The Growth Of An Asset Class

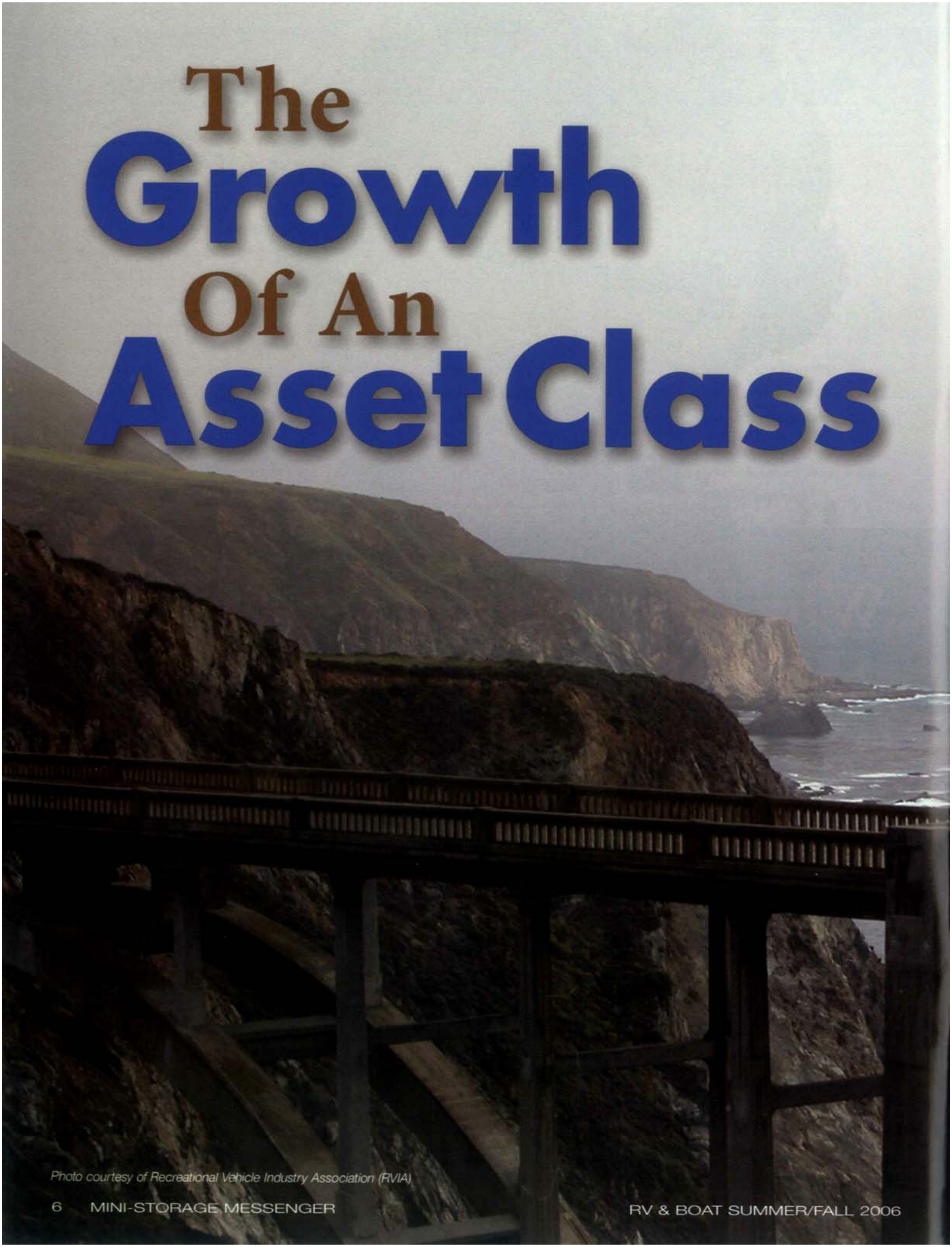


Photo courtesy of Recreational Vehicle Industry Association (RVIA)

What's Really Driving The RV And Boat Storage Explosion?

By R. Christian Sonne, MAI

RV and boat storage is a new and growing segment of real estate development. Once solely a source of ancillary income for self-storage facilities or an interim income as a tool of land banking, these specialized facilities are now being developed as real estate investments. Is RV and boat storage the next wave in self-storage trends?

Due to the continuing rise in the use of recreational vehicles (RVs) and boats coupled with municipal restrictions on RV storage at residential locations, demand is increasing for RV and boat storage facilities. In fact, some investors liken today's RV and boat storage to self-storage in its early days. And how many of us wish we could go back to the early days of self-storage and purchase or develop?

The primary driver for demand is from RVs, which combine transportation and temporary living quarters for travel, recreation, and camping. Recreational vehicles do not include mobile homes, off-road vehicles, snowmobiles, jet skis, and conversion vehicles. According to the most recent RV profile report, conducted by the University of Michigan's Survey Research Center, the primary demand for recreational vehicles remains good and the potential for future sales is positive.

Nationally, nearly one in 12 vehicle owning households in the United States owns an RV, with ownership rates steadily increasing. Furthermore, with the aging baby boomers now entering the prime age ranges for RV ownership, the demand for RVs is forecast to continue to grow during the decade ahead. Nationally, the median age for RV owners is 49 (84 percent of which are married), with a median household income of $56,000. The highest ownership rates are for those aged 55 and over. However, because the 35 to 54 age group is much larger, more RVs are owned by this younger group than any other; and it is also the fastest growing group, underscoring the success of industry marketing efforts aimed at the baby boomer.

National recreational vehicle ownership rates across income groups reflect a distinctive profile. Ownership data indicates an upward trend to a peak ownership rate for households with incomes just under $100,000 per year. Conversely, the relatively high ownership rate for those with incomes under $25,000 reflects the income of households in their retirement years.

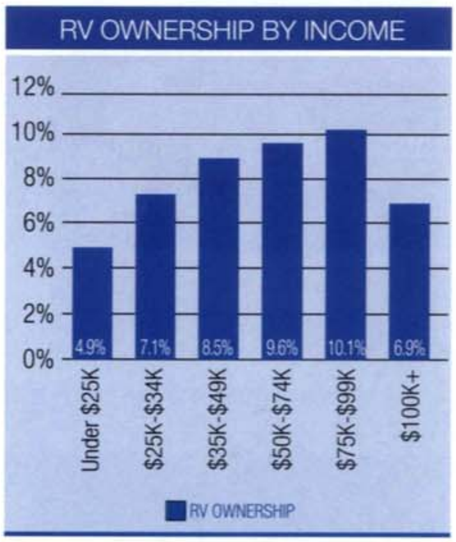
Top and center photos courtesy of Newell Coach. Bottom photo courtesy of RVIA.

Looking At RV Statistics

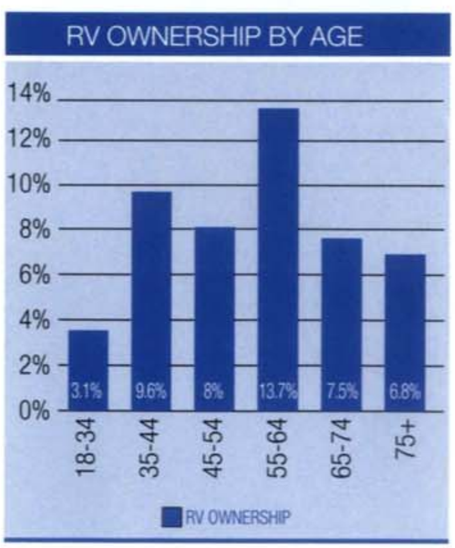
According to a February 2006 news release from the Recreational Vehicle Industry Association (RVIA), RV wholesale shipments surged in 2005, setting a 27-year record. Furthermore, factory-to-dealer shipments of RVs rose 3.9 percent over the same period a year prior. Total RV shipments are forecast to remain strong in 2006. And although gas prices have been steadily rising, low interest rates and IRS tax deductions (a vast majority finance their vehicles via a second mortgage loan) have significantly offset ownership costs.

Adding to those statistics, the Bloomberg Index, based on shares of the five largest makers of recreational vehicles, rose 7.9 percent in 2004 compared with 7.1 percent for the Standard & Poor's 500 Index of large U.S. companies. Over a three-year period (2002 to 2004), the Crowe Capital RV Index posted a 145 percent return, exceeding returns generated by the S&P 500 and the Automotive OEM Index. Seeking to boost the already-hot sales market, the Go RVing Coalition launched its third ad campaign in 2003. The campaign targets adults age 30 to 64, particularly the baby boomers. The $59 million effort, featuring national broadcast and cable television, print, Internet, and radio advertising, enhances the industry's market expansion program and will reach millions more potential buyers. Its the fourth ad campaign was launched this year during NBC's Olympics telecast.

Among households that have never owned an RV, more than one in six expressed interest in buying one in the future.



Source: Self-Storage Economics



Source: Self-Storage Economics

According to a University of Michigan study, long-term signs point to substantial recreational vehicle market growth because of favorable demographic and lifestyle trends. Eight million U.S. households are projected to own recreational vehicles by 2010. That will amount to a 15 percent increase from 2001 to 2010, outpacing U.S. household growth of 10 percent. In addition, purchase intentions are higher now compared with those the study found in 2001 and 1997. Two-thirds of current owners plan to purchase another RV. Among households that have never owned an RV, more than one in six expressed interest in buying one in the future. Among all U.S. households, nearly one quarter (23 percent) intend to purchase an RV in the future.

"Overall, there is a strong and enduring appeal to the RV lifestyle that is as valid today as it was 20 years ago," the study declares. "The latest survey data only adds support to an optimistic forecast of RV sales and future ownership growth."

Characteristics Of RV Storage

While emerging the industry continues to define the characteristics of an RV and boat storage facility, based on our practice of market studies and appraisals, there are essentially three types of main RV and boat storage units.

Open Space: This is a parking space in configurations from 10 feet by 20 feet to as large as 12 feet by 50 feet. These are the most common types of units and are the least expensive to build and the least expensive to operate. However, they also command the lowest rental rates.

Covered Space: This type of unit is an open space with a roof, much like a carport. Growing in popularity, one recently constructed facility had half covered and half open spaces. The cost can be as much as $5,000 per unit. This includes site improvements and direct costs, but not indirect costs or profit factor, and excludes land value. The rental premium is generally 20 percent to 70 percent, with a 50 percent rate premium on average. While operating costs rise, these units tend to be the most profitable; however, since demand is not always present for covered units, a mix is often best.

Indoor Space: This type of unit is fully enclosed, but less common with estimates that less than 10 percent of facilities are configured this way. While the rental rates and operating expenses increase significantly with indoor storage, it is also the least efficient land use and the most expensive to build.

Determining density for RV and boat storage is very challenging because it varies not only for each site but also for the configuration of each facility. In general, a range of 30 to 50 units per acre is reasonable. As RVs and boats have gotten larger (longer length), the demand for larger storage units has increased. Consequently, density tends to decrease.

Trade Area Analysis

RV and boat storage trade area is a marketability concept. It is the geographic area adjacent to the subject property from which it draws its customers. The criteria for establishing the primary trade area include four key elements: time-distance travel relationships; land use patterns; natural barriers; and psychological factors. RV and boat storage facilities tend to have larger trade areas of 5 to 10 miles in radius.

As an example, a survey of key recreational facilities was conducted by Self Storage Economics. It included those facilities with a significant amount of RV storage spaces—a majority of these facilities are the typical mixed-use type that includes both self-storage and RV storage space. Facilities surveyed were typically those with 50 or more RV spaces and professional management. The survey indicated that available recreational vehicle storage is often difficult to obtain; therefore tenants will travel longer distances. This localization of demand is driven by cities with restrictive or prohibitive RV parking ordnances, major residential growth that includes new subdivisions that have associations, and CC&Rs that prohibit RV parking.

Sources utilized in this analysis include public records, telephone books (published and on the Web), and primary survey research completed by Self Storage Economics. The data sources vary in scope, method, and precise geography of research, but are considered reasonable indicators of the current trends and conditions of the subject trade area as the data has been corroborated by field research.

The Trade Area Supply Table summarizes the existing RV storage supply in the sample trade area. This example of supply in one market studied corroborates the trend research. Of nearly 3,000 units surveyed, the average occupancy was 95 percent! Yet, supply side analysis is insufficient to quantify market conditions of supply, demand, and market equilibrium.

TRADE AREA SUPPLY*

	# of Spaces	Type	Occupancy	Occ. Spaces
1	175	E	90%	157.5
2	200	0	95%	190
3	80	0	100%	80
4	750	0	100%	750
5	11	0	82%	9
6	100	0	85%	85
7	26	0	100%	26
8	100	0	100%	100
9	80	0	100%	80
10	55	0	100%	55
11	72	0	100%	72
12	300	0	100%	300
13	227	0	98%	222
14	24	0	100%	24
15	97	0	100%	97
16	37	0	97%	36
17	80	0	100%	80
18	35	0	90%	31.5
19	60	0	95%	57
20	119	0	50%	60
21	50	0	100%	50
22	60	0	87%	52
23	82	0	76%	62
24	30	0	100%	30
25	40	0	93%	28
	2,890		**95%**	**2,744**

Source: Self Storage Economics *25-Facility Trade Area

RV LEASE RATE COMPARABLES

	Location	Sizes	Open	Canopy	Open	Canopy
1)	Big Stuff RV & Mini Storage	10 x 20	$50.00	$110.00	$0.25	$0.55
	32045 Yucaipa Blvd.	10 x 30	$60.00	$120.00	$0.20	$0.40
	Yucaipa	10 x 40	$70.00	$130.00	$0.18	$0.33
	Occupancy Rate:	99%	Number of RV Spaces: 275			
	Facility opened in beginning of 2004, absorbed 100% RV space in approximately 8 months. "Out of Area" clientele constitutes approximately 10% to 15% of the tenants. Has a waiting list for space, highest demand is for 10 x 40.					
2)	Stow-A Way Self Storage	10 x 20	$55.00		$0.28	
	1519 W. Lugonia Ave.	10 x 25	$65.00		$0.26	
	Redlands	12 x 25		$95.00		$0.32
		12 x 40		$160.00		$0.33
		12 x 55		$220.00		$0.33
	Occupancy Rate:	99.9%	Number of RV Spaces: 165			
	"Out of Area" clientele constitutes approximately 10% to 20% of the tenants. Has a waiting list for space, highest demand is spaces 40 feet in length.					
3)	Freedom Storage	10 x 17		$89.00		$0.52
	30630 Highway 74	10 x 25		$115.00		$0.46
	Homeland	10 x 30		$120.00		$0.40
		10 x 35		$130.00		$0.37
		10 x 40		$150.00		$0.38
		10 x 45		$175.00		$0.39
	Occupancy Rate:	39.0%	Number of RV Spaces: 197 All Covered			
	Just opened Phase II of RV storage, 121 spaces (7/6/2005). Previous Phase of RV (76 spaces) reached 100% occupancy in two months. Manager expects similar absorption rate due to waiting list. Greatest demand is for space 35 feet to 45 feet in length. Facility also provided "pull through" spaces at higher rates. "Out of Area" clientele constitutes approximately 5% to 10% of the tenants.					
4)	Rancho RV & Storage	11 x 26	$79.00		$0.28	
	12050 Arrow Hwy	11 x 35	$105.00		$0.27	
	Rancho Cucamonga	11 x 40	$135.00		$0.31	
		12 x 26		$99.00		$0.32
		12 x 30		$115.00		$0.32
	Occupancy Rate:	100.0%	Number of RV Spaces: 152 All Covered			
	Facility opened in May 2004 and reached 100% RV occupancy in approximately three to four months. The facility currently has a waiting list - greatest demand is for spaces 40 feet in length. Facility expects to expand its RV storage in the next year or so (adjoining two-acre site). "Out of Area" clientele constitutes approximately 15% to 20% of the tenants.					
5)	Victoria RV & Self Storage	10 x 23	$74.00		$0.32	
	12360 Baseline Rd.	10 x 27	$87.00		$0.32	
	Rancho Cucamonga	10 x 39	$115.00		$0.29	
		10 x 20		$90.00		$0.45
		10 x 30		$136.00		$0.45
	Occupancy Rate:	98.0%	Number of RV Spaces: 205			
	"Out of Area" clientele constitutes approximately 15% to 20% of the tenants. Has a waiting list, greatest demand is for 39-foot space.					
6)	Central Avenue Self Storage	10 x 25	$75.00		$0.30	
	3399 Central Ave.	10 x 30	$85.00		$0.28	
	Riverside					
	Occupancy Rate:	97.0%	Number of RV Spaces: 100			
	"Out of Area" clientele constitutes approximately 5% of the tenants.					

Source: Self Storage Economics

Therefore, an analysis of demand in this trade area is warranted.

As previously stated, demand nationwide for RVs is one in 12 households. However, this does not account for local variables critical to RV and boat storage. Moreover, it does not directly translate into demand for storage (not all buyers need a storage unit). Based on studies conducted by the University of Michigan's Survey Research Center, the two key determinants of recreational vehicle demand is age and income, on a per household basis.

In this example, we will conclude there is demand for one RV and boat storage unit for every 10 households. It should be noted that although recreational vehicle storage facilities cater to RVs, demand for RV storage space is also derived from consumers with automobiles, racecars, and watercraft, resulting in additional need for RV storage space in the market. In this trade area, there are over 50,000 households suggesting demand for approximately 5,000 total spaces.

Based on the foregoing conclusions of supply and demand, the market is underserved by nearly 2,000 units. Such an under-supply is not unique to this example, as most of our market studies for RV and boat storage consistently indicate undersupply. As a test of reasonableness, it is sometimes appropriate to drill down to a smaller trade area such as a five-mile radius. And it is important to remember that anecdotal experiences don't determine the market conditions in all trade areas.

The market further supports these trends by the absorption rate of comparable RV and boat storage projects. The data indicates an absorption time of up to eight months, compared with 30 months for a typical self-storage project. Indeed, adequate analysis is the key to making good investment decisions regarding this type of specialty storage. In this example, the project's competitive position is forecast to be above fair share because the facility will be new and the unit mix will have approximately half covered units and half open units.

Cash Flow: The Key To Success

Like all real estate, the key to the success of an RV and boat storage facility is cash flow. Simply, this is revenue collected less expenses, from which net operating income is derived. As for revenue, comparable data is provided in the lease Rate Comparables chart.

The data indicates a lease rate range from $0.18 to $0.50 per square foot per month for open and covered spaces. Assuming our project is weighted equally with both types, a rate of $100 per month is concluded for an average unit of 12-by-35 (this equates to $0.24 per square foot per month). In our prospective project, density is forecast at 45 units per acre over five acres (225 units total). On this basis, total income is $270,000 annually (225 x $100 x 12 months).

Like self-storage, RV and boat storage has ancillary income commonly derived from administration fees and late fees. Ancillary fees are reasonably estimated at three percent of potential gross income. Vacancy is forecast at 10 percent over the long run to account for physical vacancy and economic loss.

Operating expenses for RV and boat storage are also similar to self-storage because facilities rent on a full service basis, meaning ownership is responsible for all fixed and variable expenses. Operating expenses can be summarized in the accompanying chart. RV and boat storage tends to have lower expenses, as a ratio of income, because they are generally smaller and easier to operate than self-storage. A typical expense ratio equates to about 25 percent of collected income (after vacancy).

What's The Cap Rate?

As to capitalization rates, there are few sales of standalone RV and boat storage facilities. Based on survey research by Self Storage Economics, it appears the newness of the asset class warrants a risk premium. Like self-storage of old, lenders and investors are just beginning to understand the RV and boat storage market. Consequently, a risk premium of approximately 100 basis points is indicated. Considering that the 2006 Investor Survey indicates a 7.26 percent overall capitalization rate for self-storage, a recreational vehicle and boat storage overall capitalization rate of 8.25 percent is concluded.

Under the hypothetical scenario outlined, there is significant demand for RV and boat storage. Accounting for all income and expenses equates to a net operating income of $187,718. The conclusion of the analysis is summarized in the Direct Capitalization Table.

RV ABSORPTION COMPARABLES

No.	Year	Property	Location	Spaces	Occupied	Months	SP/Month	%Month
1	2005	Freedom Storage (Phase I)	Homeland	76	76	2	38	50.00%
2	2005	Norco RV & Boat Storage	Norco	180	168	5.5	31	16.97%
3	2004	Big Stuff RV & Mini Storage	Yuciapa	275	273	8	34	12.41%
4	2004	Rancho RV & Storage	Rancho Cucamonga	152	152	3.5	43	28.57%
		Averages					**37**	**26.99%**

Source: Self Storage Economics

DIRECT CAPITALIZATION

RV Storage Income:	$270,000		
Ancillary Income (3.0%):	$8,100		
RV Storage PGI:	$278,100		
Less Vacancy (10.0%)	($27,810)		
Total Effective Gross Income:		**$250,290**	
Less - Expenses:	25.0%	($62,573)	
Net Operating Income:			**$187,718**
Capitalization Rate:			0.0825
Market Value Indication:			$2,275,364
Rounded (to nearest significant number):			**$2,275,000**

Source: Self Storage Economics

Benefits Of The Asset Class

To test the analysis, a simplified cost analysis is warranted. As stated previously, we estimate a cost of $5,000 per unit or $1,125,000 (225 x $5,000). Additionally, indirect costs of 10 percent are concluded. On this basis, total costs (excluding land value and profit) equate to $1,237,500. If a profit factor of 25 percent is applied, total costs of $1,546,875 are indicated. This suggests a return to the land of $728,125 or $3.34 per square foot.

This example underscores the challenge for RV and boat storage: finding suitable land at a price that is financially feasible. As a rule of thumb, land values approaching $5 per square foot ($217,800 per acre) are reasonable for this type of storage. In suburban markets, such land pricing can be extremely difficult to find. Of course, in this example the profit factor can be lowered providing a higher price point on the land.

RV and boat storage may be the next great wave of self-storage. The market indicates incredible demand with favorable demographics over the long run. Regulatory ordinances encourage RV and boat storage by limiting parking options at residences and on city streets. However, it can be challenging to find land suitable for development at a financially feasible price. Nevertheless, investors and developers are enthusiastically embracing this new asset class, hoping for returns comparable to the early days of self-storage.

OPERATING EXPENSES

Fixed
Taxes
Insurance
Variable
Repairs & Maintenance
Administration
On-Site Management
Off-Site Management
Utilities
Advertising
Miscelleneous

Source: Self Storage Economics

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