



SELF STORAGE ADVISORS

Market Monitor

America's Premier Self Storage Brokers

Issue IX-2020

Today's Best Strategy for Growing Your Value

by Ben Vestal

One of the most common themes in my conversations with clients has always been the market valuation of their property and outside factors affecting the investment market. New supply, softening rental rates and rapidly rising real estate taxes have been at the forefront of these conversations over the last few years. Today, however, investors have much more on their minds with the election less than 60 days away, a global pandemic unfolding, and capital gains tax and 1031 exchanges under close review. Now, more than ever, owners need to be reviewing their self-storage investments to make sure they are protecting their valuation. The slow creep of rising operating expenses has put undue downward pressure on NOI growth; a trend that can be seen industry-wide as the five major REITs have reported NOI declines for more than five consecutive years. A small but meaningful review of your operating expenses might be the most important in years as we are finding that it is easier to dig in and cut operating expenses rather than grow revenue under today's market conditions.

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 third-party management companies are looking to standardize operations, and as a result, we are finding that many self-storage operators' operating expenses are inflated.

With capital flow of both equity and debt having dramatically increased over the past few years, and the self-storage industry's higher profile within the investment community, we have seen capitalization rates (cap rates) continue to trend lower even in light of the recent market disruption. It is because of this, along with historically low interest rates, that the values of self-storage facilities have continued to remain very strong during the recent market disruption and have made some owners complacent.

It is important to understand the magnitude of what each dollar of net operating income means to the value of the fa-

cility. Let's take a self-storage property with annual revenue of \$600,000 and annual operating expenses of \$250,000. This property will have a net operating income of \$350,000 which will then be capitalized at a rate of return acceptable to an investor to arrive at the value. With cap rates being in the range of 5% to 7% this property's value would be in the range of \$5,000,000 to \$7,000,000. Reducing the operating expenses by just 8% or \$20,000 a year would increase the value by \$285,000 to \$400,000. This means that for every dollar you add to the net operating income, you would receive \$14 to \$20 dollars in value. With the majority of self-storage controllable operating expenses being in the three major categories of payroll, services, and advertising, it is understandable how yearly escalations in vendor contracts, advertising campaigns (PPC, Sparefoot, SEO, etc.) and payroll costs can quickly deteriorate the value of a property.

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 and changing submarket dynamics. 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) change quickly. 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 prop-

(continued)

erty 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 in 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 these costs can be much more than the advertised 4%-6% of gross revenue due to the required standardization of some third-party management platforms.

As we 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 your operating expenses is not always the right answer. 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 valuations are still strong and the industry is experiencing a slowing of NOI growth primarily due to new supply concerns along with rising operating expense growth that has largely 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 you and 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.

In an effort to provide value to our clients we are offering a free operating expense review. Argus brokers will review your operating expenses and provide you a detailed analysis of each operating expense line item and comparison to industry and market standards. For owners that want a second set of eyes on their operating expenses it will provide a meaningful checkup and focus our clients on protecting their value during these ever-changing times. Please contact your local Argus broker to inquire about our Free Operating Expense Review. This small but meaningful review of your operating expense might be the most important in years! **MM**

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

FREE Operating Expense Review

Contact your Argus Broker Affiliate, listed on the back of the *Market Monitor*, or call 800-55-STORE to request this free, no obligation review of your facility's operating expenses.

Impacts on Today's Value

- Election year/policy changes
- Capital gains and 1031 exchanges may go away
- New supply/rent pressure
- High valuations
- Rapidly rising operating expenses
- Large buyer pool that can close in 2020!
- Robust debt/equity market
- Real estate taxes



Property Showcase

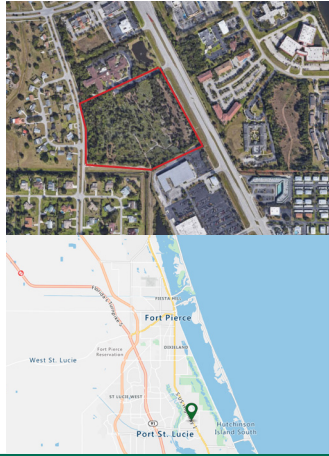
Port St. Lucie, FL

\$3,250,000

- Self-Storage Development Site
- 1.54 Acres
- 4-story building **NEW!** with 109,500 GRSF TBB
- Irreplaceable location with frontage along U.S. Highway 1, a main thoroughfare in St. Lucie County
- Traffic count of over 41,000 cars per day on US-1

**Josh Koerner &
Frost Weaver**
904-591-0140

jkoerner@weaver-realty.com



Jamestown, ND

\$7,400,000

- 4-Property Portfolio
- 142,896 RSF **NEW!**
- 1,051 Units
- 12.17 Acres
- Locations in Jamestown, Valley City, and Minot
- Highest quality portfolio in North Dakota offers climate controlled units, drive-up units, and portable containers

**Tom Flannigan &
Alex Ihrke**
612-790-3747

tom@selfstorage.com
alex@selfstorage.com



Knob Noster, MO

\$1,920,000

- 41,880 RSF
- 222 Units **NEW!**
- 3.7 Acres
- Built in 2016
- Renovated 2017, 2019, 2020
- Expandable facility with excellent occupancy history
- Most recent expansion completed in August 2020
- Fenced and gated with electronic access

Larry Goldman, CCIM
913-707-9030

lgoldman@selfstorage.com



Granbury, TX

\$475,000

- 7,400 RSF **NEW!**
- 52 Units
- 3.5 Acres
- Built in 2016
- 100% occupied with below market rents
- 2 acres of expandable land included
- Located off Hwy 377 close to downtown Granbury, TX

**Chad Snyder &
Tyler Trahan**
817-242-2361

csnyder@dominuscommercial.com
ttrahan@dominuscommercial.com



Lee's Summit, MO

\$8,800,000

- 74,350 RSF **NEW!**
- 631 Units
- 2.54 Acres
- Offered upon Certificate of Occupancy, scheduled to open December 2020
- Strong barriers to entry for competitors
- Excellent visibility on Missouri 291
- High growth retail and residential corridor

Larry Goldman, CCIM
913-707-9030

lgoldman@selfstorage.com



St. Germain, WI

\$975,000

- 36,928 RSF **NEW!**
- 130 Units
- 6.32 Acres
- Built in 1996 and 1986-1988
- Historically high occupancy
- Dominant storage operation in its market
- Room to expand on current sites
- Extra land available fronting busy Hwy 70

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 or contact your local Argus Broker Affiliate.

Alabama

Foley **SOLD** Bill Barnhill/Stuart LaGroue 251-432-1287

Arizona

Black Canyon \$2,950,000 Jeff Gorden 480-331-8880
Flagstaff \$1,650,000 Jeff Gorden 480-331-8880
Rimrock \$1,900,000 Jeff Gorden 480-331-8880

Arkansas

Arkadelphia \$289,000 Larry Goldman 913-707-9030
Russellville \$1,000,000 Larry Goldman 913-707-9030
Wynne \$4,340,000 Larry Goldman 913-707-9030

Colorado

Cañon City \$1,200,000 Joan Lucas 720-855-6587
Colo. Springs **SOLD** Joan Lucas 720-855-6587
Colo. Springs \$6,250,000 Joan Lucas 720-855-6587
Grand Junction \$708,000 Joan Lucas 720-855-6587
Loveland \$1,095,550 Joan Lucas 720-855-6587

Florida

Lady Lake \$2,900,000 Josh Koerner/Frost Weaver 904-594-0140
Oakland Park \$3,475,000 Josh Koerner/Frost Weaver 904-594-0140
Opa-Locka \$2,975,000 Josh Koerner/Frost Weaver 904-591-0140
Pensacola \$1,628,000 Bill Barnhill/Stuart LaGroue 251-432-1287
Port St. Lucie \$1,628,000 Bill Barnhill/Stuart LaGroue 251-432-1287
South Florida \$3,250,000 Josh Koerner/Frost Weaver 904-591-0140
Vero Beach \$2,100,000 Josh Koerner/Frost Weaver 904-591-0140

Georgia

Alpharetta \$695,000 Jane H. Sauls 770-328-2379
Byron \$5,800,000 Luke Sauls/Jane H. Sauls 770-841-4591
Crawford \$4,300,000 Mike Patterson 770-301-1886
Douglasville **SOLD** Mike Patterson 770-301-1886
Jesup **SOLD** Josh Koerner/Frost Weaver 904-591-0140
Mableton \$895,000 Jane H. Sauls 770-328-2379

Illinois

Rockford \$2,975,000 Bruce Bahrmassel 312-518-3550

Indiana

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

Kansas

Arkansas City **SOLD** Larry Goldman 913-707-9030
Hutchinson \$2,390,000 Larry Goldman 913-707-9030
Iola \$565,000 Larry Goldman 913-707-9030
Lawrence \$2,000,000 Larry Goldman 913-707-9030

Louisiana

Baton Rouge \$775,000 Bill Barnhill/Jeremy Milling 251-694-5050

Michigan

Battle Creek \$210,000 Jim Soltis 810-494-2062

Minnesota

Lakeville **SOLD** Tom Flannigan 612-790-3747

Missouri

Knob Noster \$1,920,000 Larry Goldman 913-707-9030
Lee's Summit \$8,800,000 Larry Goldman 913-707-9030

Nevada

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

New Jersey

Tenaflly \$3,900,000 Linda Cinelli/Edan Cohen 908-722-5661

New Mexico

Clovis \$375,000 David Etzold 915-845-6006

New York

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

North Dakota

Bowman \$700,000 Tom Flannigan 612-790-3747
Jamestown \$7,400,000 Tom Flannigan 612-790-3747

Ohio

LaGrange \$395,000 Alec Pacella 216-455-0925

Oklahoma

Elgin/Verden \$1,400,000 Jared Jones 918-609-0541
Enid \$7,000,000 Jared Jones 918-609-0541
Newcastle \$2,800,000 Jared Jones 918-609-0541
Wagoner \$725,000 Jared Jones 918-609-0541

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

Pennsylvania

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

Texas

Arlington Call Broker Chad Snyder 817-980-7276
Bridgeport Call Broker Chad Snyder 817-980-7276
Euless Call Broker Chad Snyder 817-980-7276
Granbury Call Broker Chad Snyder 817-980-7276
Mabank Call Broker Chad Snyder 817-980-7276
Mt. Pleasant Call Broker Chad Snyder 817-980-7276
Nash Call Broker Chad Snyder/Tyler Trahant 817-980-7276
Pampa Call Broker Chad Snyder/Tyler Trahant 817-980-7276
San Antonio Call Broker Bill Brownfield/Faith Pate 713-907-6497

Washington

Chattaroy \$625,000 Ryan Layton 509-435-2424
Hoodspport \$1,250,000 Thomas Wolter 206-200-3325
Olympia Call Broker Thomas Wolter 206-200-3325

Wisconsin

Ripon \$375,000 Bruce Bahrmassel 312-518-3550
St. Germain \$975,000 Bruce Bahrmassel 312-518-3550

ARGUS SALES



Congratulations to **Tom Flannigan & Alex Ihrke of KW Commercial** who sold Reliable Storage in Lakeville, MN and Squirrel Storage portfolio in Des Moines, IA! Contact Tom and Alex at 651-269-6307 for details.



Congratulations to **Larry Goldman, CCIM of Goldman Investment Advisors, Inc.** who sold Dad's Self Storage in Arkansas City, KS! Contact Larry at 913-707-9030 for details.



Congratulations to **Bill Barnhill, CCIM and Stuart LaGroue of Omega Properties, Inc.** who sold Southern Storage in Foley, AL! Contact Bill and Stuart at 251-432-1287 for details.



Congratulations to **Joan Lucas of Joan Lucas Real Estate Services, LLC** who sold a 2-property portfolio in Colorado Springs, CO! Contact Joan at 720-855-6587 for details.



Congratulations to **Mike Patterson, CCIM and Jane H. Sauls, CCIM of Sauls Storage Group LLC** who sold A Quality Self Storage in Douglasville, GA! Contact Mike and Jane 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
Jane H. Sauls, CCIM & Mike Patterson, CCIM
Stuart Wade & Ed Nicholson
Josh Koerner & Frost Weaver

Omega Properties, Inc.
SVN Percival Partners
Sauls Storage Group, LLC
The Nicholson Companies
Weaver Realty Group, Inc.

251-432-1287
704-632-1030
770-328-2379
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
Rob Schick
Jim Soltis

KW Commercial
NAI Pleasant Valley
Goldman Investment Advisors, Inc.
Column Realty
Revel & Underwood, Inc.
Preview Properties.com

312-518-3550
612-790-3747
216-831-3310
913-707-9030
502-296-4586
317-922-1225
810-494-2062

Northern IL, WI
MN, ND, IA
OH, Western PA
KS, MO, Southern IL
KY
IN
MI

SOUTH CENTRAL

Bill Barnhill, CCIM
Bill Brownfield, CRE, CCIM & Faith Pate
David Etzold
Larry Goldman, CCIM
Mike Helline & Aaron Willis
Jared Jones, CCIM
Chad Snyder & Tyler Trahant

Omega Properties, Inc.
Brownfield & Associates, LLC
Etzold & CO
Goldman Investment Advisors, Inc.
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
Jeff Gorden, CCIM
Jeff Gorden, CCIM
Larry Hayes
Scott King
Ryan Layton
Joan Lucas
Ken Miller
Doug Shea
Thomas Wolter

Etzold & CO
KW Commercial
The Gorden Company
Hayes & Associates
Merit Commercial Real Estate
American Real Estate Associates
Joan Lucas Real Estate Services, LLC
Northstate Commercial Partners
Centennial Advisers
RE/MAX Commercial

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480-331-8880
702-643-1000
406-544-1921
541-890-6708
509-435-2424
720-855-6587
530-768-1650
562-773-4000
206-200-3325

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