



SELF STORAGE SALES NETWORK

Market Monitor

America's Premier Self Storage Brokers

Issue VII-2018

Understanding the Real Value Equation

by Ben Vestal

In 2018 the business of buying and selling self-storage properties around the country has become much more complex than in years past, but our discussions with both buyers and sellers always ends up focused on market cap rates. Unfortunately, most people don't fully understand all the ramifications of this seemingly simple calculation. Hopefully this summary will help clarify this mysterious, yet fundamental, concept.

What are Cap Rates and Why Use Them?

Real estate valuation is a very complex business with many variables that affect the price. Over the years, real estate professionals found that they needed a way to compare property values (essentially price) in a market using a shorthand method, thus capitalization rates or "cap rates" came into general use. Essentially, cap rates tell an investor what they should expect to earn as a percentage if they purchased a property using all cash. For example, if an investor thinks a property is worth a 7% cap rate, then they expect to receive an unleveraged 7% cash on cash return.

When the net operating income (NOI) is divided by the cap rate, *voila!*, you arrive at a property value. This method is basically a way to develop a price based on an income stream. The net result is that the lower the cap rate, the higher the value, and conversely, the higher the cap rate, the lower the value. This is only one of the three methods used by appraisers to value a property, but it is the one most focused on by investors. It is primarily used because it does a very good job correlating property values and helps facilitate comparisons between properties and markets.

The Underlying Assumptions in Calculating NOI:

As with any good rule of thumb, there are certain assumptions that are implicit in the calculation of the NOI. For cap rates to be useful and comparable, the NOI must be calculated on a consistent basis on all self storage properties in order to compare "apples to apples." The first assumption when calculating the NOI is that all revenues must result from reoccurring operations of the property (rental revenue, late fees, truck rental commissions, tenant insurance fees, etc.) and not from an asset sale or insurance recovery. Secondly, depreciation and debt service should not be deducted from revenues to arrive at the NOI. These revenue assumptions are clearly defined and are almost universally applied.

However, assumptions related to operating expenses are less uniformly applied and result in significant misunderstanding, particularly among sellers. Buyers' and sellers' assumptions should include that the property is properly insured and managed in a professional way. Property taxes should be adjusted to what the new valuations will be at the time of sale and the advertising cost

should be in-line with market averages, even if the property is 95%+ full. Furthermore, the expense numbers need to reflect the market labor cost of running a self-storage property which should include an on-site manager's salary if the owner is currently doing the work for free. It is also assumed that the operating expenses will include an off-site management fee over and above the site manager's salary, this will range between 4% to 6% of gross revenue, depending on the size of the property.

Many owners will say that some of the assumptions don't apply to them for various reasons, but I can assure you that there are almost no exceptions in the marketplace of real sales. In the end, ignoring these assumptions is at best merely self-deception, and at worst, can have serious impacts on the financing or sale of a property.

Why Do Some Properties Have Higher or Lower Cap Rates?

Since all properties are not alike, they can command different cap rates. The variations in cap rates (today between 5.5%-8.5%) usually reflect the quality of the physical project, the market it is located in, and the inherent risk to the buyer/owner. For example, a 40% vacant, metal building project in a rural area would require a higher cap rate to reflect the increased risk and lesser quality asset. On the other hand, a large masonry project with full security, located in a growing metropolitan area, with consistently increasing rents would command a premium cap rate, perhaps in the range of 5.5% to 7%. Once again, while the cap rate may vary, the underlying assumptions about the NOI do not. Property valuations are somewhat subjective, but our collective experience would indicate that knowledgeable buyers and sellers agree that the quality of the asset and the consistency of the NOI will lead most serious self-storage investors to a value that will lie in a very narrow range of cap rates.

This review has hopefully given you the very basics of how cap rates work and their affects on valuation. However, you must be impartial when making the required adjustments to revenue and expenses to arrive at an appropriate valuation using a cap rate. You must also review recent sale comps in your market and understand the current debt markets to make sure you're not misleading yourself on the valuation of your property. If you are considering getting professional advice when evaluating a self-storage investment, it is important to consult with your Argus Broker Affiliate. Understanding and setting the value of a property is the single most important step in the investment process. **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

Childersburg, AL

\$768,000

NEW!

- 3-Property Portfolio
- 170 Total Units
- 25,304 Total RSF
- Two locations in Childersburg, AL and one in Sylacauga, AL
- Excellent visibility and high traffic counts
- Includes 4 commercial office suites at main location
- On-site manager

**Bill Barnhill, CCIM
& Stuart LaGroue**

251-432-1287

barnhill@selfstorage.com

stuart@selfstorage.com



Warner Robins, GA

\$549,000

• **Under Contract**

NEW!

- 192 Units
- 19,960 RSF
- 1.24+/- Acres
- Secure property with fence, gate access, cameras and office
- Located less than one mile from Robins Air Force Base which is planning to expand
- Good traffic exposure

**Luke Sauls &
Jane H. Sauls**

770-328-2379

saulsluke@gmail.com

janehsauls@gmail.com



Bennett, CO

\$4,500,000

NEW!

- 356 Units
- 50,238 RSF
- 4.34 Acres
- Extremely well-maintained self-storage project
- Located 20 miles east of Denver on I-70
- Nice 4-bdrm house included
- Excellent, high visibility location
- Recent expansion to include new interior units and portable containers

Joan Lucas

720-855-6587

jluucas@selfstorage.com



Forest Lake, MN

\$2,800,000

• **New Price!**

- 190 Units
- 50,050 RSF
- 15.5 Acres
- Stable and profitable self-storage facility
- Expansion plans approved
- Mix of conventional and outdoor storage plus 5 retail/industrial bays

**Tom Flannigan
& Corly Wilkerson**

612-790-3747

tom@selfstorage.com

corly@selfstorage.com



Macclenny, FL

\$2,425,000

NEW!

- 306 Units
- 39,420 GSF
- 3.2 Acres
- High occupancy since 2008
- Good traffic exposure on SR23
- Rapid growth in surrounding community west of Jacksonville
- Fenced and well-lit with security cameras

**Josh Koerner
& Frost Weaver**

904-591-0140

jkoerner@weaver-realty.com

fweaver@weaver-realty.com



Jefferson City, MO

\$672,000

NEW!

- Self-Storage Development Site
- 5.14 Acres
- Located in underserved storage market within the Jefferson City limit
- Adjacent to City soccer field
- Utilities to site

Larry Goldman, CCIM

913-707-9030

lgoldman@selfstorage.com



(continued)



Property Showcase

Raleigh, NC

\$2,300,000

NEW!

- 2-Property Portfolio in the Raleigh, NC MSA
- 397 Total Units
- 41,035 Total RSF
- 4.27 Total Acres
- Fenced and gated with office at each location
- Room to expand or convert to climate control
- Proximity would allow both sites to be run from one location

Jamey Cox

704-632-1030

jamey.cox@svn.com



Anna, TX

Call Broker for Price

NEW!

- 80 Units
- 10,640 RSF
- 2.338 Acres
- Located 10 miles north of McKinney, TX
- Underserved storage market with strong growth and demographics
- Great value-add opportunity with expansion or redevelopment

**Richard Minker, CCIM
& Chad Snyder**

817-335-5600

richard.minker@colliers.com

chad.snyder@colliers.com



Kearny, NJ

Call Broker for Price

- C of O Opportunity
- 110,000 +/- RSF
- 155,000 GSF
- 4-story building
- 3+/- Acres
- New facility delivered at C of O
- Close proximity to Metro NY/NJ marketplace
- Kearny Urban Enterprise Zone
- Adjacent to new 230 unit apartment complex

NEW!



Linda Cinelli, CCIM

908-722-5661

linda@lcrealtyusa.com

Rockwall, TX

Call Broker for Price

NEW!

- 61 Units
- 12,000 RSF
- 1.72 Acres
- Excellent exposure off of I-30
- High growth suburban community in East Dallas
- Expandable land
- 61 drive-up units plus one commercial building and one residential building

**Richard Minker, CCIM
& Chad Snyder**

817-335-5600

richard.minker@colliers.com

chad.snyder@colliers.com



Ruidoso Downs, NM

\$618,000

NEW!

- 100 Units
- 11,088 RSF
- 1.1 Acres
- Located in the cool pine forests of southern New Mexico
- Fully renovated in Fall 2017
- Near 90% occupancy less than 6 months after renovation
- High visibility, main highway location
- Room for expansion

**David Etzold
& Avi Kotkowski**

915-845-6006

etzoldco@att.net

avikelp@gmail.com



Seminole, TX

Call Broker for Price

NEW!

- RV Park and Storage
- 47 RV Pads
- 10 enclosed storage units
- 4 furnished cabin units
- Stable and diversified income stream
- Rent upside as submarket workforce continues to expand
- On-site management

**Richard Minker, CCIM
& Chad Snyder**

817-335-5600

richard.minker@colliers.com

chad.snyder@colliers.com





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.

Alabama

Childersburg	\$768,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Daphne	\$530,000	Bill Barnhill/Shannon Barnes	251-432-1287
Fultondale	\$699,000	Bill Barnhill/Stuart LaGroue	251-432-1287

Arizona

El Mirage	\$4,200,000	Jeff Gorden	480-331-8880
Gilbert	\$9,600,000	Jeff Gorden	480-331-8880

Arkansas

Portfolio	\$28,659,000	Larry Goldman	913-707-9030
Hot Springs Vlg	\$1,600,000	Larry Goldman	913-707-9030
Jacksonville	\$299,000	Larry Goldman	913-707-9030

California

Bakersfield	\$2,000,000	Peter Pappageorge	562-269-4844
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Colorado

Bennett	\$4,500,000	Joan Lucas	720-855-6587
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Florida

Atlantic Beach	\$5,470,000	Frost Weaver/Josh Koerner	904-265-2003
Fanning Springs	\$2,500,000	Frost Weaver/Josh Koerner	904-265-2003
Ft. Myers	\$725,000	Frost Weaver/Josh Koerner	904-265-2003
Maccleddy	\$2,425,000	Frost Weaver/Josh Koerner	904-265-2003
Stuart	\$2,500,000	Frost Weaver/Josh Koerner	904-265-2003
Wildwood	\$7,750,000	Frost Weaver/Josh Koerner	904-265-2003

Georgia

Cleveland	\$3,850,000	Mike Patterson	770-301-1886
Cumming	Call Broker	Mike Patterson	770-301-1886
Elijay	\$1,225,000	Jane Sauls	770-328-2379
Lithia Springs	\$950,000	Jane Sauls	770-328-2379
Mableton	\$895,000	Jane Sauls	770-328-2379
Mableton	\$570,000	Jane Sauls	770-328-2379
Warner Robins	\$549,000	Jane Sauls	770-328-2379

Illinois

Bloomington	\$2,350,000	Bruce Bahrmassel	312-518-3550
Byron	\$389,000	Bruce Bahrmassel	312-518-3550
Rockford	\$5,100,000	Bruce Bahrmassel	312-518-3550
Yorkville	\$970,000	Bruce Bahrmassel	312-518-3550

Indiana

Terre Haute	\$1,100,000	Paul Grisanti/Mike Helline	502-296-4586
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Iowa

Altoona	Call Broker	Tom Flannigan	651-269-6307
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Kansas

Derby	\$1,300,000	Larry Goldman	913-707-9030
Hayesville	\$785,000	Larry Goldman	913-707-9030
Lawrence	\$1,950,000	Larry Goldman	913-707-9030
Maize/Park City	\$2,300,000	Larry Goldman	913-707-9030
Manhattan	\$5,400,000	Larry Goldman	913-707-9030

Maine

Naples	\$850,000	Joseph Mendola	603-668-7000
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Massachusetts

Methuen	\$9,500,000	Joseph Mendola	603-668-7000
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Minnesota

Forest Lake	\$2,800,000	Tom Flannigan	651-269-6307
Park Rapids	SOLD	Tom Flannigan	651-269-6307

Minnesota, cont.

Ramsey	\$1,066,000	Tom Flannigan	651-269-6307
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Missouri

Jefferson City	\$672,000	Larry Goldman	913-707-9030
Sedalia	\$4,370,000	Larry Goldman	913-707-9030
St. Joseph	SOLD	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
Laurel	SOLD	Bill Barnhill/Shannon Barnes	251-432-1287

New Hampshire

Littleton	\$395,000	Joe Mendola	603-668-7000
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New Jersey

Kearny	Call Broker	Linda Cinelli	908-722-5661
Sparta	Call Broker	Linda Cinelli	908-722-5661
Ventnor City	\$1,725,000	Linda Cinelli	908-722-5661
West Berlin	\$5,400,000	Linda Cinelli	908-722-5661

New York

Islip	\$5,700,000	Linda Cinelli	908-722-5661
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North Carolina

NC Portfolio	\$2,050,000	Jamey Cox	704-632-1030
Cherryville	SOLD	Jamey Cox	704-632-1030
Hickory	\$795,000	Jamey Cox	704-632-1030
Laurinburg	\$875,000	Jamey Cox	704-632-1030
Raleigh	\$2,300,000	Jamey Cox	704-632-1030

Oklahoma

Guymon	\$1,200,000	Jared Jones	918-583-3483
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Oregon

Central Point	\$1,975,000	Scott King	541-890-6708
Lakeview	\$835,000	Scott King	541-890-6708
Medford	\$375,000	Scott King	541-890-6708
Talent	\$2,790,000	Scott King	541-890-6708

Pennsylvania

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

Kingsport	\$1,250,000	Paul Grisanti/Mike Helline	502-296-4586
Lebanon	\$2,800,000	Paul Gridanti/Mike Helline	502-296-4586

Texas

Anna	Call Broker	Richard Minker/Chad Snyder	817-335-5600
Arlington	Call Broker	Richard Minker/Chad Snyder	817-335-5600
Bacliff	Call Broker	Bill Brownfield	713-907-6497
Mineral Wells	Call Broker	Richard Minker/Chad Snyder	817-335-5600
Rockwall	Call Broker	Richard Minker/Chad Snyder	817-335-5600
Seminole	Call Broker	Richard Minker/Chad Snyder	817-335-5600
Texas City	Call Broker	Bill Brownfield	713-907-6497

Washington

Federal Way	\$5,000,000	Steve Libert	847-452-2082
		Thomas Wolter	206-200-3325

ARGUS SALES



Congratulations to **Tom Flannigan and Corly Wilkerson** of KW Commercial who sold Hub-bard Storage in Park Rapids, MN! Contact Tom and Corly at 612-790-3747 for details.



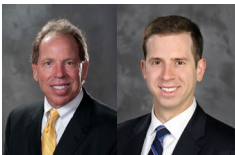
Congratulations to **Jared Jones, CCIM** of Jones Investment Properties who represented the buyer of a self-storage development site in Tulsa, OK! Contact Jared at 918-583-3483 for details.



Congratulations to **Bill Barnhill, CCIM and Shannon Barnes, CCIM** of Omega Properties, Inc. who sold Pine Belt Mini Storage in Laurel, MS! Contact Bill and Shannon at 251-432-1287 for details.



Congratulations to **Jamey Cox** of SVN Percival Partners who sold Economy Storage in Henderson, NC and Cherryville Self Storage in Cherryville, NC! Contact Jamey at 704-632-1030 for details.



Congratulations to **Paul Grisanti, CCIM and Nick Grisanti** of Grisanti Group Commercial Real Estate who sold a self storage development site in Sheperdsville, KY! Contact Paul and Nick at 502-253-1811 for details.



Congratulations to **Larry Goldman, CCIM** of RE/MAX Commercial who sold the Attic Self Storage Portfolio in St. Joseph, MO! Contact Larry at 913-707-9030 for details.

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 & Jamey Cox
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.

251-432-1287
704-632-1030
770-301-1886
757-618-3597
904-733-0039

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

NORTH CENTRAL

Bruce Bahrmassel
Tom Flannigan
Alec Pacella, CCIM
Larry Goldman, CCIM
Mike Helline & Paul Grisanti, CCIM
Jim Soltis

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

312-518-3550
651-269-6307
216-831-3310
913-707-9030
502-253-1811
810-494-2062

Northern IL, Northern IN, WI
MN, ND, 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 & Chad Snyder

Omega Properties, Inc.
Brownfield & Associates, LLC
Etzold & CO LLC
RE/MAX Commercial
Grisanti Group Commercial Real Estate
Jones Investment Properties
Colliers International

251-432-1287
713-907-6497
915-845-6006
913-707-9030
502-253-1811
918-583-3483
817-335-5600

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

WEST

David Etzold
Jeff Gorden, CCIM
Larry Hayes
Scott King
Joan Lucas
James Rueter
Doug Shea & Peter Pappageorge
Thomas Wolter

Etzold & CO LLC
Eagle Commercial Realty Services
Hayes & Associates
Merit Commercial Real Estate
Joan Lucas Real Estate Services, LLC
Argus Norcal
Centennial Advisers
RE/MAX Commercial

915-845-6006
480-331-8880
406-544-1921
541-890-6708
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805-815-8105
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NM
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Southern CA
WA