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Financing for Portable Storage

Finding a balance between risk and reliability

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The portable-storage business has grown rapidly over the last couple of years and presents various opportunities and challenges for those involved. For some, it's a standalone business; for others, it supplements a warehousing, moving or self-storage business.

The standalone operation is typically part of a franchise, which might be a turnkey operation or better suited as an add-on to an existing business. For operators seeking a supplement opportunity without having to invest in a franchise, there are numerous providers of various types of storage containers, transportation and lift equipment.

The portable self-storage business is capital-intensive, and obtaining financing is a challenge. You need cash to purchase franchises as well as equipment, but the amount can vary greatly between business models. The business will generate relatively low monthly revenue compared to the investment, but the equipment is long-lasting, and the numbers pencil out over time.

The concept is not different from that of investing in the construction of a self-storage facility and waiting for rents to amortize the loans. However, because the industry is relatively young and the concept very different from self-storage, financing options are different.

Financing Methods

The three most common methods of financing portable-storage operations include equity, debt or lease options. Each has its pros and cons. Equity financing makes it difficult to keep up with demand, as rental cash flow is relatively low compared to equipment investments. Debt financing requires less equity, but few banks are prepared to lend against the containers under reasonable terms. Leasing requires limited amounts of equity and is a more suitable type of financing for a capital-intensive operation. However, the cost of capital for leasing is higher, often comparable to an interest rate in the mid-teens.

Plan Your Needs

Before you start a portable-storage business, review the financing options and project what they'll bring based on some simple assumptions. First, figure out what the monthly rental rate is in your local market. Second, estimate the cost of the needed equipment. Third, estimate your operating cost per unit per month. Finally, figure out how fast the business will grow. Once you have these answers, you'll be able to choose the financing method best suited to your needs.

Conservative businesspeople will mostly likely try to grow the operation by reinvesting the returns from container rental into more containers. It takes time, as the ratio between the cost of a container (average $2,500 per unit) and the net-rental revenue (average $100 per unit per month) is approximately 1:25. In other words, if you start with 25 containers in your fleet, you can grow by one container per month.

If you get a bank loan with a debt-to-equity ratio of 1:4, then the cash flow from your rented containers can support four times as many containers compared to the situation in which you would finance your growth with equity only. In this way, you can grow by four containers per month based on an original fleet of 25 containers. If you choose to grow by leasing the containers, cash flow from the current rentals will not restrict the growth, since leasing typically is 100 percent financing.

Most owners dislike turning down new business. Since the portable-storage industry is new and the demand high, look for the financing method that allows the fastest growth, at least in the initial phase. The accompanying chart shows how a fleet of portable containers can grow over a five-year period, based on three financing methods.

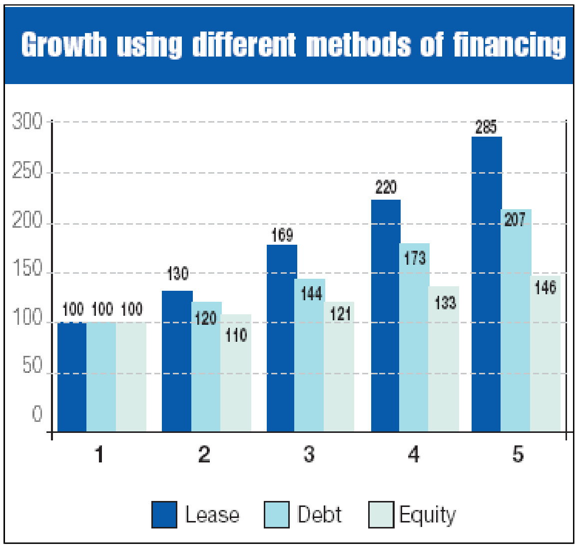
Obviously, you don't have to stick with one method. Depending on how the business develops, one may be preferable at certain times. Most owners prefer to start with leasing because it allows use of capital for operating expenses. After a couple of years, when the growth curve flattens out and the business has a track record, they typically switch to traditional bank financing.

Sources

Few financing options are currently available to portable-storage operators. It's difficult to find banks and finance companies interested in this industry, mostly because it's new and not yet large enough to interest specialty lenders. Second, the equipment, which is the lender's collateral, is mobile. Finally, there's no established secondhand market for the product.

Different manufacturers add to the challenge, and some containers require specialty handling machinery, further reducing the lenders' ability to sell repossessed equipment. Keep in mind a financing source is always going to look at a worst-case scenario—liquidation of a non-performing portable-storage container.

If you buy a franchise, find a financing solution. Some franchisors can arrange funding or have a preferred source to recommend. Some will offer to buy back equipment from franchisees in default.



When it comes to selecting equipment such as trucks and lifts, check with the manufacturer or dealer regarding financing options. If you're building a portable-storage business on your own, work with a supplier that has a relatively large market share. The more users there are, the more opportunities the lender has to resell repossessed equipment, making it easier to obtain affordable financing.

Expectations

Be realistic: Having a portable-storage company is a great business, but it's a new opportunity with very limited history. Don't expect to get inexpensive financing, but remain confident that you can make things work.

The typical container costs about $2,500, and the monthly rental is approximately $150. Assume you can get financing at 12 percent for a three-year period with $1 buy-out, meaning a monthly lease or loan payment of about $65. This leaves you with about $85 per month to cover overhead; after three years, the container will be paid for and can still be used for many years to come.

During the build-up phase, you need plenty of cash to expand the fleet. It's more important to reach an appropriate container quantity than to save 1 or 2 percent on interest. Once you've reached the critical volume, look for ways to refinance. If you can show your business is up and running, rental rates are stable and utilization is high, a bank will want your business.

But before you get to that point, you'll need capital from a financing source prepared to take more risk—requiring you to pay more for a limited period of time. Stay strong and determined, and your venture will eventually soar.

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