



SELF STORAGE SALES NETWORK

# Is It Time to Take Some Chips off the Table?

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by Michael L. McCune

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In these difficult times, many self-storage owners are giving some thought to selling their property rather than waiting out the market. Real estate prices hit a high in early 2007 and have been on a gradual decline since. One of the most frequent questions we hear is what will happen to cap rates and to values in the future. A historical look would tell you that over the last couple of decades, cap rates were more likely to have been in the 9 to 10-ish range than the 6 to 8-ish range. Remember, that a rise in cap rates from 7 to 9 (or 2 points) will reduce the value of the property by 28.6%. Not a happy circumstance, especially when you realize that if the project had a loan of 75% the equity is all but wiped out. It is really impossible to accurately project cap rates or values too far into the future and I don't claim to know the future, but the historical patterns and current trend of real estate values may argue for a decline in the near and intermediate term. Thus it may depend on how long you want to wait whether you sell or hold, or alternatively how long until your loan comes due. Those decisions are for you to make, but in these times it may well be a more difficult decision not to sell than to sell. This is true because a sale is final and you know exactly what is in your future, whereas holding may provide future profits or losses, but you are still in the game. So, first you must make up your mind if "you are really a seller." I have outlined some important considerations to think about if selling is on your mind. This is a time to be realistic about your intentions because unless you are committed to the selling process it will be unlikely that you will achieve satisfactory results.

## **ARE YOU REALLY A SELLER?**

An old Englishman once said "parting is such sweet sorrow" and nothing could be truer when it comes time to sell your self-storage facility. The decision to sell a facility is not only the largest decision that you will likely make in the economic life of the project, but also one of the most important you may make personally. Many people believe that the decision is purely one of economics and that it is a rational process as described above. However, as any real estate broker can tell you, emotions play a very significant role in the decision to sell. For this reason the first and very most important decision is to determine if you *really* are a seller.

A seller is someone whose rational reason to sell is stronger than his emotional desire to hold the property. Some of these rational reasons may be that the owner wants to retire and enjoy life, anticipates estate tax problems, sees severe overbuilding on the horizon, has a desire to diversify their assets for greater security, or simply wants to capitalize on a good market. Often times brokers will hear a potential seller say "I will sell if I can get my price" and it will then be clear that the seller does not really want to sell. In this case, the owner either wants an excuse not to sell or is simply deferring what should be a rational decision to the erratic notions of the market. It is important for a potential seller to be certain that he is really a seller before he gets serious about engaging in the selling

process. As we shall see later, putting your property on the market without the serious intent to sell can actually hurt the property and your ultimate ability to sell it effectively.

## **WHAT IS IT WORTH IN THE MARKET?**

The first step in selling your property is to find out what your property is worth in the market before you decide to sell it. The important thing to remember about this process is that the market determines what the property will sell for, NOT the seller. The potential seller can determine whether or not he will sell for the market price, but he cannot change the market. This is particularly true in difficult markets like we are experiencing. Although there is always a remote possibility that a property could sell significantly above the market price, most real estate professionals would agree that they have never seen such a sale, particularly in a relatively small market like self-storage. Pricing the property incorrectly means one of two things; either you lose money because the price is too low or you lose money because the price is too high and it won't sell! In soft markets we often find what we brokers call "predatory buyers," those who spot sellers who have priced their properties well above reason and then make a lowball offer and leave it causally "on the table" for the seller to continue to ponder. They know that the property will not sell at the high price and if the seller finds that he is in a difficult situation (expiring loan, for example) and is forced to sell to the only offer on the table, he will regret not listing at a market price.

To find out what your property is worth, you may want to enlist the help of an appraiser or an experienced broker. In a formal appraisal each approach will indicate a value and each will reconcile to essentially the same value. In the real world of buying and selling self-storage, the value of a property is almost always determined by using the income approach. We find that the correlation is between income and value and that other variables count in value only to very marginal degrees. This method makes use of a formula that capitalizes the income from a property to determine its value. In this market, your actual trailing 12 month's income will determine 95% of the variables in the value.

## **EXPOSURE SELLS**

As a general rule, we believe that the more potential buyers that see information on a property, the more likely a seller is to find the highest offer. While we naturally know a lot of the buyers in the market place we are certainly not conceited enough to believe that we know every last one of them. In fact we are consistently surprised at the number of properties we sell to buyers that are new to us and to the industry. We believe that good marketing means presenting a listed property to as many potential buyers as possible, not just our industry "friends" looking for a good deal. A seller deserves to see all the potential offers not just the offers that a broker develops from his own list of prospects. However, some brokers feel this broader marketing is just an additional cost and also creates a "hassle" for them to respond to questions "uninvited" prospects. In short,

broader exposure helps to insure that your broker finds the *best* buyer rather than just *a* buyer.

## **LET YOUR MANAGER KNOW WHAT IS GOING ON**

Many owners feel that they must keep their manager in the dark about a proposed sale. While there maybe some limited instances that this may be an appropriate course of action, in most cases it is usually counter-productive. First, most managers will quickly figure out what is going on and will not react positively to being not fully informed. If the manager feels they are being treated unfairly by the owner, they may very well begin pursuing other opportunities or even leave abruptly. An offer of a bonus upon closing of the sale in the event that the manager is not retained by the new owner or severance is a fair and productive way to insure that the manager stays on through the selling process. It tends to put the manager on the same “team” as the owner. Managers know that sales of properties happen and will respect your decision to sell if they are treated fairly. Secondly, because of the manager’s intimate knowledge of the property they can often be very helpful in the selling process. In most circumstances, a positive manager can add credibility to the property’s performance. Most buyers of properties are in the market for good managers and actually want to hire the existing mangers rather than disrupt the operation. More often than not, a manager can be an owner’s greatest ally in selling a property. However, if you have any doubts that you think can’t be overcome with incentives or severance, perhaps not including the manager may be the best solution.

If you follow the practices of good selling guidelines you can expect to sell a property at a market price and in a reasonable time. Of course, the definition of reasonable time may vary based on the number of buyers in the market. It is important to consider your motives and be prepared for the realities of today’s market.

*Michael L. McCune is President of the Argus Self Storage Sales Network, a self storage real estate brokerage and development company based in Denver. Argus also operates [www.selfstorage.com](http://www.selfstorage.com), a marketing medium for owners in the self storage industry. For more information call 800-55-STORE or visit [www.selfstorage.com](http://www.selfstorage.com).*