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The Price of Regulating the Self-storage Industry in New York City

By Modou Nyang

When Daphne Singleton moved from a two-bedroom apartment to a studio, she needed a place to keep her extra stuff. She put it in a self-storage facility.

Several years later, Singleton still has boxes of clothes and household wares stocked at a Cube Smart self-storage facility in Brooklyn. But Singleton is now struggling to pay for her storage locker and live comfortably in her apartment surrounded by boxes, too.

The cost of self-storage in New York City is one of the highest in the country. A high demand for storage coupled with low supply rates in the city has over the years driven up prices and kept them at a premium over other markets around the country. And the situation was further exacerbated after the City Council passed a regulation in December 2017, to curtail the growth of the storage industry in the city's Industrial Business Zones (IBZ).

The regulation imposed a special permit issued at the discretion of the City Planning Commission for the development of new storage facilities in all but six of the city's 21 IBZs. Advocates for the regulation argued that self-storage facilities create fewer and lower-wage paying jobs, while eating up huge real estate spaces that could be used for high wage manufacturing jobs. An average self-storage facility with 1,500 to 2,000 storage units in the city employs a maximum five people, some on a part-time basis.

But the restricted zones remain the most attractive to the storage industry and as a result, has slowed the growth of storage facilities in the city.

The growth of self-storage facilities in New York City had been on an upward trend in the two decades before the special permit regulation was passed. The industry was one of the few that were barely affected by the economic downturn following the 2008 financial crisis. Self-storage facilities turned out to play a crucial role in the recovery process as people moved around while the economy gained steam gradually.

But two years after the regulation was passed, only a single special permit for the development of a self-storage facility has been issued by the commission. Major self-storage developers in the city have largely pulled back and diverted their investments to other interests. Beginning in January 2018 when the regulation took effect to date, only 13 self-storage facilities have been approved for development, all of them outside the IBZs.

Developers look elsewhere

New York City has a myriad of complex zoning and land-use policies aimed at regulating various use categories. The regulations created manufacturing and industrial zones ranging from light to high pollutants. Self-storage facilities were largely uncovered under the zoning regulations. Their use category fell within those set for warehouses in M -1 light manufacturing districts.

The Industrial Business Zones were created in 2005 during the Bloomberg administration who promised not to rezone them for residential purposes. And in 2015, Mayor Bill de Blasio promised to inject \$115 million to strengthen manufacturing business in the IBZs.

But as the massive and brightly colored self-storage facilities gulped up large acres of industrial land in the IBZs, activists became alarmed and pressured politicians to act.

Self-storage “is now the smallest part of our business,” said Adam Gordon, a Madison Development LLC executive, one of the leading self-storage developers in the city. Gordon said his firm stopped its self-storage investments in the city after the regulation was passed. “You can’t fight City Hall.” Gordon lamented the city’s knack for regulations as not business friendly.

Madison Development has constructed and sold \$188 million worth of self-storage facilities, according to Gordon. But since the zoning regulation was passed the company has exited the industry in the city while holding onto its few remaining developments in Manhattan and the Bronx.

Adam Friedman, Executive Director of the Pratt Center for Community Development, said the “the objective,” of the regulation “is to have a stable industrial real estate space” in the city. Friedman’s Pratt Center was one of over a dozen organizations that lobbied for the regulation of the self-storage industry. Friedman thinks big-box establishments are an anathema to a city’s viability and wants their expansion restricted.

Friedman said protecting the city’s industrial lands is necessary for its survival and vitality. He said low wage jobs such as self-storage facilities should not be allowed to take over the city’s limited industrial space. “When manufacturing gets displaced, by lower-wage use, that hurts the city’s economy,” Friedman said. After helping regulate the expansion of the self-storage and hotel industries from expanding in the city’s industrial zones, he now has his eyes set on office buildings which he said also take up too much space.

But the success of the storage industry has depended largely on people like Daphne Singleton. People who have more stuff than they could keep in their apartments and can afford to pay to keep it in a storage facility. Due to the city’s high population density and low ratio between home ownership and rental properties, the need for storage in the city is huge. But with an estimated 3.25 square feet of storage space per person, New York City is considered a highly undersupplied market for storage.

Meanwhile, government policies have limited the availability of new storage facilities in order to prioritize developments that adds either jobs or apartments. But as the laws of demand and supply dictates, it is people like Singleton who pay the price. Over the years that Singleton has kept her storage locker, she has seen her rental fees go up from less than \$60 to over \$200 a month. She is worried that the price will continue to go up.

Regulation works in some places

At 4805 Metropolitan Avenue in Maspeth Industrial Zone in Queens, a four-story 143,000 square feet building is about to go up next to a Storage Post self-storage facility. A movie props maker, The Specialists Ltd, is setting up a warehouse to remodel old cars and other military type vehicles for movie making. The company currently operates another warehouse on the same street and a weapons fabrication studio in SoHo, Manhattan.

“They’re building an ecosystem that will have upwards of 30 different manufacturers, who are all related to the movie industry,” said Quincy Ely-Cate, Manager of Industrial Business Services at Maspeth Industrial Business Association in Queens.

Ely-Cate said the regulation of the self-storage industry has “been very effective” since only a single special permit has been issued two years after the regulation was passed. “The city has spoken loud and clear that they prioritize [industrial jobs] over space for people to store stuff.” He said,

Self-storage facilities have been accused of driving up property prices in the IBZs. Due to their low operating cost coupled with their huge investment muscle, self-storage developers have little problem buying properties in the IBZs. Ely-Cate said if it wasn’t for the regulation of the self-storage industry, it would have been impossible for small manufacturing businesses to establish in the IBZs.

One size does not fit all

In the Northshore, Westshore and Rossville IBZs in Staten Island, hundreds of hectares of land lie waiting for development. The borough’s designated Industrial Business Zones constitute the least developed among all the city’s IBZs. According to Steven Grillo, vice president of the Staten Island Economic Development Corporation, most of the land in the Westshore and Rossville IBZs could have been positioned for the development of self-storage facilities.

“This law takes one tool out of my toolbox when I’m trying to sell my borough,” Grillo said. He said unlike the other boroughs, Staten Island has more land waiting to be developed therefore turning the regulation to an obstacle. “The city doesn’t understand how competitive New Jersey is with Staten Island,” Grillo said, lamenting the potential loss of business across the river to the west. “New York City is such a tough place to do business,” said Grillo. Grillo said the city’s use of regulations to determine what and where businesses can set up is “an unnecessary obstacle.”

Meanwhile, Singleton wants to donate some of her stuff to the Salvation Army and Kidney Foundation to de clutter her room and close her storage. But before then, she plans to go through all the boxes in her apartment and at her storage and pick some things out. “Maybe seven of everything,” she said. “Seven sweaters, seven dresses, outfits, you know. Nice dresses, nice pant suits, business suits or whatever.”