

Heatley Capital's  
DFW Land Advisory  
*The Tell-It-Like-It-Is Letter for Real Estate Speculators*  
March 2002 Issue

-----  
IN THIS ISSUE:

- Updates for [Plano/F. M. 544, North Richland Hills/Rufe Snow Drive](#)
  - #1 Self Storage Trick for Lightning-Fast Lease-Ups
  - #1 Reason Why Other Types of Real Estate Can't Beat Self Storage for Speedy Return of Capital
  - Why You Can't Kill the Self Storage Industry
- 

*"The perfect-world real estate investment cranks out killer cash flows, has zero risk, requires zero management and is immune to cyclical downturns. The closest I've come to that in a not-perfect world is self storage. It's only been around for 30 years, which is why people are still learning to use it. By far it's the Snow White of real estate investments, 'the fairest of them all.' "*

-- Mike Heatley  
Broom Pusher  
*The Storage Works*  
[www.thestorageworks.com](http://www.thestorageworks.com)

## **Golden Triangle Success Reveals Market Starved for Self Storage**

*Signing a 5-year lease for new office space the middle of last year made me wonder... Is it possible to squander thirty years and make up for it in five? Right about then my It's-Never-Too-Late Plan began to take shape...*

From:  
Dallas, Texas  
Friday, 2:49 p.m.  
March 30, 2002

Dear Speculators In Search Of Making Up For Lost Time:

Right now my fax machine is churning out an 11-page report from The Storage Works. It's our first self storage facility and it opened January 24<sup>th</sup>.

For the moment only the first page truly matters to me, the one that tallies the total number of spaces rented.

Now, if you had to pick the absolute worst month of the year to open a new storage facility, that month would be January. February and December are tied for second. These are the 4-and-6-units-per-month months, meaning our first five weeks should get us to about 10 units

In March things pick up a little, so tack on another 14 units for the first three weeks of this month. That would get us to 24. It is this number that I am praying to see, and would be thrilled to write home about.

The number on *this* report, however, is nowhere close to that.

Why it is we are so far off the mark is still a puzzle. As it stands, out of 267 available units in Phase I of The Storage Works, the number of leased units is...

**55!**

Let there be rejoicing throughout the land.

I'm excited.

I also... am *relieved*.

Here is why: since the signing of that office lease last year, the clock for my 5-year exit plan has been ticking. For the past several years the focus has been disposing of an aging inventory, eliminating partnership debt and creating cash flow engines. Now it's time to push back, relax and inhale more of the good life. I've made my *new* goal...

### **Getting Out Of The Office!**

It wasn't until my 5-year psycho cybernetic boundary kicked in, though, that it became clear to me what my business should look like once assembled, and how I might get there. One thing for sure, the path from A to B had to be bob-sled fast, and the fastest-of-the-fast... is... self storage.

What, you ask, is it that qualifies self storage as the "Snow White," the hidden beauty of real estate? Sit up, pay attention and let's roll...

### **"SNOW WHITE" QUALITY #1**

#### **"King-of-the-Hill" Survival Rate**

A few years ago National Development Services Inc. (referred to hereinafter as NDS) did an in depth study comparing the performance of self storage to multi-family, office and retail. It was limited to Texas, Oklahoma, New Mexico, Colorado and Louisiana, and covered a ten year period.

The significant thing about this study is, it focused on the failure rate of *only* those developments that opened between 1980 and 1987... and... that were operating... *during the economic recession*... that began in those states in the mid-80s. May we douse the lights please...

1. Multi-family failure rate... 58 percent
2. Office failure rate... 63 percent

3. Retail failure rate... 53 percent
4. **Self storage failure rate... 8 percent**

No, the eight percent is no typo. Is it any wonder REITs keep snatching these up like owls on a lizard binge?

## **"SNOW WHITE" QUALITY #2**

### **Cash Flows in Months... Not Years**

You know, I've had it with waiting year after year on office and residential developments to start paying me back. Sorry, I'm just not a player unless I can get my answer in months instead of years. You too? Then here is something you are going to love about self storage. You can have one of these puppies up and running in as little as...

### **Four Months!**

And, because you can hit break-even at such low occupancy levels (38-45% compared to 73-80% for apartments, industrial and office), cash flows start sooner. Much sooner. *So much*, other types of real estate may as well be scratched from the race. They simply can't compete with the lightening-fast build-times of self storage.

*REAL LIFE EXAMPLE: It took 5½ months to build The Storage Works. The extra six weeks you can chalk up to the learning curve (hey, it was our first one). Cash flow to the equity partners is on target to begin in August. That's 7 months after the official "in service" date, and 13 months after the official "start date" for construction*

## **"SNOW WHITE" QUALITY #3**

### **Growth Industry Not Dependent on Population**

A market growing *faster* than the population? You can't be serious.

Yes, because of two important things.

**Important Thing #1.** Only about one third of Americans have ever used self storage.

**Important Thing #2.** Self storage facilities report that after about five years, most of their business... around 80 percent... is from repeat customers.

This leads to two important conclusions:

**Important Conclusion #1.** Americans are still  
"discovering" self storage  
and,

**Important Conclusion #2.** They are "learning" to use  
it *repeatedly*.

Let's get this straight: an industry... *not*... dependent on population growth... and... an industry... *continually expanding*... because its customers keep rediscovering how incredibly useful it is.

Me, oh my. Is *that* not sweet.

#### **"SNOW WHITE" QUALITY #4**

#### **Zero Management, Zero Operating Expense And Zero Maintenance? No, But... This is as Close As You'll Ever Get**

Here's the reality: hotels, for example, always are sucking operating accounts dry for new furnishings and redecorating. Ditto for offices on tenant finish and commissions, and apartments too, only apartments need *more* of everything... and... they need it more often.

Did I mention the massive amount of manpower it takes to run these things? The multitudinous numbers of customers required to fill all those units?

Those too.

The bummer, you see, is the capital demand for these types of developments squanders horrendous amounts of cash flow that otherwise would make for an acceptable ROI. Email me and I'll send you some numbers. It's staggering. It also is depressing. At the end of the day you've got a major black hole through which the equity has vanished. Meanwhile, your investors have defected to less capital-intensive endeavors.

Can you blame them?

Cash calls do not beget warm, enduring relationships

Now comes our lowly *not-granite-n-glass* self storage operator, sitting at the kitchen table with pencil and calculator, working the numbers, going... "Gee, these numbers sure look good, almost *too* good. Let's see now... I'll be changing a light bulb every now and then and... uh, oh, I knew it, here we go... I'm gonna be out...

**A New Broom  
Every Three Months!**

Life's full of nasty surprises, isn't it?

**Know this:** years from now while others will be replacing flooring, sinks, walls, electrical and plumbing, the high water mark in operating expenses for the self storage operator will be replacing a strip of sheet metal dinged by a car. The plain and simple fact is, it requires real effort to think up things worthy of spending maintenance money for. It is this one feature, more than any other, that makes self storage the true "hidden beauty" of real estate investments.

### **"SNOW WHITE" QUALITY #5**

**Apartment-Like Rents for...**

- ✓ **One Third The Construction Costs?**
- ✓ **One Fourth The Operating Costs?**
- ✓ **One Tenth The Maintenance Costs?**

Affirmative, on all three counts.

According to the aforementioned NDS study, the average annual rents for the properties surveyed are...

1. Apartments - \$5 to \$9
2. Office - \$8.40 to \$16
3. Retail - \$7 to \$14
4. **Self storage - \$4 to \$12\*\***

*\*\* The Storage Works on Golden Triangle  
currently averages \$6.20 p.s.f.*

So it *is* true. People *do* pay as much or more per square foot for storage as they do to rent an apartment. Now rivet your eyes upon this, Sweet Cheeks: the average... *development cost*... per property surveyed is...

1. Multi-family - \$40 to \$50
2. Office - \$50 to \$100
3. Retail - \$35 to \$60
4. **Self storage - \$25 to \$35\*\***

*\*\* The Storage Works on Golden Triangle  
ended up < \$18 p.s.f.*

Mamma mia, where has my head been for the last 5 years?

### **"SNOW WHITE" QUALITY #6**

**"Fairly Ridiculous" ROIs,  
Cap Rates**

Ridiculously *high*, that is, compared to what we've come to expect as "normal" from other vehicles such as office buildings, presented below.

<b>Comparison of Cap Rates</b>		
<b>Office Buildings</b>		<b>Self storage</b>
Cap Rate	8.5	10
Net Operating Income	\$100,000	\$100,000
Sales Price	\$1,176,000	\$1,000,000
Loan at 75 percent loan-to-value	\$882,000	\$750,000
Equity	\$294,000	\$250,000
Debt Service	\$78,200	\$66,500
Cash Flow	\$21,800	\$33,500
<b>Return on Investment</b>	<b>7.4%</b>	<b>13.4%</b>
<small>Source: Self Storage Data Services Inc. and Real Estate Research Corp.</small>		

Did your first look at the differences charted above leave you with a "so what?" feeling?

Look closer.

For the same dollar in purchase price, self storage annual cash yields are...10 to 20 percent more.

One other thing: the above chart compares *existing* facilities. For seed investors who build from ground zero, ROIs jump to triple, even quadruple that shown in the chart.

## **"SNOW WHITE" QUALITY #7**

### **Self Storage's Most Unfair Advantage**

Earlier I told you that one of the neat things about self storage is, it doesn't require a "body" to make it useful (OK, maybe the one running the danged thing, alright?). Hotels, apartments, offices and homes, however, all require human beings and, in large quantities to survive. No bodies, no profits, end of story.

Self storage, on the other hand, thrives on "stuff." This subtle and not-so-quantifiable factor gifts self storage with an almost unfair advantage in the market place, because it preys on our never ending accumulation of "stuff" we...

### **Are Hopelessly Attached To!**

I'm beginning to feel a tiny bit guilty.

Not you?

OK, what about this: all the things you are saving for your children vs. what your parents saved for you. Then your *own* toys. Uh, oh, sacred ground here. Can't leave those out, now can we?

You see where we're going here. Here's an industry that, despite the 30,000 facilities built in the last 25 years, rents relentlessly continue to increase, demand relentlessly continues to race ahead of supply, and all because when it gets down to our own belongings, you and I are incapable of...

### **Letting Go!**

There's more you should know about this industry, much more than we have time for in this letter. This last section, therefore, I reserved for the most valuable "trick" you will ever learn about self storage.

Now listen up: the selection of location is... by far... the most important decision you are going to make in this entire equation. Not the street name. Not the visibility or traffic patterns, or even traffic *counts*. No, the single most important ingredient of site selection... is... its *demographic* make up. It doesn't matter how well you do everything else... if... you are building into a tired, saturated, low rent neighborhood. In fact, when it comes to marketing anything, the most important element always is...

### **How Well You Target Demand!**

Get this right: if the market you picked is over served by 50,000 square feet, the highest traffic count, the sexiest drive-up appeal and the most popular street name on the planet aren't gonna help. Even in a booming economy, you can't put food in an already full stomach, no matter how good the sales pitch is. Even a no-name side street with near-impossible visibility still beats...

### **A Dumb Deal In An Over Served Market!**

Thus, I sayeth unto to you: strike from thine rhetoric "location, location, location." Insert in its place "demand, demand, demand."

Go forth now, and prosper.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mike Heatley", with a long, sweeping underline.

Mike Heatley  
PR Man for "Sooner" Cash Flows

P. S. Are you PO'd at me for some reason? Maybe it was the K-1 thing, or an update I owe you on one of your properties. If so, there's a place where you can get answers to these and other issues... instantly. Go to [www.heatleycapital.com](http://www.heatleycapital.com) and enter the Discussion Roundtable. There you will find the most recent updates for... **Plano/F. M. 544...** and **North Richland Hills/Rufe Snow Drive**. The info for these wasn't ready in time for the print version of this issue. My solution to the K-1 issue is there too. And, for what it's worth, I've made it mouse-click easy within all items for you to email me back any comments, unless you prefer the old fashioned U. S. Mail way, which is okay too. Are we better now?

P. S. #2      You may never get a government grant, but here's a grant from me; don't let it go to waste: just any day now the investment preview of our newest self storage facility will be ready. For competitive reasons I can't say for now where it is, but the demographics show this location is under served by roughly 133,000 square feet, and growing... *per year...* by 15,300 square feet. OK, here's the deal: it's possible there will be room for one or two new participants in this venture, so... IF... you have an interest... no matter how slight... in participating, let us know via the attached Ecard. Respond by April 10, 2002.

By the way, if you have NOT seen the just-opened facility on Golden Triangle Boulevard (it's near Keller, although officially the address is a Fort Worth one), go to [www.thestorageworks.com](http://www.thestorageworks.com), then click on Photo Tour about halfway down the right side of your screen. That'll take you through the front gate and right into the facility. Now, even though our landscaping isn't in just yet, I double dog dare you to show me a facility with a "sexier" drive-up appeal. Betcha the biggest steak in Texas.