



## Finding Value in Today's Market

by Ben Vestal

The economic environment of the last several years has been very favorable for self-storage values and operating performance. In fact, we have enjoyed the longest economic boom the self-storage industry has ever experienced. This has been spurred by strong operating performance, improving market fundamentals, better industry data, fluid debt markets, quality third party management platforms and a growing customer base. In short, when evaluating risk-adjusted returns and comparing self-storage with other commercial real estate investments, the returns are higher, and the various risks are more moderate, except for the risk of overbuilding.

We are just now starting to see some operating softness in select markets that over the last 12-28 months, have experienced a large number of new projects coming on line. This has led some buyers to shy away from these particular markets. Most of the new development has taken place in the top 25-50 MSAs and is largely concentrated in specific areas within these markets. We have observed that most of these markets still have strong population and job growth which has allowed the rental velocity to remain strong, however the rental rates have softened significantly (20%-50%) in most cases. Because of this, many owner/developers have had to re-run their 3-5 year proformas, and the short term valuation picture is not so rosy. They are realizing that the value of their project at stabilization (2-4 years) is meaningfully less than anticipated under these new lower rental rates. The term "high barriers to entry" is now being reevaluated because several historically "high barriers to entry" markets such as New York, Denver, Austin, Seattle, and Portland experienced tremendous amounts of

new development this cycle.

However, there is still meaningful value to be created in the self-storage space and the owners/buyers who are able to reevaluate and adjust their investment criteria and horizon will be well-positioned to capitalize on the new opportunities in today's market.

### Secondary Markets:

For the first time, we are now seeing a significant amount of capital providers considering investments in secondary markets. This is largely due to a few factors: secondary markets have continued to perform well; yields in major markets have gotten very thin; quality third party management is now available in these secondary markets; and most secondary markets have experienced meaningfully less new development. Secondary markets are always difficult to define and should have some of the following traits: have at least 500,000 in population; be located within a 1.5-hour drive of a top 50 MSA; have a daily commercial airline service; and have a growing population and job market. It is clear that these secondary markets are of interest to many well-capitalized buyers, but everyone needs to keep perspective. The valuations will be adjusted for the added risk of being in a smaller secondary market. You may also need to dig deeper into the operations of these secondary market assets because the lack of sophisticated operators has left a lot of low hanging fruit and embedded value in the current tenant base.

Today we are seeing acquisition cap rates in strong secondary markets 100-200 basis points higher than in the major markets. This puts the risk ad-

justed cash on cash return, day one, 3%-5% higher than in the major markets. I have outlined the general metrics in Chart I below. Obviously, this does not take into account an exit value and cap rate, which have historically been higher in the secondary markets and have been the Achilles heel for secondary markets. But that may be changing.

Chart I: Major vs. Secondary Market Comparison

	Major MSA 6% Cap	Secondary Market 7% Cap	Secondary Market 8% Cap
Revenue	\$450,000	\$450,000	\$450,000
Operating Expenses	\$180,000	\$180,000	\$180,000
NOI	\$270,000	\$270,000	\$270,000
Value	\$4,500,000	\$3,857,143	\$3,375,000
Loan @ 70% LTV	\$3,150,000	\$2,700,000	\$2,362,500
Equity	\$1,350,000	\$1,157,143	\$1,012,500
Debt Service 4.75% - 30 yr Am	\$199,110	\$170,666	\$149,332
Cash Flow	\$70,890	\$99,334	\$120,668
Cash on Cash Return	5.25%	8.58%	11.92%

### New Developments in Lease Up:

In many cases, new developments around the country are starting to struggle to achieve their proforma lease rates and occupancy benchmarks. The typical self-storage developer's profile this cycle is meaningfully different than in past development cycles because self-storage has attracted developers from other real estate classes (office, retail, etc.). Many of these new developers do not understand the nuances of the operating side of the self storage business (pricing, discounting, lease term, tenant roll over, revenue management, fixed operating expenses, etc.) and are not accustomed to the historically longer (3-5 year) lease up and stabilization timeframes of the self-storage industry. Developers who started to develop early in this cycle enjoyed hyper-absorption and unrealistic pricing power during 2012-2016 and this experience has

set their expectations artificially high. As a result, they are now struggling to make sense of their current projects in lease up.

These market conditions are creating buying opportunities for investors with long terms investment horizons (5-10+ years) who have a better understanding of the operating side of the self-storage industry. We are seeing opportunities for buyers

to purchase projects in lease up (25%-65% occupied) 2-4 years since opening and in major MSAs that have seen a large amount of new supply delivered in the last 1-2 years. These buyers will need to take a long term look at the investment because it will take several years for the rental rates to rebound

and occupancy to stabilize. But long term, these new, well-constructed (mostly multi-story) assets will be very well-located in top MSAs around the country. Undoubtedly over the next 5-10 years, we will see pricing power swing back to the owners and these Class A assets will perform at a very high level.

Clearly, the market today requires buyers to look farther down the road and a bit harder to find value. But if you are willing to do the work and set your investment horizons at a more realistic level you can still find self-storage acquisitions that will provide above average returns. **MM**

*Ben Vestal, President of the Argus Self Storage Sales Network, can be reached at 800-557-8673 or [bvestal@argus-realestate.com](mailto:bvestal@argus-realestate.com).*



# Property Showcase

## Spanish Fort, AL

**\$890,000**

- 161 Units
- 50,400 RSF
- 5 Acres
- 101 storage units and 60 boat/RV spaces
- High occupancy
- Room for expansion
- Management upside

**NEW!**



**Bill Barnhill, CCIM  
& Shannon Barnes, CCIM**  
251-459-8912  
barnhill@selfstorage.com  
shannon@selfstorage.com

## Jacksonville, FL

**\$1,500,000**

- Self-Storage Development Site
- 4.2 Acres
- Prime development location on Jacksonville's south side
- Mix of dense retail and residential units nearby
- Proposed 3-story climate controlled building
- Traffic count of 53,000 cars per day

**NEW!**



**Josh Koerner  
& Frost Weaver**  
904-591-0140  
jkoerner@weaver-realty.com  
fweaver@weaver-realty.com

## Whittier, CA

**\$3,100,000**

- 124 Units
- 18,755 GSF
- 0.68 Acres
- Historically high occupancy
- Extremely dense trade area
- No competitors within 1-mile radius
- Upside in rents
- Low management responsibility

**NEW!**



**Peter Pappageorge  
& Doug Shea**  
562-269-4844  
peter@centennialadvisers.com  
dshea@centennialadvisers.com

## MN Portfolio

**\$2,600,000**

- 320 Units
- 62,870 RSF
- 4.89 Acres
- 2-property portfolio with locations in Waite Park and Little Falls, MN
- Efficient portfolio with 90% occupancy
- Access gates, security cameras and updated LED lighting

**NEW!**



**Tom Flannigan  
& Corly Wilkerson**  
612-790-3747  
tom@selfstorage.com  
corly@selfstorage.com

## Calhan, CO

**\$910,000**

- 94 Units
- 11,580 RSF
- 1.25 Acres
- Extremely well-maintained
- Located 30 miles northeast of Colorado Springs
- Immediate expansion potential
- Consistently high occupancy
- New security cameras added in 2018

**NEW!**



**Joan Lucas**  
720-855-6587  
jlucas@selfstorage.com

## Two Harbors, MN

**\$1,200,000**

- 123 Units
- 23,020 RSF
- 2.14 Acres
- High performing facility
- Minimal competition - only storage facility within 15 miles
- 24/7 gate access, blacktop, LED lighting and power on the property

**NEW!**



**Tom Flannigan  
& Corly Wilkerson**  
612-790-3747  
tom@selfstorage.com  
corly@selfstorage.com



# Property Showcase

## Santa Fe, NM

### Call for Offers

- 2-Property Portfolio
- 1,326 Units
- 120,865 RSF **NEW!**
- 6.78 Acres
- Portfolio consists of a newly-built, class A property and a C of O project to be delivered upon completion
- Prime locations with easy access

**David Etzold  
& Avi Kotkowski**  
915-845-6006  
etzoldco@att.net  
avikelp@gmail.com



## Afton, TN

### \$1,675,000

- 321 Units
- 39,500 RSF **NEW!**
- 4.55 Acres
- Located approx. 7 miles from Greenville, TN
- Significant untapped potential and upside!
- Property is profitable at below market rates and without supplemental income streams

**Mike Helline  
& Paul Grisanti, CCIM**  
502-253-1811  
mike@grisantigroup.com  
paul@grisantigroup.com



## Broken Bow, OK

### \$1,650,000

- 222 Units **NEW!**
- 56,820 GBA
- 5.5 Acres
- High quality facility with low maintenance requirements
- Highway frontage in desirable recreational area
- Upside through revenue management and expansion
- Easily accessible

**Jared Jones, CCIM**  
918-609-0541  
jjones@selfstorage.com



## Katy, TX

### \$850,000

- 6 Units **NEW!**
- 12,000 RSF
- 1.72 Acres
- Large, warehouse-style units are individually metered
- Newly renovated with new roof, doors and skylight
- Expansion land included
- High population growth area

**Chad Snyder  
& Richard Minker, CCIM**  
817-335-5600  
chad.snyder@colliers.com  
richard.minker@colliers.com



## Albion, PA

### \$450,000

- 84 Units **NEW!**
- 12,000 RSF
- 4 Acres
- Low maintenance metal buildings with metal roofs
- Historically high occupancy levels
- Ample land for expansion, can be sized to purchaser
- Located about 20 miles from Erie in northwest Pennsylvania

**Alec Pacella, CCIM**  
216-455-0925  
apacella@naidaus.com



## Franksville, WI

### \$599,000

- 59 Units
- 8,350 RSF
- 1.75 Acres
- 34 outdoor parking spaces
- Excellent traffic exposure along west frontage road of I-94 in Milwaukee's south suburbs
- Tremendous upside with expansion room
- Great current income with a list Cap Rate of 9%

**Bruce Bahrmassel**  
312-518-3550  
bruce@selfstorage.com





# Sells Self Storage Nationwide!

Our complete list of available properties is detailed below. For additional information, visit [www.argus-selfstorage.com](http://www.argus-selfstorage.com) or contact your local Argus Broker Affiliate.

## Alabama

Childersburg	\$768,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Daphne	<b>SOLD</b>	Bill Barnhill/Shannon Barnes	251-432-1287
Fultondale	\$699,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Spanish Fort	\$890,000	Bill Barnhill/Shannon Barnes	251-432-1287

## Arizona

El Mirage	\$4,250,000	Jeff Gorden	480-331-8880
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## 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

## Colorado

Bennett	\$4,500,000	Joan Lucas	720-855-6587
Calhan	\$910,000	Joan Lucas	720-855-6587

## 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
High Springs	\$2,880,000	Frost Weaver/Josh Koerner	904-265-2003
Jacksonville	\$1,500,000	Frost Weaver/Josh Koerner	904-265-2003
Macclenny	\$2,425,000	Frost Weaver/Josh Koerner	904-265-2003
Stuart	\$2,500,000	Frost Weaver/Josh Koerner	904-265-2003
Wildwood	<b>SOLD</b>	Frost Weaver/Josh Koerner	904-265-2003

## Georgia

Cumming	\$1,350,000	Mike Patterson	770-301-1886
Ellijay	\$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	\$538,000	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	<b>SOLD</b>	Bruce Bahrmassel	312-518-3550
Rockford	\$5,100,000	Bruce Bahrmassel	312-518-3550
Yorkville	<b>SOLD</b>	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
Maize/Park Cty	\$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

Portfolio	\$2,600,000	Tom Flannigan	612-790-3747
Forest Lake	\$2,800,000	Tom Flannigan	612-790-3747
Two Harbors	\$1,200,000	Tom Flannigan	612-790-3747

## Missouri

Jefferson City	\$672,000	Larry Goldman	913-707-9030
Sedalia	\$4,696,000	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
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## Nebraska

Lemoyme	\$1,700,000	Joan Lucas	720-855-6587
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## New Hampshire

Hinsdale	\$1,280,000	Joe Mendola	603-668-7000
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## New Jersey

Kearny	Call Broker	Linda Cinelli	908-722-5661
Sparta	\$7,450,000	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 Mexico

Ruidoso Downs	\$618,000	David Etzold/Avi Kotkowski	915-845-6006
Santa Fe	Call Broker	David Etzold/Avi Kotkowski	915-845-6006

## New York

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

Hickory	\$750,000	Jamey Cox	704-632-1030
Raleigh	\$2,300,000	Jamey Cox	704-632-1030

## Oklahoma

Bixby	\$4,000,000	Jared Jones	918-583-3483
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## Oregon

Central Point	\$1,875,000	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
Vale	\$1,600,000	Scott King	541-890-6708

## Pennsylvania

Albion	\$450,000	Alec Pacella	216-455-0925
Bechtelsville	\$1,350,000	Chuck Shields	610-828-0100

## Tennessee

Kingsport	\$1,150,000	Paul Grisanti/Mike Helline	502-296-4586
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## Texas

Anna	Call Broker	Richard Minker/Chad Snyder	817-335-5600
Bacliff	Call Broker	Bill Brownfield	713-907-6497
Katy	Call Broker	Richard Minker/Chad Snyder	817-335-5600
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

## Wisconsin

Franksville	\$599,000	Bruce Bahrmassel	312-518-3550
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# ARGUS SALES



Congratulations to the team at **Omega Properties, Inc.** for their recent sales! **Bill Barnhill, CCIM and Stuart LaGroue** sold the South Hall Self Storage Portfolio in Birmingham, AL. **Bill Barnhill, CCIM and Shannon Barnes, CCIM** sold Bayfront Self Storage in Daphne, AL! Contact Omega Properties at 251-432-1287 details.



Congratulations to **Josh Koerner and Frost Weaver** of Weaver Realty Group, Inc. who sold My Garage in Wildwood, FL! Contact Josh and Frost at 904-591-0140 for details.



Congratulations to **Bruce Bahrmassel** of Waveland Commercial Real Estate who sold Storage on Barker in Byron, IL and Yorkville Self Storage in Yorkville, IL! Contact Bruce at 312-518-3550 for details.



Congratulations to **Peter Pappageorge and Doug Shea** of Centennial Advisers who sold a self-storage development site in Goleta, CA! **Steve Libert** of Waveland Commercial Real Estate represented the buyers. Contact Peter and Doug at 562-269-4844 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  
Grand Ave. Realty  
Centennial Advisers  
RE/MAX Commercial

915-845-6006  
480-331-8880  
406-544-1921  
541-890-6708  
720-855-6587  
805-815-8105  
562-269-4844  
206-200-3325

NM  
AZ, NV  
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OR  
CO  
Northern CA  
Southern CA  
WA