

CASE STUDY



Fila

CBRE's Sale/Leaseback Group combined with Investment Properties to complete the \$26 million sale/leaseback of Fila's 380,000-sq.-ft. distribution facility in Baltimore at a sub-7% cap rate, despite below-investment-grade credit on the lease and rapidly rising interest rates.

CHALLENGE

In the fall of 2005, CBRE was approached by Cerberus, the private equity firm that controls sportswear manufacturer Fila, concerning a potential sale/leaseback of Fila's 380,000-sq.-ft. distribution facility in Baltimore. Cerberus's objectives were to monetize the equity in the property and use the proceeds for repayment of Fila debt and additional working capital. CBRE's Sale/Leaseback Group, working in conjunction with the Industrial Group in Investment Properties, developed indicative pricing for Fila based on a 15-year lease at a net market rent with annual escalations. CBRE also provided a comparison of alternatives on a present-value basis. CBRE was asked to proceed with the execution of a sale/leaseback, which in this case would generate considerably greater proceeds than a debt placement.

Although the offering benefited from the very strong sale/leaseback market, it had to overcome three significant challenges. First, the credit behind the lease was well below investment grade. Fila is currently in the midst of a corporate turnaround designed to take advantage of its well-known brand name. Although Fila had turned the corner on its financial performance, its operating results and balance sheet were not yet stabilized. Second, the Fila facility was part of a business park that had been built on fly ash, a by-product of coal burning by the local utility. While not a hazardous material in and of itself, fly ash can generate elevated levels of other toxic materials. Third, CBRE had to manage the transaction through a period of quickly rising interest rates which could have undermined the pricing.

SOLUTION

CBRE developed a comprehensive strategy and prepared offering materials that 1) provided full information on this state-of-the-art facility, 2) described Fila's business and provided summary financials, 3) provided a detailed profile of the local industrial market, and 4) outlined summary lease terms for Fila's proposed 15-year lease. CBRE approached an extensive group of buyers in a controlled auction process, generating 19 offers despite the challenges of the transaction. CBRE, in conjunction with Fila, selected a handful of leading institutional bidders for a final round of bidding. Fila shared detailed financial statements with this smaller group, and CBRE also encouraged interviews with Fila management, to give investors comfort with Fila's business plan and allow them to price aggressively. CBRE also required this group to tour the facility and provide comments on a draft lease document.

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RESULT

As a result of this process, a major institutional buyer improved its pricing substantially in the final round and was selected as the winner due to price, limited comments on the lease and a reputation for closing promptly. The buyer was also able to understand the environmental complications with the property, structure an ongoing solution, and maintain its original pricing despite an increase of 50 basis points in the benchmark 10-year Treasury obligation. Fila achieved \$26 million in proceeds at a going-in cost below 7%, thereby securing investment-grade pricing despite its non-investment grade credit.

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