



SELF STORAGE ADVISORS

Market Monitor

America's Premier Self Storage Brokers

Issue X-2021

A Note From Ben Vestal: *As we head in to the fourth quarter, all evidence points toward a record self-storage transaction year with likely more than 5x the average number of transactions taking place. But what is motivating all of these transactions - high prices, low capital gains taxes, improving market fundamentals...? These are all market conditions that we have navigated over the last 27 years of doing self-storage investment advisory work and we have never seen comparable transaction volume.*

I listened to Federal Reserve Chair Jerome Powell say on Friday that "the tangled supply chains and shortages that have bedeviled the U.S. economy since this summer have gotten worse and will likely keep inflation elevated well into next year." Additionally, the consumer price index, according to the Fed's preferred gauge, jumped 4.3% in August from a year earlier, the fastest such increase in three decades. It is really happening; but will we see an extended time of hyperinflation and dare I say rising interest rates over the next few years? For those of you who know me well, I have been predicting rising interest rates for the better part of the last decade and have been wrong. In September, half the Fed's policymakers supported a rate hike late next year, while half preferred to wait until 2023 or later. With the central bank's target inflation rate of 2% it is likely that we will see some moves by the central bank by late next year to try and rein in the rapidly growing concern of hyperinflation.

I am convinced that the Fed will use other tools to curb inflation before raising interest rates. But in light of the current market situation and the tremendous amount of self-storage transactions I thought we would revisit the article below as it seems to be very relevant in today's rapidly changing self-storage investment market. Enjoy!

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

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tenant base do not cause tenants to move out and the dollar amount of a rent increase, while small in total dollars (\$10-\$50 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**

Ben Vestal, CEO of Argus Self Storage Advisors, can be reached at 800-55-STORE or bvestal@argus-realestate.com.



Property Showcase

Flagstaff, AZ

Call Broker for Price

- 399 Units
- 72,200 RSF
- 3.81 Acres
- 99.5% Unit Occupancy
- Great visibility from Highway 98
- Market at full occupancy
- High traffic location
- Built in 2003

NEW!

Jeff Gorden, CCIM
480-331-8880
jeff@gorden-group.com



Fort Mohave, AZ

\$6,700,000

- RV & boat storage
- 387 Units
- 169,308 RSF
- 9.48 Acres
- Easy access to Highway 95
- Average Tenancy is 5+ years
- 38 storage units, 72 enclosed parking units, 45 outdoor parking spaces

NEW!

Jeff Gorden, CCIM
480-331-8880
jeff@gorden-group.com



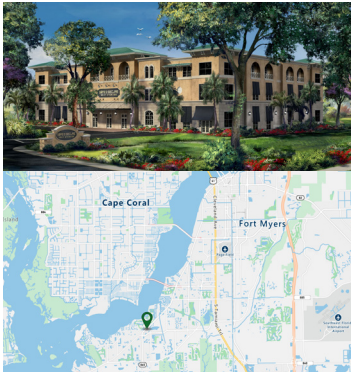
Fort Myers, FL

\$4,500,000

- Development site
- 97,500 GRSF
- 2.06 Acres
- Proposed 3 story building
- Proximity to Gulf Points Square Mall, Sanibel Outlet Mall, and Publix shopping center

NEW!

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



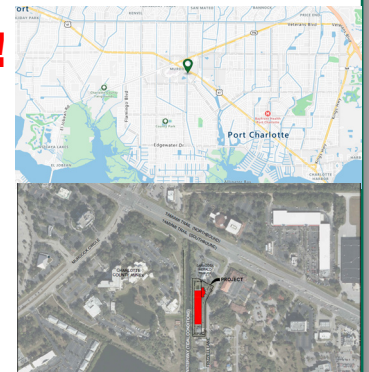
Port Charlotte, FL

\$2,000,000

- Development Site
- 76,800 GRSF
- 1.47 Acres
- 3 Story, Class A Self Storage Building
- Visible from Tamiami Trail with 357 ft of frontage along Frizzell Lane

NEW!

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



Blairsville, GA

Offers Due 10/28

- 254 Units
- 34,975 RSF
- 6.502 +/- Acres
- Built in 2018 & 2019
- Climate control and non-climate control units plus boat/rv storage
- Limited competition

NEW!

Jane H. Sauls, CCIM & Luke Sauls
770-328-2379
jane@saulsstoragegroup.com
luke@saulsstoragegroup.com



Inver Grove Heights, MN

\$1,800,000

- 85 Units
- 46,870 RSF
- 5.54 Acres
- 85 storage container units and 122 outdoor parking spaces
- Location off of Highway 52 visible to 45,000+ VPD

NEW!

Tom Flannigan, Matt Haugen & Alex Ihrke
612-790-3747
tom@selfstorage.com
mhaugen@selfstorage.com
alex@selfstorage.com



Lewisville, TX

\$1,200,000

- 151 Units
- 18,600 RSF
- 1.05 Acres
- Adjacent land for possible expansion
- Excellent exposure off I-35
- Management upside

NEW!

Chad Snyder, Tyler Trahan & JP DiLucca
817-813-5642
csnyder@dominuscommercial.com
ttrahant@dominuscommercial.com
jpdilucca@dominuscommercial.com



Woodland, WA

Call Broker for Price

- 3-Property Portfolio
- 198 Units
- 120,492 GRSF
- 6.3 Acres
- Three facilities in close proximity to one another with easy access to I-5
- Always high occupancy with waiting lists

NEW!

Thomas Wolter
206-200-3325
tom@thomaswolter.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

Flagstaff	Call Broker	Jeff Gorden	480-331-8880
Fort Mohave	\$6,700,000	Jeff Gorden	480-331-8880

Arkansas

Walnut Ridge	\$5,800,000	Larry Goldman	913-707-9030
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California

Yreka	\$1,650,000	Ken Miller/Brandy Rundell	530-768-1650
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Colorado

Brighton/CoSpgs	Call Broker	Joan Lucas	720-855-6587
Fort Collins	Call Broker	Joan Lucas	720-855-6587
Lakewood	Call Broker	Joan Lucas	720-855-6587
Lakewood/Parker	Call Broker	Joan Lucas	720-855-5487

Florida

Apopka	Call Broker	Josh Koerner/Frost Weaver	904-594-0104
Cape Coral	\$3,896,000	Josh Koerner/Frost Weaver	904-594-0104
Delray Beach	\$4,800,000	Josh Koerner/Frost Weaver	904-594-0104
Englewood	\$3,145,000	Josh Koerner/Frost Weaver	904-594-0104
Ft. Myers	\$3,750,000	Josh Koerner/Frost Weaver	904-594-0104
Ft. Myers	\$4,500,000	Josh Koerner/Frost Weaver	904-594-0104
Jacksonville	\$1,500,000	Josh Koerner/Frost Weaver	904-594-0104
Lake Wales	\$1,150,000	Josh Koerner/Frost Weaver	904-594-0104
Live Oak	\$3,500,000	Josh Koerner/Frost Weaver	904-594-0104
N. Ft. Myers	\$3,900,000	Josh Koerner/Frost Weaver	904-594-0104
Ocala	\$3,100,000	Josh Koerner/Frost Weaver	904-594-0104
Pensacola	\$2,800,000	Josh Koerner/Frost Weaver	904-594-0104
Port Charlotte	\$3,900,000	Josh Koerner/Frost Weaver	904-432-0140
Port Charlotte	\$2,200,000	Josh Koerner/Frost Weaver	904-432-0140
Port Charlotte	\$2,000,000	Josh Koerner/Frost Weaver	904-432-0140
Port St. Lucie	\$3,250,000	Josh Koerner/Frost Weaver	904-594-0140
Venice	\$3,900,000	Josh Koerner/Frost Weaver	904-594-0104
W. Palm Beach	\$2,900,000	Josh Koerner/Frost Weaver	904-591-0140

Georgia

Augusta	Call Broker	Jane H. Sauls/Luke Sauls	770-328-2379
Blairsville	Call Broker	Jane H. Sauls/Luke Sauls	770-328-2379
Loganville	Call Broker	Mike Patterson	770-301-1886
Loganville	\$100,000/ac	Mike Patterson	770-301-1886
Monticello	\$2,000,000	Luke Sauls/Jane H. Sauls	770-841-4591
Riverdale	\$422,500	Luke Sauls	770-841-4591
Sylvester	Call Broker	Luke Sauls/Jane H. Sauls	770-841-4591
Toccoa	\$950,000	Luke Sauls	770-841-4591

Illinois

Belvidere	\$599,000	Bruce Bahrmassel	312-518-3550
East Moline	\$1,750,000	Bruce Bahrmassel	312-518-3550

Indiana

Anderson	\$660,000	Rob Schick	317-922-1225
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Louisiana

Cut Off	\$985,000	Bill Barnhill/Jeremy Milling	251-421-0919
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Massachusetts

Millville	\$2,300,000	Joseph Mendola	603-668-7000
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Michigan

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

Bovey	\$400,000	Tom Flannigan	612-790-3747
Motley	\$325,000	Tom Flannigan	612-790-3747
Park Rapids	\$650,000	Tom Flannigan	612-790-3747
Red Wing	\$2,650,000	Tom Flannigan	612-790-3747
W. St. Paul	Call Broker	Tom Flannigan	612-790-3747

Mississippi

Portfolio	\$4,500,000	Stuart LaGroue/Bill Barnhill	251-432-1287
Vanceleave	\$585,000	Jeremy Milling	251-694-5050

New Hampshire

Concord	\$11,000,000	Joseph Mendola	603-668-7000
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New Jersey

Lopatcong	\$3,995,000	Linda Cinelli/Edan Cohen	908-722-5661
Ringoes	\$3,800,000	Linda Cinelli/Edan Cohen	908-722-5661

New York

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

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

Mapleton	\$725,000	Tom Flannigan	612-790-3747
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Oklahoma

Broken Bow	\$1,600,000	Jared Jones	918-609-0541
OKC Portfolio	\$10,500,000	Jared Jones	918-609-0541
Shawnee	\$15,000,000	Jared Jones	918-609-0541
Tulsa	\$3,700,000	Jared Jones	918-609-0541
Tulsa	\$1,300,000	Jared Jones	918-609-0541

Oregon

Lakeview	\$798,000	Scott King	541-890-6708
Medford	\$375,000	Scott King	541-890-6708
Medford	\$11,500,000	Scott King	541-890-6708

Pennsylvania

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

Tomball	Call Broker	Faith Pate	713-805-2907
TX/NM Portfolio	Call Broker	Faith Pate	713-508-2907

Virginia

Lawrenceville	\$1,150,000	Ed Nicholson	757-280-1738
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Washington

Davenport	\$1,885,145	Ryan Layton	509-435-2424
Newport	\$475,000	Ryan Layton	509-435-2424
Ravensdale	\$469,950	Thomas Wolter	206-200-3325
Woodland	Call Broker	Thomas Wolter	206-200-3325

Wisconsin

Eagle River	\$1,250,000	Bruce Bahrmassel	312-518-3550
Prescott	\$2,000,000	Bruce Bahrmassel	312-518-3550
Wild Rose	\$1,200,000	Bruce Bahrmassel	312-518-3550

ARGUS SALES



Congratulations to **Chad Snyder and Tyler Trahant of Dominus Commercial** who sold a buyer rep deal in Bridgeport, TX and a 2-property portfolio in Lufkin & Nacogdoches, TX! Call Chad and Tyler at 817-242-2361 for details.



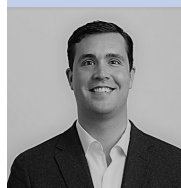
Congratulations to **Rob Schick of Revel & Underwood** who sold All American Self Storage in Evansville, IN! Contact Rob at 317-403-1205 for details.



Congratulations to **Larry Goldman of Goldman Investment Advisors** who sold ABS Storage in St. Clair, MO! Contact Larry at 913-707-9030 for details.



Congratulations to **Jared Jones of Jones Investment Properties** who sold Quick Stor Storage in Oklahoma City, OK! Contact Jared at 918-948-3941 for details.



Argus welcomes new Broker Affiliate, Jon Knudsen!

Jon will represent Argus in Western Pennsylvania and West Virginia. Jon currently serves as Director in the Brokerage & Advisory Division at Hanna Langholz Wilson Ellis, based in Downtown Pittsburgh, PA. He joined in 2016 to focus on Landlord Agency Representation and Consulting throughout the Pittsburgh MSA and select markets throughout PA, NY, and OH. Prior to joining Hanna Langholz Wilson Ellis, Jon was part of the Manhattan office of SRS Real Estate Partners, North America's largest full service real estate focused on retail and hospitality. Jon also worked with many recognizable national retail brands to execute new store and in-fill strategies. He has also worked extensively in the self-storage, hotel, and residential development sectors. Prior to SRS, Jon was Associate Director at Lee & Associates in New York City, and a Senior Associate with Urstadt Biddle Properties in Greenwich, CT, one of the nation's largest specialty REITs.

Jon Knudsen

Hanna Langholz Wilson Ellis

412-261-2200 jknudsen@hannalwe.com

Contact an Argus Broker Affiliate

NORTHEAST

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

Company

Pyramid Brokerage Company
LC Realty
Hanna Lanholtz Wilson Ellis
NAI Norwood Group
Beacon Commercial Real Estate

Phone

845-522-5900
908-722-5661
412-261-2200
603-668-7000
610-862-1645

Territory

Upstate NY, Western CT
Northern NJ, NY (NYC, Long Island)
Western PA, WV
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, Jr. & 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
Rob Schick
Jim Soltis

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

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

Northern IL, WI
MN, ND, IA
OH
KS, MO, Southern IL
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, KY
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

915-845-6006
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
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OR
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CO
Northern CA
Southern CA
Western WA