

LEITBOX INSIGHT

SSA Fall 2023 Conference

Leitbox Storage Partners, LLC had an immensely successful experience at SSA Fall 2023. Throughout the week, we engaged in networking, learning, speaking engagements, and the joy of sharing success with our peers in the industry. Here are the key takeaways from our team:

Firstly, it was evident that this year's event had more vendors compared to previous years. This may be indicative of General Contractors (GCs) and vendors actively seeking opportunities to fill the slowing 2024 pipeline. Discussions with GCs revealed that material prices remained stable, even showing a slow decline. GCs who also operated in other asset sectors expressed their confidence in storage as the strongest asset type going forward.

Another notable trend was the rise in distressed deals. Conversations with mortgage bankers suggested a growing number of distressed deals on the horizon, and they were enthusiastic about potential capital providers like us stepping in to facilitate these transactions.

Regarding acquisitions, brokers indicated a significant drop in Certificate of Occupancy (CO) deals compared to previous years. Sellers were no longer able to base pricing on projected lease-ups. Most groups acquiring existing properties were owner-operators, which justified their willingness to purchase at lower cap rates.

Transaction volume was down by more than 50% from the previous year, and there was an estimated 20% pricing correction compared to last year. However, limited sales comps indicated a different story.

In terms of CMBS and distressed debt, unlike other sectors, there was no expectation of an impending wave of self-storage defaults. Similar to the performance during COVID-19, self-storage had only three defaulted CMBS loans out of 1,700.

I and data played a significant role in discussions. Extra Space Storage's acquisition of Life Storage was framed as a data play. Life Storage's value seemed to have decreased since the acquisition. REITs announced flat to down 4th quarters, and the 2022 comparisons were notably high.

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Lastly, a trend emerged where REITs and larger players employed a "bait and switch" strategy, driving top-line revenue through initial pricing concessions and subsequently raising Effective Customer Revenue Increases (ECRI) rates to unprecedented levels, exceeding 28% over the first 60-90 days.

As we move forward, we anticipate more seller financing options becoming available, and transaction volume appears to be aligning with levels seen in 2018, 2019, and early 2020. The self-storage industry continues to evolve, and Leitbox Storage Partners, LLC remains committed to staying at the forefront of these developments.

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