



OKLAHOMA


Is Self-Storage OK in Oklahoma?

With so much oversupply, some may ask if self-storage is OK in Oklahoma. The state and two core based statistical areas (CBSAs) indicate significant oversupply. However, over the long run, market conditions will balance out. In the meantime, investors have strict purchase criteria based on actual performance.

In oversupplied markets, the purchase criteria are different. For example, stabilized occupancy may be much lower (60 percent) than a typical stabilized forecast with occupancy near 85 percent or more. Investors are not likely to give any credit for upside in occupancy or income and rely strictly on trailing three-year financials and trailing 12-months NOI (net operating income). A stabilized cap rate is then applied to this data, not a stabilized forecast of NOI.

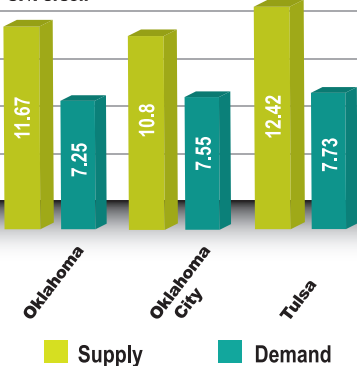
Such criteria are consistent with market conditions. For example, the state is oversupplied compared to the national average and the two major cities or CBSAs analyzed are oversupplied compared to other major cities in the U.S. The data is summarized in the table on page 55 and in the graph below.

Alternatively, there are pockets or trade areas within these large markets analyzed that indicate strong market conditions. This is a unique characteristic of self-storage investment. Since self-storage is a convenience item, inducing customers from long distances is very difficult. Most trade areas in suburban and rural states are defined by a radius of five miles from the subject property or less. Some trade areas may have occupancy rates of 85 percent or more even though they are located in an oversupplied CBSA or state. The ability to measure market conditions is what makes self-storage such a stable asset class compared to other core real estate.

Self-storage will be OK over the long run in Oklahoma because new construction in an oversupplied market is not feasible. Combined with limited financing for new construction, the supply in the state is likely to grow at a rate below population growth. Over time, market conditions will improve. 

Oklahoma Supply & Demand

SF/Person



Source: Cushman & Wakefield's Self Storage Industry Group and 17th Annual Self-Storage Almanac 2009

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