

Are Rent Caps Coming?

Steve Mirabito, president of StoragePRO Management, Inc.

I fear our industry faces a potentially existential public relations and business threat caused by some legal, but tone-deaf, revenue management and customer service practices that may result in our industry's inability to remain independent of governmental scrutiny. Unflattering news reports have surfaced regarding "exorbitant" rent-rate management practices. The common themes: large operators not being transparent about rental rates and failure to acknowledge and escalate customer concerns to upper management. These concerns were echoed by owners and operators I spoke with during the SSA Fall Convention.

Municipal governments are contributing to this problem by implementing restrictions on the development of storage facilities in many of the same metropolitan markets experiencing higher rental rates. For example, when new customers were being charged almost \$100 less for the same unit size, a customer in California asked his store manager for an explanation regarding his 67 percent rent increase notice. Unsatisfied with the manager's response, he asked to speak with a supervisor. After no response, he contacted his city councilmember, who acknowledged that most storage rentals are for personal use and said, "If we can cap residential rent rates, we may as well cap storage rent increases too." Shortly thereafter, with no success in reaching the storage operator, city staff was preparing a rent control ordinance! Do we want the government to tell us what we can charge? If these egregious practices continue, that day will come.

In *The San Francisco Chronicle's* article "Self-Storage Prices Are Soaring to Unexpected Highs – Even for the Bay Area," a homeless person complained that her storage rental was too expensive. A Baltimore journalist reported on a fed-up customer who vacated her unit after a 40 percent increase raised her monthly rent to nearly \$1,000. She was unsuccessful in contacting the operator.

In each of those situations, neither the operators nor a trade association responded to requests for comment. Avoiding frank conversations with the media perpetuates a one-sided narrative. As chairperson of the California Self Storage Association's Legal & Legislative committee, I can attest that disgruntled consumer complaints regarding excess rent increases trump all other consumer inquiries. We have a duty to prevent unnecessary regulatory creep by providing customers with transparent pricing policies and a process for customers to be heard by upper management. If the manager cannot ameliorate the situation to the customer's satisfaction, someone else from the organization needs to step in. It would be unfortunate for the decisions of a few to impact everyone. Prevent the bad press, governmental scrutiny, and regulation. Be proactive and act now! ■



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How Aggressive Rate Hike Strategies Can Harm The Self-Storage Industry

Posted by [TRAVIS MORROW](#) on Jan 17, 2024 9:53:52 AM

The self storage industry is in a precarious position and it all has to do with pricing and perception.

A recent [Yardi Matrix](#) report states that slowed demand for self storage continues to drive street rates lower. "Elevated residential mortgage rates have slowed home sales, reducing population mobility, a major driver of storage demand," the report reads. "As a result, storage operators continue to lower asking rates to drive new rental demand."

Of course, knowing that today a majority of people do an online search before walking into a facility, it appears that REITs are adopting a new pricing strategy: Lowering web rates, which were already typically lower than street rates. That would be fine if it were an honest move, however these low web rates are often followed by dramatic increases just a few months down the road.

The logic behind this seems to be that they can grow revenue by lowering web rates, getting people in the door and then raising rates aggressively. After all, most tenants tend to stay in a facility for 10 months or longer; so even if a facility misses out on some revenue in the first couple of months, they make up for it on the back end.

Unfortunately, a lack of transparency about rate increases is not a good look for the self storage industry. Sure, REITs have often offered low entry pricing – think the \$1 move-in Public Storage is famous for – but any reasonable person understands that type of pricing to be a simple promotional rate that won't last beyond the initial month or two.

On the other hand, luring someone in with what may seem like a reasonable rate to them – say a 10x10 for \$80 – only to double or in some cases triple that price in three months can leave a lot of people feeling like they have been duped, taken advantage of, screwed over – you name it.

The other unfortunate outcome of this pricing strategy is that independents (the rest of the industry) are being forced to follow suit in order to compete. I'm going through this with one of my stores right now (and will share that data in a follow up story). Currently, we are lowering their web rates to match a nearby REIT, and while it seems to be working, no one is happy about it. It's hard to feel good about acquiring a new tenant and then raising their rate 200%.

There are other downsides to these pricing strategies. In his post *Hidden Changes in Self Storage Rents*, Cory Sylvester with DXD Capital points out that these pricing strategies can mislead a developer in analysis, causing an underestimation of achieved rental rates in underwriting. "Since the web rates are more like teaser rates that change aggressively after three or six months, [they're] much less representative of what we can achieve if we build a new store and start leasing it up," he writes.

I see another consequence to this strategy which may be even worse. In my mind, tactics that hide behind a lack of transparency push us closer to 1) increased government regulation, leading to rent control, or 2) consumer litigation claims, which again leads to increased government regulation and a whole heap of bad press.

One way to combat consumer outrage, and a tactic I think it worth considering, is in addition to signing a lease, require tenants to also sign an introductory rate addendum. This form states that they understand the low rate they're paying today is introductory, and that it ~~is likely to~~ will increase in the coming months. It's a CYA move, but no one can say they weren't warned.

We talk a lot about perception in the self storage industry. We are constantly battling zoning boards and city officials, trying to get them to understand the benefits of self storage within their communities. But if the perception that operators regularly dupe consumers through rate hikes becomes a full-blown reality, we may have an even tougher road ahead.

Travis Morrow is the President of National Self Storage. This article is part one in a series.

Part 2: Aggressive Rate Hikes: We Tried It. Here's What Happened.

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Aggressive Rate Hikes Part 2: We Tried It. Here's What Happened.

Posted by **TRAVIS MORROW** on Jan 24, 2024 9:45:57 AM

The REITs new pricing strategy – lowering web rates and then implementing dramatic increases just a few months down the road – is a double-edged sword.

Yes, they grow revenue by getting people in the door and counting on most not leaving when the aggressive rate hikes kick in. On the other hand, many tenants wind up feeling taken advantage of due to the lack of transparency, giving the industry as a whole a very bad look.

And while REITs may have started this game, independents are having to follow suit in order to compete. This goes for an independent facility that I own as well. I wrote about this situation in a [prior rate hike story](#) and promised to share how mimicking this strategy has worked out. So let's dive in.

First off, a little background. This facility was opened in April 2023 and pricing followed the norm, taking into consideration the market, demographics, competition, and so on. Things were progressing well, with rentals ramping up monthly. That all changed when a nearby Extra Space Storage facility began offering 5x5 units for \$25.

How could they get away with such a low rate, I wondered? I suspected that rate would not last for long. To confirm my suspicions, I put on my detective hat and rented one of those units myself. Sure enough, 60 days after the move-in I received a notice that rent was going up in 30 days.

Extra Space Storage
6011 - Tucson - Cortaro Farms Rd
5740 W Cortaro Farms Rd
Tucson, AZ 85742
(520) 239-3081

Notification Date
Re: Account ID
Unit #

08/14/2023
2002688879
1076

RATE CHANGE NOTICE

Dear Travis Morrow,

Thanks for choosing Extra Space Storage to keep your belongings safe! As a month to month rental provider, our rates are reviewed and adjusted depending on current market conditions. As a result, we are writing to let you know that effective 09/25/2023, your monthly rate for unit 1076 will increase to \$49.00.

Monthly Rent Rate:	\$49.00
Monthly Insurance Rate:	\$11.25
Monthly Tax Amount:	\$0.36
Total Due Monthly:	\$60.61

This Rate Change Notice will only go into effect to the extent permitted by applicable law. If the postmark date of this notice is less than 30 days from the effective date above, the changes will be applied on the following monthly due date. If you have any questions about your monthly rate, please call us (520) 239-3081

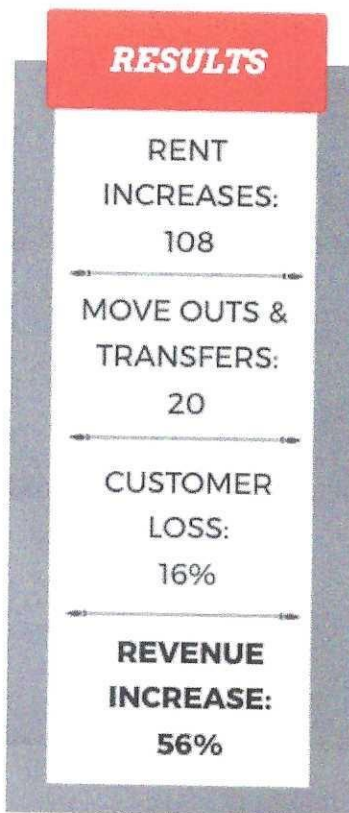
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Of course, many tenants unfamiliar with the industry didn't see this coming and they took the bait (and suffered the switch, I presume). As a result of these deeply discounted Extra Space web rates, our facility's rental velocity slowed considerably, impacting our occupancy lease up target. Making matters worse, the interest rate on our construction loan had more than doubled since we started the build. We couldn't sit idly by; something had to be done.

Taking a page from the REITs, we sent out 108 rent increases that went into effect on November 1, 2023 based on tenant move-in anniversaries. So what happened?

Sadly 17 tenants moved out, while three transferred to smaller units. However, 88 stayed with half accepting the full increase and the other half negotiating a slightly smaller increase. When all was said and done, our total revenue increase was 56 percent.

Now, in a normal rent increase scenario we'd expect to lose three percent of the customers. In this case, we lost 16 percent. However, we deemed this acceptable because of the net increase in revenue. What was less acceptable? Upsetting a lot of customers in



our market. Some of them threatened to go to the news, and our Google Reviews suffered (somehow Extra Space's reviews never do? They're going to need to teach me that trick).

So was it worth it? Yes. Would I do it again? Not exactly. REITs have the data, much more than any independent operator has (be sure to take our [data sharing survey](#) and help us correct that). Armed with that data, they can prepare themselves for the reaction to pricing changes and know that they are going to be okay with the result, just as I was with this facility.

But in the long term, is it a good practice for the industry? No. Just because the data tells you that you can do something, it doesn't mean you should. It's just not good to have a reputation for treating customers this way even if you can get away with it. Not to mention, these tactics could even leave some operators open to consumer litigation claims. Where there are lawsuits there's media coverage, and where there's media coverage there are legislators looking for a win. What does legislation lead to?

You got it – rent control. And that's something no one in the industry wants, regardless of size.

So what's next? For this facility, potentially more of the same. A Public Storage-managed facility is opening across the street in 2024 and they will likely play the same game. And we'll need to keep playing too. This is the world independent operators have to compete in today, and I feel the industry as a whole is in for a world of hurt if these strategies continue.

As I wrote previously, I'd recommend that when signing a lease, self storage operators also have tenants sign an introductory rate addendum, stating that they understand the low rate they're paying today is introductory, and that it will increase in the coming months. This is a temporary fix, for sure, but it will keep you covered. Ultimately, my hope is that in the future, rate games will become a thing of the past.

Travis Morrow is the President of National Self Storage. This article is part two in a series.

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