



Construction Still Down, But Things May Be Picking Up

By *Laura Williams-Tracy*

West Coast Self Storage is going where others fear to tread.

While most self storage operators recover from the recession by improving occupancy and rental rates, Seattle-area-based West Coast Self Storage is actively pursuing construction of a half-dozen new self storage developments over the next two years, mostly in western markets it believes are underserved.

“One perspective is that we’re going where others aren’t,” says Jim McNamee, president of West Coast Self Storage. “There’s nobody developing where we’re looking in self storage.”

Indeed, construction offices are quiet places these days.

Perhaps no industry has suffered more in the down economy than construction. Almost two years after the so-called end of the recession, non-residential construction remains 27.1% off its peak in October 2008, according to Associated Builders and Contractors.

Builders focused on self storage construction can take some solace in the fact that the asset class has held up better than many other real estate asset classes, but the self storage industry’s strengths have not been enough to keep builders happy.

Miller Buildings, a Flourtown, Pennsylvania builder of rigid-frame buildings, saw self storage drop from 95% of its business to 50%. Miller has diversified into churches, gymnasiums and other building types to weather the drop in construction activity.

Work remains slow, but Steve Thorley, Miller’s chief estimator, says activity is picking up, particularly in the northeast, including Maine and Massachusetts.

“I have seen quoting starting to pick up, and that’s a good sign,” Thorley says. “Just this week, within three days we had five or six inquiries about putting up buildings, which

is nothing like whole complexes. It’s a start, but it’s got to come a long way.”

A Heartbeat Again

Caesar Wright, president of Mako Steel based in Carlsbad, California, says the number of jobs his company is quoting has picked up in 2011 as projects that were shelved in 2008 and 2009 are getting a heartbeat again.

“They have come back around and requested that we update with current numbers to see if their lender will participate,” Wright says. “The ground up construction is still hard to come by.”

Chris Sonne, senior managing director for the self storage industry group of Cushman & Wakefield and a self storage economist, says construction remains substantially off its peak, but industry watchers are beginning to see new construction projects for the first time in three years by national and small entrepreneurs. Before now, the only projects being built were those that were already in the pipeline before the economic collapse of 2008.

As operational metrics improve, Sonne says some owners are rethinking development again. An investor survey conducted twice a year by Cushman & Wakefield showed improving optimism for self storage development, rising from 5% in December to 10% of respondents in June now saying that it is a good time to build.

“One out of 10 thinks it’s time to build,” Sonne says. “That number used to be 25% but there’s optimism growing that will probably show up a year from now in new self storage buildings. There are probably more projects on drawing boards that are planned or contemplated than we know.”

Amidst the cautious optimism, the reality is that even the most gung-ho storage developers find their enthusiasm

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dampened after a visit with their lender. Most banks are still apprehensive about lending for new construction projects, and those owners who manage to get financing find the terms aren't nearly as accommodating as earlier in the decade.

"I can't tell you how many people who already have facilities can't get financing to add another building to the facility," Thorley says. "Even long-time owners are having a tough time getting financing."

Sonne says low interest rates make borrowing attractive for developers who can present a strong enough balance sheet to convince their banker. He expects capital to become more available through the year.

Lending activity will also depend on the relative strength of storage markets. Sonne says places like Arizona, where population expansion was predicted but never occurred after the recession hit, are unlikely to be candidates for new storage development sometime soon.

"Now we're seeing construction in urban infill markets where they are clearly undersupplied and more development in larger cities, as opposed to suburban and rural markets," Sonne says.

Developers Play Close to the Vest

With the failures of the recession still fresh in minds and the development market as tough as ever, builders say they

see developers playing their hands close to the vest for fear of jinxing a possible opportunity.

"I do think people like to keep their stuff on the down-low," says Wright, whose 18-year-old company has completed 1,200 storage facilities in 35 states. "I've signed confidentiality agreements when I see parcel plans."

Wright says such secrecy is the result of a conservative attitude among developers who've not been doing deals for several years. "It's a niche industry. They want to keep the deal to themselves so they can keep folks away."

McNamee of West Coast Self Storage says he's seen very little opportunity to buy distressed properties, making construction a better alternative. West Coast's capital partner is the founder and former CEO of Shurgard Self Storage, which was acquired by Public Storage. Such financial backing has helped West Coast skirt some of the financing snags felt by other self storage developers.

"There was some money raised to pursue distressed deals that never materialized. We don't see acquisitions as an opportunity because nothing is for sale unless it has to be."

But when his company is able to find a good building site, there's almost no competition. "There's been no new supply; and in some of the trade areas we're looking at, the rates are phenomenal."

West Coast Self Storage opened a new facility in November in Vancouver, Washington, and will open another in August. The company has plans to add about 3,600 units by 2013. ❖

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