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THE BAUER REPORT



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The Self-Storage Facility Investment

One in ten U.S. households now rent a self-storage unit. The growing demand for self-storage in the U.S. is created by people moving (some 40 million people move each year according to U.S. Census data), and by various lifestyle transitions, such as marriage, divorce, retirement, a death in the family, etc. Self-storage companies indicate a positive trend in market demand and occupancy rate

The increased demand for storage space outside the home include the larger number of apartment dwellers who do not have any storage space for their increasing amount of possessions—usually household goods, and outdoor recreational equipment. For many years, facilities functioned as transitional solutions to moving, marrying or divorcing, or a death in the family. Now the self storage units are used to store not only household items but cars, RV's, motorcycles, snowmobiles, boats and trailers, and all kinds of recreation equipment. Many areas do not allow recreation equipment to be parked in driveways and yards, so the self storage units are the perfect solution to this problem.

Self-storage facilities rent space on a short-term basis (often month-to-month, though options for longer-term leases may be available). Nearly all

jurisdictions prohibit the space from being used as a residence or business. Businesses use self storage usually for storing excess inventory, equipment or archived records that would normally occupy high-cost retail space.

Some facilities offer packing boxes, locks, and packaging supplies for sale to assist tenants in packing and safekeeping of their goods.

The rented spaces are secured by the tenant's own lock and key. Self-storage facility employees do not have casual access to the contents of the space (and, thus, the facility is generally not liable for theft). A self-storage facility does not take possession or control of the contents of the space unless a lien is imposed for non-payment of rent, or if the unit is not locked. The facility may lock the unit until the tenant provides his/her own lock.

It wasn't until the 1960's that storage facilities really took off in the United States. The first facility using garage-style doors was built in Odessa, Texas in 1964. The building was created for the oil industry, so that they could have quick access to tools and supplies. Soon after, the whole country followed suit and



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This publication is not a solicitation but is an information service from this office.

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When ideas in tax and other legal areas in this publication seem to fit your situation, it is recommended that you discuss them with your professional advisor before taking action.

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facilities began popping up all over.

Because of the increasing mobility of the population, people are storing possessions for various lengths of time, some for months, some for years.

Self-storage facilities (originally known as mini-warehouses) are relatively new investments compared to apartments, office buildings, retail or industrial. There has been an increased demand for space, with the number of people using self-storage having increased at a pace faster than population growth.

Demand

For these reasons, the percentage of the population using self-storage is likely to rise, perhaps substantially. If the percentage of the population that uses self-storage increases by only one tenth of a percent per year, an additional 30 million square feet will be required each year.

Costs

The high profit margins for self-service storage operations result from minimal operating expenses—the units require practically no maintenance. It is not as vulnerable to depreciation as other real estate because of the simplicity of design.

Negatives

One large negative for investors is the ease of getting into the business. Self-storage is relatively inexpensive and easy to build. While overall supply-demand is favorable, certain areas may have excessive supply.

The average tenant in self-storage stays for a shorter time than tenants in other rentals. It can be good in a strong economy but can cause sharp drops in cash flow during recessions.

A Typical Self-Storage Unit

The typical self-storage facility usually has several rows of single-story buildings containing individual units of different sizes with roll-up doors. Unit sizes range from 5 feet by 5 feet (like a walk-in closet) to 12 feet by 30 feet, enough space for several rooms of furniture or a car. The average unit size is about 100 square feet and the average property contains about 350 units. It is difficult to give average income per square feet because it will vary so much across the country.

Multi-Story Units

Many buildings are more than one story. About ten percent of the units are two-story or higher, usually in an enclosed building in urban areas where land costs are high and sites are scarce. The advantage of more units on less land is offset in part by the need to make all units interior ones, requiring elevators, freight lifts and stairways. Interior units do provide added security and also permit climate control of all units. The outside units have the benefit of drive-up access.

Security

There is usually a metal fence or concrete wall around single-story facilities. Modern facilities have advanced security systems including video surveillance, individual door alarms and some means of electronic gate access such as a keypad or proximity card.

Management

Effectiveness of management is most important to the success of the facility. Most have full-time resident managers overseeing operations. They usually live on the grounds of the facility and have an office on the premises. □

Finding Vacant Land To Develop

In major cities, looking for vacant land is difficult. A builder can look for vacant land but also must look for buildings that are in a condition that looks like they are no longer productive. A neighborhood that is in decline might be rejuvenated by tearing down a building and replacing it with a new office building, high-rise shopping center or apartments. Starting with one property might transform several blocks of a blighted area over a period of months or years. If an opportunity like this presents itself, it can be time to get options to purchase adjoining properties. An owner of an old building may be just waiting for an offer of some kind.

Parking

Cities also have a parking problem. An existing parking area might be purchased and replaced by a high-rise parking structure. The builder might joint venture this kind of project with the existing owner. After this kind of building is completed, converting the property to parking space condos can be considered. Condo parking spaces are units that have increased in value more than many other types of condominiums.

Maybe it is not necessary to find land to build on. You might build in the air above existing low-rise buildings. There are many buildings built above



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existing buildings. A historic building that is only one story has all of that air space above it. The space can be purchased or leased for use as a high-rise structure.

Throughout the country, traveling on the Interstate Highways, we often see a building such as a restaurant built in the air spanning the highway. An anchor on both sides of the highway works just like a bridge and gives a platform of one to five acres on which to build a restaurant, shops and parking. In the cities there are many highways, railroad right-of-ways that have large amounts of open space above that might be utilized for construction.

Look around the city. You might find areas that can be built on that no one has recognized (like over or under a bridge).

With vacant land virtually non-existent, as it is in a city like New York and in other crowded metropolitan areas, a developer might look anywhere and everywhere for space that might be used. Though no one is thinking about buying the Brooklyn Bridge, they are thinking of using the space under the bridge approaches.

Under the Brooklyn Bridge were 29 brick and granite arches, which have a total of 185,000 square feet of space. Developers are putting that space to use for retail, commercial, and even residential purposes. Some of the vaults are 40-feet high and apartments are possible in that size of space.

There is another 130,000 square feet of space in the vaults under the Queensboro Bridge and in a plaza on the New York City end of the bridge. At first, developers considered using that space for cultural activities, including a complex of movie theatres. Later, the idea of a shopping center emerged with 46,000 square feet to be used for food store, boutiques, and restaurants.

Approval Steps

These projects in New York City are delayed by lawsuits, financing problems, and approval procedures that are required by the City. Neighborhood groups have raised the issues of traffic congestion, air pollution, noise abatement, etc. The city insists that repairs first be completed to the masonry in the vaults; however, there are endless disputes over which state and city agencies are responsible for making the repairs and who has the final say regarding the finished repair work. The developers have signed a 50-year lease with the city and are optimistic, but resigned to the fact that the process is going to take much more time than originally was expected.

In Your Area

We may think that all of the vacant land near to the centers of population all over the country has already been developed. When you hear about these areas beneath the old bridges in New York City, it can cause a person to take a second look around near home base. Are there spaces that we pass every day that could be utilized as a commercial property? □

Owner Requirements For Effective Management

Real estate investments can be set up to generate one or more types of returns:

- Cash flow to owners (yield or return on investment).
- Appreciation of owner's capital (capital appreciation).
- Shelter of cash flow and/or other income from taxation (tax benefits).
- Preservation of capital (safety).

Once the owner specifies the type(s) of return desired, the mix of returns, and expected timing, the property manager can develop an appropriate

management plan. Planning, with its resulting control, is the foundation of effective property management.

If, for example, the owner wants to maximize cash flow for a two-year period, the property manager would probably plan to defer as much maintenance and repair as possible. Considering the short time period, the manager can reasonably assess that deferring certain maintenance and repair would have only a limited effect on the property's resale value. If, instead, the property was expected to be held over a long term, the property manager would probably design a strong preventive maintenance program and give corrective maintenance high priority, thus preventing significant deterioration of the investment over time. □

Development Of Raw Land

When an investor purchases land to build on, the next step is land development and financing. "Land development" cannot be precisely defined; generally, it refers to the physical, legal, and engineering processes needed to convert raw land to land (or lots) on which buildings can be placed.

Land development can be classified into the following six stages:

- 1. Annexation.** Taking the necessary steps to have land included within the boundaries of a municipality so that it can be eligible for municipal services.
- 2. Zoning.** Taking the necessary steps to obtain a zoning classification that permits the proposed use of the land.
- 3. Surveying.** Preparing an accurate and detailed survey of the land, showing not only the boundaries but also grades, drainage, topography, and other features of the land.

4. Land planning. Drawing up a plan for the use of the land that is consistent with its physical characteristics, applicable zoning and land use regulations, and projected demand for types of land use.

5. Subdividing. Platting (mapping) the land into blocks and lots in compliance with local laws and subdivision control ordinances.

6. Physical improvements. Changing or improving the land by grading; landscaping; installation of streets, sidewalks, and sewer, water, electric, and other utility lines; drainage and retention basins; and similar physical improvements.

Loans for land development are usually obtained from the same institutional sources that provide land acquisition loans. Thus, if institutional financing for land development is not available, the developer must seek other noninstitutional sources. □

Help With Investment Real Estate

When you have searched for new real estate investment opportunities, with values that have been changing, you know that finding and evaluating them is becoming more sophisticated and complex. More investors are turning to real estate consultants as a means of providing a sounding board for their ideas as well as expertise in the planning and construction stages for their projects.

Feasibility studies are essential for commercial office, industrial, resort and hotel investors. With this kind of information, planning is better and there is

less chance for error.

Our office is open and ready to assist you. We have been experts in property values in this area for a long time. We can help you with enough information so that you can make your own decisions on the value of property either in listing your present property for sale or in purchase of another. If you wish to consider structuring a tax deferred exchange into that next property, we can guide and aid you with that transaction.

Let us guide you in your investments. □



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A CCIM is a professional real estate practitioner with proven technical expertise in commercial property. A CCIM is a person truly committed to the fundamentals of effective commercial-investment brokerage. The CCIM has completed a full schedule of Post Graduate Level Courses in investments, taxation, development and marketing all types of commercial-investment properties. The designation of Certified Commercial-Investment Member is unquestionably the highest degree awarded in the commercial-investment real estate practice.