



Today's Transaction Market

What Buyers and Sellers Need to Know

by Ben Vestal

Buying or selling a storage facility is a complex task and one that is not in the frequent course of business for the average self-storage owner or for buyers who are new to the self-storage marketplace. The transaction process can often be confusing, competitive and outright frustrating. However, taking the right approach to prepare for the transaction process can make all the difference in the world. With this in mind, I thought I would take you through some of the most critical parts of a real estate transaction so you can make sure you are competitive in today's market.

Pricing:

The first and most important component of a transaction is pricing, of course, so we should spend a few minutes understanding the pricing of self-storage property. In the world of transactional real estate, the market usually has a relatively narrow band of market values. The reason for this narrow range is because if the market price were any higher, there wouldn't be any buyers, and if it were lower, there wouldn't be any sellers. Another way to say this is that there are more sellers at high prices and more buyers at low prices, but only a few who are willing to deal at the market price. Competing buyers and sellers make the range quite narrow because buyers are disciplined, they understand the capital markets, and they have often been involved with several transactions (giving them an advantage over a one-time seller) and sellers won't sell their asset for less than fair market value and seek a value that will allow them to reinvest to achieve comparable returns.

Facilities differ in many ways: size, age, location, market, construction, and so on. Because of these differences, we must have a method of comparing properties that are for sale which takes all of these differences into account. In real estate, we try to com-

pare the unleveraged cash-on-cash returns on the sales price from one property to the next. We do this by using cap rates. This makes sense because what any buyer really wants is a return on invested capital. Thus, we can compare the price of a \$1,375,000 property with a net operating income (NOI) of \$110,000 to a \$10,709,000 property with an NOI of \$589,000. The first property has an unleveraged return of 8% whereas the higher priced property has an unleveraged return of only 5.5%. All things being equal, which would you buy? Of course, you would buy the property with the higher return on your money! However, in real estate and self-storage, all things are not equal and buyers have to factor risk and quality into the pricing equation. In this instance, it is possible that the first property is near an Army base that is about to close and the second is the only self-storage for ten miles and the local municipality has a moratorium on new self-storage development. It is this difference in risk and quality (and buyers' perception) that widens the range of market prices for self-storage. This difference in risk and quality sets the returns required in the marketplace and can vary widely from one market to the next.

Today we find that the vast majority of self-storage facilities sell for unleveraged returns of between 5.5% and 8%. In other words, the average facility in terms of quality and risk probably sells for, say, a 6% return and a not so good property sells for a higher return to compensate for the risk and lack of quality. The opposite is also true; the better projects command the buyer to accept less return. It is clear that in self-storage, the pricing of "all things not being equal" almost always fits into this very narrow band of returns that buyers and sellers mutually accept in making a sale.

Buyers and sellers today need to educate themselves to make sure their expectations are in line with the

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market. Sellers need to understand that overpricing a property is NOT harmless and they should list their property at a price within 3% to 5% of what they are willing to transact. Overpriced properties do not attract the most aggressive or qualified buyers and many times these properties end up with a market reputation that lasts for several years. Overpricing has a negative long-term impact on the value of the property and can also make an illiquid asset (all real estate) even more illiquid.

Buyers should also understand that making lowball offers will offend sellers and make buying a property in the future more difficult; your reputation will precede you. After all, self-storage is a relatively small industry. Reasonable offers should be within 2%-7% of the asking price in order to be taken seriously. Buyers are often selected not only on pricing, but on terms, reputation, and experience.

Preparation is Key:

Buying and selling a self-storage property is no small task and buyers and sellers need to prepare prior to entering into the process in order to make sure they are in a position to have success.

Sellers should take steps to make sure the property shows well and presents in a professional manner. For example, all deferred maintenance should be completed, accounts receivable should be at a reasonable level (5% or less), auction units should be processed, all unrentable units should be fixed and put back into service, the trash should be picked up, the weeds should be sprayed and the site should be cleaned. It also may be prudent to paint the office/bathrooms and seal coat the driveways. These basic steps will go a long way when getting the highest value for your property.

Buyers also need to prepare before making an offer. Buyers should narrow the property search down to a few markets that they have researched, studied, and understand. This will allow you to be more aggressive in your valuation and to submit a qualified offer that will be competitive. Today, offers are not solely evaluated and selected on price; offers are evaluated with regards to terms, inspection period, closing

time, experience, reputation, etc. You should also line up your financing and third-party management company prior to making an offer. This will allow you to underwrite the acquisition in a timely and appropriate manner. In today's highly competitive acquisition market, you must be ready to compete and react quickly when an opportunity presents itself.

Experience Matters:

Today more than ever, having experienced advisors and counsel can make or break a deal. We have found that buyers and sellers have a meaningfully higher success rate if they are represented by an experienced and reputable self-storage broker. Experienced self-storage brokers will be able to assist buyers in understanding the submarket of a target property and provide market data (sales comps, underwriting assistance, new development info, market rate financing quotes, etc.). This will allow both buyers and sellers to be more realistic and efficient in their efforts to buy or sell a property.

It is also prudent to engage an experienced real estate attorney and credible self-storage third-party management company to evaluate your broker's underwriting and provide you guidance with regard to market timeframes and deal structures.

The self-storage industry continues to mature and evolve, and there are conditions present in the market today that make both selling and buying a self-storage property attractive. The process will continue to become more competitive, challenging, and difficult but the advisors who are truly self-storage professionals have continued to refine their craft to provide top notch services to buyers and sellers in our industry. However, just because it is a "good" market doesn't mean that everyone should sell and everyone should buy. Most self-storage is a great long-term investment and thus, you should be sure of your personal objectives first before buying or selling. **MM**

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Property Showcase

Childersburg, AL

\$768,000

- 3-Property Portfolio
- 25,304 Total RSF **NEW!**
- 170 Total Units
- 3 sites located in Childersburg and Sylacauga, AL in Talladega County
- Excellent visibility locations with high traffic counts
- Includes 4 commercial office suites

Bill Barnhill, CCIM & Stuart LaGroue
251-432-1287

barnhill@selfstorage.com
 stuart@selfstorage.com



Cottonwood, AZ

\$1,750,000

- 121 Units **NEW!**
- 22,976 RSF
- 2.26 Acres
- Includes 2 retail/office buildings and a duplex
- Major intersection location
- Conversion opportunity
- Area job growth at 150% of national average
- Expandable

Jeff Gorden, CCIM
480-331-8880

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Hot Springs, AR

\$295,000

- 125 Units **NEW!**
- 14,966 RSF
- 1.55 Acres
- Priced to sell!
- Room for expansion
- Excellent traffic exposure to over 18,000 vpd
- Income-producing billboard
- Fenced with electronic gate

Larry Goldman, CCIM
913-707-9030

lgoldman@selfstorage.com



Lawrence, KS

\$3,900,000

- 2-Property Portfolio
- 406 Total Units **NEW!**
- 51,220 Total RSF
- 5.01 Total Acres
- Two established sites in Lawrence, home of the University of Kansas
- One location offers additional land for development
- Entitled for expansion in areas with high barriers to entry

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Wickenburg, AZ

\$900,000

- 100 Units **NEW!**
- 14,100 RSF
- 3.26 Acres
- Value-add investment
- Excellent highway visibility and access
- Conversion opportunity
- Includes 6,000 RSF of commercial suites
- Expandable

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Ottawa, KS

\$575,000

- 66 Units **NEW!**
- 9,392 RSF
- 1.83 Acres
- Includes 8 parking spaces and 8 portable units
- Expansion potential
- Less than 1 mile from US-68/I-35 interchange
- Located in an Opportunity Zone

Brian Goldman & Larry Goldman, CCIM
913-707-4352

bgoldman@goldmanruiz.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

Arizona

Cottonwood \$1,750,000 Jeff Gorden 480-331-8880

El Mirage **SOLD** Jeff Gorden 480-331-8880

Wickenburg \$900,000 Jeff Gorden 480-331-8880

Arkansas

Cabot \$429,000 Larry Goldman 913-707-9030

Hot Springs \$295,000 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

Whittier \$2,659,000 Doug Shea 562-773-4000

Colorado

Conifer \$500,000 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 Josh Koerner/Frost Weaver 904-591-0140

Melbourne \$1,800,000 Josh Koerner/Frost Weaver 904-591-0140

Naples \$2,650,000 Josh Koerner/Frost Weaver 904-591-0140

Ormond Beach \$1,200,000 Josh Koerner/Frost Weaver 904-591-0140

Stuart **SOLD** Josh Koerner/Frost Weaver 904-591-0140

Vero Beach \$4,425,000 Josh Koerner/Frost Weaver 904-591-0140

Georgia

Alpharetta \$695,000 Jane H. Sauls, CCIM 770-328-2379

Lake Park \$2,200,000 Luke Sauls 770-841-4591

Mableton \$895,000 Jane H. Sauls, CCIM 770-328-2379

Tifton \$2,700,000 Jane H. Sauls, CCIM 770-328-2379

Illinois

Chillicothe \$1,200,000 Bruce Bahrmassel 312-518-3550

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

Iowa

Boone \$275,000 Tom Flannigan 612-790-3747

Cedar Rapids \$650,000 Tom Flannigan 612-790-3747

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

Kansas, cont.

Iola \$565,000 Larry Goldman 913-707-9030

Lawrence \$3,900,000 Larry Goldman 913-707-9030

Liberal \$1,900,000 Larry Goldman 913-707-9030

Ottawa \$575,000 Brian Goldman 913-707-3941

S. Hutchinson \$625,000 Jared Jones 918-609-0541

Kentucky

Shepherdsville \$699,000 Mike Helline 502-296-4586

Massachusetts

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

Michigan

Addison \$975,000 Jim Soltis 810-494-2062

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

Minnesota

Alexandria \$2,200,000 Tom Flannigan 612-790-3747

Missouri

Branson West Call Broker Jared Jones/Larry Goldman 918-609-0541

Jefferson City \$400,000 Larry Goldman 913-707-9030

Nebraska

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

New Jersey

Sparta \$7,450,000 Linda Cinelli 908-722-5661

Ventnor City \$2,000,000 Linda Cinelli 908-722-5661

New York

East Hampton Call Broker Linda Cinelli 908-722-5661

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

North Dakota

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

Watford City \$2,500,000 Tom Flannigan 612-790-3747

Ohio

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

Oklahoma

Ardmore \$300,000 Jared Jones 918-609-0541

Tulsa \$2,250,000 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

Pennsylvania

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

Texas

Anna Call Broker Richard Minker/Chad Snyder 817-980-7276

ARGUS SALES



Congratulations to **Josh Koerner and Frost Weaver of Weaver Realty Group** who sold a self-storage development site in Stuart, FL! Contact Josh and Frost at 904-591-0140 for details.



Congratulations to **Jeff Gorden, CCIM of Eagle Commercial Realty Services** who sold Discount RV & Boat Storage in El Mirage, AZ! Contact Jeff at 480-331-8880 for details.



Congratulations to **Joan Lucas of Joan Lucas Real Estate Services** who sold Broncos Parkway Self Storage in Englewood, CO and Parkglenn Self Storage in Parker, CO! Contact Joan at 720-855-6587 for details.

Contact an Argus Broker Affiliate

NORTHEAST

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

Company

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Phone

845-522-5900
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Territory

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WEST

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