



SELF STORAGE ADVISORS

Market Monitor

America's Premier Self Storage Brokers

Issue III-2021

Inflation: Friend or Foe?

by Ben Vestal

In today's investment market, the main concern on everyone's mind is the potential for a significant uptick in inflation. It comes as no surprise that inflation is rising in the U.S. after 10 years of steady economic growth, historically low interest rates, and the \$1.9 trillion coronavirus stimulus bill. There has been a lot of speculation lately about inflation and while no one knows what the future will bring, it is wise for real estate investors to understand how real estate will be affected and how to best position your investments to hedge during an inflationary time.

Over the past 10 years, the average rate of inflation in the U.S. was about 1.8%. However, many experts are now calling for higher than normal inflation due to the impacts of the coronavirus stimulus bill, low interest rates, and a rapidly recovering economy flooding the market with cheap money. The result will be increased competition for goods and services resulting in rapidly rising costs and inflation.

Inflation is the scourge of savers, diminishing the value of nest eggs and retirement accounts. Among other things, inflation is the result of "cheap money" and is devastating for most Americans, as it is difficult to find a way to protect against it. The general way to protect your investments from inflation is to have your revenues increase along with the inflationary rate and to have your expenses remain the same. At first glance, it might seem that this would be an unachievable task. But wait a minute - is self-storage inflation proof? Perhaps we are in good shape in our modest corner of the real estate business. Let's spend a few minutes exploring self-storage as a hedge against inflation and analyze the positive and negatives in order to see how self-storage stacks up against other real estate investments.

The self-storage business model of short term, month-to-month leases and a fixed base expense model is setting self-storage owners up to outperform other commercial real estate sectors. We have learned that the ability to raise or reduce rents quickly allows self-storage owners to outperform the market. Regular rent increases on the existing tenant base do not cause tenants to move out and the dollar amount of a rent increase, while small in total dollars (\$10-\$45 on average), results in a very large percentage increase in revenues. Not to mention, the highly granular tenant base of 200-900 tenants on average per property, means that the impact of price-sensitive tenants moving out is not significant to the bottom line.

We have all heard about the rapidly rising steel costs and overall rising costs of construction. The increase in construction costs is a direct result of inflation and the increasing cost of goods and services. As a result, we are seeing buyers put more emphasis on the price per square foot and less on the income approach when valuing a self-storage property. Most buyers today are using a blend of cost basis and income approach to arrive at a value. In the short term,

inflation will drive up values for hard assets like self-storage properties as construction costs rise. However, rents will lag and even with the best revenue management system, there comes a point where the customer simply cannot afford to pay higher rents (approximately 2.0% -3.0% of HHI on average) and valuations will be based more on replacement cost than actual returns. This will lead to compressing yields for investors and only time will tell whether the investment community feels self-storage is still a good risk-adjusted investment opportunity; so far self-storage has been the shining star of investment real estate.

Controlling expenses is another matter, but self-storage starts off with a great advantage over many other real estate types because the gross margins (say 60%-65%) are better, with expenses equaling roughly one third of the revenue. As a result, self-storage profit margins are higher and there are fewer expenses per dollar of revenue. When you look at the nature of self-storage expenses, you'll find additional advantages. First, energy use is well below the average of most businesses, which has been a high inflation producer in recent history. Second, real estate tax, which is typically the largest self-storage expense, has only a very rough correlation to inflation and thus may not automatically adjust to inflation. Third, self-storage labor is usually not as highly paid as many of the workers under union contracts and in highly skilled professions that are closely linked to inflation. While it is hard to precisely quantify these distinctions, they are real and will tend to mitigate the impact of inflation on self-storage investments.

What about other real estate as inflation hedges? The results are less dramatic because office buildings, industrial, and retail often have long term leases that inadequately compensate for inflation. A little inflation that is not compensated for in the lease over a 10- or 15-year period will compound into a healthy diminution in the value of the cash flow and of the inflation-adjusted property. For example, a 5% increase in inflation that is uncompensated for in a 10-year lease will decrease the value of the cash flow and value by 40%, not to mention the tenant improvements and leasing commissions that you are required to offer tenants in these other asset classes.

All in all, while not perfect at stopping inflationary pressures, self-storage certainly seems better positioned than most commercial real estate as we head into uncertain inflationary times. As the pandemic fades and people start spending money they've saved and invested over the last year, the velocity of money in the market will likely increase. If this happens, inflation and higher interest rates could become a reality. **MM**

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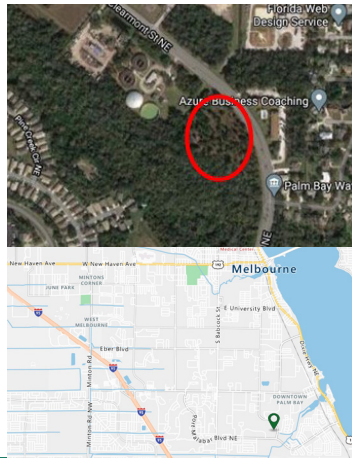


Property Showcase

Palm Bay, FL

\$900,000

- Development Site
- 4.98 Acres
- Opportunity to **NEW!** develop the first stand-alone, Class A boat/ rv facility in the market
- Zoning in place for outdoor, covered or enclosed storage as well as mini storage



**Josh Koerner
& Frost Weaver**
940-591-0140

jkoerner@weaver-realty.com

Concord, NH

\$11,000,000

- 443 Units
- 50,750 RSF
- 3.62 Acres
- Located in Concord, NH the 3rd largest city in the state, with high barriers to entry
- Property has 5,000 SF office space that can be leased out
- 14,000 SF on the first floor can be converted to climate controlled self-storage

NEW!



Joseph Mendola
603-668-7000 x203
joie@nainorwoodgroup.com

West Palm Beach, FL

\$2,900,000

- Development Site
- 97,032 GSF
- ~1.3 Acres
- Prime development location within the West Palm Beach-FL (MSA) with dense residential housing
- The configuration will be two (2) 4-story buildings totaling 97,032 GSF

NEW!



**Josh Koerner
& Frost Weaver**
940-591-0140
jkoerner@weaver-realty.com

Lopatcong, NJ

\$4,300,000

- 323 Units
- 18,074 RSF
- 0.91 Acres
- Built in 2018
- 4-story, 100% climate controlled, Class A facility
- Strategically located on Strykers Rd., one of the main roads running north/south through Lopatcong Township

NEW!



**Linda Cinelli, CCIM
& Edan Cohen**
908-722-5661
linda@lcrealtyusa.com
edan@lcrealtyusa.com

Augusta, GA

\$375,000

- **Under Contract** **NEW!**
- 116 Units
- 9,775 RSF
- Gated with access controls
- Below market rents
- Traffic count of 6,600+ vpd
- 3-Mile population of 54,000+
- Area has projected continued growth and this facility is an excellent value add opportunity



Luke Sauls
770-841-4591
luke@saulsstoragegroup.com

Fate, TX

\$5,500,000

- 370 Units
- 82,794 RSF
- 3.98 Acres
- Built in 1999
- Below market physical and economic occupancy
- Excellent exposure off Interstate 30
- High barrier to entry submarket in east Dallas

NEW!



**Chad Snyder
& Tyler Trahan**
817-813-5631
csnyder@dominuscommercial.com
ttrahant@dominuscommercial.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

Chelsea \$4,295,000 Bill Barnhill/Stuart LaGroue 251-432-1287

Arizona

Lk Havasu Cty \$3,750,000 Jeff Gorden 480-331-8880

Colorado

Calhan \$910,000 Joan Lucas 720-855-6587
Castle Rock \$1,500,000 Joan Lucas 720-855-6587
Colo. Springs **SOLD** Joan Lucas 720-855-6587
Estes Park \$1,400,000 Joan Lucas 720-855-6587
Loveland \$1,095,550 Joan Lucas 720-855-6587
Monument \$10,000,000 Joan Lucas 720-855-6587

Florida

Delray Beach \$4,800,000 Josh Koerner/Frost Weaver 904-594-0104
Jacksonville \$1,500,000 Josh Koerner/Frost Weaver 904-594-0104
Lake Wales \$1,400,000 Josh Koerner/Frost Weaver 904-594-0104
Oakland Park \$3,475,000 Josh Koerner/Frost Weaver 904-594-0140
Opa-Locka \$2,975,000 Josh Koerner/Frost Weaver 904-591-0140
Palm Bay \$900,000 Josh Koerner/Frost Weaver 904-591-0140
Pensacola \$1,628,000 Bill Barnhill/Stuart LaGroue 251-432-1287
Port Charlotte \$2,200,000 Josh Koerner/Frost Weaver 904-432-0140
Port St. Lucie \$3,250,000 Josh Koerner/Frost Weaver 904-594-0140
Sarasota \$12,250,000 Josh Koerner/Frost Weaver 904-594-0104
Vero Beach \$4,700,000 Josh Koerner/Frost Weaver 904-594-0104
Vero Beach \$1,700,000 Josh Koerner/Frost Weaver 904-591-0140
W. Palm Beach \$2,900,000 Josh Koerner/Frost Weaver 904-591-0140

Georgia

Augusta \$375,000 Luke Sauls/Jane H. Sauls 770-841-4591
Byron \$5,800,000 Luke Sauls/Jane H. Sauls 770-841-4591
Crawford \$4,300,000 Mike Patterson 770-301-1886
Ft. Oglethorpe **SOLD** Luke Sauls 770-841-4591

Idaho

Coeur d'Alene \$2,050,000 Ryan Layton 509-435-2424

Illinois

Rockford \$2,975,000 Bruce Bahrmassel 312-518-3550
Rockford \$325,000 Bruce Bahrmassel 312-518-3550

Indiana

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

Kansas

Hutchinson \$2,390,000 Larry Goldman 913-707-9030
Junction City \$2,740,000 Larry Goldman 913-707-9030
Lawrence **SOLD** Larry Goldman 913-707-9030

Michigan

Battle Creek \$190,000 Jim Soltis 810-494-2062

Minnesota

Motley \$325,000 Tom Flannigan 612-790-3747

Missouri

Cameron \$375,000 Larry Goldman 913-707-9030
Lee's Summit **SOLD** Larry Goldman 913-707-9030

Nevada

Winnemucca \$1,630,000 Jeff Gorden 480-331-888

New Hampshire

Concord \$11,000,000 Joseph Mendola 603-668-7000
Nashua \$13,500,000 Joseph Mendola 603-668-7000

New Jersey

Lopatcong \$4,300,000 Linda Cinelli/Edan Cohen 908-722-5661
Tenafly \$3,900,000 Linda Cinelli/Edan Cohen 908-722-5661

New York

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

North Carolina

Swannanoa \$2,300,000 Jamey Cox 704-632-1030

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
Tulsa \$1,300,000 Jared Jones 918-609-0541

Oregon

Hermiston \$7,533,000 Scott King 541-890-6708
Lakeview \$798,000 Scott King 541-890-6708
Medford \$375,000 Scott King 541-890-6708
Vale **SOLD** Scott King 541-890-6708

Pennsylvania

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

Texas

Bridgeport Call Broker Chad Snyder 817-980-7276
Ennis Call Broker Chad Snyder 817-980-7276
Fate 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

Washington

Newport \$475,000 Ryan Layton 509-435-2424

ARGUS SALES



Congratulations to **Larry Goldman, CCIM of Goldman Investment Advisors** who sold A1 Storage in Lawrence, KS and Attic Storage in Lee's Summit, MO! Contact Larry at 913-707-9030 for details.



Congratulations to **Joan Lucas of Joan Lucas Real Estate Services, LLC** who sold Stor-More Self Storage in Colorado Springs, CO! Contact Joan at 720-855-6587 for details.



Congratulations to **Joseph Mendola of NAI Norwood Group** who sold Hudson Self Storage in Hudson, NH! Contact Joseph at 603-668-7000 x203 for details.



Congratulations to **Scott King of Merit Commercial Real Estate** who sold Lincoln Storage in Vale, OR! Contact Scott at 541-890-6708 for details.



Congratulations to **Chad Snyder and Tyler Trahant of Dominus Commercial** who sold SACO Self Storage in Wichita Falls, TX! Contact Chad and Tyler at 817-242-2361.



Congratulations to **Luke Sauls of Sauls Storage Group** who sold Simple Storage in Fort Oglethorpe, GA! Contact Luke at 770-841-4591 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
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Phone

845-522-5900
908-722-5661
603-668-7000
610-862-1645

Territory

Upstate NY, Western CT
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SOUTHEAST

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Jane H. Sauls, CCIM & Mike Patterson, CCIM
Stuart Wade, Jr. & Ed Nicholson
Josh Koerner & Frost Weaver

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The Nicholson Companies
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Jared Jones, CCIM
Chad Snyder & Tyler Trahant

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AL, MS, LA
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Joan Lucas
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Doug Shea
Thomas Wolter

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