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Real estate fund matures

NBS Real Estate Capital's Morrison Street Fund ready for second growth stage

Portland Business Journal - September 16, 2005 by [Wendy Culverwell](#) Business Journal staff writer

Two years after NBS Real Estate Capital formed a real estate investment fund to concentrate on the region, the Portland-based fund has invested most of the money it raised and is preparing to launch a second chapter.

NBS Real Estate Capital formed Morrison Street Fund 1 in 2003 and raised \$26 million for real estate deals from banks, high-net-worth individuals, foundations and others.

Last month, Fund 1 made news with its 10th investment -- the purchase of the I-84 Industrial Center. In partnership with a tenant and another investor, it bought the five-building, 420,960-square-foot industrial property in Gresham for \$13.38 million.



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NBS Real Estate Capital CEO Rance Gregory is ready to lead the firm's investment fund into a second round.
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Rance Gregory, chief executive officer, said the first Morrison Street fund is well on its way to meeting its investment goals, both in terms of the types of properties acquired and the structure of the investments it has made. The fund has successfully invested around the region by placing money in Oregon, Washington, Idaho, Nevada and Arizona.

By year end, he said, it will have fully invested the \$26 million through a total of 13 or 14 investments. At the outset, Gregory said he expected the fund would make between 12 and 15 investments.

The final investments have been identified -- though not disclosed -- and the managers are already eyeing possible investments for Morrison Street Fund 2, which NBS Real Estate Capital intends to form next year. The goal is to raise \$50 million.

As with Fund 1, Morrison 2 will be nonregistered. It will expand to include the California market and potentially Utah.

Last month's investment in the Interstate 84 industrial park is one of its largest investments to date. The other was the 2004 purchase of a Class A office building in Reno, Nev., now called the Museum Tower.

Both investments were made with Capstone Capital Partners LLC, a Portland real estate developer and investor.

Chris Nelson, a managing principal and founder of Portland-based Capstone, said his company teamed with NBS Real Estate because they target similar regions and have similar approaches to projects.

"We have the opportunity to partner with a lot of different people. The advantage of working with them is they hit on all cylinders," he said, adding that it's likely they'll team up with Fund 2 as well.

"If they were to do more development financing, we would probably do more business with them."

While Museum Tower and the I-84 park are important assets, a pair of smaller investments made by Fund 1 offer a more telling look at the creative lengths to which investors must go to acquire real estate in a market characterized by too much money chasing too few properties.

In Boise, Idaho, and Bremerton, Wash., the fund teamed with existing owners who wanted to cash out some of their equity and reduce their role in managing the properties.

Gregory said the partnership approach helps take the sting out of buying and selling real estate for both parties. Owners can shed the responsibility of managing property while deferring taxes on capital gains.

As a buyer, Gregory said, the fund acquired the properties on more reasonable terms than it might have received in a flat-out purchase.

In Boise, the fund invested in Logger Creek, a 28,000-square-foot office building. The owners included one partner who wanted out and another who wanted to pull out some of his equity in the property, but who didn't want to sell.

The fund provided sufficient cash to buy out the exiting partner. The other contributed the property to a partnership, in which he retained a minority equity interest. The structure of the deal allowed the remaining owner to take some chips off the table but to continue deriving some income from his remaining ownership stake.

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"We liked that structure. It helped us buy it right," Gregory said.

Fund 1 employed a similar strategy when it teamed with the owner of the Wellsley Apartments, a 115-unit complex in Bremerton, Wash.

The owner was officially retired, but played a hands-on role in managing the 5.44-acre property. When a problem forced him to cut a vacation short, it was one straw too many. Though he'd considered refinancing the property, his thoughts turned to selling it instead.

He talked to his broker who, sensing ambivalence, enlisted Gregory. Gregory remembers visiting the owner at his home and asking, "What do you want to do?"

The owner didn't want the frustration of managing the property, but wasn't comfortable with reinvesting the capital gains in less familiar real estate. Nor did he want to pay the capital gains tax on the full asset. Again, the solution was a partnership that relieved the owner of the day-to-day management, provided him with some retirement money, and deferred most of his capital gains tax liability for at least a few years.

In that case, the original owner benefited from the partial sale and keeps a preferred equity position that will pay off when the property is sold in the future.

"It works really well for owners who aren't interested in exchanging," said Gregory, who characterizes the partnership approach as a middle option for owners who neither want to dabble in reinvesting their real estate gains nor want to pay capital gains taxes.

Morrison Street Fund 1 investments also include mezzanine loans on a Bend office park, the historic U.S. National Bank block in downtown Portland, a luxury condominium project in the Seattle area and a Phoenix apartment complex. It made a bridge loan for the acquisition of Park Crest Apartments in Vancouver, Wash., and made a preferred equity investment in a shopping center in Burlington, Wash., north of Seattle.

The portfolio covers 1.4 million square feet, 553 apartment units and has a total real estate value of \$140 million.

Gregory's office has made its own real estate news as well -- it moved from the NAI Norris Beggs and Simpson suite at 121 S.W. Morrison St. to its own quarters across the mezzanine.

It employs six and will add two more staffers in 2006.

"We got kicked out," Gregory joked.

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