



## Self-storage companies storing up value

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Wall Street has for several years been infatuated with an often-neglected beneficiary of big life events: self-storage units.

Driven by marriage, death, transcontinental moves and other major events, Americans are storing memorabilia, pots and pans, snowblowers and other stuff like never before.

The U.S. self-storage industry has added more than 46,000 facilities with more than 1.9 billion square feet of space since 1984, according to one of its trade organizations, the Self Storage Association, based in Alexandria, Va.

"It really is an American phenomenon. We acquire so much stuff, we're such a consuming society, we have to pay someone to keep it for us," said Paula Poskon, a senior analyst in Robert W. Baird & Co.'s McClean, Va., equity research office.

When a big life event, or maybe even just one too many overflowing drawers, prompts someone to rent a storage unit, they usually won't get a rental rate increase for the first nine months, Poskon said. After that, they may get a small increase every six months.

"It's typically at a price point where most working people say they'd rather write a check than deal with it," Poskon said.

About 20% of storage unit demand comes from small

companies with businesses like landscaping or heating and air conditioning that need to store equipment, some that needs to be accessed on a daily basis, she said. Some pharmaceutical drug sales people also rent climate-controlled storage units to hold the often big inventories they're traveling around with.

Stocks of self-storage companies have done well in the last few years, but conventional wisdom is that as job growth slows, demand will slow.

She says those stocks may have further to rise, though.

"The primary driver here is life events - someone dies, gets divorced, goes to college, gets married - any big life event that means some transition where you need what you're viewing as a temporary solution," Poskon said. "Grandma dies and there are 40 afghans she knit that no one wants to get rid of. So someone says let's put them in temporary storage for a few months, and a few months turns into two years."

Side effects of the now-over housing boom might help self-storage industry demand as well, she said. For example, the people being driven out of the big houses they couldn't afford might store some of the stuff they filled them with. Twenty-somethings might put their furniture in storage to move back in with mom and dad.

In terms of supply, the industry is highly fragmented, with a host of regional and local players and just four focused, publicly traded companies that are pure plays: Public Storage (PSA), Extra Space Storage Inc. (EXR), U-Store-It Trust (YSI) and Sovran Storage (SSS).

They've got scale, and that matters in an industry that competes with products and services like your own key code that gives you 24-hour access,

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security cameras, lighting, and ancillary products like boxes, bubble wrap, tape and insurance, Poskon said. They're also operating in a business with low capital expenditures.

She doesn't cover Sovran, but follows the other three public companies. Poskon says one of them garners her highest "outperform" recommendation.

**Extra Space Storage Inc.** (EXR, \$14.17), Salt Lake City, is a real estate investment trust that runs self-storage properties. Its stock has traded from \$12.33 to \$17.90 in the last 52 weeks.

It's not the biggest of the publicly traded self-storage companies, so Extra Space has more growth opportunities compared with a giant like Public Storage that would have to grow enormously to dramatically affect its bottom line, Poskon said.

"Because the industry is so fragmented, you're acquiring one, two, maybe 10 storage facilities at a time. And for a big player like Public Storage, that won't move the needle," she said

While they're waiting for Extra Space's needle to move, investors are getting a dividend yield of nearly 7.1%.

The company has a significant amount of debt maturing in the next few months, so Wall Street is viewing it with a skeptical eye. But the company has an experienced management team that is using proceeds from equity offerings like a recent private placement and a common stock offering earlier this year to pay down that debt, Poskon said.

Extra Space's shares have been volatile in a volatile market, so it's been difficult to predict their behavior. But Poskon says they have spiked as high as \$17 in recent weeks, before falling back. These shares could go back up to \$17 in the next 12 months, she said.

"The consistent volatility continues to offer attractive entry points," Poskon said.

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