



SELF STORAGE SALES NETWORK

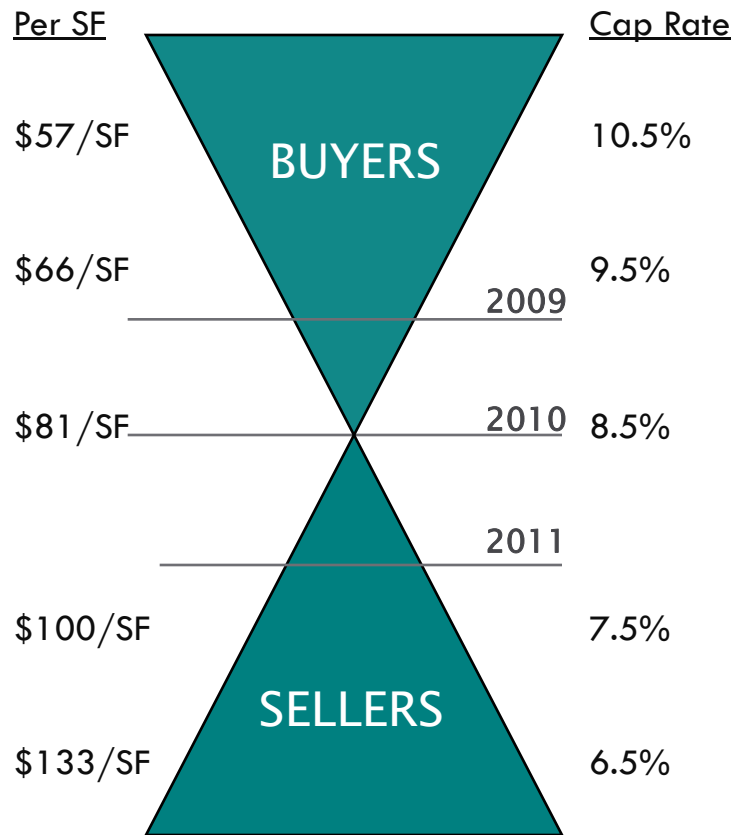
# Navigating the Self Storage Transaction Market

Ben Vestal, President  
Argus Self Storage Sales Network

# Where is today's market and what does it look like?



## □ This is a Market



## □ Impacts in Today's Self Storage Market

- Investment Advisors
- Private Equity Funds
- 1031 Purchasers
- REITs
- Access to Capital
- Interest Rates

2012?

# Where is today's market and what does it look like?



## The 4 Largest Operators

▶ Public Storage	2,245+/- stores
▶ Extra Space Storage	845+/- stores
▶ CubeSmart	478+/- stores
▶ Sovran Self Storage	438+/- stores

# Where is today's market and what does it look like?



## Public Storage

- ▶ 141 Million Square Feet
- ▶ 38 States
- ▶ Same Store Numbers: Q1 2011–Q1 2012
  - 1,941 Properties
  - Revenues: +4.8%
  - Expenses: +1.9%
  - NOI: +6.3%
  - Occupancy: (Increased by 0.5% from Q1 2011)
  - Acquired 13 Properties for \$108.5 Million in 2011
  - Acquired 6 properties in Q1 2012 for \$42M

# Where is today's market and what does it look like?



## Extra Space Self Storage

- ▶ 62 Million Square Feet
- ▶ 34 States
- ▶ Same Store Numbers: Q1 2011–Q1 2012
  - 282 Properties
  - Revenues: +6.3%
  - Expenses: –1.7%
  - NOI: +10.8%
  - Occupancy: (Increased by 3.9% from Q1 2011)
  - Acquired 55 Properties for \$289.6 Million in 2011
  - Acquired 2 properties in Q1 2012 for \$15.5M

# Where is today's market and what does it look like?



## CubeSmart Self Storage

- ▶ 23.3 Million Square Feet
- ▶ 26 States
- ▶ Same Store Numbers: Q1 2011– Q1 2012
  - 339 Properties
  - Revenues: +2.7%
  - Expenses: -4.3%
  - NOI: +7.4%
  - Occupancy: (Increased by 1.9% from Q1 2011)
  - Acquired 31 Properties for \$640.4 Million in 2011
  - Acquired 6 properties for \$86.4M in Q1 2012

# Where is today's market and what does it look like?



## Sovran Self Storage

- ▶ 25 Million Square Feet
- ▶ 24 States
- ▶ Same Store Numbers: Q1 2011– Q1 2012
  - 350 Properties
  - Revenues: +3.0%
  - Expenses: -2.8%
  - NOI: +7.9%
  - Occupancy: (Increased by 2.7% from Q1 2011)
  - Acquired 29 Properties for \$155 Million in 2011
  - Acquired 0 Properties in Q1 2012

# Where is the Market Going?



## According to NAREIT:

- ▶ In 2011 self storage REITS returned 35.2%
  - This was the strongest of any REIT Sector (2<sup>nd</sup> Consecutive Year)
- ▶ Other REITS saw a return of 8%
- ▶ 2012 is expected to be another active year of acquisitions for self storage companies



# Where is the Market Going?



According to NAREIT

- ▶ Currently 10% of all commercial real estate is owned by public companies
- ▶ Over the next 10 years experts are predicting that public companies will own 2x–3x more

Public vs. Private Acquisitions		
	2010	2011
Public	\$425 Million	\$1.189 Billion
Private	\$126 Million	\$566 Million

- ▶ Why? ACCESS to Capital

# What Creates Value in Today's Market?



- ▶ 90% of Value is Cash Flow
  - Cash flow is driven by the cost of debt (interest rates)
- ▶ Commercial Real Estate
  - 90% of value is cash flow!
  - Intangible Contributors to Value
    - Good maintenance
    - Appearance
    - Attitude of Seller
    - “Nice City”
    - Major MSA
    - Size of Deal
  - Impairments to Value
    - Lack of Future Flexibility
    - Zoning Restrictions
    - Land Leases
    - Sometimes Existing Financing
    - Overbuilding
    - Size of Deal

# Measuring Value



- ▶ Value is essentially the present value of all future estimated cash flow
- ▶ Three main factors
  - How much cash will there be?
  - When will it come?
  - What is the “right” discount on future cash?
- ▶ The answer is only in the market  
CAP RATES!

# Extracting Value



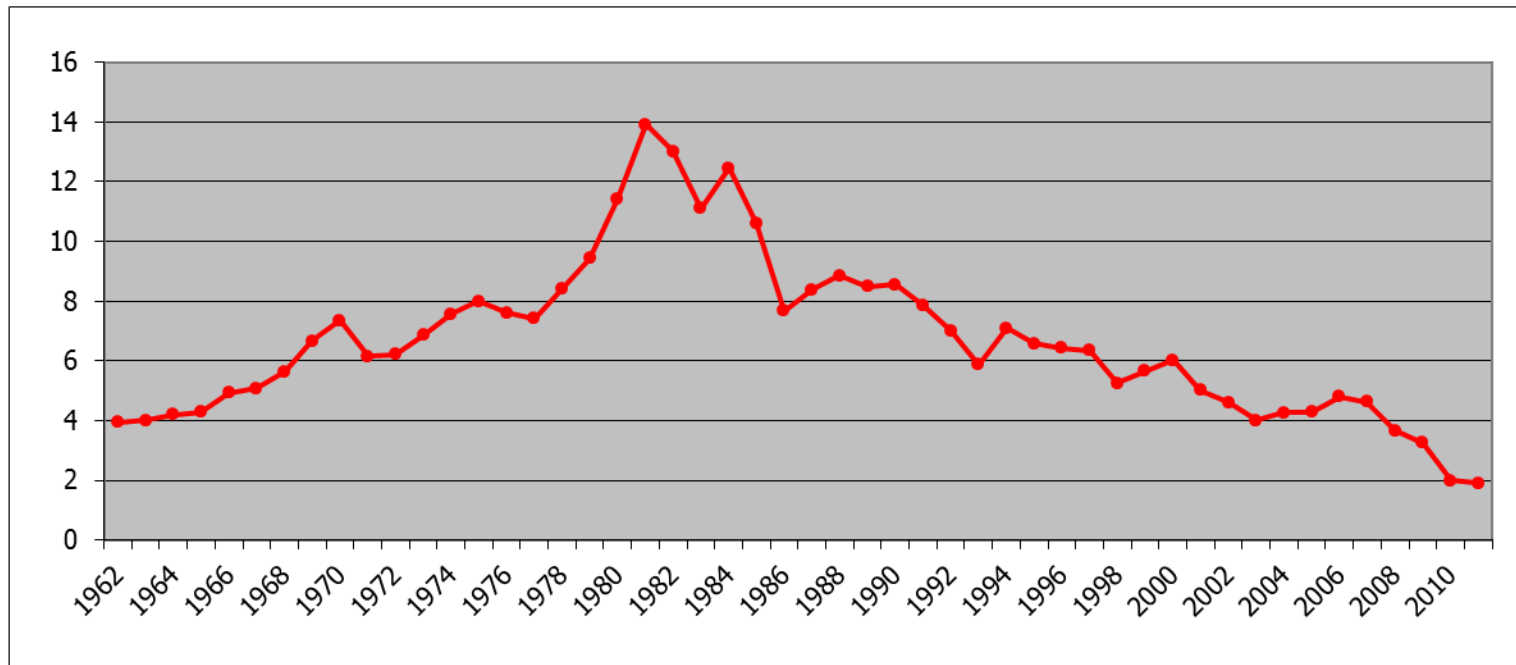
- ▶ Sales of Real Estate occur when buyers and sellers agree on all three main factors that affect value
- ▶ In large measure, the right discount rate, or Cap rate, is set by the market!
- ▶ The CAP rate is directly correlated to the interest rates buyers can obtain on debt

# Extracting Value



## A History of Interest Rates

10-Year US Treasury Interest Rates: 1962-2011



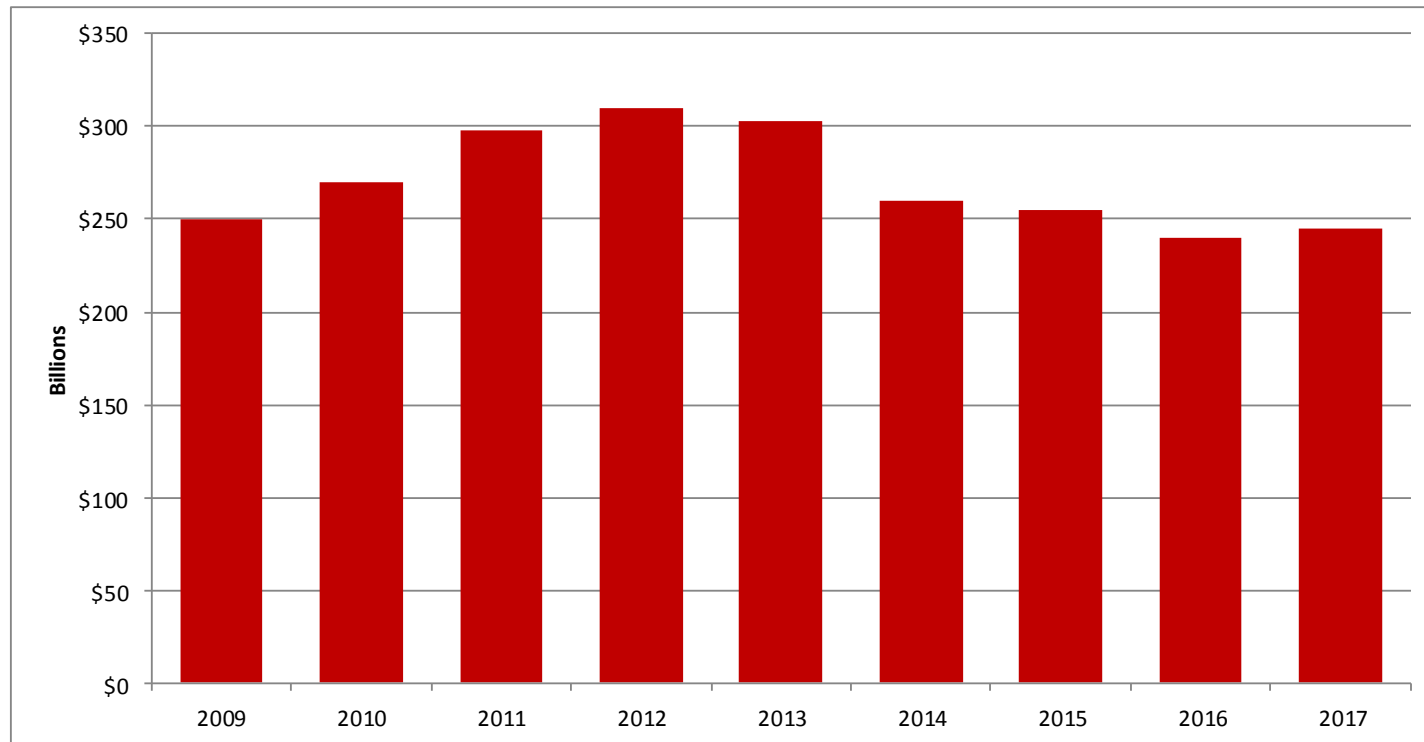
Source: U.S. Federal Reserve

# Debt Markets



- ▶ Commercial banks have \$1.3 trillion in mortgage debt on their balance sheets
- ▶ 10 largest banks out of 7,800 insured by FDIC hold 84% of all Assets
- ▶ 2010–2014 \$800 Billion in Real Estate Debt is coming due – 70% of which may be underwater
- ▶ \$100 Billion is coming due in 2012

# Commercial Loan Maturities



Source: U.S. Federal Reserve

# What Do We Do?



- ▶ Lock in 7–10 yr. rates if possible
- ▶ Check competition for rate movement frequently
- ▶ Understand the internet
- ▶ Focus on Niche Markets
- ▶ Pursue Value–Add Strategies
- ▶ Find a way to lower your cost of capital
- ▶ Recession is semi–over
  - A lot more pain to come



# What is a Realistic Value for your Property Today?



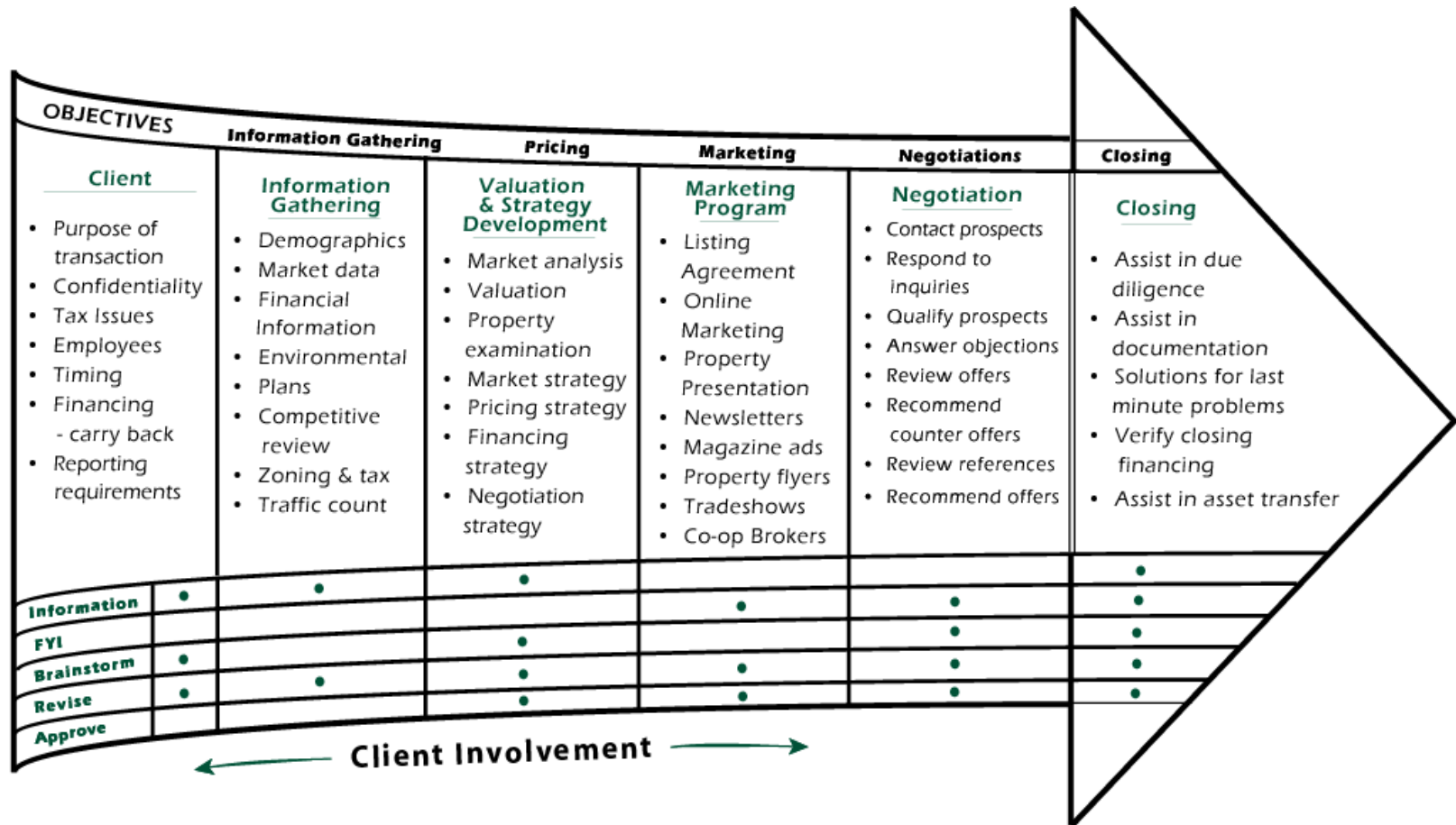
	Scenario 1 Trailing 12 Months	Scenario 2 Year 1 Proforma
Gross Potential Revenues	\$500,000	\$500,000
Economic Vacancy	\$100,000 (20%)	\$75,000 (15%)
Gross Revenues	\$400,000	\$425,000
Operating Expenses	\$150,000	\$154,500 (3% inflation increase)
NOI	\$250,000	\$270,500
Value @ 8% CAP	\$3,125,000	
Value @ 8.5% CAP		\$3,182,352 (The Proforma CAP rate is always higher)



# What is a Realistic Value for your Property Today?

- ▶ Make sure your Expenses include an off-site management fee (4%–6% of Gross Revenue)
- ▶ What is your Real Estate Tax Assessed Value?
- ▶ A high CAP Rate computes a lower value and a lower CAP Rate computes a higher value

# The Value Realization Process



# Understand Your Objectives



- ▶ Purpose of the Transaction
- ▶ Confidentiality
- ▶ Employees
- ▶ Timing
- ▶ Financing
- ▶ Reporting Requirements

# Information Gathering



- ▶ Demographics
- ▶ Market Data
- ▶ Financial Information
- ▶ Environmental
- ▶ Plans
- ▶ Competitive Review
- ▶ Zoning and Taxes
- ▶ Traffic Counts
- ▶ Interview Brokers

# Pricing & Strategy Development



- ▶ Market Analysis
- ▶ Valuation
- ▶ Property Examination
- ▶ Market Strategy
- ▶ Pricing Strategy
- ▶ Financing Strategy
- ▶ Negotiation Strategy

# Marketing



- ▶ How is your broker going to market your facility?
  - Online Marketing
  - Property Marketing Materials
  - Newsletters
  - Self-storage trade publications
  - Self-storage tradeshow
- ▶ How will your broker handle co-op brokers?
- ▶ Listing Agreement

# Negotiations



- ▶ What is Your Involvement?
  - Contact Prospects
  - Respond to Inquiries
  - Qualify Prospects
  - Answer Objections and Questions
  - Review Offers
  - Recommend Counter Offers
  - Review References

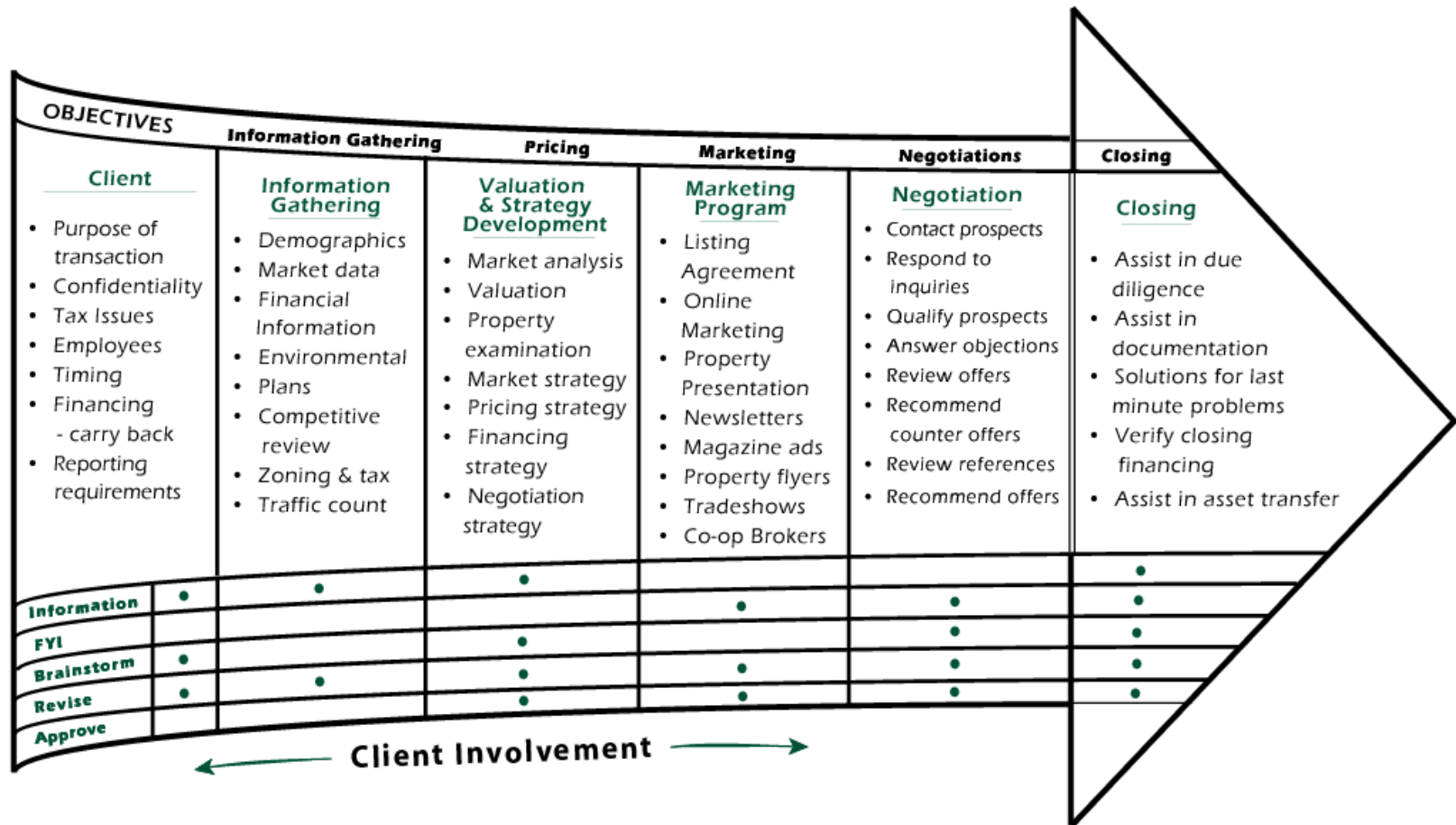


# The Closing Process



- ▶ Execute Purchase and Sale Contract
- ▶ Due Diligence
- ▶ Find Solutions for Last Minute Problems
- ▶ Verify Financing
- ▶ Asset Transfer

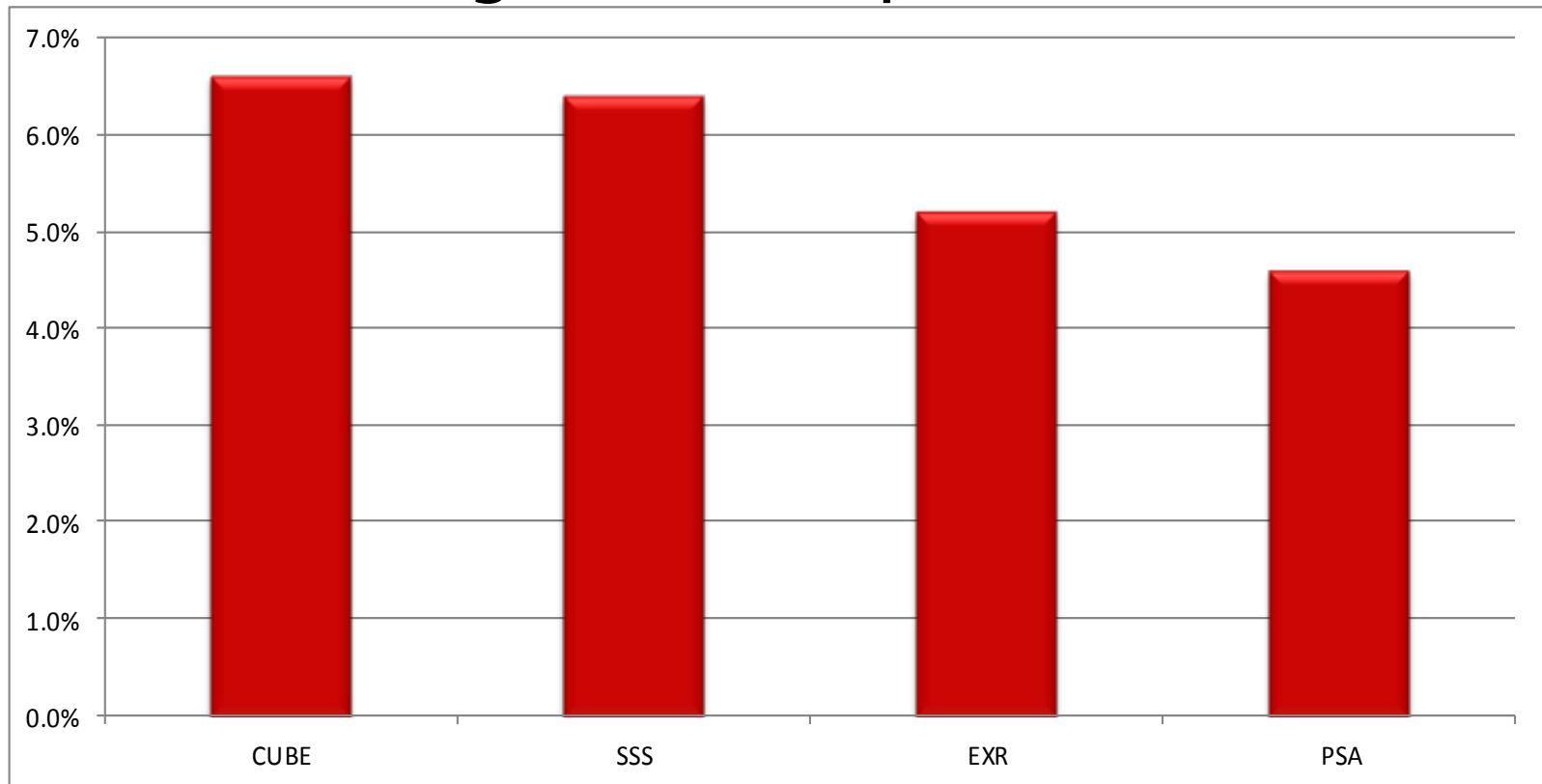
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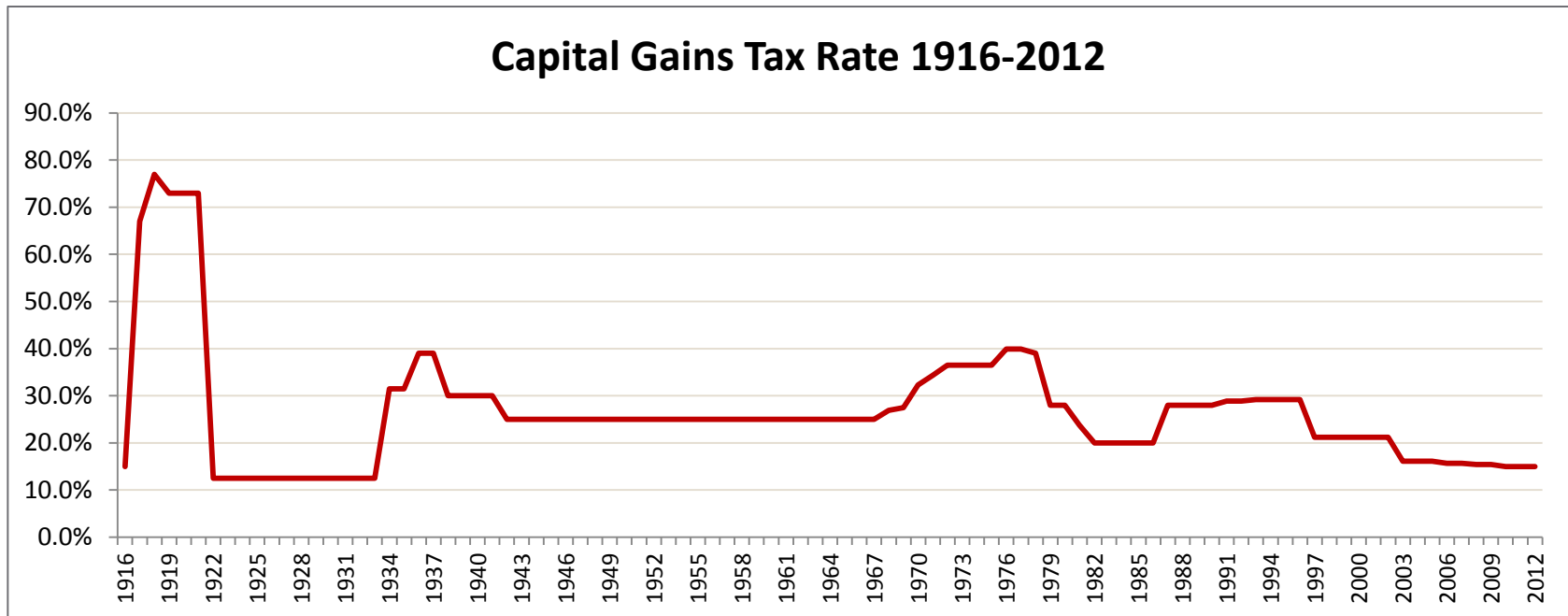
# A Few Thoughts on Today's Market



## Self Storage REITs Implied CAP Rate



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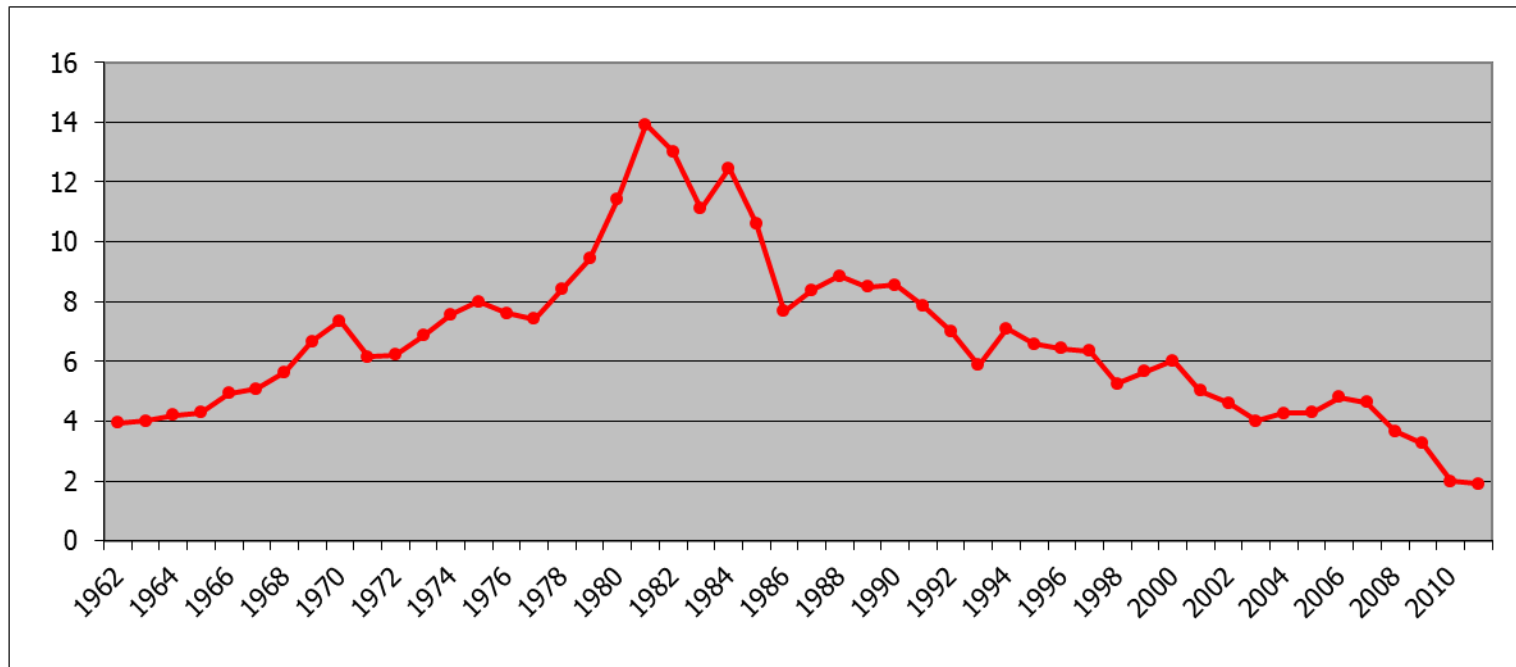


# A Few Thoughts on Today's Market



## A History of Interest Rates

10-Year US Treasury Interest Rates: 1962-2011



Source: U.S. Federal Reserve



# Questions?

Ben Vestal  
President  
Argus Self Storage Sales Network  
[bvestal@argus-realestate.com](mailto:bvestal@argus-realestate.com)

1-800-55-STORE  
[www.argus-selfstorage.com](http://www.argus-selfstorage.com)



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