PRESIDENT'S Perspective

Mike Mele, FSSA President

Self-storage has rapidly evolved from sprawled facilities with orange roll-up doors run by moms and pops to a professional industry that Wall Street is watching.

Of course, with change come challenges. Our industry is more subject to broader real estate and economic trends than it once was. Self-storage is still one of the best bets in real estate thanks to its sheer fundamentals. But we need to pay attention and adjust our tactics based on key trends in the self-storage industry and in other industries impacting self-storage. We need to be aware of the shifting marketplace so we can devise the most appropriate strategies for our projects, from financing to development to lease-up and beyond.

One trend is continued industry consolidation. A week doesn't go by when I don't read about more self-storage acquisitions. The move toward consolidation means fewer people are controlling more of the market.

Consolidation is making its mark on the industry is several ways. First, a focus on quality. The quality of facilities under construction today far exceeds the quality of first generation facilities – or even properties developed as little as seven years ago. At the same time, certain markets in Florida are overbuilt. While Florida's population will certainly absorb the overbuilding at some point, the current environment has led to pricing wars. Marketing campaigns offer deep discounts in some markets.

Next, the recent slowdown in Florida's housing construction sector compounds the overbuilding phenomenon. Construction of new homes fell to the lowest level in more than a decade in July as builders continued to struggle with the steepest housing slump since 1991, according to the Commerce Department. What's more, the credit crunch combined with rising interest rates and overbuilding may very well cause property values to decline in Florida.

Fortune favors the prepared. Knowledge applied is power. Although some are ignoring the shifting real estate and economic climates hoping for the best, we can deal with these issues head on and weather any storm that may come our way.

I've had a fair number of old school self-storage operators coming to me in recent weeks telling me they are about ready to get out of the business. Yes, it may be time for some to move on, but only a review of a property's dynamics can answer that question.

For new developments, operators should be content to maintain 85 percent occupancy. Consider this the new benchmark. You should also be prepared for a longer lease-up period today than three years ago. If you came in expecting to lease up within six months, you'll need to stretch that timeline to two or even three years in some markets.

The good news the market will rebound. It always does. Real estate and economic conditions are cyclical. Here's the takeaway: Don't get caught up in the hype. Always develop, acquire and sell based on strong fundamentals. Much of what is wrong in real estate and stock markets today is overextensions by people, companies and lenders. You can't go wrong in the long-term if you make sound business decisions.