Research

The Self Storage Association Asia Annual Survey 2020

Foreword

What a year.

For once, it is not trite or overblown to claim that a phenomenon affected ‘everyone’ in the world. Self storage was no exception - but it didn’t necessarily turn out as feared.

For those with solid operations and experience, 2020 was, by the numbers, not a terrible year. Many finished up on their 2019 numbers as households tidied up and cleaned out for work-from-home and home-schooling. Small businesses under pressure turned to self storage for safe-keeping of idled equipment and reduced inventory. PPE storage by major institutions helped some operators to fill capacity. Enterprising logistics providers, like Singapore Post, partnered with self storage operators to help small businesses adapt to the accelerated pace of adoption of e-commerce forced on them by a new competitive landscape under lockdown.

New operators found customer acquisition a major struggle while lockdowns were underway, but found their footing when restrictions were lifted - if they had a strong digital marketing game. This is the first time in many years that the claim that self storage is ‘recession-proof’ was tested; the industry passed with flying colours!

This year marks a new direction in the Self Storage Association Asia Annual Survey as Jones Lang Lasalle (JLL) became our new partner in analysing the data collected by the SSAA. We expanded the scope of the survey to include views on COVID-19, marketing, plans for growth and investments. JLL have done a wonderful job in trying times and we thank them for their partnership and dedication!

The SSAA and JLL are committed to keeping data confidential and presented only in the aggregate so the participants can benefit from understanding what is happening in the market while ensuring no secrets are divulged. High-quality data also attracts more investors into the sector, raising most everyone’s valuations.

The response by larger players in the market has been excellent, leading to top quality results. Strangely, it is only a tiny minority of smaller operators who still think their data is too precious to share; the major operators know otherwise and understand how they benefit from full participation in the survey. Accordingly, we have excellent coverage in the market from our respondents.

Everything took longer to pull together this year on account of lockdowns of varying degrees of strictness across Asia, the expansion of the survey and the general disruption of business in the COVID-19 era.

The constant requests for the data from growing operators and active institutional investors tell us that the survey results are popular and the appetite for expansion is strong. The low cost of capital and a solid business model that meets peoples’ real needs is driving development of our sector.

We hope you enjoy reading these results and will reach out to the SSAA if you have questions! We look forward to beginning the survey data gathering for 2021 and having your participation in this important exercise.

Stay safe, stay healthy, and prosper into 2021.

Helen Ng
Chair, SSAA

Andrew Work
Executive Director, SSAA

Demand from business users is also growing with e-commerce standing out as an increasingly important driver, particularly as a growing number of consumers shift their focus online in response to COVID-19.

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Introduction

Even amid the disruption of the pandemic some real estate asset classes continue to perform well. Growing data consumption by individuals and corporates continues to underline the need for data centres while demand for logistics facilities remains strong across APAC as e-commerce and other occupiers continue expanding. These sectors continue to attract strong investor interest but so does another emerging asset class – self storage.

While self storage is in its infancy in many markets around the region, particularly in terms of its attractiveness to institutional investors, interest is growing. Asia Pacific offers a strong economic outlook coupled with rapid urbanisation and attractive demographics – two key drivers of self storage demand. Relatively small and expensive residential units and preferences for renting over buying in some markets also underline the need for third party storage facilities.

Demand from business users is also growing with e-commerce standing out as an increasingly important driver, particularly as a growing number of consumers shift their focus online in response to COVID-19.

In this paper, we discuss the results of the sixth consecutive annual survey conducted by the Self Storage Association Asia (SSAA). The survey is targeted at SSAA's member companies. It is clear that, while challenges clearly remain, many of the pieces are in place in APAC for the self storage sector to grow. Investor interest in the sector is also likely to increase as this emerging asset class matures.

02
Macro Overview

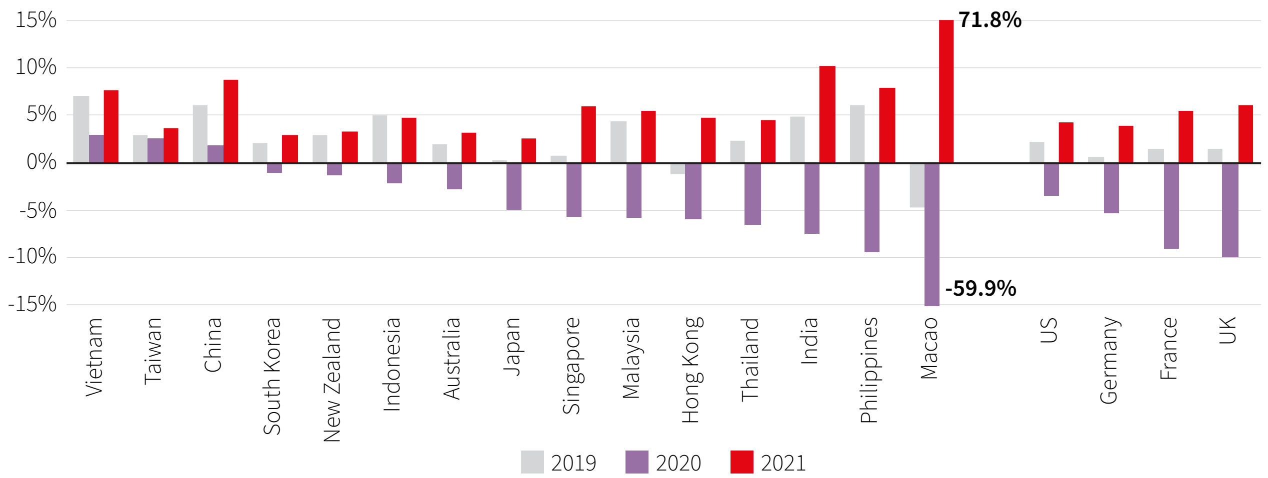
Safety and recovery measures to drive speed and longevity of post pandemic recuperation

2020 was one of the most challenging years in recent memory with unprecedented disruption to businesses and economies but we enter 2021 with more positivity. The beginning of the end of the pandemic is on the horizon but risks are still tiled to the downside. Social distancing, restrictions on international travel and further spikes in infections are likely to persist throughout 2021 as recovery measures are rolled out across the world.

Economic growth is likely to rebound after contracting in 2020. Strong growth is projected for Mainland China as the recovery becomes more broad-based. Beyond China, the rest of Asia Pacific should benefit from both China's tailwinds and improving global demand. That said, most regional economies are unlikely to return to pre-pandemic levels until late 2021 and policy support remains crucial to sustaining momentum.

Figure 1

Real GDP y-o-y % change



Source: Oxford Economics, 4Q20

However, the outlook for the Asia Pacific economy is generally brighter than that in other regions. By 2023 economic output in APAC is likely to be approaching the corresponding figure for the US and Eurozone combined.

Challenges for some real estate sectors; opportunities for others

At the height of the outbreak, COVID-19 brought many industries to a standstill. Now, many traditional industries are slowly returning to normal, although challenging economic conditions continue to mean occupiers are keeping a watchful eye on costs and this is weighing on demand.

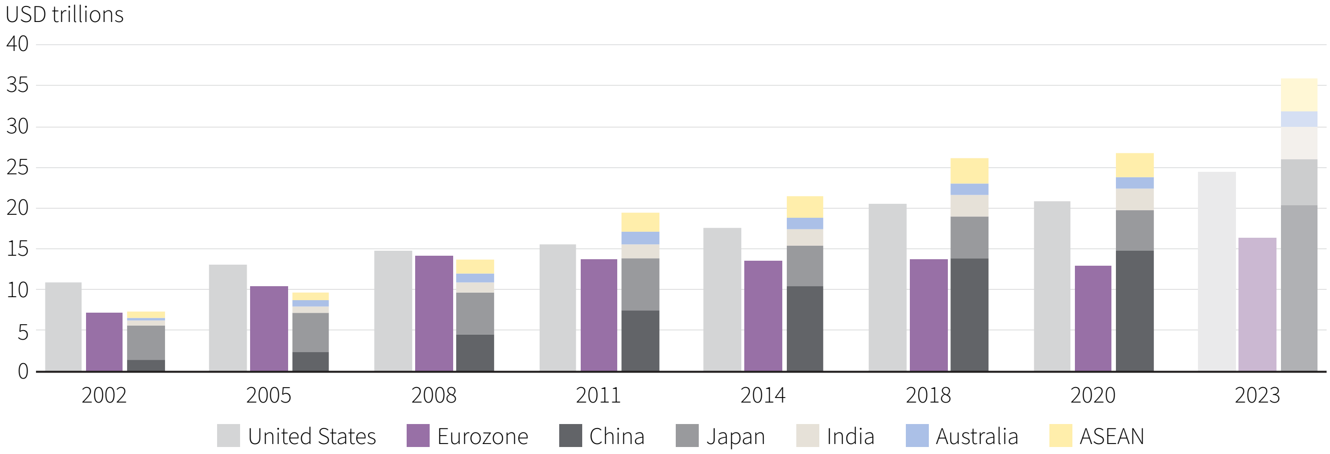
In parallel, other industries are seizing emerging growth opportunities. E-commerce continues to benefit as shoppers stay at home and demand for logistics facilities from online retailers remains resilient. Meanwhile, the adoption of remote working has hastened the adoption of technology thus increasing demand for data storage and associated facilities.

There is renewed focus on health and wellness and consumer spending on healthcare will continue even after the outbreak is contained. In real estate terms, R&D and manufacturing space are already on the radars of investors; there may be increased warehousing demand for fresh food and medical supplies. Cold chain logistics may benefit from higher standards in the pharmaceuticals and foods industries.

Demand for self storage also remains resilient mid-pandemic with notable demand sources coming, from a business perspective, from e-commerce and broader socio-economic factors driving private demand (discussed later in this report).

Figure 2

US, Eurozone and Asia Pacific economies



Source: Oxford Economics, 4Q 2020

Table 1

The impact of COVID-19 by sector

Most severe

Industries with the **most immediate challenges** to their businesses, revenue and financial wherewithal

- Restaurants and dining
- Performing art and spectator sports
- General retail
- Travel and tourism
- Hospitality
- Senior housing
- Education
- Non-emergency healthcare
- Aviation
- Oil and gas
- Co-working

At risk

Industries **susceptible to disruption** depending on the duration and severity of the downturn

- Legal
- Finance and banking
- Accounting and consulting
- Marketing and advertising
- Consumer technology

Positive impact

Industries **likely to expand** as a result of changing consumer behaviour and future growth prospect

- Warehouses / Storage
- E-commerce
- Grocery and consumer staples
- Data centres
- Medical and biotech
- Urgent care healthcare
- Government
- Government contractors
- Construction and infrastructure

The self storage sector rides the economic shock waves

Globally, the self storage sector has remained resilient during the deepest of economic shocks. In the United States, self storage REITs outperformed all other REIT subgroups except Data Centres during 2020.

In comparison, the retail and hospitality sectors faced significant downward pressure from the pandemic due to social distancing and restrictions on international travel. Office occupiers remained cautious as businesses saved on costs while uncertainty also continues to impact demand. In the industrial sector, manufacturers faced less demand and some bottlenecks in supply chains, although demand for logistics facilities from e-commerce retailers and 3PL groups remained resilient

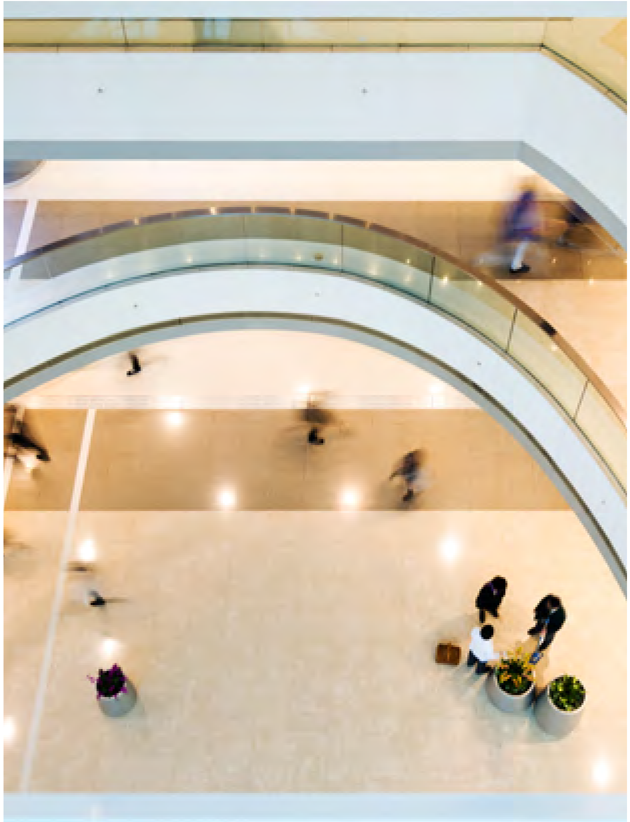
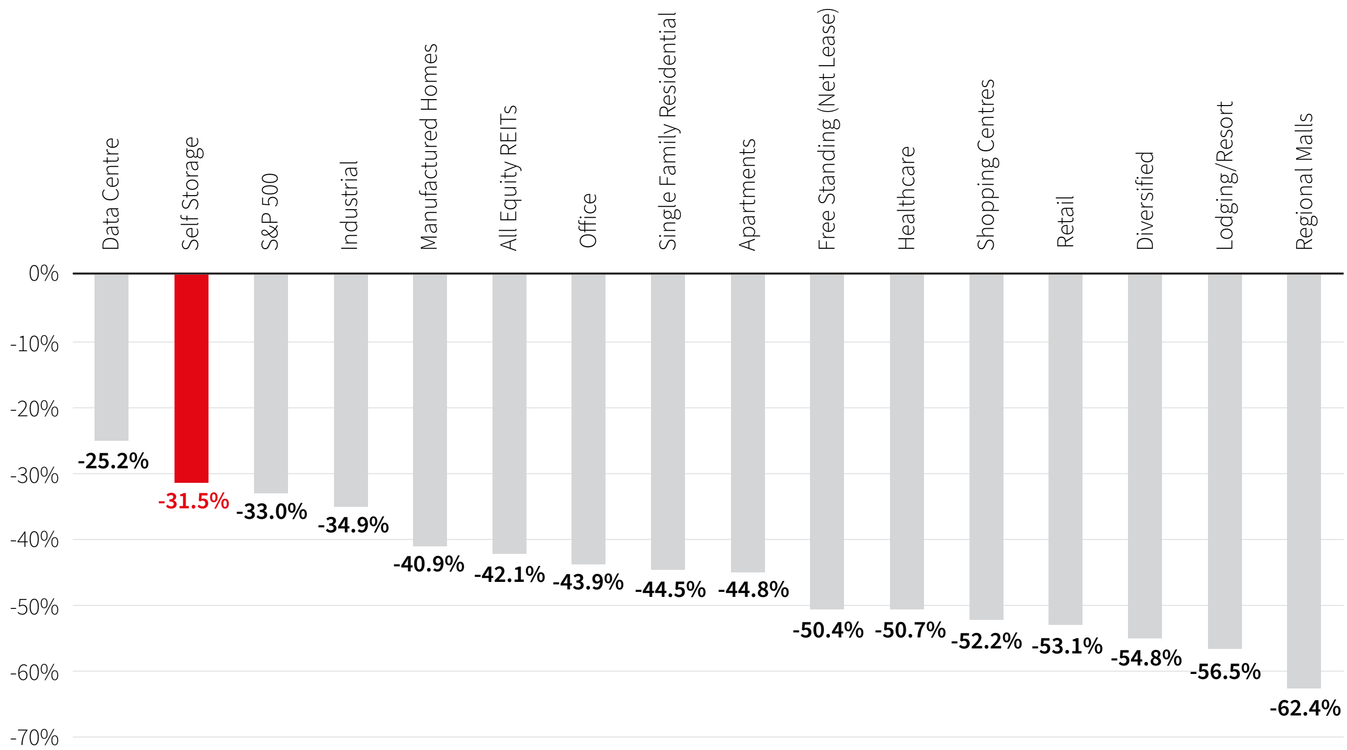


Figure 3

FTSE NAREIT Index Performance as the pandemic impacted economies



Note: based on 21st Feb 2020 – 23rd March 2020

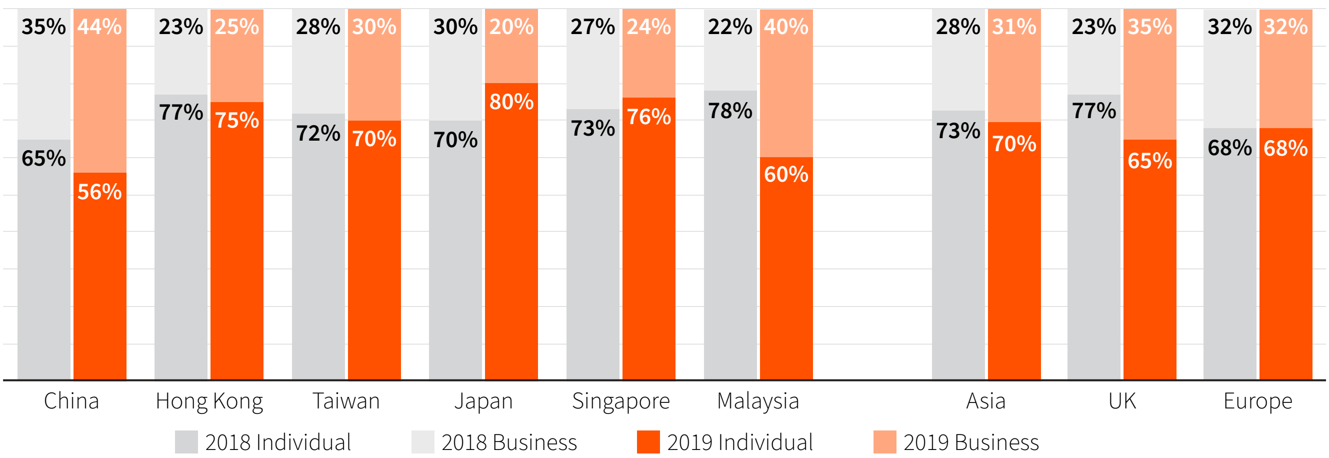
03
Industry Overview – Demand Drivers

A healthy mix of business and private demand sources

A good customer mix of around 70% personal users and 30% business users in Asia Pacific means that the self storage sector is less susceptible to fluctuations in the business cycle than other commercial real estate segments. Urbanisation and high residential price points (discussed later in this report), fuel private demand for self storage while corporates and e-commerce platforms will likely continue to drive business demand.

Figure 4

Split between individual and business customers



Source: SSAA Annual Survey 2020, IPSOS 2019, fedessa 2019 and 2020, www.sparefoot.com

Product mix varies across markets

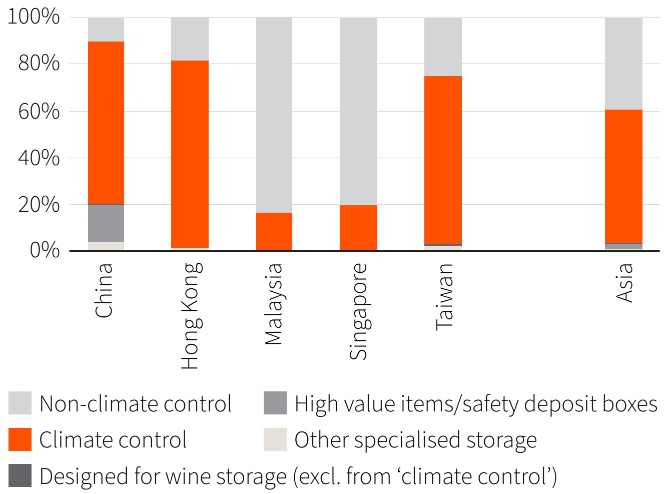
While storage mix is fairly homogenous, product mix varies across markets. This is most notable in Malaysia and Singapore, as the non-climate control segment takes up a significant amount of space. Other, more specialised types of space are quite limited in all APAC markets. However, going forward, it is likely that facilities designed for specialised goods (such as wine) could take up a higher percentage of space in line with changes in customer characteristics.

Macro factors constitute the top three drivers of demand

A myriad of factors such as changing living patterns amongst the young, a move towards a sharing economy and a growing middle class with more disposable income all fuel demand for self storage. Small, expensive residential units and urbanisation come in at numbers one and three of the top demand drivers while growing demand for e-commerce takes the number two spot. E-commerce was a strong growth story prior to the pandemic but COVID-19 has driven more consumers to move online for their retail needs.

Figure 5

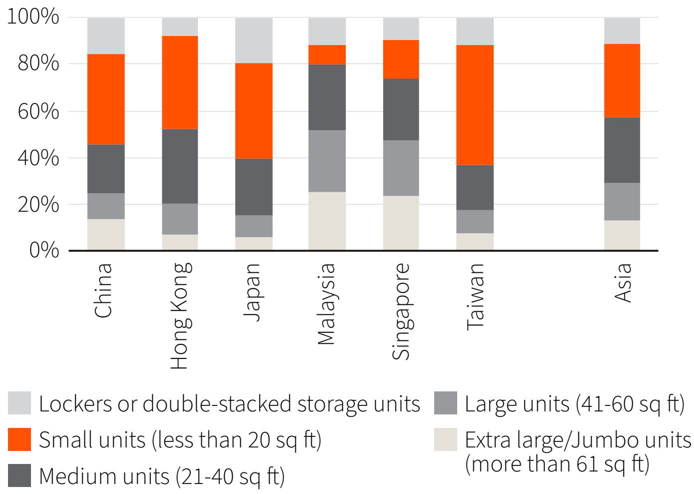
Product mix (type)



Source: SSAA Annual Survey 2020

Figure 6

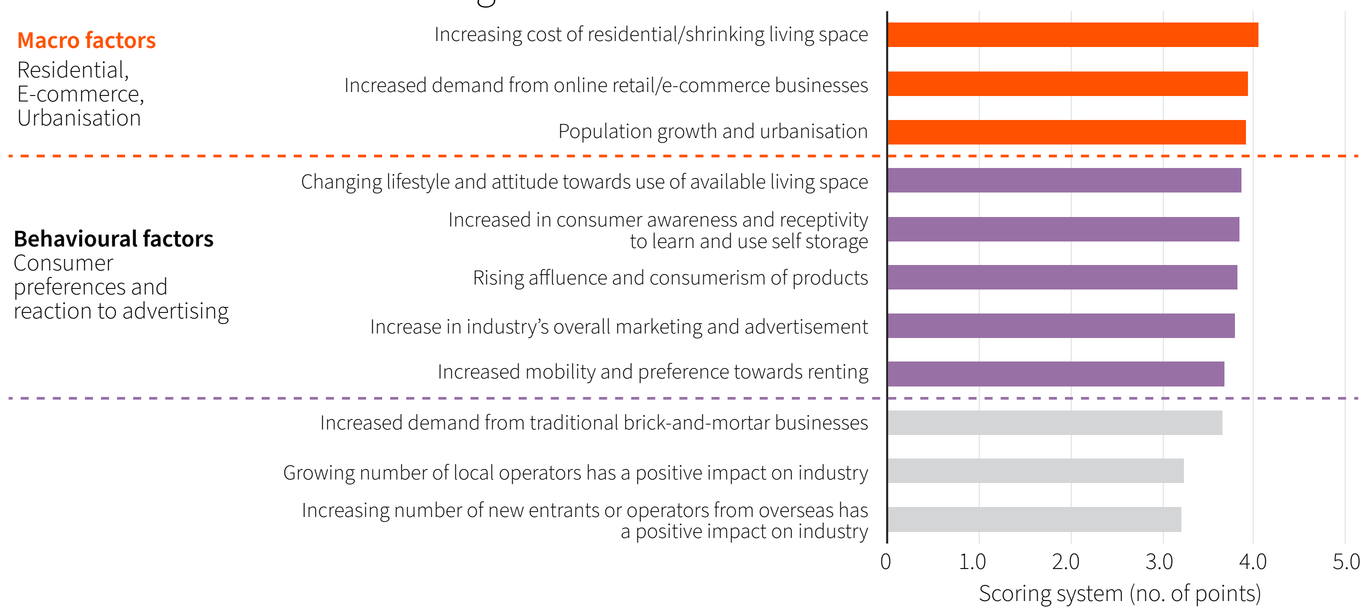
Storage mix (size)



Source: SSAA Annual Survey 2020

Figure 7

Demand drivers of self storage



Source: SSAA Annual Survey 2020

Rising accommodation costs and urbanisation facilitate the need for self storage

Urbanisation is a key driver for self storage. Smaller living spaces can result as rising urban populations increase demand for housing in crowded cities. APAC cities rank highly among the world's urban agglomerations with seven out of the top ten located in the region.

Housing affordability remains an issue and accommodative monetary policies continue to provide support to current price levels. As a result, the size of an average apartment in Hong Kong and Seoul is around 60 sqm and much smaller flats have marketability. Homes in Tokyo are slightly larger at around 70 sqm while those in Shanghai, Singapore and Taipei range between 80 sqm and 120 sqm.

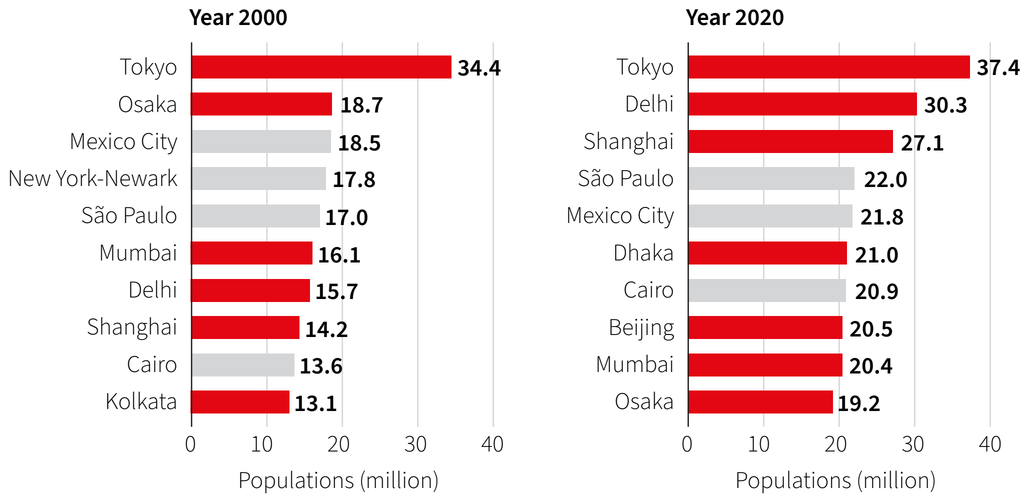
The housing prices-to-rent ratio across Asia Pacific remains markedly elevated when compared with non-APAC cities. An average home in Shanghai is estimated to be worth 61 years of rental payments. On average, we estimate home prices to be equal to 19 years of rental payments in Singapore, 23 years in Tokyo and between 30 and 35 years in Hong Kong, Sydney and Melbourne. Elevated house prices and rents per sqm should encourage households to substitute storage space in their homes with less expensive self storage space encouraging broad-based demand for self storage space from individuals.

Figure 8

Top urban agglomerations

29

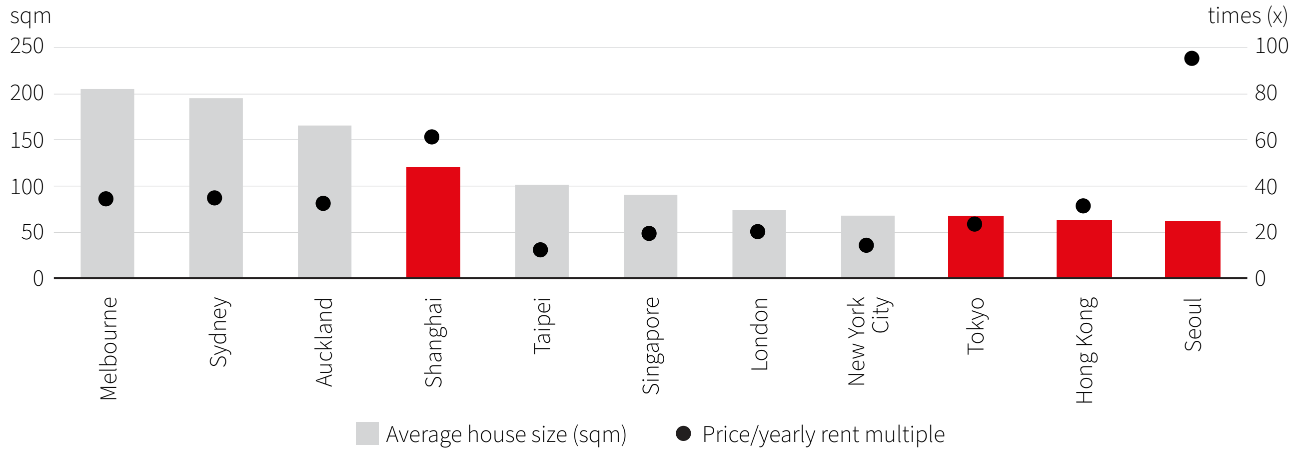
megacities expected to house a combined **½ billion** people by 2023



Source: Oxford Economics, 4Q 2020

Figure 9

Residential Price-to-rent Multiple in 2019



Source: JLL, 2020

E-commerce is a growing demand driver for self storage

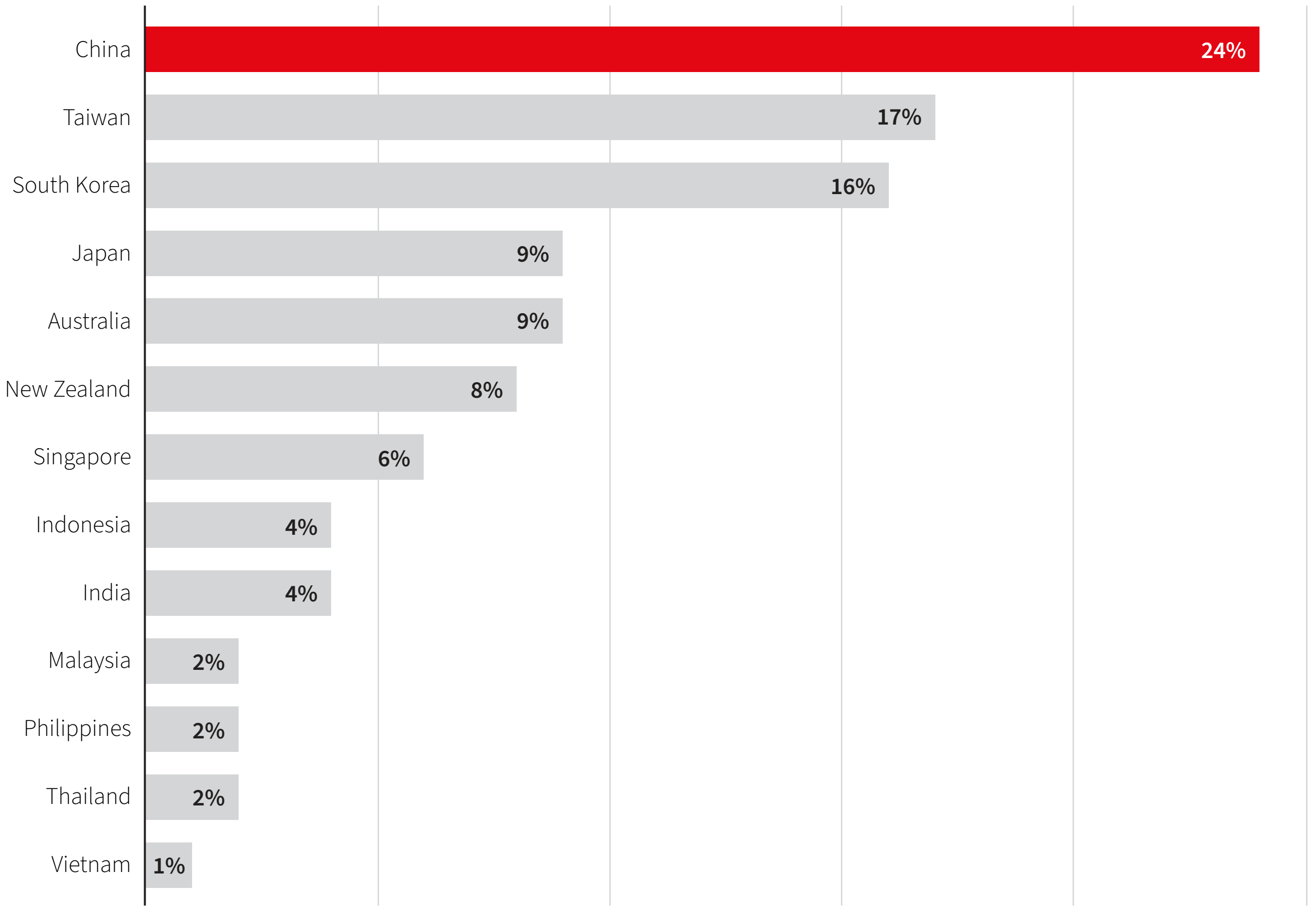
There is some evidence of e-commerce retailers using self storage space to facilitate last-mile delivery. Some operators also offer storage units where e-commerce firms can leave packages for shoppers to retrieve at a later time, easing some of the difficulties associated with last-mile delivery. Smaller online retailers are even using self storage units as showrooms (if regulations permit this approach) where they display merchandise available for online sales.

E-commerce now accounts for 16.1% of all retail sales globally, and this proportion is expected to rise to 22% by 2023.

Some operators also offer storage units where e-commerce firms can leave packages for shoppers to retrieve at a later time, easing some of the difficulties associated with last-mile delivery.

Figure 10

E-commerce share of total retail sales



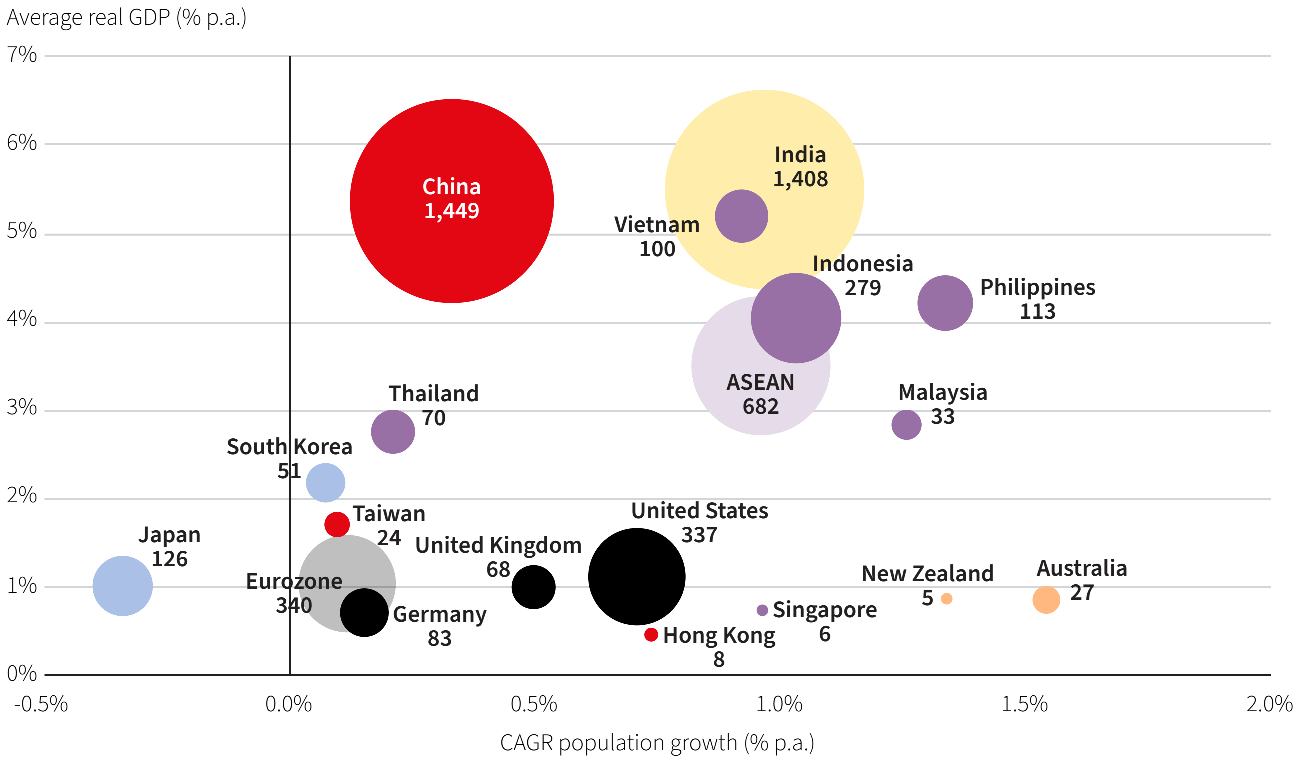
Source: PPRO, Statista; 2020

Some APAC markets offer attractive socioeconomic fundamentals

Taking population and economic growth forecasts into account, China, India, Australia and the ASEAN countries look set to have the most favourable set of growth drivers in the region. Singapore's growth profile is similar to mature economies such as the US and UK, with a moderately positive economic and population growth outlook. Japan and South Korea both have less favourable demographics but productivity gain should continue to propel fairly healthy GDP growth over the next few years.

Figure 11

Country population and Real GDP Growth



Source: Oxford Economics, 4Q 2020
Note: Figures are country population in million persons

Occupancy remains relatively stable across the region

Stable, healthy occupancy levels underline the attractiveness of the sector with some of the highest occupancy levels in Hong Kong (87% in 2019) with lower levels in Singapore (65% in 2019).

The average occupancy rate in Asia Pacific as well as Europe stood between 75% and 80% during 2019. In general, high occupancy levels indicate that current supply/demand dynamics in most AP markets are out of sync and supply continues to play catch-up to the underlying market demand. The market fundamentals for self storage look bright in most of the region and the demand drivers are growing quickly.

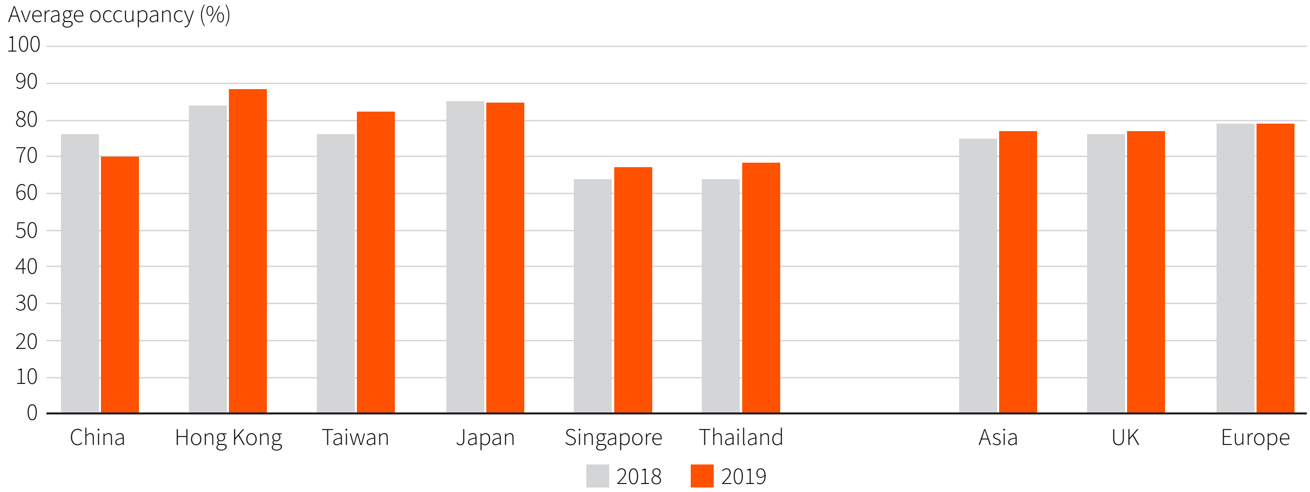
Higher costs mean a premium on rents in APAC

Our latest survey results captured an increase in average monthly rental rates across most APAC markets. On average, monthly rental rates in Asia Pacific were recorded at USD 4 psf pm in 2019, an increase from USD 3.3 psf pm from the 2018 survey. In comparison, average monthly rental rates recorded at USD 2.3 and 0.9 psf pm in Europe and the US respectively in 2019.

Hong Kong and Japan stand out as the most expensive markets in the region in 2019 with India being notable as the least expensive.

Figure 12

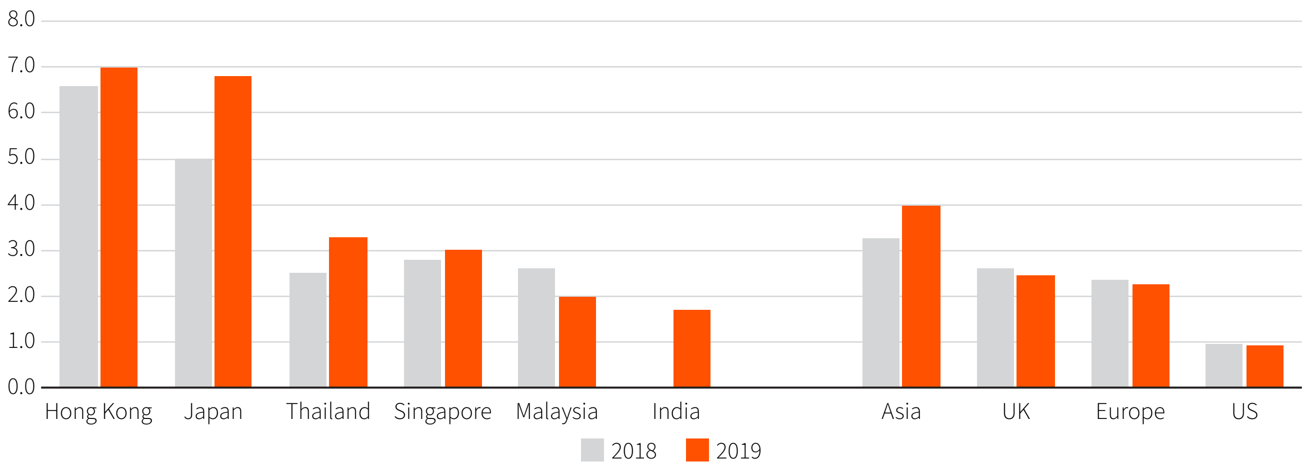
Occupancy levels in APAC



Sources: SSAA Annual Survey 2020, IPSOS 2019, Fedessa 2019 and 2020, www.sparefoot.com

Figure 13

Average Rental Rate (USD psf pm)



Sources: SSAA Annual Survey 2020, IPSOS 2019, fedessa 2019 and 2020, www.sparefoot.com

Value-add services represent a growth opportunity

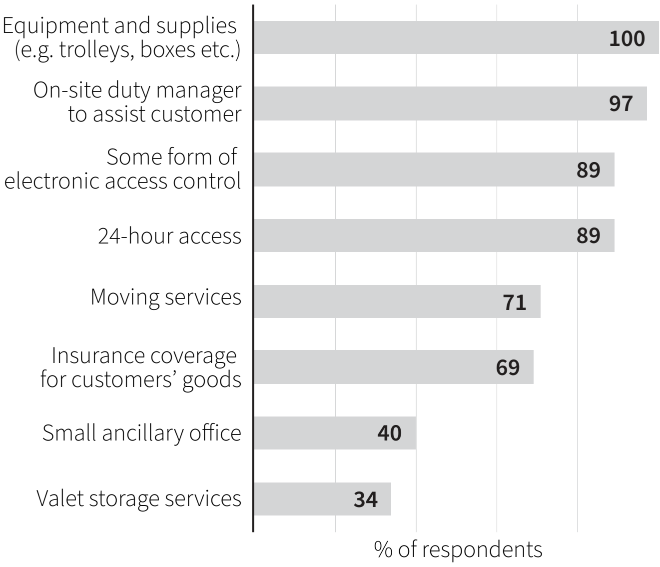
Almost all operators are providing some form of value-added services, some of which are fee earning and some not. As a percentage, value-added services are producing around 7% of the top line in Asia Pacific. This differs from the UK, for example, where operators produce 12% of their revenue from value-added services.

A good online strategy is key

Referrals account for the highest share of successful conversions from enquiries to deals (36%), followed by online advertisements/search engines (31%) and company websites (29%). Physical signage/advertisement came in at a distant fourth (21%). In addition, 73% said pricing information is available on their website. Roughly one-half of respondents said customers can reserve a locker online or take a virtual tour of a facility from the company website.

Figure 14

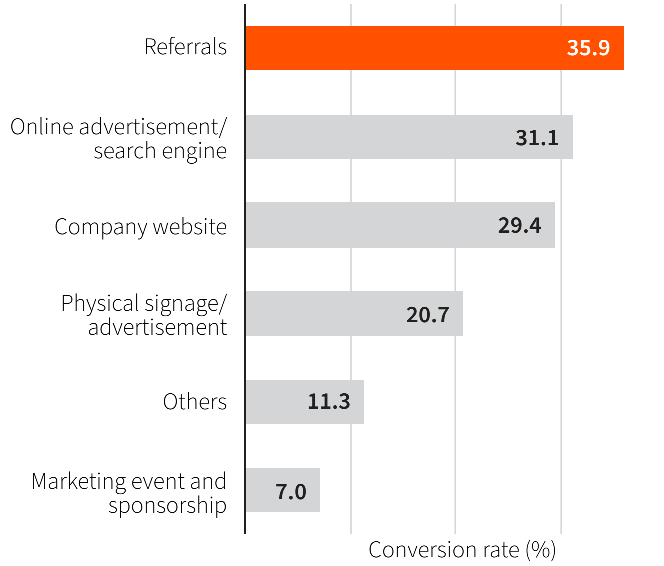
Value add services provided



Source: SSAA Annual Survey 2020

Figure 16

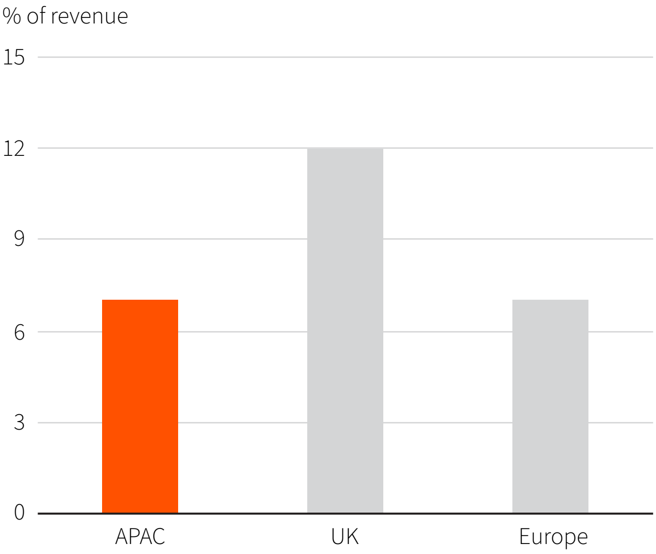
Conversion rates



Source: SSAA Annual Survey 2020

Figure 15

Value add services as a percentage of revenue



Sources: SSAA Annual Survey 2020; FEDESSA European Self Storage Survey 2020

Figure 17

Online strategy

Source: SSAA Annual Survey 2020

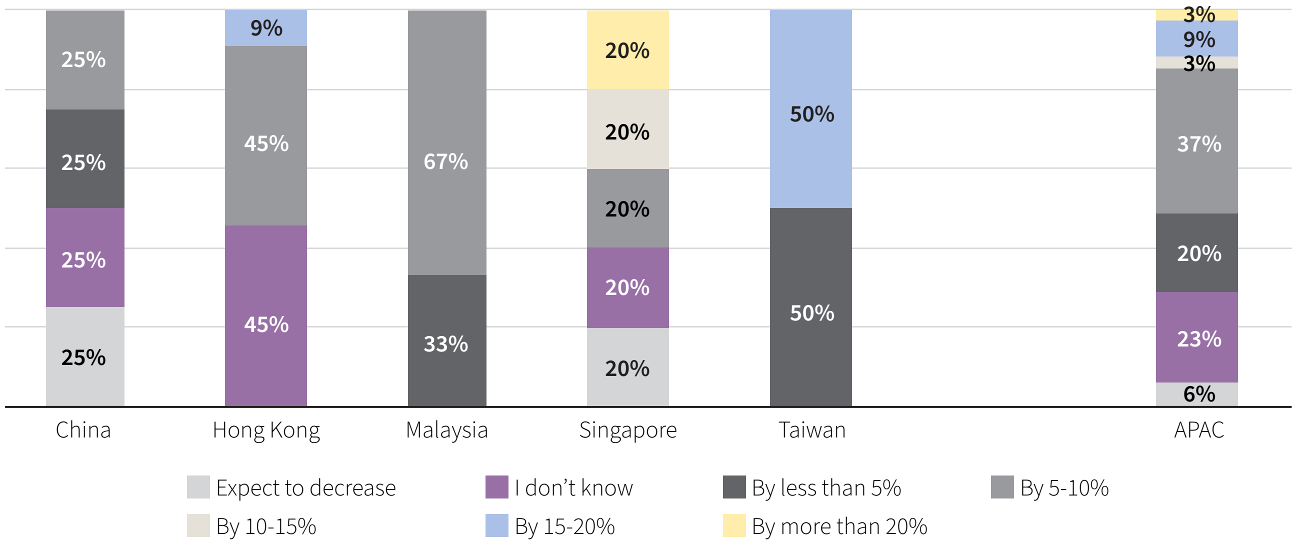
A generally positive outlook on rents despite the pandemic

The 2020 survey was conducted in the midst of the pandemic. Prior to COVID-19, 72% of respondents expected rental growth in 2020. However, only 58% expected rental growth in 2020 after the pandemic; roughly a modest 14 percentage point decline. Overall, this illustrated the defensiveness of the sector compared with many other sectors and industries that are in more negative territory. As the survey is based on 2019 performance, the next annual survey will likely provide deeper insights into the actual impact.

Only 58% expected rental growth in 2020 after the pandemic; roughly a modest 14 percentage point decline.

Figure 18

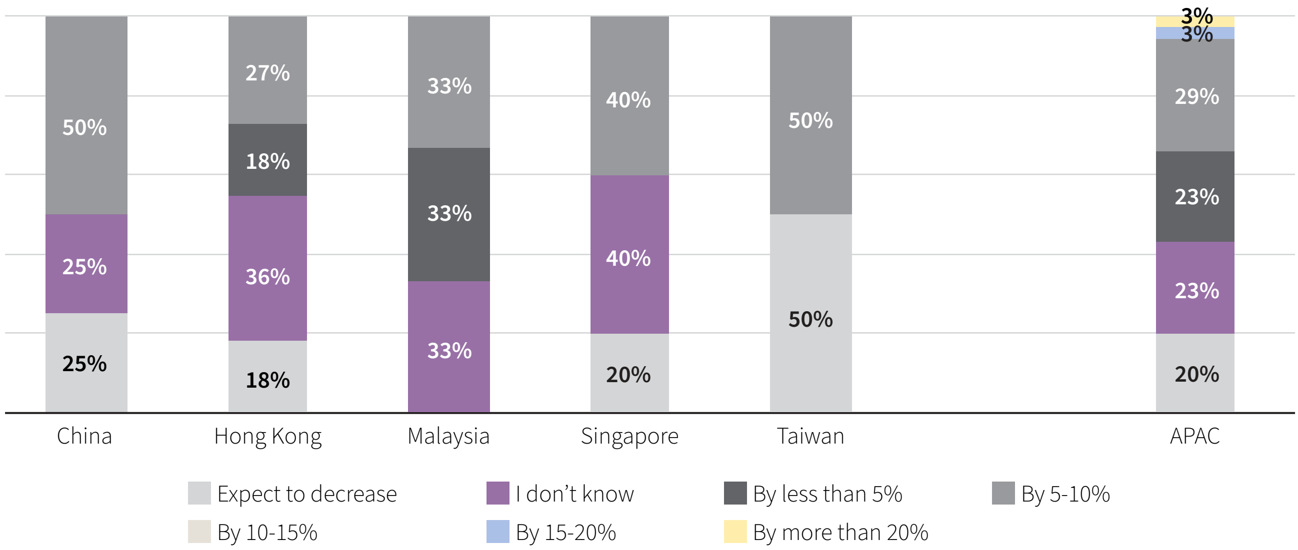
Rental growth expectations pre-pandemic



Source: SSAA Annual Survey 2020

Figure 19

Rental growth expectations post pandemic



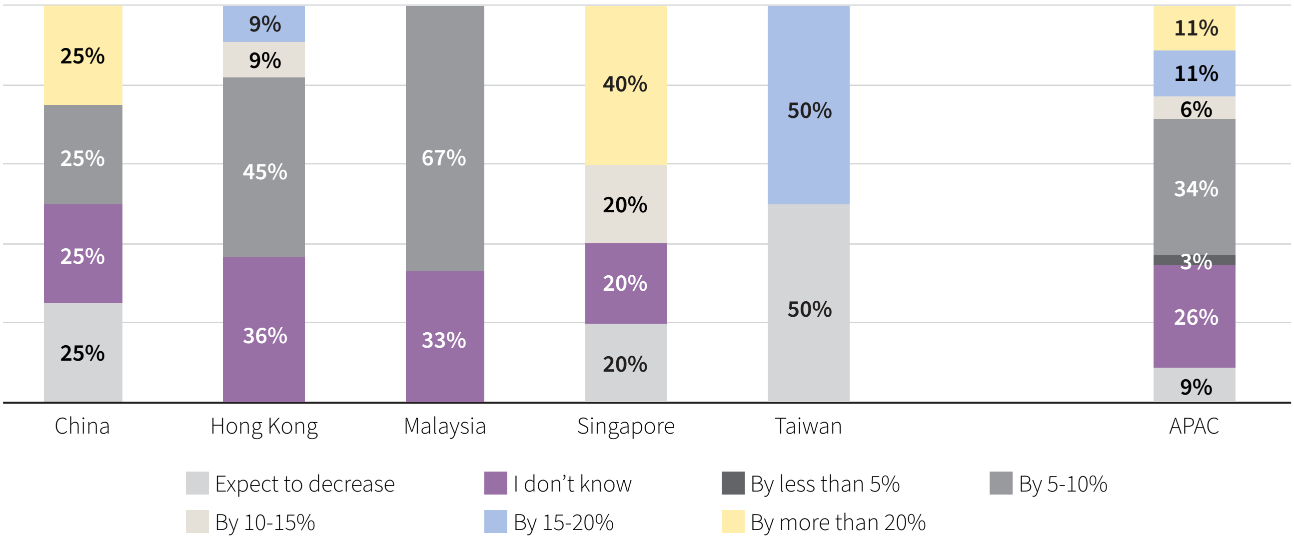
Source: SSAA Annual Survey 2020

Profitability expectations impacted moderately by COVID-19

In a similar vein, profitability expectations were tempered by the pandemic with 53% expecting profitability growth post the onset of the pandemic versus 65% before. This still represents a good degree of positivity given the disruption.

Figure 20

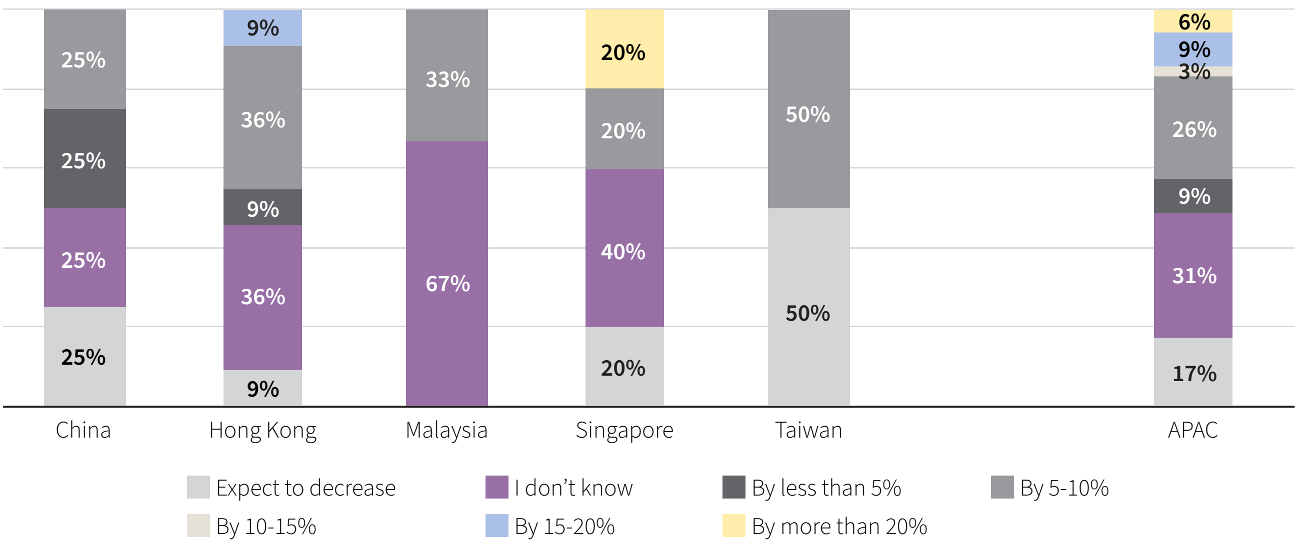
Profitability expectations pre-pandemic



Source: SSAA Annual Survey 2020

Figure 21

Profitability expectations post pandemic



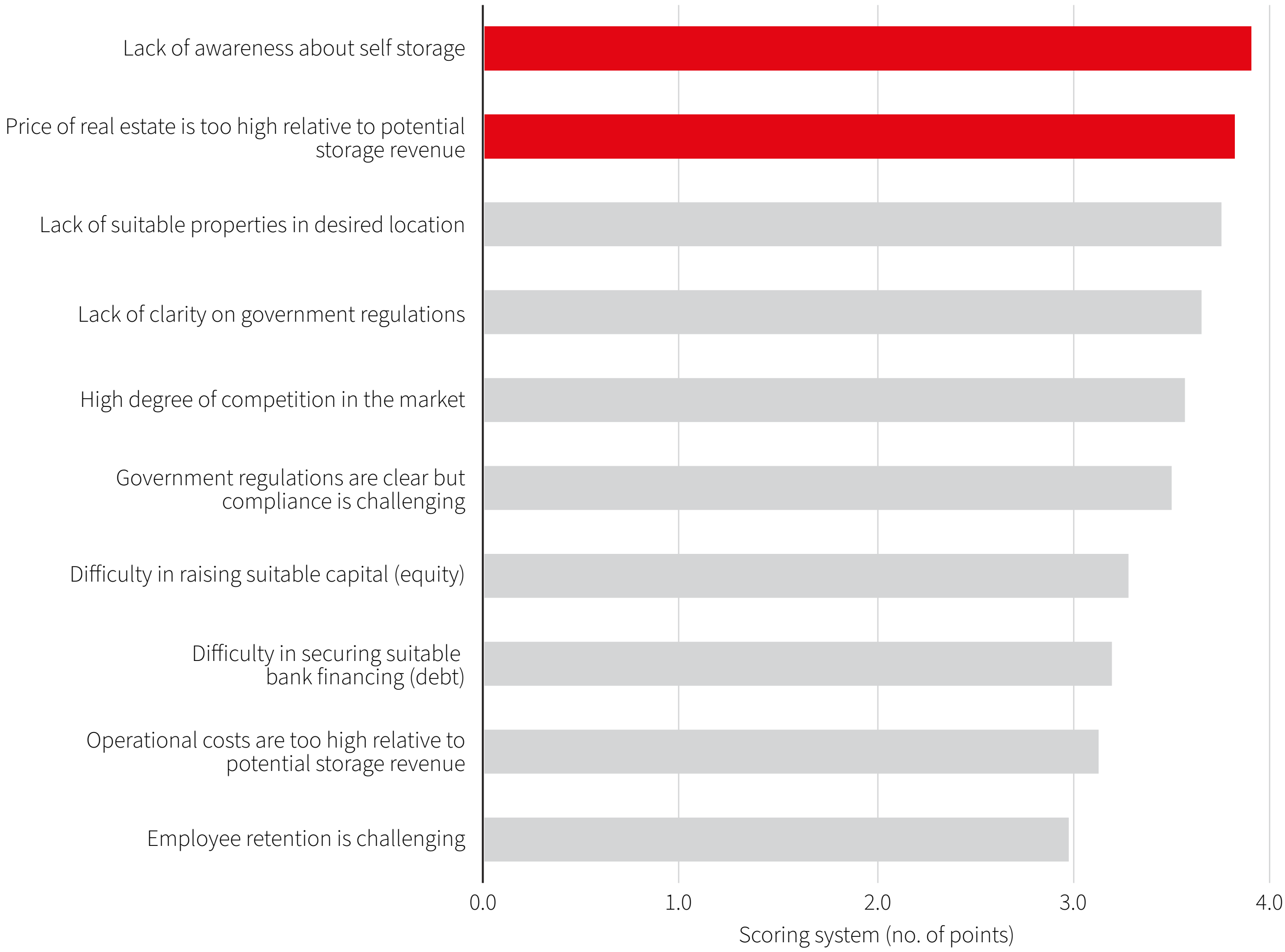
Source: SSAA Annual Survey 2020

Some challenges remain

In terms of challenges facing the sector, a lack of awareness about self storage was cited as the biggest hurdle. Two real estate specific factors were also highlighted; the price of real estate being too high relative to potential self storage revenue and a lack of suitable properties in desired locations. A lack of clarity on government regulations was cited as an obstacle to growth.

Figure 22

Key challenges



Source: SSAA Annual Survey 2020

04
Investment Market

Low interest rates supportive of property values

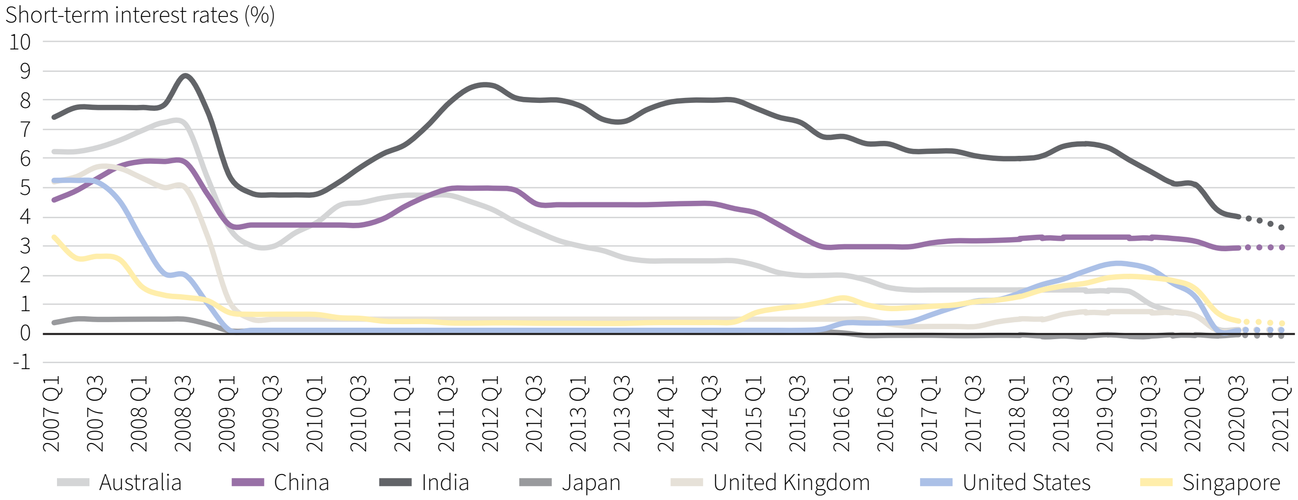
The fallout from the COVID-19 outbreak raises the odds that governments and central banks will maintain an accommodative monetary policy stance until growth and inflation eventually return to normal. Nominal interest rates in major countries will likely stay lower for longer and low interest rates are supportive of property values with low property yields and positive yield spreads.

At the same time, low financing costs encourage investors to boost returns by taking more risk. A common way is to use leverage by taking loans or issuing bonds in order to achieve higher returns. Leveraged cash-on-cash returns in major Asia Pacific markets are significantly higher than the cost of debt as well as unlevered yields.

Given that low debt costs and the ability for investors to take on debt should persist, we expect investors to continue to use leverage when purchasing a real estate asset, be it for owner occupation or investment.

Figure 23

Central Bank Policy Rates



Source: Oxford Economics, 4Q 2020

Attractive industrial returns in Singapore and Tokyo

The performance of industrial asset classes continues to be stronger relative to the office and retail sectors. Industrial yields compressed in a number of markets during 2020 amidst strong investment demand for prime industrial assets. Overall, we believe the regional yield compression cycle could be approaching its end and acquisition opportunities should emerge in the short to medium term.

Table 2

Yields, Loan-to-Value Ratios and Costs of Debt

Industrial Market	Typical Cost of debt (%)	Typical LVR (%)	Transactional Yields (%)	Yield Spread of Debt Cost (bps)	Cash-on-cash Yield (%)
Hong Kong	1.85	50	3.90	210	6.00
Seoul	2.70	60	5.00	230	8.60
Singapore	1.50	40-50	6.00	450	9.70
Shanghai	4.70	30-50	5.00	35	5.40
Sydney	2.20	50	4.30	210	6.40
Melbourne	2.20	50	4.30	210	6.40
Tokyo	0.60	55-60	3.50	290	7.90

Note: Cash-on-cash yield is calculated by: (transactional yields – cost of debt x LTV ratio) / (1 – LTV ratio). Debt costs are based on investment grade borrowers, core stabilised assets fixed pricing on typical market maturities.

For Shanghai, the figures refer to on-shore financing.

Source: JLL, Q4 2020

Leasehold opportunities represent the most likely mode of market entry

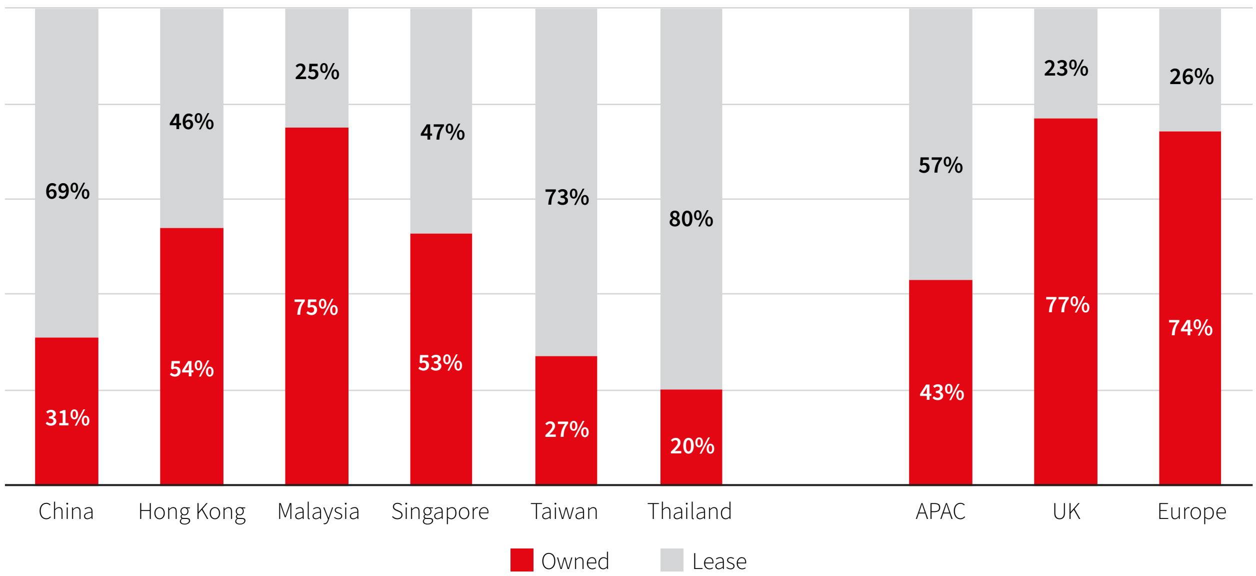
Leasing and owner-occupation represent two different options for operators. Owner occupation is a less common ownership model in Asia Pacific, with just 43% of operators owning their facilities as compared to up to 77% in UK.

Many operators in Asia opt to lease properties and this presents lower entry costs. Operators also consider leasing to gain access to areas where owner occupation is simply not available because the availability of land or capital do not always allow them to adopt this model.

However, short term lease arrangements give rise to the risk of landlords not renewing leases. This is increasingly costly since many operators are investing more in safety, technology and other amenities in their facilities. Owner occupation is most accretive to value and also enables the operator to find more favourable debt terms. As such, we expect the proportion of self-owned facilities to rise as the market matures.

Figure 24

Ownership versus lease



Source: SSAA Annual Survey 2020

Note: Owned includes freehold and leasehold titles. Leased refers to building lease.

Around 50% of facilities in Asia Pacific are privately or self-funded

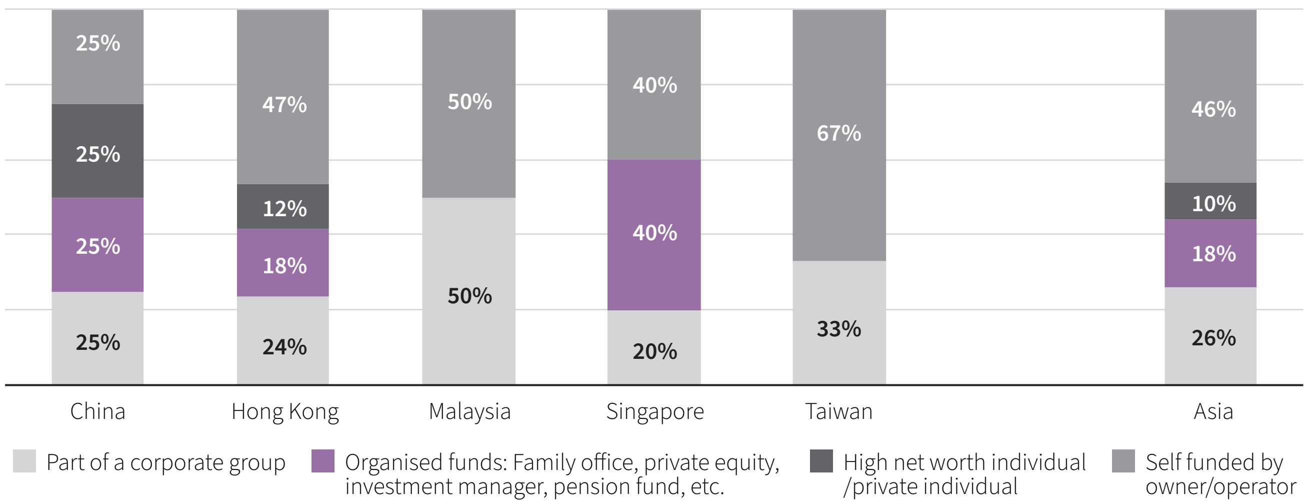
We have already seen private equity funds (e.g. Warbug Pincus) as well as sovereign wealth funds (SWFs) (e.g. GIC) start to participate in this sector. SWFs and large core funds target returns can be competitive but they tend to look for scalability to deploy large amounts of capital. Smaller private funds are likely to be more flexible in terms of initial scale with participation across propco and opco and creative structures to motivate management and growth.

Half of respondents to seek external funding

Roughly 50% of survey respondents expressed a desire to seek external funding over the next two years, either in the form of venture capital, joint venture, private equity or strategic partnership. This indicates that at least half are looking to form new relationships and prepare for new growth.

Figure 25

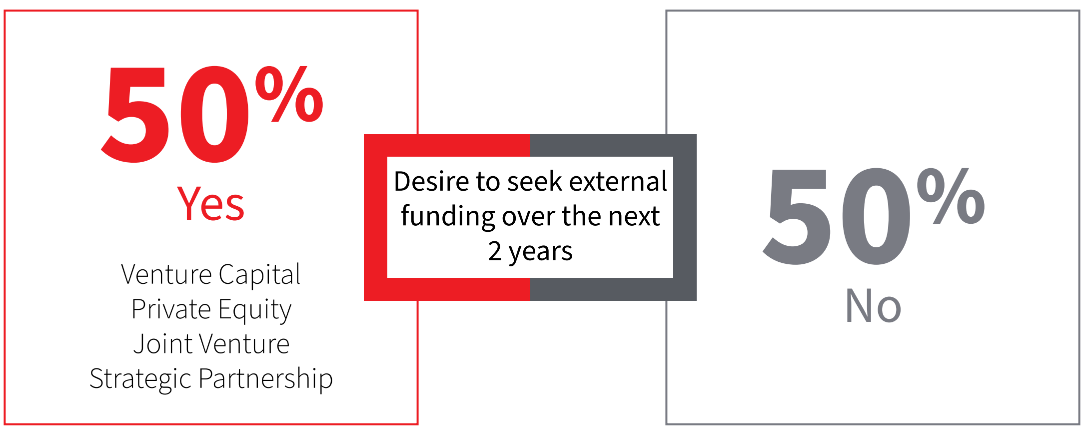
Sources of funding



Source: SSAA Annual Survey 2020

Figure 26

Desire to seek external funding

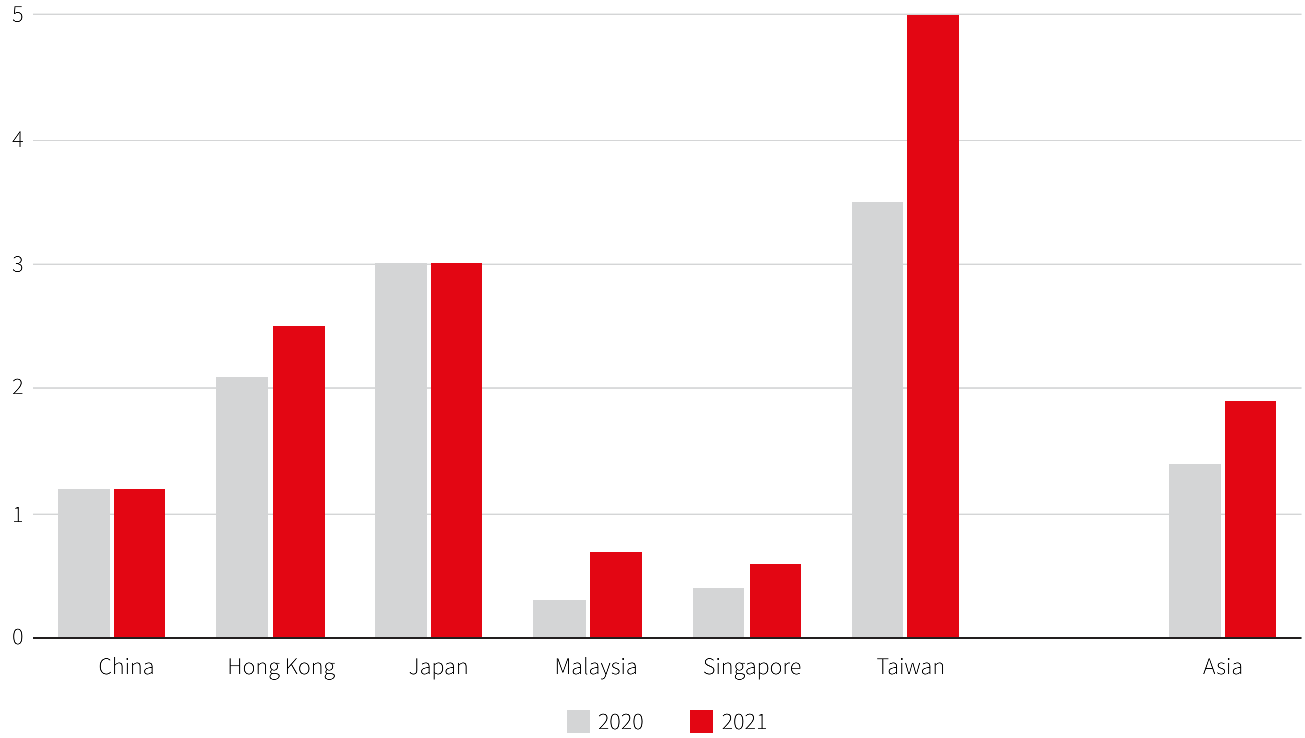


Source: SSAA Annual Survey 2020

Self storage sector to continue to grow

Despite some obstacles to growth, a brighter economic outlook for 2021 raises the expectation for more activity in the self storage sector. Survey respondents are cautiously optimistic with plans to open typically one to two new facilities in the next 24 months. This emerging sector is well placed to attract more institutional capital as we move into the new year.

Figure 27
Plans for new facilities



Sources: SSAA Annual Survey 2020, IPSOS 2019, FEDESSA European Self Storage Survey 2020, www.sparefoot.com

05 Conclusions

While conditions vary in markets around the region, the self storage market is well placed to capture growth in Asia Pacific. From a private demand perspective, densely packed urban centres, small residential units and high price points incentivise individuals to seek out third parties for their storage needs. Meanwhile, from a business standpoint, the e-commerce growth story also represents an ever growing opportunity for self storage.

Challenges do remain, however, with real estate pricing, availability of space in suitable locations and the regulatory landscape all of concern to operators. At its current stage of development, self storage remains an emerging asset class but the potential of attractive returns and the expectations of growth are likely to be enough to attract more institutional capital to the table as we move into 2021.

Asia Pacific

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