



SELF STORAGE SALES NETWORK

Market Monitor

"America's Premier Self Storage Brokers"

Issue IV-2009

Now That We Have "Green Shoots," is the Recession Over?

by Michael L. McCune

Before I start to prognosticate about the future, let me first tell you what we are now seeing in the marketplace and what owners are telling us about their situations. We'll discuss the good news first.

The Basic Self Storage Rental Business:

After reviewing the 2008 and first quarter 2009 reports for the self storage REITs as well as a survey of many of our clients, the basic self storage business of renting units is, in my estimation, doing pretty well considering the draconian economic climate! Most of the REITs were very close to, or even in some cases, a little ahead of the game as to both revenue and NOI for the first quarter of 2009. A survey of our own clients revealed that very few owners are having serious "operating revenue" problems where their markets are stable, although delinquencies were up somewhat. On the other hand, few owners were experiencing much growth in revenues or rental rates. Many new properties are leasing up very slowly which probably indicates that new rental demand, in general, is weak. Apparently, the old self storage saying; "Build it and they will come," is seriously impaired. Renters are more willing to stay put, but potential renters are less likely to rent a unit. I think, at worst, the old adage that self storage is "recession proof" is more like "recession resistant," but even that is really good for our team!

The Real Estate Side of Self Storage:

This is the part that is not good news. The problems fall into three general topics: pricing, old debt/new debt and the market.

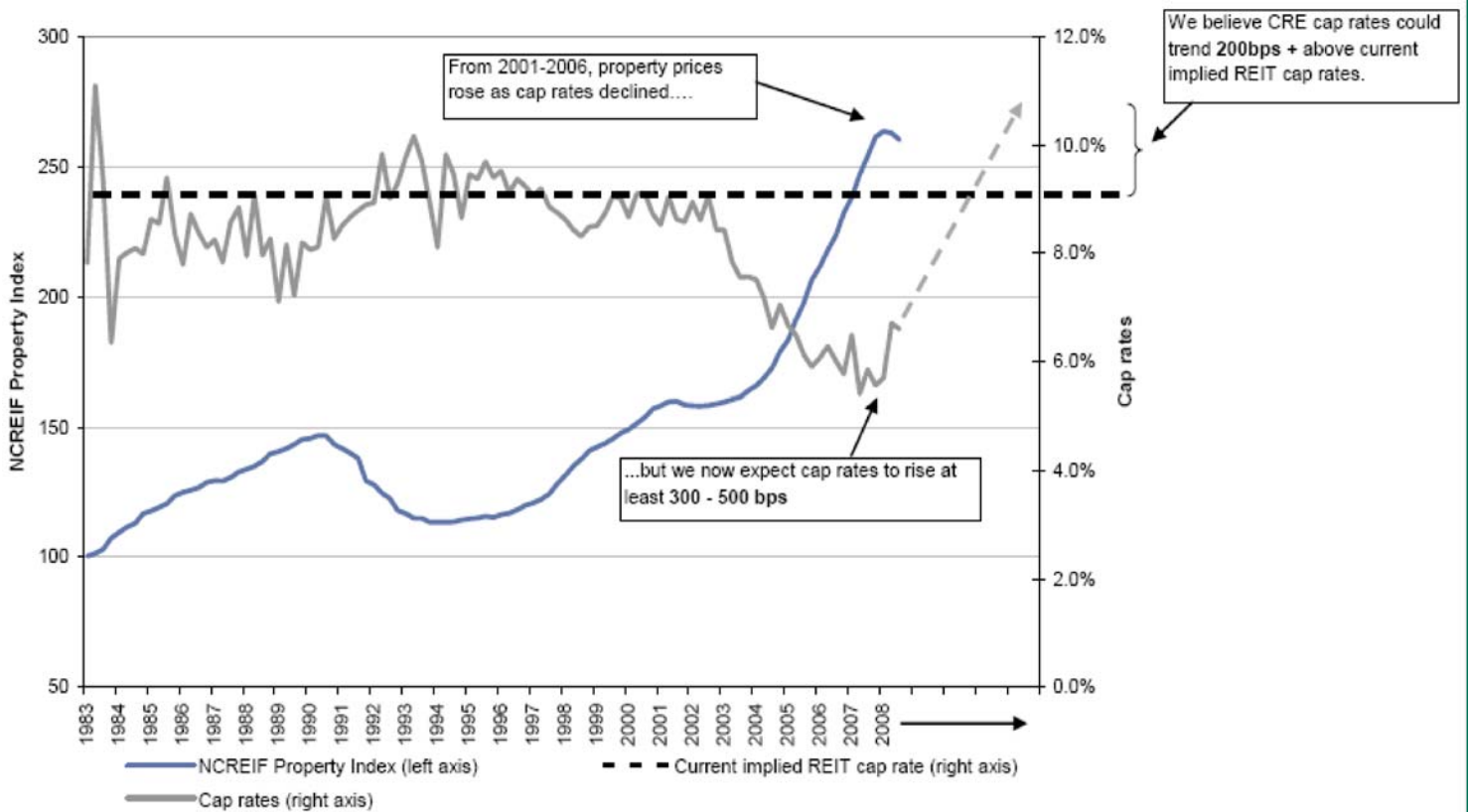
Pricing: As many of you know, real estate pricing depends on the "market capitalization rate" (cap rate) at which the income of the property is discounted. The lower the cap rate, the higher the price, which of course makes the reverse true as well. Cap rates for the entire commercial real estate market were at long term historic lows (meaning higher prices!) from early 2005 to late 2007. In addition to cap rates declining dramatically, the property's appraisals were also being increased by adding *anticipated* higher rents and higher occupancies into the income that was being capitalized into the value of the property. The traditional cap rate model for valuation was (and is once again) that the NOI (net operating income) was based on the "trailing twelve" months of actual income. Thus prices were inflated by both the lower cap rates and the positive assumption of future rents. Just to give you a little perspective, in 2006 it would not have been unusual to see a property with a \$200,000 Net Operating Income (NOI) and 10% "anticipated" increases in rent, be valued on a 7% cap rate and thus valued at \$3,190,000. Today, the cap rate would be in the range of 8.5% to 11.5% (more on this later). Just to use a number, let's assume the cap rate is 9.5% and that the NOI is actually down 7%; the value of the same property is now \$1,900,000, a loss of 40%. The same general pricing rules apply to all commercial real estate, except that revenues in other types of real estate are down much more than self storage. All in all, self storage pricing is holding up better than other real estate categories. However, this isn't much consolation to self storage owners that have seen their values and equity decrease. The question is: will cap rates go back down? This is for you to decide, but in the last 60 years, cap rates were never this low and Chart I from Goldman Sachs on the following page would suggest that cap rates may actually go up more.

Old Debt/New Debt: The nice thing about "old debt" was that it was cheap, plentiful and easy to obtain. The problem with old debt is that it eventually matures and it sometimes prohibits a sale of the property until maturity of

(continued)

Chart I

Historical and expected cap rates relative to private CRE values



Source: NCREIF. Goldman Sachs Research estimates

the loan which limits owners' flexibility. At the height of the CMBS loans, money was very inexpensive, sometimes as low as 4.5% to 5%, and no loan amount was too much; all it took was a call to just about any bank or mortgage broker. This happy confluence of circumstances caused many owners to over-leverage (a polite way to say they borrowed too much) by getting too large of a loan for their property. Thus, many owners are now "locked" into these loans for the duration of the loan term and can neither sell nor refinance their property. Unfortunately, given the current situation in the lending world, it is very unlikely that many loans that were financed before 2008 could be totally refinanced today. The new lending standards would reflect the new valuations and the loan to value ratios have also declined from about 80+% to 65% (on a very good day), and interest rates have also increased about 1.5%. Additionally, the amortization periods will likely be shorter and there aren't many "interest only loans." The lack of available loans is a very serious problem for buyers as well, because in essence, the lenders are setting the maximum price.

As if all of the above problems were not enough, it is also clear that debt issues will not get resolved any time in the near future. As Charts II and III suggest, the problem of over-leveraged mortgages will continue to plague the market of debt and equity for years to come. These charts from Goldman Sachs indicate that for the next few years the demand for funds to refinance loans is going to be tremendous and the only lenders are likely to be the remaining banks.

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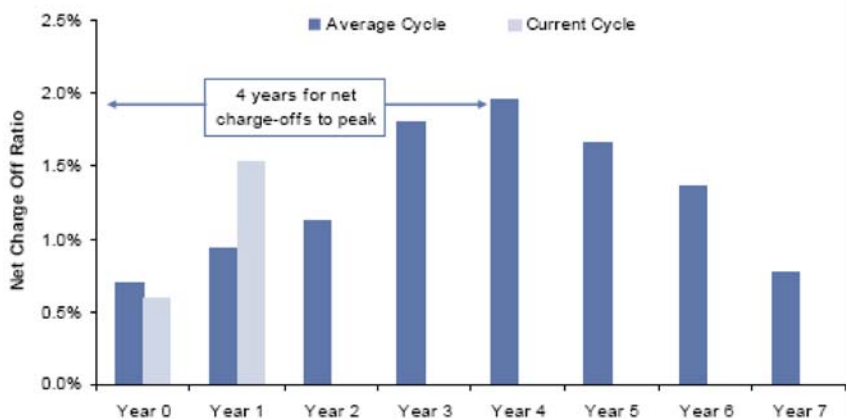
Chart II

High level of future CRE refinancings



Chart III

Additional charges to continue for lenders



As Chart III shows, these banks have their own problems in that they may “write down” (lose) large amounts that may actually impair their ability or willingness to loan more. Further exacerbating the problem is that the holders of the current debt know (as you now know) that the debt is not really worth its face value. Their current solution is not to face the problem directly and take their losses, but to “kick the ball down the road” by making a short term deal with the borrower and hope that things get better in the future. Sometimes that works and sometimes it doesn’t, but this is what’s happening.

The Market: As brokers, the market is where we live every day – all day. What we are finding in the market is that both buyers and sellers are deeply uncertain about the future. This uncertainty creates fear and greed for both sellers and buyers. Of course, this is not the greatest scenario for agreeing on a price for buyers and sellers. What we have found is that sellers do not want to accept the fact that property values are down because they believe their facility is still performing or “will come back quickly.” The buyers, who are almost all now current owners, think the market may go down further or they are thinking, “I can drive a hard bargain,” and the sellers are saying, “But I have this appraisal from 2007!” Also, the appraisers are not helping identify the appropriate “Market” cap rate or values, not because they don’t want to, but because comparable information on past sales is scarce and very likely out of date in the rapidly changing market. Information is also sparse because there have been so few deals in any one market over the last six months. Clearly, all this is a problem not only for buyers and sellers but for brokers that advise them in these difficult times. Our approach is that sellers should first understand their reasons for selling. Is it simply fear, or do you have a personal reason for selling (retirement, health, etc.)? Is it that you know that your property is in a declining market? Is your debt more than the property is worth? When you answer these questions you will have a better idea of what you should do. However, if you make up your mind to sell, then you must accept that the values available in the market today will likely set the price, and that lenders for the buyers may be even more difficult than the buyers themselves. This doesn’t mean that you must accept the first buyer’s offer, but you should know that qualified buyers are scarce and you should be willing to negotiate.

While the market is very slow and still not very consistent in pricing, we are beginning to see some very modest convergence in selling prices reflected in a narrower spread of cap rates. The rates, and thus prices, are **highly** dependent on location, market and quality! The actual values of sales we are seeing at this time often tend to be in the 9% to 10% cap rate range. However, we have seen sales at 8% cap rates and some as high as 11%. You should know that cap rates are still very volatile and may still be trending generally higher according to some analysts. However, if someone tells you that they know what **THE** “current” cap rate is, you can be sure that they don’t know for sure.

Summary: Fortunately, self storage is probably the best kind of real estate to own right now. Given the miserable performance of all other commercial real estate, this is now merely a consolation prize. However, for the longer pull, we are very optimistic about our industry. This contraction of this highly speculative real estate market, funded by grossly errant, greedy lenders will bring constrained funding for new projects and thus allow markets to adjust to new realities. The performance of the self storage business in the worst downturn in the last 80 years has shown that the concept of self storage, as a business, has proved itself quite adept at competing and remaining profitable in the marketplace. This bodes well for the future of our industry. Ultimately, the real estate side of the business will also reach equilibrium; at least, it always has! **MM**



Property Showcase

Superior, CO • \$1,400,000

- 98,255 Proposed RSF
- 783 Proposed Units
- 4.965 Acres
- Fully approved development opportunity for Class "A" Facility
- Great opportunity in an under-served market along Denver/Boulder corridor

Joan Lucas 720-855-6587



Hollywood, SC • \$3,450,000

- 44,075 Proposed RSF
- 337 Proposed Units
- 3 Acres
- Self storage development site
- Developer offering 18 month rent guarantees

P. John DeStefano 843-406-7979



Sugar City, ID • \$2,600,000

- 43,900 RSF and 231 Units on 4.24 Acres
- New Facility!
- Six 3,000 SF business condos with overhead door office and bathroom
- U-Haul truck rental and supplies

Larry Hayes 406-728-0088



Moncks Corner, SC • \$1,200,000

- 87,835 Proposed RSF
- 6 Acres
- Self storage development site ready for construction
- Approved for up to 90,000 SF

P. John DeStefano 843-406-7979



Nixa, MO • \$1,820,000

- 58,280 RSF and 352 Units on 4.08 Acres
- Renovated in 2008
- Strong demographics
- Office and apartment on site

Larry Goldman 913-339-0641



Summerville, SC • \$4,200,000

- 23,150 RSF and 179 Units on 10 Acres
- New facility with room for expansion
- 6 bay carwash on site
- Partial seller financing

P. John DeStefano 843-406-7979



Kalispell, MT • \$1,200,000

- 15,240 RSF and 97 Units on 4.58 Acres
- Land for Expansion
- Desirable 3-bedroom, 2-bath home on site
- Close to Glacier Park, Flathead Lake, Big Mountain ski area

Larry Hayes 406-728-0088



Summerville, SC • \$1,500,000

- 20,700 RSF and 151 Units on 3 Acres
- New facility with good lease up velocity
- Room for expansion
- 78 RV/Boat spaces

P. John DeStefano 843-406-7979



Las Cruces, NM • \$1,399,722

- 36,149 RSF and 290 units on 1.33 Acres
- Priced \$200,000 below 2002 appraisal
- U-Haul dealership on site
- Centrally located in Las Cruces, NM


David Laney 505-286-2060



Concrete, WA • \$2,750,000

- 33,053 RSF and 235 Units on 4.6+/- Acres
- Class "A" Facility
- Apartment and office building onsite provide additional income

Ryan Layton 509-435-2424



Kingston, NY • \$2,500,000

- 41,200 RSF and 275 Units on 2.9 Acres
- New Class "A" Facility
- Superior location with high traffic and visibility
- Fenced, gated and lighted

Guy Blake 845-522-5900



SPOKANE, WA • \$6,100,000

- 94,774 RSF and 563 Units on 5.08+/- Acres
- One of the marquee storage facilities in Spokane
- Room for Expansion
- Well-managed, stabilized investment with historically high occupancy

Ryan Layton 509-435-2424





Sells Self Storage Nationwide!

- Over \$160 million in self storage properties currently for sale
- Prices range from \$450,000 to over \$28 million to meet the needs of every buyer
- Check out our current inventory of 85 properties listed in 27 states and contact the listing broker for more information or visit www.selfstorage.com!

Alabama

Andalusia	\$981,900	Bill Barnhill/Stuart LaGroue	251-432-1287
Mobile	\$385,000	Bill Barnhill	251-432-1287

Arizona

Lake Havasu	\$2,240,026	David R. Laney	888-602-3335
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Arkansas

Fort Smith	\$1,050,000	Barney Lehmbek	405-627-5481
Gravette	\$800,000	Larry Goldman	913-339-0641
Pine Bluff	\$450,000	Barney Lehmbek	405-627-5481

Colorado

Cortez	\$1,400,000	Joan Lucas	720-855-6587
Englewood	\$2,690,000	Joan Lucas	720-855-6587
Mead	\$925,000	Joan Lucas	720-855-6587
Superior	\$1,400,000	Joan Lucas	720-855-6587

Florida

Gulf Breeze	\$3,695,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Jacksonville	\$6,750,000	Frost Weaver	904-733-0039
MacClenny	\$460,000	Frost Weaver	904-733-0039
Pensacola	\$4,200,000	Bill Barnhill/Shannon Barnhill	251-432-1287

Idaho

Sugar City	\$2,600,000	Larry Hayes	406-728-0088
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Iowa

Mason City	\$1,350,000	Bob Randklev	319-533-6927
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Illinois

Antioch	\$2,000,000	Bruce Bahrmassel	312-518-3550
Chicago	\$3,600,000	Bruce Bahrmassel	312-518-3550
Elgin	\$1,550,000	Bruce Bahrmassel	312-518-3550
Hebron	\$1,350,000	Bruce Bahrmassel	312-518-3550
Kankakee	\$2,000,000	Bruce Bahrmassel	312-518-3550
Mt. Olive	\$599,000	Bruce Bahrmassel/ David S. Johnson	312-518-3550 314-862-3000
Rockford	\$825,000	Bruce Bahrmassel	312-518-3550
Savanna	\$1,890,000	Bruce Bahrmassel	312-518-3550

Indiana

Roachdale	\$299,000	Bruce Bahrmassel	312-518-3550
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Kansas

Junction City	\$2,600,000	Larry Goldman	913-339-0641
Kansas City	\$2,300,000	Larry Goldman	913-339-0641

Kentucky

Crestwood	\$1,640,000	Mike Helline	502-253-1811
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Louisiana

Denham Springs	\$4,250,000	Jack Stumpf	504-366-6800
Metairie	\$1,695,000	Jack Stumpf	504-366-6800

Maine

Woolwich	\$1,490,000	Joe Mendola	603-668-7000
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Maryland

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

Flowood	Call for Price	Bill Barnhill/Stuart LaGroue	251-432-1287
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Missouri

Belton	\$1,990,000	Larry Goldman	913-339-0641
Farmington	\$3,350,000	Larry Goldman	913-339-0641
Joplin	\$900,000	Larry Goldman	913-339-0641
Nixa	\$1,820,000	Larry Goldman	913-339-0641
Ozark	\$1,600,000	Larry Goldman	913-339-0641
Ozark	\$465,000	Larry Goldman	913-339-0641
Sedalia	\$950,000	Larry Goldman	913-339-0641
St. Joseph	\$1,250,000	Larry Goldman	913-339-0641

Montana

Kalispell	\$1,200,000	Larry Hayes	406-728-0088
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New England

10-Property Portfolio	\$28,322,287	Joe Mendola	603-668-7000
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New Hampshire

Hampton Falls	\$4,400,000	Joe Mendola	603-668-7000
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New Jersey

Egg Harbor Twp.	\$1,650,000	Linda Cinelli	908-722-5661
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New Mexico

Alamogordo	\$800,000	David R. Laney	505-286-2060
Artesia	\$579,700	David R. Laney	505-286-2060
Belen	\$750,000	David R. Laney	505-286-2060
Eunice	\$595,000	David R. Laney	505-286-2060
Eunice	\$650,000	David R. Laney	505-286-2060
Gallup	\$2,225,000	David R. Laney	505-286-2060
Las Cruces	\$1,399,722	David R. Laney	505-286-2060

New York

Ft. Edward	\$479,000	Guy Blake	845-522-5900
Kingston	\$2,500,000	Guy Blake	845-522-5900
Lowville	\$499,900	Guy Blake	845-522-5900

Pennsylvania

Bechtelsville	\$1,350,000	Chuck Shields	610-828-0100
Drexel Hill	\$1,600,000	Chuck Shields	610-828-0100

South Carolina

Hollywood	\$3,450,000	P. John DeStefano	843-406-7979
Moncks Corner	\$1,200,000	P. John DeStefano	843-406-7979
Summerville	\$4,200,000	P. John DeStefano	843-406-7979
Summerville	\$1,500,000	P. John DeStefano	843-406-7979

Texas

Arlington	\$1,350,000	Richard Minker/Tyler Trahant	888-7-MINKER
Arlington	\$650,000	Richard Minker/Tyler Trahant	888-7-MINKER
Arlington	\$600,000	Richard Minker/Tyler Trahant	888-7-MINKER
Fort Worth	\$600,000	Richard Minker/Tyler Trahant	888-7-MINKER
Fort Worth	\$825,000	Richard Minker/Tyler Trahant	888-7-MINKER
Lubbock	\$1,390,000	Barry Comiskey/John Owens	806-797-3231
Mesquite	\$700,000	Richard Minker/Tyler Trahant	888-7-MINKER
Princeton	\$695,000	Richard Minker/Tyler Trahant	888-7-MINKER
Texarkana	\$860,000	Richard Minker/Tyler Trahant	888-7-MINKER

Virginia

King George	\$1,400,000	Grady Riggs	301-468-0606
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Washington

Concrete	\$2,750,000	Ryan Layton	509-435-2424
Spokane	\$6,100,000	Ryan Layton	509-435-2424

We are pleased to welcome the following new Broker Affiliates to the Argus Self Storage Sales Network!



P. John DeStefano of Commercial Investment Group, LLC is located in Charleston, SC. He has been a commercial real estate broker since 2001, specializing in income producing properties, commercial development, and self storage brokerage, development and management. Commercial Investment Group is recognized as the "go to" real estate firm in its local market for self storage brokerage, acquisitions and development. John can be reached at 843-406-7979 or pjd@cominvestgroup.com.

Allen Barnhill of Omega Properties, Inc. will be representing Argus in the state of Georgia. He has 20 years experience in real estate investment and self storage. As a partner with fellow Argus affiliate Ron Mitchell, Allen successfully developed and owned two all climate-controlled self storage facilities in Alabama and Florida totaling over 280,000 square feet of space from 1995 through 2005. Allen can be reached at 770-487-9006 or allen@selfstorage.com.



Stuart Ripley of Business Team in Roseville, CA comes to Argus with a multi-faceted real estate background. A former self storage owner, Stuart is currently a business broker with Business Team, a division of BTI Group, active in M&A. With over 30 years as an active California Real Estate Broker, he belongs to California Association of Realtors and National Association of Realtors. Stuart represents Argus in Northern California and can be reached at 916-774-9000 or sturip28@yahoo.com.



Congratulations to Bruce Bahrmassel of LandStar Realty Group on the SALE of Michigan City Self Storage in Michigan City, IN!



Contact an Argus Broker Affiliate

NORTHEAST

Guy Blake, CCIM
Linda Cinelli, CCIM, CEA
Joseph Mendola
Chuck Shields

Company

Pyramid Brokerage Company
LC Realty
NAI Norwood Group
Beacon Commercial Real Estate

Phone

845-522-5900
980-722-5661
603-668-7000
610-862-1645

Territory

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