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Magic Johnson's urban development fund hits pay dirt

Investors raise \$1 billion for projects in major metropolitan markets.

By Roger Vincent, Los Angeles Times Staff Writer

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Magic still seems to have his touch.

At a time when many sources of financing for real estate projects are drying up, a fund co-founded by former Lakers guard Earvin "Magic" Johnson has banked \$1 billion for commercial developments in urban neighborhoods.

Canyon-Johnson Urban Fund is expected to announce today that its third round of financing, which eclipses the combined \$900 million total of its two predecessor funds, will make possible more than \$4 billion in new development and upgrades of property in the country's largest metropolitan markets.

"The potential for continued revitalization in ethnically diverse communities is nearly limitless," Johnson said.

The fund is a partnership between Johnson and Beverly Hills-based Canyon Capital Realty Advisors. Among the projects Canyon-Johnson has completed: the construction of a retail and apartment complex in Hollywood and the replacement of Chicago's old police headquarters with condos and shops.

The need to upgrade urban centers is growing fast, said Bobby Turner, managing partner of the fund. The country's population is rising at a rate of 3 million annually, 90% of whom will be immigrants or people of color. Many of them head to urban centers with large minority populations.

"Demand for affordable housing and community-serving retail is only going to increase," Turner said. The continuing global credit crunch will limit the ability of some developers to get financing and further aggravate the gap between supply and demand, he predicted.

Investors in the Canyon-Johnson fund aren't deterred by the national real estate slump, Turner said. "We were able to impress on our investors that we are not investing for the next two or three years; we are investing for the next decade."

Investors in Canyon-Johnson -- including the California Public Employees' Retirement System, the University of Michigan and Verizon Communications Inc. -- can profit when projects that the fund undertakes are sold. For example, Canyon-Johnson and a partner, New Pacific Realty, paid about \$100 million for the AT&T Center, formerly Transamerica Center, in downtown Los Angeles in 2003, upgraded the property and sold it for more than \$200 million.

New York's pension fund has invested in all three Canyon-Johnson funds, city Comptroller William C. Thompson Jr. said.

"We have expanded our investments into real estate and we thought they represented an excellent opportunity to invest in a fund targeting urban centers and also generate a good return," Thompson said. "They were pioneers in urban investment."

Johnson, a former NBA star known for his enthusiasm and flash on the court, has been a key partner in the fund's money-raising and community outreach efforts. He also brings to the table his network of corporate partnerships with Loews Cineplex Entertainment Corp. (Magic Johnson Theatres), Starbucks Corp., Burger King Corp., 24 Hour Fitness Worldwide Inc. and Washington Mutual Inc., which has set up home-loan centers in low-income neighborhoods.

Johnson said he listened closely to residents in neighborhoods where the real estate funds he represented were invested. "We don't just go in and build what we want," he said.

Locals have asked for such services as bookstores, coffee bars and home furnishing shops. "These are often not found in our community," Johnson said.

In Milwaukee people asked for a Wal-Mart, and at a shopping center in Houston the neighbors wanted a police substation.

Canyon-Johnson is also committed to making its projects environmentally friendly, Turner said. The fund has helped pay for \$2 billion worth of green development, he said, including a \$70-million residential and retail tower in downtown Nashville.

It was the first green residential high-rise in the Southeast preapproved by the United States Green Building Council.

"Being green is not only the right thing to do environmentally but the smart thing to do financially" because it saves money on power, water and other costs, Turner said.

Nashville Mayor Karl Dean keeps a basketball autographed by Johnson in his office, said Paul Ney, director of economic and community development, "but he is more delighted that a group of savvy investors elected to invest in our downtown revitalization efforts."

Other cities where Canyon-Johnson has invested include Atlanta, Baltimore, Chicago, Las Vegas, San Diego and Washington. Two or three major projects are under consideration in Los Angeles, Johnson said, though he declined to offer specifics because negotiations were still underway.

"We will always invest money in L.A.," he said. "This is home."

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