ARGUS
Self Storage Sales Network

Market Monitor

America's Premier Self Storage Brokers **Issue X-2014**

A Word to the Wise

A Look at Feasibility Studies

by Ben Vestal

Here comes the self storage development train. After living through two booms and two busts in my real estate career, it has become clear that real estate peaks and troughs are very much accelerated by the development of new product, which typically begins near the middle of the real estate cycle. In order to make the most of their development efforts, we have learned that the two most useful tools in a developer's toolkit are 1) a rational and critical feasibility analysis (RCFA) and 2) luck. Luck is immensely helpful but it can be highly unpredictable. The good news is that "Lady Luck" frequently seems to be accompanied by a good RCFA. Because my space is limited, I am going to focus on a few points you should consider when looking for a RCFA. This is not to say that cost and timing factors are not important, but only that they are usually somewhat less subjective. It has been my experience that while mistakes in estimating project costs are certainly no fun, they are usually less frequent and not as devastating as "missing the market."

A Short History of Self Storage Development:

At one time or another we have all heard the saying "Build it and they will come." During the first generation of self-storage development, the industry experienced a field of dreams and a feasibility analysis was, at best, folder filler for lenders who were so daring to lend on this new revolutionary product. During this same period the demand was so great for self-storage that "Lady Luck" graced even the most risky developers with her presence. Times have now changed. With more than 50,000 self-storage properties around the United States, storage clients have a far wider choice of amenities, locations and prices than any time in the past. Thus a RCFA has become a very critical tool for the developer who is considering a new self-storage development project. Now the emphasis has switched from properly papering the loan file to finding out if the project will really work and accessing the downside risk. Please note that the words rational and critical in my redefinition of a feasibility study are intended to differentiate the nature and quality of feasibility studies.

Financing:

It is clear that many developers believe that if they get loan approval they infact have proven up the feasibility of the project. Two very serious problems with this misconception are 1) that it assumes that the lenders know something about self-storage and 2) that the lenders are doing you a favor by lending you the money. It is rare to find a lender that understands self-storage and it is never true that a lender is lending you the money as a favor- they love to rent you the money! So just because you got "the money" does not mean your project is feasible! Remember, lenders may be less particular on new development projects because most will have recourse to your other assets.

The Right Answer:

First and foremost, a feasibility analysis should be unbiased. Many times the firms that are doing feasibility studies are often listening to the desires of their clients and consequently their reports reflect the client's prejudice and not actual market insight. Being human, the people who write the feasibility reports want to please their clients. Thus when hiring a firm, the first thing you should consider asking is: "how many of the last ten self-storage stud-

(continued)

ies you've done suggested that the project not be built?" I am not sure what the right answer should be, but by asking the question you are allowing the firm to present you with examples of studies where they have taken an unbiased approach. A good, unbiased feasibility report will cost only a fraction of the $3.5M+ development project you are considering, but it can make all the difference. So when you commission a RCFA you should get recommendations from people you know and trust, request samples of reports and talk with past clients to make sure you are dealing with the right firm. Remember that some analysts use that proven sales method of "if you can't dazzle them with brilliance, you baffle them with volume." Interview several firms - what they say should make sense. It is always good to keep in mind that you want a rational and critical analysis, not a good sales job, so forgive the analyst if he is really into details - he should be!

The Backstop, Take a Peek at the Downside!

Once you have your RCFA in hand, you now must do one more very important thing, verify it. To quote President Regan, "trust, but verify." Take the report to the building and planning departments and see if all of the projects with permits or pending plans are shown in the report. The last thing you need is a surprise competitor. Then actually visit each of your project's competitors and objectively compare them to your project with regards to visibility, access, location, traffic, amenities, pricing, construction quality and occupancy. If you find that the information you collect is different from what is contained in the report, a bell should go off. A few other things to be aware of: Rents- if you must ask higher rents than your competitors are actually getting, or if rents have been declining or concessions increasing; Occupancy – if occupancies have been declining or the average occupancies are below 85%. If you find problems in rents or occupancies it is time to take a deep breath and rethink the project.

The last step in the review of your feasibility report is to do a sensitivity analysis. You can do this easily by merely re-running the income profroma and reducing the rents by 7%-10% and reducing the occupancy by 5%-10% and see how it impacts your NOI, cash flow after debt service and how it recalculates the amount of debt the project will carry. My guess is that changes of such magnitude will cut the projected cash flow by between 50%-60% or more. These projects are very sensitive to changes in revenues. The issue that you are trying to resolve with this test is to see how much error in the esitmate of demand and pricing you can tolerate and still think the project risk is acceptable. You may want to try some other variations after you have seen the results of the first test. There is usually a lot of leverage in self-storage projects, both operating leverage and financial leverage, and it cuts both ways. In the end, you must be comfortable that the projections of demand and pricing and their relative reliability are consistent with the margin of risk you are willing to accept.

Conclusion:

The most important step is to verify the information that is provided in your RCFA because only you can ultimately judge your level of comfort with the proposed project. Remember that good RCFAs are never perfect, and even the very best rely largely on the judgment of the analyst and his real estate experiences. Let's not forget that Lady Luck will also play a major role in the success of your project but a good RCFA will at least put her on your side. Good luck!

Ben Vestal, President of the Argus Self Storage Sales Network, can be reached at 800-55-STORE or bvestal@argus-realestate.com.

Property Showcase

Palatine, IL • $499,000

NEW!

- 84 Units
- 11,900 RSF
- 0.67 Acres
- High density area
- Great visibility on busy commericial street
- Located in Chicago's Northeast suburban market
- Fully fenced and gated
- Enormous upside potential

Bruce Bahrmasel
312-518-3550
bruce@selfstorage.com

Spring City, PA • $5,250,000

NEW!

- 566 Units
- 59,000 RSF
- 6.964 Acres
- Stabilized income and expenses
- Well maintained
- Good demographics in a developing area of Chester County
- 5 approved building pad sites ready for construction

Chuck Shields
610-828-0100
cshields@beaconcre.com

Howell, NJ • $990,000

NEW!

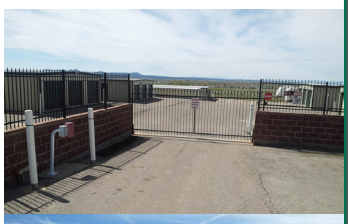
- Self-Storage Development Site
- 118,800 Proposed RSF
- 4.7 Acres
- HD-1 zoning
- High visibility
- Site is approved for a 3-story self storage facility with 25 parking spaces and 5 loading spaces
- Close to new housing development

Linda Cinelli, CCIM
908-722-5661
linda@lcrealtyusa.com

Enoch, UT • $950,000

NEW!

- 295 Units
- 49,600 RSF
- 5 Acres
- Exceptional cap rate of 9.42%
- Significant upside potential
- Approx. 1.5 acres of buildable land
- High visibility for I-15 and Hwy 91
- Fully fenced and secured project

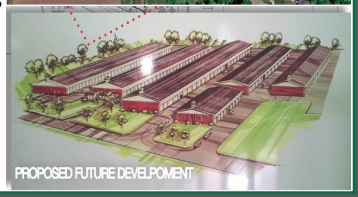


Bill Nicoloff
801-671-7324
bnicoloff@ngacres.com

North Ridgeville, OH $375,000

NEW!

- Self-Storage Development Site
- 19.29 Acres
- 3 parcels sold individually or in combination
- Land has been cleared and is ready to build
- All underground complete
- Utilities run to property
- Drainage and detention ponds completed



Alec Pacella, CCIM
216-455-0925
apacella@naidaus.com

Williamsburg, VA • $6,490,000

- 45,000 +/- RSF
- 6+ Acres
- Currently operates as the Williamsburg Antique Mall
- Additional 2+ acres for expansion
- Great opportunity to purchase income producing real property at 9.25 Cap on actual earnings
- Over 13% Cash on Cash return

Stuart Wade, Jr.
757-618-3597
swade@thenicholsoncompanies.com

Sells Self Storage Nationwide!

For property details, visit www.argus-selfstorage.com or contact your local Argus Broker Affiliate!

Alabama			
Dothan	$4,795,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Phenix City	$1,725,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Pinson	$1,270,000	Bill Barnhill/Shannon Barnes	251-432-1287
		Stuart LaGroue	251-432-1287
Arizona			
Bullhead City	$249,000	Jeffery A. Gorden	480-331-8880
Bulhead City	$431,000	Jeffery A. Gorden	480-331-8880
Fort Mohave	$500,000	Jeffery A. Gorden	480-331-8880
Glendale	$1,260,000	Jeffery A. Gorden	480-331-8880
Yuma	$6,500,000	Jeffery A. Gorden	480-331-8880
Arkansas			
Avoca	$2,347,000	Larry Goldman	913-339-0641
Hiwasse	$599,000	Larry Goldman	913-339-0641
California			
San Jose	$13,500,000	Tom de Jong	408-282-3829
Vallejo	In Contract	Tom de Jong	408-282-3829
Vallejo	$1,850,000	Tom de Jong	408-282-3829
Woodland	$6.50 PSF	Tom de Jong	408-282-3829
Yreka	$590,000	Tom de Jong	408-282-3829
Colorado			
Colo Springs	$2,700,000	Joan Lucas	720-855-6587
Colo Springs	**SOLD!**	Joan Lucas	720-855-6587
Colo Springs	$7,200,000	Joan Lucas	720-855-6587
Cortez	$1,185,000	Joan Lucas	720-855-6587
Fort Collins	$2,500,000	Joan Lucas	720-855-6587
Loveland	$2,400,000	Joan Lucas	720-855-6587
Florida			
Lake City	$325,000	John W. Hill	386-362-3300
Melbourne	$9,500,000	W. Frost Weaver	904-265-2001
New Port Richey	$425,000	Chuck Grey/Jeff Grey	727-849-2424
Tavares	$1,525,000	W. Frost Weaver	904-265-2001
Georgia			
Douglasville	$1,460,000	Mike Patterson	770-241-9070
Jackson	$2,520,000	Mike Patterson	770-241-9070
Lawrenceville	$3,200,000	Mike Patterson	770-241-9070
Villa Rica	$1,200,000	Mike Patterson	770-241-9070
Winston	$292,000	Mike Patterson	770-241-9070
Illinois			
Danville	**SOLD!**	Larry Goldman	913-339-0641
Palatine	$499,000	Bruce Bahrmasel	312-518-3550
S. Beloit	$1,100,000	Bruce Bahrmasel	312-518-3550
Kansas			
KC Portfolio	**SOLD!**	Larry Goldman	913-339-0641
Iola	$530,000	Larry Goldman	913-339-0641
Junction City	$1,895,000	Larry Goldman	913-339-0641
Michigan			
Brooklyn	$925,000	Jim Soltis	810-494-2062
Sturgis	$369,000	Jim Soltis	810-494-2062
Missouri			
Arnold	$1,330,000	Larry Goldman	913-339-0641
Branson West	$895,000	Larry Goldman	913-339-0641
Lee's Summit	$2,650,000	Larry Goldman	913-339-0641
Mount Vernon	$498,000	Larry Goldman	913-339-0641
Sunrise Beach	$1,870,000	Larry Goldman	913-339-0641
Mississippi			
Brandon	$650,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Brandon	$3,449,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Canton	$850,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Leland	$220,000	Bill Barnhill/Stuart LaGroue	251-432-1287
3-Prop. Portfolio	$4,500,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Montana			
Billings	$2,700,000	Larry Hayes	406-544-1921
New Hampshire			
Claremont	$290,000	Joe Mendola	603-668-7000
Londonderry	**SOLD!**	Joe Mendola	603-668-7000
New Jersey			
Branchville	$1,300,000	Linda Cinelli	908-722-5661
Hackettstown	$4,400,000	Linda Cinelli	908-722-5661
Howell	$2,350,000	Linda Cinelli	908-722-5661
Howell	$990,000	Linda Cinelli	908-722-5661
Montague	$1,600,000	Linda Cinelli	908-722-5661
Ogdensburg	$1,600,000	Linda Cinelli	908-722-5661
Orange	$750,000	Linda Cinelli	908-722-5661
Pemberton	$975,000	Linda Cinelli	908-722-5661
New Mexico			
Mesilla Park	$625,000	David Etzold/Noel Woodwell	915-491-9610
Ruidoso	$790,000	David Etzold/Noel Woodwell	915-491-9610
New York			
Bayport	$2,200,000	Linda Cinelli	908-722-5661
Hicksville	$4,200,000	Linda Cinelli	908-722-5661
Islip	$3,995,000	Linda Cinelli	908-722-5661
Middletown	$450,000	Linda Cinelli	908-722-5661
Modena	$775,000	Linda Cinelli	908-722-5661
Monticello	$4,500,000	Linda Cinelli	908-722-5661
Peekskill	$3,500,000	Linda Cinelli	908-722-5661
Port Jervis	$1,600,000	Linda Cinelli	908-722-5661
West Hurley	$4,000,000	Guy Blake	845-522-5900
North Dakota			
Watford City	$1,200,000	Bruce Bahrmasel	312-518-3550
Ohio			
Ashtabula	$379,000	Alec Pacella	216-455-0925
Canton	$2,500,000	Alec Pacella	216-455-0925
Canton	$1,150,000	Alec Pacella	216-455-0925
N. Ridgeville	$375,000	Alec Pacella	216-455-0925
Painesville	Call Broker	Alec Pacella	216-455-0925
Sheffield Vill.	$1,050,000	Alec Pacella	216-455-0925
Oregon			
Medford	$641,000	Steve Boldish	541-776-1031
Pennsylvania			
Bechtelsville	$1,350,000	Chuck Shields	610-828-0100
Matamoras	$1,100,000	Linda Cinelli	908-722-5661
Olyphant	$850,000	Chuck Shields	610-828-0100
Spring City	$5,250,000	Chuck Shields	610-828-0100
Texas			
Conroe	$950,000	Bill Brownfield	713-907-6497
Fort Worth	$4,600,000	Tyler Trahant/Richard Minker	817-840-0055
Galveston	$8,500,000	Bill Brownfield	713-907-6497
Houston	$22,960,000	Bill Brownfield/	713-907-6497
		Joan Lucas	720-855-6587
Schertz	$5,000,000	Bill Brownfield	713-907-6497
Spring	$6.00 PSF	Bill Brownfield	713-907-6497
Utah			
Enoch	$950,000	Bill Nicoloff	801-671-7324
Virginia			
Chesapeake	$750,000	Stuart Wade	757-618-3597
Portsmouth	**SOLD!**	Stuart Wade	757-618-3597
Williamsburg	$6,490,000	Stuart Wade	757-618-3597
Wisconsin			
New Franken	$730,000	Matson Holbrook	414-270-4108

ARGUS SALES

Congratulations to Larry Goldman, CCIM of RE/MAX Commercial who sold the 3-Property Metro Self Storage Portfolio in Kansas City, KS! Contact Larry at 913-339-0641 for more information.

Congratulations to Joe Mendola of NAI Norwood Group who sold Arrow Self Storage in Londonderry, NH! Joe can be reached at 603-668-7000 for details.

Congratulations to Stuart Wade of the Nicholson Companies who sold American Patriot Self Storage in Portsmouth, VA! Contact Stuart at 757-618-3597 for more information.

Congratulations to Joan Lucas of Joan Lucas Real Estate Services who sold a 2-Property Portfolio in Colorado Springs, CO! Contact Joan at 720-855-6587 for more details.

Argus is proud to welcome our newest Broker Affiliate to the Network! Bill Nicoloff, of Newmark Grubb Acres is a managing partner and one of the founders of Newmark Commercial Real Estate in Utah. Bill has worked in the commercial real estate sector, focusing on industrial, investment, and self-storage since 2001. Completing over 720 commercial real estate transactions, he has consistently proven himself to be a top producer of the firm. Bill has also owned a self-storage facility for the past 7 years. Bill covers the states of Utah and Nevada for the Argus Self Storage Sales Network. He can be reached at 801-671-7324 or bnicoloff@ngacres.com.

Contact an Argus Broker Affiliate

	Company	Phone	Territory
NORTHEAST			
Guy Blake, CCIM	Pyramid Brokerage Company	845-522-5900	Upstate NY, Western CT
Linda Cinelli, CCIM, CEA	LC Realty	908-722-5661	Northern NJ, NY (NYC, Long Island)
Joseph Mendola	NAI Norwood Group	603-668-7000	MA, ME, NH VT, Eastern CT
Chuck Shields	Beacon Commercial Real Estate	610-862-1645	Eastern PA, Southern NJ, DE
SOUTHEAST			
Bill Barnhill, CCIM	Omega Properties, Inc.	888-801-4534	FL Panhandle
N.J. "Joey" Godbold	Percival McGuire Commercial Real Estate	704-632-1027	NC, SC
Mike Patterson, CCIM	Commercial Realty Services of West Georgia	770-241-9070	GA
Stuart Wade	The Nicholson Companies	757-618-3597	MD, VA
Frost Weaver (FL Commercial Brokers Network)	Weaver Realty Group, Inc.	904-733-0039	North, Central & South FL
NORTH CENTRAL			
Bruce Bahrmasel	Waveland Commercial Real Estate, LLC	312-518-3550	Northern IL, Northern IN
Alec Pacella, CCIM	NAI Daus	216-831-3310	OH, Western PA
Larry Goldman, CCIM	RE/MAX Commercial	913-339-0641	KS, MO, Southern IL
Mike Helline & Paul Grisanti, CCIM	Grisanti Group Commercial Real Estate	502-253-1811	KY, Southern IN
Matson Holbrook, CCIM & Max Schultz	Siegel-Gallagher, Inc.	414-270-4108	WI
Jim Soltis	Preview Properties.com	810-494-2062	MI
SOUTH CENTRAL			
Bill Barnhill, CCIM	Omega Properties, Inc.	888-801-4534	AL, MS, LA
Bill Brownfield, CRE, CCIM	MKP Self Storage LLC	713-907-6497	South & Central TX
David Etzold & Noel Woodwell	Etzold & Co.	915-845-6006	West TX
Larry Goldman, CCIM	RE/MAX Commercial	913-339-0641	AR
Mike Helline & Paul Grisanti, CCIM	Grisanti Group Commercial Real Estate	502-253-1811	TN
Jared Jones, CCIM	Porthaven Partners	918-583-3483	OK
Richard D. Minker, CCIM	CASE Commercial Real Estate Partners	817-335-5600	North TX
WEST			
Steve Boldish, CCIM	Oregon Self Storage Brokers	541-776-1031	OR
Tom de Jong	Colliers International	408-282-3829	Northern CA
Gilbert Enciso	Torrey Pines Commercial	858-874-8777	Southern CA
David Etzold & Noel Woodwell	Etzold & Co.	915-845-6006	NM
Jeffery A. Gorden, CCIM	Eagle Commercial Realty Services	480-331-8880	AZ
Larry Hayes	Hayes & Associates	406-728-0088	ID, MT
Joan Lucas	Joan Lucas Real Estate Services, LLC	720-855-6587	CO
Bill Nicoloff	Newmark Grubb ACRES	801-671-7324	UT, NV
Jason Wilcox, CCIM	RAVEN Commercial Real Estate	206-919-7643	WA