

June, 2006

KANSAS

*Self-Storage*  
*In The*  
**Sunflower State**

By Larry Goldman, CCIM



*Photo courtesy of Wichita Area Chamber of Commerce*

The state of Kansas has been well known as an entrepreneurial hotbed for years, providing an environment that gave birth to such well-known names as Pizza Hut, Cessna, and Sprint®, among others. Kansas boasts strong energy resources as well as a highly educated workforce. The National Education Association reports that Kansas students have the 10<sup>th</sup> highest SAT exam scores in the U.S., and the 17<sup>th</sup> highest high school graduation rate. In 2005, the state increased funding for education by \$250 million, without raising taxes. Indeed, local work ethic and Kansas' status as a right-to-work state has historically attracted investment from the national business community.

The Kansas Chamber of Commerce has had success promoting the theme that Kansas' location as the crossroads of America make the state's transportation system critical to economic growth. And the state has responded with some of the best

highways in the U.S. In fact, two were just named National Scenic Byways. Kansas has the fourth largest number of public roads in the U.S., and is third in the number of bridges.

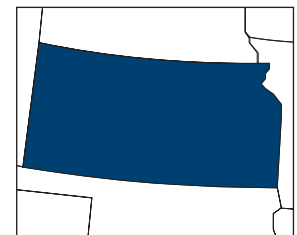
The Kansas population base is concentrated in three metropolitan areas: suburban Kansas City, Topeka, and Wichita, with over 50 percent of the state's population. Most of the institutionally owned self-storage properties in the state are located in the Kansas City suburbs. Overall in 2005, institutional properties have seen mostly flat or slow growth, with operating expenses and occupancy rates up slightly and rental rates flat.

In comparison, locally owned properties throughout the state have seen perhaps higher growth, depending on the property



**COMING NEXT MONTH:**

*Massachusetts*



**KANSAS MARKET CONDITIONS**

Market	Existing Supply	Forecast Demand	Variance	Condition
Kansas	6.98	5.54	-1.44	Over-Supplied*
Kansas City, MO-KS	5.10	4.97	-0.13	Equilibrium
Wichita, KS	5.51	2.41	-3.10	Over-Supplied

Source: Self Storage Economics

\*Compared to National Average

owner's commitment to facility management. Similar to the rest of the country, self-storage operations and marketing are becoming increasingly more important as the industry becomes more and more competitive.

**Looking At Kansas City**

While the Kansas City, Mo., metropolitan area is considered a market in equilibrium or slightly overbuilt, Johnson County in the southwest quadrant of the metro area is highly competitive with a population of 497,146 and approximately 30 percent of the state's assessed property values. The largest municipality in Johnson County, Overland Park (population 166,750), is one of the most dynamic suburbs in the country and is host to such corporate headquarters as Sprint Nextel, Applebee's Restaurants, Black & Veatch Engineers, and Yellow Roadway Corporation. Dominated by national and regional chains, self-storage absorption in Johnson County is slow but steady.

There are new developments planned in western Wyandotte and on the K-10 corridor to Lawrence, Kan., (home of Kansas University and 30 miles west of the Kansas City metropolitan area). With the development of the Kansas Speedway and the surrounding retail amenities near the intersection of I-70 and I-435 in western Wyandotte County, further development of self-storage has been triggered.

**The Market In Topeka**

Self-storage performance in the Topeka area varies by which side of the Kansas River the facility is located. Growth south of the river has been steady, with the addition of two U-Stor facilities and the sale and repositioning of two of the largest facilities in the city in 2004. Absorption north of the river has been quite a bit slower with the addition of several smaller, no frills facilities in the past few years.

**Self-Storage In Wichita**

With 117 facilities, Wichita is considered an over supplied market; it has a 7.92-square-foot per capita supply versus a predicted demand of 5.51 per capita supply. Wichita is a market of mostly large and medium-size facilities and is clearly a market where management drives the success of the facility.



**KANSAS**  
A LOOK AT THE NUMBERS

**Self-Storage In Kansas:  
A Case Study In Local  
Market Analysis**

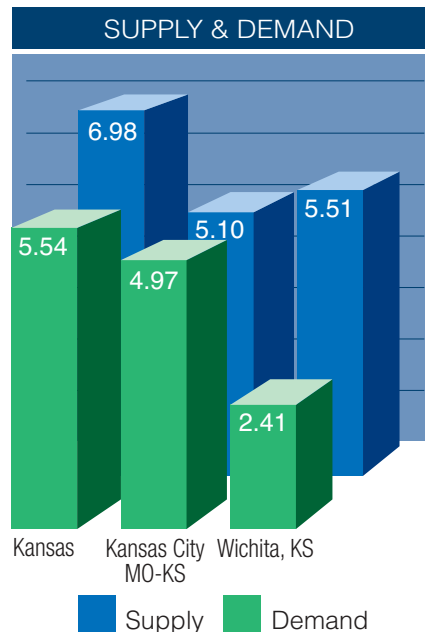
*By R. Christian Sonne, MAI*

An analysis of the Kansas market underscores the critical importance of local, market analysis. As industry concerns of over-building continue in a macroeconomic view, the winning self-storage projects demonstrate success is primarily a function of microeconomic analysis. In plain English, study the local trade area!

For example, according to the 2006 *Self-Storage Almanac*, the Kansas

has 6.98 square feet per person or significantly above the national average of 5.54 square feet per person. However, the Kansas City metropolitan statistical area (MSA) indicates 5.10 square feet per person and based on local demographics, the MSA is considered to be at equilibrium. In the Wichita MSA, existing supply of 5.51 square feet per person represents a significant over-supply compared to demand of 2.41 square feet per person. Available data in Kansas, as derived from the *Almanac*, is summarized in the Market Conditions Table.

The analysis is summarized graphically in the Supply and Demand Chart. The analysis indicates market conditions are best in the Kansas City MSA. In this case, the market analysis indicates significant over-supply in the state of Kansas and in the Wichita MSA in particular. Kansas is a case study that underscores that a local market analysis is best for the self-storage asset class. While the state appears to be over-supplied, a local market analysis (neighborhood) may cause one to think, "We're not in Kansas anymore". Local neighborhoods in Kansas warrant a closer look.



R. Christian Sonne, MAI is President of Huntington Beach, California-based Self Storage Economics, an appraisal, research, and analysis firm specializing in the self-storage asset class. He is also a member of the Appraisal Institute.

Wichita has a long history of providing a base of the nation's top entrepreneurs. Companies such as Pizza Hut, Papa Johns Pizza, Dean & DeLuca, and Cessna can trace their roots to the city. The self-storage industry is no different with regional chains such as U Stor, Security Storage, and Budget Storage being based there. While these chains enjoy significant market presence in Wichita, most of the holdings of these chains are outside the state.

### **Outlying Municipalities**

Outside of the above areas, there are only nine counties in the state with over 30,000 inhabitants. Other than Montgomery County (Independence, Kan.), all of those areas (Manhattan, Salina, Newton, Hutchison, and Abilene) are in central Kansas and are in a slow growth pattern. Furthermore, Central Kansas has significant exposure to the potential development of self-storage facilities by the military at the 100,656-acre Army Base at Fort Riley. While the probability of such development is unlikely in Kansas, the state and national self-storage trade associations have been monitoring the issue. Currently, the self-storage industry in the area is strong and in equilibrium, with some additional development on the horizon.

### **The Property Tax Challenge**

Property taxes in Kansas are unusually high by national standards. Some say that the property tax rates are similar to Texas, which does not have a state income tax. Because Kansas does have a state income tax, some taxpayers feel that the state unfairly double dips. Recently, however, there have been positive changes.

Governor Kathleen Sebelius appointed Judge Richard Greene to the Court of Appeals. Judge Greene spent nearly 30 years representing taxpayers in tax disputes and brings immeasurable knowledge to the appellate courts in this area. The governor also has replaced the entire Board of Tax Appeals. All board members are now attorneys. In addition to Rebecca Crotty and J. Fred Kublik, the Governor appointed Tom Slack, the first MAI appraiser to serve on the Kansas Board of Tax Appeals.

Linda Terrill, an attorney with Leawood, Kan., tax firm of Neill, Terrill and Embree, addressed the Kansas Self Storage Owners Association (KSSOA) last year and

informed the members that for the first time in her 20 years of practice in the area of property taxes, "the playing field has been leveled and it is safe to file a tax challenge in Kansas."

The KSSOA has been in existence for three years, and enjoys strong grass roots support. The trade association has enjoyed an active agenda of three or four meetings a year throughout the state, with legal education, and tax issues dominating the agenda.

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Self Storage Owners Association. Larry also specializes in the brokerage of self-storage facilities and is the Kansas/Western Missouri affiliate of the Argus Self Storage Sales Network.