



Outlook for Self Storage Remains Solid by Calvin Schnure

When a market is posting exceptionally strong performance, smart investors ask how long it can last. This advice certainly applies to the self storage sector in 2021. There are few adjectives that can adequately describe how favorable

recent market conditions have been, with strong demand and high occupancy rates leading to rising rents and property values across the country. In the publicly listed space, self storage REITs have posted stock market total returns of 51.7% year-to-date as of September 10th.

The good news is that economic fundamentals are in line with these strong market conditions, and I expect them to continue for the foreseeable future. As an economist, three factors in particular stand out in my mind:

The underlying macroeconomic drivers are healthy. Nearly everything about the past 18 months has been dramatically different from historical experience. Some developments, of course, have been terribly unfortunate—the global pandemic and health crises for millions worldwide, the unprecedented shut-down of large parts of the U.S. economy as social distancing measures were imposed, the record rise in unemployment.

Other differences in the recent environment, however, support a robust outlook for the next 18 months to 2 years (the expansion may well last beyond that horizon, but my experience, like most forecasters, is that longer-range projections are more guesswork than science). Most importantly, the 2020 recession resulted from a shock from external forces, in contrast to all previous recessions when the economy collapsed from internal weaknesses. In 2008 it was an overheated housing market and undercapitalized banking system; in 2001, excessive investment during the Dot.com boom; in the 1970s (for those of us old enough to remember the decade) there was a pair of oil shocks and double-digit inflation.

The precipitating factors in the underlying economic fundamentals that caused recessions in the past often took years to heal. Today, however, the underlying fundamentals are in a better position to support a growing economy than at similar points during past downturns.

Quick and forceful policy actions limited the damage from the shutdowns. It is hard to emphasize strongly enough how important the stimulus measures and support for workers and businesses have been over the past 18 months. To be sure, these policies have not been a panacea, and there are still millions of households and businesses that are struggling to get back on their feet. One measure of how these policies supported the U.S. economy is that personal incomes recovered quickly from a modest decline during the early months of the pandemic as households received stimulus checks, and by the end of 2020 were 1% above pre-pandemic levels. This helped prevent the type of downward spiral that took place in most past recessions, when job losses led to lower incomes, prompting households to cut spending, and businesses to make another round of cuts to production and employment, and so on.

Robust housing markets and apartment markets generate demand for storage. One of the surprises about the aftershocks of the pandemic has been the remarkable strength in housing and apartment markets. Several factors have driven the demand for all types of housing, including a desire for more space to achieve social distancing, the need for work areas as multiple members of the household try to work or study from home all day, and rock-bottom interest rates. Home sales and housing prices have soared as a result.

There will be shifts in housing demand and home buying in the months ahead. Already we are seeing signs of a return to many of the big city apartment markets that had weakened in the early months of the pandemic. But this is not coming at the expense of other markets, as the sources of demand mentioned in the paragraph above are all present to some degree. House price gains will likely slow, but strong demand and limited supply should keep prices firm. Housing markets will likely remain strong, and with them, demand for self storage robust.