Creating Wealth Through Self Storage

SELF STORAGE MANAGEMENT

THE FIVE KEY PERFORMANCE INDICATORS YOU SHOULD BE TRACKING

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WHAT & WHY: KEY PERFORMANCE INDICATORS OF A SELF STORAGE FACILITY

I often say, “If you keep your eyes on five things in self storage you’ll do great.”

Part of building a thriving self storage business is tracking these top 5 self storage metrics. This is important even if you haven’t purchased your first facility yet. As you talk to bankers and investors, it lets them know you have a solid business strategy.

In a perfect world, every manager of a facility should track these self storage metrics too. I recently realized that each manager in our organization is tracking Key Performance Indicators (KPI's). Which is great. However, they weren't all tracking the same ones.

As you grow your company, one of the important things to do is standardize operations. Everyone should be measuring the same things in the same ways.

I've noticed over the years that good things don't happen around areas that people aren't focusing on. With our managers in particular, when they direct their energy towards something specific is when great things begin to happen.

We measure daily, monthly, quarterly, and yearly the following KPI's in each facility:

1. **Income per month:** Each facility has a monthly target to hit that is a function of the budget. Our budgets come from our ten-year cash flow Proforma. Budgets get created in the fourth quarter for the following year and are broken down month by month.

If the property is in lease-up mode, each month increases as per the lease-up schedule. If stabilized, it's the same each month for that year.

Each manager knows the monthly budget number and gets acknowledged and celebrated when they hit it.

2. **Occupancy Rate:** Each manager knows their occupancy rates. If the facility is in lease-up mode, they have monthly net square foot absorption numbers to hit. They also have big benchmark numbers, like 25%, 50%, etc., and target dates for them. When they hit those numbers, they get bonuses.

3. **Percent Delinquent:** The most recent KPI introduced for our managers to track is the percentage of delinquent income to total potential income. You measure this by taking the total amount of unpaid rent in all the report columns (0-30 days, 30-60 days, etc.) and divide that number by the total monthly GPI (gross potential income).

In a perfect world, this percentage will be 3% to 5%. Some facilities tend to run higher, but if they are much over 5%, it is an sign that either:

1. more training on collection calls is needed,
2. it is time for an auction, or
3. both.

4. **Retail sales per move in:** Again, this a newer one for us. We tracked retail sales in the past but didn't have a way compare one facility to another other than the total sales number. That was not always an apples to apples comparison, and it was hard to tell which manager were over or under-performing.

It's not perfect now, but it does level the playing field. A good number is $60 per move in, but start where you are, then create games and contest to get those numbers up.

We measure this by total retail sales divided by the number of move-ins.

5. **Two options here (a) Tenant Insurance, or (b) Sales Increase Over Last Year:** You can definitely have both measurements, but we (the owners) are tracking the sales over the previous year and the managers are tracking tenant insurance sales.

Tenant insurance sales are also fairly new to us because we have just recently been allowed to sell it in our home state. We track sales numbers and percentage of the facility that has it.

We create games and contest to get these numbers up. Build target dates for certain percentages of the facility to have purchased it (i.e. by mid-year 25% of our tenants the facility have it). You can also have target numbers for new move-ins, such as 50% of new tenants each month purchase it (35%, 25% – you make it up).

If you don't sell tenant insurance, try sales over the same time last year. Create bonuses for certain increase percentages. That will keep your manager's eyes on when they can raise rents.

If you keep your eyes on these numbers, and increase them up each year, you will have a great business.

Which brings up one more item, the sales over last year.

As an owner, one of the KPI’s we should always know is how much our facility has improved. You know this by tracking sales, as well as all the other KPI’s, over last year.

When you know and talk about these numbers to your partners, bankers, and employees, it builds everyone’s trust in doing business with you.

In the next chapters, we will dive deeper into these KPI’s.

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KPI #1: DOLLARS PER MONTH

In many ways, this is the easiest for managers to watch. In my experience, they already understand the importance of the money the facility is generating.

What works well for us is to have them involved in creating the budget for the facility. This creates a relationship of ownership to those income numbers since they were part of creating the goals.

The real secret here is in who you select for your manager. (I'll cover this in more detail in the last chapter.)

And they need to see how you actively relate to the business, as well as to life in general.

Our managers know that a budget is not just a guess at what the cash flow will look like – something we hope will come in. It's something we've created that requires their participation to generate.

They see me relating to the facility as if I am responsible for generating all aspects of the business. I'm not just observing how much money flows in. I'm responsible for generating the cash flow, for the new facilities going into service, even how many people walk through those doors to rent.

They see me relating to my business that way, so they relate to theirs that way. They know they're responsible for hitting their income numbers. They also have a lot of tools to create that income besides just hoping someone walks through and rents.

I have one manager who will call me in the morning and "create" how many rentals she is going to get that day. If by noon she's not there, she's on the phone "causing it" as she says.

Income per month is a simple number a manager can track and relate to.

To make this work, you need to really celebrate when those income targets are hit. I let my managers know that I'm aware that they are the reason those numbers happened. They "caused' that income number to come in and I publicly acknowledge their achievement.

When the number isn't hit, I also let them know I'm aware they are the "cause" of it as well. I ask them what they need from me to win at the game they had a hand in creating. These are not public conversations.

Now the truth is, as the leader, I am the one completely responsible for hitting the numbers. I don't want to disempower anyone by telling them that, but my personal relationship to the facility income numbers, or any number in my company for that matter is, is that I am 100% responsible for it.

That way I have the power to alter it. One way to make that change may be to hire a new manager. Thankfully, it’s been a long time since that was the solution needed.

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KPI #2: PERCENTAGE OCCUPIED

There is a distinction with this KPI that you need to drill into your Managers: it's the percentage of square feet NOT the percentage of units rented!

I often walk into a facility and quiz the Manager on their occupancy rate. Do that enough and they watch it vigilantly. Why? Because they know I am. I know their occupancy rate and I expect the Managers to know their facilities better than I do (and they usually do).

In a lease-up situation, when we are filling up a new facility or expansion, we closely track “net square feet rented” for the month. Sitelink (the Management software we use) has that line item right on the “Daily Management Report.”

Whatever the percentage occupied number is on the last day of the month is the Manager’s number for that month. Each one has a target number to hit, and again, when hit or exceeded, it is publicly celebrated.

In a lease-up situation, the income numbers are determined by the new rentals we are expecting each month. For example, we have one new facility in lease-up and the Manager knows her occupancy number is a minimum of 1,200 net new square feet per month. The income number goes up a minimum of $1,500 per month.

These numbers come from the ten-year cash flow statement and ProForma we create before buying the facility.

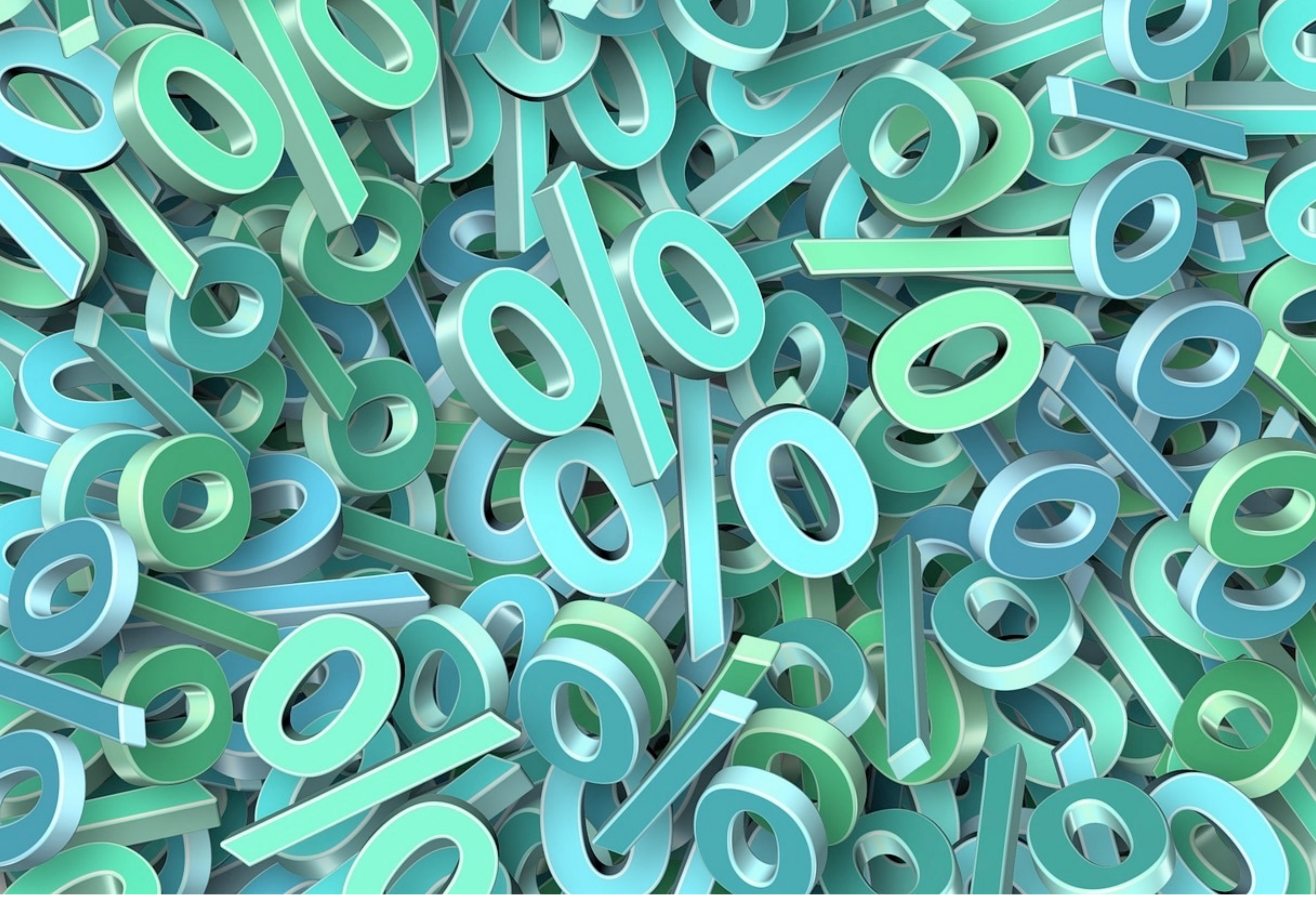
When I go into a facility, I may not talk about the other KPI’s every time, but I doubt a day goes by when I’m not asking the Manager about their occupancy rate and where are they on their income this month.

If they know I’m watching it, then they watch it. They know I know that number, so they know it.

If they have their eye on it, it moves. My experience is whatever a human being measures is affected by their attention on it.

The Managers we hire are powerful people who can increase whatever they put their attention on (I made this up…but don’t tell the Managers). And remember, if a human being thinks something is true it becomes true for them and reality adjusts accordingly.

Because our managers are measuring these KPI’s, our facilities consistently exceed our projected numbers.



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KPI #3: DELINQUENCY PERCENTAGE

I was talking to the manager of a facility we purchased a few years ago.

“I can tell you have a lot of customers on payments plans because they’re behind on their rental payments.”

“How in the world can you know that?” she asked.

“Easy, your delinquency percentage is 27%.”

“Delinquency as a Percentage of Income” is the KPI we’ll cover in this chapter. But we actually have two issues to cover with this scenario:

1. delinquency percentage, and
2. payment plans.

Q. What is “Delinquency as a Percentage of Income?”

A. It is the amount of money owed to the facility that has not been collected, as a percentage of the gross monthly income.

Q. How do I calculate it?

A. Divide all amounts owed (delinquency) by the Gross Potential Monthly Income. Most daily close reports actually have this already calculated.

Hint: We track this by calculating Gross Potential Monthly Income on the last day of each month.

A health facility should run around 5% or less of delinquency. The 5% takes into account the 0-10 or -15-day, normal late payers who will allow you to collect late fees.

Much more than 5% tells me it is time for an auction.

Much more than 5% tells our Managers that I or my Operations Manager are going to come in and say, “It’s about time for an auction.”

This is where there can be some problems. A lot of Managers and Owners hate having auctions.

We have had some that really hate it. Hate it so much they will do almost anything to avoid selling people’s stuff.

I get it. My wife says I am a soft touch too.

What usually happens is the delinquent tenant has a great reason for why they are behind.

It's often very real and sad.

They promise they can catch up if you'll work with them. Let them pay a little here and there and they can soon catch up.

Often, the Managers are their advocates with the Owners, and they vouch for the tenant.

And what ends up happening is 27%, or more, delinquency as a percentage of income.

Look, I get it. Life deals raw blows to good people. It's dealt some to me as well.

So here is my coaching: never, never, never do payment plans.

I've learned the hard way.

NEVER do payment plans.

Your deliquesces will go up. Period.

Payment plans equal high delinquencies.

Even when people pay as they promised.

You are way better off just letting them walk away owing the full amount than doing a drawn out payment plan.

Never. Do. Payment. Plans.

Create a payment policy instead – for instance, if they pay 50% of what they owe, then they can get their stuff and get out. If not, it's going to the auction.

Get the unit back into service quickly. Especially in today's market.

But, whatever you do, never do payment plans.

If you have a lot of delinquencies now, spend the next quarter ending your current payment plans. You will see your delinquencies as a percentage of income drop dramatically.

Why is that important? Those newly vacated units will rent back up with customers paying the full rent. Usually customers paying a higher rate than before (if you're raising your rents with the market). The income and value of your facility will increase.

Just because you stopped taking payment plans.

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KPI #4: RETAIL SALES

“Our Managers relate to their job like they are running a store, not like they are a property manager”.

I tell that to bankers, investors, readers, everyone. And it’s true. They are running a store.

The main product they sell is air (units to rent). Their next product is usually truck rentals. And there are retail products to sell.

Just like a store.

There is no faster way to add value to your facility than to focus your attention, and your Manager's attention, on retail sales.

Start measuring it so your attention is always on it. And if your attentions is on it, you might as well improve it. Right?

If you are currently running a facility take yesterday's close report and look at two numbers:

1. Total retail sold to date for the year.
2. Total move-ins for the year.
3 Then divide move-ins into the retail sales number.
4. You get "Retail Sales per Move-In."

That is the 4th KPI (Key Performance Indicator) we track.

Why is this important?

You can add real value to your facility with retail sales and truck rentals.

How much?

Let's look at a couple of facilities.

First, what I really like about this KPI is that I can compare, very accurately, one facility to another. I can compare the retail sales of a big facility to a small one with very different sales numbers by creating an index. This allows the Manager to see how they rank against each other and where they need improvement.

If I only looked at the actual retail sales number, there would be no way to tell which Manager is better at selling retail items, or create contests, or even see which Manager needs support and training to get better.

Facility #1: 57,000 square of storage and, $3922 in retail sales and 238 move-ins. That's $16.49 in retail sales per move-in.

Facility #2: Over 100,000 square feet of storage (plus a lot of parking), $11,012 in retail sales and 328 move-ins. That's $33.61 per move-in.

If we get the first manager selling as effectively as the second, we would, in theory, make an additional $17.13 per move-in.

That would equate to an additional $4,076 in retail sales.

And that $4,076 in retail sales would equate to an additional$50,955 in value to the facility.

Really, it would. And that's only using an 8% CAP rate. Try buying a self storage facility using an 8% CAP rate in today's market.

Buyers, appraisers, even us real estate agents will use 100% of retail sales as part of the income that determines the Net Operating Income (NOI) of a storage facility. The NOI is the number that determines the value of the facility.

The math to understand that additional $50,995 in value:

If you divide $4,076 (retail sales) by .08 (CAP rate) you get $50,955.

From this metric, I can see if we have some work to do with a Manager. It's not the Manager's fault. We just haven't had her put her attention there yet.

But we will.

Why? Well, an additional $50,955 of found value.

In today's market where we are full and rates are going up quick, where can you find additional income?

Look at your retail sales per move-in and see if you can improve it.

Imagine if all your facilities had a $50 or $60 per move-in retail sales number? That's not unrealistic – I've seen it happen.

As a company, we're going to put some serious energy here because I see it as a way to improve our portfolio's performance, with almost no additional investment.

And also because I'm competitive and like to set a challenge, then beat it.

In the above scenario, we will have the Managers with the lower $/move-in chasing the Managers with the higher $/move-in. We will have the Manager with the higher $/move-in chasing the $50/move-in number.

And what do you think will happen when the $50/move-in is achieved?

We will acknowledge, celebrate, reward, then start chasing a new target.

You've got to spend your time doing something. Why not add value to the facility and play a game at the same time?

So if you haven't purchased your first facility yet, you now know a way to add value to what properties you are looking at.

Have fun creating a new game to play as you get in or grow your self storage business.

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KPI #5: TENANT INSURANCE

There are few true win/wins in life, but “Tenant Insurance” is one of them. It has big benefits for everyone in self storage.

In our main market, we have just recently been allowed to sell tenant insurance in our facilities. Before that, we could only give out information and hope the new customer called the provider.

Now we can sell it directly to them.

If you can sell it, you can measure it. This is the fifth, and final, Key Performance Indicator (KPI) we measure.

To be totally transparent, we are just starting to measure it because it's so new for us.

Tenant Insurance has a lot of benefits for both the tenant and the facility.

In my experience, if a real disaster does hit – tornado, hurricane, etc. – the tenants with tenant insurance will have no issues.

Your problem as an owner will be all the tenants that don't have tenant insurance. They will be the ones that are upset.

In New Orleans after Katrina, within 48 hours our tenant insurance provider had set up tables at facilities and started cutting checks. The people who "didn't need it because their homeowner's insurance covered their items" spent years battling it out with their insurance companies.

Many companies, including REITs, require tenant insurance to rent at their facilities.

We don't (yet), but I'm beginning to wonder why not.

Public Storage made $13 million dollars in 2013 selling tenant insurance. Imagine your numbers over the next year if 25%, 50%, or 75% of your tenants had tenant insurance. That would be a minimum of a $5 per month income increase per unit with no price increase.

Not to mention the benefit they get in the event of a disaster.

We currently have some managers who sell very little, and we have some who sell a lot.

Here is what I do know: if they start measuring it, they will start improving it.

There are two ways to measure it. We are just starting out so we measure sales per move in as a percentage. In other words, if the manager sold 10 policies last month, and there were 20 move-ins, that was a 50% tenant insurance sales ratio for the month.

Some may not have been sold to new tenants. It may have been an existing tenant that purchased a policy, but that's ok. Just use this measurement as a way to compare apples to apples. Smaller and larger facilities, facilities that are stabilized as well as facilities in lease-up can be compared and compete with each other.

Eventually, I want to get to the point where we're measuring the percentage of the facility that has insurance. In other words, if we have 250 policies in force this month, and we have 500 units, we would have a 50% tenant insurance coverage.

We're not quite there yet, so we use the percentage of move-in's as the KPI.

The manager is doing the tenant a real favor every time they sell tenant insurance.

For an Owner, this money is usually around a 50% commission rate. Granted the commissions are small, but they make a real difference. And this is money that costs you nothing and can be used to bonus managers.

This extra income adds real value to the facility.

Let's look at some minimums. After one quarter, let's say you have 20 new policies in place paying a small commission to you of $5 each per month.

Using my high-powered calculator, that's $100 more per month, or $1,200 per year. How much money does $1,200 per year add in value to your facility? At an 8% CAP rate that's $15,000.

For just an extra $100 per month!

Let's say you use a quarter of that money to bonus the manager who sold it? Do you think an $300 per year bonus for selling tenant insurance would help motivate your manager to continue selling it?

Like truck rental income, this money costs you nothing and goes straight to the bottom line. In my world, there's no better way to generate money for bonuses.

So there you have it, our five KPI's. 1. Dollars per month.
2. Occupancy rate (or net sq. ft absorbed in lease up).
3. Percent delinquent.
4. Retail sales per move in.
5. Tenant Insurance sales per move in as a percentage.

Keep your eyes on these and you will be Creating Wealth Through Self Storage.

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PUTTING IT ALL TOGETHER: EMPOWERING GREAT MANAGERS

A few weeks ago, as I was leaving a challenging meeting with a real estate client - frustrated that I didn't get the deal done - I got a call from one of our facility Managers.

I immediately thought, "What now?"

When I answered, she excitedly said “I hit my monthly goal today! I didn't think I would make it this month, but someone who's been behind for months came in and paid cash. I'm $42 over. This morning I was over $3,500 behind.”

I realized it was the last day of the month.

My day just got a lot better.

It wasn't the money that made it better. It was that Manager reminding me what someone who takes 100% responsibility looks like. Now my real estate transaction frustration occurred to me in a new way.

That's what a great self storage manager does.

The reality is, that manager didn't wake up on the last day of the month and say, “Wow, I'm behind this month. I'd better do something today.”

It starts around mid-month. A good manager will realize around the 15th that they are either ahead for the month, on track, or behind. Then they still have half a month to make it happen. I'm talking about their income goal.

Of all the KPI’s, Income Per Month is the one managers relate to the best (in most cases, not all).

So what does a great manager do when they are behind and know it? Not just one thing. It's usually a combination of actions:

1. **Make collection calls.**

Great managers don't wait until they're behind. They always have their eye on delinquencies as a percentage number. They are always making these calls. I've noticed that all my great managers always have a delinquency list on their desk with lots of notes on it.

If they are clearly behind, this is the first place they go to mine money, from the people who have already said "I will pay you," but haven't yet.

2. Run a special.

This doesn't happen as much now with our high occupancy, but in the old days they would come to me and say, “I have a lot of 5 x 10’s unleased. Can I run a special?”

3. Sell more Tenant Insurance.

They reach out to the existing customer base of tenants, as well as new people moving in, who don't have tenant insurance and sell them some.

4. Sell more retail.

I have seen managers really focus on increasing retails sales with new customers as a way to make up ground. It's amazing what people will buy if you just ask them.

5. Ask for more referrals.

Reach out to customers and local contacts reminding them we pay referral fees.

Our number one source of referrals outside our existing and past customers are other self storage facilities. I've seen managers double down on touching base with other facilities (and apartments) to remind them we have this or that size available. They will run a cash referral fee quickly to them if they have someone in mind.

I'm sure there are more things they do that I don't even know about.

But this doesn’t just start on the last day of the month, or the last week even. It starts much earlier when a manager realizes they are behind for the month.

It’s important for a manager to have a mid-month reality check, see if they are going to make it or not. Then a great manager will do what's necessary to reach their income target.

Of all the things I have stated so far, that is the most important: to do an assessment mid-month of how it's going. In reality.

Not to have some quick excuse why things are behind, then pick up the newspaper again. A reality check. Something like, "I'm behind and unless I turn things around, we'll miss this month's target."

When I'm hiring, I ask myself if this candidate will be someone who:

1. can, and will, ask themselves that question, and
2. take action and not rationalize it away.

Literally, that is how I attempt to determine if the candidate will be someone who is "100% responsible".

We are not just looking for responsible people, we want people who are 100% responsible. If you are someone who is 100% responsible for an outcome, you have reality checks often.

You also don't make a negative answer mean something negative about yourself.

Most people make a negative answer mean something negative about themselves. And rather than deal with that, it is quickly rationalized away. Something like, "...it's the fall and things always slow down," or "there's a new facility leasing up down the road. Of course, I'm going to be slow."

A negative answer is just that, a negative answer. It means, "Now I have to do something different. What would give me the best results?"

I know when I get that call on the last day of the month from an excited manager, there was a whole lot of internal conversations and actions that have been happening for days and weeks.

That inspires me and reminds me who I can be as well.