

MAN BEHIND THE MONEY

Christopher Merrill is the man behind Harrison Street Real Estate Capital. As co-founder, president and CEO, he presides over the company's investments, which include more than 20,000 beds of student housing.

Interview by Randall Shearin

Student Housing Business recently interviewed Christopher Merrill, co-founder, president and CEO of Harrison Street Real Estate Capital. The Chicago-based firm was founded in 2005 with the goal of becoming a leading real estate private equity firm focused exclusively in the education, healthcare and storage segments of the market. Over the last seven years, Harrison Street has raised approximately \$2 billion of equity in capital and has invested in more than 20,000 beds of student housing, making it the top fund owner of student housing in the country.

SHB: What was your background prior to joining Harrison Street?

Merrill: I was a partner and managing director with a large real estate pension fund advisory business in Chicago. I was with that firm for 15 years and while there I developed the firm's presence in Europe. I have always had a desire to create focus and differentiated real estate products I launched the first real estate funds targeting the Central European markets in the late 1990s.

SHB: What was the catalyst for starting Harrison Street?

Merrill: We had a desire to create a new private equity business that offered investors the ability to participate in differentiated and focused real estate products. We wanted to change the typical model related to culture, innovation and process. Our founders included Chris Galvin and Michael Galvin, who are members of the founding family of Motorola. We named the firm Harrison Street because Motorola started as the Galvin Manufacturing Company on Harrison Street in Chicago.

SHB: When did you make your first investment in student housing?

Merrill: In January 2006; our first investments were two properties at UNC-Charlotte. We now have a portfolio of more than 20,000 beds located in 22 states at 30 schools. We have exclusive relationships with



Harrison Street partnered with Trinitas Ventures to develop 1201 Indiana at Indiana University-Purdue University Indianapolis.

numerous student housing operating partners. These organizations provide the day-to-day development, property management and leasing for our properties. While we do own a number of our properties outright, we enjoy forming joint ventures with a number of our operating partners. In a global sense, about 70 percent of our student housing portfolio has been assembled through one-off acquisition and 30 percent is from new development.

SHB: What is the typical scenario for you to get involved in a project?

Merrill: We typically source property investments on a direct basis or through our operating partner network. Internally, we have a 50-person organization in place to provide the sourcing, research, closing, financing, and ongoing oversight of our investments. Our education business is headed by Brian Thompson, who has probably completed more investments in the segment than anyone. He has a great sense for individual markets and the industry in general.

SHB: What is your investment strategy with student housing? Are you holding everything for the long term?

Merrill: First and foremost, we have a very long term view of the student housing market. While certain investments we may hold for a short period, we intend to actively invest in this industry beyond the next decade. We hope this can differentiate us from other capital providers, who may be viewing this market as a quick trade. Second, we don't invest alongside operating partners on a one-off basis. We look for operators who see the benefit of building portfolios which can create enterprise value for them, as well as better returns for our collective properties. Third, we look for operating partners that share similar business philosophies that we do. We like firms that treat their people well, and that offer levels of innovation that bring an edge to the market. Finding partners that just bring us brokered deals is not attractive to us. It starts with how the partners treat us. Do they treat us like a bank? Or do they really view our relationship as a true partnership? Additionally, we have internal metrics related to the types of schools we want to be located near, which comes from years of data mining. We share this material with our operating partners, as we want to be viewed as more than just a capital provider. We want our partners to see that we can bring debt, we can bring sites, we can bring properties and we work to try and bring some operating efficiencies across our portfolio.

SHB: Are you raising external funds?

Merrill: We do raise external funds, but we always have 100 percent discretion as to how our funds are invested. We have over 100 investors in our real estate holdings. They are primarily pension funds, endowments, foundations, insurance companies and family offices. We are probably the largest private equity firm in our three asset classes. In addition to our third opportunity fund that raised \$600 million, at



CHRISTOPHER MERRILL

Co-founder, President & CEO
Harrison Street
Real Estate Capital



Harrison Street partnered with The Dinerstein Companies to develop Sterling Central at the University of Central Florida.



Harrison Street partnered with Landmark Properties to develop The Retreat at Lake Tahama near the University of Alabama.

the end of last year we launched a core fund targeting our niche segments. This is the first product of its kind to be offered to the market, which offers low leverage and income. Most people look at traditional asset classes as core, however core to us is lower risk and lower volatility, and we think there are no better asset classes than these to invest with that kind of strategy. At the end of the day, while we do raise outside funds, we are also very well capitalized so can invest our own capital, should we need to, at any given time.

SHB: What do you see as the primary reasons for your investments in student housing?

Merrill: We like the long term demographics and fundamentals; we like the risk/return profiles. We like the expertise that can be gained at the operating partner level. Student housing has significant barriers to entry given the above. The fragmentation as well as the overall size of the industry adds to the strengths of the business. There are many firms that have difficulty raising money for this industry given the capital investment needed to create the right platform in order to access these markets.

SHB: Where do you see Harrison Street's position in student housing in five years? Do you plan to buy, sell, hold?

Merrill: I would imagine we would be over 40,000 or 50,000 beds in the market. This doesn't mean, as I said earlier, that when we achieve the business plan for a particular asset, we may sell it. We have been fortunate that we have

raised a significant amount of capital for this industry and now our focus is to make sure we align ourselves with the right partners. The future of this industry is very exciting for us.

SHB: Harrison Street gave some 'street cred' to the cottage concept early on. What attracted you to that property type?

Merrill: That is what we like about the student housing busi-

ness. There are many different strategies one can explore to make money in this industry. We tend to lean towards partners that have some edge or innovation. Landmark is one such company who has developed an excellent business model. We took a risk in backing, with such a large amount of capital, a relatively new concept. We even continued to fund developments in 2008-2009 when many capital sources thought we

were nuts. This is the kind of capital partner we want to be known as in this business. That is someone with conviction that will support our partners based on a long term view of the relationship. I find it interesting that when we started backing this concept there were many naysayers. The interest level from buyers is now tremendous, given how our properties have performed. Hats off to Landmark for their continued



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THE SHB INTERVIEW

great work in this space. As you know, we like owning all sorts of student housing product. In each geographic market, different fundamentals make sense.

SHB: What is the status of your funds right now?

Merrill: We have a fund that we closed last June that has \$600 million in equity capital giving us over \$2 billion of buying power. This fund looks for ways in which we can create value at a given asset. We recently launched an income fund that will invest between \$500 million to \$700 million in stabilized assets this year throughout our segments. Our business plan calls for over \$1.5 billion in gross real estate added to our portfolio in 2012 across education, healthcare and storage. This year is off to a good start with some new student developments at the University of Arizona, Virginia Commonwealth, Purdue University and a recent purchase of a large student property at the University of Central Florida.

SHB: When you look back over the seven years since starting Harrison Street, what do you see as your major accomplishments?

Merrill: Our investment track record and the organization we have built. We started with three employees and now we have over 50 employees. We have provided over \$1 billion of capital to our operating partners to help them

grow their businesses which in turn has helped create a lot of jobs. In an economy where you saw a lot of people struggling, we were able to put a lot of capital to work. This is a people business at the end of the day and the ability to create so many jobs is very rewarding.

SHB: Are there assets in your portfolio or milestones that you are proud of?

Merrill: There are many that we are proud of. Some things that stick out are being an early backer of the cottage style product. We are proud of the work we did in helping Campus Crest go public. I am excited of the large development we are doing at the University of Michigan and very proud of what we accomplished at IUPUI [Editor's note: Harrison Street is a joint venture partner with Trinitas Ventures on an innovative townhome student housing project at Indiana University-Purdue University Indianapolis]. But at the end of the day it is hard to pick out individual assets from our portfolio — we have over \$3.1 billion in real estate.

SHB: How would you describe Harrison Street's position in the market today?

Merrill: I would like us to be the leading private equity investor in the student housing business, not just due to our capital investment but due to how we treat partners.



Harrison Street helped Campus Crest with its initial public offering (Christopher Merrill is fifth from left at this bell ringing).

Hopefully, we are known as folks that understand the business, are creative and responsive. We want to be viewed as more than just equity to our operating partners.

SHB: You have mentioned your operating partners a few times. How does a company go about becoming one of your operating partners?

Merrill: We would love to sit down with them and learn more about their vision. They should reach out to Brian Thompson, who heads this business for us. We like to know their philosophies and how they treat people. If we make an investment, it is really based on our relationship. It's not about doing deals, to us. We ask ourselves, 'is there an edge

to their business that no one else has? Why do we want to partner with them?'

SHB: What is the best part about your job?

Merrill: I get to work with so many different people. I enjoy the entrepreneurial spirit of our company and all the developers and operators that we work with. I love the innovation, creativity and being a first mover in certain areas. I like when people say you can't do something, and then you find a way to get it done.

SHB: What would you like people to know most about Harrison Street?

Merrill: We are in this for the long haul. We developed this business model in 2005, when a lot of capital players were chasing condos, office and retail. We systematically set up this business to invest in three areas: education, healthcare and storage. We like these markets given the fragmentation and the fact that local partners can drive value. Several companies are coming into the segment for the trade, however we don't foresee them being around for the long term. We have the capital and proven staying power. Student housing is something that we see as a long term investment market, not a short-term, make-a-trade sector to enter and leave the business. We are a learning organization that will make mistakes but you can bet that we learn from those and strive to get better every day. **SHB**



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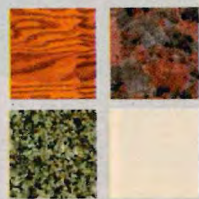
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