



SELF STORAGE MONTHLY

November 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

Thanksgiving is the perfect time of year to give thanks to all the great things that have happened and the people who have been a significant part of what we do. We would first of all like to thank everyone who reads what we write, and participates in the Self-Storages.com and SelfStoragesUniversity websites. We really enjoy spreading accurate information about the self-storage industry, and it has been a blessing for us to have such a positive response to our information and opinions.

Have A Happy Thanksgiving!





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The Impact of New Facility Construction

In 2011, there were fewer than 100 new self-storage facilities built in the U.S. However, in 2005 there were nearly 9,000 new self-storage facilities built. If you believe in the laws of supply and demand – and most everyone does – then getting a handle on the supply side of the equation is essential to understand the demand for space and the risk in any particular market.

New Construction Is Never A Good Thing

Contrary to what some brokers may tell you, new construction in a market is never a good thing if you own a facility in that market. What you want are all the positive economic signs that would cause a new facility to be built, without having one actually be constructed. The best example of this is in San Francisco, California, where there is tremendous demand for self-storage but extremely limited supply. It's nearly impossible to find a property that can be built into self-storage, and older facilities – no matter how crude – are at 100% capacity. You don't need new construction to affirm that the market is a winner. What you want is limited supply to meet a rising demand.

Watch For The Availability Of Buildable Land

In a market where the land is plentiful, flat and properly zoned, there can be infinite new construction. This is what happened in many markets, such as Bakersfield, California as opposed to San Francisco. You need to look past the current supply and see what the likelihood of future construction might be. If the potential for new construction is infinite, this could prove to destroy the value of your facility.

Watch The Availability Of Construction Financing

Just as important as the availability of land for future development, is the state of bank lending for new construction. Just because a builder wants to construct a self-storage facility, does not mean that it can happen without construction lending. And borrowing money to build a new self-storage facility is extremely difficult in the current market. It's a good bet that this type of



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financing will remain difficult for the time being, as bankers still have nightmares over what happened just a few short years ago when the industry became massively overbuilt in some markets, and their loans took huge losses on the courthouse steps. If you start to see bankers expressing an interest in new construction in the future, however, you need to take notice and watch out.

Try To Pay Not Much More Than Construction Cost

Since none of us can control new construction and financing (other than making bets on markets that have no available land), the safest bet is to never pay a huge premium over construction cost for any facility that you buy. It's one thing to be on an equal keel with the new facilities being built, and another to have twice as much per square foot in the project, which means you'll need twice the rent to break even. Leave huge premiums over construction price to the Public Storages of the world – they can afford to get in a bind, you can't.

Remember That Everything Goes In A Cycle

Real estate developers and lenders have a bad habit of forgetting history. They repeat the same mistakes over and over again. What this means is that you have to be aware of the fact that, just because nobody is building self-storage facilities today, that will change tomorrow. Some of the new ones will be based on demand. But others will simply be based on speculation and the desire to use up some land and earn some fees that only development can provide. Always stay attuned to the market.

Conclusion

One of the any gauges on your dashboard of being a self-storage investor is the potential increase in supply of facilities in your market. This should be a part of your planning process, and you should proactively move on buying and selling based on this input.