

FEASIBILITY STUDIES

by RK Kliebenstein



...he is like a man building a house, who dug deep and laid a foundation on the rock; and when a flood occurred, the torrent burst against that house and could not shake it, because it had been well built. "But the one who has heard and has not acted accordingly, is like a man who built a house on the ground without any foundation; and the torrent burst against it and immediately it collapsed, and the ruin of that house was great." Luke 6:48

Ok so it may be a bit of a stretch that feasibility studies are Biblical, but not entirely off base! There is great logic in basing the fundamentals of your venture on a firm platform. Knowing what is ahead of you will help you to understand the risks in self-storage development and when storms occur, you may be well pleased that you dug deep and found a solid tie point to build upon.

FEASIBILITY STUDY VS. MARKET STUDY

These are two very different studies, although a comprehensive feasibility study will include a market study. A market study may be a place to start, but the decision to move forward with the development should go much further.

A good market study will inform the reader of past, current and predictive market conditions. The author will inform how the subject property is positioned in the market based on the data presented. The market study will be used to create the assumptions and draw the conclusions stated in the feasibility study (which cannot be properly prepared without a market study).

A good feasibility study will concentrate on the econometrics of the deal

focusing on internal rates of return, developer's yields and return on cost. The feasibility of a project can only be determined by calculating the returns. If they are acceptable, the project is feasible. It is entirely possible to have a very strong market, and a market study recommendation that is an absolute "yes," but if the project cannot produce sufficient returns on the investment, then it is not feasible to build.

The most critical elements are:

- Cost assumptions
 - › Land, entitlements, soft costs
- Lease up
 - › Time, marketing costs, negative cash flows
- Cash flows

Critical Questions That Must Be Answered in a Feasibility Study:

1. At what percent occupancy is the project stabilized, and how long will it take?
2. How long will it take to get entitlements, and how likely are they to be obtained?
3. Will public hearings be required, and if so, how many and when are the meetings?
4. What will be needed to make a formal submission (how much

The feasibility of a project can only be determined by calculating the returns. If they are acceptable, the project is feasible.

- engineering and architectural design must be completed to obtain approvals?
5. What is the current zoning? What zoning classes allow for self storage? What will it take to obtain the approvals?
 6. What professionals will be required (have they been identified)? What are their lead times and costs?
 7. Are there any political influences that need consideration?
 8. Are there new projects under consideration?
 9. How is the project going to be financed?
 10. When will they provide a term sheet?
 11. Who and where is the equity coming from?
 12. What is the expected return on equity?
 13. When is the expected return of equity?
 14. Who will guarantee the debt?
 15. How will the construction loan be taken out?
 16. Who is going to build the project?

17. Type of contract for construction (G-Max/Cost Plus)?
 18. Who will the general contractor be, and how much self-storage experience does he have?
 19. When can they deliver a schedule of values?
 20. Who is going to manage the project?
 21. What is their experience with lease up projects?
 22. What is their assumption for absorption per month?
 23. How will they execute a lease-up strategy?
 24. How were the rent projections determined?
 25. What resources were used to determine occupancy and rental rates?
 - a. REIS?
 - b. Storetrack?
 - c. Self-storage data specialists?
 - d. Field corroboration?
 26. Who are the competitors and how were they identified?
 27. How do the hypothecated expenses match up against reality, and how was reality determined?
 28. Are there "if then" scenarios?
- What if:
- a. Interest rates rise?
 - b. Cap rates rise?
 - c. Lease-up is protracted?
 - d. Existing competitors drop rates?
 - e. A recession occurs?
 - f. What if the market or feasibility study is wrong?
29. Does the preparer of the study have any financial interest in the project?
 - a. Is the preparer insured against errors and omissions? Professional liability?
 - b. Do they have any conflicts of interest?
 - c. What is their relation to the borrower? Developer? Owner? Operator?
 30. How is demand for more square footage in the market calculated?
 - a. Is the preparer more concerned with supply than demand?
 31. What is the exit strategy and when?
 - a. At the time entitlements are obtained?
 - b. At certificate of occupancy?
 - c. At stabilization?
 - d. At maturity of cash flows?

These are just a few of the considerations for determining the feasibility of a self-storage project. It is a complex process and can be a daunting task for the unprepared. A good preparer will gladly share a copy of their work product with you when you are considering hiring them. Ask for references—not the ones they want to give you, but for the last three studies completed. Call the recipients and discuss the project and the report. Was it on time? What was the total cost? What were the conclusions?

Finally, the feasibility should be part of the foundation upon which the project is built. A good and accurate study will be like the rock the foundation is imbedded in—strong and durable. ■

RK Kliebenstein is the Vice President of Acquisitions for Metro Storage. A former consultant who has prepared thousands of studies, RK no longer performs the service, and believes he can provide an objective analysis of the process, with no ulterior motives or interests. Just the facts!

LEARNING AT YOUR FINGERTIPS
TSSA Online Resource Library

TXSSA.ORG
Find what you need when you need it.

A benefit for TSSA members.



ELEMENTS OF A FEASIBILITY STUDY VS. MARKET STUDY

STUDY ELEMENTS	FEASIBILITY STUDY	MARKET STUDY
CONCLUSION AND FINDINGS	✓	✓
AREA CHARACTERISTICS	✓	✓
MSA	✓	✓
MARKET ANALYSIS	✓	✓
CITY	✓	✓
SUBMARKET CONDITIONS	✓	✓
COMMUNITY: 3 Mile Radius/10 Minute Drive Time	✓	✓
Overview of storage market	✓	✓
Map of Competitors	✓	✓
Competitor Profile	✓	✓
Competitor Comparison	✓	✓
Rental Rate Comparison	✓	✓
Historical Rate Analysis	✓	✓
Climate Control Premium	✓	✓
Comparison of 1 to 3 Mile Radii	✓	✓
Comparison of 5 to 10 Minute Drive Time (DT)	✓	✓
Occupancy Analysis	✓	✓
Occupancy by Product Type, Store Age, Demographics, Traffic Count	✓	✓
SITE ANALYSIS & COMPARISON (Compare the subject property to the competitors in the 1 mile and 3 mile Radii (or DT))	✓	✓
Traffic Counts and Patterns	✓	✓
Demographics	✓	✓
SUPPLY ANALYSIS	✓	✓
SF/Capita	✓	✓
New Square Footage in Market	✓	✓
Expansion Capability of Competitors	✓	✓
Organic and Land to Purchase	✓	✓
DEMAND ANALYSIS	✓	✓
Consumption Marker	✓	✓
Market Ownership	✓	✓
Population Growth	✓	✓
Housing Units	✓	✓
Households	✓	✓
Population over 18 years old	✓	✓
Seasonal Conditions	✓	✓
Special Influencers	✓	✓
Student	✓	✓
Military	✓	✓
Vacation/2nd Home Market	✓	✓
Demographic Anomalies	✓	✓
“Soccer Mom” Index	✓	✓
Reversion Analysis	✓	✓
METRIC DELTA COMPARISON	✓	✓
RESUME OF CONTRACTOR	✓	
RESUME OF DEVELOPER	✓	
RESUME OF OPERATOR	✓	
RESUME OF ENGINEER	✓	
RESUME OF ARCHITECT	✓	
RESUME OF ZONING CONSULTANT	✓	
RESUME OF PREPARER OF THE STUDY	✓	
SCOPE OF WORK	✓	
LIMITATIONS OF THE STUDY	✓	
SCHEDULE OF VALUES	✓	
DRAW SCHEDULE	✓	
TERM SHEET FROM LENDER WITH DEBT ASSUMPTIONS	✓	
NUMEROUS INTEREST RATE SCENARIOS (Construction and Permanent)	✓	
EQUITY EXPECTATIONS	✓	
FINANCIAL STATEMENTS OF GUARANTORS	✓	
RENT COMPARABLE ANALYSIS COMPARISON OF PROJECT TO COMPETITORS	✓	
UNIQUE MARKETING PROPOSITION	✓	
EXIT STRATEGY	✓	
PROJECT SALES COMPARABLES	✓	
OTHER POTENTIAL LAND OPPORTUNITIES	✓	
GROWTH PROJECTIONS FOR THE COMMUNITY	✓	
POLITICAL CONSIDERATIONS	✓	
DETAILED CASH FLOW PROJECTIONS	✓	
NUMEROUS CAP RATE SCENARIOS	✓	
DETAILED PROJECT DESIGN CONSIDERATIONS	✓	
UNIT MIX	✓	
“IF THEN” LEASE UP SCENARIOS	✓	
DISCOUNT AND CONCESSION DESCRIPTIONS AND PROJECTIONS	✓	