ARGUS
SELF STORAGE SALES NETWORK

Market Monitor

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***A note from Ben Vestal:** As we round the corner in 2011 we are now settling into what everyone has been referring to as the "new reality" of the real estate market. The days of 7.5% - 8.5% cap rates are back and we are learning the new rules of self storage financing. With values back to approaching historical levels, let's focus on what brought us back so quickly. Cap rates and values are directly related to the buyer's ability to borrow money for new acquisitions and the values are affected by the cost of the borrowed money. No matter if you are a buyer, seller or simply want to refinance your property NOW IS A GOOD TIME! It is up to you to capitalize on the current market and do what needs to be done to reach your objectives. Remember, it's better to be a year too early than a day too late. In order to help our clients understand today's market I have asked self storage financier Dale Stewart of NorthMarq Capital to comment on where he is seeing the market today and where we may be going.*

Capital Markets Update

by Dale Stewart

The availability of commercial real estate capital continues its expansion across all sectors with the CMBS market seemingly running at full steam (although nowhere near the peak in 2007) and life insurance companies already exceeding annual loan volumes year to date compared to recent years. Loan pricing competition is fierce for low leverage (sub-60% loan to value) transactions across all property sectors and higher leverage (75%+ loan to value) loans are generally available for multi-family properties in strong markets, as well as dominant grocery anchored centers and institutional quality multi-tenant bulk warehouse properties. Self-storage and hotels are receiving more attention from conventional lenders, although recent operating history is critical to the underwriting process.

Current Self Storage Loan Terms

Life company lenders continue to lend capital to self-storage operators with volumes forcing many to raise their minimum loan amounts. Life companies typically focus on low leverage self-storage loan opportunities and/or larger, Class A properties and will max out at 65% loan to value and 25-year amortizations. Typical life company spreads range from 175 – 250 basis points over the corresponding Treasury with many employing rate floors. This puts the interest rates for life company loans in the 4.7% to 5.5% range, making it a good option for low leverage, long term hold investors. I would also point out that the majority of these loans have no personal recourse.

Commercial Mortgage Backed Securities (CMBS) lenders continue to love the cash flow from self-storage facilities and are very active and aggressively lending on this asset class. Most will easily get to 65% to 70% loan to value with higher leverage available for the better-performing, Class A properties in strong markets. A recent poorly received securitization of CMBS loans increased spreads by about 40 basis points to a current range of 255 – 275 over swap rates or roughly 5.75% for a 10-year term today. The 30-year amortization that is common with conduit lenders offsets the slightly higher interest rates, and CMBS loans are typically non-recourse as well. The availability and appetite for CMBS self storage loans will continue for the near future as long as the market continues to absorb securitizations of CMBS loans with little push back from the rating agencies.

Conventional bank loans are still among the most common in the self-storage industry and remain a good source of debt for self storage investors. We typically see local and regional banks looking to the borrower's balance sheet for security in making the loan as the majority of these loans do have personal recourse to the borrower. Most conventional bank loans will have a shorter term between 3-6 years and interest rates in the 4.5% to 6.5% range with amortizations in the 15 to 25 year range. Conventional bank loans give borrowers an option of smaller loan amounts as well as the path of least resistance.

Near Term Outlook

Given all of the elements of inflation that are manifested today in the U.S., long-term interest rates remain surprisingly low. Ten-year U.S. Treasury yields have moved within a nearly 90 basis point range since the beginning of the year reaching a high of 3.75% in February. They remain near their June low of 2.88% currently sitting at 2.92%. The primary broker/dealers for U.S. treasuries have predicted a range of the 10-year treasury yield by the end of 2011 with a consensus of 3.4% to 3.8% with only one outlier firm predicting a rate of 5%. This leaves many real estate investors with long term interest rate risk but for the short term (6 to 12 months) it seems that interest rates will stay moderately flat.

NorthMarq continues to see a good amount of business, and through our long-standing relationships with capital sources we are poised to find the most competitive financing available in today's market environment.

NorthMarq Capital, Inc., a national real estate investment bank, provides commercial real estate debt and equity financing and commercial loan servicing. NorthMarq Capital provides more than $13 billion in annual production volume and services a loan portfolio of more than $37 billion. Dale Stewart, Producer, can be reached at 303-225-2100.