

24 Hour Fitness Files for Bankruptcy, Plans to Permanently Close More Than 130 Gyms

National Gym Chain Joins Other Retailers in Citing 'Devastating' Impact of Coronavirus Pandemic



San Ramon, California-based 24 Hour Fitness said it plans to permanently close more than 130 of its gyms as it struggles to keep up with debt payments as a result of the coronavirus pandemic. (CoStar)

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National gym operator 24 Hour Fitness plans to close about 135 of its locations, becoming the latest retailer to file for bankruptcy protection after months of a forced shutdown dealt the company what the CEO called a "devastating" blow.

The San Ramon, California-based company said it plans to reject about 135 of its leases, most of which are expected to be in California and Texas, in an effort to curb costs. The company said Monday it has secured \$250 million in debtor-in-possession financing to help it reopen the

remaining 300 before the end of the month. Its [Chapter 11 petition](#) is meant to allow 24 Hour Fitness to remain operable while it figures out a way to alleviate its \$1.4 billion in debt and renegotiate some of its leases.

Like many other businesses across the United States, 24 Hour Fitness had to temporarily close all its gyms at the onset of the coronavirus outbreak in early March. A majority of its facilities remain closed, and because it hasn't been charging members, its revenue has effectively dropped to zero.

"If it were not for COVID-19 and its devastating effects, we would not be filing for Chapter 11," CEO Tony Ueber said in a statement. "We expect to have substantial financing with a path to restructuring our balance sheet and operations to ensure a resilient future."

Gyms are among a long list of experiential retailers dealing with the financial fallout of the virus. The 24 Hour Fitness chain joins a lengthening list of bankruptcies filed in recent months, including one sought by fellow [gym operator Gold's Gym](#). The Dallas-based fitness company filed for Chapter 11 bankruptcy protection last month alongside plans to permanently close dozens of its locations across the country. Gold's Gym President and CEO Adam Zeitsiff also said the decision was a direct result of the coronavirus pandemic.

Even as cities slowly begin to ease restrictions and reopen their economies, reduced capacity, increased cleaning and wary customers could extend 24 Hour Fitness' struggle to return to solid footing. According to trade group International Health, Racquet & Sportsclub Association, nearly 30% of U.S. gym goers are expected to cancel their memberships this year.

That struggle to retain members — a core factor in most gym operators' revenue structure — long preceded the virus, which has only compounded operators' financial woes. The rise of boutique outposts such as SoulCycle, Orangetheory Fitness and Pure Barre ate away at traditional gyms' customer base for years. 24 Hour Fitness reported a 2% revenue decline in its fourth-quarter earnings last year.

The path to reopening has grown steeper in recent months as 24 Hour Fitness grapples with missed lease payments, which spurred a lawsuit from a landlord, and staff reductions. Last week, the gym operator laid off an undisclosed number of workers as "for lease" signs were put up in front of a number of its former gym locations.

"These are painful decisions and we do not make them lightly," Ueber said in a previous statement regarding the layoffs.

Shortly before the bankruptcy filing, real estate investment trust and one of the gym's landlords RW Holdings said in a letter to shareholders that it has "been engaged in active negotiations" with 24 Hour Fitness' restructuring team to keep them as a tenant. However, the REIT said that it expects the operator will reject the lease terms once it enters bankruptcy proceedings, and the landlord is already in talks with two potential fitness replacements to fill any vacant space.

BRIX REIT, another 24 Hour Fitness landlord, [told its shareholders](#) that it was taking a similar approach in its hopes to keep the gym in its existing space.

"Gyms are purpose-built properties with footprints that are really only suitable for similar tenants, as the money needed to remodel a gym property to fit a different type of business would be cost prohibitive," the REIT statement said. "Because of this, the prospect of finding a new tenant remains difficult, especially given that nearly all gym operators are equally suffering right now. If our negotiations with 24 Hour Fitness fail to result in a positively acceptable outcome, then we would pursue other viable gym operators as a possible replacement tenant."