

Planning to Start a Self Storage Business

No other self storage builder has more experience or expertise than Mako Steel. We are pleased to share our experience by providing this planning guide and worksheet to help you get started in the lucrative self-storage business.

With increasing land costs, escalating city and county building requirements, self-storage developers are getting more creative at finding and developing self-storage building sites. In this guide, we provide information about what you will need to consider when acquiring property for your self-storage buildings, critical research required before investing and some guidelines for planning and budgeting your project.

Site Selection – Where Will You Locate Your Self-Storage Business

The highly competitive self-storage market requires a level of sophistication when choosing your location and developing your self-storage project for maximum profits. There are many profitable models for successful self-storage businesses. Even in areas that may seem to be saturated, you can often find a profitable niche. But as with all real estate ventures, the old adage, “location, location, location,” still applies.

In order to maximize profitability and reduce liability, it is critical to understand the current storage saturation levels in your area and the types of storage that are most in demand in your target market.

Residential and Urban Areas – This market usually chooses to rent within a 10 to 15 minute drive time from where they work or live. There are many profitable markets in residential and urban areas; perhaps near a college where students tend to move every year, or an area where there are many apartments and HOA units where tenants need additional space to store their items, or in an area where residents have downsized but don’t want to part with their belongings.

Industrial Parks – An excellent market for self-storage facilities are businesses that need to store inventory, files, and equipment.

Rural Areas – This market may need bigger storage units and drive up access to store large farm equipment.

Specialty Markets - We have worked with some Self Storage developers that cater to very specific markets, such as high end cars, RVs, boats, wine storage, online product fulfillment, etc. thus attracting tenants from well outside their geographic area due to the very specific offerings they build into their facilities.

When It Comes to Self Storage, Looks Do Matter

Your Self Storage Facility needs to blend into its environment. If your facility is near residential or high-end office parks, you will want to incorporate finishes that are in keeping with other buildings in the area. However, if you are building a facility in a rural area, you may want to keep the design simple and low cost. You will also need to design your self-storage buildings to meet the requirements of city planners and permitting departments.

Determine Supply and Demand

There is always the possibility that supply, in certain areas, may be surpassing the demand from customers for storage. Higher monthly turnover, more short-term tenants, increased vacancy rates, and move-in discounts are signals that there may be over building for self-storage in a given area. In an area where there is a lot of construction of new housing units and business buildings, this market saturation could be temporary. Once the neighborhood matures, demand could eventually "catch up" to the supply for storage. On the other hand, overbuilding in an area plagued by vacant buildings and declining neighborhoods may be a permanent problem.

When you are researching potential sites for your business, you will need to do your homework to fully understand your competitive environment and your target market.

Start with a Feasibility Study

While we recommend that you hire an Industry Expert to conduct a full Market Analysis, you will be well served by doing your homework to understand the marketplace and the market potential where you plan to build.

You can start with census material to obtain information about the one, three, and five mile radius areas surrounding the proposed facility site. This information should include current population, anticipated growth, the population mix (renter/owner, multi/single family) and average income. Most of this valuable information can be found at your local planning department.

Get to know your current and potential competition. Both existing and planned competitors should be plotted on the map of the area. It is also a good idea to conduct onsite visits to all competitors. Have a conversation with facility managers – they can often provide insight into the market.

Additionally, you can identify strengths and weaknesses of your competition, and determine if there is a certain product that is often requested, that is not offered in your market (i.e. Boat and RV Storage, Climate Control, etc.)

What you should hope to find in these experiences, are key take a-ways that you can use to further your success - Are your competitors full or operating in a 90% occupancy? Are they professionally managed?

Was the manager a good sales-person? Was the facility secure? What can you do better?

Traditionally, a market was thought to be saturated when two to four square feet of rentable space per person exists, depending upon the population, housing and commercial mix in the neighborhood. Though, because the amount of square footage of existing self-storage per person can vary wildly from one market to another, there is no real definition for market saturation in the self-storage business. Some markets can support between eight to ten square feet per capita. The Sunbelt can generally absorb larger amounts of self-storage where people tend to own more leisure and recreational equipment.

The type of housing also affects how much storage a market can accommodate. For instance, if you are planning to build in an area where the majority of homes have basements, enclosed garages and large closets, your target market may not need as much storage as markets that have a high density of condominium and apartment complexes or no frills single family homes that are often found on military bases.

The age of the population, mobility rate, employment status and income are other important measures.

The feasibility study is the single most important investment a developer makes in the early stages of planning. While many experts charge \$4K - \$7K for a comprehensive study – it is a SMALL price to pay for peace of mind.

EXPERTS CAN HELP YOU ANALYZE THE FOLLOWING AND PROVIDE CONSTRUCTION AND DEVELOPMENT RECOMMENDATIONS:

Demographics for 1-5 mile radius from the site

- Current Population
- Expected Growth
- Mix of Renter or Owner Housing
- Mix of Single Family or Multi-Unit Housing
- Average Income
- Local Colleges, Hospitals, Industry

Competition

- How many self-storage businesses currently exist in the area
- Total square footage of storage in 1-5 mile radius
- Services offered by competitors

- Unit mix currently offered by competitors in the area
- Occupancy rates for competitors

Site Selection Considerations

Choosing a site for your self-storage facility should factor in the following considerations: availability of land, appropriate zoning and commuter traffic patterns, visibility from the road, ease of access, proximity and density of potential customers, current storage saturation level (competition), and expected growth for the area. A growth area, for example, will generally enable you to get to your desired occupancy quickly. High ratios of multi-family residences will create a demand for smaller units, and smaller units generally pay a higher return on the dollar invested. A location near the center of a dense urban area, preferably on a major artery, is ideal for fast rent up. A freeway location is also desirable but less so than a major artery that passes through the neighborhood that the facility will serve.

Consider all of the following factors in choosing your site:

- Available Plots of Land Available Now and for Future Expansion
- Available Buildings That Can Be Easily Converted
- What Are the Area's Zoning Regulations
- Are Soil Tests Available
- Are There Utility Hook-Ups
- What Easements Exist on the Property
- Is the Title Clear and Unencumbered
- Has the Land Been Appraised
- Is the Land Level or Is There Enough Soil to Provide the Necessary Grade Level
- Does the Site Have Proper Drainage
- Is the Site Easily Accessed by Car
- Is There Good Visibility from Nearby Roads
- What Are Traffic Patterns and Count
- Are There Any Traffic Generators Such as Shopping Malls, Schools, etc...

What Should You Pay for The Land

The price Self Storage Developers should pay for their land is a question that is much debated. However, it is a ratio that has a DIRECT correlation to the amount of rent one can collect per square foot in a given market. Markets with higher rents, can absorb substantially more in land cost than markets that have a lower rent than average. The Nationwide 'Average' self-storage rent has hovered near \$1.00 PSF per month for almost a decade!

Depending on the location, self-storage projects can generate the same income per square foot as medium priced apartment properties in the same market area. And they can achieve this income at roughly one half the construction and operating costs.

The most common "state of the art" facility will be about 120,000 - 150,000 net rentable square feet, cost \$60-\$75 per square foot to construct (outside of existing land costs), and have break even operating expenses in the 40-60 percent range of total stabilized income. A well designed and located facility will successfully operate in the 83-93 percent occupancy range, though we have seen successful self-storage operations with occupancy rates as low as 70%.

It often takes 18-24 months for many self-storage facilities to realize its full income potential in a competitive market. Large self-storage operations could take longer, up to 36+ months for 100,000 square foot size facilities to achieve stabilization.

Planning for Site Development Costs

You will need to include planning, permitting and architecture fees in your budgeting process. Mako Steel offers substantial savings in the planning and design phase with our Engineering Services. From initial concept through completed construction, we will help you design and build your self-storage project quickly, with the lowest possible cost and to maximize your income potential.

It is important that your self-storage facility be designed by industry professionals, who understand the self-storage business. With over 25 years in the business and millions of square feet of self-storage built, we know what it takes to be successful in the self-storage business. That experience is translated directly into your facility design.

We design construction efficiencies into your self-storage project so we can reduce erection time. You save time and money in construction and start renting sooner.

Mako Steel Will Provide You with Complete Plans for Permitting, Construction and Inspections

- Economical Steel Structure Design

- Drawings and Foundation Plans

Budgeting for Construction

Construction fees will vary depending on whether you are building a single story or multi-story building, the condition of the site and the types of finishes desired. Answering the Single Story vs. Multi-Story question is the first step in setting an adequate budget for your Self Storage Construction. While costs for single story construction typically ranges between \$35-\$55 per square foot, multi-story projects have a larger variable and can range from \$60 to as much as \$75 per square foot. Land costs, site approval, the degree of architectural involvement, construction material costs, site improvement costs, are all variables that can impact a self-storage construction project. Overall, construction costs to build self-storage are generally lower than other types of real-estate development. Mako Steel's buying power combined with the efficiencies designed into the building construction will ensure that your project comes in on budget.

Use the attached spreadsheets to help you on your preliminary feasibility fact search.