



SELF STORAGE SALES NETWORK

Market Monitor

“America’s Premier Self Storage Brokers”

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Are These the Good Times? *Maybe, If You Are a Buyer!*

by Michael L. McCune

Cap rates are up, prices are down, interest rates are just a little higher, competition is down and best of all, Cash on Cash returns - the Holy Grail of investing, are up!

It certainly appears to us that there may be some real opportunities for experienced self storage owners to pick up some nicely priced, quality built, well-occupied properties, earn a handsome cash on cash return, and yet have significant upside potential when the market improves. However, it is not a time for amateurs. You really need to understand the self storage business to be sure that the underlying business value is there.

Many of you may ask, “Is this the bottom?” My answer is that I don’t know and probably neither do you! On the other hand, we now know for sure it isn’t the top either. The real questions to be answered are: 1) Is the facility one that will maintain economic viability well into the future or 2) can the facility be improved or better managed to secure long term viability? 3) Is the cash on cash return significant enough to warrant the current investment? 4) Are you comfortable that you have the experience and knowledge to recognize the risks and potentials of the investment and the talent to manage the property in an effective manner? As you answer these questions listen to both your “gut” and your “brain” and make sure they both answer YES before you decide.

Before you assume that I am crazy, let me show you some numbers that illustrate the difference between Early 2007 and Mid-2008 respecting the paradigms that have I listed above.

	Early 2007	Mid 2008
Revenue	\$300,000	\$300,000
Expenses	\$100,000	\$100,000
NOI	\$200,000	\$200,000
Cap Rate	7.25	8.5
Value	\$2,758,620	\$2,352,941
Loan to Value	80%*	70%*
Loan Amount/Rate	\$2,206,896 / 6.0%	\$1,647,058 / 6.5%
Equity	\$551,700	\$706,000
Debt Service Payment	\$170,400	\$133,400
Cash Flow	\$29,600	\$66,600
Cash on Cash Return	5.3%	9.4%

*Note: Cap rates and available loan terms are generally consistent with A- properties in the respective time frame.

As you may have noticed in the example, the price is down, the loan is smaller, the relative leverage is down and the cash on cash return on equity is up a whopping 77% to **9.4%** - not a bad tax sheltered return. The only negative is that the equity requirement is up, but then again, you are earning a great return on the equity and that is really the name of the game! Also there is the

nice advantage that if cap rates go back down, at the same income the facility will produce a \$400,000 increase in value – a 57% return on your new larger equity.

Take a moment to think about what will happen if this isn't the bottom and prices go down further. First, your returns will not change and all of the positive things mentioned before will remain true. Not a bad outcome for being partially wrong on the timing! However, there is one possible serious downside to waiting too long to see if prices go down further. Think for a minute about the potential of inflation going up and the Federal Reserve aggressively raising interest rates in earnest or the banks really tightening up on lending and rates. Take it from a guy who had a construction loan ticking off at 19% in 1983 - you won't be impressed about finding the bottom!

One last item - most people (in fact very few) who own self storage do not sell because of changes in the market. They sell for any one of many personal reasons; retirement, relocation, illness, divorce, etc. This means that there are usually many fine performing properties on the market at any given time. Please take a look the listings in this month's Market Monitor and see if there is a project that you would like to consider.

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