



## Effective Rates in Self Storage and Why Are They Important?

In self-storage, the Effective Rate is the price the renter pays for a storage unit after factoring in a promotion. The calculation has to be performed over a specific tenancy length.

This paper discusses the importance of understanding and analyzing the impact of

promotions when setting prices in comparison to your competitors.

**Note:** StorTrack has announced that Effective Rate monitoring and analysis is now available in its Optimize platform.

## Monitoring and Managing Your Rates is More Important Than Ever

Continual price management is now an important best practice for all operators. Adjusting pricing based on external factors, (such as competitor rates) as well as internal factors (such as occupancy levels), can have a significant impact on yield and profitability. More sophisticated larger operators have invested heavily in this area by acquiring and/or building revenue management systems. These systems process external and internal data using

proprietary models to calculate their optimal rates at any given time.

For medium-sized and smaller operators, active price management is becoming a standard practice part of the self-storage operator's skillset. By using tools such as StorTrack's Optimize platform, operators can access immediate competitive pricing data.

## Use of Promotions

The objective of successful price management is to attract the correct amount of business at the optimal price. In addition to setting a store's standard unit rate, operators use promotions to drive new business. Promotions are typically designed to attract new customers by offering sign-up discounts to boost short-term sales. In difficult times, promotions can be used to fuel sales while not undermining the long-term integrity of the standard rate. If the operator discounts the standard rate during a down period, then it becomes difficult to raise rates when market conditions improve. If a

promotion was used, then it is as simple as adjusting or removing the promotion to return to the standard rate level. Promotions often have an explicit or implicit temporary component to them that makes this process easier.

Typically, around one third of self-storage stores in the US market use promotions on an ongoing basis (about 18,000 stores out of 55,000 currently in operation). This number fluctuates depending on the complexities of individual markets, seasonality, and other factors.

## What is an Effective Rate?

As stated previously, the Effective Rate is the price the consumer pays after factoring in the promotion. The calculation has to be performed over a specific tenancy length. As you will see in the chart below, the Effective Rate changes depending on this time period. In this case, we are factoring in a promotion which offers the new tenant the **First Month Free**.

Standard Monthly Rate	Promotion	Tenancy Length	Effective Rate
\$99	First Month Free!	3 Months	\$66
		6 Months	\$82.50
		9 Months	\$88
		12 Months	\$90.75

If this store is a competitor in your market and you want to price against it, then you have to factor in the Effective Rate or, at a minimum, be aware of the true rate they are offering to potential customers.

## Most Popular Promotions and Their Impact on Effective Rate

Below are the nine most common promotions in the US which, together, make up half of the promotions offered:

S.No.	Promotion	% of total advertised promos
1	1st month free	21.56%
2	50% off 1st month	9.76%
3	\$1 first month rent	9.44%
4	2nd month free	2.46%
5	15% Off & First Month Free	2.30%
6	25% off	1.46%
7	50% off on your first 3 months	1.31%
8	35% off	0.90%
9	50% off 2 months	0.80%

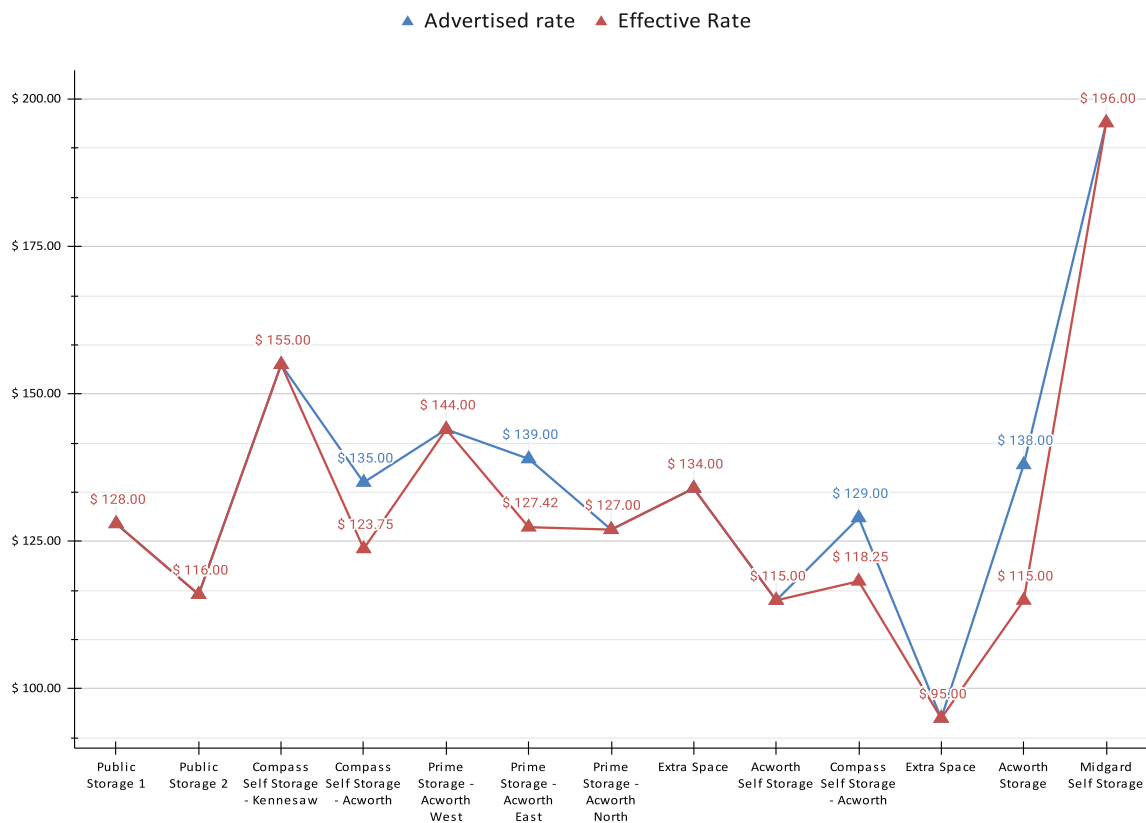
Some promotions are similar - First Month Free is similar to \$1 First Month. To find the Effective Rate we have to determine the Effective Discount off the standard rate. The chart below shows the relative discounts being offered over three different tenancy periods for each of the common promotions:

Promotion	Value Over 6 Month Tenancy	Value Over 9 Month Tenancy	Value Over 12 Month Tenancy
1st month free	16.67%	11.11%	8.33%
50% off 1st month	8.33%	5.55%	4.17%
\$1 first month rent	16.67%	11.11%	8.33%
2nd month free	16.67%	11.11%	8.33%
15% Off & First Month Free	29.16%	24.44%	22.08%
25% off	25.00%	25.00%	25.00%
50% off on your first 3 months	25.00%	16.67%	12.50%
35% off	35.00%	35.00%	35.00%
50% off 2 months	16.67%	11.11%	8.33%

The most aggressive is a 35% flat discount. The most popular is a 8-16% discount factored as the first month free.

## How to See Effective Rates in StorTrack's Optimize Platform

The most current release of StorTrack's Optimize platform now features Effective Rates analysis and side-by-side comparison. This means Optimize users can now easily access the standard and effective rates of the competition.



As seen on the market example from Optimize above, once a specific unit is selected you can compare the advertised rate and effective rate. In the cases where a store has no promotions, the Effective Rate and the Standard Rate are the same. However, the chart clearly shows the impact of the promotions in a way to enable the user to quickly see how the rates differ when promotions are factored in.

Since 2014, StorTrack has been the leading provider of daily competitor rate data to self-storage operators globally. StorTrack also offers market data for the research and evaluation of new markets for investment.

For more information on how to view and use Effective Rates in your pricing decisions, please contact the StorTrack team.

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