



SELF STORAGE SALES NETWORK

Market Monitor

“America’s Premier Self Storage Brokers”

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Should You Be a Seller? Are You a Seller?

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This article contains references to several past Argus articles. To view these articles, please visit www.selfstorage.com/argus/online/seller.pdf



Should You Be a Seller?

With almost 40,000 self storage facilities around the country, there is bound to be an owner who is contemplating parting with their beloved facility each and every day. However, we have found that there is a material difference in “thinking about selling” and becoming an actual seller. Eventually, almost everyone will end up being a seller and it is a matter of *when* that concerns most owners. Thinking through the following factors will help you determine how close you are to becoming a real seller.

Personal Issues: Retirement, estate planning, partnership problems, retirement liquidity and divorce are just a few things that make owning an investment property difficult. Experience has shown that the vast majority of all self storage sales are the result of such personal issues rather than what we as brokers would call a sale to take advantage of the market or concern for the future market. This proclivity to make the final decision based on personal issues is entirely appropriate, but with a little planning and thinking about the current market small adjustments in the timing of a sale can be very rewarding.

Rising Cap Rates: Cap Rates are the short hand way that real estate professionals talk about the relative pricing of investment properties. In short, the lower (yes, lower) the cap rates the higher the real estate prices are in the current market. I recently wrote an article for ISS called “Interest Rates, Cap Rates and Betting the Farm”, about rising cap rates. Today’s cap rates are the lowest (that means high prices) that they have been in the last 40 years! This change in cap rates is almost exclusively related to the unprecedented lower interest rates that the market is experiencing. The article illustrates that a 2% increase (about how much they have gone down in the last three years) in cap rates could negatively impact your equity by as much as 80% if you have a typical loan. This may be a good reason to think through the timing your personal issues and see if you can take advantage of these higher prices now, rather than wait for interest rates and cap rates to rise and real estate prices to fall.

Competition: Another factor affecting the decision to sell is increased competition, or even potential competition. We are seeing many local markets that are seriously overbuilt and the impact on existing facilities can be very dramatic. In markets where there are a lot of properties and the average vacancies are in the low-mid eighty percent range, the potential is high for just one new property to have a devastating impact on all existing properties. We anticipated this coming trend in an article “Overbuilding’s New Mean Face.” The major concern and unknown characteristic is this: Is there significant enough pent up demand in many markets that are mature from a development standpoint to absorb new facilities over a reasonable period? The article puts that question into perspective and clearly describes the magnitude of the potential problem.

Are You a Seller?

Determining if and when you are a “real” seller is the single most important step in the process of selling your investment. This is someone who has a defined reason to sell and is also willing to price the sale at a level that is within the market. Serious buyers want serious sellers and when a buyer finds out that a seller isn’t realistic about selling, they will seldom get interested again. The result is that a non-serious seller offends his best prospects - and they will remember!

Experience shows that motivated sellers who are willing to accept a price that is reasonable in the marketplace will in fact see their property sell quickly. This does not mean that you have to accept a low-ball offer, it means that deal is consummated so that you get a fair value for your investment and the buyer gets a fair value for the future potential of the property.



Extracting Value – A Broker’s Role

It is important to understand that the selling process does not create value; the value of the property is already there and is created by the cash flow of the project. A broker’s job is to find a buyer that recognizes the existing value of the facility and that is able to purchase the property. The more prospects that see information on the property, the more likely you are to get a better price, and that is one of the primary jobs of a broker, exposure! A broker should also *assist* the seller in navigating through the complex marketing and negotiation process. Since most self storage buyers are sophisticated and their lenders are even more cautious, trying finding a “greater fool” that will pay a substantial premium to market values is not only unproductive but it can have serious negative impacts on the property’s marketability. I summarized these important issues in two articles in our Market Monitor, “A Few Points on Buying and Selling Properties.”

In summary, prices have never been higher and the uncertainties of our world never less settled, so if you are at or near one of those “personal crossroads” it is time to get serious about thinking about selling. These high prices will not last forever, maybe not much longer, and if you are going to sell in the near term anyhow you should do it soon and take advantage of the lowest cap rates in 40 years.

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