



SELF STORAGE SALES NETWORK

# Market Monitor

“America’s Premier Self Storage Brokers”

Issue II-2010

## A 2010 Facility Check Up May be the Most Important in Years!

by Ben Vestal

*With the flow of both equity and debt having dramatically decreased in recent years and self storage continuing to perform respectfully, watching your pennies will truly make you dollars in today’s market!*

I was recently visiting with a 20-year veteran of the self storage brokerage business who had valued a self storage facility for a client. After reviewing the facility’s operating statements he advised his client to reduce two or three expense items and push through a 3%-5% rental rate increase. The owner took this advice and was able to achieve offers on the property that were 10% to 15% higher than they would have been without the changes. It occurred to me that at one time or another we have all looked at our to-do list and thought “I can do that next month.” However, in today’s economy, reviewing your operating expenses, rental rates and competitive market is not something you can afford to put off. Operating expenses need to be monitored on a regular basis to ensure that your property value is not undermined by subtle, yet devastating increases. Rental rates and existing customer rate increases also need to be reviewed monthly, along with regular evaluation of the competition in your market. I have outlined three major areas to focus on as you conduct your facility check up.

### Operating Expenses

It is important to understand that a reduction in operating expenses will lead to an increase in Net Operating Income (NOI), and ultimately an increase in value. To accurately illustrate this concept, it is important to understand the magnitude of what each dollar of NOI means to the value of the facility. Net Operating Income is calculated by subtracting operating expenses, before debt service, from the total annual revenue. A capitalization rate (cap rate) is then used to value the return a buyer will pay for a real estate investment. In other words, if a buyer is willing to pay a cap rate of 8% for a property then each dollar of NOI will be worth \$12.50 in value. Likewise, if the cap rate is 9%, each dollar of NOI would be valued at \$11.11. For example, let’s take a self storage facility with annual revenue of \$300,000, annual operating expenses of \$100,000 and an NOI of \$200,000. With cap rates in the 8% to 9% range this facility’s value would be between \$2,222,222 and \$2,500,000. By reducing the operating expense by 10%, or \$10,000 a year, the value of the property would increase between \$111,111 and \$125,000 by applying the same cap rates to the higher NOI amount. With the majority of the operating expenses being in the three categories of real estate taxes, advertising, and management, it is understandable how small yearly escalators can add up over time and deteriorate the value of the property.

	Current Performance	10% Expense Reduction
Revenue	\$300,000	\$300,000
Operating Expenses	\$100,000	\$90,000
Net Operating Income	\$200,000	\$210,000
Value at 8% Cap Rate	\$2,500,000	\$2,625,000
Value at 9% Cap Rate	\$2,222,222	\$2,333,333

Rethinking your operating expenses and implementing plans to competitively bid vendor contracts on a regular basis will allow you to keep your costs in line and help preserve your facility’s value. As the internet continues to grow with Twitter, YouTube, Craigslist and Facebook, as well as more focused websites such as [www.selfstorage.com](http://www.selfstorage.com), consider scaling back your Yellow Pages advertising and start using more cost effective online marketing tools. Additionally, you may want to put a real estate tax protest on your calendar for this summer. The lower you can keep your real estate taxes, the more realistic a buyer or potential lender will be when evaluating the potential increase when buying or lending on your facility. Let’s not forget it never hurts to bid out your property insurance, as periodic claims over the years may have led your insurance to be higher than it needs to be.

## Rental Rates

First, it is important to understand that as self storage supply grows, the majority of facilities have competition within a five mile radius. The result is that self storage is an extremely price sensitive commodity, particularly as everyone is looking to save money in today's tough economy. Constantly monitoring your competitors' rental rates will allow you to compete for each potential tenant in the market and react quickly to maintain and grow your occupancy.

Through the first three quarters of 2009, self storage REITs experienced declines between 2% and 3% in same store revenues, which was far better than other types of REITs. One of the most valuable assets that self storage owners have is the ability to increase or decrease rental rates on existing customers. This allows owners to react quickly to the market and maintain occupancy while maximizing their revenues. Unlike other types of real estate that may get annual rental increases, storage owners have the ability to increase rates more than once a year and they can determine the amount at any given time. Due to the relatively low dollar amount, it is not uncommon to see 5% to 10% rental increase yearly and some of the more aggressive operators are proving that it is possible to increase rates more than once a year. This leads me to believe that there is truly untapped value in most storage facilities where the rental rates are not aggressively managed.

## Competitive Review

Argus has developed a very simple form that will allow you to evaluate different aspects of each competitor in your market. We have found several items to be critical to the success of each project, but please add any additional criteria you feel is important. This form helps you to stay organized and have an objective approach when evaluating each one of your competitors. You can download and print blank forms at the Argus website at [www.argus-selfstorage.com/checkup.asp](http://www.argus-selfstorage.com/checkup.asp).

The first step is to define your market; generally a five mile radius from your location will include any competing facilities. Once you've determined your market plot all of your current competitors so you can get a visual of where your competition is located. Try using Google Maps as it has made plotting the competition much easier than the old phone book method. Next, visit your local planning and building department to learn about any new competition that may be coming online in the next 12 months and you may want to include in your analysis.

	8 <sup>th</sup> & Main	Ash & 4 <sup>th</sup>	First St.	New Property	Our Facility	Average
Location	8	4	9	9	9	
Visibility	7	8	7	7	6	
Access	4	10	8	7	9	
Signage	5	5	7	8	5	
Traffic	10	4	8	10	8	
Appearance	9	6	8	10	8	
Total Points	43	37	47	51	45	44.6
Occupancy	83%	63%	87%	N/A	91%	81%
Rates						
5x10	\$70	\$85	\$69	N/A	\$75	\$74.75
10x10	\$115	\$130	\$110	N/A	\$119	\$118.50
10x15	\$145	\$155	\$140	N/A	\$149	\$147.25
10x20	\$160	\$185	\$150	N/A	\$160	\$163.75

After you have conducted your facility check up, you will have the necessary information to react to the changing market. This check up should be performed annually to make sure you are staying on top of your competitive advantages and noting areas where your facility needs improvement. With the recession still lingering you will want to make sure you are taking the necessary actions to protect the value of your facility. By focusing on operating expenses, rental rates and the competitive advantages of your self storage property, you should be able to position your facility to retain and improve its value in 2010 and well into the future.

*Ben Vestal, President of the Argus Self Storage Sales Network, can be reached at 800-55-STORE or [bvestal@argus-realestate.com](mailto:bvestal@argus-realestate.com)*



# Property Showcase

## Pensacola, FL • \$3,900,000

- 474 Units
- 51,155 +/- RSF
- 1.5 +/- Acres
- Three-story climate controlled building
- Great visibility location
- Security monitoring and 24-hour access



**Bill Barnhill & Shannon Barnes**  
 251-432-1287  
 barnhill@selfstorage.com  
 shannon@selfstorage.com

## Glenpool, OK • \$3,450,000

- 58,895 RSF
- 409 Units
- 6.89 Acres
- Excellent curb appeal
- Recently expanded
- Located in a dynamic suburb of Tulsa, OK



**Larry Goldman, CCIM**  
 913-339-0641  
 lgoldman@selfstorage.com

## Upton, MA • \$495,000

- Portable storage business
- 15,648 RSF
- 114 Container Units
- Great return on equity!
- Good marketing presence
- Website offered with the business



**Joe Mendola**  
 603-668-7000  
 joe@nainorwoodgroup.com

## Tahlequah, OK • \$2,125,000

- 61,900 RSF
- 384 Units
- 4 Acres
- Stabilized occupancy with room for expansion
- Onsite manager's office and apartment
- Excellent highway exposure and access



**Larry Goldman, CCIM**  
 913-339-0641  
 lgoldman@selfstorage.com

## Barnegat, NJ • \$1,595,000

- Self storage development site
- 4 Acres
- Approved for 118,000 SF of self storage



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

## Clayton, WA • \$650,000

- 14,300 RSF
- 82 Units
- 4.33 +/- Acres
- Established facility priced below replacement cost
- Excellent upside potential for expansion



**Ryan Layton**  
 509-435-2424  
 ryan@areanw.com

## Staten Island, NY • \$6,350,000

- 38,400 RSF
- 352 Units
- 2.03 Acres
- Drive up and climate controlled units
- State of the art facility
- Adjacent industrial building allows for additional SF



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

## Sequim, WA • \$799,000

- 22,923 RSF
- 173 Units
- 2.01 Acres
- Located in growing area
- Excellent opportunity for owner/operator or investor
- Onsite manager's office and residence



**Richard Arnold, CCIM**  
 503-693-2861  
 rgarnold.argus@gmail.com



# Sells Self Storage Nationwide!

- Over \$129 million in self storage properties currently for sale, with prices ranging from \$175,000 to over \$6.1 million to meet the needs of every buyer
- Check out our current inventory of 70 properties listed in 29 states and contact the listing broker for more information or visit [www.selfstorage.com](http://www.selfstorage.com)!

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Pensacola \$3,900,000 Bill Barnhill/Shannon Barnes 251-432-1287

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David Laney 504-366-6800  
505-286-2060

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Upton \$495,000 Joe Mendola 603-668-7000

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Jim Soltis 312-518-3550  
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Nixa \$995,000 Larry Goldman 913-339-0641

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Join Argus at the industry's premier tradeshow event for FREE! Contact us to request a free exhibit hall pass to the Inside Self Storage World Expo in Las Vegas March 1-3, 2010 at the Paris Hotel and Casino! Want to attend the educational conferences and events? Use this pass for a \$50 discount on any full registration package! Don't delay - offer good until February 26, 2010!

**[CLICK HERE TO REQUEST](#)**

## READY TO SELL YOUR STORAGE PROPERTY? THE PREP BEHIND THE SALE



**You are invited to attend this informative session presented by Ben Vestal, President of the Argus Self Storage Sales Network, 8:00am Tuesday, March 2 at the ISS World Expo!**

Learn about the major factors that drive the value of your facility and understand the necessary steps that owners must take to prepare for a sale and also the steps that investors take to engage in the buying process. Understanding both sides of the transaction will help identify the major areas that buyers focus on and help you target the areas of your operation that may need some improvement. We will lay down the groundwork for a smooth and successful transaction and help you avoid the pitfalls that leave so many buyers and sellers wondering why a deal didn't work. Visit [www.insideselfstorageworldexpo.com](http://www.insideselfstorageworldexpo.com) for a full conference agenda.

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