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1US patent 8,789,859. Other US and Intl patents pending. 2Dependent on self storage rental management software.

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France is one of the most dynamic self-storage markets in Europe. While most facility development stopped in England from 2009 to 2013, it kept growing in France at a rate of 15 percent annually. It’s a young industry that really began in the late 1990s with the arrival of Shurgard Self-Storage. During its initial years, the market was developed by large operators who built big stores averaging 40,000 net rentable square feet.

Around 2006, two phenomena occurred. First, several large self-storage operators merged. Second, more small entrepreneurs looked into the business and began to convert buildings that had an average of 10,000 net rentable square feet.

Today, there are 437 storage facilities in France comprising 9.2 million square feet of space and 139,000 units. The four largest companies own 45 percent of the facilities, with 68 percent of the rentable square feet developed.

The Franchise Model
Most recently, a new type of storage business has emerged: the franchise. Twenty percent of the facilities in France are franchisees, and six companies now offer a franchise to novice entrepreneurs. They mainly attract people who already have a business and floor space and want to create a second source of income with 5,000 to 10,000 net rentable square feet of self-storage. They’re usually logisticians, movers or merchants.

Another type of franchise is one in which someone with an empty building decided to create his job and a revenue stream to pay the land tax. Few of these franchisees enter the business without already owning or renting a building. However, the vast majority of these conversion stores are in poor locations.

For my self-storage operation, Annexx, which operates 15 facilities in France, the answer to this new competition is to provide customers with the cleanest, most attractive and secure facilities. Every unit has an alarm, and all properties feature an onsite manager. Our facilities are on high-traffic, high-visibility roads. Our staff is friendly, and we train them year-round.

Challenges to Growth
At Annexx, we can’t say we’ve had to suffer from the slow economy. Rather, it’s been balanced by the growth of awareness in self-storage. In the last six years, we grew 15 to 20 percent annually.

Self-storage developers in France, Annexx included, face a number of challenges to opening new stores. Finding the right piece of land for new construction takes time. We’re in contact with hundreds of land owners, so we’re there when they’re...
Google has a 90 percent market share in search engines in France. Google AdWords is a great way to get leads, but the investment increases every year.

As the storage industry in France continues to mature, Annexx will grow along with it. The company is no longer considered just a “southwest of France” self-storage operator. We’ve left Bordeaux and Toulouse and opened stores in Lyon, Marseille, Montpellier and Nantes. Our plan is to become a true national operator with facilities in all of the largest French cities, including Paris.

Philippe Peyrot is president of Annexx, which operates 15 self-storage facilities in France. The company was founded in 2002 in Toulouse, France, by three entrepreneurs with extensive experience in construction, management and real estate. For more information, visit www.annexx.com.
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While many international self-storage markets are dominated by large companies, Spain’s industry growth is originating from small, local entrepreneurs like Costabrava Space in Girona. Opened a year ago in the country’s northeast Catalonia region, beside the River Onyar, the business is a prime example of the type of operators leading the country’s self-storage evolution—single-property owners building sites in urban areas.

Inside Self-Storage recently spoke with Carles Jover, CEO of Costabrava owner Pictorial Management S.L. Here he provides an overview of the local industry as well as insight to new development, operational challenges and his company’s future plans.

Tell us about Costabrava Space.
Costabrava Space has 250 square meters of net storing capacity over two floors and a mezzanine. We also own the equivalent area in the next plant for future growth.

We serve Central Costa Brava, an attractive territory that combines tourism resources, sea and beach activities, awarded cuisine, golf, and other hinterland sports. The territory extends for some 900 square kilometers. The climate is soft. Summer is an important economical asset, and the region has many cultural attractions beyond its declining agricultural economy.

What’s the state of the self-storage industry in Spain?
Self-storage is on the rise, and more people use the service. A major cause is many cities have a high population density, but the houses are small. The result is it’s impossible to store all belongings in the residence. Therefore, users are turning to self-storage to save their possessions in optimal climate and security.

How has the industry evolved?
The self-storage concept came to Spain in the 1980s and had its greatest growth in 2003. In recent years, despite the economic crisis, the number of developments has continued to grow. The fact that business is booming reinforced the deals.

Unlike in other European countries, most self-storage operators in Spain are small businesses. Seventy-five percent of operators manage only one property, 20 percent between two or three, and only 5 percent have four or more across the country. Note, the largest operator in Spain has 21 facilities scattered throughout the territory.

The self-storage sector in the rest of Europe is much more concentrated. In some cases, operators manage more than 200 centers, with presence in different countries. These large operators have little presence in Spain. One Spanish operator has eight centers in the country, and some presence in other countries.
What challenges do Spanish self-storage operators face?
Most developers look for urban markets, such as Barcelona, Madrid or Valencia, where urban citizens are already used to renting space outside the home. It's not so easy to convince the minor village inhabitants of the advantages of self-storage. Most of them still confuse self-storage and warehousing, and many save their belongings in family garages or barns. But it’s only a question of time, as it happened in other countries around Spain.

How is your company meeting these challenges?
Our particular market is divided into five groups:

- Permanent residents (mainly Barcelonian families)
- Second-home residents (European wealthy owners)
- Maritime residents living in the five commercial and touristic harbors
- Local business
- Online-sales business

At present, we think the existing facility is enough. However, we’re studying future developments that can take advantage of our goodwill penetration and credit. We’re considering opening two more facilities, roughly 30 kilometers to the north and 30 kilometers south of our existing facility, with new partners.

What’s happening with development in your country?
The storage industry has been expanding. Currently, there are more than 250 facilities throughout Spain managed by 150 operators, according to the Self Storage Association of Spain (AESS). Most of these centers are in Catalonia (92 facilities), Madrid (78 facilities) and Valencia (28 facilities). On the contrary, there are still many provinces in Spain that have no central self-storage properties, according AESS.

Are lenders providing more funding for self-storage than in past years?
Spain is still suffering a critical financial situation. Many banks did close, and despite self-storage being the most favored real estate investment, it has also encountered financial difficulties and a lack of lenders.

What’s on the horizon for the industry and your company?
If we talk about storage centers per million inhabitants, our country exceeds the European average, with more than six facilities per million. Still, these figures are far from those in northern European countries in which the rate exceeds 15 per million. By comparing the statistics of Spain with those of other countries in Europe, we can conclude that much development remains to be done in our country. 

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DEVELOPING THE BUSINESS in RUSSIA

Though consumer demand fuels growth, obstacles limit expansion

By Tatiana Kolyuchkina

Self-storage is a young yet fast-developing industry in Russia. While the country’s overall economic situation remains unstable, self-storage has been able to grow as businesses close or downsize, and individuals buy household appliances and other goods before prices go up. Consumer demand has made it possible for the industry to expand despite the rise in taxes, the drop in investment activity and the increased cost to build facilities.

New storage operators entered the market this year, and many existing ones opened new facilities. Last spring, the product became available in Siberia for the first time, with the opening of properties in Tyumen and Novosibirsk. The latter is the administrative center of the Siberian Federal District, one of Russia’s nine federal districts, and the country’s third most populated city.

Self-storage exists in five cities:

• Moscow, population 12 million
• St. Petersburg, population 5 million
• Novosibirsk, population 1.5 million
• Kazan, population of 1.2 million
• Tyumen, population 697,000

Most of the sites are still centered in and around Moscow. There are seven big players and about 10 small companies with three or fewer facilities.

Obstacles to Growth
The main restriction to development is the lack of suitable buildings in Moscow. Many developers, my own company included, have chosen to convert existing warehouse space to self-storage.

Another hindrance is the murky and unclear Russian laws. Due to a hangover from Soviet days, real estate (the warehouse sector in particular) is loosely governed, and legislation remains vague and uncertain. Basic tasks such as establishing title ownership, getting permission to build, and receiving electricity and water is a tremendously fraught and time-consuming process. The lack of clearly established fire-safety standards for self-storage is just one example. All of these factors have stifled industry growth.

Moving Forward
Although the Russian Self Storage Association was established in 2013, its agenda doesn’t include the legal support of local self-storage businesses. It also can’t speak for the industry on the federal level due to the relative insignificance of this young industry. As a result, many operators don’t recognize the value of such an organization and speculate that it might be too early for a national association.

The Russian self-storage industry faces many challenges. Still, growth is on the horizon as industry developers, investors and owners recognize the need for self-storage in this country.

Tatiana Kolyuchkina is chief specialist of commercial department at Samosklad Self-Storage in Russia. The company opened its first facility in 2011 and currently operates three facilities in Moscow. Samosklad plans to open 20 to 25 facilities by 2018. For more information, e-mail tk@samosklad.ru; visit www.samosklad.ru.
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By the Safestore Marketing Team

Despite not arriving in the United Kingdom until the 1980s, the self-storage industry has grown significantly, and really took off in the late 90s. Safestore, one of the U.K.’s largest operators, looks at the health of the industry, explaining the challenges operators face, the current financial outlook and what can be expected in the future.

Industry Overview

The self-storage industry continues to grow in the U.K., and there are now more than 400 operators offering approximately 1,022 facilities. These range from large multi-center companies such as Safestore, which has 96 stores, to smaller, independent enterprises. The five largest companies account for 29.5 percent of the market, compared to 11.5 percent in the United States.

Despite the recent economic downturn, the U.K. self-storage industry has proven to be resilient. A 2015 report by the Self-Storage Association United Kingdom (SSAUK) shows the industry now generates revenue of around £355 million. It has more than 250,000 customers and offers approximately 35.7 million square feet of storage space. This equates to a nationwide average of 0.56 square feet per person, which is significantly lower than in the U.S. (7.3 square feet) and Australasia (1.6 square feet). This low-density supply, however, isn’t seen in London, which sits at 1.03 square feet per capita. This is a direct reflection of the number of storage facilities, consumer demand and property prices in the capital.

As far as demand, there are a number of reasons consumers and businesses turn to self-storage. For consumers, it’s primarily social factors: relocation, marriage, divorce and retirement. Businesses use storage for archiving, storing stock or workshop space.

Challenges Faced by Operators

Awareness. Despite the SSAUK survey revealing an improvement in industry awareness, 55 percent of consumers have limited or no knowledge of the service. In addition, only 60 percent could name a storage company in their local area. Awareness is growing slowly but is expected to increase given the recent surge in inquiries generated online—as high as 80 to 90 percent for the industry leaders.

Regulation. The regulation changes in value-added tax (VAT) that took place in 2012 had a negative impact on the industry, but the majority of self-storage operators have been able to absorb the increase. Although further regulation could have a similar effect, there are no identified changes in sight.

Expansion limits. There’s a natural limit to how big the industry can expand in the U.K. This is due to a lack of land and the fierce competition for it once it
becomes available, especially in big cities. Even still, supply is expected to grow about 3 percent annually, with the barriers mentioned above likely to influence the key markets. Getting approval from planning boards is normally manageable.

Surplus capacity. According to the SSAUK, industry occupancy rates have been around 70 percent in 2015. Occupancy is expected to rise gradually as consumers begin to fill the capacity built before the financial crisis.

Financial Outlook
There has been a significant improvement in self-storage business confidence since 2013. This optimism has been influenced by the industry’s successful absorption of the imposition of VAT in 2012.

The positive financial situation is highlighted by the 2014 total industry turnover, estimated at £402 million among 400 operators. In addition, rental rates increased by 7.1 percent year over year. The industry has also seen a shift toward a more dynamic pricing model based on seasonal factors and unit-size availability.

The Future
Across the U.K., self-storage appears to be growing at a healthy pace, with London and the Southeast outperforming other regions. It seems to have weathered the recession and imposition of VAT, and is beginning to attract keen investment.

After a period of limited new-store openings following the recession, the market grew by 1.3 million square feet in 2014. More organic growth is expected, although the entrance barriers are getting higher due to the shortage of suitable land. In addition, further consolidation can be expected through acquisition and mergers.

In the next year, Safestore is planning to open three new stores, including its first new facility since opening a property in Staines, England, in 2012. This further highlights the confidence in the market and evidence the U.K. industry has recovered from the recession and VAT regulation.

Regarding industry awareness, there's potential for a cultural shift. The industry is still relatively immature compared to the Australian and U.S. markets, where storage is more ingrained in the culture. However, there’s a possible tipping point in the near future.

Safestore operates 97 self-storage facilities in the United Kingdom and 24 in Paris. It also has two business centers and manages 12 Space Maker stores. For more information, visit www.safestore.co.uk.
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Historically, various examples of self-storage facilities have existed in Uruguay, many of which functioned in a more old-fashioned manner. Most were old, unoccupied buildings that were recycled, but without any planned circulation or well-thought design. There were no vehicle entrances or stairs to reach units; most were dirty and provided no extra services.

Uruguay residents who’ve visited the United States were able to find a self-storage facility just about anywhere and yet, until recently, no one had tried to apply that style of storage here. I’m convinced the reality TV show “Storage Wars” kicked off a new era for the self-storage industry here. Seeing abandoned units auctioned off was a good way to demonstrate the self-storage concept.

Three years ago, there were only a couple of facilities in Uruguay following this American vision of self-storage. Today, there are now roughly a dozen properties. They’re not fully occupied, but the industry is growing. There’s no culture or tradition involved in renting a temporal storage facility here, so storage operators are educating their audience on the benefits of the service.

Catering to Business Customers

In Uruguay, retail-oriented facilities are the most common, as most rentals are typically for business purposes. This type of storage typically rents units to the medium to high socio-economic segment.

Our facility, Minidepositos Zonaeste, opened two years ago in the Parque Industrial Zonaeste (Zonaeste Industrial Park), in Canelones, Uruguay. The development was spurred by requests from the park’s existing tenants who desired storage solutions for their documents, marketing materials and surplus products.

The storage building, which includes 30 drive-up units, was purchased from a U.S. supplier and erected here in Uruguay. It’s in a strategic location near the national airport, so it’s a natural choice for companies in the area. Smaller businesses are our target market, and we enjoy a large commercial customer base. We market our services via print and online media as well as through industry fairs.

Demand for self-storage is growing, so we have plans to expand. Originally, we had planned to build a second, identical building. However, due to demand, we’re now redesigning our concept to accommodate a bigger structure. It’s scheduled to be built in the second half of 2016.
BOS brings out an 8ft tall expandable warehouse for the self storage industry. Unit sizes range from 140 sq. ft. to up to 1,380 sq. ft.

Reality shows us a good share of the Uruguay market doesn’t know or understand the self-storage service, nor the benefits it can carry. Marketing and patience are necessary. Also, self-storage is out of reach for a large percentage of consumers, so it remains a niche service in this country.

Julián Valdés is the commercial manager for Parque Industrial Zonaeste (Zonaeste Industrial Park), which designed, built and operates Minidepositos Zonaeste. For more information, e-mail jvaldes@zonaeste.com.uy; visit www.zonaeste.com.uy.

URUGUAY FAST FACTS

- Population: 3,419,000
- Capital: Montevideo (population 1,341,000)
- Area: 176,215 square kilometers
- Atlantic shoreline: 193 kilometers
- Rio de la Plata frontage: 378 kilometers
- Uruguay River frontage: 435 kilometers
- Languages: Brazilero, Portunol, Spanish
- Currency: Uruguayan peso
- Life expectancy: 75
- GDP per capita: U.S. $7,900
- Government: Constitutional republic

Source: National Geographic
The **ECONOMIC CRISIS** in Brazil

How it’s affecting industry development and operation

By David Blum

As I write this article from a hotel room in São Paulo, Brazil, I’m in the middle of a 12-day stint through a country in the throes of a dire economic downturn. The self-storage industry here has experienced tremendous growth as developers have discovered this untapped market. But how is the emerging segment being affected in a now uncertain climate? Let’s look at how existing operators are faring and how the financial crisis could affect the development of new facilities.

**Existing Operations**

How are Brazilian self-storage operators faring in the midst of all the turmoil? From my perspective, they fall into two categories. Over the past several years, while the small, independent operators have grown significantly, a lot of the growth in the market has been through institutionally funded, slick-branded, well-managed projects.

The smaller operators, both newbies and old-timers, are struggling. Their effective rates (street rates minus discounts and concessions) are impacted, and occupancy growth is slow and reduced. The limited margins they once enjoyed are being cut in half. Lower rates and heavy discounts are the norm.

The larger fund-fueled operators are experiencing something different. While occupancies have shrunk from 90 percent to the low- and mid-80s, the effective rate earned is actually higher than it was a year ago. Allowing for an inflation rate of about 9 percent, the effective rates are stable, if not up slightly. The reason is these well-managed facilities have managed to keep their street and customer rates in line with inflation.

Last year, we saw average rates of $70 BRL (Brazilian real) to $75 BRL per square meter per month. Based on currency valuation, that was effectively about $2.60 to $2.80 per square foot per month. Rates today are around $90 BRL per square meter per month with discounting, lowering it to an effective rate of $80 BRL. However, if a U.S.-based company is looking to take revenue out of a business, it’s now only seeing $2.08 to $2.10 per square foot per month due to the fluctuation in the currency exchange.
These smarter operators have also seen the need to expand to meet demand. With increased product awareness and more sophisticated marketing, they’re targeting new segments that are just now discovering the benefits of self-storage. These companies continue to grow and add facilities that enhance overall awareness. This will provide a continued and open-ended opportunity.

Finally, as demand for specific unit sizes shifts—and because their original mix was done smartly—these operators are quick to implement size conversions. Also interesting to note is each of the three major players in São Paulo are expanding, with seven to 10 new facilities being added by the end of this year.

**New Development**

No matter which country you hope to build in, self-storage development is a multi-year, occasionally frustrating process. Fortunately, projects that began in the past year or two in Brazil continue to move forward despite the downturn.

What’s interesting is the volume of inquiries from new players to the industry, most from seasoned developers and investors.

Many of them are younger, second-generation family members with an eye toward diversifying their family businesses. Some of these companies have been around 30 to 50 years and weathered many such fluctuations in the Brazilian economy. For them, this is just the way of life.

Keenly aware of the timing required, these savvy entrepreneurs see opportunity in bank repositions, foreclosures and reduced real estate values in the commercial segment. This, along with a newfound awareness of the growing self-storage market, has stimulated expanding interest.

**Prognosis**

A few months ago, I would’ve accepted a doom-and-gloom scenario, relying on the press reports of the Brazilian crisis. However, seeing things firsthand, they’re not all bad. There are issues that will continue to plague the Brazilian economy in the near term. Unemployment is rising, auto sales have slumped, manufacturing is slowing and retailers are cutting back. Retail sales continue to slip significantly as Brazilians worry about the future. But the overall sentiment is things will improve, even if no one is sure when.

Self-storage plays an important role in both directions of an economic swing, no matter where it is. As in other countries, life-altering events are creating new self-storage customers here. As the pool of potential customers and public awareness increases, we’ll see self-storage branded as recession-resistant in Brazil, just as it was in the U.S.

David Blum owns and operates Better Management Systems LLC, a consulting practice he launched in 2003 to assist 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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Assessing Opportunities in Greater China

Hong Kong’s success leads to growth on the Mainland, Taiwan

By Samson Lam and Markus Scherer

While self-storage is still a relatively new concept across most of the Asia-Pacific region, our most recent research shows it has firmly arrived in Greater China. The remarkable success of the self-storage industry in Hong Kong has set the stage for the development of the industry on the Mainland and in Taiwan. Let’s take a look at how the industry is developing, region by region.

Hong Kong

In Hong Kong, where the most expensive property converges with the highest population density in the world, extra storage is almost a luxury. With demand constantly outstripping supply, self-storage has quickly blossomed into a well-developed industry with great market traction.

Ipsos Business Consulting, which offers fact-based market analysis to businesses worldwide, estimates the total gross floor area of self-storage at 4.25 million square feet. Based on the assumption of an average floor-space utilization of 50 percent to 70 percent, Hong Kong has a net floor area of 2.125 to 2.975 million square feet. This is an increase of 4.4 percent since 2013.

At the end of 2014, Hong Kong boasted an estimated 93 self-storage companies, with a network of approximately 524 locations. In comparison to 2013, this is a year-on-year increase of 5.2 percent and a whopping 17.7 percent, respectively. The top six players account for just under 60 percent of the total gross floor area, with SC Storage estimated to be the largest player in the market, closely followed by Store Friendly.

While all these numbers might seem impressive, an estimated core penetration rate of 23 percent suggests there’s still room for the industry to grow. The core rate is the percentage of people between the ages 18 and 45 who are using or have used self-storage services within the past year. With some locations able to demand an average rental rate of more than HKD 60 per square foot ($7.75 USD), this shows just how attractive this market can be for operators.

Mainland China

In comparison to Hong Kong where the industry is already well-established, our research shows self-storage is primed to take off in Mainland China. The success of the first industry event organized by the Self Storage Association Asia (SSAA), which took place in May in Tokyo, underlines our findings. Luigi Assessing Opportunities in Greater China

Hong Kong’s success leads to growth on the Mainland, Taiwan

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In comparison to Hong Kong where the industry is already well-established, our research shows self-storage is primed to take off in Mainland China. The success of the first industry event organized by the Self Storage Association Asia (SSAA), which took place in May in Tokyo, underlines our findings. Luigi

Source: Ipsos Business Consulting
La Tona, executive director of the SSAA, describes the opportunity in Mainland China to be “one of the most exciting opportunities that will impact the industry over the next decade.”

Due to China’s large size and vast regional differences, the self-storage market is extremely fragmented, making it more difficult for players, as there’s no one-size-fits-all formula for success. Although some large operators have established a foothold in the market and have aggressive plans for expansion, much education is needed to convince Chinese consumers of the benefits of self-storage and how it can fit into their lives as a practical, convenient lifestyle option.

Already today there are 28 operators in China, with 91 locations spread across seven cities including Beijing, Chengdu, Guangzhou, Hangzhou, Shanghai, Shenzhen and Wuhan. Of these, Chengdu has the lowest yearly average per capita income of CNY 70,000 ($10,990 USD). Taking this as a benchmark, we’ve identified a number of other cities with higher averages where we expect to see new storage facilities coming online in the near future.

Moving forward, low consumer awareness will be the biggest obstacle for industry growth in China, as many consumers aren’t aware of the service. However, facility operators are optimistic that growth over the next three to five years can top 20 percent.

**Taiwan**

Taiwan has all of the strong industry drivers typical of more mature self-storage markets like Hong Kong, such as high property prices and scarcity of space, making it an attractive destination for brands interested in tapping its potential. The development of Taiwan’s self-storage industry is similar to that of Hong Kong from 2002 to 2006, when consumer awareness of the service wasn’t very high. Though still in its early stages, the industry is already characterized by robust competition, with at least 18 brands operating 75 locations. Together, the top three players operate 45 facilities, with the rest being managed by smaller players and new market entrants. Just under 90 percent of all locations can be found in the capital of Taipei. While we still expect the number of facilities to grow in this region, there are many cities across Taiwan where we expect to see even higher growth rates moving forward. In 2014, the average self-storage rental rates were between NT$220 to NT$280 per square meter ($6.70 to $8.55 USD), and the average occupancy was estimated between 61 and 70 percent.

Similar to the Mainland, operators in Taiwan are positive about the development prospects of the self-storage industry in the coming three to five years. They expect to see growth rates of 20 percent or potentially higher.

We see the future of the self-storage industry in Greater China to be positive. It’ll be interesting to track the industry and exciting to share in its development. **ISS**

Samson Lam is a consultant at Ipsos Business Consulting in Hong Kong. He oversees all research activities covering self-storage across the Asia-Pacific region. He can be reached at samson.lam@ipsos.com.

Markus Scherer leads the consulting unit for Ipsos Business Consulting. In cooperation with the Self Storage Association Asia, he has been actively following the development of the self-storage industry across the Asia-Pacific region. He can be reached at markus.scherer@ipsos.com.

Ipsos Business Consulting is the strategic business-consulting unit of Ipsos Group. The core penetration is based on a survey carried out by Ipsos Business Consulting in February 2015 in cooperation with the Self Storage Association Asia. Published in The Self Storage Association Asia Annual Survey 2015, it’s available for download. For more information, visit www.ipsosconsulting.com.
Have You Heard?

Inside Self-Storage World Expo and BUILDEX have announced a partnership to bring leading self-storage suppliers and expert education to this massive show in Calgary, Canada. Industry vendors will exhibit in the ISS World Expo Pavilion, and attendees can participate in comprehensive seminars. Education options include a full-day Development Workshop and a full-day workshop designed specifically for industry owner/operators.

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Building on Failure in Hong Kong

MiniCo Self-Storage shares what it learned from developing and operating in the region

By Marilyn Leslie

Opening a self-storage business in a new market has many potential pitfalls, but success is highly rewarding. Although the Asian self-storage industry is growing, the first pioneers had to learn by trial and error. Johnny Cash once said, “You build on failure. You use it as a stepping stone.” This is what we did when launching the MiniCo Asia Ltd. brand, which operated as MiniCo Self-Storage, in Hong Kong. Here’s what we learned from our experience.

Leasing vs. Buying

Under the misconception that purchasing property would be prohibitively expensive and daunting in Hong Kong, we chose to rent space for our first facility. We found leasing a building to be quite an adventure. Applying the U.S. pricing and leverage model was a mistake. We didn’t realize real estate appreciation was the major factor in any local business decision. Property owners constantly look for the highest and best value. Often it’s more profitable to demolish a building and start over.

Three years into our lease, with our storage facility at 100 percent occupancy, we received notification the building was being redeveloped as a mall. We had 30 days to move our customers and hand over an empty shell. We decided to purchase our next building.

Onsite Signage

Hong Kong sometimes appears to be one giant sign! What we learned is it’s essential to adapt any facility signage to the physical condition and location of the building. Our first sign was a 40-foot banner we placed on the 10th floor of the site. Visibility was excellent, but wind played havoc with the canvas. Over a period of three years, we repaired or replaced the sign four times. This was an expensive lesson. Future signs were well-placed and durable.
Expansion

In an attempt to add space to an existing store, we leased a satellite location one block away. Overflow customers were directed to the additional space using current staff. However, inconvenience, lack of onsite employees and limited signage resulted in low interest, occupancy and revenue. We duplicated the concept at a different location, with more proximity to an established store, offering more convenient access and a wider variety of unit sizes. This approach was more successful.

Marketing

Taking the concept of self-storage to Hong Kong required a lot of education—for ourselves and potential customers. Due to high traffic and visibility, marketing via a subway billboard seemed like a good idea. In reality, it was expensive and ineffective. Large concentrations of people moving quickly don’t notice a single sign, and we didn’t have the resources for multiple signs at different locations.

Affordable, late-night television advertising also drew limited interest and poor response. Other failed marketing efforts included ads in a high-end magazine, instant messaging and a premium inside-cover position in the Yellow Pages. Fliers were very effective in the beginning; however, as the competition copied the concept and flooded the market, they became less effective.

We found it necessary to constantly monitor our marketing results. Sourcing of storage inquiries became the priority in targeting our advertising dollars. We learned an Internet presence was highly successful and critical to getting our message to potential customers. Moveable billboards, such as a bus or van, attracted significant interest and inquiries. The most important elements of advertising proved to be consistency, ever-changing content and visibility.

Retail Sales

There’s no magic formula to determine the demand for retail products when setting up business in a new self-storage market. We found this out the hard way. One of our vendors offered us a good, one-time deal on 200 household-tool kits. The price was right and the product was high-quality. However, after 10 years, more kits had been given away than sold.

Customer demand was high for closet rods and shelving, due to the nature of goods being stored. Specialized cylinder locks were readily accepted as part of the rental process. This was good for retail sales as well as enhanced security and uniformity. There was little or no demand for affordable tenant insurance. Most customers in this market willingly accepted the risk of loss and chose not to insure. However, expatriate customers were very receptive and usually purchased the insurance.

There was no demand for services we initially provided. For example, stores close to mass transit were desirable, but there was no demand for transportation from train to store. Accessible parking was used on a limited basis, as few customers drove to the facility. We were able to serve more than 1,000 customers with only three parking spaces. We then leased the other spaces on a monthly basis.
Culture
To be successful, a self-storage operator must know his customers’ expectations, which can be very different depending on the culture. In Hong Kong, price is very important. Everyone wants a gift or discount. We used both successfully.

Cultural awareness is necessary in building customer trust. Hong Kong residents are superstitious about numbers, atmosphere, lighting and the environment. We actually changed some unit numbers in response to tenant sensitivity. For example, four is considered an unlucky number; therefore, units on the fourth floor were numbered without a leading four. This was problematic when doing the daily walk-through or trying to find a specific unit.

We also installed additional ceiling fans to satisfy some customers. In an effort to improve security, we added a secondary code system to each unit. This proved too cumbersome for some of our customers’ household help. Another facility installed a huge closed-circuit TV monitor in the reception area, but some customers felt it was an invasion of their privacy.

Staffing
In the beginning, there were no experienced self-storage professionals in Hong Kong. We initiated a training program to get staff up to speed, working closely with each employee to instill knowledge and confidence. Though their loyalty and work ethic were unsurpassed, they were hesitant to disagree or deliver bad news, even when it was critical to the facility’s success. Difficult customers traumatized them, and they didn’t want to identify problems or issues. They also had no sense of urgency. Through training and counseling, we ultimately developed a superior, effective group of professionals.

With an obsessive focus on customer service, we learned to adapt our business ideas to our customers and employees. It resulted in loyalty and growth for our brand. Marilyn Leslie has been involved in the self-storage industry since 1998, when she began her career as chief financial officer for MiniCo Inc. She was part of the company’s pioneering effort to enter the Hong Kong self-storage market and is a former board member and treasurer of the Self Storage Association of Asia. Ms. Leslie was president of MiniCo Asia Ltd. from 2004 until the company was sold in February 2015. She’s currently the chief operating officer for New Empire Ventures Inc., which is developing self-storage properties in the United States. For more information, visit www.newempireventures.com.

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The Australian self-storage market is about to see its biggest surge in new facility development in more than 10 years, specifically in the major eastern-seaboard markets of Brisbane, Melbourne and Sydney. Urbis, a consulting firm with a self-storage specialist division, estimates there are 20 confirmed new projects. Once complete, they’ll increase the industry supply by approximately 6 percent. However, it’s likely this will prove to be an underestimate.

The combined population of these three cities is 11.5 million. It’s estimated Sydney will pass 5 million in April 2016. Already one of the most urbanized countries in the world, Australia is becoming even more densely populated, with its cities getting bigger. This is proving to be a positive driver for self-storage occupancies and a catalyst for new building.

Real estate asset prices are increasing in every property sector, underpinned by low interest rates and an abundance of investor interest. Led by the Chinese, Asian investors are finding Australian property extremely attractive. Self-storage entrepreneurs have entered the market and joined established operators to develop facilities from coast to coast. In addition, lender funding is also more accessible for new projects.

All of this means a surge in self-storage investment and development. There are three major operators in Australia, and each is pursuing expansion to different degrees.

**Abacus Property Group**
Abacus is a diversified real estate investment trust (REIT) with a market cap of $1.7 billion. Self-storage investments represent 31 percent of the company’s asset values.
Abacus has 54 self-storage properties with a valuation of $457.2 million. The operator opened four new properties in the last year, adding 13,000 square meters (140,000 square feet), bringing its portfolio to 254,000 square meters (2.8 million square feet). Its portfolio averaged 84.9 percent occupancy over the last 12 months.

**National Storage REIT (NSR)**
NSR has been very acquisitive since its initial public offering in December 2013. It has added 21 storage properties in the last 12 months and now boasts 87 facilities across Australia and New Zealand in a blend of ownership, joint ventures, leasehold or management.

In its recent annual earnings results, NSR disclosed it now owns and leases $500 million in self-storage property in Australia, with 304,000 square meters (3.3 million square feet) across 54 properties. The total portfolio exceeds 443,000 square meters (4.8 million square feet). Same-store occupancy remains at 71 percent, while the group average is 72 percent.

In a new strategy, NSR has started two development funds. One is focused in the western city of Perth while the other has a country-wide mandate. These funds will acquire and develop
self-storage properties for later acquisition by NSR. Both funds are off balance sheet, outside the REIT. This quarantines the earning performance and property-development risk of new developments.

Kennards Self Storage
Kennards is a privately owned self-storage owner and manager with 83 properties. The company’s total net leasable area exceeds 535,000 square meters (5.9 million square feet), and its assets total more than $1.15 billion across Australia and New Zealand. Kennards is primarily focused on growing through new development, with six projects in the pipeline.

Analysis, Institutions and Observers
In its recent study, Urbis identified 20 new self-storage projects that are significantly advanced. It estimates they will add 10,071 new storage units to Australia’s East Coast markets. The sector has also seen growing interest from large institutional investors. Superannuation funds and institutional REITs now see the asset class as a worthy investment for income diversification. However, to date, this interest has not materialized into a significant new direct investment in the industry.

The listing of NSR has also elevated the sector in the eyes of investors. Morgan Stanley and Macquarie Group now track NSR, offering research papers and commentary into the REIT and its sector.

The Australian self-storage market has matured greatly in the last couple of years. This is clearly illustrated by the strong investor interest in the REITs as well as the observable interest from a variety of other investor groups. Australia is still considered small, with a population of 23 million, so the depth of market will be relatively modest.

Sam Kennards is managing director of Kennards Self Storage. Founded in 1973, Kennards has 83 locations across Australia and New Zealand, with more than 53.5 hectares of space. The company remains a private, family-owned and -operated business. For more information, visit www.kss.com.au.
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