



SELF STORAGE ADVISORS

# Market Monitor

America's Premier Self Storage Brokers

Issue II-2020

## 2020: Get Ready for a Wild Ride!

by Ben Vestal

Though the first two months of 2020 have seen the capital flow of both debt and equity increase, there is still a significant bifurcation in the self-storage investment market when it comes to valuations between stabilized assets and newly developed lease-up assets. Today, stabilized assets are commanding all-time high pricing while newly developed lease-up properties are experiencing some softening in pricing. This is reinforcing the fundamental fact that self-storage is still a cash flow business and 90% of value is created by the NOI and free cash flow. This is largely driven by the current debt markets and the investment community's strong desire for yield and assets with low capital expenditures, such as self-storage.

Over the last two months top executives from around the self-storage industry gathered in New York, Park City, San Diego and Florida to discuss industry trends, investor sentiment, and the overall market outlook for 2020. The consensus is that the industry is experiencing some operational headwinds due to new supply, rising real estate taxes and rising operating costs. However, despite the changes in market fundamentals, most remain cautiously optimistic about the industry's long-term outlook.

Meanwhile, the phone at Argus has been ringing off the hook with owners and developers wanting to find out what their property is worth. In some cases, their interest is only curiosity, but in many cases, they are interested in valuation for financing newly developed properties (still leasing up) or selling. As part of our advisory services to our clients, Argus is now offering a free 2019 sales comp report for each of your markets in an effort to keep our clients educated about recent transactions and industry trends. Argus has tracked and inventoried more than 1,000 self-storage sales comps for 2019 and we were involved in more than 100 transactions nationwide in 2019. This puts us in a unique position to advise our clients. If you would like to receive this free report, please contact your local Argus Advisor.

Below I have outlined four industry trends that will shape the self-storage investment market this year. I am hopeful

these considerations will assist you in positioning your investment for maximum return.

### Financing:

This topic has more to do with the value of your property than anything else! Today buyers and sellers are enjoying an historically low interest rate environment which is allowing buyers to continue to push valuations higher and helping sellers to achieve very aggressive pricing. Much to my surprise, cap rates have compressed to historically low levels over the last 60-90 days due to falling interest rates. It would be prudent for all self-storage owners to evaluate their current financing to ensure they are preserving their cash flow. Today, stabilized assets are achieving debt terms with interest rates between 3.5%-4.25%, with lower leverage deals (65% or less) enjoying meaningful interest only terms. However, depending on the ownership's investment horizon, locking in long-term, fixed-rate debt may or may not be a prudent move today. Maintaining flexibility with regards to prepayment penalties, trapped equity and having the ability to sell when the market presents an opportunity might be more valuable than the security and cash flow that long-term, fixed-rate debt might provide.

In light of the new development and large amount of properties in lease-up around the country, we have seen a meaningful amount of bridge debt providers come into the market. These bridge debt providers are offering developers and owners a tool to extend the interest-only periods on their loans by 2-5 years, allowing the slower lease-up assets additional time to achieve stabilization. As an owner, you'll need to really understand the underwriting and make sure your asset is being positioned appropriately by your management company before you take it out for bridge financing. The algorithm pricing models that are being used today to fill up properties do not take into account how bridge lenders look at in-place rents and occupancy. The algorithm pricing models are built for long-term holders of these assets and do not take into account how a bridge lender or buyer will underwrite the in-place rents and occupancies on an unstabilized asset.

*(continued)*

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### Watch Your Expenses:

The operation of a self-storage asset is critical to the success or failure of the property and there are clearly “have and have not” when it comes to effectively operating a self-storage property today. It is important to understand the magnitude of what each dollar of net operating income (NOI) means to the value of a property. Every dollar saved in operating expenses adds one dollar of NOI, resulting in \$12 to \$20 in value enhancement or preservation. For example, if you are able to reduce your trash expense by \$50 per month or \$600 per year, you will have increased the value of the property by \$7,500 to \$12,000. My former partner always said “self-storage is about picking up the change in between the seat cushions!” It is much easier to cut expenses than raise revenues. The industry’s rapid revenue growth over the last 3-7 years and the emergence of third-party platform-based management companies have masked the true value deterioration caused by inflating operating expenses over the last decade.

### Know Your Market/ New Supply:

No surprise, the secret is out! Self-storage is widely considered a viable development opportunity and is being considered on seemingly every vacant piece of ground today. Due to the success of the self-storage industry over the last 10 years, the industry experienced a meaningful development wave between 2014-2018. We are now seeing the market fundamental effects of the new deliveries across the county. Rental rates and occupancies are trending downward and concessions are expanding as new properties are opened and competing for every possible rental. The impact of new supply will be higher in 2020 and 2021, reflecting peak delivery in 2018 and the multi-year lease-up of 2017-2019 deliveries. Unequivocally, many developers will experience meaningful disappointment over the next few years as their developments will not achieve the occupancy and rental rates that they had projected within the allotted timeframes.

Over the last 26 years we have learned that only four major demographic categories are proven to create self-storage demand; population growth, job growth, income levels (higher is not always better) and percentage of renters. These demographic markers have been a major driver of new development in high-growth markets such as Denver, Dallas, Miami, New York and the Northwest just to name a few. New development will continue to have a meaningful impact on market fundamentals and

the operations and value of properties that have new competitors coming online during this cycle will continue to soften. However, it is worth noting that our data would indicate that we are past peak delivery (2018) and new development is slowing around the country. The new supply that has been developed during this cycle will be absorbed over the next few years. We believe that we have seen a glut of new product developed all at once and for the most part, in the same general markets around the country. The current new supply/overbuilding will work its way through the system relatively quickly (2-5 yrs.) and pricing power and increased values will return to owners in 3-5 years.

If you are operating a self-storage project, take the time to understand your market and know what new developments are likely to come online and compete with your property. You can do this by talking with your local planning department about what inquiries and submittals have been made, you should also ask what pieces of land currently have the appropriate zoning for a storage project. This will give you an idea of what to expect as self-storage developers and brokers are STILL canvassing the country for good development sites.

### Know Your Investment Horizon:

The value of your self-storage investment goes up and down as the market sentiment and debt markets change. In order to truly realize what the value of your investment is and what it has been, you must at some point sell the investment. You can’t spend net worth. Obviously, the investment horizon of each ownership group is different and will vary depending on their individual objectives. However, in order to maximize your value, you should always be evaluating the current market, the risks, the opportunities and how those dynamic factors impact the value of your property. This will allow you to make the best decision and position your investment appropriately.

With an election year upon us, prices have never been higher and the uncertainties of the world never less settled. If you are at or near one of those personal crossroads it is time to get serious about maximizing your investment’s value. Take the time to talk with your local Argus Advisor and receive the necessary information to make an informed investment decision. **MM**

*Ben Vestal, President of Argus Self Storage Advisors, can be reached at 800-557-8673 or [bvestal@argus-realestate.com](mailto:bvestal@argus-realestate.com)*

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# Property Showcase

## Foley, AL

**\$1,229,000**

- 152 Units
- 19,060 RSF
- 1.21+/- Acres
- Great location
- High traffic count
- Drive aisles recently repaved
- 97% occupancy
- Gated and fenced

**NEW!**



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

barnhill@selfstorage.com  
stuart@selfstorage.com

## South Florida

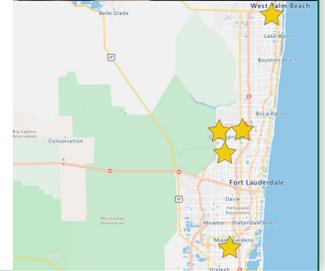
**Call Broker for Price**

- 5-Property Development Portfolio
- 6.2 Total Acres
- 357,745 RSF Proposed
- Five self-storage development sites located throughout South Florida
- Excellent traffic counts, visibility, and access
- All sites have unappealable site plan approval for self-storage

**NEW!**

**Josh Koerner &  
Frost Weaver**  
904-591-0140

jkoerner@weaver-realty.com



## Crawford, GA

**\$4,300,000**

- 2-Property Portfolio
- 517 Units
- 61,692 RSF
- Main and two satellite locations dominate this suburb of Athens, GA
- Climate and dry storage
- Concrete pad for additional 10,000 RSF
- Room for expansion

**NEW!**



**Mike Patterson, CCIM**  
770-301-1886

ebroker@msn.com

## Opa-Locka, FL

**\$3,000,000**

- Self-Storage Development Site
- 107,340 GSF
- 1.22 Acres
- Property has final and unappealable site plan approval for self-storage
- Undersupplied market
- Excellent demographics and high population density
- Strong traffic flow along NW 27th Ave.

**NEW!**

**Josh Koerner &  
Frost Weaver**  
904-591-0140

jkoerner@weaver-realty.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
- Great traffic exposure



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

rminker@dominuscommercial.com  
csnyder@dominuscommercial.com

## Duluth, MN

**Call Broker for Price**

- 460 Units
- 62,600 RSF
- 9 Acres
- Includes 1,800 SF of office space
- Consistently high occupancy
- Rapid lease up of recent expansion
- Budget truck rental income

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

tom@selfstorage.com  
alex@selfstorage.com





# Sells Self Storage Nationwide!

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

Daphne \$800,000 Bill Barnhill/Shannon Barnes 251-432-1287  
Foley \$1,229,000 Bill Barnhill/Stuart LaGroue 251-432-1287

## Arizona

Camp Verde \$1,450,000 Jeff Gorden 480-331-8880  
Cottonwood \$1,750,000 Jeff Gorden 480-331-8880  
Mohave Valley \$450,000 Jeff Gorden 480-331-8880

## Arkansas

Arkadelphia \$289,000 Larry Goldman 913-707-9030  
Hot Springs Vlg \$1,650,000 Larry Goldman 913-707-9030  
West Memphis **SOLD** 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

Denver \$7,800,000 Joan Lucas 720-855-6587  
Loveland \$3,900,000 Joan Lucas 720-855-6587

## Florida

Chieffland \$1,500,000 Josh Koerner/Frost Weaver 904-591-0140  
Naples \$2,650,000 Josh Koerner/Frost Weaver 904-591-0140  
Opa-Locka \$3,000,000 Josh Koerner/Frost Weaver 904-591-0140  
South Florida Call Broker 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  
Crawford \$4,300,000 Mike Patterson 770-301-1886  
Mableton \$895,000 Jane H. Sauls, CCIM 770-328-2379  
Valdosta \$2,925,000 Luke Sauls 770-841-4591

## Illinois

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

## Indiana

Portage \$250,000 Bruce Bahrmassel 312-518-3550

## Iowa

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  
Ottawa \$575,000 Brian Goldman 913-707-3941

## Massachusetts

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

## Michigan

Eagle \$450,000 Jim Soltis 810-494-2062

## Minnesota

Coon Rapids \$650,000 Tom Flannigan 612-790-3747  
Duluth Call Broker Tom Flannigan 612-790-3747

## Missouri

Branson West Call Broker Jared Jones/Larry Goldman 918-609-0541  
Jefferson City \$249,000 Larry Goldman 913-707-9030

## Nevada

Sparks Call Broker Jeff Gorden 702-643-1000  
Winnemucca \$1,580,000 Jeff Gorden 702-643-1000

## New Jersey

Sparta \$7,450,000 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

## 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  
Brady Call Broker Bill Brownfield/Faith Pate 713-907-6497  
Bridgeport Call Broker Richard Minker/Chad Snyder 817-980-7276  
Buda Call Broker Bill Brownfield/Faith Pate 713-907-6497  
Channelview Call Broker Richard Minker/Chad Snyder 817-980-7276  
Lewisville Call Broker Richard Minker/Chad Snyder 817-980-7276  
Mabank Call Broker Richard Minker/Chad Snyder 817-980-7276  
Magnolia Call Broker Bill Brownfield/Faith Pate 713-907-6497

## Wisconsin

Ripon \$375,000 Bruce Bahrmassel 312-518-3550

# ARGUS SALES



Congratulations to **Jared Jones of Jones Investment Properties** who sold a self-storage conversion site in Broken Arrow, OK! Contact Jared at 918-948-3941 for details.



Congratulations to **Larry Goldman, CCIM of RE/MAX Commercial** who sold The Storage Depot in West Memphis, AR! Contact Larry at 913-707-9030 for details.



## NOW AVAILABLE!

### FREE Self-Storage Sales Comp Report

Contact your Argus Broker Affiliate, listed below, to receive a free report of self-storage sales comps in your area to learn more about the market trends that will affect valuations in 2020.

#### 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  
Ryan Layton  
Joan Lucas  
Doug Shea  
Thomas Wolter

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

915-845-6006  
480-331-8880  
406-544-1921  
541-890-6708  
509-435-2424  
720-855-6587  
562-773-4000  
206-200-3325

NM  
AZ, NV  
MT  
OR  
Eastern WA, Northern ID  
CO  
Southern CA  
Western WA