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Common INVESTOR LANGUAGE

Successfully navigating the world of self-storage investing requires a solid comprehension of the terminology used, so you can communicate properly and fully understand any opportunities that arise. This article aims to define the most common and important terms used in finance and real estate, plus phrases you'll need to know if you plan to participate in syndications.

Please note: I'm a self-storage developer and investor, not an attorney or financial advisor. Before making any decisions regarding your investment plans, it's best to consult with an expert.

Common Self-Storage Investing Terms

It's typical to see and use the following terms in most self-storage real estate deals. Let's begin with two very basic phrases you likely already know.

Operating expenses. These are the costs associated with running and maintaining a self-storage property, excluding debt service (loan payments and interest) and capital expenditures. They include things like utilities, maintenance, payroll, property-management fees and insurance.

Net operating income (NOI) is the revenue generated by a property after operating expenses are deducted but before debt service and taxes. It's a key indicator of a facility's financial performance and is often used as part of determining market value.

The following additional terms are presented in alphabetical order, though you may encounter them differently in the course of your travels.

Capitalization (cap) rate. Used to estimate the potential return on investment (ROI) of a self-storage asset, this is calculated by dividing the property's NOI by its current potential market value (what a buyer is willing to pay for). For example, an NOI of $210,000 and an asking price of $3 million result in a 7% cap rate.

Cash-on-cash return. This is the measure of a property's annual pre-tax cash flow relative to the total cash invested. It provides insight to the asset's cash-generating ability. This simple metric tells self-storage investors how much money their investment will generate as a percentage.

Debt-service coverage ratio (DSCR). This measures a property's ability to cover its debt obligations. It's calculated by dividing NOI by total debt service. An NOI of $150,000 with $90,000 of total debt service results in a DSCR of 1.67.

Due diligence. This is the comprehensive analysis of a self-storage asset's overall condition to assess risks and opportunities. The process includes physical inspections, financial audits, environmental assessments and market analysis.

Equity multiple. This indicates how much an investor's capital will grow over the investment period. The most simplistic of all the return metrics, it's calculated by dividing the total cash distributions by the total equity invested. If an investor puts in $100,000 and receives $200,000 back, that's a 2X equity multiple.

Exit strategy. This outlines how and when investors will realize their returns on a self-storage investment, typically through sale or refinance.

Gross potential rent. This is the total rental income a self-storage facility could generate if fully leased at market rates, without accounting for vacancies or concessions.

Hold period. This is the expected amount of time that a self-storage facility will be owned before being sold or refinanced. Also known as the investment lifespan, it impacts projected returns and investment strategy.

Leverage. This refers to the practice of using borrowed capital (i.e., debt) to increase the potential return of a self-storage investment. While it can amplify gains, it also increases risk. Lower leverage results in less risk but reduces return.

Pro forma. This financial projection estimates an investment's future income, expenses and cash flow to help you evaluate potential profitability.

Refinancing. Replacing an existing loan with a new one, often to secure better terms or extract equity from the business. This is one exit strategy, as it can allow for capital (equity) to be returned to the investors.

More Advanced Self-Storage Investing Terms

Following are more advanced terms with which you should be familiar, particularly when participating in self-storage investments with partners or a group.

Capital stack. This represents the hierarchy of financing sources used to fund a real estate investment, comprised of debt and equity. Each layer of the stack has different risk and return profiles.

Equity. This is capital contributed to an investment property by the investors. Common equity is high risk but also high return. Preferred equity takes precedence in the event of a sale.

Debt. This is financing used to fund a real estate deal. It can come in different forms such as senior debt (the primary mortgage or loan) and mezzanine debt (which fills the gap between debt and equity). Debt must be repaid with interest within a set time period.

Sponsor. In real estate, the sponsor is the person or company responsible for the investment. They find, acquire and manage the property. When the time comes, they sell or refinance it. They're also responsible for communicating with investors, and distributing payments and tax documents.

Limited partners. These are passive investors who contribute capital to the investment but have limited liability and decision-making power. They share in the profit according to their investment percentage but aren't involved in day-to-day management.

Sponsor promote. This is the sponsor's share of profit after limited partners receive their preferred return of capital. It's an incentive for the sponsor to maximize the investment's performance.

Internal rate of return. This metric evaluates the profitability of a self-storage investment over time. It represents the annualized rate of return that makes the net-present value of all cash flow equal to zero. This is a nuanced

number, as it values ROI respective to time, with it being worth more today than later.

Preferred return. This is the threshold return limited partners receive before the sponsor shares in the profit of a self-storage investment. It prioritizes investor returns and aligns everyone's interests.

Waterfall structure. This outlines how and when money is distributed among partners. It specifies the order and conditions under which cash flow is allocated, often after meeting the preferred return and return of capital. For instance, at the start of the investment, the profit split may be established at 60% to the limited partners and 40% to the sponsors. Once a certain level of return has been achieved to the limited partners, the split reverses. Usually, waterfalls are used to allow sponsors to partake in more of the upside if the asset exceeds initial projections.

Capital call. This occurs when the sponsor requests additional funds beyond the initial investment, often to cover unforeseen expenses or take advantage of new opportunities. Investors will be required to provide additional capital in proportion to their ownership percentage, otherwise that percentage can be proportionally reduced.

Depreciation. This tax strategy allows investors to deduct the cost of the self-storage property over its useful life, reducing taxable income and enhancing after-tax returns.

Cost segregation. This tax strategy that accelerates depreciation deductions by reclassifying site components into shorter depreciation periods.

The Language of Real Estate Syndications

At its core, a syndication is a partnership between investors to collectively finance and manage a property or portfolio. It combines the expertise of a sponsor with the capital of multiple investors to acquire and operate real estate assets. The entity is governed by an operating agreement and the private placement memorandum (both defined below). There are infinite ways it can be structured when it comes to sharing classes, ownership splits, return profiles, loan terms, etc.

If you're interested in participating in a self-storage syndication, below are the key terms you need to know, organized by category.

Self-Storage Syndication Terms: People

Sponsor. Also known as the syndicator or general partner, this is the individual or company responsible for organizing the syndication. They handle everything from finding and acquiring the self-storage property to managing operations and executing the business plan. In return, they receive a portion of the profit and various fees. The sponsor is the *active* party in a syndication while limited partners are *passive*.

Limited partners. These are passive investors who contribute capital to the syndication but have limited liability and decision-making power. They share in the profit according to their investment percentage and the structure of the syndication but aren't involved in day-to-day management.

Accredited investors. These people meet certain income or net-worth criteria established by the Securities and Exchange Commission (SEC), which regulates the U.S. securities markets. The individual conditions to achieve accredited-investor status are subject to change. At the time of this writing, they included:

- A net worth exceeding $1 million, either individually or jointly with a spouse
- An annual income exceeding $200,000 individually or $300,000 for joint income for the last two years

This status allows accredited investors to participate in unregistered securities offerings, including many real estate syndications.

Self-Storage Syndication Terms: Documents

Subscription agreement. This legal document acts as the mechanism of investment. It outlines the terms under which a self-storage investor purchases shares in the syndication. By signing it, they commit capital to the project and agree to the conditions specified.

Private-placement memorandum (PPM). This legal document provides detailed information about the investment opportunity, including risks, terms and conditions. It's essential for compliance with securities regulations and helps investors make informed decisions. It's crucial that sponsors encourage their limited partners to thoroughly read the PPM, as it helps manage expectations and ensure full understanding of the investment.

Operating agreement (OA). This document details the governance of the syndication entity including roles, responsibilities, voting rights and profit distribution among partners. As with the PPM, it's critical that sponsors encourage their limited partners to thoroughly read the OA to manage expectations and ensure full understanding of the investment. The subscription agreement, PPM and OA form the full syndication structure.

K-1 statement. This is a tax document provided to each investor, detailing their share of the syndication's income, deductions and credits for tax reporting.

Self-Storage Syndication Terms: Fees

Acquisition fee. This is paid to the sponsor for their efforts in sourcing and closing the self-storage deal. It usually ranges from 1% to 3% of the purchase price. This helps offset some of the sponsor's costs such as marketing.

Asset-management fee. This ongoing fee compensates the sponsor or third-party management company for managing the self-storage facility post-acquisition. It's typically a percentage of collected revenue or assets under management. This fee helps offset the operating costs such as staff payroll.

Disposition fee. This compensates the sponsor for managing the sale of the self-storage property. It incentivizes them to maximize the price.

Self-Storage Syndication Terms: Principles

Blue Sky Laws. These state securities regulations aim to protect investors from fraudulent practices. Compliance is necessary when offering securities, such as a piece of a self-storage investment. When setting up a syndication, sponsors should anticipate this as an additional cost. There'll be additional filing fees when limited partners live in several states.

Regulation (Reg) D exemptions. These allow companies to raise capital without registering securities with the SEC, subject to certain conditions and limitations. For real estate syndications, the exemptions usually fall into two categories: Reg D 506(b) and Reg D 506(c). The 506(b) is open to non-accredited and accredited investors with whom the sponsor has a pre-existing relationship but can't be publicly marketed (think "b" for "buddies"), while 506(c) is open to accredited investors only but can be publicly marketed (think "c" for "commoners").

The Lexis of Success

An understanding of these key terms is essential for anyone who wants to participate in self-storage investing. Clear communication and a solid grasp of industry vocabulary foster stronger partnerships and more successful transactions. Whether you're a passive investor looking to diversify your portfolio or an aspiring sponsor looking to structure your first deal, this knowledge will empower you to navigate the complex world of real estate with confidence.

Remember, every self-storage investment carries risk, and it's crucial to consult with financial and legal professionals before committing capital. Armed with the above lexicon, you'll be better equipped to ask the right questions and make informed decisions that align with your investment goals. **ISS**

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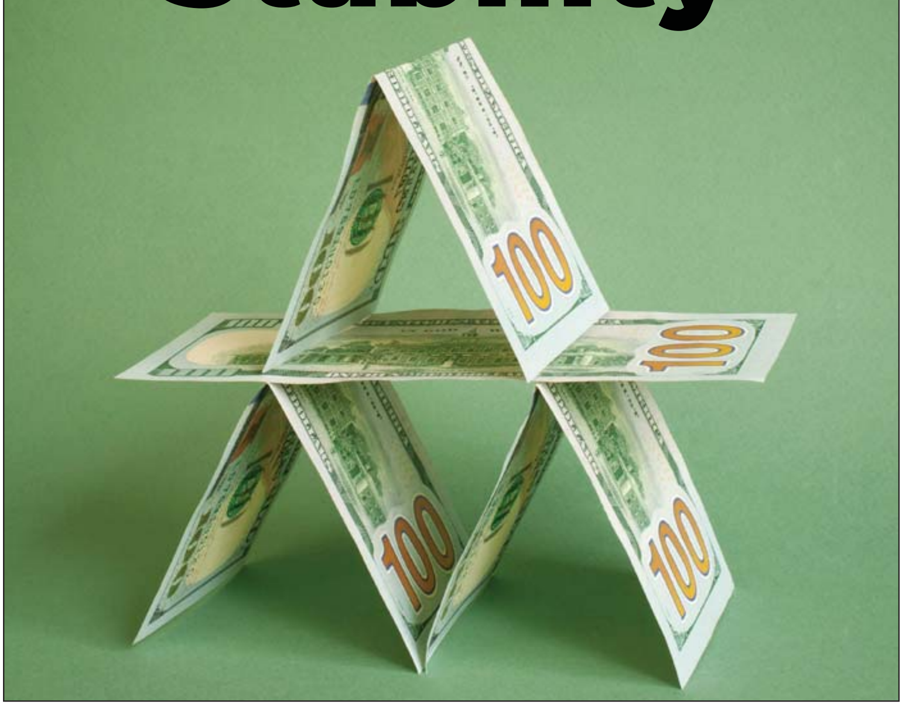
Finding Financial Stability



As retirement looms for more Americans, some are choosing a journey less traveled, seeking alternative long-term investment strategies. Traditional avenues such as stocks and bonds will continue to hold their appeal, but a growing contingent of retirees are turning their attention toward a less conventional yet rewarding path: self-storage ownership.

Let's pull back the curtain and take a peek into the world of self-storage investing, where financial stability merges generational wealth with community engagement in a union of opportunity and impact.

Steady Cash Flow

In the investment world, self-storage represents a firm opportunity, offering a rare blend of stability, income and growth potential. Unlike the stock market, which can be turbulent, it provides a reliable cash flow with steady returns and can produce significant appreciation over time.

The allure of self-storage lies in its economic efficiency and minimal staff requirements. With operational and overhead costs that are much lower than those of other commercial real estate sectors, storage facilities can produce higher net operating income and superior returns. Real estate makes more millionaires than any other business, and self-storage is No. 1 in this category.

Reliable Returns

When it comes to measuring investment performance, metrics are proof of success or failure. Historical and recent data details the consistent outperformance of self-storage assets when compared to more traditional investment vehicles such as stock ownership, yielding average annual returns of 8% to 12% over the long term. Considering that the average person owns a stock for less than six months, many individuals see returns that are significantly less than the market average or they lose money on their investment.

While the stock market may experience volatility, self-storage properties stand firm, providing a dependable income stream on which to sustain a retirement lifestyle. Given its ability to net such strong returns, it's no surprise that retirees recognize the appeal of self-storage investing as a foundation for securing and diversifying their financial future.

Flexibility and Freedom

Self-storage investments offer passive income without placing overwhelming demand on the owner's leisure time. Between recent advancements in technology, the availability of third-party management companies and even franchise opportunities, you can decide how hands-on you want to be with your asset.

Many investors enjoy working half a week or even just one day per week to keep busy and supersize their profit. Even as a part-time venture, participating in facility management can be personally and financially rewarding while still leaving ample time to enjoy retirement.

Generational Wealth

With the prospect of substantial capital income, self-storage investing provides an opportunity to leave behind a legacy and positively impact future generations of your family. In short, it can create generational wealth.

Community Esteem

Self-storage investments have other intrinsic rewards beyond financial gain. For example, as a facility owner, you can drive public outreach and engagement while cementing your status as a lucrative local business and valued member of the community it serves. By providing storage solutions, you assume a prominent role in your area while earning the trust and esteem of its residents. To foster an even greater sense of community, consider hosting events, supporting charitable organizations and engaging with people in other worthy endeavors.

Set Your Course

According to industry reports, the self-storage sector has witnessed pronounced growth in recent years, with increased demand being driven by population growth, urbanization trends and evolving consumer behavior. Mordor Intelligence Research estimates that the current market is valued at $87.65 billion and expects it to surpass $100 billion by 2025.

Self-storage investing represents a gateway to retirement prosperity, offering a unique opportunity to fortify your financial future while fostering a deep-rooted connection within your community. With a blend of financial stability, reliable returns, time flexibility, generational impact and meaningful engagement, it emerges as a new hope for people looking to redefine their retirement journey.

If you're closing in on retirement or looking to retire early, take a closer look at the world of self-storage investing. Chart your course toward financial security in a unique and worthwhile industry. **ISS**

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The **Right Path** to Ownership

One of the questions I am most asked by aspiring self-storage owners and investors is, "Should I buy an existing facility or build a new one?" My answer is that it depends. Buying is almost always the easier path, though not necessarily the most profitable. Let's explore the challenges to both ownership avenues, so you can determine which is right for you.

Buying Self-Storage

When considering whether to purchase an established self-storage business, you must weigh the pros and cons. First, let's look at the advantages:

- When you purchase an existing facility, it already has tenants and cash flow. There's no lease-up to worry about (unless the site is still very new). That said, it may require an operational overhaul or physical upgrades before it reaches its full revenue potential.
- Buying a facility is typically faster than planning and constructing a new project. Just be sure to invest the appropriate about of time and effort in due diligence.
- You may be able to quickly increase the value of the site by improving site condition, management or marketing. That said, you must know what it'll cost to add value in these areas and how to do the work.
- You may qualify for favorable financing on an acquisition, as the bank will appraise the site and will generally loan 75% to 85% based on its value and cash flow. You still need equity and good credit, but asset performance is key. You may also be able to get seller financing, which is not an option with new development.

On the other side of the coin, you may pay a premium for an established self-storage facility. In fact, the cost may exceed that of building a new project, due to the existing cash flow. Just remember that your time has value, too. Also, most sites will come with challenges, whether it be outdated systems or deferred maintenance. A thorough due diligence should uncover these issues and allow you to decide whether to take the risk.

An important aspect of purchasing an existing self-storage facility is to understand the market in which it's located. It's important to do your research. Find out, why is the owner selling? Is that decision related to market challenges such as declining population, incoming competition or town plans to do disruptive construction in the area? While a value-add property can be a good deal, you need to understand the nuances of the area. You can fix the facility; you can't fix the market.

Building Self-Storage

The more complicated but likely more profitable way to get into the self-storage business is to build a new project. Let's start with the pros:

- It may be less expensive to build. With an acquisition, you're also paying for the facility rent roll, cash flow and potential to increase asset value.
- When you develop, you can design a project that better meets current consumer demand. For example, you can build in climate-controlled units and the latest facility technology. Just make sure you understand the needs of your market.
- Self-storage design is constantly changing. Building new will allow you to implement all the latest and greatest property features, whereas retrofitting an existing site can be cost-prohibitive and logistically challenging.
- In most instances, there's more potential value in a new development than an acquisition. The difference between the cost of development and the project's value at stabilization will likely be higher than the purchase price of an established facility and the more incremental value that can be added to that asset over the same period.

All that said, self-storage development can be time-consuming. The process to get from concept to completion to opening and then on to stabilization can be excruciatingly long. Getting through the planning phase with zoning and permitting can sometimes take years. You need to clearly understand the course from a both a cost and timing aspect before moving too far along.

Further, new self-storage development has more inherent risk than an acquisition. There's zero revenue generated at the start, and it takes time for the business to generate positive cash flow. In fact, it's important to budget for negative cash flow during lease-up.

Given how long it can take to bring a new self-storage development to fruition, it's possible that the market and economic outlook can change between the time you start building and when the facility actually opens. For example, more competitors may turn up in the pipeline, or the local population could decline.

Finally, the process for financing a self-storage development is often more onerous than when purchasing an established property. When obtaining a loan for construction, the obligation is more about the borrower, as there's no asset to serve as collateral.

Critical Aspects to Consider

With all of the above to consider, it's easy to see why choosing between a self-storage acquisition or new development can be difficult. Each of these pros and cons will carry a different weight, depending on your individual circumstances. However, there are a few important considerations that apply to both situations.

First, you have to thoroughly investigate the market you're looking to enter. What do the demographics look like? How many competitors are there, and what are their occupancy levels? Are there any new facilities in the development pipeline? If a study reveals that a market isn't a good fit, be grateful that you found out sooner than later.

Second, as you contemplate the road ahead, you must know how much money (or equity) you have and how much you can borrow. Work "within your box." There's no point in pursuing a project you can't afford. All of us have limits, so determine yours.

Know your goals. If you aren't clear about your long-term objectives, you'll never achieve them. Is this a legacy project or a flip? Want one large one facility or several smaller ones? Want to own and manage, or own and let someone else oversee daily operation?

Finally, what's your risk tolerance? If you have the expertise, time and capital (and a good market), then a new project might be your best option. On the flip side, acquiring a self-storage business might be less risky, takes less time and potentially provide a quicker return on investment.

It's difficult to beat the financial prospects of self-storage, so now you just need to determine the best route for you. Whether you buy or build, you can find long-term success. **ISS**

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2 Ways to Scale a Portfolio

If you own or invest in a self-storage business, you may have many professional goals, but without a doubt, one of them is to make money. This is why many of you will eventually consider whether to expand your portfolio. Scaling up can feel a bit daunting but presents significant financial opportunities.

Once you've decided that it's time to grow, the first thing you must do is decide whether it's better to acquire an existing self-storage asset or build one from the ground up. Both avenues can be rewarding, though not without challenges.

Scaling Up Through Self-Storage Acquisition

If you're thinking about buying one or more existing self-storage facilities, the strategy does offer some distinct advantages. First, an established operation often comes with proven cash flow, thereby reducing investment risk. It also tends to have a loyal customer base, giving you more pricing power upon assumption of ownership. Add to that, lenders are generally more willing to approve a loan for an existing property that has a track record of strong performance.

If you can find a currently underperforming self-storage asset, it opens the door to even greater opportunity. There's frequently potential to enhance the operation in such a way that you increase revenue or cut costs, thereby boosting property value.

On the flip side, an existing self-storage facility may be outdated to the point that it no longer meets industry standards or customer expectations. There may even be significant deferred maintenance that requires capital expenditures. Again, this can lead to opportunity, but it'll require investment.

If there were management issues under the previous owner, there could be a damaged business reputation with which to contend. That can require a long and arduous effort to repair, if it's even possible.

Finally, acquiring existing self-storage facilities generally means participating in a highly competitive bidding process. The right asset can garner interest from investors nationwide.

Scaling Up Through Self-Storage Development

Self-storage development can be a rewarding yet lengthy process. Let's start by looking at some key advantages, beginning with the fact that you have full control over facility design and construction quality (assuming the municipality cooperates). The project can be tailored to meet industry demands and standards, which is crucial in today's market, especially as technology rapidly advances.

New self-storage construction typically comes with warranties, too, offering you peace of mind if certain components of the building ever get damaged or need early replacement.

Overall, a successful self-storage development is the most lucrative way to expand a portfolio. However, it is considered higher risk than an acquisition. There's greater uncertainty due to potential construction delays, permitting issues, zoning hurdles and topography challenges. Suitable land can be scarce. It can also be more difficult to secure funding, especially in the current lending climate.

There's also the completion time to consider. Developing a self-storage facility can be a very lengthy process, often taking several years before receiving the Certificate of Occupancy. The market can significantly shift during this time, as we've seen over the last two years.

Finally, once the facility is built, there's the additional expense of lease-up. You'll need to invest in marketing and advertising to fill units, and these are typically an out-of-pocket expense, as little to no revenue is generated initially.

Identifying a Target Market

After weighing the above factors, many self-storage owners and investors opt to purchase existing facilities rather than pursue development, as construction projects are often time-consuming and capital-intensive. However, if you have the means and experience, building typically offers the greatest potential return.

Whichever direction you go, you need to choose a location. You might investigate markets by region, state or metropolitan area. You might even have a specific submarket in mind. While a broader approach may uncover more opportunities, spreading properties over a large area can lead to lost operational efficiencies. The key to maximizing growth and self-storage manageability is to strike a balance between breadth and focus.

You might initially be tempted to stick to your hometown or existing locations, but this can be limiting. Also, you must pay close attention to supply and demand as well as local demographics. Consider job growth, population growth and household incomes. These are all strong fundamentals used to determine a market's current performance and future potential.

When laying the foundation for your self-storage portfolio, begin in an area with a healthy level of supply. Some indicators of this might be:

- Single-digit square feet per capita within a 3- to 5-mile radius
- Occupancy levels of surrounding facilities at more than 85%
- Rent per square foot exceeding $1 for traditional units and $1.50 for climate-controlled

It's important to note that a "healthy" rent per square foot can vary by self-storage market, typically depending on land costs, insurance and property taxes. However, these figures provide a useful baseline.

Once you've chosen a market, connect with active owners and brokers, particularly if you're looking to acquire. Hundreds of deals are made annually nationwide, with most being listed; but a significant portion trade off-market. Building relationships with key players can give you access to considerable deal flow and the chance to bid on lesser-known opportunities.

If you're unable to acquire facilities with your own capital, you can raise funds through private equity or other investors. You can also sell existing assets and use a 1031 exchange to move into larger properties. This approach allows you to grow your equity position quicker or acquire multiple assets by leveraging debt.

Benefits of Portfolio Growth

When you amass a self-storage portfolio, you can spread expenses across multiple locations, making operations more efficient. Economies of scale can apply to facility marketing, maintenance, insurance and payroll. If you have multiple facilities in an area, hire a regional manager to oversee them. The salary for that position can be shared among the properties, saving you money. Here are some other benefits:

- Having multiple locations allows you to capitalize on favorable market trends, leading to increased occupancy and greater pricing power with existing customers.
- As your portfolio grows, your brand will expand alongside it, increasing market presence and reach. Hopefully, your positive reputation also grows, attracting more tenants.
- Selling a portfolio usually commands a premium compared to selling a single location. Larger investment groups are frequently attracted to these opportunities because they can acquire multiple properties in a single transaction. This drives up property value.
- Finally, portfolio growth presents numerous opportunities to capitalize on a growing sector that demonstrates resilience and adaptability in fluctuating economic conditions.

The ability to aggregate multiple self-storage properties provides significant financial benefits, especially when it's time for the exit. This positions you to thrive in a competitive landscape. With the right strategies, the potential returns by expanding are substantial, making scale an attractive option for owners and investors. **ISS**

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A Preliminary **Market Analysis**

There's a reason self-storage has caught the eye of institutional investors over the past decade. Word is out on the industry's generally low capital expenditures, recession-resistant demand characteristics and stable cash flow. However, a dollar of income is valued differently across various markets and product types. This is why you must fully understand your market before making an acquisition or building a new project.

A self-storage market analysis can be done proactively or reactively. A proactive approach involves studying multiple markets to identify the ones that make the most sense for investment, then seeking opportunities within them. A reactive approach involves finding a potential opportunity first, then studying the market in which it resides. Either method requires similar due diligence.

A deep market analysis is essential because the self-storage sector is extremely fragmented. Based on recent data, approximately 15% of facilities are owned by real estate investment trusts, with approximately 70% owned or managed by independent operators. The rest are in the hands of institutional investors. Some of these properties came online with little thought given to macro location, demographics or other market dynamics.

As an investor, you aim to acquire or build a self-storage property with the best chance of success. This requires a deep dive into your property's locale as well as its physical condition. Let's look at the essentials from an objective and subjective point of view. This honest evaluation will help you create a thorough picture of the market and make the right investment decision.

Objective Market Analysis: Metrics and Data

When performed correctly, an objective self-storage market analysis generates specific numbers and facts. Here's what comprises that evaluation:

Supply. You must know how many self-storage facilities operate in the area. A market with low supply can provide upside in growth, though it could be riskier if you're among the first to enter. One with more supply might put a ceiling on rent growth, but it can also indicate an expanding region.

Demand. Your target market should have enough households to justify buying or building. Population figures are an excellent place to start.

Also, examine historical data. Consistent population expansion over time is ideal for self-storage. Double-digit growth, as desirable as it might be, could be unsustainable. On the other hand, flat growth means fewer people, if any, are moving into the area.

Finally, figure out if enough housing stock is available to support a population boost. Nothing stops in-migration faster than a lack of houses, apartments or condominiums.

Market-saturation score. Supply numbers coupled with population data allow you to calculate total square feet of self-storage per capita. Generally, a lower number is better, but it isn't as simple as investing in a market with a low figure. A self-storage property can succeed in an area with a high saturation score, but you need a more nuanced understanding. For example, you must consider the average size of the typical storage unit, the average occupancy and demand growth.

Rent growth. If you're acquiring, start with your target property, then research others in the area. You must go beyond the pro forma and current figures to examine data from the past five or 10 years. Consistent, positive net income is a good sign. If growth is flat, you could be in a static or declining market.

Subjective: Intangible and Conceptual

Numbers and metrics are great for building an objective view of a potential self-storage market, but there's nothing like an in-person visit to create a subjective assessment. The following factors aren't deal-breakers; many can be corrected with time, effort and capital. But they should be considered an essential part of your due diligence. (Please note: Some of these pertain to acquisitions only.)

Ingress and egress. Drive to your target self-storage property. Find out if it's reachable from an adjacent street or highway. It isn't the end of the world if getting there requires a U-turn down the street or traveling through an adjacent shopping center or industrial park; but you might have to add a driveway, which will require right-of-way or zoning knowledge. If you can't correct the situation or aren't willing to provide the capital to do so, this isn't the site for you.

Curb appeal. Regard your target property as though you're a potential renter. You want pleasant landscaping including healthy grass, trees and plants; graffiti-free and secure perimeter fencing; easy-to-read signage; and a great after-hours presentation, which includes plenty of lighting. Don't forget about the parking lot and driveways. Check to see if they're cracked or have potholes, or are freshly paved.

Other property condition. Consider the building's age and how well it's being maintained. Older properties can still be great opportunities when properly preserved. Pay attention to the condition of the paint on the buildings. Is it fresh or peeling? Does the gate open quickly without jamming or creaking? Ask whether a new roof, HVAC or other equipment has been installed and inspect all paperwork.

Office and staff. You don't want to walk into a dingy self-storage office with peeling paint, dirty windows, old furniture and burned-coffee smell. You also don't want to be assisted by someone with uncombed hair who looks like they rolled out of bed five minutes ago. You want a clean, bright space run by professional, competent staff.

Additional Thoughts

Investing in self-storage isn't as simple as avoiding "bad" markets and investing in "good" ones. The goal is to assess risk. There are plenty of first-generation properties in tertiary markets that offer great returns at the right price. Alternatively, there are many shiny, modern facilities in the urban core that'll never achieve a great return due to an elevated original basis.

Some self-storage assets and their locales might be more challenging than others. Getting a complete picture of what you'll face when buying or building involves a thorough understanding of the market in which your facility will operate. An in-depth investigation of objective and subjective factors can be helpful to support your decision to move on a property or look elsewhere. **ISS**

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> As an investor, you aim to acquire or build a self-storage property with the best chance of success. This requires a deep dive into your property's locale as well as its physical condition.

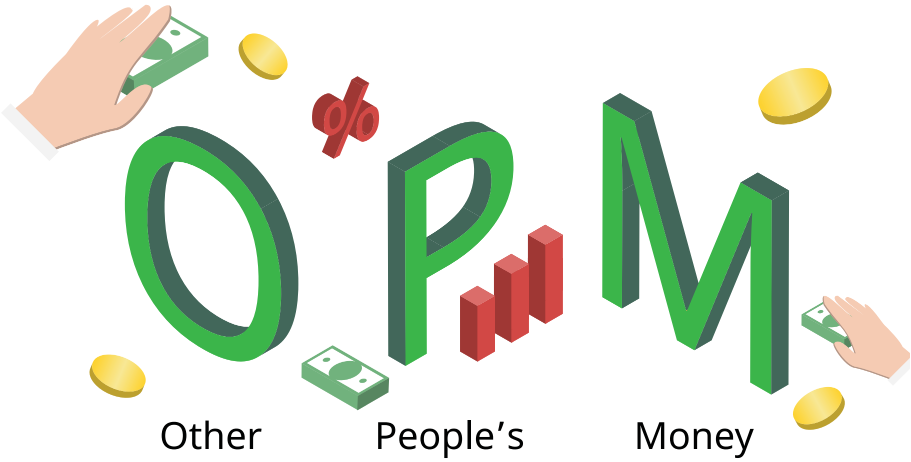
If you're looking to invest in self-storage or grow an existing operation, there are many places to find funding, such as banks, credit unions and insurance companies. However, you can also explore the possibility of using other people's money (OPM) to amplify your opportunities. In fact, it's a common financial practice for professional real estate sponsors. In most cases, pooling capital from multiple sources can result in a greater amount than you may be willing or able to invest on your own.

Let's say you have the chance to buy a self-storage facility for $1 million. Instead of providing the full amount yourself, you could put in $100,000 of your own money and encourage nine other people to invest the same. Now you're still able to participate in a lucrative deal without putting all of your own eggs in one basket. Plus, as the sponsor providing a valuable service to other investors, you can earn fees and profit splits. Let's look more closely at how to leverage OPM to scale your investing.

The Benefits

Having this type of financial leverage offers multiple benefits for self-storage investors. Here are a few of the most prominent:

Portfolio diversification. Unless your last name is Buffet, Gates or Musk, your



financial resources are finite, meaning you only have so much of your own capital. But when you combine it with that of other self-storage investors, you're able to stretch it further.

Let's go back to our example from above and say you found nine other backers for your initial investment, so you only had to put in $100,000 of your own money. That means you still have $900,000 to participate in other opportunities. Rather than put all of your available capital into one site, you're diversifying across multiple self-storage facilities.

Diversification is still the cornerstone of smart investing when it comes to self-storage and other commercial real estate. Why? Because it creates a financial cushion in case one or more of your deals underperforms. No matter how much research and due diligence you do, no investment is guaranteed to succeed. An asset may fail to produce the desired returns for many reasons, some of which will be out of your control. Rather than assume you'll never fail, build a safety net. Diversification makes it possible to offset negative results with positive returns in other areas of your portfolio.

Flexibility to pivot. One of the great things about OPM is it allows you to access and move more of your financial resources when new opportunities arise. Tying up all of your capital into one or two investments may help you generate desirable returns, but it also means your portfolio is fairly illiquid. If a new deal comes up, you may not have enough cash to participate. Having the ability to tap into OPM helps you to take part in more transactions.

Community support. People who invest in self-storage on their own may feel isolated, as they don't have a reason to regularly connect with other investors. But when you grow your network, connect with like-minded individuals and share your experiences, you expand your knowledge base and gain new, valuable relationships. Some of my most meaningful relationships, including long-time mentors and valued partners, have come from efforts to meet new investors.

Having a community of educated and experienced self-storage professionals at your back can also help you determine which opportunities are most likely to yield positive results. If others aren't willing to put their capital into a certain deal, it may mean there are red flags you're missing. The opposite may also be true. If others in your network are excited about an opportunity, it can help reaffirm your own due diligence.

Goodwill. Of course, investing with OPM isn't just about your own benefit. It also allows others to participate in self-storage deals they might not be able to find or manage on their own. Experienced sponsors often have greater access to off-market deals or are well-connected in the community. Someone who's just dipping their toes in the commercial real estate waters likely won't have those connections or know-how to manage a sizable investment.

Connecting With Other Investors

Obtaining capital for self-storage is a people business *and* a numbers game. The more folks you're able to add to your professional network, the greater the likelihood that you'll find the right backers for your next investment opportunity.

Think of your network as your net worth. The more you expand it, the greater the opportunity you have to grow your portfolio. And you can't successfully invest with OPM unless you put yourself in front of other qualified investors.

Now, your first inclination is likely to reach out to your "warm" network—friends, family members, coworkers, etc. While this may work for some, most of you don't have accredited investors just waiting in the wings. More likely, you'll need to expand your network through cold outreach. That said, it isn't enough to simply connect with potential stakeholders at local events or send out a bunch of LinkedIn requests. Those are good first steps, but you must continue to "warm up" your network and move those who are qualified closer to your end goal.

In a way, raising capital depends heavily on your ability to successfully market *yourself*. You need to be approachable, informative and willing to put in the work to build trust with many types of investors. Being a real estate investment sponsor isn't a sales job, but the process looks remarkably similar to a traditional sales funnel in which you convert prospects into paying customers. In this case, the inverted triangle includes:

- **Stage 1: Attract.** Cast a wide net to grow your network significantly and build an audience of potentially interested self-storage investors.
- **Stage 2: Nurture.** Continue engaging with your network to build trust over time and learn more about their needs and goals.
- **Stage 3: Educate.** Let your network know what you do, how you do it and the results you've experienced. Self-storage might be new to some investors, so education is key to growing their trust and helping them succeed.
- **Stage 4: Invest.** Of course, your objective is to always have a select few qualified investors ready to join you in your next investment opportunity.

You're going to lose people at each step of the process, and that's OK. It's why we call this a numbers game. If you start by building a network of 5,000 people but only 1% of them become investors, you've still gained 50 backers. Fifty people contributing $50,000 each is $2.5 million in equity.

When done right, investing with OPM can help you significantly scale your own self-storage portfolio, unlock new opportunities and help others achieve their investment goals. Just be aware: If this is something you're interested in doing, you must consult with an experienced securities attorney to draft the appropriate disclosures and ensure you're following compliance regulations. ISS

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Estate Planning

As a tax advisor and certified public accountant (CPA) with years of experience working with self-storage owners, I've seen firsthand the importance of proper estate planning in this industry. Many of you pour your hearts, souls and life savings into your business, yet often overlook the critical step of planning for the future of your assets. In this article, we'll explore why estate planning is crucial, what the process entails, the tax implications to consider, common missteps to avoid and additional advice to ensure your legacy is protected.

What Estate Planning Is and Why You Need It

Estate planning involves anticipating and arranging for the management and disposal of an individual's estate in preparation for their eventual incapacity or death. For self-storage owners, this process is particularly crucial due to the unique nature of the asset and the potential complexities involved in transferring ownership.

Self-storage facilities are more than just real estate; they're operating businesses with ongoing income streams, employees and customer relationships. Without proper planning, the death of an owner can lead to operational disruption, disputes among heirs and significant tax liabilities that could force a sale at an inopportune time. As an owner, you need to prioritize estate planning to ensure:

- **Asset protection:** Shield your hard-earned investments from unnecessary taxes and potential creditors.
- **Business continuity:** Ensure your self-storage facility continues to operate smoothly even after you're gone.
- **Family harmony:** Prevent disputes among members by clearly outlining your wishes.
- **Legacy preservation:** Maintain what you've built and pass it on according to your desires.
- **Tax efficiency:** Minimize estate taxes and other liabilities for your heirs.

The Estate-Planning Process

There are several key steps involved in estate planning. They are:

- **Inventory assets:** Create a comprehensive list of all assets, including real estate, equipment, bank accounts, investments and any personal property of value.
- **Determine objectives:** Clearly define your goals for the self-storage business and your personal assets. Do you want the facility to continue operating under family management, or would you prefer it to be sold?
- **Choose beneficiaries:** Decide who will inherit your assets, including the self-storage business.
- **Select fiduciaries:** Appoint trustees, executors and potentially a power of attorney to manage your affairs if you become incapacitated.
- **Create legal documents:** Work with an attorney to draft necessary documents such as a will, trusts and power of attorney.
- **Review and update regularly:** Estate plans should be reviewed and updated periodically, especially after significant life events or changes in tax laws.

Depending on your situation, additional considerations may include:

- **Business-succession planning:** Determine who'll take over the management of the self-storage facility.
- **Buy-sell agreements:** If you have business partners, establish agreements that outline what happens to each person's share upon death or incapacity.
- **Key-person insurance:** Consider policies that can provide liquidity to the business in the event of an owner's death.

Tax Implications

Understanding and planning for tax implications is a crucial aspect of estate planning for self-storage owners. Consider the following:

- **Estate tax:** As of 2024, the federal estate tax exemption is $13.61 million per individual (adjusted annually for inflation). Estates exceeding this amount may be subject to a 40% tax rate on the excess. Some states also impose their own estate taxes, often with lower exemption thresholds.
- **Gift tax:** Lifetime gifts exceeding the annual exclusion amount (currently $18,000 per recipient for 2024) count against your estate-tax exemption. Strategic gifting can be an effective way to reduce the size of your taxable estate.
- **Capital-gains tax:** Inherited assets receive a step-up in basis to their fair market value at the date of death, potentially reducing capital-gains tax liability for heirs if they sell the assets.
- **Income tax:** If your estate plan includes trusts, be aware of the compressed tax brackets involved, which can result in higher income-tax rates on trust income.
- **State-specific taxes:** Some states have inheritance taxes, which are paid by the beneficiaries rather than the estate. Considerany state-specific implications in your planning.
- **Business valuation:** Proper valuation of your self-storage business is crucial for tax planning. Consider engaging a qualified appraiser to ensure accuracy.
- **Charitable giving:** Incorporating charitable donations into your estate plan can provide tax benefits while supporting causes that are important to you.

Common Missteps to Avoid

In my years working with numerous self-storage owners on their estate plans, I've observed several common pitfalls to avoid:

- **Procrastination:** Don't wait until it's too late. Start your estate planning early and review it regularly.

> Without proper planning, the death of an owner can lead to operational disruption, disputes among heirs and significant tax liabilities that could force a sale at an inopportune time.

- **Failure to update:** Life and laws change, and your estate plan should change, too. Review and update it every few years or after significant life events.
- **Overlooking digital assets:** Don't forget to include provisions for online accounts and cryptocurrencies.
- **Neglecting succession planning:** Failing to plan for the continuation or sale of your self-storage business can lead to chaos and financial loss for your heirs.
- **Ignoring state-specific laws:** Estate laws vary by state. Ensure your plan complies with the legislation of all states in which you own property.
- **Choosing the wrong fiduciaries:** Select trustees and executors who aren't only trustworthy but financially savvy and capable of handling complex business matters.
- **Lack of liquidity planning:** Ensure there's enough liquid assets to cover potential estate taxes and other expenses without forcing a fire sale of the business.
- **Not communicating the plan:** Failing to discuss your estate plan with family members can lead to confusion and disputes.

Additional Advice

As you embark on your estate-planning journey, here are some additional pieces of advice to consider:

- **Assemble a team of professionals.** Work with an estate-planning attorney, CPA or financial advisor who has experience with self-storage businesses and high-net-worth individuals.
- **Consider a family limited partnership or limited liability company.** These structures can facilitate the transfer of business interests while maintaining control and potentially providing valuation discounts for gift and estate-tax purposes.
- **Explore irrevocable life-insurance trusts.** These can provide liquidity to pay estate taxes without the proceeds being included in your taxable estate.
- **Implement a grantor-retained annuity trust or intentionally defective grantor trust.** These advanced estate-planning techniques can be effective for transferring business interests to the next generation while minimizing gift taxes.
- **Consider charitable remainder trusts (CRT).** If you're charitably inclined, CRTs can provide income during your lifetime while benefiting charities and potentially reducing estate taxes.
- **Document your wishes beyond assets.** Include instructions for your digital legacy, funeral arrangements and any specific wishes for the continuation of your business philosophy.
- **Prepare your heirs.** If family members will be taking over the self-storage business, involve them in operations and decision-making well in advance to ensure a smooth transition.

Estate planning is a complex but crucial process. By taking a proactive approach, working with experienced professionals and regularly reviewing and updating your plan, you can ensure that your hard-earned self-storage assets are protected, your business legacy continues and your family is provided for according to your wishes. Remember, the time and effort invested in this process can save your heirs significant stress related to tax issues and potential conflicts. ISS

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Your **Exit Strategy**

Though much attention is given to the best ways to *acquire* self-storage assets, having an exit strategy is equally important if not more so. Most experienced owners will determine this before they even make their initial investment. By setting your plan from the beginning, you'll know when to move on from the business and how to maximize your profit when you do.

Clarifying Your Exit Needs

Think back to when you first acquired or built your self-storage asset. What was your goal? Was the business your primary source of income? Maybe you hoped to sell it and purchase a larger property? How long did you originally intend to own it? Now, consider where you are. What's the value of the business? How much ownership and control you would like to retain (if any)? What level of liquidity do you hope to achieve? Answering these questions will help you clarify your exit strategy.

If you're ready to retire, you no longer want to own property or you need to liquidate, an outright facility sale may be best. Knowing the amount of liquidity that meets your financial needs will help guide your decision-making. Also, how quickly do you need to turn your self-storage asset into cash? A sale can be the quickest, most lucrative solution, but consult your accountant and attorney regarding the tax implications.

Perhaps none of the above scenarios apply to you and you're simply ready to leave the self-storage industry and focus on another type of business. In this case, consider a 1031 exchange. Again, talk to your accountant or attorney.

You might also want to dispose of a property due to lack of performance. For example, you might have locations that are no longer meeting expectations due to market challenges, staffing issues or other operational difficulties.

Whatever the reasons for your self-storage exit, you'll want to consider the state of the economy in setting or executing your strategy. For example, over the past couple of years, as interest rates increased, many owners were disappointed in the purchase offers they received. Rates may start to go down in 2025, but no one has a crystal ball.

Finally, consider what impact your exit will have on facility employees. Self-storage owners are often close with their staff, considering them as family members. You'll want to avoid causing your team financial harm.

Common Self-Storage Exit Strategies

Obviously, a sale is a very common way to exit a self-storage business. If this is your intended method, you first need to assess the value of your asset. There are several companies in the business that offer complimentary valuations, often with the hope of acquiring your facility. Procuring more than one appraisal can be appealing and to your advantage, but be upfront when obtaining multiple appraisals, as this is an intimate industry.

There are many things you can do to maximize the value of your storage facility before putting it on the market. That's the subject of many other articles; however, if you no longer wish to manage your operation, consider hiring a third-party management company. This can allow you to receive cash flow while getting the day-to-day responsibilities off your plate. A good partner can also do the things necessary to improve asset value. (Note: If you already work with a management company, check your contract to ensure you aren't required to offer them right of first refusal on a sale, as this is possible.)

Another option is to launch an initial public offering (IPO) in which your private company is made available to the public for purchase. Good examples of IPOs are the self-storage real estate investment trusts including CubeSmart and Extra Space Storage. The most common reason to go this route is to raise equity capital from a substantially larger group of investors. However, the process of going public comes with considerable costs, which makes it less than ideal for smaller business owners.

You can also consider a management buyout (MBO) in which your self-storage team would buy the business from you. These are often leveraged using borrowed capital, though some are fully funded by a capital source. An MBO can be a positive strategy for protecting current facility employees. It also allows the expertise of the current operations team to be transferred upon completion of sale.

The least desirable exit strategy is bankruptcy, as it results in loss to you as the owner. Avoid this outcome by planning well in advance, ideally before you even purchase or build a self-storage asset.

Exit-Strategy Options

- Selling to an investor, family member, friend or even an employee
- Making a partial exit by bringing in a partner to bolster the business while reducing your responsibility
- Passing the business to a child or other family member
- Being bought out by a partner or other stakeholder
- Merging with another company
- Starting an initial public offering
- Liquidating the business

Source: *insideselfstorage.com, "Exit Strategies for Self-Storage Owners: Potential Options and Why You Need a Plan," by Ryan Clark and Bryce Josepher*

Don't Leave Money on the Table!

The best exit strategy will be unique to your personal objectives as an owner and the needs of your self-storage business. Though planning is essential, it doesn't have to be static. Allow yourself to be flexible and analyze what options make sense for the next stage of your life.

It's important to note, however, that the best exit doesn't leave money on the table. Seek the help of legal and financial professionals to ensure the maximizing your return on your self-storage investment. **ISS**

Contributor: *Melissa Shandor, The Storage Acquisition Group, www.thestorageacquisitiongroup.com*

The Sale/Leaseback Option

Another possible exit strategy is to sell your self-storage facility or portfolio but assume the bank role by financing the purchase. For example, you could offer your asset to the market and create your own loan, complete with a promissory note and mortgage for 60% to 95% loan-to-value on the new appraisal.

Under this scenario, the buyer brings the down payment or equity. The deed crosses the table, and you're no longer the owner/operator. Should the buyer default, you've already received the upfront equity, and you have the ability to foreclose and take possession of the property.

Source: *insideselfstorage.com, "Planning Your Self-Storage Exit Strategy: How to Ensure You Leave Your Investment Profitably," by Scott Meyers*

Today's **Real Estate Landscape**

Please note: This article was written in October 2024. Conditions may have changed.

The self-storage real estate landscape can look quite different depending on your location. Activity can vary drastically in respect to supply, demand and property valuations. There are many details to consider, however, we can still identify common trends happening across the U.S.

One major topic being discussed in the self-storage industry over the last two years is the decline in operational performance (occupancy and rental rates), but there's hope on the horizon. Many believe we're nearing the lowest point, and things will then turn around. The challenge is to identify when we've truly hit bottom, as that'll help facility buyers and sellers feel more confident about being active in the market.

Self-Storage Real Estate by Region

Northeast. This is one of the highest-demand regions for self-storage in the nation. There's a notable shortage of facilities on the market, and high barriers to entry make it difficult for emerging players to enter. Buyers are often willing to pay a premium due to higher street rates, especially in urban areas. New construction projects face longer timelines to completion compared to other regions. Additionally, the Northeast seems to recover faster during tough economic times.

Mid-Atlantic. This region includes Delaware, Maryland, Virginia, Washington D.C. and West Virginia. It mirrors trends seen in the Northeast, with exceptions in West Virginia and some smaller markets. Street rates are generally more stable here than in other parts of the country. Major markets like D.C. have significant barriers to entry, which helps keep supply favorable for current self-storage owners. Overall, property values are moderate, though they can be higher in key markets like D.C.

Southeast. Many areas that saw a population boom during the pandemic now have too many self-storage facilities. Combine this with skyrocketing insurance premiums and you have a recipe for moderate capitalization (cap) rates and property values. While there's still strong interest from buyers for facilities in cities like Miami, the difference between what sellers want and buyers are willing to pay is often too wide, making it hard to close deals in this region.

Southwest. This market is currently characterized by rising valuations, a moderate increase in inventory, stable cap rates, and strong demand driven by demographic trends and economic factors. While new supply is expected, challenges such as high construction costs may influence the pace of development.

Midwest. Self-storage facilities in this region have shown stable valuations supported by consistent demand. Urban areas are experiencing higher customer need, leading to increased competition among operators. Overall, the Midwest exhibits strong fundamentals in the sector, driven by steady demand, strategic new supply and favorable investment conditions.

Northwest. Demand for self-storage remains high in this region, with rental rates rising due to increased consumer interest. The population growth and economic development contribute significantly sustained demand. Operators who adapt to changing customer needs and prioritize facility quality are likely to thrive in this competitive market.

Which Self-Storage Markets Are Seeing the Most Activity?

Primary markets continue to be hotspots for self-storage acquisitions, largely because there's usually a limited supply of available properties. These markets command higher street rates than the national average and benefit from a concentrated population within a small area, making them highly attractive despite their competitive nature.

However, there's been a noticeable uptick in self-storage acquisition activity in secondary markets. Buyers are attracted to these areas as they reassess opportunities to find value without the high prices typically seen in primary markets. This shift has been profitable for many investors, allowing them to purchase properties at more affordable prices while still enjoying strong demand and steady income.

How Are Self-Storage Deals Getting Done Today?

The most active investors in the self-storage industry right now are those who are open to opportunities in various locations, focusing on value and potential returns rather than specific regions. For more than two years, it's been difficult to complete transactions due to economic uncertainty and market fluctuations. However, buyers who are flexible and creative have capitalized on unique opportunities.

These adaptable buyers are increasingly using strategies like seller financing, which allows them to bypass traditional lending obstacles by negotiating directly with sellers. This arrangement provides sellers with a steady income stream and offers buyers better terms.

Another creative deal structure that's gaining popularity is the lease agreement in which a self-storage investor leases a property initially with the option to buy it later. This reduces the immediate financial risk while providing a potential path to ownership.

These alternative investing approaches are less common during strong economic periods when conventional financing and straightforward acquisitions are the norm. In the current self-storage market, however, they've been essential for completing transactions and securing assets despite economic challenges.

What Are Self-Storage Buyers Looking for in the Year Ahead?

Predicting self-storage buyer behavior can be tricky, but we can identify key factors they'll consider when looking to make acquisitions. Typically, they focus on mitigating risk to ensure they can achieve their projected internal rate of return. In the current high-interest-rate environment in which we're seeing declining self-storage street rates, buyers have been cautious, particularly with lease-up deals and properties needing a Certificate of Occupancy, as they come with more risk. However, if interest rates drop in the next year, that could be game-changer.

The next critical factors for self-storage buyers are facility occupancy and street rates.

> Predicting self-storage buyer behavior can be tricky, but we can identify key factors they'll consider when looking to make acquisitions.

If these stabilize and look favorable, buyers will likely become more confident, which could lead to increased acquisition activity across all types of facilities. In that case, we might see buyers taking a more aggressive stance and considering a wider range of storage assets.

How Do Things Look for Self-Storage Real Estate in 2025?

The self-storage market is expected to be dynamic, influenced by economic conditions and shifting demand. Sellers may benefit from lower interest rates, potentially attracting more buyers and leading to higher property values.

Operational efficiency will be key, so it's important to focus on self-storage properties with strong management or those with room for improvement. Value-added strategies, such as modernizing older facilities and integrating new technologies, can drive revenue growth.

Overall, 2025 presents opportunities for self-storage sellers and investors. The former can capitalize on well-run assets and favorable market conditions while buyers who prioritize diversification, operational excellence and value-add strategies are likely to find success. **ISS**

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In 2023, an estimated $14.2 billion in real estate transactions were completed in the self-storage industry. That's a big number that may make it seem as though closing deals in this industry is easy. The fact is a facility sale or acquisition can be a complex process that requires careful planning, effective communication, and a thorough strategy of risk identification and mitigation.

Whether you're a seasoned investor or a first-time buyer, optimizing the self-storage transaction process can lead to a smoother and more successful outcome for all parties. Following are tips for navigating it to increase overall efficiency and reduce potential stress.

Confirm Your Timeline

Once your self-storage deal is under contract, it's wise to confirm the overall timeline, including all dates pertaining to the transaction. While it may seem safe to assume that all parties are reading the same contract, take the proactive step of clearly expressing all time frames and deadlines and communicating them with every party involved.

Consider clarifying key contract items. For example, there's a difference between a day and a *business* day. If any of the transaction timelines are dependent on deliverables, such as title commitments or surveys, be sure everyone knows that. Finally, pay attention to any provisions that detail when and how notice of proceeding must be given.

While documenting this information is seemingly elementary, it's the first step in mitigating the risk of unintentionally falling out of contract or missing a financial-bearing deadline. Avoid the temptation of relying solely on one party for detailing critical dates and uphold accountability on all sides by defining timelines early.

Build Relationships

Qualified real estate professionals with experience in self-storage can be an invaluable resource throughout the transaction process. They can help you identify environmental concerns, draft necessary closing documents, and navigate complex legal and financial issues.

Additionally, a good relationship with all external parties not only affects the efficiency of the transaction, it serves as a benefit if the deal begins to go off course. Having the right people in your corner will act as a safeguard against slipping timelines and growing urgency should an issue arise. Once these relationships are formed, develop them further through strong communication and personal thoughtfulness.

Conduct Thorough Due Diligence

Before moving into the closing period of a self-storage deal, it's essential for the buyer to conduct thorough due diligence on the property. This involves reviewing documents such as tenant leases, financial statements and property records to assess the property's condition, potential risks and compliance with regulations. This process of assessment allows both parties to identify any issues that may affect the transaction and address them proactively while minimizing the risk of costly surprises down the line.

Typically, the best way to keep track of all the moving parts of the due-diligence process is by using a checklist. This is a simple, dependable method for ensuring all risky areas have been viewed, identified, and either mitigated or accepted.

Use Technology to Streamline

In today's digital age, technology can be a way to streamline the real estate transaction process. Data rooms for due-diligence material, e-signatures and online document-management systems can help you stay organized, sign contracts and manage documents remotely, saving you time and effort. Additionally, there are now numerous artificial-intelligence solutions to help save time on tasks such as drafting and creating closing documents.

Communicate Effectively

Effective communication is the key to a smooth and efficient self-storage acquisition or sale. Keeping all parties involved and informed of any new developments in the deal, including real estate brokers, lawyers, lenders and sellers, is crucial. Furthermore, being proactive in addressing any issues that may arise is the best defense to ensure the closing remains on track. Clear and timely contact can help prevent misunderstandings and delays, ensuring no major items get missed.

Prepare a Closing Checklist

A comprehensive closing checklist is essential to ensure that all important documents have been signed and collected. There are many moving parts during this period that could fall through the cracks to cause a delay, such as collection of signatures and notarization of recordable documents. Additionally, properly preparing for the transition of ownership of the self-storage property comes with many other tasks. A comprehensive list of deliverables to be completed will help ensure everyone involved is working in a coherent direction.

Anticipate and Plan for Potential Delays

Despite your best efforts, delays can still occur during a self-storage deal. Anticipate potential hiccups such as financing issues, inspection problems or legal challenges, and plan accordingly. Build some buffer into your timeline so you have time to address any issues. This is particularly important when working through third-party visits and reports.

Seek Experienced Advice

It's important to seek advice from experienced legal and tax advisors to ensure you're complying with all relevant laws and regulations and are making sound financial decisions. Their expertise can help you navigate complex issues and avoid costly mistakes. One example that has become more common recently is the larger property-tax bills many self-storage buyers are seeing after closing. Seeking advice from a local tax attorney may help buyers have a better understanding of this expense and prepare accordingly.

Stay Flexible and Open-Minded

Self-storage transactions can be unpredictable. By staying flexible and open-minded to changing circumstances, you can navigate the process more effectively and increase the likelihood of a successful outcome. If there's one thing that's common in real estate, it's that almost nothing goes exactly as planned. Having the ability to work with the buyer/seller as problems arise will ultimately provide a better experience.

Differentiate Yourself

The self-storage industry is picking up steam and more transaction volume is expected over the next few years. As buyers flood into the market, timelines and overall efficiency will become a major deciding factor for many sellers. Ensuring effective communication, careful planning, and a willingness to adapt to changing circumstances will differentiate the buyers who are sophisticated from those who aren't.

Moreover, serious self-storage buyers who have mastered the ability to take control of the disorderly nature of real estate transactions offer a competitive advantage and better reputation over others. By following the above tips, you can stand out from the crowd by streamlining the transaction process and making it more pleasant overall. ISS

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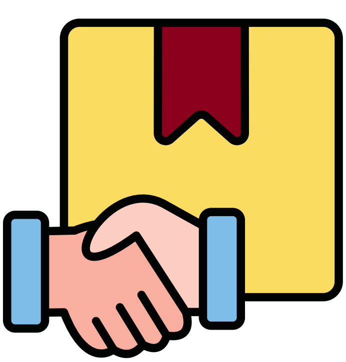

Success With ACQUISITIONS

Whether you're looking for your first self-storage deal or have a handful of facilities under your belt, your ability to scale hinges upon one thing: finding your next lucrative opportunity! To be successful at acquisition, you need a solid plan. The following three strategies will help you find and close assets like a pro.

Strategy 1: Search for Off-Market Deals

Many great self-storage acquisitions are found off-market. Building broker relationships is important, and it's absolutely possible to find a good buy through an agent. However, if you rely only on these connections or listed opportunities, you'll significantly limit your chances of finding an enticing deal.

Of the last self-storage 16 facilities my partners and I have acquired, two were listed on the market, three were off-market transactions brought to us by a broker, and the rest we found off-market on our own. If we had relied solely on outside sources, we would never have reached $60 million in value-add assets in four years. Our ability to find discounted, off-market opportunities has been crucial.

Of course, the question is how to *find* unlisted deals. That brings us to our next strategy.

Strategy 2: Treat It Like a Business

Your investing efforts should not be treated like a hobby. The pursuit of self-storage acquisitions is a business and should be handled as such.

All businesses need an operator and customers to survive. Lead generation is the process through which you identify and target potential clients. You must also establish a deal funnel. This process begins with finding and following up with promising leads and ends when you close a purchase. It's simple but powerful. Here are the steps:

- Identify independent owners who have self-storage facilities in your target area that meet your investment criteria.
- Make those owners aware that you'd like to buy their property.
- Qualify those leads to determine which are interested in selling their business or may want to sell down the line.
- Consistently follow up with the most qualified leads until one of them agrees to sell.
- Close the deal!

There are roughly 30,000 independently owned self-storage facilities in the U.S. At some point, most of these owners will sell. To whom? The person who finds them, wins their attention, builds a relationship with them and proves themselves worthy as a buyer. You become this person by acting like a business, being persistent with off-market outreach and lead gen, and tracking your efforts. The average person needs to be contacted seven to 13 times before they remember you, so consistency is essential!

There are many ways to find potential sellers. It's all about communication. Start by identifying existing self-storage facilities in your target market, then reach out to the owner to see if they have any interest in selling their business. You can call them, send them an email or text, or mail them a letter or postcard. Just make sure you understand and comply with all regulations in your state regarding electronic communications.

You can even reach out to owners via social media or visit their facility in person. It's OK to show up unannounced so long as you're professional and courteous. It's also important to build a social media presence, which is extremely valuable for networking. Finally, consider using virtual assistants so you can begin to build your own efficient, cost-effective acquisitions team.

Think about a real estate broker and how diligently and systematically they work to find their next transaction. Most make around 300 calls per week. Imagine what would happen if you made even 100 calls a week and stuck with it for six months. Patterns would form, momentum would build, and it would lead to great off-market self-storage opportunities!

A broker treats every transaction like a business because it *is*. They work their tails off to find buyers and sellers—and we investors are often competing against them for self-storage deals! They survive off their lead gen, and so do we. For your system to succeed, you must work as hard as a broker (or harder) and be unwavering. This brings us to our last strategy.

Strategy 3: Be Consistent

Among the 10 most successful self-storage investors I know, consistency is the common trait they all share. A lot of us have full-time job, or maybe two, and perhaps kids and family in the mix. Regardless of the demands on your time, consistent effort is key. Even if you only spend three to four hours per week on your lead gen and deal funnel, if you're dedicated, you'll make progress and begin to see positive results. Here are a few tips:

- As discussed above, mimic the efforts of a successful real estate broker.
- Dedicate blocks of time on your calendar to your self-storage acquisition efforts.
- Create an "accountability pod" with friends or partners. Commit to making a certain number of calls per week, then check in weekly to confirm everyone's progress.
- Hire virtual assistants to help you gain and sustain momentum.
- Find a mentorship program or mastermind group through which you can surround yourself with others who share your aspirations. Leverage this support to help you reach your goals.

If you're consistent, you'll eventually recognize patterns that show what is and isn't working and why. Set key performance indicators (KPIs) to measure how well you're progressing toward your goals. It's important to track your self-storage investing lead gen as well the various stages of your deal funnel. All successful businesses record their efforts and stay consistent with outreach and follow-ups. It's an absolute must.

Most self-storage investors have a cloudy vision of what they need to do to achieve success. Start by treating your efforts as a business. This will immediately separate you from the pack. It's reps, time in, consistency and perseverance. Good luck out there, and happy hunting! ISS

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Off-Market Deals

In the world of self-storage investing, competition is fierce. There are many sophisticated and well-capitalized groups hunting for opportunities. If you want to get ahead, off-market deals can give you a distinct advantage.

I've closed several of these transactions over the years, and in my experience, they typically come with less competition, the potential for better pricing and more ways to add value. The key is sourcing. You can either work with a broker or go directly to self-storage owners. Both options have their pros and cons but can be essential to your acquisition strategy.

Using a Broker: The Off-Market Fast Lane

Self-storage real estate brokers are like the paid ads of deal flow. They have relationships with owners who are eager to sell and regularly communicate with them. If you give them your investment criteria, chances are they have an owner in their database who matches them. This method is quick and efficient, saving you a lot of time and legwork. You won't be chasing down leads that quickly go cold. The seller is already committed, so you don't have to convince them to part with their property.

Furthermore, deals sourced through self-storage brokers typically come with clean, easy-to-analyze financials, saving you time on due diligence. This also allows you to make quicker, better informed decisions.

That said, when you source an off-market self-storage deal through a broker, you'll probably pay more than you would if you found it yourself. This is the trade-off. The seller is also factoring in the broker's commission, which can lead to an inflated price.

One more thing to remember: A broker may be willing to present you with an off-market deal, but they'll likely send it to other qualified buyers as well. It's their job to maximize the sale price, and you could end up paying just as much as if the property were listed on the market. The broker will likely disclose this up front, but it doesn't hurt to ask.

Direct to Owner: The Off-Market Long Game

The other way to source off-market self-storage deals is to go directly to facility owners and ask if they'd like to sell. It takes longer to see results, but it's worth the effort to find these opportunities, as there's typically less competition, which means you can often get a better price. On top of that, many of these properties might not be performing at their full potential, offering you a chance to add value and improve return. For example, perhaps an asset has no website or social media presence, or its rents are below market. It may just need some physical upgrades or stronger management.

That said, going direct comes with its own challenges. First, finding contact information can be tricky. Even if you manage to track down an owner, convincing them to sell can take time. Also, their books may not be in order, so you'll have to dig deeper during due diligence.

I sourced one self-storage deal from a phone call. The owner sent me his financials, but the facility income comingled with funds from his other businesses. It was almost impossible to figure it out. In the end, I passed.

Another time, the seller had to handwrite his unit mix on a scratch piece of paper and send me a photo via text. He was a retiree who lived at the beach and traveled to check the self-storage facility once a week. I closed that deal, but not without triple-checking the rent roll and scrubbing each rental agreement!

Contacting Self-Storage Owners

If you're inclined to take the direct approach, there are several tools you can use to get in touch with self-storage owners who may be interested in selling their assets.

First, you can simply purchase a call list from a national data provider. This is a quick way to gather leads, but the accuracy can be hit or miss. I've purchased a list using the North American Industry Classification System, a six-digit coding system used to organize businesses by industry. The codes are cumbersome to sort and filter, but it's the cheapest approach.

You can also manually gather data using Google Maps. It often doesn't provide you with owner addresses and phone numbers, but it can still be a useful way to get started. Pull up your target markets and search for "self-storage." Ignore the real estate investment trusts and other large operators. Instead, target mom-and-pops with names like "Jim's Pack and Stack" or "Highway 49 Storage." Enter the facility address and phone number in a spreadsheet, then start calling or mailing. You might eventually reach the owner.

Finally, there are companies within the self-storage industry that provide in-depth data on properties nationwide. These services are generally quite accurate and reliable, and will provide information including owner name, address and phone number. Once you've chosen a tool and familiarized yourself with it, you can download and sort a list in a matter of minutes. The downside is there's generally an annual contract and cost; however, if you're confident that you'll close a self-storage deal in the next 12 months, that cost is minimal.

What's the Best Strategy?

Ultimately, deciding between broker-based and direct-to-owner sourcing for an off-market self-storage deal depends on your goals, timeline and capital constraints. If you're looking to close quickly and are OK with paying a premium, a broker is likely the better choice. They can present qualified leads with minimal hassle. On the other hand, if you're willing to take a slower, more hands-on approach, going direct has the potential for better pricing and more value-add opportunities.

I recommend a mix of both. Build relationships with self-storage brokers to keep the deal flow steady while also working on direct-to-owner outreach to find openings. This balanced approach will help you keep your acquisition pipeline full and allow you to move quickly when the right opportunity presents itself. ISS

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The Fixer-Upper Approach

The self-storage industry has grown significantly, attracting investors who desire stable, recession-resistant assets. But with limited facilities for sale, particularly in top-tier markets, many shoppers have been forced to look beyond fully stabilized properties to those that are underperforming. Though these facilities may seem risky and can present challenges, they also offer significant value-add potential under the right conditions.

Self-storage has proven to be resilient across economic cycles, making it a favorite among institutional and individual investors, and lenders now recognize value-add opportunities as viable. Plus, there are many resources available to help new owners improve operations and performance. However, increased competition makes it critical to be selective. The factors behind poor performance must be carefully analyzed to determine whether they can be effectively remedied.

Let's look at why self-storage fixer-uppers can be lucrative investments, how to identify them, and the steps to turn them into well-performing assets.

Common Causes of Underperformance

Before purchasing a value-add self-storage property, it's crucial to understand why it's underperforming in the first place. Common reasons include:

Undesirable location. Visibility and accessibility are crucial for any self-storage facility. Buildings that are difficult to find or access may struggle to attract tenants, especially if competitors are more conveniently located.

Saturated market or declining community. An oversupply of self-storage units in a stagnant or shrinking market can negatively impact rental demand. Properties in declining areas where there's little economic growth may lack turnaround potential.

Deferred maintenance and poor curb appeal. Neglect and minimal upkeep can deter potential self-storage customers. Deferred maintenance may lead to further damage, costly repairs and safety concerns, ultimately attracting less desirable clientele and increasing the risk of crime in the area.

Lack of automation. In today's fast-paced, tech-driven world, customers expect convenience. The lack of modern software, payment options, access controls or seamless online rental processes may redirect business to more efficient self-storage competitors. Automation is no longer a luxury but a necessity for a competitive operation.

Operational deficiencies. Poor management practices can stifle growth, for example, stagnant street rates and inconsistent rent increases. Similarly, poorly managed or excessive expenses can erode profits, leaving a self-storage facility struggling to stay afloat.

Finding the Right Self-Storage Property

Not all underperforming self-storage facilities are worth the investment. To find a suitable opportunity, you must first identify your requirements and parameters. Determine your available capital for a down payment and any geographical limitations based on your management platform. It's essential to work closely with a knowledgeable broker

> When searching for the right opportunity, patience is key. Commercial real estate requires a long-term approach, particularly in the self-storage sector.

who understands the nuances of the market and can help identify listings that meet your criteria.

If a self-storage facility is failing to meet its revenue goals due to an undesirable location or a saturated market, it generally isn't a viable investment. Unlike operational or physical deficiencies, location is a fixed attribute, and you can't relocate the facility or control market competition. Therefore, careful analysis is crucial to avoid investing where there's limited growth potential.

When searching for the right opportunity, patience is key. Commercial real estate requires a long-term approach, particularly in the self-storage sector. The process of underwriting, analyzing and negotiating can be time-consuming, but a thorough evaluation is critical to ensure financial success.

The Steps to Self-Storage Recovery

Once you've identified a self-storage asset with upside potential, the process of turning it around requires careful planning, time and financial investment. Begin by assessing the scope of any deferred maintenance and create a detailed construction budget. Prioritize urgent repairs such as structural issues or safety hazards, and plan for additional improvements as cash flow improves. Work with local professionals for general repairs and seek out self-storage contractors for specific projects.

Next, invest in technology. In today's market, it's critical for success. Use management software that integrates seamlessly with your self-storage website and access-control systems. Your website should allow customers to rent units, sign leases, make payments and gain immediate access to the facility without staff assistance. Additionally, implement features like keyless entry or digital locks to enhance security and the customer experience.

If you're hesitant, take small steps. Add online payments or automated gate access. Depending on your customer base, you can gradually scale your investment in technology to meet their expectations.

Operational inefficiencies can often be corrected at minimal cost and with significant impact. Evaluate the facility's street rates and adjust them based on market demand and occupancy. Implement regular increases for existing self-storage tenants, but make sure they're gradual to avoid losing customers. Closely monitor expenses and negotiate better rates with vendors for services like insurance, marketing and credit card processing.

Finally, consistently collect ancillary revenue from streams including tenant insurance, retail sales, and administrative and late fees. Every line item on your profit-and-loss statement matters when turning around a struggling self-storage property, so focus on tightening expenses while maximizing income.

When considering a value-add self-storage acquisition, factor in the cost of all necessary improvements in addition to its initial purchase price. To forecast the potential return on investment, you must create a detailed pro forma that outlines the expected timeline for renovations, rent increases and operational efficiencies. It's also prudent to include a contingency fund for unexpected expenses or delays in the turnaround process.

Risk and Reward

While buying a financially lagging self-storage property may come with risks, it can also offer tremendous value-add potential for investors who are willing to put in the effort. By carefully evaluating the reasons for an asset's shortcomings, implementing strategic improvements and maintaining efficient operation, you can turn these properties into successful investments. When managed effectively, self-storage continues to outperform many other asset classes, and the right turnaround target could become a lucrative addition to your portfolio.

Commercial real estate investing is a long-term commitment, particularly in the self-storage industry. You must be patient and remain diligent. You must also understand the local market and national economic trends. Transforming a property from underperforming to profitable can take time, and setbacks may arise along the way. But with the proper approach and resources, the right property can be a highly rewarding investment opportunity. **ISS**

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Financial Projections for an Acquisition

Developing accurate financial projections is crucial when evaluating the viability of a potential self-storage acquisition. Sound forecasts will help you understand the facility's financial health, so you can make an informed decision that'll position you for long-term success. Generate them any time you find a property on which you intend to submit an offer. Below are eight fundamental steps to follow.

1. Conduct Market Research

When creating financial projections for a self-storage acquisition, it's vital to understand local demand. You need to gather data on the surrounding area, including:

Current population and projected growth. This is an essential factor. Look ahead five to 10 years. The U.S. Census Bureau is a helpful resource for tracking population trends.

Demographics. Demographic analysis is crucial to assessing the storage needs and preferences of consumers in the market. Factors such as age distribution, marital status, income level, housing type, household size and lifestyle can provide valuable insights. For instance, a growing population of Millennials might indicate a higher demand for smaller units to accommodate frequent moves during life transitions. In contrast, a large population of Baby Boomers may suggest the need for storage to accommodate downsizing and decluttering.

Competition. Identify the primary self-storage competitors in the target market, usually a 1- to 3-mile radius from the acquisition site, though it might need to be larger in rural areas. A simple and effective tool for this purpose is Google Maps.

Rental rates. Research is imperative. Online searches, calls and visits to nearby facilities, and industry reports can all help you determine the state of the market.

If the prospect of conducting this market research daunts you, consider hiring an industry feasibility expert to assist.

2. Collect Financial Information

Next, you'll need to gather financial statements and operational data for the self-storage facility you wish to acquire. This includes tax returns, profit-and-loss statements, rent-roll statements and management reports. Usually, your lender can assist you in obtaining this information. Review the facility's historical financial performance to understand its revenue trends, expenses and occupancy rates.

3. Estimate Revenue

Based on your market research and the self-storage facility's historical performance, estimate potential rental income. Consider all factors, including unit sizes as well as average market rents and occupancy.

> Research is imperative. Online searches, calls and visits to nearby facilities, and industry reports can all help you determine the state of the market.

Determine the seller's current physical occupancy and what they charge for a 10-by-10, non-climate-controlled unit compared to the competition. If the property is at 100% physical occupancy but charges 15% less than surrounding operators, there may be room to increase rates and grow revenue.

4. Focus on Expenses

Estimate the acquisition's operating expenses including property taxes, insurance, maintenance, utilities and employee wages. Generally, the self-storage expense ratio will fall between 25% and 35%. Also, consider any improvements or renovations the property will need after the sale and how you'll manage the facility on an ongoing basis. For example, you might manage it yourself with onsite staff, explore remote management or hire a third-party management company. Each comes with its own costs.

5. Calculate Net Operating Income (NOI)

NOI is a key indicator of a self-storage facility's profitability. In simple terms, it's the earnings generated after deducting expenses from revenue. To calculate it, simply subtract the estimated operating expenses from the estimated rental income.

Ideally, NOI should be 65% to 75% of facility revenue. If you plan to finance your acquisition, the NOI should exceed your principal and interest debt payment.

6. Add in Financing Terms

If you need a loan to buy your self-storage investment, consider how it'll affect your NOI. Your lender can help you evaluate potential profitability after factoring in the debt. It's best to work with someone who has industry experience to ensure they understand the unique financing needs of the business.

7. Factor in Capital Expenditures

Consider any capital-improvement projects necessary to make your new self-storage facility competitive in the market. For example, you might need to replace the roof, paint buildings, replace unit doors, update the landscaping or install a new access gate. Include these costs in your projections.

As they say: "It takes money to make money." Improving the property can help attract new renters or justify rent increases.

8. Create Cash-Flow Projections

To create a cash-flow projection for your new self-storage facility, subtract the debt payment from NOI. If your NOI is $6,250 and your monthly loan payment is $5,000, cash flow is $1,250, which is a debt-service coverage ratio (DSCR) of 1.25%. Banks typically require debt-service coverage figures when underwriting a loan, so ask them about this metric.

Proceed With Caution

It's important to be careful when creating financial projections for a self-storage acquisition. Being overly optimistic, underestimating expenses and ignoring market trends can lead to costly mistakes. Always conduct thorough research of market conditions, use realistic assumptions, regularly update projections based on new information, and consider the potential impact of various factors on the facility's financial performance.

By following these steps, you can create realistic forecasts that'll help you make informed investment decisions. However, it's important to note that these steps should *supplement* a self-storage feasibility study, not replace it. If you need help, engage an expert. **ISS**

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The devil is in the details when buying or selling a self-storage property, and a keen attention to the due-diligence process can make the difference between success and failure. Both buyer and seller have an important role to play. Often, there's a real estate broker involved, too.

Brokers are often thought of as promoters and salespeople, but their true value is often revealed as they assist clients during the due-diligence phase of an acquisition, regardless of which side they represent. This can be critical, as many buyers and sellers are unfamiliar with the minutiae associated with a complex transaction of this nature. With that in mind, let's explore the essentials of the due-diligence phase, plus some trends to watch.

The Due-Diligence Timeline

The time allowed for due diligence in a self-storage acquisition is outlined in the purchase-and-sale agreement. This is arguably the most important aspect of the contract, as both buyer and seller commit to working exclusively with each other to reach closing.

During the due-diligence period, the seller agrees to remove the self-storage asset from the market and assist the buyer (and possibly the buyer's lender) in understanding the property details. The buyer agrees to spend the appropriate amount of understanding that information. They may engage consultants to provide an appraisal, environmental study, property-condition assessment, zoning-compliance report, title commitment and survey. This is to satisfy their understanding of the facility and possibly arrange financing to acquire it.

Depending on the buyer's experience and the complexity of the self-storage transaction, due diligence can generally be completed in 30 to 60 days. However, most clauses in the purchase-and-sale agreement allow the buyer to approve all items at their sole discretion and will allow them to terminate the sale without penalty. If you're a seller, consider working with a qualified industry broker who can refine the due-diligence language and identify the good and bad buyers in the current market.

Property-Level Due Diligence

The self-storage buyer and seller should collaborate to gather all required information for the first phase of due diligence. In fact, the seller should begin collecting and organizing necessary documents well before the property is even listed. The buyer should provide the seller with a list of requested items when they submit their offer.

If you're the seller, be prepared for an influx of requests, as the era of low- or no-documentation loans is over, even for the most qualified buyers. Below are a few of the basic property-level documents that'll get the exchange going. You may face challenges to deliver, as some of these can be difficult or impossible to locate.

- Three years of profit-and-loss statements, broken down by month if possible and in Excel format
- Two years of property-tax statements
- Monthly management-summary reports for the past 12 months, dated on the last day of each month
- Monthly occupancy reports for the past 12 months
- Monthly utility bills for the past 12 months
- Three years of tax returns for the ownership entity, including only property-level information
- A copy of the Certificate of Occupancy from the city
- List of all personal property on the site
- List of any vendor contracts that can't be terminated with 30 days' notice
- Copy of the facility's standard lease
- Phase I environmental studies
- Site survey and all municipality documents
- Photos of the property (preferably on a sunny day)

Market-Level Due Diligence

Today, this is the most important part of the self-storage due-diligence process. With dynamic unit pricing now prevalent throughout the industry, it's challenging to find a submarket (within a 3- to 5-mile radius) where street rates aren't significantly lower than the in-place rents of existing customers. Yes, that's correct: New customers are often paying less and, in many cases, much less, than tenants who have been with the facility for a while—sometimes a long while.

Since the tapering of the pandemic and the sharp increase in interest rates, demand for self-storage has been decreasing, forcing facility operators to capture customers with lower street rates. Despite these rent specials and lower occupancy levels, many operators have managed to hold their revenue steady through aggressive increases to existing-tenant rents. However, we're beginning to see a decline in rent rolls, which may slow growth in net operating income over the next several quarters. If you're a self-storage buyer, you need to conduct your own market due diligence to verify the asking rents in the submarket and assess the appropriateness of the seller's revenue projections.

We're also seeing a significant number of fully entitled "shovel-ready" developments being marketed for sale. This is due to a challenging construction-financing market and developers' concerns about where in-place rental rates will settle following the rent-roll decline. Right now, it's very difficult to make a new project pencil out. However, as interest rates stabilize, the finance market may rebound, creating an oversupply of new self-storage. Therefore, as part of the market due diligence, buyers should research potential new projects in the area.

Preparing for Unexpected Shifts

As a buyer examines the details of the self-storage asset they're buying, they should keep in mind that they and the seller may differ in significant ways, and a sale may lead to unintended financial consequences. For example:

- If the seller is a large, experienced operator, they may enjoy discounts in their insurance premiums due to economies of scale. If the buyer's business is smaller, they may experience a dramatic increase in costs for this property.
- When ownership changes, some of the vendors who serve the facility, such as the landscaping or pest-control company, may take the sale as an opportunity to adjust their service contract to reflect current market rates, which can be significantly higher.
- The local municipality may reassess the property value at the time of sale, which could lead to increased property taxes.

Whether you're the buyer or the seller, you must be prepared for unexpected shifts and how they might impact facility cash flow. While issues may arise, a successful closing is still achievable if both parties are committed to collaboration. A professional self-storage broker can provide insight to how similar challenges have been resolved on other transactions.

Again, the devil is in the details, so watch for them. Ultimately, self-storage due diligence is all about dotting the i's and crossing the t's. If you can work carefully and harmoniously with the buyer, seller and brokers, you'll get it done. **ISS**

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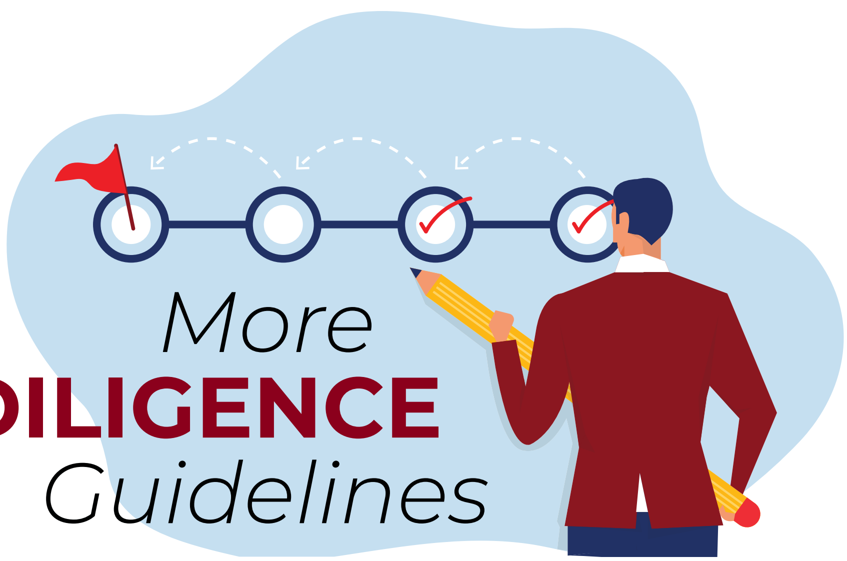

More DUE-DILIGENCE Guidelines

If you're interested in self-storage investing, there are many benefits to buying an existing facility, from better financing options to an established tenant base and cash flow. However, the success of any acquisition greatly depends on a comprehensive analysis of the business known as due diligence. For you as the buyer, this process verifies that you're getting what you think you're getting. It also ensures you're paying a fair price, uncovers potential risks and issues, and increases the likelihood of satisfaction with your purchase.

That said, due diligence can be complex and intensive. Following are helpful guidelines to use as a reference. It's also wise to seek counsel from your attorney and accountant, who can help you identify areas of concern.

The Market

There are many questions a self-storage buyer should ask during the due-diligence process to determine why the seller is selling, how the seller currently runs the facility and the overall value of the business. You want to ensure that you're inheriting a quality investment and not lingering problems. Here are a few inquiries that'll help determine the state of the market:

- Does the business have competitors?
- In what condition are the competing facilities?
- What are competitors' rental rates?
- Are any new competitors entering the market?

The Customer Base

Where are most of the self-storage facility's tenants located? Generally, the more diverse the customer base, the better. Concentrations always increase the risk, even with top-quality renters. You also need to know the facility's customer-retention rate and overall level of tenant satisfaction.

Seasonality and Cyclicality

Ask the seller for a quarterly historical pattern of revenue for the self-storage facility you're considering, then ensure there's enough working capital in your budget for seasonal fluctuations. If you purchase the business, you might consider building a waitlist, so that when demand wanes, you have a pool of prospective tenants to call as units become available.

Also, how susceptible is business to an economic downturn? One way to gauge this is by asking for financial statements from

2007 to 2010, then review the impact from the last significant recession. Can the company survive a similar decline in profit from its current run rate once the acquisition debt is added? If the seller doesn't have records from that time, investigate the typical cycles of the customer base.

Rent

Pull a facility rent roll to understand which units are occupied and vacant and what rents are being charged on which sizes. What's the facility's physical and economic occupancy? Has the seller kept any units for personal use or rented them out to family and friends at a reduced rate Also, find out what rates you can expect to charge based on the market.

Ask when rents are due. Does the seller use anniversary billing, or are all rents collected on the same day? You may need to negotiate prorated rents at the time of closing. Also, examine how many tenants are on autopay with a credit card and how many pay with cash, as that'll impact the way you run the business moving forward.

Finally, what percentage of current tenants are delinquent? Be aware that the seller may not stay on top of collections leading up to a sale. Throughout the due-diligence period, ask for updated management-summary reports and watch for a sudden increase in delinquencies.

Revenue

To verify revenue, at a minimum, get your CPA to conduct a reconciliation of the business deposits from copies of the bank statements during the last year. Compare those against the reported cash from the same timeframe. A seller overstating their revenue or customer base are common complaints we hear from self-storage buyers. One solution is to collect transcripts from the Internal Revenue Service to verify the seller's tax returns, but more due diligence is needed to confirm that those numbers are accurate.

Net Operating Income (NOI)

Most self-storage facilities are valued via a capitalization rate, which takes into consideration the business NOI. The NOI is calculated by taking the net income of the business and adding back interest, depreciation, amortization and any non-recurring expenses.

A vital piece of due diligence is verifying any adjustments to the reported NOI. Many are valid, however, they must be quantifiable and verifiable. For example, the seller's salary (assuming they are leaving the company) is a legitimate addback. It can be quantified and verified through the company's tax return, payroll journal or W-2.

Staff

What has been the seller's role in the self-storage business? If they've been passive, the sale may be imperceptible to the facility's tenants. However, if they've been hands-on, a plan to introduce you as the new owner can help facilitate a smooth transition.

You also need to understand the overall staff situation. Find out:

- Is there a dedicated facility manager? If so, what hours do they work?
- Does anyone other than the manager handle maintenance or other small jobs at the facility?
- Can customers rent a unit online or using an onsite kiosk?
- Do tenants have 24/7 access to the facility, or are there set business hours?

Beware if a seller or broker limits your access to key facility employees during the due-diligence phase. This is a key part of the process. While it's unlikely that you'll get unlimited access, you need to be able to ask the staff questions prior to closing. Work with the seller or their representative to set a mutually agreed upon time for this inquiry. These conversations should occur early enough in the process that the deal structure can be adjusted if your support team (attorney, accountant, lender) identifies a significant risk.

Equipment

Conduct a physical inspection of all equipment. Is everything in working order? Is a clear equipment list included in the purchase agreement?

Working Capital

In almost all cases, the seller retains all cash in the self-storage company and pays all funded debt prior to the sale. Therefore, once you purchase the facility, it's up to you to determine how much working capital you'll need to get through the first few months of operation. You'll want peace of mind that you've accounted for the possibility of tenant income not being sufficient to cover expenses and acquisition debt. Once you've determined that, make sure the working capital is included in your acquisition financing or be prepared to cover that cost personally.

An Informed Decision

Once the due-diligence phase concludes, you should have a clear understanding of whether this self-storage facility is a good investment or one from which you should walk away. This critical component of the acquisition process allows you to fully understand the business. While you may never find a perfect deal, you can identify risks and properly mitigate them before buying. Due diligence can also help you negotiate the purchase agreement and set yourself up for a smooth ownership transition. ISS

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Preparing for a *Sale*

There are many reasons why a self-storage owner might choose to sell their facility. These can include retirement, health issues, a death in the family, divorce and other major lifestyle changes. Operational challenges such as declining occupancy rates or increasing competition may prompt an owner to exit the market. Perhaps they want to capitalize on rising property values or diversify their investment portfolio by acquiring more self-storage or executing a 1031 exchange. Whatever the motivation, the end goal is generally the same: to secure a strong return on investment (ROI).

Selling a self-storage facility can be a lengthy and stressful process. However, there are proactive measures that can help you significantly streamline the experience, minimize potential pitfalls and maximize return. Let's explore some strategies that can lead to a smoother and more successful transaction.

Research the Market and Set a Timeline

Establishing a clear, well-defined timeline is vital for a self-storage facility sale, as it provides structure and clarity throughout the process. It helps you align your personal and financial goals with market conditions, ensuring that you can capitalize on the best opportunities. It also facilitates coordination between you, your real estate broker and potential buyers.

Before setting your timeline, conduct a thorough market analysis to help you understand current trends, pricing and competition. You might research sales comparisons, read industry reports, and consult with your financial advisor and broker.

Maximize Income

Boosting the income your self-storage property generates before putting it on the market is crucial for securing the best price. Owners who stay aware of local rental rates and regularly implement increases will position themselves favorably. In fact, many have room to improve their economic occupancy. Consider this scenario:

- An owner is selling a facility with 100 units, each renting for $100 per month, generating a monthly gross income of $10,000.
- By applying a modest 3% increase, the new rent would be $103 per unit, raising the monthly gross to $10,300 and increasing annual income from $120,000 to $123,600.
- To assess the property's value, divide the annual income by the current market capitalization (cap) rate. Let's say it's 7%.
- In this case, the value would increase from approximately $1,714,286 to $1,765,714 after the rent increase.

As you can see, a simple 3% bump can add around $50,000 to a facility's sale price. In some cases, depending on the market, you might consider raising rent by as much as 10%.

It's important to note that self-storage buyers typically prefer to see four to six months of stabilized income before finalizing a sale. Therefore, implement rent increases well in advance of listing.

Prepare for Due Diligence

Having all due-diligence paperwork ready before listing your self-storage property for sale is crucial. It builds buyer confidence by demonstrating transparency and organization, which fosters trust and can expedite the transaction. Comprehensive documentation, including financial statements, lease agreements and maintenance records reduces negotiation complications by clarifying operational histories and potential issues upfront. All of this helps justify a higher asking price.

Preparedness enhances marketability in a self-storage sale, as buyers are attracted to properties with clear, organized information. It facilitates quicker financing approvals and minimizes last-minute surprises. Presenting a well-structured due-diligence package saves time and resources, reflects professionalism, and ultimately leads to a more favorable outcome for you as the seller.

Focus on Maintenance and Marketability

It's also essential to address any maintenance issues at your self-storage facility before attempting a sale. A well-kept facility boosts buyer confidence by signaling that the property was well cared for, thereby reducing concerns about future repair costs and unexpected expenses. On the other hand, issues that are left ignored can raise red flags, leading to lower offers or deterring buyers entirely.

So, repair those old roofs, fix broken doors and locks, and ensure that the electrical and lighting systems are in good working order. Make sure common areas such as hallways and restrooms are clean and well-maintained. Addressing potential issues in advance demonstrates professionalism and attention to detail, which enhances the property's appeal and makes it more marketable. Self-storage buyers often prefer investments that require minimal immediate attention. A facility with freshly painted walls, functional security and fresh landscaping can attract more potential candidates, lead to smoother negotiations and capture a better sale price.

Ducks in a Row

Before selling your self-storage facility, it's crucial to be fully prepared. Assess your motivations, conduct market research, establish a clear timeline, maximize income, gather documents for due diligence and focus on facility condition. By prioritizing these tasks, you can enhance your asset's marketability and streamline the transaction.

Meticulous organization makes a smoother sale and optimizes ROI. Ultimately, thorough preparation can turn the selling process into a rewarding experience, setting the stage for future success and ensuring that your efforts are recognized and valued in the marketplace. ISS

Contributor: *Jared Houck, Marcus & Millichap, www.bledsoeselfstoragegroup.com*

Broker Benefits for Sellers

The self-storage industry has been experiencing significant growth, which makes it an attractive sector for investors of all kinds. If you're thinking about selling a facility, it's a good time to maximize the value of your property.

One of the most effective strategies for achieving this is to hire and work closely with an experienced real estate broker. However, the time to establish a relationship is long before you're ready to go to market. It's vital to begin this alliance early, so the broker understands your long-term investment goals and the specifics of your property. By being intentional in your choice of professional, you can ensure this person isn't just another transactional agent but someone committed to helping you maximize your return.

When you bring in a self-storage broker early in your thought process, they can identify opportunities that'll pay off when it's time to sell, offering insight to market trends and advising on upgrades or repairs that'll make your facility more attractive to buyers. This proactive approach ensures that when you're ready to exit, your property is in the best possible condition to command a premium price.

What to Expect

A reputable, knowledgeable self-storage broker understands the industry market as well as lending conditions and buyer appetite. These are just a few of the critical advantages they bring to the table. Let's more thoroughly examine the many benefits of working with a real estate professional and how to get the most out of the relationship.

Market knowledge. A good broker who specializes in self-storage has a deep understanding of the market, current economic conditions and the nuances of various management platforms, all of which can make a significant impact on the outcome of your facility sale. They understand the unique aspects of the industry and can leverage this knowledge to attract the right buyers and negotiate favorable terms.

Insight to asset value. A self-storage broker offers accurate facility valuations based on current economic conditions. They can also provide actionable strategies to help you increase property value, aligning your sales effort with your exit strategy.

Seller credibility. Your broker will ensure that your self-storage property is taken seriously by investors in the market, positioning you as a genuine seller. They understand the importance of not just getting the property under contract but ensuring it crosses the finish line with a qualified buyer.

Protection from pitfalls. Selling a self-storage property can be demanding. A good broker helps alleviate this stress by managing all negotiations with potential buyers and ensuring they're conducted fairly and realistically. Their expertise in vetting candidates and overseeing the process protects you from scams and unreliable prospects like wholesalers and flippers. Their financial expertise safeguards your interests throughout the transaction.

Buyer viability. By asking the right questions and understanding investor models, a self-storage broker ensures that potential buyers are financeable and serious about the purchase. They know the types of buyers in the market as well as their expectations and the availability of funds. They also have a deep understanding of lender qualifications and can connect your property with the most qualified buyers, ensuring a smooth transaction from start to finish.

Logistical support. Selling a self-storage property involves juggling numerous details, but a good broker handles many tedious tasks, allowing you to focus on your business and personal life while they manage the complexities of the sale. For example, they know all of the documents you'll need to gather and provide to a potential buyer during the due-diligence phase and can help you streamline the process.

Marketing expertise. An experienced broker knows how to assemble, present and distribute an optimal marketing package for your self-storage property that properly conveys its physical, operational and financial attributes to prospective buyers. Their expertise ensures that your property is presented in the best light, maximizing its appeal and value. This includes networking with lenders who have an appetite for the asset class, increasing the likelihood of a successful sale.

A strong network. A good real estate broker creates a competitive environment, generating numerous offers by leveraging their extensive, targeted network of prospective buyers. Their marketing efforts extend beyond local markets, reaching national audiences through self-storage tradeshows and state-association events. They participate in continuous industry conversations, so they can attract serious and qualified investors. This process often results in a higher sale price.

Tax advice. A broker's role isn't limited to the sale of your self-storage business. They also offer strategic advice on deploying funds from the sale to minimize tax liabilities. This expertise can result in significant financial benefits post-sale, ensuring you retain more of your hard-earned profit.

The Right Way Out

If you're preparing to sell a self-storage facility, the right real estate broker offers many advantages. This person works for *you*, the seller, prioritizing your best interests, providing guidance that saves time and money, and reducing stress by managing the complex aspects of the sale process.

Look for a broker with local expertise and national reach, as it gives you the best of both worlds. Their deep and intimate knowledge of your market allows them to build valuable personal relationships and understand your specific property needs, while their extensive, targeted network of contacts provides access to a broader pool of buyers.

This long-term relationship should provide you with calculated insight and actionable strategies to maximize self-storage facility value. In the end, you want to ensure that you and your property are in the best hands, so you can enjoy a seamless process and a higher sale price. ISS

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Selling to Extra-Cautious Buyers

The self-storage real estate market underwent notable change in 2023. In particular, buyers turned increasingly cautious given certain macro conditions. There's a perception that the U.S. housing slowdown portends weaker demand. There's also concern that inflation puts additional pressure on consumers in the form of rising property taxes, energy costs, insurance premiums, student-loan payments, etc.

Interest rates are starting to come down, and cautious *sentiment* is beginning to give way to cautious *optimism* that a boost in the housing sector is coming in 2024 and will reinvigorate self-storage demand. However, sellers who wish to navigate these waters successfully must still make a tactical shift. If you're contemplating a sale, it's important to recognize the generally risk-averse market pulse and flight to quality. The following strategies will help you reach your financial goals.

1. Maximize the Property Before Going to Market

Put your best foot forward and make your self-storage facility more attractive to potential buyers. First, look at occupancy and consider a focused effort to increase it. For newer properties, this means lease-up to achieve full stabilization. Likewise, keep moving rental rates to align with the market and make sure you aren't leaving value behind. Raising in-place rents should be a top strategy.

2. Understand Property Value and Take Your Best Shot

Once you've done what you can to maximize the value of your self-storage property, take another look at your financials before you go to market. Is there anything you can do to strengthen them? Can you make the business seem higher-quality with less risk in the eyes of the buyer? Consider your location and other market factors, too.

An accurate valuation that stands up to buyer scrutiny can make or break a self-storage deal. Thankfully, there's still good competition for solid, well-stabilized facilities in markets where occupancy rates have held strong.

3. Set (and Have) Realistic Expectations

The self-storage market isn't currently at a price-per-square-foot, record-level high, so the sellers who are coming forward now have other motivations. They might be nearing retirement or moving forward in estate planning. They could be a developer who wants to realize their returns quicker and gain liquidity to fund new opportunities. Scrupulous buyers know this, and transactions may take longer as every claim and representation is weighed against prevailing conditions.

Be prepared for this extended timeline and use it to your advantage by presenting the best possible case for your self-storage property. Also, establish realistic, reliable growth projections that are grounded in current market realities and not overly optimistic. This will resonate with your buyers, who are being more rigorous with pro formas. They're seeking assurances that your projections aren't only authentic but attainable.

4. Optimize Presentation

Given the flight to quality, there's more attention given to self-storage properties in which capital expenditures and investments have been made to increase its long-term value. A well-cared-for and efficiently managed facility will present better. It may be time to take care of deferred maintenance!

5. Partner With an Expert Advisor

Working with a knowledgeable self-storage advisor when selling your facility is more important than ever. They not only know how to navigate the complexities of a transaction, they can foster buyer trust through proper presentation and by emphasizing elements that add value.

Perseverance and Trust

Selling self-storage in the current environment is the antithesis of fast and easy. It's about endurance and relationship-building. It's about earning buyer trust in your property's financial metrics and long-term value. This involves outstanding preparation, presentation and representation to shine a spotlight on every aspect of the site that may influence the buying decision.

There's also a silver lining. With less inventory on the market, self-storage properties that do go up for sale tend to attract a larger pool of buyers, so there are still deals with multiple bidders. While today's acquirers come with air of caution, there's an opportunity to win the day with a sales process of detailed disclosures and a demonstration of value that positively impacts the immediate transaction and future asset performance.

Self-storage owners looking to sell in today's market must adopt a multi-pronged strategy. This involves working toward full stabilization and setting realistic projections, understanding asset value, ensuring the property is in top form physically and operationally, and engaging the right advisors to guide you through the process. ISS

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The Not-So-Simple CAP RATE

When an investor is looking to acquire a self-storage asset, one of the first metrics they typically consider is the capitalization (cap) rate, which is derived through a simple calculation. You take the facility's net operating income (NOI)—excluding debt costs, interest payments, depreciation, amortization or income taxes—and divide it by the asking price. The resulting number is the cap rate, expressed as a percentage. For example, if the NOI is $120,000, and the asking price is $2 million, the cap rate is 6%.

The cap rate represents the return the self-storage investor could expect over a one-year period. Sometimes, it's the expected first-year income. In other cases, it's the trailing 12-month NOI.

The cap rate can also work in reverse to help an investor determine how much they should reasonably pay for a self-storage asset. For example, if they know that other facilities in the area have recently traded at a 5.5% cap rate, they could calculate a price using the NOI:

- NOI / cap rate = current market value
- $120,000 / 5.5% = $2,181,818

	Actual	Adjusted Expenses	Year One
Gross income	$800,000	$800,000	$883,000
Expenses	$200,000	$304,000	$304,000
NOI	$600,00	$496,000	$579,000
Cap rate	6%	6%	7%
	$10,000,000	$8,266,667	$8,266,667

It's important to note that as the cap rate goes down, the asset value increases. In other words, a lower cap rates equals higher value.

The Challenge of Getting to the Right NOI

This all sounds pretty simple, right? You just need to know a few key numbers. The issue in the self-storage industry is arriving at the correct NOI, which is gross income minus expenses. These amounts aren't always clear-cut.

For example, there's no way to know what revenue for a self-storage asset will be for the *next* 12-month period. With the short-term nature of our leases and the dynamic pricing models in use today, monthly rents can fluctuate significantly. For that reason, most buyers look at the most *recent* 12 months as the easiest way to estimate gross income; however, in most cases, this leaves money on the table. Why? Because it doesn't take into account potential improvements in income such as rent increases, customer fees, or ancillary products and services, all of which might be added to the revenue stream in days to come.

On the expense side, the math can get even fuzzier. As I mentioned above, there are certain expenses that are never factored into the NOI calculation. These include debt service (loan payments and interest), capital expenditures, depreciation and income tax. Among the expenses that do count, some can fluctuate wildly, like property taxes and insurance. Costs for staff payroll and advertising can also go up or down based on various market factors.

If the self-storage property is professionally managed by a third party, you generally back out the cost of that service from the expenses, as the new owner may not wish to continue it. Similarly, you may need to make other adjustments. For example, if the owner charges the business for personal expenses such as car payments or their cell-phone bill, those should be backed out of the calculation. The same is true if they're taking payroll distributions, as the new owner may not do so.

To the left is an example of how expenses affect self-storage value when applying a cap rate. In the first column, expenses are estimated at only 25% of gross income, which is below market. The second column shows those expenses after as-typical adjustments. They're now up to 38%. A seller may be hoping for a $10 million sale, but $8.3 million may be more realistic, depending on the cap rate for that market. If the new owner is able to improve revenue through aggressive in-place rate increases, ancillary sales, and higher customer fees, they can improve their first-year return; though the cap rate is still higher (lower value).

The difference between what a self-storage owner wants for their facility (in this case $10 million) and what they can realistically achieve based on the NOI ($8.3 million) is referred to as the bid-ask spread. The frequent discrepancy is the reason real estate transactions are down. To achieve a stable, normalized market, we'll need to see some seller capitulation.

While cap rates are a common way to determine self-storage value, they aren't the only metric that should be used. As an investor, you must consider your level of risk, the overall market, the upside potential for the property and other factors. Taking all these into account, along with the cap rate, can help you determine a potential acquisition's true worth. **ISS**

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Factors That Affect Asset Value

As an owner or investor of a self-storage business, it can be easy to get caught in the weeds of operation: staffing issues, repairs and improvements, marketing campaigns, performance metrics, rental-rate management. It's quite a lot. But you should never lose sight of one critical business factor: the value of the asset.

Understanding what your property is worth is essential to making smart decisions. For example, does a refinance opportunity make sense? Should you invest in value-add initiatives?

Facility valuation reflects the state of the self-storage market and where your business fits within it, however many owners and investors don't have their finger on the pulse. As you're monitoring your revenue and expenses, occupancy and rental rates, remember that it's just as important to know the current value of your asset. Let's look at some factors that influence it.

Common Factors That Impact Self-Storage Value

Many factors influence the value of a self-storage facility. As with other real estate classes, one of the biggest indicators is data reflecting comparable transactions, in other words, the marketing or trading of similar properties in the area. An industry real estate professional can use this information to compile a comprehensive underwriting analysis. This study should also consider the following aspects of the submarket, defined as the three- to five-mile radius from your property:

- Rental rates
- Operating history
- Square feet of storage per capita
- Population density
- Average household income
- Return metrics sought by potential buyers

Due to the nature of the self-storage industry, macro- and micro-economic factors also drive significant swings in facility value. For instance:

- When federal interest rates climb, asset values tend to fall. The state of the housing market, an unstable economy, high unemployment rates, and other national economic and political factors also adversely affect values.
- An oversupplied submarket typically results in declining occupancy rates, which in turn causes property values to decline.
- As average rent rates climb, values follow.
- An uptick in local population causes value to increase, as the more consumers and homeowners are in a submarket, the more potential renters there are.
- Derailed management practices also impact self-storage value. Poor management inevitably leads to less cash flow and lower occupancy.

Ways to Increase Self-Storage Asset Value

As you can see, there are many external valuation factors that are outside of your control as a self-storage owner and investor; however, there are also many initiatives you can implement to move things in a positive direction. Here are several to consider:

Add more space. Building in today's market is often cheaper than buying existing product. If expanding your self-storage property is possible, the return on investment may be worthwhile. Even the addition of portable units can boost revenue.

Capitalize on outdoor space. Are boats, RVs and other vehicles popular in your market? Often, the owners of these "toys" lack a place to park them. If you have a vacant parking area or other unused land, this can be a quick way to add fresh revenue to your business.

Increase security and lighting. Customers are seeking storage facilities that offer a safe environment for themselves and their belongings. Premium security leads to top-of-market rents.

Improve curb appeal. What kind of first impression does your property make on potential renters? Is it welcoming and inviting? Is it neat and clean? Customers want a clean environment with a cosmetic shine. These kinds of properties have a better chance of capturing new renters at a higher rate. Conduct regular audits to assess your site's overall look and take note of any problem areas.

Stay on top of maintenance. Neglecting a property and delaying maintenance and repairs typically results in more complex problems, damage and costly upgrades. Plus, proper upkeep contributes to positive curb appeal.

Be seen. Are trees or other obstacles interfering with your signage and visibility? Is additional lighting needed to illuminate the property? Are the entrance and exits clearly marked? While more renters are first discovering self-storage facilities online, having a strong physical presence is still important.

Maximize the digital marketplace. Do you have a strong online presence? Is your website appearing in search results? How popular are your social media pages? Are there any page errors on your digital platform? Being current, correct and consistent online is vital to maintaining good ranking and luring prospects.

Modernize. What technologies can benefit your customers? How can automation streamline your day-to-day self-storage operation? Today's customers are seeking convenience and self-serve options. If you don't offer them, they'll find another property that does.

A Self-Storage Valuation Check-Up

With news of a 50-basis point decrease by the Federal Reserve and some positive economic tailwinds in the near future, self-storage values are expected to increase over the next 12 months. Given the myriad of ever-shifting influences, getting an annual opinion from an industry broker is a wise move. At a minimum, a comprehensive assessment should include:

- Sales
- On-market and rent comparables
- A pro forma outlining your property's current performance
- Potential value-add initiatives to be deployed by the current or future owner
- An opinion of the site value in the current market

Certain factors might warrant a more frequent check-in. For example, sites that expand tend to rapidly increase in value. Often, they were well-occupied and high-performing beforehand, and now the additional units are driving increased occupancy and profitability. Hyperactive properties like these should have a valuation check every three to six months due to short-term fluctuations. Meanwhile, new-to-market properties that are still stabilizing and building occupancy should aim for a bi-annual assessment.

Right now, self-storage values are fairly stable, with some assets slightly declining. Why? Most of the fingers point to the fallout from high interest rates and the lack of consumers moving or buying houses—a key life event that consistently drives facility occupancy. However, if interest rates continue to decrease, occupancy rates will likely improve. This in turn will boost asset value.

The Value of Valuation

Staying informed about the value of your self-storage facility, from the time you place an offer to buy to when you're ready to sell, ensures that the appropriate adjustments are made throughout the investment cycle to maintain profitability and maximize return on investment. Investors are holding assets for an average of five to seven years. This timeframe tends to maximize the internal rate of return. However, deciding the right time to sell is complex and calls for a case-by-case assessment.

Think of it like your yearly visit to the doctor. An annual property-value assessment keeps economic and operational factors in check and equips you with the knowledge and tools to avert potential issues. You can then make savvy choices with available capital and adjust investment strategies to preserve—and sometimes enhance—the value of your self-storage business. **ISS**

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Property Care *and* Facility Value

In the dynamic and expanding realm of self-storage, the imperative for older facilities to undergo improvements has never been more critical. The surge in new development has added a plethora of modern sites to the market, most equipped with sophisticated amenities and advanced technology. To remain competitive and appealing in a crowded landscape, operators of more seasoned properties must adapt.

Self-storage sites that appear outdated or poorly maintained, with inefficient layouts and obsolete or absent technology, can deter prospective renters, who may equate its look with a poor level of service and security. These operators even struggle to retain existing tenants. Less business leads to less cash flow and lower net operating income (NOI), which results in reduced asset value. To protect the worth of your investment, robust facility maintenance and strategic upgrades may be the answer.

The Difference Property Care Makes

NOI is determined by subtracting operational expenses from revenue. Self-storage facilities that struggle to compete generate less income and have lower NOI, making them less attractive to potential buyers. In fact, investors and appraisers closely scrutinize site condition when determining value because of its effect on income. Properties that have been neglected or lack modern amenities may be underestimated relative to their potential. They'll also be less eligible for favorable loan terms during refinancing. For these reasons, maintaining and improving property appearance and functionality isn't merely cosmetic but financially essential.

Today's self-storage consumers seek convenience, security and reliability. Enhancements such as new roofing, fresh paint, improved landscaping and updated signage can positively impact public perception of a facility, leading to higher rental rates, long-term occupancy and stabilized cash flow. Functional upgrades including climate control, smart security systems, energy-efficient lighting and automation further add to a site's appeal.

Self-storage operators who invest in facility upgrades differentiate themselves from competitors and create a unique selling proposition that attracts and retains tenants. They generally experience better occupancy and NOI. This improved financial performance leads to higher asset valuation and possibly a higher sale price. In the end, proper maintenance and the right improvements provide a substantial return on investment.

Concrete Ways to Improve Facility Value

There are many ways to improve self-storage facility value, depending on your location and budget. Following are a few successful strategies. Choose the ones that make the most sense for your business and its customers.

Focus on curb appeal. This is the most obvious and the simplest to achieve. Regular upkeep, such as repainting exteriors, repairing roofs, refreshing the landscaping, and ensuring all doors and other building components are functional is crucial. A clean, well-maintained facility is more attractive to renters, as it suggests that the business is safe and well-managed.

Address deferred maintenance. Being proactive about maintenance issues can minimize capital expenditures. Conduct regular inspections of your self-storage property and address repairs in a timely fashion. This prevents minor issues from escalating into costly problems.

Optimize your unit mix. Adjusting your self-storage unit sizes to meet market demand can significantly improve revenue. As a rule, smaller units yield higher rental rates per square foot. Facilities with a smaller average unit size generally produce more income, which means a higher NOI and market value compared to those with the same net rentable square feet (NRSF) but larger units. Knowing this, it might make sense to partition some of your larger spaces into smaller ones.

Let's say you have two self-storage properties, each with 100,000 NRSF. Both have economic occupancy of 90% and a 30% expense ratio. Assuming they both sell at a 6% capitalization rate, the first would sell for 13% higher! See the table below.

Upgrade technology. Advanced technology that improves self-storage security and convenience can be a game-changer. Digital access systems, online payment options and high-definition cameras can attract tech-savvy users and enhance customer satisfaction.

Facility-Value Comparison
[Assumptions: 90% economic occupancy, 30% expense ratio, 6% cap rate]

	Units	Unit Size	Market Rent	Monthly Revenue	Annual Revenue	Expenses	NOI	Sale Price
Property 1	1,000	10x10	$250	$225,000	$2,700,000	$810,000	$1.9M	$31.5M
Property 2	667	10x15	$325	$195,098	$2,341,170	$702,351	$1.6M	$27.3M

Upgrade Potential

When evaluating your self-storage facility for potential improvements, consider these key areas:

- Pavement
- Landscaping
- Fencing
- Access gate
- Exterior paint
- Lighting
- Unit doors
- Front office
- Retail store
- Roofs
- Cameras
- Signage
- Bollards
- HVAC

Be eco-friendly. Consider implementing green initiatives such as solar panels, cool roofs and energy-efficient lighting. These can reduce operating costs and appeal to environmentally conscious consumers.

Consider a facility expansion. If the market can support it, additional self-storage units can enhance revenue and increase asset value. Just be sure to conduct a thorough market analysis to confirm there's sufficient demand to justify the investment.

The self-storage industry continues to evolve. New developments set higher standards for operational efficiency and customer satisfaction, and older facilities must adapt to remain competitive. Investing in facility appearance and functionality can attract more renters while enhancing financial performance and long-term asset value. Strategic upgrades can be the key to relevance, profitability and a strong position in an increasingly aggressive market. **ISS**

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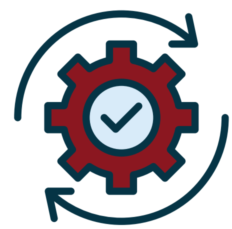
The Impact of *Automation* on *Value*



The self-storage industry is one that continues to evolve and embrace more technology. In recent years, we've seen a huge shift from sites that were previously run by property managers to those operating on a fully automated model.

One reason for this is it's a cost-effective option for owners and investors. Plus, the way everyone conducts business has changed since the pandemic when industries of all sorts accelerated their use of self-service technology. In self-storage, we responded to customer needs by offering remote facility and unit access and a variety of contactless options. Now, consumers can do just about anything through their mobile devices.

With a new era upon us, many self-storage owners are debating whether it makes sense to switch to a remote-management approach that allows them to operate their facility with minimal or no onsite staff. If you're one of them, you may be wondering: What effect, if any, will this have on my asset value? It's a good question. The answer is yes, there will be an impact; however, whether it's positive or negative is entirely up to you. To land on the right side of the equation, efficiency and optimization are key.

What Is It?

First, let's talk about what an unattended self-storage facility is. This type of property largely operates without onsite personnel, leaning on technology to accomplish routine tasks such as renting units, taking payments, selling supplies and updating customer accounts. Between access-control systems, kiosks, surveillance cameras, two-way video, remote security monitoring, smart locks, chatbots and other automation tools, these "unmanned" sites are able to fulfill nearly all customer needs.

That said, even an unattended facility needs some form of management, particularly for things like cleaning vacant units and other essential site maintenance. In some cases, owners will assign one or two employees to oversee several properties within a region, or they might contract with a third-party company that specializes in remote management.

The Risks

If done correctly, switching to an unmanned operational model can positively impact the value of a self-storage facility. However, there are some risks of which you should be aware.

Before initiating a change, research your market. For example, what are the local crime rates? Is security a greater concern? While electronic access and surveillance cameras certainly mitigate this risk, they might not provide the same level of response as an onsite manager.

Also, in some regions and for some populations, there's a stigma attached to contactless operation. For example, many senior citizens prefer in-person contact, so building trust and credibility with this group of tenants could be more challenging without the reassurance of onsite staff.

Finally, there's a higher risk of deferred maintenance with an unattended facility. You'll need to pay careful attention to site condition and keep on top of curb appeal and repairs. If you're hiring a third-party management company, conduct a thorough evaluation to ensure they're up to the task of overseeing an automated site. Read online reviews and check references. They might contribute to lower asset value if they fail to operate the property successfully.

The Benefits

Once you've navigated these risks, you can focus on the positive benefits a transition to unattended operation can bring to your self-storage asset. Here are the most notable:

- Due to low payroll, you'll enjoy lower operating costs compared to a staffed facility, which results in increased net operating income.
- An automated site is much easier to scale so long as it has a great website, security and reputable management software.
- The convenience of 24/7 facility access is easier to achieve. This is a popular feature that can set your business apart from others in your market.
- Automation provides for greater flexibility and, therefore, can lead to an increase in occupancy and revenue.
- The implementation of advanced technology makes your property attractive and therefore valuable to investors because it improves overall efficiency and reliability.

The Right Circumstances

Only you can determine if a fully automated model is right for your self-storage operation. If you conduct your due diligence and plan strategically to make the switch, it can certainly raise the value of your asset. Of course, each scenario varies, and the right circumstances are key. There are a variety of qualified vendors in the industry who can help steer you in the right direction. All you need to do is ask! **ISS**

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Financial Terms *and* Lender Lingo

Have you ever talked to a lender and felt like they spoke another language? Banking terminology and jargon can seem complex. Don't worry, you don't need a translator to understand what they're saying. Whether you're a first-time loan seeker, a seasoned borrower or just looking to enhance your financial literacy, I'm here to help.

This article aims to demystify bank speak, breaking down key concepts and definitions to help you to confidently navigate the intricate terrain of financing. I'll cover three main areas: business financials, loan terms and components, and financial ratios.

Business Financials

This section will define terms used for financial documents and the metrics banks typically ask for in regard to your self-storage business financials.

Profit and loss (P&L) or income statement. This document summarizes a company's income, expenses and profit (or loss) over a specific period, typically a quarter or year. Comparing revenue to expenses provides valuable insight to a business' ability to generate profit. The basic formula for an income statement is *revenue - expenses = net operating income (NOI)*.

Balance sheet. A balance sheet provides a snapshot of a company's financial position at a specific time. It presents assets, liabilities and shareholders' equity and provides valuable information about business liquidity, solvency and overall financial health. It's an essential tool used by investors, creditors and other stakeholders to assess a company's financial position and make informed decisions. The balance sheet follows the fundamental accounting equation *liabilities + shareholders' equity = assets*.

Shareholders' equity. This represents the owners' claim on the company's assets after deducting all liabilities. It includes the initial investment by shareholders and any retained earnings (profits that haven't been distributed as dividends).

Gross income vs. net income. Gross income refers to the total revenue earned by the business before any deductions. In self-storage that includes rent, late fees, administrative fees, merchandise sales, insurance commission and other earnings, but doesn't account for any withheld taxes or deductions. Net income is the final line of the income statement and represents the company's profit after all expenses, including taxes, are deducted from revenue.

Depreciation. In real estate, this refers to the gradual decrease in property value over time. It's a non-cash expense that can offset taxable income, reducing the taxes owed by the owner.

Add-backs. In commercial lending, an add-back refers to an adjustment made to a company's financial statements to account for certain expenses that are applied back to the net income. These corrections reflect the true cash flow of the business and provide a more accurate picture of its financial health to lenders or investors. Common add-backs include:

- **Non-recurring expenses:** These are irregular expenses that aren't expected to occur again such as one-time repairs, legal settlements or expenses related to a natural disaster
- **Non-cash expenses:** Expenses that don't require a cash outlay, such as depreciation and amortization, are added back because they reduce net income without affecting cash flow.
- **Owner's compensation:** In closely held businesses, the owner's salary may be higher or lower than market rates. Lenders may add back any excess or reduce shortfalls to reflect a more accurate picture of cash flow.
- **Interest and taxes:** In some cases, interest or taxes that aren't reflective of the business' ongoing operations may be added back to adjust for their impact on net income.

By re-adding these expenses to net income, lenders can calculate a more accurate measure of a company's ability to service debt, thereby making informed lending decisions. However, it's important that they carefully review and analyze the reasons for using add-backs to ensure they're appropriate and accurately reflect the business' financial position.

EBITDA (earnings before interest, taxes, depreciation and amortization). This measure is used to evaluate a company's operating performance by excluding certain non-operating expenses. It's often used in financial analysis to compare profitability between companies and industries. EBITDA provides a clearer picture of the underlying operating performance without the impact of financing decisions, accounting practices or tax environments.

Loan Terms and Components

This section defines commonly used loan-related terminology. Understanding these terms is important if you need financing for your self-storage business.

Equity injection. This addition of cash to a business or project can come from owners, investors or other sources. In commercial lending, lenders often require borrowers to provide an equity injection to demonstrate their commitment to the deal and reduce the lender's risk. The amount is usually expressed as a percentage of the total cost and can vary based on the lender's requirements and the nature of the asset.

Loan term vs. loan amortization. A loan term is the period over which a loan agreement is in effect. It's the duration during which the borrower is expected to repay the loan, including the principal amount borrowed and any accrued interest. Terms can vary widely, from a few months to several years or even decades.

Loan amortization refers to the process of gradually paying off a loan over time through regular payments. These payments typically consist of principal and interest, with each amount varying over the life of the loan. A greater portion of your early payments are applied to interest, while later payments increasingly reduce the principal balance. Amortization schedules outline the specific payment amounts and how they're allocated between principal and interest over the loan term.

Balloon payment. In commercial lending, a balloon payment is a large lump sum due at the end of the loan term. Unlike typical installment loans in which the borrower makes regular payments of principal and interest, a balloon-payment loan involves smaller, regular payments, with the remaining balance (the balloon) due at the end. This option is often used when the borrower expects to have significant cash flow or assets to cover the balloon when it comes due. These loans can offer lower monthly payments, but the borrower must have the balloon payment when the loan matures. If they don't, they'll need to seek new financing.

Personal guarantee. When an individual agrees to be personally liable for a debt, they provide a personal guarantee. Lenders use this to reduce their risk, especially when they're giving a loan to a small business or startup that has limited assets or a minimal track record. If the business is unable to repay the debt, the lender can pursue the guarantor's personal assets to recover the outstanding amount.

Loan assumption. This is popular real-estate financing option. It's when a buyer agrees to assume the seller's mortgage instead of obtaining a new loan. This can be beneficial if the existing loan has more favorable terms than what the buyer could get on the market. However, the lender must approve the assumption, and the assuming borrower is usually required to meet the lender's creditworthiness and financial-stability criteria. If approved, the new borrower assumes the loan's terms, interest rate, repayment schedule and remaining balance. The original borrower is typically released from any further obligations.

Financial Ratios

These ratios help investors, analysts and regulators assess a company's financial health and performance, especially in comparison to its peers and industry benchmarks. Below is a list of common ratios and what they mean.

Debt service coverage ratio (DSCR). This measures a company's ability to cover its debt obligations with its operating income. It's commonly used by lenders, creditors and investors to assess the risk of lending to or investing in a company. To calculate DSCR, divide NOI by the total debt.

Return on investment (ROI). This ratio reveals how profitable an investment is by comparing net profit to cost. To calculate this, divide the net profit (the gain or loss from the investment) by the total amount invested. Then, multiply the result by 100 to get a percentage. A positive ROI means the investment made a profit, while a negative indicates a loss. This figure helps evaluate and compare the success of various investments.

Profit margin. This is the percentage of revenue that exceeds the costs associated with generating that revenue. It's calculated by dividing net income by revenue. A higher profit margin indicates that a company is more profitable, as it can retain a more significant portion of its revenue.

Loan-to-value (LTV). This ratio compares the loan amount to the value of the asset being purchased. It's commonly used to assess the loan risk and determine the maximum amount that can be borrowed. The formula for calculating LTV is *(loan amount / appraised asset) x 100*. For example, if you want to buy a self-storage facility appraised at $2 million and the lender is willing to provide a loan of $1.6 million, the LTV would be 80%. This means the loan amount is 80% of the appraised value of the facility; the borrower would need to provide a down payment of 20% ($400,000) to meet the lender's requirements.

A lower LTV indicates the borrower has more equity in the asset, which reduces the lender's risk. Lenders often have maximum LTV ratios they're willing to accept based on the type of loan and the borrower's creditworthiness.

Loan-to-cost (LTC). This metric is used by lenders to evaluate the risk of a loan for a real estate development project. The formula for calculating the LTC ratio is *(loan amount / total project cost) x 100*. The total cost includes all expenses associated with developing the property, including the land purchase price and any construction expenses. A lower ratio indicates that the borrower has more equity in the project, which can reduce the lender's risk. Loan providers typically have maximum LTC ratios they're willing to accept based on the type of project and the borrower's creditworthiness.

Debt-to-income (DTI) ratio. Institutions use DTI ratio to assess an individual's ability to manage monthly payments and repay debts. The formula is *(debt payments / gross monthly income) x 100*. If a person has total monthly debt of $2,000 and a gross monthly income of $6,000, their DTI would be 33.3%. A lower ratio indicates that a person has a lower level of debt relative to their income, which lenders generally view positively. An acceptable ratio can vary depending on the type of loan and the lender's requirements.

Conversing With Confidence

Many financial terms sound complicated, but they just describe things like revenue, loans and interest rates. By demystifying complex terminology related to business financials, loan terms and financial ratios, you can confidently engage with bankers and lenders and make intelligent borrowing choices.

Whether you're a seasoned self-storage borrower or a first-time seeker of financing, this knowledge empowers you to make informed decisions and manage your affairs effectively. The next time you speak with a lender, rest assured that you're speaking the same language! **ISS**

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CURRENT FINANCING OPPORTUNITIES

It finally happened! The Federal Reserve cut the interest rate by 50 basis points in September. It's been more than five years since we last entered a rate-cut cycle, and the last actual cut occurred in March 2020 when it was slashed to near zero in response to the pandemic.

Rates remained historically low for two years, until the Fed began a series of aggressive hikes in March 2022. The increases continued for more than a year, totaling 5.25% overall. This sharp and rapid rise complicated transactions for self-storage borrowers and stifled lending activity across the market.

The long-awaited September cut took place in response to signs of slowing economic growth, indicating progress in the inflation battle. The outlook for 2025 is less certain, but lower rates benefit borrowers. We just don't know where they're expected to settle. What does this mean for self-storage owners and investors? It means the transaction markets are poised to become more active in the new year.

At the end of 2024, there are signs that capital markets are ready to invest. Ideally, the downward trend in interest rates will continue. While a borrower may be tempted to time the market or wait for rates to hit their lowest point, this strategy isn't advisable. If a deal makes sense at current rates, carefully consider how to manage the risk. Additionally, if you've hesitated to refinance, you may find the lending landscape more appealing in the near future.

Following is an overview of finance options available in today's self-storage market. It should help you determine the best loan product for your investing goals.

Commercial Mortgage-Backed Securities (CMBS)

CMBS loans are fixed-rate, nonrecourse loans with terms of five or 10 years and a 30-year amortization period. Self-storage borrowers can finance up to 75% of a property's value and may qualify for interest-only periods with cash-out refinancing if the deal meets underwriting standards. These loans are most cost-effective for amounts of $2 million or more depending on leverage and return.

CMBS lenders can find creative ways to handle risks that others might avoid. These loans can also be transferred to new owners for a fee. However, they come with strict rules about prepayment, which can involve calculations or conditions that can be complicated. The growing popularity of the five-year CMBS deal, coupled with a six-month open prepayment window at the back end, has made it easier to manage penalties. The five-year loan can act as a longer-term bridge due to its more aggressive lending standards.

It's important to know that for five- and 10-year CMBS loans, lowering the interest rate through a buydown is becoming more common. By doing this, you might be able to borrow more because you can better manage the loan payments. For example, a rate buydown can save about 0.25% on a five-year loan and 0.15% on a ten-year term for a fee of up to 1%.

Closing costs for CMBS loans are higher than those from local banks, but some lenders offer streamlined fixed-cost programs that range from $25,000 to $30,000 for loans of up to $10 million. Additionally, if a mortgage broker is involved, lenders may waive their origination fee, which isn't typical with most other loan types. Overall, CMBS financing is a great, low-rate option for those looking to hold stable self-storage properties long-term.

Banks and Credit Unions

Banks focus on building relationships and are the top lenders for commercial real estate in the country. They carefully review a borrower's financial situation, looking at overall cash flow, net worth and available funds. Qualifying often depends on how strong and long-standing the borrower's relationship is with the bank. Self-storage investors should be prepared to keep their operating accounts and other deposits with these institutions.

Rates can vary based on the length of the loan, the borrower's financial strength, and the amount borrowed compared to the property's value. These loans typically have terms of three to 10 years and can be paid back over 20 or 25 years. The loan terms, repayment schedules and other details can be negotiated more easily than with CMBS.

Banks require recourse guarantees on most loans, however, the terms may be reduced or eliminated for low-leverage loans. They also offer more reasonable transaction costs and flexible prepayment options compared to Small Business Association (SBA) or CMBS financing.

Credit unions are similar but do have key differences, such as being more transactional than banks, which are more relationship-driven; lending outside their markets, while banks focus on a specific area; and focusing on cash-flow lending while avoiding complex construction or transitional deals. Credit unions also typically offer better interest rates and don't require deposits.

SBA Options

SBA loans are great for self-storage investors because they let borrowers go beyond the usual 75% loan-to-value limit. The SBA backs loans from banks, with two popular programs, 7a and 504. Both are priced above The Wall Street Journal prime rate, ranging from prime +0% to prime +3%.

SBA 7a can be used for buying, building or refinancing self-storage properties, covering up to 90% of the costs, with a maximum limit of $5 million. These loans can have fixed or floating rates, usually tied to the prime rate, and offer 20- or 25-year repayment terms.

One key benefit to 7a is the 5-3-1% prepayment penalty that decreases over time. So, in the first year, your penalty would be 5% if you pay it off early, then 3% in the second year, and just 1% in the third year. After that, there's no penalty at all. This makes it less punitive to pay off the loan whenever you can.

SBA 504 loans can be used for buying, refinancing and building. They work by splitting the loan into two parts: the first part comes from a bank and covers 50% of the costs, while the second, which can cover up to 35%, comes from a special organization called the Community Development Corporation (CDC). They focus on providing financing and support for economic-development projects, particularly in underserved communities. In the context of SBA 504, CDCs play a key role in funding the second lien of the loan.

The bank distributes the first part right away, and the CDC usually provides the second part 60 to 90 days after the deal closes. The first segment has regular interest rates, but the second is fixed and lasts up to 25 years. There's also a 10-year prepayment penalty term, which helps keep the overall interest lower than other loan options.

Borrowers should note that processing an SBA loan can be time-consuming, and guarantee fees are added to standard closing costs. However, SBA financing remains a valuable capital source for the self-storage industry.

Life-Insurance Company Loans

Life-insurance companies are important lenders in real estate, letting borrowers secure good, long-term interest rates, much like CMBS loans. However, they're very picky about who they lend to, often favoring established borrowers with strong, stable properties in major markets. They also prefer to lend less money compared to the value of the property, focusing on lower risk.

These companies are known for being cautious. They focus heavily on careful evaluations and the rates used to determine property value. As a result, they usually lend no more than 60 to 65% of value. These lenders prefer larger deals and tend to maintain that focus, especially when there are more high-quality assets available.

When a life-insurance company is interested in a property, they provide flexible terms and options that are hard to match. Typically, they offer loans with terms of five to 10 years, but they can extend up to 30 years if needed. They also allow borrowers to lock in interest rates at the time of application and offer more flexible options for paying off the loan early.

These lenders usually prefer loans that require borrowers to take responsibility for repayment, but they do offer options that reduce or eliminate this requirement when suitable. Additionally, their loan rates are often among the most competitive.

Bridge Loans

Bridge lenders offer short-term loans that are crucial for the self-storage industry. These are helpful in various situations, particularly for properties that are not fully developed or stabilized and need time before they can qualify for long-term financing. Today, the bridge market is much more liquid than just a few years ago, but pricing can be prohibitive compared to permanent debt.

Bridge lenders focus on the future and look for a clear path to permanent financing. The terms of these loans can vary widely based on their intended use, but here's a general overview:

- The loan is nonrecourse, meaning the borrower isn't personally responsible for payback.
- Borrowers can finance as much as 80% of the total project costs.
- Interest rates typically range from 7% to 10%.
- Borrowers can pay off the loan early without penalties, if a minimum amount of interest is paid.
- Operating shortfall or interest-carry reserves can be provided as needed.
- There's typically a 1% origination fee and a 1% exit fee.
- The loan has a three-year term, with two extension options for each additional year. The initial three-year term offers interest-only amortization. If the borrower chooses to exercise the one-year option, they'll need to pay the lender a fee equal to 1% of the loan amount.

Bridge lenders base their decisions on financial projections that need to be backed by real market data. They want to grasp the borrower's business plan and identify any factors that could hurt future cash flow, such as new competition entering the market. While a bridge loan isn't meant to be a long-term financing option, it can be a helpful short-term solution for funding needs.

Construction-Loan Notes

Construction lending picked up significantly in 2024, with developments breaking ground across the country. Local banks are primary candidates for construction financing, but other providers such as the SBA and certain debt funds may also be candidates.

These loans are inherently riskier than others, as there's no cash flow during self-storage construction and negative cash flow for a period of lease up. Lenders increasingly favor borrowers with significant development experience and strong personal financial statements.

Interest rates for bridge loans are usually variable, but fixed-rate options can be available depending on the deal. For construction loans, rates typically range from the mid-6% range to more than 10%, depending on the terms. It's important to set up interest-only payments upfront and carefully plan for interest costs and reserves for any operating shortfalls.

Most construction loans require a recourse guarantee and a completion guarantee. Lenders may reduce the recourse requirement once the project receives a Certificate of Occupancy or meets certain financial performance goals. Nonrecourse financing might be available for low-risk projects. While traditional lenders usually provide up to 75% of the total construction cost, this can vary from 60% to 80% depending on the project's quality and the borrower's relationship with the bank.

In summary, construction financing is available but more selective than in previous years. Careful budgeting makes a project more attractive and helps protect against future funding demands by properly setting aside reserves.

Looking Ahead

As the new year begins, self-storage investors should keep a few key points in mind when considering their finance options. First, seek multiple loan offers. While a local bank can be a good partner, better choices might be available based on your goals.

For construction projects, it's crucial to thoroughly evaluate and stress-test. Moving forward with a project that isn't financially sound can lead to serious consequences that are often worse than simply walking away. Developers who base their financing on overly optimistic scenarios often face challenges when trying to refinance their construction debt, especially if they lack sufficient reserves or have unrealistic expectations for rental rates and lease-up timelines.

Locking in low interest rates now is better than waiting for the perfect moment. If a deal relies on unreasonably low rates to make sense, it might be time to rethink it. With strong lender interest and favorable terms available, now is an excellent time for self-storage borrowers. **ISS**

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Commercial Mortgage-Backed Securities

Due to the recent escalation in interest rates, some self-storage investors may now find themselves overleveraged with a looming debt maturity. In this case, a commercial mortgage-backed securities (CMBS) loan could be a good choice for refinancing because it offers a large amount with reasonable payment terms and no personal liability if the debt isn't repaid. These loans can also be used to fund stabilized projects, with potentially lower monthly payments than what you might get from a traditional lender.

Let's see how this self-storage loan option can offer unique advantages, from flexible refinancing to long-term financial stability.

What Are CMBS?

CMBS are like bonds that are backed by commercial mortgages and sold to investors. Certain lenders make loans to commercial-property owners with the goal of grouping those mortgages and selling the payments as bonds. When the bonds are sold, the lenders get their money back and can use that capital to make more loans.

This system helps money move smoothly between borrowers, investors and lenders investors, which is why these lenders are called "conduits." Historically, conduit lenders have provided a tremendous amount of capital to the commercial real estate community.

The CMBS market was created following the savings-and-loan crisis of the 1980s, a challenging time in which liquidity was stressed by the widespread failure of financial institutions across the United States. Since then, it has continued to evolve and thrive despite market disruptions, such as the bursting of the dot-com bubble, the horrific events of 9/11 and, most notably, the Great Recession of 2007 and 2008. This resiliency is a testament to the efficiency and ingenuity of this debt instrument during times when liquidity is challenged.

Benefits to Borrowers

There are many benefits associated with CMBS loans that self-storage borrowers may find attractive:

- These loans are nonrecourse. If the borrower can't repay the loan, the lender can only take what was agreed upon as collateral, even if it isn't worth enough to cover the full amount of the remaining debt.
- The lender can offer interest-only payments for part of all of the loan. Lower payments mean borrowers keep more cash in their pocket.
- Interest rates on CMBS are currently attractive. If the Federal Reserve follows through with its current position to begin easing monetary policy, those rates could continue to fall into an increasingly favorable range for borrowers looking to close loans in 2025.

Five-year flexibility. Given the interest-rate environment over the past few years, some self-storage borrowers have been hesitant to lock into long-term deals. Lenders have responded with a five-year product that's open to prepayment during the last six months. This option is remarkably similar to the existing 10-year loan, only with a shorter term and a small pricing premium.

By offering this short-term product, the conduit market has addressed a big downside of getting a CMBS loan. One of the primary complaints is the expensive penalty for paying off a CMBS loan early, which usually involves complex processes like defeasance and yield maintenance. Being able to pay off the loan after four and a half years is much more appealing than waiting nine and a half.

Maximum proceeds, minimum payments. The payments for CMBS loans can be lower than those for bank loans when you're only paying interest at first. The "loan constant" is a way to measure how much of the total loan is paid off each year. You can figure this out by dividing your yearly loan payments by the total loan amount.

CMBS Loan	
Net Cash Flow	$750,000
Cap Rate	6%
Value	12,500,000
Proceeds	$8,250,000
Term	5-Year Fixed
Index: 5-Year Trust	3.85%
Spread	2.65%
Indicative Rate	6.50%
Amortization	10,000
Payment	$536,250
DSCR UW Actual	1.40
LTV	66%
Debt Yield	9%
Loan Constant	6.5%
Loan Proceeds	$8,250,000
Annual NCF Delta (positive) with CMBS: $70,103	

Bank Loan	
Net Cash Flow	$750,000
Cap Rate	6%
Value	12,500,000
Proceeds	$7,500,000
Term	5-Year Fixed
Index: 5-Year Trust	3.85%
Spread	2.50%
Indicative Rate	6.35%
Amortization	25
Payment	$606,353
DSCR UW Actual	1.24
LTV	60%
Debt Yield	10%
Loan Constant	8.1%
Loan Proceeds	$7,500,000
Annual NCF Delta (negative) with bank: ($70,103)	

Above is a basic comparison between a CMBS loan, where you only pay interest for the entire term. The tables shows how each option affects cash flow. It's important to point out that this isn't an apples-to-apples comparison, but rather a situation in which a borrower might initially think the bank loan looks like the better choice.

Despite a slightly higher interest rate, the CMBS borrower can tap into much higher proceeds and enjoy a lower annual debt-service payment. Spread this savings of $70,000 across a five-year term and there's an interest savings of $350,000 over the life of the loan. Additionally, cash-out proceeds from a refinance aren't taxed like capital gains from a property sale, as those funds are part of a loan that must be repaid over time.

It's important to note that with five- and 10-year CMBS loans, self-storage borrowers can save money by paying extra upfront for a buydown, which lowers their interest rate. This can also allow them to borrow more money overall because it improves their ability to repay the loan. The math on rate buydowns equals 25 basis points in interest-rate savings on a five-year loan and 15 basis points on a 10-year loan for a 1% fee. Applying this math to the above example will result in additional savings reflected below.

CMBS Loan	
Net Cash Flow	$750,000
Cap Rate	6%
Value	12,500,000
Proceeds	$8,250,000
Term	5-Year Fixed
Indicative Rate	6.25%
Payment	$515,625
DSCR UW Actual	1.45
LTV	66%
Loan Constant	6.3%
Loan Proceeds	$8,250,000
Annual NCF Delta (positive) with CMBS: $90,728 Full-term interest savings with buydown: $103,125 Less buydown cost: $20,625	

Bank Loan	
Net Cash Flow	$750,000
Cap Rate	6%
Value	12,500,000
Proceeds	$7,500,000
Term	5-Year Fixed
Indicative Rate	6.35%
Payment	$606,353
DSCR UW Constraint	1.24
LTV	60%
Loan Constant	8.1%
Loan Proceeds	$7,500,000
Annual NCF Delta (negative) with bank: ($90,728)	

> The payments for CMBS loans can be lower than those for bank loans when you're only paying interest at first.

Another benefit of rate buydowns is they allow you to use a CMBS loan, especially the five-year option, as a temporary bridge loan, which can free up money that would otherwise be allocated toward fees like interest-rate protection. Though CMBS is explicitly not a loan product intended for funding construction, it can be a great lifeline for a self-storage project that is close to stabilization but not fully leased up and, therefore, not ready for other forms of permanent financing. If the property's income can meet the required payment levels, CMBS might also be a smart option for those looking to refinance soon.

While a CMBS loan isn't the answer in every situation, this financing option continues to adapt and rise to the occasion to meet the needs of thousands of self-storage borrowers. As interest rates have receded from highs of well above 7%, there are compelling offerings in the marketplace for many situations. Whether you're conducting the analysis alone or with the help of an advisor like a mortgage broker, it's worth preparing a simple comparison when weighing borrowing options. ISS

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The SBA Loan Options

Financing matters in the self-storage industry. Whether you're making an acquisition, expanding or refinancing an existing facility, or developing a new site, the right loan is often critical to success.

While the capital markets can seem vast and intimidating, there are a few simple, dependable loan options that can help you pave your path to prosperity. They include conventional bank financing, with which many of you are already familiar. There are also two very good programs available through the Small Business Administration (SBA): 7(a) and 504.

If you're looking for a loan that delivers multiple advantages for new self-storage owners, both SBA programs are excellent choices. They provide significant leverage, typically covering 85% to 90% of the total project cost, which allows you to contribute just 10% to 15% as a down payment. The lower requirements make them ideal for first-time owners looking to maintain their liquidity while getting their business off the ground.

Various factors come into play when choosing which SBA loan option is best for your needs, including your circumstances, financial goals and risk tolerance. Let's take a closer look.

The SBA 7(a) Loan Program

SBA 7(a) loans are an excellent option for various self-storage project types, including acquisitions, expansions and start-up construction. They can be used to finance all costs associated with acquiring land or buildings, including closing costs, as well as hard and soft construction expenses. In fact, this program's flexible structure and down-payment options make it an excellent choice for those developing their first self-storage facility.

For self-storage construction projects, the 7(a) program provides interest reserves and capital to cover any operating deficit during lease-up. This alleviates pressure on the owner to make loan payments before the business can generate enough revenue to support the debt. Here are some other primary benefits of this loan type:

- Under this program, real estate loans can have terms of up to 25 years, while construction loans can extend to 26 years.
- These loans are fully amortized without balloon payments and have no financial covenants related to debt-service coverage or loan-to-value ratios.
- New owners can secure up to 90% financing, while established owners with a stabilized, cash-flowing self-storage property that has been operational for at least a year can qualify for up to 100%.
- SBA 7(a) loans can offer interest-only payment options for 12 to 36 months before transitioning to principal and interest payments.
- The SBA 7(a) program has a maximum limit of $5 million per project, though some banks may be willing to lend more for larger projects through a pari-passu loan.

- Prepayment penalties for SBA 7(a) real estate loans are tiered at 5% for year one, 3% in the second year and 1% in the third year from the closing date.
- These loans are partially backed by the government, reducing the risk for banks that are lending on the project.

While the 7(a) program offers many benefits, it also has a few drawbacks. First, there's no origination fee, but there is an SBA-guarantee fee, which funds the program and varies based on loan size. It typically ranges from 0% to 2.5%. Higher leverage, longer-term amortization options and a flexible use of proceeds typically result in higher interest rates than conventional bank or 504 loans.

The 7(a) program has many nuances. If you plan to pursue it, seek a lender with Preferred Lender Program status. This indicates that they have experience with these loans and are qualified to make credit decisions at the bank instead of sending every loan to the SBA for approval. This expedited process can reduce the closing timeline by three to four weeks, as underwriting, credit approval, closing and loan disbursement can occur in-house.

The SBA 504 Loan Program

There are significant differences between the he SBA 504 loan program and the more common 7(a). For example:

- SBA 504 loans can be used to finance larger self-storage projects, up to approximately $15 million.
- The 504 loan structure typically involves a 50% bank loan from the lender, 35% to 40% through an SBA debenture, and 10% to 15% equity from the borrower.
- Due to the blended rate, the interest-rate options for 504 loans are often more attractive than those for the 7(a) program.
- SBA 504 loans may include an extended interest-only period and interest reserve to help with loan repayment during construction.

There are a few other key points to remember about SBA 504. Unlike the 7(a), these loans can't be used to provide working capital, which can be a challenge if you need additional operating funds during lease-up or while financing a self-storage construction project. Also, the SBA debenture portion of a 504 loan carries a longer prepayment penalty (10 years). While you may have a lower, fixed rate for that portion of the loan, refinancing could result in higher penalties than with an SBA 7(a) or conventional bank loan. Finally, a 504 loan typically involves a first-mortgage fee and a bridge-loan fee determined by the lender.

An SBA 504 loan is a collaborative effort between your lender, a Certified Development Corporation local to your self-storage project and the SBA. It can be more complex because you must receive approval from all three entities; however, it's an excellent option for larger projects, particularly those involving construction.

Comparing SBA Loans to Conventional Loans

When it comes to conventional financing, it's important to remember that each bank has its own structure. Generally, these loans offer more flexibility in terms and recourse than the SBA programs, but they may have stricter requirements for covenants and deposits.

Conventional bank loans allow self-storage lenders and borrowers to negotiate terms that suit both parties, including prepayment penalties, origination fees, loan term and amortization, balloons, and covenants. For example, a bank may include a three-year prepayment penalty, a 1% origination fee, 36 months of interest-only payments, and a five-year balloon with some debt-yield covenants. However, the terms can be negotiated based on risk tolerance.

Conventional bank loans typically offer a lower interest rate than SBA loans due to the lower leverage and higher liquidity requirements typically warranted by the lender.

Finally, bank loans are typically less leveraged than SBA loans, with the average loan-to-value/loan-to-cost ratio ranging from 60% to 75%. They're more suitable for individuals with self-storage industry experience, higher net worth and strong personal liquidity.

Final Thoughts

There are many financing options available for self-storage developers, investors and owners. The SBA 7(a) and 504 programs are only two of them. Each has its own pros and cons. The best option for you will depend on your specific needs. The 7(a) loan is ideal for those who are new to ownership and require more liquidity, while 504 loans are often better-suited for larger projects.

A seasoned self-storage lender can help you find the perfect fit. Whether you're acquiring a new facility, refinancing an existing loan, expanding your business or building a new project, a good relationship with a lender is crucial to long-term success. It's essential to work with a partner who understands the available loan products and the nuances of the self-storage industry. **ISS**

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Updates to SBA Loan Programs

Last year, the Small Business Administration (SBA) made changes to its 7(a) and 504 loan programs, both of which are commonly used by self-storage owners. The goal was to provide relief and support to small businesses that struggle with existing debt and to facilitate access to capital.

"With the 7(a), your rates are generally a little higher, your fees are a little higher, and the prepayment penalties are less severe," says Ben Smith, vice president of Celtic Bank. "Under the 504 program, your down payment is a little lower, 10 to 15 percent. The rates and fees are lower, too. The process is a little more intense, and the prepayment penalties are steeper; but it's also a good program."

Following is a summary of the key modifications that were made to these programs in 2023 and how they may help you get your next self-storage deal over the finish line, whether you're buying, developing or expanding.

Expansion of Eligibility

The SBA broadened the eligibility criteria for self-storage owners looking to refinance their existing debt through the 504 program. The requirement for substantially all of the qualified debt to be used toward an eligible fixed asset (buildings, equipment, land and machinery) was lowered to 75% instead of 85%. This makes it easier to qualify, potentially providing self-storage owners with better loan terms and reduced financial strain.

Many owners aren't aware that they can refinance their commercial mortgage with an SBA 504 loan to access trapped capital while reducing their monthly payments with a low, long-term, fixed interest rate. Funds can be used to purchase land or buildings, cover construction costs to upgrade or renovate, or purchase equipment with a service life of 10 years or more. Projects will likely qualify if the original loan is at least six months old, the property is at least 51% owner-occupied, or long-term equipment and/or the debt to be refinanced was originally used for the purchase and improvement of fixed assets.

Increased Loan Amounts

The SBA raised the maximum loan amount eligible businesses can receive through 504 debt refinancing to $5 million. This provides greater access to capital, allowing you to refinance more of your existing debt and potentially obtain better terms.

Longer Loan Term

The SBA extended the maximum loan term available to 25 years under the 504 program, giving borrowers more flexibility in managing their debt obligations. Longer terms can lower monthly payments and improve cash flow. Borrowers can consolidate multiple loans and their equity into collateral, which often meets the down-payment requirement.

Streamlined Application Process

To facilitate refinancing, the SBA streamlined the application and approval processes for 7(a) and 504 loans, reducing paperwork requirements and expediting the review. This should enable self-storage owners to access much-needed funds quicker.

In addition, minority investors who own less than 19% of a property are no longer required to provide three months of bank statements showing their funds. Each guarantor or investor must typically provide one month of bank statements and sign an investor affidavit.

"There's a limited amount of information required on individuals with 19% ownership or less; however, every lender can ask for as much information as they want," Smith says. "If the 19% owner is providing 80% of the down payment, [the lender] may request to see more information from that individual." This might include a personal financial statement, or personal and business tax returns or bank statements.

Additional Application of Seller Debt

Seller debt can now be used as equity toward the required 10% down payment on a 7(a) loan. Borrowers can also make payments toward their seller debt concurrently with their 7(a) loan payments after two years. Previously, the seller debt had to remain fully on standby until the bank loan was completely repaid. However, it still can't include balloon payments and must be fully amortized.

If a seller debt isn't counting toward equity, it can have any terms to which the borrower and seller agree. It's important to review the language in the seller-financing agreement with your lender prior to finalizing the deal to ensure it complies with SBA requirements. The bank also wants to confirm that the seller-financing terms make sense.

"Is it a reasonable interest rate? Is it a reasonable amortization or payback period? Having 25% due in six months doesn't make sense, but a 7% interest rate while on standby for the first two years, followed by three-, five-, or seven-year repayments is a good deal," says Smith.

The SBA doesn't typically like the seller to carry notes, but if the debt is covered below the threshold of leverage, that structure should work, according to Cody Baker, CEO of Baker Capital Partners. "The stipulation that we had on a recent deal was similar to what Ben [Smith] describes. The seller wanted to [offer] a five-year note, but because the bank's portion was a 10-year note and there was a 25-year note from the SBA, the bank wanted the seller note to match the 10-year [term]," he says.

HELOCs and Cash-Out Refinances Now Included

A home equity line of credit (HELOC) and cash-out refinance are now allowed as part of borrower equity. They join soft costs, land and gift letters as other components that are accepted as part of the SBA 7(a) program.

"Keep in mind, a bank would still need to include the HELOC or cash-out refinance debt terms into the cash-flow analysis and combine that debt with any bank debt being used for the self-storage facility," says Nick Collins, vice president of Bank Five Nine. "Being gifted the down payment has always been a straightforward process as long as a gift letter is drafted from the money source and there are no repayment terms expected."

Baker also stresses the importance of borrower "seasoning." "The analysis I take clients through when they want to refinance is, what does your ownership seasoning look like? How much cash did you put in? How much are we trying to pull out? If you put in a million and we're only trying to pull out half a million, and the bank's [seasoning] requirement is 24 months but we're at 20 months or 18 months, we can probably make that happen because we're not cashing out all the skin in the game."

Requirements for Change in Ownership

The SBA asks for equity when ownership changes partially or completely, or when there's a change between current owners. If one partner is borrowing the money to buy out another, the funds can't exceed a 10-year payback period, which would hurt cash flow.

"In the case of a partial change of ownership, the project must reflect a debt-to-worth ratio no greater than 9-to-1 on most recent financial year-end and current-quarter balance sheets," Collins says. "If it doesn't meet the above, cash in the amount of 10% of the ownership purchase price is required."

Expansions With No Money Down

If a self-storage owner wants to purchase an existing facility, expand a site or build a new development, it may be viewed as an expansion because it's as expanding the business. For example, an acquisition may be considered an expansion if ownership in both facilities is the same, they share a North American Industry Classification System (NAICS) code and they operate in the same geographic area. For example, if you're opening or acquiring a facility an hour away from another you currently own and will be operated under the same management, it could qualify.

"Depending on the 7(a) or 504 program, an owner must have 12 to 24 months of ownership history in their current facility," Collins says. "With the 7(a), you can technically obtain a new loan with zero money down for the expansion by using the equity from the first facility you own."

Personal-Resources Test Eliminated

Perhaps one of the biggest changes to the 7(a) and 504 loan programs is the SBA is no longer looking at borrower's liquid assets to determine eligibility.

"A general rule of thumb is someone could possibly be considered too good for the SBA if their cash on hand equals or exceeds the loan being requested. There have been times where a bank could argue that even though someone has the liquidity level that may be questioned by the SBA, they need to keep liquid reserves for business purposes, emergency funds, operating capital, taxes and other needs. I think there's more flexibility in the net-worth rule than people may think," Collins says.

"Currently, conventional banks are having a hard time with liquidity across the board. Therefore, they're leaning heavily on borrower liquidity as a second source of repayment, along with requesting deposits from that stated liquidity of the sponsor," according to Baker. "The SBA lends to start-up businesses and entrepreneurs, so this liquidity hurdle seen across the country is much easier through the SBA loan program at this time."

Easier Debt Conversion

An existing SBA loan can now be refinanced into another SBA loan. In addition, banks no longer require written proof that a borrower's current lender won't refinance their 7(a). Both modifications offer additional security against worsening economic conditions.

"Now it's possible for someone who is currently in a 7(a) floating-rate SBA loan to refinance into a 504 SBA loan with a fixed rate. This is beneficial to the borrower because it protects against market fluctuations," Baker says. For a borrower to qualify, the new monthly payment must be reduced by at least 10%, and the existing SBA loan must be current for 12 months.

Third-Party Managed Facilities Now Eligible

Previously, the SBA viewed self-storage facilities managed by real estate investment trusts (REITs) like CubeSmart, Extra Space Storage and Public Storage as passively managed, which meant they weren't eligible for loans. Though the REITs themselves still can't use the 7(a) and 504 programs, other owners can, even if they hired a REIT for management.

"A bank still has to review the third-party management agreement to make sure it complies with the SBA [standard operating procedures] rulebook," Collins says. "I think using a REIT is still a gray area with compliance requirements."

A Path to Growth

Overall, these changes to the 7(a) and 504 loan programs make it easier for self-storage owners to refinance their existing debt and improve their financial health. By providing access to affordable capital and reducing administrative burdens, the SBA aims to support the growth and sustainability of small businesses nationwide. ISS

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CONSTRUCTION CASH

During the pandemic, the self-storage industry benefited from the shift in consumer lifestyles, which created more demand and spurred rent increases at a higher velocity than ever before. This high performance along with low interest rates led to record levels of development. However, a lot has changed since then.

First, demand is normalizing, and there's an onslaught of new facilities, creating intense competition. In markets nationwide, asking rates are on the decline, and self-storage operators are trying to maintain revenue by balancing street rates against those being charged to existing tenants. Starting in March 2022, short-term interest rates rose rapidly as the Federal Reserve aggressively increased the federal funds rate. That trend didn't end until September 2024, when we finally saw the first rate cut—hopefully a sign that more relief is coming. Lastly, post-pandemic inflation has greatly impacted the overall economics of building.

If you're looking to develop a self-storage facility in 2025, you may be seeking a construction loan. The path to securing one within the current market should begin with a reevaluation of project assumptions, viability and investment return. Given the rising cost of materials, labor and capital, as well as current supply and demand factors, things might not pencil out the way you want. If the plan does meet your investment criteria, finding the right financing starts with knowing who's lending and the terms to expect.

Finding a Construction-Loan Lender

Local and community banks as well as some credit unions are often the most receptive and best equipped to offer conventional construction loans for a proposed self-storage development. They have the edge in understanding the real estate market and its nuances. They may also be familiar with the project's sponsorship group and development team.

That said, many regional and national banks are super selective on construction loans. You might need to expand your search to include more lenders, for example, Small Business Administration (SBA) loan providers offering funds under the 7a or 504 program. These loans are structured to provide higher proceeds than conventional bank loans, but they must comply with certain guidelines. They're also full-recourse, and costs and rates will likely be higher than with conventional lending.

Construction-Loan Terms and Rates

Regardless of the lender you choose for your self-storage construction loan, terms will be based on the maximum percentages of loan-to-cost and the stabilized loan-to-value. If you're getting funds from a conventional bank or credit union, terms will vary widely based on loan size, anticipated economics of the project, the borrower's banking relationships, financial strength of the sponsor, and other factors such as the proportional size of a depository account.

The construction-loan terms will require the borrower equity to be expended prior to funding. Then there will be draw mechanics for which proceeds are released as the project progresses. The amount will also account for the cost of interest sufficient to service the loan during construction as well as any operating shortfalls during the initial lease-up.

Most construction loans will have a three-year initial term with interest-only payments, though there are often extension options. At lease-up stabilization, many self-storage owners convert to a fixed- or variable-rate permanent loan with a 25- or 30-year amortization schedule.

The interest rates for construction loans are most often floating and based on the prime rate, secured overnight financing rate or Bloomberg short-term bank yield. All indices move directionally as the Fed lowers or raises its fund rates.

Typically, construction loans require full recourse with completion and personal guarantees for the repayment of principal and interest. There's a very limited number of lenders that'll offer nonrecourse options, and they still require completion guarantees. These are often non-traditional capital providers, such as a debt fund, that are usually looking to finance larger-cost projects at higher interest-rate returns. Some lenders will allow the recourse/guarantee to "burn down," or be reduced at certain occupancy or other operating-performance hurdles.

Requesting a Self-Storage Construction Loan

When evaluating an application for a self-storage construction loan, a lender will likely rely equally on the financial strength and operational experience of the ownership entity as it will on the merits of the proposed development. Make sure you highlight the credentials of the sponsor, proposed manager, general contractor, architects, engineers, and other team members.

Providing depository enhancement will also increase your chances of a positive response. I've recently seen some lenders require 10% to 30% deposit accounts relative to the loan amount.

Include a feasibility analysis of your self-storage construction project in your loan presentation. It can be provided by a third-party professional or by you yourself, if you have the credentials to do so. The study should address:

- Physical attributes of the site and proposed building improvements
- Market supply and demand
- Construction budget
- Unit-mix pricing
- Lease-up projections through stabilization

It all comes down to projected stabilized net operating income. On a reasonably conservative basis, the project shouldn't only provide a sufficient return on investment, it'll need to show enough cash flow to support a take-out permanent loan.

Construction-Loan Cautions

Hidden supply. Given the amount of new construction in the self-storage market today, it's more important than ever to not only understand the current supply but additional projects in planning stages that may come online. Also, keep in mind that there may be shovel-ready locations in the competing area that needed approvals but, driven by changes in the economy, had been put on hold or abandoned. If factors change that lead to more favorable returns, those projects could restart and be completed along an expedited timeline.

Banker's unit mix. Be careful not to create a self-storage unit mix weighted too heavily on smaller sizes that yield higher rent per square foot. This is often described as a "banker's mix" and can cause you to overestimate potential revenue. Generally, as a facility's distance from urban centers increases, unit-size averages tend to get larger.

Build-to-hold mentality. Sensitivity analysis should be a part of your process in charting out worst- to best-case scenarios. It's also prudent to go into a self-storage development project with the mindset of owning the facility long-term, at least through the end of lease-up. Merchant builders with the intent to sell at or near Certificate of Occupancy are more exposed to market conditions at time of completion that may dramatically impact investment returns.

Success Is Achievable

Self-storage development has never been for the faint of heart. Many owners choose to work with finance advisors or mortgage brokers who can help them secure financing, whether for construction, acquisition or refinance needs. With the challenges the current market presents, it may be smart to seek professional assistance.

Even if it may be more challenging to build today compared to the past, there will continue to be a need for new self-storage facilities. Construction financing can be secured, though you may need to look harder, talk to more lenders and do a bit more homework. ISS

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Factors Impacting ***Development Capital***

The self-storage development sector is still robust, but the availability of capital to fund projects can change based on many factors. This article offers insight to the world of real estate financing, to help you understand the influences that may be impacting your ability to secure capital. We'll examine macro- and micro-economic dynamics, as well as the nuanced role of the government in the development landscape.

Project and Borrower Viability

At the core of any self-storage project lies its financial viability. Creating a compelling narrative around the following factors becomes paramount in your ability to obtain financing at favorable terms.

- **Cash flow:** Understanding the cash-flow dynamics of a project is like reading its financial heartbeat. Positive cash flow indicates operational viability and potential return, while negative cash flow signals risk that can negatively impact financing.
- **Capacity:** This is the borrower's ability to take on debt in relation to income. It goes beyond income and focuses on a person's ability to effectively manage additional debt.
- **Capital:** In the financial realm, this serves as a safety net. It's the cash invested in an asset that acts as a buffer for loan repayment.
- **Collateral:** These evaluations use metrics such as debt-service coverage and loan-to-value ratio to gauge a project's financial viability.
- **Conditions:** These encompass project alignment with lender interests, including terms, life expectancy and project classification.
- **Character:** This includes the borrower's credit score, profession and history of fulfilling commitments. Lenders seek assurance that borrowers can be trusted to fulfill their obligations, and a great way to show this is a positive borrowing history.

Macro-Economic Dynamics

The following macro-economic dynamics are also important in shaping your self-storage project's financing landscape:

- **Federal rates:** Understanding how federal money supply shapes interest rates is critical for making informed decisions in a volatile market. Obviously, fluctuations in rates influence the cost of borrowing.
- **Migration trends:** Population-migration patterns can significantly affect your ability to obtain capital. For example, a mass exodus of potential customers from your target self-storage market can significantly alter your projections, making lenders less supportive of your project.
- **Global economic shifts:** An event such as a pandemic or geopolitical conflict can impact self-storage supply and demand. Developers and lenders must anticipate and understand how these trends affect the market and assess associated risks.

As a self-storage developer, you need to stay attuned to these factors and adapt your investing strategies accordingly, ensuring your project aligns with prevailing economic conditions. If you're successful in this, you'll be a step ahead and better able to assess the risk of a "hold" or a "fold."

Micro-Economic Nuances

Now, let's shift our focus to some micro-economic considerations that can impact your self-storage development financing. Your feasibility study acts as a roadmap to many of them, guiding you through local product demand, market trends and potential collaborations.

For example, one of the things your study will examine is average household income, which plays a crucial role in determining the rental rates you can charge; that impacts your financial projections and ability to borrow capital. If your property caters to households with a six-figure income on average, there might be a higher demand for luxury storage options such as wine and boat/RV storage, which generate more revenue. If the average income is lower, there may not be much appetite for these things. In either case, it's important to align your project with the economic realities of the local population.

Collaboration isn't just a buzzword; it's the key to making your project financially viable. By aligning your self-storage rates with the income potential of your customer base, you ensure your project isn't just a financial success but a cultural and economic asset to your community.

Government Involvement

The government is a multi-faceted entity that can influence the success of your self-storage development, and it's essential to understand its complexities. You must consider factors such as those listed below and how they might impact your project.

Regulations. These aim to create stability, which safeguards consumers and ensures responsible lending practices. They act as a protective barrier, preventing the kind of financial crises seen in the past. Government intervention isn't always about stifling growth. It's often about ensuring sustainable and responsible development. It also puts developers on an even playing field.

Conservation measures. While these are essential for environmental protection, they can introduce challenges for real estate developers. As federal entities work to protect wildlife and preserve land, they introduce legislation that can impact development timelines. For example, in some municipalities, there are times of year when noisy construction equipment can't be used, as it disrupts mating rituals or migration patterns for endangered species. Therefore, conservation measures need to be considered in the early stages of a project.

Incentives. Government offerings like the Community Reinvestment Act drive lenders to support projects in underserved communities, spurring development in areas that may otherwise struggle to attract investment.

Use Your Insights for Good

It can be difficult to decipher all of the elements that play a role in self-storage development financing. You need a comprehensive understanding of project and borrower viability, macro-economic dynamics, micro-economic nuances, and government impact. However, you can then leverage these insights to make informed decisions, collaborate strategically, and secure financing that aligns with your financial goals and community objectives. **ISS**

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Success in real estate often hinges on an investor's ability to align time and capital precisely when an opportunity arises. So, what do you do when your permanent lender falls short in providing the funds for your next self-storage project? A traditional bank may lack the flexibility or financing options required to help you complete a development or expansion, or even to renovate an acquisition. In today's uncertain economic climate, if your lender is hesitant or unable to underwrite your needs, a bridge loan may be the solution.

Understanding Bridge Financing

While lines of credit and construction loans might be available for a self-storage project, they come with limitations, such as recourse requirements. Further, leverage is often capped at 50%. Construction loans are riskier and typically more expensive than traditional financing due to higher interest rates, stringent prepayment terms and burdensome interest reserves. And due to the ongoing liquidity crisis, banks may require a 10% deposit of the loan amount, effectively lending your own money back to you.

A bridge loan provides flexible, short-term financing than can help you achieve your self-storage investment goals. A key benefit is this financing is often nonrecourse, meaning there's no personal liability for you as the borrower in a default. Another advantage is speed. These loans can sometimes close in 30 days or less, without an appraisal. If you're facing a 1031 exchange or need to meet a seller's cash requirements, this type of funding offers the flexibility to meet deadlines until permanent financing is secured.

On the other hand, bridge loans come with stricter underwriting criteria. Also, bridge lenders are yield-driven, seeking profit through higher fees or interest rates. That said, working with them can be worth the cost if they help you stay on schedule and unlock a property's full value.

Bridge loans can be obtained from banks, debt funds, life companies, asset-management firms and private lenders. Even some of the self-storage real estate investment trusts like Extra Space Storage and Public Storage offer bridge programs.

Bridge-loan amounts can vary significantly, starting as low as $500,000 but often reaching $30 million and more for larger projects. Portfolio loans can reach into the hundreds of millions of dollars and typically focus on release provisions, risk mitigation within cross-collateralization, cash management, staggered funding and multiple exit strategies.

Bridge-loan terms generally range from 12 to 36 months, with extension options. Typical lender fees range from 0.5% to 3%, often split between upfront and exit.

A Bridge Loan in Action

Let's look at an example of how a bridge loan might be used in self-storage. Say you're looking to purchase an underperforming facility in order to turn it around. A bridge can fund the acquisition and the necessary property improvements such as upgraded security and new roofs.

The lender typically finances up to 80% of the project's total cost. For instance, if the purchase price is $18 million and $2 million is needed for upgrades, the lender could fund $16 million as long as the loan-to-value ratio remains at 65% to 75% post-renovation. The value uplift would be driven by higher rents, lower expenses or favorable market trends.

Lender Requirements for Bridge Loans

If you plan to pursue bridge financing on your next self-storage project, here are a few things your lender will want:

- A detailed cost breakdown (i.e., acquisition price, land value, hard and soft costs, financing expenses, interest-reserve estimate)
- A project timeline
- Contractor details (if applicable)
- A pro forma of project income and expenses
- An appraisal (acquisition) or feasibility report (new construction)
- Market comparables and occupancy rates
- Borrower's track record, including credit history and financial strength

The creditor will evaluate the projected value of the self-storage property and the future debt market. They'll also consider potential challenges such as construction delays, rising costs or economic downturns. Be ready to address these concerns with a clear plan and a strong case for the success of your deal. This might include options like pre-selling the property to provide extra security and reduce lender risk.

Bridge lenders also place significant emphasis on the exit strategy, in other words, how the loan will be repaid. Before proceeding, they'll ask, "What's my take-out?" You might sell the property after renovations are complete, or refinance with permanent debt through a bank, the Small Business Administration or a commercial mortgage-backed securities lender.

Bridge loans come in many forms, each tailored to specific needs. If you need a flexible, short-term financing solution for your next self-storage project, reach out to a commercial mortgage broker or banker to find the right program. **ISS**

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CPACE Financing

There's an increased emphasis on eco-friendly building practices across many industries today, and self-storage is one of them. If you're developing a facility with energy efficiency in mind, there's a unique financing option available to you, though you may not be aware of it. It's referred to as CPACE (commercial property assessed clean energy). This niche tool allows developers and owners to fund sustainable elements of their project, such as climate-controlled units.

CPACE can finance up to 35 percent of the stabilized value of a self-storage project and can be amortized over 30 years, similar to a residential mortgage. Legislation is in place in 40 states, with expanded CPACE programs available and more flexibility in how to deploy the funds. Improvements include longer maturity dates and the option to include plumbing and property-resiliency expenses. Let's explore more reasons why it's a boon for self-storage.

CPACE and Self-Storage: A Perfect Match

Self-storage projects are great applications for CPACE financing due to the large role that a climate-controlled environment plays in facility operations. For example, my company recently funded a facility in Romulus, Michigan, that'll comprise seven single-story buildings containing 298 climate-controlled and 177 drive-up units. The developer received a $1.5 million, 25-year CPACE loan alongside a

$5.5 million bank loan to complete a $9 million funding package.

The money will be used for the building envelope, Energy Star windows, high-efficiency HVAC and plumbing, and LED lighting. These energy-conservation measures are expected to save $57,616 annually, with a payback period of eight and a half years.

Since 2022, more regional banks and debt funds have begun combining CPACE financing with their mortgages. These lenders see the advantage of using this extra funding to help borrowers reach an acceptable loan-to-cost or loan-to-value ratio, so they qualify without needing additional partners or extending their credit limit. This approach allows banks to lend with less risk.

What Is CPACE?

Commercial property assessed clean energy (CPACE) is a financing structure in which building owners borrow money for energy efficiency, renewable energy, water conservation or other sustainable projects and make repayments via an assessment on their property-tax bill. The arrangement remains with the property even if it is sold, facilitating long-term investments in building performance.

CPACE may be funded by private investors or government programs, but it is only available in states with enabling legislation. It may be a good fit for your company if you:

- Want to invest in long-term improvements to building resiliency and reliability
- Own facilities in jurisdictions with CPACE programs
- Want long-term financing (10-plus years) with lower monthly payments
- Prefer to do pilot projects at a few locations before implementing more broadly
- Don't plan to own your facilities long-term and want to transfer financing obligations at the time of sale

Source: *Better Buildings, U.S. Department of Energy*

Increased State Adoption

The next cycle of self-storage development will see investors benefit more now that CPACE financing is available in nearly every state after more than a dozen recently adopted new or expanded laws. This borrowing option helps developers make their projects financially feasible. The Midwest was an early adopter, with Minnesota seeing more CPACE transactions than any other state. Ohio and Michigan aren't far behind.

However, with the most recent changes, the largest benefit will be felt along the East Coast. For example, after a few starts and stops, New York City is now open for business. Given the sheer size of that commercial real estate market, and the pent-up demand, this region should prove to be a massive benefactor of CPACE financing. New Jersey was slow to roll out its program, but we anticipate that happening by early 2025.

Growth markets like Georgia and North Carolina are launching statewide programs for the first time. As capital follows population growth into the Southeast, self-storage developers in these areas can expect to benefit from lower financing costs and nonrecourse, 30-year loans.

This expansion of CPACE financing presents a unique opportunity for self-storage developers and owners. Being long-term and low-cost, this financing can significantly enhance the feasibility of energy-efficient projects nationwide.

As more states adopt CPACE programs, self-storage professionals are well-positioned to take advantage of this innovative financing tool and drive sustainable growth in the sector. Don't overlook this long-term, low-cost capital source that'll help transactions move across the finish line! **ISS**

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A Successful Loan Request

While a professional, comprehensive and compelling loan request has always been the key to obtaining optimal financing for a self-storage acquisition, development or refinance, it has become even more critical over the past couple of years. Since the drastic increase in interest rates in 2022 and 2023, funding has become more expensive and scarce. To ensure you can get your hands on that precious, limited lender capital, you must know how to assemble a solid loan application.

This process takes time, but it'll save you and your prospective lenders considerable effort down the road. A solid package will answer many questions before they're asked and allow lenders to quickly evaluate your request. While nobody wants a refusal, the next best thing to a quick "yes" is a speedy "no," as it allows you to efficiently move on to other finance options.

When you present a complete and professional loan request, it shows lenders that you have an in-depth understanding of your self-storage project, market and competitors. It also demonstrates that you understand current lending parameters and can apply them to the specifics of your plan. Presenting a complete and clear request with achievable market-rate terms makes a lender's job much easier, often moving your application to the top of the stack.

The Essentials of a Self-Storage Loan Request

At a minimum, every self-storage loan application should include:

- The purpose of the loan (refinance, acquisition, construction, etc.)
- The desired loan amount
- Key loan terms (length, amortization, fixed or variable rate, recourse or nonrecourse)
- Loan metrics (loan-to-value or loan-to-cost, debt-service coverage ratio, debt yield)
- A "sources and uses" schedule
- Borrower and loan-guarantor information
- Property-management information
- Property/project details
- Historical and projected operating income and expenses
- Self-storage market and competition information

Including a "sources and uses" schedule is an excellent way to give the lender a snapshot of how the funds will fit into the overall capital plan for your self-storage project. It'll show where the required capital (debt and equity) comes from and how it'll be deployed. For example, a simple schedule for an acquisition might show the requested loan amount and equity invested by the borrower as "sources," and the purchase price, transaction costs and closing costs as "uses." Total sources should always equal total uses.

Once the lender understands your requested loan terms, metrics and capital structure, they'll want to know more about the borrower. Who will be the entity, and what does that organizational structure look like? Identify and include a résumé for each key member or partner responsible for operating or developing the project. It should contain a focus on their experience and expertise in the self-storage industry or commercial real estate. If the borrower will engage a property-management company to oversee the facility, it's important to include its experience and qualifications as well.

Next, who'll provide the necessary equity and personal loan guarantees, and what are their financial capabilities? Please note, it is *not* recommended to include personal financial statements or tax returns in your self-storage loan request. This information should only be transferred securely to potential lenders that show a sincere interest in the opportunity.

As to property information, identify the location through regional and local maps, and describe the property's physical attributes using high-quality photos. If this is a refinance or acquisition, you'll also provide operating details including:

- Two years and trailing 12 months of historical income and expenses
- A 12-month forecast of operating income and expenses
- Three years of occupancy history
- Current unit-mix schedule showing all sizes and pricing, including total rentable square footage and total gross potential income

Finally, put into context how the facility will compete in the local self-storage market. Discuss competition, rental rates, occupancies, demand factors and potential new supply. These details will demonstrate your knowledge of the industry and help you build credibility.

Additional Requirements for Construction Loans

Beyond the general elements outlined above, a self-storage construction-loan package typically requires the following:

- **Team qualifications:** Résumés or certifications of key personnel involved such as the developer, general contractor, architects and engineer
- **Feasibility study:** A comprehensive assessment of the project's viability, ideally conducted by an independent third party
- **Detailed construction budget:** A breakdown of all project costs including the land acquisition, site preparation, materials, labor and soft costs (e.g., permits, legal fees, interest)
- **Construction schedule:** A timeline of project milestones and completion dates
- **Project plans:** Architectural drawings, including site plans, floor plans, elevations and renderings
- **Financial projections:** A five-year operating forecast, showing monthly income and expenses, with a focus on breakeven point and stabilization

> When you present a complete and professional loan request, it shows lenders that you have an in-depth understanding of your self-storage project, market and competitors.

Maximizing Your Chances of Loan Success

Here are some final tips for securing favorable self-storage financing:

- **Target the right lenders.** Find those that specialize in self-storage and align with your specific needs in terms of loan amount, leverage, key terms and personal recourse.
- **Set realistic expectations.** Asking for more than you need may get your request unnecessarily declined. Conduct market research to ensure your terms are competitive and reasonable. The time to negotiate is *after* a prospective lender shows sincere interest and provides preliminary terms.
- **Conduct a thorough review.** Carefully review your loan package multiple times before submission to identify and address any potential issues.
- **Seek feedback.** Test your loan package with a few lenders to get initial feedback and make necessary adjustments.
- **Be responsive.** Promptly address lender questions and requests for additional information to demonstrate your commitment.
- **Maintain open communication.** Be honest and transparent in your interactions with lenders.
- **Follow up.** Persistently and professionally follow up with lenders, understanding that their timelines may differ from yours.

Here's one last piece of advice: When seeking self-storage financing, casting a wide net is more important than ever. Capital is tighter than it has been in more than a decade. Soliciting more qualified lenders will greatly increase your odds of obtaining the loan you need and deserve. **ISS**

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Critical Development Factors

There are risks and rewards to any investment. When it comes to self-storage development, a cautious and thorough approach can pay healthy dividends. The opposite can also be true if you don't anticipate and account for potential pitfalls.

Between 2015 and 2019, our industry saw a large increase in new construction, both by existing facility operators and new developers clamoring to get into the business. While many projects were completed and ultimately successful, some first-time builders made mistakes that cost them their properties. They lost them to their lenders or investment partners.

There are two primary ways to become a self-storage owner. You can buy an existing facility or build a new one. When I got started in this business, I realized there was greater upside for me in the latter. Though some of my initial assumptions may have been wrong, I learned enough to recognize a good project as well as key challenges that must be surmounted to ensure financial success.

If you're like me, you can't afford to build a self-storage development with fatal flaws. The good news is many pitfalls are avoidable. Below are some factors and obstacles to consider in today's market.

Site Factors

"Location, location, location" is a cliché, but it's your first and most important key to self-storage development success. Besides appealing site characteristics and local demographics, you have to be concerned with whether a piece of property has the proper zoning to accommodate self-storage. Then there's the cost of the land.

While you want the best location possible for self-storage, the property must be cost-effective and provide the square-foot yield you need to be profitable. Also, will it allow you to build big enough to meet market demand? Whatever you do, don't fake the numbers to make the project pencil out!

Pay attention to site topography and utilities. What will it cost to make it construction-ready? For example, will you need to remove trees or soil? Are there lines for water, electricity, gas and telecommunications, or will you have to install them? Storm drainage is another consideration and must meet local building codes.

Facility design is critical, too. You must create one that meets your financial needs as well as customer expectations and the requirements of the governing municipality and community. Everything must be conceptualized, from the placement of the storage units and office to the location of the restrooms to the maintenance closet and mop sink. Here are some other questions to answer:

- If the building is multi-story, how many elevators will there be, and where will they go? What will happen if one is out of order?
- How will staff show units to potential new customers? Think about how they'll tour the property in relation to the office, gates, golf cart and units.
- How easy will it be for customers to enter and exit as well as park and then access the office? Tenants also want easy access to access doors, moving carts, elevators and their space.

Pro Forma and Financing

Another critical factor in self-storage development is the accuracy of your financial projections. Your pro forma must be realistic and include relevant data. For example, make sure you're accounting for seasonal fluctuations in self-storage rental rates.

A key consideration is whether your income will be enough to support expenses and debt service at less than full occupancy, say 70%. Another is property taxes. Include an adequate budget for these, factoring in the assessor's valuation on competition/rent stabilization.

Construction financing is getting more difficult to acquire due to rising interest rates and development costs. Ideally, your loan-to-value should be less than 75%, preferably in the 50% to 60% range. Before shopping for financing and presenting your pro forma to lenders, do a stress test assuming your revenue will be 70% of projection. Based on that, determine if you'll have enough to cover operating expenses and debt service, with additional cash flow for any investors.

Preliminary and Construction Costs

Many new self-storage developers believe their initial costs relate to the land purchase. Some know they need to invest in a feasibility study. The fact is, there are other out-of-pocket costs necessary before you even purchase a parcel. Don't overlook the following:

- Engineering to determine building placement and storm-drainage needs
- Architectural work to determine facility size and design
- Environmental studies (more than one phase?)
- Legal costs for contract negotiations as well as appearances during planning and zoning meetings

When it comes to construction costs, the factor to keep in mind is gross maximum price, which gives you and your bank the final project cost. There will be unforeseen expenses, and your contractor will probably make some high estimates to ensure they won't be underwater. Knowing that some assumptions might be higher than reality, ask for a percentage of any cost savings from the contract amount. With luck, you can negotiate 25% to 50%.

A cost-plus approach can be an alternative if there are budget restrictions, but these contracts are typically drawn up so that contractors are reimbursed for just about every expense incurred during construction. This puts you at the mercy of their ability to deliver the final product on time and on budget. In fact, the timeline can have a huge impact on project success. Remember that until you're open for business, you aren't creating any revenue. Your carrying costs and property taxes will continue to increase, and they can be more than $2,000 per day!

Consider All Your Variables

My goal isn't to discourage you from building self-storage, but rather to consider all the variables that go into a successful project. It's up to you to ensure viability.

When you pursue a development, you're often using your time, equity and credit in addition to money from friends and family. You can't afford to make unforced errors. Use the better side of caution if you're building for the first time. Even after successfully building five self-storage facilities, I still feel uncertain when looking at a new project. Let prudence be your ally.

I look at the long game. It's about future cash flow, not the value of the facility when it's built and leased. Self-storage is a great investment. Though there will almost certainly be ups and downs, with lower leverage, you'll be able to weather the storms. **ISS**

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8 Development Pitfalls to Avoid

In the competitive world of self-storage development, avoiding critical pitfalls is key to ensuring a successful project. Here are eight potentially devastating mistakes that can derail your efforts, plus advice to help you avoid them.

1. Procrastinating

Too often in self-storage development, we see paralysis by analysis. Author, business expert and entrepreneur Alex Hormozi said it well: "If you just did all the [stuff] you already should be doing, you'd be 10 times further along than you are right now. Sometimes we need to be reminded more than we need to be taught. Less information, more implementation."

For example, if you wait to start looking for development land until you're "good at it," you never will be. Step one is to start looking for land today, and look every day. Don't wait. You'll learn 10 times faster by doing than studying.

2. Underestimating Project Costs

Every year, we see distressed self-storage projects go on the market because the developer wasn't financially prepared for the total cost. Some sites are merely approved and shovel-ready when they're abandoned while others are halfway through construction! All progress comes to a screeching halt when the owner realizes they don't have enough money to complete the project. Misunderstandings, poor contracts or inadequate plans lead to cost overruns, which eventually become too burdensome to manage. When you're spending every penny on a project and you accumulate extras that run well into six figures, those added expenses can easily and quickly put you out of business.

Sometimes a self-storage project makes it all the way to completion, but then it leases up at a much slower rate than expected. Over time, the owner may find their capital is being entirely consumed by carrying costs before they reach the break-even point.

These types of financial tragedies can be avoided by working with an industry expert who understands all development costs and best practices.

3. Overlooking Land Features

Not understanding the physical features of the land on which you're building or how to manage them will easily cause a self-storage project to go over budget or timeline. To avoid costly surprises, conduct a thorough site assessment early in the planning process. For example, do a detailed boundary survey, environmental study, geotechnical report and topographical survey. Also, walk the site and review the current mapping.

Extreme slopes may lead to expensive grading, retaining walls or specialized foundation work, which can dramatically increase site-preparation costs. Even a 10-foot grade difference on a 7-acre parcel can create substantial cuts and fills. This can cost more than $500,000 if the material needs to be hauled off-site or brought on-site, or you have to construct retaining walls.

Drainage, water-quality and wetlands issues might require costly environmental mitigation or special permits, which can cause delays. Additionally, the need to remove dense brush, mature trees, bad soils, old dump sites, old buildings or large rocks can generate unexpected expense.

A quick project killer is bad soil. Significant ledge removal is often cost-prohibitive. We've seen soils with extremely low bearing capacity that required a specialized foundation, which hundreds of thousands of dollars.

4. Using Incomplete or Poor Design Plans

When your self-storage construction plans are incomplete, it can easily lead to hundreds of thousands of dollars in cost overruns. Many contractors assume that items like signage and access control are the owner's responsibility and won't do anything about them unless it's clearly stated. For example:

- If the plans don't specify that the contractor is responsible for providing and installing the individual unit-door numbers, you'll face several thousand dollars of extra costs in product and labor.
- If the plans don't show the office slat walls and state "by general contractor, you'll be buying and installing them yourself.

To eliminate these issues, have your civil engineer and architect add a ***bold*** note on the plans that reads, "Everything shown on these plans shall be provided and installed by the general contractor."

Also, keep in mind that if your self-storage plans don't specify the exact products you want, you'll likely end up with the cheapest, lowest-quality options. Take your access gate, for example. Without clear specs like the preferred brand, you might receive a subpar system without battery backup that may not even meet industry safety standards, which could turn into a long-term liability. Without specifying video-camera requirements, you could get a 30-day backup when a 60-day is needed, along with poor video quality. You want to choose leading products that can ease your site manager's workload and improve customer experience.

Ultimately, poorly designed plans can lead to inefficient self-storage operation, safety hazards and less profit. Here are a few more examples:

- Inadequate drainage-system design can result in water damage in the units, improper access to basins, or erosion of the site that requires expensive repairs and site modifications.
- A poorly thought-out site layout and improper driveway widths can cause inefficient traffic flow, leading to customer frustration and even accidents.
- Non-compliance with local regulations or best design practices often overlooked by inexperienced designers could result in hefty fines, forced redesigns and project delays.

5. Failing to Understand Contractor Bids

Every self-storage developer must thoroughly review and compare their contractor bids. Ask detailed questions to clarify the scope. You need to fully grasp what the bid includes, but just as important, you must understand the *exclusions*. Failure to do so can lead to unexpected costs when a change order for additional work is required.

You can't assume everything is included in the self-storage construction bid. It isn't. Common exclusions include permit fees, owner inspections and material testing. Some contractors may have an unexpectedly long list of omitted items. Avoid assumptions. Always ask the contractor what isn't included.

6. Failing to Understand the Construction Contract

Once you've chosen a contractor for your self-storage development and received a construction contract, you and your attorney should review it to make sure you're comfortable with the terms and that all necessary information is included. Generally speaking, it will require modification or an addendum to balance the terms.

Many construction contracts, including those from the American Institute of Architects, are written to favor the architect or contractor. For example, they might allow your architect to make project changes without your approval or permit the contractor to charge additional fees after a certain number of rain delays.

Contracts also typically lack a firm completion date. Even if a deadline is provided, there's usually no penalty if it's missed.

Your self-storage construction contract might also specify a total dollar amount but lack a payment schedule. You should agree on this up front and include it in the contract to ensure the payments align with the value of the completed work. Without this, the project can be front-loaded, leading to extra costs and significant issues if anything goes wrong.

7. Failing to Do an Initial Market Analysis

Success in self-storage development requires building in the right location and knowing the project numbers before breaking ground. It's essential to first conduct your own market analysis; then, if your findings look promising, proceed with a professional feasibility study. If you don't do that critical, initial assessment, you risk spending thousands of dollars on a third-party report; and about 70% of the time, that expensive study will recommend you pass on the site.

8. Giving Up on Finding Land

This big hurdle stops many self-storage developers. They underestimate the time and effort required to find suitable land, not realizing it's their responsibility to put in the work. Even with the right tools and systems, it can take six to 12 months of consistent effort to identify the right site. To succeed, you must commit to the long haul. ISS

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> You can't assume everything is included in the self-storage construction bid. It isn't. Common exclusions include permit fees, owner inspections and material testing.

Proactive Development Strategies

If you're looking to build a self-storage facility soon, you won't find your path clear of obstacles. Regardless of the development boom the industry witnessed over the past couple of years, there are significant impediments inherent to the approvals and construction process. Below, four experts in the field address what these challenges are and provide advice for pushing forward to project completion and financial success.

High Interest Rates

With interest rates skyrocketing after years of stability, some self-storage projects are becoming financially unfeasible. In response to economic uncertainty the higher rates create, banks are adopting more stringent approval requirements, adding layers of complexity to the finance process. Both factors are leading to a shift in development strategies.

For example, David Langendorfer II, a developer at Signature Storage Investments in Ohio, acknowledges the difficulty of starting a new project with an acceptable debt-service coverage ratio in today's environment. His company is adapting by implementing smaller, more manageable construction phases and using higher collateral to mitigate prepayment penalties.

Angie Guerin, vice president of business development for MakoRabco, which specializes in self-storage design, supply and installation, adds that last year's surge in development was an anomaly, and the industry is now adopting a more traditional pace. "It just lends itself to that discussion on going through the feasibility process a little bit more robustly right now, and making sure that you're building in a market that is going to support the development of those dynamics at play," she said.

The Cost of Labor and Materials

Among the challenges that are impacting self-storage construction timelines and budgets—and, therefore, project feasibility—is the high cost of labor and materials. The supply chain has been stabilizing, and some basic material prices such as steel have come down substantially over the last two years. However, the costs of concrete and labor remain high.

"Shipping costs have come down, but there's a shortage of skilled trades, which is what we need for self-storage," Langendorfer says. "It's really affecting the construction. There are a lot of things that aren't starting until interest rates and labor costs come down."

Guerin doesn't see a profound softening in labor costs on the horizon, however she does believe they're going to stabilize this year, albeit at a higher cost per square foot than in the past. One way to alleviate the pressure is to hire experienced engineers and architects at the outset of construction. Projects overseen by seasoned professionals tend to be more financially viable, as the team members supporting them use their deep industry insights to navigate complexities and streamline processes.

Ted Culbreth, vice president of sales and marketing for self-storage building company SBS Construction, agrees, adding that having a strong team in place from the beginning stages of development can minimize development time; and delays are often the costliest part of a project. Engaging with consultants who have specialized knowledge in self-storage can yield significant long-term savings by avoiding costly redesigns and structural inefficiencies.

"I would recommend finding a civil engineer who has local contacts and getting a storage architect who has worked in the area," Culbreth says. "It should be a very seamless process of handing the project from the developer to the civil engineer to the architect to the general contractor to start construction. Have weekly meetings with the project managers to see what they're going to be doing in the next three weeks or next month, which can help identify a problem when it's in its infancy."

Codes and Regulations

Changes in building codes and environmental regulations can also introduce obstacles for self-storage developers today. Many states are adopting higher energy-efficiency standards or stricter zoning requirements. As a result, anyone interested in building needs a proactive plan to ensure compliance without compromising project feasibility.

Jamie Lindau, national sales manager at Trachte Building Systems, a manufacturer of steel self-storage buildings, says approvals take an average of nine months, so it's important to understand the market and where a project might be feasible. "It's easy to find sites that would work, but the city won't let you [build]. It's already happened in most states, so I think most people would just appreciate the reassurance that [the requirements] won't change again soon," he says.

There are instances in which building codes serve to benefit the self-storage industry. For instance, recent leniencies allow for a more favorable structural configuration. This means developers have more flexibility in their project designs. For example, they might be able to build a four-story facility rather than three.

A Proactive Approach

There continue to be obstacles to self-storage development, and success requires a nuanced understanding of interest rates, materials costs, labor dynamics, regulatory frameworks and other factors. The good news is there are proactive strategies you can leverage to ensure financial viability. By embracing innovation and the support of experienced professionals, you can effectively navigate challenges and optimize project outcome. ISS

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A Design-Build Strategy

Those of us in the self-storage industry learned many valuable lessons during the coronavirus pandemic. On the construction side, we discovered there isn't an endless supply of materials and labor. There were many shortages in the supply chain and extended lead times. Building costs soared and are still volatile today, which has led developers to seek innovative ways to save money.

The days of building a multi-story, climate-controlled self-storage facility for $55 per square foot are long gone. The good news is the design-build approach to construction addresses many of the above challenges. Let's examine this strategy and how it may benefit your next project.

What It Is, How It Works

What exactly is a "design-build" strategy, and how can it help self-storage builders, owners and investors reduce construction costs and timelines? It has actually existed for thousands of years. Throughout history, architects and builders closely collaborated to construct the great cathedrals and other monumental edifices that have stood the test of time.

The design-build process fell out of popularity during the Industrial Revolution when a new level of building complexity forced architects to concentrate on design and contractors to focus on construction. However, it resurged after World War II to meet the need for faster project delivery and increased demand for new structures. The establishment of the Design-Build Institute of America in 1993 further enhanced its popularity.

Design-build is a process in which the contractor hires the architect, engineers and specialty consultants, then works jointly with the architect as a single entity. Some self-storage developers are apprehensive about this approach because they don't want to lose control over the design process, or they think it costs more than the traditional design-bid-build approach. However, these fears are unfounded. In design-build, the owner works closely with the architect to achieve the design that best suits their needs, and the contractor advises on all expenses with every decision.

In fact, having the contractor engaged on a self-storage project early "allows the developer to receive accurate and real-time construction-cost assessments at each stage of the design process," according to Matt Williams, president of Metrolina Builders, a Charlotte, North Carolina, design-build contracting firm. A reputable design-build contractor bids all major systems in a transparent manner, providing a minimum of three for review with the owner.

This design-build Extra Space Storage facility in Charlotte, North Carolina, opened in 2021. Owned by Four Store LLC, it comprises 122,000-square-foot across 834 climate-controlled units.

The Advantages of Design-Build

The primary advantage of applying a design-build approach to a self-storage project lies in the seamless translation of design concepts into the most cost-effective structure possible within the current construction market. The contractor provides "open-book" pricing, ensuring the owner is aware of accurate building budgets.

The design-build contractor also identifies systems and materials that have shorter lead times and greater availability. Coming out of the pandemic, items such as electrical switchgear and HVAC units required a one-year delivery, making it difficult to meet the demands of a 10-month construction schedule. Having someone on the team to suggest alternatives became invaluable.

In a design-build scenario, the self-storage owner can also have the contractor release key trades before the documents are complete. For example, the structural skeletons for climate-controlled facilities require separate engineers to design their systems, leading to longer lead times. However, with the contractor engaged, these shop drawings can be commissioned earlier in the process.

A design-build team also helps an owner avoid costly change orders that are prevalent in design-bid-build arrangements, and there's no finger-pointing when mistakes occur. In fact, much of the cost savings stems from seamless communication among all parties, which allows the contractor to influence early decision-making.

The popularity of design-build is expected to continue growing, providing construction efficiencies not only for self-storage projects but all types of real estate. It's estimated that approximately 47% of all commercial building will be delivered via design-build by 2026. It's important that self-storage developers work with experienced partners who have a history of embracing this collaborative process; however, the benefits are enormous: cost control, streamlined decision-making, shorter delivery schedules and fewer headaches. ISS

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VALUE ENGINEERING

When creativity meets self-storage development, the result is an exceptional facility design that converts a vision into a stunning reality. However, if the architect, owner and contractor don't share that vision, the would-be masterpiece can quickly become a burden that drains time, money and resources.

When we apply a design-build process to a self-storage facility, it's constructed with the builders, the owners, the expense and the end users in mind. We refer to this as *value engineering*, which means we collaborate to figure out clever strategies that'll enable the project to achieve its goals while costing the least amount possible in the long run. This article shares several simple but crucial recommendations that can help you keep your new build on budget without sacrificing visual appeal.

Exterior Strategies

Consider your visible exposure. Spend money where the results can be seen. If your self-storage facility will have façades that face trees or open fields or are otherwise not visible from the street, don't worry about upgrading them. Focus instead on building components with the most public exposure.

That said, be aware of zoning jurisdictions that require specific façade treatments. Some local governments require that your facility look like a hotel, blend in with the retail streetscape or resemble a single-story facility, even if it's multi-story.

Choose materials that make sense. There are plenty of cost-effective choices available for the exterior of a self-storage building, but some are more economical than others while still being attractive. For example, you might use metal panels on the façade instead of masonry. These corrugated or ribbed sheets come in a variety of profiles and can provide an aesthetically pleasing look with variations in color and texture. Fewer components are needed to apply them, which reduces installation time, accelerates overall construction speed and lowers labor costs. On the other hand, masonry systems require multi-layered components and treatments, like water-resistant barriers and applications, that can add a lot of time and expense.

Be mindful of building height. The standard minimum building height for single-story self-storage structures is 8 feet, 4 inches, measured from the finished floor elevation to the lowest eave. Anything taller than this is likely unnecessary unless you're building climate-controlled storage or extra-large units intended for boat/RV storage or commercial contractors. A taller building will mean more materials, which can significantly increase your costs.

Explore budget-conscious roof options. Another wise design choice for self-storage is to stick with a standing-seam metal roof. Roof designs that use asphalt shingles, rubber or thermoplastic polyolefin, can add cost and require additional components such as decking, ISO (polyisocyanurate) boards and drainage crickets. This is especially true if your structure is large, like a temperature-controlled building.

Also, the taller the pitch, the more likely your roof will be seen by customers from the ground, which means its appearance is more important. Stick to a low pitch, which gives you more flexibility from an aesthetic point of view.

You may want to avoid fancy roof features like parapets, mansards and hip roofs, which introduce framing and other costly challenges. For example, parapets on the low side of the roof can create drainage issues, especially for standing-seam roofs; plus, you'll need an overbuild roof, which adds additional framing and other costs.

Interior Strategies

There are cost-saving strategies that can be applied to the interior of your self-storage facility as well. Here are a few budget-friendly options:

Keep your hallways open up top. Open hallway ceilings will make your facility feel more spacious while cutting down on construction costs. Installing ceiling panels, soffit ceilings or drop ceilings is expensive and can add time and complications to mechanical runs like HVAC ducting, sprinkler pipes and lighting.

Stick with concrete flooring. There's no need for carpeting or epoxy finishes in self-storage hallways, which see a lot of traffic and experience significant wear. Leaving the concrete exposed and applying a sealant is much more affordable than eventually paying to clean or replace another floor covering.

Keep it bright. Choose white for interior hallways, as it'll reflect light well and brighten the overall structure. This will ultimately reduce or eliminate the need to install additional light fixtures inside the storage units. In addition, some colors may carry an upcharge, so it's best to avoid that expense.

Keep the lighting simple. For the hallways, consider 8-foot LED strip lights with built-in motion detectors, which can reduce the cost for wiring and installation. Anything beyond this will increase your cost.

These are just a few examples of the kinds of strategies that can be incorporated into the self-storage design-build process. By exploring these and other value-engineering tactics, you can improve your construction process and bottom line. ISS

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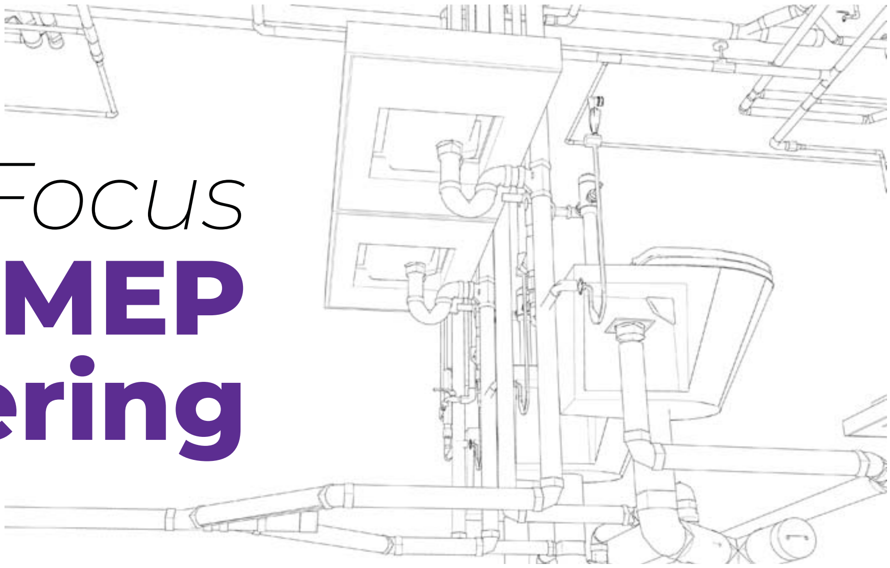

A Focus on MEP Engineering

Self-storage development is still on the rise, but with expenses for nearly everything also going up, owners and builders are very focused on budget. The engineering of today's facilities, which includes the mechanical, electrical and plumbing (MEP) systems, pose unique challenges but also opportunities to create more energy- and cost-efficient sites.

While it's your engineer's responsibility to adhere to local and state building codes, ensure energy efficiency, and maintain safety standards, they must also be strategic and selective in their choice of equipment and materials. This is crucial because return on investment (ROI) can be significantly impacted by MEP design. Let's look more closely at the systems involved and ways to ensure a more profitable project.

HVAC

Self-storage HVAC (heating, ventilation and air conditioning) design is contingent on several factors including project location, climate zone and building-envelope insulation. To determine the appropriate tonnage of your AC units, you must consider each of these variables. Typically, self-storage requires 1,200 to 1,800 square feet per ton of cooling capacity. The insulation standards stipulate a minimum of R-19 for exterior walls and R-30 for the roof, though these values can vary based on climate zone and window coverage.

While split heat-pump systems are a popular choice, there are other options. Packaged units, which contain both heating and cooling components in a single, compact product, are advantageous for their ease of installation and maintenance; however, they may have limitations in terms of capacity and energy efficiency compared to split systems.

There's also the choice between gas and electric. Gas equipment may have lower operational costs, especially in regions with cheaper natural gas; plus, they provide more effective heating in cold climates. However, they require venting and combustion air provisions, which can add complexity and increase installation cost. Moreover, gas may not be as energy-efficient as electricity in some cases.

Electrical HVAC, including heat pumps and furnaces, can be more straightforward to install and maintain. They're often more energy-efficient and don't require combustion-related infrastructure or gas lines. Yet, they may result in higher utility bills, especially in areas with expensive electricity. Adding solar panels can help, but it'll be necessary to run a cost-benefit analysis.

Finally, you'll have to decide where to place your HVAC equipment. Roof-mounted systems can free up valuable ground space, enhance security and reduce noise; however, they may be more challenging and costly to install and maintain due to limited access. Ground-mounted systems are easier in this regard but take up space that could otherwise be for other uses. Ultimately, these decisions should be based on the specific needs and constraints of the self-storage project.

HVAC Pro Tips

Reduce complexity. Depending on your building-code requirements, consider using multiple fan coils. When doing so, it's advisable to keep them under four tons or less to avoid the need for an economizer, which will add complexity to the system and increase initial costs.

Consider fabric ductwork. Some companies offer innovative and cost-effective fabric alternatives to traditional metal ductwork. This product not only provides precise and efficient HVAC for virtually any building application, it can offer better indoor air quality and control over the growth and spread of bacteria and mold. It's also easy to clean and can even be laundered.

Installation of fabric ductwork is simple. It involves tension cables running from one end of the corridor to the other, and a lock-down strap attached to one end of the fabric duct to the top plenum on the indoor air handler. Then the fabric ducting is clipped to the tension cable and zipped up. This results in air being evenly distributed along the entire length of the duct through laser-cut precision air holes.

Electrical

In self-storage, efficient electrical engineering demands careful placement of switchgear and subpanels to minimize power-transmission distances and trenching. Switchgear should be centrally located near the utility transformer, reducing energy losses and enhancing voltage stability. By strategically situating subpanels closer to self-storage units and along main pathways, engineers can reduce the overall length of conduit runs, trenching and associated costs while maintaining effective power distribution and ensuring compliance with electrical codes and standards.

Additionally, individual disconnect switches should be positioned at each building to isolate power in case of emergency and facilitate maintenance. Grounding systems for separate buildings must also be implemented to ensure safety and compliance with regulations. This strategic approach optimizes power distribution while reducing installation costs and enhancing reliability.

Electrical Pro Tips

Use LED exterior lighting. It may sound simple, but using LED wall-pack fixtures for exterior lighting can cut costs significantly. They consume less electricity than traditional lighting, resulting in lower energy bills. You can improve savings further by adding controls such as motion sensors or photocells, which allow for automatic activation and deactivation based on occupancy or ambient light levels.

Use interior motion sensors. Integrating motion sensors into your self-storage corridor lighting is energy- and cost-efficient. When someone walks down the hallway, only the lights in their immediate path are activated vs. the entire corridor or floor. Additionally, battery-powered emergency lighting can be placed at every third or fourth fixture down the stretch to remove the need for "bugeye" fixtures and the additional wiring involved with their installation.

Select the proper voltage. An electrical service size of 600-amp, 480-volt/277 three phase and four wires is equal to roughly 1,200-amp, 208-volt/120-volt three phrase and four wires. On a large site, 480-volt power makes sense for longer runs, lower voltage drop and smaller wires, resulting in a more efficient system. However, when it comes to a single building with multiple floors, it's better to run on 208-volt power to avoid having multiple step-down transformers and different panels for various voltages. Even lighting and security gates can be run on 277-volt or 120-volt, so it can support either system.

Be strategic about receptacle placement. Selective placement of general receptacles can make for easier maintenance. Placing them on the ceiling and next to fan coils serves a dual purpose of allowing for HVAC-equipment maintenance and restricting customer access. If the goal is to prevent tenants from plugging in their own equipment and appliances, these receptacles can be lockable.

Plumbing

Plumbing design for self-storage often differs significantly from that of other commercial properties due to there being minimal requirements. These facilities typically have one or two all-gender, single-occupancy restrooms in the office area, with perhaps one or two additional per floor at most. These are typically designed to meet only basic hygiene needs for customers and staff.

Some facilities include site plumbing and hose bibs along the exterior for maintenance and cleaning purposes. In particular, operations catering to boat/RV storage might include a wash station. Ideally, this should be near the office and as close to the water meter as possible to minimize plumbing runs and reduce water-pressure issues.

Focus on ROI

MEP system design for self-storage facilities requires a comprehensive understanding of building codes, climate conditions and energy efficiency. To ensure the best cost and energy efficiency on your project, thereby improving ROI, consider the factors and tips above. ISS

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Creative Ways to BUILD MORE STORAGE

Just because the self-storage operational model is relatively straightforward doesn't mean your approach to growth will be simple. Believe it or not, the ability to expand a portfolio often depends on how creative you can be. Times have changed, and the traditional development path now comes with a few more roadblocks. These include moratoriums, increased construction costs, higher interest rates, approval delays, land scarcity, market saturation, and others. The trick is turning these obstacles into opportunities.

The goal of this article is to help you think outside the box and approach self-storage development from a fresh perspective. The following ideas may give you an "a-ha" moment or action plan you haven't previously considered. Depending on where you are in your journey, you might have already explored some of them.

Conversions

Conversions have been used in the self-storage industry for decades, but now the possibilities are greater than ever because of the rise in e-commerce and decline of brick-and-mortar retail stores, which has left many vacant big-box buildings. We're also seeing more creative adaptive-use projects in which developers are transforming car dealerships, movie theaters, hotels, multi-family residential properties, factories, warehouses, airplane hangars … The list goes on and on.

The trick is to identify the cyclical nature or decline of other industries and businesses to enhance the emergence of our own. Self-storage has always been opportunistic. If we look in the right place, we can find more windows to open.

Mixed-Use Projects

A mixed-use development approach can also be a catalyst to push a self-storage project over the finish line. The question is how well can we adapt to the future landscape and overcome some of the development challenges mentioned above.

The look of self-storage has changed to mimic office complexes and urban development, with the goal of appealing to what's desired by planning commissions and communities. This has allowed our projects to be layered in with other real estate uses, in places where we would never have been able to build in the past.

I've seen a variety of multi-use projects with various combinations of self-storage, residential, retail and restaurants. Some have even incorporated workspaces, lounges, bars, nightclubs and more. The developers were able to gain special-use permits and conditional zoning because they included what the cities were looking for, all while maintaining a large self-storage component.

Cargo Containers and Portable Storage

Conex boxes or cargo containers have been a game-changer when it comes to creating and expanding self-storage facilities. They eliminate numerous building costs and time constraints that can derail some projects. They're also ideal for pockets of space that don't allow traditional buildings or along fence lines to enhance security. Entire projects have even been built from shipping containers! They lead to instant rental income, and sometimes permits aren't even required.

However, there are some limitations. Cargo containers can be difficult to move and modify, and the aesthetics might not match existing buildings. Fortunately, there are now several companies producing portable-storage containers specifically designed for a self-storage environment. These are customizable and have the appearance of traditional units. They can be erected within hours or days, and are easier to move than shipping containers. They can also be modified to include upgrades such as ramps, shelves and even lighting. They're more expensive than cargo containers, but they also command higher rental rates.

Niche Storage

Here's a question: Is niche storage now the norm? I'm referring to solutions including mobile storage, valet storage and micro storage, which are sometimes more in line with the buying preferences and habits of our Millennial and Gen Z customers than traditional self-storage units. The younger generations value convenience, which often comes "on demand." We see this with Amazon, Carvana, Grubhub, Uber, etc.

In case you aren't familiar with these products, here's a quick overview:

- With mobile storage, the unit is a large container delivered to the consumer. They fill it, then the company picks it up and stores it until the renter requests that it be delivered. Sometimes the unit is even transported as part of a move.
- Valet storage is similar, except instead of one large storage unit, the customer receives small bins to fill. These can be catalogued and organized via mobile app, and the customer can request that individual bins be returned whenever it's convenient.
- Micro storage (aka locker storage) provides space for a small amount of goods. The customer must visit the self-storage facility to use it, but it's easy-access.

These convenience-driven, service-based options appeal to the wants and needs of our growing customer base. Demand for them will continue to evolve. Are these subsegments of our industry in some ways more viable than traditional self-storage? I think so. Will more niches emerge? Maybe.

For example, we're starting to see a hybrid between valet parking and boat/RV storage in which the customer's vehicle is handled by facility staff to help maximize square footage. Instead of the tenant driving to their own space, their boat or RV is parked back-to-back with others in a large drive aisle. The customer retrieves their vehicle at the front of the facility upon request. This has the potential to increase rentable square footage by 50% in certain circumstances.

Land With Limitations

With land being a hot commodity, it can be difficult to find viable parcels that make financial sense—unless you're looking in the right places. Self-storage is so simplistic that it can work almost anywhere. For example, I've seen projects built under power lines even though, in most jurisdictions, you aren't permitted to construct permanent structures there. That doesn't mean containers can't go there, or boats and RVs. This is where possibilities live! In my market, there are self-storage facilities under freeway entrances and overpasses. I don't know many other businesses that can pull that off successfully.

Land Leases

The traditional way to develop self-storage is to buy the land and build. But if the cost of the parcel is prohibitive, why can't we simply lease it? Especially, if it's a long-term lease such as 25, 50 or 100 years? I've seen projects built on leased open land with a 50-plus year term and others created in the basement of a mall on a 10-year lease. At the end of the day, if it makes dollars, it makes sense. How creative can we be?

More Innovation to Come

What does the future of self-storage look like? Who can say? Struggles fuel innovation, and this is just the beginning of a new breed of product. How we incorporate societal changes into our business model will determine where things go from here. New creations like autonomous driving, artificial intelligence, blockchain technology and others that have yet to be invented can completely shift the dynamics behind industry success.

There used to be a simple path to follow to thrive in self-storage, but as we face new challenges, we must adapt. We must think outside the box (figuratively and, sometimes, literally) and use creativity to open more business opportunities in an industry that'll continue to grow. Are you ready for a new direction? **ISS**

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The ***Right*** Project Crew

Developing a self-storage facility may look simple, but as with most things in life, there are nuances that can make it more complex than you might think. The key is to assemble the right team of experts to support your efforts. Doing so will help minimize issues and increase your chances of success. Following is advice to help you find and select the professionals who will best complement the skills you yourself have (or don't), so you can complete your project on time and within budget.

Know Your Limits

Before you can determine the abilities and talents you want the members of your self-storage development team to have, you'll first need to identify the related skills you already possess, if any. Do only the things at which you're good, and allow others to help in areas where you lack. You're assembling a group of professionals to get guidance, so be prepared to listen to their suggestions. You're hiring them—and paying them very well—for a reason!

Know Who to Hire and the Role They Play

There are six key experts who will typically comprise your self-storage development team. They're hired by you and will play important roles in the success of your project. You'll spend the better part of a year with each of these folks, so take some time to get to know them on a professional and personal level. They are:

- **Feasibility analyst:** This person verifies that your project is economically possible given its location, competition, demographics and other factors. They'll also advise you on important details such as design and unit mix. It's noteworthy that most banks require a feasibility study prior to approving a self-storage loan.
- **Architect:** This person oversees facility-design features but may also be responsible for the entire project depending on the scope of your arrangement.
- **Civil engineer:** Make sure you hire from a firm with a professional-engineer designation. This person will be responsible for your self-storage site layout, including buffers and setbacks, stormwater control, landscape issues, and finally, the Certificate of Occupancy.
- **Real estate attorney:** They not only assist with the land acquisition, loan closings and various vendor contracts, they may be necessary for certain approvals as the project moves from concept to completion.
- **Banker:** This person provides the necessary funding and help to make sure your project stays on track and within budget. They may also advise on the suitability of prospective vendors.
- **General contractor (GC):** Lastly, and perhaps most crucially, your GC will undertake the task of turning the self-storage design and site layout into a tangible reality, ultimately delivering your fully finished and functional structure.

Remember, each of these teammates operates their own business and will most likely have many other jobs. It's important that you treat them well, so you stand out from other clients.

Vet Your Candidates

It's imperative that you research and interview your prospective crew members. Ask tough questions. Make sure every candidate has experience working on a self-storage project. Find out how many projects they've been involved with or completed. Ask them to discuss issues or problems they've previously encountered along with how they handled and resolved them. Get references, then do your due diligence and follow up on them.

Maintain Good Communication

Expect disputes, mistakes and delays among your team of self-storage development professionals. Certain tasks may fall behind or through the cracks. Missed deadlines and extensions are a normal part of the process.

For example, your attorney may not agree with the terms and conditions of your banker or GC. The banker may not like the pace at which the project is progressing or how the GC has handled billing and construction draws. The architect may disagree with the site design or landscaping plan from your civil engineer.

A small issue can snowball very quickly without good communication among team members from the outset of your self-storage project. Regular meetings and site visits can be quite beneficial in keeping things on track. If everyone communicates well, you'll have a better chance of getting in front of potential problems and conflicts.

Stay the Course

When embarking on a self-storage development project, understand your individual strengths and weaknesses, then build a proficient team of professionals to support you. Trust and follow their guidance! You're paying them well for it, after all. Collaborate with all of your experts, and don't be discouraged when challenges, errors or disagreements arise. Effective communication can mitigate these issues.

Following this "map" will help you stay on course, so you can complete your self-storage project on schedule and within budget, which will lead to eventual financial gains. **ISS**

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Feasibility Factors to Scrutinize

Compared to recent years, 2024 may be a challenging time to develop a new self-storage facility; however, opportunities still exist. You just need to be more mindful of economic conditions and market dynamics. Let's look at some of the key factors impacting industry construction activity this year and items to analyze when assessing the viability of a specific location.

Interest Rates

Not long ago, the combination of low interest rates and increased consumer demand for self-storage created an unprecedented boon in facility development. However, due to rampant, post-COVID pandemic inflation, interest rates have risen, construction costs have increased and rental demand has softened. There were loads of deals that "penciled out" when interest rates were 4% and construction costs were $40 per square foot. Unfortunately, those days are in the past.

Some in the industry have estimated that 70% to 90% of planned self-storage projects have been paused or canceled due to interest-rate escalation. Don't let this scare you, though. Plenty of facilities are still being built. They just have to be stronger financially.

Assuming you have a self-storage project with good economics, don't wait! The best time to get a development into the construction pipeline is when everyone else is on the sidelines. By the time your facility is brought online, it'll likely be the only new supply in the market.

Rental Rates

Many self-storage operators, most notably the real estate investment trusts (REITs), have been very aggressive in lowering their street rates in markets with softening demand. They're also actively increasing those rates once tenants are in the door; but as we're only privy to their published data, we don't know by how much and how often. This can complicate matters when attempting to analyze a potential new market.

The best way to combat this lack of information is to widen the pool of competitors you examine when determining self-storage market rates. Make sure non-REITs are a part of your pool. If possible, use software that compares 12-month trailing rental rates against current prices.

One way to determine rate affordability is to consider the cost of occupancy. To calculate this figure, you simply take the annual cost of a 10-by-10 self-storage unit and divide it by the market's average household income. For example, if the unit is $120 per month (or $1,440 per year), and the average household income is $140,000, the cost of occupancy is 1%. If household income were only $50,000 per year, the rate would increase to 2.8%, which is less sustainable.

According to the "2023 Self Storage Almanac," if the cost of occupancy is below 3.5%, rental rates are affordable. If higher, they're too expensive. Of course, this calculation can be useless if you're in a supply-constrained market or there are larger macroeconomic factors at play; but it's a helpful metric to consider, nonetheless.

More Specific Factors to Consider

Of course, there are many other market conditions to consider. With higher interest rates and construction costs, increased competition and softening demand, there's significantly less room for error when underwriting a self-storage development. This is where a detailed feasibility study can help. If done correctly, it should eliminate many uncertainties. A good report will examine the following:

Site-inherent risk. The feasibility study should first and foremost look at your site's zoning, environmental conditions and topography to identify potential deal-killers. This won't replace the services of a civil engineer or environmental consultant, but it should identify potential issues up front. This analysis should also look at the property through the eyes of a potential tenant, analyzing its visibility and accessibility.

Demographics. This portion of the analysis should identify the site's primary and secondary markets and examine key customer characteristics. It should identify trends in population growth, household income, homeownership, commute times and other metrics to help you understand your potential renter base.

Supply and demand. The goal of this section is to determine how oversupplied or undersupplied your market is. A common approach is to calculate the rentable square feet of self-storage per capita in the market, then project future supply by accounting for incoming projects. While there are industry resources and software that are great at tracking planned and in-progress projects, it's easy in these market conditions for a project to be sidelined or outright canceled. Make sure your feasibility consultant reaches out to local planning or building departments to get up-to-date information.

Future self-storage demand is forecast by looking at a combination of population-growth trends, income, and state and regional demand, among other factors, to come up with a target for rentable square feet per capita. If demand exceeds supply, your market is undersupplied.

Competition. One of the most important pieces of a feasibility report is the competitor study. On paper, a market may be significantly oversupplied; but when you call other facilities in the area, you may find they're all full with a waiting list. Make sure your consultant is calling the five or six closest self-storage properties and having live conversations with the operator. You'll be surprised at how much you'll learn about the market.

Rental rates. An analysis of local self-storage unit pricing should yield recommendations for your own rental rates based on a combination of competitor and historical data as well as other demographics. Competitor prices should be weighted according to distance from your target location and other site attributes such as traffic, age, access, building configuration, etc.

Unit mix. If you don't already have a unit mix, the feasibility study should make a target recommendation. In general, a variety of sizes should be offered to capture all potential customers. For example, businesses tend to rent larger units and residential renters lean toward smaller spaces. Offering a wide selection helps you appeal to both segments.

Construction budget. A preliminary cost budget should be included in your self-storage feasibility study. This is used to calculate investment returns. Note that final costs will vary widely after accounting for planning and engineering.

The Financial Analysis

This is the most important piece of a self-storage feasibility study, as it seeks to answer: Does my project make financial sense? And if so, what is my expected return? The financial analysis should give you multiple metrics by which to judge your potential investment including cash-on-cash return, internal rate of return, debt yield and debt-coverage ratio. These are all figures your lender or investors will want to see, too.

There are many assumptions that go into the self-storage financial analysis. Be mindful of the phrase, "garbage in, garbage out." This means that if your assumptions are bad, your conclusions will be unreliable. The numbers that go into the pro forma will never be perfect, but they should be as close as possible.

On the revenue side, make sure your rental rates accurately reflect the market and that all profit centers are identified, such as retail merchandise, truck rentals, fee income and tenant insurance. The lease-up period should also reflect reality. In general, the higher the market occupancy, the quicker the self-storage facility will fill.

For operating expenses, make sure you understand your management structure. For example, a facility with an onsite staff is more expensive to operate than one that is remotely managed. Another large-ticket item is property tax. Make sure your feasibility consultant calculates the bill for multiple market competitors to best gauge what your taxes will be.

The same is true for sale and financing assumptions. Make sure the terms of the construction loan and terminal capitalization (cap) rate reflect the current market. Interest rates and cap rates change regularly in today's environment.

Scrutiny Is Required

The self-storage development boom of the last few years may be over, but there's still room for savvy builders and investors to get in the game or expand their portfolios. With softening demand and higher interest rates, extra scrutiny is required to ensure your proposed project is a smart investment. By following the above advice, you'll be well-equipped to move forward when you identify a viable opportunity. **ISS**

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3 Essential Parts of a Feasibility Study

Self-storage feasibility has become a hot topic as self-storage markets begin to overcrowd. Lease-up is slowing in some areas, rates are flattening, and we've come down from record-high occupancies. If you're planning to build this year and want to ensure your development will succeed, your first step will be to conduct a feasibility study. Following are three vital parts of this exploration and what they tell you about your proposed development.

Self-Storage Demand

The first question to ask is whether more self-storage is legitimately needed in the desired market. The answer can vary quite a bit. Some areas are considered saturated when they reach as low as 3.5 square feet of storage per capita, whereas I've seen other markets go as high as 20 square feet with no signs of slowing.

There are two widely accepted methods for calculating self-storage demand: square foot per capita or square foot per household. Often, we find these methods are very close, as they're both based on population. However, if you're in a market where the average household is smaller or larger than the national average, you may find it's smart to compare them.

Other factors that can influence market demand include high tourism, large universities and prisons, dense commercial development, and lack of housing. Further, these variables might not be reflected in census data. While you should consider as many factors as possible, there isn't a widely accepted method for calculating self-storage supply needs using additional metrics outside of population.

Unit Types and Sizes

While a market may need self-storage, knowing what specific *type* is required is important because you want a fast lease-up and high profitability. It might be that the area could use traditional drive-up units, climate-controlled, boat/RV or high security, for example.

You need to pay attention to unit sizes, too. Let's say you discover that your market needs more 10-by-30s, but the price per square foot to build them isn't as good as it is for 10-by-20s. You might find that 5-by-10s are profitable, but there's high vacancy in this size. Just because a size makes sense for your wallet doesn't mean it makes sense for the *market*.

Also, just because a market lacks a certain size or type of self-storage, say climate-controlled, doesn't necessarily mean there's a need for it or that you can charge customers more for it. You might be tempted to fill the void, but proceed with caution. There may be a reason no one has built that specific product in that location previously. Your feasibility study should help you understand the situation.

In short, knowing what competing self-storage facilities offer in terms of unit sizes and types, as well as the current rental rates and vacancy of each, is crucial to identifying the right product to build in your chosen market. We'll delve into that more below.

Cost to Build vs. Rent Per Square Foot

The third thing the feasibility report should help you understand about your self-storage project is how cost to build will compare to rent collected per square foot. This component is often overlooked, however, it's arguably the most important.

Again, just because a market shows demand for self-storage, it doesn't mean you can make a profit. Often, the recommendations that come out of your feasibility study will be contingent upon building "at a reasonable rate." If you're planning to do a lot of your own sitework or even to serve as your own general contractor, it can lower your construction costs and thereby allow you to build a more expensive product. On the other hand, if you're planning to hire a construction-management company, the additional cost may make your desired product less profitable. In other words, the rent per square foot you'll be able to charge won't justify the development price tag.

Don't forget, there are many costs to consider, from site excavation to building materials and delivery to hoops you must jump through to meet city ordinances. Building on flat land that's already cleared and has great soil for drainage costs a lot less than building on out-of-the-way wetlands that require additional delivery and fuel charges.

Depending on the market, I prefer that my cost to build, including the land, falls anywhere from 70 to 130 times the monthly blended rental price per square foot. For example, if I can charge an average of $1 per net rentable square foot (NRSF) to the customer, my construction costs should be $70 to $130 per NRSF.

The wide variance is attributed to regional differences, interest rates, hold costs and the utilization of NRSF to total square footage, which is generally much easier to get near 100% on traditional, drive-up projects. If you're converting an existing building to self-storage, your cost to build may be cheaper; but due to layout challenges, the utilization may only be 60%.

I often see areas in which the available self-storage rents in relationship to cost to build don't make sense. Or the price of the land is so high that it increases building costs beyond what could reasonably be charged to make a profit. We're in the business to make money, so this should be the final decision-maker on whether a site is viable.

A feasibility study examines many factors of a potential self-storage project, but the metrics addressed above are critical. While a site may show strong promise in one of these areaa, you shouldn't move forward unless it's strong in all three. ISS

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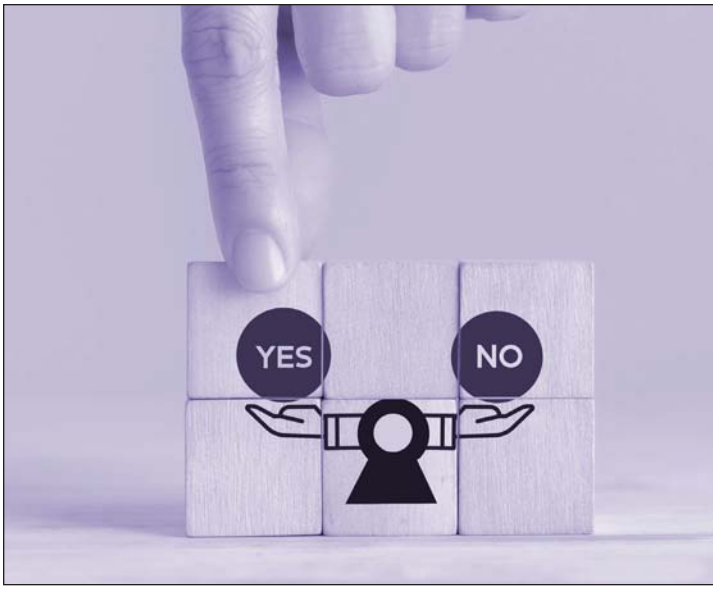

FEASIBILITY *and SF PER CAPITA*

With this article, I declare, once and for all: **Square feet per capita doesn't matter in the self-storage industry!** And, yes, I'm sure—100%. I'll prove it, too.

Square feet per capita is commonly used to indicate the amount of self-storage space available in a specific market. When I first entered this industry in 2000, I heard very successful, brilliant, entrepreneurial people comment on project feasibility by saying something like "Well, as long as you're under 5 square feet per capita, you'll be fine." I asked why and how that made sense? The best answer I ever got was, "That's the way it is. Over 5 square feet, you're oversupplied. Under, you're good."

Those individuals were trying to explain something they didn't fully understand yet: self-storage demand. They picked a number that made sense but misapplied it. In reality, this metric has no useful basis in gauging market health and should not be thrown around like it matters. Even today, I hear people in the business say things along the lines of "We like this market a lot, even though it's saturated with supply—like 8 square feet per capita," or "This market is undersupplied, with only 5 square feet per capita." I always tell them the absolute, earnest truth: *Square feet per capita doesn't matter.*

Basic Economics

Before you fire off an email telling me that I'm wrong, please know this: I don't make the rules of basic economics, I just live with them like you. Self-storage is awesome, but it isn't some unique outfit that doesn't respond to pressures or preferences in the marketplace. In any market, for any good or service, price is an indicator of the relationship between supply and demand. *And price is what matters.*

When you fill up your car with gas, you don't pay attention to the number of barrels of oil OPEC is producing, nor do you tally up how much gas other vehicles are using. You look at the price. Why? Because that's what matters.

Storage doesn't veer from this basic economic principle. When supply increases and demand remains the same, prices go down. It's like this on everything you buy, in every defined market. It won't change, ever. Shortage of toilet paper? Higher prices. Too much money floating around? Lower buying power of the dollar. Too much storage? Declining rents.

Self-storage is very local, making it nearly impossible to apply any broad economic measurement of supply when evaluating an individual market. *There isn't a single statistic that we can use as a benchmark for determining over or undersupply.*

Our industry has reported total supply in broad markets in various ways, either to describe the nation as a whole, a particular state or a large metropolitan area; but those statistics aren't useful in evaluating the potential of a market to absorb additional storage. Why? Because each of our stores competes in a small, localized micro-market. Total supply tells us nothing meaningful if we don't know how it has been absorbed.

Enter demand. In every unique self-storage market, there's a consistent churn of demand brought about by common life events experienced by customers: death, birth, divorce, relocation, renovation, businesses launch or dissolution, sickness, natural disaster, etc. Two markets may be just a couple miles apart but have radically different demand profiles depending on income, crime, employment, etc., among other things. To successfully evaluate an area, we must assess supply *and* demand. One without the other is utterly and totally useless.

Demand Varies Across Markets

More sunscreen is stocked on the shelves in Miami, Florida, than in Madison, Wisconsin. For sure, there are more sunscreen bottles per capita in Miami than in Madison. If the sunscreen industry applied basic economics the way many in the self-storage industry do, they'd say, "Well, that Miami market is way oversupplied with sunscreen. Look at that per-capita number! Wow! We shouldn't sell in Miami. Instead, we should focus on Madison." That logic is faulty.

Self-storage demand falls into two categories: unmet (new), which is regular market churn, and satisfied, which is occupied supply. Developers should be most concerned with assessing, measuring and forecasting *unmet* demand.

The average number of move-ins a specific market sees over a period of time is critical when forecasting future demand. It's important to know actual household usage so we can understand whether the population base is stable, growing or contracting, which impacts the prospect of new demand moving forward. For example, in a recent feasibility study I conducted, I determined that the target property's competitors move in 2,400 tenants annually. The market is stable, not adding many new households each year, so I conclude that new demand for storage will also be stable. If that market was growing, I would instead determine how much additional demand each new household would bring.

Some short-term events can also impact demand. COVID-19 created a boost as people cleaned out their garages, built decks, remodeled rooms or moved in with other family members. Higher death rates also create demand spikes. Now, we've come back down to the long-term trend line. The pandemic years were outliers for our industry, statistically speaking.

What Matters Most

So, what really matters when determining self-storage supply and demand? Rents and occupancy! Both give us insight to market dynamics.

Occupancy tells us how much of the existing supply has already been absorbed. Combined with information such as average move-ins, we can make sound forecasts on how much additional supply a market can absorb without having detrimental impact on prevailing rental rates. Strong rents and high occupancy are good. Declining rents and occupancy? Bad. It doesn't matter how many square feet per capita there are in either scenario.

As a self-storage owner, developer, analyst and investor, I don't care if there are 2 square feet per capita in a market or 30. When I evaluate the viability of a prospective investment, I only care about rents and occupancy. It's the *relationship* between supply and demand that matters, not one or the other independently. Only the regular churn of new demand will fill vacant units. Using an irrelevant metric is just folly.

To all the brilliant self-storage analysts, lenders and investors out there, whom I call friends, I beseech you: **Quit using square feet per capita** as a measuring stick. It makes you look bad! Instead, focus on rental rates and occupancy, and you'll be able to put together better deals in a future where square feet per capita is dead. **ISS**

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Finding the Right Site

Self-storage proved to be a resilient real estate segment during the coronavirus pandemic as well as the housing-market crash of 2008 and tech-bubble burst of 2000 to 2002. Because of this, it has become an attractive investment for large companies and individual investors alike. Some take the fastest way into the business, buying an existing facility or investing in a real estate investment trust. Some participate in a syndicated offering. Then there are those who are brave enough to try building from the ground up.

Whether you're just entering the self-storage industry or are an existing owner or investor looking to expand your portfolio, a successful development takes a lot of homework. It begins with choosing the right market and the right location *within* that market. Not every site is viable, and you should know what to look for and, more important, what conditions to avoid. If you examine the following factors and discover that the project won't provide the return on investment you require, you must be willing to walk away.

Location Characteristics

There are many aspects to finding the ideal parcel for a self-storage development, but location is obviously critical, from several angles. Consider the following:

Market type. Are you looking in a primary, secondary or tertiary market? In recent years, a lot of people have moved out of cities in search of a better quality of life. This means there could be increased demand for self-storage in smaller markets.

Zoning. This is critical. Is the property currently zoned for self-storage, or will you need to request a change? Will you need a conditional or special-use permit? Research the municipality and its requirements. Sometimes, local restrictions can make it impossible for a project to pencil out.

Keep in mind that if you need to request a rezoning or permit, you must build in the cost for the engineering and design *before* you get approval. Many municipalities use floor-area-ratio limits to curb mass. Others use height, area, impervious and lot-coverage limitations. Some even institute temporary or permanent moratoriums on self-storage for political or economic reasons. However, once obtained, a property with high barriers to entry will enjoy a lower capitalization rate, which can drive the return on investment to unprecedented levels.

Supply and demand. Pay attention to the existing self-storage competition in the region. Research the current supply, and determine average facility occupancies and rental rates. Remember to check for any new projects in the pipeline!

When considering a market, we're typically looking for one that overall shows a low and sometimes even a negative demand based on all types of self-storage. However, if most everyone is experiencing high occupancy and it's a market that's drastically undersupplied in temperature-controlled units, for example, this could still be a viable location.

Demographics. Examine the local population and available housing to see if it's increasing, declining or stagnant. The goal is to be in an area experiencing growth. Next, look at the household median income. Can your target customers afford the product you wish to build at the rates you need to charge to be profitable?

Visibility. Look at the traffic patterns and the roads from which the target property is visible. While your facility doesn't necessarily need to be off a busy highway, it must be seen. This effort can be helped through multi-story building and signage.

Accessibility. Will your self-storage customers have easy access to the property? For example, if they can't easily make a left-hand turn and must go around the block to enter your gate, they might look elsewhere. Your location should be simple to find and navigate.

Lot configuration and topography. Pay close attention to these, as they'll determine how easy (or difficult) it is to get approval and lay out your project as well as how much self-storage you can build. They'll also impact your construction costs.

Unusual parcel shapes that are less desirable for other real estate uses can sometimes help a self-storage project gain municipal approval. Still, you must ask yourself: How well will the site accommodate your desired design? How much grading is needed? Are there any soil or water-drainage issues?

Unit Types and Mix

One you've gathered all the above information for the market you're considering, you can better determine the type of self-storage that might be needed. The options are many: traditional drive-up units, temperature- or climate-controlled units, single- or multi-story structures and, if there's a need, boat and RV storage.

When designing the unit mix, don't just use whatever makes the pro forma look the best. In a traditional "bankers mix," the smaller the unit, the higher price per square foot you can realize. However, you need to understand what's actually needed in the area. Ideally, when your facility reaches maturity of 85% to 90%, you'll still have a few units available to rent.

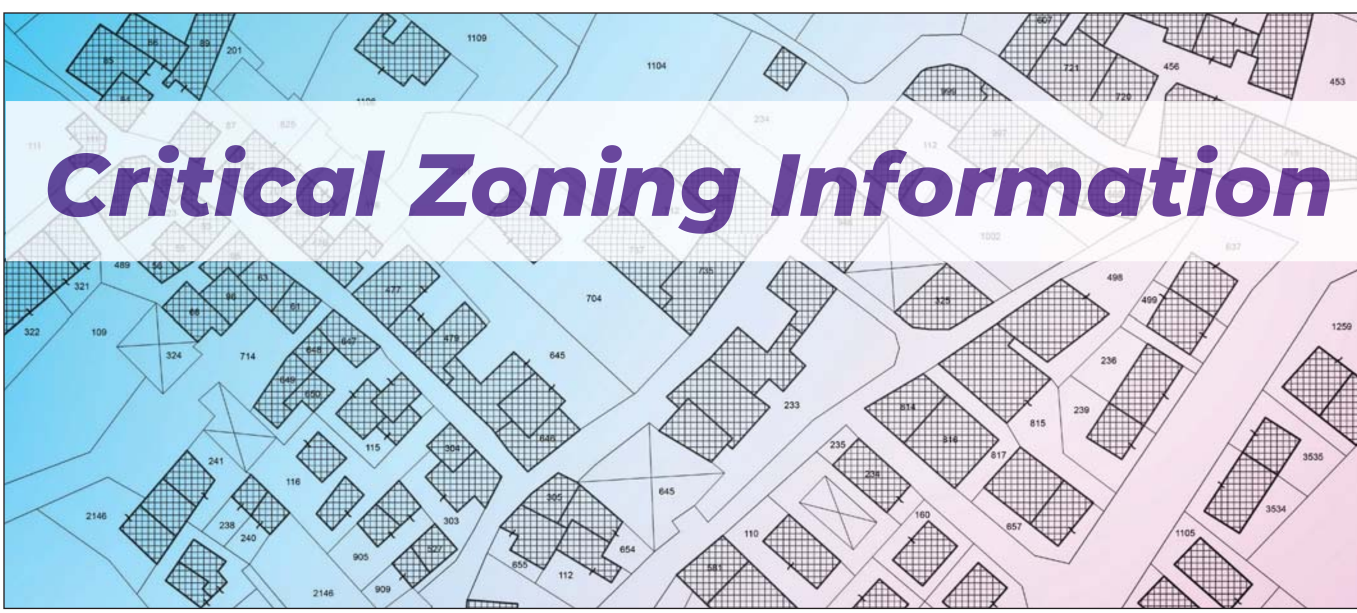
Remember, too, there will be some aesthetic requirements to meet, and these aren't only dictated by the municipality. Community members will also have input to what the look of the property should be. You want the locals to use your services but also to appreciate that you've built a great project in their neighborhood.

Site Selection and Feasibility

The self-storage industry is poised for continued growth. The interplay of financial dynamics, demographic shifts and evolving consumer preferences promises an exciting journey for owners, investors and developers. That said, a facility is a multi-million-dollar asset, and it must be placed with great care and consideration.

A feasibility study is highly recommended. Not only will it give you peace of mind, it's often a requirement of most lenders and investors. It'll help you determine market demand, the type of storage needed and the proper unit mix. This insight will allow you to make a proper decision not only on *if* to build but *what* to build. **ISS**

Contributor: *Stephan Ross, Cutting Edge Development LLC, www.cuttingedgeselfstorage.com*



Critical Zoning Information

According to Wikipedia, zoning is "a method in which a municipality or other tier of government divides land into 'zones,' each of which has a set of regulations for new development that differs from other zones." Though these requirements are most often regulated by towns and cities, they can also be applied to unincorporated counties.

If you're looking to build a self-storage facility, it's imperative to understand the local zoning laws. Whether you already own a parcel or have your eyes on one, you'll need to confirm that it has the proper zoning, make the right requests if it doesn't, and jump through other hoops to earn approval. It's a process that can be complicated and frustrating, so let's break down the steps.

The goal is to make sure you cover all the appropriate bases before you invest anything into self-storage design. This will minimize the soft costs in case your parcel doesn't ultimately work for your project.

Step 1: Confirm Who's Boss

The first step as you embark on your development journey is to determine what zoning is already in place for the parcel of interest, and that begins with knowing who's really in charge of it. It's good practice to check with county or state officials to make sure you're dealing with the right authority. For example, I've sometimes discovered through simple phone calls that a project I was working on was actually under the jurisdiction of the county rather than the city, or that it was in a "special zoning district."

Step 2: Confirm the Zoning

Once you know who oversees the zoning for your parcel, it's time to visit their website and see what you can learn about the local zoning ordinance or unified development code. Jurisdictions produce a map that should show what zoning is in place for your chosen location. Many larger or more affluent municipalities will even have sophisticated, interactive maps that make this process fun. I can spend hours perusing this tool!

After you find your prospective development site on the map, you'll be able to verify its zoning and can find out everything you need to know about how to develop that piece of land. You can either go directly to the section in the zoning ordinance that outlines your particular zone, or you can look for a table that gives you full view of all zones and the regulations for each.

> Whether you already own a parcel or have your eyes on one, you'll need to confirm that it has the proper zoning, make the right requests if it doesn't, and jump through other hoops to earn approval.

Step 3: Verify Whether Storage Is Permitted

Next, verify that you can develop your site as self-storage "by right," meaning it's an accepted use in that zone. Unless the area is zoned industrial, light industrial or light manufacturing, storage might not be permitted. If this is the case, you're at the end of the road for that parcel. However, if it's allowed with a special-use permit, you might still be able to move forward. That's a separate process.

Step 4: Reach Out to City Officials

If self-storage is an accepted use by right or through a special-use permit, your next step will be to meet with city officials to discuss whether they'd be open to putting your project at that specific location. Your goal is to assess whether they'll support the development before you approach the zoning commission or city council. You're more likely to receive approval from those boards when backed by the planning department.

Step 5: Confirm the Building Criteria

If city planners are amenable to your self-storage development, you can move onto the next phase: reviewing all of the building parameters and restrictions. Generally, your net rentable square footage will be most affected by the following regulations, which are often incorporated into the zoning ordinance. Let's look at each and how to comply with them.

Setbacks designate where the buildable area is for the actual structure(s) you want to build. They're measured from the property boundaries or right-of-way and designated as front, rear and side. They're for buildings only, not parking or paved areas.

Please note: Parcels that abut residential areas often have greater setbacks. Sometimes you have to look under special or supplemental regulations for these details, as the paragraphs regarding your specific zone often only show the base standards.

Maximum building coverage describes how much land area the building footprint can occupy. It's usually listed as a percentage or ratio compared to the square footage of the lot. Building coverage doesn't account for multiple stories. It only refers to the ground-floor area.

Floor-area ratio (FAR) is a calculation based on the total area of the building on *all* floors, including occupiable basements, compared to the overall area of the lot. The FAR can limit the number of stories you're allowed to have to fewer than what the zoning ordinance permits simply based on the area of the footprint you choose for your structure.

Maximum building height and **number of stories** are often listed together, as they generally relate to each other; but sometimes only a maximum building height is given. This allows you to provide as many floors as you want as long as you don't exceed that height. Also, verify whether vertical architectural elements are exempt from the height limitation, as steeples and tower elements might be.

Most often, definitions or instructions are provided within the ordinance to clarify how building height is determined, but every jurisdiction is different. Make sure you know how it'll be measured, especially if you're considering multi-story self-storage.

Some municipalities measure from the first floor while others do it from grade or ground level. Measuring from grade could be averaged or taken from the lowest points. Another potential limitation we're increasingly seeing is building height being based on how far the structure is from adjacent residential property. These seemingly small details can become deal-breakers if there isn't a clear understanding of how height will be calculated.

Maximum impervious cover describes all areas that are covered by building footprint including sidewalks, drives and parking. Basically, it's any area that isn't vegetation or mulch.

Landscape requirements are the inverse of maximum impervious cover. In your research, look for the percentage of the lot that must be set aside for landscaping. Also, keep an eye out for other regulations like landscape buffers along a right-of-way or yards, especially where the property abuts residential areas.

Parking requirements are usually found within the supplemental-regulations section of the zoning ordinance and listed by use. More sophisticated municipalities will include self-storage as a separate line item. The conditions are often reasonable, however, many cities haven't updated their ordinance for this industry, so it's lumped under "warehouse," which usually requires more parking than is truly necessary.

I've used two approaches to successfully overcome this challenge. The first is to seek a variance on parking by using actual traffic data. This yields mixed results. An open discussion with the planning department should give you a feel for how difficult or easy it might be to get the variance you need. The other option is to get creative about where you paint parking spaces. For example, I've sometimes drawn them directly in front of drive-up units (outside of any fire lane), and haven't had any city balk at that.

Time to Continue?

Increasingly, newer zoning ordinances or unified development codes are tending to simplify many of the above building criteria by focusing more on setbacks, maximum building heights, and parking and landscape requirements. The reasoning is that if you meet these specific conditions, then it doesn't really matter what the maximum building coverage or FAR is, as meeting the more important criteria will typically resolve those issues.

The above steps will get you about 90% to where you need to be in determining the feasibility your self-storage development site. They'll help you determine whether the parcel is worth the investment of more manpower and money to further strive for a formal review and approval. **ISS**

Contributor: *David Baca, Baca, www.baca.team*

TODAY'S DESIGN TRENDS

Extra Space Storage in Azusa, California

From tin shacks to ornately designed commercial establishments, self-storage facilities have evolved tremendously over the past four decades. Arguably the most significant changes have been in the last 10 to 15 years as multi-story projects gain greater popularity and newcomers to the asset class seek to separate themselves from the competition. There have been modifications in design and materials alongside operational adjustments to give tenants and prospects a modern, streamlined experience.

Like other types of real estate, self-storage continues to adapt to an ever-changing world. The reasoning behind various alterations can vary, but it all impacts the development approach. Let's explore the major influences on today's facility design, current trends, and what might be ahead for this dynamic industry.

The Primary Influencers

What are some of the most significant influences on today's self-storage design? Jurisdictions, for one, can have an enormous impact. Their requirements vary from location to location but can ultimately define the materials, articulation and architectural style of a project, just as a start. Couple this with design-review boards that are often highly politicized and you have a lot of people with conflicting opinions to please.

Another factor shaping design is site condition, which can wreak havoc on a building plan. Self-storage developers are often forced to choose from challenging land parcels that have notable constraints. These might relate to shape, topography, easements, access and more, all of which can dramatically alter the project footprint and force the design team into atypical layouts to maximize square footage.

The good news is solutions to these hurdles can generally be cleared with the right development team and thoughtful design. For example, I've seen numerous sites with topography issues that were passed over for other types of development but were made appropriate for a self-storage use through the application of ramps. In a recent situation, I worked on a layout with more than 50 feet of topographical fall, a 40-foot-wide water easement and a flood plain. We were able to use the easement area to help satisfy the parking requirement while working the grades to create ground-floor access to all buildings.

Now Trending

Aesthetics paint the pretty picture customers see upon entry to a self-storage facility. Colors are largely derived from company branding but can also be dictated by the municipality. For instance, in a difficult California county, the design-review board recently steered a proposed development away from the owner's brand colors and toward earth tones it felt better blended with the surroundings.

High-end materials combined with thoughtful articulation are becoming the norm in modern self-storage developments. More than ever before, we're seeing ornate, elaborate structures that far surpass what we've witnessed in previous decades. While some of the designs are more cutting-edge, the higher-grade—and more costly—materials are almost always focused on the office and street frontage to help rein in costs.

Of course, looks aren't everything. It's also important to consider the durability and longevity of materials to cut down on maintenance and maximize lifespan. Incorporating concrete, block, brick and similar components are great for this. Historically, concrete block has been popular. Coming in various colors and textures, it's relatively inexpensive way to mix hues and textures without sacrificing durability.

Now, there are so many variations on the market, with veneers and composites becoming higher quality by the day. Recently, we specified a veneer that resembles weathered barn wood. From five feet away, it looks extremely similar; from 50 feet away, you can't even tell the difference. By applying these materials in areas of high visual interest such as the office and street façade, you can save money and satisfy the judicial powers that be.

Self-storage building materials and components are constantly being upgraded. Industry tradeshows and publications are a great way to stay informed about new products and concepts. A carefully planned design can incorporate a variety of materials to bring a nicer look while garnering praise from the community. A clear understanding of what the jurisdiction wants (sometimes an impossible task) will aid in directing the design team on how best to integrate newer construction options. If a product is used correctly, the one-time cost can help save money throughout the life of the project.

Inquire with your consulting team about new products and how they might benefit your self-storage development. Using high-end materials doesn't have to break the bank if their implementation is focused in a way that highlights important building features.

Trojan Storage in Camarillo, California

CubeSmart in Glendora, California

The Role of Technology on Design

Also influencing the design of the many modern self-storage facilities is industry technology. As consumers become more tech-savvy and demanding of convenience, we're seeing a shift in office layout, for example. Many owners are now electing to eliminate counters and cabinets in favor of a small, minimalist design incorporating podiums to accommodate the use of tablets and kiosks. We're using more exposed ceilings, polished concrete floors and clean lines.

Into the Future

As self-storage building materials, concepts and technology continue to evolve, rest assured that more exciting design options will follow suit. Often, material changes are implemented to address building and energy-code changes, which gives designers creative tools to bring a different look to the industry. These can be useful when combatting difficult-to-please jurisdictions in the planning phase as well.

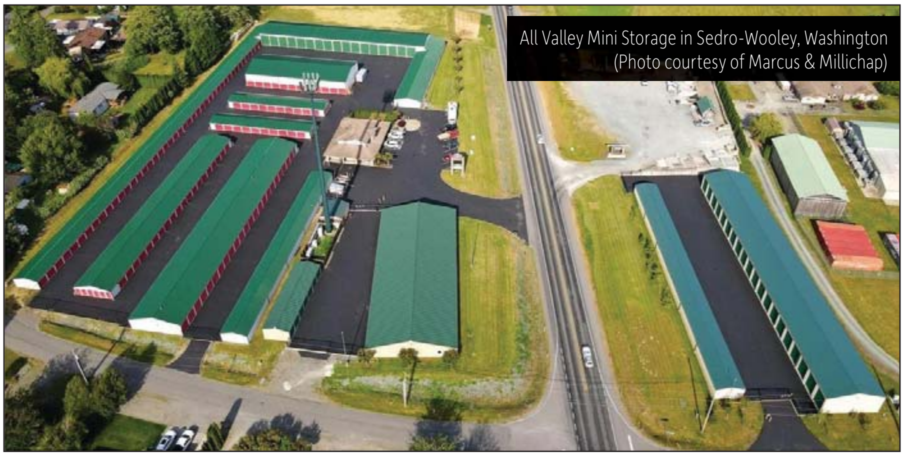
There are a lot of unknowns in the self-storage development landscape, but one thing remains constant: Jurisdictions and entitlements aren't getting any easier and will likely get more complex as codes and regulations become more stringent. The impact on design from cities and counties has intensified over the years, and since COVID-19, project timelines have become significantly longer. Four years after the start of the pandemic, we're still feeling the ripple effects. For example, we're seeing an influx of new, inexperienced staff at jurisdictions, plus high turnover, which has made the entitlement process exhaustive.

Regardless of these challenges, having a well-designed facility will only benefit your bottom line. While simple in nature, self-storage requires an experienced design team to help you achieve an efficient and safe project that ensures operational and financial success. ISS

Contributor: *David Meinecke, Jordan Architects, www.jordanarchitects.com*

Site Layout *and* Unit Mix

The layout and unit mix of a self-storage facility is as crucial as its location. A well-thought-out site plan can significantly enhance operational efficiency, customer satisfaction and, ultimately, profitability. In this article, I'll review important factors that'll influence what you build and how you design it.



All Valley Mini Storage in Sedro-Wooley, Washington (Photo courtesy of Marcus & Millichap)

First, What to Build?

Before attempting to lay out your self-storage property, you need to determine the most appropriate type of building for your site. Start by examining the existing facilities in the market to see what kinds of storage are already available.

- Basic drive-up storage is the simplest to develop. These structures are typically 30 or 40 feet wide, with 25 feet between rows.
- Climate-controlled buildings are usually wider to allow for efficient use of space with interior hallways. Fifty to 70 feet wide is common.
- Multi-story storage is more likely to be found on costly, smaller parcels.
- If there's a demand for boat and RV storage in your area, consider larger units with taller doors. For boats, units should be 12-by-25 or 12-by-30, with 10-foot-tall doors and wider driveways. Common RV units are 12 or 14 feet wide and 30 to 50 feet deep, with doors that are 12 or 14 feet tall.

If you're considering multiple parcels, you can save time by developing cost and revenue models based on per-square-foot prices. Basic drive-up storage typically yields about 30% to 35% rentable space, whereas wide, climate-controlled, single-story projects can achieve better land coverage in the 40% to 50% range. Though construction costs for specific classes of storage tend to be consistent regardless of location, land pricing and potential revenue can vary significantly from one location to another.

The Basics

Once you've determined what type of self-storage to build on your parcel, it's time to start laying out the site. Consider these important factors:

Setbacks and easements. This critical information serves as an essential starting point. Ask if the land seller can provide it in an AutoCAD file. If not, reach out to any surveyors or civil engineers who have their contact information on existing property surveys, or commission a new survey.

Topography. Variations in elevation across your parcel can significantly influence your design strategy. Minor changes can be accommodated with driveway adjustments or the addition of steps. For larger slopes, a "two-story-into-a-hill" style is an effective approach. It uses about 10 feet of the hillside to serve as a retaining wall, allowing you to offer two levels of facility access without the need for an elevator or stairs.

Driveway restrictions. Your city (or state, if the property is on a state highway), may impose limitations on driveway placement. Make sure you know this.

Local requirements. Check with your city's building or zoning office for possible restrictions. Besides confirming that your current zoning allows for self-storage, it's important to understand whether there may be regulations that limit unit doors facing the street, dictate your choice of building materials or specify landscape requirements.

Fire codes. Research local policies for firewalls and sprinklers, as they can influence your building size and design. In many parts of the country, you may be allowed to construct buildings of up to 12,000 square feet or divide them into 12,000-square-foot sections with firewalls. However, some communities mandate sprinklers or firewalls for structures as small as 2,500 square feet. While your building supplier can provide general guidance, your local fire marshal is the definitive authority.

Sprinklers can significantly increase construction and ongoing inspection costs, so the general aim is to avoid them if possible. Firewalls often present a more cost-effective compliance solution, especially for drive-up self-storage units.

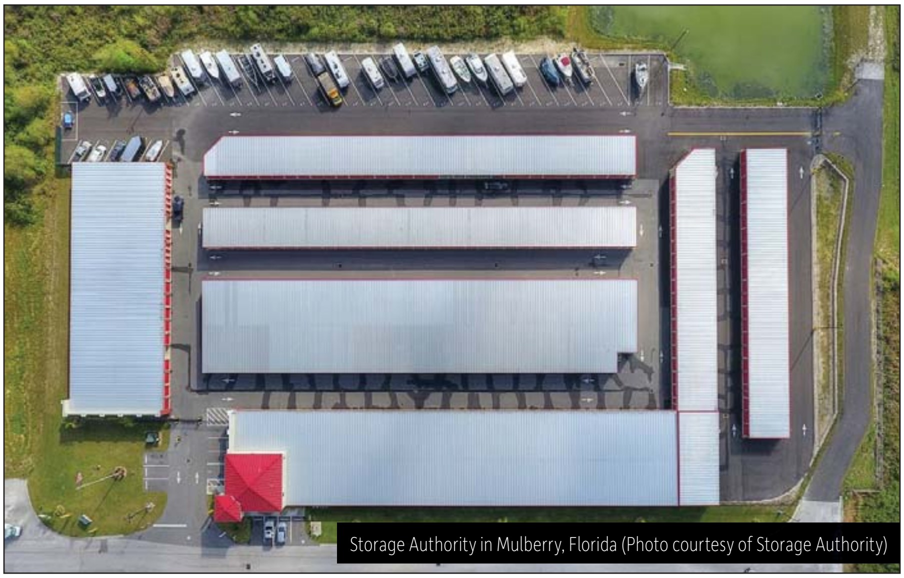
Traffic flow. To ensure an adequate turning radius and room for two-way traffic, leave 23 to 28 feet between standard self-storage buildings, with 30 feet at the building ends. In northern regions, consider extending this to 35 feet to accommodate additional space for snow.

Think About Property Users

Before sketching out your self-storage design, think about the people who'll be using the facility. Your layout and unit mix must meet the needs of customers and employees alike, so ask yourself:

- Where will everyone park, and how many spaces will you have?
- How will people enter the office?
- Will tenants have enough room to maneuver a large rental truck or van around the site?
- How will your manager move about the property, both when they're doing their daily walk-throughs and showing units to customers? If they'll be on foot, consider their route. If they'll be using the golf cart, where will it be parked when not in use?
- How will units be numbered so they're easy for staff and tenants to locate?

***Source:** insideselfstorage.com, "Participating in Project Success: Guidance for Self-Storage Owners/Developers on Site Layout and Unit Mix," by Hank Saipe*



Storage Authority in Mulberry, Florida (Photo courtesy of Storage Authority)

Monster Self Storage in Valdosta, California (Photo courtesy of Monster Self Storage)

Also, minimizing dead ends can help prevent vehicle vs. building incidents. Keep in mind, customers may be driving borrowed pickups, rented trucks or trailers with which they're inexperienced. It's important to avoid situations that require them to drive in reverse.

Water and snow. Most municipalities will require a professional engineer to create a stormwater-management plan. For larger sites, this often involves a retention pond at the property's lowest point. It's important to account for water early in the process to ensure your layout accommodates necessary drainage.

In northern climates, it's also important to consider where snow can be plowed to avoid causing traffic or drainage issues. While fortress-style layouts may be popular in southern states, they can lead to snow-related problems in the north. If you have doors facing north in snowy regions, ensure the roof pitches are designed to divert water away from the north side. This strategy reduces the risk of doors freezing shut.

Office. It's vital to decide early in your planning process whether you'll include a self-storage management office or kiosk, either immediately or in a future phase. If you plan to incorporate these features, make sure they're accessible from the public side of your gate.

The Concept Drawing

Once you have a comprehensive understanding of the above characteristics and constraints, it's time to start sketching out your self-storage site plan. Begin with traffic flow and building position. My preferred approach is to print out the land survey or a screenshot of Google's satellite view and manually draw my ideas. I start by specifying driveway and building dimensions as accurately as possible, considering all the pertinent factors.

Most drive-up self-storage facilities include rows of similar buildings. For enhanced security, it's advisable to align the structures perpendicular to the main road. This gives passing cars a clear view between the buildings, which can discourage undesirable activities.

Many self-storage developers take a phased approach to building. If you go this route and choose to build out only a small portion of the facility to start, you must still create a master plan for the entire property. This ensures that the first phase supports efficient traffic flow in future ones and the stormwater system is capable of accommodating growth. It also allows for the strategic placement of underground conduits to support subsequent development. Additionally, you'll need to decide on roof pitch and choose between gable or lean-to design.

With your concept drawing in hand, you've reached the stage where the assistance of a civil engineer is necessary. While your sketch is useful for rough estimates, you must invest in professional site design before soliciting formal bids from contractors.

The Best Unit Mix

Once you've determined the general building footprint, the composition of your unit mix will begin to come into focus. However, this is both art and science. You'll want to lean on the intelligence revealed in your feasibility study to make smart decisions.

Local demographics can provide a starting point. In rural or suburban areas, larger self-storage spaces will be in higher demand. Customers who live in small homes, student housing, apartments or mobile homes tend to use storage more frequently but prefer smaller units. In places with high humidity or in more affluent areas, climate-controlled space will be more popular. Regions where boating and camping are prevalent will see a greater need for large boat/RV-storage units, especially if customers face restrictions on outdoor parking at their own homes.

It's also important to analyze your competition. Understanding which unit types are over or under supplied can help you identify what's needed in the market. Secret shopping and reviewing competitor websites can offer insight to the current landscape. A significant advantage of online rentals is it enables you to quickly see which units are sold out or discounted at a particular facility; however, be aware that demand for storage can be seasonal, with winter typically being slower than summer.

Once you've sketched out a rough unit-mix plan, there are ways to fine-tune it. To increase the number of smaller units, consider incorporating 5-by-10 or 10-by-10 units at the ends of your buildings. For buildings with interior hallways, you can adjust the mix by modifying the number of hallways.

Building a new self-storage facility requires significant time and investment in planning. However, when laid out properly with a well-researched unit mix, it should yield the reward of a well-designed facility that'll provide returns for decades to come. **ISS**

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

Case Study: Overcoming Obstacles

Landscaping at Oak Hill Storage, including heritage trees

Self-storage development projects are rarely straightforward. Designers and builders typically contend with an array of challenges to produce a facility that'll be functional for staff and customers and attractive to the community and local officials, as well as yield desirable return on investment.

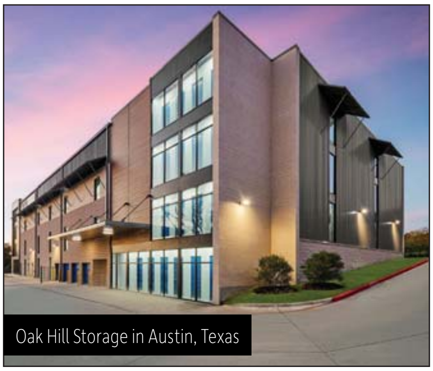
This was the case in 2019 when The Jenkins Organization developed Oak Hill Storage in Austin, Texas, which now sails under the Extra Space Storage flag. The four-story, 123,400-square-foot facility had to clear many hurdles. Here's how they did it.

Site Challenges

The narrow, 7.6-acre site on which Oak Hill was constructed came with so many limitations—some natural and others imposed via regulations—that it was hardly suitable for most other property types. I as the architect, along with design-builder ARCO/Murray and civil engineer Landworks Engineering, had a lot to consider in terms of site and building design.

First, the property had a significant grade that rose from a flood plain. The front two-thirds rose 25 feet, with the rear third abruptly steepening and rising another 60.

Building around a heritage tree



Oak Hill Storage in Austin, Texas

View from the rear of Oak Hill Storage

To further complicate matters, the entire neighborhood lies in the environmentally sensitive Barton Springs Watershed, which is part of the larger Edwards Aquifer Contributing Zone. As a result, just 24% of the parcel could be covered with impermeable surfaces, leaving a meager 1.8 acres that could be developed with structures and paving.

As if that wasn't enough, the site had to comply with Austin's tree-mitigation requirements. That isn't always a challenge, but this property had several massive oak and pecan trees that were designated as "heritage" and, thus, couldn't be removed. As a result, the self-storage facility was designed around them. The building area, including the parking and fire lanes, was hemmed in by three trees, forcing an L-shaped structure.

With the front of the site in a flood plain and declared a Water Quality Treatment Zone (which was measured from the nearby creek regardless of elevation), no development could occur in that section. This included the detention pond, which was restricted by the treatment zone to the north and a heritage tree to the south. Concrete retaining walls had to be constructed to get the volume required for stormwater runoff. These limitations shifted the buildings further back than usual, leaving a significant amount of green space along the highway frontage.

Finally, because the site was so narrow as well as close to an existing driveway adjacent to the northwest corner, only one access point to the highway was allowed.

Building Challenges

Since most of the Oak Hill site couldn't be used for anything other than landscaping, the way to recoup the significant loss of buildable area was to reduce the building footprint and go up to maximize net rentable square feet.

But with only access point for emergency vehicles, the most square feet allowed by the fire code was 124,000. To get there required four stories, and here's why.

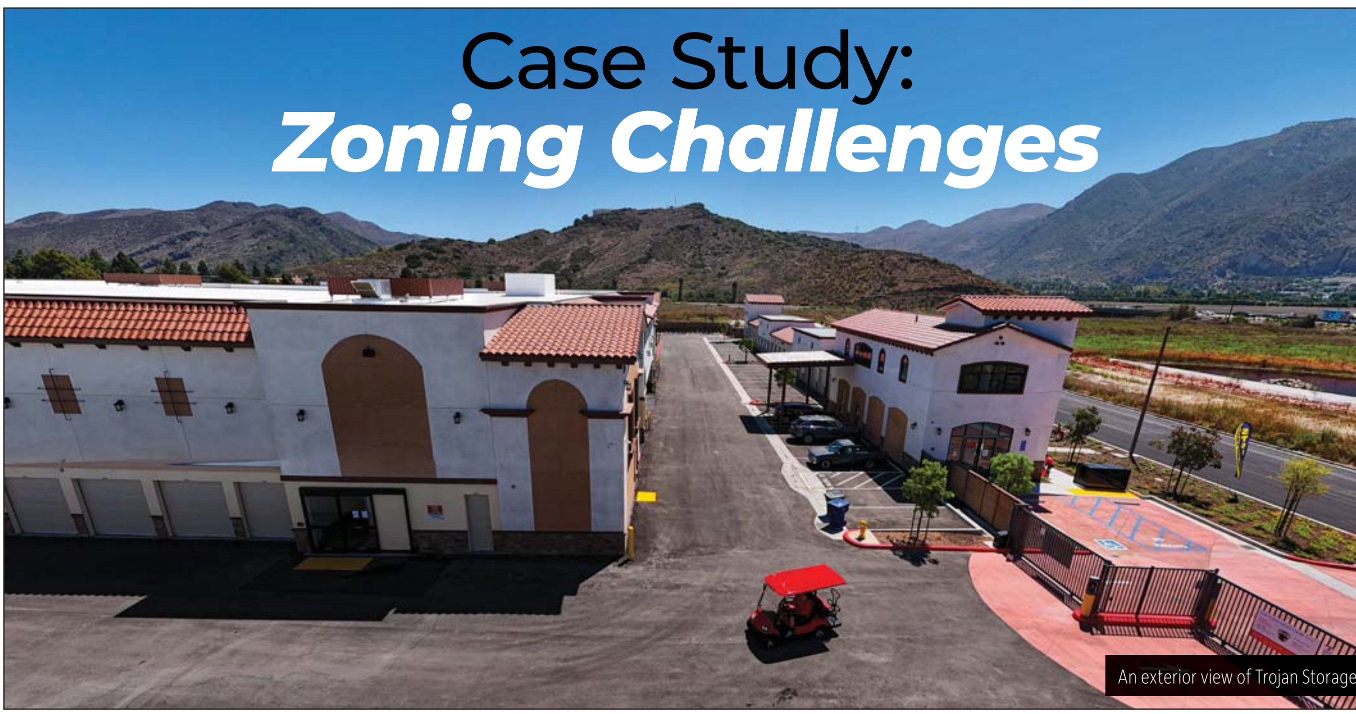
The project was designed under the 2015 International Building Code, which allowed for three stories above grade using typical light-gauge metal construction without fire rating any of the structural members or walls, or without using concrete-podium construction for the first floor—both costly techniques. The solution was to use the natural grade change to create a basement. At the front of the structure, a full four-story façade faces the highway, giving the facility prominence. This was important considering that the building had to be so far back from the street.

By employing the below-grade option, the rear façade was only 34 feet, 5 inches, high, but the front was 45 feet, 7 inches. This was another challenge because the maximum allowable height due to proximity to residences was 40 feet. Thankfully, the city allowed the building height to be measured from an imaginary "established" grade line set at half the floor-to-floor height of the basement. Ultimately, it came out to exactly 40 feet.

With a lot of creativity and design time spent up front, the Oak Hill design team was able to accomplish a successful strategy, working around the many challenges inherent within the site. The result was a profitable return for Jenkins and a beautiful self-storage facility for the community. **ISS**

Contributor: *David Baca, Baca, www.baca.team*

Case Study: *Zoning Challenges*



An exterior view of Trojan Storage

The road to opening a self-storage facility can be curvy and bumpy. You might even need to take a detour or two. This was certainly the case in the development of Trojan Storage in Camarillo, California, in which the owner faced a number of challenges that extended the project timeline by about 18 months. Thankfully, the final result—a beautiful facility in a high-demand location—proved well worth the trouble.

Based in El Segundo, California, Trojan was launched in 2007. It currently operates 50 self-storage facilities, 31 of which it owns and 19 it manages on behalf of other operators. Most of its properties are in California, Oregon and Washington, with a handful in Illinois and New Jersey. The Camarillo project was launched in 2018, not long after the company decided to set its sights on the San Francisco Bay Area and Los Angeles.

Trojan Storage in Camarillo, California

About an hour north of L.A., Camarillo is a "really attractive" location for self-storage, says company president Brett Henry. It's a densely populated area in which many homeowners' associations restrict the storage of items in people's yards, including recreational vehicles. "With the affluent household income in the area [and] a really packed-in density, it's a market where, generally speaking, residents need a lot of storage," Henry says.

Seeing that the area had high demand for self-storage and relatively low supply, Trojan chose a parcel on a busy freeway that offered good visibility. The company just didn't realize it was in for a bit of a turbulent development ride.

The Parking Problem

At 91,000 square feet, Trojan Camarillo comprises two single-story buildings and one three-story structure, offering 874 storage units. It also offers 82 RV-storage spaces totaling 30,000 square feet. However, that wasn't the original plan. In the beginning, the municipality wanted to see 252 spaces for *customer parking*—a number that far exceeds the typical requirements for a self-storage facility.

"Most cities realize that self-storage is parked differently than other industrial or commercial uses," Henry says. However, this municipality wanted parking typical of a warehouse. Thankfully, the property was large enough to accommodate it, so long as one of the buildings was multi-story. In fact the parking requirement really drove the physical layout, Henry adds.

Two and a half years into the entitlement process, the planning commission finally recognized its folly and granted Trojan permission to turn some of that parking area into RV storage. The company ultimately created covered parking with solar panels as well as uncovered spaces.

In the end, the operator got more storage to rent, increasing its revenue-generating ability. However, working with the city to make these changes added about 60 days to the project timeline.

Aesthetic Requirements

The parking challenge was just one way in which the City of Camarillo complicated the development process, Henry says. It also imposed hefty architectural requirements. The zoning rules for the area surrounding the self-storage facility call for Spanish design elements; however, city officials didn't offer any specific parameters or examples to follow, which meant Trojan had to bring its own ideas and hope for subjective approval. This led to a lot of back-and-forth discussions, says Henry, who estimates that his company spent about nine months negotiating the design plans.

Despite this frustration, the finished product is "the nicest storage facility in the market," Henry says. The site features Spanish-style red tile roofing, smooth stucco, ornate windows, and variations in articulation and roof height.

Lessons Learned

Looking back, Henry realizes that spending more time with city officials at the beginning of the project would've provided a better understanding of the expectations for the overall process and the design. This might have potentially reduced delays and improved efficiency.

"If you don't understand the whole process, then you're kind of at the whim of the city to drive the project," Henry says. "You really do need to understand it, so that you can help move them through in a proactive way and keep everybody on track."

He also warns against relying on rules of thumb to gauge how much time a self-storage development project will take. Instead, he advises that you really understand the project you're doing, including the constraints and challenges. ISS

Contributor: *Rachel French, Freelance Author*

Case Study:
DESIGN WORKAROUNDS

The development of high-profile self-storage facilities continues at a strong pace in the rapidly growing suburbs of the Southwest, especially California. A great example of this trend is the recently completed Superior Self Storage in Granite Bay, one of seven facilities the company operates in Greater Sacramento. This area has seen explosive growth in all real estate sectors, including residential. Increased demand for storage made this a promising region in which to build.

Though prospects for success were favorable, the project was not without obstacles. Read about the challenges the developer faced and how they were surmounted to create this stunning self-storage facility that incorporates many elements in the American Craftsman style.

The monument sign, highly visible at a busy intersection


The main office showcasing high-quality, American Craftsman-style elements

Strategic Site Selection

David Kindelt, the self-storage owner, builder and operations manager who founded Superior Self Storage and serves as its president, worked with his development group to source the right facility location. Vacant parcels or obsolete land uses on busy commercial streets in developed suburbs are difficult to find, so this was the first challenge. They ultimately targeted the 2.8-acre site at the heavily traveled intersection of Sierra College and Douglas Boulevards. It was the perfect spot.

Now we were ready to tackle design. My architectural firm had worked with Kindelt on other Superior facilities, so we were prepared to address the needs of this flagship project, though we couldn't foresee all complications.

A 'Crafty' Design Solution

As is typical, the biggest barrier to obtaining the required land-use permits for the Granite Bay development was the high demand for aesthetics from the municipality and community. The property had previously been used for an unsightly equipment-rental business, and the existing conditions were less than desirable. The goal was to replace this structure with something more attractive and useful.

Conceptual site-design work started in July 2017. The first step was applying for a conditional-use permit. Granite Bay is an unincorporated community, so all formal land-use and construction permits would be reviewed and approved by Placer County. The community association would also have to review and approve the project.

Plans were submitted, followed by meetings with county departments. The first design concept was for a mixed-use development that included a Dutch Brothers Coffee at the front of the parcel facing Sierra College Boulevard, with the self-storage facility toward the rear. Unfortunately, traffic issues and lack of adequate space for a drive-thru led to the elimination of that approach after several months of effort.

The project went on hold for several more months, then proceeded with just the self-storage component, which was then enlarged and extended toward the street. This greatly increased visibility along the frontage. We were on the right track, but we were starting the design process from scratch, which meant several more months of review.

An initial assessment of the revised design by the Granite Bay Community Association wasn't very favorable, primarily due to the size, mass and height of the three-story, climate-controlled building, which was just one

A view of a drive aisle from just inside the entry gate


The main, three-story building


The welcoming office

of several structures planned for the property. After some collaboration, we incorporated traditional, high-quality, Craftsman-style design elements found in upscale retail and residential projects nearby. These included an earth-tone color scheme common to the surrounding area. Exposed concrete block and stucco were used as primary exterior materials, with a horizontal stone veneer tower accenting the office. There are also decorative, sloping metal roofs on the first floor. Overall, the design exceeds the usual industry standards.

As part of the process, we also invited members of the community association to tour other Superior facilities in high-visibility areas. They walked away understanding that this wouldn't be a typical utilitarian project with a plain-Jane look.

After all this effort, new design studies were presented. Enhancements, refinements and additional details were incorporated through several reviews until a final plan was approved by all parties. The association gave its unanimous green light in March 2020.

The Final, Lengthy Stretch

With this crucial hurdle cleared and approval received from all internal departments, the project proceeded to the Placer County Planning Department and was scheduled for a public hearing. The conditional-use permit was granted in October 2020 following a unanimous vote, nearly three years and three months after the design process began.

Plans were submitted for building permits in January 2021 and approved for construction two months later. However, there was a delay in obtaining grading permits due to site-drainage issues, which pushed the start of construction to November 2022, right at the start of the North California rain season. Work continued through various delays until May 2024, when a Certificate of Occupancy was issued and Superior could begin renting units to the public.

The final project is 86,476 net rentable square feet spread across 725 units. It includes three single-story buildings with large, drive-up units in addition to the three-story structure, which offers drive-up units on the first floor and climate-controlled units on the upper levels. There's a rental office facing the main street but also a corporate office at the rear of the site.

The lease-up phase is progressing well, and this Superior project is on track to be highly successful. Top-notch location combined with high-quality, community-based design aesthetics resulted in an exceptional self-storage development that is certainly one of the brand's leading facilities. ISS

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SecureSpace Self Storage in Manhattan

Case Studies: Leveraging Innovation

As pioneering developers and owners strive to meet the growing demand for self-storage solutions, they have to navigate the intricacies of zoning bylaws. Designed to govern land use, these regulations can present formidable challenges that demand not just perseverance but strategic finesse.

Balancing cost, quality and efficiency is crucial in self-storage development. However, site conditions seldom allow for straightforward design. The good news is diligent feasibility and site planning can often transform obstacles into opportunities. Let's explore innovative approaches by looking at two projects—one on the East Coast and the other on the West—that managed to succeed on difficult land parcels.

An East Coast Case Study

On the East Coast, self-storage developers encounter many challenges, most stemming from the region's dense urban fabric and rich history. Zoning restrictions often prioritize the preservation of neighborhood character, aiming to limit the negative impact of any project. In cities like Boston and New York, where space is at a premium, ordinances are also partial to diverse land uses and community integration. To get approval, builders must employ strategy and innovation to push the boundaries of traditional design.

Because Manhattan is land-locked, building vertically on small parcels is standard practice. Floor-area-ratio (FAR) limits and height restrictions are common. Projects also come with additional conditions like sky-plane setbacks, which may limit building capacity. However, creative architecture can save the day! The SecureSpace Self Storage facility on the Upper East Side is a great example.

First, we had to adhere to a 30-foot rear setback required when abutting a residential parcel, which left us with a shallow footprint. Though the project was initially designed to be an eight-story building with even floor-to-floor heights, it had a FAR of 5.0. The lot was 14,900 square feet, which meant we could build 74,500 square feet above grade. This allowed us to add two floors.

We also had to follow the sky-plane setback after 85 feet, which further shrunk our floor plates. But aesthetically, it allowed us to split the building cleanly into two zones. The first, visible at the street level, received a stone-finish façade. The setback portion was clad in insulated metal panels and acted as a balancing backdrop to the more intricate design of the street face.

Originally, the design called for uniform ceiling heights of 10 feet, 8 inches. We had maximized our square footage, but as the New York zoning bylaws don't count storage lockers as part of the FAR, we realized we could vary our floor-to-floor heights and add locker units. We did this on levels two, three, four and 10.

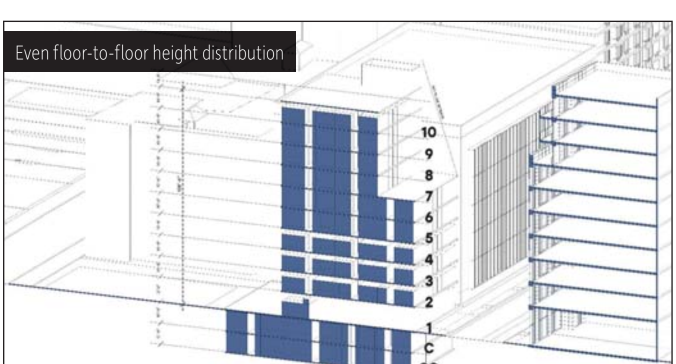
We then added a cellar and subcellar below grade, as they also don't count toward the FAR. This presented significant engineering challenges, but it allowed us to deliver a project that was 30% larger than initially planned.

A West Coast Case Study

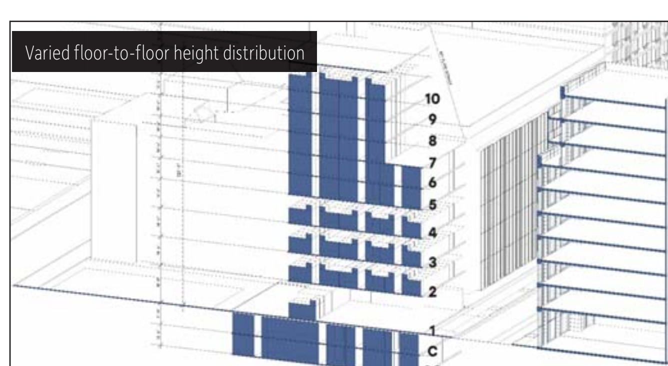
On the West Coast, self-storage developers navigate a zoning landscape shaped by vast expanses, progressive urban-planning initiatives and seismic considerations. In cities like Los Angeles and San Francisco, obstacles revolve around earthquake-safety requirements, environmental-sustainability mandates and transit-oriented development goals.

Local sustainability initiatives make it necessary to integrate green-building practices, renewable-energy solutions and stormwater-management strategies. While pushing self-storage developers to uphold stringent safety standards and environmental stewardship, these unique regulatory frameworks also present opportunities for cutting-edge design.

The most common zoning challenges in this region are easements and setback restrictions. Many jurisdictions dictate how far a structure must be removed from property lines, public roads and neighboring buildings, which can pose significant obstacles for developers eager to maximize land use. It isn't uncommon for a piece of land to appear



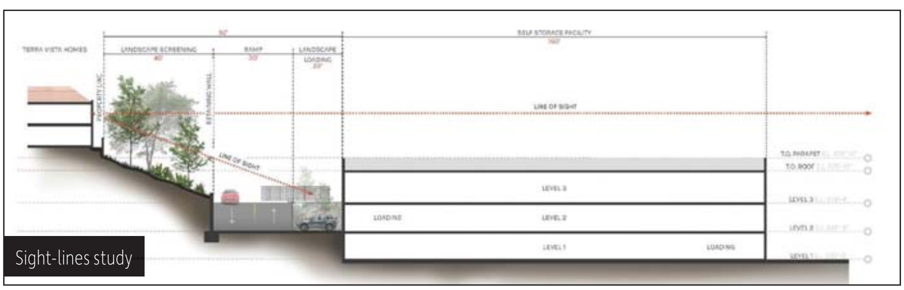
Even floor-to-floor height distribution



Varied floor-to-floor height distribution


Old site plan with multiple buildings


New site plan with consolidated footprint


Sight-lines study


SecureSpace in San Diego

ripe for development until you look at the easements running through the site.

Take the SecureSpace facility in San Diego, for example. Located at the intersection of Interstate 15 and State Route 56, this triangle-shaped lot is adjacent to garden-style apartments with a single approach road. Even though self-storage and vehicle storage were identified as the highest and best uses for this tract per the Community Plan Update from the 1990s, the residents didn't want their views blocked by a new development.

In addition, the land had heavy topography and major electric, gas and water-line easements, making it impossible to use about 45%. The lot remained vacant for more than a decade. A previous developer had proposed a site plan containing three odd-shaped, standalone buildings, each three stories tall; but the cost associated with site work and construction made it financially unfeasible.

Knowing these challenges, our goals were to maximize the built area and construct a "billboard" building with great freeway visibility. Recognizing that multiple low-rise buildings were not the way to go, we took an unconventional approach: one consolidated footprint with 40% to 50% of the building built into a hill. What we lost by doing so was mostly the ability to place drive-up units around the structure. What we gained was quite a lot!

Cost-savings. By consolidating the footprint into a single building, we saved on the cost of the façade and created a more efficient layout, allowing us to maintain our underwritten net rentable square feet. Even with the additional site excavation and a complex structural design, we still came ahead on pricing.

Productive collaboration. By using the topography to our advantage, we managed to carve out a footprint that worked around the easement constraints and building setbacks. Collaborating with the city and neighborhood commission, we positioned the building so the tallest part met the sight-line requirements of the neighboring residents. We also used the site grading to provide loading lobbies at all three floors, giving tenants "ground-level" access to each.

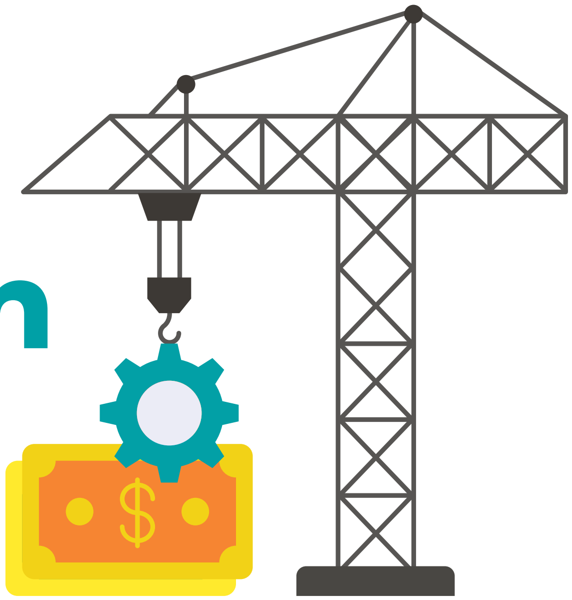
Greater visibility. The strategic placement and orientation of the self-storage building allowed it to be visible from the freeway, thereby attracting more attention.

Sustainability. Among other green strategies, we designed a stormwater-management system with biofiltration, high-performance site lighting with zero light pollution, and low landscape-water requirements using native vegetation. This helped us meet California's sustainability initiatives and create a more balanced self-storage project.

Challenges are inherent in the self-storage development process, but it's possible to overcome them with design innovation. By embracing a collaborative approach, thinking outside the box and engaging with diverse stakeholders, developers and owners can navigate bylaws effectively while redefining what's possible. ISS

Contributors: *Vineet Bhosle and Utkarsh Kumar, Insite Property Group, www.insitepg.com*

Building a **Construction Budget**



While building a new self-storage facility can be exciting, the process can also be complex. One of the most critical steps is to create a comprehensive construction budget. This detailed financial plan will help you make informed decisions, so you can keep your project on track. Here's an overview of what it should include, tips for staying on course and strategies for navigating development in today's economic environment.

Construction-Budget Preliminaries

Before you set financial parameters for a self-storage project, you must first identify the type of facility that has the greatest chance of success. Decisions including building size and type (drive-up vs. climate-controlled), number of units, unit sizes, and amenities should be based on the market data collected via your feasibility study. Once you know precisely what you want to build, you can start determining the construction costs.

Establishing a preliminary budget early in the development process allows you to identify key expenses and determine how you'll finance the project. Will you rely on personal funds, or will you need construction loans or investors?

Partnering with a general contractor provides critical insight to current market costs and allies you with someone who's dedicated to completing your project. It's in their best interest to develop a preliminary construction budget that aligns with your investment goals. They can assist you through the processes of value engineering, permitting and construction, all of which can help you manage costs.

"Creating a baseline construction budget gives the owner a quick overview of potential costs for the project, highlighting key factors that are often overlooked, such as site soils, topography, and the specific infrastructure requirements set by local jurisdictions," says Jeremy Maynard, the executive vice president for the West Coast at my company, where he's responsible for project execution and supply chain. "These factors are critical to ensuring the site is viable for construction and helps outline the broad financial framework of the project."

As your self-storage project progresses, your construction budget will evolve. At each phase, you can refine cost estimates to account for building efficiencies and changes, thereby improving accuracy. You can also anticipate and prepare for risks, as construction inevitably brings unforeseen challenges.

"While you progress through zoning and planning reviews, adjustments to your preliminary construction budget are often necessary to stay aligned with your overall financial plan," Maynard says. "New requirements may arise, but by making strategic concessions—such as substituting materials or modifying construction methods—you can adapt without straying far from the initial budget."

These changes are common and can help you meet the project's financial constraints and planning requirements while adhering to the budget approved for your self-storage pro forma. A flexible approach ensures the project remains viable without compromising key outcomes.

What Should a Construction Budget Include?

When setting your construction budget, it's essential to be detailed. A comprehensive financial plan for a self-storage project might include:

- The price of the land
- Property taxes
- Building materials
- Labor
- Site preparation
- Utilities
- Infrastructure upgrades
- Fees for architects, engineers and consultants
- Costs for various permits and inspections
- A contingency fund of 4% to 8% of your total budget for unforeseen expenses
- Additional funds for pre-launch marketing and initial operating expenses like staffing and supplies

Accounting for the Economy

Inflation presents a challenge for every construction project, as it can drive up the cost of materials and labor. However, taking proactive steps, such as discussing market trends with suppliers to lock in better pricing, can help mitigate the impact on the cost of your self-storage development.

"The key to minimizing the impact of future inflation is understanding the specific construction markets you're working in," Maynard says. "If you're unfamiliar with a particular market, don't hesitate to ask questions. We've found that asking about market stability is not only non-offensive but often appreciated. It shows you're being proactive and mindful of potential future costs."

You should also monitor the market for news and trends that can affect the price of materials. Being aware of shifts allows you to adjust your project timeline or scale based on current and projected costs. Try locking in prices for materials and labor when rates are favorable. While predicting the future isn't easy, securing deals at the right time can protect you from potential hikes between the planning phase and the start of construction.

Work with your self-storage design and construction teams to implement value engineering, which helps you find cost-saving alternatives without sacrificing quality. For example, you might use more affordable materials, simplify the design or employ more efficient building methods. Adjusting the timeline for certain aspects of your project can also create savings. For example, starting one phase ahead of schedule may allow you to purchase materials before prices increase further.

Expecting the Unexpected

Even with the best planning, unforeseen issues are bound to occur in a self-storage construction project. However, a proactive approach can help you address potential challenges before they arise.

“I’ve seen cases where a pre-application meeting approves a specific design, only for it to be overridden later by design-review boards or neighboring community committees,” Maynard says. “To prepare for the unexpected, it’s crucial to do your homework. Visit surrounding communities and engage with as many local officials as possible about your project and design ideas. [Establishing relationships] can help mitigate the risk of being forced to overdesign or overbuild to meet unexpected demands.”

Here are some common obstacles self-storage developers come up against and how you can account for them in your budgeting process:

Weather delays. Inclement weather can significantly impact your schedule. Plan your project so construction occurs during more favorable times of the year. Research the local climate, especially if you’re building in an unfamiliar area. Also, include extra days in the timeline to account for potential disruptions.

Zoning or permit issues. Permits can be denied for many reasons, causing delays. Staying in close communication with local authorities and having a team familiar with the area can help mitigate these risks.

Supply-chain disruptions. Unexpected global events can make self-storage building materials more expensive or hard to procure. Always have a backup plan and consider ordering essential items earlier in the process if possible.

Final Advice

Creating a construction budget is the best way to ensure your self-storage project stays on track and within your financial means. A detailed and proactive approach helps you navigate building complexities, inflationary pressures and unforeseen issues with greater confidence.

Remember, having an experienced development team on your side can make all the difference. Don’t hesitate to rely on professionals who understand the nuances of self-storage construction to guide you through the process.

A budget is a financial blueprint for construction success, and it evolves as your self-storage project progresses. It’s more than just a number; it’s a dynamic guide that helps you make smart decisions throughout the stages of development, ensuring that you stay on track. Without a clear plan, costs can spiral out of control. The last thing you want is to overspend in areas that don’t add value or run out of funds before completing the project, as either will seriously harm your return on investment. **ISS**

Contributor: *Andrew Thein, MakoRabco, www.makosteel.com*

The Construction Timeline

Building a self-storage facility is a complex endeavor that requires careful planning and execution. Effectively managing the construction timeline is critical to financial success. The goal is to stay within budget and complete the facility on time, or you risk the trajectory of the investment. Let’s delve into the schedule, including what it typically looks like and strategies to keep it on track.

The Phases of Construction

New construction can be broken down into the following phases:

Pre-construction (one to four months). This involves initial planning, site selection, permits, financing, and hiring of architects, engineers and contractors. As the economy has slowed, there have been fewer construction projects. As a result, municipalities have a lighter project load to review, and this phase has shortened.

Site preparation (one to three months). This phase begins once permits are obtained. It includes clearing the land, grading, balancing the site and installing utilities.

Foundation and building (two to four months). At this phase, we pour the foundation, erect the building frame, and install roofing and exterior walls. We might install the driveways and bollard posts at the same time as the foundation or after the buildings go in, depending on preference.

Interior work (two to four months). This is when we focus on electrical, plumbing, HVAC, insulation, drywall, video surveillance and other finishing touches. Often, we wait to put up doors and springs until after the electrical, plumbing and HVAC installation to give these contractors easier access. Many of these details need to be handled with certain structural components in place; however, because self-storage builds can consist of multiple structures, contractors can often start work right after the buildings and units begin to go up.

Gating and fencing (one to two weeks). Depending on your site, this may be planned at any other stage. For very large facilities with lots of construction material, theft could be a concern. Gates and fences might be installed earlier rather than later.

Finishing touches and final inspections (one to six months). The final phase includes painting, landscaping and signage followed by final inspections to ensure compliance with building codes and regulations. This can be the most frustrating phase, as your facility can be 99% complete, but approval from the municipality can be delayed due to its own timeline. Some jurisdictions may allow pre-inspections or assistance with a pre-inspection punch list, while others will require a formal process that can delay your self-storage project for months. Additionally, after the inspections, it can be difficult to get contractors back on the job for small details, or you may be hit with delivery delays on materials that weren't preordered.

Addressing Delays

While the typical timeline for a self-storage facility can vary significantly based on the skill of the general contractor, I typically expect an eight- to 10-month build process for non-climate-controlled storage and 12 to 14 months for climate-controlled. While it's certainly possible to manage your timeline better, the tighter it is, the less margin for error.

Construction delays can happen for many reasons. For example, if you aren't ready for a contractor when you originally believe you will be, rescheduling isn't always simple, as they have other large jobs with strict timelines.

I once received an extremely competitive price from an out-of-town concrete contractor, but it was based on us meeting an aggressive timeline, so the contractor could pour our site right after another local job. When the time came, we weren't ready. Not only did we have to wait almost a month for them to complete the work, but because they had to come back later, we paid a fuel surcharge. If we had scheduled our contractors with a two-week cushion, we would've had less of a delay and been more likely to stay on schedule.

The earlier you encounter delays in your self-storage build, the more you must scramble to manage every contractor down the line that has been affected by your changing timeline. For this reason, I recommend sourcing contractors locally, especially your excavator and concrete contractor, as it makes coming back to the site easier and allows more flexibility.

Creating too much of a cushion can also present problems because your site may not be ready due to weather conditions.

> To keep your self-storage construction plan on track, you must have clear and consistent communication with your contractors.

I've faced multiple situations in which harsh weather prevented our concrete contractors from pouring, which led to delays and additional costs.

If you don't have the time to be onsite frequently or someone you trust to manage the construction schedule, you should hire a general contractor. While you might pay a premium, it may not be as high as you think because they have contractors who offer preferred pricing. Plus, they understand the importance of delivering a quality job to maintain their business.

The Impact of Delay on Cost

When considering self-storage construction expenses, people often focus solely on hard costs, treating the project as a snapshot in time. What's often overlooked is that while you may be able to build at a set price per square foot, the holding costs can represent 10% to 20% of the total.

Let's say I can build a 50,000-square-foot storage facility at $90 per square foot including the cost of the land. This would be $4.5 million. Assuming we can secure a fixed-rate construction loan at 7.75% and complete 80% of the construction with a loan balance of $3.6 million, that would mean that each month we're spending $23,250 in interest, if there's no additional progress. This doesn't even include taxes and insurance, which could add another $4,000 to $9,000 per month. In addition, we haven't even discussed the cost of utilities, grounds maintenance, refuse and portable toilets, all of which can accumulate.

In a scenario like this, finishing the construction ahead of schedule could easily save you $60,000 to $70,000 a month. This is money a bank may not lend you to lower your out-of-pocket costs. The hold costs of self-storage construction should be one of the first things you account for when planning your timeline. Don't overlook this line item on your pro forma.

Strategies to Stay on Target

To keep your self-storage construction plan on track, you must have clear and consistent communication with your contractors. Always talk after a site visit to address concerns. Don't just ask, "How are things going?" through text messages or emails. A better approach is to be specific. For example, you might say, "I'm on site now. I see that two buildings have been completed, but there are two left, and there are no contractors here. My electrical contractors will be here next week, so if you aren't on schedule, they may get in your way."

Here's the rub: You don't want to be *too* frequent with communication, as you don't want to seem like you're nagging.

Also, ensure your contractors understand their hierarchy and the level of authority you want each of them to have. In most cases, my most trusted contractors are my excavators. They often notice issues in others' work, as they're frequently on site for cleanup and landscaping. I often defer to them and encourage them to keep track of other contractors if they notice anything that can be improved.

Here's an example: An excavator once suggested that we ask our concrete contractor for a quote for concrete for all the driveways, as he knew about the rising price of petroleum-based products including asphalt. Historically, the cost wasn't even close; however, in this case, because concrete requires less aggregate base, the cost ended up being less than $0.20 a square foot more for a superior product. This wouldn't have happened if we hadn't encouraged our contractors to speak up!

Finally, consider your contractors' timelines as well as your own. It's essential to communicate and negotiate flexibility when possible. I once had a contractor who had a free week that fit perfectly into our timeline, but when we needed flexibility due to delays in material delivery, he was unable to accommodate us. However, he offered another two-week time slot in which he had availability for smaller jobs. We took that, and it ultimately benefited us, as we were hit with another delivery delay.

If most of the material in this article makes sense to you, you're likely ready to take on a new construction project of some scope. However, if you feel like you've just learned quite a bit, I recommend continuing to build your baseline of knowledge or seek other professionals to help along the way, including a general contractor. There are many ways for you to add value to your self-storage facility beyond the construction phase, including operations, marketing and securing more favorable financing. **ISS**

Contributor: *Charlie Kao, Twin Oaks Capital, www.twinoakscap.com*

Creating a SITE-UTILIZATION PLAN

When it comes to efficient and safe site management for a self-storage construction project, the creation of a site-utilization plan is a great first step. The objective is to form a blueprint for your development and document its progress, whether you're renovating, adding a new structure or working on some other aspect of the property. Careful preparation can mitigate the disruptive effects of construction on daily operation while keeping everyone safe, from staff to contractors to customers and anyone else who spends time at the facility.

Customization is key when crafting this plan, as each self-storage project presents unique opportunities and challenges. There's no one-size-fits-all approach. Rather, it's imperative to assess which elements align with your development's requirements. For example, your site-utilization plan might include provisions for a construction dumpster, designated entrances and exits for contractors and equipment, concrete-washout stations, restrooms, material-laydown areas, drop zones, temporary fencing or jobsite trailers, visitor parking, and more.

When crafting your plan, first confirm whether the municipality has specific requirements to meet. Tailoring your approach to accommodate these ensures smooth project execution, compliance with regulatory standards and maximum efficiency.

Site Access

One of the most pivotal aspects of your site-utilization plan is access, as it affects all stakeholders, from self-storage owners and contractors to workers and the general public. It's essential to regulate facility entry and control all exit points.

When delineating entrances and exits, factor in the size of the property and any equipment that'll be maneuvering around it. For instance, during a concrete pour, decisions hinge on whether to use corner pours or pre-poured elements coordinated by the general contractor (GC). In the former scenario, provisions for a concrete-washout station and measures to prevent runoff into municipal water systems are imperative. Conversely, the latter necessitates ensuring adequately sized entrances to accommodate heavy-duty trucks or crane deliveries.

Equipment, Deliveries and Materials

Every self-storage construction project requires the transport and use of equipment and the delivery of various building materials. They all need safe, accessible places to go; and your site-utilization plan should make those locations clear.

If your project involves concrete pours, for example, consider the logistical placement of trucks. The closure of traffic lanes, albeit costly, might be necessary. Please note, however, that this will be subject to municipal approval, especially on busy roads. It can be cost-effective to explore alternative routes for temporary storage or vehicle parking along less congested routes.

Deliveries demand meticulous planning, too. Designate a special area for these and ensure adequate space. If constraints arise, explore options for temporary delivery zones.

Similarly, evaluate the suitability of a material-laydown area. If space is limited, you may need to come to a contractual arrangement with your vendors to ensure material delivery takes place at a specific date and time, which can inflate your self-storage construction costs.

In all cases, situate your valuable equipment, deliveries and materials in a safe area free from potential harm to avoid accidents and costly losses. Always prioritize proactive measures to facilitate smooth operation and minimize business disruption.

Public Impact

Any potential impact your self-storage construction activity may have on the general public is a significant consideration. Building adjacent to a school or busy retail or residential area heightens safety concerns. Will your project block or disrupt the sidewalk, for example? The municipality may require you to install overhead site-walk covers to enhance safety. Also, consider nearby crosswalks, and make sure the trajectory of any heavy equipment or trucks is readily visible, particularly in pedestrian-traffic zones.

Don't forget about the Americans With Disabilities Act (ADA). Accessibility must be considered during project execution. If sidewalk closures will be necessary, you'll need to plan for ADA-compliant alternatives, or you'll have issues with permitting.

Parking also merits careful attention, especially in densely populated areas. Let contractors and other workers know where they're allowed to park, and clearly communicate your expectations in this regard. To avoid having your team park in nearby neighborhoods, creating potential conflict with residents, consider providing a shuttle service or subsidizing parking fees to encourage them to park farther away. Proactive management of these concerns ensures smooth project execution and positive community relations, minimizing potential setbacks.

Finally, if your self-storage facility will be operational during the project, special consideration must be given to the impact on employees and tenants who access and use the site. For example, you might install temporary fencing to mitigate disruptions and enhance the customer experience.

Additional Safety Tips

Safety is paramount when creating a site-utilization plan for a self-storage construction project. By incorporating the following simple measures, you can further mitigate risk and maintain a secure environment that's conducive to efficiency:

- Establish safe walking paths and ensure they remain clear of hazards for anyone who might use them.
- Carefully evaluate the radius of your drop zone to ensure everyone's safety.
- Designate a break area to facilitate trash disposal and ensure site cleanliness, but keep it far out of the path of any large equipment, including cranes, and away from any areas prone to dropping hazards.
- The same goes for bathrooms, which must adhere to Occupational Safety and Health Administration regulations.

Sensible Workflow

Achieving optimal efficiency on your self-storage construction project depends on strategic coordination between your GC, subcontractors and any other workers on the site. One of the goals of your site-utilization plan is to map out a logical workflow for these players. However, it's vital to acknowledge the dynamic nature of this plan and allow for fluid adjustments as circumstances evolve.

To expedite construction and minimize disruptions, consider taking a phased approach to your project, which will allow you to adjust as needs require. For example, as phase one progresses, space limitations may require you to relocate laydown areas and other key elements.

The utilization plan will also help you meticulously manage your timelines. You might explore opportunities to schedule construction during off-peak hours to minimize the impact on employees and customers. If it's financially feasible, consider overtime work for noisy tasks, weighing the associated costs against the benefits of reduced customer and staff inconvenience. Check local regulations regarding overtime work permissions to ensure compliance.

Customization and Forward Thinking

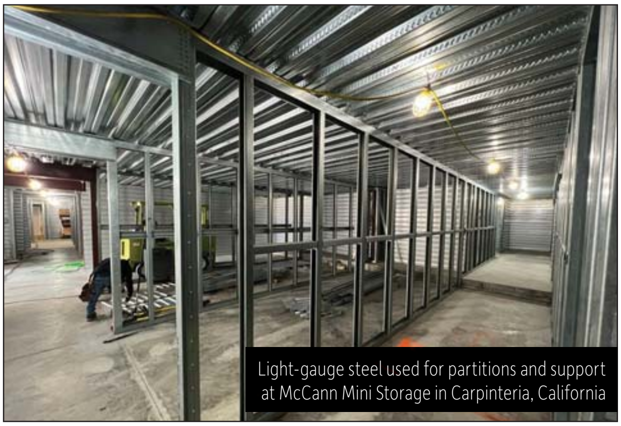
There are many important factors to address in a site-utilization plan, whether it's for new self-storage construction, or a facility expansion or renovation. The key takeaway is how very important it is to thoroughly assess the specific conditions of your property to ensure comprehensive and proactive strategizing.

Given the unique nature of each self-storage project, it's essential to customize the plan to your development's needs. Lean on your GC's expertise and experience in this process, as a strong partner will have valuable knowledge to impart.

A thorough site-utilization plan can set up your self-storage construction project for success, helping you expedite completion and keep all stakeholders safe. By proactively addressing the above considerations, you can facilitate smooth project execution while minimizing business disruption and improving customer satisfaction. **ISS**

Contributor: *Kiki McCartney, Spartan Construction Management, https://spartanbuilt.com*

Building Materials and Components



Light-gauge steel used for partitions and support at McCann Mini Storage in Carpinteria, California

When planning a self-storage development, there are a lot of decisions that start swirling around in your head. There's one in particular that should be at the forefront: What materials can or should you use?

This might seem like a relatively simple question, but it's one of the more critical choices that'll influence your project. The "right" components won't only affect the look and feel of your facility but its cost and functionality. The "wrong" products could result in increased construction expenses, a delay in building permits or even physical danger. Let's explore the options so you can make the best selections.

First Considerations

Before you can choose what materials to use for your new self-storage development, you must decide on your building type. A single-story, drive-up facility will require different components than a larger, multi-story building. And it isn't as easy as saying "I want this or this." Rather, it's decision based on market demographics and other factors, including:

Climate and terrain. This can dictate your building materials and how they'll be used. For example, if the facility is in a high seismic area like California or a high wind area like Florida, material choice and building calculations will need to be adjusted.

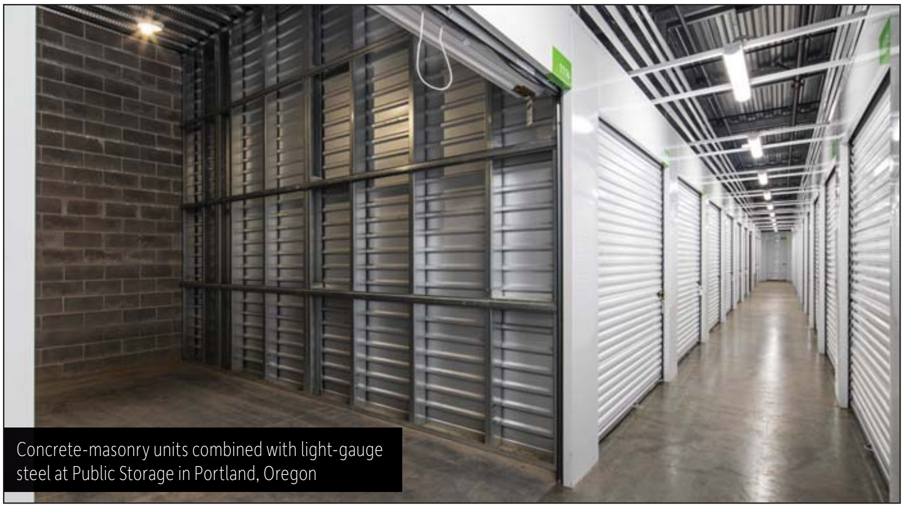
Local laws and regulations. Cities often have requirements for the category in which self-storage falls. These will vary from city to city, but one common theme is fire resistance. Most jurisdictions require that self-storage structures meet certain standards. If you're building within 10 feet of a property line, for example, the walls will often need an additional level of fire protection.

Aesthetic requirements. Cities generally don't want plain, metal boxes behind a chain-link fence next to their houses and businesses. They prefer something that elevates the overall aesthetics and blends with the surrounding area. Elements like decorative walls and siding may be necessary to meet regulations. You might choose stone veneer or other types of facades that can be installed over light-gauge framing. These features must factor into your overall build.

Light-gauge steel combined with concrete-masonry units at SoCal Self-Storage in Thousand Oaks, California

Types of Materials

There are three main types of materials used in self-storage construction: wood, metal (steel in particular) and masonry. Decades ago, some owners learned the hard way that wood wasn't the best material for creating a durable, moisture-tight structure. With its vulnerability to the elements,



Concrete-masonry units combined with light-gauge steel at Public Storage in Portland, Oregon

Light-gauge steel paneling at Public Storage in Portland, Oregon

it also led to higher insurance costs, maintenance unpredictability and depreciation of value.

Steel, the reigning champion in self-storage construction, boasts exceptional strength, durability and fire resistance, to name a few attributes. Its versatility allows it to be used as a framing system as well as in corridors, doors and paneling. It can even be applied to exterior aesthetics.

Commercial construction employs two types of steel. Light-gauge steel is cold-formed and capable of holding heavy loads through a load-bearing wall system and internal partitions followed by exterior cladding. Structural steel is hot-rolled, creating a super-strong product providing stability and strength for great heights and widths.

Sometimes a project calls for both types to achieve design-load calculations, especially in the case of multi-story projects. It's best to seek advice from a structural engineer to determine what's needed. This person should also be able provide "value engineering" on the design, recommending alternative materials and methods that cost less without sacrificing functionality. This makes your project more economical.

The final material, masonry, is often composed of concrete blocks or bricks, offering unparalleled durability and fire resistance. However, it has a hefty price tag and limited insulation capabilities. You typically won't build your entire self-storage facility of masonry but may include it in certain elements to conform with local regulations or fire codes. It can also be used for a decorative perimeter wall or to enhance the exterior look.

Decisions, Decisions

Now that you've learned a bit about the materials you can use, how do you decide which ones are right for your self-storage project? This process is about finding proper balance between cost-effectiveness and quality. Spend too much and you'll hurt your future return on investment (ROI). Spend too little and you could end up with a subpar facility.

How do you choose where to spend extra and where to save? It typically makes sense to invest a little more on items that'll help mitigate site maintenance in the long term and add building longevity. While one option may be cheaper now, it may require added expense down the line, making it less cost-effective overall.

Components like roofs, siding and insulation may be places to consider spending more, as they can affect how the facility looks and functions over time. This is especially the case if you're in a location with harsh weather.

That said, roofs and siding can also provide opportunities to save money, if you're able or willing to compromise on aesthetics or quality. For example, colored components are more expensive than basic galvanized metal. If you're building in an area with very mild weather, a less expensive roof may be possible.

By this point, you should have an idea of the type of facility you're building and local regulations. With those things in mind, focus first on the areas in which you don't have much choice. For example, where is structural steel needed or extra insulation required? An architect or structural engineer familiar with designing self-storage will be an asset in this regard.

Next, consider project features such as partitions, exterior walls, floors, doors and roofs. More than likely, light-gauge steel will make up the bulk, as it's the most cost-effective and versatile of the options. While other types of steel and masonry are available, they're usually more expensive, hurting your potential ROI.

Concrete is another component to factor into your overall cost, as it'll comprise most of your flooring. Depending on the terrain of your site, you may also need it to build retaining walls.

What's New?

Right now, self-storage construction is abuzz with exciting innovations designed for style and sustainability:

- Cold-formed buildings can be a substitute for traditional clear-span structures that typically require structural-steel components.
- Panels that include insulation can replace traditional insulation materials, reducing installation time.
- Stucco-finish metal panels are emerging that combine aesthetics with durability.
- Recycled building materials like concrete or steel can help minimize environmental impact without compromising quality.

With these possibilities on the horizon, your self-storage facility can be a smart investment and a testament to forward-thinking. Your architect can help you explore them.

Choosing the right materials for your self-storage development is a crucial step toward success. By understanding the key factors, analyzing options and strategically allocating your budget, you can build a facility that isn't only functional and durable but reflects your vision and maximizes ROI. ISS

Contributor: *Andrew Thein, MakoRabco, www.makosteel.com*

A Diverse Storage Campus

A rendering of potential flex space

Since the inception of the self-storage industry six decades ago, facility design has continuously evolved and modernized. What started as simple, single-story, drive-up units has diversified to cater to various customer needs. As the product has matured, it has grown increasingly sophisticated; however, developers, investors and owners must prioritize innovation and flexibility to ensure continued success.

One trend gaining popularity is the integration of multiple storage types within the same project to serve a wider renter base. This article explores the range of products that can be incorporated into a development and how they may open new opportunities with jurisdictions and customers. Each is driven by market demand and designed to target specific sectors of users.

Storage-Unit Types to Consider

Forward-thinking self-storage developers recognize the benefits of integrating multiple types of units into their projects, creating storage "malls" or "campuses" that serve a multi-generational market. Let's review the many kinds of product you can build.

Traditional drive-up units. We've all seen these long rows of single-story, non-climate-controlled units. The product has thrived for 60 years! Aesthetically, it has a bit of a tainted reputation, though. It's discouraged by many municipalities and often banished to industrial zones.

Climate-controlled units. This is currently the most popular self-storage product. It's often allowed in urban environments, even those with design restrictions. Developers use it to maximize small sites, usually in the form of a multi-story or over/under hybrid building. These facilities can be very neighborhood-friendly.

Boat/RV units. This is one of the hottest storage products today, as it requires a lower initial investment and achieves strong returns. Though convenient sites that are zoned for this use are scarce, it appeals to a more affluent customer base that often includes older generations of customers. If an owner couples this with a valet-parking service, they can achieve 50% more vehicle parking than with standard self-serve spaces.

Business units. This product includes larger units with higher ceilings. It caters to the needs of the business community and is commonly used by retailers, landscapers, contractors and other commercial enterprises that require space for inventory and equipment.

Flex space. Popular since the 1980s, this type of product is gaining traction in the self-storage market as a complementary use. It offers a combination of storage, retail or office space in varying proportions to suit tenant needs.

Modular storage. When "quick to market" is important, portable-storage units, cargo containers and prefabricated, panelized systems can be a real advantage. They're often allowed in powerline rights-of-way to help to maximize site utilization.

Specialty units. High-security, humidity- and temperature sensitive units can be used for valuable collections including wine, musical instruments and artwork.

Condos. Rapidly growing in use among car enthusiasts, storage condos come with many upscale amenities such as electricity, air-conditioning, restrooms and others. Purchased outright rather than rented, which makes them fully customizable, these units appeal to those who want to tinker on their vehicles and entertain in their space.

Man caves. These are similar to storage condos in that they offer flexibility in terms of size, customization and amenities. They typically include a mezzanine that can be tailored for use as a workshop, study or social gathering spot.

Warehouses. These have been prevalent for centuries, but they're evolving into a more sophisticated product that can be integrated into a project for larger bulk-storage needs.

Add-On Offerings

With many of the self-storage types above, developers and owners are incorporating more amenities to help boost convenience and value for customers and revenue for themselves. For example, many include retail stores that sell items in high demand by renters. Others offer coffee shops, coworking areas, conference rooms, truck rentals and more.

"Offering a variety of storage products and conveniences helps businesses to grow within the campus," says Steve Hopper, a partner and owner of Atlantic Self Storage in Charlotte, North Carolina. "By offering larger storage places, we help our clients expand within the same facility. We provide all types of amenities to boost their success including covered loading docks, ramps, small offices and communal lounges."

A New Path Forward

Self-storage developers, investors and owners face many challenges when attempting to build projects today, from elevated construction costs and higher interest rates to land scarcity, more intense zoning regulations and increased market saturation. There's also the need to appeal to diverse socio-economic and multi-generational groups, each with its own unique requirements. Regardless of the demographic, all customers desire convenience and accessibility. The best way to appeal to them

A rendering of a multi-use project that includes traditional self-storage units and spaces for car collectors

A mix of drive-up storage and covered vehicle storage

all is to implement a multi-use approach to development that incorporates many product types within a single facility.

That said, it can be difficult to identify a site that's appropriately zoned for a storage park, particularly in an urban location. Most zoning ordinances don't explicitly address this type of project, so you may have to convince the local planning and zoning department of the need for a multi-use storage facility and the role it can play within an essential community infrastructure. If you can do that, it can help you streamline municipal approvals.

Another way to win favor with the city is to repurpose an existing building. Conversions are popular, as they capitalize on the surplus of vacant retail stores, entertainment complexes and offices that many jurisdictions are eager to fill. Renovating these structures is a smart strategy for building your self-storage campus, especially given their general abundance of parking that can be redeveloped. Conversion can be more cost-effective than building from the ground up, and it's often embraced by planning departments.

Self-storage has matured immensely; but though the business may seem future-proof, it'll take innovation and flexibility to remain relevant and continue to capture market share. By bundling multiple unit types within a single project, developers, investors and owners will ensure our industry remains pertinent and profitable for the *next 60 years.* ISS

Contributor: *Stephen Overcash, ODA Architecture, www.oda.us.com*

Moving Toward Multi-Story

Parapets and canopies on display at West Coast Self Storage in Lacey, Washington

Imagine being on the hunt for that ideal self-storage development opportunity. After searching and searching, a parcel is available to purchase. Everything about it aligns: The price is good, the market has low supply and high demand, rates are favorable, and there's almost no competition nearby. However, there's one catch: It's less than an acre in size. With this, the only way to get to the target net rentable square footage is to build vertical.

For a novice self-storage developer or owner, this could feel a bit overwhelming. The following information will help you build an attractive, successful multi-story facility.

Is It Feasible?

There's a higher cost to construct a self-storage facility that has more than one level, so it's imperative to confirm that this route is financially feasible before purchasing the property. Below are a few key items to review during the due-diligence phase.

Parcel size. Typically, the main reason to build vertically is the land isn't big enough to accommodate the necessary rentable square footage. That is, the only way to get to the target is to build up.

Market demand. As with any self-storage development, sufficient demand is critical. For a multi-story facility, there must be enough demand for climate-controlled units specifically.

Rates. With the increased cost of construction for multi-story, the market rates must be high enough to make the deal pencil out. If they're too low, it'll be difficult to justify the project.

Height restrictions. Each municipality allows a specific building height. For self-storage, each floor should have a minimum of 10 feet. Therefore, if the height restriction is 25 feet, the most levels you can build is two, unless there's a basement.

Utilities. Multi-story facilities require water, sewer and electricity, so make sure the property has these available. Also, keep in mind that if the only water source is a well, you need to investigate whether there will be ample supply and pressure for the fire-suppression system.

Showcase units at Bee Safe Storage and Wine Cellar in Greensboro, North Carolina

The alcove loading/unloading area at StorQuest Self Storage in Tigard, Oregon

Required Features

Once you've determined that your multi-story self-storage project is feasible, you can shift focus to facility design. To begin, there are a few building features that are non-negotiable, as they relate to life safety. When working on the details for the following, lean on the expertise of your architect.

Elevators. Though these aren't required by code, it's an obvious feature that must be incorporated. The size of the building footprint and total rentable square footage will dictate the number of elevators needed and if they should be in more than one location. At a minimum, there should be one elevator near the main loading area.

Stairs. Having stairs in various locations is a safety requirement. In the case of a fire, people must have a way other than the elevator to get down from the upper levels. In warmer climates, some jurisdictions will allow the stairs to be on the outside of the building, which is ideal because they then don't cut into the rental square footage. However, interior stairwells are necessary to have firewalls constructed of concrete-masonry unit (CMU) or fire-rated drywall. Your architect will determine the location and number of stairwells required.

Fire-suppression system. Its purpose is to quench a fire before it takes out the entire building and its contents. Your architect will work directly with a fire-sprinkler professional to create an acceptable design. However, there must be ample water and pressure to support this system. In some situations, water can be held in a pond that's incorporated into the landscape or water tanks can be integrated into the plan.

More Design Decisions

There are several other design elements that are common in multi-story self-storage facilities, and they directly impact the customer's rental experience. Some of the ones listed below might not be required by code, however, the jurisdiction may demand them for aesthetic purposes.

Alcove loading areas. These are "indented" into the building. That is, vehicles park under part of the second floor as a covered area in which to load and unload. With this feature, it's likely that underfloor insulation and metal soffit panels will need to be added.

Parapets. A parapet is an extension of an exterior wall that protrudes above the roof line. This can be included in a design purely for aesthetic reasons or it might be required. The main reason is to hide equipment on the roof.

Exterior canopies. These are attached to the building and often provide coverage from weather while tenants access exterior units. Sometimes they're purely aesthetic.

Showcase units. Multi-story facilities will often showcase self-storage units on upper floors with large windows. They can be faux doors or actual rental units. In either case, the windows are large, the doors are brightly colored and there's great lighting. The whole purpose is to gain the attention of people passing by.

Drive-thrus. These can be designed as a canopy at the main entrance or as a "tunnel." In both cases, customers and their vehicles will be protected from the elements.

A canopy will be designed using structural steel. With a tunnel, the drive-thru goes through the first floor and under the second. It might be open on both ends, allowing air to flow freely from one side to the other. In some cases, there are overhead doors at either end, so any self-storage units along the tunnel can


A mix of façade materials at Security Public Storage in Portland, Oregon

still be considered climate-controlled. A tunnel decreases your rentable square footage, however, it could be a significant selling point, depending on your area.

The Facade

The next major design decision when building multi-story self-storage is what materials to use on the façade, which might be driven by a combination of municipality requirements, budget or personal preference. Many class-A facilities use more than one type of material. Below are the three main options.

Metal panels (exposed and concealed fastening). These are made from light-gauge steel and formed into different profile shapes. They're the most cost-effective option for an exterior finish. They come in myriad color options, with the screws exposed (completely visible) or concealed. To give a self-storage building a more unique design, the architect may mix up the orientation of the panels using more than one profile type and choose a few different colors.

Insulated metal panels (IMPs). These comprise foam insulation sandwiched between two metal panels, and there are multiple profiles and colors. One of the more common options has a stucco appearance. IMPs are often considered when the architect is looking for a specific look that can't be achieved using standard panels or they need to get to a required R-value for building insulation.

Masonry. This category includes multiple options, including CMU block, stucco and brick. The architect might use CMU on the first floor to give the building a different look, but it's also a part of the structural design.

Getting Across the Finish Line

Sometimes the only way to make a self-storage development work is to build vertically. Yes, it can be quite an undertaking. However, with the right knowledge and guidance, it can be done successfully.

Take time to fully analyze the parcel, the market and the municipality's design requirements. If developing multi-story makes financial sense, then move on to choosing features and design elements. Keep in mind that everything discussed above should be done during the design phase with the right team. ISS

Contributor: *Melissa Anderson, Forge Building Co., www.forgebuildings.com*

The Case for Adaptive Reuse

A rendering of Taylor Secure Storage in Taylor, Michigan, which is being converted from a former racquetball club

There are many types of vacant buildings in the world that have the potential to become self-storage facilities. When these structures change their use, we call it a "conversion." The reasons behind these projects are simple, though different than you might think.

Is it cost? It must be cheaper to fill an empty building with storage units than to start from the ground up, right? Not really. If the structure you plan to convert is functional with a usable roof, HVAC system, doors and fire sprinklers, then you're going to pay a pretty penny for the real estate, which might be equal to or even greater than ground-up construction. If it doesn't have those things, you're going to have to purchase and install them.

So, then, it must be easier to execute a conversion. Well … technically, with demolition, structural reinforcement and other unforeseen issues such as environmental cleanup, that isn't always the case.

Then why attempt this specialty type of self-storage development, you ask? In my experience, there are three main reasons: better location, faster time to market and shorter time to approval from the local authorities. Let's look closer at these factors as well as building requirements for adaptive reuse development and how to plan for future growth.

When Conversion Makes Sense

Successful conversions of existing buildings to self-storage usually begin with older retail, industrial or office structures that have become unwanted by their intended users. Over time, development went on around them, and much of that growth was likely residential. In other words, self-storage demand eventually sprouted up around the building.

Sometimes your prospective site will have a hefty price tag. You might even be in competition with people wishing to turn it into swanky lofts or a nightlife venue. Still, conversion is often a much faster way to get self-storage into a desired area than building a new structure. Less entitlement and construction can shave a year or more off the development timeline.

In some towns, self-storage development is often met with resistance from the torch-bearing villagers and city commissions, especially when it's close to business or retail zones. Potential conversions, on the other hand, often considered to be eyesores by the neighbors, are treated inversely. In fact, they're almost unfairly helped through the litany of regulatory approvals.

It's simple: People don't like change. You're offering to keep that old brick warehouse or neighborhood staple. It may not be suitable as an office, retail establishment or residential unit because it was originally built with parking for a few horses! Other uses are impractical, but it's a perfect candidate for self-storage. The city would rather not tear down a nice, old building and replace it with a fast-food drive-thru.

Perhaps officials and community members wish it could be more, but they eventually understand that self-storage will create very little traffic, noise, odor or impact on existing services and utilities. Often, they even look the other way on the prohibition of self-storage in the district and, voila! No political battles. You get a site in the center of town; you save a year of development time; and you'll be positioned to charge top rates to your new customers.

Some would say self-storage conversions are also environmentally wise. You're repurposing old buildings rather than razing them and dumping the refuse into a landfill. You're helping to conserve open land for other important projects and uses in the cities while bringing self-storage closer to the end users, saving them on the cost of fuel and travel.

A rendering of the newly opened Public Storage in St. Clair Shores, Michigan, which was converted from a former tennis club

A rendering of MySpace Storage in Lansing, Michigan, which is being converted from a former grocery store

Structural Must-Haves

When identifying prospective structures for self-storage conversion, there are factors other than location, building price and condition to consider. If the prospect has more than one level, the upper floors must be strong enough to carry the load of storage units. Many buildings meet this requirement, and most can be reinforced, but you'll need a structural engineer to perform a study.

In addition, the ceiling heights must be 10 feet clear to facilitate the installation of lights, sprinklers and HVAC ducts. If you're looking at an old grocery store or high-bay warehouse, 20 feet is suggested so you can double the rentable square footage with a mezzanine. Floor slabs are almost always thick enough to carry one level of mezzanine without additional footings. Again, you'll need to engage a structural engineer.

Sometimes, I hear the objection that a retail plaza feels like the wrong place or type of building for self-storage, and developers will be turned off. However, after successfully converting indoor tennis clubs, K-marts, corporate office towers, meat-packing plants and car dealerships, I can assure you that as long as the customer experience is friendly, bright, safe and intuitive, what the building once was is irrelevant to tenants.

Future Plans

The last thing to consider when converting a building to self-storage is future expansion. Old buildings often have extra land you don't need for parking. Most times, additional stormwater requirements are waived for adaptive-reuse projects, too. This space can therefore accommodate vehicle storage, drive-up units and maybe multi-level, climate-controlled storage. You could even sell commercial sublots.

The only caution here is that once you ask the city for new construction along with the conversion, you'll extend the entitlement time and add a layer of politics. It's a game-time decision. Perhaps wait and add that work to the mix later. You can always pursue the expansion after you're open and successful.

If you want to get to market faster, avoid toxic politics during entitlements and nestle your self-storage facility closer to potential tenants, a conversion project is likely in your future. Maybe you'll find a unicorn that even makes the economics stronger than those of a new build! ISS

Contributor: *Peter Stuhlreyer, Designhaus LLC, www.designhaus.com*

Climate-Controlled Storage

Columbus Self Storage in Columbus, Wisconsin, which offers interior and drive-up climate-controlled units with insulated sectional doors

Whether you're building your first self-storage facility or expanding an existing one, it's smart to explore whether to include climate-controlled units in today's market. Higher rent, better land coverage, and the elimination of moisture and dust from units are incentives. However, climate control requires a specialized approach. Below, I'll examine critical considerations to help determine if this product is right for your project.

Let's start by discussing what "climate control" means in a self-storage context. Most facility operators set their heat between 50 and 60 degrees and the air conditioning around 80 degrees. Climate-controlled storage should also limit humidity to 50% or less.

During much of the year, you need neither heat nor AC to keep a slab-on-grade building between 50 and 80 degrees, but you should control humidity. Without dehumidifiers, you have temperature-controlled storage, not climate-controlled; and in humid climates, you may have conditions for mold and mildew.

Determining Demand

Climate-controlled self-storage is becoming a more high-demand product, and it often generates higher income per square foot—but not always. In markets that are saturated with retail conversions or large multi-story projects, standard drive-up storage may command a premium due to short supply and perceived convenience.

Conduct thorough market research to compare rates for climate-controlled vs. standard storage in your target area. Also, be aware that when given the option, consumers prefer ground-level units to those accessible via elevators or stairs.

These days, there's a way to offer the benefits of climate-controlled space with the convenience of ground-level, drive-up access. These units use insulated sectional doors to be airtight. They're also relatively rare, which means they can set your facility apart from others. Exterior, climate-controlled units are particularly popular in northern climates for classic car storage or as a more upscale option for typical moving needs.

Heating and Cooling

The type of equipment used for climate-controlled self-storage will vary by region and is generally comparable to that used in new-home construction. Each conventional air handler requires a 5-by-10 mechanical room. In climates where heating and cooling needs are less extreme, smaller, ceiling-mounted AC/heat-pump units, also known as mini-splits, are more common. These tend to cover smaller zones, often around 2,500 square feet.

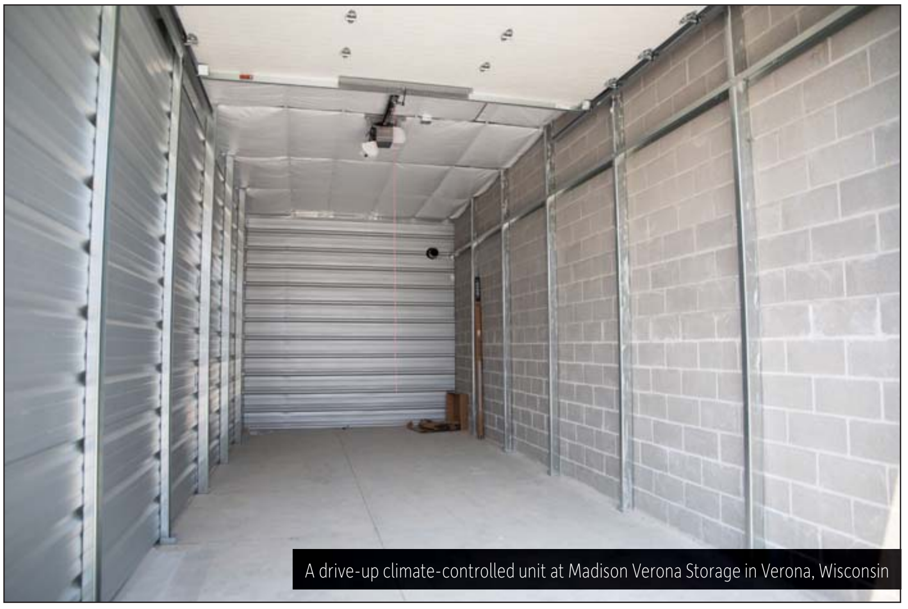
Your AC unit will create condensation, so you'll need a drainage system in your building or leading to the exterior. High-efficiency (condensing) furnaces also create liquid condensation, which in winter months can't be drained outside, as it'll freeze. Lower-efficiency gas furnaces require a metal chimney through the roof, whereas higher-efficiency "condensing" furnaces can be vented sideways through walls, which is preferred to reduce the risk of leaks.

The exterior portion of your air conditioner, the condenser, should be put somewhere no one can run into or damage it, perhaps at the rear of the building or in a recessed area. Consider protecting it with bollards. Definitely avoid roof placement to minimize leaks.



Insulated metal-sandwich panels used to comply with local architectural and energy-code requirements at Sun Prairie Self Storage in Sun Prairie, Wisconsin

A drive-up climate-controlled unit at Columbia Self Storage in Columbus, Wisconsin



A drive-up climate-controlled unit at Madison Verona Storage in Verona, Wisconsin

In extreme northern climates, some self-storage facilities use a heated slab and have no air-conditioning or -handling equipment at all. In most of the North, HVAC systems can generally cover up to 5,000 square feet per zone with gas-fired furnaces and conventional AC.

Insulation

Your energy code may dictate how much insulation you'll need for your climate-controlled self-storage facility, but in some states, you can decide what you wish to invest in efficiency. Just keep in mind that better insulation creates a more efficient building, which will lower your monthly utility expenses. Lower expenses mean higher net operating income, which increases facility value.

I built my self-storage facility in Wisconsin before the implementation of current energy codes. I selected 10 inches of fiberglass roof insulation and 6 inches of wall insulation. This level is economical and quite effective. In past decades, it was more common to see just 6 inches of roof insulation, but increasing energy costs have made it attractive to use more. Your building manufacturer should also provide thermal blocks between the building structure and roof panels.

In areas with 2015 and newer energy codes, your structures might require a more involved roof-insulation system to better fill space between the purlins and avoid compressing it. This can include additional strapping to support the insulation. Newer codes may also require uninterrupted wall insulation, meaning it isn't enough to have insulation between wall columns. Foam board with taped joints between the structure and exterior paneling is added to comply with regulations. Insulated, metal-clad foam panels can simultaneously address the energy code and add a premium exterior finish.

Other Deign Logistics

While standard, drive-up self-storage buildings are commonly 30 or 40 feet wide, the interior hallways needed for climate-controlled space lay out more efficiently in a 50- to 70-foot-wide structure. You can go even wider than that, but consult with your building manufacturer early in the planning process to understand any length limitations in roof panels and pitch.

Here are a few other things to know about designing climate-controlled storage:

- For very large buildings, rubber membrane (also known as TPO, Thermoplastic Polyolefin) roofs offer more design flexibility and interior drains.
- Hallways are usually 5 feet wide, and units generally range from 5-by-5 to 10-by-20.
- The buildings can be erected along lot lines with access to one side only. This reduces driveway expense and increases land utilization.
- It's best to create a layout that doesn't require customers to travel more than 100 feet to their unit. If some must travel further, consider implementing good/better/best pricing in which you charge more for the spaces that are easier to access.

Buildings that contain interior, climate-controlled units are generally accessed using a traditional swing door. These are often recessed into the structure to provide some shelter from the elements and prevent the door from swinging into traffic. Some developers opt for power-sliding doors. For a better customer experience, a shade canopy, enclosed loading bays or drive-thru corridors can be included.

Fire code is an additional design consideration. Depending on your area, you may be allowed up to 12,000 square feet of space before you need a firewall or sprinklers. However, some jurisdictions allow only up to 2,500, and the requirement can differ for interior vs. exterior units.

Final Considerations

The design and permitting process for climate-controlled self-storage can be more involved than that of traditional drive-up units. You may need an additional engineer for your HVAC system, though your equipment vendor may be able to fill

Energy-Efficiency Advice

The International Energy Conservation Council recently changed its guidelines in many areas, requiring more insulation to better preserve energy. In fact, it's the most cost-effective way to keep temperature and humidity at optimal levels.

In self-storage, we're mostly looking at an aggregate score on energy efficiency that allows us to use multiple design aspects, including increased wall and roof insulation but also:

- White metal roof in lieu of dark
- Separation between metal-panel skin and structural steel to provide a thermal break
- Fully insulated partitions at marketing towers to separate heat gain/loss at windows from the rest of facility
- Window tinting or film to reduce ultraviolet radiation
- HVAC seasonal energy-efficiency ratio ratings
- LED light fixtures

Source: *insideselfstorage.com, "Building Climate-Controlled Self-Storage: Benefits and Design Considerations," by Andrew Rowley*

this role. Using a separate engineer adds expense, but you'll have an easier time sharing the plan with multiple contractors to get bids.

You may also need to provide life-safety plans to show that you have proper egress paths and emergency lighting, and that your buildings comply with the Americans With Disabilities Act.

Hopefully, I've provided you with some ideas, whether you're planning a new site or an expansion. Climate-controlled units are popular today, with many benefits for self-storage customers and owners. It's definitely worth considering for your next project. **ISS**

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

PERMANENT VS. PORTABLE BUILDINGS

The debate between ground-up construction and portable buildings has been ongoing in the self-storage industry for more than a decade. There are pros and cons to each. When developing a new facility or expanding an existing one, the important thing is to understand the attributes of each product and how it might suit your needs.

Below, I'll discuss the various factors to consider. Be mindful that each person's financial profile, including taxable income and other characteristics, can often be the deciding factor between one approach and the other.

Income Tax

While bonus depreciation is set to decrease in subsequent years for qualifying property, you can typically write off upward of 20% of eligible costs when building self-storage from the ground up. Conversely, Section 179 of the internal revenue code allows you to write off the entire price of qualifying equipment in the same year of purchase. So, if you're looking for write-offs on an existing, profitable facility, relocatable units can provide the most significant tax savings.

Real Estate Tax

Because portable self-storage units are moveable, they can't be taxed as real estate, which can shorten the permitting and zoning process. However, they *can* be taxed as personal property. Also, a city can change its ordinance regarding portable structures any time it likes, and you might have to remove them.

I once talked to a self-storage owner about buying a facility that was comprised entirely of relocatable units. I called the municipality to ask whether there might be any issues in the future, as the site was zoned residential. Not long after, the owner received a notice stating that he had to remove the units, which was disastrous.

Cost

If your site is already level, or it's difficult to access with heavy equipment, or you're only looking to install a small number of self-storage units, portables can be significantly less costly, especially when considering the speed to put them into service. However, I've found that they're more expensive to install in quantity than ground-up structures. That said, as hold costs and interest rates continue to rise, it'll affect the cost of building from the ground up.

Financing

Because temporary buildings are treated as equipment, you can't typically pay for them with commercial financing. Your money options will often be limited and more costly, which can reduce cash-on-cash return. Generally, loans on personal property have a much higher interest rate and shorter amortization. This is an opportunity cost you should weigh when determining your long-term cash flow.

Appreciation vs. Depreciation

I liken this to mobile vs. single-family homes. Mobile homes are prefabricated, but just like relocatable storage units, they tend to depreciate, while fixed buildings increase in value. Because the exit can be just as lucrative as the income, fixed buildings have a significant advantage. This dynamic also affects appraisals, which can influence your options when refinancing or a buyer's when seeking a loan.

Flexibility

The ability to move portable-storage units and change your facility layout makes you agile enough to quickly respond to customer demand. You can also get rid of these units altogether, if and when the situation calls for it. I've seen owners install relocatables and later sell them because they wanted more room for outdoor parking or decided to construct permanent buildings in their place.

I know of one owner who used portable units to fill a consumer need quickly while he was building his ground-up structures. Once the permanent facility was ready, he offered his portable tenants an incentive to move into the new units. This was a great way to monetize the land and accommodate customers who needed storage right away.

Options

While more portable-storage options are becoming available, these units offer fewer choices for size, height and climate control than ground-up self-storage. If you're looking to build multi-story or climate-controlled units, new development is really your only option.

Longevity

In my experience, ground-up self-storage buildings generally hold up better over time. My biggest issue with portable units is the floors often rot or become damaged because they're generally made of some type of engineered wood. Also, because relocatables are prefabricated, the floor is typically elevated, which means animals can burrow under them, the lip at the entrance gets banged up by tenant use, and there are a few other issues. That said, these problems are often fairly easy to remediate.

Time Will Tell

I have my preferences, but I can't say I would *always* choose ground-up self-storage construction for *all* scenarios. As the industry evolves and more portable-storage options become available, it'll be interesting to see how things change. There are many new types of portable products on the market, from mobile pods to contractor suites to temporary apartments, and consumer needs may inspire more. When it comes to developing your own project, consider the above factors and your unique situation before choosing a direction. **ISS**

Contributor: *Charlie Kao, Twin Oaks Capital, www.twinoakscap.com*

A Facility-Lighting Plan

Lighting design is critical in the self-storage development process. The right fixtures will guarantee safety, security and operational efficiency for all users. A well-lit facility also makes a strong, positive first impression on customers. They want to see an attractive property that they would feel comfortable visiting at any time. Insufficient lighting will silently cost you business, but you'll never know it.

Despite its potential to impact a self-storage operation's bottom line, lighting is frequently underestimated during the planning stages of a new build. Following are additional reasons why it shouldn't be and factors to consider when choosing, installing and maintaining fixtures. Let me help you see the light and make sure your business has a bright future—literally and figuratively.

Municipal Guidelines

While you may have ideas or plans for the lighting you want to install at your self-storage facility, the final decision may be out of your hands depending on municipal guidelines. For example, the industry standard is to install lights every 30 to 40 feet along the top of a door jamb, with fixtures staggered on the opposite sides of a driveway on opposing buildings. However, a small but important detail is whether those fixtures must spray light downward or outward.

Lights that spray outward provide better coverage; but many municipalities want you to minimize the impact of lighting on local traffic and residents, so they'll require that fixtures point down. The may even have restrictions on the tint of your lighting, requiring a more natural sunlight color or pure white.

Energy Use

The standard brightness for lights used in self-storage is 2000 to 4000 lumens and 30 to 60 watts per fixture. LEDs are installed in nearly all circumstances, as they consume less energy, last longer and require less maintenance. However, I've seen exceptions to this if fixtures are installed inside storage units to serve as a heat source.

More self-storage facilities are using solar power to offset energy costs, especially in rural areas. When weighing the cost of a solar system against its financial benefits, it's best to take a long-term approach.

Controls

Timers, dimmers and motion sensors are great ways to control your self-storage lighting and reduce energy usage. Just keep in mind that weather can interfere with outdoor sensors. For outdoor applications, timers may be best.

One common issue with lighting controls is self-storage operators rarely change the settings. You might only update them once per season to accommodate the shift in sunset time, or maybe twice per year to reflect the transition to or from Daylight Savings Time. Because of this, it's easy to forget the instructions. I ask my installers to provide an instructional video that shows how they programmed the settings. You can even record a walkthrough while you ask questions.

If your self-storage facility has multiple buildings and zones, it's particularly important to have a quick guide on hand, so you know which photocell controls which area. At some of my larger builds, to save on energy costs, we may not activate certain buildings or zones until they're fully occupied. If you're automating your lighting so it goes on when it detects movement, use a central photocell. This will simplify maintenance and operation.

Upkeep

Regularly inspect and maintain your self-storage light fixtures to ensure they're functioning properly. I like to visit my facilities once per season, during the evening, to check the lighting. If you have great surveillance-camera coverage, you can sometimes accomplish this simply by checking your footage.

One common issue I see is having a rogue light that doesn't function correctly. Perhaps its strobing because snow is partially covering a motion sensor, or it's too sensitive and responding to small movements by a tree branch. This can quickly increase energy costs and can cause problems if your lighting isn't activated when needed.

See the Possibility

Whatever you do, don't try to cut costs on self-storage lighting. It's crucial for several reasons including perceived safety by customers, the ability to see vehicles on surveillance footage and crime deterrence. Installing lights around your front gate and parking adds security. Fixtures around the exterior corners of your buildings will prevent the risk of customers inadvertently bumping into them with their vehicles.

While there are many things that will occupy your mind when developing a new self-storage facility, devote some time to the thoughtful planning of your lighting. It's critical for curb appeal, safety, security and peace of mind—your own and that of your customers. ISS

Contributor: *Charlie Kao, Twin Oaks Capital, www.twinoakscap.com*

Refurbishing Your Front Office

An attractive, well-designed management office is crucial for self-storage operators and their customers. It's one of the first things people see when they visit your facility. It's where units are rented, bills are paid, questions are answered, marketing plans are born, important documents are stored, retail merchandise is sold and more. So, it makes sense to invest in its appearance and functionality.

If your self-storage property is older than some of the competitors in your market, it's possible that your office is starting to look and feel outdated. A well-planned revitalization can significantly enhance employee productivity and satisfaction in addition to helping you attract more customers and generate more revenue. Investments like fresh paint, new furniture and improved lighting can make the workspace more inviting and comfortable. These efforts to create a clean, orderly and bright space will reflect positively on the business and deliver a great first impression.

A renovation is also a great opportunity to re-evaluate the way you're using your self-storage office space. For example, you might reconfigure your layout to maximize efficiency. In some cases, you can make smaller offices feel larger. In others, it may be possible to downsize the area and gain rental space that generates income.

Create a Plan

If you're thinking about renovating your self-storage management office, the first step is to set goals for the project. Are you aiming to modernize the space, improve functionality, enhance aesthetics or all of the above? Clear objectives will guide your decisions and prioritize upgrades that'll have the most significant impact.

It's essential to consider current circumstances, the immediate future and your company's business plans for the next 24 months. How is your office presently used? Think about the flow of customers entering and leaving and how employees engage with them. What do you want people to notice when they enter? Look for the best places to add retail merchandise, a site map, a unit-size guide, security monitors and other important components.

Now, look up to two years down the road. How will your self-storage office be used in the months and years to come? Are you intending to switch to a virtual office model? Do you plan to hire more staff? Are you looking to create or enlarge your retail area? Think about your long-term plans and how you can best use the space. This'll help you determine whether you need a complete overhaul or simple upgrades will suffice.

Next, evaluate your finances to determine what's feasible. Consider the cost of materials, labor and any potential business disruption. Allocating a realistic budget will help you make informed choices and avoid unnecessary expense. Focus on the goal. For example, a fresh coat of paint, new light fixtures and updated signage can make a big difference at a low price point.

When possible, schedule renovation work during off-hours and weekends. If that isn't doable, simply avoid your site's busiest hours and days. If you have an empty unit nearby, consider setting up a temporary office to keep the business open. This reduces the impact on daily duties and allows employees and tenants to continue their activities with minimal interruption.

> "Outdated or uncomfortable furnishings can negatively impact employee productivity and health. Invest in ergonomic chairs, desks and workstations that promote good posture and comfort. Modern, stylish pieces can also enhance the overall look of your office.

Common Office Upgrades

While every self-storage office renovation will be unique based on the operator's goals, budget and available space, there are some common items on which to focus:

Lighting. Consider installing energy-efficient LEDs, which provide better illumination and reduce energy costs. Adjustable lighting can accommodate various tasks and preferences.

Furniture. Outdated or uncomfortable furnishings can negatively impact employee productivity and health. Invest in ergonomic chairs, desks and workstations that promote good posture and comfort. Modern, stylish pieces can also enhance the overall look of your office. Remember, tenants should feel at home when they visit!

Technology. Upgrade your infrastructure to support modern business needs. Ensure your office has high-speed internet, ample power outlets and the latest communication tools. Consider integrating smart-office solutions such as automated lighting and climate-control systems.

Flooring and walls. Refreshing these can dramatically change the space. Choose durable, easy-to-maintain flooring like vinyl or carpet tiles. Repaint walls with neutral or uplifting colors to create a welcoming atmosphere.

Important Considerations

The cost of high-quality materials and skilled labor will vary depending on the scope of your self-storage office renovation. They may come at a premium, but the results are often better and longer-lasting. Here are some things to keep in mind:

Get quotes from multiple contractors. This'll allow you to compare prices and services. You can also request options, from a simple refresh to a complete overhaul. The self-storage owner or a trusted employee should monitor the project, make on-the-spot changes, and hold the contractors to their schedule and use of materials.

Thoroughly vet all contractors. Make sure each one is reputable and can do the job they're quoting. Ask for references or examples of previous work.

Get permits. Check local regulations to determine if permits are required for your project. Ensure that all renovations meet safety and accessibility standards. Be aware that permit fees and building-code compliance can add to the project cost.

Establish a contingency fund. You need a way to cover unexpected expenses. Renovations can uncover hidden issues that need urgent attention, such as structural damage or outdated electrical systems. This fund will help you manage these surprises without derailing the project.

A Worthy Pursuit

Refreshing your self-storage management office is a worthwhile investment that can significantly enhance the environment for staff and tenants. By carefully evaluating its current state, setting clear goals and prioritizing the most impactful upgrades, you can create a modern, functional and aesthetically pleasing workspace.

In our industry, doing things without an immediate return on investment is always a challenge, but even though it doesn't seem like it, an attractive, functional office can make a customer's self-storage rental decision an easy one, as it quickly demonstrates what a great facility you have as soon as they walk in the door. With the right approach, a renovation can increase long-term value for your business. **ISS**

__Contributor:__ Randy Trapanick, Spartan Investment Group, https://spartan-investors.com

Building Boat/RV Storage

Basic canopy storage

While boat and RV storage is by no means new to the self-storage industry, its importance and potential have never been more pronounced. As operators seek to refine and diversify their offerings, this niche has emerged from the background as a real star.

Despite uneasy economic times, consumers are still seeking outdoor adventures, a trend that dramatically escalated during the COVID-19 pandemic. With the rise of recreational lifestyles, an increasing number of people now own boats, RVs and other weekend "toys." However, many also live in apartments or homes that lack storage for these assets. Even if they have the space, homeowners associations may not allow storage of large vehicles on the premises. Plus, building proper coverage for these items can be expensive and time-consuming.

Hence, there's a great demand in many markets for boat and RV storage, creating an opportunity for new and existing self-storage operators. This article ventures into the benefits of this seasoned, yet still expanding sector, then offers development insight for owners seeking to add this product to an existing facility or incorporate it into a new development.

Benefits

As a self-storage operator, diversifying your offerings can be a safeguard against economic fluctuations. By catering to boat and RV customers, you can meet consumer demand and tap into a lucrative market segment. In fact, vehicle storage offers inherent benefits over traditional self-storage:

- Many markets don't offer a lot of boat and RV storage, meaning there's little competition for the customer base.
- Given their size and the value of the assets they protect, these spaces command premium rental rates.
- Boat and RV owners often require long-term rental, ensuring consistent revenue. Whether they store their vehicle year round or they're a repeat seasonal renter, once a customer finds a facility that meets their needs, they're often inclined to stay or come back.

Open-space parking

Feasibility

Regardless of these advantages, boat and RV storage won't work in every location. Venturing into this market requires astute planning. Obtaining a feasibility study can help ascertain the project viability. For example, an in-depth analysis of local demographics can provide insight to potential demand. Proximity to lakes, popular road-trip routes or vacation spots can also indicate a higher need for this service.

You also need to make sure you have the right location and enough space to accommodate boats and RVs. No one wants to drive their vehicle through congested city streets to get to your property; nor do they wish to travel along an unpaved road to a facility away from town. The best locations are off highways or major roads, as they're easier to reach and clearly visible.

Unit Types

Once you've established that boat and RV storage can work at your self-storage facility (or even as a standalone product), you need to determine what type of units to offer. These customers may have a range of needs, so offering a variety of solutions will help you cater to a broader client base.

There are three main types of boat and RV storage. Let's explore them.

Open parking is just what it sounds like. The customer gets an assigned space in a lot. While these are the easiest to set up, they offer no environmental protection, leaving vehicles open to the elements and potential theft. Because of the simplicity of this offering, you often can't charge very much by way of rent. In some municipalities, open parking isn't even allowed.

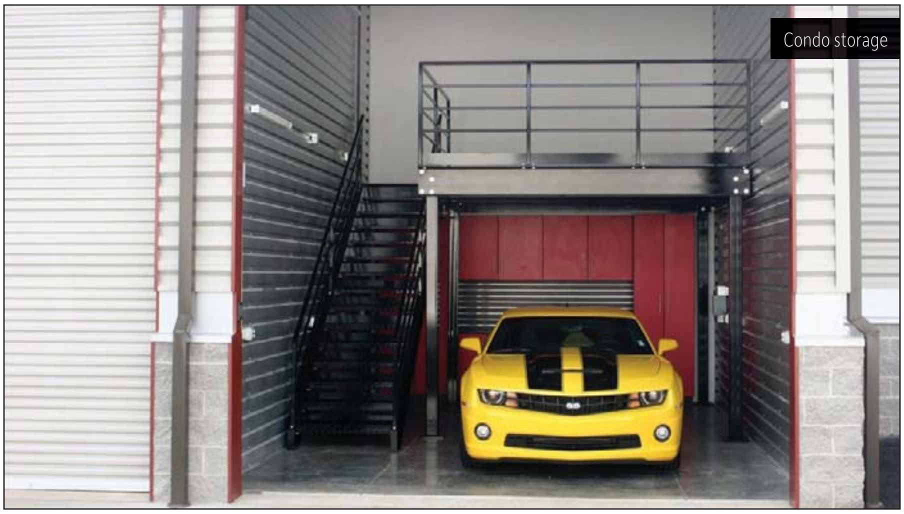
While more expensive than open space, covered **canopy storage** is relatively low-cost to build. Vehicles are somewhat protected from the elements, which is more appealing to customers. This means you can charge higher rental rates. There are three design options:

- Roof system only (open on all sides)
- Canopy with a back wall or one side wall, which may comprise part of the facility perimeter
- Canopy with walls on three sides, which may include one space or multiples divided by partitions

The most premium option is the **enclosed unit**, which is essentially a private garage. This type is the most expensive and time-consuming to construct, but it's also the most appealing, as it offers the best protection from the environment and theft. It brings in the highest rental rates of the three storage types.

Some developers take enclosed vehicle-storage units to a whole new level and create what's known as condo storage. In this scenario, the tenant purchases the unit rather than renting it and can therefore customize the space with enticing amenities such as a mezzanine level, upgraded flooring, utility hook-ups, a restroom and more. Facilities offering condos also generally provide a shared clubhouse and other conveniences for customers.

Offering one or any combination of these storage-unit types designed for boats and RVs can diversify your self-storage business and help you stand out from competition.


Condo storage


Enclosed storage

Site Layout

When planning the layout for a boat/RV-storage facility, land utilization is vital. On average, there's a 35% to 45% coverage ratio per acre. This is lower than the ratio for traditional self-storage due to the need for larger drive aisles. Adequate space is crucial for easy maneuvering without risking damage to vehicles or your facility.

The typical minimum width for drive aisles is around 38 feet for canopy storage (assuming a 60-degree angle for the spaces), and 50 feet for enclosed storage. Corners can also be tricky, so making spacious turning areas can help prevent accidents.

Height clearance is also extremely important. Make sure your site can accommodate taller RVs, especially if you're offering covered or enclosed units.

Amenities

To stand out in a competitive self-storage market, consider adding amenities that elevate the consumer experience. For example, keeping an RV or boat clean is essential to its longevity, so offering a washing station can be a significant draw and potential revenue source. Dump stations and electrical hook-ups can be vital for vehicle maintenance. Enhanced security is also beneficial and even necessary. Given the value of these assets, extra-secure fencing, cameras and lighting can help enhance your offering.

When contemplating these services, weigh the initial setup and maintenance costs against the potential return in increased rentals, revenue or customer loyalty. If you only have a handful of boat/RV-storage spaces, it may not make sense to add them.


Three-sided canopy storage

Tapping into the boat and RV segment can be a game-changer for many self-storage businesses. It promises a steady, consistent business, higher income and the opportunity to diversify. However, success requires meticulous planning, understanding the unique needs of the customer base, and continually adapting to market demand. By staying attuned to the pulse of the industry and offering superior value, facility operators can ride this lucrative niche to greater success. ISS

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Sustainable Building Practices

In contemporary self-storage architecture, high performance and sustainability are becoming more than mere buzzwords; they're creating a foundation for industry development. Our company is a champion of this transition, focusing on the integration of science-based practices into facility design. In fact, we designed the first and second storage projects to be certified in Leadership in Energy and Environmental Design (LEED) in the state of Washington.

This strategic industry pivot toward green building isn't solely a nod to environmental stewardship but a multi-faceted approach that supports business efficiency, enhances customer satisfaction, and elevates the overall value proposition of self-storage services. Let's look more closely at the benefits and options.

Benefits

The blueprint for a sustainable self-storage facility begins with comprehensive design-phase considerations. The goal is to prioritize energy efficiency and the use of durable, low-maintenance, environmentally responsible materials. This early-stage commitment helps minimize construction costs in the short term and operational expenses in the long run. For example:

- Features such as energy-efficient lighting and advanced HVAC systems reduce utility costs and maintenance demands.
- A robust building envelope fortified with higher insulation levels and high-performance window installations (especially triple-pane variants) foster substantial energy conservation, indoor comfort and cost savings over time.
- Advanced insulation and air-barrier systems directly contribute to more precise temperature and humidity, minimizing the impact of external temperatures on the internal environment and preventing uncontrolled air and moisture infiltration.

Together, these elements ensure a stable self-storage climate. They not only reduce the risk of mold and mildew proliferation and the degradation of tenants' stored goods, they contribute to energy efficiency by reducing the demand on heating and cooling systems. Ultimately, protecting your customer's items strengthens trust while helping to mitigate liability.

In addition, green projects provide access to incentives including tax rebates, expedited permitting and specialized finance options. They also align with the increasing prevalence of local and state codes that mandate sustainable design and building practices. Improved environmental performance standards will soon case to be optional and become obligatory.

However, it's a positive shift, as the adoption of sustainable design principles will only increase self-storage safety and facility resilience against natural disasters. Solar installations and the elimination of fossil-fuel-based systems exemplify such principles, offering renewable energy and reducing fire hazards, respectively.

Finally, as public consciousness shifts toward improved natural resource conservation, consumers increasingly favor businesses that demonstrate a commitment to sustainability. Energy-efficient and environmentally responsible self-storage facilities not only meet this demand, they distinguish themselves in a competitive market, attracting a clientele who value and support green practices.

The Value Proposition

Investing in green buildings not only aligns with ecological values, it promises tangible financial results. Sustainable self-storage facilities typically have lower operational costs and command higher rental rates, reflecting the premium placed on green spaces by consumers. Moreover, these buildings often boast higher resale values, attracting a new wave of environmentally conscious investors.

Integrating green features into a self-storage project is also more cost-effective than ever, with many products and materials available at competitive prices. The long-term savings on energy, water, maintenance and equipment replacement, coupled with the rebates and tax incentives, make sustainability a wise investment. The current availability of substantial funding through initiatives like the Inflation Reduction Act further underscores the financial viability of eco- building practices.

Strategies

Delving further into high-performance methodologies, we find a spectrum of green-building strategies, from energy-management systems that fine-tune consumption in real time to renewable-energy sources like solar, wind or geothermal, depending on geography and climate. These initiatives not only contribute to a self-storage facility's energy independence, they may generate additional revenue and offset significant portions of energy consumption from the local grid.

Certification Options

These agencies provide various certifications for green building:

- Building Research Establishment Environmental Assessment Method
- Energy Star
- Leadership in Energy and Environmental Design
- Living Building Challenge
- Passive House
- WaterSense
- International WELL Building Institute

Materials selection plays a fundamental role in the sustainability of a project. Self-storage facilities are typically comprised of steel and concrete, both of which are very energy-intensive to make. Selecting recycled steel produced in an electric arc-blast furnace and concrete with a reduced percentage of Portland cement (such as Type 1L cement), offers eco alternatives that don't compromise structural integrity and can be sourced for similar or reduced cost based on local availability.

Certification

Achieving certifications provides a framework for incorporating sustainable practices into self-storage building. There are many programs from which to choose, but they generally evaluate project features such as energy efficiency, indoor air quality and materials, offering a roadmap to enhance your project's environmental performance.

While certification sets a high standard, there are alternatives for those developers who don't wish to go this route. Engaging with energy-modeling experts, building all-electric facilities and selecting low-embodied carbon materials are steps that significantly contribute to a project's green credentials. Designing sites with water-conserving techniques, such as rainwater harvesting and the installation of low-flow fixtures, alongside thoughtful landscaping and waste-reduction policies also demonstrate a commitment to minimizing environmental impact.

Great Synergy

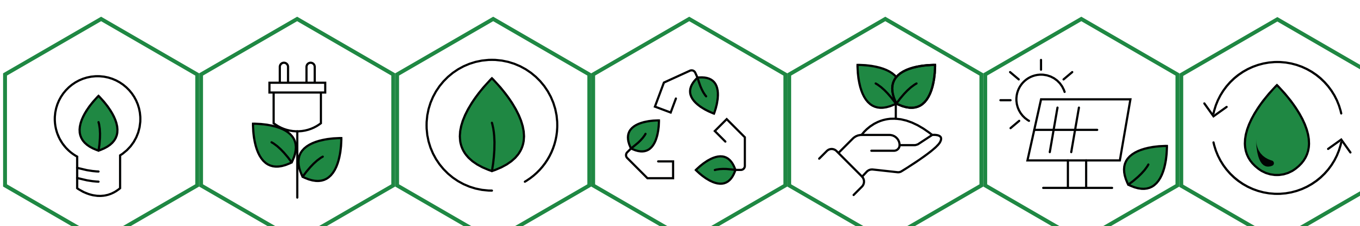
As high-performance building becomes the new standard in self-storage, it's important to choose a project team based on its experience and commitment to sustainability, and engage all members early in the design process. This includes but isn't limited to the architect, structural engineer, civil engineer, mechanical and plumbing engineer, building-envelope consultant, and general contractor. Having an integrated design team from the start will allow more opportunities to find efficiencies when changes are less expensive and contractors can provide pricing guidance to optimize the cost/benefit ratio of sustainable strategies in advance.

By adopting a holistic approach to design and construction, we're creating self-storage facilities that meet today's needs while preparing for tomorrow's challenges. Environmental responsibility and business success aren't mutually exclusive but rather complementary. Through careful planning and thoughtful design, we aim to show the vast potential for sustainable solutions to benefit developers, customers and the environment alike. **ISS**

Contributors: *Robin Murphy and Benjamin Wolk, Jackson | Main Architecture P.S., www.jacksonmain.com*

Extra Sustainable

This three-story Extra Space Storage facility, which is under development in Greater Seattle, has a focus on environmental stewardship. Spanning an estimated 99,391 square feet, it uses lighting designed to minimize light pollution and be night-sky-friendly. Its plans also include an enhanced tree canopy to increase pervious surfaces for natural water filtration. The company will pursue LEED certification to underscore its dedication to sustainable and eco-friendly construction practices.



Eco-Friendly Facility Upgrades

If your self-storage facility is aging, renovations are likely on your mind. While you might pursue any number of projects—fresh asphalt, a new HVAC system, technology integration—here's one you should definitely consider: environmental sustainability. How can you "go green," and how will your business and customers benefit?

"When sustainability is practiced, everybody wins. Being mindful of the limited resources from the earth isn't only responsible but allows for us to have reserves for future needs," says Melissa Anderson, account manager for Forge Building Co., which specializes in pre-engineered metal buildings for industrial and commercial applications.

There's no doubt that eco-responsibility is on consumers' minds. According to a survey by

TheRoundUp.org, 78% feel it's important, and 55% are willing to pay more for products and services from eco-friendly brands.

Not only can a green focus help your self-storage facility rise above in a crowded market, sustainable features will save the business money in the long run. Plus, it can elevate your asset value. This means more favorable terms when seeking financing or investors, and a stronger market position if you plan to sell.

"In today's market, eco-friendly facilities enhance brand reputation, meet the expectations of eco-conscious customers and investors, and can lead to cost savings over time," says Jose Herrero, director of facilities and maintenance for 10 Federal, which operates more than 70 self-storage facilities in the Southeast.

If you're gearing up for renovations at your self-storage property, now's the time to think about traveling the sustainability route. Learn more about the benefits, the many options available, plus how to weigh the costs vs. the return on investment.

Install an Energy-Management System

Multi-site self-storage owners may want to install a building-automation or energy-management system, which allows you to oversee equipment across several properties using a centralized interface and advanced controls. Imagine monitoring an entire portfolio simultaneously!

These solutions are scalable, and once enabled, they'll maintain an optimal environment at your facilities while reducing resource consumption and costs. The software accumulates data in one simple graphical interface, which allows for analysis, automation, scheduling and maintenance alerts.

***Source:** insideselfstorage.com, "4 Ways to Improve Self-Storage Facility Efficiency, Sustainability and Profitability," by Greg Terry*

Big Benefits

The benefits that come with sustainability have been a driver for developments by StorCo Storage, which operates three facilities in the Midwest. "Focusing on eco and environmentally friendly upgrades to a facility helps us maintain our buildings to the highest standard and remain aesthetically appealing while new storage is being built in the area," says James Reid, CEO of StorCo's parent company, Investa Group.

While developing its conversion project in St. Peters, Missouri, StorCo focused heavily on environmental enhancements to the building envelope, lighting, HVAC and plumbing. In fact, the property received a Cirrus Low Carbon verification. The confirmation is part of a PACE Equity program that combines a green-building designation with Commercial Property Assessed Clean Energy financing. The facility is expected to save 3,985 metric tons of carbon and 44% of electricity costs compared to a building constructed at "baseline code."

Saving on operating expenses is a critical factor for self-storage sites that were built a decade or more ago. "Older buildings, often designed without sustainability in mind, can be significant energy consumers. By implementing eco-friendly changes to our storage facilities, such as lighting and HVAC projects, we not only extend the life of the property but also make a tangible impact on reducing energy consumption and greenhouse-gas emissions," Herrero says.

Creating an eco-friendlier environment can also benefit self-storage employees and tenants through better air quality and lighting. In addition, businesses that embrace these initiatives are often recognized in the community. "Eco-friendly buildings set a positive example, encouraging other businesses and residents to pursue sustainable practices," Herrero adds.

It can also have a great impact on your ability to attract new customers and retain existing ones. "Advertising an eco-friendly facility often appeals to a greater number of customers and may be the difference in a customer's buying decision," Reid says. "Upgrading a facility shows your current customers that you care about every aspect of your business."

Big Opportunities

One of the best reasons to consider sustainable renovations for your self-storage property is there are a plethora of options at various price points. Following are common updates.

Lighting. Older properties often have outdated fixtures and bulbs that burn out frequently and are expensive to replace. When it's time for an overhaul, many operators choose LEDs, as they're far more efficient than fluorescent or high-intensity discharge options. On average, they use up to 75% less electricity. Maintenance is also greatly reduced, as these products last longer. In addition, motion sensors and timers can save energy. Swapping out dim or problematic light fixtures also improves property safety and security.

"We only install LED lighting at all our locations and often retrofit newly acquired sites that have outdated, low-efficiency lighting," says Benjamin Macfarland, CEO of SROA Capital, a private-equity real estate firm that operates the Storage Rentals of America self-storage brand.

Roofs. Solar panels are the most popular option for self-storage facilities for a variety of reasons. These buildings have vast, flat rooftops, making them ideal candidates. The biggest benefit, of course, is a reduction in energy costs, sometimes up to 40%. Facilities with solar-panel systems also typically have higher appraised values.

But solar panels aren't the only eco-friendly roof option. Energy consumption can also be reduced by applying "cool" paints that deflect infrared light. These special coatings can reduce roof-surface temperature by as much as 38 degrees and the building interior by up to 46 degrees. Cool roofs also meet today's Energy Star requirements.

If you're feeling even more adventurous, consider a green roof, which is partially or completely covered with vegetation. The thermal-insulative qualities naturally reduce solar gain and can lessen the cooling/heating burden on the mechanical systems, according to Stephen Overcash, managing principal at ODA Architecture, which specializes in lifestyle storage. In addition, it can serve as a stormwater-management device, reducing or eliminating the need for above- or below-ground water retention.

Landscaping. Vast lawns and an abundance of flowers and shrubs are lovely to look at but expensive to maintain, particularly in dry regions. Often, a better route is to explore native plants and practice xeriscaping. You might also opt for rock landscaping, which can be eye-catching but doesn't require water.

Shade trees, on the other hand, can benefit your site. "Landscaping and deciduous trees provide shade and help block direct sunlight, reducing mechanical costs and ongoing utility costs. Shade trees in parking lots provide a healthier environment for the users, reducing the heat-island effect," Overcash says.

HVAC. This is one of a storage facility's biggest energy expenses, both for daily operation and when it comes to replacement. Older or insufficient units will draw more power, which means a bigger electric bill. Moreover, when your system isn't working properly, it puts your tenants' stored goods at risk.

"Modern, energy-efficient HVAC systems can drastically reduce energy usage while improving indoor air quality. These systems can be further optimized with smart thermostats and zoning controls," Herrero says.

Water retention and management. Though a self-storage facility uses less water than other commercial and retail buildings, there are still opportunities to implement eco-friendly measures that can benefit the environment and the community. "Since climate-controlled storage facilities have low water usage, it's impractical to re-use rainwater. [However,] it is practical for the water held in retention ponds to be used for irrigation for landscaping," Overcash says. "There are new permeable-paver systems that slow run-off down across parking lots and can eliminate underground retention in urban locations."

You must also pay attention to city and state requirements. For example, some municipalities require water retention and bio-retention, which means the water is cleaned before it's released back to the public, Reid notes.

Recycling. While self-storage facilities don't generate a ton of waste, be mindful of the products you carry in your retail store. Many operators have made the move to more sustainable items including recycled boxes and packing materials. SROA recently partnered with biomaterials manufacturer INOArmor to offer 100% biodegradable packing products at its 650 facilities. The new offerings are made from natural silk cocoons, which have a dome structure and provide impact absorption, enclosed in polyhydroxyalkanoates, a type of bioplastic produced by bacteria and other micro-organisms through microbial synthesis.

Technology. There's an abundance of tools on the market today that can automate building temperature and humidity, control lighting, and regulate and track energy consumption. "We feel a strong obligation to embrace technology improvements that help improve efficiencies while also complimenting various green initiatives," Macfarland says. "In many instances, the updated technology available is better for the environment and comes in at a more attractive price point."

Big Costs?

Every self-storage renovation comes at a cost, but if your property is already in need of these upgrades, why not make them more effective and efficient? "While the initial costs of eco-friendly renovations can be substantial, the long-term return on investment often more than compensates for the expense," Herrero says.

You need to keep the *continuing* savings in mind when looking at those upfront costs. For example, a new HVAC system will be pricey, but it'll lower the property's electric bill for years to come. The same can be true of changing the entire site to LED lighting, which lasts longer, requires little maintenance and consumes less energy. Xeriscape landscaping means a reduced water bill and less maintenance.

Adding solar panels can help self-storage facilities offset high energy bills. Some sites have even reached "net-zero energy," meaning they produce enough energy to cover their consumption. Often, excess solar energy can be sold back to the grid for a decent profit while benefiting nearby homes or other businesses in the community.

You might also find cost savings through pilot programs, rebates and other initiatives supported by the city, county or state and private entities. "Different states and municipalities have different green-incentive programs. These typically have a huge impact on where these upgrades are done the most. That is, if there is a financial incentive for a specific type of upgrade, then this will be seen more prominently in that market," Anderson says.

Less Maintenance

All self-storage building components require maintenance, but for some, the upkeep is less frequent and less expensive because they simply last longer. To ensure your upgrades are efficient and maintain optimal performance, conduct regular inspections and servicing, Herrero advises.

"For example, solar panels should be cleaned periodically to maintain efficiency and production. Energy-efficient HVAC systems require routine filter changes and system checks to keep them running smoothly," he notes. "While eco-friendly components often require specialized maintenance, they're generally designed for durability and long-term use, which can offset the need for frequent repairs or replacements."

Making the Move

There are many routes to eco-friendly self-storage renovation. For some operators, it's more cost-effective to wait until equipment fails, then replace it with a greener version. Others prefer to single out one area on which to focus their efforts and budget. Another approach is to tackle a whole-facility transformation.

For many, the best time to introduce sustainable products is during scheduled renovations when components are already being updated or replaced, Herrero says. "This approach minimizes disruptions and allows for a more seamless integration of sustainable technologies."

You also need to consider how upfront costs can be offset through grants and other incentives through government programs or private companies. Often, these have an expiration date. There could also be tax savings and lowered insurance premiums following these kinds of renovations that could necessitate moving forward now rather than later.

"It's always a good time to have a game-plan to integrate strategies that are good for the environment and help reduce operational costs," Overcash says. "If competition is getting fierce, the timing of the changes should be escalated to stay competitive." **ISS**

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COMMUNITY-SOLAR INSTALLATIONS

Not long ago, installing rooftop solar panels was a challenge for self-storage operators, but the landscape has shifted dramatically. In many states, you're now permitted to host solar on your facility roof to generate long-term revenue, without any upfront investment. As clean energy gains traction and solar technology becomes more affordable, you have new options for exploring sustainable energy solutions, which not only boosts your bottom line but aligns with consumers' changing mindset.

A Fresh Opportunity

With millions of square feet of rooftop nationwide, there's huge potential for generating solar energy in the self-storage industry. Each facility represents an opportunity.

One style of solar installation that can be used in a self-storage environment is known as front-of-the-meter (FTM). It isn't restricted by the energy needs of the host building, nor is it necessary for all of the energy produced to be consumed onsite. This means you can maximize your roof area, electricity generation and potential revenue all at the same time.


CubeSmart in Hanover, New Jersey


Extra Space Storage in Neptune, New Jersey


Extra Space Storage in Toms River, New Jersey

Community solar is an FTM system that's rapidly gaining traction nationwide, driven by the growing popularity of clean energy and the potential for rooftop revenue. In fact, it's already being used by several large self-storage operators.

In 2022, Extra Space Storage Inc. put systems on 10 New Jersey locations as part of the state's Community Solar Energy Pilot Program, which allows residents of low- to moderate-income households to subscribe to nearby solar installations for energy use. The systems comprise a 6.5-megawatt portfolio covering 800,000 square feet of rooftop space. Together, they power more than 1,400 homes across seven counties. The initiative was even recognized as "Community Solar Project of the Year" by "Solar Builder Magazine."

In August 2023, Public Storage announced that it was adding more than 130 community-solar projects at its facilities in Illinois, Maryland and New Jersey. Again, the program allows residents to subscribe to nearby installations and receive a discount on their electricity, expanding access to renewable energy for those who are unable to install solar panels on their own homes.

Just this year, NSAT announced a plan to pursue community-solar projects on the rooftops of approximately 1,000 facilities in 42 states and Puerto Rico. The plan is to create at least 100 megawatts of solar-energy capacity across 8.5 million square feet of rooftop space. The installations will power nearby homes and businesses at a discount, lowering energy costs and creating a more efficient electric grid by generating clean energy close to where it's used.

Self-Storage and Solar: A Perfect Pair

With lots of single-story buildings, large footprints and low energy needs, self-storage facilities are ideal for community-solar projects, which send electricity directly into the grid, where it's sold to local or regional utilities. They're often closer to homes and businesses that could benefit from the energy, reducing strain on local electrical infrastructure. Here are a few other benefits:

- Typically developed by third-party developers or utility companies, community-solar systems aren't restricted to your storage business. They're for everyone.
- Solar generates benefits including energy savings for your neighborhood, fostering goodwill among local stakeholders.
- A solar-panel system with community benefits positions your company as a valuable resource.
- Being on rooftops, these systems help preserve open space.

As a self-storage operator, all you need to do is lease your rooftop space to a solar company that will develop, own, operate and maintain the system. Your business can receive lease payments for 20 to 35 years. This creates a win-win scenario. You get a new revenue stream while expanding the use of clean energy and providing solar benefits and cost savings to your neighbors.

Finding the Best Solar Fit

No two self-storage buildings or owners are the same. Each may require a different solar structure. To determine the one that's right for your facility, you'll need to consider regulatory and financial incentives, personal site constraints, local energy-consumption patterns and your long-term sustainability goals.

Thankfully, with an experienced partner, a community-solar installation can be quite simple, and there's no capital investment required on your part. The third-party developer pays all costs. You also have no responsibility for system maintenance. The solar company will monitor and manage your system, conducting regular inspections to ensure optimal performance.

Again, community solar provides the leaseholder with consistent, annual payments, and there are programs active in many states. The clean-energy transition is accelerating and the market is growing rapidly, but the incentives won't last forever and most favor early adopters. Furthermore, local grid capacities are limited.

So, if you're wondering when is the best time to pursue community solar for your self-storage business and its neighbors, the answer is *now*. In fact, delaying can be costly. Industry leaders are acting quickly to capitalize on these programs, making this the ideal time to partner with an experienced solar developer. ISS

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