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One Way to Make Money on Dorms: Wait for Investors to Fail

- **Harrison Street CEO says inexperienced buyers taking on risk**
- **Merrill anticipates wave of distressed properties up for grabs**

While investors increasingly look for a home in student housing, Harrison Street's Chris Merrill has been around the block.

He anticipates newcomers to the unfamiliar market will take a lot of risk — and create a landslide of distressed properties that he can scoop up cheaply over the next 12 to 24 months.

"Investors need to dive deep into the micro market, understanding enrollment trends, demand/supply fundamentals, location and unit mix, for instance," said Merrill, co-founder and chief executive officer of Chicago-based Harrison Street Real Estate Capital LLC, which has been buying student housing since its inception in 2005.

The investors streaming into student housing are taking advantage of an asset class that's known to weather economic downturns because people tend to go back to school during tough times. Among recent deals was an agreement by Greystar Real Estate Partners to buy EdR, one of the largest developers, owners and managers of U.S. student housing, for about \$3.2 billion. Separately, an affiliate of Blackstone Group LP formed a joint venture with Greystar to acquire a portion of EdR's properties.

While the Blackstones and Greystars of the investing world may have the clout to manage large dorm portfolios, smaller entrants have trouble accessing the highly fragmented market, Merrill said. Since its inception, Harrison Street, with roughly \$15 billion of assets under management, has amassed properties at more than 130 universities in the U.S. and Europe.

Cracks are already forming: The number of delinquent student-housing loans financed by municipal bonds has climbed 3.4 percent since the beginning of the year, according to data provider Trepp LLC.

For long-term investors in student housing, "opportunities will emerge as a result of those that are taking excess risk as a result of inexperience," Merrill said.

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