



## The Impact of COVID-19 on Self-Storage Development and Construction: Builders Offer Insight and Advice

*All facets of the self-storage industry have been touched by the coronavirus pandemic, including construction and development. Suppliers discuss what to expect if you plan to build a project in the coming months and how they're helping their customers and staff.*

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After several years of accelerated activity, self-storage development may be slowed in the wake of the coronavirus (COVID-19) pandemic. Most general contractors, building suppliers and other construction-related companies have been deemed

essential trades and continue to operate; but interruptions to municipal processes could delay or even cripple projects. Anyone building self-storage must also be prepared for an increase in materials costs, delays in product delivery, shortages in labor and complications in financing.

**Inside Self-Storage** turned to several industry suppliers to gauge how business might be affected in the coming months. Read their advice as well as how they're supporting employees and customers.

## **How might self-storage development and construction be affected by the crisis?**

On the bright side for developers, land-purchase offers that were significantly below the asking price and rejected last month [February] are now being accepted. And if you have cash and are willing to close with just a 60-day due-diligence period, without a design and approval-option times, there'll be even more land opportunities at reasonable prices.

There are four major development unknowns at this time: regulatory approval timeframes, banking, and the availability of materials and workers. Many municipal staff will be at skeleton levels so reviews, approvals and construction inspections will be delayed until the COVID-19 extreme social distancing is cancelled. If you're making land offers with an option to buy with design and approval times, you must add a clause that the option time will be increased by any municipal delays caused by COVID-19.

Of course, developers need to be in touch with their designers, manufacturers, contractors and bankers before making any offers, as things are very fluid. In any event, they must plan on much longer development and construction periods.

*—Marc Goodin, President, Storage Authority LLC, which operates self-storage facilities and offers franchise opportunities*

I don't think anyone really knows how this will all shake out, or how it will affect our nationwide economic situation or the future of lending. What we do know as of this writing [March 24], is that in the markets in which we are active, construction of community infrastructure is considered essential work, and we remain optimistic about delivery of new projects.

I believe jobsite conditions are likely to change in response to protection and safety measures, but mass work stoppage in the construction sector seems to be a non-issue. As for future commercial development, we have to take at face value that the lending market is still in great shape and place some faith in the historical indicators that the self-storage market will remain strong, even in the face of a potential recession.

*—Angie M. Guerin, Vice President of Business Development, Mako Steel Inc., a nationwide designer, supplier and installer of self-storage buildings*

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There are several ways the pandemic may affect storage-construction projects. There's a potential impact at nearly every step of the process. Going through the permit process is arduous in the best of times. When government offices are shut down to prevent virus spread, it can impact the timeline or ability for developers to get building permits. Aside from that, many projects require zoning or architectural review-board approval. These are often public meetings, so when these meetings are cancelled, approvals can't happen.

Financing could prove to be another obstacle. Lending standards were already tightening due to saturation concerns in many markets. The overall financial instability may create problems for some developers. Many have other businesses or day jobs in addition to their self-storage investment, and we expect to see more of the hardships from those areas spill into this industry. Already one developer, whose primary business is restaurant ownership, has put his self-storage project on hold due to loss of income from his restaurant operations.

For those projects at the construction stage, we haven't seen disruptions related to materials supply. Manufacturing of construction materials is an essential business in most areas. Likewise, shipping of materials hasn't become a problem yet for domestic clients. Labor to assemble buildings could be a problem in the future, as most metal-building erectors are very specialized in their trade and travel to jobsites. If hotels aren't available or travel becomes restricted, this may cause delays.

*—Steve Hajewski, Marketing Manager, Trachte Building Systems, which designs, manufactures and erects pre-engineered and customized steel self-storage systems*

## **What is your company doing to protect and assist staff and clients?**

It's pretty simple: We're practicing extreme social distancing and doing our work from home and on the phone. It's always been nice to meet people face-to-face but now realtor, design, construction meetings, etc., are on the phone or via the Zoom video-conferencing platform.

When we or our franchisees are driving to check land, we're doing it alone. Same goes for construction site walks. Instead of meeting new franchise prospects face-to-face and having discover days in person, we're doing it online or via a series of FaceTime calls. Since not all our franchisees have the same experience, we take more time to review and ask questions about a given parcel or construction project at any given stage, so things aren't overlooked.

*—Marc Goodin, President, Storage Authority LLC, which operates self-storage facilities and offers franchise opportunities*

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Our management team immediately implemented our governor's work-from-home initiative in the earliest days of this crisis, believing our employees and their families are truly our greatest asset. Fortunately, we're well-equipped to office from home, safely and securely, and continue to provide the highest level of service to our clients

While it isn't quite business as usual, our biggest hurdles right now are more likely to involve teaching our kids pre-algebra than running our business operations.

*—Angie M. Guerin, Vice President of Business Development, Mako Steel Inc., a nationwide designer, supplier and installer of self-storage buildings*

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In March, we implemented polices to protect employees and most office staff shifted to working from home. Our company's IT department has done an excellent job of setting up remote access, and our phone systems were already capable of transferring incoming calls to cell phones. So, for the most part, our clients will see no change in how they do business with us.

As of March 25, Wisconsin mandated that all non-essential businesses be closed; however, our operations fall into the essential category. We've kept our factory open and are continuing to ship buildings and doors. Our shop is taking additional protections in disinfecting work surfaces and machinery. In addition to isolating by distance, we're using our three shifts to spread out work and isolate workers from each other.

To accommodate customer needs, our logistics and regional managers are making every effort to be as flexible as possible with the shipping and manufacturing schedule. Throughout most of the country in the past year, wet weather had been wreaking havoc with construction schedules, so we're no strangers to adapting.

*—Steve Hajewski, Marketing Manager, Trachte Building Systems, which designs, manufactures and erects pre-engineered and customized steel self-storage systems*

## **How do you anticipate the crisis will impact your business in the near and long term?**

In the short term, it'll slow things down because there'll be a delay in getting approvals from the city until employees are back to work. So far, it hasn't impacted

loans for new projects, maybe because, in most cases, it'll be around a year before the construction is complete.

We're starting to see flexibility in land pricing, which is good for development. COVID-19 has caused a severe slowdown in many other businesses, so many potential new developers are delaying getting into the self-storage industry, as they're concentrating on their existing businesses full time. Some have a significant amount of savings in the stock market. With the market (or their own businesses) down, they aren't as willing to invest in new ventures.

This will lead to less development in 2020 and 2021, which is good for the whole industry. We'll continue to see a downward trend or at least a plateau in land pricing. Every year we see material supplies go up and I would expect that to continue, but we may see slightly lower overall construction costs as contractors sharpen their pencils, as there are fewer projects to bid on.

*—Marc Goodin, President, Storage Authority LLC, which operates self-storage facilities and offers franchise opportunities*

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We'd be foolish to think the situation that's unfolding won't have an impact at all, but we also believe we're well-equipped to be flexible and nimble in the face of a crisis. We think the industry as a whole embodies those qualities as well. While we may have to get creative, no one loves a good challenge more than our team, the industry in which we operate, and the many clients we serve.

*—Angie M. Guerin, Vice President of Business Development, Mako Steel Inc., a nationwide designer, supplier and installer of self-storage buildings*

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We may see the busy housing market dry up soon. Low mortgage rates may soften that blow, but when people are uneasy, they'll stop building homes. When the housing market cools, that'll reduce demand for self-storage. Other social disruption

may result in the consolidation of households. This movement usually increases the demand for self-storage space.

After the crash of 2008, most self-storage developers did OK compared to those other investments (real estate and otherwise). Direct ownership of a self-storage business is about as good as it gets. Expansions and new projects may slow and we may see a cooling off in new development.

We're well-situated to weather a downturn, as we're employee-owned and have no debt. Nearly every machine in our factory has been replaced or overhauled in the past eight years. Every process we use represents best practice or unique application of robotics and other automation ... Our focus has been and will remain being here to help our clients build business for their long-term success. If we do that correctly, we'll remain successful as well.

*—Steve Hajewski, Marketing Manager at Trachte Building Systems, which designs, manufactures and erects pre-engineered and customized steel self-storage systems*

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