



SELF STORAGE SALES NETWORK

Broker Roundtable:

The North Central States

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by Michael L. McCune

*Our Roundtable of experts gathered this month to discuss the North Central United States. Let's hear what our local experts have to say about their respective cities and regions. Our North Central Brokers: **Larry Goldman**, CCIM (Prudential CRES Commercial Real Estate) in Kansas City, MO; **Pat Jordan** (Jordan Realty, Inc.) in Minneapolis, MN; **Peter Hitler** (Investment Real Estate Specialists) in Mequon, WI; **Bruce Bahrmassel** (LandStar Realty Group) in Chicago, IL; **Bob Randklev** (Skogman Commercial Real Estate Group) in Cedar Rapids, IA; and **Dave Smith** (RE/MAX Commercial Midwest) in Omaha, NE join us in this survey.*

1. How are buyers and sellers in your region reacting to the current unsettled investment markets?

Goldman: Buyers and Sellers are both concerned about tougher underwriting standards and rising long term interest rates, as there is a smaller universe of lenders chasing their projects. Specifically, sellers are concerned about the diminishing of value of their projects due to lower interest rates driving capitalization rates higher.

Jordan: Buyers are still shopping and Sellers are reluctant to consider selling, believing that inflation will raise the value of their properties, even if cap rates need to decline. There is a segment of Buyers and Sellers who are waiting until after the presidential election before they make any further financial decisions.

Smith: Basically, everyone is taking a wait and see attitude. Many owners are talking about building new facilities or expanding existing ones, but are waiting until after the elections to commit. There is much anxiety about capital gains taxes, and many owners are saying that if they do sell, they will pay the taxes at a known rate rather than defer to an unknown situation.

Bahrmassel: Buyers seem to be waiting on the sidelines more than last year. The idea that they better act now before someone else gets it has been totally replaced with the notion to wait longer because prices may not have bottomed yet. Sellers have been less flexible in their attitudes to a changing market and still wish to price their properties on lower cap rates than buyers are willing to buy at. Some have tried to maximize value by offering some degree of seller financing.

Hitler: Buyers and Sellers are very cautious. We have had several requests for storage valuations which indicate that owners are thinking about selling and planning their retirement. Buyers appear to be looking for under-valued facilities which are not on the market at this time.

Randklev: We've had a very busy first half of 2008 but most of the activity has been in multi-family apartments. I don't know that the buyers/sellers are overly concerned as

rates are still low. Yes, the volatility has increased cap rates and reduced values but many feel this is a market correction not something to fear as a market fall out.

2. What trends are you seeing with storage facilities in your area having to use rent concessions or incentives to attract and keep customers? Is this a change from years past?

Jordan: I'm unable to determine that there has been any significant change regarding rent concessions, etc. now, or from years past, since demand for self storage is more driven by life events than by the business cycle. In the Minneapolis area, we are seeing that good, consistent marketing is more effective than rent concessions.

Goldman: In western Missouri and Kansas, the slowdown of new development due to stricter loan underwriting and sky rocketing construction costs are boosting occupancies of existing facilities. As the occupancies increase, rent concessions are being reduced in those facilities. Other demand factors such as the relocation of families that have lost their homes, fewer people buying homes and other recession driven issues, are boosting demand.

Randklev: Personally our facility is still averaging 98% occupancy as are many in our local area. Location of the facility still remains one of the most important factors as renters will be within 20-30 minutes of your facility. We are not seeing any rent concessions or incentives.

Smith: In Nebraska, there do not seem to be a lot of concessions driving self storage rentals, it is pretty much business as usual.

Hitler: At our recent Wisconsin Storage Association meeting I asked owners about their occupancy. The majority of owners thought their business was as good if not better than a year ago at this time. The same group was asked if they had raised prices in the past year and the majority of owners said they had raised prices. This would indicate that the market in our area has remained strong despite the economic downturn.

Bahrmassel: Facility owners in Illinois are being more active in trying to attract new customers. Rent concessions and other offers, i.e. free trucks for move-ins or free first months are being advertised in areas that have significant competition. On the other side of the equation, owners have expressed the need to more aggressively monitor collections.

3. We are seeing many multi-facility owners in the market buying facilities. Are the big buyers dominating purchases in your market?

Bahrmassel: The multi facility owners seem to be the more active purchasers in this segment of the market today. Perhaps this because 1031 money has become nearly non-existent, and therefore buyers who are migrating into the storage business from other areas of the real estate market have fallen off. The buyers now are trying to fit

acquisitions into their plan rather than having to compete with newcomers into the market.

Randklev: There haven't been enough sales in our market to answer this question but we are a tier 6 market so there aren't many big buyers to dominate.

Smith: When a facility is sold, it is generally to an owner who already owns a self storage facility. Even in the smaller markets, the larger owners will look at property quite a distance from where they are already established.

Jordan: The big buyers continue to dominate purchases the Twin City and metro area markets.

Hitler: Wisconsin does not have many multi-facility owners that are based out of state. Buyers here may have more than one facility but are small in comparison to a national based operation.

Goldman: While there is increasing consolidation among the multi-site owners, 1031 buyers trading out of other property types are still the most active buyer profile.

4. On a local level, are you seeing more financing from local banks, or from the conduit lenders?

Hitler: I have not heard of any conduit lending in our area. Local banks are anxious to lend on storage facilities, but are careful in their criteria for approving the loan.

Bahrmassel: Local lenders have been the main source of available financing in the Illinois/Indiana markets. In some cases the larger banks have either quit quoting on self storage, or if they are, their rates are not competitive. Everyone we talk to about conduit lending has said that for now that well has dried up.

Smith: Local banks are still the source of funding for most purchases and construction.

Goldman: Conduits are still on the sidelines and probably will be for at least another year. In the meantime, local banks are benefiting from their absence.

Jordan: In Minnesota, financing is primarily by local banks. One banker that I spoke with this week stated that they are not looking to do loans for anyone unless they are already a customer with the bank.

5. What impact have the credit problems had on cap rates in your area?

Hitler: I think the slow down in the economy has affected cap rates in Wisconsin. Since Buyers are more cautious and lenders have raised rates, cap rates have to rise. Sellers have been slow to recognize that prices have come down to some extent.

Goldman: Cap rates are still on the low side for the time being, but will most certainly rise in the not so distant future. That uncertainty, coupled with the increasingly complex challenges of facility management, is driving some owners to consider selling.

Jordan: I'm unable to determine that credit problems have impacted cap rates in Minnesota.

Smith: We have seen very little impact in Nebraska on cap rates thus far.

Randklev: Cap rates in Iowa have increased a little, but with rates staying low it keeps cap rates down.

Bahrmassel: When lending was freer, there were more available buyers searching to finance projects with cheap, highly leveraged funds. Cap rates have compressed, if not in tandem, at least closely following interest rates. While interest rates still remain low, tightening credit and underwriting standards have meant that projects need to generate more cash to get sold and need to be based on actual dollars produced rather than projections.