

## Self-Storage Operations Among Least Challenging to Adapt to Social Distancing; New Demand to Emerge Under Reopening Strategies

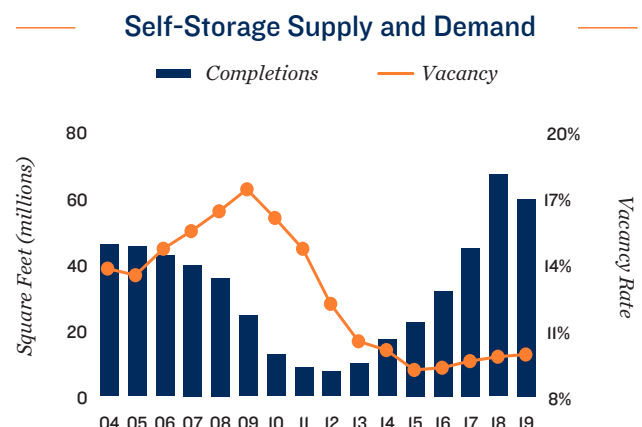
**Operations navigate social distancing headwinds.** Self-storage operators are limiting access to facilities and offices, though renters are generally able to access their units. Skeleton crews, safety precautions and restrictions on the number of tenants simultaneously on site are the current standard practices in most locations. Low foot traffic and spread-out units essentially put many self-storage operations in phase one of the federal reopening guidelines. Management may consider varying rules for accessing indoor and outdoor units if stay-at-home orders persist for a prolonged period, while facilities located in the core of major metro areas will likely need more stringent cleaning and access protocols.

**Self-storage deemed essential business.** Although most stay-at-home orders issued by governors across the nation do not explicitly define self-storage among the businesses that can stay open, consistent language in these orders generally permits continued operations. Notably, many of these directives allow a business to stay open if they provide services that are necessary to maintaining the safety, sanitation and essential operation of residences, businesses and buildings. Additional common language that allows self-storage operations to remain open in all 50 states includes “supply products needed for people to work from home” and “supply or support other essential businesses.” Although local officials may interpret state-level ordinances differently, these instances are generally resolved with time.

**Temporary demand emerges during pandemic and reopening.** As more workers entrench themselves into their homes during the health crisis, spare bedrooms may be turned into offices, creating a need for space to house furniture displaced by the new use. Restaurants may also utilize storage units to store tables and other furniture temporarily once they reopen under increased table spacing required for meet social distancing regulations once the economy reopens. Several other businesses will be allowed to begin to resume operations under these guidelines and may need to temporarily utilize space for unnecessary seating. Sporting venues, places of worship and gyms are all included in the federal plan, though the decision to open is ultimately up to the state governors.

**Old and new trends combine in short term.** Self-storage was undergoing a substantial change before the current crisis. As technology has enabled keyless entry and 24-hour access to facilities, storage units have quickly become an alternative to a larger apartment for storing items. Users can quickly access things that are used with relative frequency, such as sports equipment and tools. Similarly, aging baby boomers who were downsizing their homes and moving to smaller living arrangements utilize storage space for many belongings they have chosen to save. At the onset of the pandemic, college students moved their belongings to storage facilities earlier than normal, delivering a boost to storage demand. Unemployed workers may also temporarily consolidate households, particularly those in industries facing a long recovery, including airlines and tourist attractions.

**Lien auctions not recommended or legal in some locations.** Although a significant number of Americans are out of work and some are unable to pay monthly rent, self-storage proprietors are encouraged to work with tenants rather than begin the process for lien sales. Large groups are prohibited from forming across the country and transitioning to an online model could be unrealistic. In many states, evictions for commercial tenants are banned for a period of time. The language of these orders is vague enough to give operators pause until further clarification. Although cash flow may be disrupted, operators can utilize available government programs.



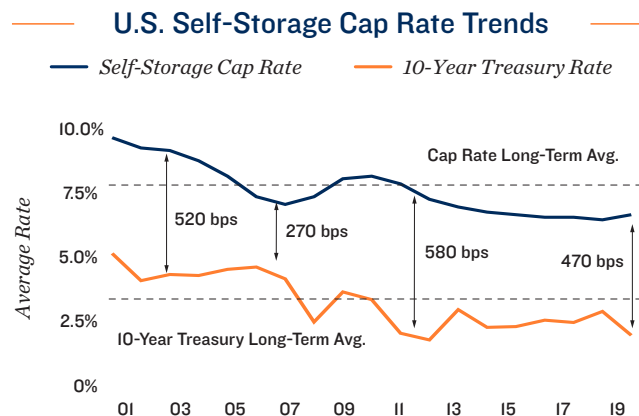
## Self-Storage Well Positioned Entering the Downturn; Investors May Balance Portfolios With Assets

**Stimulus supporting self-storage assets.** Stimulus supporting self-storage assets. The CARES Act enables self-storage operators the opportunity to apply for assistance through the SBA via the Paycheck Protection Program (PPP) and Economic Injury Disaster Loans. Although the initial round of funding for the PPP was exhausted within two weeks, another capital injection into the program is anticipated. These potentially forgivable loans require operators to maintain payrolls at pre-pandemic levels for two months. Amplified unemployment benefits may also keep renters in a position to pay their monthly rent until the economy reopens. Under the legislation, the federal government is adding \$600 per week to existing state-level benefits through the end of July.

**Historical data supports property performance.** Self-storage assets were relatively quick to recover from the Great Recession. After the national vacancy rate hit a cyclical peak of 17.4 percent at the end of 2009, it declined for six straight years, descending an average of over 130 basis points per year. New construction was applying pressure to vacancy prior to the outbreak, though a slowdown in development due to COVID-19 will space out deliveries. As a result, national level vacancy should remain relatively stable over the short term as new demand offsets tenants lost to the weakening economy. A prolonged downturn could weigh on self-storage operations as seen during the early stages of the financial crisis, but a reawakening economy will rebalance demand.

**Self-storage offers diversification potential.** Deal flow will taper over the next couple of months as dispersed working conditions and strains on financial institutions extend timelines. However, self-storage assets are expected to be among the property types that continue to change hands as buyers search for capital destinations with more stability and attractive returns. Furthermore, some investors will look to diversify their portfolios after the equity markets plummeted and some real estate has proved more susceptible to the lockdown than others. A few months of rent rolls may be necessary for both buyers and sellers to clarify pricing in high-risk areas, whereas locations with limited turnover can rely on historical valuation metrics.

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Pre-Recession 2007	Pre-Coronavirus 2019
<b>U.S. Employment</b>	
Rose Y-O-Y 0.8% to 138 million jobs Unemployment 5.0%	Rose Y-O-Y 1.4% to 152 million jobs Unemployment 3.5%
<b>U.S. Self-Storage Construction</b>	
40 million sq. ft. 3.2% of inventory	65 million sq. ft. 4.1% of inventory
<b>U.S. Vacancy   U.S. Vacant Space</b>	
15.5%   195 million sq. ft.	9.5%   153 million sq. ft.

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