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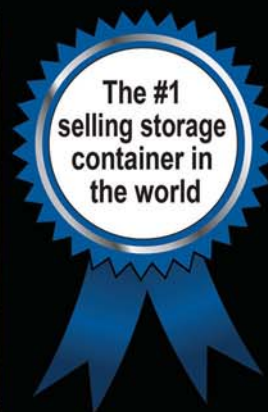

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Why INVESTORS Should Consider SELF-STORAGE

If you've been looking for your next great business venture, chances are you've heard about self-storage. In the last few years, major media outlets have covered the growth of the industry, including "Forbes," "The New York Times," the "San Francisco Chronicle" and many others.

According to Bloomberg, the number of available storage units on the market more than doubled from 1998 to 2012. Business-media website Bold Business reports the industry comprises more than 2.3 billion rentable square feet, growing 7 percent annually. This $38 billion business shows no sign of slowing, but that isn't the only reason it's a prime investment opportunity.

Profit Potential

Every market has its idiosyncrasies and revenue drivers. Generally, a storage facility with 40,000 rentable square feet in a market bearing monthly rental income of $9 per square foot will generate $450,000 in gross annual rent at 100 percent occupancy, according to The Parham Group (TPG), which specializes in self-storage consulting, construction, development and management. A 29.6 percent return on investment is a standard profit margin in the industry, company officials say.

In self-storage, income is primarily derived from the rental of space, but add-on products and services can also yield healthy profit. Many facility operators sell locks, moving and packing supplies, and other retail merchandise. Additional profit centers include truck rentals, outdoor vehicle storage, records storage, wine storage, pack and ship services, and others. Additional ways to incrementally increase revenue include charging late fees and offering tenant insurance or a tenant-protection plan, on which the storage operator earns a commission.

Of course, the best way to operate a stable business is to have great tenants who pay rent on time, but TPG estimates that add-on income streams such as retail sales can add another 5 percent to facility revenue. That may not sound like a lot, but that's supplemental income that typically doesn't require a lot of heavy lifting.

Ease of Operation

Many small businesses require years of constant hard work to stabilize and maintain efficiency. While operating a self-storage facility isn't always easy, modern advancements can make it a relatively painless and even remote process. By leveraging a call center, online rental tools, automatic gates, smart devices and other technology, storage operations can function with little overhead and few employees. Setting up a fully automated facility takes some initial investment, but the long-term convenience and revenue opportunities are plentiful.

Investment Options

Those looking to profit from self-storage without having to own or manage a facility themselves can consider hiring a third-party management firm to oversee day-to-day operation. To be even further removed, consider investing in an industry real estate investment trust or becoming an angel investor to an existing operation. Hands-off investment can be a great way to get your feet wet before diving in headfirst with your own business.

Entering the self-storage industry isn't a quick process. Begin by deciding how involved you want to be. If you prefer to invest in someone else's company, do research to find one you trust. If you want to operate a facility of your own, explore the many industry vendors who can help you along your journey. Investigate applicable land issues, zoning laws and business licenses.

There are no guarantees that your business will be successful; however, a self-storage facility is widely considered to be one of the safest real estate investments you can make. It might just be worth taking a chance to be part of this $38 billion and growing industry! ISS

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"While operating a self-storage facility isn't always easy, modern advancements can make it a relatively painless and even remote process.

Active vs. *Passive* Investing

After conducting a long search in which you attended several real estate conferences, read dozens of articles and listened to loads of podcasts, you've finally settled your investment target on the best asset class around: self-storage. So, now what?

There are two main approaches to investment—active and passive. As an active investor, you'll directly own the facility. You'll determine feasibility, obtain a loan, oversee operation, maintain the property, etc. In contrast, a passive investor can enter the market through a publicly traded real estate investment trust (REIT) or private syndication, known as a private placement. Let's examine these options to help determine which is right for you.

Active Investment

If rolling up your sleeves and managing your self-storage business sounds inviting, active investing might be the best route for you. First, consider these three critical areas.

Feasibility. If you're building, a feasibility study helps determine whether there's enough market demand to support a new project. If you're acquiring an existing facility, it'll help you understand your micro-market. There could be building permits in the pipeline, which would mean increased competition from new developments or expansion of existing properties. If those projects come to fruition, how will they impact your business prospects?

Don't try to tackle feasibility on your own, especially if this is your first development or purchase. There are several consultants in the industry who can help you.

Financing. Though less complex than other real estate asset classes, self-storage has become more expensive in the last few years. Unless you're sitting on a pile of cash, you'll need a loan. Two great options to consider are local banks and the Small Business Administration, though there are others, such as commercial mortgage-backed securities and life-insurance companies. Whatever lenders you approach, have your attorney review all loan documents and choose the one that best fits your needs.

Facility operation. An active investor needs to be educated in effective facility operation. What's your marketing plan? How will you maintain the property? How will you train employees? What will be your policies and procedures? What are the legal concerns?

Of course, you can outsource to a third-party management company. This can be a great strategy, and there are numerous options available; but it's important to vet your candidates, as you'll be entrusting them with a multi-million-dollar asset. Think of it this way: How will you manage the management company?

Passive Investment

If directly owning and operating self-storage sounds daunting, don't fear. You can still own a piece of a single facility or even multiple properties by becoming a passive investor and collecting "mailbox money." In this case, you're a partial owner, but you won't be required to engage in any part of the operation.

One way is to invest in a publicly traded REIT. It's as easy as finding the company's stock on any exchange and purchasing the desired number of shares. If you like the idea of owning a larger piece of the pie with a smaller group, making a private placement is the way to go. Either way, you'll need to do some homework to ensure you're making a good investment.

The team. The most important aspect in any private placement is to know the people with whom you'll be in business. A good team can take a poor investment and turn it around, while a bad team can take an amazing opportunity and destroy it. I make all my private-placement decisions based on the team first and the deal second.

To get to know your team members, Google them. Dig into their personal lives. Ask any question you want. Nothing is off the table here. How many deals have they done? What are their average returns? What are their mission, vision and values? Do they align with your own?

The deal. The other key here is the deal itself. Do the numbers make since? Did the team perform a sufficient level of due diligence?

Make sure you understand your rights in the deal. All private placements will include several documents to review, and some could be 150 pages or more. Read them all. If you aren't comfortable reviewing them, spend the money to have an attorney do it. Just make sure the attorney you hire has experience with private placements. Some investors have missed out on good deals because their lawyer lacked the proper experience in these kinds of transactions.

For anyone on the fence about which investment track to take, I often recommend finding a sponsor with whom you can invest passively and learn what it takes to operate self-storage. Once you've been part of an investment for a while, the right path for you will become clearer. Because self-storage is such a great asset class, either investment strategy—active or passive—can yield years of rewarding ownership, each with its own benefits. ISS

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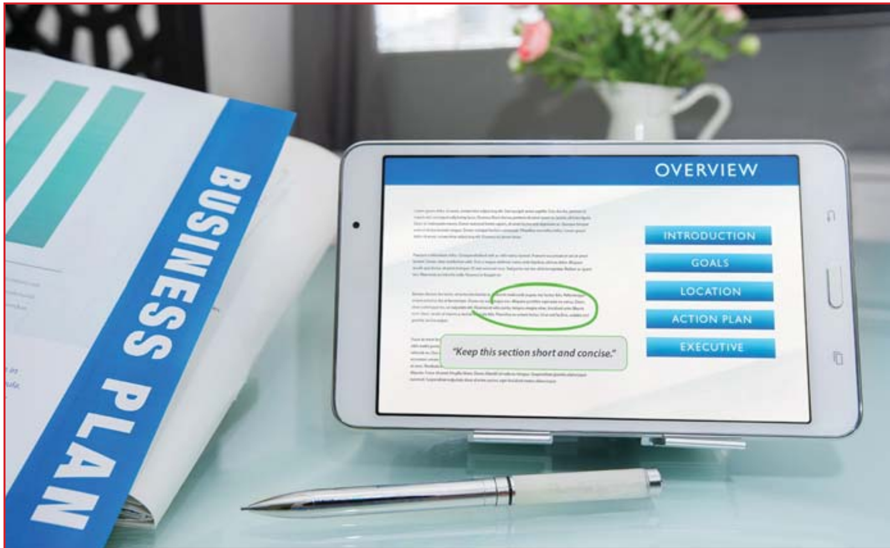
Writing a Business Plan to Attract Investors



Writing isn't easy. Even professional authors need strategies and tricks to help them through the process, from using a special pen to sitting in a distraction-free room.

If you're looking to launch a self-storage business and attract investors, you first need a plan; but writing one can be tough. You want it to be enticing but accurate. Blandness and mistakes can be costly, each in their own way.

So, what do you do? Channel your inner Tom Clancy! As the author of more than 17 bestsellers, the man knew what he was about. He said, "Writing is beastly hard work, which one would just as soon not do. It's also a job, however; and if you want to get paid, you have to work. Life is cruel that way." Amen, Tom, amen. Now let's get paid, my self-storage brothers and sisters. Hallelujah!

I'm going to assume you know how to use the Internet to figure out the essentials any business plan must contain. Now, I'm going to take a page from Tom's playbook and share five tips that will help you polish it up to be "The Best Self-Storage Business Plan of All Time … With No Expensive Mistakes."

Keep Your Audience in Mind

Who's going to read your business plan? Is it potential investors with whom you need to make a positive impression quickly? Is it bankers, who are formal and more concerned with detailed financial analysis than a unique concept or impressive resume? What about potential partners who are wondering what their roles would be in the operation? Is it managers who need a clear, strategic vision and objectives?

Depending on the audiences your plan will serve, you may need to create multiple versions. The good news is the financial analysis will stay the same. The points you want to stress to each audience will vary.

Don't Bury Assumptions in Facts

What's the difference between fiction and reality? Tom says, "Fiction has to make sense." The reason "The Hunt for Red October" is compelling is because it seems like it really happened. In a business plan, your fictional statements are called "assumptions," and you need to make sure they're clearly labeled as such.

State the assumptions your plan makes, and then support them with research and industry data. Don't mislead the reader by portraying them as reality. Market demand, lease-up schedules and phasing projections are examples of reasonable assumptions every self-storage investor must make. You should capture all of these from your feasibility study.

Create Personas for Key Customer Segments

Your self-storage facility is going to serve *human beings*. Your feasibility study should provide information about them. Your business plan should talk about who they are, what they want and how to reach them.

Review the demographic (age, gender, salary, family, etc.) and psychographic (attitudes, lifestyles, values, etc.) data of the customers your facility will serve and create personas for the key segments of your target audience. Once you know their primary goals, challenges, values and fears, you can create a specific marketing message and strategy for each customer type.

This is the essential starting point for developing an exceptional facility. Not only is it the basis for your unit mix, personas are the stars of everything you envision. Follow Tom's advice: "Don't just write, tell a story." And use your personas as the main characters.

Fill Knowledge Gaps With a Pro

No one is an expert in everything. Your business plan will have knowledge gaps. For example, perhaps you're good at financial analysis but don't know anything about marketing. That's OK. Get help with that part from a professional.

Even if you consider yourself a "self-storage expert," you may still need help from engineers, attorneys and accountants. Your "Best Business Plan of All Time" will need input from other experts, from a feasibility consultant to a property-management company, depending on your limitations.

Embrace Hard Work

Never use a "boilerplate" business plan. Self-storage isn't a boilerplate business! Simply cutting and pasting is an easy way to set yourself up for failure. If you follow the advice Tom and I have given you above, your plan will be unique, and going through the process will lead you to explore the distinct advantages and challenges of your project. The more you research and learn, the better equipped you'll be to customize and revise.

Before he created a spy-book phenomenon encompassing more than 100 million books sold, multiple movies and video games, Tom was a humble insurance agent. His relentless pursuit of excellence led to his tremendous success, and channeling his attitude can help lead you to your dream self-storage facility. As he said, "If you want to kick the tiger in his ass, you'd better have a plan for dealing with his teeth." You heard the man. Now get to work! ISS

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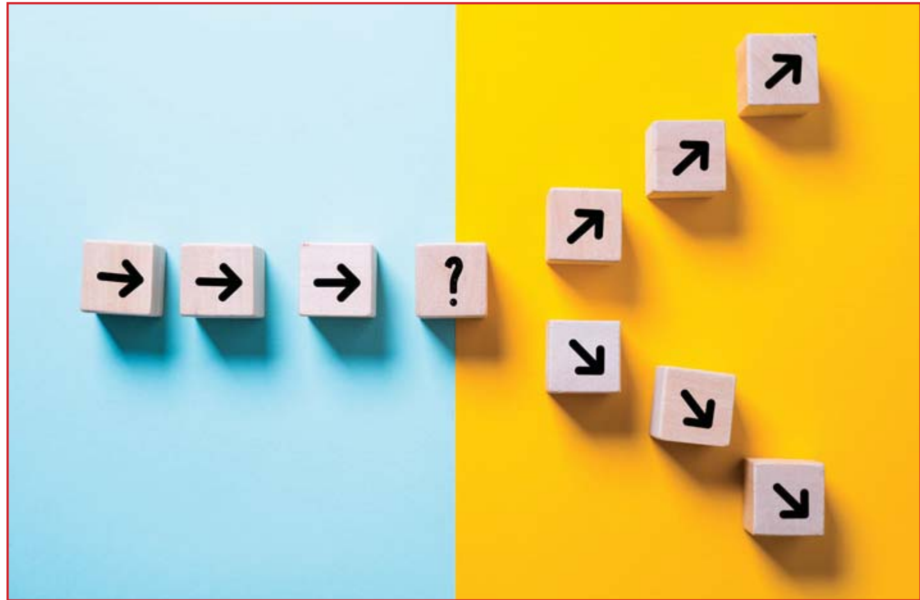
Deciding Whether to BUY or BUILD



Self-storage investing is a lot like courting. Whether you choose to buy or build a facility, you may have to kiss a lot of frogs before you find your prince. To help you think this through, let's look at some basic pros and cons and see how the options stack up.

Buying a Self-Storage Facility

On the positive side, acquiring an existing facility is kind of like dating an ex: You more or less know what you're going to get. Everything you need to understand about the property—customer base, operating expenses, rent, property taxes, etc.—is there in black and white. Of course, you need to verify the data; but overall, you're dealing with a known quantity. Therefore, a purchase is simpler, less risky and less daunting than building. In addition:

- You don't need as much industry expertise or business acumen to buy a facility as you do to develop one.
- Buying may be much faster than building, if you can find a good deal.
- You may be able to change an existing self-storage facility (unlike your ex). You can possibly make improvements to rental rates, security, marketing, landscaping, technology, etc., to make the property more profitable. You might even be able to expand.

On the other hand, every self-storage property has its challenges. It's up to you to figure out what they are. Here are some common drawbacks to buying:

- If you don't catch deferred maintenance during inspection, you could be hit with a lot of unexpected costs. You're buying someone else's problems, including site limitations you can't fix and problem tenants you'll *have to* fix.
- You may not be able to buy your "dream facility" in a "perfect" primary market, particularly if you can't compete with the biggest players. This is a pretty easy one to get over. I doubt you're married to George Clooney or Scarlett Johansson either!
- Your return on investment is lower overall because you must pay fair market value. Remember, you aren't just buying a building and the land on which it sits; you're buying a revenue-generating business.
- Though you may be able to avoid increased property taxes by buying the property's business entity, you may not. Know what the new property taxes will be before you buy.
- Expansion may be logistically impossible or cost-prohibitive. If it's necessary to reach your desired rate of return, make sure your purchase agreement is contingent on zoning and permit approvals.

Building a Self-Storage Facility

First, let's focus on the good stuff: Building may be less expensive than buying because an acquisition involves purchasing an income stream. When you build, there's no cash flow yet. On a similar note, all things being equal, it's less expensive to build a class-A facility than buy one. Here are a few other pros:

- Unlike your perfect mate, you can build your perfect facility, controlling every aspect of design and construction.
- Right now, there are many opportunities in great locations to convert existing retail structures to self-storage.
- Your facility will be new and, thus, more appealing than competitors. Because you're starting from scratch, you can integrate technology and many other features that may be difficult for older properties to match.
- You can build in phases and keep adding popular-sized units.
- The profit to be had upon exiting the business is probably greater, depending on your market and how long you hold the facility.

Now, let's look at some of the disadvantages to building. As with an acquisition, every development site has its challenges. Again, it's up to you to figure out what it they are. Here are some others:

- Projections are just projections. Building is inherently riskier than buying.
- Beware of design and construction mistakes. Without careful research and planning, you can make costly mistakes. There's a scary, long list of potential pitfalls.
- Your project will only be as good as your development team. You must carefully vet your engineer, architect, general contractor, attorney and title company. If you do your due diligence correctly, you could move this up to the pros section of the list.
- There are going to be timeline overruns. Get over it.

- Building is more time-consuming and labor-intensive than buying.
- Until your facility is 90 percent occupied, it doesn't reach its full fair market value. This may take two to three years.
- If you decide to build in phases, there may be reasons you can't move forward on later phases due to zoning, political or economic changes beyond your control. Your upfront investment, therefore, may not pay off.

Just Ask Her to Dance Already

This is no time to be a wallflower. Whether you think you want to buy or build, start looking at facilities for sale and learn from them. As a wise sensei once said, "In order to learn anything, first you must know yourself." Identify your preferred business model, management approach and expected rate of return so you can objectively compare facilities or dirt for sale.

Either way, don't get emotional about deals. Make a list of the pros and cons of each opportunity and verify everything the broker and seller tell you. Run the numbers yourself to determine the site value. Don't just accept anyone's word for it; the appraiser or bank sure won't.

Other Considerations

Depending on your market of preference, the choice of whether to buy or build may be out of your hands. You may not be able to find the right property for sale or the right parcel on which to build. No matter what, you must do these four things:

- Do your research and educate yourself about the self-storage industry and your submarket.
- Be prepared to spend money up front that you may not get back if the purchase or parcel doesn't pan out.
- Get your ducks in a row to be approved for a loan and line up investors.
- Get an independent second opinion in the form of a feasibility study before you make your final decision.

As you evaluate the options of buying vs. building, don't be dismayed if the list of cons is longer than the list of pros. Remember your frog prince. You won't mind that he has a few warts if, in the end, he's a great kisser! **ISS**

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Smart Investing: Underperforming Properties

Since the beginning of the current bull market and favorable economic conditions, the primary focus in the self-storage sector has been on developing new facilities. Builders have been moving at a frenetic pace to satisfy the pent-up demand brought on by the recession and a less-than-favorable lending environment. However, there are still great opportunities in the market for those seeking to buy underperforming facilities and create value through renovation and repositioning.

Some of the best industry openings are older properties that exhibit years of neglect and deferred maintenance. These facilities often require significant upgrading. Many lack modern security features, temperature-controlled units and other amenities commonly found at other sites. They may have a less-than-desirable unity mix, poor access or limited visibility. As a result, these properties suffer from lower rental rates than their competitors.

This may not sound particularly appealing to the masses, but there can be great rewards for savvy investors willing to put forth the effort to turn these ugly ducklings into beautiful, competitive swans. Many have made small fortunes by focusing on older, underperforming, class-C facilities and transforming them into solid, class-B contenders. It isn't as tough as you might think. Though the leap from class B to class A is difficult, you'll find the jump from a C to a B isn't nearly as daunting or capital- and labor-intensive.

Securing a Hidden Gem

So, how do you go about finding these diamonds in the rough? Uncovering these gems is no more difficult than finding a good piece of undeveloped land. In many cases, it's quite a bit easier.

First, many underperforming facilities are listed with commercial real estate and self-storage brokers and viewable on their websites. You can purchase a comprehensive list of facilities for sale in a given market from a list broker. You can also begin the gathering process with a mailing campaign, or by visiting or cold-calling properties after searching online for potential facilities in your target markets.

Banks are ready and willing to make loans on self-storage acquisitions because the industry has generally enjoyed the lowest loan-default rate of all commercial real estate asset classes dating back to the 1970s. Due to strong sector performance, many investors are being welcomed with open arms when presenting a loan request and ultimately receiving very favorable rates and terms, along with additional rehab capital and deferred payments to boot!

So, don't be shy about approaching community banks, credit unions and savings and loans in the same communities as your subject facilities. Lenders have increasingly moved away from making "speculative" loans on development projects in favor of income-producing assets with a historical track record of measurable performance. This has paved the way for investors armed with a solid business plan and thorough due diligence to receive funding for class-C facilities from local lenders.

Adding Value

When thinking of ways to upgrade a facility, remember that changes don't have to be major. The obvious place to start is curb appeal. How does the site look compared to newer properties in the area? Are the structures weathered? Have the roof, walls and doors have faded to single shade of grey or tan? A color change can do wonders for the appearance of an acquisition. Similarly, a new sign with color-coordinated flags, banners and other attention-grabbers will draw attention to the improvements you've made. Once you're done with the cosmetic stuff, consider these other value-add options:

Site expansion. The item with the most potential to positively impact the appreciation and value of an underperforming facility is vacant land for expansion. Smart investors will immediately assess the highest and best use of any unused property or adjacent parcels that may be available for purchase. Either would allow you to add more storage units.

If there's boat/RV parking on the site, consider using that land for additional buildings, since the return on investment from new units will generally outweigh the revenue from parking spaces. Contact neighbors to assess whether there may be an opportunity to purchase their land/buildings. This is probably the greatest way to increase the value of your facility while scratching your development itch.

Amenities. There are many conveniences that can be added to upgrade an existing self-storage facility. A small retail center is probably the simplest and most cost-effective way to improve the bottom line and provide value to customers. If feasible, consider offering truck-rental services or creating a business center with workstations for small-business tenants. Other amenities to consider are a pack-and-ship center, billboard rentals, vending machines, a propane cylinder exchange and records storage.

There are dozens of possibilities. Underperforming facilities vary by site and market, so some research is needed to determine the feasibility and worthiness of each possible addition. The increase in income and the return on investment may be surprisingly rewarding.

Technology. Adopt the latest technology to round out your renovations and repositioning. Security remains a top concern for customers, and technological advancements have made it affordable to install state-of-the-art surveillance systems at a fraction of what it used to cost. A self-serve kiosk may also be a smart addition, depending on the site and its demographics.

Marketing. Successful repositioning of your upgraded facility can't occur without a detailed marketing plan. Capturing the attention of prospects is critical when competing against well-heeled, class-A competitors. Thankfully, marketing can be carried out very efficiently with today's automated outreach and processes. Strongly consider a customer-relationship-management platform that integrates with a responsive website. Set daily, weekly and monthly goals, and regularly measure results to gauge success.

The laws that determine self-storage investing success are always changing, but the acquisition of underperforming facilities remains a strong, viable strategy. This will be especially true moving forward, once we head into the next economic downturn and new development slows to a crawl. The merits of this approach have proven to be extremely profitable. ISS

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Smart Investing: Secondary Markets

With the self-storage development boom in overdrive the last few years, the majority of new construction has been focused in large, tier-one markets. Some of these markets, such as Charlotte, N.C.; Dallas/Ft. Worth and Houston, Texas; and Nashville, Tenn.; have brought in upward of 20 percent additional self-storage space. No doubt about it—there's a lot of supply out there!

Headlines touting how great self-storage is have caused many new investors to jump onto the bandwagon. Over the past few years, the industry real estate investment trusts have been igniting development and inspiring others to build or buy. But they're focused primarily on large, high-population markets. If you look where their newest projects are going up, you'll see they're in the cities incurring the fastest job and population growth.

Due to the high yields self-storage can generate, there's still a lot of sideline capital pointed at larger markets. That capital is chasing newly constructed multi-story locations sold at Certificate of Occupancy or once a property is north of 50 percent physical occupancy. For small investors, it can be advantageous to let institutional money chase and fight over these deals, while the rest of us focus on the properties and markets that are off that radar screen.

With a glut of industry growth taking place, new development opportunities are now largely in the secondary and tertiary markets. But how do you know where to go? Let's look at some key considerations.

Choosing a Market

By nature, self-storage is a submarket product. For example, in my company's portfolio, about 86 percent of customers live within 3.2 miles of their storage location. With that in mind, it's important to focus not on a city or region, but on a particular submarket.

This makes sense for another important reason: The majority of U.S. self-storage facilities (about 62 percent based on the last statistic I saw) are still owned by independent operators who have only one location. Most of these independently owned sites are in smaller markets. They're attractive for small investors because they generally aren't chased by institutional money and often have room to expand.

In fact, most of the facilities that will go up for sale in the next decade are drive-ups that were constructed in the 1980s through the early 2000s. They'll be ripe for repositioning and expansion. These kinds of deals can provide value-added opportunities that will produce desired yields.

As these promising facilities come available, you want to look for sound submarket fundamentals. In addition to examining current supply and the amount of storage available per capita, look at population and growth trends, along with median household income and education level. Here's what I recommend:

- Look for population of 35,000 to 40,000 or more, if possible. Population growth doesn't have to be in the double digits, but you want to make sure the market is growing.
- Annual household income can vary, but on average, I like to see $45,000 or more.
- It's important to look at education level. Job growth is a sure bet in technology and service sectors, and some higher education is usually required to achieve the level of future household income we want to see in a market.

You don't have to be in a large market like Atlanta or Chicago to have strong fundamentals for self-storage. In fact, given that larger cities are where most new supply has been developed, the best opportunities to buy or expand a property are often in the outer belts and bedroom communities of these larger cities as well as in tier-two and tier-three markets.

The Time Is Now

The next decade or two should be strong for self-storage based on increasing consumer demand and population growth. You just need to be smart about where you seek opportunities. For the immediate future, this most likely means secondary markets.

When's the best time to get into or grow a self-storage business? Yesterday. But if you didn't do it already, that time is now. Be strategic, know your numbers and apply strong submarket fundamentals. In doing so, you'll increase your odds of enjoying a long, successful industry career. ISS

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Smart Investing: Opportunity Zones

By now, most active investors in real estate have at least heard the term "opportunity zone" (OZ) even if they aren't completely clear on what it is or the advantages this incredible program provides. An OZ is an economically distressed community in which new investments may be eligible for preferential tax benefits. These areas have been nominated by their governors and approved by the secretary of the U. S. Department of the Treasury to spur economic development, creating jobs and improving neighborhoods.

OZs were created and added to the tax code on Dec. 22, 2017. Originally, they were only offered in 18 states, but they're are now available in all 50 states, the District of Columbia and five U.S. territories. Investors and developers can seek properties in these areas with the intent to renovate and repurpose, generally for a long-term hold (10 years minimum).

How It Works

To invest in a qualified opportunity zone (QOZ), you must first create a qualified opportunity fund (QOF). The vehicle can be a partnership or a corporation, or a limited liability company if treated as a partnership or a corporation for tax purposes.

The good news is, at the time of this writing, investors can self-certify by filing QOF Form 8996 with their federal income-tax return. The main advantage is you don't have to wait for IRS approval. Simply fill out the form, attach it to your return and you're done. Note: Hire an attorney with experience in forming QOFs and coordinate his efforts with your certified public accountant to ensure you're in compliance.

A QOF must invest 90 percent of its assets in a QOZ. These can be in the form of corporate stock or partnership interests in a business that's in the OZ, or tangible property in the QOZ.

The reason so many people are excited about this incredible gift from the federal government is when you invest in an QOZ, you can separate the base from the gain. For example, if you sell a $300,000 property in which the base was $200,000 and the gain is $100,000, you can keep the $200,000 base and reinvest the $100,000 gain into the QOF. This way you can defer the taxes.

OZs can be identified at cdfifund.gov, the Community Development Financial Institutions Fund page for the U.S. Department of the Treasury. If you don't see any in your area, you still might be able to find one somewhere that works for your investing strategy.

Understanding the Benefits

There are several benefits to investing in an OZ. The first is tax deferment. Investors can defer the tax on any prior gains invested in a QOF until the date on which the investment is sold or exchanged, or Dec. 31, 2026, whichever comes first. The new law gives you 180 days to reinvest your gains. So, if you sold a self-storage facility in April 2019, you'd have approximately six months to reinvest that money into a QOF, and you could then defer paying taxes on the gain until December 2026—that's nearly seven years!

As great as that is, it isn't even the best part. The longer you hold your investment in the QOZ, the better the benefits. Let's say you purchase a property and hold it for at least five years. You'll be eligible to increase your basis by 10 percent. That portion of your gain will be forgiven and only 90 percent of your original gain is taxed. If you hold for at least seven years, your basis is increased by 15 percent, meaning only 85 percent of your original gain is taxed. But the real beauty of investing in an QOZ is if you stay for 10 years, you're allowed to increase your basis to the fair market value of the investment on the date it is sold. This wipes out any additional gains on the appreciation of the property!

For example, let's say you invested a $250,000 gain into a QOF that then invested in a small self-storage facility. After five years, you'd only be taxed on $225,000. After seven years, you'd only be taxed on $212,500. At 10 years, the facility is worth $850,000 and it's time to sell. Instead of a gain of $600,000 from appreciation, you have a *zero gain* based on the appreciation basis increase, and you won't have to pay taxes on $637,500.

The only thing you must do to take advantage of one of these opportunities is invest a recognized gain in a QOF and elect to defer the tax on it. A recognized gain can be any kind, whether from the sale of real estate, stocks, artwork, mutual funds, etc. Though it must be reinvested into the QOF within 180 days of the sale or exchange, there's no limit to the amount of gain that can be invested into the fund.

In the past, to defer the taxes on a gain, it had to be reinvested into a like-kind investment—real estate into real estate, stocks into stocks, and so on. That isn't true with a QOF. For example, someone who's been thinking about getting into real estate with gains from the stock market now has a chance to do so.

Doing Your Homework

As you review the OZ maps, keep in mind you still must perform due diligence on the acquisition of an existing facility. On any conversion or new development project, you must employ a feasibility consultant before you get too excited. What you may begin to see is many deals that didn't look good on the surface suddenly become attractive when you factor in the savings this opportunity provides. When creating your projections, however, just remember that depressed neighborhoods come with a few more operational challenges.

I recently realized a 40 percent savings on the back end of a site I acquired with equity in the form of "gains" from a previous project. I then rolled it into a QOF and invested in a conversion project I plan to hold for 10 years to get the maximum benefit.

Can OZs help you build your self-storage empire a bit faster? As investors, we want to take advantage of as many resources as possible to reduce expenses, the most expensive of which is always taxes. No surprise, the introduction of the OZ program has mobilized investors to snap up projects to hold for 10 years or more. It's one of the most powerful tools for creating wealth in real estate and self-storage! ISS

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The PROS and CONS of FRANCHISING: Is It Right for You?

An owner or investor looking to get into the self-storage business or expand his portfolio has a few options: build a project, buy an existing facility, or join an investment group that does one or the other. Now, there's yet another choice on the table: franchising.

Franchising combines the expertise of a franchisor with the resources and entrepreneurial drive of a business owner to form a mutually beneficial relationship. The model provides an economic opportunity for each party based on talent, initiative and dedication. Typically, a self-storage franchisee will own 100 percent of his business and run it under a licensing agreement. In this arrangement, you're in business *for* yourself, not *by* yourself.

Franchising began more than 40 years ago with companies like Holiday Inn and McDonald's, which enabled owners to build businesses quickly because they didn't have to reinvent the wheel. It didn't take long for many would-be owners to see that economy of scale, support systems, branding, training and increased profit could all be obtained by owning a franchise.

By far, franchising is among the most successful business models used by entrepreneurs. Many people's lives and fortunes have been changed for the better because of it. Today, there are nearly 1 million franchises in the U.S. This number grows every year, as more individuals

seek business-ownership benefits that aren't as easily obtained by starting their own ventures.

Franchising and Self-Storage

Franchising is a relatively new concept in self-storage. Twenty years ago, the need for industry franchises wasn't as great because competition was limited. Now, there's a demand for ways to enter the field.

While self-storage is still one of the greatest businesses on the planet, it has many minefields and traps that must be avoided, on the both the development and operational sides. A few simple mistakes can cost you hundreds of thousands of dollars. This has made franchising much more attractive.

Until recently, struggling owners had few places to get support. They could always sell, of course, or turn over their facilities to a third-party management company. Outside management is certainly an option for independent owners who are willing to accept a smaller share of profit and don't wish to be involved in the day-to-day operation. Franchising, however, is a great alternative for those who want to actively run their business. Let's look at pros and cons of this alternative.

Franchise Pros

It's easier to get financing. Lenders prefer to extend money to franchise operations vs. independents who have never previously built or owned self-storage. With a franchise, you even still qualify for loans under the Small Business Administration.

It provides essential infrastructure. An owner who partners with a successful franchisor has a higher likelihood of success than someone starting a business from scratch. In fact, there are many benefits to sharing strategies and solutions with a network of franchisees rather than stumbling down the path alone.

On the development side, a franchisor is an experienced partner that assists with the land search, design, construction and lease-up. Not only can this save you from costly building mistakes, it typically reduces development time.

On the operations side, some owners simply aren't equipped with the sales, marketing, customer-service and other necessary experience to make the business work. Many can't keep up with ever-changing technology. A franchisor can provide operational systems to capture high market share at premium rates as well as a scalable platform capable of competing with and surpassing the competition.

“A good franchisor will provide written, step-by-step development and operational manuals, guidelines, checklists and, most important, regular communication and guidance to save you time and money.

It provides valuable mentorship. It's difficult to beat the combination of a franchisor's systems, platforms and knowledge and an owner's excitement and commitment. The relationship offers the owner several layers of mentorship.

A good franchisor will provide written, step-by-step development and operational manuals, guidelines, checklists and, most important, regular communication and guidance to save you time and money. It should also help ensure your facility is equipped with the high-touch, high-tech feeling savvy renters require. Having an experienced franchisor on your team who's designed, built, owned and managed multiple facilities can make a substantial difference. Imagine having experts, who've gained their experiences in the trenches, ready to personally help you succeed.

It offers a quicker rate of success. It's natural to want to pit franchise fees against the value such an agreement provides. The bottom line is a franchisor should be able to help you earn profit you couldn't make on your own as well as reduce risk, save time and make life more enjoyable. A franchisee with a high-end sales and marketing platform can typically set rental rates 10 percent higher than what most startups could command on their own. This should more than offset the cost fees.

Not only should you be able to charge higher rates with the help of a franchisor's experience and guidance, you should be able to rent more units. It takes less than 20 extra units per year to pay a franchisor's services a second time. Before you complete your first month of operation, you should be able to generate more than enough additional revenue to negate franchise costs, and it should only get better moving forward.

Franchise Cons

It requires full buy-in. For your franchise to work, you must be willing to buy into someone else's system—completely. If you believe only your way is the right way, then franchising isn't for you. Ask yourself whether you feel the fees are well-justified and you're willing to take guidance from others. If not, don't become a franchisee.

You must actively participate. If you don't want to have any part in managing a self-storage facility, then owning a franchise isn't for you. Instead, hire a third-party management company.

It must be a good fit. Every franchisor has a business philosophy that may or may not match your own. While one model may be based on something very basic and inexpensive like a Motel 6, another may push for unparalleled service, sales and marketing like The Ritz-Carlton. It's important to gauge whether you and a potential franchisor are a good match.

It takes commitment. Franchising isn't for owners who plan to sell their facility upon obtaining a Certificate of Occupancy or shortly thereafter because franchises typically have a multi-year term. Make sure you're aware of any early-exit policy.

When considering a self-storage franchise, consider what you envision for your operation. How much involvement and say-so do you wish to have? The best way to figure out the right path for you is to dig in and research. Franchising is a viable model in today's market conditions. If you're ready to take the plunge and have confirmed you're a good fit for this model, get ready to be empowered for success! ISS

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Investing in a Franchise: Contract Terms

In the self-storage business, most people will tell you that identifying the best location and evaluating market demand are critical factors to success. When considering a franchise model, however, you should also carefully review and negotiate the terms of your agreement.

There are many reasons a business can fail, but franchise owners sometimes say their contract bound them to terms that made it difficult to achieve the level of success they envisioned. In fact, the franchisee failed to understand the long-term consequences of his contract provisions. Thankfully, this can be overcome with thorough due diligence and careful negotiating.

The Negotiating Game

Your soon-to-be business partner may tell you there's no room for negotiating in the franchise agreement, but that isn't always true. Don't be dissuaded from trying to get terms that are favorable to your business, whether you're pursuing a new franchise or a renewal. You may be pleasantly surprised.

First, do your due diligence by talking with existing franchisees. Most will freely tell you which changes they were able to negotiate. You can also learn from them how the agreement has developed over time and what critical issues have been addressed by renewals or amendments. These are important because they help you understand what the franchisor values and how it sees the business progressing. Franchisors like to see their franchisees do well, but they love to see themselves do better.

> A franchisor's willingness to negotiate varies but is rarely non-existent.

While there are several items on which you should focus, pay particular attention to the following:

The defined terms related to royalties and other fees charged by the franchisor. Pay careful attention to the scope of fees the franchisor can collect. These terms can be vague, leaving openings for the franchisor to charge additional fees in the future that weren't contemplated when the agreement was signed. For guidance, look at older disclosure documents (FDDs) and versions of the agreements executed by other franchisees. Consider negotiating for caps on fees, or at least caps on increases over time.

Personal guarantees from the franchisee's principals. Establishing a corporation or limited-liability company to operate a franchise won't shield you from personal liability if you sign a personal guarantee. Negotiate to limit the duration of guarantees or seek a release of personal guarantees over time based on the strength of your business results.

Preserve the size of your territory. Scrutinize the language that defines the size and scope of the area dedicated to your franchise, whether in terms of geographic size, population or otherwise. Preserve your rights for expansion, and make sure your franchisor can't give away your growth plans to another franchisee. Secure options or rights of first refusal for expanded or new territories.

Search the franchisor's litigation history. Regardless of what's in the FDD or franchise agreement, ask your lawyer to search for prior or pending lawsuits between the franchisor and its franchisees. While any business will have occasional disputes, a legion of litigation generally signals a lot of unhappy partners. Read the complaints and consider the specific areas of dispute. Keep those in mind during your negotiations.

A franchisor's willingness to negotiate varies but is rarely non-existent. What may seem like contractual overkill on the front end can become critically important if a problem ever arises and can help guarantee success down the road.

Also, ensure all negotiations are documented in writing. Too many franchisees have gotten into disputes with their franchisors years down the road. Memories about what was discussed, what certain terms were intended to mean, and what the respective parties thought they meant and agreed upon fade over time. Our greatest tools for litigation or successful dispute resolution have been the written, back-and-forth communication that clarifies what was meant by the parties during negotiations.

Plan Exit Strategies

Many franchise agreements provide the franchisor with a unilateral right to purchase a franchise at a certain time, for a certain price, based on a multiple of profit or some other formula. Therefore, you may succeed in building a great business only to have to sell it to your

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There's usually little or no disclosure in the FDD about the economic impact of the franchisor's repurchase rights, so give careful thought to your long-term business plan. Consider startup costs, mandatory maintenance and improvements, costs to achieve projected growth and profitability, and whether you can afford to take any money out of the business along the way. Then, consider at what point the franchisor can exercise a right to buy back your franchise.

Again, talk with other franchisees. Pay close attention to this issue as you develop or revise your business plan. Finally, try to negotiate (or renegotiate) for a greater purchase price or profit multiple and, more importantly, a long operation period before the right to purchase can be exercised.

Franchise agreements frequently contain a "right of first refusal" provision that requires you to offer your franchise to the franchisor before you can freely sell it to someone else. This may make your business less appealing to a third party and, thus, less valuable.

For example, a buyer may have to wait for the franchisor's right-of-first-refusal period to expire, impacting the timing of any sale. The right of first refusal may also require the buyer to execute a new franchise agreement as opposed to taking over yours. Therefore, all your negotiating success may not be passed on to your buyer unless you also negotiate the ability to transfer your agreement. Try negotiating the right to sell to another existing franchisee, a member of your existing ownership group or a family member without triggering the right of first refusal.

When it comes to entering a franchise relationship, if you do the work up front to maximize your options, you'll likely maximize your success in the end. ISS

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FINANCE IN THE YEAR AHEAD: Loans and Lenders

When considering the capital markets, 2019 was a year for the record books. Just when everyone thought interest rates couldn't get any lower! I believe 2020 will be just as good if not better for self-storage owners and investors.

The U.S. and global economies began to face head winds in 2019 caused by forces such as trade wars and the looming British withdrawal from the European Union. As a product of this uncertainty, the 10-Year U.S. Treasury started on a downward course and reached historical lows. With long-term rates steadily declining, we observed a flattening of the yield curve such that it was actually inverted for a short period of time. This put further pressure on the economy because an inverted yield curve often signals a coming recession. To counter these winds, the Federal Open Market Committee (FOMC) changed course, moving from a pattern of increasing short-term interest rates to decreasing them.

All the talk about a softening economy, an inverted yield curve and a looming recession may feel unsettling; however, it has created one of the most borrower-friendly lending environments we've seen in recent memory. Low interest rates coupled with the capital market's infatuation with self-storage culminates in an unprecedented lending landscape. During 2019, owners were locking in 10-year fixed-rate loans at interest rates in the mid-3 percent range.

The Haves and Have Nots

Considering the state of the self-storage market, we have a story of "haves" and "have nots." It's well-documented that the industry is undergoing a massive expansion phase, with new supply reaching record levels nationwide. This has put downward pressure on rental rates and occupancy while increasing lease-up periods for newly constructed sites. Lenders are well aware of these factors, and it's becoming difficult—in some cases impossible—to obtain construction

financing. There are fewer lenders willing to take the development and lease-up risk at this point in the cycle. Furthermore, we anticipate construction financing to continue to contract in 2020 … *The have nots.*

On the other hand, well-occupied, stable facilities continue to perform well. Even with added competition from new supply, same-store sales continue to grow, albeit at a more muted pace. The lending options for stabilized facilities are as robust as ever … *The haves.*

The low-interest-rate environment and continued demand for self-storage by institutional investors continues to keep capitalization (cap) rates at historic lows. However, we're beginning to see a bifurcation in sales metrics. Where stabilized properties are trading at record prices, we've seen a softening in demand for properties in lease-up. This is the result of investors taking a "wait and see" approach to determining where lease-up and achieved rental rates shake out for new facilities. It seems the days of paying close to stabilized prices for an asset in lease-up are gone for the time being.

Whether you're in the market for a permanent, construction or bridge loan, you should be aware of the following sources of debt available in 2020, as well as the terms for each.

Commercial Mortgage-Backed Securities

Commercial mortgage-backed securities (CMBS) are genuinely the most aggressive permanent-loan type in the market for stabilized cash-flowing facilities when considering leverage, cash out and availability of interest-only payments. But borrower beware: CMBS loans also have their downside.

CMBS lenders have a higher risk tolerance than other permanent lenders (insurance companies and banks). A lender's willingness to lend on a specific property is primarily driven by the asset's characteristics and cash flow rather than the strength of the borrower. As a result, CMBS loans are nonrecourse (no personal guarantee required) except for the industry standard "bad boy" carveouts. This prevents the lender from going after your other assets in the event of a default or deficiency. Furthermore, it allows you to reduce contingent liabilities on your personal financial statement.

Debt yields are the primary sizing metric used by CMBS lenders, which isn't to minimize the importance of the other two metrics used in sizing a loan: loan-to-value (LTV) and debt-service coverage ratio. Given historically low interest and cap rates, CMBS loans are rarely being constrained by the latter two metrics in this environment. A debt yield is a property's net cash flow divided by the loan proceeds. Debt-yield minimums have continually decreased over the last several years and plateaued around 8 percent for self-storage properties in 2019, and we project the same level into 2020.

LTV on CMBS loans can go as high as 75 percent. However, given elevated valuations on storage, there's rarely enough cash flow for a property to achieve 75 percent LTV when being constrained by an 8 percent debt yield. As such, most loans are transacting in the 65 percent range. A benefit of the inherent low LTV is lenders are offering extended interest-only periods, often reaching 10 years.

Loan spreads for CMBS have been slowly and steadily declining over the past year, while U.S. Treasuries have also dropped to historical lows. The final product is a lending environment in which borrowers are locking in long-term, fixed interest rates at levels not seen before. In fact, at the time of this writing, rates for 10-year CMBS loans were below 4 percent and hovering right around the 3.75 percent range. Combine these rates with extended interest-only periods and you're left with a cash-flow-driven investor's dream.

One of the drawbacks of a CMBS loan is the prepayment penalty. The majority of loans require borrowers to defease if they want to prepay. Defeasance is the act of replacing the collateral (the mortgage on your property) that generates the anticipated stream of debt-service payments, frequently achieved with some combination of government securities. The costs decrease as rates increase and vice versa.

Disadvantages of defeasance are the time and complexity of securing the replacement collateral as well as the ancillary costs. If rates have risen drastically since origination, there are cases where it can be to the borrower's benefit to defease. Given where rates are today, one can only think there's nowhere to go but up. On the flip side, if rates continue to drop, the magnitude of the penalty compounds.

The other two drawbacks of CMBS loans are closing costs and rigid documentation. Typical closing costs for a single asset are in the $50,000 range. This includes all required third-party reports, American Land Title Association survey, title, lender legal and other miscellaneous reports.

Because CMBS loans are pooled together and sold as a securitized bond in the secondary market, the documents have many standard clauses and requirements that are non-negotiable. Additionally, loans are serviced not by the originating bank but rather a third-party servicer.

Although CMBS lenders prefer bigger deals in primary markets, they're also extremely competitive for smaller transactions as low as $1 million in secondary or tertiary markets. In today's environment, there are many that offer streamlined yet competitive "fixed cost" programs between $25,000 and $32,000 "all in" for loans up to $10 million. The aggressive nature of CMBS lenders, combined with their low rates, extended interest-only periods and nonrecourse options make these loan products appealing. Add to this the lenders' willingness to provide significant cash out in excess of a borrower's basis and you can see why the product is in such high demand.

Local and Regional Banks

Local and regional banks are relationship-driven lenders that can meet an assortment of diverse borrower needs. These can range from shorter-term capital used to construct, purchase or refinance properties, to longer-term permanent debt solutions. Commercial banks are well-known to be the biggest originators of commercial real estate loans. It's no surprise that they've traditionally been the main source of capital for self-storage.

Banks are federally regulated entities; therefore, borrowers should expect an extensive credit review analyzing net worth, liquidity and global cash flow. It isn't just about the property for these lenders. Furthermore, a borrower's ability to secure a bank loan—and the terms offered—may be driven by the familiarity and success of the existing relationship with that capital source. Because banks are driven by deposits, borrowers should expect to place their operating accounts or other depository relationships with that bank.

Interest rates for bank loans are appealing but can vary greatly depending on several factors: loan size, borrower strength, loan term, leverage and the relationship. Banks offer fixed-rate loans ranging from one to 10 years, with LTVs up

to 75 percent and amortization schedules of 20 or 25 years, much more conservative than CMBS and insurance companies.

Most bank loans are full recourse, meaning if you default on the loan, the lender has the right to make a claim against your other personal assets. However, it's important to note that the amount of recourse may be lessened or erased for lower leverage loans under the 65 percent LTV threshold. The transaction costs for bank deals are generally feasible, and prepayments penalties are much more borrower-friendly than those associated with CMBS. Banks will continue to be a large source of debt for self-storage owners in 2020.

Insurance and Life Companies

Life companies, also known as insurance companies, are an active real estate lender. They're known as the "holy grail" when it comes to sources of debt. If you can qualify for a life-insurance loan, it's most likely the best execution available.

Unlike CMBS, insurance companies are conservative in nature. They prefer to lend on stable, institutional assets in primary markets with excellent physical characteristics at lower leverage points. They typically enforce a minimum loan size of $5 million. However, as competition for deals has increased, they're now willing to consider smaller loans.

Life-insurance companies won't offer the same leverage as CMBS lenders, nor the extended interest-only periods and large amounts of cash out. What they will do is compete on rate (in the low 3 percent range), length of term (up to 25 years), prepayment options (fixed amount depending on time left on the loan), and flexibility regarding documents and structure.

Several insurance companies added bridge-loan products to the mix in 2019 in which they'll lend on a property in lease-up at a conservative LTV level, assuming the property is in a major Metropolitan Statistical Area and has significant sponsorship. Pricing on bridge products can be as low as 200 basis points over LIBOR. Life-insurance companies became more active in the self-storage asset class in 2019 and look to continue to be so in 2020.

Small Business Administration (SBA)

SBA loans have proven especially beneficial to owners looking to construct properties in this development cycle.

"As we enter the later stages of the development cycle, financing for new projects is becoming more difficult.

Those seeking to surpass conventional leverage standards of 75 percent are drawn to the SBA because it offers leverage points in the 85 percent to 90 percent range. The SBA has also shown a willingness and almost a preference to lend in secondary and tertiary markets where traditional financing options might be harder to obtain. Currently, 7a and 504 are the two loan programs available for self-storage borrowers.

SBA 7a loan proceeds can be used for acquisition, refinance and construction. The program is typically a variable-rate loan, commonly structured with a prime-based rate that resets quarterly. It's important to note that some lenders do offer fixed rate 7a pricing, so when looking for these products, it's an essential difference to pinpoint. Either way, 7a loans include a fully amortizing 25-year schedule and have a 3-2-1 open prepayment schedule. Having no maturity date is a nice feature because if you're making your debt payments, the lender can't ask you to right size the loan if the property is struggling.

The 504 is a fixed-rate loan program with up to a 20-year term that comes with a prepayment penalty for the first 10-year period. These loans used to be limited to acquisitions, but as of 2016, the SBA offers a refinance option. Loans are offered up to $13 million and carry both a variable- and fixed-rate component. They require the approval of a local certified development company as well as the bank. This additional level of approval can add some uncertainty and time to the loan process.

Many factors determine the rates for 7a and 504 programs. They can vary vastly. Borrowers must also be aware that the underwriting, approval, processing and closing an SBA loan can be time-consuming because of the document-heavy nature that comes with any federal program. Overall, access to SBA financing has proven to be beneficial for the self-storage industry, injecting extra liquidity and capital into the market in ways that differentiate it from other products.

SBA loans are document-intensive and can be tedious. When applying, find a lender that's certified as a preferred lender program (PLP), which allows it to approve loans on behalf of the association. This can ultimately speed up the process. Reach out to a district SBA office to find out which lenders are PLP-certified.

When considering SBA financing for construction projects, it's becoming more difficult to get developments to work at the desired 85 percent to 90 percent range. This is because lenders require that the property break even on an amortizing basis 24 months after Certificate of Occupancy. Extended lease-up times as more supply hits the market, coupled with softening rents in many markets, has made the 24-month test a difficult hurdle, especially for any development of size. In 2020, the SBA is still a great option for smaller developments in tertiary markets.

Construction and Bridge Loans

Without a doubt, banks are the most popular lending partners for a developer with a viable project. Debt funds and SBA lenders can also be legitimate sources of capital. Full recourse included with a completion guarantee is the most usual structure for construction financing. Recourse burn-downs and nonrecourse loans can be available depending on a variety of factors, including leverage, sponsor strength and other mitigants. Conventional lenders will typically climb up to 75 percent loan-to-cost at fixed or floating rates, with interest carry and operational reserves often built in.

As we enter the later stages of the development cycle, financing for new projects is becoming more difficult. Construction lending is predominantly provided by regional and local banks, which are acutely aware of where the self-storage is in the cycle. They're being highly selective regarding what deals to fund and in which sponsor to lend. The due-diligence process is becoming more protractive with a focus on new supply. Developers must not only

prove the market's current rent structure but defend future rents.

Renewed emphasis on barriers to entry means lenders need to understand exactly what will prohibit new competition in a market. They aren't buying off on 24-month lease-up periods experienced earlier in the cycle; in some cases, even 36-month lease-up periods are considered unrealistic. Developments must be supportable in a slowing lease-up environment, and many lenders won't consider any rental increases in the first five years. In fact, some underwrite lower rents in the future given new competition.

In 2020, we anticipate the supply of construction debt to continue to contract. Several private lenders have scaled back their willingness to lend on new projects. To the contrary, in 2019 we saw several new bridge lenders enter the market that were willing and able to make self-storage loans. Their focus is completed but not yet stabilized projects. This is important as we enter the later stages of the development cycle and projects experience longer lease-up periods at lower rates. We're starting to see early signs of distress as new developments don't meet their pro formas.

As a result, projects are running out of time and reserves with their original construction lenders. These borrowers are left having to pay down their loans with their local lenders or service debt out of pocket. This is where the bridge market is filling the void. Bridge lenders will take out construction loans before stabilization. A typical bridge loan is for three years with one or two one-year extensions. They are interest-only, capitalize an interest reserve and carry an interest rate between 275 base points and 500 base points over LIBOR.

Going Forward

2020 is going to be similar to 2019 in the sense that the market will be borrower-friendly for self-storage owners with well occupied cash-flowing properties. There's no better time than the present to lock into long-term, fixed-rate debt, as the market is as aggressive as it has ever been. On the contrary, development capital will continue to be limited, with only the best, well-vetted projects getting funded. This is good for the industry, as it puts a natural governor on the supply.

For those projects that have opened but are struggling to meet projections, the bridge market has thrown us a lifeline. This year should continue to provide an abundance of capital to self-storage investors. ISS

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Defensive Finance Strategies

The U.S. economy is enjoying one of its most profound, expansionary periods in history. Interest rates are hovering near historic lows and the unemployment rate is the lowest it's been in 50 years. Still, it would be an oversight to get overly comfortable with these ideal conditions. All this success should make self-storage investors ask: How long can these historically low rates last, and how can I protect myself?

The Markers

Historically, there tends to be an economic recession approximately every 10 years, and several key indicators suggest the next one may be well within sight. The first marker to consider is related to the unemployment rate. Counterintuitively, low unemployment is often a sign of a coming recession. As of this writing, unemployment is around 3.6 percent, the lowest it's been since December 1969.

Another favored indicator is the inflation rate. For years, the Federal Reserve has signaled that inflation and unemployment are in a range where it would consider raising interest rates. Despite that, the personal consumption expenditures (PCE) price index—the central bank's preferred inflation gauge—is up just 1.5 percent on an annualized basis.

The most telling indicator, however, might be the current yield curve on U.S. Treasury securities. Historically, an inverted yield curve has been a leading indicator of a coming recession because it signifies higher interest rates on shorter-term vs. longer-term bonds. It has predicted the past seven recessions, with each one coming, on average, about 10 years apart. It's been just over 10 years since the Great Recession ended in 2009.

With a seemingly inevitable slump bound to take place soon, now's the time for self-storage investors to act. The challenge for borrowers is how to protect their real estate investments and financial well-being with a recession looming. Logically, debt is an area in which investors may find themselves vulnerable when economic conditions become unsettled. For this reason, it's critical to be well-versed in the various debt products available, to understand the potential positive and negative implications.

Bank Debt

The most common form of financing for self-storage owners is traditional bank debt. Bank loans are typically three- to five-year recourse with covenants attached to address defaults on the borrower's end. As a reminder, loan covenants are conditions that obligate a borrower to fulfill or maintain certain requirements or, conversely, forbid him from undertaking certain actions. There are consequences if these conditions are fulfilled or not, depending on the situation.

Although common, bank loans can be problematic in times of economic uncertainty. One of the most obvious difficulties that can arise is the length of term. Historically, recessions last two to three years. Unless the timing is near perfect, borrowers with a three- to five-year loan are at risk of it maturing in the middle of, or immediately following, the slump. Keep in mind these are also recourse loans, which means borrowers aren't only at risk of losing their property, they may be personally liable for damages (losses) sustained by the bank in the event of default.

In a recessionary environment, a borrower may find himself in a tough spot if an "itchy" lender is worried about its loan portfolio. Banks are heavily regulated and monitored. They follow guidelines and have a fiduciary requirement to act responsibly. Therefore, a bank lender may work to rebalance a loan or accelerate it to maturity if it perceives warning signs from the economy or even a borrower's ability to make scheduled payments. It's able to do this through the covenants included in the loan documents.

CMBS Debt

The good news is there are many other options available to finance self-storage. One is through the commercial mortgage-backed securities (CMBS) market. CMBS loans are typically 10-year, nonrecourse loans with fixed interest rates. More importantly, due to the broader nature of the construct of these deals, the lender's ability to default or accelerate a loan is restricted and much more favorable for borrowers.

"While even the most studied economist can't tell us when the next recession will start, it's safe to say one will hit soon.

To be clear, this isn't a legal article, and I'm not providing legal guidance here. Consider this more of a practical argument. All loan agreements include fine print and built-in remedies to protect the lender if the borrower doesn't perform. That said, as long as a CMBS borrower continues to make payments, he can continue to operate business as usual. If the cash flow deteriorates beyond a certain level, the lender may have the right to start trapping the property's cash flow through a "cash management" covenant; but even in this scenario, the borrower technically wouldn't be in default or in jeopardy of the lender attempting to require a paydown.

In fact, prepayment in CMBS is problematic. Therefore, the borrower would most likely have to stop making payments entirely to default the loan. If that were to occur, the loan would enter a negotiated workout with the loan servicer.

Like banks, CMBS lenders have many rights included in their loan documents. Again, we're simplifying something nuanced to make a point, but the bottom line is these loans can be structured with borrower-favorable protective elements that can be compelling in a recession scenario.

Although it's a simple concept, borrowers should also consider the basic element of time as it relates to the loan-maturity schedule when considering their finance options. More specifically, by extending the fixed-rate loan term from five to 10 years, the borrower is far less likely to experience a loan maturity in the middle of a recession. With a historical pattern to fall back on, combined with some strategic planning, he may be able to time his refinance activity to bridge over what has been a somewhat consistent recession pattern simply by using longer-term, fixed-rate loans.

One final benefit of CMBS compared to bank debt is recourse, or borrower liability. CMBS loans are nonrecourse, which means the property itself—not the borrower's personal financial empire—is the collateral. This is notably different from bank loans, which typically require a recourse guaranty, whereby the lender has access to both the property and the borrower's personal finances to remedy a loss. So long as none of the recourse carveouts have been violated, a CMBS loan significantly limits the borrower's personal risk exposure. In the doomsday scenario, a CMBS borrower can give the lender the keys to the property and walk away without fear that the lender will seek additional compensation or future judgment.

Planning for the Future

While even the most studied economist can't tell us when the next recession will start, it's safe to say one will hit soon. Rather than fret about what's out of your control, create an action plan. It's in every borrower's best interest to have a roadmap for the future to ensure financial protection of a commercial real estate portfolio.

Long-term, fixed-rate debt is a great way to weather a recession. Borrowers can currently lock into 10-year, nonrecourse, fixed-rate debt in the low to mid 4 percent range. This includes significant interest-only periods that can greatly enhance cash flow, if desired. Not only does this strategy allow investors to lock the interest rate at historical lows, it provides 10 stress-free years before your next loan maturity. No investor wants to be forced to transact or refinance during a recession, especially with an itchy lender that's forcing the conversation through technical default criteria.

By taking advantage of long-term debt options at today's exceptional interest rates, self-storage borrowers should be able to minimize the stress that often comes with a recession. With no certainty as to when the next decline will hit, there's no better time than now to start looking at safer approaches to financing. **ISS**

Contributor: *Shawn Hill, The BSC Group LLC, www.thebscgroup.com*

3 Uses for a Bridge Loan

The positive performance of self-storage facilities over the last decade has resulted in a flood of new supply into many markets with little sign of slowing. Even as we draw closer to the end of a prolonged growth cycle, many individual and institutional investors view self-storage as more resilient to economic downturns than other asset classes, such as office buildings and retail centers.

This has created intense competition, especially for owners of older facilities who need to contend with newly constructed properties. Short-term, or "bridge," financing can help in these situations. Access to an infusion of capital allows an owner to renovate or expand, which can enhance business reputation and strengthen brand identity. Updated sites can also operate more efficiently, saving money and improving income.

An Overview

Bridge financing usually closes quickly and with flexible terms. Due to their short-term nature—often six to 48 months—bridge loans are more expensive than longer-term capital offered by traditional lenders; however, they also offer many benefits:

- Bridge lenders are generally able to provide financing of up to 80 percent loan-to-value and, in some circumstances, may be able to fund within 30 days or less.
- Bridge loans typically have a fixed-rate, interest-only or floating-rate structure, and their non-recourse component is generally negotiable.
- Bridge lenders can provide loan commitments far sooner than with conventional financing, which should provide borrowers a heightened level of confidence in closing.
- The loan-qualification process is more streamlined and less time-consuming.

As the name suggests, this type of financing is designed to bridge gaps and help owners quickly seize on opportunities, pay costs associated with improvements, stabilize a property or buy time to secure permanent financing.

Physical Improvements

Some self-storage borrowers have used bridge financing to reposition their properties and brand identity. From a physical standpoint, this might involve investment in renovations or expansion. Some owners tear down existing, outdated buildings and erect new structures with more space and desirable features, such climate control, which can command higher rent.

Even relatively simple makeovers can make buildings look cleaner and brighter. For example, modern, LED lights can provide better illumination than old-fashioned fixtures, and motion sensors on light switches cut down on waste. Both increase site safety and security while reducing electricity consumption. Other improvements to the physical plant can reduce utility costs, prevent losses and make the property more attractive to potential customers, who are willing to pay more for modern amenities, perceived as greater value.

Operational Improvements

Another way to take advantage of a bridge loan is to implement operational improvements, which can make a real difference in optimizing performance and providing a tremendous return. Investments in this area might include the latest software to help automatically increase unit prices when conditions are ripe, or modern technology and automation tools. Short-term capital can allow owners to implement these solutions and realize revenue increases.

Smaller self-storage operators can use bridge financing to fight other expenses, such as rising property taxes. Many cannot effectively battle these increases without some short-term capital to help prosecute appeals.

Staying Competitive

Making physical and operational improvements to storage assets is a strong way to fight newer competition. Despite the influx of fresh supply, new properties have largely been able to find customers during lease-up. In some areas, however, they've driven down rental rates, increasing the importance of property features and benefits just to keep pace.

Meanwhile, developers still plan to open thousands of new self-storage facilities nationwide. For example, in cities like Portland, Ore., and Nashville, Tenn., developers have planned new assets that, if completed, will increase market inventory by more than 20 percent. Development activity in those areas has already been high, with increased competition forcing down rental rates more than 5 percent over the last year, according to Yardi Matrix.

When challenged by competition, strategic owners look to invest in physical and operational improvements. Bridge loan are a smart and efficient way to infuse your plan with the necessary capital. ISS

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"Some self-storage borrowers have used bridge financing to reposition their properties and brand identity.

Exploring the Benefits of Nonconforming Loans

What if I said you could get a loan to buy a self-storage facility in three to six weeks, start to finish, even if you have credit issues, with more flexible terms than you could get from a bank? If you don't know much about nonconforming loans, you might say I'm crazy—crazy like a fox, that is.

Nonconforming loans are simply those made by nonbank lenders. Because they're regulated mostly at the state level, they don't have to comply with the federal regulations banks do and, therefore, don't have to meet bank criteria. Lenders of nonconforming loans are also known as nonbank, nontraditional and, sometimes, hard-money lenders. Their key advantage is they're everything your bank wants to be but can't, with speed being a pivotal difference.

"When you are acquiring a piece of real estate, speed is critical in many cases," explains Gary Bechtel, president of Money360 Inc., a nationwide direct lender. "We can react faster than a traditional lender and fund typically in three to five weeks. A traditional lender usually takes two to three months on average."

Another key difference is they embrace the kinds of borrowers most lenders reject. Bad credit? No tax returns? Property issues? No problem. Though their loan structure may appear traditional, nonconforming lenders have the luxury of using a different set of criteria on which to act, according to Noah Grayson, president and founder of South End Capital Corp., a national nonconforming lender.

His company's rates start in the 5 percent range, with fixed-rate loans up to 30 years and financing up to 80 percent of a property's value, which sounds a lot like what a bank offers. "The difference is we'll do that for borrowers with credit down to 600 without tax returns," he says. "We're looking just at the cash flow and value of the property, while a bank will require a lot more documentation. We are a lot more streamlined."

Bechtel adds that nonconforming lenders can be more flexible and creative in their loan structures. "Traditional lenders are generally bound to more conservative underwriting standards, have more stringent guidelines and are more restricted within the confines of their institution. We can go higher on loan-to-value (LTV), offer more flexibility on prepayment and future advances than traditional lenders are able."

Borrowers may also enjoy the more efficient application process. Grayson's firm uses a service-minded user interface and automation to simplify the procedure. "People have the expectation that they are going to be put through the wringer for any type of loan; but nonconforming loans offer competitive terms with an easy process," he says.

Rate Differential

Generally speaking, interest rates for nonconforming self-storage loans aren't as competitive as the rates you'd get from a bank. "A traditional lender, like a life-insurance company or a CMBS [commercial mortgage-backed securities] lender, is going to be more competitive than a nonbank lender from a rate standpoint," Bechtel says. "We are getting paid for speed and flexibility. The pricing differential is going to be all over the board, but there is generally going to be 150 to 250 basis points (1.5 percent to 2.5 percent) difference in pricing to what a traditional lender would charge compared to a mid-market nonbank lender.

"For example, if a bank charges 2.5 percent to 3 percent over the 30-day LIBOR rate, we are going to charge 4.5 percent to 5 percent over the same index. Other nonbank lenders might be in the 3.5 percent to 4 percent range over, and others might be in the 6 percent to 8 percent range over. It just depends."

Loan Uses and Types

Nonconforming loans generally provide financing for acquisitions, refinancing or rehabilitation. They can also be used as bridge financing and even hard money for emergencies. One thing they don't usually do is provide financing for ground-up construction.

Bridge loans. A bridge loan is short-term financing. It provides a one- to five-year "bridge" that is generally replaced by a permanent loan of five to 25 years. Bridge loans allow borrowers to acquire, refinance, stabilize, rehabilitate or lease-up a property.

Conforming vs. Nonconforming

A **conforming loan** meets the guidelines set by government-backed agencies such as Fannie Mae and Freddie Mac. There are a number of criteria that must be met, including specifications about the borrower's credit score and history, the borrower's debt-to-income ratio, the down payment, property type and more.

Loans that don't meet these various requirements are **nonconforming**. There's a much wider diversity of loan types and features among nonconforming loans. They often come with higher interest rates, but the process of securing a loan may also be quicker and require less documentation.

Source: *Bankrate.com*

While construction loans are generally full-recourse, bridge loans are nonrecourse, which is advantageous because the borrower doesn't have a contingent liability on his balance sheet. "It frees up their borrowing capacity with that financial institution, so they can go out and either buy or build another property," Bechtel says. "Occasionally, we see self-storage owners use a bridge loan to build climate-controlled units or canopy storage as they expand."

In some cases, the borrower wants to take out his construction lender when the property still has low occupancy. He can get a bridge loan to lease the property until it stabilizes, and then sell the property or get long-term financing.

Hard money. Hard money is a loan that's secured by the asset only. This is generally because the borrower's income is insufficient to carry the loan, or his credit is inadequate or has black marks against it such as a bankruptcy, foreclosure or default.

Hard money can often be funded in a week to 10 days, though there are some drawbacks. Because these loans are much riskier than other products, lenders won't give you as high of an LTV ratio. Expect 50 percent to 60 percent, not 80 percent to 90 percent. Interest rates are also higher than more traditional financing, usually in the 14 percent to 16 percent interest-rate range, explains Grayson, whose company provides hard-money financing ranging from 7 percent to 12 percent.

"There is a stigma out there that hard-money lenders can be predatory, and they want you to default on your loan so they can take your asset; but that is an antiquated perspective," says Grayson. "Hard-money lenders are solving your problem. We are giving you short-term financing to get you into a better situation. We want to know how you are going to get out of our loan, and we don't want to own your property."

Hard-money loans are short-term, generally 12 to 24 months. The borrower's exit strategy is key to using this type of financing effectively, according to Grayson. Are you selling your property? Refinancing? How are you getting out of the loan? In some cases, a lender may offer an exit path. "In our case, since we also provide long-term, permanent financing, we want to be able to transition you out of our short-term loan into a lower-rate, long-term program with us," Grayson says.

Less frequently, hard-money lenders may provide more expensive construction financing for borrowers who can't get a loan through traditional sources; but typically, hard money is for borrowers looking to buy a property or who already own one. It isn't for projection-based loans like ground-up construction.

Know Your Lender

When pursuing a nonconfoming loan, conduct research and get to know potential lenders. These lenders may have limitations, so it's critical to ask questions relevant to your situation, such as whether they can fund your entire loan.

"There are a number of nonbank and hard-money lenders that do not have the capacity to do a million-dollar loan," says Bechtel. "You have to pick the right lender. You need to make sure the lender you are going with has the capacity to fund the entire loan off of their balance sheet or warehouse lines vs. you possibly having

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to go out and syndicate or participate with other lenders."

When vetting lenders, Grayson suggests these tips:

- Use Google. It's your friend.
- Make sure there's plenty of realistic media coverage.
- Confirm the company actually lends in your state. Check your state's website to locate deeds recorded to the lender. Also, check with your attorney general's office to see if any complaints have been filed against the lender.
- Third-party reviews are crucial.Trustpilot shows reviews by real customers. Websites such as LendVer.com, FitSmallBusiness.com and Business.com research and review business and commercial lenders, which can't pay to be on these sites. Any lender making loans on a reasonable scale should have third-party endorsements.
- Though some lenders don't want to disclose proprietary information, you can ask for documentation that shows they're direct lenders.
- Don't be afraid to ask questions to ensure a lender is real. Be suspicious of websites that look fishy. Be wary if you can't identify a real person associated with the lender, or a website has obvious formatting or grammatical errors.
- Beware of upfront fees. It's OK to pay an appraisal or reasonable due-diligence fee, but not thousands of dollars for miscellaneous charges.

Make Yourself Attractive

Though nonconforming lenders are often more flexible with borrowers, they still have preferences. If you're a match for the following criteria, you might be a good candidate.

- **This isn't your first rodeo.** Experience is critical. "Our ideal borrower is someone who has experience in this asset class who owns multiple properties within the same market that they are looking for us to finance a property in. I don't want to be somebody's first project," Bechtel says.
- **You aren't perfect, or your property isn't.** Perhaps you have less-than-perfect credit, you don't qualify for bank financing, you can't document your income, or your property is in a secondary or tertiary market. "Anyone who doesn't qualify for a bank loan is our potential customer," Grayson says.
- **You have your ducks in a row.** Ensure you've done your homework and can provide all of the information the lender is going to need to assess the project, Bechtel says. "Have a good loan package, historical operating expenses, projections, information about the borrower from a resume and financial standpoint; and make sure you have all your information in an organized fashion, so we can determine quickly if it is something we can finance or not and at what level."

Nonconforming lenders can be important source of capital for self-storage borrowers. With nonconforming financing, you can get quality short-term, permanent long-term, and even emergency hard-money loans for your facility at affordable terms. You have options! ISS

Contributor: *Katherine D'Agostino, Self-Storage Ninjas, www.selfstorageninjas.com*

Facility Refinancing and Deferred Maintenance

One of the most impactful recommendations I make to self-storage owners seeking to refinance their loan is that they proactively address deferred maintenance and improve curb appeal at their property *before* they start the process. This is because there are critical ramifications to not doing so.

Deferred maintenance refers to items in need of immediate repair. While there's some subjectivity when it comes to what falls in this category, we're generally talking about a repair that's gone beyond daily housekeeping, is noticeable to the average tenant, or may have large financial consequences if left ignored. Curb appeal is also subjective and can be impacted by changing design trends; however, it plays a powerful role in the minds of customers as well as prospective buyers, appraisers and lenders.

If you're looking to refinance your self-storage facility, you can't afford to avoid deferred-maintenance items or curb appeal. Here's why.

Appraised Facility Value and LTV

Regardless of the type of loan you're pursuing—bank, life-insurance company, commercial mortgage-backed securities, etc.—your lender will have a loan-to-value (LTV) requirement in its term sheet. Failing to meet it will nearly guarantee the lender cuts your proceeds, increases your interest rate or simply declines your request. This will generally occur toward the end of the closing process, since it takes three to five weeks to complete an appraisal report. At that point, significant legal and other due-diligence expenses will already have been incurred. That's why it's so important to ensure the highest possible appraised value for your site.

The most cost-effective way to do this is to address deferred maintenance and improve curb appeal before the appraiser even steps foot on your property. While

there are market forces that'll help determine the assumptions that result in your appraised value, the better your property looks, the better it'll appraise.

The subconscious effect of a property that is clean, attractive and in good repair—or conversely, dirty, ugly or in disrepair—will play a significant role in the appraiser's mind when deciding your capitalization (cap) rate. This will impact the *income* approach to value. Your property's condition will also play a role when your appraiser is measuring your site against comparables and applying adjustments for the *sales* approach to value. These cap-rate or sales-comparison adjustments create the building blocks of the appraiser's assumptions, which ultimately result in your appraised value.

While filling a pothole, repairing a fence or painting an exterior wall represent a relatively minor expense, the potential impact to your appraised facility value is significant. Not only will a high value help you meet your LTV requirement and avoid negative adjustments to your final loan terms, if you achieve an LTV that's significantly lower than the requirement in the term sheet, it may give you bargaining power. This can help you potentially increase proceeds, decrease the interest rate or, at the very least, give you leverage if, during due diligence, the lender uncovers an issue with your property that gives pause. In short, a lower LTV can help offset other risks.

Lastly, remember that you're able to obtain a copy of the appraisal report post-closing (if you ask), which may be useful if there's even a remote chance that you plan to sell your property. While market conditions will likely change, it may be advantageous to share those materials with a prospective buyer. Having the highest appraised value will increase the chances the report will be useful in that regard.

The Engineering Report

Most lenders also require an engineering report, which means an engineer or property-condition specialist will inspect the property. His main focus will be to identify any deferred maintenance and the remaining useful life of your structural components. The last thing you want is for him to uncover deferred repairs.

The lender will generally require an escrow from your loan proceeds at closing equal to 125 percent of the engineer's estimated cost to repair. Generally, this is a conservative figure that doesn't take into account careful shopping or deep vendor relationships. In addition, getting funds released during the term of the loan can be time-consuming and frustrating.

Once the loan is closed, the leverage you have as a borrower is limited. Getting a servicer to focus on the release of a reserve can be difficult, and borrowers often receive silly or arduous follow-up requests, such as pictures and new lien searches for even the smallest reserve releases.

> “The subconscious effect of a property that is clean, attractive and in good repair—or conversely, dirty, ugly or in disrepair—will play a significant role in the appraiser's mind when deciding your capitalization (cap) rate.

Additionally, the more deferred maintenance that's uncovered, the less benefit of doubt the engineer will give you regarding the remaining useful life of structural items that are older but still in excellent working condition. The lower remaining useful life on critical items, the greater the ongoing replacement reserves will be. Generally, most term sheets or applications indicate that ongoing reserves will be the greater of a predetermined figure *and* the engineer's estimate.

The Inspection

Finally, your underwriter, credit officer or at least the loan officer will often inspect the property. Not only will he examine your facility and market, he'll evaluate the quality of your management. A lender will assume your property always looks like it does on inspection day. If it looks crummy, he won't presume it's having a "bad-hair day." He'll believe it's consistently in poor shape and you're a consistently poor operator.

Remember, the small nuances of these inspections may have a profound impact on the terms of your mortgage. This is singlehandedly the most dramatic way to improve or reduce your return on equity and cash-on-cash return as a commercial real estate owner.

Key Items

On a larger loan or property, the ideal approach is to have an engineer do an inspection before you begin a refinance. At the very least, you want to comb through the site carefully with your repair person.

Your first focus should be curing deferred maintenance relating to structural items such as roofs or HVAC systems. The condition of your paving including roadways and parking areas (along with striping) make it easy for an inspector to identify problems or acknowledge recent proactive work. Life-safety items including trip hazards or even things as mundane as the inspection dates on fire extinguishers will also represent key focal points of the engineer's review.

Americans With Disabilities Act (ADA) requirements are critical to lenders given they are lawful. Even if a bathroom is rarely used by renters, it must meet all stipulations including low sinks, grab bars, emergency pull cords and even door handles that don't require the twisting of the wrist. There are ADA parking spaces required and specific height requirements for your signs, too.

Finally, make sure you've addressed any recent tenant complaints relating to repairs. A lender will often require estoppels from even the smallest office tenants. If a customer plans to make a complaint, it's better to address it proactively on your own rather than have it discovered by a lender and described on its document.

Once key repairs are complete, don't overlook aesthetic items including new signage, paint or even a powerwash. While an engineer will likely not identify curb-appeal issues unless they're a major deterrent, addressing them is the most cost-effective way to improve the terms of your loan and the overall process, given the impact to valuation and your lender's opinion of your property. If you see a piece of trash while walking an inspector through your self-storage facility, pick it up and look confused as to why it's there. That's what I would do. **ISS**

Contributor: *Gregory J. Porter, Summit Real Estate Advisors, www.summitreadvisors.com*

Advice to Weather the Upcoming Recession

During the last recession, from 2008 to 2010, nearly 1.4 million small businesses shuttered their doors, according to the U.S. Small Business Administration. In the real estate sector, self-storage fared quite well thanks to the recession-resistant nature of the industry. In fact, while the National Association of Real Estate Investment Trusts "All Equity Index" lost almost 40 percent across all sectors in 2008, self-storage REITs returned 5 percent including dividends.

Keep in mind, though, that while self-storage may be one of the "safer" sectors during an economic downturn, survival isn't guaranteed. Many good owners, operators, developers and other professionals have exited the business during declines, and not by choice. For those fortunate to remain in the game, there are valuable lessons to be learned to help prepare for the next recession, which is long overdue.

Trying to forecast when the downturn will begin is difficult. There's no limit to the theories, statistics and predictions. For example, a June 2019 survey from the National Association for Business Economics put the risks of a recession beginning before the end of 2020 at 60 percent. In a recent Fortune 500 poll, most CEOs indicated they expect a recession to begin by the end of 2019 or sometime next year, with another third bracing for one in 2021.

In any case, a recessions is coming. It's an inevitable correction. To gather prevailing thoughts, I reached out to a few esteemed colleagues who have ridden through the ups and downs of the last two economic cycles, asking them about lessons learned and how to prepare for the next downturn. Here's what they had to say.

Tron Jordheim, Managing Partner, Self Storage Strategies

Focus: Operation

The last recession was driven by the sub-prime mortgage crisis, which caused the residential real estate bubble to burst and consumer debt to cross the tipping point. The next downcycle could also be driven by a real estate and apartment-rental pricing bubble. Consumer debt is again at a tipping point, but the recession could also be triggered by student-debt buildup, chaotic effects from international tariff policies, or energy-price increases from disruptions in oil and gas producing parts of the world. Combine all that with the increased use of automation in our economy, which could lead to more people being ushered from their jobs than the economy can handle.

With or without a recession, the oversupply of self-storage in some markets may disrupt rental rates for up to 10 years. Consider, too, that the rise of insurance-related payouts has stressed the reserves of insurance companies whose investments drive much of the economy.

Strategy. Don't race to the bottom. Maintain your current rental rates, and continue to institute rent increases. If you need to make concessions to get rentals, use promotions like "first month free" or "free use of moving truck with move-in." Spend more time than ever on curb appeal and site cleanliness, including bathrooms. Engage in more local guerrilla marketing.

Safeguards. In preparation for the next recession, here are some items self-storage operators should put into place now:

- Finance any capital expenditures that need it while rates are low, but be very careful how much debt you carry.
- Perform a stress test on your financial situation to see how much of a drop in revenue you can weather.
- Pay down loans that have loan-to-value (LTV) covenants, especially if your stress test makes you concerned that you won't meet the thresholds of today's debt picture.
- Scrutinize expenses to see what can be jettisoned if necessary.
- Get collections of any delinquent rent in order. An automated collections system can help. Stay on top of this!
- Sell your site if you believe you may want or need to unload it within the next few years. Or, if you have several properties, sell off the dogs and hold some cash to protect the gems.
- Get your basic marketing game in order. If your market takes a hit, the best marketers will come out of the recession in the best shape.

Pro tip. Again, don't drop rates to get new renters! It takes a very long time to recover rate power. Some operators who dropped rates in 2008 and 2009 didn't recover them until 2015 and as late as 2017. This time, we need to add in an oversupply facet, which is why it could take 10 years to recover. It's better to lose money for a while and be able to recover rates quickly than to cut rates and then struggle. Cutting rates also kills your pro formas if you want to sell.

Terry Campbell, General Manager, Live Oak Bank

Focus: Financing

Something to consider is the fact that self-storage usually does relatively well during a downturn. As we look at history, it isn't recession-proof, but it is recession-resistant. Even during the Great Recession, occupancies (national average)

> Don't take the likelihood of a coming recession lightly. Be prepared. Turn each of these lessons and suggestions into action items for your business to stay the course in the months to come.

dropped to just under 76 percent, and delinquencies were very low.

Loan covenants. Owners should review their loans to see what type of financial covenants they may have. I've spoken with several who had covenants tied to their LTV. Many had property values drop, which put them in violation of those covenants. Even though they were making payments and business was fine, they were at risk of foreclosure. One gentleman I spoke with had to come up with $1 million to get his LTV back in line so he wouldn't lose his facility. If you have this type of covenant, which isn't uncommon, be prepared in case something similar happens.

Refinancing. If you have good cash-flowing properties and plan to hold them long term, consider putting your debt into a long-term, fixed-rate loan. If the loan comes due during a recession, it could be harder to refinance in a high-rate, low-LTV environment. If you find yourself in this fix, you may need to go the route of SBA financing with a guarantee to get the refinance.

Pro tip. Facility operators should consider going unmanned or using virtual management. If you have employees, this could help lower operating expenses; but of course, each facility, location and situation is different. I also suggest operators put as many tenants as possible on autopay to prevent delinquencies.

Aric Platt, Vice President, DDC Threecore

Focus: Development and Construction

In self-storage construction, the first step in preparing for a potential economic slowdown is to focus on the market. Understanding the market and its fundamentals will help you assess the potential impact and time required to recover.

The second step is to review your proposed facility location. The best sites are able to maintain customer traffic to drive project fundamentals (rental rates, occupancy, etc.).

The next step is to secure a firm for the design and construction of the site to ensure your team is able to manage any risks associated with recession. These include the financial stability of the general contractor (GC), subcontractors and suppliers. Though you may not bond the project, it's important to make sure your prime GC is bondable. This is a measure of the financial stability of the company and increases the likelihood of a successfully completed project. Also, ensure your GC is collecting appropriate documentation from subcontractors and suppliers, such as partial and full-lien releases.

Pro tip. During the last recession, some owners were surprised to learn that though they paid the GC, the subcontractors weren't paid, which led to liens against on the property. This delayed projects with costly legal issues. So, look at the experience and history of the firm you hire. How did it navigate the last recession? Was it able to complete projects on time without major issues? When facing a recession, it's best to focus on project fundamentals to ensure success.

My Turn

I'm in full agreement with everything stated above. Note that several statements echoed the same sentiments, though no one had prior knowledge of what the others had said.

My company has been preparing for the next recession for the last seven years. This includes keeping our loans to a minimum, carrying lower LTVs and being mindful of when rates may adjust. Since 2012, each project we've commenced has had a clear exit strategy or refinance date that coincides with projections for the next correction as well as the approximate interest-rate and capitalization-rate environment in which we may find ourselves. We've also been amassing a war chest of cash and have significantly increased our private-equity network to actively participate in the types of opportunities that are created during a downturn.

There are many newcomers to self-storage since the last recession. They've enjoyed the huge wind in our sail from one of the strongest bull markets in our nation's history, along with the market gifts that have been given along the way. Don't take the likelihood of a coming recession lightly. Be prepared. Turn each of these lessons and suggestions into action items for your business to stay the course in the months to come.

To quote Mike Tyson, "Everybody has a plan until they get punched in the face!" In life and in business, it's all about Plan B. If you don't have a plan, the market will create one for you. **ISS**

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Real Estate Outlook for the Year Ahead

The self-storage sector has undergone substantial changes over the past several years. This includes a condensed period of elevated construction and consumer trends that alter the way operators interact with customers. In a time of heightened geopolitical concerns, facilities benefit from demand that has less correlation with the business cycle. Lifestyle changes and shifting demographics are also expected to bolster demand, supporting a positive outlook for owners and investors and sustaining the flow of capital into the sector.

Elevated Construction Activity

New supply has become a prominent concern for self-storage owners. Since 2014, about 190 million square feet of storage has opened nationwide, putting downward pressure on rents as operators offer concessions to lease units. This trend should begin to abate, however, as less construction has taken place during the current business cycle compared with the previous expansion period. Over the last six years, about 210 million square feet has been built, which is well below the 328 million square feet added to inventory between 2001 to 2007. During the interim, 2010 to 2013, supply grew by less than 1 percent annually.

Moving forward, the construction pipeline is beginning to moderate. Following the delivery of 65.8 million square feet in 2018, additions were expected to recede to 60 million square feet in 2019. Select markets are still recovering from elevated supply, however. Since 2008, inventories have expanded rapidly in several markets.

For example, Denver and Raleigh-Durham, N.C., have seen their local supply of storage units grow by more than 40 percent, double the national rate of 21 percent. Denver; Miami-Dade, Fla.; and Austin, Texas, have also added significant space. These metros will see fewer new facilities going forward, but secondary and tertiary cities will see a modest increase in new openings.

The construction pipelines in Minneapolis-St. Paul, Minn., and Phoenix, in particular, are increasing considerably, which could lead to future headwinds in these markets. The rapid pace of development in several metros has been bolstered by a growing trend toward adaptive reuse. Several self-storage companies are converting vacant big-box retail stores into self-storage, a less time-consuming and more affordable alternative to ground-up construction. At a national level, however, the slowing development pipeline will begin to relieve the downward pressure on occupancy and rents, aided by growing consumer demand.

Growing and Changing Needs

Demographic trends and changing behavior are driving the use of self-storage, supporting the sector's ability to absorb recent supply additions. Whereas the national vacancy rate was generally above 14 percent from 2004 to 2012, availability has remained close to or under 10 percent since 2015.

One factor behind this performance is the aging of the Baby Boomer population. A large portion of this generation is reaching retirement, with many downsizing their homes and putting their belongings into storage. Demand from this segment will become more prominent as the number of people over the age of 65 increases by 9.2 million, or 16.4 percent, within the next five years. By 2030, about 26 percent of the entire U.S. population will be 65 or older, compared with 15 percent in 2010.

Millennials are also changing the self-storage sector. This generation makes up nearly a third of all renters and they use it in many new ways. They tend to apply technology more actively than previous generations, leveraging digital devices to streamline their lives. This has prompted more businesses to create online portals to handle nearly all aspects of customer interaction, including leasing units and making rent payments.

Other conveniences, such as 24-hour access, are vital to Millennial renters because they visit their units more frequently than other generations. Prompted by the limited space in the urban apartments they favor, more than 30 percent of this demographic visit their facility at least once per week. Proximity is important for the same reason. To support ease of access, more developments are going up in dense, urban settings, often leveraging existing multi-level buildings and adopting a more upscale appearance. These transformative uses are bolstering the case for having a storage unit as a virtual necessity.

Investment Highlights

Amid the dynamic landscape, investors are increasingly considering self-storage as a mainstream option. Recent sentiment surveys reveal that most commercial real estate investors plan to increase their holdings within the next 12 months, and approximately 32 percent of self-storage owners consider now the time to buy additional assets. This favorable opinion is reflected in a sales velocity that's well above levels from earlier in the cycle. Buyers are encouraged by abating supply pressures, solid demand trends, comparatively high first-year yields and moderate management requirements.

The average initial return on recent self-storage transactions falls in the mid-6 percent range, compared with a low-5 percent average for apartments. While capitalization rates have compressed in recent years, falling interest rates have reopened levered yields, supporting the investment thesis. Institutions predominantly pursue stabilized assets in the country's top metros, favoring areas with fewer completions. Private investors continue to target assets under $10 million, often in suburban settings or smaller cities. The competition for quality assets among all types of buyers has sustained pricing momentum and appreciation, enticing potential sellers.

An added benefit for many investors is the property type's countercyclical demand, particularly considering the softening economic outlook. The core demand drivers for self-storage tend to be unrelated to the economy. Lifestyle changes, downsizing and proximate storage for smaller housing units all align outside of economic trends. As investors position portfolios for the long term, self-storage will capture increasing interest and investment share.

A Positive Outlook

Current market trends support a positive outlook for self-storage properties. About 53.7 million square feet of space is forecast for completion in 2020, tapering off further from this year's already reduced deliveries. The moderation in development should help bring fundamentals back into balance. Vacancy is expected to remain stable, with the national rate likely advancing just 10 basis points to 10 percent, below the long-run average of 12.2 percent. Fewer openings and stable vacancy should help moderate concessions and softened rent growth, a challenge the sector has contended with for two years. ISS

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The Real Estate Cycle and What It Means for You

Whether you're interests in buying or selling a self-storage asset, you need to pay attention to the overall real estate market. An improper valuation can mean the difference of hundreds of thousands of dollars to your bottom line.

The real estate cycle can be split into four stages: recession, recovery, expansion and oversupply. Let's review each and how it can affect your options to buy or sell property.

Recession

During the most recent recession, we faced rising capitalization (cap) rates, unwilling lenders and strict loans, lower property valuations, and debt that was higher than the value of the asset. Because this, it was difficult for self-storage owners to sell their facilities; and properties that were sold were done so under financial duress. When a buyer could find a favorable asset to purchase, there were often roadblocks during the lending process that either killed the deal or made it more difficult to complete.

Recovery

Next, we entered a recovery period, during which the U.S. Federal Reserve reduced interest rates to record lows, which led to a rise in self-storage property values. Cap rates hit all-time highs of 8 percent to 12 percent. Lenders were competing for business again, and buyers started flooding the market looking for their next acquisition.

Expansion

Around 2016, the market hit the expansion phase. This was marked by low but still increasing interest rates, which will likely continue until we enter the next phase. Sellers have been reaping the rewards over the past few years because more buyers have entered the market and lenders were more than willing to underwrite deals again. According to the Self-Storage Association, facility valuations hit their peak between the third quarters of 2016 and 2017. Then we had private-equity firms jumping into the market, as they appeared to fall in love with the returns of storage properties.

Oversupply

As the self-storage industry grows, more properties pop up all over the country and existing facilities continue to expand. The market is now trending into the oversupply phase, which is likely to continue through 2022. As markets become saturated with under-utilized space, there will be less new construction, as it just won't make sense. Things will come to a head. We can already see certain markets being affected by rising cap rates and declining occupancies.

As more competition appears, the harder it'll be to increase net operating income (NOI), and facilities will have trouble keeping those high valuations. The Federal Reserve is also increasing its funds, as it raised rates three times in 2018 and plans another four increases for this year. As interest rates go up, certain self-storage properties will become less attractive to buyers, and the market will slow along with fewer lenders willing to underwrite the deals that are out there.

Let's look at an actual example in the accompanying table to see how a single property will be valued differently based on market changes over time. Last year, this facility was valued at nearly $800,000 less than it was two years earlier, during the peak. It'll likely lose another $300,000 in value this year if the market follows this path.

A Small Window

Self-storage property sellers need to pay attention to the market. The savvy ones will see there's just a small window of time to receive the maximum value for their asset, whether it's a single- or

	Cap Rate	Interest Rate	Valuation	Loss
July 2016	6.75%	3.75%	$6,925,000	--
March 2018	7.60%	5.50%	$6,150,000	$775,000
December 2019	8.00%	6.25%	$5,850,000	$1,075,000

multi-site portfolio. That's why they're selling their now.

Then you have the smart buyer who's been waiting for this to happen. Investors who overpaid during 2014 and 2017 are starting to sell because they just couldn't improve the NOI enough to make a profit during the rising interest rates of that phase. Some are even in bank foreclosures and have distressed properties, which will in turn affect overall market valuations.

To maximize the value of your asset over the next 18 to 24 months, do the following:

- Implement rate increases and review existing tenant rates.
- Consider methods to increase tenant-insurance penetration, with a goal of 70 percent.
- Find missing revenue by adding administration and late fees, if you haven't already done so.
- Take advantage of customers' dependence on the Internet by offering online reservations and rentals, implementing digital marketing strategies such as search engine optimization, and exploring social media advertising.
- Look at your existing expenses and see where you can make cuts. Maybe you can automate some processes, negotiate better rates with your current vendors, or get quotes from competing vendors, and so on.

Making these changes today will help maximize your business' overall value when it comes time to sell. ISS

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Transaction Insight for **Buyers and Sellers**

The process of acquiring or selling a self-storage facility is complex and can often be confusing, competitive and outright frustrating. It isn't something the average owner has to think about very often; and anyone new to the marketplace won't know what to expect. With this in mind, here's some insight to help buyers and sellers work through the critical parts of a real estate transaction and ensure a more successful outcome.

Pricing Is Critical

The first and most important component of a self-storage purchase or sale is pricing, of course, so let's spend a few minutes on it. In the world of transactional real estate, the market usually has a relatively narrow band of property values. If market prices were any higher, there wouldn't be any buyers; if it were lower, there wouldn't be any sellers. Another way to say this is there are more sellers at high prices and more buyers at low prices, but only a few who are willing to deal at the right market price.

The range is also quite narrow because buyers are disciplined. They often understand the capital markets and have been involved in several transactions, giving them an advantage over a one-time seller. Sellers won't let go of their asset for less than fair market value and seek a price that'll allow them to reinvest and achieve comparable returns.

Facilities differ in many ways: size, age, location, market, construction and so on. We must have a method of comparing properties for sale that takes all these differences into account. In real estate, we use capitalization rates to try to compare the unleveraged cash-on-cash return on the sale price from one property to the next. This makes sense, as what any buyer really wants is a return on invested capital. Thus, we can compare the price of a $1.375M property with a net operating income (NOI) of $110,000 to a $10.709M property with an NOI of $589,000. The first property has an unleveraged return of 8 percent, whereas the higher priced one has an unleveraged return of only 5.5 percent.

All things being equal, which would you choose? You'd buy the property with the higher return, of course! However, in self-storage, all things are not equal, and buyers must factor risk and quality into the pricing equation. In this instance, it's possible the first property is near a military base that's about to close, while the second is the only storage facility for 10 miles and a recent moratorium has been placed on new development. It's this difference in risk and quality (and buyer perception) that widens the range of market prices. It sets required returns and can vary widely from one market to the next.

Today, most self-storage facilities sell for unleveraged returns of 5.5 percent to 8 percent. In other words, the average facility probably sells for, say, a 6 percent return, and a not-so-good property sells for a higher return to compensate for the risk and lack of quality. The opposite is also true: The better projects command the buyer to accept less return. In self-storage, pricing almost always fits into this narrow band of returns buyers and sellers mutually accept in making a deal.

Buyers and sellers need to educate themselves to ensure their expectations regarding price are in line with the market:

Sellers: You need to understand that overpricing is *not harmless* and you should list your property within 3 percent to 5 percent of what you're willing to transact. Overpriced properties don't attract the most aggressive or qualified buyers, and they often end up with a market reputation that lasts for several years. Overpricing also has a negative long-term impact on the value of the property and can make an illiquid asset (all real estate) even more so.

Buyers: You should understand that making lowball offers will offend sellers and make purchasing a property more difficult in the future. Your reputation will precede you! After all, self-storage is a relatively small industry. To be taken seriously, an offer should be within 2 percent to 7 percent of the asking price. Buyers are often selected not only based on pricing, but on terms, reputation and experience.

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Preparation Is Key

Buying and selling a self-storage property is no small task, and whichever side of the fence you're on, you need to prepare before entering the process to ensure success.

Sellers: Make sure your property shows well and presents in a professional manner. For example, all deferred maintenance should be complete, accounts receivable should be at a reasonable level (5 percent or less), auction units should be processed, all unrentable units should be fixed and put back into service, trash should be picked up, weeds should be sprayed, and the site should be thoroughly clean. It also may be prudent to paint the office and bathrooms and sealcoat the driveways. These basic steps will go a long way when getting the highest value for your property.

Buyers: Narrow your search to a few markets you've researched, studied and understand. This will allow you to be more aggressive in valuation and submit a qualified, competitive offer. Again, offers aren't solely evaluated on price but also with regard to terms, inspection period, closing time, experience, reputation, etc. Line up your financing and hire a third-party management company before making an offer, so you can underwrite the acquisition in a timely and appropriate manner. In this highly competitive market, you must be ready to react quickly when an opportunity presents itself.

Experience Matters

Today more than ever, having experienced advisors and counsel can make or break a deal. You'll have a meaningfully higher success rate if you're represented by an experienced, knowledgeable and reputable self-storage broker. This person will assist you in understanding the submarket of the property and provide market data (sales comparisons, underwriting assistance, new-development info, market-rate financing quotes, etc.), which will allow you to be more realistic and efficient in your efforts. It's also prudent to engage an experienced real estate attorney and credible third-party management company to evaluate the broker's underwriting and provide guidance about market timeframes and deal structures.

The self-storage industry continues to evolve, and there are conditions in the market that are attractive for both buyers and sellers. However, just because it's a "good" market for buying and selling doesn't mean everyone should. The process will continue to become more competitive and challenging, so be clear about your personal objectives before proceeding. ISS

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Making Smart Acquisitions

As more markets become saturated with self-storage and the prospects for new development become less appealing, investors are increasingly turning toward acquisitions of existing properties to enter the business or expand their portfolio. Learning how to analyze these potential deals can be painful and expensive, but conducting due diligence provides tremendous insight.

Audit Checklist

When considering a self-storage acquisition, schedule an onsite audit of the property early in the due-diligence period. Items to be evaluated should include:

- **Payment audit:** Confirm cash flow.
- **Space audit:** Confirm square footage as well as the number and status of all units.
- **Income statements:** Review income and expenses.
- **Bank statements:** Confirm reported collections have been deposited in the bank.
- **Management-software reports:** Review these to develop a clear understanding of the facility's state of affairs.
- **Lease audit:** Confirm compliance.
- **Lien-sale review:** Confirm legal compliance and that there aren't lingering issues.
- **Deferred-maintenance review:** Know what you may have to fix.

Depending on your financing requirements, you may need to gather additional information such as a property survey, environmental report, proof of zoning compliance and building permits.

Cash Flow

When considering the viability of a potential acquisition, one of the first items to consider is cash flow. Will the facility flow immediately upon closing, or will you have to subsidize it? If the latter, for how long?

In general, look for deals that will cash-flow immediately. Usually, the bank financing the deal will require a 1.2 to 1.3 debt-service coverage ratio (DSCR). This means you'll need to generate $1.20 to $1.30 in net operating income for every dollar of debt. A purchase offer should always be based on your ability to collect the current reported income, pay expenses (including debt service) and have enough cash left over to meet or exceed the required DSCR.

During due diligence, you want to invest substantial effort on examining and confirming the target property's reported income and expenses. Review management reports, income and bank statements to confirm rental payments and other income reported by the seller are accounted for and deposited in the bank. It's also important to look for any reported expenses that aren't necessarily relevant to a new owner and any you would likely incur. Some income may not carry over to you, so it's important to contemplate financial underwriting with income sources that *will*. For example:

- **Truck-rental income:** Do rental trucks come with the purchase? Will you continue to rent them out?
- **Billboard income:** If there's a billboard, does it come with the purchase, or will it be retained by the current owner?
- **Retail- and office-space rentals:** Are these included in the rent roll or held separate by the current owner?

Some expenses may or may not carry over after the sale. Review them and underwrite your expectations accordingly. Considerations include:

- **Payroll:** “Mom-and-pop” facilities sometimes don’t account for payroll, or they show payroll as far higher than would be considered reasonable.
- **Marketing:** There’s sometimes little to no marketing costs represented in reported expenses.
- **Maintenance and other service contracts:** It’s important to review all such agreements, as you may or may not be obligated to “inherit” them.

Potential Upside

Once you’ve examined cash flow, look for ways you can make the property more profitable and valuable. There are a number of categories to consider, some of which comprise important aspects of your market study, such as:

- **Expansion:** If the facility has consistently high occupancy and the surrounding market is robust, consider expanding. The ability to add more storage space to a well-performing facility is one of the most effective ways to increase profit and value.
- **Ancillary income:** Explore additional revenue sources. One profit center that’s often missing or grossly neglected at existing facilities is a tenant-insurance program.
- **Rate management:** One of the easiest and most immediate ways to increase revenue is to implement a revenue-management system. It isn’t uncommon to find current ownership has never raised rates on existing tenants and rarely, if ever, increased posted street rates. This can even be true with properties that have very high occupancy.

Here are some other areas of operation where potential upside can be created. These can all impact the efficiency and productivity of your investment:

- **Website:** Does the facility have one? Will you need to build one or do a redesign? To be effective in a competitive market, a self-storage facility needs a quality website equipped to deliver dynamic pricing, online rentals, account management and other modern amenities.

What Is Due Diligence?

Due diligence is the investigation or exercise of care that a reasonable business or person is expected to take before entering into an agreement or contract with another party, or an act with a certain standard of care. It can be a legal obligation, but the term will more commonly apply to voluntary investigations.

Source: *Wikipedia.com*

- **Call center:** If the facility isn’t already using one, this is another opportunity. A call center allows for more efficient management and can give your acquisition a marketing and operational advantage.
- **Management software:** Transferring the facility data to a more robust software can provide great operational improvement.
- **Hours:** Can these be expanded or changed to make the facility more attractive to renters?
- **Lien sales:** Consider whether onsite or online auctions will better help you minimize delinquencies and recover the most debt.

You’ll also need to think about items such as facility policies and procedures, credit card processing, security, marketing, and much more. When analyzing the current regime, consider whether any of these can be changed to lower expenses or increase income.

Management Options

Another consideration when contemplating a self-storage acquisition is how you’ll manage the facility. It’s crucial to make an informed decision on your operational model. There are several ways in run your operation:

Self-management. Many owners acquiring a small facility (35,000 square feet or fewer) will likely self-manage, either alone, with family members or by hiring a manager. First, you’ll want to garner the necessary knowledge and skills to maximize the facility’s potential upside.

Third-party management. A professional management firm will handle the day-to-day management of the property, charging a fee of 4 percent to 6 percent of gross income. It’ll take care of staff hiring and training, bookkeeping, marketing, and other operational functions. You can choose from small, independent firms, which tend to operate in specific regions and typically assume operation under your existing business name, or from much larger companies, which tend to apply their own branding to your operation, making it part of a greater enterprise. There are pros and cons to each.

Virtual management. A rising option is to use automation technology and platforms to manage the facility. The unattended self-storage model is becoming more popular and viable for many owners and investors.

Deferred Maintenance

Take great care to determine if there are any maintenance issues that will need to be resolved by the current owner before closing or any outstanding items for which you’ll need to budget. Just about any facility you look at will have some dents and dings on metal panels, gutters and downspouts, bollards, etc. You’ll have to decide if these are deal-breakers. They’re common and shouldn’t be overly expensive to remedy. At the very least, I recommend your contract requires the current owner to ensure every unit door is usable (including fixes as necessary to springs and latches) and that gates, keypads and cameras are all operational.

Major issues such as roof leaks, severe holes or cracks in asphalt or concrete, building damage that affects structural integrity, etc., can be very expensive to fix and will greatly decrease your ability to increase rates or add other improvements. The severity of these issues may be enough to pass on a facility.

When reviewed with relevant knowledge and a critical eye, an existing self-storage facility can be a great investment. Do your homework. Falling in love with a property can lead to bad decisions, so stay within your established parameters. You’ll likely have to review a lot of properties before you find the right buy, but it’ll be well worth it. **ISS**

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Critical Items to Cover During Due Diligence

Conducting due diligence on a self-storage acquisition isn't glamorous, but it's critical in determining your success. As the discovery phase of investment, this is how you'll determine—before you write a big check—if a property will meet your goals. Your purchase agreement will outline a full list of items needed to perform due diligence, but let's examine some of the most crucial areas and what you should include at a minimum.

Financial Information

At a minimum, make sure you have:

- Three years of profit-and-loss (P&L) statements
- Monthly P&Ls for the past 12 months
- Three years of Schedule E tax returns
- Bank statements for the past 12 months
- Security-deposit account statement

This information provides the valuation of the property's income stream. It's critical to assessing the investment. When you request it, you may receive a pro forma statement of income and expenses. "Pro forma" literally means "to form," but translates to "as if." This statement represents the property's income, with certain assumptions that may or may not be true. Keep in mind that you need the reality.

In valuation, you must use the most recent, actual operating income performance. It's a cardinal rule. Three years is a good length of time to gain a sufficient track record for the facility, including seasonality, but may not tell the whole story.

Operating Information

At a minimum, make sure you have:

- Copies of all leases
- Current rent roll as well as the past three years
- Utility bills
- Insurance-declaration page
- Vendor agreements for management software, website, service contracts, etc.
- Third-party management contract, if applicable
- List of capital improvements

Income properties are sold subject to existing leases. Therefore, it's critical to review every rental agreement, matching each with the physical unit during a walk-through. Leases should also be checked against the rent roll to verify the operating statement. In addition, the original lease documents must be delivered to you at closing.

The rent roll is a convenient report that consolidates the lease information. A basic report should show each unit number, tenant name, rental rate and lease expiration date. Some reports are more detailed and may contain payment history, outstanding balances and the lease start date.

Utility bills play a vital part in determining operating expenses; however, annual or monthly costs revealed on an operating statement aren't enough to determine if expenses and use are in line. I recommend getting copies of monthly bills going back at least two years. If the owner doesn't have previous bills, it's fairly easy to obtain them from the utility company by submitting the account number.

Insurance coverage is another important piece. Once you have the current declarations page, use the information to gather competitive bids. Compare the amount of loss insured, policy type and standards of coverage (replacement cost, business interruption, etc.), any riders for additional property or casualty coverage (flood, disaster, etc.), and any coverage exceptions.

Review all vendor contracts and agreements to see if they can be canceled following the acquisition or if there are any automatic-renewal clauses. These might include contracts for third-party management, lawn care/landscaping, snow removal, pest control, trash pickup, janitorial supply, truck rentals, moving supplies, etc.

Also, make sure you see the property's business or retail license. This should be displayed on a wall or kept in the owner's files. If the jurisdiction doesn't require a business license, this should be verified with the local government.

Physical Information

At a minimum, make sure you have:

- Property-tax assessment
- Any site/building plans
- Copy of previous title work

Property taxes are most likely the highest expense item and should be analyzed for rate increases over time. This information can be found on the source document or from the local taxing authority. In any estimate of future expenses, always plan for increases, especially after the sale. Some municipalities will reassess property taxes on a set period, such as annually or every two years, while others automatically reassess the property after a sale. If the latter is true for your acquisition, you may need to plan for a significant increase.

It's always a good idea to have copies of any existing architectural, engineering or utility plans in the seller's possession. This can be helpful and possibly save you money if you decide to develop additional buildings on the site.

Instances of personal property must be dealt with case by case. Though not essential to the initial analysis, a discussion and mutual agreement should be made whether it will transfer to you after the sale.

Third-Party Information

At a minimum, make sure you have:

- Past appraisals
- Past engineering/inspection reports
- Phase I environmental report
- Zoning information

Lenders will almost always want to order a new appraisal, but some cost may be saved if an existing appraisal is less than two years old and the property hasn't undergone any major changes. Most lenders have a short list of appraisers approved by the bank to perform updates or obtain a new report.

Inspections are generally required by all lenders, but even if you're paying cash, I highly recommend you have an inspection performed on any property you purchase. A building inspector will test the property's systems, evaluate structural components and note any deferred maintenance or deficiencies. For multi-story facilities with a freight or passenger elevator, there are regulations that may require an elevator-inspection report.

A Phase I environmental report is conducted to determine the environmental status of a property. It includes a review of public records and databases maintained by state and federal governments for environmental "events" or known contaminations onsite or in the vicinity. Based on the findings, a conclusion will be offered as to whether any further action is recommended.

Zoning certification must be obtained from the municipal jurisdiction, usually at the local planning and zoning office, or from the economic-development office. Current zoning compliance can usually be verified with a phone call to the appropriate office.

Market Information (3- to 5-Mile Radius)

At a minimum, make sure you have:

- Competitor market survey
- Existing market supply index
- Feasibility study (optional)
- Department of transportation traffic information
- Demographic report

Most sellers will have some sort of survey available, but it may not be sufficient to satisfy your lender. Most lenders require a commercial real estate survey that meets the minimum standards set by the American Land Title Association (ALTA) in 1999. The ALTA survey requires that the surveyor and title company work together to determine whether the property's physical presence and legal description match.

The surveyor will refer to the title commitment for the property's legal description and any encumbrances (exceptions) on the title. He'll then provide the title company with the information to ensure the title to the land and improvements match to the degree required.

Decisions, Decisions

The purchase agreement will state that at the end of the inspection period, you must accept the property and allow the earnest money deposit to go at risk, or reject the property and have the deposit returned in full. Your investigation will almost always reveal conditions that differ from the seller's representations or render the property undesirable. These may warrant an adjustment in the price or terms of the sale. This is up to you, of course, and may cause further negotiation with the seller, depending on inspection findings and the amount of money required to rectify any unforeseen problems.

Due diligence is your chance to investigate a property and eliminate most of the risk that stems from a lack of knowledge. Remember, this is your only opportunity to obtain information when the seller is required to help. The benefit of being thorough is it gives you the confidence to act decisively, and with assurance that you have a clear picture of the current value of the facility and have mitigated the risk of future problems. ISS

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Understanding ***Cap Rates***

The term "capitalization rate" (cap rate) is one of the most misunderstood in real estate. I often feel a bit uncomfortable when first using it in conversations with self-storage owners, as it's difficult to know if they truly understand what it means. I wouldn't want to insult someone by defining it in overly simplistic terms, or assume he's comfortable with it and end up with a misinterpretation. Over the years, I've learned to confirm a clear, mutual understanding of cap rate before moving further into discussions about facility value.

The most common misunderstanding is that the cap rate is the number by which you multiply net operating income (NOI) to arrive at property value. Many owners believe that a "10 cap" means 10 times income. This isn't at all the case. In fact, that calculation is the *opposite* of what a cap rate is intended to do. To properly determine facility value, you *divide* the NOI by the cap rate. To determine the cap rate, you divide the NOI by the purchase price. Lower cap rates mean higher values and vice versa.

- Value = NOI / Cap Rate
- Cap Rate = NOI / Purchase Price

Let's say a property generates gross annual income of $500,000 and has annual operating expenses of $200,000. The NOI (gross income minus operating expenses) is $300,000. This is the amount of cash flow the property generates, before debt service, in a given year. Here's what this property is worth at a variety of cap rates:

- 5.0% = $6,000,000
- 5.5% = $5,454,545
- 6.0% = $5,000,000
- 6.5% = $4,615,385

Self-storage facilities are purchased for their cash flow. The more income a property generates, the higher its value. Buyers must compete against each other to buy a property and its NOI. Those who target a 6 percent return on investment

(ROI) are generally willing to pay more for a fixed cash flow than those who target a 6.5 percent return. The buyer who's willing to accept the lowest ROI usually wins; he's willing to pay more than others who require a higher return.

Market Dynamics

If you've been in the storage business for a while, you may remember cap rates being much higher. In fact, during the 1990s and earlier, they were often 10 percent or greater, but they began compressing toward current levels for two primary reasons.

First, the asset class gained acceptance among institutional investors as being on par with multi-family, retail, office and industrial property types. This occurred when the recession-resistant nature of the business was recognized and understood. Self-storage loans experienced fewer defaults than those for other property types. As a result, competition for high-quality properties significantly increased.

Second, current low cap rates are a function of historically low interest rates. As mortgage rates fell and have continued to remain low, investors looking for cash flow have been able to pay lower cap rates and still hit their cash-flow targets.

Risk Factors

Cap rates aren't the same for all properties within a market. Even sites that are of similar size, age, location and condition may trade in a wide range. This is because cap rates are also a function of risk within the investment.

Under new ownership, cash flow will go up, down or remain the same. If a seller is already doing a magnificent job of managing the business, there might be little you can do to improve performance. In this case, there may be some downside risk and, thus, a higher cap rate on current income warranted.

Conversely, if you're considering two similar properties—one operating at 90 percent occupancy and another at 70 percent—most investors would be willing to pay a lower cap rate for the property with lower occupancy. The same is true when evaluating multiple comparable properties that have big differences in rental rates for the same unit sizes or large discrepancies between certain operating expenses. A lower cap rate is justified if specific opportunities are identified to improve cash flow, such as increasing occupancy and/or rental rates to market levels or saving money on operating expenses through economies of scale or other means after new management adds value.

Downside risk doesn't only exist in property management; it can occur due to new competition entering a market. This means properties in urban or infill locations can trade at lower cap rates than virtually identical properties surrounded by lots of vacant land where new competition could develop and create a saturated market.

One of the most frequent questions I hear is, "What are cap rates these days?" As I begin my response, the asker invariably rolls his eyes as he listens to the same loaded information we've just discussed. As you now know, it isn't a one-word answer! **ISS**

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The Art of Facility Valuation

As we near the end of 2019, self-storage valuations remain surprisingly strong and are actually rising in some markets. There are many ways to measure facility value, but first, we must understand the amount of income generated by a property as well as the nature and reliability of that income. The value figure must then be compared to those of other investment types to determine the appropriate return on investment to induce buyers.

Self-storage valuation is a professional art. While number manipulations are an important part of the process, a good deal of real estate experience is required to develop a precise value range. It would be difficult to elaborate on every point of judgment necessary to arrive at a precise figure. That said, let's examine some basic number crunching to help get you get in the ballpark and some anomalies that can take you *out* of it. Since these exceptions can be difficult to understand and evaluate, you'll want to seek advice if they exist at your property.

True Value

True market valuation is an in-depth process that incorporates three traditional approaches used by real estate appraisers:

- **Cost basis:** This approach compares the cost of replacing the facility within the market in which it's located.
- **Market-sales comparables:** This method compares the value actually achieved in the marketplace by similar facilities that were recently sold.
- **Income-approach basis:** This method looks at the amount of income a property produces and applies a capitalization rate (cap rate). Dividing the net operating income (NOI) by the cap rate gives you the property value. For example, a property with NOI of $150,000, when valued at a 6 percent cap rate, would have a valuation of $2.5 million (150,000/0.06 = 2,500,000).

Without reconciling the values derived from all three methods, you can't be sure you've identified the right number. Again, it's a complicated process that requires the expertise of an industry professional. However, in large measure, the value of a self-storage property to potential buyers is largely determined by NOI and the income approach.

As you work through the calculations with your local self-storage professional, try changing some of the numbers to see the resulting effect on the value. For example, drop the rates by 10 percent or occupancy by 7 percent, or raise real estate taxes by 25 percent. This exercise will teach you why a good operation is often the most important factor in creating and maintaining value.

Because today's buyers are heavily weighting the income approach, it's extremely important to develop a clear picture of your property's operating numbers. A good place to get these is from your most recent tax return or an operating statement from the previous 12 months. With this information in hand, you're ready to begin your investigation and arrive at a market valuation. Following is a basic overview of the major areas on which to focus.

Evaluating Performance

Rental income. Because self-storage is a seasonal business, you must consider a *full 12 months* of *actual* rental income. You should also evaluate rental income over the last few years to see if it's declining or improving. If there's a clear trend, it might justify a cap-rate adjustment.

A cap-rate modification may also be necessary if the property has significant vacancy, say more than 15 percent. When evaluating vacancy, it's important to compare *actual* rent received to *potential* rent and not just physical occupancy. It's very possible to have physical occupancy of 92 percent but an economic occupancy of only 80 percent due to discounts and concessions. Also keep in mind that very few buyers or appraisers will count revenue in excess of 90 percent of potential rent, except in very unusual circumstances.

Additionally, if there are any new facilities being built nearby that are about to open or already in lease-up, all bets are off until it's clear that rates and occupancies will remain stable. This is a good place to test sensitivities by changing the revenue to reflect the potential impact of new competition.

Miscellaneous income. This is the catch-all category for funds collected from late fees, truck-rental commissions, and the sale of boxes, locks and tenant insurance. If the profit from these types of add-ons is greater than 10 percent of rental income, it's possible a different valuation method may be required. As this figure grows, it may represent a separate business and not fall under "miscellaneous real estate income." Also, such income is usually valued much lower than real estate income and often isn't counted by appraisers for loan purposes.

Operating expenses. These generally run between 35 percent and 45 percent of income; however, this is just a rule of thumb. If your property falls outside this range, further analysis may be required.

Typical expenses include real estate taxes, salaries and benefits, business insurance, utilities, repairs and maintenance, management fees, marketing and advertising, office supplies, and capital reserves. Do *not* include expenditures such as loan payments, depreciation, and any personal expenses like convention costs, travel, business lunches, mileage expenses, etc. Keep in mind, this list by no means represents all the expenses you may encounter. Each property is unique.

The Right Position

Regularly evaluating the performance of your self-storage operation will best allow you to plan for refinancing, estate planning or sale. It may also uncover hidden value to help improve your bottom line. Positioning your property for maximum value is an important, complex activity that requires conviction and preparation, especially to achieve it in a reasonable timeframe. ISS

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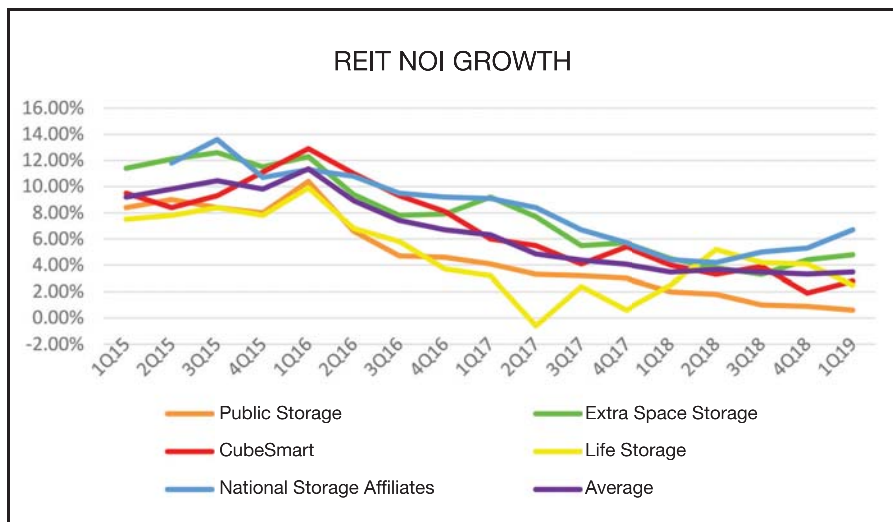
Adjusting to Changes in Valuation

If you own a self-storage facility, it's important to understand the real estate market and the nuances that *do* and *do not* create operational success. Now more than ever, the value of industry assets is focused around net operating income (NOI) and whether that income is maximized and likely to go up or down in years to come. The old rule of thumb that 90 percent of your property's value is in the NOI rings true today, particularly with all the new supply being delivered around the country and concerns about real estate taxes and other rising costs.

Today's marketplace still consists of more buyers than sellers. The buyers vary widely and include institutional entities such as real estate investment trusts (REITs), private-equity funds, large self-storage operators, high net-worth investors, exchange buyers and new investors from other real estate sectors. The excess of buyers and the fluid debt market have continued to fuel the industry boom and strong transaction velocity. However, valuation is softening due to buyers' unwillingness to project future NOI growth.

It appears it's time to adjust course, as we're seeing meaningful headwinds on the horizon for self-storage operators. This is clear in the chart below, which outlines NOI growth for the five industry REITs over the last 16 quarters (as of summer 2019). As you can see, they've seen downward pressure for 11 consecutive quarters and operating performance continues to deteriorate.



Navigating a market with decelerating NOI is tricky. Buyers are looking for a reasonable return on investment, but how they view that return may vary from person to person. When underwriting a property's operating performance, existing owners have the advantage of market knowledge, particularly if they're already managing properties in the market. A new buyer must rely on existing operating reports, income statements, market studies and investment advisors to form an educated opinion of potential value. Let's look at some typical income and expense adjustments to consider when valuing a self-storage property today.

Income Adjustments

Income adjustments vary widely form deal to deal and can be sorted into multiple categories:

Rents. In markets experiencing new supply, many owners are slow to adjust pricing to reflect local rents. Existing customers are being replaced with new ones at a slower pace and at a lower rental rate. You must adjust the property's gross potential income to reflect current market rents, not what the owner is charging.

Concessions. Typically given in the form of free rent, concessions can vary widely depending on location and season. I've seen 8 percent to 12 percent concessions, which equals one to one and a half months of rent. However, you must look at the average length of stay to truly understand the impact of the discount. If new customers are staying for less than a year, it's easy to see how concessions can balloon to 16 percent to 24 percent.

Tenant insurance. The large self-storage operators have all adopted tenant insurance as the industry standard and push it aggressively to customers. The profit margins can be as high as 90 percent, with penetration at more than 70 percent. Smaller operators should also consider offering this product, expecting a margin closer to 25 percent to 50 percent and penetration of around 30 percent to 50 percent.

Ancillary income. This includes late and administrative fees, product sales, and truck-rental income. I typically see ancillary income at 2 percent to 5 percent of total revenue. Late fees in particular can add up for operators who are aggressively enforcing company policy. However, each property is unique and should be evaluated on a case-by-case basis.

Expense Adjustments

Expenses adjustments can also vary widely and be organized into several categories. You must review each. Below are some on which to focus:

Real estate taxes. In most cases, these are one of the single largest and fastest growing self-storage expenses. Every state has its own property-tax nuances. For example, in California, it's pretty straightforward with Proposition 13, which sets the real estate tax at the point of sale at around 1 percent to 1.3 percent of the sale price. In non-disclosure states like New Mexico and Texas, it's more of a guessing game.

When buying or selling self-storage, you must adjust the real estate taxes to reflect a new valuation after sale. Check with your broker if you have questions about property-tax treatment in your state.

Payroll. This can fluctuate widely and may be adjusted by as much as 20 percent to 30 percent. Many owners have employees who've been with them for many years. Adjusting payrolls may be a sensitive area because most want to treat their employees fairly and protect their positions upon sale. With the United States at nearly full employment, we've seen payroll cost rise meaningfully over the last few years.

Personal expenses. Many self-storage owners run personal expenses through their facility's operating statement. These typically include travel, dues and subscriptions, vehicles expenses such as gas, and more. Identifying these upfront and extracting them from the profit-and-loss statements will help in preparing the financial statements and optimizing the property's market value.

Third-party management fees. With a real estate investment, buyers will be looking to include a third-party management fee of 4 percent to 6 percent of gross revenue as part of the operating expenses. Owner-operated properties might not always include this on their financial statements; however, you must include a third-party management fee to arrive at a realistic NOI. Real estate investors aren't looking for a job and will be required by their lender to include this fee in their underwriting.

There's one exception to this rule and that's rural properties that are less than $1 million in value. A third-party management fee isn't required in the underwriting and valuation of these smaller facilities; however, you must include adequate payroll.

Of course, evry valuation and transaction is unique and requires an understanding of many facets, including management, occupancies and market, to name a few. Additional adjustments to value can include necessary capital improvements, capital reserves, market-specific expenses and facility upgrades. Based on the adjustments discussed above, you can understand how valuation is changing. As you evaluate your self-storage asset, be realistic on your investment horizon, as you must decide what to do to maximize your return. ISS

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Developing
Your First Facility

So, you've decided to build a self-storage facility. Congratulations! Years from now, you and your family are likely to look back on this decision with satisfaction and joy. It's life-changing—mostly in a good way.

Developing a storage project can also be taxing. Where do you even start? There are many tasks you'll need to go complete on your journey. Each step is complex, so it's important you understand them before you jump in and get started.

What Am I Getting Into?

Developing self-storage is a roller-coaster of emotions. There's a great feeling of satisfaction as you see the facility fill up and create cash flow; but that comes after many sleepless nights and mountains of stress. For example, if you're a new owner/developer without other large assets, you might need to pledge your home as collateral.

If you haven't ever developed a commercial property, you might be surprised by how much it costs and how much comes out of your pocket prior to setting up a loan. Unknowns that can run up your budget include wetlands, zoning changes, stormwater planning, architectural boards and fire codes. To gain the approvals you'll need before financing is available, you'll likely need to invest $10,000 to $50,000 in civil engineering, permit and review fees. You might also need to hire architects. The more complicated the project, the costlier it'll be.

Choosing a Location

Deciding where to build is one of your first and most important decisions. You need a market that's underserved. You're looking for a well-populated or growing area with a need for more storage. In a nutshell, analyze demand by comparing the population to the number of square feet of existing storage in the area. Also, look for a site that's properly zoned in a highly visible area, as close as possible to dense residential development.

Consider multiple parcels, and don't be surprised if your deal falls apart or zoning prevents the project from moving forward. When you find an area where you think there's unmet need, there's often a reason. It could be the city won't allow storage or the rental rates won't support a new facility. Keep looking until you find the perfect site.

Creating a 'Ballpark' Projection

You're doing this to make money, so before you invest in a location, you'll need to work up a financial forecast. However, you can't expect your suppliers to give you solid prices without a plan. And working up a plan requires a significant investment in engineering services.

This is where ballpark estimating comes in. Research some typical costs and rental rates to formulate cost and revenue per square foot. A conversation with a local civil engineer might help you understand what your grading and land preparation will entail as well as approximate costs. Your building supplier can give you ballpark numbers on various structure types.

By now you should also be in discussions with the city engineer or zoning officials to ensure the land is correctly zoned and determine whether there are any restrictions or requirements. Some areas will require a conditional-use permit, or there could be architectural standards for new projects.

It's also time to call a few lenders and determine what interest rate you can expect to pay. You likely won't get anything in writing since you don't have a plan, but you should be able to get a range. This initial conversation with your banker is probably best had by phone, not e-mail, as he may be more reluctant to put tentative items in writing. This is also true of your initial contacts with city officials and your civil engineer. You're going to get a lot more out of an in-person or phone conversation than a documented e-mail.

Armed with all this data, you can begin to determine the maximum you can pay for your land and still make an acceptable return.

Make an Offer

Before investing time and money in design work, get that property under contract! Negotiate the longest possible time to line up permits and financing before you close the deal. Owning the land means you're paying interest and property taxes, so you may want to offer a higher purchase price or non-refundable deposit to delay closing. The offer should include contingencies that allow you to back out if you can't get reasonable financing or approvals to build.

The author's first facility, Columbus Self Storage, in Columbus, Wis., which he opened in 2014

Fill in the Details

You can't get lending based on your rough plan, nor can you get solid quotes. You'll need a local civil engineer to design a stormwater plan, which usually includes a pond. Your building manufacturer will work with you to design a layout and that best uses the land. You'll then work up the exact unit mix and design. Once you have site plans in place, you can request detailed quotes from your suppliers and add detail to your revenue projections.

Assuming you're staying on track for your project to be financially viable, you're ready to apply for permits. In most cases, the building manufacturer will provide the permit set you'll need. Complex projects may also include an architect.

Keep detailed records on all the money you spend on permits and engineering. It should count as equity in the project in the eyes of the lender.

Line Up Financing

Lenders will base their decisions on the five Cs: character, cash flow, capital, collateral and conditions. The exact requirements will differ based on lender and programs, but they'll need to see a detailed construction budget, exact unit mix and a cash-flow projection. If you have a collateral shortfall, a lien may be placed on your home or other property. (They'll typically discount the assets by 20 percent, which is common on high loan-to-value projects.)

Remember, pricing for your subcontractors can be volatile, especially when steel prices are fluctuating, so make sure your quotes are current when you close the loan. Lenders may also need to see building permits and proof of zoning before closing.

New owners/developers with limited resources might want to take advantage of Small Business Administration programs, which allow up to a 25-year term and finance up to 90 percent of the project value. Typical interest rates are 1 percent to 2 percent above prime and are adjustable. Expect an interest-only period during construction. Lenders may also offer variable rate during construction with three- to five-year fixed rates upon completion.

Purchase the Land

I've done projects where I financed the land and others where I owned the land prior to financing. When feasible, buying the land for cash makes the transaction much easier, and the land will count as equity when arranging the loan. The other advantage of buying the land outside of the loan is the interest-only portion won't start until you pay for expenses from the loan. Typically, this would be a building deposit or site grading.

Build It

With land, financing, permits and approved plans, you're now ready to build. Anxiety will remain high as you'll inevitably wish the project is completed faster. After all, your interest-only loan will balloon quickly as you make payments to contractors.

You can't do much about weather interruptions, but you can do your best to make sure materials show up in a timely fashion. You don't want them to arrive too late, or there will be delays. You also don't want them to arrive too early, or they could be damaged or stolen while at the job site. You can also make sure you're listening to contractor issues and feedback to ensure everyone is working efficiently.

When construction is done and the Certificate of Occupancy has been issued, you'll switch to rent-up mode. It'll get better with each week until you break even. Before you know it, you'll be thinking about your next project or expansion. You'll likely start right around the time you forgot how much work that first one was. Good luck! ISS

Contributor: *Steve Hajewski, Trachte Building Systems, www.trachte.com*

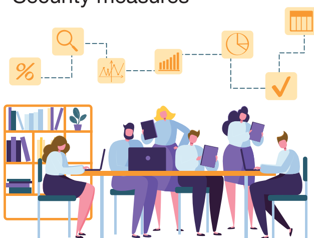
An Owner's Guide to Project Planning

If you're a self-storage owner developing a new project, you're going to have a team of experts to help you find the right property, design it, obtain zoning approvals and build it. These people will perform 90 percent of the heavy lifting, but that still leaves a critical 10 percent that falls on your shoulders. If you don't do your job, you might find yourself behind schedule, over budget and unsatisfied with the end result—not to mention you might have limited your future profit.

You're certainly not expected to be an expert in every aspect of development, but you do have to provide your input, ask the right questions, make choices and provide ongoing coordination. To do this, you need to do your own research. You'll need to spend time with your team of professionals to learn and understand the options that'll make your facility special.

Items to Discuss in Planning Meetings

- Required permits
- Building layout
- Office design and features
- Unit layout
- Site access
- Signage
- HVAC system
- Building type and color scheme
- Design schedule
- Climate control
- Hallway and ceiling design
- Kiosk
- Landscaping
- Street view
- Door sizes
- Security measures



Your Team

The four key members of your development team are your civil engineer, architect, industry consultant and contractor. If just one of them is even slightly inexperienced, you'll often run into construction delays, expensive change orders or an inferior product. These experts are often chosen based on a recommendation or simple meeting, but to qualify them, you must conduct an extensive interview to get a true handle on their experience and what they consider important. Ask what *isn't* included in their services and what they'll need from you or others on the team to be successful.

Obtain a list of the last five storage facilities they designed or built. Then visit a couple and interview the owners. Ask if the person met the schedule and budget. Also ask about the quality of the work, supervision and coordination and what could have been done better. Of course, find out if they'd hire the person again and what would they do differently on their next project. Take notes!

Qualifying each expert takes significant time, even weeks, so build your team before you even start looking for land. Visiting existing self-storage sites and talking with the owners or staff will help you develop a list of design features you like and items to include in your project.

Make sure regular meetings are included in the experts' contract. These will allow you to be part of the decision-making process. You can even require meetings prior to and during the design of certain features.

Remember, there's no one-size-fits-all approach. One architect might suggest a minimalist office while another advises to build oversized—and neither might be right for your project! You need to review many design items with your experts and consider what's right for you based on their input and your research, including what you liked when you visited other facilities.

Design Costs and Details

I can tell you story after story in which making development choices based on price rather than experience led to nightmares, including months of delays and cost overruns in the hundreds of thousands. There are many factors that come into play when determining design costs including project location, regulations, land features, size, competition, etc.

For many projects, the civil engineer's site-plan and regulatory-approval process cost from $40,000 to $60,000. The building designs by the architect cost from $80,000 to $140,000 ($2 per square foot, plus or minus). It's important you present all your personal preferences to your designers up front, otherwise there'll be an additional cost to change the plans. More important, they'll cause you a significant increase in construction costs as change orders if they're not on the bid plans.

A good checklist to the civil engineer is typically more than 30 items long. Some are items he should naturally include but might forget such as a light at the driveway entrance, room for snow between the driveway and fence, a large entrance radius for tractor trailers, or well-placed entrance and exit keypads. Other items the engineer might not think to include are a flag pole, over-the-top landscaping, commercial vacuum, 30-foot-wide entrance drive, a specific type of gate or decorative fencing.

It isn't enough to label the front fence as "decorative black fence." Who knows what you might end up with … Possibly even a black chain-link fence or cheap decorative aluminum fencing. So along with the correct plan description, you need to add specifics about the brand name, provide a picture of what it looks like and how to install it. For example, you might write "6-foot decorative black steel fencing; see details on page 5." It sounds so simple, but I've seen fences with no concrete base for the support post or posts too far apart that the first big wind or snow storm will cause them to fail.

If the plans don't specify that the low-voltage camera, security and HVAC wiring must be encased (in Romex, typically) and out of sight, you could have

wires dangling in units, which means you'll pay extra to have them redone. The devil is in the details.

A lot of money can be lost in construction and it all starts (or fails) with good plans, details and specifications by experienced professionals. You might not be a design expert, but you must take the time to go over the final plans inch by inch, component by component, with your team before they go to bid.

Contract Addendums

The next important planning step is to make sure the construction bid is complete. Too often the contract is a standard American Institute of Architects (AIA) contract or similar one that, in the end, simply states the project is to be built per the plans and provides remedies when there are disagreements. I recommend you include an addendum to go with the typical AIA contract or contractor's boilerplate to protect yourself. Without additional clarifications, specifications, requirements and dispute resolutions, you might not be protected or get the service you deserve. If things go wrong, you're the one who's most likely going to have to pay extra and end up with delays.

So, what goes in the addendum? Remember the long list of features you developed by reading industry trade magazines and visiting several self-storage facilities, as well as any construction problems you've heard about from other owners, contractors and vendors. Many of these items won't be in the plans, or won't be clear enough, and should be added to the addendum. They can be broken into the following four categories:

Additional design details. Perhaps you've recently chosen specific products or brands that didn't make it into the original design. Maybe you want your flag pole to be 50 feet high rather than 18 as shown on the plan. Perhaps you want the light shield on the top of your vacuum to be red to match the color of your building. A couple of my favorite design stipulations to include are that the contractor will provide and install 4-inch red (vinyl or plank) unit numbers centered over each unit, and clean the building interior and exterior, including washing the walls and floors. Too often, I've seen these and many more items left for the owner to deal with at the end of a project.

Non-design items not properly covered in the contract. These include might include permits, payment schedules and percent hold-backs that meet your bank standards, completion schedule date, weekly detailed work schedules for the next two weeks, and general schedule to the completion of the job to be provided. It might also include weekly site meetings with the owner, who pays for test and inspections, and a complete list of all required inspections and tests.

Office specifications. The building containing the office should be started first. This includes the foundation and building erection, with the intent of finishing the office as soon as possible. Many opening delays are because the office isn't ready.

Conflict resolution. You'll want to rewrite several clauses in the contract in your favor. Top areas of concern include what happens when there are problems such as delays, poor quality or no supervision. You should also consider what happens if you want to replace the contractor. You might need your attorney for assistance with this.

Even with the support of the right industry professionals, developing a self-storage project will take a lot of planning on your part. However, by following the above advice, you'll exponentially decrease problems and increase the chances for your facility to meet and even exceed expectations. ISS

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Seeking Development Opportunities

It's hard to attend any self-storage meeting or conference these days without hearing all the doom and gloom about overbuilding, lower occupancy and shrinking rental rates. With rising interest rates, increased construction costs and a lack of qualified workers, some developers and investors are shying away from the industry. It's true the "bonus" years may be slowing, however, I'm here to say it isn't all that bad.

This is a time in our business when one must dissect every aspect of every component to get a better handle on what's really happening. In a recent article on Globe St.com, Andrew Nelson, the chief U.S. economist for global real estate firm Colliers International, said the economy is strong now but is likely to start slowing in late 2019 into 2020.

"We will see pretty good growth in the early part of next year but then, I think, we'll see that inflection point where things will start to slow down," he said. "We have another one to two good years left, but there will be rising downside risks by 2020. Whether we will go into a technical recession remains to be seen, but it will feel like one."

Economic cycles have some benefits in terms of taking off some of the steam and allowing sectors to regroup and prepare for the next cycle, Nelson observes. "This bodes well for the next recession: It is likely to be shallower, not as widespread, not as long lasting, not hurt as much overall and not be as focused on the property sector."

New Opportunities

We've all heard the saying that real estate follows a "herd mentality." Only this herd takes more than a simple cattle prod to turn. It's more like a large cruise ship that slowly comes about.

So, when the boom of 2014 and 2015 began and we all heard the self-storage industry was "short" more than 3,000 units in the 50 largest Metropolitan Statistical Areas, the starter gun went off. True to their creed, developers began building new facilities. Only with zoning, approvals, plans and permits, not to mention a 10- to 12-month construction schedule, the onslaught of new projects didn't begin to open until 2016 and 2017, with fewer starts coming as 2018 ended.

Now, the conversation focuses on the overbuilding occurring in certain markets. Most of the new product is scrambling for its share of the customer pool, focused on occupancy and deep discounting to entice new customers. The expectation is that a quick rental bump will then allow for an increase in existing customer rates. Ultimately, but maybe longer than pro forma, income will catch up to bank projections.

Of course, this brings additional pressure to investors, straining their expectations. Thus, there's been an avalanche of bad press and pushback on new projects. I concur, but with some exceptions.

Pockets of Opportunity

As development in major cities slows, occupancy will improve and rates will rise. There are still good pockets of opportunity as we see rates and occupancy going up in places like Las Vegas and Phoenix. Let's not forget what Las Vegas looked like 10 years ago.

A recent article in "Forbes," by Joel Kotkin, pointed to the "Best Cities for Jobs" in 2019. Where there are jobs, so goes the mobile population. His point was that people are moving to second-tier cities. This is where opportunity for new storage may exist. Some cities, like Dallas, which ranks No. 1 in job growth, have experienced annual population growth of more than 2 percent. While people say Dallas is overbuilt with storage, there remain underserved areas.

Development also takes time. This is possibly the most important aspect to consider. A project started today most likely won't open until 2021 or later. Then this facility needs another 24 to 36 months to reach stabilized occupancy. That's why it's critical to look closely at what's going in any market you're considering.

A good tip here would be to seek out areas with strong residential growth and especially where new shopping is being developed. Large retailers generally have studied population and demographic trends. Also, don't be afraid to look at secondary markets where land may cheaper. Just do your due diligence and build a quality product in a prime location.

It's also important to remember that interest rates will go up. However, look back to the early 2000s when we added more self-storage projects than ever before. Interest rates were significantly higher then. And while it's true material costs have risen, it's important to work to "value engineer" a project and save where possible.

Finally, when it comes to building, it's critical to know your numbers. Make sure your construction budget and operating pro forma are conservative and realistic.

The takeaway here is that, though there are challenges, opportunities exist. Even with all the negative press, no one is saying self-storage is a bad business. Be clear in your financial objectives and what your appetite may be for what could be a drawn-out process. Make sure you have adequate resources and surround yourself with a qualified experienced team, and you'll realize your dream. ISS

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9 Misconceptions About the Development Process

The self-storage industry has been experiencing a construction boom over the past few years, with many new projects being built all over the county. The thing is, those who are new to the industry have a lot of misconceptions about the development process. Let's talk about what they are and what you should really expect.

Misconception 1: I'll Fill It in 12 to 18 Months

There are always factors to consider when calculating demand for a new storage facility, and it can be challenging to predict how many months it'll take for the property to lease up. The 12- to 18-month timeline is almost unheard of with a facility of 50,000-plus square feet. In this case, I advise you to prepare financially for it to take three or four years to reach 85 percent occupancy.

Misconception 2: I'll Build Small, So It'll Cost Less

It's just not as cost-effective to build a self-storage facility of less than 40,000 square feet. This is because of items such

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as storm-water management, property management and other fixed operating expenses. A small facility just can't deliver acceptable returns.

One exception is if the site will be built in phases and the total buildout will eventually exceed 40,000 square feet. Another would be if it's a conversion of an existing building that was purchased at a reasonable cost, or if the site is in a high-rental-rate market with a low cost of acquisition.

"Calculating demand for a storage facility is difficult and best done by a consultant who has reviewed the lease-up results for many facilities and can evaluate your market dispassionately.

Misconception 3: I Can Build Anywhere, Because I Can Just Market It Online

It's a nice thought, but you still can't hide your property at the back of an industrial park, in a residential neighborhood or on a tertiary road. If you do, lease-up will be notably slower, regardless of marketing. Remember, there's only so much you can spend on digital marketing before it becomes wasteful.

One of the most powerful tools you can use to promote the business is *visibility*. Build along a main road with storage doors visible to everyone, not on a weak, flag-shaped site or one that's obscured from the street. Large signage, no matter how catchy or attractive, won't compensate for not having those storage doors visible when a potential customer drives by at 45 miles per hour.

Misconception 4: I Already Own the Land, So It'll Be Cheaper

Ask yourself, "Would I buy this parcel from somebody else to develop self-storage?" Just because you own a piece of land doesn't mean it'll work. If there's no demand in the market and it takes you five years to lease up, you're losing money and could potentially go bankrupt due to costs. That may be rare, but the more important thing to realize is you might be missing out on more lucrative opportunities to sell the land for another use and purchase a site to build your self-storage facility where demand warrants.

Misconception 5: Housing Units Were Built Nearby, So It Makes Sense

Just because a new housing development is being built doesn't mean that a self-storage facility is going to work. There are several reasons it's best to ignore that development in demand calculations. Subdivision development is historically risky, and it can take years to fill a neighborhood with homes or home buyers. Even if that development fills up quickly, for every 250 homes, there's only 4,000 square feet of storage demand. Considering that most storage sites start at 50,000 square feet (to be economically sustainable), you should be cautious of including demand from housing units.

Misconception 6: I've Developed XYZ, So Storage Will Be Easy

Commercial real estate isn't all the same, and that's especially true for self-storage. It's unique because it's also an operating business. To simplify operation, you need to consider many things, such as site design. This might include gates at the end of driveways to push out snow from the drive aisles, or large windows that showcase interior units facing the main road. Even if you've built offices or high-density housing, you need to invest in general contractors, architects and suppliers who specialize in self-storage and have the portfolio to back it up.

Misconception 7: Self-Storage Doesn't Work in Rural Areas

That isn't necessarily true. You should cast a wider net when looking to develop outside of your area. Many storage properties are built by investors who live close by because they know the community and understand the opportunity of their personal networks. Rural areas can be successful if the site is on a heavily traveled road and has great visibility with the appropriate zoning. Many profitable facilities have been built in rural areas.

Misconception 7: The More Temperature-Controlled Space, the Better

Temperature-controlled is great, but though it's been a dominant trend in new development over the last few years, it isn't always better than standard drive-up units. It can make a lot of sense in urban areas, as it's typically the best way to maximize square footage on a small piece of land. In suburban and rural areas, it's added because operators can charge a 25 percent to 30 percent premium.

As enticing as that might sound, I recommend you stay around 35 percent of your total square footage for temperature-controlled units. Some customers want the simplicity of drive-up access and don't want to pay that extra. Plus, if you can't fill those units, you end up renting them at a lower rate and your HVAC expenses eat up your profit. Any feasibility study you've completed for your site should include a unit-mix suggestion that addresses the demand in the market (if any) for temperature-controlled storage.

Misconception 9: I Don't Need a Feasibility Study

It can be tempting to bypass a feasibility study if you're developing a self-storage facility in your hometown, because you feel you know it better than anyone else—the people who'll become your tenants, their price sensitivity and the general zoning laws in the market. However, developing without a study is risky. There can be any number of pitfalls you may not see.

Calculating demand for a storage facility is difficult and best done by a consultant who has reviewed the lease-up results for many facilities and can evaluate your market dispassionately. Beyond the risk-mitigation element, a qualified consultant can recommend modifications to your site that may expedite lease-up, increase rates per square foot and lower costs. The small price you pay for a feasibility study will certainly outweigh the expense.

While building self-storage might seem simple, it's actually complex. Before diving in, understand all facets of the development process so you're not caught unaware and unprepared. ISS

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Determining 'Go' or 'No-Go'

There are few commercial real estate investments that are more consistently profitable and valuable than self-storage. The huge amount of capital being driven toward our industry by individuals and large investment groups is one clear sign of the desire for new development, and there's now a frantic search for viable markets and locations. Unfortunately, this frenzy leads some people to make poor decisions. They're often blinded to the deficiencies of a potential project by the promises of positive cash flow, stabilized value and obscenely low capitalization rates.

The hard reality is not all storage projects should be realized, regardless of an owner's or developer's desire to build. How do you know if you should proceed? Research the market carefully and consider the following.

Rental Rates

While most potentially negative aspects of a self-storage project can be mitigated by other positive factors, there's one clear line in the sand: prevailing market rental rates. The No. 1 reason to not move ahead with a project is low rates. There are two reasons these will exist in a market, and you can't overcome either one.

1. A soft market. If you're looking at a market that contains sophisticated operators, such as one or more real estate investment trusts or locals that use a similar dynamic-pricing model, their rates are what the market can bear. If they're are low, that's the clearest indication of a weak market.

Sophisticated operators adjust their rates based on occupancy. Lower rates equal lower occupancy. If these operators can't charge enough for your new development to be financially viable, neither can you.

2. Unsophisticated operators. The most common reason we see low rental rates is facility operators who don't have enough sense to raise them. I regularly survey markets where occupancy ranges from 90 percent to 100 percent across the board. The average rental rates are so low that even if your land was free you still couldn't make the numbers work.

For example, I recently examined a market in which the average 10-by-10, non-climate-controlled unit was $58 per month. The lone Public Storage facility in the market, a 1980s vintage site, was charging $130 per month. Plus, every facility in the market was at more than 90 percent occupancy. You'd think it would dawn on some of those operators that maybe raising the rate to at least $70 or $80 per month would be a good idea. Nope, it didn't.

There are some exceptions to this paradigm. For example, if none of the market competitors have climate-controlled storage and the demographic profile indicates higher income levels, it may be possible to develop a climate-controlled facility to mitigate the lower rates. That said, development costs are too high today to expect project return to exceed investment risk if rental rates are too low.

While project costs can vary from market to market, in most areas, a blended rate across the unit mix of $14 per foot per year will generally provide a sufficiently high return to move ahead. Projects can certainly work with lower rates but will depend on minimal site work and lower hard building costs. They will also have less room for error.

Before moving too far along in the building process, it's critically important to understand the market rental rates and how high they'll have to be to ensure success. If the difference between the market rates and what you need to make the numbers work is substantial, find another location.

Other Market Conditions

You can't responsibly develop a self-storage facility without first understanding the following additional market conditions:

Occupancy. If the occupancy levels for stabilized competitors are generally lower (consistently below the 80 percent to 85 percent range), the market is most likely too weak to support new development. There are some market deficiencies a new project can overcome, but low occupancy isn't one of them.

Discounting. Widespread aggressive discounting is another sign of a weak market.

Demographics. While self-storage can work across just about every demographic profile, trying to build in a market with declining population will likely prove problematic.

Demand analysis. While most market studies will likely include some sort of a demand analysis, be careful not to assign too much importance to those numbers. Just because the analysis shows the market is underdeveloped doesn't mean you should build. Alternatively, just because it shows the market as *overdeveloped* doesn't mean you *shouldn't*. Occupancy and rental rates are far more important factors.

For example, I recently worked on a market study in which the demand analysis indicated a square feet per capita above 74! But the competitors were all full, with waiting lists, and the rental rates were high—clearer indications of an underserved market than what the demand analysis would show.

Location

A good location is still important for a successful self-storage operation. Most customers choose a facility because they saw it on their regular traffic routes. Here are some important aspects to site selection:

- **Access:** Customers don't want to make too many U-turns or drive around the block to get to your facility. Make sure you understand how easy (or difficult) it is to access your site.
- **Visibility:** Potential customers must be able to see you! Visibility can be garnered by having frontage on the access road or a multi-story facility set back from the street.
- **Traffic count:** A facility can suffer from too little or too much traffic. You don't want your site on a dead-end road, nor do you want it or the busiest retail street in town where your facility and signage will be lost in all the "noise."

- **Lot size:** It's vitally important to understand how much space you can fit on your lot. Coverage issues, Federal Acquisition Regulation requirements, height restrictions and the like can cause a good deal of havoc if you try to fit a square peg in a round hole. Never assume you can use all the acreage. Determine the buildable amount of space before buying the land.
- **Facility height:** It's important to determine early in your process whether you plan to build single- or multi-story, as this will affect viable locations.

Financial Considerations

At the end of the day, determining whether a self-storage project is *financially* viable is the most important consideration. You must understand the potential return on your investment. What's your goal? Knowing that number and how to calculate it will help you make better decisions.

First, gather all development costs to determine your budget. Often, the budget is missing critical numbers such as an operating deficit. Projects that looked viable at first no longer do once you calculate that number.

Understand the equity requirements, interest rate and terms for your construction loan before moving forward. While there are fairly generous financing options available for new development, not all projects or borrowers are eligible for them.

While I've noted the most critical aspects of determining project viability, there are other considerations you must contemplate as plans come together. Don't move too far along the process without first ordering a market and feasibility study from an independent consultant who has no financial interest in your project. Most banks and other financial institutions require such a study; but even if yours doesn't, there's too much at stake to not have a disinterested third party look at your project.

Is it possible the study will come back negative? Yes … And that's just exactly what you need to hear before making a bad investment! ISS

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The Fundamentals of Feasibility

Increased interest in the self-storage industry raises a lot of questions regarding market potential and viability. New projects have flooded the pipeline, leaving increased margin for error within this competitive space. For peace of mind, a feasibility study can satisfy lender requirements while adding a layer of protection for an owner or investor. To understand the benefits of this deep, complex, site-specific tool and how it can be applied to development decision-making, let's dig in to the basic who, what, where, when and why.

Who Needs One?

Anyone thinking seriously about building a new self-storage facility or expanding an existing site should consider engaging a consultant to provide an unbiased opinion on project viability. Frankly, owners, developers, investors and lenders need a feasibility study to protect their investment. Those just getting into the business are prime candidates, as the study will serve as an educational tool. Experienced owners can also benefit, particularly if they're expanding into a new market or planning an expansion.

Lenders will often require a feasibility study. Some owners and investors see this as a negative, though it's really just a precautionary, smart step to safeguard a project's success while maintaining balance in the market.

Owners will sometimes complete their own study, thinking it should be sufficient; but this fails to consider the lender's point of view. A self-study is likely to be biased because the project is the owner's "baby." It'll be the "best" in the market, so of course, it'll have the highest rents and occupancy, fastest absorption rate, and best overall return, right? Lenders don't want to see above-the-bar assumptions. They want a realistic, unbiased and generally conservative opinion from a professional who understands the project on a broader, multi-market level.

Other beneficiaries of the feasibility study include the architectural/construction team. By reviewing a completed study, they can better understand market nuances and trends regarding unit type and size. When analyzing unit mix, designers can use the study to tailor the layout and maximize the site to its fullest potential. It also can help them understand trends related to amenities, such as office size, self-serve kiosks, drive aisles, climate-controlled units and so on.

What Does It Cover?

At the end of the day, the feasibility study won't simply tell you whether or not to build. It's completed on a micro-economic basis, meaning it's site-specific and includes several components that work congruently to provide overall support to the success of a proposed project. Most studies comprise four main components: market supply and demand, site characteristics, physical feasibility, and financial feasibility.

Market supply and demand. The study should begin with estimates of current and future supply and demand. Is there enough demand to support this development? That's the key question here, and it takes a lot of research and analysis to return an answer. Demographics are reviewed and analyzed for the primary and secondary markets, sometimes referred to as trade areas. Any projected population and household growth over the next five years will support demand. The more growth expected, the better.

Supply is identified, and proposed projects are researched to aid in a more realistic analysis of 12-month supply. Likewise, historical trends are reviewed. Various techniques are used to estimate current and future demand, generally on a per-person or per-household basis.

Other methods can also be used, such as a state capture-ratio analysis. Not all markets are concluded to be three- or five-mile radiuses. It really depends on the specific property and location. It could be as small as a 1-mile radius or as large as a 15-mile radius. Likewise, in some markets, a drive-time or polygon method should be used.

If demand is found to be sufficient to accommodate the planned development, then the site is analyzed further for suitability as a self-storage facility, including physical and financial feasibility (detailed below).

Site characteristics. Your feasibility consultant will inspect the subject property and analyze its location and characteristics relative to the market. Does it have a primary or secondary commercial location? Is it urban or rural? Does it have good frontage and visibility for use as a storage facility? What are traffic counts? What's the zoning? Will it need a zoning change? What's the topography? Are there any environmental concerns? What size is the land, and are there any issues with access or useable acreage?

Ensuring a property is well-suited for self-storage is important and goes beyond evaluation of general location. While a primary location may be preferable, it doesn't ensure a project will be feasible. The buyer could be paying too much for the ground, or market rents might not be sufficient for the planned design. At present, there appears to be more demand in secondary and tertiary markets compared to primary markets that are at or over market equilibrium. Finding the right site within the right trade area is key, and understanding its suitability for storage performance plays a huge role in overall feasibility.

Physical feasibility. This section is where you come to understand what's physically possible on the site and what's needed in the market. It answers three important questions: What *can* be built? What *should* be built? What does the owner or investor *intend* to build?

Keep in mind that just because a study may advise that you can or should build something, doesn't mean that's your only option. You must consider your budgetary requirements. Working through the physical feasibility of the site will help dictate its hypothetical best use. Then financial feasibility can be investigated further.

Financial feasibility. To get to the numbers and tailor a proper pro forma, in-depth research must be completed and assumptions established. An in-person market survey, including norms pertaining to rental, occupancy and absorption rates, should be reviewed and analyzed to aid in forecasting property performance. Income and expenses should be estimated and projected on an annual basis, with lease-up considered in a monthly cash-flow analysis.

Generally, a five- to 10-year pro forma will be used to project the project through lease-up, stabilization and beyond. Additional considerations include discounts and promotions, other income sources, annual increases for income and expenses, estimated going-in and terminal capitalization rates, applicable discount rate to the income stream, and more.

A net present value (NPV) should be provided as well as an estimated reversionary value. In addition to the pro forma, a cost estimate should be included. This is accomplished by comparing the estimated cost to acquire the land/property and build the development against the NPV. If the NPV is greater than the cost to acquire the land and build, then the project is deemed financially feasible.

Other conclusions that should be provided are the internal rate of return and return on investment. The acceptable numbers will vary depending on your intentions. What's acceptable to one owner/investor may not be to another. The financial indications must to be sufficient for all parties involved to achieve overall feasibility.

Where Is It Conducted?

Each feasibility study is site-specific. Other study options can be applied to a broader market or used to understand general demand, but feasibility pertains to one specific project and one specific site. The consultant will need to travel to the subject property, visit all competitors and interview managers. Though a study can sometimes be completed remotely, it isn't generally recommended. A consultant's job is to familiarize himself with the property, competition and market trends, which can be difficult to achieve without seeing them in person.

Types of reports that *can* be completed remotely include a hybrid study, expansion study, rent study, preliminary demand analysis (also called a desktop study), and others. Before requesting a remote study, check with your lender to ensure it would be acceptable.

When Is It Conducted?

A feasibility study can be engaged at any point once the property is put under contract. Ask for 60 days or more for due diligence, or just make your offer contingent on a favorable feasibility study for using the property as a self-storage facility. Put it in the contract!

If you already own the land and have plans in hand, a feasibility study can be completed any time. If you're just searching for a site in a general market, it's too soon. Many consultants offer additional study options to aid in site selection or a remote check of demand on a potential site. If you're unsure whether it's time to begin feasibility, ask a professional who specializes in self-storage feasibility or inquire with your lender.

Why Is a Study Necessary?

The feasibility study is a helpful tool for the self-storage owner and supports lender decision-making on a loan. Despite best efforts, not all developments succeed. Why not have an unbiased, third-party opinion? Though it's an extra step that takes additional time and money, it won't be as costly as making a poor decision.

Most feasibility professionals charge $6,000 to $10,000 for a full, in-person study. This can vary based on location, travel costs, project complexity and other factors. The cost is well worth the additional comfort and confidence you'll have in moving forward.

A feasibility study not only protects your investment, it provides useful information to help maximize the design of your facility to satisfy market demand. Not all sites are equal. The key is to hire a professional who'll give you an unbiased opinion. Whether the outcome results in a thumbs up or down, the cost and time involved is well worth the protection it can provide. ISS

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Choosing the Right Development Site

Every spring during "March Madness," nearly 100 million Americans tune in to the National Collegiate Athletic Association (NCAA) basketball tournament to cheer on their favorite teams. In the days leading up to the competition, roughly 40 million people complete approximately 70 million brackets, trying to predict which team will advance to the next round. Some take a sophisticated approach, relying on advanced analytics, while others use more arbitrary methods, making choices based on uniform colors, names or mascots, for example. Generally, those who depend on on research tend to outperform their cavalier counterparts.

The same is true in the world of self-storage development: Those who rely on quantifiable data and market research are generally more effective than those who ignore facts and figures. Owners and developers who use analysis to choose a building site have a much greater likelihood of finding one that'll enjoy long-term success. While site selection remains an imperfect science in an ever-evolving development climate, following are some of the key factors to consider during the process.

From Macro to Micro

While there's truth to the saying "All real estate is local," most self-storage owners and developers prefer to pursue opportunities in large metros that are performing well on a regional level, and where population and employment growth are trending in the right direction. Once they identify a general area, they begin looking at more detailed features. These include site-specific factors and self-storage market-driven characteristics. Let's look at both.

Site-Specific Factors

Traffic counts/visibility. Does the site have a retail-type location with excellent visibility, high traffic counts and direct ingress/egress? If not, the opportunity should likely receive a pass.

Physical characteristics. What are they? Does the property have suitable soils for new development? When possible, physically walk the site and invest in a geotechnical analysis, topography survey and wetlands analysis, when applicable, to determine how the site's physical factors might affect construction costs. If a parcel is marketed at a price that's too good to be true, there's likely a reason—one that could cost you more in the long run.

Zoning restrictions. It's important to understand how zoning could impact your project. You might discover there are major use restrictions or that self-storage is prohibited altogether. Further, understand floor-area-ratio and setback restrictions.

Environmental issues. Contact a local consultant to get a sense of whether any environmental issues are likely to be identified on the site. If there are any red flags, it's prudent to investigate the impact before spending more time and money on the project.

Title. While title is often a relatively simple piece of the site-selection process, review a title commitment and ALTA survey to ensure there are no easements or ownership issues that would prevent the development from proceeding. If there, it's best to address them early in the process.

Market-Driven Characteristics

Self-storage market characteristics are the major determinant in whether to pursue a site or move on to the next opportunity. Some important items of focus include:

Competitive supply. We're talking about existing competition and upcoming planned or proposed projects. For the former, evaluate all facilities within a three-mile radius, including their size, quality, location and operator experience. For new supply, expand the search to approximately six miles. This can have a significant impact on the success of your project, as other new facilities could be in lease-up at the same time as yours. It's critical to study future competition and understand how it could impact rental activity.

Existing square feet per capita. This is the tried-and-true metric of the self-storage development game. Though there are occasionally exceptions, if the addition of your project and all other viable planned/proposed projects will cause the square feet per capita to exceed the metro average, reconsider if storage is the highest and best use for the property. This simple test could save you from potential troubles and prevent overbuilding.

Demographics. Look at population growth, households, household formations (new starts), housing type and size, and median income to see how these factors could influence your project.

Self-storage development can feel like an uphill battle, and you may go back and forth on whether to move forward. In many ways, it's like being an NCAA bracket participant coming to the portion of the form showing the highly unpredictable No. 8 vs. No. 9 matchup—deciding how to proceed can be tricky. However, if you take a step back and weigh the project using measurement tools and relying on market research, the decision should be clear and success more likely. ISS

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Determining if a Market Is *Overbuilt*

Wherever you live in the United States, you don't have to go far to find a self-storage facility under development. Even people who have nothing to do with the industry comment on its prolific visibility, noting that facilities are going up "everywhere."

For facility owners and developers looking to enter the business or expand an existing operation, its logical to want to know if the market you're targeting is overbuilt. There are constant discussions about whether certain cities or areas are in oversupply, or "saturated." To know the truth, it's critical to ask the right question and know how to arrive at an accurate answer.

Submarkets and Benchmarks

When contemplating market saturation, it's often better to look at specific *submarkets* than an entire city. Take the Dallas/Fort Worth area of Texas, for example. Many say it's overbuilt, however, I've seen submarkets with a 5-mile-radius population of more than 100,000 and less than 4 square feet of self-storage per capita. Sure, there might be some downward pressure on rental rates, which will probably affect revenue in some submarkets during lease-up; but that doesn't mean you shouldn't consider it. In your pro forma, you could include a 20 percent discount as a lease-up incentive.

A common denominator between nearly all so-called overbuilt markets is they tend to have the fastest and highest population growth, which I believe will solve most mistakes you'll make. So, how do you know if a submarket is truly saturated?

In other retail sectors, there'd be a host of benchmarks to examine. Commercial real estate agents analyze markets to find exactly the right spot for a new store by conducting a "gap" analysis. They're looking for a market where spending within a specific retail category is light, but the demographics show decent disposable income.

For example, Walgreens can look at a location and tell how much money is being spent on beauty products and approximate how much more spending power there is for that category, examining population,

household income and the location of competing stores. It can then very accurately project what the per-square-foot income will be if a new store is built at a specific site. In self-storage, we primarily use one metric: **square feet per capita**.

Calculating Demand

An advantage self-storage operators have over owners of other retail businesses is we know where our customers live. For example, for the facilities in my portfolio, 86 percent of tenants live within 3.2 miles. This is why the accuracy of a feasibility report is so valuable.

If you're looking to build a new self-storage facility, expand an existing site or convert a building from another use, you should absolutely obtain a feasibility report. It'll tell you how much storage square feet per capita exists in your submarket. To get a per-capita figure without the expense of a formal feasibility study, you can consult market-summary reports from one of several online services. While these aren't always exact, they can give you a sense of a submarket's basic metrics. My strategy is to use an online tools for initial research. If I believe a the location is promising, I get a feasibility report to confirm or dissuade the decision.

Another way to look at demand without conducting a feasibility study is to Google (or drive around) an area to see how many self-storage facilities there are. You then have to guess or visit all their websites to try and determine their size. Next, pull demographic information for your target location from a market package or online service and do the math.

Let's say there are six facilities comprising about 425,000 net rentable square feet of self-storage and 86,000 residents within a five-mile range. That equates to about 4.9 square feet per capita, which is less than the national average of 7 or 8 square feet.

With all the tools at our disposal, there's no reason anyone should build self-storage in a saturated submarket; yet we see developers do it all the time. Perhaps, it's human nature. People hate to think they missed the party! I've learned the hard way that trying to lease up a facility in an overbuilt submarket isn't much fun. I'll skip that party next time. I suggest you do, too. ISS

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5 Steps to Successful Project Entitlement

Communities, townships, cities, counties and neighbors all love self-storage, right? Unfortunately, that isn't the case. A senior city planner recently told me, "Self-storage is a pig, and we need to put as much lipstick on it as possible." This negative perception can sometimes spill over into the policies jurisdictions adopt to manage storage development, making the process of project approval more challenging.

If you're seeking to build a new facility, it's helpful to understand the zoning process. To help ensure success, here are five steps to follow.

1. Understand the Rules of the Game

Understanding the rules with which you're required to comply is critical in getting project approval. Zoning decisions are based on several documents, but it all starts with the community's general plan, which identifies the values and goals that govern decision-making.

One section of the plan addresses land use. It includes a map identifying areas for certain types of uses such as residential, commercial and industrial. The zoning ordinance then provides information for the implementation of the land-use plan by defining zones, each of which includes items such as:

- Permitted uses
- Conditional uses
- Accessory uses
- Setbacks
- Height restrictions
- Lot coverage
- Floor-area ratio
- Frontage requirements
- Open-space requirements

Detailed plans and overlay zones provide area-specific regulations. Historic preservation, hillside/slope ordinances, tree ordinances and architectural guidelines provide additional directive. Other rules might also apply such as those related to utilities, easements, wetlands, soil contamination, flood zones and CC&Rs (covenants, conditions and restrictions). The list goes on. This is all part of the jurisdiction's "rulebook" for development.

It's important to do your own research and *read the fine print*. Self-storage may be a permitted use in an area but with restrictions that are problematic for our industry. For example, there may be stipulations that a facility can't be more than 5,000 square feet, on a major or minor arterial street, within half a mile of a major intersection or existing storage facility, or on the first floor of a mixed-use building. Conditional uses and approval processes are also filled with pitfalls, so do your homework and understand these rules of the game.

Plan Your Approach

Now that you have information about your site, it's time to plan your approach. Start with a pre-application meeting, which is a great opportunity to talk to multiple city departments at once, gather comments and hear potential concerns. If there's no official meeting, host an informal one by assembling as many key staff members as possible.

Next, identify the various approvals you need to move forward with your project. These might include:

- Site plan
- Community council
- Lot consolidation
- Platting
- CC&Rs
- Wetland delineation
- Architectural-review board
- Zone changes
- Historic preservation
- Special-use permit

Identify approvals that are administrative and can be approved by

city staff vs. those that are legislative and require a formal meeting or hearing. Then determine which approvals can be handled concurrently and assemble a schedule and budget to pursue them.

For example, you don't want to have to postpone a scheduled hearing because you haven't completed another critical step. Perhaps you first need a wetland-delineation verification, an approval letter from an easement holder that has a billboard or pipeline on your property, community-council approval or a will-serve letter from a utility company. Understanding all steps of the process and when they need to occur will save you time and money.

Identify Fatal Flaws

At this point, you'll have an idea of some of the potential challenges you're facing with your project. What constitutes a fatal flaw? An issue that'll either prevent the project from being approved or financeable or one that alters the cost of the project to the point that it's no longer accretive. Fatal flaws come in many shapes and sizes, including:

- Permit and impact fees
- Zoning interpretation
- Low water-system pressure for fire sprinklers
- Extensive design requirements
- Storm-water requirements
- Flood zones
- Topography of the site
- Construction costs
- Offsite improvements
- Neighbor opposition

Each project is different, so something that's fatal for one might not be for another. However, it's important to understand and accept when something becomes lethal, so you don't continue to pursue a project that won't be approved or no longer makes economic sense.

Assemble Your Team

Start by looking at the plan you've outlined and identify a list of consultants you'll need. This might include engineers, an architect, land-use attorney and environmental consultant. Make a list of candidates in each discipline, send them information and discuss the project scope. Solicit proposals from two or three consultants in each field. Make your decision based on each person's interest in the project, relevant experience, workload, schedule and price.

Certain members of the team should have local connections and others could be national or regional. There are advantages and disadvantages to both. For example, if you've identified storm water as a potential flaw, keep this in mind when selecting a civil engineer. It should be someone who has a great relationship with the local engineering department and experience with storm-water projects in the area.

Facility design is storage-specific, so a national or regional consultant might be the best choice for the structural engineering. Get and call references for those with whom you haven't worked. Learn about about each reference's experience and how well he thinks the consultant would fit with your project.

You also need to decide who's going to lead the team. Will it be you, the land-use attorney, planner, engineer or architect? Set up a kick-off meeting to introduce all the team members and set dates for submittals, drafts of plan sets, etc. Work with people you like and who share your passion for the project. Success will depend heavily on the team you assemble.

Overcome Obstacles

Surmount challenges when they come. Notice I said *when*, not *if*. Most projects will face multiple obstacles and overcoming them is an important part of the entitlement process.

When faced with a hurdle, make sure you clearly understand the problem, and then consult with your team to determine potential solutions. Present these to the appropriate decision-makers—the more options the better. Just be careful to ensure the solutions you propose won't become a fatal flaw. Throughout the entire process, communicate clearly and respectfully with the jurisdiction and your team.

Successful project entitlement requires that you understand the rules of the game, plan your approach, identify fatal flaws, assemble your team and overcome obstacles. These steps will help you navigate the often difficult entitlement process and put you on the path for project success. ISS

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Feasibility Considerations for Boat/RV Storage

Across America, boat and RV self-storage is in high demand and short supply. If you're thinking about filling that need, here are some tips to help you determine site feasibility.

The (Not So Secret) Secret

Finding an area with sufficient demand is going to be much less of an issue than finding land where the county will let you build boat/RV storage. "Worry less about demand and more about where to build one," says Jamie Lindau, national sales manager for Trachte Building Systems, a supplier of metal buildings to the storage industry. "The normal tendency for a traditional mini-storage facility is to have the highest population possible within a three-mile radius. But if you do that, the land cost is such that you can't make the economic model work for boat and RV.

"That's why these facilities are not built in the highest metro areas but a little bit outside—because of the land-cost scenario. You still want to be in the highest population possible, but you're never going to be in a place with a 100,000 population within three miles because it would be too expensive."

The primary factor to consider when evaluating a target area's suitability for

boat/RV storage is zoning. This is by far the most difficult factor to overcome and the first checkbox to tick on every parcel you consider. Because laws that regulate the parking of boats and RVs in driveways, yards and streets are gaining enforcement in even the smallest towns, strict covenants will make a parcel even more attractive.

Bob Hayworth, chairman and founder of Baja Carports, a design/build company specializing in carports, RV/boat storage and solar-support structures, suggests you start by looking for properties near gated communities that prohibit parking on the side of the house or in the front of the home. "Consider how far the nearest body of water with a boat ramp is. Where are the closest gas stations? Grocery stores? People want to gas up, stock up and go! Also, consider how far the nearest urban center is where parking is limited."

So, which is better: a location close to a lake or a population center?

"Close to a lake because people leave the [vehicles] there," Lindau says. "For example, in Wisconsin, the rates close to the lake are cheaper for the people coming from Chicago—less than half-price. You see a lot of boats that are stored in the area they are playing in."

Lindau elaborates with a crucial factor to consider in your site's feasibility study. "The hard thing is, for the demographics, you don't use the amount of population that's on the census; you use the population that's the highest during the tourist season. For instance, you might have an area with a 5,000 year-round population that jumps to 40,000 during the summer, so that's what you use in your feasibility study. This explains the weird, skewed numbers in resort areas, especially when you look at square footage rather than unit mix, because the unit size is so large. In this scenario, you might have 25 square feet per person rather than eight because it's a tourist area."

Hayworth suggests either parcel could work. "Building near a lake that's popular among recreational vehicles and boaters, such as Lake Tahoe, Calif., or Lake George, N.Y., can be wise to rent to a target market attracted to the abundance of activities that doesn't want to spend money on pricey hotels," he says. "On the flip side, building near a population center attracts tenants needing extra space to store their leisure toys."

Data Mining

Although it's difficult to get a count on the number of boats and RVs owned by the transient tourist population, you can use data mining to determine this at different levels. Use the state department of motor vehicles for free to discover the number of boats and RVs. In some cities and counties, you might be able to get this at a more local level as well.

For a definitive count of boats and RV owners in your target area, companies like DatabaseUSA.com will run a search for the number of each group of vehicle owners in their system. This info is available for purchase as an e-mail or mailing list. They can even give you the size of the boat owned! After you open your site, you might consider an e-mail or direct-mail marketing campaign to your target audience using this list.

The Distance

Your customers will drive farther for a fully enclosed or canopy facility than they will for a traditional self-storage unit (generally a maximum of 10 miles). Exactly how far is under debate.

"It's really about how close in proximity an accessible main highway is to both the facility and the residents. People will drive 50-plus miles, but no more than an hour, to park their recreational vehicles under well-kept canopies with 24-hour code accessibility and security," Hayworth says.

Lindau limits the range to 20 miles. "They would rather be closer, but they won't go more than 20 miles. They want to drive one mile, but 20 miles is the farthest I've seen."

Rental Rates

What if there's no boat/RV-storage competition in your target area, particularly for canopy or fully enclosed? How do you set your rental rates for your market? By looking at other facilities in similar locations, Hayworth advises. "Will your facility offer services such as an RV wash bay, propane refill, electrical hook-ups, dump stations, security or an onsite manager that can be included in the rate? Being a member of a self-storage association can help with what's a fair and accurate rate to charge customers without overpricing them," he says.

When reviewing other facilities' rental rates, take guidance from large, regular self-storage units. "Use competitors' 10-by-30 price as a baseline number," Lindau says. "Yours will be the same square footage price even though it's a bigger, taller unit. That's where I would start, and then once you fill, you can raise rates or build more units. That's what I did. I took that rate, maybe even higher. You don't go lower."

Unit Mix Considerations

When building enclosed vehicle storage, Lindau suggests constructing 70 percent to 80 percent of the unit mix for class-B and -C motorhomes and pull-behind campers, boats and commercial clients. "These would be 12-by-30 units to 12-by-40 units, with 14-foot-high doors, which can handle those," he says. "I would build 20 percent enclosed units for biggest class-A RVs. That way I can see how they do, and then I would build the rest after I know what has the most demand. What I don't like to see is a unit mix with all of them in the largest size because you make so much less money per square foot."

Building canopies requires a different approach. Owners shouldn't be biased toward the size of the RV or boat, Hayworth advises. "Why turn away customers needing your storage facility? Be accommodating to all."

Lindau describes a further scenario to consider: "A lot of people will take the outside parking, and you get more of the unusual, higher-end stuff going inside. Not always RVs. A business might use it. I have a party-bus service using two units; there are a lot of possibilities."

When providing enclosed boat/RV storage, you're also offering commercial storage. "I see many customers looking for very large units across the country due to the number of facilities built with too many small units because there are too many accountants out there. You can look at the discounting and see what's happening," Lindau says.

Climate is also playing more of a role in a facility's unit mix over the customer demographic make-up. "More people are OK with just a canopy if they just have rain and sun," Lindau says. "Three hundred miles north of the Mason-Dixon Line, I see very few canopies because you're missing all the people wanting full commercial-sized units or who want to protect their boat and RV from snow. The three-sided canopies aren't often built because you don't get much more rent for them than you do a regular canopy."

"Climate really doesn't play into our inquiries. We work nationwide," Hayworth says of Baja's experience. "People really

> Finding an area with sufficient demand is going to be much less of an issue than finding land where the county will let you build boat/RV storage.

just want a place that's secure and accessible to them. They don't seem to care if it's enclosed. If anything, they're more worried about the sun than snow."

Building Phases

Both experts agree building in phases is a great idea. "If you can, build in phases because you will verify that you're right with the unit mix you're doing and not risk so much. Because a lot of people who are jumping into boat and RV might not be rich, they're going to build in phases. First, because they are conservative; second, because they're worried about the unit mix," Lindau explains.

Hayworth agrees. "If you have an existing, enclosed storage facility and have room for a row or two of covered RVs, build what you can afford. Always build what you can afford! Keep in mind, staging an RV and boat facility for construction while it's occupied can be very tricky. It's always best to do install at once. If you can't and you can protect the parked recreational vehicles and have an access path for equipment, then staging may work for you. One thing you don't want to do is put out the existing paying tenants or make them move their RVs."

Lease-up projections for boat and RV storage are often faster than traditional self-storage because of pent-up demand in a market. Less competition and record boat and RV sales combine to make these facilities lease up quicker. Currently, Lindau is seeing lease-up at about 20 percent faster than traditional self-storage.

Finish Your Homework

As with any feasibility study, make sure the numbers make sense for your long-term goals and the projections hit your desired return on investment. Remember, you'll need twice as much land for a boat/RV-storage facility to make the money you would in traditional self-storage. Take a close look at the standard research mandatory for every feasibility study and finish strong with a full seven years of annual projections, three years of net operating income by month, and a sensitivity analysis to ensure your project has the strongest chance of success. **ISS**

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THE RISE OF 'Lifestyle Storage'

The self-storage industry has evolved tremendously over the last 40 years. It's gone from being strictly utilitarian to serving as an extension of people's lives. Enter the age of "lifestyle storage."

In the Beginning

When the self-storage concept became popular in the 1980s and 1990s, the prototype was long rows of single-story buildings with brightly colored roll-up doors. Facilities were typically built on cheap lots with little exposure. These were practical structures, often pre-engineered buildings or plain boxes, with little imagination. Architecturally, they were considered an eyesore, with planning departments steering projects into industrial locations to be out of sight and mind.

Climate control became popular during the 1990s, intended to protect tenants' goods. For many years, there was a transition stage in which storage facilities were built as hybrids, offering both climate-controlled and traditional storage space. The architecture became slightly more upscale, attracting higher-end corporate and residential clients. Facilities started to meet ancillary and business needs, offering services such as records storage and wine storage. Comfort, security and convenience started to become important industry staples.

Nevertheless, planning departments still considered self-storage an industrial use and tried to isolate it to industrial and commercial zones. Developers became challenged to find appropriate locations that offered good visibility and convenience.

In the 21st Century

Self-storage has undergone tremendous change in the 2000s, in part triggered by a paradigm shift in housing. There's been a wide return to urban living, with people desiring the opportunity to live, work and play in proximity.

The Great Recession had an impact, as many people were forced to live in smaller quarters to help stretch their paychecks. This prompted smaller, denser living environments for all generations. Materialistic yet aging Baby Boomers started downsizing, needing more long-term storage for their goods. Younger generations started moving into smaller, less expensive residences that allowed them to spend their money more on enjoyable experiences. Ironically, these experiences often require large toys, such as musical instruments, bicycles, kayaks, camping gear and jet skis, all of which require storage.

All the while, self-storage design has continued to improve, which has encouraged city planners to consider it a commercial use and allow it into more locations. Design elements include accentuated entrances, color, LED lighting, a rich mixture of building materials, and more windows. These nicely designed facilities are more accepted by municipalities, and developers capitalize on higher-visibility locations.

Modern storage projects often require a presentation to the local review board to ensure they'll be an architecturally significant and contextually appropriate addition to the existing streetscape. Yet many planning departments have embraced this new building type and are allowing it into commercial, residential, mixed-use and transit-oriented zones. Today, facilities are often built on prominent vehicular arteries or corner lots in prime areas, close to dense residential developments.

A modern CubeSmart facility in Charlotte, N.C.

Welcome, Lifestyle Storage

This new lifestyle storage is an integral component to urban, new-urban or infill settings. Millennials and Generation Z prefer edgier building design, more amenities and mixed-use developments for one-stop shopping. Convenience and visibility are important. These consumers want self-storage to be near where they live and work. For them, self-storage serves as an "extra closet" that's an integral part of their routine.

This concept is neighborhood-friendly and designed around the character of a community. Similar to grocery stores, schools and restaurants, it's important that self-storage be a "good neighbor" and become an integral part of the local infrastructure.

By design, lifestyle storage engages the community with visual activity and should integrate a mix of uses on the street level, such as retail, restaurants or office space. This allows structures to be pedestrian-friendly and provide more amenities and services. For example, self-storage might be partnered with Starbucks, FedEx, an Amazon drop-off station, lounge seating, Wi-Fi, music,

community meeting space, and places for people to relax when they visit their storage unit.

Looking Ahead

In the future, self-storage will continue to be integrated with office, retail, hotel and residential uses within the same development or even the same building. For high-rise, mixed-use developments in dense urban areas, it'll be incorporated into the building infrastructure.

As proven successful by Uber, Lyft and Airbnb, sharing will become important in self-storage. There will be more "share storage," virtual storage and refrigerated storage.

Robotics will make self-storage more automated, allowing more usable space in less building area. Using a mobile app, tenants will be able to enjoy a local craft beer while their storage pod is robotically delivered to a receiving portal—or perhaps even their front door—within minutes. Customers will be able to spend less time collecting their toys and more time enjoying them.

Self-storage design and function will continue to change and grow, but this shift to a lifestyle use is likely to be long-lasting, as consumers and municipalities embrace the concept and welcome it into their neighborhoods. **ISS**

A "lifestyle storage" conceptual design for Winston-Salem, N.C.

Contributor: *Stephen Overcash, Overcash Demmitt Architects, https://oda.us.com*

3 Common Design CHALLENGES

You might face numerous challenges when designing a self-storage facility, but no matter the hurdle, you can usually clear it with a bit of planning. In fact, when confronted strategically and with some imagination, obstacles can often be used to your advantage. Let's examine three common design impediments and how to overcome them.

Challenge 1: Steep Slopes

I like steeply sloped sites because you can use the hill to design a multi-story building with drive-up access. This maximizes profit and even saves money, as you don't need elevators.

For example, at a two-story facility in Auburn, Calif., we used the slope to enable drive-up access to both floors. Tenants can reach the upper level from the front of the building or drive down a ramp to the lower level on the other side. The advantage is there's no need for an elevator or stairs, which increased the net leasable area. Plus, the lower level is somewhat insulated by the earth, making climate control much more affordable.

Challenge 2: Small Lots

Small sites can be very good for self-storage. In urban and suburban areas, there generally aren't large lots for big, sprawling facilities anymore. Small parcels provide development options, though you do have to build up or down to get the square footage you need.

In Whittier, Calif., one developer built a three-story facility comprising 59,000 net rentable square feet on less than an acre, despite several city restrictions. Even with competitors in the area, the property leased up in just a few months.

Another facility in Newark, Calif., comprises more than 100,000 square feet of rentable space on just 1.96 acres. The three-story, 135,884-square-foot building features a 2,000-square-foot office to showcase services and amenities, including a workspace where customers can sit with a laptop, access the Internet and print documents. There's also a conference room. This site even rents offices with attached storage space, similar to executive suites. These have proven to be very popular and are almost always full.

Challenge 3: Conversions

Large buildings that were originally designed for a different use (grocery stores, warehouses, big-box stores, etc.) can be redeveloped into very nice self-storage facilities. A primary benefit is the cost of conversion is generally a lot less than new construction.

In Pasadena, Calif., a developer converted a warehouse into self-storage. The original structure, a small office, was built in 1945; but over time, seven

single-story buildings were added. Fortunately, there was enough clearance inside the buildings to create a second floor, which dramatically increased the square footage. The finished product is 134,000 gross square feet with 100,000 square feet of net leasable space, including 5,000 square feet of high-security art storage and 10,000 square feet of wine storage.

Elsewhere in Pasadena, a four-story building with a basement and parking garage was converted to 123,000 square feet of leasable space. Since the retail building already had an HVAC system, the designer made the entire facility climate-controlled.

Another option with conversions, particularly where there's a large existing parking lot, is to add new storage buildings against the current structure to offer drive-up in addition to interior units. This was done on one project in Hawaii, where an existing metal building was converted to self-storage. The designer simply added doors to the existing exterior at very little cost, and then added two buildings, including one with a covered loading/ unloading area. The result was 48,000 rentable square feet. The approach cut down on the number of openings that needed to be cut into the walls, which can be expensive.

Overcoming design challenges means thinking outside the box. While there will always be sites on which you just can't build, with careful planning, smart strategy and some imagination, even challenging properties can produce outstanding self-storage facilities. ISS

Contributor: *Kenneth Carrell, ARE Associates, www.areassociates.com*

Building on TRICKY Land Parcels

As the great self-storage land grab continues, creative design techniques are becoming vital in strengthening an owner's or developer's bottom line. The cost of land has risen substantially, forcing him to dig deeper for value. He often must consider properties with hurdles in the form of shape, size or zoning. Our industry also facing challenging jurisdictional processes that demand outside-the-box thinking.

But fear not! There's a wealth of design options to counteract these obstacles. Let's explore some of the ways to maximize a less-than-optimal land parcel. These include building multi-story, adjusting parking-space design to meet requirements without losing rentable space, finding more square footage within the structure, adding imaginative architectural elements, and optimizing the site topography.

Multi-Story

In an urban setting, a vertical approach to self-storage can help mitigate small land area. In many scenarios, it's possible to push building walls to the extent of setback or property lines and incorporate parking and loading at grade within the building envelope. While this forces a higher second-level finished floor, it allows lockers to be installed above standard units.

Parking Areas

In many jurisdictions, parking requirements aren't clearly defined for self-storage, leaving the developer to deal with the standards originally conceived for warehouse uses. I've seen ratios of as much as one space per 500 square feet of storage, which results in a sea of parking! Some developers have been successful in reducing the required parking by providing data from the Institute of Transportation Engineers to illustrate the actual parking demand for self-storage. In some instances, cities have adopted our recommended ratios for future projects.

However, if your plea for a more realistic parking ratio falls on deaf ears, there are design techniques that can help accommodate stringent requirements. For example, parallel parking can be used effectively, along with one- or two-way traffic, without eating up valuable land. In some cases, traffic can be one-way with drive aisles ranging from 20 to 24 feet and parallel width running 8 to 10 feet. One-way aisles work with smaller sites that have a limited number of drive-up units, as they provide circulation to all portions of the project and clear access for the fire department.

If the project is more than 30 feet tall, you'll need to provide aerial-apparatus access for the fire department. In this case, the parking along one side of the building can be perpendicular to the façade. This fulfills the 15- to 30-foot clear requirement for the access road (mandatory to allow for the ladder to swing into position) and provides a large bank of parking.

In the case of urban-infill sites, which have less area to forfeit, drive-in loading and parking areas can address the requirements and be used as a selling point. Drive-throughs not only provide direct access to elevators and the facility office, they're brightly lit with music circulating throughout the space. The

drawback is they require additional floor height at the first level for vehicle clearance; however, this can be turned into additional rental space. More below.

Floor-Area Ratio

Many jurisdictions use floor-area ratio (FAR) to regulate density in a given zone. While FAR can limit a property's yield, there are design methods that can help make up for the net rentable square footage and dollars lost. For example, lockers can be successful in certain markets and are a cost-effective, creative solution for occupying extra vertical clearances while adding net rentable area and revenue. Accessed via rolling ladder, lockers are excluded from FAR and have proven profitable in dense urban markets.

Another option is to include a basement, as in some jurisdictions, it's excluded from FAR calculations and can add significant area to a project. Although basements do carry some additional costs around soil export, unforeseen ground issues and waterproofing among others, they do offer upside as well. Basement temperatures stay moderate year-round and can be a natural climate-control solution without the cost of heating or cooling. When considering a basement, it's important to check with the jurisdiction to ensure it's exempt from FAR for a commercial application.

Finally, many jurisdictions exclude certain other areas from FAR calculations. For example, I recently completed a project that excluded elevator shafts, mechanical rooms, stairwells and exterior-wall thickness, which resulted in the addition of approximately 6,000 square feet. On the other hand, I've also experienced jurisdictions that include everything in the building envelope.

Architectural Features

Regardless of a site's development limitations, unique architectural elements can go a long way in capturing the eye of potential clientele as well as satisfying jurisdictions and surrounding neighborhoods. Alternating materials, building articulation and thematic architecture are all creative ways to ensure you're getting the most value out of your land and project.

For example, spending a little more on design at the entry speaks volumes for a project. While high-end materials can help, it's important the architecture frames the entry by implementing vertical and horizontal articulation. The building should tell a story, with the office being the climax.

Topography

It's becoming increasingly rare to find sites that are the optimal size and shape, have the ideal location, and are *flat*. However, uneven topography can work to your advantage and give you an edge in the market if the project is designed correctly.

For example, the landscape might lend itself to a multi-level facility design. Depending on the amount of fall across the site, a two-story self-storage project can offer drive-up units on both levels by using the slope as a ramped-drive aisle. It also removes the need for costly and maintenance-intensive elevators. Eliminating elevators adds net rentable area to the project, making for a more efficient development overall. In addition, using the topography cuts down on the import or export of soil, saving on construction costs.

As the self-storage industry continues to garner popularity among the investment community, viable sites will become more difficult to come by. However, with an imaginative approach and creative design techniques, most challenges can be overcome to bring value. **ISS**

Contributor: *Bruce Jordan, Jordan Architects Inc., www.jordanarchitects.com*

Arriving at the Right *Unit Mix*

Unit mix is top-of-mind for self-storage developers and for good reason: The right mix can make the difference between a quick lease-up at satisfying rental rates vs. slow move-ins and discounting. Ultimately, your configuration will be influenced by property characteristics, building size and layout, but it all starts with market dynamics. Let's look at key factors to determining a successful unit mix in any market.

Competition

Secret shop local competitors and evaluate their offerings and prices. Are there unit sizes missing from their inventory? If so, you might want to go heavier on those sizes. If they tend to discount specific sizes, it might mean there isn't enough demand to fill available units. If existing facilities are expanding, pay close attention to the unit types they're adding. It'll tell you which sizes rent well.

Customer Demographics

Look carefully at the customer base. To whom will you be renting? This can tell you a lot about which unit sizes might be more popular.

Renters vs. homeowners. Customers tend to rent from the nearest facility, so building close to housing developments is important. However, pay attention to the *types* of residences, as they'll influence your mix. Apartment dwellers tend to rent smaller units, while homeowners tend to need larger units, particularly during a move. A typical four-bedroom house can easily fill a 10-by-30 space and more.

Income. Customers with higher income are more likely to pay for storage. Of course, they're also more likely to have high expectations for curb appeal, features and amenities.

College students. If there's a college or university nearby, students nearly always need storage for their goods in the summer months. That said, they frequently rent smaller units, and they tend to be seasonal customers with higher turnover.

Local Conditions

Like demographics, geography has a role to play in determining self-storage unit mix. Tenant needs will vary from region to region. Here are a few examples of how location can affect consumer preferences.

Basements and garages. Customers in markets where homes are commonly built without basements, such as Arizona, tend to have a greater need for self-storage. Residences in dense urban areas also tend to be shy of storage space. Some

residential neighborhoods lack garage space while others commonly feature two- and three-car garages, which make it easier for people to store their goods at home. Pay attention to these trends, as they'll help you understand demand for storage in your area.

Climate. Climate-controlled storage continues to increase in popularity, particularly in areas with high humidity or intense heat or cold. To a developer, it offers better land coverage (assuming you build wider buildings) and return on investment. Though it's become quite common in some markets, some areas still offer the opportunity to be among the first to provide this type of storage.

Boats and RVs. Consider the activities that are popular in your area and whether there are "toys" associated with them. Are you near a body of water or other natural features that encourage the use of boats and RVs? Will tenants need to store motorcycles, jet skis, ATVs and trailers? If so, you may want to build more large units to accommodate these vehicles. For example, in my area, boat owners prefer 12-by-25 units.

If your market shows demand for larger units, consider the space required (unit size plus aisle width) vs. expected rental income. Larger units tend to return lower income per square foot. Angled parking or building designs can help reduce land consumption, but in general, it's best to build smaller units.

Flexibility

If your project is a building conversion or you're adding a new climate-controlled building, the unit mix can skew smaller, giving you more flexibility. With traditional drive-up buildings, you'll need some large units to accommodate customers with cars or boats; but for interior units, everything needs to fit through a hallway. Interior-access projects rarely have units larger than 10-by-20.

Many self-storage developers are also interested in being able to adjust the wall between back-to-back units. For example, you can change two 10-by-20 units into one 10-by-10 and one 10-by-30. Another option is to remove the wall entirely to create a drive-through unit. While this is certainly a way to alter an existing unit mix, the easier solution is to adjust rental rates to entice customers to rent the units you have available. This doesn't mean necessarily mean discounting, either. You could make your 10-by-20s look more attractive by raising the rates on your 10-by-15s and 10-by-25s.

If you consider these and other market factors, you'll be ready to create a site layout and unit mix that balances customer demand with lease-up and income needs. If the project can be built in phases or you build flexibility into your plan, you'll have the opportunity to adjust unit mix as you grow. ISS

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Multi-Story Design for Self-Storage

SmartStop Self Storage in Chula Vista, Calif.

Today's aggressive real estate market includes an explosion of urban growth largely fueled by multi-family development. Great news for self-storage, right? Well, yes and no.

While population density is on the rise, competition for urban properties is also on the upswing. The few available parcels in the urban landscape that are zoned appropriately for self-storage often present challenges, making these typically expensive properties difficult to pencil. The solution, as one might imagine, is to go vertical with a multi-story application that achieves the desire square footage.

Self-storage developers have traditionally sought cheap, industrial-zoned properties that allow for a sprawling, single-story design. But today, cost-effective land for such projects is increasingly difficult to find. Depending on the jurisdiction, usable land area can be reduced drastically due to setback, landscaping and parking requirements. Additional challenges include utility connections, stormwater management, street dedications and environmental issues, among others. Any issue that impacts usable area also affects facility layout.

While most self-storage developers might pass on these opportunities due to perceived limitations, a second look with a fresh mindset can yield an exceptionally well-performing asset. Let's examine some general concepts that should to consider when assessing a site with limited buildable area.

Why Multi-Story?

When faced with limited buildable area, developers have little choice but to consider a vertical application to achieve a financially viable project. While construction and operation costs will be higher than those of a traditional, single-story facility, the attainable square footage helps offset some expenses.

Another advantage is floor area ratio (FAR). Though some jurisdictions have FAR maximums, many don't count basements in their calculations. This can open an opportunity to make up square footage

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below grade that's being lost to parking, loading, circulation, etc., at ground level. Just keep in mind that in addition to increased construction costs, basements produce a large amount of exports, and there are some inherent unknowns when excavating a site. Pay close attention to soil/groundwater conditions.

There are also instances in which a multi-story approach is appropriate even on a large property. In areas where competition is low and barriers to entry are high, the trend is to build bigger facilities to stake a claim on the market and extend lease-up times. In these scenarios, it's common to combine a multi-story structure with single-story buildings to help screen the loading/unloading area and provide additional drive-up units. This combination can be a great success.

Extra Space Storage in Murray, Utah

A Ramped Solution

Many developers get discouraged by land that isn't rectangular and flat; but these opportunities shouldn't be overlooked. If a site has excessive topography, you may be able to build a multi-story facility with drive-up unit access on different levels by incorporating ramps. This approach gives you the freedom to relieve some of the exported soil from the site while benefitting from the natural insulation that occurs when a floor is partially below grade in a retaining condition.

Depending on the topography, it may be possible to build a ramp-served, two-story facility that eliminates the need for elevators. A building that allows drive-up loading and unloading on multiple levels can be advantageous compared to an elevator-served facility that needs to discount rates for units on the upper floors.

In this type of facility, buildings are typically laid out in long, rectangular shapes. The short side can usually accommodate a ramp with a 10 percent grade to access the other end of the building. Using a 10-foot ceiling height, the width of the building can expand or contract, depending on the contours of the site. This design effectively creates a two-story building that functions as a single-story on each level. Though this approach may not be suitable in every situation, when it works, it provides single-story functionality with rental rates to match!

Additional Considerations

With self-storage development booming, suppliers of building components are sometimes strained to meet demand. Elevators are one product being impacted, and timely delivery and installation can be a challenge. Most general contractors are aware of this issue and strive to adjust their schedules accordingly.

Another aspect of multi-story design to consider is the placement and design of the tenant loading/unloading area. This can be difficult since most multi-level facilities have large footprints, and the end goal is to minimize the number of elevators to lower costs and maintenance issues, among other reasons.

Depending on the climate and the municipality's loading-space requirements, consider providing a covered area. Not only does it create a warm, inviting atmosphere and protect customers from the elements, it allows you to place elevators near the center of the structure, which is vital when trying to minimize travel distance to units. While preferences for door-to-door travel distance vary, we recommend you not exceed 160 feet.

No Longer a Last Resort

Not long ago, developers looked at multi-story self-storage as a last resort, with the drawbacks far outweighing the benefits. While a traditional, single-story facility will always be a staple, changing consumer expectations have opened the doors for new product types. The multi-story approach has increased in popularity and introduced viable solutions for sites with minimal buildable area.

Today's market is a land grab for developers, with several players vying for limited property in hot areas. Ultimately, the property dictates design. Multi-story facilities give designers and developers another tool to produce a successful product. **ISS**

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DESIGN EVOLUTION *and* ENERGY CODES

Change is seldom easy. It's common to become set in our ways, and once we've mastered a skill, we want to use that expertise again and again.

Building codes and construction methods have generally stayed the same over the years, with modifications coming gradually. Energy codes, on the other hand, have changed from the moment they were first introduced and will continue to evolve well into the future. Addressing these codes as they grow means adapting our design and construction practices. It's an ongoing challenge for everyone in the building industry, including self-storage developers; but meeting energy requirements can bring benefits to a project.

Code Impact

The International Code Council introduced the first edition of the International Energy Conservation Code in 1998. The code is reviewed, updated and reissued on a three-year cycle.

Twenty-one years ago, it was understood that the introduction of energy-conservation elements and methods would take time to infiltrate the

building culture, and that more stringent measures would gradually be introduced with each cycle. Each new version usually increases insulation levels, tightens air-sealing, and calls for more efficient lighting and mechanical systems.

Building design must be adapted to accommodate the changing requirements while preventing unintended side effects—most significantly, condensation and humidity. New, energy-efficient approaches to design and construction are typically refined through trial and error. The codes respond to these new methods and continue to evolve.

Each state, and sometimes an individual municipality, determines which version of the code to adopt and how often to update it. Some opt to amend the code in response to local building practices, while a few choose not to have an energy code at all. A new building constructed a year after an existing, identical structure on an adjacent lot may have very different energy requirements.

Today's self-storage buildings are designed differently than in the past, and the way we build them tomorrow will be different still. Following are some ways in which they're likely to progress.

Building Envelope

The three main components of the building envelope, which separates the interior conditioned space from the exterior environment, are the walls, roof and floor. The envelope keeps out water (rain and snow), controls temperature (keeps out heat and cold), limits air movement (leaks and drafts), and minimizes vapor penetration (dampness and humidity).

Portions of the envelope may be a single material (such as an insulated metal panel) or several (metal siding, insulation, vapor barrier, caulk, etc.). There's no one approach that works best for all conditions, so each building needs to specifically address the unique site conditions and applicable codes.

Thermal Bridging

Let's consider a simple, single-story metal building in the winter. On a metal building, the structure and exterior surfaces are metal, while the floor is concrete—both of which are highly conductive materials. Heat travels through the walls because the interior liner panels conduct heat through the studs. The studs pass the heat to the exterior siding, which loses it to the winter air.

When stud spaces are filled with insulation, the metal frame conducts the heat around it, and the building still gets cold. This is called thermal bridging, and the basic solution for controlling thermal loss is to "break" or interrupt these paths. The less metal-to-metal connection you have, the slower the heat loss.

Reducing Heat Loss

Batt insulation is typically used since it's relatively inexpensive and easy to handle. Batts hold still air in their fibers and are most effective at full thickness. If they're compressed, they hold less air and lose insulation value.

Walls. For metal buildings, batts are typically attached to the top plate of the metal wall framing and draped to the ground. The exterior metal panels are then screwed through the insulation into the metal studs. This compresses the batt at the studs, which reduces its effectiveness. Though there's some reduction in thermal bridging, it isn't much, and the insulation winds up not being very effective. In some cases, a second layer of insulation is installed from the inside, covering the metal girts and providing some reduction in thermal bridging.

Rigid insulation doesn't compress, so when it's installed between the metal siding and studs, the only metal-to-metal connections are through the screws. This reduces thermal bridging. As the energy code evolves, we can expect to see more rigid insulation required to provide continuous insulation around the building envelope.

Roofs. For sloping roofs on a metal building, metal girts generally run side to side. Batt insulation is laid over the girts and the roof panels installed, oriented from ridge to the eave. The panels are attached to the girts, compressing the insulation and reducing its effectiveness.

To reduce thermal bridging here, the roof system can be modified to include rigid-insulation spacer blocks between the metal framing and the roof panels. The blocks lift the roof above the metal frame, allowing an additional layer of batt insulation, with the only metal-to-metal contact from "hi-lift" clips that attach the roof to the framing. However, once the roof is lifted, it's no longer directly supported by the girts, and the roof panels need to be upgraded to standing seam.

Floor. Any concrete surfaces exposed to the exterior will be sources of heat loss and need to be minimized. This is typically done with rigid insulation, either installed on the outside of foundation walls or beneath the building slab for a certain distance. Because rigid insulation isn't structural, it can't interfere with the bearing of the slabs and foundation. This makes it difficult to install and thermally isolate the interior slab from the exterior.

Connections. An equally critical consideration is how to connect the roof system to the walls and the walls to the floor, so the building envelope is sealed. Air and vapor barriers, as well as the insulation, need to be continuous, as the control of moisture becomes extremely important. Any gap that lets in air or moisture will impact the building's energy performance.

When warm, moist air comes in contact with a cool surface, it can condense and cause water to form inside the building. It's not unusual to have condensation running down an uninsulated wall or puddling on a cold concrete floor. It can bead on pipes, ducts or the underside of a metal roof, causing "rain." Controlling air flow through the building envelope helps control condensation. This is important to the long-term integrity of the building, as water can cause steel framing to rust.

Bottom-Line Benefits

As energy codes strengthen, self-storage developers may complain the additional requirements increase costs without adding any rentable area. However, when properly constructed to code, a facility is more durable and benefits from a more stable indoor environment. This means lower operating costs and fewer moisture issues.

When properties are sold, energy costs are often factored as part of the value assessment. A self-storage facility with high energy costs will also have high operating costs, which lowers property value at the time of sale.

The importance of an energy-efficient building can't be dismissed. While your goal may be to minimize construction costs, this may be shortsighted, as future buildings developed by competitors will be required to be more energy-efficient. Installing energy-conservation measures during development is the easiest and most cost-efficient approach. The more robust the envelope is, the more integrity the structure will have and the longer the building will hold its value. ISS

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Your Construction Timeline *and* Budget

Things have changed in the world of self-storage construction. As an owner/developer, you need to rethink your timeline and budget. Many general contractors and metal-building suppliers have simply taken on too many projects at once. They've stretched their resources beyond their competency and capacity. The formerly six- to nine-month project will now take closer to 12 to 18 months.

In addition, the cost of building in today's market has increased substantially over the past five years. Single- and multi-level expenses are up 30 percent to 50 percent. You can point your finger at prices for raw materials like steel or a tight labor market, but also realize that interest-rate increases and other "hidden" costs such as new building codes are playing a part.

Following are some factors to watch and be prepared for during the construction of your next self-storage project.

Your Timeline

Most self-storage general contractors will provide you with a Gantt chart to show the timing of each phase of the construction process, from beginning to completion. A Gantt is a type of bar chart that shows the relationship between various activities and the schedule. It's important to review this at the beginning of your project to ensure the timeframe is reasonable and various tasks are in proper order.

You should also monitor the construction schedule and be alert for any delays. There are several problems to avoid when developing self-storage. Unfortunately, some things, such as weather, will be out of your control. Extensive periods of extreme wet or cold can affect the timing of critical-path items. Pay attention to extensive delays, and make sure the general contractor is working to adjust task completion and stay on schedule.

Anytime issues interrupt project progress, try to recalibrate the Gantt chart. This is important, especially so you can inform your bank or investors of potential delays. You wouldn't want to start your project and run short on cash halfway through. This would force you to go back to your lender and ask for more funds, and that conversation won't go well.

Your Budget

Once you've selected a good development site, which assumes you've made it through the design, engineering, zoning and bank-approval processes, the project typically begins with a focus on the construction budget provided by your general contractor. Last year, we completed a 65,000-square-foot, single-level self-storage facility with 45 percent climate-controlled units. The accompanying table shows our planned and actual costs for the project.

Note the numbers are based on net rentable square footage. The total floor area, including the office, is 75,000 square feet, with hallways and the office eating up 10,000 square feet.

The old Boy Scouts of America motto, "Be prepared," applies to self-storage construction budgeting. The first rule is to check your costs and make sure you have an additional 10 percent to 15 percent in funding to cover unexpected items. Fluctuating steel prices, labor costs and other unforeseen expenses, such as site work, can escalate even when you have a solid contract. While some subcontractors provide reliable fixed costs throughout the process, others might not be willing or able to do so.

For example, site-work costs might change due to soil conditions or weather-related problems. These big-ticket costs may swing about 30 percent or more from the time you signed the contract with your general contractor to the moment of project completion. Metal-building suppliers can't simply offer fixed prices for their components if steel prices jump. These fluctuations can add as much as 15 percent to the total cost.

The takeaway is to simply be prepared for any unforeseen cost adjustments. This is especially true during periods of high demand for construction material and labor.

When building self-storage, it's best to remember that it'll cost more and take longer than you'd like. For our most recent project, we added 10 percent to the final per-square-foot cost. Also, add roughly six months to the original timeline.

Cost and time overruns are becoming common in the self-storage building process. It's vital to monitor the situation to keep it from spiraling out of control and negatively impacting your project. ISS

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Item	Planned Cost Per Square Foot	Actual Cost Per Square Foot
Site work/stone/paving	$18.00	$20.03
Metal buildings	$17.00	$18.42
Electric/HVAC/other	$5.00	$5.40
Concrete slabs	$8.00	$9.00
Soft costs (architecture, engineering, bank and legal fees)	$2.00	$2.16
Landscaping/fence/gate/cameras/upfit	$3.00	$3.45
Total	**$53.00**	**$58.46**

Avoiding Common CONSTRUCTION MISTAKES

By the time you've finally received all the approvals for your new self-storage project, it'll likely have taken two to three times longer than you anticipated. To top it off, you'll probably have agreed to additional requirements from the city and now have to work the added expenses into your budget.

Still, you're ready to build. Next, you'll need to hire a general contractor (GC) or prepare to be your own. For this article, let's assume the latter. To ensure success, it's helpful to understand the common mistakes made by other owners and developers, so you can avoid their building blunders. Here are some pitfalls to watch for during the construction process.

Grading

The single biggest mistake I see people make when building self-storage is failing to have proper site grading. Though you likely have a grading plan from a licensed civil engineer, once you determine final grades at your property (there are always field changes to be made), you'll determine if the plan will work.

What you're looking for is enough pitch to drain water correctly. Water should flow off your pavement to a retention pond, for example. If you're using asphalt, you'll want it to drain at a 1 percent pitch. If you have a concrete drive, you can reduce the slope by half. The greater the slope, the better for drainage.

Many self-storage owners and developers also regret not installing underground storm drains, including pipes from the gutter spouts. This costs more, but you'll always be happy you did it in the long run.

Speaking of grading and dealing with precipitation, a related mistake is draining water to the north side of buildings in any icy, cold climate. You don't want water to pool and freeze there.

Underground Conduits

Failing to properly plan and install the underground conduit is another major error. This sounds like a minor item, but it's extremely important.

The first line traveling from your office to your storage structures is for power. Normally, you'll need at least a 1.5-inch conduit going to each building, so you have power for outdoor lighting. If your site is climate-controlled, you may need a larger pipe. If you're phasing your project and don't know which building you might put up next, you'll want to oversize the pipe and make sure the conduit extends beyond the first-phase pavement.

The next conduit layout you should work on is for your camera system. This low-voltage wire must be in a separate conduit from the electrical pipe to reduce interference.

The last conduit you'll need is for the access system and keypads. Its location will be determined by the location of your gate system.

Gate Placement

Poor gate placement is another common mistake. The ideal spot will allow customers to be off the road while entering their code. The gate itself should be at least 12 feet in front of the keypad so there's a better chance tenants won't run into it. Customers should be able to access the office or kiosk, if applicable, and have room to turn around and leave without going through the gate.

If you plan to install a gate now or sometime in the future, always plan the exact location in advance. This could change the type of gate you'll need. In many cases, you may need a vertical-lift instead of a sliding gate. This costs a lot more, but it may be the best type for your site.

> “If you plan to install a gate now or sometime in the future, always plan the exact location in advance. This could change the type of gate you'll need.

The Foundation

You're now ready to pour your foundations. Have your site surveyor stake out the corners to ensure you're setting the building in the correct spot. I know this costs, but ensuring all the structures are properly located and at the correct floor height is invaluable. During construction, you may run over the grading stakes. It costs more to have your surveyor come out again, but it minimizes slipups.

I'm also a firm believer in verifying the foundation dimensions before you start to pour. A typical mistake is the concrete contractor doesn't have the correct building width. He might have taken the dimension from the outside of the form, not from where the concrete will stop. What frequently happens is steps inside buildings might not be in the right spot or at the correct height compared to the final site-plan layout.

Paving and Bollards

Once your foundations are poured, you can conduct final grading and possibly install your binder course of asphalt paving. Many people do this later once the building is up, but others still pave before the building is installed so the asphalt contractor doesn't hit it.

Whichever the case, install all bollards before paving. Typically seven feet long, they should be a minimum of six inches wide and three to four feet into the ground. Always put bollards on all four corners of your buildings, on all sides of your keypads, and at the corners of your gate. I've also started to put them at all my recessed hallway openings. Many customers seem to back into these areas, so it's good to protect them.

If you're building large boat/RV-storage units, you may want to put bollards in front of each door jamb. This can be expensive, but it'll defend your building against damage.

The Office

One of the biggest regrets many self-storage owners have is wishing they'd

built a nicer management office. It's important to put all the extra money you have into making your office as beautiful and spacious as possible. The additional design touches always pay off in the long run. Also, make sure there's a heated unit next to your office to store equipment, the electric cart and maintenance items. This will be help keep your site clean and in good working order.

The Buildings

When the actual buildings are installed, verify that they're going up according to plan.

Do a proper walk-through with your installer to ensure all doors are working, the wall panels aren't missing any screws, etc. Remember, it's easier to fix any issues up front than find out about them after you've started renting units.

In buildings with hallways, create an area to accommodate moving carts. Otherwise, they'll be left in the corridors and can become an obstacle for tenants.

It's also wise to pull a separate permit for every building. This is so you can get a Certificate of Occupancy for each. When you have one building complete, you can start renting. Keep in mind, this might not be possible in all jurisdictions. Some will require you to pull a single permit once all buildings are done.

You've been working for many months, if not years, to open your self-storage facility. While you won't be able to prevent all mistakes during the building process, being aware of what could go wrong can minimize them. ISS

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Design-Build vs. Plan-and-Spec

One of the most critical decisions you make when building a new self-storage facility is the design and construction-procurement method. There are two widely used approaches to consider: the traditional design-bid-build method, also known as "plan-and-spec," or design-build.

Under plan-and-spec, the developer hires the design team to create the project plans and specifications. He then takes those drawings out to bid and hires a contractor. Ultimately, the owner holds a separate contract for each design as well as construction. This arrangement creates independent goals among the various members of the development team.

Design-build is an alternate method of project delivery in which a single team works under a single contract, directly with project ownership, to provide turnkey due diligence, design and construction services. There's one flow of work from initial concept through completion. This method has become significantly more prevalent in private construction in recent years, as it has been proven to provide faster timelines, reduced risk, lower overall cost and lower burden to ownership.

So, how does design-build accomplish all that? There are several factors that go into it. First, it's important to look at the total development timeline and see where your risk lies.

The Timeline

A design-build timeline looks different than plan-and-spec. This is because it allows project steps to happen simultaneously. For example, front-end construction tasks like shop drawings, material procurement and manpower planning can take place while the final project drawing is being created. A plan-and-spec timeline, on the other hand, requires full completion of design before any construction-related activities can occur.

In plan-and-spec, the owner first hires a design team (architect, mechanical, electrical, plumbing, structural engineer, etc.) and works with that team to develop complete and coordinated construction documents. Then he separately solicits bids from general contractors, selecting a contractor and price based entirely on those documents. If pricing comes back higher than expected, time and money are spent to redesign the project and get costs in line. The time spent on redesign is one of the hidden delays that reduces the project's internal rate of return and pushes opening dates.

If using design-build, the owner can solicit a turnkey price before spending significantly on design. With a site plan, survey and soils report, the design-builder will be able to complete conceptual design in-house and provide a firm price for the total construction before documents are ever started. This allows the owner to mitigate his hard-cost risk. Savvy developers are able to work due

diligence, site planning and the solicitation of design-build pricing into their land-option period, giving them a clear picture of total project cost before committing earnest money.

The Risks

No matter which method you choose, understand that you're at risk of fluctuations in hard costs until a firm project price is established. After that contract price has been set, it's important to understand your risks during the construction period.

In a plan-and-spec scenario, owners accept more responsibility for complete and coordinated drawings because they have procured those documents directly. They frequently find themselves caught in the crossfire between their general contractor and drawings that were mis-coordinated or perhaps didn't include adequate detail. Then they're exposed to change orders throughout the build.

In design-build, the client is at risk for additional costs only if he chooses to increase the project scope. There's no finger-pointing between a contractor and design team when they're a single contracting entity. The design-builder is held to a performance specification in the contract, not a set of drawings. The result is no change orders due to design or code issues during construction.

Historically, the design-build method has 5 to 10 percent lower unit costs than the plan-and-spec method. Because of the efficiencies created in an integrated design-build team, it's 35 percent faster.

Both design-build and plan-and-spec serve a purpose for different types of projects. One isn't overwhelmingly better for every type. It's important to examine your project, the resources on your team, your understanding of the building experience and your budget. For owners building a simple or predictable project, plan-and-spec could be right the right choice. For those who don't want to risk change orders or need an accelerated timeframe to market, design-build could be the way.

If you plan to take the design-build route, it's best to involve the firm as early in the process as you can. Then, the company will be able to drive design decisions that can reduce the overall budget. It'll help manage all the necessary pieces to reach the firm project price, and it can maintain a thorough understanding of every variable. This understanding allows the firm to deliver the whole project as opposed to one phase at a time. ISS

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6 Principles of the Lean Construction Method

The lean construction method is a modern approach building development that delivers a project in the most time-efficient, cost-effective manner. It maximizes value for the customer (the self-storage owner/developer) while minimizing time, disruptions, waste and costs. It makes perfect sense in an industry where these things are so crucial.

Lean construction principles were originally developed by Japanese auto manufacturer Toyota to achieve a sustainable competitive advantage, and they forever changed industry best practices. The approach has evolved considerably over the last few decades and is now widely practiced in different forms including Just-in-time, Kaizen, Six Sigma and Total Quality Management.

Applying Lean Principles

Whether it's manufacturing or construction, the business goals and priorities of every company are the same: to enhance operational efficiency, lower inventory issues, reduce inaccuracies and stay on schedule. But inconsistencies are an inherent aspect of construction due to fluctuating weather conditions, unreliable vendors, changing inventory requirements or unavailability of labor. All these factors adversely impact progress.

Lean principles don't eliminate inconsistencies, but they help mitigate the fallout. They enable the construction crew to identify areas of improvement and act upon them in time to see tangible results. When used in conjunction with traditional project-management techniques, they help everyone understand how information, manpower and materials can be used more efficiently to deliver results on time and within budget.

The 6 Fundamental Principles

There's no cookie-cutter approach to lean project management. It employs

What Is Lean Construction?

Lean construction is a method of production aimed at reducing costs, materials, time and effort. Essentially, the methodology is to minimize the bad and maximize the good. Using the principles of lean construction, the desired outcome would be to maximize the value and output of a project while minimizing wasteful aspects and time delay.

Source: *BuildingsGuide.com*

several tools and techniques. However, here are six fundamental principles:

Identify value from the client's viewpoint. The traditional approach to construction focuses solely on what the self-storage owner/developer *wants*. Lean construction, on the other hand, prioritizes what the customer truly *values* and why. Understanding his perspective early in the planning phase and bringing together all stakeholders—the engineer, architect, contractor, supervisor and suppliers—ensures everyone clearly understands the end goal. They can then give their input and help shape ideas into reality with on-point execution.

Eliminate waste. A fundamental goal of lean construction is to eliminate waste at every opportunity. It targets eight major areas:

- **Transportation:** This involves the unnecessary movement of materials or equipment, either from one job site to another or between areas of the site.
- **Inventory:** Materials that aren't needed sit idle on site, adding costs and taking up space.
- **Motion:** This refers to the unnecessary movement of raw materials and equipment across the construction site, especially in multiple trips.
- **Waiting:** This is very common at a construction site. The manpower is ready, but the materials and machinery needed to perform the job haven't been delivered.
- **Over-production:** This is when a task is completed before the next task in the schedule can be started.
- **Over-processing:** This occurs when features or tasks are added to the schedule without adding value to the project.
- **Defects:** This refers to incorrect work that needs to be repaired, replaced or redone, including damaged material, rework or punch-list items.
- **Skills:** Failing to make use of people's skills, creativity or knowledge on a project is a waste of manpower.

Implement processes that deliver true value. Once you've determined value from your client's viewpoint, establish the processes and procedures needed to deliver it while ensuring all the steps are meticulously mapped out. From manpower to materials to equipment, every aspect should be considered in your blueprint, and any steps that don't add value should be eliminated.

Achieve a collaborative, continuous workflow. The goal of lean construction is a speedy, streamlined workflow that's consistent and reliable. Every stage is preplanned and performed sequentially. For instance, the crew wouldn't start hanging drywall until all the plumbing and electrical work has been roughed in.

To achieve an organized, predictable workflow, everyone needs to consistently communicate and collaborate to avoid interruptions and delays. Dividing a project into predefined zones can help workers and contractors ensure they have the time and resources to complete each task on schedule. This also enables them to make timely adjustments in case any stage falls behind or is completed ahead of time.

Use pull-planning and scheduling for a streamlined approach. A reliable, predictable workflow also depends on work being executed according to downstream demand. Lean construction uses pull-planning or scheduling in which participants work in close collaboration and ensure work is done sequentially. This requires starting with a specific target date and staying on schedule.

With lean construction, pull-planning is accomplished by those who are performing the work. This is because they're best suited to determine their capabilities and dictate the schedule. They work in coordination with subcontractors and customers for timely handoffs based on downstream demand.

Continuously monitor and optimize. The core philosophy of lean construction is continuous improvement, and its principles are based on the idea that excellence is achieved only when companies strive to learn, grow and optimize their operation on an ongoing basis. It's through this holistic approach that the crew is empowered to be more efficient and effective, thereby making projects more economical and profitable.

Opportunities for improvement are identified through real-time task monitoring and then applied to current and future projects for better outcomes including:

- Enhanced safety
- High-quality construction
- Improved productivity
- Reduced waste
- Better risk management
- Fast-track project delivery
- Greater customer satisfaction
- Maximum returns

The Benefits

With lean construction, operations are aligned to deliver true value to the self-storage owner/developer. The project timeframe and estimated cost are considered a part of the production system. A centralized schedule governs all coordination and communication, while the workflow is managed by the crew responsible for achieving project goals.

The primary objectives of lean construction are to maximize value to the customer and minimize waste. Constant monitoring enables the crew to make improvements and reduce waste, while clear communication ensures reliable workflow and timely completion, ensuring customer requirements are met with zero delays and discrepancies.

Lean construction emphasizes value generation throughout the lifecycle of the project, even as the market fluctuates, tools and techniques evolve, and business practices advance. Unlike in traditional construction where every activity is governed by the central authority and driven by a predefined schedule, all the action is coordinated through pulling and continuous flow. This decentralized decision-making ensures transparency and accountability with up-to-date information, empowering everyone to take the right action at the right time.

The construction industry is often inclined to use old-school techniques and is averse to change; however, lean principles offer many benefits with far-reaching, positive effects. Projects are accomplished on time at the given budget and deliver complete customer satisfaction. ISS

Contributor: *Kevin Hill, Quality Scales Unlimited, www.scalesu.com*

4 Pitfalls of Building CONVERSION

Building conversions have become an extremely popular way for property developers and owners to enter the self-storage industry or expand an existing portfolio. While converting an existing structure to a storage use can be a smart strategy and certainly has its advantages, there are pitfalls to avoid. I'm going to focus on what I believe are the top four, sharing mistakes I've made on real projects. I'll discuss obstacles my team and I encountered and things I wish we'd done differently.

Flooring Condition and Load

Make sure the floors of the existing structure are in reasonably good shape and can bear the load of what you want to build. I've experienced floors that were in poor condition and grubby, either because of the process used to manufacture them or years of use. I've even had to paint floors, which I hate, because once you go down that road, you have to keep up with it over the life of the project.

Make sure you know the floor load required by your self-storage systems fabricator. You can save a lot of money by knowing this before you go under contract on a deal. The good news is, typically, the storage system for a single-story interior conversion is made of light-gauge steel and has no load-bearing needs.

You need to be more careful when you'll be adding floors to the interior of a building. Typically, you'll need a minimum 17 feet of height clearance to add a second floor. It's great to transform a 40,000-square-foot building into 66,000 net rentable square feet of self-storage by going vertical, but make sure the concrete floor is at least 6 inches thick or the storage-system engineers won't sign off on it.

During due diligence on one project, we discovered the floor was only 4 inches. In fact, an earlier deal had fallen through because of that very issue, but the seller wasn't upfront about it. We solved the problem by marking where the support columns would be, cutting the floor and expanding its thickness to 6 inches in those areas. Fortunately, the seller was willing to split the $37,000 cost.

Weird Unit Mix

Fabricators and engineers will often submit some very strange unit sizes when designing a self-storage project, trying to maximize rentable square footage. This is sometimes unavoidable, especially if you're adding a second floor and require support columns every 10 feet. Designers will often come up with odd sizes to fill nooks and crannies. But let me tell you, a 2.5-by-6-foot unit with a small roll-up or "passenger" door is a tough one to rent. At the end of lease-up, when you're 88 percent occupied, what's usually left are the goofy-sized units no one wants.

I wish I'd been more forceful in challenging the proposed unit mix on a couple of projects. Fortunately, I now have a partner who's more vocal than I am.

Continue to work on the unit mix until you have one you feel confident you can rent. Avoid odd sizes if you can. You'll have a few, but keep them to a minimum. Don't get hypnotized by a bunch of small units that, if rented, could drive up per-square-foot income. Create a unit mix the market will like; then start paying attention to income per square foot.

Budget Contingency Shortage

I don't know what or when it'll be, but at some point during your conversion project, a curve ball will be thrown at you. On one project, we took a last-minute $100,000 hit when an inspector required us to erect a concrete-block firewall to separate our office area from the storage spaces. Neither the architect nor engineer anticipated the issue.

Demolishing an existing structure will often reveal unanticipated, hidden issues you're forced to deal with. Regulations and building codes change. To say within budget, you need to be prepared for the unknown.

Fortunately, we had a 15 percent contingency ready on the firewall project, of which we used every cent (and a little more). If we'd planned only a 5 percent contingency, we'd have been in real trouble. If you budget properly in anticipation of last-minute surprises, you'll be glad you did.

Bad Drivers

I can't explain why, but we've experienced numerous problems with self-storage customers who can't drive very well. On one project, we decided people would feel safer if we installed a gate arm that would come down after a car or truck entered the property. It was intended to prevent tailgaters from following behind legitimate visitors. I think we abandoned the arm after replacing it for the fifth time. Drivers (mostly those with trucks) would plow right through it.

If there's a way for someone to hit a building or door with a moving truck, assume they will and protect your property. We've had to strategically install bollards in many places to stop trucks from repeatedly backing into our buildings. We had to learn the hard way to design properties so that customers never have to put their truck in reverse. If they have to back it up, they'll hit something, period

It's much easier and less expensive to plan for these kinds of accidents during development than to try to fix flaws retroactively. Get creative in your building protection; you'll need it.

I wish I'd known about these pitfalls as we were developing our first few conversion projects. It would have saved a lot of time, money and frustration. But even if you have to deal with these and other issues, it's well worth it. For small investors, there may not be a better way into self-storage than through a building conversion. The best performing projects in our portfolio are the conversion sites we've completed, pitfalls and all. Have fun and go for it. ISS

Contributor: *Mark Helm, Creating Wealth Through Self Storage, www.creatingwealththroughselfstorage.com*

Laser Scanning for Conversion Projects

In today's competitive self-storage climate, with suitable building sites shrinking and land costs increasing, many owners and developers are taking a hard look at retrofitting existing vacant warehouses and industrial buildings. These structures can be successfully and economically converted, and yet they present their own challenges.

Avoiding pitfalls requires careful analysis of the existing buildings. Accurate spatial information is critical for the architect to create a useful set of as-built drawings from which to determine project feasibility. When documenting conditions in the field, laser-scanning technology is a time-saving tool to increase accuracy and minimize error.

An aerial view of the warehouse

How I Started Scanning

I recently embarked on an odyssey to convert a large warehouse into self-storage. It's a metal-surfaced structure with integral steel beam/columns and purlins. The client planned to place a second-floor platform inside.

Initially, I performed a field measure of the building using a hand-held laser-distance device; but I had limited success because when I input the measurements to my documents, some information didn't correlate. Four return trips to the job site failed to satisfy my requirement. I decided to rethink my approach.

One of my associates owns a firm that's known for high-end, commercial laser scanning, having provided this service for the aerospace industry, the U.S. Navy and the Smithsonian Institution. His company has scanned the Liberty Bell, the Washington National Cathedral and the Lincoln Memorial. Scanning national monuments is valuable for historic preservation, archival record-keeping, model-making and damage assessment.

I had hired the firm last year to scan a seven-story masonry building in Baltimore to check for "out of plumb" movement due in part to earthquake activity. So, when I got stumped on this self-storage conversion project, I considered calling them in again. The work was going to take a full day, as someone would have to visit the jobsite—a two and a half hour drive each way, plus scanning time. At $5,000, the proposal exceeded my budget, so I needed a new plan.

I decided to research the possibility of performing the scan myself. I found a couple of small scanners online in the $20,000 range. When I mentioned these to a colleague, he said he'd recently purchased a scanner but hadn't used it yet. A stroke of luck! Maybe I could rent it for a day?

We negotiated a daily rate of $500, which was a very reasonable fee. I asked for line drawings from the scan, for which he charged me an additional $200. The unit came in a small carrying case with a tripod. He calibrated it for low resolution to keep the file size down. Next, I needed to learn how to use it. The simple instructions were, "Just set it up on the tripod, press the button, and wait a few minutes for the scan to take place." I packed it up and headed out.

A computer scan of the warehouse from the inside out

How It Works

A laser scanner is essentially a laser-distance instrument in high-definition mode. Mounted on a tripod, it turns around horizontally while a mirror apparatus spins rapidly in the vertical direction. The laser beam emanating from the mirror, as it

turns and spins, forms a large spatial set of points that yield accurate distances out to the various surfaces it "sees." This set of points is known as a spherical *point cloud* and can create a rather large file with easily millions of points from a single scan. A second rotation of the scanner from the same position captures images that can colorize the point cloud and provide a spherical "bubble" view of the 3D area.

Like traditional cameras, a laser scanner can't see through or around walls. To capture a large complicated space with many rooms, you must move the scanner and take dozens or even hundreds of scans, depending on the structure.

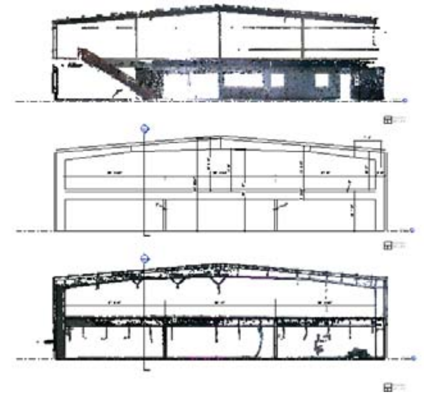
There are many brands of scanners with varying functionalities and capabilities. Some are meant for more industrial environments and outdoors, while others are better for smaller, more accurate scanning such as capturing ornate architectural detail line in cornices or decorative ceilings. As with any project, one should choose the best tool for the job at hand.

Back to My Odyssey

Out at the conversion site, I took six scans of the 160-by-100-foot building. Each lasted five minutes. My colleague e-mailed the file to me the following day, and I loaded it into the modeling software I use to design buildings.

Using the program, I took cross sections through the scan file. The result was a grainy image of the building, almost like an X-ray. The coarse quality was due to the scanner resolution having been lowered, producing fewer points of information. To achieve my result—a line drawing—I needed to manually trace over the scan using the line option in my software. I estimate that I came within about a quarter-inch.

I consider myself a leading-edge thinker and have always enjoyed exploring advances in technology. I was an early adopter of CAD software and have followed the evolution of products in this industry over the past 15 years. The goal is always increased productivity. Laser scanning is the latest addition to my tool kit. Where applicable in the self-storage market, it can be a valuable time- and money-saver, providing accurate, economically feasible solutions to otherwise worrisome problems. ISS



Computerized section markers placed in the scan plan view

Contributor: *H. Edward Goldberg, HEGRA Architects Inc., www.hegra.org*

Redevelopment Projects to Consider

Does your self-storage site need some redevelopment? Not sure? Let's talk about what that means and how to make some decisions.

Redevelopment is making improvements to an existing facility to maximize its physical and economic performance and preserve asset value. Redevelopment programs have become popular with some of the real estate investment trusts in recent years as they look to compete with the flood of new supply entering their markets.

Whether to engage in a redevelopment project should be determined by several factors including how well your facility competes in its market, functionality, opportunities for growth and others. Understanding your competition and the condition of your facility will provide you with the information you need to decide the correct type of project and scope of work.

Evaluate Your Site

The first step is to make an honest assessment of your property. Start by driving around your area and touring all your competitors as far out as five miles. Make a checklist so you can keep track of what you see and learn. Focus on:

- Curb appeal
- Branding and signage
- Access control
- Entry/exit
- Parking lot
- Landscaping
- Site layout and circulation
- Unit doors
- Roofs
- Lighting
- Visibility into office
- Office fixtures and interior
- Bathrooms
- Americans With Disabilities Act accessibility

The more detailed and thorough your analysis the better. Make a spreadsheet and give each property a rating of one to five in each category so you can compare them side by side. In addition to the physical condition of the facility, identify what products and services each provides. For example, does it offer climate-controlled units, drive-up units, boat/RV storage, wine storage, record storage, packing and shipping supplies, truck rentals, other amenities?

Be as objective as you can. This will help you understand how your facility compares to others. Does your site rate significantly lower on curb appeal? Is it the only one in the area with a tiny management office, wood swing doors, gravel drive aisles, old management software, etc.? Also, consider common deferred-maintenance items such as leaky roofs, cracked or broken asphalt, and creaky gates. Finally, are you missing key products and services being offered by other operators in your target area?

Allow any deficiencies in your operation to guide the next phase in the process: deciding on the upgrades to consider. Understanding how your property competes in your market will not only

help you discover if you should do a redevelopment project, it'll show you what that project should include.

Project Focus and Type

Redevelopment can be broken into the following four categories. A really good project incorporates all of them.

Aesthetics. This is the obvious place to start. It includes things such as painting, façade upgrades, signage and landscaping. The objective of an aesthetic project is to attract attention with a retail appearance and clear branding elements, so potential customers driving down the street see this is storage, and it's clean and modern.

Functional/operational upgrades. These include things like door replacements, additional parking, gate upgrades, point-of-sale systems and office retrofitting. It might include the installation and implementation of technology such as kiosks and smart locks. These improvements enhance the customer experience and make your site more competitive.

Asset preservation. This is critical and normally includes items that have been neglected over the years such as roof replacements, parking-lot repaving, seal-coating, mechanical-equipment servicing, drainage issues and more. The goal is to replace items that have outlived their useful life. Most should be addressed with yearly capital projects, but if they haven't, it's critical that they're completed as part of any redevelopment.

Expansion and conversion opportunities. This is the fun part. It includes expanding existing buildings, constructing new ones on extra property, teardown and rebuild, or a conversion of portions of your existing facility.

Define Your Scope of Work

Now that you've decided you need some redevelopment, how do you determine the scope? The information you collected when evaluating your property and competitors is a great starting point. Prepare a "wish list" from that analysis. If money were no object, what would do to maximize facility aesthetics, function and value?

Next, start prioritizing based on the most critical needs and add conceptual pricing. You'll need to adjust your scope of work until it falls within your budget and hits the highest priorities. Verify your pricing with local contractors before finalizing. You may need to hire architects or other consultants, or obtain permitting or approvals from the local jurisdiction.

Determine Long-Term Reward

Is it worth it to spend this money? That's the million-dollar question. Determining the long-term value of aesthetic, functional and value-add improvements is difficult because these factors are hard to quantify. Still, they'll pay off with the better site performance.

Expansions and conversions are much easier to model based on the financial return. For the numbers to work on an expansion, you generally need to build three to four times the square footage you're tearing down. For example, if you tear down 20,000 square feet of existing storage, you need to build at least 60,000 to 80,000 square feet for it make financial sense.

Look at it another way: It's possible that if you don't redevelop, you'll drive customers to the competition. When people have a nicer, newer option, they'll probably take it. New supply will begin to steal your tenants. You won't be able to increase rates. In fact, you may have to even lower rates to maintain occupancy.

Redevelopment is a great way to add lasting value to your self-storage facility and maximize its physical and economic performance. Creating an honest assessment of your property and understanding how it competes in your market will allow you to create an appropriate scope of work that'll make your operation competitive and viable in today's changing market. ISS

Contributor: *Scott Wyckoff, Wasatch Storage Partners, www.wasatchstoragepartners.com*

Key Considerations for REFURBISHING

When considering a self-storage renovation project, there are owners who get excited at the idea and those who feel tired when they think about all the work involved. The latter likely recall a past frustrating project, one in which a contractor was unreliable, problem after problem stalled progress, and a blanket of regret covered the entire experience.

But guess what? Revamps don't have to cause migraines! With the right game plan and a dependable industry partner, not only will the process go smoothly, you'll make your store the best contender in the market. When considering facility upgrades, here are some of the most important considerations.

Don't Break the Code

Some rules were made to be broken (like putting mayonnaise on French fries … we see you, Belgium). But guess what? Not when it comes to safety. If your self-storage facility is breaking building or codes, it's time to re-evaluate your approach to site upkeep.

Safety codes are in place to protect people and shouldn't be ignored. Keep up-to-date on local and state building regulations and fire-safety codes so you can adapt and make changes to your facility if necessary.

One code you must follow is the Americans With Disabilities Act (ADA). You need wheelchair-accessible entryways, hallways and units, and doors that can be lifted and closed with minimal force. ADA compliance has become a popular focus in many industries, and the spotlight has started to shine on self-storage properties. Save yourself valuable time, money and hassle—and from a potential lawsuit—by making your facility ADA-compliant.

Set a Budget

Being a responsible business owner means you've always got your budget in mind. Getting the most out of your spending is a huge element in the retrofit process, but it doesn't have to keep you up at night. Dave King, managing director of self-storage at development and acquisition firm Wentworth Property Co. LLC, is well-versed in the art of keeping a balanced budget and making wise money moves. That's why he sets aside funds specifically for renovations when purchasing properties.

"We buy probably close to 50 percent of what we call 'management turnaround' and 'value-add acquisitions.' That can mean a lot of things! We try to buy them really well on the front end, price-wise per foot, and we always allocate some small to significant dollars for rehabilitation of that product; clean it up and get it into a more competitive offering," he says. "We have a lot of competition coming into the self-storage world, and to compete, you have to spend the money to keep these facilities operating and looking good."

Cutting corners on your retrofit might seem like a good idea when you're in the thick of things, but consider the customer experience. Will renters have a nice environment with which to interact? Will it feel clean and secure?

Think Outside the Box

Humans are creatures of habit. We get set in our ways and balk at change; it's just our nature. That's one of the reasons retrofit projects can sometimes go sideways. If you're stuck in the way you've always done things, you may not be willing to try the new options available for your site.

When Sandra Hack and Lance and Todd Stockhausen decided to undertake the effort of converting a car museum to self-storage, they knew they'd have to step outside their comfort zone to get the job done. With decades of experience in the construction and self-storage industries, they had seen their fair share of buildings by the time they set to work on Comfort Storage in Punta Gorda, Fla. Instead of creating a simple structure that would blend with the competition, the trio decided to take some risks and shoot for a top-notch facility. By the time they opened, the store had climate-controlled, drive-through storage, a mezzanine, covered RV storage, and a cloud-based smart-entry system.

"It's all about having an open mind when you're in this business," Lance Stockhausen says. "Know that you're going to run into problems—that's just construction! But the important element is to not have your blinders on. Be ready to come up with a different solution or go in a different direction than you originally planned so you can get the best outcome for your project."

Put Your Best Foot Forward

Often, when self-storage owners think about facility renovations, they focus on the building exterior. But there many ways to spice up the interior, too! Look at the current state of your office and lobby. What's the first impression for customers when they walk in? If it's dingy and uninviting, your prospects won't feel great about leaving their items in your care.

The owners of Keylock Storage in Reno, Nev., knew an inviting office would be one of the important factors for the overall success of their business. When you walk in the door, you're in an airy space that doesn't feel anything like a run-of-the-mill storage facility. There's a popcorn machine, a mini-fridge filled with water and soda, a coffee-maker, and an impressive display of HD TVs offering a live feed from the property's numerous security cameras.

Two customer-facing monitors sit atop the counter, but they aren't just for looks; both serve a highly functional purpose. Keylock chose an access-control system that integrated seamlessly with its property-management system. It allows customers to execute rentals on their own without having to complete mountains of paperwork. New clients can perform the rental process completely online, but they also have the option to pop into the office to talk to the manager or use one of the leasing monitors.

Potential Upgrades

- Replace or reskin unit doors.
- Paint building exteriors.
- Add new flooring in the office.
- Reconfigure your unit mix.
- Install new security components.
- Add fresh landscaping.
- Convert to climate control.
- Build a covered loading bay.
- Replace the roof.
- Install new perimeter fencing.
- Add solar panels.
- Add new lighting.

Enjoy the Process!

At the end of the day, you'll have so many nuggets of advice thrown your way about how to handle your self-storage renovation. The most important thing is to come out on the other side of the process with a safe, accessible, modern facility that makes your customers' storage experiences painless and increases your bottom line. Remember, retrofits have so much potential, and it's an exciting time for our industry! Lean in and take advantage of the many opportunities available. ISS

Contributor: *Rachael Wheeler Dempsey, Janus International, www.janusintl.com*

10 Facility-Renovation TIPS

Let's face it: Our industry is aging. There are tens of thousands of self-storage facilities in Canada and the United States that haven't been renovated or updated in decades. More and more, we see these aging facilities listed, purchased, renovated and flipped, and why not? Land is just as, if not more, expensive than ever, making ground-up development a more costly and time-consuming endeavor.

How, when and why should you tackle renovation projects, even if you don't intend to list your properties for sale? Below are 10 tips.

1. New Means Better

A quick glance at the iPhone release cycle will tell you people love upgrades, even if they're not required. Did you purchase your last car because the one you had before stopped working, or because you were ready for something newer, faster, sleeker, bigger or more fuel-efficient? We love new and we're willing to pay for it.

Renovating your facility gives you an easily explicable reason to raise rental rates. Upgrading your security system, replacing doors, reskinning hallways, enhancing technology, and even replacing the metal roof or repairing asphalt are all clearly visible ways to make your facility feel "new" to your customers.

2. No Major Disruptions

While a renovation may seem daunting at first, there's no reason to panic. You won't need to completely close up shop or allow a construction crew to "demolish" your business. That method just isn't necessary anymore. Instead, you can take the project piece by piece, so your tenants experience limited disruptions as they interact with your facility.

You can start from the ground up. Replacing asphalt and carpeting is a good place to kick off your renovation project. These require less tenant notifications—and less security presence. For the next phase, replace the doors, hallways and roofing on a floor-by-floor basis, so you have more time to notify tenants and get your ducks in a row.

Remember, renovation doesn't have to mean disruption! Your roof can now be replaced without completely removing it, and your hallways can be reskinned without firing up a bulldozer.

3. Test, Test!

Once you have the first phase of your renovated units complete, it's time to start a good ol' A/B test. See how the rental rates of your new, sparkling units compare with those of older ones. Are tenants interested in paying a little more for a better product? It's worth mentioning again: People don't mind paying more for better options. Put this to the test and see what your profit margins look like with fresh rental rates on these upgraded units.

4. Cost Segregation and Insurance Discounts

It's important to note that you're likely eligible for significant cost-segregation and insurance discounts as part of your renovation. In a nutshell, cost seg means you can write off discarded, old materials as part of your IRS tax filings. You can also cash in on insurance discounts now that you're providing a safer, better functioning environment for customers.

5. Promoting Yourself

Don't be afraid to put your facility out there when you're almost finished with your upgrades. Using social media for organic advertising as well as engaging with the community by putting up billboards or other means of promotion is a great way to tell folks about your newly updated facility. Toot your own horn a little bit!

6. Older Doesn't Mean Better

Vintage or classic can be great when it comes to rare books, cars and art, but even those things need to be professionally restored to remain valuable. If your doors, hallways, carpeting, roofing or security system were installed during the Reagan Administration, it might be time to restore, rebuild and replace!

Also, having a facility that looks like it's straight from the 1980s means your customers are going to expect to pay 1980s prices. By offering a freshly upgraded self-storage facility, you can charge more for a better experience. Guess what, though? Your competition already knows this, and they're probably making moves to capitalize on it. Get ahead of the game and keep your business relevant with a facelift.

7. More Lawyers, More Problems

It's 2019, and that means compliance with the Americans With Disabilities Act (ADA) is of the utmost importance. If your doors are rickety, your parking lots are inaccessible and your facility in general isn't welcoming to folks with disabilities, you're at risk of being sued. Being in ADA compliance is crucial for your self-storage business. That means getting your aging facility up to speed with new doors, ramps and other important elements.

8. Lock It Up

Implementing security retrofits as part of your renovation project can make a world of difference. These days, a simple padlock on a roll-up door is basically an invitation for theft. A modern access-control system will make a world of difference when it comes to protecting tenants' assets, keeping your business secure, managing entry points and more.

9. Kick Uncovered Parking to the Curb

By getting rid of uncovered parking at your self-storage facility, you can monetize

that underutilized space. Did you know you can charge more for covered parking? It's true! You'll also eliminate the eyesore of abandoned, rotting cars sitting in the hot sun in your parking lot.

Want to get out of the parking game all together? Consider replacing these spaces with relocatable storage units. You'll be able to draw way more money per square foot and can stop calling that tow truck all the time to evict delinquent parking tenants.

10. Go Unattended

This model is the future; that's not hard to see. No, the robots aren't taking over—we're just finally realizing that technology can reduce our pain points in business (and save us money in the process)! With wireless access-control systems that integrate with your property-management system, you can now offer tenants a completely seamless experience all the way from online rentals to opening their units via a smartphone. The future is here! ISS

Contributor: *Troy Bix, Janus International, www.janusintl.com*

Making the Transition to LED Lighting

There's been a lot of buzz in the self-storage industry about LED lighting. There are many products available on the market, and more and more operators are considering a retrofit of their facilities. Still, some are reluctant to make the swich.

Some reasons to upgrade are to reduce costs, save energy, be green, take advantage of rebates and tax credits, and improve safety and visibility. Before beginning the transition, however, proper planning and research are crucial. Fully understanding your options is vital to business efficiency, today and into the future.

Benefits

There's no disputing that LEDs outlast and outperform other types of lighting. They save energy and help your pocketbook, which increases the overall return on investment. Some experts estimate that LED lighting consumes 80 percent less energy. As lighting accounts for 20 percent to 30 percent of global electricity use, making the switch to LED makes economic sense.

Inefficient lighting produces "heat waste," or "heat gain." Retrofitting with a professionally designed LED plan will reduce a building's heat gain, which in turn reduces its cooling requirement. In laymen's terms, LEDs don't run as hot, allowing your climate-controlled facility to rely less on its HVAC system. This comprehensive approach saves energy and increases the bottom line.

According to Energystar.gov, "Lighting consumes close to 35 percent of the electricity used in commercial buildings in the United States, and affects other building systems through its electrical requirements and the heat waste that it produces. Upgrading lighting systems with efficient light sources, fixtures and controls can reduce lighting energy use, improve the visual environment, and affect the sizing of HVAC and electrical systems."

Despite these benefits, some owners haven't upgraded because of the perceived expense. However, there are many ways to alleviate the potential financial burden. One solution is to stagger the retrofit, starting with only a portion of your property. This is a great way to see how well LEDs work and how much they can save. Those savings can be applied to the next phase of the retrofit plan.

In addition, utility rebates can often cover some or most of the cost of LEDs. Some lenders also offer low-cost financing for projects that save energy.

Technology

Proper planning for a lighting upgrade should include photometrics and 3D renderings from a professional designer. This advanced technology creates depictions that mimic and predict lighting outcomes in various scenarios, visually and numerically. The reports allow for the evaluation of lighting efficiency, luminaire performance, glare and color temperature. Photometric renderings give the ability to analyze whether energy is being wasted or more is needed, and if lighting targets are being met.

For instance, two seemingly similar fixtures can produce completely different results. Example A is a 40-watt 4000 Lumen Wall Pack that, once installed, becomes a glare bomb because of exposed diodes. It might only last three years because it wasn't listed by the DesignLights Consortium (DLC), a nonprofit that offers tools and resources to the lighting market. Example B, a DLC-listed luminaire using the proper optics, turns that similar 40-watt 4000 Lumen Wall Pack into a high-performing fixture that has quality-tested components and can last for more than 10 years.

As light pollution continues to be a serious concern in many areas, renderings can also ensure lighting is compliant with a city's dark-sky requirements. These mandates usually include restrictions on the amount of output (lumens) allowed as well as light-trespass boundaries, along with foot-candle and color-temperature maximums. Professional design can even help a project pass the city's certification process. These rules apply to new and existing facilities.

Product Options

When choosing LEDs, purchase quality, tested products, ideally with a warranty. Those marked with Underwriters Laboratories or ETL Mark have passed standardized safety and performance tests. Checking with DLC to verify part numbers is the best way to ensure you're purchasing a quality product. There are more than 500,000 products listed at designlights.org. The list is consistently updated.

With LEDs, it's now a simple process to increase lighting efficiency while decreasing energy costs. Interior hallways using LED strip fixtures with lower wattage will lower your utility bill and won't flicker or buzz like the outdated fluorescent lights. Occupancy sensors control when lights turn on and for how long. Use them in areas of your self-storage facility people visit only occasionally, such as a restroom or the maintenance unit, to ensure lights turn off when no one is present.

For maximum efficiency, you can place occupancy sensors so they light up only a single hallway when a person enters it. To avoid lights turning on and off as tenants walk down a hallway, set the sensors to light up the whole floor or space at the same time.

Here are three common sensor types and three popular mounting styles:

- **Passive infrared (IR) sensor:** Uses body heat to detect occupancy; can be inhibited by obstructions such as doors or shelves
- **Ultrasonic sensor:** Emits an ultrasonic wave to detect occupancy (similar to bat vision or radar); can be inhibited by HVAC, doors opening and closing, and other false triggers
- **Dual tech sensor:** Combines both the above options
- **Wall-mount:** Most commonly used in restrooms, breakrooms and smaller offices
- **Corner-mount:** Ideal for long hallways, with most having a range of 65 feet
- **Ceiling-mount (two-way or 360 degrees):** Two-way is good for hallways while the other is good for open settings; must be mounted below other fixtures or anything that can impede its view

Safety and Security

State-of-the-art LED lighting helps self-storage operators increase facility safety and security and create an inviting, worry-free experience for tenants. You need ample lighting, not only to comfort customers but to prevent accidents and discourage criminal activity or loitering. Lighting is key when renters are choosing one facility over another. It can attract them or drive them away.

An inadequately illuminated facility not only *feels* unsafe, it is unsafe. Low visibility transforms normal pathways into tripping hazards and your parking lots into danger zones. Not only do you need a sufficient lighting, fixtures must be properly positioned and even. If you have alternating areas of brightness and dark, it'll create night blindness.

For added energy savings and security, position motion detectors around the perimeter of your buildings in tandem with your surveillance cameras. They'll trigger the lights to turn on whenever there's movement, allowing the cameras to record vital information.

As a self-storage operator, it's critical that you stay current on the latest lighting-design trends and technology. When building a new site or retrofitting an existing one, consult with a professional to create a plan that'll save money and energy while improving visibility, safety and security. **ISS**

Contributor: *Dan Hengstler, Priority Lighting, www.prioritylighting.com*

Case Study: Addressing Mandates

The complexity of the entitlement process in relation to a self-storage project is always a tremendous concern for the developer and architect. On the seventh of 13 facilities we've worked on with SurePoint Storage—this one in Pearland, Texas—the company wanted a location near "Main and Main," at the intersection of two highly trafficked thoroughfares. In any municipality, this makes it more difficult to obtain development approvals.

As we began to analyze sites and review the area, we realized self-storage wouldn't be approved by the city council if it was on Broadway, so we had to turn our search to arterial streets at the center of town that crossed it. Ultimately, the developer chose an incredibly long and narrow site on Kirby Drive, one block off Broadway and near a high school. Being within the Kirby Corridor Overlay District, it required an extensive review and approval process.

Zoning Requirements

The goal was to change the zoning from "residential general business" to allow self-storage with a conditional-use permit. The school district was one of the first hurdles, as officials were concerned about potential traffic problems related to school arrival and departure times. We worked with the district and city to complete a traffic study, which showed the minimal impact self-storage would have on the vicinity. Now, the district was in favor of our use.

We designed the site so the drive aisle traversed only one side and the back of the structure, which meant we had to apply for a variance to put the primary entry closer to an adjacent property, which was a fire station. We put it near an existing street light and cross-thoroughfare curb cut, which allowed site access from both directions on Kirby Drive. This also helped create an aspect of traffic control in relation to timing with the street, which could be controlled by the city.

From there, we dove into all the building-design requirements with which we had to comply. Site planning wasn't completely approved at this point, so we dove into more architectural civil engineering and landscape design to meet the city's goals for the project.

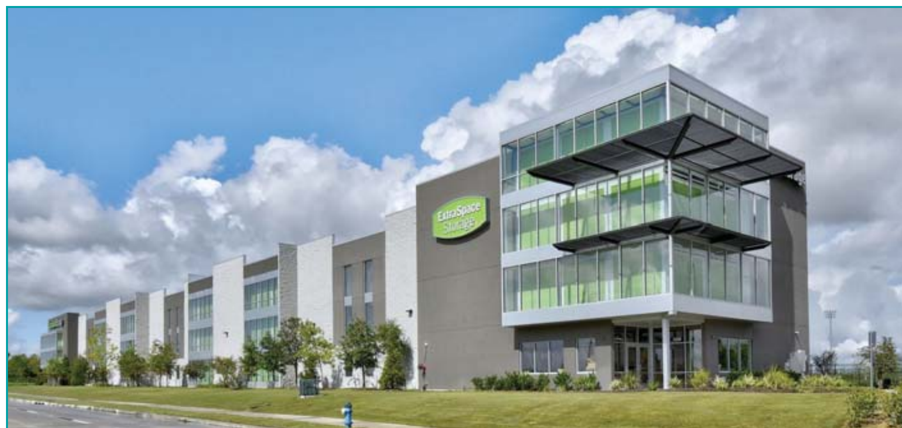
The design spanned the length of more than four football fields, with the drive aisle along the back of the building and extensive landscaping along the street frontage, which was close to 800 feet. The building itself was 465 feet long!

To help secure the variance for the new entry, we created a park-like pad at the

opposite end of the property, flanked by a combination of existing trees and new landscaping. Tree preservation was one aspect of this buffer, but a requirement for mature, 3- to 4-inch caliper trees and 60 percent evergreens was also added to our project scope. Guidelines required that 15 percent of our total site be landscaped. A sidewalk running along the entire site and landscaping along the visible street-side were also required.

In addition, the back-of-the-house drop-off and loading functions were supplemented with continuous parallel parking along the building's entire length. Working with the fire marshal, we widened the rear drive aisle to allow for a continuous fire lane along the entire property, invisible from the main thoroughfare.

After designing the site to meet these various parameters, we dealt with the functional need to reroute a storm-drainage system that crossed Kirby Drive and cut through the very center of the self-storage building. We had the civil engineer work with the city and the Texas Commission on Environmental Quality, and ultimately got approval to relocate the drainage around the building. At last, we had a site that worked for all governing entities!



Developed by SurePoint Storage, this Extra Space Storage facility in Pearland, Texas, is more than four football fields long.

Design Specifics

For its design, this project faced corridor-overlay guidelines with exterior mandates

rivaling that of a college campus or medical facility. While most self-storage designs relate primarily to function, we had to meet extreme material and fenestration requirements that dramatically affected the overall cost to build.

First, the entire building was required to be 100 percent masonry in an earthtone color scheme. The guidelines also entailed horizontal "push and pull" of the façade every 25 feet along the entire 465-foot length, supplemented by vertical articulation, also in 25-foot increments. We

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incorporated a combination of split-faced concrete block with fields of stucco to create a rhythm of materials and texture. Stucco could comprise only 30 percent of the façade, however, and there was a 25 percent glazing guideline to help create a "streetscape" for the community. The combination of the stucco with the rockface look of concrete masonry and glazing resulted in a dynamic look.

Since roll-up doors weren't allowed to be visible on our primary façade, we created a cube tower at the office, with roll-up doors visible behind the glass, to be the focal point. This was supplemented with shading devices to assist with energy savings, and huge expanses of glazing were added at multiple spots along the length of the building. These show functioning corridors and doors, which reduced the overall rentable space but have marketing appeal.

The Cost of Meeting Requirements

There were other requirements to meet for the city and county, including windstorm guidelines from the Texas Department of Insurance. To satisfy these, we incorporated additional structure, roof-design parameters and inspection requisites.

Together, the cost of the reduced rentable area, windstorm design and other severe requirements mandated a second review of the pro forma to determine if the property was still financially feasible. The development team determined it was. After numerous phone calls and meetings with the planning commission and zoning committee, we received recommendation for the project to proceed to a vote. We got our acceptance by a narrow margin, and we could move forward!

In the end, diligent work through extreme entitlement and design requirements led to successful approval for the Pearland project. Not only does the property function well, it creates a desired streetscape along a main thoroughfare that meets the parameters of many and is rivaled by few. **ISS**

Contributors: *Jeffrey S. Dallenbach and Cheryl L. Cole, Dallenbach-Cole Architecture, https://dallenbachcole.com*

Opened in May 2018, the facility had to meet numerous governmental requirements for approval.

CASE STUDY: Overcoming Site Challenges

When Northpoint Development sought to build a new Beyond Self Storage (BSS) facility on a premium yet physically challenging parcel in Mt. Lebanon, Pa., an affluent, hilly suburb of Pittsburgh, it had to create an economical, creative design solution to make it work. The land was notoriously vacant. No developer wanted to touch it due to its many drawbacks.

"We first looked at the property in October 2016 and loved the location, but immediately realized the development hurdles of the site—the steep grade, the irregular shape, and the proximity to a creek and a rail line," says JJ Jenkins, project manager.

The site sits within the Castle Shannon Boulevard commercial corridor and is easily visible and accessible by heavily trafficked Mt. Lebanon Boulevard. However, while Northpoint aims to build facilities of 105,000 to 145,000 square feet, this site measured only 1.62 acres (a little over 70,000 square feet). With approximately 40 feet from the road to the back of the site, maximizing square footage would be key. Never giving in to a challenge, the company was determined to find success.

Tackling Obstacles

While the Northpoint sourcing team was quietly plugging away at site selection in various markets, the company saw the need to create an in-house team of architects to support its efforts. It formed studioNorth Architecture in 2016 to generate site plans, building layouts and renderings for all its projects. Having an in-house team allowed Northpoint to expedite the Mt. Lebanon project and troubleshoot the awkward parcel.

"We reviewed many schemes that involved accessing the site down an entrance to the lower elevation, but this left very little area for the building," says Tim Holliday, project manager. "By examining the code, which allowed multiple lower levels, studioNorth was able to recommend a four-level structure, giving us the square footage we needed to make the land work."

With the space problem resolved, the team moved on to address the next hurdle. Future customers would need to access the building and drive aisle from one of two points on the site, and neither appeared ideal. "The next step was figuring out how to lay the building out to allow for the multi-level structure, but also allow easy access from the road without any elevation drop," Holliday says.

Initial designs featured a never-before-attempted elevated drive aisle on a concrete deck supported by concrete piles. However, once the construction team was assembled and ready to go, Holliday and his team reconsidered. "We asked, 'Is this the right design? Are we missing something? Should we re-evaluate our options?' That turned out to be a great decision, and a week later, we had scrapped the initial design and re-examined the retaining-wall option," he says.

studioNorth approached the design by essentially flipping a typical multi-story structure upside down. "A lot of the design considerations took this into account, including the front façade, egress paths, elevator design, office and storage-space relationships, how an end user would orient [himself] within the building, vehicular traffic, and the overall presentation to the user," says project architect Kevin Polit.

Though it was a departure from previous BSS projects, Northpoint made careful design choices to attract interest and make the building "belong" in the neighborhood. These included a jewel-toned minimalist teal awning—now a signature element for BSS builds—a tinted-glass storefront, and various façade textures with multiple roof lines.

Starting Construction

After many layout revisions and months of working through design hurdles, the project received entitlement and permit approvals. The official groundbreaking took place in September 2017, and three months later, the team pushed forward with construction, partnering with Al. Neyer LLC as the general contractor.

Now it was time to put the retaining-wall plan into action. By erecting a vertical, wood-lag wall that separates the multi-level storage building from the drive aisle at the street level, the team was able to push most of the building to the back of the site while allowing the office, drive aisle and parking areas to remain at ground level. The 30-foot-high wall is reinforced with tie-backs and concrete planks.

"In addition, the perimeter wall of our building and the retaining wall were also redesigned to be precast to give us more structural stability and waterproofing. Amazingly, this design turned out to be more economical than our original plan, and was a simple design and structure," Holliday says. This build modification ended up being a win-win.

Learning Lessons

Had NorthPoint not pushed the envelope with a team that was ready and willing to find solutions, the Mt. Lebanon project might not have come to fruition. But with a core value of "Take ownership of every situation," the company and its partners commonly focus on lessons learned, encouraging employees to actively examine and reflect upon teaching moments.

An aerial view of the 1.62-acre lot before construction

"The biggest lesson learned from the design-construction stage [of this project] would be to keep asking questions and challenge your assumptions," Holliday says. "Additionally, when budgeting complicated designs and projects, add some room in the schedule to deal with those complications."

After a year of construction, BSS opened in January. The climate-controlled facility offers 824 units, a meeting room and drive-through loading. It has controlled access and security cameras, and a retail store that sells moving and packing supplies. Customers and even curious residents often stop in to chat with staff and tour the "underground" storage area. This is what BSS is all about—being a partner and resource for the communities it serves. ISS

Contributor: *Nicholle McKenzie, Northpoint Development/Beyond Self Storage, https://beyondthecontract.com*

Beyond Self Storage in Mt. Lebanon, Pa.

CASE STUDY: BUILDING CONVERSION

When most people think about self-storage conversions, they imagine a vacant grocery store, empty strip mall or even an office building. Few would eye a defunct sugar warehouse and say, “That’s the one.” Yet that’s exactly what Thomas Lambert thought when he spotted the former Nāwiliwili Bulk Sugar Facility on Niumalu Road in Lihue, the capital of Kauai, Hawaii.

Guardian Self Storage snapped up the 3.5-acre property for $3 million in 2016. The site included a 55,000-square-foot structure once used for bulk sugar storage and an adjacent weigh station.

“We liked the central location, the prominence, size and historical nature. It is a well-built building with one-foot-wide concrete walls and large I-beam construction in the upper walls. There was no internal framing, so it was an empty canvas to work with,” says Lambert, co-founder, who opened the first Guardian location in Lihue in 2006.

A Rich History

Sugar-cane production has been large part of Lihue’s history. The Nāwiliwili warehouse functioned as the only export facility for sugar-cane enterprises from 1950 to 2010. Sugar from the 24,000-ton-capacity warehouse could be moved to a ship at a rate of between 600 to 700 tons per hour. The building even held sugar until Guardian’s acquisition.

Built in 1949 at a cost of $1 million, the historic site became vacant in 2010 after sugar-cane producer Gay & Robinson Inc. ceased operation. Although the building was in disrepair, its foundation was solid, making it ideal for renovation.

“This building—the old bulk-sugar building—is one of the bigger buildings and prominently displayed, overlooking the harbor and a visual marker for approaching planes to the island,” Lambert says.

Kauai is a rural, less developed island with fewer development projects. Although the current zoning ordinance restricts the height of new buildings, the warehouse received grandfather status, allowing Lambert to maximize the buildable space. While some suggested it would be more cost-effective to tear down the building and start new, Lambert knew the current zoning wouldn’t allow for such a domineering structure.

“Additionally, the cost of demolition would be exorbitant because each buttress is reinforced with large and numerous rebars and has deep, extensive footings, and there would be a lot of waste to haul away,” Lambert says. “Management of that would be difficult because our island land fill is beyond original capacity, and restrictions on quantity of waste to be dumped are imposed, requiring shipment of waste off island in some circumstances. I believe that may have been one of the dilemmas for the prior owners.”

During the renovation, much of the structure’s former attributes were left intact, such as catwalks at the top of the interior. The renovation included painting the structure as well as stripping and replacing the siding. Despite hours of power-washing, unfinished sections of the building still show dark splotches of molasses in the concrete walls.

About one-third of the four-story building was transformed into 60,000 square feet of storage during phase one. The second and third phases will extend the self-storage horizontally, add two more elevators and extend all the floors.

In addition to self-storage, micro-apartments are being explored for further phases. “Because there is a housing shortage on Kauai, we are exploring different options of development of micro-housing on portions of the undeveloped land and building industrial-style lofts for work and home,” Lambert says. “We are looking to incorporate these additions with Hawaii plantation-style architecture.”

Tests and Trials

The Guardian conversion wasn’t without its share of challenges. One of the biggest obstacles was securing subcontractors. “Because Kauai has a small work force, it was difficult finding an architect and engineers who knew what needed to be done. Additionally, contractors were busy, expensive and not familiar with the product development,” Lambert says. “We had to find professionals off-island and in the mainland to help with design plans, and we needed to hire crews from the mainland to supplement the local contractors hired.”

The project was designed by architect Ken Carrell, owner of ARE Associates, and completed by general contractor Curtis Law Inc. The metal supplier was Kiwi II Construction Inc., with the doors and hallway systems provided by Janus International.

Another trial was outfitting the property with common utilities such as Internet and phone service. Even though the site is within the main town, the local cable company didn't have infrastructure on Niumalu Road and was unable to provide a phone line even though there had been one in the past. "That came as a surprise, especially due to the fact that both utility companies approved our construction plans, which showed service to our property, and we did not find this out until the end of construction," Lambert says.

A wireless alternative was discovered for the office Internet and phone communication as well as the emergency fire-alarm system, security system and the emergency call for the elevators. "Luckily, the technology was there, but the local inspectors were not familiar with some of these technologies and we had to provide documentation that they were viable alternatives," Lambert added.

In Retrospect

Although happy with the project and its progress, Lambert wishes he had made a few changes to the design. At the top the list is tearing down the weigh station at the front of the site and developing a ground-up storage building. He also would've deferred improvement of the bulk-sugar building until the cash flow could better support this endeavor.

"We spent a lot of money up front, which will help in the long run; but it was too capital-intensive at the front end. Our site work had to go deeper into the property by doing what we did. If developed in front only, that would've saved us from developing the master site work on the front end," Lambert says. "Additionally, we essentially built a building inside the old building, and still had to improve the shell of the old building, which costs us more money initially than starting from scratch on a smaller building."

The company was able to save money on some items such as incorporating the new building footings into the existing ones. "Some other areas saved us some money, but there were difficulties and unknown costs until construction proceeded," he adds.

In the end, the community's positive response to the repurposed site has been worth all the bumps in the journey. "They are complimentary about the transformation of the building and addressing the unattractive qualities it used to have," Lambert says. "They are impressed with how nice it is. They like the climate-control features. Our competitors have yet incorporated that element. Customers seem to enjoy the use of the building." ISS

Contributor: *Amy Campbell, Inside Self-Storage, www.insideselfstorage.com*

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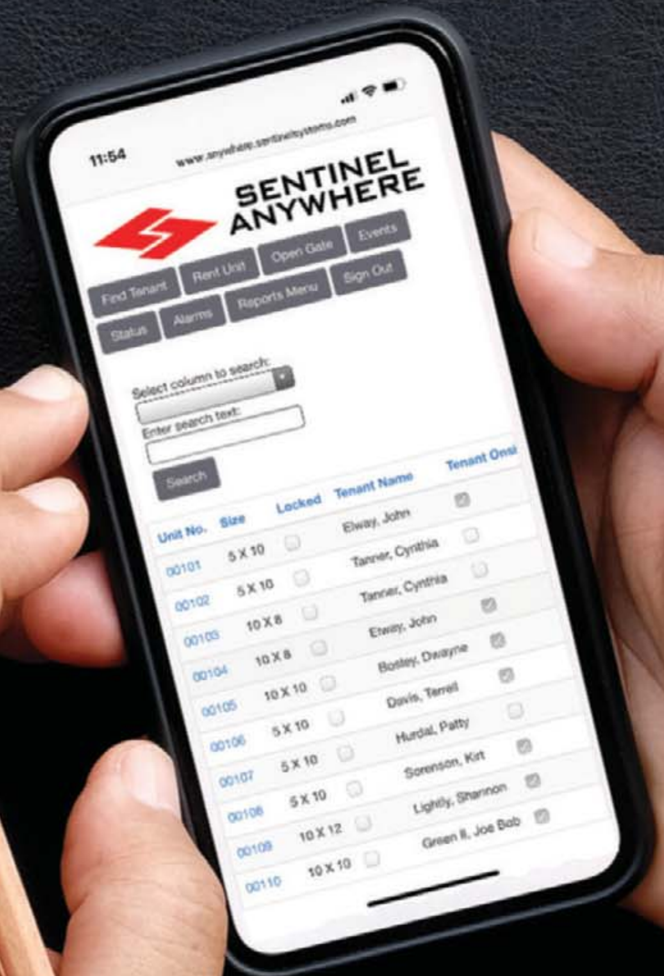

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