

Self-Storage Supply Set to Fall After 2025

The number of abandoned and deferred projects increased in the second half of 2023.

By Kathy Rembisz | February 22, 2024 at 06:55 AM

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Since the 2008 financial crisis, the self-storage sector has matured into an institutional-quality asset, according to a recent report by Yardi Matrix. Over the years, increasing levels of self-storage utilization drove NOI growth. This in turn attracted investment interest and new development. Self-storage new supply has exceeded 2.5% of stock annually since 2015, and previous forecasts for self-storage were modeled based on this growth.

However, while forecast deliveries for 2024 and 2025 for self-storage have been increased, the forecast for the later years has been reduced.

For markets opened on or before 2020, there are currently 60.1 million net rentable square feet under construction This represents an 8.3% increase quarter-over-quarter and an 11.3% increase year-over-year. However, self-storage construction completion times appear to be moderating. As a result, the year-end growth in the under-construction pipeline was primarily driven by increased new development. The Q1 2024 update has reduced forecast completions for 2006 to 2009, compared to the previous quarters.

The new-supply growth is now forecasted to be around 2.0% of stock for 2026 and 2027 and 1.5% of stock for 2028 and 2029. For 2028, this represents a

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33.7% reduction in new supply compared to the previous quarter's forecast. (https://www.facebook.com/Globestcom) (https://twitter.com/GlobeStcom)

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While the long-term prospects for self-storage appear positive, the long-term growth seen in previous years no longer seems appropriate. The number of abandoned and deferred projects increased in the second half of 2023, and growth in planned and prospective projects stalled. In 2023, the year-over-year change in street rates was negative. Consequently, forecasts for later years have been reduced to approximately 38.0 million NRSF in 2026 and 2027. Further reductions are forecasted for 2028 and 2029, to approximately 29.0 million NRSF.

New self-storage construction activity surprised to the upside at the end of 2023. Despite expectations for a slowdown, both construction starts and under-construction pipeline expanded. As a result, the near-term supply forecast was increased for both 2024 and 2025 compared to last quarter's expectations.

For the longer term, the self-storage supply forecast has been materially decreased. A few factors for this decrease include negative street-rate rental growth, tight financial conditions, a sharp increase in the number of abandoned and deferred projects, and flat planned and prospective pipelines. These factors suggest a noticeable decline in development enthusiasm for self-storage properties.

Consequently, expectations for long-term new-supply growth to stabilize around 2.5% of stock has been materially decreased to approximately 2.0% of stock for 2025 and 2026, and further reduced to 1.5% of stock for 2028 and 2029.

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