

Q2 2024 Investor Survey

Slow But Steady Forward Momentum

BY R. CHRISTIAN SONNE



Segmentation by Investment Quality - 2Q 2024

	Class A	Class B	Class C
Discount Rate (IRR)			
Range:	6.50% - 7.50%	7.00% - 8.50%	7.75% - 9.25%
Average:	7.05%	8.00%	9.20%
Capitalization Rate			
Range:	4.75% - 5.50%	5.25% - 6.50%	6.25% - 7.75%
Average:	5.10%	6.20%	6.90%
Terminal Capitalization Rate			
Range:	5.00% - 6.25%	6.00% - 7.50%	6.50% - 8.40%
Average:	5.55%	6.65%	7.30%

Source: Newmark Self Storage Investor Survey, 2Q 2024

Band of Investment

Mortgage and Equity Assumptions					
Loan to Value Ratio	65%				
Interest Rate	6.50%				
Amortization (Years)	30				
Mortgage Constant	7.59%				
Equity Ratio	35%				
Equity Dividend Rate	2.38%				
Weighted Average of Mortgage Equity Requirements					
Mortgage Requirement	65%	x	7.59%	=	4.93%
Equity Requirement	35%	x	2.38%	=	0.83%
Indicated Capitalization Rate (Rounded)	5.76%				

Source: Compiled by Newmark

Investment rates have declined slightly from Q1 2024, reflecting the common characteristics of self-storage: slow and steady over the long run. As Gary Sugarman, COO and principal of The William Warren Group, said, “Self-storage is great; it can’t always be unbelievable.”

Cap rates declined slightly in the 2Q 2024 Investor Survey slightly, back to Q4 2023 levels approximately or a 7 bp decline from Q1 2024 levels to 5.76 percent. There is a near certain belief the Fed will cut rates in the near term, and that appears to be reflected in higher optimism this quarter. Key performance indicators are shown in the Segmentation by Investment Quality Table.

See Segmentation by Investment Quality Table

There is wide disparity in market sentiment regarding the number and magnitude of expected interest rate declines by the Fed as inflation cools. Some market reports suggest eight continued rate cuts over the next two years, while other investors expect modest cuts and long-term interest rates to stabilize around 5 percent for the sector. So, what does that mean for investment rates for self-storage? Or, as I am often asked, what is a reasonable, long-term, stabilized cap rate?

Absent knowledge (or my answer, I don't know), let's look at what math suggests. Solving for a current cap rate of 5.76 percent could look like the example in the Band of Investment Table.

See Band of Investment Table

The Band of Investment example suggests a current Equity Dividend Rate of 2.38 percent, or relatively low for self-storage, which have been over 3 percent over the long run. Using a 5 percent interest rate and 3 percent equity dividend rate, suggests about 50 bps decline in investment rates over the long run.

See Band of Investment – Long Run Table

Conclusion

Self-storage remains slow and steady. Self-storage REIT pricing has increased only 1.1 percent year to date (YTD), but the trailing 12 months (TTM) have seen an increase of 16.8 percent on average, reflecting confidence in

Band of Investment – Long Run?

Mortgage and Equity Assumptions

Loan to Value Ratio	65%
Interest Rate	5.00%
Amortization (Years)	30
Mortgage Constant	6.44%
Equity Ratio	35%
Equity Dividend Rate	3.00%

Weighted Average of Mortgage Equity Requirements

Mortgage Requirement	65%	x	6.44%	=	4.19%
Equity Requirement	35%	x	3.00%	=	1.05%

Indicated Capitalization Rate (Rounded) **5.24%**

Source: Compiled by Newmark

sector performance. Investment rates are likely to slowly decline depending upon Fed rate cuts and equity dividend requirements of investors. Therefore, valuations are likely to rise, but more significant sector improvement will largely be a function of operational performance as measured by net

operating income. As historically demonstrated by the sector for decades, the self-storage asset class continues to outperform core sectors of commercial real estate. ■

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

Don't Paint – RESTORE with EVERBRITE™

Everbrite will bring back the color and luster of old, faded doors and buildings and will protect from the damage that the sun, salt air, acid rain, moisture, and other damaging elements cause.

ECONOMICAL – About \$20 per 8' x 8' roll-up door. One part coating. No mixing, no waste.
LONG LASTING – Can be maintained indefinitely by recoating every 7-10 years. Remains flexible – Will not crack, chip, peel or yellow, even after thousands of door openings.
EASY TO MAINTAIN – Surfaces will repel dust and grime and will be much easier to keep clean.
EASY TO USE – Dries fast. NO interruptions in your day-to-day business.

Restore your own property OR Find an Everbrite Certified Contractor in your area for a **FREE** Estimate.
 Call **800.304.0566** or Visit **www.RenewStorage.com**

Scan the QR code for More Info