PERE

Annual Review 2023

Resilience and resolve

Meeting the challenge at a critical point in the cycle

PEI

KEYNOTE INTERVIEW

Limited supply should boost rental growth

Harrison Street's co-founder, chairman and chief executive Christopher Merrill explains how complexity can create value

Q What were your firm's key events in 2023?

We regard challenging markets as opportunities for our firm and strive to create value through complexity. 2023 was no different. Harrison Street achieved notable advancements in our business and reached significant milestones throughout the year.

While many in the industry paused their investments, we were able to selectively acquire, develop and dispose of assets throughout the year. Our investment team worked tirelessly to review over 2,000 global opportunities, of which we closed on 52 (around 2.5 percent of reviewed transactions) representing a total cost of around $4 billion.

We sold $1.8 billion of assets, financed over $2.2 billion for new and existing assets and distributed nearly $1 billion to our investors during the year. We continued to invest in our business and team, hiring 47 new employees, opening offices in Berlin, Luxembourg, Madrid and Seoul, and launching several technology initiatives.

Q What has the operating environment been like?

Generally speaking, the real estate industry was painted with a broad brush as negative headwinds in traditional real estate sectors overshadowed the headlines. However, alternative real estate once again demonstrated its resilient and growing demand, resulting in strong occupancy and rent growth across most sectors. In Harrison Street's nearly two decades of experience, property fundamentals for our target sectors have never been better.

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Across the industry, 2023 resulted in a sharp drop in transaction activity. For most, liquidity was harder to come by with limited lending options and fundraising at 11-year lows. While these factors had less of an impact on investment activity in alternative real estate sectors, it did make execution more complex and longer in duration than usual.

The flipside to the challenging capital markets environment was that it provided a barrier to entry for new competition, as traditional managers are increasingly seeking exposure to our target sectors. Lenders and capital flows in 2023 strongly favored the best investment opportunities with leading sponsors.

Q What key challenges did you have to overcome?

Traditional fundraising activities were largely stalled as many institutional investors were sidelined from denominator impacts and/or concerns around price discovery given the drastic increase in base interest rates and lack of transaction activity.

We are fortunate to have a strong investor base to lean into and were able to continue to capitalize table-pounding opportunities that we surfaced during the year, which included some distress buys from publicly traded REITs and going vertical on some of the best development projects in strong sectors and submarkets. Our projects will be the first new deliveries and benefit from historic lows in construction starts across fundamentally sound sectors.

Q Who or what is responsible for your success?

Our success can be credited to our entire ecosystem. We have a passionate global team of nearly 300 professionals who are laser focused on creating value for our investors. Additionally, we are grateful to our steadfast global investor base, exceptional operating partners and reliable group of diverse lenders who continue to support us and our focus to be a pure play, specialized investment manager. ■