



## Leitbox – ‘All-Time Highs’ – Warning

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The phrase ‘all-time high’ often evokes a sense of achievement and success, particularly in the realms of economics and finance. However, this seemingly positive indicator can sometimes be a harbinger of less favorable outcomes. Currently, key economic indicators, such as Treasury bill issuance in the 3rd and 4th quarters of 2023 and 1Q 2024, the number of apartments under construction and the volume of loan maturities over the next 24 months, have reached all-time highs. While at first glance, these may appear as signs of robust economic health, a deeper analysis suggests caution may be warranted.

### **The Paradox of Treasury Bill Issuance Peaks.**

*Overview:* The recent surge in Treasury bill issuance is a double-edged sword. On the one hand, it reflects strong demand for government debt, often seen as a safe haven during uncertain times. On the other, it raises red flags about the underlying economic conditions necessitating such high levels of government borrowing, especially with Japan and China taking a back seat.

### **The Boom in Apartment Construction: A Bubble in Disguise?**

*Current Trends:* The construction industry is witnessing a boom in apartment building, with a record number of units under construction set to be delivered soon – almost twice the historical average. This boom is driven by various factors, including urbanization trends, demographic shifts, and investment influxes into the real estate market.

*Risks and Consequences:* While this boom may seem like a response to housing demands, it could lead to an oversupply in the market, especially if economic conditions change or if the actual demand for these new apartments fails to meet projections. Historical examples, such as the housing market bubble of 2008, demonstrate how oversupply can lead to significant economic downturns.

### **Loan Maturities: The Ticking Time Bomb.**

*The Situation:* An unprecedented volume of loans is set to mature over the next 24 months. This situation is partly due to the favorable lending environment of the past few years, where low-interest rates encouraged borrowing. JLL says it’s over \$1 trillion of loans maturing.

*Potential Fallout:* As these loans mature, borrowers may face challenges in refinancing, especially if interest rates rise or if lenders tighten their credit standards. This could lead to increased defaults, putting pressure on the financial system.

A wave of defaults could impact not just the borrowers but also the lenders, potentially leading to a credit crunch.

### **Conclusion:**

*In 2024, watch the ‘all-time highs’ and use a cautious approach to investing in commercial real estate. With Leitbox Self Storage, on a comparative asset class basis, our capital appetite is small, overhead costs are low, margins are improving via technological advances, and the tenant base is diversified. We “Do Storage Differently.”*

By **Bill Leitner**, CEO of **Leitbox Storage Partners**.