

Self-Storage Market Update

October 2, 2024

1. **Lender Understanding is Critical for Success:** A major theme Largo continues to see across the country is how important it is to work with lenders who truly understand the unique needs of self-storage projects, especially during construction and lease-up phases. Many standard construction loan programs don't offer a long enough interest-only (I/O) period to allow for full stabilization, which can adversely impact the financial success of a project. An I/O period that's too short may force borrowers to turn to expensive bridge loans when it comes time to refinance. It's important to find lenders who offer flexible terms that match the longer timeline of these deals.
2. **Shift in Demand - From Construction to Refinance:** There's been a recent pivot in the market from a focus on new construction to a growing demand to refinance. The current economic climate, along with higher interest rates, has slowed down new builds. Borrowers are more cautious, and many are looking to refinance existing facilities, especially as they try to capitalize on their built-up equity.
3. **All Eyes on the Fed:** The Federal Reserve's interest rate decision has been a hot topic all year. Many borrowers were holding off on refinances or acquisitions, hoping for the Fed to lower interest rates at their September meeting. While short-term borrowing rates have come down, 5- & 10- year treasury yields remain in the mid to high 3's, putting permanent rates in the 5.00-6.50% range.
4. **Non-Recourse Loans - A Borrower's Best Friend:** Non-recourse financing is a highly coveted option for self-storage investors who want to mitigate their personal financial risk. Some borrowers were unaware that this option was possible through lower leverage transactions with life insurance companies or conduit lenders providing higher leverage options.
5. **Life Companies - The Competitive Advantage:** A lesser-known but important insight for many self-storage facility owners is that life insurance companies have some of the most competitive loan programs in the market. Life Cos offer lower spreads, better rates, longer terms, and flexible structures that are often more appealing than what traditional lenders provide. Surprisingly, many owners are unaware of how competitive Life Cos have become in this space, making it a key takeaway for anyone seeking favorable financing.