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Hager Pacific Expands Reach to East Coast

By John McCloud

Harrisburg, PA—**Hager Pacific Properties**, a Costa Mesa, CA-based firm that owns more than $1 billion worth of real estate, made its first foray into the Northeast and its first industrial buy east of Michigan with the $90-million acquisition of a portfolio near this Pennsylvania state capital. The portfolio includes 11 single-tenant industrial buildings totaling about 2.2 million sf on 109 acres. The buildings are fully leased to **Arnold Logistics LLC**, a third party logistics firm which uses the space for clients that include: the Hershey Co., International Business Machines Corp., Simon & Schuster Inc., Quaker Oats Co., Pfizer Inc., Fuji Photo Film USA and Molson Coors Brewing Co.

Amish farmers own large tracts of land near Hager Pacific's property.

The seller was a joint venture between an equity fund sponsored by Chicago-based **Blue Vista Capital Partners LLC** and another fund sponsored by **Walton Street Capital LLC**, also of Chicago. James Vesey, senior director of **Cushman & Wakefield Inc**. in Philadelphia, represented both the seller and buyer.

It's been only nine months since Hager Pacific ventured beyond the Western US to purchase the 1.2 million-sf Gateway Industrial Park in Detroit. Until then, the company's holdings consisted entirely of properties in California and Arizona. But between the Detroit and Harrisburg deals, the company picked up multifamily, retail and office properties in Utah, Illinois, Texas and Georgia. All told, the company spent more than $240 million on acquisitions since December, all of it away from its traditional base. At the same time, it sold Baldwin Hills Crenshaw Plaza, an 850,000-sf Los Angeles shopping mall, for $130 million.

“We have clearly been expanding our reach eastward,” Hager Pacific managing partner Robert Neal tells *IPJ*. “We own about 100 assets, the majority of them still in California. But we have started to expand nationally in search of opportunities. California is very limited right now.”

Neal says Central Pennsylvania reminds him and his partners of California’s Inland Empire. “This area developed as an off-price alternative to New Jersey distribution markets, the same way the Inland Empire developed as an off-price alternative to Los Angeles. But here, it's earlier in the process,” he remarks.

Neal says the market's 200 million sf of space makes it large enough to generate internal demand through expansion of existing tenants rather than relying exclusively on relocations. It's also large enough to give Hager Pacific the option of buying additional property. “Every market we go to we try to build some mass, as much for management efficiency as anything else,” he explains.

In addition, Neal notes, the region has constraints on land supply, partly due to the geography of the Appalachian Mountains, but also because Mennonite and Amish farmers own large tracts of land. “They don't sell their land. They keep their land on an intergenerational basis. It's something we haven’t run into before, but it's the key to their culture,” he says.

The constraints, he says, will inevitably force rents upward by capping development. Rents are already beginning to rise. Nonetheless, Hager Pacific managing partner Adam Milstein concedes initial yields from the recent purchase will be low because existing leases set the rent rolls. But over the long term, he emphasizes, rapid business and population growth will insure significant rent increases.

Neal says Hager Pacific is looking at several other buys in the Pennsylvania market. He says the size of the transaction gave the company immediate legitimacy in the eyes of local brokers, providing access to some properties before they hit the market. Even so, he adds, the pickings are slim because owners recognize the potential for future escalation in value. In the meantime, Neal continues, the company is exploring other markets. “We're looking at some of the larger metro areas. We traditionally like to look at the major markets,” he notes. He says Hager Pacific remains open to new California acquisitions, but is concentrating on regions where pricing makes more sense.