

Self-Storage Industry as Representative of America's Consumerism

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Submitted In Partial Fulfillment of the Requirements for the Degree Master of Science

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Abstract

About 1 out of 10 Americans will use a self-storage facility at least one point in their lives.

Considering the current state of consumption and living, this thesis examines how the growth of the self-storage industry is representative of America's consumer patterns, population growth, and migration trends.

America's self-storage industry boom is representative of the growing population, reduced housing size, increased consumerism, and living stability. Reflecting America's consumer behaviour and their relationship to material goods, and, it also mirrors the increasing rents of america's residential landscape .

Introduction

“How many people ruin themselves by laying out money on trinkets of frivolous utility? What pleases these lovers of toys is not so much the utility, as the aptness of the machines which are fitted to promote it. All their pockets are stuffed with little conveniences. They contrive new pockets, unknown in the clothes of other people, in order to carry a greater number. They walk about loaded with a multitude of baubles, in weight and sometimes in value not inferior to an ordinary Jew's-box, some of which may sometimes be of some little use, but all of which might at all times be very well spared, and of which the whole utility is certainly not worth the fatigue of bearing the burden.”

— Adam Smith, *The Theory of Moral Sentiments*

For over four decades, the self-storage industry has catered to America's material overflow. Providing an empty space for people's private possessions in a secure and, often climate-controlled environment, the industry has served house and provided a mechanism to hold people's stuff as they go through the various stages of life (death, divorce, dislocation, displacement, births, and college to name a few). Emerging in the 1960s, the self-storage has become one of the most lucrative sectors of commercial real-estate in America, proving itself to be unique industry that benefits from any which way the economy may oscillate and comprising of a range of generations from the Millennials to retirees. And at the same time, Americans are consuming at records rates.¹ According to a Morgan Stanley index “Over the 1996 to 2004 period, annual growth in US personal consumption expenditures averaged 3.9% — nearly double the 2.2% pace recorded elsewhere in the so-called advanced world.”² And as prices for consumer goods fall, Americans have purchased more than ever before. American households spent nearly \$4.6 trillion on their expenditures on goods, \$1.7 trillion on durable goods and \$2.9 trillion on non-durable goods which include clothing.³

¹ This is according to the U.S. Bureau of Economic Analysis.

² Vanderbilt, Tom. “Self-Storage Nation.” *Slate.com*, July 18, 2005. Accessed, March 20, 2019. <https://slate.com/culture/2005/07/self-storage-in-america.html>

³ Durable goods include items like furniture and automobiles. This data is from TheBalance.com, a personal finance company that features experts dedicated to giving financial and business advice. Amadea, Kimberly. “Personal Consumption Expenditures, Statistics, and Why It's Important.”

Good times and bad, the industry thrives as a benefactor to America's material consumption. When the 2008 Great Recession hit and people began to lose their jobs, many of which took their stuff out of self-storage space to save money, but this is offset by the need for people to store their stuff as they may decide to downsize their homes for the very same reason.⁴ In fact, the business thrived⁵.

Mushrooming into \$36.8 billion industry⁶ approximately 9.4% of households in America currently rent a self-storage unit for an average monthly cost of \$88.85.⁷ IBISWorld, industry and market research company, accounts for \$58,455 self-storage establishments⁸ which is nearly double the amount of the ubiquitous Starbucks and McDonalds units combined⁹. In addition to number of locations, McDonalds and Starbucks also dwarf in the aggregate square footage of their locations. The total rentable self-storage space in America is reported at 1.7 billion square feet, which is more than ten times the amount of Starbucks and McDonalds total.¹⁰ Designed for America's stuff and not people, self-storage has now become part of America's national

TheBalance.com. <https://www.thebalance.com/personal-consumption-expenditures-3306107> Accessed March 24, 2019.

⁴ Lifschutz, M. (2019). *Locked in: Low rental vacancies have paved the way for high demand for storage units*. Storage & Warehouse Leasing in the US. IbisWorld.

⁵ Though industry took about a 2 or 3% dip, stealing away from of the long-term customers (900 days+), a strong recovery in 2012 and 2013 the industry quickly recovered and blossomed. This is according to Ballard, Anne M. "Length of Stay." Mini-Storage Messenger, December 2018. (page 11).

⁶ 2018 annual industry revenues slightly vary. Sparefoot, the online marketplace for the self-storage industry reports \$38 billion dollars in revenue.

⁷ Harris, Alexander. "U.S. self-storage industry statistics" News. SpareFoot. March 11, 2019. <https://www.sparefoot.com/self-storage/news/1432-self-storage-industry-statistics/>

⁸ IbisWorld defines "establishments" as "the smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise."

⁹ This is based on 2015 numbers of Starbucks and McDonalds. Eagon, John. "Guess How Many U.S. Storage Facilities There Are Versus Subway, McDonalds's and Starbucks" Blog. Sparefoot. May 11, 2015. <https://www.sparefoot.com/self-storage/blog/7775-how-many-storage-facilities-are-in-the-us/>

¹⁰ McDonald's square footage is based on 2016 estimates of average floor space (Data source for floor space of McDonalds: <https://www.statista.com/statistics/587130/average-floor-space-qrs-us/>) of 4500 times the number of locations in 2016, 14,146 (Data source of total number of McDonalds in the United States: <https://www.statista.com/statistics/256040/mcdonalds-restaurants-in-north-america/>) which equals 63,657,000. For and Starbucks for footage, I took the the number of average floor space (2014: <https://stories.starbucks.com/stories/2014/three-starbucks-stores-that-inspire-one-of-the-most-creative-people-in-busi/>) and times it by the number of locations (Data source of number of starbucks locations: <https://www.statista.com/statistics/218366/number-of-international-and-us-starbucks-stores/>) which equals 24,830,200.

infrastructure. And this booming industry may be at its height. Self-storage industry and development and investment has been at its highest in the last few years. In 2017, the industry created 49 million new new rentable square feet, this being nearly 100 percent from the 26 million added in 2016¹¹. New facilities will be adding another 60 million net rentable square feet in 2018, adding fury to the increasing pace of development. Alexander Harris, editor of The SpareFoot Storage beat, a publication focusing on self-storage and provides listings for self-storage marketplace, says that “right now we are in a peak year of construction of deliveries as far as new facilities opening.¹²” This unprecedented growth continues to be encouraged by a “steady population growth, a strong residential rental market, rising per capita disposable income and an increasing number of relocations”¹³ that will continue the high demand for the next five years. As America’s consumption rates rise, the self-storage industry continues to soar. My aim for this project is that by looking at the self-storage industry and studying its demographics, growth, and successes, adjacent to the U.S.’s rate of consumerism, population, and migration growth, readers can better understand America’s unique relationship to material consumption.

¹¹ Page 19, from the 2019 Self-Storage Almanac, which features recent self-storage industry data, statistics and analysis for self-storage owners, operators, investors, developers and appraisers.

¹² Harrison, Alexander. Interview by Grace Martinez. Personal interview. New York, March 15, 2019.

¹³ Lifschutz, M. (2019). Locked in: Low rental vacancies have paved the way for high demand for storage units. Storage & Warehouse Leasing in the US. IBISWorld. PG 10

Chapter 1

This chapter discusses the what the exactly the self-storage is, the industry's growth and current market breakdown, it's current market breakup, and it's adjacent relationship with the American consumerism and migration.

1.1 What Self-storage Is

At first glance, the self-storage may seem simple: it is an industry that rents and leases empty space to individuals and businesses. An unique American creation, the industry has its roots in the 1960s¹⁴ in Odessa, Texas with the first buiness, A-1 U-Store-It-U-Lock-It-U-Carry-the-Key, a company that catered the oil industry¹⁵. Comprised of establishments that provide a secure, relatively conveniently located (usually 1-5 mile radius), of square or rectangular most often windowless space¹⁶ where customers can store their possessions securely.¹⁷ It is an attractive property type because they're usually well located in attractive neighborhoods and are suited to fill in old warehouses and buildings. Consequently, self-storage prices can demonstrate the demand of their rent locations.

1.2 Location is Key

Self storage development has developed in more urban areas following the population density and migration of Americans.¹⁸ The industry is also referred to as “the lowest-basis commercial property type,”¹⁹ This means that for cities that want the businesses benefits of revenue and

¹⁴ Though some believe the first self-storage was created in Omaha, Nebraska in 1891 by Martin and Josh Bekins who created the business to help facilitate the migration of Americans to California in early 20th century. Source:

<https://www.curbed.com/2018/3/27/17168088/cheap-storage-warehouse-self-storage-real-estate>

¹⁵ Though the unit eventually closed, the same facility was later re-purchased and renovated a new self-storage unit in 2013. Source:

<https://www.curbed.com/2018/3/27/17168088/cheap-storage-warehouse-self-storage-real-estate>

¹⁶ Units vary in space that include rooms, compartments, lockers, containers and outdoor space.

¹⁷ The unit sizes for self storage are 5x10, 10x10, 5x5, 10x20, 10x15. Source: Harrison, Alexander. “U.S. self-storage industry statistics” News. SpareFoot. March 11, 2019.

<https://www.sparefoot.com/self-storage/news/1432-self-storage-industry-statistics/>

¹⁸ This is from Yardi Matrix, a Santa Barbara, California software company focused on commercial real estate industry applications. Source: Yardi Matrix. Self Storage Industry Overview & Analysis. Santa Barbara, California, Summer 2017.

¹⁹ Ibid.

income tax of companies located there, self-storage isn't always attractive. Considering that an individual self-storage facility typically employs less than a handful of employees²⁰ combined with low overhead costs, has made this industry more than unattractive to city officials in locations that they are set to make the most profit in. They've been described "cash cows" due to the fact that their sheer market structure puts them in a better financial situation to meet higher price demands for land²¹. For an industry that cannot bring job growth nor the kind of retail and sales taxes that a typical commercial unit, it's no surprise that city officials in demand locations like New York, San Francisco, and Los Angeles view the industry with a negative stigma. Yet the demand is high, especially in space-challenged areas. According to the Self-Storage Association distribution of U.S. self storage facilities is mixed: 32% urban, 52% suburban and 16% rural.

1.2 Unprecedented Growth

It has since then blossomed into an omnipresent industry that continues to outperform all other real-estate classes in America. With over 50k locations, and \$36.8 billion dollars in revenue, (15.2 billion profit), Industry expert, Erica Shatzer, notes that from an "investor point of view, [the self-storage unit industry] is a very lucrative business to get into." The demand for storage is high. They boast a low 10% vacancy rate for 2018, a satisfying ratio according to experts.

The industry picked up in the '90s and early aughts, mirroring the surge of residential growth in cities. Self-storage provides an affordable space for people to store their things, advancing into neighborhoods with abundant warehouse space perfect for this kind of industry. From 2000 to 2005, over 3,000 new facilities were built every year in America.

1.3 Fragmented Market

Even though there's a high level of acquisitions in recent years, industry ownership remains to be extremely fragmented, with 18% of facilities owned by the six largest public companies, 9%

²⁰ The industry employees has grown at an annualized rate of 2.1% since 2013. Employment growth has been able to keep up with the pace of the industry due to advanced technology, reducing the need for on-site staff support.

²¹ Hu, Winnie. "Self-Storage Offers Space for Stuff. But It Gobbles Up Space." New York Times. April 13, 2017. <https://www.nytimes.com/2017/04/13/nyregion/self-storage-new-york-city.html>

owned by the next top 100 operators (minus the REITs), and 73% owned by small operators²². In an environment when larger corporations tend to take over smaller businesses, mom and pops continue to dominate the industry (though they are mostly located outside the metro areas.²³ This makes sense considering that many storage unit establishments got their start in the 1970s, according to Shatzer, and a lot of them don't feel the need to until they decide to retire. Also, a lot of the mom and pop facilities are family business that's carried down. StorageMart is a prime example of this. Founded in 1999, StorageMart was created by Gordan Burnam in Columbia, Missouri and has kept it a family business ever since (all his children now executive positions within the company). In addition, the top operators (the REITs²⁴) don't feel the need to buy the mom and pop markets that are more in the suburban/rural areas because they simply won't turn around a big enough profit. Shatzer notes that the REITs "want to stick with the urban markets where they can have higher rental rates, where they have customers who can afford to use self storage and they don't become delinquent tenants.

²² Self-Storage Almanac, 2019

²³ This makes sense considering that 52% of the market

²⁴ REITs stand for real estate investment trusts.

Chapter 2

The Demand for Self-Storage

2.1 Breakdown of Usage

Timothy J. Dietz, the president and chief executive of the Self Storage Association, has noted that “Self-storage has become part of the fabric of our culture,” he said. “It helps families in transition, businesses, soldiers, retirees.”²⁵

2.3 Demographic of Customers

The U.S. population grew from 309.3 million in 2010 to 325.7 million in 2017, a 5.3 percent increase. Surpassing the 75 million boomers, millennials dominate as the biggest generation at a total of 83 million.²⁶ Because of the large age range of the Millennial sect (think late teens to 38-years-old) millennials will continue to shape the economy and thus the storage industry in the years to come. According to the Census Bureau, more than 40 million move every year, that is equal to 14 percent of the population. People move for a variety of reasons, including housing, jobs, and family.

Self-storage customers fall into one of four main categories: commercial, military, students, and residential renters²⁷. Commercial tenants at self-storage properties are made up of area businesses and contractors who rent space to store goods off site²⁸. Residential customers make up approximately 77 percent of a facility’s customer base, while business customers represent approximately 19 percent of the tenants.

²⁵ Hu, Winnie. “Self-Storage Offers Space for Stuff. But It Gobbles Up Space.” New York Times. April 13, 2017. <https://www.nytimes.com/2017/04/13/nyregion/self-storage-new-york-city.html>

²⁶ Millennials were born between 1980 and 2000

²⁷ Self-Storage 2019 Almanac.

²⁸ This is often a cost savings when compared to the price per square foot of self-storage versus the cost per square foot when housing the same items at the business location

2.2 Industry Technological advance

Chapter 3

Self-storage and American Identity

This chapter is about how

3.1 Related to consumerism

3.2 Consolidation and Conversion

3.3 Migration

3.4 Trends

3.5 Predictions

3.6 Saturation Point

Though the industry market reports project booming growth for the next 5 years, industry analysts warn that the industry will reach a saturation point in the near future. Patrick Sisson in “Self Storage: How warehouses for personal junk become a \$38 billion industry” hints that the market might be heading toward full saturation. When asked what could possibly derail the industry from its projected growth, experts, Erica Shatzer and Alex Harrison, both agree that overbuilding could tip the supply and demand unfavorably. Erica notes that the domino effect of when this happened. When a facilities try to lower their prices to attract customers, it hurts all the other businesses.

However, back in 2009, as America was still reeling from the Great Recession, similar alarms around oversaturation were rung proved benign in the years after..

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