Harrison's open-end fund continues to redefine "core"

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The only fund of its type, the Harrison Street Core Property Fund, managed by Harrison Street Real Estate Capital, is an open-end fund that gets core-grade risk and returns by targeting stabilized, income-producing properties in the student housing, senior housing, medical office and self-storage segments.

Most core funds only focus on office, retail, industrial and multifamily properties, often called the four food groups.

"Yes, there are some investors that only view core properties as office, industrial, retail and multifamily," says ChristopherMerrill, co-founder and CEO with Harrison. "But there was a time when multifamily wasn't even considered core, and I think what you're seeing now is more of an understanding that, as the market has grown, more segments are able to offer the strong fundamentals needed for core investment."

Our sources tell us that the core fund, which was launched in December 2011, has raised $1.4 billion to date, which it has used to acquire 47 properties across 16 states and 35 cities. The portfolio is approximately 40 percent medical office properties, 30 percent student housing, 25 percent senior housing and 5 percent self-storage, with a total asset value around $1.5 billion gross and $900 million net.

Active of late, Harrison Street acquired a $500 million medical office portfolio consisting of 1.5 million square feet divided among 22 properties in the Washington, D.C., area in January, with 12 of the 22 properties allocated to the core fund and the remainder allocated to Harrison Street's fourth opportunity fund. Additionally, earlier this year it acquired a four-property student-housing portfolio at the University of Oregon, Eugene, for approximately $40 million. There was another small deal even more recently, though details could not be disclosed at this time, and more should be coming soon, as the fund has a pipeline of approximately 20 properties with a total NAV of over $500 million.

The fund only targets stabilized properties (fund-level occupancy is at 95 percent) and uses leverage currently of 32 percent LTV. The fund generally targets smaller properties than most core funds, with an average NAV per asset of $22 million, allowing it to further diversify its portfolio by asset class and location. There are currently 35 investors that are a mix of domestic and foreign public and corporate pension plans, endowments and foundations, and fund of funds.

By targeting income-producing properties in a wide range of major markets, the fund insulates itself from the competition, heavy price mark-up and modest-appreciation risk seen in most U.S. core markets, and offers investors a way to diversify their core portfolio while still maintaining strong capital-preservation fundamentals.

"I think there is some concern of the appreciation levels of the traditional core funds," Merrill adds. "And this product offers those folks concerned with pricing the ability to diversify away from traditional core assets in the main cities."

The fund, like others targeting niche property types, is also looking to capitalize on demographic trends that could be quite dramatic in the coming years. According to the Pew Research Center, roughly 10,000 Americans are expected to turn 65 every day until 2030, and by 2050, a greater proportion of the world's population will be over age 60 (21 percent) than under age 15 for the first time in history, according to PwC.

"These assets are part of the social fabric, and there will be a growing need for them in the coming years," Merrill concludes. "That's the opportunity were really focused on: asset classes that fulfill a fundamental need and are, therefore, not really tied to overall cycles in the economy. That's what were excited about."

As commercial real estate — and the people that inhabit it — continues to change in the new century, investors may find more and more that a balanced diet of core properties may require more than just the four main food groups.

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