

# THE MARKET FOR SELF-SERVICE STORAGE FACILITIES: A REVIEW AND REVISED OUTLOOK

*An update on the new developments and expanding markets occurring within this young, burgeoning industry.*

by John Hysom

The self-service storage industry in the United States is 20 years old, and as the industry emerges, new construction techniques have been developed, materials adopted, services tried and new markets probed. Yet most facilities still closely resemble the original structures described as a multi-door, long and low concrete-block building with a poured-concrete floor and corrugated steel deck roof. Each of the units has one electric light bulb, a separate door and little else.

Recently, several fundamental changes have occurred, and many owners now provide a variety of services not before available. Managers of projects in busy commercial areas deliver boxes of records or other items to the customer and offer pay phones, car washes, photo services, keymaking, gasoline, vending machines and postal centers.<sup>1</sup> Some developers and owners have pioneered the concept of providing climate controlled space for storage of microfilm, computer records and other sensitive materials. While construction costs of these advanced facilities are expensive, the rents also are higher. But they are attracting a new market of businesses that can afford to protect their valuable items and materials.

Today planning for and constructing self-service storage facilities is becoming increasingly complex. Competition has become a problem in some places, and will continue to increase in nearly every metropolitan area. The level of customer sophistication, their changing needs and the newer facility designs and services offered, have changed the face of the industry, and careful market research and financial feasibility analyses now are required.

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This article describes a project that offered three vital lessons to learn regarding self-service storage facilities as an emerging income producing real estate investment (formerly called mini-warehouses<sup>2</sup>). The three lessons are: (1) market demand often can be more than an investor expects; (2) what might be considered high land costs are not really excessive after careful cash flow analyses are made and (3) people will pay more to get more in the 80s.

Also presented is a current perspective on the use of market analysis and its importance in helping to define or redefine client development goals while examining the obvious changes in market behavior.

Specifically, the focus is on two areas of analysis. The first is the importance and use of primary or first hand market data, rather than a review of something collected by someone else. In this case the primary data was a direct mail questionnaire survey used to evaluate the strength of the market for storing materials which require

expensive climate control. The study was undertaken to help decide whether or not to construct a traditional facility without climate controlled space, or a more expensive multi-story building which would appeal to a more sophisticated, demanding market segment.

The second area of study is the marriage of traditional market analysis techniques with financial feasibility and location analyses to reduce the number of potential sites. This approach was used to help select the most attractive submarket area. The key issue under study was whether it was better to build close in to the center of activity where land costs were high, or further out where costs were less. The relationships among land and construction costs, type of building, market demand and potential rents were all factors that influenced this market-type of decision. The analysis demonstrated that no clear line should be drawn between market and financial feasibility analysis which appear as two stages in the same decision-making process.

### **Self-service Storage Facilities In One Of The 10 Top Metro Areas**

The first mini-warehouse facility was built in Texas. As recent history has shown, it was an inspired change to the old concept of selling space for people and businesses to store personal and business items. For the first time, upscale households as well as businesses could rent small areas to store their ever increasing possessions. These areas could be entered at almost any time without having to obtain permission or assistance, and they could be locked up and left. The initial mini-storage facilities were pretty crude and had only one light hanging from a cord in the middle of the space, were not climate controlled and not especially attractive. But they were functional, and became popular when they were first constructed in the South, Southwest and West. A few years later, mini-warehouses were being built throughout the United States.

Ten years ago, the mini-warehouse came to a major metropolitan area and was built by a large California based firm nearly 40 miles from the center of activity. During the intervening years, between 40 and 50 additional facilities were constructed, and several nationwide firms entered the market specializing in self-service storage facilities.

#### *Fears of Market Saturation*

New facilities were being added every few weeks in some metropolitan areas during 1983-84 and some owners became concerned about market saturation. Other developers and owners coming into the market also were worried about where to locate, and what would happen to their customers if more projects were built.

A market research effort was executed to seek and find answers to those questions regarding the demand for self-service storage facilities in one of the strongest real estate markets in the nation. The case study to be presented describes an effort to select a site and develop a

marketing strategy for a sophisticated, experienced group of real estate investors and developers who were attracted to self-service storage facilities by increasing reports of builders who had succeeded in other markets. The problem or challenge, however, was that they had never built such a facility, and tended to be conservative in their investment approach.

### **The Case Study**

A number of unusual fundamental questions exist in this industry. One of the most basic and perhaps most critical concerns is how to measure the demand for space. Almost every month we read articles about new houses, townhouses and apartments with smaller and smaller square footage. Developers save space by offering less storage area. This means for all the pack rats or squirrels of yesteryear who kept everything, someone has to provide a place to store these treasured artifacts. This is an emotionally oriented marketplace where costs may not be the primary consideration.

Because it is a new market, a whole host of new questions need answering. Is there a logical limit? Is that limit one square foot per person living in a community, as Richard Cornwell and Robert Siegel have said?<sup>1</sup> Do some factors tend to increase the demand to more than one square foot per person as Robert Siegel maintains?<sup>2</sup> What is the saturation point for personal storage space? How can it be measured? Does total demand increase as people learn about the advantages of personal storage facilities? Can a developer or owner do anything to assure his or her facility will remain full?

#### *The Purpose of the Market Analysis*

The research objective addressed four major areas of consideration. Is the demand for self-storage facilities sufficiently strong to sustain existing and additional facilities for at least the next 10 years? What type of facility should be built? Where should it be located? How profitable will it be?

Very few real estate market research studies are this specific or this demanding. In this case, however, the experienced principals were determined to devote their time and resources to build a project that was sound and profitable. Almost no market research projects include a series of sites with different ranges of profit estimates. Most all look at one, maybe two sites and want to know if there is a market for the space. Here the principals asked which site and design would make the most profit over the long run. This entered the realm of financial feasibility analysis for different sites with totally different attributes. Many builders/developers/investors conduct this analysis themselves or hire financial specialists to perform this task. Rarely do they include a set of multiple sites and most do not include the question about profitability although this is happening more in recent years.

To complete this broad assignment, the market research/financial analysis team approached the problem from a nontraditional viewpoint. Having studied the market for self-service storage facilities in the metropolitan area on

several occasions over the past decade, they were confident about the financial strength of the households, the steady growth of population, employment and income and the need for personal storage space.

However, the team had never examined the market to learn about such things as the changing perceptions of people regarding personal storage space, the demand for more sophisticated facilities (climate controlled space or single building design) or where to locate mini-warehouses. This project called for a new approach, one that included gathering primary data from potential customers for the space; it also included a preliminary financial feasibility analysis.

The following discussion describes some of the methodology employed in the study and reviews different perceptions regarding personal storage facilities. The results provide some very encouraging prospects for future development.

## The Analysis

### Market Analysis Summary

Our traditional market analysis performed five basic tasks:

- estimated the growth potential in terms of population, households, income and employment for the market or trade area;
- estimated the existing and projected demand for personal storage space in some degree of detail;
- inventoried the supply of competing facilities, now and in the immediate future;
- computed net demand, and
- offered design recommendations.

### Growth Potential

The first step was an examination of the growth in population, households, income and employment. This confirmed the belief that the market is and will probably continue to be healthy in the foreseeable future. The population of the metropolitan area had increased by only 150,000 people between 1970 and 1980, barely 17% over the previous decade. But the number of households had increased by more than 200,000 during the 70s and is expected to grow by nearly 170,000 households in the 80s. Two of the highest median family income urban counties in the nation, Jackson and Fulton, were among the fastest growing sections in the metro area. Jackson County had added over 50,000 households during the 70s, and Fulton County had increased by more than 80,000 households. The employment base is large and growing. Total employment in the metro area in 1980 was 1,725,000, and this is projected to increase to more than 2,000,000 by 1990.

### Demand for Personal Storage Space

The second step was to study the market demand in some detail. This involved examining the numbers of existing and planned pipeline (projects being approved

by local government) single and multi-family housing units around the potential sites and the type of storage space in each type of housing, an inventory of the existing and planned pipeline commercial and industrial space users around each potential site by type and size and the mobility of each potential user. These are all factors Robert Siegel specifies can markedly increase the demand for storage space. His formula for estimating the amount of storage needed is to, "expect a demand of one square foot of mini-warehouse leasable area for every person living in a trade area," plus an increase of one-third square feet for areas where "households living in multi-family units account for more than 25% of all households, the mobility rate is 25% or more or commercial establishments account for 25% or more of all telephone listings."

Since the areas around the close-in sites consist of apartments, considerable commercial development and a very mobile population, the Siegel formula for demand rose from one square foot per person living in the area to two. Even though this formula was designed for use in estimating demand for specific sites and not for entire market areas, sufficiently large areas of these two counties possessed the characteristics that call for a higher ratio. Thus, the demand for personal storage space in Fulton County in 1980 was more than 2.2 million sq. ft. (1.1 million people times a factor of two). Each year another 18,000 people increase this demand by 36,000 sq. ft. (See Table 1)

The 1980 population of Jackson County was 580,000. With a fairly large proportion of multi-family housing, a high mobility rate and a concentration of commercial development, the personal storage ratio of 2.0 times the number of people produces a total demand of 1.16 million sq. ft. of storage space.

**TABLE 1**

Population And Demand For Personal Storage Space  
In Fulton And Jackson Counties  
1980 to 1992

| Year | Fulton County   |                                | Jackson County  |                              |
|------|-----------------|--------------------------------|-----------------|------------------------------|
|      | Popul.<br>(000) | Pers. Storage<br>(000 sq. ft.) | Popul.<br>(000) | Pers. Stor.<br>(000 sq. ft.) |
| 1980 | 1105            | 2,200                          | 580             | 1,160                        |
| 1984 | 1175            | 2,350                          | 602             | 1,204                        |
| 1985 | 1195            | 2,390                          | 607             | 1,214                        |
| 1986 | 1213            | 2,426                          | 613             | 1,226                        |
| 1987 | 1230            | 2,460                          | 618             | 1,236                        |
| 1988 | 1250            | 2,500                          | 624             | 1,248                        |
| 1989 | 1267            | 2,534                          | 630             | 1,260                        |
| 1990 | 1285            | 2,570                          | 635             | 1,270                        |
| 1991 | 1303            | 2,606                          | 641             | 1,282                        |
| 1992 | 1321            | 2,642                          | 646             | 1,292                        |

Note: Space demand projections assume a demand of 2.0 square feet per person in the population, a higher rate than would apply to the urban fringe areas, but one that can be considered realistic based on characteristics of the county as a whole.

### Inventory Existing and Planned Supply

The third step in the market analysis was to inventory the existing and planned personal storage facilities in the metropolitan area. Information was gathered about their rent levels, vacancy rates, number of storage units by size and the mix of customers. This step involved visiting the facilities' sites and talking with the managers and the city and county planning and land use control officials about the projects in the approval pipeline. It was essential to learn what new projects would be coming into the market in order to complete the picture of the present and future competing facilities.

The research for this step revealed an interesting trend. The recent construction of competing facilities occurred in Fulton County, the fastest growing of the counties in the metro area. The other attractive county, Jackson, however, had only a few facilities, and very little land zoned for more. In Fulton County, supply could well exceed demand, but in Jackson County, demand would probably always exceed supply unless a dramatic change occurred in the zoning of vacant industrial land. The remaining cities and counties were rejected for various reasons. The remaining analysis focused on these two counties.

An important fact learned in the supply analysis was that while nearly 20 facilities were up and operating in Fulton County, the vacancy rates approached zero in all but a few troubled projects. Saturation had not been reached in any part of the metro area.

### Net Demand

Comparing demand and supply to compute net demand was the fourth step in the analysis, and after narrowing

the market areas down to Fulton and Jackson, this step was relatively simple.

The inventory of existing mini-warehouse space in Fulton County was just over one million sq. ft. A demand of 2.2 million sq. ft., more than two times the available space, was very encouraging. At the rate the population was increasing by 18,000 each year during the 80s, the need for additional space rises by 36,000 sq. ft. per year. The supply of new personal storage space was being completed at the rate of 200,000 sq. ft. per year. At this rate, if the demand does not change per person, the saturation would be reached in 1992. (See Table 2)

In Jackson County, the picture was even more encouraging. With a 1980 population of 580,000 and a demand factor of 2.0, the total demand was estimated to be 1.16 million sq. ft. in 1984. With an inventory of less than 200,000 sq. ft. and an estimate of little new development, the market was judged to be very safe and attractive with nearly one million sq. ft. of excess demand over the next eight to ten year period.

### Project Design

The fifth step of the market demand analysis was to select design criteria for the facility. The task of our market analysis/feasibility team was to specify the kind of building or buildings that would best meet market demand for the next 10 years. The analysis for this step involved evaluating existing and competing projects, reviewing the literature about what was in demand and being built in other parts of the country and conducting a consumer survey.

### Collecting Primary Data—The Consumer Survey

While a number of articles and books describing market analysis techniques urge the analyst to conduct consumer surveys to discover preferences, most analyses do not include them. While describing the shortcomings of most market and feasibility analyses in his book, *How to Conduct and Analyze Real Estate Market and Feasibility Studies*, Vincent Barrett said, "An internal weakness in most real estate market analysis is the lack of consumer surveys. Most studies will employ the use of macroeconomic and microeconomic tools of analysis. These tools, for the most part, are necessary and appropriate and provide essential information. However, in most market studies it is necessary to address the question of consumer preferences. These preferences may relate to questions concerning specific types of dwelling units desired, size requirements, location preferences, amenities desired and ownership patterns. The present methods of economic analysis are only poorly suited to this important area of study."<sup>6</sup> Dr. Barrett continues, "The determination of consumer preferences with respect to the development of real estate resources is an area of study that is still in its infancy. There are a few firms that are active in the area of surveying consumer preferences and attitudes with respect to real estate, but this type of analysis is sorely lacking in the typical market study being produced today."<sup>7</sup>

**TABLE 2**

Net Demand For Personal Storage Space  
In Two Counties  
1984 to 1992  
(Million Square Feet)

| Year               | Fulton County |        |      | Jackson County |        |      |
|--------------------|---------------|--------|------|----------------|--------|------|
|                    | Demand        | Supply | Net  | Demand         | Supply | Net  |
| 1980 <sup>1/</sup> | 2.20          | 0.50   | 1.70 | 1.16           | 0.16   | 1.00 |
| 1984               | 2.35          | 1.00   | 1.35 | 1.20           | 0.20   | 1.00 |
| 1985               | 2.39          | 1.20   | 1.19 | 1.21           | 0.20   | 1.01 |
| 1986               | 2.43          | 1.40   | 1.03 | 1.23           | 0.25   | 0.98 |
| 1987               | 2.46          | 1.60   | 0.86 | 1.24           | 0.25   | 0.99 |
| 1988               | 2.50          | 1.80   | 0.70 | 1.25           | 0.25   | 1.00 |
| 1989               | 2.53          | 2.00   | 0.53 | 1.26           | 0.30   | 0.96 |
| 1990               | 2.57          | 2.20   | 0.37 | 1.27           | 0.30   | 0.97 |
| 1991               | 2.61          | 2.40   | 0.21 | 1.28           | 0.30   | 0.98 |
| 1992               | 2.64          | 2.60   | 0.04 | 1.29           | 0.35   | 0.94 |

1/ Inventories of personal storage space for 1980 are estimates.

Note: Demand estimated to be 2.0 square feet per person in the population, a higher rate than would apply to the urban fringe areas.

Source: Population data for 1980 and 1990 from Metropolitan Council of Governments Forecasts.

The consumer survey was a valuable tool of analysis in the exploration of personal storage facilities in the metropolitan area. It consisted of a questionnaire survey mailed to the residential units and businesses in the areas around the most attractive potential sites. The purpose of the survey was to learn from the potential consumers if they were aware of the availability of self-service storage facilities; if they needed personal storage space, how much, for what use, and what would they be willing to pay; would they like access to the space, how far would they be willing to travel to the facility, and most important, if they wanted climate control, a 24-hour security guard, night access, or a pick-up and delivery service.

The survey was conducted among several hundred randomly selected phone book addresses of households and local businesses. The mailing included various incentives for response, and it produced a 35% return rate. It should be noted that in market surveys of this nature, every response is valid as opposed to other surveys to which statistically valid formulae must be applied. We were simply gathering information. Answers to these and other questions provided much of the information we needed to formulate our recommendations about facility design. Our decisions to make were: should it be the traditional low-cost no frills design, the newer more expensive second generation design with climate control and should it include tighter security?

When the business manager was asked on the questionnaire if his or her company "would be interested in a personal storage facility that was climate controlled," 63% answered yes. When asked if he/she "would pay 10 to 20% extra to store computer tapes or disks, microfilm, valuable papers or other sensitive items in a climate controlled room," 26% answered yes. The response to the same question on the survey sent to households was 42% in favor of climate controlled space. When asked if "a 24-hour security guard would be helpful," 63% of the business managers and 63% of the households answered positively. In addition, 68% of both businesses and households would prefer to have night access. On the other hand, only 21% of the business managers said that pick-up and delivery service would help their

companies, and only 26% of the households said it would help to offer a safety deposit vault.

The responses, together with answers to the other questions—information from the survey of competing facilities and a literature search—provided the data required to make design recommendations to the architect and builder. We were sufficiently encouraged about the need for climate controlled space to recommend a multi-storied building with some, if not all, temperature controlled space. Since no other project in the trade area offered this second generation sophistication, the project would enjoy a monopoly on this portion of the market until other similar facilities were built.

The wholly enclosed, multi-storied building meets another market demand, a need for tighter, 24-hour security. With access to the building restricted to only one entrance, and with a 24-hour guard for protection, the security would be considerably better than the traditional chain-link fenced enclosure around several one and two story buildings with external doors to the storage spaces. Even with guard dogs at night and a resident manager, the traditional facility is more vulnerable to break-in than the totally enclosed multi-story building. The need for a safety storage vault is sufficient to include a limited amount of space initially with the flexibility to expand later.

Finally, the policy of providing a pick-up and delivery service for a modest fee is popular enough for serious consideration by the developers and owners. It is, however, a policy that need not affect the building design and can be implemented after the project is under construction.

#### *Final Site Selection*

The final step of the market/feasibility analysis was to rank the profit potential of the proposed sites, and this required a preliminary feasibility analysis. The rates of return were computed for three or four more attractive sites to determine how much could be paid for land. Although the market analysis strongly urged constructing the newer multi-story structure, the final decision would depend on how much the additional construction

**TABLE 3**  
Four Test Sites For Sensitivity Analysis  
October, 1983

| Project        | Location | Visibility | Size (SF) | Cost   |           |
|----------------|----------|------------|-----------|--------|-----------|
|                |          |            |           | Per SF | Total     |
| Jackson County | Close    | Good       | 90,000    | \$4.50 | \$405,000 |
| Fulton County  |          |            |           |        |           |
| Cardinal Park  | Close    | Good       | 65,000    | 5.00   | 325,000   |
| Robin Park     | Close    | Excellent  | 87,000    | 8.00   | 695,000   |
| Bluebird Park  | Semi     | Weak       | 130,800   | 2.50   | 325,000   |

Source: Plats and conversations with owners and Realtors\*.

**TABLE 4**  
Comparison of Multi-Story Designs  
On Three Close-in Sites  
(In Thousands of Dollars)  
October 1983

| Item                            | Fulton County |           |           |
|---------------------------------|---------------|-----------|-----------|
|                                 | Cardinal      | Robin Pk. | Jack. Co. |
| Land Area                       | 65,000 SF     | 87,000 SF | 90,000 SF |
| Building Area                   | 90,000 SF     | 90,000 SF | 90,000 SF |
| Net Rentable Area               | 75,750 SF     | 75,750 SF | 75,750    |
| Rent/SF                         | \$11.00       | \$11.00   | \$11.00   |
| <b>Total Costs</b>              |               |           |           |
| Land                            | \$ 325        | \$ 695    | \$ 405    |
| Construction                    | 2,340         | 2,340     | 2,340     |
| Total                           | 2,665         | 3,035     | 2,745     |
| <b>Permanent Financing</b>      |               |           |           |
| Mortgage                        | 2,000         | 2,275     | 2,060     |
| Equity                          | 665           | 760       | 685       |
| <b>Pro-Forma Inc. Statement</b> |               |           |           |
| Sched. Gross Income             | 833           | 833       | 833       |
| Less Vacant/Loss                | 42            | 42        | 42        |
| Effect. Gross Income            | 791           | 791       | 791       |
| Less Opr. Expense               | 237           | 237       | 237       |
| Net Oper. Income                | 554           | 554       | 554       |
| Less Debt. Svc.                 | 320           | 364       | 329       |
| <b>Annual Cash Flow</b>         |               |           |           |
| Before Taxes                    | 234           | 190       | 225       |
| <b>Rate of Return</b>           |               |           |           |
| Cash on Cash                    | 35.2%         | 25.0%     | 32.9%     |
| <b>Capitalized Value</b>        |               |           |           |
| (cap. rate—.11)                 | \$5,036       | \$5,036   | \$5,036   |

costs would affect profit ratios against investment. Consequently, the preliminary financial feasibility analysis would have to include a sensitivity analysis testing such factors as type of structure, land cost, rent level and market demand. Our findings would answer the remaining questions of whether it is better to build close in where land costs more with higher rents and stronger demand, compared to building on less expensive land; and the question of whether it is feasible to construct the more attractive multi-storied building?

A dynamic cash flow model was used to test these and other variables in preliminary sensitivity analysis. Further sensitivity testing was planned for subsequent project planning stages after site selection. The conservative assumptions for the cash flow model were the following:

1. A five percent vacancy rate for multi-story building, 10% for traditionally designed projects.
2. Borrow 75% of total land and construction costs.
3. Long-term financing for 15 years at 14%.
4. Rents similar to existing nearby operating projects on comparable sites. This was \$6.50 per sq. ft. for the traditional design at the Bluebird Park site and \$8.70 per sq. ft. on the close-in sites. A 25% premium was

added for the multi-story design (all on the close-in sites). The difference in rent levels between the Bluebird Park site and the close-in sites was due to the higher rents charged by existing traditionally designed close-in projects.

5. A 30% expense ratio.
6. Construction and development costs of \$18 per sq. ft. for the traditionally designed building, and \$26 per sq. ft. for the newer multi-story structure.
7. Multi-story structure would be a 90,000 sq. ft. building constructed only on close-in sites near concentrations of commercial establishments and high-tech.
8. The traditional design would be built on all of the sites, including a second story where appropriate.

Four sites were selected for the sensitivity analysis. Three sites were in Fulton County and one was in Jackson County. (See Table 3)

The cash flow sensitivity tests were conducted for both the traditional and multi-story structures on the three close-in sites and only the traditional design on the more remote site in Bluebird Park, because the consumer survey showed the market for climate controlled space was

**TABLE 5**  
Comparison Of Traditional  
Designs On Four Sites  
(In Thousands Of Dollars)  
October 1983

| Item                         | Fulton County |           |            |           |
|------------------------------|---------------|-----------|------------|-----------|
|                              | Card.Pk.      | Robin Pk. | Blue.Pk.   | Jack. Co. |
| Land Area                    | 65,000 SF     | 87,000 SF | 130,000 SF | 90,000 SF |
| Bldg. Area                   | 58,000 SF     | 78,000 SF | 82,000 SF  | 67,000 SF |
| Net Rentable                 | 46,700 SF     | 64,000 SF | 76,000 SF  | 55,000 SF |
| Rent/SF                      | \$ 8.70       | \$ 8.70   | \$ 6.50    | \$ 8.70   |
| <b>Total Costs</b>           |               |           |            |           |
| Land                         | \$ 325        | \$ 695    | \$ 325     | \$ 405    |
| Construction                 | 1,045         | 1,405     | 1,475      | 1,205     |
| Total                        | 1,370         | 2,100     | 1,800      | 1,610     |
| <b>Permanent Financing</b>   |               |           |            |           |
| Mortgage                     | 1,030         | 1,575     | 1,350      | 1,210     |
| Equity                       | 340           | 525       | 450        | 400       |
| <b>Pro-Forma Inc. Statmt</b> |               |           |            |           |
| Sched. Gross Inc.            | 406           | 557       | 494        | 478       |
| Less Vac/Loss                | 41            | 56        | 49         | 48        |
| Effect. Gross Inc.           | 365           | 501       | 445        | 430       |
| Less Opr. Exp.               | 110           | 150       | 134        | 138       |
| Net Oper. Income             | 255           | 351       | 311        | 292       |
| Less Debt Svc.               | 165           | 251       | 216        | 193       |
| <b>Annual Cash Flow</b>      |               |           |            |           |
| Before Taxes                 | 90            | 100       | 95         | 99        |
| <b>Rate of Return</b>        |               |           |            |           |
| Cash on Cash                 | 26.5%         | 19.1%     | 21.1%      | 24.8%     |
| <b>Capitalized Value</b>     |               |           |            |           |
| (cap. rate—.11)              | \$2,318       | \$3,191   | \$2,827    | \$2,655   |

**TABLE 6**  
Comparison of Rates of Return  
For Two Designs  
October 1983

|                | Facility Designs |         |             |         |
|----------------|------------------|---------|-------------|---------|
|                | Climate Control  |         | Traditional |         |
|                | (Percent)        | (000)   | (Percent)   | (000)   |
| Fulton County  |                  |         |             |         |
| Cardinal Park  | 34.4%            | \$5,036 | 26.5%       | \$2,318 |
| Robin Park     | 25.0             | 5,036   | 19.1        | 3,191   |
| Bluebird Park  | —                |         | 21.1        | 2,827   |
| Jackson County | 32.9             | 5,036   | 24.8        | 2,655   |

Source: Based on pro-forma income statements shown in Tables 4 & 5.

only near the close-in sites. The results of the tests are shown in Tables 4 and 5 and summarized in Table 6.

Table 6 compares the rate of returns of the two different designs for three sites and the traditional design for Bluebird Park. In deciding whether to build on a more expensive location close-in or less costly farther from the center of activity, the summary of the sensitivity analysis clearly shows the higher rents achievable on the close-in sites more than compensates for the higher land costs. The rates of return are generally higher for the traditional design on the close in locations than on the farther out Bluebird Park.

The second major dilemma—which type of facility to construct—is not quite as clear. While the rates of return are higher for the climate controlled design than for the traditional design close-in, the equity investment required to build the climate controlled building is more. However, there were two major advantages to building the climate controlled structure. First, it would provide the opportunity to dominate the market for storing sensitive goods as well as the additional protection of knowing more people preferred to store goods in a modern, secure facility. It provided the additional assurance that occupancy rates would be high should the market become saturated with personal storage facilities and it also would protect the investment against future competition. A second important advantage was that a much higher resale value would be realized. Initially, the climate controlled design was nearly two times the value of the traditional facilities. After several years of successful operation, however, the difference in values could be even more. Finally, the assumption that rents could be only \$2.30 per sq. ft. higher for the more modern design may be too conservative (\$11.00/SF). An increase of only \$1 would increase the rate of return by more than seven percentage points making the climate controlled structure considerably more profitable than the traditional model.

The development/investment client group decided to buy the Jackson County site and construct the climate controlled facility.

Using this set of profit-making assumptions, the most

attractive combinations appear to be the close-in sites with the multi-story, climate controlled design. The rates of return and capitalized values are substantially higher for the climate controlled structures. In addition to the higher returns, the climate controlled designs provide better market penetration and long-term occupancy. The only apparent disadvantage is the higher up-front cost of land and construction which requires a larger equity investment and a larger mortgage loan. Additional sensitivity tests were made evaluating feasibility under different assumptions about rent levels, construction costs, varying sizes of facilities and sale prices. The conclusions did not change.

## Conclusions

When the development team and their investors realized that the new design could be more profitable (especially on the Jackson County site) and future competition would not be a serious problem, the decision was to immediately begin negotiations to purchase that location.

Several lessons were learned from this experience—market demand often may be greater than most people believe; the market continues to expand as more households and businesses discover the personal storage concept; market segments exist in most communities yet to be tapped; it is possible to pay more for land if a location has superior advantages; considerably higher rents are possible for ideal or unique locations that are hard to duplicate; it is possible to earn a good return from a self-service storage facility that is well conceived, designed, built, multi-storied, full serviced and even partly climate controlled. A substantial market may well exist in many other up-scale communities for climate controlled personal storage space. Since most current facilities provide little more than dry secure space, little is known about the more expensive, climate controlled, more secure, newer-types.

While market saturation for the traditional personal storage facility in many communities may be reached in the next few years, we sincerely believe the market has hardly been tested for innovative approaches in most localities. A creative entrepreneur can discover a combination of market segments and go on to design a facility that has the highest occupancy rates in his or her market area.

## NOTES

1. Richard E. Cornwell with Buzz Victor, *Self-Service Storage: The Handbook for Investors and Managers* (Chicago, IL: Institute of Real Estate Management, 1983), 149-151.
2. *Ibid.*, vi.
3. *Ibid.*, 52-53; and Robert L. Siegel & Associates, Inc., *Introduction to Mini-Warehouses* (New Orleans, LA: Robert L. Siegel & Associates, Inc., 1981).
4. Siegel, *op. cit.*
5. *Ibid.*
6. G. Vince Barrett and John P. Blair, *How to Conduct and Analyze Real Estate Market and Feasibility Studies* (New York: Van Nostrand Reinhold Company, Inc., 1982), 311.
7. *Ibid.*