

# Sweet Home Chicago

## *Private Equity And Institutional Capital Find A Home*

By Marc A. Boorstein, CCIM

Chicago is witnessing a resurgence of private equity and institutional capital raised for self-storage investment. The region is home to many of the most active sources of capital within the self-storage industry. Chicago-based real estate investment companies are funding both the acquisition of existing self-storage properties and new developments nationwide and internationally. New investment capital from across the country is also entering the local Chicago self-storage market, shifting the balance of the area's self-storage operators.

The following is a summary of the area's most active sources of private and institutional capital investing in self-storage:

### **Heitman Real Estate Investment Management**

Chicago-based Heitman is a global real estate investment management firm with about \$25.6 billion in assets under management. Over the past 15 years, Heitman has invested over \$4 billion into self-storage, working through joint ventures with both publicly traded REITs and private firms. Recent transactions with private firms include two separate joint ventures with Lake Forest, Ill.-based Metro Self-Storage, and one with Australia's National Storage. The Australian joint venture includes 20 properties valued at over \$180 million Australian dollars (\$185 million U.S. dollars), consisting of about one million square feet and 11,000 units.

Heitman recently formed its second public company joint venture with Sovran Self-Storage. The venture purchased the Lackland Self-Storage portfolio for \$164 million, with one million rentable square feet in 17 locations in New Jersey and two in Pennsylvania. The Heitman affiliate contributed 85 percent of equity to the venture and Sovran, 15 percent.

### **Harrison Street Real Estate Capital, LLC**

Harrison Street Real Estate Capital, LLC is



a private real estate equity firm headquartered in Chicago and founded in 2005 with over \$3.5 billion in assets under management. Harrison Street focuses on the self-storage, education, and health care segments of the U.S. real estate market. Harrison Street is presently one of the most active funds investing in the self-storage sector. Harrison Street Real Estate Partners III, LP is a new \$595.5 million fund with purchasing power over \$2 billion.

Recent public company joint venture investments by Harrison Street include a \$15.8 million cash contribution in return for a 50 percent ownership interest in 19 self-storage properties owned and operated by Extra Space Storage. The joint venture assumed about \$101 million of debt secured by the properties located in California, Florida, Nevada, Ohio, Pennsylvania, Tennessee, Texas and Virginia.

Harrison Street formed a new joint venture with CubeSmart, with each company having a 50 percent ownership interest in nine United Stor-All self-storage facilities, valued at \$90 million. The facilities are located in New York, New Jersey, Pennsylvania, Virginia and Florida.

Ongoing private joint ventures with North Carolina-based Morningstar Properties include the acquisition of nine Monster Self-Storage properties in South Carolina and Georgia for approximately \$37 million.

Harrison Street purchased with the Magellan Group at the end of 2011 two properties for \$11.2 million in downtown Los Angeles, previously operated by Devon Self-storage; and completed a \$17 million acquisition with R.J. Kelly of Stor-U-Self-storage in Newburyport, Mass., and Portsmouth, N.H.

### **GEM Realty Capital, Inc.**

Chicago-based GEM Realty Capital, a private equity real estate management company founded in 1994, formed a joint venture with North Carolina-based Budget Self-storage to develop facilities throughout North Carolina and one in Toronto, Canada. MJ Partners represented the joint venture in the disposition of these self-storage assets in 2010 for over \$36 million.

### **M/3 Capital Partners**

Chicago-based M/3 Capital Partners initiated its investment program in 2005 with the creation of Evergreen Investment Advisors. M/3 has experience in the self-storage sector, advising Security Capital Group in the 1990s as well as raising capital for self-storage operators in the U.S. and United Kingdom. Evergreen recapitalized Northfield, Ill.-based Lock Up Storage Centers

and participated in their new development and acquisitions. Evergreen has an approximately \$125 million equity commitment, which includes about 30 facilities located in Illinois, Hawaii, Florida, Minnesota, Massachusetts, New Jersey and New York. Evergreen is also a majority owner of Pelican Self-Storage, with locations in Sweden and Copenhagen.

**Blue Vista Capital Management, LLC**

Founded in 2002, Chicago-based Blue Vista Capital Management, LLC co-invests with investors and developers and has participated in joint ventures representing over \$3.5 billion in total capitalization, including self-storage.

**Top Chicago-Area Self-Storage Operators**

**Local Market Overview**

The metropolitan area's self-storage market consists of approximately 900 facilities. The overall market is now considered to be in equilibrium with a supply of 5.62 square feet per capita, according to Self-Storage Data Services (SSDS).

New Chicago-area development by national operators has ceased, opening opportunities for existing storage facilities to capture self-storage demand. The region has approximately one dozen new self-storage developments under consideration or in development, all by local developers/operators.

**Investment Market**

The first non-distressed sale of a Chicago-area self-storage property in over three years occurred late in 2011, generating interest from operators and investment capital nationwide. The abundant supply of liquidity in the market helped push

the capitalization rate for a best-in-class, stabilized self-storage property in Chicago to the low 6 percent range. This cap rate is about 50 basis points higher than recent high profile East Coast transactions for similar properties.

Metropolitan Chicago features a number of prominent local operators as well as public companies. The public self-storage companies represent the market's top three operators. Public Storage, the nation's largest self-storage company, is also Chicago's top operator with 121 properties.

**Top Chicago-Area Self-Storage Companies**

**Public Self-Storage Companies**

Public Storage operates 2,064 properties in the U.S. and 189 in Europe, with a market capitalization over \$24 billion. Public Storage owns and operates all of their 121 Chicago-area properties, reporting physical occupancy of approximately 91 percent at the end of last year.

Extra Space Storage operates 882 properties throughout the U.S. including 340 joint venture and 183 third-party managed properties. Their 22 stabilized Chicago-area properties had 83.8 percent occupancy at the end of the first quarter 2012, and their remaining eight properties are still in various stages of lease up. Extra Space currently wholly-owns 18 local facilities, and third-party manages 12 other facilities.

CubeSmart operates 475 properties nationwide, including 102 third-party managed properties. CubeSmart's 27 Chicago-area properties under management had a combined occupancy of 82.7 percent at the end of the first quarter. CubeSmart recently added 10 properties to its local third-party management platform, bringing their total local properties to 37.

Strategic Storage Trust, a non-traded public REIT operating as SmartStop Self Storage, owns and operates 91 properties nationwide with four newly acquired properties in the Chicago area.

Sovran Self Storage, operating as Uncle Bob's Self Storage, is poised to enter the Chicago market through upcoming acquisitions.

**Private Companies**

LifeStorage, based in Barrington, Ill., has been the most active local developer in the past three years. LifeStorage currently operates 19 high-end self-storage properties including several mixed-use developments.

Metro Self Storage, headquartered in Lake Forest, Ill., currently operates 104 properties in 13 states, including 21 in the Chicago area. Metro Self Storage developed the first self-storage facility in



Illinois in 1973, and the company today is led by brothers Matt and Blair Nagel. The company is the fifth largest private self-storage operator, and about one-third of their properties are company owned, one-third joint ventures, and one-third part of their growing third-party management platform.

The Lock Up Storage Centers, in Northfield, Illinois, own and operate properties in eight states and Europe, with 14 of their 31 U.S. properties located in the greater Chicago area. The Lock Up is an industry leader founded by Bob Soudan, Sr., a past president of the Self-Storage Association and a newly inducted SSA Hall of Fame member.

SecurCare is a Colorado-based operator, managing 13 properties throughout Chicago on behalf of W.P. Carey & Co.

Safeguard Self Storage, headquartered in Atlanta, is wholly-owned by Morgan Stanley's Prime Property Fund, and owns and operates 10 properties locally. Safeguard has been one of the

most active developers throughout metropolitan New York City, and currently own and operate over 60 properties nationwide.

StorageMart, based in Columbia, Mo., has developed throughout Chicago for years and currently owns and operates nine Chicago-area properties, and operates 128 properties throughout Canada and the U.S.

Simply Self Storage, based in Orlando, Fla., owns and operates over 100 properties nationwide, has expanded into Chicago with MJ Partners' assistance, and currently operates eight properties in the area.

Infinite Self Storage, based in Indianapolis, has developed and acquired seven properties in the greater metropolitan Chicago region.

U-Stor-It, located in Elgin, Ill., and led by industry veteran Larry Nora, is one of Chicago's most active developers over the past 25 years, has developed over 60 properties throughout Chicago and

nationwide. U-Stor-It currently has four locations throughout the region.

JSM Venture Inc., based in Northfield, Ill., has developed seven Chicago-area properties within the past five years.


Next Door Storage has 12 self-storage properties throughout Illinois, with three located in the greater Chicago area.

### New Investment Capital Enters Chicago Market

Over the last two years, a surge of new private equity and institutional capital has invested in the local Chicago market, exclusively through property acquisitions. The following are the most prominent transactions:

MJ Partners represented New York-based investment firm W.P. Carey & Co. in their entrée into the local market in 2010, through their acquisition of four self-storage properties located in Chicago, Bedford Park, and Lincolnshire, Ill. The properties were owned by Australia's Babcock & Brown. A public, non-traded REIT affiliate of W.P. Carey & Co. has since purchased an additional 12 properties in Chicago, Rockford, and Peoria as part of a \$163.4 million acquisition of 42 A-American Self Storage properties located in Illinois, California and Hawaii.

Also in 2010, MJ Partners represented Strategic Storage Trust, based in Ladera Ranch, California, in their inaugural Chicago acquisition, consisting of four properties for \$13.5 million. The properties, previously owned by J.P. Morgan Asset Management, are located in Chicago and Cicero, Ill.

Late in 2011, MJ Partners represented Chicago's JSM Venture in the sale of a Class-A self-storage property in suburban McCook, Ill., featuring stabilized occupancy of 87 percent. A real estate fund managed by Morgan Stanley acquired the property for \$7.2 million. 



Marc A. Boorstein, CCIM, a principal with MJ Partners Self-storage Group, has completed over \$2 billion in transactions nationwide on behalf of the leading self-storage operators, institutional investors, and lenders. He can be reached at mboorstein@mjpartners.com or 312.726.5800.

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