



SELF STORAGE SALES NETWORK

Market Monitor

America's Premier Self Storage Brokers

Issue VI-2019

Combating Revenue Decline: Is Third-Party Management the Answer?

by Cole Carosella

In my role as Financial Analyst here at Argus, one of the most common themes in my conversations with owners is the softening of rental rates due to the increase in new development that we have seen over the last few years. This increase in supply has forced owners and operators to adjust their rental rates downward in order to maintain occupancy and stay competitive within their property's submarket. Because of softening rental rates and rising operating expenses, NOI has been tightening; a trend that can be seen industry-wide as the five major REITs have reported NOI growth declines for 11 consecutive quarters.

As a self-storage owner, how do you continue to maintain or raise your NOI in a market that is experiencing headwinds such as declining rental rates and rising operating expenses? As a buyer, how do you find value in a deal where there may not be much short-term upside? The standard answer would be to increase rental rates on the current tenant base, therefore increasing revenue and NOI. However, in light of today's softening rental rates, the answer does not lie in increasing revenue but rather in reducing operating expenses. As we underwrite and evaluate deals around the country, it is clear that the once simple and cost-conscious self-storage industry has now become much more complex and operating expenses have grown out of control, in part due to our industry's recent prosperity and institutionalization. It is easy to lose control of operating expenses when revenues have grown at a rapid pace, and with third-party management companies looking to standardize operations, we are finding that many self-storage operators' operating expenses are inflated. In these changing times, we are finding that it is easier to dig in and cut operating expenses rather than grow revenue.

Over the last 10 years, third-party management companies have become an efficient way for self-storage owners and equity providers to broaden their investment reach and in most cases increase NOI and drive values higher. However, many third-party management companies have grown so large that they are unable to react quickly to the changing submarket fundamentals, i.e. new development. Additionally, many third-party management companies are structured in such a way that they are unable to customize an individual property's business plan, thus causing frustration for owners who are seeing their submarket(s) quickly change. The services, technologies, and efficiencies that management companies provide owners have become industry standards and today we are finding that even the best third-party management companies cannot create new rentals, drive occupancy higher, and push revenues in markets that have seen a large amount of new development.

Management companies have a fiduciary responsibility to their clients to drive value and have the owner's best interest at the core of

their business model. As owners you must make sure your management company has grown in a reasonable manner and has the ability to customize your property's business plan to maximize value. If your property is struggling or simply trending in the wrong direction you need to take action. Owners need to be reviewing operating statements on a monthly basis to make sure their operating expenses are in-line and most importantly, owners should ONLY be paying expenses that are directly benefiting their property. For example, if your property is 95% occupied with no new supply in the submarket, you don't need to be spending as much on advertising as a new property in lease-up should be or a facility that has meaningful new supply its submarket. Also, be aware of needless fees such as bank charges, pass through of corporate travel expenses, and site manager training. These are costs that should be absorbed by the management company. It is important to make sure you understand the actual cost of your third-party management because we have found that in some cases the actual cost of third-party management is much more than the advertised 4%-6% of gross revenue due to the required standardization of some third-party management platforms.

As I continue to review and underwrite hundreds of self-storage assets around the country, it is evident that each property is different and requires a customized business plan in order to maximize the value. In times when market fundamentals are changing, spending more money and raising operating expenses is not always the right answer. In markets that are softening, I believe reviewing and reducing unnecessary operating expenses has more of an impact on preserving your value than simply increasing operating expenses such as advertising, hiring a call center, etc. in hopes of finding one more tenant who may or may not be in the market today.

It is clear that self-storage market fundamentals are changing and the industry is experiencing a slowing of NOI growth largely due to new supply along with operating expense growth that has been poorly monitored. With 90% or more of your value coming from your NOI, it is time to check each box and make sure you are benefiting from every dollar spent at your property. Third party management can be a very useful tool and has proven to add value by driving revenues higher with their web-based technology, revenue management, and overall policies and procedures. However, you must find a third-party management company that is a good fit for your property. Not every management company is created equal and you must monitor them in order to make sure you are getting value. Remember, you own the property - not the management company - and you can take control of your property's destiny. **MM**

Cole Carosella is an Analyst and Broker for the Argus Self Storage Sales Network. He can be reached at 800-557-8673 or cole@argus-realestate.com.



Property Showcase

Colorado Springs, CO

\$1,600,000

- 138 Units **NEW!**
- 19,300 GSF
- 0.77 Acre
- Two well-maintained concrete block facilities located 2 blocks apart
- Good signage on Bott Ave.
- Great location in a stable residential and commercial area
- Significant upside potential through management and technology upgrades

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



Eudora, KS

\$3,650,000

- 292 Units **NEW!**
- 72,710 RSF
- 4.72 Acres
- Recently expanded site with room to grow
- Attractive office area with outstanding curb appeal
- Approved for additional 20,100 SF climate control building
- Adjacent land available for further expansion

Larry Goldman, CCIM
913-707-9030
 lgoldman@selfstorage.com



Naples, FL

\$2,650,000

- 87,463 NRSF TBB **NEW!**
- 2.52 Acres
- Self-storage Development Site
- Proposed 4-story, all climate control building
- Located 4 miles south of the airport, along Rt-41
- Prime location with a mix of retail and dense residential
- Strong area demographics and traffic counts over 40k VPD

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



South Hutchinson, KS

\$625,000

- 221 Units **NEW!**
- 35,700 RSF
- 2.22 Acres
- Established property with further upside available
- Well-kept facility with low maintenance requirements
- Insomniac Kiosk
- Great signage and visibility
- Lighting and security upgrades

Jared Jones, CCIM
918-948-3941
 jjones@selfstorage.com
Larry Goldman, CCIM
913-707-9030
 lgoldman@selfstorage.com

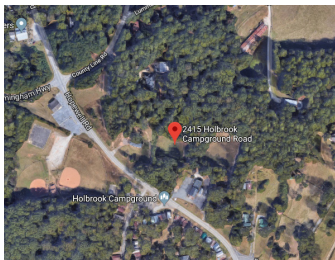


Alpharetta, GA

\$695,000

- Self-Storage Development Site **NEW!**
- 2 Acres
- Undersupply of storage in 3-mile trade area
- 3-mile Median Household Income of \$103,798
- Additional acreage available
- Fastest growing county in metro Atlanta

Jane H. Sauls, CCIM & Luke Sauls
770-328-2379
 janehsauls@gmail.com
 saulsluke@gmail.com



Honey Grove, TX

\$125,000

- 29 Units **NEW!**
- 2,900 RSF
- 0.11 Acre
- Two locations in Honey Grove, approx. 40 miles north of Greenville, TX
- Rental rates increased in June
- Includes a 960 SF rental residence

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.

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

Colorado

Colo. Springs \$1,600,000 Joan Lucas 720-855-6587
Colo. Springs \$8,700,000 Joan Lucas 720-855-6587
Longmont **SOLD** 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
Naples \$2,650,000 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

Alpharetta \$695,000 Jane H. Sauls 770-328-2379
Canton \$4,850,000 J.Kris Knowles 720-323-2055
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
Eudora \$3,650,000 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
S. Hutchinson \$625,000 Jared Jones 918-609-0541

Kentucky

Shepherdsville \$799,000 Mike Helline 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

East Bethel \$1,800,000 Tom Flannigan 612-790-3747

Missouri

Branson West Call Broker Jared Jones/Larry Goldman 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

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 **SOLD** 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

Pennsylvania

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

Texas

Anna Call Broker Richard Minker/Chad Snyder 817-335-5600
Bryan/ColStn Call Broker Bill Brownfield/Faith Pate 713-907-6497
Honey Grove Call Broker Richard Minker/Chad Snyder 817-335-5600
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 **Jared Jones, CCIM** of Jones Investment Properties who sold Spartan Storage in Tulsa, OK! Contact Jared at 918-948-3941 for details.



Congratulations to **Joan Lucas** of Joan Lucas Real Estate Services who sold Sunnyvale Self Storage in Longmont, CO! Contact Joan at 720-855-6587 for details.



Congratulations to **Jamey Cox** of SVN Percival Partners who sold a 3-Property Portfolio in eastern North Carolina! Contact Jamey at 704-632-1030 for details.



Congratulations to **Richard Minker, CCIM and Chad Snyder** of Colliers International who represented the buyer of 2264 Self Storage in Decatur, TX! Contact Richard and Chad at 817-335-5600 for details.

Contact an Argus Broker Affiliate

NORTHEAST

Guy Blake, CCIM
Linda Cinelli, CCIM, CEA
Joseph Mendola
Chuck Shields

Company

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845-522-5900
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Territory

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Commercial Realty Services of West Georgia
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Weaver Realty Group, Inc.

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Larry Goldman, CCIM
Mike Helline & Aaron Willis
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David Etzold & Avi Kotkowski
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Jared Jones, CCIM
Richard D. Minker, CCIM & Chad Snyder

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AL, MS, LA
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West TX
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TN
OK
North TX

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Scott King
Joan Lucas
Sandy McCleve
James Rueter
Doug Shea & Peter Pappageorge
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