

## Deal Structure and Due Diligence

by Ben Vestal

Real estate brokers are often thought of as marketers, salesman, promoters, etc. However, the quality of a real estate broker is often revealed in the details as they assist their clients during due diligence. Many brokers may forget that the minutiae associated with a complex real estate transaction may be quite unfamiliar to their clients (buyer & sellers) when they decide to buy or sell self-storage properties. With this in mind, I thought I would take you through some of the behind-the-scenes aspects of a real estate transaction and focus on the structure and due diligence requirements. Obviously, the devil is in the details when buying and selling a self-storage property, and keen attention to the process can separate the winners from the losers.

### Deal Structure:

If you are in the market as a buyer or seller of a self-storage property, it is important to understand that the structure of the deal can be as important as the purchase price. With very sophisticated capital continuing to enter the market and values recovering, alternative structures are becoming more and more common. Too often the buyer and seller only focus on the purchase price and glaze over the structure without considering the financial implication of the structure. We have advised our clients on many deal structures that include UpReits (OP Units), preferred equity structures and price allocations, just to name a few. These all allow a buyer or seller to achieve different goals and can be very financially beneficial if you understand the structure but, it is important to remember that each buyer and seller's situation is unique, so please seek tax and legal advice from an experienced deal lawyer and accountant.

### Timing of Due Diligence:

The amount of time needed for due diligence is outlined in the purchase and sale agreement. This is arguably the most important aspect of the purchase and sale agreement as both parties will agree to work exclusively with each other to arrive at a closing. During the due diligence period, the seller agrees to remove the property from the market and assist the buyer (and possibly the buyer's lender) in understanding the details of the property. The buyer agrees to spend the time necessary to understand the details of the property as well as engage consultants to provide appraisal, environmental studies, property condition assessment, zoning compliance report, title commitment, survey, etc. in order to satisfy the buyer's understanding of the property and possibly arrange for a loan to acquire the property. Depending on the level of experience of the buyer and the overall complexity of the property, the due diligence timeframe can range from 30-60 days in today's market. However, it is important to remember that the vast majority of due diligence language in purchase and sale agreements today will allow for the buyer to approve all due diligence items at the buyer's sole and absolute discretion and will allow for termination by the buyer without penalty. So as a seller, working with a qualified professional self-storage broker will allow you to tighten up the due diligence language and most importantly alert you to who the "good and bad" buyers are in today's market.

### Market Due Diligence:

Today we are finding that market due diligence is the most important part of the due diligence process. With dynamic unit pricing widely in use in the self-storage industry today, it is hard to find a submarket

(3–5 mile radius) where street rates (the rates that customers move in at) are not meaningfully lower than the in-place rents of existing customers. Yes, you read that correctly, the new customers are paying less and in many cases a lot less than the existing customers. As we continue to see pandemic-era demand and historically low interest rates fade away, we are finding that there is less overall demand for self-storage so operators are being forced to capture demand with lower street rents. It has been well-documented that even with lower street rents and occupancy the self-storage industry has been able to hold revenues steady with very aggressive existing customer rate increases (ECRI's) but we are starting to see negative roll down of rent rolls which will lead to slower NOI growth over the next several quarters. Buyers need to conduct their own market due diligence to verify the asking rents in the submarket and whether their revenue projections are appropriate.

It is also worth noting that we are seeing a meaningful amount of fully entitled "shovel-ready" self-storage developments being marketed for sale due to a challenging construction financing market and developers' skittishness about where in-place rental rates will settle after the rent roll down mentioned above. We are finding that it is very difficult to make a new development pencil these days with falling rental rates and softened occupancies. However, as we start to see interest rates settle down it is my concern that once the construction financing market comes back, there will be a glut of new self-storage developments coming out of the ground leading to an overbuilding of some markets. So, during your due diligence it is worth spending some time on what new projects could be built within your submarket, and if they are fully entitled "shovel-ready" they will likely be the first to be built as the market recovers.

**The Devil is in the Details:**

As you dig into the details of the property, you must understand that not all buyers or sellers are created equal and sometimes the transaction of the property may cause some undue consequences. For example, if you are purchasing a property from a large or experienced operator in certain parts of the country the insurance premiums may increase by more than 50% due to the economies of scale some operators enjoy with their blanket insurance policies. It is also worth mentioning that when you have a change of ownership, some vendors are able to readjust a service contract to market rates which can have a meaningful impact on the cash flow of the property. Most importantly, you should pay special attention to the real estate taxes as most of the local municipalities are aware of the success of the self-storage industry and a revaluation could lead to an increase in real estate taxes.

Over the last 12 months we have been involved with 100's of millions of dollars of self-storage transactions and we have learned that most of the due diligence process can be handled in a 30–60 day timeframe. Inevitably you will have a few issues pop up during due diligence, but if both the buyer and seller are committed to working together and a professional self-storage broker can offer up ideas as to how similar issues have been resolved in the past, you will arrive at a successful closing. **MM**

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**NEW**

**Tucson, AZ**  
\$2,825,000

- Development Site
- 86,000 RSF
- 102,600 Land RSF
- 114,000 Building RSF
- Plan Approved by Pima County
- Proximity to high income households & high traffic attractions
- Direct competitors at full capacity with little new supply



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

**NEW**

**Park City, KS**  
Call for Offers

- Offers Due 10/15/24
- 148,631 RSF
- 450 Units
- 13.3 Acres
- High profile location visible from I-135, just North of I-235
- Room for significant expansion (1.1-acre)
- 101,141 RSF storage + 47,490 SF boat/RV



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

**NEW**

**Palmetto, FL**  
Call for Offers

- Offers Due 10/1/24
- 19,500 RSF
- 26 Fully Enclosed Units
- 1.3195 Acres
- Fully Enclosed RV & Boat Storage Facility
- Centrally located on a major connector between Bradenton and St. Petersburg with 30,000 cars per day
- 92% + occupied



**Josh Koerner & Frost Weaver**  
904-591-0140  
josh@coastalstorage.com

**NEW**

**IN, MO & IA Portfolio**  
Call for Offers

- Offers Due 10/17/24
- 5-Property Portfolio
- 283,617 Total Storage RSF
- 12,855 Total Commercial RSF
- 2,437 Total Units
- Remarkably well located facilities with excellent visibility near retailers such as Walmart and McDonalds; high barriers to entry



**Tom Flannigan**  
651-269-6307  
tom@selfstorage.com

**NEW**

**Paul, ID**  
\$1,400,000

- 63,580 RSF
- 179 Units
- Upside! Facility is currently significantly below market rents with room to grow occupancy, plus expansion land, can 2x your investment
- Priced at \$23/SF, well below construction cost
- Full fenced facility with security cameras, website and storage software



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

**NEW**

**Hinckley, MN**  
\$200,000

- **Under Contract**
- 3,980 RSF
- 28 Units
- Low economic occupancy with opportunity to achieve higher rates with existing tenants
- Ability to significantly improve operations through increased web presence and software implementation
- Priced below replacement cost at \$50/SF



**Nathan Gottlieb**  
612-930-6614  
nathan@selfstorage.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

Mobile \$1,851,300 Bill Barnhill 251-432-1287

## Arizona

Casa Grande \$2,800,000 Jeff Gorden 480-331-8880  
Phoenix Call Broker Jeff Gorden 480-331-8880  
Tucson \$2,825,000 Jeff Gorden 480-331-8880

## Arkansas

Danville **SOLD** Larry Goldman 913-707-9030

## California

Hayfork \$410,000 Vanessa Castaño/Ken Miller 951-867-0517

## Florida

Delray Beach \$4,800,000 Josh Koerner/Frost Weaver 904-594-0140  
Deltona \$1,600,000 Josh Koerner/Frost Weaver 904-594-0140  
Fort Myers \$3,250,000 Josh Koerner/Frost Weaver 904-594-0140  
Holly Hill \$2,400,000 Josh Koerner/Frost Weaver 904-594-0140  
Palmetto Call Broker Josh Koerner/Frost Weaver 904-594-0140  
Pensacola Call Broker Bill Barnhill/Stuart LaGroue 251-432-1287  
Port St Lucie \$1,600,000 Josh Koerner/Frost Weaver 904-594-0140  
Sarasota \$2,700,000 Josh Koerner/Frost Weaver 904-594-0140  
Williston \$1,450,000 Josh Koerner/Frost Weaver 904-594-0140  
Zephyrhills \$2,990,000 Josh Koerner/Frost Weaver 904-594-0140

## Georgia

Albany \$2,600,000 Ryan Haney/Josh Koerner 904-591-1556  
Brunswick Call Broker Ryan Haney/Josh Koerner 904-591-1556  
Cataula Call Broker Brooks Dove 678-439-8441  
Douglas \$2,400,000 Ryan Haney/Josh Koerner 904-591-1556  
Kingsland Call Broker Ryan Haney/Josh Koerner 904-591-1556  
Richmond Hill **SOLD** Ryan Haney/Josh Koerner 904-591-1556

## Idaho

Paul \$1,400,000 Ryan Layton 509-435-2424  
Post Falls Call Broker Ryan Layton 509-435-2424

## Illinois

Antioch \$2,450,000 Bruce Bahrmassel/Cole Carosella 312-518-3550  
Lansing Call Broker Bruce Bahrmassel/Cole Carosella 312-518-3550

## Indiana

Elkhart \$980,000 Rob Schick 317-403-1205  
Lafayette \$8,900,000 Rob Schick 317-403-1205

## Iowa

Des Moines Call Broker Tom Flannigan 612-790-3747  
Des Moines MSA Call Broker Tom Flannigan 612-790-3747  
Iowa Falls \$475,000 Tom Flannigan 612-790-3747

## Kansas

Park City Call Broker Larry Goldman 913-707-9030

## Minnesota

Elk River \$3,500,000 Tom Flannigan 612-790-3747  
Hinckley \$200,000 Tom Flannigan 612-790-3747

## Minnesota Cont.

Rochester **SOLD** Tom Flannigan 612-790-3747  
St Joseph \$1,000,000 Tom Flannigan 612-790-3747  
Windom \$750,000 Tom Flannigan 612-790-3747

## Mississippi

Greenwood \$5,400,000 Bill Barnhill/Stuart LaGroue 251-432-1287

## Missouri

Fenton Call Broker Larry Goldman 913-707-9030  
Harrisonville \$1,740,000 Larry Goldman 913-707-9030  
Sedalia Call Broker Larry Goldman 913-707-9030  
Wright City \$1,400,000 Larry Goldman 913-707-9030

## New Hampshire

Warner Call Broker Joseph Mendola/Joe Robinson 908-722-5661

## New Jersey

Egg Harbor Call Broker Linda Cinelli/Edan Cohen 908-722-5661  
Wharton \$3,495,000 Linda Cinelli/Edan Cohen 908-722-5661

## North Dakota

Fargo \$1,900,000 Tom Flannigan 612-790-3747

## Ohio

Toledo \$1,050,000 Paul DiVincenzo 440-382-5700

## Oklahoma

Bixby/Catoosa Call Broker Jared Jones 918-948-3941  
Moore \$697,851 Jared Jones 918-948-3941  
OKC/Mustang \$18,750,000 Jared Jones 918-948-3941

## Oregon

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

## Pennsylvania

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

## Texas

Bay City \$4,900,000 Faith Pate/Bill Brownfield 713-805-2907  
Bracketville Call Broker Chad Snyder/Tyler Trahant 817-813-5642  
Bridgeport-Chico Call Broker Chad Snyder/Tyler Trahant 817-813-5642  
Cleburne Call Broker Chad Snyder/Tyler Trahant 817-813-5642  
Denison Call Broker Chad Snyder/Tyler Trahant 817-813-5642  
Eagle Pass Call Broker Chad Snyder/Tyler Trahant 817-813-5642  
La Marque \$895,000 Faith Pate/Bill Brownfield 713-805-2907  
South TX Portfolio Call Broker Chad Snyder/Tyler Trahant 817-813-5642  
Temple Call Broker Chad Snyder/Tyler Trahant 817-813-5642

## Washington

Colville \$849,000 Ryan Layton/Greg Meager 509-435-2424  
Walla Walla Call Broker Ryan Layton/Greg Meager 509-435-2424

## Wisconsin

Plover \$1,750,000 Bruce Bahrmassel 312-518-3550

## Wyoming

Cheyenne Call Broker Cole Carosella/Matthew Cox 720-909-8602

## RECENT SALES



Congratulations to **Ryan Haney, Josh Koerner & Frost Weaver** who sold a development site in Richmond Hill, GA! Contact the team at 904-591-1556 for details.



Congratulations to **Larry Goldman, CCIM of Goldman Investment Advisors** who sold Dan-Ark Mini Storage in Danville, AR! Contact the team at 913-707-9030 for details.



Congratulations to **Matt Haugen, Alex Ihrke, Nathan Gottlieb & Tom Flannigan** who sold A & A Mini Storage in Rochester, MN! Contact the team at 612-852-5048 for details.



Congratulations to **Jamey Cox of Percival Partners** who sold a conversion site in Salisbury, NC! Contact Jamey at 704-995-9168 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  
Coastal Storage Group  
Coastal Storage Group

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  
Kevin Friedman  
Alec Pacella, CCIM  
Larry Goldman, CCIM  
Rob Schick

Area CRE Services  
Hayes Ventures, LLC  
NAI Pleasant Valley  
Goldman Investment Advisors  
Schick & Associates

312-518-3550  
612-790-3747  
847-436-5483  
216-831-3310  
913-707-9030  
317-403-1205

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

#### SOUTH CENTRAL

Bill Barnhill, CCIM  
Larry Goldman, CCIM  
Mike Helline & Aaron Willis  
Jared Jones, CCIM  
Samuel Livingston & Jacob Livingston  
Faith Pate  
Chad Snyder & Tyler Trahant

Omega Properties, Inc.  
Goldman Investment Advisors  
Column Realty  
Jones Investment Properties  
Livingston Brokerage LLC  
MLB Commercial Real Estate  
Dominus Commercial

251-432-1287  
913-707-9030  
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918-948-3941  
915-581-8754  
713-805-2907  
817-980-7276

AL, MS, LA  
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OK  
West TX & NM  
Central & South TX  
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

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

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

AZ, UT  
NV  
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OR  
Eastern WA, Northern ID  
CO  
Northern CA  
Southern CA