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Self-Storage Stands on Its Own Square Feet As the US Population Grows

Big-Name Companies Pour Money Into More Space for America's Stuff

A self-storage complex overlooking Chicago's West Lakeview neighborhood. Photo: Araceli Arroyo via Flickr

From New York City to Chicago to Los Angeles, some newly renovated multistory buildings with city views aren't housing people. They're holding their stuff.

America's obsession with possessions is fueling unprecedented interest by investors and developers willing to pay increasing prices for buildings and land on which to create self-storage units.

Long considered an unglamorous subset of industrial real estate, self-storage is coming into its own in the United States. The nationwide growth of residential real estate prices has pushed more of the population to living in smaller places where they don't necessarily have the space for off-season clothing, gear and supplies for their hobbies.

Storage and warehouse leasing has grown 2.5 percent since 2014 to become a $37 billion industry this year, according to market research company IBISWorld. The number of storage businesses has grown 2.4 percent and their workforce has climbed 2 percent in that time.

"Storage is a beneficiary as long as there's population growth," said Charles Byerly, president and chief executive of Irvine, California-based U.S. Storage Centers, which owns and operates self-storage facilities across the country. "As long as the economy is not stagnant, storage will do well."

The U.S. population has grown 3.3 percent from 2013 to 2018, and the economy is in the midst of what could be the longest economic expansion in U.S. history come July. It follows, then, that spending on self-storage construction grew about $1 billion to more than $4.5 billion in October last year from the year earlier, according to data compiled in December by website SpareFoot, which tracks the self-storage industry.

The abundance of self storage now is inspiring not just reality shows in which people bid for the contents of abandoned storage units, but also a Netflix series called "Tidying Up With Marie Kondo" that goes the opposite way by teaching people how to pare their possessions.

The industry is even drawing attention from high-profile investors beyond real estate. Japanese conglomerate and investor SoftBank, a backer of ride-sharing app Uber and coworking firm WeWork, said Wednesday its Vision Fund made a $200 million infusion in Clutter, the Los Angeles-based startup that allows users to summon a crew to their homes to pick up items and haul them to a storage facility. Fast-growing Clutter in December agreed to lease 462,000 square feet of industrial space for storage.

Added Demand

Major commercial real estate companies have taken note of the increased demand for self-storage and are directing their dollars accordingly too, while companies that have existed in the space for years look for ways to protect their territory.

Companies such as Nuveen Real Estate, the investment management arm of financial services giant TIAA, have taken notice. Nuveen last month acquired a 90 percent interest in a 21-property portfolio totaling 1.3 million square feet in nine cities through a partnership with Morningstar Storage, a Matthews, North Carolina-based self-storage company.

Houston developer Hines in 2018 launched an effort of its own to invest in high-end storage facilities in the southwest and began construction on a self-storage facility in Phoenix. The company said it plans to build as many as three to five more projects a year in areas with growing populations and high incomes.

In addition to being in high demand, self-storage is also seen as a relatively safe investment, as it fared comparatively well during the recession, said Walter Brower, vice president of capital markets specializing in self-storage properties at Los Angeles commercial real estate firm CBRE Group Inc.

Like all real estate types, self-storage properties suffered during the recession, but they still made money. They paid dividends at a time when few other property types did, thanks to a diverse tenant base and short lease terms, Brower said.

After the recession ended, Brower said, private equity started flowing into the industry.

The combination of capital and demand inevitably leads to development, which is happening in major markets across the country at varying levels, with bigger, denser cities getting more attention from developers.

Self-storage units today are built vertically, a departure from the short, broad structures from previous decades. In particularly dense, expensive areas like Brooklyn, New York, self-storage projects can reach 12 and 13 stories tall, with units starting at $300 for each month.

But in spite of the common perception that self-storage is an inexpensive property type, building in these areas is neither cheap nor easy, Brower said.

Pricey Bet

“In Los Angeles, $6 million per acre pricing for prime, infill self-storage locations is not unheard of,” said Brower. By comparison, the average acre of U.S. farmland was about $3,080 in 2017, according to the United States Department of Agriculture.

Land costs are just one of the many challenges that the industry’s growth presents for long-time self-storage operators, U.S. Storage’s Byerly said.

The influx of capital has made it difficult to do deals, added Byerly, because the presence of motivated and deep-pocketed investors in the industry has caused valuations to go up and overall make the industry a more expensive place.

U.S. Storage, which earlier this month purchased a 1,269-unit self-storage facility in Las Vegas, has properties in 16 states and in most of the major coastal cities.

The market nationwide is at a heightened level of supply, Byerly said, because so many companies started building self-storage so quickly after the recession. But slow entitlement processes, larger and more complicated facilities that include components like climate-controlled storage, and construction labor shortages have slowed down the construction process and pushed back the time frame for most new development.

Another challenge is increased overheard and operations costs, Byerly said. Property taxes and insurance costs are up, and minimum-wage laws enacted in many states mean that employees have to be paid more. Marketing self-storage is also more difficult because of increased competition in the space.

In spite of these challenges, growth in the industry is expected to continue, at least as long as the American population keeps growing.

“During even the downturn, one thing continued,” Brower said. “U.S. population growth.”