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The Value of Rent Increases

Why owners, managers and customers benefit

By Greg Call



Self-storage managers and management teams generally hate rent increases. This is for several reasons: 1) They don't have a plan to handle the increase; 2) They don't want to deal with the unpleasantness of displeased customers; and 3) they don't believe they benefit.

But the lifeblood of a storage business is its revenue stream. Expenses evolve year after year. If an operator fails to outpace operating costs with income, his facility falls behind financially. Many storage businesses are partnerships in which the operator is responsible for maximizing the asset for investors, which makes revenue even more critical. This article explains why *everyone* benefits from rent increases—owners, managers and even customers.

How Owners Benefit

One of the most telling examples of successful rent increase is the story of Public Storage Inc., the industry's largest REIT. Over the past few years, the company implemented a policy that dictated large rent increases in major markets. The results are notable for all self-storage operators: Occupancy rates dropped 3 percent to 10 percent, while gross income increased 10 percent to 25 percent. At one location, gross income was \$ 50,000 per month and occupancy was 92 percent before the increase. Afterward, income rose to \$60,000 per month and occupancy declined to 85 percent. The facility's list rates were the highest in the market.

Let's look at how this kind of change could improve the average storage business. A revenue increase of \$10,000 per month improves cash flow by \$120,000 per year. Assuming the facility has a 7 percent cap rate, the property value increases by more than \$1.7 million (\$10,000 times 12 months divided by 7 percent). If the additional revenue is used to make site improvements or pay bonuses for high-caliber employees, the value could be even greater.

A byproduct of the Public Storage approach to rate increases is competitors got the message and also began raising rents, which strengthened the company's position for future boosts. Public Storage paved the way for astute operators to maximize revenue, thereby keeping investors happy. The lesson is simple but profound: Higher income is always a plus, and the slightly lower occupancy means more opportunity to rent spaces and make money.

How Staff Benefits

Facility managers and staff also benefit from rate increases, because smart owners share the new revenue with their employees. There are a multitude of programs that put well-earned money in the pockets of facility managers. Perhaps the easiest is simply sharing a percentage of the increase. This can be as little as 5 percent or as great as 50 percent of the first month's added income. Remember, it's the facility staff that initiates and works through the increase with tenants.


How Customers Benefit

How do customers benefit by paying more for their storage? Storage is a very competitive business. Customers using a commodity like self-storage are accustomed to encountering a range of prices that is usually dependent on the quality of the product or service provided. As storage operators, you are expected to deliver clean, dry and safe storage. When you execute rent increases, you need to deliver commensurate value. That means spaces are a little cleaner, a little safer, and a little better overall.

What are some things you can add to increase the worth of your offering? Here are some possible extras:

- Perform additional lock checks throughout the property.
- Take customer fingerprints at lease signing.
- Do extra sweeps of the drive and parking areas.
- Offer pre-pay discounts on the new rate.
- Increase referral fees to help offset the increase.
- Add a consultant service that will show tenants how to use their space more effectively.

The list can go on and on. When you notify tenants of a rate increase, pair it with an explanation of the increase in *value*. If you orchestrate the message properly, the product's worth will be emphasized, and you'll minimize opportunity for negative feedback.

So there it is: A short dissertation on why rent increases are good for storage owners, managers and tenants. Don't be shy—give it a try! A healthy rent increase at an average-size facility can net \$3,000 to \$10,000 per month. If your investors knew this, you would certainly have some explaining to do. So go out there and raise some rates. But don't forget to share the benefits with customers and staff. 

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