LPA

Visit us at
lowerypa.com

Self-Storage Market Analysis

4th Quarter 2023

At a Glance

Revenue

The Self-Storage industry has become one of the fastest growing in commercial real estate, with an increase of $29.2 billion over the last five years despite a 0.3% decline in 2023.

Profit

Self-Storage is an industry that faces low overhead costs, meaning more profit. In 2023, profit accounted for $12 billion of the $29 billion total revenue. However, as customers demand greener and more advanced technology, profit could decline.

Profit Margin

In 2023, profit accounted for 41% of the industry revenue. However, profit is projected to stagnate at 40.9% over the next five years. This is due to a variety of factors, such as population centers being further saturated, leading to higher price competition and cost to acquire customers.

Cap Rate

Self-Storage capitalization rates reached an all-time low of 5%, falling just 8 bps below the average capitalization rate.

Vacancy

Over the last several years, there has been a sharp decrease in vacancy rates within the Self-Storage sector. Vacancy rates are expected to increase as new supply comes into the market.

Occupancy

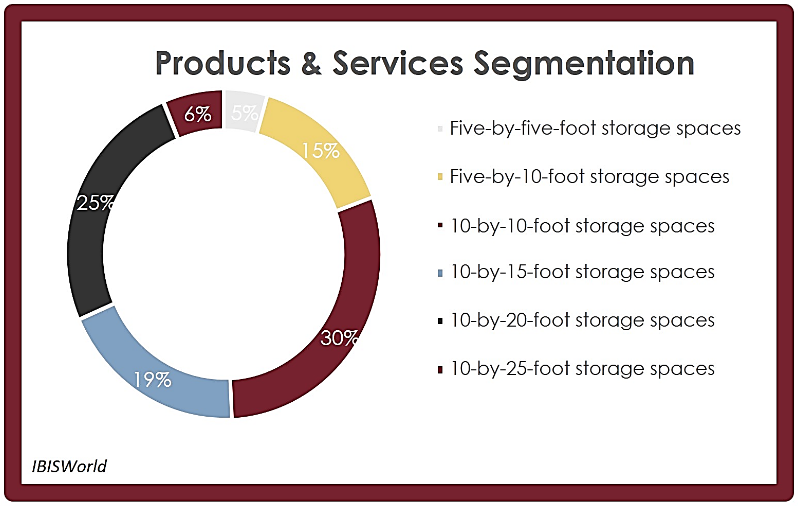
The national occupancy rate was 93.4%, In the coming years, occupancy rates could continue to decline at existing facilities if too much new competition enters the market.

U.S Overview

The Storage and Warehouse Leasing industry rents out and leases space for self-storage to individuals and businesses. This industry has been one of the fastest-growing sectors of commercial real estate since its inception in the 1960s.

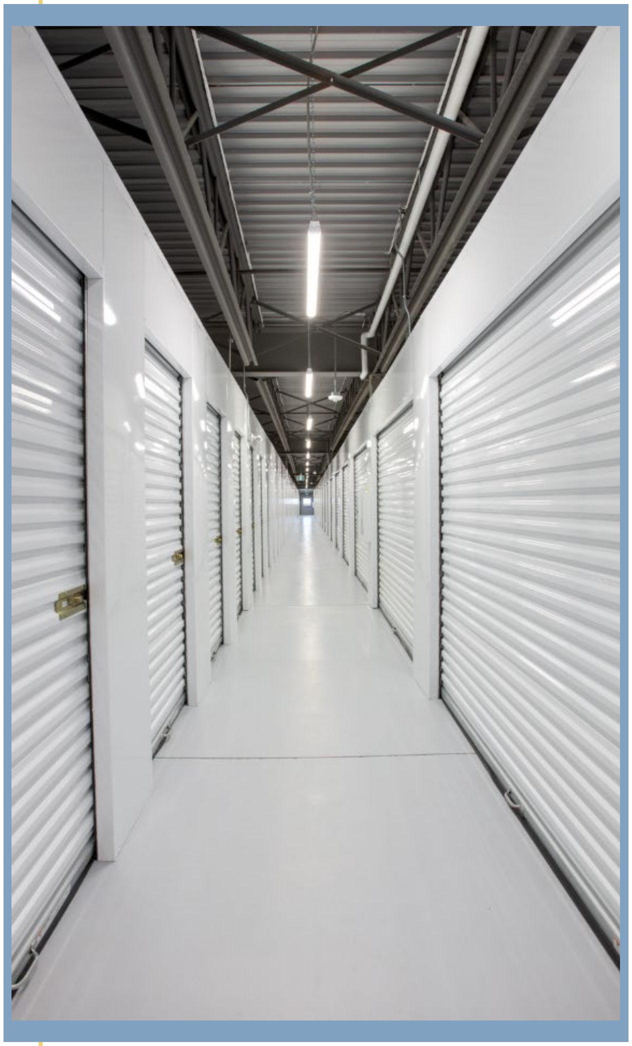
This industry is in a unique position in that it generally thrives even during poor economic conditions. For example, as people gain more disposable income, they purchase more things that then need storage. On the other hand, a recession will force businesses to close their doors and people to downsize, creating demand for storage of old inventory or possessions during a move. No wonder industry revenue grew at a CAGR of 2.1% to $29.2 billion over the past five years. This includes a slight 0.3% decline in 2023 alone due to a drop in consumer confidence, a result of the recent record-high inflation rates.

Lockdowns due to the COVID-19 (Coronavirus) pandemic initially threatened industry profit as movement and transportation are an integral part of business operations. Furthermore, the pandemic led to a sharp decline in consumer spending in 2020. However, government assistance such as loans and stimulus packages for qualifying individuals and businesses stimulated consumer spending and industry revenue to their three-year peaks in 2021. Further proving that this industry is almost recession-proof. Overall, this industry faced low overhead costs, limited staff, few utilities, and low maintenance costs in the last few years. Industry profit accounted for 41% of revenue in 2023.



$30.1 billion

Projected revenue growth over the next five years



Going forward, industry revenue will grow at a modest CAGR of 0.6% to $30.1 billion over the next five years. One reason for this slow growth is that many major population centers will further become saturated as operators look to expand their footprint, leading to even higher price competition and overall increased customer acquisition expenditures such as marketing.

This industry historically performs well during economic downturns due to increases in demand caused by bankruptcies, divorces and migrations. Such high demand even in uncertain economic conditions encourages larger industry participants to consolidate Industry revenue will grow at a CAGR of 0.6% to $30.1 billion over the next five years, with profit stagnating at 40.9%.

Rental Vacancy Rates

Demand for secondary storage typically comes from households that rent rather than own their residences. As a result, when rental vacancy rates rise, people have moved into houses and will demand less secondary storage space, causing revenue to decrease. The rental vacancy rate is expected to increase in 2023.

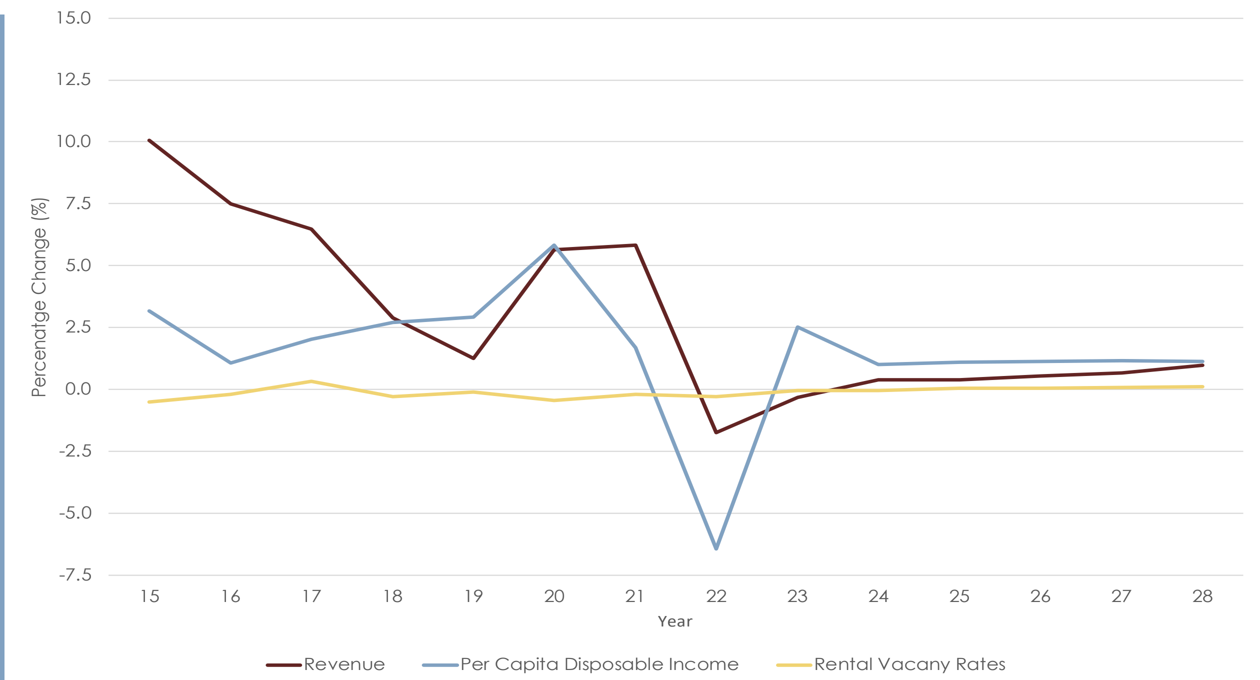
Consumer Confidence Index

The consumer confidence index is a general measure of how well the average household is doing economically to project how likely it is the economy will grow or shrink in the near future. When the Consumer confidence index is higher, it is more likely that people will spend more. The index lost its most points in over a decade in 2020. Similarly, it will decrease in 2023.

Per Capita Disposable Income

As disposable income rises, individuals are able to afford secondary storage units, driving up Storage and Warehouse Leasing industry demand. Additionally, increased disposable income enables consumers to acquire more material possessions, often lifting demand for self-storage facilities because some individuals lack the space in their homes for additional belongings. Alternatively, when disposable income drops, many individuals sell possessions and cut back on expenses, such as self-storage units, to save money. Per capita disposable income is expected to increase in 2023, representing a potential opportunity for the industry.

KEY EXTERNAL DRIVERS 2015-2028

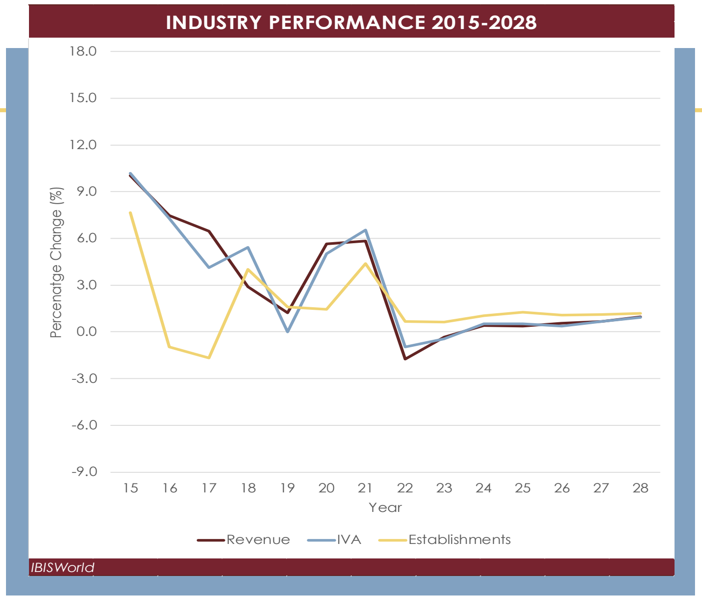


IBISWorld

Industry Performance

Current Performance

Industry revenue has grown at a CAGR of 2.1% to $29.2 billion over the past five years, including a 0.3% decline in 2023 alone, when profit will reach 41%. The lack of long-term commitments in this industry allows operators the flexibility to quickly implement business decisions in unfavorable economic conditions such as inflation.



The migration of Americans within different states is a significant demand determinant. Given that most Americans choose to move between May and September, operators experience higher demand in those months. Kiosks at storefronts allow customers to access their storage spaces, pay bills, control climate and more, all with a click of a button. To achieve such tasks, operators would invest a substantial amount of time and resources by extensively training and certifying employees.

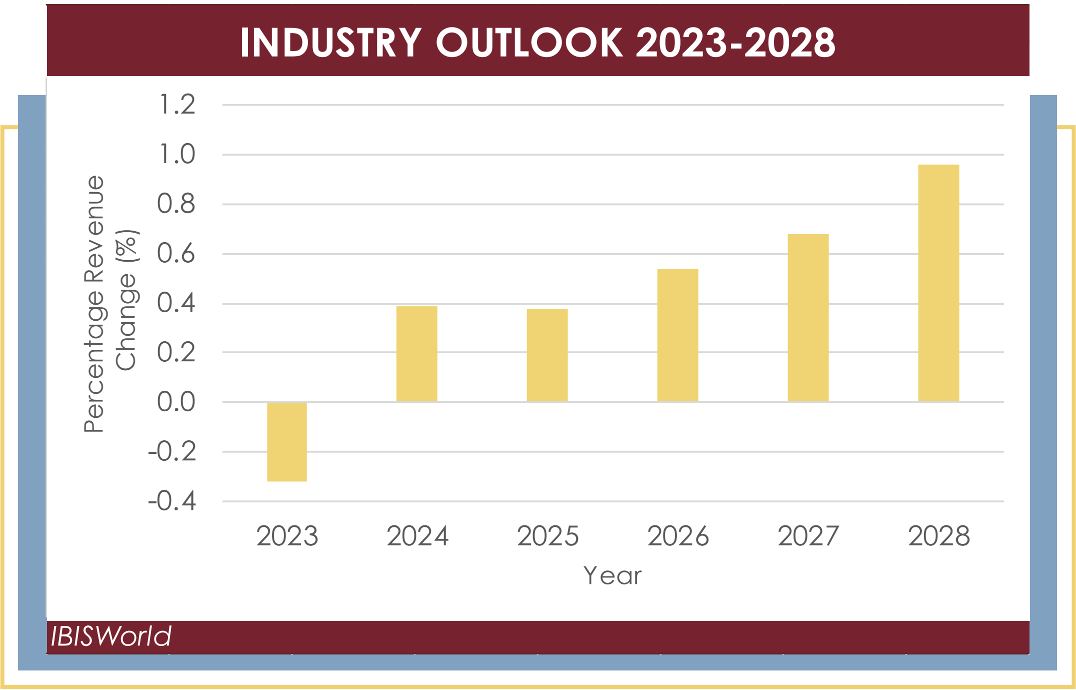
HISTORICAL PERFORMANCE

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)	Per Capita Disposable Income (Million)
2014	20,297	13,159	159,516	153,517	182,929	N/A	N/A	2,260	N/A	40,117
2015	22,337	14,501	171,757	165,420	196,339	N/A	N/A	2,506	N/A	41,383
2016	24,008	15,560	170,079	163,345	194,675	N/A	N/A	2,475	N/A	41,822
2017	25,564	16,201	167,222	160,148	193,342	N/A	N/A	2,524	N/A	42,699
2018	26,308	17,079	173,967	166,719	201,352	N/A	N/A	2,741	N/A	43,885
2019	26,636	17,081	176,743	169,177	204,777	N/A	N/A	2,809	N/A	44,645
2020	28,143	17,939	179,311	171,848	209,317	N/A	N/A	2,905	N/A	47,255
2021	29,781	19,114	187,204	177,817	217,604	N/A	N/A	3,088	N/A	48,617
2022	29,262	18,930	188,422	179,243	216,763	N/A	N/A	3,068	N/A	45,897
2023	29,171	18,847	189,593	180,456	217,300	N/A	N/A	3,072	N/A	46,021

IBISWorld

A survey by self-storage co-op Store Local found that 87% of self-storage customers value online and mobile services in their self-storage dealings, while 97% of customers link their online experience with an industry operator to their happiness regarding the rental experience. With the three top operators commanding a low share of total industry revenue, overall market share is similarly very low, which intensifies competition while decreasing prices. As the number of establishments keeps rising, operators have to keep producing unique services such as amnesties to maintain and improve their market position.

Industry Outlook



Industry Profit

Although technology will minimize the number of workers at establishments, wages will account for a substantial amount of industry profit. Employees that will be required to maintain advancing tech and security systems are more skilled and thus, command higher wages. With larger operators consolidating more than the smaller ones, price competition will increase. Some companies already offer military discounts, long-term contract discounts and multiple-unit discounts but, they will have to increase or expand these benefits to maintain a competitive edge.

Demand

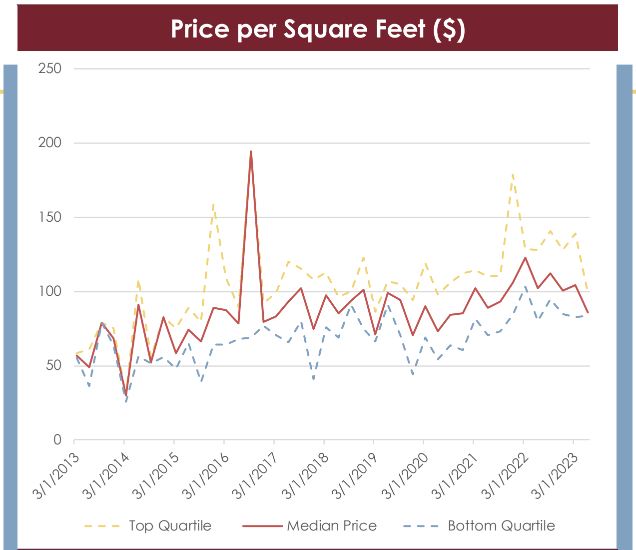
Occupancy rates will continue inching closer to 100% in large cities such as New York, Los Angeles and Chicago, so many operators will open up locations in surrounding suburbs and smaller cities. The stable percentage of disposable income and rising consumer spending in the coming years also signal that demand for industry services will rise.

Innovation

Advancements in technology like robotics, biometrics and automation will reduce industry expenses in the long run while also offering a smoother customer experience. Growing use of cloud systems will enable operators to collect, secure and analyze consumer data to find areas of improvement.

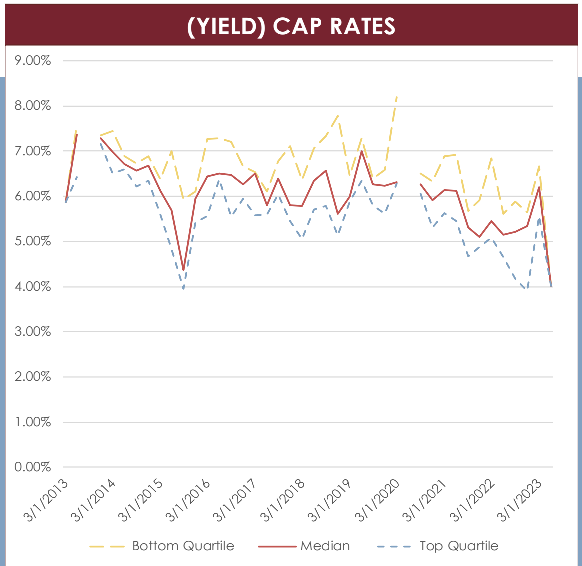
Cap Rates & Volume Trends

The average price price/square foot reached an all-time high of $176 in the fourth quarter of 2022, marking a YoY increase of nearly 23%. Pricing disparity also showed a significant increase; the difference in purchase price between the top quartile and bottom quartile in 2019 was $54 psf. By the end of 2022, this spread increased to $101/SF, primarily due to increased activity with Investment Class A assets. With increased investor demand and limited product available for sale, the self storage industry is experiencing consolidation of single-asset and smaller portfolios, which continues to have a positive impact on valuations. As a result, Investment Class B and C assets that may not have previously been a desirable investment for an institutional investor, have become sought after as investors seek regional scale to help drive cost savings.



RCA Trends & Trades Report

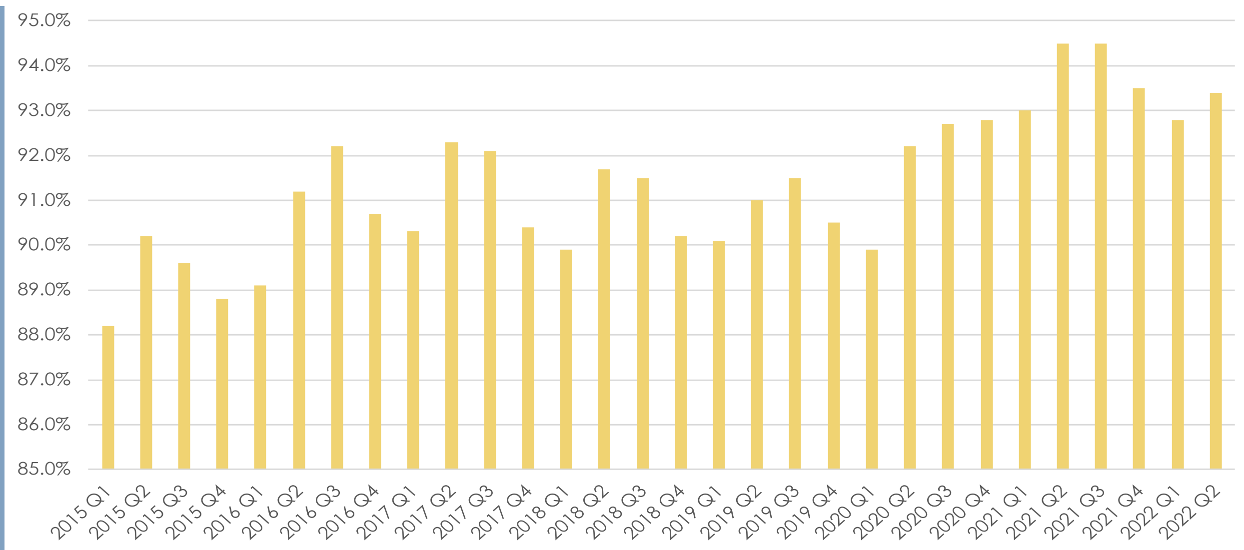
Capitalization rates for self storage reached an all-time low of 5% in the fourth quarter of 2022, falling just 8 bps below the average capitalization rate for apartments. This marks the lowest spread between capitalization rates for self storage and apartments over a 10-year history. Self storage cap rates also remain substantially more compressed than those of all four major asset types (retail, industrial, multifamily, office). Further, as average capitalization rates for multifamily slowly turned in an upward direction in the fourth quarter of 2022, average capitalization rates for self storage declined by 13 bps from the prior quarter and by nearly 45 bps YoY. Looking at the 10-year average spread between capitalization rates and the 10-year treasury, the self storage sector has averaged approximately 406 bps, with apartments averaging 330 bps, a 76-basis point difference.



RCA Trends & Trades Report

Occupancy Rates

Self-Storage operators must carefully monitor and manage their facilities' occupancy the maximize the bottom line. But misconceptions linger about the best strategy for measuring occupancy. Most industry operators try to keep occupancy between 90% and 95%, but some try to maintain 100% occupancy. It might seem counterintuitive, but you are losing money if you keep your facility completely full. This leaves you with two options: Add new units or raise rental rates.

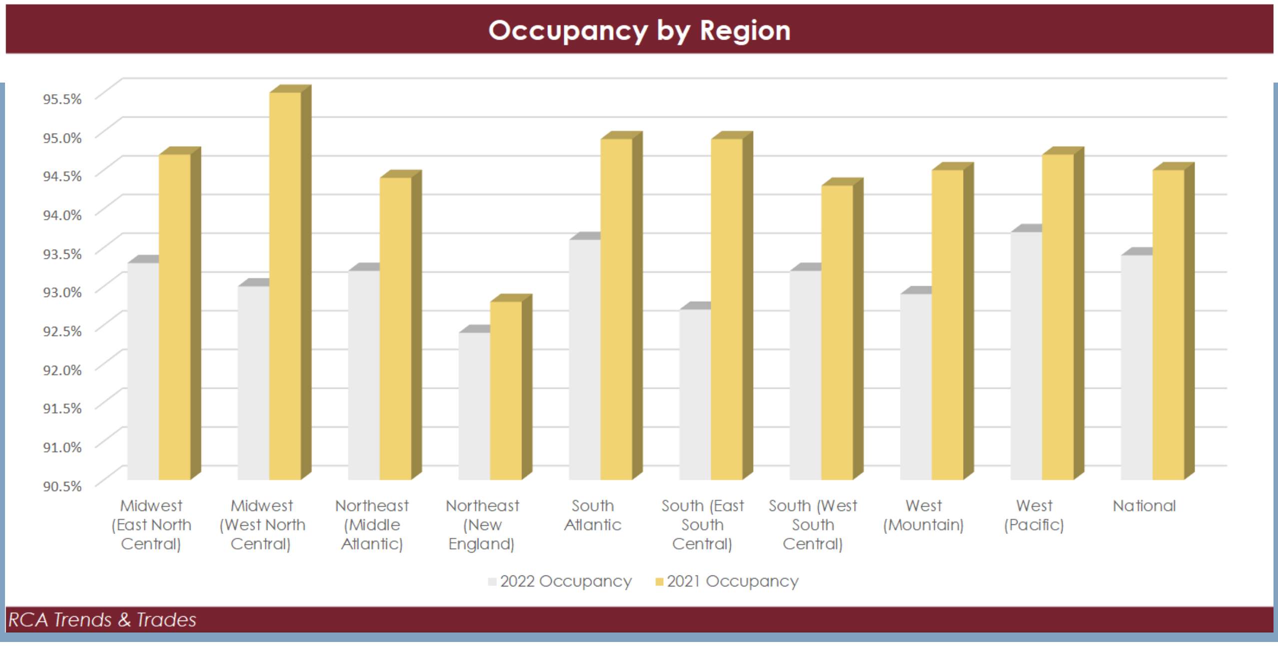


2023 Self Storage Almanac

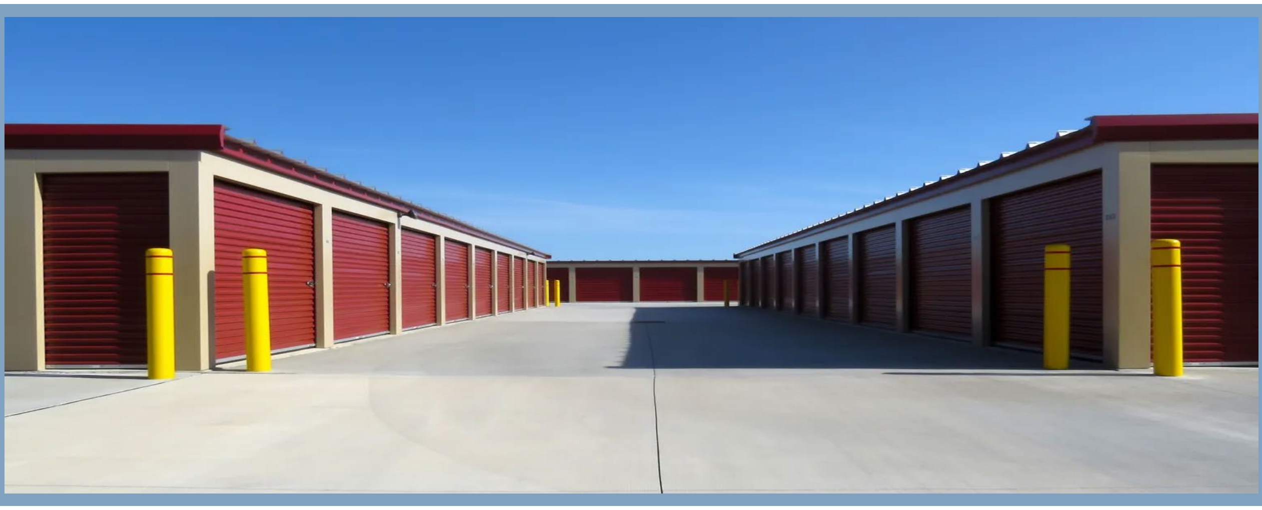
Occupancy was 94.5% in 2021, the highest occupancy rate going back to 2000, when it was 83.7%. The 2022 rate of 93.4%, which was based on second-quarter numbers, was a decrease of 1.1% from 94.5% in 2021. This follows a 2.4% increase from Q2 2020 to Q2 2021. Occupancy decreased 1.3% from 2019 to 2020. The lowest occupancy percentage from Q2 2000 through Q2 2022 was 75.7% in 2010. Occupancy rates were in the 80s from 2000 through 2008, the 70s from 2009 through 2011, and the 80s or 90s from 2012 through 2022.

93.4%

Occupancy Rate



Occupancy dipped in 2022 from 2021 across all regions and the nation as a whole. The highest rate in 2022 was 93.7% in the Pacific West, which is only 0.3% higher than the national rate of 93.4%. The lowest rate was 92.4% in the Northeast's New England region in 2022; that was 1% less than the national average. The Midwest's West North Central region had the highest occupancy rate at 95.5% in 2021; that region also had the most substantial decrease from 2021 to 2022 at 2.5%. While all of the regions experienced declining occupancy rates from 2021 to 2022, the Northeast's New England region was impacted the least, with only a 0.4% decrease. The national rate in 2022 was 93.4%, down 1.1% from 94.5% in 2021. In the coming year, occupancy rates could continue to decline at existing facilities if too much new competition enters the market. Moreover, it takes longer for properties to lease-up and reach stabilization when additional self-storage supply comes online and there's insufficient demand to support it.



Rental Rates

Normally, the second quarter of each year is marked by modest gains compared to its previous quarter, and then followed by even greater increases in the third quarter. Though that was not the case for 2020, when rates dropped in the second quarter, steady increases were reported afterward. The typical seasonality of rental rates seems to have returned. All sizes of non-climate-controlled units experienced rental rate increases in the third quarter of 2021 and decreases in the fourth quarter of 2021. This is typical.

However, the first quarter of 2022 broke the usual pattern, with three of the five sizes of non-climate-controlled units (5-by-5s, 5-by-10s, and 10-by-20s) posting modest increases. This time around, only 10-by-10s and 10-by-15s faced first-quarter declines in 2022.

CLIMATE CONTROLLED ASKING RENT					
Year	5x5	5x10	10x10	10x15	10x20
18 Q1	$ 53.90	$ 80.60	$ 127.00	$ 166.50	$ 213.90
18 Q2	$ 55.90	$ 83.30	$ 131.40	$ 169.70	$ 215.30
18 Q3	$ 56.20	$ 84.56	$ 132.01	$ 172.40	$ 218.18
18 Q4	$ 54.10	$ 81.83	$ 127.79	$ 166.57	$ 212.54
19 Q1	$ 53.69	$ 81.03	$ 127.25	$ 166.11	$ 215.71
19 Q2	$ 56.10	$ 84.46	$ 132.66	$ 173.32	$ 222.49
19 Q3	$ 55.67	$ 82.93	$ 130.36	$ 170.69	$ 216.65
19 Q4	$ 52.88	$ 79.35	$ 125.14	$ 164.95	$ 211.39
20 Q1	$ 52.75	$ 78.96	$ 123.91	$ 163.57	$ 208.64
20 Q2	$ 51.95	$ 77.38	$ 120.23	$ 157.83	$ 205.17
20 Q3	$ 54.82	$ 82.65	$ 129.21	$ 169.65	$ 221.20
20 Q4	$ 55.97	$ 84.06	$ 132.45	$ 175.48	$ 229.33
21 Q1	$ 57.20	$ 85.41	$ 134.42	$ 178.15	$ 234.37
21 Q2	$ 62.54	$ 93.85	$ 146.72	$ 192.97	$ 253.44
21 Q3	$ 66.31	$ 99.90	$ 156.88	$ 206.45	$ 272.03
21 Q4	$ 63.26	$ 95.51	$ 149.96	$ 197.43	$ 258.61
22 Q1	$ 62.81	$ 94.50	$ 149.32	$ 196.22	$ 257.45
22 Q2	$ 66.02	$ 98.83	$ 155.68	$ 203.77	$ 268.99

NON-CLIMATE CONTROLLED ASKING RENT					
Year	5x5	5x10	10x10	10x15	10x20
18 Q1	$ 45.30	$ 65.00	$ 100.40	$ 127.40	$ 148.90
18 Q2	$ 47.30	$ 68.00	$ 105.60	$ 132.70	$ 155.60
18 Q3	$ 47.59	$ 68.90	$ 106.93	$ 135.84	$ 156.28
18 Q4	$ 45.78	$ 66.28	$ 105.27	$ 131.71	$ 152.53
19 Q1	$ 45.21	$ 65.25	$ 102.78	$ 128.77	$ 153.22
19 Q2	$ 47.23	$ 67.94	$ 107.11	$ 132.97	$ 156.41
19 Q3	$ 46.69	$ 66.99	$ 105.72	$ 131.59	$ 153.15
19 Q4	$ 44.31	$ 63.84	$ 100.30	$ 127.07	$ 149.29
20 Q1	$ 44.63	$ 63.60	$ 99.24	$ 126.59	$ 148.95
20 Q2	$ 44.81	$ 63.05	$ 97.40	$ 124.07	$ 146.14
20 Q3	$ 47.35	$ 65.78	$ 101.64	$ 128.20	$ 150.38
20 Q4	$ 47.27	$ 66.14	$ 101.79	$ 129.81	$ 151.89
21 Q1	$ 48.07	$ 67.66	$ 103.89	$ 132.91	$ 155.94
21 Q2	$ 51.95	$ 71.83	$ 111.67	$ 140.63	$ 165.28
21 Q3	$ 55.31	$ 76.26	$ 118.46	$ 150.05	$ 176.08
21 Q4	$ 54.21	$ 75.68	$ 117.28	$ 149.57	$ 173.76
22 Q1	$ 54.43	$ 75.83	$ 116.97	$ 149.15	$ 174.21
22 Q2	$ 56.65	$ 78.32	$ 120.13	$ 152.40	$ 177.45

All five unit sizes reported increases in the second quarter of 2022, which falls in line with the normal spring upswing for rental rates. Moreover, every non-climate-controlled unit size experienced the highest rates in the second quarter of 2022. Conversely, rental rates for climate-controlled units stuck to the seasonal pattern, with increases in Q3 2021 and Q2 2022 and decreases in Q4 2021 and Q1 2022. Though rates for all climate-controlled unit sizes rebounded in the second quarter of 2022, they didn't surpass the highs reported in the third quarter of 2021. Nevertheless, when comparing the year-over-year figures, Q2 2022 fared significantly better than Q2 2021, with rates increasing by more than $3 dollars for each climate -controlled unit size. The largest year-over-year increase was posted by 10-by-20s, which enjoyed a gain of $15.55 in one year.

Conclusion

The self-storage industry has endured steady growth post pandemic. Although most industries suffered greatly during the pandemic, the use of decreased staff, low maintenance, and few utilities put the self-storage industry in a great position to not only survive the pandemic, but also thrive in the post pandemic world. Self-storage is typically a cyclical industry, with the highest peak generally from May to September as most people move during that period, but the last few quarters have shown that people are using self-storage more out of that range than usual. Although occupancy has decreased slightly from 2021 to 2022, self-storage has shown that it's recession resistant and that occupancy will stay in the general range and remain profitable. In general, regarding supply and demand the condition of the self-storage market is preferable compared to five to ten years ago. It is sensible to assume current trends will carry on at a steady pace in the coming years.

At LPA we pride ourselves in providing our clients the most up to date and accurate market data, so they can make informed business decisions. If you would like further information about any of the data in this self storage industry report or if you have additional commercial real estate valuation needs, please feel free to contact me using the information below.

Andrew Burns

Senior Associate Researcher

214.271.9170 (direct)

aburns@lowerypa.com

105 Decker Court Suite 1000, Irving TX 75062