Harrison Street 'full speed ahead' on deals amid pandemic – Exclusive

After its most recent transaction, Harrison Street still has $2bn of dry powder to deploy in healthcare real estate through the coronavirus disruption.

By **Kyle Campbell**

While much of the investment market has ground to a halt to cope with the economic fallout from the coronavirus outbreak, alternatives specialists such as Harrison Street Real Estate Capital continue to see opportunity.

The Chicago-based manager has not experienced the same disruption as peers focused on office, retail or hospitality assets, Chris Merrill, Harrison Street co-founder and chief executive, told *PERE*. This week the firm finalized its first acquisition since the viral outbreak reached pandemic status, purchasing a Texas cancer treatment center in a $115 million all-cash deal. "It was right down the fairway for our investment strategy and thesis," Merrill said. "For these types of investments, we're full speed ahead."

The property, The Woodlands Cancer Center, is a 200,000-square-foot medical complex completed in July 2019. The University of Texas MD Anderson Cancer Center, the largest cancer center in the US, has a long-term lease for the facility, located in suburban Houston. In total, Harrison Street owns about 16 million square feet of medical office property totaling $6 billion and 3 million square feet of life science property valued at roughly $3 billion.

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Other property types have been thrown into turmoil as social distancing measures and government interventions have shuttered all but the most critical businesses. As an exempt service provider, the center will be able to continue operating without disruption, regardless of external circumstances. As Merrill put it: "The facility is essential for its patients' ongoing care, so it will continue to remain active through any extraordinary event, such as this pandemic."

Although the deal was in the works months before the virus reached North America, Merrill said his firm was able to carry it to fruition because of its experience in the healthcare real estate space and its access to ready capital. Harrison Street closed its seventh closed-end fund last year on $1.3 billion along with a $300 million co-investment vehicle; it also reported raising roughly $1.6 billion between two open-end funds, Harrison Street Core Property Fund and the newly-established Social Infrastructure Fund. In total, the firm has about $2 billion left to deploy.

"We're fortunate to have strong continued support from our investors and operators and expertise and exposure to resilient sectors regardless of where we are in the cycle, as well as substantial dry powder across our open-end and closed-end funds," he told *PERE*.

Merrill said the firm has a pipeline of medical office, life science and self-storage assets that is "multiples greater" than its capital on hand, meaning it can remain selective. Some of these opportunities have arisen as other buyers – particularly those with greater concentrations of traditional real estate – have had to pull out of deals to address distress elsewhere in their portfolios.

He added that Harrison Street chose to structure The Woodlands Center transaction on a cash-only basis prior to the financial disruption brought on by the virus. The property was acquired through the Core Property Fund, which Merrill said frequently uses limited debt. The fund caps leverage at 30 percent loan to value. Also, even for deals executed on an all-cash basis, the firm can use fund-level debt to the same 30 percent threshold.

Merrill said Harrison Street still has access to debt financing despite a greater skepticism from lenders about what sponsors and which assets they should put their money behind. "Right now, we're able to offer certainty of closure, which is what our partners and clients are looking for," he said.