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, while muted supply growth coupled with institutional operating efficiencies drives long-term asset appreciation.

The self storage industry has been the fastest-growing sector in the commercial real estate industry over the past 40 years, and its “recession resilient” characteristics proven by outperformance through the “great recession” have garnered the attention of a growing number of institutional investors; a trend that's expected to continue for many years to come.

**Demand Drivers & Recession Resilience**

Self-storage is a life events business that 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.

**Strong Operating Fundamentals**

*Higher Cap Rates:* When compared to other major sectors, self-storage cap rates remain higher, which translates to increased cash flow, as well as the opportunity to purchase assets at valuation levels that are more closely aligned with replacement cost.

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A Case for Institutional Opportunities in the Self Storage Sector  —continued from previous page

Growth in Occupancy: Demand drivers have led to consistent growth in occupancy, with current industry averages at approximately 90 percent, up from 87.5 percent in 2015.

Net Operating Income Growth: The shorter term nature of self-storage leases allows owners to regularly adjust to market rents.

Low Capital Expenditures: Low turnover costs associated with re-tenanting minimize ongoing expenses, adding to the landlord’s total return potential.

Institutional Management Opportunities

Fragmented Ownership: Within the sector, 20 percent of the 54,000 institutional-quality properties nationwide are owned by the top 10 operators. 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.

Undermanaged Revenue Opportunities: 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.

Overall, the combination of income growth and property appreciation 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. ■

Keith Lampi is a director, president and chief operating officer of Inland Private Capital Corp., the industry leader in offering replacement properties for Section 1031 exchange transactions, as well as quality, multiple-owner real estate investment solutions.

Learn more at www.inlandprivatecapital.com.