

## NBS Debt Fund Bullish on CMBS

**NBS Real Estate Capital**, whose earlier funds mostly targeted property deals, is using its latest fund to buy commercial MBS for its double-digit yields.

The vehicle, Morrison Street Fund 3, is among a growing number of debt funds snapping up CMBS with historically high yields. After briefly peaking at an astronomical 18% in November, yields on triple-A paper still hover at an unusually high 11%.

The NBS fund, which targets a 12% return, has lined up

about \$80 million of commitments and is aiming for a final equity close next month of about \$100 million. The fund plans to use about 80% of its equity for debt investments, including mezzanine loans, B-notes and CMBS. The rest will be allocated for property plays. The Portland, Ore., fund operator doesn't plan to use leverage for the debt investments.

Like other debt-fund operators, NBS was drawn to CMBS by the near-collapse of the secondary market in November and December, when triple-A spreads at one point soared to 1,600 bp over swaps and bonds traded for as little as 49 cents

on the dollar. Super-senior bonds are protected by a 30% subordination level, and most analysts think the securities won't suffer losses except in the most-dire economic conditions.

"You just have to hold to maturity," one fund operator said. "It just takes a few months for the traditional opportunity funds to... convince themselves this is the position they want to be in."

CMBS is attracting debt funds with trading platforms capable of analyzing the risks of the underlying loans. But other funds are still shying away because of the difficult due diligence and the extreme volatility in spreads. "We don't buy it because we're not in that business," another fund operator said.

To date, Morrison Street Fund 3 has made eight investments totaling about \$27 million, including the purchase of about \$6 million of CMBS. The two latest closings were a \$2 million preferred-equity stake in a pair of fully leased, Class-A office buildings at 220 and 244 Jackson Street in San Francisco and a \$4.4 million B-note on an office complex in Santa Ana, Calif. The 389,000-square-foot complex is 96% leased, mostly to government agencies. NBS acquired the B-note from a securitization program.

The two previous Morrison Street funds invested mostly in properties. **Rance Gregory**, the firm's chief executive, positioned his third fund to take advantage of the struggling credit market. ❖

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