

# SUPPLY & DEMAND

## WEST TEXAS

By R. Christian Sonne, MAI

The state of Texas has more self-storage per person than the national average of self-storage per person. However, analysis of six key Metropolitan Statistical Areas (MSAs) indicates market segmentation of winners and losers. Specifically, the best opportunities appear to be in El Paso and McAllen-Edinburg-Pharr among the six MSAs analyzed.

The conditions of supply and demand of the state and key MSAs are shown in the chart to the left. The data is based on peer group analysis and is published for all 50 states and top 100 MSAs in the country in the *2005 Self-Storage Almanac*. Clearly, the market is segmented with strong demand characteristics in the El Paso and McAllen-Edinburg-Pharr MSAs. The other MSA analyses appear to indicate over-supply, suggesting stable rents in a competitive environment while the market returns to equilibrium. The return to equilibrium is a function of population and economic growth,

balanced to growth in the self-storage asset class.

The Texas market analyses demonstrate that supply based analysis is insufficient to understanding the self-storage asset class. The demand characteristics and depth of demand

must be quantified to avoid overbuilding. However, these macro views are only of limited usefulness for the unique self-storage asset class. Conditions can vary dramatically from one neighborhood to another in an MSA or state classified as over-supplied. Self-storage is primarily a neighborhood specific business and market conditions can vary dramatically within an MSA.

Even in over-supplied markets, the cure to over-building is time as the pipeline of new construction slows. In the meantime, the winning development opportunities will be in urban and high density neighborhoods (such as conversion buildings), in-fill sites, or parcels located in cities that are difficult to entitle for self-storage development. ■

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