

MOVIE THEATERS AND REAL ESTATE
"AN ECONOMIC AND MARKETING ANALYSIS OF CINEMAS"

by

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ABSTRACT

This thesis is about movie theaters as part of larger mixed use or retail real estate development projects. The intent is to give real estate developers a global view of how the movie theater industry has evolved, and to describe the elements of a successful cinema operation. Books, magazine and newspaper articles, and trade journals were utilized to support this research. In addition, interviews were conducted with real estate developers, cinema designers, and movie theater operators to gain an understanding of current industry practices.

The thesis begins with an overview of the movie theater industry and the film distribution process. It then looks specifically at economic issues of revenues and profit generation, and costs associated with developing and operating a cinema complex.

The next section examines marketing issues including: geographic location, demographic guidelines, and cinema design. It also explores a relatively new concept in the exhibition environment, the restaurant/cinema combination.

The final chapter explains the process that a developer goes through in bringing a cinema to his/her project. Lease structure and points of negotiation are discussed as well as the benefits and problems associated with incorporating a cinema into a real estate development project.

Thesis Supervisor: Bernard Frieden
Title: Professor of City Planning

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Finally, I would like to thank Professor Bernard Frieden, my thesis advisor, for his guidance and encouragement through the thesis process.

Chapter One Movie Theater Industry Overview

IN THE BEGINNING

The movie theater industry as we know it today began late in the 19th century when large screen moving pictures were introduced in the United States. In a New York vaudeville house in 1896, audiences witnessed the first public exhibition of large screen films. Initially, these films were utilized as fillers between live acts at vaudeville houses, but by 1905 these silent films earned their own showcase. These early theaters, (termed Nickelodeons), were no more than a simple room and a screen, yet their popularity was such that by 1909 there were 8,000 of them operating in the United States.¹

The next stage of cinema development occurred in 1913 when Thomas Lamb opened the first million dollar "Movie Palace" in New York. This signaled the beginning of Hollywood's Golden Age-- the three decades when film production and audiences reached their zenith. The first 20 years of that golden age saw the construction of nearly 4,000 movie palaces designed to accommodate both live stage born theatrical entertainment and the relatively new two-dimensional medium of film.²

The period that followed (1934-1948) saw little in the way of new theater construction, yet this turned out to be one of the most lucrative times for theater exhibition. At the beginning of World War II, patriotic Americans began to

flock to theaters to watch Newsreels that broadcast official information on the latest defeats and victories of the war. Stars of full-length films made personal appearances to promote war bond sales. In 1946, the best year in the history of the industry, over four billion tickets were sold.³

CONSTRUCTION/DEMOLITION TRENDS

In the years following the war, the movie theater business went into a period of decline. Admissions to movie theaters fell from a high of \$1.69 billion in 1946 to \$942 million by 1963. During this same period the total number of indoor screens declined 44% from 17,811 to 9,150.⁴ Much of this decline could be attributed to two factors: the suburbanization of America which left many theaters without audiences and the rise of television which gave movie-goers a stay-at-home alternative.

Movie exhibitors responded to the migration of their audiences by locating new theaters in the suburbs. According to Morris Englander of Hoyts Cinema Corporation in Boston:

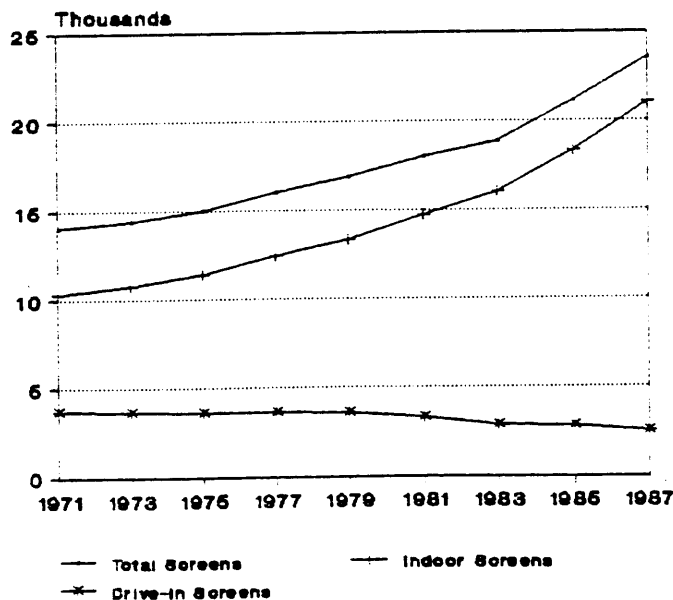
The Smith family, founders of General Cinema Corporation, recognized that the emergence of the interstate highway system would have a profound effect on their business.

As part of their strategy, in 1955 General Cinema opened a movie theater in the Shoppers World Mall in Framingham, Massachusetts. According to Englander, this was the first cinema to be located in a shopping mall and it met with "instant disaster". The problems cited were that in 1955

Framingham was a small community with a limited audience and to compound this problem, suburban theaters up until 1961 were only able to show "second run" films.

By 1964 the decline of movie theaters, as measured by the industry standard number of screens, had ended. This was due in part to an emerging trend in the industry to construct multiple screens at a single location. Here again according to Englander, General Cinema Corporation pioneered this concept in 1961 by opening the first multi-screen cinema; it was located in the North Shore Shopping Center, Peabody, Massachusetts. In 1964 there were 9,200 indoor screens, by 1970 there were 10,000, an increase of 8.7%. From 1971 to 1987 the number of indoor screens has increased by over 100% to a total of 21,048. (Figure 1).

Figure 1
of Screens in U.S.



Source: Motion Picture Assoc. of America

DRIVE-IN THEATERS

During this same period from 1971 to 1987 the number of drive-in screens has decreased by 32.6% from 3,720 to 2,507. (Figure 1). Bruce Austin in his book, Current Research in Film: Audiences, Economics, and Law, cites several reasons for the decline of the drive-in theaters. First and foremost are the real estate economics. There are few desirable locations that could be considered affordable for new drive-ins, they require 11-20 acres. In addition, strict zoning regulations have made sites scarce. Owners of existing drive-ins have found that they can make far more money by selling out to shopping mall or industrial park developers. Weather is also a factor. In cooler climates drive-ins shut down in the winter months; fixed costs like real estate taxes continue thereby making it difficult to turn a profit. In warmer climates, the lack of air conditioning makes it difficult to compete with indoor theaters. Also cited were lifestyle changes, drive-ins no longer serve as hangouts, young people today seem to prefer malls or video arcades. In addition, changing attitudes towards sex as well as the popularization of the van have ended the days when the drive-in functioned as a "passion pit".

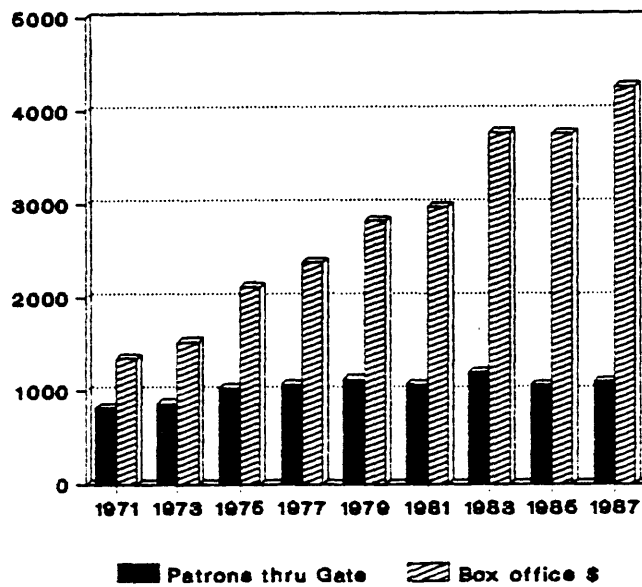
WHO GOES TO THE MOVIES?

At the same time as the total number of movie theater screens began to increase, admissions also began to rise. Box office receipts in 1964 totaled \$913 million, by 1970

they had grown to \$1.16 billion a 28.2% increase. From 1971 to 1987 the industry saw a 263% increase from \$1.17 billion to almost \$4.3 billion. (Figure 2). During this same period, patrons through the gate increased only 32.7%, from 820 million to 1.09 billion. Thus higher ticket prices could account for much of the increase of dollars at the box office. (Figure 2).

Figure 2

Movie Theater Attendance (in millions)



Source: Motion Picture Assoc. of America

According to a study conducted for the Motion Picture Association of America by Opinion Research Association of America, the majority (86%) of movie admissions was generated by movie-goers under the age of 40. The following table breaks down their findings.

Percent of Total Yearly Admissions

<u>Age:</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>% of Pop</u>
12-15 yrs.	14%	14%	13%	7%
16-20	21	21	23	9
21-24	17	18	18	9
25-29	14	14	13	11
30-39	20	18	18	20
40-49	8	7	8	13
50-59	3	4	4	11
60&over	<u>4</u>	<u>4</u>	<u>3</u>	<u>20</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

A closer look at this data indicates that the age group from 12-29 years accounts for 67% of the admissions but only 36% of the 1986 population. On the other end of the spectrum those 40 years and older represent 44% of the population, but only 15% of theater admissions. This study also indicated that single people go to the movies at almost double the rate of married people and that movie-going increases with higher levels of education.

From 1986 to 1987 a surprising change took place in these age distributions. Attendance by movie-goers in the age group 40 years and over rose by 56%. Apparently people from this age group have been tantalized by rented videos and are rediscovering the pleasures of movie-going.⁹ The greying of our population will support this trend in the future as Hollywood producers are well aware; of 1987's top 10 hits, not one was targeted at the youth market.

THE COMPETITIVE ENVIRONMENT

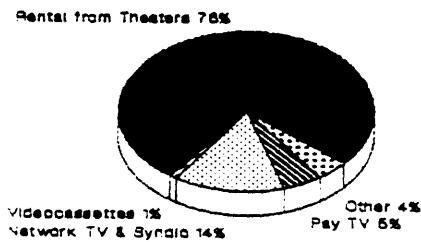
The competitive environment for the movie theater business can be divided into two basic areas: the

competition that is internal to the industry (theater vs. theater), and that which is external (home video, pay TV, etc.).

To begin our discussion on the external competitive environment we can look at the changes that have occurred in movie studio revenues. In 1980, film rentals from theaters accounted for 76% of studio revenues while videocassettes were about 1%. By 1986, rentals to theaters represented only 40% of revenues while videocassettes had grown to 39%. (Figure 3).

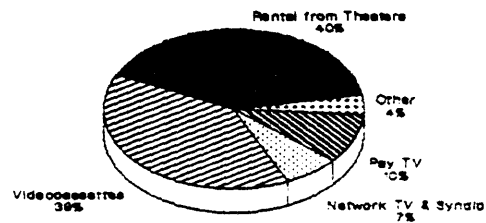
Figure 3

Movie Studio Revenues
1980



Source Goldman, Sachs & Co.

Movie Studio Revenues
1986

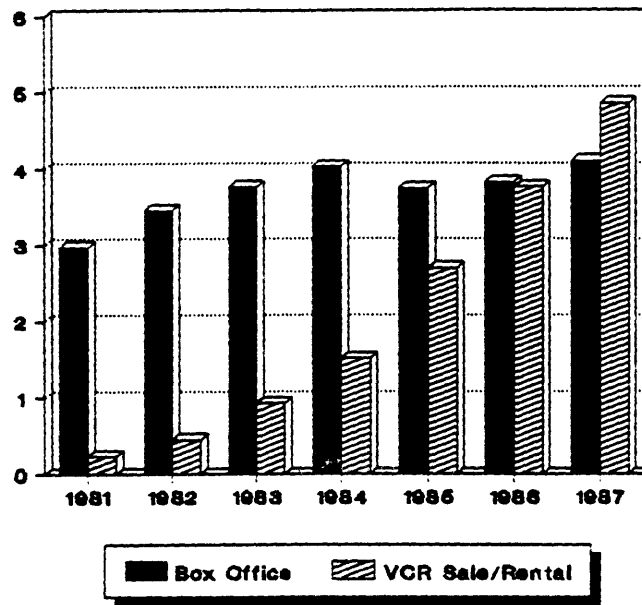


Source Goldman, Sachs & Co.

In 1987, for the first time videocassette sales and rentals outstripped box office revenues in the U.S. (Figure 4). The Motion Picture Association of America (MPAA) reports that in 1987 there were 110 million pre-recorded videocassettes sold to U.S. dealers. This represented a 31% increase over 1986.

Figure 4

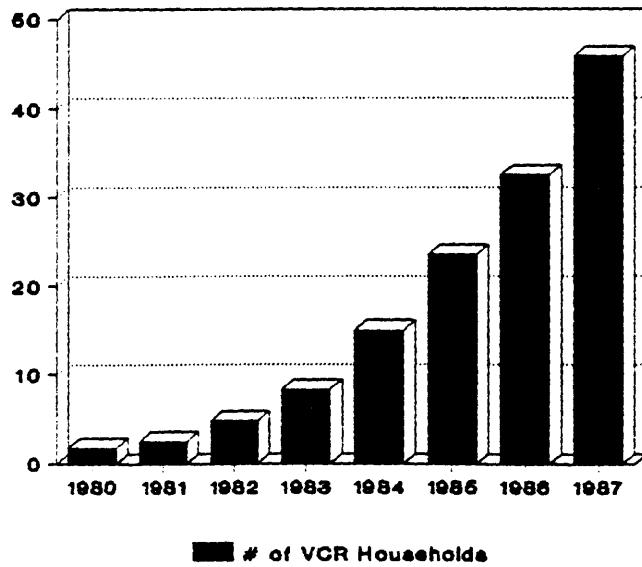
DOMESTIC MOVIE REVENUES (in billions)



Source: Motion Picture Assoc. of America

Figure 5

VCR Households Millions



Source: Motion Picture Assoc. of America

This growth rate had peaked in 1985 at 136.4% with sales of 52 million tapes. By 1987, the VCR penetration rate stood at 51.7% of American TV households, a total of 45.8 million units. (Figure 5). These figures reflect a maturing of the VCR industry according to Frederic Hirsch, Vice President of Home Video for the MPAA. As the home video market matures, there are those in the industry that believe that videos have stimulated theater attendance. Bill Mechanic, Senior Vice President of Walt Disney's video division states that:

"People's enthusiasm has been awakened by the video experience. People who saw Bette Midler in [last years] 'Ruthless People' on videocassette may be going to theaters to see her this year in 'Outrageous Fortune.'"

Home video may be bringing some people back to the theater, but the fact remains that a smaller percentage of the entertainment dollar is being spent there. In 1981, 45% of consumer entertainment dollars were spent in the movie theater. By 1986, despite dollar growth to \$4 billion, the share of total movie consumer entertainment dropped 25%, much of this decline could be attributed to the 56% increase in home electronics purchases which include VCRs.⁶

When talking to theater operators about the external competitive environment, they speak in terms of any alternative to theater-going. Paul Del Rossi, President of General Cinemas Theater division, stated that:

We define our competition in a very broad context, including restaurants, motor homes, the 49ers, John McEnroe, singles bars, golf courses, bowling alleys, stadiums, amusement parks, fitness centers... the list goes on.

There may be some dispute on the effects of home video on the theater industry, but it is a fact recognized by the industry that a share of the entertainment dollars that used to be spent at the theater are now being spent elsewhere.

The competitive environment internal to the movie theater business ranges from marketing problems of the Limited Market Theaters to the grand expansion plans of the major chains.

At one end of the spectrum we have the Limited Market Theaters (LMTs), which by definition are located in markets that will not support a "major" multiplex theater. The main problems with a LMT are the small audience pool and the inability to secure films during the first month after release due to economic constraints.

The smallness of the LMTs also offers some distinct competitive advantages as well. As Richard Herring, a theater owner from Wytheville, Virginia stated:

I detect a trend in our society toward a desire for service and a disenchantment with bigness. (The airlines have gotten terrible press for "packing the herds in the ships.")

In addition, LMTs that have survived have learned how to cut and control costs, something that is difficult for a major chain to accomplish. Management flexibility is also an asset that LMTs enjoy. Herring points out that promotions

with local businesses can be mutually beneficial. Some of his ideas include working out a deal with a local restaurant to provide couples with "An Evening Out -- Dinner and a Movie for Two" for one price. Another is to have local business support free all-day children's shows at Christmas; the downtown businesses benefit by the large draw and are willing to pay for the free movies. The more personalized approach to theater operations is the LMTs primary advantage according to Herring.

On the other end of the spectrum we have the major theater circuit chains (Figure 6). The top ten chains in the country as of September 1987 controlled about 40% of the nations screens.⁷

Figure 6

<u>Circuit</u>	<u>Headquarters</u>	<u>Total Screens</u>
United Artists Com.	East Meadow, NY	1,999
American Multi-Cinema	Kansas City, MO	1,438
General Cinema	Chestnut Hill, MA	1,303
Cineplex Odeon (USA)	Los Angeles, CA	1,008
Carmike	Columbus, GA	661
Mann Theaters	Los Angeles, CA	451
Commonwealth Theaters	Kansas City, MO	443
National Amusements	Dedham, MA	381
Cinemark	Dallas, TX	325
Tom Moyer Theaters	Portland, OR	312

At this level, the competition between chains is for market presence and upgrading the quality of the exhibition environment.

The major theater chains are in the middle of a building boom. Since 1982 the number of indoor screens has grown by over 40%. Paul Del Rossi of General Cinema stated: "We see a very bright future in this industry, we plan to double our asset base over the next five years." Similar strategies to gain market presence can be heard from many of the top companies.

Renovation of existing theaters is also a top priority for many in the industry. Conversion of large single screen theaters into multi-plex theaters and enhancement of the theater experience is key to the future of the business according to some. In a 1987 Wall Street Journal article, Garth Drabinsky, President of Cineplex Odeon Corporation claimed:

Movie exhibition in North America has suffered over the last 25 years because the people who have run the industry, for the most part, have been more concerned with estate planning than reinvesting in the businesses that made them their fortunes.

Drabinsky believes that there are parts of the U.S. where theaters are in significant disrepair and that Movie-theater owners must spend \$500 million over the next three to four years on refurbishment costs in order to remain competitive.

Drabinsky's commitment to this strategy comes in the

form of theaters featuring lobbies with Italian marble, original murals on pastel walls, plush carpets, scientifically contoured seats, space-age sound and projection, and lots of neon. These types of improvements can often cost up to \$450 thousand per screen. In May 1986, after spending \$1.3 million to modernize the Fairfax Cinema in Los Angeles weekly revenues were averaging \$40,000. Before the renovations, weekly revenues averaged \$7,000.

CONSOLIDATION IN THE INDUSTRY

Mr. Drabinsky has also been widely credited with igniting a stampede by movie studios to buy theater chains when he sold a 50% interest of Cineplex to MCA Inc. in 1986. The \$156 million in proceeds were used by Cineplex in part to buy five smaller chains including: Plitt, RKO, Septum, Essaness, and Sterling. Several other major acquisitions by the movie studios have taken place over the last three years leading some theater-owners to fear that this vertical integration will squeeze them out of the business.

Legal Considerations

These acquisitions follow a period from 1948 to 1986 when such practices were considered in violation of anti-trust laws. The famous 1948 Paramount Case (U.S. v. Paramount et al.), the U.S. Supreme Court held that eight major Hollywood Corporations were to divest of their brick and mortar holdings--the movie theaters themselves--in the United States. The corporations long fought financial

control of production, distribution and exhibition of films was dismantled.⁸

In order to discourage stringent enforcement of the Court's 1948 decision, studios have generally limited their ownership of exhibition enterprises to 50%. They also claim to operate their production, distribution, and exhibition interests independently of each other. In addition, they have retained managers experienced in exhibition to continue to run these chains.⁹

Why Integrate Vertically?

The movie studios are interested in vertical integration for a variety of reasons. They can retain control of an additional 50 to 60 percent of the box office receipts and operate the candy concessions where operating margins can run 50 to 80 percent. In addition, they can control the release patterns and strategic marketing of films as well as the price of tickets. This strategy also allows them to develop new product planning and marketing expertise in regard to future production and distribution plans. It also allows them to accelerate the recycling of box office cash flows.

Effect on Exhibitors

All of these acquisitions and new construction of theaters has had some interesting effects on the industry. On the bright side, whereas only a short time ago studios were releasing some films to the video market after only two months in the theaters, this window is now 8 to 12 months.

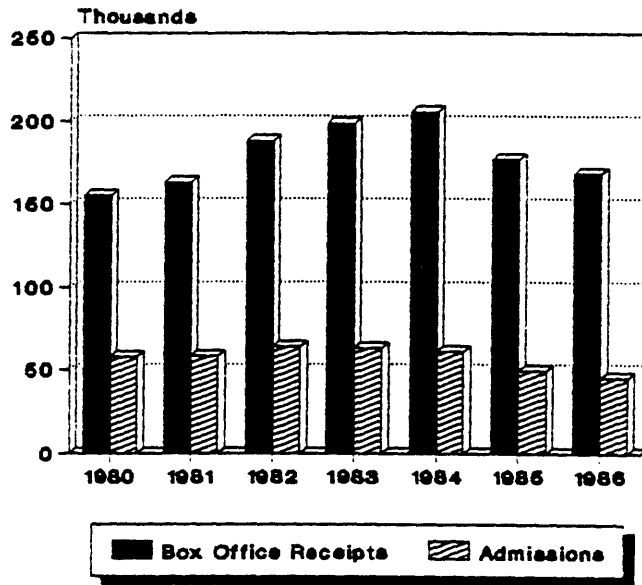
This allows independent sub-run theaters to have access to films before they reach the home video market. In addition, consumers are less willing to wait a year to see their favorite stars, so they are more likely to go to the theater than to wait for the video release. The increase in time frame between first run and home video release is due to the studios greater interest in box office performance of their pictures since they now have an ownership position in the exhibition business.

As more theaters are built, the per screen average for admissions and box office receipts are on a downward trend. This has forced many small undercapitalized operators out of business and fueled a sense of market saturation among the major exhibitors. The negative effects of these trends are summarized in Figure 7.

Some of the "majors" including: National Amusements, Cineplex Odeon, and American Multi-Cinema have seen expansion opportunities in Great Britain. The British market is showing signs of recovery after reaching a post war low in 1984, and with only one third as many screens as France or West Germany prospects for modern new theaters seem good.¹⁰

Figure 7

Per Screen Averages U.S. Market



Source: MPA

SUMMARY

Many in the industry predict that the major exhibitors will continue to expand through both acquisitions and new construction, with the ultimate goal of greater market share and control of the industry.

NOTES

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3. Steven J. Sansweet, "With Ticket Sales Off, Some Movie Exhibitors Project a Bleak Future," The Wall Street Journal, vol. CXCVIII, no. 35 (New York: August 19, 1981), pp.1, 19.
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Chapter Two The Film Distribution Process

Film distributors serve as a conduit for films between the producers and the exhibitors. Since major distributors have controlled the terms of most major films over the years, an adversarial relationship has developed between exhibitors and distributors. As major exhibitors expand their operations and gain more power in the industry, they are in a better position to negotiate with the distributors.

HISTORY

The first film exhibitors had to buy the films they wanted to show. This proved to be a very inefficient system as once a film had lost its audience appeal, it had little value to the exhibitor. Direct buying of films was replaced in 1902 by a film exchange system in San Francisco. This system allowed exhibitors to rent films for 1/4 of the normal sales price. By 1907 there were 125 to 150 film exchanges serving the country. The exchange system was welcomed by film producers since they no longer had to deal with thousands of exhibitors.¹

Film exchanges continued to grow, by 1929 there were 444 film exchanges across the country. By 1947 the total had dropped to 107 and the market was dominated by eight major national distributors. These eight controlled not only distribution, but production and exhibition as well. Although they owned only 3,137 of the nations 18,076 screens, this represented 70 percent of the first run theaters in the

92 largest cities, and 60 percent of first run theaters in smaller cities.²

In 1949 the Justice Department, alleging anti-trust violations, forced the major film companies to choose between production/distribution or exhibition. They chose to remain in the production/distribution business and liquidate their brick and mortar holdings. Since the major film companies no longer had an assured market for their films they cut back production. The lack of films as well as the impacts of audiences substituting TV viewing for movie-going were major factors in the decline of the theater business.

Film production began to increase in 1963 and continued through the mid-1970's when higher production costs contributed to fewer films being produced. This encouraged chains of theaters to grow in strength while independents found it difficult to secure any films to exhibit and nearly impossible to get the few blockbusters that were being produced.³

WHO MAKES THE MOVIES

Seven major film companies, (Universal, Warner Brothers, Paramount, 20th Century Fox, MGM/UA, and Buena Vista), held an 88.3% market share of box office admissions between 1972 and 1982. Independents accounted for only an 11.7% share. The top ten distributors for 1986 are shown on the table below with their respective box office shares.

<u>Rank</u>	<u>Distributor</u>	<u># of Films</u>	<u>Mkt Share</u>
1	Paramount	19	22.2%
2	Warner Bros.	21	11.0%
3	Disney	12	10.1%
4	Columbia	17	9.5%
5	Universal	16	8.5%
6	Fox	21	8.1%
7	Tri-Star	18	7.1%
8	Orion	14	7.0%
9	MGM/UA	15	4.4%
10	Cannon	18	2.7%
	Total		90.6%

Since ten or fewer films at any one time are responsible for 60 to 70 percent of box office receipts, theater owners face intense competition in securing films to exhibit. This fact is well known by the distributors and thus gives them the power to demand greater advances and guarantees, longer runs, and a higher percentage of the box office.

COMPETITION FOR FILMS

Theater owners secure films to exhibit either through a bidding process or by negotiating with the distributor. The bidding process has given way to direct negotiations especially in states that have enacted anti-blind bidding laws.

Legal Considerations

The National Association of Theater Owners claimed that in 1979, 90 to 100 percent of films were blind bid. Blind bidding for a film means that an exhibitor will submit a bid for a film before he/she has seen it. A distributor will send a letter to an exhibitor describing the story line,

actors, producers, etc., sometimes a year in advance of actual release. Exhibitors must prepare a bid based on this limited information. As of 1987, 24 states, Puerto Rico, and Prince Georges County, Maryland have enacted laws prohibiting blind bidding for films. In these areas distributors will either preview a film to buyers or negotiate directly with the theater owner.

Theater owners felt that blind bidding for films was an unfair system. They wanted to pick the films they exhibited to their audiences, and they didn't like paying the large advances and guaranteeing runs for unproven films. To address these problems the theater owners developed a system of their own. It was called "product splitting". This is where theater owners in a given area would meet and divide up the films and agree who would bid for a particular picture. Bids would be made only after a picture had been allocated to a particular exhibitor and only by that exhibitor.

This practice was very successful in keeping advance guarantees to a minimum for major exhibitors. Four theater companies: Capitol Service Corp., Marcus Theater Service Corp., Marcus Theater Corp., and United Artists Theater Circuit implemented a product splitting plan in 1977, a year in which they had paid a total of \$1,820,300 in guarantees. In 1981 they paid only \$140,000 in guarantees.

Federal courts ruled in 1983 that product splitting was an obvious or "per se" form of illegal market allocation and

price fixing. The practice continued until the Justice Department began assessing fines to chains that were convicted of product splitting. In January of 1987, American Multi-Cinema pleaded guilty and was fined \$750,000; in October of that same year, United Artists Theaters Circuit was fined a total of \$1,750,000 in a pair of product splitting cases. According to General Cinema President, Paul Del Rossi:

Product splitting went on openly in the 1960s and 1970s, the Justice Department did not enforce the laws. In April of 1977 the major chains were informed that enforcement of the laws would begin and those in violation of product splitting laws would be prosecuted. Test cases came in the early 1980s, convictions were handed down, and fines were paid. Product splitting is illegal and is no longer practiced.

The Bidding Process

The bidding process begins with the distributor sending a letter to theater owners in a given area detailing that a specific film will be available for a play date and requesting that each exhibitor make an offer. These letters almost always request a non-returnable guarantee, and state a minimum playing time. In addition, the distributor asks for information regarding theater expenses since these are deducted from the film rental split. Average weekly overhead for a theater is \$1,200, but in cities like New York it can run as high as \$20,000.⁴ Bids will also request a holdover figure, or a minimum box office gross at which the exhibitor will continue to play the picture beyond the contracted

playing time. For example, if in the final week of an engagement the gross exceeds the holdover figure, the picture will play an additional week. In the event that an exhibitor pulls a picture before the contracted playing time expires, he/she must normally pay 75 percent of the last week's gross for the duration of the contract. This figure would probably be minimal because if the picture was successful, the exhibitor would still be showing it.

Film Rental

Film rentals, whether negotiated directly with a distributor or done on a bid basis are commonly based on box office receipts. The normal split for a major picture will be 90 percent of the box office to the distributor 10 percent to the exhibitor during the first week of the run. In subsequent weeks, this percentage will change in favor of the exhibitor. The division of box office receipts is normally figured after a deduction of house expenses; although sometimes a floor is inserted whereby the theater owner may pay the greater of 90 percent of net box office, or 70 percent of gross box office.

A typical example of a 90/10 split deal would be:

Weekly Gross	\$25,000	
House Expenses	<u>4,000</u>	
Net	\$21,000	
90% of Net	\$18,900	or 75.6% of Gross

Any expenses shared by the exhibitor and the distributor, like advertising, would be split according to actual

percentage of the gross, in this case 75.6 percent to be paid by the distributor, 24.4 percent by the exhibitor.

Film Selection

Film buyers have the difficult job of trying to pick films that the public will like. Large chains use computer analysis to try to determine how a particular picture will do in certain theaters but according to Paul Del Rossi, "film buying is still more art than science."

Film buyers analyze their bids based on a "gut feel", the track record of those involved in the production, comparable pictures to be released at the same time, the type of picture, how badly the picture is needed, whether one's ego necessitates having a big picture to show, the size of the promised advertising campaign, the cash available for guarantees and who else may be bidding on the picture.⁵

All theaters are not equal in the eyes of film distributors. Location, number and quality of the seats, its grossing history, sound and projection equipment, age, whether it is a single or multi-screen house, and whether it is an independent or circuit house are all factors in selecting the "best bid".

SUMMARY

The evolution of the film distribution system has had a great impact on the movie theater business. The major film studios which control production and distribution of films seem comfortable making deals with the major circuits. This

in turn has left the independent operators with less power to secure good deals on films. As the studios continue to buy large stakes in major exhibitors, the movie industry will be increasingly controlled by a few large corporations.

NOTES

1.Kurt W. Marek, *Archaeology of the Cinema*, New York:Harcourt Brace and World, 1965, p. 19.

2.Ibid 14

3.Mary Donahue, *American Film Distribution: The Changing Marketplace*, UMI Research Press, Ann Arbor, Michigan, 1987.

4.Howard Wilansky, *Marketing and Distribution*, May 18, 1983.

5.Ibid 1

Chapter Three "Economic Considerations for Movie Theaters"

On the surface movie theater economics seems like a simple enough concept: maintain and/or increase sales, control costs, and stay competitive. True, this a simple enough concept to conceive, but in an intensely competitive business climate it is difficult to achieve. This chapter will discuss economic issues of revenue, costs, growth, performance, and management.

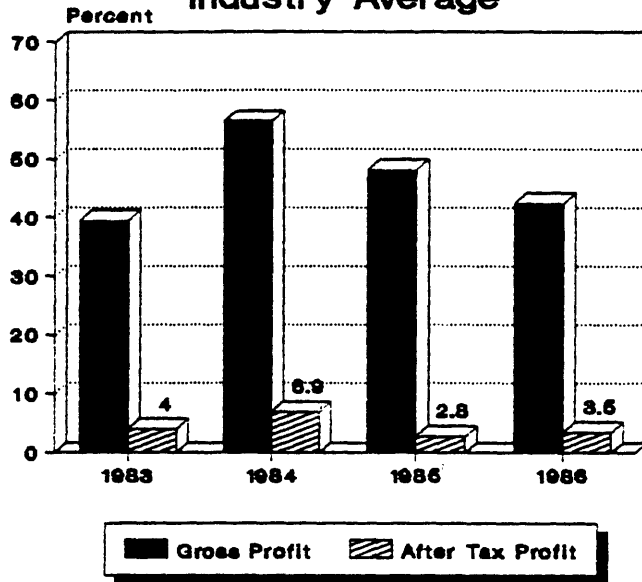
REVENUES

Revenues in the movie theater industry come primarily from box office and concession stand sales. As an industry, earnings have been volatile over the last few years, although on a downward trend. A report compiled by Morton Research Corporation indicates that gross profits fell by 33% between 1984 and 1986 from 56.5% of sales to 42.5%, while after tax profits fell over 97% during the same period (Figure 1).

These declines in profitability were occurred while attendance and box office revenues were on their way up. It is this author's opinion that much of the decline in profitability could be attributed to the ambitious expansion programs that many of the major operators were undertaking during this period. The overall increases in attendance and revenues were simply being spread out over more screens. For example, General Cinema Theaters, in their continuing

expansion program added 117 new screens in 1986 bringing

Figure 1
Profit Statement
 (% of Sales)
 Industry Average



Source: Merton Research Report 1987

their total to 1,254 screens in 340 locations.¹ Because of their action, operating earnings and profits suffered.

General Cinema Theaters
 (1,000's)

	1986	1985	1984
Revenue	\$349,432	\$341,383	\$350,659
Operating Earnings	\$25,755	\$29,094	\$37,610
Margin	7.4%	8.5%	10.7%

Paul Del Rossi, President of General Cinema Theaters, explained:

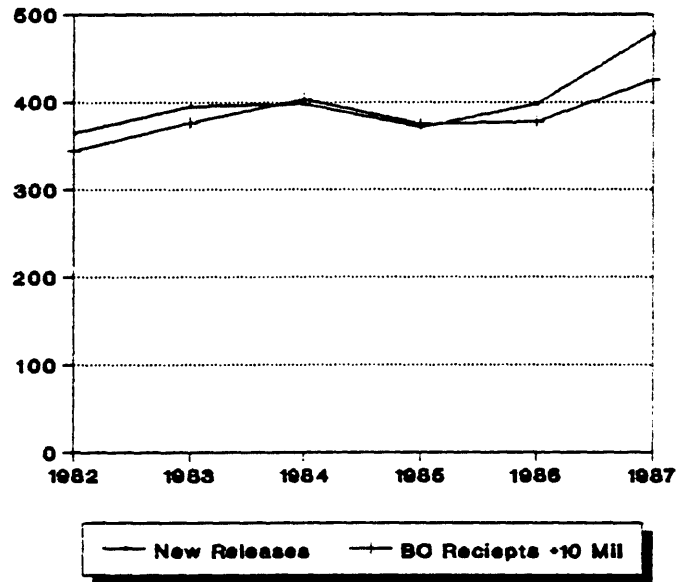
The key elements in having a successful, high grossing cinema are a good location, a cinema design appropriate for that market location, a well trained staff, and a good supply of films from Hollywood.

According to figures published by the Motion Picture Association of America and analyzed by this author, there

seems to be a very strong correlation (87.7%) between new film releases and box office revenues (Figure 2).

Figure 2

Film Releases & Box Office Revenues



Source: MPA

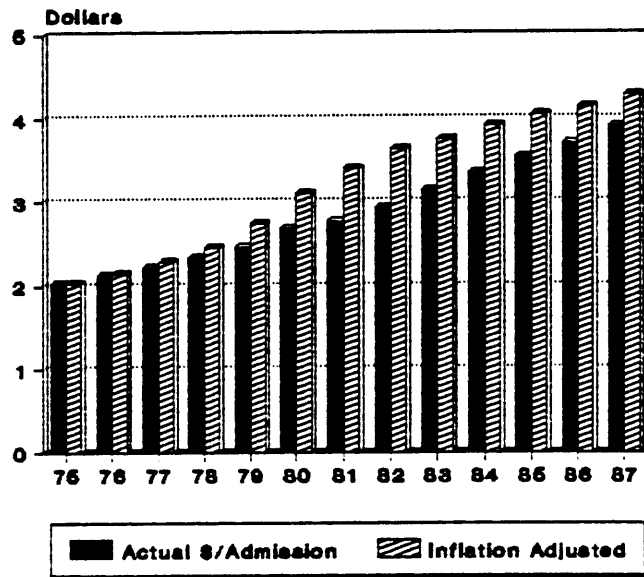
Box Office

Although average ticket prices have been increasing steadily over the years, increases have not kept up with the pace of inflation during the 1970 and 80's (Figure 3). While box office receipts account for 80% of revenues, they contribute to only 20% of profits.² Part of this imbalance can be attributed to the film distribution system where distributors take a large percentage of the gate during the first weeks of a film's run. In addition, there are some inherent inefficiencies in the exhibition business. For example, According to Morris Englander of Hoyts Cinema:

The movie exhibition business is one of peaks and valleys. Roughly 20% of our business is done on Friday, mostly in the evening; about 33% is done on Saturday, about half of this after 7:00pm; 20% is done on Sunday, half in the afternoon and half in the evening.

Figure 3

Average Admission Price



Source: MPA

This infers that 73% of a cinemas business occurs during only 2.5 days of the week. There are only so many areas that one can cut costs during the other 4.5 days of the week and still remain open. A challenge facing the industry is how to fill more seats during these non-peak periods.

Concession Stands

Refreshment sales contribute to 20% of total revenues but account for 80% of profits. This is due primarily to the large mark-ups obtainable on food and beverage items. For example, average mark-ups on soft drinks, candy, and hot dogs

are 65%, while the gross mark-up on a \$2.75 tub of popcorn is 539%.³ The average transaction is \$2.93, with a gross profit margin of 80%.⁴

The National Association of Concessionaires (NAC) claims that movie theater refreshment sales are an \$850 million per year business. Thus, the average six-plex theater would receive \$224 thousand in concession sales per year. Of this 80% of sales and profits come from popcorn and drinks, 20% comes from candy, hot dogs, nachos, and ice cream.

It seems as though theater owners are not in the exhibition business but in the concession business. Recognizing this fact, many theater owners have initiated programs to increase concession sales. NAC studies have shown that less than half of theater-goers visit the concession stand and that once seated only 5% will get up to go to the concession stand. Theater owners responded by setting up mobile concession stands which in some cases have increased sales by 10%. Another system is the "Snack Pass," where a theater-goer purchases one ticket for admission, popcorn, and a drink. An express line is set up so that this ticket buyer doesn't have to wait in the regular concession line.

Since concessions play such an important part in the profitability of cinemas one would think that expanding the offerings could increase sales. Paul Del Rossi stated:

We are constantly testing new products that could expand sales and add to profitability. In most cases, however, adding new items makes our concession stands less efficient by slowing customer service, as well as less profitable, since the new products typically are high-cost and yield smaller margins.

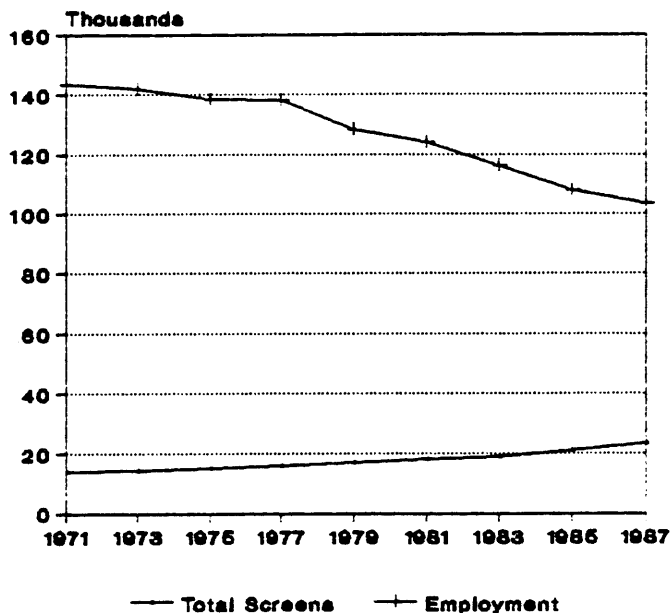
There are some in the business that have gone far beyond the traditional soft drink, popcorn, and candy concession. These would include the restaurant/cinema combinations like the Cinema N' Draffhouse theaters, and the New Varsity theater in Palo Alto, California where the menu includes pizza, pasta, and fancy burgers, with beer or wine to wash it down.

OPERATING COSTS

In order to survive in an increasingly competitive marketplace, cinema owners have had to learn to cut costs. In a business that experiences an employee turnover rate of 200% to 300% per year this has been no easy task.⁵ Theater owners have decreased their reliance on labor by investing in more capital items, mainly multi-plex theaters and computerized ticketing and management information systems.

In 1980 there were 128,511 theater employees and 17,590 total screens, or 7.306 employees per screen. By 1987 theater employment had fallen to 103,489 while screens increased to 23,555, or 4.394 employees per screen.⁶ This is a 40% decline in employees per screen (Figure 4).

Figure 4
Theater Employment



Source: Motion Picture Assoc. of America

Computer systems have helped to streamline operations from the box office and concession stand to helping the film buyer determine how much to bid for a new film. General Cinema uses its IBM 4400 to gather and analyze data from 350 theater locations. Every morning each of the six Regional Managers receives a report of the previous day's activity. These reports allow them to determine which size auditorium a film should play in, what inventory needs to be ordered, and flags theaters where payroll is running too high. Access to this type of timely data helps management make quick decisions, a practice that usually has a positive impact on the bottom line in this business.

Cost Breakdown

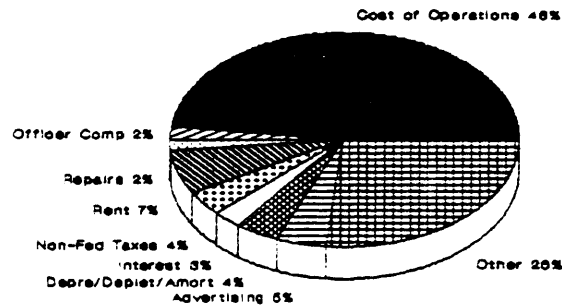
Operating costs as a percentage of sales for the industry between 1977 and 1984 are shown in Figure 5. Hoyts Cinema estimates that film rentals account for 50% of costs on average; rent, utilities, maintenance about 20%; supplies 15%; and payroll 15%.

The breakdown for payroll according to Paul Del Rossi is: \$400 per week for a Manager, \$325 for the Assistant Manager, \$10 per hour for the projectionist, and minimum wage for the concession people. He also stated although there has been no increase in claims, General Cinema Theater's insurance has increased steadily by 15% per year over the last five years.

Figure 5

Operating Costs As a % of Sales

Industry Average 1977-84



Source: Internal Revenue Service Data

PROFORMA

Below is a proforma for a 1,387 seat four screen theater in Austin, Texas. These figures are based on receipts of July 19, 1986. Ticket prices were \$3.50 for morning shows, \$5 for the rest of the day. On this day there were a total of 29 showings of the four movies.

**PROFORMA
Arbor Cinema Four
Austin, Texas**

TICKETS

	<u>Tickets</u>	<u>Revenue</u>	<u>Split</u>	<u>Profit after expenses and house allowance</u>
Aliens	2,000	\$9,744	90/10	\$1,674
Top Gun	1,226	5,448	90/10	1,330
Ruthless People	952	4,215	60/40	1,686
Legal Eagles	<u>459</u>	<u>2,057</u>	<u>60/40</u>	<u>823</u>
TOTAL	4,637	\$21,464	---	\$5,513

CONCESSIONS

	<u>Revenue</u>		<u>Expenses</u>
Popcorn	\$1,718	Management, Debt	\$323
Drinks	3,003	Food	872
Candy, etc.	<u>700</u>	Concessionaires	550
		Rent	550
		Janitorial	<u>60</u>
TOTAL	\$5,421	TOTAL	\$2,335

=====

Concession Income	\$3,066
Ticket Income	\$5,513
Daily Income Before Taxes	\$8,579
Gross Margin	32%

THEATER EXPANSION

Much of the growth in the movie theater industry has resulted from the ambitious expansion plans of the major circuits. Because there are fewer new malls being built -- and existing ones cannot accommodate large multi-plexes -- many theater companies are now buying land. Sumner Redstone, President of the privately held National Amusements Inc. says, "Unlike most of the major chains which lease their buildings and grounds, we prefer to own our own theaters and land -- as a hedge against the rather nebulous motion picture business."⁷

New Construction vs. Remodel

According to Paul Del Rossi and Morris Englander, about 80% of theater construction today is for new buildings, 20% is remodeling or renovation work. Five years ago 95% was new construction, about 5% remodeling.

Costs for new construction can vary widely. One operator, Cineplex Odeon, opened an 18-screen, 6000 seat art deco theater in Universal City, California which cost \$16.5 million. This comes to \$2,750 per seat.

A typical General Cinema theater would cost about \$45 per square foot in shell construction, and \$125 thousand per auditorium for all interior improvements required for turnkey operation. An 18-screen, 6000 seat complex would cost \$6.3 million or \$1,050 per seat using General Cinema's formula.

The difference is that Cineplex Odeon is into "monument

building" while General Cinema is content with providing viewers with a clean, comfortable, state-of-the-art exhibition environment.

When asked about savings associated with remodeling theaters, both Del Rossi and Englander said that the costs were the same as for new construction, even under the best conditions you might be able to save on just a portion of the shell costs.

SUMMARY

This chapter has detailed sources of revenue and emphasized the importance of the concession stand in cinema profitability. In addition, it has given some insights into cinema operations and cost centers. The proforma was included to give the reader an idea of the potential profitability of a well managed cinema with access to top quality films. The section on construction was included to show the up front costs associated with entry into this business.

NOTES

1. General Cinema Corporation, Annual Report, 1987.
2. Insite, The Trade Journal for the Concession Industry, 1987, National Association of Concessionaires, p.12
3. Curtis Hartman, A Night at the Movies, INC., October, 1986, p. 106.
4. National Association of Concessionaires 1987
5. Insite, National Association of Concessionaires, 1987
6. MPAA, Economic Outlook, 1987.
7. Lois Therrien, Sumner Redstone's Idea of a Good Time is Hardnosed Bargaining, Business Week, October 20, 1986, p.78.

Chapter Four **"Marketing Considerations for Movie Theaters"**

This chapter will deal with marketing considerations of individual theaters, but in a broad context. Contemporary marketing theory emphasizes the "four P's" of the marketing mix: Product, Place, Price, and Promotion. In the context of a movie theater the important elements of the four P's can be thought of in terms of locational attributes and design factors.

LOCATION

Locational issues of can be divided into a macro view--geographic and demographic elements, and a micro view--should the theater be attached to a retail complex or free-standing.

Macro View

When a theater owner is looking for a site one of the first things he/she will want to know is: Who is my audience? This is normally accomplished by analyzing a demographic report prepared by a market forecasting company such as National Decision Systems (Appendix A). According to Paul Del Rossi, President of General Cinema Theaters:

When looking at those demographic reports you have to consider the region of the country, some areas like Texas people will drive 20 miles to go to a particular theater, in Boston it's hard to get people to go across the street.

Del Rossi generalized that successful locations were those which had a mix of young affluent workers and homeowners in the 38 to 42 year old range with two or three children. He

also cited weather and ethnic background as important considerations. In southern locations the air conditioned theaters offer a cool retreat from the hot weather of the summer months. Ethnic background is important when there is a large population of people that are trying to learn English as a second language, as in El Paso, Texas. Movies draw people from these groups as an accepted method of learning English and being entertained at the same time.

Morris Englander of Hoyts Cinemas, Boston, was more specific when he stated:

In order for a location to support a major cinema (8-10 screens), it must have a population of 100 thousand persons within a three mile radius.

Englander said that he considered the primary movie-going audience to be between the ages of 18 to 35 years old with median household incomes around \$30,000 per year. In addition to demographics, Englander said it was also important to do a competitive analysis to determine the proximity and quality of other theaters.

Suburban vs. Urban Locations

Cinemas have their roots in the downtowns of cities across the nation. These theaters were traditionally large single screen auditoriums, rich in architecture and located near movie-going audiences. During the late 1950's and into the 1960's, there was a large migration of people from the cities to suburban locations. Naturally cinemas followed their audiences and abandoned many downtown locations.

Paul Del Rossi explained:

After the suburban migration took place in the mid 1960's and into the 1970's, many downtowns were known as centers for business and education, not as nice places to live. More recently, many downtowns have been undergoing a gentrification process that is bringing audiences back to cities. As this in-migration continues in cities like Buffalo, Cleveland, and Washington, new theaters will be built to accommodate these audiences.

Mike Stevens, Vice President of Leasing with Forest City Development, stated:

With the exception of cities like Chicago, New York, Boston, or San Francisco, downtown movie-going audiences are not large enough to support a major cinema operation. The large single screen operations characteristic of downtown locations cannot compete with the modern multi-screen theaters.

Stevens went on to say that in many cases it is difficult to make a theater deal in a downtown location because the real estate economics will not support a cinema. In these struggling markets, developers must offer to share risks with theater operators. These risk sharing agreements may involve a 50% developer participation or rent based exclusively on revenues without a minimum rent clause.

Both Stevens and Del Rossi agreed that suburban locations offered the advantages of being near where movie-going audiences live and shop, offering convenient access and abundant parking. They also agreed that successful downtown locations were those close to movie-going audiences, in areas with lots of retail activity, and convenient transportation linkages including nearby parking.

Micro View

Since the early days of suburban shopping malls, cinemas have been incorporated to serve as a draw for other stores and particularly restaurants. At some point developers realized that these cinemas (which were paying low rents) were taking valuable frontage space that could be more profitably leased to small retail tenants (see Figure 1). To address this problem, developers insisted on designs that minimized mall frontage while maximizing access to food court areas (Figure 2). More recently, according to Morris Englander:

The trend has been for theaters to move out of the mall completely. This is due primarily to the scarcity of land and the fact that theaters cannot pay top rents.

This has resulted in more cinemas being constructed on pads adjacent to malls and construction of large free-standing multi-plex theaters unrelated to mall locations.

In downtown locations new construction has followed variations of the successful multi-screen model pioneered in the suburbs. In an effort to meet the competition, many of the existing large single screen houses have subdivided their space to accommodate multiple screens.

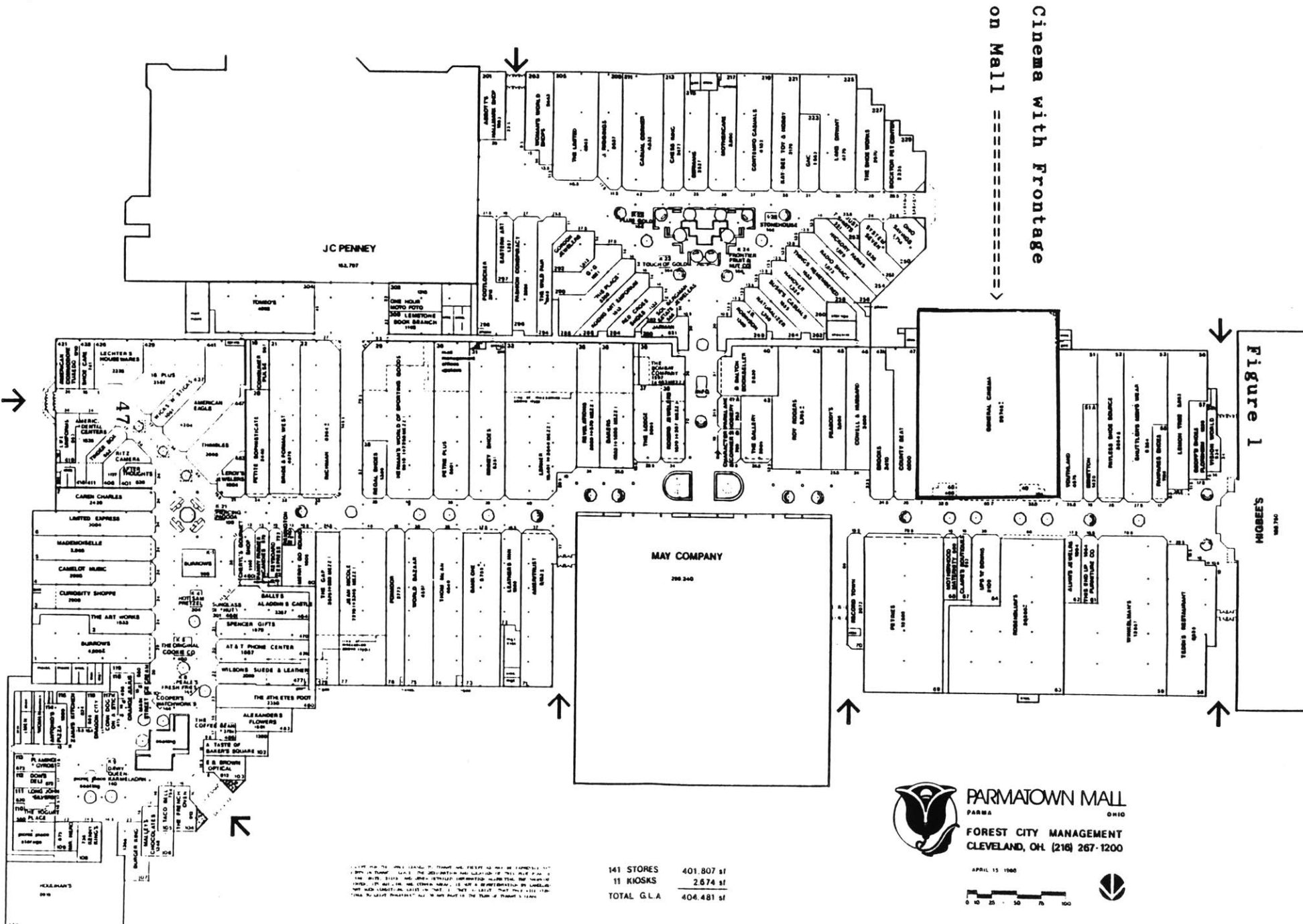
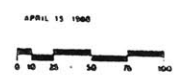


Figure 1
HIGBEE'S



PARMATOWN MALL
PARMA OHIO
FOREST CITY MANAGEMENT
CLEVELAND, OH. (216) 267-1200



141 STORES	401,807 sf
11 KIOSKS	2,674 sf
TOTAL G.L.A.	404,481 sf

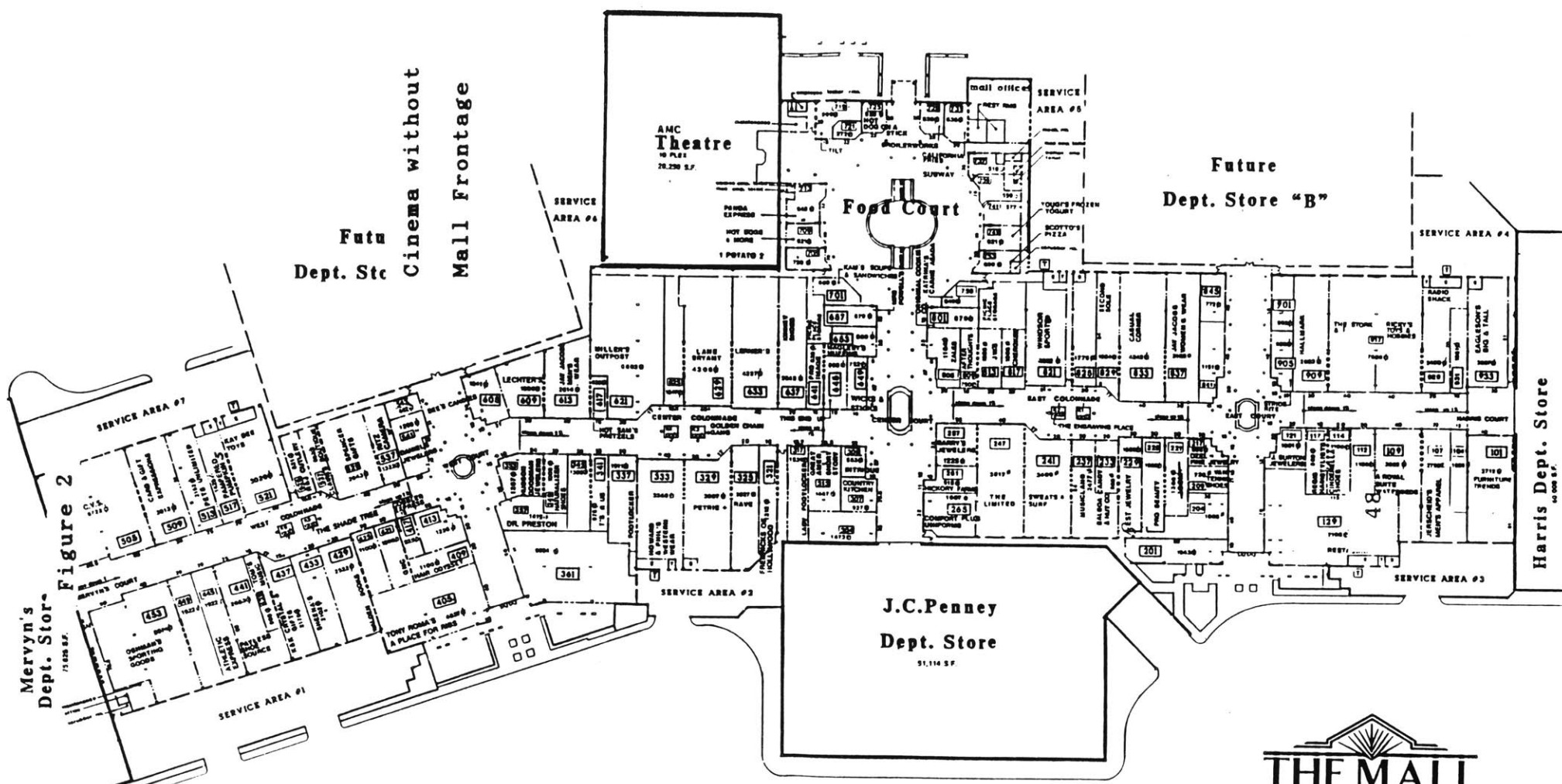


Figure 2

LEASE PLAN

KEEVA J. KEKST ASSOCIATES ARCHITECTS, INC.

0 32 64 96

MAY 1, 1988



- LEGEND
- T TRANSPORTS
 - T TELEPHONE EQUIPMENT RM
 - S SPRINKLER EQUIPMENT RM
 - E ELECTRICAL EQUIPMENT RM
 - CS CHASE DRACING
 - TS TENANT SPACE NUMBER
 - 123 APPROX GROSS LEASABLE AREA

LEASABLE RETAIL AREA 199,821 S.F.
 FOOD COURT 9,486 S.F.
 TOTAL LEASABLE AREA 209,307 S.F.

RECORD FOR THE SPACE LINES TO BE DRAWN AND RECORD AS THEY ARE REFERRED TO IN THIS LEASE PLAN. THE CONTRACTOR SHALL BE RESPONSIBLE FOR THE PROVISION OF ALL UTILITIES AND EQUIPMENT TO BE INSTALLED IN THE SPACE LINES. THE CONTRACTOR SHALL BE RESPONSIBLE FOR THE PROVISION OF ALL UTILITIES AND EQUIPMENT TO BE INSTALLED IN THE SPACE LINES. THE CONTRACTOR SHALL BE RESPONSIBLE FOR THE PROVISION OF ALL UTILITIES AND EQUIPMENT TO BE INSTALLED IN THE SPACE LINES.

THE MALL
 OF VICTOR VALLEY
 Victorville, California
 FOREST CITY DEVELOPMENT

DESIGN ELEMENTS

There are a variety of design issues that relate to the quality of the theater product (exhibition environment), as well as the ability of the theater to promote itself (aesthetically pleasing design and functional layout). Each of these issues will be discussed and implications of design decisions will be addressed.

Multi-Plexing

The most salient change of these design elements over the last 25 years is the abandonment of the single screen theater layout and the rise of the multi-screen theater. The obvious benefits of the Multi-plexing layout are the economies of scale that can be achieved (e.g. one projectionist can show ten films), and the wider choice of films available to consumers increases total attendance to a theater.

Some of the more subtle elements of this layout concern the flexibility allowed the theater operator in managing his product. Most multi-plexes have different size auditoriums. This allows the operator to vary the number of seats for each picture; good drawing films in large auditoriums, bombs in the small ones. In addition, multi-screen theaters are more likely to book a hit film, have greater flexibility with the length of a film's run, and often have increased bargaining power with film distributors than their single screen competitors.

According to a survey conducted by Business Trend Analysis in 1986, over 57% of all theaters have six or more screens.

Parking

Parking requirements will vary from free-standing cinemas and those which are part of a retail complex. The main advantage of cinemas that are incorporated into a retail complex is the availability of parking during non-peak retail times. Normally retail centers will require four to five parking spaces for every 1,000 square feet of gross leasable area (GLA); centers under 400,000 square feet would need four, those over 600,000 would need five spaces. A 1981 Urban Land Institute study claims:

- A center with less than 100,000 square feet of GLA requires a nominal three additional parking spaces for every 100 cinema seats for cinemas occupying up to 10 percent of the total center GLA.

- Centers having 100,000 to 200,000 square feet of GLA can accommodate up to 450 cinema seats, without providing additional parking. For every 100 seats above the initial 450 seats, a nominal 3.0 additional spaces per 100 seats are required.

- A shopping center with over 200,000 square feet of GLA can accommodate up to 750 seats without providing additional parking spaces. For every 100 seats above the initial 750 seats, a nominal three additional spaces are required.¹

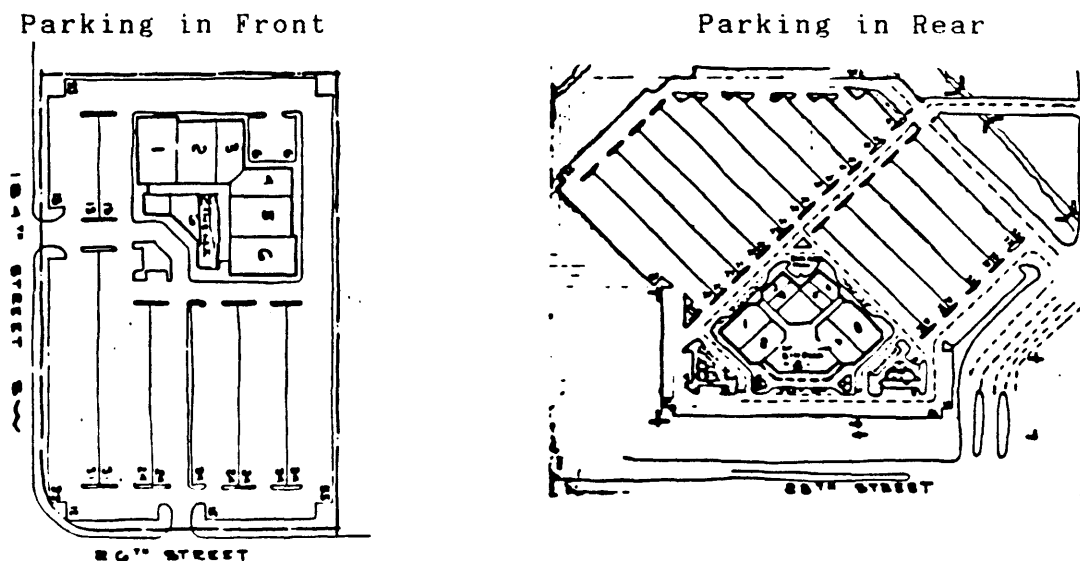
This study also states that a free-standing cinema parking space will accommodate three to four patrons. Thus, a six screen multi-plex with an industry average 229 seats per screen would require between 344 and 458 parking spaces.

Cinema architect Bill Riseman, Principal, William Riseman Associates, Inc. of Boston gave an aesthetic viewpoint of cinema parking for free-standing theaters when he explained:

The local zoning code will normally spell out how many spaces are required for a cinema. My concern is where to locate the parking, in the front or to the rear of the cinema.

Parking in the front of a complex offers a more gracious approach for patrons coming from the lot. In addition, security for patrons and their cars is enhanced. The problem with this approach is that some planning committees find fault with large parking lots exposed to main highways. Although parking in the rear compromises safety somewhat, Riseman believes that the benefits associated with exposure of the complex to potential patrons that pass by in automobiles are more important (Figure 3).

Figure 3



Auditorium

When asked about the layout of multi-plex theaters Riseman gave the following recommendations:

<u>6 Plex</u>	<u>8 Plex</u>	<u>10 Plex</u>	<u>12 Plex</u>
2 Large	2 Large	2 Large	2 Large
2 Medium	2 Medium	2 Medium	4 Medium
2 Small	4 Small	6 Small	6 Small

When varying small size auditoriums to large size auditoriums the same width to length ratios should be used. The optimal range for this ratio is between 1.5 to 1.8. This would mean an auditorium that is 50 feet wide should be between 75 to 90 feet in length. Another important ratio is the flat screen width to length of room. The optimal range here is between 2.5 and 3. A flat screen width of 30 feet would imply that the last row of the auditorium should be between 75 to 90 feet from the screen. The front row of seats should always maintain a distance equal to one-half width of the flat screen. For example, a 30 foot flat width screen, the front row of seats should be at least 15 feet from the screen. Adherence to these guidelines helps to insure that the spacial qualities of a cinema are perceived by the patrons as a comfortable environment to view a film.

Ticket Booth

Riseman believes that ticket booth layout depends heavily on whether a cinema complex is in leased space or owner-occupied. For leased space he recommends exterior ticket booths because of the space savings achieved by

stacking patrons outside. The disadvantages of this system are that patrons are exposed to adverse weather conditions and additional labor is required to keep customers out of the street.

In owner-occupied cinemas, interior ticket booths are preferred because close proximity to the refreshment stand tends to increase food and beverage sales. In addition, patrons are protected from traffic hazards and adverse weather conditions.

Lobby

In cinema design, Riseman feels that the facade of the lobby is one of the key marketing elements. He prefers glass front lobbies that allow the passing public to see the excitement generated by crowds of movie-goers; to him this is the best form of promotion a cinema can do.

The other advantages associated with this style are that the lobby appears larger, there is a greater visual impact when approaching by car, and the interior lighting serves as a form of exterior lighting. The disadvantages with this design are that the lobby space may be difficult to heat and cool. Also sunlight may melt candy if exposed and cause premature fading of carpets and interior wall colors. In addition, certain interior lighting schemes, such as neon, may be difficult to display effectively.

Concession Stand

Since concession stands are major profit centers for most movie theaters, understanding the trade-offs of different concession stand layouts is important. Riseman believes the refreshment stand should be located so that it can be viewed from all parts of the lobby. This is important for sales as well as from an operational viewpoint; when things are slow the concession attendant can watch the entire area.

The two types of standard layouts are the island refreshment stand and the wall stand. The wall stands tend to be more efficient in use of square footage and are easier to service and ventilate. Riseman prefers the island layout even though it requires more area, is harder to service and ventilate, and where to approach it can be confusing to patrons. His feeling is that the refreshment serves as a center piece for the lobby and when combined with the exterior glass wall an aesthetically pleasing space results.

Projection Booth

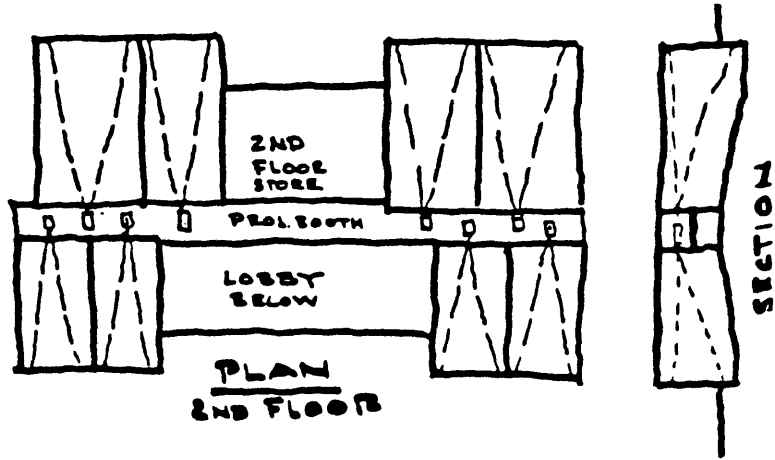
The design decisions here involve whether to locate projection booths on the first floor or construct a second floor mezzanine for projection equipment.

Riseman claims that second floor booths have lower square foot per seat ratios than first floor booths. This can mean up to 8% more seats in smaller complexes. In addition, the second floor design allows one projectionist to

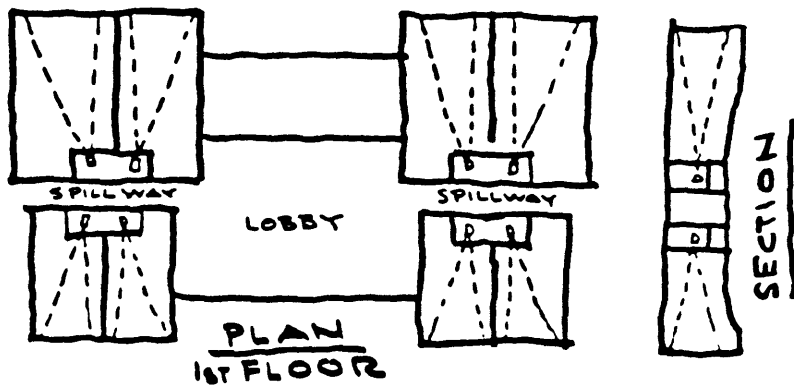
monitor all projection stations at the same time and projection equipment can be center aligned with each screen (Figure 4).

Figure 4

Second Floor Layout



First Floor Layout



SUMMARY

Locational and design issues for cinemas are very important in crafting a successful marketing mix. A well conceived design enhances the exhibition environment and serves a major role in promoting the complex. A centralized location lowers patrons' transportation costs. Successful theater complexes don't just happen; a great deal of study and refinement of the marketing mix is necessary in order for a cinema to prosper in today's competitive marketplace.

NOTES

1. Parking Requirements for Shopping Centers: Summary Recommendations, The Urban Land Institute, 1981, pp.2,17

Chapter Five
A New Concept For the Film Exhibition Environment

INTRODUCTION

There has been a great deal written on the negative effects that VCRs have had on the movie theater box office. In response to this threat, some in the industry have seen an opportunity to carve out a market niche that recreates most of the benefits of VCR viewing while maintaining a superior exhibition environment.

One such company is Cinema N' Drafthouse International, Inc., of Atlanta, Georgia. The Cinema N' Drafthouse (CND) concept was born in the late 1970s when founders Jim and John Duffy noticed that many of the 21-25 year olds around Orlando, who worked at area attractions such as Disney World, were looking for night-time entertainment, someplace other than where they worked. Their idea was to create a combination cinema/restaurant that provided all the comforts of home, plus food service and a full screen viewing environment (See Appendix B).

The idea has been a success, "CNDs are now at 23 locations across the country, and plans for further expansion are in the works" according to John Duffy. About half of the locations are in refurbished theaters where the old seats are taken out, the floor is leveled, lounge chairs and small tables are brought in, and a kitchen is installed. The other half are found in retail strip centers where theater construction starts from an empty shell. Duffy claims that

CNDs are thought of as good anchors for specialty centers in part because like traditional theaters they draw people at non-peak hours of retail operations.

Unlike most theaters in today's major exhibition markets, CNDs show "sub-run" or intermediate run films. Where a major new release may command an upfront guarantee of \$100 to \$200 thousand with a 90% share at the box office, a sub-run film may only require a \$1,000 Guarantee with a 35 to 40 percent share at the gate. This allows a CND to charge \$2 to \$3 at the gate while first run exhibitors must charge \$5 to \$6. The primary difference with the sub-run films is that they are available only after completing the first runs, usually two to six months after first release.

MARKETING OF A CINEMA N'DRAFTHOUSE

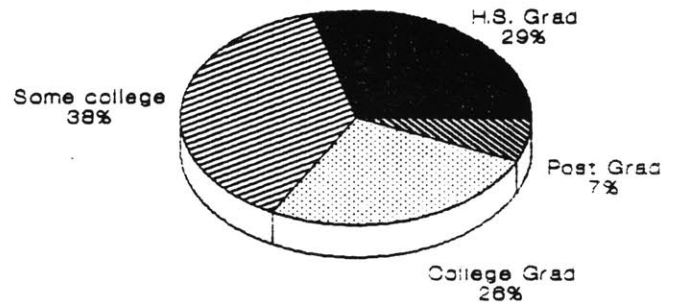
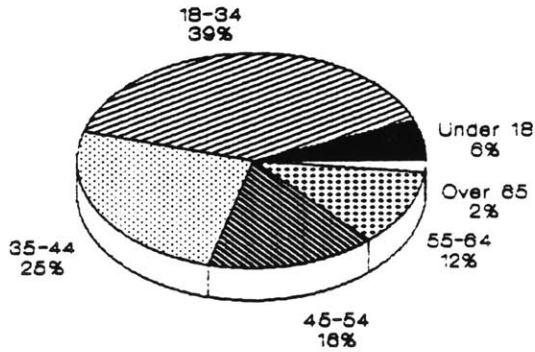
In contrast to traditional theaters, 40% of CND customers didn't know what movie was playing when they decided to visit the CND. Duffy explained that their audiences are couples-oriented, but that increasingly single women are finding that CNDs offer a safe, acceptable form of entertainment, without the hassles of the singles' bar scene.

A demographic profile of CND audiences indicates that about 65% of the audience are between 18 to 44 years of age, about 32% had graduated from college and earn more than \$25,000 per year (Figure 1). Since this sample was drawn from the southeastern U.S., these findings would indicate

Figure 1

Cinema N' Drafthouse Age Distribution

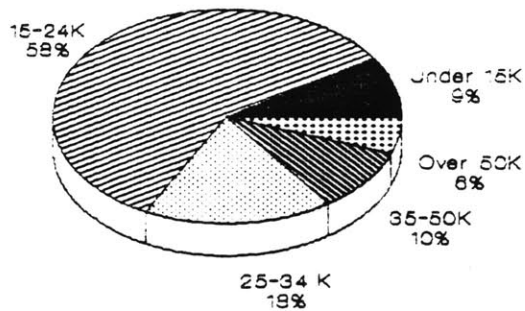
Cinema N' Drafthouse Education Distribution



Source: C'N'D' International Inc.

Source: C'N'D' International Inc.

Cinema N' Drafthouse Income Distribution



Source: C'N'D' International Inc.

that the typical CND audience is better educated and more affluent than average.

Location and Site Considerations

Most of CNDs current locations are in the states of Florida, Georgia, Texas, and the District of Columbia. The Duffys are targeting expansion into the top 20 Standard Metropolitan Statistical Areas across the country. They have developed a set of demographic guidelines that have proven successful for current CND locations.

Demographic Guidelines

	<u>1 Mile</u>	<u>3 Mile</u>	<u>5 Mile</u>
Populations	8-10,000	80-100,000	200-250,000
Income Avg.	25-30,000	30,000	30-35,000
% Renters	75-80%	70%	50%+
Age	35	36	38

When initially looking for sites, some general observations from Duffy were: to make sure the shopping center was not a distressed property and that there was a good tenant mix; that the site was in a respectable neighborhood, visible from the street and had well-lighted parking for 175-200 cars. He also noted that it was important to be aware of any restrictive zoning or beverage requirements that the City, County, or State may have.

In addition to these general guidelines, CND performs extensive research to insure that selected sites will perform as anticipated. This study includes a neighborhood analysis where they look at consumers' spending patterns, age, and income; a geographic analysis of how a site's particular

location relates to the city or county; and how traffic flows and access to and from the site may affect performance. A detailed study of start-up and operational costs is also performed.

Food Service

Food and drink are served before and during the film by young waiters and waitresses. Patrons also have the option of ordering beverages at the bar and taking them back to their table. The CND menu is constantly being refined to accommodate regional preferences but the table below gives some idea of the fare available.

M E N U

MUNCHIES

- Fruit and Cheese Platter (for Two)
- Greek Salad
- House Chef Salad
- Chicken Fingers
- Eggrolls (2)
- Burritos (2)
- Chili Burritos
- Basket of Tortilla Chips
(with Jalepeno Cheese)
- Garlic Bread
- Cheese Toast
- Hot Dog
(Extra items: chili, onions, cheese)
- Popcorn

SUBS

- Drafthouse Dog
- 1/4 lb. Hot Dog, Chile w/onions
topped w/cheddar cheese
- Ham'n'Cheese
topped with Lettuce and Tomato
- Super Italian
- Ham, Salami and Provolone Cheese

BEER

- Michelob Regular
- Michelob Light
- Michelob Classic Dark

HOUSE WINES

- Chablis glass
carafe
- Rose glass
carafe
- Burgundy glass
carafe
- Sangria mug
carafe
- Wine Cooler mug
carafe

Special Seasoning

Sausage Sub.
Mouthwatering 1/4 lb. of Smoked
Polish Sausage with Hot Mustard
Beefeater.
Freshly sliced Roast Beef with
Provolone Cheese served with our
zesty sauce

BOTTLE WINE

Lambrusco
Bordeaux
Liebfraumllich
Chardonnay
N.Y. Champagne

PIZZA

Fresh Dough	Small	Large
Cheese		
Sausage.		
Pepperoni.		
Mushrooms.		
Onion.		
Green Pepper		
Olives		
Cinema's Special		
All of the Above		
Extra Items.		

It is this type of food and drink when combined with a superior exhibition environment that creates a social setting that the VCR cannot compete with.

OTHER USES

The typical CND does not have matinee showings. This allows the space to be utilized for a variety of additional uses during the day. Since most CND locations are equipped with satellite antennas and the ability to project TV images onto the movie screen, corporations and businesses in major markets have found CNDs to be desirable locations for meetings that include teleconferencing, sales presentations, and parties. In addition, weekend sporting events have increased the daytime draw. Although they are not allowed to charge admission to these TV broadcasts, the mark-ups on the

food and drink make it a profitable venture. CNDs have also been known to host civic groups, jazz sessions, and concerts.

ECONOMICS OF CINEMA N'DRAFTHOUSE OPERATIONS

The daytime uses of the CND locations account for about 30% of revenues according to Duffy. Daytime rental charges range between \$500 and \$1,250 per day with an average of \$1,000 plus food costs. The remaining 70% of revenue comes from theater operations with about 1/3 from the box office, 1/3 from food, and 1/3 from beverage sales. The average CND earns over \$700 thousand in gross sales each year, with some locations exceeding \$1 million per year.

A typical single screen CND will require a 7,000 square foot space and will seat about 325 patrons. A double screen location will require 12,000 square feet and seat 500. These configurations allow for about 22 square feet per seat while a traditional multi-plex theater would require 15. The trend is shifting away from single screen theaters and towards doubles and quads according to Duffy.

Cinema N' Drafthouses have two showings nightly Monday through Thursday; Friday through Sunday when two thirds of volume is done, a third late show is added.

Duffy estimates that one employee is required for every 25 to 35 customers. Good service is important to CND as they earn an average of \$4 to \$6 per patron on concessions while a traditional theaters make a dollar or less. Quality service is also a motivator to employees as much of their

income is dependent on the tips they receive from satisfied customers.

START-UP COSTS

Duffy stated that "current space in retail strip centers that would be suitable for a CND could be leased for five to six dollars per foot per year". These low rates were obtainable because of the level of improvements that a typical CND makes as well as their attractiveness as an anchor according to Duffy.

The following table indicates other costs associated with the start-up of a Cinema N' Drafthouse.

Estimated Start-up Costs

	7,000 sf Single <u>Screen</u>	12,000 sf Double <u>Screen</u>
Building Improvements Plans, Permits, Demolition, Drywall, Millwork, Ceilings, Lighting, Flooring, Plumbing, Electrical, HVAC, toilets, Doors, Sprinklers, Painting, Glass.	\$108,000	\$160,000
Kitchen and Beverage Equipment Refrigeration, Ovens, Popcorn Machine, Ice Maker, Sinks, Cash Registers, Glass and Kitchenware, Cleaning and Misc. Supplies.	\$17,000	\$27,000
Furniture and Fixtures Chairs, Tables, Bars, Wall Treatments.	\$35,000	\$55,000
Projection Equipment 35mm Projection, 33mm Slide, Video Projection.	\$33,000	\$43,000
Signage (Assumes existing marquee) Letters, Indoor Signs.	\$6,000	\$7,000

Deposits, Franchise Fees, Licenses	\$25,000	\$25,000
Advertisement and Promotion	\$9,000	\$14,000
Insurance	\$5,000	\$7,500
Beverages and Food Inventory	\$8,000	\$7,500
Administrative Expenses Legal, Accounting, Wages, Starting Bank.	\$4,000	\$4,000
Total	\$250,000	\$350,000

THE BOTTOM LINE

The typical couple will spend \$15 for an evening at a CND for food, drink, and film about the same as a traditional theater. Duffy claims this translates into profits of 13.3% in small markets, 15.6% in median markets, and 17.3% in major markets. A regular cinema net profits are between 5% to 15%. This means the bottom line for providing an alternative to the 19 inch TV/VCR combination or the high priced traditional exhibition environment can be \$50 to \$100 thousand per year for a single screen CND, and double that for a twin.

Chapter Six "A Cinema in Your Next Project?"

This chapter will examine issues relating to inclusion of a cinema in or adjacent to a retail shopping area or as part of a mixed use project. Locational considerations, benefits, and the problems and risks associated with cinema development will be discussed. In addition, the procedure for securing a cinema operator, lease structures and the negotiation process will be reviewed.

LOCATIONAL CONSIDERATIONS

When Planning Authorities are considering zoning changes that would allow for cinema development, they must take into account both the positive and negative elements that cinemas will bring to their communities.

Downtown Locations

In downtown locations the primary benefit is that a cinema will help to bring people into the city at night. This will create demand for services and thus produce jobs that would otherwise not be needed. Downtown revitalization is a priority for many City Planning officials across the country, cinemas can be a valuable aid in achieving this goal.

City Planners must recognize the elements of a successful downtown cinema location. A cinema located in the industrial outskirts of the city will not achieve the goal of revitalizing the downtown. In order to be successful a cinema needs to be located near supporting facilities such as

restaurants and retail establishments. This locational relationship will be mutually beneficial as customers will cross patronize these business establishments. Another important element for downtown cinema locations is the availability non-premium parking. This could be parking structures that are used primarily by office workers during the day and available evenings and weekends for cinema patrons at reduced rates. In addition, some thought should be given to public transportation linkages as locations close to transit stops could reduce the demand for parking.

Desirable downtown cinema locations would allow a large percentage of movie-goers to walk rather than rely on other forms of transportation to get to the theater. This locational strategy implies that cinemas located near neighborhoods would be encouraged. The problem with this strategy is that although many people could walk to the theater, there will still be those that will drive their cars. This will bring pressure on neighborhood streets to handle additional traffic as well as over flow parking. Neighborhood residents will likely prefer to venture farther to see a movie than to have more cars on their streets.

Suburban Locations

Similar strategies would apply for suburban locations. Planners should give strong consideration to sites that have under utilized parking facilities as suburban movie-goers will arrive mostly by car. Locations near suburban business

districts or retail shopping centers will normally have parking available in the evenings when cinema audiences are largest. These areas are also likely to have supporting businesses and restaurants that will allow people to spend an entire evening in the area. In order to minimize traffic problems both on the site and in the community, multiple entrances and exits to the site should be available. In addition, cinemas should be located near freeway entrances and exits to accommodate traffic generated by out of town movie-goers.

BENEFITS

From the developers viewpoint, the reason most often cited for including a cinema in a retail or mixed use project is their drawing power. Much of the cinemas business is done during off peak periods (eg. weekend evenings). Bringing people to a project at this time not only helps to more fully utilize resources such as parking, utilities, and security: but also allows people to window shop and patronize retailers and restaurants. It is no mistake that multi-plexes are often located adjacent to food courts in retail complexes. The combination of a food court and a cinema can create the "viable center of activity" that is so important to the success of todays mixed use projects.

Mike Stevens of Forest City Development commented:

A multi-plex cinema will function as an anchor only if a retail complex is considered the second or third best in a particular market area. Normally a cinema deal doesn't stand on it's own in economic terms, but the synergy created by having a large number of elements to draw shoppers to a retail complex is one of the "keys to success"; cinemas are one of these major elements.

Stevens also indicated that failure to include a cinema in a major retail project could be a strategic mistake. His fear was that if you didn't include one, a competitor down the street would, resulting in lost business and a decline in competitiveness.

Another benefit associated with having a movie theater as part of a project is that the major operators are "credit tenants". This means that the long leases (typically 10 years plus options), for large amounts of space (average of 25,000 square feet), are a relatively stable cash flow item.

Finally, we can look at theaters in terms of community benefits. In the Boston metropolitan area, USA Cinemas allows Boston University to use it's auditoriums for daytime lectures. At University Park in Cambridge, Forest City Development is considering a similar arrangement with the Massachusetts Institute of Technology.

There are opportunities in the restoration of older theaters as well. Developers and City Planners are recognizing the valuable role that movie palaces can play in drawing customers to ageing business districts. These restoration projects help downtown areas to remain open after

dark, helping to support the developers and the community's interests in the area. Restoring an old theater not only helps as a draw, but may give the developer an additional bargaining chip when negotiating with community groups.

PROBLEMS AND RISKS

The problems a developer will have to address include dealing with community groups and zoning boards, economics, and management. The risks involve organizational problems associated with theater operations and financial risks inherent in the motion picture industry.

Community Groups

The environmentally minded community groups will normally challenge cinema construction on the grounds that it will affect the "quality of life" in their neighborhoods. They argue that increased traffic will clog their streets, parking will overflow into their neighborhoods, theater patrons will litter, and late hours of operation combined with noisy theater-goers will destroy the neighborhood ambience.

The developer must be ready to deal with these complaints if he hopes to have a project, let alone a cinema. Many of the community complaints can be addressed through sensible design and management. Parking should accommodate peak period crowds and access to the parking lot should be via major roads whenever possible. In addition, movie starting times should be staggered to avoid traffic problems.

both in the parking lot and at the ticket and concession lines. Litter is mostly a problem inside the auditorium, not on neighborhood streets. Still, theater operators can run trailers (short film clips), espousing the virtues of a clean theater and a clean community. Also locating trash receptacles in the auditorium, lobby, and by the exits can help to control trash problems.

Management

Management problems associated with cinemas concern the flow and control of the theater customers. Ticket booths and customer stacking areas should be designed so as not to block access to other stores and building entrances. In addition, entrances and exits should allow patrons optional access to parking areas without going into the mall. This configuration allows the developer to close the mall, saving on security and utility costs, while allowing continued theater operations late at night.

The cinema's drawing power can be a problem as well as a benefit. Koetter, Kim and Associates, Boston consultants for University Park in Cambridge, MA, recognized that although locating the cinema and food court at the front of the 27 acre project would create the desired "viable center of activity", the risk was that there was a strong probability that it would become a "teen hangout" - a very negative presence for the overall intentions of the University Park environment. To address this problem, they

recommended that the cinema be located in the interior of the project with frontage on the main project access road (Sidney Street), rather than at the front of the project with frontage on Massachusetts Avenue. In addition, they recommended that the developer give careful consideration to the number of theaters, the types of films shown, and the type of retail uses included in the complex with reference to this potential problem.

Real Estate Economics

The economics of a cinema deal may not make sense, particularly on small sites. Today's multi-plex operations will require from 25,000 to 50,000 square feet of space. In smaller retail complexes this space could be leased at higher rates to other retailers. According to Mike Stevens, "a normal retail tenant will pay about \$25 per foot a year in base rent, a cinema operator will average \$15 to \$17."

Another consideration that could effect the economics of the overall project to some extent, is that the exterior facade of cinemas can be considered "a negative" from a design perspective. The challenge is for designers to locate cinemas so that the large blank windowless exterior walls will not front important public spaces.

Risks

The risks associated with cinema development are somewhat different than those of other projects. The cash flow to the developer from cinema operations is normally

based on a percentage of sales. Since the ability for cinemas to attract customers is strongly related to the amount and quality of films coming from Hollywood, a prolonged writers or producers strike could effect the developers returns on cinema properties.

Another risk is that some cinema operators are not afraid to try to outdo the competition in order to gain market share. In this case the developer may have a nice cinema operation but another operator may see potential in developing a super-cinema in the same market area; one with lavish lobbies, state-of-the-art sound and projection equipment, and lower prices. This would create a very difficult competitive situation that would result in reduced cash flow and little or no appreciation in the value of the cinema operation.

Additionally, cinemas are known to have high rates of slip and fall lawsuits. Developers may become involved in these cases where people injure themselves in the dark auditoriums of theaters.

Finally, there are risks in leasing to theater operators. Other tenants may complain that cinema patrons block their entrances and create a nuisance. They may say that their customers have to compete with movie-goers for parking. The developer may find it difficult to attract other tenants to his project for these reasons.

THE PROCESS

The process of developing a cinema as part of a project seems like a very simple procedure on the surface. Once a developer determines through his/her own market studies that a cinema would be a desirable element, he/she will call a major chain; or the chain will find out about the developer's plans and make the call. Since there is a shortage of good sites and most of the older downtown theaters have already been remodeled, major cinema operators are eager to evaluate potential new locations.

This is how the process begins, but according to Mike Fishman, Vice President of Real Estate for General Cinema, from there it becomes a very complex process, with many decisions to be made and many points to be negotiated.

Lease Structure

Once this call has been made, the developer will normally submit an economic proposal to the theater operator. At this point the operator will conduct their own extensive marketing study in order to determine economic feasibility and to serve as an information base for the negotiations that will follow.

In most mixed use or large retail projects the developer will build the structural elements including: the roof, walls, utility stub-outs, and excavated floor. At this point the operator will come in and finish out the space. In some cases the developer will choose to "land lease" a pad

adjacent to the complex, in this case the theater operator may build the entire structure. Appendix C details developer/tenant construction responsibilities for a typical cinema deal.

Once theater size and location have been determined, minimum rental terms must be negotiated. This minimum rent is largely determined by the market area, a function of supply and demand. The Urban Land Institute's "The Dollars and Cents of Shopping Centers 1987" states that median rents for cinemas in super regional shopping centers were \$6.98 per foot, per year; and top rents were around \$13.50. When common area charges, property taxes, and insurance were added in the total charges were a median of \$10.24 and topped out at almost \$21.¹ According to this report cinemas had the lowest median sales volume per square foot of GLA (\$61.74), than any other tenant. Mike Stevens of Forest City Development claims that today's market commands rents of \$12 to \$20 plus occupancy charges.

In addition to minimum rent, most deals also include a percentage rent. This normally falls in the 10 percent of sales range, and may or may not include concession sales. In other words the theater operator pays the greater of the minimum rent figure or the percentage rent figure. This helps to protect the developer from inflation as well as allowing him/her to share in the profits of a successful cinema. Paul Del Rossi of General Cinema stated that about

70 percent of their theaters exceed minimum rent and pay additional percentage rent.

An area that cinema operators are particularly concerned with are common area charges in retail complexes. Del Rossi claimed that in some cases common area charges can run higher than the base rent. He recommended that cinema operators bargain for sensible stops on common area maintenance charges. He also stated that he likes to negotiate for a "use restriction" on food vendors within 100 to 200 feet as food courts cut into concession sales by 20 percent. The potential impacts of lost concession sales when a cinema is located by a food court is simulated in the table below using General Cinema data for 1986.

1986 Earnings	\$25,755,000	
Number of Screens	1,254	
Earnings per Screen	\$20,538	
Concession Share (80%)	\$16,430	Per Screen
20% Reduction in Earnings	\$3,286	Per Screen
<u>Assume Eight Screen Complex</u>		
<u>22,400 Square Feet GLA</u>		
Total Loss of Annual Earnings	\$26,288	or \$1.17/sf
Lease Deal Without Food Court (Base rent per foot/year)	\$12	
Adjusted Lease Deal With 20% loss in earnings due to location by food court. (Base rent per foot/year)	\$10.83	

In addition, General Cinema likes to retain the right to sublet their space, and have a "go dark" clause in the event that a certain percentage of the mall is not leased.

From the developers viewpoint Mike Stevens expressed that they would want a "use clause" to prevent any other use than a cinema. In addition, they would insert a clause to prevent pornographic films from being exhibited. Another problem Stevens explained:

Most major retail complexes have a marketing fund that all of the merchants pay their pro rata share. Most cinema operators feel that their daily advertising and drawing power exempt them from having to contribute more than a token amount to these funds each year.

In some cases the cinemas may agree to special showings to help draw senior citizens and other targeted groups to the retail complex instead of contributing their pro rata share to the merchants fund.

CONCLUSION

The movie theater industry has been building new screens at a high rate for the last several years, yet the number of movie-goers has increased only marginally. Spreading profits out over more screens may be good for major operators who are building market share, but since developers rely on cash flows from a single cinema location to support that portion of a project financially, careful thought should be given to market feasibility studies, volume forecasts, and minimum rent terms.

Developers would be wise to develop a relationship with

a major cinema chain as opposed to a small independent operator. As the industry continues to consolidate, major circuits will dominate the film distribution pipelines making it difficult for small independent operators to obtain first-run films at reasonable rental rates.

In areas where there is already substantial competition in the multi-plex market, the developer of a smaller retail strip center may want to consider a restaurant/cinema combination. This type of operation could fill a market niche and serve as an anchor in smaller centers.

Theater operators will have to confront the challenges that advances in the quality of home entertainment video systems present. Those exhibitors who hope to remain competitive will strive to maintain high standards in the operation of their theaters as well as utilizing the latest exhibition technology. As movie audiences age and become more health-conscious, operators will have to rethink their concession offerings. Movie-goers of the future are likely to prefer fruit juices, mineral water, and bran muffins to candy and soft drinks.

In some markets the simple part of cinema development may be deciding to include one in a project or not. Recent history has not shown that many modern multi-plex cinemas have gone out of business, yet one cannot expect current rates of cinema construction to last forever.

Melvin Roebuck of Forest City Development believes that

in any regional shopping center, including a cinema is a "slam-dunk" decision. However, in smaller retail projects or in downtown locations the decision making process is far more complex. One must consider if the benefits of having a cinema as part of a project out-weigh the potential risks. In downtown locations the developer must carefully analyze the context of the community which he/she proposes to locate a cinema as part of a project. Is there an audience nearby to support cinema economics? Are the resources to support a cinema available? (e.g. parking, transportation linkages, well lighted streets, retail stores and restaurants).

As cities across the country continue to draw people back to urban residential neighborhoods and invest in upgrading their downtowns, they will become desired locations for mixed use projects that will include cinemas.

Developers must use a sensible thought process in locating, designing, and managing the operations of a cinema if he/she aspires to have a successful project. Cultivating a relationship with a major cinema operator and successfully negotiating an economically sound real estate deal is one of the many challenges that a developer will face in bringing a cinema to a project.

It is hoped that this paper has helped to clarify the many issues associated with successfully developing movie theaters in today's diverse marketplaces.

Notes

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APPENDICES

Appendix A

**National Desision Systems
Demographic Report**

ACCT#: 30233

10/13/87

CENSUS '80, UPDATES & PROJECTIONS
 NATIONAL DECISION SYSTEMS
 POP-FACTS - FULL DATA REPORT
 619-942-7000

PREPARED FOR FOREST CITY ENTERPRISES

ENTIRE COUNTY
 STARK CO. OH

SITE #: 168987
 CORD: 0.000 0.000

DESCRIPTION

TOTALS

POPULATION

1992 PROJECTION	368,701
1987 ESTIMATE	373,355
1980 CENSUS	378,823
1970 CENSUS	372,210
GROWTH 70-80	1.78%

HOUSEHOLDS

1992 PROJECTION	142,673
1987 ESTIMATE	139,585
1980 CENSUS	134,094
1970 CENSUS	114,690
GROWTH 70-80	16.92%

POPULATION BY RACE & SPANISH ORIGIN

	378,823
WHITE	92.97%
BLACK	6.36%
AMERICAN INDIAN	0.14%
ASIAN & PACIFIC ISLANDER	0.28%
OTHER RACES	0.25%
SPANISH ORIGIN - NEW CATEGORY	0.89%

OCCUPIED UNITS

	134,094
OWNER OCCUPIED	72.14%
RENTER OCCUPIED	27.86%
1980 PERSONS PER HOUSEHOLD	2.77

YEAR ROUND UNITS AT ADDRESS

	142,616
SINGLE UNITS	81.75%
2 TO 9 UNITS	12.11%
10+ UNITS	4.08%
MOBILE HOME OR TRAILER	2.06%
SINGLE/MULTIPLE UNIT RATIO	5.05

1987 ESTIMATED HOUSEHOLDS BY INCOME

	139,585
\$75,000 OR MORE	2.93%
\$50,000 TO \$74,999	8.54%
\$35,000 TO \$49,999	17.74%
\$25,000 TO \$34,999	21.07%
\$15,000 TO \$24,999	21.42%
\$7,500 TO \$14,999	15.61%
UNDER \$7,500	12.69%

1987 ESTIMATED AVERAGE HH INCOME

\$27,858

1987 ESTIMATED MEDIAN HH INCOME

\$25,132

1987 ESTIMATED PER CAPITA INCOME

\$10,439

ACCT#: 30233

10/13/87

CENSUS '80, UPDATES & PROJECTIONS
NATIONAL DECISION SYSTEMS
POP-FACTS - FULL DATA REPORT
619-942-7000

PREPARED FOR FOREST CITY ENTERPRISES

ENTIRE COUNTY
STARK CO. OH

SITE #: 168967
CORD: 0.000 0.000

DESCRIPTION	TOTALS
POPULATION BY SEX	378,823
MALE	48.4%
FEMALE	51.86%
POPULATION BY AGE	378,823
UNDER 5 YEARS	7.04%
5 TO 9 YEARS	7.52%
10 TO 14 YEARS	8.32%
15 TO 19 YEARS	9.00%
20 TO 24 YEARS	8.51%
25 TO 29 YEARS	8.18%
30 TO 34 YEARS	7.68%
35 TO 44 YEARS	11.33%
45 TO 54 YEARS	10.64%
55 TO 59 YEARS	5.80%
60 TO 64 YEARS	4.80%
65 TO 74 YEARS	6.69%
75+ YEARS	4.49%
MEDIAN AGE	30.90
AVERAGE AGE	34.56
FEMALE POPULATION BY AGE	196,461
UNDER 5 YEARS	6.62%
5 TO 9 YEARS	7.07%
10 TO 14 YEARS	7.79%
15 TO 19 YEARS	8.61%
20 TO 24 YEARS	8.45%
25 TO 29 YEARS	8.07%
30 TO 34 YEARS	7.61%
35 TO 44 YEARS	11.26%
45 TO 54 YEARS	10.68%
55 TO 59 YEARS	5.91%
60 TO 64 YEARS	4.98%
65 TO 74 YEARS	7.30%
75+ YEARS	5.64%
FEMALE MEDIAN AGE	29.60
FEMALE AVERAGE AGE	35.86
POPULATION BY HOUSEHOLD TYPE	378,823
FAMILY HOUSEHOLDS	88.87%
NON FAMILY HOUSEHOLDS	9.22%
GROUP QUARTERS	1.91%

ACCT#: 30233

10/13/87

CENSUS '80, UPDATES & PROJECTIONS
 NATIONAL DECISION SYSTEMS
 POP-FACTS - FULL DATA REPORT
 619-942-7000

PREPARED FOR FOREST CITY ENTERPRISES

ENTIRE COUNTY
 STARK CO. OH

SITE #: 168967
 CORD: 0.000 0.000

DESCRIPTION	TOTALS
HISPANIC POPULATION BY RACE	3,379
WHITE	52.57%
BLACK	8.08%
AMERICAN INDIAN & ASIAN	1.57%
OTHER RACE	7.78%
HISPANIC POPULATION BY TYPE	378,823
NOT OF HISPANIC ORIGIN	97.11%
MEXICAN	0.24%
PUERTO RICAN	0.05%
CUBAN	0.02%
OTHER SPANISH	0.58%
MARITAL STATUS PERSONS 15+	292,149
SINGLE	23.04%
MARRIED	51.35%
SEPARATED	1.06%
WIDOWED	7.79%
DIVORCED	6.75%
MARITAL STATUS OF FEMALES 15+	154,252
SINGLE	20.50%
MARRIED	58.08%
SEPARATED	1.22%
WIDOWED	12.45%
DIVORCED	7.75%
PERSONS IN UNIT	134,094
1 PERSON UNITS	20.70%
2 PERSON UNITS	31.71%
3 PERSON UNITS	18.06%
4 PERSON UNITS	14.43%
5 PERSON UNITS	8.23%
6+ PERSON UNITS	4.87%
PERSONS IN RENTER UNITS	37,365
1 PERSON UNITS	37.65%
2 PERSON UNITS	28.85%
3 PERSON UNITS	15.50%
4 PERSON UNITS	10.10%
5 PERSON UNITS	4.65%
6+ PERSON UNITS	3.27%

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DESCRIPTION	TOTALS
HOUSEHOLDS BY TYPE	134,094
SINGLE MALE	7.57%
SINGLE FEMALE	13.12%
MARRIED COUPLE	55.29%
OTHER FAMILY - MALE HEAD	2.20%
OTHER FAMILY - FEMALE HEAD	9.39%
NON FAMILY - MALE HEAD	1.48%
NON FAMILY - FEMALE HEAD	0.93%
HOUSEHOLDS WITH CHILDREN 0-18	55,038
MARRIED COUPLE FAMILY	82.11%
OTHER FAMILY - MALE HEAD	2.49%
OTHER FAMILY - FEMALE HEAD	14.83%
NON FAMILY	0.56%
1980 OWNER OCCUPIED PROPERTY VALUES	84,932
UNDER \$25,000	17.75%
\$25,000 TO \$39,999	24.66%
\$40,000 TO \$49,999	16.51%
\$50,000 TO \$79,999	31.95%
\$80,000 TO \$99,999	5.59%
\$100,000 TO \$149,000	2.75%
\$150,000 TO \$199,999	0.45%
\$200,000+	0.21%
1980 MEDIAN PROPERTY VALUE	\$44,500
POPULATION BY URBAN VS RURAL	378,823
URBAN	73.86%
RURAL	26.14%
POPULATION ENROLLED IN SCHOOL	98,589
NURSERY SCHOOL	4.70%
KINDERGARTEN & ELEMENTARY (1-8)	55.77%
HIGH SCHOOL (9-12)	26.97%
COLLEGE	12.56%
POPULATION 25+ BY EDUCATION LEVEL	225,842
ELEMENTARY (0-8)	15.18%
SOME HIGH SCHOOL (9-11)	17.45%
HIGH SCHOOL GRADUATE (12)	44.73%
SOME COLLEGE (13-15)	11.30%
COLLEGE GRADUATE (16+)	11.34%

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ENTIRE COUNTY
STARK CO. OH

SITE #: 168967
CORD: 0.000 0.000

DESCRIPTION TOTALS

POPULATION 16+ BY OCCUPATION	160,135
EXECUTIVE AND MANAGERIAL	9.09%
PROFESSIONAL SPECIALTY	11.33%
TECHNICAL SUPPORT	3.09%
SALES	9.40%
ADMINISTRATIVE SUPPORT	14.95%
SERVICE: PRIVATE HOUSEHOLD	0.37%
SERVICE: PROTECTIVE	1.16%
SERVICE: OTHER	10.67%
FARMING FORESTRY & FISHING	0.84%
PRECISION PRODUCTION & CRAFT	13.22%
MACHINE OPERATOR	13.77%
TRANSPORTATION & MATERIAL MOVING	5.87%
LABORERS	6.24%
FEMALES 16+ WITH CHILDREN 0-18	52,505
WORKING WITH CHILD UNDER 6	17.36%
NOT WORKING WITH CHILD UNDER 6	25.45%
WORKING WITH CHILD 6-18 ONLY	32.10%
NOT WORKING WITH CHILD 6-18 ONLY	25.07%
HOUSEHOLDS BY NUMBER OF VEHICLES	134,094
NO VEHICLES	8.75%
1 VEHICLE	34.66%
2 VEHICLES	39.24%
3+ VEHICLES	17.37%
ESTIMATED TOTAL VEHICLES	226,244
POPULATION BY TRAVEL TIME TO WORK	153,741
UNDER 5 MINUTES	3.65%
5 TO 9 MINUTES	14.00%
10 TO 14 MINUTES	19.33%
15 TO 19 MINUTES	20.40%
20 TO 29 MINUTES	24.53%
30 TO 44 MINUTES	13.35%
45 TO 59 MINUTES	2.35%
60+ MINUTES	2.39%
AVERAGE TRAVEL TIME IN MINUTES	18.25
POPULATION BY TRANSPORTATION TO WORK	155,011
DRIVE ALONE	77.79%
CAR POOL	15.60%
PUBLIC TRANSPORTATION	1.37%
WALKED ONLY	3.51%
OTHER MEANS	0.57%
WORKED AT HOME	1.17%

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ENTIRE COUNTY
STARK CO. OH

SITE #: 168987
CORD: 0.000 0.000

DESCRIPTION TOTALS

1987 POPULATION BY SEX 373,355
MALE 48.19%
FEMALE 51.81%

1987 POPULATION BY AGE 373,355
UNDER 5 YEARS 7.29%
5 TO 9 YEARS 6.77%
10 TO 14 YEARS 7.00%
15 TO 19 YEARS 7.83%
20 TO 24 YEARS 7.72%
25 TO 29 YEARS 7.67%
30 TO 34 YEARS 8.91%
35 TO 44 YEARS 13.92%
45 TO 54 YEARS 9.51%
55 TO 59 YEARS 4.86%
60 TO 64 YEARS 5.17%
65 TO 74 YEARS 8.16%
75+ YEARS 5.14%

1987 MEDIAN AGE 33.22
1987 AVERAGE AGE 36.00

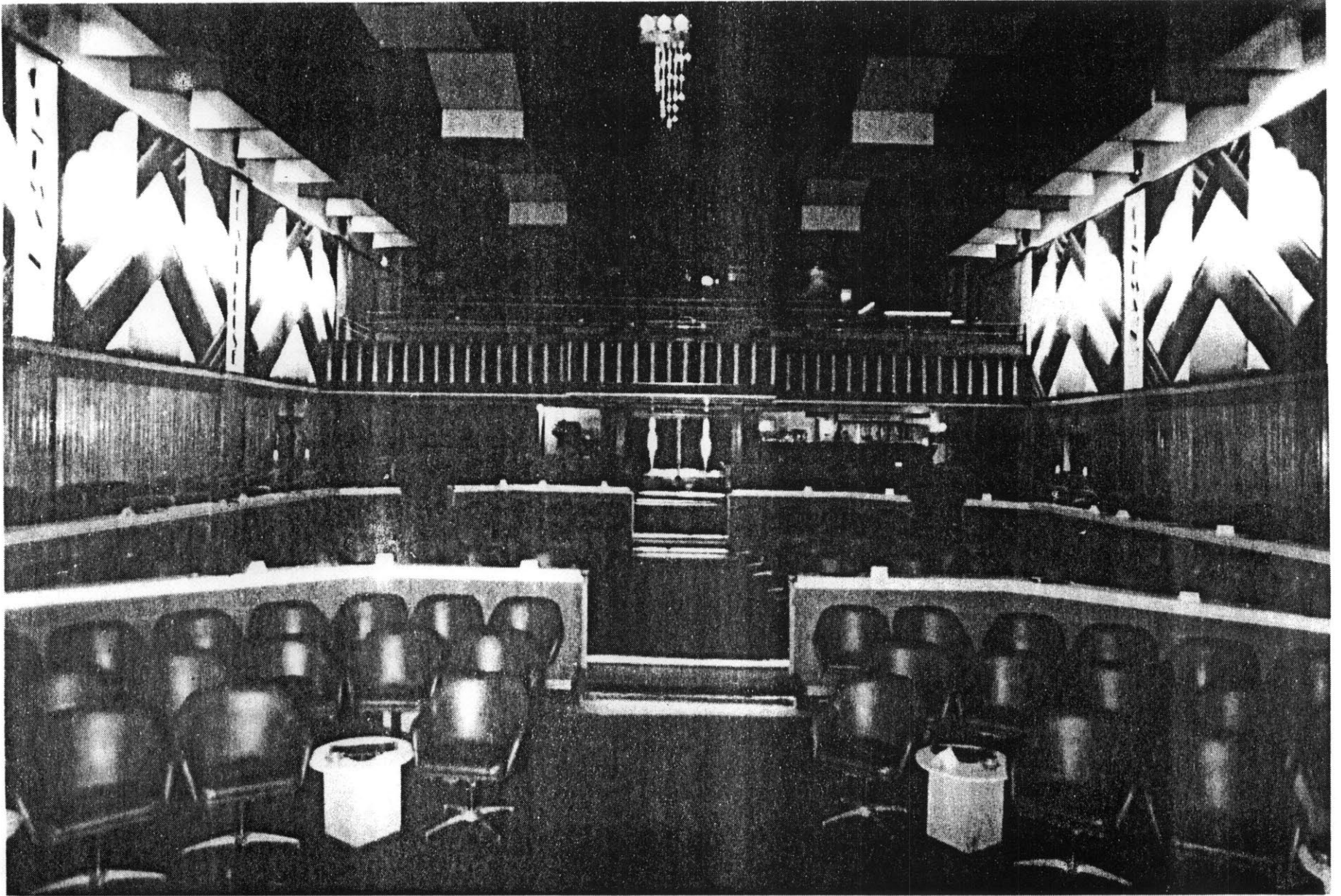
1987 FEMALE POPULATION BY AGE 193,448
UNDER 5 YEARS 6.87%
5 TO 9 YEARS 6.38%
10 TO 14 YEARS 6.59%
15 TO 19 YEARS 7.32%
20 TO 24 YEARS 7.36%
25 TO 29 YEARS 7.44%
30 TO 34 YEARS 9.05%
35 TO 44 YEARS 13.82%
45 TO 54 YEARS 9.60%
55 TO 59 YEARS 4.95%
60 TO 64 YEARS 5.38%
65 TO 74 YEARS 8.86%
75+ YEARS 6.39%

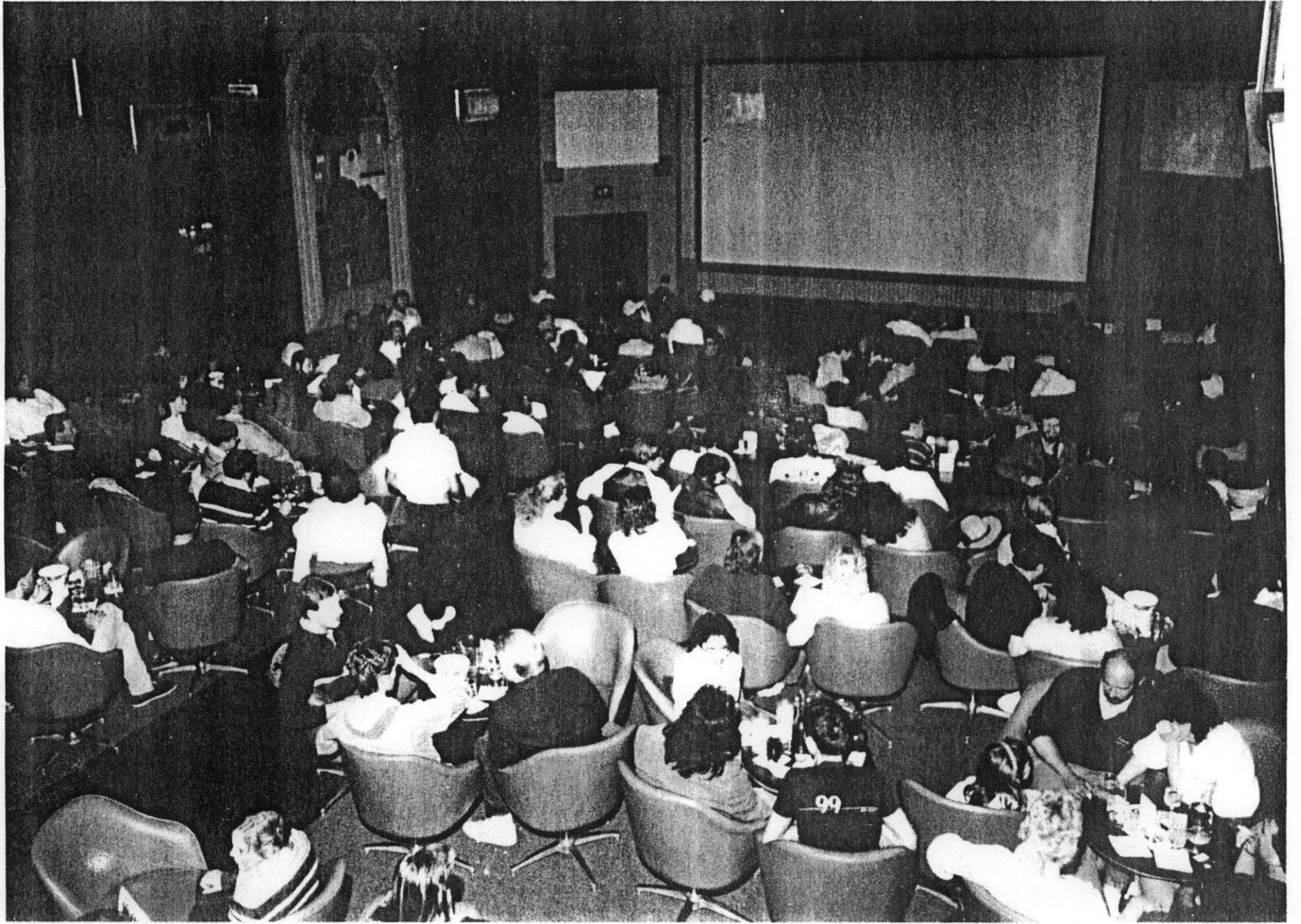
1987 FEMALE MEDIAN AGE 34.44
1987 FEMALE AVERAGE AGE 37.44

Appendix B

Cinema N' Drafthouse
Photographs







Appendix C

**Division of Construction Responsibilities
Between Developer/Tenant**

NEW ROCHELLE MALL CINEMA 12
OUTLINE OF DIVISION OF WORK
 TO BE DONE BY LANDLORD
 AND WORK TO BE DONE BY THEATRE TENANT
 JUNE 24, 1988

(DRAFT No. 2)

A.	DEMOLITION	LANDLORD	
B.	SUBSTRUCTURE	LANDLORD	
C.	STEEL STRUCTURE	LANDLORD	
D.	FIRE PROOFING	LANDLORD	EXCEPT STEEL IN ROOF UNLESS OTHERWISE REQUIRED BY CODE.
E.	EXTERIOR WALLS	LANDLORD	SEE ITEM 4.d THEATRE SHELL PERCENTAGE COST COMMENTS 06-17-88.
F.	ROOF	LANDLORD	ROOFING MEMBRANE, INSULATION, AND STEEL STRUCTURE
G.	STORE FRONT ENTRANCES	LANDLORD	
H.	PILKINGTON GLASS WALL	LANDLORD	
I.	EXTERIOR WALLS	LANDLORD/ TENANT	EXTERIOR WALLS AND INSULATION BY LAND LORD. INTERIOR DRYWALL AND STUDS BY TENANT AS REQUIRED BY CODE.
L.	INTERIOR PARTITIONS	TENANT	WITHIN DEMISING SPACE
M.	INTERIOR FINISHES	TENANT	INCLUDING BALCONY RAILINGS (WITHIN DEMISING SPACE)
N.	FLOOR COVERINGS	TENANT	WITHIN DEMISING SPACE
O.	CEILINGS	TENANT	WITHIN DEMISING SPACE
P.	EXTERIOR DOORS	LANDLORD	INCLUDING ANY FIRE DOORS AND HARDWARE SATISFYING CODE LEADING DIRECTLY INTO ANY INTERIOR MALL AREAS
Q.	INTERIOR DOORS	TENANT	WITHIN TENANTS SPACE

DIVISION OF WORK
 JUNE 17, 1988
 PAGE TWO

R.	SLOPED SLABS AT AUDITORIUMS	LANDLORD	NON COMPOUND SLOPES AS REQUIRED BY TENANT
S.	FLOOR SLABS	LANDLORD	ALL FLOOR SLABS AND STRUCTURAL STEEL BETWEEN THEATRE AND UPPER MALL LEVEL INCLUDING PLATFORM, FLOOR FINISH AND RAILINGS AT SPILLWAY LEADING TO FOOD COURT. (THEATRE MEZZANINE SLAB AND STRUCTURE BY TENANT)
T.	DISHING OF SLOPE FLOORS	LANDLORD/ TENANT	LANDLORD WILL PROVIDE SLAB DEPRESSION AND SIMPLE SLOPE; LIGHTWEIGHT CONCRETE FILL VARYING FROM A MINIMUM OF 3" TO FORM COMPOUND CURVE SLOPE. CONCRETE SHALL HAVE PROPER COMPRESSIVE STRENGTH TO ACCOMMODATE ANCHORING OF THEATRE SEATING.
U.	THEATRE MEZZANINE	LANDLORD	LANDLORD TO BUILD SLAB AND STRUCTURAL FRAMING FOR THEATRE MEZZANINE.
V.	ENCLOSED STAIRS	LANDLORD	STAIR ENCLOSURE (BOTH INTERIOR AND EXTERIOR FINISH), STAIRS, RAILS, AND DOORS AT LEASE LINE.
W.	ESCALATORS AND/OR ORNAMENTAL	TENANT	THEATRE ENTRANCE AND THEATRE SPILLWAY LEADING FOOD COURT. (UNLESS IT IS DECIDED TO BE AN ORNAMENTAL)
X.	ELEVATORS	LANDLORD/ TENANT	LANDLORD TO BUILD WALLS AROUND THEATRE HANDICAP ELEVATOR (AND/OR ELEVATORS AND STAIR SHAFTS FOR OFFICE BUILDING). TENANT TO SUPPLY HANDICAP ELEVATOR.
Y.	PLUMBING FIXTURES	TENANT	

DIVISION OF WORK
 JUNE 17, 1988
 PAGE THREE

Z.	WATER MAIN TO DEMISING PARTITION	LANDLORD	EXACT SIZE OF WATER MAIN AND NUMBER OF WATER MAINS TO BE BROUGHT TO LEASE PARTITION AND EXACT LOCATION AT LEASE PARTITION TO BE DETERMINED TENANT'S ARCHITECT. LANDLORD TO SUPPLY SLEEVES IN SLABS.
AA.	SEWER TO DEMISING PARTITION	LANDLORD	EXACT SIZE AND EXACT NUMBER OF LOCATIONS OF SEWER MAINS AT LEASE PARTITION TO BE DETERMINED BY TENANT'S ARCHITECTS.
BB.	ROOF DRAINAGE	LANDLORD	LOCATION OF PIPING RUNNING THRU TENANT'S SPACE TO BE APPROVED BY TENANT'S ARCHITECT.
CC.	SPRINKLER LINE/STAND PIPE TO DEMISING PARTITION	LANDLORD	AS REQUIRED BY CODE
DD.	SPRINKLER /STANDPIPE (WITHIN LEASE SPACE)	TENANT	AS REQUIRED BY CODE
EE.	EXTERIOR AND INTERIOR SIGNS	TENANT/ LANDLORD	TENANT TO SUPPLY SIGN DRAWING AND SIGN LOCATIONS TO LANDLORD FOR APPROVAL AND SHALL MEET ALL LOCAL REQUIREMENTS. COST OF SIGNS AND INSTALLATION OF SIGNS BY TENANT, STRUCTURAL SUPPORTS BY LANDLORD IF REQUIRED BY TENANT.
FF.	SIGN WIRING	LANDLORD	WIRING OUTSIDE LEASE SPACE AS REQUIRED BY TENANT. TENANT SHALL ASSUME COST OF ELECTRICAL CONSUMPTION INCLUDING REMOTE METERING IF REQUIRED.
GG.	TELEPHONE	TENANT	
HH.	EXIT LIGHTS	TENANT	WITHIN TENANT'S SPACE
II.	ELECTRIC	LANDLORD/ TENANT	THIS SECTION NEEDS TO BE DISCUSS AS TO LOCATION OF METER ROOM, TRANSFORMER VAULT, SIZES AND TYPE OF SERVICE IN ORDER TO DETERMINE RESPONSIBILITIES.

JJ.	LIGHTS/ELECTRICAL SYSTEMS (WITHIN DEMISING SPACE)	TENANT	
KK.	PAINTING AND FINISHES (WITHIN DEMISING SPACE)	TENANT	
LL.	HEATING/COOLING	TENANT	LANDLORD TO PROVIDE ROOF TOP OPENINGS, DETAILS AND LOCATIONS AS DESIGNED BY TENANT'S ARCHITECT. SIZES OF OPENINGS TO BE SUPPLIED BY TENANT'S CONTRACTOR AS APPROVED BY TENANT'S ARCHITECT. TENANT TO PROVIDE ALL OTHER RELATED ITEMS INCLUDING ELECTRICAL AND GAS PIPING..
MM.	ROOF PATCHING	LANDLORD	LANDLORD SHALL FLASH AND SEAL ALL TENANT'S HVAC EQUIPMENT, GAS, PLUMBING VENTS, POPCORN AND MOVIE PROJECTOR EXHAUST, AND ELECTRICAL PIPING AT INITIAL INSTALLATION; THEREAFTER, LANDLORD SHALL MAINTAIN ROOF IN GOOD REPAIR. TENANT SHALL HAVE ACCESS TO ROOF FOR REPAIRS OF TENANT'S EQUIPMENT.
NN.	TRADE FIXTURES	TENANT	IT SHOULD BE NOTED THAT TENANT WILL REQUIRE ACCESS TO SPACE BENEATH IT'S LEASE SPACE TO RUN SYRUP TANK LINES PLUMBING, AND ELECTRICAL FOR THE REFRESHMENT COUNTERS. SEATS TO BE BOLTED TO FLOOR.

