



SELF STORAGE SALES NETWORK

# A Checkup You Can't Afford to Miss

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by Amy Hitchingham

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No doubt you've heard that "an ounce of prevention is worth a pound of cure" and that "an apple a day keeps the doctor away." While these clichés strike a chord when thinking about our physical health, I propose that applying the same concepts to your business will help keep your storage facility running smoothly for years to come. You may feel that if your units are renting steadily that everything is fine, but when was the last time you took an in-depth look at your local market and your facility's competitive position? Would you be prepared to compete against a new facility in your market? In these uncertain economic times, a facility checkup is a crucial exercise to ensure a healthy future for your business.

## **What are the Symptoms?**

Be on the lookout for certain symptoms that might indicate an ailing market. First, keep detailed records of all of the phone and internet inquiries that you receive from renters and track how many of them turn into paying customers. Over the course of several months you will be able to see if the pace is holding steady or if calls and conversions are declining. A downward trend in the percentage of inquiries turning into renters could indicate a serious condition in the market. Also review your rental rate history and note the trends following your last rate increase. If you lost customers as a result, determine how long it took to lease up the space again. Renters becoming more price-sensitive are another indication that your market is tightening. Finally, don't forget to track both your physical occupancy and your economic occupancy. If you have had to increase rental concessions and incentives to maintain your occupancy then your market could be in for a decline.

There are several underlying factors that can contribute to a declining market. First is today's unstable economy. The credit crunch and decline in the housing markets have left many families with less discretionary income than in years past. The result is fewer first-time renters and also a potential loss of current customers who can no longer afford to rent a storage space. Seasonal changes in occupancy can also be a factor, so be sure to keep good records over the years to note the normal flow of business or any anomalies that might indicate an unusual spike or drop in business. Finally, it is very important to consider whether an oversupply of self storage is affecting your market. Overbuilding is a serious problem in many cities throughout the U.S. and often has damaging effects on the rest of the businesses in the market. It is important to consider how a new facility in an established market area can impact the overall occupancy of the market. Let's look at an example of a market in which there is 300,000 square feet of self storage supply in a three-mile radius. If the market has an overall occupancy of 85%, then the current demand for self storage is 255,000 square feet. If a developer plans to enter this same three-mile radius with a new facility, consisting of another 60,000 square feet, then the new total supply of storage in this market would be 360,000 square feet. At the current demand of only 255,000 square feet, this new market would now be facing occupancy of around 70%, down nearly 15% from their stabilized rate! It would take a tremendous

amount of population growth or additional demand coming from outside the three-mile radius to return this market back to 85% occupancy. What should concern all of the current owners most is that it is likely the older, lower-quality facilities in the market will suffer the worst declines as the new facility with its bells and whistles can draw customers away from the competition.

### **An Ounce of Prevention**

As the expression goes, taking preventive action can make all the difference in how your facility weathers a changing market. We have developed the Annual Facility Checkup form to help you address all of the issues that are important to your property's health and to accurately evaluate your operation against that of your current and potential competitors. This evaluation, combined with your own valuable experience and knowledge, will give you the tools you need to make informed decisions about the actions you should take to remain competitive. A word of caution: you must be completely objective when completing the evaluation and as thorough as possible in obtaining all of the details. Your results need to accurately reflect the market conditions in order for them to be useful to you.

A sample copy of the Facility Checkup form is included in this article to illustrate the analysis. If you would like a blank form fill out, you can visit our website at [www.argus-selfstorage.com/checkup.asp](http://www.argus-selfstorage.com/checkup.asp) to download a copy. The form is merely a guide to help in the evaluation, so feel free to add any other items to the list that you feel would be important in your market.

To begin the checkup analysis you need to define your market trade area, generally a 3-5 mile radius from your location. You may also want to include additional facilities just outside this area as they have the potential to impact your market as well. Plotting all of the self storage facilities in the area on a map will give you a good idea of where the supply in the market is and what areas are likely to be candidates for future self storage development. It is important to visit your local planning and building department to learn if there are any proposed self storage projects on the drawing board as they will play a major role in the future success of your business. Add these locations to your list as well and then commence your evaluation by visiting all of the facilities. Take some time to talk with the manager or owner at each location to learn as much as you can about their operation and how they market their facility to potential renters. Following your visit, use the checkup form to rank the various criteria on the list – location, visibility, access, signage, traffic counts and appearance. Be as objective as possible as you rate each item on a scale from 1 to 10. Obtaining each competitor's rental rates will also help give you a better picture of the marketplace. If you can't get these during your visit, try calling the facility on the phone to get an idea of their salesmanship and any special offers that are available. You must be careful how you obtain the rental rates as discussing prices with competitors could be considered antitrust price fixing, so it is best to do so anonymously.

Last, but not least, perform the same evaluation on your own facility. Add up the scores and look at the various rental rates and see where you rank in relation to the competitors on your list. If your scores are lower than the average in any of the categories, consider

those items to be a priority for your next maintenance project or capital improvement. Perhaps you will also find that the new or planned projects will significantly enlarge the market and that you must take some dramatic steps to remain competitive in the face of additional market supply. Even if you have the best property in the best location in market, you will know better how to sell your facility against the competition and where you can benefit from the pricing structure.

## Sample Facility Checkup Form

|                     | 8 <sup>th</sup> & Main | Ash & 4 <sup>th</sup> | First St. | New Project | Our Facility | Average   |
|---------------------|------------------------|-----------------------|-----------|-------------|--------------|-----------|
| <b>Location</b>     | 8                      | 6                     | 9         | 9           | 9            | 8.2       |
| <b>Visibility</b>   | 7                      | 8                     | 7         | 7           | 6            | 7         |
| <b>Access</b>       | 4                      | 10                    | 8         | 7           | 9            | 7.6       |
| <b>Signage</b>      | 5                      | 5                     | 7         | 8           | 5            | 6         |
| <b>Traffic</b>      | 10                     | 4                     | 8         | 10          | 8            | 8         |
| <b>Appearance</b>   | 9                      | 6                     | 8         | 10          | 8            | 8.2       |
| <b>Total Points</b> | <b>43</b>              | <b>39</b>             | <b>47</b> | <b>51</b>   | <b>45</b>    | <b>45</b> |
| <b>Occupancy</b>    | 83%                    | 63%                   | 87%       | N/A         | 91%          | 81%       |
| <b>Rates</b>        |                        |                       |           |             |              |           |
| <b>5x10</b>         | \$70                   | \$85                  | \$69      | N/A         | \$75         | \$74.75   |
| <b>10x10</b>        | \$115                  | \$130                 | \$110     | N/A         | \$119        | \$118.50  |
| <b>10x15</b>        | \$145                  | \$155                 | \$140     | N/A         | \$149        | \$147.25  |
| <b>10x20</b>        | \$160                  | \$185                 | \$150     | N/A         | \$160        | \$163.75  |

Let's review the sample checkup to see what the future looks like for this hypothetical market. The property at 8<sup>th</sup> & Main earns average scores among the group and also has competitive rates. Their greatest advantage is the high score in traffic exposure, which is a factor that an owner has little control over. Ash & 4<sup>th</sup> is pricing their units significantly higher than the rest of the group, which is likely hurting their occupancy. If they bring their rates down to a more competitive level they could impact the market as they enjoy a high visibility location with excellent access. The facility on First Street is a strong competitor with good occupancy and high scores in all of the categories. The New Project entering the market has the potential to do some major damage. They have a high traffic location and an appealing appearance, plus the facility will likely have all the bells and whistles to attract new customers. Our Facility is in a relatively good position for now. Our occupancy is the highest among all the competitors and rates are average for the market. Once the new project opens, we will have to address the low scores in signage and visibility to avoid falling victim to the inevitable drop in occupancy that will occur.

### **An Apple a Day**

We recommend that you complete the checkup process at least once per year to be sure that you aren't missing any pricing changes or competitive threats on the horizon. A completed checkup provides you with some very powerful information that will help you

prepare for uncertainties in the future, and over time you will possess a tremendous amount of information about the trends and intricacies in your market. With a potential recession looming and problems in the credit markets, every step that you can take to prepare your business will be important in your ability to weather tough times. Being proactive, rather than reactive, is the best way to ensure that your business will be strong and healthy for years to come!

*Amy Hitchingham is Vice President of the Argus Self Storage Sales Network. Created in 1994, Argus is the nation's largest network of independent real estate brokers who specialize in buying and selling self storage facilities. For more information, call 800-55-STORE or visit [www.selfstorage.com](http://www.selfstorage.com).*