

## Walking rigs rush ahead

New gear helps giants run past rivals in oil field services

By Collin Eaton

Highly specialized mobile rigs are literally walking over the oil patch's collection of aging equipment — tamping down sales and profits in a burst of efficiency that's making some drillers victims of their own success.

Large oil field services companies deploy the pricey machines called walking rigs to grab customers from midsize drillers that have to stretch to afford replacing their drilling armadas with the new-generation gear.

But the market is getting tighter for drillers large and small,

as producers embrace walking rigs — so-called for the massive mechanical feet that let them move among well sites — and other technologies that let them drill more wells and harvest more oil while spending less on oil field services.

Baker Hughes recently

reported a 9 percent rise in the number of wells the average U.S. land drilling rig produced in the fourth quarter, compared with the same period a year ago.

“They're drilling themselves out of the job,” said Tanjila Shafi, an analyst with S&P Capital.

The new rig efficiencies *New continues on D5*



Ashley Landis

Dee Brideson works on components for tools made by Tolteq. The company's technology guides drill bits and captures geological data in an oil well.

SPACE

## Storage industry spiffs things up

Stuff galore to store, and money to be made



BullsEye Storage President Peter Morris focuses on storage inside the Loop.

By Katherine Feser

Self-storage has gotten a makeover.

Dank, one-story buildings with padlocked units tucked away in industrial locations far from the city center are out of fashion, industry leaders say.

Increasingly common are multistory climate-controlled buildings that bring a touch of industrial chic to residential neighborhoods from Midtown to The Woodlands, with polished

concrete floors and brightly painted doors of corrugated metal secured by cylinder locks. Their customers get individual security codes; some offer wine storage, conference rooms or even coffee bars.

Marketing, too, has gone high-tech. Yellow Pages-based ads for companies with names like “A1” and “AAA” have given way to Google-friendly metrics tailored to ZIP codes and street addresses.

And the overall industry, which caters to people with more stuff than space, is booming along with the real estate market. An estimated 700 to 1,100 facilities operate across the Houston region. Nationally, one in nine households uses self-storage, up from 1 in 11 households five years ago.

That's drawn investor interest as well. Nationally in 2013, self-storage transactions exceeded *Life continues on D2*



James Nielsen photos / Houston Chronicle

One reason for the growth in self-storage is the area's increasing number of apartment projects, such as the Sovereign at Regent Square on West Dallas.

REAL ESTATE

## Developer says he's got an edge with his latest project



Michael Paulsen / Houston Chronicle  
“This is built like a high-rise,” developer Marvy Finger says.

From the outside, it looks like a lot of the other luxury apartment buildings rising in Houston's Inner Loop: multiple stories, brick and stone facade, attached parking garage. But the developer of 2900 West Dallas claims his newest Houston project has plenty of things that make it stand out.

The first is invisible to the casual observer.

“This is built like a high-rise,” said Marvy Finger, explaining how the six-story building was constructed with steel and concrete instead of the more typical wood-frame construction.

Separated by 6 inches of concrete and insulated by double-paned glass sliding doors, the



NANCY SARNOFF

units are virtually noise-free, the head of the Finger Cos. said.

Another way the property is different is its neighbor.

The complex was built next door to a Whole Foods Market.

Finger planned it that way by amassing a large tract of Montrose-area land several years ago and leasing a portion of it to the Austin-based grocer.

When the developer started marketing the apartments last summer, Finger Cos. leased 56 units in 45 days. That was before units were even ready to show.

The Finger Cos. likes to tout its 50-year track record and

leading reputation in the industry as a reason the project has been so successful.

Even so, the market's appetite for apartments is insatiable right now. A number of Houston's top developers are putting up high-end projects of their own.

Last week, industry leaders said the last couple of years have been some of the best for apartment developers as occupancies went sky-high and rents soared.

About 15,000 units were built last year, twice the number built in 2012, according to figures from Apartment Data Services presented at a Houston Apartment Association panel

*Sarnoff continues on D5*

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FROM THE COVER

# Life changes often create need to put possessions in storage

Life from page D1

\$2 billion, more than double the average over the last 10 years. Just last month in Houston, 28 facilities were sold to a national real estate investment trust, or REIT, as part of a \$326 million deal that insiders say gives the businesses marketing advantages in a competitive industry.

“The developers realized that wealthy people have more items to store than not-so-wealthy people,” said industry veteran Peter Morris, president of Houston-based BullsEye Storage, which has five self-storage facilities inside Loop 610. “That created a desire to build in really dense areas where there is a lot of movement.”

The company’s newest facility, four stories with 600 units, opened in 2008 on a stretch of West Dallas where hundreds of apartment units are going up.

When the Allen House apartments began to be torn down to make way for new construction, people who rented two-bedroom apartments for \$1,300 a month and wanted to stay in the area are now paying the same price for one-bedrooms, said Moises Ojeda, the manager of the facility.

Other life changes, such as couples’ divorcing or merging households or empty nesters’ relocating from the suburbs to high-rises near River Oaks, also fuel demand.

“When they downsize, they come here,” Ojeda said. “We don’t have to do so much marketing if you’re close to your tenants.”

During the day, Ojeda gives tours and helps customers figure out how much space they need. He tells them about the boxes for sale and the truck they are free to use for moving. At quitting time, he takes the elevator to his two-bedroom apartment on the top floor. It’s not uncommon for self-storage managers, often married couples, to live on-site.

“To live where you work is kind of awesome,” said Ojeda, who joined BullsEye eight years ago, sweeping units at the Gulfgate facility while attending the University of Houston. He likes being close to restaurants and a Whole Foods, and he gets along fine without a car.

**Plenty of competition**

At the BullsEye on West Dallas, a 10-by-7-foot unit that could hold the contents of a one-bedroom apartment goes for \$165 a month and a 10-by-25-foot unit that could store the contents of a 2,000-square-foot house goes for \$469. It competes with five or so nearby facilities.

Those competitors include CubeSmart, which became one of Houston’s top operators overnight last month when it acquired a 36-property portfolio — mostly in Texas — from Clarion Partners and Private Mini Storage.



Amazing Spaces photos

Amazing Spaces, a locally based operator of upscale storage facilities, recently developed its first multistory structure. Scott and Kathy Tautenhahn have focused on giving the building a welcoming environment.



Amazing Spaces has a six-story building on Holcombe near the Medical Center. It has other locations in The Woodlands and in the Spring and Cy-Fair areas.

Only Public Storage and Sovran Self Storage, which operates as Uncle Bob’s Self Storage, are bigger in the market. But, like CubeSmart and Extra Space Storage, are all national REITs devoted to the self-storage business.

On top of CubeSmart’s 11 existing properties in the Houston market, the 28 newly acquired facilities are spread across The Woodlands, Tomball, Pearland, Katy, Cypress, Spring, Rosenberg and Sugar Land, as well as a closer-in location on Washington Avenue.

“With the very positive economy in Texas in general and Houston specifically, you have a lot of influx of people into the Houston market, and that’s good for our business,” CubeSmart chief executive Chris Marr said.

“For more urban locations, people have figured out we can be an attractive alternative to a larger apartment,” he said. “Rather than rent more

space in your apartment, you rent our product and store your skis or your bicycle or any recreation items you have that may take up a lot of space. You can access your goods whenever you need them.”

The biggest change Marr has seen in his 20 years in the self-storage industry is the way spaces are marketed.

“That’s moved from what would have been a Yellow Pages ad model 10 years ago,” Marr said. “Today, the majority of our customers find us through some form of an Internet search.”

**A marketing advantage**

National companies such as CubeSmart have a big marketing advantage over smaller operators, Marr said, because they can “invest in people and systems and processes to maximize our ranking in search results.”

He said CubeSmart currently does not plan to develop additional loca-

tions in Houston.

REITs like CubeSmart typically expand through acquisitions, leaving private developers to take on the risk of building new facilities, said BullsEye’s Morris.

Aaron Swerdlin, an industry veteran and one of the country’s top brokers, brought the Clarion/Private Mini Storage Portfolio to market.

“There are more investors chasing deals than ever,” said Swerdlin, executive managing director with NGKF Capital Markets in Houston.

In addition to publicly traded companies and real estate investment trusts, private equity funds and pension funds are competing to enter the sector.

“Lack of new development and new supply has helped everybody,” Swerdlin said.

The Clarion/Private Mini Storage transaction was the second biggest self-storage deal Swerdlin has handled, coming in behind a \$560 million deal in New York in 2011.

“This is not a ‘Build it and they will come’ kind of thing,” Swerdlin said. “You’ve got to build it in the right place.”

**Keeping stuff nearby**

Urban residents like to be close to their stuff, he said, typically within three-fourths of a mile. In the suburbs, that number extends to a three-mile radius.

Local companies Amazing Spaces and Proguard Self Storage have also added locations, some with wine storage, inside Loop 610 in recent years.

“That’s one of the reasons urban locations work so well. They tend to be very ‘sticky’ residents,” Swerdlin said. “If you are a Montrose resident, you don’t leave Montrose to live in Memorial.”

Self-storage activity in the suburbs, on the other hand, is driven by transition, as people relocate for jobs or move to bigger or smaller houses.

The self-storage industry thrives on life changes,

whether it’s combining households, retiring, tearing down a house and rebuilding, or even dealing with a death in the family.

Prices vary widely by the age of facility, location, operator and amenities; climate control commands about a 30 percent premium. A 10-by-10-foot unit can go for \$65 to \$250 a month, he said.

Amazing Spaces, founded by Scott and Kathy Tautenhahn, recently developed a six-story structure, on Holcombe near the Texas Medical Center. It has other locations in The Woodlands, Spring and Cy-Fair areas.

First-time self-storage customer Jeri Kuhleman, recently retired as an office manager for a private physician’s office, rented a 20-by-10-foot unit for \$329 a month, including insurance, last summer.

Kuhleman, who likes the property’s security measures, including video surveillance, packed the unit mostly with business documents such as tax returns and medical records, a stamp collection and furniture. She also used it for gardening equipment and Christmas decorations before moving to a house.

Kuhleman visits the unit nearly every week to access records and has even set up a spare desk and chair inside the unit, although she most often conducts business in the conference room and lobby, which resembles a lodge with beamed ceilings and fireplace.

“It just feels like an office environment,” she said. “I’ve never stored anything before. The architecture is really pretty. It has a different feel to it.”

**‘It’s good to purge’**

Greg Williams, owner of the Showhomes Home Staging franchise in Houston, helps home sellers in areas such as West University and Bellaire pare down to make their houses more attractive to prospective buyers.

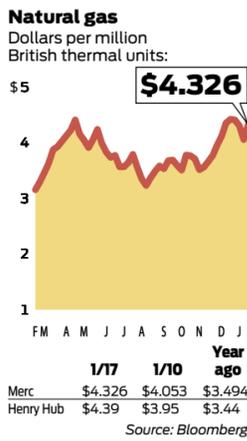
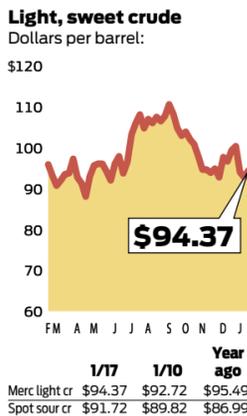
“It’s good to purge,” Williams said, encouraging customers to put extra furniture, knickknacks and decorative items into storage. “There are things that you don’t want to let go of, but you don’t necessarily need them in your home around you.”

Williams stores paperwork from his childhood, family photos, furniture, clothing and other items that would clutter his Bellaire townhome.

“For me, it’s worth what I pay for that storage unit just to know my things are there,” he said. “I’m able to justify I’m not wasting money.”

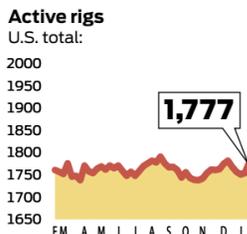
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MARKETPLACE



**Rig count**

U.S. drilling activity was up 23 rigs at 1,777 rigs. Drilling in Texas was up 16 rigs at 841 rigs. The offshore rig marketed utilization rate in the Gulf was 95.4 percent, up from 92.7 percent a year ago.



**Rigs drilling**

	1/17	1/10	Year ago
Texas	841	825	813
Colorado	61	59	51
Louisiana	110	110	106
New Mexico	77	81	79
North Dakota	168	168	179
Oklahoma	186	183	182
Pennsylvania	56	55	71
Wyoming	53	54	48
U.S. total	1,777	1,754	1,749
Canada	565	477	601

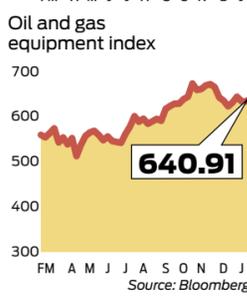
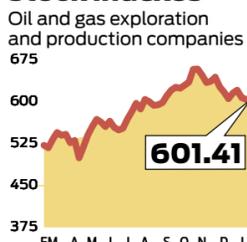
Source: IHS Rig Activity

**Marketed rigs under contract**

	1/17	1/10	Year ago
U.S. Gulf	82	81	76

Source: IHS Petrodata

**S&P’s energy stock indexes**



ILLINOIS  
**Regulators shut down small bank**

ASSOCIATED PRESS

WASHINGTON — Regulators have closed a small lender in Illinois, making it the first U.S. bank failure of 2014 following 24 closures last year.

The Federal Deposit Insurance Corp. said Friday it has taken over DuPage National Bank, based in West Chicago, Ill.

The failure of DuPage National Bank is expected to cost the deposit insurance fund \$1.6 million.

U.S. bank failures have been declining since they peaked in 2010 at 157 in the wake of the financial crisis and the Great Recession.



James Nielsen / Houston Chronicle

Aaron Swerdlin got his start in self-storage deals when he brokered the sale of this Bear Creek-area property 21 years ago. He’s a top U.S. self-storage broker.