Heitman

Self-Storage: a resilient sector at a strategic entry point

Self-storage has demonstrated itself to be a resilient and important component of real estate portfolios. Since Heitman began investing in the sector in 1996, we have observed its durability and outperformance against traditional sectors throughout economic cycles. As fundamentals improve, driven by structural tailwinds, we believe today presents a compelling opportunity for adding self-storage to a diversified real estate portfolio.

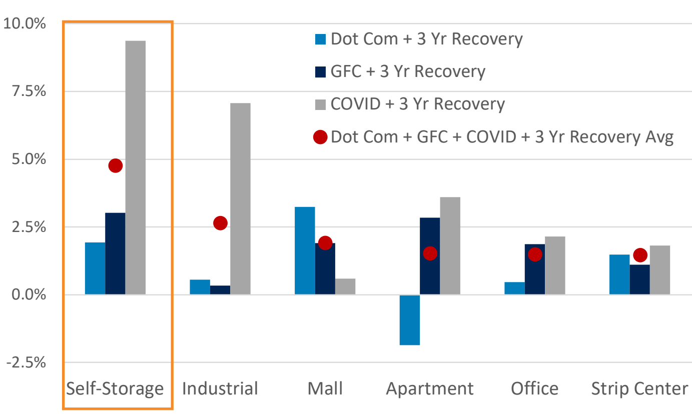
THE CASE FOR SELF-STORAGE

Strong historical performance

Over the past 15 years, self-storage has delivered the highest long-term NOI growth compared to traditional property types. Additionally, the sector has outperformed the NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE) in total return across every period since 2013 – by an average spread of 5.6 percent[1]. Low operating expenses, short lease terms and demand drivers that are less linked to the macroeconomy result in steady cash flows, regardless of the point of the economic cycle. This resilience is illustrated in the sector's outperformance during recessions. Self-storage has outperformed all other sectors in terms of same-property NOI growth during the previous three recessions and their subsequent recovery periods.

Diverse sources of demand

Same-property NOI growth during the dot-com (2001-2004), global financial crisis (2007-2012) and COVID-19 (2020-2023) recessions



Source: Green Street database, accessed Q4 2025

Self-storage benefits from a wide and diverse set of demand drivers. While recent attention has focused on the housing market's impact on demand, many of the sector's fundamental demand drivers, such as favorable demographic trends and growing user adoption, remain intact.

Even with an estimated 10 percent decline in new demand attributable to housing market headwinds, younger generations' increased propensity to rent, as well as strong retention of existing customers, have contributed to solid occupancy levels[2]. Older renters tend to stay longer, often for life transition reasons that are less sensitive to rent increases. We are seeing this inelasticity reflected in Heitman's portfolio; the average length of stay has increased by 25 percent since 2014 and currently sits at roughly 24 months. The successful deployment of rent increases on existing customers has historically prevented prolonged downturns[3].

A natural hedge against inflation

Self-storage's performance during the last several years – marked by the highest inflation rates in four decades – illustrates the sector's lower sensitivity to rising costs. From first quarter 2020 to second quarter 2025, storage weathered the sharp run-up in move rents, delivering 9.5 percent annualized total returns, second only to industrial.[4] This can be attributed to:

1. Short lease terms, which allow operators to reprice rents monthly, enabling rapid response to rising costs
2. Inflation-indexed escalations, which are advantageous compared to property types with multi-year leases
3. Relative affordability despite broader housing cost pressures. Today's average storage cost-to-income ratio is 1.8 percent, well below the 2012–2019 average of 2.3 percent. The relatively low monthly expense, combined with widespread use of autopay programs, supports retention even when rents rise.
4. Low capex requirements and high NOI margins compared to the sector's long-term averages, which limit cost escalation, providing operators with greater flexibility during inflationary periods

Collectively, these characteristics allow storage operators to adjust pricing quickly, maintain demand and preserve margins as expenses rise.

Built-In diversification

Self-storage can add multiple dimensions of diversification to a real estate portfolio. Customer demand stems from various use cases, limiting exposure to one industry or demographic. Additionally, the sector's performance is driven by local trade area dynamics rather than broader markets. Combined with smaller transaction sizes, this allows investors to build portfolios that can span exposure across assets and geographies, thus limiting event risk.

WHY NOW?

Favorable demand outlook

We expect self-storage demand to remain robust, driven by the aging U.S. population, increased adoption among high-growth cohorts and longer tenant stays. Heitman's demographic-based demand model – incorporating household growth, storage propensity by age, renter segmentation and length-of-stay assumptions – indicates that demographic and usage trends are expected to drive more than 20 percent demand growth over the next decade. This far outpaces the 4.8 percent growth seen during the previous ten years. Three major themes drive this acceleration:

1. Broader consumer adoption
2. Millennials aging into the 45- to 59-year-old population segment, when household size, consumption and storage needs typically peak
3. Rapid expansion of the 80-plus age cohort, whose life events often trigger storage use

Housing mobility remains another important contributor to storage demand. A prolonged stagnation in home sales could temper the pace of recovery; however, economists expect activity to rebound gradually in 2026 as anticipated Federal Reserve rate cuts ease longer-term yields that influence mortgage pricing.

Favorable supply outlook

Since development peaked in 2018–2019, new construction has slowed sharply. In 2025, deliveries as a share of existing inventory fell below the long-term average, and new projects today face substantial barriers, including rising construction costs, higher interest rates and tighter financing. With input costs up 65 percent since 2019 and cap rates about 50 basis points wider, Green Street analysis suggests that market rents would need to rise approximately 50 percent from current levels for new construction to pencil. Meaningful new supply is unlikely to materialize until market rents recover. We believe this will benefit existing assets and make the current environment a compelling entry point.

The opportunity today

Self-storage fundamentals have begun to stabilize following a period of moderation. Operators can capture revenue growth across scenarios due to the sector's dynamic pricing. Additionally, unlevered storage prices remain roughly 25 percent below 2022 peaks, creating potential value recovery. Historical precedent reinforces our outlook. Current conditions mirror the period after the global financial crisis, when homebuying activity slowed materially but self-storage still delivered several years of same-store NOI growth above 8 percent, driven largely by limited new supply. With similarly constrained supply today, current market dynamics suggest the sector is well-positioned.

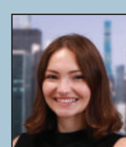
Conclusion

Self-storage continues to demonstrate its value as a resilient, high-performing and diversifying component of real estate portfolios. We believe strong historical performance, inflation-resistant characteristics and favorable supply/demand dynamics present a compelling entry point for investors. Heitman's experience, scale and operational sophistication position us to capitalize on this opportunity and deliver strong outcomes for our investors.

Notes

1. Past performance is not necessarily indicative of future results, and there can be no assurance that Heitman will achieve comparable results, be able to effectively implement its investment strategy, achieve its investment or asset allocation objectives or avoid substantial losses. ODCE is NCREIF Fund Index Open End Diversified Core Equity. Returns are sourced from NCREIF database filtered to ODCE funds and are gross of fee, unleveraged property level returns at legal share. There can be no assurance that the current and future investments of the Fund will perform at similar levels in the future.
2. CUBE, EXR, NSA, PSA 2Q 2025 Supplemental Financial Reports, accessed July 2025
3. Same-store NOI growth for self-storage during the most recent economic downturns and the subsequent three-year period (Dot-Com, GFC, and COVID) has averaged 4.8%, outperforming all traditional property types. Green Street database, accessed Q1 2025.
4. Annualized total returns are an average of NPI returns from Q1 2020 to Q2 2025 and Green Street's Commercial Property Return Index from 1/2020 to 6/2025. The eight property types included in the analysis were chosen because both NCREIF and Green Street provided returns for the period.

CONTRIBUTOR



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Annie Trucco is a member of Heitman's Global Investment Research team and is the sector lead for self-storage and retail research. In this role, she monitors trends in demographics, macroeconomics, property market fundamentals and capital markets dynamics that shape the self-storage and retail sectors. She is involved across the lifecycle of an investment, from underwriting new opportunities to hold/sell analysis. Annie received a B.B.A. in Real Estate and Urban Land Economics from the University of Wisconsin-Madison.

COMPANY OVERVIEW

Heitman is a global real estate investment management firm with $47 billion in assets under management as of December 31, 2025. Founded in 1966 and globally headquartered in Chicago, with European headquarters in London, Heitman has 11 offices worldwide and is an active participant in the global real estate property and capital markets. Heitman makes real estate investments through private equity, debt, and publicly traded real estate securities.

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