

Leased Treasures

Lease-Based Storage In A Changing Economy



By Jennifer LeClaire

When you hear the words “mixed-use” and “self-storage” in the same sentence, you probably think of adding mailboxes, eBay® pick-up services, and retail sales to the offering.

If you are a little more progressive, you may consider add-ons like self-service car washes or even adjacent parking garages that serve the needs of the community—for a price.

But, flip the scenario around and you have a different type of mixed-use development altogether: Leased-based self-storage is the profitable afterthought.

Treasure Island is one of a growing number of examples of this newfangled, non-ownership approach to self-storage development that is emerging in the face of land limitations in under-served, yet prime, locations.

“Land is getting so scarce in suburban locations that self-storage developers are starting to make alliances with large store chain developers,” says Hugh Kreizenbeck, a vice president with Buchanan Capital Storage in Washington, D.C. “Self-storage developers are getting more creative about how they navigate traditionally expensive

land prices. Treasure Island is a prime example, with a long-term lease on top of a 24-hour grocery store in New Jersey.”

Treasure Island is one of the fastest growing self-storage operators for the business, student, and local markets in the Northeast. Led by Rich Monteforte, president of Self Storage Operations in Eatontown, N.J., the developer has built 10 facilities. In doing so, Monteforte has also developed a habit of finding unique self-storage settings across New York and New Jersey that operate under the Treasure Island brand name.



The 94,000-square-foot facility is located atop a Super ShopRite grocery store...there's a loading dock in the back large enough for moving vans to unload furniture.

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Finding A Treasure

The Treasure Island facility in Paterson, N.J., was retrofitted into a 100-year-old red brick-and-mortar building that spans an entire city block. Unique for a self-storage facility, this urban site boasts a large courtyard in what was an old silk mill

o'Nuts® coffee factory into a Brooklyn self-storage facility. "You can see the property for miles because it has a 10-story tower where the company used to mill the coffee beans," Monteforte says. "We are also finding plenty of buildings where the second floor just isn't being used, so it's

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factory city. Treasure Island Paterson is directly across the street from the county municipal building. Despite its historic roots, the Paterson facility nonetheless possesses all the same amenities as its other facilities: password-controlled gates, climate-controlled units, 24-hour surveillance, individually alarmed units, and drive-up access.

Across the bridge in New York, Monteforte transformed an old Chock Full

possible to put self-storage on top of retail centers that have vacancies if you are willing to lease."

That's exactly the creative-thinking Monteforte demonstrated with Treasure Island Self Storage in Woodbridge, N.J. The 94,000-square-foot facility is located atop a Super ShopRite® grocery store. The facility offers 700 units and several entrances. The office is on the ground floor, and there's a loading dock in the

back large enough for tractor-trailers to deliver groceries—and for moving vans to unload furniture.

A Self-Storage Feast

Monteforte stumbled upon the opportunity a few years ago while ShopRite was undergoing a renovation. Interestingly, there was already a self-storage facility on the second floor. It had been operating there successfully for 15 years, but the old-style facility had never seen improvements.

"My attorney was the same attorney doing some work for ShopRite, so he had told me about it," Monteforte says. "I talked with the owner of the shopping center and told them that I was interested in putting a brand new, state-of-the-art self-storage facility on the second floor. He agreed."

When ShopRite decided to undergo a world-class upgrade to its grocery store, they asked the owner, an elderly gentleman, to move out. Monteforte knew he was taking a bit of a risk, since all the loyal tenants were forced out of their units during the renovation. But the rewards far outweighed the risks in his mind, so he went forward with the project.

"We knew the traffic was going to be good, but it's even better than we anticipated," Monteforte says. "It's so good that we even extended our hours of access and operation to accommodate the fact that ShopRite is a world-class, 24-hour type of facility. This facility has exceeded our expectations."

Treasure Island doesn't just benefit from traffic at the ShopRite store. It also draws traffic from other retailers in the upscale strip center, including Pier 1 Imports®, P.C. Richard & Sons, Techsmart, wine stores, and other boutiques.

Woodbridge is a township in Middlesex County with a population of more than 106,000, making it the fifth most-populous municipality in the state. The median income for a household in the township was \$60,683, and the median income for a family was \$68,492. There are 34,562 households; out of which, 33 percent had children under the age of 18 living with them. That makes for plenty of demand.

"These grocery stores operate 24 hours a day and they have an incredible amount of traffic coming in and out," Monteforte



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says. "It was the perfect spot for this type of operation. Plus, it was a proven concept. The existing storage facility was fully occupied. The demographics were there. The population was there. There are lots of apartments, condos, and townhouses that need storage. It was just a matter of timing to get the facility renovated as soon as possible."

Shopping For Space

Monteforte completely gutted the old self-storage facility and built a modernistic facility with flush panels, security systems, video surveillance cameras, upgraded HVACs, new electrical, new hallway systems, new doors, new sprinkler heads—new everything. The facility opened in August 2006.

"ShopRite did eliminate some of the space upstairs, because the developer had to renovate the cooler systems for the food store and have certain types of chimney chassis put in for the kitchens," Monteforte says. "So we lost some space, but when they were done we were satisfied that we still had enough rentable square footage, and decided to move forward with this creative idea."

Treasure Island at Woodbridge may be the only self-storage facility in the nation that relies on an escalator to move tenants from floor to floor. Monteforte renovated the existing freight elevator to make it a passenger elevator.

"Customers see the elevator as a convenience," he says. "If you are just coming in with your grandma's lamp and you want to put it in your unit, you don't have to wait for an elevator. You basically just jump on the escalator, go up to your unit, drop it, and then come down."

In all, the developer invested \$2.2 million into outfitting the facility and spent about a year to retrofit the project. That's a fraction of the cost of ground-up development because there was no land purchase. Monteforte also avoided the typical municipality red tape in terms of zoning and parking, since the self-storage had already existed at the site and parking was abundant. The only zoning requirements were signage.

Treasure Island's office is on the first floor, giving it the visibility it needs from

the thousands of cars that pass by and the hundreds of customers that visit the supermarket every day. The office includes a retail store that sells the standard self-storage staples: boxes, locks, and tape.

"Self-storage doesn't need a lot of parking, so the township was amenable to us coming back in and the landlord certainly did his best to improve his parking," Monteforte says. "Self-storage was really the perfect use for the second floor of this development, because there's not too many retailers who like being on the second floor."

Monteforte actually wanted to see a third floor. In other words, he had hoped to build a two-story self-storage facility above the ShopRite using a mezzanine. But, because the shopping center was already relatively aged, there wasn't enough engineering data available on the slabs that were originally poured and engineers didn't want to approve the plans. "A two-story facility would have made it a

grand slam," Monteforte says. "But it's still a home run."

Exploring Leases

The big catch, if you can call it that, with the ShopRite location was the lease mandate. The current developer owned the property and the building, so in order to leverage this prime location in suburban New Jersey, Monteforte had to agree to lease rather than buy.

"Larger operators and owners who have always shied away from leases are now looking more at ground-leases stronger than ever, because that's what left in these fancy locations," Kreizenbeck says. "The owners themselves are not willing to part from ownership, but they are willing to sign 20-, 30-, 40- or in some cases, 50-year ground-leases and allow for mixed-use and self-storage."

John Gilliland, immediate past chair/national director of the Self Storage Association, is working in some lease arrangements. He admits that he'd prefer



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owning the ground in order to benefit from the real estate appreciation over time, but his experience tells him that isn't possible in some locations—especially in densely-populated, downtown properties.

The self-storage mixed-use lease option with larger retailers is gaining momentum—and it's not stopping there.

"In the right situation, a lease can be purely a cash flow play," says Gilliland, president of Investment Real Estate, LLC, a self-storage brokerage firm in York, Pa. "We are getting 20 percent to 25 percent cash and cash returns, whereas you typically never expect that with buying a self-storage facility. You are going to get eight percent to 10 percent cash and cash returns. And, we don't have nearly the amount of dollars to lay out upfront to build out as we do when we are building."

In Monteforte's case with Treasure Island, he says he has a long-term lease with two renewal options that will keep the facility operating long after he's gone. Like Gilliland, Monteforte says he'd prefer to own the property, but he considered the upside: the ability to get into a new project quickly with a favorable lease and make a considerable run on his money.

"This space is on the second floor, which is basically unusable space," Monteforte says. "So the landlord was happy to get us in there and happy to give us terms and rent abatements we asked for. It's working out very well. After two years, we are more than 80 percent occupied."

Building Momentum

The self-storage mixed-use lease option with larger retailers is gaining momentum—and it's not stopping there. Kreizenbeck points to a mixed-use condo development he's exploring that includes retail and self-storage on a four-acre development—again, all leases.

"Retail chains are beginning to accept self-storage as a way of raising their visibility and vice versa," Kreizenbeck says. "Self-storage gets an incredible traffic

count and the retailer limits competition. The numbers are working."

Kreizenbeck cited another project in which a self-storage facility is being built underneath condominium units

in Phoenix. The condo basically has 44,000 square feet of self-storage as a basement. The project relies on condo parking to offset county requirements for parking.

In yet another example, a self-storage operator building a new facility inside a bankrupted Levitz Furniture store. The developer is leasing 60,000 square feet on a 20-year renewable lease.

Even mobile storage operators are getting into the game. Kreizenbeck has seen a PODS® franchisee building a storage facility under a Target®. The operator will store the portable storage units in an air-conditioned facility underground. He's also seen a PODS franchisee collocating with a Best Buy®.

"Developers are having to contend with specific transportation development regulations in order to comply and get acceptance," Kreizenbeck says. "Because of that, and because land is so scarce, we are starting to see developers piggyback other projects—even if it demands a lease."

The year 2009 may see an uptick in this trend of piggybacking retail projects—and even assuming big box stores. With the economy hitting the skids, retailers are among those who are suffering the most. 2008 saw Sharper Image®, Lillian Vernon®, and Circuit City® file for bankruptcy, while Zales® closed 60 stores and Home Depot® slashed jobs. Self-storage may be able to fill a void, Gilliland says.

"We have looked at the portfolios of several major shopping center developers to see if they had a vacant big box store or an extra parcel where we could build self-storage or do a land lease," Gilliland says.

"The numbers haven't worked for the last three or four years, but that is changing."

What's Coming Down The Pike?

The reason the numbers haven't worked, he explains, is because landlords can generate more revenue from the space by doing a long-term lease than by selling it to a mainstream retailer than a self-storage facility operator. But now, with more big boxes sitting empty ...

"I think we're going to see more consolidation in the retail industry and shopping center developers will suddenly knock on our door asking if we'd like to do self-storage in an empty 60,000-square-foot store," Gilliland says. "And, I think the numbers will work."

Case in point: Gilliland is currently operating a self-storage facility in the basement space of a shopping center in Harrisburg, Pa. He's renegotiating his lease with them now and lowering the lease rate because of the economic downturn. His occupancy is running lower than in past years and he is ready to vacate if the landlord doesn't lower the rent.

Gilliland is also anticipating a hybrid on the leased retail space trend. He's been in talks with shopping center owners about a condo-type situation where each business owner owns a parcel of the land and everyone pays into a general maintenance fee for the upkeep.

"We can overcome the leasing issues by subdividing these shopping centers," Gilliland says. "Sometimes those centers are owned by two or three different owners. The pad out front might be owned by a McDonald's® franchise, the Target site might be owned by another individual, and the shops in the middle by someone else. You can split those up, sell the land to businesses, and form a condo association. The opportunities are out there in urban areas. You just have to look for them." ■

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