RESEARCH BRIEF

Marcus & Millichap

SELF-STORAGE | **JUNE 2022**

Lifestyle Changes Bolster Storage Use; Fed Policy and Inflation Influence Outlook

Some pandemic-era demand drivers exhibit staying power. An abrupt switch by most traditionally office-using employers to remote schedules in 2020 translated to a sharp increase in demand for self-storage space as workers created their home offices. Though most major metros have since rescinded lockdown restrictions, the return to the office has made slow progress, with many firms continuing to operate with a significant remote component. As 74 percent of domestically-based companies profess plans to employ some form of hybrid work strategy, many temporary home offices will become permanent workspaces, likely cementing needs for self-storage units. While vacancy has shifted upwards in recent winter months, these trends could keep long-term availability below pre-pandemic levels.

Sector well-positioned to withstand inflationary headwinds. While ongoing supply chain pressures indicate that the elevated inflation environment could extend into 2023, core retail sales still picked up 3.2 percent year-over-year in April on an inflation-adjusted basis. Both home furnishings and clothing retailers observed record sales volume and elevated foot traffic in April, maintaining consumption well above pre-pandemic norms, despite higher prices weighing on consumer sentiment. With these two categories cited among the most commonly found items in storage units, purchasing in these segments should support rental usage as some older goods are placed away for safekeeping.

Asset resiliency could be a hedge in uncertain times. Although consumer activity is still upward trending, inflation has generated some concern in the near-term economic outlook. Self-storage has weathered past downturns supported by unique counter-cyclical demand factors, including use stemming from household contraction and necessity-based relocations. Because most self-storage units are leased on a monthly basis, asset operators have greater flexibility to adjust rents according to market trends, including inflation. Following the financial crisis, nationwide vacancy returned to the pre-2008 rate in 2011, well ahead of other property types.

Investment Trends:

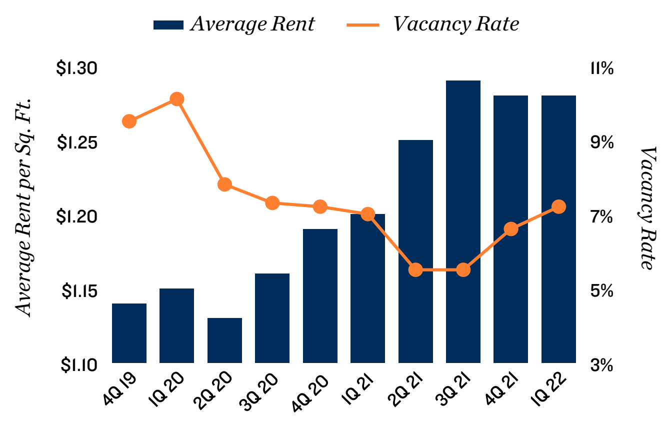
Shifting buyer profile translates to fierce bidding behavior. Identifying the segment's higher first-year returns compared to some other property types, buyers drawn to self-storage supported a 13.5 percent nationwide pricing gain in 2021. Some traditional self-storage investors have expanded selection criteria in response to the competitive environment. Besides acquiring assets in tertiary markets, many buyers have begun to execute value-add strategies on older facilities involving renovations and technological upgrades.

Rising interest rates heighten need for due diligence. After rising 75 basis points so far this year, several additional Federal Funds Rate hikes are still on the table. While fundamental outlooks are still firmly positive, some institutions plan to ease acquisitions until interest rates settle into a new normal. Private equity buyers are more flexible, and could take up a larger share of deals in the near future. Mounting capital costs have also prompted more diligence on behalf of owners and lenders. Prospective sellers are prioritizing buyers with an established transaction history and financing relationships.

8.2% *Annual CPI Inflation as of April 2022*

3.2% *Annual Change in Real Core Retail Spending as of April 2022*

Fundamentals Still Exceed Pre-2020 Norms



Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; Federal Reserve; Radius+; U.S. Census Bureau; Yardi Matrix; Zippia