

## SHIRTTAIL ECONOMICS FOR MINI-STORAGE FACILITIES

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What is value? This is not a single answer question. True value is a range of values covering the spectrum of owner-operators, absentee owners, potential buyers and sellers; not a single value required by the Uniform Standards of Professional Appraisal Practices (USPAP) and lenders.

Categories of value: USPAP value, return-on-investment, shareholder value, wealth portfolio, management value, life style value and psychogenic value

Mini-storage facilities represent all of the above values depending on the conditions of the property and surrounding neighborhood economics as well as local, regional and national life style trends and on the particulars (features, functions and benefits) of the specific property and the owner or buyer.

The most commonly accepted value definition for real estate is its highest and best use value (USPAP) which is:

HIGHEST AND BEST USE: the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. *DICTIONARY OF REAL ESTATE*

The above is predicated on external market data derived from three methodologies; cost to replace minus depreciation and obsolescence (historical), direct comparable sales for land sales and improved property sales (current) and capitalization of net income (future). All should result in a similar answer or explanations supported by external data needs to be provided why equilibrium is out of balance. All of the above assumes the following:

ARMS-LENGTH TRANSACTION  
A transaction between unrelated parties under no duress  
*DICTIONARY OF REAL ESTATE*

All of the above serves lenders (without speculation factors; market value) and investors (with consideration of speculation; value in use) investors well.

This author offers the following observations.

1. Mini-storage is a long-term land development and speculation model practiced at the individual and corporate level.

2. At the individual level estate planning, career planning, wealth management, life-style choices, retirement and intrinsic values having varying input on wealth alternatives as one determines risk versus benefit, short term versus long term, active versus absentee management, application of individual talents and preferences to operations and quality of life. Addressing all serves the ownership well, segregating each requires a true professional, more than a financial market licensed practitioner. It is amazing how few will pay \$1,500.00 to \$7,500.00 in today's market for such an analysis; less than 1/10<sup>th</sup> of 1% of the asset value and a very small share of the value of the quality of life at risk. For the individual owner estate planning is the umbrella of an economically healthy venture with a higher quality life style.
3. Corporate operations are straight forward. For non-traded corporate ventures Return on Investment (ROI), tax optimization and leverage rule. For publicly-traded ownership earnings per share and contribution margin rule.
4. Whichever ownership is in place the mini-storage owner is a land developer as they acquire land at a relatively low cost with the path of development (whether in the suburbs or in the blighted section or new, increased density section of downtown). As land values increase and improvements depreciate or become obsolete the mini-storage use becomes less than a Highest & Best Use. In fact, when land costs exceed 50% of the total value of the property the current mini-storage use is considered an interim use.
5. When to change use or whether to continue an updated current use requires an alternative analysis. Yes, it costs money but relative to payback it is very inexpensive. Many are "penny wise and pound foolish" as they face tight budgets, falling margins, increasing costs and or shareholder demands. Both corporate and individual owners buy "cheap parachutes". Many have done so most of their career without fall out. I assure you, one accident and they will change their thinking. One home break-in and a security system looks very valuable and affordable. The risk adverse prepare for a changing world with reinvestment in their assets and their plans. It is the owners, choice; count on being lucky or be smart; both have a history of working for their practitioners, gamblers like the former.
6. All of the above needs to be addressed in relation to land. Henry Broderick, a famous Washington Realtor, told me as he pushed handful of dirt almost up my nose, "the answer is in the dirt." The most valuable, short term and long term decision of mini-storage ownership is a land decision for the short-term and long-term. Within the land decision the first factor is 1) transportation, 2) location, 3) demographics now and forecasted, 4) Growth Management Act (all demand factors) and the inverse of demand, supply. *NOTE: In 1990 the three key factors were location, location, location. Transportation has moved in first place as the primary consideration for a commercial land decision for a variety of reasons not discussed here.*
7. FINALLY, I am constantly amazed how many operators measure performance on vacancy (lowest possible) and fail to realize more profit is often made with less work demands and a higher vacancy. I am chagrined at how few understand the difference between intangible and tangible assets, their tax implications and their management for optimum personal and financial gain. I am even more amazed at how few perceive their estate tax liability under current laws which bode well for

a 2008-2009 death but not so well for those of us planning to die earlier or live longer. Mini-storage ownership and operations is a microcosm of the free trade economics in a society where the real estate bundle of rights is changed and eroded every day by statutory, regulatory and common (judge made) law.

Whether the choice is to live out of the main stream, raise a family, reduce life stress or to optimize earnings per share values, the mini-storage owner's life is that of a real estate professional. In the truest sense the mini-storage owner, unlike most appraisers, lenders, property managers, investment counselors, teachers and realtors who cannot walk the talk, the mini-storage owners are challenged by a tough market where ever increasing costs, ever increasing rules and laws and ever increasing external demands are eroding the return per hour and increasing the demand for more complicated and, yes, with a cost, professional advice, services, education and or software.

The future is even more critical as the value of the dollar weakens and remains low relative to other currencies and investors, especially Pacific Rim investors who are currently looking for safer havens for their manufacturing based profits and who have a investment mentality of long-term land investment (risk time and interest, never principal) and are attracted to the mini-storage alternative.

I predict that 2005-2010 bodes well in western Washington for the mini-storage owner if they are able to optimize all investment considerations, short-term and long-term, and are willing to invest either in their own professional skill set development (a cost of time and money) or find and utilize experienced and high-integrity professionals (a cost in dollars). **Those who plan succeed, those who don't don't.**