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Will the wave of self-storage construction, leave us with too much supply?

By Jeff Adler, Vice President, Yardi Matrix

Construction and development of self-storage facilities has jumped in recent years, leaving many investors and owners wondering if we are headed for oversupply. While the numbers tell the truth, and construction is increasing, most markets across the country maintain stable fundamentals and should not have significant issues as a result of the new supply coming online. However, there are certain markets that may face challenges either in the short term, or long term regarding absorption of new units.

Since the end of the Great Recession multifamily has been the darling of the real estate industry, as widespread household formation and limited single family housing stock has led to historically strong rent growth and low vacancies.

While multifamily has received most of the rent and supply growth headlines, however, the less-discussed self-storage sector has followed a similar course, as both rents and supply have increased steadily over the past 4 years. However, the recent construction increases align with a normal industry cycle, and the recent growth resembles the expansion seen in the 1990's.

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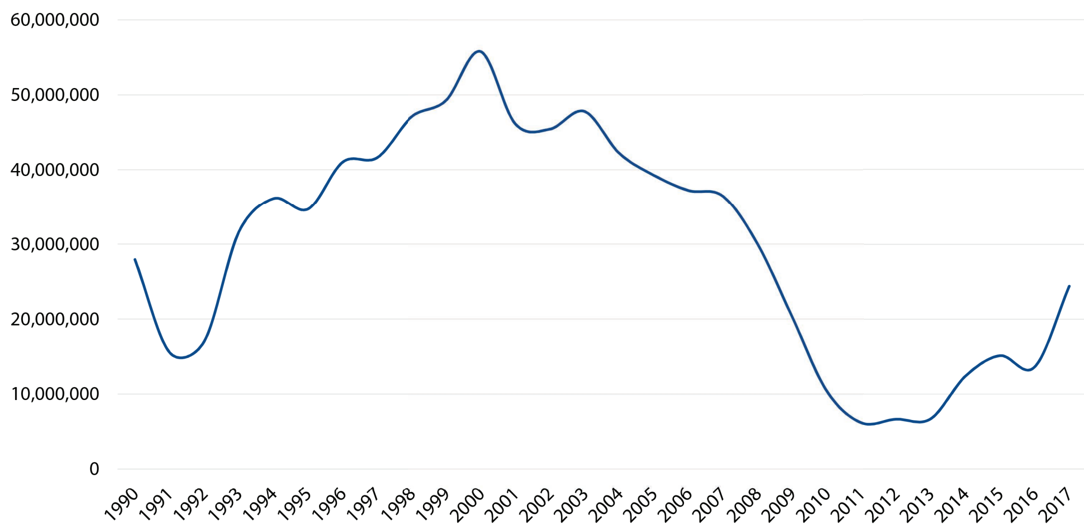
The same demographics and economic advances that supported the meteoric gains in multifamily, have driven growth in the self-storage industry, but have we reached a tipping point and will demand for self-storage remain strong enough to absorb the new supply?

Self-storage facilities have undergone a transformation during the sector's recent growth phase. Narrow and tall facilities with temperature controlled units, located in urban and suburban areas are popping up across the country, as proximity to housing has become critically important. Renters prefer storage units to be within one mile of their home increasing demand in urban core and close suburbs.

Sq.Ft. of New Supply Since 1990



Source: YardiMatrix

New properties are getting larger as well. The average facility under construction is more than 93,000 square feet, while the average existing property is just above 54,000 square feet, on a gross square foot basis. Using newly released self-storage data from Yardi® Matrix, we studied the development pipeline and current inventory in 99 markets nation-wide.

Market	Population	Sq. Ft. Total Inventory	Sq. Ft. Under Construction	Sq. Ft. Per Person	Sq. Ft. Under Construction as a % of Stock
Austin	1,989,901	17,258,755	1,026,484	8.7	5.6%
Dallas	7,151,771	60,614,141	1,183,085	8.5	1.9%
Ft Lauderdale	1,896,425	14,435,832	754,619	7.6	5.0%
Atlanta	5,369,368	38,024,055	563,153	7.1	1.5%
Seattle	2,889,626	18,136,079	329,128	6.3	1.8%

Historically, self-storage inventory has been concentrated in markets with few land limitations in the southern and western United States. Dallas has the most self-storage inventory with over 60 million square feet, while other leading markets include Houston (59 million), Los Angeles (57 million), Chicago (45 million) and Atlanta (38 million). When considering population, the South continues to dominate as Austin (8.7), Dallas (8.5), Fort Lauderdale (7.6), Atlanta (7.1), and Seattle (6.3) make up the top five markets for inventory on a square foot per person basis.

While existing stock and new supply are key factors, current population and population growth also play an important role in determining the potential strength of the self-storage industry. Markets with growing and diverse economies such as Miami, Raleigh-Durham, and Charlotte have seen a significant expansion in self-storage construction, as each market currently has more than 5% of total stock under construction. Brooklyn, with new construction totaling 7.4% of total stock, is another market with substantial new supply. As new self-storage facilities are completed, there may be some short term pain in these markets, but the relatively low levels of current inventory and above average population growth, should allow for steady long term absorption.

Market	% Stock Under Construction	% Stock Under Construction and Planned	% Stock Under Construction, Planned and Prospective
All Markets	1.5%	4.2%	6.8%
Miami	9.3%	11.5%	13.9%
Raleigh-Durham	8.7%	11.5%	14.4%
Brooklyn	7.4%	9.3%	11.6%
Austin	6.8%	7.6%	10.5%
Charlotte	5.3%	14.1%	18.1%

Certain markets, however, give cause for significant concern, as high construction meets outsized inventory levels. Austin (5.6%) and Fort Lauderdale (5.0%) both rank among the highest markets in the country for new construction as a percent of existing stock. When adding planned and prospective units, the Austin pipeline expands to 10.5% of existing stock, while Fort Lauderdale increases to 12.5%. Given that these markets are both in the top 5 for existing inventory (Austin currently has 8.7 square feet per person and Fort Lauderdale has 7.6), oversupply could be a long term challenge.

However, the majority of markets, including some of the leaders in population growth, exhibit strong opportunities for new self-storage development. Markets such as Seattle, Orlando, and San Diego, all have current inventory levels below 7 square feet per person, which is commonly recognized as an equilibrium supply level in most markets. Relatively low construction also makes these markets more attractive, as construction falls below 2% of current stock in each. The low construction levels provide ample opportunity for additional units, especially as population continues to grow.

As other asset classes draw publicity and high investment volumes, self storage remains a steady and growing sector with strong fundamentals. The balancing act between current supply, new construction and growing population will continue to ebb and flow, however for much of the country, over supply in the self-storage sector should not be a concern. It is important to keep an eye on certain markets with deep development pipelines, as new completions may be met with localized softness, but the overall strength of the market appears good.

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