The Dawn of the Age of Omni-Fitness (Part II)

The Marketing and Operational Issues—Along with Future Trends—You Should Know About Fitness Tenants in Shopping Centers

Abstract: This is the second and concluding part of a summary of recent interviews 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. It delves into fitness centers’ potential role in marketing the experiential element of shopping centers; how the daily operations of these tenants need to be managed effectively if they are to blend seamlessly with the rest of the shopping center; and the near-term factors that will affect their future.

I. Landlords and fitness centers: marketing and operational issues

Fitness centers can play a key role in marketing shopping centers effectively—particularly nowadays, as landlords try to incorporate more of the live-work-play dynamic of mixed-use centers into their properties. More is involved than claiming a higher share of consumers’ dollars, even if such tenants represent a critical component of a center’s healthy, diversified tenant mix.

Fitness centers represent the type of experiential tenants being sought in today’s market, and are likely to become even more so. At-home fitness will induce location-based fitness centers to become even more experiential in order to further engage users.

Current support of fitness centers through social media, direct mail and word of mouth will only strengthen in the near future. These communications may begin with the fitness company, but its users multiply the messages’ impact through their own postings. As a result, the shopping center itself does not have to commit as many marketing dollars to this particular effort.

But the daily operations of fitness tenants do need to be understood and managed effectively if they are to blend seamlessly with the rest of the shopping center—and if expectations about these tenants’ benefits can be kept at a realistic level:

- Weekday use of gym clubs tends to be heavily concentrated in the early morning and early evening, just before and after work. On weekends, use is heaviest before noon, after which most regular customers go to the shopping center. Furthermore, in terms of seasonality, club use peaks in the beginning of the year (with New Year’s resolutions to exercise) rather than the retail peak in the fourth quarter. That complements rather than interferes with existing center parking and traffic.

- In terms of equipment, fitness operators have their own maintenance staff, so shopping centers do not need to provide resources or unique access for that.

- Because of the equipment and the heavy concentration of users in a confined space, though, full-service gyms especially can entail considerable capital investment upfront, covering showers, floor loads, and the heating, ventilation, and air conditioning (HVAC) system. (Once the installation of these items is complete, however, clubs do not impose financial burdens on shopping centers.)

- Fitness centers produce little trash and minimal problems with loading. One of the few aspects of property management that should be kept in mind occurs in full-service fitness clubs that have pools, which need to be maintained properly to prevent leaks.

- Personnel represents a key cost, especially for boutique facilities, because of the close instructor-user interaction that makes these locations so popular. The employee turnover rate is high, as it is common for personal trainers to switch

Lessons Learned

- At-home fitness will induce location-based fitness centers to become even more experiential.
- The importance of social media, direct mail and word of mouth to the success of fitness centers will increase in the years ahead.
- Several aspects of fitness tenants’ daily operations need to be understood and planned for, including their complementary effect on existing shopping center parking and traffic; considerable capital investment upfront; the significance of personnel costs for boutique fitness tenants; and the different success metrics used by shopping centers and fitness centers.
- Technology in fitness centers will become even more important, including through wearables and apps.
- Fitness clubs have only just begun to use omni-channel marketing to increase brand awareness for at-home users.
jobs once every two years. A near-term “war of talent” for high-quality instructors may put more pressure than has existed to date on margins. But that may be the trade-off required to cap a member attrition rate ranging from 30 to 50 percent among most fitness clubs. 1

• Different success metrics are used by shopping centers and fitness clubs. While shopping center landlords still look largely to sales productivity as a measure of success, chain fitness centers often examine utilization—i.e., of the total number of spots available for a particular class, how many were taken. In addition, chains might look at numbers for workouts per week or members assigned to a specific location as indicators of performance. Sometimes, while membership might be low, the number of workouts is high—meaning that members from other areas work out at the facility.

II. Fitness center trends for the near future

How might fitness centers evolve over the next half dozen or so years? That question is of compelling interest to shopping centers, as the implications of change will affect the whole landscape of center leasing, property management and marketing. Although the details of that picture have not yet come into focus, the broad outlines are becoming more apparent:

• While still increasing, boutique centers are not doing so at the same pace as before. These facilities may be approaching the limit of choice and variety expected by users.

• Large-format centers may incorporate more classes and boutique options. This would widen their position as “one-stop shopping” for the fitness user, but it would have to be done economically so as not to undercut the low costs that have long made them so attractive.

• Boutiques may offer more than pure cardio need (e.g., weight sequences). A half-hour cardio session might be followed by a 15-minute session devoted to weight training.

• The social and experiential aspects of gyms will not only become even more important, but will need to be accommodated in facility design. As one example, a fitness lobby might need to be enlarged, both to make room for additional members and to offer special items such as healthy food and drinks.

• Fitness and wellness are merging. This holistic understanding of maintaining a sound body will affect how much space that gyms will allocate in their own spaces for such merchandise, as well as make them look more closely at compatible wellness tenants. An additional implication of this is that greater health consciousness means lower health-care costs for users, which in turn will encourage participation. Weight-loss counseling, behavioral health programs, and chiropractic care are among these ancillary health services. 2

• The importance of technology in fitness centers will only become magnified. Social media are coming into focus as a means of promoting the clubs and a sense of community among its members through sharing nutrition, recipes and best practices. They also help motivate and measure success and goal completion. But social media may be only the opening wedge in how technology will transform the industry. The wider availability of Peloton and Mirror is making working out at home through online streaming a more viable option. Wearables, through such items as Apple watches and Fitbit, are becoming more popular and put to increasingly relevant purposes (e.g., Orangetheory Fitness displays heart-rate monitor data in its fitness studio). Apps are intensifying competition and customer engagement on a 24/7 basis with special challenges, deals and promotions—and providing the opportunity to reach all members instantly for free. (Some even connect to multiple wearable devices and other apps.) Already, 29% of U.S. respondents who monitor or track their health do so via an app or device. 3 The upshot of all of this is that gym users will be able to alter their behavior and habits, tracking not just the number of exercises but eating habits.

• Omni-channel fitness will become an increasing fact of life for the industry. To understand what is happening in fitness, it would help to look to how physical retail has responded to the Web. Brick-and-mortar retail companies have set up their own Web sites to increase brand awareness and implement a seamless consumer experience. Similarly, fitness clubs have begun to explore how to make at-home fitness complementary to location-based fitness—a way to help time-challenged members keep their brand in mind when they cannot take an hour and 15 minutes out of a day to drive back and forth to a facility for a 45-minute session. In November 2018, Rumble, the boxing boutique concept, announced it would partner with Technogym and movie/music producer Scooter Braun on “At Home 360,” an at-home boxing experience. 4 So a convenience-oriented Millennial, instead of working out at a facility two or three times a week, may do so once, with the other time(s) at home. Nevertheless, because goal attainment and success are best in a social setting, physical locations will likely still be resistant to electronic encroachment.

• Sluggish economic growth or a downturn could test the resilience of different fitness options. Fitness is discretionary spending, which is at risk in a recession, but it has become an increasingly important part of users’ lifestyles. Many users may try to sacrifice consumption in one area of their lives in order to preserve their health over the long term.

• Pop-ups represent an intriguing new location strategy for gyms, with Orangetheory Fitness testing the concept in hotels. Hotel visitors might not use gyms as much as they might at home, but exposure to the concept might lead them to become members later. One obstacle to pop-up fitness centers in malls would be a short-term lease, which presents a problem for financing. But companies with large portfolios but no major debt loads may find the ability to offer flexible spaces such as pop-ups increasingly useful, especially for

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2 Ibid.
testing a new concept (such as a fitness center) and in a center submarket.

III. Conclusion
Fitness center tenants may figure importantly in how today’s evolving shopping centers can promote themselves as the experiential nodes that consumers will want to visit. Nevertheless, understanding these tenants’ daily operations helps enormously in integrating them into the life of the center. Just as important is that landlords anticipate the trends that are already transforming these tenants. Two will be especially familiar to them through their experience with the retailers in their centers: the widespread use of technology and omni-channel marketing that will engage consumers in both the physical and digital realms.

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