

The survey data was collected as part of an online questionnaire that was sent to key self storage market participants during a two-week period at the end of May 2017. The market participants were asked to segregate their responses by Investment Class (A, B, and C). Furthermore, the data collected is corroborated by the experience and knowledge of the 20 Self Storage Industry Group team members at Cushman & Wakefield.

Cushman & Wakefield defines the Investment Classes as follows:

Self Storage Investment Classes

Class A

- Located in a Top 50 MSA
- Market has high barriers to 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 with gated access
- Professional on-site and off-site management
- Minimum size of approximately 75,000 square feet
- Good location with access to attract tenants willing to pay rents in the upper percentile in the market place

Class B

- Located in a Top 100 MSA
- Market has typical barriers to entry
- Generally facilities built since 1980 in average to good condition with amenities typical for its market including secured facilities with gated access
- Full time on-site and off-site management
- Minimum size of approximately 40,000 square feet

Class C

- Either located in a smaller market or in less desirable areas of a Top 50 MSA
- Generally 1970s or 1980s vintage properties in average to below-average condition
- Generally managed by the owner and may not have an on-site manager
- May or may not have typical amenities such as gated access, security cameras and/or climate-controlled units
- May have secondary, less desirable locations with generally below-average access and/or limited visibility

Cushman & Wakefield Self Storage Investor Survey Second Quarter 2017

	Class A	Class B	Class C
Going-In Capitalization Rate			
Average Low	5.00%	6.00%	7.00%
Average High	6.00%	6.50%	7.50%
Average Overall	5.40%	6.25%	7.25%

	Class A	Class B	Class C
Terminal Capitalization Rate			
Average Low	5.33%	6.25%	7.25%
Average High	6.00%	6.75%	7.75%
Average Overall	5.67%	6.50%	7.50%

	Class A	Class B	Class C
Discount Rate			
Average Low	8.75%	9.00%	9.50%
Average High	10.00%	11.00%	11.50%
Average Overall	9.00%	9.50%	10.50%

Average Marketing Time (months)	2.00	4.00	5.00
Average Rent Growth	4.00%	3.50%	3.50%
Average Expense Growth	2.83%	2.75%	2.75%

Source: Cushman & Wakefield Valuation & Advisory Self Storage Practice Group

Market Trends

- Capitalization rates have stabilized and are expected increase slightly within the next 12 months due to the increase in interest rates. As expected, the spread between each of the three classes range between approximately 50 and 100 basis points. The rates from our Q4 2016 survey corroborate this conclusion, as the rates are slightly higher in most categories.
- Overall portfolio transaction activity is expected to remain slow due to a limited supply of product coming to market.

- Smaller portfolio transactions, particularly in the Class A and B+ product, have slowed due to the lack of good quality supply. Therefore, interest in the acquisition of Class B and Class C quality portfolios has increased as investors are looking to place capital.
- There continues to be a significant amount of capital looking to be placed in the sector. High returns from the self storage REITs have attracted new market participants. Brokers report upwards of 10+ bids on good quality Class A and B asset sales.
- Buyers are recognizing the risk of new supply entering the market and are likely to be more conservative in their underwriting where there is significant potential for new supply.
- In trade areas experiencing new supply, some operators report that actual and market rents have decreased to maintain physical occupancy.
- Due to the influx of new supply, the REITs have lowered their growth projections for the foreseeable future. While the growth forecast has been tempered, self storage REITs are still projecting returns that are amongst the strongest of all the asset types.
- REITs have shifted their focus from acquisitions to joint ventures and third party management platforms due to concerns of new supply and increasing development costs.

Development Trends

- The new facilities constructed in the top 50 MSAs are approximately double the size of the facilities built in secondary markets, as well as required higher direct construction costs on a per square foot basis. In addition to new facilities, expansion of existing facilities is also at record highs.
- In some new projects, physical absorption can be fast (12 months), however, economic absorption remains between 24 and 36 months for most projects.
- Acquisition at the Certificate of Occupancy (CofO) stage of development has cooled from the REITs due to concerns of new supply, however, demand for this option will likely remain due to the amount of equity looking to be placed in the market.
- A major topic of market industry participants continues to be new supply which is expected to peak in 2017 and 2018. While there is not a single source of reliable development data, markets such as Dallas, Charlotte, Denver, and Austin are consistently discussed as being markets with a high amount of new supply in the pipeline. Markets such as Los Angeles, San Francisco, and New York are still viewed as favorable development markets due to the high barriers to entry and population density. However, because self storage remains a trade area specific business, it is difficult to quantify any large MSA as being over-supplied.

Conclusion

Even though the self storage market is experiencing some headwinds, the overall fundamentals that make the business attractive remain strong with high occupancies, solid rental rate growth, low cap-ex requirements, strong consumer demand, and low break-even occupancies. The influx of new supply may impact rental rates and occupancy rates in certain markets, however, this is widely viewed as being short term in nature.

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