SELF STORAGE BLUEPRINT FOR SUCCESS

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THE FASTEST GROWING REAL ESTATE SECTOR IN THE US FOR THE PAST 25 YEARS!

HOW TO MAKE MILLIONS IN **REAL ESTATE** WITHOUT THE HASSLES OF TENANTS AND TOILETS!

Disclaimer

Written By Scott Meyers

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SELF STORAGE ASSOCIATION MEMBER

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Introduction

The Top 10 Reasons why Self Storage is the Hottest sector in Commercial Real Estate.

As you will read in my home study course, “The Complete Guide to Finding, Evaluating, and Purchasing Self Storage Facilities”, **(www.SelfStorageInvesgting.com/homestudy),** I began my career by building a large portfolio of single family and multi-family properties. I spent the first 10 years in real estate investment fighting with tenants and toilets and it almost drove me into the insane asylum and the bankruptcy court! Chasing tenants that wouldn't pay, trying to stay ahead of rising taxes, insurance, and utility bills, and the ongoing, unexpected maintenance calls, almost forced me out of the business. So I began to ask myself, what area of real estate could I invest in that could utilize the talents and experience I have gained, without all the hassles of tenants and toilets? Well, after weighing all options, and after speaking with many of my mentors in the industry, I ultimately chose Self Storage as the area I wanted to pour my efforts into and secure my future.

So after 11 years of amassing a large portfolio of single family and multi-family apartment complexes, I began to sell them all off, and begin investing in self storage facilities. And as most people say once they have found their true calling, I wish I would have done it sooner! The self-storage business isn't without its fair share of challenges however and I certainly wouldn't call it easy. But my life has changed dramatically the day I sold my last apartment complex with all those tenants and toilets and traded them for self-storage units filled with nothing but……. STUFF!

Now, I will share with you the top 10 reasons why I decided to sell all my houses and apartments to invest in ONLY self storage:

10. Endless Opportunities – If you already own a plot of land in a GOOD location, you can build. Now I don't want to oversimplify the process because there are a great deal of zoning and Approval hurdles you may have to jump over, but this is a real estate business that is much easier to get into compared to most others. Also, contrary to popular belief, the large, public operators in the industry only account for about 12% of the estimated 64,000 facilities in this country worth $22 Billion in 2007. That means there is a **huge opportunity to pursue roughly 56,000 facilities that are owned by** “mom and pop” investors that are already established and cash flowing, and were developed specifically to sell off to investors once they were stabilized!

9. **Sky Rocketing Demand for Storage** – We have an insatiable appetite for storage in this country, with over 2,000,000 units having been added since 2000. But probably the most exciting prospect for the industry is the aging of the baby boomers. There are roughly 77 million baby boomers in this country as of 2009, and they account for approximately $2 trillion in spending power. A recent poll by the Self Storage Association of a sampling of Baby Boomers revealed that upon retirement, **50% planned to travel**, **40% planned to move**, and 10% planned to start a new job. What do people do when they move? That's right, they store stuff. Downsizing, buying a second home, or even a like swap in houses necessitates a need for storage. **One economist recently compared the opportunity in this industry to sitting on the oil industry in the 1950's or sitting on Silicon Valley in the 1990's!**

8. **Multiple ways to increase Value and Profit Centers** – I have had a great deal of success in creating value with properties once I acquired them, but found the opportunities greater with self storage. There's only so much you can do to a house, or with apartments that truly adds value, or commands a higher rent. But with Self Storage, you can take a vanilla facility and create multiple additional income streams such as:
   a. **Retail centers that sell locks, boxes, moving supplies**
   b. **A Truck Rental service through a 3rd party, or in-house**
   c. **A business center that charges for computer usage, copies, and fax**
   d. **Ebay® Add-it centers where customers can pay you to sell their "stuff"**
   e. **A pack and ship business, and approximately 30 more profit centers that we have indentify, and continues to grow.**

   These additional services can contribute as much as 10-15% of the total income a facility brings in on a monthly basis.

7. **LOW, LOW, Operating Costs** – With my apartments, I was responsible for paying the utility costs for many of the common areas and vacant units, and in some properties, the gas and water was on 1 meter, and was included in the rent. I was forced to pay for my tenants' wasteful use of gas and water. When the cost and/or taxes on these utilities increased, guess who paid for it; ME! You simply can't pass those increases along to the tenants without them going down the street to a competing property. With Self Storage, however, the expenses are minimal to begin with. You will pay for lights in the parking lot, and utilities for the office, but those can be monitored, and increases can be easily absorbed. **This makes budgeting for utilities and other variable costs a breeze compared to properties with tenants and toilets.** As a result, self-storage operating costs are typically much less than office, retail, and apartment buildings, which lowers the overall break-even occupancy.

6. **Low Rent and Collection Losses** – 48 of the 50 states have a lien law with regard to self-storage collections procedures, and the other 3 provide for steps that an owner can take to collect past due rent. Each state's law differs slightly, but most give the self-storage facility owner the ability to perform the following steps when a tenant's rent is past due:
   a. **Remove the tenant's gate code from the system, locking them out of both the facility and their unit.**
   b. **Place another lock on the unit to keep them from entering it. This is what we call over locking the unit.**
   c. **Auction their goods if payment has not been received, typically within 90 days after they were given notice.**

   Each state requires that the tenant be given notice that they are past due, and most require proof that notices were sent by certified mail or some other traceable format. Each state also specifies specific timing for each one of these actions, and also requires that proper notice is given to the tenant, and to the public by way of the local newspaper that their unit is being auctioned off. The laws also specify what an owner can and can't do with regard to the tenants belongs, and most require that the entire unit is auctioned off as a whole to avoid any liability. Either way, this far better than a landlord's recourse when going through the legal process of evicting and collecting back rent from tenants in the single family and multi-family apartment world.

5. **HIGH Cash Flow (They Don't Call Them Cash Cows for Nothing!) –** Rental rates for self-storage facilities are similar to other real estate product types; however, lower development and operating costs create higher profits and a greater return for investors. In addition, leases are month to month, which provides the ability to raise rents in conjunction with market demand. Self storage tenants won't typically rent a truck, call their friends, and waste a Saturday morning to move their stuff down the street just because their rent increased by $3 per month. But if you raise rents once or twice a year by 3-5%, multiplied by several hundred units, with no increase in expenses, you begin to see why **industry experts so often refer to self-storage facilities as the proverbial "Cash Cows".** By contrast, if you were to raise your rents in your single family or apartment portfolio by 3-5% once or twice per year, you would have a mass exodus on your hands!
4. **Low Risk** – Self storage space is rented on a month-to-month basis to hundreds of different customers, most of which are individuals and small businesses. With self storage, no single move-out is going to cause a major drop in rental income. Compare this with other forms of

commercial real estate, where a Flagship tenant or multiple high paying tenants can really spell disaster. In addition, self-storage has the ability to absorb economic fluctuations better than other real estate investments. For example, when the economy is good, people buy more therefore they need extra space to store their extra stuff. And when the economy is down, individuals and businesses may downsize their house or business space, and therefore turn to self-storage as a cost effective place to store their belongings. **As a result, self-storage has the lowest failure rate (8%) and subsequently lowest loan default rate of any real estate product type (compare to apartments which have a 58% loan failure rate!)**

3. **Leverage or Other People's Money (OPM) –** Given the fact that self storage has the lowest loan default rate of any real estate product type, lenders are now making 80% - 90% LTV loans on established, well-constructed, and well managed facilities with strong track records. In addition, there are several private investors that are funneling millions of dollars into the market to partner with self storage developers and investors due to the industry's tendency to outperform the stock market and other real estate investments. And given the reasons I just discussed, and the industry's track record, it is much easier to convince your wealthy friends and family members to become investment partners in a self-storage facility than it is with other real estate product types.
2. **No Tenants –** The number of times you will be in contact with the typical Self Storage Customer is very minimal over the duration of their tenancy. According to the Self Storage Association, 95% of self storage customers do not return to their unit until the day they move out of the facility. Therefore, the industry norm for hiring a manager is based on a 1 to 400 ratio, or 1 manager to manage every 400 units. There are also several owners who are taking advantage of new technologies that have become available in the self-storage industry, most notably, kiosks. These machines resemble an ATM and are typically installed at the front gate and allows a customer to rent a unit, pay with a credit card, and even dispense a lock, all without ever coming in contact with the manager! In contrast, the widely accepted rule of thumb for managing single family and multi-family properties is a 1 to 100 ratio, or 1 manager for every 100 units. Quite simply, single family and multi-family tenant commands a greater amount of babysitting. You have to chase them for rent, answer their maintenance calls, respond to complaints about dogs, kids, their neighbors, broken down cars, noise, bugs, etc., and spend an incredible amount of time writing letters and responding to each one of these issues or for every time someone is in violation of their lease, or the house rules. In addition, the eviction and collection cost each month is very time consuming, with little results. By

comparison, I have never taken a phone call from the patio furniture in unit 105 complaining that the lawnmowers in unit 106 were playing their music too loud!

1. **No Toilets –** The typical self storage facility is constructed from steel, or concrete, has a steel roof, metal doors, gravel or asphalt drives, and most likely, a stainless steel fence. Some may have a small office on site with a computer, phone, and **1** bathroom; that's it! Steel walls and roofs last for decades without any maintenance. Door springs need to be replaced from time to time, and every 10 years or so you may have to add more gravel, or resurface the lot, but can be easily budgeted for, and most fences last 20-25 years without the need for any maintenance. And of course, the enemy of all landlords, toilets, or any other indoor plumbing for that matter, is nonexistent in a self-storage facility. And unless you have climate controlled units, there are no furnaces, air-conditioners, or water heaters to maintain. **When a tenant moves out, you don't have to clean, paint, or replace the carpet; simply take a broom or blower, and sweep it out!**

There are many other reasons I prefer self storage to other real estate product types as we'll discuss throughout this home study course. I have thoroughly enjoyed the business, and I am thankful for the opportunity to pass this knowledge on to others that may be interested in the industry. In addition, I consider myself a lifelong student in the business, and I believe in perpetual improvement.

CHAPTER 1: Industry Review

What is Self Storage?

Self Storage Association Definition: *Self Storage facilities are real property designed and used for the purpose of renting or leasing individual storage spaces to tenants who are to have access to such space for the purpose of storing and removing personal property. They offer rental on a month-to-month basis of individual spaces where customers provide their own lock and have sole access to their space.* Today's typical storage facility may comprise several one or two-story buildings on two to 6 acres of land, or a multiple-story building, containing a carefully designed unit mix of spaces. The units typically range in size from 5X5 to 10X30 feet with 30,000 to 120,000 total rentable square feet of space. Self storage facilities frequently feature large roll-up doors and drive up access to outside spaces and offer outside parking for storage of boats and recreational vehicles, which often can't be stored in residential communities. Today's facilities normally have the following features:

- Contain 10,000 to over 100,000 rentable sq. ft.
- Offer a wide range of unit sizes
- Are well lighted
- Are paved vs. graveled
- Have storage units divided by steel, movable panels
- May have some or all of their spaces climate controlled
- Contain high-tech security systems, including electronic access, cameras, and digital video recording.
- Have perimeters that are walled or fenced with Security Gates
- May or may not have a resident manager
- Have single or multi-story buildings
- Provide carts and Dollies for use by its customers

- May contain movable storage modules
- Sell storage and moving related supplies
- Provide ancillary retail services and products.

From the real estate perspective, self-storage:

- Meets the needs of several consumer groups (residential & commercial)
- Uses simplified structures
- Makes efficient use of land, especially odd shaped parcels in less desirable locations
- Has short construction time, thereby providing little traffic disruption
- Uses very little energy!

HISTORY

The conventional concept of personal storage began in England when British banks were asked to safeguard valuables for clients embarking on extended voyages. Overcrowded vaults quickly forced them to seek storage lofts from drayage companies (the first moving companies). The first mini-warehouses for household and personal items were built. The two story structures were built with packing on the lower floor and private storage rooms on the second. Except for expansion into multi-story buildings, things remained the same for decades, until the 1950's when costs rose. This led to construction of palletized warehouses which were designed to handle crated customer goods that could be stacked three levels high.

Access to household/personal goods was restricted and it was expensive, since customers had to make appointments to obtain items and pay each time for the service (stored property could only be reached by forklifts which were operated by staff) and business hours were limited and normally did not include weekends.

Initial development of self storage facilities in the US occurred primarily in the Western United States and the Sunbelt states. Contributing factors were: a transient population moving to new jobs and better climate, retirement condominiums, apartment and townhouse residences, slab construction, etc.

Many facilities were developed prior to 1979, with 1978 generally acknowledged as one of the greatest growth years in the industry. As the decade of the 1980's began, increased self storage construction activity occurred along the Eastern coast of the United States, with increased interest in Canada, Europe, Australia and other countries of the free world.

SELF-STORAGE TENANTS

It's been said that self storage is used by people and businesses in transition, but that's only part of the picture. Self storage is used by a wide range of consumers with different needs that may include:

- Homeowners and businesses in need of temporary space for overflow of property or inventory
- Those in the process of relocating
- Property stored in relation to an estate in transition due to death, litigation, restoration, etc.
- Businesses in need of space for general control of inventory, records, supplies and equipment
- Businesses that are expanding or contracting
- Businesses storing seasonal displays
- College students storing books, desks, etc. during summer
- Military personnel in need of low cost space or are on temporary duty
- Seasonal visitors with household items and sports equipment

The advantage of using rental storage space is increased flexibility, low cost, convenience, and value.

Self storage space is generally rented on a month-to-month basis and does not commit customers to long term leases. Tenants may typically leave whenever they want and rent only the space they need. A recent study shows that the average length of tenancy for a typical customer is 11 months, and 24 months for the average commercial tenant. The cost of self storage space is lower than office or retail space, saving users' money. On average, self-storage is roughly 60% less than the cost of most office on a per square foot basis. Self storage users can often find facilities in their local area and they receive additional service value because self storage managers are trained to counsel consumers on how to store items more efficiently in less space, thereby reducing the cost.

Self storage is a useful management resource for small businesses, since businesses can easily obtain more space as they grow without committing to expensive long term leases. Furthermore, it provides businesses with a means to cut costs, should they need to downsize. Self storage is also useful for college students and seasonal visitors who may rent space for a season, and for military personnel who go on temporary tours of duty, but intend to return to the area, and for those who can't afford to rent more living space.

TODAY'S MARKET

Estimates of the overall number of self storage facilities operating in the United States varies greatly but most industry veterans estimate that there are somewhere between 65,000 to 70,000 facilities as of the date this eBook.

As the population becomes more familiar with self storage, the demand for off-site storage has expanded to accommodate the growing needs of the business community by storing files, medical records, excess inventory, equipment, etc. In some areas business storage accounts for 30% or more of the total tenancy of a facility. Easy access, convenient office hours, short term rental agreements, and no long term commitment to pay for space which may not be needed in the future, make the self-storage facility extremely attractive to the retail customer, contractor, home based businesses, manufacturer's, and pharmaceutical representatives, etc.

The industry still remains relatively unsophisticated and highly fragmented. **Today, roughly 80-88% of all self-storage facilities are owned by small independent "mom and pop" operators.** In addition, there is a considerable amount of medium to large players undergoing consolidation, although it is becoming more difficult for the larger buyers to accomplish since most owners realize what a great low maintenance high-cash business it is, and therefore are reluctant to sell. As a result, the top 50 companies control approximately 25 percent of the square footage in the industry.

As demand for space has grown and the self-storage industry has evolved, consumers have become more familiar with the property type (92% of the households in the U.S. were familiar with the concept, according to a survey sponsored by the Self Storage Association in 1989). Inasmuch, local and regional competition ranges from a handful of properties to scores in a given trade area. Accordingly, customers may choose where they will store and from many different options, with unit size and the choice of climate or non-climate controlled space being the base options. Today consumers have the ability to compare and choose from among a variety of self storage property styles and customer services to meet specific storage needs.

Competition in the self-storage market is increasing. Maximum success for investors/operators depends on the ability to meet customer needs with convenience and value.

To satisfy customers, today's self storage must look to locate in retail corridors, light commercial or even high density residential neighborhoods, in addition to traditional industrial and heavy commercial areas. Newer facilities emphasize architectural aesthetics in construction and are designed to blend in with the retail or residential nature of the areas they serve. Landscaping has also become a prime consideration, as well as the interaction of storage development with adjacent planned tracts of offices, retail stores and business parks, in order that incubator space is available to support public planning. All of this is done with the aim of creating a clean, stable, secure upscale image that supports the perception, and the reality of trust among current and prospective customers.

CHAPTER 2: Investment Opportunities In Self-Storage

Like all other real estate investments, self-storage shares the same attractive qualities as residential rentals, apartments, retail strip centers, office buildings, and industrial properties. **Those include leverage (borrowed money), tax advantages, passive income, personal control (being your own boss), and appreciation.** However, self-storage offers a number of benefits that I feel make it such an attractive investment. Those include the following:

1. We are becoming a more transient society, moving around more and creating a greater need to store our stuff, thus the demand for self-storage is increasing.
2. Americans tend to accumulate a great deal of possessions, and we don't want to "weed out" those things we don't use or are sentimental or have nostalgic value, which in turn, creates more demand.
3. Most new communities will not allow us to store our boats, jet skis, RV's, or even multiple cars on the street or in front of our homes.
4. Many retirees downsize their homes which require additional storage space that their smaller homes don't provide.
5. More and more Americans are buying second homes which increase the demand for storage space.
6. College students utilize storage space when moving back home for the summer.
7. Many businesses are downsizing and operating out of smaller offices that necessitate a need for storage space.
8. Many small distributors will utilize self storage to operate their business from.
9. Pharmaceutical reps will use climate controlled storage for samples and inventory.
10. The eBay® phenomenon has created a huge demand for space.

11. Other home based businesses are also creating demand for off-site storage.
12. Lower Development costs – self-storage facilities development costs are often 30 to 50 percent less than office, retail, and apartment buildings.
13. Lower Operating Costs – Operating costs for self-storage facilities are substantially less than office, retail, and apartment buildings. As a result, self-storage owners are more isolated from large increases in utility and other variable costs that occur in the open market.
14. Lower development and operating costs make break-even occupancy ranges lower than other forms of real estate.
15. Occupancy is generally more stable and therefore predictable as there are typically a greater number of units in which to "spread the risk" than in other forms of real estate.
16. Month-to-month leases mean that rental rates can be adjusted easily. When occupancy increases, I will adjust rates to compensate for the demand.
17. Demand for self-storage is not dependent upon the economy. When the economy is good, people buy more and store more. When the economy slows, people downsize, and require a cheaper alternative to store their extra belongings.
18. Low management overhead as customers typically only need the manager to move in or move out, compared to office or apartment complexes that requires a high number of customer contacts and constant and ongoing interaction.
19. A well-run, stabilized self storage in a good location is very desirable to other investors and institutions, making self storage a very liquid investment.
20. **It's No Wonder Self Storage has the lowest loan default rate of all commercial real estate property types!**

DEBUNKING THE MYTHS

Now that we've discussed all the reasons that make self storage a fantastic investment, we should take some time to break down a few of the myths that have been floating around with regard to the industry. Like many other industries, self-storage has been evolving for several decades now, and many of the general assumptions by outsiders surrounding this business simply do not apply. Some of the common myths are as follows:

1. "If you build it, they will come".

In the early years, this was somewhat true. But in today's competitive landscape an owner/investor must perform very careful analysis and/or feasibility studies to determine whether a potential development site or an existing facility is a wise investment. In addition, there are many areas that are, or are becoming overbuilt, which drastically changes the projected lease up and overall occupancy potential for a facility.

2. "Self-storage is an easy business".

This may have been somewhat true in the past as well, but like any business, if it were easy, everybody would be doing it. Far too many real estate investors treat their business as a hobby rather than what it truly is; an asset with many moving parts that must be managed from day to day as opposed to a stock or a mutual fund that you purchase and only infrequently check on its performance. Today's self storage arena is very competitive, and successful owners are always thinking of ways to increase income, decrease expenses, and strive for operational efficiencies across all facets of their operation.

3. "All self storage properties are cash cows"

As we discussed earlier, self-storage facilities have the lowest default rate of all property types, but it doesn't mean that owners don't default and that many others are struggling. Generally, this is due to poor planning before acquiring or developing a facility. An owner/investor must perform thorough due diligence when it comes to competition, population growth, land costs, construction costs, market rental rates, and the management of the facility **before** purchasing or developing a facility. If you do not have the time nor the expertise, a feasibility study should be conducted by an experienced individual within the industry to avoid buyers or developers' remorse.

4. "This is a cheap business to get into"

Again, this may have been somewhat true in the past, but not any longer. Today's customer is demanding a higher quality facility than what the industry provided in the beginning. Today's facilities possess a higher quality construction, are fully paved, fully fenced with security gates, typically have state of the art digital video surveillance and recording systems, and are considerably larger than in the past, which necessitates an office with a part-time or full-time manager. Land costs are higher as most developers prefer to locate in high traffic locations as opposed to the hard to find or industrial park sites of yesteryear. In addition, construction materials have been on the rise recently due to fast developing foreign nations which affect development costs, and good existing facilities are being sold at record high prices as the word is out on what a great investment self storage has become.

CHAPTER 3: The Future of Self-Storage

As we look to the future of self storage, it's very clear that the future looks bright. There are a few trends afoot backed by solid industry data that justify my positive outlook on this high growth industry. These trends are as follows:

Increasing Demand

The U.S. Population is predicted to reach 400 million by the year 2050. All indicators show that Americans continue to be a highly mobile society with a high propensity to accumulate "stuff". This means that as of the time of this publication, we stand to add 150 million potential customers to our prospect list who are searching for somewhere to store their belongings.

High Tech Facilities

As our customers become more selective in where to store their belongings, owners of older facilities will need to make necessary improvements to remain competitive. This will ultimately result in more sophisticated and higher tech facilities offering more user friendly layouts, larger offices, flexible unit mixes, kiosks, high security, and more climate control units. In addition, we can expect to see self storage investors competing for the premier parcels located in the high traffic retail areas of town. As a result, municipalities are beginning to require that these facilities have a retail component in order to increase the amount of sales tax generated and paid to those local governments. They are also requiring that the facilities have a certain "look and feel" that blend in with the surrounding businesses. Nicer fencing, or split block security walls, paved drives, certain architectural features, and an attractive landscape package will be mandatory and made part of the architectural permit prior to construction, and strictly monitored for compliance.

More Products and Services

As self storage moves closer to Main Street, we will begin to see an increase in the number of customized services available for its customers. We have already seen some partnerships being formed that provide complementary products and services. Of course the most common example is truck rental, but we are now seeing pack and ship businesses, EBAY® add-it stores, Kinko's®, or co-locating with retail stores such as Starbucks® or Subway® on the ground floor with storage above in multi-story facilities.

Focus on Customer Service

As more and more people frequent our self storage facilities, they will begin to expect more from our facilities and the face behind the counter. These sophisticated customers are demanding excellence and consumer loyalty will quickly go out the door, along with their stuff, if they have a bad experience. Conversely, when customers are satisfied with the service they receive, they will stay, and hopefully will tell their friends about the good experience they have had. This provides an excellent opportunity for us to exceed their expectations, and provide a substantially better experience than our less educated, less professional competitors in our chosen markets. **My goal is to be my customer's LAST storage provider by never giving them a reason to look anywhere else, for any reason!**

Industry Consolidation

As the larger public companies and REIT's are pressured by Wall Street to produce results, we will surely see more consolidation of the mid to large size companies. Those same mid to large companies can't meet their growth deadlines by developing their own facilities from the ground up. The 3 years it takes to choose a plot of land, apply for zoning, permits, and then build and stabilize a property simply isn't fast enough for them to meet their goals. Don't misunderstand me however, the mid to large companies ARE still active developers, but their appetite for growth will fuel a surge in acquisitions and mergers for years to come.

Increased Competition

As all eyes are now on Self Storage, we are sure to see a number of new entrants into this facet of commercial real estate. Unfortunately, this will lead to overbuilding in some areas as many newer developers will ignore the feasibility criteria for developing a facility in a given market. Therefore, it will be imperative for owners and developers to work more efficiently to attract and retain customers in this new environment.

Increase in Value

In the future, the upward value trend in self storage will continue for a number of reasons:

1. Predictably low interest rates will push cap rates low, and net larger profits for those who choose to sell.
2. For that reason, self-storage continues to rise in popularity as one of the commercial real estate assets of choice, and will ultimately attract more investors.
3. There are still a number of individuals and investment firms that are stinging from the recent stock market corrections. These investors are now searching for a more stable investment that they can “touch and feel” as opposed to investing in a company that they have never heard of, run by people they have never met, in an industry they know nothing about.
4. There is a lot of money chasing a few deals. Many investors have created a great deal of value in their existing portfolios, and they are selling off these properties and are looking for places to spend their 1031 tax deferred exchange dollars without paying taxes. Self storage has continued to be a great investment to exchange into and more and more investors are choosing to park their dollars here before their tax deferred status expires.

As the saying goes, the only thing we know for sure is that things are going to change. I do subscribe to that line of thinking, but I also believe that self storage will remain a reasonably predictable, stable, low maintenance, high cash flow investment for professional investors for years to come.

CHAPTER 4: To Buy or To Build

The Advantages of Buying versus Building

There are several advantages to buying rather than building a self-storage facility. These advantages include:

1. Quick Entry

Quite simply, buying an existing facility will get you into the business faster. Bypassing the development process will allow you to take over an existing operation without the time and hassle of building and creating the business from scratch.

2. Predictability

Buying an existing self-storage facility gives you a historical track record based on past operational performance. This will provide indicator to the future success of the facility all things considered.

3. Ease of Financing

Typically, financing an existing facility with a proven history of net operating income is much easier than construction financing which is highly speculative. There is a wide variety of products available to finance existing facilities in today's market. Financial institutions have a large appetite for well performing self-storage facilities and therefore are offering high loan to value loans at very desirable interest rates.

The advantages of Developing versus Buying include:

1. Not buying someone else's problems

When buying an existing facility, you may be buying someone else's problems that can prove expensive to fix. Be certain to have a licensed inspector perform a physical inspection of any facility you may be interested in purchasing, and be sure to verify all income and expense reports to determine the true Net Operating Income of the property to avoid any surprises.

2. Choice Site Selection

Developers are free to choose a location far from competitors and be first in an area that is experiencing a high rate of development. As in most businesses, if you are first to market, you can grab onto the customers in that area, and in self-storage, customers typically don't move their stuff just because another competitor comes to town.

3. Low start-up Cost

The cost to buy land and develop a facility is usually significantly lower than the price of acquiring an existing facility, looking strictly at a cost per square foot basis.

4. Preferred Product

A developer can build a state of the art facility to meet market demand. It is much easier and more cost effective to build a facility with all the new industry "bells and whistles" than it is to retro-fit an older, tired facility with electronic gates, paved driveways, digital video surveillance systems, newer door/locking systems, business centers, kiosks, or adding a retail center and office.

5. Potential for Higher profits

If you do your homework and choose a good site, and build a marketable facility from both a user and a potential buyer's perspective, you could reap a windfall of profits upon stabilization and ultimately the sale of your facility. Of course there are no guarantees, but history has shown that developing, and managing a facility to stabilization and then selling has proven to be considerably more profitable than buying and selling an existing facility.

CHAPTER 5: Case Study – Brownsburg Crossing

Creating your Business Plan

Once I have an accepted offer, the clock starts ticking. We have several 3rd party reports which must be completed, and most importantly, we have to obtain a loan commitment within the specified timeframe spelled out in our purchase agreement. In an effort to ensure I am granted loan approval, it is critical that I submit a business plan that outlines everything a lender needs to know about me as a borrower, my business, and the project at hand.

Now for many people, the thought of creating a business plan is akin to the fear of public speaking. However, it does not have to be such an unpleasant task, especially since we already have the information. Our personal financial statement, the project due diligence and the market analysis comprise just about all of the information needed. All we need to do is to organize this information into a coherent document. Our business plan is an opportunity to present ourselves and the deal in the best possible light. **It is designed to give the lender an in-depth look at yourself as a borrower including your past successes, the reasons why this project is so strong, and the reasons it will succeed in this market.** This will all be supported by facts from your research and due diligence.

Reasons for a Business Plan

A written business plan speaks louder than anything you say or do when applying for the loan. In addition, a written plan may be the only information the loan committee or board can refer to when looking at your deal. **The business plan speaks for you when you are not present.** It is extremely important to create a professional, organized, document proving that you have done your homework and can manage the risk that is inherent in all facilities.

There are several software packages and numerous resources available to assist you in preparing a business plan. Some are very good, but few are tailored specifically to real estate. I suggest you follow the format I have provided in this home study course for several reasons. Most business plan templates are just that; templates. They are designed using generic terms for operating a multitude of small businesses. However, a business plan and subsequent loan request for real estate requires many different elements. You may find that the effort involved in adapting a template is more work than writing a plan from scratch following the model I have presented.

In addition, I recommend writing your own plan because of the knowledge you will gain in the process of doing so. By assembling the information again and presenting it in a clear format, you gain an even better understanding of the project that allows you to explain it in detail when the time arrives. This creates a perception of confidence in the lender's eyes during conversations regarding you and the facility, and anything that reduces risk on the lender's part is a positive step in the right direction. Lenders see hundreds of proposals each year; some are good, others are not. A thorough plan makes their job much easier when pitching your deal to the board. I strive to ensure that my business plan and loan proposal are one of, if not the best proposals they will ever see. Some of **the smaller community banks I have relationships with only approve so many loans per year, and I want to make sure that my proposals make it to the top of the list** in the month that the committee or board meets to review and approve requests. And so far, I haven't lost yet!

I must remind myself that perception is a reality for the lenders. They do everything possible to avoid risk, but they know that every deal involves a certain amount. Their approach is to look at every deal as if it was a loser and must be proven to be a winner. My Personal financial statement is designed to project stability, and my loan proposal is presented in the exact same manner. A good loan proposal will convey the message that I have the necessary resources and abilities to succeed in the project being proposed. This is critical to obtaining loan approval and funding for the facility.

Elements of a Business Plan

The ability to professionally package and present my proposals, I believe, has been a major advantage in getting my deals funded. **My plans spell out very succinctly what I am going to do, when I am going to do it, and how I plan to do it.** In my opinion, there are seven critical elements that should be included in any business plan and subsequently, your loan application:

7 Essential Elements of a Loan Application

1. Projected Financial Statement
2. Amount of Funds Requested
3. Requested loan terms and Length
4. Source of Repayment and collateralization
5. History of and nature of the Business
6. Repayment of the loan (including plan B should things go awry)
7. Timeframe for approval

I try to summarize those first 7 questions on the first 2 pages of my business plan to make it easy for the lender to get a quick snapshot of what I'm attempting to achieve. Remember, you are relying on your loan officer to present this request for you to the loan committee, so make it as all-inclusive, yet as simple as possible for him to do in your absence. Your ability to prepare your loan officer for this task will be the key element in gaining loan approval for your new facility.

Do not, I repeat, DO NOT send him or her in to the committee or the board with a disorganized, unprofessional mess of papers, and don't leave it up to him or her to explain why you should be approved for the loan. I spell this out myself in my business plan which highlights my experience, past successes, and my confidence in the project being proposed. They should come to the conclusion that if they don't fund this loan for me, then the competition certainly will.

Plan Format

My plan is written as a combination business plan and loan application that focuses primarily on the subject property I want to acquire. It includes a summary of my past experience and successes, my present portfolio of real estate, and pertinent financial data, but the primary focus is on the deal.

The reasoning behind my format is that a self-storage facility is not a business that requires many employees, vast amounts of inventory, or major amounts of machinery to manufacture, distribute, or sell a product. With self storage, the emphasis is on the care of a single asset, and the plan is a representation of my ideas for the efficient and effective management of the facility. I'm not downplaying my ability as a borrower, but in commercial real estate, the lender tends to look more to the performance of the asset than the borrower.

Below is a sample outline of a loan proposal and business plan. A good plan is professional, grammatically correct, free from spelling errors, logically organized, and most importantly, thorough. We will discuss these elements in the pages that follow.

1. **Summary Page**
    a. Borrower name and the entity that will hold title to the facility
    b. Property Legal Description
    c. Purpose of the loan
    d. Loan amount and terms requested
    e. Loan Ratio, or Loan To Value (LTV) requested
    f. Collateral and source(s) of repayment
    g. Financial Summary

2. **Market Summary and Analysis**
    a. Area map including facility, and photos of the facility
    b. Demographics: Population, growth, employment, & income
    c. Market Trends
3. **Neighborhood Analysis**
    a. Location Description in relation to customer base
    b. Market position
    c. Competition
4. **Property Description**
    a. Site plan and analysis
    b. Aerial and or Satellite Photo (GoogleEarth.com)
    c. Property Photos
    d. Property Description and Rent Roll
    e. Improvement plans
    f. Management Summary
    g. Marketing Plan
5. **Financial Data**
    a. 3-year historical financial performance (if possible)
    b. 3-year projection of operations
    c. Basis for these assumptions
    d. Source and use of Funds requested
6. **Borrower data**
    a. Ownership structure and Entity
    b. Background and experience of principal
    c. Personal Financial Statement of borrower
7. **Exhibits**
    a. Building and site plans
    b. Survey
    c. Sample Lease

I will now discuss each section in detail and provide examples of the information that should be included for the lender:

Summary Page

A single page summary of the proposal presents the property and the loan request in Table Form. The summary contains all pertinent facts about the proposed facility and serves as an introduction to the project. It also serves as a quick reference for deal points so that anyone looking for the pertinent data does not have to search through the whole proposal to find an answer.

My layout is simple and concise. The headings address the pertinent questions of identifying the borrower, the property, and the purpose of the loan, the number of funds needed and the terms for repayment, and the security and the source of repayment. Requested lending ratios are listed as well. Typically, the LTV and debt coverage ratios are the first calculations any lender performs when evaluating a loan request. I make it easy to find and discuss. I also highlight the operations and furnish supporting documentation for further consideration.

The summary supplies the answers to the most pertinent details of the project. The rest of my proposal will support the highlights with facts, figures, and further clarification.

Loan Request Summary

Project:	Brownsburg Crossing Self Storage 1234, Secure Way, Brownsburg, IN 41111
Description:	143 Unit, 25,200 s.f. self storage facility on 4.1 acres
Borrower:	Alcatraz Storage, LLC, Scott Meyers, Managing Member
Purpose of Loan:	To fund the purchase of the existing facility and $15,000 in site improvements.
Loan Amount	$1,375,000
Terms Requested:	Fixed Rate Permanent loan at 80% LTV amortized over 30 years at current market rate, with no pre-payment penalty.
Collateral:	1st Mortgage on subject property with assignment of Rents and security deposits
Value:	Estimated Appraisal value of $1,750,000

Source of Repayment: Proceeds from the Net Operating Income of the facility

Projected Stabilized Income:

	Year 1	Year 2	Year 3
Income	$218,484	$218,526	$220,134
Expense	$ 43,568	$ 43,124	$ 43,078
NOI	$174,916	$175,402	$177,056

Maps

Following the summary page and prior to the market analysis, I will insert maps that depict the location from both a regional, street level, and satellite basis. A local lender will invariably know the neighborhood and immediately be able to zero in on the location, creating a familiar feel right away

Maps are readily available and free at websites such as mapquest.com and mapsonus.com. Satellite Maps are available at Googleearth.com which adds just another degree of professionalism and credibility to your plan.

A local map showing the property relative to area neighborhoods and services adds detail to the discussion regarding market position. For example, I show the location of the project in relation to any multi-family apartments, high density neighborhoods, and proximity to other retail related services when possible. I also try to stress visibility if the facility is located on a major road with high traffic counts.

Area Description

Most lenders already possess this data in lengthy form, so I prefer to use bullet points to highlight the major points. This also lets them know that I have done my homework and that I have a good grasp of the market I am planning to invest in. I will draw this from the demographic reports available at www.ESRI.com, and a sample of what I include in my plan is as follows:

Brownsburg, IN, Hendricks County

- 72 square miles
- 125,789 residents
- 13 miles west of Indianapolis city center
- Highly accessible with a major highway, I-74, running through the city with an exit ½ mile from the subject facility.
- Indianapolis International Airport is located just 15 minutes away in neighboring Marion County.
- Major Employers include Hart Publishers, St. Vincent Hospital, and several Motor sport related Industrial complexes.
- Strong employment statistics: 2006 unemployment rate below 4%
- Average household income: $52,154
- Population growth trend +3.5% per year

Market Position

The information regarding the market should make the case for the project's viability. Again, I use bullet points to highlight the appropriate information. I typically use Information from the website of the local planning office, economic development department, and/or the local chamber of commerce. Also, be sure to credit the source or use your own words when doing so: Don't cut and paste from the website. Most likely, the lender and the committee members will be familiar with the local area's literature, but it doesn't hurt to re-state, and once again, it stresses your credibility in doing your homework.

<u>Brownsburg Crossing Self Storage</u>

- 25,200 square foot self storage facility
- Located off Dale Schrier Dr. near the intersection of S.R. 267 and 56th Streets. Also visible from I-74 on the North Side.
- Traffic count of 25,000 vehicles per day along 56th st.
- Less than one mile north of downtown Brownsburg off S.R. 267.
- Central to community facilities in a popular retail area.
- 17,543 households within three miles
- Average Annual Household income = $52,154
- Steady population increase of 3.5% over past 5 years
- Two competing self storage facilities nearby averaging 85% occupancy
- Located directly across from the Brownsburg Crossing Apartments, a 560-unit apartment complex
- Significant barriers to entry for new competition due to the City of Brownsburg's reluctance to award zoning, and the rising cost of developable parcels.

The list should focus on factors that accurately reflect growth and stability in the area where the facility is located. The goal is to establish that the market exists to support the facility and my projections for future viability. Location in relation to high density neighborhoods and apartment complexes along with employment centers and other high traffic generators such as retail are key indicators that the project will sustain itself. If the market is not doing so well, I am sure to include information with regard to how our management efficiencies will allow the facility to achieve above average occupancy.

I am also careful not to ignore the likelihood of new competition. Local planning departments can provide information regarding proposed construction projects. If there are significant barriers to entry for new competition, then I will mention that fact and stress the point. However, I don't want to give the impression that although the lack of available land and difficult zoning actually benefits the existing facilities, but declining populations or high unemployment creates problems for all facilities.

Competition

The competition includes information for the subject facility and the pertinent information for each direct competing facility. The following is an example from the information gathered through The

Self Storage Demand Estimator we discussed earlier, as sample of which is included in the Appendix and on the forms CD:

Competitive Supply within 5 Mile Radius

Facility	Square Feet	# of Units	$Rent/Square Ft.
Access Self Storage	56,000	445	$1.58
Best Self Storage	34,000	298	$1.41
AAA Self Storage	28,000	159	$1.78
U-Save Self Storage	19,000	141	$1.39

You can include further detail from the SSA Self Storage Demand Estimator with regard to demand and supply and an estimate of overall occupancy, but it may not be required. The point I am trying to make is that once again, I am demonstrating that the competition has been evaluated and the project is properly positioned. I will then summarize my opinion of the market position with regard to the subject facility and state my conclusions regarding future demand.

Property Description

This section details the actual physical features of the facility and includes photos, site plans, surveys, and perhaps charts. Any deferred maintenance and/or planned improvements are discussed along with a brief discussion of how I plan to manage the facility after acquisition. The site plan shows the buildings and improvements to the property, along with a unit breakdown if possible. I also try to supply an existing survey if I can obtain one from the seller. I will include the satellite photo as well, and discuss the site's topography, ingress/egress, parking, visibility, utilities and any special features such as a retail center, business office, kiosk, billboards, signage, cell tower, landscaping, etc. that may be worth noting.

Photos provide an excellent illustration of the facility. An aerial photo along with the satellite depiction from www.GoogleEarth.com or from www.terraserver.com can show proximity to neighborhoods, multi-family apartment complexes and the competition as discussed above.

If you are using a customer provided aerial, be sure to include the date and note any significant changes that have been made since taken.

Facility Photos should include both interior and exterior views. If using a digital camera and editing software, you can add captions or short descriptions directly printed on the photo.

I also include a current rent roll summary which shows the unit mix and corresponding Rental Rates Like the one listed on the following page. I will also discuss the facility's general condition and occupancy history along with how I plan to improve the property by increasing occupancy, decreasing expenses, and whether I plan to construct additional buildings, install a kiosk, security system, fencing, electronic gate, etc. and the associated costs of each.

Management Summary Report

For Month Ending Saturday Jun 30, 2007

Alcatraz Storage at Airpark 321 W Riggin Rd Muncie, IN 47303

Printed On Friday, July 06, 2007 at 12:47:38 PM
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	Daily	Month-To-Date	Year-To-Date
From	6/30/07 0:00	6/1/07 0:00	1/1/07 0:00
To	6/30/07 23:59	6/30/07 23:59	6/30/07 23:59
Bank Deposits			
Cash	0.00	3,609.57	13,090.88
Checks	0.00	13,680.61	61,936.62
Charge	0.00	4,347.81	14,860.70
Total	0.00	21,637.99	89,888.20

Receipts

(Note: Receipts will not match deposits unless they correspond to the same periods. Deposits are based on fiscal dates. Receipts are calendar based.)

	Daily	Month-To-Date	Year-To-Date
Rent	1,027.00	20,813.42	88,936.06
Recur. Chgs	0.00	0.00	0.00
Late Fees	10.00	504.35	1,770.14
NSF Fee	0.00	0.00	25.00
Admin Fee	0.00	0.00	0.00
Reserv Fee	0.00	0.00	0.00
Insurance	0.00	0.00	0.00
Other Chgs	0.00	2.00	33.00
Misc Deposit	0.00	0.00	0.00
Overpmts	0.00	0.00	0.00
Sec Dep	0.00	0.00	150.00
POS	0.00	0.00	10.38
POS Taxes	0.00	0.00	0.62
Rent Taxes	0.00	0.00	0.00
Other Taxes	0.00	0.00	0.00
Total	1,037.00	21,319.77	90,925.20

Collections (Receipts collected in the reporting period towards rent.)

	Daily	Month-To-Date
Prepaid Rent	865.00	5,259.63
Current Rent	162.00	13,780.69
Past Due Rent	0.00	1,773.10
Total	1,027.00	20,813.42

(Receipts collected in the reporting period towards Late Fees #1, #2, #3.)

	Daily	Month-To-Date
Current Late Fee	10.00	251.85
Past Due Late Fee	0.00	252.50
Total	10.00	504.35

	Daily	Month-To-Date
NSF Checks	0	0
	0.00	0.00

Concessions (Credits applied to reporting period's charges.)

	Daily	Month-To-Date	Year-To-Date
Rent: Move-In	0.00	148.46	1,281.00
Rent: Move-Out	0.00	0.00	287.32
Rent: Other Periods	0.00	874.79	7,398.70
Late Fees:#1,#2,#3	0.00	669.00	3,149.46
Other Charges	0.00	0.00	6.67
Total Waived	0.00	1,692.25	12,123.15
Disc from Std Rent	120.00	1,935.13	7,217.94

Unit Activity

	Daily	Month-To-Date	Year-To-Date
Move-Ins	2	37	500
Insurance	0	0	0
Move-Outs	0	21	91
Transfers	0	1	12
Phone Inquiries	0	44	164
Walk-In Inquiries	0	30	123
Walk-Ins Converted	0	45	131
Letters Mailed	2	266	1586
Collection Calls Made	0	0	219
Payments Taken	18	293	
Fees Charged	0	180	
Merch. Sales	0	0	

As of Sat Jun 30, 2007

Rental Activity	Units		SqFt	
Rented Units	416	97.0%	66,461	99.0%
Vacant* Units	13	3.0%	650	1.0%
Unrentable	0	0.0%	0	0.0%
Complimentary	4		600	
Total Spaces	429	100.0%	67,111	100.0%
Waiting List	0			
Overlocked**	19			

			$/SqFt
Gross Potential Rent	26,976.00	100.0%	0.402
Gross Vacant Unit Rates	655.00	2.4%	1.008
Gross Occupied Unit Rates	26,321.00	97.6%	0.396
Actual Occupied Unit Rates	25,187.44	93.4%	0.379
Rental Rate Variance	1,133.56	4.2%	0.017
Effective Rental Rates	24,306.25	90.1%	0.366

Unpaid Charges (Curr Tenants)			Units	%GrossPot	%ofAc
0 - 10	56.80	0.5%	2	0.2%	0.2%
11 - 30	6,578.48	55.1%	44	24.4%	26.1%
31 - 60	3,309.74	27.7%	37	12.3%	13.1%
61 - 90	899.67	7.5%	8	3.3%	3.6%
91 - 120	50.00	0.4%	0	0.2%	0.2%
121 - 180	852.00	7.1%	2	3.2%	3.4%
181 - 360	203.00	1.7%	3	0.8%	0.8%
Total	11,949.69	100.0%	96	44.3%	47.5%

Delinquency (Current Tenants, 31 - 360 Days)

Units (rent only)	46	11.1% of Rented Units
Rent Charges	4,569.41	18.1% of Actual Month
Other Charges	695.00	

Liabilities	Units	$ Total
Tot Prepaid Rent	120	11,602.99
Tot Prepaid Insurance		0.00
Tot Prepaid Rec. Charge		0.00
Total Sec Dep		150.00

Rent Last Changed	Units	Var from Std Rate	Units
Leased 0 - 6 months	50	0 - 15%	46
6 - 12 months	0	15 - 30%	24
12 - 18 months	0	30 - 50%	5
18 - 24 months	0	> 50%	4
> 24 months	0	Total	79
Total	50		

Report Explanation

(*) Vacancies do not include unrentable units.
Complimentary units are counted as rented.
(**) Reported values reflect the current tenant status.
Gross Pot. Rent= sum of Std.Rental Rates as of the report date

Gross Occ Rate= gross of occupied units at the standard rates
Actual Occ Rate= sum of actual rental rates for occupied units
Effective Rate= Actual Occ Rate - Credit Concessions on rent for units occupied as of the report date.
Note: see Financial Help for analysis of Pot. vs Actual Revenue

Tot Prepaid Rent = amount prepaid as of the report end date.

Management

Your plan for managing the facility is crucial to getting any loan approval. If you plan to manage the facility yourself, describe your history and experience in a format similar to a resume. If this is your first large property with multiple tenants, highlight your previous experience managing multiple smaller properties. And if you are new to the industry, focus on your people skills, organizational acumen, construction or remodeling experience, and all prior experience in real estate whether you have been a realtor, mortgage broker, appraiser, surveyor, or property manager; all can be talents you bring to the table.

I always discuss my experience and expertise in leasing, collections, maintenance, and my specialty, operations. I will also list the 3rd party vendors or contractors I frequently use to handle my lawn/landscaping, painting, door and spring repair, general maintenance, parking lot sealing/striping, and my property management software vendor. I will also identify who will be on-site to show prospective tenants, prepare the leases, take the service calls, and tend to the day to day operations of the facility, and the proposed hours of operation. If I plan to use a self-serve kiosk for 24 hour leasing and rental payments, I will also list that here, and include a brochure of our kiosk vendor in the appendix or attached in the body of the plan as reference along with their website address. In addition, if I plan to use a call center, I will note the name of the vendor and the hours I plan to utilize their services in addition to their brochure and website address.

Marketing

Depending upon the location of the facility, the current status of its marketing efforts, and the nature of any planned expansion, a detailed marketing plan may be required. The plan may include plans for new or additional signage, a name change, the yellow page and phone book ads, and perhaps some sample copy of your ads and brochures that will be available in the leasing office and distributed to the community. I also include the cost for updating any existing websites, or for designing one from scratch. For most facilities, a projection of an annual budget based on ad costs would be a good start. If this is a turnaround facility, or if I plan to add a significant number of new units, or specialized storage such as climate control, RV condos, or record storage, I may plan to expand my marketing efforts to advertise the newly repositioned facility.

Financial Data

The financials are where the proverbial rubber meets the road. This will determine in the lender's eyes, as it already has in yours, that the project is viable. This is the section that will be referenced the most, so I am certain that it is accurate, and does not conflict with any other financials already presented, or in any other place in the loan request.

Most lenders like to see three years of operating history, and would also like to see projections for the following three years after purchase. I am always certain to explain any abnormalities in the financials should there be any drastic increases or decreases in income or expenses from the previous 3 years. I always pay close attention and include as much financial information as possible. Don't forget your audience here; these folks want to see as much financial detail as possible which also includes narrative that tells the whole story. Not only are the lenders impressed with my preparation, but being thorough gives me confidence in the deal for my own peace of mind.

An example of an operating history for a self-storage facility, which includes a pro forma for future years in the last column, is listed below

	20XX	20XX	
INCOME	Amount	Amount	Amount
Gross Rents :	$198,078	$201,768	$218,484
Parking :	$0	$0	$0
Truck Rental	$345	$437	$452
Revenues :	$198,423	$202,205	$218,936
Vacancy :	$0	$0	
Lease Variance :	$0	$0	$0
Concessions :	$0	$0	$0
Effective Gross :	$198,423	$202,205	$218,936
EXPENSES			
Real Estate Tax :	$15,600	$15,600	$15,600
Insurance :	$4,800	$4,899	$4,800

Management :	$14,536	$13,890	$10,400
Utilities :	$10,897	$9,267	$9,360
Payroll & Benefits :	$0	$0	$0
Contract Services :	$398	$412	$512
General & Admin :	$983	$467	$785
Repair & Maintnce:	$3,456	$3,789	$2,400
Advertising :	$974	$956	$1,008
Trash:	$412	$412	$399
Other :	$0	$0	$0
TOTAL EXPENSES :	**$52,056**	**$49,692**	**$45,264**
	-	-	-
NOI	**$146,367**	**$152,513**	$173,672
Replacemt Reserve:	$0	$0	$0
	-	-	-
Cash Flow	**$146,367**	**$152,513**	**$173,672**

If rental increases are based on the completion of improvements, be careful to account for the increased rents. The cash flow will increase over time, but not all in one year as the leases are almost always staggered, with an average tenancy running approximately 7 months. I am always certain to be realistic, both for the lender as well as myself when stating the projections for future years.

I always check all financial reports as well as all my statements two to three times for accuracy in reporting. If I make changes to the statements, I am always certain to change the statements in the text accordingly.

Source and Use of Funds

A statement of source and use details the disbursement of the loan funds and my equity as borrower. It includes all closing costs including loan origination fees, attorney fees (if any), recording costs, escrows for survey, appraisal, environmental report, and any improvement costs. These figures are estimates and may change as the details of the purchase come together. Below is a sample source and use statement for the acquisition of a self-storage facility:

Source and Use of Funds

Brownsburg Self Storage – 650 N. Dale Schrier Drive, Brownsburg, IN

Borrower – Alcatraz Storage, LLC, by Scott Meyers

Funds Available	
Loan Principal Amount	$1,360,000
Borrower's Funds	$ 457,050
Total Funds Available	**$1,817,050**
Acquisition Costs	
Purchase Price	**$1,800,000**
Closing Costs	
Legal Fees	$1,000
Survey	$2,300
Appraisal	$3,600
Recording costs	$250
Loan Fees	$9,900
Total Closing Costs	**$17,050**
Total Acquisition Costs	**$1,817,050**
Balance of Funds Available	**$0**

This is final evidence of thinking the deal through. Addressing the transaction cost in an orderly fashion demonstrates that I have performed the necessary homework to establish the overall feasibility of the deal. If the facility plan includes loan proceeds to fund any improvements or expansion, I will include a line item schedule of funds requested.

Borrower/Entity Structure

Every lender needs to know who the borrower is. **I always set up a separate legal entity, typically an LLC, to hold title to each facility I purchase**. I will include details of the ownership structure including percentage of ownership and a copy of the articles of incorporation, approved by the state of Indiana, and a copy of my operating agreement. In addition, I will list my tax attorney, and legal counsel for reference.

Background of Principals

The final section of my loan proposal includes a very lengthy "hero file" where I detail my past experience and investment successes. It is a separate, spiral bound booklet that lists in detail a breakdown of the deals I've done in the past, highlighting the profits on the sale of each property. I will also include a list of current facilities in my portfolio, focusing on the increase in Net Operating Income of each facility after I acquired the facility and implemented my best business practices in operations and management. I also include a resume outlining my formal education and industry training, designations, and a list of my awards and recognition. I round out the resume with notes on my family and extracurricular hobbies and interests. **I am a firm believer in adding a personal touch to my plan which helps to find common ground with my lenders and the committees that will ultimately review my request.**

Exhibits

I include as much information in the package as will help to sell the project. At times, I may overdo it, but I would rather err on the side of producing more than enough information for the lender to make a decision, rather than omit what they may be looking for. Tax returns, detailed vendor contracts, proposals for improvements, etc. should be referenced as "available for review upon request, but not included with this proposal".

Packaging

I prefer to copy the package on 3-ring paper, and include in a binder with tabs for reference. Any one of the large office supply stores can assist you with this document at minimal cost. Remember,

our goal is to have our loan proposal moved to the top of the heap when all the loans are proposed at the monthly loan committee meeting, and ultimately, given preferential consideration for being so professional and complete. Make it generic in nature, but include a formal cover to the bank and lender you are making the request to. There have been a few occasions where the lender wasn't able to fund the loan for some reason, in which case I would retrieve the package and forward it to another bank to start the process over.

In Summary, when I have taken the time to prepare a thorough business plan and loan request, it has been given the attention and priority it deserves. And subsequently, I have had a great deal of success in getting my deals funded, and grow my business in ways others have failed.

To learn more about the country's hottest business, from the nation's leading industry expert, please visit Scott on the web at www.SelfStorageInvesting.com and to purchase the Self Storage Investor's Must Have Home Study System, "The Complete Guide to Finding, Evaluating, and Purchasing Self Storage Facilities", and to see the next date and location of the Industry leading 3 day boot camp "The Self Storage Academy"® held in Indianapolis at Scott's facilities, and coming to a city near you!

A Word From the Author:

"Thanks for spending some time reading about the nation's hottest and simplest real estate investing strategy! Although I'm biased, I invite you to visit my website to view the testimonials from all my students and student/partners whom I have helped to become real estate millionaires, without all the hassles of tenants and toilets. Having endured a near bankruptcy experience managing over 500 tenants and toilets, I realized that after surviving, and now thriving in real estate with self storage, my purpose in life was to go out and share my story and business by teaching other investors that there definitely is a better way to invest in real estate – a safer way with a greater opportunity to create huge amounts of wealth, and how to do it much quicker. Since then, I have devoted a large part of my efforts through the creation of my home study systems, 3-day Self Storage Academy, and the dozens of 1 day seminars, webinars, and speaking engagements at the industry's largest shows, where I reveal all my secrets and share my business with those wanting to take advantage of what I learned over the years. I invite you to do the same by visiting me at www.SelfStorageInvesting.com, the industry's largest educational company designed to provide all the tools for investing in Self Storage. So don't wait another day slugging it out with tenants and toilets, or in another weekly meeting with your boss, go there now and sign up for my free e-zine, or join the www.SelfStorageMillionairesclub.com, free for the first month, and see what everybody in real estate is talking about, but that hardly anybody is doing! So Go, DO IT NOW!

About the Author

Scott Meyers, CSSM© has been the president of Alcatraz Storage™ and its affiliated companies since 1993. Scott began his real estate career by purchasing, rehabbing, and selling a single family house with no money out of his own pocket. He took that knowledge and built on it to eventually buy, rehab, and sell over 75 single family homes in the Indianapolis area valued at over $6,000,000.

He quickly graduated into the into the commercial real estate arena by purchasing, rehabbing, and selling over 200 Apartment units in 4 separate developments valued at over $7,000,000. Scott currently owns and manages Facilities from his home state of Indiana, all the way down to Texas. Scott received his Certified Self Storage Management Designation (CSSM) through the National Self Storage Association in September of 2007. Scott was also selected by The Indianapolis Business Journal for its annual 40 under 40 list of up and coming Indiana business owners in 2007 for his accomplishments in mentoring small businesses through his small business incubator, and the many successes he has enjoyed in his own business, Alcatraz Storage™. Scott was the past President of the Central Indiana Real Estate Investors Association (CIREIA), and the co-founder of the Indiana Real Estate Investors Association (IREIA). Scott also spent several years as an instructor of the Landlord 101 course through the University of Indianapolis in partnership with The Central Indiana Real Estate Investors Association teaching investors the best business practices in managing rental real estate. Scott received his Certified Apartment Manager (CAM) through the National Apartment Association in 2004 and was a member from 2001-2006. Scott has also been a member of the Indiana Chapter of the Young Entrepreneur's organization (YEO) since 2000 and has held an Indiana real estate license since 1998 and has brokered hundreds of deals worth over $12 million dollars. Scott is also a Crown Financial Ministries instructor and Budget Counselor, and directs the financial ministries at the church he and his family attend. Scott attended the University of Michigan and worked 8 years in the telecommunications and software industries before starting he founded his own real estate companies.

To find out more about Scott or how to begin investing in Self Storage, You can contact Scott by going to www.SelfStorageInvesting.com.

