

CBRE Self Storage Investor Survey - Q3 2017



KEY NATIONAL OBSERVATIONS

- Cap rates have flattened since our last survey 3Q 2016. The average cap rate compressed only 4 bps over the past year to 5.60%, and have declined only 14 bps since 4Q 2015.
- Self storage cap rates spread to apartment cap rates has declined to only 20 bps, compared to an average spread of 47 bps over the past seven years.
- The spread between the 10 year Treasuries is currently 344 bps, compared to 319 bps in 4Q 2016, and compared to a 17 year average spread for self storage of 404 bps. The lowest spread of 254 bps was in 2006.
- Market sentiment is that cap rates will remain level in the sector with a slight increase of 25 bps or less over the next year.

Market Segmentation by Investment Quality – Q3 2017

	CLASS A	CLASS B	CLASS C
Discount Rate (IRR)			
Range:	7.75 - 8.75%	8.50 - 9.75%	9.50 - 10.75%
Average:	8.20%	9.26%	9.85%
Capitalization Rate			
Range:	4.75 - 5.60%	5.50 - 6.50%	6.45 - 8.50%
Average:	5.10%	6.10%	6.75%
Residual Cap Rate			
Range:	5.00 - 5.90%	5.75 - 6.75%	6.50 - 8.30%
Average:	5.36%	6.34%	7.05%

Compiled by CBRE

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- Market segmentation remains among class A, B and C properties. In general, class A properties have an NOI/SF at \$10/SF or higher; class B are in a range of \$6-\$10/SF; and, class C is generally less than \$5/SF. However, there remain variances among markets.
- Class C cap rates continued to decline, suggesting investors are considering secondary and tertiary markets for higher yield.



- Internal Rate of Return increased 12 bps to 8.75%, indicating that emphasis on appreciation has peaked and is moving back (albeit slowly) to a balance between cash flow and reversion. In general, 60% or less of total value is a function of the reversion in the sector.
- Forecast rental growth rates have declined slightly since 2016, consistent with the pattern of slower revenue growth due to revenue enhancement models, to 3.50% currently. The growth is lower than increases of the past few years, because respondents are using ten year hold periods most often for discounted cash flow models that consider both boom and bust cycles. Expense growth factors increased nominally to 3.02% from 3.01% in 3Q 2016.
- Both trade area size and demand of SF per person remain relatively level. A 3.14 mile trade area radius is typically utilized for suburban self storage, with urban markets being smaller and rural markets being larger. Some argue that the Internet may have increased trade areas. The average estimate of demand of 6.90 SF/person in the US, down slightly. Many respondents expressed concern of new supply coming to the market.
- Average absorption time increased to 29 months, an increase of two months from one year ago. In the survey, 45% described market conditions as being at equilibrium; 27% as under-supplied; and, 28% as over-supplied. Most respondents thought selling was the best strategy at present. The survey data reflected an optimism index average of 6.90 (1-10 scale), the lowest index since 2010. Marketing time (average time estimated to sell a property) decreased slightly to 3.70 months. Brokers report continued sales volume, but re-trading is becoming more common.
- Profit factors decreased slightly to 23% (profit on costs without land value), a decline of -8.0% from 3Q 2016. Indirect costs averaged 15% of direct costs, virtually unchanged from one year ago.
- Discounted cash flow is used by over 80% of investors surveyed, as the preferred method of analysis for self-storage decisions. This continues a 12 year trend in growing usage of DCF's for self storage.

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SCOPE OF RESEARCH

In this quarter, we have surveyed market participants about a wide variety of data points including the usual cap rate, yield rate and growth rates. Additional information includes trade area size, absorption time, marketing time, profit on costs, optimism index and other metrics.

We interviewed over 50 market participants including buyers, brokers, owners (small and large operators including REITs, national and regional owners), investors, lenders and REIT analysts. Most interviews were either in person or by telephone, including conversations at the Self Storage Association convention in Las Vegas in September. All interviews referenced in this report occurred in the 3Q 2017. The CBRE Self Storage Investor Survey is published 3Q to reflect the robust spring and summer seasons, and 1Q to reflect the slower fall and winter seasons common to self storage. The results of the data this quarter are also compared to a 12 year time series for trend analysis, summarized as follows:

For more information on CBRE's Self Storage Valuation Practice visit:

cbre.com/selfstoragevaluation

SELF STORAGE TIME SERIES - SURVEY RESEARCH

	3Q 2017	3Q 2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Trade Area (Millions):													
Range:	1.00-5.00	1.00-5.00	1.00-5.00	1.00-5.00	1.00-5.00	1.00-5.00	1.00-5.00	1.00-5.00	1.00-5.00	1.00-5.00	1.00-5.00	1.00-5.00	1.00-5.00
Average:	3.14	3.25	3.20	3.30	3.25	3.22	3.20	3.15	3.21	3.14	3.14	3.14	3.30
Change:	-3.38%	1.56%	-3.03%	1.54%	0.93%	0.63%	1.59%	-1.87%	-1.23%	-2.40%	6.05%	-4.85%	
Demand (\$F per Person):													
Range:	2 - 8	2 - 8	1 - 8	1 - 8	1 - 8	1 - 8	1 - 8	1 - 8	1 - 8	1 - 8	1 - 10	2 - 10	3 - 12
Average:	6.9	7.0	7.1	7.1	7.35	7.31	7.15	6.98	6.73	6.52	6.12	5.7	5.36
Change:	-1.00%	-1.41%	No Change	-3.40%	0.55%	2.24%	2.44%	3.71%	3.22%	6.54%	7.37%	6.34%	
Capitalization Rate:													
Range:	4.75% - 8.50%	4.90% - 8.00%	5.00% - 8.25%	5.25% - 8.50%	5.50% - 8.50%	6.25% - 8.50%	6.50% - 8.75%	7.00% - 9.50%	7.00% - 10.00%	7.00% - 10.00%	6.00% - 9.00%	6.00% - 9.00%	7.00% - 10.00%
Average:	5.60%	5.64%	5.74%	5.90%	6.25%	6.75%	7.30%	7.75%	8.75%	8.00%	7.19%	7.26%	8.28%
Change (Basis Points):	3	-10	-16	-35	-50	-55	-45	-100	75	81	-7	-102	
Absorption Time (Months):													
Range:	18 - 36 Months	18 - 36 Months	18 - 36 Months	18 - 36 Months	18 - 36 Months	20 - 40 Months	24 - 40 Months	24 - 48 Months	24 - 48 Months	20 - 40 Months	18 - 36 Months	18 - 43 Months	12 - 44 Months
Average:	29.0	27.0	28.0	28.0	30.0	33.0	36.0	35.0	34.0	33.0	32.0	30.0	27.0
Change:	2.0	-1.0	No Change	-2.0	-3.0	-3.0	1.0	1.0	1.0	1.0	2.0	3.0	
Marketing Time (Months):													
Range:	2 - 6 Months	2 - 6 Months	2 - 6 Months	2 - 6 Months	2 - 7 Months	3 - 6 Months	3 - 9 Months	3 - 9 Months	3 - 12 Months	3 - 12 Months	1 - 12 Months	1 - 6 Months	1 - 12 Months
Average:	3.7	4.0	3.5	3.0	3.0	3.0	4.0	5.0	11.0	6.5	3.7	3.1	3.1
Change:	-0.3	0.5	0.5	No Change	No Change	-1.0	-1.0	-6.0	4.5	2.8	0.5	0.1	
Profit (on cost only):													
Range:	15.00% - 50.00%	15.00% - 50.00%	10.00% - 25.00%	10.00% - 25.00%	10.00% - 25.00%	10.00% - 25.00%	10.00% - 20.00%	10.00% - 15.00%	10.00% - 20.00%	10.00% - 20.00%	10.00% - 25.00%	15.00% - 25.00%	10.00% - 30.00%
Average:	23.00%	25.00%	21.00%	21.00%	20.00%	17.50%	15.00%	12.50%	14.96%	15.86%	17.63%	20.13%	20.14%
Change:	-8.00%	19.05%	No Change	5.00%	14.29%	16.67%	20.00%	-16.44%	-5.67%	-10.04%	-12.42%	-0.05%	
Optimism Index (1 - 10):													
Range:	5.00 - 9.00	5.00 - 9.00	3.00 - 9.00	3.00 - 9.00	3.00 - 9.00	3.00 - 10.00	3.00 - 9.00	3.00 - 9.00	1.00 - 8.00	3.00 - 9.00	3.00 - 9.00	3.00 - 9.00	3.00 - 9.00
Average:	6.9	8.0	8.1	8.1	7.5	7.25	7	6.15	5.5	6	6.25	6.5	6.65
Change:	-13.75%	-1.25%	No Change	8.00%	3.45%	3.57%	13.82%	11.82%	-8.33%	-4.00%	-3.85%	-2.26%	
Market Conditions:													
Under-Supplied:	27%	39%	42%	42%	25%	20%	15%	10%	10%	10%	6%	15%	15%
Over-Supplied:	28%	21%	20%	20%	30%	40%	50%	60%	65%	50%	52%	50%	50%
Equilibrium:	45%	40%	38%	38%	45%	40%	35%	30%	25%	27%	42%	35%	35%
Strategy:													
Buy:	36%	43%	55%	55%	57%	47%	43%	40%	20%	27%	15%	18%	20%
Sell:	39%	24%	20%	20%	24%	35%	42%	45%	60%	55%	60%	50%	60%
Build:	26%	33%	25%	25%	24%	18%	17%	15%	20%	18%	25%	32%	20%
Discounted Cash Flow:													
Usage:	81%	75%	70%	70%	61%	52%	41%	33%	36%	33%	33%	33%	33%
Holding Period:	10 Years	10 Years	10 Years	10 Years	10 Years	10 Years	10 Years	10 Years	10 Years	10 Years	10 Years	10 Years	10 Years
Cost of Sales:	2.01%	1.80%	2.00%	2.00%	2.00%	2.80%	3.50%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Discount Rate (IRR):													
Range:	7.75% - 10.75%	7.75% - 10.75%	8.00% - 10.75%	8.00% - 11.00%	8.25% - 11.00%	9.00% - 11.50%	9.50% - 11.50%	10.00% - 12.00%	10.00% - 12.00%	10.00% - 11.00%			
Average:	8.75%	8.65%	8.75%	9.00%	9.25%	10.25%	10.50%	11.25%	11.50%	11.50%	10.75%		
Change (Basis Points):	12	-12	-25	-25	-100	-25	-75	-25	75				
Rental Growth Rates:													
Range:	3.00% - 6.00%	3.00% - 6.00%	3.00% - 6.00%	3.00% - 6.00%	3.00% - 6.00%	3.00% - 6.00%	1.00% - 5.00%	1.00% - 5.00%	1.00% - 5.00%	1.00% - 5.00%	1.00% - 5.00%	1.00% - 5.00%	1.00% - 5.00%
Average:	3.50%	3.60%	3.60%	3.50%	3.25%	3.50%	3.25%	3.50%	3.00%	3.00%	2.50%	2.50%	2.50%
Change (Basis Points):	-5	-4	10	25	-25	25	-25	50	50				
Expenses Growth Rates:													
Range:	2.00% - 5.00%	2.00% - 5.00%	2.00% - 5.00%	2.00% - 5.00%	2.00% - 5.00%	2.00% - 5.00%	2.00% - 5.00%	2.00% - 5.00%	2.00% - 5.00%	2.00% - 5.00%	2.00% - 5.00%	2.00% - 5.00%	2.00% - 5.00%
Average:	3.02%	3.01%	2.94%	3.00%	3.00%	3.25%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Change (Basis Points):	1	7	-6	No Change	-25	25	No Change	No Change	No Change	No Change	No Change	No Change	No Change
Terminal Cap Rate:													
Range:	5.00% - 8.30%	5.20% - 8.20%	5.25% - 8.25%	5.50% - 8.50%	6.00% - 8.50%	6.50% - 8.75%	7.00% - 9.00%	8.00% - 10.50%	8.00% - 10.50%	8.00% - 10.50%	7.00% - 10.50%	7.00% - 10.50%	7.00% - 10.50%
Average:	5.86%	5.88%	6.01%	6.15%	6.50%	7.00%	7.50%	9.00%	9.00%	9.00%	9.00%	8.50%	8.50%
Change (Basis Points):	-2	-13	-14	-35	-50	-50	-150	No Change	50	50	50	50	50
Spread to Cap Rate (Basis Points):	26	24	27	25	25	25	20	125	25	25	25	25	25

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