MARKET TRENDS AND SECTOR OUTLOOK U.S. SELF STORAGE

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March 2023

Key Findings

Key indicators for self storage remained positive for 2022, despite a deceleration in rent growth and occupancy during the fourth quarter. Not only did market performance remain near record levels attained over the past two years, but self storage transaction activity remained steady in 2022.

- Transaction volumes hit a record high of $13.5B in Q4 2021 and remained over $2.5B per quarter through 2022. Average capitalization rates inched downward a record low 5% in Q4 2022, despite interest rate hikes.
- While net absorption activity was up 18.6% in the fourth quarter compared to the end of 2021, quarterly rental unit activity fell by 2.8% in Q4 2022; concessions increased 3.1% from last quarter and increased 8.5% from a year ago.
- Construction starts have continued to see strong growth throughout the year, increasing 7% from the prior quarter and 22% YoY, reaching a 10-year high of 31,600 square feet (sf) under development nationwide.
- Pricing reached a record high at an average price per square foot (psf) of $176 nationally in Q4 2022, with the highest valuations as tracked by Cushman & Wakefield reaching upwards of $930 psf.
- REITs performed well in 2022, while migration patterns catalyzed by the pandemic caused the market sector to recover at a faster rate than the normal self storage cycle, demonstrating the sector's resilience.
- The Cushman & Wakefield valuation index represents an aggregation of property data from nearly 1,200 properties throughout the U.S., reporting an aggregate market value of approximately $15B, or 4.2% of the total estimated market capitalization for self storage.
- Cushman & Wakefield's same-store indices show a year-over-year (YoY) increase in average market valuations of 4.6% for Investment Class A assets while Investment Class B properties increased 3.8% over the same period.

Self Storage Performance Index (SSPI), Cushman & Wakefield's proprietary index on the performance of the self storage sector, decreased 2.1% to 176.3 from the previous quarter, while remaining 7.4% higher than the previous year. The index remains near record levels.

Demographic trends and other secular demand drivers are still favorable to the performance of self storage, indicating that the sector will continue to post strong performance returns in the short- and long-term.

Investment Class Descriptions

Investment Class A: Located in a Top 50 MSA. Market has high barriers of 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. Professional onsite and off-site management. Minimum size of approximately 60,000 sf. Good location with access to attract tenants willing to pay rents in the upper percentile in the market.

Investment Class B: Located in a Top 100 MSA. Market has typical barriers to entry. Generally built since 1980 in average to good consideration with amenities typical for its market including secured facilities with gated access. Full time onsite and off-site management. Minimum size of approximately 40,000 sf.

Investment Class C: Either located in a secondary market or in a tertiary market. Generally constructed in 1970s or 1980s and in average to fair condition. Owner-managed or no onsite management. May or may not have typical amenities such as gated access, security cameras and/or climate-controlled units. May or may not have secondary access, locations with average to fair visibility.

In this report

01 CAPITAL MARKETS

INVESTMENT TRENDS

Self storage investment volume surged coming out of the COVID-19 pandemic, peaking at an all-time quarterly high of approximately $13.5B in the fourth quarter of 2021, which was largely comprised of large portfolio investments by institutional capital.

Transaction volume remained above $2.5B per quarter through 2022 despite the significant interest rate hikes that were deployed by the Federal Reserve beginning in March 2022, with a cumulative increase of 250 basis points (bps) to the Federal Funds Rate between March 2022 and February 2023.

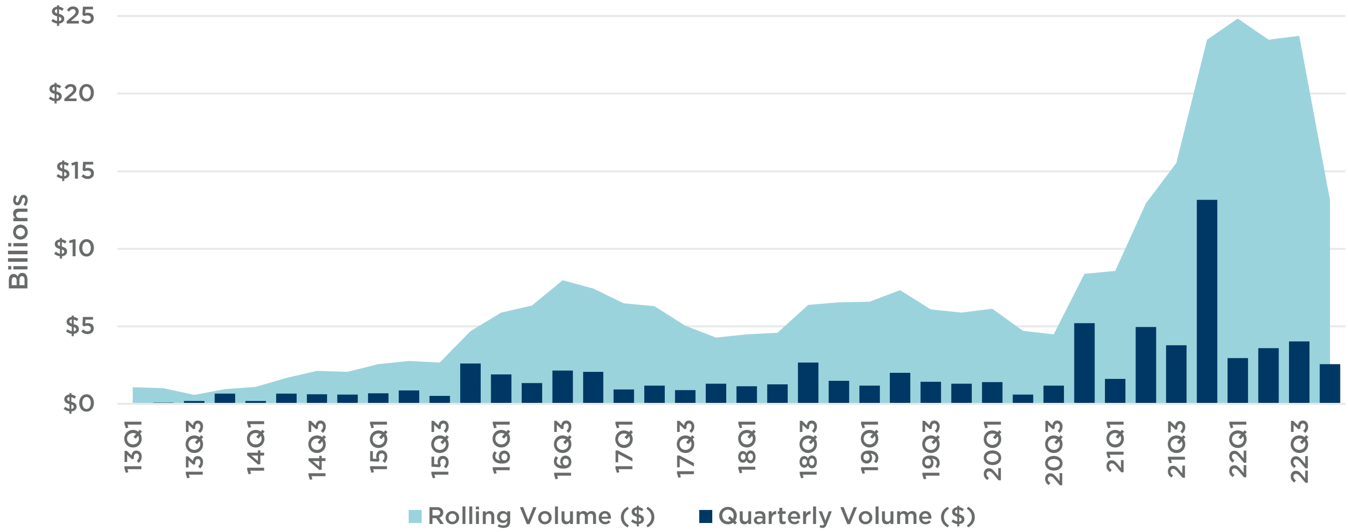
The fourth quarter 2022 trailing 12-month transaction volume subsided by nearly 44% from the 2021 peak of $23.5B, yet remained approximately 123% above the 12-month transaction leading up to the pandemic.

VALUATION TRENDS

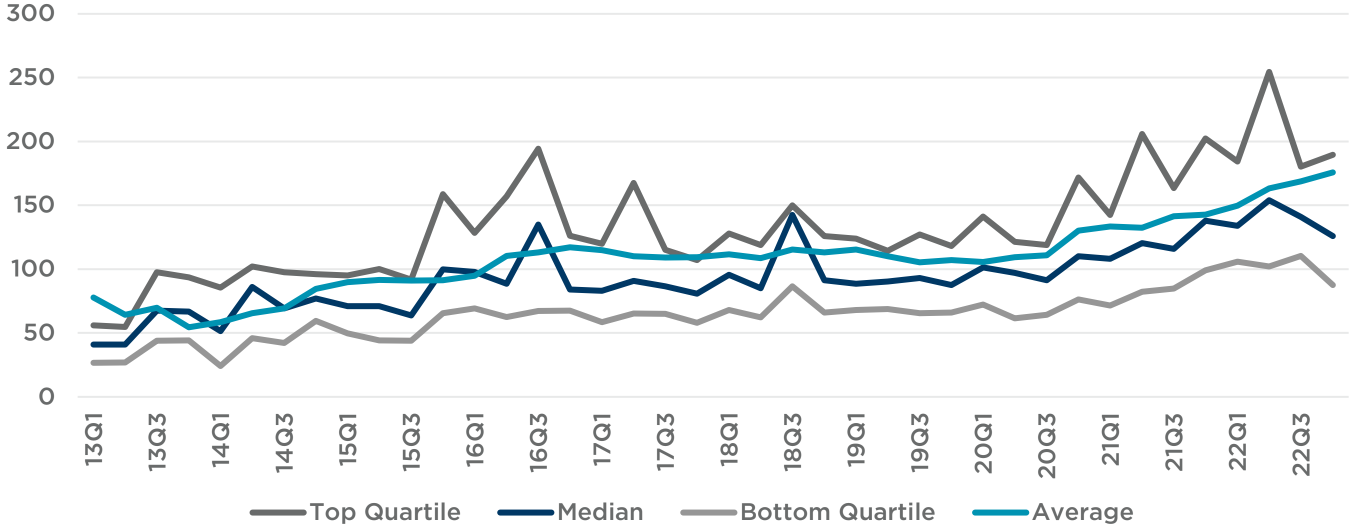
The average price psf reached an all-time high of $176 in the fourth quarter of 2022, marking nearly a 23% increase YoY. Pricing disparity also showed a significant increase; the difference in purchase price between the top quartile and bottom quartile in 2019 was $54 psf. By the end of 2022, this spread increased to $101 psf, 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.

TRANSACTIONS



PRICE PER SQUARE FOOT



Source: RCA and Cushman & Wakefield Research

INVESTMENT YIELDS

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. Self storage cap rates also remain substantially more compressed than those of all four major asset types.

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.

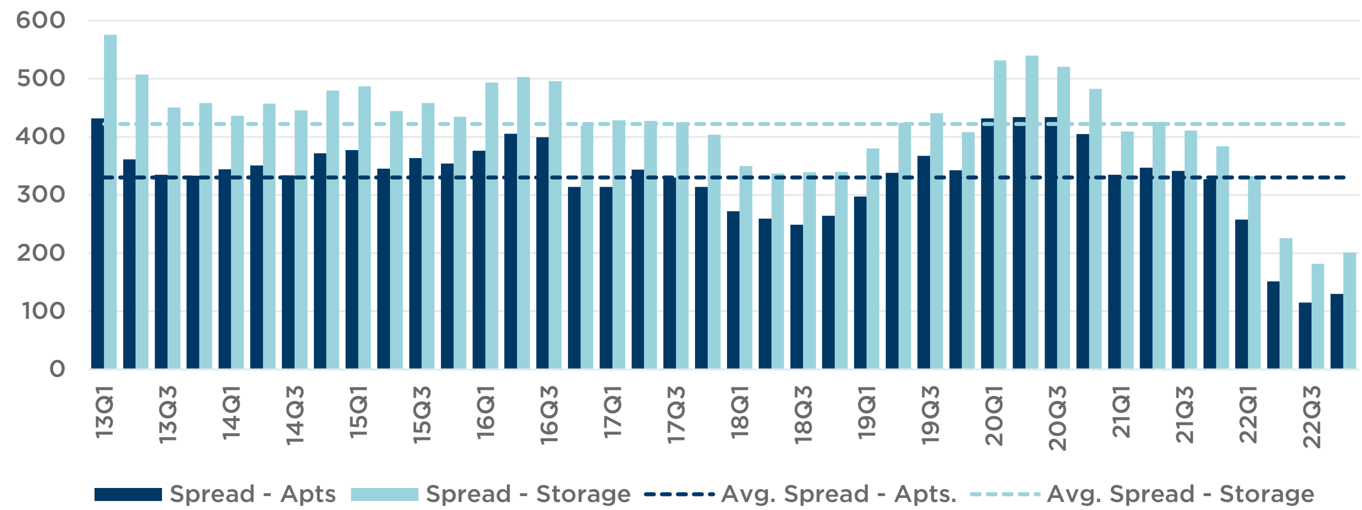
Looking at the 10-year average spread between capitalization rates and the 10-year treasury, the self storage sector has averaged approximately 406 bps, with apartments averaging 330 bps, a 76-basis point difference.

This indicates that, historically, investors have viewed apartments as providing a lower risk-adjusted return. As of the fourth quarter of 2022, the difference declined to just over 8 bps, with the spread between the average capitalization rate for self storage and the 10-year treasury reaching a 10-year low of 138 bps.

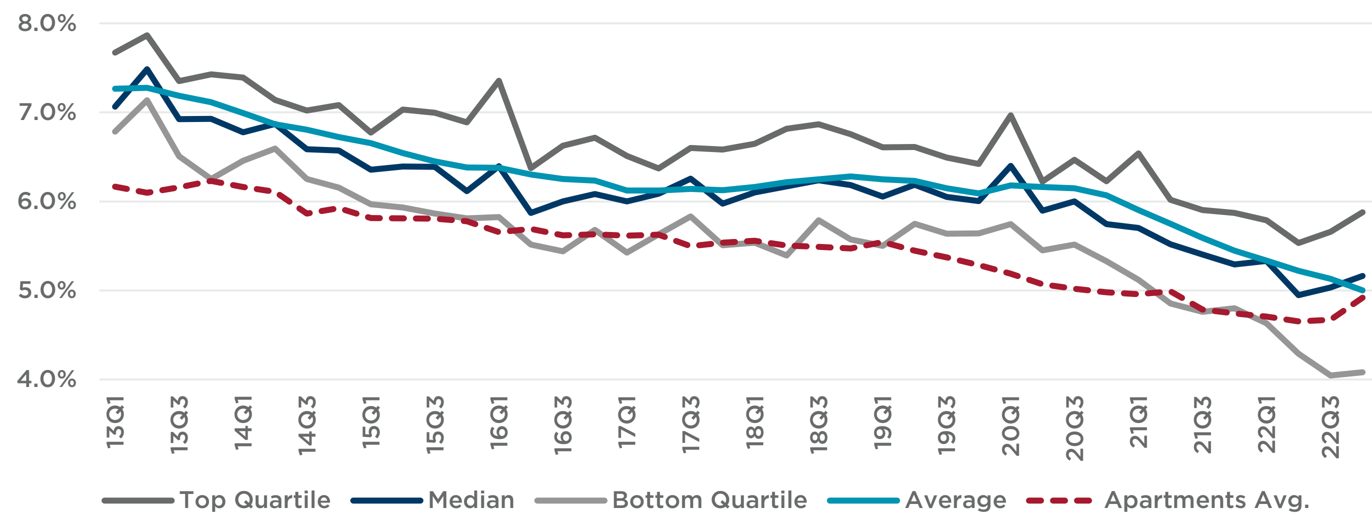
These trends indicate that upward pressure will be placed on self storage valuations in the near term. The median, upper and bottom quartile cap rates for self storage have already seen an uptick, of 13, 7 and 22 bps respectively, during the span of the fourth quarter.

Relative to other commercial real estate property types, investors view self storage—like a number of alternative asset types—as a relative safe haven during economic downturns, buoyed by countercyclical demand drivers. Current acquisitions are likely being underwritten with negative leverage with an increased focus on operational growth to substantiate the investment opportunity over the holding period of the asset(s).

CAPITALIZATION RATES VS. 10 YEAR TREASURY



SELF STORAGE CAPITALIZATION RATES



Source: RCA and Cushman & Wakefield Research

CAPITAL FLOW

Driven by robust consumer demand and a secular investment narrative, the self storage sector has gained significant interest from institutional investors.

Private capital represented 63% of 2022 self storage investment volume, with REITs representing the second-highest at 19% of total, followed by institutional capital at 12%.

Institutional investment in self storage picked up in 2018 and continued through year-end 2022. Publicly traded REITs and institutional capital also continue to gain market share as net investors in self storage, buying a combined $4.1B over the course of the year.

Private capital investors continue to be net sellers, dispositioning nearly $4.5B in 2022.

Considering the low cost of capital for REITs, continued investment in the sector will help maintain valuations, while providing long-term investment opportunities.

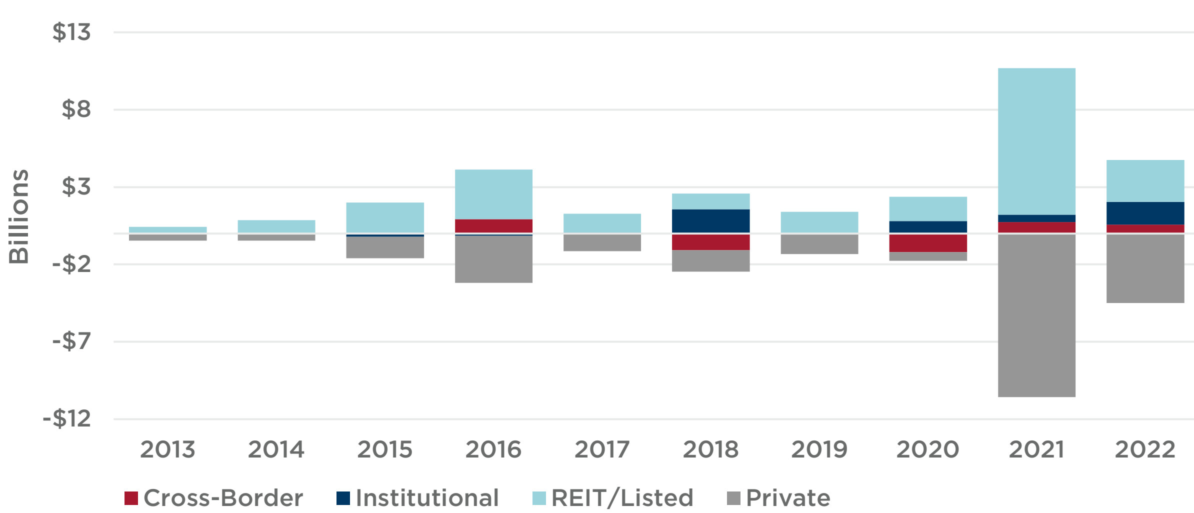
AVAILABILITY OF DEBT

As lender portfolio managers move to diversify their portfolios beyond industrial and multifamily, many (not all) are targeting alternative real estate assets. The stabilized cashflows and favorable market fundamentals of self storage are encouraging to lenders looking to diversify their portfolios while managing downside risk.

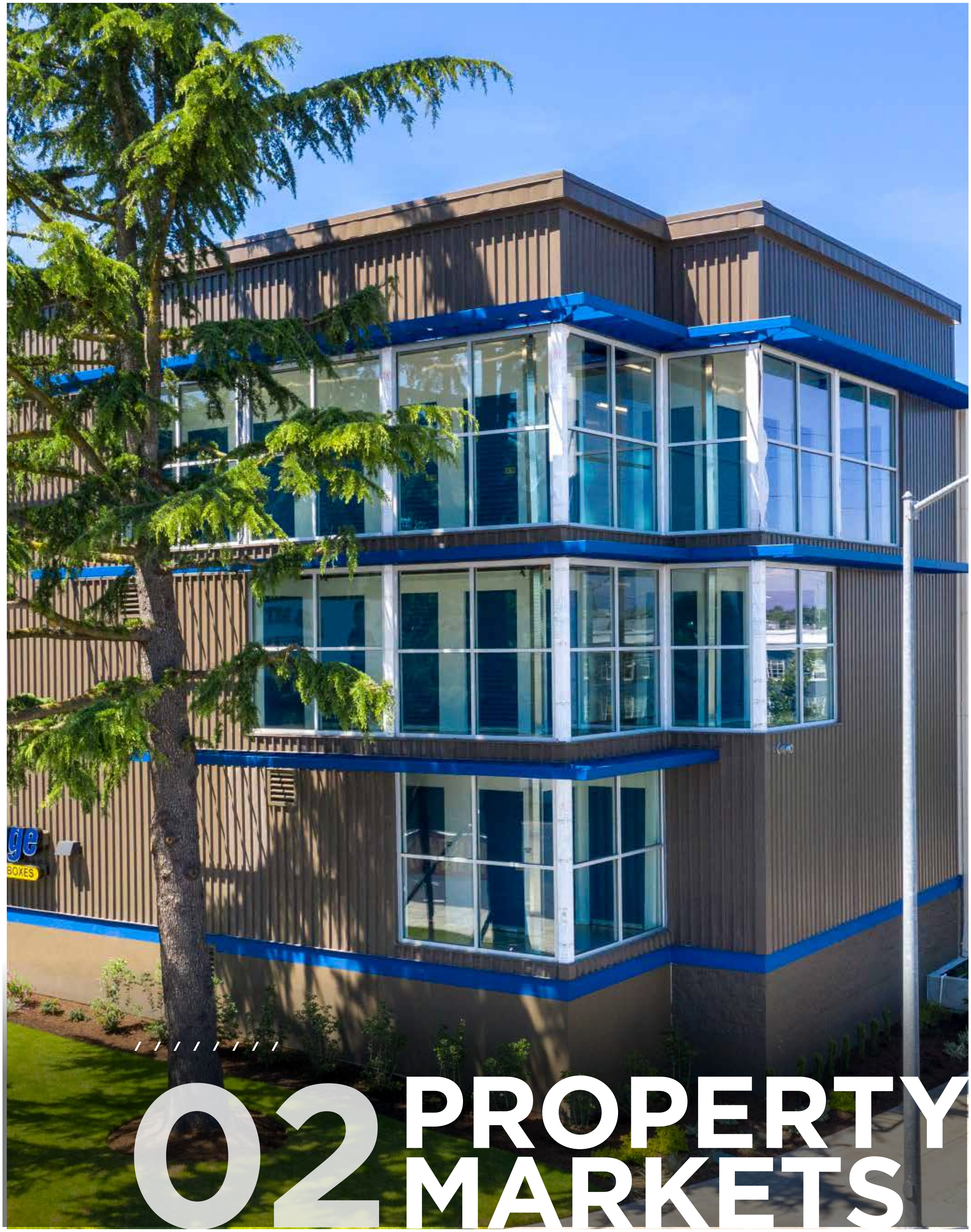
Life companies, CMBS and debt funds all have seen spreads compress in the last 30 to 60 days to various degrees; life companies' spreads are in the mid- to upper-100s; and self storage price with a slight premium of 15 to 20 bps. Warehouse line availability to lenders is returning and aiding spread compression for debt funds.

Market participants are beginning to regain confidence in valuations as spread volatility is subdued, despite the increasing likelihood of additional rate increases and rates staying higher, longer. Most lenders are predicting the first half of 2023 will have tepid activity and the expectation is volume will return in the second half of 2023, bringing much-needed liquidity back to the market.

NET ACQUISITIONS BY BUYER TYPE (BILLIONS)



Source: RCA and Cushman & Wakefield Research



02 PROPERTY MARKETS

OCCUPANCY

Average occupancy for self storage pushed above 90% in 2017 and has remained above that level since. The sector reached a peak occupancy of 93% in the first quarter of 2021, which was largely driven by increased migration flow, remote work, and a robust residential market.

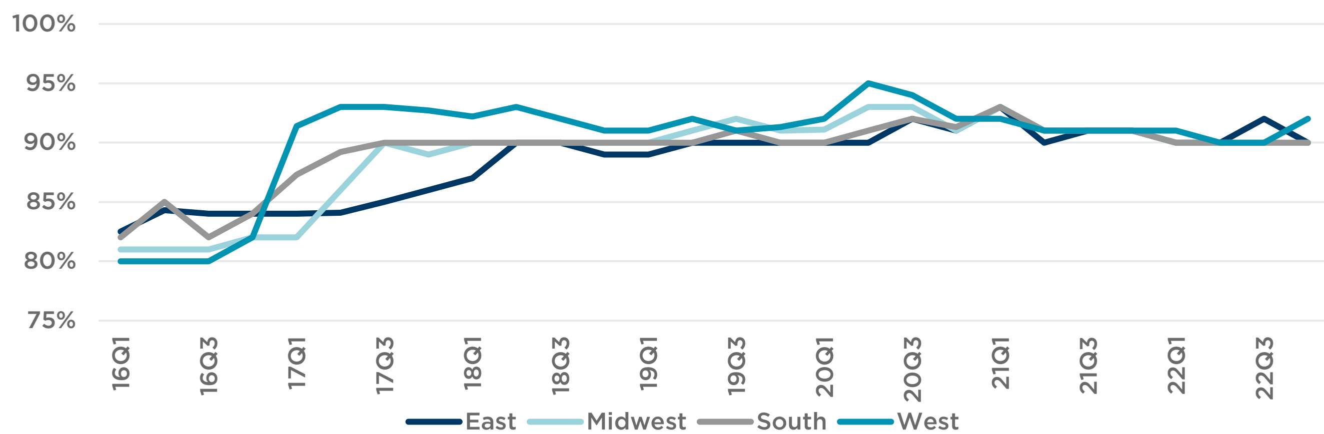
The declining home sales market, along with an influx of new supply coming online, has driven average occupancy to level out near 90% as of the fourth quarter of 2022. Robust net demand still remains in western markets and construction has subsided absorption of new product continues to remain strong.

ASKING RENTAL TRENDS

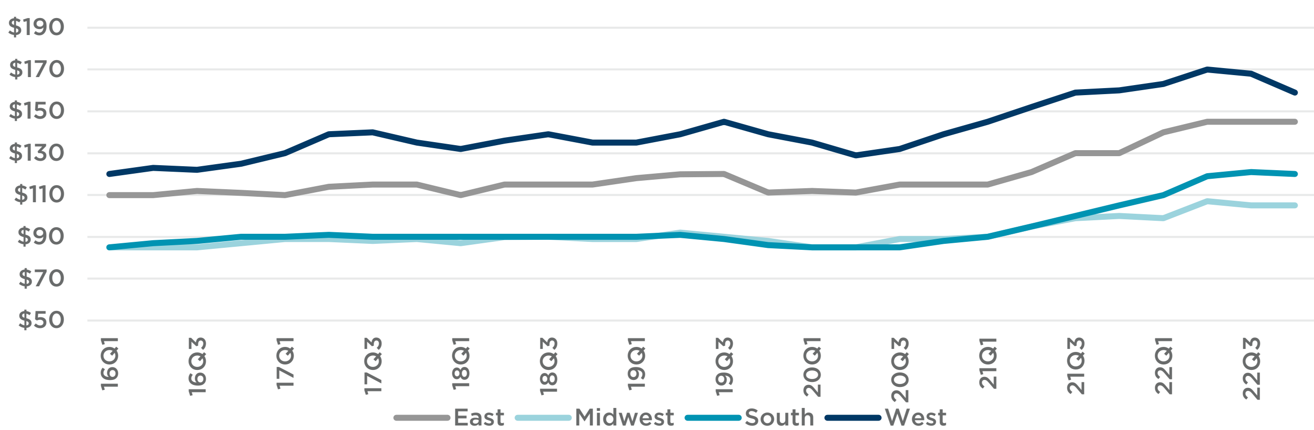
Rent growth surged in the immediate aftermath of the pandemic, reaching an average all-time high of $134 per unit in the third quarter of 2022, marking a compounded annual growth rate of 9.1% from the pre-pandemic average of $100 per unit reported for the fourth quarter of 2019. Rental growth tapered in the fourth quarter of 2022 as net demand softened, showing a decline of approximately 3% to a national average of $130 per unit.

On a regional basis, western markets achieved the highest average rent at $159 per unit. Western markets have also displayed the greatest decline in average rents, down 5.3% from the prior quarter. Average rents in the East, Midwest and South have all remained relatively flat. Overall, average rents remain approximately 30% above pre-pandemic levels.

OCCUPANCY TRENDS



ASKING MARKET RENT PER UNIT



Source: RCA and Cushman & Wakefield Research

CONSTRUCTION TRENDS

Construction starts have continued to see a strong growth throughout the year, increasing 7% from the prior quarter and 22% YoY. Cushman & Wakefield Self Storage Advisory is tracking 564 construction starts on a trailing four-quarter basis, which includes additions and renovations in addition to ground-up developments.

Construction starts continued to rise in the fourth quarter, reaching 10-year high of 31,600 sf under development nationwide, marking an increase of nearly 14% from pre-pandemic construction levels. However, 2022's total deliveries of 31.6 million square feet (msf) makes up only 1% of the total 2.7 billion square feet (bsf) of self storage space in the U.S.

ABSORPTION

Absorption for self storage generally varies on a seasonal basis, with peaks in activity during the autumn and spring, coinciding with trends in migration and major life events. The year 2020 saw a spike in self storage demand driven by pandemic-instigated moves with move-ins and move-outs returning to historical levels since then.

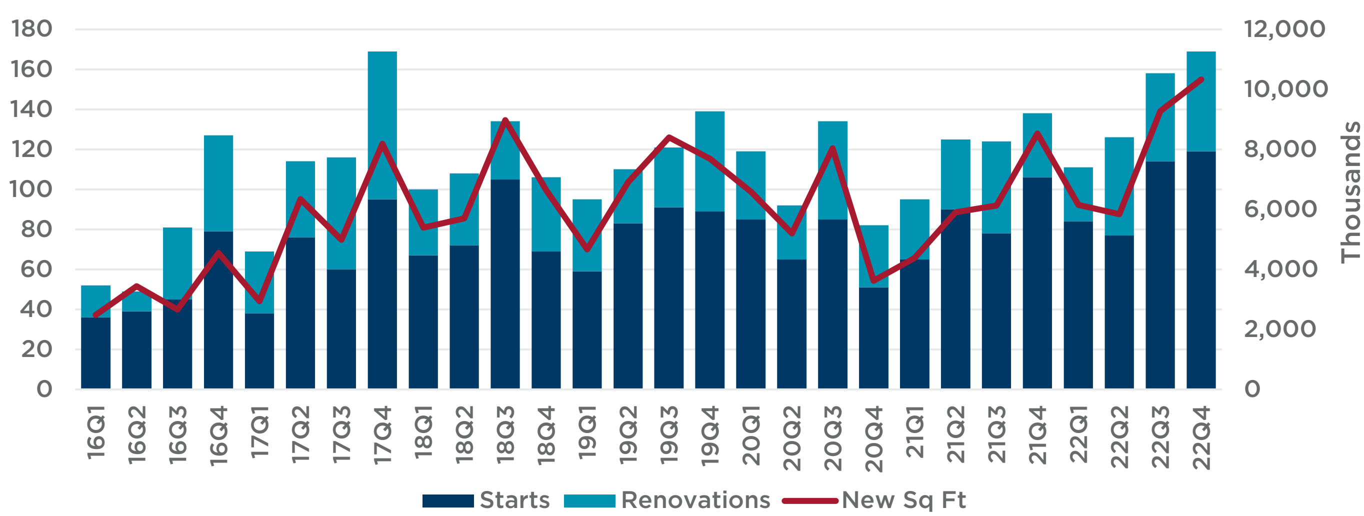
The Concession Cost Index indicates absolute change increased 2.2% compared to Q3 2022 and increased 18.1% over Q4 2021. The facilities offering concessions absolute change increased 3.1% from last quarter and increased 8.5% from a year ago. The Concession Cost Index increased to 163.9 in Q4 2022.

LONG TERM DEMAND TRENDS

Gen X is the highest percentage user of self storage space, with 54% of the generation leasing storage space according to surveys conducted by StorageCafe. As the Millennial generation (40% storage use) and Gen Z (25% storage use) age further into adulthood, their demand for storage space will also increase.

Millennials are a significantly larger cohort than Gen X, at 72 million people as compared to 65 million—a 10.8% increase in comparative population. The larger Millennial cohort combined with tight housing markets in many major cities will drive higher demand for self storage over the next decade.

CONSTRUCTION TRENDS



Source: RCA and Cushman & Wakefield Research

03 VALUATION INDEX

The Cushman & Wakefield valuation index represents an aggregation of property data from nearly 1,200 properties throughout the U.S. that are closely tracked by Cushman & Wakefield.

The aggregate market value of this proprietary dataset totals approximately $15B, or 4.2% of the total estimated market capitalization of $360B institutional self storage supply.

Investment Class A

Stabilized Indications	Lower Decile	Lower Quartile	Average	Mean	Upper Quartile	Upper Decile
Occupancy (%)	75	85	89	92	96	97
Effective Gross Rev. per NRA ($)	10.8	12.9	16.2	15.4	17.6	22.7
NOI per NRA ($)	6.7	8.8	11.7	11.3	13.5	17.2
Cap Rate (%)	4.5	4.5	5.1	5.0	5.5	5.9
Terminal Rate (%)	5.8	7.5	7.2	7.5	7.5	7.5
Discount Rate (%)	8.3	8.5	8.4	8.5	8.5	8.5
Value per NRA ($)	115.3	163.4	243.9	213.6	281.2	427.7

Investment Class B

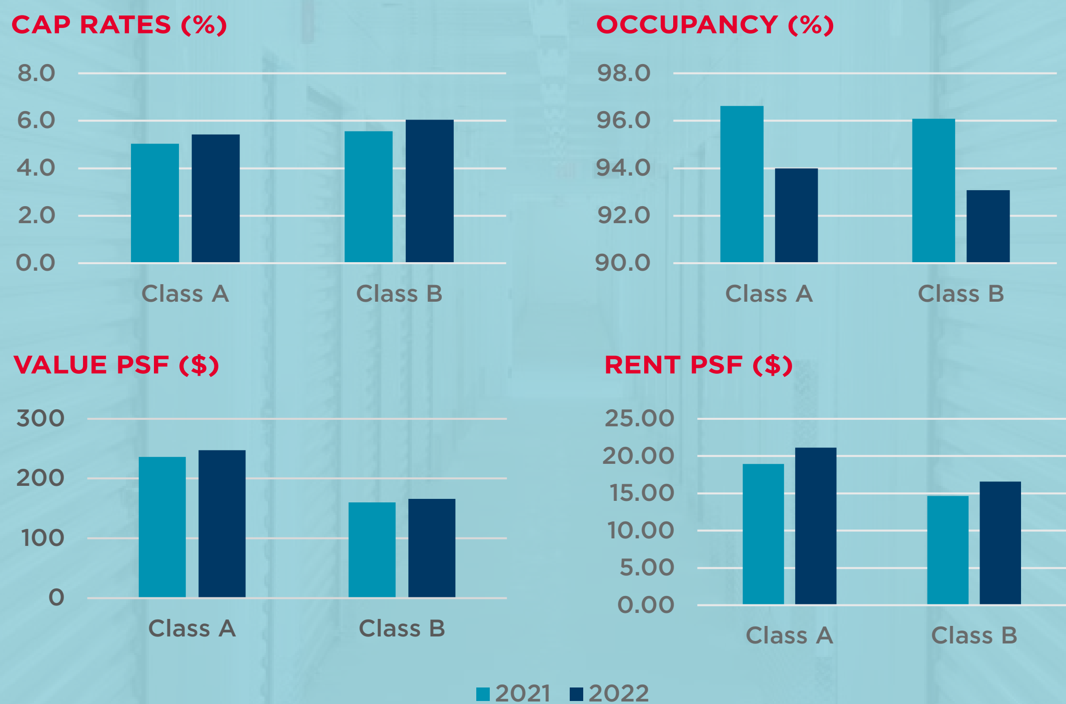
Stabilized Indications	Lower Decile	Lower Quartile	Average	Mean	Upper Quartile	Upper Decile
Occupancy (%)	83	88	91	93	97	99
Effective Gross Rev. per NRA ($)	6.8	8.4	11.2	10.1	12.7	16.9
NOI per NRA ($)	1.4	3.8	6.0	6.3	8.4	12.4
Cap Rate (%)	4.8	5.3	5.8	5.8	6.0	6.5
Terminal Rate (%)	6.3	7.5	7.2	7.5	7.5	7.5
Discount Rate (%)	8.5	8.5	8.5	8.5	8.5	8.8
Value per NRA ($)	27.1	82.6	127.6	118.3	152.5	219.8

Investment Class C

Stabilized Indications	Lower Decile	Lower Quartile	Average	Mean	Upper Quartile	Upper Decile
Occupancy (%)	80	87	92	94	98	100
Effective Gross Rev. per NRA ($)	4.4	6.1	8.3	7.1	9.1	11.8
NOI per NRA ($)	2.8	3.3	4.9	4.2	6.0	8.8
Cap Rate (%)	5.7	6.3	6.5	6.5	7.0	7.0
Terminal Rate (%)	7.2	7.5	7.4	7.5	7.5	7.5
Discount Rate (%)	8.5	8.5	8.7	8.5	8.5	9.4
Value per NRA ($)	35.3	51.8	83.0	74.4	106.5	140.2

Source: Cushman & Wakefield Research

SAME STORE ANALYSIS



Cushman & Wakefield directly tracks operating performance of nearly 11,000 self storage properties, representing an estimated 55% of the overall market, and published in the Cushman & Wakefield Self Storage Performance Quarterly (SSPQ).

Regional Market Performance

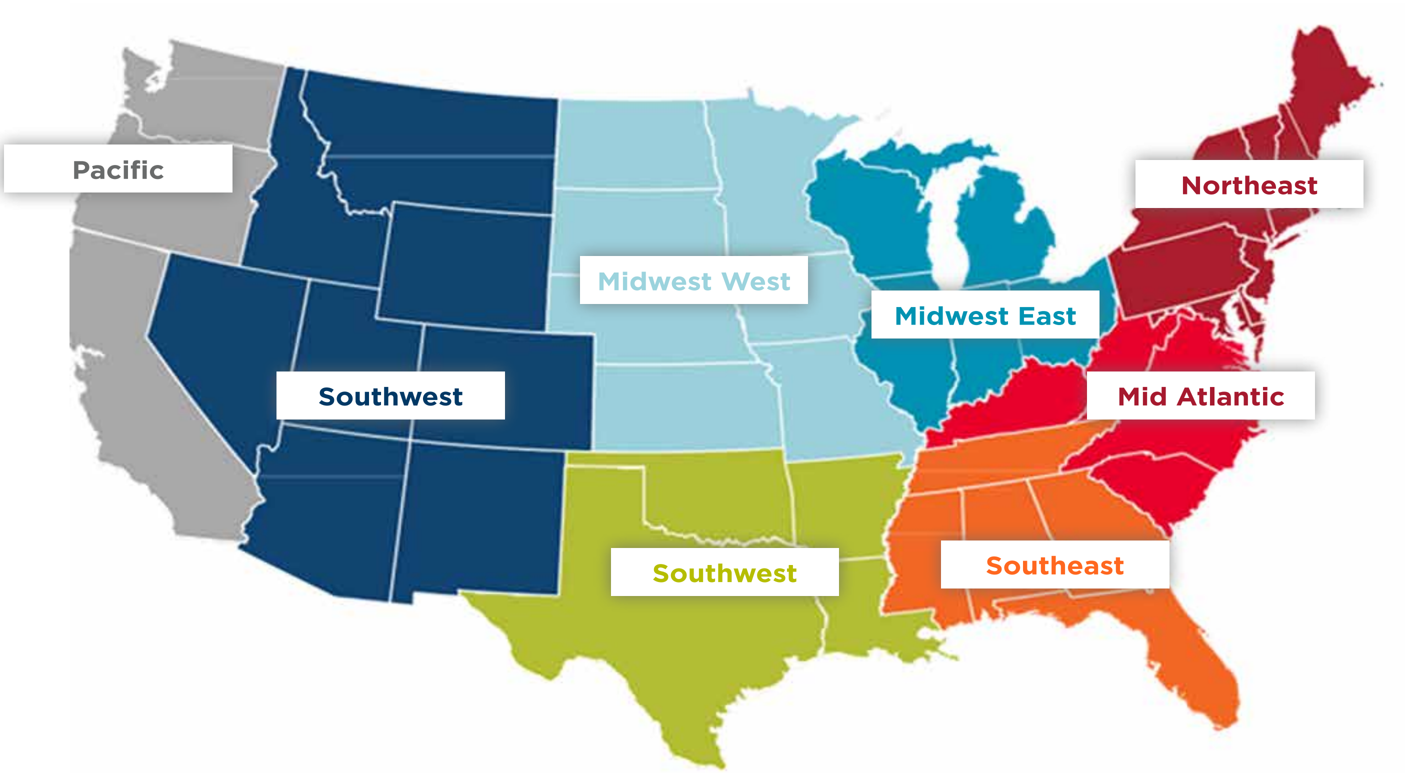
Region	Northeast	Mid Atlantic	Midwest East	Midwest West	Southeast	Southwest	Mountain	Pacific
Physical Occupancy	91.8%	91.8%	90.4%	90.1%	91.6%	90.2%	89.9%	91.0%
Rent per Available SF	$1.41	$1.13	$0.93	$0.86	$1.18	$0.95	$1.15	$1.59

Source: Cushman & Wakefield Self Storage Property Index (SSPI)

Regional Market Performance Index - Q4 2022 vs. Q4 2021

Region	U.S.	North-east	Mid Atlantic	Midwest East	Midwest West	South-east	South-west	Mountain	Pacific
Physical Occupancy	-1.0%	-1.0%	1.0%	0.0%	-4.0%	-2.0%	0.0%	-2.0%	4.0%
Rent per Available SF	5.7%	9.7%	7.2%	6.3%	-11.7%	10.7%	10.1%	-1.5%	1.0%
Percent Offering Concessions	78.0%	-5.3%	80.7%	73.2%	73.7%	80.4%	70.5%	76.6%	88.7%
Effective Cost of Concessions	8.2%	7.3%	8.2%	7.6%	9.7%	8.6%	8.1%	0.0%	8.6%

Source: Cushman & Wakefield Self Storage Property Index (SSPI)



04 SELF STORAGE OUTLOOK

MARKET OUTLOOK

Secular demand trends will continue to drive favorable long-term results for self storage. The recent pandemic challenged economic and social norms, having a profound impact on all commercial real estate sectors, yet pushed self storage economics to all-time highs. As the market returns to more normalized levels, primarily driven by the Fed's interest rate hikes, secular factors such as population growth, increase divorce rates, migration and work patterns will continue to drive demand and produce favorable returns to investors.

In the near-term, increased interest by institutional investors will help keep valuations stable and drive additional consolidation. As the self storage sector evolves with new technologies, that include artificial intelligence and automation, to help maximize operating efficiencies and create more certainty in operating cashflows, interest from institutional investors will increase, and they will be looking to invest at scale. Acquisitions of smaller, local operators in the space will likely continue—as large, institutional-backed entities look to increase geographic scope while growing economies of scale.

The Cushman & Wakefield Self Storage Performance Index (SSPI) remains near historically high levels, despite some dips in occupancy during the fourth quarter. Short-term strength will be determined by the seasonal growth of move-ins during the Spring with Cushman & Wakefield expecting favorable long term demand fundamentals and investment trends.

SUSTAINABILITY

The self storage sector has experienced increased interest in sustainability in recent years, primarily by publicly listed companies or those funded by institutional investors. As a result, major operators are setting carbon reduction targets in their public statements. These objectives are beginning to be displayed by recent construction and design trends. The first LEED Platinum certification was issued in 2019, with Cushman & Wakefield currently tracking 38 self storage assets in the U.S. that have achieved some level of LEED certification.

Self storage companies are marketing their environmental credentials as a point of difference from the competition. However, evidence that customer purchase decisions are influenced by the environmental credentials of the business or building is currently lacking. This could change as more data becomes available and the environmental movement continues to gain momentum with the public.

While the self storage industry is moving to become more environmentally sustainable, the sector is still at the beginning of this journey. The pace of change and long-term impact this will have on the industry remains to be seen, but the outlook is positive.

CONTRIBUTORS

Self Storage Advisory

Michael A. Mele
Executive Vice Chairman
+1 813 462 4220
mike.mele@cushwake.com

Luke Elliott
Vice Chairman
+1 813 462 4212
luke.elliott@cushwake.com

Valuation & Advisory

Tim Garey, MAI
Self Storage Practice Lead
+1 503 279 1787
tim.garey@cushwake.com

Zach Bowyer, MAI, MRICS
Head of Living Sectors
+1 617 512 3266
zach.bowyer@cushwake.com

Research

Jacob Albers
Global Think Tank
+1 312 424 8086
jacob.albers@cushwake.com

Edward Marbach
Senior Platform Manager
+1 626 355 8242
edward.marbach@cushwake.com

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