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## INSIDE SELF-STORAGE WORLD EXPO

**SMART SOLUTIONS  
FOR A CHANGING WORLD**

**July 13-16, 2021**

The Mirage | Las Vegas  
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# Digging Into Market Data: Going Beyond the Self-Storage Feasibility Study

**Presented by:**

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# The Present Condition

- Self-storage markets are overbuilt.
- Operators are more sophisticated than ever.
- Margins are tightening. Caps rates are compressed.
- NOI and cash flow on new deals are often elusive.

**Is a typical market report or feasibility study enough?**

# How Do We Proceed?

## Should we change our approach?

- Look at more data.
- Look at data from different perspectives.
- Be a contrarian.
- Look beyond the data.
- Check yourself for data bias.

# What We'll Cover

- Go beyond the feasibility study. Look deeper.
- What really is your market? Who is your competitor?
- Look at things from different perspectives.
- Doubt your findings and know your data biases.
- Some other factors to consider in looking at deals.
- Run multi-faceted projections.

# Beyond the Feasibility Study

## What is a typical feasibility study?

- Financial projections
- Competitor analysis
- Market study
- Location analysis
- Determine the likelihood of success
- Road map for the developer/buyer
- Reassurance for investors and lenders

# It Used to Be Enough

- Buy at an 8 cap with your expenses and add 10% to income within 60 days
  - Or build new with a 20-month lease-up
- 
- 5 SF of storage per person in a 50,000-person market
  - \$1.50 a month per SF rental rates



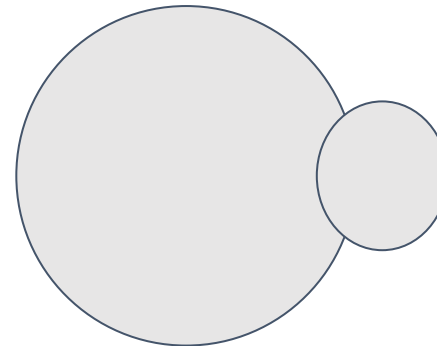
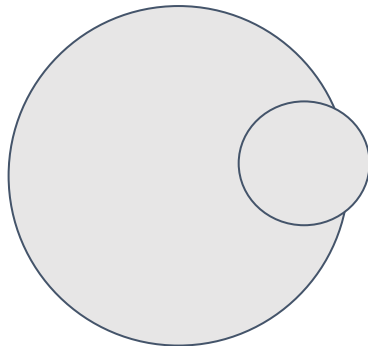
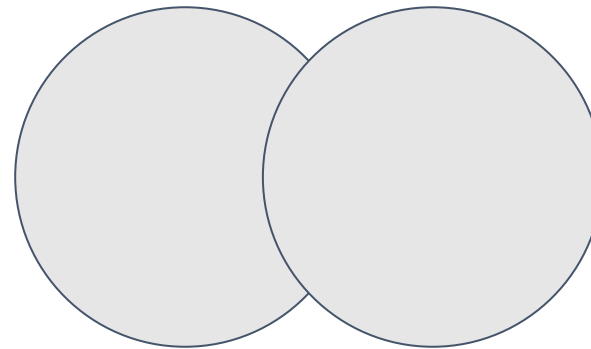
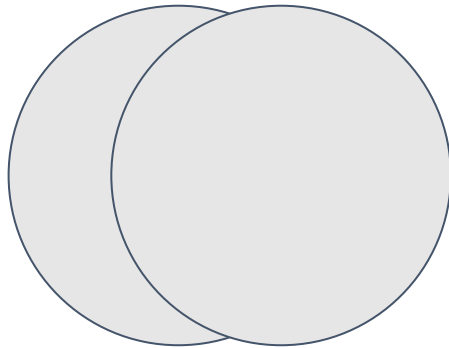
# Go Beyond the Feasibility Study

- What is the drive-by experience?
- Scout out local businesses.
- What do local homes look like?
- Is the location as good as you think it is?
- Can you get curb appeal?
- What are the traffic patterns?

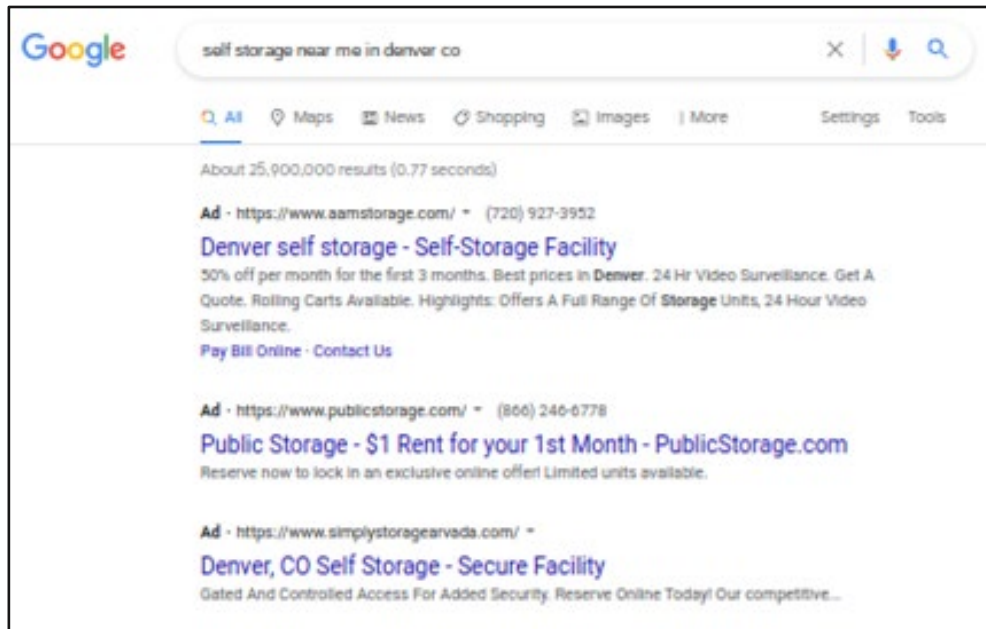
**Big data + small data!**



# Overlay the Digital and Physical Markets

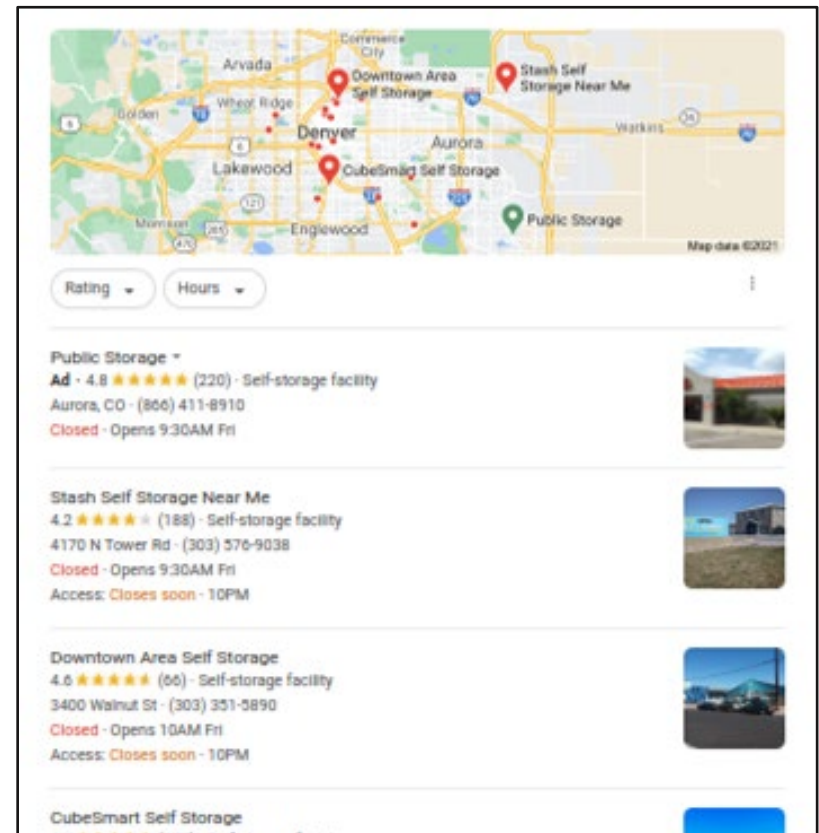


# Digital Markets Are Tough



Google search results for "self storage near me in denver co". The search bar shows the query and the Google logo. Below the search bar, there are navigation options: All, Maps, News, Shopping, Images, More, Settings, and Tools. The search results show "About 25,900,000 results (0.77 seconds)". Three ads are visible:

- Ad** - <https://www.aamstorage.com/> \* (720) 927-3952  
**Denver self storage - Self-Storage Facility**  
50% off per month for the first 3 months. Best prices in Denver. 24 Hr Video Surveillance. Get A Quote. Rolling Carts Available. Highlights: Offers A Full Range Of Storage Units, 24 Hour Video Surveillance.  
[Pay Bill Online](#) - [Contact Us](#)
- Ad** - <https://www.publicstorage.com/> \* (866) 246-6778  
**Public Storage - \$1 Rent for your 1st Month - PublicStorage.com**  
Reserve now to lock in an exclusive online offer! Limited units available.
- Ad** - <https://www.simplystoragearvada.com/> \*  
**Denver, CO Self Storage - Secure Facility**  
Gated And Controlled Access For Added Security. Reserve Online Today! Our competitive...



Google Maps search results for "self storage near me" in Denver. The map shows several storage facilities marked with red pins. Below the map, there are filters for Rating and Hours. The search results list the following facilities:

- Public Storage** - **Ad** - 4.8 ★★★★★ (220) - Self-storage facility  
Aurora, CO - (866) 411-8910  
Closed - Opens 9:30AM Fri
- Stash Self Storage Near Me**  
4.2 ★★★★★ (188) - Self-storage facility  
4170 N Tower Rd - (303) 576-9038  
Closed - Opens 9:30AM Fri  
Access: Closes soon - 10PM
- Downtown Area Self Storage**  
4.6 ★★★★★ (66) - Self-storage facility  
3400 Walnut St - (303) 351-5890  
Closed - Opens 10AM Fri  
Access: Closes soon - 10PM
- CubeSmart Self Storage**

# Poke the Projections

- Acquisition and partnership costs
- Construction/renovation/conversion/upgrade/repair
- Get real about rental rates.
- Lease-up is a grind.
- Forward-looking income and expense increases
  - Why 5 and 2?
- Financing terms and more terms
- Returns, distributions, capital events

**Many exit plans!**

# What Is Your Product Type?

- B&B
- Airbnb
- Hostel
- Campground
- Bargain motel
- Business motel
- Basic hotel
- Full-service hotel

# With Which Do You Compete?

- Old, first-generation drive-up
- Shiny and new drive-up
- Portables only
- New multi-story
- Looks like a Walgreens or a Lowe's
- Refreshed drive-up
- Vintage swing doors
- Nice new roll-up doors
- Old industrial conversion
- Newer big box conversion

**Are they the same in the digital world?**

# Can You Believe Pricing?

- Web rate, phone rate, walk-in rate
- Are the promos what the promos appear to be?
  
- IP and session-identity markers flag your web searches.
- Caller ID or blocked caller ID sends signals.
- In-person shopping is tricky.
- Scrapers are just machines.

**What rate can you get? What works on paper?**

# What Strategies Do Competitors Use?

- Keep it full and don't worry.
- Price pusher
- Follow the leader.
- Yield management wizardry
- Others?

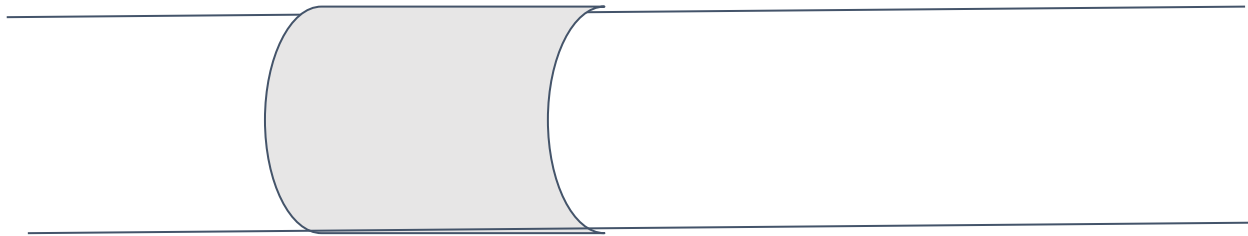


# Where Are You on the Sliding Scale?

A Little

In the Middle

A Lot



- Employee turnover
- Hassle factor
- Management intensity
- Complaining customers

# What Is the Market Area?

## Physical:

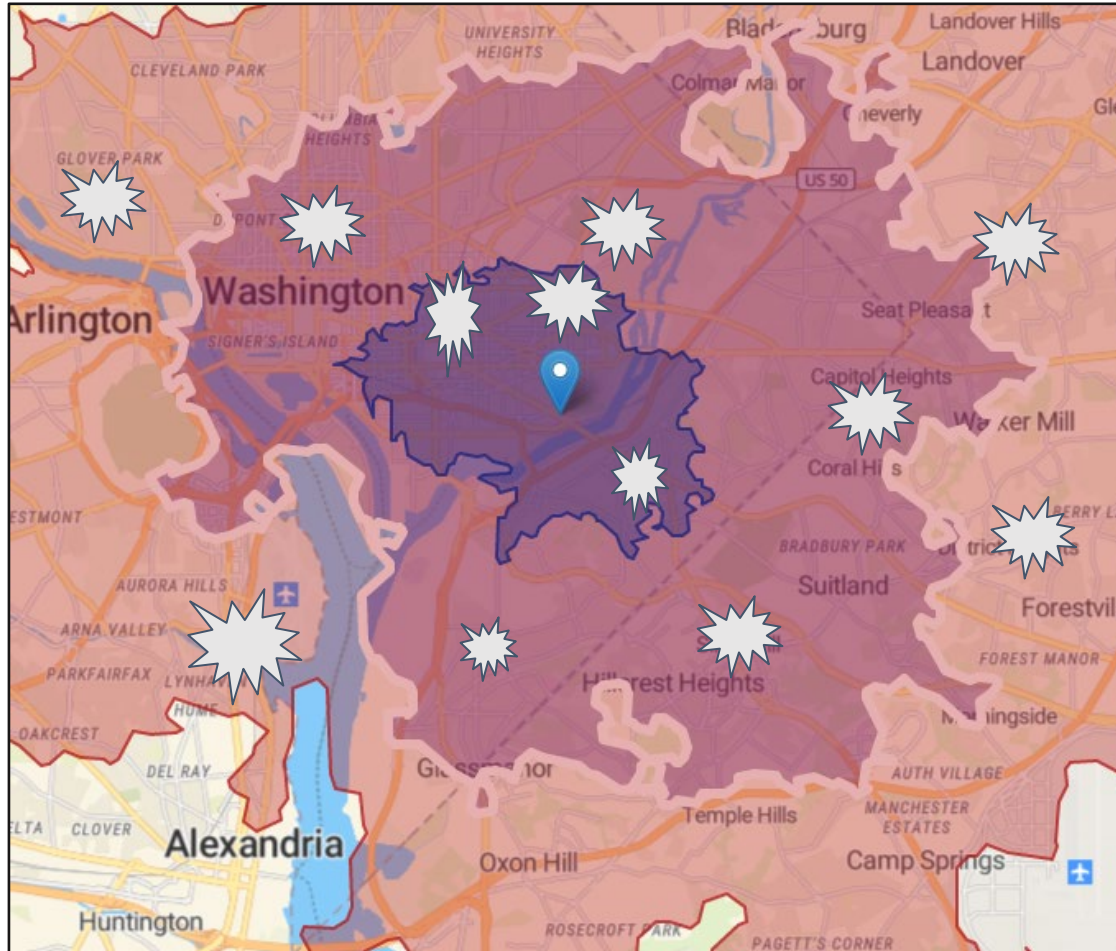
- Drive time
- Perceived borders
- Neighborhood exclusions
- Ease of getting to the location
- Visibility

## Digital:

- Ad stack
- Local pack
- Social channels
- Google My Business
- Lead generators
- Valet or peer-to-peer

How many people in this area do you appeal to?  
(Demographics beyond age and income)

# How Do You Factor Competitors?



# Pick a Few Perspectives to Explore

- **Big player:** Zero cost of capital, plus infinite returns
- **Syndicator:** Return guarantees, upcoming capital events, operating overages, financing hurdles
- **Private equity:** IRR targets, deal models, pipeline, deployment
- **Cap-rate buyer:** Buy at an 8 cap, raise rents, call it a 6.5
- **Flipper:** Find a distressed site, sweat some equity, cash out
- **Little but big courage:** A career's worth of savings and investment to devote to one good deal
- **Cash-flow buyer:** Not too much leverage, cash on cash
- **Merchant developer:** Get them built, get them sold
- **Who else?**

# Plan Your Exit

- At every step of the continuum, have a planned exit.
- Failure is always an option.
- Plan B, Plan C and Plan D should look good enough that it really doesn't matter if Plan A works out.
- Have your exits in your pro formas.

# Doubt Your Findings

- The more eyes on a deal the better ... if you know the perspective of the people helping you scope out a deal.
- It is way too easy to find reasons to kill a deal.
- It is way too easy to make a deal look good on paper.

# We're All Suckers for Data Bias!

- **Confirmation bias:** You look for data points to support the result you want.
- **Acquiescence bias:** Everyone you talk to is so nice and encouraging because they don't want to discourage you, so you get overconfident.
- **Culture or experience bias:** You look at everything through eyes colored by your experience or upbringing.
- **Halo effect:** One thing looks so good that all the negative stuff doesn't seem that important.
- **False causality:** Just because two things are in the same realm, doesn't mean they have a cause/effect relationship.
- **Availability bias:** You only consider what is easily available.

# Other Items to Consider!

- Likely pitfalls
- Market power or position
- The special-sauce recipe
- Data you might not normally consider



# Nasty Pitfalls

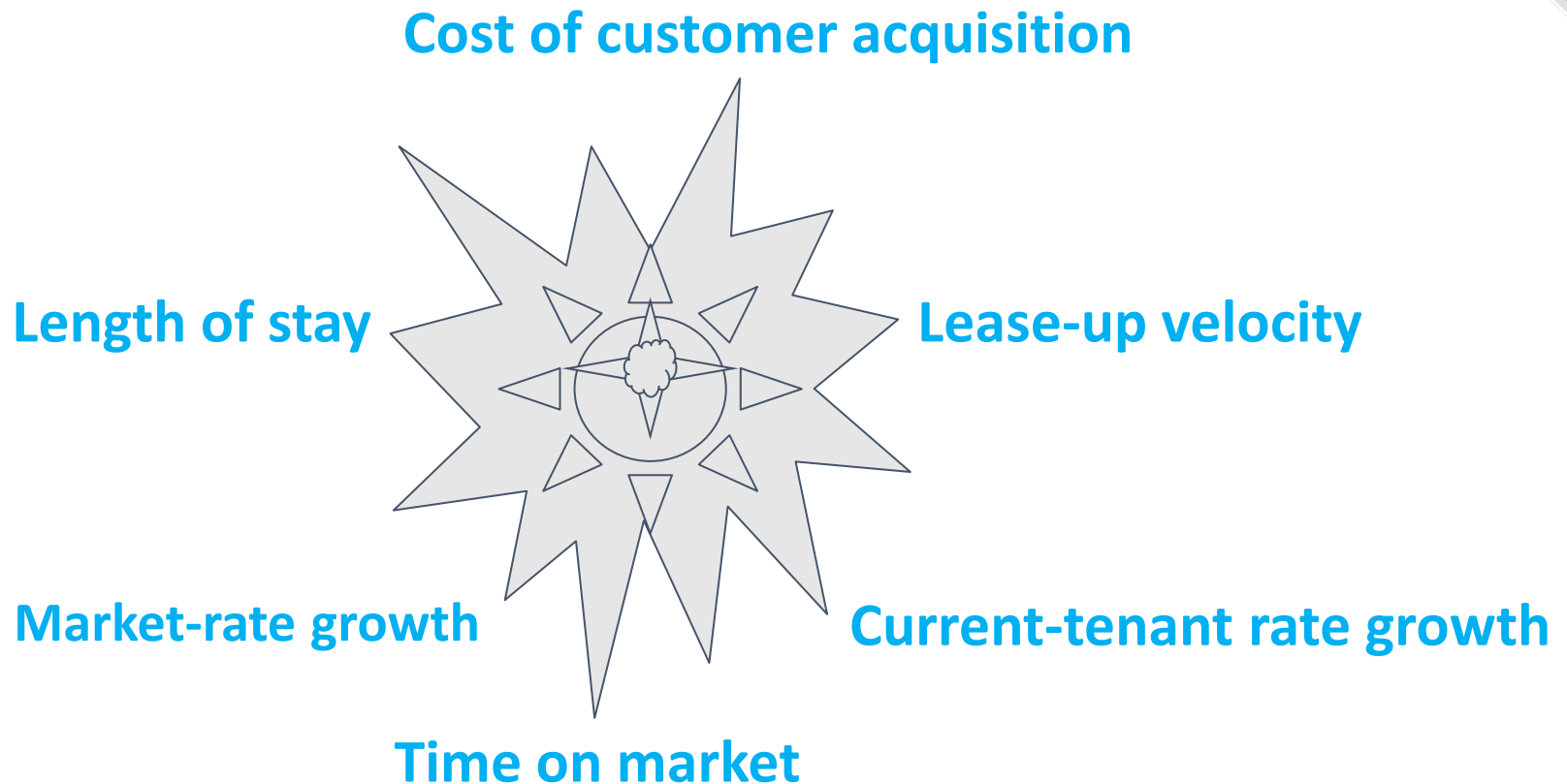
- Real estate tax
- Roofs
- Drive aisles
- What you can't see
- Drainage and flooding
- “Sweater pulls”
- Market rental-rate ceilings (demand destruction)

# Market Power

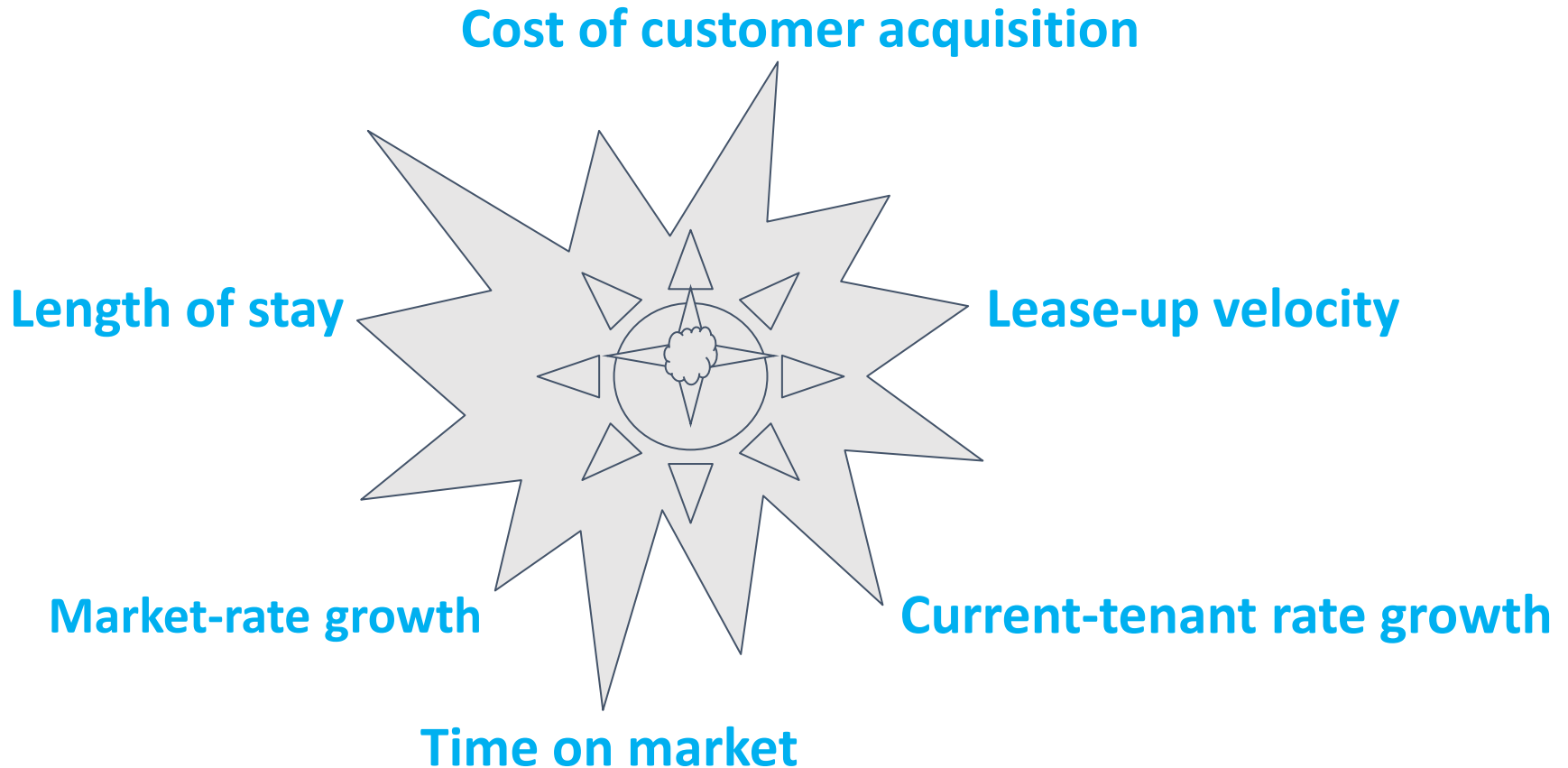
- **Strong market power:**
  - Do what you want.
  - Manage against your performance and to your goals.
- **Weak market power:**
  - You must manage to competitors' pricing, promos and strategy.
- Either can create robust NOI and strong cash flow.

**Which are you? Which competitors are which?  
How do these variables impact your analysis?**

# The Secret-Sauce Recipe



# Factor by Market Rates and Power




# You Can Grow Yourself Broke

Cost of replacement		lifetime value 12 mo length	lifetime value at 24 mo (5% in)
prior tenant rent + ins	\$112.00	\$1,344.00	\$2,822.40
new tenant			
new rent + ins	\$122.00	\$1,211.75	\$2,822.15
vacant rent	\$61.00	how many months vacant?	0.5
cost of acquisition	\$191.25		
	\$252.25	TTI cost of replacement	

A \$12 market-rent increase created a loss of \$132.25 by month 12 for the new tenant.



# Data You May Not Know But Might Like to Know

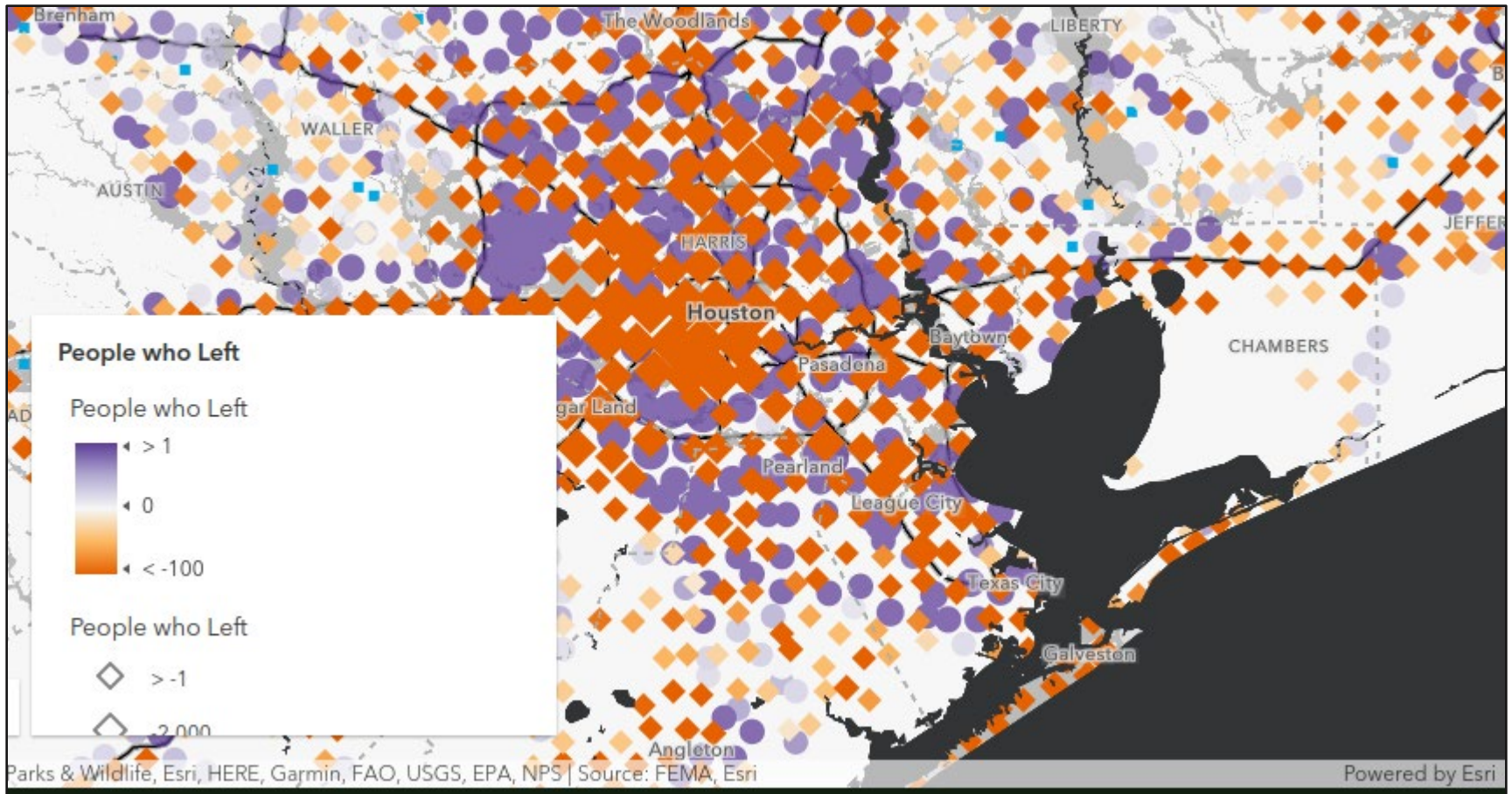


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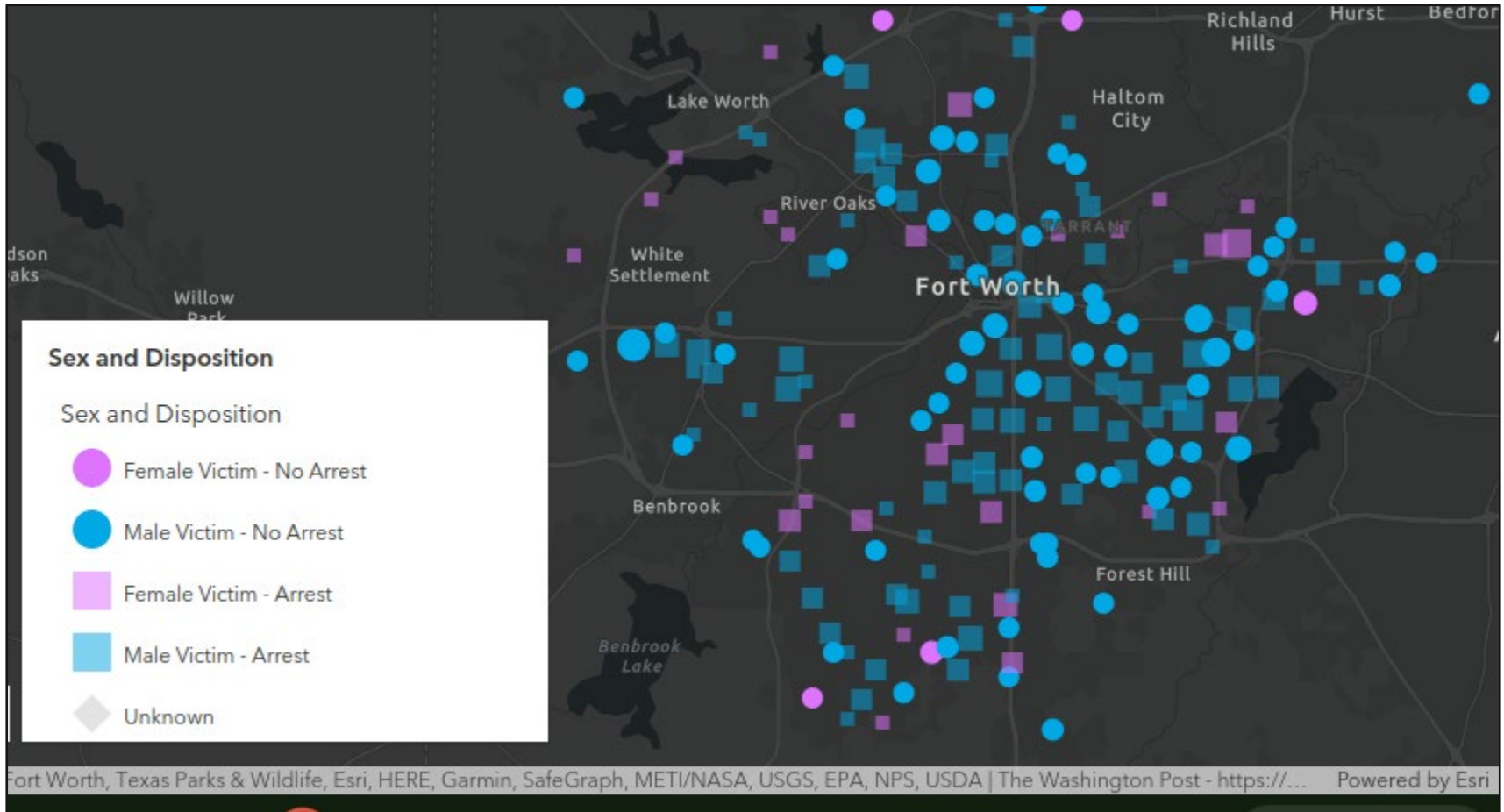
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# Who Left During Hurricane Harvey?

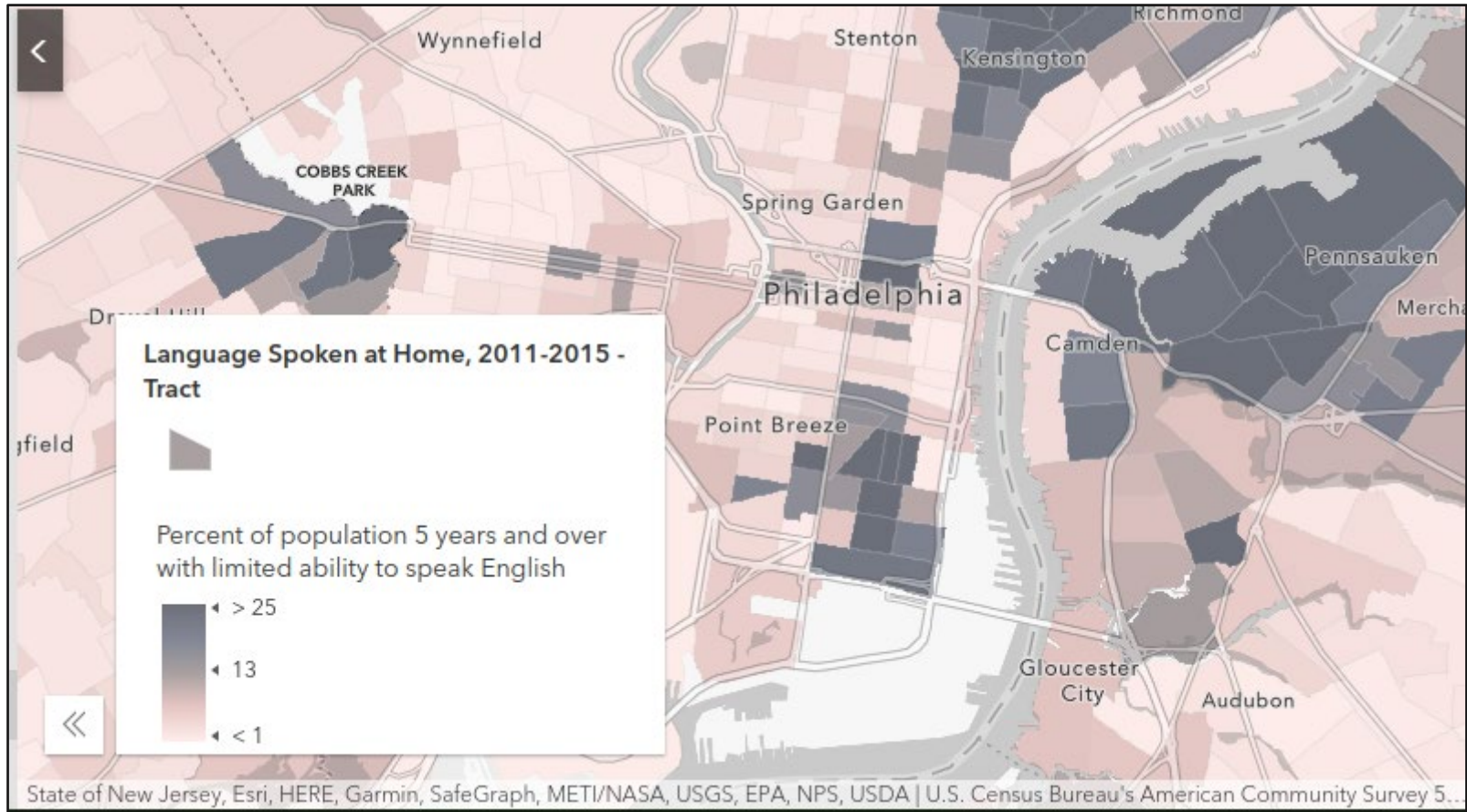


# Homicide Patterns

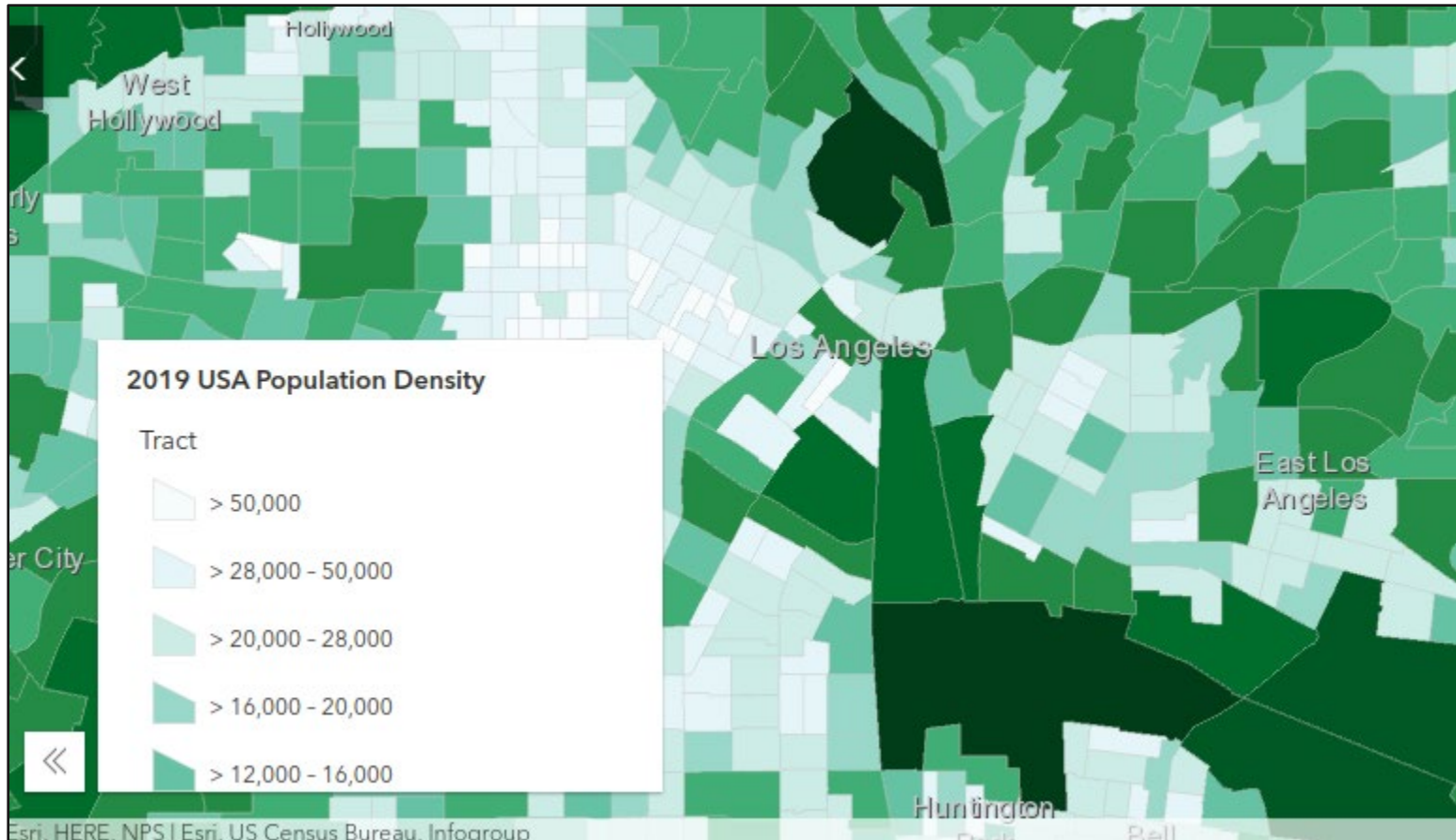




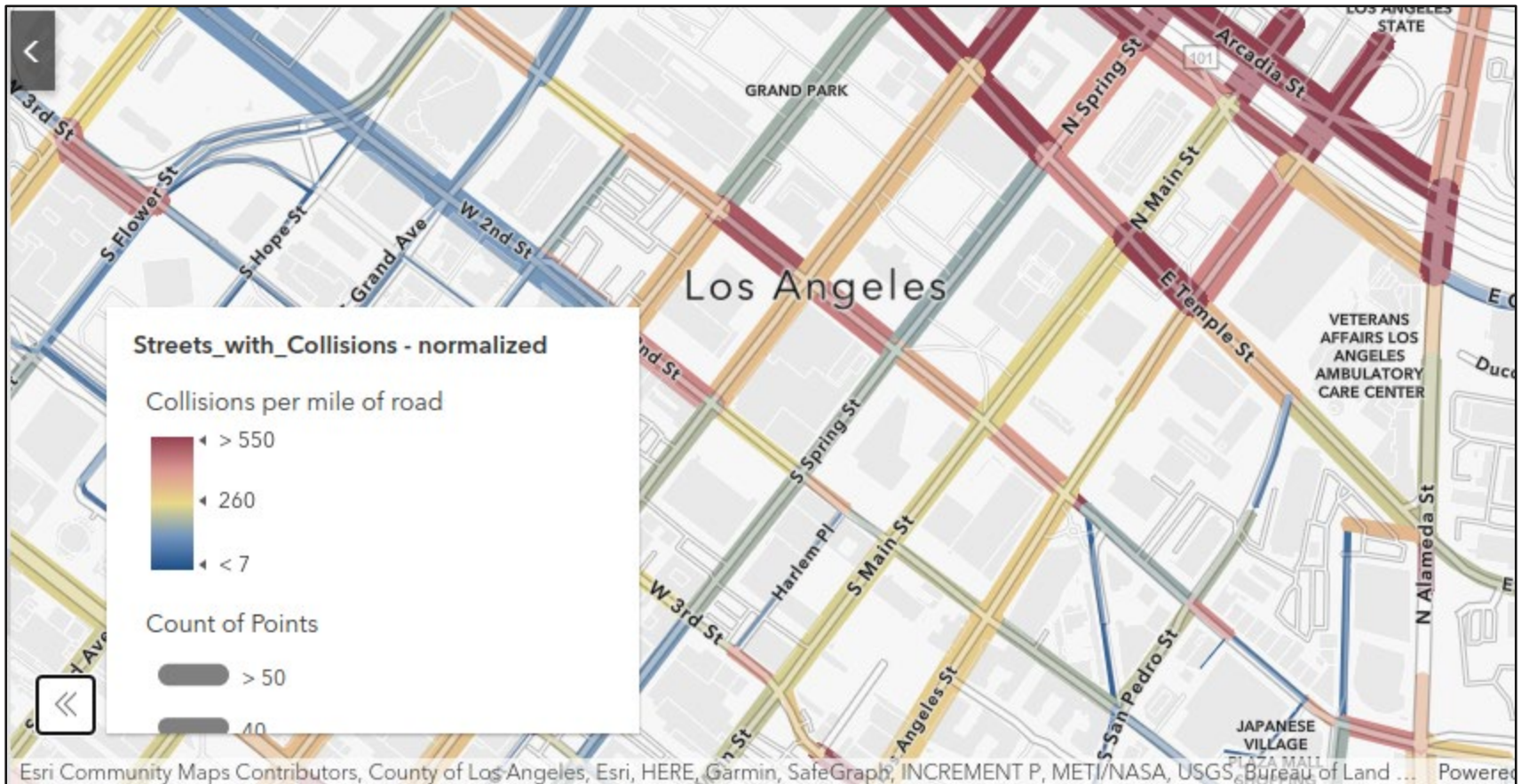
# Limited English Ability



# Population Density

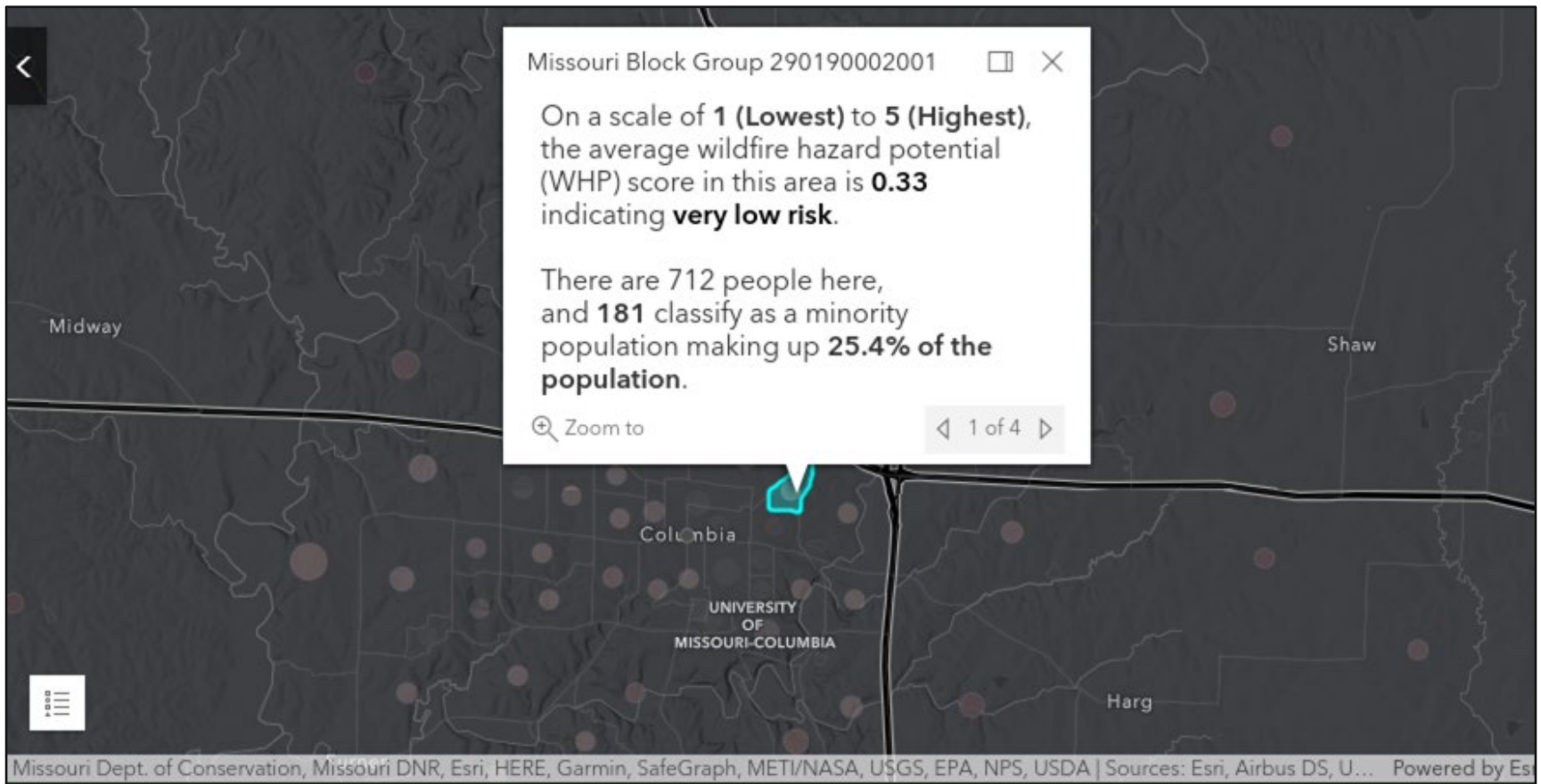


# Collision Hotspots

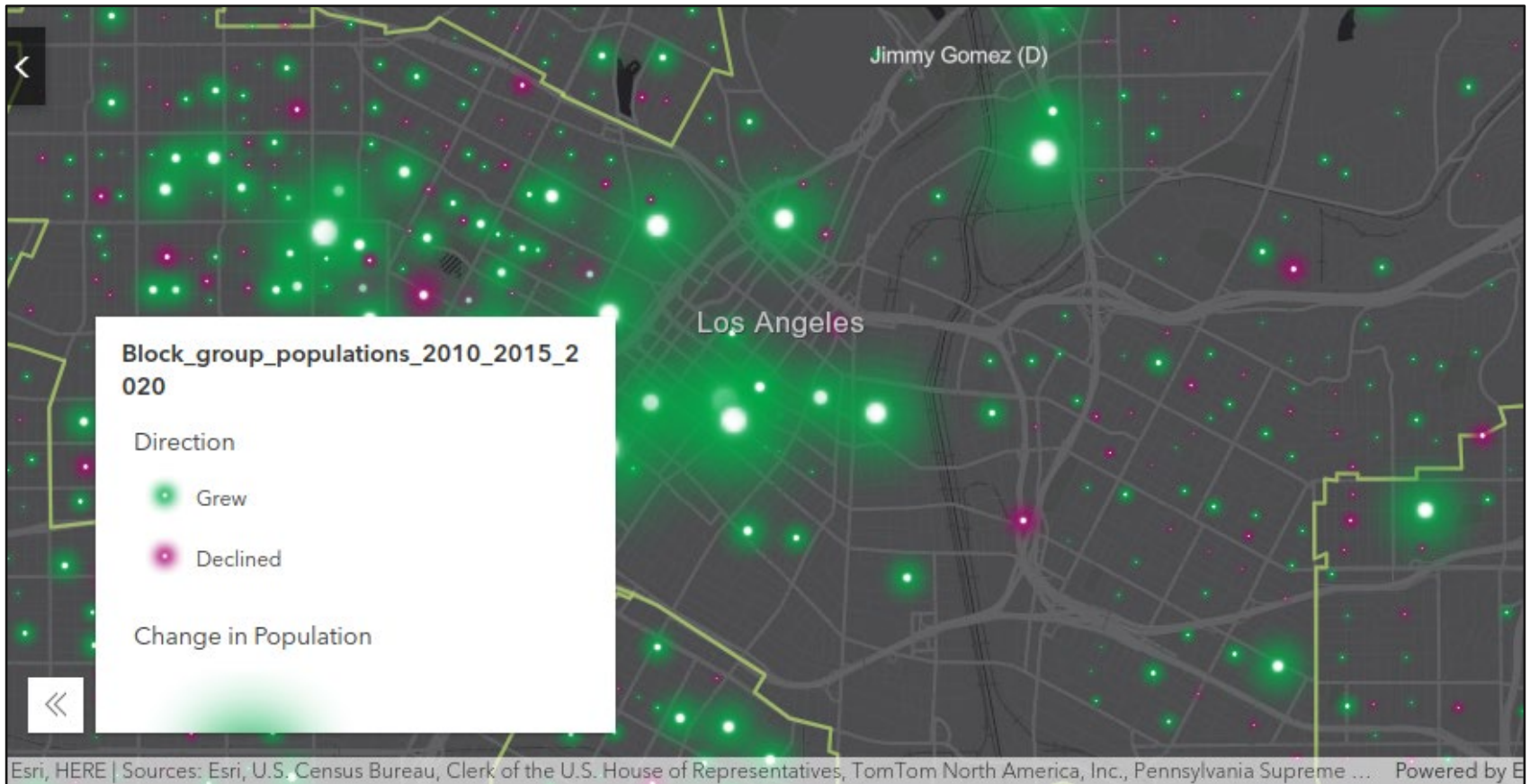




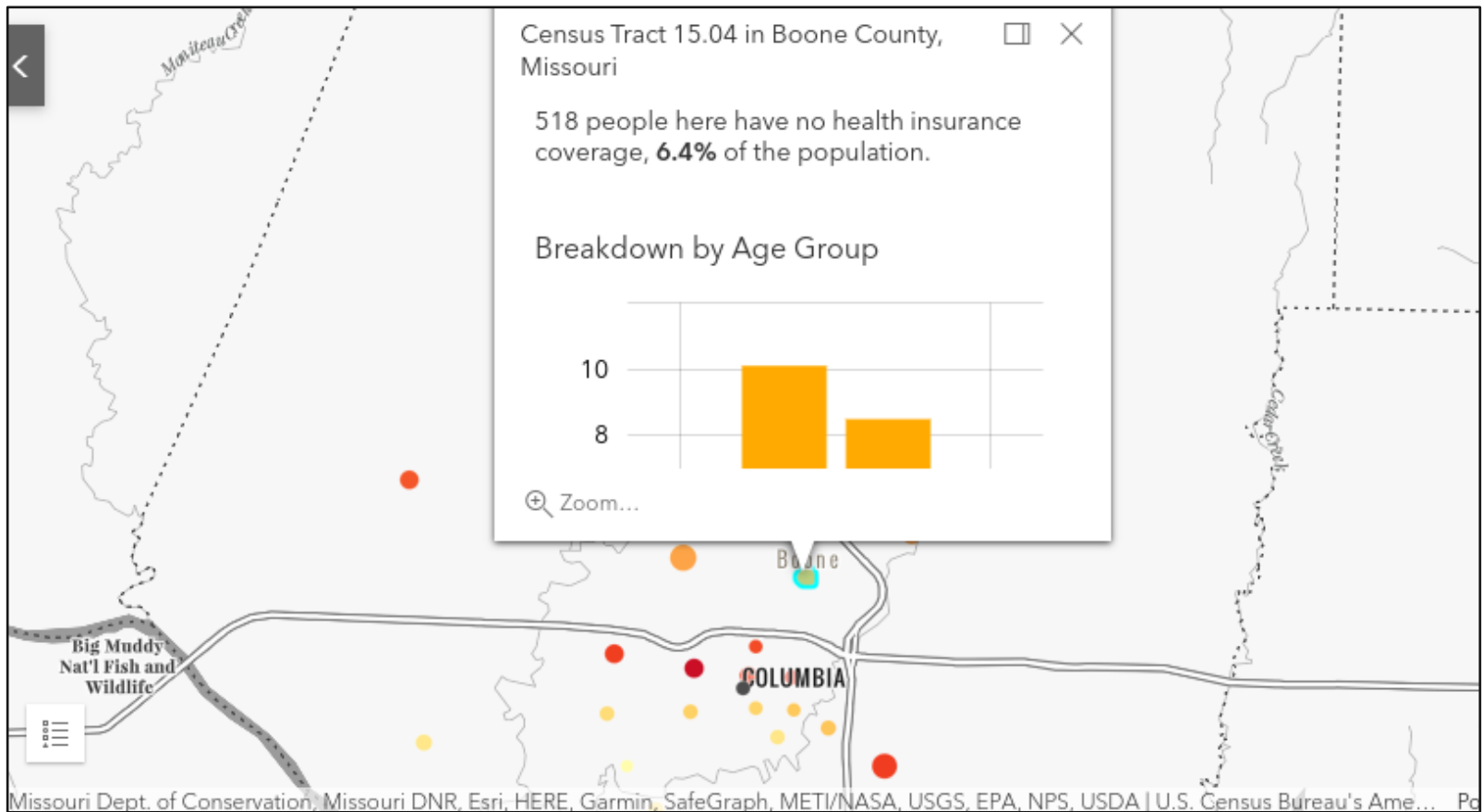
# Wildfire Hazard and Minority Populations



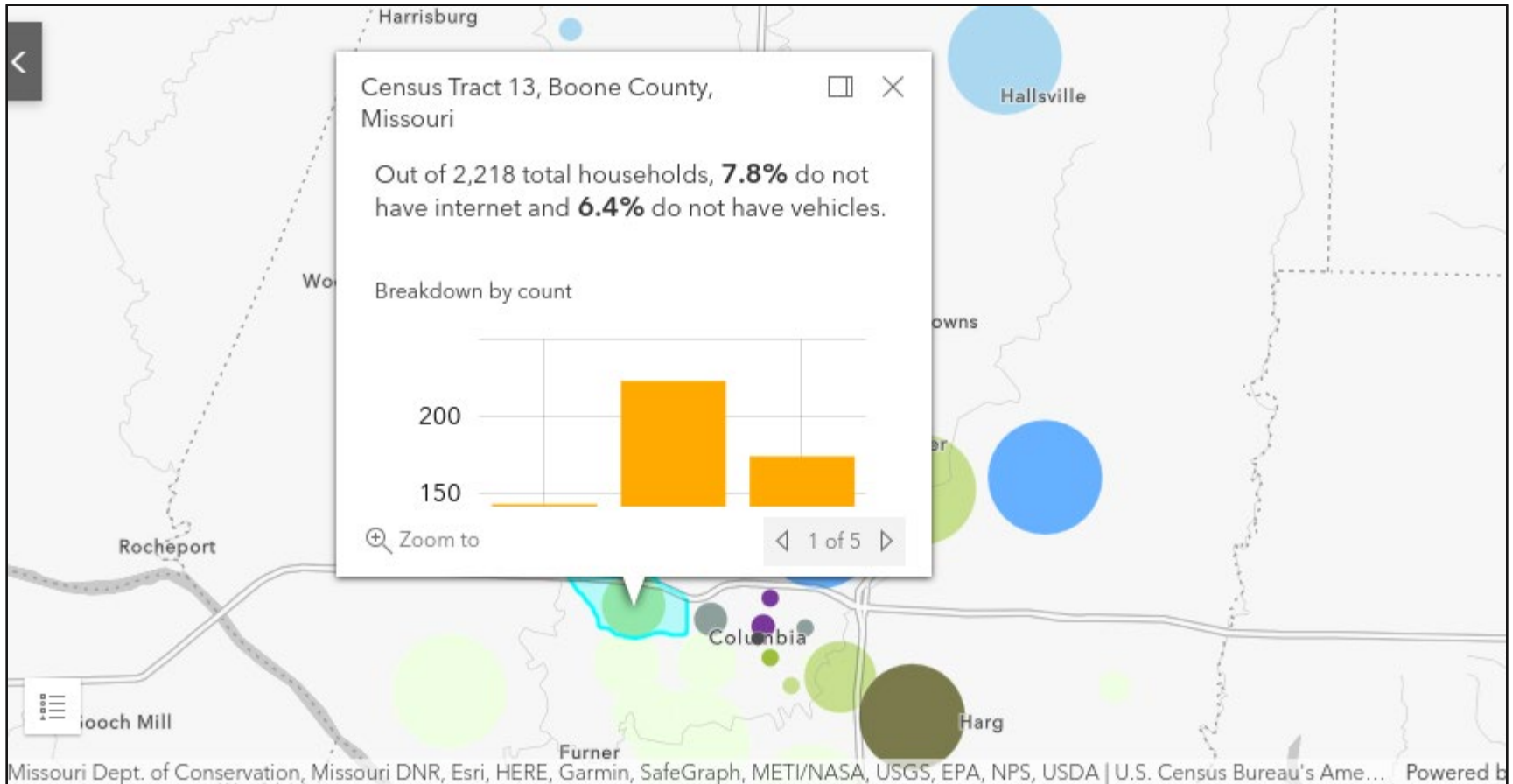
# Population Growth and Decline in Congressional Districts



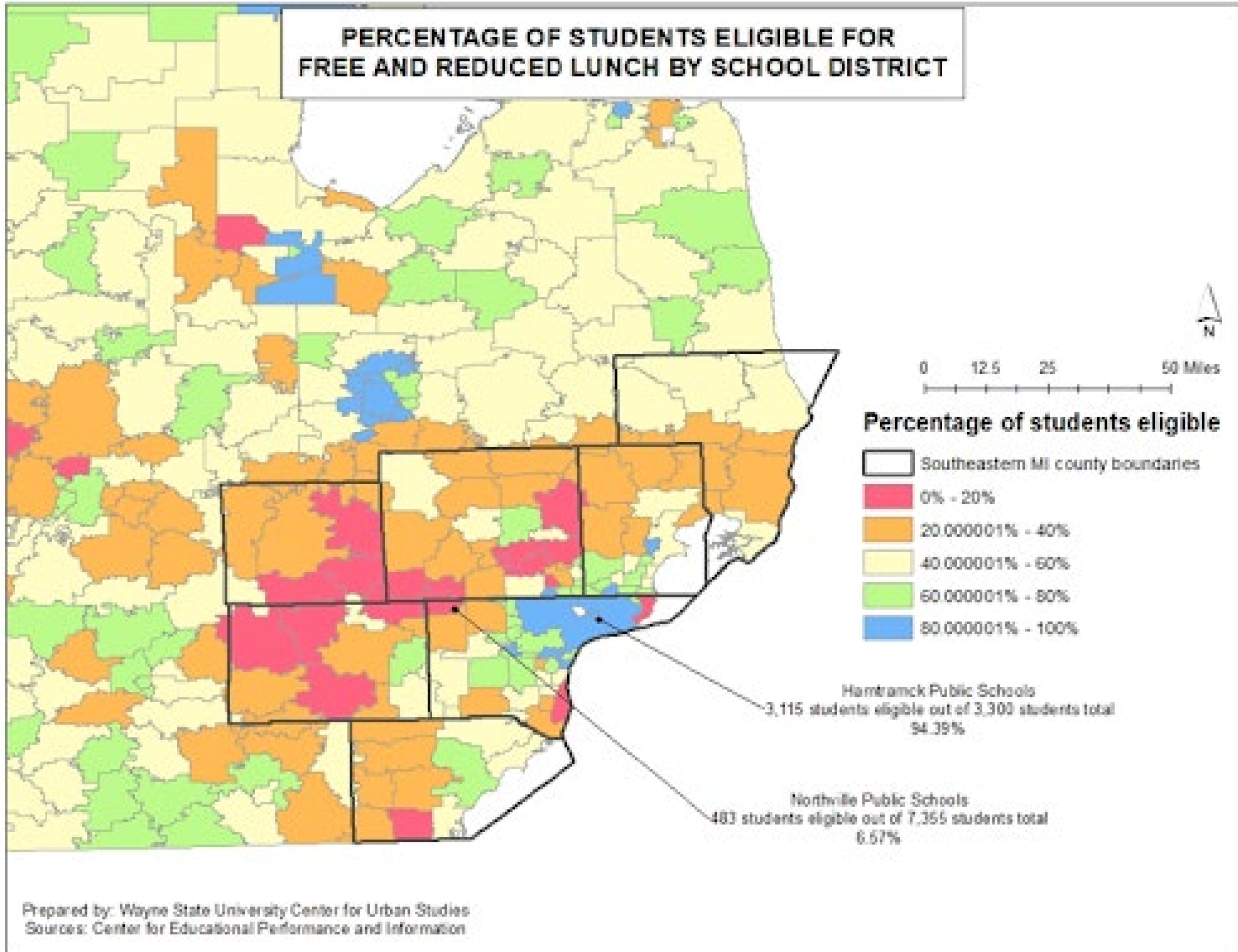
# Percentage of People With No Health Insurance



# No Internet and No Vehicle



# PERCENTAGE OF STUDENTS ELIGIBLE FOR FREE AND REDUCED LUNCH BY SCHOOL DISTRICT

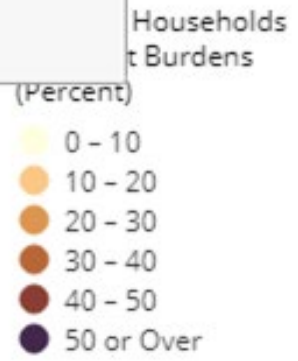
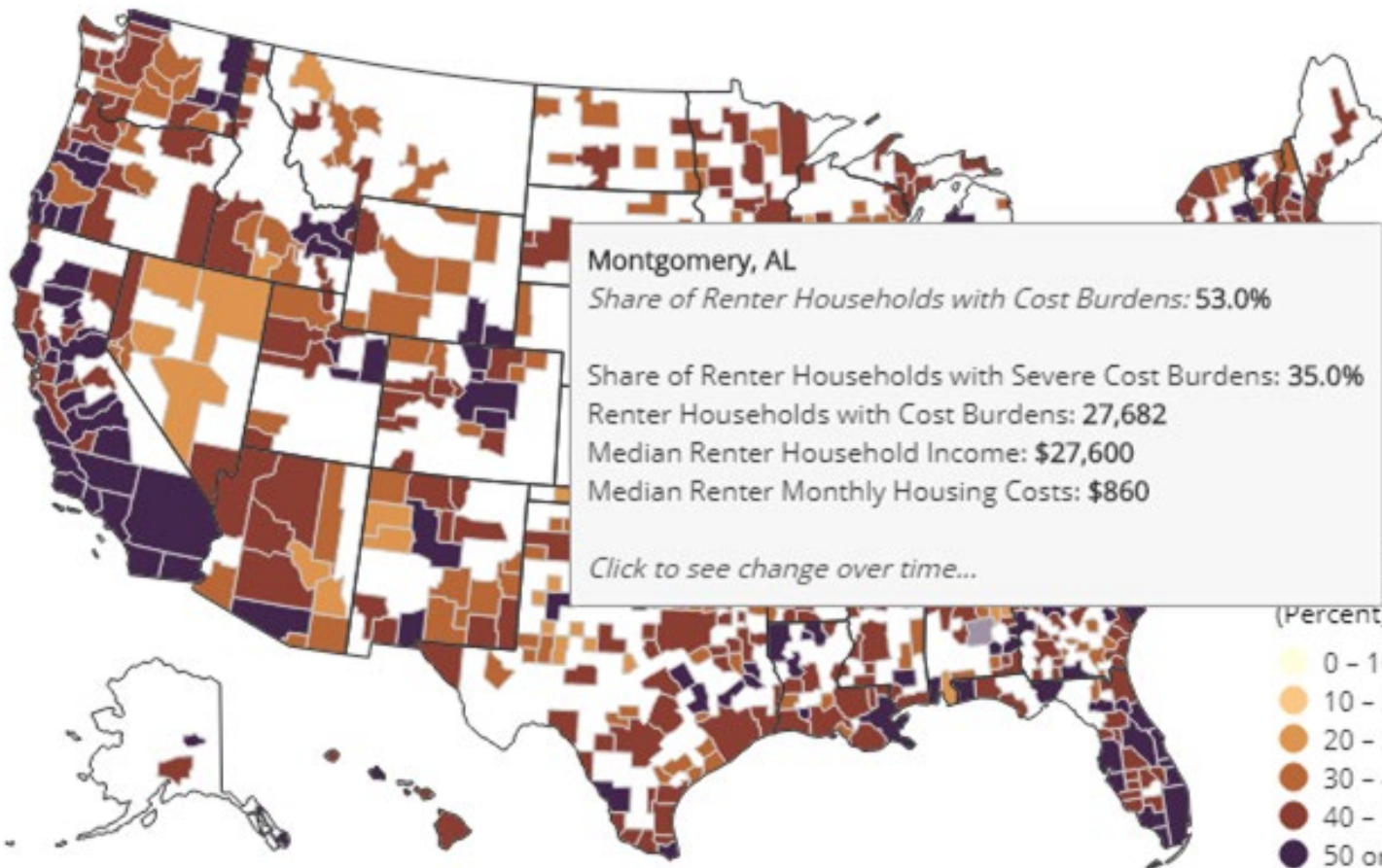




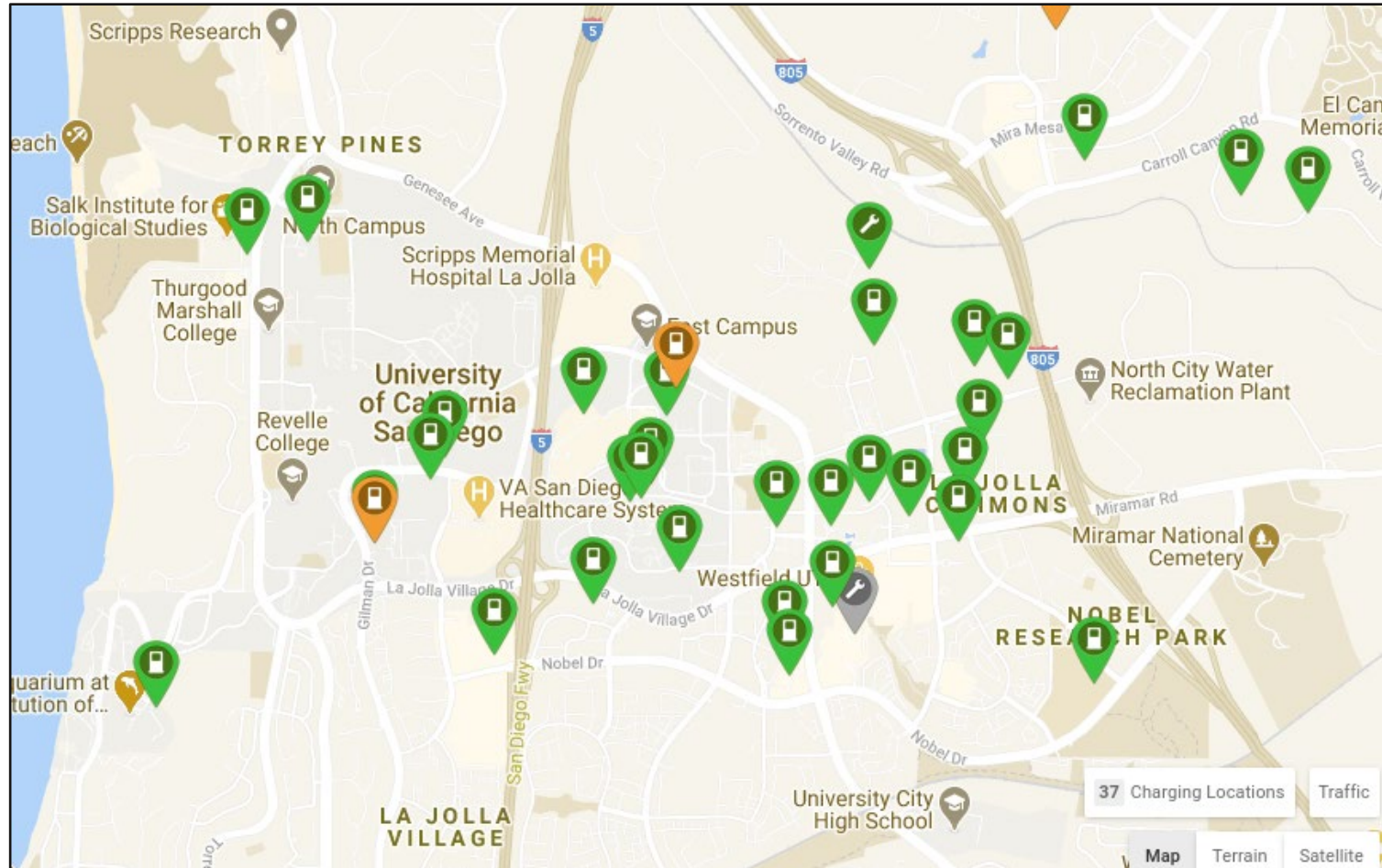
## Select a household type:

- Cost-Burdened:  All Households  Renters  Owners  
Severely Cost-Burdened:  All Households  Renters  Owners

≡ Export



# EV Charge Stations



# Build Multi-Faceted Projections

## Some levers that impact projections:

- Cost changes in construction/reno/conversion/upgrade
- Rental rates
- Vacancy rates
- Net rentals (lease-up velocity)
- Real estate tax
- Maintenance and repairs
- Payroll (how does it impact income?)
- Marketing and technology
- Self-service tools
- Financing and carry costs



# Build as Many Scenarios as You Can

- Where do they fall on the scale? What is likely?
- What is your risk tolerance?

Won't work

Might work

Works

Works well



**How biased are you to the result?**

# What We Covered

- Go beyond the feasibility study. Look deeper. Look wider.
- What really is your market? Who is your competitor?
- Look at things from different perspectives.
- Doubt your findings and know your data biases.
- Some other factors to consider in looking at deals.
- Run multi-faceted projections.

# Dig Deeper Into Market Data

- Be curious.
- Be a data student.
- Be a student of consumer behavior.

# Go Beyond the Feasibility Study

- Build scenarios.
- Test conditions.
- Assure yourself that you're coming to the correct decision for your investment goals and management approach.

**Good luck in all your projects!**







# Questions or Comments?



# Contact the Presenter



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