a leisure-based market, the business and conference market would become the key market base to drive hotel occupancy, and therefore will require a high level of residential conferences.

3.14 RLL is confident that the composite mix of the development will combine well and will appeal to the preferred audience on a wide range of fronts. RLL also stress that whilst gambling forms a significant component, it is by no means the prime focus. In particular, the developer is gearing the offer towards the activity/spa market through the provision of on-site facilities on the one hand, and towards convention/corporate sector on the other.

3.15 In the absence of wider market information, we would recommend that this be tested through further investigations into the proposed market segments within both the immediate and wider areas. This would provide a more detailed insight into the likely penetration into the market of the individual components. We would also recommend that detailed designs of the complex are progressed further to demonstrate the entrance gates for the different components, the likely movement around the complex, and the potential cross utilisation of the different components.

Other Casino Proposals

3.16 There are a number of other casino development proposals that emda are aware of to date. As part of this exercise, emda have requested a brief comment on whether Birchall Estate provides the best opportunity for the region in terms of attracting a regional casino license.

3.17 In our opinion, Birchall Estate certainly represents the most developed proposition in comparison to other proposals identified within region, with a viable masterplan detailing the concept and having financial backing.

3.18 The Estate also benefits from local support, having outline planning permission; the development of the Green Travel Plan, and having the proposal mentioned in the Second Deposit draft of the Chesterfield Local Plan. Both Trinity Court and the Former Co-op site in Nottingham have also been granted planning permission for a mixed-use development. However, none of the other developments can lay claim to this kind of authority support.

3.19 The other sites identified tend to be in inner-urban locations. There are pros and cons to both the urban locations, and the rural location proposed. The regenerative benefits to the wider community would probably be more keenly evident in an urban location, whereas a rural location would negate some of the negative social impacts of the gaming industry and the likelihood of impulse gambling, for example. It is, however, beyond the scope of this study to complete a full comparison of the benefits of positioning a regional or large casino in rural location over an urban location, and visa versa.

3.20 It is our opinion that Birchall Estate presents the most viable opportunity for the East Midlands to pursue a regional license. However, a license for a large or small casino would probably benefit from a more urban location, not least because of the fact that it would be more likely to appeal to a more localised audience rather than have a regional or national market potential.

4 Summary and Conclusions

Summary

4.1 To summarise, we feel that the proposal for the development of Birchall Estate into a multi-faceted leisure and tourism complex represents a great opportunity for the East Midlands to strengthen its product offering and generate increased volume and value of both overnight and leisure day visits.

4.2 Individually, all of the components represent growth opportunities for tourism in emda. In particular:

- the region lacks high quality hotels;
- further expansion of convention and conference facilities is possible, certainly on the strength of the current business market;
- the market is far from being saturated in terms of lodge accommodation;
- the on-site leisure activities, especially the waterpark, would open up the region to greater numbers of day visitors; and
- the regional casino is a new concept for the UK market as a whole.

4.3 The combination of the different components, therefore, represents a unique proposition that is likely to attract various market elements, such as:

- hotel, lodges and activities = short stay market, young couples, pre-family and affluent families with older children, predominantly domestic;
- conference and Convention Centre = both residential and non-residential, mainly domestic though high profile events/concerts could attract audiences from overseas;
- on-site activities = could attract day visitors up to a 60-minute drivetime, and therefore pull visitors in from surrounding districts; and
- casino = could generate a high level of interest from gamers across the UK to generate overnight visits, and day visits within a 60-minute drivetime.

4.4 The economic impact of the development could be far reaching. We anticipate the development alone to attract between 300,000 to 370,000 additional bednights (based on current capacity predictions).

4.5 Overall, the economic benefit of this, plus the additional day visits, will be the generation of between £65million and £115million in new spending directly on the facility. This in turn is predicted to support or create between 4,000 and 5,300 FTE's for the region.

4.6 Furthermore, between 125,000 and 241,000 additional bednights could be generated for the benefit of other accommodation providers in the region.

4.7 As an important aside to this, the development could be used as a potentially iconic development for the region, such as the Eden Project for Cornwall, the Bullring in Birmingham, or the Sage in Gateshead. The Birchall Estate, with its unique 'dome' design, could be utilised to focus new attention on the East Midlands and raise its profile. From this, linkages could be made to the other unique leisure and tourism features and facilities in the East Midlands that at present suffer from a lack of exposure. Moreover, the development would epitomise the aspirations of the East Midlands, and if successful would demonstrate an enthusiasm for major investment within the region.

4.8 To date, RLL have invested considerable time and money in developing the current proposition, and it constitutes the most progressed plan that includes a 'casino' element in the region. The addition of the casino, however, creates a new dimension to the overall offer. Having examined the different elements and their core markets, we would recommend that further investigation is needed to determine the likely perceptions of the casino amongst the target audiences for the different components (e.g. a families with older teenager; affluent couples, pre family; empty nesters).

Conclusion

4.9 Overall, it is our professional opinion that the development proposed at Birchall Estate should be supported by emda both in terms of its benefits the regions leisure and tourism sectors and due to the economic benefits that are projected to arise.

4.10 It is important to note that our analysis has been conducted independently and is based on a series of assumption taken from our understanding of the market. In terms of the casino, it is difficult to determine a likely scenario due to the fact that the UK as a whole market remains tried and untested in this sector. Current information gathered by the government demonstrate a large proportion of the adult population have unfavourable attitude towards the prospect of casino gambling under deregulated conditions. This suggests that current market conditions may prevail.

4.11 However, increased exposure to casino gaming could lead to greater acceptance and increased penetration, with betting shops and more recently internet gambling demonstrating the interest that exists for gaming in the UK.

4.12 It is for this reason that the range of visitor levels and economic impact envisaged under our investigations are so broad, but it should also be noted that this breadth of impact is consistent with the proposed operator's own turnover predictions.

4.13 We feel that, even at our most conservative estimate, this development has great potential in terms of raising the profile of the East Midlands to a much wider and broader audience, being a key employer in its own right, and in support a significant number of jobs in the wider economy both in its construction and in its operation.