storelocal
storage co·op

SO YOU'RE READY TO BUILD A STORAGE FACILITY

ABOUT THIS GUIDE

The self-storage industry in the US is a $38 billion business. But despite its size, it remains largely in the hands of independent owners — what the Self-Storage Almanac calls “small operators.”[1] Few other opportunities, particularly in commercial real estate, are quite so accessible to entrepreneurs. Combined with relatively low overhead, healthy margins, and a resilient, if not recession-resistant business model, self-storage is an attractive business.

If your only experience with self-storage is as a customer, you probably see plenty of room for improvement. Customer service, for example, is a frequent complaint. Less expensive facilities are often dilapidated or are in low-traffic parts of town such as an industrial park. It’s not hard to see the gaps. “Geez,” you might think. “I could do better than this!”

But like anything else, there are pros, cons, and caveats. If you’re new to self-storage, it probably seems simple enough. But a can-do attitude and access to capital isn’t enough to succeed in this competitive industry. There are many considerations and boxes to check before diving in. “Look before you leap,” as the saying goes. To that end, Storelocal has compiled this free guide. Though not comprehensive, it’s a good starting point for answering the question, “If I did take the leap, what would it entail?”

Without further ado, let’s take the leap.

RESEARCH AND PLANNING

No matter what level of experience you have in self-storage, you need to do your homework. Research the industry, trends, margins, technology, unit sizes, etc. A solid business plan will be key to the entire process. It proves you are a legitimate businessperson who understands the implications of what you're trying to do.

By making a business plan, conducting market research, and mapping out the whole process, you may decide that it doesn't pencil out. The time, place, and conditions may not be right. If that's the case, then at least you did your homework. Try a different location, put it on the back burner, or focus on another type of business. Self-storage isn't for everyone, but a business plan will help reveal whether it's right for you. Self-Storage University has an excellent article about the key indicators for self-storage success[2].

If you decide to proceed, it's never a bad idea to do a bit of footwork. If you know what neighborhood you have in mind, consider attending some neighborhood or town meetings to introduce yourself and test the waters. People find it much harder to say "no" or oppose your plans down the road if they feel like they know you a bit and are satisfied that you're attuned to their interests and concerns. As an added bonus, you may meet community members who can influence the political process later on.

Research and planning is also an opportunity to gather relevant industry data, not just to satisfy your own curiosity but to assuage the concerns of others. For example, if you find the community has a negative perception about self-storage, being prepared with reliable (and current) facts to counter those concerns will help you overcome objections at every stage of the process. The aforementioned Self-Storage Almanac is an excellent source of data and insider info, as are online resources such as Inside Self Storage and the Self-Storage Association.

If you've done your homework, researched the market, met with a few people, and ultimately determined that you want to open in a particular area, then the next logical step is to figure out a location.

LOCATION

Location, location, location.

You've heard it before. Location has a great deal to do with the success of any business. Itis no less true for self-storage, but not necessarily in the same ways as other businesses. Let's briefly cover just a few of the factors that comprise a "prime location" for a business like a jewelry store or a gym. For purposes of this guide, we've lumped a few of them together as follows:

Traffic, accessibility, proximity, and parking.
It doesn't take a genius to realize that establishing a new business where people already are improves visibility, which generally leads to more customers and more revenue. Proximity to other, complementary businesses can play a role as well. The availability of parking, access to public transit, or proximity to major roads are convenience factors that can impact a customer's decision to visit your location.

Demographics and area reputation.
As you might imagine, a fancy gym won't do well in a bad part of town, just like a dollar store has no place in a ritzy area. In general, your business should be a good fit for the area. But demographics are key as well. For example, your gym might do better in an area with a large population of young professionals as opposed to an area that skews much older or low-income.

Political considerations and zoning.
Not every area is zoned for commercial use. You may identify the perfect location for your jewelry store only to learn that zoning prevents it. By the same token, entrenched interests or biases among city officials can make location selection easy or fraught.

Self-storage has many of these same considerations but to varying degrees. For example, you want a minimum of 15,000 cars per day on whatever road is adjacent to your location. Most municipal governments can provide you with that data. And while you certainly want to avoid those parts of town where crime is a major concern, you also don't need a "prime" location close to regular retail shops.

The key here is to take the time to understand the industry before you start thinking about locations. Get to know some owners and managers, read up on industry trends, and understand the unique opportunities and challenges of your target area. A more rural community might be okay with driving a mile or two outside town for self-storage, but urban customers will prefer to be closer to their stuff.

The location also has a lot to do with Factor 3: Startup Capital.

STARTUP CAPITAL

What does it cost to start a self-storage business? It depends on a number of factors. Will you build, buy, or convert? Where is the site and how big is it? Do you need fencing? What about lighting?

We've compiled a partial list of the various "levers" that will determine your startup costs.

Scale.
A stick-built, one-level, 40,000 square-foot facility in a smallish town will probably set you back around $1.5 million. But that doesn't mean an 80,000 square-foot facility will run you $3 million. It doesn't necessarily work that way. New construction could run you $25-$75 per square foot — even up to $100 for a multilevel facility in an urban area. Facilities are getting bigger and bigger to meet growing demand and offer larger spaces. The average facility these days runs between 80,000 and 125,000 square feet.

There's also the number of buildings and levels to consider. Is one enough? What if one is climate-controlled and the other isn't? Do you need a separate area for boats or RVs?

The size and location of the lot plus the scale of the facility you wish to build play a major part in estimating how much startup capital you'll need. If you do your homework, including a business plan and market analysis, you should get a pretty good idea of the appropriate scale. There's also the question of whether you can get a construction loan or could personally guarantee one.

Facility type and amenities.
Self-storage comes in many different flavors. Are your units drive-up or inside access? Climate controlled or not? How much insulation do you need for your particular climate? How secure does it need to be?

Many urban areas go more vertical with their self-storage, which requires additional infrastructure like cargo elevators, fire escapes, and so forth.

Build, buy, or convert?
You may not need to acquire a lot and build a building. Chances are, you can drive around your target area right now and find plenty of vacant shopping centers, warehouses, movie theaters, and so forth. Something that's been on the market for a long time can give you leverage at the negotiating table, but many of these buildings have good bones that can make converting easier than building from the ground up.

Obviously, buying an existing facility and either sprucing it up or adding on is another option. If a local outfit is constantly running deals and incentives, they may be struggling. If you can understand why, and it's something you think you can address, the owner may be happy to get out from under it. Here again, it pays to know some people in the business.

Legal considerations/time constraints.
Time is money, so you should be mindful of the hurdles you have to clear before getting approved to build or buy. And you won't necessarily be approved. If you have zeroed in on a location and a strategy, it's a good idea to meet with the people who will draw up the paperwork, design the facility, develop it, and equip it so you know roughly how long the whole process should take. Self-storage is rarely a turnkey operation, so plan ahead and know what all these extra steps might cost you in terms of money and time.

ZONING (A.K.A. ENTITLEMENTS)

We touched on this a bit, but it's such a significant hurdle to clear that it stands on its own as one of our major factors.

Zoning is the process by which land is divided into areas designated for a particular use. Local governments determine zoning in many ways, generally guided by a master plan. But shifting economic, infrastructure, and other conditions can influence zoning, sometimes on a case-by-case basis. This process can take months or years.

Most city areas fall into one of five categories, or zones: commercial, residential, industrial, agricultural, and combination or mixed-use. There are other types, but they go beyond the scope of this guide. The bottom line is that some areas that would be perfect for your self-storage business are not zoned for it and never will be. Likewise, some areas that are zoned commercial can be limited to specific kinds of commercial enterprises, like restaurants or retail. Self-storage doesn't necessarily fit neatly into any category, so it will depend on the area.

With that in mind, it shouldn't surprise you to learn that some areas zoned as commercial do not allow self-storage. Why? Well, pretty much any business will face some kind of opposition. Maybe your proposed design will block someone's view, or maybe a nearby resident believes it will lower his property value.

These kinds of hurdles exist for pretty much any new business, so be prepared to navigate these slow-moving waters. A reputable architect can often do a lot of the heavy lifting with respect to zoning, but there's a good chance you will need to do some educating or even selling to people who oppose you. For example, if a city council member is concerned about the impact on property values, you should be ready with data that allays their concerns.

Now that you understand what zoning is and how it affects your facility, here are some of the major considerations with respect to zoning and self-storage:

Understand the process.
Even if you've lived in your target area your entire life, it does not mean you understand how your zoning laws work in your community, who is involved in the process, and how long it takes. Again, talking to an experienced lawyer or inquiring with your local zoning commission or community-development department is a good place to start.

If you educate yourself on the process, you may learn that your desired location isn't zoned in a way that would allow you to get started. If that's the case, you can file a *rezoning request* to try and get it reclassified. If you decide that's your best bet, undertake this process as soon as possible because it takes a good deal longer than applying for a permit based on current zoning.

Understand the permits.
Approval, at least from a zoning perspective, usually leads to a *conditional-use permit*. The conditions of the permit will vary from city to city and project to project. It's all negotiable until it isn't, and then you have to decide whether the conditions specified are ones you can live with. This process can, and often does involve public hearings and politics.

The second type of permit is a *design-review permit*. This is more likely to come into play when an area is going for a certain look and feel. If you envisioned a plain, sheet-metal building with a cyclone fence around it but the area follows a "mountain chic" esthetic, then the design modifications they might require could price you out of the market.

Finally, there's a *permitted-use permit*. This is pretty rare in self-storage, but not unheard of. If you're looking at an area that already has quite a bit of self-storage and no abutting residential zone, a permitted-use arrangement only obligates you to adhere to established standards for the zone. In this case, there are no public hearings or political red tape.

Determine your fit.
As noted, self-storage doesn't always fall neatly into a particular zone. But if your intended area falls within a zone that *may* work, it's worth checking out what zones other self-storage businesses fall into.

YOU'RE APPROVED! SO NOW WHAT?

Hopefully, the question of financing was part of your original business plan. That doesn't mean you need to get all the money lined up before you even begin the process. In fact, you shouldn't sign anything or make any promises prior to getting approval. But you should at least have a plan for getting the money together.

If you have the cash yourself or have investors to handle the upfront costs, great. But remember, it's not enough just to build the building and flip the OPEN sign. You'll also need enough cash to get you through the first several months, if not longer, in addition to the costs of marketing your business and hiring employees.

In most cases, however, you will need some kind of loan.

There are many lending options appropriate for a self-storage business. Fundera has some excellent articles covering general business loans[3] and commercial lending[4] options. In any event, favor lenders who have some experience in self-storage so they can help guide you.

In general, you need a loan structure that covers your initial construction and development costs PLUS enough cash to keep you afloat for the first few years. It's critically important that the loan be realistically sized, for two very good reasons: One, pretty much everything winds up costing more than you expect. (Ask anyone who's tried to remodel their kitchen.) Two, an undersized loan at the outset could create serious problems down the road. If the bank won't increase your loan — and they probably won't — then you'll have no choice but to reach out to investors, hat in hand, and ask them to help cover the shortfall.

Trust us, that's not the kind of ask you want to make. And since an undersized loan suggests that you don't know what you're doing, don't expect much enthusiasm on their behalf. Just save yourself the headache and make sure your project is properly resourced at the outset. Which brings us to…

Qualifying for Financing

A solid business plan and a permit have little bearing on your ability to get financed. In most cases, you'll also need:

- A record of successful business operation going back at least three years
- An outstanding credit score (680-700 at a minimum)
- A clean credit history (no recent foreclosures, bankruptcies, etc.)
- A substantial cash down payment with a loan-to-cost ratio[5] of around 70–80% (this will become your initial equity)

Here again, a little self-appraisal going into the process is key. Any time you're talking about a loan this size, lenders need some strong assurances. If you don't have a business background or have a middling credit score, expect a rocky road to self-storage nirvana.

Finding Investors and Partners

If financing isn't an attractive option or will leave you with a shortfall, and you aren't willing or able to invest your own money into the project, consider gathering some investors. Here are just a few additional sources of capital:

- Friends and family
- Government agencies
- Self-storage developers
- Angel investors/angel groups
- Venture capital firms
- Corporate investors
- And many more[6]

Remember, your financing can come from multiple sources. For example, you can take out a construction loan for the building but secure other startup financing through private investors. Be creative, be open-minded, seek good advice, and build a financing package that's right for you.

POST-APPROVAL SELF-STORAGE CHECKLIST

There are many, many steps to developing a self-storage business. Knowing what they are going in, and how much work is involved, will help you enter this new venture with your eyes open.

Once you have done your research, laid the groundwork, jumped through all the hoops, here's what comes next. Note that this is all BEFORE you get a permit.

- ☐ **Pre-purchase offer/Letter of intent**
  This ties up the land so no one can swoop in and take it.

- ☐ **Feasibility Study Step 1 (market analysis)**
  Once the land is tied up, hire someone to conduct a detailed market analysis. This will supplement or replace the early research you've done using data you probably don't have access to. This will include base architectural drawings.

- ☐ **Hire an architect**
  Start with base architectural drawings in feasibility study step 1. Once you have approvals, do the full plans. They will handle site plan work, help identify where the buildings or building can fit, identify what type of unit mix is best for the proposed size of the building, and much more.

- ☐ **Feasibility Study Step 2 (financial modeling/performance projections)**
  If feasibility step one comes back with a green light, move to step 2 of the study using the construction set provided by the architect.
  - ☐ Improve unit mix from architect using market study
  - ☐ Estimate gross potential rent
  - ☐ Model out lease-up curve until hitting 85–90% occupancy. A lease-up period is the time between your announced launch and a target occupancy, sometimes called absorption. The time span will vary depending on your market.
  - ☐ Expense assumptions
  - ☐ Internal Rate of Return — is it acceptable?

- ☐ **Turn the construction set and plans to general contractors for bids**

- ☐ **Choose general contractor**

- ☐ **Pre-construction vendor decisions**
  - ☐ Security cameras - cover all access points, the whole facility?
  - ☐ Alarms
  - ☐ Gates
  - ☐ Access control systems both for facility access points and automated unit access.
  - ☐ Signage
  - ☐ Hallways
  - ☐ Doors
  - ☐ Flooring
  - ☐ Lighting
  - ☐ Tenant insurance provider
  - ☐ Retail products and provider
  - ☐ PMS (property management software)
- ☐ **Pre-opening marketing activities (3-6 months prior to opening date)**
  - ☐ Website
  - ☐ Promotions
  - ☐ Direct mail
  - ☐ Online aggregators
  - ☐ Pre-opening signage
  - ☐ Make reservations before opening
  - ☐ What do you call it? Should you leverage an existing brand? How important is a great name?
  - ☐ Social media campaigns
- ☐ **Land Purchase**
  You should feel confident in your "pro forma" prior to the end of feasibility. But don't close on land until the project is approved if you can. Now you know how much it's going to cost and what products you will need to pay for/have in place before you open. With approved permits, an approved loan, and a complete feasibility study, you're free to pull the trigger on land and loans.
- ☐ **Work with the general contractor on timing**
- ☐ **BUILD BUILD BUILD**
- ☐ **Purchase/write a store-operations manual**
- ☐ **Hire a manager and begin training**
- ☐ **Implement pre-opening products and marketing efforts**
- ☐ **Obtain a certificate of occupancy from your local government**
- ☐ **Open and begin moving people in**

SUMMARY

If you've ever built and opened a business, there's not much about opening a self-storage facility that will surprise you. The large footprint can sometimes make location a challenge, and the amount of capital needed can be intimidating if you've only been involved with smaller projects.

But people do it all the time, and for good reason. Self-storage facilities have low overhead, a relatively small staff, and require little maintenance. Minimal wear and tear means that a well-built facility can be in operation for several decades at a stretch, resulting in a very compelling ROI. And unlike many new businesses, they don't necessarily require you to babysit them for several years while they get their footing. As long as you do your homework beforehand, carefully select your location, and get the word out, there's not a great deal of selling involved either.

As long as people have stuff they don't have room for and rarely need to access, self-storage will continue to be a relevant and viable business over the long term.

ENDNOTES

1 Self-Storage Almanac 2019, https://www.ministoragemessenger.com/product/preorder-2019-self-storage-almanac/

2 Rolfe, Frank, "How to Buy a Self-Storage Facility Properly," https://www.selfstoragesuniversity.com/articles/how-to-buy-a-self-storage-facility-properly.php

3 McIntyre, Georgia. "The 17 Types of Business Loans: Your Ultimate Guide," updated Nov. 8, 2019. https://www.fundera.com/business-loans/guides/types-of-business-loans

4 Wood, Meredith. "Commercial Loans: 7 Best Options All in One Place," updated Nov. 3, 2019. https://www.fundera.com/business-loans/guides/commercial-loans

5 Hayes, Adam. "Loan-to-Cost Ratio (LTC) Definition," updated April 8, 2019. https://www.investopedia.com/terms/l/loan-to-cost-ratio-ltc.asp

6 Crunchbase staff. "Glossary of Investor Types," updated Oct. 2019. https://support.crunchbase.com/hc/en-us/articles/115010624128-Glossary-of-Investor-Types

ABOUT STORELOCAL

Storelocal offers convenient, affordable self-storage with the modern customer in mind. We believe that self-storage is more than just a place to keep your belongings. A great self-storage experience offers user-friendly technology, exceptional customer service and storage unit options designed to fit your needs. Whether you're a college student looking for climate-controlled storage that will keep your stuff cool during summer or you're an RV owner in need of the most secure indoor storage in your area, we've got you covered. From online reservations to the moment you're rolling up the door on your storage unit, we've here to make your self-storage experience the best it can be.

Visit www.selfstorage.coop for details.