



## Self- Storage Investments Pack Potential



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The profile of self-storage investments continues to increase in the commercial investment real estate sector. Investors initially perceived self-storage as a temporary means to warehouse land until higher and better uses came along. Self-storage is now considered to be one of those higher and better uses, with climate controlled rents approaching the lower end of office and apartment rents. Currently, 40,000 self-storage facilities with 1.5 billion square feet in storage space exist throughout the United States generating over \$15 billion a year in annual rents. The translation: If every U.S. resident of stepped inside a storage unit at the same time, we would still have room for more people.

### What drives America's thirst for storage space?

Many demographic factors are fueling the popularity of self-storage investments.

**Geographic mobility.** We are an increasingly more mobile society. Consistently during the past 10 years, more than 15% of the country's population has moved each year. Relocation is one of the main life events, along with marriage, divorce, and retirement, that triggers consumer use of self-storage.

**The peak in disposable earnings.** As Baby Boomers and Generation Xers become older and more affluent, they acquire more boy (and girl) toys that require storage. Jet skis, motorcycles, snow skis, and boats are examples of items frequently stored in facilities outside the home.

**The aging of America's population.** As Baby Boomers age and their children leave home, Baby Boomers tend to

sell their houses and move into smaller residences that require less maintenance. Their possessions may not down-size along with their dwellings, necessitating additional storage needs.

**Off-site storage for businesses.** Corporate America is constantly looking for ways to reduce costs and become more "virtual." With necessary samples and supplies in storage, businesspeople can work out of either their home offices and/or vehicles more efficiently. Furthermore, since 9/11, safety of records is increasingly more important as many companies have to store vital information off-site.

Investors also have noticed the appeal of self-storage, contributing to the increase in the industry's popularity. Self-storage REITS have been consolidating, as seen in last year's sale of Storage USA to Prudential Real Estate Investors and Extra Space Storage for \$2.3 billion.

In addition, private investors, who own 80% of the industry, see its profit potential. Investors love the industry's inverse relationship that exists between rate of return and intensity of management, relative to other product types. On the average, self-storage properties typically trade at capitalization rates 150 to 200 basis points over multifamily properties, while requiring less management attention.

The relative ease of management attracts many investors as well. Self-storage lends itself to self-management with direct

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employees, as opposed to third-party management companies. Currently, less than 5% of the privately owned facilities are managed by third-party management companies. But the use of outside management companies should increase dramatically as fierce competition takes its toll on investment performance and as increasing interest rates diminish the margin of error for profits.

The relatively low cost of construction further draws devel-

opers to self-storage. Even as municipalities demand higher quality and more aesthetic designs, construction costs are still significantly less than alternative property types. Self-storage also requires fewer capital infusions than other types of property investments. For example, self-storage owners do not have to replace appliances or repair plumbing as apartment building owners do. Unlike owners of office buildings, self-storage owners do not have leasing commissions to pay or improvements to perform as new commercial tenants move in.

### **Caution is warranted**

Of course, all of these assets could also be liabilities. Overbuilding is a risk for self-storage as it is with many other industries. Quite often, as one developer makes plans to build a new project, others are thinking the same thing. The end result is cyclical overbuilding, where supply gets ahead of demand, the markets stabilize, and developers overbuild a market. The cycle then starts over again.

Ultimately, the barriers to entry help create stability and

prop up rental rates. Municipalities typically discourage self-storage development, as the properties can be unattractive and the industry generally does not produce the jobs or tax revenue that shopping centers or office buildings can. But for many properties and investors, self-storage remains an appealing investment vehicle.

*Recently sold is the Bradford Mini Storage, Springfield, MO, with fourteen buildings on seven acres. Over 60,000 sf rentable space.*

