

## **Closing The Gap Physical Versus Economic Occupancy**

By David Blum

What do you focus on? Unit occupancy, square foot occupancy, or economic occupancy? Do you look at actual numbers or percentages? What are your goals? What are your operational objectives? Do you analyze for operations or for your financial model?

I hear so many different approaches for measuring the success (or lack of success) of today's self-storage projects. Yet, it amazes me that with so many novices, mom and pops, newcomers, and independent operators starting out in this business, just how few have a clear and thorough knowledge of what really goes into generating and managing all these different criteria.

Just the other day, an operator I work with asked, "If my GPI (gross potential income) is where it is, and I am at 90-percent-square-foot occupancy, why is there a 26-percent difference in economic occupancy? When can I raise rates? Won't that improve my economic occupancy?" In all cases I try to stress that there is never one simple answer. I encourage all owners and managers to learn what each of these indicators really mean and to go about influencing them to achieve whatever your specific objectives are.

### **New Facility Start Up**

Let us start with a new property. We all know that occupancy and cash flow are the two most important goals. Actually this will be your "mantra" always. But, when you start out you must really choose your priority and what you are willing to sacrifice. To fill up quickly—both physical and unit occupancy—many operators turn to deep discounting. In attempting to generate cash flow I hear offers like "pay in advance for two months and get the third free" or "pay for six months and get the next two free."

Multiple-month prepayment offers will bring in cash, but, there will be a price to pay as those offers expire and months come along with no income. Half-month specials work well because at least there is always some income. Do not be afraid to add or drop specials during rent up depending on specific unit size popularity. This will be your first test of managing the spreads. Specials should help you to maintain an even percentage of square feet and unit size type fill up.

### **The Mature Facility Difference**

As you approach stabilized occupancy, or if you are already a "mature" facility, I find the ideal spread between unit-percent occupancy and square-foot occupancy to be no more than five percent. Greater than a five-percent unbalance most likely represents a need to adjust unit mix.

It is never too early to consider conversions. When laying out units, always keep in mind it is much easier to convert up. Unless you are prepared to make a substantial investment it is extremely hard to convert larger units to smaller. I encourage new developers to create mixes with future conversions in mind.

### **Managing Economic Income**

The other key indicator to focus on is economic income. I have too often seen operators strive to achieve 95- or 100-percent occupancy while economic income hovers around the 85-percent level. I instruct all my clients that they should never look to maintain that "100-percent full" mentality. At 100 percent, rates are probably too low. Managing a strong storage facility is like balancing weights on a scale. Raise rates

and the occupancy will lower, only to fill up with new customers at higher rates. But when you increase your street rates and increase your GPI, your economic income percentage will drop while occupancy levels will initially remain the same. Do not be afraid of this “correction.” It is to be expected and welcomed when the time is appropriate.

Raising street rates should be done at several different points. First, you should consider a modest street rate increase annually. Two to five percent is necessary to move rates to create additional income to support upgrades and investments you will make in maintaining your property.

To best manage the spread created between economic income and the potential reduction in occupancy, initiate this several months prior to your busy season. If you have conducted a good rate comparison in your market and know you are not pricing yourself completely above market conditions, whatever shrinkage is created by raising customer rates at this time should be offset by the influx of new customers. Remember also, you need to raise existing customer rates to be close or at your new street rates. As this is accomplished your economic income will move upwards as well.

The other time to raise street rates is when you run out of specific sizes. This comes under the latest trend to hit our industry, “yield pricing.” There is no specific time restraint for this. A good manager will know which sizes are more popular and react with a simple “ratcheting” increase to control their rentals. The airlines, car rental, and hotel companies have been doing this for years. It is basically a model that raises and lowers rates based on demand and key factors of anticipated need. So when you see that you have only two of twenty 10-by-20s remaining, the new higher street rate can be implemented. Or if you fall below a certain “threshold” occupancy, you can institute pre-designed “specials” until the desired level of occupancy is achieved.

### **Non-Standard Rates**

Last and possibly the most important spread to monitor is that which you generate between GPI and the maximum income you can collect when you add up what current customers are paying. Raising street rates, running specials, and giving discounts will create the most costly spread of them all. This difference is real dollars that you lose out on each and every month they go unattended. Be aware of what they are and if you have any opportunities to close this gap. This will be a key factor impacting economic income.

No matter which software you utilize, you must scrutinize the monthly “non-standard” rent reports. Have a clear picture of who is not paying full rental rate and why. This will tell you a lot about what has been happening at your facility. Are there discounts that will fall away or do they never seem to end? Do you have a significant number of current customers who have not had rental rate increases to bring them up to what new customers are paying? Have you allowed too many “friends and family” to take advantage of your investment? Are there “shady” situations of which you have no knowledge? Much of this should be available if you conduct regular audits; it is much easier to stay on top on a monthly basis and track any anticipated “corrections” by regularly reviewing these reports with your employees.

### **The Overall View**

Most, if not all, of the management software today provide simple to read daily summary reports of all activity at a facility. Somewhere you will find occupancy—both unit and square feet—income as a projection of both expected and collected, and corresponding percentages of these calculations. Knowing how to manage these indicators will allow you to reach your goals. Understanding the areas that impact them and can be manipulated to affect them is the secret to good solid storage management.

It is also important to get familiar with the other detailed self-storage reports. Make sure you are comfortable with where the summary reports derive their information. And remember that regular scrutiny and review will assure your ability to control and manage the spreads.