

Ms J Atkinson
Strategic Development Directorate
Manchester City Council
PO Box 532
Manchester
M60 2LA

Date: 23 September 2020

Ref: 073-004

Email: [REDACTED]

Dear Ms Atkinson,

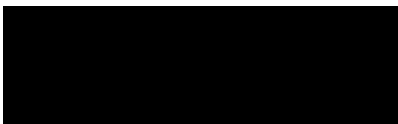
Oak View Group Planning Application Reference 126431/FO/2020
Erection of a multi-use arena with ancillary retail/commercial uses in Eastlands

We have now seen the 900+ consultation responses uploaded to the portal and note that you did commission a report (from Hatch) to review the respective market growth forecasts, which are so critical to the applicant's justification for this major out of centre proposed development.

However, on reviewing the Hatch report, unfortunately, we quickly realised that it had not been prepared with the benefit of seeing our 1 September submission, which included various points of clarification from Charles Rivers Associates (CRA) which very much reiterate their position - that the OVG forecast does not provide a reliable or credible basis on which to determine this application. And nor is this picked up in your officer's report.

In the 24 hours we have been given to review this, CRA has prepared the attached note which addresses these points (again) and we respectfully ask that this be brought to Member's urgent attention because, at present, the report does not present a balanced consideration of this critical issue.

Yours sincerely,

A large black rectangular box redacting the signature of Bill Davidson.

Bill Davidson
Director

enc: CRA note 23 September

Memorandum

From: CRA

Date: September 2020

Subject: CRA response to submissions by "Hatch"

*We have been asked to review and respond to a report by "Hatch"¹ which makes some observations on our analysis. The Hatch report predates our second submission ("**CRA 2**")², however, and, as such, does not take account of the analysis therein. In summary, none of Hatch's observations alter the conclusions of our prior submissions and all of them are dealt with by the discussion in CRA 2. The observations made by Hatch are either incorrect or based on a misunderstanding of our prior submissions which, once corrected, shows that there is no inconsistency in our prior conclusions. We set out more specific rebuttals below quoting the key observations made by Hatch before responding to them.*

Hatch Observation 1: *"CRA suggest a stark contrast between the 0.3% historic ticket sales growth in the UK between 2014 to 2018 versus and the "3.7% to 5.7% per annum growth rate" that underpins the Ekosgen approach. We are unsure how CRA have arrived at the range 3.7% to 5.7%. The actual UK wide growth rate that Ekosgen use under their central Scenario 2 is 2.5% across all categories. So the comparison should read 0.3% historic annual growth versus 2.5% annual growth in the Ekosgen central scenario"*

CRA Response: first, a difference of 0.3% versus 2.5% already means that historic growth has been multiplied by more than 8 by ekosgen to arrive at their assumed growth scenarios for the UK large arena market. Second, 3.7% to 5.7% is the relevant estimate to consider as it relates to the market growth estimated by ekosgen *in Manchester* and used to claim that there will be enough demand growth to double arena capacity in Manchester. According to ekosgen, this is meant to be driven from general UK arena market trends that should then get allocated disproportionately to the Manchester area. In reality, actual UK-wide market growth has been 0.3% over 2014-2018. If we look at Manchester specifically, it has even been negative. (See *CRA 1, slide 4*). Similarly, if we extend the period of analysis over 10 years, from 2009 to 2019, UK arena market growth is non-existent (*it is negative again, see CRA 2, table 1*). These are facts and with these in mind our observation is simply that actual data does not support the growth claimed by ekosgen. As we show in our first report (**CRA 1**)³ and CRA 2, ekosgen's scenarios are rather constructed from a series of successive assertions which, taken together, transform a flat trend (actual data) into rapid exponential growth.

¹ Hatch report "Proposed New Manchester Arena : Review of Market Demand Evidence" dated 2 September 2020.

² CRA report "CRA supplemental report on the proposed new arena in Manchester" dated September 2020.

³ CRA report "Economic analysis of Manchester Arena Market – Response to PwC and ekosgen reports" dated June 2020.

Hatch Observation 2: *“There are a number of points to consider when assessing this comparison: The historic growth of 0.3% per annum was based on a relatively short period between 2014 and 2018, and is subject to short term events. For example, if Peter Kay had not unexpectedly cancelled the circa 50 Arena events due to family reasons in 2018 the growth figure for the arena market nationally for 2014-2018 would have increased to circa 1.5% per annum. Whilst some of the uplifts applied by Ekosgen are indeed assertions, as argued by CRA, they are in the main reasonable assertions, as follows:*

- *The upward adjustment to the “other” category is entirely reasonable and reflective of the one-off shock to ticket sales caused by the Peter Kay cancellations.*
- *The upward adjustment from 0.5% to 1.5% for the music category reflects the growing popularity of new format music events such as indoor music festivals and new genres of music events (KPop / JPop etc).*
- *The above upward adjustments are balanced out to some extent by Ekosgen taking a more cautious view of growth in the sports sector. Ekosgen assume growth of 8% per annum, lower than the historic growth rate of c11% per annum – and despite the rapidly growing market for e-sport events.”*

CRA Response: We have addressed each of these points in CRA 2. See below for an overview of our response.

- First, it is not correct that population growth has been overlooked in our report. If anything our results based on historic growth are conservative as we show in CRA 2. Indeed it is true that the population is expected to grow, but it also grew in the past. In that sense, projecting past growth in attendance would only be downward biased if one expected UK or Manchester population growth to increase more in future years, but in fact the Office for National Statistics predicts the opposite. Thus our predictions are already (conservatively) accounting for the effect of population growth on arena attendance trends.
- Second, CRA 1 is criticised for using a four-year time window to make forecasts. Preliminary remark is that this was not our decision, but rather the window used by both PwC and ekosgen. But more importantly using a longer time window actually shows lower – even negative – trend attendance growth rates (see Figure 1 in CRA 2) and makes the ekosgen and Amion forecasts look even more implausible.
- Third, and as Hatch concedes, the analysis is predicated on assertions. As such they are not grounded in any hard fact or data and one could equally make opposite adjustments or assumptions which would lead to different conclusions and would be more consistent with past experience. Our position is that any adjustments need to be substantiated. This is particularly so when these assertions allow ekosgen to turn a flat trend (10-year of real data) into scenarios whereby the market will double or even triple⁴ by 2030.

⁴ See Amion report and Figure 1 of CRA 2.

- Fourth, the Peter Key discussion is irrelevant. We detail our response in CRA 2 (see pages 9 and 10). First, artists cancel events every year and such cancellations will continue to occur in the future and the New Arena will not be exempted from unpredictable event cancellations. More importantly, our conclusions are identical even if we exclude 2018 from the analysis and replicate our analysis by computing the average year-on-year growth between 2014 and 2019 instead. We can also extend the analysis over a 10-year+ period if we are concerned the 2014-19 period is too limited. Then we find that the market has declined. Thus our findings are robust and certainly don't depend on a single data point. Conversely, Ekogen's analysis *does* rely on peculiar events and assumptions to dismiss negative or low growth figures. It is this selective approach of data and assumptions that leads to unrealistically optimistic growth scenarios (see figure 1 of CRA 2).

Hatch Observation 3: *“Hatch are content that the Ekosgen distribution method – which sees 20% of all UK growth absorbed by Manchester – is reasonably robust. Whilst it is in excess of the current market share that Manchester captures, it is important to note that almost half of the overall UK growth is predicted in the sports markets. With the New Arena explicitly targeting this market sector, then it is reasonable to assume that Manchester will secure more market share than has historically been the case.”*

CRA Response: similarly those are assertions not facts. While it could be the case, it needs to be substantiated as are not neutral or “innocent” claims. Combined, these four assertions are: concert genre growth will triple (1.5% as opposed to 0.5%), sports will continue to grow significantly up to 2035, the negative growth in the “Other” category (whose contribution is larger than sports) can be dismissed and can be seen as an “anomaly”, and Manchester will capture 20% of the resulting UK level market growth. It is the combination of those four assertions – and not data analysis – that leads to a hypothetical world whereby the Manchester market will more than double by 2030.

Hatch Observation 4: *“Hatch also draws considerable comfort from the additional Amion analysis, which shows the Ekosgen growth estimate of +1.27M tickets per annum to be somewhat cautious. We agree in full with the Amion suggestion that simple population growth will drive growth of circa 0.25M alone. The demands of a rapidly growing population base were somewhat overlooked in the original application materials. In addition, the idea that the presence of an entirely new facility will (i) drive a slight uplift in frequency of existing arena visitors and (ii) attract new/lapsed audiences are both plausible. The Amion quantification method for both these aspects appears robust and is based on a sizeable population survey.”*

CRA Response: the issue of population growth has been addressed above already. We refer to our latest CRA 2 report for a detailed assessment of the reliability of the Amion report. In a nutshell:

- The growth potential predicted by Amion is even less realistic than Ekosgen's forecasts. It implies that attendance will more than triple in Manchester by 2035. As with Ekosgen, this forecast contrasts starkly with historic growth of the past 10 years which indicates at best a 5% increase by 2035. While one might foresee some acceleration in growth, assuming the market will triple in attendance is unrealistic based on facts and lacks credibility.
- Amion's growth estimate relies on a consumer demand survey that is not adapted for the purpose of predicting demand growth.

- Survey responses can be easily manipulated. The one used by Amion provides unprecise answers from which subsequent questionable assumptions are made. The survey suffers from what statisticians call an “acquiescence bias” which is “where the customer thinks they should agree with a statement included in the question and therefore does so”. One salient example is when the survey asks “how interested” people would be to visit the New Arena. “How interested” suggests you should be interested. A proper survey needs to be neutral to avoid influencing responses. Another good example: it is assumed that people who did not attend an event in the past five years will attend events at the New Arena if they declared in the survey they were “interested” in attending certain types of events in a given venue. We note from the Amion report that “survey respondents were shown visuals of the new arena and given a description of the proposed offer”. We have not seen those visuals or description of offers, but it is clear that these will strongly influence the respondents’ answers.
- Unjustified assumptions are made on top of survey responses to calculate the “growth potential”. Continuing with the same example: for those people who usually do not attend events but are “interested” in the New Arena, it is further *assumed* they will attend once a year every year. There is no basis for that frequency of visit. Declaring that you are “interested” in a venue does not imply that you will attend that venue once a year every year. You might actually not visit at all, or may just be “interested” enough to visit it once, as a “one-off”, especially if you do not usually go to concerts or entertainment events. Similarly, Amion assumes that the frequency of visit will increase by 3 visits every 5 years for those who already visited an arena. This is a pure speculation – the number is not estimated from the survey responses and no evidence is provided to support this assertion. In conclusion the growth is again assumed/constructed from a questionable survey combined with arbitrary assertions.

Hatch Observation 5: *“Data on the ratio of the arena seat per head of population is not a major feature of the application materials, but does feature in the ASM representations. The CRA report, on behalf of ASM, introduces data on this topic (see p5 of pdf, and Figure 5.1 below). CRA suggest that Manchester is already better served than all other comparator UK cities at 6.0 seat per 1,000 population. However, CRA fail to add together the data for the two Birmingham venues (which together amount to nearly 10.0 seats per 1,000 population) and for the two London venues (which together amount to over 10.5 seats per 1,000 population). In addition, both Birmingham and London are likely to expand their seat capacity in the coming period. This is outlined in earlier sections on this report. These expansions would push the ratio for these two cities yet higher. Rather than show that Manchester is well served, the CRA data actually shows Manchester is underserved relative to comparator locations.”*

CRA Response: this is incorrect and denotes a misunderstanding of our analysis that is more sophisticated than what is suggested above. Once properly understood, there is no inconsistency in our analysis/ We address in full this misconception in our CRA 2 report, but in summary:

- It is claimed that the analysis for Birmingham should combine both the Resorts World and Arena Birmingham and that London arenas should also be combined showing a capacity now of 32,500, which would then show that Manchester is underserved.

- This argument is unsound and reveals a lack of understanding of the original analysis. Our analysis is based on the average number of seats available for customers located in the catchment of a given arena, but accounting for all the surrounding arenas. That means if people can access many arenas because they are in the catchment of multiple arenas, like in Birmingham or London, all the relevant arenas’ capacities that are “within range” will be counted. This is explained in detail in the Annex of CRA 1.⁵
- In plain terms, our original analysis for each of the two Birmingham venues already takes account of the fact that there is another large venue in Birmingham. Summing the two Birmingham venues’ capacities together (as Hatch propose) would be incoherent as it would mean that venues in Birmingham would be “double counted” exaggerating the level of arena capacity in a way that did not accord with reality. Taking the Resorts World Arena as an example: its capacity is 15,685 seats and its catchment includes 6.2 million people (see PwC report, slide 49). That is a number of seats per 1,000 persons of **2.5**.⁶ Our analysis – see slide 5 of CRA 1 or Figure 4 of CRA 2 – shows an average number of seat per 1,000 persons of **4.7** that is almost twice as much. The reason is precisely that we also account for the capacity of the Birmingham Arena (15,800 seats) and the fact that the two arena catchments overlap significantly since venues are close by. The same would be true of our analysis of London venues.
- **Our analysis is therefore finer and more precise than what is suggested by Hatch and shows that Manchester is already well served with a number of arena seats per 1,000 persons that is already higher than any other catchment area of other UK venues. The reason is that the MA catchment overlaps with many surrounding large venues in Liverpool, Leeds and Sheffield. As a result, many people in the Manchester catchment have multiple arena choices.**
- Note that Deloitte also claims that based on our analysis Birmingham has c.10 seats per 1,000 persons (Resorts World plus Birmingham Arena) as does London (the O2 plus Wembley) whilst by comparison Manchester only has one arena with 6 seats per 1,000 people. This flawed conclusion is due to the same lack of understanding of our analysis. **Again, we already account for both venues’ capacities in London or in Birmingham. However, our analysis is more precise than just crudely “adding” both capacities.** Taking London as an example: our analysis considers – for each person located in a given catchment (The O2’s or Wembley’s catchment) – the different options available i.e. The O2 only, Wembley only, or both venues. If both venues are “within range”, then both venues capacities will be added in our calculations. Deloitte’s and Hatch’s argument is thus misplaced due to a lack of understanding of what is presented in CRA 1, as explained in CRA 2.

Hatch Observation 6: *“CRA look at this topic through the lens of acts that played London O2 but not Manchester. The CRA report suggests the applicant states that the New Arena “could be filled with the c35% (specifically 37%) of events that currently play London but not Manchester” (CRA p8 of pdf). Hatch can find no claim of this nature in the application materials.”*

CRA Response: this claim can be found slide 42 of PwC’s report “OVG Manchester, Due diligence report Volume I: UK Arenas and Manchester market overview, PwC, 2 March 2020”. It sets out amongst other things the “proportion of acts which played to O2 playing other UK arenas”. We note in passing that PwC’s own analysis shows that The Manchester Arena already does better than any other UK

⁵ See CRA 1, slide 52.

⁶ (15,685/6.2/1000)

venue in attracting events that also play London (with the highest overlap proportion of 64%, i.e. from 2014-18 out of the 360 distinct acts that played the O2, 64% also played the Manchester Arena).

Hatch Observation 7: *"Notwithstanding the above, CRA include some helpful quantified data on the events that played London but not Manchester in 2019 and the reasons they never played Manchester. CRA argue that only 3 percentage points of the 37 percentage points is due to the event being unable to find a suitably attractive venue in Manchester. They argue that much of the remainder are London-centric events that would never come to Manchester for a variety of reasons. Hatch have two viewpoints on the CRA data:*

- *First, we believe CRA are too dismissive of the potential for Manchester to secure what they describe as "London centric" events. The whole premise of Manchester's drive to be a top 20 global city and the UK government's levelling up agenda is to challenge the current relativities between London and the rest of the UK. Capturing events that have historically been seen as in the possession of London is a key part of Manchester's growth agenda.*
- *Second, there is a disconnect between the ASM ambition to invest circa £100M in the existing arena to attract a more diverse set of larger events and the arguments advanced by CRA. The "London centric" events acts that CRA appear dismissive of are presumably the same types of event that a refurbished Manchester Arena would be seeking to secure."*

CRA Response: Hatch explains that capturing events seen as in the possession of London is a key part of Manchester's growth agenda. We do not debate it can be part of an agenda but it still needs to be likely and supported by facts. As with other claims it rather seems to be an assertion. It could be that hypothetically some events would then play in Manchester but our position is that this assertion is not evidence based. While anything can be "assumed" ASM have conducted a detailed and systematic review of those events demonstrating that the Manchester Arena already does better than any other UK venue in attracting events that also play London and that among the remaining ~35% the most common reason to not play Manchester in the same year is not the arena itself. So the applicants' claim appear unfounded and we have provided evidence showing that it *more unlikely than not* that the new venue will attract a significant proportion of the remaining ~35% of events which currently play London but not Manchester.