Developers Are Missing an Opportunity

By Rayna Katz | New York

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NEW YORK CITY—It's not as sexy as retail or multifamily, but the self-storage sector should be getting developers' attention. Not only is it a viable pocket of CRE—with super healthy returns—but in NYC, demand is far outpacing supply, **Ari Hirt**, managing director, **Mission Capital Advisors,** tells GlobeSt.com in this **EXCLUSIVE** interview**.**

GlobeSt.com: What's happening in the self-storage space?
Ari Hirt, Mission Capital Advisors: New York City is one of the country's most supply-constrained markets in terms of self-storage facilities, due to the rising population and the large amount of residential development. The national average for supply is 8.3 square feet per capita, but in the New York City metropolitan area, supply is around 2.7 square feet per capita and some areas in the boroughs have less than one-square-foot per capita.
There are four public storage REITs nationally and they've been growing aggressively. The demand for them to buy facilities or build properties themselves is tremendous. Properties have been acquired in NYC at cap rates as low as 5%.

We recently have done two self-storage construction deals in the New York City area. We closed the financing on one in the Bronx in April and we're closing on one in Brooklyn shortly. We plan to close the financing on a third property, in Queens, in the third quarter.

GlobeSt.com: What is keeping investors from buying more of these facilities, or developers from building them?
Hirt: There's not much land in New York City and what is available is very expensive. Hard and soft costs to build self-storage facilities here are about $200 per square foot, and given land costs of $100-

$200 a foot, it’s hard to find an adequate site. Also, because few deals get done in the sector, there are a limited number of lenders that understand the product, so it can sometimes be a challenge for operators to find construction lenders.

In addition, lease up-is long and turnover is high. It takes two to three years to lease up, and some investors want to be in and out more quickly. But once a property is leased, the facility will stabilize at around 90% occupancy.

GlobeSt.com: What might compel investors to look at the space?

Hirt: Over the past three years, the four REITs that I mentioned have outpaced the S&P index. One of them, CubeSmart, reports that the average cumulative return of these REITs was more than 110% during the three-year period ending in Q1 2015, while returns from the S&P index during the same period were just under 60%.

Also, there’s generally a 60-70% operating margin, which is higher than what you get on some apartments and most hotels. We view self-storage as a property type in between apartments and hotels, given the short-term nature of the leases and the volatility of the rental rates that can change daily.

GlobeSt.com: What's ahead in the self-storage space?

Hirt: Now that we’ve done several deals and have educated lenders about the self-storage product, we believe more investors and lenders will come to the market and we should see increased activity in the space.