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A Pandemic Space Race: Self-Storage Roars Back

Occupancy rates and rents are at record highs, drawing investors and entrepreneurs looking for growth opportunities.

By Ellen Rosen

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Early in the pandemic, Katharine Lau, a commercial real estate professional, turned her focus to decluttering, and as she stared at a pile of unneeded things, she wondered how she could save them despite her lack of space.

“It was the first time I thought about self-storage as a business, which I always thought was so unsexy and so uncool that I didn’t want to get involved,” she said. “But I began to think about whether I could monetize underutilized pieces of existing commercial real estate and pair it with technology.”

The company she created, Stuf Storage, sets out to do just that. With $1.8 million in seed funding announced in December, Stuf joins a big, disaggregated industry.

More than 30,000 owners operate roughly 55,000 self-storage facilities nationwide, according to statistics from the Self Storage Association, a trade group. Five publicly traded real estate investment trusts with storage businesses — like Public Storage and CubeSmart — are ubiquitous along highways and in industrial areas, but “the industry remains largely made up of small-business owners,” said Timothy J. Dietz, the president and chief executive of the trade organization.

Before the pandemic, the industry averaged 3.5 percent annual growth for more than 30 years, said Roger Morales, the head of commercial real estate acquisitions for the investment firm KKR. After a drop in the first half of 2020, self-storage has roared back, buoyed by Americans carving out space for home offices or classrooms, as well as those who left urban centers to ride out the pandemic at their parents’ homes. Occupancy rates and rents are at record highs.

Katharine Lau started Stuf Storage, a company focused on repurposing underused commercial space in urban centers for storage. Timothy Mulcare for The New York Times

When the pandemic began, “there were questions as to what the future of storage would look like,” said Tyler Henritze, who heads the investment firm Blackstone’s real estate acquisitions for the Americas. “I think the market has been caught off guard and surprised at how strong the fundamentals are.”

That foundation includes a residential customer base that has grown accustomed to using self-storage as an extra closet or bedroom and commercial clients that lease storage for inventory or supplies rather than expanding their offices.

Some customers use storage for only a few months, but many tend to be “sticky,” an industry term for long-term users who are reluctant to switch units even when rents increase.

When a unit rents for $10 to $200 a month, even a 10 percent increase often will not prompt a customer to vacate, said Steve Sakwa, a research analyst at Evercore ISI Research. Departures can translate into higher rents, too, because the owner can peg the rate to the current market rather than remain locked into a lower base.

Operating costs, including taxes, electricity and some labor, have been low compared with other real estate classes, like hotels and senior housing. The structures tend to be sturdy if spartan. And improved technology allows for smartphone reservations as well as contactless operations with fewer on-site employees.

Even the cost of advertising, now largely online and through comparison aggregator sites like Sparefoot.com, have declined, because high occupancy rates have decreased the need. “Why advertise if you don’t have the units?” Mr. Sakwa said.

Storage-industry technology is drawing entrepreneurs like Zack Widmann, the founder of ZHW Properties, who with a partner bought three facilities that “had no tech, no websites and no rent increases” in several years. Improvements in those areas have resulted in 95 percent occupancy, in line with the current market.

The steady income and expectations of a continued reliance on storage even when the pandemic wanes have led to consolidation in the industry, and prices are fetching premiums.

Many customers are long-term users who are reluctant to switch storage units even when rents increase. Gabby Jones for The New York Times

“It’s a sector where buyers reward you for being smart about portfolio construction,” Mr. Morales said. In July, KKR closed on its first acquisition — a $36 million, three-property portfolio comprising 1,800 units in Nashville and Austin, Texas. And this month, it acquired five additional properties for about $92 million.

Last fall, Blackstone acquired Simply Self Storage — with eight million square feet of rentable space — for $1.2 billion, adding to the $300 million it had already invested in the sector. And in April, Public Storage closed its $1.8 billion acquisition of ezStorage, adding 48 properties with 4.2 million of net rentable square feet.

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With both investor interest and consumer demand high, Edison Properties, which owns Manhattan Mini Storage, was said to be exploring the sale of its division, which has 18 locations and 3.1 million square feet, for an estimated $3 billion, or nearly $1,000 per square foot, Bloomberg News reported.

Edison declined to discuss the sale, but the price tag is unsurprising, Mr. Sakwa of Evercore said, given the generally high cost of New York real estate.

Growth is largely in general units, but storage for extras like recreational vehicles and boats, as well as cold storage, has increased as well.

Despite the peak demand and frothy acquisition prices, “it’s not all rosy under the hood,” said Stephen Clark II of the Clark Investment Group in Wichita, Kan., which specializes in self-storage among other real estate classes. Rental statistics that show high occupancy can be misleading, he said, because they include a number of long-term renters whose rates trail the market.

And experts are unsure how postpandemic behavior will affect the industry. For instance, what happens when storage renters leave their parents' homes or don't need to use their second bedroom as a makeshift office?

But with home prices escalating nationwide, so-called starter homes have become more expensive and some new homeowners are opting for smaller spaces. That, Mr. Morales said, could translate into a steady demand for storage.

And although the traditional winter slowdown, when fewer moves occur, lessened during the pandemic, companies like Public Storage have suggested that it may return as soon as this winter.

The biggest unknown may be whether the steady returns could attract new development, leading to oversupply, a condition that occurred in 2016 in some markets.

"I think we have peaked in terms of the bumps we got from Covid; a lot of that will stick because people like having the space," Mr. Clark said. "But if this prompts overbuilding, it could be ruinous."

There are, however, barriers to entry that can deter new construction.

For starters, municipalities can limit where structures can go. "Approval processes at multiple cities" have slowed, Joseph D. Russell Jr., the president and chief executive of Public Storage, said during an August earnings call.

Jerome McCroy organizing boxes at a Manhattan Mini Storage location in Manhattan. Gabby Jones for The New York Times

In addition, there are escalating construction costs, supply chain difficulties and increasing taxes. And it can take up to five years from planning before a new facility is fully leased, Mr. Morales said.

Some newer entrants are not relying on construction. Ms. Lau's company, for example, is focused on repurposing underused urban space, starting in the Bay Area and New York.

And on Neighbor.com, a peer-to-peer platform, homeowners can rent out extra space in their homes or commercial landlords can lease unused square footage at a small fraction of the price charged by storage companies — think Airbnb for storage. The site "empowers hosts to earn passive income using space that's not otherwise used," said Dan Wenhold of Fifth Wall, a venture capital firm focusing on real estate that has participated in funding Neighbor.com.

He added that his firm was working with Neighbor.com to encompass unused retail or commercial space, like leasing out a parking lot for a car dealership to warehouse its inventory. He said the business-to-business side of self-storage would be a driver of growth, but "I think the opportunity on the consumer side is still massive."

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