



SELF STORAGE SALES NETWORK

# Market Monitor

America's Premier Self Storage Brokers

Issue V-2019

## Self-Storage Valuation - Time to Adjust Your Course

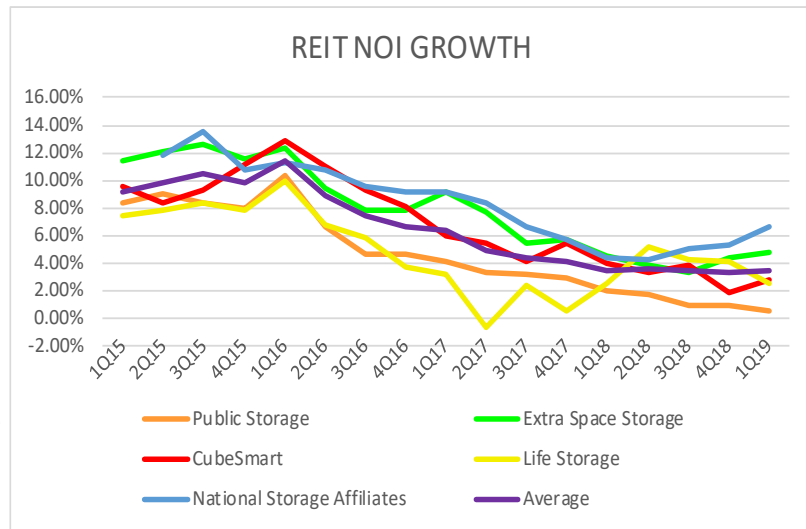
by Ben Vestal

Here at Argus, we spend a lot of time thinking about the value of self-storage properties. It has been our business for more than 25 years; extracting the value of the property in the process of a sale for a seller, as well as helping buyers to determine the right price to pay for a property. Our daily conversations are focused around interest rates, cap rates, new supply, revenue management, embedded value, loan to value ratios and a lot of other topics that rarely interest an owner other than when they decide to buy or sell a property. However, we believe that there is a connection between understanding the current market and the nuances of what does and does not create value and running a successful self-storage property. Now more than ever, the value and preservation of value of self-storage assets is focused around NOI and whether or not the income is maximized and likely to go up or down in the years to come.

The old rule of thumb that 90% or more of your property's value is in the net operating income (NOI) rings true today, particularly with all of the new supply being delivered around the country as well as concerns about real estate taxes and rising operating expenses (payroll, advertising, etc.). Today's marketplace still consists of more buyers than sellers. Buyers today vary widely and include institutional buyers (REITS, private equity funds and large operators), high net worth investors, exchange buyers and other new investors from other real estate sectors. The excess of buyers and the fluid debt market has continued to fuel the self-storage boom and strong transaction velocity. However, valuation is softening due to buyers' unwillingness to project future growth of NOI.

It appears to me that it is time to adjust course as we are seeing meaningful headwinds on the horizon for self-storage operators around the country. This is very clear in the chart below outlining the NOI Growth for the five self-storage REITS over the last 16 quarters. As

you can see, the REITS have seen downward pressure on NOI for 11 consecutive quarters and operating performance continues to deteriorate.



Navigating a market that has decelerating NOIs is a tricky game and buyers today are looking for a reasonable return on investment. However, how that return on investment is viewed may vary greatly depending on the particular buyer's perspective. Existing owners have the advantage of market knowledge, particularly if they are already operating properties in an existing geographic marketplace. These existing owners have the benefit of actual operating knowledge when underwriting a property's operating performance, where a new buyer to the market must rely on existing operating reports, income statements, market studies, and investment advisors to form an educated opinion of potential value.

Below I have outlined some typical income and expenses adjustments to consider when valuing a self-storage property today.

Income adjustments vary widely from deal to deal and can be placed in multiple categories:

*continued*

A) **RENTS:** In markets that are experiencing new supply, many owners are slow to adjust pricing to reflect local market rents, meaning that the existing customers are being replaced with a new customer at a slower pace and with a customer who is paying much less rent. You must adjust the property's gross potential income to reflect current market rents and not what the owner is using as rental rates.

B) **CONCESSIONS:** Concessions, typically in the form of free rent, vary widely from property to property and season to season. Generally we see 8%-12% concessions, which equates to 1 to 1.5 months of free rent. However, you must look at the average length of stay to truly understand the total concession. If your new customers are staying for less than 1 year it is easy to see how your concessions can balloon to 16%-24%.

C) **TENANT INSURANCE:** The industry's large operators have all adopted tenant insurance as the industry standard and push tenant insurance aggressively on customers. The profit margins can be as high as 90%+ for these larger operators and penetration can be more than 70%. Smaller operators should also consider offering tenant insurance with a margin of closer to 25%-50% and penetration of around 30%-50%.

D) **ANCILLARY INCOME:** Ancillary income includes late fees, administrative fees, product sales and truck rental income. We typically see ancillary income at 2%-5% of total revenue. Late fees in particular can add up for those owners who are aggressively enforcing company policy. However, each property is unique and should be evaluated on a case by case basis.

Expense adjustments are unique to each deal and can be found in several different expense categories. Below are some of the expenses you should focus on:

A) **REAL ESTATE TAXES:** In most cases real estate taxes are one of the single largest expense line items and one of the fastest-growing too. Every state has their own property tax nuances. For example, in California it is pretty straight forward where Proposition 13 sets the real estate tax at the point of sale at around 1%-1.3% of the sale price, whereas in non-disclosure states like Texas and New Mexico it is much more of a guessing game. When buying or selling self-storage you must adjust the real estate taxes to reflect a new valuation after sale. Check with your Argus broker if you have questions about property tax treatment in your state.

B) **PAYROLL:** Payrolls can vary widely from owner to

owner and may be adjusted by as much as 20%-30%. Many long-term owners have employees who have been with them for many years. Adjusting payrolls may be a sensitive area because most owners want to treat their employees fairly and protect their employment upon sale. With the US at nearly full employment we have seen payroll costs rise meaningfully over the last few years.

C) **PERSONAL EXPENSES:** Many owners run personal expenses through the operating statement of a property. These typically include travel, dues & subscriptions, car/truck expense, gas and more. Identifying which expenses are personal upfront and extracting them from the Profit and Loss statements will help in preparing the financial statements and optimizing the property's market value.

D) **THIRD-PARTY MANAGEMENT FEES:** As a real estate investment, buyers will be looking to include a third-party management fee of 4%-6% of gross revenue as part of the operating expenses. Owner operated properties may not always include this expense line item on their financial statements. However, you must include a third-party management fee in order to arrive at a realistic NOI, because real estate investors are not looking for a job and will be required by their lender to include a third-party management fee in their underwriting. There is one expectation to this rule and that is rural properties that are less than \$1M in value. We find that a third-party management fee is not required in the underwriting and valuation of these smaller properties. However, you must include adequate payroll.

Of course, every valuation and transaction is unique and requires an understanding of many different facets of the operations of a self-storage property, including but not limited to the management, operations, occupancies and market, just to name a few. Additional adjustments to value can include necessary capital improvements, capital reserves, market specific expenses (rental taxes) and facility upgrades (ADA compliance). Based on the valuation adjustments discussed above you can understand how valuation is changing. As you evaluate your self-storage investment, be realistic on your investment horizon as you must decide what you want to do in order to maximize your return on investment. **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

## Bryan/College Station, TX

Call Broker

- **Offers Due May 31, 2019**
- 2-Property Portfolio
- 846 Total Units
- 87,600 Total RSF
- 6.3 Total Acres
- Institutionally owned properties
- Near Texas A&M University

**Bill Brownfield, CRE, CCIM & Faith Pate**

713-907-6497

bill@wbrownfield.com

faithpate@selfstorage.com



## Shepherdsville, KY

\$799,000

- 121 Units
- 13,120 RSF
- 1.087 Acres
- Located at the entrance to an industrial park
- Land available for expansion
- Gated and well-lighted

**Mike Helline & Paul Grisanti, CCIM**

502-296-4586

mike@grisantigroup.com

**NEW!**



## Danbury, CT

\$25 / NRSF

- Self-Storage Development Opportunity
- 90,000 GSF
- 1.36 Acres
- 3-story building
- Approvals pending for additional 30,000 SF

**NEW!**

**Linda Cinelli, CCIM**

908-722-5661

linda@lcrealtyusa.com



## Tulsa, OK

\$2,250,000

- 262 Units
- 34,730 RSF
- 2.14 Acres
- Infill location with great population density
- High quality facility with low maintenance requirements
- Upside through revenue management

**Jared Jones, CCIM**

918-948-3941

jjones@selfstorage.com

**NEW!**



## Iola, KS

\$565,000

- 131 Units
- 17,600 RSF
- 1.27 Acres
- 2-property portfolio
- Opportunity to develop a third building
- Value-add opportunity
- Great access to US-54 Highway

**NEW!**

**Larry Goldman, CCIM**

913-707-9030

lgoldman@selfstorage.com



## Tulsa, OK

\$620,000

- **Under Contract**
- 145 Units
- 16,325 RSF
- 0.99 Acres
- Well-located facility with strong population and income growth
- Value-add opportunity
- Entry-level property with attractive price point

**Jared Jones, CCIM**

918-948-3941

jjones@selfstorage.com

**NEW!**



## Liberal, KS

\$1,850,000

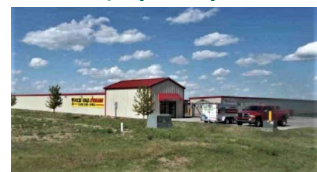
- 353 Units
- 60,010 RSF
- 4.14 Acres
- Highest quality facility in western Kansas
- Land available for expansion
- 24-Hour Insomniac Kiosk
- Located 1/4 mile from Walmart Supercenter

**NEW!**

**Larry Goldman, CCIM**

913-707-9030

lgoldman@selfstorage.com



## Tomah, WI

\$3,380,000

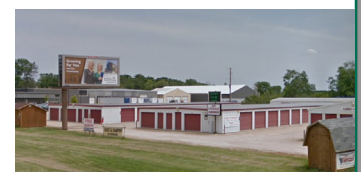
- 477 Units
- 87,667 RSF
- 15.223 Acres
- 5-Site Portfolio
- Outstanding locations fronting busy commercial streets
- Multiple income streams including billboards, office rent, retail and truck rental
- Tremendous upside potential

**Bruce Bahrmassel**

312-518-3550

bruce@selfstorage.com

**NEW!**





# 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.

## Arizona

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

## Arkansas

Cabot \$429,000 Larry Goldman 913-707-9030  
Hot Springs Vlg \$1,600,000 Larry Goldman 913-707-9030  
N. Little Rock \$5,100,000 Larry Goldman 913-707-9030  
West Memphis \$9,645,000 Larry Goldman 913-707-9030  
Wynne \$5,172,000 Larry Goldman 913-707-9030

## California

Placerville \$859,000 Jim Rueter 805-815-8105

## Colorado

Colo. Springs \$8,700,000 Joan Lucas 720-855-6587  
Longmont \$2,250,000 Joan Lucas 720-855-6587  
Loveland \$5,700,000 Joan Lucas 720-855-6587

## Connecticut

Danbury \$25/NRSF Linda Cinelli 908-722-5661

## Florida

Chiefland \$1,500,000 Frost Weaver/Josh Koerner 904-591-0140  
Melbourne \$1,800,000 Frost Weaver/Josh Koerner 904-591-0140  
St. Petersburg **SOLD** Frost Weaver/Josh Koerner 904-591-0140  
Stuart \$2,500,000 Frost Weaver/Josh Koerner 904-591-0140  
Vero Beach \$4,425,000 Frost Weaver/Josh Koerner 904-591-0140

## Georgia

Canton \$4,850,000 J.Kris Knowles 720-323-2055  
Cumming **SOLD** Mike Patterson 770-301-1886  
Ellijay \$1,490,000 Mike Patterson 770-301-1886  
Mableton \$895,000 Jane H. Sauls 770-328-2379  
Tifton \$2,700,000 Jane H. Sauls 770-328-2379

## Illinois

Elgin \$3,250,000 Bruce Bahrmassel 312-518-3550  
Rockford \$3,250,000 Bruce Bahrmassel 312-518-3550

## Iowa

Altoona Call Broker Corly Wilkerson 612-282-2670  
Cedar Rapids \$650,000 Corly Wilkerson 612-282-2670

## Kansas

Andover \$4,200,000 Larry Goldman 913-707-9030  
Derby \$1,400,000 Larry Goldman 913-707-9030  
Gardner \$6,690,000 Larry Goldman 913-707-9030  
Iola \$565,000 Larry Goldman 913-707-9030  
Liberal \$1,850,000 Larry Goldman 913-707-9030

## Kentucky

Shepherdsville \$799,000 Mike Helline/Paul Grisanti 502-296-4586

## Massachusetts

Northampton \$595,000 Joseph Mendola 603-668-7000

## Michigan

Addison \$1,060,000 Jim Soltis 810-494-2062  
Eagle \$530,000 Jim Soltis 810-494-2062

## Minnesota

Columbus **SOLD** Tom Flannigan 612-790-3747  
East Bethel \$1,800,000 Tom Flannigan 612-790-3747  
Forest Lake **SOLD** Tom Flannigan 612-790-3747

## Mississippi

Terry \$1,875,000 Bill Barnhill/Stuart LaGroue 251-432-1287

## Missouri

Branson West Call Broker Jared Jones 918-609-0541  
Jefferson City \$599,000 Larry Goldman 913-707-9030

## Montana

Billings \$1,150,000 Kim Vandelinder 406 698-6850

## Nebraska

Lemoyne \$1,550,000 Joan Lucas 720-855-6587

## New Hampshire

Boscawen \$4,000,000 Joe Mendola 603-668-7000

## New Jersey

Sparta \$7,450,000 Linda Cinelli 908-722-5661  
Ventnor City \$1,725,000 Linda Cinelli 908-722-5661  
West Berlin **SOLD** Linda Cinelli 908-722-5661

## New York

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

## North Dakota

Bowman \$950,000 Tom Flannigan 612-790-3747

## Ohio

Empire \$1,500,000 Alec Pacella 216-455-0925  
N. Ridgeville \$1,500,000 Alec Pacella 216-455-0925

## Oklahoma

Tulsa \$2,250,000 Jared Jones 918-609-0541  
Tulsa \$620,000 Jared Jones 918-609-0541

## 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  
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

## South Carolina

Spartanburg \$1,275,000 Jamey Cox 704-632-1030

## Texas

Anna Call Broker Richard Minker/Chad Snyder 817-335-5600  
Bryan/ColStn Call Broker Bill Brownfield/Faith Pate 713-907-6497  
Longview 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

Tomah \$3,380,000 Bruce Bahrmassel 312-518-3550

# ARGUS SALES



Congratulations to **Tom Flannigan, Corly Wilkerson and Alex Ihrke** of KW Commercial who sold KRT Affordable Storage in Columbus, MN and A-1 Mini Storage in Forest Lake, MN! Contact the KW Commercial team at 612-790-3747 for details.



Congratulations to **Josh Koerner and Frost Weaver** of Weaver Realty Group who sold Cool Spaces Storage in St. Petersburg, FL! Contact Josh and Frost at 904-591-0140 for details.



Congratulations to **Mike Helline and Paul Grisanti, CCIM** of Grisanti Group Commercial Real Estate who sold Suburban Storage in Mt. Washington, KY! Contact Mike and Paul at 502-296-4586 for details.



Congratulations to **Bill Brownfield, CRE, CCIM** of Brownfield & Associates, LLC who sold self-storage development sites in Houston, TX and Conroe, TX! Contact Bill at 713-907-6497 for details.



Congratulations to **Jeff Gorden, CCIM** of Eagle Commercial Realty Services who represented the buyer of a self-storage development site in Glendale, AZ! Contact Jeff at 480-331-8880 for details.



Congratulations to **Linda Cinelli, CCIM** of LC Realty who sold Berlin General Storage in West Berlin, NJ! Contact Linda at 908-722-5661 for details.



Congratulations to **Mike Patterson, CCIM** of Commercial Realty Services of West Georgia who sold a development site in Cumming, GA! Contact Mike at 770-301-1886 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  
Jamey Cox  
Mike Patterson, CCIM  
Stuart Wade  
Josh Koerner & 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  
904-591-0140

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

KW Commercial  
NAI Pleasant Valley  
RE/MAX Commercial  
Grisanti Group Commercial Real Estate  
Preview Properties.com

312-518-3550  
612-790-3747  
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 & Faith Pate  
David Etzold & Avi Kotkowski  
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  
918-948-3941  
817-335-5600

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

### WEST

David Etzold & Avi Kotkowski  
Jeff Gorden, CCIM  
Larry Hayes  
Scott King  
Joan Lucas  
Sandy McCleve  
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  
McCleve Real Estate, LLC  
Pacific Brokers  
Centennial Advisers  
RE/MAX Commercial

915-845-6006  
480-331-8880  
406-544-1921  
541-890-6708  
720-855-6587  
801-872-9610  
805-815-8105  
562-269-4844  
206-200-3325

NM  
AZ, NV  
MT  
OR  
CO  
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Southern CA  
WA