Smart Storage Group
Invest. Learn. Share.

Why Passively Invest in Self-Storage?

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A bit about me…

In 2007 I was married with 2 small children and a 9 to 5 job. We had just moved and sold our prior home at an incredible price, which we had only owned for 2 years. We were rolling our equity into a 1912 English Tudor style house. Little did we know of the impending housing market crash. In what seemed like an instant our home's equity, my 401k, and our other stock investments took a massive hit. We were underwater on the house and lost much of our nest egg.

I have never trusted the stocks or a single-family house as an investment since.

Fast forward to 2016, I found myself starting a new chapter in life. Newly divorced, financially wiped out, in my mid-40's, I was searching for something new in life. At the time, I still had my career in Information Technology, an MBA in Business Management, a BS in Computer Information Systems, two children to support. I set out to discover my passions in life, rediscovering myself.

What does all of this have to do with self-storage investing? Well real estate, do-it-yourself house projects, and an entrepreneurial spirit have always been a part of my core makeup. However, I did not know what to do with these passions. I first explored the idea of starting a fix and flip business; but, soon discovered it took a boat load of money and time…two things that I did not have. Then, I discovered multi-family investing and wow this was exciting! Economies of scale, cash flow while gaining equity during the hold period, and the option of using other people's money (OPM).

I soon discovered that others were excited about multifamily investing as well, but deals were hard to come by. I also discovered the high expense ratios of multi-family (50+%) and the high prices/low cap rates. Often, when I thought I found that a good deal it quickly turned to a bad one…with property taxes, water bills, payroll, and third-party management costs. I also discovered that you had to have connections to get the off-market deals. However, even if you were able to get an off-market deal, they were still filled with risks, such as, can you turn the client base from low rent to higher rent, or if the property was in a class C area, or perhaps a class C property in a class B area that needed extensive work and money to turn the property around which required extra capital expenses which would kill the cash-on-cash returns.

Enter Self-Storage

I stumbled upon self-storage as an investment on bigger pockets. I read an article from Paul Moore, who literally wrote the book, "The Perfect Investment – Create Enduring Wealth from the Historic Shift to Multifamily Housing" (2016). In the article, he stated he was wrong about multi-family being the perfect investment and that self-storage was the perfect investment. Now, I found self-storage as an investment about 3 months prior to reading this article and did a lot of investigation myself, but I still was not 100% sold on the asset class. So, when I read this article and placed a call to Paul, I was sold. Self-storage was my focus from that day forward!

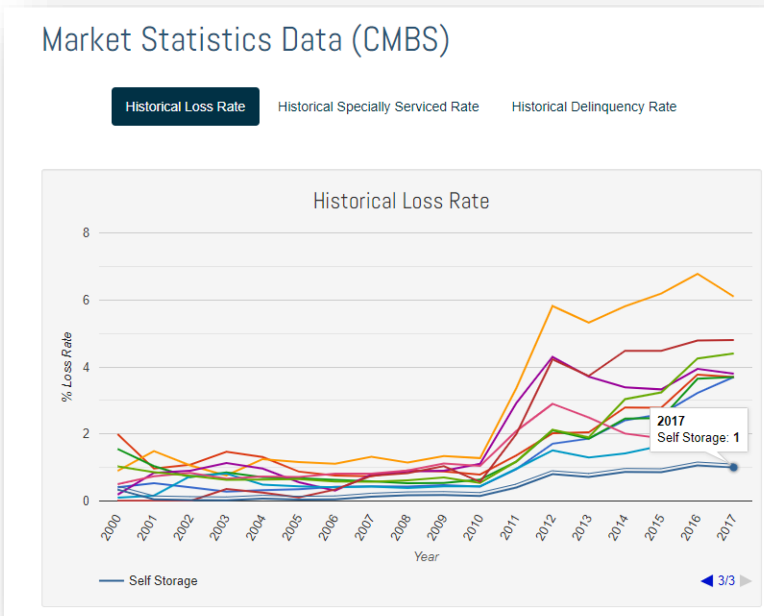
For the last 2+ years I have devoted every extra minute of time between working two jobs, I worked a full-time job and a part-time job, to learning the self-storage asset class. I went to local meetups, read several books, study all the blogs and social media group posts I could find, I when to the largest self-storage expo, and even paid for a "guru's" course materials and 3 day in person workshop. I immersed myself in the world of self-storage, from how to look for self-storage to operating a storage facility. However, the most important thing I did was seek out experienced people in the industry…I networked. I built a database of people who where experts in their disciplines. Accountants, brokers, third-party management companies, capital raisers, etc. Another important thing I did was network with like-minded individuals who were passionate about investing in self-storage.

Why I Love Self-Storage Investments

I launched a series of webinars on self-storage. The most popular was "Why I Love Self-Storage Investments". Which brings me to the point of this e-book. I want to give you the reasons why passive investing in self-storage is one of the safest, most profitable, and simplest decision you can make.

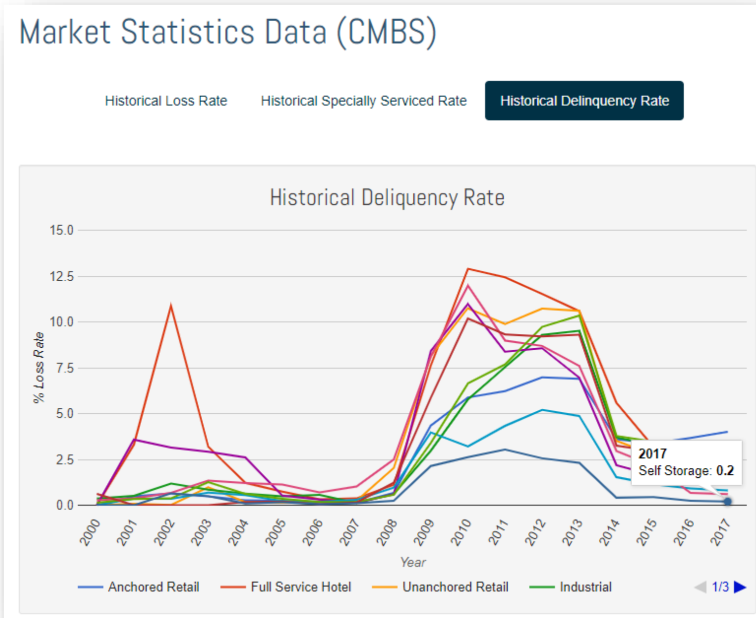
1. No tenants!
    - No tenant laws! Storage uses state lien laws, which are sometime more owner friendly then tenant laws.
    - Storage is more retail focused then multi-family; therefore, we refer to them as customers.
    - No hassling with state evection processes! Lien processes tend to be much easier and sometimes end in auction profits.
2. Storage is a commodity
    - Think about, a metal box with a door on it, is a metal box with a door on it.
    - From one facility to another, there are no large differentiators.
    - Most import thing to a customer is the distance from their house.
    - Smaller facilities can compete with larger REIT's with SEO and automation.
3. The 4 "D's"
    - Divorce, Death, Downsizing, and Dislocation
    - Divorce: "Every 13 second someone, somewhere files for divorce".
        - Someone is moving out of the primary home with stuff.
    - Death: Estate to sell the house but keep the family heirlooms in storage.
    - Downsizing: Either into a smaller house or renting apartments.
    - Dislocation: Loss of a job due to a recession, move stuff into storage.
        - We have seen this in 2020 with COVID.
        - A large uptick in demand for storage last year and continuing this year.
4. Sticky customers
    - Once they are in, they tend to stay.
    - 52% of customers are long term rents, many staying years.
    - Built in rent increase of 5% per year.
    - Customers are not going to take the time to rent a U-Haul for the day to move their stuff into the other storage facility over $5 buck a month increase.
5. Additional Revenue Streams
    - Speaking of U-Haul, you can rent trucks and you get a share of the profit.
    - Sell moving goods.
    - Sell Tenant Insurance to your customer and you get a share of the profit.
    - Cell tower? Billboard? All these can generate extra revenue.

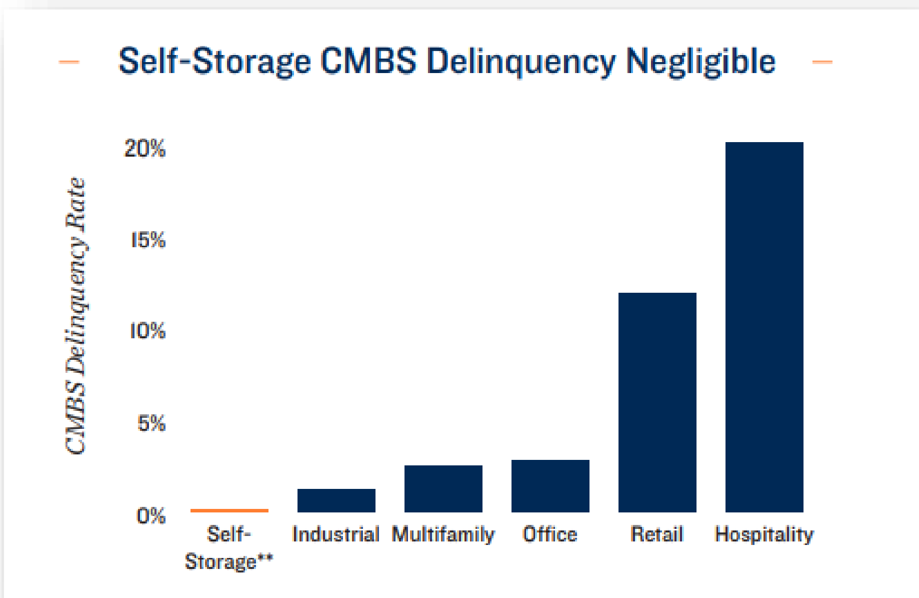
6. Automation
    - Unlike multifamily, you don't need to "show" someone a unit (see commodity). It's a metal box with a door! Have pictures on your website.
    - Everything a customer needs can be done on your website or mobile app.
        - Look at the unit sizes
        - Create a user account
        - Rent the unit
        - Sign the lease
    - There is no need for any customer interaction.
    - Auto-pay also increases stickiness!
7. Recession Resilient
    - Looking at historic loss rates for CMBS data for all commercial real estate asset classes, self-storage has the lowest default rates dating back to 2000.[1]



    - It also has the lowest delinquency rate out of all the commercial real estate asset classes.[1]

[1] Source: http://www.thebscgroup.com/historical-data.php





[2]

- And, there is more evidence of this from 2020. Rental rates across the country for self-storage had been going in a downward trend as more facilities were being built. As of the first quarter in 2021 rental rents have trended higher in most cities while cities like San Francisco and New York have been their rental rate drop the most.

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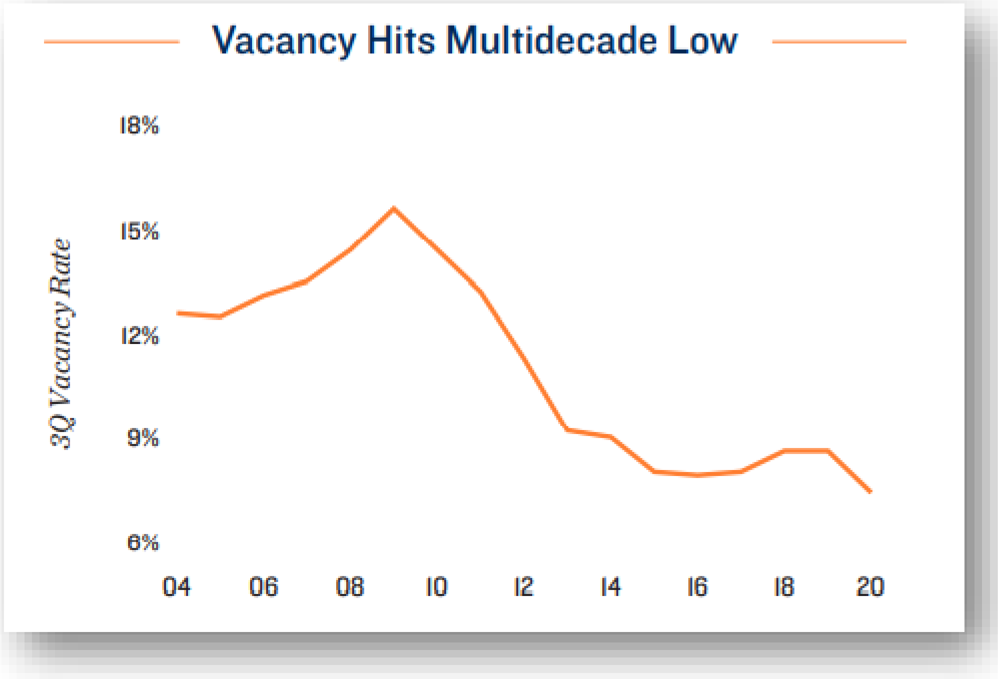
[2] Self-storage delinquency rate as of Sept. 2020. Original Sources: Federal Reserve; Moody's Analytics; Trepp; Real Capital Analytics; Yardi Matrix. Sourced from: Marcus and Millichap Investment Forecast 2021

- Vacancy hit a multidecade low across the entire country over the same time period and there is no sign of slowing down



[3]

8. Expense Ratios
   - As I mentioned about, multifamily expense ratios can range in the 50% range
   - In storage we can achieve expense ratios in the 35-40% range.
     - No water bills
     - No payroll, contact services only
     - No turn costs
     - Less maintenance and repair costs
     - No costly roof replacement
     - Low utility bills
9. The best of all, the returns!
   - Average Cash on Cash returns: 8% - 12%
   - Average Annual Returns: 20% - 25%
   - Internal Rate of Return: 16% - 20%
   - Equity Multipliers: 2x – 2.5x

[3] Source: Marcus and Millichap Investment Forecast 2021 Report

A Word on Passive Investing

My long-term financial goal is to retire in 10 years and be able to passively invest in self-storage as well as other real estate REITs. If you have the ability now, are a high earner ($200k+ per year), or a high net worth individual ($1 million +), investing passively is a no brainer. I encourage anyone who hasn't already, read "Rich Dad, Poor Dad" by Robert Kiyosaki. This book changed my entire perspective on money and work. In my opinion it should be standard reading in every school. Why work for money when you can have your money work for you?!

Case Study of a Resent Acquisition

Facility Details on Purchase:

- Purchased at $850,000
- NOI: $ 58,000
- CAP Rate: 6.8%
- 136 units
- 15,500 Rentable square feet
- Built in 1995
- Physical Occupancy: 85%
- Economic Occupancy: 75%
- Market Rates when ~ 25% below competition
- Square Feet Per Capita 5.29 in 3-mile radius
- Competition physical occupancy averaged 95%

Facility after only <u>3 full months</u> into operating the facility with our improvements:

- Projected property value end year 1: $1.1 Million
    - Increase equity by $250,000
- Projected NOI for this year: $83,800
    - Net increase of over 44%
- CAP rate end year 1: 9.8%
- Physical Occupancy: 100% (as I am writing this someone just rented our last vacant unit!)
- CapEx expenses where less than $5000!
- Economic Occupancy March 1st: 85%
    - We sent out rent increase notices Feb 1st
    - Smaller units we increased rents 20%
    - Large units we increased rents 10%
    - No one has moved out
    - We still can raise rents again another 20+% and they won't be a current market rate
- Increase Market rate (advertised rates) again!

Projected Investor Returns for a Five-Year Hold:

- Cash on Cash Return: 8.91%
- Average Annual Return: 24.67%

- Internal Rate of Return: 19.57%
- Equity Multiplier: 2.23
- Case example: If you passively invested $100,000 in this deal you will be $223,355 dollars over the five years of the hold period

Do you need any other proof that passive investing Self-Storage is a safe and profitable way to make your money work for you? Do you want a check in your bank account every quarter, without lifting any heavy loads? Even during economic downturns, receive that check in your account! Not to mention the strong appreciation in the booming self-storage real estate market.

Ready to Invest?

Need more reasons? I will give you 2 more great reasons!

1) Depreciation. Depreciation is a free tax write off that allows you to keep more of your earnings from a hard asset like a storage facility. The first thing we as the managing partners do after we close the deal is order a cost segregation study. A cost segregation study identifies and reclassifies property components like LED lighting, pavement, movable walls, to shorten the depreciation time for taxation purposes. This reduces the income tax obligations, and we pass those savings onto our investors for their taxes.
2) Amortization. Customer or tenants pay down the debt which increases the equity, creating long-term wealth. You might think this is the same is appreciation but it's not. Appreciation still happens with the real estate trends and on top of that we are getting our customer to pay down our debt on the property. Even better is the fact that we still are getting our cash returns on top of that.

Now, are you ready to invest?

Need another reason? I'll give you another one.

The average annual total return rate by the publicly traded REIT between 1994-2019 have nearly doubled that of the S&P 500. Over that time frame Self-Storage REIT's have an average annual total return of 16.7% and the S&P 500 has a 9.3% total return. [4]

You may ask me, "why don't I just put my money the a publicly traded REIT Jason?" Because on average the Public Storage and CubeSmart's in the market, only pay you a 3% dividend on your money. When you invest passively with me, we can give you a 7-9% return on your investment quarterly AND a portion of the equity when we exit the property. This will 2x your investment in as little as 5 years!

You're ready to invest now; aren't you?

Click the link below, see the process and schedule a 15-minute call with me.

I look forward to speaking with you and making you some mailbox money!

Setup a Call with Me!

[4] REITs vs. Stocks: What Does the Data Say? | Millionacres