



## The Dawn of the Age of Omni-Fitness (Part I)

### *Why Gyms, Health and Fitness Clubs are Becoming a Stronger Presence in U.S. Shopping Centers*

**Abstract:** This two-part report is based on interviews recently conducted with Christopher Conlon, Executive Vice President and Chief Operating Officer, Acadia Realty Trust; Bryan Myers, Chief Operating Officer, [solidcore]; James Cook, Americas Director of Research, Retail, and Keisha Virtue, Senior Analyst, Retail Research, both of JLL; and Judith Friedman, Vice President, Real Estate Strategy and Development, The Edge Fitness Clubs. Part I covers macro trends in the U.S. fitness industry, including its expansion, types and training specialties; long-range factors spurring its growth; and initial considerations of how gyms, health and fitness clubs have become increasingly common in U.S. shopping centers.

#### Introduction

Fitness is more than just going to a gym. It also involves an active, committed lifestyle entailing a wide range of experiences and expenditures. That is why it is becoming an increasingly prominent element in the evolution of shopping centers into consumer centers, with gyms, health and fitness clubs now far more commonly found as tenants that can generate traffic.

In addition, as with retail, technology is encouraging mobility and the capacity to learn and offer more about club members, ultimately promoting more intense on-site experiences as a means of cementing the relationship with users. Just as omni-channel is the name of the game for shoppers these days, exercise aficionados are ushering in *the age of omni-fitness*.

#### I. Macro U.S. Fitness Trends

The global wellness economy accounted for \$4.2 trillion, up 12.8% from two years before, nearly twice as fast as global economic growth, according to the Global Wellness Institute.<sup>1</sup> Even that statistic does not begin to convey the level of growth experienced in the industry. The number of fitness center enterprises in the U.S. grew from 86,993 in 2009 to 102,344 in 2018 (as seen in Chart 1) and revenues in the industry from \$26.7 billion to \$33.4 billion in the same period.<sup>2</sup> Likewise, U.S. club membership has increased, at an annualized rate of 2.9 percent from 2013 to 2017 (the latest date available), totaling 60.9 million members.<sup>3</sup>

#### Lessons Learned

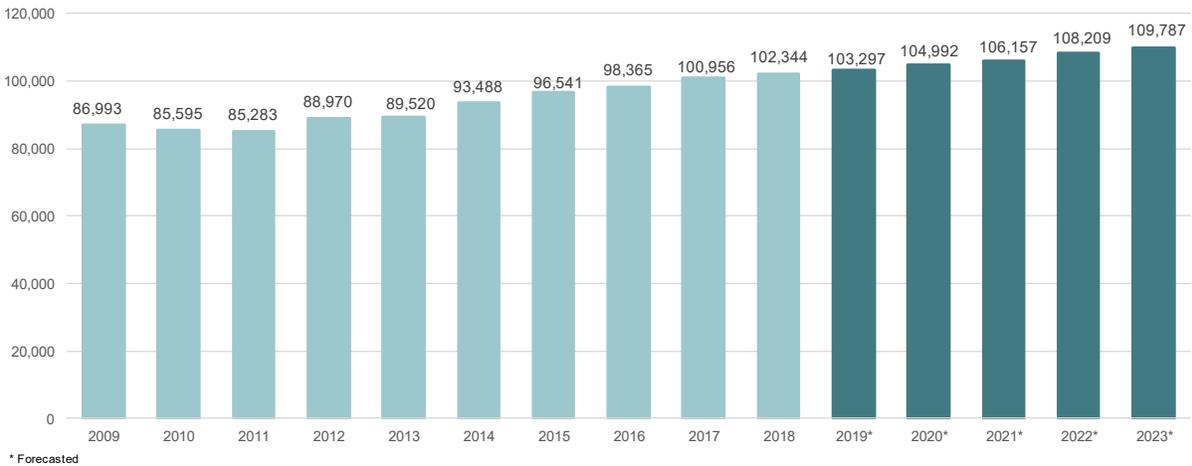
- *The number of fitness industry enterprises in the U.S. grew* from 86,993 in 2009 to 102,344 in 2018.
- *Several long-range factors* have had a broad impact on the fitness industry, including Americans' growing concern about weight management; key demographic groups, such as the Millennials and the Baby Boomers; the personalization increasingly enhanced by companies; the rise of the "selfie culture"; widely varying membership fee models; and competition.
- *The number of fitness tenants in shopping centers has more than doubled*, from 6,218 in 2008 to 14,044 in 2018.
- *Most fitness centers in the United States are either freestanding or part of an open-air shopping center*, as a matter of convenience and access for users.
- Depending on the submarket, footprint and size of its customer base, *a fitness location can either function as former shopping center anchors once did*—i.e., drawing a consistently high volume of people by itself—or, in combination with other tenants, *create a collective, successful, synergistic experience*.
- Three factors can be especially crucial in fitness centers' *site-selection process*: saturation, submarket density and greater flexibility in fitting studio size.
- *Advantages* that accrue when a fitness center locates in retail real estate include co-tenancy synergies, established shopping patterns and traffic, excellent signage and more parking spaces than in freestanding locations.
- Landlords will need to troubleshoot potential tenants' concerns about three sets of *challenges*, including physical issues (e.g., too many columns), visibility and lease negotiation items.

<sup>1</sup> "Wellness Now a \$4.2 Trillion Global Industry – With 12.8% Growth from 2015-2017," Global Wellness Institute, October 6, 2018, press release.

<sup>2</sup> Data from the International Health, Racquet and Sportsclub Association (IHRSA) cited in Ryan Roth, "IBISWorld Industry Report 71394, Gym, Health & Fitness Clubs in the US," December 2018, p. 5.

<sup>3</sup> *Ibid.*

**Chart 1**  
Number of U.S. Fitness Industry Enterprises (2009-2023)



Source: "IBISWorld Industry Report 71394, Gym, Health & Fitness Clubs in the US," December 2018

*The size of this growing sector has made it a natural object of interest for the shopping center industry—not only as a natural traffic generator, but for providing experiences that cannot be duplicated at home.*

#### A. Fitness center types and training specialties

There are four major types<sup>4</sup> of fitness centers:

- I. **Traditional fitness centers** are greater than 15,000 square feet. These may include a) full-service, "lifestyle" fitness facilities geared to more affluent shoppers; b) full-service high-value, low-price (HVLP) facilities, offering low-cost membership fees (typically, \$10-\$20 per month) and group exercise, and located in either urban or suburban locations; and c) fitness floor only/low-price facilities that are **self-directed**, without group exercise, and skewing toward lower-income users. Users of these latter clubs may prefer a quick fitness experience, even if it supplements a more intense experience with boutique centers.
- II. **Boutique fitness centers** are smaller studios without a specialty segment. No size threshold is used here, but the category does pinpoint specific brands operating in the smaller spaces. They tend to charge higher membership fees than HVLP facilities, because of smaller class sizes, urban environments where rents are high and the one-on-one relationships that develop with instructors. Yet members are frequently willing to make the financial sacrifices to afford these experiences, as they often become a major part of their social networks.
- III. **Yoga/CrossFit/Spin/Dance** likewise fall in the 2,000-4,000 square-foot range but are specialty studios.
- IV. **Miscellaneous facilities** are mid-sized centers not specifically identified as any other subclass and other types of fitness not specifically broken out, such as martial-arts studios and gymnastics.

Table 1 includes data from JLL on square footage associated with a number of subcategories, broken out in these four major groupings. Among the several major training specialties increasingly offered by the types above are:

- **Group training**, or any workout involving more than five participants;
- **High-Intensity Interval Training (HIIT)**, which requires short bursts of high-intensity exercise followed by short periods of rest;
- **Bodyweight training**, or strength-training exercises that use the individual's own weight to provide resistance against gravity;
- **Different forms of yoga**, including hot yoga, power yoga, and Yogilates;
- **Personal training**, or fitness testing and goal-setting in which a trainer works individually with a client; and
- **Functional fitness training**, which trains the muscles to work together, and for daily tasks.

While concentration in the fitness industry remains low, a few companies are becoming more prominent—notably Fitness International LLC, Equinox Holdings Inc., and Life Time Inc., each with more than 5 percent of the market.<sup>5</sup>

#### B. Long-range factors

Other long-range factors have already had a broad impact on the industry, and promise to continue to do so:

- I. **Weight management**: As of 2017 (the last date for which data are available), 35.3 percent of the U.S. population over 18 years of age was overweight, while another 30.1% was obese.<sup>6</sup> The need to curb that problem is a powerful spur to the fitness industry, because, in the long run, it costs less to

<sup>4</sup> Based on a database maintained by CoStar Group.

<sup>5</sup> *Ibid.*, pp. 19, 22-24.

<sup>6</sup> Centers for Disease Control and Prevention (CDC), Division of Nutrition, Physical Activity, and Obesity, [Nutrition, Physical Activity, and Obesity: Data, Trends and Maps](#). The CDC data are based on body mass index (BMI), calculated from self-reported weights and heights.

**Table 1**

Health/Fitness Clubs: Sizes and Examples

Group/Category	Square Footage	Examples
<b>Large-Format, Full-Service Centers</b>	<b>15,000-125,000</b>	
Full-Service/Lifestyle Fitness	30,000-123,000	Equinox Life Time 24 Hour Fitness LA Fitness
Full-Service/HVLP	15,000-40,000	Crunch The Edge Fitness
Fitness Floor Only/HVLP	16,500-20,600	Planet Fitness Blink Fitness
<b>Boutique Fitness Centers</b>	<b>2,000-5,500</b>	
Kickboxing	5,500	9Round I Love Kickboxing Rumble
Personal Training/Boot Camps	4,600	Barry's Bootcamp
Barre	2,000	Pure Barre The Bar Method Physique 57
<b>Yoga/Pilates/Cross-Fit/Spin/Cardio-Dance</b>	<b>2,000-4,000</b>	
Yoga/Pilates	2,600	[Solidcore] Core40 CorePower Yoga
CrossFit	4,000	Reebok CrossFit Fifth Avenue I Am CrossFit
Spin (Cycle)	3,500	SoulCycle Cycle Bar Flywheel
Cardio/Dance	2,000	305 Fitness DanceBody Aerial Arts NYC Solace
<b>Miscellaneous</b>		
Martial Arts	5,500	American Top Team The Degerberg Academy National Karate Academy of Martial Arts Krav Maga Worldwide

Note: HVLP=High-Value, Low-Price

Source: JLL

prevent the host of medical problems arising from too much weight than to deal with them once they surface.

- II. **Demographics:** Overall, *change is being driven by the Millennials*. The age cohort immersed the longest in the digital revolution, they are also more likely than prior generations to engage in intense physical activity. They find the social aspects of fitness to be crucial—a means of networking and finding friends and love interests, as well as of warding off anxiety and depression. At the same time, as the population ages, *Baby Boomers* have discovered that exercise helps to preserve balance, bone mass, and other matters. Their sheer numbers (74 million) and wealth (controlling 70 percent of the disposable income in the U.S.) make them a prime target for fitness clubs.<sup>7</sup>
- III. **Personalization: Social media and at-home technology** will enable companies to know consumers better and craft advertising to them more exactly. In addition, members, particularly at boutique fitness centers, seek out community

and closer rapport with instructors who know how to gear routines to their needs.

- IV. **The rise of the “selfie culture”:** Unlike in the past, when photographs might be shared mostly among family or a tight circle of friends, images posted on Facebook and Instagram have the potential to spread more widely. Nobody wants an unflattering picture of one’s self out there. It is not enough, then, simply to feel good in terms of health, but to *look good*. Even comparing one’s self to another, more physically fit person may be deflating (one reason why lighting in exercise sessions in gyms is often dim).
- V. **Expenditures by users:** Few gyms operate on a pay-as-you-go basis (though these customers are often targeted for add-ons and special services for which the club might charge, such as early access to their schedules). Instead, membership models are on at least an annual and often monthly basis, so companies are looking to build up membership rolls. Like the retail landscape in general, fitness clubs illustrate the increasing income polarization of American society through *widely varying membership fees*. Lower-cost providers’ fees can range from \$10 to \$20 a month with frequent promotional programs, where the first two or three months are free, or something similar. At LA Fitness, 24-Hour Fitness and other full-service clubs, membership costs can range dramatically according to geography. For instance, pricing for LA Fitness differs in New York from Kansas City or suburban Chicago. At the high end, fees can rise to \$400 a month. (Some members are willing to spend more for special membership benefits.) Increasingly, mid-market concepts are fading. Members have also displayed a willingness to spend on fitness-related items such as clothing/accessories (including the exploding athleisure category) and healthy food and beverages (F&B), such as smoothies sold at Barry’s Bootcamp.
- VI. **Competition:** Clubs compete for members not just through pricing, but, particularly with full-service facilities, also through services and offerings. For instance, if the club offers massages, yoga, meditation, childcare and free parking, those services may attract certain customers. But if the club offers all that and fails to adequately maintain the facility, it is not competitive. One potential disrupter is *Class Pass*, which enables customers to use a variety of boutique fitness operations (and, in the process, has widened diversity of boutique fitness users). So, for example, after buying this, a user might try it one evening or morning for SoulCycle, the next day for Orangetheory fitness, and on successive days for Rumble, Core Power Yoga, or Row House (though restrictions may apply for visits per month at each club). This broadens the choices for boutique fitness users.

## II. Fitness in Retail Real Estate: Initial Considerations

### A. Explosive decade-long growth

Over the last decade, the number of fitness center tenants in shopping centers has more than doubled, from 6,218 in 2008 to

<sup>7</sup> Nicole Karlis, “Why Millennials Are More Fit Than Any Other Generation,” *Salon*, June 10, 2018; Lisa Dougherty, “Medical Fitness Network Can Help Clubs Meet the Needs of Baby Boomers,” *CCD News Update*, February 2016, p. 12; Richard Fry, “Millennials Projected to Overtake Baby Boomers as America’s Largest Generation,” *Fact Tank: News in the Numbers* (Pew Research Center), March 1, 2018; Vicki LaPlant, “Boomers or Millennials — Where to Spend Your Marketing Dollars,” *HVACR Business*, June 1, 2018.

**Chart 2**  
Fitness Centers in Shopping Centers (2008-2018)



Source: CoStar Group

Type of Centers	Malls		Lifestyle Centers		All Other Shopping Centers	
	Square Footage	Count	Square Footage	Count	Square Footage	Count
<b>Fitness Center Universe</b>	<b>7,208,168</b>	<b>471</b>	<b>3,990,363</b>	<b>286</b>	<b>118,124,936</b>	<b>13,287</b>
Traditional Gym Fitness	5,818,783	184	3,183,424	83	77,225,522	2,748
Boutique Gyms	225,056	52	232,124	77	6,061,886	1,793
Yoga/Cross-Fit/Cycle	177,450	36	475,980	41	2,773,832	1,097
Miscellaneous	986,879	199	98,835	85	32,063,696	7,649

Source: CoStar Group

14,044 in 2018, according to CoStar. Chart 2 shows that, though the number of traditional gyms has tripled in that period, the growth of the yoga/cross-fit/spin/dance categories has quadrupled, from 240 to 1,174. Remarkably, the amount of square footage devoted to the latter group has *quintupled* in that time.

### B. Open-air or enclosed settings

To ease access and convenience for users, most fitness centers in the United States are either freestanding or part of an open-air shopping center. (In urban settings, location near a transit point such as a subway is useful.) As shown in Table 2, only 5.4% (757) of fitness center tenants in shopping centers were located in malls or lifestyle centers in 2018, according to CoStar, with the remainder in a category called “all other shopping centers”—a group likely dominated by open-air neighborhood or community centers. Of those fitness tenants that did locate in malls and

lifestyle centers, 35.3% were traditional gyms. These locations tended to be large-format, and their relatively affluent customer base made them compatible with other tenants at these centers. Boutique and yoga/cross-fit/spin/dance fitness tenants are less likely to show up in enclosed malls, and even then largely in dense suburban submarkets.

### C. Ownership

Currently, most fitness centers continue to be owned independently. Nevertheless, large chains exert influence. Owners of commercial retail real estate in general and of shopping centers in particular should understand how those chains operate and what it means for leasing and other aspects of operating centers.

For instance, in those categories where oversaturation is a possibility, such as yoga or spin, landlords might want to weigh whether it is more advisable to lease to an independent or a chain.

#### D. Leasing: fitness centers as the new anchors?

In the past, some tenants resisted the inclusion of fitness clubs in shopping centers, and exclusive use clauses were often framed so that gyms were kept out. More recently, that negative instinct has changed. At least one concern, that fitness centers would make it harder for customers of other tenants to find parking spots, has turned out to be overblown, while the advantages of gyms—for instance, consumer generation that complements existing traffic patterns—have become more apparent.

In the new retail real estate environment, fitness centers, when carefully leased, can function in much the same way that former anchors once did—i.e., as locations that draw a consistently high volume of people. Much of this depends on local circumstances.

Sometimes, depending on the submarket, footprint and size of its customer base, a fitness location is sufficient by itself to function as an anchor. But in other cases, it functions as a great co-anchor with additional uses. In the latter instances, a fitness center can work with other tenants to create a collective, successful, synergistic experience.

#### E. Site selection/location factors for fitness centers in retail real state

Three factors can be especially crucial in fitness centers' site-selection process:

- I. **Saturation:** If the market is saturated with other good fitness operations, prospective entrants cannot expect that they can simply take market share of members already committed to other clubs. Their best opportunity for inroads into an area would be a submarket assessment showing that at least one existing club was weak, obsolete, poorly maintained, or did not offer a wide enough range of choices and services.
- II. **Submarket density:** Fitness clubs will look at not just primary and secondary urban markets, but also primary and secondary suburban ones. In that sense, they conceive site selection similarly to retailers. Moreover, fitness clubs will want to know the number of workers in the submarket, because the companies expect to draw members of the area's daytime population before or after work.
- III. **Latitude for studio size:** Retail vacancies, particularly for big boxes, have opened up a range of options for different types of fitness facilities. In the past, for instance, shopping center landlords might have tried to fill a full-line department store with another of approximately the same size. Now, however, they would be more inclined to subdivide the space.

Once a site has been chosen, the time it takes to develop it will vary. For fitness centers that build from the ground up, it may take (including entitlements) a couple of years to open. (The process will not be as lengthy for others redeveloping second-generation space that may have once belonged to a supermarket, a department store, or other major anchor. In such cases, the process from initial discussion about the site to the grand opening can take 12 to 15 months.) Even that might not represent the end of the process, as it may require another six to 12 months after opening for the location to "stabilize"—i.e., to increase its membership rolls.

#### F. Advantages of a fitness center locating in retail real estate

Several advantages come into play when fitness centers decide to locate in retail real estate:

- **Co-tenancy synergies:** Food and beverage tenants, whether for a quick meal or groceries, are natural stops for fitness club users. Moreover, as fitness involves a lifestyle as well as a self-discipline, athleisure stores stand to benefit from users' need for appropriate clothing. In March 2019, Planet Fitness announced that it would occupy 20,000 to 25,000 square feet next to nearly a dozen Kohl's locations where the department store had recently shrunk its footprint.<sup>8</sup>
- **Established shopping patterns and traffic:** Shopping centers often benefit from being near crossroads, so there is a certain amount of existing traffic even before a fitness center opens in a shopping center that club users will know well.
- **Excellent signage:** This enhances visibility and makes getting in and out more convenient for club users.
- **More parking spaces than in freestanding locations:** Freestanding locations have to make do with a limited number of spaces. Club users can avail themselves of the additional spaces that a shopper center has for all tenants, though.

#### G. Potential challenges to a fitness tenant in a shopping center

Even after fitness clubs conduct their market assessment, landlords need to troubleshoot potential tenants' concerns over three sets of challenges, starting with **physical issues**:

- If the space **height** is too low, landlords might have to raise the roof because climbing walls, basketball courts and squash courts require extraordinarily high ceilings.
- **Too many columns** can interfere with a club's wish to add a dance studio, a Yoga studio room, or a basketball, squash or racquetball court, all of which require the flexibility of column-free space. (Fortunately, such spaces are usually adaptable.) In addition, there not only has to be enough room for equipment itself, but also for clearance around the machines so that clients and coaches can move around freely.
- **Noise and vibration** can disturb other tenants if not anticipated and mitigated in advance. The sound of weights dropping, for example, may bother tenants on the floor below, making it more difficult to locate large-format clubs on mall upper levels.
- A gym's equipment requires not only **dedicated electrical outlets** but the ability to hide the cords.
- Users will need **adequate lighting**, but not so much that glare prevents users' ability to see what is on the machines.
- **Nonslip floors** are a necessity to avoid accidents.<sup>9</sup>

Smaller company space requirements allow boutique fitness centers more flexibility in dealing with the above physical limitations. In multi-level urban buildings, landlords can offer a stack of different spaces on different floors for facilities, anything from basements to upper floors.

A second set of challenges concerning a possible fitness tenant is **visibility**. Not only should potential users be aware of the

<sup>8</sup> "Kohl's to Sublet Space to Planet Fitness at 10 Locations," *Shopping Centers Today*, March 5, 2019.

<sup>9</sup> These are among considerations discussed in Mike Rucker, "So You're Building a Fitness Center: Where Do You Start?" *Active Wellness* (blog post), Feb. 1, 2016.

tenant's location, but their frustration in finding it should be minimized. Nevertheless, while certainly a factor in fitness center location, visibility does not have to be solely determinative. A window display on the main level might be enough to draw the attention of passersby in urban settings, for example.

A third challenge arises in the course of *lease negotiation* issues. At the outset, exclusive use provisions related to existing tenants may pose a problem. Leases signed from 10 to 20 years ago with one or more existing tenants, before fitness tenants became more prominent, may restrain what landlords can offer, in which case they will have to negotiate a potential solution with the leaseholder. Additionally, an existing tenant might take advantage of a co-tenancy clause that enables it to operate on a reduced rent if the clause is violated, further limiting the landlord's ability to act without significant impediments. Furthermore, franchise operations among large competitors may make a difference when it comes to leasing. It is important to know whether the entity that signs the lease will be actively involved in the daily operations of the particular location.

But the relative newness of fitness tenants in shopping centers also means that both tenant and landlord may encounter some unknown elements along the way. Fitness clubs, for instance, might wish to protect against unforeseen changes in the next five to 10 years. They might seek lease modifications related to guarantees, early termination and more aggressive tenant improvement package. They may also want rent abatements in the first few months after opening to allow for the "ramp-up" period when the gym gradually builds its clientele through referrals.

### **III. Conclusion**

Powerful demographic and social forces have resulted in explosive growth in the fitness industry over the last decade—an increase showing few signs of declining in the near future. However, shopping center landlords need to be aware of a host of site selection, leasing and property management issues if they hope to place more of these tenants in their centers and reap the resulting traffic and sales rewards.

**Part II will explore more specifically the marketing and operational issues, along with the future trends, involved with fitness tenants in retail real estate.**

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