



SELF STORAGE ADVISORS

Market Monitor

America's Premier Self Storage Brokers

Issue II-2020

2020: Get Ready for a Wild Ride!

by Ben Vestal

Though the first two months of 2020 have seen the capital flow of both debt and equity increase, there is still a significant bifurcation in the self-storage investment market when it comes to valuations between stabilized assets and newly developed lease-up assets. Today, stabilized assets are commanding all-time high pricing while newly developed lease-up properties are experiencing some softening in pricing. This is reinforcing the fundamental fact that self-storage is still a cash flow business and 90% of value is created by the NOI and free cash flow. This is largely driven by the current debt markets and the investment community's strong desire for yield and assets with low capital expenditures, such as self-storage.

Over the last two months top executives from around the self-storage industry gathered in New York, Park City, San Diego and Florida to discuss industry trends, investor sentiment, and the overall market outlook for 2020. The consensus is that the industry is experiencing some operational headwinds due to new supply, rising real estate taxes and rising operating costs. However, despite the changes in market fundamentals, most remain cautiously optimistic about the industry's long-term outlook.

Meanwhile, the phone at Argus has been ringing off the hook with owners and developers wanting to find out what their property is worth. In some cases, their interest is only curiosity, but in many cases, they are interested in valuation for financing newly developed properties (still leasing up) or selling. As part of our advisory services to our clients, Argus is now offering a free 2019 sales comp report for each of your markets in an effort to keep our clients educated about recent transactions and industry trends. Argus has tracked and inventoried more than 1,000 self-storage sales comps for 2019 and we were involved in more than 100 transactions nationwide in 2019. This puts us in a unique position to advise our clients. If you would like to receive this free report, please contact your local Argus Advisor.

Below I have outlined four industry trends that will shape the self-storage investment market this year. I am hopeful

these considerations will assist you in positioning your investment for maximum return.

Financing:

This topic has more to do with the value of your property than anything else! Today buyers and sellers are enjoying an historically low interest rate environment which is allowing buyers to continue to push valuations higher and helping sellers to achieve very aggressive pricing. Much to my surprise, cap rates have compressed to historically low levels over the last 60-90 days due to falling interest rates. It would be prudent for all self-storage owners to evaluate their current financing to ensure they are preserving their cash flow. Today, stabilized assets are achieving debt terms with interest rates between 3.5%-4.25%, with lower leverage deals (65% or less) enjoying meaningful interest only terms. However, depending on the ownership's investment horizon, locking in long-term, fixed-rate debt may or may not be a prudent move today. Maintaining flexibility with regards to prepayment penalties, trapped equity and having the ability to sell when the market presents an opportunity might be more valuable than the security and cash flow that long-term, fixed-rate debt might provide.

In light of the new development and large amount of properties in lease-up around the country, we have seen a meaningful amount of bridge debt providers come into the market. These bridge debt providers are offering developers and owners a tool to extend the interest-only periods on their loans by 2-5 years, allowing the slower lease-up assets additional time to achieve stabilization. As an owner, you'll need to really understand the underwriting and make sure your asset is being positioned appropriately by your management company before you take it out for bridge financing. The algorithm pricing models that are being used today to fill up properties do not take into account how bridge lenders look at in-place rents and occupancy. The algorithm pricing models are built for long-term holders of these assets and do not take into account how a bridge lender or buyer will underwrite the in-place rents and occupancies on an unstabilized asset.

(continued)

Watch Your Expenses:

The operation of a self-storage asset is critical to the success or failure of the property and there are clearly “have and have nots” when it comes to effectively operating a self-storage property today. It is important to understand the magnitude of what each dollar of net operating income (NOI) means to the value of a property. Every dollar saved in operating expenses adds one dollar of NOI, resulting in \$12 to \$20 in value enhancement or preservation. For example, if you are able to reduce your trash expense by \$50 per month or \$600 per year, you will have increased the value of the property by \$7,500 to \$12,000. My former partner always said “self-storage is about picking up the change in between the seat cushions!” It is much easier to cut expenses than raise revenues. The industry’s rapid revenue growth over the last 3-7 years and the emergence of third-party platform-based management companies have masked the true value deterioration caused by inflating operating expenses over the last decade.

Know Your Market/ New Supply:

No surprise, the secret is out! Self-storage is widely considered a viable development opportunity and is being considered on seemingly every vacant piece of ground today. Due to the success of the self-storage industry over the last 10 years, the industry experienced a meaningful development wave between 2014-2018. We are now seeing the market fundamental effects of the new deliveries across the county. Rental rates and occupancies are trending downward and concessions are expanding as new properties are opened and competing for every possible rental. The impact of new supply will be higher in 2020 and 2021, reflecting peak delivery in 2018 and the multi-year lease-up of 2017-2019 deliveries. Unequivocally, many developers will experience meaningful disappointment over the next few years as their developments will not achieve the occupancy and rental rates that they had projected within the allotted timeframes.

Over the last 26 years we have learned that only four major demographic categories are proven to create self-storage demand; population growth, job growth, income levels (higher is not always better) and percentage of renters. These demographic markers have been a major driver of new development in high-growth markets such as Denver, Dallas, Miami, New York and the Northwest just to name a few. New development will continue to have a meaningful impact on market fundamentals and

the operations and value of properties that have new competitors coming online during this cycle will continue to soften. However, it is worth noting that our data would indicate that we are past peak delivery (2018) and new development is slowing around the country. The new supply that has been developed during this cycle will be absorbed over the next few years. We believe that we have seen a glut of new product developed all at once and for the most part, in the same general markets around the country. The current new supply/overbuilding will work its way through the system relatively quickly (2-5 yrs.) and pricing power and increased values will return to owners in 3-5 years.

If you are operating a self-storage project, take the time to understand your market and know what new developments are likely to come online and compete with your property. You can do this by talking with your local planning department about what inquiries and submittals have been made, you should also ask what pieces of land currently have the appropriate zoning for a storage project. This will give you an idea of what to expect as self-storage developers and brokers are STILL canvassing the country for good development sites.

Know Your Investment Horizon:

The value of your self-storage investment goes up and down as the market sentiment and debt markets change. In order to truly realize what the value of your investment is and what it has been, you must at some point sell the investment. You can’t spend net worth. Obviously, the investment horizon of each ownership group is different and will vary depending on their individual objectives. However, in order to maximize your value, you should always be evaluating the current market, the risks, the opportunities and how those dynamic factors impact the value of your property. This will allow you to make the best decision and position your investment appropriately.

With an election year upon us, prices have never been higher and the uncertainties of the world never less settled. If you are at or near one of those personal crossroads it is time to get serious about maximizing your investment’s value. Take the time to talk with your local Argus Advisor and receive the necessary information to make an informed investment decision. **MM**

Ben Vestal, President of Argus Self Storage Advisors, can be reached at 800-557-8673 or bvestal@argus-realestate.com



Property Showcase

Foley, AL

\$1,229,000

- 152 Units
- 19,060 RSF
- 1.21+/- Acres
- Great location
- High traffic count
- Drive aisles recently repaved
- 97% occupancy
- Gated and fenced

NEW!



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

barnhill@selfstorage.com
stuart@selfstorage.com

South Florida

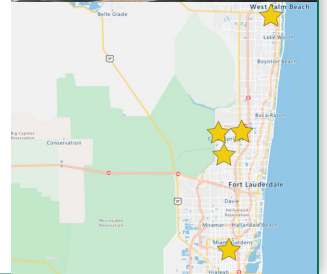
Call Broker for Price

- 5-Property Development Portfolio
- 6.2 Total Acres
- 357,745 RSF Proposed
- Five self-storage development sites located throughout South Florida
- Excellent traffic counts, visibility, and access
- All sites have unappealable site plan approval for self-storage

NEW!

Josh Koerner & Frost Weaver
904-591-0140

jkoerner@weaver-realty.com



Crawford, GA

\$4,300,000

- 2-Property Portfolio
- 517 Units
- 61,692 RSF
- Main and two satellite locations dominate this suburb of Athens, GA
- Climate and dry storage
- Concrete pad for additional 10,000 RSF
- Room for expansion

NEW!



Mike Patterson, CCIM
770-301-1886

ebroker@msn.com

Opa-Locka, FL

\$3,000,000

- Self-Storage Development Site
- 107,340 GSF
- 1.22 Acres
- Property has final and unappealable site plan approval for self-storage
- Undersupplied market
- Excellent demographics and high population density
- Strong traffic flow along NW 27th Ave.

NEW!

Josh Koerner & Frost Weaver
904-591-0140

jkoerner@weaver-realty.com



Lewisville, TX

\$1,200,000

- 151 Units
- 22,819 RSF
- 1.05 Acres
- Excellent location off I-35
- Management upside
- Adjacent land for possible expansion
- Option to add ancillary business
- Great traffic exposure



Richard Minker, CCIM & Chad Snyder
817-980-7276

rminker@dominuscommercial.com
csnyder@dominuscommercial.com

Duluth, MN

Call Broker for Price

- 460 Units
- 62,600 RSF
- 9 Acres
- Includes 1,800 SF of office space
- Consistently high occupancy
- Rapid lease up of recent expansion
- Budget truck rental income

Tom Flannigan & Alex Ihrke
612-790-3747

tom@selfstorage.com
alex@selfstorage.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

Daphne	\$800,000	Bill Barnhill/Shannon Barnes	251-432-1287
Foley	\$1,229,000	Bill Barnhill/Stuart LaGroue	251-432-1287

Arizona

Camp Verde	\$1,450,000	Jeff Gorden	480-331-8880
Cottonwood	\$1,750,000	Jeff Gorden	480-331-8880
Mohave Valley	\$450,000	Jeff Gorden	480-331-8880

Arkansas

Arkadelphia	\$289,000	Larry Goldman	913-707-9030
Hot Springs Vlg	\$1,650,000	Larry Goldman	913-707-9030
West Memphis	SOLD	Larry Goldman	913-707-9030
Wynne	\$5,172,000	Larry Goldman	913-707-9030

California

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

Denver	\$7,800,000	Joan Lucas	720-855-6587
Loveland	\$3,900,000	Joan Lucas	720-855-6587

Florida

Chiefland	\$1,500,000	Josh Koerner/Frost Weaver	904-591-0140
Naples	\$2,650,000	Josh Koerner/Frost Weaver	904-591-0140
Opa-Locka	\$3,000,000	Josh Koerner/Frost Weaver	904-591-0140
South Florida	Call Broker	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
Crawford	\$4,300,000	Mike Patterson	770-301-1886
Mableton	\$895,000	Jane H. Sauls, CCIM	770-328-2379
Valdosta	\$2,925,000	Luke Sauls	770-841-4591

Illinois

Chillicothe	\$1,200,000	Bruce Bahrmassel	312-518-3550
Rockford	\$3,250,000	Bruce Bahrmassel	312-518-3550

Indiana

Portage	\$250,000	Bruce Bahrmassel	312-518-3550
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Iowa

Hiawatha	\$950,000	Tom Flannigan	612-790-3747
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Kansas

Eudora	\$3,650,000	Larry Goldman	913-707-9030
Iola	\$565,000	Larry Goldman	913-707-9030
Lawrence	\$3,900,000	Larry Goldman	913-707-9030
Ottawa	\$575,000	Brian Goldman	913-707-3941

Massachusetts

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

Eagle	\$450,000	Jim Soltis	810-494-2062
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Minnesota

Coon Rapids	\$650,000	Tom Flannigan	612-790-3747
Duluth	Call Broker	Tom Flannigan	612-790-3747

Missouri

Branson West	Call Broker	Jared Jones/Larry Goldman	918-609-0541
Jefferson City	\$249,000	Larry Goldman	913-707-9030

Nevada

Sparks	Call Broker	Jeff Gorden	702-643-1000
Winnemucca	\$1,580,000	Jeff Gorden	702-643-1000

New Jersey

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

East Hampton	Call Broker	Linda Cinelli	908-722-5661
Islip	\$5,700,000	Linda Cinelli	908-722-5661

North Dakota

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

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

Central Point	\$1,875,000	Scott King	541-890-6708
Lakeview	\$798,000	Scott King	541-890-6708
Medford	\$375,000	Scott King	541-890-6708

Pennsylvania

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

Anna	Call Broker	Richard Minker/Chad Snyder	817-980-7276
Brady	Call Broker	Bill Brownfield/Faith Pate	713-907-6497
Bridgeport	Call Broker	Richard Minker/Chad Snyder	817-980-7276
Buda	Call Broker	Bill Brownfield/Faith Pate	713-907-6497
Channelview	Call Broker	Richard Minker/Chad Snyder	817-980-7276
Lewisville	Call Broker	Richard Minker/Chad Snyder	817-980-7276
Mabank	Call Broker	Richard Minker/Chad Snyder	817-980-7276
Magnolia	Call Broker	Bill Brownfield/Faith Pate	713-907-6497

Wisconsin

Ripon	\$375,000	Bruce Bahrmassel	312-518-3550
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ARGUS SALES



Congratulations to **Jared Jones of Jones Investment Properties** who sold a self-storage conversion site in Broken Arrow, OK! Contact Jared at 918-948-3941 for details.



Congratulations to **Larry Goldman, CCIM of RE/MAX Commercial** who sold The Storage Depot in West Memphis, AR! Contact Larry at 913-707-9030 for details.



NOW AVAILABLE!

FREE Self-Storage Sales Comp Report

Contact your Argus Broker Affiliate, listed below, to receive a free report of self-storage sales comps in your area to learn more about the market trends that will affect valuations in 2020.

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 & Aaron Willis
Jim Soltis

KW Commercial
NAI Pleasant Valley
RE/MAX Commercial
Column Realty
Preview Properties.com

312-518-3550
612-790-3747
216-831-3310
913-707-9030
502-296-4586
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 & Aaron Willis
Jared Jones, CCIM
Richard D. Minker, CCIM & Chad Snyder

Omega Properties, Inc.
Brownfield & Associates, LLC
Etzold & CO LLC
RE/MAX Commercial
Column Realty
Jones Investment Properties
Dominus Commercial

251-432-1287
713-907-6497
915-845-6006
913-707-9030
502-296-4586
918-948-3941
817-980-7276

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
Ryan Layton
Joan Lucas
Doug Shea
Thomas Wolter

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

915-845-6006
480-331-8880
406-544-1921
541-890-6708
509-435-2424
720-855-6587
562-773-4000
206-200-3325

NM
AZ, NV
MT
OR
Eastern WA, Northern ID
CO
Southern CA
Western WA