

## Pricing Discovery Amid Market Uncertainty

by Ben Vestal

Like many of you, I have been watching the stock market closely and it is clear that Wall Street has started to take caution with regards to self-storage investments. The four major self-storage REITS are down on average about 25% year-to-date and dividend yields are moving higher as stock prices sink lower. The general market sentiment today is that the valuation of self-storage properties is difficult to pin down. No buyer wants to catch a falling knife, which has led to fewer buyers in the market today, and we continue to see interest rates rise and operational fundamentals soften heading into winter after a less-than-stellar summer rental season.

Here at Argus, we spend a lot of time thinking and talking about the value of self-storage properties. This has been our business for more than 29 years; extracting the value of a property for a seller during the marketing and sale process, as well as helping buyers to determine the right price to pay for a property. One thing we have learned is that the TRUE market value is what the market/buyer pool is willing to pay for a property at any given time no matter what your banker tells you your property is worth, or even what your appraiser puts in his most recent report. Despite the market headwinds today, we are still seeing a very active and well-capitalized buyer pool but there are clear traits that define these active buyers. Today we are finding that there are two types of buyers - Value-Add/Yield buyers or Core/Basis buyers and both are looking to hedge new acquisitions stressing both investment yields and their cost basis to make sure they do not over pay in a market where pricing discovery involves ongoing analysis.

Today our daily conversations are usually focused around interest rates, cap rates, submarket operating fundamentals, new supply, loan-to-value ratio, debt yield, debt availability, NOI trends and many other topics that rarely interest an owner other than when they decide to

buy or sell a property. However, we believe that there is a connection between understanding the current market and nuances of what does and does not create value and running a successful business. Below I have outlined some key metrics that active buyers are analyzing to help you arrive at an accurate and realistic valuation of your property in today's rapidly changing self-storage investment market.

### Value-Add/Yield Buyers:

Value-Add and Yield buyers are by far the largest group of buyers in the self-storage industry today. This group of buyers rely heavily on the income valuation approach and will look to buy undermanaged properties, C of O deals and properties in early lease-up. Cash flow is what made the storage business the shining star of commercial real estate over the last 20 years and it's why we all got into the storage business. Today, it is back to basics, with 90% or more of your value coming from your NOI and free cash flow. This is increasingly more challenging with rising interest rates and slowing revenue growth. Savvy buyers today are looking at ways to reduce operating expenses and increase and protect their NOI and cash flow. For the first time in several years, we are reducing our advertising spend, using technology to cut payroll costs, and only doing the necessary repairs and maintenance in an effort to preserve and protect our properties' NOI.

Benjamin Franklin once said that "a penny saved is a penny earned." The same holds true in the self-storage business today, except that we can expect an even greater return when we make an effort to save on operating expenses. At one time or another, we have all looked at our to-do list and thought "I can do that next month." Reviewing your operating expenses, however, is not one of those things you can afford to put off until next month. Operating expenses need to be reviewed NOW and regularly moving forward (four times per year

*(continued)*

at a minimum) to ensure that the value of your property and its cash flow are not being undermined by subtle, yet devastating, increases in operating expenses such as mandatory call centers, increased insurance cost, rising real estate taxes and the lack of transparency and return on investment (ROI) analysis of monthly advertising spends, just to name a few. As the tide starts to turn in investment real estate and self-storage valuations start to soften, the constant review of the operations of your property become critically important.

Owner operators and third-party management companies with "standard" operating expenses or lack of flexibility with operating expenses will find that they are undermining the valuations of their properties by having unnecessary operating expenses that are not leading to a direct ROI. This will lead to lower NOI, cash flow and valuations for years to come.

**Core/Basis Buyers:**

Core/Basis buyers are a select small group of investors that have very long-term investment horizons and are true all cash buyers that will not look to put any debt or leverage on the properties during the life of the investment. These investors are typically ultra-high net worth family offices, pension fund advisors or Core Plus funds. The investment thesis of Core/Basis buyers is that they are buying properties that are located in very desirable, high barriers to entry markets at or slightly above replacement cost. Core/Basis buyers will be highly focused on replacement cost and will consider properties in all phases of value creation (C of O, lease-up, stabilized and development).

Due to the rapid rise of interest rates, inflation, and construction costs over the last few years there are select situations and properties where the NOI or proforma NOI will not support a valuation that value-add/yield buyers are willing or able to pay in today's market. Additionally, the property may be "underwater" using the standard income valuation approach. But the Core/Basis buyers see it as an opportunity as they believe that over the life of the investment, due to the

location and time required to build within the submarket, that the rental rates and replacement cost will grow at an outsized pace allowing the Core/Basis buyer to achieve an acceptable risk-adjusted rate of return. Core/Basis buyers typically look for newly constructed properties (last 5 years) with very strong demographics and income levels in the top 50 MSAs.

It is clear that very few properties have the attributes to attract a Core/Basis buyer, but if you have a newer property that is Class A in every way, is located in a major market, and you are struggling to refinance or looking to exit the investment due to partnership or personal reasons, you may be able to look at how a Core/Basis buyer would value your property.

With more than 75 completed transactions this year, Argus has recently seen a very wide range of values when marketing properties for sale, 10%-25% in some cases. An experienced self-storage broker is more important than ever and should assist the buyer or seller in navigating through the complex valuation processes that are present today. Since most self-storage buyers and sellers are sophisticated and their lenders are even more detailed, trying to find a "greater fool" who will pay a substantial premium to the market value is not only unproductive but it can have serious negative impacts on the property's future marketability.

In summary, self-storage values are very difficult to pin down in today's market due to rapidly rising interest rates, changing operating fundamentals, and Wall Street's wavering investment sentiment. So, if you are at or near a "personal crossroads" it is time to get serious and review your property's operating expenses and talk with an experienced self-storage broker. Because it is clear there is a connection between understanding the current market and nuances of what does and does not create value. **MM**

*Ben Vestal, CEO of Argus Self Storage Advisors, can be reached at 800-557-8673 or [bvestal@argus-realestate.com](mailto:bvestal@argus-realestate.com).*

**NEW**

**Fort Myers, FL**  
\$3,250,000

- Development Site
- 101,247 GRSF
- 2.06 Acres
- Proposed 3-story, 101,247 GRSF self-storage building
- Lack of developable land in the submarket
- 8% population growth year over year
- Traffic count of 27,500 cars per day

**Josh Koerner, Frost Weaver & Carrie Stowell**  
904-591-0140  
jkoerner@weaver-realty.com



**NEW**

**Seneca, IL**  
\$1,299,000

- 133 Units
- 16,500 RSF
- 3.28 Acres
- 100% Occupancy
- Very high historical occupancy
- Room for expansion
- Located on main thoroughfare in town
- Great upside potential

**Bruce Bahrmassel & Cole Carosella**  
312-518-3550  
bruce@selfstorage.com  
cole@argus-realestate.com



**NEW**

**Zephyrhills, FL**  
\$3,750,000

- Development Site
- 142,246 GRSF
- 4.73 Acres
- Proposed Class A, 4-story building with 142,246 GSF of climate-controlled self storage
- 1000+ ft frontage along Chancey Rd. and Paul S. Buchman Hwy/SR 39 with 13,700 AADT

**Josh Koerner, Frost Weaver & Carrie Stowell**  
904-591-0140  
jkoerner@weaver-realty.com



**NEW**

**Liberty, MO**  
*Call for Offers*

- Offers Due 9/28/23
- 482 Units
- 60,050 RSF
- 5.09 Acres
- Just off MO Hwy 291 within the Kansas City Metropolitan Area
- On-site leasing office and manager's residence
- Significant upside potential with revenue management
- Fenced with electronic DigiGate access

**Larry Goldman, CCIM**  
913-707-9030  
lgoldman@selfstorage.com

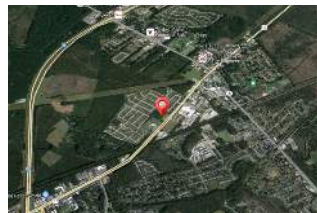


**NEW**

**Richmond Hill, GA**  
\$1,650,000

- Development Site
- 84,269 GSF
- 3.71 +/- Acres
- Room for expansion
- Proposed 3-story, Class A, climate controlled self storage building
- Visibility from US-17
- Site plan approved, buyer can go straight to permits

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



**RICHMOND HILL CLIMATE STORAGE, LLC**  
RICHMOND HILL, GEORGIA



**NEW**

**Sherman, MS**  
\$925,000

- 98 Units
- 11,900 RSF
- 2.75 Acres
- 4-building property with two brand new buildings built in October of 2022
- Land for expansion, and pre-zoned for additional storage buildings
- Unit mix from 5x10 to 10x30

**Brian Rowley & Bill Barnhill, CCIM**  
251-383-8051  
rowley@selfstorage.com



**NEW**

**Billings, MT**  
*Call for Offers*

- Offers Due 10/24/23
- 414 Units
- 85,784 RSF
- 7,344 RSF Outside Parking
- 4.722 Acres
- Estimated completion date is October 8, 2023
- Seller is willing to finance with up to 7 years of interest only
- Fully fenced and gated

**Kim VanDelinder  
& Larry Hayes**  
406-698-6850  
kim@theselfstoragebrokers.com



**NEW**

**Mexia, TX**  
*Call for Offers*

- **Under Contract**
- 97 Units
- 18,000 RSF
- 0.81 Acres
- Built in 2007
- 98% Occupancy
- Below market rental rates
- No Website or Management software system

**Chad Snyder  
& Tyler Trahant**  
817-980-7276  
csnyder@dominuscommercial.com  
ttrahant@dominuscommercial.com



**NEW**

**Livingston, MT**  
\$4,895,000

- 304 Units
- 42,592 RSF
- 2.836 Acres
- 97% Occupied
- Online storage software allows clients to rent and pay online
- Offering seven unit sizes to satisfy a wide range of storage needs
- Owner managed 100% remotely

**Kim VanDelinder  
& Larry Hayes**  
406-698-6850  
kim@theselfstoragebrokers.com



**NEW**

**Tumwater, WA**  
\$950,000

- 12 Units
- 3,822 RSF
- 0.52 Acres
- 100% Occupancy
- Room to increase rents in a high occupancy rental market
- Ideal opportunity for new operators to add new units immediately to take advantage of the recreational market demand for large units

**Ryan Layton**  
509-435-2424  
rlayton@areanw.com



**NEW**

**Moore, OK**  
\$850,000

- Development Site
- 489 Units
- 66,211 GSF
- 3.04 Acres
- High-quality storage development site located in the Oklahoma City MSA
- Opportunity to gain additional scale by building multi-story
- Strong demographics

**Jared Jones, CCIM**  
918-948-3941  
jjones@selfstorage.com



**Sleepy Hollow, IL**  
\$999,000

- Price Reduction
- Development Site
- 320 Units
- 37,925 RSF
- 4.5 Acres
- Direct competition and submarket are physically full
- Good location over 21,000 CPD
- Over 62,500 People living in 3 mile radius

**Bruce Bahrmassel  
& Cole Carosella**  
312-518-3550  
bruce@selfstorage.com  
cole@argus-realestate.com



Our complete list of available properties is detailed below. For additional information, visit [www.argus-selfstorage.com](http://www.argus-selfstorage.com) or contact your local Argus Broker Affiliate.

## Alabama

Daphne	Call Broker	Bill Barnhill/Sharon Wright	251-510-1822
Loxley	\$2,650,000	Bill Barnhill/Sharon Wright	251-432-1287
Mobile	\$1,851,300	Bill Barnhill	251-432-1287
Mobile	\$398,000	Bill Barnhill/Brian Rowley	251-421-0919

## Arizona

Kingman	<b>SOLD</b>	Jeff Gorden/Donnie Dodson	480-331-8880
Star Valley	\$1,375,000	Donnie Dodson	480-331-8880
Wellton	\$1,200,000	Jeff Gorden/Donnie Dodson	480-331-8880

## Arkansas

Greers Ferry	\$3,750,000	Larry Goldman	913-707-9030
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## California

Sonora	\$225,000	Ken Miller	530-768-1650
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## Colorado

Colorado Spgs	Call Broker	Cole Carosella/Matthew Cox	720-909-8602
Pueblo	<b>SOLD</b>	Cole Carosella/Matthew Cox	720-909-8602

## Connecticut

New Milford	Call Broker	Linda Cinelli/Edan Cohen	908-722-5661
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## Florida

Portfolio (6)	\$16,463,120	Josh Koerner/Frost Weaver	904-594-0140
DeLand	<b>SOLD</b>	Josh Koerner/Frost Weaver	904-594-0140
Delray Beach	\$4,800,000	Josh Koerner/Frost Weaver	904-594-0140
Fort Myers	\$3,250,000	Josh Koerner/Frost Weaver	904-594-0140
Palm Bay	\$2,300,000	Josh Koerner/Frost Weaver	904-594-0140
Port St. Joe	Call Broker	Linda Cinelli/Edan Cohen	908-722-5661
Port St. Lucie	\$3,250,000	Josh Koerner/Frost Weaver	904-594-0140
Sarasota	\$2,500,000	Josh Koerner/Frost Weaver	904-594-0140
Vero Beach	\$6,800,000	Josh Koerner/Frost Weaver	904-594-0140
Zephyrhills	\$3,750,000	Josh Koerner/Frost Weaver	904-594-0140

## Georgia

Cataula	Call Broker	Brooks Dove	678-439-8441
Hahira	\$4,200,000	Ryan Haney/Josh Koerner	904-591-1556
Kathleen	Call Broker	Jared Jones/Brooks Dove	918-948-3941
Richmond Hill	\$1,650,000	Ryan Haney/Josh Koerner	904-591-1556

## Illinois

Crest Hill	\$1,115,000	Bruce Bahrmassel/Cole Carosella	312-518-3550
Seneca	\$1,299,000	Bruce Bahrmassel/Cole Carosella	312-518-3550
Sleepy Hollow	\$999,000	Bruce Bahrmassel/Cole Carosella	312-518-3550

## Indiana

Lafayette	<b>SOLD</b>	Rob Schick	317-403-1205
Terre Haute	\$1,075,000	Rob Schick	317-403-1205

## Iowa

Sioux City	<b>SOLD</b>	Tom Flannigan	612-790-3747
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## Kansas

Iola	\$815,000	Larry Goldman	913-707-9030
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## Minnesota

Delano	\$1,850,000	Tom Flannigan	612-790-3747
Madison	\$450,000	Tom Flannigan	612-790-3747
Mankato	\$899,000	Tom Flannigan	612-790-3747

## Mississippi

Sherman	\$925,000	Bill Barnhill/Brian Rowley	251-432-1287
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## Missouri

Liberty	Call Broker	Larry Goldman	913-707-9030
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## Montana

Billings	Call Broker	Kim VanDelinder/Larry Hayes	406-698-6850
Livingston	\$4,895,000	Kim VanDelinder/Larry Hayes	406-698-6850

## New Jersey

Wharton	\$3,495,000	Linda Cinelli/Edan Cohen	908-722-5661
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## New York

Jordan	\$300,000	Guy Blake	845-787-1372
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## North Carolina

Salisbury	Call Broker	Jamey Cox	704-995-9168
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## Oklahoma

Grove	\$1,950,000	Jared Jones	918-948-3941
Moore	\$850,000	Jared Jones	918-948-3941
Ponca City	\$1,800,000	Jared Jones	918-948-3941

## Oregon

Medford	\$375,000	Scott King	541-890-6708
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## Pennsylvania

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

Anna	\$1,500,000	Chad Snyder/Tyler Trahant	817-813-5642
Granbury	Call Broker	Chad Snyder/Tyler Trahant	817-813-5642
La Marque	Call Broker	Faith Pate/Bill Brownfield	713-805-2907
Mexia	Call Broker	Chad Snyder/Tyler Trahant	817-813-5642
San Antonio	\$1,150,000	Chad Snyder/Tyler Trahant	817-813-5642

## Washington

Tumwater	\$950,000	Ryan Layton	509-435-2424
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## RECENT SALES



Congratulations to **Jeff Gorden, CCIM of KW Commercial** who sold GuardAll Self Storage in Kingman, AZ! Contact Jeff at 480-331-8880 for details.



Congratulations to **Cole Carosella and Matthew Cox** who sold Eagleridge Mini Storage in Pueblo, CO! Contact Cole at 720-909-8602 for details.



Congratulations to **Rob Schick of Schick & Associates** who sold a CubeSmart (Managed) Self Storage in Lafayette, IN! Contact Rob at 317-403-1205 for details.



Congratulations to **Josh Koerner and Frost Weaver of Weaver Realty Group, Inc.** who sold St. John's Big Toy Lockers in DeLand, FL! Contact Josh at 904-591-0140 for details.



Congratulations to **Mike Helline and Aaron Willis of Column Realty** who sold Mt. Washington Self Storage in Mt. Washington, KY! Contact Mike at 502-296-4586 for details.



Congratulations to **Brian Rowley and Bill Barnhill, CCIM of Omega Properties, Inc.** who sold Main Street Mini Storage in Tupelo, MS! Contact Brian and Bill at 251-432-1287 for details.



Congratulations to **Nathan Gottlieb, Alex Ihrke, Matt Haugen and Tom Flannigan of Area CRE Services** who sold a conversion site in Sioux City, IA! Contact the team at 612-790-3747 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  
Brooks Dove  
Ed Nicholson  
Josh Koerner & Frost Weaver  
Josh Koerner & Ryan Haney

Omega Properties, Inc.  
Percival Partners  
Brick Realty, LLC  
The Nicholson Companies  
Weaver Realty Group, Inc.  
Weaver Realty Group, Inc.

251-432-1287  
704-995-9168  
770-530-8441  
757-474-5364  
904-591-0140  
904-591-1556

FL Panhandle  
NC, SC  
North GA  
MD, VA  
FL (except Panhandle)  
South GA

### NORTH CENTRAL

Bruce Bahrmassel  
Tom Flannigan  
Alec Pacella, CCIM  
Larry Goldman, CCIM  
Rob Schick

Area CRE Services  
NAI Pleasant Valley  
Goldman Investment Advisors  
Schick & Associates

312-518-3550  
612-790-3747  
216-831-3310  
913-707-9030  
317-403-1205

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

### SOUTH CENTRAL

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

Omega Properties, Inc.  
MLB Commercial Real Estate  
Etzold & CO  
Goldman Investment Advisors  
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

Jeff Gorden, CCIM  
Jeff Gorden, CCIM  
Kim VanDelinder & Larry Hayes  
Scott King  
Ryan Layton  
Cole Carosella & Matthew Cox  
Ken Miller  
Tenere Williams  
Thomas Wolter

KW Commercial  
The Gorden Company  
Hayes & Associates  
Merit Commercial Real Estate  
American Real Estate Associates  
Argus Self Storage Advisors  
Northstate Commercial Partners  
Douglas Elliman Real Estate  
RE/MAX Commercial

480-331-8880  
702-643-1000  
406-698-6850  
541-890-6708  
509-435-2424  
720-909-8602  
530-768-1650  
626-788-7774  
206-200-3325

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