

COVID-19 IMPACT

on SELF STORAGE

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1 What's going on, in general, in the self storage asset class as a result of COVID-19?

Our national Self Storage Association (SSA) has worked to provide communication and clarity to its members on CDC directives. On a state by state basis, Self storage facilities are considered essential but most operators are permitted to exercise their own judgement regarding staffing the rental office. In addition, executive orders from CDC prohibit the eviction of any residential or commercial tenant for 90 days. The SSA and many state associations are recommending the suspension of late fees, price increases, or auctions/lien sales in the spirit of the CDC directive but most operators agree that they will handle late fees and non-payment on a case by case basis.

2 What challenges is self storage experiencing in the days and weeks due to COVID-19?

In the short term, there will likely be a general, yet **modest, increases in vacancy and delinquency levels**. Similar to other industries, self storage is an ongoing business that requires its customers to have the ability to pay rent, and most unit rentals are paid for with disposable income. **Historically self storage tends to fare better than most sectors during economic downturns**. This can be attributed to the flexibility in monthly rent payments, the diversified pool of renters, that recessions cause some downsizing, and the rent tends to be "sticky", as it is difficult for customers to move items and find a new space that is as affordable. Most self storage professionals believed that our industry was "recession proof" prior to the great recession of 2008-12. The industry did suffer in the early stages of the recession, but came back strong and faster than most other commercial real estate sectors. The term changed from "Recession-proof" to "Recession-resistant". In this period of uncertainty it appears that the industry will be "insulated, but not immune" from the Covid-19 impact

The facilities that will be most harmed by a prolonged COVID-19 shut down will be those currently in lease up and that have not yet reached stabilization. The typical self storage facility takes 2-3 years to reach full stabilization and 1-2 years to break even. As such, we expect there to be an increase in **bridge loans** to owners in need of cash to carry those properties not yet at break even or stabilization. Over the recent years, the industry has seen a significant up-tick in new supply, so we expect this to impact the industry going forward. Those operators looking for a CMBS refinancing type loan will need to wait until the markets settle down.

The REIT **stock prices**, which fluctuated on average across the top six publicly traded companies in one month will continue to play a role in the acquisition scene. Any decline in stock price will increase their cost of capital and make it more difficult for them to acquire properties in the short term. It will also limit the option for sellers to sell their property in exchange for UPREIT stock, a device which allows sellers to defer capital gain taxes.

3 What opportunities is self storage experiencing in the near-term due to COVID-19?

On the positive side, over the past decade we have seen an exponential increase in **institutional capital & private equity** entering the self storage industry. Some of these institutional buyers have already expressed that they are open for business and looking for deals. The **low mortgage interest rates** will open up opportunities for those with cash /investment funds that may have been sitting on the side lines while the REITS dominated acquisitions and could pay more.

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4 What opportunities is self-storage experiencing in the near-term due to COVID-19?

In the short term, self storage operators will be assisting business owners who need to store inventory or equipment until stores can re-open. Residential tenants who need to downsize will find self storage a viable option for the storage of their personal belongings if faced with an unplanned move. Self storage facilities can be essential in this time of uncertainty to commercial and residential users.

Regarding acquisitions: our experience into these uncharted waters is that those deals which are under contract and in the due diligence process are continuing to be processed. New listings are being brought to the market but it remains to be seen how many buyers will execute and return a CA agreement right now, or wait until they hear from their debt and equity sources.

5 What opportunities do you see self-storage experiencing in the long-term due to COVID-19?

In the long term, we see self-storage continuing to thrive. In the event that the COVID-19 leads to a longer-term slowdown, self-storage is likely to outperform all other asset classes as it did in the 2007-2009 recession. In addition, we see opportunities for investors to leverage a combination of low interest rates and low REIT share prices to invest in this well performing asset class.