

UK Self Storage Market – Analysis of Top Locations

2015

Contents

- Overview
- Supply and Market Concentration
 - Distribution of Major Operators' Property Portfolio
 - Trend in rents and occupancy
 - Emerging investment outlook
- Identification of high demand locations
 - Demand Drivers in Market
 - Variables to Quantify Demand Drivers
 - Methodology to Shortlist High Demand Location
- The Hotspots
 - Top 50 Locations in terms of Demand
 - Spatial Distribution of Aggregate Demand Scores
 - The Untapped Locations in the Self-Storage Market
- Appendix

Executive Summary

Market size and growth

- UK accounts for 45% of the rentable self storage space in Europe, making it the largest market in the region. However, it lags behind the mature markets of USA and Australia on a global scale
- Over the last 7-10 years, several operators entered the market to tap the potential. As a result, it is a fragmented market, with top 10 players accounting for about a third of operational self-storage facilities
- Notably, the self-storage facilities of leading players are concentrated in the Greater London area, on account of attractive demand dynamics in that region

Rentals and returns

- With tangible signs of a recovering economy, the self-storage market has increasingly attracted supply – which has kept the overall rental growth in check. Average net billed rate by end of 2013 was £19.61, a decline of 7% against the level in 2011
- Aggressive investment bets and low levels of consumer awareness are also partly responsible for subdued occupancy levels. UK's self-storage operators report occupancy level of around 70%, which is significantly lower than the 85-90% observed in USA and Australia
- Bullish investment perception however holds sway. In recent years, Real Estate Investment Trusts have emerged as key investment avenues for participating in UK self-storage market

Demand drivers

- Storage space is sought by both households and enterprises to manage space crunch (and its associated costs). In specific terms, the major demand drivers include:
 - ✓ Housing market – rising prices or rentals make it worthwhile to store belongings in storage spaces
 - ✓ Demography – the population segment of 25-34 years uses storage for education or other living arrangements
 - ✓ Employment – certain occupations (especially armed forces) entail mobility and thus require storage
 - ✓ Small businesses – these enterprises use self-storage spaces to rationalise overhead costs

Demand Hotspots

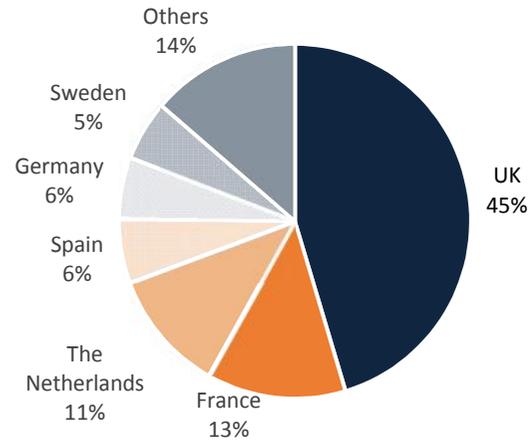
- Greater London region corners most of the preferred locations, when considered from the demand perspective. Yet, this region may not meet prospective investors' requirement due to saturation and high break-even levels
- The next areas of focus, from an investors' perspective, will be those non-London locations where demand is attractive and have low competition intensity in this space
- A spatial analysis shows key local authorities in this regard, such as Cherwell, Warwick, Rushmoor Waverley and Bradford among others

UK's self storage market leads in Europe but is at a nascent stage when compared to more mature markets...

UK Self Storage Market Snapshot	
64 million	Population
975	Approx. no. of storage facilities
3.4 million	sq. ft. of rentable area
0.54	sq. ft. of storage area per person
15	Facilities per million population
£19.61	Avg. rent psf in 2013

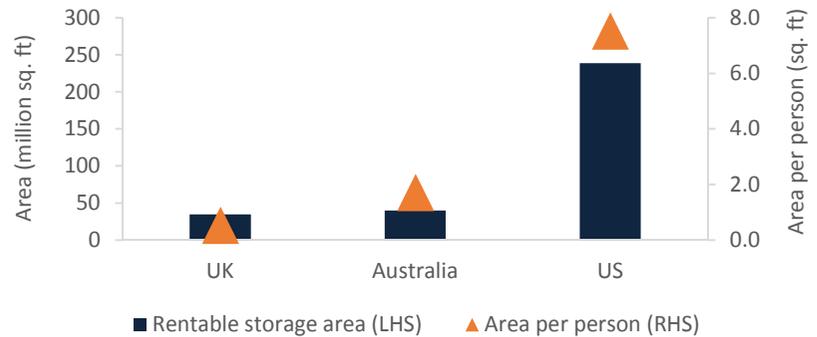
Source: FEDESSA European Self Storage Annual Survey 2014

Distribution of rentable storage space across Europe



UK's self storage market is by far the largest in Europe...

Self Storage Market Size Comparison

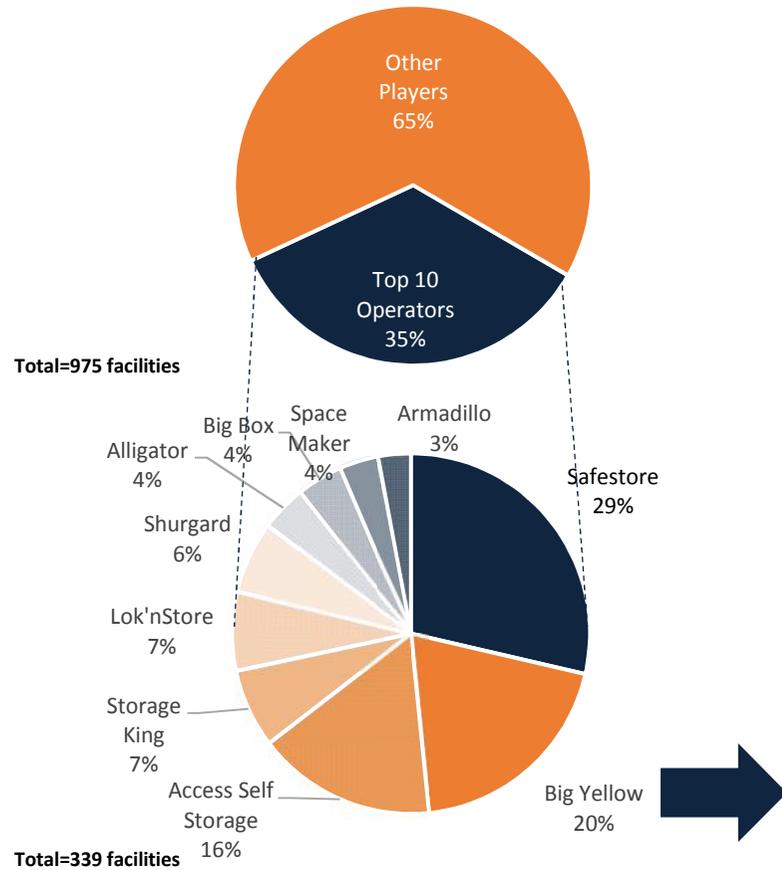


...but miniscule in comparison to more established markets such as the US and Australia

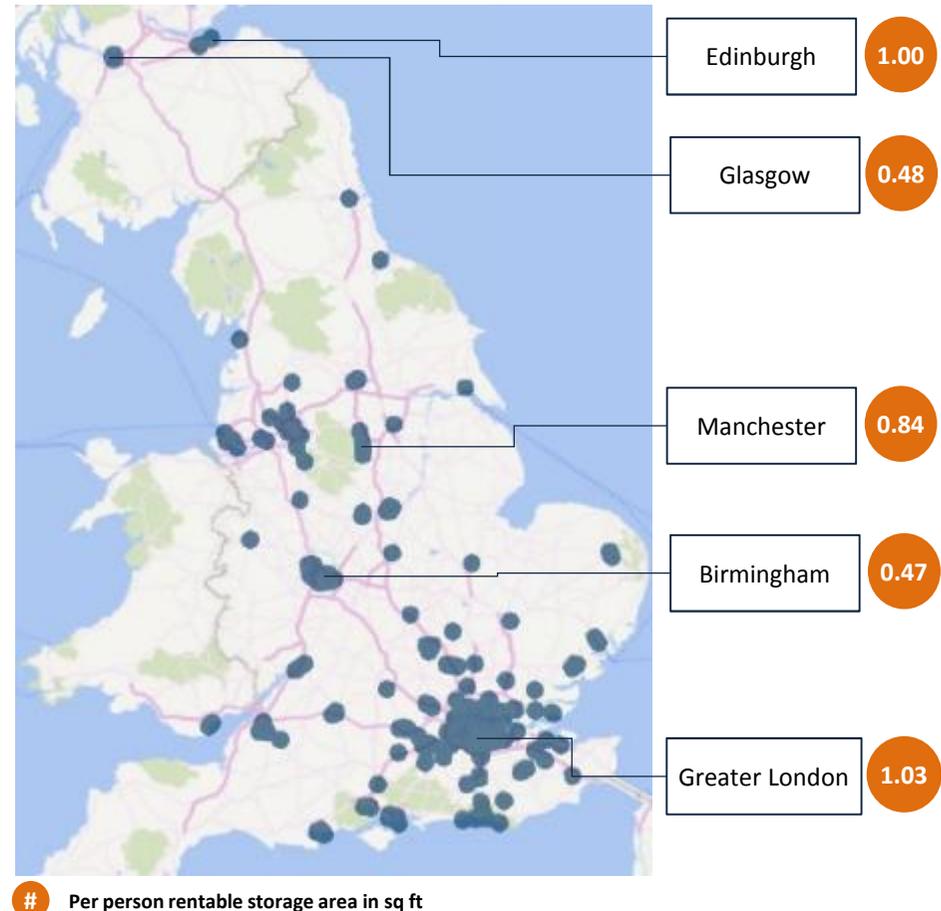
Supply and Market Concentration

...the market being fragmented with the Top 10 players accounting for one-third of the operating facilities

Share of self-storage facilities in the UK



Distribution of Top 10 Operator Portfolio in the UK



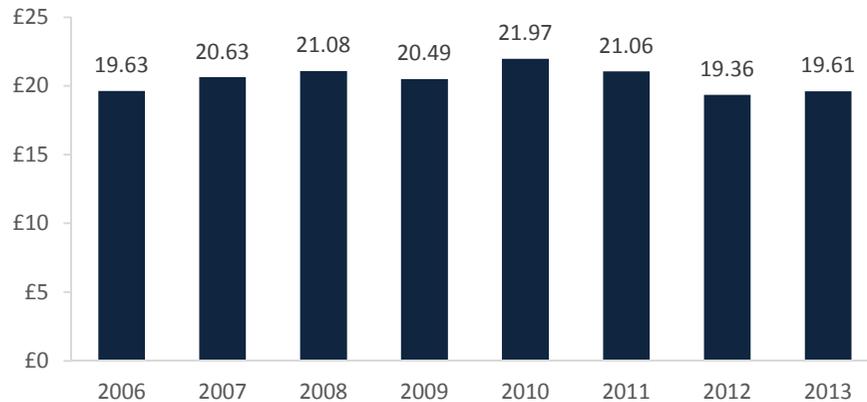
An estimated 30% of the property portfolio is concentrated between six leading brands

Majority of the units are concentrated in the Greater London area followed by the major cities

Source: FEDESSA European Self Storage Annual Survey 2014 and Self Storage Association UK Annual Survey 2014

Rental levels have declined, as operators offer more incentives to boost occupancy...

Average net billed room rate (per sq feet per annum)



- The market continues to attract supply due to the favourable conditions created by a recovering economy as well as the rising volume of housing transactions
 - ✓ Notably, the incumbent suppliers have been extending greater incentives for incremental customer base
 - ✓ Higher incentives for new customers has been among the reasons for relative decline in average billed room rate in 2013

Occupied space by region, within mature facilities



- Typical occupancy rates in the US and Australia markets range between 85-90%
- As per the UK self storage association survey, occupancy rates have risen, from 68% in 2012 to 71% in 2013
 - ✓ This data refers to the self-storage facilities that have been operational for over six years
 - ✓ Notably, increase in occupancy rates has come along with a decline in the net billing rates
- The industry association's survey points to the fact that majority of the self storage facilities report occupancy far below than the optimal level for business
 - ✓ Aggressive investment bets in the market have been partly responsible for the lower occupancy levels

Source: FEDESSA European Self Storage Annual Survey 2014 and Self Storage Association UK Annual Survey 2014

...while attractive returns have drawn long term capital, especially from REITs

Investment avenue

- Over the last 10 years, UK self-storage property has yielded the highest return on investments in commercial property
- High assured returns with increasingly lower cost of market entry makes it an ideal vehicle for investments among comparable asset classes
- Properties are mostly held in a freehold ownership type that helps provide the cushion for recovering investments

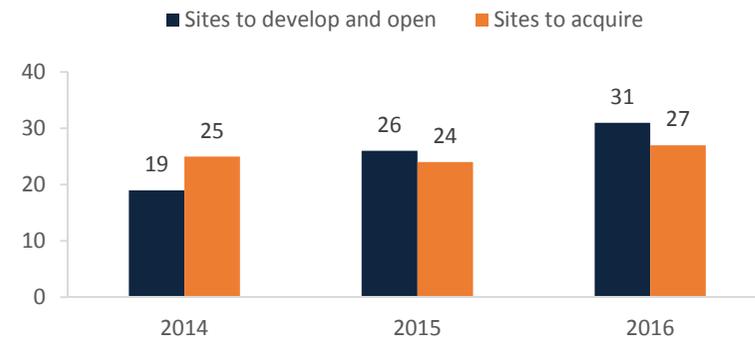
REITs

- Real estate investment trusts have capitalised on the rapid growth in UK self storage
- The two largest operators of UK self-storage market are REITs listed on London Stock Exchange
- Growth of these investment vehicles is being driven by their success in more mature markets of US and UK

Trend in ownership type



Planned site openings and acquisitions



Source: Self Storage Association UK Annual Survey 2014 and news reports

Identification of High Demand Locations

Housing market, demographic and socio economic indicators are key determinants of demand in the consumer segment; SMEs drive demand in the commercial segment

- Demand for self-storage is being increasingly driven by the dynamics of economic, social as well as individual requirements
 - ✓ Individual households find it a feasible option in order to undertake renovation or relocate to a cheaper or smaller dwelling
 - ✓ Certain occupations, such as the military, require significant mobility, due to which individuals need storage for articles they cannot dispose or transport every time they need to relocate
 - ✓ Business entities find it cost effective to rent storage space in a secure environment, instead of investing in warehousing space, thus freeing up resources for other business activities

Major demand drivers in self storage market

Housing

- Housing market plays the most important role. Scarcity in housing (reflected in its prices) often drives households to take self-storage for renovation or shifting to smaller houses without having to dispense with their articles
- Rise in housing market prices and rents has forced consumers to opt for smaller homes with lesser storage space, thereby increasing the demand for self storage

Demography

- Select segments of the population have greater mobility needs, such as those arising from education, living arrangements, etc.
- In particular, it is the younger population (20-34 years) that requires self storage

Employment

- Availability (or lack of) of job opportunities impacts mobility in a region, and thus fuels demand for self storage – this is more so as the high growth regions often entail high rentals and cost of living
- Notably, specific jobs such as those of armed forces inherently require periodic movement

Small business

- Small and medium enterprises typically seek to minimise the high overhead costs associated with renting office and storage space, which are generally unavoidable in regions with high economic activity
- With self-storage, these entities can cut back on their space requirements significantly. It is also a more economical and flexible option as compared to renting warehouses which require additional investment on security and fit-out

Migration

- Migration of individuals, whether inbound or outbound, has a direct relation with demand for storage facilities. This especially holds true for regions where seasonal economic activity and employment are involved
- Migration of households is in part related to the overall improvement in economic conditions

Source: Alchemy Research Analysis

Variables to quantify the demand drivers

- For each of the broad demand categories, select variables were chosen for quantitative analysis
 - ✓ Each of the variables has an expected impact on the demand for self-storage market
 - ✓ The selected variables are compiled at the local authority level to gauge the impact in a regional context

Variables used for analysing metrics at local authority level

Category	Weightage (%)	Variables	Expected impact
Housing	40	<ul style="list-style-type: none"> • House Prices (in GBP)(2013) • House Price Change (%) (2008 - 2013) • Private Rental Level (GBP per week) • Change in Rent (%) (2010-2014) • Number of privately rented households • Privately rented households as a percentage of total households 	<ul style="list-style-type: none"> • House prices and rentals reflect scarcity in real estate – both absolute figures and relative change are used for potential impact • Privately rented households constitute the key demand segment for self-storage. A greater share of such segment implies higher demand
Demography	20	<ul style="list-style-type: none"> • No. of 20-34 year olds (in '000s) • Share of 20-34 year olds in population (%) • Population per hectare land area 	<ul style="list-style-type: none"> • The 20-34 year old group has a demand for self storage, mostly due to higher education, lower financial strength and propensity to move • Population density is a proxy for the rising claim on space faced by households
Job density	10	<ul style="list-style-type: none"> • Job density (filled jobs/population in 16-64 years group) 	<ul style="list-style-type: none"> • A higher job density will translate to a greater storage demand in a given region or town
SMEs	15	<ul style="list-style-type: none"> • Number of SMEs 	<ul style="list-style-type: none"> • Presence of SMEs translates to likelihood of demand for storage spaces
Migration	10	<ul style="list-style-type: none"> • Outbound Migration • Inbound Migration 	<ul style="list-style-type: none"> • Greater number of persons travelling should ideally imply greater need for storage space
Military	5	<ul style="list-style-type: none"> • Number of military personnel 	<ul style="list-style-type: none"> • By nature of occupation, armed forces' personnel contribute to the demand for storage

Source: Alchemy Research Analysis

An approach to identify demand hotspots

Assign scores to local authorities based on their percentile rank in each of the variables for analysis

Aggregate the score of variables in each category for all local authorities

Determine the final aggregated score of each local authority, adjusted for weightages in each category

The results thus obtained are analysed in a spatial distribution for pin pointing the demand hotspots and comparing against existing supply to identify supply-demand gaps

Source: Alchemy Research Analysis

The Hotspots

The top 50 locations in demand drivers (1/2)

Top local authorities ranked based on aggregated score of demand drivers

Local Authority	Total score
Camden	3.3781
Islington	3.3141
Westminster	3.2637
Hammersmith and Fulham	3.2609
Tower Hamlets	3.2526
Kensington and Chelsea	3.2451
Lambeth	3.2223
Southwark	3.2143
Hackney	3.2090
Wandsworth	3.2028
Barnet	3.1489
Haringey	3.0961
Ealing	3.0942
Hounslow	3.0445
Merton	3.0374
Brent	3.0085
Harrow	3.0022
Kingston upon Thames	2.9352
Waltham Forest	2.9331
Richmond upon Thames	2.9198
Redbridge	2.9016
Enfield	2.8798
Cambridge	2.8677
Lewisham	2.8305
Newham	2.8055

Source: ONS and Alchemy Research

- London has a significantly high concentration of local authorities in terms of the demand scores
 - ✓ Top 20 local authorities in demand scores belong to London
 - ✓ The region's housing market growth (40% weight in scoring) together with high economic activity are key factors

The top 50 locations in demand drivers (2/2)

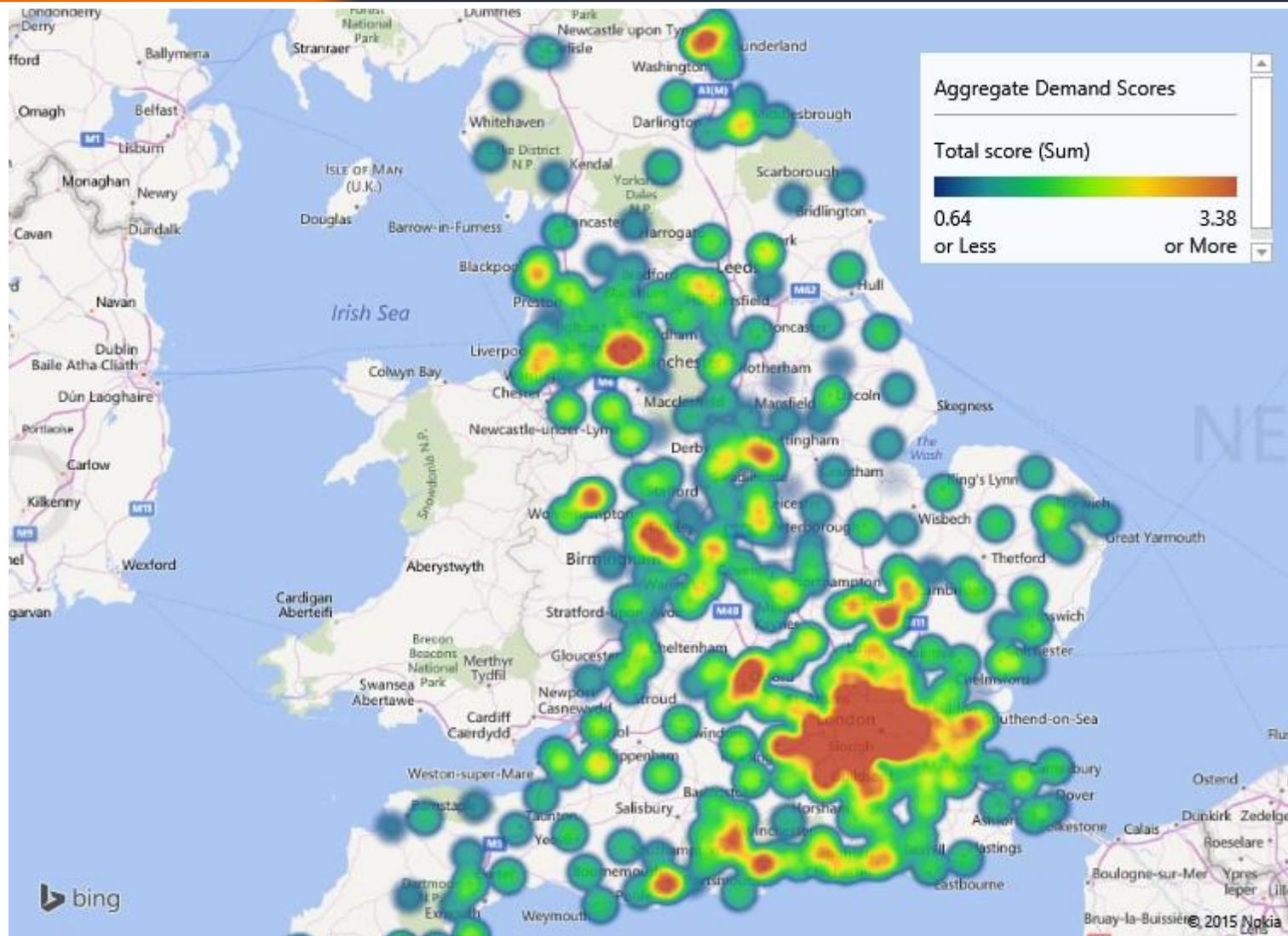
Top local authorities ranked based on aggregated score of demand drivers

Local Authority	Total score
Hillingdon	2.7979
Guildford	2.7402
Greenwich	2.7239
Oxford	2.7036
Croydon	2.6460
Reading	2.6396
Brighton and Hove	2.5602
Bristol	2.5434
Bath and North East Somerset	2.5219
City of London	2.4646
Bromley	2.4592
Elmbridge	2.4590
Sutton	2.4289
Windsor and Maidenhead	2.4103
Southampton	2.3983
Milton Keynes	2.3970
York	2.3553
Barking and Dagenham	2.3487
St Albans	2.3295
Reigate and Banstead	2.3226
Wycombe	2.3179
Cherwell	2.2923
Warwick	2.2903
Northampton	2.2897
Coventry	2.2853

Source: ONS and Alchemy Research

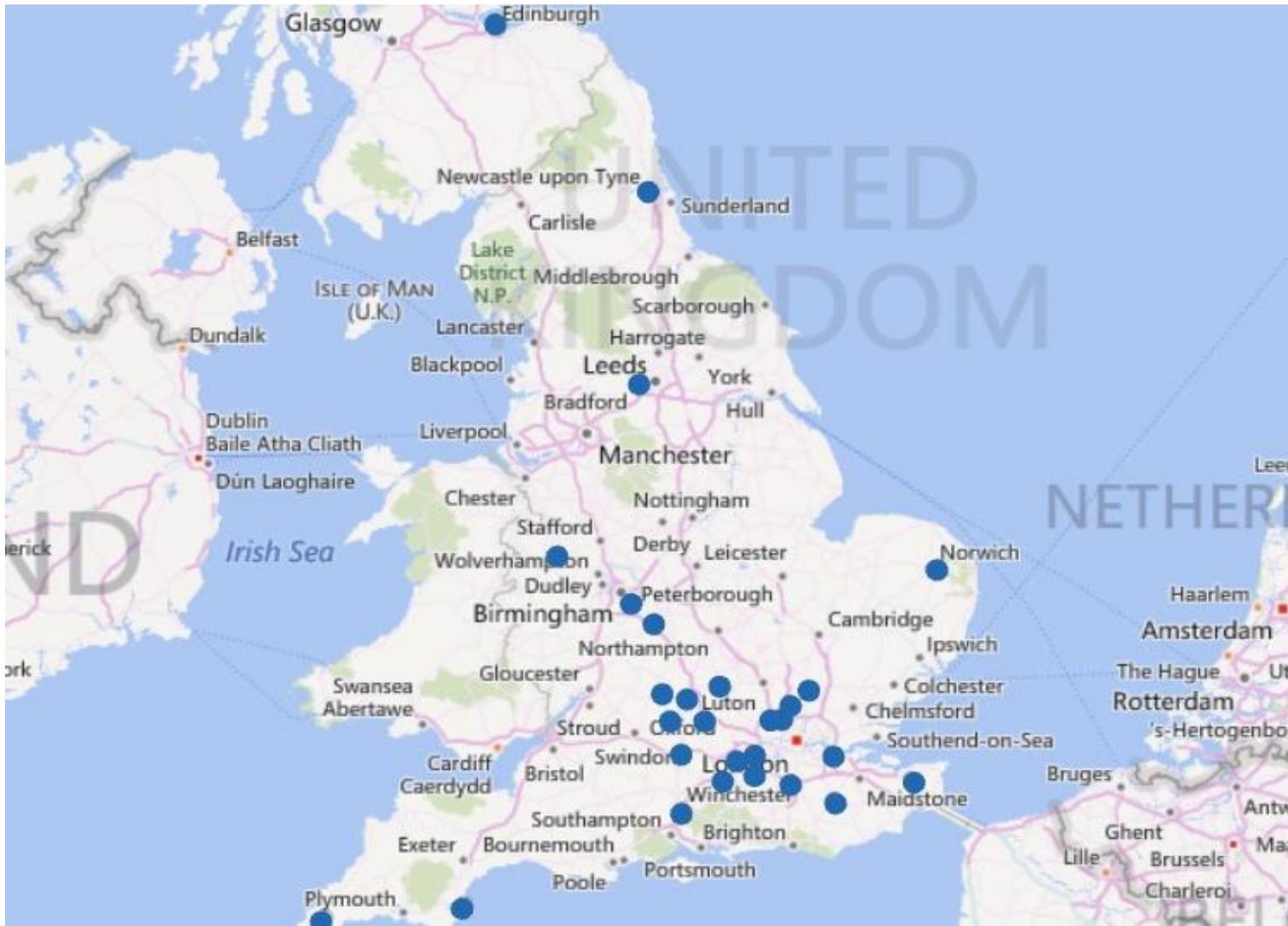
- Beyond London, the only key regions which figure in the top aggregate demand scores, are those of South West and West Midlands
- Considering the huge role of housing market in overall demand for self-storage, the relative position of other regions is significantly lower than that of London

Spatial Distribution of Aggregate Demand Score



Source: ONS

Supply-Demand Gaps



Source: ONS, self-storage operators and Alchemy Research

Most Attractive Locations

Although majority of the highly rated locations from a demand driver perspective are situated in the Greater London region, these might not necessarily be the most attractive from an investor's point of view. This can be attributed to the following factors:

- Saturated market with most of the top operators already having a considerable presence in the area. Intense competition has led to operators offering increased incentives to attract new customers which has depressed rental levels and impacted margins
- High property costs implies high capex and a longer break-even period

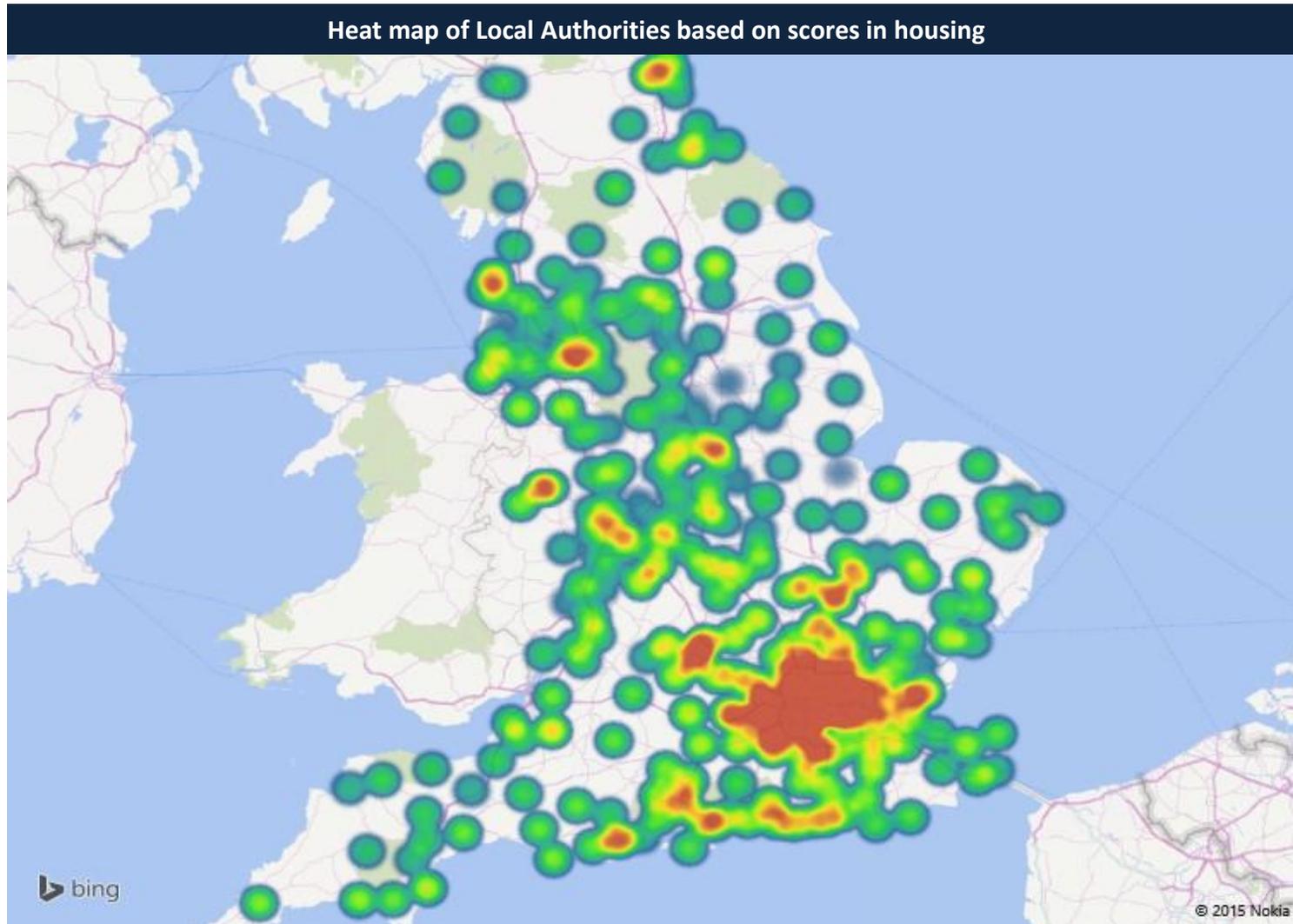
Consequently, we favour those non-London locations which have attractive fundamentals from a demand perspective, yet offer significant growth potential in terms of low competitive intensity and limited presence of major operators. These have been listed below:

- Cherwell
- Warwick
- Rushmoor
- Newcastle upon Tyne
- East Hertfordshire
- Aylesbury Vale
- Solihull
- West Berkshire
- Canterbury
- Welwyn Hatfield
- Cornwall
- Norwich
- Tunbridge Wells
- Winchester
- Waverley
- Torbay
- Bradford

Source: ONS, self-storage operators and Alchemy Research

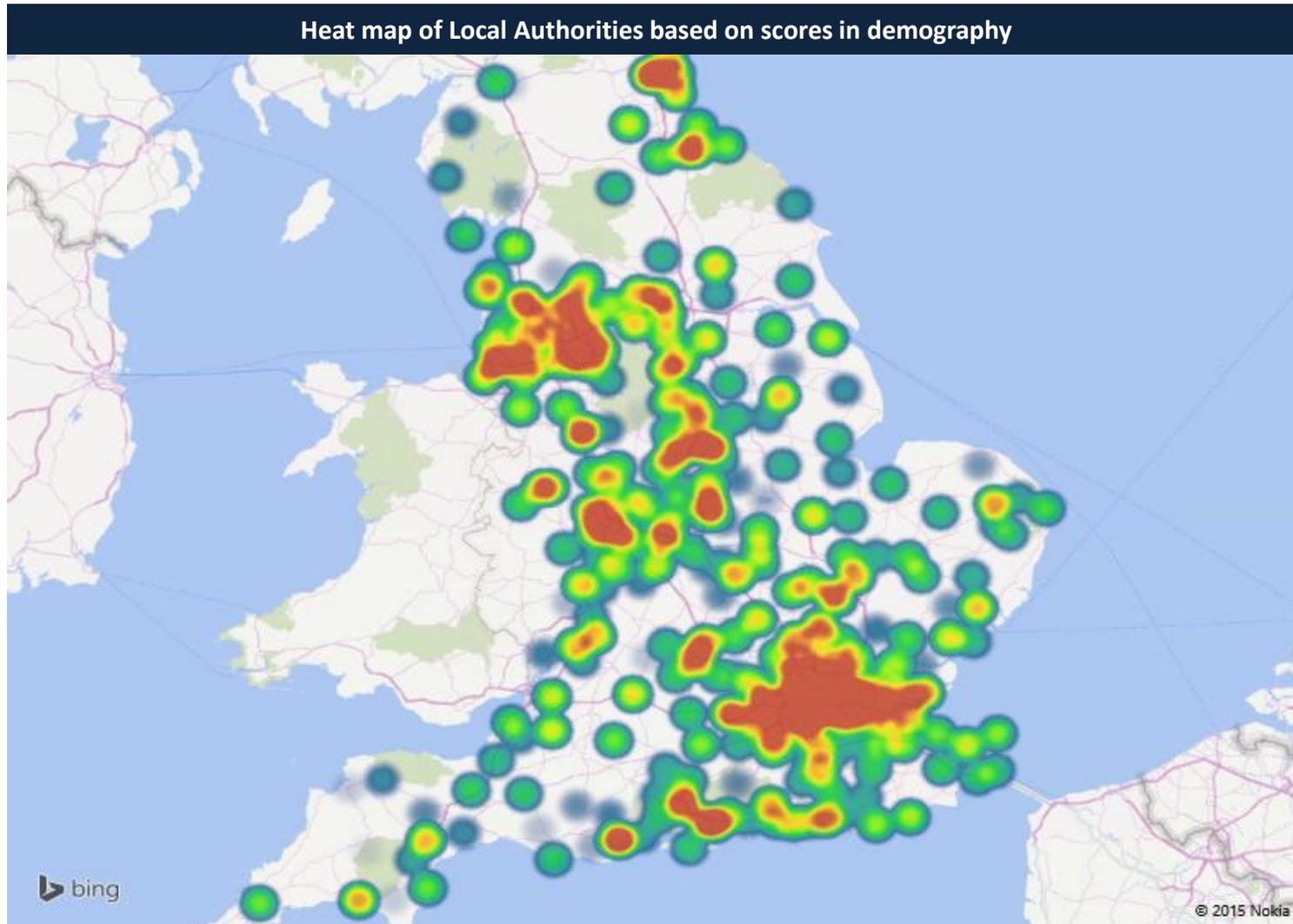
Appendix

Mapping the scores in each demand category (1/6)



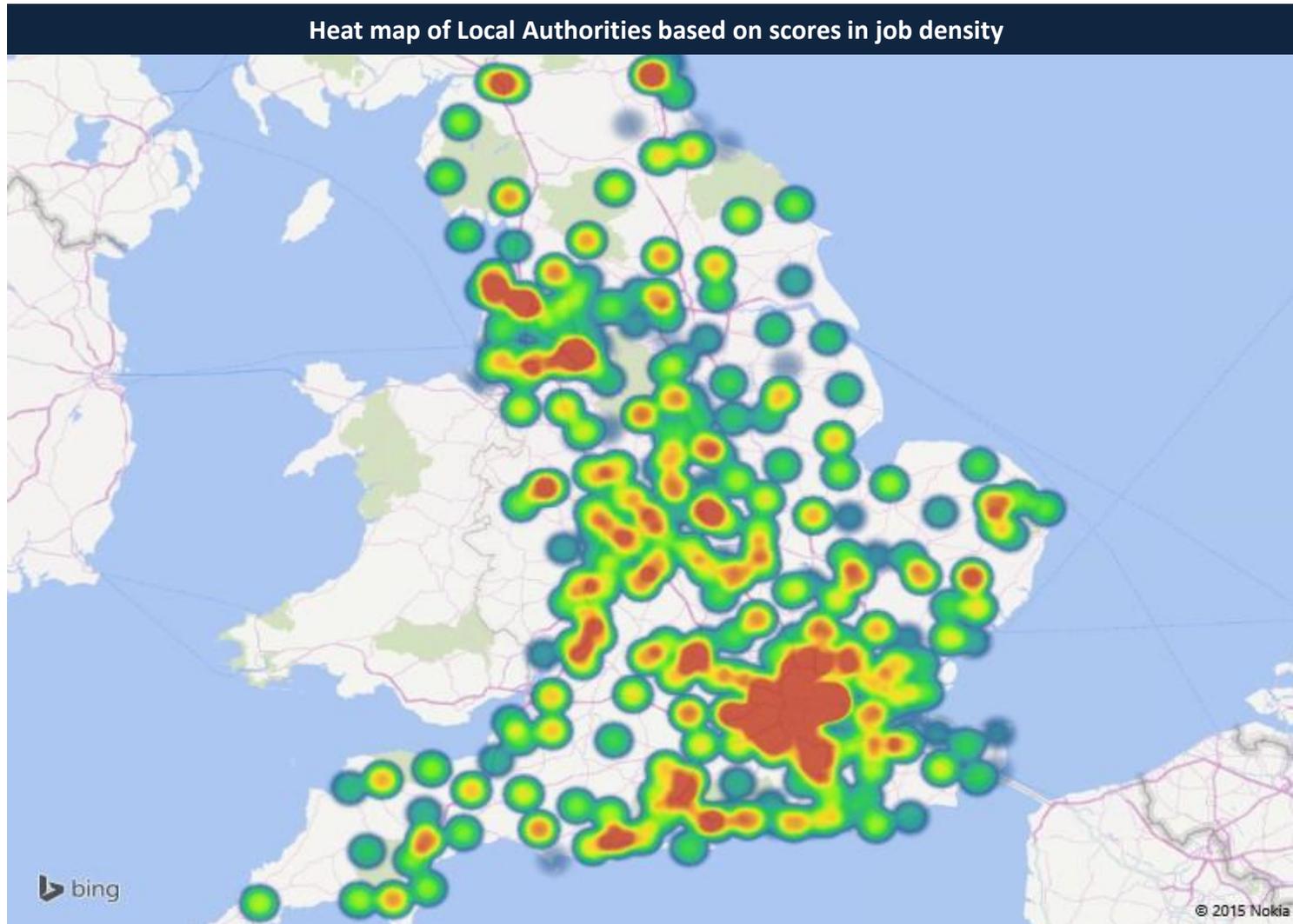
Source: ONS

Mapping the scores in each demand category (2/6)



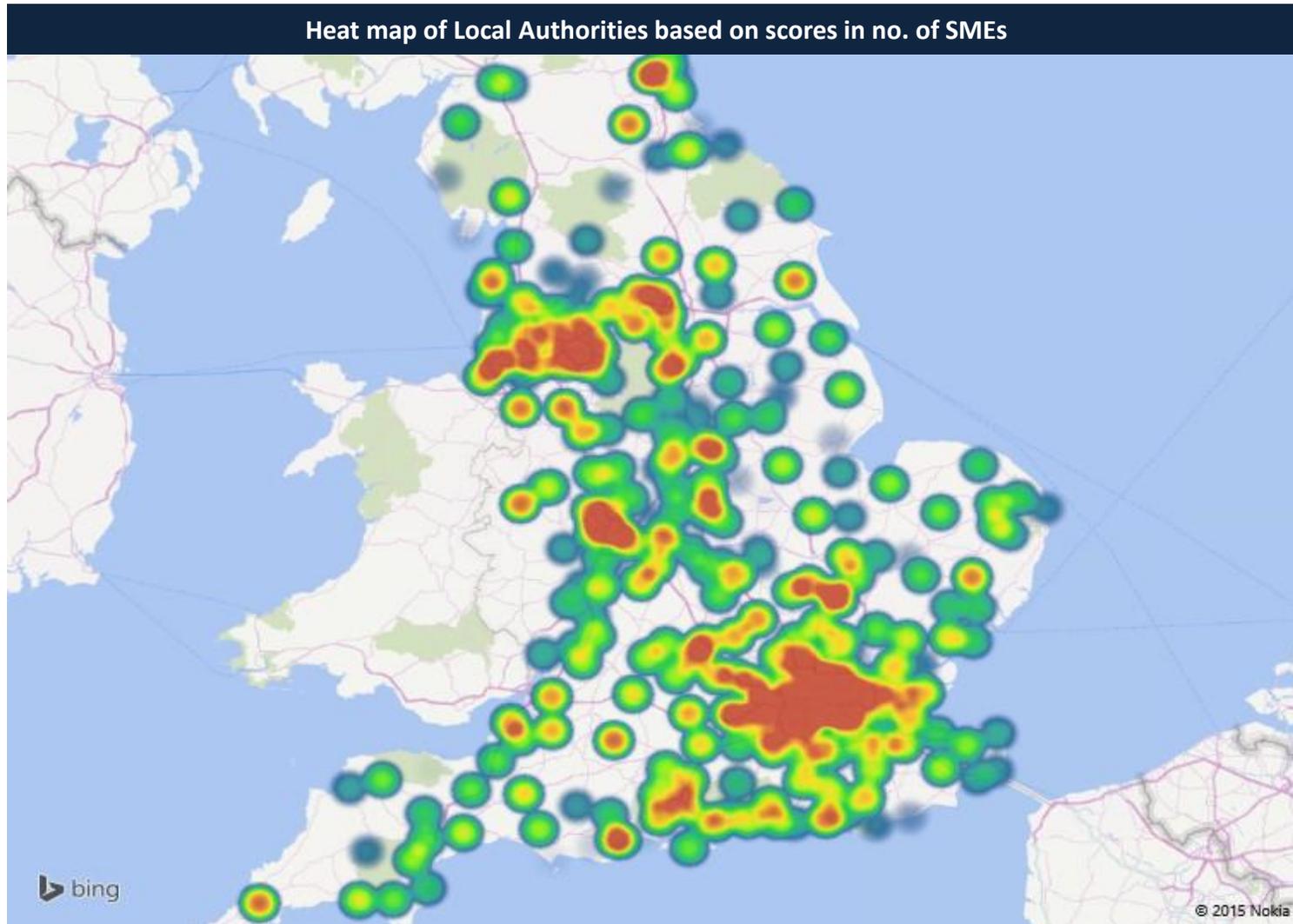
Source: ONS

Mapping the scores in each demand category (3/6)



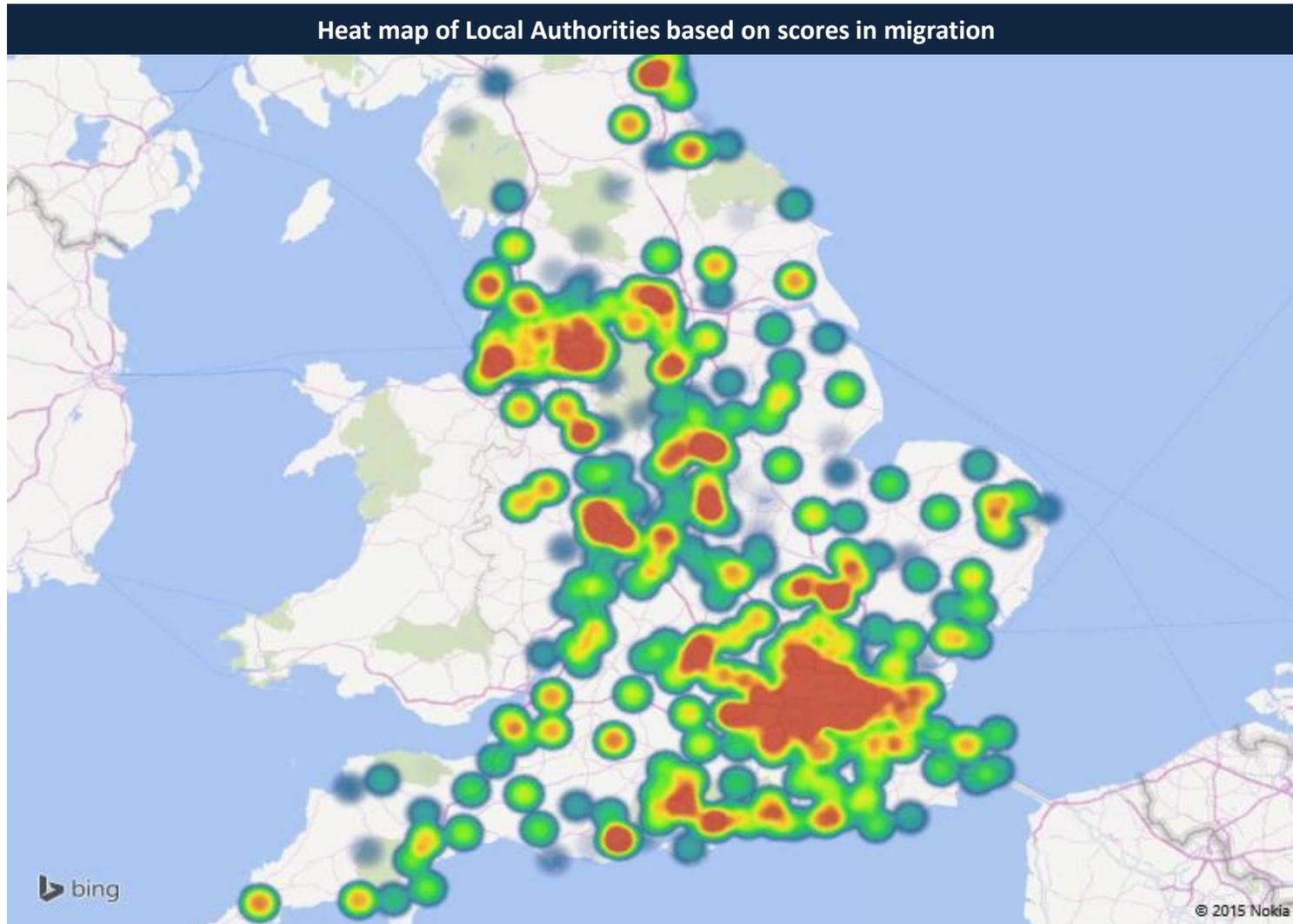
Source: ONS

Mapping the scores in each demand category (4/6)



Source: ONS

Mapping the scores in each demand category (5/6)



Source: ONS

Mapping the scores in each demand category (6/6)



Source: ONS

Contact



Niladri Paul

T: + 91 (0) 343 255 0131

M: +91 (0) 980 008 6550

Email: niladri@alchemy-research.com

www.alchemy-research.com