

The Education Destination For Self-Storage
mini-storage

MSM
messenger

November 2017

\$7.95

Arlen Nordhagen

The Formation Of A Unique REIT

Including

**The 2017 Top Operators
Of Self-Storage**

A photograph of Arlen Nordhagen, a man with grey hair, a goatee, and glasses, wearing a dark pinstripe suit, white shirt, and a patterned tie. He is standing in a trading floor, smiling at the camera. Behind him is a large computer monitor displaying financial data, including a line graph and tables of numbers. To the left, another monitor shows a website with a burger advertisement. The background includes office equipment like a telephone and a clock, and signs with the letters 'NW13' and 'NW14' are visible on the wall.

Arlen Nordhagen

The Formation Of A Unique REIT

By Erica Shatzer



From the numerous Native American tribes, each with its own unique origin and language, to the once plentiful wild buffalo that roamed the grasslands in herds, North Dakota is a state brimming with cultural history and rugged—yet picturesque—landscapes. While the state is the 19th most extensive in the U.S. when it comes to acreage, it is the country's fourth least populous, with approximately 758,000 residents, of which approximately 30,000 are Native American, according to the 2016 Census.

Self-storage is sparse in North Dakota as well. According to the *2017 Self-Storage Almanac*, only four states (Delaware, Hawaii, Rhode Island, and Vermont) and the District of Columbia have fewer self-storage facilities than North Dakota. Tied with Alaska with only 124 facilities and 6,491,648 rentable square feet, North Dakota is not likely to be remembered for its limited storage space.

Nevertheless, the state has produced one of the self-storage industry's most influential professionals: Arlen D. Nordhagen, chairman and chief executive officer for National Storage Affiliates Trust (NSA), a public self-storage company like none other. With all that he has accomplished for the storage sector, it's more than fitting that the word "Dakota" means "ally" in the Lakota language.

Storage Beginnings

Raised in Williston, N.D., Nordhagen, who graduated with high distinction from Harvard University with a Master of Business Administration and graduated summa cum laude from the University of North Dakota with a Bachelor of Science in Chemical Engineering, has spent nearly three decades as a self-storage owner/operator. Nordhagen's entrance into the industry was the result of his ability to spot a good opportunity as well as his sincere ambition.

In the late 1980s, Nordhagen was working for American Business Advisors, a management consulting firm, when two former directors of Public Storage hired the firm to raise seed capital for a new storage endeavor. It was his job to conduct an industry analysis and develop a business plan for those clients.

That's when Nordhagen realized that he and his partners should be self-storage owners instead of consultants. They decided to join forces and raise

the necessary seed capital for the business; the four partners hit the pavement, approaching local professionals, doctors, and dentists to gather funding for the business venture. A focus group was held to determine the self-storage company's name, and SecurCare Self Storage was established. The year was 1988.

Jernigan recalls Nordhagen being a good board member who got along with everyone, adding that he is a "true leader" and "extremely professional".

At that point, being somewhat new to the industry, Nordhagen immersed himself into the sector to gain knowledge and business contacts. Through state and national self-storage association conferences, he met two of the most influential people of

his storage career: Dean Jernigan, chairman and CEO of Jernigan Capital, Inc., and Charles "Chico" LeClaire, executive managing director of investments for Marcus & Millichap's Denver office and executive director of the firm's National Self Storage Group.

Nordhagen first met Jernigan in the 1990s at a national REIT conference. He later served on the advisory board for U-Store-It, which became CubeSmart in 2006 under Jernigan's direction. Jernigan recalls Nordhagen being a good board member who got along with everyone, adding that he is a "true leader" and "extremely professional".

LeClaire, who states that Nordhagen has been one of the most influential people in his career as well, supported Nordhagen's networking efforts by inviting him to the self-storage get-togethers he sponsored and introducing him to other industry professionals.

"He was instrumental in purchasing one of my first portfolios and recently



Don't Paint – RESTORE!

Everbrite™ is a clear restoration coating that restores faded metal of any color. NOT a paint or automotive coating – No masking or taping is necessary.

- RESTORES –**
Faded, chalky doors, metal buildings, signs and gates to their original color and luster.
- PROTECTS –**
Surfaces from sun fading, salt air, acid rain and other damaging elements.
- EASY TO USE –**
Do it yourself with illustrated step-by-step instructions and "How-To" videos on our website. Ready to use – NO tricky mixtures.
- ECONOMICAL –**
About \$15 material cost per 8'x8' roll-up door. One-part coating. No waste like two-part coatings or paints.
- LONG LASTING –**
Can be maintained indefinitely by recoating every 7–10 years depending on exposure. Remains flexible – Will not crack, chip, peel or yellow.

EVERBRITE™

Call **800.304.0566**
or visit **www.RenewStorage.com**



the largest portfolio I have ever sold," says LeClaire. "He is awesome. We share a mutual admiration."

Then, in 1999, three of the founding partners sold their shares of the company to Nordhagen to bring in instant capital. He served as president and CEO of SecurCare Self Storage from 1999 to 2013, when he stepped down to become the chairman and CEO of NSA and David Cramer, SecurCare's former COO, replaced Nordhagen as the CEO of SecurCare. However, Nordhagen remains the majority owner of SecurCare and currently serves as its chairman of the board.

Forming NSA

It was Jernigan's innovative approach to self-storage, which he used to take Storage USA (the company he founded in 1984) public in 1994, that eventually prompted Nordhagen to co-found NSA. He was intrigued by Jernigan's business philosophy and used it as a starting point for the structuring of National Storage Affiliates

Trust, which, according to NSA's website, is a "self-administered, self-managed real estate investment trust, dedicated to the ownership, operation, and acquisition of self-storage facilities".

It was Jernigan's innovative approach to self-storage, which he used to take Storage USA public in 1994, that eventually prompted Nordhagen to co-found NSA.

But, there was plenty of work to be done, and numerous considerations to be made, before Nordhagen would take the company public in April 2015. Moreover, there were industry professionals with doubts that it could be done.

"I was at a hunting camp with eight substantial self-storage owners six months before he went public," LeClaire

recalls. "I was the only one there who bet that he would make it. I had confidence in him." And LeClaire's faith in Nordhagen has boded well for him; at the time of NSA's Initial Public Offering, Nordhagen allowed LeClaire to purchase shares in NSA's friends and family stock allocation. It has turned out to be a wise investment.

Despite the naysayers, Nordhagen was convinced that he could create a way to simultaneously meet the needs of his investors and give his company and team the opportunity to grow past his own career. "I didn't want to just sell SecurCare to the highest bidder," Nordhagen says, adding that he needed a solution that would enable his team to stay on board with the company. "I had put together a good team and didn't want them to lose their jobs. At the same time, I needed to create liquidity to manage my estate."

Nordhagen also realized that he wasn't alone in the matter of how to best prepare for his eventual retirement. There were plenty of good private self-storage operators who were confronting the same conundrum.

Perhaps that was the moment when the light bulb appeared above his head, as joining forces with those private operators would solve the company's need for geographical diversification and increase its overall portfolio size without having to acquire or build additional self-storage facilities. The term used by NSA for these self-storage companies is Participating Regional Operators or "PROs".

SecurCare was one of the three founding PROs of NSA. The other two were Northwest Self Storage of Portland, Ore., and Optivest Properties of Dana Point, Calif. NSA's initial trio of PROs signed the formational agreement in February 2013 and began contributing properties into NSA in April 2013. Six other PROs have since partnered with National Storage Affiliates: Irvine, Calif.-based Guardian Storage Centers, which joined in April 2014 and has facilities throughout Southern California, Arizona, and Nevada; Move It Self Storage, which joined in September 2014 and primarily



ARCHCON
architecture



Fla., MSA. Personal Mini Storage is NSA's newest PRO; it became the REIT's ninth affiliate in March of this year.

As of September, National Storage Affiliates holds ownership interests in and operates 473 self-storage properties throughout 26 states, for a combined total of approximately 29

million rentable square feet. Furthermore, NSA was ranked sixth on *Mini-Storage Messenger's* 2016 Top Operators list.

How It's Different

"NSA was invented by and for operators," says Nordhagen, adding that National Storage Affiliates enables PROs to continue to provide good jobs and keep their

teams together. "It's the only REIT with this kind of structure. It's a new option."

Unlike other REITs that acquire existing self-storage facilities or new stores through Certificate of Occupancy (CofO) deals and rebrand them under their company name, National Storage Affiliates' PROs do not forfeit their individuality, operational control, or their independence. NSA's website states, "After contribution, PROs enter into a management contract to continue to manage and grow their own portfolios under the NSA umbrella."

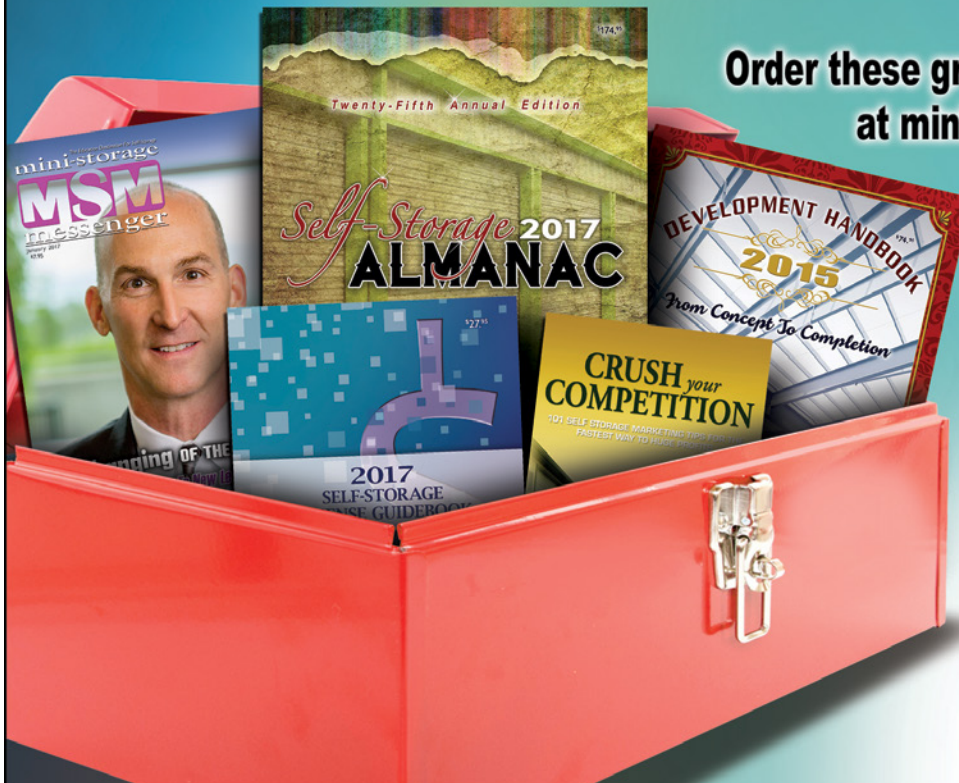
Therefore, PROs keep both their existing brands and teams. "The vast majority of NSA's properties are managed by the PROs," Nordhagen says. "Their teams continue to lead their properties."

According to Nordhagen, retaining their strong regional teams enables PROs and their properties to maximize their performance. "They have local market expertise," he says, which, in turn, is more beneficial for the customers they serve. NSA's website adds that it capitalizes "on

operates facilities within Texas; Storage Solutions, which joined in May 2015 and operates in Arizona; Hide-Away Storage, which joined in April 2016 and has properties along the west coast of Florida; iStorage, considered as NSA's "internal PRO" joint venture that joined in October 2016; and Personal Mini Storage, which operates properties within the Orlando,

What's In Your Self-Storage Toolbox?

Order these great resources and more
at ministoragemessenger.com



Self-Storage Almanac
Mini-Storage Messenger
Self-Storage NOW!
Self-Storage Canada
Books by Industry Leaders
Current Trends



800-352-4636
www.ministoragemessenger.com



the local market expertise and knowledge of regional self-storage operators by maintaining the continuity of their roles as property managers”.

Each PRO also maintains its accountability. “We had to address the concern that others wouldn’t pull their weight,” says Nordhagen, “so they are rewarded or penalized based on their performance.” While all PROs benefit financially when the REIT as a whole is doing well and meeting its financial goals, they can also earn bonuses based on their individual portfolio’s performance. This structure provides incentive for PROs to bring their A game every quarter.

Similar to the publicly-traded self-storage REITs, National Storage Affiliates provides its PROs with economies of scale. This enables facilities under the NSA umbrella to take advantage of group or discounted costs for call centers, software, and revenue management tools as well as other self-storage products such as tenant insurance. According to the REIT’s website, “National Storage Affiliates is ideal for private operators of self-storage facilities who desire to continue operating and growing their portfolio, leveraging the significant advantages of a lower cost of capital, up-sized internet marketing opportunities, and reduced operating and administrative costs associated with NSA’s economies of scale.” It

goes on to say, “Our size and geographic diversification reduce risks associated with specific local or regional economies.”

Previously, these operational advantages were available only to publicly-traded REITs due to the limited budgets of individual facilities. Although

*On the capital front,
NSA’s Participating Regional
Operators don’t need to
seek capital from banks
or other financial institutions—
a clear advantage for
those wanting to expand
their portfolio.*

other business options have surfaced to create scale, including the Storage Owners Business Alliance (SBOA) and Storelocal, Nordhagen notes that they focus only on operational items. “There are no access and cost of capital benefits,” he says. “They offer only a fraction of the benefits that NSA does.”

On the capital front, NSA’s Participating Regional Operators don’t need to seek capital from banks or other financial

institutions—a clear advantage for those wanting to expand their portfolio. The REIT’s website states that “Each PRO will have the opportunity to identify attractive acquisitions in its designated markets, and NSA’s lower cost of capital will provide an edge in the competition for acquisitions. NSA’s board will review and approve proposed acquisitions, and NSA will provide capital to complete the transaction.”

“NSA provides access to capital as well as estate planning opportunities,” says Nordhagen. “Plus, NSA can get better terms and rates for debt.” According to Nordhagen, no other REIT structure offers the same flexibility for estate planning; and National Storage Affiliates’ lower cost of capital tends to improve the PROs’ cash flow as well.

PROs also contribute assets on a tax-deferred basis—another business boon. According to the REIT’s website, “PROs contribute their portfolio of properties into NSA through a tax-efficient UPREIT structure, and in return receive NSA equity with the advantage of a tax-deferred transaction. NSA provides capital to replace existing debt and any joint venture equity that is not contributing into NSA.”

Future Endeavors

Considering the bountiful benefits of joining NSA, private self-storage operators may be wondering where the dotted line is to sign up. But before reaching out, read on to see if you fit the REIT’s criteria for the “ideal candidate”.

The website states that “National Storage Affiliates is focused on growing through the integration of best-in-class operators with self-storage properties located in markets with strong fundamentals in the top 100 MSAs throughout the United States.”

Nordhagen adds that National Storage Affiliates is especially seeking operators with facilities in geographical areas where the REIT currently has little or no presence. He says that NSA is strong in the Northwest, Southern U.S., and Southern California but “light” in the Northeast, Mid-Atlantic, and Midwest.

“I’ve always stated that the goal is to add PROs until there are 12 to 15

PROs in place,” says Nordhagen, who notes that NSA is looking to add three to six more PROs to its team over time. “However, it’s a long decision process—one to two years.” As of August, National Storage Affiliates was having

prior to joining the REIT. Nordhagen also mentions that potential PROs must be “team players”.

To reiterate, NSA’s website states that its growth strategy is “To leverage the benefits of national scale by integrating

is to maximize value for its shareholders. He intends to find ways to improve their value by regularly increasing dividend per share and value per share. Slow but steady growth is on the agenda; Nordhagen notes that NSA has managed to grow proportionately and consistently by 10 to 20 percent per year. “Increasing cash flow per share is a priority,” he says, adding that the PROs don’t intend to sell their shares. “The stock market can be fickle, but NSA has raised dividends every six months, and we know that over the long term, stock price will track dividends.”

“It’s terrific,” Jernigan says. “I’m pleased to see NSA doing so well.”

With a seasoned management team that has more than 100 years of combined industry experience, it’s no surprise that National Storage Affiliates Trust has become a sure bet.

Erica Shatzer is the editor of *Mini-Storage Messenger*, *Self-Storage Now!*, and *Self-Storage Canada*.

Nordhagen adds that National Storage Affiliates is especially seeking operators with facilities in geographical areas where the REIT currently has little or no presence. He says that NSA is strong in the Northwest, Southern U.S., and Southern California but “light” in the Northeast, Mid-Atlantic, and Midwest.

discussions with several possible PROs. However, Nordhagen says NSA will only add one to three PROs per year.

“They need scale to have good on-ground operations,” he says. “NSA’s focus is on large private operators with good management teams who want to grow.” On average, NSA’s PROs have had between 40 and 50 self-storage facilities in their respective portfolios

multiple self-storage operators with local operational focus and expertise. NSA believes this vision aligns with interests of regional self-storage operators with those of public shareholders by allowing the operators to participate alongside shareholders in the financial performance of NSA and their contributed portfolios.”

With performance in mind, Nordhagen mentions that the REIT’s long-term goal



ENDLESS POSSIBILITIES

Rock Solid All-Steel Facilities – Rock Bottom Prices!

- Engineered to maximize your profits
- Building widths from 10 to 60 feet
- Fully flashed and trimmed
- Wide selection of colors & accessories
- Sentinel’s no-hassle service & support
- Access to foundation & erection professionals in your area



Call Today For A Free Quote

800-327-0790

www.sentinelbuildings.com