

White Paper

Owned Storage vs. Rental Storage

Cost and Feature Comparison

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The question comes up almost daily. Does it make sense to own your storage or to simply rent your storage?

Putting aside the marketing hype and glossy literature for the moment, I wanted to take this chance to provide some facts and figures as I understand them, and shed some light on this newest of storage concepts.

Before building an "owned storage" facility, I took a hard look at rentals vs., condominium storage. There are certainly benefits to both storage concepts.

Rental storage does make sense if you are looking for a **short term** storage solution. Short term defined as less than one year. If that describes you, then rentals are probably the way to go. However, if your vehicle ownership and storage needs do exceed the one year expectation, then owning your storage may be exactly what you need. The cost for ownership is generally 30-60% less than typical rentals, provided you look at this as a short to medium term investment. (2-5 years). Below I have made a cost comparison showing rental costs vs. ownership costs.

The assumptions are real world assumptions and reflect current interest rates and sales costs. The unit / garage cost example is simply an average. Your actual cost will vary depending on the size of the garage you have selected.

The example below assumes a personal tax bracket of 25% and an interest rate for a loan of 7.0% amortized over 25 years. We have always encouraged clients to utilize a Home Equity Line of Credit (HELOC) for financing, as the interest is generally 100% deductible, and the down payment amount may be eliminated. Interest rates are generally much lower as well.

Cost Comparison Ownership vs. Rental

Assumptions:

Unit Price	\$60,000	(Average Cost)
Down Payment	\$21,000	
Loan Amount	\$39,000	
Loan Term	25 Years	
Monthly Payment	\$275.40	
Average Annual Interest (1st 5 Yrs.)	\$2,931	
Tax Bracket	25%	
Interest Rate	7.0%	
Rent Cost of Comparable Unit (Mo.)	\$450	
HOA Dues (Mo.)	\$35	
Lost Earnings on Down Payment	3%	
Appreciation Factor on Owned Unit	2%	
Closing Costs on Sale	4%	

Calculations:

Annual Rental Cost after Tax

5,400

Owner's Costs:

Annual Payment on Loan	\$3,305
Annual Payment on Owner's Dues	\$420
Total Payments	\$3,725
Less Tax Savings on Interest	(\$733)
Less Principal Reduction (Average 1st 5 yrs.)	\$704
Less Appreciation (Ave 1st 5 yrs.), net of selling costs	(\$1,152)
Plus lost use of deposit and principal payment funds (5 yr average)	\$609

Annual Cost to Own after Tax

\$3,153

Annual Savings

Ownership vs. Rental **(58%)**

\$2,247
58%

The figures above are real world figures as of November 2010. While renting is certainly easier, but at the end of renting for five years, you have **spent** \$27,000 and what do you get back? That's right. Nothing! I don't know about you, but the idea of investing that much money on a guaranteed loss defies common sense.

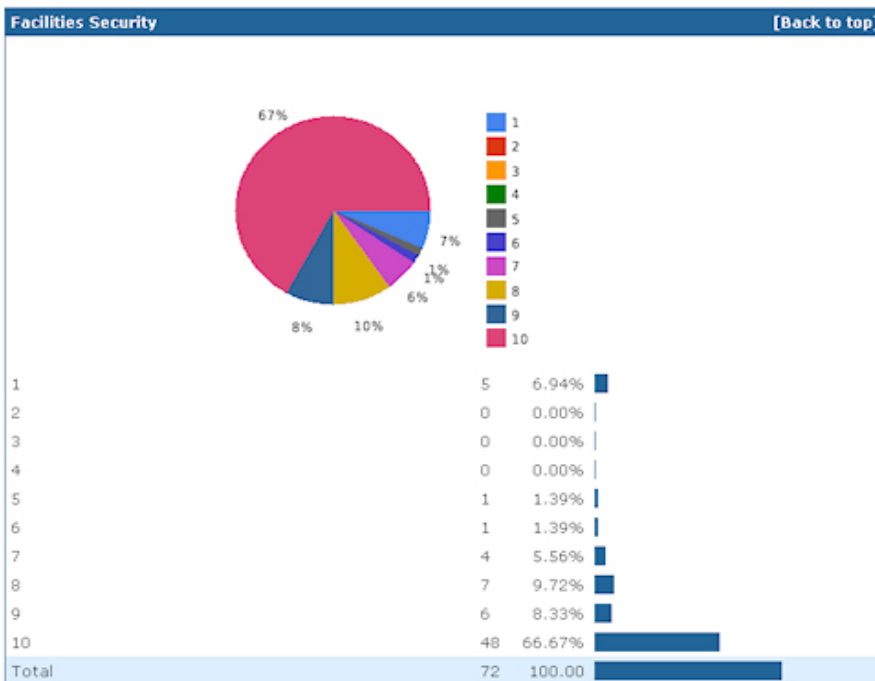
With ownership, you will **invest** \$15,765 over 5 years (**\$262,75 per month**), (not including your initial deposit). What do you get back in 5 years? With a 2% appreciation factor, it is entirely possible to earn an extra \$6,000 just on appreciation, not to mention the possible tax benefits real estate ownership brings. Therefore, after five years, you could get back \$66,000 on your original investment. As with any real estate, appreciation rates are only estimates.

So, if you had a choice –

- ⇒ **Lose \$27,000 in 5 years, low security, limited access, or...**
 - ⇒ **Make \$6,000 in 5 years, high security, endless amenities, anytime access,**
- Which would you chose??

Security Concerns

Rentals do have a place in the RV or auto storage market, as they have been the mainstay for years. However, rentals do lack in a few areas that have been noted as a high priority by RV owners. This is a result of a survey I conducted where 67% responded that security was a top concern while storing their vehicle.



Rentals by nature have difficulty providing a high level of security.

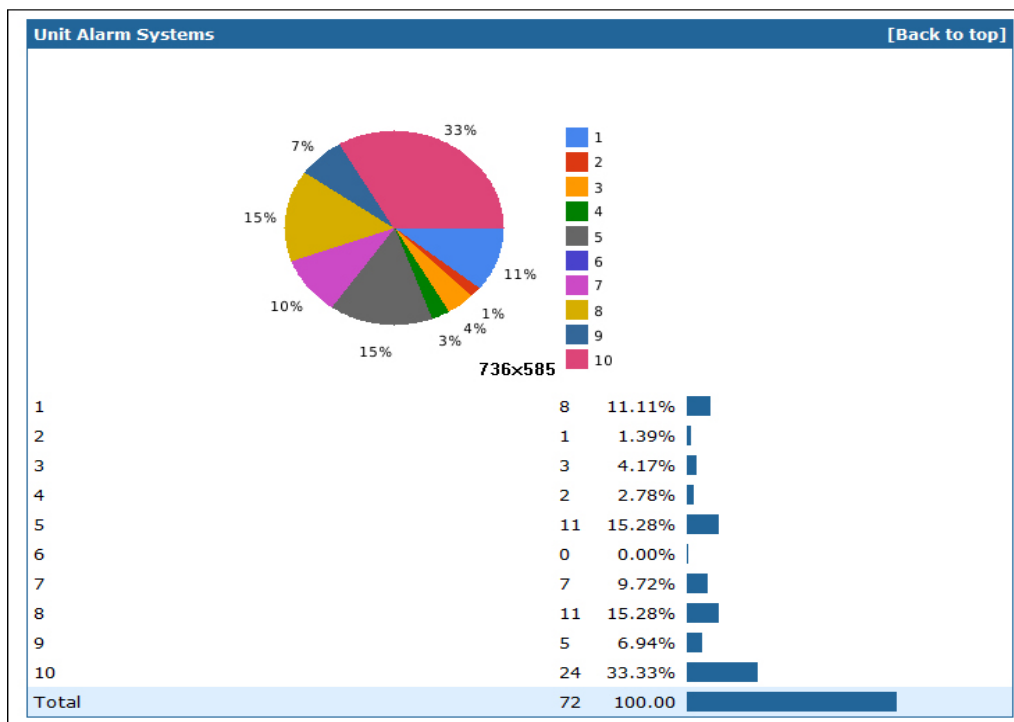
1. Rental facilities by nature have a transient client base. You really never know who is moving in next door, or worse yet, what are they doing next door.
2. You don't really know anyone else in the facility. Does that person you just saw drive in really belong there? You simply have no idea, since there is a revolving door of people moving in and out.
3. With tenants moving in and out almost daily, it is difficult for the management to provide a personalized security solution. I can't really blame them, as setting up a decent security system takes time and quite a bit of effort.

Condominium storage generally provides a higher level of security.

1. In an owned storage facility, generally, the owners are there to stay. They do not move in and out with the tide as with other rental facilities. The fact that the faces in the facility are generally known, if an unfamiliar face does show up, they are noticed right away.
2. Owners tend to look out for each other. Everyone has similar interests and all share one common theme. Pride of ownership. You certainly do not find that in a rental facility.

Along the same security theme, during the same survey, I asked how important individual garage alarms were. Below is your answer. 33% rated that feature as top priority.

1 being low, 10 being high.



We listened and here is how we answered.

Every garage is individually alarmed and monitored 24 x 7. Any time your garage door is opened, you receive an instant e-mail sent right to your smart phone or PC. (80% of all self storage thefts are from a family member). This way, no matter where you are, you are still “in touch” with your garage unit.

All of our 16 security cameras are available on line 24 x 7, and each records every movement in the project and archives the activity on an onsite DVR.

Additionally, you become part of the “known family”. You will in time meet everyone else and become familiar with the faces in the project. If there is an unknown face, then everyone takes a few moments to find out who this person is. That is not by design, it is simply a bi-product of ownership. You are part of a community. Communities by nature are more secure.

Now that we have established that “potentially”, the owned storage concept may fit your needs, let's take it a bit further and see how our facility features compares to traditional rentals.

Features Comparison

Features	Rental	Owned
24 x 7 Access	No	Yes
Individual Unit Alarms	No	Yes
Interior Customization	No	Yes
Private Electricity	No	Yes
Drive Widths	55' (typical)	71'
Wash Area	Doubtful	Yes
Dump Stations	Doubtful	Yes (2)
Clubhouse	No	Yes (2700 sq ft)
WIFI / Internet	No	Yes
Fire Sprinklers	Doubtful	Yes

Automatic Door Openers	Doubtful	Yes
Insulation	No	Yes
Modular Flooring	No	Yes (Included at N/C)
E-Mail Intrusion Notification	No	Yes
100 AMP Sub Panel	No	Yes
Showers	No	Yes (2)
HDTV	No	Yes
Web Based Security Cams	No	Yes
Private Garage Cams	No	Yes (optional)
Fire Alarms	No	Yes
Travel Club	No	Yes
Owners Club	No	Yes
Pride of Ownership	No	Yes
Price Appreciation	No	Possible
Return on Investment	No	Possible
Tax Deductions	No	Possible
Resale	No	Yes
Laundry	No	Yes
Allow "Tinkering"	No	Yes (Encouraged)
Party Facilities	No	Yes
Concrete Drives	No	Yes
Sectional Doors	No	Yes
Internet "Hot Spot"	No	Yes
Pressure Washers	No	Yes

The Future of Vehicle (RV) Storage.

Many potential buyers and renters alike may not be aware of the 800 pound gorilla looming in the RV storage industry.

About five years ago, Lennar Corp purchased the El Toro Marine Base in Orange County. Their plans were to build up to 35,000 homes on the 3700 acres they purchased. Many don't realize that included with that sale was the RV Storage facility (the largest in the nation) that houses 2300 RV's. While it is true their plans have been held off mainly due to the current economy, the current "buzz" in real estate circles is they are starting to ramp up their efforts to start building as the housing situation is starting to make a recovery. All Star Services (<http://www.eltororv.com/>) the leaseholder of the storage at El Toro was only giving a month to month lease this year, rather than a full one or two year lease. What does that tell you?

So what does this mean to Orange County RV Owner?

Honestly, quite a bit. Once the RV's at El Toro are given their walking papers, it will be no less than a crisis in the making.

RV'ers have had the luxury of being able to store their RVs at El Toro for what is bargain basement prices. A 40' space is renting for \$165 a month. Granted it is outside on gravel, but hey, it's cheap. Remember my second paragraph talking about buying vs renting your home? The glory days of cheap storage rentals is about to change dramatically.

First off, RV storage in Orange County is already in short supply, with long waiting lists at most any storage facility. Secondly, SCE, the owners of all that juicy land under the power lines, **has stopped any future development** (including RV storage), under the lines with the only exception be agriculture, sighting fire danger and access to provide maintenance on the power lines. See this LA Times article.

(<http://articles.latimes.com/2007/nov/18/local/me-edison18>)

So, the only remaining, affordable valid option for future RV storage is gone.

Now, take an already saturated market place, and introduce 2300 new desperate clients seeking a somewhat rare commodity, RV storage, what do you get? Yep, higher prices. Since I am deeply involved in this industry, I know of many storage facilities that are wringing their hands at the thought of the ensuing onslaught of new storage customers. Guess what these new customers are going to be facing? Yep, a doubling of storage costs. It is simple economics of supply and demand. Too much demand equals increased costs due to limited supply.

Is there relief in sight?

In a single word, no. I have been working on this RV storage problem for six years. I cannot see any relief for the Orange County area. Land values are simply too high to make economic sense to store RV's. They do not generate enough income to justify the incredible land costs. Generally, raw land costs in Orange County are at a low of 1.5 million per acre, up to, well who knows. The average is probably about \$40.00 per sq ft or nearly 2 million per acre, undeveloped, assuming you could even find a lot more than 2 acres, large enough for the economical development of RV storage. If you think the costs end there, you are sorely mistaken. Orange County has very high development standards, which only adds to the extreme cost of building. I know, I am a developer and tried to work with 15 Orange County cities, and came up with nothing but insane costs and impossible building requirements. Before I threw up my hands and moved my idea to Beaumont, here is what I found out.

Why cities hate RV storage

Most Cities don't want RV storage since it does not generate any income to the city, i.e., sales tax revenue, even though those same cities pass ordinances prohibiting RV storage. Further, RV storage is considered a visual blight, and we employ very few people out of the labor pool. Additionally, the property tax revenue on land with no buildings is low. Another strike against RV storage. Maybe if we sold a few Slurpees with each rental the city might let us build.

- Enormous building costs will make RV storage a thing of the past in OC.
- Land costs for an area you would even feel comfortable driving to in Orange County are 1.9 million an acre +
- Development costs (even just paving) is about another \$40.per sq foot (assuming they would even let you build RV storage) bringing the cost to an incredible 3.6+ million per acre.
- In order to get a 10% return on your investment you would have to charge \$493 a month to store a 40' RV outside, not even under cover. **OUCH!**
- Based on 3.6 million cap cost, @ 6% interest **only** is \$216,000 per year or \$18,000 per month, or \$450 per month per RV based on 40 RV's per acre. That does not even include any potential profit, carry costs during construction, or utilities, insurance, taxes, labor or any buildings what-so-ever.

The figures do not lie. That is the problem in a nut shell. RV storage in Orange County will be a thing of the past soon, or at the very least, so expensive, it will only be for the very wealthy individual.

(Video Link)

Failed attempt to build RV storage in Huntington Beach (June 2010)

As I see it there will be two choices for the future or current RV owner. Any new developments to help relieve this impending crisis are at least two years away, as projects of this type take an enormous amount of time to complete. Further, a developer tried to build a 16 acre site at a SCE substation on Ward Ave Near Garfield in Huntington Beach. It was shot down by the city in a much publicized hearing June 21st of this year. Video here –

(http://huntingtonbeach.granicus.com/MediaPlayer.php?view_id=2&clip_id=576)

Forward the video to about the midway point for the RV Storage discussion.

My heart goes out to the developer. Been there, done that.

Additionally, I don't know if you have heard anything lately, but banks have not and will not fund new construction projects. They are in worse shape than the rest of us. So, any new facilities in the next 2 years, frankly are a dream. More like 3-5 years.

Your options are limited

1. Drive to other areas inland from Orange County to find available inexpensive storage (there will be 2300 others on your tail).
3. Buy your storage in a project like mine and control your costs. Yes I know, this seems self serving, but maybe now you can understand why I built this project. The writing is on the wall. Future costs for storing an RV are going to increase. Even in these tough times, have you seen any reduction in the cost for RV storage? I'll bet your answer is no. When things get better, what do you think will happen to the current storage rates? Yep. Through the roof, especially when El Toro Closes.

Have you ever head the expression, "I'll bet you a million bucks...."? Well, I bet 8 million I am right and condominium storage is the right decision.