

Why Guess?

The Self-Storage Market In Texas...

By R. Christian Sonne, MAI

As an asset class, self-storage continues to offer strong returns compared to alternative investments in both public and private markets. At the same time, survey research indicates that investors' greatest concern is market saturation due to over-building. The Texas market (summarized in Table 1) underscores the critical importance of neighborhood specific analysis in evaluating a self-storage facility.

Chart 1 demonstrates the conditions of supply and demand for the state and key MSA's (metropolitan statistical areas). The data is based on peer group analysis and will be published for all 50 states and the top 50 MSA's in the country in the 2004 *Self-Storage Almanac*. While at first glance the overall outlook

indicates that the market is over-supplied in all trade areas analyzed, it is important to recognize that self-storage is a market specific business and that supply and demand can vary even within a given market area. According to Chart 1, demand characteristics for self-storage property are strongest in San Antonio as that overall market is approaching market equilibrium. The other markets suggest a short term outlook of stable rents in a competitive environment, while the market returns to equilibrium.

Why guess? These markets demonstrate that supply-based analysis is insufficient to understanding the self-storage asset class. Guessing at demand leads to market saturation. The demand characteristics and depth of demand must be quantified to avoid overbuilding.

Fortunately, these macro views are only of limited usefulness for the unique self-storage asset class, since, again, conditions can vary dramatically from

one neighborhood to another in an MSA or state classified as over-supplied. Even in over-supplied markets, the cure to over-building is time as the pipeline of new construction slows. In the meantime, the best development opportunities will be in urban and high density neighborhoods (utilizing conversions), in-fill sites, or parcels that are difficult to entitle for self-storage development.

R. Christian Sonne, MAI is principal of Self Storage Economics, a data, research and analysis firm specializing in the self-storage asset class. Chris is also a member of the Appraisal Institute.

Market	Existing Supply	Forecast Demand	Variance	Condition
Texas	6.99	4.79	-2.20	Over-Supplied
Austin	7.29	4.56	-2.73	Over-Supplied
Dallas	6.11	3.64	-2.47	Over-Supplied
San Antonio	6.42	5.54	-0.88	Approaching Equilibrium
Houston	6.45	3.93	-2.52	Over-Supplied

