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Stocking up on self storage

Downsizing homes and booming businesses buoy demand for storage space, making it a winning investment.

By **MARY ANN MILBOURN**

The Orange County Register

Lori Wendland is typical of self-storage clients. As their circumstances change – marriage, divorce, downsizing, starting new businesses – they don't get rid of what they have, but turn to self storage for their overflow.

In Wendland's case, she needed a place to store fixtures and showcases for **Miracle Method of Irvine**, the tub and tile refinishing business she started with her husband. And since they had the space, they also stored some personal things that

cluttered their garage.

Self storage is a real estate niche that has been rediscovered this year by investors who have shied away from other property investments that are more sensitive to the economic slowdown, tight credit markets and declining property values.

"Self storage is a relatively defensive property type," says Michael Knott, a senior analyst who specializes in real estate investment trusts at Newport Beach-based **Green Street Advisors**. "History proves it's relatively resilient to economic downturns,"

In fact, self-storage REIT stocks are the best performing equity REIT sector so far this year, up 21.1 percent through May, according to the National Association of Real Estate Investment Trusts. That's a major turnaround from last year when publicly traded self-storage REITs plummeted 24.8 percent in the face of investor fears that the mortgage meltdown and slowing economy would hurt the sector.

"What they originally thought would happen, hasn't occurred," says H. Michael Schwartz, president of **U.S. Commercial LLC** in Ladera Ranch, which manages 2.4 million square feet of self storage space throughout the country. The company's portfolio includes an interest in the **Baffin Bay Self Storage** location in Lake Forest, which also

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Although self storage has gone through periodic downturns when it got overbuilt, Schwartz is bullish on the industry overall. U. S. Commercial just rolled out a \$1 billion public offering for a non-publicly traded self storage REIT called **Strategic Storage Trust Inc .**

The company announced last month that it exceeded the initial \$1 million minimum target for funds to be raised to launch the REIT. Schwartz says part of the funds will be used to expand the company's presence in Orange County and Southern California, which he thinks will benefit from a growing population, business storage needs and the baby boomer demographics.

"A lot of people want to save their memories and things for the next generation," says Schwartz, noting his own mother probably spent more on self-storage rent than the value of the things she stored.

But just because there is demand doesn't mean self storage is always profitable. It is notoriously fragmented – the five publicly traded self-storage REITs and U-Haul only owned 8.8 percent of the estimated 53,000 primary self-storage facilities nationwide in 2007, according to the Self Storage Association.

Many of the other owners are mom and pop businesses with one or two locations. They often suffer from poor management and lack of pricing know-how which makes them less competitive. Nationwide, self storage occupancy has dropped from 85 percent four or five years ago to 81 percent, Schwartz says. Pricing varies widely based on the local economy and competition.

And, like any real estate, location is important. Schwartz says he got a recent call from a woman who owns two struggling properties in a rural area in Northern California. He passed, noting the community has little opportunity for growth.


Orange County, on the other hand, seems to be showing little evidence of the economic slowdown, says Schwartz. Late payments at his local properties remain around 5 percent. Despite foreclosures and job losses, he says they haven't seen any major increase in people not paying their self-storage rent and having their goods auctioned off.

"People in Orange County pay their bills," Schwartz says.


As for the phenomenon reported in other parts of the country of cash-strapped people living in their storage units, "We haven't seen it," Schwartz says.

Schwartz thinks there's more room to grow

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when the former El Toro Marine Corps Air Station closes its RV storage, which will force the owners of more than 1,000 vehicles and boats to find new facilities.

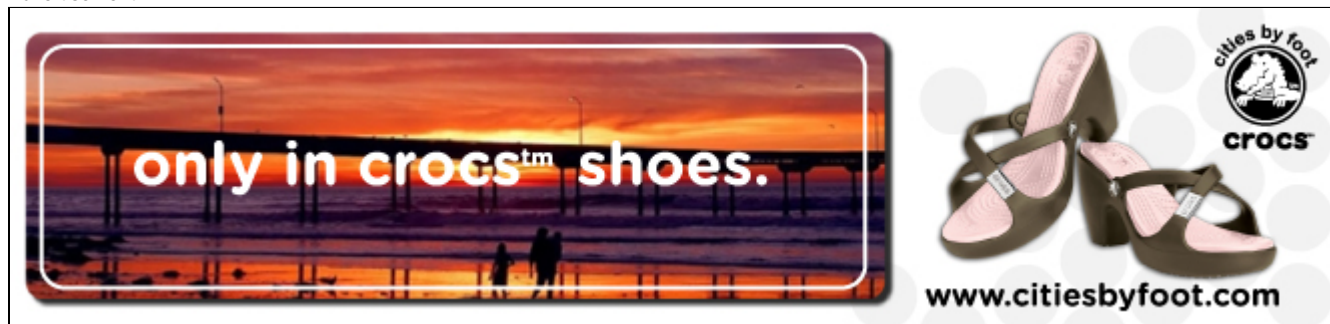
U.S. Commercial isn't the only company that is seeing good results here despite a down economy. Kimberlee Drenk, vice president, of Irvine-based **Dahn Corp.**, the management company for **Mini U Storage**, says the company's 14 locations in Orange County aren't seeing any major downturn and seem to be experiencing similar rental activity as last year.

While self storage REIT stocks have been big winners for investors so far this year, Green Street analyst Knott thinks they may be fairly valued at this point with not a lot of room for upside.

"I wouldn't be surprised if they continued up for the rest of the year," he says. "But the easy part is over."

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