

Assignment

A multi-market search of business park and retail oriented buildings for the purpose of operating a home improvement & furnishings franchise, and as a long term investment for the business owners. Orion compared capital requirements, net present values, facility management and operational concerns between leasing and purchasing scenarios of multiple properties in several market locations. The client assigned Orion to explore lending sources, benchmark base building conditions and competitively bid tenant improvements according to corporate prototype minimum standards.



Challenges

The client was new to the franchise and to the market. The business concept was new to the region and other potential franchisees were vying for several territories and influence over the definition of franchise boundaries. Therefore, our client sought a location and a property which would catapult them into a dominant position as a franchise operator in the Pacific Northwest. A successful launch in a short time period would establish the client as a superior operator in the Northwest and enable them to franchise trade areas over competing operators—so timing and performance measures were intense. As a startup they were limited on capital and credit resources and desired to maintain as much working capital for business expansion as possible.

Results

Orion's analysis clearly demonstrated that the client's first facility should be leased. This

would grant a low entry cost and a known, prestigious location in the market.



Orion identified a site on a major thoroughfare in their trade area with identity and signage potential. The space selected was office space within a warehouse shell and was “overbuilt” for the market. Orion negotiated an office level of improvement at warehouse rents for a new 5-year lease term. 2k Ventures then converted the office space to a combination of showroom space and administrative offices for a fraction of the cost of new construction of tenant improvements. The net result was operating cost at approximately half of a proposed ‘turnkey’ solution by the landlord. A favorable option to renew allowed the tenant to operate in the facility at low cost for an additional 5-year period.

The client's returns at the original space exceeded by a wide margin any forecast or expectation within the first two years of opening. The client had amassed considerable capital and was seeking to open 2 more franchises to cover the Puget Sound market and also tapped Orion to underwrite the market location and property of a Portland, OR underperforming franchise targeted for

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Case Study: DIRECT BUY – 2K VENTURES, LLC

acquisition. After underwriting the Portland site the client purchased it and inside a year turned around flagging sales to make it highly profitable. Orion then assisted 2K Ventures in the purchase of a 35,000 SF warehouse in the South Puget Sound for another club location and a primary distribution point for all Pacific Northwest clubs. The facility was already 60% leased to a large, reputable company whom Orion underwrote, and helped in the design process and advisory of converting a portion of the warehouse shell into a showroom for Pierce County.

Following this success, 2K desired to expand the original King County location. However, since the client had many more capital resources than at the inception of the business, we jointly concluded that another full market search was in the client's best interest. After surveying the market for purchase opportunities and determining that the for-sale market was at that time over-heated and over-priced, we turned our attention to the lease market again. Orion leveraged ongoing negotiations with a competing property in the market to overcome expansion deal barriers with the existing Landlord. Through this process, the existing Landlord relented on final deal points allowing 2K to double their size and update their flagship location to the newest corporate standard through an extensive expansion and remodel.