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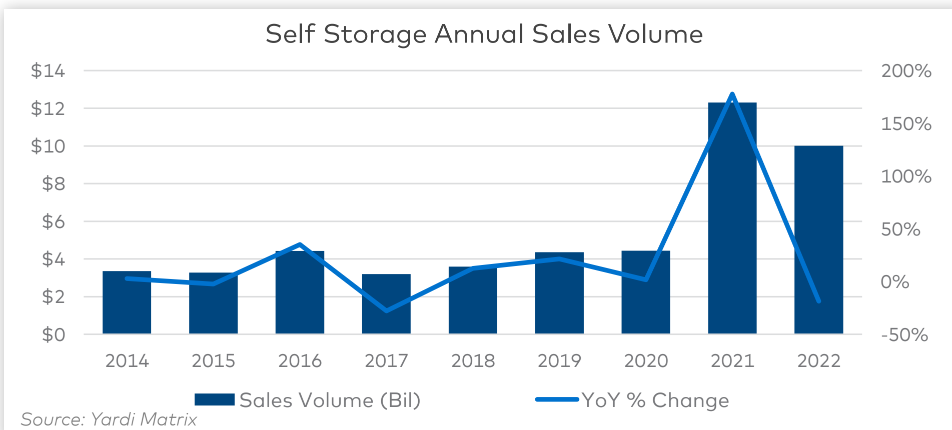
Self Storage Sales Waning After Active Year in 2022

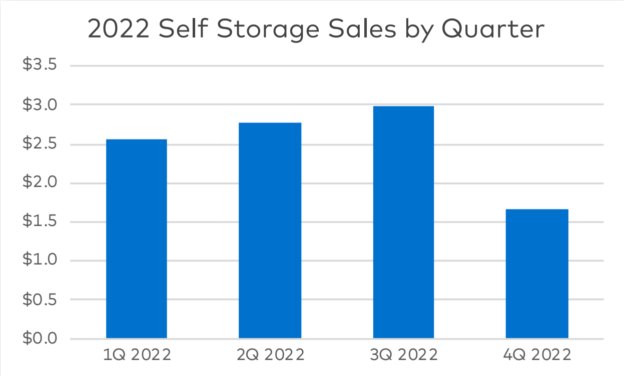
The self-storage market recorded its second-highest annual sales number ever in 2022. However, volume dropped sharply in the fourth quarter and is expected to remain light in the immediate future due to uncertainty in pricing and yields.

Self storage property sales totaled $10.0 billion in 2022, down 18.7% from $12.3 billion in 2021. Despite the decline, sales activity was more than double any year prior to 2021. Institutional investor demand has grown in recent years, owing to the sector's high returns relative to other property segments over the last two decades, recent strong fundamentals performance, and the prospects for growth as an increasing number of households become storage customers.



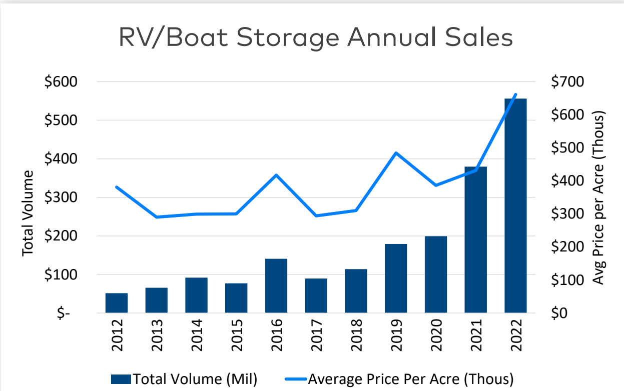
Even robust investor demand did not keep volume from slipping as the year progressed, as rising mortgage rates increased the cost of capital. That had the effect of making it difficult to underwrite deals and increasing the difference in yield expectations between buyers and sellers, which some industry executives say is roughly 100 basis points. "The gap between buyer and seller expectations is high," said one self-storage REIT executive.

Self storage sales rose through the third quarter of 2022, totaling $2.6 billion in 1Q 2022, $2.8 billion in 2Q 2022 and $3.0 billion in 3Q 2022 before dropping to $1.7 billion in the fourth quarter. Some would-be sellers are content to "clip coupons" and collect dividends until prices move up again. "If the market improves, sellers will come back out," said another industry executive.



Source: Yardi Matrix

Most of the self-storage transaction activity was in traditional mini storage, but RV/boat storage properties accounted for $556.1 million of sales in 2022, a 46.4% increase over $379.6 million of sales in 2021. The volume increase can be attributed to rising prices, as the average price per acre of RV/boat storage properties sold rose to $661,000 in 2022, up 53.6% year-over-year from 2021. RV/boat storage is an emerging niche segment that currently is dominated by mom-and-pop owners, but institutions are beginning to perform due diligence as a prelude to getting involved.



Source: Yardi Matrix

Values Soften as Yields Rise

Self storage capitalization rates dropped to historically low levels in the 4.5% range for stable properties in the early part of 2022. With mortgage rates topping 5%, average acquisition yields are rising, prompting many would-be sellers to sit on assets unless they are forced to sell because of a mortgage maturity, estate planning or dissolution of a partnership. Lenders have reduced leverage levels, which shrinks the pool of potential buyers and favors those who can pay with cash, such as REITs and institutional investors.

Activity is likely to pick up again when investors have more clarity about the economy and interest rates, which isn't likely until the second half of 2023 at the earliest. After raising the federal funds rate to 4.50% to 4.75%, Federal Reserve chair Jay Powell has signaled that short-term rates will remain high until inflation is closer to the 2% target rate. The Consumer Price Index was 6.4% in January, but is receding slowly, and there remains little consensus on future rate hikes.

Top 20 Metros by Sales Volume 2022

Metro	2022 (Mil)	YOY % Change
New York	$987.0	-71.7%
Phoenix	$498.2	-6.9%
Atlanta	$455.9	16.8%
Miami	$418.3	19.0%
Denver	$362.6	0.1%
Washington DC	$359.0	7.1%
Seattle	$355.2	21.7%
Tampa	$336.6	-14.3%
Los Angeles	$293.1	55.7%
San Francisco	$250.9	63.5%
Chicago	$227.8	-24.2%
Inland Empire	$219.9	47.8%
Philadelphia	$193.7	103.0%
Nashville	$190.4	86.3%
Orlando	$186.3	-53.6%
Charlotte	$182.1	8.0%
Houston	$155.6	170.0%
Boston	$146.6	-39.1%
Sacramento	$140.9	4.1%
San Diego	$138.9	-10.1%

Source: Yardi Matrix

On a metro level, New York City once again led the country in sales volume at $987 million, although total volume was 71.8% less than in 2021, when volume was boosted by a large merger. Rounding out the top five metros were Phoenix ($498 million, -6.9% year-over-year), Atlanta ($455.9 million, 16.8%), Miami ($418.3 million, 19.0%) and Denver ($362.6 billion, 0.1%).

Metros with the biggest increase in sales in 2022 year-over-year included Houston (170.0%), Philadelphia (103.0%), Nashville (86.3%), San Francisco (63.5%) and Los Angeles (55.7%). Many investors continue to be attracted to secondary markets with growing populations—such as Phoenix, Atlanta and Miami—but others find value in coastal and gateway markets where storage has low market penetration and/or weak supply growth.

—Paul Fiorilla, Director of Research, Yardi Matrix