

Health Clubs Pick Up Steam; Investors Analyze Portfolios as Cycle Matures

Gyms poised for additional growth. The fitness industry continues to quickly expand as health-oriented lifestyles gain traction. In 2018, industry revenue increased 8 percent to \$32 billion as memberships proliferated and expansion plans took shape. At the same time, more than 60 million consumers nationwide held health club memberships, illustrating the rapid growth of the fitness sector as members totaled just 46 million in 2008. Though the industry has rapidly expanded over the past several years, there is still further growth potential as only one in five Americans have gym memberships. Younger generations including millennials and those in Generation Z will play a key role in the industry's advancement in the coming years.

Health clubs target second generation space. The evolution of the retail sector has opened additional avenues for growth in the fitness industry. Space requirements for many health clubs align with numerous retailers that failed to adapt the transforming retail landscape, leaving many locations to be filled. These spaces are a catalyst for many fitness chains' expansion plans, providing owners a chance to repopulate their properties with more sustainable tenants, particularly as economic uncertainty and cycle maturity begin to weigh more heavily on investment strategies. Space occupied by fitness tenants in retail centers has almost tripled over the past 10 years, reiterating investors' growing interest in health clubs.

Strong Fundamentals

- Trading activity dipped slightly during the past year as increased economic uncertainty and geopolitical issues prompted some investors to take a wait-and-see approach until some clarity emerged. The stability of single-tenant net lease retail continues to attract a wide range of investors, with some using a 1031-exchange as entrance to the segment as they seek a more passive source of income.
- STNL assets remain highly desired by a variety of lenders due to their stability and relative insulation from weaker economic conditions. Conversely, underwriting for multi-tenant retail properties is generally tighter as lenders are beginning to focus more on sustainable retail business models before sponsoring a deal. Health clubs can be strong additions to shopping centers as their ability to drive foot traffic can boost sales for surrounding retailers.
- With a moderating economic outlook, investors may consider evaluating their current portfolios and find ways to disperse risk through defensive asset allocations. While upscale health clubs may face challenges if consumer budgets substantially tighten, gyms offering relatively affordable pricing fare generally well in varying economic climates, making them viable portfolio diversification tools. In addition, many fitness centers provide more favorable cap rates than other STNL retail assets, further boosting their appeal.

Recent Transactions

Property Name	City, State	Sq. Ft.	Sale Price	\$/Sq. Ft.
LA Fitness	Stoughton, MA	45,000	\$14,985,000	\$333
LA Fitness	Newbury Park, CA	36,900	\$14,800,000	\$401
LA Fitness	Coppell, TX	41,000	\$9,867,000	\$241
24 Hour Fitness	Highlands Ranch, CO	45,500	\$22,750,000	\$500
Gold's Gym	San Antonio, TX	38,573	\$8,000,000	\$207
LA Fitness	Round Rock, TX	44,596	\$13,750,000	\$308
24 Hour Fitness	Fort Worth, TX	36,000	\$14,341,333	\$398
LA Fitness	Washington, PA	41,000	\$9,048,331	\$221
LA Fitness	Irvine, CA	41,000	\$18,500,000	\$451
LA Fitness	Gilbert, AZ	44,462	\$11,960,000	\$269
24 Hour Fitness	Falls Church, VA	45,996	\$21,250,000	\$462
24 Hour Fitness	West Covina, CA	37,500	\$20,725,000	\$553
24 Hour Fitness	Sugar Land, TX	47,991	\$9,338,000	\$195
24 Hour Fitness	Portland, OR	69,112	\$22,000,000	\$318
24 Hour Fitness	Antioch, CA	38,300	\$8,257,200	\$216
LA Fitness	Douglasville, GA	45,000	\$9,600,000	\$213
LA Fitness	Edina, MN	63,000	\$13,650,000	\$217

U.S. Health Club Industry



39,570

Health Clubs in 2018*

up 3 percent from 2017



\$36 Billion

Revenue

*in 2019***



3.5%

Avg. Annual Growth Rate

from 2014-2019



6.1 Billion

Gym Visits in 2018

up 42 percent in past 10 years



72.4%

Avg. Member Retention Rate

in 2018



\$517

Avg. Yearly Revenue

per member for a club

* Does not include boutique studios, community recreational facilities or hotel gyms

** Forecast

Key Players

- The relative affordability, quality equipment and broad offering of exercise options make LA Fitness a viable choice for many consumers. This has translated to steady growth over the past several years, with recent and future expansions in a variety of states including California, Florida and New York.
- 24 Hour Fitness' amenity-rich locations provide customers quality equipment and a wide array of classes. Although its monthly dues may not be affordable for some consumers, this gym's growth has remained stable in recent years. Colorado, New Jersey and Washington boast some of the chain's newest locations.
- Gold's Gym remains a popular choice for serious gymgoers due to its state-of-the-art equipment. Though the company continues to focus on international expansion, domestic growth will also be evident moving forward as the chain is planning to open 30 franchised locations and build one new club in 2019. In addition, the company is entering the studio segment with its group training concept Gold's Studio.
- With affordable membership pricing, Planet Fitness receives considerable interest from those looking to turn their health around, in addition to budget-conscious consumers. The chain continues to aggressively expand, zeroing in on locations left behind by struggling retailers to help accelerate growth.
- Chains like Chūze, EōS and VASA continue to grow their footprint, particularly in the Western U.S. Membership pricing aligned with many consumer budgets and wide-ranging amenities have allowed these companies to expand quickly, making them mainstream options for gymgoers.

Physical Footprints

Health Club	Average Size (Sq. Ft.)	U.S. Locations
Planet Fitness	20,000	1,888
LA Fitness	40,000	714
24 Hour Fitness	34,000	443
Gold's Gym	35,000	324
Town Sports	40,000	158
Equinox Fitness	40,000	103
VASA Fitness	45,000	44
EōS Fitness	50,000	39
Chūze Fitness	30,000	31

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