



SELF STORAGE SALES NETWORK

Market Monitor

“America’s Premier Self Storage Brokers”

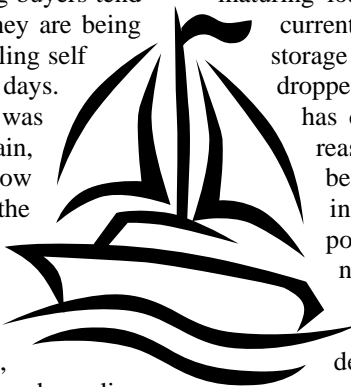
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Just the Doldrums?

Time to get your compass out!

by Michael L. McCune

The doldrums are certainly present in today’s real estate markets, including self storage. The winds are quiet. Sellers are hoping to get yesterday’s prices and most of the very aggressive buyers of a year ago are long gone. The remaining buyers tend to be very experienced self storage owners and they are being very cautious. Thus the market for buying and selling self storage is slower and a lot more difficult these days. When the sailors hit the doldrums they all knew it was just a matter of time before the winds picked up again, but they also worried which way the wind would blow them when it started. Interestingly, that is also the case with our real estate market now. The major questions are: when will the wind blow, in which direction will it blow, and how strong will it be when it comes? History tells us that real estate cycles are almost always longer than we expect, and the normal cycles are usually about three years depending on the location. However, brutal experience reminds me that they can last much longer.



There are many economic issues that have all of us concerned about the future, including inflation, trade deficits, energy costs, recession, elections, credit crunches, foreclosures...well, you get the idea. While this article can’t give you the answer about what happens next, I really think it is important to know where you are today so you can react properly as directions in the economy and the real estate markets unfold in the future.

In the last Market Monitor, we gave you some advice about doing the Annual Checkup Report on the competitiveness of your facility in your local marketplace. If you haven’t done the checkup yet, this is a wonderful time to do it. Additionally, I think it is also good to get a check on what the value of your facility is in today’s market. I am often surprised at how many owners don’t have a very close watch on their property’s value and aren’t aware that the value can change dramatically in a short time even though the income remains the same. If the real estate taxes, utilities, or other expenses go up, the value goes down by about eight dollars for every dollar of increase. Likewise, if the revenue goes down, the value declines in the same ratio. If the net operating income remained exactly the same as last year, the property would have declined in value by about 12% just because of the changes in the marketplace cap rates – the rate investors will pay for the earnings from real property.

If you have a loan on the property and the maturity date is within the next two or three years, learning the value of your property is critical in deciding when or how to refinance the maturing loan. Just as a side note on refinancing, we are currently in the fortunate situation that financing for self storage is generally available. The Federal Reserve has dropped rates to help clear up the “credit crunch” which has caused the rates for real estate loans to be in a reasonable range. The catch is that the lenders are not being as generous with loan amounts. Now that inflation is becoming a serious threat, the Fed’s position on lower interest rates might change in the near future. The regulators have also begun to discourage some banks from making more real estate loans. The value of your property determines the amount of your loan and the underwriting requirements have now become much more stringent. In today’s world, loan proceeds will max out at about 70% to 75% of the value of the property and miscellaneous terms will be more rigorous as well.

How do you learn the value of your property? The easiest way, and we believe the best way, is to call your local Argus Broker Affiliate and ask them to give you an estimate of the value. In addition to some math, there is also an art to the business of valuation that our professionals work with every day. An Argus Broker Affiliate will be glad to help you at no cost or obligation and will be able to adjust the valuation for any unusual or special circumstances specific to your property. The next best way is to send us an email with your name and the property’s address to valuation@selfstorage.com and we will send you a worksheet that you can print out or download to your computer. We will also provide you with a series of questions about characteristics of your property that could materially change the value described by the general worksheet. This worksheet will give you a rough idea of the value of the property, but you should check it in detail with a professional before making any decisions that rely on the value. Our brokers are available to discuss the worksheet with you at any time.

One of the best things you can do to beat the doldrums is to prepare your sails! **MM**

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