



Why in the World Would You Pay Somebody to Sell Your Facility?

Over the years we have had articles in the Market Monitor on just about every topic concerning self storage except to explain what a real estate broker does and to answer the question - Why do we get paid to buy and sell self storage facilities? The quick answer is, of course, that existing and potential owners believe they get value from using broker's services. Another answer might be that an owner might use a broker for the same reason they see a cardiologist rather than consult their brother-in-law when they have chest pain.

The fact is that in 2006 Argus Broker Affiliates closed sales of \$110 million in 57 separate transactions. Additionally, we closed over \$39 million of transactions in January, 2007 and currently have 78 listings. Thus it is apparent that many of our clients believe they are getting value from our professional services.

Not only is the value of broker's services recognized by our clients, but also by real estate appraisers, the profession that makes real estate valuations its sole focus.

"...transactions with a broker sell for 5% to 20% higher and with shorter marketing time." *Christian Sonne, Cushman & Wakefield Self Storage Industry Group*

Christian Sonne, Managing Director of Cushman & Wakefield Global Real Estate's Self Storage Industry Group, says that "in our nationwide appraisal practice, we consistently find that sale transactions with a broker sell faster and for more money. From single assets to portfolio sales, transactions with a broker sell for 5% to 20% higher and with shorter marketing time. In the appraisal adjustment process, we adjust sales upward that do not have a broker involved. Consequently, we ALWAYS recommend to our clients contemplating a sale that they use a qualified, competent and experienced self storage broker."

It is clear that many experienced and inexperienced buyers use brokers when selling their properties, but we feel that it is important for you to know how an Argus broker can help you in buying or selling a property. Therefore we have outlined a "typical" process that an owner can expect so they may determine the value of professional help in a transaction.

What Are We Selling, Dirt, Bricks or Income?

The reality is that while the dirt and the bricks will be transferred by the deed, it is the income stream that

creates the value in commercial real estate. In all income producing real estate the valuation process is focused around the net operating income of the business and the potential for future income. The valuation of your facility is the first and most important step in starting the process of selling your facility. It is important to understand that the selling process does not create the value; the value of the property is already there. One might say that we are selling the income of your facility, not your facility. There are many subtleties you should consider when valuing the current and future income of your property such as quality of construction, location, or competition that may change the rate of return a buyer is willing to pay for the property.

The most common and effective way of evaluating the income is by the use of cap rates. The real estate industry evaluates rates of return and risks for income producing real estate through the use of cap rates, essentially the rate of return that an investor requires to make the investment. Such rates of return and perceived risk compete for investor dollars with other investments such as stocks, bonds, CD's and other income producing investments, as well as other real estate. Cap rates encompass subtleties such as growth predictions, political

climates, quality of construction, location and management. Thus cap rates are much more subjective than just understanding the rate of return an investor will earn on an investment. The major component in determining the general level of cap rates is the general level of interest rates. Cap rates are further adjusted in consideration of the perceived risk involved with each type of real estate, local market changes, as well as some property-specific characteristics. As a result, when the investment market perceives the risk in real estate as low, cap rates fall and values rise, which is why cap rates are always changing and are different for every property. If this is true that cap rates are always changing and each property has different subtleties which ultimately affect the value, then it is of the utmost importance to understand where your facility falls in your market. For a more detailed explanation of the valuation process, please visit www.selfstorage.com/argus/valuation.htm to view and use many articles and worksheets to help you better understand the value of your facility. While these tools will help you feel more comfortable and give you the necessary vocabulary needed to better understand the process of valuation and the roll Argus plays in helping you navigate thought the valuation process, there is no substitute for having professional help in valuing your facility. Like so

many things in life the devil is in the details and there are many details that must be considered in the context of valuation.

Just for perspective, some of the subtitles that brokers often encounter in valuing a property are: how is extra land valued and financed; vacancies are not creating income so how are they valued and should vacancies be valued at all; are the expenses adjusted for personal costs incurred by the facility; is a management fee necessary to include in expenses; how do you adjust the value for the increased real estate taxes that will become due after the sale; how is rent treated when land is leased; how are box sales and late fees valued; is there a value adjustment if part of the property is a nonconforming use for zoning purposes or the property is in a flood plain, is there an impact on value from the new project being build down the street, if so how much; is there a premium because the city just declared a moratorium on building self storage and how much; if there is a pending vote in the legislature to put a sales tax on self storage, how much does it affect value; are the rents in the market rising, falling or stable. These are just a few circumstances that we have seen that can have a material impact on value.

It is the job of a good real estate broker to evaluate all of the various impacts to value and arrive at price that will be competitive in the market place. A competitive price is high enough to capture the enamored or urgent buyer that might pay a little extra and to allow for a little negotiation, but not so high as to scare off the serious knowledgeable buyers that actually purchase about ninety percent of all projects. Before you decide to value your sale or purchase “at home,” read the section on experience in this article.

Exposure Sells!

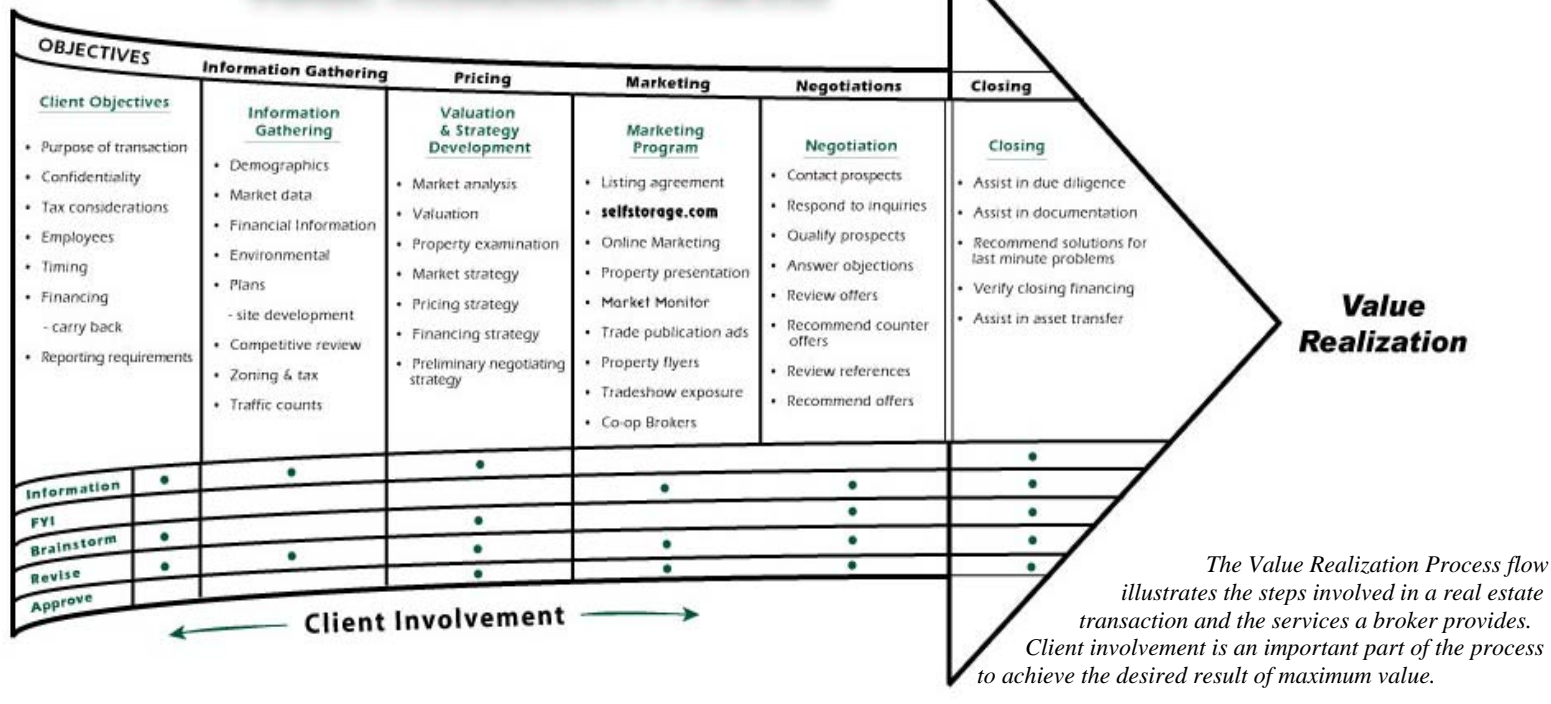
In real estate, like any other business, exposure sells. Without it, how would prospective purchasers ever know about your property? The only way to guarantee that you are receiving the best offers for your property is to ensure that the maximum number of buyers are able to see it. The end result of this effort is a higher price and greater assurance that you found the right buyer for your property. The chart to the right illustrates the concept that buyers and

sellers must reach an equilibrium at both price and cap rate where deals are ultimately completed. While buyers tend to be concentrated at lower prices and higher cap rates, and sellers prefer higher prices and lower cap rates, the deal is completed at a point where both sides can reach a mutual agreement. The only way to ensure that this equilibrium is reached is by allowing all potential purchasers to see and make offers on your property. You might wonder if using a broker in this process makes a difference, and the answer is absolutely! Only an experienced broker has access to all of the tools and relationships that will ensure maximum exposure both within the self storage industry and throughout the commercial real estate marketplace. Brokers today use several key Internet listing services to market commercial properties to other brokers. These sites, like LoopNet.com and PropertyLine.com, are searched by thousands of brokers each day who represent both buyers and sellers of self storage properties nationwide. Argus is fortunate to have exclusive use of the Number 1 internet site for self storage, www.selfstorage.com. It has become a standard practice in the industry to list properties for sale on these sites, and without a broker to place the listing, your property would be missing out on thousands of potential buyers from around the nation. It is also important to consider the local market for your property, and again, this is where having a broker is imperative. Argus brokers are located in over 35 markets throughout the US and have relationships with key buyers in each. When you know who the major players are in each market, you have a much better chance of your project getting a serious look from the local buyers in your area.

A word of caution: Some brokers choose not to



Value Realization Process



explore every option when marketing for their clients, in part because of the cost, but also because they may already have a buyer in mind that they want to sell your property to. If this is the case with your broker, it should raise a big red flag because you can't know if your buyer is offering a fair price if your property hasn't been exposed to the whole marketplace. Argus brokers are committed to offering our clients maximum exposure for their properties in order to truly test the marketplace for buyers and receive the highest possible price.

Marketing: It is also important to consider how your property is going to be marketed once you choose a broker to sell your property. A quality presentation is necessary to present your facility in the best light and to give prospective purchasers the information they need to make an informed decision. The Argus property presentation is a well-recognized publication in the industry and is both informative and easy to understand. In our many years of experience in the self storage industry, we have found that in most cases, the buyers of self storage projects are already self storage owners. This means it is important to market self storage listings to this very specific group of people. Argus has developed a database of over 20,000 self storage owners across the country who receive our Market Monitor publication each month. This unparalleled distribution is only available to sellers who list their properties with an Argus broker affiliate. We are convinced that no other broker or marketing company can have as effective a reach to the self storage owner demographic.

Experience - It Does Matter!

We all know from putting the tricycle together on Christmas Eve that there is a significant learning curve to almost everything, so much so that we almost wish there were another bike so we could prove how well we could do it the second time. Negotiating and consummating commercial real estate transactions, just like the bike, has many "little parts" that are critically necessary to a successful completion. However, unlike our bike, completing a real estate transaction requires more than mechanical skills. Successfully navigating the real estate deal requires a unique combination of skills; financial analysis, salesmanship, marketing savvy, persistence, financing, negotiation strategy, understanding construction, tax and legal familiarity, local market knowledge, knowing who the "real buyers are," and often understanding the local political situation. Obviously, this collection of earned talents is not learned from a single set of instructions, but from doing many deals in varied and different situations. Most real estate deals become, at one time or another in their progress, an exercise in serious problem solving. These problem solving crises are better met with: "last time we fixed it this way" than "let me research the problem and get back to you," and the difference between the two is experience!

Argus brokers provide an advantage to self storage sellers and buyers because they focus on our unique corner of the real estate business. While self storage is real estate, there are many subtleties of the business that only constant and intimate experience with the industry can provide. Knowing the players and being familiar with details of the day to day operations, as well as the patterns of pricing and financing, can give the self storage broker and his or her client a significant advantage in the market place. While we believe we know a lot about the business of buying and selling real estate, we certainly can not deny that we have learned a lot

from completing 232 self storage transactions in the last few years.

Argus brokers add another dimension to the experience equation that we believe is very important to our clients and that is our collective experience. Certainly, none of our brokers knows everything, but it is seldom that if a question or unusual situation arises and one of our brokers needs an answer, an opinion, or a contact, that a quick email or call doesn't yield a viable solution. It is the Argus version of the game show option "ask the audience," except it should be called "ask the experts!"

At Argus our 38 brokers have a collective 751 years in the real estate business, and additionally 15 brokers have earned the coveted CCIM or SOIR designations. While Argus currently has 75 listings that clients have trusted to our experience, we also want to earn your confidence so that we can put our experience to work for you.

There is an old saying that "The lawyer who represents himself has a fool for a client." The same is even more true of the real estate investor who acts as his own broker.

Fiduciary Responsibility - It Really Matters!

The dictionary defines a fiduciary as: "from fidūcia, trust: One, such as an agent of a principal or a company director, that stands in a special relation of trust, confidence, or responsibility in certain obligations to others." The two concepts to focus on in the definition are the special relationship of trust and to note that being a fiduciary is an obligation, not just a job to do. This relationship is very valuable to you when you are buying or selling real estate. It means that your broker is obligated to tell you the truth, provide his or her very best advice (even if it isn't what you want to hear), represent you in the negotiations as though he were you and keep you fully informed of every material fact. Not only must your broker be "on your side" but they promise to bring the very best of their experience to your relationship. All states incorporate the idea of fiduciary responsibly into their real estate licensing laws. Being a fiduciary is a very serious business and most real estate brokers accept and understand the concept.

There is an old saying that "The lawyer who represents himself has a fool for a client." The same is even more true of the real estate investor who acts as his own broker. The other party, or his broker, in a transaction has no duty to you. Thus when he says this is a great price I am offering, he probably means it, but it is more likely that it is great for him and not for you. It might be useful for your broker (fiduciary) to suggest that the buyer look at the last three comparable sales in the marketplace and to ask if he wants to rethink the price, or to point out that the

closing costs are not traditionally prorated as described in the contract as he presented. In any transaction there are literally dozens of opportunities where a self storage broker's expertise can be effectively applied and thus improve the transaction for his client. All brokers also know that an unrepresented counter party represents an opportunity for his or her client. Everyone needs the best allies they can have when engaging in such serious business transactions.

The fact that all real estate brokers are, by definition, fiduciaries when they represent a client does not mean that they perform equally well in the capacity. There are some signals that will tell you a lot about how a broker will perform in his capacity as fiduciary and experienced professional. If the broker gives you a price (particularly, the price you mentioned first) without seeing the project and

analyzing the numbers, it may mean that he is just interested in getting the listing and hoping someone buys it. Likewise, if he says "I

don't need to advertise, I know all the buyers" it may really mean that he may get the buyer to help him price it for you and that is not good for you. Another bell-ringer for caution is if he says he doesn't want to "co-op" the commission with other brokers (sellers brokers normally share commissions with the buyers brokers because they bring buyers). This means two things for sure, you won't see all of the potential deals and your broker's relationship with the buyers he does bring will likely be quite strong. Our Argus brokers always welcome requests for references and anyone considering a broker should do the same.

In Summary

We hope this "Special Edition" of the Market Monitor will help you in understanding what the Argus Self Storage Sales Network is all about. It is important for you to know what our purpose is and how we go about achieving results for our clients. Hopefully it is clear that meeting your objectives is our number one priority. Bringing our professionalism to your self storage transaction, either buying or selling, will ensure that you will have best advice possible, the most sophisticated marketing program, experienced execution, and the confidence in knowing that an expert is helping you to complete your transaction.