



SELF STORAGE SALES NETWORK

Market Monitor

"America's Premier Self Storage Brokers"

Issue VIII-2009

Do You Want to Borrow Money from the U.S. Government Cheaper than Goldman Sachs?

by Ben Vestal

As we get ready to close the book on another year, self storage owners may want to consider some of the tax advantages that can be realized using cost segregation and the recent changes to the regulations allowing net operating losses to be carried for up to five years. Under the new regulations, if you have paid taxes over the last few years and are now in a situation of operating at a net loss you can apply this year's losses back five years. You may also want to consider using cost segregation to increase net operating loss and gain the tax advantage which in turn may free up some capital to take advantage of what every real estate investor sees as the second coming of the Resolution Trust Corporation (RTC) of the late 1980's and early 1990's. Traditional, straight line 39-year depreciation has generally been the norm for self storage owners. But over the last few years and with the recent changes to the regulations in regard to net operating losses, many owners are considering cost segregation and modifying their accounting to free up the necessary capital to take advantage of the current real estate investment climate.

The following criteria will help give you an idea if your property is a good candidate to benefit from a cost segregation analysis. Is your self storage facility worth more than \$1 million, excluding the land? Do you plan on holding on to the facility for the next few years? Have you purchased or built your facility in the last 15 years? Do you have taxable income? If you answer yes to these questions you may have the opportunity apply cost segregation to your facility.

What is cost segregation and how do I use it?

Cost segregation is an analysis of your facility that is performed by an engineer to determine if various facets of your buildings can be reclassified in to 5, 7 or 15 year depreciation schedules. The result of the reclassification will increase your depreciation amount in the initial years of your investment and decrease your tax bill. One important thing to remember is that only the improvements can be depreciated, not the land. Such components as asphalt

paving, sidewalks, curbing, fencing, security lighting and underground utilities have specifically been identified by the IRS as improvements with a 15 year depreciation schedule.

Other components of your facility such as security gates, certain types of flooring and alarm systems can also be reclassified into a 5 to 7 year depreciation period. This increase in depreciation is essentially deferring your taxes due and therefore has the same effect as borrowing money from the US government with no interest. Furthermore, if your accountant has been depreciating your facility using straight line 39-year depreciation you can file the IRS form 3115 "Change of Accounting" and catch up this year on all of the accelerated depreciation since you purchased or built your facility.

The IRS requires that an engineering-based study be conducted by a qualified professional in order to reclassify such components of your facility. These studies for self storage facilities typically cost between \$4,000 and \$7,000 and most reputable companies will provide you with a no cost estimate of your potential tax savings before conducting the study. A successful and reliable cost segregation study will require a detailed analysis of the direct and indirect construction costs, review of construction drawings (if available), inspection and observation of components, expertise in specific mechanical and electrical systems, detailed documentation and an extensive knowledge of the tax code as it pertains to cost segregation, just to name a few of the required elements. It is important that this study is done correctly and by a reputable firm in the event that the IRS has any questions.

On the following page, I have supplied an example of how cost segregation can be applied and the possible tax savings one might anticipate if their situation is similar in nature. Please remember that I am not a tax expert and I would advise self storage owners to discuss this with their accountant and legal council before applying cost segregation to their depreciation schedules.

(continued)

Chart I: Straight Line Method vs. Cost Segregation Calculation

Building Cost	\$2,374,391		
Date Acquired	January 2005		
Tax Year:	2009	2010	2013
Current Method			
Accumulated Depreciation Reported 39 year straight line method	\$301,951	\$362,831	\$545,469
Alternative Method			
Cost Segregation Study Accumulated Depreciation			
5 yr.	\$449,763	\$477,253	\$477,253
15 yr.	\$155,635	\$181,387	\$254,575
39 yr.	\$188,720	\$226,769	\$340,918
Total	\$794,118	\$885,409	\$1,072,746
Results for Tax Year	2009	2010	2013
Increased Accumulated Depreciation Expense	\$492,167	\$522,578	\$527,277
Tax Rate (Estimated)	36.0%	36.0%	36.0%
Estimated Accumulated Tax Savings Benefit	\$177,180	\$188,128	\$189,820

Source: Cost Segregation Services, Inc.

With the assumptions made in Chart I above, you will see that this owner will receive an estimated \$492,167 in additional accumulated depreciation expenses in year one. This accumulated depreciation expense will lead to an additional \$177,180 in deferred tax payments which this owner can use interest free until the property is sold and the depreciation is recaptured, just like a traditional straight line 39-year depreciation.

With the new and more stringent underwriting criteria that is being applied by all financial intuitions today, and assuming a 70% loan to value, this additional capital that was generated in year one would allow you to borrow an additional \$420,000 to take advantage of the buying opportunities that are available in today's market.

To describe the current landscape of the self storage real estate market as challenging is an understatement. Unless you have been in the real estate business for at least 25 years, these are uncharted waters and even the seasoned professionals who have been through a few cycles don't see these times any easier. The gap between the bid and the ask seems to be getting smaller, but we all certainly need to realize that we are now

playing by different rules and these new rules will most likely to be the blueprint for self storage investing for many years to come.

As I read through the headlines and see that banks and other financial institutions are reporting record earnings, I felt inclined to make my fellow self storage professionals aware of at least one way that self storage owners can benefit from the government doing its part to help maximize the benefit of real estate investing. These changes have made cost segregation studies more beneficial through increased tax deferral and the ability to carry net operating losses for up to five years. As many industry professionals over the last 12 months have indicated, self storage continues to outperform any other type of real estate asset class. With that being said, the banks and financial institutions are still reluctant to make loans to self storage owners because we fall under the general real estate loan umbrella which had some harsh critics. But hopefully this will give you some thoughts on alternative ways to borrow money from Uncle Sam at the same rate as Goldman Sachs and other financial intuitions have done through the government bailout. **MM**

Ben Vestal, Executive Vice President of the Argus Self Storage Sales Network, can be reached at 1-800-55-STORE or bvestal@argus-realestate.com



Property Showcase

Houma, LA • \$2,600,000

- 77,989 RSF
- 448 Units
- 4.6 Acres
- Climate control and non-climate units
- Located in stable economic market near new development
- Excellent Cap Rate on trailing 12 months

Jon Cerruti
 504-366-6800
jon@jackstumpf.com



Gallup, NM • \$2,040,977

- 40,000 Total SF
- 309 Units
- 3.5 Acres
- Priced at 9% Cap
- Very stable property with 89% occupancy
- Centrally located in the city of Gallup in northwestern New Mexico

David R. Laney
 505-286-2060
davidlaney@selfstorage.com



Mason, MI • \$2,200,000

- 51,763 RSF
- 322 Units
- 10.35 Acres
- Good highway exposure and visibility
- Located in the path of growth in Lansing, MI suburb
- Fenced, gated, blacktopped

Bruce Bahrmassel
 312-518-3550
bbbahr@aol.com
Jim Soltis
 810-494-2062
jsoltis@previewproperties.com



King George, VA • \$1,400,000

- 22,390 RSF
- 171 Units
- 2.19 Acres
- Located in the 9th fastest growing county in the US
- Great visibility and high traffic count
- Family owned for nearly a decade

Grady Riggs
 301-468-0606
gradyriggs@msn.com



Harrisonville, MO • \$900,000

- 29,404 RSF
- 171 Units
- 4.5 Acres
- High traffic location between Walmart and Applebees
- Fenced with computerized gate access
- Land for expansion
- Onsite manager's office

Larry Goldman
 913-339-0641
lgoldman@selfstorage.com



Wild Rose, WI • \$175,000

- 9,604 RSF
- 40 Units
- 1 Acre
- Excellent location with room for expansion
- Consistently full waiting list
- Low rents - opportunity to improve cash flow

Peter Hitler & Chris Hitler
 262-236-0612
phitler@execpc.com
chris.hitler@ires-llc.net





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- Check out our current inventory of 73 properties listed in 29 states and contact the listing broker for more information or visit www.selfstorage.com!

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Arizona

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Arkansas

Fort Smith	\$1,050,000	Barney Lehmbeck	405-627-5481
Garfield	\$750,000	Larry Goldman	913-339-0641
Gravette	\$800,000	Larry Goldman	913-339-0641

Colorado

Cortez	\$1,150,000	Joan Lucas	720-855-6587
Englewood	\$2,690,000	Joan Lucas	720-855-6587
Mead	\$925,000	Joan Lucas	720-855-6587
Rifle	\$810,000	Joan Lucas	720-855-6587
Superior	\$1,400,000	Joan Lucas	720-855-6587

Florida

Jacksonville	\$2,950,000	Frost Weaver	904-733-0039
Pensacola	\$3,900,000	Bill Barnhill/Shannon Barnhill	251-432-1287

Idaho

Sugar City	\$2,600,000	Larry Hayes	406-728-0088
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Illinois

Antioch	\$1,850,000	Bruce Bahrmassel	312-518-3550
Chicago	\$3,600,000	Bruce Bahrmassel	312-518-3550
Elgin	\$1,550,000	Bruce Bahrmassel	312-518-3550
Mt. Olive	\$599,000	Bruce Bahrmassel/ David S. Johnson	312-518-3550 314-862-3000
Rockford	\$825,000	Bruce Bahrmassel	312-518-3550
Sandwich	\$1,499,000	Bruce Bahrmassel	312-518-3550
Savanna	\$1,890,000	Bruce Bahrmassel	312-518-3550

Indiana

Roachdale	\$299,000	Bruce Bahrmassel	312-518-3550
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Iowa

Mason City	\$1,350,000	Bob Randklev	319-533-6927
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Kansas

Junction City	SOLD!	Larry Goldman	913-339-0641
Kansas City	\$2,300,000	Larry Goldman	913-339-0641

Kentucky

Crestwood	\$1,640,000	Mike Helline	502-253-1811
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Louisiana

Denham Springs	\$4,250,000	Jack Stumpf	504-366-6800
Metairie	\$1,695,000	Jack Stumpf	504-366-6800

Maine

Topsham	\$1,000,000	Joe Mendola	603-668-7000
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Maryland

Baltimore	\$2,300,000	Grady Riggs	301-468-0606
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Massachusetts

Swansea	\$3,000,000	Joe Mendola	603-668-7000
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Michigan

Mason	\$2,200,000	Bruce Bahrmassel/ Jim Soltis	312-518-3550 810-494-2062
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Mississippi

Flowood	\$3,400,000	Bill Barnhill/Stuart LaGroue	251-432-1287
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Missouri

Belton	\$1,990,000	Larry Goldman	913-339-0641
Branson West	\$895,000	Larry Goldman	913-339-0641
Farmington	\$3,295,000	Sheldon Johnson	314-862-3000
Harrisonville	\$900,000	Larry Goldman	913-339-0641
Joplin	\$900,000	Larry Goldman	913-339-0641
Nixa	\$1,820,000	Larry Goldman	913-339-0641
Ozark	\$1,600,000	Larry Goldman	913-339-0641
Sedalia	\$950,000	Larry Goldman	913-339-0641

Montana

Kalispell	\$1,200,000	Larry Hayes	406-728-0088
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New Hampshire

Hampton Falls	\$4,400,000	Joe Mendola	603-668-7000
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New Jersey

Egg Harbor Twp.	\$1,650,000	Linda Cinelli	908-722-5661
Stanhope	\$5,375,000	Linda Cinelli	908-722-5661

New Mexico

Artesia	\$579,700	David R. Laney	505-286-2060
Eunice	\$595,000	David R. Laney	505-286-2060
Eunice	\$650,000	David R. Laney	505-286-2060
Gallup	\$2,040,977	David R. Laney	505-286-2060
Las Cruces	\$1,399,722	David R. Laney	505-286-2060

New York

Ft. Edward	\$479,000	Guy Blake	845-522-5900
Kingston	SOLD!	Guy Blake	845-522-5900
Lowville	\$499,900	Guy Blake	845-522-5900
Middletown	\$450,000	Linda Cinelli	908-722-5661
Port Jervis	\$1,900,000	Linda Cinelli	908-722-5661

Pennsylvania

Bechtelsville	\$1,350,000	Chuck Shields	610-828-0100
Drexel Hill	\$1,600,000	Chuck Shields	610-828-0100
Matamoras	\$1,100,000	Linda Cinelli	908-722-5661

South Carolina

Hollywood	\$3,450,000	P. John DeStefano	843-406-7979
Moncks Corner	\$995,000	P. John DeStefano	843-406-7979
Summerville	\$3,900,000	P. John DeStefano	843-406-7979
Summerville	\$1,500,000	P. John DeStefano	843-406-7979
Summerville	\$1,600,000	P. John DeStefano	843-406-7979

Texas

Lubbock	\$1,390,000	Barry Comiskey	806-797-3231
Princeton	\$695,000	Richard Minker/Tyler Trahant	888-7-MINKER
Terrell	\$640,000	Richard Minker/Tyler Trahant	888-7-MINKER
Texarkana	\$860,000	Richard Minker/Tyler Trahant	888-7-MINKER

Virginia

King George	\$1,400,000	Grady Riggs	301-468-0606
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Washington

Concrete	\$2,750,000	Ryan Layton	509-435-2424
Kittitas	\$150,000	Ryan Layton	509-435-2424
Spokane	\$6,100,000	Ryan Layton	509-435-2424
2-Property Portfolio	\$1,300,000	Ryan Layton	509-435-2424

Wisconsin

Wild Rose	\$175,000	Peter Hitler/Chris Hitler	262-236-0612
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Argus is pleased to welcome our newest Broker Affiliates!



Bill Brownfield, CRE, CCIM, of MKP Self Storage LLC, is located in Houston, TX and will represent Argus in South and Central Texas. Since 1978, Bill has been responsible for more than 28 million square feet of properties representing 22 U.S. markets, including every major city in Texas. His transaction activities exceed 5 million square feet valued at almost \$1 billion. Bill can be reached at 713-355-9100 or brownfield@meansknaus.com.

Robert Fisher, CCIM, of RE/MAX Renaissance Realtors, is located in Chattanooga, TN and represents Argus in the state of Tennessee. Robert's commercial real estate experience includes the ownership and management of apartments, office properties and self-storage. Robert holds a BS degree in Industrial Engineering from the University of Tennessee and his previous career endeavors include manufacturing management, procurement and distribution and site selection and development. Robert can be reached at 423-756-5700 or robertfisher@remax.net.



N.J. "Joey" Godbold, of Percival McGuire Commercial Real Estate, is located in Charlotte, NC and will represent Argus in North Carolina. Joey specializes in light industrial and investment properties and serves the needs of self-storage owners across the state. Joey has over 30 years of experience in commercial real estate brokerage, management, appraisal and development. He has been involved in the development of a privately held chain of self-storage facilities in Alabama and Florida and also remains active in the ownership of his first facility. Joey can be reached at 704-632-1027 or jgodbold@pmcre.com.



Congratulations to Argus Broker Affiliate **Larry Goldman, CCIM** on the **SALE** of AA Self Storage in Junction City, KS! Larry can be reached at 913-339-0641 for more information.

Contact an Argus Broker Affiliate

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