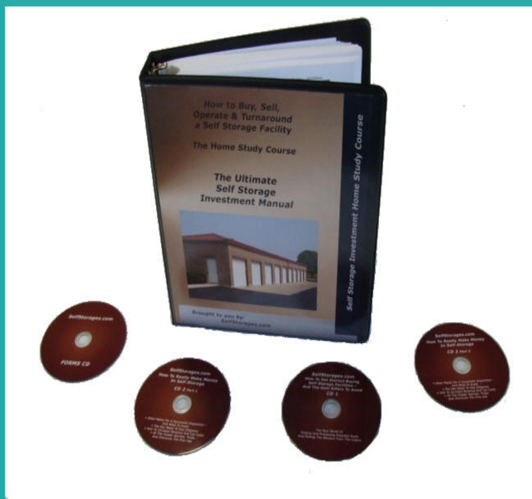
SELF STORAGE MONTHLY

August 2012



The Self Storage Home Study Course includes a manual with your 30 days of due diligence that will teach you how to BUY, SELL, OPERATE, AND TURNAROUND any Self Storage Facility.

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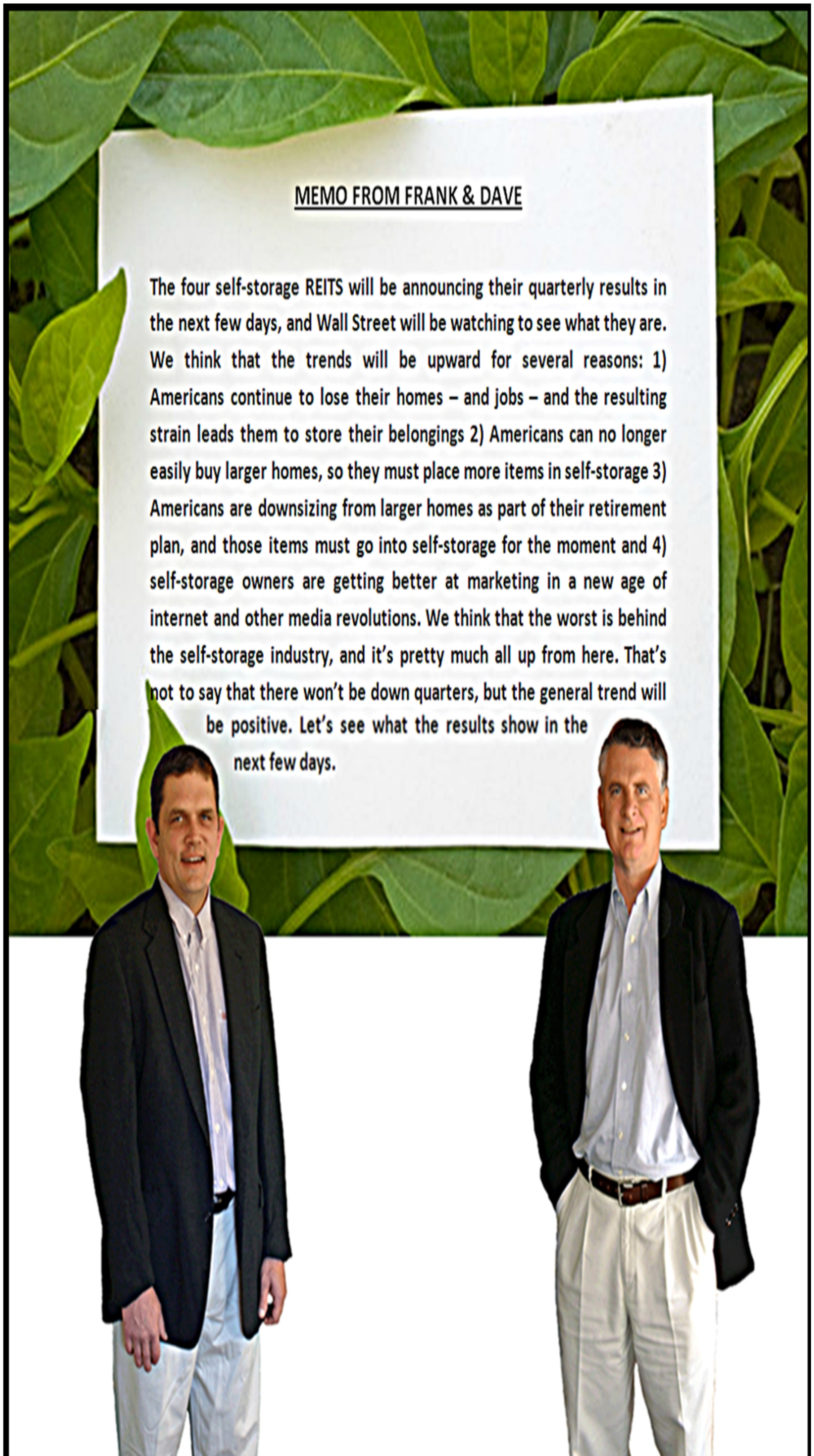

MEMO FROM FRANK & DAVE

The four self-storage REITS will be announcing their quarterly results in the next few days, and Wall Street will be watching to see what they are. We think that the trends will be upward for several reasons: 1) Americans continue to lose their homes – and jobs – and the resulting strain leads them to store their belongings 2) Americans can no longer easily buy larger homes, so they must place more items in self-storage 3) Americans are downsizing from larger homes as part of their retirement plan, and those items must go into self-storage for the moment and 4) self-storage owners are getting better at marketing in a new age of internet and other media revolutions. We think that the worst is behind the self-storage industry, and it's pretty much all up from here. That's not to say that there won't be down quarters, but the general trend will be positive. Let's see what the results show in the next few days.

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SHOULD YOU BUY A FORECLOSED SELF-STORAGE FACILITY FROM A BANK?

It looks like many of the marginal self-storage facilities – that should probably have never been built – are starting to work their way out of the foreclosure departments at banks. Are these good buys? Yes, if you can structure them properly. The key is to buy them strictly on *current* net income, and not giving any attention to what they might produce in the future. All you know for sure is what today's revenue is, and there's no guarantee that you can raise it higher, or when that might happen. If you are buying a facility with 50% occupancy, then you can't run the numbers based on 60%, or 80%, or 100% -- even though that's exactly what the broker and bank may try to persuade you to do.

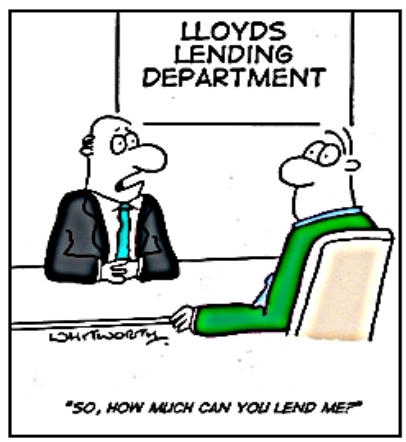
When buying a foreclosure, you should always analyze why the deal failed and make sure that you are not inheriting a nightmare. If the facility failed due to a giant debt load – and you are buying it for 20 cents on the dollar – then that's fine. But if it failed because the location is in the middle of nowhere, then be careful.

One of the largest hurdles to buying foreclosures is getting financing. It's hard to convince a bank that a deal is sound when it has just failed. Be sure to put a financing contingency in any contract, as that might be your largest hurdle of all to get the deal done.

Buying foreclosed facilities can be very profitable. Just be careful and don't get taken advantage of.

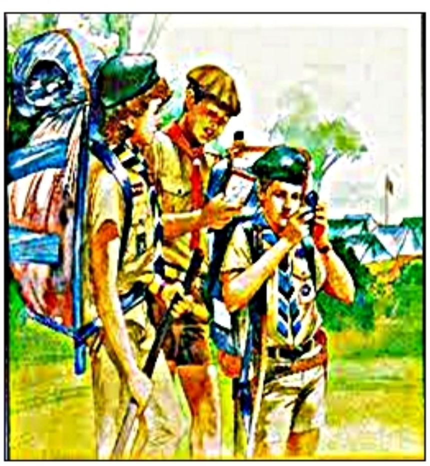
Tips on How To Prepare a Financing Package

Sometimes, borrowers have the best of intentions but lack the industry expertise to swiftly navigate the ebb and flow of the market's products. There is a certain foresight one develops that affords a seasoned loan officer to provide expert advice coupled with current product knowledge to produce a closing which benefits both the bank and the borrower.



The old motto, 'be prepared' certainly applies to lending in today's market. Oftentimes I receive calls from clients who think they simply call the lender and sign a document to refinance their property.

I've often said that I think people believe the lender is sitting there waiting with an 'approved ' or 'declined' stamp at the ready for each application that walk into their office. If only it were that simple.



Are you a good Boy Scout?

Lenders today are looking for the borrower who is prepared and proactive with their loan package.

You remember how it was when you were a kid going to camp....you packed a pillow; hiking boots, compass, flashlight...well...you get the idea. The same goes for lending. Lenders require the following on their loan submissions;

<u>Borrower PFS (personal financial statement)</u>
<u>Current Rent Roll</u>
<u>Photos</u>
<u>YTD PnL</u>
<u>3 Years Tax Returns</u>

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The above are just the basics and can vary a bit depending on the property type, number of borrowers, and the like.

The first and possibly most important is a thorough **personal financial statement.** This tells the lender who you are…sort of a financial snapshot of your cash flow and holdings. It lists all of your assets and liabilities, as well as all of your current real estate. I recently had a client fill out our PFS template without reading it and ended up telling us that he was not a US citizen when in deed he was and is. A simple check marked under a 'yes' or 'no' can make a fatal error on your application and can decline an otherwise quality loan. Good thing we reviewed the document prior to final submission!

The **rent roll** must be current and legible….again legible…enough said.

Photos should be clear and free of any foreign objects…please no junk cars, single wide airstreams or overflowing trash cans in view. It speaks volumes to an underwriter to pull out his approval stamp when the place looks just as great as it cash flows.

The **tax returns** should show the same income, matching the **PnL.** When the PnL shows an NOI of $500,000.00 but the tax returns show a negative cash flow, you can bank on the property being denied the loan.

In addition to the above list, we are looking for fully executed purchase contracts. Case in point, I had a broker call me with a purchase for $5,500,000.00 this week with all of the items on the list. I was ready to proceed with the lender but when asked about the purchase contract, we were informed they were still negotiating the details. Bad Boy Scout…bad! When you represent a transaction to a lender on a purchase, please be done with all negotiations. Don't present it as a closed contract only to make the lender wait for signatures that could be a month away. They have provided terms based on the current market and rates change daily and programs are discontinued weekly.

Be prepared…Be a good Boy Scout!

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