



# Mixed-Use Development

## Finding success in the next generation of facilities

By Marc A. Boorstein

**Over the past 40 years**, the self-storage industry has remained an intriguing and challenging combination of industrial-zoned real estate within a retail-based business model. As the industry matured from a niche product into a desirable institutional classification, the retail nature of renting self-storage continues to take on added prominence and significance.

Consider the generational evolution of self-storage development that began in the early 1970s. The “first generation” of facilities were located primarily in rural areas and tended to be single-story, drive-up storage garages.

As the self-storage business matured and public awareness grew in the late '70s and early '80s, a transformation into the “second generation” of facilities occurred. These new generations of properties began to open up in suburban and urban locations with additional security features and amenities.

In the late '80s and early '90s, we began to see a move into a new “third generation” of self-storage facilities. These new properties possessed characteristics and appearances of modern office and retail properties. Multi-story properties began featuring high-end construction with brick and glass exteriors, professional landscaping, climate-controlled space, high-tech security systems, hydraulic elevators and luxurious retail sales offices. Third-generation properties began to open up along high-traffic thoroughfares and highways, located in affluent neighborhoods and densely populated communities.

As we entered the new millennium, the “next generation” of self-storage emerged. The mixed-use combination of retail businesses and self-storage is gaining favor in desirable commercial and retail corridors. Retail outlets acting as demand generators are attracting increased traffic to self-storage properties. Subsequently, self-storage operators are able to command higher rents in convenient retail-oriented locations.

Additionally, the retail components of these new developments help alleviate zoning and permitting challenges associated with self-storage facilities. The multi-tenant developments have turned these self-storage facilities into some of the most successful properties within the industry. The following are examples of these next generation self-storage developments.

### **Clybourn Galleria and U-Stor-It**

The Clybourn Galleria in Chicago represents one of the most unique and successful mixed-use retail and self-storage developments in the United States. Previously known as the Artmark Building, the Clybourn Galleria is a 386,000-square-foot conversion of an 80-year-old former furniture factory in the heart of Chicago's “Clybourn Corridor.”

In the past decade, the Clybourn Corridor had transformed from a stretch of languishing industrial buildings near Chicago's densely populated lakefront neighborhoods into a trendy 1.5 mile retail corridor with several national outlets including Crate & Barrel, Best Buy, Whole Foods and Bed, Bath, & Beyond.

The Artmark Building was the last major industrial property remaining in the Clybourn Corridor. The building was located in a planned manufacturing district, which prevented residential redevelopment but was ideal for self-storage. The previous owner, Trizac Properties Inc., a public REIT, planned to redevelop the property into a telecom hotel datacenter, but when the telecom market dried up, Chicago-based First American Properties purchased the shuttered property.

The property was too large for renovation into a stand-alone self-storage facility. Instead, a new “lifestyle” retail development was designed consisting of upscale retail, self-storage and luxury offices. The development's retail focus was geared toward the lifestyles of young professionals and urban couples residing in the adjacent lakefront neighborhoods of Lincoln Park, Old Town and Lake View. The surrounding demographics were highly desirable for self-storage, with a population of nearly 150,000 within 1.5 miles and average household incomes exceeding \$100,000.

The Clybourn Galleria renovation included 65,000 square feet of office space on the fourth and fifth floors, with 60,000 square feet of self-storage on the third floor. The self-storage opened for business as a U-Stor-It facility with a prominent sales office integrated with the other retailers on the first floor. Customer loading with convenient interior access was integrated on the backside of the property. The balance of retail space at the Clybourn Galleria was leased to several upscale tenants including Trader Joe's, Beautiful Beginnings, KinderCare, Crate & Barrel and J. Alexander's Restaurant.

Several challenges arose during the renovation of this new mixed-use development, including having adequate parking spaces. The U-Stor-It facility required little parking, allowing almost all of the 150-car parking spots in the lower-level for customers visiting first floor retailers. Trader Joe's was located on the second floor, and second floor parking was accessed via an exterior cantilevered ramp behind the building.

The convenient location and proximity to retail stores generated customers for the self-storage facility. It leased up quickly with rental rates among the highest in the entire market. Self-storage customers are attracted to the upscale nature of the overall development as well as the secure and safe location.

### The Lock Up Storage Centers

The success of the Clybourn Galleria was preceded by another redevelopment of a similar obsolete industrial property situated within Chicago's Clybourn Corridor. A few years earlier, The Lock Up Storage Centers converted a four-story former cosmetics factory into one of the first mixed-use self-storage and retail developments.

The facility consists of approximately 100,000 square feet of climate-controlled space and boasts some of the city's highest rental rates. The separate retail space located adjacent to the self-storage conversion has nearly 16,000 square feet. Exterior surface parking for retail customers is located adjacent to the property. The retail space, originally leased to a Thomasville furniture store, was replaced with "Urban Fresh by Jewel," a specialty grocery store.

The multi-tenant nature of this mixed-use project enabled the real estate tax burden to be reduced for the self-storage operation. The retail business was allocated a higher than pro rata share of taxes based on its valuable first-floor location with adjacent parking.

### Simon Property Group and Simply Self-Storage

The next generation of self-storage has attracted the interest of the Simon Property Group Inc., the largest public real estate company with 383 shopping mall properties and 261 million square feet of retail space. Simon Property Group recently entered into a joint venture with Orlando, Fla.-based OB Co. to develop up to 20 new self-storage facilities. The new developments will be located adjacent to shopping malls and operate under the brand name Simply Self-Storage.

### StorQUEST and McDonald's

One of Los Angeles' most highly visible developments demonstrates the synergy of combining self-storage with retail. The property overlooks the busy Pasadena Freeway with an average of 310,000 vehicles per day. A three-story, 54,000-square-foot former Storage USA facility was developed on a landsite of only 24,310 square feet. Currently, StorQuest owns and operates the facility.

The original property owner successfully integrated a new McDonald's restaurant on the site by creatively designing a sufficient amount of parking spaces required for McDonald's customers. The parking

## INTERESTED IN LEARNING MORE

about self-storage real estate: **buying, selling, valuation** and **more?** Check out the convenient, affordable resources at [www.selfstorageeducation.com](http://www.selfstorageeducation.com).

requirement for the restaurant did not interfere with the existing self-storage operation and helps bring additional local customers to the property.

### Gateway Centre and LifeStorage

Another creative re-use of vacant retail space is the LifeStorage facility at the Gateway Centre Shopping Mall, located in the densely populated Rogers Park neighborhood of Chicago. The Gateway Centre is a grocery-anchored shopping center with national tenants including Dominick's Finer Foods, Bally Total Fitness, Marshall's, GNC, Foot Locker and Chase Bank. But approximately 115,000 square feet of retail space remained vacant.

The LifeStorage developers vertically subdivided the vacant space from the balance of the shopping center, allowing separate ownership of a new self-storage facility. The space was redeveloped into an institutional quality self-storage facility taking advantage of the bustling activity of the urban shopping center.

The next generation of self-storage has arrived with much success. The synergy of self-storage combined with retail is reaching some of the nation's best-known retail corridors. With creative planning and designing, it won't be long before the "future generation" of self-storage appears near the most upscale retail destinations—New York's Fifth Avenue, Beverly Hills' Rodeo Drive or Chicago's Magnificent Mile. **ISS**

*Marc A. Boorstein, CCIM, is a principal with MJ Partners Real Estate Services, which offers self-storage disposition, acquisition and financing of single-assets and portfolios for institutional and private clients nationwide. To reach him, call 312.726.5800; e-mail [mboorstein@mjpartners.com](mailto:mboorstein@mjpartners.com).*