INVESTMENT OPPORTUNITY
Lee & Associates
COMMERCIAL REAL ESTATE SERVICES

INVESTMENT OPPORTUNITY

5550 N MacArthur Blvd | Irving (Dallas), TX

LAS COLINAS

DFW
114
161
W  Walnut  Hill  Ln (14,505 CPD - 2005)
MacArthur Blvd   (55,404 CPD - 2005)

No warranty or representation is made as to the accuracy of the foregoing information. Terms of sale, lease, and availability are subject to change or withdrawal without notice.

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### Executive Summary

<table>
<thead>
<tr>
<th>Tenant:</th>
<th>LA Fitness International, LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offering Price:</td>
<td>$12,375,000</td>
</tr>
<tr>
<td>Ownership:</td>
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</tr>
<tr>
<td>NOI:</td>
<td>$916,009</td>
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<tr>
<td>CAP:</td>
<td>7.4%</td>
</tr>
<tr>
<td>Approximate Building Size:</td>
<td>45,000 SF</td>
</tr>
<tr>
<td>Approximate Land Area:</td>
<td>4.95 Acres (216,014 SF)</td>
</tr>
<tr>
<td>Property Address:</td>
<td>5550 N MacArthur Blvd, Irving, TX (NE Corner Walnut Hill Ln &amp; MacArthur Blvd)</td>
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<tr>
<td>Year Built:</td>
<td>2006</td>
</tr>
<tr>
<td>APN:</td>
<td>32-25913-000</td>
</tr>
<tr>
<td>Parking Spaces:</td>
<td>300</td>
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## Financial Summary

<table>
<thead>
<tr>
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<th>Value</th>
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<tbody>
<tr>
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<tr>
<td>Down Payment</td>
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<td>Approximately 45,000 SF</td>
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<td>Price/SF</td>
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<td>Cap Rate</td>
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## Lease Summary

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<td>Tenant</td>
<td>LA Fitness International, LLC</td>
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<tr>
<td>Lease Type</td>
<td>Absolute Triple Net (NNN) - No Landlord responsibilities</td>
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<td>Lease Guarantor</td>
<td>LA Fitness International, LLC (Corporate)</td>
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<td>Structure</td>
<td>Tenant Responsible</td>
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<td>Original Lease Term</td>
<td>15 Years</td>
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<td>Lease Commencement</td>
<td>December 5, 2006</td>
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<td>Lease Expiration</td>
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<td>Increases</td>
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<td>Renewal Options</td>
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<td>Base Rent</td>
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<td>Net Operating Income:</td>
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### Proposed Financing

- **Sales Price:** $12,375,000
- **LTV:** 70%
- **Loan Amount:** $8,662,500
- **Rate:** 5.35%
- **Term (years):** 10 Years
- **Amortization (years):** 25
- **Monthly Payment:** $52,422
- **Pre-Payment Penalty:** None
- **Recourse:** Partial
- **Assumable:** NO
- **Reserve Requirement:** None

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Investment Overview

The subject property is an opportunity for an investor to acquire a well located 45,000 SF building (approx.) leased to LA Fitness International on a corporate guaranteed absolute triple net lease. There are no Landlord maintenance responsibilities. Tenant is responsible for all insurance, utilities, real estate taxes, and maintenance to the property including roof and structure. There are 9+ years remaining on the original 15 year lease term with rent increases every 5 years based on the lesser of the percentage increase in CPI over the preceding 5-year period or 10%. Included are three (5) five year options to renew the lease.

Built in 2006, the building sits on 4.95 acres and includes 300 parking spaces. Rent commenced on December 5, 2006, and extends through December 31, 2021. Located directly next door to LA Fitness looking South within the Walnut Plaza is a CVS and Chase Bank.

The highly populated and infill location resides in the desirable Las Colinas area of Irving, Texas near the intersection of MacArthur Blvd and Walnut Hill Lane. Las Colinas is an upscale, developed area in the Dallas suburb of Irving, Texas. Due to its central location between Dallas and Fort Worth, and its proximity to DFW Airport, Las Colinas is widely known for housing Fortune 500 companies. Some of the corporate headquarter campuses include Exxon Mobil, Nokia, NEC America, and regional campuses for Microsoft, Citigroup, Verizon, Oracle, and Deloitte. As a planned community, it has many corporate offices, luxury hotels, landmark office towers, luxury townhomes, distinguished single family homes, private country clubs, gated enclaves and urban lofts.

Investment Highlights

- LA Fitness Corporate Guaranteed Lease
- Rare Absolute NNN Lease structure - No landlord responsibilities
- Located in the highly sought after Las Colinas suburb of Irving (Dallas), TX
- 10% increases or CPI every 5 years
- National chain with 360 clubs in 21 states and 27 year operating history
- High density and infill location
- Combined traffic counts of 70,000 CPD on MacArthur’s Walnut Hill Ln

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LA FITNESS SEIZES THE MOMENT OF BIG-BOX OPPORTUNITY

JUN 23, 2011 8:11 AM, BY ELAINE MISONZHNK, RETAIL TRAFFIC ASSOCIATE EDITOR

Many retailers have capitalized on the spike in shopping center vacancies to upgrade to better locations and negotiate favorable rents. In addition, for some expanding chains, the downturn has proven to be a time to upgrade their status in the eyes of landlords from “strong inline tenant” to “reliable anchor.”

Executives at LA Fitness, an Irvine, Calif.-based fitness club operator, have known for years that its locations in retail centers have performed well, according to Bill Horner, senior vice president and chief real estate officer with the firm.

In the past, however, retail landlords sometimes were reluctant to sign deals with fitness clubs out of a concern that they would eat into the parking needs of other tenants by locking up spaces for long amounts of time without providing any boost in sales-per-square-foot figures.

In some cases, other tenants, particularly grocers, stipulated that they didn’t want fitness clubs as co-tenants, says Michael Kinsella, senior vice president and senior market officer for Florida with Regency Corp., a Jacksonville, Fla.-based shopping center REIT. Another strike against gyms is that they usually require extensive build-outs. So during the boom years, if given a choice, landlords would often opt to lease to traditional retailers.

But times have changed.

Fortunately for LA Fitness, recent bankruptcies of a number of big-box retailers, as well as consolidation in the grocery business, have worked in the chain’s favor and made it a more attractive tenant in the eyes of landlords. It is now signing shopping center deals on a regular basis.

In January, for example, LA Fitness opened a 39,300-square-foot location in a former Circuit City building in Kennesaw, Ga. Last November, it took over a 42,000-square-foot Circuit City space in Long Beach, Calif.

In addition, fitness clubs have proven their worth as traffic generators, dispelling the notion that they don’t help drive dollars to other tenants’ bottom lines.

“Everybody now acknowledges that the right type of club in the right space can bring day-to-day traffic to a center, particularly at the beginning of the week,” Horner says. “It can be a contributor to the center, as opposed to people just taking up parking spaces and then leaving. As a tenant group, we are now much more accepted in a shopping center. We just have got to be placed properly.”
**Flexing its muscle**

LA Fitness is currently on an aggressive expansion campaign—it is planning to open up to 50 new clubs a year over the next five years and it takes large chunks of space with the average club measuring 45,000 square feet.

Today, the company operates 370 clubs and there seems plenty of opportunity for growth, according to Horner. “We are very strong financially, and if you think about it, there are 50 million members of health clubs in the U.S. and over 300 million people overall. So there is a lot of room to go,” he says.

LA Fitness’ site selection requirements are similar to those of grocers, says Horner. The chain prefers locations on the main thoroughfares that people pass every day on their way to and from work and that are in close proximity to residential areas.

It is also in a good position to take advantage of landlords’ newfound acceptance of gyms. In fact, the company brought in a team of former shopping center executives, including a full development staff, as far back as the 1990s to help it gain a foothold in the shopping center arena.

What’s more, LA Fitness is perfectly happy to occupy second generation space, which makes it a good candidate to backfill mid-size vacant big boxes, as well as some empty grocery stores. In addition to getting a 15-year lease and a tenant that often pays more rent than previous occupants, owners working with LA Fitness can benefit from the steady traffic that fitness clubs tend to generate.

**Starring role**

In Florida, where LA Fitness has been scouring for multiple locations, the chain has in some instances replaced grocers as property anchors. In late 2009, it signed a lease to take over a 46,820-square-foot Publix space at Regency-owned MarketPlace shopping center in St. Petersburg, after Publix left the property. Kinsella says the chain has made at least three similar deals elsewhere in the state.

To help create more synergy between LA Fitness and other tenants at the MarketPlace, Regency’s leasing team is searching for other potential occupiers that would appeal to gym rats, including health food and smoothie sellers and tanning salons.

“They are going to bring in a lot of traffic, though it’s going to be a different kind of traffic,” Kinsella notes. “The fitness clubs are more intensive at certain times of the day, as opposed to the consistent flow of a grocery store. We are merchandising around that changing use.”

In recent years, LA Fitness has even started taking junior anchor locations at regional malls, according to Horner. The strategy won’t work everywhere—truly regional and super-regional malls often lie too far away from residential areas to provide the chain with the daily traffic it needs, he notes. But at malls that are located in cities or have a large residential community within a three-mile radius, the strategy can work for both landlords and tenants.

Today, the malls where LA Fitness operates its clubs include Dulles Town Center in Sterling, Va., Northtown Mall in Blaine, Minn., and Del Amo Fashion Center in Torrance, Calif., which is owned by Simon Property Group, the nation’s largest regional mall owner. It will soon open at Trumbull Shopping Mall in Trumbull, Conn.
“Malls now sell services in addition to goods, so I think you see this type of facility at malls more and more,” says a Simon spokesperson. “From a landlord's perspective, these types of locations are good for the property because they bring in customers.”

Money matters
Since LA Fitness is very focused on securing the right locations for its chain, Horner gives the impression that the company won’t quibble over rent when it finds great sites. Plus, since grocers and many of the big-box tenants that served as anchors or junior anchors in their heyday typically drove aggressive deals, when LA Fitness takes over their locations it’s almost a given that it will be paying higher rents, adds Kinsella.

The chain makes up for the difference by asking landlords to contribute a substantial amount toward its build-out costs. When taking over existing buildings, the clubs need to have swimming pools installed, and remove columns from common areas. Former grocery stores, in particular, present challenges because their buildings often can’t support the kind of energy-efficient HVAC systems that LA Fitness employs. As a result, it costs on average $700,000 to retrofit an existing retail location into a club. Ground-up construction can cost as much as $3 million.

“There is a lot of capital that needs to go into outfitting the gym and that’s a combination of landlord money and tenant money,” Horner notes. “And landlords have had some difficulty coming up with the money, not out of lack of desire to sign a deal,” but because the downturn has left some of them hurting for cash.

That’s part of the reason why this year LA Fitness expects to open only 30 locations, below its desired target of 50. So far in 2011, the chain has opened 14 clubs.
About LA Fitness
LA Fitness is a privately owned American health club chain currently operating 370 clubs with millions of members across 21 states and Canada. The company was formed in 1984 and is based in Irvine, California. Through the mid-1990's, the company expanded by acquiring under-performing fitness clubs in Southern California, and by developing, opening and operating newly constructed properties. The rate of expansion was rapid, with over 180 new clubs added from 2006 to 2009.

The company's fitness clubs typically offer a variety of exercise equipment, swimming pool, spa and sauna, basketball and racquetball courts, group exercise classes including indoor cycling, personal training, and a babysitting service called “Kids Klub”. Many locations also offer juice bars, which sell smoothies, drinks, healthy snacks, sports accessories, towels and more. LA Fitness also provides corporate wellness programs for companies of all sizes. LA Fitness remains a privately owned company, with major ownership interests held by private equity firms Seidler Equity Partners, CIVC Partners, and Madison Dearborn Partners.

Quick Facts
- Headquartered in Irvine, CA
- Operate 370 locations in 21 states
- Formed in 1984
- Privately held company
- Plans to open 50 clubs per year for next 5 years
Health & Fitness *

- Fitness is a $19.5 billion industry that has more than doubled in size in the last 10 years.
- There are 45.3 million health club members in the United States.
- Health club membership has grown by an average 4.6% annually in the past decade.
- Nutrition and weight loss is a $44 billion industry.
- Health club memberships nationwide are 48% male and 52% female.
- The average health care member attends their club 92 days per year.
- Personal training is the most widely used health care program.
- Cardiovascular equipment is the top area of expansion in U.S. health clubs.
- National trends toward obesity and heart disease point to demand for healthy living and exercise.
- Globally, there is a greater focus on health and fitness and a strong demand for a branded fitness center with international standards of service.
- Working out at a health club is the #1 sports activity in the U.S., according to the National Sporting Goods Association.

* Source: International Health, Raquet and Sportsclub Association (HRSA) Member Census
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LA Fitness | 5550 N MacArthur Blvd | Irving (Dallas), TX

Aerial Overviews

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Executive Summary

Prepared by Tara O'Connor

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RB Latitude: 32.886883
5550 N MacArthur Blvd, Irving, TX 75038 Longitude: -96.962883

Ring: 1, 3, 5 Miles
1 mile radius 3 miles radius 5 miles radius

2010 Population
Total Population 6,954 66,354 175,217
Male Population 53.1% 51.2% 51.3%
Female Population 46.9% 48.8% 48.7%
Median Age 31.4 32.4 31.3

2010 Income
Median HH Income $65,960 $66,890 $61,045
Per Capita Income $45,090 $42,244 $31,398
Average HH Income $81,924 $89,480 $77,213

2010 Households
Total Households 4,042 31,466 70,996
Average Household Size 1.72 2.11 2.45

2010 Housing
Owner Occupied Housing Units 10.5% 27.8% 30.9%
Renter Occupied Housing Units 74.1% 62.4% 60.2%
Vacant Housing Units 15.4% 9.8% 8.9%

Population
1990 Population 3,397 39,103 118,629
2000 Population 6,926 54,395 155,321
2010 Population 6,954 66,354 175,217
2015 Population 7,418 71,025 183,226
1990-2000 Annual Rate 7.38% 3.36% 2.73%
2000-2010 Annual Rate 0.04% 1.96% 1.18%
2010-2015 Annual Rate 1.3% 1.37% 0.9%

In the identified market area, the current year population is 175,217. In 2000, the Census count in the market area was 155,321. The rate of change since 2000 was 1.18 percent annually. The five-year projection for the population in the market area is 183,226, representing a change of 0.9 percent annually from 2010 to 2015. Currently, the population is 51.3 percent male and 48.7 percent female.

Households
1990 Households 2,090 18,569 50,027
2000 Households 4,038 25,986 63,414
2010 Households 4,042 31,466 70,996
2015 Households 4,321 33,609 74,213
1990-2000 Annual Rate 6.81% 3.42% 2.4%
2000-2010 Annual Rate 0.01% 1.88% 1.11%
2010-2015 Annual Rate 1.34% 1.33% 0.89%

The household count in this market area has changed from 63,414 in 2000 to 70,996 in the current year, a change of 1.11 percent annually. The five-year projection of households is 74,213, a change of 0.89 percent annually from the current year total. Average household size is currently 2.45, compared to 2.43 in the year 2000. The number of families in the current year is 39,518 in the market area.

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Housing

Currently, 30.9 percent of the 77,939 housing units in the market area are owner occupied; 60.2 percent, renter occupied; and 8.9 percent are vacant. In 2000, there were 67,239 housing units - 31.0 percent owner occupied, 63.4 percent renter occupied and 5.6 percent vacant. The rate of change in housing units since 2000 is 1.45 percent. Median home value in the market area is $123,757, compared to a median home value of $157,913 for the U.S. In five years, median home value is projected to change by 3.01 percent annually to $143,564. From 2000 to the current year, median home value changed by 1.66 percent annually.

<table>
<thead>
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<th>Median Household Income</th>
<th>1 mile radius</th>
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<td>1990 Median HH Income</td>
<td>$39,417</td>
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<td>2015 Median HH Income</td>
<td>$74,233</td>
<td>$75,355</td>
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<td>1990-2000 Annual Rate</td>
<td>3.28%</td>
<td>3.8%</td>
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<td>2000-2010 Annual Rate</td>
<td>1.89%</td>
<td>2.72%</td>
<td>2.91%</td>
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<td>2010-2015 Annual Rate</td>
<td>2.39%</td>
<td>2.41%</td>
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Per Capita Income

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<th>3 miles radius</th>
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<tbody>
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<td>1990 Per Capita Income</td>
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<td>$17,744</td>
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<td>2000 Per Capita Income</td>
<td>$40,305</td>
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<td>2015 Per Capita Income</td>
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<td>$48,211</td>
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<td>1990-2000 Annual Rate</td>
<td>1.54%</td>
<td>3.43%</td>
<td>3.51%</td>
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<tr>
<td>2000-2010 Annual Rate</td>
<td>1.1%</td>
<td>2.36%</td>
<td>2.22%</td>
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<tr>
<td>2010-2015 Annual Rate</td>
<td>2.08%</td>
<td>2.68%</td>
<td>2.52%</td>
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Average Household Income

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<td>1990 Average Household Income</td>
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<td>$49,998</td>
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<td>2000 Average Household Income</td>
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<td>2010 Average HH Income</td>
<td>$81,924</td>
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<td>2015 Average HH Income</td>
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<td>$87,527</td>
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<td>1990-2000 Annual Rate</td>
<td>1.9%</td>
<td>3.39%</td>
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<td>2000-2010 Annual Rate</td>
<td>1.62%</td>
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<tr>
<td>2010-2015 Annual Rate</td>
<td>2.1%</td>
<td>2.72%</td>
<td>2.54%</td>
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Households by Income

Current median household income is $61,045 in the market area, compared to $54,442 for all U.S. households. Median household income is projected to be $68,059 in five years. In 2000, median household income was $45,480, compared to $31,677 in 1990.

Current average household income is $77,213 in this market area, compared to $70,173 for all U.S. households. Average household income is projected to be $87,527 in five years. In 2000, average household income was $60,516, compared to $41,726 in 1990.

Current per capita income is $31,398 in the market area, compared to the U.S. per capita income of $26,739. The per capita income is projected to be $35,566 in five years. In 2000, the per capita income was $25,061, compared to $17,744 in 1990.
Currently, 92.1 percent of the civilian labor force in the identified market area is employed and 7.9 percent are unemployed. In comparison, 89.2 percent of the U.S. civilian labor force is employed, and 10.8 percent are unemployed. In five years the rate of employment in the market area will be 93.5 percent of the civilian labor force, and unemployment will be 6.5 percent. The percentage of the U.S. civilian labor force that will be employed in five years is 91.2 percent, and 8.8 percent will be unemployed. In 2000, 75.4 percent of the population aged 16 years or older in the market area participated in the labor force, and 0.1 percent were in the Armed Forces.

In the current year, the occupational distribution of the employed population is:

- 65.9 percent in white collar jobs (compared to 61.6 percent of U.S. employment)
- 14.7 percent in service jobs (compared to 17.3 percent of U.S. employment)
- 19.4 percent in blue collar jobs (compared to 21.1 percent of U.S. employment)

In 2000, 77.1 percent of the market area population drove alone to work, and 2.5 percent worked at home. The average travel time to work in 2000 was 22.9 minutes in the market area, compared to the U.S. average of 25.5 minutes.

### Population by Education

In 2010, the educational attainment of the population aged 25 years or older in the market area was distributed as follows:

- 20.7 percent had not earned a high school diploma (14.8 percent in the U.S.)
- 20.2 percent were high school graduates only (29.6 percent in the U.S.)
- 6.2 percent had completed an Associate degree (7.7 percent in the U.S.)
- 21.9 percent had a Bachelor's degree (17.7 percent in the U.S.)
- 12.0 percent had earned a Master's/Professional/Doctorate Degree (10.4 percent in the U.S.)