

# PARTNERING TO SUCCESS

*SHB interviews Brian Thompson, senior vice president in the transactions group for Harrison Street Real Estate Capital. Thompson is the head of acquisitions for the education sector of the Chicago-based private equity firm, which also makes investments in healthcare and self-storage real estate.*

Interview by Richard Kelley

Student Housing Business recently caught up with Brian Thompson, senior vice president in the transactions group for Harrison Street Real Estate Capital. Harrison Street is routinely making headlines by applying its funds toward a diverse array of projects and for connecting with a growing list of operating partners. In March, for example, the company committed \$375 million to launch P3+, a venture with Capstone Development Partners to pursue on-campus projects. Harrison Street's base of partners represents a "who's who" of the student housing industry, including Landmark Properties, The Dinerstein Companies, Campus Acquisitions, Campus Crest Communities, Innovative Student Housing, Trinitas Ventures, Pierce Education Properties, Vermillion, Lutz Real Estate and Capstone Collegiate Communities. Thompson credits the company's success to having a keen understanding of the sector, a well-defined strategy and a stable of best in class operating partners.

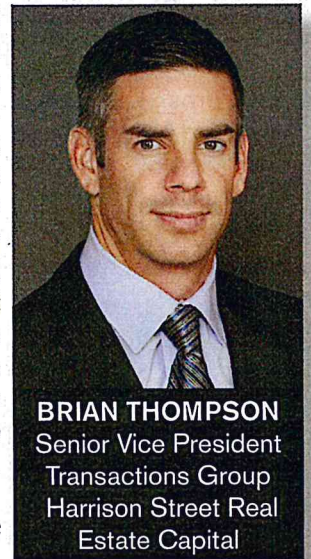
**SHB:** How did you get started in the business?

**Thompson:** My career path has been a bit unconventional to say the least. I grew up in a suburb about 30 miles west of Philadelphia. My dad was an accomplished golfer, playing on the PGA Tour for a few years. I grew up playing a lot of golf. I attended Seton Hall University on a golf scholarship, though realized quickly that my dreams of playing on the PGA tour were never going to become a reality after struggling my freshman year. I transferred from Seton Hall and completed my undergraduate degree at UNC-Wilmington. My thought was that I could ultimately apply my knowledge of golf toward building and eventually designing new golf courses. At that point in my life, golf was the only thing I really knew and loved. I had an unbelievable passion for everything about the game. Prior to graduating in 2000, I interned with various golf course construction firms and then went to work for one of the largest golf course construction firms in the country. The market for new golf courses quickly imploded given the rate at which they were being delivered. I moved back home and found myself caddy-

ing at Overbrook Golf Club. One day, I was out caddying for Gary Holloway. I knew Gary from being friendly with his sons and knew that he had a very successful real estate company. It took me until the 18th hole before I could build up enough courage to ask him for a job.

**SHB:** Describe your role at GMH.

**Thompson:** I started at GMH Associates in January 2001. I underwrote my first deal at Wright State University, which thankfully didn't end up closing as the underwriting was probably all wrong. A 9 percent cap felt good though [laugh]. I believe my title was junior analyst, not even analyst, which is pretty funny looking back. GMH acquired its first student housing property at Penn State in 1986, and at the time of my arrival, the company was in the middle of an aggressive growth initiative driven by both development and acquisitions. The transactions group was led by John DeRiggi and Jim Kirby. A joint venture with Goldman Sachs paved the way for the company to establish itself as the largest owner and operator of student housing in the country. Mike Mouron, Jack Dinerstein, Bill Bayless, Cecil Phillips and a few of the EdR guys were really the only other groups of any scale pursuing off-campus student housing at the time. The team was very small, and our primary function was to evaluate markets and underwrite individual assets and portfolios. In late 2004, the company went public and that really opened the spigot for GMH in terms of transaction volume. At that point, the volume of the company was primarily driven by portfolio acquisitions. There wasn't nearly the amount of development that you're seeing today, as there wasn't the institutional aware-



**BRIAN THOMPSON**  
Senior Vice President  
Transactions Group  
Harrison Street Real  
Estate Capital



Sterling Central serves the University of Central Florida. Harrison Street is a partner to The Dinerstein Companies on this asset. The partnership also recently launched development of similar Sterling properties at Louisiana State University and the University of Nevada-Reno.

ness and interest. Being a part of such of a young, dynamic and active company was a lot of fun. Acquiring roughly \$400 million in real estate a year for four to five years was an incredible experience and compressed into a few years what many analysts would normally experience over a career. I spent countless hours compiling market information on nearly every major university market in the country. Market visits took me from the University of Maine to Peralta Community College in San Francisco. I worked alongside people who are still very active in student housing today: Jim Kirby, John DeRiggi, Miles Orth, Joe Coyle, Michael Orsak, Austin Repetto — all very, very smart guys. A lot of people who came out of GMH, whether they left before the merger with ACC or after, are still very active and play important roles in the industry today. The relationships forged over my career at GMH have contributed immeasurably to the business we



Serving the University of Georgia, Harrison Street and partner Landmark Properties are developing this property that will deliver in August 2014.

do here at Harrison Street. I had no idea at the time how critical my experience at GMH would ultimately prove to be. I reflect on that experience every day of my life and consider myself unbelievably fortunate to have even been afforded that initial opportunity by Gary Holloway.

**SHB:** When did you make the transition between the two firms?

**Thompson:** I left GMH in May 2007 prior to the merger with American Campus Communities. At the time, Harrison Street had only been in business for a year or so and was still assembling a team. They didn't have much of a track record but they did have a sound investment thesis and support from the Galvin family, the founding family of Motorola. The strategy of investing in education,

healthcare and storage-related real estate with the theory that these sectors were needs-based and demonstrated defensive characteristics making them somewhat recession-resistant made practical sense. The idea of being a part of a new organization with strong leadership and what I thought was a sound business model was very appealing. Chicago's no Philadelphia, but I looked past the comparison of cities and joined the eight-man operation. A few years after I started at Harrison Street, I brought Justin Gronlie to the firm, another Philly guy. We worked together at GMH. Along with Ben Mohns, who oversees our student portfolio, we have a team of committed young guys who really work well together. Today, Harrison Street employs almost 60 people.

**SHB:** You've taken the idea of working with partners to a high level in the sense of how many people you work with and the



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## THE SHB INTERVIEW



490 Fulton Street Serves Long Island University. It is a direct investment for Harrison Street.

ways in which you've covered the market. Can you take us through how that idea was born?

**Thompson:** A lot of what we're doing at Harrison Street today goes back to what I experienced and observed at GMH. The skillset of understanding how to interpret enrollment data, conduct specialized in-depth market research and most importantly understanding how student housing differed from conventional market-rate housing provided a sound base to craft a strategy and ultimately make prudent investment decisions. In our opinion there are six to eight different ways to invest in one market through various product types, price points, management practices, and certainly varying locations. At the outset we identified best in class operators and developers within those strategies and over the years were fortunate enough to form partnerships with them. This didn't come together overnight. We were fortunate in that our capital is patient and allowed us to partner with the 'right' groups who shared a similar philosophy and approach to the sector. Our model works most efficiently by partnering with groups who specialize in one of those strategies. Our partner's track records speak for themselves. We work collaboratively with our partners — sharing market intel and past experiences. I think our partners appreciate the fact that we live and breathe student housing and can be a resource in the evaluation process. It's really a true partnership in every sense of the word. Take, for example, Landmark. In 2008, they were a relatively young firm with an entirely new concept. After tracking for over a year and understanding the driving forces behind the success of cottages, we made our first cottage investment in Tuscaloosa, Ala. Five years and 15 deals later, Landmark is one of our largest and most valued partners. They devised an entirely new strategy within the broader space and essentially created the market. They are true pioneers.

**SHB:** With so many of these companies competing with each other, it must be hard to manage.

**Thompson:** I wouldn't say it's hard. It does require transparency. As our business grows and our funds grow, we're going to have to pursue new strategies and potentially bring in new partners. That's just the reality of building any business. Our existing partners benefit as we continue to diversify our capital, which in turn allows them to expand their own businesses. We've been patient and have worked extremely hard to establish our partnerships and my preference would be to concentrate our efforts on servicing existing partners to expand on what they're doing in their own platforms. Our partners like the fact that they interact with a small group. While we have institutional capital, you look around our office, and it's a very family-office type of atmosphere.

**SHB:** Can you comment on the state of the industry? When you look out on the investment market, what do you see?

**Thompson:** This business is cyclical. It's just not nearly as cyclical as the traditional asset classes. I've been doing this long enough that I've experienced a couple of cycles. They're not huge troughs and they're not huge peaks. The dip in student housing REIT stocks is unrelated to new supply and declining enrollment. What you're reading in recent press regarding the latter is exaggerated and really only tells half of the story. The press that's been highlighting declining enrollment growth fails to point out that the vast majority of the decline is at the weaker private universities, for-profits and community colleges where most institutional owners don't consider investing. This space will always require a market-by-market approach. And while some markets are currently experiencing a lot of new development, it's foolish to assume that the entire space is over-developed. The lack of accurate data in the space contributes greatly to the uncertainty surrounding the extent of the new supply. We all need to do a better job of providing infor-

mation to a central source so that developers, investors, lenders and anyone else can make more informed decisions. There are over six million college students attending four-year public schools looking for off-campus housing in this country. The top 10 owners control only about 300,000 beds. The sector as a whole is still tremendously fragmented, providing significant opportunity for consolidation.

**SHB:** What's the Harrison Street game plan for 2014-2015?

**Thompson:** We're constantly looking for new products and strategies within the education, healthcare and storage theme. Raising a core fund for us in 2011 was a real game changer. It provides us with a relatively low cost of capital allowing us to compete with some of the other institutional players in the space. Our opportunity funds are more multiple and appreciation focused while the core fund is more of an income play. By having two different funds with entirely different risk profiles it allows us to pursue most opportunities. We've shown nice steady year-over-year growth, and I suspect 2014 will be much of the same. A good year for us is between \$250 million to \$300 million of equity.

**SHB:** Can you talk about your disposition strategy?

**Thompson:** I would characterize it as a patient yet reactive strategy. We have partners in most deals so it's not Harrison Street making decisions unilaterally. We have a 16-asset portfolio and a four-asset portfolio on the market. And while there's no real one driving force behind the portfolio sales, our funds do have a finite life and at some point we do need to harvest and provide a return to our investors. What you're seeing is simply a reactive step to the market: low interest rates and a lot of institutional money interested in the sector. That generally makes



Dinkytown serves the University of Minnesota. HSRE's partner is The Opus Group. It is scheduled for delivery August 2014.



The Loop serves the University of California-Santa Barbara. It is a direct investment for Harrison Street.

for a favorable environment to sell. We're still a net aggregator however. What we have on the market represents about a fifth of our student portfolio. In 2013 alone we will have acquired or begun development on more than \$800 million in product, and 2014 should be closer to \$1 billion.

**SHB:** What are your thoughts about properties being sold before they're even developed?

**Thompson:** I think its just folks being opportunistic on both sides and trying to capitalize on a frothy low interest rate environment market. There's certainly more risk for both sides in the overall execution given construction and leasing risk but depending on how the deal's structured, it can make a lot of sense.

**SHB:** What is it you enjoy about the student housing space, and who is doing interesting things that you admire?

**Thompson:** I'm very much a one-trick pony as student housing is really all I've ever done in my career. It's a young business with a target market of generally 18 to 22 year olds. It's a dynamic business. College towns, as a whole, are extremely vibrant and progres-

sive places. But it's the people in this space I really enjoy. Not only do I have tremendous respect professionally for our partners and other folks in the space, but they are my friends and I value their relationships personally. I recently got married and Wes Rogers, Tim Bradley and Peter Katz were

all at my wedding. Guys like Bill Bayless, Jack Dinerstein and Mike Mouron have all built successful organizations, but at the end of the day they are good people with values that I respect. It's one thing to admire the latest and greatest in amenities or the newest product commanding the biggest

rents. It's another thing to admire organizations like Capstone, Dinerstein, ACC and EdR — true leaders who have been great stewards of this business. I'm going to do my best so that people can reflect back on Harrison Street in 15 years and say the same things about us. **SHB**

**Deadline: Jan. 31, 2014**

On April 10, 2014, the industry will again gather to honor the best of the best — winners of the 2014 Student Housing Business Innovator Awards — at an awards event during InterFace Student Housing in Austin, Texas. Last year, more than 15 companies were honored for their achievements with Innovator Awards.



The Innovator Awards program is open and ready for entries. For a complete brochure that includes category descriptions and entry requirements, please email Editor Randy Shearin at [randy@francemediainc.com](mailto:randy@francemediainc.com)

For more information on the Innovator Awards program, please visit [www.studenthousingbusiness.com/awards](http://www.studenthousingbusiness.com/awards)

The deadline for the 2014 SHB Innovator Awards in January 31, 2014.