# Sector Spotlight: Self-Storage

## ARA Research

AMERICAN REALTY ADVISORS
INSTITUTIONAL CAPITAL MANAGEMENT

As commercial real estate strategies evolve, institutional investors are increasingly recognizing the value of what were once seen as niche property types. Among the first alternative sectors to gain traction, self-storage has developed one of the more comprehensive datasets of any specialty sector, providing a track record that is fueling greater conviction in the sector. Self-storage has shown its resiliency during economic downturns, thanks to its life-event-influenced demand drivers that appear to occur regardless of the broader economic environment. This inherent durability should allow the sector to provide stability within a real estate portfolio, making it a standout choice for investors seeking stable income and growth.

self-storage **noun**

real estate dedicated to providing individuals and businesses secure storage space.

# Understanding Self-Storage

Self-storage facilities provide secure space for individuals and businesses to store goods at a low monthly price with minimal time commitments. These facilities range from simple, drive-up units to modern, multistory buildings with climate control and advanced security features, or even specialized spaces for vehicles or business inventory. Unit sizes vary from small lockers to large spaces that can fit all the trappings of a three-bedroom home. The core appeal lies in the simplicity and versatility of the product, providing customers with a variety of reliable, low-cost solutions for their storage needs.

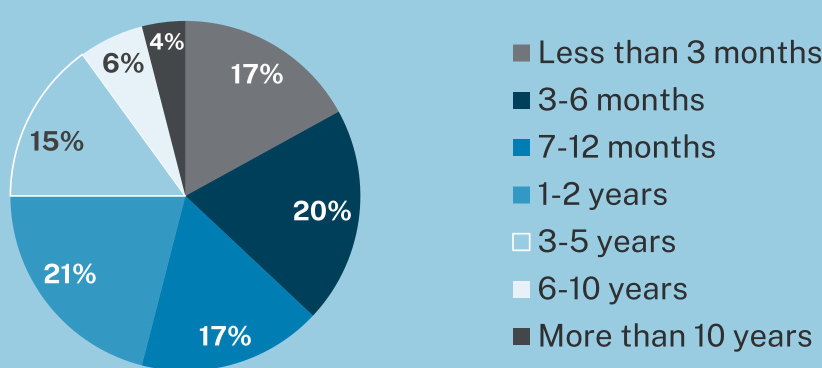
# Characteristics of Self-Storage

### Sticky Customer Base

The sector benefits from a customer base that appears inherently 'sticky.' Once customers store their belongings in a facility, they are often reluctant to move due to the inconvenience and cost associated with relocating. With 21% of tenants staying for at least two years and 15% staying for three-to-five years, operators benefit from high retention rates (Figure 1).[1] Even when rental rates increase, the additional cost of renting a self-storage unit remains relatively low, especially when compared to the cost of moving goods to another storage facility, so customers tend to absorb multiple rent increases prior to moving out. For example, a 10% rent hike might only translate to an additional $5-$10 per month, a small impact on a tenant's budget that most are willing to absorb rather than face the hassle and cost of moving. This results in a steady income stream for operators.

FIGURE 1

**Storage Unit Tenant Duration**




Source: American Realty Advisors based on data from Neighbor Self Storage Statistics as of May 2022.

# Characteristics of Self-Storage (continued)

### Resilience Against Obsolescence

Unlike many other real estate assets, self-storage appears to face less risk of obsolescence. The basic requirement for secure, accessible storage space remains unchanged, largely regardless of the property's age or condition. This reduces the risk of vacancy and can provide consistent occupancy levels across different market cycles. Most tenants choose storage facilities within a 3–5-mile radius, emphasizing the importance of convenience.[2] This focus on proximity and affordability should insulate older properties from becoming obsolete, as they continue to attract tenants even in the presence of newer, more modern facilities. The spread between rents for older facilities and new facilities also remains steady as customers primarily choose self-storage facilities based on price and location rather than the age or aesthetic quality of the property, further reinforcing the resilience of older assets.

### Low Operating Costs

Operating a self-storage facility typically involves low overhead. Facilities generally require minimal staffing—often less than a handful of employees per site—with increasing automation further reducing the need for on-site personnel. Most well-managed self-storage facilities see operational expenses fall between 25% and 40% of gross potential income, underscoring their efficiency.[3] Capital expenditures are also limited, as customers spend little time at the facility and primarily require a secure place to store their belongings. This lack of need for frequent upgrades or intensive maintenance makes self-storage a potentially highly efficient and cost-effective asset class.

### Barriers to Entry

The development of new self-storage facilities is becoming increasingly challenging, particularly in urban or infill markets, where land is both scarce and expensive. Regulatory hurdles, such as zoning restrictions and community opposition, further complicate the process, effectively limiting new supply. Much of the pushback from communities and municipalities stems from the fact that self-storage facilities generate limited tax revenues and create few employment opportunities. However, these factors serve as protective barriers for existing operators, reducing competition and supporting sustained rental rate growth over time.

### Inflation and Recession Resistance

Self-storage seems uniquely positioned to perform well during both economic booms and downturns. During periods of economic growth, businesses and individuals may require additional storage space for inventory or personal belongings. Conversely, during recessions, downsizing and relocations drive demand for temporary storage, as well. The sector's typical month-to-month lease structure allows operators to adjust rents quickly and capitalize during inflationary environments.

# Market Dynamics

The self-storage sector's performance is closely tied to broader economic and demographic trends. Several key drivers underpin the ongoing demand for self-storage:

### Housing Market Dynamics

The relationship between self-storage demand and the housing market is well-established. In fact, people moving homes accounts for approximately 25% of self-storage demand.[4] This demand is further supported by the trend toward urbanization, which often results in smaller living spaces and a need to store excess belongings. However, the combination of elevated home prices and high interest rates has caused many to delay purchasing new homes, leading to a temporary softening in self-storage demand.

### Life Events and Mobility

Major life events like marriage, divorce, or the passing of a loved one often trigger moves that create a need for extra storage space. When aging parents downsize to live with their adult children, both generations may find themselves requiring additional storage to help with the transition. Interestingly, while overall population mobility has been on a long-term decline, the self-storage sector has consistently experienced solid rent growth, indicating that life events continue to be a significant and stable driver of demand.

### Work-from-Home Trends

The COVID-19 pandemic has permanently reshaped the work landscape, with many individuals and companies continuing to embrace remote work. As people look to optimize their living spaces for home offices, the need for solutions has risen, as they clear out rooms previously used for other purposes.

### Student and Seasonal Demand

The cyclical nature of student housing may generate consistent, predictable demand for self-storage. College students, who often need to move out of dorms and apartments during the summer months, may form a dependable customer base and may provide an extra layer of stability for the sector in college markets.

# Near-Term Supply Trends

Self-storage has seen a surge in new deliveries over the past seven years. However, data from Green Street suggests that this growth is beginning to taper off. In 2024, supply is expected to grow by 2.0%—a significant drop from the 4.8% peak in 2018. This slowdown is part of a broader downward trajectory, with growth projected to decrease to just 1.5% by 2025, before picking up slightly in the years that follow.

This moderation in supply growth is likely driven by elevated interest rates, rising construction costs, tighter regulations, and a more cautious approach from developers as the market adjusts to existing inventory levels. As a result, the pace of new developments is expected to slow, leading to a more balanced market in the near future.

# Strategic Considerations for Investment

Given the current market dynamics, self-storage presents a compelling investment opportunity, particularly for those looking to diversify their real estate portfolios. However, investors should be mindful of several strategic considerations:

### Market Selection

Geographic focus should target trade areas with strong population and job growth, high barriers to entry, and favorable economic conditions. Markets characterized by high homeownership costs and below-average self-storage penetration are particularly appealing.

### Asset Quality and Management

Although self-storage is relatively resistant to obsolescence, investing in modern, well-located facilities with climate control and advanced security features can further enhance returns. Collaborating with experienced operators or REITs can further mitigate operational risks and optimize asset performance.

### Investment Timing

Given the sector's resilience, strategic timing of self-storage investments can capitalize on economic cycles. During downturns, there may be opportunities to acquire distressed or underperforming assets at favorable valuations, while periods of economic expansion can support more aggressive rent growth strategies.

Self-storage has established itself as a potentially resilient and adaptable sector within the commercial real estate landscape. Its unique blend of low operational costs, strong demand drivers, and resistance to economic downturns make it a compelling choice for investors seeking stable, long-term returns. As the market continues to evolve, strategic investments in self-storage are poised to deliver substantial benefits, particularly for those who can skillfully navigate the sector's complexities and seize emerging opportunities.

1 NeighborhoodBlog Self Storage Industry Statistics.
2 Self-Storage Association.
3 Patriot Holdings.
4 Green Street.

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