



With REITs, Familiar Names in the Management Business

Buying power and scalable systems offer good options for some owners.

By Mark Wright

Owning a business often leads to a fork in the road. Going left means retaining control of every detail—but staying fairly small. Going right means loosening one's grip on day-to-day operations—and scaling up.

There's no right answer, apart from what works best for the owner. For some owners, it's a question of how best to use their own skills. Some love the work. Others love the business. And there can be a big difference between those two passions.

For those who hit that fork and opt for scaling up while lightening their own operational load, the self storage industry offers a range of third-party management choices.



The Power of Size

In particular, owners interested in exploring large-scale options might start by looking at what three of the REITs offer. ExtraSpace Storage® Inc., Sovran Self Storage Inc./ Uncle Bob's Self Storage®, and U-Store-It each provide third-party management services.

Salt Lake City's ExtraSpace ManagementPlus program is designed for storage companies that have a minimum of 40,000 to 45,000 rentable square feet of space, explains Stevens—and that operate in or near areas where it already has properties.

These REITs' management services include the essentials: property management, financial management, information systems and marketing. All leverage their size and purchasing power to deliver volume-conscious pricing on insurance and other services. All note depth-of-experience in their management teams.

Differences arise in the details. Each brings its own brand recognition to the table (which wields enormous customer acquisition influence) and makes robust use of Internet and call center technologies for sales and customer service. Each also has its own approach to functions like



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HR, training, accounting, competition analysis and rate management.

Finding the Right Fit

One of the keys to making the best choice: looking realistically and dispassionately at one's own operation, market and goals. Also: being clear about the endgame—one's exit strategy.

"A client's focus is generally directed toward something they feel is missing in the existing operation," observes Jack Rogers, vice president of business development at Buffalo, New York-based Sovran/Uncle Bob's. "That missing 'piece' ranges from technological needs to accounting oversight to personnel issues.

"Other times, the client simply does not have the resources to effectively oversee day to day operations," Rogers adds. "We can help free up their time to pursue other opportunities while providing assurance that their investments are well cared for."

Third-party management might especially attract the curiosity of some owners who are concerned about competing in what continues to be a slow-to-recover economy. While self storage has fared better than other real estate sectors, challenges remain for operators in many regions.

"In the big picture we see a longer term consolidation of assets under management from smaller companies and independent operators who have realized that they cannot compete with the larger players when it comes to things like customer capture," says Carol Shipley, vice president

of third party management for Wayne, Pennsylvania-based U-Store-It.

On the other hand, what does that mean for owners concerned about the "indie bookstore versus Barnes & Noble" effect? Will the marketplace continue to support profitable coexistence?

"I think many owners fear the large operators will take customers away from them or use them to try to find areas to build additional product," says Shipley. "That's just not the case. All of the stores that we operate get the same amount of focus, whether they are owned or managed. I sometimes think our managed stores get a little more attention as we have an asset manager dedicated to analyzing their performance, as well as a dedicated accounting team that only works on our third party stores."

Homework and Due Diligence

Owners interested in exploring or pursuing any of the REITs' management offerings have some homework to do. In addition to being as objective as possible about the realities of one's own business, spelling out how third-party management will help realize specific expectations is a must before picking up the phone.

Owners need to "make sure they understand completely all of the costs, not only the management fee itself but pass-through costs and any other hidden costs," advises Jim Stevens, senior vice president of acquisitions and business development at ExtraSpace. "Check references. I recommend visiting the corporate headquarters and learning as much as you can about how the company drives business to your property."

Rogers agrees: "Be prepared and have a list of questions ready; this includes questions with regard to fee structure, terms, and ancillary costs. Know the management company's history and organization. Are key functions performed in-house or outsourced? If outsourced, what controls are in place to monitor performance? Finally, a client needs to be comfortable that the company they choose can deliver results."

Performance is the ultimate measure. "Make sure the management company that you are considering has the depth in its organization to give your store the focus that it deserves, and you as the owner the personal attention that you deserve," says Shipley. "It is absolutely necessary that they can show you how their program will improve your revenue stream and your bottom line."

For owners who hit that fork in the business road and decide, as Stevens puts it, that "their time is better spent doing what they do best—finding new sites, acquiring new properties, retrofitting properties, and not being bogged down with day-to-day [details]," REIT-level management can be an ideal choice. ❖



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