



Special Report

4Q 2022 Investors Survey BY CHRIS SONNE

As interest rates rise, self-storage cap rates continued to rise in 4Q 2022 to an average of 5.21 percent, an increase of 22 basis points over the 2Q 2022 survey and the second increase since 3Q 2018. The Fed has increased rates eight times since March 2022, and market participants expect self-storage cap rates to increase about half the rate of further fed increases. For example, if the Fed increases another 25 bps in March, 2023 self-storage cap rates will increase another 12.5 bps.

The self-storage team at Newmark Valuation & Advisory surveyed over 50 market participants about a wide variety of data points, including the usual cap rate, terminal cap rate, and yield rates. Survey participants include buyers, brokers, owners (small and large operators including REITs, national and regional owners), investors, lenders, and REIT analysts. Most interviews were in person, by telephone, or through electronic conferencing. Survey research interviews referenced in this report occurred primarily in the 1Q 2023. Key performance indicators are shown in the Segmentation by Investment Quality table.

Anecdotally, the mode for self-storage performance is quiet confidence; the sector keeps outperforming expectations. Post-pandemic, “things are returning to normal” in terms of operations. The investment market activity has declined by more than 50 percent beginning in the second half of 2022 as interest rates increased. Yet there still remains more capital to store in the sector than product available (in part due to a divide between buyers and sellers regarding pricing). Portfolios pricing has been less impacted than single assets due to continued institutional confidence in self-storage, based on the long-run sector performance for both public and private companies in bull and bear markets.

Based on our survey results, we estimate cap rates will continue to rise, but also that effective gross

management technology, will result in net operating income increases that partially offset value declines due to investment rate

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income or collections will at least keep pace with inflation (primarily due to existing customer rate increases). Operating expense maintenance, with some opportunities for overall expense declines related to on-site

increases in 2023. In uncertain economic and market conditions, cautious optimism remains for the self-storage asset class. 🏠

Chris Sonne is the executive vice president of the Newmark Valuation & Advisory Group.

Segmentation by Investment Quality - 4Q 2022			
	Class A	Class B	Class C
Discount Rate (IRR)			
Range:	6.00% - 7.75%	6.50% - 8.25%	7.00% - 9.50%
Average:	6.85%	7.55%	8.15%
Capitalization Rate			
Range:	4.25% - 5.00%	4.75% - 5.75%	5.00% - 6.50%
Average:	4.75%	5.50%	5.75%
Terminal Capitalization Rate			
Range:	4.50% - 5.75%	5.25% - 6.50%	5.75% - 8.0%
Average:	5.15%	6.00%	6.25%

Source: Newmark Self Storage Investor Survey, 4Q 2022

Self-Storage Time Series - Survey Research														
	4Q 2022	2Q 2022	3Q 2021	1Q 2021	3Q 2020	3Q 2019	3Q 2018	3Q 2017	3Q 2016	2015	2014	2013	2012	2011
Trade Area (Miles)														
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	1.00 - 5.00
Average:	3.30	3.35	3.30	3.26	3.25	3.20	3.18	3.14	3.25	3.20	3.30	3.25	3.22	3.20
Change:	-1.49%	1.52%	1.23%	0.31%	1.56%	0.63%	1.27%	-3.38%	1.56%	-3.03%	1.54%	0.93%	0.63%	-
Demand (\$F per Person)														
Range:	3 - 9	3 - 9	3 - 9	2 - 8.5	2 - 8.5	2 - 8.5	2 - 8	2 - 8	2 - 8	1 - 8	1 - 8	1 - 8	1 - 8	1 - 8
Average:	7.6	7.9	7.7	7.4	7.3	7.5	7.1	6.9	7	7.1	7.1	7.35	7.31	7.15
Change:	-3.80%	2.60%	4.05%	1.37%	-2.87%	5.63%	2.90%	-1.43%	-1.41%	No Change	-3.40%	0.55%	2.24%	-
Capitalization Rate														
Range:	4.25% - 6.50%	4.00% - 6.50%	4.00% - 6.50%	4.25% - 8.00%	4.50% - 8.50%	4.50% - 8.50%	4.50% - 8.50%	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%
Average:	5.21%	4.99%	4.93%	5.37%	5.50%	5.60%	5.68%	5.60%	5.64%	5.74%	5.90%	6.25%	6.75%	7.30%
Change:	22	6	44	-13	-10	-8	6	4	-10	-16	-35	-50	-55	-
Absorption Time (Months)														
Range:	18 - 48 Months	18 - 48 Months	18 - 48 Months	18 - 48 Months	18 - 36 Months	18 - 36 Months	18 - 36 Months	18 - 36 Months	18 - 36 Months	18 - 36 Months	18 - 36 Months	18 - 36 Months	20 - 40 Months	24 - 40 Months
Average:	33	30	32	34	36	32	30	29	27	28	28	30	33	36
Change:	3.0	-2.0	-2.0	-2.0	4.0	2.0	1.0	2.0	-1.0	No Change	-2.0	-3.0	-3.0	-
Marketing Time (Months)														
Range:	2 - 8 Months	2 - 6 Months	2 - 6 Months	2 - 6 Months	2 - 6 Months	2 - 6 Months	2 - 6 Months	2 - 6 Months	2 - 6 Months	2 - 6 Months	2 - 6 Months	2 - 7 Months	3 - 6 Months	3 - 9 Months
Average:	6.0	4.5	4.3	4.0	6.0	4.4	4.2	3.7	4.0	3.5	3.0	3.0	3.0	4.0
Change:	1.5	0.2	0.3	-2.0	1.6	0.2	0.5	-0.3	0.5	0.5	No Change	No Change	-1.0	-
Profit (on Cost Only)														
Range:	15% - 35%	20% - 35%	20% - 35%	15% - 35%	15% - 35%	15% - 50%	15% - 50%	15% - 50%	15% - 50%	10% - 25%	10% - 25%	10% - 25%	10% - 25%	10% - 20%
Average:	29.00%	32.00%	30.00%	25.00%	26.00%	25.00%	24.00%	23.00%	25.00%	21.00%	21.00%	20.00%	17.50%	15.00%
Change:	-9.38%	6.67%	20.00%	-3.85%	4.00%	4.17%	4.35%	-8.00%	19.05%	No Change	5.00%	14.29%	16.67%	-
Optimism Index (1-10)														
Range:	4	7.00 - 10.00	7.00 - 10.00	6.50 - 10.00	5.00 - 9.00	5.00 - 9.00	5.00 - 9.00	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
Average:	7.9	8.8	8.74	8.2	7.7	7.5	7.1	6.9	8	8.1	8.1	7.5	7.25	7
Change:	-10.23%	0.69%	6.59%	6.49%	2.67%	5.63%	2.90%	-13.75%	-1.23%	No Change	8.00%	3.45%	3.57%	-
Market Conditions														
Under-supplied:														
Range:	29%	41%	37%	27%	25%	27%	28%	27%	39%	42%	42%	25%	20%	15%
Average:	33%	21%	23%	28%	31%	33%	32%	21%	21%	20%	20%	30%	40%	50%
Change:	38%	40%	40%	45%	44%	40%	40%	45%	40%	38%	38%	45%	40%	35%
Equilibrium:														
Range:	45%	45%	55%	51%	44%	41%	37%	36%	43%	55%	55%	52%	47%	42%
Average:	25%	35%	35%	35%	40%	39%	42%	38%	24%	20%	20%	24%	35%	41%
Change:	30%	20%	10%	14%	16%	20%	21%	26%	33%	25%	25%	24%	18%	17%
Discounted Cash Flow														
Range:	94%	93%	92%	90%	88%	86%	82%	81%	75	70	70	61	52	41
Average:	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	10 Years
Change:	2.0%	2.0%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	1.8%	2.0%	2.0%	2.0%	2.8%	3.5%
Discount Rate (IRR)														
Range:	6.00% - 9.50%	6.00% - 9.50%	6.00% - 9.50%	6.75% - 10.75%	6.50% - 11.00%	7.50% - 11.00%	7.50% - 11.00%	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%
Average:	7.35%	7.22%	7.54%	8.39%	8.45%	8.65%	8.73%	8.75%	8.63%	8.75%	9.00%	9.25%	10.25%	10.50%
Change:	13	-32	-45	-6	-10	-18	-2	12	-12	-25	-25	-100	-25	-
Rental Growth Rate														
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%	3.00% - 6.00%	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%
Average:	3.50%	3.50%	3.71%	3.50%	3.25%	3.40%	3.50%	3.50%	3.55%	3.60%	3.50%	3.25%	3.50%	3.25%
Change:	0	-21	21	25	-15	-10	No Change	-5	-5	10	25	-25	25	-
Expense Growth Rate														
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%	2.00% - 5.00%
Average:	3.25%	3.25%	3.15%	3.00%	3.05%	3.10%	3.00%	3.02%	3.01%	2.94%	3.00%	3.00%	3.25%	3.00%
Change:	0	10	15	-5	-5	10	-2	1	7	-6	No Change	-25	25	-
Terminal Cap Rate														
Range:	4.5% - 8.00%	4.25% - 7.00%	4.25% - 7.00%	4.75% - 8.75%	4.75% - 8.75%	4.75% - 8.75%	4.75% - 8.75%	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%
Average:	5.66%	5.47%	5.33%	5.63%	5.85%	5.85%	5.92%	5.86%	5.88%	6.01%	6.15%	6.50%	7.00%	7.50%
Change:	19	14	-30	-22	0	-7	6	-2	-13	-14	-35	-50	-50	750
Spread to Cap Rate (Basis Points)														
Range:	45	48	40	26	35	25	24	26	24	27	25	25	25	20

Compiled by Neemark