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Behind Heslin Holdings' $400M Western Investment Plan

CARRIE ROSSENFELD / NOVEMBER 9, 2018 / MULTIFAMILY, RETAIL

Orange County-based Heslin Holdings is planning to invest $75 million in retail assets in California and Western states over the course of the next 12 months, according to a representative of the firm. The company's principal Matt Heslin and VP of acquisitions Casey McKeon tell *SoCal Real Estate* that multifamily firm Oak Coast Properties, which is also under the Heslin Holdings umbrella, will likely invest roughly $300 million in assets in these markets, bringing the firm's combined Western investments to close to $400 million for 2019.

MATT HESLIN | COURTESY A REPRESENTATIVE OF HESLIN HOLDINGS

The rep says in the retail realm Heslin typically looks for bigger-box strip-center type properties that have been abandoned by large national retailers (such as Kmart, large grocers, etc.) and revamps and re-presents them in the marketplace, sometimes dividing them into pads.

We spoke with Heslin and McKeon about the firm's plans and where they see the greatest opportunities in SoCal retail properties in the near future.

***SoCal Real Estate*:Why are you planning to invest $75 million in Western U.S. retail assets over the next year?**

Heslin: There's a duality of purpose here. Our firm comprises retail assets via Heslin Holdings and multifamily assets via Oak Coast Properties, and we invest using about a 3:1 ratio. Next year, Oak Coast Properties will probably acquire $300 million in assets. We're finding properties that fit our risk profile and our risk/return projections. The combined entities will invest more like $400M, which has been our trajectory since 2005. We were very fortunate not to lose any properties or tenants in the '08 crash.

As a developer, what are the benefits of redeveloping abandoned big-box retail properties into other uses?

McKeon: Every site is different, so we are site specific. We try to focus on strong markets in Texas and the Western states and identify properties with inherent value. The tenants that are good for this are health clubs and lifestyle tenants that are looking to expand. Many tenants have size-range needs in certain markets, so we can identify other tenants that are struggling in a space and help get them out. In that way, we are repurposing some of those big boxes.

CASEY MCKEON | COURTESY A REPRESENTATIVE OF HESLIN HOLDINGS

Heslin: We used to buy on spec, but now we have tenants in tow with us before committing to a space.

Where do you see the greatest opportunities in SoCal retail properties over the next several years?

Heslin: Single-tenant net-lease development is one of the greatest opportunities for us, whether it's fast food or QSR. We're focusing more on build-to-suit development for the QSR segment.

How are lenders viewing this market, and how has this changed?

Heslin: Bridge financing is still available. The CMBS markets are still active, but obviously there are pluses and minuses to dealing with that. We're doing a lot of relationship banking with lenders like California Bank and Trust, Torrey Pines City Bank, and others, and it's basically bridge and/or construction financing. On takeout programs, we're shopping around. The lens of judicial thought is getting clearer to lenders. They're looking at the sponsor, the quality of the asset, and the credit of the tenant. They really want to see the sponsorship's balance sheets and the creditworthiness of the tenant. Yes, they are active, but not like years ago where you'd have five lenders interested in lending for a deal.

What else should our readers know about your investment plans?

Heslin: We're being extremely judicious and thoughtful in our underwriting. We have a big-company balance sheet and small-company culture in that we can respond in a day, which is a big advantage for brokers and sellers.