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EXCLUSIVE REPORTS

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Principals pull the plug on \$50M property fund

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Principals of Seattle-based Meriwether Partners have pulled the plug on plans to raise \$50 million for a private regional real estate investment fund, leaving the Northwest with just one regional fund targeting smaller commercial properties.

After five months of fund-raising, Meriwether was about halfway to meeting its goal.

"We were really pleased at the reaction we got from people. What we miscalculated was the time it takes to garner commitments," said Meriwether principal Rob MacAulay. "We had hoped to close on the \$50 million at the end of '03. It probably would have taken until June of '04 and we would have had to miss a couple deals we are chasing now."

MacAulay said the real estate investment firm also decided against closing the fund in several phases. Instead, it will solicit individual investors in its pool to participate on a deal-by-deal basis.

The company was formed approximately two years ago by three former executives from the Seattle real estate firm Martin Smith Inc. -- MacAulay, Joel Aslanian and Robert Briscoe -- and former Colliers International broker David Rothrock.

MacAulay said Meriwether's four principals formed the fund in the belief it would give them added credibility and a war chest so they could snap up deals quickly.

"What we learned is, in reality, we haven't had any credibility problems. People know who we are and know we have a good reputation for closing on what we tie up," MacAulay said.

Meriwether was one of two Northwest firms raising private regional real estate investment funds.

The other fund is NBS Real Estate Capital LLC, a joint venture between the Portland-based real estate brokerage Norris Beggs & Simpson and former investment banker Rance Gregory, who serves as chief executive and fund manager.

Such private regional real estate funds give wealthy individuals and smaller institutional investors an alternative to real estate investment trusts for investing in commercial property. They also provide owners of smaller commercial properties another conduit for getting financing or selling their properties.

"Raising a fund is a time-consuming process," said Gregory, and it's always a choice between spending time raising capital vs. making an investment. We believe we have the resources to remain on a parallel path to fill out the fund while making investments."

NBS is able to leverage its relationship with the brokerage to help ferret out investment opportunities, he said.

NBS is about one-half of the way through raising its \$30 million Morrison Street Fund LP, the first of a series of funds. Investors include wealthy individuals, pension funds, a bank, a university foundation and several charitable trusts, Gregory said.

Although Meriwether has shut down its [Meriwether Investment Partners](#) One fund, the firm still plans to work with its investor pool. The difference now is that Meriwether's investors will be making investments in specific properties rather than taking a percentage interest in a pool of deals.

"We have put together a couple of deals and will look to do more and do them with the pool of investors we have attracted. But we are not putting them together in a formal fund at this time," MacAulay said. "Maybe in a couple of years we will go back and try it under a different structure."

In December, Meriwether purchased the 87,000-square-foot Columbia Commons office building in St. Helens, a suburb of Portland, from Bellevue developer Bob McDonald for \$5.6 million. Several other deals are expected to close by the end of this quarter, MacAulay said.

Meriwether is shopping for office and retail properties valued between \$5 million and \$20 million in Washington, Oregon, Idaho and Utah. The NBS fund is looking throughout the Northwest to make equity investments of between \$500,000 to \$5 million in deals ranging between \$5 million and \$25 million in size. The fund will offer both equity and preferred equity investment and mezzanine financing.

NBS also expects to announce several deals in coming weeks. One is a joint venture in which the fund will take a majority stake in a portfolio of properties, Gregory said.

By selling only a portion of an ownership interest, the joint venture partner is able to extract some value from the portfolio without having to race the clock to find a suitable exchange property to help cut taxes.

"Finding exchange properties is often very difficult," Gregory said.

He thinks regional funds such as NBS have an advantage over big real estate funds with several hundred million dollars to invest.

"In order to invest within a reasonable time, a big fund may only look at investments of \$80 million or \$100 million or more," Gregory said. "That market is very, very competitive. There are not many of those deals unless you buy a regional mall or a CBD office building in a big city."

As a result, big funds can't look as closely at investments in Portland, Seattle, Boise, Spokane and Reno, where NBS plans to invest, Gregory said.

"The large funds can't justify the time to look at transactions in that size range. We think because the market is more efficient in that size, we will have better opportunities and more opportunities to participate in mezzanine debt." Gregory said.

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