ARGUS
SELF STORAGE SALES NETWORK

# Market Monitor

*America's Premier Self Storage Brokers* **Issue II-2013**

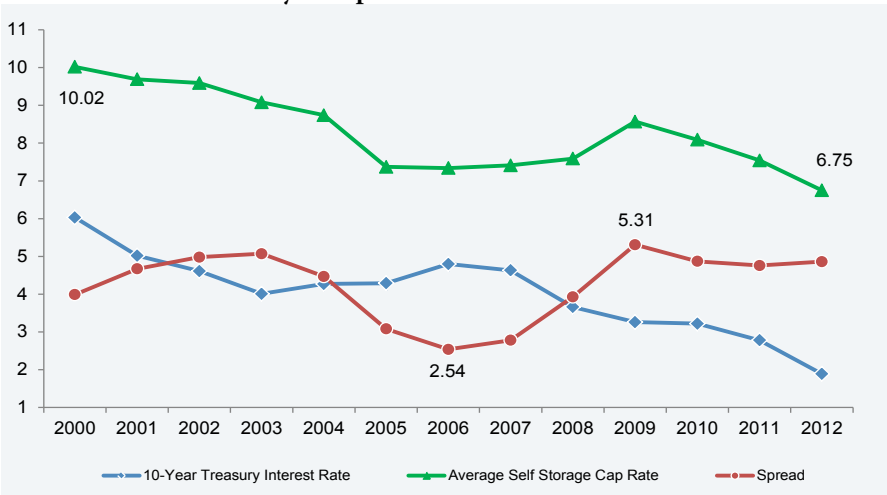
## Fact vs. Fiction: Today's Cap Rates

by Ben Vestal

Because we are in the business of helping our clients buy and sell self storage properties all around the country, it is often difficult to answer the fundamental question that seems to come up at the end of almost every conversation: What are cap rates today? Unfortunately, most people don't understand the impact this one simple number has on the overall value of a self-storage property and, more importantly, what goes into arriving at an appropriate cap rate for a property. I will go one step further and suggest that cap rates may not be the best tool in valuing self-storage properties because in today's yield hungry investment market, I find that investors are more concerned with the cash-on-cash returns that they will receive when buying an investment property than with the actual cap rate. Obviously, if you are an astute real estate investor you understand that a cap rate is one component to arriving at the cash-on-cash return. Today a more appropriate question a buyer or seller may consider asking is: What are the terms of the debt one can obtain on this property? The current aggressive debt market has caused cap rates for self-storage properties to compress to historically low levels. However, I have recently found myself asking the question, is the property making the investor money or is the debt making the investor money?

While the word "arbitrage" is usually thought of as a high finance concept, there may be some viable opportunities that are present in today's self-storage investment market, even with historically low cap rates. The term "arbitrage" means that an investor has the opportunity to take advantage of some pricing or other discrepancies in the marketplace. The chart below indicates why this may be possible in today's self-storage investment market. The green line indicates the average cap rates for self-storage properties over the last 10 years. A cap rate, in basic terms, is the unleveraged return an investor can expect without putting debt on the property. The blue line indicates the interest rate for the 10-Year Treasury over the last ten years. The 10-Year Treasury is the benchmark for most commercial real estate loans and financial institutions will use this rate plus an additional spread to arrive at an all-in interest rate that will be offered to the borrower. The red line, then, indicates the spread between the cap rate and 10-Year Treasury each year and will give you a feel for the "arbitrage" that buyers have been able to obtain over the last 10 years. As you can see, the spread shrank to around 254 basis points at the top of the real estate boom in 2006 and 2007. The spread expanded to 531 basis points at the height of the financial crisis in 2009 (who can forget that?). In 2012, the spread hovered around 486 basis points which enabled buyers to pay very aggressive prices while generating compelling cash-on-cash returns. It is worth noting that the average spread over the last 10 years is around 425 basis points, so today's spread of 480 basis points is in the top half over the last decade. Obviously the spread does not take into account the bank's risk-adjusted spread, as that is administered by the bank on a deal-specific basis, but it should give you an idea of why cap rates are at historically low levels. Most importantly, it indicates the opportunity in today's self-storage investment market due to the low cost of debt.

**Chart I: 10-Year Treasury & Cap Rates 2000-2012**




*Cap Rate information provided by Self Storage Data Services*

Buyers are currently able to reach cash-on-cash returns that are compelling by today's standards, all while paying very aggressive prices due to the arbitrage between cap rates and interest rates. Sellers are also enjoying near historically high prices for the simple reason that a buyer's ability to pay is being driven by the low cost of debt and aggressive underwriting by financial institutions. The reality of today's self-storage investment market is that the long time fantasy of self-storage being considered a core asset and, more importantly, being priced like a core asset is coming true. This will continue for the foreseeable future as the self-storage fundamentals (supply and demand) are strong. One note of caution; self-storage investors should be wary of new development in their markets as developers are beginning to enter the picture once again.

It is important to understand that the cap rates indicated in the chart are a broad look at the market and it does not mean that every self-storage property is a 6 or 7 cap deal. Today, more than ever, we need to be realistic and understand that there is a bifurcation in the market between institutional quality deals in major MSAs (which account for only about 10% of self storage properties in the entire country) and the rest of the market. The vast majority of the self-storage deals that we see in the market today are trading at 8-10% cap rates and will vary significantly based on the location, quality and features of the specific property. However, this chart does indicate why self-storage values are near historically high prices and why buyers are still very aggressively purchasing assets. The low cost of debt and strong self-storage fundamentals have created a perfect scenario for both buyers and sellers alike. 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

## Colorado Springs, CO • $7,012,000

- 550 Units
- 164 Boat/RV Spaces
- 157,806 RSF
- 18.61 Acres
- Major climate control facility with industrial warehouse space
- Easy access to Fort Carson
- Paved and fenced surface boat/RV parking
- Video surveillance




**Joan Lucas**
720-855-6587
jlucas@selfstorage.com

## Hackettstown, NJ • $4,500,000

- 475 Units
- 49,925 RSF
- 5.987 Acres
- Built in 2001 and expanded in 2006
- U-Haul truck rental income
- Security and surveillance systems
- Major road visibility
- Located adjacent to a Target store




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

## Chapel Hill, NC • $895,000

- 186 Units
- 23,825 RSF
- 4.73 Acres
- Foreclosure with plenty of upside potential!
- Climate controlled units and digital gate access
- Located in a growing and desirable area near Lake Jordan




**Joey Godbold**
704-632-1027
jgodbold@pmcre.com

## Modena, NY • $1,800,000

- 149 Units
- 12,000 RSF
- 67.6 Acres
- Land for expansion
- Manager apartment
- Family owned and operated
- Boat & RV parking




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

## Watford City, ND • $1,200,000

- 75 Units
- 14,000 RSF
- Just added additional 10,000 SF
- Leasing up quickly
- Huge demand
- Booming oil area




**Bruce Bahrmasel**
312-518-3550
bruce@selfstorage.com

## Bandon, OR • $749,000

- 141 Units
- 19.628 RSF
- 1.86 Acres
- Upside potential with rent increases
- Ideal home based business operation
- Expansion possibilities
- 2,094 SF house on site




**Steve Boldish, CCIM**
541-776-1031
steve@mcpre.com

# ARGUS Sells Self Storage Nationwide!

- Over $140 million in self storage properties currently for sale, with prices ranging from $300,000 to over $9 million to meet the needs of every buyer.
- Check out our current inventory of 62 properties listed in 23 states and contact the listing broker for more information.
- For property details, broker information and helpful industry articles, visit www.argus-selfstorage.com!

| | | | |
|---|---|---|---|
| **Alabama** | | | |
| Foley | $999,500 | Bill Barnhill/Shannon Barnes | 251-432-1287 |
| | | Stuart LaGroue | 251-432-1287 |
| Theodore | $300,000 | Bill Barnhill/Stuart LaGroue | 251-432-1287 |
| **Arizona** | | | |
| Lake Havasu City | $7,500,000 | Jeffery A. Gorden | 480-331-8880 |
| **Arkansas** | | | |
| Gravette | $800,000 | Larry Goldman | 913-339-0641 |
| Little Rock | $2,675,000 | Larry Goldman | 913-339-0641 |
| | | Richard Minker/TylerTrahant | 817-335-5600 |
| Little Rock | $525,000 | Larry Goldman | 913-339-0641 |
| Siloam Springs | $1,515,000 | Larry Goldman | 913-339-0641 |
| Springdale | $1,489,000 | Larry Goldman | 913-339-0641 |
| **California** | | | |
| El Dorado Hills | **SOLD!** | Tom de Jong | 408-282-3829 |
| Orland | Make Offer | Tom de Jong | 408-282-3829 |
| Vallejo | Make Offer | Tom de Jong | 408-282-3829 |
| **Colorado** | | | |
| Brighton & Peoria, AZ | $9,777,000 | Joan Lucas | 720-855-6587 |
| Colorado Springs | $7,012,000 | 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 |
| Pensacola | $615,000 | Bill Barnhill | 251-432-1287 |
| Wildwood | $849,000 | Reggie Caruthers | 352-748-1182 |
| Wildwood | $799,000 | Reggie Caruthers | 352-748-1182 |
| **Georgia** | | | |
| Carrollton | $350,000 | Mike Patterson | 770-241-9070 |
| Villa Rica | $980,000 | Mike Patterson | 770-241-9070 |
| **Illinois** | | | |
| Freeport | $1,175,000 | Bruce Bahrmasel | 312-518-3550 |
| Metamora | $1,499,000 | Bruce Bahrmasel | 312-518-3550 |
| Rochelle | $899,000 | Bruce Bahrmasel | 312-518-3550 |
| **Michigan** | | | |
| Lapeer | $690,000 | Jim Soltis | 810-494-2062 |
| **Missouri** | | | |
| Sedalia | $775,000 | Larry Goldman | 913-339-0641 |
| **Mississippi** | | | |
| Meridian | $1,596,000 | Bill Barnhill/Stuart LaGroue | 251-432-1287 |
| **New Hampshire** | | | |
| Claremont | $290,000 | Joe Mendola | 603-668-7000 |
| **New Jersey** | | | |
| Branchville | $1,950,000 | Linda Cinelli | 908-722-5661 |
| Hackettstown | $4,500,000 | Linda Cinelli | 908-722-5661 |
| **New Jersey, cont.** | | | |
| Haledon | $990,000 | Linda Cinelli | 908-722-5661 |
| 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** | | | |
| Alamogordo | $3,950,000 | Noel Woodwell | 915-491-9610 |
| Albuquerque | $750,000 | Noel Woodwell | 915-491-9610 |
| Mesilla Park | $550,000 | Noel Woodwell | 915-491-9610 |
| **New York** | | | |
| Hicksville | $4,200,000 | Linda Cinelli | 908-722-5661 |
| Lynbrook | $2,550,000 | Linda Cinelli | 908-722-5661 |
| Middletown | $450,000 | Linda Cinelli | 908-722-5661 |
| Modena | $1,800,000 | Linda Cinelli | 908-722-5661 |
| Peekskill | $3,500,000 | Linda Cinelli | 908-722-5661 |
| Port Jervis | $1,600,000 | Linda Cinelli | 908-722-5661 |
| Shirley | $5,700,000 | Linda Cinelli | 908-722-5661 |
| **North Carolina** | | | |
| Chapel Hill | $895,000 | Joey Godbold | 704-632-1027 |
| **North Dakota** | | | |
| Watford City | $1,200,000 | Bruce Bahrmasel | 312-518-3550 |
| **Ohio** | | | |
| Cleveland | $2,300,000 | Bob Brehmer/Alec Pacella | 216-455-0920 |
| Franklin | $775,000 | Bob Brehmer/Alec Pacella | 216-455-0920 |
| **Oklahoma** | | | |
| Commerce | $585,000 | Larry Goldman/ Jared Jones | 913-339-0641 918-665-1210 |
| Hugo | $1,650,000 | Jared Jones | 918-665-1210 |
| Stillwater | $750,000 | Jared Jones | 918-665-1210 |
| Tulsa | $950,000 | Jared Jones | 918-665-1210 |
| **Oregon** | | | |
| Bandon | $749,000 | Steve Boldish | 541-776-1031 |
| **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 |
| **Texas** | | | |
| Fulshear | $4,250,000 | Bill Brownfield | 713-366-3134 |
| Gonzales | $3,200,000 | Bill Brownfield | 713-366-3134 |
| Horizon City | $350,000 | Noel Woodwell | 915-491-9610 |
| Richmond | $1,850,000 | Bill Brownfield | 713-366-3134 |
| **Washington** | | | |
| Friday Harbor | $2,120,000 | Jason Wilcox | 206-919-7643 |
| Morton | $697,000 | Jason Wilcox | 206-919-7643 |

# Argus News

## Congratulations to the following Broker Affiliates on their recent Sales!

WINNER ISS INSIDE SELF-STORAGE 2012 BEST OF BUSINESS BEST REAL ESTATE BROKERAGE



Bill Brownfield, CRE, CCIM of MKP Self Storage, LLC sold AAA Self Storage in Fredricksburg, TX! Contact Bill at 713-366-3134 for more information!



Tom de Jong of Colliers International sold Hidden Acres Self Storage in El Dorado Hills, CA! Tom can be reached at 408-282-3829 for details.

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**SPECIAL OFFER!**

Contact your Argus Broker Affiliate to receive a free informational report of recent self storage sales in your area! This valuable information will help you better understand your market and your own property's value.

**Click Here to request a report, or contact your Argus Broker Affiliate listed below!**

### *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 |
| Mike Patterson, CCIM | Commercial Realty Services of West Georgia | 770-241-9070 | GA |
| 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 |
| 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** | | | |
| Steve Boldish, CCIM | Coldwell Banker Commercial NW | 541-776-1031 | OR |
| Alan Davidson, CCIM | Realty One | 949-424-1680 | Southern CA |
| 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 | 480-331-8880 | 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 |