

## Is Self-Storage Inflation Proof?

by Ben Vestal

In today's investment market, the main concerns on everyone's mind are the upcoming election, a possible uptick in inflation, and whether the Fed will cut interest rates this year. It comes as no surprise that inflation has been rising for the last 12-24 months with only moderate indications that the Fed raising interest rates has helped control it. While no one knows what the future will bring, it is wise for real estate investors to understand how real estate will be affected and how to best position your investments to hedge during an inflationary time.

Over the past 10 years, the average rate of inflation in the U.S. was about 3.15%. This is meaningfully higher than in years past due to hyperinflation over the last 3-4 years. Many experts are calling for an interest rate cut due to signs that higher interest rates have brought down inflation to a more moderate level of 3.3% for the 12 months ending in May 2024. Higher than normal inflation from 2021-2022 was due to the lasting impacts of the coronavirus stimulus bill, 10+ years of low interest rates, and a rapidly recovering economy that flooded the market with cheap money. The result has been increased competition for goods and services and subsequently rising costs and inflation. This has put extreme pressure on the US consumer and is trickling down to self-storage customers.

Inflation is the scourge of savers, diminishing the value of nest eggs and retirement accounts. Among other things, inflation is the result of "cheap money" and is devastating for most Americans, as it is difficult to find a way to protect against it. The general way to protect your investments from inflation is to have your revenues increase equal to or greater than the

inflationary rate and to have your expenses remain the same. At first glance, it might seem that this would be an unachievable task. But wait a minute - is self-storage inflation proof? Or should we say inflation resistant? Perhaps we are in good shape in our corner of the real estate business. Let's spend a few minutes exploring self-storage as a hedge against inflation and analyze the positives and negatives to see how self-storage stacks up against other real estate investments.

The self-storage business model of short term, month-to-month leases and a fixed base expense model has historically set self-storage owners up to outperform other commercial real estate sectors. However, in recent months we have seen the self-storage REITS underperform the REIT index, and independent owners are reporting flat to moderate NOI growth over the last few quarters. We have learned that the ability to raise or reduce rents quickly allows self-storage owners to increase rental demand by reducing street rates and grow revenue with lower occupancy by implementing an aggressive ECRI program. But then why are we now starting to see negative roll down in rent rolls and softening in NOIs? It is clear that self-storage consumers are more price sensitive today than ever before.

Regular rent increases on the existing tenant base do not typically cause tenants to move out. The dollar amount of a rent increase, while small in total dollars (\$10-\$45 on average), typically results in a very large percentage increase in revenues. However, over the last few quarters we have found that self-storage properties that are experiencing negative roll down in their rent rolls are finding that customers that have

moved in on a highly discounted rental rate special are only willing to accept a moderate rate increase. Many customers will choose not to store if the rate increase is too aggressive, resulting in the new customer paying less than a long-tenured customer that has moved out.

Even with the best revenue management system, there comes a point where the customer either simply cannot afford, or will choose not to pay the higher rents (approximately 2.5-3.5% of Household Income on average). In the short term, inflation did drive up values for hard assets like self-storage properties as construction costs rose. As most buyers today are using a blend of cost basis and income approach to arrive at the value, yields have compressed for investors and only time will tell whether the investment community feels that self-storage is still a good risk-adjusted investment opportunity.

Controlling expenses is another matter, but self-storage has a great advantage over many other real estate asset classes in that the gross margins (say 60%-65%) are better, with expenses equaling roughly one third of the revenue. As a result, self-storage profit margins are higher and there are fewer expenses per dollar of revenue. When you look at the nature of self-storage expenses, you'll find some additional advantages. First, energy use is well below the average of most businesses, which has been a high inflation producer. Second, real estate tax, which is typically the largest self-storage expense, has only a rough correlation to inflation and thus may not automatically adjust in inflationary times. However, we have found that many local taxing authorities are now placing very aggressive real estate tax burdens on self-storage properties. Third, self-storage labor

is not as highly paid as many of the workers under union contracts or in highly skilled professions that are closely linked to inflation. While it is hard to precisely quantify these distinctions, they are real and will tend to mitigate the impact of inflation on self-storage investments.

What about other real estate as inflation hedges? The results are less dramatic because office buildings, industrial, and retail often have long term leases that inadequately compensate for inflation. Even modest inflation that is not compensated for in the lease over a 10 or 15-year period will compound into a healthy diminution in the value of the cash flow and of the inflation-adjusted value of the property. For example, a 5% increase in inflation that is uncompensated for in a 10-year lease will decrease the value by 40%, not to mention the tenant improvements and leasing commissions that you are required to offer tenants in these other asset classes.

All in all, self-storage certainly seems better positioned than most commercial real estate as we head into uncertain political and inflationary times. It is clear that the consumer is speaking as we are finding a direct correlation between unit pricing, rental velocity, occupancy, and move outs. However, self-storage is a need-based product, and while we are seeing price sensitivity for the first time that I can remember, through the combination of inflation and aggressive existing customer rate increases, it is still an advantageous place to house your investment on a macro level. Only time will tell if the self-storage model can stand the test of today's economic driving forces. **MM**

*Ben Vestal, CEO of Argus Self Storage Advisors, can be reached at 800-557-8673 or [bvestal@argus-realestate.com](mailto:bvestal@argus-realestate.com).*

**NEW**

**Phoenix, AZ**  
*Call for Offers*

- 75,464 RSF
- 993 Units
- Class A conversion with institutional design and construction
- Adjacent to former Metrocenter Mall - Metrocenter Mall is getting a \$1B makeover that will bring housing, two hotels, new shops, and a public park to West Phoenix



**Jeff Gorden, CCIM**  
480-331-8880  
jeff@gorden-group.com

**NEW**

**Brunswick, GA**  
*Call for Offers*

- Offers Due 7/17/24
- Boat & RV storage lease-up opportunity in the growing market of Brunswick, GA
- 53% occupied with room to expand; enclosed bays 100% occupied
- 3-acres of paved outdoor parking allowing for roughly 115 parking spaces



**Ryan Haney, Josh Koerner & Frost Weaver**  
904-591-1556  
ryan@coastalstorage.com

**NEW**

**Deltona, FL**  
**\$1,600,000**

- Development Site
- 64,000 GSF
- 5.19 +/- Acres
- 551 Proposed Units
- Fully Entitled and Permit ready
- 530' of frontage along Enterprise Rd and visibility from Deberry Ave with 32,000 AADT
- Undersupplied market with a SF/capita of 5.59 within 3 miles



**Josh Koerner & Frost Weaver**  
904-591-0140  
josh@coastalstorage.com

**NEW**

**Post Falls, ID**  
*Call for Offers*

- Offers Due 7/12/24
- 37,450 RSF
- 212 units & 46 parking spaces
- 4.84 Acres
- 76% Current Occupancy
- Serves Post Falls, Stateline and Hauser Lake
- Steel Framed Buildings/Asphalt Drive Aisles
- Perimeter Fencing
- +/- 2.0 Acres TO EXPAND



**Ryan Layton & Justin Sternberg**  
509-435-2424  
rlayton@areanw.com

**NEW**

**Williston, FL**  
**\$1,600,000**

- 7,475 RSF
- 56 Units
- 1.4 Acres
- Built in 1977, 2003 & 2007
- 10 Boat/RV parking spaces or room for Boxwell units
- Mini storage occupancy 95%+ with a waiting list
- Remotely managed with keypad entry



**Josh Koerner & Frost Weaver**  
904-591-0140  
josh@coastalstorage.com

**Iowa Falls, IA**  
**\$475,000**

- 9,400 RSF
- 56 Units
- 0.46 Acres
- Brand new self storage facility completed in March 2024
- Priced at replacement cost of \$51 per rentable square foot
- Secure facility with fence, external lighting and camera system
- Units to be rentable starting May 2024



**Tom Flannigan**  
651-269-6307  
tom@selfstorage.com

Our complete list of available properties is detailed below. For additional information, visit [www.argus-selfstorage.com](http://www.argus-selfstorage.com) or contact your local Argus Broker Affiliate.

## Alabama

Mobile	\$5,000,000	Bill Barnhill/Josh Koerner	904-591-0140
Mobile	\$1,851,300	Bill Barnhill	251-432-1287
Mobile	\$398,000	Bill Barnhill/Brian Rowley	251-421-0919

## Arizona

Casa Grande	\$2,800,000	Jeff Gorden	480-331-8880
Mesa	\$5,950,000	Jeff Gorden	480-331-8880
Mohave Valley	\$900,000	Jeff Gorden	480-331-8880
Phoenix	Call Broker	Jeff Gorden	480-331-8880
Sierra Vista	\$17,000,000	Jeff Gorden	480-331-8880
Tucson	\$2,825,000	Jeff Gorden	480-331-8880

## Arkansas

Danville	\$800,000	Larry Goldman	913-707-9030
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## California

Hayfork	\$410,000	Vanessa Castaño/Ken Miller	951-867-0517
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## Colorado

Grand Junction	Call Broker	Cole Carosella/Matthew Cox	720-909-8602
Lafayette	\$850,000	Cole Carosella/Matthew Cox	720-909-8602

## Florida

Arcadia	\$1,400,000	Josh Koerner/Frost Weaver	904-594-0140
Delray Beach	\$4,800,000	Josh Koerner/Frost Weaver	904-594-0140
Deltona	\$1,600,000	Josh Koerner/Frost Weaver	904-594-0140
Fort Myers	\$3,250,000	Josh Koerner/Frost Weaver	904-594-0140
Holly Hill	\$2,900,000	Josh Koerner/Frost Weaver	904-594-0140
Palm Bay	\$2,100,000	Josh Koerner/Frost Weaver	904-594-0140
Pensacola	Call Broker	Bill Barnhill/Stuart LaGroue	251-432-1287
Sarasota	\$2,700,000	Josh Koerner/Frost Weaver	904-594-0140
Vero Beach	\$6,800,000	Josh Koerner/Frost Weaver	904-594-0140
Williston	\$1,600,000	Josh Koerner/Frost Weaver	904-594-0140
Zephyrhills	\$2,990,000	Josh Koerner/Frost Weaver	904-594-0140

## Georgia

Albany	\$2,900,000	Ryan Haney/Josh Koerner	904-591-1556
Brunswick	Call Broker	Ryan Haney/Josh Koerner	904-591-1556
Cataula	Call Broker	Brooks Dove	678-439-8441
Douglas	\$2,400,000	Ryan Haney/Josh Koerner	904-591-1556
Hahira	\$3,900,000	Ryan Haney/Josh Koerner	904-591-1556
Richmond Hill	\$1,650,000	Ryan Haney/Josh Koerner	904-591-1556

## Idaho

Post Falls	Call Broker	Ryan Layton	509-435-2424
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## Illinois

Antioch	\$2,450,000	Bruce Bahrmassel/Cole Carosella	312-518-3550
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## Indiana

Elkhart	\$980,000	Rob Schick	317-403-1205
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## Iowa

Des Moines	Call Broker	Tom Flannigan	612-790-3747
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## Iowa Cont.

Iowa Falls	\$475,000	Tom Flannigan	612-790-3747
Shenandoah	<b>SOLD</b>	Tom Flannigan	612-790-3747

## Kentucky

Elizabethtown	<b>SOLD</b>	Rob Schick	317-403-1205
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## Minnesota

Rochester	\$5,300,000	Tom Flannigan	612-790-3747
Windom	\$750,000	Tom Flannigan	612-790-3747

## Mississippi

Greenwood	\$5,400,000	Bill Barnhill/Stuart LaGroue	251-432-1287
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## Missouri

Fenton	Call Broker	Larry Goldman	913-707-9030
Harrisonville	<b>SOLD</b>	Larry Goldman	913-707-9030
Harrisonville	\$1,740,000	Larry Goldman	913-707-9030
Wright City	\$1,400,000	Larry Goldman	913-707-9030

## New Jersey

Egg Harbor	Call Broker	Linda Cinelli/Edan Cohen	908-722-5661
Wharton	\$3,495,000	Linda Cinelli/Edan Cohen	908-722-5661
Williamstown	Call Broker	Linda Cinelli/Edan Cohen	908-722-5661

## New York

Yonkers	Call Broker	Linda Cinelli/Edan Cohen	908-722-5661
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## North Carolina

Salisbury	Call Broker	Jamey Cox	704-995-9168
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## Oklahoma

Bixby/Catoosa	Call Broker	Jared Jones	918-948-3941
Moore	\$850,000	Jared Jones	918-948-3941
OKC/Mustang	\$18,750,000	Jared Jones	918-948-3941

## Oregon

Medford	\$375,000	Scott King	541-890-6708
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## Pennsylvania

Bechtelsville	\$1,350,000	Chuck Shields	610-828-0100
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## Texas

Bay City	\$5,700,000	Faith Pate/Bill Brownfield	713-805-2907
Clyde	Call Broker	Chad Snyder/Tyler Trahant	817-813-5642
Denison	Call Broker	Chad Snyder/Tyler Trahant	817-813-5642
Houston	Call Broker	Chad Snyder/Tyler Trahant	817-813-5642
La Marque	\$995,000	Faith Pate/Bill Brownfield	713-805-2907
Temple	Call Broker	Chad Snyder/Tyler Trahant	817-813-5642

## Washington

Hoodspport	\$710,000	Ryan Layton/Greg Meager	509-435-2424
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## Wisconsin

Bailey's Harbor	\$800,000	Bruce Bahrmassel	312-518-3550
Plover	\$1,750,000	Bruce Bahrmassel	312-518-3550

## Wyoming

Cheyenne	Call Broker	Cole Carosella/Matthew Cox	720-909-8602
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## RECENT SALES



Congratulations to **Rod Schick of Schick & Associates, Inc.** who sold CubeSmart Self storage in Elizabethtown, KY! Contact Rob at 317-403-1205 for details.




Congratulations to **Tom Flannigan, Alex Ihrke, Matt Haugen and Nathan Gottlieb of Area CRE Services** who sold Clark Storage in Shenandoah and Pacific Junction, IA! Contact the team at 612-790-3747 for details.

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- Is your occupancy down? If so, are your units priced right?
- What are your competitors charging for 5x10, 10x10 and 10x20?
- Are you doing Existing Customer Rate Increases? If so, when and how much?

Reach out to your local Argus Broker Affiliate below to request a report!

## CONTACT AN ARGUS BROKER AFFILIATE

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Guy Blake, CCIM  
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### Company

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### Phone

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626-788-7774  
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