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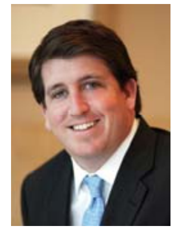
# Head of Harrison Street taking a contrarian view



By Alby Gallun
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After raising about $200 million from investors, Christopher Merrill is shopping for student housing, storage facilities and other properties that will fare well even in a slumping economy.

The former Heitman Financial executive set out on his own in 2005, when he formed Harrison Street Real Estate Capital with the backing of the Galvin family, the founders of Motorola Inc.

Since then, he's been busy raising money from other investors and buying about $350 million in real estate. Mr. Merrill, 35, is avoiding the four main property types — office, apartments, retail and industrial — focusing instead on less-popular sectors that don't rise and fall with the economic cycle.

In its most recent deal, Harrison Street formed a $200-million joint venture with North Carolina-based Morningstar Properties LLC that will develop and invest in self-storage properties mainly in the Carolinas.

"Anticipating a slowdown in the economy, pressure on interest rates, pressure on construction costs, we wanted to be prudent in where we invested going forward, and we wanted to invest in sectors that really had their own specific demand drivers," says Mr. Merrill, the firm's managing director.

More investors are pursuing such strategies these days as capital has flooded the office, apartment and retail markets, driving prices up and returns down.

"The market is so competitive that people are looking for alternatives," says Stephen Blank, a senior fellow at the Urban Land Institute. "To raise capital, you need a lot of things, but one is a strategy that differentiates you in the marketplace."

A Winnetka native and graduate of Roanoke College in Salem, Va., Mr. Merrill had spent his entire 16-year career at Chicago-based Heitman before launching Harrison Street. He started out as an 18-year-old intern and rose to become head of the firm's overseas investment business, launching Heitman's first foreign investment fund, which targeted properties in Eastern Europe, in 2000.

In his spare time, he squeezed in an MBA at City University in London, where he and his family lived for five years. After returning to Chicago in 2005, Mr. Merrill teamed up with the Galvins, who provided the seed money for Harrison Street. The name refers to the building at 847 W. Harrison St. where Motorola was founded in 1928.

Mr. Merrill considers Christopher Galvin, who sits on Harrison Street's board, a mentor and has known the former Motorola chairman and CEO for 15 years. Michael Galvin, who runs Washington, D.C., venture capital firm Galvin Enterprises Inc., also sits on the board. Efforts to reach the Galvin brothers were unsuccessful.

The Galvins opened a lot of doors for Mr. Merrill during the fundraising process, which is expected to wrap up next month when Harrison Street closes its $200-million equity fund. Including borrowing, the firm expects to buy about $800 million in properties.

About 15 of the fund's 25 investors are family offices, with endowments and foreign investors rounding out the group. Mr. Merrill declines to identify the investors.

Harrison Street plans to invest chiefly in joint ventures and currently oversees a portfolio that includes 2,000 student housing beds, 840 senior housing units and more than 8,000 self-storage units.

Mr. Merrill sees an opportunity in student housing because college enrollments are growing and schools would prefer to invest in educational facilities over housing.

The aging baby boom population bodes well for senior housing and for self-storage, as boomers move into smaller houses and condominiums, boosting demand for storage, he says.

The firm is also targeting medical office properties, another segment that is tied more to demographics than to economic swings.

"In the sectors that we're targeting, we think we can outperform traditional asset classes over the next five to seven years," Mr. Merrill says.

Yet with more investors trying to get off the beaten path, returns on alternative property types have fallen, too.

"Prices are at all-time highs in just about all commercial real estate property types, "Jim Sullivan, an analyst at research firm Green Street Advisors Inc., writes in an e-mail. "Those property types may hold up better in a soft economy, but if real estate values ever fall, it's unlikely that they will be immune."