GLOBE STREET ARTICLE

BREAKING NEWS $500M Champion Fund Seeks Western Retail

By Bob Howard

LOS ANGELES-Longtime retail developer and operator Robert Champion of Champion Real Estate Co. is looking to acquire $500 million in retail real estate in the Western US in the next three years, GlobeSt.com has learned exclusively. Champion, who has not been buying or building new projects since about 2006, tells GlobeSt.com that his company and his financial partners will co-invest in all deals and are already in escrow on a couple of properties. Champion has hired Steve Boss, formerly CEO and founder of Afton Property Investment Corp., as the firm's new managing director of retail investment and development to spearhead the initiative. "We are focusing on retail assets because we think they have been hammered the most," Champion says. "We have been waiting until we thought the regional banks would start to move on their non-performing retail, and that is starting to happen."

Champion spent the past year "going liquid" and identified three different private equity groups from the East Coast that don't have operators on the West Coast who want to make a play here. "We have agreed to co-invest, and as a result, we have about $200 million of cash that we want to deploy to acquire about $500 million of real estate," he tells GlobeSt.com. He and his investment partners are looking at all types of retail properties, from high-end storefronts to regional malls, with the only limitation that, "We can't look at anything less than about $10 million." One of the deals they're bidding on now is in the $150 million range.

The new fund will focus on markets where it can buy below replacement cost, where the retailers have done proven volumes and where barriers to entry are high. It will also look at assets where the retailers have not done well if Champion determines that the reason for the poor performance is something physical about the site or the merchandising of the project that the the L.A.-based company can correct. "We're not just guys with a bunch of money looking to buy properties. We are operators who have been in retail for 30 years and we're looking at assets where we have to roll up our sleeves and get dirty and fix things," he says. For example, one of the assets that the fund is looking at now is not performing for its owner, a REIT, and what's necessary to make it perform correctly is "a major investment that requires new construction, and the REIT doesn't want to do that," Champion says. His company's development arm, which is a separate platform from the new investment fund, has the capability to make those improvements, he points out. Champion is a group of affiliated companies that has developed, renovated or repositioned over $700 million in retail, office, multifamily and mixed-use properties in urban locations since 1987.

Because the new investment fund is looking to buy at below replacement cost, Champion notes, the properties it will acquire will be distressed—in fact, one of the deals he is in escrow on now is a note. The new fund "has negotiated two facilities with some fairly well-known brands that are willing to provide financing for us," Champion says, but if necessary, it can buy on an all-cash basis.

Champion remarks that, although he would like to take credit for being prescient enough to predict the market downturn, the reason he has been out of the market so long is that, "I just couldn't make deals pencil after about 2005." Even some of the projects that he started in 2005 and delivered in 2008 were hurt by the downturn, he says.

Although Champion expects that investing the $200 million will take two to three years, based on the current velocity of deals, "If the velocity increases, we could deploy it a lot sooner," he says.