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You've probably heard this before - get back to the basics! Managing self storage in difficult times

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Anyone who owns or operates self storage knows even in good times it requires far more time, effort and intelligence than it appears to those on the outside. Now during this more difficult period of higher than normal unemployment, mortgage foreclosures affecting condo and home owners and low consumer confidence we must be even more focused on operations.

Clearly our business environment is changing. Many operators are reporting a reasonable level of rental inquiries for this time of year, except the majority are bargain hunters willing to spend more time shopping around. In spite of this fact new rentals are often described as "not too bad." However, move outs are on the rise. It's nothing too dramatic, more like a gentle but steady decline. But there is a cumulative effect. Lower occupancy will bring lower income.

This scenario suggests the following questions: Why are these people leaving? Where are they going? What can I do? Will my business survive? My answer is yes. Those who adapt and do not treat this current environment in a business as usual manner should manage their way through. Pay attention to the circumstances affecting your location, develop a plan to deal with it, implement and manage the plan by staying on task. You have probably heard this before - get back to the basics!

Start with some analysis of the management reports available from your storage software. Look at historical data to determine the occupancy, rental and move out trends. Once it's clear the direction things are heading you can start to outline which areas need your attention.

Rentals - are your rate or specials effective but not excessive? I have found some operators are going to what I would consider to be desperate extremes to secure rentals. While this is great for the consumer it will definitely affect the income and value of a property. I find many locations offering the first month free. Then a competitor, not to be beat offers one and a half months free. At least one large REIT is offering 50% off your first three months. Why? Where in the world can you find such a deal elsewhere? Ever have a hotel offer you a free night to start or a restaurant offer your first dining experience free? We need to remember that price is important to most customers but there are other deciding factors including location to the prospects home or business, friendly and professional staff and facility appearance.

Do you know who your customers are? Why they chose you? How long they plan to stay? Where they heard about you? Which other storage facilities did they consider before choosing you? Knowing the answers to these questions will help you fine tune your operation.

Move Outs - if you request advance notice (10 days is typical) do you ask why they are leaving? Do you ask what they liked about your place? Would they rent again from you? Is someone analyzing the reasons given? If not, start doing so today. You can also call any customers (evenings are best) who recently left to express your appreciation for their business and if they are receptive ask the questions I mentioned above. If you are an owner who does not operate the facility directly - is there

a method for customers to inform you of concerns that may involve staff? Once you understand why they are leaving you can develop some strategies such as offering them to down size to save money. You may even wish to offer them an ongoing discount to retain their business.

Rent Increases - are not a good idea at this time in my opinion. I suspect people are far more sensitized to how much things cost and setting rent increases right now will likely result in a volcano of move outs.

Expenses - we always need to monitor and control our expenses to the extent possible. It is essential when income declines that we reduce our expenses. There are many deals available out there from companies seeking new business. Why not take a quote or two then approach your current provider (assuming they do a good job) and explain that you would like to stay with them but only if they match the best price you have from others. You may meet some initial resistance however you have a good argument that because business is off you need to watch costs. Remember it's not personal just business. They will very likely work out a good deal for you.

I advise against cutting or reducing important services to a level that jeopardizes your good name in the community. Keeping the exterminator is important as well as cutting the lawn and maintaining the landscaping properly. You may have an opportunity to rearrange your trash service, perhaps a larger container but less frequent pickups or maybe just fewer pickups. Never cut to the extent there is trash piled around the container waiting for pick up day. This makes a bad impression but also debris breeds more debris.

We feel we do not need to provide trash disposal for customers and like to have a container on wheels and hide it inside a unit until trash day.

Payroll - evaluate your business hours and staffing levels. Perhaps after studying the matter, you might close the office an hour or two earlier on Saturday. At most locations the office gets quiet after 3 PM. And Sundays are usually a lost cause unless yours is a conversion facility where staff must be present to allow building access. You might even consider deferring any pay raises until the income improves, however you must come through when things get better. Consider implementing an incentive plan where positive results are rewarded.

Be sure you share the reasons for your decisions with your staff so everyone understands. Informed people are more likely to implement your plan more effectively. We share the monthly financials with our managers and include them in the budget development process. It can be very eye opening when they understand where and how all those dollars they collect are spent.

Utilities - there are many energy conservation programs offered by the utility companies. The best chance of getting in on these is early in the year as they have limited funds and when the money is gone so is the program until January. We are replacing existing light fixtures with more energy efficient models at many locations and the utility has hired a contractor to do the work. Payback is usually 12-24 months. Considering utility costs are likely to continue to rise this is a no brainer. There are also savings opportunities in telephone services since the cable companies got into the telephone business and the phone companies got into the TV business. Again, get some quotes and negotiate with your current provider. You may be able to obtain discounts up to 40%. If not, switch to the lower cost provider.

Equipment replacement - I suggest you always choose the most efficient equipment available, if it's affordable. There are some programs out there which will essentially pay the cost differential from standard to high efficiency heating and cooling equipment. Your dealer should know about them, if not check with your energy supplier and the county or state government offices. Bonus - high

efficiency equipment is better quality and often includes a longer manufacturer warranty.

Bottom Line - Keep your eye on the N.O.I (Net Operating Income). It may be possible to reduce expenses enough that your N.O.I. may remain relatively stable or even improve! Remember N.O.I. is the holy grail of real estate investments. This is the number that counts most when valuing a self storage business either for sale or refinancing the mortgage. A \$6,000 annual change in N.O.I. could affect the value of the facility by \$50,000 - \$75,000 and possibly more!

In closing I hope you will all manage smartly and work your way through this downturn. This is a cycle and all cycles eventually change. Where exactly we are is anyone's guess. However I will say that storage generally does well when things are very good or very bad, it's the middle of the cycle when things are not good but not yet terrible when we experience our issues.

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