Joe Margolis:

My first week here, I wanted some numbers ran and I ran into an analyst and said, Can you run all these numbers this way?" And he said, "Sure and took them and went and got in the elevator and went home to have dinner with his family." It was my assumption coming from the East Coast that when the CIO at the time tells you to run numbers, you go back to your office, you stay there all night so they're on my desk in the morning. It was his assumption that, unless I specifically said that, he's going home and having dinner with his family, and I've learned that he was right and I was wrong. Everything's not an emergency and family time is important and that's the way we operate here.

Matt Slepin:

Hi, this is Matt Slepin and welcome to Leading Voices in Real Estate. Today's episode is an interview recorded on March 25th with Joe Margolis, the CEO of Extra Space Management, the second largest and long-time top performing REIT in the self-storage space. This is my second interview with a leader of Extra Space. Back in 2000, I interviewed the founder of Extra Space, Ken Wooley. We are overdue, particularly with the performance of the sector and the spotlight on niche businesses within real estate, to revisit self storage and no one better to speak with that than Joe. Back in 2018, the Leading Voices interviews were really more about career journeys, and now we're doing deeper dives into the business, so we really get to explore the drivers of the self-storage business in this conversation with Joe.

Disclosure, we have a lot of dinner table conversations in my household about self storage since my wife, Diane Olmsted, is a long-term member of the Extra Space board. And as you heard from Ken Wooley and we'll hear again from Joe, Diane was instrumental in helping raise Extra Space's first institutional capital, which is a great story in itself. Believe it or not, this is the 119th episode of Leading Voices, and the past episodes in our library kind of feels like family to me, and our family is always in the news.

To that point, the companies of two of our past guests were acquired in the past week by Blackstone. The first was American Campus Communities. I interviewed their CEO and founder Bill Bayless back in 2019, who was one of my favorite episodes about a company founder who truly was at the forefront in creating a new niche real estate asset class.

Also this past week, PS Business Parks was acquired by Blackstone. I interviewed their then CEO Maria Hawthorne in March, 2020, just prior to the pandemic. Maria was a quiet, humble leader who'd risen through the ranks in her company. So, I'm quite sure, given the growing archive of Leading Voices and knowing the quality of our guests, that they and their companies will continue making news and we'll continue to highlight them here in our highlights reel.

One of my pleasures in hosting Leading Voices, and one of the pleasures of my work in recruiting, is that in both instances, I get to interview people from each of the disciplines in all of the nooks and crannies of the real estate world. Between the podcast and my work interviews, I've put in the Malcolm Gladwell 10,000 hours as an interviewer. In my search practice, I generally have a discipline of taking 90 minutes for each interview. It's slow and takes a lot more time than I need to just get the job done, but I'm a curious guy and it's through my listening in all these interviews that I've really gained my knowledge and understanding of the real estate business. Everyone gets their grist somewhere, and this is mine. It's the blessing of what I do and I hope that through Leading Voices and our amazing guests that I'm able to share some of that with you.

And on that note, thanks to Terra Search Partners, now Terra ZRG, for sponsorship and the opportunity to do these interviews and the support to host the podcast. If you have comments, questions, guest suggestions, or just want to get in touch, you can contact me at matt@terrasearchpartners.com. Please share this episode with your friends. Please remember to follow us and subscribe, or please rate us on your podcast app. I hope that you enjoy this conversation with Joe Margolis from Extra Space Management. Thank you.

So, Joe Margolis, welcome to Leading Voices in Real Estate, and thank you for being on the show. We had the founder of your company, and fascinating individual and serial entrepreneur, Ken Wooley, on the show back in 2018 and we haven't talked about self storage on the show since then. And also back then, Leading Voices was largely a discussion of career journeys versus deep dives into the sectors that we're talking about. So today, we get to go really deep on self storage and the drivers of the business and Extra Space's place in that business, as well as is your career story, so really, really looking forward to the conversation.

One disclosure for our audience, my wife is on your board, Diane Olmstead. So, we know Extra Space well, care about Extra Space. I didn't put on my Extra Space bike jersey for this conversation, because you wouldn't have seen it in the discussion. But anyhow, Joe, welcome to the show and thank you for doing this and maybe your introduction of yourself and the company briefly, and then we'll dive into it.

Joe Margolis:

Well, thank you Matt. I appreciate you having me today. I'm Joe Margolis, CEO of Extra Space Storage. I've been CEO for a little over five years, but I've been involved with the company since 1998. I'm a East Coast guy, grew up in Connecticut, lived in many cities up and down the East Coast, married 34 years, three kids. That's my story in a nutshell.

Matt Slepin:

That fits. So, tell us about, just give a sense of Extra Space and where you stand in the panoply of companies that we know out that do self storage. I know Public Storage is the largest company, maybe the first large company in the business, but talk about the larger companies, your role and your position and how you think of Extra Space in that context.

Joe Margolis:

Sure. Self storage is a very fragmented industry. There's five publicly traded self-storage companies. Public Storage is the largest, we're the second. There's also a company called CubeSmart, Life Storage and National Storage, but both companies, plus U-Haul, only make up about a 30% of all the storage facilities in the country. Most of the storage facilities in the country are owned by smaller owners, or regional owners or operators that own, two or three, or 10 or 15 stores.

Matt Slepin:

You may not have the answer to this. If you compare that to another more sure sector in real estate, where there have been institutional players, is 30% less institutionalized than say multifamily, or industrial? Any sense of that?

Joe Margolis:

Oh, I think it very much is. I mean, you think about malls, right?

Matt Slepin:

Well, yes.

Joe Margolis:

Is changed enough, but all the malls are owned by handful of folks, right?

Matt Slepin:

Right.

Joe Margolis:

So, I think self storage is on the more fragmented side of the real estate industry.

Matt Slepin:

Okay. Then talk about Extra Space and how you position it within that business.

Joe Margolis:

Sure. So, we're S&P 500 company we're based in Salt Lake City, Utah. We invest exclusively in storage and we have about 2,100 stores in 41 states. Our market cap's about 28 billion, so that gives you a sense for our size. Each of the publicly traded self-storage companies are very, very good operators, very good companies. We do a lot of the things the same, but there also are some differences. So, Extra Space, we invest across three verticals if you will. We wholly own about 47% of our stores. We manage for third parties with no ownership interest, about 40% of our stores. We're the largest management company in this business. The rest, about 12 or 13%, are joint ventures. And having this strategy allows us to grow in any economic cycle and also meet the needs of our counterparties.

Matt Slepin:

Talk about third-party management. I know with the apartment business, it's generally ... might even be a loss leader. So, it's hard to make money and the margins are pretty slim, but it might be synergistic as well. So, comments on that?

Joe Margolis:

Sure. Third-party management's a very good and important business for us. We make money on it. It's a profitable business for us and we are the most expensive option. We are more expensive than our peers, but we're the largest by far and growing faster than any other, because I think we provide the best product. It also gives us data. So, customer data is very important for us to analyze, to optimize operations. So, we have 40%, more customer transactions, 40% more data to analyze because we have 40% more stores that we manage.

It provides us operational efficiencies, cost efficiencies, just because we're bigger. We end up buying a good number of them. When the owners we manage for want to sell, we have great relationships with our owners and we're a logical buyer. There's no broker, there's no due diligence. We bought 58 stores just last year out of our management platform. So, it's a great and important business for us.

Matt Slepin:

Begs a couple of questions. So one, is you say you're the most expensive service provider and the largest. So, what do they get in return for being the most expensive? Is NOI better? They make more money. Your data helps in a way that benefits those owners?

Joe Margolis:

Yeah. We're were able to show that over almost any time period, our owners will make more money with us than our competitors. And these are very important assets to our owners. It's often their wealth, their family wealth, and it's important they turn it over to someone that they trust, that they get good customer service from, and that they make a lot of money and we're the best solution. Our competitors also excellent managers. They're not going to mismanage their store, but we're able to convince folks that, when you go to a doctor, you don't go pick the cheapest doctor. So, this is an important asset. Don't go pick the cheapest manager.

Matt Slepin:

Of course, and talk about ... you use the word stores and we think of customers, this is a B2C business for sure, more customer and not institutional focused in terms of the clientele than most businesses. But talk about the word store. Talk about how data and management affects the management operation of stores versus real estate, which are two different concepts for me.

Joe Margolis:

Yeah. We are absolutely a retail operation. We have 1.3 million individual customers who have a need for storage, choose us to fulfill that need and want to have a, and deserve to have a, good customer experience. So, we are absolutely in the retail business, the customer service business. We use data to make sure we're optimizing the experience. So, whether it's on the website, tracking which page customers jump away from because they get frustrated, or how they behave, how they react to different things, or tracking calls at the call center, or monitoring behavior in the store. We want to make sure that we use all this data we get, to provide the best and most efficient customer experience.

Matt Slepin:

How much of that customer experience is acquisition of the customer and how much is their ongoing thing and how often does a typical customer come to your store to go into their locker to do something?

Joe Margolis:

It varies. There's a good portion of our customers that come on a weekly or biweekly basis. Putting aside the commercial customers, the pharmaceutical rep who comes every day to change up, is rare. The retail customers, and then there's also a good segment that store their stuff and come once a year or once every other year, there's lots and lots of different types of customers and customer behavior.

Matt Slepin:

But the interaction, the interface of course, that you might ... I don't mean this in a pejorative way, that you might care about the most is the acquisition of the customer as compared to how other self-storage facilities in their market might acquire those customers.

Joe Margolis:

I might say it a little differently. The acquisition of the customer is very, very important, but we want the customer to have a good experience. When they come, we want the facility to be very clean and brightly lit and feel safe, so they feel comfortable keeping their goods there. If they need stores later on in their life, they're going to remember a good experience with Extra Space and come back, or they're going to tell their friends, they had a good experience, or they're not going to complain.

So, while the acquisition is important, the customer experience throughout the lifecycle, even moving out, making sure they have a smooth experience moving out, even because they're not going to be our customer anymore. We want to make sure cradle to grave is a good experience.

Matt Slepin:

I'm curious, because I don't understand the customers very well. I think I read a statistic that 10.65% of households have self-storage space. Is that increasing, decreasing, any sense of the numbers of that, and kinds of folks who do that, and locations and trends for that.

Joe Margolis:

So, statistics like that in storage are difficult to come by. That's a Self Storage Association stat, which is probably the best we have. When I first got involved in self storage in 1998, that number was 6%, so now it's a little over 10%. So, that's pretty significant growth in those years. The billion dollar question that I'd love to know someone who has the answer to, is where does it go? Does it go to 12%, 15%, 20%? No one knows. But as long as I've been involved with this business, there's incremental increase in utilization every year.

Matt Slepin:

Does this change as housing costs go up, because housing costs go up, therefore the square footage of a home might go down to make that work? Is that a trend in your favor?

Joe Margolis:

I think particularly in urban areas, if people live in smaller and smaller apartments, a self storage provides a convenient and useful way to have a closet if you will.

Matt Slepin:

Right.

Joe Margolis:

Or it's cheaper to go get a five by eight at a close by self-storage facility than it is to move from a one bedroom to a two bedroom. So, it is a option that people use when living spaces get smaller.

Matt Slepin:

Is there a dynamic between market share increasing, decreasing, or usership increasing, decreasing between urban, semi-urban areas and rural areas, but different dynamics and drivers? Or not rural, suburban areas, I guess is the right word.

Joe Margolis:

Yeah. So, the biggest factors that influence self storage use is job growth and moving. The majority of our tenants are somewhere in the moving process, something to do with housing. So, areas of the country like the Sun Belt that are experiencing robust housing activity tend to be good storage markets and areas of the country where there's less of that transit, there's less need for storage.

Matt Slepin:

Is that then people tend to do it for six months, but they wind up staying anyhow? They do it while they're moving and transitioning their stuff but is it pretty sticky, not sticky, anything on that?

Joe Margolis:

It's a really good observation. We survey our customers and universally, people stay 50% longer than they think they're going to stay. Now, that holds true whether they think they're going to stay for two months and stay for three months, or they think they're going to stay 10 months and they stay for 15 months.

The reason is because self storage is a need-driven product. You need self storage because of some life transition. You're moving, someone died, someone got divorced, new baby, kid moving back in, remodel the kitchen, whatever, and you need self storage. Then at some point, you don't need it, but there's this inertia.

Matt Slepin:

Right, a lot of inertia.

Joe Margolis:

The day after you don't need it, you don't go rent the truck and get it out. Somewhere in the future, you'll get to it.

Matt Slepin:

It's interesting because the inertia stories ... although we're good and my wife's on your board, so this is funny, but when we moved the last time, we got self storage, not Extra Space, you weren't near us or convenient to us at that moment, although you'll be happy to hear the story.

Joe Margolis:

That's no excuse.

Matt Slepin:

No, it was Public Storage and you'll be happy because took a free month. And Diane made sure that at day 29, I had the stuff out of there.

Joe Margolis:

Perfect.

Matt Slepin:

It was essential to her, especially since they were a competitor. If it was Extra Space, we might have hung out there for a while.

Joe Margolis:

Good to hear, thank you.

Matt Slepin:

Any trends in the business. I see these cubes in people's driveways and then I hear about people ... like your tennis rack could be stored off site and they'll bring you your tennis racket before you go play. What's the future of those kind of things?

Joe Margolis:

So, the pods in the driveway has been a business for a long time and it's a viable business. It's a niche business, many communities don't like it. Don't like to have pods in their neighborhoods. It's not something we're involved in. I think Public Storage got in and got out in the past, but it's a niche business. It's a different customer set, that's not as big as self storage.

The second business you referenced, we call valet storage, where someone will come to your home with boxes, you fill them up, they'll take them away and then you can call up and say, "Give me box three," or, "Bring me my ski gear." Four or five years ago, this came out and there was several dozen companies that got venture capital money to do this. Their business proposition was that they were going to provide this additional service and be cheaper than self storage.

The way they were going to do that is they were going to rent $9 per square foot space in New Jersey instead of $50 space in Manhattan and use that savings to pay the logistical cost of driving stuff in and out. I think what wasn't fully understood, and we studied this very hard, is when someone calls up and says, "Bring me my ski stuff." Someone's got to put it in a van, got to drive across the George Washington Bridge, you hae to pay whatever the toll is now in the George Washington Bridge. Find your apartment in the Upper West Side, find someplace to park, walk it up, go back. So, all but one of those companies is now out of business, there's only one left. Their pricing structure now is much more expensive than self storage.

So, that tells me two things. One is the business model, didn't work. And two, that this is a niche business for people who are willing to pay extra for that extra service. So, I don't think it's threatening or overlapping that much to self storage.

Matt Slepin:

I got like four or five more questions, because I'm trying to understand the waterfront of this. Any trends or differences between how this is done in different countries?

Joe Margolis:

Usage is very different in different countries. Americans, more than I think anywhere else in the world, really like stuff, and we're more-

Matt Slepin:

Stuff, we're going to talk about stuff in a minute. Yeah.

Joe Margolis:

Yeah, and we're more transitory. So, the amount of usage is much different. I was in China before the pandemic, looking at self storage there. It's fascinating because they have these huge, very dense cities, with lots of people who also like stuff and very, very little self storage, but very, very little product awareness. I think eventually there'll be a more robust self-storage business in China, but I'm not sure who's going to be brave enough to go over and invest in China.

Matt Slepin:

And you haven't been international have to date, have you?

Joe Margolis:

Well, we've been in Mexico, we invested in Mexico. We had a number of stores there. They performed well. We couldn't scale the business to our satisfaction, so we got out, but we were in Mexico for a while.

Matt Slepin:

Talk about stuff for a minute. This is an American challenge, and a American proclivity.

Joe Margolis:

I'm not sure what the second question is. So, it's really interesting. People have emotional attachments to their stuff. When we talk to our customers about their need for storage, it's really the future. It's about hope. My wife works with victims of domestic violence and sadly some of them have storage units that they can't really afford where they're storing a couch and a broken lamp. My wife talks to them about, "Why do you have this? Why do you spend money on this?" And it is because, "Someday, I'm going to have an apartment again," it's that hope for the future. And that's a sad story, but it's positive. "Someday this crib that my grandmother made is going to be for my grandchild." So, a lot of storage is about, hope for the future, using stuff for tomorrow. Those emotional attachments to things are real.

Matt Slepin:

And a couple more questions about this. Is there outdoor storage, like people put their RVs places, is that a specialty type of self storage, and are you involved with those kinds of things?

Joe Margolis:

So, we have many, many facilities that in addition to having indoor storage have parking, or boat, or RV storage. We have very few, maybe one that I can think of, that have the washing facilities and the cleaning and the gas and all the ... it's really just parking, just storage, not an RV or a boat, full service facility.

Matt Slepin:

But that that does exist.

Joe Margolis:

Sure.

Matt Slepin:

There's a niche of that. And there's probably also a niche of specialty storage. So, I'm thinking of three types and you'll smile at this one, but I'm thinking of wine because I'm in Sonoma County. Two, I'm thinking of guitars. So, Neil Young had a place where he kept a whole bunch of guitars and it flooded and he lost a bunch. I read about that because I'm into that stuff. Then the third example is one that you and I will remember and you gave me one of the blessings of my life, having dinner at your house with Bob Woodward. As a professional interviewer, it was really cool to have dinner with him. But Bob Woodward talked about keeping his archives in a self-storage unit and we all got nervous because we wanted it better protected. So, I'm thinking guitars, wine and Bob Woodward's archives, what's the deal with protection of stuff? And are there more protected places versus less protected places? I don't know if that's the right way to ask the question, but I think you know what I mean?

Joe Margolis:

So, I'll talk about specialty storage first and again, we seek to be a broad-based business. So, we have some wine storage, but it requires additional temperature control and things. It's not as broad based as most of our customers need. So, it is a niche business. I think in general though, we strive to make every effort that our facilities provide clean, safe, secure, dry, self storage. That's not to say that sometimes we don't have a fire, or bad things happen. And when that happens, we try our best to do the right thing. But storage is a safe place to put your things and you can sleep ... you should be able to sleep well, that your things are being protected. If you have specialty items, you might seek climate control self storage, as opposed to non-climate control, self storage. But it's a very safe way for people to safeguard their goods.

Matt Slepin:

Yeah. But there are probably places where there is a higher premium to that, be it for wine, be it for guitars, be it for Bob Woodward's archives.

Joe Margolis:

Sure, yeah, if you have artwork, or you have very expensive cars, you don't want to store them in an outdoor lock with us. You might want to find more indoor, secure storage.

Matt Slepin:

Yeah. It's not a safety deposit box. I guess it's another form of self storage. It's interesting, I hadn't put those two together.

Joe Margolis:

Yeah, absolutely, it's a good point, yeah.

Matt Slepin:

But it's a little bit different per square foot deal, but ... So, let's talk about extra space for a few minutes and I'm curious. One thing, so you're a $32 billion market cap company. You're an S&P 500 company. You've been ranked 90th on out of all companies as a Glassdoor, best places to work. And you have the highest 10 year total return of among public RIETs, and actually double the return of the nearest self-storage company, including a 5X return on Public Storage, the biggest company in the space, and one that people think about because it's almost like Kleenex or something. So, talk about that and what enables that kind of performance, and what it is about your platform that accomplishes the those things.

Joe Margolis:

So, it's several things. I think the first is the reference to the Glassdoor rating of 90th best place to work out of over a million companies. It's because we have great people. People drive our business. Since we were a very small company, our culture has valued people and we want to attract the best group of diverse teammates we can. We want to treat everyone well, with respect, give them a voice at the table, provide career opportunities and just be a great place to work. When you have great people, particularly ones who are dealing with customers, they'll provide great customer service and they'll think of great things to innovate and advance the company. So, people are a very important part of our company and that is especially true now, when many companies are trying to reduce people through technology and go to manager-less stores, and I think that can be overdone.

We certainly are seeking efficiencies and want to make sure we use technology to provide our product to our customers. But we are not trying to eliminate the human being from the process because we think the human being is important. So, I think people is one factor in our success over the years.

Matt Slepin:

Let me drill down on that for a second. No one would not say the things you just said. So, no one would say, "We have mediocre people," or, "We don't treat our people well," but I'm thinking about how you drive that down to the people in the field and how they actually walk the walk and talk the talk. I'm remembering some years ago, I did a panel at a Nareit conference and I had two REIT analysts to talk about how they differentiated companies. And one of them, I've quoted this before, Ross Smotrich, a friend of mine, talked about how he tours properties at the site level and then he judges how much they walk the walk and are able to talk to talk about their company. How it is dispersed down that far in a company. So, how do you actually make that happen?

Joe Margolis:

So it's not easy. When you're 12 properties, it's easy to know every employee and what they like to do on the weekend and their spouse. And when you're 2,100 properties and over 4,000 employees, it's easy to default into layers and bureaucracy, and people are cogs in the machine. And we have to fight very hard not to default to that.

One way we do that is we talk about our values and we talk about our culture a lot. And when we make decisions, very frequently someone will will say, "Is this consistent with who we want to be?" Is this consistent with our values? And we encourage those questions and we encourage people to raise their hands and say, "Hey, I think this is wrong." Or, "I think this goes against what we stand for that." And people are rewarded for that and not chastised.

The second thing we do, is we make sure there's personal contact with every employee. So, I have lunch with every new employee who's hired here in the corporate office. We do town halls, where the executive team goes out and sits face-to-face and has a meal and a discussion, so that our goal is every employee gets to sit down and have a meal and talk to me at least once every two years. We go out and tour stores and ask the people who are actually at the point of the spear, "What's frustrating you? What's working well, what isn't?" So, I think it's time and effort to connect with people on a human basis and listen to them, that really helps in this regard.

Matt Slepin:

We're going to get into your story in a few minutes, but I'll hit a preview of some of that. You came over as an investment guy. So, coming over to this coming and then having this be a headline, is this more of your time and more of your attention than you thought? Did you think you were coming to run an investment company and realize you were running an operating company and was that both a surprise and then you had to grow to do that?

Joe Margolis:

I would say the other way around. One of the things that attracted me to come here was the type of company this was and how it treated people. When I came here seven years ago, I knew this company very well and there was no surprise to me, that the main focus of this company was on its people and how they're treated.

Matt Slepin:

This is a sensitive question, but company's based in Salt Lake City, and I know the founder and much of the initial folks were Mormon. Is there anything from that culture that is invested in that kind of platform behavior?

Joe Margolis:

I think there is, Matt. I often hear that we're a Mormon company, we're not a ... I don't even know what that means, I don't think ... We're a REIT that was founded by a member of the church and we have many, many executives, employees, who are members of the church because of where we are based, but we're not a Mormon company. I also wouldn't say Mormon is this or Mormon is that anymore than I say, Native Americans are this, or Jews are that, or anything.

But in general, there is a culture that affects our company by being based in Salt Lake City. Our culture as a company focuses on hard work and teamwork, always trying to do the right thing, caring for other people. I think these values are very consistent, with what I understand at least, the church to teach its members. Our company promotes a very healthy work/life balance, and that's consistent with the church's value and focus on strong families.

I should tell you a funny story about that. My first week here, I wanted some numbers ran and I ran into an analyst and said, "Can you run all these numbers this way?" And he said, "Sure." And took them and went, got in the elevator and went home to have dinner with this family. It my assumption, coming from the East Coast, that when the CIO at the time tells you to run numbers, you go back to your office, you stay there all night so they're on my desk in the morning. And it was his assumption that, unless I specifically said that, he's going home and having dinner with his family. I've learned that he was right and I was wrong. Everything's not an emergency and family time is important and that's the way we operate here. But anyway, I think that is consistent at least, with the church's view on the family. I think the other thing is that just being in Salt Lake City, we can attract a lot of very smart, talented, educated people who are members of the church and want to live here because they want to live in this community.

Matt Slepin:

It's interesting. We talk about this on Leading Voices all the time and it's ... We talk about corporate culture a lot, much more than I ever anticipated would be a theme and a subject, but there are things that those values come from in a corporate environment, that the founders started with a goal and the goal wasn't just growth or dollars. The growth was great company. I think that's embedded in a company like yours and most of the great companies that we get to talk to.

Joe Margolis:

Thank you, Matt.

Matt Slepin:

That comes from culture, right.

Joe Margolis:

Yeah.

Matt Slepin:

So, it does come somewhat from people's background. So, let's talk about you and I'm curious your story, and then how you got to this place. We're both from the East Coast, you said from Connecticut, you grew up, went to law school, went to Harvard. So, talk about that and your goals growing up and as you began your career.

Joe Margolis:

Sure. I went to Harvard College. I took a constitutional law class when I was a junior from Archibald Cox.

Matt Slepin:

Wow.

Joe Margolis:

I thought that was coolest thing in the world, to have Archibald Cox teach you about constitutional law. So, I decided to go to law school and I got there and it was all litigation and civ pro and how many days to file this appeal? And I hated it. So, I went into real estate, which was more transactional. Enjoyed that very much, worked for a law firm, went in-house with Prudential.

Matt Slepin:

Just pause on that. Why go in-house from a law firm? What was the goal for you in that transition?

Joe Margolis:

I don't think it was as purposeful as it sound, the head of the real estate department of the law firm that I was at left and took a bunch of the clients with them. I saw the writing on the law with the law firm about the quality of work. This job opportunity came up and I think I got lucky because it was a great job, a great company, and defined my career in many ways.

Matt Slepin:

Okay, so start in Pru in the real estate group, but as an attorney.

Joe Margolis:

Yes, as a lawyer.

Matt Slepin:

So, how did that transition into investments?

Joe Margolis:

So I mean, I view transaction as there's players and referees and score keepers, and I didn't want to be an accountant or a lawyer. I wanted to be a player, so Pru was nice enough to give me the opportunity to move over to the capital markets group. That was actually when I met Ken Wooley, the founder of Extra Space, doing that. I worked for Pru until myself and a couple other portfolio managers decided to leave and start our own investment management firm.

Matt Slepin:

Yeah. So, let's go back to that first meeting because that's, of course, where our stories connect and you met Diane who was then helping a eight store company get capital. Is that what it was?

Joe Margolis:

Yeah, 12 stores.

Matt Slepin:

12 stores, okay. What did that investment look like to you? How did you underwrite that thing? And could you have imagined?

Joe Margolis:

Yeah, no. So, I was in Los Angeles meeting with an office company. My job was to find companies, real estate companies, Pru could invest in. Diane called me and said, :I know you're in California. Do you have any free time to meet this guy, Ken Wooley?" I said, "Sure Diane, I'll meet anybody. What does Ken Wooley do?"

Diane said, "He has 12 self-storage properties." And I said, "Diane, no way, it's a dirty asset class. There's no exit. You can't leverage. It's not institutional. We're not doing it." And she said, "Just as a favor to me, meet Ken." So, Ken picked me up and took me to the first self-storage property I had ever been to. I had no idea what it was and he explained how the cashflows work and the operating margins and the opportunity. Ken's just a fascinating, charismatic, intelligent guy and convinced me. So, I went back to New Jersey and told my boss, "We should look at investing in this self-storage property." I think I was so young, I didn't understand the career risk I was taking. He said the same thing I said to Diane, "There's no way. We'll never do it." So, brought Ken and Spencer Kirk out and after a long process, Prudential ended up making 150 million programmatic growth capital investment in the company, that allowed the company to get big enough, along with some other things it did, to go public in 2004.

Matt Slepin:

And in 2004, how many properties did it then have?

Joe Margolis:

Wow. I don't know the answer to that. I think slightly over a hundred, but I don't know offhand.

Matt Slepin:

Okay, it doesn't need to be precise anyhow. So, but directionally, so it had increased to be of scale. Did you find in the conversation with Ken, when he had these 12 properties, I'm thinking he's not a mom and pop, but that's the word we would use for someone with 12 properties. But the goal was for him to grow, so how did you have the faith that this was a platform that would grow and did you have a sense that this was an institutional asset class? I'm pretty sure Public Storage was already there and Shurgard and some others.

Joe Margolis:

So, Ken built his first self-storage property in 1977. Between 1977, 1998, he had built, leased up, 60 stores.

Matt Slepin:

That's right.

Joe Margolis:

But he didn't have any capital, so had to keep selling the last one to get the money for the next one. So, that's why he only had 12 at the time, but he had a successful track record of making a lot of money on these stores, but he wanted off the treadmill. He needed capital to grow, so he didn't have to keep selling to get the new capital to build the next one.

Matt Slepin:

Okay, so then you do this deal. We're going to come back to Extra Space later in your career, and then you and a couple people leave Prudential. So, you're taking the risk. You have the guts, you're going to start your own investment platform. Talk about that.

Joe Margolis:

Yeah, we decided we wanted to own our own business and do what we were doing for Prudential for ourselves. We raised a couple funds that got a big asset management assignment, probably about 350 million altogether. And then 2008 and '09 happened, our investment strategy focused on brownfield reclamation and condo conversions, and a lot of things-

Matt Slepin:

Risky stuff.

Joe Margolis:

... that got beat up pretty hard. So, the business stopped growing and it wasn't big enough to support three of us. So, I left and the other two partners kept running it and I went down to Washington DC to work for a office and residential developer there.

Matt Slepin:

One other question, which is Prudential, I think we used to call it Mother Pru-

Joe Margolis:

Mother Pru.

Matt Slepin:

So, Mother Pru, but the learning in the institutional set of it, because they were one of the first, even pre-REIT era, companies that had an institutional approach to the business and then you brought that into that next job. Any comments about what got into your guts from that, the contacts you made and the person you'd become when you went off on your own?

Joe Margolis:

Prudential's just a fantastic training ground. And you look around the real estate industry and see how many people have roots in Prudential. The things I learned there about focus on clients, your duty to investors and just underwriting, and risk reward, and so many smart people there who taught me so much, allowed me, I think, to have the confidence, to take the step and form our investment management firm and raise money, and invest it quasi-successfully.

Matt Slepin:

Yeah. I think the ripple effects from that company and the partners they've done business with, and the funding they've done for joint ventures over the years, it's one of the preferred platforms to do business with because you could trust it.

Joe Margolis:

Yeah, it's a awesome company.

Matt Slepin:

So, then you go to DC, so your company hits the GFC. By the way, is that company still there and your partner still in business?

Joe Margolis:

Nope. All the assets have been liquidated and distributed to the investors, it doesn't exist anymore.

Matt Slepin:

So, then you go to DC and then at what point in this process, do you get on the board of Extra Space?

Joe Margolis:

Well, I got on the board in 2004. I missed one meeting right when they went public but by coincidence, I left Pru to form Arsenal Real Estate, was our name, the same month that extra space went public. So, I was no longer conflicted and Ken asked me to be on the board. So, I was on the board from ... I guess my first board meeting was February, 2005. So, from 2005 to 2015, I was on the board of directors.

Matt Slepin:

So, then you go to DC and just talk about that era in your career, and then we'll talk about coming back, or coming to Salt Lake City.

Joe Margolis:

I worked for a moderately sized, family-owned business that had had tremendous, tremendous success, in primarily office, but some residential building in Virginia, DC, Maryland area. They wanted to get institutional. They wanted to adopt institutional practices, attract institutional money, and they hired me to help them do that and we had a great run. It is a great company, great people. I left there because I had this opportunity to come to Extra Space. Not because of anything having to do with the company.

Matt Slepin:

How'd you enjoy your time in DC?

Joe Margolis:

I love DC. I love DC. I have two kids who still live there. I think it's a fantastic city and just a great place to live.

Matt Slepin:

My two kids live there too. So, talk about going to Extra Space. Talk about the transition. You started as chief investment officer, but I'm assuming that was with the intention of taking over from Spencer, and then talk about the transition for you, which we previewed a few minutes ago, but to be CEO, it's a different set of skills and a different lifestyle and different thought process. So, talk about all that.

Joe Margolis:

Yeah. Well, the first thing was just moving to Utah.

Matt Slepin:

Talk about that.

Joe Margolis:

Yeah, it's different, right? And it's a great place to live, but it's different. My first or second week of work, I was coming out of our office complex and there's a red light to get onto the main road, so I stopped and being a little A type, I immediately start checking messages on my phone. Then I look up and the light's green and there's two cars behind me waiting and I said, "I'm not in New York anymore."

Matt Slepin:

Yeah, of course, no honk, eh?

Joe Margolis:

So, it took a little getting used to, but Utah's a wonderful place. I miss Jewish deli and good Italian food. But other than that, I like living here.

Matt Slepin:

Do they have any of that stuff? You live in Park City, right?

Joe Margolis:

I do live in Park City.

Matt Slepin:

And Park City is damn close to Salt Lake. So, talk about just what that difference is and commute and all that, just for us who ... we all know about Park City.

Joe Margolis:

So, I moved out here quickly. I got an apartment downtown. I was trying to learn the city, find a neighborhood to live at. I realized I could live in Park City and why wouldn't I? So, I told Spencer who was the CEO before me, "I'm going to live in Park City." He got all agitated. "Joe, you can't live in Park City. It's 25 minutes each way, every day, nobody can do that." I said, "Yeah, Spence, I think I'll be okay. I think that's manageable." So, I live in Park City. I drive over the mountain every day, it's a beautiful thing. I get to work and it's awesome.

Matt Slepin:

This has nothing to do with our podcast, but get to normal altitude, or can you run forever?

Joe Margolis:

I can't run forever, no matter where I am. I wish that was true, but I'm not a runner.

Matt Slepin:

Okay, I'll take that. But talk about the transition to running a company, obviously a company you're familiar with, a company you invested in when it had 12 properties, but it is a different thing to be at the top of an organization. As I like to say on the podcast, and you've said it here, it's a business platform more than as investment company. So, how did you have to stretch, grow, learn? Were there hiccups? Talk about any of that.

Joe Margolis:

To be honest, it was easier than I thought. I think it was easier for a couple reasons. One is I didn't become the CEO of Enron. I became the CEO of a really, really well run company, that has a lot of long-term employees who are focused on the company first, not on themselves and are here to ... We're here to help and not a lot of sharp elbows, if any, here. So, that made it easy. The second thing is I was smart enough, or clever enough, or lucky enough to know that the worst thing I could do is to come in and very quickly try to make a whole bunch of changes and put my fingerprints on things. So, I came in and moved very slowly and certainly made some changes, but made sure I had consensus and did things slowly and with a soft touch. Then the third thing is I still had the prior two CEOs, Ken Wooley and Spencer Kirk, right here to help time I needed it. So, I think those three things made the transition easier than would have otherwise been.

Matt Slepin:

How has the company then changed since you've come in? So, what are the changes, evolution? And of course, it's now a while, but also the market's changed and we've been through the pandemic. So, you've had some tests and it's a really competitive business, so talk about that.

Joe Margolis:

So, the company's gotten a lot larger and that's allowed us to do things that were either inappropriate or unavailable for a smaller company. Technology has advanced very, very quickly, and we've tried to do everything we can to be at the forefront of that, and I hope we are. I also think that I've brought some innovation and outside thinking to this company. Most people in this company are homegrown and have a lot of great self-storage experience and understand the way Extra Space does things.

Since I've been here, we've expanded and done different types of partnerships. We started a bridge loan program. We've done structured finance, we've entered into triple net leases. We've tried to be very innovative on the investment side to match the innovation that we have on the technology side. I think that's another factor that's helped us outperform our peers.

Matt Slepin:

I was going to ask that question of how much ... Self storage is one of the darlings of real estate. It's something like single family rental that you hear about all the time now, and maybe 10 years ago, you didn't much hear about it was a niche, one of those weirdo niches, but it's not now. Everyone wants to do it. I talk to different colleagues in the business say, "We're going to do a little bit of self storage. Could we make some money at that?" So, how much of this is the sector's lifting and therefore it's lifting you, and how much is it that you have that secret sauce expertise to know how to play that? And then do you worry about all the attention in the space?

Joe Margolis:

So absolutely, the tide is rising and all ships are rising with it, including us. We benefit from the absolute, tremendous performance that the industry has had and lower cap rates. So, we know that part of this is being in the right spot and it's not that we're such unique talents, but I think we also have done things on the edges, where we do better than the industry.

You pointed out a bunch of our numbers earlier. You can look at on the almost any time period and we have outperformed our peers. I think that's because of the things we do, they don't do, our people and our platform. I'm very concerned about all the capital that's flooding into this space, because one, it's going to give rise to more development and excess development leads to a slow down in performance and it tends to ... people do things that may not be as smart because they're just too many dollars chasing deals.

Matt Slepin:

Yeah and it's the dumb capital who don't know the business that say, "Well, it's the promise land, we're going to go there." And in that case, all tides lower all boats instead of raise all boats.

Joe Margolis:

As you may mentioned earlier, self storage is now more of an accepted and mature asset class. After 2008 and '09, nothing was built, almost nothing was built and it allowed us to have this great performance for so long. We're going to be subject to the normal cycles of more mature property type now, we're going to be more like apartments, where we'll have normal cycles. Our job is to look for the unique opportunities that present themselves in different real estate cycles and to help perform our peers.

Matt Slepin:

If you think of the different sectors, and I think you're on the board of a single family rental company, I think you're on board of Invitation Homes, maybe others I'm not sure, but as you think about the apartment industry or other sectors of commercial real estate, as the niche sectors become more mainstream how do you play them against each other as an investment thesis?

Joe Margolis:

So, I am on the board of Invitation Homes. I think single family looks a lot like self storage many years ago, in terms of its maturity and cashflow characteristics. It's a great business and Invitation Homes is a great company. I think your question about how do you play off against different property types as a real estate investor, is that the-

Matt Slepin:

Yeah, less play off, but the sectors have different volatility, different investment dynamics over time, so that's I guess what I'm asking.

Joe Margolis:

Yeah. It's the billion dollar question all the allocators are asking, right?

Matt Slepin:

Yeah.

Joe Margolis:

Certainly the cash flow, short lease asset classes like storage and apartments and single family homes look very, very attractive now. Industrial certainly has been data centers because of where the economy is. I don't know what the future of office is now with ... I don't know how permanent work from home or hybrid work is going to be, that's [crosstalk 00:52:13]-

Matt Slepin:

Office and malls are the two sectors we question the most, even more than hospitality.

Joe Margolis:

No, storage doesn't have the same target on its back. We are a little misunderstood people ... Municipalities, jurisdictions don't necessarily want us often in their towns and we have to educate them that these are beautiful, clean retail-looking facilities. There's not a lot of traffic. It doesn't create vagrancy or bad things like that, but there's still, some people have the old vision of storage of cinder blocks and barbed wire and guard dogs and all of that, and that's not today's self storage.

Matt Slepin:

Well, let's talk about that for a minute. We'll probably not have the last part of this on the podcast, but it is interesting. I look at your website and the properties are new, beautiful, very institutional, clean, everything else, all the right words to it. I drive by them all the time too, so I experience the same thing, particularly for Extra Space, but the mom and pops may not keep to the same standards.

Two questions. One, how sensitive is the marketplace to wanting to be in a really, really clean place, they feel safer with their stuff that sits there? And then the second question is, has the public perception therefore of self storage, changed to this nicer stuff?

Joe Margolis:

I think the public perception has. As more and more of the available storage is the current generation of product and people have used it, that's what they're used to. That's what they relate to self storage. About half of our customers have never used storage before, so there's a good portion of the population that needs to be introduced to the product. After location and price, which are the first two important things, I think cleanliness and security and safety are very important, or maybe they're table sticks. Maybe you don't even get to location and price, unless you do feel comfortable walking into the facility. So, it is certainly something we focus on and think is very important.

Matt Slepin:

Yeah, it's changed and modified a whole lot from what it used to be. So, the last question always on Leading Voices is what's your advice for our young person getting into the real estate business?

Joe Margolis:

Never stop learning, never be afraid to ask a question and take every meeting that's offered to you. Meet everyone you can. It certainly changed my career when I took a meeting with someone as a favor, that I didn't think was going to lead anyone. So, [crosstalk 00:54:45].

Matt Slepin:

It's interesting. Two things, one, you describe your first meeting with Ken Wooley as, "Okay, I got an hour. I'll do it."

Joe Margolis:

Yeah, exactly right.

Matt Slepin:

And the other thing is, it is, and I experienced this more and more through my career, real estate more than other industries, is a people and relationship business. The benefits of that are huge as one navigates their career, to know that and then take advantage of it, and take advantage is the wrong word, but to benefit from those relationships through and through and take them seriously. It's a long game.

Joe Margolis:

I couldn't agree more on that.

Matt Slepin:

Thank you for listening in to Leading Voices and I hope that you enjoyed today's episode. I have a request. If you enjoyed the episode and found it to be valuable, please share it with a friend or two. If they're podcast wary, take their smartphone in your hand and subscribe for them and teach them to listen. You'll change their life. Seriously, thanks for listening and keep in touch. You know you can reach me at matt@terrasearchpartners.com. See you next time.