



Washington, DC is not only a great place to visit; it's a great place to live and a fantastic place to invest. While enjoying the great national monuments and tourist attractions, it's easy for outsiders to forget there is a real community out there. The Washington region enjoys a robust housing market, one of the highest nationwide. It has very high education and income levels, stable economy and low unemployment. The city is in the midst of a tremendous commercial office building boom and the office market is un-phased by the real estate downturn. As the nation's capitol and an international city, Washington enjoys tremendous outside investor attention. This places Washington in the crosshairs of all major investors and REIT's. But, what makes Washington a great investment market works against the self storage industry. This is a complex region for self storage. Because when you speak of Washington as a community, you're also including the immediate suburbs which are actually in different states and jurisdictions. The Washington MSA consists of several counties in Maryland and Virginia; all having different zoning departments and regulations.

Most large investors are focusing on high profile "trophy" office properties. However, the self storage industry is becoming a desired asset class within the "under \$10 million" investor pool. Washington is densely populated and land for single level self storage is non-existent. The limited number of warehouses and light industrial buildings have been delegated mainly in the Northeast section of the city. Unfortunately, these designated areas have low visibility and low traffic count which is clearly not good for self storage. There are only 22 self storage facilities in the city, all of which were adapted from existing buildings. All properties are climate controlled and mostly Class A. With select retail space renting between \$20-35 per SF in downtown areas, commercial customers make up a significant portion of the customer base.

Entry barriers in Washington D.C. are very high. Only major players (REIT's) with access to low cost of capital will likely be able to maneuver through the maze of regulations, cost of construction and lease-up. With minimum competition, a high occupancy rate, high rental rates, increasing demand for this investment class and rising real estate values in the city, it's hard to imagine a circumstance at this time as to why any company will consider turning a facility over.

Outlook: D.C. is under-supplied with the lowest "Supply Index" in the nation. Opportunities exist in D.C. for investors willing to undertake infill or conversion projects. CAP rates in this market will likely be in the 6.5 – 7.0 range.

Maryland:

In the suburban counties of Washington, D.C, it's extremely difficult to find affordable land with the proper zoning for self storage projects. Like D.C., the barriers are high and land is expensive. In Montgomery County, it's nearly impossible to find available and

affordable land for any commercial use. Howard County, Anne Arundel and Prince George Counties are less dense but unless you have experience working with these environmentally conscious planning and zoning offices, the process can be daunting. There are a large number of home owners' associations in this region that restrict certain types and sizes of vehicles. Self storage facilities that can accommodate oversized vehicles and boats can do very well.

The Baltimore-Washington market is clearly becoming a "megalopolis." The routes 1 & 29 corridors are making the two cities more seamless. The traffic counts on these inter-city arteries, the visibility and the demographics are ideal for the self storage sector. This is the place to be and there is still time to find possible sites.

Baltimore went through a long period of urban distress and decay. But in the past decade with the focus on the Inner Harbor, new tourist attractions, revitalization of Fell's Point and new stadiums for the Ravens and Orioles, the city is on the rebound. Upscale waterfront condos have now crested \$1 million, whereas the median home prices in recent years were slightly below the national level. The world renowned John Hopkins Hospital Center's newly planned medical complex, which is to contain 1.1 million square feet of research and office space as well as retail and residential construction, is planned to start in 2007. This is expected to jump-start surrounding residential neighborhoods and re-ignite the local commercial street retail. D.C.'s booming housing and office markets have made acquisitions in Baltimore more attractive to investors because of the cities close proximity.

Baltimore has the potential of having a vibrant self storage market, given its large number of underutilized and/or abandon warehouses, manufacturing buildings and open areas scattered across the city. With its changing demographics and relatively low acquisition cost one should keep an eye on this market in the future.

Outlook: Turnover of Self Storage facilities throughout Maryland is very low. Demand for this asset class in the region is high. CAP rates will tend to be below the national average because of availability of inventory and entry barriers. Whether you're a new investor or just expanding, don't wait for a resale, your best bet is a conversion or new development ... if you can find the land.

Virginia:

Northern Virginia (Suburban Washington) is one of the highest growth areas in the U.S. with major high-tech and research firms leading the growth. The explosive housing market over the past several years is now seeing a slowdown. Nevertheless, the household income level is among the highest in the nation and home ownership is very high. Many new Class-A self storage properties have come on-line in the past few years. E-Z Storage, a local Columbia, MD, operator is a strong player in this market and has several new attractive multi-level in-fills.

Gainesville is experiencing explosive commercial growth to support the large amount of nearby residential housing communities developed over the last few years. Several Class A facilities have either just opened, are in the planning stage or under construction on Route 29. With this area's growth, the lease-up should be quick. Route 66, once an open road of farms and cow pastures, is now bumper-to-bumper from the I-495 Beltway to Manassas with very little undeveloped land in between. The Dulles-Reston area will be un-recognizable to those who have not traveled through there in the last 5 years.

Outlook: Anywhere you can find available affordable land in this area should be a good site for self storage.

Overall Summary: The self storage sector throughout the Mid-Atlantic region is very strong. The "stars are aligned" for owners who are considering selling their properties. Low inventory, high entry barriers and investor demand makes for a ripe market, especially as rising interest rates will begin to negatively affect value. Buyers should expect low CAP rates; but they must buy smart. Look for upside expansion potential.

Grady Riggs, GRI, is an Associate Broker and Top Producer with Long and Foster Real Estate, Inc., in North Bethesda, MD. Grady is also a CCIM Candidate. His current real estate focus is in commercial investments including self storage facilities, shopping centers, warehouses, commercial buildings and land. Grady can be reached at 301-656-6667 (direct) or gradyriggs@msn.com.