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CONDOMINIUM STORAGE

A Growing Trend Or A Castle In The Sky?

By Tammy LeRoy

Along with third-generation self-storage's rising development costs has come a substantial increase in rental rates for customers. Add this phenomenon to growing demand for storage space and a five-year real estate buying frenzy that is just now slowing, and it's easy to see that the condominium storage concept was ready to blossom. Especially in the past two years, investor interest in such developments has risen substantially.

Most people who purchase these units will use them to store big toys such as boats, RVs, and classic cars. For the perpetual storer, the plan holds many benefits. Mortgage payments may parallel rental rates, and someday, there would be a zero balance. There are no rent increases. Buyers can list the property as an asset, and the property is likely to appreciate. And buyers may receive tax benefits such as depreciation and deductibility of mortgage interest rates.

These facts elicit questions for self-storage developers. How far is the trend likely to go? How will it affect traditional self-storage? And what are the advantages for investors?

How Does It Work?

Ownership of the condo units is much the same as with residential condominiums, where buyers own a share of the land and building. The monthly condo fees, which generally run between \$35 and \$45, pay for landscaping, maintenance on common areas, common area utilities, and insurance. Units are typically metered individually for electricity and pre-wired for security. There are usually no limits on hours of access.



Rendering courtesy of Eucalyptus at Beaumont Storage Condominiums
Photo courtesy of GarageTown USA



Ted Deits, developer of Eucalyptus at Beaumont Private Storage Community in Beaumont, Calif., says people who like working on vehicles and other workshop projects are driving forces behind his concept. "I like to call it 'Man Land,'" Deits says. "I insisted there be a clubhouse since RVers and car and boat guys are social animals." Eucalyptus at Beaumont, which will begin offering units early next year, will include a 1500-square-foot clubhouse with a big screen TV and WI-FI.

Since owners can rent out their units, this has spurred interest from investors who purchase multiple units. He plans to hire a management company to take care of billing, maintenance, and other operations, although there won't be any management employees on site.

Most local codes prevent owners from running a business out of the units. However, R. Christian Sonne, managing director of Cushman & Wakefield's Self Storage Industry Group, which specializes in appraisal, and analysis of the self-storage asset class, says it would be difficult to monitor what owners were doing.

Development On The Rise

Carri Berglund, director of sales and marketing at GarageTown USA, says she



What and where are condominium storage developers building? And what affect will it have on traditional self-storage in the future?

hasn't seen the recent home sales slowdown have an impact on the sales of units. "It's two different dynamics," Berglund explains. In fact, she says the industry is growing daily.

GarageTown, headquartered in Coeur d'Alene, Idaho, launched their first condominium storage project 15 years ago, but Berglund says the idea really began to take off in 2003. The company has built storage condominiums in Idaho, Washington, and Colorado, and currently has five Arizona properties in the entitlement process.

Berglund says individuals who buy units do so mostly for personal storage, although some businesses are taking advantage of the product as are some investors. "For an investor, the warranty issues are so small," she says, "and they can sublease."

According to Berglund, whether buyers finance or buy outright depends on the demographics of the area. The smallest GarageTown units are 14-by-40 and are priced in the low-\$40,000s. The largest units, comprising 1,500 square feet or more, go for well over \$100,000.

The concept struck the company's owners early on, but extensive development began only a few years ago because many buyers would need financing that simply wasn't available. "We knew we could build them," Berglund says, "but we didn't have any financial institutions that were willing to lend on them." About 2003, that began to change, and Berglund says lenders are treating these loans basically like a home mortgage.

GarageTown properties also offer common clubhouses with big screen TVs. Once the project sells out, the company's representatives will resign as board members and the owners will elect new members. They typically build 90 units per location. Unlike some condo storage projects, which offer options such as storage lofts, finished walls and floors, and individual unit video, GarageTown doesn't offer upgrades primarily because the company doesn't want to be involved with warranty issues.

Developers' Profiles

Deits originally planned to build self-storage in the Southern California market, but 15 cities turned him down for projects, primarily, he believes, because self-storage doesn't generate enough tax revenue

or jobs. He says before development, the Beaumont property was generating \$600 per year in property taxes, but because of the value of the condos, it will later generate \$90,000 in taxes.

Deits believes the Beaumont property could have been approved for traditional self-storage, but he no longer wants to build it. "Then I'm stuck with all this administrative work of having to rent 108 units, and I just don't want to do that," he says. "It's a matter of personal choice. And quite frankly, this is a quick way to gather up some cash."

He is currently scouting for new development sites for a similar project. He believes any such project in the region will succeed. "One higher-end Orange County facility is charging \$500 per month to gang park an RV in a warehouse, and they have a waiting list," he says. Deits estimates that his buyers will make payments of around \$350 per month. "I don't see how I can lose," he says. "I currently have around 800 reservations for 108 units."

Like Deits, many storage condominium developers have no background in self-storage. "It's two different animals," says Joseph Miner, president of Las Vegas, Nev.-based StorageCondo, Inc. "An individual or investor who wants perpetual income, they build mini-storage. [Condo storage] projects generally are a cash cow."

Effect On Self-Storage

Miner believes if you can build a self-storage facility that will pay for itself, you can do the same with a condo storage project next door. "A lot of the ... purveyors of mini-storage don't want to see condominium storage come into light," Miner says, "because that takes away from their market. If you build 1,000 mini-storage units and 80 percent of your people have been there for 15 years, you wouldn't want to see them go next door and buy a storage condo."

Miner seems somewhat unfamiliar with many elements of traditional self-storage, such as average length of stay, the reasons most customers store, and the types of items most often stored. Self-storage industry experts know that purchasing a condominium storage unit would not make sense, nor would it be possible, for most typical self-storage users. Purchasing a unit could make sense, though, for

many high-end customers now patronizing the growing number of boat and RV storage facilities.

But Miner and other condo storage developers believe the day is coming when condo projects will become popular for typical self-storage users as well. "There are a lot of people out there who are renting storage who would prefer to buy it if it was available," Miner says.

Bob Schoff, president of National Self Storage Management in Tucson, Ariz., likens that idea to talk in the past that mobile storage was going to ruin the industry. "It's had some effect," he says, "but it didn't ruin the industry. Self-storage has always been built on the mobility and the transitory nature of the American consumer. They're moving every so many years, and that's the real backbone of our industry."

And Sonne simply doesn't think the numbers would work in most areas to make it affordable for customers. "To make the payments work out to the same as renting a self-storage unit, they can't price them high enough," he explains. Still, he's seen much enthusiasm from condo storage developers, whom he likens to wildcatters. "I've had these crazy conversations with some of these guys who are just wild-eyed about it," Sonne says. "It's like they're just drilling for gold."

What The Future Holds

Miner's company does not develop projects but provides valuation and planning as consultants. They consulted on their first project in 1996, and he says they obtained a trademark on the name "storage condo." He says the company plans to go public with condominium storage.

Unlike within the self-storage industry, condo storage developers seem to have limited knowledge of what others developing similar projects are doing outside of their market areas. Miner says he and others are creating an industry association for which he has obtained the domain name "Storage Condo Association."

Schoff says he sees a market for condo storage, but sees it as an entirely different one than traditional self-storage. "The basic core of mini-storage, where you've got security and a manager and they can move out with 30 days' notice—it's not something people want to own. There's a natural turnover," he says. "The terms

are getting longer, but it's still eight to 12 months. Five to 15 percent of your units turn every month. It's all people with something going on."

Schoff is building a new RV and Boat storage facility in Arizona that will offer valet parking and numerous RV services. He is not worried about any serious impact from condominium storage. "Condo storage is an idea that's been around for awhile," he says. "It's not a bad idea, and the industry is certainly aware of it, but it's not a subject of a lot of discussion right now."

Sonne concurs. "It would really surprise me if it created substantial competition for self-storage—because of the cost issue," he says, adding that a lot of entrepreneurs in the self-storage industry would own a few of these projects if they really thought the idea would fly. "It could be interesting to see what happens," Sonne says, "but I've seen nothing like what they're forecasting. It will be interesting to see how the market responds. The market will tell all."



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