

You wouldn't want to open a hotel today and call it "Mom & Pop's Hotel;" you need to choose a brand. The same will be true in our industry as well.



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Chain Of Command: What Hospitality Consolidation Means For Self-Storage

Posted by [TRAVIS MORROW](#) on May 29, 2024 9:39:38 AM

There are an estimated 700,000 hotels in the world – that’s about 18 million guest rooms. For many unfamiliar with the industry or who don’t belong to a frequent traveler program, it’s fair to assume that hotel brands directly own and operate the majority of properties flying their flag. But that’s no longer the case. Today, most popular hotel brands are part of ten new “mega-chains” that use franchise and management contracts to expand their empire with minimal capital investment. So, rather than Marriott simply running Marriotts, everything from Ritz-Carltons to Residence Inns fall under an umbrella known as Marriott Bonvoy.

As I stated in May Messenger’s *Chief Executive Opinion*, I believe the self-storage industry will soon be run by ten or so mega-chains too – we’re just fashionably late, as we always are compared to the hotel industry. Hospitality has always innovated much quicker than us, though in fairness, they’ve also had hundreds of years’ more experience than us.

But, it’s worth noting that everything the hospitality industry does, we tend to follow suit.

» Hotels implemented computerized reservation systems in the early 2000s, reducing



staff sizes and allowing guests to conveniently register online; now we're doing it.

» Hotels adopted keyless entry technology, with IHG being the first to experiment with it in 2010 at several Holiday Inns; now we're doing it.

» Hotels easily **share industry data** to the benefit of all operators, something we're slowly – sometimes begrudgingly – beginning to do (STR, which provides premium data benchmarking, analytics, and marketplace insights for the global hospitality industry, was founded in 1985).

Therefore, it's safe to assume that like the hospitality industry before us, self-storage will continue to consolidate. Should this happen, what can operators expect? What are the pros and cons? And will there still be independents?

Consolidation In Hospitality

The once fragmented hotel industry began significant consolidation through a series of mergers and acquisitions in the 1990s. By the early 2000s, the number of major hotel companies had been slashed in half, from about 20 large groups to 10 that now control 65 percent of US room supply today. This rapid consolidation occurred for a number of reasons.

Number one is likely due to the benefits of economies of scale (and the cost savings that come with it). Consolidation allowed hotel companies to centralize operations, share resources, and leverage their combined size to negotiate better deals with suppliers and distribution channels. Consolidation also often helped hotels save money by streamlining operations, eliminating redundancies, and optimizing resources across the merged entities.

We also entered the digital age in the mid-90s as the internet found its footing. Suddenly, online booking platforms were revolutionizing the way hotels could market and sell their inventory; it also made it significantly easier to reach international customers. Of course, the larger the hotel company, the better positioned they were to invest in new technology. Through consolidation, hotels could make investments in technology and quickly and efficiently enter new markets to establish a global footprint.

Finally, acquiring other hotel brands allowed companies to diversify their brand portfolios, catering to different market segments and consumer preferences. Just look at all the brands found under the Marriott Bonvoy umbrella, the largest of all hotel portfolios with 8,700+ properties across 139 countries.



By diversifying its portfolio, Marriott is able to appeal to those seeking luxury or premium experiences, as well as price conscious consumers looking for less expensive or longer stay options. And it can do this without changing the perception of its flagship brands. After all, most travelers don't care about what goes on behind the scenes; it doesn't matter that the Ritz-Carlton they booked, for example, is being operated by Marriott. They just want to know that they can expect the same standard of amenities and service they've always received from a Ritz. For the Ritz, by centralizing operations like reservations, marketing, staff training, and procurement across locations with Marriott Bonvoy, they leverage the chain's size while allowing individual properties to focus on delivering great on-site experiences.

Are there still independents? Of course. Thousands of mom-and-pop hotels are operating across the country, and many succeed by offering local flavor or personalized experiences, appealing to the traveler who eschews anything corporate or unauthentic. But the majority of travelers tend to gravitate toward a reputable brand because it takes the guesswork out of the accommodation experience. And that's why consolidation will continue.



Other than the addition of Wi-Fi and change in ownership, little has changed at the independent Mecca Motel between the 1950s and now.

Consolidation In Self-Storage

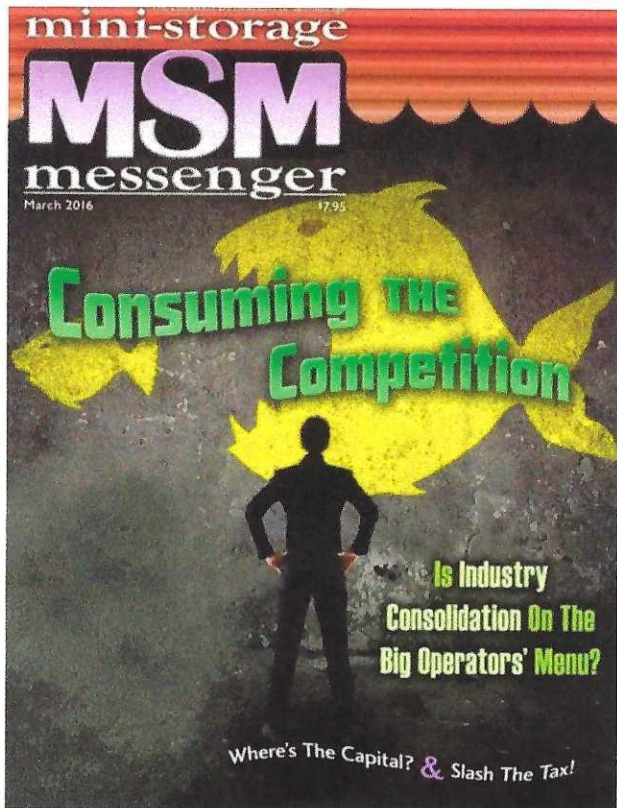
Although not consolidating as rapidly as the hospitality industry, the self-storage sector is no stranger to the concept, and there has been discussion and debate around the topic since our publication's early days. Digging into the [MSM Archives](#), I find that consolidation first came up as a major topic at our 1995 Self-Storage Development Symposium, when MSM sat down with five industry experts to discuss this and other issues.

"We think a lot about consolidation, [but] despite all our efforts, we actually expect the industry to remain dominated by the smaller operators," said Tom Robinson, former president and CIO of Storage USA, waving away the "threat" of consolidation. "The bigger operators, the ones with access to capital, will be buyers indefinitely, but there isn't enough capital out there to really consolidate this industry."

Storage USA was acquired by Extra Space just 10 years later, in 2005.

Mike Burnam, president and CIO of [StorageMart](#) – positions he still holds – had a different take. He told MSM that the efficiencies of getting bigger would almost always win out. "I think the medium size operators will buy the small operators and the larger operators will buy the medium, resulting in a few large companies."

Talk about your on-point predictions.



By March 2016, it was clear industry consolidation would continue. That month, the topic made our cover in the story “Consuming the Competition.” At the time, then-CEO of [Extra Space](#), Spencer Kirk, told MSM that the smaller operators were having difficulty competing with the REITs for customers online, and that eventually many would either choose to sell or align themselves with a REIT to manage their facility.

This is exactly what we’re seeing today in self-storage. Massive amounts of capital (some of it due to the COVID boom, which even an expert forecaster like Burnam might not have been able to predict back in 1995) means mega-deals are happening with greater frequency. And while huge \$12 billion mergers like [Extra Space](#) and [Life Storage](#) and big \$2 billion acquisitions like [Public Storage](#) and [Simply Self Storage](#) are the ones making headlines, there are always plenty of

smaller transactions occurring too.

Of course, not all transactions are acquisitions. Instead, some smaller operators are choosing to simply hand over the reins to a larger operator or third-party management company (this also happens to be the second most popular hotel model, in which owners retain ownership control but bring on a branded management group to operate the property on their behalf).

Whether a small self-storage owner is hurting due to a slowdown in demand caused by a volatile housing market, or increasing interest rates are making the cost of borrowing too great, working with a larger operator that has deep pockets can be an attractive prospect. You’ll see these types of deals being made all the time on our regularly updated [Sales & Acquisitions](#) page.

Just a month ago, when the top four REITs held their Q1 2024 performance calls, CEOs for each boasted about their third-party management platforms. [Extra Space](#), for example, reported that “As of March 31, 2024, EXR managed 1,409 stores for third parties and 472 stores in unconsolidated joint ventures, for a total of 1,881 managed stores.”

Consolidation Expectations

There is little doubt that mergers and acquisitions and management contracts will continue, with larger enterprises employing assertive expansion tactics to boost their marketplace dominance and small operators putting their properties in the hands of third-party management companies. It may sound scary, but there are benefits worth exploring that the hospitality industry has already realized.

First off, by absorbing or managing other chains, self-storage giants are better able to diversify. They can begin offering differently branded tiers of storage designed for different types of tenants. The storage industry is already **classified by A, B, and C**. Now, one self-storage giant can have all three under their umbrella operating under different brands. This provides tenants with different experiences, from luxury Class A facilities to no-frills Class C facilities. We already have specialty storage facilities, offering RV and boat, wine, fine art, and other types of storage; B2B-focused facilities with business centers and shipping and receiving services; short-term weekly rentals and extended stay facilities. Now, it's all in play for a mega-chain operating dozens of different brands.

Operators can reap many rewards too. By partnering in some fashion with a mega-chain, they will gain operational efficiencies, improved technology integration, professionalized training for talent, greater access to capital, and the ability to better meet the demands of guests with improved services and amenities (depending on the type of chain). They can also gain access to big data and analytics, helping to strengthen decision-making.

What are the downsides? Perhaps the biggest negative in this situation is the fear that reduced competition will enable rate hikes and fee creep. Well, folks, we're already there. I recently wrote a series of articles on some of the **aggressive rate hikes** happening in the industry. Large operators initiated this, and some independents have had to follow suit in order to compete or even survive. Further consolidation is not likely to further this trend; if anything, consumer or legislative pushback will put an end to it or result in more transparency before it becomes a larger issue.

Alternatives To Consolidation

No matter how appealing some of the benefits of consolidation may be, there are some owner-operators who will never want to give up their business. That is understandable, and respectable! However, going solo *can* make it hard to fight back. Luckily, there are alternatives to consolidation that can also keep independents going toe-to-toe with the competition.

Franchising, for one. This plays a significant role in the hospitality industry, with franchisees handling the day-to-day operations but agreeing to adhere to brand standards around things like decor, amenities, and services. So while the franchisee sacrifices some autonomy, they gain powerful distribution and operational efficiencies that allow them to compete in a crowded space.



Storage Authority is currently the only true self-storage franchise in the United States, with more than 30 franchisees operating under it. **Storage Authority** helps them find land, plan, design and construct the facility, and market it in order to compete with REITS. Although Marc Goodin, principal at Storage Authority, doesn't think massive consolidation will take place as quickly as I do, he does see more of it happening over time.

“Maybe in 15-20 years, instead of the REITs owning 20-30 percent of the market, they'll own 50 percent. But I don't think self-storage will ever be as branded as a hotel. Simply because people don't live or stay in it. It's for their stuff, so branding isn't as important.” What is important, he says – and why REITs will continue to take a greater share of the market – is because they can operate at a loss for years. “Because they have

such a large presence, they have the ability to wait five years to make a profit; the little guy doesn't have that luxury. Storage Authority helps in this aspect by the assistance we provide.”

Another option for self-storage owners is **Storelocal Storage**. Their program allows independent operators to unite their marketing efforts under one flag while maintaining more autonomy and focus on the day to day operations of the facility.



Breaking ground on a new Storelocal development in Surprise, Arizona.

“Google rewards the size of an operation based on the number of facilities under one brand/domain,” says Dane Elefante of **Platinum Storage**, who recently moved their 30+ facilities to Storelocal Storage. “I couldn’t raise enough capital in my lifetime to build a portfolio large enough to compete with REITs online, so placing my portfolio with Storelocal Storage allows us to put our stores into a larger group with the same name to increase our online visibility.”

Jesse Harmon of **Cedar Creek Wealth**, another Storelocal Storage operator who came to self storage from the hospitality industry says, “You wouldn’t open a hotel called “Jesse’s Hotel” today and expect it to be successful, you would need to pick a brand. We see the same thing happening in self storage.”



Of course, it’s still possible for an independent to survive on their own. Most likely, as consolidation continues, we’ll see more small operations leveraging their distinctiveness or “down home flavor” as a differentiator to big brand names, which will always hold appeal to some segments of the population. Sure, it’s probably easier for small hotels to take this approach as Goodin noted, but like it always does, self-storage – and the independents responsible for

creating the industry – will find a way.