

## Self Storage Properties

*By Chris Miller, MBA*

I have been familiar with the self-storage industry for several years. In 2003 it seemed like every investor I spoke with wanted to open a self-storage facility. I was married in 2008. While I was busy moving furniture and combining households I became more intimately involved with self storage as a tenant.

### Why Self Storage?

Self Storage represents the fastest-growing sector of the U.S. commercial real estate market since 1970. Nearly 1 in 10 US households currently rent a self-storage unit – a 65% increase since 1995. In fact, if you use the internet to search for self storage facilities near your house, you will likely be surprised at the number of results.

During this rapid growth, occupancy figures have remained consistent; hovering between 82 and 85 percent, while average rents have climbed. Storage is amazingly recession-resistant: during 2001, and in our current economic malaise, the industry held steady. A study of equity REITs by market sectors shows that Self –Storage REITs did not only outperform all other major asset classes in 2008, but they were the *only ones to show a positive return*.

### Opportunity in a Segmented Market

There are currently 51,500 self storage facilities in the U.S. The top 5 public storage companies own only 4,550, or 8.8%, of all facilities and the top 50 companies have only 15.2%. This leaves the bulk of storage facilities to smaller “mom and pop” operators. 27,850 of those properties are managed by companies that own and operate just one self storage facility.

With the large number of storage facilities nationwide, pricing is competitive. Low overhead and aggressive sales departments help the larger players in this market to thrive and earn higher margins than their smaller competitors. Simple things like combining efforts for sales, online marketing, and janitorial duties can save a lot of money – and increase the bottom line for owners.

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Several real estate companies are offering self-storage funds to take advantage of this segmented market. Their plan is simple – to buy facilities from “mom & pop” operators and implement professional management and marketing systems that can trim expenses and increase revenues. The funds plan to operate the facilities, while paying monthly income to investors, until the properties can be sold at a profit. (This is usually expected to be several years in the future.) If the business plan goes as expected, investors will receive their principal back - along with a profit, when the fund is liquidated.

## **What Should One Look For in Self Storage Facilities?**

First, these facilities need good management. Operators need to keep rents in line with the competition and limit expenses while running an effective marketing campaign. I personally look for managers that only do self storage, and who have at least several years of experience specializing in this asset class. As I wrote in a previous article, some investments require a specialist; this asset class certainly deserves one.

Next, we want to look for what real estate professionals call “upside potential.” Rather than looking for bad properties, we are looking for good ones that can benefit from professional management. Many storage investment companies focus on “off-market” transactions; they find suitable markets, identify target properties, and contact the owners to make offers. Once a property is purchased, management changes are implemented in an attempt to improve cash flow and enhance the asset’s value.

Changes to help the property run more cost-effectively may include “pooling” the sales function with dozens of other facilities. This way, a prospective tenant’s phone call may be routed to a sales rep in another state. By hiring one sales rep to lease 20 or more facilities, this could mean one less on-site employee at each of those facilities; a substantial savings.

## **Could Self Storage Properties Be Right for Me?**

As with all investments, the answer is “perhaps.” If this asset class sounds interesting to you, then it is certainly worth investigating. Once you’ve done some learning, and spoken with some trusted advisors, you will be ready to decide for yourself.

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