



SELF STORAGE SALES NETWORK

Market Monitor

America's Premier Self Storage Brokers

Issue V-2014

A Primer on Occupancy Rates

by Stuart Wade

Self-Storage operators have often declared their facility is 90% occupied, but did you know there are three ways to express occupancy; physical, unit and economic? Physical occupancy is based on the percentage of leasable square feet that is occupied. Unit occupancy tells what percentage of total available units are rented. Economic occupancy is the most revealing and most relevant metric for a self-storage operator. It requires a bit more computing to come up with a reliable economic occupancy, but this measurement gets to the heart of what an operator cares about, profitability. Economic occupancy essentially measures how much income the facility is taking in compared with what it could bring in without discounted or unpaid (delinquent) space.

Self-storage operators should be aware of what each of these occupancy metrics really measures and how each can be used to reveal the current business dynamics of the property. Current generation self-storage operating software can quickly calculate these percentages, but doing so without the aid of this software will ensure the correct data has been “mapped” or entered into your software program. More importantly, knowing how to calculate these percentages yourself will give you a much deeper insight into what these percentages represent in your facility and may reveal some imbedded value.

Physical Occupancy:

To calculate physical occupancy, you must first calculate the total leasable square feet within your facility. Remember that leasable square footage is different than gross square footage. If you've correctly mapped your unit sizes into your software, leasable square footage is easily uncovered there. To calculate physical occupancy, divide the amount of square footage under lease by the total square footage in inventory. For example, say

a facility offers 45,315 rentable square feet and 34,725 is currently leased, this facility is 76.6% physically occupied.

Unit Occupancy:

Unit occupancy takes into account the total number of units offered for rent (facility's or owner's units excluded) and compares it to the actual number of units rented. To calculate unit occupancy, divide the number of units rented to customers by the total number of units at the property. For example, the above referenced facility has 362 units and 249 units are rented, this facility has 68.7% unit occupancy.

Comparing unit occupancy with physical occupancy can reveal consumer demand. This can aid an operator in setting rental rates and gives some insight into the unit mix configurations should you decide to expand or convert units at the property. Using the above example, the facility is 76.6% physically occupied and has 68.7% unit occupancy. Because the physical occupancy exceeds the unit occupancy, on the surface this would lead an operator to conclude that larger units are in more demand than smaller units. On the other hand, if unit occupancy exceeded physical occupancy, one could come to the opposite conclusion. However, remember that unit pricing may also have a material effect on the specific occupancy for unit sizes so make sure to study your market and the rates of your competitors. For mature and fully stabilized properties (where physical occupancy is more than 85%), the delta between unit and physical occupancies shouldn't exceed 4 or 5 percentage points.

Economic Occupancy:

Economic occupancy measures the dollars that the occupied units are actually bringing in, factoring in all

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discounts, concessions and over 30 days aged receivables. To calculate economic occupancy, one must first quantify the Gross Rent Potential (GRP). The GRP is figured by multiplying the standard monthly rental rate of each unit size by the total number of units in your inventory. Next, take the actual rental receipts and divide this by the GRP to calculate economic occupancy (some operators ignore late fees collected and others include late fees, as it is a component of rent collected). So let's use our example from above, 45,315 rentable square feet and our GRP is \$42,142, if we are 100% full at our standard rates. If we collected \$31,252 in rents for any given month, our economic occupancy is 74.1%.

Conclusion:

So the question operators need to ask themselves is 100% physical or unit occupancy your goal? It shouldn't be. It is my experience that 85% to 90% should be the target for physical and unit occupancy, because that is when a property is maximizing its profitability while keeping an appropriate amount of units for rent. We all understand that it makes everyone feel good to say you are 100% occupied, but we have found that it can lead to some very unproductive situations. First, your manager runs out of units to rent and is forced to turn away customers which may breed complacency. Sec-

ondly, if there is this much demand for available units, I sense you're leaving money on the table and your rents should be escalated. Lastly, if you and all other self-storage operators in your market are operating at or near 100%+/- occupancies, rest assured another facility will be developed, thus increasing supply and making the market more competitive than ever.

Economic occupancy is another story altogether. With the economic occupancy metric, operators should strive for as high as possible, exceeding 100% is feasible and commonly done in strong markets by good operators. Let me illustrate, say your facility only has two 10x10s vacant and your standard rate for these 10x10 units is \$100 a month. You can push the street rate to \$120 or greater on the remaining two units, if you rent these two units for \$120 or more, the net effect of this is that it's possible to have a unit size that is 100% physically occupied and economic occupancy at something greater than 100%.

So, the next time your banker or friend asks about your occupancy, ask him which metric he wants, physical, unit or the one that really matters – economic. **MM**

Stuart Wade joined The Nicholson Companies (AAAA Self Storage Management Group) in 2004 and has been involved in the self storage asset class since that time. He is the Argus Self Storage Sales Network representative for Virginia & Maryland. He can be reached at (757) 618-3597 or swade@thenicholsoncompanies.com.

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jluucas@selfstorage.com

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jluucas@selfstorage.com

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**Alec Pacella, CCIM
& Michael Venesky**

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apacella@naidous.com

mvenesky@naidous.com



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Pinson	\$1,270,000	Bill Barnhill/Shannon Barnes	251-432-1287
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Theodore	\$300,000	Bill Barnhill/Stuart LaGroue	251-432-1287

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Bullhead City	\$680,000	Jeffery A. Gorden	480-331-8880
Fort Mohave	\$500,000	Jeffery A. Gorden	480-331-8880
Tucson	\$1,100,000	Jeffery A. Gorden	480-331-8880
Tucson	SOLD!	Jeffery A. Gorden	480-331-8880

Arkansas

Hiwassee	\$599,000	Larry Goldman	913-339-0641
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California

Vallejo	In Contract	Tom de Jong	408-282-3829
Vallejo	\$1,850,000	Tom de Jong	408-282-3829
Woodland	\$6.50 PSF	Tom de Jong	408-282-3829
Yreka	\$493,700	Tom de Jong	408-282-3829

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Colo Springs	\$2,700,000	Joan Lucas	720-855-6587
Colo Springs	\$7,200,000	Joan Lucas	720-855-6587
Grand Junction	\$1,650,000	Joan Lucas	720-855-6587
Loveland	\$2,400,000	Joan Lucas	720-855-6587

Florida

Daytona Beach	\$885,000	Dwight Selby	386-238-4456
Lake City	\$325,000	John W. Hill	386-362-3300
New Port Richey	\$425,000	Chuck Grey/Jeff Grey	727-849-2424
St. Augustine	\$2,200,000	W. Frost Weaver	904-265-2001

Georgia

Douglasville	\$1,625,000	Mike Patterson	770-241-9070
East Point	\$1,475,000	Mike Patterson	770-241-9070
Villa Rica	\$1,200,000	Mike Patterson	770-241-9070
Villa Rica	\$880,000	Mike Patterson	770-241-9070
Winston	\$292,000	Mike Patterson	770-241-9070

Illinois

Danville	\$990,000	Larry Goldman	913-339-0641
Dupo	\$895,000	Larry Goldman	913-339-0641

Kansas

KC Portfolio	Call Broker	Larry Goldman	913-339-0641
Iola	\$530,000	Larry Goldman	913-339-0641
Junction City	\$1,895,000	Larry Goldman	913-339-0641
Topeka	\$1,795,000	Larry Goldman	913-339-0641

Louisiana

Bossier City	\$1,098,000	Tyler Trahan/ Stuart LaGroue/Shannon Barnes	817-840-0055 251-432-1287
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Michigan

Lapeer	\$785,000	Jim Soltis	810-494-2062
Sturgis	\$369,000	Jim Soltis	810-494-2062

Missouri

Arnold	\$1,330,000	Larry Goldman	913-339-0641
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Mount Vernon	\$1,100,000	Larry Goldman	913-339-0641
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Canton	\$850,000	Bill Barnhill/Stuart LaGroue	251-432-1287
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3-Prop. Portfolio	\$4,500,000	Bill Barnhill/Stuart LaGroue	251-432-1287

New Hampshire

Claremont	\$290,000	Joe Mendola	603-668-7000
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New Jersey

Branchville	\$1,300,000	Linda Cinelli	908-722-5661
Hackettstown	\$4,400,000	Linda Cinelli	908-722-5661
Montague	\$1,600,000	Linda Cinelli	908-722-5661
Pemberton	\$975,000	Linda Cinelli	908-722-5661

New Mexico

Mesilla Park	\$625,000	David Etzold/Noel Woodwell	915-491-9610
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New York

Hicksville	\$4,200,000	Linda Cinelli	908-722-5661
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Monticello	\$4,500,000	Linda Cinelli	908-722-5661
Peekskill	\$3,500,000	Linda Cinelli	908-722-5661
Port Jervis	\$1,600,000	Linda Cinelli	908-722-5661

North Dakota

Watford City	\$1,200,000	Bruce Bahrmassel	312-518-3550
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Ohio

Canton	\$2,500,000	Alec Pacella/Michael Venesky	216-455-0886
Canton	\$1,150,000	Alec Pacella/Michael Venesky	216-455-0886
Cleveland	\$2,300,000	Alec Pacella/Michael Venesky	216-455-0886
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Washington CH	\$355,000	Alec Pacella/Michael Venesky	216-455-0886
Zanesville	\$585,000	Alec Pacella/Michael Venesky	216-455-0886

Oklahoma

Moore	\$1,450,000	Jared Jones	918-583-3483
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Oregon

Klamath Falls	\$649,000	Steve Boldish	541-776-1031
Klamath Falls	\$1,495,000	Steve Boldish	541-776-1031

Pennsylvania

Bechtelsville	\$1,350,000	Chuck Shields	610-828-0100
Matamoras	\$1,100,000	Linda Cinelli	908-722-5661
Olyphant	\$850,000	Chuck Shields	610-828-0100

Texas

Fort Worth	\$4,600,000	Tyler Trahan/Richard Minker	817-840-0055
Spring	\$6.00 PSF	Bill Brownfield	713-907-6497

Virginia

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Portsmouth	\$2,100,000	Stuart Wade	757-618-3597
Williamsburg	\$6,490,000	Stuart Wade	757-618-3597

Wisconsin

Milwaukee	\$2,262,000	Matson Holbrook	414-270-4108
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Congratulations to Jeff Gorden, CCIM of Eagle Commercial Realty Services who sold Broadway Self Storage in Tucson, AZ! Contact Jeff at 480-331-8880 for more information.



Congratulations to Joe Mendola, of NAI Norwood Group who sold 495 Self Storage in Tewksbury, MA! Contact Joe at 603-668-7000 for more information.



Congratulations to Tom de Jong, of Colliers International who represented the buyers of East Elk Grove Self Storage in Elk Grove, CA and StorTyme in Reno, NV! Contact Tom at 408-282-3829 for more information.



Congratulations to Michael Venesky of NAI Daus who sold R&M Mini Storage in Elyria, OH! Contact Michael at 216-455-0886 for more information.

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