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Talonvest Capital: 2014 could be the year of small portfolio acquisitions

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2013 was a tremendous year for self-storage acquisitions, so it makes sense that it was a tremendous year for self-storage lenders. One lender, Talonvest Capital Inc., closed out 2013 with $350 million in loans to self-storage borrowers.

While the 20-year-old firm has branched off into a few other property types, self-storage remains the heart of its business.

“It’s been a fun niche,” said Jim Davies, one of the three principals at Irvine, CA-based Talonvest.

Just last month, Davies, along with principals Tom Sherlock and Eric Snyder, handled $60 million in self-storage financing. Of that, $42 million went to Security Self Storage for facility purchases in Colorado, Georgia, Kansas and Texas.

Sherlock said competition for self-storage loans has heated up. Case in point: The lender that financed a previous acquisition by Simply Self Storage didn’t even make the list of four finalists for a $14.2 million loan that the self-storage operator used to buy facilities in Maryland and New Jersey.

The Storage Facilitator caught up with Davies and Sherlock on the heels of their recent deals to get their take on the self-storage financing environment in 2014.

In your recent transaction for Simply Self Storage, you mentioned that there was a list of various lenders competing to make the loan. This is sometimes unheard of in other sectors of commercial real estate. What makes self-storage so desirable for lenders?

Tom Sherlock: The lenders need volume; they are hungry for volume. Self-storage has a couple characteristics that are incredibly attractive. It has a stable operating platform with a consistently good trend line and one of the lowest default rates of any commercial property type out there.

What type of operators and facilities are lenders looking to lend to?

Jim Davies: The competition is more intense for multiproperty financings from experienced operators who have midsize or larger operating platforms, and certainly the quality of the properties and the locations are important. That said, there are enough active lenders back in the marketplace that have had such a positive storage lending experience that they compete aggressively for single assets, too.

Sherlock: Sometimes people will think only about CMBS lenders. There is a big appetite from banks to lend from their own balance sheets, and for life insurance and credit companies. It is not just a single source of financing competing for the business, and that is really driving advantageous terms and pricing for borrowers.

Which type of lender is more predominant now?

Davies: I would say it's a relatively even mix, but it is starting to tilt a little more toward CMBS lending just because they have really gotten aggressive lately.

Sherlock: CMBS is generating more loan proceeds for owner-operators. That is often a motivating factor for borrowers.

How is the current run-up in CMBS different this go-round, compared with before the Great Recession? What lessons were learned?

Sherlock: From the lender side, self-storage is such an advantageous property type that CMBS lenders want the product in their pool. It helps their pools price better. There were lessons learned, though. There are more conservative advance ratios and debt yields and structures, but this has been loosening up over course of the last six to 12 months. It's not crazy underwriting, but it has certainly gotten more aggressive over the course of 2013.

From the borrower standpoint, they are paying greater attention to terms and conditions. Borrowers who are sophisticated are negotiating loan documents hard to make sure they are fair and reasonable.

2013 was an aggressive year for acquisitions. Do you expect more of the same in 2014?

Davies: I would expect a similar volume in terms of properties sold, but probably in smaller portfolios. You probably won't see as many as the large portfolio sales like the Stor-All acquisition that Public Storage completed, the Private Mini-Storage acquisition by CubeSmart and the Public Storage acquisition of the Morningstar portfolio. Those were big portfolios, and you probably won't see as many of the same size.

Sherlock: On the finance side of things, presuming a reasonable rate environment, we expect 2014 to be a big financing year again. Refinance activity continues to pick up as the market approaches 2014, 2015 and 2016 loan maturations.

What does the refinance environment look like this year?

Davies: We are seeing operators that are within about 12 months of their debt maturing willing to pay some defeasance cost so they can refinance now, because they see predictions for the 10-year Treasury rate being moderately to significantly higher by the end of 2014.

What about development? Is it becoming any easier to obtain loans for construction or expansion?

Davies: We are certainly seeing some new developments. Banks are willing to provide construction loans, but it's really for the experienced operators with significant balance sheets. I think there is a demand for new development in specific submarkets because so little product was developed over the last five years.