

## MARKET WATCH: CONNECTICUT

## Self-Storage In The Constitution State

By David Ubaghs

Because of its small geographic size, ranked 48<sup>th</sup> in the country, Connecticut is often overlooked on a national perspective. Its population of just over 3.5 million ranks it as the 29<sup>th</sup> state in the union. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Connecticut ranked first in the country in per capita personal income in 2008—the total of net earnings before tax divided by population. From 48<sup>th</sup> to first in the nation, Connecticut clearly has some explaining to do.

Despite its small size, Connecticut has a diverse landscape and demographic distribution, which are necessary to understanding its self-storage market. Its diverse economy and strategic location between New York City and Boston have historically kept its population at the top of the country's income level. Fairfield and Hartford Counties are home to some of the largest securities (hedge fund) and insurance centers in the world. Connecticut is the headquarters location of many corporations including General Electric, United Technologies, Aetna, The Hartford, ESPN, and two of the world's largest casino operations. The financial engine which has propelled Connecticut in recent years, however, may be its biggest hurdle in coming years as the outlook for the financial industry is very uncertain in the face of the financial market meltdown that occurred only six months ago.

The Connecticut self-storage community has made self-storage easily accessible to its residents. Self-storage inventory is pervasive



throughout the state, but concentrated near its denser populated areas. The Connecticut population is primarily found along its three major Interstate highways. The largest concentration of population is located in a coastal band along Long Island Sound, parallel to Interstate 95 which enters and exits the state in New York just north of New York City and Rhode Island. The second population band is located along Interstate 91, starting in New Haven, home of Yale University, northward through Hartford to Massachusetts. Interstate 84, passing through the cities of Danbury, Waterbury, and Hartford form a third population cluster. These three corridors encompass the state's three core based statistical areas (CBSAs) of Bridgeport-Stamford-Norwalk, New Haven-Milford, and Hartford. Each of these CBSAs are very different in their respective composition and corresponding demand for self-storage. Even within the CBSAs, the communities that comprise them are vastly different and demand analysis for self-storage use requires specific neighborhood analysis. An example of such is the comparison of the adjacent communities of Bridgeport and Fairfield, two communities in the first CBSA. Bridgeport has a population of 145,000, median income of \$42,000, and renter-occupancy rate of 60 percent, while Fairfield has a population

COMING NEXT MONTH:  
Portland, Oregon



### Connecticut CBSA Market Conditions (SF/Person)

Market	Existing Supply	Forecast Demand	Variance	Condition
Connecticut	4.19	7.03	2.84	Under-Supplied*
Hartford-W. Hartford-E. Hartford	5.09	6.22	1.13	Under-Supplied*
Bridgeport-Stamford-Norwalk	4.47	6.55	2.08	Under-Supplied*
New Haven-Milford	3.98	6.45	2.47	Under-Supplied*

Source: Cushman & Wakefield's Self Storage Industry Group and 2009 Self-Storage Almanac

\*Compared to National Average

of 57,000, median income of \$106,000, and renter-occupancy rate of 19 percent. Clearly, the level of demand in terms of quantity, quality, and amenity package of self-storage product is different between these two adjacent communities.

Because of the diversity in land use and income levels in different sub-markets of the state, each operator has had a different experience over the last 12-months.

### Inventory

It is no mistake that the national operators found in Connecticut are located along these corridors. National operators with facilities in Connecticut include Public Storage, U-Haul International, U-Store-It Trust, Sorvan Self Storage, Extra Space Storage, and The Lock Up Self Storage. Local and regional operators also compete within the communities along these corridors, but are also found in communities well removed from the Interstate system. These areas include the rural Northwest Corner of Litchfield County known for its fall season tourism trade and antique market, and the eastern portion of the state known for its booming gaming/tourism industry, centered at the world's first and third largest casino-hotels—Mohegan Sun and Foxwoods, respectively.

Connecticut has a very high cost of living and doing business, but this is not distributed evenly throughout the state. The southwestern portion, encompassing Fairfield County, has the highest land prices in the state given its proximity and connection to New York City. As such, the majority of new construction along the coast of Connecticut has been comprised of multistory properties as land is scarce, expensive, and zoning regulations are strict. Land pricing becomes more affordable throughout the rest of the state where there are fewer physical barriers to entry.

Diverse in location, but also diverse in construction, self-storage inventory in Connecticut is comprised from the most basic to the state of the art. Traditional,

exterior-row construction comprises the largest number of properties. However, multistory, climate-controlled facilities, along with facilities converted from prior uses such as former textile mill factories and outdated grocery stores, also

comprise self-storage stock. Within individual communities, self-storage facilities are located in both industrial and commercial districts, but there has been a recent trend within new construction of bringing self-storage facilities to retail districts, commonly along local transportation arterials.

Demand for self-storage space in Connecticut is overwhelmingly from residential users. The state's colleges generate demand in specific sub-markets, while demand from military personnel is limited to the New London-Groton area surrounding the U.S. Submarine Naval Base in southeastern Connecticut near its state boundary with Rhode Island. While still a minimal demand generator, commercial demand as a percentage of total demand is a potential area for expansion. As businesses look to downsize office and warehouse space in the current economic environment, alternative storage space in self-storage facilities could be an increasingly viable alternative for keeping files, sales inventories, and equipment.

### Occupancy

From the late 1990s through the boom residential years, the number of facilities throughout the state increased and demand was supported by increased retail spending and home renovations, both creating the need to store "stuff" either indefinitely or short term. However, with the turn in the housing market and the economy as a whole, renovations have decreased

and spending on discretionary items has slowed, with a sense of frugality emerging.

Because of the diversity in land use and income levels in different sub-markets of the state, each operator has had a different experience over the last 12-months. A wide range in responses is evident in terms of the effect on occupancy levels at Connecticut self-storage facilities.

While some operators report stable or even slight increases in occupancy, the net consensus overall is a decline in economic occupancy if not also a decline in physical occupancy. In aggregate, anecdotal discussions with market participants point to occupancy decline of approximately 10 percent on average. Rent discounts and concessions have correspondingly been on the rise over the recent period.

Prior to the turn in the housing market and overall economy, stabilized occupancy was generally targeted at 90 percent to 95 percent. In the current economic environment, a revised stabilized occupancy rate of 80 percent is viewed as attractive. Similar to the apartment market, opposing forces are in play on occupancy rates within the self-storage market.

Foreclosures are increasing the demand for self-storage in some communities, but job losses are causing an opposing impact on demand. Home foreclosures have not been pervasive throughout the state and are unevenly distributed in volume among individual communities. The "need" for storage, either actual or perceived, is being reevaluated as tenants review their monthly bills and spending. In a difficult financial environment, previous needs can quickly change to discretionary. For instance, "trading-down" to a smaller unit size is an observed trend at some facilities.


### Investment

The self-storage investment market is not very deep. A review of sales throughout the state from 2000 to 2008 indicate an average annual gross sales volume of just over \$20 million on an average deal volume of under 10 transactions per year. A review of average annual sales prices per square foot of building area indicates a

rising market from 2000, to a peak of about \$75 per square foot in 2005, followed by a decline. The gross sales volume that peaked in 2005 included the consolidation of Ford Storage and Affordable Storage portfolios by then expanding U-Store-It Trust (REIT).

As a result of the contraction in the commercial real estate market since 2008, there have been no substantial self-storage transactions through the end of the first quarter of 2009. As with other commercial real estate markets, a material gap remains between the expectations of potential buyers and sellers, which along with a decline in the availability of financing, have caused transaction volume to effectively cease over the short term.

As a result of the lack of recent transactions, particularly after the crash of the financial markets in the fall of 2008, it is difficult to identify the true impact on pricing in the Connecticut self-storage market. However, several observations can be made. Expectations for stabilized occupancy levels have decreased. A shift in underwriting of "pro forma" to actual or trailing 12-month income levels has occurred on the part of potential buyers. Capitalization rates are increasing as buyers will face higher debt costs and a higher percentage of equity invested will require a higher risk premium.

From a national perspective, Connecticut is a small state with a small population. However, within this small state is a great diversity among land use, population density, income level, and economic industry. Each of Connecticut's 169 municipalities has a unique combination of these characteristics that create a varied degree of demand for self-storage space; as such, they need to be analyzed individually on a specific local and neighborhood basis. 

David Ubaghs is currently a Director with Cushman & Wakefield of Connecticut, Inc., Valuation Services, Capital Markets Group. Before joining Cushman & Wakefield, he was an appraisal analyst with Moran & Associates, Inc., in Stamford, Connecticut.



## CONNECTICUT Demand In The Constitution State

### Dreaming Of Connecticut


By R. Christian Sonne, MAI

Ever dream of living in Connecticut? Maybe you think of the beauty of falling leaves in autumn, the historical towns. Now there's another reason: strong demand characteristics for self-storage!

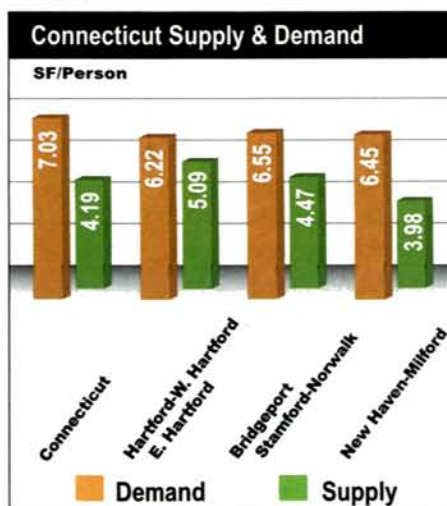
All three CBSAs studied indicate undersupplied conditions. The state has a supply well below the national average. The data is based on peer group analysis for all 50 states and top 100 CBSAs in the country published in the 2009 *Self Storage Almanac*. The data is compiled through survey research and is useful for trend analysis. The Connecticut data is summarized in the table on page 49 and the graph below.

The data is compiled through survey research and is useful for macro analyses. Variances in the precise number of facilities or size of supply are challenging data to compile for real estate, including the self-storage asset class. Nevertheless, small variances in the data are not likely to revise the trend of undersupply in the markets analyzed statewide. In Connecticut, the demographic variables indicate demand exceeds existing supply for the three markets analyzed.

Ultimately, selecting the right location for self-storage is a function of the local trade area. Even in an underserved CBSA, there can be trade areas that are oversupplied. CBSA analyses presented here can be a good starting point, but drilling down to trade area analysis is the best determinant of market conditions for self-storage. From ZIP code studies and survey research, we know that a typical facility gets 65 percent or more customers from approximately a three-mile radius. Moreover, it is difficult to induce demand for self-storage because customers use it for convenience.

I can think of a lot of reasons why folks dream of living in Connecticut. Self-storage may not be at the top of everyone's list, but these strong market conditions are favorable for the asset class in Connecticut. 

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



Source: Cushman & Wakefield's Self Storage Industry Group and 17th Annual Self-Storage Almanac 2009