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Will Self-Storage Be A Port In The Storm For Investors?

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While overseas property investors look to the U.S. for stability in a time of worldwide economic tumult, domestic investors seem to be gravitating to niche plays such as self-storage.

Shares in self-storage REITs have fallen faster than the overall equity market during recent weeks. One factor buoying the asset class is lower tenant turnover than other property sectors, keeping it less vulnerable to economic shocks, The Wall Street Journal reports.

Another factor keeping self-storage afloat in harder times is the fact that, as people downsize from larger houses or apartments, they still need places to keep their possessions. Self-storage properties also enjoy relatively low maintenance and operation costs.

As of March 11, the FTSE Nareit Self Storage Index had managed to stay roughly flat since stocks started tumbling on Feb. 24. The FTSE All REITs Index has dropped 12%, while the S&P 500 lost nearly 14% over the same period.

Though self-storage has been doing fairly well recently, that doesn't make the sector completely impervious to risk, according to a report released by Fitch Ratings on Wednesday.

New lease demand for self-storage properties may be vulnerable to supply chain disruptions, which drives down the use of self-storage space by commercial tenants, according to Fitch's report. On the other hand, since consumers tend to be skittish about moving stored items during a health crisis, that might help balance out weaker demand on the part of commercial customers.

The situation is completely opposite from sectors that depend on short-term rentals, such as hotels, the Fitch report adds, with destination resorts, large conference hotels and those catering to foreigners seeing an outsized negative impact.

The self-storage industry has already been one of the stronger niche sectors in commercial real estate in recent years, despite a scattering of development delays and moratoriums in some markets.

If self-storage emerges as a strong sector during a coronavirus-inspired slowdown or recession, that would follow the pattern of the sector's behavior during the Great Recession. In 2008, the NAREIT All Equity Index lost roughly 40% of its value across all sectors, while self-storage REITs returned 5%.

Still, some markets have seen a lot of self-storage development in the decade since then, resulting in oversupply. For some places at least, self-storage might hang on to its value, but it is unlikely to see much in the way of rental increases, Self Storage Strategies Managing Partner Tron Jordheim told Inside Self Storage.