



## Urban Development Campaign Taps \$600 Million

*by Parke Chapman*

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A trailblazing inner-city development firm has closed on \$470 million of its newly launched \$600 million fund. The partnership of Canyon Capital Realty Advisors and Earvin "Magic" Johnson's Johnson Development Corporation expects the remaining \$130 million to close by the end of April. Similar to Canyon-Johnson's Urban Fund I, the second Fund will focus on developing, redeveloping, acquiring and repositioning inner-city properties throughout the top 40 metropolitan-U.S. markets.

Bobby Turner, managing partner of Canyon-Johnson Urban Fund II, received more than \$1 billion of interest from a slew of public and private pension funds, endowments, foundations and investment companies. The demand hasn't distracted him from getting Fund II off the ground. "We're not planning Fund III at the moment, but the demand to invest in this Fund proves that institutions are finally seeing the opportunities that exist in these densely-populated markets," says Turner, adding that the goal now is "to invest these funds prudently."

The California State Teachers' Retirement Systems (CalSTRS)—the third largest pension fund in the nation—has invested \$75 million in Fund II, according to Real Estate Alert. CalSTRS also has a \$100 million stake in Thor Equities' Thor Urban Retail Fund, an opportunistic fund that similarly invests in urban retail. In 2004, CalSTRS committed \$805 million to various opportunistic funds.

According to CalSTRS chief investment officer Christopher Ailman, Canyon-Johnson's solid track record in urban development made it an easy decision to invest in the fund. "It was critical to us that we select a manager that had all the necessary skills to gain access to an analyze transactions, work within each city's approval process and manage complicated mixed-use developments," says Ailman.

To that end, Canyon-Johnson's Turner does his homework before entering a new inner-city market. The first consideration, says Turner, is that the market has a density and diversity of population that meets their criteria. But another consideration—namely the likelihood of community or municipal opposition—has to be ruled out even earlier. "We are only going into markets where the community is supporting these developments," he says.

That formula has worked. Annualized returns in Fund I hit 20% and above in 2004. What's more, that original Fund helped build or reposition more than 2,200 housing units, 2.2 million sq. ft. of commercial space and more than 1.7 million sq. ft. of retail space. This Fund entered inner-city markets by partnering with local communities and developers. By giving them both much-needed capital and development experience, the Fund helped them revitalize many inner-city neighborhoods through the addition of new retail, housing and other amenities.