

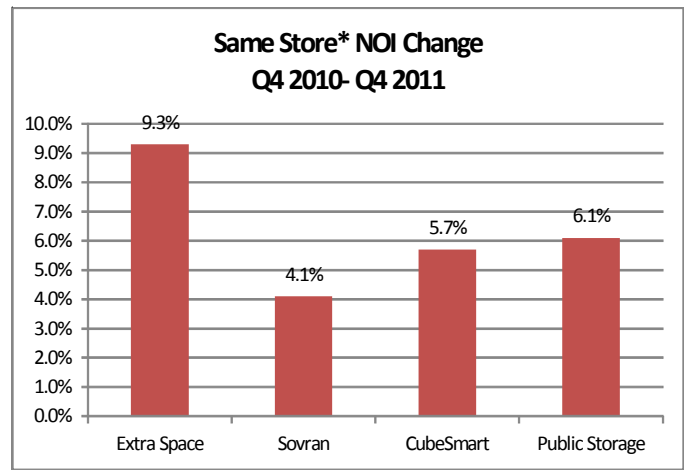
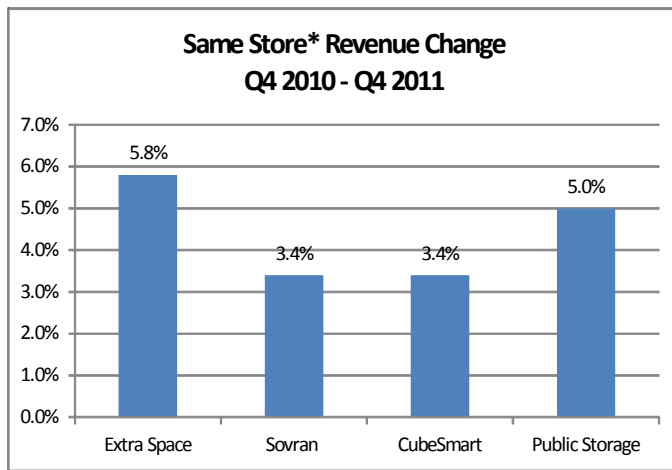


The Game Has Changed...What’s Different This Time?

by Ben Vestal

While we **strongly** believe that the performance of self storage as an investment in the long run is quite positive, we have reason to believe that the game has changed.

We have reviewed the Q4 same store operating numbers of the four major REITs and have outlined them in the charts below. As you can see, the revenues for all four REITs were up between 3.4% and 5.8%, and more importantly, all four of the REITs showed substantial gains in their NOIs, anywhere from 4.1% to 9.3%. In the “new and improved” self storage real estate market, 90% or more of your value is STILL in the NOI, cash is still king and the ability to attract and capture tenants in cyberspace is now the industry norm.



*Note: Same store numbers are based on EXR: 253 Stores, SSS: 244 Stores, CUBE: 331 Stores, PSA: 1,931 Stores. Source: Grubb & Ellis 2011 4th Quarter Self Storage REIT Report

The question you should be asking is did your properties enjoy the same increase in NOI?

With the acquisitions market alive and well, it brings to light the continued bifurcation in the market between institutional type investors and non-institutional investors. It is important to note that institutional does not just mean the four major REITs, it is any group that has access to relatively inexpensive capital/equity today. The access to capital/equity has allowed several of these types of investors to buy up properties at an aggressive pace over the last 12 months. It has also created two different pricing structures as the aggressive buyers today are not willing to buy smaller properties (less than 50,000 SF) and are just now starting to consider second tier markets, albeit at a substantial discount to what they are paying in major markets. According to the National Association of REITs (NAREIT), in 2011 the self storage REITs returned 35.2% and this was the second consecutive year that the self storage sector has led the pack.

The recent published success of the self storage industry, along with the return of confidence among real estate investors in general, has resulted in mainstream real estate investors racing to the self-storage business. I thought we might take a little time to explore how this is changing the game. A new crop of investors such as pension funds, private equity funds, university endowments, ultra high net worth individuals, and non-self storage public companies investing in self storage, have changed the game on several levels, and we will examine some of the basic reasons.

Continued

ACCESS TO CAPITAL:

All of the groups mentioned above have tremendous access to capital, whether it is from banks, life insurance companies, strategic partnerships, public markets (issuing new common stock) or simply from their balance sheets. The availability of capital to these types of groups is considerable and the cost of this capital is substantially lower than an average retail customer. For example, for ultra high net worth individuals, family offices or pension funds that have significant balances in their money market accounts, (which by the way are paying less than 1% annually today), it might make sense to not use debt at all and therefore the cost of capital is simply the value these groups put on their liquidity today. It is also apparent that for public companies that have the ability to issue common stock in the public markets such as the REITs, it allows them access to capital at approximately the cost of their dividend yield. As of March 2012, the four major self storage REITs all had dividend yields between 2.7% and 3.5%. It is also worth mentioning that most of the groups noted above do use traditional financing at some point, but their ability to pick and choose the timing of their financing, accumulate large amounts of assets in investment pools and negotiate better terms with their lenders gives them a significant advantage when acquiring and operating properties.

Why does this all matter? By way of example, if you are an independent operator and borrow \$1,000,000 from a bank or other financial institution with the following terms (5.5% interest, 25 year amortization and term 5 years) your annual debt service would be \$73,680. If you are a public company that pays an average dividend yield of 3% and issues \$1,000,000 of common stock, your annual cost of the \$1,000,000 is \$30,000. As you can see this frees up approximately \$48,000 in cash flow to the public company that the independent operator would not have. Not to mention, the common stock does not mature after five years and therefore the public company has no refinancing risk.

TECHNOLOGY:

As we all know we have seen tremendous strides in the technology used in the self storage industry over the last 5 years. Gone are the days of the Yellow Pages and good signage. We are now seeing search engine optimization (SEO), pay per clicks, social media, blogs, YouTube videos, social media reviews and mobile apps dominate the marketing budgets of most self storage companies today. It is clearly apparent that a paradigm shift in marketing has happened and is it working. This is no more evident than with the ongoing debate between some self storage owners and the online lead aggregators.

The adoption of these new marketing techniques has been accelerated by the large institutional type investors mentioned above. Because of the depth of their resources, they are adapting proven internet marketing techniques from other real estate product types and applying them to self storage with great success. All of these internet marketing techniques have proven to be able to attract customers from a greater distance, make self storage facilities more user friendly and most importantly increase the value of the product.

While we **strongly** believe that the performance of self storage as an investment in the long run is quite positive, we know that the game has changed. Due to the large investment groups and high rates of return mentioned throughout this article we have seen dramatic increases in situations where there is a conflict of interest between a service provider and the owner. With 40,000+/- independent self storage owners in the market today it is critical to make sure that you are seeking advice from consultants, brokers and third party management companies that have your best interest in mind as an owner. It is important to have them working for you and not themselves! **MM**

Ben Vestal, President of the Argus Self Storage Sales Network, can be reached at 800-557-8673 or bvestal@argus-realestate.com.



Property Showcase

Jasper, AL • **\$1,250,000**

- 50,095 RSF
- 325 Units
- 5.3 Acres
- U-Haul truck rentals
- Fenced and gated
- Onsite manager's office

Bill Barnhill, CCIM
& Shannon Barnes, CCIM
 251-432-1287
 barnhill@selfstorage.com
 shannon@selfstorage.com

Freeport, IL • **\$1,290,000**

- 42,680 RSF
- 265 Units
- 14.3 Acres
- Great visibility
- Room for expansion
- Fenced with keypad entry
- Billboard income

Bruce Bahrmasel
 312-518-3550
 bbbahr@aol.com

Mesa, AZ • **\$4,350,000**

- 169,040 RSF
- 993 Units
- 10 Acres
- Institutional sized asset
- Located just south of US 60 on AZ 87
- Below market rents
- Underutilized ancillary income potential

Jeff Gorden, CCIM
 480-331-8880
 jgorden@selfstorage.com

Tulsa, OK • **\$1,180,000**

- 37,425 RSF
- 231 Units
- 2.27 Acres
- Highly visible site with limited competition
- Opportunity for rental increases and additional revenue streams
- Below market occupancy

Jared Jones, CCIM
 918-665-1210
 jjones@bauertulsa.com

Vernon, AZ • **\$1,000,000**

- 24,200 RSF
- 137 Units
- 39.47 Acres
- Well maintained facility
- Significant upside with occupancy growth and future development opportunity

Jeff Gorden, CCIM
 480-331-8880
 jgorden@selfstorage.com

Olyphant, PA • **\$850,000**

- 16,650 RSF
- 121 Units
- 1.775 Acres
- Good market appeal with high visibility location
- Well maintained facility
- Strong tenant retention

Chuck Shields
 610-282-0100
 cshields@beaconcre.com

Alpharetta, GA • **\$2,290,000**

- New Price!
- 28,170 RSF
- 255 Units
- 1.22 Acres
- 4-level climate controlled facility with adjacent office/retail space
- Excellent high density location

Allen Barnhill & Bill Barnhill, CCIM
 770-487-9006
 allen@selfstorage.com
 barnhill@selfstorage.com

Richmond, TX • **\$1,850,000**

- 44,075 RSF
- 221 Units
- 4.347 Acres
- Climate control and non-climate units
- Very stable income and tenant longevity
- Occupancy increased 7% during last 6 months

Bill Brownfield, CCIM
 713-366-3134
 brownfield@selfstorage.com



Sells Self Storage Nationwide!

Check out our current inventory of 75 properties listed in 24 states and contact the listing broker for more information or visit www.argus-selfstorage.com!

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Eight Mile	\$825,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Jasper	\$1,250,000	Bill Barnhill/Shannon Barnes	251-432-1287
Mobile	\$3,800,000	Bill Barnhill/Stuart LaGroue/ Shannon Barnes	251-432-1287

Arizona

Lakeside	\$2,600,000	Jeffery A. Gorden	480-331-8880
Mesa	\$4,350,000	Jeffery A. Gorden	480-331-8880
Strawberry	\$200,000	Jeffery A. Gorden	480-331-8880
Vernon	\$1,000,000	Jeffery A. Gorden	480-331-8880

Arkansas

Fayetteville	\$2,100,000	Larry Goldman	913-339-0641
Fort Smith	\$1,100,000	Larry Goldman	913-339-0641
Gravette	\$800,000	Larry Goldman	913-339-0641
Siloam Springs	\$1,515,000	Larry Goldman	913-339-0641

California

Chester	\$299,900	Tom de Jong	408-282-3829
Fairfield	\$8,100,000	Tom de Jong	408-282-3829
Orland	\$2,099,000	Tom de Jong	408-282-3829
Vallejo	Make Offer	Tom de Jong	408-282-3829

Colorado

Cortez	\$1,250,000	Joan Lucas	720-855-6587
Monument	\$4,800,000	Joan Lucas	720-855-6587

Florida

Live Oak	\$599,999	John W. Hill	386-362-3300
Wildwood	\$856,738	Reggie Caruthers	352-748-1182
Wildwood	\$799,000	Reggie Caruthers	352-748-1182

Georgia

Alpharetta	\$2,290,000	Bill Barnhill/Allen Barnhill	770-487-9006
Canton	\$300,000	Bill Barnhill/Allen Barnhill	770-487-9006
Canton	\$650,000	Bill Barnhill/Allen Barnhill	770-487-9006

Illinois

Crete	\$400,000	Bruce Bahrmassel	312-518-3550
Freeport	\$1,290,000	Bruce Bahrmassel	312-518-3550
Metamora	\$1,499,000	Bruce Bahrmassel	312-518-3550

Maryland

Baltimore	\$2,300,000	Grady Riggs	301-468-0606
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Michigan

Albion	\$370,000	Jim Soltis	810-494-2062
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Mississippi

Flowood	\$3,500,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Meridian	\$2,795,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Vancleave	\$499,000	Bill Barnhill/Shannon Barnes	251-432-1287
Vicksburg	\$550,000	Bill Barnhill/Shannon Barnes	251-432-1287

Missouri

Farmington	\$2,950,000	Larry Goldman	913-339-0641
Moscow Mills	SOLD	Larry Goldman	913-339-0641
Mount Vernon	\$1,170,000	Larry Goldman	913-339-0641
Sedalia	\$775,000	Larry Goldman	913-339-0641
St. Joseph	\$650,000	Larry Goldman	913-339-0641

New Hampshire

Claremont	\$305,000	Joe Mendola	603-668-7000
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New Jersey

Pemberton	\$975,000	Linda Cinelli	908-722-5661
Pennsauken	\$1,300,000	Linda Cinelli	908-722-5661

New Mexico

Las Cruces	\$625,000	Noel Woodwell	915-491-9610
Santa Fe	\$3,250,000	Joan Lucas/ David Etzold & Noel Woodwell	720-855-6587 915-845-6006

New York

Hicksville	\$4,200,000	Linda Cinelli	908-722-5661
Islip	\$3,400,000	Linda Cinelli	908-722-5661
Lynbrook	\$2,550,000	Linda Cinelli	908-722-5661
Middletown	\$590,000	Linda Cinelli	908-722-5661
Middletown	\$450,000	Linda Cinelli	908-722-5661
Peekskill	\$8,000,000	Linda Cinelli	908-722-5661
Port Jervis	\$1,600,000	Linda Cinelli	908-722-5661
Yorktown Hgts	\$2,750,000	Linda Cinelli	908-722-5661

North Carolina

Chapel Hill	\$3,650,000	N.J. "Joey" Godbold	704-632-1027
Statesville	\$695,000	N.J. "Joey" Godbold	704-632-1027

Oklahoma

Commerce	\$699,000	Larry Goldman/ Jared Jones	913-339-0641 918-665-1210
Hugo	\$1,850,000	Jared Jones	918-665-1210
Tulsa	\$1,180,000	Jared Jones	918-665-1210

Oregon

Clatskanie	\$1,600,000	Steve Boldish	541-776-1031
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Pennsylvania

Bechtelsville	\$1,350,000	Chuck Shields	610-828-0100
Glen Mills	Call Broker	Chuck Shields	610-828-0100
Matamoras	\$1,100,000	Linda Cinelli	908-722-5661
Mt. Pocono	\$2,200,000	Chuck Shields	610-828-0100
Olyphant	\$850,000	Chuck Shields	610-828-0100

South Carolina

Camden	\$895,000	N.J. "Joey" Godbold	704-632-1027
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Tennessee

Church Hill	\$1,550,000	Mack Browder	901-758-5670
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Texas

Canutillo	\$575,000	David Etzold	915-845-6006
Canutillo	\$625,000	David Etzold	915-845-6006
Flint	\$599,000	Richard Minker/TylerTrahan	817-335-5600
Forest Hill	\$2,450,000	Richard Minker/TylerTrahan	817-335-5600
Gonzales	\$3,200,000	Bill Brownfield	713-366-3134
Horizon City	\$350,000	Noel Woodwell	915-491-9610
Houston	\$1,800,000	Bill Brownfield	713-366-3134
Houston	\$998,000	Bill Brownfield	713-366-3134
Katy	Call Broker	Bill Brownfield	713-366-3134
Missouri City	\$2,500,000	Bill Brownfield	713-366-3134
Richmond	\$1,850,000	Bill Brownfield	713-366-3134
San Antonio	Call Broker	Bill Brownfield	713-366-3134
TX Portfolio	Call Broker	Richard Minker/TylerTrahan	817-335-5600

Wisconsin

Egg Harbor	\$289,000	Chris Hitler	262-236-0612
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Congratulations to **Larry Goldman, CCIM of RE/MAX Best Associates** on the sale of AAA Storage in Moscow Mills, MO! Larry can be reached at 913-339-0641 for details!



**Join Argus at the Self Storage Association's
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April 25-27, 2012**



Join industry leaders and all the top self storage vendors in Orlando for the SSA's Spring Trade Show! Co-sponsored by the Florida Self Storage Association, this event will be a great resource for self storage owners and operators on the east coast! Argus is happy to offer attendees a **Free Tradeshow Hall Pass** for Thursday, April 26!

[CLICK HERE](#) to request a pass, or call 800-55-STORE!

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