

MARKET WATCH: ALASKA

Self-Storage In The Last Frontier

By Tim Garey

The state of Alaska is often referred to as "The Last Frontier," and as the second to last state admitted into the union; this portrayal could also extend to its self-storage market. During the 1890s, Alaska was flooded with gold prospectors; unfortunately, they didn't look into developing self-storage facilities. While Alaska's total square miles place it as the largest state in the United States, it ranks 47th based on population. Approximately one-third of the state is organized into political communities, or 16 boroughs with two CBSAs (core base statistical areas). Approximately 66 percent of the state is owned and managed as national forests, parks, and wildlife refuges by the federal government. Of this amount, the Bureau of Land Management manages approximately 87 million acres of the state.

This essentially means that the majority of the self-storage market is dominated by either single-facility owners or owners with three to five facilities.

Looking At The Numbers

The estimated 2007 population for Alaska is 674,456, according to Claritas, Inc. The largest concentration of this population is accounted for in Anchorage, which has an estimated figure of 280,933 and represents approximately 42 percent of Alaska's population. The cities following Anchorage in population are Fairbanks with 31,846, and Juneau with 31,197. Juneau is also the state capital.

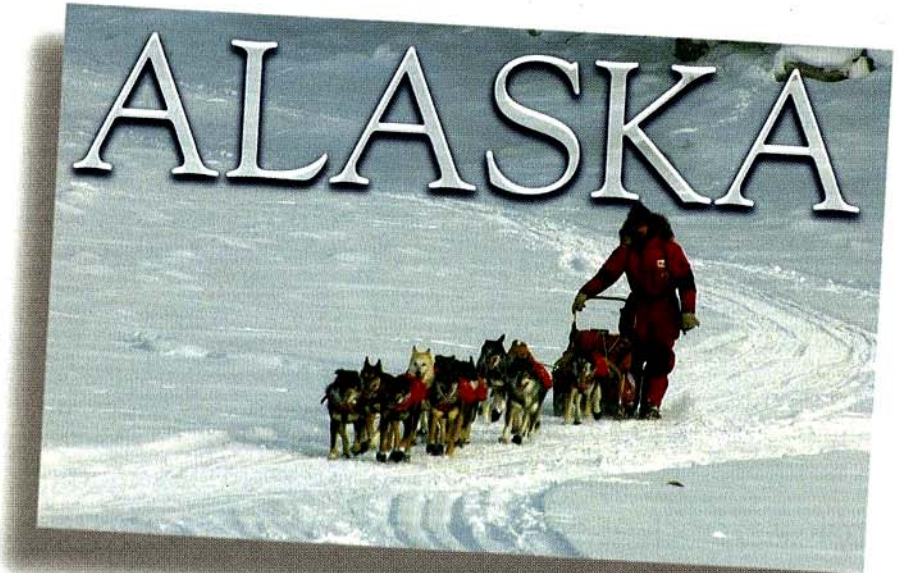


Photo courtesy of Colin Gregory Palmer

Since 2000, Alaska's population growth has been approximately 1.05 percent annually. This is similar to the city of Anchorage's growth, which is estimated at 1.10 percent annually over the same time period. Both Fairbanks and Juneau are below these estimates at 0.75 and 0.22 percent, respectively. These figures are similar to those of the estimated number of households in Alaska in 2007 (240,842), which is an increase of approximately 1.20 percent from

2000. This figure is anticipated to experience increases at the same moderate level around 1.03 percent. Anchorage's household was estimated at 103,015 in 2007—an increase of 1.19 from 2000—while the

cities of Fairbanks and Juneau were at 0.39 and 0.48 percent, respectively.

Anchorage's average household income was \$79,878, which is similar to the state at \$73,671. And, the city's homeownership rate is at approximately 61.4 percent compared to Alaska's at 63.6 percent. These demographic trends mirror the state of the self-storage industry with the greatest concentration of these facilities located in Anchorage, along with Fairbanks and Juneau.



COMING NEXT
MONTH:
San Francisco



ALASKA MARKET CONDITIONS

| Market | Existing Supply | Forecast Demand | Variance | Condition |
|--------|-----------------|-----------------|----------|----------------|
| Alaska | 10.12 | 6.87 | -3.25 | Over-Supplied* |

*Compared to National Average. Source: Cushman & Wakefield's Self Storage Industry Group



Self-Storage Characteristics

As varying as Alaska's terrain is, the self-storage needs vary as well. Alaska's climate is not similar to any other state with long winters, short spring/falls, and moderate summers. The states temperatures vary depending on the location within the state. The far north area can range between a low of negative 30 degrees to a high of 50 degrees, while in the interior portions of the state, temperatures can range from minus 20 degrees to 75 degrees. While not all facilities offer climate-controlled

and four-wheeling. This bodes well for the self-storage industry because during the harsh, cold winters, boats, RVs, and other items need to be taken out of the elements. Self-storage facilities have provided for larger unit sizes, as well as standard unit sizes, and many of these facilities have done so.

Typical construction consists of metal and wood, and facilities have drive-up access with interior climate-controlled units. Many of these facilities have RV/boat/vehicle storage spaces, while the older facilities have significantly higher

Discussions with owners within the major metropolitan areas have indicated that their occupancies generally range between 85 to 95 percent. However, the facilities located in more rural portions of Alaska indicate some wider range of occupancies between 70 and 100 percent.

As one may expect, expenses for self-storage facilities are generally higher in the categories of repairs, maintenance, and utilities. Owners have indicated that these categories can double the national averages due to higher heating costs, lighting each facility during the winter months, and the harsh climates. The exterior of these facilities take more of a beating than those in the 48 continental states due to constant rain, ice, snow, and high winds.

The development of a self-storage facility in Alaska requires a well-thought out plan, as well as some patience. According to local real estate professionals, new construction has been limited. In the Anchorage market specifically, there has been only two "traditional" self-storage facilities developed over the past three years—there are no new projects under construction. Due to geographical constraints, available land for development is limited in the larger markets. Construction costs can be anywhere between 20 and 50 percent higher in Alaska than in other states. Also, some of the municipalities limit their approval for these types of facilities.

Owners and brokers have indicated that a new trend is to purchase industrially zoned land and place Conex storage containers on site for rent. These containers are large enough for vehicle storage and provide easy access. This option allows owners to purchase land and bank it without immediate cost for construction. GarageTown USA, which consists of larger private storage condos, is another storage option with one facility located in Anchorage. The storage condos range in size from 15-by-40 to as large as 30-by-50 and are priced from \$89,000 to \$206,000. They are somewhat different than the traditional self-storage

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units, new facilities are built with climate-controlled units as an option.

The state offers a significant amount of outdoor activity opportunities in the way of fishing, boating, snowmobiling,

land-to-building ratios with little to no vehicle storage. Monthly rental rates vary somewhat by market within the state, and can range from \$0.35 per square foot to \$2.20 per square foot.



unit; however, they provide an alternative storage option for customers—the units are heated and include cable, phone, and water hookups.

Sales activity has been very limited over the past 10 years. Brokers and assessors in the populated areas of Alaska have indicated that owners are not willing to sell their investments due to strong rental levels, as well as high occupancy rates and limited competition. In Anchorage, for example, the most recent sales were approximately seven to eight years ago, where one buyer purchased three to four individual facilities and has consolidated them under one brand name.

Regarding capitalization rates, again, with limited sales data, they have been virtually non-existent. In Anchorage, two self-storage properties were refinanced at capitalization rates of approximately 8.5 to 9.5 percent, which are typically higher than those investments in the lower 48 states. Sale price ranges for the Alaska self-storage properties can fall between \$30 and \$80 per square foot depending on location, amenities, and quality.

The demand for this property type is high due to higher construction costs, shrinking land availability, and limited self-storage supply. One would opine that interest from investors would be strong; however, Alaska has been perceived as that far away, mysterious place with inferior demographics, deemed as "The Last Frontier" where its harsh climate creates obstacles for self-storage development.

Opinions for future market conditions for self-storage range from a status quo level to a "change is inevitable" paradigm shift in order to accommodate demands on the more populated markets. The remainder of 2008 and the beginning of 2009 will likely see little change for the self-storage markets in Alaska due to increasing construction costs, limited developable land, unwilling sellers, positive cash flows, and other investments which equal that of the self-storage commodity. ■



Tim Garey is Director of Cushman & Wakefield's Valuation Services and Capital Markets Group in Portland, Oregon.



ALASKA

A LOOK AT THE NUMBERS

Open Country in Alaska

By R. Christian Sonne, MAI

Alaska is wide open country, and self-storage is also wide open in the state. The market is widely segmented, with low occupancy rural facilities and high occupancy facilities in more dense, urban areas. Ownership is primarily entrepreneurial, with only U-Haul (a national operator) having a presence in this large geographic state.

With slow population growth, market conditions are particularly site specific in this wide open market. Alaskan self-storage underscores the importance of defining the trade area and local, trade

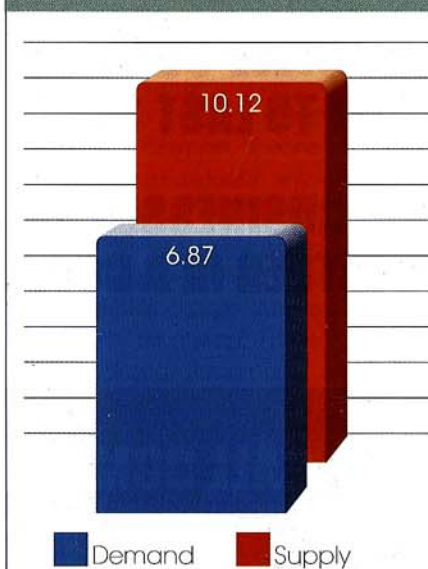
area market analysis. Unfortunately, Alaska does not have a CBSA ranked in the top 100 in the *2008 Self-Storage Almanac*. Macro market conditions for the asset class indicate over-supply throughout the state. While this data may seem negative, it underscores the unique characteristics of self-storage in relation to other real estate.

Trade areas in Alaska are typically larger, due to a smaller population. The average unit size tends to be larger, and tenancy is comprised of more commercial users. Statewide land is plentiful and relatively inexpensive (particularly in rural areas), so there are few barriers to entry for new development. Demographically, the state is low density in population and housing. These characteristics suggest a disciplined approach to investing is warranted. Nevertheless, superior returns can be found with higher overall capitalization rates.

At first glance, Alaska self-storage market conditions look wide open. However, this statewide analysis emphasizes the importance of local market analysis. Since this data is based on a national comparison, it should only be used as a broad benchmark. Investors can separate the winners from the losers by reviewing market conditions in the local trade area. A disciplined approach to investment can yield superior returns in Alaskan self-storage. ■

R. Christian Sonne is Managing Director of Cushman & Wakefield's Self Storage Industry Group.

ALASKA SUPPLY & DEMAND



Source: Cushman & Wakefield's Self Storage Industry Group