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Rates

Prime Rate	5%		5 Year T	3.13%
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3 Month Libor	2.81%		5 Year swap	3.84%
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Self Storage Properties and A Challenging Deal

When the financial markets are in credit crunch mode, lenders and investors focus on reducing risk. Property types, terms, borrower credit, become much more restrictive and the loans much more costly.

While lenders always have different programs for different property types, in a "crunched market" non-mainstream properties can suffer a bigger impact than the traditional properties. In the next few issues of this newsletter, we will focus on the financing and sales markets for some of the non-mainstream property types. This week we are looking at Self Storage properties.

In our Recently Closed Deals we take a look at a very challenging retail property. It seems like national tenants are closing their doors every day. We closed a tough one last week that would have been a "slam dunk" 18 months ago. Read on!

Closing of the Week - A Retail Property

Location: El Paso, TX
Property Type: Unanchored Retail
Loan Amount: \$5,220,000
Term: 3 yrs

Amortization: 30 yrs
LTV: 70%

Deal Challenges:

This retail property was vacant when acquired by the owner. The owner put two retail tenants in place; one a regional entertainment/restaurant and a regional department store. The restaurant tenant lease was executed by a shell entity with no net worth. The stores had limited operating histories in this property, although sales were strong since the tenants opened for business.

Deal Strengths:

The restaurant tenant put in nearly \$5,000,000 in tenant improvements demonstrating a major commitment to this property. The property is in a market with nearly zero vacancy. There is an expected influx of over 20,000 new military families to the local base. The borrowers are experienced and have a substantial net worth and liquidity.

The Bottom Line:

Retail properties represent a special challenge to finance in today's environment. The borrower's experience and financial strength were sufficient to overcome the concerns about the tenancy. The low market vacancy and projected growth were also significant factors in providing comfort that this property can ride out the pending storm in retail property performance. Recourse was the key!

Valuing and Financing Self Storage Properties

I have financed many self storage properties over the years. I believe it is an underappreciated asset type that performs better than many lenders think. For many lenders, Self Storage properties have reached the status of a mainstream property type such as office or retail. For other lenders, Self Storage is a business property and they won't go near it.

How well has the Self Storage industry held up in this economy? How well have values held up for Self Storage? Is there money available only for stabilized properties? Are lenders still funding construction or rehab deals?

On the issue of values, I asked Nick Maligisi, the National Director of the Self Storage team at Sperry Van Ness (716-633-9601 nick.maligisi@svn.com) to compare values over the last 24 months. Nick's group is especially strong in the Self Storage arena.

Nick informed me that "A" properties were trading in the 6.5% range at the peak of the market. Today, cap rates on properties actually trading are in the 7 to 7.25 cap range. As with other property types, values have declined reflecting the higher costs of debt but for the most part, the pricing on high quality properties has not dropped precipitously.

"B" quality assets which were in the low 7 cap range at their peak are now trading at 8% to 9% caps. At that level, I think self storage properties are moving into bargain range. This wider increase in cap rates reflects that sellers who want to sell lesser

quality assets have to severely discount their properties in this market.

From a financing perspective, pricing on self storage transactions can vary from the high 5% range to mid 8% range depending on asset quality, leverage, strength of the sponsor and stability of the market. The lower pricing ranges are tied to lower leverage, institutional quality assets and shorter terms with very strong, experienced borrowers.

We are financing "B" quality assets at up to 75% LTV's from the high 6% range for good borrowers. Currently we have a limited amount of money for construction and bridge deals starting in the 8.5% range. Market occupancy and substantial borrower liquidity must be high to get financing for new construction.

The really challenging transactions are those properties that are not stabilized. We recently received a request from a well known management company to refinance a property that had experienced a drop in occupancy from 85% to 75% in the previous 12 months. This property is not institutionally financeable except at very, very low leverage because of the downward trend. Properties that have declining occupancies and/or are slow to lease up may not find any institutional financing available at all and will need a private bridge loan until the property is stabilized.

Contact your local BSCCI representative for further information.

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