**Rachael Dempsey**: Welcome to the Janus Connected Podcast, your source for exclusive interviews with the self storage industry’s movers and shakers. I’m your host, Rachael Dempsey, and this is the place where you’ll find the latest news on technology advancements within self storage, advice for new operators, and tips that even the most seasoned decision makers can find helpful. We hope you enjoy!

We have a really exciting guest today. Josh Boyd has been a developer and operator for the past five years, and recently became a partner and investor in On Guard Storage, LLC. So, Josh, welcome to the podcast, thanks for joining us!

**Josh Boyd**: Hey Rachael, thanks for having me!

**RD**: So let’s dive right in. How has your background in other industries impacted your really unique approach to self storage?

**JB**: I was in medical device for about 15 years; I got into it right out of college. I had the opportunity, the luck if you will, to work with some really high end companies in terms of technology in the operating room. With startup companies, I learned a lot about entrepreneurship and really how to take a technological innovation from the R&D floor into the market place. One of the things that was unique about it – being in the operating room was a little more difficult to the sensitivity that you have a patient on the table that has a beating heart and working with surgeons to adopt the technology.

One of the companies I worked with sold robots. I saw how a robot can better the quality of care. It can provide better end benefit to the customer, that being the patient and surgeon. The patient can recover more quickly, less blood loss, and those sorts of things, but the difficulty in doing that is taking a surgeon who was at the bedside table standing over a patient, moved him across the room, sat him at a console, and in his place over the sterile field, you pushed a robot that was controlled by him 10-15 feet away. That is one of the most destructive things you could do, but nothing of value is ever easy. So getting past those kind of initial reservations of surgeons and hospitals to adopt this technology and selling and understanding the vision of how that technology betters the quality of care. Seeing the fusion of that technology into the market place like that and helping people; I became really passionate about learning more, and I don’t know if you’ve ever read the book by Jeffery Moore, Crossing the Chasm, and kind of understanding that dynamic and adoption of technology in its life cycle.

So if you look at any kind of technology there’s a bell curve of innovators, early adopters, and then there’s a chasm to where it gets into the broader market made up of early majority, late majority, and laggards. How do you take technology, innovation, and things that advance customer service and experience, operations, and investments and how do you do it successfully? I’ve learned the hard way in a sensitive industry in the past where you had to get it right, we’ve applied that same thing here with storage and we feel like were on to something in terms of better end product, better interface to improve customer experience, but also for the investors and operators improving their overall quality of operations for the betterment of the facility and storage industry.

**RD**: So you’ve come from the highest stakes that there is. What are some common hurdles that you’ve encountered as you began the process of adopting this new technology into your storage facility, whether it be tenant related, or process related, and how did you overcome those hurdles?

**JB**: One of the biggest obstacles is the leap of faith that you take with any technology. Being the guinea pig is interesting. When I got into the storage industry about 5 years ago, I found it to be very fragmented in terms of suppliers. There wasn’t one or two places to go to get everything that you need to build a facility much less a fully automated one. That made the challenge even more difficult but over the years I’ve kind of honed in terms of how we do our diligence and research and determine who is best and how we bring all those pieces together into our facilities.

One of the biggest leaps was just having an unmanned facility. I had everyone telling me ‘you need a manager’ and it was an overwhelming determination of opinion that I needed to go that route. It’s counter-intuitive. Even coming from my background seeing technology work, I had reservations. Our first facility was built in Leeds, AL, and it’s fully automated and it’s doing really well. I built an office as a backup because we put in a kiosk and I said ‘If this thing fails I’ll hire a manger” so I built in a fail-safe for myself. With the last facility, we didn’t do that because I have full faith and confidence in our system.

Nokē has really helped kind of close an automation loop for us and it’s relatively new, but Janus being the provider and having the full weight and breadth behind that product, that has helped in terms of access to our facility and security. We don’t have anybody there so it has to be secure and Nokē has really helped me in a mental state overcome that and it helps our tenants as well. We are still learning and the industry is still evolving. There is great things to come and how technology benefits customers and operators.

We are going out to the ISS show to learn more, we’re continuing to be on the tip of the spear. In answering your question about challenges to the tenant, customer service is one of the obvious challenges. You don’t have anybody on site and it’s automated; how do you attain the customer services needed to run that facility? Our goal as we move forward is that the customer service needs to be better. Our number one goal as a group is to not only be on the tip of the spear of innovation, but we’re not going to sacrifice customer service; we’re going to improve it. If you don’t get that right, it doesn’t matter how automated or how great your technology is, there's going to be something that comes up where they need to get in touch with somebody and they better be able to do that pretty quickly. We feel like customer service is where we have to overachieve. The technology has gotten to a place where it works really well for the tenants, but customer service and infrastructure to achieve that has not only been a challenge for us, but also getting the tenants taken care of.

One of the companies we’ve looked at, Amazon, nobody has ever walked into an Amazon store. Everything is online. They have some new brick and mortar stores popping up but they are fully automated. Everything is done virtually. Their customer service is the best out there. When something comes up, you call them up and they take care of you. We had an issue a couple weeks ago and they bent over backwards for us. It was very quick and they really took care of us. That is our goal and the automation part of this provides us efficiencies and optimizations that we want to share with our customers through superior customer service the same way Amazon does. It’s important for us to look out on the landscape of what’s going on and model ourselves after some of these bigger companies.

**RD**: So specifically on the automation, why do you think automation is so important in self storage and what do owners need to do to achieve full automation?

**JB**: It’s a couple things; it’s a game changer because if you build these facilities the right way with the fragmented nature of the self storage nature, you can provide a superior customer/tenant interface. It can be more first class as any facility if not more than if someone is on site. You get customer service right; we have a manger right now and we are building out an operation center for our growth, but we can do everything virtually and control our facility, greet and interact with customers, help them through the rental process while they’re on site, just as good virtually vs having someone on site. We fill a talent gap with that too because we can have one person virtually running many sites and that person be really well trained and provide a better customer service interaction.

With an increase in security, that’s the biggest importance of automation in terms of not having someone there. Once our tenants have seen how Nokē works, the safety of it, the security of it, not having someone on site doesn’t matter. They don’t really care about it because most people know that if something is going to happen, it’s most likely going to happen in the hours after the manager has left and people kind of know how easy it is to cut off a lock. I have a guy who has a battery powered grinder that can get a lock off of a unit in 10 seconds. Nokē has really changed the game for security because it’s inside the unit. It’s not only inside, but has a motion thermal sensor and we get alerts if something happens inside the unit and they’re not on site. It’s like a personal ADT system, so we’ve advanced the calls of security while removing someone from being on site during business hours.

The convenience and access is another big point for us. We can do 24 hour access and things that other places may not because we have these systems in place to allow that. The account management can be done from our app with Nokē, or done online. It’s really come full circle for the customer/tenant side. To be able to provide this high quality experience without having a manager onsite. From an owner’s side, the numbers are pretty compelling regarding automation and why it’s so important.

**RD**: Let pivot and talk numbers. How does the strategy of tech-integrated self storage affect your bottom line?

**JB**: This is where the game is going to change on the owner/operator side. It’s really derived from a confluence of events in the marketplace. Technology is cool, and timing is everything in business but the technology has arrived to where you can fully automate a facility and achieve what I’ve been discussing. Knowing that your end product is first class, your customers are getting superior customer service; in providing that, we feel there’s a better interface and a better storage experience so we invest in that. That allows us as operators to enjoy the fruits of what we’ve sewn through investing in technology on the automation side. We see those dividends being paid literally in the operational side of the investment, and that’s where it counts. And the reason is because of where cap rates are.

You’ve got technology getting to a place where you can do this; you can enable automation, and you have cap rates where they are. Cap rates are at all-time lows, kind of on the floor of where lows have been. We believe that interest rates, the ten year treasury cap rates in general, are going to stay in these areas and there is a big window to capitalize on in terms of taking advantage of this. The cap rates, applying those to an NOI, is the reason we’re in the business- cash flow and return of equity on the investment, the sales profit. There’s a lot of determining factors that go into a property’s cap rate that’s applied to their evaluation from an appraisal or brokerage standpoint, but let’s just use 6%.

Every $60,000 you can increase your NOI. NOI is revenue – operating expenses. Every $60,000 you can increase your NOI a 6% cap rate. That’s a million dollars difference in sales profit. Every $120,000 is a 2 million add to the sales profit. It’s spring loaded. The cap rates with where they are spring loads the investment if you get the NOI in a better place. With an automated facility, the technology in an individual facility, we have reduced op ex by $60,000-$120,000 a year reduction in your op ex. That math is astounding. You can achieve that through the technology. You realize the savings, your cash flow improves, your valuation and equity improves, and your sales profit if you trigger a sale improves. If you have multiple facilities, you overlay that same math and it compounds. It’s not only a sales profit of evaluation difference, but an increase in cash flows because operational efficiencies are so much better. If you build these facilities right, the back end of applying these cap rates to these increased NOI through reduction in op ex – the math is astounding.

One other kind of back of mind benefit, storage has been doing well the last years. This automation and tech integration to automate has allowed for a greater rental rate elasticity. When we have a downturn, that reduction in op ex allows the facility to absorb the shocks or elements better because you have more flexibility in your operations. That’s where we feel the real strategy of doing this pays off. Not only for the customer but also the operator.

**RD**: That’s a fascinating deep dive into those numbers. Let’s turn to a real life example. Your On Guard location in Helena, AL has had a quick lease up rate. Can you tell us about that?

**JB**: Our Leeds facility we’ve had in operation for a while now. On a scale of 1-10, it’s probably a 7 in terms of automation. We took what we learned from that facility and enhanced our prototype for our Helena facility. Helena is close to a 10 on an automation scale. It has Nokē; it’s outfitted with a couple other things. We’re actually planning on retrofitting our Leeds facility with some of the technology that we’re putting into Helena. It’s gotten to a place now where Helena is a more advanced prototype with Nokē and other things that we’ve put in it to close the gap with automation. Within our development arm of our partnership, we have a fully automated management solution that we’re doing and a development arm because we are such believers in these type of facilities.

We are building 6 more of these facilities this year. We will do 15-20 in the next five years. Helena has given us the confidence to do that- to reproduce and turnkey these new facilities based on how we built Helena and how it’s performed. We’ve had terrible weather in Alabama in the past three months, it’s been really wet, and we don’t even have a true road in in front of our facility due to some issues with the city and a developer that’s next to us and moving some utilities. Having said that, we’ve been open about two months now. We are over 20% in occupancy. We have had a great feedback from our facility in terms of what we’ve done.

The fear I had of in terms of Nokē and the app and how people accessed the facility and accessed their units has been a bit uncomfortable for me before we opened, but the response has been overwhelming. I’ve been down some to see how tenants are interfacing with their unit, a face to face observation, and when they hear the click on that unit, it screams security and technology. It really does have a wow factor with our tenants. The response to that facility, word of mouth, has been better than I thought. We are excited with what we are doing in Helena and taking that automation model and massing it across the region.

**RD**: How do you feel technology as it applies to automation is going to affect the self storage industry as a whole?

**JB**: We don’t think we’re better than anyone else or that we know it all. I don’t want to sound too grandiose, we just think we have a niche that we’ve come upon, and that niche is going to provide benefits to the industry and developers, investors, operators, and putting all of this together and taking that out to the marketplace. We just feel the real positive impact that these automated facilities are going to have will be on the health of the industry overall. I don’t know how long that’s going to take but I think in 10 years most facilities are going to be built fully automated. You just can’t ignore the benefits.

There’s going to be a mitigation because you can build an automated facility and start smaller, there’s going to be a mitigation of overbuilding. What I mean by that is, traditionally new facilities when they’re constructed, they are at the mercy of a very burdensome operational budget. Those investors have to work backward from a traditional facility management operation and that high cost burden associated with that. They have to over engineer and over build a project to achieve a desired return. The developer has to take on more risk and cost because the operational model is dictating that to them. For example, we’ve looked at a project and we compared his 60,000 ft facility run by a traditional operational model with a manager on site vs our 38,000 fully automated facility. Our 38,000 sq ft facility cash flows more than the 60,000 sq ft traditional facility. It has more self profit, and if you applied the NOI and put a 6 cap on that. Comparing the two, it’s 37% smaller in size, has significantly less of a construction budget, and great valuation because the NOI is better, and the cash flow of the smaller facility is better.

If you apply that same methodology of our fully automated model, those numbers continue to compound. Those same parameters continue to increase. For new development, in terms of the health of the industry, we can bring this model to an investor and allow them to phase into a market. They can achieve better returns at a lower up front cost and start smaller and phase into a facility that’s overall going to be smaller because they’re going to achieve the desired returns and yields based on the model. That just means less risk from the beginning and owners can phase into projects. Instead of having to build 70,000 sq ft to start out, you can start smaller and have the market confirm what your diligence sees instead of having to guess. It mitigates risk. Your overall project can be less in size. That’s what we did in Helena. We started a phase one with 30,000 sq ft. We’re starting phase two with 50,000 sq ft later this summer but instead of having to build the whole 85, this model has let me phase into it. As an investor, I have more autonomy over my risk profile. What investor doesn’t want that?

**RD**: My last question is what is your advice for our listeners who are considering bringing technology to their facility?

**JB**: I would say reach out to someone who has done it. We will be happy to talk through some of those reservations with you. The best thing to do is to talk to someone, talk to a Guinea pig. Another important thing is to see some of these newer facilities with this technology. See how it’s being done. We’ve had a couple people come in and see our Helena facility. It’s a combination of talking to people and seeing the end product. That allows you to make an informed decision. The other thing, just embrace discomfort. If you’re uncomfortable it’s usually for a good reason. If you’re thinking about what you can do to improve customer experience you’re on the right path. I can say that because if you look at what the biggest companies in the world are doing, they’ve changed the way customer interact with them.

Self storage is a unique place because it has all of the traits and technology that they want. Self storage is there, it has the ability to do this now. The confluence of the technology coming make it worth doing. The customer end interface is just as good if not better than the traditional. Do your research and do your diligence, but it is the future.

**If you'd like to contact Josh Boyd, you can reach him at (334)-233-4856.**