SECTION VII

LAND PLANNING AND FINANCIAL PRO FORMA

How much of the site should be allocated to each land use?

There are three potential land uses in question:

Vehicle storage
Mobile self-storage
Traditional self-storage

We have developed estimates of the site's absorption potential for each of these uses. They are:

Vehicle storage	About 400 spaces
Mobile self-storage	100 to 150 containers
Traditional self-storage	36,000 square feet

Absorption potential provides some guidance for planning. But there are other considerations as well:

The already approved plan
Need to be flexible as supply and demand changes over time
Financial productivity of each use and how that should be balanced

The following discussion works through these considerations.

The site's gross land area is 8.52 acres.

The approved plan calls for 98,942 square feet of self-storage and 314 parking spaces for rent, plus the office and other non-economic uses. The layout is a fortress, with all of the storage buildings along the outside and a large area for parking in the center. This layout is efficient in that the driveways for the parking area and for unit access are shared.

As long as the high walls are retained and vehicle storage is proposed as the first phase of a mixed self storage and vehicle storage development the city should not object to some revisions in the details of the plan.

In fact, since the self storage market is becoming overbuilt it makes good business sense to start with a major vehicle storage operation and some self storage in the first phase, with the expectation that more self storage, and perhaps mobile storage, will be added in the future as market conditions improve.

Zoning allows other commercial uses. But an undesirably long planning and approval process would be needed to reposition the site.

Vehicle storage is the least financially productive of the three uses.

There are a couple of ways of comparing the financial productivity of different land uses. They are:

Gross revenue per acre at full occupancy
Net revenue per acre at full occupancy

By these measures, mobile storage is by far the most productive use, followed by self storage and then vehicle storage. See Table 7-1.

Even though vehicle storage is the least financially productive use it may be the best use for most of the site at this time.

Current market conditions don't support more self storage than indicated above. And we really don't have a good grasp of how deep the mobile storage market might be. A 100 to 150-container operation seems supportable at this time.

That leaves vehicle storage as the best use for most of the land area.

Here is how the land area should be allocated at this time:

Land Use	Acres
Vehicle storage	7.5
Mobile self-storage	0.0
Traditional self-storage	1.0
Total	8.5

As support for this allocation:

- **Mobile storage**: Preliminary analysis of the market indicates that this could be a good business. But it may make good sense to delay starting it until the other operations on the site are up and running. If and when mobile storage is added it may only require about one-half acre. See Table 7-2 for estimation of land needed for mobile storage with a 150-container operation.

- As for **self storage**, the current plan gets about 40,000 square feet of self-storage space per acre, due to the sharing of driveways between self-storage and vehicle storage. If the same efficiency can be achieved with a new plan then only 1.0 acre will be needed for the recommended 35,000 square feet of rentable self-storage space.

- **Vehicle storage**: Some 7.5 acres are available after allowing for the other uses. Up to 450 parking bays may be planned on this acreage, at a density of about 60 bays per acre. That's more than the absorption projection of 400 bays—but it allows for vacant space and fluctuations in demand during the year. See Section VI for discussion of site planning for vehicle storage—especially Table 6-6.

The hard cost for the project is likely to be just over $4.0 million.

A detailed estimate of costs is presented in Table 7-3. It includes a breakout by land use. The allocation of costs to land use is not perfect. But it is close enough to give some idea of the cost of each use. The basis for the estimate is figures provided by Damato Associates, Inc. in their August 2006 cost breakdown for a 99,000 square foot storage facility with RV storage on the site.

Construction financing is analyzed in Table 7-4. With soft costs the total project cost is a little over $4.1 million. At construction loan of $3.5 million is estimated at 85% of cost. Equity of $620,000 will be needed. The current value of the land is estimated to be about $1.1 million, which is nearly double the required equity.

The combined gross income potential is about $959,000 per year.

Vehicle storage contributes the most to the gross, about 61%. The gross includes rental income plus a modest allowance for other income from late fees and sales of goods. This could actually be higher if an RV-oriented store is created on site.

There is no allowance made for sale of services, such as detailing, which should probably be provided by other vendors.

After allowing for vacancy and expenses the net operating income comes to about $476,000.

A 15% vacancy allowance is made for vehicle storage and 10% for self storage. Vacancy reduces income by about $125,000.

Expected operating expenses are detailed in Tables 7-6. The overall expense ratio is projected to be just over 37%, with annual costs projected to be about $358,000.

A five-year projection of cash flow is presented in Table 7-7.

Income will be relatively low the first year as the space is being leased up. The projection assumes fairly modest rates of lease up. Expenses will outweigh income the first year by some $70,000 in this projection. Before debt service.

It is assumed that the construction loan will be serviced the first year. The debt service is estimated to be $323,000. As a result, the total net outflow the first year could be $393,000.

There should be considerable improvement in the second year, by the end of which the facility is projected to achieve stable occupancy of both vehicle storage and self-storage. Net income should be positive—about $390,000. And it is assumed that permanent financing will be in place then, with a lower debt service. Cash flow is $161,000.

With a minor net increase in vehicle storage rent (above expenses) starting in the third year and very minor net increases in self-storage rents starting in the fourth, there is a slow projected increase in net operating income and cash flow over time.

Three measures of potential return are shown on Tables 7-8 and 7-9.

The top part of Table 7-8 estimates total cost, or all-in cost, to opening. It includes land, construction costs and related soft costs. All-in cost is projected to be just less than $4.9 million.

The initial capital investment is projected to be almost $1.1 million. It is the difference between all-in cost and the permanent loan amount, which is assumed to be put into place after the first year of operations.

The cash-on-cash return shown on Table 7-8 is the pro forma stabilized cash flow divided by the initial capital investment. It comes out to 23.3%.

The return on cost is the stabilized net operating income divided by the all-in cost. In this scenario it comes out to 9.8%.

Table 7-9 shows the projected internal rate of return after five years of operations. It is 23.0% in this scenario.

Bear in mind that all of the cost estimates and operating expense estimates need more thorough research and analysis before making a definite conclusion about financial feasibility.

TABLE 7-1
FINANCIAL PRODUCTIVITY COMPARED
MOJAVE DRIVE SITE
VICTORVILLE, CA

Item	Vehicle Storage	Mobile Storage	Self Storage
Units	Parking Spaces	Containers	Net Square Feet
Gross rent/unit/month	$90.00	$185.00	$0.85
Units/acre	55	286	21,780
Gross rent/acre	$4,950	$52,832	$18,513
Expense ratio	30%	60%	37%
Expenses	$1,485	$31,699	$6,850
Net/acre	$3,465	$21,133	$11,663

Source: Stratton Research

TABLE 7-2
PLANNING FOR MOBILE STORAGE OPERATIONS
LAND AREA NEEDED
MOJAVE DRIVE SITE--VICTORVILLE, CA

Item	Width	Depth	Amount	Unit
Number of containers			150	boxes
Average dimension	8	12	96	square feet
Containers in stack	- -	- -	3	boxes
Number of stacks	- -	- -	50	
Stacking area--net	400	12	4,800	square feet
Working area clearance	40	40		
Stacking area--gross	440	52	22,880	square feet

Source: Stratton Research

TABLE 7-3
CONSTRUCTION COST ESTIMATE
MOJAVE DRIVE SITE
VICTORVILLE, CA

Item	Basis	Vehicle Storage	Self Storage	Mobile Storage	Office/Apt General (d)	Total
Acreage		7.52	1.00	-	-	8.52
Square feet of site		327,571	43,560	-	-	371,131
Percent of site		88.3%	11.7%	0.0%	0.0%	100.0%
Units of storage		450	234	-	-	-
Square feet built*		74,080	41,100	-	3,000	118,180
Pct of built area		62.7%	34.8%	0.0%	2.5%	100.0%
Perimeter wall, linear feet (c)		1,377	523	-	-	1,900
COST ESTIMATES:	DAI					
Allocation of lump totals:**	Estimate					
General conditions	151,150	118,294	32,856	-	-	151,150
Site work	1,341,107	1,049,589	291,518	-	-	1,341,107
On-site	965,007	755,243	209,764	-	-	965,007
Off-site	376,100	294,347	81,753	-	-	376,100
Furnishings	5,000	-	-	-	5,000	5,000
Subtotal	1,497,257	1,167,884	324,373	-	5,000	1,497,257
Perimeter wall, per linear foot: (c)						
Concrete	97.31	133,999	50,895	-	-	184,893
Masonry	99.21	136,612	51,887	-	-	188,499
Subtotal		270,610	102,782	-	-	373,392
Per square foot built:***	Per Sq. Ft.					
Concrete	5.76	-	236,719	-	17,279	253,997
Masonry	5.87	-	241,335	-	17,616	258,950
Metals (a)	8.02	415,653	362,382	-	24,047	802,081
Wood & Plastic	1.30	-	48,040	-	11,689	59,729
Thermo & Moist Control	0.63	-	25,766	-	1,881	27,647
Doors & Windows	0.85	-	34,911	-	-	34,911
Finishes	2.47	-	81,301	-	14,836	96,137
Specialties	0.08	-	3,217	-	235	3,452
Special Construction	1.57	-	64,611	-	-	64,611
Mechanical	0.64	-	26,360	-	1,924	28,284
Electrical	2.93	151,888	120,383	-	8,787	281,058
Subtotal		567,541	1,245,024	-	98,292	1,910,857
All Hard Costs		2,006,035	1,672,180	-	103,292	3,781,506
Contingencies, Insurance & OH&P at 6.0%		128,045	106,735	-	6,593	241,373
TOTAL		2,134,079	1,778,914	-	109,885	**4,022,879**
Per square foot built		28.81	43.28	-	36.63	34.04
Per unit		4,742	7,602	-		

* Based on average unit sizes. For vehicles includes covered storage only. For mobile storage, cost of shed/warehouse.

** Allocations based on percentage of site area for each land use.

*** Square foot estimates derived from DAI cost breakdown dated 8/15/06

(a) Metals include covered RV/boat storage and warehouse/shed for mobile container storage. SF rate discounted by 30%.

(b) Electrical for RV includes lighting, service to covered spaces & also lighting in mobile storage area.

(c) Perimeter wall exclusive of self storage buildings. Linear foot rate estimate extrapolated from square foot costs.

(d) Acreage is included with self storage, but construction is here accounted for separately.

Source: Stratton Research

TABLE 7-4
CONSTRUCTION AND PERMANENT LOANS
MOJAVE DRIVE SITE
VICTORVILLE, CA

	Item		Amount	Note
1	Hard cost estimate		$4,022,879	TABLE 7-3
2	Other costs			
3	Permits		$65,000	Estimate
4	Studies & appraisal		$12,000	Estimate
5	Subtotal		$77,000	
6	Contingency	10%	$7,700	
7	Total other costs		$84,700	
8	Total cost (excluding land)		$4,107,579	
9	**Construction loan estimate:**			
10	Total project cost		$4,107,579	
11	Loan to cost ratio	85%		Typical
12	Construction loan amount (CLA)		$3,491,442	
13	**Equity analysis:**			
14	Owner equity needed		$616,137	
15	Land value: 8.52 acres		$1,150,200	Exceeds equity need
16	$135,000 per acre			Broker estimate
17	**Construction loan analysis:**			
18	Interest rate	9.25%		
19	Interest only debt service - monthly		$26,913	
20	Origination points	0.50%		
21	Cost of loan orgination points		$17,457	Out of pocket
22	Interest reserve 60% of loan amount		$290,663	Out of pocket
23	18 months			
24	**Permanent loan analysis:**			
25	Value estimate:			
26	NOI at stability		$475,834	TABLE 7-5
27	Cap rate	7.50%		Typical
28	Value		$6,344,453	
29	LTV	60%		
30	Interest rate	6.00%		
31	Interest only debt service - monthly		$19,033	
32	Debt coverage ratio		2.08	
33	Permanent loan amount		$3,806,672	
34	Construction loan pay-off		($3,491,442)	Line 12
35	Cash out		$315,230	

Source: Got Storage? and Stratton Research

TABLE 7-5
PRO FORMA ANNUAL INCOME
ALL SOURCES
MOJAVE DRIVE SITE
VICTORVILLE, CA

	Item		Vehicle Storage	Self Storage	Mobile Storage	Total
1	Potential gross income					
2	Rental		$560,232	$352,836	$0	$913,068
3	Late fees, sales	5%	$28,012	$17,642	$0	$45,653
4	Income from services		$0	$0	$0	$0
5	Total gross income		$588,244	$370,478	$0	$958,721
6	Vacancy rate		15%	10%	n/a	n/a
7	Vacancy allowance		$88,237	$37,048	$0	$125,284
8	Effective income		$500,007	$333,430	$0	$833,437
9	Expense ratio					37.3%
10	Allowance for expenses					$357,603
11	Net operating income					$475,834
12	**Cash flow with construction loan:**					
13	NOI					$475,834
14	Debt service for construction loan					$322,958
15	Cash flow					$152,876
16	**Cash flow with permanent financing:**					
17	NOI					$475,834
18	Debt service for permanent loan					$228,400
19	Cash flow					$247,434

Notes by line #:

2 See relevant report sections. TABLE 6-7 TABLE 4-10 TABLE 5-6

3 Already included in mobile storage income

4 In this case all vehicle-related services, such as detailing, would be provided by others

9 Based on regional averages, see TABLE 7-6

14 TABLE 7-4

18 TABLE 7-4

Source: Stratton Research.

TABLE 7-6
ESTIMATED OPERATING EXPENSES
MOJAVE DRIVE SITE
VICTORVILLE, CA

Item*	Per Gross Square Foot	Annual Amount	Percent of Potential Gross Income
Payroll	n/a	$86,285	9.0%
Property taxes	n/a	$57,523	6.0%
Utilities	n/a	$28,762	3.0%
Marketing	n/a	$23,968	2.5%
Insurance	n/a	$17,257	1.8%
Other	n/a	$143,808	15.0%
Total	n/a	$357,603	37.3%
Additional for mobile storage**		$0	
Grand total		$357,603	37.3%

*NOTE: These estimates are based on national operating data, modified to fit the local market and the scale of this project.

Average for West Coast, suburban SS facilities with climate control inmetropolitan areas (see Financial and Operational Characteristics of Self Storage Facilities, 2005, published by the Self Storage Association):

Item	Sq. Ft.	Amount	Pct of Gross
Payroll	$1.02	$64,533	11.5%
Property taxes	$0.64	$40,491	7.2%
Utilities	$0.26	$16,450	2.9%
Marketing	$0.34	$21,511	3.8%
Insurance	$0.10	$6,327	1.1%
Other	$1.38	$87,309	15.6%
Total	$3.74	$236,620	42.2%

Average facility size (sq. feet)	63,267
Average total revenue (sq. foot)	$8.87
Average gross revenue	$561,181

** Operational costs specific to mobile storage. See TABLE 7-6A

-- Not included in this scenario --

Source: Stratton Research.

TABLE 7-7
CASH FLOW PROJECTION
MOJAVE DRIVE SITE
PHASE I

	Item	Year 1	Year 2	Year 3	Year 4	Year 5
1	Gross potential income	$958,721	$958,721	$976,369	$998,250	$1,020,714
2	Vehicle storage	$588,244	$588,244	$605,891	$624,068	$642,790
3	Self storage	$370,478	$370,478	$370,478	$374,183	$377,924
4	Mobile storage	$0	$0	$0	$0	$0
5	Less operating expenses	$357,603	$357,603	$357,603	$357,603	$357,603
6	Less vacancy costs	$671,218	$211,541	$127,931	$131,028	$134,211
7	Vehicle storage	$397,064	$112,747	$90,884	$93,610	$96,418
8	Self storage	$274,154	$98,794	$37,048	$37,418	$37,792
9	Mobile storage	$0	$0	$0	$0	$0
10	**Avg annual occupancy rates:**					
11	Vehicle storage	33%	81%	85%	85%	85%
12	Self storage	26%	73%	90%	90%	90%
13	Mobile storage	0%	0%	0%	0%	0%
14	Net operating income	($70,100)	$389,578	$490,834	$509,619	$528,900
15	Debt coverage ratio	n/a	1.71	2.15	2.23	2.32
16	Less debt service	$322,958	$228,400	$228,400	$228,400	$228,400
17	= Annual cash flow	($393,058)	$161,177	$262,434	$281,218	$300,500
18	Cumulative cash flow	($393,058)	($231,881)	$30,553	$311,771	$612,271

Notes by line #:

1 Projected income increase above costs:

Vehicle storage	n/a	0.0%	3.0%	3.0%	3.0%
Self storage	n/a	0.0%	0.0%	1.0%	1.0%
Mobile storage	n/a	0.0%	0.0%	1.0%	1.0%

5 TABLE 7-5

6 Based on projected occupancy rates

11 At a lease-up rate of 5.0% per month

12 At a lease-up rate of 4.0% per month

13 At a lease-up rate of 0.0% per month

18 Year 1, construction loan. Thereafter, permanent loan.

Source: Stratton Research

TABLE 7-8
CASH-ON-CASH RETURN
AND RETURN ON COST
MOJAVE DRIVE SITE
VICTORVILLE, CA

	Item		Amount
Total cost estimate:			
1	Target property actual cost		$393,000
2	+ Construction cost		$4,107,579
3	+ Other costs		$368,120
4	Cost of loan orgination points	$17,457	
5	Interest reserve	$290,663	
6	Facility start-up costs	$60,000	
7	TOTAL costs		$4,868,699
Capital investment estimate:			
7	TOTAL costs		$4,868,699
8	Less permanent mortage loan		$3,806,672
9	= Initial capital investment		$1,062,027
Cash-on-cash return:			
10	Cash flow after lease-up		$247,434
11	/ initial capital investment		$1,062,027
12	= cash-on-cash return		23.3%
Return on cost:			
7	TOTAL costs		$4,868,699
10	NOI		$475,834
13	Return on cost		9.8%

Notes:

1	371,045	sq. feet at	$1.06	per sq. ft.
2	TABLE 7-3	Line 8		
4	TABLE 7-4	Line 21		
5	TABLE 7-4	Line 22		
6	Equipment, supplies, marketing, staffing & training.			
8	TABLE 7-4	Line 30		
10	Net income		$475,834	
	Less debt service		$228,400	
	= cash flow		$247,434	

Source: Stratton Research

TABLE 7-9
INTERNAL RATE OF RETURN
MOJAVE DRIVE SITE
VICTORVILLE, CA

Period	Amount
Cash flows (before taxes):	
Initial capital investment	($1,062,027)
Year 1	($393,058)
Year 2	$161,177
Year 3	$262,434
Year 4	$281,218
Year 5 (Includes net sale proceeds*)	$2,840,629
Net to seller (sum of above)	$2,090,374
Overall return on capital	196.8%
Internal rate of return	23.0%
* Sale end of Year 5:	
Net income Year 5	$528,900
Cap rate	7.50%
Sale amount	$7,052,001
Less sales costs	$705,200
Less mortgage principal balance**	$3,806,672
Net sales proceeds	$2,540,129

** Interest only loan.

Source: Stratton Research