

## SECONDARIES

## A milestone offering

New Jersey's potential sale of \$1 billion in real estate fund interests could be a 'watershed event' for the real estate secondaries market

Last month, the New Jersey Division of Investments announced that it was considering putting a quarter of its \$4 billion real estate portfolio up for sale through the secondary market. "We've been investing in private real estate funds since 2005, and myself, our consultant and our board believe it's an appropriate time for portfolio rebalancing and repositioning," Timothy Walsh, director at the state pension, told *PERE*.

The potential \$1 billion offering would include a mix of both underperforming and redundant fund investments that are part of New Jersey's legacy real estate portfolio, which consists of investments made prior to Walsh joining in 2010. About 75 percent of that portfolio was allocated to opportunistic strategies, and 25 percent to core funds.

Walsh said New Jersey expects to make a final decision on whether or not to go forward with a sale over the next few months. If it does greenlight the offering, the \$70.8 billion pension plan intends to redeploy the sales proceeds into a new investment strategy with revised opportunistic, core and international targets, which New Jersey has not disclosed.

With the redeployment of capital, New Jersey also is expect-

ed to do less fund investing and make more of its investments through strategic relationships and separate accounts, which would offer the pension more control over investments and the ability to negotiate lower fees – two advantages New Jersey currently doesn't enjoy with its fund investments.

Josh Cleveland, a partner at Clairvue Capital Partners, a firm that focuses on recapitalizations and secondaries, said it would be a "watershed event" and a "very significant milestone" for the marketplace if New Jersey did proceed with the sale.

According to market players, the real estate secondaries market has seen several trades of more than \$100 million, but no \$1 billion real estate secondaries sale has ever occurred. In contrast, more than a dozen \$1 billion offerings have come to market in the private equity space, including New Jersey's own sale last year.

The Garden State's possible offering indicates a maturing of the real estate secondaries market, reflected in part by a continued increase in global volume to \$2 billion in 2011. If New Jersey succeeds in its sale, annual volume could be halfway to that level in one fell swoop. □

## Learning curve

The launch of two funds specializing in student housing is a sign that the industry may be smartening up to an off-forgotten property sector

The recent launch of two funds seeking capital to invest in off-campus student housing raises not just eyebrows but also questions. In particular, has investor demand grown in this space? More importantly, is there enough demand in this off-ignored property type to justify two commingled vehicles hitting the market at once?

Not only are Harrison Street Real Estate Capital and Kayne Anderson Real Estate Advisors (KAREA) hitting the fundraising trail at the same time with vehicles targeting off-campus housing, both funds have more ambitious equity targets as well. Although the firms declined to comment on fundraising, both managers are seeking more capital over a shorter fundraising period than their prior vehicles—**Harrison Street is targeting \$600 million** by year's end and KAREA is seeking \$700 million by May.

So, why are these two firms so confident in increased LP demand in student housing? Based on various sources, the answer appears to be rather simple: the sector is showing strong and steady growth.

"Over the past decade, the student housing market has started to emerge as a mainstream investment category, attracting significant interest from investors, developers and private operators," stated a November 2012 report by Jones

Lang LaSalle. The report, entitled *Student Housing: A New Global Asset Class*, added that the US is one of the most attractive markets for the space, with investments in 2012 reaching roughly \$2 billion. Fundamentals, which include low supply and high demand, have delivered average returns between 11 percent and 15 percent.

According to the US Department of Education, student housing demand is steadily outstripping supply in a large number of markets, with many public universities experiencing 2 percent to 5 percent annual enrollment growth. While enrollment at public universities has grown, the existing supply of on-campus housing has failed to keep up and off-campus housing construction all but stopped from 2008 through 2010. Although new construction ac-

tivity has since re-started, the continued growth of many public universities during that period exacerbated the dearth of supply.

In addition to these strong fundamentals, Harrison Street and KAREA have the advantage of considerable experience in the sector. Indeed, student housing is a niche market that many GPs have either dismissed or ignored. Said one source familiar with the property type: "While there is strong demand from LPs, there are mistakes that can be made by those new to the space or those that view the sector as a quick in-and-out trade." □



West 27th Place, Los Angeles:  
a KAREA investment