VALUATION & ADVISORY

Self Storage Investor Survey

Fourth Quarter 2018

The survey data was collected as part of an online questionnaire that was sent to key self storage market participants during a two-week period at the end of December 2018. The market participants were asked to segregate their responses by Investment Class (A, B & C). Furthermore, the data collected is corroborated by the experience and knowledge of the 20 Self Storage Industry Group team members at Cushman & Wakefield.

Cushman & Wakefield defines the Investment Classes as follows:

Self Storage Investment Classes

Class A

- Located in a Top 50 MSA
- Market has high barriers to entry (through either lack of developable land or a lengthy entitlement process)
- Generally newer facilities in good condition with state of the art amenities including climate controlled units and secured facilities with gated access
- Professional on-site and off-site management
- Minimum size of approximately 75,000 square feet
- Good location with access to attract tenants willing to pay rents in the upper percentile in the market place

Class B

- Located in a Top 100 MSA
- Market has typical barriers to entry
- Generally facilities built since 1980 in average to good condition with amenities typical for its market including secured facilities with gated access
- Full time on-site and off-site management
- Minimum size of approximately 40,000 square feet

Class C

- Either located in a smaller market or in less desirable areas of a Top 50 MSA
- Generally 1970s or 1980s vintage properties in average to below average condition
- Generally managed by the owner and may not have an on-site manager
- May or may not have typical amenities such as gated access, security cameras and/or climate controlled units
- May have secondary, less desirable locations with generally below average access and/or limited visibility

Cushman & Wakefield Self Storage Investor Survey Fourth Quarter 2018

	Class A	Class B	Class C
Going-In Capitalization Rate			
Average Low	4.69%	6.28%	6.88%
Average High	5.95%	7.56%	8.58%
Average Overall	**5.35%**	**6.83%**	**7.73%**
Terminal Capitalization Rate			
Average Low	5.83%	6.33%	7.25%
Average High	6.93%	7.83%	10.25%
Average Overall	**6.27%**	**7.08%**	**8.75%**
Discount Rate			
Average Low	7.67%	8.50%	10.00%
Average High	10.30%	11.00%	12.00%
Average Overall	**9.00%**	**9.60%**	**11.00%**
Average Marketing Time (months)	2.50	3.20	3.60
Average Rent Growth	3.00%	2.80%	2.80%
Average Expense Growth	2.10%	2.10%	2.30%

Source: Cushman & Wakefield Valuation & Advisory Self Storage Practice Group

Market Trends

- The cumulative impact of excess supply is expected to continue to put downward pressure on occupancy rates and market street rents, as facilities fight for market share in the near term.
- Buyers and lenders continue to recognize the risk of new supply entering the market and are more conservative in their underwriting where there is a significant potential for new supply. Most market participants are now reporting supply-side issues impacting the underlying fundamentals.
- Due to the influx of new supply, the REITs lowered their growth projections for 2019.

Self Storage Investor Survey

Second Quarter 2018

- Capitalization rates have stabilized and could increase slightly within the next 12 months due to the increase in interest rates. There is still capital looking to be placed in the industry, so no immediate upward shift in capitalization rates has occurred.
- Investor demand for Class A trophy properties remains strong. Interest in Class B and Class C portfolios continues as investors are looking to place capital and available Class A and B+ product is limited.
- REITs have shifted their focus from acquisitions to joint ventures and third party management platforms due to concerns of new supply and increasing development costs. This allows them to control a larger percentage of the market while not outright purchasing the properties.
- As the REITs expand their third party management platforms, off-site management fees (historically 6% for REIT operators) appear to have lowered to 4% or 5% for some owners and/or markets due to the increased competition.

Development Trends

- Lease up projections have softened. Economic absorption had typically been between 24 and 36 months, but has recently been expanded to 48 months for larger projects located in areas with new supply concerns. Facilities in lease up and entitled land are slow to sell due to the new supply uncertainties.
- A major topic of market industry participants continues to be new supply which was expected to crest in 2018. While there is not a single source of reliable development data, markets such as Dallas, Charlotte, Denver, and Austin are consistently discussed as being markets with a high amount of new supply in the pipeline. Markets such as Los Angeles, San Francisco, and New York are still viewed as favorable development markets due to the high barriers to entry and population density. However, because self storage remains a trade area specific business, it is difficult to quantify any large MSA as being over-supplied.
- Construction costs continue to increase causing some development projects to be abandoned, particularly as the supply-side issues are impacting market fundamentals.

Conclusion

The second half of 2018 saw some cracks appear due to the influx of new supply in the market as rental rates and occupancy rates were impacted in certain markets and trade areas. However, these issues are widely viewed as being short term in nature. There is still strong demand for Class A and Class B properties, as current market participants are looking to add to their existing footprint and new investors are looking to enter the space. New construction appears to have peaked 2018, with a decline expected in 2019 due to supply issues and an increase in construction costs. We expect the market to remain cautious in 2019.

For more information, contact:

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