



# Using Seller Financing for Self-Storage Acquisitions and Creative Ways to Structure the Deal

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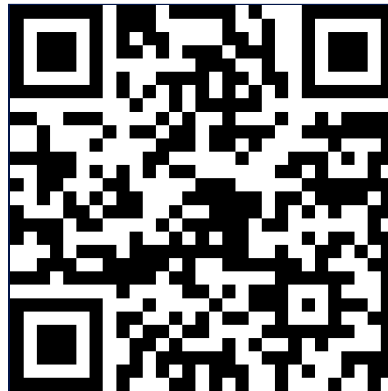




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# Introduction



**14,611**

Units



**2,013,763**

Net Rentable Sq Ft



**55**

Facilities



**\$237,185,000**

Transaction Volume



**26**

States



**28%**

Discount to Market



**943**

Investors

- Based out of Chicago
- Acquire
- Develop
- Syndicate
- Wholesale
- Consult

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- I am not a financial advisor.
- Please consult your legal and financial advisors.
- Past performance doesn't guarantee future performance.
- Results may vary.

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# Today, We'll Cover

- How to simplify seller financing to increase acceptance rate
- How to achieve return on investment (ROI) beyond purchase and sale
- What advanced money-making clauses should ALWAYS be included in loan docs
- What situations create priority of one advanced money-making clause over another
- How these money-making clauses can EXPONENTIALLY increase deal flow and ROI

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# Simplify Seller Financing

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# Simplicity

- 65% of self-storage facilities are owned by “mom and pop” operators
  - Less than two facilities owned
- More first-time buyers than ever
- Speak human, not mortgage calculator.
  - Not everyone knows what seller financing is.
  - Not everyone speaks “bank.”
  - Dollars, not percent
- What information do you actually need to start?

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# What Is Seller Financing?

Seller financing is when the seller acts like the bank and lets the buyer pay part of the purchase price over time.

- To the seller:
  - You make the money rather than the bank.
  - Value is subjective; bank terms value vs. you choose value
  - Less third-party timelines, quicker closing
- To the buyer:
  - My price, your terms
  - Objection elimination through creativity
  - Easier closing

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All offers boil down to debt and equity,  
cash or financed over time.

How that equity and debt is distributed over  
what time period is the context of value.

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# Understand Your Audience

- What level of financial sophistication are you across the table from?
  - Communicate in terms that are natural and shared.
  - Exemplify capability and confidence, not arrogance or ignorance.
- More complexity →  
More educating →  
More time and possible points of failure

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# Natural Language

## 4 Primary Elements of Seller Financing

- Down Payment (DP) = Money Today
  - Periodic Payment (P&I) = Money Over Time
  - Term Length = Time
  - DP + P&I + Balloon Payment = Total Received
- 
- Focus on dollars.
    - Avoids comparison
    - Avoid percentages and amortization
      - Dollars down, dollars per month, total dollars received

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# Simple Info to Start

Seller provides basic info:

- Address
- Gross operating income
  - Everyone's expenses are different
  - Allows for income valuation
- Net rentable square feet: Allows for replacement valuation
- Acreage: Determines expansion capability
- Occupancy: Informs value-add
- Basic due diligence to verify above:
  - T-12 P&L
  - Rent roll

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# Simple Info to Start

Buyer provides:

- Track record
  - Answers “Have you done this before?”
- Explanation of strategy specific to facility
  - Reveals assumptions that can be confirmed or refuted
- Explanation of execution
  - Answers “How will you get this done?”
- Optional additions for additional validation:
  - Finances
  - References

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# ROI Beyond Purchase and Sale

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# Where Profit Occurs

- Purchase
  - Fees
- Operations
  - The spread between net operating income and debt
    - The ceiling to NOI is unknown.
    - Debt is less variable than NOI.
- Sale
  - The spread between purchase price and sale/refinance price
    - The biggest assist to this spread is time.

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If you control time and debt cost,  
you control the value of the facility.



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# The Metrics of Profit

- Debt service-coverage ratio (DSCR)
- Annual cash return on investment (ACROI)
- Dollar per square foot (\$/SF)
- Capitalization rate
  
- These are more buyer-leaning, but seller should be aware
  - These metrics can be manipulated for both parties' benefit during the seller financing but need to account for getting off the merry-go-round (i.e., the transition to market context).

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# Next-Level ROI

- Keep the existing strategies surrounding increasing income and decreasing expenses.
- Structure the seller financing to create:
  - Additional net operating income opportunities
  - More time

Not just limited to the facility itself...

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# Advanced Money-Making Clauses

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# Clauses to ALWAYS Include

- **Nonrecourse**
  - Both personally as well as corporately
  - Standard bad-boy carveouts
  - **Downside mitigation**
- **Allow second position**
  - No construction
  - Seller in first position
  - Construction
  - Seller in second position so bank construction loan is in a first position
- **Downside mitigation and upside optimization**

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# Clauses to ALWAYS Include

- **First right of refusal to buy note**
  - All or any part of the note
  - **Downside mitigation and upside optimization**
- **Rights of prepay**
  - All or part of principal and interest
  - Right to pre-pay future payments
  - No prepayment penalty
  - **Downside mitigation and upside optimization**
- **Default remedy**
  - 120-180 days with right to cure up to foreclosure
  - **Downside mitigation**

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# Clauses to ALWAYS Include

## ■ Insurance claim assignment

- If the buyer finds damage to the property during the due-diligence period, the seller must file any necessary claims and assign claims or previous claims to the buyer before the closing of the property.
- Typically doesn't affect premium for buyer or seller by any meaningful amount due to "Acts of God" causes
- Additional capital consideration:
  - Can benefit both buyer and seller
  - "Free money" for down payment refund, price increase, boost to cash return, improve facility, etc.

## ■ Downside mitigation and upside optimization

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# Favorite Clauses

## ▪ **Wrapable**

- Wraparound mortgage to preserve low-interest senior debt
  - Lender consent essential
    - And/or allow buyer to wrap seller financing
    - **Downside mitigation and upside optimization**

## ▪ **Assumable**

- Debt is assumable
- Preserves payments to seller
- Provides flexibility and opportunity
- **Downside mitigation and upside optimization**

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# Favorite Clauses

## Substitution of collateral

- Upon sale or refinance, existing debt balance can be transferred to a new piece of collateral (i.e. acquire a facility) until end of term
- New collateral must be worth more than debt balance
- Third-party appraisal
- Allow funds to be escrowed until new collateral identified
  - Monthly payments continue
  - Seller remains in first position
- Needs seller/lender approval
  - Approval cannot be unreasonably withheld
- **Upside optimization**

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# Favorite Clauses

- **Moratorium of payments**

- No payment for an initial period of time
  - i.e., no payments for the first 12 months
- Helps with onboarding and stabilizing a value-add deal
- **Downside mitigation**

- **Step-up rate**

- Start with lower payments that increase over time
  - i.e., 0% for the first 12 months, 3% for the next 24 months, 5% for the next 24 months, etc.
- **Downside mitigation and upside optimization**

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# Additional Clauses to Consider

- **Shortage of payment accrual**
  - If there's a shortage of payment when due, the payment is applied first to principal with any unpaid interest to accrue.
- **Automatic forbearance**
  - If for any reason there is insufficient cash flow to cover debt service
  - Interest continues to accrue
- **Annual payments vs. monthly**
  - Keeps operating funds liquid
- **Month-to-month interest accrual**
  - Not day to day; reduces total interest paid and simplifies

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# Real Example: Exponential Effects

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# Example: Rochester, NY

- Seller wanted \$4,000,000
- Buyer able to pay \$2,500,000
  - 75% LTV at 6.5% interest rate
  - 5-year term with 25-year amortization
  - 1.25 DSCR
- Seller financing allowed for offer that hit both seller and buyer metrics
- Seller liked total received but was concerned about prepayment reducing that amount

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# Example: Rochester, NY

- Seller finance structure:
  - \$3,050,00 purchase
  - \$152,500 down payment
  - \$13,280 monthly (5.5% interest-only)
  - 7-year term with no prepayment
  - Total received: \$4,165,520
- Clauses included:
  - Substitution of collateral
    - \$2,897,500 balance
  - First right of refusal to purchase note
  - Allows second position
  - Nonrecourse

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# Example: Rochester, NY

## The exponential effects:

- Debt payment at \$3.05mm is almost the same as conventional bank at \$2.5M
- Down payment is 1/5 of conventional
- Seller receives additional \$1,115,520 and gets his price
- Seller has seven-year annuity-like vehicle for residual income
- Buyer has ability to achieve 16%+ IRR and 2x equity multiple within five years or less
- Buyer has ability sell or refinance and then purchase another facility with little to no money out of pocket, resulting in outsized returns due to substitution of collateral clause

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# Conclusion

We covered:

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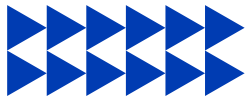


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