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November 13, 2021 04:00 AM

# COVID-related dislocation continues to fuel self-storage boom

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REPRINTS



Courtesy of DealPoint Merrill

Inside DealPoint Merrill's Life Storage location in the former Macy's department store at Richmond Town Square in Richmond Heights.

When COVID pushed college kids out of dorms in the spring of 2020 and forced millions of Americans to clean out basements and spare rooms for remote office space or to move altogether, it sent a flare through the already hot \$40 billion self-storage market.

More than 20 months into the pandemic, self-storage continues to be strong.

"In our world, activity is good," said Todd Amsdell, president and CEO of Cleveland-based Compass Self Storage. "When things are moving around, that benefits storage – and with this pandemic, there has been a lot of moving around."

Compass operates 98 self-storage stores in 15 states, including two in the Cleveland area.

Sterling McGregor, president of DealPoint Merrill, echoed Amsdell's sentiments. The California-based developer is currently building out a 1,100-unit, 117,200-square-foot climate-controlled facility in Parma Heights at the beleaguered Shops at Pearl & 130th plaza. Over the last two years, it has converted the former Macy's at Richmond Town Square in Richmond Heights and a vacant West Side Giant Eagle on Lorain Avenue into Life Storage locations.

A fourth Cleveland-area self-storage development is "under contract," McGregor said.

"COVID-19 has been the best piece of news for storage in decades. The reason is there's a lot of dislocation, people getting downsized and evicted or leaving their jobs and moving. We've all heard talk about the Great Resignation. When people are dislocated for whatever reason, they need a place to put their personal effects," he said.

Indeed, per capita storage demand, historically hovering around 7 to 8 square feet nationally, is shifting upward, according to industry watcher Max Straus. Straus said demand is hitting closer to 9 square feet per person in some fast-growing markets such as Miami; San Jose, California; Austin, Texas; and Charleston, South Carolina.

That increased demand, in turn, has driven up occupancy rates and rent prices.

"Institutional owners who have facilities across the country and REITs like Extra Space (Storage), they're pushing rents as frequently as possible, and they are tracking those numbers," said Straus, who is with Akron's SVN Summit Commercial Real Estate Advisors.

Data compiled by Yardi Matrix shows that rental rates for 10-by-10-foot, non-climate-controlled units across the U.S. reached an average of \$127 in July, a 10.4% increase over July 2020 and the highest recorded price since Yardi started tracking rates in 2016. The

national average rate for similar-size climate-controlled units hit \$145 that same month, a 12.4% year-over-year jump and just short of the record high rate of \$147 experienced in August 2016.

However, it's the sustained high occupancy rates, Straus contends, that has the big players "buying or building more storage almost nonstop."

"I work with a regional operator who built storage facilities 15-20 years ago, and people were saying then not to build because there was too much storage. Here we are, nearly two decades later, and he's still staying around 90% occupancy," Straus said. "We've got around 90%-92% occupancy for most facilities in the Midwest."

And second-tier markets such as Cleveland and Akron are especially attractive, with many larger metro areas already considered "overbuilt," according to Straus.

"As long as there's either some population growth or a very slight population decrease, there's going to be real estate investment trusts or regional operators that will take a look at that (area)," he said.

### **Storage wars**

Doug Ressler, business intelligence manager for Yardi, says that seven self-storage properties in the Cleveland market have been completed in the last two years, totaling 536,000 square feet and representing about 4% of the local market stock. There are 18 developments in the pipeline plus another seven under construction, including DealPoint's Parma Heights development.

Other planned or prospective projects include a 131,000-square-foot CubeSmart Self Storage on Golden Gate Boulevard in Mayfield Heights, a 104,000-square-foot Lincoln Way Self Storage at the site of the former Massillon Kmart, and a 92,000-square-foot storage property on Nottingham Road in Cleveland, Ressler said.

There is some question about how much storage local markets can absorb. Amsdell argues that unlike Cleveland, high-growth markets such as Dallas, Nashville and Orlando, Florida, consist of a large fraction of new households that tend not to have basements and/or "deep local family trees," where they can stash their stuff should the need arise.

"With markets like Cleveland, people have their grandmother's garage or their brother's attic, things like that," he said.

Market saturation, Amsdell said, is "why we have two stores here out of our 100."

"We are seeing utilization rates in Dallas that are 12-square-foot per person," he said. "In Cleveland, it's more like 5."

Still Amsdell believes there are pockets of opportunity locally, and he and McGregor both are careful to note, in McGregor's words, that "not all storage is created equally."

Cleveland, McGregor suggests, is actually "under-supplied" when it comes to "class A" climate-controlled storage, which keeps home and business goods from being exposed to moisture and temperature extremes and is often situated in prominent retail areas rather than isolated industrial parks.

"So, you'd feel better about putting your stuff in our building, because it's not exposed to the elements and there's 24-hour security, cameras, surveillance — all that type of stuff," he said.

Straus said that finding a vacant commercial building in a high-traffic area to convert into storage is the easy part. Getting it properly zoned and approved is a whole other matter.

"A lot of cities, they don't like storage at all," he said. "There's not a lot of money coming in from income tax; there's not a lot of money coming in from higher property valuations. They'd rather see it on the outskirts, maybe as a buffer between industrial and residential, where you don't typically have the same traffic counts."

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