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Growth in alternatives driven by proven resiliency, scarce supply

CHRISTOPHER MERRILL
co-founder, chairman & global CEO

In a time of market disruption, new supply is scarce, even in sectors with surging demand, such as student and senior housing, self-storage or data centers. Building on the firm's 20 years in alternative real estate, Christopher Merrill, co-founder, chairman and global CEO of Harrison Street, says the current vintage is attractive for investors, given its strong demographic tailwinds, limited development and heightened investor interest. Alternative sectors have shown resilience across cycles and have become a core component of institutional portfolios.

What are the most significant changes you have seen happen in the private real estate industry over the past decade?

Over the past two decades, the private real estate industry has experienced a remarkable transformation. While major black swan events such as the GFC and global pandemic come to mind as periods of dislocation that led to structural change, we believe the most notable and enduring secular shift in the industry has been the growth of alternative real estate.

Once considered niche, these sectors have steadily evolved into a core component of institutional portfolios. Sectors like student housing, senior housing, medical office and self-storage have demonstrated their resilience, scalability and long-term relevance.

Alternative sectors have demonstrated strong fundamentals across economic cycles and, as a result, have attracted deepening pools of capital.

We have also seen a shift in investor expectations around partnerships. As portfolios become more complex and capital is allocated more selectively, many investors are consolidating relationships and seeking to do more with fewer managers. Managers that offer differentiated solutions across multiple strategies can provide investors with broader access, stronger strategic alignment and simpler execution with less administrative burden.

In that context, how has your firm's approach to capital formation evolved over that period?

When Harrison Street was founded, our efforts were primarily focused on educating investors about the merits of alternative real estate. Now, as we celebrate our own 20-year anniversary, the conversations have shifted from "why" to "how" – how to gain access, scale exposure and ensure alignment. That evolution has allowed us to expand our capital base significantly, both in terms of investor types and global reach.

Our capital formation strategy has evolved to offer differentiated strategies across the risk/return spectrum and through various vehicle structures. This approach has enabled us to strengthen relationships with existing investors while attracting new ones seeking aligned, high-conviction opportunities.

What remains constant is our commitment to delivering best-in-class client service grounded in transparency, reliability and trust.

Similarly, how has your firm's approach to dealmaking evolved?

While dealmaking remains relationship-driven, the evaluation and underwriting of deals has become increasingly data-informed. As a first mover in alternative real estate, Harrison Street has built deep subject matter expertise and proprietary data across more than $70 billion in investments. In sectors with limited third-party data, we believe our in-house intelligence allows us to underwrite with greater insight and nuance, enhancing investment decisions across cycles.

This includes granular benchmarks on rent growth, development timelines and operating costs across geographies, which support more accurate forecasting and dynamic portfolio construction. This depth of insight supports scenario analysis, helps calibrate structured investments with appropriate hurdle rates and ultimately allows us to make more informed decisions throughout the investment lifecycle.

At the same time, our approach to dealmaking has evolved to emphasize resilience at every level, from capital structure to partner alignment. In today's environment, durability is not just about asset-level performance, it is about building portfolios with long-term underlying demographic-driven demand that can withstand macroeconomic volatility and continue to perform across a range of market conditions.

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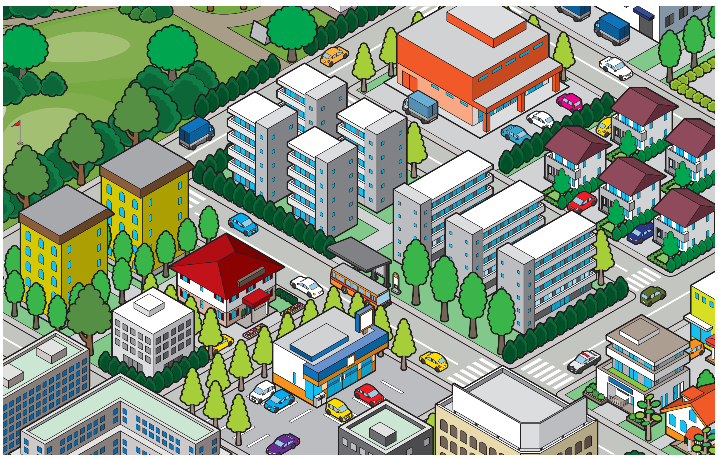
And how has the composition of your team changed?

Our team has evolved significantly in size, specialization and global reach. In Harrison Street's early days, we were concentrated around a single fund and a few sectors. Today, as the size and scale of alternative real estate investing has grown, we now manage a global platform spanning multiple strategies, asset types and geographies – requiring deep sector expertise, regional insight and functional capabilities in areas like data analytics and capital markets.

We have also made meaningful investments in next-generation leadership and talent development. Our ability to scale with discipline and stay ahead of market shifts depends on empowering people at every level to lead, contribute and grow.

In addition, we believe our asset management platform has become a key strategic advantage. Beyond operations, our approach is backed by data, anchored in sector expertise and executed through long-standing partnerships.

As we have grown, we have worked hard to maintain our entrepreneurial, partnership-driven mindset – fostering a culture defined by transparency, intellectual curiosity and shared success. We continue to emphasize innovation and collaboration, and that is what continues to differentiate Harrison Street.



What are the biggest risks for the industry today, and which risks should be monitored closely for the future?

We believe today's biggest risks for commercial real estate stem from persistent macroeconomic uncertainty and capital market disruption. Elevated interest rates, inflation and tighter lending conditions are pressuring valuations and creating refinancing challenges – particularly for highly leveraged assets.

In addition, investors need to closely monitor geopolitical instability, changing regulatory environments and rising operating costs. At the same time, muted transaction activity has resulted in uneven liquidity across sectors, though this also creates opportunities for well-positioned managers.

Despite these challenges, we view the current vintage as particularly attractive. In fact, given constraints on industry-wide development activity, we are seeing limited new supply, even in geographies and sectors with strong and growing demand. The favorable supply and demand dynamics supported by strong underlying demographic and needs-based tailwinds have resulted in heightened investor interest in alternative real estate. We expect success will favor firms that stay grounded in fundamentals, nurture strong partnerships and evolve with purpose. ■