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FEATURES

A Glimpse of the GLOBAL INDUSTRY

Experts provide insight to how self-storage is progressing in six regions

By David Blum

For those of us in the self-storage industry, it's always interesting see how the business is evolving and performing around the world. To learn more, I invited the following experts to share insights from their respective regions:

- Pete Frayser, Vice President of Sales, Janus International (South America)
- Luigi La Tona, Executive Director, Self Storage Association Asia (Asia)
- Gavin Lucas, CEO, Stor-Age Property REIT (South Africa and United Kingdom)
- Susan Phillips, CEO, Self Storage Association of Australasia (Australia)
- Guy Pinsent, CEO, Less Mess Storage (Czech Republic and Poland)
- Rennie Schafer, CEO, Federation of European Self Storage Associations (Europe and United Kingdom)

Based on your observations, how is self-storage faring globally?

Lucas: As stated in the Stor-Age annual report released in July, the self-storage sector has historically outperformed the property sector and remains a growth sector globally, with a long track record in first-world markets.

Pinsent: Very well on the whole, though the United States has finally hit saturation in several areas.

Schafer: On a global scale, the European industry is very strong. We have very few areas of oversupply. In most markets, demand is growing faster than supply, so despite growth in the market, occupancy rates and returns are both increasing.

Which regions are growing and thriving?

Frayser: Storage growth in Latin America (LatAm) is fairly flat, if not dwindling a bit compared to the last couple of years. There have been some macro issues negatively affecting some of the more mature markets, like Panama, where they're dealing with a recession and are in an election year. Factors like those create uncertainty and scare investors from making moves. Chile continues with its steady growth and represents the most mature storage market in the region. It has several established operators, some of which are backed by foreign institutional funding.

La Tona: Hong Kong seems to be the bellwether for the industry in Asia, as it's the most active market in the region. The industry is growing, with many local properties and landowners learning about the industry and keen to get in the game. Recently, we've welcomed two members from Vietnam. Thailand boomed very quickly and

Pete Frayser, Vice President of Sales, Janus International

Luigi La Tona, Executive Director, Self Storage Association Asia

Gavin Lucas, CEO, Stor-Age Property REIT

Susan Phillips, CEO, Self Storage Association of Australasia

Guy Pinsent, CEO, Less Mess Storage

Rennie Schafer, CEO, Federation of European Self Storage Associations there's a lot of interest in South Korea. Cambodia, Myanmar and Indonesia are quickly developing economies, so we won't be surprised if we get a member or two from there soon.

Phillips: Sydney and Melbourne are the strongest investment markets for self-storage in Australia. Investment demand remains strong and yields continued to tighten over the 2019 financial year.

What challenges are developers and owners facing?

Frayser: As in most international markets, storage tends to first appear in capital cities, then make its way to secondary markets. In most LatAm capitals—Lima, Bogota, Santiago—land is extremely expensive and opportunities are limited. Lack of recognition/protection in legislation also hinders growth as municipalities continue to have trouble grasping the self-storage concept.

Pinsent: The construction market in Europe (west and east) is too hot at the moment, so we can expect a temporary slowdown in the pace of development. Only the serious developer/operators can get bank construction financing.

Schafer: Access to property remains the biggest limiting factor to growth, particularly in the more mature markets like the U.K., Netherlands, Paris, Stockholm and Berlin. We're seeing more growth in smaller cities and rural areas in most countries. Awareness remains an issue. In the most mature market, the U.K., still only 45 percent of people understand what self-storage is. They may have heard of it, but they don't understand it.

Are investors interested in self-storage, or do they still need to be schooled about the industry?

Frayser: We're beginning to see more crossover from retail and multi-family developers getting involved in the industry. They often have some loose ties to the U.S. where they've seen the concept flourish and are looking to replicate that success in their home countries.

La Tona: We see the self-storage industry as a "supply before demand"—the market doesn't know it needs or wants it until they learn about it. That said, when investors do learn about the business, and as we've been approached countless times, "We've got bags of money and we want to be the biggest in Asia." We kindly encourage them to learn more about not only the industry but about the property dynamics in the particular countries in which they're interested. Many still stick around but with a more realistic sense of the industry, which, as the guiding industry body, is what our aim is—safe, strong and sustainable industry growth and practices.

Lucas: In South Africa, local investors are interested in self-storage development; and I'd say there's a decent level of understanding, which continues to improve year after year.

Phillips: In the investment market, we expect yields have room for some further tightening over the short term. We then expect the yields will remain at a low level for the medium-term.

What's ahead for self-storage around the world?

Frayser: I'm expecting to see consolidation in some larger markets like Brazil, where a few big players will continue to get bigger and increase market share. The logical next step would be to see someone go public; however, I don't foresee that happening in the near/midterm. I expect to see larger strides in Asia where there's massive potential and, finally, a few proven players that have shown storage can work there. Europe's development cycle will continue to roll and could serve as an attractive landing spot for any American players weary of a domestic downturn in the coming years.

La Tona: There are two camps: The fast-growth camp and the coming-of-age camp. We look at Bangkok as that fast-growth camp and see countries like South Korea, Indonesia and Vietnam—these countries will ramp up very quick once investors snap into action. Then we see the coming-of-age camp in Hong Kong, Singapore, Japan, China, Taiwan and Malaysia, where investors know there's business to be had but are taking their time with the regulatory requirements and cost impediments to stake their claims. In the lead up to and since the Shanghai Expo, we've heard a handful of China operators striking up deals with investors that want stable growth with a stable partner. The peacock feathers are out.

Lucas: Despite the tough economic environment in South Africa, the future looks good. We continue to see new household formation, driven by an expanding middle class. The mobility of the population continues to increase. People continue to acquire goods and we essentially have a consumption-led economy. People continue to value their possessions and businesses continue to value the benefits of self-storage.

Phillips: Positive drivers of demand going forward include population growth, growth in online retailing, increased mobility of students and workers, continued urbanization, and expected improvements in the residential market, particularly in the number of housing transfers (i.e., people moving houses).

Pinsent: As with most investments, and particularly real estate, the long-term outlook for self-storage in Central and Eastern Europe is bright, but there will naturally be some turbulence along the way.

Schafer: There's a lot of product in the pipeline for development over the next few years. If the economy takes a tumble, then this may put pressure on the industry as these stores try to fill up in a more challenging market than they were anticipating. It's very much a seller's market, in terms of product with increasing yields on those sales that do occur, particularly for prime assets that major players will bid for. There's growing interest from institutional investors, but even if they have £50M-plus to invest, there's simply no portfolios on the market that fit that bill, and those that come up end up having multiple eager bidders. There's also growing economic and political uncertainty in the region, although this is possible worldwide!

Conclusion

I want to thank all the panelists for their generous contributions. As our industry grows, we see many similarities around the globe with the U.S. self-storage market. Except for spotty areas of overbuilding and rate compression, as awareness grows, expansion and opportunities abound. ISS

David Blum is president of BMSGRP Self Storage Consulting, a consulting practice he launched in 2003 to help self-storage professionals worldwide with issues of development and management. He's worked in Europe, Greece and Israel, and currently has clients in Mexico, South America and the United States. Since entering the industry in 1996, he's worked as a district manager for Storage USA and vice president of operation for Budget Mini-Storage in South Florida. He helped co-found the Florida Self-Storage Association in 1998 and is a frequent contributor to industry publications. He can be reached at 954.255.9500 or davidb@bmsgrp.com.


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Tracking Progress in Australia and New Zealand

Data-based observations on rates, occupancy, new supply and more

By Sam Kennard

New investment in the Australia and New Zealand self-storage sectors is surging. New supply is growing dramatically in major markets as existing operators and new entrants develop properties. In addition, yield-hungry capital is driving down capitalization rates.

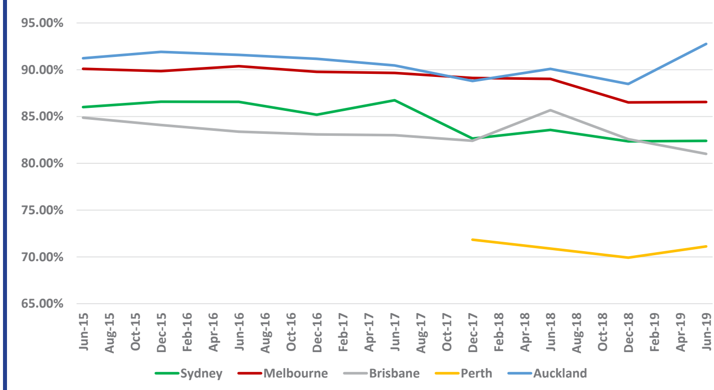
At the same time, Abacus Property Group and National Storage REIT, Australia's two real estate investment trusts (REITs) with self-storage assets, raised a combined $440 million in June. The sector is also attracting capital into investment funds and syndicates looking for assets.

Observations last year that new supply and competitive forces were starting to bite into revenue have now surfaced in industry data, including the Urbis Storage Index (USI), which tracks price and occupancy performance from more than 85 mature self-storage facilities across the major metro markets of Australia and New Zealand. Despite Australia's vast land area, half of its 25 million people live in just three cities—Sydney (5 million), Melbourne (4.9 million) and Brisbane (2.4 million)—so, the USI analysis of these three markets offers valuable insight to the state of the industry. Following is an overview of what's happening with occupancy, rental rates and new supply.

Occupancy Dip

For the six-month period through June 2019, the index reveals that all three major cities experienced occupancy declines during the previous 12 months, though Sydney's decline started a year earlier. This corresponds with the slowing of the Sydney housing market. The index also tracks self-storage performance in Perth, Australia, and Auckland, New Zealand, but they are polar-opposite outliers in performance for their own unique reasons.

SELF-STORAGE PYSICAL OCCUPANCY IN AUSTRALIA/NEW ZEALAND METRO MARKETS



Source: *Urbis.com.au*

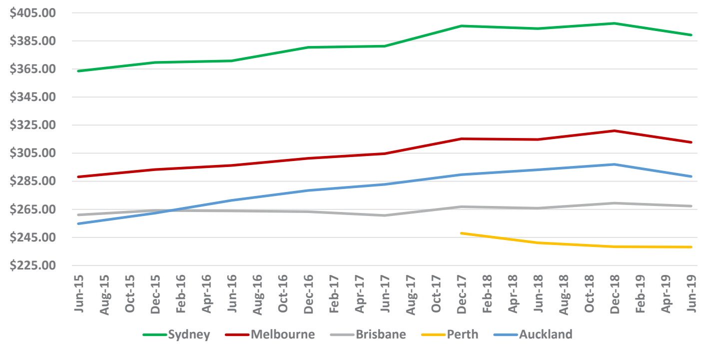
Rate Fluctuation

This year, we observed a marked increase in move-in incentives and lower prices in the market, and the USI confirms the situation. For the first time in the index's history, rental rates fell across the board, including in Auckland.

Since this is a six-month comparison and a single result doesn't mean there's a trend, some caution should be used in interpreting the data. After all, the long view of the sector is very positive.

AVERAGE SELF-STORAGE RENTAL RATE IN AUSTRALIA/NEW ZEALAND METRO MARKETS

(PER SQUARE METER PER YEAR)



Source: *Urbis.com.au*

The Urbis analysis reveals that move-in concessions and discounts increased 33 percent between 2016 and 2018. In 2016, concessions represented 2.35 percent of gross storage revenue, which grew to 2.86 percent in 2018. Comparable figures for the first half of 2019 weren't available at the time of publication.

The two Australian REITs recently released their fiscal year-end financial results, including revenue per available meter. National Storage achieved .5 percent growth from its June 30, 2018, same-store comparison pool (104 storage facilities). The Abacus Property Group same-store pool (55 locations), which is 36 months old, grew more than 1.2 percent year-over-year.

Tracking New Supply

The Self Storage Association of Australasia, in collaboration with Urbis, will soon launch an interactive supply-mapping tool. The data will collate all existing self-storage supply and capture planned new openings. The initial information reveals that new supply is going to intensify, as will competition.

The accompanying table shows a three-year forecast of expected new self-storage development. It includes projects completed in the last 12 months, along with anticipated projects during the next 24 months. Sydney is clearly winning the space race, with an average new-supply increase of 5.7 percent per year.

PERCENTAGE OF NEW SELF-STORAGE SUPPLY IN AUSTRALIA/NEW ZEALAND

	New Units Last 12 Months	New Units Next 24 Months	3-Year Total	New Units Yearly Average	Annual Population Growth
Adelaide	11%	0%	11%	3.7%	.7%
Brisbane	9.2%	7%	16%	5.3%	2%
Melbourne	3.6%	9.5%	13.1%	4.3%	2.6%
Perth	6.7%	3.8%	10.5%	3.5%	1%
Sydney	4%	13%	17%	5.7%	1.8%
Auckland	3.5%	4.5%	11%	3.7%	1.9%

Note: Data excludes expansion projects.

Kennards in Coorparoo, Queensland

Kennards in Thomastown, Victoria

New supply is clearly outpacing population, which isn't unusual for the markets in Australia and New Zealand. The industry still attracts a large portion of first-time users. In August, our internal data reveals that 62 percent of Kennards Self Storage move-ins were first-time storage customers. The large proportion of the population that hasn't yet experienced the product represents a deep well and very positive outlook for the sector in the long term.

It's likely the supply concentrations in some localized markets will see fierce competition with strong pressure on occupancy and prices. Some unexposed markets may also miss these expected declines in performance.

Economic Outlook

In contrast to the self-storage investment boom, the Australia economy is limping along with anaemic, albeit steady, growth. Since 1991, it has continued to enjoy a marathon run of uninterrupted progress. Gross domestic product is increasing 1.2 percent annually.

However, it should be noted that when considered on a per-capita basis, commentators have observed that we're going backward. Being outpaced by high population growth, economic growth is negative per person, leaving Australia in a per-capita recession.

These conditions will put more pressure on self-storage occupancy and revenue. Mindful of the current climate, Urbis Director David Blackwell and his valuation team aren't forecasting any advancement in self-storage valuations at this time.

More positively, Australia and New Zealand hold a strong appeal for migration, and long-term growth will persist. Both countries will continue to see demand expand despite economic and competitive cycles. ISS

Sam Kennard is CEO of Kennards Self Storage, which operates in Australia and New Zealand. Under his stewardship since 1994, the company has blossomed from 14 facilities to 92. Its portfolio comprises more than 627,000 square meters of rentable space. Sam has extensive experience in business and property development and has served on the board of the Self Storage Association of Australasia as well as for private companies. Kennards remains a privately owned family business, employing more than 260 people. For more information, visit www.kss.com.au.

Author Sam Kennard at Macquarie Park, New South Wales

Momentum Yet Struggle in HONG KONG

Obstacles remain even as consumer demand rises

By Simon Tyrrell

Regionally, the Asian self-storage industry is still in its infancy but gaining momentum. The core investment markets—Japan, Hong Kong and Singapore—have had the greatest exposure for the longest time, but even these areas are undersupplied relative to their Western counterparts. Over the last few years, the industry has also found its footing in Mainland China, Malaysia, South Korea, Taiwan, Thailand and Vietnam.

Following are insights to the Hong Kong market, based on my experience founding and operating RedBox Storage Ltd., which has five facilities in the city.

General Trends

In Hong Kong, higher residential prices and changing demographic patterns have resulted in smaller living quarters. The average amount of living space per person is around 160 square feet, a quarter of the average in Australia or the United States. The increasing prevalence of micro-apartments and an acceleration toward co-living are, in turn, driving the demand for self-storage.

What makes the sector particularly compelling for an investor is the limited supply. Self-storage per capita in Hong Kong is approximately 0.6 square feet compared to other developed markets such as London (1.3 square feet), New York (3.4 square feet) and Sydney (1.9 square feet), according to Self Storage Association of the United Kingdom.

While market fundamentals are undeniably attractive, the industry remains fragmented, with the potential for the right operator to act as a consolidator and establish a leadership position. InfraRed NF, a Hong Kong-based real estate investment fund operated by a joint venture, acquired a 90 percent stake in RedBox from E3 Capital Partners last year, committing $55 million for acquisitions across Hong Kong. This capital has been successfully deployed in Tsuen Wan, Tuen Mun and Yau Tong.

The majority of the Hong Kong customer base is still residential, with more than 80 percent sourced from surrounding homes. We see this changing over time with the growth of "just in time" work places. We see strategically positioned facilities having a role to play in the last-mile logistics chain or providing a place of work for online e-traders or sole-proprietary traders. Singapore is leading this trend through groups establishing co-sharing in their storage sites. This is common in the United Kingdom and U.S. It's a trend we expect to spread across the larger facilities in Asia.

"While market fundamentals are undeniably attractive, the industry remains fragmented, with the potential for the right operator to act as a consolidator and establish a leadership position.

RedBox in Tsuen Wan (middle)

RedBox in Tai Wai

New Development

The Asia self-storage market isn't mature enough to accommodate new, purpose-built self-storage facilities. This is likely as much about the value of the underlying real estate as it is about the sector itself. Across the region, self-storage makes use of older real estate assets, be it industrial spaces in Hong Kong and Singapore, grade-B offices in Japan, or basements in China. From a pure real estate investment perspective, this repositioning of older asset classes—for a higher and better use—is where value creation can occur. We don't see this changing for the foreseeable future.

In reality, all the above elements are affecting exponential growth, but to expand on a few:

There's no point in owning a Ferrari if you don't have the fuel to make it go. Third-party funding for platform expansion isn't freely available, as the demands of the institutional investor aren't always aligned to the operational needs of the business. The market is polarizing to the big and the small with few opportunities in the middle.

InfraRed's investment in RedBox has enabled further development of our technology and logistics platform. The InfraRed team also provided significant value through their wealth of knowledge relating to the wider real estate market.

To buy or not to buy. Even in the core markets, institutional investors have a hard time competing against dominant local landlords, who generally treat real estate as a commodity and prefer shorter leases to drive rental growth and value prior to a re-trade. This can cause a misalignment of interest between an operator and his landlord. The alternative is to acquire the underlying property, which safer for long-term control but not without its own issues.

In Hong Kong and Japan particularly, and some other countries, the quantum of equity required for such investment is significant. This, coupled with the relatively alien concept of strata-title ownership and government intervention to curb leveraged property investment, means there isn't a clear-cut path.

It takes months to find a customer … and seconds to lose one! General marketing and product awareness are driving factors of growth. Community penetration and the overall education as to the value of storage in our day-to-day lives is slow to evolve. The reason is the disparity of the market. Hong Kong is highly fragmented, with 99 operators managing 415 facilities. Of these, 60 percent only have one branch and 90 percent have less than 2.5 percent market share, according to proprietary market research RedBox conducted in January.

Therefore, balance sheets that can sustain widespread and consistent marketing are limited. This has resulted in the slow evolution of the industry as compared to markets like the U.K. or U.S. that have bigger nationwide operators. To address this issue, RedBox places value on employee partnerships, extensive referral programs and community engagement.

Regulations and Governance

The major problems stem from the fact that self-storage has evolved quicker than the overriding property regulations. In Hong Kong, it isn't yet a recognized "sector" in the building or fire-services code. The regulations that govern their fit-out were extracted from interpretations of existing statutes in comparable, but not equivalent, sectors.

This issue came to the world's attention in 2016 when a devastating fire at a Hong Kong facility caused the death of two firefighters. The cause is still under review, but its impact was to highlight the sector's inadequate regulation and governance.

My company has worked closely with the Self-Storage Association of Asia and other industry leaders to negotiate a general code of practice to be retrospectively applied alongside other key stakeholders and governing bodies. This uncertainty and expense have resulted in fluctuations in the supply levels across the region and is the driving force behind market consolidation.

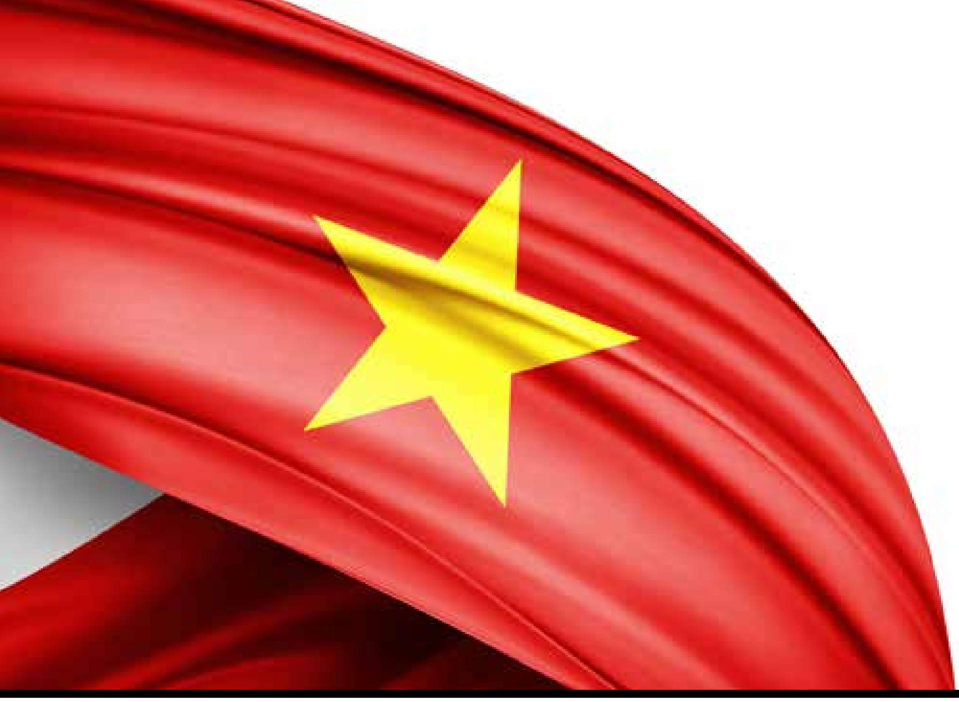
RedBox in Yau Tong

When compared to the U.S. market, Asia is well behind in terms of maturity and saturation. That said, the underlying markets support exponential growth. Of the world's 30 largest cities, 21 are in Asia. By next year, Asia will be home to half of the world's middle-class population, according to "The Asian Century Is Set to Begin," a March article in "Financial Times," a daily newspaper.

These factors, compounded by general undersupply, restrictions on land availability, high residential pricing, dwindling industrial supply and reduced living spaces will contribute to material demand in the industry over the course of the next decade. In Hong Kong, the added impact of a solidifying regulatory environment will herald a new generation for self-storage, characterized by the emergence of market leaders and further innovation. ISS

Simon Tyrrell is the founder and CEO of RedBox Storage Ltd., which operates five self-storage facilities in Hong Kong. He previously qualified as a Chartered Surveyor in the U.K., and moved to Asia in 2001. Founded in 2014, RedBox also offers valet-storage and moving services. For more information, visit www.redboxstorage.com.hk.

RedBox in Tuen Mun



Pioneering Self-Storage in Vietnam

Addressing the 'gorilla in the room'

By Lorenz Wagener

The first time I set foot in Vietnam, it was a very hot summer day in July 1997. I was interning at a Hong Kong-based manufacturing company and had the opportunity to attend the opening of its first location in Hanoi. Little did I know that 20 years later, I'd co-found and launch KingKho, Vietnam's first self-storage business, in the very same building! Strange but true. Here's how it unfolded.

Unlikely Beginning

In 2017, one of the managers of the company for which I had interned asked me for ideas on what to do with the Hanoi building, which had to be vacated because officials demanded all factories move out of the city. As fate would have it, a close friend of mine was the founder and general manager of MiniCC Storage, one of Shanghai's leading self-storage companies, which owns four facilities. He introduced me to the concept and would later teach me the ins and outs of the business.

Another stroke of luck was the Vietnamese family who ran the manufacturing business for 20 years was interested in building the self-storage project with us. Having a reliable and trustworthy partner helped us tremendously, giving us instant access to local know-how and resources.

It was decided that my friend and I would look after the unit mix, pricing, marketing and training, while our local partners would be in charge of operation, accounting and third-party management. After several meetings, discussion and lots of preparation, we eagerly opened for business on Oct. 15, 2018, not knowing what to expect but willing to embrace whatever would come.

Behind the Scenes

Before we opened, we tried to answer myriad questions: What do we make of the cultural differences? Would Vietnamese business owners be willing to pay for storage? Would demand be greater for our small or larger units?

Fast-forward to present day, and we're happy with our progress! We've collected enough data to crunch and analyze, with several facts surprising us. For example, 55 percent of our tenants are businesses. The vast majority—90 percent—are local. This showed us the market is ready for self-storage, and we won't have to rely on international clientele.

We've been further surprised by how effective our online marketing is. We generate more than 10 leads per day, converting 20 percent to 30 percent into paying customers.

Why It Works

Before we launched KingKho ("Kho" means "storage" in Vietnamese), we studied other Southeast Asia countries to make educated comparisons and forecast success. From a macro point of view, we concluded Vietnam had the most interesting fundamentals and ticked many of the boxes important to industry success, such as:

- Large, young and growing population
- Emerging economy
- Attractive real estate prices
- Low unemployment rate
- Ambitious, hardworking people
- Stable and safe conditions

Many of Vietnam's 92 million inhabitants, including the 10 million people living in Hanoi, don't yet know about self-storage. Similar to operators in other emerging markets, we've had to cheerfully put on the pioneer hat and focus on creating awareness

	Population	Largest City Metro Population	GDP	GDP Per Capita	Growth	Real Estate Prices	Storage Density	Potential
Cambodia	16M	Phnom Penh (2M)	$70B	$4K USD	7%	Low	Very Low	★★
Indonesia	261M	Jakarta (10M)	$3T	$14K USD	5%	Moderate	Low	★★
Laos	6M	Vientiane (.8M)	$58B	$8K USD	8%	Low	Very Low	★★
Malaysia	32M	Kuala Lumpur (7M)	$1.1T	$32K USD	4%	High	Low	★★
Myanmar	54M	Yangoon (7M)	$359B	$6K USD	2%	Low	Very Low	★★★
Vietnam	97M	Hanoi (16M)	$769B	$8K USD	7%	Moderate	Very Low	★★★
Phillippines	101M	Manila (13M)	$1T	$9K USD	3%	High	Medium	★
Thailand	68M	Bangkok (14M)	$1.4T	$20K USD	4%	High	Medium	★

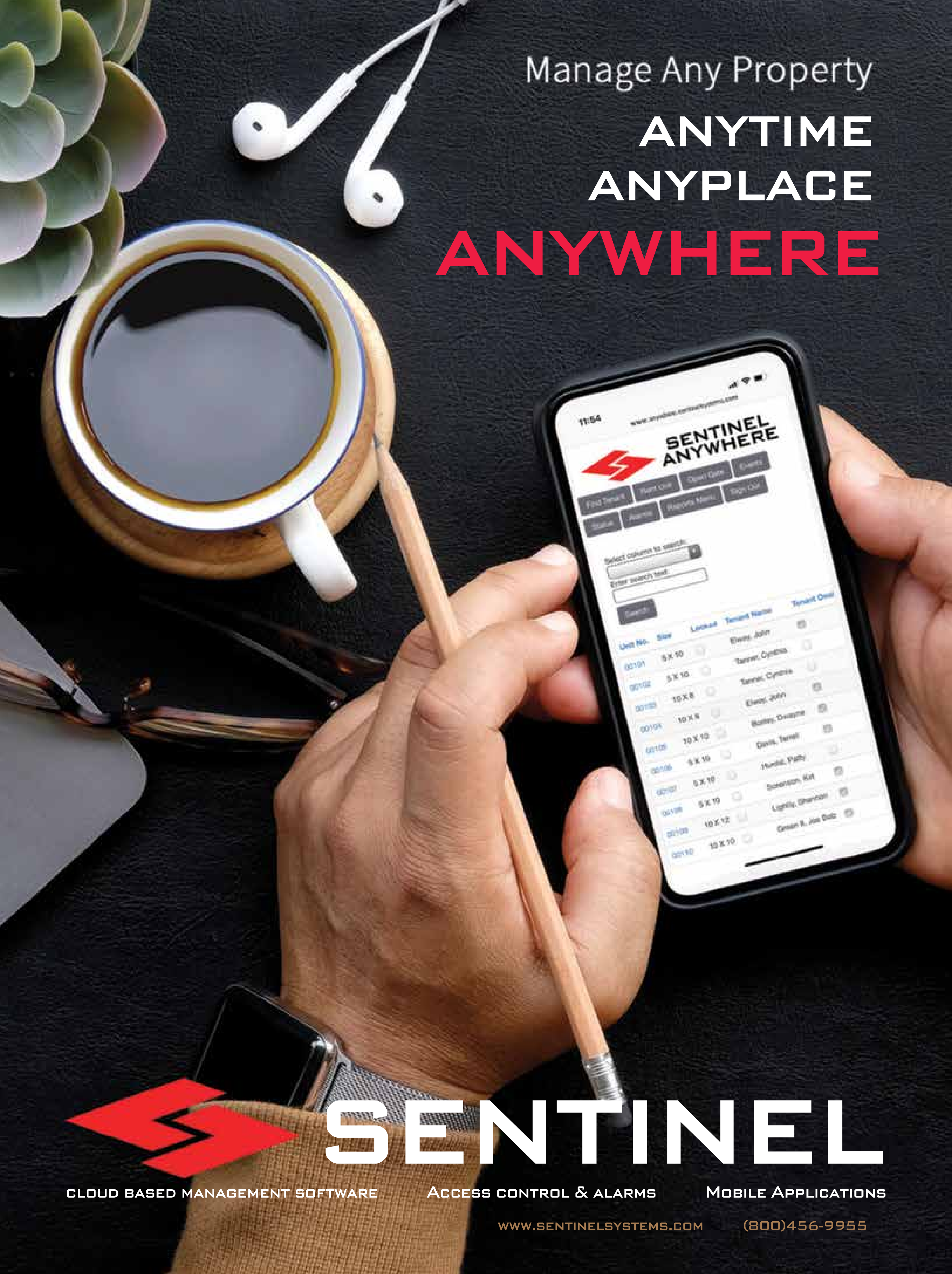
for the entire sector. We do this via display-ad campaigns, videos and images, customer testimonials, articles, engagement with the local media, and local promotions.

It's fulfilling and exciting to receive positive feedback when customers visit our facility for the first time. We often hear comments such as, "If I would have known that something like this existed, I would have used it much earlier!"

The reception we've had makes us confident, and we look forward to what's to come. It's still very early for self-storage in Vietnam. We've learned a lot in our first year and believe KingKho is on the right track. We know from experience that we need to give "our baby" a lot of attention, care and, most important, time. ISS

Lorenz Wagener is a co-founder and partner of KingKho, Vietnam's first self-storage operator with a 10,000-square-meter facility in Hanoi. Originally from Germany, he's lived in Shanghai since 2002. He started marketing firm Rimagine in Shanghai in 2004, and sold it to YFYJupiter Ltd. more than 12 years later. For more information, visit www.kingkho.com.

This KingKho facility in Hanoi, Vietnam, is a converted manufacturing plant comprising 10,000 square meters.



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TRENDS IN THE Russian Market

A decade-old industry begins to find its stride

By Natalia Matsneva

The self-storage industry in Russia is quite young, a little more than 10 years old. The first facility opened in Moscow in 2007. The service has proven to be in demand and continues to grow. Every year new players appear in the market, and those already established as network operators are opening new stores. Service has also begun to spread outside the big cities.

Industry Growth

The Association of Self Storage Companies (ASSC) was established in 2013 as a consolidated network of facility operators. Its mission is to establish rules of the business as it grows, agree on united marketing strategies and popularize the service in Russia. It has identified the following market trends in Moscow:

- At the end of 2018, there were 62 self-storage facilities in the city, with rentable space of 157,119 square meters. They are operated by 23 providers.
- Nine new facilities opened last year.
- The average rentable space is 2,600 square meters.
- The average occupancy is 70 percent, with a client base typically made up of 80 percent individuals and 20 percent businesses.
- The average unit size is 5 square meters, and the most common lease term is five months.
- The industry leaders in Moscow based on rentable space and number of sites are Skladovka, Citi-Box, Alfasklad, Rentabox and Homesklad.

Company	Facilities	Rentable Space
		(Square Meters)
Skladovka	8	25,782
Citi-Box	5	20,035
Alfasklad	5	16,847
Rentabox	5	13,738
Homesklad	3	15,255

Homesklad on the Berezhkovskaya embankment in Moscow

Investing

Eighty percent of the self-storage market is invested with Russian funds, with only 20 percent coming from foreign sources. There are three ways in which people can invest:

- Build on owned land (difficult to implement)
- Buy an existing property with the intent to redevelop it to self-storage
- Rent an existing property and outfit it to offer self-storage

The Russian self-storage market is in a stage of rapid growth, according to ASSC President Dmitry Mayer. “There are some major players with serious investments in building new, modern self-storage facilities. At the same time, beginners are making their attempts to enter the business on rented spaces,” he says.

“It’s guaranteed that the self-storage market will have another few years of rapid growth, and in the nearest five to seven years, the service will start to spread in the regions outside Moscow. The future remains at the companies with greater investment capacity and those with high customer focus.” ISS

Natalia Matsneva is the executive director of the Association of Self Storage Companies and chief operating officer of Homesklad, which operates three facilities in Moscow. For more information, e-mail n.mat@homesklad.ru; visit www.homesklad.ru.


1988


2008

MATURING IN EUROPE

Lok'nStore in Reading, England

The dynamics shaping this still growing, prosperous market

By Rennie Schafer

Self-storage continues to be prosperous in Europe as it matures in the west and develops in the eastern and southern regions. There are now more than 4,250 facilities across the continent—even more if you count the many small, container-based sites.

Overall, the European industry grew about 12 percent in 2018, with similar growth expected this year. Despite the progress, the sector continues to lag far behind U.S. market penetration, with about .21 square feet of self-storage per capita. Let's take a closer look at some of the dynamics shaping the industry in the region.

A Fragmented Market

The European self-storage market is fragmented. No single operator has coverage across the entire continent. Shurgard Self Storage Europe SARL, the European affiliate of U.S.-based real estate investment trust Public Storage Inc., is the only brand that has a significant presence, with locations in seven countries. Other sizable operators have sites in only one or two countries, or a single region such as the Nordics.

As a result, Europe really comprises a series of submarkets, each with its own major brands, mid-tier operators and small independents. Language barriers are a major reason for this, making centralized management, marketing and call-center services challenging to provide. Differences in building and planning laws, staff entitlements, taxes, and other local regulations are also barriers to operating across multiple countries.

Supply varies greatly from country to country, with the United Kingdom and the Netherlands having significantly more supply than Germany, Italy and Spain. Though Germany still lags in the number of facilities, it has experienced some of the greatest recent growth, adding around 50 percent more supply in the last three years.

Square Feet of Self-Storage per Capita	
United Kingdom	.68
Netherlands	.57
Spain	.22
Germany	.09
Italy	.03

Bluespace in Spain

Rental rates also vary greatly, with Switzerland averaging €34 per square foot per annum, while The Netherlands averages just €19. The European average is around €25. Overall, Switzerland is the best performing country when you consider returns and occupancy levels combined, followed by Austria, the U.K. and Spain. Norway, The Netherlands and Italy are the biggest Western European underperformers among those with established markets.

Elsewhere, Portugal and Poland are growing markets, with some major operators opening class-A facilities and increasing market awareness. Independent operators are growing in Turkey, Ukraine, Greece and Romania, where no major operators or large institutional investors are present.

Consumer Awareness

Consumer awareness and understanding of self-storage remains a challenge. Even in the U.K., less than 50 percent of the public comprehends key benefits like exclusive access to space, flexible rental periods and a range of unit sizes to fit individual needs. This is further complicated in non-English-speaking markets. "Self-storage" is a very clear descriptor in English, but in other languages, it often gets translated into terms that also mean warehousing. There are even interpretations that this is a place where *people* are stored!

Options for mass-media promotion are limited. Previously, major operators advertised on television or radio, which exposed a lot of people to the industry. These mediums are now more fragmented, and operators of all sizes tend to focus more on local campaigns and digital marketing. Digital campaigns tend to target people who already looking for storage rather than increase general awareness. There are many in Europe who have a potential need for self-storage but aren't considering it as an option.

Investor Interest

There are six publicly listed companies with major self-storage assets across Europe. We've recently seen South Africa's Stor-Age Property REIT acquire the Storage King portfolio in the U.K., and Legal & General Investment Management Ltd., a Europe-based asset manager, has a funding arrangement with U.K. operator SureStore.

Overall, several institutional investors have self-storage assets in Europe. Others have expressed interest in the industry but haven't yet found a suitable portfolio in which to invest or acquire. These investors often want seven- to 15-store portfolios in certain markets, but there are very few opportunities of this size. Those that do come up are hotly pursued.

The market has been through a consolidation period over the last three years, and much of the "middle-tier" operators have been acquired by larger players. Most of the easily converted warehouses and industrial properties have also been taken up. As a result, development of new sites takes time, particularly since sites aren't readily available.

One development trend is mixed-use, in which self-storage may be present alongside a high-traffic supermarket or other retailer. It'll be interesting to see if the change in the brick-and-mortar retail environment and closure of large-scale stores like Toys 'R' Us will open properties in struggling retail parks for self-storage use.

Outlook

The European self-storage industry has had six years of growth in terms of development, physical occupancy and revenue. While rental-rate growth has slowed in the last 12 months, most operators are optimistic the industry will continue to prosper during the next few years.

There's a lot of new development in the pipeline, which is a positive sign, but challenges could lie ahead if external factors cause a downturn in the economy. The ongoing uncertainty around Brexit is already impacting the industry to a small degree. A no-deal exit would likely cause a short-term economic disruption that would impact the industry in the U.K. and on the continent.

When the last recession hit Europe, self-storage was less developed, and there was still a lot of pent-up demand to be absorbed by operators. Today in Western Europe, there's more competition for customers and more facilities under construction or in the pipeline. If there's a downturn, it'll likely be felt less in self-storage than by retail and other property assets, so our industry is still a good place to be. **ISS**

Rennie Schafer is the CEO of the Federation of European Self Storage Associations (FEDESSA) as well as the Self Storage Association of the United Kingdom. For more information, visit www.fedessa.org.

Safestore in Kings Cross, England

Shurgard Self-Storage in The Netherlands


Big Yellow Self Storage in London

Storage King in Gloucester, England


Pelican Self Storage in Sweden


Access Self Storage in London


Storage Blooms in Norway

Facilities sprout up nationwide in the sunlight of a strong economy and plentiful land

By Jo-Atle Kopperud

Self-storage was introduced in Norway in the early 1990s and grew slowly before it started to really bloom in 2015-16. The industry is now growing rapidly, with new facilities popping up all over the country. The Oslo Stock Exchange even just welcomed its first self-storage operator, Self Storage Group ASA.

Trends

In terms of development, there are some sizable sites with 300 to 400 units, but the vast majority comprise 20 to 50 units. The trend is for small, independent operators to emerge with one facility or perhaps 10 to 20 shipping containers or mobile-storage units. There are also a lot of farmers who are transforming their barns into self-storage.

Almost all new self-storage sites are automated, with no staff on the premises. Operators use Web-based advertising and online order processes. Main access is largely governed by GSM (Global System for Mobile Communication), with video-surveillance systems for monitoring critical access and exit points and individual locks on every unit. (GSM is a digital mobile network that is widely used by mobile-phone users in Europe and other parts of the world.)

Since the market is still young, customers don`t mind traveling up to 20 kilometers to store their belongings. This will likely change in the next 10 to 15 years, with local facilities conveniently popping up in everybody's "backyards."

There's plenty of land in Norway, so it`s rather easy to get financing for projects. The economy is also very good.

Challenges

The main challenges facing the Norway self-storage industry are largely the same as those experienced in other foreign markets. The biggest hurdle is consumer awareness. Norwegians are used to storing items in their garages, basements and lofts. Until the '90s, the housing market was focused on villas and houses that included a lot of extra space. That's changed somewhat in the last 15 years, with smaller apartments becoming quite popular in areas with dense population. This should eventually translate into more people needing to rent storage space.

"The main challenges facing the Norway self-storage industry are largely the same as those experienced in other foreign markets. The biggest hurdle is consumer awareness.

Our Story

We started Ditt Ekstralager Minilager (Your Extrastorage Smallstorage) in 2007 by renting space in shipping containers. We offered our first 150 square meters of indoor

self-storage in 2011. That facility is in the countryside of Eidsvoll, about 60 kilometers from Oslo. It leased up quickly and has since grown to 4,500 square meters. Last summer, the site's physical occupancy was 99 percent.

From 2011 to 2017, we expanded the portfolio mostly through self-owned, self-serviced plots with 20 to 70 shipping containers. Locations stretch on both sides of the Oslo fjord as well as the northern side of the capital, with the portfolio comprising 10 sites and 350 containers. Since 2016, our focus has been on indoor spaces with steel from English and Baltic suppliers. In June, we deployed sites in Eidsvoll (two facilities), Elverum, Fredrikstad, Moelv and Nannestad. In total, our portfolio comprises about 10,000 square meters of leasable space, with 2,000 to 3,000 additional square meters planned for 2020-21.

Our main focus is cost-effective operation, competitive rental rates and leading customer service. As a family-based business, we operate with a small but effective team of four to five people. This gives us total ownership of our business model and allows us to build store by store rather than embark on rapid expansion.

Though Norway is still an underdeveloped self-storage market, the future looks bright, as customer awareness increases alongside the development of small apartments all over the country. ISS

Jo-Atle Kopperud is the founder of Ditt Ekstralager Minilager (self-storage) and Ditt Ekstralager Fasilitator (shipping containers), which have provided storage services in Norway for 12 years. Both companies are expanding in the southern part of the country. For more information, call +47-41216789; e-mail jo-atle@dittekstralager.no; visit www.dittekstralager.no

The author at Ditt Ekstralager Minilager in Nannestad, Norway

An Inside Look at the German Industry

Observations from a local operator

By Todd van Steenwyk

It's been five years since I entered the German self-storage market, and I'm astonished at its progress, both in the number and location of facilities being built as well as how they're operated. In my short time here, I've seen the number of properties double, a moderate shift from developing in capital cities to smaller markets, and the emergence of some impressively modern buildings and business models. It's a very exciting time to be in Germany for many reasons, but mostly because of the immense potential and capacity it still has for future self-storage projects.

The Move to Smaller Markets

When we started out, ours were the first self-storage facilities in two of the three German cities we entered. These areas weren't small by any means—roughly 300,000 people within a 10-kilomter radius—but most other storage companies were building in the biggest cities. We had a strong conviction the product would work *everywhere* and was only just beginning to grow, so our business model was based on being a first-mover in as many smaller areas as possible.

Although we're still the biggest operator in our locales, many other smaller operators have caught on to the industry. More notably, some of the larger ones have started moving into the suburbs. For example, Germany's third largest operator recently bought a great development site in a southern city of around 120,000 inhabitants.

It goes to show the initial uncertainty about the viability of self-storage in smaller markets is starting to dissipate, not because money is chasing returns, but because the model has proven to be successful. This naturally opens huge potential for development, as Germany is one of the most underserved countries in Europe in terms of self-storage per capita (0.007 square meters here compared to 0.067 in the United Kingdom.).

Brexit

It's almost impossible to find an article about Europe these days without some reference to the Brexit debacle. Everyone wants to know what it'll mean for Europe. I wonder what it'll mean for self-storage in European countries.

I think German self-storage operators will benefit. The U.K. leaving the European Union (EU) (trying to leave? talking about leaving?) has caused a flight of capital from the U.K. and Europe to safe-haven currencies, most notably the U.S. dollar. It's suddenly cheaper for foreign operators and money to come into countries like Germany and buy assets. Not only has self-storage proven to be a great investment, there are now currency gains to be had on top.

As I write this, the U.K. parliament has passed a law requiring that the prime minister, Boris Johnson, ask for an extension of the Brexit deadline if no deal has been agreed to by Oct. 31, 2019. There were many Tory dissenters who supported the bill and were subsequently thrown out of the party by Johnson who, in doing so, took his slim majority in parliament to a minority.

It would seem there's no appetite for a disorderly U.K. exit from the EU. While the unexpected can occur, it's far more likely that this whole thing will end with a nice agreement, or perhaps a new referendum, and business will continue as usual, improving the economies and currencies that suffered under the uncertainty of the situation.

Future Demand

When I was getting my MBA, I wrote a business plan with a colleague who now operates Belgian self-storage company Cobalt Box. In it, we attempted to forecast long-term storage demand for Belgium and Germany. As a basis for comparison, we used the U.S. as the anchor, looking at some of the fundamentals that drive self-storage use like disposable income, urbanization and population mobility.

All Seasons Self Storage in Porta Westfalica, Germany

We were a bit surprised when we collected all the data. Anecdotally, it's said that Europeans move around a lot less than Americans; but you might be surprised to know that in 2016 and 2017, 17 percent of the German population moved homes compared to 11 percent in the U.S. In terms of disposable income, Germans had $25,754 (using an average exchange rate for the year) and Americans had $39,155. The urbanization rates for Germany and the U.S. were 75 percent and 81 percent, respectively.

Using no scientific method whatsoever, we decided to assume the demand for self-storage in Germany was only 10 percent of what it was in the U.S., which would imply a saturation rate of 0.0878 square meters per capita (slightly less than 1 square foot per person). In this case, the implied demand in Germany would call for an additional 6.7 million square meters of rentable storage space to be built, or 2,400 facilities with 3,000 square meters of net rentable area.

Again, it's a very exciting time to be in the German self-storage industry. It's becoming an institutional asset class here and other parts of Europe. Larger companies are venturing into smaller markets, and I think we'll start to see a lot of consolidation as well as development. Real estate prices are climbing, so there are some headwinds; and there remain questions over the local economic engine.

> It's a very exciting time to be in the German self-storage industry. It's becoming an institutional asset class here and other parts of Europe.

Still, self-storage has proven to be resilient and can do well in most environments. I'm looking forward to what the next 20 years will bring and think it's a great time to engage in self-storage! ISS

Todd van Steenwyk is a co-founder and managing partner of All Seasons Self Storage, which operates three facilities in Oldenburg, Osnabrück and Porta Westfalica, Germany. Having started his career as an equity analyst, he's been involved in the German self-storage industry for five years. He earned a Master of Business Administration from the IE Business School in Madrid, Spain. For more information, visit www.allstorage.de.

The Truth About THE CANADIAN MARKET

An unvarnished look at industry opportunities and challenges

By David Allan

I've heard all kinds of things about the Canadian self-storage market. I've heard about its benefits and allure. I've heard it compared to the U.S. self-storage market, only 10 years further behind. I've heard it referred to as "undersupplied," with a national average of approximately 3 square feet per capita. It's also been called "fragmented," with 86 percent of the 3,000 total facilities owned by independent owner/operators, and the balance owned by unsophisticated operators.

Is there opportunity for self-storage owners and investors here? Sure. There are booming populations in major urban centers like Toronto, where there are a staggering 6.2 million people in the full metropolitan area. With this urban densification comes space scarcity and the need for self-storage, justifying the eye-watering rates (north of $50 CAD per foot) in some locations. That's pretty great, eh?

The truth about the Canadian market, however, is though there are great opportunities here, there's more to the story. Things aren't as simple as they first appear. Let's take a closer look.

A Mixed Economy

Canada has a mixed economy. It embraces the public *and* private sectors, capitalism *and* socialism. Private property is protected, and the free use of capital is encouraged; and yet the government can interfere in economic activities to achieve social aims.

For example, we have a financial instrument called "development charges." These are financial tools used by municipalities to pay for growth-related capital costs associated with new development or redevelopment, including infrastructure, transit and social programs. They're designed to influence how land resources are consumed and the developments designed. Essentially, they function as a tax to pay for items of "greater good" as determined by municipalities. The highest commercial development charge I'm aware of is $49.32 CAD per square foot. Charges of this scope can have a devastating impact on a financial model.

> Canada has a mixed economy. It embraces the public and private sectors, capitalism and socialism.

Entitlement

Canadian municipalities also extend their reach over the real estate entitlement process. Though I'm sure this is similar across North America, in Toronto, it can be a marathon ordeal. Minor variances on zoning bylaws are generally accepted if reasonable, but rezoning is a much riskier process that appears to have no outer time limit for completion.

The process has recently gone through several functionary modifications as a result of municipal administration changes that saw the land-use appeals administration—the Ontario Municipal Board (OMB)—replaced by the much less developer-friendly Local Appeal Planning Tribunal (LPAT) in April 2018. This was replaced a year later by a whole new appeals process that roughly uses the old OMB rules but keeps the LPAT name.

Currently, even getting a site-plan agreement completed with the city of Toronto—when there are no zoning issues, minor variances or appeals—can take 18 months.

Government regulation of economic activities such as this can have disastrous effects on the returns of a development project, especially when you're left sitting on land for two years and the project is already committed. This one risk alone can probably affect returns more than any other unknown variable.

In Reality

Canada is still a great market for self-storage, and there are some wonderful opportunities. Our group, Apple Self Storage, is one of the most active developers in the country, and we're working on some pretty impressive projects. That said, I have a difficult time subscribing to the belief that our industry is only 10 years behind the U.S. We have a different economy up here, and with that comes different realities.

For example, our rental rates on a per-square-foot basis are higher because they *must* be to pay for what sometimes feels like punitive development charges. Our returns must be higher on development projects because of the additional risk of an 18- to 24-month waiting period to get site-plan approval.

As a self-storage market, Canada has its pros and cons, just like anywhere else. As American investor Ray Dalio once said, "Embrace reality and deal with it well. Don't fall into the common trap of wishing that reality worked differently than it does. After all, making the most of your circumstances is what life is all about." **ISS**

David Allan is vice president of development and acquisition for Apple Self Storage, which operates 31 facilities in Canada. He joined the company in January 2014 and has been primarily responsible for growing its portfolio through acquisition, development, joint ventures and third-party management partnerships. He's been responsible for adding more than 1.5 million net rentable square feet and has been involved in more than $400 million in completed developments and acquisitions. For more information, 866.880.6698; e-mail dallan@applestorage.com; visit www.applestorage.com.

Top Self-Storage Companies in Canada

Company	Locations	Regions Served
StorageVault Canada Inc.	201	Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec, Saskatchewan
StorageMart	69	Alberta, British Columbia, Ontario, Quebec, Saskatchewan
Public Storage Inc.	67	Alberta, British Columbia, Ontario, Quebec
Apple Self Storage	38	New Brunswick, Nova Scotia, Ontario
SmartStop Asset Management LLC	15	Ontario
Maple Leaf Self Storage	15	Alberta, British Columbia

Note: U-Haul is also a notable operator in the country, but numbers were unavailable at press time.

Apple Self Storage in Downtown Toronto

Apple Self Storage in Mississauga, Ontario

Making Storage Work IN SOUTH AFRICA

Insight from inside the Gauteng province

Anthony McHenry is managing director at Storage Professionals, a Johannesburg, South Africa-based property-management firm that oversees the Storage Worx self-storage portfolio. Storageworx was founded in 2009 under the Storage Genie name and today operates 14 locations in the Gauteng province. In this interview, he offers insight to the local storage industry.

Anthony McHenry

What is the self-storage market like in South Africa?

The industry has just started to establish itself here. We have one dedicated real estate investment trust that has 35 sites. Several other listed companies and property-management companies have started to purchase assets in this class to list them on the Johannesburg Stock Exchange.

What challenges does the local industry face?

Our greatest challenges are financing and staffing. Since it is such a young industry, we don't have professional managers, and the finance houses don't see the full potential, which is an advantage if your asset portfolio needs to diversify its income a bit.

What's happening on the development side?

Our industry is still finding the various niches in the market. Mostly, it is understood to be traditional-style storage, but we all know that it will divide into four main categories: multi-level facilities, traditional, convenience (locations in shopping malls and offices) and valet. I also see a division branching into affordable office space for small business and people who operate in different locations from their units.

What's the lending landscape like?

This aspect is very sad, as the banks will only give 60 percent to 70 percent loans for these businesses. Property investors are looting the industry because they will only pay for the income and expect the asset for free.

Who are your customers and what are they looking for when they seek storage?

They vary from clients who need a storage unit while they transition from one home or job to another short term, businesses that are growing faster than their resources, individuals who just need some extra space, and lifestyle customers who need a place to store items related to their hobbies and sports.

What's on the horizon?

I am optimistic regarding the future of self-storage, as the market is still growing. As more and more high-density developments go up and multi-use buildings come in and around the cities, the need for self-storage will grow with it. ISS

For more information, visit www.storageworx.co.za.

Storage Worx in Gauteng, South Africa

www.insideselfstorage.com

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PRESIDENT
Rick McConnell

SHOW DIRECTOR
Jayne Dalton

HUMAN RESOURCES DIRECTOR
Erin Dudley Colvin

Published by Informa Markets

2020 N. Central Ave., Suite 400, Phoenix, AZ 85004
Phone: 480.990.1101 • Fax: 480.990.0819
Website: www.informamarkets.com

VICE PRESIDENT, INSIDE SELF-STORAGE
Teri L. Lanza • teri.lanza@informa.com

BUSINESS-DEVELOPMENT MANAGER
Debbie Pirkey • debbie.pirkey@informa.com

EDITOR
Amy Campbell • amy.campbell@informa.com

CONTRIBUTING EDITOR/ISS STORE MANAGER
Tony Jones • tony.jones.us@informa.com

MARKETING & EDUCATION MANAGER
Melissa Black • melissa.black@informa.com

PROJECT COORDINATOR
Kortney Hannes • kortney.hannes@informa.com

VICE PRESIDENT, MARKETING SERVICES
Danielle Dunlap

ART DIRECTOR - DIGITAL
Darcey Saxton

PROGRAM MANAGER - DIGITAL
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