Marcus & Millichap

2023

SELF-STORAGE

National
Investment Forecast

TO OUR VALUED CLIENTS

The last three years have brought tremendous growth for the self-storage sector. The behavioral and economic effects of the health crisis fostered a span of double-digit rent growth and record-low vacancy — standout performance that accelerated an already rising amount of investment activity. This landmark period was unlikely to last indefinitely, however, and as the new year begins, we are seeing signs of self-storage space demand returning to more typical patterns.

Even as rent growth slows and vacancy trends toward a more familiar level, both metrics are holding well ahead of their pre-pandemic marks. The sector's long-run outlook continues to be uplifted by growing millennial households and a downsizing retirement cohort, even as elevated inflation and a softer labor market outlook present near-term headwinds. The sector also benefits from below-peak development, with much of the activity aligning well with rapidly-expanding markets.

While the Federal Reserve's aggressive interest rate increases have complicated the transaction environment, investors are still engaged with the self-storage sector. The sector's durability during weak economic cycles and upside gains when the economy is growing have attracted increasing attention from a broad array of investors. Price points above those from even a few years ago appeal to seasoned operators, providing listings for an investor pool that has broadened considerably in the past decade.

To help commercial real estate investors capitalize on unique nuances of the investment climate, Marcus & Millichap presents the 2023 Self-Storage National Investment Forecast. As always, our investment brokerage and financing specialists across the U.S. and Canada are at your disposal, providing street-level investment guidance to empower your decisions.

Thank you and here's to your continued success,

STEVEN D. WEINSTOCK
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National Perspective

Market Overviews

Client Services

Developed by Marcus & Millichap Research Services. Additional contributions were made by Marcus & Millichap investment brokerage professionals nationwide.

National Economy

- The historic post-pandemic recovery faded into the rear view entering 2023, as the byproducts of robust fiscal and monetary support early in the health crisis came to light. An aggressive federal response to shore up national economic conditions in 2020 and 2021 allowed business and consumer demand to bounce back ahead of global supply chain headwinds, creating heightened inflation that persists into this year.
- Companies across various industries are bracing for economic hurdles in 2023 by tightening hiring goals or enacting staff layoffs. This year, periods of net employment contraction are likely, mixed with stretches of positive hiring activity. This combination will produce a mild rate of overall payroll growth for the full year that is unlikely to keep pace with the expansion of the labor pool, lifting unemployment.
- During a more difficult period for finding employment, some young adults graduating high school or college may delay entering the workforce. This would reduce household creation and self-storage needs within this cohort. Nonetheless, a temporary stall may generate pent-up demand for young adults to find jobs and form households in the coming years.

National Self-Storage Overview

- In the wake of the COVID-19 pandemic, the rise of remote work and the migration it allowed to less dense and costly cities fostered a historic period for self-storage. Entering 2023, however, most major metros reported stagnant rents and rising vacancy as demand cooled.
- While a growing retirement age demographic and millennial cohort progressing through higher-income earning years act as long-term supports for the sector, the near-term outlook is more clouded. Though retail spending proceeded at a commendable pace last year, inflation-weary consumers will likely begin to pare back purchasing in 2023 if annual price gains remain above the historical norm. The 2021 migration wave also appears to have abated, evidenced by attrition in the single-family and multifamily housing markets.
- Property fundamentals will be aided this year by annual supply additions that will fall well below previous peaks witnessed in 2018 and 2019. Mounting interest rates could present headwinds to construction financing as well, potentially weighing on development by year-end.

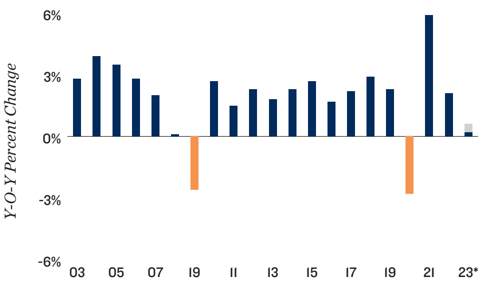
Capital Markets

- After being exceedingly accommodative during the pandemic in 2020 and 2021, the Federal Reserve began to markedly tighten monetary policy last year in order to combat high inflation. The central bank raised the overnight lending rate from a zero lower bound in March to above 4 percent by year-end. The most rapid succession of interest rate hikes since the early 1980s has successfully dampened inflation, but disrupted financial markets and hindered commercial property investment sales. Conditions should improve once interest rates stabilize.
- Bolstered by strong pandemic performance and a favorable long-term outlook, capital continues to be available for self-storage acquisitions. Elevated borrowing costs are nevertheless acting as an impediment to closing transactions.

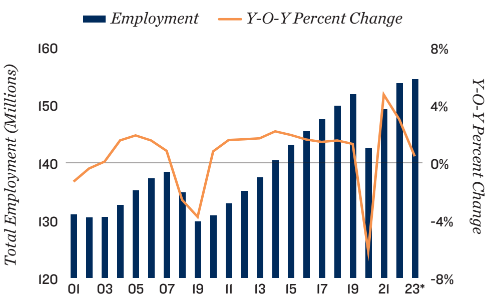
Investment Outlook

- Though increasing capital costs impacted investment across all commercial property sectors last year, a notable portion of buyers continued to pursue self-storage opportunities, aided by fundamentals outperforming pre-pandemic norms. High-growth metros, in particular, should continue to see capital inflows, as migration supports an active user base in these areas.
- Additional investment interest, paired with tighter cap rates, has prompted many traditional storage investors to expand their selection criteria, pursuing properties in smaller towns or farther away from major urban centers. Buyers following the demand fostered by a growing 65-plus cohort will target not only major Sun Belt markets, but also satellite metros, such as Tucson and Fayetteville.

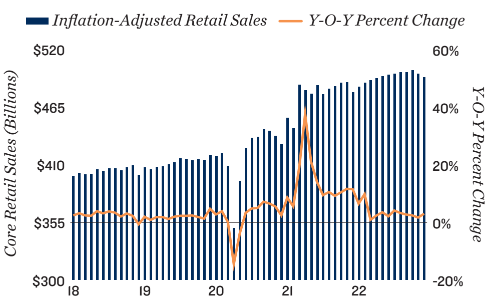
GDP Growth Trends



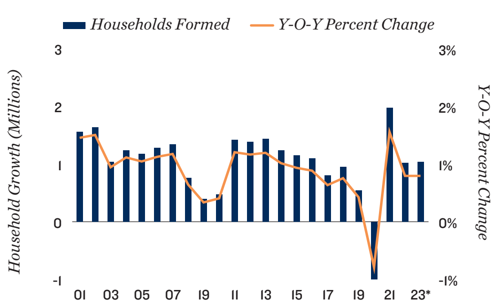
Hiring to Slow in 2023



Inflation-Adjusted Retail Sales Trends



Household Formation Holds at Average Pace



** Forecast*

Softer Labor Market and Consumption Constraints Shape a Less Certain Economic Outlook in 2023

Recalibration prompts defensive mindsets for consumers and businesses. The historic post-pandemic recovery faded into the rear view entering 2023, as the byproducts of robust fiscal and monetary support early in the health crisis came to light. An aggressive Federal Reserve response to shore up national economic conditions in 2020 and 2021 allowed business and consumer demand to bounce back forcefully. Many individuals and companies were able to enhance their financial health, producing amplified spending by organizations and households. However, this occurred alongside global supply chain headwinds, creating an extensive period of heightened inflation that persists into this year. While the price trajectory for certain goods and services began to soften in late 2022, the costs of fundamental necessities like food, housing and medical services remain stubbornly elevated. While some households are positioned to weather the storm with lockdown-era savings, others are now borrowing more, even as debt costs rise. These dynamics will make U.S. consumers relatively selective with their purchases in 2023, while businesses respond to the uncertain economic outlook amid higher interest rates by re-examining their personnel needs and operational expenditures.

Labor market moderation reduces migration and weighs on consumption. Companies across various industries are bracing for economic hurdles in 2023 by tightening hiring goals or enacting staff layoffs. Meanwhile, many individuals are seeking additional income to help reinforce household budgets amid inflationary pressures. This represents a substantial shift in the labor market landscape, after job availability was historically plentiful during much of the pandemic. This year, periods of net employment contraction on a national level are likely, mixed with stretches of positive hiring activity. This combination will produce a mild rate of overall payroll growth for the full year that is unlikely to keep pace with the expansion of the labor pool, lifting unemployment. Workers facing the possibility of job loss or stalled career advancement will be more cautious with their spending in 2023, constraining retail sales and ultimately purchases of large goods that may require additional storage space. Furthermore, subdued hiring activity could limit the motivations to relocate, which is a foundational demand driver for the self-storage sector.

2023 National Economic Outlook

- **Labor conditions cap young adult household formation.** During a more difficult period for finding employment, some young adults graduating high school or college may delay entering the workforce. This would reduce household creation and self-storage needs within this cohort. Nonetheless, a temporary stall may generate pent-up demand for young adults to find jobs and form households in the coming years.
- **Household consolidation a potential self-storage aid.** Residents facing higher living expenses, including rental obligations, may pursue additional roommates to help shore up budgets. This consolidation into one household could result in self-storage demand, as multiple individuals need a place to put their belongings. At the same time, this subset could be particularly sensitive to the costs of utilizing self-storage.
- **Homeownership hurdles lead many to outgrow apartment storage.** A large share of millennials are entering an age range correlated with life events, such as marriage and raising children, that results in household growth. This coincides with barriers to homeownership amid high prices and mortgage rates. Residents are likely to rent longer than past generations, accumulating goods that exceed apartment storage capacity.

Headwinds Cool Off Sector After Historic Span; Supply Gains Continue in High-Growth Zones

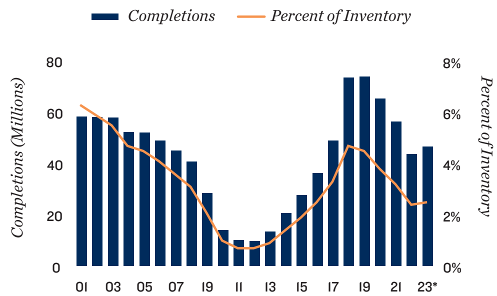
Economic slowdown a speed bump for storage sector. In the wake of the COVID-19 pandemic, the rise of remote work and the migration it allowed to less dense and costly cities fostered a historic period for self-storage. Availability across the U.S. hit an all-time low in 2021. Entering 2023, however, most major metros reported stagnant rents and rising vacancy as demand cooled. While a growing retirement age demographic and millennial cohort progressing through higher-income earning years act as long-term supports for the sector, the near-term outlook is more clouded. Though retail spending proceeded at a commendable pace last year, inflation-weary consumers will likely begin to pare back purchasing in 2023 if annual price gains remain above the historical norm. The 2021 migration wave also appears to have abated, evidenced by attrition in the single-family and multifamily housing markets. Both factors are set to weigh on the demand for storage units this year, although self-storage properties remain in a generally stronger position than preceding the pandemic. The sector is expected to close out this year with an average asking rent 14 percent above and vacancy 110 basis points below the 2019 marks.

Developers maintain focus on high in-migration locales. Property fundamentals will be aided this year by annual supply additions that will fall well below previous peaks witnessed in 2018 and 2019. Though overall completions will increase slightly this year over 2022, robust pockets of construction activity are largely concentrated in high-growth regions of the Sun Belt. Houston, Atlanta and the Dallas-Fort Worth metroplex rank among the top metros by square footage additions for 2023. Southern California markets are receiving comparatively scant arrivals, despite remaining historically undersupplied, given persistently limited land availability. Even in Northeastern metros with less dynamic populations, a lack of climate-control inventory may warrant supply infusions on a local level. Mounting interest rates could present headwinds to construction financing, however, potentially weighing on the pace of development nationally by the end of this year.

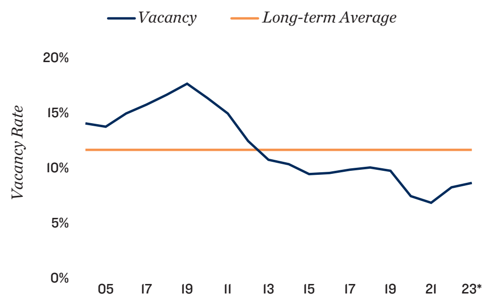
2023 National Self-Storage Outlook

- **Ongoing retirement wave facilitates backstop for demand.** Growth in the 65-plus age demographic has accelerated. The cohort is on track to expand more from 2021 to 2023 than in any prior three-year period. This generation will support storage usage in a time of general flux as many of its members transition into downsized living spaces.
- **Growing interest in tertiary markets warrants development in these locales.** In contrast to stalling rent growth in many gateway metros last year, smaller Midwestern and Sun Belt locales showcased robust increases in asking rates, often exceeding 5 percent. These cities are often within driving distance of a much larger primary or secondary market, appealing to regionally relocating households. Furthermore, self-storage inventory in these zones usually trails the national rate of supply increases.
- **Legislation unlikely to have a significant impact on construction pipeline.** While certain city governments have undertaken efforts to restrict the groundbreaking of new storage projects, these initiatives are sporadic, and are often limited to temporary construction moratoriums or the introduction of sector-specific permitting measures. Locales with solid fundamentals should see little effect on long-term development.

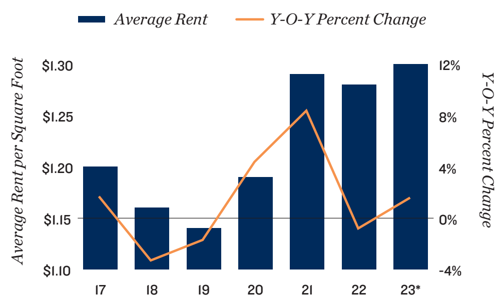
Construction Holds Below Previous Highs



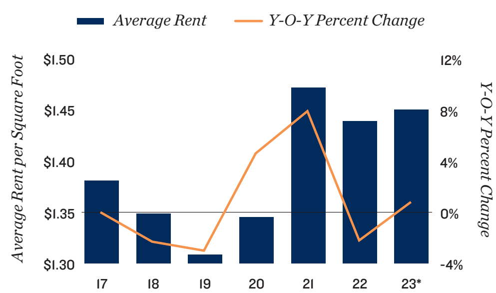
Vacancy Rate Trends



Rent Growth Trends: Non-Climate Controlled

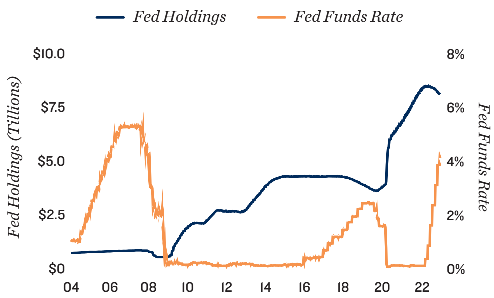


Rent Growth Trends: Climate Controlled

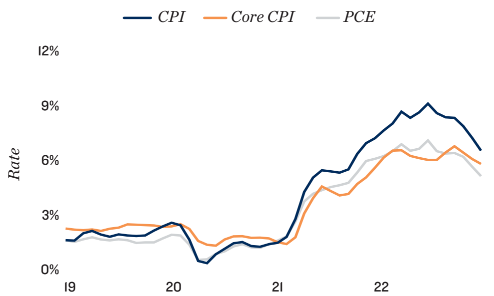


* Forecast

Reversal of Accommodative Monetary Policy

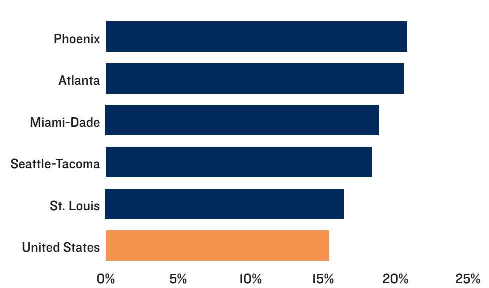


Inflation Eases Back From Historic Levels



Treasury Yields All Elevated

Top Markets by 2019-2022 Inflation



Fed Actions Complicate Capital Markets Borrowers Contending with Higher Costs

Last year's shift to tighter monetary policy continues into 2023 as inflation persists. After being exceedingly accommodative during the pandemic in 2020 and 2021, the Federal Reserve began to markedly tighten monetary policy last year in order to combat high inflation. The central bank raised the overnight lending rate from a zero lower bound in March to above 4 percent by year-end. The most rapid succession of interest rate hikes since the early 1980s has successfully dampened inflation, although upward pricing pressure has not completely evaporated, necessitating ongoing hikes this year. While the sheer speed and magnitude of the increases so far has disrupted financial markets and hindered commercial property investment sales, conditions should improve once interest rates stabilize. The Federal Open Market Committee is searching for an interest rate level that will sufficiently steer inflation back to a 2 percent target, without engendering a broader recession. Once the Fed settles on rates, even though capital costs will be higher than they have been in the recent past, the consistency will help both investors and lenders better determine valuations.

Higher interest rates a hurdle amid general capital availability. Bolstered by strong pandemic performance and a favorable long-term outlook, capital continues to be available for self-storage acquisitions. Elevated borrowing costs are nevertheless acting as an impediment to closing transactions. The combination of investor competition for assets and tightening monetary policy has created an unfavorable dynamic between cap rates on self-storage trades and the cost of commercial debt. This is fostering an expectations gap between buyers and sellers that is also exacerbated by tightened lending criteria. In order to meet necessary debt service coverage, borrowers are having to take on notably less leverage, dissuading some transactions. However, downward movement in the 10-year Treasury in the early part of 2023 grants optimism that lender rates will also start to dip, widening financing margins and allowing trading activity to resume in greater force.

2023 Capital Markets Outlook

- **Banks continue as prominent lenders in sector.** Local and regional banks, as well as credit unions, continue to be prominent providers of capital for self-storage acquisitions. While overall due diligence has tightened, these institutions can offer more flexibility in regards to term than alternative lenders, such as CMBS. The CMBS marketplace has nevertheless become more active following a pause in 2020, given the possibility for full-term, interest-only financing — particularly appealing for smaller investors.
- **Narrow returns may contribute to construction.** The favorable performance of the self-storage sector exiting each of the past two recessions has contributed to greater investor competition, and compressed the average cap rate by about 400 basis points over the past 20 years. These lower returns can be unfavorable, given potential alternatives. As such, some investors may opt to shift to one such alternative: development. Capital is available for self-storage construction projects, specifically in areas of older existing stock or strong population growth.
- **Borrower strategies adapt to higher-cost period.** The high-interest rate environment has placed an added emphasis on improving short-term cash flows. Enhancing net income can bridge the gap until rates lower and borrowers can refinance. Investors may find options among both in-development assets at certificate of occupancy, or older, drive-up properties with value-add potential.

Financing Costs Clash with Underlying Fundamentals; Investors Broaden Scope in Search of Opportunities

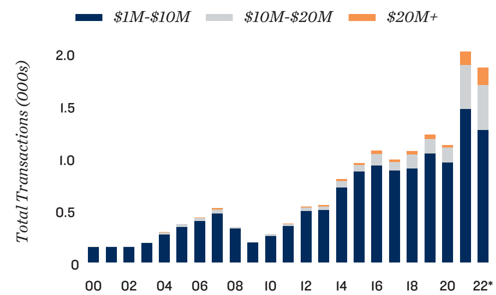
Storage needs of expanding locales support an engaged investor base. Though increasing capital costs impacted investment across all commercial property sectors last year, a notable portion of buyers continued to pursue self-storage opportunities, aided by fundamentals outperforming pre-pandemic norms. The segment recorded the smallest decline in sales activity among property types nationwide between the third and fourth quarters of 2022, a feat emphasized by robust midyear deal flow. Even though trading trended down during the final three months of the year, activity still exceeded comparable spans prior to 2020. Moving into 2023, high-growth metros, in particular, should continue to see capital inflows, as migration supports an active user base in these areas. Of the 20 fastest-growing major markets by overall population, 18 are in the Rocky Mountain and Sun Belt regions. An ongoing influx of new residents into these zones supported robust deal flow throughout last year, and will likely keep many investors engaged here this year as well. A push to acquire assets in these metros has translated to regional price appreciation well ahead of the U.S. average, which may entice additional listings. A 33 percent increase in the price per square foot on self-storage assets was recorded nationwide between 2019 through 2022.

Buyers note slower stock growth outside of major cities. Surging investor interest, following elevated pandemic-period renter demand, brought more investors in from other property types. Added competition helped push the average cap rate on self-storage assets nationwide from a mid-6 percent tranche in 2019 to mid-5 percent by late last year. Additional investment interest, paired with tighter cap rates, has prompted many traditional storage investors to expand their selection criteria, pursuing properties in smaller towns or farther away from major urban centers. In addition to typically higher yields, these locales are often undersupplied. Exurban stock can often be of an older vintage as well, providing investors with potential value-add opportunities through updating management systems. Buyers seeking turnkey solutions may look to facilities in these regions that are already employing climate controls and other contemporary technology.

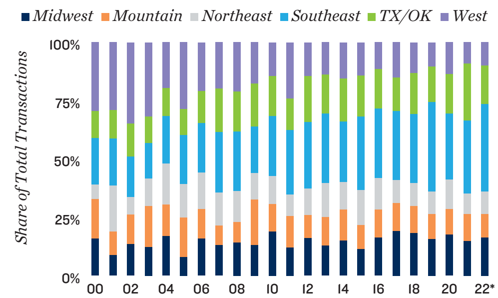
2023 Investment Outlook

- **Developers continue to look at redevelopment.** The large floorplates and proximity to residential neighborhoods found in many big-box retail properties has made these assets an increasingly attractive redevelopment opportunity for self-storage investors. Operators employing this strategy have traditionally targeted spaces in the 100,000-plus-square-foot range, even though ease of access is becoming a greater concern. This is prompting some buyers to seek out comparatively smaller assets in grocery-anchored centers.
- **Investors respond to aging demographics.** Buyers taking advantage of the demand fostered by a growing 65-plus cohort will target not only Sun Belt markets traditionally favorable to seniors, but also satellite metros, such as Tucson and Fayetteville. Renters are not the only group approaching retirement age, as older owners of smaller assets may be eager to sell due to the rapid price appreciation seen in recent years.
- **Cross-sector capital continues to play an important role.** In the wake of the pandemic demand boom, the self-storage sector attracted both institutional and private investors who had traditionally specialized in other asset classes. Though the segment faces near-term hurdles to operations, vacancy that remains below pre-2020 norms should keep buyers new to the sector engaged.

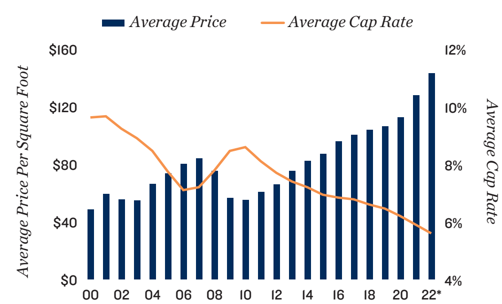
Self-Storage Transaction Activity



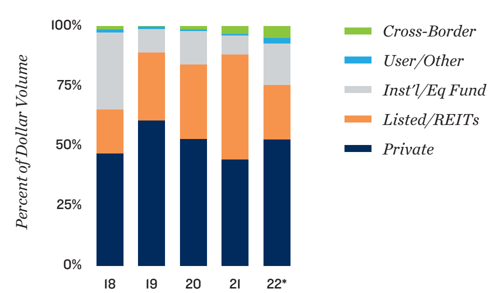
Self-Storage Regional Sales Composition



Price vs. Cap Rate



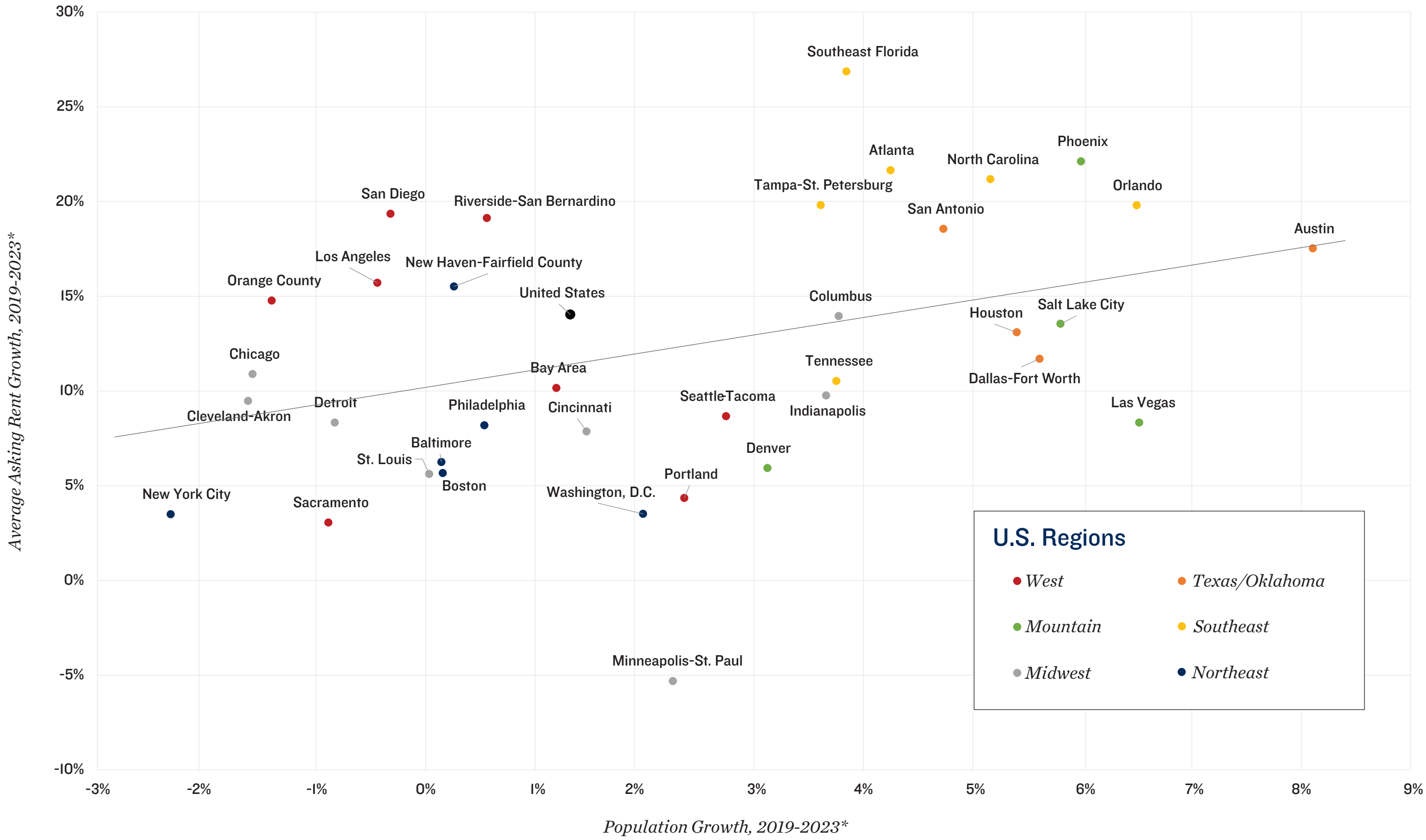
Self-Storage Buyer Composition



* Estimate

Influx of Residents Driving Self-Storage Use

Population and Self-Storage Rent Growth 2019-2023*



Top 10 Markets by Population Growth 2019-2023*

Metro	65+ Pop	Y-O-Y Change	% Change
Orlando	486,000	21,000	4.6%
Austin	304,000	13,000	4.4%
Phoenix	965,000	40,000	4.3%
West Palm Beach	440,000	17,000	4.1%
Las Vegas	406,000	16,000	4.1%
Jacksonville	302,000	11,000	3.9%
Fort Lauderdale	396,000	15,000	3.9%
Dallas-Fort Worth	1,061,000	39,000	3.8%
Raleigh	309,000	11,000	3.8%
Houston	961,000	34,000	3.7%

Metro	20-34 Pop	Y-O-Y Change	% Change
Austin	588,000	12,000	2.1%
Raleigh	461,000	9,000	1.9%
Salt Lake City	665,000	11,000	1.7%
Las Vegas	509,000	8,000	1.7%
Dallas-Fort Worth	1,733,000	26,000	1.5%
Charlotte	573,000	8,000	1.5%
Houston	1,606,000	23,000	1.5%
San Antonio	591,000	7,000	1.3%
Phoenix	1,089,000	13,000	1.2%
Reno	109,000	1,000	1.2%

** Forecast*

Sources: Marcus & Millichap Research Services; Moody's Analytics; U.S. Census Bureau; Yardi Matrix

Relocations Underpin Rent Momentum

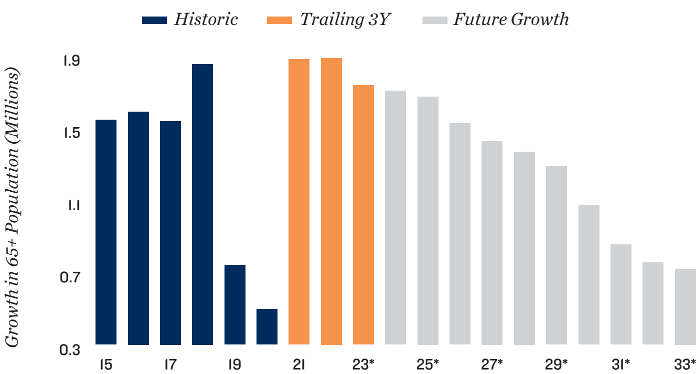
- **Population growth major factor in rent gains.** Sun Belt locales with robust job markets and expanding populations of young professionals have seen the most significant upward pressure on marketed rates. Conversely, rents in the Northeastern and Midwestern metros that reported tepid demographic gains, or in some cases contraction, typically trailed the national average. Nevertheless, Minneapolis-St. Paul was the single metro nationwide to post declining asking rents during this period. Increased development, along with an outflowing 20- to 34-year-old cohort here, combine to weigh down on asking rates in a metro where rents in various sectors already tend to grow by less than the national pace.

- **Southern California markets eschew national trends.** Despite population losses along the coastal corridor, solid rent growth has been observed among such locales. Development here is constrained, limiting the supply pipeline and dramatically reducing the competition to existing operations. The Inland Empire is a notable exception, where coastal expats have driven demand for storage units in San Bernardino County.

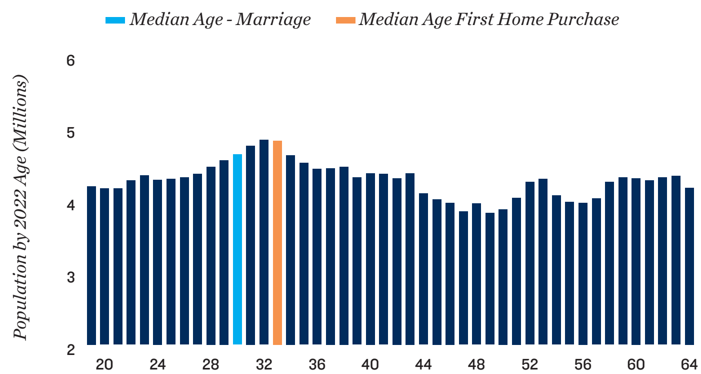
Demographic and Housing Trends Support Long-Term Self-Storage Outlook

Multiple Factors Show Link Between Residential Demand and Storage Utilization

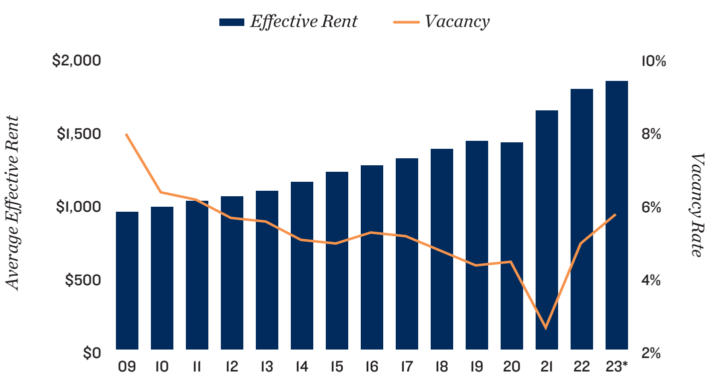
Senior Demographics Continue Historic Growth



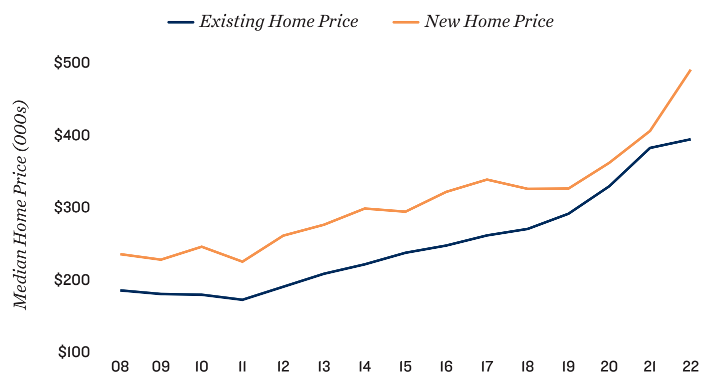
Sizable Population Near Prime Spending Age



Multifamily Performance Normalizing



Pricing Attrition Less Apparent in New Builds



Lifestyle Factors Bolstering Storage Demand

- **Tight housing market incentivizes smaller living options.** Though the market is showing signs of attrition, a historically limited amount of single-family homes for sale has kept values elevated. The median sale price entered 2023 roughly 35 percent above the pre-pandemic equivalent, which, together with rising interest rates, has pushed the typical monthly mortgage payment up more than 70 percent in just three years. This will support demand for comparatively less expensive multifamily units.
- **Growing families support storage use.** While multifamily fundamentals in 2023 are shifting closer to long-run trends, a historic number of millennials are now entering typical homebuying and family formation years. Due to high housing costs, however, many in this cohort are expected to stay in the renter pool. This structural shift is likely to support self-storage use in the years ahead as more growing households reorganize apartments, taking advantage of external storage space.
- **Aging population contributes to Sun Belt tightness.** The wave of individuals entering the 65-plus age bracket is cresting entering 2023. As the younger cohort of baby boomers retires, they should shift to smaller living spaces, boding well for demand in the Southern and Southwestern locales targeted by older Americans.
- **Cyclically-agnostic factors facilitate backstop for demand.** Many storage users target rentals for reasons independent of economic conditions. Familial deaths, marriages and divorces can prompt lifestyle changes necessitating storage units. Additionally, some firms are required to keep physical records of business information, and may use climate-control units to do so.
- **Volatility generates demand from businesses.** Downturns and periods of flux translate to elevated levels of firm consolidation and formation. This friction could prompt some companies to seek out storage solutions to place equipment on a short-term basis.

** Forecast*

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Moody's Analytics; National Association of Realtors; RealPage, Inc.; U.S. Census Bureau; Radius+; Yardi Matrix

Continual Inflow of New Residents Drives Demand

Economic Overview

Austin's job count will continue to climb this year, albeit at a reduced pace. Several large companies are currently expanding in the market, which will support construction-related hiring over the near term and higher-paying job creation beyond 2023. Apple is one such firm, with the company building a campus in Northwest Austin that will house 5,000 employees after its first phase of completion.

Demographic Overview

Net in-migration will surpass the 30,000-resident mark for the ninth time in 10 years, ranking Austin as one of the top markets for relocations in 2023. This sustained movement into the metro will supplement self-storage demand as new residents and households settle into apartments and homes. Additionally, in-market movement may become more prevalent as living expenses rise, a boon for storage facilities in lower-cost locales.

Construction Overview

Substantial population growth should provide demand for this year's construction pipeline. Of the projects coming online in 2023, over 270,000 square feet is slated for the fast-growing city of San Marcos — an area popular among individuals and households seeking lower-cost living options proximate to both Austin and San Antonio.

Vacancy/Rent Overview

The pace of rent growth mirrors last year, despite a moderate increase in vacancy, pushing the average asking rate to a new high. Record rent is supported by notable population growth, with storage facilities in expanding neighborhoods and cities, such as San Marcos, positioned to register more pronounced rent gains.

2023 Market Forecast

Inventory — 25 million square feet and 10.4 square feet per capita

Employment up 0.8% — Austin's employment base will expand by 10,000 positions during 2023, a notable slowdown from last year's 51,900 roles.

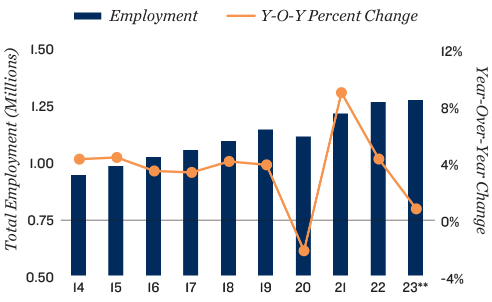
Population up 2.1% — The metro's population grows by 49,500 residents in 2023, the largest year-over-year increase among major U.S. markets. Across a decade, the metro will have gained more than 520,000 people.

Construction 920,000 sq. ft. — Completions will reach a three-year high, growing inventory by 3.7 percent. Still, the volume of square footage delivered this year will slightly trail the prior 15-year average.

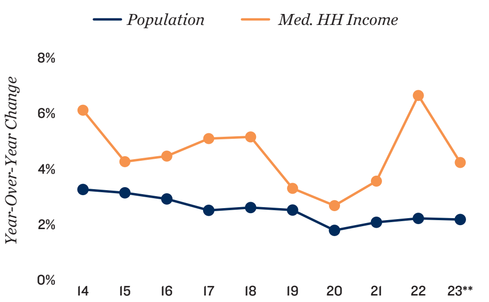
Vacancy up 60 bps — Availability rises for a second year in a row, lifting vacancy to 6.9 percent, a rate 180 basis points below the prior eight-year mean.

Rent up 0.9% — Amid rising vacancy, the average monthly rent inches up to $1.14 per square foot, a rate on par with nearby San Antonio.

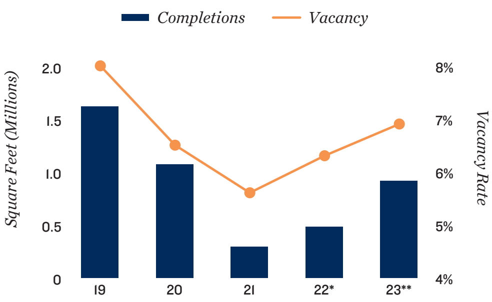
Employment Trends



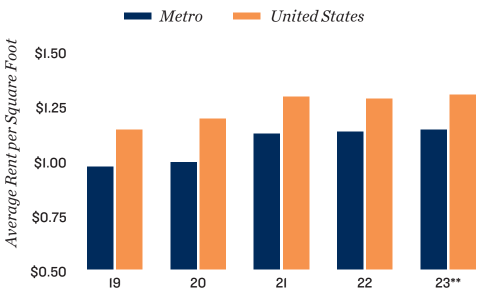
Demographic Trends



Supply and Demand Trends



Rent Trends



* Estimate; ** Forecast

Sources: BLS; U.S. Census Bureau; Radius +; Yardi Matrix

Nation-Leading In-Migration Drives Storage Demand

Economic Overview

In 2023, Dallas-Fort Worth will add the second-highest number of new positions nationally to its employment count. Growth in the leisure and hospitality sector, as well as in the traditionally office-using segment, will highlight these gains. Company expansions into the market — though beginning to slow amid mounting economic headwinds — have fueled most of the recent hiring and incentivized individuals to relocate to the Metroplex.

Demographic Overview

Dallas-Fort Worth tops all metros nationwide by the amount of total new residents in 2023. Despite moderating hiring velocity, net in-migration is expected to be the largest in the country for a third consecutive year, stoking this expansion. As new residents move in, demand for self-storage will hold strong.

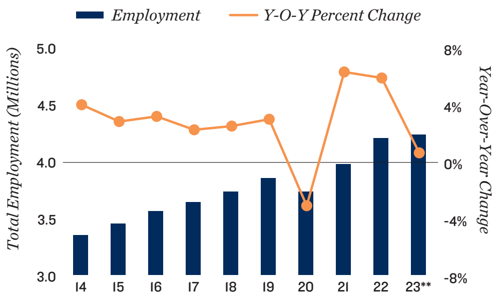
Construction Overview

More square footage is expected to come online in Dallas-Fort Worth this year than in any other U.S. market; yet, the delivery volume will trail the Metroplex's prior five-year average of over 3 million square feet. Fort Worth is slated to receive the majority of completions. The fast-growing outer cities of Carrollton and Melissa in North Dallas are both expecting 200,000-plus-square-foot projects.

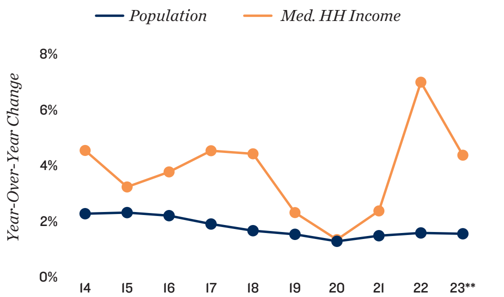
Vacancy/Rent Overview

The average monthly rate will advance the fastest in Fort Worth, rising to $1.02 per square foot. The city is likely to continue to see increasing self-storage demand as some neighborhoods offer living cost advantages to Dallas. Commuting residents seeking lower housing expenses, or employees with remote work flexibility, may opt for Fort Worth.

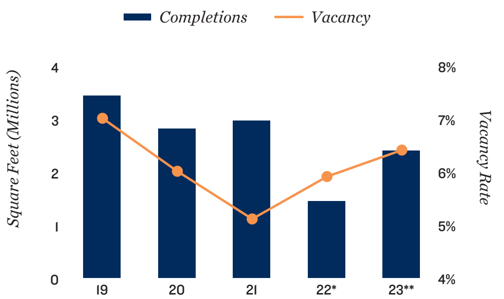
Employment Trends



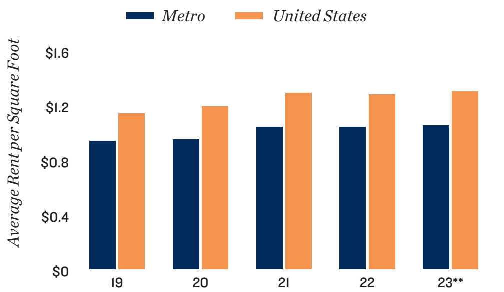
Demographic Trends



Supply and Demand Trends



Rent Trends



2023 Market Forecast

Inventory — 86 million square feet and 10.6 square feet per capita

Employment up 0.7% — Dallas-Fort Worth will add 28,000 positions this year, a notable drop from 2022's surge of 235,000 jobs.

Population up 1.4% — The Metroplex's population will grow by 116,400 residents. This increase is supported by a net of 73,000 out-of-market individuals relocating to the area.

Construction 2,400,000 sq. ft. — Completions in Dallas-Fort Worth will be the highest among the four major Texas markets. Inventory will expand here by around 2.8 percent, and Fort Worth alone will gain 1.1 million square feet.

Vacancy up 50 bps — Despite reporting the largest statewide pipeline, Dallas-Fort Worth maintains Texas' lowest vacancy rate at 6.4 percent.

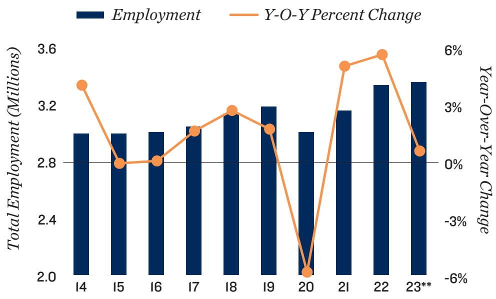
Rent up 1.0% — After a net-zero change during the 2022 calendar year, the mean marketed rent will advance to $1.05 per square foot in 2023.

*Estimate; **Forecast

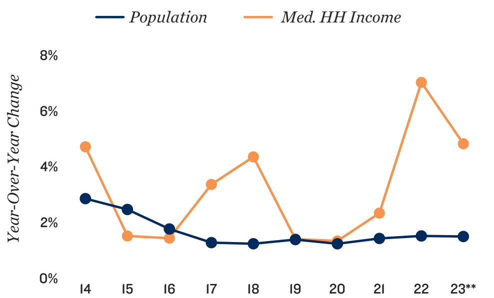
Sources: BLS; U.S. Census Bureau; Radius +; Yardi Matrix

Regionally-Low Housing Costs Aid Storage Demand

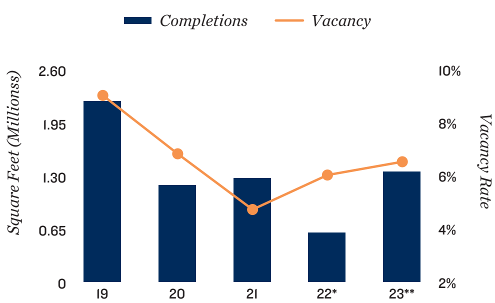
Employment Trends



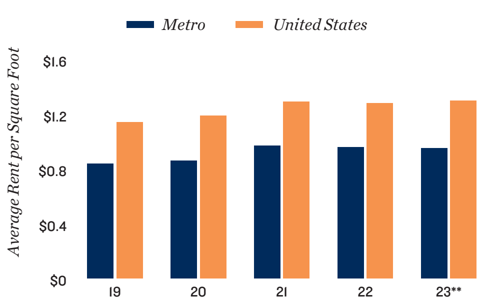
Demographic Trends



Supply and Demand Trends



Rent Trends



*Estimate; ** Forecast

Sources: BLS; U.S. Census Bureau; Radius+; Yardi Matrix

Economic Overview

Houston adds the fourth-highest number of jobs among major U.S. markets this year. Despite slowing from 2022's historically high headcount expansion, employment opportunities are still prevalent, drawing out-of-market residents and contributing to sustained household formation in 2023.

Demographic Overview

In 2023, the median household income for Houston residents is expected to rise 4.7 percent year-over-year, the largest increase among major Texas markets. This, paired with a lower average effective apartment rent than Dallas-Fort Worth or Austin, is a major factor drawing in-state relocations to Houston. In-migration will account for over 57,000 of this year's new residents.

Construction Overview

Several large projects spearhead the 2023 pipeline. Conroe, Tomball and Houston proper are all expecting builds exceeding 100,000 square feet. These three areas account for two-thirds of the active pipeline. More cost-effective living options can be found in outer cities, allowing supply here to benefit from greater in-migration. Conversely, Houston proper may face headwinds in the near term as nearly 400,000 square feet comes online here.

Vacancy/Rent Overview

Although availability will rise this year, the 2023 rate will land 90 basis points below the long-term average. As supply and demand rebalance, the mean monthly rent will slide by $0.01 per square foot. Houston retains the lowest monthly rate among major Texas markets, but also the second-lowest vacancy, potentially allowing for future rent gains.

2023 Market Forecast

Inventory — 82 million square feet and 10.9 square feet per capita

Employment up 0.6% — Following 2022's record high of 178,600 new roles, hiring will slow with only 20,000 positions being added during 2023.

Population up 1.4% — Houston will note the second-largest population increase in the nation, trailing only Dallas-Fort Worth. Over 103,000 new residents are expected this year.

Construction 1,350,000 sq. ft. — Houston West is slated to lead this year's 1.7 percent stock expansion, with 840,000 square feet coming online. Meanwhile, Houston East will gain a more modest 510,000 square feet.

Vacancy up 50 bps — Amid a sizable construction pipeline, availability will creep upward, reaching 6.5 percent by year-end.

Rent down 1.0% — The mean monthly rate will dip to $0.95 per square foot, still more than 13 percent above the average rent in 2019.

Low Supply in Outer Cities Contradicts Growing Demand

Economic Overview

Although employment base additions trail last year's 4.3 percent expansion, job opportunities are still drawing new residents to the metro. The leisure and hospitality sector alone added nearly 8,300 positions in 2022, a 4 percent headcount increase from 2019.

Demographic Overview

San Antonio retains the lowest apartment rent among major Texas markets, encouraging in-migration to the metro. By the end of 2023, the market will have gained over 249,000 out-of-market residents over the last 10 years. Sustained population growth, particularly from relocating households, will underpin self-storage demand through this year. Facilities in outer cities may especially benefit from in-migration as Austin and San Antonio become increasingly intertwined, drawing residents to suburbs located in between.

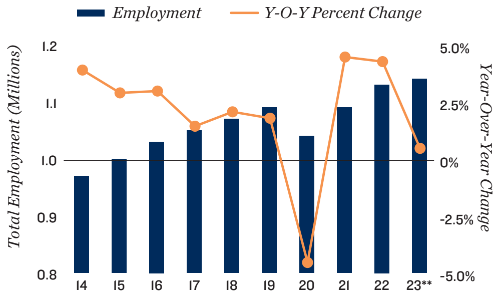
Construction Overview

Self-storage facilities in submarkets between San Antonio and Austin will be aided by a dearth of new supply. As of January 2023, nearly all of the deliveries coming online this year were slated for San Antonio proper. This may create vacancy challenges for some urban areas in the near term, but historically moderating supply additions will mitigate headwinds.

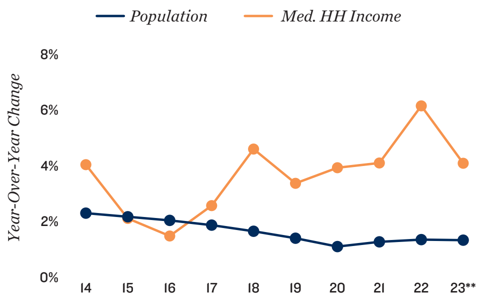
Vacancy/Rent Overview

Availability in the metro has remained relatively consistent since 2019. As other markets noted major vacancy swings during the three years prior to 2023, San Antonio kept its annual rate of availability between 6.7 percent and 7.5 percent. This stability continues to justify a rising average monthly rent, albeit at a slower pace this year than what was recorded from 2019 through 2022.

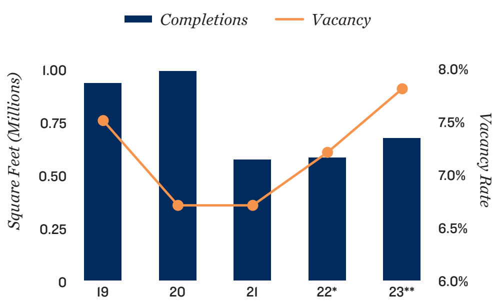
Employment Trends



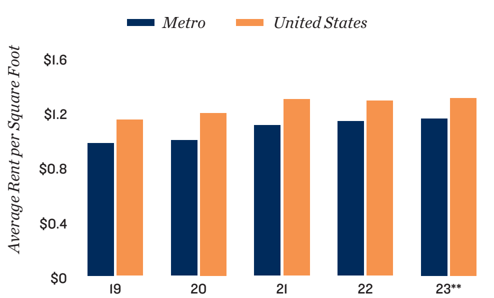
Demographic Trends



Supply and Demand Trends



Rent Trends



** Estimate; ** Forecast*

Sources: BLS; U.S. Census Bureau; Radius+; Yardi Matrix

2023 Market Forecast

Inventory — 25 million square feet and 9.3 square feet per capita

Employment up 0.5% — Total employment increases by 6,000 roles, bringing the headcount nearly 50,000 positions above the February 2020 high.

Population up 1.4% — San Antonio's population continues to expand rapidly, growing by 32,500 individuals this year. Of this, about 65 percent will come from net in-migration. Subsequently, around 14,000 new households will form, just below last year's tally.

Construction 670,000 sq. ft. — Completions will fall below the trailing 10-year average as stock expands by just 2.7 percent. This marks the third year of annual deliveries under 700,000 square feet.

Vacancy up 60 bps — Availability will nearly realign with the long-term mean, sitting about 50 basis points below that mark. In 2023, the vacancy rate reaches 7.8 percent.

Rent up 1.8% — The mean monthly rent elevates for the fourth year in a row, measuring at $1.15 per square foot by the end of December.

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Statistical Summary Note: Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of February 2023. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and self-storage data are made during the first quarter and represent estimates of future performance. Average asking rent is based on a standard 10-foot by 10-foot non-climate controlled unit unless otherwise stated. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Marcus & Millichap Research Services; Bureau of Economic Analysis; Capital Economics; CoStar Group, Inc.; Experian; Federal Reserve; Moody's Analytics; National Association of Realtors; Real Capital Analytics; 2023 Self-Storage Almanac; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Securities and Exchange Commission; U.S. Treasury Department; Radius+; Yardi Matrix

2023 U.S. SELF-STORAGE INVESTMENT FORECAST

Market Name	Employment Growth[2]				Population Growth[2]				Completions (000 of Sq. Ft.)[2]				Vacancy Rate[2]				Asking Rent per Sq. Ft.[2]				Market Name
	2020	2021	2022	2023**	2020	2021	2022	2023**	2020	2021	2022	2023**	2020	2021	2022*	2023**	2020	2021	2022	2023**	
Atlanta	-4.7%	5.7%	4.4%	0.5%	0.8%	1.1%	1.1%	1.1%	1,800	2,100	1,600	1,900	5.8%	4.4%	6.9%	7.4%	$0.98	$1.15	$1.12	$1.18	Atlanta
Austin	-2.1%	8.9%	4.3%	0.8%	1.7%	2.0%	2.1%	2.1%	1,100	300	500	900	6.5%	5.6%	6.3%	6.9%	$0.99	$1.12	$1.13	$1.14	Austin
Baltimore	-7.0%	4.1%	1.9%	0.4%	0.0%	-0.1%	0.1%	0.2%	1,000	1,100	600	800	5.8%	6.8%	8.0%	8.5%	$1.31	$1.39	$1.34	$1.36	Baltimore
Bay Area	-9.7%	6.5%	4.1%	0.3%	0.3%	-0.1%	0.5%	0.6%	900	900	1,100	1,300	3.3%	5.9%	6.5%	7.2%	$1.98	$2.05	$2.04	$2.06	Bay Area
Boston	-8.4%	5.6%	4.0%	-0.4%	0.1%	-0.4%	0.1%	0.3%	1,100	900	900	1,000	6.1%	6.8%	7.9%	8.3%	$1.49	$1.56	$1.51	$1.49	Boston
Chicago	-8.0%	5.6%	2.9%	0.5%	-0.4%	-0.7%	-0.3%	-0.2%	1,800	400	900	1,000	5.3%	5.0%	5.9%	6.5%	$1.06	$1.18	$1.15	$1.12	Chicago
Cincinnati	-5.2%	2.5%	1.2%	-0.3%	0.2%	0.4%	0.4%	0.5%	600	400	600	500	5.2%	4.6%	6.3%	6.9%	$0.93	$0.97	$0.97	$0.96	Cincinnati
Cleveland-Akron	-6.5%	2.0%	1.7%	0.0%	-0.5%	-0.3%	-0.2%	-0.2%	400	400	400	900	6.9%	7.3%	8.2%	8.5%	$0.98	$1.06	$1.06	$1.04	Cleveland-Akron
Columbus	-4.0%	2.5%	1.7%	0.2%	0.8%	0.9%	1.0%	1.0%	300	400	300	400	6.9%	8.4%	8.5%	8.8%	$0.88	$0.94	$0.96	$0.98	Columbus
Dallas-Fort Worth	-3.0%	6.4%	5.9%	0.7%	1.2%	1.4%	1.5%	1.5%	2,800	3,000	1,400	2,400	6.0%	5.1%	5.9%	6.4%	$0.95	$1.04	$1.04	$1.05	Dallas-Fort Worth
Denver	-6.1%	6.1%	3.9%	-0.2%	0.8%	0.5%	0.8%	1.0%	200	900	300	700	3.9%	5.3%	6.5%	7.2%	$1.20	$1.30	$1.28	$1.25	Denver
Detroit	-9.3%	6.4%	2.0%	-0.2%	-0.3%	-0.2%	-0.1%	-0.2%	700	900	300	600	-	-	-	-	$1.12	$1.21	$1.18	$1.17	Detroit
Houston	-5.8%	5.1%	5.7%	0.6%	1.1%	1.3%	1.4%	1.4%	1,200	1,300	600	1,400	6.8%	4.7%	6.0%	6.5%	$0.86	$0.97	$0.96	$0.95	Houston
Indianapolis	-3.6%	4.6%	1.4%	-0.2%	0.7%	1.0%	1.0%	1.0%	700	800	500	400	5.5%	2.9%	5.5%	6.6%	$0.84	$0.92	$0.91	$0.90	Indianapolis
Las Vegas	-13.3%	12.7%	4.3%	-0.4%	1.1%	1.5%	1.9%	1.9%	900	1,100	900	1,000	6.3%	4.4%	6.1%	6.8%	$1.14	$1.29	$1.23	$1.17	Las Vegas
Los Angeles	-10.4%	7.9%	3.3%	0.3%	-0.1%	-0.5%	0.0%	0.2%	500	800	700	700	4.7%	4.2%	5.9%	6.9%	$2.02	$2.16	$2.17	$2.21	Los Angeles
Minneapolis-St. Paul	-8.3%	4.5%	3.5%	-0.6%	0.5%	0.3%	0.7%	0.8%	1,500	1,100	200	700	-	-	-	-	$1.10	$1.12	$1.08	$1.07	Minneapolis-St. Paul
New Haven-Fairfield County	-6.4%	3.4%	2.3%	-0.5%	-0.2%	0.2%	0.1%	0.1%	500	600	600	500	4.6%	4.0%	8.2%	8.6%	$1.23	$1.37	$1.35	$1.34	New Haven-Fairfield County
New York City	-12.3%	6.8%	4.6%	0.9%	-0.8%	-1.4%	-0.2%	0.1%	900	1,200	1,300	1,800	5.2%	5.1%	6.0%	6.8%	$2.65	$2.66	$2.63	$2.66	New York City
North Carolina	-2.0%	3.2%	4.3%	0.7%	0.7%	1.4%	1.5%	1.4%	1,900	1,100	1,600	1,900	8.0%	6.3%	6.6%	7.1%	$0.88	$0.98	$1.00	$1.03	North Carolina
Orange County	-9.1%	5.8%	4.4%	-0.6%	-0.4%	-0.9%	-0.1%	0.1%	800	100	200	400	4.7%	4.2%	5.9%	6.9%	$1.82	$1.95	$1.99	$2.02	Orange County
Orlando	-9.0%	8.6%	4.1%	0.6%	1.3%	1.6%	1.7%	1.7%	1,100	1,300	700	1,200	6.9%	4.4%	5.4%	5.8%	$1.03	$1.16	$1.18	$1.21	Orlando
Philadelphia	-7.2%	5.0%	2.9%	0.4%	0.0%	0.1%	0.2%	0.2%	1,300	2,400	700	1,500	6.0%	6.0%	7.9%	8.5%	$1.30	$1.46	$1.37	$1.32	Philadelphia
Phoenix	-2.9%	4.5%	3.3%	-0.2%	1.0%	1.8%	1.5%	1.6%	2,500	1,800	1,900	1,700	6.2%	4.8%	6.3%	6.7%	$1.11	$1.27	$1.25	$1.27	Phoenix
Portland	-8.7%	6.3%	4.9%	-0.3%	0.5%	0.1%	0.8%	1.0%	1,600	800	500	400	-	-	-	-	$1.43	$1.47	$1.45	$1.44	Portland
Riverside-San Bernardino	-4.1%	5.9%	4.9%	0.3%	0.0%	-1.1%	0.6%	1.0%	200	900	100	500	3.7%	4.5%	5.2%	5.7%	$1.23	$1.40	$1.36	$1.37	Riverside-San Bernardino
Sacramento	-5.2%	4.6%	3.5%	-0.3%	0.0%	-1.0%	0.0%	0.2%	600	700	200	500	4.1%	6.5%	7.9%	8.5%	$1.38	$1.46	$1.41	$1.35	Sacramento
Salt Lake City	-0.3%	4.2%	2.1%	0.5%	1.3%	1.7%	1.3%	1.4%	600	300	200	400	10.3%	11.7%	-	-	$0.98	$1.05	$1.06	$1.09	Salt Lake City
San Antonio	-4.5%	4.5%	4.3%	0.5%	1.0%	1.2%	1.3%	1.2%	1,000	600	600	700	6.7%	6.7%	7.2%	7.8%	$0.99	$1.10	$1.13	$1.15	San Antonio
San Diego	-9.1%	8.0%	3.4%	0.4%	-0.1%	-0.7%	0.2%	0.3%	800	700	500	800	3.2%	3.6%	4.7%	5.2%	$1.65	$1.82	$1.82	$1.85	San Diego
Seattle-Tacoma	-7.6%	5.2%	4.2%	0.6%	0.7%	0.2%	0.8%	1.1%	2,000	700	900	1,300	-	-	-	-	$1.53	$1.62	$1.62	$1.63	Seattle-Tacoma
Southeast Florida	-7.0%	6.5%	4.3%	0.9%	0.8%	1.0%	1.0%	1.0%	2,000	1,700	1,000	1,600	4.2%	3.1%	5.5%	6.2%	$1.42	$1.70	$1.67	$1.70	Southeast Florida
St. Louis	-5.7%	3.1%	1.5%	-0.2%	-0.1%	0.1%	0.0%	0.0%	700	500	400	400	5.7%	5.3%	6.7%	7.6%	$0.92	$0.99	$0.96	$0.94	St. Louis
Tampa-St Petersburg	-2.8%	5.1%	4.8%	0.5%	0.7%	0.9%	1.0%	0.9%	1,400	1,400	1,300	1,100	5.5%	4.1%	5.8%	6.5%	$1.07	$1.21	$1.24	$1.27	Tampa-St Petersburg
Tennessee	-2.3%	3.9%	4.2%	0.1%	0.8%	1.2%	0.9%	0.8%	2,000	1,300	1,100	1,300	8.1%	8.3%	6.2%	6.6%	$0.95	$1.05	$1.06	$1.05	Tennessee
Washington, D.C.	-6.5%	3.6%	1.6%	0.5%	0.4%	0.3%	0.6%	0.7%	1,700	1,600	1,100	1,000	5.7%	6.0%	6.8%	7.3%	$1.50	$1.52	$1.47	$1.47	Washington, D.C.
United States	**-6.1%**	**4.7%**	**3.0%**	**0.5%**	**0.2%**	**0.1%**	**0.5%**	**0.5%**	**65,200**	**56,300**	**43,500**	**46,500**	**7.2%**	**6.6%**	**8.0%**	**8.4%**	**$1.19**	**$1.29**	**$1.28**	**$1.30**	**United States**

** Estimate ** Forecast*

2 See Statistical Summary Note on Page 48.

A TRUSTED VISION FOR THE FUTURE

Marcus & Millichap was founded in 1971 with the goal of being a new kind of company — one driven by long-term relationships and built on a culture of collaboration. We focus on bringing together specialized market knowledge, the industry's leading brokerage platform and exclusive access to inventory to achieve exceptional results for our clients, year after year.

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