ARGUS
SELF STORAGE SALES NETWORK

Market Monitor

"America's Premier Self Storage Brokers" **Issue VII-2012**

Cap Rates and NOI: Understanding the Real Value Equation

by Ben Vestal

In last month's Market Monitor, I described the major factors that owners should consider when evaluating whether or not they are a real seller (Personal Issues, Increased Competition, Capital Gains Tax, and Cap Rates/Ability to Finance). In this same light, I think it is important to review the formula or equation that one uses to arrive at Net Operating Income (NOI) because it is as variable and important as the Cap Rate when calculating value. Many of the smaller self storage operators have drastically different operating expense structures than the larger national operators and therefore there is a larger gap in what some buyers and sellers consider an appropriate net operating income when valuing a property.

First of all, both buyers and sellers should understand that there is no standard Cap Rate for self storage investments and Cap Rates will vary from one property to the next. These Cap Rates are affected by the location of the property, age and condition of the property, market demographics, competition, and overall market conditions, just to name a few. The formula/equation one uses to arrive at a net operating income is somewhat more standardized but is still affected by all the same factors. In general, the gross revenues less the property specific operating expenses equal the net operating income, which when divided by the Cap Rate will allow a buyer or seller to arrive at a value. Give your local Argus broker a call to make sure you are in the ballpark with what you believe is an appropriate Cap Rate.

Below I have outlined a template for arriving at an appropriate net operating income, but please remember this will vary somewhat from one property to the next because of property-specific expenses.

Revenue	
Gross rental income	250,000
Late fees income	10,000
Retail product sales (locks, boxes, insurance, etc.)	10,000
Other revenues	500
Effective Gross Revenue	$270,500
Expenses	
Marketing and advertising	10,000
Retail product costs	5,000
Bank and credit card charges	3,000
Insurance	3,000
Licenses and permits	500
Off-site management fees 6% of gross revenues	13,525
Office supplies and expenses	2,000
Postage and handling	1,000
Cost of on-site management and payroll costs	40,000
Repairs and maintenance	2,000
Taxes-real estate	20,000
Utilities, Telephone & Internet	10,000
Other expenses- (Security, Software, etc.)	6,400
Total Operating Expenses	$116,425
Capital reserves	2,000
Net Operating Income	$152,075

It is important to note that almost all properties will require some type of off site management fee, i.e. accounting, manager oversight, marketing plans, budgeting, overseeing capital improvements, revenue management, etc. It is the industry standard to allocate 6% of gross revenues to off site management and this is also required by most lenders today. You may also want to take a hard look at your advertising budget as you may be able to drop your Yellow Pages ad and reduce your advertising expense. On the other hand, if you have been operating at 90%+ occupancy and have cut your advertising to a bare minimum, you may need to add a little back in to the budget as a new buyer will at some point need to do some advertising to increase or even maintain the 90%+ occupancy you have enjoyed.

A potential seller should also take a close look at the real estate taxes because most buyers will want to understand what will happen to the real estate taxes upon the sale of a property and they will underwrite the investment with what they believe to be the appropriate real estate tax amount after closing. These are just some of the issues that will affect what a potential buyer or seller will consider when arriving at a net operating income and will ultimately determine the value that each party places on the property.

As you can see, there are many factors that affect self storage values and I can't do justice to all of them in this article. Taking a few basic steps will help you start to understand what a realistic cap rate is for your property. First, review some recent sales comps in your market and understand what some other properties similar to yours have traded for and how the buyers arrived at the net operating income and what cap rate they used when valuing the property (you can get this information from your local Argus broker). Second, determine if your property is an "institutional" grade property (i.e. major MSA, 45,000 net rentable square feet or more, built in the last 10 years, etc.) or if your property is a smaller operator type of property. This will determine what cap rate would be most appropriate to start with before making your property-specific adjustments. And third, review your operating expenses and make sure you have accounted for swings in occupancy in the future.

By adding or modifying the necessary operating expenses the appropriate net operating income for your property's valuation will be somewhat different from what your current profit and loss statement would indicate. This is the first step in understanding what the real value of your property is and whether you are a **real seller** in today's market. MM

Ben Vestal, President of the Argus Self Storage Sales Network, can be reached at 800-55-STORE or bvestal@argus-realestate.com.

Property Showcase

Malabar, FL • $475,000

- 9,208 RSF
- 60 Units
- 3.69 Acres
- Short sale opportunity!
- Site is underutilized with mix of inside and outside storage
- Expansion potential



Adam Rathbun, CCIM
321-752-1199
arathbun@southtrend.com

Christiansburg, VA • $510,000

- 11,780 RSF
- 82 Units
- 3.4 Acres
- Zoned B-3 General Business District
- Great location near mall and new residential and commercial development



Ben Harris, CCIM
540-250-4836
bharris@harriscommercialrealty.com

Branchville, NJ • $2,300,000

- 21,290 RSF
- 152 Units
- 24.4 Acres
- Underperforming property with great upside potential
- Located off US Hwy 206 in Sussex County
- Expansion potential



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

Greenville, WI • $1,515,000

- 45,000 RSF
- 201 Units
- 4.37 Acres
- Fantastic office and living space with kitchen, bathroom and laundry
- Consistently 100% full
- 7 unit sizes



Chris Hitler
262-236-0612
chris.hitler@ires-llc.com

Montague, NJ • $1,600,000

- 22,500 RSF
- 169 Units
- 5.39 Acres
- Recent expansion
- Climate controlled units
- Also includes 33 parking spaces totaling 9,800 SF



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

Milwaukee, WI • $450,000

- 11,000 RSF
- 76 Units
- 0.85 Acres
- Steel construction
- Gated and paved facility with security cameras
- Fantastic visibility location



Chris Hitler
262-236-0612
chris.hitler@ires-llc.com

Albuquerque, NM • $750,000

- 8,800 RSF
- 70 Units
- 0.436 Acres
- Central Albuquerque location
- Expansion room for 31 climate control and 10 outside units
- Lowest rates in the area



Noel Woodwell
915-491-9610
nwoodwell@hotmail.com

Spring Green, WI • $1,150,000

- 39,000 RSF
- 224 Units
- 2.97 Acres
- Facility is in excellent condition
- Very stable customer base
- Room for 2,300 SF building expansion



Chris Hitler
262-236-0612
chris.hitler@ires-llc.com

ARGUS Sells Self Storage Nationwide!

Check out our current inventory of 77 properties listed in 25 states and contact the listing brooker for more information or visit www.argus-selfstorage.com!

Alabama			
Eight Mile	$825,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Jasper	$1,250,000	Bill Barnhill/Shannon Barnes	251-432-1287
Mobile	$3,800,000	Bill Barnhill/Stuart LaGroue/ Shannon Barnes	251-432-1287 251-432-1287
Arizona			
Blk Cyn City	$1,500,000	Jeffery A. Gorden	480-331-8880
Lakeside	$2,600,000	Jeffery A. Gorden	480-331-8880
Strawberry	$169,000	Jeffery A. Gorden	480-331-8880
Arkansas			
Fort Smith	$1,100,000	Larry Goldman	913-339-0641
Gravette	$800,000	Larry Goldman	913-339-0641
Siloam Springs	$1,515,000	Larry Goldman	913-339-0641
California			
Chester	$299,900	Tom de Jong	408-282-3829
Fairfield	SOLD	Tom de Jong	408-282-3829
Orland	$2,099,000	Tom de Jong	408-282-3829
Vallejo	Make Offer	Tom de Jong	408-282-3829
Colorado			
Cortez	$1,150,000	Joan Lucas	720-855-6587
Florida			
Live Oak	$599,999	John W. Hill	386-362-3300
Macclenny	$1,725,000	W. Frost Weaver	904-265-2001
Malabar	$475,000	Adam Rathbun	321-752-1199
West Melbourne	$249,000	Adam Rathbun	321-752-1199
Wildwood	$849,000	Reggie Caruthers	352-748-1182
Wildwood	$799,000	Reggie Caruthers	352-748-1182
Georgia			
Canton	$300,000	Bill Barnhill/Allen Barnhill	770-487-9006
Canton	$650,000	Bill Barnhill/Allen Barnhill	770-487-9006
Illinois			
Crete	$400,000	Bruce Bahrmasel	312-518-3550
Freeport	$1,290,000	Bruce Bahrmasel	312-518-3550
Metamora	$1,499,000	Bruce Bahrmasel	312-518-3550
Maryland			
Baltimore	$2,300,000	Grady Riggs	301-468-0606
Michigan			
Albion	$370,000	Jim Soltis	810-494-2062
Mississippi			
Meridian	$2,795,000	Bill Barnhill/Stuart LaGroue	251-432-1287
Missouri			
Farmington	$2,950,000	Larry Goldman	913-339-0641
Mount Vernon	$1,170,000	Larry Goldman	913-339-0641
Ozark	$1,200,000	Larry Goldman	913-339-0641
Sedalia	$775,000	Larry Goldman	913-339-0641
St. Joseph	SOLD	Larry Goldman	913-339-0641
Montana			
Sidney	$950,000	Larry Hayes	406-544-1921
New Hampshire			
Claremont	$305,000	Joe Mendola	603-668-7000
Rindge	$900,000	Joe Mendola	603-668-7000
Sunapee	$900,000	Joe Mendola	603-668-7000
New Jersey			
Branchville	$2,300,000	Linda Cinelli	908-722-5661
New Jersey, cont.			
Montague	$1,600,000	Linda Cinelli	908-722-5661
Pemberton	$975,000	Linda Cinelli	908-722-5661
Pennsauken	$1,300,000	Linda Cinelli	908-722-5661
New Mexico			
Albuquerque	$750,000	Noel Woodwell	915-491-9610
Las Cruces	$625,000	Noel Woodwell	915-491-9610
Santa Fe	$3,250,000	Joan Lucas/ David Etzold & Noel Woodwell	720-855-6587 915-845-6006
New York			
Hicksville	$4,200,000	Linda Cinelli	908-722-5661
Islip	$3,400,000	Linda Cinelli	908-722-5661
Lynbrook	$2,550,000	Linda Cinelli	908-722-5661
Middletown	$450,000	Linda Cinelli	908-722-5661
Newark Valey	$349,000	Guy Blake	845-522-5900
Peekskill	$4,500,000	Linda Cinelli	908-722-5661
Port Jervis	$1,600,000	Linda Cinelli	908-722-5661
Yorktown Hgts	$2,750,000	Linda Cinelli	908-722-5661
North Carolina			
Fayetteville	$895,000	N.J. "Joey" Godbold	704-632-1027
Statesville	$695,000	N.J. "Joey" Godbold	704-632-1027
Ohio			
Cleveland	$2,300,000	Bob Brehmer, CCIM	216-455-0920
Oklahoma			
Oklahoma City	Make Offer	Jared Jones	918-665-1210
Commerce	$585,000	Larry Goldman/ Jared Jones	913-339-0641 918-665-1210
Hugo	$1,650,000	Jared Jones	918-665-1210
Tulsa	$1,180,000	Jared Jones	918-665-1210
Pennsylvania			
Bechtelsville	$1,350,000	Chuck Shields	610-828-0100
Glen Mills	Call Broker	Chuck Shields	610-828-0100
Matamoras	$1,100,000	Linda Cinelli	908-722-5661
Olyphant	$850,000	Chuck Shields	610-828-0100
South Carolina			
Camden	$895,000	N.J. "Joey" Godbold	704-632-1027
Chapin	$2,875,000	N.J. "Joey" Godbold	704-632-1027
Texas			
Canutillo	SOLD	David Etzold	915-845-6006
Canutillo	SOLD	David Etzold	915-845-6006
Flint	$599,000	Richard Minker/TylerTrahant	817-335-5600
Forest Hill	$2,450,000	Richard Minker/TylerTrahant	817-335-5600
Gonzales	$3,200,000	Bill Brownfield	713-366-3134
Horizon City	$350,000	Noel Woodwell	915-491-9610
Houston	$950,000	Bill Brownfield	713-366-3134
Missouri City	$2,500,000	Bill Brownfield	713-366-3134
Richmond	$1,850,000	Bill Brownfield	713-366-3134
Virginia			
Christiansburg	$510,000	Ben Harris	540-250-0612
Wisconsin			
Egg Harbor	$289,000	Chris Hitler	262-236-0612
Greenville	$1,515,000	Chris Hitler	262-236-0612
Milwaukee	$450,000	Chris Hitler	262-236-0612
Spring Green	$1,150,000	Chris Hitler	262-236-0612

Argus Sales

Congratulations to the following Argus Broker Affiliates on their recent sales!



Larry Goldman, CCIM of RE/MAX Best Associates sold Northwest RV & Mini Storage in St. Joseph, MO!



David Etzold of Etzold & CO sold All American Storage in Canutillo, TX!

Argus is proud to welcome our newest Broker Affiliates!



Ben Harris, CCIM, is the principal broker and President of Harris Commercial Realty. Ben has over 30 years of experience in commercial real-estate and 11 plus years of experience in the self-storage business as a facility owner and broker. Ben is located in Radford, VA and will represent Argus in Virginia and Maryland. He can be reached at 540-639-1617.



Jason Wilcox, CCIM of Gleason & Company Commercial Real Estate is an experienced multifamily and commercial property investor who chose the investment real estate sector to focus his skills on. A Seattle native and successful business owner, Jason's knowledge of the local market has allowed him to consistently identify investment opportunities and negotiate their acquisition. Jason will represent Argus in Washington State and he can be reached at 206-919-7643.

Contact an Argus Broker Affiliate

	Company	Phone	Territory
NORTHEAST			
Guy Blake, CCIM	Pyramid Brokerage Company	845-522-5900	Upstate NY, Western CT
Linda Cinelli, CCIM, CEA & Sean Bortel	LC Realty	908-722-5661	Northern NJ, NY (NYC, Long Island)
Joseph Mendola	NAI Norwood Group	603-668-7000	MA, ME, NH VT, Eastern CT
Chuck Shields	Beacon Commercial Real Estate	610-862-1645	Eastern PA, Southern NJ, DE
SOUTHEAST			
Bill Barnhill, CCIM	Omega Properties, Inc.	888-801-4534	FL Panhandle
N.J. "Joey" Godbold	Percival McGuire Commercial Real Estate	704-632-1027	NC, SC
Ben Harris, CCIM	Harris Commercial Realty, LLC	540-639-1617	MD, VA
Frost Weaver (FL Commercial Brokers Network)	Weaver Realty Group, Inc.	904-733-0039	North, Central & South FL
NORTH CENTRAL			
Bruce Bahrmasel	Landstar Realty Group	312-518-3550	Northern IL, Northern IN
Robert K. Brehmer, CCIM	NAI Daus	216-831-3310	OH
Larry Goldman, CCIM	RE/MAX Best Associates	913-339-0641	KS, MO, Southern IL
Mike Helline & Paul Grisanti, CCIM	Grisanti Group Commercial Real Estate	502-253-1811	KY, Southern IN
Peter Hitler & Chris Hitler, MBA	Investment Real Estate Specialists	262-236-0612	WI
Jim Soltis	Preview Properties.com	810-494-2062	MI
SOUTH CENTRAL			
Bill Barnhill, CCIM	Omega Properties, Inc.	888-801-4534	AL, MS
Bill Brownfield, CRE, CCIM	MKP Self Storage LLC	713-366-3134	South & Central TX
David Etzold & Noel Woodwell	Etzold & Co.	915-845-6006	West TX
Larry Goldman, CCIM	RE/MAX Best Associates	913-339-0641	AR
Mike Helline & Paul Grisanti, CCIM	Grisanti Group Commercial Real Estate	502-253-1811	TN
Jared Jones, CCIM	Bauer & Associates	918-665-1210	OK
Richard D. Minker, CCIM & Tyler Trahant	CASE Commercial Real Estate Partners	817-335-5600	North TX
WEST			
Jim Berry, CCIM	CRG Utah	801-560-5601	UT, NV
Steve Boldish, CCIM	Coldwell Banker Commercial NW	541-776-1031	OR
Tom de Jong	Colliers International	408-282-3829	Northern CA
David Etzold & Noel Woodwell	Etzold & Co.	915-845-6006	NM
Jeffery A. Gorden, CCIM	Eagle Commercial Realty Services	602-778-5134	AZ
Larry Hayes	Hayes & Associates	406-728-0088	ID, MT
Joan Lucas	Joan Lucas Real Estate Services, LLC	720-855-6587	CO
Jason Wilcox, CCIM	Gleason & Company Commercial Real Estate	206-919-7643	WA