

## GOING CONDO

### The Pros And Cons Of Offering Ownership

By Poppy Behrens

In February of 2002, when *Mini-Storage Messenger* first delved into condo-style storage, there were a few pioneering individuals exploring the concept of building self-storage units that could be bought instead of being leased. Finding people to interview for that first article was tough, to say the least; it was kind of like finding the proverbial needle in a haystack!

Without a doubt, that has changed over the past five years. Do an Internet search today for condo storage or garage condos and you'll find a multitude of entrepreneurs who have ventured into condominium storage for RVs and boats. Why have these investments become so popular? The answer seems to have many facets.

#### What's Behind The Trend?

Like most specialty storage, condo storage is a very market specific endeavor. "In my opinion, developing an RV condo site is driven by the ability to 'flip' the units as a real estate transaction," says Caesar Wright, president of Mako Steel Inc., based in Carlsbad, Calif. "With the recent increases in construction costs and land prices on a national level, a developer sees an opportunity to develop a site for around \$35 per square foot, less the cost of the land, and has an opportunity to sell the units for plus or minus \$80 per square foot."

Indeed, Park Place Storage Condominiums based in Loretto, Minn., sets the starting price for its condo-style units at \$54 per square foot, depending on location. (The company currently has five Minnesota locations and one in Ohio.) Those prices go as high as \$70 per square foot at its Corcoran, Minn., site, with office condo space in Burnsville starting at \$120 per square foot. In Billings, Mont., storage condos at Ultimate Space are priced at \$82 per square foot for a 700-square-foot unit, \$76 per square foot for a 900-square-foot unit, with its top of the line 1,450-square-foot Ultra priced at \$105,900—that just a tad over \$73 per square foot.



In addition, the philosophy of building to sell, says Wright, eliminates a certain amount of risk. "The developer strictly focuses on the sale of each unit; and once one unit is sold, he moves on to selling the next one," he explains. "In some cases, I have also seen the developer handle the finance portion of the sale."

Jeff Reynolds, co-owner and managing member of Colorado Springs Storage Condominiums™ LLC, believes that the condo concept is becoming popular because the care, security, and amenities provided through condo storage is head and shoulders above most leased-space storage facilities. Additionally, he perceives most RV owners as being astute enough to recognize the waste that comes with paying monthly rent compared to an investment in a unit they own.

Being committed to the highest quality of care and safety for its tenants' property is a primary goal for the developers of Colorado Springs Storage Condominiums, which is protected by 24-hour camera surveillance, an on-site attendant, and a state-of-the-art gated entry. As Colorado Springs' only luxury storage ownership facility, it also offers a clubhouse with all the necessary comforts needed for business or recreational use.

Reynolds cites another plus for storage unit ownership. "In most cases, these condo units will go up in value," he says. "Therefore, should the owners need to relocate or buy a bigger unit in the future, they are money ahead."

#### A Market-Specific Niche

Ted Deits is no stranger to the storage condo business. As president of Eucalyptus at Beaumont, a private RV storage condominium project located in Beaumont, Calif., he has designed his project with the serious RV or car enthusiast in mind. In many ways, he concurs with Reynolds and Wright about why



There is risk involved for developers, but in the right market, storage condominiums can be a profitable venture.

condo storage has become popular. He does, however, have some definite ideas of his own.

"I can only speak for Southern California, since that is my primary market," says Deits. "In short, there is an extreme shortage of RV storage in this area where raw land is nearly \$2 million per acre. Needless to say, there are not many new RV sites going in since you just can't make it pencil out at those land prices. Additionally, there is about to be a major hit on the RV storage market in just a few months."

The hit Deits refers to is the ultimate development of the Orange County Great Park, a 1,347 acre park on the site of the former El Toro Marine Corps Air Station in Irvine, Calif. After the base was closed in July of 1999, the entire site was sold to the Lennar Corporation for \$649 million. As a condition of the sale, Lennar deeded 1,347 acres to the City of Irvine for the Orange County Great Park and agreed to pay an additional \$200 million for future development and maintenance

of the Park. Once developed, the park will provide a wide array of active and passive uses, including a 2.5 mile canyon and lake, miles of walking and biking trails, a cultural terrace, Orange County's largest sports park, a botanical garden, and a tethered helium observation balloon that will be an icon for the Great Park. More than 3,885 of the 4,700 acres will be dedicated to open space, education, and other public uses. In the meantime, however, part of the runway space has been leased to All Star Services as a 65-acre parking lot, which RV and storage industry experts say may be the largest motor home storage facility in the country. Indeed, it has attracted RV owners from as far as Nevada, Wyoming, and Germany.

"There will be more than 2,300 RVs looking for a new home," says Deits. "These people have nowhere to go. All the local RV storage facilities are full with waiting lists. Can you imagine what will happen once there are that many RVers looking for

a place to store their motorhomes? It will be a crisis in the making."

Deits, whose typical customers drive between 60 to 90 minutes to get to his facility, says that once RV owners get the pink slip to move, the price for RV storage will skyrocket. "That is fueling a buying frenzy in my project," he explains, but at the same time, people just want the security of knowing their RV will have a place to live rather than having to hunt for new storage every year or two."

According to Deits, many storage facilities are trying to accommodate RVs as an after-thought, therefore, the property, spaces, and amenities are severely lacking compared to what the seasoned RVer is seeking. In addition, the cost to rent an enclosed RV unit, if you can find it, can run as high as \$650 per month. "That makes a purchase in my project really pencil out well," Deits says. "The economics, the emotions, and the limited supply are all playing into the RV condominium concept very well."

## TrailBlazers

### FEMA Takes A Loss On Sales Of Trailers

In order to deal with the aftermath of Hurricane Katrina, The Federal Emergency Management Agency (FEMA) bought 145,000 trailers and mobile homes—a move that some believe may be one of the agency's costliest mistakes, especially given that thousands of them are stored and rusting in more than a dozen locations nationwide.

While FEMA spent \$2.7 billion for the purchases, most of which were bought through no-bid contracts, it is now selling off approximately 41,000 of the trailers, netting 40 cents on each dollar spent by taxpayers. More than 8,000 of the trailers have never been used.



Photo courtesy of FEMA

"As you can imagine, a public auction of so many vehicles could devastate the market for travel trailers," said Michael A. Molino, president of the Recreational Vehicle Dealers Association, in a letter to FEMA.

The unused units were part of a \$900 million purchase. Unfortunately, FEMA realized after purchasing the trailers that, under agency rules, those homes could not be used in flood zones. In addition, after Katrina, many communities refused to allow large encampments of trailers. This left the agency saddled with the surplus that has been criticized by many. While FEMA paid an average of \$18,620 for each of the trailers, as of March 2007 it received an average of only \$7,367 for the 2,665 it had managed to sell.

### Balancing The Decision

So what are some of the deciding factors when it comes down to building for sale for building to lease? "Our decision to go with condo storage rather than rentals was based on national trends as well as the local market," says Reynolds. "Though there are condo projects underway in Colorado Springs, my partners and I felt there was room for growth here."

Reynolds admits that, "While the traditional leased RV storage is a better business model for the developer, we could no longer ignore the reality that recreational vehicle owners are now demanding a better product that fits within their financial and investment mindset."

Danny Olmstead, consultant and broker for Own Your Own Storage in Manteca, Calif., says the owner of his project is also an RV dealer, so it was a natural fit, especially with the city restricting the parking of RVs and no facilities for storage in the area. On the other hand, for Dan Ryan of Bear Caves Storage, a condo project located in Redding, Calif., the deciding factor was location.

"In my family, we all have big diesel-pushers, so building something like this

made sense," Ryan says, noting that, in the beginning, building a traditional RV storage facility seemed like a good idea. However because their location is not one with high-visibility, they knew from the get go that would equate to more money spent on advertising and marketing. "I think you can build an RV condo anywhere, and people will pick up on it and go there."

### Is There A Downside?

Sound too good to be true? While building storage condos for recreational vehicles definitely has a bright side, it does have some areas of concern. "In my mind, the downside for the developer is pretty clear: no residual income," says Reynolds. "While we are planning to offer some units for lease, the major interest from customers has been in ownership. Most of them understand that if they can afford it, they are getting the better end of the deal if they buy rather than lease."

Reynolds also notes that with all of the site and unit amenities these facilities

offer, the cost for condo developers is higher than that of traditional RV storage builders. "So, obviously the margins are smaller," he says.

Ariel Valli, president of Valli Architectural Group based in Aliso Viejo, Calif., has a different perspective on it. "The downside to the developer is the longer timeframes needed for entitlements and construction," he says. "The condo mapping process is time consuming." Hence, standard RV rental projects are designed, approved, and constructed much more quickly.

"For me, I like to use the analogy that I am diving into a pool head first and I have no idea how deep it is," says Deits. "That is exactly how I felt in the beginning. The biggest downside was simply not knowing what was ahead or if something like this was even possible."

Now, two years later with most of his project sold out, Deits has a little more time to reflect on the challenges. "The most difficult part is selling the concept to the cities and getting them to understand

what you are doing," he says. "That has been a struggle since we first put pen to paper a few years back."

Olmstead offers this advice: "With condo storage, you really have to induce the renter to buy," he says. "They will ask, 'Why should I buy it?'" Therefore, developers need to plan ahead and take the selling price into consideration. "Ask yourself, 'What price point do I need to be at in order for it to make sense for someone to buy a condo unit?'"

Deits admits that one of the biggest questions he had was what do if the project didn't sell. "Thankfully, I don't have that problem," he says. "However, that's the question the bankers ask—and anyone doing something like this should also ask themselves the exact same question; so you'd better have a good answer—and plan B in place." 🚚

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