



SELF STORAGE SALES NETWORK

Market Monitor

America's Premier Self Storage Brokers

Issue VII-2013

A note from Ben Vestal: As we round the corner in 2013 we are settling into what is being referred to as the next real estate boom. With values approaching historical levels, real estate brokers are often faced with the question, "What will I do with the money?" Some of the savviest investors today are using 1031 exchanges to grow their real estate investment portfolio along with diversifying their portfolio outside of traditional real estate investments. I have asked Scott Saunders of ASSET PRESERVATION, INC. to give us a brief overview of the 1031 market today and explain ways sellers can grow and diversify their investment portfolio when they are selling a self-storage property.

1031 Exchange Market Update: Higher Taxes and Creative Like-Kind Exchange Properties

by Scott Saunders

As a result of Federal capital gain tax rates that are 58% higher compared to last year, 1031 exchange activity is up significantly. According to a recent July 2013 article in the Wall Street Journal, [High Impact Tax Breaks](#), 1031 exchange activity has increased by as much as 50%. Many self storage property owners are experiencing price appreciation. The increase in self storage property prices, coupled with higher tax rates, has resulted in property owners facing a big tax bill. Consequently, whether selling a self storage property or contemplating selling another investment property and exchanging into a self storage facility as a replacement property, more investors are considering 1031 exchanges as a strategy to obtain either full or partial tax deferral.

The impact of higher federal and state tax rates:

Federal capital gain tax rates increased significantly with the new 20% maximum rate and the addition of the 3.8% "net investment income" Medicare surtax under IRC Section 1411. While many investors are aware of the higher Federal tax rates, some have not fully accounted for the impact of increasing state tax rates. The new 13.3% maximum California state tax rate affects high earners and states like New York, New Jersey and Illinois also have high state taxes. More states are now also increasing state tax rates. Minnesota, for example, raised their top state tax rate to 9.85% and this top rate affects single filers beginning at just \$150,000

in income.

The familiar adage "it's not what you make, but what you keep" certainly rings true. For example, a higher earning self storage property owner in Minnesota with significant depreciation recapture now faces a big tax bill. Adding the 25% rate for depreciation recapture and the 3.8% Medicare surtax and new 9.85% Minnesota state tax, in rough terms, almost 40% of the gain on a sale could be owed to the government. This leaves self storage investors with essentially two alternatives:

1. Pay the government close to 40% in combined taxes (or more in certain states).
2. Pay no taxes whatsoever by electing to exchange.

Diverse like-kind property alternatives:

Many investors are surprised with the wide range of qualifying like-kind properties under IRC Section 1031. An investor that owns a self storage facility is likely to consider selling only if there is another investment property with better cash flow -- often another self storage facility. A little imagination, however, can open up a whole new world of opportunities. As Willy Wonka noted in Charlie and the Chocolate Factory, "invention, my dear friends, is 93% perspiration, 6% electricity, 4% evaporation, and 2% butterscotch ripple." Is there room for such creativity in the world of real estate investment?

Yes, indeed there is. An increasing number of self

(continued)

storage owners are utilizing creative strategies to generate current income, diversify their real estate portfolios and defer capital gain taxes. Along with the increase in traditional sales activity, transactions involving creative exchange property alternatives have increased. Examples include the purchase and sale of timber rights, agricultural land, mineral rights, oil and gas investments, water rights, conservation easements, perpetual communications easements and renewable wind and solar energy projects. Each of the foregoing investment classes have a common denominator in that they are, more or less, investments in real property and may be sold or purchased as like-kind property in a 1031 exchange. In many instances, these interests can be exchanged for a fee simple interest in other improved or unimproved real estate held for investment. The IRS has held that many separate interests are included in the bundle of rights that constitute “real property” under state law, are like-kind to a fee interest in improved or unimproved real property, including:

- A perpetual easement for a fee simple interest in improved or unimproved real property
- A conservation easement in farm property for a fee simple interest in other real property
- An agricultural use easement in farm property for a fee simple interest in other farm property
- Mitigation credits for other mitigation credits
- Timber rights for fee simple interest in other real property
- Transferable development rights (rights used to construct improvements on a property)
- Water rights for fee simple interest in other real property

Thus, the foregoing interests in real property can be exchanged under Section 1031 for all of the rights constituting a fee interest in real property,

or acquired as replacement property following the sale of a fee simple interest. If you look, you will be surprised at the wide range of real property interests that qualify for tax deferral under Section 1031.

An investment as a Delaware Statutory Trust (“DST”) investor into a larger commercial property offers the opportunity to acquire a passive slice of a much larger replacement property managed by a third-party property manager. In some high density areas, such as New York City, property owners are exchanging their co-op investment properties for a fee interest in other investment property.

Even a vacation home held primarily for investment can be like-kind property. The starting point in addressing this issue is [Revenue Procedure 2008-16](#) which creates a “safe harbor” for exchanges of vacation property but even property that does not meet the requirements of Rev. Proc. 2008-16 may nevertheless qualify as 1031 exchange property.

According to scientists at the Institute of Food Research, researchers may have developed a way to realize Wonka’s plan to combine three meals into a single stick of chewing gum. Apparently, advances in nano-technology now permit several distinct flavors to be packed into food structures (called colloidosomes) that break down over time with chewing. As Wonka surmised, one stick of gum may be able to deliver “tomato soup, roast beef, baked potato and blueberry pie.” A 1031 exchange of a self storage facility can result in the acquisition of a green energy property, a perpetual easement, a rental vacation property and mineral rights—and all with full tax deferral through a 1031 exchange.

Now, chew on that. **MM**



Property Showcase

Pinson, AL

\$1,385,000

- 157 Units
- 32,565+/- RSF
- 5.09+/- Acres
- Excellent corner location with 750 feet of frontage on Old Springville Rd.
- 9 Office/Retail spaces
- 27 RV spaces



Bill Barnhill, CCIM, Shannon Barnes, CCIM & Stuart LaGroue

251-432-1287

barnhill@selfstorage.com
shannon@selfstorage.com
stuart@selfstorage.com

Cortez, CO

\$1,050,000

- 179 Units
- 23,400 RSF
- 10.65 Acres
- Also includes 6 office units with 4,800 RSF
- Owner financing available
- Facility is in great condition
- Great visibility and accessibility
- Historically high occupancy



Joan Lucas

720-855-6587

jluucas@selfstorage.com

Tempe, AZ

\$4,500,000

- 439 Units
- 46,925 RSF
- 3.43 Acres
- 95+% Occupancy
- Irreplaceable location, steps to Arizona State Univ.
- Tremendous ROI potential
- Opportunity to increase revenue with in place tenants, improve the property and cash flow



Jeff Gorden, CCIM

480-331-8880

jgorden@selfstorage.com

Mason, MI

\$2,300,000

- 316 Units
- 51,763 RSF
- 10.35 Acres
- Plenty of land for expansion
- Great visibility
- Located in the path of growth in the thriving Lansing, MI area
- Room for expansion
- Adjacent to retail super center



Jim Soltis

810-494-2062

jsoltis@previewproperties.com

Rocklin, CA

Call for Offers

- **Call for Offers - Due on July 22, 2013 at 5:00pm PDT**
- 353 Storage Units, 38 Wine Units, 109 RV Spaces
- 148,867 RSF
- 19.4 Acres
- Excellent location between Roseville, Rocklin and Lincoln
- Great security with cameras, keypad entry and individual unit alarms



Tom de Jong

408-282-3829

tom.dejong@colliers.com

Klamath Falls, OR

\$1,750,000

- 148 Units
- 33,480 RSF
- 1.95 Acres
- Well maintained, pride of ownership facility
- Nice mix of storage, retail mailing & packaging business
- Long term national tenant in retail space
- Gated and fenced with keypad entry



Steve Boldish, CCIM

541-776-1031

steve@mcpre.com



Sells Self Storage Nationwide!

- Over \$119 million in self storage properties currently for sale, with prices ranging from \$150,000 to over \$7 million to meet the needs of every buyer.
- For property details, broker information and helpful industry articles, visit www.argus-selfstorage.com or contact your local Argus Broker Affiliate listed on the back of the Market Monitor!

Alabama

Foley	\$999,500	Bill Barnhill/Shannon Barnes	251-432-1287
		Stuart LaGroue	251-432-1287
Pinson	\$1,385,000	Bill Barnhill/Shannon Barnes	251-432-1287
		Stuart LaGroue	251-432-1287
Theodore	\$300,000	Bill Barnhill/Stuart LaGroue	251-432-1287

Arizona

Bisbee	\$150,000	Jeffery A. Gorden	480-331-8880
Bullhead City	\$403,750	Jeffery A. Gorden	480-331-8880
Bullhead City	\$357,000	Jeffery A. Gorden	480-331-8880
Kingman	\$3,875,000	Jeffery A. Gorden	480-331-8880
Phoenix	\$1,500,000	Jeffery A. Gorden	480-331-8880
Tempe	\$4,500,000	Jeffery A. Gorden	480-331-8880

Arkansas

Hiwassee	\$599,000	Larry Goldman	913-339-0641
Little Rock	\$2,675,000	Larry Goldman	913-339-0641
		Richard Minker/TylerTrahan	817-335-5600
Little Rock	\$495,000	Larry Goldman	913-339-0641

California

Orland	\$1,875,000	Tom de Jong	408-282-3829
Rocklin	Make Offer	Tom de Jong	408-282-3829
Vallejo	Make Offer	Tom de Jong	408-282-3829
Yreka	\$750,000	Tom de Jong	408-282-3829

Colorado

Colorado Springs	\$7,012,000	Joan Lucas	720-855-6587
Cortez	\$1,243,500	Joan Lucas	720-855-6587
Cortez	\$1,050,000	Joan Lucas	720-855-6587

Florida

Live Oak	\$599,999	John W. Hill	386-362-3300
Macclenny	\$1,725,000	W. Frost Weaver	904-265-2001

Georgia

Carrollton	\$270,000	Mike Patterson	770-241-9070
Oakwood	\$1,499,000	Mike Patterson	770-241-9070
Villa Rica	\$940,000	Mike Patterson	770-241-9070
Villa Rica	\$1,275,000	Mike Patterson	770-241-9070

Illinois

Byron	\$300,000	Bruce Bahrmassel	312-518-3550
Dupo	\$807,000	Larry Goldman	913-339-0641
Freeport	\$1,050,000	Bruce Bahrmassel	312-518-3550
Rochelle	SOLD!	Bruce Bahrmassel	312-518-3550

Kansas

Iola	\$430,000	Larry Goldman	913-339-0641
Junction City	\$1,895,000	Larry Goldman	913-339-0641
Topeka	\$1,795,000	Larry Goldman	913-339-0641

Michigan

Lapeer	\$785,000	Jim Soltis	810-494-2062
Mason	\$2,300,000	Jim Soltis	810-494-2062

Missouri

Marshfield	\$2,550,000	Larry Goldman	913-339-0641
St. Joseph	\$2,350,000	Larry Goldman	913-339-0641

Mississippi

3-Prop. Portfolio	\$4,500,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Brandon	\$650,000	Bill Barnhill/Stuart LaGroue	251-432-1287
		Shannon Barnes	

New Hampshire

Claremont	\$290,000	Joe Mendola	603-668-7000
Fitzwilliam	\$710,000	Joe Mendola	603-668-7000

New Jersey

Branchville	\$1,950,000	Linda Cinelli	908-722-5661
Hackettstown	\$4,500,000	Linda Cinelli	908-722-5661
Haledon	\$725,000	Linda Cinelli	908-722-5661
Montague	\$1,600,000	Linda Cinelli	908-722-5661
Pemberton	\$975,000	Linda Cinelli	908-722-5661
Pennsauken	\$1,300,000	Linda Cinelli	908-722-5661

New York

Hicksville	\$4,200,000	Linda Cinelli	908-722-5661
Middletown	\$450,000	Linda Cinelli	908-722-5661
Modena	\$1,400,000	Linda Cinelli	908-722-5661
Peekskill	\$3,500,000	Linda Cinelli	908-722-5661
Port Jervis	\$1,600,000	Linda Cinelli	908-722-5661
Shirley	\$5,700,000	Linda Cinelli	908-722-5661

North Carolina

Whiteville	\$3,750,000	Joey Godbold	704-632-1027
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North Dakota

Watford City	\$1,200,000	Bruce Bahrmassel	312-518-3550
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Ohio

Cleveland	\$2,300,000	Alec Pacella/Michael Venesky	216-455-0886
Copley	\$1,425,000	Alec Pacella/Michael Venesky	216-455-0886
Elyria	\$2,699,000	Alec Pacella/Michael Venesky	216-455-0886
Franklin	\$775,000	Alec Pacella/Michael Venesky	216-455-0886
Painesville	\$315,000	Alec Pacella/Michael Venesky	216-455-0886

Oklahoma

Hugo	\$1,650,000	Jared Jones	918-665-1210
Stillwater	\$750,000	Jared Jones	918-665-1210
Tulsa	\$950,000	Jared Jones	918-665-1210
Verden	\$249,500	Jared Jones	918-665-1210

Oregon

Bandon	\$749,000	Steve Boldish	541-776-1031
Klamath Falls	\$1,750,000	Steve Boldish	541-776-1031

Pennsylvania

Bechtelsville	\$1,350,000	Chuck Shields	610-828-0100
Glen Mills	SOLD!	Chuck Shields	610-828-0100
Matamoras	\$1,100,000	Linda Cinelli	908-722-5661
Olyphant	\$850,000	Chuck Shields	610-828-0100

Texas

Fort Worth	\$1,690,000	Richard Minker/Tyler Trahan	817-840-0055
Gonzales	\$3,200,000	Bill Brownfield	713-366-3134
Richmond	SOLD!	Bill Brownfield	713-366-3134

Washington

Friday Harbor	\$1,890,000	Jason Wilcox	206-919-7643
Morton	\$697,000	Jason Wilcox	206-919-7643

Congratulations to the following Argus Broker Affiliates on their recent sales!



Bill Brownfield, CRE, CCIM of MKP Self Storage LLC sold Brazos All Storage in Richmond, TX! Contact Bill at 713-366-3134 for more information.



Joan Lucas, of Joan Lucas Real Estate Services, LLC sold Falcon Self Storage in Falcon, CO! Contact Joan at 720-855-6587 for more information!



Bruce Bahrmassel, of Land Star Realty Group, sold Community Mini Storage in Rochelle, IL! Bruce can be reached at 312-518-3550 for details.

Contact an Argus Broker Affiliate

NORTHEAST

Guy Blake, CCIM
Linda Cinelli, CCIM, CEA & Sean Bortel
Joseph Mendola
Chuck Shields

Company

Pyramid Brokerage Company
LC Realty
NAI Norwood Group
Beacon Commercial Real Estate

Phone

845-522-5900
908-722-5661
603-668-7000
610-862-1645

Territory

Upstate NY, Western CT
Northern NJ, NY (NYC, Long Island)
MA, ME, NH VT, Eastern CT
Eastern PA, Southern NJ, DE

SOUTHEAST

Bill Barnhill, CCIM
N.J. "Joey" Godbold
Mike Patterson, CCIM
Stuart Wade
Frost Weaver (FL Commercial Brokers Network)

Omega Properties, Inc.
Percival McGuire Commercial Real Estate
Commercial Realty Services of West Georgia
The Nicholson Companies
Weaver Realty Group, Inc.

888-801-4534
704-632-1027
770-241-9070
757-618-3597
904-733-0039

FL Panhandle
NC, SC
GA
MD, VA
North, Central & South FL

NORTH CENTRAL

Bruce Bahrmassel
Alec Pacella, CCIM & Michael Venesky
Larry Goldman, CCIM
Mike Helline & Paul Grisanti, CCIM
Jim Soltis

Landstar Realty Group
NAI Daus
RE/MAX Best Associates
Grisanti Group Commercial Real Estate
Preview Properties.com

312-518-3550
216-831-3310
913-339-0641
502-253-1811
810-494-2062

Northern IL, Northern IN
OH, Western PA
KS, MO, Southern IL
KY, Southern IN
MI

SOUTH CENTRAL

Bill Barnhill, CCIM
Bill Brownfield, CRE, CCIM
David Etzold & Noel Woodwell
Larry Goldman, CCIM
Mike Helline & Paul Grisanti, CCIM
Bauer & Associates
Richard D. Minker, CCIM & Tyler Trahant

Omega Properties, Inc.
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915-845-6006
913-339-0641
502-253-1811
918-665-1210
817-335-5600

AL, MS
South & Central TX
West TX
AR
TN
OK
North TX

WEST

Steve Boldish, CCIM
Tyler Clay, Bob Southern & Nicholas Maerz
Alan Davidson, CCIM
Tom de Jong
David Etzold & Noel Woodwell
Jeffery A. Gorden, CCIM
Larry Hayes
Joan Lucas
Jason Wilcox, CCIM

Oregon Self Storage Brokers
Coldwell Banker Commercial Clay & Associates
Realty One
Colliers International
Etzold & Co.
Eagle Commercial Realty Services
Hayes & Associates
Joan Lucas Real Estate Services, LLC
RAVEN Commercial Real Estate

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775-829-5900
949-424-1680
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206-919-7643

OR
NV
Southern CA
Northern CA
NM
AZ
ID, MT
CO
WA