



RCG VENTURES: BUYING WISELY, GROWING SMARTLY

by Nicholas Hamner

The acquisitions market that was the norm for the past five years is gone. Easy debt is nonexistent and speculators have left the market. In these times, equity is king. RCG Ventures, LLC is a privately-funded investment group and is poised to grow.



Michael McMillen
Founder & Principal

RCG Ventures was founded in 2004 by Michael Klump and Michael McMillen and has grown steadily since then. The company's first 25 properties were acquired using internal capital, and its next 17 were acquired using equity funding from its initial fund. The RCG acquisition team includes McMillen,

principal; vice presidents of acquisitions Jim O'Donnell, Central Region, and Parker G. Blanchard, Mid-Atlantic, and Scott Tarbet and Emily Dickerson. The company also maintains its own property management, leasing and accounting departments.

The company plans to launch its second equity fund with more than \$100 million during 2009. This will further enhance the war chest to take advantage of pending opportunities. McMillen explains that other companies, throughout the past several years, that bought with minimum equity and maximum debt are becoming inactive now that the debt market has dried up. "Property owners," he said, "expected the market to turn eventually, but no one expected it to turn so quickly. No one expected it to stop." Thus, REITs that were caught off-guard and are losing money are expected to spin-off and sell, pension funds that are now over-allocated in real estate will sell to balance their ledgers and foreclosures among property owners are increasing. The increase of available properties, coupled with the decrease in buyers, creates an ideal acquisitions market that few will be able to take advantage of.

RCG is a true value-added investor, acquiring properties with the intention of repositioning or retenanting them. Typical acquisitions for the company are grocery- or department-anchored neighborhood centers located in middle markets throughout the Southeast, Mid-Atlantic and Midwest states and priced between \$6 million to \$10 million. McMillen says the

ideal situation is to acquire a center with more than one anchor, with at least one of them dark and several years remaining on the guaranteed leases. He says, "The leases provide a good cash flow while we address and solve the issues."

By investing in middle markets, RCG is able to take advantage of opportunities that the large companies either can not entertain or otherwise overlook, and that the competition of local investors are ill-equipped to handle given the current market. Also, the company's middle market portfolio has largely avoided the instability of property values that is currently plaguing major markets. McMillen says, "If you're holding your own, you're successful in today's market. These secondary markets are holding up better than average, which is great." The nature of secondary markets has also influenced the company's go-to list of tenants, which includes Big Lots, Bealls, Tractor Supply Co. and dollar stores. The company does not limit itself however, and will invest where an opportunity presents itself. If the deal is good, the company will look in major, as well as ancillary, markets.

Additional investment opportunities for RCG come in the form of motivated sellers and equity partnerships. Dissolving partnerships and other ownership relationships can provide for investment opportunities. Expiring debt, interest rate resets, anchor closings and other financial hardships can also create these opportunities. Motivated seller situations must also have some value-added elements for RCG to consider them. While the company has done a few equity partnerships with developers, McMillen expresses reluctance so long as developers base the venture on unattractive exit Cap rates.

In addition to working with traditional motivated sellers, RCG will buy properties in foreclosure. McMillen notes that banks are now becoming just as motivated as sellers facing a trigger date, but that negotiating is still tougher. He says, "How flexible banks are depends on how long they have held on to the property. If they have held the property for a long enough time, a write-down starts to make sense to them."

RCG acquired several properties throughout the Southeast this year. During October, the company acquired Fall Line Plaza, a 54,155 sq.ft. center anchored by Piggly Wiggly and Family Dollar located at the intersection of Rocky Creek Road and Interstate 75 in Macon, GA, and Governor's

Crossing, a 135,491 sq.ft. center anchored by Books-A-Million and Vanity Fair Outlet located at the intersection of Collier Drive and Hurley Drive in Sevierville, TN. Earlier in the year, the company acquired a 39,640 sq.ft. former Wal*Mart located in Carthage, TN that it leased to Tractor Supply Co. prior to closing and a ground-lease occupied by Ruby Tuesday within the Hampton Towne Center, located along Interstate 65 in Hampton, VA. The company's first transaction of the year was the acquisition of East Side Plaza, an 85,196 sq.ft. shopping center anchored by Fred's, Burke's, Dollar General and a separately-owned Food World located in Gadsden, AL. The company leased a dark anchor in East Side Plaza to Tractor Supply Co.

Once a property is acquired, RCG rarely sells. The company is currently in the process of selling two properties, but McMillen explains this is the exception, not the rule, and the sales will allow for the acquisition of future properties.

In addition to providing numerous acquisition opportunities, McMillen believes with the slowdown of new developments, the next 18 to 36 months will provide tremendous leasing opportunities for the company's properties. To that end, RCG is hiring within its leasing department as the company looks to capitalize on those retailers who continue to expand as well as tenants within its properties facing renewal.

RCG also works with affiliates of its parent company, Argonne Capital Group. Argonne owns 145 IHOP locations in Fla. in addition to 55 locations in Texas, and RCG is handling the sale-leaseback transactions; closing four in the past six weeks. The company is also handling the real estate for Argonne's latest acquisition, a 32-unit pizza buffet trading as Stevi B's.

The current economy has rendered many traditional buyers inactive, but RCG Ventures - backed with private equity, staffed with a team of acquisition specialists and supported by in-house leasing, management and accounting departments - expects to keep active and continue its growth by investing wisely.

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