the **last** word

Waking Up to Market Conditions

... There Is A Time For Everything

—By Michael A. Mele

It's been said that there's a time for everything under the sun. For self-storage investors holding marginal properties, I believe now is the time to sell—for several reasons.

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New development is on the rise, higher property taxes and insurance costs could lead to stagnant revenues, and vacancies rates are likely to increase as competition stiffens. We are already starting to see signs of the impending pinch. The bottom line: self-storage may not be as lucrative in 2007 as it was in 2005.

More investors are viewing self-storage as a sound investment—and it is a sound investment. But we must remember that self-storage is part of the broader commercial market that reached its peak last year. The market may hold steady in the early months of 2007, but we're bound to see some declines.

The Urban Land Institute and PriceWaterhouse Coopers surveyed 600 developers, investors, brokers, consultants, and lenders and came to a similar conclusion. In "Emerging Trends in Real Estate 2007" they concluded that commercial real estate is beginning to steady out after the amazing appreciation it has enjoyed lately.

In fact, after record lows over the past five years, the survey predicts lending will tighten and capitalization rates will rise by as much as 0.7 percent. Their advice to investors: Sell marginal properties and hold on to the strongest assets. This is good advice for self-storage investors, too. We'll transition to a buyer's market this year. Sure, the overall equity will hold steady, but the sale price may decline before it climbs again—and no one knows how long the down cycle will last.

If you've been sitting on the fence waiting for the insurance rate hikes to blow over and betting that interest rates will stay low, get off the fence and sell your facility now. If you wait until the latter part of 2007, you could take a financial hit as interest rates rise. Self-storage has earned a reputation for being a cash cow over the past few years, but it's a business, and perhaps even more so than other real estate assets.

Don't get me wrong. I am by no means predicting doom and gloom. The self-storage industry will continue to be a strong asset class. However, I am advising my clients to sell weaker facilities now while they can get the greatest return on their investment. If you are in this for the long haul and plan to ride out the next cycle with a high quality facility in a good location, then you will still enjoy the steady cash flow that makes this industry such an attractive investment. However, if you want to cash out, I recommend you do it now to get the highest valuations in this cycle.