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PREPARE *For Your* LENDER!

Financing Your Self-Storage Business... Sans The Headaches

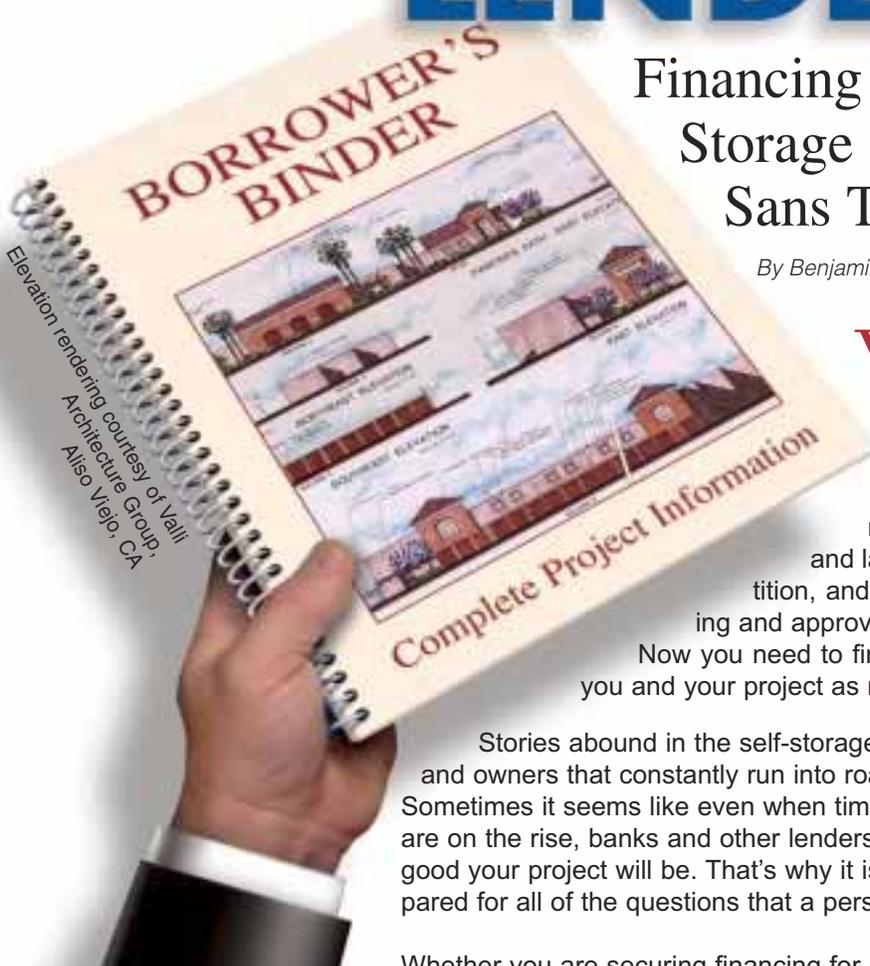
By Benjamin K. Burkhart

You have found a prime location to build a new storage site. Demand is excellent and growth is rapid. You've done your homework: attended seminars, researched building designs and layouts, scoped out the competition, and finally landed the proper zoning and approvals. You're almost ready to go.

Now you need to find a lender who will believe in you and your project as much as you do.

Stories abound in the self-storage industry about developers and owners that constantly run into roadblocks with lenders. Sometimes it seems like even when time is of the essence and rates are on the rise, banks and other lenders just don't understand how good your project will be. That's why it is important to be well prepared for all of the questions that a perspective lender might ask.

Whether you are securing financing for a construction project, acquiring an existing facility, or refinancing your current loan, dealing with a lender can be a lengthy process. It can also be quite a headache if you wait for the lender to ask the right questions. By thinking out the process ahead of time, you can develop a great relationship with your lender and ultimately streamline the application process to avoid potential deal killers. In essence, this is the time to really sell your ability and the value of the project you bring to the table.



The Typical Headache

If you have dealt with commercial lenders before on a development project, you'll be familiar with the generic process: application, collection of information, lots of questions, board reviews, more questions, appraisals, final approval, etc. But self-storage is a slightly different animal than the typical commercial deal a local bank may be used to such as a retail outlet, commercial building, office building, or general small business financing. To a commercial lender that sees those types of deals frequently, they make sense because the firm understands the market dynamics and the local business climate.

If, on the other hand, your preferred lender doesn't see self-storage deals on a regular basis, they may have some tough questions—and that can translate into headaches and time lost on both ends. For instance, the proforma projections on typical commercial deals are sometimes easier to project than the 18- to 24-month lease-up to stabilization on a self-storage project. Sometimes the self-storage business model, being unfamiliar to the lender, can slow down your application—and that is not what you want.

A good lender needs to be confident in you and understand what you are proposing.

When preparing a self-storage loan package, you need to be prepared to inform the lender of the market potential; show them some hard numbers and solid, well thought out projections. In effect, you need to be the expert in self-storage, and you need to be able to communicate a clear vision of your business model. Most importantly, you need to be ready to field every question that comes down the line—before you meet with your lender.

Be The Expert

You must realize that bankers and other lenders are experts in financing. They know their products, their communities, their guidelines, their limits, etc. What they might not know is the storage industry—more specifically your storage business. A good lender needs to be confident in you and understand what you are proposing. Your expertise goes a long way if your lender doesn't understand local storage demand or the broad self-storage industry.

If you already own self-storage, you are the expert. You know what it takes to make your business profitable, or you wouldn't be planning a new project or acquisition. When you start your discussions with a lender, make that clear. If you are dealing with a lender that only sees a self-storage loan request once every year, or even less, you may have to walk them through the key components of a successful operation. Invite them to your business; give them the grand tour. And be impressive.

If you are new to the industry, get some expertise on your side. Information flows pretty freely in this industry, so absorb as much as you can. Attend some development and management seminars. Read the magazines. Network with industry professionals to gain the knowledge you need. Work with a feasibility/market consultant. Get out on the front side of the information curve as quickly as possible.

Remember, it is your job to bring the storage expertise to the table when you approach a lender. Let them know that you are worth their investment.

Be The Professional

While the simple phrase "be prepared" is most well known as the Boy Scouts of America motto, it rings true in every walk of life—especially business. When you first contact a lender, you want to have predicted their questions and prepared the right answers. Be ready for their information requests. A good lender will always ask some preliminary questions about your financial position and business experience. He has to get comfortable with you, just as you need to be comfortable with him.

In the interest of time, you will also want to pre-qualify a potential self-storage lender. Some of the questions you may want to ask include:

- How many self-storage applications have they looked at in the last six months?

- How much capital has your firm allocated to loan to the self-storage industry?
- What makes your firm qualified to fund my project?
- What is the timeline to gain approval and move towards closing?

Don't be afraid to ask those questions upfront in your first conversation with the lender. Be sure that the loan products they offer are appropriate for your needs. If you need construction and permanent financing, be sure they have it to offer. Ask if they have the ability to lock in rates on a construction project and offer interest-only financing during lease-up. It is far better to gauge a lender's interest and ability

BORROWER'S BINDER CHECKLIST

- | | |
|-------------------------------------|----------------------------|
| ✓ Business Plan | ✓ Site Plans |
| ✓ Resume | ✓ Itemized Budget |
| ✓ Personal Tax Returns Last 3 years | ✓ Feasibility/Market Study |
| ✓ Business Tax Returns Last 3 years | ✓ Environmental Survey |
| ✓ Balance Sheet/Financial Statement | ✓ Zoning & Permits |
| ✓ Interim Statements | ✓ Third Party Contacts |
| | ✓ Lender Application |

upfront, than to work with them for 60 days and then find out it's a bad relationship. Be sure you are comfortable with whom you choose, and confident that they will follow through with your request. If you are in the process of searching for funding, put together a Borrower's Binder containing all the information about your project that a lender will need. The following is a good list that will save you and your lender a lot of time.

Business Plan

If you've gotten this far without putting together a good business plan, now is the time to assemble one. This plan should give a general overview of the project and include specifics such as proforma revenues and expenses, management strategy, employees' credentials, a marketing plan, and business goals and objectives.

Resume

If you don't already have a relationship with your lender, you need to give them good reason for wanting to do business with you. If you have been a successful businessperson, then show it in a professional format. Be sure to include information on all key individuals to the success of the project. This is your opportunity to put your best foot forward and show that you have a team that will be successful.

Tax Returns

Copy your personal and business tax returns for the last three years. Include the complete returns. Some lenders will analyze tax returns to a greater degree than others; so don't leave anything out. Make sure all schedules are attached the returns. Your lender will partially gauge your financial strength based upon your business history of profit and earnings.

Financial Statements

Update your statement of net worth by compiling values of all your assets and debts. Be sure to include all cash and savings, investments, real estate, life insurance, vehicles, credit card balances, student loans, real estate loans, and scheduled loan payments. Most lenders will have a form you can use, but a nice spreadsheet or computer report should do the trick.

Interim Statements

If you own existing businesses, provide your lender with the most up-to-date financial information on each business, if possible. Including quarterly statements or year-to-date statements will insure that the lender is viewing your complete financial picture.

Site Plans

If you can provide copies of proposed site work and architectural drawings, it will help the lender visualize the project as more than just a matrix of numbers. Aerial photos are great for explaining why a certain location is feasible and outlining your plans. You want to be able to show your lender what makes your property special.

Itemized Budget

Even if you haven't contracted everything yet, put together your best estimate of what your project will cost. Include all costs of the project. For a development project, most lenders will fund a percentage of the hard costs (acquisition, construction, metal buildings, doors, site work, etc.). Some will fund soft costs (architectural drawings, attorney fees, origination fees, operating capital, etc.). Include in your budget your proposed equity injection, or the amount of cash you plan to put into the deal.

Feasibility/Market Study

One of the factors that a solid self-storage lender will closely scrutinize is market viability. They want to understand the factors that determine that the project is going to work and be profitable. A detailed market study should include competitive analysis, demographics, population factors (growth, industry), ideal unit mix, and an overall scope of the market.

Environmental Survey

Identify any potential environmental risks to your lender. Septic systems, underground tanks, and other environmental risks can raise concern with lenders.

Zoning/Permits

There have been many storage deals lost because proper zoning was never attained. Be sure to let your lender know where you are in the zoning process.

Third-Party Contacts

If you have a business partner, be sure the lender has that contact information. Provide your lender with a list of references of past credit dealings, business partnerships, etc. You may want your lender to be able to contact your attorney or accountant with any questions.

Application And Credit Authorizations

You will need to request an application form from your lender. The firm will also need your signed authorization to check credit history, references, etc.

Of course, the nature of your specific loan request may require the lender to obtain other pieces of specific information. As a general rule of thumb, the more detailed information you can provide the lender, the less time you will have to spend retrieving additional documents and clarifying your application. Let your lender know that you want to get them involved in the process, and keep them informed of new developments as you go through the application process.

Remember: If you can assemble a pre-made binder to provide to lenders, it should make the process of working with and selecting a lender much easier.

Be Inquisitive

Don't ever be afraid to ask your lender how your application is coming. Remember that they are working for you. Make sure you understand how their approval process works, and where they are at in the process. By being prepared upfront, you will eliminate some of the hassle that comes with having to provide information piece by piece. However, you want to stay on top of the progress, and be available to add clarity to your application if needed.

With a construction project, you will need to be very clear on how the funding process works. You may need to submit a proposed schedule of draws to adequately prepare your lender for when money is owed to different contractors involved with your project. Each lender may go about advancing funds differently, and if you know those steps from the beginning, you can prevent last minute fires.

In business, there are always surprises. You can look out for your best interests, and minimize those surprises by asking your lender the right questions.

Borrowing In Today's Market

By all estimates and recent trends, we are in a market of rising interest rates. However, rates are still historically low. If you are planning a construction project, ask your lender about locking in rates for your long-term financing. Be sure you understand how your deal can be affected by rising rates. Even on an acquisition deal, discuss with your lender their ability to index your rate, or provide a short-term rate lock to protect you through closing.

Be careful about funding your long-term project with short-term money. If you plan to keep your storage property for the long-term, take a long-term perspective. Short-term construction money will always be "cheaper," but be sure you don't sacrifice long-term stability for short-term gains. In a market of rising interest rates, locking your rates can have a very friendly impact on your bottom line.

Keep Your Lender Involved

The most important thing in working with a lender is to keep them involved throughout the process. As your financial partner, they don't want surprises any more than you. And having your lender on the same page with you will prevent possible headaches and streamline your next capital request.

Benjamin K. Burkhardt is the Southeast Self-Storage Specialist for Wells Fargo Financial. Based out of Richmond, Va. He works with owners and developers to provide construction and acquisition financing, as well as the refinancing of new and existing self-storage properties.

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