MiniCo self-storage facility in Hong Kong

How Hong Kongers can pack up, store and stow away

For space-hungry Hong Kong residents, self-storage is the way to go.

When Henry Chan scanned the Hong Kong market in 2001 to see whether there could be a demand for self-storage services he noticed that the territory was on the cusp of an industry boom. Not only had Hong Kong become densely populated, affluence was also climbing rapidly. Many Hong Kong residents were willing and able to afford self-storage; usually short-term rented spaces where users could store non-daily items like furniture, seasonal clothes, documents and keepsake collections. Self-storage allows users to free their cramped homes of clutter, and was viewed as a better option than discarding precious items or moving to a larger, more expensive abode.

Convinced of the potentially high demand for self-storage services in Hong Kong, Chan leased space in a building in Kwun Tong and opened the first MiniCo self-storage facility. In just over a decade MiniCo has grown exponentially. "We started our first operation with 15,000 square feet (sq ft). We are now nine times larger with 140,000 sq ft of storage space," says Chan, now the general manager at MiniCo Asia Limited.

> **Around 300 self-store locations are scattered throughout the territory with an average site size of 10,000 sq ft divided into 14-90 sq ft units.**

MiniCo's growth can be attributed to providing consistently high quality service to the specific self-storage needs of Hong Kong residents. Industry insiders describe the typical self-storage residential customer as someone who wants the facility to be easily accessible from home and the Mass Transit Railway (MTR). Business customers, meanwhile, often require climate control to keep their wine and art goods in pristine condition.

"Hong Kong's population wants its self-storage closer to home than most Westerners. The humid environment means climate controlled facilities are in much higher demand. Its growth as a wine and art trading hub creates demand for niche players," says Andrew Work, former executive director of the Canadian Chamber of Commerce in Hong Kong from 2007 to 2012.

The self-storage penetration rate in Hong Kong is currently at 0.35 sq ft per capita per person, estimates Helen Ng, deputy chair of the Self Storage Association Asia. She says demand is driven by the territory's densely packed population teeming with middle-income families, expats, and small and medium enterprises. Self-storage facilities are commonly located closer to the MTR since the average customer tends to use the MTR.

"The key demand driver is insufficient on-site storage space among domestic and corporate users. Self-storage provides flexible off-site storage options for households living in private residential premises. Operators offer their facilities with flexible, beneficial lease terms for corporations requiring extra storage space when their existing facilities become insufficient to accommodate their inventories," says Doreen Goh, associate director, research & advisory at Colliers International.

Supply and competition

What began as a wide-open playing field for MiniCo has turned into a competitive arena consisting of more than 70 operators in Hong Kong, with a combined 3.5 million sq ft of gross space occupied, according to CBRE data. The majority of facilities in Hong Kong operate under a franchise model. Around 300 self-store locations are scattered throughout the territory with an average site size of 10,000 sq ft divided into 14-90 sq ft units.

"The most expensive locations for self-store are, not surprisingly, on Hong Kong Island within proximity of Central such as North Point and Kennedy Town," says Darren Benson, senior director, industrial & logistics services, Hong Kong, Macau & Taiwan at CBRE.

He says the property selection process is critical to the success of the various facilities. "Self-store operators have benefited two-fold; firstly through improved facility management and returns, and secondly by securing large increases in the value of the underlying assets – effectively a form of cash flow positive land banking."

For its part, Goh provides a more conservative estimate of 2.8 million sq ft of self-storage space currently operating in the city. Hong Kong residents have embraced the concept of self-storage due to the general lack of a storage room in the typical home and wide availability of self-storage spaces.

Goh estimates that as of last year about 820,000 households were living in homes without a store room. "If half of these households would lease 15 sq ft of self-storage space each – about 50% of the size of a dedicated store room – to accommodate their storage needs, the market size of self-storage would be about 6 million sq ft," she says.

Given Goh's data assumptions, the available self-storage space from current operators meets only half of the market size. This is why analysts believe the industry is far from being saturated and is poised to grow by leaps and bounds over the next decade.

Darren Benson

Helen Ng

Henry Chan

"In both Singapore and Hong Kong, we have not reached the point of market saturation yet, although the increased competition has driven operators in both countries to introduce more innovative and holistic offerings, such as pairing self-storage with packing and delivery services," says Ng.

Work estimates that the Hong Kong self-storage market could grow another 500% based on benchmarks against the more developed US market.

Main players

Hong Kong's self-storage industry is a highly fragmented market dominated by a few main players and a smattering of smaller players.

The top four self-storage companies control more than half, or 52%, of the market in terms of gross space occupied: Store Friendly with 20% market share, followed closely by SC Storage (17%), The Store House Ltd (9%), and Apple Storage (6%).

But the leader rankings could soon be shaken up, with Apple Storage expanding rapidly, says Benson. Among the smaller players, which include MiniCo with its 4% market share, competition is also bound to become brutal. The likes of Cube Storage are taking up significant new space in Kowloon East, while some Singaporean operators also coming to Hong Kong to secure a piece of the unserviced market.

Benson foresees an imminent industry consolidation given the current crush of competitors in Hong Kong. Those that manage to survive have plenty of room to grow with demand expected to balloon as more residential and business customers find uses for these spaces.

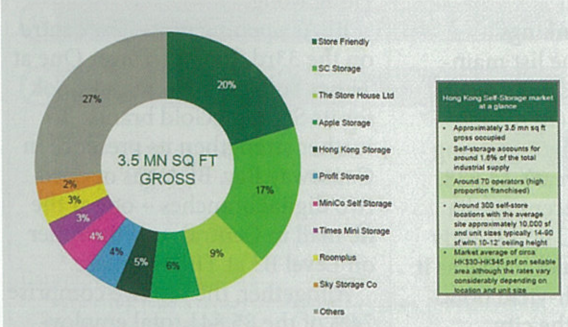
"We expect significant industry consolidation as the market matures, as it is currently very fragmented with many operators with typically small facilities. We have seen significant take-up of industrial space by operators which is then converted to self-storage space, thus in effect forming a new user sub-market," adds Benson.

Challenges and risks

Managing the skyrocketing growth and fast maturation of the self-storage industry will be a key challenge for all players, as well as the Hong Kong government. Industry standards and regulations will need to be enforced to ensure healthy competition and sustained high standards of service for customers.

"New operators will need to learn from those that came before them. Industry standards, and its guarantors, will be needed to educate and reassure a new self-storage consumer class. Industry standards will also guide inevitable regulation that will follow industry development," says Work.

Hong Kong has a highly fragmented market



Source: CBRE

A new user sub-market was formed by converting industrial space to self-storage space.