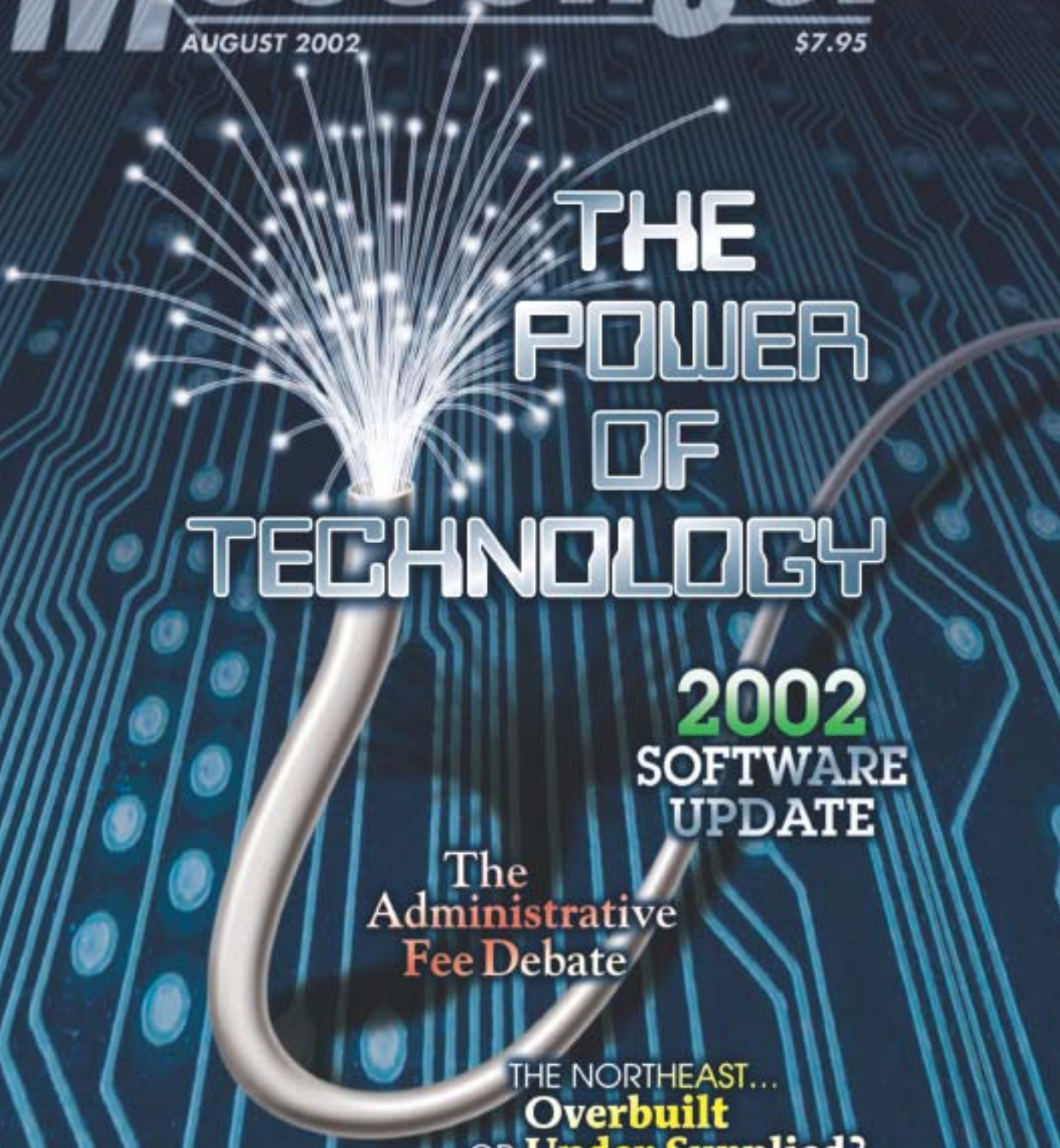


Mini-Storage **Messenger**

AUGUST 2002

\$7.95



THE POWER OF TECHNOLOGY

2002
SOFTWARE
UPDATE

The
Administrative
Fee Debate

THE NORTHEAST...
Overbuilt
OR **Under Supplied?**



The Northeast

A Market Of Contradictions

BY MICHAEL L. McCUNE

The Northeast has consistently been one of the strongest markets in the country for self-storage. Rental rates and sales prices have confirmed this strength and have also invited new competition to join in the good times. However, this simple picture of the Northeast market becomes somewhat more complex as we become more discriminating about the underlying data and trends. First, before we get to the Northeast, let us take a moment to get a perspective of the broader national market as to the investment value of self-storage projects so that we can put the Northeast in the proper context. This distinction is important so that we do not confuse nationwide trends with purely regional trends for buying and selling self-storage facilities.

Interest Rates—The Rose Colored Glasses

We have recently seen the lowest interest rates in several decades. Low interest rates are very helpful to both buyers and sellers. Buyers find that with the favorable interest rates available today, a deal bought on a 10.5 cap rate can generate 16 percent cash on cash return. Likewise, sellers find that properties sell quicker and with fewer complications than when interest rates are high. Thus, these unusual times tend to make all markets look better. Indeed the level of interest rates is such a powerful motivator of good markets, investors and operators alike often find it difficult to find any negatives in any market. It is very important to remember that the low interest rates that make the world a better place for buyers and sellers also encourages new development. New development can dramatically change both the supply and demand for self-storage and thus materially impact both the value and liquidity of self-storage investments. However, despite the "glow" that low interest rates bring to the current market, there are distinctions to different markets and their relative health.

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A View Of The Northeast From "30,000 Thousand Feet"

A quick look at the side bar (kindly provided by Chris Sonne of the Sonne Group based in Huntington Beach, Calif.) shows us some very interesting statistics on the Northeast self-storage market in terms of the supply and demand balance for rental space. He has done some very cutting-edge and interesting analyses of self-storage markets. He has found correlation between several different demographic characteristics and the balance of supply and demand in various areas. He has then taken these relationships and applied them to the demographics of other areas to develop the forecast of potential demand for the area under study, in this case the Northeast Region. The math to make these calculations is both mind-numbing and remarkably reliable.

A review of Chris' numbers indicates that for the whole of the Northeast, and all but two states in the area, there appears to be more potential demand than current supply. These numbers indicate that, on balance, investments in

While data indicates that there is a demand for more self-storage in the Northeast, it is important to remember that self-storage is a very localized business. Therefore you must study and understand the individual market you are entering.

self-storage in the Northeast have the potential to continue to prosper. However, as Chris points out in the footnotes "It is important to remember that self-storage is a highly localized business."

Thus, while we find this analysis and the resulting potential trends in self-storage supply and demand encouraging, it is imperative that we look further to really understand the individual markets. To stop our review at this point would cause us to be short-sighted on the market—it would be like saying that the dog called Spot is the color gray, thus missing some very important details about the dog.

Northern New England

Maine, Vermont and part of New Hampshire share the same market characteristics according to veteran market

It has been reported that a one-acre site on Interstate 93 was recently purchased for self-storage for \$3,600,000 and had zoning for about 90,000 square feet of storage.

watcher (and maker), Joe Mendola. He opines that these markets have really "caught on fire" from a development standpoint in recent years. Development has been very active, and many new smaller projects have been built in all three states. Rental rates and values have tended to hold up well, but if the development continues at the current pace, over building will soon knock the supply and demand equation out of balance.

Chris Sonne's report already reflects this trend of over development. The self-storage development that is occurring is the traditional drive up, one story product usually built by local contractors and developers. One unnamed wag suggested that if you have a pickup and a screw gun, you are by definition a self-storage developer in Vermont.

It is very likely that localized areas of over building are occurring throughout the northern tier of New England. With relatively low barriers to entry, the impact of over development can have a both a significant and long-term impact on the operational results and value of nearby existing projects. Potential developers and investors would be well advised to make a very careful study of the local market conditions prior to making investment commitments.

The Greater Boston Area And Manchester, New Hampshire

The Boston area had been slower to develop both demand and supply in the past, but in recent years both have exploded. Conversions of existing warehouses and mills have been a significant factor in adding supply in Boston, especially inside Route 128. The lack of available land, zoning restrictions in general and the Boston Redevelopment Authority in particular has made development not only difficult, but also very expensive. This arduous development environment and high value property has meant that development tends to be dominated by the larger and well-financed players. It has been reported that a one-acre site on Interstate 93 was recently purchased for self-storage for \$3,600,000 and had zoning for about

90,000 square feet of storage. Clearly, this is a market for well-funded developers and for detailed feasibility studies. Rental rates continue to support the rising cost of development as demand continues to exceed supply.

Moving north to the Manchester, New Hampshire area is, in most respects, simply a continuation of the Greater Boston market. Manchester has seen some of the mills of the 19th Century converted into the uniquely late 20th Century use of self-storage. While the rental rates are not as high as in the Boston area, the larger developers and investors have become more dominant. The larger players are seriously looking as far north as Concord. Some significant softness in the market in specific locations is being experienced.

New York Metroplex Market

The New York Metroplex means all of New York City, the Southwest coast of Connecticut, Long Island, most of Westchester County and North and Central New Jersey. For the last several years this market has experienced fast growth in self-storage facilities. Most of the growth has come from the large brand names, building first class third generation properties with climate control. The quality bar for self-storage has

been raised significantly, and for the most part, renters seemed to be satisfied paying the price for these new generation projects.


Today, there is genuine softness in some of the micro markets in the Metroplex. Some operators are complaining that other operators are offering unnecessary discounts. This trend first appeared in early 2001 and was exacerbated by the events of September 11th. The question is: where does the market go from here?

Some suggest that there are many positives in the market today. For example, the recession is about over according to the statistics; the ramifications of September 11th has become more clear; and the statistics from Chris Sonne would indicate that the area has some of the lowest supply numbers anywhere. This may indicate that despite the minor economic blip, the area can still support more growth.

However, there is another school of thought that speculates that the recent rise in the general quality and cost levels has raised the price point to a level that the affordability of self-storage has been reduced, and thus the total demand at the higher prices is not growing. Add to this thought the notion that Wall Street will continue to have employment problems, interest rates may go up and slow the economy again—you may have an entirely different picture for the New York Metroplex.

A Conclusion, Not An Answer

If only one thing is consistent about the self-storage market in the Northeast, it is that there are many loose cannons rolling around on the deck. In an environment such as this it extremely important when making your investment decisions, either to buy or to build (or for that matter, sell) that you must do your market homework. Your square nine miles are your world and you must know everything that is or will go on there. Feasibility studies are an absolute must. The more detailed the study the better and the preparer should be absolutely independent. This is not a time to believe the study prepared for the lender.

Self-storage in the Northeast, or anywhere, is no longer a "field of dreams" and quality feasibility analysis is the only way to determine the market for your product. 

Northeast Region Market Snapshot
How Much Is Too Much?

The age-old question of self-storage economics has been how much is too much? Historically, demand for self-storage facilities has been measured in terms of a stagnant, supply side model. As the industry has increased in investment, the requirements and measurements of market analysis have also increased for the self-storage asset class.

Market demand for self-storage product is measured in a dynamic, econometric model. Utilizing multiple variable regression, a relationship is indicated

among demand (measured in terms of square feet per capita) and four variables: population, percentage of renters, household size and average household income. The correlation or association of the data in a linear relationship (correlation coefficient) suggests these variables can be used to estimate market demand for self-storage property. Under these parameters, the New England Region is summarized (in terms of square feet per capita) along with a graphical view in the charts below. The analysis suggests that the market supports a cautiously optimistic approach to development and

investment of self storage property. As outlined in the 2002 *Self-Storage Almanac*, it is "important to remember that self storage is a highly localized business". Therefore, these snapshots are intended for general use only. A local trade area analysis is the best tool for making decisions about self-storage property.

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Northeast Region By State

State	Existing Supply	Forecast Demand	Variance	Condition
Connecticut	2.39	3.55	1.16	Under-Supplied
Maine	3.74	5.46	1.72	Under-Supplied
Massachusetts	2.47	3.76	1.29	Under-Supplied
New Hampshire	5.87	4.51	-1.36	Over-Supplied
New Jersey	1.85	3.49	1.64	Under-Supplied
New York	1.68	3.15	1.47	Under-Supplied
Pennsylvania	2.93	4.79	1.86	Under-Supplied
Rhode Island	1.93	4.2	2.27	Under-Supplied
Vermont	6.27	5.2	-1.07	Over-Supplied

Storage Demand

