REAL ESTATE Q&A

Values slashed at warehouses, factories

By JEFF COLLINS
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Newport Beach-based Hager Pacific Properties invests in a variety of commercial properties throughout the country. Its portfolio consists of more than 100 assets ranging from 25,000 square feet to over a million. They include office buildings, research and development complexes, apartment buildings, community shopping centers, warehouses, 3,000 apartments and 10 million square feet of industrial space.

Rob Neal, a managing partner at the firm, is Hager's industrial specialist. We asked him recently what's going on with that segment of the market that includes factories and warehouses.

Q: While all commercial properties have had falling rents and rising vacancies, the impact appears to be much less on industrial properties in O.C. How come?

A: Industrial availability – not vacancy – in Orange County has actually doubled from 2007 through 2009, but still stands at a fairly manageable level of 11 percent. Comparably, office and retail availabilities have soared. As Orange County has been essentially built out for years from an industrial perspective, it is very difficult to add to the stock of industrial. Hence, market vacancies in industrial tend to be lower than other product types.

Q: How is industrial different from other real estate segments?

A: Industrial differs from other real estate segments by catering to users' different needs. This segment's owners generally have less debt on their buildings than office or retail. Also, capital expenditure per square foot is low in industrial properties because of the low amount of office space. Office and retail properties also tend to incur large upfront expenses, such as higher commissions and increased concessions.

Q: Despite the relative strength, how is the industrial market holding up with regard to falling property values, loan defaults, receiverships and foreclosures?

A: The industrial market is another property segment that is not faring well. Property values are estimated to have declined by at least one-third and some have experienced up to a 50 percent decrease in land values. Industrial property values may be holding up better as a whole than other product types, but by any measure, there has been a significant reduction in industrial rents and values.

Q: When will the industrial market hit bottom? When will things turn around?

A: I suspect we will see industrial rents begin to turn upward at the end of this year or in the first quarter of 2011; however, they will still be well below 2007 rents. I also hope to see an increase in leasing activity in late 2010 as many legitimate leasing needs have been curtailed and some pent-up demand is building. Activity will continue to increase as new jobs are created, unemployment stabilizes and consumer confidence returns.

Q: What are the prospects for this sector over the long term?

A: I expect to see rent growth resume and keep pace with the economy's pace of inflation. Values are expected to rise along with inflation, but not nearly to the same degree we saw in the period of 2004-07.

Rob Neal

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Title: Managing partner
Company: Hager Pacific Properties
Background: Before joining Hager Pacific, Neal held senior posts with national real estate companies. He has been responsible for the acquisition and disposition of industrial and multifamily properties valued at more than $1 billion. He has an MBA from USC and is responsible for Hager Pacific's acquisitions, renovations and dispositions.