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## REAL ESTATE

# Need to Store That? Booming Self-Storage Industry Says No Problem

Extra Space Storage shares surge; investment firms look to cash in



Rents are rising, most units are occupied, and competition is tame for companies that lease out storage units to consumers. An Extra Space Storage Inc. facility in Naperville, Ill. *PHOTO: EXTRA SPACE STORAGE*

By **LIAM PLEVEN**

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It could be a while before anyone loses the storage wars.

Business is booming for companies that lease out storage units to consumers. Rents are

rising, most units are occupied, and competition is tame due to limited new construction in the wake of the financial crisis, storage executives and analysts say.

Investors are bidding up the shares of industry leaders such as Extra Space Storage Inc., whose stock is up 33% through Monday in a year when many other commercial real-estate firms have been hit hard and the broader S&P 500 is down 2%. Evercore ISI last week boosted its price targets for Extra Space Storage stock and the shares of two rivals.

Large investment firms also are trying to cash in, with Carlyle Group LP spending about \$80 million to help build new facilities in Southern California, the Pacific Northwest and elsewhere, and Harrison Street Capital LLC considering selling storage properties it snapped up in recent years.

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## THE PROPERTY REPORT

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“It’s a good

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industry to be in,” said Charles Byerly, chief executive of Westport Properties Inc., which is based in Irvine, Calif., and operates more than 80 facilities in 13 states under the US Storage Centers brand.

Consumers seek storage space because of life changes that occur in good times and bad. Some in the industry refer to the 4Ds—death, divorce, downsizing and dislocation, which can include people finding new jobs, getting married or moving away or back home from college.

Because such events don’t necessarily track the economic cycle, the storage business “isn’t recession-proof, but it is recession-resistant,” said Ryan Burke, an analyst at Green Street Advisors, a real-estate research firm.

Juli Ann Polise, a University of Michigan sophomore, said she used a storage company in Ann Arbor, Mich., to store her possessions when she went home for the summer. “It would have just taken up unnecessary space in our house,” she said. “We are definitely doing it again next summer.”

Demand for storage space appears steady, even amid tepid job growth, and supply remains tight. Extra Space, based in Salt Lake City, said 94.5% of its space was occupied

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*‘Your competition is the dumpster.’*

—Christopher Merrill, co-founder of Harrison Street

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at the end of the second quarter, up from 92.1% a year earlier. Public Storage, the largest publicly traded firm in the industry, reported a 7% increase in rental income

year-over-year.

Part of the reason for the tight supply is that building new units can take years. In one extreme example, it took Extra Space more than a decade to build one facility in Southern California, said Spencer Kirk, the firm’s CEO. Some communities are unenthusiastic about hosting storage facilities.

The protracted timeline can make it challenging for smaller firms to get financing, said Mr. Burke. New units are coming online, but at a middling pace that is likely to limit the impact for at least a year or so, he said.

Still, supply is likely to grow at a faster pace in coming years, said Mr. Burke. In addition to the facilities that Carlyle is building, Public Storage has plans to build 3.9 million square feet of storage space, according to a company spokesman.

Some of the new facilities may simply meet pent-up demand in neighborhoods where construction has been slow. Carlyle is targeting places where the amount of storage space per capita is below the national average, said Rob Stuckey, the firm’s head of U.S. real estate.

But acquiring new facilities has gotten more expensive, which could make future growth more costly. Extra Space announced on Oct. 1 that it had closed on the \$1.3 billion acquisition of SmartStop Self Storage Inc. “We obviously would have paid less” for the SmartStop portfolio three or four years ago, said Mr. Kirk of Extra Space.

In addition, the share prices of the largest storage companies may already reflect much of the upside for the industry as a whole.

“There’s a lot of positive expectations already priced into the stocks,” said Paul Adornato, an analyst at BMO Capital Markets.

Still, analysts said storage can be a good long-term business because the space tends to be “sticky.” Once people rent storage units, they are unlikely to move to a different

facility even if the rent is slightly lower, and they tend to keep the units longer than they anticipated, according to Mr. Burke.

Consumers also often have a sentimental attachment to their possessions that keeps them around.

“Your competition is the dumpster,” said Christopher Merrill, co-founder of Harrison Street, which manages \$7.9 billion in assets. Harrison Street sold a group of storage facilities to CubeSmart, another storage firm, for about \$223 million last year.

Mr. Merrill said the firm still owns about 40 facilities around the country, some of which it expects to keep because of the steady income they provide to Harrison Street’s investors and some of which it expects to sell in the next two years.

Chris Marr, CEO of CubeSmart, said he sees no risk to the business from new construction until at least the end of next year. He has been in the industry for about two decades and says conditions now are “as good as I’ve seen.”

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