Let’s Make A Deal

The Cost Of Concessions BY ERICA SHATZER

The Christmas season is behind us, but some retail establishments may still be adjusting from the hustle and bustle of the most profitable time of the year. Shelves once overflowing with holiday merchandise now don discount signs in an effort to move product and make way for Valentine’s Day goods. Exchanges and gift cards enable shoppers to score sweet deals on the remnants of merriment. Customers may even stock up on the presently cheap Christmas staples, such as wrapping paper and tree trimmings, to stretch their budget this December.

Unlike retail, self-storage sells space—a commodity that the typical customer doesn’t purchase in surplus or months before it’s needed. But that doesn’t mean that prospective tenants aren’t looking to make a deal when they need to rent self-storage units. As a matter of fact, the opposite is true, as many customers have come to expect move-in concessions.

Deal Or No Deal?

Over the years, self-storage owners and operators have used various specials, discounts, and concessions to attract tenants. And given the surge of new supply, the $64,000 question of whether they should use them to compete for customers and improve lease-up velocity is once again a timely topic.

The short answer to that inquiry, according to Ken Nitzberg, chairman and CEO of Emeryville, Calif.-based Devon Self Storage, is, “Yes”. He gives this analogy: If a customer is looking to purchase a new vehicle, and every car dealership in the area but one has banners advertising 20 percent off, unless he/she has personal ties to that lone full-priced lot, the customer will want to buy a vehicle for 20 percent off the sticker price.

“It’s like herd mentality,” says Nitzberg. “You may have to follow suit just to get a share of the market.”

Nitzberg notes that markets where the REITs are present are a prime example. “The reality is that if REITs are heavily discounting and pushing those rates on their websites, in those markets you sort of have to compete to get market share.”

Indeed, concessions, like other aspects of the self-storage business, are market dependent. For instance, Devon Self Storage uses lots of discounts in Chicago but not Los Angeles. While those two cities are both major MSAs, Nitzberg explains that the company does not offer concessions in stable markets where the competition is not using them. Accordingly, Los Angeles has enough demand and the right amount of supply to forgo discounts.

Whether to use concessions is never a question of desire, Nitzberg adds. “You got to compete in your local market,” he says. “It can be risky to try to stand out as ‘special’.”

In other words, simply selling your facility’s features, manager, security, and/or amenities without offering some sort of discount may not be enough to get prospects in the doors.

Chain Reaction

Black Friday and retailers’ “doorbuster” deals are proof that concessions can bring customers through thresholds, but do rock-bottom prices make financial sense for self-storage facilities?

According to Adam Pogoda, director of acquisitions at Farmington Hills, Mich.-based Pogoda Companies, the right kind of concession can actually boost the bottom line.

"Once seen as a 'necessary evil' for other operators to compete with Public Storage's $1 move-in special, concessions have become a core component for maximizing profitability," Pogoda says. "Offering concessions makes financial sense—if done correctly—as it's an effective marketing tool that gets renters in the door. Each new tenant stays an average of 11 months and is worth over $1,100, so any tool that brings them to your store for a relatively small cost is worth it."

"Many mom-and-pop owners think that offering any discount is throwing money away or is not fair to existing tenants," Pogoda says. "What they don't realize is that every potential renter they lose to a competitor is $1,000+/- that they'll never see."

Although losing a customer isn't going to boost the bottom line, it's imperative to say that the customer acquisition cost should never exceed the total customer value. Remember: The ultimate goal is to make a profit. "Some operators offer discounts all the time," notes Nitzberg. "You can price yourself out of business that way."

However, in lease-up situations, especially in markets swamped with new self-storage supply, concessions are becoming a necessity in order to drive occupancy and meet proforma projections.

While a brand-new self-storage facility may not immediately turn a profit after the ribbon-cutting ceremony, Noah Springer, senior vice president of third-party management for Salt Lake City, Utah-based Extra Space Storage, makes a valid point:

"No matter how you do the math," says Springer, "a full facility makes more than an empty facility." He adds that Extra Space's strategy is to lease up the facility as fast as possible, even if that means losing out on the initial move-in income.

Springer's notion is simple: After customers become tenants, thanks to the concession, you can continually raise their rental rates to recoup the customer acquisition cost. "Once you get them in, don't be afraid to increase rates," he says. "You still have pricing power. Just because they came in at a low rate doesn't mean they should stay at a low rate."

Is The Price Right?

Now that you know why REITs and larger self-storage operators aren't hesitant to offer concessions, the next question becomes what kind of discount or special would best fit your facility? There are countless options, but the industry professionals interviewed for this article suggest tailoring one to your local market that is competitive with what other facilities in the area are offering.

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Essentially, a self-storage concession, such as the rent-free first month, should work like those doorbuster retail deals. They bring people into the store, and the majority of shoppers purchase more than just the one item that initially caught their attention. When applied to self-storage, the concession should be enticing enough to get them from their home to the facility. Because they will likely stay longer than one month, not charging rent for the first month is a cost-effective approach. What's more, it's highly unlikely that tenants will go through the hassle of moving their items from one facility to the next simply to receive another month of free rent or other concession.

Of course, concessions should focus on the cost per customer or customer acquisition cost. To determine the customer acquisition cost, you must first determine the total customer value, which is the length of stay multiplied by the monthly rental rate. Using Pogoda's figures, we can deduce that it would cost an operator $100 (not including the marketing costs for the promotion) to acquire a customer with a rent-free first month concession ($1,100 divided by 11 equals $100).

Obviously, it's not free for self-storage facilities to offer concessions, but does it cost them to avoid discounting?

Extra Space Storage's facilities typically use the first month free as its go-to concession. "People like that," Springer says, "because it doesn't cost anything upfront." He mentions that the REIT is willing to do two months free in some special scenarios, but that is "pretty rare". He goes on to say that Extra Space has tested various promotions over the years, such as waiving administrative fees and giving tenants free locks with rentals, but the first month free has generated the best results for them.

At Devon Self Storage, the standard move-in special is $1 for the first month's rent, but the company also utilizes a discount of 50 percent off rent when they prepay for two months. "Be competitive with concessions or risk running behind," Nitzberg advises.

As for Pogoda Companies, they have found ways to use concessions to strategically outperform competitors. "At Pogoda Companies, we view discounts as a part of a toolbox of different strategies that enable us to pull different levers in different situations," says Pogoda. "The most important part of operating these levers is to understand what is happening at an individual property in relation to its competitors. For instance, during lease-up of a newly built store, we might offer half off two, three, or even more months depending on market conditions. In a stabilized property, we might advertise half off the first month's rent, but only on select unit sizes. We customize the discount based on each store's market environment with the ultimate goal of maximizing revenue, not necessarily occupancy."

Pogoda goes on to state that discounts should also reflect a facility's inventory, which is more commonplace when dealing with self-storage sites that have reached stabilization. "The most valuable concessions are ones that are specifically targeted at different unit types," he says. "If a store has a lot of 10-by-20s available, we'll offer higher concessions on those units than, say, a unit type that only has one or two left. We also try and never decrease the street rents but only offer concessions with a limited time period. We find that it takes numerous rate increases over an extended period to get back to a market rate as opposed to just burning off a short-term discount."

Another bit of advice from Pogoda: Keep tabs on your market. "The biggest mistake that operators make is using the same discount strategy no matter what is going on in their market," he says. "If there is only one 10-by-10 left, you are throwing money away by discounting that unit! Another big mistake is offering discounts that are too high. There is a fine balance to offering the right level of discounts versus bringing down an entire market as you and your competitors' race to the bottom."

Regardless of what concession you choose to use, be sure to regularly assess its effectiveness. You need to ask questions like: Is it generating interest? Is it worth the cost? Those questions should be answered with site-specific data that you are collecting from leads and customers. Certainly, concessions that aren't producing positive results should be replaced.

Don't be afraid to test several different concessions. The $1 move-in special has been successful for Public Storage, but it may not draw a crowd in your market. Track the results of all your efforts and make adjustments accordingly. And don't forget to regularly shop your competition to stay abreast of the discounts that they are offering, so you can remain competitive with your specials.

The Weakest Link

In addition to measuring a concession's value, both Springer and Nitzberg emphasize that self-storage owners and operators need to promote their discounts online. According to Nitzberg, in October 2018, 55 percent of Devon Self Storage's new tenants came from the internet. What's more, he notes that 40 percent of Devon's "hits" came from its mobile-friendly website.

"The industry has grown," Nitzberg says, "and the internet drives occupancy."

customers, Springer reminds owners and operators to look carefully at the costs associated with them. As an example, he says that an ad that costs $15 per click may not be worth the expense if not enough clicks result in unit rentals. "You need to have a big enough funnel for people to find you," he says, "but make

Remember: This isn't a passing phase. Technology will keep moving forward. Customers will continue to expect more from websites and they will be using their mobile devices to access them. Hence, there's no better time like the present to establish an online presence with a mobile-friendly website if you don't already have one in place.

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Nitzberg stresses that self-storage facilities without an interactive and visible website run the risk of being overlooked. Speaking of visibility, he also mentions the importance of having a thorough and effective SEO campaign in place. "If you're not on the first page, you don't exist," he says.

While SEO and pay-per-click ads can certainly be beneficial for attracting

sure the rates you're paying to get people in is going to be positive."

Nowadays, the most successful self-storage websites enable users to make reservations and payments from any device with an internet connection. They are mobile friendly to fit the screen of any mobile device, and some even offer virtual tours of the facility.

As Nitzberg sees it, you "only have one chance to make a first impression". And if your self-storage facility doesn't show up in a local search for storage, that's definitely going to make an impression—but it's going to be the wrong impression.

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No Whammies!

When it comes to creating a concession for your self-storage facility, it's best to keep it simple. Customers don't like fine print or complex discounts that leave them feeling like they are being duped, so don't press your luck.

"If it's too complicated, it can lose its effectiveness," says Nitzberg, who adds that concessions applied to future months can be a hard sell. For example, offering the 12th month free may be "stretching it" because self-storage utilizes monthly leases and most customers typically don't intend to use self-storage for that long of a duration.

In addition, Springer reminds owners and operators not to overdo the discount. Something like six months of free rent is "too much of a concession". Discounts that continue for months on end are discouraged as well. It's best to simply offer one short-lived concession during the move-in process.

Keep in mind that there are less costly discounts that can be lucrative for self-storage owners and operators who don't have to compete with the REITs or have facilities in stabilized markets. Here are a few to consider:

- Military discount
- Student discount
- Senior citizen discount
- Referral discount
- Autopay discount
- Charity/non-profit organization discount

Discounts like the ones above can attract customers without having to give away free rent. A 10 or 15 percent discount would suffice. Plus, they are known to create a positive image for the facility.

"Creatively using discounts is what can separate your store from the pack in an increasingly competitive market," adds Pogoda. "The REITs manage their concessions with algorithms, which enables savvy operators to outsmart them by better knowing their store and how it relates to their market."