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Student housing sector still at the head of the class — for now

By: H. Lee Murphy June 25, 2012

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A rendering of Harrison Street's \$75 million, 650-bed development in Ann Arbor, Mich., adjacent to the University of Michigan campus. Photo by: Harrison Street

Harrison Street Real Estate Capital LLC was pouring investment money into student housing three or four years ago when just about every other commercial real estate sector was flat on its back. Now that other markets are recovering, Chicago-based Harrison hasn't lost its taste for serving college students.

With a portfolio of \$3.5 billion — some of it family money from the Galvins of Motorola (former Motorola CEO Christopher Galvin is chairman of Harrison Street) — the firm also invests in offbeat

assets such as medical offices and self-storage. But with 22,000 beds around the U.S., student housing is Harrison Street's biggest play. In September the firm is opening a \$75 million, 650-bed development in Ann Arbor, Mich., adjacent to the University of Michigan campus. At the same time, it will open a \$100 million facility in Orlando, Fla., next to the University of Central Florida.

Christopher Merrill, president and CEO of Harrison Street, projects that the firm will invest between \$400 million and \$600 million in student housing this year. He figures that his investments garner an extra percentage point or two in return compared with more mainstream asset classes, with little downside risk.

In fact, student housing doesn't fail very often. There's a reason for that, Mr. Merrill points out. "There is a general lack of accommodations for students on college campuses," he says. "Just 15 to 20 percent of all students are able to find housing on campus. The rest require off-campus housing. Colleges are stretched for capital and aren't building many new dorms right now. And what housing there is, it was often built in the 1960s and '70s and is badly out of date."

Modern student housing is rarely confused with ordinary multifamily construction. A Harrison development typically includes units with four bedrooms, each with its own bath. "Many kids today have never had to share a bathroom while they were growing up," Mr. Merrill says. "And they require lots of amenities, like pools and health clubs, that you'd find in only the nicest apartment complexes."

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