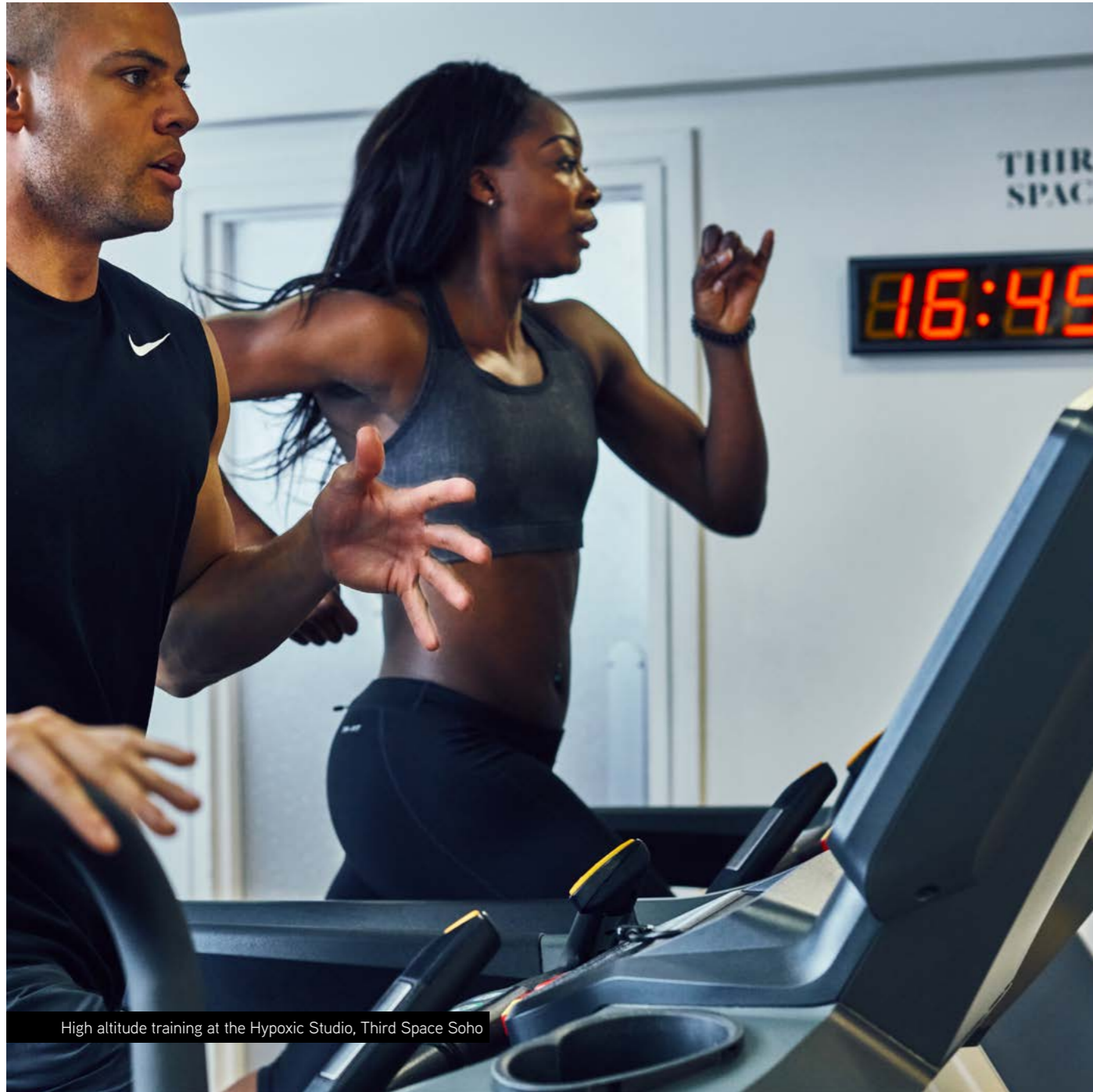


Central London Gym Market Review

2017

Colliers
INTERNATIONAL



High altitude training at the Hypoxic Studio, Third Space Soho



UNPRECEDENTED GROWTH

- Central London gym market is diversifying
- Operators taking a variety of space
- Further space being dedicated to secondary spends

The gym market is booming, driven by rapid growth at the low cost end of the market, popularity of studio concepts with flexible memberships and new operators with ambitious expansion plans.

This competition for sites, particularly in Central London, is not only driving rental growth, but also necessitating broader property searches considering less conforming units. Furthermore, a rise in the popularity of athleisure wear and clean eating have led many gyms and studios to dedicate space to secondary spends such as juice bars (e.g. Psycle, Mortimer Street and 1 Rebel) or retail collaborations.

Definitions

	MONTHLY MEMBERSHIP	FACILITIES	EXAMPLE OPERATORS
BUDGET	<£50	Gym & studio (limited classes)	Pure Gym, Anytime Fitness
MID-MARKET	£50-£100	Gym, studio, possibly pool	Fitness First, Nuffield Health
LUXURY	£100+	Gym, studio, pool, other	Third Space, Equinox
STUDIO	Credits	Specialist studio	1Rebel, KOBOX

THE LONDON MARKET

- Growth in budget and studio segments
- Rents highest for studios and luxury gyms
- Office basements could be utilised to provide new gym space

The Central London gym market remains dominated by mid-market operators in terms of both the number of clubs and the amount of floorspace. Whilst luxury concepts account for only 10% of the gyms in the capital, they represent 22% of the total floorspace as a result of the larger units that are needed to house the swimming pools, studios and specialist facilities including climbing walls, hypoxic chambers and bespoke laundry & ironing services that set these clubs apart.

Conversely, studio concepts now make up 21% of clubs, but with an average size of 4,556 sq ft, due to their compact formats, only contribute 6% of London's total gym space. Significant expansion by Pure Gym, through the acquisition of LA Fitness, moved ten London gyms across from Mid-Market to Budget, which when added to The Gym Group's acquisition of four Fitness First units and aggressive organic new openings from Anytime Fitness, means one in every five clubs are now run by low cost operators.

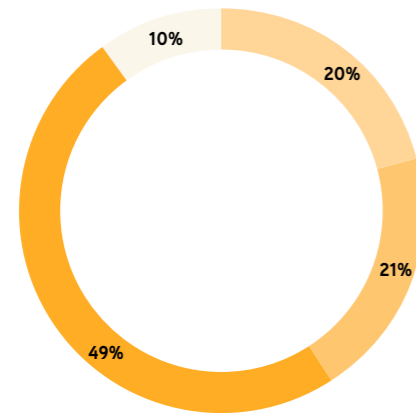
The budget gym market in London remains incredibly nascent, with 46% of the clubs in this segment only opening in 2016. Similarly, 26% of the studio concepts in the capital are new and looking back before 2014 there were very few such operations. The first Barry's Bootcamp opened in February 2013 and Boom Cycle led the way for the spin studios, first opening in Shoreditch in 2013.

This change in market composition has implications for the types of properties that can now be considered for fitness concepts. Smaller units of 3,000 to 5,000 sq ft near transport hubs are ideal for studio concepts, but competition with other uses results in higher rents. In fact, analysis of our rental database found that studio concepts are paying twice the average rents of mid-market gym operators at £27.80 psf vs £13.40 psf.

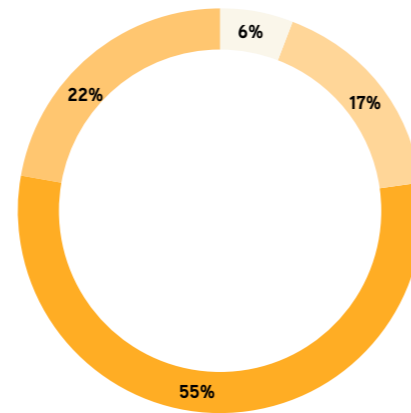
The £2.48 psf gap between the rents paid by mid-market and budget operators is likely a result of the recent deals at the low cost end of the market and implies rental growth should feed through to mid-market clubs through rent reviews over the next couple of years.



Number of Gyms by Category



Floorspace Breakdown by Category



Legend: Budget (dark orange), Mid Market (medium orange), Luxury (light orange), Studio (pale yellow)

In spite of requiring the largest space, luxury gyms are also paying higher rents - on average £21.56 psf. This is driven by the scarcity of suitable space in Central London for these sorts of operations, as well as the comparatively expensive locations of these clubs in areas such as Kensington and Marylebone. However, with membership fees in excess of £135/month as a result of their superior facilities, these clubs are also better placed to afford these higher rents and outbid others on competitive units.

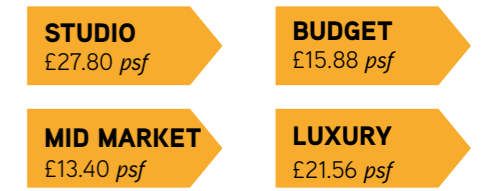
The proportion of basement space may also have a role to play in rental values. Again, breaking down by gym type reveals some great diversity in the proportion of space beneath the ground that each type of operator will accept. Only 35% of studio space is underground, whereas 54% of mid-market gym space is at basement level.

At an operator level, there is even greater diversity. 82% of the Fitness First space in the

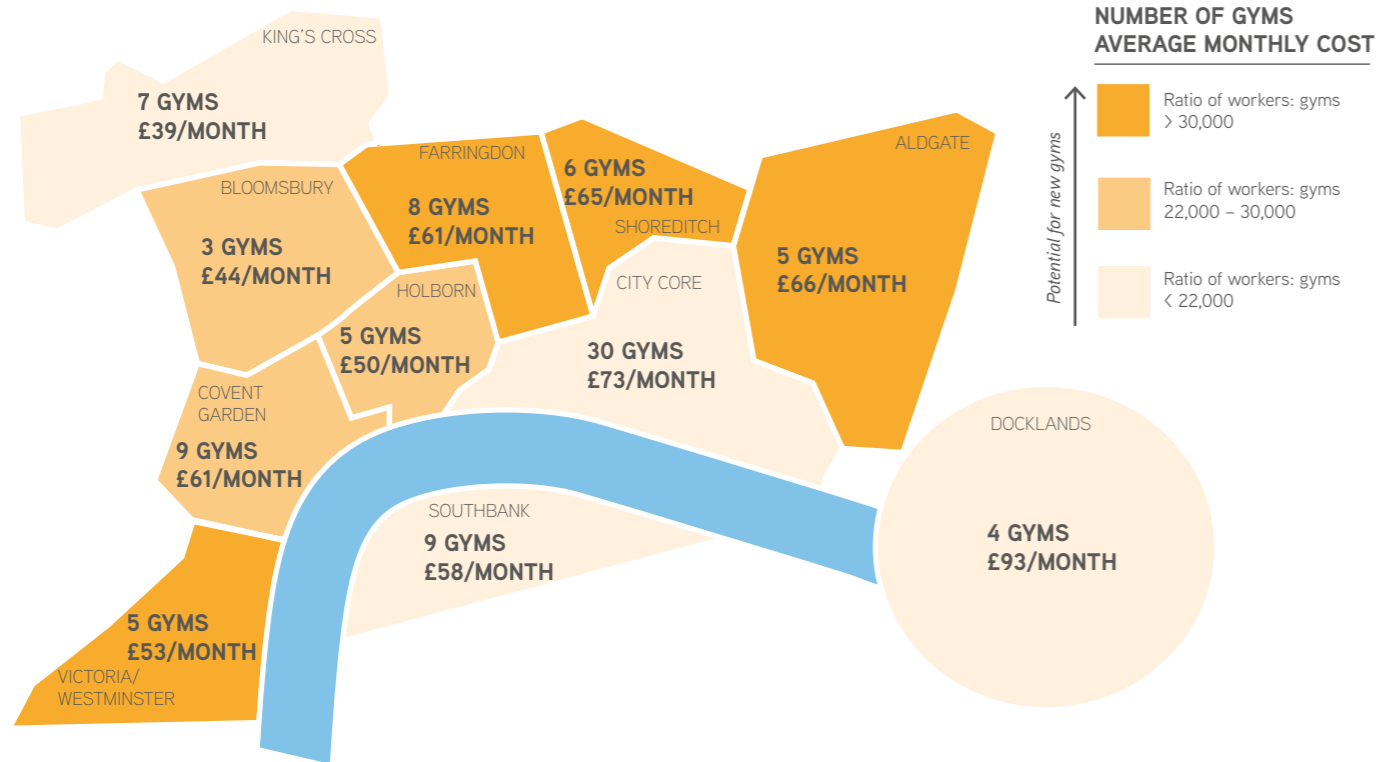
capital is below the ground, compared to only 20% of the Third Space estate and 29% of Soho Gyms.

With rental growth in the gyms market and anticipated supply constraints, more landlords could consider using the basements of their office buildings for fitness concepts as a means of delivering much needed future floorspace, deriving long term income (owing to the 15-20 year leases available) and providing a further offer for workers.

AVERAGE RENTS BY CLUB TYPE



Source: Colliers International



SCOPE FOR NEW OPENINGS

- c. 25,000 worker catchment should support membership levels
- Research suggests scope for at least 31 new London gyms
- The top 3 locations with additional gym potential are (no. gyms):
 - Farringdon (10)
 - Shoreditch (6)
 - Victoria/Westminster (5)

Membership fees continue to account for the majority of gym revenues meaning that attracting sufficient members is critical to gym success. Whilst outside of Central London this means having a significant residential population within a short distance of your gym, in the capital the key is locating in areas with a high density of workers.

As a result, using a ratio of workers per gym can provide a powerful metric for assessing the current gym provision in an area and identifying any potential gaps for further clubs. Based on 12.2% of the adult population (18-70) being members of a gym (Sources: Mintel, Experian) and 3000 members per club, our figures estimate a catchment of around 24,600 workers would be needed to support a traditional gym. We estimate a studio concept, given the lower cost base, could be supported by a catchment of around half this size.

The analysis looked at how each of the London office sub-markets compared to this benchmark based on current provision. The office development pipeline is used as a proxy to project the number of workers to 2018, which then gives a resultant view on the number of additional gyms each area could support over the next two years, based on both the existing gap and new workers.

Overall, we found Central London could support a net increase of 31 gyms to reach the benchmark workers per gym, with 12 of the 20 sub-markets showing an under-supply. In fact, this metric is likely to under-estimate potential, given many of these sub-markets will also have a significant residential element to demand (e.g. Chelsea, Kensington). It is also possible that the proportion of adults with gym memberships is higher in Central London than for the UK as a whole, owing to the generally younger demographic.



LOOKING FORWARD

- Skill learning concepts e.g boxing and barre are likely to be major trends
- Insufficient provision and future market growth make clear case for investment
- Vibrant occupier market should drive rental growth

There are already a number of new gyms in the pipeline for 2017 and the majority of these are planned for areas in which we have identified significant latent demand. In Shoreditch, openings from PureGym (expected early 2017) and Equinox (opening as part of The Stage in 2019) will not only reduce current pressure on gyms in the area, but also diversify the offer by providing the first budget and luxury concepts.

Similarly, the opening of BXR in Marylebone, backed by IBF Heavyweight World Champion Anthony Joshua (cover image: Scott Heavey), will combine pay-to-train and luxury membership concepts in a 12,000 sq ft glass fronted unit, also featuring an in-house clinic and Joe & The Juice for members. Again, this will both meet latent demand in the area and broaden the fitness offer for Marylebone, where the only studio is currently Xtend Barre. With further openings from 1Rebel and Kobox also planned for 2017, we anticipate boxing concepts to be a major trend over the coming year.

The constant stream of new concepts and ambitious expansion plans from the likes of Gymbox, who have just raised a further £39

million for future openings has injected a new dynamism to the gyms market. This increasingly competitive environment is necessitating greater differentiation and investment in studios and facilities, particularly as more flexible memberships, pay-to-train and options such as Class Pass, mean loyalty is no longer guaranteed through lengthy fixed contracts.

An improved ability to move between providers or use multiple studios means customer expectations have risen and clubs must provide a tailored experience, expertise on hand and state-of-the-art facilities in an appealing environment. Existing players such as Virgin Active have responded by upgrading ten clubs to its Virgin Active Collection format and are actively seeking further representation for this concept.

With current provision insufficient to meet demand in many parts of Central London, forecast growth of £0.5bn by 2021 (Mintel) and the health and fitness agenda continuing to gather pace, there is clear justification for investment in gyms and facilities. This vibrant occupier market makes a compelling case for healthy rental growth ahead in the Central London gym market.



The Colliers International specialist Leisure Agency and Lease Advisory teams provide market leading services across the diverse London Health & Fitness sector.

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