



SELF STORAGE SALES NETWORK

# Market Monitor

America's Premier Self Storage Brokers

Issue II-2017

## Protecting Value in Today's Market

by Ben Vestal

**B**enjamin Franklin once said that “a penny saved is a penny earned.” The same holds true in the real estate business, except that we can expect an even greater return when we make an effort to save on operating expenses. At one time or another, we have all looked at our to-do list and thought “I can do that next month.” Reviewing your operating expenses, however, is not one of those things you can afford to put off until next month. Operating expenses need to be reviewed regularly (four times per year) to ensure that the value of your property and its cash flow are not being undermined by subtle, yet devastating, increases in operating expenses. As the tide starts to turn in investment real estate and self-storage valuations start to soften, the operations of your property become critically important.

With US treasury yields (interest rates) on the rise and concern from the Federal Reserve that inflation is starting to increase, it is important for owners to understand that a cap rate is simply a rate of return on an investment and that 90% or more of the value of the self storage facility is in the net operating income and cash flow. The risk that self storage owners face is not only whether their net operating income goes up or down, but also that cap rates may go up at a faster rate than their net operating income can compensate for the loss of value. This is directly related to the interest rate that a buyer or lender may be able to use when buying or financing a self-storage property. With investors looking to maximize their rate of return and limit the amount of risk, it is only logical to think that controlling operating expenses and thus increasing net operating income will protect the property's value.

As the market starts to turn and values start to soften, let us understand the magnitude of what each dollar of net operating income means to the value of the facility. Let's take a self storage facility with an annual revenue of \$600,000 and annual expenses of \$250,000. This facility will then have a net operating income of \$350,000 which will then be capitalized at a rate of return acceptable to an investor to arrive at the value. With cap rates being in the range of 7% to 9%, this facility's value would be in the range of \$3,800,000 to \$5,000,000. Reducing the operating expenses by 8% or \$20,000 a year would increase the value by \$220,000-\$285,000. This means that for every dollar you add to the net operating income, you would receive \$11 to \$14 dollars in value. With the majority of self storage expenses falling in the three major categories of real estate taxes, payroll and advertising, it is understandable how yearly escalations in service contracts, payroll raises and prop-

erty taxes can deteriorate the value. Interestingly enough, you don't have to sell your facility to get an immediate gain out of this capitalization of saved operating expenses; the value will be reflected in the amount you can borrow on the property. Generally speaking, you can borrow 75% of the increase in value when you refinance. So, you can have your cake and eat it too!

	Base Scenario	8% Decrease in Expenses
Revenue	\$600,000	\$600,000
Operating Expenses	\$250,000	\$230,000
Net Operating Income	\$350,000	\$370,000
Value at 7% Cap Rate	\$5,000,000	\$5,285,714
Value at 9% Cap Rate	\$3,888,888	\$4,111,111

In the world of real estate appraisal they consider this the income approach. The income approach takes into account the earning capacity of the facility less the vacancy and owner's expenses. It is axiomatic that if the net operating income increases, the value of the facility will be dramatically increased. Thus by reducing the annual expenses of your facility you not only increase the value of your facility by a multiple of the market cap rate, you also increase the dollar amount you may borrow when refinancing, not to mention you have added an additional layer of protection from rising cap rates and interest rates.

Self-storage properties are still a high quality real estate investment. Let's not forget what got self-storage where it is today. Owners need to keep a close watch on operating expenses and continue to be active with local governments on issues such as real estate taxes, sales tax and overbuilding. It is safe to say that self-storage values have started to soften, and owners need to be diligent at reviewing and controlling their operating expenses if self-storage is to remain a desirable investment. The fact that actively managing your operating expenses will most likely create more cash flow and value is just a bonus of staying competitive. **MM**

*Ben Vestal, President of the Argus Self Storage Sales Network, can be reached at 800-557-88673 or [bvestal@argus-realestate.com](mailto:bvestal@argus-realestate.com).*



# Property Showcase

## Montgomery, AL • \$22,000,000

- 2-Property Portfolio
- 1,555 Total Units **NEW!**
- 158,238 Total RSF
- 8.038 Total Acres
- Class A self-storage portfolio
- Located in high growth area of Montgomery, AL
- All climate controlled units
- Potential for expansion at one location

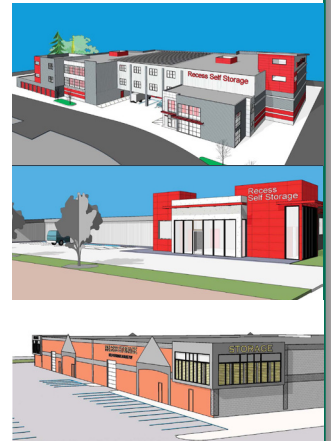
**Bill Barnhill, CCIM  
& Stuart LaGroue**  
251-432-1287  
stuart@selfstorage.com



## West Coast Development Portfolio **NEW!**

- 6 fully entitled self-storage sites
- 3,698 Proposed Units
- 495,213 Proposed RSF
- Located in highly desirable West Coast markets of Beaverton, OR, Reno, NV, Santa Cruz, CA, Salinas, CA and Santa Rosa, CA
- All Class A facilities with flexible unit mix design to suit developer's needs

**Tom de Jong**  
408-282-3829  
tom.dejong@colliers.com



## Lakeside, AZ • \$760,000

- 166 Units **NEW!**
- 45 Boat/RV Spaces
- 35,227 RSF
- 2.81 Acres
- Resident manager
- Excellent visibility
- High traffic location with frontage on Hwy 260
- Well-positioned for substantial increases in revenue, cash flow and investment value over time

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



## Upton, MA • \$5,165,000

- 286 Units **NEW!**
- 43,050 RSF
- 4.54 Acres
- Consistently high occupancy
- High barriers to entry market
- Located on main thoroughfare in Upton, a bedroom community to Milford, MA
- Potential upside through truck rentals

**Joe Mendola**  
603-668-7000  
joe@nainorwoodgroup.com



## Antioch, CA • \$4,500,000

- Self-Storage Development Site **NEW!**
- 733 Proposed Units
- 86,325 Proposed RSF
- Fully entitled Class A development opportunity
- Located in high barrier to entry market in the San Francisco Bay Area
- Plans approved for ground-up single or multi-story facility

**Tom de Jong**  
408-282-3829  
tom.dejong@colliers.com



## Central Point, OR • \$1,975,000

- Self-Storage Development Site
- 6.2 Acres
- Highway frontage and prime location in area of growth
- Facility site plan is already designed
- 3,150 SF leased office building on site
- Existing utilities and parking
- Driveway is grandfathered

**Scott King**  
541-890-6708  
scottking@gmail.com





# Sells Self Storage Nationwide!

For property details, visit [www.argus-selfstorage.com](http://www.argus-selfstorage.com) or contact your local Argus Broker Affiliate!

## Alabama

Atmore/Brewton \$3,382,000 Bill Barnhill/Stuart LaGroue 251-432-1287  
Montgomery \$22,000,000 Bill Barnhill/Stuart LaGroue 251-432-1287

## Arizona

Bisbee \$270,000 Jeffrey A. Gorden 480-331-8880  
Lakeside \$760,000 Jeffrey A. Gorden 480-331-8880  
Miami **SOLD** Jeffrey A. Gorden 480-331-8880  
Nogales \$5,573,164 Jeffrey A. Gorden 480-331-8880  
Prescott \$4,300,000 Jeffrey A. Gorden 480-331-8880  
Vernon \$795,000 Jeffrey A. Gorden 480-331-8880

## Arkansas

Hot Springs Vlg \$180,000 Larry Goldman 913-707-9030  
Russellville \$1,495,000 Larry Goldman 913-707-9030  
Texarkana \$1,450,000 Larry Goldman 913-707-9030

## California

6 Prop Portfolio \$28,050,000 Tom de Jong 408-282-3829  
Antioch \$4,500,000 Tom de Jong 408-282-3829  
San Jose \$12,000,000 Tom de Jong 408-282-3829

## Colorado

Denver Call Broker Joan Lucas 720-855-6587  
Evans/Greeley \$1,652,450 Joan Lucas 720-855-6587

## Florida

Fort Myers \$1,875,000 Frost Weaver 904-265-2001  
Lake City **SOLD** Frost Weaver 904-265-2001  
Live Oak \$425,000 Frost Weaver 904-265-2001  
Middleburg \$1,300,000 Frost Weaver 904-265-2001  
Pensacola \$1,400,000 Bill Barnhill/Stuart LaGroue 251-432-1287  
Umatilla \$1,250,000 Frost Weaver 904-265-2001  
Vero Beach \$454,000 Frost Weaver 904-265-2001

## Georgia

Bremen \$210,000 Mike Patterson 770-241-9070  
Carrollton \$4,577,000 Mike Patterson 770-241-9070  
Dallas \$2,489,307 Mike Patterson 770-241-9070  
Lithia Springs \$1,600,000 Mike Patterson 770-241-9070  
Macon \$450,000 Mike Patterson 770-241-9070

## Iowa

Mason City \$1,370,000 Rusty Hike 402-291-2500

## Illinois

Byron \$389,000 Bruce Bahrmassel 312-518-3550  
Macomb \$950,000 Bruce Bahrmassel 312-518-3550  
Seneca \$699,000 Bruce Bahrmassel 312-518-3550

## Indiana

Plymouth \$4,775,000 Bruce Bahrmassel 312-518-3550

## Kansas

Junction City \$380,000 Larry Goldman 913-707-9030

## Kentucky

Cynthiana \$875,000 Paul Grisanti/Mike Helline 502-296-4586  
Rineyville \$565,000 Paul Grisanti/Mike Helline 502-296-4586  
Shepherdsville \$675,000 Paul Grisanti/Mike Helline 502-296-4586

## Massachusetts

Sutton \$550,000 Joseph Mendola 603-668-7000  
Upton \$5,156,000 Joseph Mendola 603-668-7000

## Missouri

House Springs \$450,000 Larry Goldman 913-707-9030  
Waynesville \$2,360,000 Larry Goldman 913-707-9030

## Mississippi

Canton \$850,000 Bill Barnhill/Stuart LaGroue 251-432-1287

## New Hampshire

Claremont \$2,350,000 Joe Mendola 603-668-7000  
Manchester \$10,000,000 Joe Mendola 603-668-7000

## New Jersey

Branchville \$1,390,000 Linda Cinelli 908-722-5661  
Ewing \$1,900,000 Linda Cinelli 908-722-5661  
Hardyston **SOLD** Linda Cinelli 908-722-5661  
Howell \$2,350,000 Linda Cinelli 908-722-5661  
Pemberton \$975,000 Linda Cinelli 908-722-5661  
West Berlin \$5,450,000 Linda Cinelli 908-722-5661

## New Mexico

Mesilla Park \$530,000 David Etzold/Noel Woodwell 915-491-9610  
Ruidoso \$790,000 David Etzold/Noel Woodwell 915-491-9610

## New York

Monticello \$3,700,000 Linda Cinelli 908-722-5661  
Peekskill \$3,500,000 Linda Cinelli 908-722-5661

## North Carolina

NC Portfolio \$2,300,000 Joey Godbold/Jamey Cox 704-632-1030  
Wadesboro \$758,000 Joey Godbold/Jamey Cox 704-632-1030  
Wilmington \$1,400,000 Joey Godbold/Jamey Cox 704-632-1030

## North Dakota

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

## Ohio

Gloucester \$299,000 Alec Pacella 216-455-0925  
LaGrange \$1,300,000 Alec Pacella 216-455-0925

## Oklahoma

Ada \$2,500,000 Jared Jones 918-583-3483  
Edmond \$650,000 Jared Jones 918-583-3483  
Pryor \$320,000 Jared Jones 918-583-3483

## Oregon

Cave Junction \$1,100,000 Scott King 541-890-6708  
Central Pointe \$1,975,000 Scott King 541-890-6708

## Pennsylvania

Bechtelsville \$1,350,000 Chuck Shields 610-828-0100  
Olyphant \$925,000 Chuck Shields 610-828-0100

## South Carolina

Lancaster \$695,000 Joey Godbold/Jamey Cox 704-632-1030

## Texas

Arlington Call Broker Richard Minker/Chad Snyder 817-335-5600  
Austin Call Broker Bill Brownfield 713-907-6497  
Fort Worth Call Broker Richard Minker/Chad Snyder 817-335-5600  
Killeen Call Broker Richard Minker/Chad Snyder 817-335-5600  
Mineral Wells Call Broker Richard Minker/Chad Snyder 817-335-5600  
Red Oak Call Broker Richard Minker/Chad Snyder 817-335-5600

## Virginia

Windsor \$1,100,000 Stuart Wade 757-618-3597

## Washington

Shelton \$995,000 Thomas Wolter 206-200-3325



## ARGUS SALES



Congratulations to Jeff Gorden, CCIM of Eagle Commercial Realty Services who sold AA Val U Stor in Yuma, AZ and Triple Nichol Storage in Miami, AZ! Contact Jeff at 480-331-8880 for details.



Congratulations to Linda Cinelli, CCIM of LC Realty who sold Advanced Self Storage in Harbyston, NJ! Contact Linda at 908-722-5661 for details.



Congratulations to Frost Weaver of Weaver Realty Group who sold Stor-It America in Lake City, FL! Contact Frost at 904-265-2001 for more information.



Congratulations to Joan Lucas of Joan Lucas Real Estate Services who sold Saddle Rock Self Storage in Aurora, CO! Joan can be reached at 720-855-6587 for details.

### Special Offer: Self-Storage Sales Comp Data

Contact your Argus Broker Affiliate (listed below) to receive a **free** report of self-storage sales data from 2016. This information can be valuable to those looking to better understand their local storage market and the sales trends that will affect valuations in 2017! Contact your Broker Affiliate today!



### *Contact an Argus Broker Affiliate*

#### **NORTHEAST**

Guy Blake, CCIM  
Linda Cinelli, CCIM, CEA  
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

Omega Properties, Inc.  
SVN Percival Partners  
Commercial Realty Services of West Georgia  
The Nicholson Companies  
Weaver Realty Group, Inc.

888-801-4534  
704-632-1027  
770-301-1886  
757-618-3597  
904-733-0039

FL Panhandle  
NC, SC  
GA  
MD, VA  
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#### **NORTH CENTRAL**

Bruce Bahrmassel  
Rusty Hike  
Alec Pacella, CCIM  
Larry Goldman, CCIM  
Mike Helline & Paul Grisanti, CCIM  
Jim Soltis

Waveland Commercial Real Estate, LLC  
Hike Real Estate  
NAI Daus  
RE/MAX Commercial  
Grisanti Group Commercial Real Estate  
Preview Properties.com

312-518-3550  
402-291-2500  
216-831-3310  
913-707-9030  
502-253-1811  
810-494-2062

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NE, IA  
OH, Western PA  
KS, MO, Southern IL  
KY, Southern IN  
MI

#### **SOUTH CENTRAL**

Bill Barnhill, CCIM  
Bill Brownfield, CRE, CCIM  
David Etzold  
Larry Goldman, CCIM  
Mike Helline & Paul Grisanti, CCIM  
Jared Jones, CCIM  
Richard D. Minker, CCIM

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913-707-9030  
502-253-1811  
918-583-3483  
817-335-5600

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

#### **WEST**

Steve Avanzino  
Tom de Jong  
David Etzold  
Jeffery A. Gorden, CCIM  
Larry Hayes  
Scott King  
Joan Lucas  
Doug Shea & Peter Pappageorge  
Thomas Wolter

Kidder Matthews  
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Etzold & CO LLC  
Eagle Commercial Realty Services  
Hayes & Associates  
Merit Commercial Real Estate  
Joan Lucas Real Estate Services, LLC  
INCO Commercial  
RE/MAX Commercial

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408-282-3829  
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406-728-0088  
541-890-6708  
720-855-6587  
562-498-3395  
206-200-3325

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