



Finding Opportunity Outside the Box

by Ben Vestal

As we enter the 4th quarter of 2019, self-storage investors are achieving higher than normal returns and extending the valuation push during this unprecedented real estate cycle. Many investors are finding that real opportunity lies in the arbitrage that a real estate investor can capitalize on between cap rates and interest rates. While the word arbitrage is usually thought of as a high finance concept, there are some viable opportunities that might be available in the self-storage investment market today. The term arbitrage means that an investor can take advantage of some pricing or other discrepancies in the marketplace. For example, if a stock were selling on the London Exchange for \$50 and on the New York Exchange for \$55, it would become clear that you should buy in London and sell at the same time in New York. Now that you understand the basic concept, how can we make arbitrage work for us in the self-storage marketplace?

The first step is to find a self-storage property with a price or a discrepancy in the market that will be useful. As we know, capitalization rates (cap rates) are in the simplest form, the rate of return demanded by a buyer to purchase a property. In other words, if a buyer is willing to pay a cap rate of 6% for a property, then each dollar of Net Operating Income (NOI) will be worth \$16.67. Likewise, if the cap rate is 8.75%, each dollar of NOI would be valued at \$11.43. Thus, we can see that cap rates can, in large measure, be viewed as a surrogate for purchase price because what a buyer is really purchasing is the income.

Today's self-storage financing market is as fluid and aggressive as we have experienced in our 26-year history. This is allowing savvy investors to achieve arbitrage between low cap rate markets and higher cap rate markets. This is largely due to the very low ten-year treasury yield (currently around 1.7%), increased quality of information about the historical performance of self-storage assets, professional third-party management platforms, and the financial institutions' understanding and willingness to make loans to self-storage investors.

Since Argus has 40+ brokers doing business around the country and has closed more than 70 deals so far this year, I have asked our brokers to give us an idea of the cap rates they are seeing in the market today to see if we can find an exploitable pricing discrepancy. Chart I is a tabulation of that inquiry. As you can see, the market provides a considerable variation in cap rates and thus pricing discrepancies just based on geography.

Chart I: Regional Cap Rates

	West Coast	Southwest	South	Southeast	Midwest	Northeast
Low	4.75%	5.5%	6.0%	6.0%	6.0%	5.5%
Average	6.25%	7.5%	7.25%	7.3%	8.25%	6.75%
High	7.75%	9.5%	8.5%	8.75%	10.5%	8.0%

For example, prices are higher per dollar of NOI (lower cap rates) on the West Coast and in the Northeast than they are in the Midwest, South or Southwest. The reason for the differences will most likely relate to the barriers to entry and number of buyers and sellers in the market rather than some intrinsic valuation issue with the property. When we remember that a self-storage market is measured as roughly a five-mile radius around the property, national scale geography probably isn't as important as many other things when evaluating the income of a property. In other words, an excellent project in a stabilized market such as Omaha, Nebraska or Birmingham, Alabama is probably equal to a comparable project in Thousand Oaks, California or Montclair, New Jersey as to generating stable income.

Chart II below tells the story of what the impact of arbitrage can be on an investment in self-storage. The net result is that you can, in some instances, double your cash on cash return. It is clear that the very low interest rates and aggressive financing market today have had a meaningful effect on valuation. So, if you are not up for playing the arbitrage game you may consider selling or refinancing as the current market has allowed for some very compelling situations for our clients.

Chart II: Cash on Cash Comparison

	Low Cap Rate	High Cap Rate
NOI	\$300,000	\$300,000
Cap Rate	6%	7.75%
Value	\$5,000,000	\$3,870,000
Loan (75% LTV)	\$3,750,000	\$2,903,000
Equity	\$1,250,000	\$967,000
Debt Service (4%, 30 yr)	\$215,000	\$166,000
Cash Flow	\$85,000	\$134,000
Cash on Cash Return	6.8%	13.8%

Clearly, there is value in understating cap rate arbitrage in self-storage. The reward makes the game worth playing and the trick is to make sure that the difference is in the price and not the quality of income stream. How long will these opportunities remain? Your guess is as good as mine; but in the arbitrage game it is all about Carpe Diem! **MM**

Ben Vestal, President of the Argus Self Storage Sales Network, can be reached at 800-557-8673 or bvestal@argus-realestate.com.



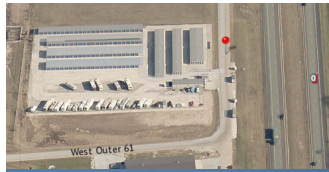
Property Showcase

Moscow Mills, MO

\$4,150,000

- 347 Units
- 55,656 RSF
- 6.5 Acres
- New facility offers climate, conventional and outdoor storage
- 3 additional acres for expansion
- Excellent traffic exposure to over 42,000 vpd on US-61

NEW!



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

Irving & Ft. Worth, TX

Offers Due 11/8/19

- 2-Property Portfolio
- 1,431 Total Units
- 141,630 Total RSF
- 6.37 Total Acres
- Two stabilized, institutional quality assets
- Well-maintained infill locations
- Excellent visibility and access

NEW!



**Richard Minker, CCIM
& Chad Snyder**
817-980-7276

rminker@dominuscommercial.com
csnyder@dominuscommercial.com

Bessemer, AL

\$1,700,000

- **Under Contract**
- 189 Units
- 26,500 RSF
- Located in the Greater Birmingham, AL MSA
- High Occupancy
- Excellent Visibility



**Bill Barnhill, CCIM
& Stuart LaGroue**
251-432-1287

barnhill@selfstorage.com
stuart@selfstorage.com

Channelview, TX

\$750,000

- 80 Units
- 23,385 RSF
- 1.32 Acres
- Perfect expansion property for existing storage owners, or as an investment for first time buyers
- Did not flood during major Houston floods

NEW!



**Bill Brownfield, CRE, CCIM
& Faith Pate**
713-907-6497

bill@wbrownfield.com
faith.pate@avisonyoung.com

Hiawatha, IA

\$950,000

- 90 Units
- 19,420 RSF
- 1.178 Acres
- Historically high occupancy with room to push rental rates
- Well-maintained facility in a high growth market

NEW!



**Tom Flannigan
& Alex Ihrke**
612-790-3747

tom@selfstorage.com
alex@selfstorage.com

Lewisville, TX

\$1,200,000

- 151 Units
- 22,819 RSF
- 1.05 Acres
- Excellent location off I-35
- Management upside
- Adjacent land for possible expansion
- Option to add ancillary business

NEW!



**Richard Minker, CCIM
& Chad Snyder**
817-980-7276

rminker@dominuscommercial.com
csnyder@dominuscommercial.com

Coon Rapids, MN

\$650,000

- 41 Units
- 8,550 RSF
- 0.82 Acres
- Well-maintained facility
- Strong area demographics and household income
- High barriers to entry location

NEW!



**Tom Flannigan
& Alex Ihrke**
612-790-3747

tom@selfstorage.com
alex@selfstorage.com

Belvidere, NJ

\$875,000

- 84 Units
- 14,983 RSF
- 1.2 Acres
- In-town location
- Possible expansion of existing buildings
- Close to Rt. 46 and Rt. 31
- Family owned

NEW!



Linda Cinelli, CCIM
908-722-5661
linda@lcrealtyusa.com



Sells Self Storage Nationwide!

Our complete list of available properties is detailed below. For additional information, visit www.argus-selfstorage.com or contact your local Argus Broker Affiliate.

Alabama

Bessemer \$1,700,000 Bill Barnhill/Stuart LaGroue 251-432-1287
Childersburg \$768,000 Bill Barnhill/Stuart LaGroue 251-432-1287

Arizona

Cottonwood \$1,750,000 Jeff Gorden 480-331-8880
Wickenburg \$900,000 Jeff Gorden 480-331-8880

Arkansas

Cabot \$429,000 Larry Goldman 913-707-9030
Hot Springs \$295,000 Larry Goldman 913-707-9030
Hot Springs Vlg \$1,600,000 Larry Goldman 913-707-9030
N. Little Rock \$5,100,000 Larry Goldman 913-707-9030
West Memphis \$9,645,000 Larry Goldman 913-707-9030
Wynne \$5,172,000 Larry Goldman 913-707-9030

California

Whittier \$2,659,000 Doug Shea 562-773-4000

Colorado

Loveland \$5,700,000 Joan Lucas 720-855-6587

Connecticut

Danbury \$25/NRSF Linda Cinelli 908-722-5661

Florida

Chiefland \$1,500,000 Josh Koerner/Frost Weaver 904-591-0140
Melbourne **SOLD** Josh Koerner/Frost Weaver 904-591-0140
Naples \$2,650,000 Josh Koerner/Frost Weaver 904-591-0140
Ormond Beach \$1,200,000 Josh Koerner/Frost Weaver 904-591-0140
Vero Beach \$4,425,000 Josh Koerner/Frost Weaver 904-591-0140

Georgia

Alpharetta \$695,000 Jane H. Sauls, CCIM 770-328-2379
Lake Park \$2,200,000 Luke Sauls 770-841-4591
Mableton \$895,000 Jane H. Sauls, CCIM 770-328-2379
Tifton **SOLD** Jane H. Sauls, CCIM 770-328-2379

Illinois

Chillicothe \$1,200,000 Bruce Bahrmassel 312-518-3550
Rockford \$3,250,000 Bruce Bahrmassel 312-518-3550

Iowa

Boone \$275,000 Tom Flannigan 612-790-3747
Cedar Rapids \$650,000 Tom Flannigan 612-790-3747
Hiawatha \$950,000 Tom Flannigan 612-790-3747

Kansas

Eudora \$3,650,000 Larry Goldman 913-707-9030
Iola \$565,000 Larry Goldman 913-707-9030
Lawrence \$3,900,000 Larry Goldman 913-707-9030
Liberal \$1,900,000 Larry Goldman 913-707-9030
Ottawa \$575,000 Brian Goldman 913-707-3941

Kansas, cont.

S. Hutchinson \$565,000 Jared Jones 918-609-0541

Kentucky

Shepherdsville \$699,000 Mike Helline 502-296-4586

Massachusetts

Northampton \$595,000 Joseph Mendola 603-668-7000

Michigan

Addison \$975,000 Jim Soltis 810-494-2062
Eagle \$530,000 Jim Soltis 810-494-2062

Minnesota

Alexandria \$2,200,000 Tom Flannigan 612-790-3747
Coon Rapids \$650,000 Tom Flannigan 612-790-3747

Missouri

Branson West Call Broker Jared Jones/Larry Goldman 918-609-0541
Jefferson City \$299,000 Larry Goldman 913-707-9030
Moscow Mills \$4,150,000 Larry Goldman 913-707-9030

Nebraska

Lemoyne \$1,550,000 Joan Lucas 720-855-6587

New Jersey

Belvidere \$875,000 Linda Cinelli 908-722-5661
Sparta \$7,450,000 Linda Cinelli 908-722-5661
Ventnor City \$2,000,000 Linda Cinelli 908-722-5661

New York

East Hampton Call Broker Linda Cinelli 908-722-5661
Islip \$5,700,000 Linda Cinelli 908-722-5661

North Dakota

Watford City \$2,500,000 Tom Flannigan 612-790-3747

Ohio

N. Ridgeville \$1,500,000 Alec Pacella 216-455-0925

Oklahoma

Ardmore **SOLD** Jared Jones 918-609-0541
Tulsa **SOLD** Jared Jones 918-609-0541

Oregon

Central Point \$1,875,000 Scott King 541-890-6708
Lakeview \$798,000 Scott King 541-890-6708
Medford \$375,000 Scott King 541-890-6708

Pennsylvania

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

Texas

Anna Call Broker Richard Minker/Chad Snyder 817-980-7276
Channelview Call Broker Richard Minker/Chad Snyder 817-980-7276
DFW Portfolio Call Broker Richard Minker/Chad Snyder 817-980-7276
Lewisville Call Broker Richard Minker/Chad Snyder 817-980-7276

ARGUS SALES



Congratulations to **Josh Koerner and Frost Weaver of Weaver Realty Group** who sold Eau Gallie Boat & RV Storage in Melbourne, FL! Contact Josh and Frost at 904-591-0140 for details.



Congratulations to the team at **Commercial Realty Servics of West Georgia** who sold Tifton Mini Warehouse in Tifton, GA and Scotty's Storage in Duluth and Norcross, GA! Contact the team at 770-301-1886 for details.



Congratulations to **Richard Minker, CCIM & Chad Snyder** who represented the buyers of Scotty's Storage in the purchase of a 3-property portfolio in Louisiana. Contact Richard and Chad at 817-980-7276 for details.



Congratulations to **Bill Brownfield, CRE, CCIM and Faith Pate of Brownfield & Associates** who sold CubeSmart Self Storage in Bryan, TX. Contact Bill and Faith at 713-907-6497 for details.



Congratulations to **Bruce Bahrmassel** who sold Sycamore Self Storage in Sycamore, IL! Contact Bruce at 312-518-3550 for details.



Congratulations to **Jared Jones of Jones Investment Properties** who sold EZ Storage in Tulsa, OK and Lahoma Boat & Mini Storage in Ardmore, OK! Contact Jared at 918-948-3941 for details.



Congratulations to **Jeff Gorden, CCIM of Eagle Commercial Realty Services** who sold a self-storage development site in Mesa, AZ! Contact Jeff at 480-331-8880 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
Mike Patterson, CCIM
Stuart Wade
Josh Koerner & Frost Weaver

Omega Properties, Inc.
SVN Percival Partners
Commercial Realty Services of West Georgia
The Nicholson Companies
Weaver Realty Group, Inc.

251-432-1287
704-632-1030
770-301-1886
757-618-3597
904-591-0140

FL Panhandle
NC, SC
GA
MD, VA
North, Central & South FL

NORTH CENTRAL

Bruce Bahrmassel
Tom Flannigan
Alec Pacella, CCIM
Larry Goldman, CCIM
Mike Helline & Aaron Willis
Jim Soltis

KW Commercial
NAI Pleasant Valley
RE/MAX Commercial
Column Realty
Preview Properties.com

312-518-3550
612-790-3747
216-831-3310
913-707-9030
502-296-4586
810-494-2062

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

SOUTH CENTRAL

Bill Barnhill, CCIM
Bill Brownfield, CRE, CCIM & Faith Pate
David Etzold & Avi Kotkowsky
Larry Goldman, CCIM
Mike Helline & Aaron Willis
Jared Jones, CCIM
Richard D. Minker, CCIM & Chad Snyder

Omega Properties, Inc.
Brownfield & Associates, LLC
Etzold & CO LLC
RE/MAX Commercial
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
OK
North TX

WEST

David Etzold & Avi Kotkowsky
Jeff Gorden, CCIM
Larry Hayes
Scott King
Joan Lucas
Sandy McCleve
James Rueter
Doug Shea
Thomas Wolter

Etzold & CO LLC
Eagle Commercial Realty Services
Hayes & Associates
Merit Commercial Real Estate
Joan Lucas Real Estate Services, LLC
McCleve Real Estate, LLC
Pacific Brokers
Centennial Advisers
RE/MAX Commercial

915-845-6006
480-331-8880
406-544-1921
541-890-6708
720-855-6587
801-872-9610
805-815-8105
562-773-4000
206-200-3325

NM
AZ, NV
MT
OR
CO
UT
Northern CA
Southern CA
WA