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State of the industry: Self storage REITs - by Nick Malagisi

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“Address delivered by Nick Malagisi, SIOR, & board of director for the NYS Self Storage Association, at the recent chapter meeting of owners, operators & vendors to the industry”

If you attended either the SSA Spring Conference in New Orleans or the ISS Expo in Las Vegas last month, you were a part of the record attendance for each conference. Yes, our industry continues to attract new owners, operators and investors based primarily on the superior investment returns posted the past few years by the five publicly traded self storage Real Estate Investment Trusts (REITs), the leaders in our industry.

The spring edition of the “REIT Magazine” had a “Sector Spotlight” on self storage “Self Storage/Still Secure,” and it explained why the share price of all the self storage REITs has faltered recently, despite the “extraordinary, albeit unsustainable rental rate growth” of the past few years. Our Realtor magazine this month featured the REIT industry and gave some very informative basics outlining the benefits of owning shares of stock in a REIT. The article begins by stating the definition, “A REIT is a company that owns or finances income producing real estate”.

REITs are tied to all aspects of our economy, including apartments, hospitals, hotels, industrial facilities, shopping malls, student housing, timberlands, as well as self storage.

In addition, as of September 1st, 2016, all of the Equity REITs and other real estate listed companies were transferred from the financials sector of the GICS to a new real estate sector. This reclassification of the REITs will help create an even larger, more diverse investor base for the REIT industry.

Since our industry is attracting so much institutional investor interest, there are now several new companies willing to make the capital investment to learn about the metrics of our industry. They are tracking new development; watching supply and demand in numerous markets; and monitoring rental rates, discounting specifics and absorption rates. Information companies such as Yardi, REIS, STR and others are gathering information to help developers, investors and bankers make good decisions.

The public transparency of information from each of the REIT companies will benefit all of us.

There are four challenges facing the real estate sector of the self storage industry for 2017:

1. The current development cycle is beginning to bring new supply on the market at a pace not seen since before the last recession when our industry literally doubled in size from 1 to 2 billion s/f of supply from 1995 to 2006
2. There has been a general slowdown in the growth of rental rates which started in the 3Q 2016 and has generally remained flat into 2017.
3. New competition is coming from the valet storage/on demand type operators. In the suburban areas, portable storage/PODS, keep chipping away at conventional self storage.
4. Falling demand: There was pent-up demand coming out of the recession and with no new supply being built for almost five years, occupancies began rising.

Demand is still here; it's just not at the same level as the past 3-4 years. A strong economy should help continue the demand for new space.

You being here today are members of our industry that are obviously doing your best to keep up with these changes by having the information necessary to deal with these challenges. And, we, as the NYS Association of owners, operators & vendors, are doing our part by having the best programs/speakers for you today.

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