



SELF STORAGE SALES NETWORK

Market Monitor

“America’s Premier Self Storage Brokers”

Issue XII-2011

Wrap It Up! by Ben Vestal

The last few months of 2011 were markedly different than the first 6 or 7 months of the year, especially for the real estate business and self-storage properties. Liquidity in the real estate debt market slowed in the third and fourth quarters of 2011, led by the CMBS market mid-year, and in general, banks lived up to their “scrooge” reputation by dragging their feet on making new loans. **Cautious** optimism is certainly present in today’s market, albeit mostly from owners who have seen their rental activity and occupancy uptick over the last 12 to 18 months. Self-storage values have rebounded from the bottom of 2009, but have also fallen off ever so slightly over the last three to six months. Let’s remember that the “real estate market” plays a bigger role in determining your facility’s value than the operation of your property. Now is the time for self-storage owners and investors to take a look at how the market is behaving as a whole, understand what pressures are present in the market and position your investments to meet your objectives.

Self-storage owners appear to be selling primarily because of life events, with few owners making the decision to sell in order to capitalize on the improved market, current US capital gains tax structure and the loosening of the debt markets. The Moody’s/REAL Commercial Property Price Index (CPPI) measured a 1.4% decrease in September after four consecutive months of price increases and the index remains near its two year average price level. The latest update to the CPPI was published by Moody’s in November 2011 and was computed through September 2011, so one can assume a 30 to 60 day lag in data provided by the chart below.

While we continue to see robust transaction volume for larger self-storage properties and portfolios, it is possible that these large transactions may pause in 2012 because pricing has become very competitive, making it difficult for institutional investors to meet their internal yield requirements. This will assist in increasing the transaction volume for quality “one off” self-storage properties in good first and second-tier markets, especially if interest rates stay low through the end of 2012, as buyers will be looking for increased yield.

With the looming political rock and roll of a Presidential election year, we will soon learn how the candidates are proposing to keep our economy on track. In my opinion, the power struggle and lack of decision making by our government will lead to a temporarily prosperous time for buyers and sellers alike, allowing buyers to continue to capitalize on low interest rates while sellers will be able to capitalize on the current capital gains tax structure along with a variety of other opportunistic political policies. We must all remember, though, that one stroke of the pen can change everything. This, along with the unsettling vibes that we are getting from several industrialized countries in Europe and Asia should concern us all, as the potential effects on the U.S. investment climate are severe.

Self-storage has outperformed almost all other real estate asset classes over the last three years and when there are high returns, there are always new investors looking for yield. With real estate investor sentiment remaining strong, we have found, ironically, that the uncertainty in the market may actually be increasing the demand for real estate investments. Wall Street gave investors a wild ride in the second half of 2011 and most

investors are finding that real estate provides favorable returns relative to other investment classes. When you have a business (self-storage) that performs this well in a very difficult economic market, there is good reason for some optimism in spite of the turbulent market. So, keep up the hard work as the ability to keep your current tenants and attract new ones is what has made the self-storage industry the shining star in the real estate business.

MM

Ben Vestal, President of the Argus Self Storage Sales Network, can be reached at 800-557-8673 or bvestal@argus-realestate.com.

Moody’s/REAL Commercial Property Price Index (CPPI)
National – All Property Type Aggregate



Based on data through the end of September 2011

Source: www.rcanalytics.com