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DEAL OF THE WEEK | *By Maura Webber Sadovi*

Deal Makers Put Hopes for Success in Storage



Extra Space Storage Inc.

Chicago

Christopher Galvin, the former Motorola Inc. chief executive who resigned under pressure in 2004 from the company his grandfather founded, has been busy building a new business far removed from the world of technology.

A year after leaving the Schaumburg, Ill., telecommunications-equipment maker, Mr. Galvin, 59 years old, co-founded a Chicago real estate private-equity firm with his younger brother Michael Galvin, 56, and Christopher Merrill, 38.

Since then **Harrison Street Real Estate Capital**, which takes its name from the Chicago street where the company that was to become Motorola manufactured car radios in the 1930s, has amassed a real-estate portfolio valued at \$1.8 billion.

Harrison is vying to be one of the country's leading private-equity firms—with a twist, Mr. Merrill says. Rather than chasing after trophy office towers or hotels that are popular with many investors, Harrison Street has focused on niche property markets that have clear demographic drivers: self-storage space, student housing and medical offices.



Christopher Galvin

A self-storage facility in Hemet, Calif., is included in a portfolio that will be part of a joint venture with Harrison Street Real Estate Capital.

Chris Galvin couldn't be reached for comment, but Mr. Merrill, Harrison's chief executive, recalls that when the trio started the company "there was concern whether the overall economy would keep performing at its current pace." He added that, "We felt that targeting segments that do well even in downturns as well as when the economy is performing would be the right way to invest."

While many companies have been sidelined by the credit crunch, Harrison Street's funds are still making deals, thanks in part to \$250 million in lender financing it has obtained since September.

Last week, the private-equity firm's Harrison Street Real Estate Partners II fund and Extra Space Storage Inc., one of the country's largest self-storage companies, said they had agreed to form a joint venture valued at \$291 million. Extra Space Storage, a Salt Lake City real-estate-investment trust, said it will contribute 42 self-storage properties in 15 states to the joint venture, which will assume about \$213 million in debt secured

by the properties. Harrison will pay \$62.4 million to Extra Space in return for an 80% interest in the joint venture that is expected to close by the end of the year. Extra Space will have a 20% interest in the venture.

The agreement also provides one of the few benchmarks for the thinly traded self-storage property market this year. The transaction values the properties at about \$95 a square foot, about 20% less than the \$120 value they might have fetched if sold at the peak of the market in 2007, according to Michael Knott, a senior analyst with Newport Beach, Calif., Green Street Advisors.

With some commercial buildings selling at as much as half the price fetched at the peak, some analysts and brokers said they were relieved the damage wasn't worse, noting the transaction suggests the self-storage sector has at the least stood its ground. "This is the first big transaction that seems to validate that self-storage is not going to lose any more than anyone else," says Aaron Swerdlin, senior managing director who manages the national self-storage practice for Holliday Fenoglio Fowler LP in Houston.

As with many deals in today's credit-starved market, the potential to assume the debt, contained in fixed-interest-rate commercial-mortgage-backed securities due in 2015, helped make the purchase attractive. Moreover, on the seller's side the move fit with Extra Space's focus on reducing its debt.

The deal comes as the self-storage industry has come under pressure. The three largest self-storage REITs in the U.S. saw their average net operating income decline 1.5% in the first quarter from the year-earlier period and occupancies slip to 82.1% from 83.7%, according to Green Street.

Mr. Merrill acknowledges the market is facing some challenges but believes people and companies will continue to need places to store their goods. "We may be seeing more pressure, but if you take the macro view, there's a need for self-storage," Mr. Merrill says. When the joint venture closes, Mr. Merrill says Harrison Street will become the seventh-largest owner of self-storage properties by square feet in the U.S. It is currently the 13th-largest, he says.

HARRISON STREET | *Real Estate Capital*