



New York State of Mind

Research Firm STR is tracking robust storage development in the Big Apple

By Laura Williams-Tracy

New York City with its affluent residents, cramped apartments and a very active commercial real estate market is sporting one of the hottest self storage markets in the country.

By one estimate, New York City's five boroughs are set to add an estimated 3.5 million square feet of additional self storage space with 32 facilities under development; this according to research by STR.

"It's incredible to see the difference in the self storage market over the past three years," said Anne Hawkins, senior vice president of STR, a market data and research company that has recently entered the self storage space. "The secret is out. It's no longer this undiscovered industry. People are understandably following where the returns are, though New York is not the easiest market to enter. You have to put a lot of capital to work."

STR has a 30-year history in the hotel industry, tracking inventory of current hotel properties and collecting devel-

opment data on new hotels coming to market. STR is best known for its performance data, as it provides hotels with individual competitive benchmarking data from proprietary information from 52,000 hotels. The data is anonymous to STR clients but provides a way to make performance comparisons on such measurements as rate yield and occupancy.

Recently STR added self storage to its area of expertise and is building a database of existing supply and researching development in top markets. For its public launch into the storage arena, STR released a report showing robust development in New York City, showing an increase of roughly 15 percent in the number of facilities. Such an increase would without a doubt affect the performance of operators, developers and acquirers in the catchment area of these new facilities, the report stated.

"Anecdotally, when we put out the NYC report, the comments we got were, 'If you think New York City

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has a lot of development, look at my market,'” Hawkins said. “Everybody thinks their market has the most supply increases.”

Tough Competition

Developers in the NYC market say there’s no lack of players wanting to develop, but they are coming up against skyrocketing land prices, increasing construction costs and prohibitive zoning rules, including Mayor de Blasio’s proposed new zoning rules—which may prevent self storage and hotels from being built in Industrial Building Zones without a special permit.

“Two to three years ago was a good time to get in and establish a nice portfolio,” said Marc Slayton, president and CEO of Good Friend Self Storage. “Me personally, I am looking for other opportunities at this moment. It’s too competitive and there are too many unknowns about who else is doing a deal potentially next door.”

Good Friend Self Storage has 10 facilities in the NYC metro area, three under a different brand. Slayton says he sees opportunities in other submarkets.

Steve McKnight is a partner with Madison Development and oversees their acquisitions, and he said developing in NYC is getting tougher all the time.

Madison is building four facilities totaling over 500,000 square feet—one in Brooklyn, one in Queens and two in the Bronx. One of the two projects in the Bronx is a 100,000-square-foot building conversion which opened in July.

“I’ve been in this market for 20 years, and it’s getting tough to develop,” McKnight said. “The mayor is trying to drive us out. Land prices are skyrocketing. Permits use to be six months, and now it takes over a year.”

Over-heated land prices means storage developers are seeing building sites go to higher bidders, only to fall through when lenders won’t lend so much money for the development.

“We are seeing deals that we lost out on a year ago come back, because the people who beat us on price couldn’t close,” McKnight said. “You’ve got to be patient, and sometimes the best deal is the one you don’t go for.”

Madison Development will open two new storage facilities in 2017 and begin construction on a third early in the year. McKnight said many of the 32 facilities STR is tracking have already opened. And he says NYC customers won’t travel more than a couple of blocks to use self storage. The bigger challenge is that some areas of the city are just too expensive to support storage, and zoning challenges aren’t making growth easier.

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The NYC self storage market is as robust as ever, said Nick Malagisi, national director of self storage and a senior advisor for SVN Commercial Real Estate Advisors, based in Buffalo, New York.

“The metro New York City area is an important part of my business,” he said. “Right now, I’m working on two projects in Westchester, one in Nassau County east of the city, in Long Island City, which is part of Queens, and in Newark on the west side of city. This is as busy as I have ever been in that particular market.”

Data-Driven Decisions

Malagisi said STR is a welcome addition to the professionalism of the industry and is encouraging participation within the self storage community to help with the research.

NYC has a low supply of storage per capita but developers and brokers say that broad statement about such a large market fails to address the challenges of storage facilities opening close to one another.

“There are pockets where there are two to three storage properties coming online virtually within a block of each

other,” Malagisi said. “It’s going to be interesting to see what success they have.”

How long will the development last? Developers say the New York market is becoming so challenging that prices and zoning will soon push out storage for other uses, such as office development. Malagisi gives it a bit longer.

“Our industry doubled in size from 1 billion square feet to 2 billion square feet between 1995 and 2006,” Malagisi said. During the recession, nothing was built for five or six years.

“We’re probably three years into a cycle that might be a five- or six-year cycle. It generally takes three years for a property to be identified, get approvals and construction and open doors for business.”

Next in the cue for hot storage markets is Dallas, said Hawkins of STR. Her company will next be reporting on the storage market in Dallas and the number of projects coming out of the ground there.

“Obviously, Wall Street in particular is pretty focused on Dallas and Houston, Chicago and Denver,” Hawkins said. “We’re moving as quickly as we can to have data on the top 25 or 50 markets covered from a development perspective.” ❖

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