

# Briefly...

## Industry Leaders

The SSA Ski Workshop at the end of January will once again feature the popular “State of the Industry” session, which this year includes Jeff Anderson (Stor-All), Paul Powell (Sovran Self Storage), Jim Stevens (Extra Space Self Storage), and Patrick Reilly (Urban Self Storage). There’s no better place to enjoy incredible skiing and take advantage of some of the sector’s top experts.

## Joe Gibbs

He’s an NFL icon, a NASCAR magnate and a model of community leadership. Hall of Famer Joe Gibbs will be the keynote speaker at the SSA Spring Conference & Trade Show, which takes place at the Westin, in Charlotte, North Carolina, April 5–7. Don’t miss this rare opportunity to see one of the country’s most wholesome and successful A-list speakers in a great East Coast venue.

## SSA Globe Yearbook

The 2010–2011 *SSA Globe Yearbook & Membership Directory* was distributed to regular SSA members this month. In addition to reviewing Association developments from 2010, it is your link to the vendors and industry contacts throughout the year. Keep it handy!

U. S. Small Business Administration				OMB Approval No. 3283-0048 Expiration Date: 11/09/2012	
APPLICATION FOR BUSINESS LOAN					
Individual		Full Address			
Name of Applicant Business				Tax I.D. No. or SSN	
Full Street Address of Business				Tel. No. (inc. Area Code)	
City	County	State	Zip	Number of Employees (including subsidiaries and affiliates)	
Type of Business		Date Business Established		At Time of Application _____	
Bank of Business Account and Address				If Loan is Approved _____	
				Subsidiaries or Affiliates (Separate for above) _____	
Use of Proceeds: (Enter Gross Dollar Amounts Rounded to the Nearest Hundreds)		Loan Requested		Loan Request	
Land Acquisition				Pay off SBA Loan	
New Construction/ Expansion Repair				Pay off Bank Loan (Non SBA Associated)*	
Acquisition and/or Repair of Machinery and Equipment				Other Debt Payment (Non SBA Associated)	

# SBA Loans for the Industry Could Assist Refinancing

By Laura Williams-Tracy

Self storage owners looking for a friendlier financing source might find it through new business loans from the SBA. The U.S. Small Business Administration (SBA) has changed the rules affecting “passive income” properties and for the first time made self storage eligible for SBA financing.

It’s a mixed blessing for the self storage industry. The change is expected to help smaller self storage operators who need to refinance properties but not necessarily fuel self storage construction because banks are still wary of risky construction loans.

“It could be blessing for small owners, which is most of the industry,” says Chris Sonne, senior managing director of valuation and advisory services for the self storage industry group of Cushman & Wakefield Western in Irvine, California. “That’s really where financing has hit the hardest.”

As a result of the banking crisis, self storage owners have lost much of the ability to leverage properties. In order to refinance, many small operators have faced putting tens or hundreds of thousands of dollars into their properties in order to secure new financing terms. In the worst cases, owners of viable businesses have been forced to sell the property that was their livelihood.

John King, owner of Roswell, Georgia-based Green Commercial Capital Corporation, which connects borrowers with lenders, says owners who can qualify for a new SBA loan may get better leverage and a lower interest rate, freeing revenue to expand the business.

“It’s really going to help people with regard to cash flow,” King says. “Not everyone can be helped, but those that have been hanging on should be able to be helped if they qualify.”

Two SBA programs, 7a and 504 loans, are potential tools for self storage owners, though industry watchers say the 7a program is likely a better fit for the industry.

The SBA 7a loan program is a variable-rate loan pegged to prime. Banks may be willing to approve refinancing under the SBA 7a program because the SBA

*SBA Loans, page 46*

offers a 90% guarantee to the bank if the borrower defaults, King says. The downside of the SBA 7a loan is that as the economy improves and the prime rate rises, borrowers could face a rising interest rate.

“It’s a bridge product,” says Shawn Hill, principal of The BSC Group in Chicago, which is formalizing an alliance with Quadrant Financial to offer SBA loans to self storage customers. Hill says qualifying customers will take advantage of the SBA 7a program for a 5-year term while the debt market continues to settle down. When the lending environment has improved, borrowers will go back for their next permanent loan.

The SBA 504 loan is a mostly fixed-rate, two-loan structure with the first 50% of the loan coming from a bank. The second half of the loan is underwritten by a certified development company, guaranteed 100% by the SBA. Because banks are shouldering the risk for the full amount of the first 50% of the loan, banks will be scrutinizing applications carefully.

Another complicating factor of the SBA 504 program is a job creation provision which may make it less suitable for self storage loans. That requirement that borrowers

hire employees based on the amount of money borrowed might not work well for self storage operations.

“Eligibility might be dicey under the 504 because technically it has job creation guidelines and self storage units don’t have lots employees hanging around,” King says. “It will be a matter of interpretation for the lender.”

Hill says the SBA program isn’t for large storage companies or REITS but fits best for owners who need to refinance a deal valued between \$1 million and \$5 million dollars

“What’s great is this is exactly what’s not in the market now,” Hill says. “Those are guys having a hard time with local banks. The SBA targets little guy.”

Hill says owners interested in an SBA loan will need to work hard to find the right lender. Many banks have always shied away from self storage loans. Adding the complicating factor of SBA regulations further narrows the pool of potential lenders with experience in the product type.

“When you are dealing with a government program, there are lots of rules, many of which haven’t been figured out yet,” Hill says. “At the end of the day this is a good thing, but it’s not a panacea. It’s still a loan and you still have to have a good property and work to convince the lender before you qualify.” ❖

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