

San Francisco

Is Self-Storage Shining In The City Of The Golden Gate Bridge?

BY R. CHRISTIAN SONNE, MAI

San Francisco is well known for beautiful views of the bay, the Golden Gate Bridge and tall buildings. Built up of high-density, urban real estate, the self-storage market is comprised of atypical product including buildings that are five, six, and even seven stories high! Market conditions reflect these physical conditions with generally a stable outlook characterized by market wide occupancy of 88 percent at an average monthly rental rate approaching \$1.75 per square foot.

The San Francisco Bay Area is comprised of nine counties situated on the perimeter of the San Francisco and San Pablo Bay. A small metropolis of 46.6 square miles, the City of San Francisco is bordered by the Pacific Ocean on the west, the San Francisco Bay on the north and east, and the San Mateo County on the south. The city is generally considered the civic, cultural and commercial center of the nine county Bay Area economy. The bay setting of the city provides for striking views, a moderate to cool climate, and an environment that has generally strong demand characteristics.



Demographic Data		
Category	San Francisco	Bay Area
Population	799,000	6,930,600
Employment	628,860	3,688,590
Household Size	2.46	2.66
Median Household Income	\$68,600	\$76,400
Unemployment Rate	7.10%	6.80%

Self-Storage Market Conditions

Due to wide variances among sub-markets, the focus on this article is the City of San Francisco. With a scarcity of land, high density development is common. Land for self-storage is rarely available and can be priced from \$25 to \$75 per square foot. Much of the self-storage supply is comprised of adaptive re-use or re-development of dated build-

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ings converted to self-storage use. Consequently, units tend to be smaller and most have interior access only (often multi-level). Self storage Economics surveyed all facilities located in the City of San Francisco in the summer of 2003 as summarized in the table below.

San Francisco Market Characteristics			
Total Facilities:	30+		
Total Number of Units:	24,000+		
Average Unit Size:	72.74 sq. ft.		
Average Age:	43 years		
Average Monthly Rates			
5 x 5:	\$78.56	5 x 10:	\$120.00
5 x 15:	\$147.67	10 x 10:	\$177.29
10 x 15:	\$251.25	10 x 20:	\$302.25

self-storage facilities that are as beautiful and eclectic as the city. One example, Storage I, was constructed in 1909 but converted to self-storage in 1999. The six-story facility achieved stabilized occupancy of around 85 percent within two years. The project has climate control, elevators, and fire sprinklers. Since 1996, two mid-rise self-storage projects in the city have sold for a total approaching \$28 million or approximately \$150 per square foot. Due the small stock of existing facilities and strong returns, self-storage facilities rarely become available for sale.

A typical self-storage project in the city may be an office building constructed in the 1920s, but converted to self-storage use in the last 10 years. This often results in

With its high-density urban real estate, San Francisco is a unique city for self-storage. But how is the business of self-storage really faring in the city by the bay?

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Property Ownership



Ownership of self-storage property in San Francisco is also unique. For example, the distribution of ownership suggests a highly fragmented industry with consolidation and growth opportunities. As outlined in the chart, most of the ownership is local, spread among 25 different owners. The largest owners of property include two REITs and one regional investor (based in San Francisco).

Market Equilibrium

In terms of self-storage supply, San Francisco and California are below state and national averages. In peer group analyses of the United States by state, the 2003 Self-Storage Almanac reports

that existing supply is 3.79 square feet per person compared to existing supply nationwide of 4.33 square feet per person. Moreover, San Francisco indicates a supply of 1.83 square feet per person compared to demand of 1.89 square feet per person (essentially at market equilibrium). Yet, within the region, there remains significant new development searching for the undersupplied neighborhoods. As older buildings are now being converted for residential loft use, self-storage sites are even more difficult

Self-Storage Supply And Demand		
	San Francisco	California
Demand	1.89	4.33
Supply	1.83	3.79

to find. There is one new project underway, a renovation of a four level, telecom building located in the Bayview District. It will be comprised of interior units with containers in the parking lot.

San Francisco suffered economically with the downturn in the technology sector. However, the area economy appears to be in a stabilization period over the

near term with good growth prospects over the long run. The self-storage market is approximately at equilibrium with a balance among existing supply and demand. There are neighborhood trade areas with high demand, but also concentrations of neighborhood with too much supply.

While rental rates for self-storage product are much higher in San Francisco than most of the country, expenses are commensurately higher. Several projects in the city analyzed demonstrate net operating incomes from \$12 to \$15 per square foot. In the Bay Area, overall capitalization rates range from 8.0 percent for value added opportunities (such as properties with low occupancy) and properties with high land values (return to land is lower than return to buildings), to as high as 9.50 percent for stabilized, suburban properties.

Looking At The Total Picture

In summary, market statistics indicate that self-storage market conditions in San Francisco are strong, despite an



With a scarcity of land, self-storage facilities in San Francisco tend to be multi-story with interior access.

Photo courtesy of R. Christian Sonne.

economy in recovery. Market conditions are characterized by high rental rates at a stabilized occupancy rate of 88 percent. Due to scarcity of available land for development or self-storage conversion prospects, overall capitalization rates are forecast to remain relatively low and pricing relatively high (product is rarely available for sale). The San Francisco market is more complex than most with a diverse supply of product and strict development criteria. Cumulatively, these factors suggest strong market conditions for self-storage property in the City of San Francisco. ■