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Self-Storage Has Staying Power in CRE

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By **Carrie Rossenfeld** | Orange County

IRVINE, CA-Steady as she goes is a good way to describe the **self-storage** category. This alternative **commercial real estate** investment category has proven to be stable and growing, and though it was impacted during the great recession it held up better than other asset classes. As GlobeSt.com **reported earlier this week**, **Talonvest Capital** recently arranged $27.6 million in self-storage loans for facilities throughout the country. GlobeSt.com caught up with Talonvest principals **Tom Sherlock** and **Jim Davies** to discuss this compelling asset category, why it has legs and where it's headed.

GlobeSt.com: Why are we hearing so much more about self-storage now than ever before?

Sherlock: There are a couple of reasons for it happening. First, the self-storage industry got healthier faster than the traditional **office, industrial, retail** and **multifamily** sectors coming out of the recession. Second, through the downturn, it proved to not get hurt as badly as the other property types, and it's shown itself over the years to be much more recession resistant than those other sectors. So, you have a combination of reasons. You have a good history where it didn't get pounded in the downturn, and you have strong cash flow compared to other options in the marketplace. Also, there's been greater institutional awareness of self-storage. We have seen a lot more institutions stepping up to invest in this product type and a few top institutional investors now consider self-storage to be a "core" asset and are investing in the sector from their "core" investment funds.

GlobeSt.com: How has the investor profile for this product type changed?

Sherlock: Historically, it was predominantly independent investors, individual investors who were very active in the self-storage marketplace and some of the institutions who would invest in niche plays like medical office or student housing. But now, there are a lot more sovereign wealth funds and very large brand-name institutional players investing in the market for this product type. Some of those firms are not putting their name out there—they've asked us to maintain confidentiality as a strategic play since they are being very selective and only want a couple of operating partners.

Davies: Some institutions don't want to get a whole bunch of phone calls from people; they want to stay under the radar screen as they aggregate a portfolio. For others, like Prudential, it's been known for well over a decade that they have been a significant investor in this space. Some investors have discovered that self-storage as a real estate product type has actually outperformed every other real estate product type since the mid-'90s. **NAREIT** has statistics that show that for the public sector. Also, occupancies nationally are in the mid-90% range, and if you look at year-over-year performance in the sector for the public companies and the larger private companies, revenues are growing by 5% per year, and NOI is growing by 7% to 8% per year.