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# ROLL DOOR REVIEW

The only newsletter written for owners and operators in the self storage industry in Arkansas.

PO Box 250768 | Little Rock, AR 72225 | 501-607-4775 | [www.arssa.org](http://www.arssa.org)

## What Privacy Exists in Self-Storage Units?

By Scott I. Zucker, Esq.



Much has been discussed recently about the growth of technology to manage the shift towards “unmanned” facilities or “contactless” self-storage. Certainly, operators are heavily invested in offering their customers a safe and secure experience while using their facility, whether any site employees are present or not. To offset the absence of “live” managers at the site, operators are adding enhanced security systems for access, additional lighting, and more cameras.

Recently, specialized vendors in the industry, such as Storage Defender, are also adding individualized motion detectors in facility units to increase tenant connectivity with their spaces. These “Smart Units” are meant to reduce potential thefts and increase tenant “Peace of Mind”.

Essentially, these days while a tenant is located at a self-storage facility, it is possible for the tenant to be tracked by a drone, watched by a camera and monitored by movement while in their rented unit.

None of this should be surprising to anyone, based on the expectation and acceptance of surveillance in our everyday lives, whether it be while we’re driving, while we’re shopping, ringing a doorbell and, for some, even while we are inside our own homes. Those choices we make to protect ourselves, our loved ones and our own properties are significant decisions that we make every day. In fact, the absence of these services may now be challenged as a “failure of oversight or concern”. If a crime or incident occurs it is more likely that the affected business will be asked “why didn’t you have a camera?” as compared to “did you have a camera?”

Then the question needs to be, is there any privacy left?

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### MEMBERSHIP NEWS

Our mailing address has changed!

**ARSSA**  
**PO Box 250768**  
**Little Rock, AR 72225**



**Membership renewals start December 1st!**

**Please send over any changes in ownership or contact information.**

**Thank you for your continued support!**

### SAVE THE DATE

**2024 State Convention**  
**August 6th and 7th**  
**Oaklawn Racing Casino Resort**

## ARSSA Working for You

### Property Tax Legislation

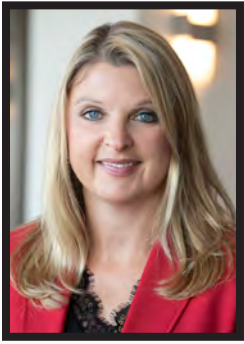
This spring, the ARSSA partnered with Gilmore | Davis Strategy Group and passed legislation surrounding the property taxes on self storage facilities. View HB 1475/Act 332 using the QR code above or by going to [ARSSA.org](http://ARSSA.org) and clicking the Member Downloads icon. Read more on page 7.



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# LETTER FROM THE PRESIDENT



**Jody Harris**  
ARSSA President 2023-2024  
Eastside Storage, Fayetteville

Dear ARSSA Members,

“We in America do not have government by the majority. We have government by the majority who participate.”  
— Thomas Jefferson

Thank you to all our members who reached out to their state legislators when we were working to help get HB1475 (now ACT332) passed during the legislative session. As the cost of doing business rises,

this legislation creates a fair assessment of property valuations from county to county in Arkansas. Getting the legislation passed is a notable win for the self storage industry in our state.

We want to thank everyone again for calling, texting, and emailing representatives and senators. It takes participation from our members to accomplish these successes. If Representative Howard Beaty, Representative Jimmy Gazaway, Representative RJ Hawk, Representative Jeremiah Moore, Senator Brian Hester Senator Ricky Hill, or Senator Blake Johnson are in your districts, please tell them we appreciate their support for our industry. Together, our organization elevates the storage industry in the state of Arkansas.

The ARSSA held a well-attended annual convention and expo in Rogers in August. It was great to meet so many of you during that event. We were able to hear marketing and legal advice from some of the industry's best experts. The future achievements of this organization are dependent upon members and vendors

who participate. This is how we will continue make the self storage industry in Arkansas professional by staying abreast of all the latest market trends and issues.

I am proud of each of the ARSSA's working board members. We are invested in the success of this industry. Members of our board of directors will be calling members throughout the year to ask for your opinions on what is happening in the market for your business. Please communicate what you are seeing and know your input is valued.

I pin my personal business success in this industry to this association and the colleagues who have given sage advice over the past seven years. The annual membership fees for ARSSA are minimal compared to the abundance of resources available – please take advantage of them. I hope each of you will invite self storage owners in your marketplace to join this incredible force for our industry.

The Arkansas Self Storage Association exists to provide leadership and support for owners and operators in the self storage industry across Arkansas. We address issues that specifically affect the self storage industry in our state. We aim to be the resource for legal communication, education, and industry information, with the goal of a stronger self storage industry in Arkansas.

If you've got questions or concerns on this, please don't hesitate to reach out.

Sincerely,

*Jody Harris*

Jody Harris



## Special Thank You

Jim White served on the Board of Directors for seven years. Jim's knowledge of self storage in Arkansas played a great role in several initiatives the ARSSA board took on in those years, including the property tax legislation this year.

Jim is an expert in both commercial and residential real estate, as well as storage operations and construction. His expertise and smile will be missed tremendously. We wish Jim and his wife Amy all the best.

*Jim White*

IN RECOGNITION AND GRATITUDE FOR YOUR DEDICATION, SUPPORT & FRIENDSHIP TO THE ARKANSAS SELF STORAGE ASSOCIATION AND THE SELF STORAGE INDUSTRY IN ARKANSAS



ARKANSAS SELF STORAGE ASSOCIATION  
BOARD OF DIRECTORS 2016 - 2023

# We are happy to welcome these new members to the ARSSA Family.

Community Storage Arkansas  
Galax, VA

Midgard Self Storage Roswell,  
GA

Butler RV & Storage  
Forney, TX

Jordan Lundholm  
Gravette

Ridgeview Self Storage Alma

Timothy King  
Little Rock

StorMore Climate Controlled  
Storage  
Fort Smith

Buffalo Island Self Storage  
Leachville

Copper Safe Storage  
Cabot + North Little Rock

B + Storage Solutions

North Central Storage  
Sidney

Carl Almanza  
San Antonio, TX

Blue Sky Self Storage-  
Conway

M.A.D. Properties  
Magnolia

Deaton Self Storage  
Hot Springs

Neighborhood Storage  
Fayetteville

Assured Storage of Decatur  
Honeoye Falls, NY

Matt Sallee  
Fort Smith

Tuck It or Chuck It  
Van Buren

Clear View Self Storage  
Jonesboro

Carla Harrison  
Benton

Warehouser Storage  
Pocahontas

Andy's Storage and  
Rentals Jonesboro

Parkers Chapel Mini  
Storage  
El Dorado

Traci Tang  
Farmington, NM

All Seasons Storage LLC  
Camden

Storage Plus of  
Texarkana  
Katy, TX

Highway 70 Storage  
Maumelle

Community Storage  
Paragould

Storage Depot of  
Jonesboro  
Chicago, IL

Starr Equity  
Austin, TX





# Pricing Discovery Amid Market Uncertainty

By Ben Vestal and Larry Goldman, CCIM  
Argus Self Storage Advisors

Like many of you, I have been watching the stock market closely and it is clear that Wall Street has started to take caution with regards to self-storage investments. The four major self-storage REITs are down on average about 25% year-to-date and dividend yields are moving higher as stock prices sink lower. The general market sentiment today is that the valuation of self-storage properties is difficult to pin down. No buyer wants to catch a falling knife, which has led to fewer buyers in the market today, and we continue to see interest rates rise and operational fundamentals soften heading into winter after a less than stellar summer rental season.

Here at Argus, as brokers, we spend a lot of time thinking and talking about the value of self-storage properties. This has been our business for more than 29 years; extracting the value of a property for a seller during the marketing and sale process, as well as helping buyers to determine the right price to pay for a property. One thing we have learned is that the TRUE market value is what the market/buyer pool is willing to pay for a property at any given time no matter what your banker tells you your property is worth, or even what your appraiser puts in his most recent report.

Despite the market headwinds today, we are still seeing a very active and well-capitalized buyer pool but there are clear traits that define these active buyers. Today we are finding that there are two types of buyers - **Value Add/Yield Buyers** or **Core/Basis Buyers** and both are looking to hedge new acquisitions stressing both investment yields and their cost basis to make sure they do not over pay in a market where pricing discovery involves ongoing analysis.

Today our daily conversations are usually focused around interest rates, cap rates, submarket operating fundamentals, new supply, loan to value ratio, debt yield, debt availability, NOI trends and many other topics that rarely interest an owner other than when they decide to buy or sell a property. However, we believe that there is a connection between understanding the current market and nuances of what does and does not create value and running a successful business.

### Value Add/Yield Buyers:

Value Add and Yield buyers are by far the largest group of buyers in the self-storage industry today. This group of buyers rely heavily on the income valuation approach and will look to buy undermanaged properties, C of O deals and

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properties in early lease up. Cash flow is what made the storage business the shining star of commercial real estate over the last 20 years and is why we all got into the storage business. Today, it is back to basics, with 90% or more of your value coming from your NOI and free cash flow. This is increasingly more challenging with rising interest rates and slowing revenue growth. Savvy buyers today are looking at ways to reduce operating expenses and increase and protect their NOI and cash flow. For the first time in several years, we are reducing our advertising spend, using technology to cut payroll costs, and only doing the necessary repairs and maintenance in an effort to preserve and protect our properties' NOI.

Benjamin Franklin once said that "a penny saved is a penny earned." The same holds true in the self-storage business today, except that we can expect an even greater return when we make an effort to save on operating expenses. At one time or another, we have all looked at our to-do list and thought "I can do that next month." Reviewing your operating expenses, however, is not one of those things you can afford to put off until next month. Operating expenses need to be reviewed NOW and regularly moving forward (four times per year at a minimum) to ensure that the value of your property and its cash flow are not being undermined by subtle, yet devastating, increases in operating expenses such as mandatory call centers, increased insurance cost, rising real estate taxes and the lack of transparency and return on investment (ROI) analysis of monthly advertising spends, just to name a few. As the tide starts to turn in investment real estate and self-storage valuations start to soften, the constant review of your operations of your property become critically important.

#### **Core/Basis Buyers:**

Core/Basis buyers are a select small group of investors that have very long-term investment horizons and are true all cash buyers that will not look to put any debt or leverage on the properties during the life of the investment. These investors are typically ultra-high net worth family offices, pension fund advisors or Core Plus funds. The investment thesis of Core/Basis buyers is that they are buying properties that are located in very desirable, high barriers to entry markets at or slightly above replacement cost. Core/Basis

buyers will be highly focused on replacement cost and will consider properties in all phases of value creation (C of O, Lease up, stabilized and development).

Due to the rapid rise of interest rates, inflation, and construction costs over the last few years there are select situations and properties where the NOI or proforma NOI will not support a valuation that value add/yield buyers are willing or able to pay in today's market. Additionally, the property may be "underwater" using the standard income valuation approach. But the Core/Basis buyers see it as an opportunity as they believe that over the life of the investment due to the location and time required to build within the submarket, that the rental rates and replacement cost will grow at an outsized pace allowing the Core/Basis buyer to achieve an acceptable risk-adjusted rate of return. Core/Basis buyers typically look for newly constructed properties (last 5 years) with very strong demographics and income levels in the top 50 MSA's.

It is clear that very few properties have the attributes to attract a Core/Basis buyer, but if you have a newer property that is Class A in every way, is located in a major market, and you are struggling to refinance or looking to exit the investment due to partnership or personal reasons you may be able to look at how a Core/Basis buyer would value your property.

Self-storage values are very difficult to pin down in today's market due to rapidly rising interest rates, changing operating fundamentals, and Wall Street's wavering investment sentiment. So, if you are at or near a "personal crossroads" it is time to get serious and review your property's operating expenses and talk with an experienced self-storage broker. Because it is clear there is a connection between understanding the current market and nuances of what does and does not create value.

**Ben Vestal** is the President of the Argus Self Storage Advisors, based in Denver, CO and can be reached at 303/317-6469 or [bvestal@argus-realestate.com](mailto:bvestal@argus-realestate.com).

**Larry Goldman, CCIM**, is the Arkansas/Kansas/Missouri affiliate of Argus Self Storage Advisors, as well as the President of the Kansas Self Storage Owners Association. Larry can be reached at 913/707-9030 or [lgoldman@selfstorage.com](mailto:lgoldman@selfstorage.com).

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## **What Privacy Exists in Self-Storage Units?**

*Continued from Page 1*

This is not a new question but is one that should help clarify for both self-storage landlords and their tenants that there should NOT be any expectation of privacy while using a rented self-storage unit. Both the rental agreements that tenants sign and/or the signage at the facility should remind those using the property that they are being either watched or recorded. Specifically, those tenants that choose to enhance their protections through individualized motion detectors or even digital locking systems need to understand that they are specifically consenting to the use of those systems to enhance their control over their rented unit. The agreements that are prepared when a tenant elects these systems must further explain that the data being created is also being pushed to the facility or at least to the monitoring company connected to the applicable system. Their actions are subject to review.

The recognition that tenants can be tracked on the premises follows from the exceptions to the Fourth Amendment

and rights relating to search and seizure. Obviously, anything that is subject to "plain view" is not a violation of a person's protected rights. Here, either the tenant's direct knowledge that they are being recorded or the tenant's direct acquiescence by contract when they elect enhanced monitoring both acknowledge their willingness to waive their right to privacy. As we are now learning, sometimes accepting a lack of privacy can actually create a greater sense of peace of mind.

Thanks to Mark Cieri at Storage Defender for initiating this interesting conversation.

**Stay Safe and Happy Storing!**

**Scott**

**Self Storage Legal Monthly Minute**

**July 2023**

# Capital Stacks Made Easy

Alese Johnston

[alese@storagetrader.com](mailto:alese@storagetrader.com)

10/3/23

When most people buy or build a storage facility, they do not pay for it with just one chunk of money. Often, they use different types of money to fund the project. These different types create what we refer to as the “capital stack.” Imagine the total amount of money needed to purchase and develop a real estate project as a stack of blocks, where each block represents a different source of money.

Think of these blocks of money in terms of how we pay to use the money. There are funds that we pay equity to use and funds that we pay interest to use. Think investor money vs. bank funding.

I like to think about the blocks of money in terms of their repayment order as part of closing the sale of a facility. Often, finance specialists’ articles will discuss each block’s relative risk. They talk about who gets paid first vs. last in terms of a failure situation. In their scenario, the person paid last has the highest risk and may not be paid at all. That is true but less useful in an industry like self-storage, where project failures are rare.

Those interest-paid blocks of money are paid out at sale before the equity-paid blocks. We commonly refer to the interest-paid blocks as senior debt or mezzanine debt. Your banker provides the senior debt, which is paid out first at the closing table. If you have additional loans, they are generally referred to as mezzanine debt. Your loan documents should spell out the sequence in which they are paid at closing. If you visualize your funding like a stack of blocks, sequence them according to payment order, with your primary lender on the bottom.

In recent history, when banks were offering to fund projects at 10 to 20% loan-to-value (LTV), the equity parts of your capital stack were much smaller. Today, many lenders are asking you to bring equity capital to the table worth as much as 50% of the project. That equity capital does not have to be provided entirely by the project sponsor (you).



## StorageTrader

Equity capital supplied by investors heavily supports many projects. Those investors may be family members, friends, or other accredited investors. There are special regulations governing this section of your capital stack. Check with an attorney in your state specializing in SEC rules for real estate transactions for advice on structuring this block of your capital stack.

Two kinds of equity blocks are possible for your capital stack – preferred equity and common equity. Preferred equity usually has a capped upside defined in their agreement. They are paid after the lenders and before common equity investors. Common equity is the top block in the stack. Because common equity pays out last at closing, it has the highest potential return.

For more information, please refer to the blog post titled “*Understanding the Real Estate Capital Stack*” at [StorageTrader.com](http://StorageTrader.com) in the News Tab.

This QR code will take you directly to the article:





# LEGISLATIVE NEWS



Last year, the ARSSA partnered with Gilmore Davis Strategy Group and Joe Doherty with the SSA in hopes of finding a solution to increasing property taxes for storage operators. This is often the largest expense for owners, and ARSSA members were reaching out to us for help.

This spring, Gov. Sanders signed into law Act 332 of the 2023 Regular Session. The sponsors listed on the bill are Representatives Howard Beaty of Crossett, Jimmy Gazaway of Paragould, R.J. Hawk of Bryant and Jeremiah Moore of Clarendon and Senators Ricky Hill of Cabot, Blake Johnson of Corning, and Bart Hester of Cave Springs. The act's subtitle describes the bill as having to "identify the intangible

personal property of self-service storage facilities that is exempt from property taxes ; and to require a county assessor to provide an explanation related to a taxpayer's intangible personal property." The intangible personal property in this bill is listed as "goodwill, rental agreements, customer lists, security systems, future development opportunities, and management software." The effective date is for property tax assessment years beginning on or after January 1, 2023.

We want to thank our Board of Directors, our legislative committee, the SSA, Jon Gilmore, our bill sponsors and our members for your participation and support of this legislation.

## ACT 332

HB 1475/Act 323 enacted changes to Arkansas law that require the identification of intangible personal property in a property tax assessment.

This Act also requires a county assessor to provide an explanation related to this intangible personal property.

Access this law and keep it for your records by downloading it from ARSSA.org under Member Downloads or using the QR code above.





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