

About Self-Storage Facilities and Financing Them

Self-storage services are constantly in high demand. People continue to buy large items like furniture, televisions, tables, chairs, and many other items that either become outdated or are no longer used. Instead of throwing these items out, people need a storage facility to store their items and keep them safe.

This presents an incredible opportunity for commercial real estate investors to get in on investing in self-storage facilities. However, financing a self-storage facility can be costly and there isn't much information on the internet about how to do so effectively.

This article explains what self-storage loans are, how they work, and why you should use [The Madison Group](#) to help find a self-storage loan today.

Why self-storage?

Self-storage facilities are one of the best [real estate investing strategies](#) that few people know about. We all see self-storage facilities as we drive by them on the road, but we rarely think about the business behind them and who is making money from renting storage space.

However, it's important to know that location and demand are some of the primary factors lenders look at when deciding to issue a self-storage loan. Investors in affluent areas with high demand for self-storage have a better chance of obtaining funding than those in areas without high demand.

Purpose of self-storage loans

Before we dive into how to finance a self-storage investment, you should be aware of the different scenarios that cause investors to inquire about self-storage loans. Below are three types of self-storage loans that you may come across.

New construction

New construction loans are meant for [real estate investors](#) who plan to build a new self-storage facility in their area and need financing to do so. This is one of the most challenging types of financing to obtain from a lender since there isn't an existing market for self-storage facilities in the area—increasing the risk for lenders to fund these projects.

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Investors in need of new construction loans need to conduct [market research](#) to show a detailed picture of the current self-storage landscape and why they think their facility will succeed. New construction loans also have plenty of expenses you'll need to take into consideration, including:

- Down payment requirements
- Interest payments
- Unanticipated costs in the site preparation process
- Operating expenses when preparing to launch

It's important to know that new self-storage facilities take several years to get up and running, which makes this type of self-storage loan less than ideal for new investors.

Renovation

Like any business, self-storage facilities need to look clean, attractive, and inviting to draw in new customers. Sometimes this means renovating the self-storage facility and replacing old or outdated equipment.

One of the most common renovations that self-storage owners make is replacing the rolling doors in self-storage units. This is important since the rolling doors on self-storage units get plenty of use from opening and closing, often needing to be replaced to ensure they are properly maintained and in working order.

The next most common renovation is reconfiguring each unit to adapt to customers' needs. Some units may be too small, so it's a good idea to talk to your customers to see if your facility needs to be renovated.

Expansion

Self-storage financing can also be used for expansion. Expansion loans allow investors to expand their current self-storage business and grow their customer base with new locations or adding onto an existing facility.

This is the preferred type of financing for lenders since investors looking for expansion loans typically have a track record of success running their current self-storage business and need to expand their operations.

Types of financing for self-storage

Obtaining a self-storage loan from a conventional lender can be difficult without prior experience in the industry. However, other options may allow you to finance a self-storage facility to start your real estate investing career.

SBA 504 loans

SBA 504 loans can be a great option for investors looking to purchase a self-storage facility. These loans provide financing up to \$5.5 million and may only require a down payment of 10 percent. SBA 504 loans also have long investment terms, sometimes up to 25 years.

About 90 percent of the funding for SBA 504 loans comes from certified development companies and a bank or credit union. The remaining 10 percent is typically paid by the borrower, although the down payment requirement can reach up to 20 percent.

One of the downsides of an SBA 504 loan is that funding tends to be a slow process that takes several months to complete. Additionally, qualifying for an SBA 504 loan is difficult given the stringent requirements from most 504 lenders.

SBA 7(a) loan

The SBA 7(a) loan is another loan program partially backed by the [Small Business Administration](#) that helps small business owners get the funding they need for various purposes. These loans are a great option for self-storage investors since they have long repayment terms, generous interest rates, and can be used for a variety of different purposes.

The standard SBA 7(a) loan can finance up to \$5 million, but much like SBA 504 loans, qualifying for this loan program is difficult and time-consuming.

Bridge loans

Investors use bridge loans for temporary financing until they can acquire a permanent loan from a bank or financial institution. Bridge loans may help with initial construction costs or other expenses that self-storage facilities incur.



While bridge loans serve a purpose for some real estate investors, they shouldn't be relied upon for self-storage investments due to their high interest rates and repayment terms. After the bridge loan term is up, you'll still need to secure funding from one of the other ways we mentioned.

Why work with us?

[The Madison Group](#) has the experience to help get your investing career started. Established in 2001, TMG has been brokering loans for commercial buildings and investment properties for our customers for over two decades. Whether you're looking to finance a self-storage facility, [mobile home park](#), or other commercial property, The Madison Group can help you get the financing you need.

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