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DEALS OF THE YEAR

DEALS: Talon grasps Regence BlueShield building

Premium content from Puget Sound Business Journal by Jeanne Lang Jones, Staff Writer

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Kingland-based Talon Private Capital made its third and biggest purchase to date in December, forming a joint venture with Prudential Realty Group to buy 1800 Ninth Building in downtown Seattle for \$76.5 million.

The 15-story, 312,700-square-foot office building at 1800 9th Avenue was largely vacant at the time of sale, with **Regence BlueShield** occupying about 30 percent of the building.

The deal — the 10th-largest in King County in 2011 — is an example of the highly targeted kind of investments and the strategy that Talon principals [Bill Pollard](#) and [Jim Neal](#) plan to take with their young real estate investment firm.

Pollard and Neal saw an opportunity to renovate the building and fill it with new tenants interested in being in the north end of downtown near the trendy South Lake Union neighborhood.

Talon is a private real estate investment firm for high-net-worth individuals. The company teams Pollard, a founder of Pacific Real Estate Partners, a commercial brokerage in Bellevue, and one of the region's top commercial brokers, with [Jim Neal](#), the former CEO of Metzler North America Corp., which advises European institutions about investing in U.S. real estate.

"Talon Capital is two people with very diverse backgrounds. Jim's background is investment management, my background is brokerage," Pollard said. "When you bring those two together in an investment company, it should allow us to mitigate risk.

"We knew if we could mitigate that, we could produce less volatile, more predictable returns," he added.

The duo founded Talon in the fall of 2009 to take advantage of the opportunity to buy high-quality commercial properties at a discount in the wake of the recession.

Pollard and Neal were adamant that they did not want to start a traditional real estate fund in which capital had to be invested or sold within a certain time period, regardless of whether the timing was aligned with the market. Talon is set up so they aren't forced to buy or sell at the wrong time, they said. Additionally, the company operates as an investment club in which members can choose whether or not to invest in specific properties. Pollard and Neal invest alongside members of 18 wealthy families from the United States and Europe.

Talon made its first purchase in the fall of 2010, buying the 51,899-square-foot Waterfront Place at 5209 Lake Washington Blvd. for \$21.5 million from Goodman Real Estate of Seattle. In November 2011, Talon paid Goodman Real Estate \$15.5 million for Northlake, a 49,600-square-foot renovated warehouse on Lake Union.

The firm's investment range is between \$20 million to \$100 million. Going forward, Pollard and Neal expect to do more partnering with institutional investors because doing so gives their private investors the opportunity to take a stake in a higher-quality property than they might otherwise afford.

Having Prudential as a partner in the Regence BlueShield deal enabled Talon to get favorable financing terms. And, as an added bonus, because Prudential also has an ownership stake in several nearby buildings, the micro-market has a stability of ownership that's uncommon in such an evolving neighborhood.

Talon will have about 180,000 square feet to lease in the Regence BlueShield building when renovations are completed in the third quarter. The available space is contiguous, so Talon could lease to a single large tenant or multiple smaller tenants.

Talon is targeting the West Coast cities of Seattle, Portland, San Francisco and San Diego as well as two Texas cities, Dallas and Austin, for future investments.

Talon's owners say their secret sauce is the strategy of investing in micro-markets that attract companies in industry clusters that are growing rapidly, such as health care, high tech and digital gaming. The company's focus is tight— not just Seattle, or even South Lake Union but in neighborhood hotspots that may only be a couple of blocks in size.

"The biggest mistake in real estate investment is not realizing how big a street-level investment it is," Pollard said. "If you look at it at a macro-level, you will not understand the differences between different buildings."

Pollard and Neal are tracking buildings in 12 micro-markets on the West Coast. These micro-markets tend to be located near universities and are often

populated by companies that have licensed technologies developed by researchers at these schools.

"We watch and we talk about what we are looking for and how the real estate impacts that," Neal said. They study the geographic markets and building designs that appeal to the industry sector they are targeting so they can invest in properties and align them with those companies' preferences. For instance, the Regence BlueShield building is unusual in that it has no interior columns. That allows Talon to create the wide-open workspaces favored by tech companies whose staffers prefer working in informal groups.

Pollard and Neal also see opportunity in sale-leasebacks of industrial buildings with owners who see a sale or partial sale-and-leaseback as a means to raise cash while allowing a company to remain in its longtime headquarters.

What Pollard and Neal are looking for in industrial buildings is the structural flexibility to adapt to changes such as higher dock doors or new racking systems.

The opportunity to take partial stakes in buildings also seems on the rise in 2012 as loans taken out during the boom mature, Pollard said. A three-party agreement between Talon, the lender and the business owner could help a company resolve its financial difficulties, he said.

"At the end of the day, we're looking for long-term, stable, consistent cash flow," Neal said.

So far all three of Talon's deals have been oversubscribed, with 14 to 16 families participating in each deal.

Pollard and Neal have been picky. They looked at 142 properties last year but only invested in two of them. They said the pace seems to be picking up in this year as the difficulty of obtaining loans has more small business owners weighing selling their property as a means to finance their business.

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