



CELEBRATING  
55 YEARS

# nerej

## **The growing industry of self storage: A sign of the times - by Daniel Calano**

July 12, 2019 - Appraisal & Consulting

Daniel Calano

The growing industry of self storage is another example of the power of baby boomers and millennial's converging on the same interests. Boomers are retiring, typically downsizing, and wondering what to do with excess stuff. Their children often don't want it, because as millennial's they tend not to accumulate.

Running in tandem, the housing market is once again shifting from larger houses to more compact urban units. These new units are more open, minimalistic the designed, cleaner and less ornate, and excess stuff is anathema to this trend. After trying to give it away, auction it, garage sale it, foisted on children, what do they do? They store it. The result: the significant growth of self storage over the past decade as millennial's come of age, and boomers simply age.

Self storage started as relatively small cottage industry in the mid-to late 1970s, primarily developed by mom-and-pop entrepreneurial developers. The low barrier to entry and small capital outlay, compared to other things such as retail, office and apartments, has allowed self storage to grow. It is currently a \$38 billion industry. In addition to homeowner use, the growing economy and low interest rate environment has spurred much growth and small businesses. These businesses need /have excess inventory. As a result, the self storage business is projected to grow to a \$50 billion business by 2024.

There are now over 50,000 self storage facilities nationwide. Currently there are six major REIT type players including Public Storage, Extra Space storage, Cube Smart, U-Haul, Life Storage, and National Storage affiliates, all publicly traded companies. That said, they only occupy over 20% of the total square footage and 18% of the market. The rest continues to be smaller operations, potentially absorbable into the larger companies as the industry matures.

This newly growing asset class has also proved to be somewhat recession resistant. After the great recession, in 2008, the industry was the only real investment trust to post a positive total return going forward. While the growth and usage then slowed considerably, it still had forward momentum.

In fact, occupancies at a national level now have increased over the last five years from approximately 82% in 2011 to 92% in late 2016.

Only within the last one or two years has the growth of self storage started to slow. Most agree that this is due to aggressive supply addition, as developers and investors recognize the previous successes. Most consider that this is a normal flattening after strong previous growth, not at all a bubble. Most also believe that population growth, job growth, as well as more small entrepreneurial businesses, will stimulate more demand. In addition, technology advances are creating new types of self storage that will be easier and more convenient and attractive to utilize. As an example, one new company is specifically catering to millennial modes of operating. Through this company, customers can remotely real time view stored items online, retrieve such items from warehouses, and have them delivered.

It is always a nice story when real estate trends flow in tandem, in concert, not in opposition. When the two largest demographic groups, baby boomers and millennial's, want the same thing in more urban living, less cluttered domiciles, and thus need more storage, it is not a zero sum game. Each facet of the industry helps the other, and a truly symbiotic relation.

Daniel Calano, CRE, is the managing partner and principal of Prospectus, LLC, Cambridge, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540