

INVESTMENT



REAL ESTATE

insight

SPECIALIZING SOLELY IN SELF STORAGE

JULY/AUG/SEP 2008

SERVING: THE NORTHEASTERN AND MID-ATLANTIC STATES

TAKING A GLANCE AT THE SELF STORAGE MARKET

Answers to these questions have been given by John H. Gilliland, president, Investment Real Estate.

We've been receiving many questions in our office about self storage these past few weeks. We've asked John to comment on them, as he has returned from the latest Self Storage Association meetings and has met with many of the people in the industry. Here are a few of the questions we've received:



Q: I hear financing is tight. What are you seeing in the Northeast and Mid-Atlantic states? Where's my best place to find financing to purchase a self storage project?

A: Commercial Mortgage Backed Security (CMBS) loans are no longer available. The only long-term, non-recourse fixed rate is from life insurance companies. Current rates are 6 – 6-1/2%, but they are 60% LTV. The best source is your local bank, but you will have to search. Only one-half the banks out there have an appetite for commercial loans right now. Interest rates are volatile. As of Sept. 18, rates were 6-3/4 – 7-1/2% fixed for 5 years with 20 year amortization. The other thing that has changed is that banks are only lending on existing income and expenses and not proforma income.

Q: It looks like you have more properties for sale – I've noticed more new ones have come to market. Is self storage selling? Who's buying?

A: With turmoil in the stock market, investor desire for real estate is greater than ever and that includes self storage. With sellers anticipating major increases in the capital gains tax next year, sellers are putting their property on the market now. Properties are selling. We've listed and sold over \$30 million this year. These are properties that are priced right – they are priced on actual numbers and a realistic cap rate. Cap rates have ranged widely for us this year between 7.9 and 10. Last year, there were a number of buyers who didn't participate in the buying process when cap rates went so low and some facility values became so high. Some of them have come back into the marketplace. Many local buyers are looking to own a more stable asset with existing cash flow and are taking their money out of the stock market. We look to this last quarter to be a very busy quarter for self storage sales.

Q: If I decide I want to sell, what are my chances of getting my full market value? I've read about the housing market taking a dive. What about our self storage market?

A: Cap rates have definitely adjusted upward 75 – 100 basis points over the past year and a half. The peak of the market was early 2007. The market has taken the latter half of 2007 and the 1st quarter of 2008 to stabilize to where we are now today. The only thing to affect sales price in the near future would be the unavailability of financing. Right now, we're OK. If a property is priced correctly on actual income and expenses, we have been able to sell very near list price in a matter of a few weeks. However, a turbulent and uncertain real estate market is not the time to stretch for the highest price.

John and the brokerage advisors at Investment Real Estate are here to help you through these tumultuous times. Call us for a free confidential valuation of the property.

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