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BEFORE YOU
PULL THE TRIGGER

Do You Have A Pre-Development Action Plan?

By Benjamin Burkhart

My father and I are avid outdoorsmen. All through my teenage years, we spent many weekends walking through the woods, looking for signs of game, planning our strategies, and practicing our marksmanship. One lesson he taught me was that before you pull the trigger, know where you're aiming, and have complete confidence in your shot. Funny how little lessons like that can apply all through life—even in self-storage.

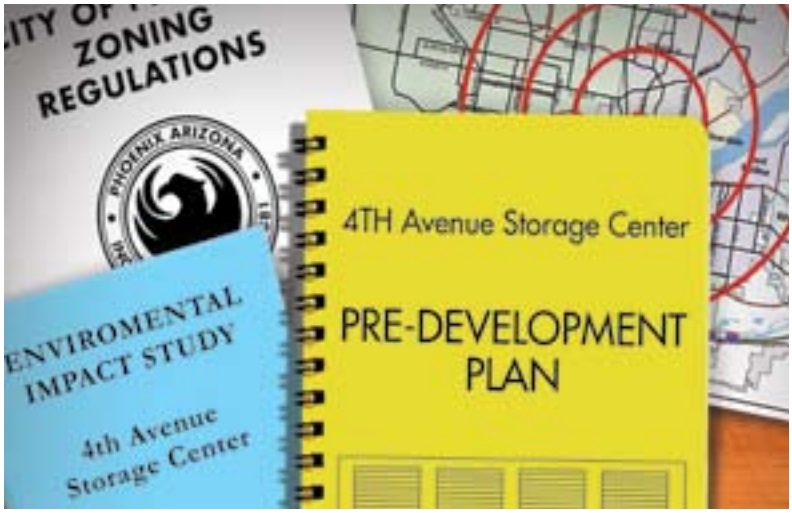
When you are getting ready to take on a project, a lot has to happen before you get to the closing table. Here we will cover some basics of designing the right contract for your needs, determining site feasibility, building your team, and implementing a solid pre-development strategy.

When you are ready to put a contract for purchase on a site, you need to be able to move quickly ...

Let's assume you have already identified what you believe to be a good site for self-storage development. Your goal is to determine if it is the right site, and if it is, to develop the best store for your market. Sounds easy, right?

Your steps for moving through the pre-development period will change with every site, depending on the unique challenges presented by differing physical and topographical characteristics, market, zoning requirements, and deal structure. However, if you use a basic model while planning your strategy, it will improve the efficiency of your development activity.

After the site selection process, you will move into a contract phase. During the contract phase, you will be determining the viability of your site, making the decision to move forward with purchase and construction, and forming a development team.



Locking Up A Site

When you are ready to put a contract for purchase on a site, you need to be able to move quickly to determine if it will meet your objectives. A lot of effort is required when becoming familiar with your site. Each developer will likely have different criteria when regarding site selection. However, you should have answers to some basic questions before you put a prospective site under contract. These questions may seem intuitive to some, but are easily overlooked in the emotions of searching for the next good deal:

- How is the site zoned?
- How is the site accessed?
- What is around the site?
- Does the municipality (city, township, county, etc.) allow self-storage on the site?
- What makes other self-storage businesses successful in your market?
- What is involved in the planning process or, more importantly, in a re-zoning application?
- If I buy the site and it doesn't work out, what is my exit strategy?
- What is the overall state of the surrounding population? Static? Growing? Booming?
- What site specific information can the seller provide?

If you are familiar with the local area or have development experience, the answers to the above questions may come to mind quickly. If not, a call to the local zoning/planning office should give you more clarity.

Good pre-development planning requires a thorough feasibility study and the recruitment of a top-notch development team.

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When you have a good feeling about your answers to these basic questions, you are probably ready to submit a letter of intent or propose a purchase contract to the seller. When you design a contract on a property, give yourself enough time to answer the feasibility questions and form a strategy that your development team will use if you move forward with the site. This is the time to determine what the site could be. Typically, your investigation, or feasibility period, should be not less than 60 days.

Design your contract contingencies around the issues you need to resolve during the feasibility period. For example, if you know you have to re-zone or subdivide a site for self-storage, you may want to build that into the contract as a contingency. The more time you can negotiate, the better. You want to build an "out" into the contract if your feasibility period yields information that sours the purchase.

Be efficient and effective in your development strategy. Ideally, you need enough time in the contract phase to fully investigate every aspect of the purchase so that you can move seamlessly into construction after closing. It would be nice to have enough time to independently implement each step during pre-development planning. However, with a likely finite contract period, several steps could overlap. Make sure you accurately budget time and money during pre-development.

Get Ready: The Feasibility Period

During your feasibility period, time is of the essence. This is the time to perform all the research necessary to determine the strength of the site for self-storage. Your feasibility study should include a geographic and demographic definition of your market, extensive research of market conditions, competition rental rate and occupancy survey, measurement of site specific dynamics, developmental requirements, profitability analysis, economic viability, cash requirements, budgeting, and lease-up projections.

A qualified third party will be able to help you determine the quality of your site as a future self-storage development. Executing this step properly will prove to be the difference between a winner and a loser. The result of a positive feasibility study will help you determine how to make a good project better. Remember that it is better to have a marginal or negative feasibility study than to have a weak bottom line and a project on life support. If your feasibility study gives positive results, then you should be comfortable moving forward with additional pre-development steps.

After determining that the site works for self-storage and that your project will be profitable, you can start building your development team. If the seller cannot provide a recent survey, you need a surveyor. Your survey should identify any wetlands or existing conditions or improvements that may impact you proposed development. Making these determinations will impact the cost of construction or limit the area of the site that can be impacted by development.

To assess the quality of soils, you'll need a soils engineer. The information provided by this member of your feasibility team will be used to determine if the soil can support the structure you have in mind. He or she will also be able to determine the drainage quality of the soils, which will impact the amount of site work required to build your project.

Depending on the prior use of the site, you may need to engage an environmental consultant to conduct a phase one environmental study. Check with your local municipality and anticipated lending institution to determine if you will be required to submit this report with your plans or loan request. If you anticipate having to re-zone a site, you may need to engage a land use attorney and an engineer to manage the request. Tax implications of forming or contributing equity to a new company should be reviewed with a CPA or tax attorney.

Aim: Development Planning

At the same time you are researching the viability of your proposed project, you will need to be forming your development team if you move the contract forward. You will need to select a design team that consists of at least an architect and an engineer. Select a team that understands the local planning climate and requirements and is familiar with self-storage. Your engineer should be able to help you draw up a preliminary site plan to use for estimating costs associated with your project. If you are new to this industry, enlist the help of an experienced self-storage developer who can help you avoid pitfalls of design and development.

You will want to begin estimating costs of construction as early as possible. Until you have your final site plan, it will be difficult to put together exact costs. But once you determine that you are moving forward with the project, you want to get the ball rolling on finalizing your site plan and bidding the project out. Again, if you are new to self-storage, add someone to your team with experience so you can improve the efficiency of your project.

Once you know what your project will cost to build (don't forget contingencies), assemble a professional loan package, complete with your feasibility study, business and marketing plans, site plan, construction budget, proforma, and detailed loan request. Try to impress your lender with the work you have put into the project prior to development.

Fire: Moving Forward

The goal of pre-development planning is to be efficient in moving out of the contract phase. If it is a bad site, you want to quickly return to looking for the right one. But when you go to the closing table on a property, be sure you are ready for the next phase of the project.

Implement a solid pre-development strategy before you pull the trigger. Remember: Build your pre-development team so you hit the bullseye.

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