



SELF STORAGE SALES NETWORK

Market Monitor

America's Premier Self Storage Brokers

Issue I-2018

The Tide is High

Self-Storage in a Late Cycle Expansion

by Ben Vestal

Many experts agree that the self-storage investment market has reached the high-water mark, but for the first time in my 20+ year real estate career, the industry is seeing both operational headwinds and investment expansion. Over the last three weeks I have attended several self-storage investment meetings. While it is unclear how the self-storage sector will perform in 2018, the majority of the large operators and self-storage REITS are predicting slow to moderate revenue growth in the 3-5% range. However, the biggest self-storage REIT, Public Storage, is not very bullish on its 2018 performance.

While the overall operational performance of the self-storage industry seems to be softening, the investment appetite for self-storage properties remains robust. This anomaly in today's self-storage market has led me to two conclusions; first, that most of the investors are very positive about the long-term performance and stability of the asset class and second, that softening self-storage market performance is still a better risk-adjusted investment than the other options in the market today. One of the key factors that is fueling this continued appetite for self-storage investments is that the debt market is still very hungry for self-storage assets. Borrowers are able to obtain loan terms that allow them to financially engineer a very compelling cash on cash return, even with flat or slowing operating efficiencies.

In reviewing the operational statistics of Argus' managed portfolio, public REIT data, and discussing the overall operational market with several industry experts, it is clear that we have two major industry headwinds. First, the new supply that has recently opened (1-2 years) is cutting rates dramatically in order to fill up as quickly as possible. This has caused the stabilized properties in markets with new supply to lose occupancy and compete on rates. Second, over the last 3-5 years the industry has pushed rents very hard on in-place tenants to extract as much revenue as possible.

But now that some of the longer term tenants are moving out, operators are forced to rent the recently vacated space to new tenants at much lower rental rates. This new supply, reduction in street rates, and the industry's willingness to backfill vacant space with lower paying tenants has caused a softening of operating margins.

The value of a sophisticated revenue management system is going to further separate the small operators from the larger operators as we see these headwinds affect bottom lines. The experienced operators are telling new tenants that the lower move-in rental rates are a promotional rate only, and they should expect a rate increase between month 6-12. So it is important that you are diligent and programmatic when following through with increasing rental rates on new tenants who are moving in under these new, lower promotional rates.

Green Street Advisors, a top tier real estate analytics and market research firm that covers the self-storage sector, is projecting that NOI growth for self-storage will be below the broader REIT industry. It has been well documented that the self-storage sector has outperformed almost all other commercial real estate classes over the last decade so this will be uncharted territory for the self-storage space for the near term. As we forge through this new market reality there will be winners and losers. The secondary and tertiary markets will continue to outpace most of the major markets because there has been less new development, and sophisticated operators are finding ways to exploit the opportunities in these markets. The current economic expansion of the US economy is the longest in history and shows no signs of slowing down. It is clear that cycles don't die of old age and with consumer/investor confidence remaining strong, the self-storage sector will weather these speed bumps and continue its late cycle expansion. **MM**

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Property Showcase

Virginia Beach, VA • Call Broker for Price

- 2-Property Portfolio
- 1,876 Total Units
- 311,544 Total RSF **NEW!**
- 19.55 Total Acres
- Class A, institutional-quality portfolio in Eastern Virginia
- Both locations feature modern offices, security features, climate control and non-climate units
- Excellent demographics and population growth

Stuart Wade, Jr.
757-618-3597
stuart_wade@hotmail.com



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\$8,000,000

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- 2-Property Portfolio
- 885 Total Units
- 140,330 Total RSF
- 10.5 Total Acres
- Brand new, institutional-quality properties
- Located in Oklahoma City MSA in Edmond and Guthrie, OK
- High traffic locations with great visibility
- Significant commercial and residential growth in the area

Jared Jones, CCIM
918-583-3483
jjones@selfstorage.com



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\$325,000

- 32 Units **NEW!**
- 6,625 RSF
- 0.69 Acre
- Well-built facility with tall drive-in doors
- Plenty of space to rent existing fenced outdoor parking
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- Great shop/office space for an owner or user

Tom Flanningan
651-269-6307
tom@selfstorage.com



Talent, OR

\$3,300,000

- 300+ Units **NEW!**
- 26,600 RSF
- 1.84 Acres
- Well-priced facility features brand new manager's quarters, office, electric gates, and paving
- Great investment opportunity for long term income and appreciation
- Seller will guarantee 1 year's rent at 100% occupancy

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



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- Modern multi-story facility.
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- Close proximity to Route 73, a major County Road that traverses Camden County
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Linda Cinelli, CCIM
908-722-5661
linda@lcrealtyusa.com



Talent, OR

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- 0.75 Acre
- High-occupancy and well-maintained facility
- Conveniently located between Ashland and Talent, OR
- State-of-the-art security system, cameras, and automated gate access
- 36,000+ daily traffic count

Scott King
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Sells Self Storage Nationwide!

Our complete list of available properties is detailed below. For additional information, visit www.argus-selfstorage.com or contact your local Argus Broker Affiliate.

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Leeds \$2,800,000 Bill Barnhill/Stuart LaGroue 251-432-1287
Tallassee **SOLD** Bill Barnhill/Stuart LaGroue 251-432-1287

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Peoria \$2,200,000 Jeffrey A. Gorden 480-331-8880
Phoenix **SOLD** Jeffrey A. Gorden 480-331-8880

Arkansas

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Jacksonville \$319,000 Larry Goldman 913-707-9030
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Denver **SOLD** Joan Lucas 720-855-6587
Fort Collins **SOLD** Joan Lucas 720-855-6587
Loveland **SOLD** Joan Lucas 720-855-6587

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Ormond Beach \$1,150,000 Frost Weaver/Josh Koerner 904-265-2001
Starke \$875,000 Frost Weaver/Josh Koerner 904-265-2001

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Carrollton \$1,300,000 Mike Patterson 770-301-1886
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ARGUS SALES



Congratulations to **Jeff Gorden, CCIM** of Eagle Commercial Realty Services who sold Eagle Canyon Storage in Phoenix, AZ, Encanto & 83rd Self Storage in Phoenix, AZ and Concho Mini Storage in Concho, AZ! Jeff also represented the buyer of American Mini Storage in Sierra Vista, AZ! Contact Jeff at 480-331-8880 for details.



Congratulations to **Tom Flannigan** of KW Commercial who sold a self-storage development site in Inver Grove Heights, MN! Contact Tom at 651-269-6307 for details.



Congratulations to **Joan Lucas** of Joan Lucas Real Estate Services, LLC who sold Citadel Self Storage in Colorado Springs, CO, Downtown Denver Storage in Denver, CO and Secure Space Self Storage in Fort Collins, CO! Contact Joan at 720-855-6587 for details.



Congratulations to **Bill Barnhill, CCIM** and **Stuart LaGroue** of Omega Properties, Inc. who sold Tallassee Mini Storage in Tallassee, AL! Contact Bill and Stuart at 251-432-1287 for details.

Contact an Argus Broker Affiliate

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