



A note from Ben Vestal: With the increasing popularity of lien sales in the self-storage industry many state self-storage associations are in the process of modifying their lien law to include internet posting as a form of notice to take advantage of the cost and time-saving benefits. In the article below, Chris Hitler, an experienced self-storage owner and broker explains how new internet resources can help to improve the value of your self-storage property by increasing your revenues from lien sales.

Improving NOI through Auctions by Chris Hitler

There are many ways to enhance your self-storage facility’s Net Operating Income (NOI) including raising prices or lowering expenses by using cheaper service providers. With the recent introduction of reality TV shows like *Storage Wars*, self-storage operators are rediscovering a tool to improve their NOI by recapturing lost revenue from non-paying tenants. Historically, the most important outcome of the lien sale was to have the unit emptied so it could be rented to a new customer and most operators recognized that the auctions were not likely to generate much cash.

Fortunately, *Storage Wars* has changed the game for storage operators by creating a wave of treasure-seekers looking for bargains. In the past, a 10x20 full of boxes, clothes, furniture and other personal effects may only have netted \$10-\$50 at auction, while today an operator can expect anywhere from \$200 - \$1,000+ for that same unit. Better auctions are not only important because more cash ends up in your pocket, but they also increase your Net Operating Income which is the most critical valuation factor when it comes time to sell your property.

Before exploring how you can tap into this trend and get more buyers to your auctions, let’s first review the impact of successful lien sales on property valuations. Net Operating Income is the basis for roughly 70% - 99% of a property’s value. Most buyers value properties based on a multiple of NOI and then make some adjustments (e.g., deferred maintenance allowance). Valuation multiples generally range from 10 to 13 times NOI, so every dollar improvement in NOI has a \$10 to \$13 dollar impact on the property’s value.

Let’s review an example. Assume an Operator has 5 to 10 delinquent tenants that should have paid him \$5,000 in rent and other fees. Let’s also assume the Operator never gets any bidders at his auctions, forcing him to give the stuff away to the local “Junk Guy”. The table below illustrates the valuation impact of NOT realizing that rental income:

Cap Rate	Net Operating Income Multiplier	Decrease in Valuation from \$5K of Lost NOI
7.50%	13.33	(\$66,667)
8.00%	12.5	(\$62,500)
8.50%	11.76	(\$58,824)
9.00%	11.11	(\$55,556)
9.50%	10.53	(\$52,632)
10.00%	10	(\$50,000)

Even if this property’s value has a relatively low multiple (i.e., high cap rate) of 10%, he is still missing out on \$50,000 in value when it comes time to sell and the impact is even higher if the property justifies a lower cap rate!

So now that you understand the valuation impact of better lien sale performance, let’s explore concrete steps that you can take to have more success at your auctions. Just like any product or service, people will only buy it (or in the case of auctions, attend it) if they know about it. Simply relying on your public notice to reach potential auction buyers is not nearly enough. You have to market these events! Some operators like to post signs at their local

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community boards and at the facilities themselves. Serious storage auction buyers are willing to travel great distances (3 hours +) for sales and consequently they probably will not read the local newspaper or see the signs where you posted your public notice.

Another tactic is to capture email addresses of buyers that attend your auctions and notify them of your sales. Unfortunately this approach only markets to current buyers and does not help you attract new buyers. Another option is to hire an auctioneer. Good auctioneers have a database of buyers who they invite to their auctions. Unfortunately accessing their network of buyers comes with a price. Auctioneers can charge anywhere from 20% to 40% of revenue generated.

The most cost effective tactic is to list your auction on an auction website. One resource is www.RummageMarketplace.com. I started this website specifically to improve the awareness of storage auctions. Since launching the website, participating storage owners have increased their buyer attendance upwards of 4 times and the bids for their storage units have increased as high as 10 times!

Here are a few other tips to have more successful auctions:

- The bigger the sale the better. If possible, run one large auction versus a few small ones. Buyers are

willing to travel farther for sales with more units because there is a higher probability that they will purchase one.

- Include a reference to the auction website in your public notice. This gives you a mechanism to notify the public if the sale gets canceled and it reduces your reliance on the newspaper to notify buyers of future sales.
- Treat the process and buyers respectfully. Buyers talk amongst themselves. Many of them are professionals and know the owners that 'stage' units and make them seem better than they actually are. If buyers sense that the facility owner is gaming the process they will tell others and your attendance will suffer in the long run.

Ultimately the auction process is a tool of last resort. Owners want to collect rent checks rather than host auctions. However, if your delinquent tenants leave you no choice but to conduct a lien sale you might as well be successful and get as many buyers as possible to attend. Not only will it put more money back in your pocket, it will give you a better valuation when it is time to sell your property. **MM**

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