FINAL MEMORANDUM

To: Paul D. Barnes, City of Lincoln, Nebraska

From: Economic and Planning Systems, Inc.

Subject: Lincoln Cinema Market Analysis; EPS #164010

Date: September 14, 2016

The Economics of Land Use

This memorandum evaluates market conditions and trends within the Lincoln movie theater market. Economic and Planning Systems, Inc. (EPS) prepared this analysis to assist the City of Lincoln assess the implications of proposed changes to the municipal code that would relax certain restrictions on movie theater expansion in the City.

The analysis is based on data and information from a variety of sources referenced throughout, including, without limitation, the following:

- Information and data provided by the City of Lincoln and the County of Lancaster related to existing and proposed zoning and local demographic trends;
- Data from Marcus Theatres related to their existing cinemas and admissions;
- Interviews with local stakeholders, including the Downtown Lincoln Association and shopping mall operators;
- Internet research related to national trends in movie exhibition and case studies of other cities. **Appendix A** provides an overview of national key trends relevant to the Lincoln market; and
- In-house EPS professional expertise and data gained from work on similar consulting assignments.

The conclusions are based on conditions and outcomes that are reasonably foreseeable over a ten (10) year period given national trends in movie exhibition, distribution, and technology as well as local demographics and other factors affecting the Lincoln cinema market. Given the inherent uncertainty with these and other variables over time, actual outcomes may differ from those presented in the findings below.

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Policy Context

The City of Lincoln is currently considering changes to existing theater restrictions by altering limitations on screens and outlets in the B-2, B-3, and B-5 districts. The City's existing policy allows cinema development within two business zones, B-4 and B-5. The B-4 districts have no limits to the number or size of theaters and require no zoning approval. The B-5 zone currently allows six screens or less per cinema, one cinema per B-5 district, and requires a use permit issued for 400,000 square feet or more of commercial floor area.

A proposed policy amendment under consideration would add business districts B-2 and B-3 as areas that would allow cinema development (B-4 and B-5), so long as there is only one cinema per district, no more than four screens per cinema, and 250 seats per cinema (see **Figure 1** for illustration of affected districts). Cinemas in the B-2 and B-3 districts are also required to have an in-cinema restaurant with a full service menu. In addition to expanding the geography of districts that allow cinemas, the proposed amendment also removes screen limitations for B-5 districts. Other modifications to the existing cinema policy may be proposed and considered.

Lincoln has had a theater policy of some kind in place since 1984, as illustrated in **Figure 2**. In 2005, the City of Lincoln re-affirmed a long-standing policy limiting the number of movie theaters and screens that can be operated in the City. The policy was part of a larger effort to encourage transition of Downtown into an entertainment destination. The decision was justified in part by a 2005 study, which assessed the market feasibility of a new multiplex cinema in the southeast part of the City. The study concluded that the proposed theater would cannibalize attendance at existing theaters.[1]

A primary beneficiary of the City's existing policy has been the 14-screen Grand Cinema, a redevelopment project from 2004 that received $3.25 million in subsidy from the City. Downtown Lincoln has since evolved to become a thriving entertainment district. This success has led City officials to reconsider the need for continuing protective theater policies. At this time, City staff is unaware of any active or pending plans or proposals to build a new cinema in Lincoln.

The City has initiated a process of outreach to stakeholders, which include existing shopping center and theater owners, and is requesting additional input from a third-party consultant to provide an economic assessment of the impacts of potential modifications existing policies related to movie theater development. The analysis focuses on the local movie theater supply and demand dynamics as a basis for assessing the market implications of various policy changes over a ten (10) year period.

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[1] R-T Associates, *Market Feasibility and Impact Study of Proposed Megaplex Theatre in Lincoln,* Nebraska*,* May 2005.

Figure 1 Zoning Districts Affected by Proposed Policy Amendments

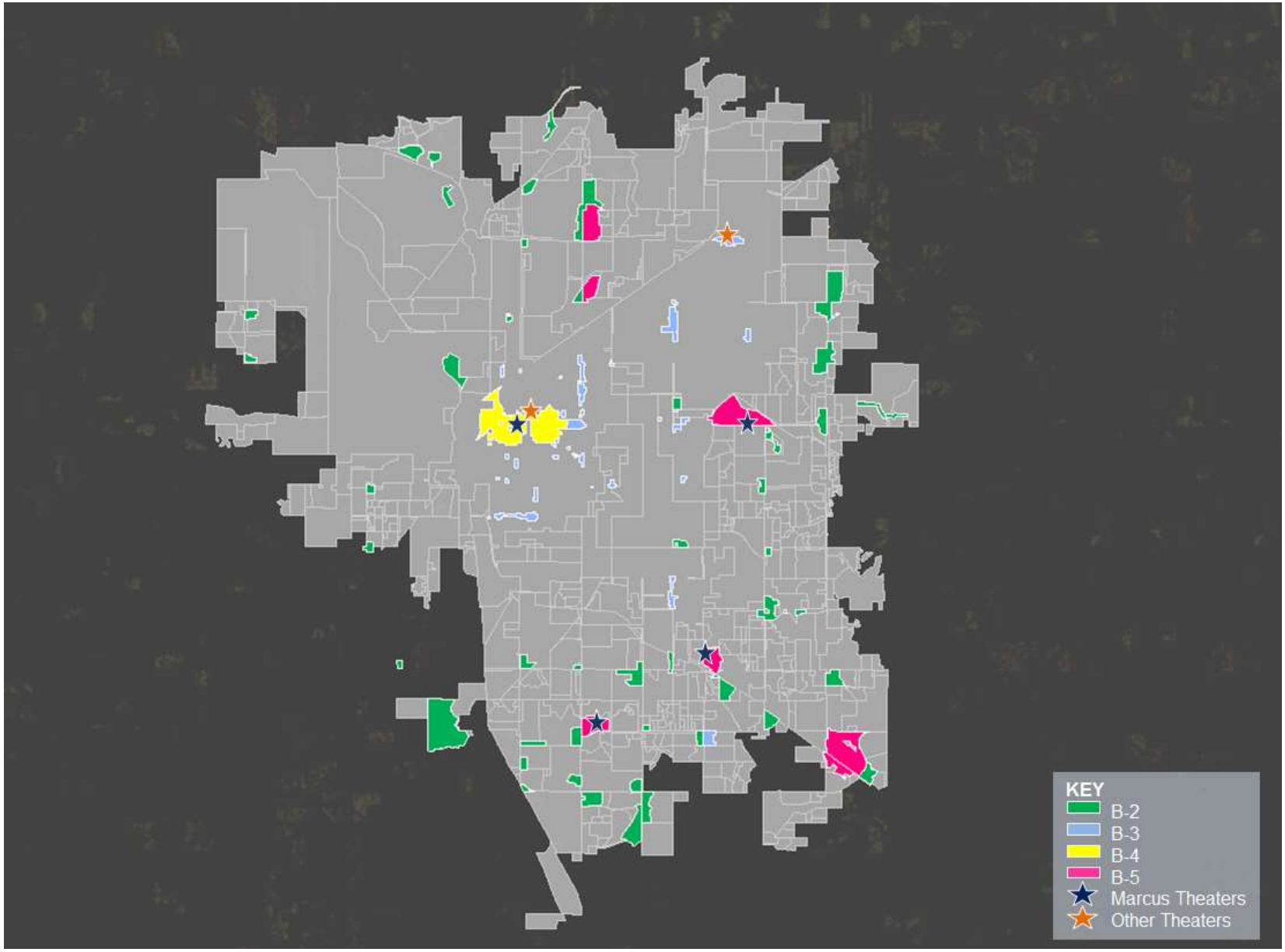

Figure 2 History of Lincoln Theater Policies

Year	Event
1984	The Zoning Ordinance was amended to remove indoor movie theaters from all districts except B-4 (downtown) and B-5, and required a market study in B-5 to assess the impact of new theaters.
1992	The Zoning Ordinance was amended to make theaters in the B-5 a use approved by special permit rather than “by right”, and subject to conditions that the B-5 District must have 400,000 square feet of other floor area with at least 3/4 occupied, and that the District may have no more than one theater complex per district with no more than 3 screens in the complex.
1994	Theater Policy was included in Comprehensive Plan.
1996	The special permit for theaters in the B-5 district was amended to raise the maximum number of screens in a theater complex from 3 to 6 resulting in the South Pointe Theater.
1996	The three-screen theater at East Park Plaza was expanded to six.
2002	The former three-screen theater at the Edgewood Shopping Center was expanded to six.
2003	A six-screen theater was approved for North 27th & Folkways Blvd. This theater has not been built to date. (recently developed as a hotel)
2004	The Grand Theater with 14 screens opened downtown.
2005	Comprehensive Plan Amendment #05014 and Change of Zone #05035 to remove the Theater Policy from the Comprehensive Plan and allow larger theaters outside of Downtown were denied by the City Council. Change of Zone #05036 was a change of zone request from AG to B-5 for approximately 14.11 acres to expand Prairie Lakes Shopping Center was approved, as were Use Permit #140B to amend the Appian Way use permit covering the Prairie Lakes Shopping Center to include an additional 14.11 acres, and Special Permit #05023 to allow a theater complex on approximately 24.52 acres in the shopping center, but only for a six-screen complex instead of the 18-screen complex originally requested by the applicant.
2011	The Theater Policy was brought forward and made a part of the 2040 Comprehensive Plan.
2013	A proposal to amend the Comprehensive Plan to remove the Theater Policy and amend the zoning code to allow theaters with more than six screens outside a 6.5 mile radius measured from 13th & O Streets. Both applications were withdrawn by the applicant at the Planning Commission public hearing.

Key Study Findings

1. **At the national level, technological change has led to a vast increase in the number of media distribution channels, program choices, and playback options available to consumers, intensifying competition and eroding cinema's share of total media consumption, especially among younger consumers.** Despite this market share decline, theatrical distribution remains important to media conglomerates as the front end of a multi-platform sales and marketing effort that pushes original movie content through multiple distribution and merchandising channels. Consequently, many industry analysts believe theatrical exhibition will remain an important—if declining—sector of the entertainment industry.

2. **In this highly competitive environment with many other substitute products, theater circuits—both market leaders and niche operators—require economies of scale to achieve per-seat operating efficiencies and to maintain bargaining power with film distributors to ensure exhibition rights to major releases.** A majority or dominant share of screens and seats within a geographical zone allows the operator to negotiate licenses with distributors for desired first-run films and to optimize the program mix to respond to market area demand. In this environment, the development of small multiplex theaters (i.e., less than ten screens) is increasingly uncommon, except for a handful of niche providers.

3. **Existing demand and supply dynamics in the Lincoln cinema market suggest a relatively stable and healthy market and attendance levels on par with or above national trends.** Four of the six theaters in Lincoln play first-run, blockbuster movies, totaling 32 screens. These cinema venues have sustained themselves in Lincoln for decades and appear to exhibit healthy average annual attendance levels of approximately 1.2 million in the last seven years, reaching peak average utilization levels of 15 percent in 2015. The number of screens per capita in Lincoln is also in line with industry standards.

4. **While Marcus holds a virtual monopoly power over the Lincoln cinema Trade Area, this market position does not appear to have resulted in suboptimal levels of service or pricing.** Average admission prices in Lincoln are on par with comparable cities in more competitive environments (i.e., multiple exhibitor companies) and modest reinvestment has occurred to adopt modern, state-of-the-art amenities and technology, suggesting market incentive to maximize attendance.

5. **The existing City regulations related to cinema supply helped preserve and reinforce the current market structure of a large downtown cinema supported by smaller "neighborhood serving" facilities.** Movie demand and supply dynamics in Lincoln suggest a relatively balanced market with per capita attendance and screen counts consistent with national averages. However, the introduction of a new major multiplex (i.e., 10 to 14 screens) would siphon demand from existing venues and likely lead to a closure over the median term (i.e., within the ten-(10-) year period associated with this study). However, the exact distributional impacts are difficult to predict and will depend on a variety of factors. Key determinants are likely to include the location, size, and ownership of a potential new entrant.

Lincoln Movie Theater Trade Area Context

A movie theater Trade Area represents the geographic region containing the primary elements of demand and supply that largely determine the market performance for competitive set of cinema venues. Generally speaking, movie theater Trade Areas attract the bulk of its customers from a 20 minute or less commute shed. While patrons will occasionally drive further, especially as part of a multi-purpose visit (e.g., destination shopping), longer distance travelers usually represent a small portion of total demand.

For the purposes of this analysis, Lancaster County is determined to be the relevant Trade Area for the Lincoln movie theater market. While the more remote areas of the County may extend beyond a 20-minute commute shed, these areas represent a very small portion of total County population. As shown in **Table 1**, about 90 percent of the County population resides in Lincoln suggesting that the City is the primary determinant of Trade Area market dynamics. It is worth noting that the County, or Trade Area, is projected to grow by about 13 percent by 2025 (the period for this analysis).

Table 1 Trade Area Population Growth

	Year				Growth (2015 -2025)	
Geography	2010	2015	2020	2025	#	%
Lancaster County Population[1]	286,187	306,468	326,319	347,456	40,988	13%
City of Lincoln Population	253,035	277,348	-	-	-	-
City as a % of County Population	88%	90%	-	-	-	-

[1]The 2020 and 2025 County population estimate is calculated by appying a 1.3 percent average annual growth rate provided from the Lancaster County Population Projections to the US Census base population. This growth rate accounts for student migration. No City projections have been provided.

Sources: Lancaster County Population Projections: 2010 to 2040; City of Lincoln; County of Lancaster; US Census Bureau; and Economic & Planning Systems, Inc.

Lincoln Trade Area Supply Trends

As summarized in **Table 2**, there are currently six (6) theaters with a total of 35 screens in the Lincoln Trade Area, all located within the City. Of this amount, two represent smaller niche venues (i.e., 1 to 2 screens) that do not show first-run and nationally marketed movies and are thus not considered part of the competitive set. The remaining four (4) theaters are owned by Marcus Theatres.

Table 2 Existing Trade Area Movie Theater Supply

Theater	Screens	Seats	Seats/ Screen	Year Built	Year Remodeled	Programming
Marcus Cinemas						
Lincoln Grand	14	2,683	192	2004	2014	First-run
Edgewood Theater	6	1,210	202	1989	1998	First-run
South Pointe Cinema	6	726	121	1998	2015	First-run
East Park Cinema	6	616	103	1981	2015	First-run
Subtotal	32	5,235	164			
Independent Cinemas						
Joyo Theater	1	300	300	1928	1998	Second-run
Ross Media Arts Center	2	342	171	2003	-	Indie/Int./Doc.
Subtotal	3	642	214			
Total	35	5,877	378			

Sources: Marcus Theaters; Economic & Planning Systems, Inc.; general literature search

The last major increase to the theater supply occurred in 2004 with the development of the Lincoln Grand in Downtown. This complex is currently the largest and most modern in the City with 14 screens, as reflected above, and tops the City in ticket sales. The remaining six screen complexes are relatively small by modern standards. As discussed further in **Appendix A**, smaller theaters often find it difficult to compete in today's market since more screens allow for increased flexibility and range with regard to features and show times. While larger multiplex cinemas typically have a competitive advantage with distributors (e.g., priority access to blockbusters), this appears to be less of an issue in Lincoln since Marcus operates all existing cinemas.

Despite the lack of new cinema development in the City, three of the four existing venues (Grand, East Park, and South Pointe) have recently been updated with amenities and features consistent with modern trends and innovations in the industry. Typical enhancements upgrading the cinema experience fall into the categories of picture, comfort and convenience, and food and beverage, as summarized in **Table 3** and further described below. In the last two years, the Grand has been upgraded with an enhanced Dolby sound system, a lounge/lobby with TVs, PLF screens, luxury recliners, and full liquor service to the theater. While there has been mention that the Edgewood Theater will require lobby renovations, there are no plans currently in place.

Table 3 Amenities and Features in Trade Area Cinemas

Trade Area and Theater	Amenities and Features								
	Picture		Comfort				Food & Beverage		
	Premium Large Format (PLF)	3-D	Reserved Seating	Plush Seats	Stadium Seating	Reclining Seats	Dine-In Service[1]	Alcohol[2]	Enhanced Food Option[3]
Marcus Theatres Lincoln Grand	1	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Marcus Edgewood Theater	0	Yes	No	No	Yes	No	No	No	No
Marcus South Pointe Cinema	2	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Marcus East Park Cinema	2	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
	5								

Notes
(1) Food is delivered to patron in-seat
(2) Alcoholic beverages may be consumed in-seat
(3) Options for in-seat dining more typical of a restaurant than a cinema
Sources: Company web sites, general literature search, Economic & Planning Systems

- **Picture Enhancements,** which include features such as digital projection, sound technologies like Dolby ATMOS, and screen formats such as digital 3D and Premium Large Format (PLF) (including variants such as IMAX and RealD), differentiate cinema-going from the small-screen experience of viewing at home or on a hand-held device.

  Digital projection is now standard throughout North America with a 97 percent share of outlets, but PLF is still relatively scarce, with only 374 screens in North America as of mid-2014. The importance of PLF is reflected in its box office popularity and ability to command a price premium, indicated by 2014 box office share of 5.5 percent of total revenues from a base of only 0.9 percent of total screens. There are PLF screens in three of the four Marcus Cinemas, approximately 16 percent of the total screen count as compared to the North American rate of 1 to 2 percent.[2]

- **Improved Comfort and Convenience** from reserved seating, plush seats, stadium seating, and recliners treat moviegoers to features once found only in private screening rooms. Reserved seating, plush seats, reclining seats, reduced seating per screen, and stadium seating, have become standard for the Marcus Cinemas in Lincoln. Past renovations of the Grand Cinema replaced typical seating with luxury electrical recliners in 2014 and the recent renovations of South Pointe Cinema and East Park Cinema in 2015 have reduced seating by approximately half. They provide operators with a differentiating feature as well as an opportunity to charge an additional ticket premium.

- **Upgraded Food and Beverage Options** include a wide range of choices beyond traditional popcorn and candy that aim to capture a greater share of consumer nightlife expenditure. These options may include, depending on the operator, on-site restaurants, on-site bars, and extensive and/or premium menus at the concessions counter. All theaters, except Edgewood, include enhanced food options.

- **Dine-In Service** typically provides enhanced menu options and allows moviegoers to order with seat-side service. This amenity differs from upgraded food and beverage options as it combines the cinema experience and the restaurant experience. No theaters in the County currently have this service.

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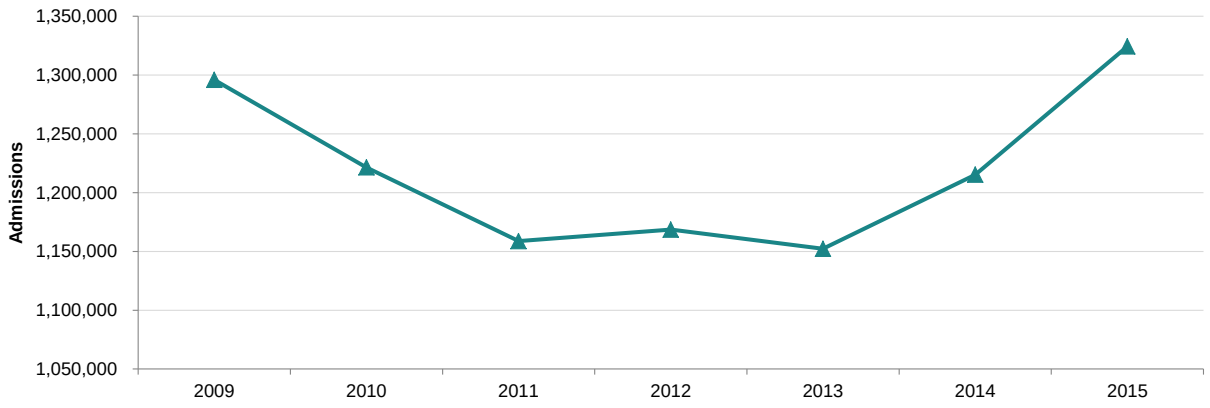
[2] Rate depends on definition of PLF screens.

Lincoln Trade Area Movie Demand Trends

Movie Theater demand or ticket sales are driven by a variety of factors, including the popularity and publicity surrounding new releases, the availability and quality of cinema venues, as well as economic and demographic trends. However, it is also worth noting that there has been a steady decline in movie theater attendance at a national level primarily attributable to growing competition from alternative video formats (e.g., video on demand, streaming), as discussed further in **Appendix A**.

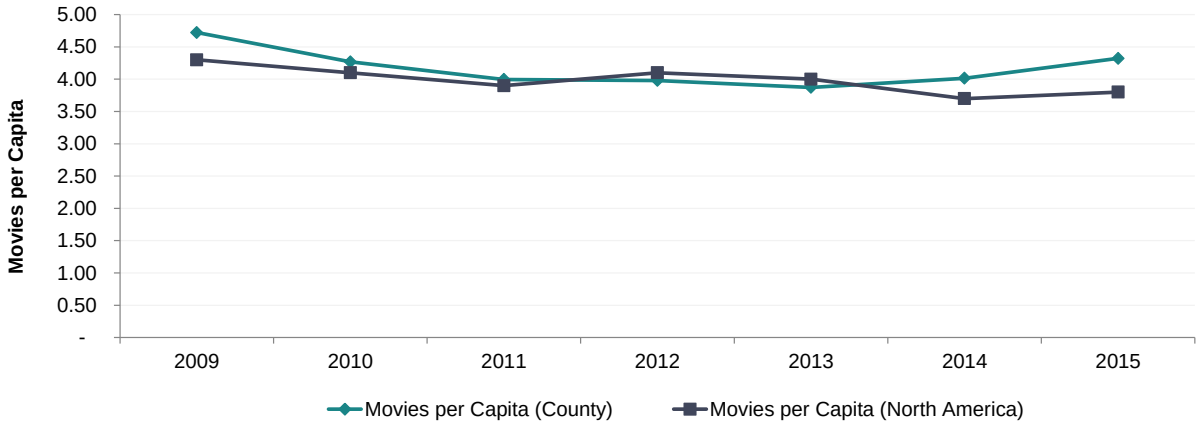
In Lincoln, movie demand appears to have rebounded rather strongly starting in 2014 following a period of decline starting in 2010, as illustrated in **Figure 3**. The rebound in part reflects national trends but also appears to be related to Marcus Theatres' reinvestment in more state-of-the-art amenities and features, as described above.

Figure 3 Trade Area Historical Admission Trends



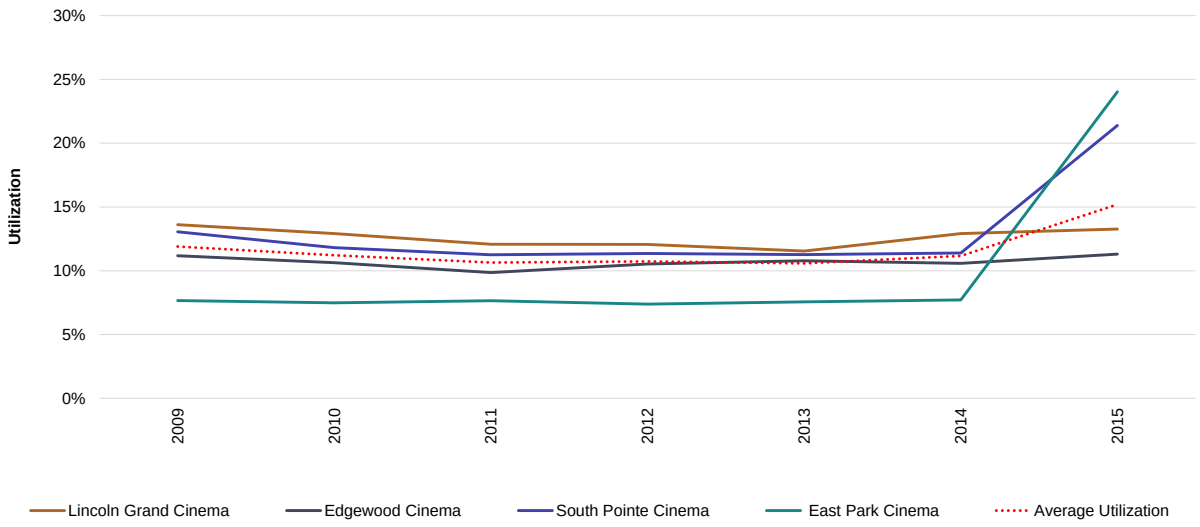
In addition to total demand, per capita movie attendance represents another useful metric of the health of a particular Trade Area cinema market. As illustrated in **Figure 4**, the 2015 per capita movie attendance in the Lincoln Trade area of approximately 4.3 exceeds the North America average of 3.8. The trends suggest that Marcus Theatres' facility upgrades described above have played an important role in the Trade Area rebound since the per capita attendance was actually equal to or below the North America level between 2011 and 2013.

Figure 4 Trade Area and North America Per Capita Movie Attendance



Looking more closely at the performance of individual theaters in Lincoln further reinforces the trends above, as shown in **Figure 5**. Specifically, spikes in utilization (i.e., attendance divided by total seats) appear to be the most pronounced at those movie theaters where major upgrades were completed (East Park and South Pointe). While the Lincoln Grand Cinema consistently leads the City in total ticket sales, capturing approximately 45 percent of total market share according to patronage data provided by Marcus Theatres, in recent years its utilization rate has fallen below that of South Pointe and East Park Cinemas, likely attributable to the recent upgrades in these two theaters. This would suggest that, despite its size and relative newness, the Grand is not immune from competition. However, it is worth noting that it is slightly below average utilization rate is also a function of its larger size (i.e., more seats to fill).

Figure 5 Historical Utilization Trends by Lincoln Cinema



Market and Policy Implications

The Trade Area demand and supply conditions and trends described above suggest that the Lincoln cinema market is relatively stable and healthy with patronage levels that exceed national per capita averages and recent investments in state-of-the-art amenities. As an additional point of reference, EPS compared the movie theater market dynamics in Lincoln with a number of other comparable cities in the United States where Marcus also operates cinemas along with other major distributors.

As illustrated in **Table 4**, despite the increased competition in these selected case study markets, the general supply dynamics in Lincoln do not appear anomalous. Specifically, the number of screens per capita is in the middle of the cities reviewed and consistent with industry "rule of thumb" standards (one screen per 10 to 12 thousand people is a commonly cited metric for considering the cinema demand and supply dynamics). While average ticket prices are on the higher end when compared with those of other cities, they are also within a normal range (i.e., about 4 percent above average). As noted earlier, Lincoln also has five (5) PLF screens or approximately 16 percent of the total screens, which significantly exceeds the national average of about 1 to 2 percent.

Table 4 Competitive Indicators in Similar Cities

City	Population[1]	No. of Screens	Screens per 10,000 Capita	Average Ticket Price[2]
Madison, WI	239,848	26	1.08	$8.52
Lincoln, NE	265,811	32	1.20	$9.53
Des Moines, IA	206,702	25	1.21	$9.95
Columbus, OH	811,943	156	1.92	$8.37
Omaha, NE	435,454	114	2.62	$9.36
Average			**1.62**	**$9.15**

[1] To ensure consistency, the population estimates are based on US Census and do not include non-resident students.
[2] Average ticket price is based on prices for standard screen, adult tickets during peak hour times on Friday evenings.

Source: Cinema Treasures, United States Census (2014, 5 Year Estimates)

As another measure of Trade Area supply and demand dynamics, EPS also projected movie theater utilization rates through 2025 under two scenarios: (1) the existing supply of seats remains constant and (2) a new 12-screen theater was introduced into the market (assuming 164 seats per screen consistent with the Trade Area average).[3] Generally speaking, cinema Trade Area seat utilization rates exceeding 15 percent are considered healthy and sustainable over time. Utilization rates below this level over extended periods would suggest over-supply conditions with the potential that under-performing venues may close or convert to alternative uses.[4]

As illustrated in **Table 5**, absent any addition to cinema supply, the Lincoln Trade Area utilization rate will gradually increase from its currently sustainable level of 14 percent to upwards of 16 percent by 2025. However, assuming the introduction of a new 12 screen cinema in 2020, Trade Area utilization rates are likely to dip below levels considered sustainable over the long term (11-12 percent). While a smaller project with a lower screen/seat count may have a less deleterious impact, such projects are relatively uncommon, especially in mid-size market such as Lincoln, as described further in **Appendix A**.

[3] For a variety of reasons described further in **Appendix A**, movie cinema complexes developed over the last 10+ years are generally much larger than older venues. Specifically, modern, multiplex cinemas typically range from a low of 10 screens to upwards of 16 screens.

[4] A variety of factors will influence the actual outcome for a particular movie theater, including ownership structure, existing debt, and viability of alternative land uses.

Table 5 Trade Area Movie Theater Utilization Scenarios

Item	Capture Rate	2015	2020	2025
County Population[1]	100%	306,468	326,319	347,456
Attendance @ 4.08 Annual Tickets/Capita[2]		1,250,159	1,331,136	1,417,359
Existing Supply				
Seats		5,235	5,235	5,235
Utilization[3]		14%	15%	16%
Increased Supply Scenario (@ 12 new screens)				
Seats[4]			7,198	7,198
Utilization[3]			11%	12%

[1] See Table 1.

[2] 4.08 is the average annual tickets per capita for the County of Lincoln from 2009 to 2015.

[3] Assumed 32 showings per week and 52 weeks per year

[4] Assume average of 164 seats per screen based on existing Trade Area average.

Sources: Lancaster County Population Projections: 2010 to 2040; City of Lincoln; County of Lancaster; and Economic & Planning Systems, Inc.

While the Trade Area does not currently appear to be under-served, it does not mean that it is immune from competition. Indeed, with exception of Lincoln Grand, most of the movie complexes in the Lincoln Trade Area are smaller than those of modern standards. As described in **Appendix A**, cinema developers are trending toward larger venues as a way to dominate distribution channels, flexibility in show times, and achieve other marketing and operational efficiencies. Given that Lincoln is an attractive market with students, etc., it would likely be attractive to future developers/operators.

Geographic Impacts

The above analysis suggests that a major new large multiplex introduced into the Lincoln Trade Area within next five to ten years could drive one or more existing cinemas out of the market. However, the exact distributional impacts are difficult to predict and will depend on a variety of factors. Key determinants are likely to include the timing, location, size, and ownership of a potential new entrant. For example, if large exhibitor other than Marcus (e.g., AMC or Cinemark) located a modern multiplex cinema in an amenitized location, such as integrated within a mall, it would likely siphon off at least some patronage for the Lincoln Grand. This is because such a venue could duplicate the Grand's current dominant market position as the premier movie "destination", with more of a City or Countywide draw rather than the neighborhood draw of the smaller venues.

Alternatively, depending on its exact location, a stand-alone complex operated by Marcus would more likely cannibalize one or more of the older, smaller, neighborhood venues. Specifically, a new cinema located on the southeast edge of the City would likely capture demand from South Pointe and Edgewood. Conversely, a new cinema located on the northern edge of the City may capture demand from East Park and Lincoln Grand. Additionally, Marcus might be more inclined

to close one of its smaller venues since they represent a less valuable investment and competitive asset.

Economic "Spill-over" Impacts in Downtown

Depending on its size, location, and market orientation, a new multiplex located somewhere in the Trade Area could also have an indirect impact on Downtown commercial establishments if it were to siphon demand from the Lincoln Grand. This is because the Lincoln Grand, with almost 600,000 in annual attendance, does appear to currently provide some "spill-over" benefit to downtown retail establishments.

While empirical data is hard to come by, strong evidence shows that movie attendance is frequently undertaken in conjunction with another principal activity such as shopping, dining, or other entertainment.[5] Based on various case studies of movie patron behavior before or after a show, bars and restaurants appear to be the most frequently visited venues, although other local businesses can also benefit. While there are few definitive studies that have quantified these impacts, several reviewed as part of this analysis shed light on the range of additional spending that might be expected. These include:

- A 2001 study of the economic impact of the AMC Kabuki Theaters in San Francisco's Japantown found that nearly 50 percent of patrons frequented nearby commercial establishments before or after a show, spending an average of about $17.35 each.[6]
- A 2012 study on the economic impact of the Fox Theater goers in Downtown Tucson found that 80 percent of the moviegoers spend money at other downtown businesses, averaging $56.75 per party, or $21.41 per person.[7]
- A 2005 study in London found that approximately 11 percent of the visitors had a meal at a local establishment, while another 9 percent of patrons had visited a local bar.[8]

It is important to note that research suggests that the level of "off-site" spending by movie-goers can vary significantly depending on a variety of factors, including the convenience, quality and range of nearby commercial venues as well as a cinema's own "in-house" options. For example, more recently built and upscale theaters have begun to provide upgraded food options and alcohol. These enhanced options may promote spending at the theater, and less on local establishments.

Even if movie patrons do not spend money in nearby establishments before or after a particular show, they are exposed to new venues or attractions that they may return to as part of a separate visit. To the extent that the patrons would not have otherwise come downtown, local businesses gain an indirect form of market exposure by reaching new and/or untapped segments of the population.

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[5] "Cinema Provision Preston City Centre," 2014.

[6] "AMC Kabuki Theaters Social. Cultural, and Economic Impact on Japantown" by Porat Consulting, Nov. 2001.

[7] Economic Impact of Fox Theatre on Downtown Tucson, Direct Spending by Fox Theater Patrons at the Fox and other downtown businesses." By AZ Economic Research. October 2012.

[8] "The Impact of a Local Cinema," Film London, 2005.

Cinemas also add to the overall diversity of land uses, which is often a key element to sustaining economically vibrant downtowns, allowing them to that cater to a range of population and user groups and support complimentary economic relationships and interactions. For example, strong entertainment districts often correlate with increased demand for office and residential uses.

According to stakeholders interviewed as part of this study, the Lincoln Grand currently serves as a destination venue (e.g., "date night", "dinner and a movie" segment) as well as the primary movie destination for students. In 2015, the Grand had an attendance rate of over 592,000, well over 300,000 more ticket sales than the other three Marcus theaters. Meanwhile the smaller neighborhood venues target families and single purpose movie going expeditions. Stakeholder interviews indicate that malls without existing cinemas support liberalizing the restriction on cinema development. On the contrast, stakeholders who have an existing cinema in their mall were more equivocal towards the potential policy changes.

In addition to its location in an amenitized Downtown, the lack of on-site or integrated parking at the Grand contributes to its market orientation. Lincoln Grand provides a steady destination draw to downtown, unlike other venues (e.g., the Arena) that have more periodic programming. For example, the Grand's discount Tuesday and student Thursday specials serve as an off-night or shoulder activity generator for the Downtown.

General Conclusions

Overall, it appears that the City of Lincoln's regulatory restrictions on cinema development have helped maintain the economic viability of the existing movie theater venues in the City. However, to date, these restrictions do not appear to have had a negative effect on the Lincoln cinema market in terms of reduced investment in existing facilities, uncompetitive pricing, or attendance. Average movie ticket prices in the City are on par with comparable cities in more competitive environments (i.e., multiple exhibitor companies) and modest reinvestment has occurred to adopt modern, state-of-the-art amenities and technology, suggesting market incentive to maximize attendance. Meanwhile, the average per capital movie attendance in Lincoln slightly exceeds North American averages and the number of screens per capita is in line with industry standards.

While the Trade Area does not currently appear to be under-served, it does not mean that it is immune from competition. Indeed, with exception of Lincoln Grand, most of the movie complexes in the Lincoln Trade Area are smaller than those of modern standards. As described in **Appendix A**, cinema developers are trending toward larger venues as a way to dominate distribution channels, increase flexibility in show times, and achieve other marketing and operational efficiencies. Given that Lincoln is an attractive market with students, stable demographics, etc., it would likely be attractive to future developers/operators.

The exact market impacts of a new cinema complex introduced into the Lincoln market are difficult to predict and will depend on a variety of factors. Key determinants are likely to include the timing, location, size, and ownership of a potential new entrant as well as the nature of the policy change itself. However, given rather modest projected County-wide population growth (about 1 percent per year) a large, modern cineplex would siphon demand from existing venues and likely lead to a closure over the median term (i.e., within the ten-(10-) year period associated with this Study).

APPENDIX A:

National Trends Affecting the Cinema Industry

APPENDIX A NATIONAL TRENDS AFFECTING CINEMA INDUSTRY

This Section provides an overview of industry trends that influence the long-term performance of movie theaters in Lincoln.

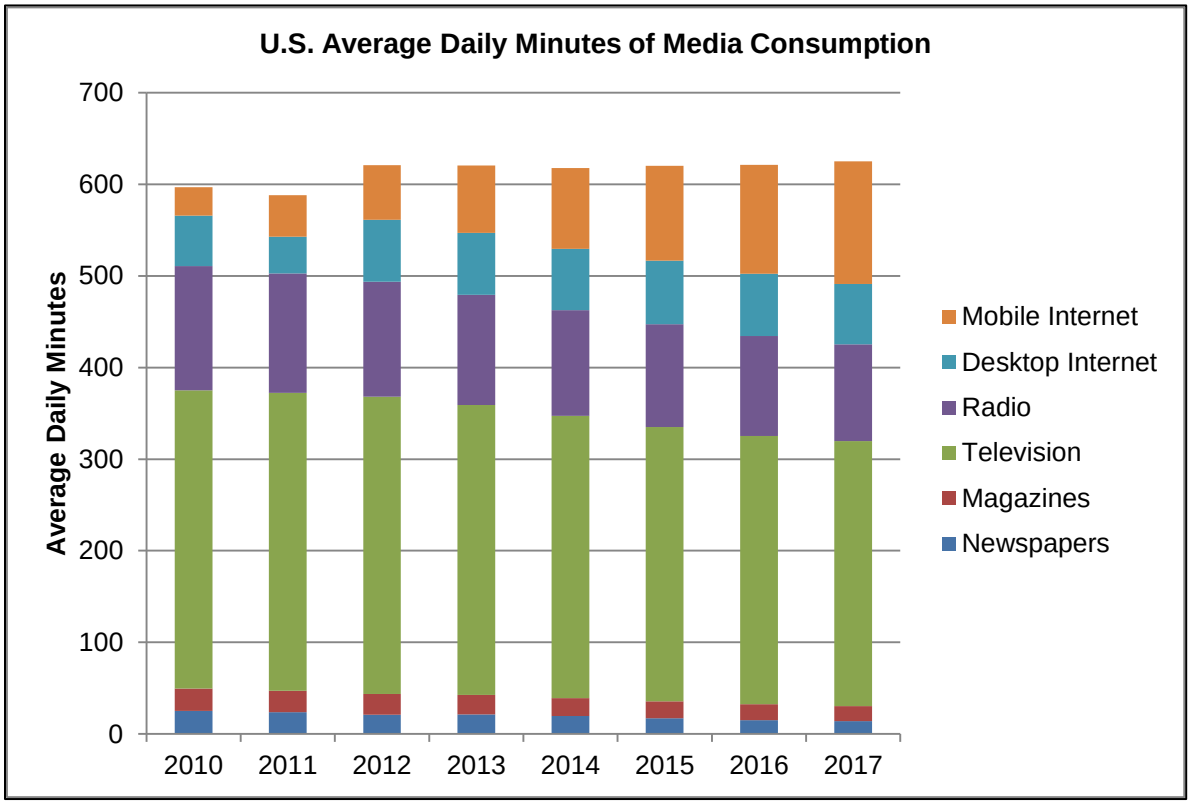
Trends in Media Distribution

The outlook for cinema attendance in Lincoln is influenced by general consumer media consumption patterns, which are undergoing a major transition due to the impact of technology in vastly expanding the number of distribution, programming, and playback options available to consumers.

- The expansion in the number of distribution channels over the last 20 years, including digital broadcast, cable, satellite, wireless, and online networks, has fragmented the consumer market and eroded the large audiences once commanded by more traditional formats such as network television and movie theaters.
- New distribution channels have expanded media "shelf-space" exponentially, and falling costs of media production and distribution have lowered the barriers to entry for content producers, leading to a vast expansion in available programming. This glut of options has provided strong competition for consumer attention for all media formats.
- A growing range of inexpensive devices allow content to be consumed anywhere at any time. The proliferation of playback options has undercut the primacy and exclusivity of the cinema-going experience.

As a result, traditional media channels such as TV, radio, newspapers and magazines have seen declines in per-capita media consumption compared with online formats, as shown in **Exhibit 1**.

Exhibit 1 U.S. Per-Capita Daily Media Consumption



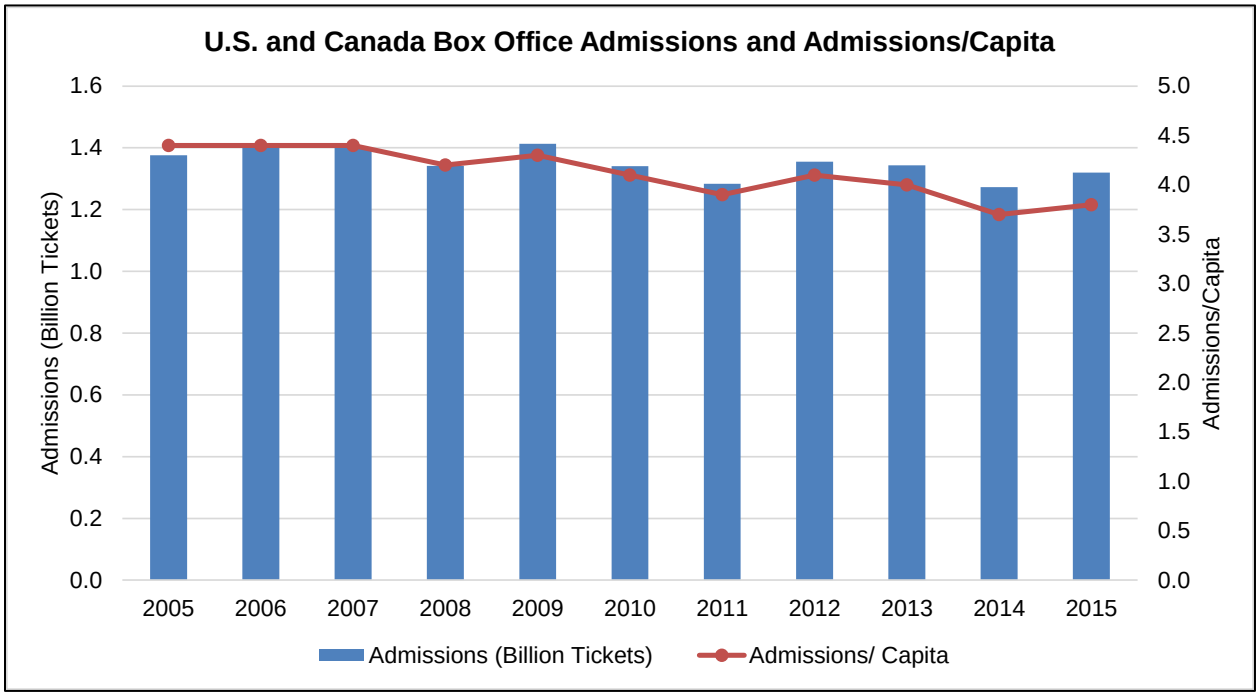
Source: Zenith Optimedia, Media Consumption Forecasts 2015

Trends in Cinema Distribution

Within this increasingly competitive environment and proliferation of alternative entertainment options, cinema performance has experienced a pattern of box office admissions decline, as shown in **Exhibit 2**. From 2005 to 2015, total annual admissions fell 7 percent, and admissions per capita fell 14 percent. And yet, as shown in **Exhibit 3**, 2015 North American box office revenues of $11.1 billion were the highest yet recorded, propelled by a number of very strong releases, including *Jurassic World* and *Star Wars: The Force Awakens.* Thus, all recent revenue growth can be attributed to the price of movie tickets, which has grown since 2005 at a 2.8 percent average annual rate.

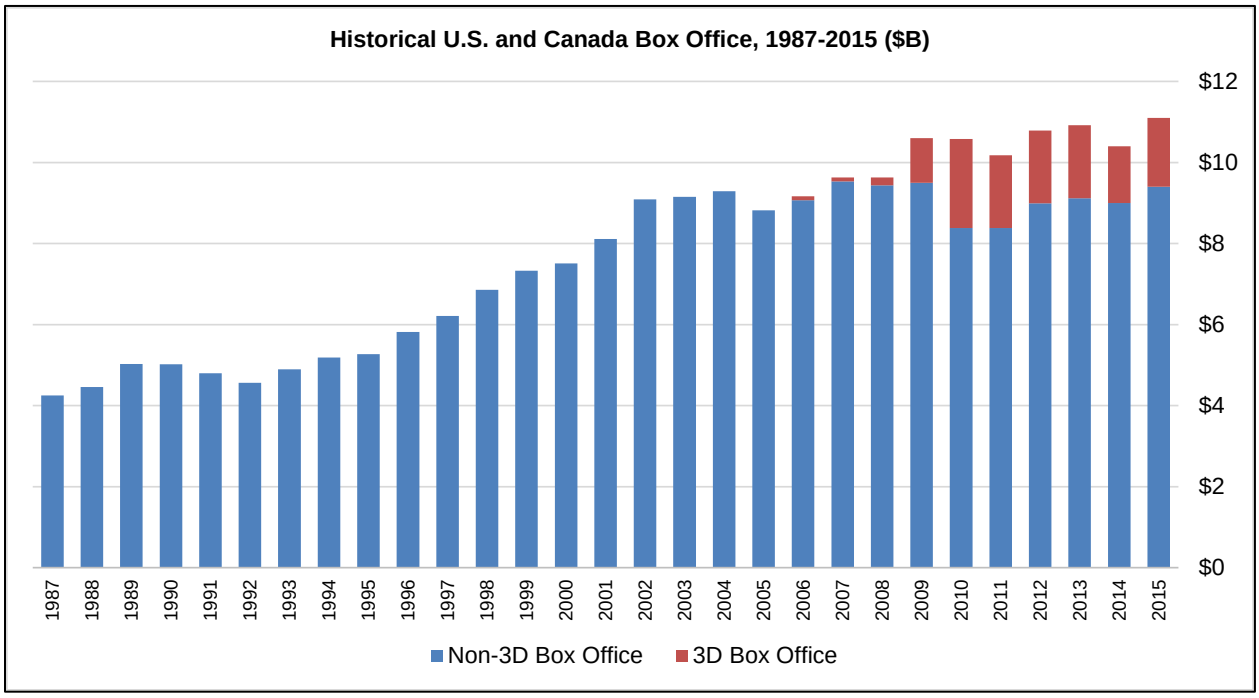
Despite the decline in box office admissions, theatrical distribution remains extremely important to large media conglomerates as the first stage and front end of a multi-platform sales and marketing effort that pushes original movie content through various distribution and merchandising channels. In the increasingly fragmented environment of consumer media options, a theatrical opening remains the best way to assemble a mass audience and achieve marketing economies of scale. Consequently, many industry analysts believe that theatrical exhibition will remain an important—if declining—sector of the entertainment industry.

Exhibit 2 U.S. and Canada Admissions and Admissions/Capita 2005-2015



Sources: Rentrak, MPAA

Exhibit 3 U.S. and Canada Historic Box Office



Sources: Rentrak, MPAA

In order to remain operationally competitive, theater operators have undergone significant consolidation over the last 20 years. As shown in **Exhibit 4,** market share of the top-3 exhibition

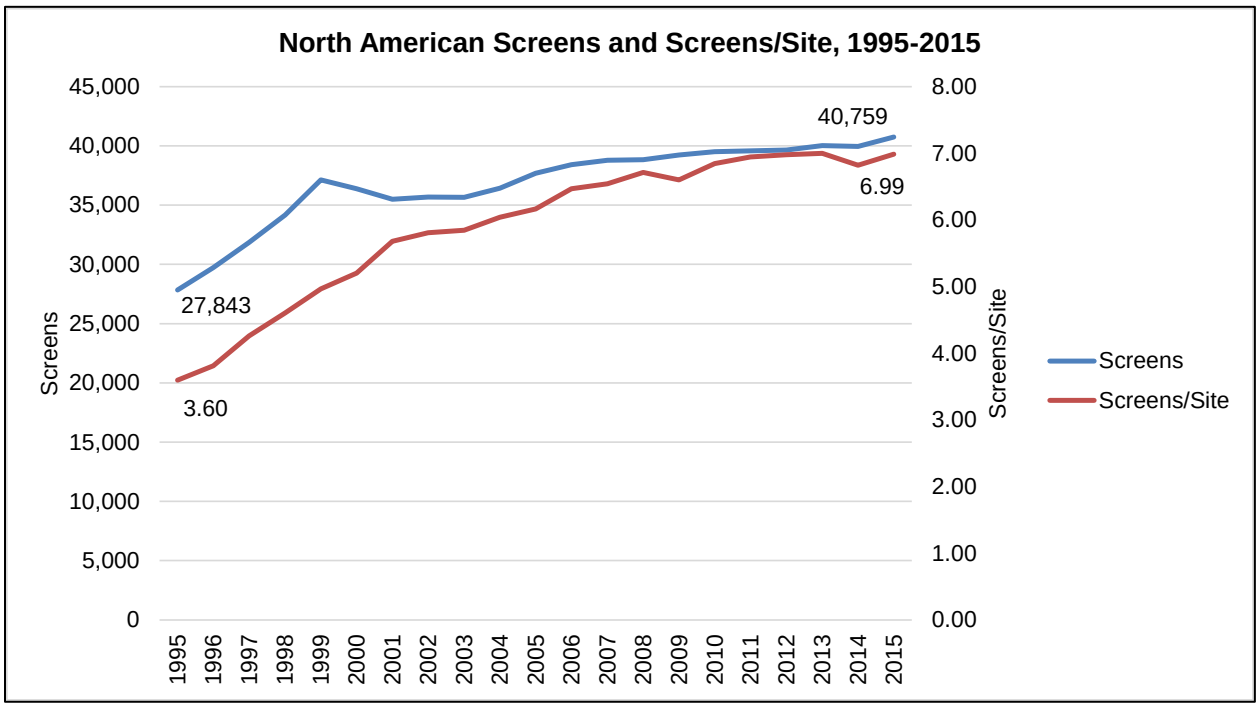
chains is 41 percent of all screens, which will increase to 49 percent if and when AMC's acquisition of Carmike is improved. As consolidation occurred, the number of total screens and screens per outlet also increased. As indicated in **Exhibit 5,** between 1995 and 2014 North American screen count grew from 27,000 to more than 40,000, and the average number of screens per outlet grew from 3.6 to nearly 7.

Exhibit 4 North American Cinema Operator Market Share

Circuit[1]	Screens		Sites		Screens/ Site
	#	Share of U.S.	#	Share of U.S.	
1. Regal Entertainment Group	7,295	18%	565	10%	12.9
2. AMC Entertainment Inc.	4,960	12%	344	6%	14.4
3. Cinemark USA, Inc.	4,499	11%	335	6%	13.4
4. Carmike Cinemas, Inc.	2,892	7%	280	5%	10.3
5. Cineplex Entertainment LP	1,635	4%	161	3%	10.2
6. Marcus Theatres Corp.	681	2%	53	1%	12.8
7. Harkins Theatres	446	1%	31	1%	14.4
8. Southern Theatres LLC	445	1%	39	1%	11.4
9. B & B Theatres	409	1%	50	1%	8.2
10. National Amusements, Inc.	409	1%	32	1%	12.8
Total Top 10	**23,671**	**59%**	**1,890**	**32%**	**12.5**
Total US and Canada[2]	**40,759**		**5,833**		**7.0**

(1) As of July 1, 2016. Does not consider the proposed merger of number 2 AMC and number 4 Carmike, which is currently under regulatory review.
(2) As of End of Year 2015
Source: MPAA, NATO

Exhibit 5 North American Screens and Screens Per Outlet, 1995-2015



Sources: MPAA, NATO

A large market share nationally and a dominant share locally provides operators with a number of operating efficiencies. Multiplexes and megaplexes, with seven or more screens per outlet, allow fixed costs to be amortized over more screens and seats. Multiple screens per outlet provide flexibility to optimize the screen mix and programming schedule to realize as much upfront-revenue as possible from hit releases while at the same time providing sufficient shelf-space for smaller-grossing—but still economically viable—releases. For this reason, nine out of 10 of the top cinema operators, as shown in in **Exhibit 4**, average 10 or more screens per outlet. The three six-screen Lincoln theaters in B-5 districts thus operate at a smaller scale than preferred by top cinema operators.

Large scale also provides resources for periodic capital investments to keep the theater-going experience fresh. Such investments fall into three general categories: picture improvements, comfort and convenience improvements, and enhanced food and beverage service, which are described further below.

- **Picture Enhancements,** include features such as digital projection, sound technologies like Dolby ATMOS, and screen formats such as digital 3D and Premium Large Format (PLF) (including variants such as IMAX and RealD), and differentiate cinema-going from the small-screen experience of viewing at home or on a hand-held device.

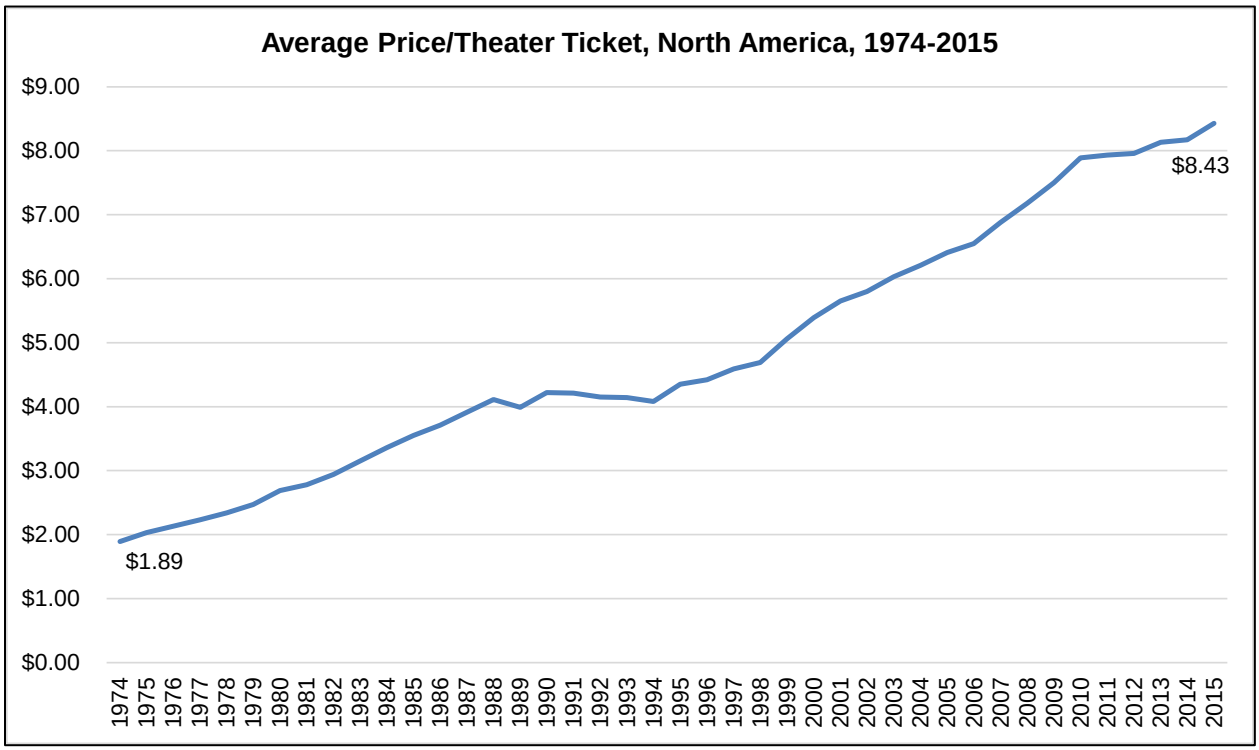
  Digital projection is now standard throughout North America with a 97 percent share of outlets, but PLF is still relatively scarce, with only 374 screens in North America as of mid-2014. The importance of PLF is reflected in its box office popularity and ability to command a price premium, indicated by 2014 box office share of 5.5 percent of total revenues from a base of only 0.9 percent of total screens.

- **Improved Comfort and Convenience** from reserved seating, plush seats, stadium seating, and recliners treat moviegoers to features once found only in private screening rooms. Reserved seating and plush seats have since become standard for competitive theaters. Reclining seats, reduced seating per screen, and stadium seating, on the other hand, provide operators with a differentiating feature as well as an opportunity to charge an additional ticket premium.

- **Upgraded Food and Beverage Options** include a wide range of choices beyond traditional popcorn and candy that aim to capture a greater share of consumer nightlife expenditure. These options may include, depending on the operator, on-site restaurants, on-site bars, and extensive and/or premium menus at the concessions counter.

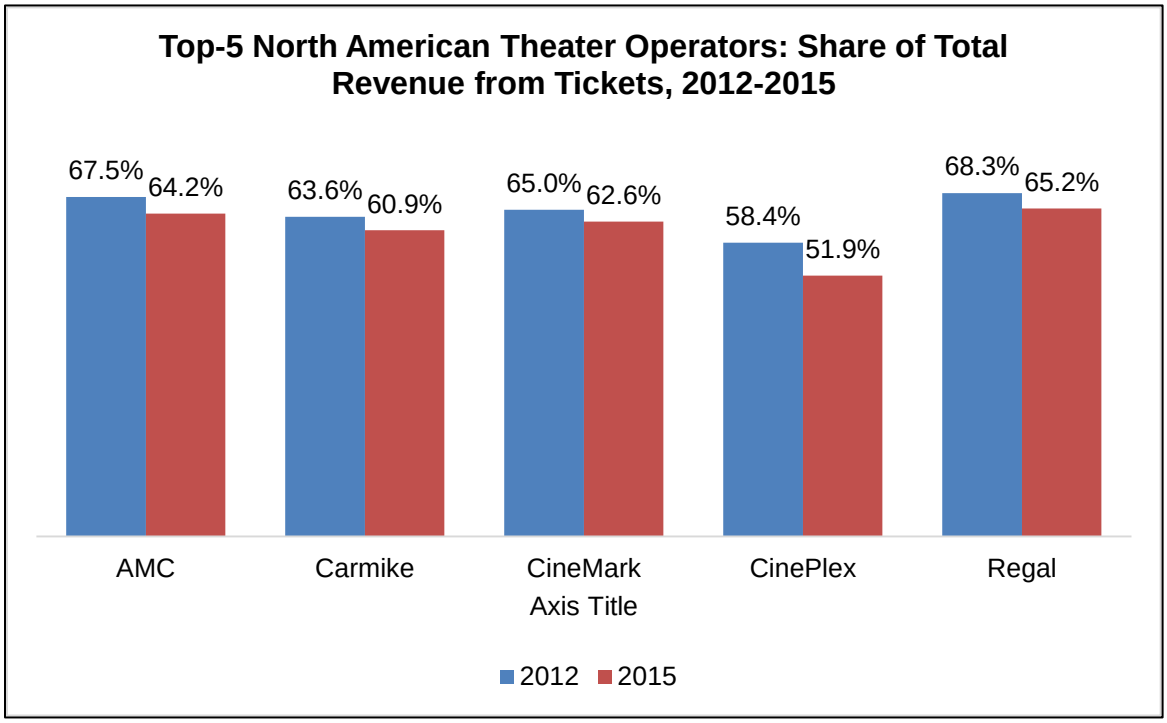
These enhancements allow operators to charge a ticket premium and also generate additional revenue streams. As shown in **Exhibit 6**, the average movie ticket cost $8.43 in 2015, a 3.2 percent increase over 2014. **Exhibit 7** shows how the top-5 cinema chains generate a growing proportion of total revenues from non-ticket sources. While this revenue enhancement and diversification has helped grow revenues in an environment of declining admissions, some analysts worry the trend could eventually price cinema-going out of reach for a large proportion of the population and make non-cinema alternatives an even more attractive value.

Exhibit 6 Average North American Ticket Price, 2012-2015



Source: MPAA

Exhibit 7 Revenue Share From Tickets, Top-5 North American Operators, 2012-2015



Source: Redwood Capital, North American Cinema Exhibitor Report 2016

Niche Operators

A crop of new niche cinema operators has garnered media attention recently for offering a highly differentiated product and for challenging the anti-competitive behavior of dominant operators in certain markets.[9] Prominent examples of these operators include Alamo Drafthouse, IPic, and Cinepolis, which are discussed further below and summarized in **Exhibit 9**.

- **Alamo Drafthouse** has established a reputation as an idiosyncratic cinema experience that is as much a bar and nightclub as a movie theater. The normal fare of first-run movies at Alamo is supplemented with special events such as cult films, local films, and film/food pairing nights. Alamo's operating model is based on premium pricing, enhanced revenue from non-ticketing sources, and high seat utilization through aggressive programming.

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[9] Enforcing "clearances" is the practice by which a dominant area theater operator attempts to deny competitors access to new releases by threatening a boycott of distributor's movies if the distributor doesn't grant it exclusive access to certain first-run titles. While boycotts cause both the distributor and exhibitor to lose revenue, they have been successful because distributors typically have had more to gain by complying with requests for exclusivity from market-leading exhibitors. A recent lawsuit brought by IPic, however, led to an investigation by the Antitrust Division of the U.S. Department of Justice into exclusionary boycott practices and potential violations of federal antitrust laws. This ongoing investigation, coupled with recent decisions by some distributors to ignore the boycott threats, has led several many to believe that the practice of enforcing clearances is in permanent decline and that incumbent operators will no longer be able to bar new entrants.

With 7.1 screens per theater on average, Alamo has not achieved the operating scale typical of industry leaders, but the average number of screens per theater has grown from 6.0 for theaters built before 2010, to 7.5 for theaters built after 2010. In addition, future projects in major cities, including planned outlets in Los Angeles and San Francisco, will be megaplexes with 12 or more screens each.

Exhibit 8 Alamo Drafthouse Cinema Inventor by Year Built

Alamo Drafthouse	Location	No. of Screens	Year Built
Village	Austin, TX	4	2001
Westlakes	San Antonio, TX	9	2004
Mason Park	Katy, TX	7	2006
Ritz	Austin, TX	2	2007
Park North	San Antonio, TX	6	2009
Winchester	Winchester, VA	8	2009
Stone Oak	San Antonio, TX	6	2010
Slaughter Lane	Austin, TX	8	2012
Mainstreet	Kansas City, MO	6	2012
Lakeline	Austin, TX	10	2013
Littleton	Littleton, CO	7	2013
One Loudoun	Ashburn, VA	8	2013
Vintage Park	Houston, TX	7	2013
Richardson	Richardson, TX	7	2013
Yonkers	Yonkers, NY	6	2013
Market Place	New Braunfels, TX	11	2013
Kalamazoo	Kalamazoo, MI	10	2013
South Lamar	Austin, TX	6	2014
Lubbock	Lubbock, TX	8	2014
Cinema La Vista	La Vista, NE	8	2015
New Mission Cinema	San Francisco, CA	5	2015
Laredo	Laredo, TX	7	2015
Montecillo	El Paso, TX	8	2016
Dallas	Dallas, TX	8	2016
City Point	Brooklyn, NY	7	2016
Mueller	Austin, TX	6	2016
Average No. of Screens per Cinema		**7.1**	
Average No. of Screens per Cinema Built in 2010 and Earlier		6.0	
Average No. of Screens per Cinema Built After 2010		7.5	

Source: Cinema Treasures

- **IPic** was founded by a long-time industry veteran who saw an underserved opportunity to provide a luxury cinema experience in the North American market. IPic outlets all feature reclinable loungers, reduced seating per theater, and gourmet food. IPic's operating model

relies on ultra-premium ticket pricing and expensive food and beverage service. Like industry leaders, IPic operates megaplex theaters with an average of 14 screens per outlet.

- **Cinepolis** is a Mexico-founded chain, one of world's largest, that has only just begun to penetrate the North American market. Like IPic, Cinepolis is a luxury operator with outlets that feature reclinable loungers, reduced seating per theater, and gourmet food. Like IPic, the Cinepolis operating model relies on ultra-premium ticket pricing and expensive food and beverage service. Cinepolis operates relatively large outlets with an average of 10 screens each.

Exhibit 9 Selected Niche Cinema Operators

Operator	Founded (U.S.)	Differentiation	Typical Cost/ Ticket	North American Outlets	Screens	Screens/ Outlet	Seats/ Screen
Alamo Drafthouse	1997	Curated and idiosyncratic cinema "experience" with local connection, full service bar, specialty food	$12-$15	24	177	7.1	80-150 (ground-up locations)
IPic	2006	Luxury orientation w/fully-reclining seats, few seats/theater, full service bar, in-seat gourmet dining	$17-$32	14	~98	7	40-100
Cinepolis	2011	Luxury orientation w/fully-reclining seats, few seats/theater, full service bar, in-seat gourmet dining	$10-$22	17	~170	10	40-100

Sources: Company web sites, general literature search, cinema treasures.com

Despite rapid growth over the last ten years, these niche operators make up a small 1 percent share of the overall north American market, and there is good reason to believe that they will not grow enough to challenge the market share of mainstream operators. When innovations such as reserved seating, plush recliners, and in-seat dining were first pioneered in the mid-2000s, their operators enjoyed a period of exclusivity until mainstream operators began to successfully replicate them. Today, all the major chains have upgraded their screens with such amenities, which effectively narrows the opportunity for niche operators. Niche operator expansion is thus likely limited either to the largest markets that can accommodate a wide range of micro-differentiation, or markets with a similar profile as the niche target segment. For example, IPic and Cinepolis may have strong opportunity in very affluent communities, while Alamo may find significant demand in college towns like Lincoln.