

# SELF STORAGE MARKET OVERVIEW

Q3 2023



## SELF STORAGE MARKET UPDATE

Self storage is a stable, durable and resilient sector, outperforming all other real estate investment sectors over the last +20 years. Outsized returns have attracted significant sophisticated institutional capital. Yet, despite the sector's strong performance, data remains uneven and fragmented, presenting a significant challenge for investors as they analyze demand, operational trends, rental rates and other industry metrics.

Understanding self storage fundamentals is particularly important when market conditions deviate substantially from the norm. Record high self storage occupancy and revenue growth, a +20% increase in rate-of-use and an extended average length of stay— all coupled with new construction starts at a decade-long low—have driven recent excess returns, though, quarter-over-quarter and year-over-year comparisons will now be pressured. Additionally, in a sector where tenants are on 30-day leases, it remains challenging to forecast revenue.

Self storage has generally been considered an efficient inflation hedge, which proved true throughout the pandemic as the short lease-term leases enable operators to adjust rents rapidly and frequently. However, as inflation and demand cool, market rates across the sector have fallen as much as 30% from the highs of the fourth quarter of 2021, though impact to net operating income has been limited given occupancy rates remain high and lengths of stay remain longer than the historical average. Longer-term, the number of customers seeking self storage space is expected to continue to increase, underpinning positive revenue growth expectations.

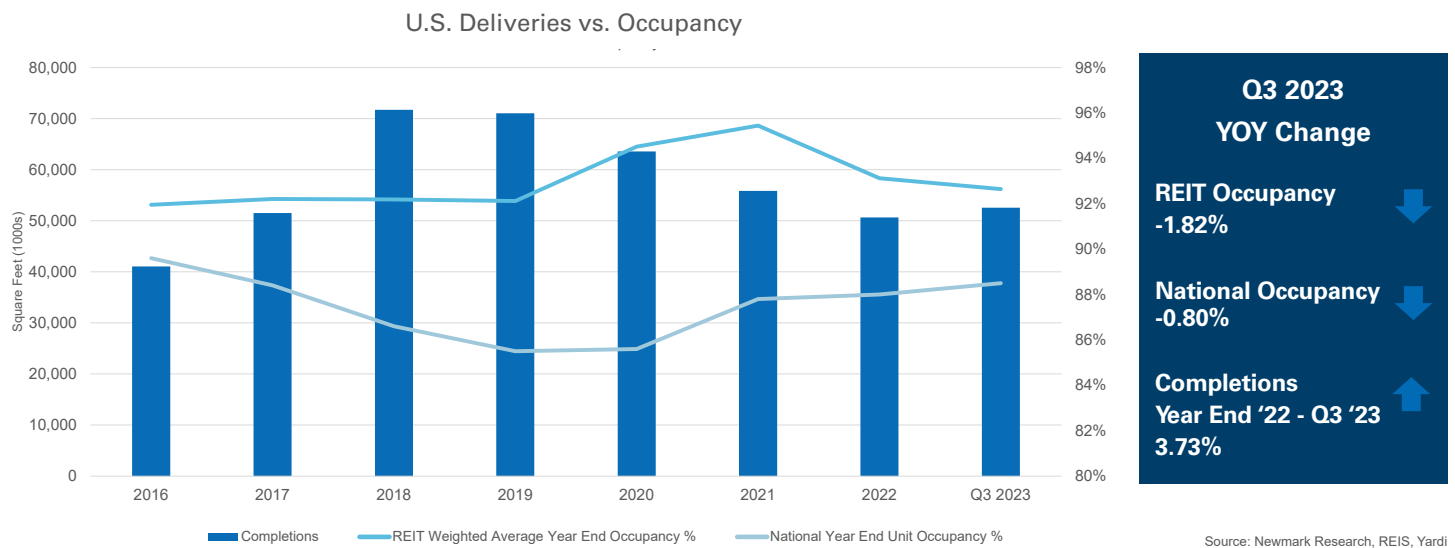
The self storage market should continue to normalize into 2024, with traditional seasonality—troughs and peaks between February and August, lengths of stays more in line with 2019 patterns and street rates that oscillate into a broader range. For those who have been invested less than four years in the sector, 2023 and 2024 will screen softer than recent trends. However, wider fluctuations in operating fundamentals will create more month-to-month volatility, enabling revenue management platforms to maximize rental rate growth and revenue efficiency. Supply will remain tight, underpinning rates and supporting a favorable supply/demand equilibrium.

In addition to the normalizing operating environment, capital markets continue to return to a more functional state. With a relatively healthy consumer, a strong job market and residential mortgage rates beginning to compress, pent-up housing mobility will spark even more demand for self storage. In a more stable operating landscape, commercial real estate borrowing costs will also compress, bolstering confidence, spurring transactions, and narrowing the bid-ask spread.

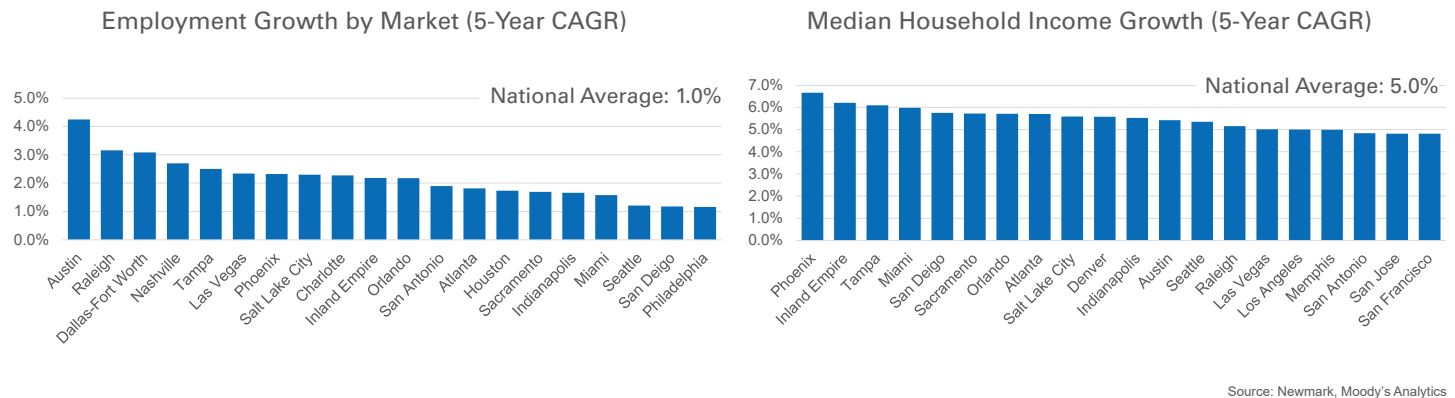
The following report contains key metrics, with commentary, regarding the self storage industry for 3Q2023. Newmark will publish revised analysis and commentary quarterly, based on a consistent data set to ensure meaningful quarter-over-quarter comparisons.

## SUPPLY & DEMAND

The biggest headwind facing the self storage sector is maintaining the high levels of occupancy that became the norm throughout the pandemic. As occupancies soften due to normal seasonality, the pressure on street rates continues. Prior to the pandemic, the biggest obstacle in the sector was new supply. The next table shows the evolution of a supply constrained industry pre-pandemic, into a highly occupied, thriving sector that benefited from new capital entering the space and existing capital increasing allocations. Pipeline supply decelerated throughout the pandemic due to supply chain constraints, increased labor costs, increased material costs and, more recently, increased borrowing costs/more onerous loan terms. As those headwinds abate, delivery counts will increase, although the lag in the development pipeline will lead to a controlled pace of delivery of new supply which will be less disruptive than the mass-deliveries the industry saw in 2017/2018.

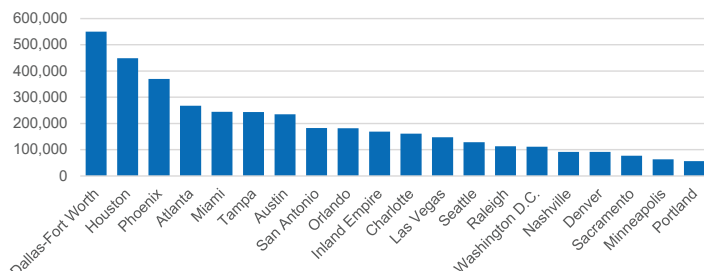


Given the strong correlation between microeconomic trends and self storage fundamentals, understanding the underlying metrics of consumer behavior is paramount in both portfolio construction and investment decisions. The following graphs highlight the top 20 markets for consistent growth in three main areas – employment, household income and population – with the sunbelt and southern markets consistently holding a majority of the top spots.

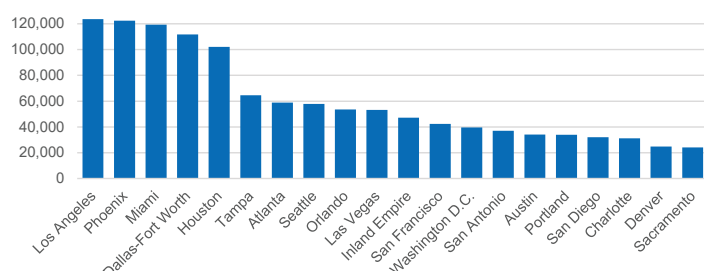


Broad migration trends often show movement from higher cost of living locations to more affordable and tax friendly locations along the sunbelt and south-southeast markets, which has led to stronger self storage fundamentals in those markets. While performance for self storage is decelerating across all markets, muted new supply and the supportive microeconomic trends will provide relative stability.

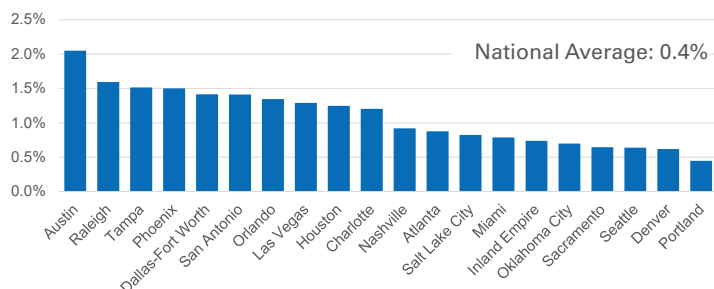
Population Growth (Trailing 5-Year Total)



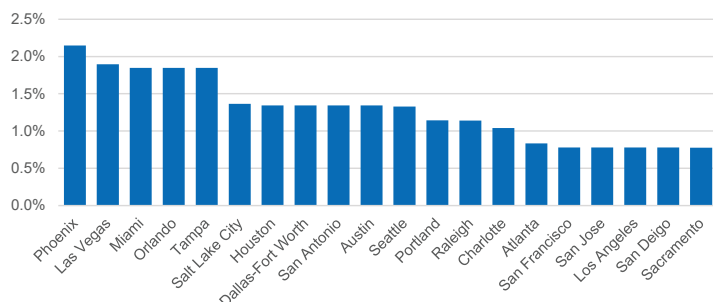
Population Growth (Q3 2023 YOY)



Population Growth Rate (Trailing 5-Year CAGR)



Population Compound Annual Growth Rate to 2030



Source: Newmark, Moody's Analytics

## U-HAUL 2022 TOP 10 GROWTH MARKETS RANKED BY MIGRATION

U-Haul publishes an annual ranking of one-way truck rental destinations by both city and state. As expected, the sunbelt holds several of the top spots, with a Florida city ranking first for the third consecutive year. The report identifies California at the bottom of the State list, with the most outbound demand, followed by Illinois.

### Top Growth States

- |                  |             |
|------------------|-------------|
| 1 Texas          | 6 Tennessee |
| 2 Florida        | 7 Arizona   |
| 3 South Carolina | 8 Georgia   |
| 4 North Carolina | 9 Ohio      |
| 5 Virginia       | 10 Idaho    |

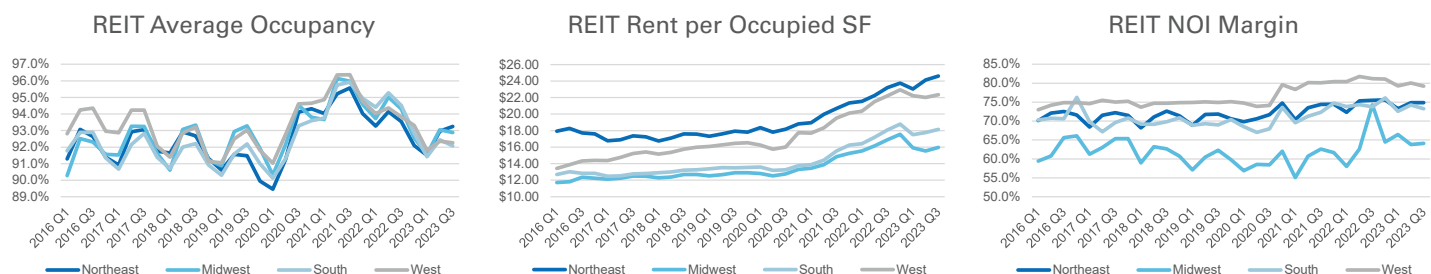
### Top Growth Cities

- |                            |                    |
|----------------------------|--------------------|
| 1 Ocala, FL                | 6 North Port, FL   |
| 2 Sacramento-Roseville, CA | 7 Myrtle Beach, SC |
| 3 Madison, WI              | 8 Surprise, AZ     |
| 4 Palm Bay-Melbourne, FL   | 9 Huntsville, AL   |
| 5 Auburn-Opelika, AL       | 10 Charleston, SC  |

Source: U-Haul

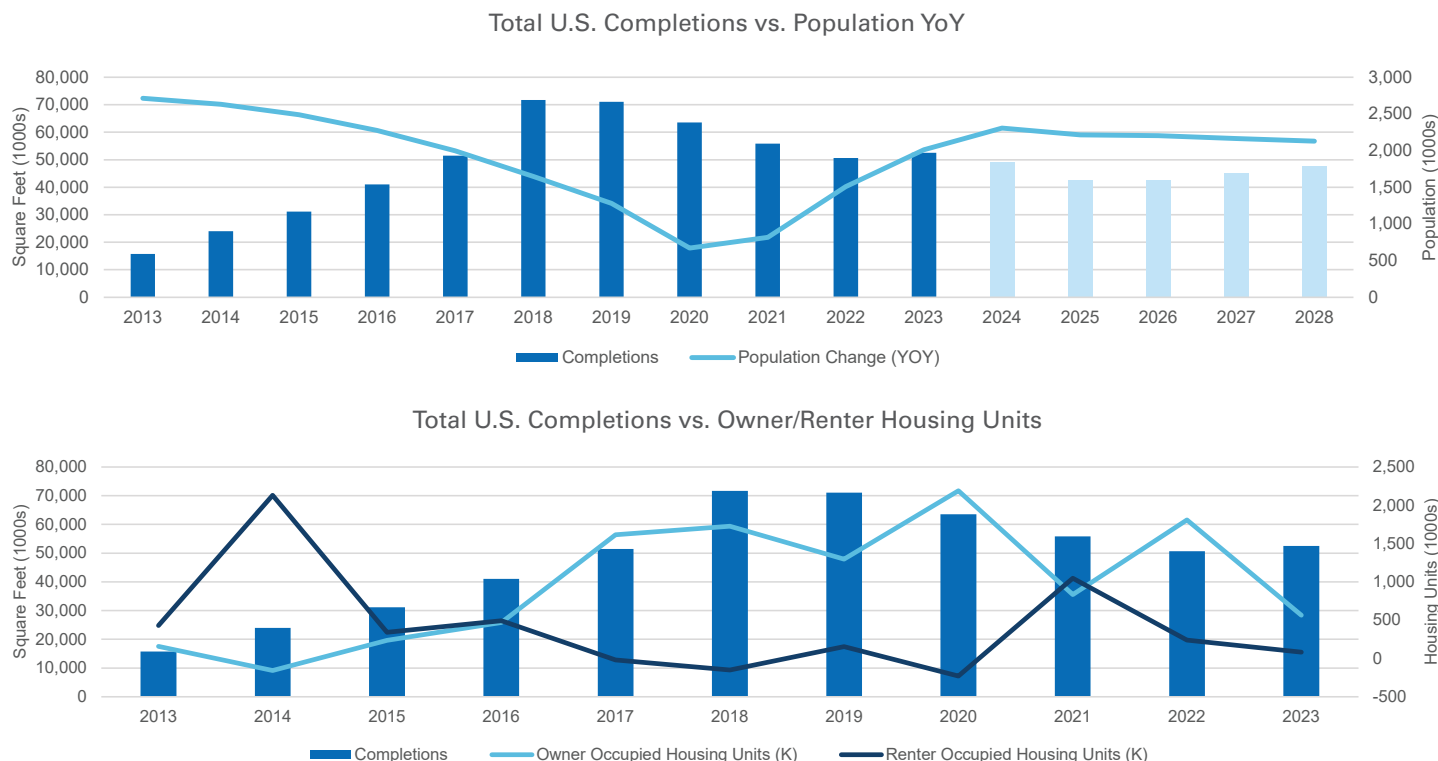
## SELF STORAGE REIT DATA

Market rental rates for both the publicly operated REITs and for private operators have decreased significantly from the 4Q21 peak. However, in-place rents remain strong and continue increasing as tenants who move-in at the lower street rents are brought to market quickly through increasingly sophisticated revenue management systems. The current market rents are viewed as a temporary concession, while overall revenue is increasing at a more moderated pace. The industry is just now reaching the plateau of peak net operating income after a long period of historic increases. The fourth quarter could be the earliest the industry sees declines in net operating income on a year over year basis.



## SELF STORAGE SUPPLY & POPULATION GROWTH

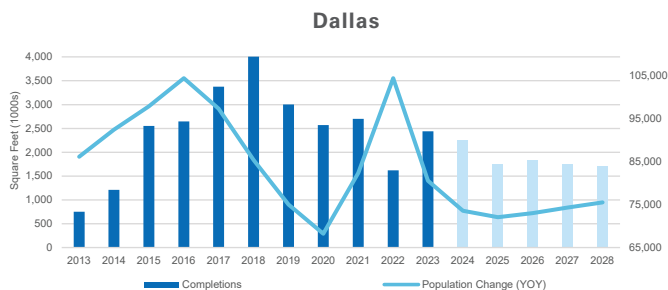
Population growth across the U.S. slowed during the pandemic as immigration was halted and overall migration paused, however, it quickly rebounded in the direction of historical levels. 2023 was the first-year population growth outpaced new self storage development completions since prior to the oversupply seen pre-pandemic, largely due to constraints on the development space discussed earlier. Also seen in the graphs below is the change in homeownership rates relative to renters, which highlights the drastic drop in homeownership throughout the pandemic as housing prices skyrocketed; however, this has normalized to pre-pandemic levels today.



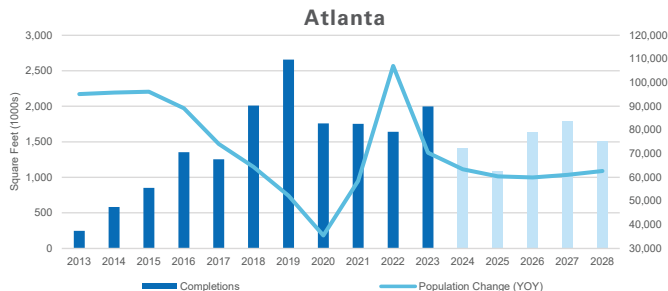
The following graphs show historical and future projected self storage deliveries compared to population growth. The top five markets are ranked in order of the highest total square feet of new supply delivered on the left and highest projected population growth on the right. Not surprisingly, most of these markets also appear on the top microeconomic growth charts previously discussed.

## RANKED BY NEW SUPPLY

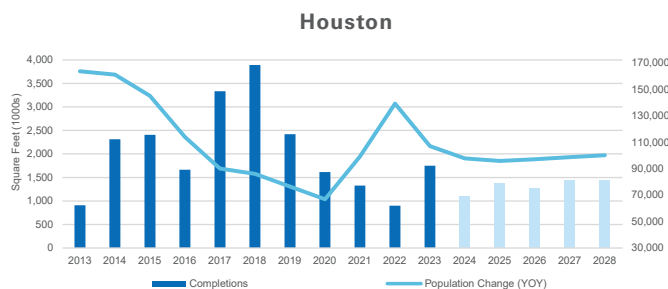
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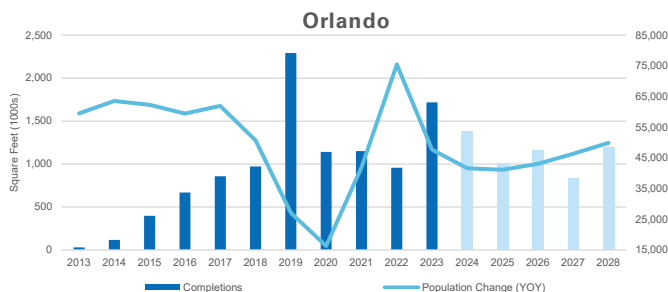
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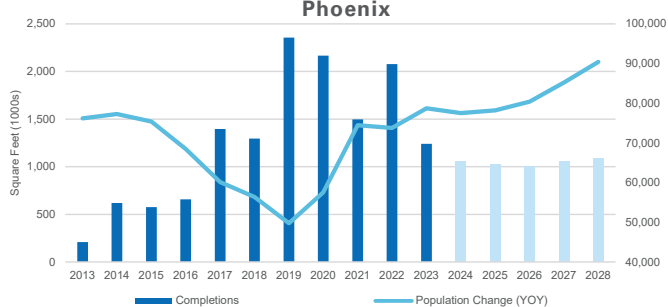
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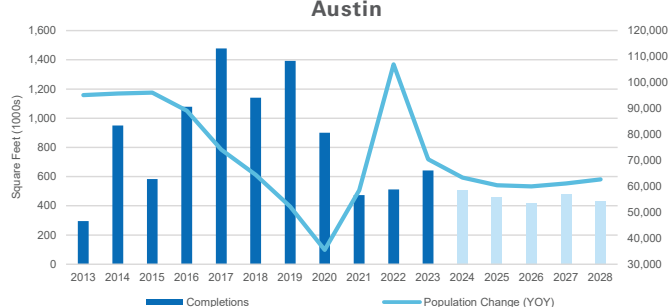
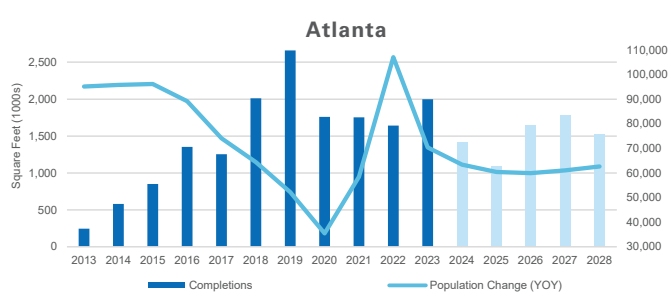
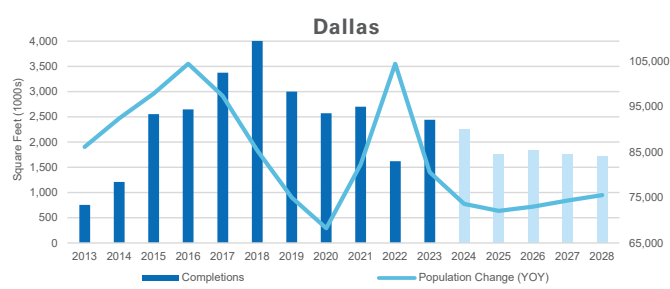
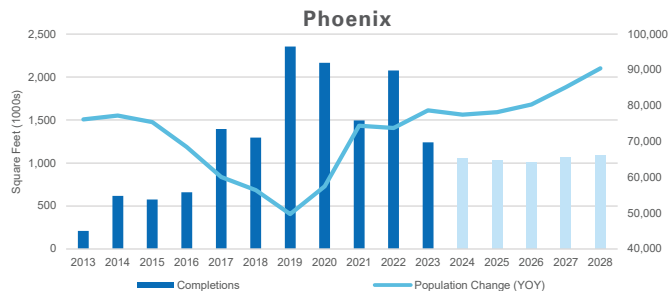
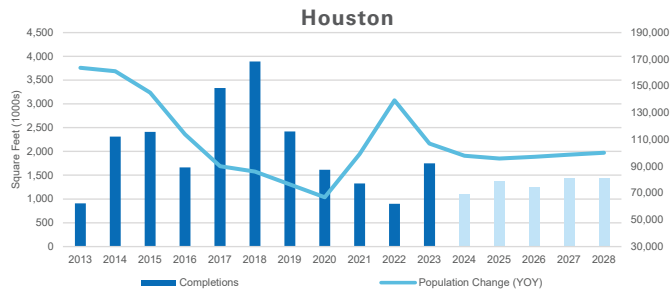
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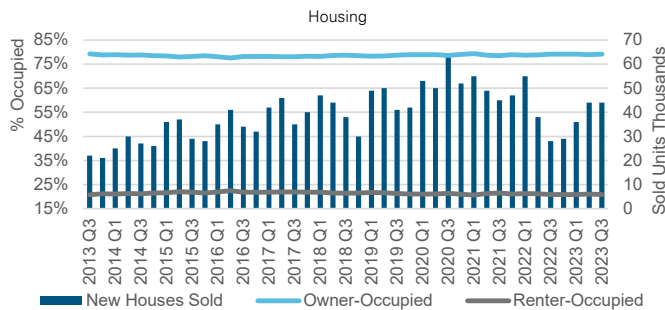
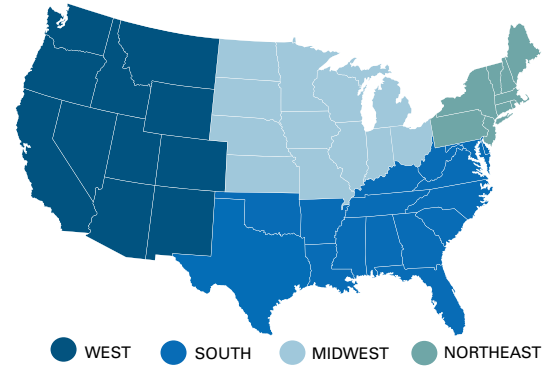
## RANKED BY POPULATION GROWTH



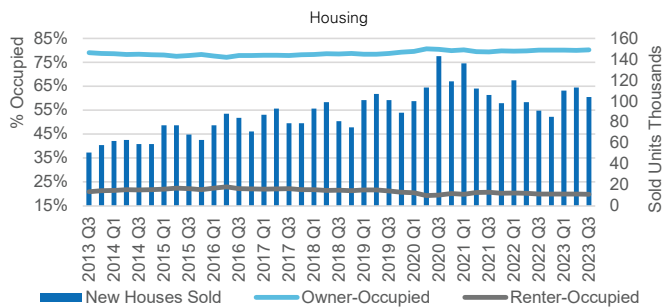
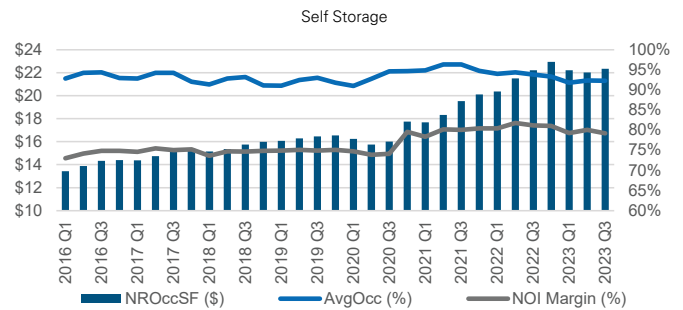
Source: Newmark, REIS, Yardi

## HOUSING & SELF STORAGE TRENDS BY REGION

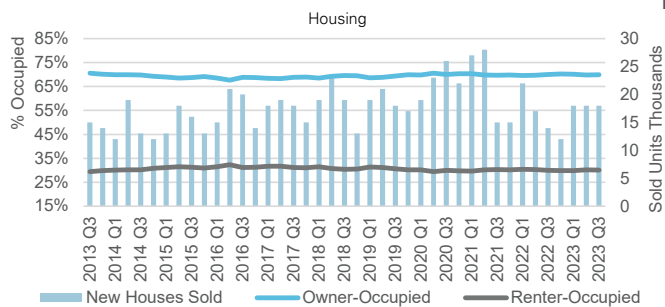
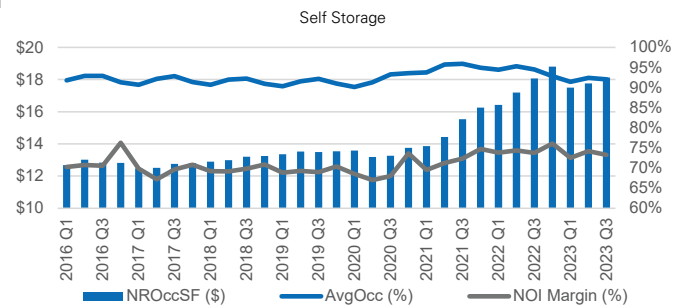
As new home sales soared during the pandemic, particularly in the South, the self storage industry saw record demand, allowing operators to push rents and expand margins. As the Federal Reserve began the fastest rate hike cycle in decades, mortgage rates rose to a multi-decade high of +7% by 3Q22, resulting in a return to more typical renting patterns. As a result, home sales activity across all regions started to decline. The regions that saw the most explosive self storage growth due to changing migration patterns, also saw the largest declines from peak. The correlation between home sales activity and self storage demand can be seen in the graphs below.



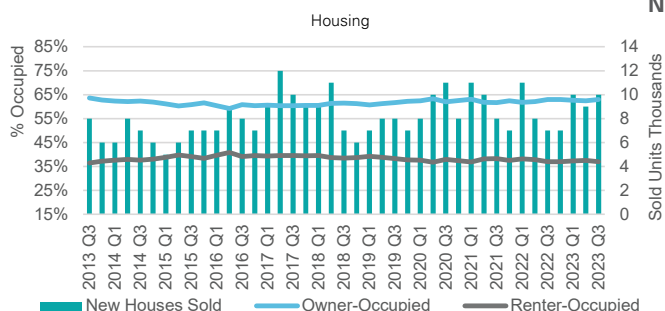
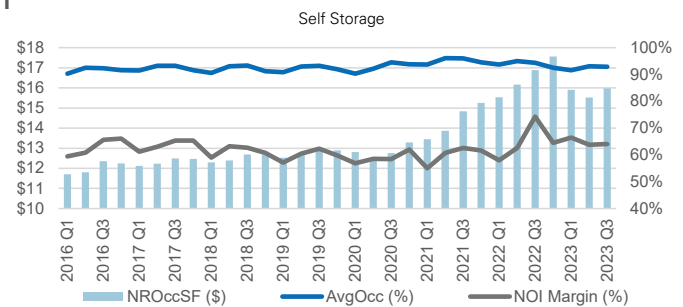
### WEST



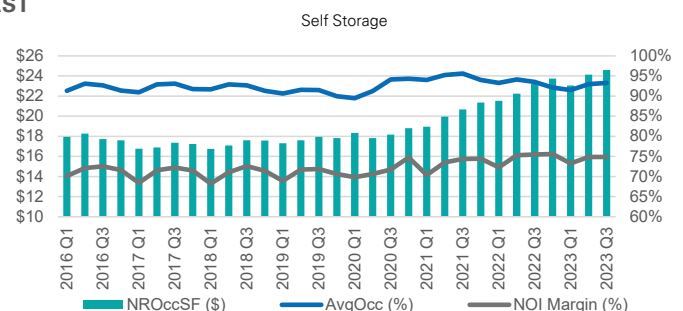
### SOUTH



### MIDWEST



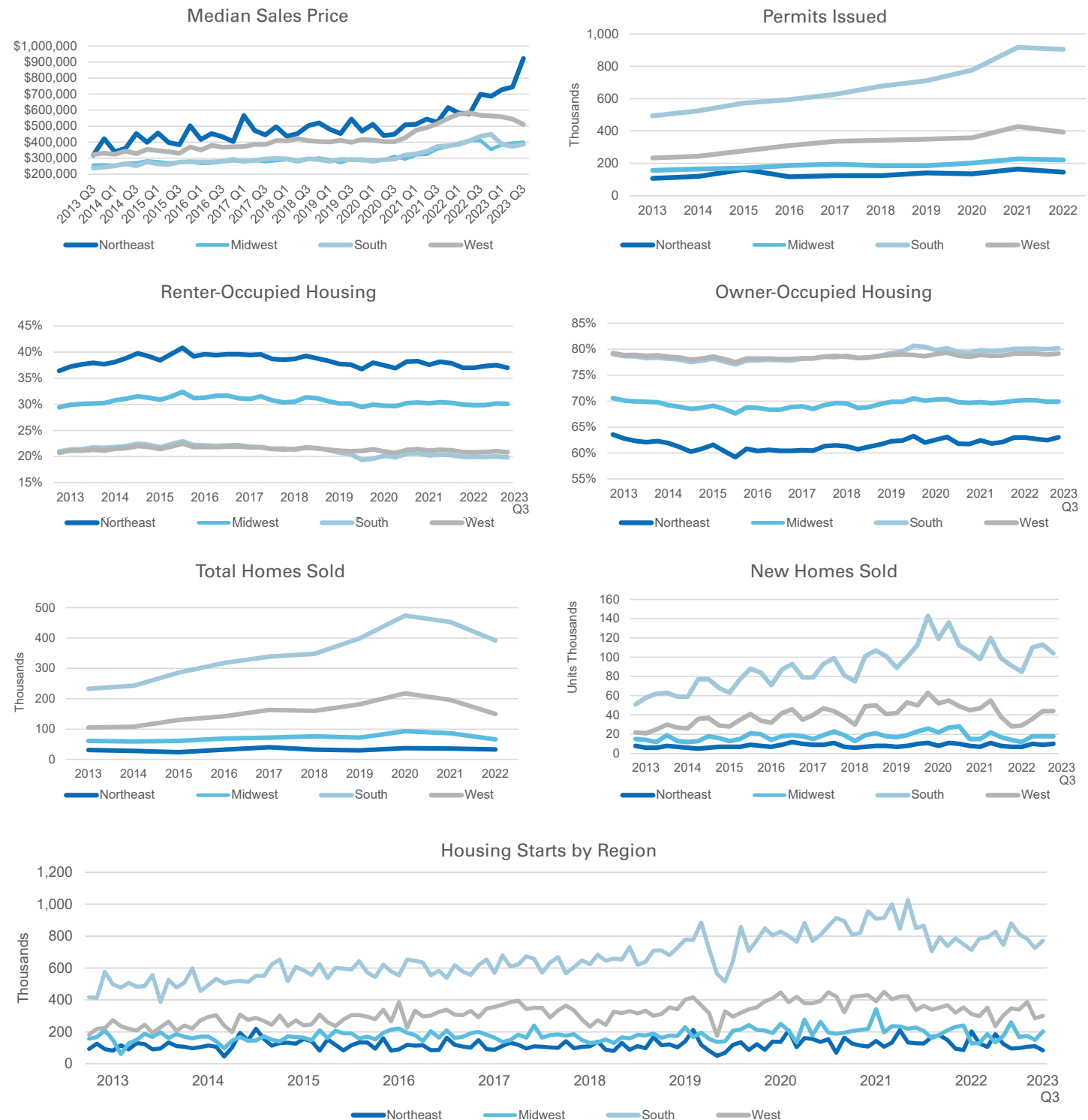
### NORTHEAST



Source: Newmark, FRED, PSA, Cube, EXR, NSA Investor Relations

## HOUSING FUNDAMENTALS BY REGION

As one of the greatest drivers of mobility, housing transitions greatly impact self storage performance. Summer is the peak season largely due to it being the height of household transitions. From 2020 through 2022, the industry constantly experienced “peak” season due to the migration that was occurring. The level of homes sold during this period is noted by region, the south being the highest.



Source: Newmark, FRED, Moody's Analytics, US Census



## TOP-5 MARKETS PER 10X10 RATES

As expected during the pandemic, Los Angeles had the least volatile rental rate environment due to restrictions on rental rate increases; however, also maintained the lowest rate volatility prior to and post-restrictions across the top 50 markets analyzed. New York and San Francisco have held the top two spots for the highest rental rates in both climate and non-climate controlled units throughout the entire eight year analysis. The charts below analyze both climate and non-climate controlled 10x10 rental rate trends by market over the past 8 years; ranking the top 5 markets based on three segments: highest rental rates, highest compound annual growth rate and the volatility of rates.

### HIGHEST RENTAL RATES Q3 2023

	Climate Controlled	Q3 '23
1	New York Metro	\$325.91
2	San Francisco	\$270.27
3	Los Angeles	\$255.29
4	DC Metro	\$219.96
5	Boston	\$194.87

	Non-Climate	Q3 '23
1	New York Metro	\$282.47
2	San Francisco	\$277.24
3	Los Angeles	\$210.76
4	DC Metro	\$204.67
5	Miami	\$191.56

### LOWEST RATE VOLATILITY 2015 - Q3 2023

	Climate Controlled	Low	High	Q3 '23
1	Los Angeles	\$205.83	\$255.29	\$255.29
2	Detroit	\$132.83	\$155.52	\$152.97
3	Oklahoma City	\$92.72	\$119.01	\$92.72
4	Kansas City	\$119.43	\$133.86	\$131.87
5	Norfolk/Hampton Roads	\$121.26	\$136.78	\$132.23

	Non-Climate	Low	High	Q3 '23
1	Milwaukee	\$88.18	\$98.89	\$89.37
2	Portland	\$128.14	\$146.54	\$143.24
3	Oklahoma City	\$64.99	\$81.90	\$64.99
4	Detroit	\$100.76	\$120.14	\$116.17
5	Kansas City	\$87.94	\$109.26	\$107.45

### HIGHEST COMPOUND ANNUAL GROWTH RATE

	Climate Controlled	Q3 '23
1	Las Vegas	4.01%
2	Minneapolis	3.08%
3	Fresno	2.97%
4	Indianapolis	2.83%
5	Los Angeles	2.73%

	Non-Climate	Q3 '23
1	Phoenix	4.17%
2	San Bernardino/Riverside	3.66%
3	Indianapolis	3.32%
4	Salt Lake City	3.13%
5	Miami	3.04%

### HIGHEST RATE VOLATILITY 2015 - Q3 2023

	Climate Controlled	Low	High	Q3 '23
1	Houston	\$105.06	\$142.65	\$136.28
2	Buffalo	\$109.92	\$131.99	\$115.40
3	St. Louis	\$117.03	\$143.13	\$131.24
4	Baltimore	\$149.77	\$182.00	\$173.53
5	Atlanta	\$112.79	\$138.39	\$131.18

	Non-Climate	Low	High	Q3 '23
1	Phoenix	\$103.57	\$147.73	\$143.62
2	Buffalo	\$96.23	\$109.48	\$104.13
3	Hartford	\$105.24	\$135.20	\$131.21
4	Las Vegas	\$91.34	\$109.86	\$106.78
5	Charlotte	\$88.34	\$106.05	\$102.19

Source: Newmark, REIS





## Investment Sales & Advisory Experience



62+ Years  
Combined Experience



1,475+ Properties  
Across 40 States



\$15.9+ Billion  
Completed Transactions



107.8+ Million  
Square Feet Sold

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