

# Shurgard self-storage



**ASSIGN  
BUSTER**

a. Shurgard was able to build a successful business model by renting out storage space to people. The business worked very well in the United States due to the fact that Americans are constantly commuting. Approximately 20% of Americans move every year. The business had very low operating costs which increased the profitability of the venture. A Shurgard store could be run by one manager and two employees. The business could break even with a 35% occupancy rate. The normal occupancy rate of the business is 85%. When the company opens up a new store it usually takes about two years for the new business unit to reach normal occupancy rates.

b. The growth of the company in Europe has been slow. The company was handicapped in its ability to expand due to lack of financing resources available. European banks thought there was no need in Europe for rental storage space. The company found an investor which helped the firm open up its first three stores. The company had by 1999 12 stores in Europe. The market acceptance was slow, but Europeans seemed to have the same tendencies of Americans of desiring store space to rent. One of the problems in Europe for the company was that the overhead costs were higher. The labor laws were different in the various European countries. The firm needed a new management teams for each new country, while in the United States the firm would use regional managers for its executive managerial functions.

c. I think that the original project to expand into Europe was a good initiative that needed to be tested. So far the company has invested with its partners over €120 million in Europe. It needs a lot more money to achieve the phase II expansion plans. The firm has an ambitious plan of creating between 133 and 170 stores by 2003 which is a span of four years. I believe that the expansion plans of the company are unrealistic. The firm can pursue further

expansion into Europe, but at a much smaller rate. I believe that a more realistic plan would be to triple its stores by 2003. This would increase its store in Europe from 12 to 36 stores. The proposed expansion of 133 to 170 stores in Europe is a target more suited for a 10 year plan. d. I believe that the equity requirement of the investors of 43% is fair based on the amount of capital that the investor group is providing. The investors are offering €122 million and a credit line of €140 million. Between these two sources of financing the company would have access to €268 million. The self storage business requires multi-million euro real estate investments. The inflows of cash come in shorter lease agreements which investors in this industry are not accustomed too. Lease agreements in the real estate industry are done in terms of years, not weekly agreements. It would be hard to find another investor in Europe willing to invest so much money at once in such a risky proposition. Based on the risk factor of the project I consider the offer to investor adequate and fair.