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BLEDSON SELF-STORAGE GROUP

Expansion of My Current Facility... Is the Risk Worth the Reward?

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A common topic that most self-storage owners consider over the life of their facility is whether or not they should expand their property. A property owner has a number of factors to consider prior to moving forward with a potential expansion. The most important questions that they need to solve for include; What is the current supply vs demand or SF per capita? Where are my renters coming from? How occupied is the competition? What direction are market rents trending? Is there future supply coming to the market?

Before even thinking about expanding, understanding the concept of market demand is essential. Some of the key market demand terminology that is important to understand when contemplating an expansion are square feet per capita, occupancy, historical market rental rates, and future supply. Let's break down each of these a little further below:

SQUARE FEET PER CAPITA

Square feet per Capita is a concept that is heavily used in self-storage. What we mean when we use this term is how much storage is in a rental market versus the population that lives there. Today, the national average for self-storage usage is approximately 11 SF per capita.

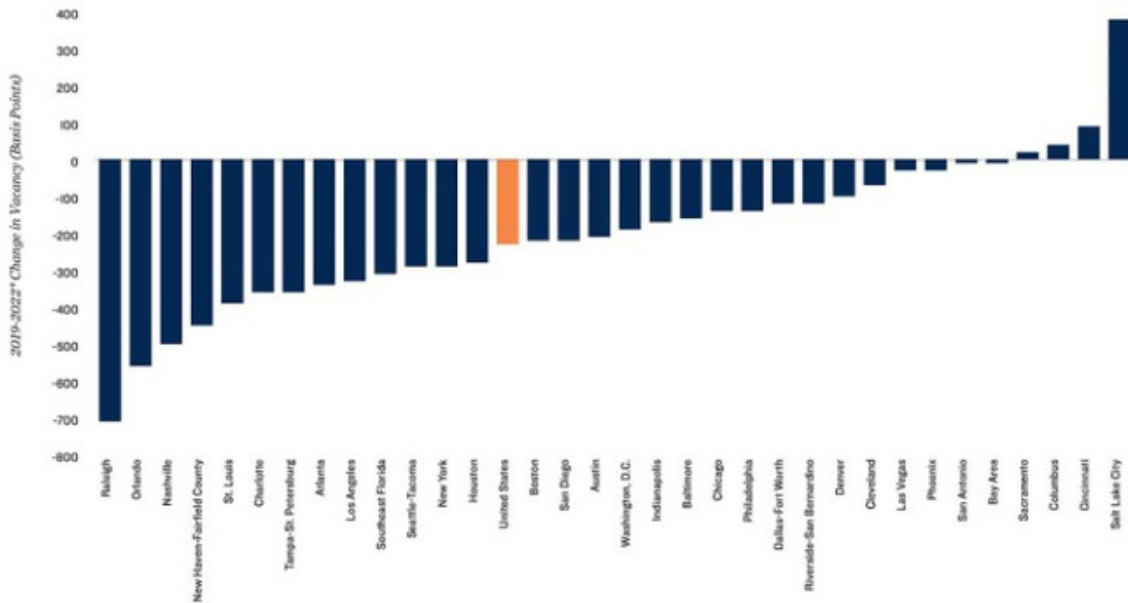
.A typical rental market lives within a 3–5-mile radius of a facility, dependent on population density. When considering a potential expansion, it would be favorable if current and future supply is below this 11 SF per capita threshold. Other things to consider for current and future SF per capita include; population trends, employment/employers, new housing builds and renters vs homeowners.

OCCUPANCY

After understanding SF per capita, it is then necessary to identify how highly occupied each facility is in a market. Determining the occupancy of your competitors can be a challenging endeavor, and sometimes a best guess scenario. If your competition has rental rates posted through their website, determining occupancy may be simple based on unit availability and specials being offered by unit size. However, determining the occupancy of competitors with less public information may require a visit to the site, or physically renting a unit to determine occupancy levels. Combining the current SF per capita, and backing it up with competitor occupancies, will help navigate this decision to expand your facility.

See the graph on the next page, which was provided from Marcus & Millichap's third quarter national self-storage report.

Vast Majority of Metros Sustain Historically Tight Vacancy



* Forecast

Sources: Marcus & Millichap Research Services; Radius; Yardi Matrix

HISTORICAL MARKET RATES

When reviewing market rents, you also need to consider historical rates in a market. For example, over the last 18 months have property occupancies remained consistently high? Has occupancy remained high, but street rates have been reduced by 20% to maintain occupancy? If your property has sustained high occupancy, your property is a price leader in the market and you're raising tenant rates consistently each year that would support the theory of an undersupplied market.

Conversely, if you're having to lower street rates, offer move in specials and reduce the frequency and amount of rental increases, then an expansion of your current footprint may not make sense. At this point you are checking the boxes on SF per capita, market occupancies, market rate trends and the path forward is beginning to become clear.

FUTURE SUPPLY

Understanding the current self-storage inventory in your competitive circle is important, but identifying future projects that may be built is equally as important in the equation. There are a number of great tech resources out there to assist with identifying self-storage projects that are in planning and permitting. Utilize the technology options in the market today to get started, but also verify new and upcoming development projects by calling local municipalities. Development projects in the pipeline are a major factor determining why you should or should not proceed with an expansion.

Having a feasibility study completed will not only help you determine the categories discussed above, but will allow you to stay informed of what is coming to your market. A great resource for anyone looking to monitor what is being built in their market is Radius+ or Stor-Track. While these programs may be expensive, many trusted advisors have access and can provide you with on-demand feasibility studies.

Understanding your self-storage market and its demand, or lack thereof, is vital when looking to expand. Familiarizing yourself with these terms/concepts and having a strong grasp on what they mean will go a long way in determining how successful your expansion will ultimately be.

Any member of the Bledsoe Self-Storage group would be more than happy to discuss any of the concepts mentioned with you and help guide and advise you in expanding your facility.

Sources:

Marcus & Millichap Research Services – September 2022 National Self-Storage Report