Fresh off another record-breaking year, Inland Private Capital Corporation (IPC) remains the industry leader in securitized 1031 exchange transactions. As a part of The Inland Real Estate Group of Companies, Inc. (Inland), IPC provides tax-focused, private-placement, real estate investment solutions to accredited investors as an alternative to traditional stocks and bonds.

With investment opportunities spanning a broad range of asset types, including self-storage, many of IPC’s offerings have been designed for investors seeking replacement property to complete an IRS Section 1031 exchange.

The self-storage industry has been the fastest-growing sector in commercial real estate over the past 40 years, and its recession-resilient characteristics, which were proven by its strong performance through the Great Recession, have garnered the attention of a growing number of institutional investors — a trend that industry analysts expect to continue for many years to come.

We sat down with IPC’s President, Director and Chief Operating Officer, Keith Lampi, to discuss what he expects will make the self-storage sector an attractive asset class for 2020.

As we enter 2020, what are your expectations for investment in the self-storage sector?
Demand for cash-flowing real estate remains robust, and has been fueled by the growing appetite from the baby boomer cohort in their pursuit for income during retirement years. To address market demand, investment management firms aspire to strike a balance between income with capital preservation and value appreciation. The dynamic nature of the self-storage sector accomplishes this objective for many investors: Growth in rental demand provides support for long-term income, and while new supply growth has begun to occur in certain markets, we are continuing to see opportunities throughout the sector that possess a low supply ratio per capita. These factors, coupled with institutional operating efficiencies created by scale, should continue to provide investors with potential for stable income and long-term asset appreciation.

What characteristics continue to make self-storage an attractive asset class in 2020?
At this point in the market cycle, we continue to be bullish on asset types with attributes that have a lower correlation to near- and mid-term economic growth. Self-storage is one of these asset types, which are often referred to as a life-events business, meaning the sector benefits from demand drivers throughout the various stages of an economic cycle. Industry experts often refer to the four “D”s when describing demand drivers — death, divorce, downsizing and dislocation. Each of these factors occurs during periods of economic growth as well as during a recession, a collective concept that contributed to the sector’s outperformance during the last economic downturn.

What kinds of operating fundamentals does the self-storage sector offer investors?
The self-storage sector has a wealth of positive operating fundamentals that underscore the sector’s strong performance, including risk-adjusted cap rates, occupancy growth, net operating income (NOI) growth and low capital expenditures.

When compared to other major sectors, self-storage cap rates remain competitive, which translates to stable cash flow, as well as the opportunity to purchase assets at valuation levels that are more closely aligned with replacement cost.

With low turnover costs associated with re-tenanting, self-storage has one of the lowest capital expenditures, adding to
the landlord’s total return potential. Additionally, the shorter-term nature of self-storage leases allows owners to regularly adjust to market rents.

**What type of investors do self-storage assets attract?**
Self-storage assets present a wealth of opportunities for institutional managers to create value on behalf of investors. With institutions representing a small portion of ownership, acquisition opportunities should be plentiful near term for well-capitalized operators and present opportunities to enhance performance through larger-scale management platforms.

Additionally, the disparity in NOI between institutionally managed and “Mom and Pop” managed properties can be as much as 24 percent in the first year. Institutional managers are equipped to capitalize on ancillary income opportunities to create value, such as selling tenant insurance, merchandise sales and more.

**How large is IPC’s presence in the self-storage space, and what plans does it have for continued growth?**
One of our core objectives when we entered the self-storage arena was to provide our investor base access to another asset type that would complement the diverse menu of alternatives IPC has consistently brought to market. To enhance and expand our self-storage investment platform, we have entered into strategic relationships with five different operators, two of which are among the largest publicly traded real estate investment trusts in the self-storage industry. These strategic alliances underscore IPC’s commitment to the sector, as well as our continued dedication to providing investors with access to institutional-quality opportunities throughout the self-storage marketplace. In fact, in less than four years, we are thrilled with the success and scale we have achieved with the platform, counting more than 52,756 self-storage units across the country, and continue to actively pursue new opportunities.

**As the self-storage sector continues to grow, how does IPC plan to stay competitive when evaluating an asset and structuring a deal?**
The IPC management team prides itself on being nimble and dynamic in our ability to respond to the ever-changing market trends. As a result, our company’s asset-selection process has evolved dramatically over the years in response to macroeconomic conditions and market demand. For example, during IPC’s early years, our platform focused predominantly on long-term net-lease assets in the retail and office sectors. Today, given where we are in the economic cycle, our investment strategy has shifted to primarily focus on late-cycle product offerings.

In addition, the structure of our products has been fluid, with the most notable change tied to the products’ fee structure. Over the past several years, we have focused on reducing the up-front cost structure associated with product offerings, which can have a beneficial impact on the back-end performance.

Overall, the combination of income growth and property appreciation in self-storage has outpaced other sectors. Healthy demand drivers and strong operating fundamentals should position the sector well for experienced investment platforms as a great operating business going forward.

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**ABOUT INLAND PRIVATE CAPITAL CORPORATION**

Inland Private Capital Corporation (IPC) is recognized as the largest provider of securitized 1031 exchange opportunities. As a part of The Inland Real Estate Group of Companies, Inc. (Inland), IPC provides tax-focused private placement real estate investment solutions to accredited investors as an alternative to traditional stocks and bonds. Many of its offerings are designed to qualify as replacement property for an IRS Section 1031 exchange through multiple-owner investment structures. Inland is one of the nation’s largest commercial real estate and finance groups, with more than 50 years in the real estate industry.

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