VALUATION OF SELF-STORAGE FACILITIES

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Guidance Papers

Objectives

The principal objective of a Guidance Paper (GP) and Resource Pack (if applicable) is to clarify professional and industry processes, best practices, and procedures and to discuss their use and implementation.

A GP is designed to be of assistance to Members and those who use Members' services. They serve as a guide and measure of acceptable professional practice and conduct of a Member.

The intention of a GP is to:

a) provide information on the characteristics of different types of assets that are relevant to the advice;

b) provide information on appropriate practices and their application;

c) provide information that assists Members in exercising the judgements they are required to make in specific situations'; and

d) convey elements of what is considered "competent professional practice" for Australian Property Institute (API) Members and "best practice" for Property Institute of New Zealand (PINZ) Members.

A GP is not intended to provide comprehensive training, instruction or prescriptive practices and procedures, or direct that a process, professional approach, or method should or should not be used in any specific instruction or situation.

Member Obligations

The Member is responsible for choosing the most appropriate approach in a matter based upon the task and instruction. It is a matter for each Member to decide the appropriate practice in any situation, and if they are unclear, seek professional advice from others, or contact the Institute(s). Members have the responsibility of deciding when it is appropriate to depart from the guidance and practices contained in a GP.

The Institute(s) do not warrant that anything contained in this or any GP is the definitive or final statement on any issue. Members must perform their own work pursuant to their own professional expertise and experience and if required, seek additional advice which might include legal advice.

Court or Tribunal Reliance

A court or tribunal may consider the contents of any relevant GP or other document relating to a recommended professional practice published by Institute(s) in deciding whether the member acted to a standard required by law.

Currency of Publication

Case law and relevant legislation may change over time and whilst the Institutes(s) consider this GP current at the time of publication, Members and those who use Members' services should have regard to legislative changes and new rulings and if necessary, seek further advice prior to having regard to this GP.

Departure or Non-Compliance

Where a Member considers that a circumstance exists that warrants the departure from or non-compliance with any of this GP, the Member's report (or other advice) must include a statement that outlines:

a) the reasons for the departure or non-compliance with this GP; and

b) any impact the Members departure or non-compliance may have on the content of the report.

Members are advised to seek legal and/or other advice before departing from practice recommended in a GP.

Enquiries

If any Member considers any information or advice in this GP to not be accurate or up to date, or wish to raise any issue for consideration arising from the contents of this GP, please refer this to

API contact: standards@api.org.au

PINZ contact: standards@property.org.nz

1.0 Introduction

1.1 Scope of this Guidance Paper

This TIP applies to Institute Valuer Members (Valuers) who undertake valuations of self-storage facilities on behalf of known clients with whom those Valuers or their employers have entered into the appropriate valuation services agreement. The purpose of this GP is to set out matters to be addressed in the valuation of operating self-storage facilities.

Valuers providing valuations of self-storage facilities must do so to the standard of professionalism and skill required and consistent with membership of the Institute(s) and in compliance with the law.

This GP should be read in conjunction with other relevant GPs and any other relevant publications from the Institute(s) which are either over-arching or directly applicable to the issues raised in this GP.

1.2 International Valuation Standards

International Valuation Standards (IVS) published by the International Valuation Standards Council (IVSC) are adopted by the Institute(s).

It is the Valuers responsibility to comply with the IVS applicable at the date of valuation, keep informed of any changes and, apply them appropriately and consistently when providing valuations.

The GP is also intended to be consistent with the concepts and definitions contained in the IVS, however, there may be departures from the IVS to reflect Australian and New Zealand law and practice. This GP refers to and uses IVSC definitions to promote consistency.

2.0 Definitions

The definitions contained below and used in this GP are applicable to this GP and have been included to assist with the interpretation and understanding of certain stated terms used within this GP. Where a defined term is included in this GP it is identified as a capitalised term.

Institute(s)	All references to Institute(s) mean, as the context requires, the API, PINZ and/or NZIV.
Member(s)	A Member(s) of the API and/or PINZ and NZIV.

3.0 General Explanation of Self-Storage Operations

Self-storage operations involve the licensing of storage areas to private and business users for the storage of goods. Storage users may select from a range of storage unit sizes provided within the property.

Self-Storage operators typically apply a standard storage licence agreement and apply a monthly storage fee. Storage fees vary depending on the size and location of the storage unit occupied. Because the licence agreement typically operates on a month-to-month basis the operator may review the storage licence fee at any time. The frequency and amount of storage fee increases will depend on the management strategy of the operator, the level of competition and storage fees applied in competing facilities.

It is a fundamental element of operation of a self-storage facility that the operator does not take care, custody or control of the goods stored. In a limited number of cases operators receive and hold goods on behalf of customers. This requires a specific, modified storage agreement.

It should be noted that the storage industry generally compares pricing levels for individual units on a dollars per month basis.

In addition to direct storage fees, self-storage facilities may also derive revenue from late payment charges, cleaning charges when storage units are vacated, sale of storage related merchandise, and sale of insurance for customer goods in storage.

4.0 Instructions and Basis of Valuation

4.1 The Role of the Valuer

The Valuer needs to demonstrate in a report an understanding of the operation of the subject property, the operator's management arrangements, the self-storage marketplace, surrounding competition and any specialised features of the facility.

It is important that the Valuer obtains sufficient detail in relation to the current storage unit configuration, storage unit occupancy, current revenues, operating expenses, and arrears status of occupied storage units. It is incumbent upon the party instructing the Valuer to ensure that the Valuer has access to records and information from which the above detail may be extracted.

4.2 'Going Concern' Valuation

Where appropriate, the valuation should clearly state that it has been undertaken as a 'going concern' self-storage facility on a 'walk in walk out' basis inclusive of all plant, equipment, furniture, fittings, and merchandise stock as appropriate.

Going concern valuations are based on the net income associated with the operation of the whole of the self-storage activities on the property.

4.3 Facilities Subject to Lease to an Operator

Some self-storage facilities are subject to leasehold interests. Valuation of a self-storage facility subject to a long-term leasehold interest of land and buildings is not a going concern valuation. Valuation of self-storage facilities subject to leasehold interests should reflect the net cash flow associated with the lease and the specific terms of the lease.

4.4 Accepting an Instruction

Prior to accepting an instruction, a Valuer must be confident of having the necessary expertise and sufficient information to undertake the valuation. For example, if the Valuer does not have complete or appropriate access to comparable sales and trading data for the subject self-storage facility, then the valuation instruction should be declined, or undertaken in conjunction with a Valuer who has the expertise and access to such information.

It is important that the Valuer should, as a term of their retainer, ensure the client has an obligation to provide access to records and information concerning the site (*as set out in sub-Section 4.1*). It is important that the client and the Valuer agree that the valuation cannot be completed until such information is provided.

5.0 Operational Detail

Operational arrangement may vary from facility to facility and there are variations in management and operation arrangements in various regions. Accordingly, the valuation should identify and describe the operation arrangements applied in the facility being valued. This would include a description of the following items

a) The form of storage agreement utilised,

b) Storage unit fee payment arrangements,

c) Late payment fee policies,

d) Insurance of customers' stored goods,

e) Arrangement for the display and sale of merchandise,

f) Office operating hours and

g) Access hours for existing customers.

6.0 Building Improvements

6.1 Building Construction and Services

The Valuer should consider the design characteristics and form of construction of the property, including specialised features that may impact upon the ability to attract self-storage customers, viability of operation, and marketability.

The construction, design and general condition of improvements need to be considered in the context of their specialised use, with the following being examples of relevant factors:

a) The form of construction and materials used to include consideration of the buildings' ability to provide adequate ventilation, insulation against temperature extremes and protection against water penetration.

b) The size and mix of storage units, accessibility of storage units including vehicular access, corridor layout and width and lift or hoist systems where multi-level storage is utilised,

c) Signage,

d) Size, location and appearance of reception and merchandise display areas,

e) Onsite caretakers or managers accommodation,

f) Customer parking and docking arrangements,

g) Access systems including gate access controls and arrangement for afterhours access and

h) General site security and unit security including perimeter access control, unit alarms and video monitoring.

6.2 Repair and Condition

The valuation should comment on the state of repair of the improvements of the property, including any outstanding works to be completed and any modification or maintenance work required. Any item that may affect the continuing efficient operation of the self-storage facility should be identified.

An annual repair and maintenance expense allowance is a normal item of operating expense and the valuation should include a provision for repair and maintenance as part of normal operating expenses. However, it may also be necessary to apply an initial capital expense amount in valuation calculations where building defects present an immediate impediment to continued efficient and competitive operation of a self-storage facility.

7.0 Valuation Calculation

7.1 Valuation Methodology

Capitalisation of net operating income is the most appropriately applied method in valuation of self-storage facilities. Discounted Cash Flow (DCF) analysis is also a very effective and complementary methodology, particularly for substantial self-storage facilities. The net operating income should be calculated before depreciation, amortisation, interest, tax and capital expenditure deductions. Such calculations being on a GST exclusive basis.

Experience suggests that the market initially places greater weight on capitalisation (yield) calculations in negotiation of transaction prices. However, informed purchasers and vendors are clearly aware of the variations in net income levels that occur with variations in occupancy. This and other variables are often best displayed in DCF analysis.

The results of both methodologies should be applied in the valuation of larger self-storage facilities particularly where occupancy levels may not have reached a full, mature level. Because of the static nature of capitalisation calculations this methodology develops complexities and anomalies when applied to facilities operating at a less than mature occupancy level. DCF analysis may be of greater assistance when facility being valued is in the early stages of occupancy build up. In these cases, the Valuer will be required to chart occupancy take up to mature occupancy and construct the cash flows having regard expected occupancy level build up.

Calculations should demonstrate a transparent connection between actual calculations and current performance levels of the facility. If calculations apply revenue or expense details that vary from actual current amounts there should be a clear explanation and rationale provided for the variations.

An extensive range of operating expenses typically applies in the good management of operating self-storage facilities. It is necessary to ensure that complete and realistic expenses are applied in the valuation calculations.

Calculations should display all critical assumptions and inputs, including the capitalisation rate applied. In DCF analysis there is a need to provide a disclosure of other valuation elements including escalation rates, discount rate applied to future revenues and value calculations applied at the end of the assumed investment period.

7.2 Revenue and Trading Performance

The Valuer should clearly establish the current, actual revenue of the facility at the date of valuation. This should be supported by disclosure of elements supporting the actual revenue. This will involve:

a) Identification and description of the total net rentable storage area available.

b) A clear disclosure of the units and unit areas that are occupied and accruing storage fees.

c) Detail of the current actual storage fee rates achieved and accrued (excluding incentives or other distorting factors) for occupied storage areas.

d) Details of other income amounts including such items as late fees, sale of goods in custody insurance, merchandise sales or other areas of incidental revenue.

e) Analyse and make provision for customer delinquency and delinquency write-offs.

f) A month-by-month history of occupancy level and associated accrued storage fees over time. A 12-month history is generally sufficient to identify any correlation between occupancy and revenue trends.

g) Where available, up to a 3-year trading history is generally sufficient to assist in identifying any correlation between occupancy and revenue trends. If there is less than a 3-year trading history, then a complete trading history will be required.

h) The Valuer should also examine the unit configuration, characteristics and features of the occupied space compared with unoccupied space and where significant variations exist make reasonable adjustment in projected revenues and occupancy to account for the differences.

Accrued and potential storage fee revenue is typically equated to a rate per square metre of occupied space per annum (rate per square metre per month X 12) for analysis and comparison purposes. Analysis of variations in the achieved storage fee rate per square metre will illustrate pricing performance over time. It should also be noted that storage fee revenue rates may be influenced by additions or modifications to the number of storage units or the mix of storage unit sizes.

Where a valuation applies a revenue or occupancy level that differs from the current level being achieved, this should be clearly stated. In these circumstances the Valuer should also state the basis upon which variation in revenue or occupancy will occur including the period over which the Valuer considers these variations will occur.

7.3 Operating Expenses/Outgoings

The valuation should establish the operating expenses applied in the calculations.

Detail of full year operating expenses associated with the normal operation of the facility should be included in the valuation. This should be provided on an itemised basis and include, but not be limited to, advertising costs, site management wages, insurance costs, rates and taxes, bank charges, power costs, telephone charges, merchandise purchases and maintenance costs.

An amount for head management fees should be included in valuation calculations. This amount is in addition to the direct site operating expenses. While this amount is not always incurred as a direct site expense, a management fee would be incurred if the facility were to be purchased and operated on a true investment basis.

The Valuer should critically review operating costs provided, and where it is evident that costs are out of line with industry standard management practices or where significant items have been omitted, the Valuer should make appropriate adjustments to bring costs in-line with industry standards. These adjustments should be clearly disclosed and explained in the valuation report.

7.4 Existing Licence and Management Agreements

It is not uncommon for facilities to operate under management or general branding agreement.

The valuation should provide detail of these agreements where applicable including detail of fees and charges applicable under such arrangements. The valuation should clearly state if the assessment is subject to continuation of the licence or management agreement.

7.5 Facility Operator and Customer Agreement

The Valuer should also review the standard terms of the agreement between the facility operator and customer to satisfy themselves that the terms of such agreement are consistent with industry standards and whether the agreement contains clauses which provide that the operator has the appropriate rights to deal with goods left by the customer and that the agreement does not expose the operator to risks that may impact upon running the business.

7.6 Surplus Land/Additional Capacity

It is often the case that self-storage facilities have not fully utilised the whole of the site or the whole of the building within which they operate. It is not unreasonable to attribute a value to undeveloped areas within a self-storage facility which are not currently income producing or at full income potential. However, the value attributed to these areas should be realistically assessed and clearly described in the valuation. Application of revenues based on hypothetical potential does not typically provide a reliable assessment of the current market value. Values based on immediately achievable use are more reliable.

8.0 Competition

The performance of a self-storage facility is impacted by the level of competition from other self-storage facilities. The Valuer should be conscious of current and proposed competition within the customer catchment area of the self-storage facility being valued and where possible discuss the performance of the competing self-storage facilities.

Customer catchment areas may vary and are influenced by the position and number of other self-storage facilities in the area, transport corridors, natural barriers such as waterways and the demographics and population density of immediately surrounding suburbs.

9.0 Sales Evidence

9.1 Sales Analysis

It is not always possible to obtain sufficient information to fully analyse every sale. However, the Valuer still needs an appropriate level of sales that have been adequately analysed to arrive at an opinion of value.

It is not uncommon for self-storage facilities to be combined with other uses such as more traditional industrial premises or vacant land. Sales analysis and examination of property yields should identify these varying property uses and make specific adjustments to reflect the component elements.

The sale of 'going concern' self-storage facilities typically involve the concurrent and interdependent sale of real property and a sale of a business. Accordingly, reliance upon a reported property transfer amount that may be shown in general property data base material can be misleading as it is often only the property component of the transfer that is recorded. In analysis of sale of going concern transactions, it is essential for the Valuer to determine the total consideration paid including both property and business transfer amounts.

9.2 Initial Yield vs. Equivalent Yield

The simplest yield analysis is the calculation of the passing net income (gross revenue less operating expenses) as a percentage of the purchase price. This is referred to as the initial or passing yield.

It is, however, quite common for self-storage facilities to be purchased at occupancy levels that are below a mature occupancy level. This will result in the initial yield being at a relatively low level. In practice, purchasers may pay amounts reflecting the expectation that occupancy levels will increase and there will be a corresponding increase in storage fee revenues and net income. The yield calculated based on expected increased occupancies and associated net income is referred to as an equivalent yield. In effect, this is the rate that the Valuer should compare to the adopted capitalisation rate.

10.0 General Issues

10.1 Leasehold Tenure

In cases of self-storage facilities held upon leasehold title, the impact of the ground rent on returns/incomes should be fully considered and reflected in the valuation calculations.

10.2 GST Caution

The Valuer should consider the way similar properties are bought and sold from a GST perspective and adopt the most appropriate treatment of GST accordingly. Properties transacted on a 'going concern' basis may be exempt from GST.

10.3 Qualifications

The Valuer should consider whether the valuation report should contain a qualification concerning the storage of hazardous or illegal goods on the premises and any implications upon value.

11.0 Effective Date

This GP is applicable from 1 July 2021. Earlier adoption is permitted and encouraged.

This GP replaces *ANZVTIP 5 Valuation of Self Storage Facilities* which was in effect from 23 November 2016 and was withdrawn 30 June 2021.

1 Australian Property Institute, 2007, Glossary of Property Terms, Deakin ACT.