Asia Pacific | September 2021

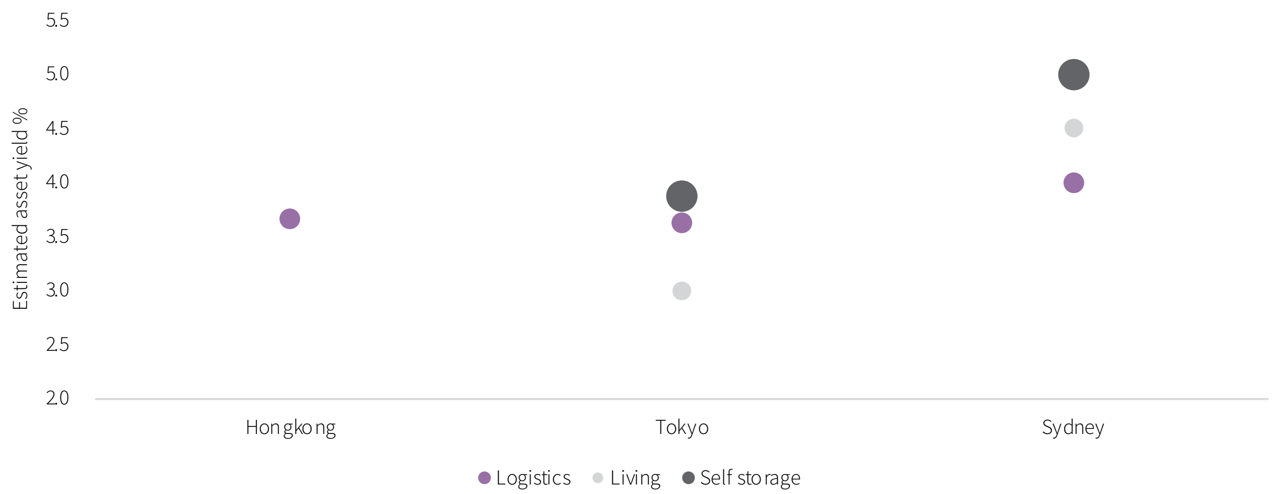
Research

Self storage - growing fast in mature Asia

Executive Summary

Self storage operators have been active in Asia Pacific for years, but the sector has been fragmented. In recent months, institutional investors started to acquire self storage facilities across the region as these income resilient, high tenant retention assets still offer yields higher than logistics and multi-family assets in gateway cities in Japan, Australia and Hongkong. More operators are also looking to own rather than lease their premises.

Fig 1: Self storage assets provide income resilience, tenant retention and higher yields than logistics



Source: JLL Capital Markets Research estimates

We expect self storage stock to grow c. 50% in the next five years, mirroring the growth of online retail, in the more mature cities of Japan, Australia and Hong Kong, due to the following drivers:

1. Continued migration into cities and an acceleration in renting: Asian city populations are still growing at 4-10% over the next five years while city governments are changing housing policies to encourage renting instead of buying. These trends, compounded by small apartment sizes, are boosting the demand for self storage facilities.

2. Rise in remote working and flex office space: After working from home due to COVID-19, a growing number of employees have adapted to working partially from home or a third-party location such as a flexible office spaces. As a result, more residents are adapting to self storage to create a bit of extra space at home. Widespread utilisation of flex offices is also driving demand for business storage.

3. E-commerce growth driving demand for business storage: In some cities, e-commerce and retailers have turned to centres closer to the city to hold or showcase goods and to facilitate last mile deliveries.

Japan

Self storage demand has grown rapidly, at 16% CAGR in the last five years and operators have converted older offices into new self storage facilities. In 3Q21, a US-based investor acquired 22 stand-alone indoor self storage facilities in Tokyo and its vicinity from a local operator. We expect more institutional investors to enter the market and build up portfolios for scale. Indoor storage assets are trading at c. 75-100 bps above residential caprates.

Australia

Self storage operators have started to acquire assets to mitigate the risk of relocation and rental increases. Occupancy rates rose in the last year to c. 90% while revenue per available sqm rose over 10% year on year. In the year ending June 2021, the two largest self storage groups acquired AUD 770 mn of assets. In 2020, Abacus Property Group acquired control of Storage King and now has c. AUD 1.46 bn of assets. Offshore investors have sought to buy self storage platforms. Strong investment interest compressed yields by c. 85bps in the last year to 4.75-5.25%.

Hong Kong

Demand for self storage is growing at c. 10% annually as apartment sizes are small at 150 sf per person. The market is highly fragmented but institutional investors are taking notice. Blackstone Group acquired two industrial buildings in the last six months for HKD 800mn to convert into self storage facilities.

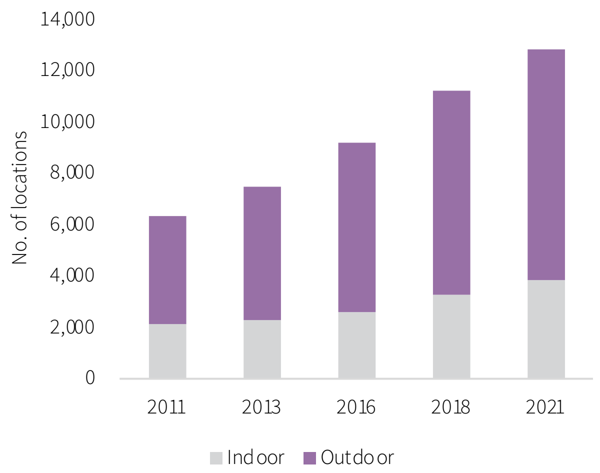
China and India

Demand for self storage is growing at c. 10% annually as apartment sizes are small at 150 sf per person. The market is highly fragmented but institutional investors are taking notice. Blackstone Group acquired two industrial buildings in the last six months for HKD 800mn to convert into self storage facilities.

Self storage stock to grow 50% in next five years

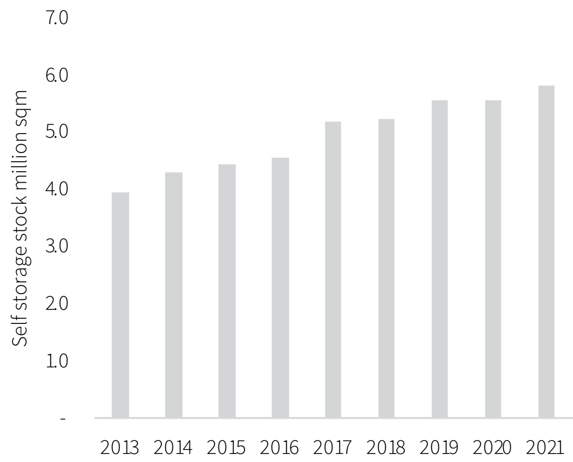
Self storage demand and stock has grown 5-15% CAGR in the mature markets of Japan, Australia and Hong Kong over the last five years, outperforming economic growth and mirroring the growth in online retail. While China and India cities have high population inflow and e-commerce growth, awareness of and demand for self storage are still low as income levels are still well below USD 40,000 per capita.

Fig 2: Japan self storage stock



Source: Yano Research Institute, Japan

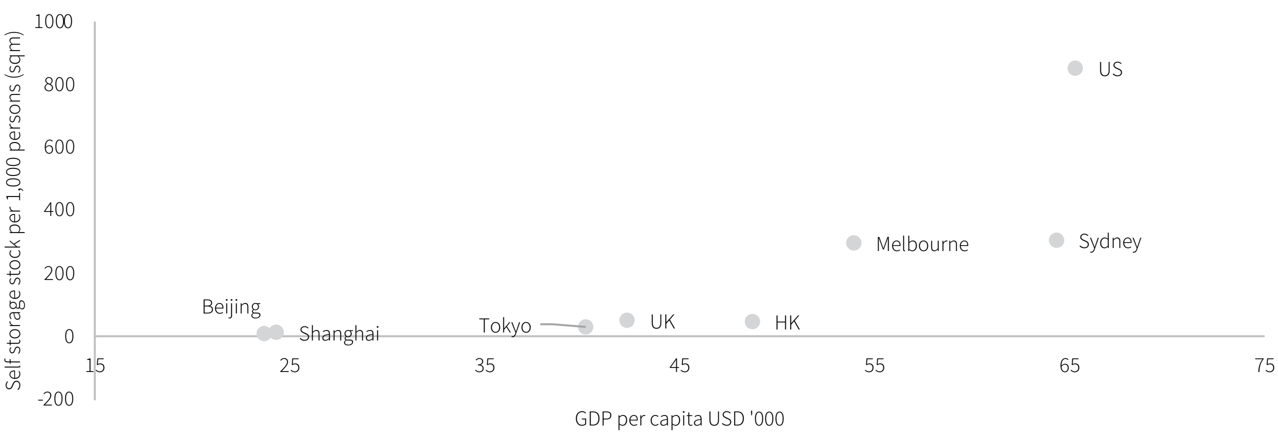
Fig 3: Self storage stock in Australia



Source: SSAA, IBISworld, JLL estimates

Investments into the sector are rising, as institutional investors appreciate the strong secular growth tailwinds, high customer retention rates and the need for consolidation and scale in the sector.

Fig 4: Self storage awareness and demand generally grows once GDP per capita exceeds USD 40,000



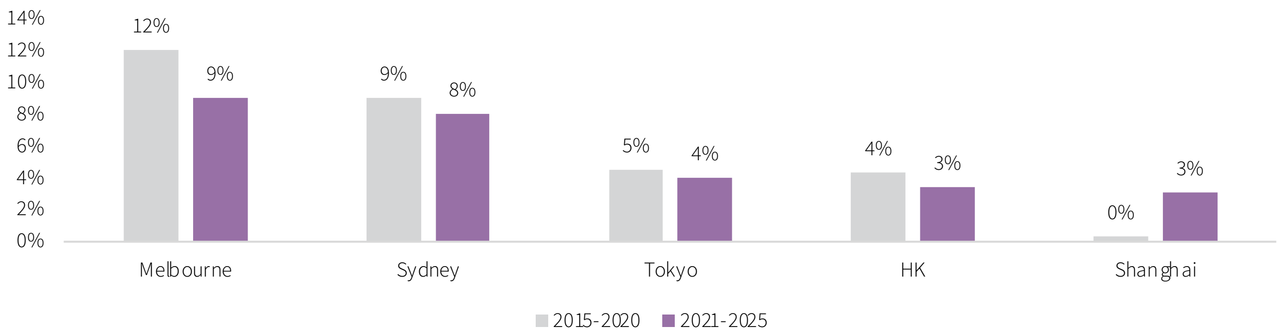
Source: JLL estimates, Statista

Strong growth tailwinds:

1 Continued migration into cities and an acceleration in renting

Rich and mature cities including Sydney, Melbourne, Tokyo, Hongkong with GDP per capita of c. USD 40,000 and above are still expected to enjoy 3-9% population growth over the next 5 years. Governments are actively attracting talented young people domestically and internationally into these cities to compel technology, finance and professional services firms to relocate their businesses and contribute to economic growth.

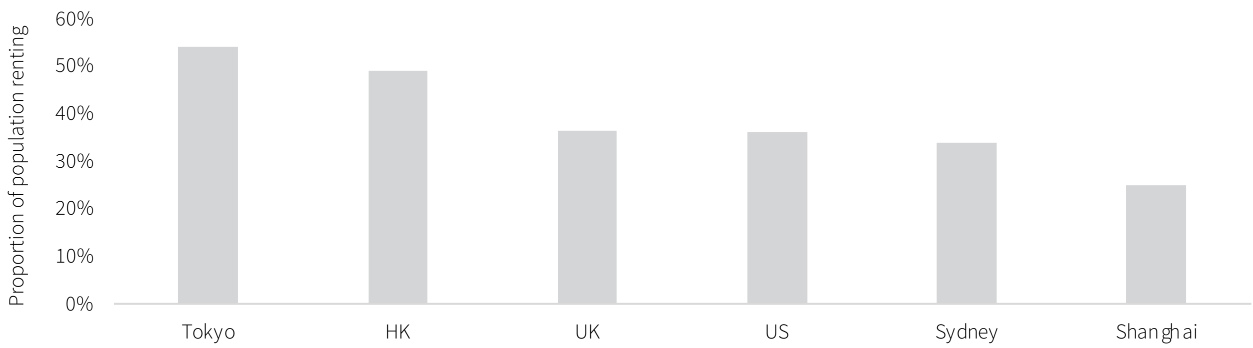
Fig 5: Populations still growing 3-9% over next five years in these mature cities



Source: JLL estimates

In these cities, 30-50% of the population rent rather than own their housing. Furthermore, due to high home prices, city governments are changing housing policies to encourage more households to rent rather than buy. These trends, compounded by small apartment sizes, are boosting the demand for self storage facilities.

Fig 6: Proportion of population renting is high and expected to grow over the next decade



Source: JLL estimates

In China, aided by a marked increase in land supply and streamlined approval process for rental housing projects, build to rent units under development by China's top 10 developers more than doubled to 730,000 units in 2020 from 356,000 units in 2018.

In Australia, state governments of New South Wales and Victoria changed tax regulations to facilitate more build-to-rent developments. We now expect more than 7,000 BTR units to be delivered in Australia in 2021-24, compared to just 258 units completed in 2020.

2 E-commerce driving consumption and business storage demand growth

Self storage demand in mature cities in Asia have mirrored the rate of growth of e-commerce and consumption in the last five years. We expect continued e-commerce penetration to support demand to double over the next five years.

Fig 7: E-commerce sales by major AP economies

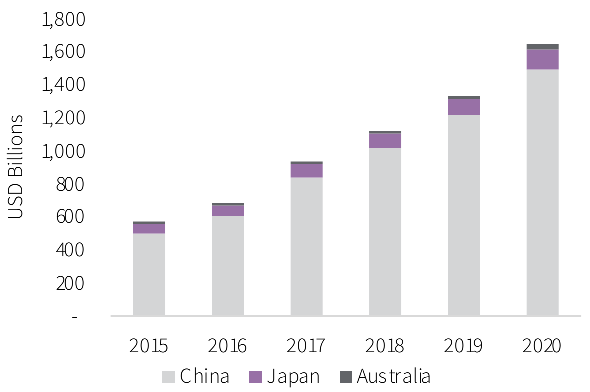
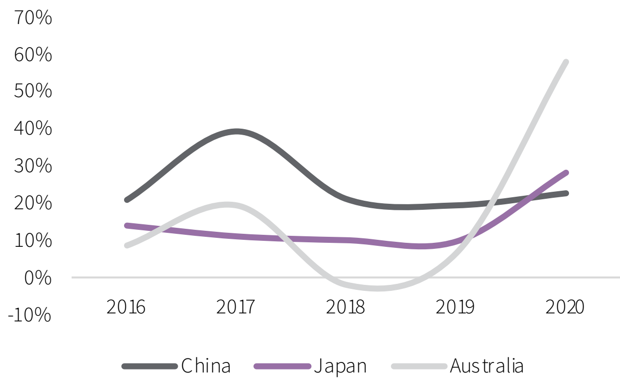


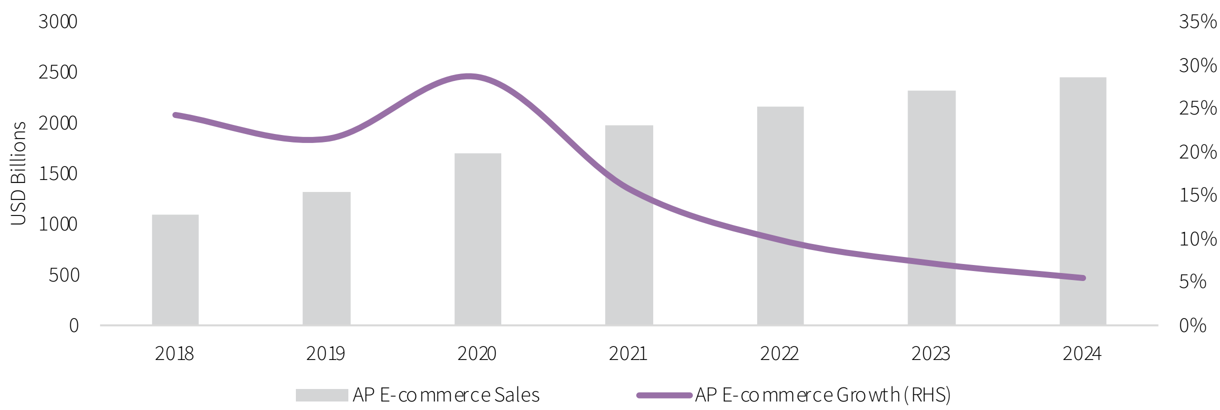
Fig 8: E-commerce growth by major AP economies



Source: National Bureau of Statistics for China, Ministry of Economy, Trade and Industry for Japan, NAB for Australia

Resilient e-commerce growth increases both individual and business demand for self storage. Asia Pacific business to business e-commerce has grown by 25% CAGR in the last three years. More small to mid sized vendors at e-commerce platforms are turning to self storage as a means to use as showrooms or to address their growing inventory burdens, steering away from stacking up items at home. Some retailers are also using self storage facilities as part of their inventory management and last mile distribution network to satisfy rising consumer demand for swift, frequent fulfilments, a criterial factor for viability of omni-channel and on-line retails.

Fig 9: Asia Pacific e-commerce sales growth forecast



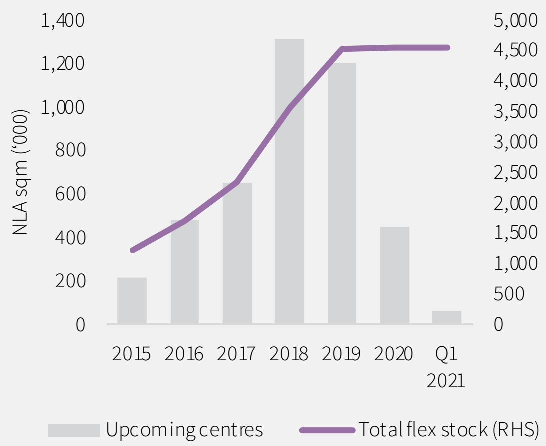
Source: Statista

3 Rise in remote working motivating employees to free up more space at home, more widespread utilisation of flex offices could drive demand for business storage

A growing number of employees have adapted to working partially from home or a third-party location such as a flexible office spaces. As a result, more residents are adapting to self storage to create a bit of extra space at home. Post COVID 19, flex office operators have seen growing demand from enterprise occupiers as employers seek to incorporate greater flexibility in their office leases. Companies still have regulatory obligations to maintain records and thus, widespread utilisation of flex offices is driving demand for business storage.

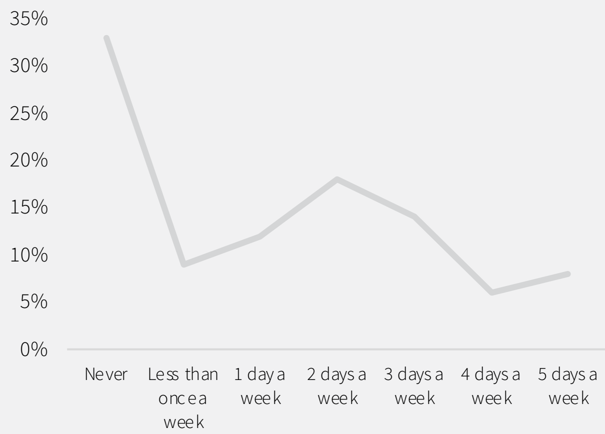
JLL's latest occupier survey indicate that nearly half of the surveyed employees - more than 3,000 workers spanning over 10 countries - prefer to work at least two days a week at home. Moreover, 63% of the same participants indicate preference to work in a hybrid style, the combination of work from home, office and alternative places. As more employees repurpose their homes into multi-functional living spaces, some may turn to self storage facilities to free up spaces in their small apartments.

Fig 10: AP Flex Space Growth



Source: JLL as at Q1, 2021

Fig 11: Preference for WFH Arrangement



Source: JLL occupier survey in March, 2021

Self storage characteristics

Table 1: Market Characteristics

City	Predominant market type	Market growth	Risks / barriers to entry	Acquisition preferences
Tokyo	Grade C offices	Strong growth		
Australia	Usually in quasi-industrial / commercial precincts; often near service stations, large format retail, suburban office parks	Moderate growth	Competition from other uses (residential, logistics & industrial) Aggressive acquisition strategies from existing major investors (mainly Abacus)	Catchments with above-average income Large proportion of renters
HK	Typical industrial	Steady growth	Tighter regulatory requirements	Increasing density
China	Commercial/Industrial/Retail (podium)/parking/residential complex	Stable	High cost of acquisition, no clear exit strategy, predominately individual end-user, difficult deal sourcing, government regulation	Self-owned / lease convert
NCR Delhi	Industrial	Stable	Lack of awareness, nascent market, shorter lease terms preferred by end users, limited funding / investment in the sector, land sourcing difficult	Self owned. Lease Convert / Purpose built.

Table 2: Rents and lease terms paid by operators to landlords

City	Predominant market type	Market rents (local convention)	USD / sqm / annum	Average lease length (years)	Rent-free period
Tokyo	Grade C office				
Sydney, Melbourne	Industrial	AUD 130 / sqm / year	97.60	Typically owner operated but could be leased for 10-15 years	No Incentives
HK	Industrial	12-15 / sf (GFA)	200-250	4-6 years	4-6 months
Shanghai	Industrial	RMB 1.2-3.5 / sqm / day	60 – 200	8-10	3-6 months
Beijing	Industrial	RMB 1.0-3.0 / sqm / day	55 – 170	8-10	3-6 months
Shenzhen	Industrial	RMB 0.8-2.0 / sqm / day	45 – 110	8-10	3-6 months
NCR Delhi	Industrial	INR 21- 25 / sf / month	42.45	3-5 Years	3 months

Source: JLL, 2Q21.
Note: Rents are market average rents paid by operators to landlords. Rents are generally gross rent and measured on a built or gross floor area basis.

Table 3: Acquisition preferences

City	USD per sqm	Yield % pa	Debt cost	LTV
Tokyo			0.6%	55~60%
Sydney, Melbourne	3,000	5.50%-6.50%	2%	50%
HK	5,500 – 7,000	~3.5%	1.7%	40-50%
Shanghai	2,320	11.6%	4.65%	30~50%
Beijing	2,160	12.5%	4.65%	30~50%
NCR Delhi	450-550	8.5%-9.5%	9-10%	40%

Source: JLL, 2Q21.
Note: Yields are estimated from acquiring industrial assets for conversion to self-storage facilities, estimated by JLL. All capital values are measured on built or gross floor area basis.

Table 4: Retail rental rates that self storage operators charge end-users

City	Market rent (local convention)	USD / sqm / annum	Typical lease length	Note
Tokyo				
Sydney, Melbourne	AUD 375 / sqm / annum for Sydney AUD 375 / sqm / annum for Melbourne	AUD 298		This is Australia-Wide Source: Self storage Association of Australia- likely around ~AUD 325 for Melbourne and ~AUD 375 for Sydney
HK	HKD 16 -25 per sf per month (GFA)	265 - 415	6-24 months	
Shanghai, Beijing	By cubic sqm / month	400	1 -12 months	
NCR Delhi	INR 200 / sf / month	353	6 -12 months	Monthly Leases; No rent free period. Minimal Security deposit
Singapore	SGD 45 / sqm / month	380	1 – 12 months	

Source: JLL, 2Q21.

Japan

Market Overview

Self storage demand has grown rapidly, at 16% CAGR in the last decade, outstripping economic growth and mirroring online retail sales growth. In 3Q21, a US-based investor acquired 22 stand-alone indoor self storage facilities in Tokyo and its vicinity from a local operator.

Outdoor Self Storage Dominated the Sector Historically

Traditionally, the sector has been dominated by outdoor facilities, where operators acquire flat land to accommodate containers for self storage. Japan Rental Space Association estimates outdoor self storage stock grew 21% CAGR in the last 10 years.

Indoor Self Storage Facilities Gaining Market Share in the Last Decade

In recent years, indoor self storage facilities have grown significantly, by 16% CAGR in the last 10 years, according to The Japan Rental Space Association. Indoor self storages now make up approximately 42% of all self storage locations in Japan, up from 33% in 2011. Operators acquire older office buildings and renovate them to include partitions for self storage. Most recently, some operators have acquired flat developable sites to develop brand new indoor-typed stand-alone self storages. These stand-alone facilities allow end-users to store not only small things but also large items such as motorbikes and cars. These stand-alone indoor self storage facilities are typically owned by institutional investors. Land owners usually have a long-term fixed term master lease contract with an operator. Contract terms vary but normally 10-15 years are common.

Lease Terms

Master lease contracts, which are contracted between investors/owners and operator(s), are usually 10-15 years fixed term lease contracts. Contracts between operators and individual end-users are usually one year rolling contracts that are automatically renewed unless either party provides a written notice to terminate.

Transactions

Due to limited investment opportunities, not many self storage transactions have occurred in the last few years. In 3Q21, however, an US-based investor is set to invest 22 stand-alone indoor-typed self storages predominantly located in Tokyo and its vicinity, from a local self storage operator. We expect more transactions going forward. Offshore investors may need to work together with experienced asset managers for acquisitions and negotiations in Japanese.

Australia

Market Overview

Australia's self storage real estate market remains relatively fragmented and mostly owner operated. The three largest owners of self storage real estate - National Storage REIT, Abacus REIT and privately-owned Kennard's -account for around 40% of Australian self storage real estate. The remainder is occupied by smaller owner-operators that tend to only operate a handful of facilities. General personal storage represents 66.5% of the overall self storage service followed by temperature-controlled storage (10.2%), deposit boxes (9.8%) and gun storage (3.2%) according to IBISWorld, 2021.

Consolidation likely to Continue

In late 2020, Abacus purchased the remaining 75% of 'Storage King' to have full ownership of of Australia's biggest operator. Prior to the acquisition, Storage King was already managing Abacus's self storage portfolio. Since the acquisition of the platform, Abacus has acquired several additional assets managed by Storage King.

Abacus's recent acquisition of the Storage King platform, alongside Kennard's buy-out of its REIT partner in 2008 (Valad) and National Storage's re-acquisition of properties in the early 2000s demonstrates the continued preference for the 'owner-operator model'. Preference for this model has largely been driven by pressures caused by strong growth in competing real estate asset classes throughout Australia along with the following motives:

- Avoiding relocation – Operators of inner-city sites would be at risk of landlord disposal upon lease-end to take advantage of high pricing offered by competing land uses
- Avoiding market rent review – Market based rental increases may be 'out of sync' with self storage end-user fee rises, leading up to periods of operating loss.
- Lately, National Storage REIT has attracted a number of takeover offers that did not eventuate, including an offer from Abacus and US listed Public Storage as well as several bids from private equity. Australian self storage companies are likely to remain on the radar of offshore investors looking to make scale purchases in the sector.

Supply and Occupancy

Self Storage Association of Australia note in their latest report that at the end of 2020 there are roughly 70 planned self storage developments, equating to around 3.4% of existing stock. Around half of these projects are accounted for by the major A-REITs in the sector (National Storage and Abacus). While this does not pose a significant risk to market supply-demand balance, a steady rate of new stock and refurbishments/expansions by liquid public landlords are likely to threaten occupancy levels for secondary grade or older assets owned by smaller operators.

The SSAA estimated an industry-wide occupancy rate at 83% as of December 2020. Abacus recently reported an occupancy rate of 90.9% in June 2021, an improvement from 88.3% in June 2020 even during the height of pandemic. Similarly, National Storage REIT's occupancy has risen 11.4% to 86.7% in recent guidance. RevPAM (combination of rates and occupancy – revenue per available square metre) has also improved since the lows of June 2020 for both major landlords. For instance, National Storage REIT reported RevPAM of AUD 229 per sqm in recent guidance (up 17% from June 2020).

Investment Market

Major landlords remain in expansion mode and this strong appetite has been behind a yield compression over the past 12-months as evidenced in 85 bps of compression seen across the Abacus portfolio in FY21. The acquisition environment is highly competitive with major landlords remaining the dominant acquirers of assets. Aggressive acquisition strategies from major landlords may price out smaller investors in many instances. Over FY21, National Storage REIT and Abacus acquired AUD 772 million of assets in total across the two companies.

Despite the competitive environment for acquiring metropolitan property across most Australian asset classes, major self storage providers have continued to manage to acquire property in key metropolitan locations over the past 12-months, highlighting the strengths of their balance sheets. Such locations include St Leonards and Chatswood in Sydney, and Port Melbourne and Tullamarine in Melbourne.

Hong Kong

Market Overview

Due to sustained population growth, the world's smallest living space (~150 sf/person), and robust e-commerce landscape, demand for self storage facilities in the city is expected to persist in the coming years. According to Apple Storage, one of the local operators, the sector is likely to experience 10% annual growth over the next 3 years.

The Hong Kong self storage market remains highly fragmented – RedBox, the one of the largest HK self storage operators, estimates more than 90 operators competed in the city in 2019. Among those, nearly 60% of the operators operate only one facility whilst a few sizable operators each manage more than 50 facilities.

The vast majority of self storage facilities are indoor with a limited time for access during the day. Common features include climate control, video surveillance, and smart card or pin code access. Value-added services include door-to-door pick-up and drop-off, parking, mailbox for rent, 24-hour hotline, and Wi-Fi. Some operators offer units designed for wine storage (with lighting control), large space storage, and corporate solutions. Most self storage facilities are housed in industrial buildings; hence traditional industrial areas of Kwai Chung, Chai Wan, Tsuen Wan, Cheung Sha Wan, and Yau Tong gain traction as self storage location. Some are also located in areas such as Tuen Mun and Sha Tin to enjoy the residential catchment.

Mild Regulatory Risks

Self storage facilities operate in industrial buildings on “industrial only” land. The definition of “industrial use” adopted by the Lands Department follows the definition of “factory” from the last century, referring to places in which products are manufactured, altered or in which materials are transformed. Therefore, the nature of self storage operations does not technically fall into the definition, so landlords and operators may face potential challenges from authorities with regards to lease breach. Tighter regulatory environment is another risk factor. A deadly fire incident in Ngau Tau Kok in 2016 prompted the authorities to impose stricter regulations on the industry and operators including minimum width of aisles, number of exits and windows, minimum distance between ceiling and the top of the storage cubicles, among others. The tighter regulation is likely to reduce rentable floor area as a percentage of gross floor area as well as bigger investment outlays, which will lower investment returns, and cause operators to reassess their options.

Investment Market

In Sep 2021, Blackstone purchased Yip’s Chemical Building in Fanling, a 6-storey warehouse with a GFA of 63,897 sf for HKD 282.6 mn at the unit price of HKD 4,424 per sf to convert the old industrial building into a self storage facility. In April 2021, Blackstone acquired the New Media Tower in Kwun Tong for HKD 508 million (HKD 5,676 psf GFA) in partnership with StoreFriendly.

China

Market Overview

While China's key cities have large populations, GDP per capita is still moderate. Awareness and end-user demand for self storage is still low. However, in recent years, large property developers such as Vanke have started to invest selectively, opening up self storage facilities in Beijing, Shanghai, Guangzhou, Shenzhen and Hangzhou.

Demand Drivers are Limited for Now

Overall cost of living in Beijing and Shanghai is high for middle income households, limiting discretionary consumption and demand for self storage. Business demand for self storage from e-commerce is also limited, as the logistics sector is highly efficient in providing door-to-door deliveries with quick turnarounds. Most enterprises are able to keep inventory at large-scale distribution centers in the outskirts of the city and ship directly to their consumers.

There is also a lack of government support for self storage as this sector does not provide sufficient tax contribution and does not add a 'flashy' element to the city. Fire safety regulations are also stringent and security concerns are also prevalent, further limiting the sector's growth outlook.

Self storage centres have been housed in residential complexes as opposed to CBD locations due to the difficulty of sourcing viable opportunities at sustainable costs. Typical locations are generally found in apartment block basements or parking, often at locations which would otherwise provide little or no income.

The presence of omni-channel marketing has helped self storage communicate to their end-users freely. It has made locating a self storage facility in vicinity easier with more transparency and ease of access. Major players include Easy Storage, MiniCC, Koala Storage and Store Hub. The scale of their operation varies to large extent - Store Hub operating 13 locations, Easy Storage opening 9 locations while Koala has presence over 500 locations.

Investment Market

Acquisition of property suitable for self storage has been challenging. A mismatch in leasing structure between investors and end user also poses a risk as short term lease from individual end users is fixed with longer lease contracted by investors. While fit out costs are low in Shanghai and Beijing, land prices are prohibitive for new self storage setups.

India

Market Overview

The self storage market in India is still at an early stage of development and relatively unregulated. Operators are fragmented and most of them operate from retail, residential or industrial space. Due to COVID-19, awareness and demand for self storage has increased in the last year as more employees and students are working from home and require additional storage to free up space in their city apartments. Most facilities are indoors and concentrated in NCR, Bengaluru, Mumbai & Chennai. Most operators provide packing and transport services for additional fees.

Industry Trends

The industry has grown rapidly over the years with the number of prominent players operating increasing. Self Storage India is the oldest and most prominent leader in the space. Players like Store More, Box My space, Your Space Doctor, Space Valet, Stownest, Storagians, Orange self storage are growing slowly. Very few self storage operators in India are pure entities focused exclusively on storage. Most of them offer the self storage service as a side business within their existing logistics warehouses, facilities used for other purposes. As competition increases, quality of fit outs, high security standards and tech-enabled facilities are starting to become a norm. Due to the recent demand spike, most operators are able to achieve high occupancy rates (above 80% or more) and good returns.

Self storage facilities in India are generally found in industrial/ warehousing areas. This could be attributed to municipality regulation, lack of large spaces and high land cost in prime cities. The duration mismatch between income and rental cost is a key risk factor – most of the demand is short to medium term leases fuelled by lockdowns and WFH, while operators are locked in long lease term of 3-5 years.

The typical lease term, between landlord and operator, is three-to-five years. Longer lease terms, in excess of five years, might be available for large and built-to-suit space. Asking rents are typically INR 23-25 per sf per month for prime space in NCR. Rents are calculated on built area (i.e. carpeted area and walls). Incentives in the form of rent-free periods are roughly equivalent to a fit out period of 30 to 45 days. Rent reviews are typically conducted at the time of lease expiry and range from increases of 12-15% every three years, or 4-5% on an annualized basis.

Investment Market

As the industry is fragmented, most transactions are off market. Based on valuation, yields stand around 8.5-9.5%.

Singapore

Market Overview

Self-storage demand in Singapore has grown at 2-5% annually in the last five years, in tandem with economic growth. Growth is slower than the rest of Asia Pacific mainly because home ownership rates are high and apartment sizes are still large. Planning regulations ensure new residential units have an average gross floor area of at least 85 sqm.

Demand Characteristics

Retention rates are high, with 40% of customers staying more than one year, while rental rates are expected to grow by 5-10% annually.

Depending on their target clientele, self storage facilities may be equipped with air-conditioned (e.g. for wine storage) or non-air-conditioned units that come in a variety of sizes (from small lockers to 1 sqm rooms to 30 sqm rooms). Leases are flexible, starting as short as one month and customers have 24-hour secured access. Approximately 20% of customers that use the facilities are small businesses in import / export, e-commerce or trading, while the remaining 80% of customers are individuals who use the facilities for permanent storage of bulky items or temporarily for relocations and transitions.

Supply and Barriers to Entry

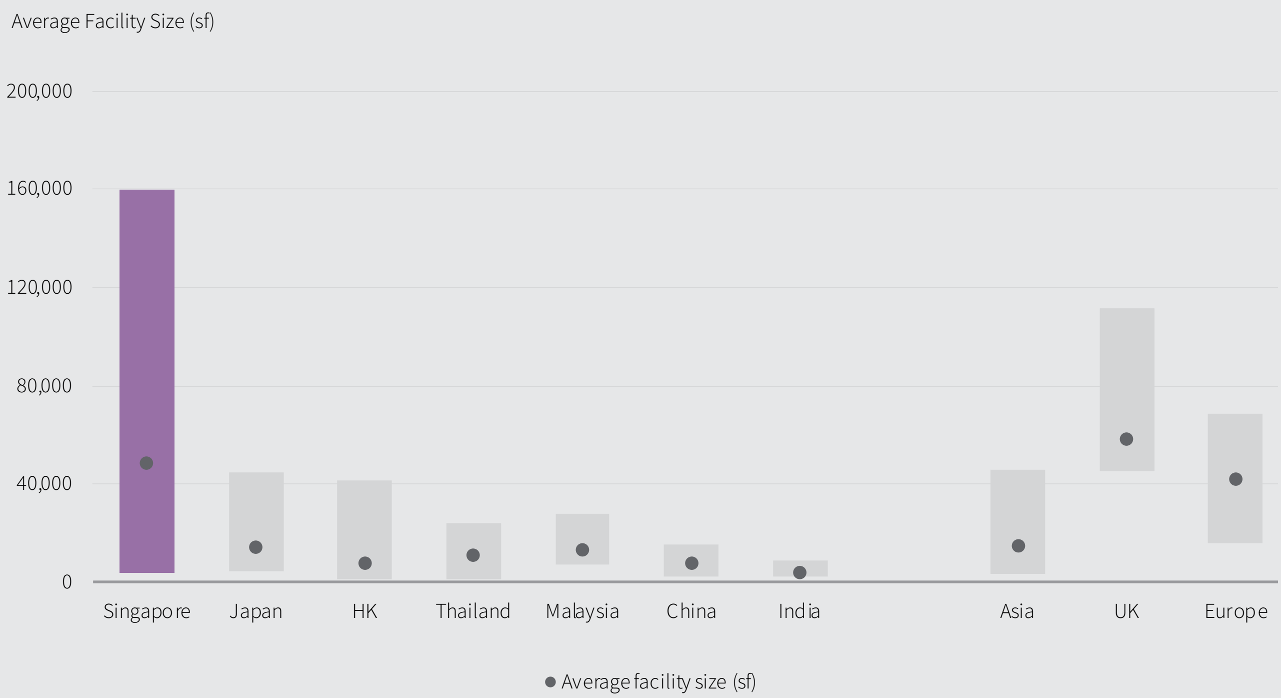
There is also a lack of government support for the sector. Self-storage operators have leased or acquired older industrial buildings for conversion in the last 5-10 years. Most of the industrial stock is located on sites owned by JTC Corporation (a statutory board and regulator for the industrial sector), which has tightened ownership and leasing rules in the last 7 years. Some operators have had to move or close outlets as industrial building owners made changes to comply with JTC regulations. Most industrial land today is available for 20-30 years as a leasehold and the option to renew is increasingly uncommon. For those looking to set up their own self storage business, barriers to entry include the availability and suitability of the space, as well as the need to ensure compliance with prevailing government regulations.

Investment

Interest in logistics and industrial assets has increased strongly over the last two years as investors sought to reallocate their portfolios to increase diversification and income resilience. In Singapore, industrial assets are tightly held and infrequently transacted. This is exacerbated for self-storage assets due to the low stock, high tenant retention rates and strong EBITDA margins for operators.

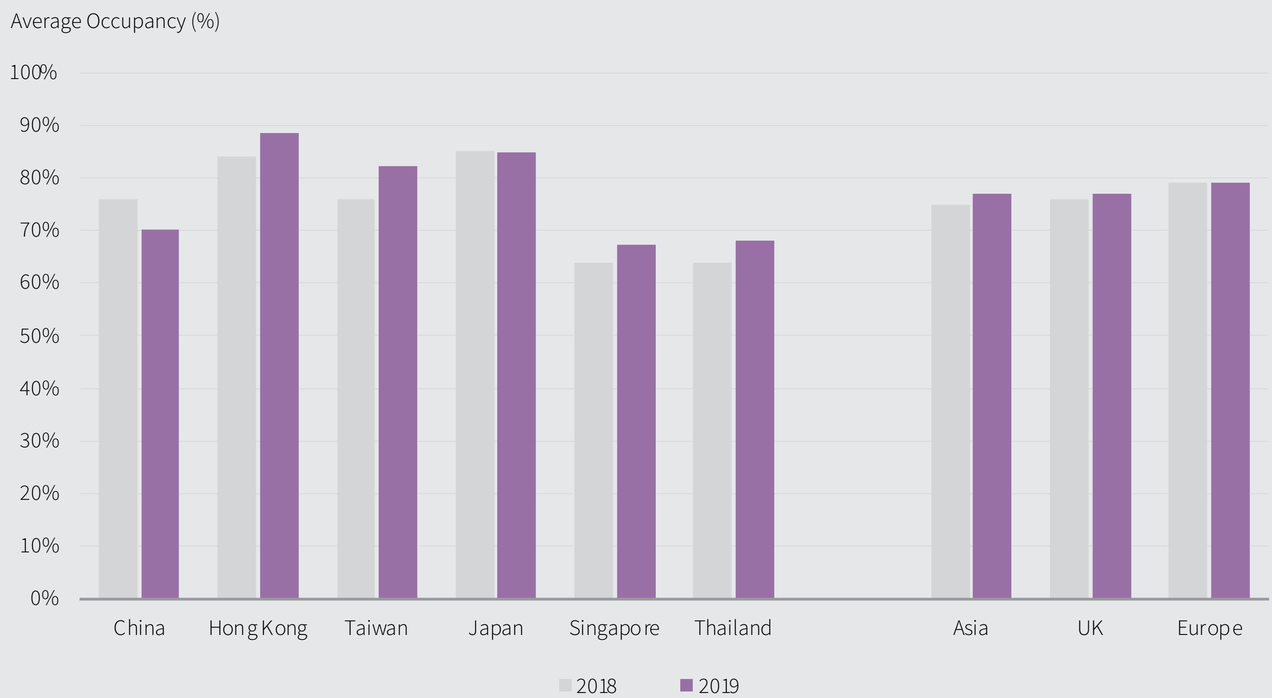
Asia Pacific findings from SSAA Survey 2018-2019

Average facility size



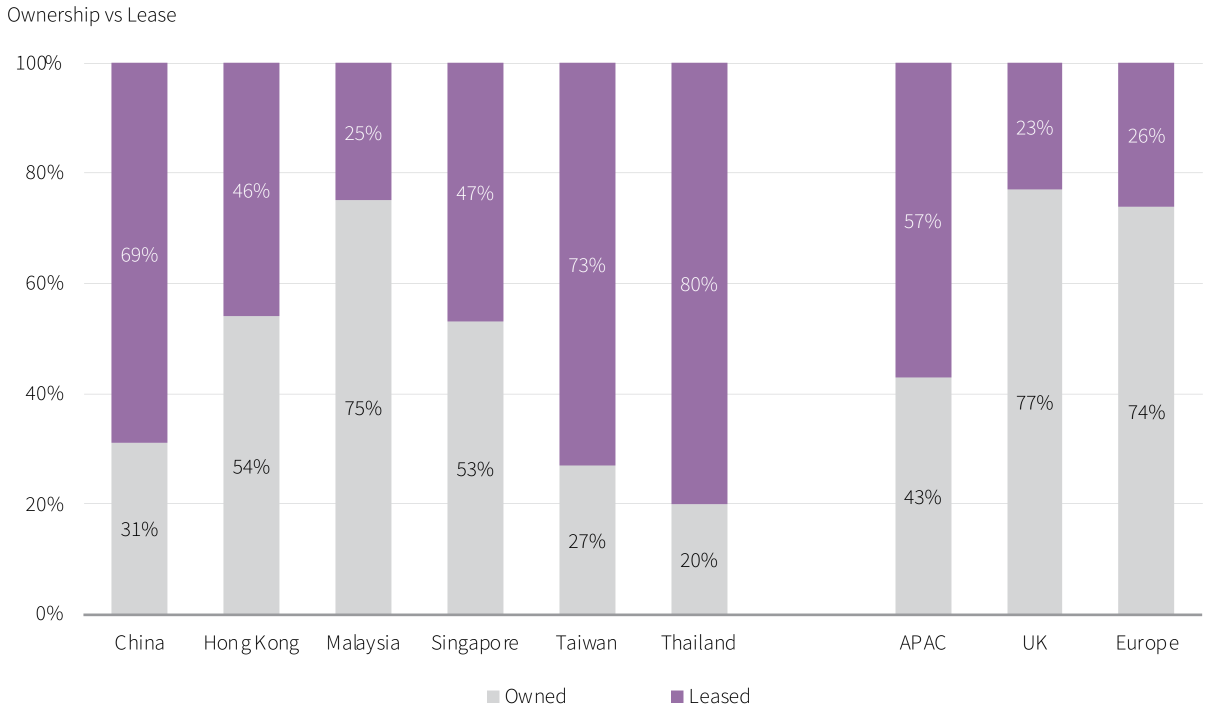
Source: SSAA Annual Survey 2020, IPSOS 2019, fedessa 2019 and 2020, www.sparefoot.com

Average occupancy levels



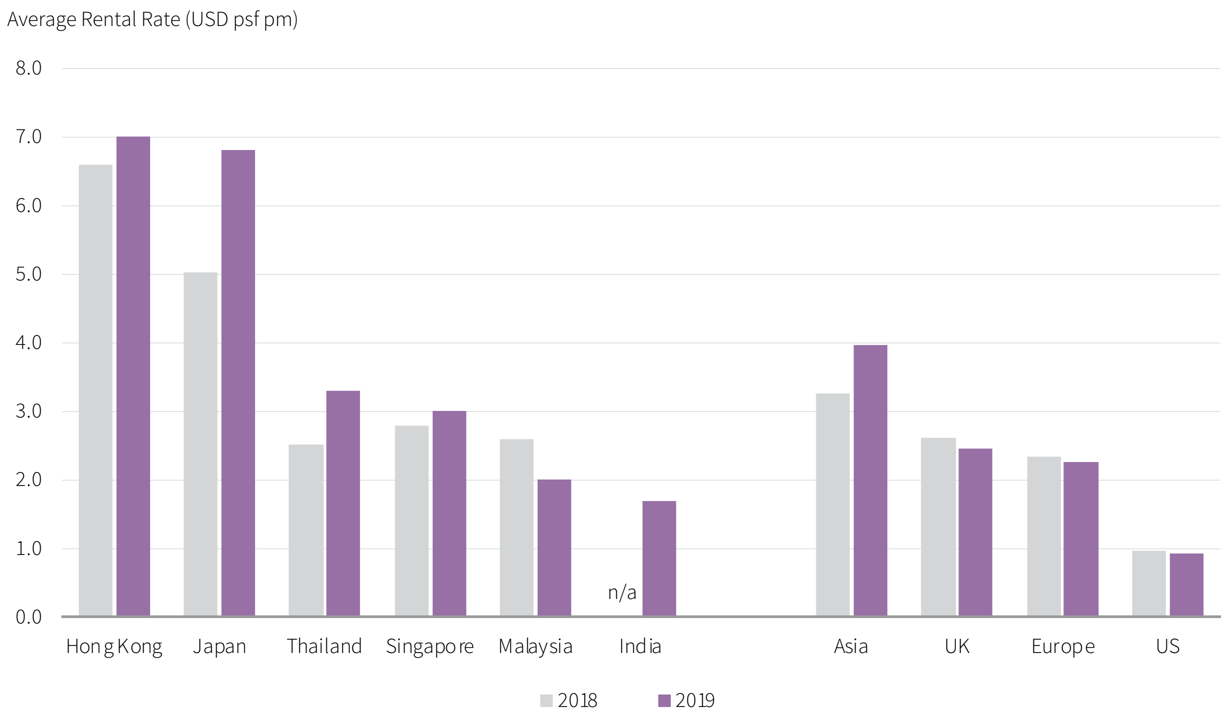
Source: SSAA Annual Survey 2020, IPSOS 2019, fedessa 2019 and 2020, www.sparefoot.com

Leased vs owner occupied



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

Retail rental rates that self storage operators charge end-users



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

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