



New Year, New Goals, New Investment Market “What’s Your New Year’s Resolution?”

by Ben Vestal

As the New Year begins, we are seeing the transaction market show signs of equilibrium which have not happened in the last few years. It appears that buyers have regained confidence; they are being more disciplined with their assumptions and they are willing to move forward with acquisitions that are pushing the envelope of historical underwriting parameters. This is largely due to the increased sophistication of many operators and the overall perception of lower risk in the self storage market today. As seen in the chart below, self storage REIT returns outperformed all other REIT property types last year. The chart is just a snapshot of how the overall industry performed over the last 12 months, but it has added fuel to buyers’ confidence which will continue through 2012.

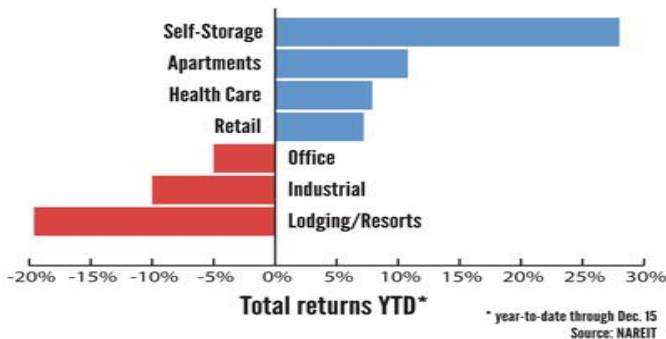
The outlook for self storage is one of optimism. We believe that there are still many opportunities for buyers and sellers alike. We have outlined below a few key points and possible opportunities if you are a buyer or seller in today’s market.

Sellers:

- Single-asset sales are at the highest level since 2007 according to data provided by CoStar. In addition, pricing is also at the highest level since 2008 with an average price per foot of \$72.96 in 2011 (PwC LLP).
- Increased interest in self storage investment is expected to continue, and this will keep the cap rates down and prices near historically high levels as new investors continue to enter the self storage investment space.
- The current U.S. tax structure has capital gains taxes close to an all-time low. No one knows what will happen to the U.S. tax structure, but with an election year upon us, I do know that taking profits when capital gains taxes are near historical lows is not a bad thing. This is worth a call to your accountant to see what your after-tax proceeds would be under the current U.S. tax structure. You might also want to play devil’s advocate and see what your after-tax proceeds would be if the capital gains tax were to increase 5% or 10%.

Self-Storage REIT Returns Stack Up Well

Riding on the strength of improving fundamentals and limited new supply, self-storage REITs outperformed all other REIT property types in 2011.



Owners today are seemingly confident as well, with many of them simply happy to continue to operate their property with little or no motivation to sell. Most owners have survived the recession and with minimal new product being built over the last few years, most owners are enjoying increasing occupancy and firming up rental rates. Owners will continue to enjoy increasing occupancy and rate growth through 2012 due to sound fundamentals and the lack of new competition.

- While most investors are focusing on Class-A facilities, the intense competition for these assets will drive the prices higher for Class-B and even Class-C assets in the year ahead.

- Over the last few years the focus has been on risk aversion. The key component that seems to inspire buyers and their lenders is “core” or “core-plus” assets and low leverage. With a new fiscal year upon us buyers and lenders have received their annual allocations and should be more

receptive to transactions in the “grey area” compared to what we’ve seen over the last few years. This leads me to believe that this is the year to make it happen because we will see asset prices get pushed higher by an increased demand from the buyers to accumulate self storage assets. All of this reminds me of the old real estate saying, “it’s better to buy a year too early than a day too late.”

Sellers/owners today should take a hard look at their investment goals. As we all know, you make more money selling when the time is right than just renting more units and improving the efficiencies of your operation. We are seeing the REITs and other large institutional type buyers having access to a tremendous amount of capital and with the five points outlined above you may be able to reach your investment goals this year.

Self storage buyers today are also presented with a number of compelling scenarios. In the last few years new investors considered dipping their toes in the self storage industry. Now most of them are considering diving head first into the space. With most of these investors experiencing an above average return without all of the volatility that the stock market recently presented, we have seen small and large investors take advantage of the stable nature of self storage industry. We have outlined below five compelling points as to why self storage makes sense in 2012.

Buyers:

- Indicated by the NAREIT chart above, “Riding the strength of the improving fundamentals and limited new supply the self storage industry has out performed all other property types in 2011.” This will continue for the foreseeable future.
- With interest rates for 10 year loans ranging between 4% to 6.5%, depending on the loan to value, and overall cap rates ranging from 6.5% to 9.5%, we are seeing spreads between interest rates and cap rates of 250 to 300 basis points. This “arbitrage” that an investor can enjoy has motivated buyers to take action.
- With the ever-present cloud of inflation hanging over the U.S. economy, we have seen investors find comfort in real estate assets and the flexibility the self storage owners have to raise rents. Keep in mind that this strategy has not always worked out during past inflationary times. Only time will tell how it works out this time around.
- It has occurred to me that it might be insightful to

consider an opportunity the market appears to be presenting today. With the cost of debt for most deals between 5.5% and 6.5% and cap rates hovering between 8% and 9% for class B and C properties, it may be worth your time to do a little math! In chart 1, below I have outlined very basic cash on cash analysis that may be worth considering. Please note that the B/C class property enjoys a 58% greater return than the A-class property.

- With the continued expansion for the U.S. apartment industry and the fall out of the U.S. housing bubble continuing to be volatile, self storage is positioned to capitalize on the increased movement of the U.S. population.

Property Class	Class A	Class B/C
Revenue	\$500,000	\$500,000
Expenses	\$200,000	\$200,000
NOI	\$300,000	\$300,000
Cap Rate	7.50%	8.50%
Value	\$4,000,000	\$3,529,000
Debt Service	\$231,948	\$204,636
Cash Flow	\$68,052	\$95,364
Loan Amount*	\$3,000,000	\$2,646,750
Equity	\$1,000,000	\$882,250
Cash on Cash Return	6.80%	10.80%

Self storage investors/buyers should take a closer look at their investment criteria. I believe that looking outside the box and considering self storage investments that are passed over by some of the larger buyers (due to the investment not fitting the traditional institutional investment criteria) a savvy self storage investor will be able to achieve a meaningful increase in their return on their investment. This will have a compounding effect as the self storage industry continues to strengthen and lead to a very profitable investment for the investor.

Clearly, there is value in understanding what affects cap rates and values in today’s market. Buyers should remember that the seller is not benefiting from the buyer’s new, low interest rate loan which is what is creating the increased cash flow and helping make the buyer’s numbers work. The seller should also make a note that if it is a good time to buy it is also a good time to find a buyer. Barring any natural or financial disaster I believe the market will reach equilibrium in 2012 with buyers and sellers coming together on a number of deals. **MM**

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Property Showcase

Montgomery, AL • \$1,200,000

- 283 Units
- 4 storage buildings; 2 warehouse buildings
- 47,350 +/- RSF
- 3.17 +/- Acres
- Fully fenced with gated access
- Located approximately 1 mile from Maxwell Air Force Base



Bill Barnhill, CCIM
Shannon Barnes, CCIM
 251-432-1287
 barnhill@selfstorage.com
 shannon@selfstorage.com

Romeoville, IL • \$2,400,000

- 449 Units
- 55,100 RSF
- Newer, Class A facility
- Great visibility on I-55
- Gated, fenced & blacktopped
- High upside potential
- Office/residence
- 135,000 cars per day



Bruce Bahrmassel
 312-518-3550
 bbbahr@aol.com

Gravette, AR • \$800,000

- 242 Total Units
- 34,500 Total RSF
- 4.69 Acres
- Rapidly growing Northwest Arkansas location
- Only climate control facility in area
- Room for expansion



Larry Goldman, CCIM
 913-339-0641
 lgoldman@selfstorage.com

Monroe, LA • \$2,650,000

- 354 Units
- 53,120 RSF
- 2.1 Acres
- Located 2 miles from the University of Louisiana at Monroe
- Newer construction
- High traffic count
- Surrounded by apartment complexes and residences



Rickey Lennard
 318-797-1960
 ricklennard@gmail.com

Spring Hill, FL • \$785,000

- 127 Units
- 92 boat/ RV spaces
- 19,650 RSF
- 4.2 +/- Acres
- Great location
- Room for expansion
- High traffic count



Bill Barnhill, CCIM
 251-432-1287
 barnhill@selfstorage.com

Houston, TX • \$1,800,000

- 194 boat/RV spaces
- 100 parking spaces
- 66,000 RSF
- Very stable tenancy and income stream
- Immediate return on investment
- Rates are below competition
- Tremendous upside potential with room for expansion



Bill Brownfield, CCIM
 713-366-3134
 brownfield@selfstorage.com



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Montgomery	\$1,200,000	Bill Barnhill/Shannon Barnes	251-432-1287

Arizona

Lakeside	\$2,600,000	Jeffery A. Gorden	480-331-8880
Sunsites	\$510,000	Jeffery A. Gorden	480-331-8880

Arkansas

Fayetteville	\$2,100,000	Larry Goldman	913-339-0641
Fort Smith	\$1,100,000	Larry Goldman	913-339-0641
Gravette	\$800,000	Larry Goldman	913-339-0641
Siloam Springs	\$1,515,000	Larry Goldman	913-339-0641

California

Chester	\$365,000	Tom de Jong	408-282-3829
Fairfield	Make Offer	Tom de Jong	408-282-3829
Orland	\$2,099,000	Tom de Jong	408-282-3829
Vallejo	Make Offer	Tom de Jong	408-282-3829

Florida

Spring Hill	\$785,000	Bill Barnhill	251-432-1287
Wildwood	\$856,738	Reggie Caruthers	352-748-1182
Wildwood	\$799,000	Reggie Caruthers	352-748-1182

Georgia

Alpharetta	\$2,400,000	Bill Barnhill/Allen Barnhill	770-487-9006
Canton	\$300,000	Bill Barnhill/Allen Barnhill	770-487-9006
Canton	\$650,000	Bill Barnhill/Allen Barnhill	770-487-9006
Columbus	\$900,000	Bill Barnhill/Allen Barnhill	770-487-9006

Illinois

Bloomington	\$2,700,000	Bruce Bahrmassel	312-518-3550
Crete	\$400,000	Bruce Bahrmassel	312-518-3550
Rockford	\$995,000	Bruce Bahrmassel	312-518-3550
Romeoville	\$2,400,000	Bruce Bahrmassel	312-518-3550

Louisiana

Baton Rouge	SOLD!	Ricky Lennard	318-797-1960
Houma	\$2,300,000	Jon Cerruti/David Laney	504-366-6800
Lake Charles	\$1,450,000	Ricky Lennard	318-797-1960
Monroe	\$2,650,000	Ricky Lennard	318-797-1960

Maryland

Baltimore	\$2,300,000	Grady Riggs	301-468-0606
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Michigan

Albion	\$370,000	Jim Soltis	810-494-2062
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Mississippi

Flowood	\$3,500,000	Bill Barnhill/Stuart LaGroue	251-432-1287
McComb	\$1,114,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Vancleave	\$499,000	Bill Barnhill/Shannon Barnes	251-432-1287
Vicksburg	\$550,000	Bill Barnhill/Shannon Barnes	251-432-1287
Walls	\$784,000	Bill Barnhill/Stuart LaGroue	251-432-1287

Missouri

Farmington	\$2,950,000	Larry Goldman	913-339-0641
Sedalia	\$675,000	Larry Goldman	913-339-0641
St. Joseph	\$650,000	Larry Goldman	913-339-0641

New Hampshire

Claremont	\$305,000	Joe Mendola	603-668-7000
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New Jersey

Pemberton	\$975,000	Linda Cinelli	908-722-5661
Pennsauken	\$1,500,000	Linda Cinelli	908-722-5661

New Mexico

Las Cruces	\$650,000	Noel Woodwell	915-491-9610
Santa Fe	\$3,635,741	Joan Lucas/ David Etzold & Noel Woodwell	720-855-6587 915-845-6006

New York

Hicksville	\$4,200,000	Linda Cinelli	908-722-5661
Islip	\$3,600,000	Linda Cinelli	908-722-5661
Lynbrook	\$2,895,000	Linda Cinelli	908-722-5661
Middletown	\$590,000	Linda Cinelli	908-722-5661
Middletown	\$450,000	Linda Cinelli	908-722-5661
Peekskill	\$8,000,000	Linda Cinelli	908-722-5661
Port Jervis	\$1,600,000	Linda Cinelli	908-722-5661
Yorktown Hgts	\$2,750,000	Linda Cinelli	908-722-5661

North Carolina

Chapel Hill	\$3,650,000	N.J. "Joey" Godbold	704-632-1027
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Oklahoma

Commerce	\$699,000	Larry Goldman/ Jared Jones	913-339-0641 918-665-1210
Hugo	\$1,850,000	Jared Jones	918-665-1210

Pennsylvania

Bechtelsville	\$1,350,000	Chuck Shields	610-828-0100
Glen Mills	Call Broker	Chuck Shields	610-828-0100
Matamoras	\$1,100,000	Linda Cinelli	908-722-5661

South Carolina

Camden	\$895,000	N.J. "Joey" Godbold	704-632-1027
Lexington	\$345,000	P. John DeStefano	843-406-7979
Summerville	\$3,900,000	P. John DeStefano	843-406-7979
Summerville	\$1,600,000	P. John DeStefano	843-406-7979

Tennessee

Church Hill	\$1,550,000	Mack Browder	901-758-5670
Johnson City	\$450,000	Mack Browder	901-758-5670

Texas

Canutillo	\$575,000	David Etzold	915-845-6006
Canutillo	\$625,000	David Etzold	915-845-6006
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Fort Worth	Call Broker	Richard Minker/TylerTrahan	817-335-5600
Gonzales	\$3,200,000	Bill Brownfield	713-366-3134
Horizon City	\$350,000	Noel Woodwell	915-491-9610
Houston	\$1,800,000	Bill Brownfield	713-366-3134
Houston	\$1,049,000	Bill Brownfield	713-366-3134
Katy	Call Broker	Bill Brownfield	713-366-3134
Missouri City	\$2,500,000	Bill Brownfield	713-366-3134
San Antonio	Call Broker	Bill Brownfield	713-366-3134

Wisconsin

Egg Harbor	\$289,000	Chris Hitler	262-236-0612
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