

## MARKET WATCH: SOUTHERN CALIFORNIA

## Self-Storage Climate In Southern California

By Kristen M. Vander Veen



Typically, residents in Southern California don't have to check the daily, local weather reports. There are only two seasons: warm and warmer. However, unlike the weather, the self-storage market in Southern California is not so predictable. In fact, the uncertainty of the market sends a big chill up the spines of many players in the industry.

The main population centers of Southern California are generally considered to be the counties of Los Angeles, Orange, Ventura, San Diego, Riverside, and San Bernardino.

The area is partly developed, with spread-out, suburban communities, along with vast areas that remain undeveloped.

The Southern California landscape is considered mostly urban in nature. The area is partly developed, with spread-out, suburban communities, along with vast areas that remain undeveloped. The region is home to over 23 million people (almost 10 percent of the country), and is the nation's second most populated region. Southern California consists of some of the most expensive and largest housing markets in the U.S. Moreover, a few coastal cities in Southern California include some of the wealthiest per-capita areas in the country, notably La Jolla near San Diego, Beverly Hills in Los Angeles County, and Newport Beach in Orange County. However,

beginning in 2007, the credit crunch in the banking system caused many foreclosures, job losses, and uncertainty in the real estate market. After years of robust growth for the self-storage industry, a moderate pace is forecast for the future due to economic turmoil and a slow down in consumer spending.

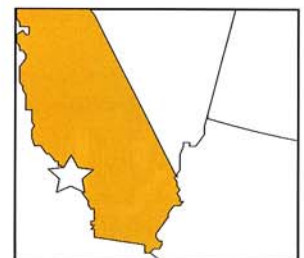
Furthermore, this doubt has left many investors sitting on the sidelines while the storm blows over. Consequently, this makes it difficult for market participants

to clearly grasp key indicators such as capitalization and yield rates for the self-storage asset class.

The total transaction volume in Southern California has cooled significantly over the past year. One broker reported that the only transactions closing are deals with assumable loans, seller financing, or deals that are priced competitively. A review of over 150 sales representing self-storage property throughout the Southern California region since 2004 is summarized in the figure below (data source: Co Star). The data indicates interesting trends of the past, but a foggy outlook for 2009. The actual data represents over \$1 billion of self-storage transactions with an average price of \$93.99 per square foot, corresponding with a rising trend in overall capitalization rates to 7.06 percent



COMING NEXT MONTH:  
Kentucky



### Southern California Market Conditions

Market	Existing Supply	Forecast Demand	Variance	Condition
California	6.05	6.87	0.82	Under-supplied*
Los Angeles	3.83	3.98	0.15	Equilibrium
Riverside	6.64	6.6	0.80	Equilibrium
San Diego	5.25	6.05	0.80	Under-supplied*

Source: Cushman & Wakefield's Self Storage Industry Group

\* Compared to National Average

now—an increase of 36 basis points from 6.7 percent in the year 2007. However, this is still down 130 basis points from 2004. According to the data, total sales volume peaked in 2005 with a decline in the years thereafter. Moreover, the average marketing time rose significantly to 4.63 months, up from 2.67 months the prior year. The average price per square foot dropped to \$91.33 per square foot, slightly down from 2007 at \$97.60 per square foot.

The price per square foot varies significantly depending upon the region, however. Cities, such as Santa Monica in Los Angeles County, where land value remains significantly higher than most other cities within the market continue to command a much higher price per square foot (more than \$300 per square foot). Current data sales indicate a further rise in capitalization rates with a stabilized target rate near 7.5 percent for most properties.

A typical facility in Southern California is 76,970 square feet with 720 units, indicating an average unit size of 106.9

square feet. Similar to other markets, suburban areas consist mostly of single-story facilities, whereas urban areas consist of multi-story facilities. As to rents, the market indicates that an average 10-by-10 non-climate-controlled storage unit rents for \$147.62 per month or \$1.48 per square foot per month. This varies however, depending upon the region. Densely populated urban areas could rent for more than \$2 per square foot, and rural areas could rent for less than \$1 per square foot per month. For example, a 10-by-10 storage unit in the Santa Monica area rents for over \$300 per month.

The *2008 Self Storage Almanac* data describes market conditions within the Southern California Region as ranging from equilibrium to over-supplied. Although, analysis by state and CBSA should only be used as a benchmark when quantifying demand, as self-storage is neighborhood specific. Nevertheless, these broad trends lead support to the over-supplied characteristics of many sub-markets within this

region. For example, Riverside County desert areas, which include cities like Palm Desert, La Quinta, and Rancho Mirage, have experienced significant growth in self-storage product within the past few years. As the population was stable and demand was already met by existing facilities, these new facilities had to compete against existing facilities. This formerly hot market has seen absorption rates cool to lukewarm levels. To enhance absorption, many of these facilities have offered rental rate discounts of 50 percent off for up to one year. According to one manager, new supply and turmoil in the local housing market dramatically affected occupancy rates and has taken some steam out of the self-storage market. Many “snow birds” flock to the area and occupancy tends to increase in the summer months. However, this past summer, the manager pointed out that many residents who could not afford their second homes went into foreclosure. Therefore, the decline in population led to a decline in occupancy.

Other submarkets, such as Lancaster in the Antelope Valley area, have also experienced similar trends. Over recent years, the city has morphed from its quasi-rural setting into a bedroom community for individuals who commute to Los Angeles. Moreover, housing in Lancaster was fairly affordable compared to most other Los Angeles neighborhoods. Lancaster has also attracted distribution centers for national companies such as Rite Aid®, Michaels®, and Sygma, as well as smaller local businesses and national restaurant chains. However, again, the “housing bubble” has caused a dramatic spike in foreclosures, and the unemployment rate has soared in this area. In terms of self-storage supply, Lancaster is well above the Los Angeles CBSA. The average occupancy in Lancaster is relatively low at 74 percent. Facilities listed for sale have sat on the market for well over six months, with listing brokers reporting little interest from potential buyers despite reductions in asking prices.

These two regions both show signs of oversupply and, as expected, vacant, developable land is more readily available. Comparatively, in suburban/urban submarkets where there is limited available

land for future development, construction costs are higher and municipalities limit approval, demand remains more stable (typically 80 percent and above). For example, according to one broker, the San Diego County market remains strong because there has been minimal new development. A survey performed by Cushman & Wakefield, Inc., one year ago in Oceanside (a coastal community in San Diego County), indicated that the overall occupancy was 85 percent. Comparatively, the same trade area surveyed one year later, held on to a strong overall occupancy at 87 percent.

Another self-storage operator, responsible for over 250 properties comprising more than 15 million square feet of storage and retail assets in the Southwestern U.S., reported that existing, mature facilities in the Southern California region continue to perform pretty well and physical occupancy remains near 90 percent. Move-ins are only down approximately four to five percent, which does not have a major impact on cash flow. However, at the same time, there is not a lot of pricing power. Therefore, there are few rental increases. He also pointed out that we will begin to see a greater number of distressed issues and foreclosures in properties situated in outlying areas.

**Partly Cloudy, Partly Sunny**

The forecast for the future is mixed, and will vary from market to market. As credit markets and the housing market work through the current crisis, we will discover which regions will remain stable. Self-storage has historically been a stable asset class in both bear and bull market cycles. Moreover, the self-storage market tends to segment with wide demarcations among winners and losers. Unlike other real estate, self-storage is trade area specific. Although the weather may be predictable in Southern California, self-storage conditions are only predictable after careful analysis of the local trade area or neighborhood.



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**SOUTHERN CALIFORNIA**  
A LOOK AT THE NUMBERS

**Demand in Southern California**

By R. Christian Sonne, MAI

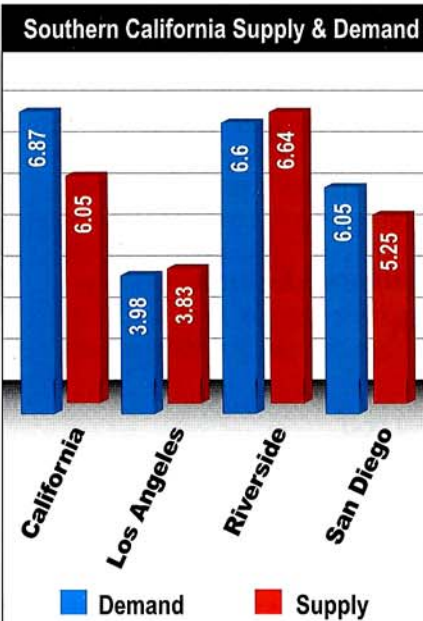
Surfing for good self-storage sites in Southern California can be challenging. Market conditions are approximately at equilibrium, but limited vacant land available for development along the coast and high land prices limit feasible self-storage development. Therefore, market conditions tend to remain balanced while developers look for adaptive re-use and renovation of existing buildings for conversion into new self-storage product.

Inland locations have an abundance of land and pricing is declining. However, these outlying communities tend to be over-supplied with self-storage product. Other regional trends include RV and boat storage development, but, this type of development is often limited by high land pricing. Ideal locations for RV and boat storage are inland locations near major freeways. The data indicates a trend of limited new development in 2009, price increases below inflation, and stable occupancy. Values are forecast to decline as capitalization rates are forecast to rise due to the financial and economic crises in the United States.

Ultimately, selecting the winning self-storage location is a function of the local trade area. Nevertheless, national and CBSA data as published in the *Self-Storage Almanac* can be useful benchmarks. The data is presented graphically as shown in the chart on the left and in the table on page 59.

As a residence in the Los Angeles –Santa Ana CBSA, and a user of self-storage in this massive sub-market, I am confident that self-storage fundamentals will remain stable during these tumultuous economic conditions. The surf and self-storage forecast is for moderate conditions in the year ahead.

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



Source: Cushman & Wakefield's Self Storage Industry Group