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New Properties Partnership Bets Big On Legacy Manufacturing Sites

By Jim Vinoski

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The former Caterpillar Global Mining site in Madison, Wisconsin. IMAGE COURTESY HFZ-REICH

A newly-formed strategic joint venture between two New York firms, Manhattan real estate investment and development company HFZ Capital Group and industrial real estate investment firm Reich Brothers, today announced the investment by HFZ Capital Group in a large portfolio of industrial properties owned by Reich Brothers, LLC, totaling nearly ten million square feet.

HFZ Capital Group, founded in 2005 by Ziel Feldman, is one of the largest and most influential real estate firms in New York. The firm has approximately 15 million square feet under ownership and development, across multiple markets and asset classes including residential, hotel, office, and retail, with total project values in excess of \$10 billion. Through this new partnership HFZ has identified a new area of focus that they hope to expand on in the coming years.

The partnership began when Reich Brothers saw increasing opportunities in its industrial real estate holdings. The company has more than 25 years of experience in the Industrial real estate market, purchasing shuttered industrial plants and either auctioning off the

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equipment and land separately, or selling the properties complete. "Aggregating and holding more real estate became a greater focus as the market took off in the last couple of years," said Michael Reich of Reich Brothers. Reich assembled the portfolio of properties initially and then began talks with HFZ Capital about a year ago. For Reich it was an ideal pairing. A number of the properties in the portfolio include additional land and development rights, so HFZ will bring its expertise in ground up and restorative development to help develop mixed-use real estate opportunities. This includes the development of retail, multi-family, hotel and office properties.

In addition to Reich's already existing five million square feet of industrial properties, another five million square feet of real estate are currently under contract by the partnership, bringing the total portfolio past ten million square feet. The properties will be made available for lease to manufacturing or distribution tenants, with locations throughout the United States. In addition, through the mixed-use opportunities, HFZ will provide its expertise in the possible development of retail, multi-family, hotel and office properties.

The current HFZ-Reich portfolio features two significant campuses in Wisconsin formerly housing the operations of Fortune 500 companies, including the former 1,700,000 square foot Heinz Kraft-owned Oscar Mayer plant, located in the heart of Madison and an 800,000 square foot campus formerly occupied by Caterpillar Global Mining in Milwaukee. "Our collective goal is to rehabilitate and re-purpose these properties," said Adam Feldman of HFZ. "These are places where a big company shut down and the community lost a big piece of the tax base. We want to bring in new companies and revitalize those areas." The partnership buys each property complete and as-is. Depending on the site's potential for re-use, they'll either sell off the equipment assets or keep the property intact, and will bring the facility up to standard to be leased to a new user.



Former Oscar Mayer site in Madison, Wisconsin. IMAGE COURTESY HFZ-REICH

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The partners see a unique market opportunity. "We're seeing manufacturing companies trying to make their supply chains as efficient as possible, streamlining their operations," said Reich. Feldman agreed. "The big private equity firms of the world have gone into the logistics end of real estate – Amazon-driven markets to support same-day delivery," he said. "HFZ-Reich goes beyond this to support manufacturing and warehousing on one site. The tenant can get cost and time savings across the whole supply chain as a result. We look for a high level of adaptability, including the potential to subdivide sites for smaller tenants."

The focus of the partnership is both industrial and mixed-use. "A lot of these sites have extra property attached," said Feldman. "The Kraft-Heinz site in Madison, Wisconsin, is a prime example, where the adjacent spaces can be re-purposed and be made very attractive for different tenants. We can do mixed-use development in those cases."

Reich agreed, adding, "HFZ has long-standing expertise at this – combined we can monetize and improve these properties."

There are community benefits beyond the recouping of lost taxes. "Some of these sites are brownfields, and might have environmental and other problems," Reich said. "We have an in-house team that handles any environmental and demolition ramifications. A lot of the time we'll do the remediation ourselves."

The partners expect the market to remain strong for the foreseeable future. They expect to add another 15-20 million square feet to their portfolio over the next few years, including manufacturing-only, warehousing-only, and more of the mixed-use sites like the ones they've already acquired that offer the potential for "one-stop shops."

"There's been a feeling that manufacturing in this country has been declining, and that's true in part," said Feldman. "But pockets will remain here – in aerospace, automotive, and computers and technology. Those companies need expertise, and it doesn't make sense to produce elsewhere. Plus, wage gaps have closed – Chinese wages went from 50 cents an hour to \$8 in the last 15 years. With the logistics component, there should be a strong driver for growth [domestically]."

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Reich added, "We're at the tail end of a market cycle. Real estate and construction have greatly increased in cost. It makes sense to reuse this existing infrastructure, not build from the ground up."

It's a unique market niche. "We firmly believe we're in an industrial revolution of sorts," said Feldman. "These old manufacturing sites have had a big company there for 50 or 75 years, and then they disappeared. They just need some love and care to bring these places back."

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