



# Third Party Management – Bringing a Proven Business Model to Your Facility

By John Dunlap – Editor, SSA Globe

Everyone would like to think that they have the answer to being successful in self storage. Every owner and manager can tell you what works in their neighborhood and what doesn't. But, in truth, how many of those owner/operators know all the tricks in the book, all the statistics and latest marketing theories to make the most of their self storage operation? The answer, sadly, may be fewer than you might imagine.

The larger self storage companies, who own and operate from ten self storage facilities to hundreds, are likely to have a pretty good handle on where to concentrate their efforts to best effect. However, for the single-facility owners or those who own a handful of facilities, having the time and knowledge to build a successful business may be difficult. And for owners who bought into self storage with virtually no knowledge of the business, it can be a hard learning curve (especially in difficult economic times).

Enter the third party management concept. It is a quickly-growing industry (see article on REITs getting into management on page 9) and one of the most successful of the companies offering third-party management services

is the Nicholson Companies in Norfolk, Virginia. Created in 1962 as a traditional realty firm by the late Tom Nicholson, Jr. (who also did construction of the first self storage facility in Virginia in 1972 and coined the self storage trade name AAAA Self Storage), the firm has built and managed self storage facilities for nearly 40 years. Around 2000, Tom and his son Tommy made the decision to concentrate solely on the self storage asset class.

In February of 2004, Stuart Wade joined the company as director of business development and was assigned the task of growing the company's third party management business outside the state of Virginia. He immediately set out to get to know as many of the self storage players as possible in North Carolina, South Carolina, Georgia, Florida and Alabama. He also began writing articles for trade publications and has participated in trade shows on both the state and national levels. He has brought in over 25 facilities to Nicholson's third-party management portfolio and the company now has 50 facilities in five states encompassing 2.7 million net rentable square feet.

In essence, he knows of what he speaks.

"The biggest advantage is we can insert a proven business model into an owner's facility," says Wade. "We've been in self storage since 1972 and we've made every mistake there

*Above: Stuart Wade meets with Mike Birchfield to go over AAAA's third-party management concepts.*

is and don't repeat them. Our experience as an owner of self storage for our own account (not just for others') is invaluable to an operator whose main business is something other than self storage. We also have inherent economies of scale on the operating expense side, but I really feel a solid professional third party management company partner's advantage is on the revenue side."

"At AAAA, we are very strong on revenue management and collections," he adds. "If a market is overbuilt or a location is poor, no management company can alter that fact, right? But, in many instances, we've been able to improve the bottom line (even after our fee, of course) favorably impacting the owner and the property's market value. Also, I'm willing to meet with any owner to give them an assessment of what we can and can't do. All it takes is an introductory phone call to me to get that ball rolling."

### A Wide Spectrum of Owners

That said, one would expect that for every self storage facility there is an owner/operator with a unique mindset.

"We have all different kinds of owners," says Wade. "Their personalities and individual situations range the spectrum. Some only have one facility and some of our owners have ownership interests in over six facilities. If your main line of business/vocation is something other than self storage, you should seriously consider what a manage-



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~ Stuart Wade  
AAAA Self Storage Management Group

ment company can do for you. We have the commitment and experience to focus solely on the self storage asset class. We are students of the business—we don't manage apartments, hotels or shopping centers."

How does someone like Wade deal with convincing owner/operators about the benefits of third-party management?

"Many owners feel that a management company is a luxury they can't afford (a paradigm that's at times, hard to break), while many owners feel a management company is indispensable," Wade says. "I can't change an owner's mindset if they are closed to the idea of hiring a third party management company. But if an owner to open to learning more about what we can do for them in their self storage investment, I've got a pretty good close rate."

"Furthermore, the investment climate we all are operating in has given Tommy and our team a differing set of weapons to deploy we wouldn't have considered a few

*See Third Party Management, p. 14*

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### Third Party Management, from page 13

years ago. For example, we will now open a store for an operator or train a manager for their store for 90 days or so (treating that store and manager like we would for one of our own stores) for a flat fee. We also offer ala carte services (like auditing and one-off consulting) for an operator."

How have the recent hard times affected third party management and is there an indication that things are on the upswing?

"In our portfolio, 2009 was the 'low point' of this economic cycle." Wade concludes. "Same store sales comparisons since then have turned up (although many are not yet matching 2007's revenue). But many facilities are still struggling, facilities that were built in the glory days of 2005, '06 and '07 that shouldn't have been or were improperly capitalized.

"If a store is not performing under the owner's direct management, they should call in a third party firm to give them a proposal. If a third party firm is running a non-performing store, has the owner met with the firm to uncover all that is being done or should they interview another management firm? In either of these scenarios, there is little risk to the owner to at least gather information." ♦

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