

Storage Firm's Fate Packed With 'Ifs'

It's not often you get two stock recommendations within hours of each other that are polar opposites.

But that happened the morning of June 28. Motley Fool put out an article headlined "Two Great Stocks You Can Buy and Hold Forever," with one of those great stocks being Public Storage, the self-storage giant headquartered in Glendale. Less than two hours later, an analyst writing for Seeking Alpha posted his article headlined, "Public Storage Is Dangerously Overvalued."

Since Public Storage is the third-biggest public company by market capitalization in our Valley area, let's take a look at these dueling opinions, starting with the glowing one.

Matthew Frankel likes the fact that Public Storage has generated "fantastic returns" over time. "In fact, since 1990, Public Storage has produced roughly six times the return of the S&P 500, and that period included one of the worst recessions in history," he wrote.

It enjoys a great competitive position since it is by far the largest self-storage company with 2,600 facilities, the Motley Fool article says. That means Public Storage can continue thriving in good times and remain profitable in bad.

"Self-storage has lower maintenance, staffing and turnover costs than other types of real estate," Frankel wrote, "and while Public Storage can break even with just 30 percent occupancy, it's



ONE MORE THING

Charles Crumpley

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currently at around 95 percent. In other words, if a recession hit and Public Storage's occupancy fell to, say, 80 percent, the company would still be a long way from becoming unprofitable."

Now let's look at the opposing viewpoint.

Dane Bowler, writing in Seeking Alpha, agreed that Public Storage has racked up an impressive record. But that may be about to change, he opined.

For one thing, supply is booming. That's because building a storage facility is profitable for a developer right now, and it's relatively easy to construct. "Development in this sector is available to many and highly lucrative so we anticipate substantial supply coming in," he wrote.

Indeed, the company's chief executive recently admitted that he sees up to 2,500 facilities coming on line the next couple of years. That's almost the equivalent of an entire Public Storage – the largest in the industry – being added to supply.

Sharply rising supply, of course, means more marketing costs and discounted rents. Already, the chief financial officer of Public Storage said he's seeing "softness in demand" in the industry. The company has had to spend more money to keep demand about where it has been, he said in a

recent conference call with analysts.

And Bowler, the analyst, sees problems on the demand side as well. Notably, millennials don't acquire stuff and hold onto it as their baby boomer parents do, and those who do have storage units may be more tempted today to sell their goods on several apps that have popped up.

So, he concluded, less demand for storage space will be a trend, not a blip.

"Self-storage has played out," Bowler wrote. "We think the boom will be followed by a bust to restore market equilibrium. Within the self-storage industry, we believe Public Storage is one of the weaker players." He sees a stock price of \$137 a share; Public Storage had traded above \$200 for a year when he made that call.

On the other hand, Frankel, the Motley Fool writer, sees a bright future for the company. He bases his case on the strength of Public Storage. Since the company is well managed and has the most established position in the market, it may be able to vanquish weaker competitors if oversupply roils the market. "Public Storage's brand and leading market share should allow it to do just fine as the market adapts to the new supply," he wrote.

Like I said, you seldom see such divergent views on the same stock at the same moment by analysts looking at the same facts.

Time will tell, of course, which view is most accurate. For what it's worth, which may not be much, the bearish case won the day that the dueling stories were released. Public Storage's stock that day went down less than 1 percent while similar companies as a group went up 2 percent.

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Studios Get Gifts, Businesses Get Grief

By TOM MANZO

My company, Timely Industries in Pacoima, was hit with a lawsuit in December under the Private Attorney General Act over meal periods that were taken more than five hours after the employees' arrival due to our flexible schedule.

PAGA lawsuits are very expensive, and we wanted to reach out to Mayor Eric Garcetti and ask for his help as we had asked other politicians and lawmakers. Unfortunately, we never were able to reach our mayor. It appears he was too busy playing the piano during La La Land Day in Los Angeles along with his staff, who also ignored Timely and even stood us up.

Not every company in California can make movies, and sometimes you need to spend time with the manufacturing community, which is not as glitzy and glamorous, although we pay our taxes, too. Actually, the manufacturers in California pay more taxes since we don't have the film industry's tax incentives.

As you may recall, in 2014 Gov. Jerry Brown signed a \$1.6 billion, five-year tax credit that benefits the studio titans of Hollywood. The idea was that if you give them cash, they will keep film and television production in the Golden State.

The tax credit was billed as self-sustaining because the extra film and television production would generate economic activity and jobs. But according to the state's Legislative Analyst's Office, "the state government receives far less revenue back than it spends on the tax credit."

California's tax-incentive fine print doesn't specify that post-production work has to happen here, only that production does. That is a loophole, according to the Los Angeles Alliance for a New Economy. "The incentives are a bad investment," said the study's lead author, Michael Thom, an assistant professor at the USC Price School of Public Policy. "States pour millions of tax dollars into a program



Thickening Regulations: California Labor Law Digest, from left, for 2017, 1997 and 1957.

that offers little return."

"We looked at job growth, wage growth, states' share of the motion picture industry, and the industry's output in each state," Thom said. "On average, the only benefits were short-term wage gains, mostly to people who already work in the industry. Job growth was almost nonexistent. Market share and industry output didn't budge."

Where are our incentives?

Manufacturers, such as my business, and business owners in the San Fernando Valley are not asking for tax incentives like the entertainment industry. We are simply asking to stop the incentives given to trial lawyers from Beverly Hills to come and raid our companies like pirates.

Currently in California there are over 6,000 lawsuits against businesses brought under the PAGA. The act allows individuals to act as a regulator in some cases and sue companies that are allegedly in violation of some regulation or law. PAGA was intended to protect employees, but by the time attor-

neys sunk their greedy teeth into it, PAGA turned into a lottery ticket for trial lawyers.

Lawsuits like the one against our company can cost employers not a few thousand dollars but literally millions of dollars thanks to PAGA. It can put them out of business.

Most business people do not even understand what a PAGA lawsuit is until it is too late and they have been sued. For that matter, I do not think our lawmakers know what a PAGA lawsuit is, either, and how ruinous it can be. That does not surprise me since the California Labor Law Digest is 1,039 pages and growing.

We need our politicians to listen to the businesses in their communities and take action. Reform this law, or the ambulance-chasing attorneys will be the only ones left in California.

Along with the Hollywood titans, of course, so long as they are subsidized.

Tom Manzo is president of Timely Industries in Pacoima.

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