

The Storage Investment *REVIEW*

BY GRANDSTONE INVESTMENT SALES

Optimistic Outlook for Self-Storage Sector Despite Slowing Performance

The Q1 2024 results for self-storage REITs show a continued slowdown in performance. However, the sector is witnessing a slight improvement with a modest 0.8% average decrease in quarterly occupancy, better than previous quarters. Revenue growth has slipped to 0.2%, and NOI growth has fallen to -1.6%, primarily due to higher marketing and property insurance expenses. Despite these declines, the negative revenue and NOI growth aligned with expectations, and guidance for same-store performance remained stable due to weak demand influenced by a slow housing market. Realized rent growth has dropped to 1.2%, with street rates significantly lower than in-place rates, by over 35% in some cases. Nevertheless, operators are hopeful that increased rates for existing customers and higher street rates during the summer leasing season will help bridge this gap.

Street Rates Begin to Rebound Despite Previous Downturn

In April, annual street rates continued to fall, with the national average same-store asking rent per square foot at \$16.35, reflecting a 4.5% decrease compared to April 2023. The top 30 metros experienced year-over-year declines in street rate growth. Same-store rates for both non-climate-controlled (NON CC) and climate-controlled (CC) units fell across the 30 top metros, ranging from -1.3% in New York to -7.4% in Atlanta. However, this marks a 70-basis-point improvement month-over-month as the busy season advances. In April, the national average combined street rates per square foot rose by 0.7%, or 12 cents, reaching \$16.35, marking the first sequential increase since June 2023. This uptick is a positive development for the industry, which has faced challenges due to persistently weak rate performance.

Supply Pipeline Holding Steady

The national new-supply pipeline for commercial real estate showed minimal change, decreasing by just 10 basis points month-over-month to reach 64.6 million net rentable square feet under construction by the end of April. This figure represents 3.6% of the existing inventory. Despite a slowdown in construction starts towards the end of 2023, the pipeline has maintained a steady state into the first and second quarters of 2024. This stability is likely influenced by prolonged construction timelines, contributing to the current plateau in new projects.

Meanwhile, the self-storage sector's development activity in Q1 2024 aligned closely with earlier predictions of reduced growth in new supply. Experts within the industry anticipate approximately 54.5 million net rentable square feet to be delivered in 2024, followed by 47.6 million net rentable square feet in 2025. This steady outlook reflects ongoing moderation in new construction efforts within the industry.

In conclusion as we navigate through the fluctuations of the self-storage market, the current data underscores a landscape of resilience and potential. Despite facing headwinds from a slow housing market and increased operational costs, the self-storage sector is showing signs of stabilizing, particularly with the recent uptick in street rates. As we look toward the summer leasing season, there are optimistic indicators that suggest a recovery in both occupancy and rent growth. With a steady supply pipeline ensuring a balanced market, we remain confident in the sector's ability to adapt and thrive. At Grandstone Investment Sales, we are committed to providing our clients with strategic insights and tailored opportunities that harness the potential of these trends for sustained growth and profitability.

SOURCE: YARDI MATRIX

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3637 WALTON WAY EXT, AUGUSTA, GA 30909

 497 UNITS

 55,896 NRSF



recently closed

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 541 UNITS

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