

# In search of new alternative asset classes

Alternative assets investment pioneer Harrison Street plans to expand into new niche sectors in Europe this year as the market enters a window of opportunity

BY VIRNA ASARA

Alternative real estate assets have come a long way since Harrison Street entered the sector in Europe in 2015, when it launched its first alternative investment strategy with a focus on student accommodation.

Competition at the time was slim and so were the opportunities to find institutional-quality stock. Quite the contrary today, when it seems developers and investors cannot get enough exposure to these assets which have the potential to provide higher yields and show resilience in uncertain times. Yet, Harrison Street's CEO for Europe Paul Bashir says this is just the tip of the iceberg for these sectors. 'The market is still very fragmented and some sectors are only starting to emerge,' Bashir tells PropertyEU in an interview. 'Many of the asset classes we invest in in the US are still nascent in Europe, including healthcare real estate and self storage. Healthcare in particular represents a

'Alternative assets have proven to be much less volatile while outperforming other commercial real estate sectors over long periods of time and through multiple cycles'

very compelling investment proposition given the current demographic trends but it remains very much under-invested in Europe.' Bashir has headed up Harrison Street's European platform since April 2020 when he joined from Round Hill Capital where he was president and chief operating officer. 'I joined because I liked Harrison Street's

positioning in the real assets sector,' he comments. 'I liked Harrison Street's strategy of identifying the best operators and working through local partners and I also saw an opportunity to grow the group's European business at an interesting inflection point in the market. It was an attractive moment to join the group, with the alternative asset classes seeing significant emerging opportunities particularly in student accommodation and residential for rent.'

Under his leadership, the group's business in Europe has grown to include over 80 assets with a gross asset value of €5.2 bn and a 37-strong team from offices in London, Madrid and Luxembourg.

## MARKET PIONEER

Harrison Street was one of the first global investment managers to enter the European alternative property market in 2015, when its debut European fund took a pioneering approach by focusing exclusively on student housing. Two years later the Chicago-based



VIALE MONZA LIVING PROJECT, MILAN



DOMINICK PLACE PBSA ASSET, DUBLIN

group set foot on the Continent and expanded to the build-to-rent market in the UK. 'We were one of the first companies to invest at scale in this sector and we did so by investing in UK regional cities, which was quite unusual. We went to Liverpool, Glasgow, Birmingham, Leeds and Edinburgh, focused on where we saw the biggest demographic shifts,' Bashir explains.

In a move showing great foresight, Harrison Street started investing in the life sciences sector in Europe in 2019, just before the pandemic struck. The decision proved extremely rewarding and the company has been including life sciences in its funds' European investment strategies ever since.

Last October the investor announced its biggest European fund ever with the launch of Harrison Street European Property Partners IV which is looking to raise €1.5 bn of capital at final close. The firm is primarily focusing on life sciences assets in the UK as well as build-to-rent and student accommodation in the UK, Ireland, France, Germany, Italy, Portugal, Spain and the Nordic countries.

Says Bashir: 'Our investment strategy has remained the same since inception in the US in 2005. We set aside traditional asset classes because we realised investors wanted more diversification. Alternative assets have proven to be much less volatile while outperforming other commercial real estate sectors over long periods of time and through multiple cycles. This is why we continue to see more and more capital move into these asset classes as they continue to emerge and as more opportunities become available.'

#### NEW FRONTIERS

With so much capital at hand to invest across European real estate, it is fortunate for Harrison Street that the investment market is about to pick up speed in 2024, or so Bashir believes. Interest rates are expected to drop over 2024 and inflation is coming down quicker than expected, so the Europe boss is forecasting an uptake in transactional activity after the first quarter with alternative asset classes leading the way. 'The improving macroeconomic environment, coupled with investors' robust appetite overall and sectors' strong operational performance, means that we are optimistic about the future and with

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the ongoing repricing we believe we will be at an attractive entry point in the market with alternatives being at the forefront of it.'

Geographically, Bashir believes the Southern European markets have repriced more quickly than the rest of the market and the firm is currently scouting for opportunities across this region. 'Spain, Italy, Portugal and Ireland are attractive at this moment. The UK is also becoming more accessible despite the high cost of development. As we look forward, some other locations including Germany, the Netherlands, and the Nordics will start to become more interesting in the near future. These markets are currently lagging value correction, but they are expected to re-adjust in 2024 and may present opportunities later this year or in 2025 particularly as distressed situations and recapitalisations come forward.'

In December, Harrison Street entered the Italian market with the acquisition of Viale Monza, a 260-unit residential asset in Milan, Italy. The company joined forces with Swiss real estate group, Artisa to close the transaction and the newly formed JV is expected to scale over time as it invests in Italian living opportunities, with an initial focus on Northern Italy. The pair is looking for the acquisition of ground-up developments as well as the refurbishment and repositioning of existing commercial buildings, offering state-of-the-art living options to the chronically undersupplied Italian market (see box p17). 'We have been looking at ways to access the Italian market for a while and we were fortunate enough to find a partner like Artisa,' Bashir says. 'Italy has attractive demographic trends and strong supply demand dynamics.



#### Personal profile

Paul Bashir is CEO – Europe at Harrison Street. Based in London, he leads the expansion of Harrison Street's European strategies and is responsible for overseeing and growing the firm's team of professionals across the UK and Europe. Bashir has headed up Harrison Street's European platform since April 2020 when he joined from Round Hill Capital where he was president and chief operating officer. While at Round Hill Capital, he managed a business with a \$8+ bn portfolio as well as a team of 260 people across 15 offices in 14 countries. Prior to joining Round Hill, the 48-year-old executive served as a partner at Aggmore Group, where he was responsible for raising and deploying over €500 mln of new capital and developed JV partnerships with European operators in the residential and commercial real estate space. Earlier he served as COO at North Bridge Capital Partners. He began his career at KPMG as a senior manager in the transaction services department. 'I joined Harrison Street because I liked the firm's positioning in the real assets sector,' he tells PropertyEU. 'I liked Harrison Street's strategy of identifying the best operators and working through local partners and I also saw an opportunity to grow the group's European business at an interesting inflection point in the market.'

## Italy ‘screaming’ for more student accommodation

Harrison Street and its partner Artisa will be looking for new residential ventures across Italy after their first joint investment in a 260-unit living project in Milan, according to Josh Miller, head of Harrison Street's European transactions group.

‘We've been bullish on Italy for some time, particularly with regard to purpose-built student accommodation and build-to-rent. We have been evaluating an entry to the market for several years, always looking for the right partner, which we have finally found in Artisa, an integrated developer and operator backed by a Swiss-based, Italian family. From our perspective, this is a good opportunity to do something pan-Italian, given the extremely

low supply of Italian student housing.’

The country's provision of student beds is less than 5% whereas in the UK it is closer to 30%, he notes. ‘This country is really “screaming” for more student accommodation. While the Milan investment is a great start, our plan is to build out further in the city and also expand to other cities across the country.’

Miller, who before joining Harrison Street was a vice president at Equity International, a real estate private equity firm investing in operating companies, is a firm believer in alternative



JOSH MILLER

asset classes. While traditional commercial real estate tends to closely follow the performance of macro-economic trends, alternatives like student housing and life sciences are driven more by their own dynamics and demographic trends, he says. ‘Their performance is not as closely linked to the ups and downs of local economies. Also, these assets can achieve returns

that are above traditional commercial real estate with much lower volatility – anecdotally we are talking about 50% less volatility than portfolios of traditional real estate assets.’

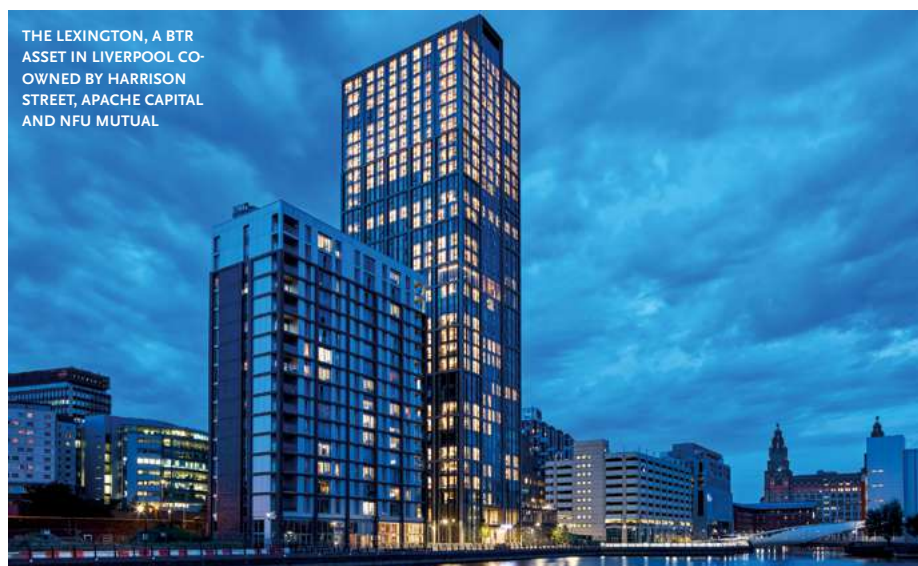
It is a very fragmented market, focused on regional locations, and with incredibly high barriers to entry, which are all themes at the centre of our investment thesis. We are focused on demographics and we like fragmented asset classes, where we can create value at an asset level and at a portfolio level through aggregation. We also like high barriers to entry because we like markets that are difficult for investors to penetrate,’ comments Bashir.

Although Harrison Street has so far focused on student housing, life sciences and build-to-rent, it is planning to widen its strategy to include new alternative segments this year. The search has started for new need-based

segments, fragmented in nature, with high barriers to entry and driven by strong demographic trends. ‘We are evaluating a move into new sectors like self-storage, healthcare, medical offices and data centres,’ adds Bashir. ‘We are looking for partners and it is likely that we will make a first investment in one of these segments this year.’

He continues: ‘At the same time, we don't necessarily need to look beyond the living sectors, residential for rent and student housing, partly because of the very compelling demand-supply dynamics. Supply is at an all-time low and it will probably take a decade to redress that in Europe. In addition, there is a window of opportunity to take

advantage of some stressed opportunities in the market that we believe will only last a maximum 12 months as more favourable financing conditions are expected to return over the course of the year. I don't think we will see real-volume distress in the market because on the operational front assets are doing well and distress is being caused by distressed balance sheets. What we will see is pockets of distress and pockets of opportunities. Given that capital markets are projected to stabilise and interest rates are forecast to be 100 bps lower by the end of 2024, the stress will be very short lived.’ ■



THE LEXINGTON, A BTR ASSET IN LIVERPOOL CO-OWNED BY HARRISON STREET, APACHE CAPITAL AND NFU MUTUAL

## Company profile

Harrison Street was founded in 2005 by real estate veteran, Christopher Merrill, in partnership with the Galvin family (founding family of Motorola). The firm is owned by Colliers (75%) and its senior management team (25%). Headquartered in Chicago and London with offices throughout North America, Europe and Asia, it has more than 280 employees and nearly \$56 bn in assets under management. In Europe, Harrison Street's business has grown to over 80 assets with a gross asset value of €5.2 bn and a 37-strong team working out of offices in London, Madrid and Luxembourg. Last year the company launched its biggest European fund ever, targeting €1.5 bn of capital.