BUYING A GYM FRANCHISE

WE SELL GYMS

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INTRODUCTION

Last year, nationwide total Fitness Industry revenues increased by 6.1% to $25.8 billion with more than 64 million Americans utilizing a fitness facility.

According to IHRSA.org, there are over 36,000 U.S. Health Clubs throughout the US, which is up 4.8% and the membership numbers continue to grow!

http://www.ihrsa.org/about-the-industry/

The fitness industry shows strong growth in general, and the martial arts segment grew at 2x the overall industry rate for the past 5 years. Boutique Fitness, which focuses on supervised exercise and individual results, has experienced incredible growth over the past 5 years as well, and now makes up 42% of the fitness market. This guide will help outline how you can benefit from these exciting growth trends and own your own fitness business.

MARKET TRENDS

There has been a healthy and sustained growth in overall market size due to lifestyle choices, lower prices and more options. Constant media coverage of the benefits of exercise and healthcare's increased focus on preventive and wellness care are significant factors in recent market growth. More and more people, including those aged 40+ years old, want to live a healthy lifestyle – and that includes going to a gym.

- Fitness clubs and lifestyle are now mainstream in America
- Nearly one out of five Americans belongs to a health club (IHRSA)
- Club memberships are growing, with the number of qualified "sideliners" still at least 2X larger than active exercisers
- 55% of members are under 40 (IHRSA)

Millennials (ca. 26% of the US population) and Post-Millennials (ca. 24.5%) have surpassed Baby Boomers (24%), and are now the most populous and committed generations to pursuing healthy active lifestyles. Health clubs and studios have become their social hubs and they are allocating significant wallet share to achieve results

The health club market is growing and customers are spending more than ever before

- The health club industry now reaches 151 million members at more than 186,000 fitness facilities in more than 65 nations worldwide (IHRSA)
- From 2011 to 2016, the US annual growth rate of gym & health clubs was 2.4% (IBIS). IHRSA forecasts it to grow at 2.8% from 2015-2020

WHY IS BUYING AN EXISTING GYM FRANCHISE A GOOD OTION?

The upside; national branding and the location is already open and running. These could be very strong incentives or advantages. Building signage, tenant build-out, equipment, fixtures and other essentials have already been completed or installed. Even better, there is an existing membership base and people in the area who already know there is a gym nearby. Basically, all you have to do is step in and run the business.

The downside; the potential of a bad reputation, or older equipment and furnishings etc., leading to a loss of those local members, which is often very hard to recover from.

WHY IS THAT FRANCHISE UNIT FOR SALE?

Franchise units are a great way to get into the Multi-Billion fitness industry. They offer a recognizable brand and a proven plan for running the business that can help a new or even experienced gym owner maximize sales and unit level profitability.

So, if they are such a great business, why are current franchised units being sold? There can be many reasons that a franchisee may want or needs be exit the business. And these may have absolutely nothing to do with the brand, location, Franchisor supports or the business model. Some of these locations can then be a great opportunity for a gym buyer.

Here is another reason; sometimes the Franchisor and Franchisee simply do not get along or work well together. Franchisors don't always want this or that franchisee owning a location(s). Sometimes it's because the franchisee doesn't follow the system. Sometimes, even though there is an initial screening process, a franchisee turns out not to be the right person to run this type of business, or he/she is just lazy. In the fitness business, certain lifestyle habits can make it impossible for a person to positively represent the brand. Or, maybe the franchisee simply doesn't want to run the business anymore, or has other pressing personal issues and is absent most of the time. Either way, these may offer a great opportunity for the gym buyer.

BUYING PART OF A MULTI-UNIT OPERATIONS

Multi-unit owners may have 10 locations or more. It may be that when they acquired those units, they recognized the growth opportunity and wanted to leverage having several locations. But over time, they discovered that some locations performed better and put their efforts into some locations over others. Or, maybe they found out that having multiple locations requires more effort or travel than they expected. Or maybe, they simply didn't put equal effort into managing and promoting each location.

That doesn't mean a location for sale is perpetual poor performer. It simply means that as part of the multi-unit group, it wasn't performing at the same level as other units. But, it could be a superior location for a new, attentive single unit owner.

How is that? When the overhead that goes into running multiple units is added up and spread across all the units, there will always be some that don't perform as well as others. They look weak compared to others or on the balance sheet.

But when operated as a single location by an owner operator, the attention to detail, customer service, line item costs and profits margins are more closely watched – after all, it's one unit not 20 and as such, those details directly affect the owner's personally income. This means a gym that has been part of a multi-unit operation can be an excellent opportunity for a new buyer. A single unit, owner operated gym will almost always perform better than it would in a multi-unit group. Why? The owner (you) is paying attention to it and not being distracted by what's going on at other locations.

THIS ISN'T WHAT I WANTED

Another reason a franchise gym may be for sale is that the owner discovers he or she doesn't want to do the day-to-day activities needed to run the business any more. Getting equipment serviced, making sure the lockers are in good shape, and keeping the floors clean every day are not the activities some owners expected to do. It's just not what they envisioned. Many new business owners are excited about owning their own business. They go all in to get the location set up, register the business, get permits, and buy the equipment. But once the setup work is done and they have to deal with the day-to-day operations, they get bored. It's not nearly as exciting as promoting a grand opening and pre-launch activities.

This makes that gym a great opportunity for someone who enjoys the day-to-day management, staff interactions and operations but doesn't want all the headaches of getting the business up and running. This owner wants to exit and will often be willing to negotiate on the selling price so he or she can move on their next adventure.

THE LIFE CYCLE OF THE TERM

Finally, a franchised gym may be on the market because the owner has been successful for several years and now wants to do something else. Many standard franchise contracts start with an initial seven or ten year term that then include renewal options for another seven or ten years. So, at the end of a term, the franchisee may simply want to make a life change, and take advantage of the equity they have gained or even retire.

WHY BUY AN EXISTING FRANCHISE UNIT?

The same reason you would buy an existing home instead of building a new one... Everything is already done and often times it's easier to finance. All you have to do is move in. If you think about it, there are many good reasons to buy an existing operation:

Costs – Most of the work has been done, you don't have unexpected building costs to factor in

Time – You don't have to spend time getting the business ready, it's already running

Sales – The business has a track record – you know what it's been doing and how it's tracking

Cash Flow – An operating business will have current state of cash flow (positive or negative)

Risks – You have less unforeseen issues when purchasing a well-documented business

And that's not all. There are other, hidden benefits, to buying an existing location. The community already knows there's a gym at your location. So, you already have a presence in your market. The existing business has employees, service contracts, phone and electric ... all things you would have to set-up from scratch if you were to open a new location.

Now, let's review some of these key points for why you may want to purchase an existing franchise.

COSTS

Under the law, every franchise is required to prepare a document for franchisees called a Franchise Disclosure Document (FDD). That document outlines how the franchisee and the Franchisor will share responsibilities and the costs, to build-out and open a new unit. This FDD is regulated by the Federal Trade Commission and a detailed estimate of the total initial investment is included in the document.

As any business owner knows, understanding these initial opening costs are very important. What you need to be careful about is that these figures are "estimates" that the Franchisor is making. And, that these estimates may be an average for the entire country. So, let's use an example. Suppose you plan open a gym in Omaha, NE. Chances are your costs will be less than what you would incur if you were planning to open a gym in San Diego, CA. Why? The real estate costs, the permits, labor and inspections, the costs for pretty much everything will likely be more in San Diego than Omaha.

TIME

When you start a business, you have to get things ready, make sure you have staff, and generally do a lot of work just to get the doors open. You don't have to do any of that when you buy an existing gym. In many cases, you could take over and be holding the keys within 60 days. Compare that to setting up a new location: scouting for a location, getting permits, lining up a contractor to do the construction, keeping an eye on the building process, ordering equipment, hiring employees, and doing all the marketing and advertising to launch and open the doors. And all of that has to be done before you get your first members.

SALES

Buying an existing business gives you the advantage of knowing what the sales currently are. Granted, the sales may or may not be great, but at least you know. If the sales are good, you have an immediate path to success – just keep doing some of what the previous owner was doing. If the sales are not as good as the previous owner wanted, you can adjust. Maybe the previous owner could have been generating more sales with a simple change in operating hours, or adding additional personal training or classes etc. The point is, even with a location that hasn't been performing like the original franchisee expected, you know what those numbers are. You don't have to guess, and you may be able to clearly see how to increase revenue or enhance location operations.

CASH FLOW

Franchise agreements require accountability. That's part of the franchise agreement. As the buyer of an existing gym, you will have access to these books and records. That means you know exactly what shape the business is in and what the main challenges are.

Normal the Franchisors are paid royalties based on a unit's gross sales. Those royalties cover certain costs that include supporting the franchisees, maintaining the brand, and often providing tools to operate the business more efficiently. There is very little financial information that will not normally be available in a franchised unit's P&L and operating statements. The Franchisor will routinely review these sales and expense reports to help coach the unit owners to be more successful, and because that is how the Franchisor earns revenue.

RISK

Risk is always a factor when opening a new business. It's what you don't know, that can cause problems. If you build a new business, even a franchise, where branding and many of the operational tasks are already defined, you have risks. Is the location you have chosen a good one? Are there enough people in your market area? How many people will join in a given month?

You don't know. The only way to find out is to build it and open the doors. With an existing gym, you have a baseline and often a path for improvement.

Not only that, you may be able to get into the business with less out of pocket cash. With an existing location, you have the buy-in costs and may assume certain fixed costs, but you will have less variable, or unexpected development costs, eating up your cash reserves. These buy-in costs can usually be paid over time from revenue generated instead of cash on hand.

If you are asking a bank or investor for capital, they can check the SBA Franchise Registry and other financial reporting services to get a rating on the franchise brand. For a brand with a good reputation, (those with low loan default rates) you could get a business loan with as little as 20% down and finance the balance over 10+ years. Again, if you know that the brand is doing well, the chances are you will also do well.

That's another key point: if you are planning to get a loan or bring in an investor, the lender will usually help perform some level of due diligence. Like reviewing the books and records, tax returns, or helping provide estimated valuations etc. The lender doesn't want to lose their money either.

Now with risks, there are rewards.

When buying an existing profitable location, you are paying the selling owner his/her earned "equity". When opening a new location, you are earning that "equity" for yourself. This equity is usually a multiple of the annual net income, plus the FF&E (furniture, fixtures and equipment) to the owner. This equity can be hundreds of thousands of dollars so, you can either buy this earned value or earn this value yourself. This is a very important consideration. Are you comfortable with having a debt of two hundred thousand dollars, or would you like to earn that as equity?

GYM FRANCHISE RESALES AND THE SBA LOAN

Being able to find and qualify with a lender is one reason buying an existing gym franchise can be a good decision. In general, franchises will almost always be qualified for a loan and have business plans in place to assist you. This is because of a program called the Franchise Registry (FRANdata). This database includes information reported by the Franchisor's FDDs, financial statements and loan default rates, which allows a lender to quickly see how the brand performs.

Another key element to the Franchise Registry program, is that an SBA Franchise Committee has reviewed and approved the Franchisor's franchise agreement. That means that the SBA saw no problems with the control provisions within the franchise documents. This SBA pre-approval then streamlines and speeds the funding process, meaning you can get your business up and running faster, too.

https://www.franchiseregistry.com/

https://www.sba.gov/content/franchise-registry-approved-brands

SBA Franchise Registry Eligibility Review is voluntary; there is no requirement for a franchise to have the review. And, each business owner and franchise agreement will be reviewed by a lender before any loan is approved. Being in the Registry simply makes the process of getting a loan move along faster, sometimes a lot faster. But it isn't the only consideration.

As is clearly stated by the SBA:

You should not construe a business' presence on or absence from the list below as either an endorsement by SBA or an indication of the business' quality or profitability.

An SBA loan may cover both the costs for acquiring the business and working capital to cover:

- Equipment Leases
- Utility Deposits
- Cash On Hand
- Employee Hiring and Training Costs

You should review your costs and cash flows carefully so you make sure you know how much working capital to request on you loan application.

BUYING A RESALE FRANCHISE – WHAT YOU NEED TO DO

Buying a franchise gym as a resale can be an easy process, if you know the steps.

The main difference in the process of buying a franchise gym as a resale is the franchise discovery process. You will need to go through the franchise's standard approvals process and due diligence with the brand.

STEP 1

You've decided to buy an existing location for a brand-name franchised gym. You may look at several websites or talk to a franchise consultant/broker. When talking with a broker, make sure you are clear about wanting to purchase a resale, not a 'new' location. Remember: there are advantages and disadvantages to purchasing a resale location over buying into a franchise for a new location.

STEP 2

As you talk to the consultants, consider whether you want that person to represent you for this purchase. How many brands do they represent? Does that broker have a good reputation? Do they have industry specific knowledge? This is very important. Does the consultant actually understand the fitness industry? Do they have any insight as to operations, locations, cost/expenses etc.

You should prepare a list of general questions for each broker, including:

- How many franchise resales have you completed for this brand or industry?
- How many franchise resales have you handled?
- What has been your experience with the transfer process?
- Have you reviewed the franchisors' FDD?
- Have you recently attended Discovery Day for this Brand?

Of course, you should also ask about the general qualification requirements for the brand and what information the broker can provide once you pre-qualify. Those questions are more specific to the brand, not the broker. What you want to make sure of is that the broker can help answer your questions. If not, maybe you need a different consultant.

Remember: You can always decide that you like the franchise, but not that broker/consultant. Don't sign a confidentiality agreement or any other agreement with the broker until you are certain they have industry experience, knowledge and you want to work with them. As long as you haven't made any promises, you can work with any broker you wish.

Also, keep in mind that you will likely have to pre-qualify before you get all the details of a listing. Every franchise has business and financial criteria's that every prospective franchisee must meet. You want to make sure you are going to be a good fit and so does the Franchisor. The pre-qualification process lets the franchise know that you are serious about the purchase and that you are financially able to meet the obligations.

Something to consider: You can always bring in friends, family members or investors who can help you qualify.

STEP 3

Once you have determined who you want to work with, ask him/ her to start the process of getting you qualified and obtaining all the franchise documents, including financial records. That way, you can review the franchise agreement, training requirements, fees and operational information, like current number of gym members and equipment maintenance costs.

STEP 4

Check out a nearby location as a customer. You are going to buy a similar operation, so you should have a first-hand look at how another location is run. Also, do some online research. What do related websites and social media have to say about the brand?

You don't need to actually apply for approval yet. If you have questions, your broker should be able to answer them or get the answers for you.

It may be advantageous to try to meet with the current owner of the location you are considering so you can see how the operation is run.

STEP 5

Once you are satisfied and have made your decision, ask your broker to make an offer – contingent on certain other things, such as:

- period to review the financial records and conduct due diligence activities
- loan approval
- lease assignment and sufficient option years
- approval by the franchise
- your approval of the franchise agreement

Your contingent offer should stipulate how equipment and inventory will be paid and transferred, who pays any franchise transfer fee, etc. Basically, anything that you don't already know and any costs associated should be included as contingencies.

STEP 6

You may or may not have to negotiate on acceptance of your contingent offer. But you are still not at the final step. The next step is full due diligence, meeting with the Franchisor, and making sure you understand the obligation of the franchise agreement.

At this point, you may ask an attorney to review the franchise agreement with you. You may also request any additional materials you may want to see, such as financial statements, or materials that your lender may need (if you are applying for a loan).

In this step, you are going to apply to the franchise brand for approval. And, depending on the lease agreement for the location, you may also need to apply to the landlord for approval. This part of the process may be the same or slightly different than the process that a new franchisee would go through.

FDD ITEMS

The entire FDD is important. You should pay special attention to Item 6 Other Fees, (which includes royalties and ongoing fees you must pay) Item 7 Estimated Initial Investment, (which estimates start-up costs of a new location) and Item 19 Financial Disclosures. Not all brands make financial disclosures statements. However, since you are looking at a resale, you should have actual numbers to review for that location.

WHAT INFORMATION IS FOUND IN THE FDD?

The purpose of the FDD is to provide prospective franchisees with information about the Franchisor, the franchise system and the agreements they will need to sign so that they can make an informed decision. All Franchise Disclosure Documents are broken into 23 sections for national uniformity.

The FDD required sections area:

Item 1: The Franchisor and any parents, predecessors and affiliates. This section provides a description of the company and its history.

Item 2: Business experience. This section provides biographical and professional information about the Franchisors and its officers, directors, and executives.

Item 3: Litigation. This section provides relevant current and past criminal and civil litigation for the Franchisor and its management.

Item 4: Bankruptcy. This section provides information about the Franchisor and any management who have gone through a bankruptcy.

Item 5: Initial fees. This section provides information about the initial fees and the range and factors that determine the amount of the fees.

Item 6: Other fees. This item provides a description of all other recurring fees or payments that must be made.

Item 7: Initial investment. This item is presented in table format and includes all the expenditures required by the franchisee to make to establish the franchise.

Item 8: Restriction on sources of products and services. This section includes the restrictions that Franchisor has established regarding the source of products or services.

Item 9: Franchisee's obligations. This item provides a reference table that indicates where in the franchise agreement franchisees can find the obligations they have agreed to.

Item 10: Financing. This item describes the terms and conditions of any financing arrangements offered by the Franchisor.

Item 11: Franchisor's Assistance, Advertising. Computer Systems and Training. This section describes the services that the Franchisor will provide to the franchisee.
Item 12: Territory. This section provides the description of any exclusive territory and whether territories will be modified.
Item 13: Trademarks. This section provides information about the Franchisor's trademarks, service and trade names.
Item 14: Patents, copyrights and proprietary information. This section gives information about how the patents and copyrights can be used by the franchisee.
Item 15: Obligation to participate in the actual operation of the franchise business. This section describes the obligation of the franchisee to participate in the actual operation of the business.
Item 16: Restrictions on what the franchisee may sell. This section deals with any restrictions on the goods and services that the franchisee may offer its customers.
Item 17: Renewal, termination, transfer, and dispute resolution. This section tells you when and whether your franchise can be renewed or terminated and what your rights and restrictions are when you have disagreements with your Franchisor.
Item 18: Public Figures. If the Franchisor uses public figures (celebrities or public persons), the amount the person is paid is revealed in this section.
Item 19: Financial Performance Representations. Here the Franchisor is allowed, but not required, to provide information on unit financial performance.
Item 20: Outlets and Franchisee Information. This section provides locations and contact information of existing franchises.
Item 21: Financial statements. Audited financial statements for the past three years are included in this section.
Item 22: Contracts. This item provides of all the agreements that the franchisee will be required to sign.
Item 23: Receipts. Prospective franchisees are required to sign a receipt that they received the FDD.

DETERMINING THE VALUATION OF A GYM FRANCHISE RESALE

What you want to know is the total cash benefit to you from the business. The value of a gym is not a subjective or qualitative matter. It's not a personal feeling. It's a math equation. There is a definite answer, a qualified franchise consultant will understand this.
Is a franchise resale more valuable than an independent gym? Mostly likely, Yes.

Franchise resales are valued at a higher multiple using the Income Valuation Method. This is the most favorable and trusted method for calculating the value of the business. This method is used to secure financing on a business.

For a gym with solid profits, under normal conditions, a buyer can purchase the gym with 20% down and get an SBA secured loan for the balance. If the buyer is paying cash, this calculation quantifies the value of the business.

Net Income + Add Backs = Owner Benefit (Income Valuation Method)

Owner benefit is the total of all cash and expenses paid to or on behalf of the current owner which will transfer to a new owner. This assumes that business performance would stay consistent after the transfer of ownership.

The Income Valuation formula uses net income plus add-backs adds to calculate owner benefit. The result is then applied to a multiple to determine the resale value of the business. The multiple, varies based on owner's efforts. A business that requires a great deal of hands-on effort has a lower multiple, where businesses that are semi-absentee managed, benefit from a higher multiple.

By way of example:

A business earning $100,000 annually in owner benefits but requires daily operational attention of the owner, may be given a multiple of X2 = equaling a purchase price of $200,000

Whereas, a business earning $100,000 annually in owner benefits but requires minimal operational attention by the owner, may be given a multiple of X4 = equaling a purchase price of $400,000

The theory is; if it is an easy business to run, why sell it for a low multiple when you can earn that income back in two years, with little effort.

This theory is also why franchised locations change hands at higher multiples. Being part of a brand, offers the owner additional franchise support, systems, and marketing assistance etc., thereby reducing the owner efforts and increasing the resale multiple.

WHAT ARE ADD-BACKS?

Add-backs are expenses that go away when the current owner leaves the business. For example, the current owner's salary, lunches and entertainment, personal insurance premiums, personal expenses (such as a personal vehicle lease), or depreciation on debt. Usual and customary add-backs are commonly accepted by banks under SBA (Small Business Administration) lending criteria. They can be anything that is fully documented on the profit and loss statement and tax return as personal expenses paid for by the business.

WHAT IS NOT ADDED BACK? OFF-THE-BOOKS EARNINGS AND POTENTIAL.

Only trackable cash flow, as documented on the books can be used in calculating valuation. You can't go the bank with off-the-books earnings. Similarly, potential earnings are just that - potential. There is no way to know in advance if those potential earnings will ever materialize. Valuation is an after-the-fact calculation based on what exists today. You can definitely improve on it, especially if you know how to take advantage of a good opportunity. Many business owners have off-the-books cash or side earnings that you can take into consideration but, those are not loanable and cannot be included in an Income Valuation formula.

GYM FINANCIAL ANALYSIS

The same key costs and metrics apply whether you are looking at a franchise or independent gym opportunity. Your broker should be able to provide you with a report that lists key industry metrics, like labor, equipment, and occupancy costs etc. You may also want to review the US GAAP factors for gyms and fitness businesses against those provided. These factors can include Sales vs. Square Foot, Memberships, Equipment Costs, Labor Costs, and Occupancy Rates. There are also industry specific reports through associations like IHRSA.org that provide details on these key metrics. For a small fee, you can purchase comprehensive industry analysis reports.

REVENUE AND MEMBERSHIPS

Revenue and membership fees vary greatly between different locations and brands. This is a very important factor to consider when buying either an existing location or developing a new franchise location.

What are other gyms in the market charging for fees?
What is average membership fees at gym you wish to purchase?
What is the length of those membership agreements?
How many of those agreements will expire and when?
Can membership revenue be increased by adding additional programing?
Will new ownership cause a loss in membership loyalty?

Of course, the goal is to always enhance revenue and profitability, but making sure that the current revenue will remain at a steady state, is important to cover any debt service.

EQUIPMENT COSTS

How much is spent on equipment depends on the programs and options offered by the gym. A gym that offers low impact aerobics classes together with personal training and conditioning, will spend less on equipment than a gym that offers elliptical trainers, treadmills.

Make sure to ask about equipment warranties and any service records. It is customary that certain pieces of equipment are rebuilt, or replaced every 5 to 7 years. This refurbishing of equipment also lends to increased member satisfaction and loyalty. Deferred maintenance is an important consideration in the value attached to the FF&E. Old and outdated equipment has little to no value and can even be an expense to remove. The upside, replacing or refurbishing older equipment is an easy way to improve a location's appearance, member loyalty and enhance club revenue.

LABOR COSTS

Cost of Labor vs. Revenue

Labor costs is the single largest, controllable line items costs in a gym. Taking the time to understand and control labor cost vs. revenue, is a key factor in running a successful club. Most gym will have full-time and part-time employees. Many gyms will have "contract trainers" who are 1099 workers, other gyms will have class revenue sharing with specialized trainers. All of these different variables can help you control labor costs and enhance profits, or inflate labor costs beyond control.

So, ask the franchise how do they control labor costs. What percentage of revenue should total labor fall within. Ask how many employees and contractors are currently working in a location, or is advisable. What is the breakdown in salaries and commissions for each level of employee.

According to a recent IHRSA.org industry report of over 5,700 responding clubs, payroll as a percentage to revenue averaged 41%, with the most efficient clubs running at 34% and least efficient at 47%.

High labor costs in a gym for sale indicates a failure to management scheduling and could signal an opportunity for greater profitability for a new operator.

LOCATION COSTS

Location costs vs. Revenue

The location of a gym is one of the most important factors for determining success. According to IHRSA's Guide to the Health Club Industry for Lenders & Investors, "the trading area for clubs in competitive markets extends no more than 10 to 12 minutes' travel time from the club, which translates into no more than five miles from the club site."

Inconvenience and distance are often the top reasons people quit going to a gym and let their memberships lapse.

Though gyms can be very successful in destination locations and do not necessarily require prime retail street frontage, but the old adage of location, location, location holds true in most businesses. So how do you analyze location vs. cost vs. potential revenue.

Again, start by asking the Franchisor what their business model recommends as an ideal percentage range of occupancy costs vs. revenue. The Franchisor should offer a range to work within and suggest a “maximum” number not to exceed. For example, the Franchisor may say that total lease costs should not exceed 20% of gross revenue and ideally be less than 17%. Compare those percentages to that of the gym’s current and future occupancy expenses.

According to the same IHRSA.org report, total occupancy costs of the 5,700 reporting facilities, averaged $13.6 per square foot annually for multi-club and chain brands.

The length of the lease, remaining renewals terms, tenant guarantees, rent escalation milestones are important factors to consider when evaluating a location to buy or lease. Making sure the percentage of occupancy costs vs. expected revenue, remain in-line with the planned operational budget.

Having an understanding as to the costs of Labor Percentages, Lease Percentage, and Royalty Percentage will greatly help you validate the seller’s books and owner’s income.

One more location note. Many new gym owners look carefully at the location, the equipment, the building, but overlook parking. In most markets, (other than high density city centers) your members will arrive by car and will need some place to park. Make sure the location has adequate parking. Local zoning codes often will require a certain number of parking spots.

SUMMARY

This guide is an outlined on the basics for buying a gym franchise. Our objective is to give you some insight for making an educated decision when purchasing either new or existing franchise opportunity.

Buying a business can be a complex transaction and it’s going to be your new business. You should look carefully at the opportunities, talk with experienced consultants and align yourself with knowledgeable advisers who can help you each step of the way.