

# **COMPARE SELF-STORAGE / MINI-STORAGE**

## ***TO OTHER REAL-ESTATE INVESTMENTS!***

Why is there a substantial difference in success between self-storage and other forms of real estate? What are the key elements that give self-storage the extra edge for surviving tough economic times? The first thing an investor must understand is what happens to the end user, both residential and commercial customers, during the swings in a market's economy.

During times when a market is experiencing an economic recovery, business begins to thrive, employment opportunities increase and the sales of new and existing single-family homes start to climb. One would expect self-storage properties to do well; most often, they do. An evaluation of typical self-storage property rent during this time would usually show a high percentage of mobile customers. On the commercial side, increased business activity means an increased volume of self-storage commercial tenants.

Conversely, when the economy starts to falter, the same happens to business and employment in general. However, the reverse effect still causes the same mobility that most often benefits self-storage. People begin moving out of the market or selling their homes and moving into smaller homes or apartments. Commercial businesses downsize or look to self-storage for a more economic option for storing inventories.

Look at how self-storage properties profit in comparison to other forms of real estate. During downswings in the economy, multi-family occupancies drop as much as 25 percent, while office and retail occupancies drop as much as 30 percent.

Who are the office and retail tenants? Businesses that have either failed, downsized operations and moved to a cheaper property, or completely moved to another market. This is lost income to office and retail properties, and it is not recovered until the market's economy improves.

A typical leverage self-storage property does have a break-even occupancy rate between 60 percent and 72 percent. Compare this to leveraged multi-family, office, and retail properties with a break-even occupancy rate between 80 percent and 90 percent. It is apparent that self-storage property has more room to absorb market declines.

When comparing both rents and total development costs, self-storage most often has rents that are slightly less. But, self-storage has a total development cost that is a third to a half that of multi-family, office, or retail properties. To the investor, this

means a considerably less investment or loan amount to be serviced while having comparable rents to other real-estate investments.

The cost of operating and the actual management requirements is another key element that is appealing to investors. Self-Storage operating costs range from \$1.50 to \$2 per net leaseable square footage. Compare this to operating costs for the other real-estate properties surveyed, which range from \$2.50 to \$3.50 per square foot. Apartments, office and retail properties have to continually maintain the grounds, appliances, plumbing, electrical fixtures and a variety of other maintenance concerns, which usually require a maintenance staff.

There are apartment "make readies" and interior remodeling for new office and retail tenants. In comparison, self-storage usually has one or two managers and very few of the maintenance "headaches" associated with "live-in" tenants. In general, a self-storage investor has very few of the problems associated with other forms of commercial real estate.

The "bottom line" in comparing self-storage and mini-storage to other real-estate investments is that the investor can realize much higher ROI (return on investment) for the typical self-storage property than for other investments.

Secondly, the investor's initial investment is only a third or half of the amount required by other real-estate investments. Due to the lower break-even occupancies, the investor should anticipate investment cash flow sooner and a much lower element of risk in relation to economic declines and their affect on lower occupancies and rents. The investor does not have to worry about additional capital requirements relating to tenant improvements or continual maintenance.

Additionally, operating a self-storage facility is much less labor intensive to operate and maintain. Also less maintenance required in heating, electrical, plumbing and HVAC. And, the capital expenditures for renting units and tenant turnover are less (according to the Mini-Storage Messenger) since there are no real estate commissions to pay, and when a tenant vacates, it is usually a matter of sweeping out a unit. In regards to rental income, self-storage, by and large, yields the same rent per square foot as apartments, with specialty storage having the potential to bring considerably higher rates. These facilities are also recession-resistant.

Those investors who venture into self-storage and mini-storage will discover what the industry pioneers did many years ago:

If you own your own land, and put up self-storage unit(s), you are ahead of the game. At an 80% occupancy rate, it would only take you two and a half to three years to break even and be on your way to the greatest profit margin.

According to the Mini-Storage Messenger, choosing the site for a new self-storage facility is perhaps the most difficult development decision to make, filled with both advantages and disadvantages. The site needs to be one that fits the typical profile of land price, demographics, zoning, development potential, population density, and visibility. Therefore, feasibility must exist and support the addition of new self-

storage rental space. The ideal site is one that is located on a major arterial or travel corridor of 20-30 thousand cars per day.

Mini-Storage Messenger says that these sites tend to fall into four categories:

1. **Highly visible-contiguous:** Highly visible to the population center they serve and are easily seen from highways and/or surface streets. This site is most preferred.
2. **Marginally visible-contiguous:** Narrow presence on the street but the majority of the site is nestled behind another retail/development use.
3. **Contiguous, but not readily visible:** This destination site is contiguous to the population center, yet often located in a cul-de-sac, warehouse development, or other use-area where the drive-by visibility is virtually non-existent unless you are specifically looking for the site.
4. **Non-contiguous:** This site is located away from the population center and may or may not be visible from travel corridors.

**A highly visible site nestled within the population center will usually perform well and can sustain a higher value over the life of the project. It is always better to pay a little more for the land if you gain visibility.**

Zoning is also a critical element in determining a good site. The best site is one zoned for self-storage as a "use by right."

Also according to the Mini-Storage Messenger, conducting a thorough feasibility study involves several key areas, they are:

1. The site;
2. The market and demographics;
3. The competition;
4. Determining demand;
5. Zoning and development constraints;
6. Facility design;
7. Financial projections; and
8. The build or walk decision.

Self-storage is one of the best investment vehicles available in this country, now and in the future!

**YOU CAN TRUST OUR FAIRNESS AND INTEGRITY!**