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Hager Pacific Digs Deeper for 'Value Add' Buys

REAL ESTATE: Remediation, renovations on some bargains

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There are value-added real estate industrial investors—and then there's Hager Pacific Properties.

The Newport Beach-based real estate owner and investor has carved out a niche in the industrial market of late by buying, renovating and leasing up buildings that other investors tend to shy away from.

The past two weeks has seen the company buy about 230,000 square feet of empty industrial buildings here and in Los Angeles County, where it also has offices, at steep discounts to their peak-market prices.

The company has been targeting a combination of vacant industrial buildings, older properties that need renovations, and warehouses that might require environmental remediation.

It's made close to \$50 million worth of so-called "value-add" investments over the past two years—many of those deals local.

The prices of the properties are just part of the privately held company's costs, said Rob Neal, one of three managing partners at the company.

Extensive renovations, remodeling efforts, and leasing costs can add another 25% or so to Hager Pacific's investment—more than a typical institutional industrial investor is willing to make in today's market, he said.

"We can take on more risk (than other investors), but we think it's a calculated risk," Neal said.

The privately held company has the ability to buy upward of \$100 million of property every year.

It hasn't hit that limit, mostly due to the difficulty in tracking down suitable investments, even amid a commercial real estate market that still counts its share of distressed assets.

"This is our time of the cycle," Neal said. "The challenge is finding the deals."

Hager's recent deals include an empty Garden Grove property that was at one time leased to upscale auto wheel maker MHT Luxury Alloys, which is based in Rancho Dominguez.

The building's prior owner saw the 46,180-square-foot industrial building go back to the bank.

Hager Pacific paid an affiliate of Long Beach-based Farmers & Merchants Bank roughly \$3 million, or about \$65 per square foot, for the property, at 12300 Industry St.

After making some improvements to the property, the new owners are hoping to lease the property to a small manufacturing or logistics firm.

The Garden Grove buy comes about two weeks after Hager Pacific bought an empty 184,455-square-foot industrial property in Pomona.

The 15-acre site previously served as a commercial bakery for Interstate Bakeries Corp., which makes Wonder bread and other food.

Fully leased, the Pomona building was likely worth \$15 million or more, based on comparable sales of late in Los Angeles County. Hager Pacific is believed to have paid a fraction of that amount for the empty property.

Hager Pacific is auctioning off existing equipment at the Pomona site on the edge of the Inland Empire and exploring various redevelopment options for the property.

Both acquisitions were all-cash deals.

In contrast to many property buyers, Hager Pacific spends its own money on deals. It also hasn't bought a property using a loan in nearly two years, Neal said.

The company values its portfolio, which totals about 100 buildings and apartment complexes, at about \$1 billion.

Besides industrial buildings, it also owns offices, shopping centers and more than 2,300 apartments.

The strength of the local industrial market, with vacancy rates in the Los Angeles area and Orange County both well under 6%, has drawn the company's focus for deals of late.

There's still a fair share of risk in the industrial leasing market, according to Neal, a self-described student of the economy.

In OC, where the industrial market has seen positive absorption during the last five quarters, "leasing has been spotty, people have pulled back (on signing deals) recently," Neal said.

"We're not seeing too much of a bump" for pricing in recent leases signed of late, he said.

The company has still managed to attract a lot of tenants.

Hager Pacific estimates it has made close to \$13 million worth of industrial leases for some of its larger Southern California properties since the start of summer.

Among local deals, it recently renewed a lease for 75,000 square feet of space in Orange to Commercial Metal Forming Inc., a supplier of tank heads and accessories for a variety of manufacturers at 341 W. Collins Ave.

The 10-year lease is valued at about \$6 million, according to Hager Pacific.