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Resilient Nature Positions Self Storage for Recovery In Transaction Activity



The pandemic-driven economic disruptions have been felt across all industries and created uncertainty for commercial real estate. Despite these unprecedented headwinds, the self storage industry continues to demonstrate resiliency in the face of economic and financial volatility, especially compared to other asset classes. Self storage fundamentals remain healthy, as street rates continue to rebound after the initial shock in the second quarter, and development remains steady nationwide.

Similar to other commercial property types, uncertainty caused self storage investment activity to stall in the second quarter. The disruption to sales activity appears to have been short-lived, as storage transactions began picking up again in the second half of the year. In addition, as the self storage industry continued to show its resilience in the second half, investors such as the Blackstone Group started to take notice of and show greater interest in the industry. Specifically, Blackstone Group's Blackstone Real Estate Income Trust entered into an agreement to acquire Simply Storage Management LLC, d/b/a Simply Self Storage, from Brookfield Asset Management Inc. for roughly \$1.2 billion in the final quarter of 2020. Simply Self Storage is a private owner and operator with an 8 million-square-foot a portfolio across the United States.

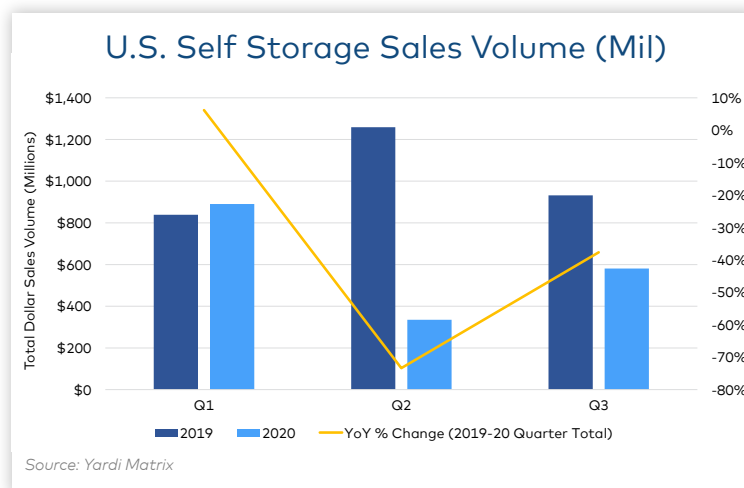
The number of sales nationwide decreased in the first, second and third quarters of 2020 compared to 2019. In 1Q20, there was a 19.2% drop in sales transactions compared to 1Q19. However, nationwide, the total sales volume in the first quarter of 2020 was higher than that in the first quarter of 2019 on a dollar value basis, despite there being a higher number of sales in 1Q19. The expanding pool of investors interested in buying self storage assets helped bolster prices in the beginning of 2020—year-over-year, average sale prices per square foot nationwide in 2020 were 58.1% higher in January, 23.0% in February, 19.0% in March and 56.0% in April.

As uncertainty due to the COVID-19 health crisis grew, the velocity of commercial property transactions, including self storage, slowed in the second quarter. Among the first three quarters of 2020, the second quarter saw the largest drop in national sales activity year-over-year, falling 70.8% year-over-year from 267 transactions in 2Q19 to 78 in 2Q20. The national average sale price per square foot for storage also dropped year-over-year in May (down 22.5%) and June (down 29.4%). The major slowdown in transaction activity, along with downward pricing pressure in the self storage

U.S. Average Sale Price Per Square Foot

Month	2019	2020	YoY % Change (2019-20)
January	\$69	\$110	58.1%
February	\$99	\$122	23.0%
March	\$98	\$117	19.0%
April	\$83	\$129	56.0%
May	\$98	\$76	-22.5%
June	\$139	\$98	-29.4%
July	\$110	\$88	-19.8%
August	\$69	\$93	33.4%
September	\$122	\$116	-5.2%

Source: Yardi Matrix



industry in the second quarter, led to a substantial decrease in storage sales volume nationwide—down 73.4% compared to 2Q19. June saw the greatest slowdown in storage sales velocity, recording only 25 transactions, down 82.8% from June 2019.

However, the self storage industry continued to show its resilient nature, especially during economic downturns, reinforcing investor interest and gaining the attention of investors. As a result, storage transaction activity began to rebound in the third quarter from the diminished transaction levels seen in the second quarter. The velocity of self storage investment activity nationwide picked up again in July (38 sales), continued to accelerate in August (62 sales) and remained strong in September (56 sales). While the total sales dollar volume year-over-year decreased 37.7% in the third quarter, the number of sales nationwide saw only a 14.3% decline compared to the third quarter of 2019.

Moreover, the national average price per square foot for storage acquisitions also made a major rebound in August, up 33.4% year-over-year. It dipped in September, but only by a minor 5.2% year-over-year as the third quarter came to an end. And it again recovered in the first two months of the fourth quarter—up 2.4% year-over-year in October and 5.5% year-over-year in November.

Class A Transaction Activity Remains More Stable Than B & C

The impact of the current health crisis and accompanying economic disruptions on self storage transaction activity has been uneven across property classes. Overall, transaction activity for Class A storage facilities fared relatively well in 2020 and experienced much less of an impact compared to sales activity for both B and C rated properties. Through the first three quarters of the year, the total number of storage transactions decreased year-over-year by 16.3% for A ratings, while B and C ratings saw annual drops of 44.7% and 43.2%, respectively.

Transaction activity among storage facilities with an A improvement rating started the year strong, as the total number of sales increased 14.3% year-over-year in 1Q20. But sales activity abruptly hit a wall when shelter-in-place orders started in March, and the number of Class A properties sold declined 56.4% year-over-year. While A rated sales activity saw a major annual drop in 2Q20, the average price per square foot for this improvement rating increased 66.6% year-over-year in the month of April, before again trending downwards on an annual basis through most of the second and third quarters. By the third quarter, transaction activity for A rated storage facilities began to recover, with the number of sales nationwide only falling 9.5% year-over-year. While Class A sales did see a decrease in the third quarter year-over-year, the decline was much less severe than in the second quarter, creating a slightly more positive outlook for Class A deals.

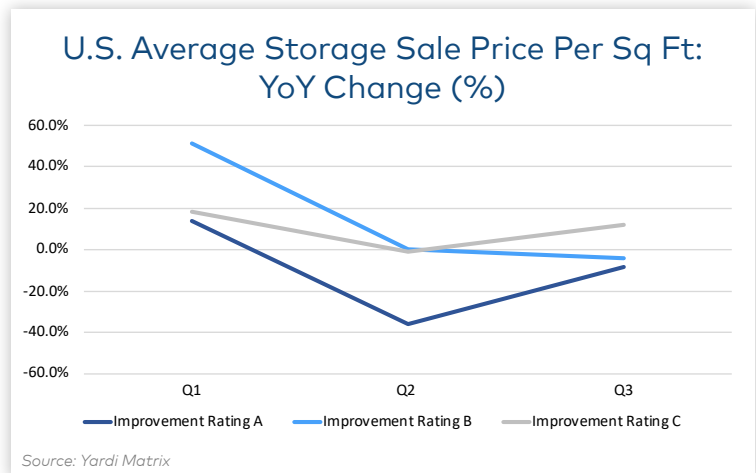
Among all three improvement ratings, storage properties rated B experienced the greatest decrease in sales activity year-over-year through the first three quarters of 2020. While Class B facilities did not experience a major drop in the first quarter of 2020 compared to the year prior, the emergence of the COVID-19 health crisis

and accompanying economic disruption seemed to majorly impact those storage sales throughout the second quarter. In the second quarter of 2019, there were 131 sales of storage properties rated B, while the same time frame in 2020 saw a drop of roughly 79% to only 27 sales. However, sales of B rated storage facilities started to slightly rebound in the third quarter, with the total number of transactions only falling 18.8% year-over-year.

Sales activity for Class C storage facilities was down through the first three quarters of 2020 compared to 2019. Year-over-year, the total sales of C rated storage facilities decreased 44.0% in 1Q20, 64.9% in 2Q20 and 12.7% in 3Q20. While the number of Class C storage facilities sold dropped on an annual basis, the recent increase in the average price per square foot of these properties may offer a glimmer of hope for this property type, especially as transactions for C rated deals experienced an increase in average price per square foot year-over-year in August, September, October and November of 2020.

Location-Specific Variations In Storage Transaction Activity

Aligning with the national market, transaction activity for urban and suburban self storage facilities has been negatively impacted, as neither has been completely spared from the pandemic-relat-



ed disruptions. However, urban storage sales fared worse than suburban storage transactions through the first three quarters of 2020. Total urban sales volume was \$690.3 million, down 48.0% year-over-year, while total suburban sales volume was \$907.8 million, down 37.8% year-over-year. Suburban storage transaction activity started 2020 relatively strong, up 38.8% in the first quarter year-over-year. Despite the healthy start to the year, the shock of the health crisis could not be avoided, as the second quarter saw suburban (down 72.2%) and urban (down 56.5%) storage sales volume diminish significantly compared to 1Q20. Reinforced by storage's durable performance, investor interest began to return in the second half of the year, and transaction activity for both urban and suburban storage started to rebound. In the third quarter, nationwide sales volume increased 80.4% for suburban storage properties, while transaction volume across the nation for urban facilities saw an 85.7% uptick from 2Q20.

While urban and suburban storage sales activity has decreased annually by comparable percentages, there has been more variance at the metro level. Markets in which transactions declined year-over-year through the first three quarters ranged from Houston, down 24 storage sales, to Nashville and Miami, which saw a drop of only one storage transaction. Detroit also experienced a slowdown in sales velocity this year, with the total number of transactions in the first three quarters dropping 62.5% year-over-year. Despite this drop in transaction activity, however, the Detroit metro saw its average sale price per square foot increase 62.8% year-over-year in the first three quarters of 2020.

While most storage markets across the United States saw a drop in sales year-over-year through November, several metros did see transaction activity increase, despite the pandemic-related uncertainties and disruptions. McAllen experienced

Transactions by Urban/Suburban

Property Type	2019 Jan-Sep (Mil)	2020 Jan-Sep (Mil)	2020 Jan-Sep YoY % Change
Urban	\$1,327	\$690	-37.8%
Suburban	\$1,460	\$908	-48.0%

Source: Yardi Matrix

the largest increase in storage sales year-over-year through November, from one sale in the first three quarters of 2019 to 22 in the same time frame of 2020. The Northern New Jersey market also saw a substantial uptick, with nine sale transactions in the first through third quarters of 2020, up substantially from the zero sales seen in the same period of 2019. In the Central Valley market, located in central California, the number of storage sales in the first through third quarters more than doubled compared to the same period of 2019, from three sales in 2019 to seven in 2020. The increased investor interest in the Central Valley likely helped bolster the market's average sale price per square foot for self storage properties, which saw a minor uptick of 4.7% year-over-year in the first nine months of 2020.

For self storage, 2020 has seen short-term stagnation, but the asset type, aided by demand drivers including population migration and consolidation of households, has remained fairly healthy. Barring an unexpected economic downturn or another widespread health crisis shutdown, self storage transaction activity is positioned to continue stabilizing to pre-pandemic levels over the next year, especially, as more commercial investors shift their focus to self storage, prompted by the asset's stability relative to the volatile headwinds faced by other property asset classes.

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