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Team Up with Outside Storage Company to Avoid Hassles, Earn Extra Money

Storage space is an attractive amenity for tenants living in small apartments and for tenants with large families. By providing storage units and charging tenants a fee for them, you can generate extra money for your building. But renting storage units to tenants can also bring added hassles, such as the cost of building the storage units, maintaining them, and billing and collecting money from tenants. Also, if your building has rent-stabilized tenants and you create and rent the storage units yourself, you must worry about the units becoming a required service that you must continue to provide to tenants.

You can avoid these hassles and still earn extra money by teaming up with a storage space rental company. Under the typical arrangement, the company will install the storage units and handle all the maintenance, billing, and collection associated with them. In exchange for your business, it will share with you the rental revenues generated by the units.

We'll tell you how a storage space revenue-sharing arrangement works and how to protect yourself against some of the risks associated with it. We'll also tell you when you can charge rent-stabilized tenants a fee for storage units, and how using an outside storage company can help you avoid problems when renting these storage units to rent-stabilized tenants.

How Revenue-Sharing Arrangement Works

Generally, a storage company that offers this revenue-sharing opportunity will install storage units in the building's basement, says **Josh Goldman** of the Manhattan-based **BarGold Storage Systems, LLC,** a company that manufactures and installs on-site storage systems.

Goldman's company will survey your tenants to make sure enough of them are interested in renting the units. If so, the company will clean out the area for the units and then install them. Once the units are installed, some companies, like Goldman's, will let new and existing tenants know about the storage units and give them applications to fill out. Other companies require you to do this step. The storage company will also sign storage space leases with tenants, and bill and collect the storage rent. And it will continue to maintain the area where the units are located.

Tenants in Manhattan buildings are typically charged about $60 per month for a base size space of about 4' x 4' x 7', says Goldman. The rates will go up or down from there, depending on whether the space is larger or smaller. Tenants in buildings in the outer boroughs are charged a little less—about $44 per month for a base space that's 4' x 6' x 7'.

The storage company will give you a set percentage of the total monthly revenues generated. For example, Bargold Storage will give you 25 percent, says Goldman.

Building Success Story

Nathan Katz Realty in Queens has used BarGold Storage Systems, LLC to install storage units in about 15 of the buildings it manages and has had great success with the storage space revenue-sharing arrangement, says David Levy, the realty company's chief executive officer. The storage company has rented 100 percent of its units to tenants, which has generated extra revenue. Also, says Levy, to install the storage units, BarGold cleaned out and organized previously cluttered dead space in the building. They continue to keep the area well lit, painted, and clean, he says.

Not a Required Service

If you use an outside storage company and meet certain other conditions, a Division of Housing and Community Renewal (DHCR) opinion letter by Charles Goldstein, dated March 18, 2003, says that providing the storage units for a fee won't become a required service that you must continue to provide to rent-stabilized tenants. The DHCR wrote the opinion letter after *ALI* requested an opinion on this issue. The opinion letter says providing the storage units for a fee won't become a required service, if:

- Before the storage units were installed, you didn't provide storage space to tenants for an extra charge, or for free;
- Your lease with tenants doesn't include a rider saying you'll provide them with free storage space or storage space for a stated fee;
- There's no common ownership between you and the storage company;
- You have a contract or agreement with the storage company to provide and manage the storage units (including billing and collecting rents);
- Tenants sign separate leases for the storage units, and they and the storage company are the only parties to those leases; and
- You get a fee from the storage company reflecting a percentage of gross rents it received which isn't attributable to any individual tenant's payment for the storage space.

The opinion letter also says that if these conditions are met, you can keep the percentage of the revenues you get from the outside storage company without risking a finding of rent overcharge and that the fees charged by the outside company wouldn't be limited by rent guidelines increases.

Practical Pointer: If you install the storage units yourself and bill and collect a fee from tenants on your own, providing the storage units for a fee could become a required service that you must continue to provide to rent-stabilized tenants. And according to an opinion letter by Charles Goldstein, dated Oct. 9, 2002, while you can negotiate initial fees for the storage space with the tenants, any increases in those fees are subject to applicable rent guidelines increases.

If Tenants Already Have Storage Units

If your building has rent-stabilized tenants and you've already been providing them with storage units in the building, this kind of setup may not work for you.

If you shift from giving tenants free storage to charging them for it (either directly or through an outside storage company), tenants may file a reduced service complaint with the DHCR. And the DHCR may find that providing free storage units to tenants is a required service that you can't take away without a rent cut. Section 2523.4 of the Rent Stabilization Code says that no longer providing the storage units will be considered a reduction in services warranting a rent cut if either of the following is true:

1) A specific rider in the tenant's lease says that you'll provide the tenant with free storage units; or

2) Regardless of what the lease says, you've provided storage units (for example, boxes or bins) to tenants for free within three years of the filing of the tenant's complaint.

So if either of the above is true, you or an outside storage company can't start charging rent-stabilized tenants for storage units without risking a DHCR-ordered rent cut.

Even if you're already charging tenants a fee for the storage units, switching to an outside company may not work for you. That's because providing tenants with storage units for a particular fee is a required service that you must continue to provide. So if the storage company charges more than you're charging, the DHCR could find the additional charge to be a rent overcharge. Also, you wouldn't be able to stop providing the storage units to the tenants.

Practical Pointer: If your tenants are using an area in your building—say, a basement—to store certain items, you may still be able to install individual units in part of that area without risking a finding of reduction in services, points out Goldman. You can divide the basement into two parts and install storage units in one part, and leave the rest of the area for tenants to keep their items outside of those storage units, says Goldman. That way, you can charge a fee for those tenants who want to rent individual storage units in which to keep their items, and leave the other part of the area for the rest of the tenants.

Legal Protections Your Contract Should Include

There are some risks involved in offering tenants on-site storage units through an outside storage company. For example, if the storage units are vandalized or the storage company maintains them poorly, you could end up with an eyesore at your building. Or if a tenant's property is stolen from his storage unit, the tenant may sue you for the value of the stolen property and any damages he suffers as a result of the theft. Worse, if a tenant stores something dangerous, such as gasoline, in his storage unit, you could end up being held liable for any damage or injury the dangerous item causes.

To protect yourself from these risks, add language to your contract that requires the storage company to:

- Handle all the maintenance of the storage units;
- Indemnify you—that is, agree to defend you if you're ever sued for a problem related to a storage unit and pay all damages and legal fees you may be ordered to pay; and
- Agree to list your building as an additional insured on its insurance policy.

Note that all three of the above are in BarGold's standard contract with the owner.

Practical Pointer: Before you sign a contract with a storage company, make sure you read the lease that tenants will sign with the company. The lease should protect you and your building by limiting the value of the property tenants can store, says Goldman. For example, BarGold sets its limit at $2,000, he says. This way, you won't be liable for the theft of, say, expensive furs or priceless artwork, Goldman explains. Also, make sure the lease says what items can't be stored in the storage units. Commonly prohibited items are explosives, gasoline, and biohazards. ◆