

## **Self-storage investing breaks out of the box**

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Real estate developers and investors are discovering a lucrative niche market: self-storage.

Charles "Chico" LeClaire, a broker for Marcus and Millichap in Denver, knows it well. He was one of the first brokers nationally to specialize in self-storage transactions, beginning in the early 1990s. Today he's recognized around the country for brokering some of the largest self-storage deals, totaling about \$550 million since 2004.

"It's a growing product," he said. "As a percentage of the existing [commercial] market, self-storage is growing faster than any other product. They're known to be good cash cows."

Right now, he's completing a deal that will net the highest return ever on a self-storage deal in Colorado: \$114 per square foot. Denver-based Bush Development is building the 72,000-square-foot property at 6150 Leetsdale Drive, across from George Washington High School. It's under contract to be sold to a national storage company. Closing is expected April 1.

One of the happiest people at the closing will be Eric Bush, president of Bush Development, which has built custom homes, small retail centers and storage units in Denver and the foothills.

His first attempt at developing self-storage might be described as beginner's luck. While building custom homes in the mountains in the early and mid-1990s, Bush discovered there was a waiting list for self-storage units in the foothills areas. So, he built a self-storage facility near I-70 and Floyd Hill west of Evergreen.

"We spent \$480,000 to develop it, and we sold it 18 months later for \$1.65 million," Bush said.

He'd have to sell 25 spec homes to turn that kind of profit with custom home construction, Bush said.

After that experience, Bush said, he was ready "to build self-storage on the moon."

Bush built another successful self-storage facility near East Arapahoe Road and South Revere Parkway in Centennial that sold for \$6.7 million in 2004. Still, finding the right location is enough of a challenge that Bush hedged his risk by developing a variety of smaller commercial retail projects primarily in Longmont, Lakewood, Aurora and Denver.

When Bush heard that a two-acre property near Leetsdale Drive and South Monaco Parkway was on the market, he was ready for another self-storage endeavor, though the parcel had been slated for an extended-stay hotel. That deal fell apart in the aftermath of 9/11, and the owner, Rocky Mountain PBS, sought another buyer.

"I knew this was a fantastic infill location," Bush said. "There's no more available dirt on Leetsdale."

Plus, two other self-storage units in the area -- one of the north side of Leetsdale Drive and another on nearby South Colorado Boulevard -- were generating the highest rental rates in Colorado.

It wouldn't be easy to convince neighbors and the city of Denver that a self-storage complex at Leetsdale/Monaco would be an asset to the area.

"People hear 'self-storage' and they automatically think about ugly orange doors," Bush said. "The only thing harder to get entitlements on would be a prison or a topless joint."

Ironically, the neighborhood associations were more willing to listen to Bush's plans than the city was, at least initially.

"Denver didn't even want to meet with us," Bush said.

So he took his drawings and plans straight to the Virginia Vale Neighborhood Association.

"Our architects put up a really good plan," Bush said. "I heard how tumultuous this was going to be, but it was a breeze. It's such a good-looking building. Everybody thinks it's an office building."

The neighbors not only were happy with the more sophisticated design, they liked the fact that it would generate an average of 12 cars a day, as compared with 300 cars a day for more intensive retail and hospitality uses.

The city finally approved Bush's plan in May 2006, and the company broke ground in June.

Because of the solid market interest in storage units, Bush asked LeClaire to test investor interest in the Leetsdale/Monaco property.

"I took it to all the national players, and they were more than willing to pay," LeClaire said.

United Stor-All, based in Blue Bell, Pa., looks to have the winning bid, which is more than \$8 million.

The healthy interest from buyers is due in part to its more attractive design and other features.

"The newest trends in self-storage are multistory buildings that are climate-controlled and have [more sophisticated] security access," LeClaire said.

A new self-storage facility in Scottsdale, Ariz., for example, requires thumbprint identification for entry.

Bush, meanwhile, is looking for other prime self-storage sites.

"We've identified two other locations, but one would require a rezoning," Bush said. "It's hard to find 'A' locations on a main drag, but you've got to have that visibility."