

President's Corner

By Ken Weiner, NVSSA President
 JK Investment Properties

Business goes in cycles where downturns usually follow boom years. From 2002 through 2007, the economic climate throughout the United States and especially in Nevada was excellent. I believe that we were all amazed at the number of new self storage facilities that were constructed and, in most part, at the ease in which they filled up. "Follow the construction of the rooftops" (single family home subdivisions) became the "mantra" of self storage developers. The model worked very well and today many of us own facilities with stabilized occupancies that cash flow quite nicely. It is important to note however, that in almost every urban market in Nevada – Las Vegas, Carson City and Reno, that supply of self storage units is high while demand is low. This softness in the market has created a tremendous discounting in prices as well as lots of move-in specials. Today most operators are seeing a reduction in their gross revenues and a comparable reduction in their net operating income. It is the time to practice strong marketing and operational techniques while we wait out the economic downturn. It is a time of patience that builds character.

On the legislative scene, it appears that for this current session there have NOT been any attempts by the legislature to tax self storage. A sales tax on self storage has been a growing concern of our membership. We have seen a variety of states impose such a tax on self storage operators. It has become apparent to our board of directors and many of our members that the Nevada Lien law could use some revision. Currently the California Self Storage Association has requested that the California legislature revise the statute in that state. We are watching their process, and if they are successful, then we would like to follow suit. In future issues we will keep you posted.

As mentioned in previous issues, the Nevada Self Storage Association is working on providing additional services to its members. This will include a Resource Manual,

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Upcoming Meetings – See Insert

sample lease (available at a small fee) and educational seminars. As a board of directors we are working on providing these services to our members but would also like to hear from you regarding what you expect and want to see from this State organization. Please feel free to email me any needs, comments or questions at Ken@jkip.com. ❖

Founding Members



What's Up with Self Storage in Las Vegas?

By Jim Meservey
Storage One

I don't think anybody would disagree that it has been a gut-wrenching, anxiety-filled 18 months for the world, national and local economies. The downturn has been unprecedented as to its severity and far reaching impact. Very few, if any, segments of the economy have been spared. The difference in 2009 from 2008 is that we now can put familiar names and faces to those who have been impacted; whether it's a friend that lost his job to corporate downsizing or a family member that lost his house to foreclosure. It's probably safe to say that everybody's family tree harbors personal casualties from this recession, and 2010 promises to deliver more of the same. BUT, with that said, thank goodness we are in the self storage business!

The Las Vegas self storage market has proven to be fairly resilient throughout this recession, even though it has been subjected to an economy plagued by stagnant residential growth with high foreclosure rates, numerous business failures and, for the first time in years, negative population growth. Although it is difficult for operators to accurately predict, and react to, the effect of all of these issues on our business, what has proven true is that the fundamental principles of self storage remain sound and economically viable. Our product in Las Vegas still has high demand and yields a good price.

Facilities operating in strong demographic and highly traveled locations remain high performers with superior occupancies and cash flow. And YES, a few have even experienced occupancy growth without sacrificing rental rate structures! Occupancies at these locations remain in the mid eighty to mid ninety percentile with rents well over \$1.00 per square foot.

Facilities operating in the former growth areas of the northwest and southwest valley have been challenged to succeed. Built to serve the demand created by the expanding residential markets, these facilities are usually newer, still absorbing and built when all components of development were at their highest prices, usually resulting in high leverage. High leverage is difficult to operate under in a strong market, but in a weakening market, it can become toxic. That's when a good relationship with your lender becomes imperative! In these submarkets, it was bad enough when the residential growth virtually stopped overnight, but then the markets actually started to contract through foreclosure. It is well publicized that several of the highest foreclosure markets in the nation

are in Las Vegas. There was doom and gloom everywhere. Surprisingly, the foreclosure market, for a short period of time, created an increase in demand for these facilities. We were enjoying a very successful 2008 spring rental season, despite all of the economic collapse around us. The theory that self storage does well in good times and even better in bad times was proving true. However, this euphoria was short lived. A very high percentage of this rental wave quickly turned into some of the highest delinquency and auction rates ever experienced in Las Vegas. It was finally our turn to feel the recession! Smart operators, which we all are, began to focus on the fundamentals of operations; rental rates, cash collections, direct marketing campaigns, on-site manager training and customer service, to name a few.

As we say in this business, "Everybody needs self storage; they just don't know it yet!" With a new focus on marketing, operators began to think outside of the normal self storage box to create new ways to sell their product. They sharpened their pencils, dusted off their marketing manuals and placed direct marketers on the streets to hand deliver their message of "Rent Today!" Operators were successful in converting foreclosure tenants to good paying stable tenants. Their efforts seem to be working!

In addition to this, operators are now monitoring their competition much more closely. They were concerned about "Who is going to be the first to drastically lower rents?" Fortunately, these former growth submarkets appear to be stabilizing with only manageable decreases in market rents. Blended rental rates have dropped to just under \$1.00 per square foot from a high of approximately \$1.10 per square foot at the end of 2007. And, foreclosures are beginning to turn into new homeowners, thereby turning into new tenants. Occupancies, after about a ten percent drop realized during the later part of 2008, appear to be heading slowly north again. And, with a deep sigh of relief, we are currently enjoying a good rental season. It is true that tenant stays are shorter and the first half of the month is much slower than the second half, but by the end of the month we seem to be whole again.

Self Storage operators have many reasons to be bullish on the Las Vegas market. Keep in mind that this downturn has virtually eliminated all new self storage development in the Valley. This was desperately needed for the long term health of the industry and is a substantial benefit to everyone operating in the market today. It is inevitable that Las Vegas will begin to grow again. So, if you are surviving in today's market, you should hopefully prosper greatly when this economy moves full speed ahead. ❖

The Best Operating Strategy

By Lonnie Wells
WEBSCO Properties

The current recession causes storage owners to consider how they can increase income and/or reduce operating expenses. While these thoughts are certainly productive, the time may be right to consider just how effective their overall operating strategy is. Self storage operating strategies can be broken into the following 3 categories:

1. Expense Minimization
2. Middle-of-the-Road
3. The Nordstrom Model

The “Expense Minimization” operating strategy is quite common, especially with older storage properties. With this strategy the owner places a very high priority on spending as little as possible. However, operating expenses and income are inexorably linked together. Older properties usually do not have an array of modern amenities and it is not unusual for owners to feel that to compete, their prices have to be low. Employing a low price strategy means that the owner is forced to minimize expenses for no other reason than there is just not enough income to go around. Unfortunately, this operating strategy has several fatal flaws. The first flaw is that the property is already priced at the bottom of the market, there is no margin of error in tough economic terms. Lowering prices in response to a recession simply reduces cash flow even further. A second fatal flaw is that minimizing expenses usually leads to deferred maintenance. Not having sufficient funds to maintain the property is only exacerbated in tough economic times. A property operated by minimizing expenses usually does not make a good first impression.

Adopting a “Middle-of-the-Road” operating strategy is a step up from the “Expense Minimization” operating strategy. With this strategy the owner attempts to hire competent managers, makes an effort to keep the property in good condition and moves his storage rental rates to the middle of the local market. Unfortunately, in a prolonged economic downturn the shortcomings of this strategy become apparent. When the economy slows down, a property is best served by a great sales staff, not just an average one. Potential customers become more picky and can choose between multiple properties, all of which are offering “move-in” specials. The “Middle-of-the-Road” property tends to get lost in the shuffle since, by definition; it

has no special market defining characteristics.

The third possible operating strategy is considered the best strategy, which is why I named it the “Nordstrom Model” after the high end clothing retail chain. While my taste in clothes runs more towards J.C. Penney’s, I prefer the “Nordstrom Model” when it comes to operating storage facilities. In this strategy every facet of the storage operation is directed toward being the best. The owner strives to hire the very best managers with superior sales skills. He also makes a concerted effort to maintain the property in top condition. The service offered at this property is excellent and rental rates are kept near the top of the local storage market.

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The “Nordstrom Operating Model” has several advantages which include:

1. Much higher profit margins
2. Better property upkeep
3. Smoother running property
4. Recession resiliency

The Nordstrom model allows the storage owner flexibility during a difficult economic recession. Since the property has been properly maintained, the owner can divert some regular maintenance funds and increase advertising. In this model, rental rates are already at the top of the market, so a small reduction in prices will not hurt much. The managers are top notch with superior sales skills, and are best equipped to cope when it becomes harder to rent. During a recession the cash flow at all properties gets squeezed. It is much better to continuously operate a property at the top of the market with ample cash flow than to operate at the bottom of the market with marginal cash flow. During a recession, the owner that gets hurt the least is the owner that has been operating at the top utilizing a “Nordstrom” operating strategy. This operating strategy, unlike the first two, gives the owner the most options, yields higher cash flow and is recession resilient. Storage operators should take time to reflect on their own operating strategy and determine if their current strategy is the best one or if it needs to be upgraded. ❖

Customer Service is Marketing

By Travis Morrow
National Self Storage Management, Inc.

One of the most often forgotten target markets for a marketing campaign is your *existing* tenants. You may be asking yourself, "Why would we focus on them? We've already got them. We need to focus on getting the new tenants to move in so we can increase occupancy." The answer is very simple, providing your existing customers with excellent customer service is not only good for your customer, but it is also a very powerful marketing tool. The good news in this economy is that marketing to this target market is inexpensive and highly effective.

The way a company treats its customers goes a long way towards defining that company in general. A friendly smile, handshake, or bottle of water on a hot day tells your customers that you appreciate them for storing with you. That simple act makes your customer happy they decided to store their valuables with such a nice, friendly business. Word about that pleasant experience they had at your facility will spread, when they talk to friends and neighbors about your facility and how your facility cares for its customers.

Those friends and neighbors could be your next customers and are more likely to rent at your facility without researching others based on the recommendation of a friend or family member. That is the best marketing that you can get for a facility and it can be purchased for a smile. Simply put, and check my math if you don't believe me, if every tenant brought only one friend to your facility, your occupancy will double.

So remember when that next customer comes through your door, how you treat this person today, may have a direct effect on how many units you rent this week, this month, or this year. So smile, be polite and helpful, let your customer leave happy with their experience and service, and leave your facility to go do the marketing for you. ❖



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A large, stylized star graphic with a 3D effect, appearing to be a piece of paper or a sticker that has been peeled away from a dark teal background. The star is white with a grey shadow on its right side. Inside the star, the number "25" is written in a large, serif font, and the word "YEARS" is written below it in a smaller, all-caps, serif font.

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NVSSA Recent Meetings

By Sandi Gledhill
Carson Highlands Storage

What great meetings we have had so far! Thank you to Ed Hanigan for his presentation of Lien Sale Pitfalls in both Las Vegas and Reno, and our area auctioneers for passing on their knowledge and advice. Mr. Hanigan went through the lien sale process from the first late notice sent to the time that the unit is sold and even problems that occur after the sale. The sale of a tenant's goods is one of the biggest liabilities we have in our industry. We have to be sure that all of our I's are dotted and T's are crossed. Another thing we learned from this meeting was to be sure to know the statutes; re-read them every now and then so you are very aware of what they say. It was very helpful to hear all the ins and outs of the lien process. There was a handout of all statutes that pertain to self storage and the delinquent process. There were many questions asked and ideas exchanged with other members of the audience.

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NVSSA Mission

The mission of the NVSSA is promotion of a high standard of professionalism which is adhered to by all of its members, to provide a unified voice for the Self Storage Industry for the State of Nevada and to enhance the performance and quality of the services our industry has to offer. Guiding us in achieving an overall mission of member satisfaction, NVSSA concentrates on the following goals:

- To enhance the quality of the self storage industry in Nevada
- To provide leadership in Nevada on issues which specifically affect the self storage industry
- To be the premiere Nevada resource for industry information, education, research, and technical expertise
- To impact the standard of conduct in the self storage industry in Nevada

UPCOMING EVENTS

Visit us in the Exhibit Hall at the
SSA 2009 Fall Conference & Trade Show
September 10-12
Caesar's Palace, Las Vegas
www.selfstorage.org



Fall Member Meetings

How to Improve your Collections in a Down Market *A Moderated Discussion to Share Best Practices*

Wednesday, October 7
Las Vegas
5:30 pm
Location TBD

Wednesday, November 4
Reno
5:30 pm
Location TBD

Watch your mail for registration information



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