Kara K. Zavitz joined Colliers International Valuation & Advisory Services in April 2013. Kara is a Valuation Specialist located in the Tampa office. She provides services throughout the state of Florida and to the southeastern United States for select asset types. These include self-storage and industrial oriented assets. Kara holds a Bachelor of Arts degree in Finance from the University of South Florida. She began her career at Raymond James Financial; however, shifted into the appraisal industry in 2004. Since beginning her appraisal career, Kara has developed specialty practices in the industrial market and leads this property type at the Colliers’ Central Florida offices. She has also joined the Colliers Self-Storage specialty team and has had a chance to be involved in numerous self-storage appraisals since joining the team, working closely with both Jeffrey Shouse (National Self-Storage Specialty Group Leader) and Jerry Gisclair, MAI (Southeast Regional Director).

Kara currently holds a General Certified License in Florida and Georgia. She is also an associate member of the Appraisal Institute and regularly attends Chapter meetings. In addition to her industrial and self-storage specialties, Kara has also appraised most major real estate properties including office, retail, religious facilities, multi-family, etc.

APPRAISER SPOTLIGHT

Kara Zavitz
Valuation Specialist
Tampa, FL

PORTABLE STORAGE UNITS:
REAL ESTATE OR PERSONAL PROPERTY?

Whether it is small portable units or large recycled shipping containers, many owners have maximized their site with portable storage units. Owners, buyers, sellers, lenders, and tax assessors often debate whether or not these units should be treated as real estate or as personal property. While each situation can be evaluated case by case, the method of categorizing the property is becoming more standard.

In terms of obtaining financing, most owners would like to see the units valued as real estate and included in the net rentable area (NRA). But for this to happen, the units typically must meet one of three requirements: 1) Does the county assessor value them as real estate? 2) Have the units been permanently affixed to the ground? 3) Does the overall size and positioning of the units on the site suggest they function as permanent structures? If the portable units do not meet any of these three requirements, then the units should not be included in the subject’s NRA, and it may be necessary to separate out value attributable to the furniture, fixtures, and equipment (FF&E) when considering the overall value of the subject.

Generally speaking, lenders will allow anywhere from 5% to 15% of “miscellaneous” or “other income” without requiring separate considerations for FF&E. If income from units is lower than the

Continued on page 7.
What are the most common methods utilized when an owner, potential buyer, broker, or appraiser analyzes a self-storage facility? Is there an industry standard for how to underwrite a self-storage facility? Whether you are buying, selling, refinancing or challenging your tax assessment, the methodology for determining your property’s value is the same. When dealing with valuation there are three standard approaches that are considered. Below is a brief description of each approach:

- **COST APPROACH** - The Cost Approach is based upon the principle that the value of the property is related to its physical characteristics and no one would pay more for a facility than it would cost to build a like facility in today’s market on a comparable site. The Cost Approach has limited applicability due to lack of market data to support an estimate of accrued depreciation, limited land sales and construction cost comparables, and market participants do not rely on this technique when valuing properties. Therefore, the only time appraisers utilize this approach to value is if we are required to! However, it is common for lenders to require a Replacement Cost Estimate, or “Insurable Value.”

- **SALES COMPARISON APPROACH** – This approach is based on the principle of substitution, which asserts that no one would pay more for a property than the value of similar properties in the market. In active markets with sufficient comparables, this approach is an accurate measure of value that can reflect market behavior. Alternatively, this approach may offer limited reliability because many properties have unique characteristics, including a significant amount of RV storage or miscellaneous income that are difficult to account for in the adjustment process. It is common for appraisers and market participants to use this approach to provide secondary support to the Income Approach, primarily due to the lack of recent sales with similar characteristics available.

- **INCOME CAPITALIZATION APPROACH** – This approach is based on the premise that investors purchase facilities based upon their income-producing ability. In the Income Approach, market rents for the subject property are estimated, an economic vacancy and applicable operating expenses are deducted, and the resulting net income is capitalized into a value estimate. The Income Approach is based on an analysis of information extracted from the market, and provides a comparison of the subject to properties of similar character and income-producing ability. This is the primary approach to value that appraisers’ place weight on when reconciling a value conclusion.

Colliers recently completed a survey with several market participants that asked the question, “When you analyze a property for your own internal purposes, what are the most important components you concentrate on?” The overwhelming response included these four categories:

1. Determining Market Rental Rates
2. Determining True Economic Occupancy
3. Understanding Operating Expenses
4. Determining a Reasonable Capitalization Rate

As previously discussed, all of these components are part of the Income Approach. The following sections, written by Colliers experts, will discuss these important four components in greater detail, explaining how we analyze them from an appraisal perspective.

### 1. DETERMINING MARKET RENTAL RATES

Determining market rent levels is a challenge for appraisers. There are several components involved, which include the asking rate (street rate), actual rate (current average), the range indicated by the rent comparables, and the occupancy at the subject. Since the unit mix varies at every facility, it is common to focus on typical unit sizes (5x10, 10x10, 10x15, etc.). In 2006 - 2007 it was common for market participants to utilize proforma rent levels based on asking rates. However, times have changed and individuals are more interested in what facilities are actually collecting.

The following table reflects an example of how we compare historical regional trends against the national average to gauge the strength of the larger market.

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**Jon Fletcher, MAI**
Managing Director
Denver, CO
After getting perspective on trends in the region, we focus on the subject and local comparables. The following table provides a sample of how we determine market rent levels, while analyzing all the factors involved.

**CONCLUDING MARKET RENT**

<table>
<thead>
<tr>
<th>Self-Storage Units</th>
<th>Occ. %</th>
<th>Asking Rent</th>
<th>Actual Rent</th>
<th>Rent Comparable</th>
<th>Concluded Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>/Unit</td>
<td>/SF</td>
<td>/Month</td>
<td>/Unit</td>
<td>/SF</td>
</tr>
<tr>
<td>5 x 5 Ext. 25 SF 50 1,250 SF 92%</td>
<td>$40</td>
<td>$1.60</td>
<td>$1,840</td>
<td>$60</td>
<td>$1.20</td>
</tr>
<tr>
<td>5 x 10 Ext. 50 SF 100 5,000 SF 95%</td>
<td>$90</td>
<td>$0.90</td>
<td>$8,100</td>
<td>$110</td>
<td>$0.73</td>
</tr>
<tr>
<td>10 x 10 Ext. 100 SF 100 10,000 SF 90%</td>
<td>$130</td>
<td>$0.65</td>
<td>$5,460</td>
<td>$120</td>
<td>$0.60</td>
</tr>
<tr>
<td>Total/Averages 400 41,250 SF 90%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

Ext. = Exterior

Rent levels are concluded by analyzing the asking and actual rent levels at the subject, the current occupancy, as well as the rent comparable range. If occupancy for a particular unit size is well above the concluded occupancy for the facility, then a bump is warranted. This analysis should allow for further refinement of where rent levels can be increased and which unit types may need extra marketing or concessions to boost income/occupancy. It should be noted that rent comparables typically offer asking rates; therefore, even though the subject could be one of the nicer facilities in the market, the concluded rates could be found near the middle or even the low end of the range. A typical trend is as the unit size increases, the price per SF decreases. This trend is followed in the table above.

**2. WHAT IS TRUE ECONOMIC OCCUPANCY**

Many storage facilities have no problem capturing and retaining tenants. When their occupancy statistics reports (rent rolls) are reviewed, they appear to be 85% to 95% occupied. Are these properties prime acquisition targets? They won’t have any problems achieving maximum leverage from a refinance, right? The level of occupancy of self-storage facilities can be measured in different ways. While some owners measure occupancy in terms of square footage, the most common measurement of physical occupancy is the number of storage units rented. Another key measurement metric is economic occupancy, which factors in discounts and concessions as well as credit loss. Essentially, physical unit occupancy is a “top line” concept, while economic occupancy is a “bottom line” concept.

Typically, economic occupancy is 2% to 5% lower due to discounts and concessions. The gap between economic and physical unit occupancy widened in 2009 and 2010 as the economy struggled and more concessions were offered to maintain physical occupancy, but decreased from 2010 to 2011 before widening again slightly in 2012. The table on the next page indicates the regional and national average occupancy rates between 2008 and 2012. Many operators and managers focus heavily on maintaining physical occupancy, which is vital. However, spending time and energy on improving economic occupancy “bottom line” is what is most important.

According to Carol Krendl, an experienced storage auditor and consultant based in central California with over 25 years of storage expertise, if your facility’s physical unit occupancy exceeds your dollars deposited (economic occupancy) by more than 10%, you have at least one of the following problems:

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**CONCLUDING MARKET RENT**

<table>
<thead>
<tr>
<th>Region/Year</th>
<th>5X5</th>
<th>5X10</th>
<th>10X10</th>
<th>10X15</th>
<th>10X20</th>
<th>10X25</th>
<th>10X30</th>
<th>20x20</th>
<th>Avg % ∆ from Previous Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>West - 2007</td>
<td>$42.71</td>
<td>$59.61</td>
<td>$94.01</td>
<td>$121.30</td>
<td>$149.75</td>
<td>$178.32</td>
<td>$199.82</td>
<td>$262.89</td>
<td>6.4%</td>
</tr>
<tr>
<td>West - 2008</td>
<td>$47.42</td>
<td>$66.99</td>
<td>$104.71</td>
<td>$135.54</td>
<td>$165.62</td>
<td>$179.19</td>
<td>$198.44</td>
<td>$212.73</td>
<td>0.2%</td>
</tr>
<tr>
<td>West - 2009</td>
<td>$46.25</td>
<td>$61.21</td>
<td>$88.62</td>
<td>$111.94</td>
<td>$131.96</td>
<td>$161.60</td>
<td>$183.44</td>
<td>$249.26</td>
<td>-2.8%</td>
</tr>
<tr>
<td>West - 2010</td>
<td>$41.85</td>
<td>$56.92</td>
<td>$85.89</td>
<td>$113.34</td>
<td>$136.88</td>
<td>$159.79</td>
<td>$190.72</td>
<td>$261.25</td>
<td>1.2%</td>
</tr>
<tr>
<td>West - 2011</td>
<td>$43.51</td>
<td>$57.23</td>
<td>$91.63</td>
<td>$116.67</td>
<td>$139.55</td>
<td>$166.66</td>
<td>$204.67</td>
<td>$245.30</td>
<td>1.8%</td>
</tr>
<tr>
<td>West - 2012</td>
<td>$46.15</td>
<td>$62.69</td>
<td>$99.08</td>
<td>$111.43</td>
<td>$149.34</td>
<td>$168.20</td>
<td>$204.86</td>
<td>$299.00</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

2012 National Avg. $42.44 $54.85 $83.88 $103.80 $129.06 $149.49 $180.84 $239.63 4.0%

Source: 2013 Self Storage Almanac

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• Too many concessions/discounts from market rent
• Excess delinquency
• High amount of prepaid rent
• Issues with employee embezzlement/pilferage
• Uncollected rents/fees

Let’s quickly focus on concessions/discounts. Doesn’t every facility have to offer concessions/discounts and/or move-in specials? Our appraisal practice group surveys thousands of facilities each year and there is a large variance in the concessions/discount programs employed in the marketplace. How do you determine whether to offer concessions, and what process does your facility manager or leasing staff follow to determine what concessions to offer (if any)? We can’t help you implement all the proper controls and collections processes, but here are three suggestions to maximize economic occupancy:

• Track occupancy and rates of turnover for all your unit types/sizes. Limit or eliminate concessions/discounts given on unit sizes with high rates of turnover.

• Implement an online payment system to make it easy/safe for your customers to pay using a debit card or one-time/recurring electronic funds transfers (these reduce charges paid to credit card companies).

• Learn, review, and read your monthly reports to see if your facility management software has any add-ons such as fraud alerts! Take advantage of the training/support offered by your software provider.

At the end of the day, economic occupancy/collections is the only thing that matters to a potential buyer, a lending institution for financing, or to your investors.

3. UNDERSTANDING OPERATING EXPENSES

Accurate valuation is enhanced by solid operating history. It is common to also rely upon expense comparable data when valuing properties through direct capitalization. Understanding how operating expenses vary from region to region is key, particularly for specialized lenders and investors looking to expand into other national markets. The table to the right is a sampling of over 200 expense comparables located throughout the country (evenly distributed). In addition, we have added information from the most recent Self-Storage Almanac (2012).

An accurate view of the actual expenses at a facility simplifies and enhances the valuation process. This process always includes a comparison and reconciliation of actual expenses to expense comparables. The table on the next page provides an explanation of the typical categories accepted in the industry, as well as typical ranges.

### REGIONAL AVERAGE OCCUPANCY RATES

<table>
<thead>
<tr>
<th>Year</th>
<th>WEST</th>
<th>PACIFIC</th>
<th>MOUNTAIN</th>
<th>NATIONAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Economic 77.4%</td>
<td>70.3%</td>
<td>74.7%</td>
<td>74.3%</td>
</tr>
<tr>
<td></td>
<td>Physical 79.9%</td>
<td>77.0%</td>
<td>75.9%</td>
<td>79.7%</td>
</tr>
<tr>
<td>2011</td>
<td>Economic 75.2%</td>
<td>79.6%</td>
<td>71.8%</td>
<td>75.7%</td>
</tr>
<tr>
<td></td>
<td>Physical 77.9%</td>
<td>80.7%</td>
<td>75.8%</td>
<td>79.7%</td>
</tr>
<tr>
<td>2010</td>
<td>Economic 69.0%</td>
<td>69.9%</td>
<td>68.1%</td>
<td>68.3%</td>
</tr>
<tr>
<td></td>
<td>Physical 75.7%</td>
<td>75.5%</td>
<td>75.7%</td>
<td>75.7%</td>
</tr>
<tr>
<td>2009</td>
<td>Economic 74.7%</td>
<td>76.2%</td>
<td>72.8%</td>
<td>73.7%</td>
</tr>
<tr>
<td></td>
<td>Physical 80.3%</td>
<td>81.2%</td>
<td>79.2%</td>
<td>79.5%</td>
</tr>
<tr>
<td>2008</td>
<td>Economic 83.1%</td>
<td>84.0%</td>
<td>79.9%</td>
<td>77.7%</td>
</tr>
</tbody>
</table>

Source: Self Storage Almanacs 2008-2013
(Only 2010-2011 Figures Include Facilities In Lease-up)
### TYPICAL EXPENSE CONCLUSIONS

<table>
<thead>
<tr>
<th>EXPENSE ITEM</th>
<th>TYPICAL RANGES</th>
<th>DESCRIPTION &amp; ANALYSIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Taxes</td>
<td>N/A</td>
<td>Every state has its own method for calculating property taxes. There are several states that reassess facilities based on sales price. Since the definition of “Market Value” assumes a sale, appraisers are forced to use an amount calculating the value of the property multiplied by the tax rate. Each local jurisdiction must be reviewed and understood. An incomplete understanding can often cause headaches for refines and construction loans.</td>
</tr>
<tr>
<td>Insurance</td>
<td>$0.10 - $0.20/SF</td>
<td>Special consideration should be given to flood, earthquake, hurricane, or other natural disaster areas. Typical range for this category is $0.10 to $0.20/SF. It is common for lower rates to be achieved through blanket policies. According to insurance providers, over the last couple of years insurance premiums have remained flat (same as expiring premiums). Significant changes are not anticipated for 2014.</td>
</tr>
<tr>
<td>Utilities</td>
<td>$0.15 - $0.40/SF</td>
<td>Both location and climate play a role in this category. Densely populated areas typically see higher energy costs. The number of climate controlled units at a facility should also be considered. Typical range for this category is $0.15 to $0.40/SF. Are solar panels the next trend in reducing electricity costs?</td>
</tr>
<tr>
<td>Building Repairs &amp; Maintenance</td>
<td>$0.15 - $0.30/SF</td>
<td>This category includes cleaning out the units, replacing doors, landscaping and any maintenance associated with the facility. Areas that require a snow removal expense and/or elevator servicing typically command higher expenses. Long term expenditures are also affected by climate; however, these expenses are typically covered in the reserves category. Typical range for this category is $0.15 to $0.30/SF. Age and physical characteristics play a part in budgeting for this category. It sure is nice to have competent on-site staff that can fix a thing or two.</td>
</tr>
<tr>
<td>Off-Site Management</td>
<td>5% - 6% of EGI</td>
<td>This is typically done on a percentage basis of the Effective Gross Income (EGI). Therefore, areas with higher rents result in higher management costs. However, when a property is stabilized and generating strong rental rates, it is common to see downward pressure on the overall percentage. Typical costs range from 5% to 6% of the EGI.</td>
</tr>
<tr>
<td>On-Site Management</td>
<td>$0.75 - $1.25/SF</td>
<td>This category is greatly impacted by location and average living expenses. Unless zoning restricts, it is common for resident managers to live on-site. Expenses are often higher for facilities not offering living accommodations for managers. Typical range for this category is $0.75 to $1.25/SF. Depending on the size of the facility, this category also includes a part time assistant. Great on-site staff = money well spent!</td>
</tr>
<tr>
<td>Advertising</td>
<td>$0.20 - $0.40/SF</td>
<td>The amount of competing facilities and the property’s access and exposure are primary considerations for this category. Typical expenses range from $0.20 to $0.40/SF. This category has consistently declined over the last couple of years as facilities have taken advantage of technology.</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>$0.25 - $0.75/SF</td>
<td>This is your “catch all” category. This expense includes accounting, legal fees, other professional fees, and general administrative costs. Typical expenses for this category range from $0.25 to as high as $0.75/SF. This category can often include expenses associated with U-Haul rentals and credit card fees.</td>
</tr>
<tr>
<td>Reserves</td>
<td>$0.10 - $0.20/SF</td>
<td>This category takes into consideration capital improvements over a typical holding period; it does not include items of on-going maintenance that are included in the Repairs and Maintenance category discussed above. Typical range for this category is $0.10 to $0.20/SF.</td>
</tr>
</tbody>
</table>

### 4. DETERMINING A REASONABLE CAPITALIZATION RATE

The self-storage asset class is in the midst of a four-year run of success, with little sign of slowing down. From 2009 to today, self-storage properties have sold for higher prices per square foot year after year. As for capitalization rates, the positive trend is also clearly evident. The following paragraphs will discuss the different ways appraisers select capitalization rates.

Appraisers are charged with deriving cap rates as part of the Income Capitalization Approach analysis. Cap rates can be determined using several sources and methods. The following four techniques are the most common:

- Recent Comparable Sales
- Investor Surveys
- Market Participant Interviews
- Band of Investment Technique

### COMPARABLE SALES

In analyzing existing sales, it is common to select more current sales outside the market than older sales within the market area. Capitalization rates for self-storage facilities have decreased 50 to 100 basis points over the last 12 months, for all classes of property. The range is typically between 6% and 8%. Buyers will look at current in-place income and expenses, as this is how lenders are underwriting properties. The following table provides general ranges based our classification system.
INVESTOR SURVEYS

The potential investor pool for a self-storage asset includes national, regional and local investors. While all of these groups place emphasis on local cap rates, regional, and national investors would also strongly consider national cap rate trends from investor surveys due to the potential to invest in other regions that are offering competitive rates of return. The graph to the right provides a historical illustration of capitalization rate statistics as surveyed by PriceWaterhouse Coopers (PwC) that Colliers considered to be relevant.

According to the 2nd Quarter 2013 PwC Real Estate Investor Survey, national capitalization rates for the self-storage have declined each quarter since 2009. The national average capitalization rate as of the 2nd Quarter 2013 report was 6.55%, which is down 20 basis points from the 4th quarter 2012 and down 45 basis points from the previous year. The decrease in the recent quarter is being driven by strong competition among buyers and the expectation for value appreciation. Properties that are generally located in primary markets, or in non-distressed markets, are typically selling for capitalization rates lower than the national average stated above.

MARKET PARTICIPANTS

Within this industry there are a handful of brokers that “truly” specialize and have significant experience and understanding within this property type. They are spread throughout the country and provide a great perspective of what is taking place or incurring in the storage market. When determining cap rates, it is necessary to find out what is available on the market. Brokers will usually share with appraisers if they have received any offers (not necessarily how much), if the seller is firm, how long the property has been on the market, and strengths and weaknesses of the property. Brokers can provide additional insight into a buyers motivations and cap rate expectations due to the feedback they have throughout the market. A broker who truly understands the nuances of the self-storage asset class is invaluable to buyers, sellers, and appraisers alike.

BAND OF INVESTMENT TECHNIQUE

Because most properties are purchased with debt and equity capital, the overall capitalization rate must satisfy the market return requirements of both investment positions. Lenders must anticipate receiving a competitive interest rate commensurate with the perceived risk of the investment or they will not make funds available. Lenders also require that the principal amount of the loan be repaid through period amortization payments. Similarly, equity investors must anticipate receiving a competitive equity cash return commensurate with the perceived risk or they will invest their funds elsewhere. The following tables provide an example of the how this technique is calculated.

Another trend with financing that I am seeing is a lot of capital chasing very few deals. As such, investors are willing to take less return on equity. This puts downward pressure on cap rates and raises values. Investors with the opportunity to sell or purchase a portfolio are seeing cap rates 50 to 100 basis points lower than the rates stated in the chart above. These premiums are often being paid for properties on a ‘Pro Forma’ basis, for newer facilities that have yet to stabilize. The opportunity to take down a critical mass of space or facilities is highly desirable for a potential buyer. With these trends in financing, there may not be a better time than now to sell or refinance.

In summary, deriving cap rates is more art than science. Appraisers strive to research all facets of the commercial real estate industry. We interview buyers, sellers, brokers, and lenders as well as study trends in financing to pick the right cap rate for the property being analyzed. When asked the question, “What are current capitalization rates for self-storage facilities?” I would respond, “It depends.”
lender’s threshold for “other income,” then valuing the FF&E separately may not be necessary. If portable box income exceeds the lender’s threshold, then underwriters should obtain an estimate of overall value attributable to FF&E.

This leads to the question of how lenders and appraisers should value the FF&E. The two easiest methods are to separate out the income and expenses attributable to the portable units and apply an appropriate capitalization rate (typically 250 to 500 basis points higher than a real estate capitalization rate), or to estimate cost new and factor in the appropriate amounts of soft costs, depreciation, and entrepreneurial incentive associated with the portable units.

The greatest pitfall is to attribute all of the portable rental income to the portable units. In reality, because the portable units occupy ground on the self-storage facility, some of that rent is attributable to real estate. Outdoor RV storage spaces of similar length make great comparables for estimating this ground rent. However, they should be reduced by 10% to 30% based on the reasoning that pods do not require the spacing that RV’s require.

Another pitfall is to include income from business services related to picking up and delivering pods to and from customers. This income should be excluded as it is a business enterprise value in nature and not attributable real estate or FF&E.

Once an appropriate allocation has been made to FF&E, all parties will be able to appropriately weigh the risks and benefits of these units. If you would like a consultation on how to maximize value with portable units or how to value existing units, please contact Jeff Shouse or Royce Rowles in the CIVAS self-storage specialty practice group.

SELF-STORAGE REAL ESTATE INVESTMENT TRUSTS (REITS)

Real Estate Investment Trusts (REIT) are major players in the self-storage industry. The primary REITs are Public Storage, Extra Space Storage, Sovran Self Storage, and CubeSmart (SM), formerly known as U-Store-It. The U-Store-It Trust began rebranding the company in 2011 and completed the rebranding for all locations by mid-2012. Additionally, the ticker symbol on the New York Stock Exchange changed from YSI to CUBE late last year.

The market has consistently improved over the past year. Extra Space experienced the largest increase in stock value with a 34% increase in value which is indicative of the REIT’s strong P/E ratio. CubeSmart (SM) followed suit with the second largest increase of approximately 18%. Public Storage saw the smallest increase in stock value at approximately 2%. Stock prices for each company hit their floor in January 2009 and have since recovered above their peak prices of January 2007.

Public Storage is the largest REIT by a wide margin with a market cap of 24.83 billion, which is over six times larger than the second largest REIT, Extra Space Storage. Overall, the majority of the REITs are reporting strong price-earning ratios, indicating investors are anticipating higher earnings growth in the future. Public Storage is reporting the strongest P/E ratio of 41, with Extra Space following with a 39.7 P/E ratio. The following table shows market data regarding the overall performance of each company.

A detailed analysis by our self-storage experts will reveal trends specific to your property and your location. On a local level, value is tied to performance. Rent, expense, and occupancy levels are the key, and understanding supply and demand in your market is critical for understanding your value. Our Self-Storage Group is on-call to provide expertise on local, regional, and national levels.
DID YOU KNOW?

- Today’s Self-storage owners and operators oversee almost 25 million self-storage units spread out over nearly three billion rentable square feet of storage space.
- Texas alone has 6,549 self-storage facilities, making it the state with the most facilities in the country.
- There is 7.55 rentable square feet of self-storage for every man, woman and child living in the U.S.
- In 2012, the average self-storage property measured 58,870 square feet.
- Public Storage is the sector’s largest operator, owning and operating 4.42% of the storage facilities in the U.S.
- The unit size with the highest frequency nationwide is 10x10.
- Commercial renters currently comprise 17.5% of self-storage customers in the U.S.

THINKING ABOUT DEVELOPING

When thinking about constructing a new facility or adding an additional phase, there are several things that need to be taken into consideration regarding your local market. These include population, residential growth, surrounding facilities, and market occupancy, just to name a few. The Business Journal publishes the OnNumbers Economic Index (ONEI), which serves as a yardstick of economic performance. ONEI is a monthly rating of the economic vitality of 102 major metropolitan areas, generated by an 18-part formula that includes private-sector jobs, unemployment rates, worker earnings, home values, and retail strength. Below are a few noteworthy points pulled out of the latest rankings followed by the new November rankings:

- Texas still holds most top-10 spots with 3 MSAs (Austin, Dallas and Houston)
- Denver, a perennial top-10 MSA, moved up to the #8 spot from #10 in October 2013
- Western ICEE markets dominate the top-10 with 8 of the 10 spots (Honolulu & Minneapolis are the two exceptions)
What really makes a Class A investment? This is a common problem faced when analyzing self-storage facilities. The answer is often more involved than just the quality of building materials. For example, a high quality building in a saturated tertiary market may have the right building materials, but lacks sound market fundamentals to truly be classified as a top tier investment. Likewise, a well maintained, lesser quality building in a strong market with excellent exposure may not physically be as impressive, but a strong financial performer for years to come and deserve an A rating.

Thus, we developed the following grid to help clarify investment ratings. Generally, a property that has 3 or 4 characteristics in a category should be classified and priced accordingly. Using this rating system creates a simple, comprehensive view of a property and how it should perform on the market or with its local competition; giving investors an edge in their decision making process.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>*****</td>
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<tr>
<td></td>
<td>Excellent</td>
<td>Good</td>
<td>Average</td>
<td>Fair</td>
</tr>
<tr>
<td>Location</td>
<td>Major MSA</td>
<td>Secondary Market</td>
<td>Tertiary Market</td>
<td>Rural Location</td>
</tr>
<tr>
<td>Access &amp; Exposure</td>
<td>Freeway Exposure with Good Access or Major Thoroughfare with Good Access and Exposure</td>
<td>Major Thoroughfare with Above Average Access and Exposure</td>
<td>Secondary Thoroughfare with Average Access and Limited Exposure</td>
<td>Thoroughfare with Limited Traffic Flow and/or Poor Access</td>
</tr>
<tr>
<td>Quality</td>
<td>Brick, Block, or Tilt-Up, with Paved Asphalt or Concrete (Office Style/Multi-level)</td>
<td>Brick, Block, Tilt-Up, Steel or Wood Frame with Metal Siding and Paved Asphalt</td>
<td>Steel or Wood Frame with Metal Siding and Paved Asphalt (Can include portable units or swing out doors)</td>
<td>Steel or Wood Frame with Metal Siding and Gravel (Can include portable units or swing out doors)</td>
</tr>
<tr>
<td>Physical Condition</td>
<td>Newer Construction, Well Maintained, No Deferred Maintenance, Clean and Appealing</td>
<td>Aging Improvements, Well Maintained, Recurring Maintenance, Clean</td>
<td>Older Construction, Fair Maintenance, Potential for Costly Repairs, Appeal Reflects Age</td>
<td>Old or Outdated Construction, Minimal Maintenance, High Risk Repair, Neglected or Poor Appeal</td>
</tr>
<tr>
<td>Occupancy/Saturation</td>
<td>Proven Over 90% Occupancy, Strong Fundamentals, High Barriers to Entry</td>
<td>Inconsistent Occupancy / Average Fundamentals / Vulnerable to New Development</td>
<td>Inconsistent Occupancy, Weak Fundamentals, New Development Risk</td>
<td>Operations Below 70% Occupancy, Poor Fundamentals, Saturated Market - Below 75%</td>
</tr>
</tbody>
</table>
Recently Appraised Properties

Bonita Springs, Florida
Sacramento, California
Los Angeles, California
Lafayette, Colorado
Kapolei, Hawaii
Houston, Texas
Seattle, Washington

Stan Mastalerz
Senior Valuation Specialist
Portland, Oregon
Bill Wheatley
Senior Valuation Specialist

Los Angeles, California
John Park
Valuation Services Director

San Diego, California
Rob Detling, MAI
Managing Director

Phoenix, Arizona
TJ Gray
Senior Valuation Specialist

Salt Lake City, Utah
John Blaser, MAI
Senior Valuation Specialist

Denver, Colorado
Jonathan Fletcher, MAI
Managing Director

Dallas, Texas
Daniel Maher
Valuation Services Director

Houston, Texas
Michael Miggins, MAI
Managing Director

St. Louis, Missouri
John Griffin
Senior Valuation Specialist

Columbus, OH
Matt Bilger, MICP
Senior Valuation Specialist

Atlanta, Georgia
Jerry Gisclair, MAI, MRICS
Regional Managing Director

Tampa, Florida
Kara Zavitz
Valuation Specialist

Charlotte, North Carolina
Murray Williams, MAI
Managing Director

Washington, DC
Royce Rowles, MAI
Managing Director

New York, New York
Tom Sapontzis, MAI
Valuation Services Director

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