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By Carrie Rossenfeld

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NEWPORT BEACH, CA—Primarily concerned with fast and efficient last-mile delivery, infill industrial buildings are housing sophisticated sorting and delivery systems for getting product in consumers' hands, Hager Pacific Properties' managing partner Rob Neal tells GlobeSt.com. The privately owned real estate investment firm has invested $35 million in four strategic corporate real estate properties in California and Wisconsin, including a 41,715-square-foot ice cream plant on 5.49 acres and a 42,988-square-foot milk plant on 4.69 acres in Buena Park, CA; a 119,000-square-foot industrial property on 4.62 acres in Oakland, CA; and Brown Deer Business Park, a 585,292-square-foot business park on 32.41 acres in Milwaukee. We spoke exclusively with Neal about his firm's investment strategy, maintaining an edge in such a highly competitive sector and the future of industrial properties.

GlobeSt.com: How would you describe your firm's investment strategy?

Neal: We invest in unique industrial assets with very strong growth potential. We've been doing this in one form or another for more than 30 years, and we own more than $2 billion of properties. But the firm is different from its peers. It's completely privately held—there's no outside capital, no institutional capital; we do it the old-fashioned way. The four partners, of which I am one, acquire the properties for their own account, and we can move more quickly than others might because having an executive committee to determine if you're going to move forward is less efficient than getting a few people on the phone and pushing on.

We work with the value-added industrial buyer principally. There's a virtual rainbow of opportunities, from environmental issues to properties that need to be repositioned in the marketplace to physical renovations or assets that simply need to be sold quickly and can be acquired at a discount. We've had the opportunity in the last 36 months to work with sellers of distressed assets as well as corporate sellers who sell surplus properties and want to make sure they have a buyer who is experienced in dealing with those properties and the special issues they have.

Each of the properties we recently purchased were represented individually—they're not a portfolio. three of the four were acquired from corporate sellers who had operated the properties and could sell the surplus and then move on to other facilities. These properties needed to be sold, and we've had experience with the seller.

GlobeSt.com: How else do you maintain an edge in such a highly competitive investment sector as industrial?

Neal: Because we have our own capital, we're able to move very rapidly. Being able to simply involve our own funds already on hand gives us tremendous latitude. Also, it gives us a perspective I think other owners don't have. Most real estate owners today that own institutional-grade or institutional-sized industrial property are funds with a finite life. It's necessary to be able to develop the full cycle of investment within three to five years, so they buy, add value and sell. That can be a very attractive investment strategy, but it forces you to look short term, whereas we hold our properties for a long time. When we do renovations on properties, we hold them for between 20 and 25 years. It's considerably more expensive to do that, but it's the right way to do it if you have a long arc on investment. If your horizon is three to five years, you won't put a new roof on a property—you'll maintain it—but if you're holding it for 20 years, you will. You'll also look for the finest state-of-the-art materials, fire-suppressing equipment and lighting. Our tenants are becoming increasingly concerned about energy and the environment. It pays off, but it does require a longer-term perspective. This is what we've been doing, and it's not something we would do if we were looking to get out of a property in the customary three to five years.

GlobeSt.com: How do you envision the future of industrial properties?

Neal: It's fascinating because industrial has sort of been at the bottom of the food chain in terms of glamour, but it's really at the center of so many important cycles. Everything that we understand in terms of where value creation is occurring in merchandising is really occurring on the supply-chain side. The ability of any retailer to be able to squeeze costs out of their produce line is coming as a result of the savings they're engineering in the supply chain and the logistics of moving things around. This involves the timing and sizing of goods coming from overseas, the trucks are becoming more aerodynamic, and buildings are becoming bigger. Industrial plays an incredibly important role in the world economy. With the rise of e-retailers, they're putting a fancy twist on it because so many of the brick-and-mortar showrooms are being eliminated or reconfigured so they're a distribution endpoint for the materials. I can go to the store and have my jeans sent to my house, or I can order them online and have them sent to the store where I can try them on.

Also, infill is starting to get more requirements for smaller industrial buildings that are well situated with very quick commute times to rooftops. Distribution used to be the science of warehouses getting bigger and getting into big markets like the Inland Empire, but now it's looking to distribute effectively to the last mile. We're seeing different requirements for smaller buildings with really sophisticated delivery and sorting equipment. It's about how to get products economically to the last mile. Amazon is talking about drones, and Uber and Lyft drivers are delivering for Amazon within two hours. We're on the precipice of things really changing in industrial buildings.

One of the problems is industrial buildings and land are being cannibalized for higher and better uses in infill areas. It's astounding that 10 to 15 years ago, you'd buy a property and think it would remain industrial for a lifetime, but times have changed dramatically—that's jobs lost out of that industrial building.