



### INTRODUCTION

The self storage industry is involved in the provision of storage units to lease, usually on a month to month basis. Many self storage facilities also sell a range of associated storage products such as container boxes, protective covers and security devices.

According to the Self Storage Association of Australia (SSAA), storage centres can range in size from under 100 units to over 1,000 spaces in some Australian markets. Users of self storage comprise both residential and commercial customers. Most residential users of self storage facilities are short term and the size of units will depend on the socio-economic characteristics of the local population.

### OPERATION

The typical self storage investment model involves an operator securing the freehold or leasehold of a property and then developing and operating a storage centre. However, in recent years institutional interest has steadily increased as newly launched property trusts have become active in securing a number of new and existing self storage sites.

Institutional owners include APN through its APN National Storage Trust with management of the facilities undertaken by National Storage. Other major operators include Abacus through its Abacus Storage Fund which has Storage King as manager and Valad with its facilities run by Kennards. In addition, strata scheme models also exist in Australia.

The self storage industry in Australia is still immature and in a growth phase with low levels of consumer understanding, which makes future demand projections speculative. However, a comparison of other markets, such as the USA, shows the relative under-utilisation of self storage facilities locally and the potential for growth.

For example, it is currently estimated that the amount of self storage space per capita is approximately 0.14 square metres, which is low when compared with the per capita provision in the USA, estimated at 0.3 square metres. In the USA, 1 in 10 households rent a self storage unit while in Australia it is closer to 1 in 25 households.

Despite its relative infancy, since its inception in Australia during the late 1970s the self storage industry has become increasingly sophisticated, particularly over the last decade as the number of facilities has increased rapidly. During the past three to five years, increased institutionalisation and concentration of ownership and operation has driven demand.

This increased concentration is witnessed via the acquisition of Millers by Kennards via a joint venture with Valad Property Group in November 2004. Subsequent transactions were made by the JV in 2006 until Valad announced it would sell back its interests to Kennards in 2008. APN in November 2003 acquired 20 sites to facilitate the creation of the APN National Storage Property Trust, which has since grown with the acquisition of a further four properties in August 2004 and subsequent acquisitions in 2006 and 2007. In 2005, Abacus acquired 15 self storage facilities managed by Storage King.

Historically, the increased institutional interest in the self storage industry has been attributed to sound prospects for forward demand, together with investors seeking higher returns from alternative property assets in a low yield environment. However, we have seen yields soften in this asset class since early 2008, following market changes underpinned by the global financial crises.

Below is a table showing the estimated number of self storage facilities in major capital cities. Brisbane shows the highest concentration of supply whilst Sydney and Melbourne have the highest overall level of supply of units but are at the lower level of supply per capita.

| National Self Storage Facilities | Sydney                | Melbourne             | Brisbane              | Perth                 | Total / Average         |
|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|
| Current Population               | 3,641,400             | 3,371,900             | 1,676,400             | 1,256,000             | 9,945,700               |
| No. of Facilities                | 111                   | 119                   | 100                   | 48                    | 378                     |
| Estimated Total Area             | 494,000m <sup>2</sup> | 407,000m <sup>2</sup> | 305,200m <sup>2</sup> | 152,500m <sup>2</sup> | 1,358,700m <sup>2</sup> |
| No. of Units                     | 54,700                | 48,300                | 30,500                | 16,100                | 149,600                 |
| No. of Persons per Unit          | 66.6                  | 69.8                  | 55.0                  | 78.0                  | 67.3                    |
| Area per Person                  | 0.14m <sup>2</sup>    | 0.12m <sup>2</sup>    | 0.18m <sup>2</sup>    | 0.12m <sup>2</sup>    | 0.14m <sup>2</sup>      |

Source: Blackwell Consulting, ABS, m3property Research

Note: As at January 2009

### USERS

The ageing of Australia's population is well documented, as is the increasing acceptance of higher density residential living. Both developments have driven the increased demand for self storage use in Australia.

The downsizing of retirees to medium density or dedicated retirement accommodation as well as apartment living is increasing. As residents move to smaller premises, it will become necessary and more cost efficient to utilise self storage facilities to keep excess belongings. In addition, persons moving house or renovating, couples moving in together, persons going overseas for extended periods and those storing recreational items are other key residential users.

Consideration must also be given to commercial users. Greater efficiencies over the use of office space have led to reductions in workspace ratios over the past 15 years. In part, this reduction has highlighted to businesses the cost advantages of utilising storage space, as opposed to more expensive office accommodation, to store aged or rarely used documents. A key advantage of self storage in this respect is that it is far more accessible to the user relative to warehousing. For this reason, it can be used by businesses for immediate dispatch or to store promotional material for roving sales representatives; this may include climate-controlled storage.

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### CHARACTERISTICS

According to the SSAA, 25% of all customers are commercial users (throughout Australasia). However, this proportion varies by state, comprising 28% of users in New South Wales and 27% in Queensland. The proportion of commercial customers has remained largely the same since 2006.

The level of occupancy achieved is dependant on the quality of the facilities, location attributes, management, pricing, the level of competition and the length of business operation. The Australasian occupancy level was 87.7% on 30 June 2008 (of the capital cities). In New South Wales, the level of occupancy (83%) was substantially below Victoria (91.5%) and Queensland (92.6%). A further key consideration in relation to the performance of the sector is the average monthly space fee rentals achieved by self storage facilities. Similar to occupancy rates, Sydney outperforms the rest of Australia in this regard. For example, the average monthly rental for a 6x3 metre storage unit in Sydney is \$470, significantly above the rate in Brisbane (\$351) and Melbourne (\$278). Considering smaller space requirements, the average rental for 3x3 metre storage units in Sydney is \$256, whereas in Melbourne it is just \$181 and in Brisbane it is \$212.

### CORPORATISATION

The institutionalisation and growth in the self storage industry over the past few years has resulted in considerable acquisition and development activity. The three major self storage institutions are Abacus Storage Fund, Valad Property Group and APN National Storage.

The Abacus Storage Fund was created in 2005 with the acquisition of 16 self storage facilities across Australia and New Zealand. These included 8 facilities in Victoria, 3 in Queensland, 2 in Sydney and 3 in New Zealand. The portfolio was acquired on a going concern basis at a reported price of circa \$100 million and a 2006 financial year forecast yield of 8.3%. Average portfolio occupancy was 75%.

In November 2004, Valad Property Group and Kennards Self Storage announced that they had purchased the Millers Self Storage business (which included 24 freehold properties) for \$215 million in a 50/50 joint venture partnership. Prior to this acquisition, Kennards were the second largest manager of self storage facilities within Australia behind Millers. The acquisition placed Kennards as the largest self storage manager in Australia by number of centres. In September 2008, Kennards purchased 25% of the portfolio from Valad Property Group.

The APN National Storage Trust was established in 2003 with the acquisition of 20 self storage facilities in Queensland, Victoria and South Australia. In 2004 four properties were acquired in Victoria and South Australia, 12 facilities were acquired in 2005-06 and an additional 8 facilities were acquired in 2007 bringing the total number of self storage facilities in the trust to 44.

### OUTLOOK

In summary, the self storage industry is relatively immature in Australia. Due to it still being in the early growth stages and the overall stronger prospects for further growth, we expect the industry to continue expanding over the longer term. Given this outlook, it is also likely that further consolidation of existing operations is likely and that the largest national operators will use their industry knowledge, capital, experience and influence to further expand.

While some self storage locations will underperform due to site-specific issues, the overall longer term prospects for the industry are considered to be positive. In the short term however, we anticipate that demand for storage space will be subdued as the ramifications of the global financial crisis unfolds.

This self storage industry is heavily affected by discretionary income levels. The more money people have to spend, the more likely they require storage space for material possessions. Spending patterns on such items are obviously down in the current slower economic climate. Despite this, demand from the residential market will remain strong.

Demand for storage of furniture, vehicles, sporting goods, general house appliances and work-related materials is expected to remain positive while more expensive discretionary goods requiring storage like extra cars and boats will fall.

In recent times, increased self storage supply businesses have been stimulated by the rise in average storage fee rates over 2007 and the first half of 2008. These increases were evident across all major metropolitan markets and have created a situation where new self storage projects have been able to show a modest rate of return to owners.

Higher fees have also stimulated operators to undertake extensions and additions to existing facilities. Blackwell Consulting estimate that in excess of 50% of new storage space is derived from expansion of existing facilities including "build-over" projects in older style, single level self storage buildings.

But while the increased availability of finance over 2007 facilitated new self storage development, since mid-2008 we have witnessed a significantly changed economic environment. New self storage projects are increasingly difficult to fund.

Under this circumstance, storage fee growth will slow and may even show some modest decline in some locations. Current economic conditions will result in a reduction of new development with only modest increases in supply over the short term before a return to stronger trading conditions.

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