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Stability amid the pandemic - by Nick Malagisi

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Self storage is, once again, proving to be one of the most recession-resistant real estate sectors in the REIT industry as their stock prices took an initial hit along with most other equities, but has come back very strong these past two weeks to regain most of what they lost since the start of the pandemic. And none of the five publicly traded REITs suspended or reduced their dividends. “We are insulated, but not immune to the Covid-19 Impact.”

What are the reasons for this economic resurgence? While the industry is not recession-proof, it has proved to be recession-resistant as very few renters move out and rents are “collateralized” by the renter’s possessions.

The “propensity to rent” is driven by change in a person’s life and/or living conditions. That should certainly be the case for many going forward for the balance of this year.

Self storage has a very low NOI margin with operating expenses in the 30-35% range against GAI. There may be very little, if any, rental rate growth in the near term, but occupancies are expected to stabilize, if not grow, in these uncertain times.

Self storage is finally proving that there is a brand value with the advent of third party professional management to go along with the advantages of economies of scale.

Finally, the barriers to entry for development just got stronger with a contraction in the capital markets and new supply growth having already peaked some 18 months ago. With a net absorption increasing, rental rates should begin to rise.

If you would like to learn more about how you can participate in this commercial real estate sector, please give us a call.

Nick Malagisi, SIOR, is national director of self storage for SVN|Commercial Real Estate Advisors, Buffalo, N.Y.