SELF STORAGE MONTHLY

October 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.

SELF-STORAGE TRIVIA

- **There are roughly 58,000 self-storage facilities in the U.S.**
- **The first self-storage facility in the U.S. was Lauderdale Storage in Fort Lauderdale, built in 1958**
- **1 out of 10 U.S. households currently rent a self-storage space.**

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Memo From Frank & Dave

We just closed on a 100 unit self-storage facility in Marion, Iowa, which is an upscale suburb of Cedar Rapids. The facility is 96% occupied and is directly across the street from a new Walmart Supercenter. We purchased this property from the children of the original developer, at roughly a 10% cap rate. There are still good deals to be found in self-storage, if you are persistent in looking for them. One of the key factors, in our opinion, is knowing what can be fixed and what can't. You can increase occupancy if the vacancy is due to poor management. But you can't increase occupancy if there is not enough demand in that market. That's why we prefer to buy facilities that are already enjoying good occupancy, but they are priced low and have room to grow rents. Guessing what's the real cause of vacancy is a dangerous gamble. We'd rather already have that taken care of.

Credit Reports....No Maserati's please!

Over the years, I've worked with all kinds of investors...from those just starting out with their very first commercial investment, to CEO's of Fortune 500 companies developing large parcels of raw land into mega malls. One thing holds true...most of them don't know the first thing about their credit reports or how to use them.

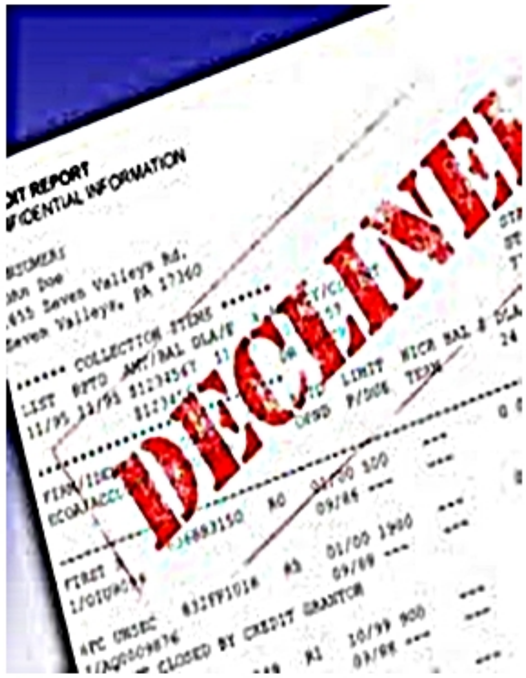
Recently, I had a client I was working with to refinance a number of properties for. We were inches from the closing when the lender contacted me to inform me that they had declined the transaction...

Dumbfounded, I asked 'why?'....The lender had to pull credit right before the transaction closed, as is customary, and found my stellar client's score had dropped from the 700's to a 569!

In speaking with the client it became clear that he had maxed out his credit cards and gone over-limit on another project not realizing it would affect the loan. He had millions in the bank but not a clue as to how to use credit properly.

Fortunately, after a bit of research, I was able to repair the credit and proceed with the transactions but it isn't always an easy fix. Sometimes a credit mistake can haunt the client for years. Most transactions will remain on your credit for up to 7 years!

'I don't need to show you my credit, this is a commercial property!'....If I had a dollar for every time I've heard that in my career. To some degree that is true, commercial mortgage loans rely to a great extent on the property itself for cash flow and the borrower's PFS (personal financial statement) however, the lender still wants a snapshot of who they are dealing with and a tri-merge credit report is their best ally. Whether recourse or non-recourse loans, a lender may ask for a credit report at any time, so it is best to keep the credit well-tuned while going through the process.



Whether you close accounts, go over limit, inquiry about a new car....all of these are affecting your credit scores and can turn a 'yes' into a 'no' very quickly in the lender's eyes.

When you close an account, it narrows the field of available credit on your report so instead of having $50,000.00 of good open available credit, when you close a credit card with an available line of credit for $10,000.00, you have just reduced the available credit by 20%! When a creditor then looks at your credit, he then has to look at how much you are paying on in house mortgages, car notes, etc. If you've reduced that available credit pool by 20%, it makes you appear to be a much higher risk, whereas if you'd left it alone and simply not used it, you look like a client in control of their finances who doesn't need to use the credit card for $10,000.00.

Over limits are a sign of someone who is overextended and cannot meet their day-to-day obligations. If you use a gas card and pay off the $300.00 balance every month, that's one thing, but taking a $15,000.00 Visa card to $18,000.00 over the limit in one month is another, especially if you don't have the available cash to pay it off at the end of your shopping spree. The underwriter knows you aren't just looking to max out your 'frequent flyer miles' with that kind of expenditure so keep your splurges to a minimum while you are financing property.

Multiple inquiries are another definite 'no-no' and will fast-rack you to the underwriters 'declined' pile. When you are in the process of refinancing with a lender, do not start a refinance on your beloved vacation home that is nearly paid off or look into purchasing the latest red sports car. It is a red flag to underwriters as well as another inquiry on your credit which can drop your overall scores.

Another thing...your 'free credit report' is not the same as a mortgage report (aka...'tri-merge).

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There are three credit bureaus (Equifax, Experian and TransUnion) and all three must be present on the report for consideration which is why only your mortgage broker should pull a fresh report. Additionally, it contains information not included on the 'free report' and is much more comprehensive. I recently had a client pull her own credit from 'free credit report' only to find that we had to pull another one directly afterwards which likely cost her a few points on her credit.

Why does an inquiry cost you points on your report? Think about it...if you were lending money to someone, would you want to lend it to them only to find out they'd gone to 10 other people, borrowed the same amount from each of them, only to not be able to pay back anyone as they are now unable to make all of those payments? Of course not and neither does the bank. If you are taking out a loan on a $5,000,000.00 property, the bank is committed to making sure you can make those mortgage payments and the system of 'checks and balances' available to them is the credit report. If you make one inquiry, it typically won't affect your score much, if any. Making multiple inquiries is a sure way to drop your scores as you are now a higher risk to anyone who may loan you money as you appear to be looking for multiple loans...

The bottom line is...When you are getting a mortgage loan, don't make a move without checking with your loan officer first. It's best to close your loan first and go Maserati shopping second!

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