

Self Storage Newsletter

New Construction - From 2003 to 2005, self storage facilities were developed with a “build it and they will come” mindset. Christian Sonne, Executive Managing Director of the Marcus and Millichap Storage Group, said that back then, “You did not really need a balance sheet to get a construction loan: you just needed dirt and an architectural drawing.” Those days are over. Marc Bornstein of MJ Partners reports, “There are roughly 200 self-storage facilities currently under construction or renovation nationwide, compared with the 2,600 facilities that were developed during the market’s heyday between 2003 and 2007.” The multi-family sector is a huge driver for self-storage, and over the past 12 months there has been a huge boost in multi-family construction. Jed Kolko, Chief Economist at Truilia Inc, said, “2.4M Americans are now considered “missing households” as compared to 800K in 2008.” Public Storage has reported new projects and expansions totaling 1.4M square feet. Stein Investment Group is set to bring 250,000 square feet of storage to Atlanta at a cost of \$17.2M.

PORTFOLIO SALES SINCE 3Q 2012				
Buyer	Date	# Properties	Price	Cap Rate
Public Storage	Nov-13	43	\$315,000,000	N/A
Simply Storage	Aug-13	3	\$21,125,000	6.53%
Extra Space Storage	Aug-13	20	\$206,000,000	6.50%
Extra Space Storage	Aug-13	4	\$84,740,000	N/A
Storage Pros	Aug-13	8	\$25,000,000	N/A
Public Storage	Aug-13	21	\$203,060,000	5.90%
All Stor Storage	May-13	8	\$34,200,000	N/A
Storage Quest	Jan-13	9	\$18,325,000	N/A
Cubesmart	2013	5	\$52,400,000	5.16%
Smartstop	4Q2012	16	\$75,125,000	N/A
Storage Post	Dec-12	14	\$293,900,000	5.20%
WP Carey	Dec-12	3	\$25,000,020	6.01%
Sovran (Uncle Bob's)	Dec-12	4	\$21,407,000	6.30%
Sovran (Uncle Bob's)	Dec-12	5	\$32,700,000	5.50%
Great Value Storage	Nov-12	8	\$17,750,000	N/A
Extra Space Storage	Nov-12	5	\$36,600,000	6.17%
Flagship Properties	Oct-12	5	\$17,000,000	N/A
Sovran (Uncle Bob's)	Sep-12	7	\$42,840,000	5.80%
Sovran (Uncle Bob's)	Sep-12	9	\$54,700,000	N/A
Extra Space Storage	Sep-12	10	\$108,200,000	6.75%
Cubesmart	Aug-12	22	\$560,000,000	5.70%
Extra Space Storage	Jul-12	36	\$300,000,000	5.95%
Totals			\$2,545,072,020	5.96%

Source: CoStar and Beshears and Associates Market Research

Portfolio Demand—Portfolios are in strong demand, especially in the top 50 MSA’s. The above table illustrates portfolio sales since 3Q 2012. As illustrated, just over \$2.5B has been spent in portfolio purchases with a cap rate below 6.00%. Public Storage recently was announced as the winning bidder for the Morningstar Portfolio (at the top of the above list) with an expected November closing. Extra Space, Uncle Bob’s, and WP Carey were among the other top suitors. Mike Mele of Marcus and Millichap just listed a new portfolio in South Florida with 7,180 units and 854,831 rentable square feet. Its location in a very dense market with high barriers to entry is expected to draw significant interest. Offers should hover around \$100M.

Two other pending deals total over 19,000 units and nearly 2.3M square feet, with expected closings by year end. Storage Rentals of America has 25 properties in KY and OH on the market for \$33.75M at a 7.81% cap rate, but due to the facility ages and location in smaller towns, the portfolio has been on the market for six months. So location and quality matter with portfolios.

Access to Capital - The CMBS market financed nearly \$3B in self storage properties during the peak of the market in 2006 and 2007. The CMBS market went dead in 2008, but it has started to rebound. In 2012, the market rebounded with \$1B loans for 2012. During the first half of 2013, CMBS financing for the sector had reached \$885M, according to Trepp.com. That compares with \$106.7M in 2010. Life insurance companies are also joining the party providing funding for self-storage. Lenders like the security of the asset, and competition is fierce from a lending standpoint. The delinquency rate on CMBS loans for self-storage properties during the height of the recession peaked at 4.5% in 2011, well below the double-digit delinquencies in other commercial sectors, according to Trepp.com. Large loans above \$3M, especially above \$5M, are seeing the most favorable pricing and terms. Construction financing remains tight, but qualified borrowers can get full recourse loans at 50-60% loan to cost.

Cap Rates— Rates have dropped, especially on portfolio buys, but with rising interest rates, it will be interesting to see how the cap rates are affected. C&W projects cap rates to be flat until the bond market stabilizes, but over the long run, cap rates will flatten and stabilize.

Cap Rates - Florida Only	Average
1st Half 2012	7.71%
2nd Half 2012	6.93%
2013	6.75%
Portfolios since 3Q 2012 (Nationwide)	5.98%

Source: CoStar and Beshears and Associates Market Research

Summary - Self Storage has grown into a desirable investment asset class with a consistent history of strong annual returns, especially relative to other property sectors. Access to capital is better than ever in terms of the wide range of sources. We hear more and more buyers wanting to find off-market assets, and buyers, especially for value-add deals, complain of fewer deals that pencil out due to increasingly more aggressive cap rates. Buyers are finding it more difficult to hit their desired investor returns. Self-storage conversions have their challenges, but they provide access to dense, urban markets. Industry consolidation should continue, and rental rate growth and increased occupancies will slowly spur new construction, primarily in core US markets. New construction financing has remained tight. Developers like The Parham Group were developing 6-8 projects a year but only eight in the past four years. They are witnessing access to financing getting easier, especially in the Southwest. Steve Mellon, Managing Director of the National Self Storage Team at Jones Lang LaSalle states, “Deals with strong physical occupancy but lagging economic occupancy are very interesting to investors because of their upside in terms of occupancy and income growth.”

SELF STORAGE REIT TRAILING 12				
Extra Space	Total Facilities	974	Total SF	71.0M
	Q3 2012	Q4 2012	Q1 2013	Q2 2013
# of properties acquired	55	32	2	4
Purchase Price	\$449.5M	\$215.0M	\$12.9M	\$48.3M
# of properties managed	494	462	515	521
Same Store Occupancy	89.8%	88.6%	88.6%	90.8%
Occupancy compared to same period last year	1.8%	1.7%	2.9%	1.8%
Same Store NOI grow th***	6.8% - 11.4%	4.5% - 6.5%	6.5% - 8.3%	7.8% - 10.4%
Cubesmart	Total Facilities	368	Total SF	21.8M
	Q3 2012	Q4 2012	Q1 2013	Q2 2013
# of properties acquired	14	5	1	9
Purchase Price	\$85.9M	\$25.6M	\$6.9M	\$87.5M
# of properties managed	132	133	140	133
Same Store Occupancy	84.6%	84.6%	85.7%	90.0%
Occupancy compared to same period last year	3.5%	5.5%	6.4%	5.9%
Same Store NOI grow th***	4.5%	7.4%	7.6%	13.1%
Uncle Bob's	Total Facilities	362	Total SF	23.7M
	Q3 2012	Q4 2012	Q1 2013	Q2 2013
# of properties acquired	10	14	3	0
Purchase Price	\$63.2M	\$83.0M	\$22M	N/A
# of properties managed	N/A	N/A	N/A	N/A
Same Store Occupancy	87.8%	87.0%	87.6%	91.0%
Occupancy compared to same period last year	6.5%	5.5%	4.7%	3.3%
Same Store NOI grow th***	13.1%	11.7%	10.6%	12.2%
Public Storage	Total Facilities	1,949	Total SF	122.8M
	Q3 2012	Q4 2012	Q1 2013	Q2 2013
# of properties acquired	4	10	2	1
Purchase Price	\$56M	\$82M	\$14M	\$8M
# of properties managed	N/A	N/A	N/A	N/A
Same Store Occupancy (SF/Area)	91.9%/92.5%	83.1%/80.9%	91.9%/92.4%	93.0%/94.9%
Occupancy compared to same period last year	0.9%	-2.5%/-3.2%	1.8%	1.9%
Same Store NOI grow th***	7.9%	7.9%	9.5%	8.9%
REIT TOTALS	Total Facilities	3,653	Total SF	239.3M

*** compared to same period prior year

Source: Beshears and Associates Market Research

ABOUT OUR FIRM

Beshears and Associates is a commercial appraisal firm located in Tampa, Florida. In addition to covering apartments, office, industrial, land, and retail, we have specialty practices in gas stations, self-storage, hotels and bank branches. Our staff of 12 appraisers complete over 600 appraisals annually in Florida and Georgia.

If you have questions about our practice, please contact David Beshears, MAI at 813.204.2885 x204 or dbeshears@beshears.net.

SELF STORAGE VALUATION GROUP

If you have questions about the newsletter, you may also contact John Cordova, Director of the Self Storage Valuation Group at 813.901.8680, or jcordova@beshears.net.

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