Fundraising

Harrison Street raises €700m for second European fund – Exclusive

The Chicago-based manager has already committed more than 50% of the total equity from the vehicle and its co-investment sidecar.

By Kyle Campbell - 30 April 2019

Oxford from above

Harrison Street Real Estate Capital has raised €700 million for its second European specialty housing fund.

The Chicago-based manager closed Harrison Street European Property Partners II on €500 million – 25 percent more than its €400 million target – and raised an additional €200 million in co-investment capital, *PERE* has learned. Both pools reached their hard-caps.

The firm will focus on student housing and other residential property types, such as micro-living and rental apartments, throughout Europe. So far it has already deployed roughly €400 million – or 57 percent of the total equity raised – to acquire 24 properties, Rob Mathias, senior managing director and head of international investment at Harrison Street, said.

Early investments have been near Irish colleges in Dublin and Cork, Mathias told *PERE.* Harrison Street also made investments in Spain and the UK while scouting out deals in France and Germany. "It's really a pan-European strategy," he said. "We have a presence in most of the major markets to date and we're continuing to look at the ones where we do not."

Mathias declined to specify how much of the invested capital came from the co-investment pool, though he noted the firm is ahead of schedule on its deployment, which is set to wrap up next year.

Christopher Merrill, Harrison Street's founder and chief executive, said more than half the capital committed to the fund came from repeat investors. The vehicle's predecessor, Harrison Street European Property Partners I, closed on €235 million in May 2015 and has returned 44 percent of its capital to investors to date.

Despite increasing hesitation about investing in real estate late in the cycle, investors were drawn to the firm's second European fund because they viewed it as a safe bet in otherwise uncertain times, Merrill said.

"Many investors are cautious now," he said. "But, when you look at the asset classes we focus on, which cater to demographic trends, there's clearly demand in Europe and around the world. Investors are looking to be defensive and still make good risk-adjusted returns and we can do both with these assets."

Capital raising for European-specific strategies in traditional closed-end vehicles is down in the early months of 2019. At $4.42 billion through the first quarter, it is 17 percent off last year's pace, according to *PERE* data. However, that seems to have more to do with the rising popularity of global funds raised by large managers, which roughly doubled year on year. North American and Asia-Pacific strategies have dropped off more steeply, down 30 percent and 65 percent, respectively, from the first quarter of 2018.

Harrison Street views higher education as a catalyst for increased housing demand. This thesis has led the manager to acquire 150,000 student housing beds since 2005. In Europe alone, it manages 15,000 beds and Mathias sees opportunities for growth even amid the uncertainty of Brexit.

"We're long-term investors," he said. "There will be a day when the UK and the EU decide their fate but, in the meantime, there are still many students traveling to the UK to study from the US, Asia and elsewhere. With the quality of the universities in the UK, it is hard to ignore as a market that's important to our strategy."

The student housing sector has attracted only a modest amount of global fundraising capital to date in 2019. Only $67 million was committed to student housing-centric funds during the first three months of the year, according to *PERE* data, accounting for less than 2 percent of funds raised for closed-end vehicles during the period. By comparison, office funds drew $1.95 billion, while multifamily vehicles pulled in $1.54 billion in the quarter.