Asia Self-storage

DEMOGRAPHIC CHANGES DRIVE DEMAND FOR SELF-STORAGE SPACE IN ASIA

CBRE GLOBAL RESEARCH

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CONTENTS

SELF-STORAGE DEMAND DRIVERS

The four "Ds" and business activity

Source: CBRE, 2015; Public Storage Annual Report, 2014.

**Other life changing events such as marriage, job changes, and college/University enrolment.*

Self-storage growth rates

(RENTABLE SQ. FT. PER CAPITA)

	1984-1994	1994-2004	2004-2014
USA	**9%** CAGR	**5.5%** CAGR	**4.6%** CAGR

USA: 1.2 → 2.9 → 5.0 → 7.8

	CURRENT SQ. FT. PER CAPITA	10 YRS PROJECTION	NEW SUPPLY NEEDED (MN SQ. FT.)
Hong Kong	0.36	0.86	3.9
Singapore	0.28	0.66	2.4
Japan	0.17	0.42	2.2

Asia is **20 years** behind the USA

Source: CBRE Estimates, Q1 2015; Prudential Real Estate Investors, 2005; Self Storage Association; Quraz, 2014.

Investment returns attractive

CONVERSION OF UNDERUTILISED OFFICE/RESIDENTIAL/INDUSTRIAL SPACE

	IRR SUB LEASING*	IRR BUYING
HONG KONG	23%	15.2%
SINGAPORE	30.4%	15%
TOKYO	26%	17.4%

Source: CBRE Estimates, 2015; Assumptions: 90% of average asking rental revenue, 90% stabilized occupancy, 10 year investment period, 4-5% self-storage rental growth/year, 4 years to stabilize occupancy, 30% LTV, 55-70% efficiency.

**Assuming one can lease the same unit over the 10 year period (with 10-15% underlying rental increase per lease-term) & 100% equity.*

Expansion to other developing Asian cities

- CONSOLIDATION OF LARGER PLAYERS
- SMALL NICHE PLAYER ENTRANTS
- REIT FORMATION

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This report was prepared by CBRE Asia Research Team, which forms part of CBRE Global Research—a network of preeminent researchers and consultants who collaborate to provide real estate market research, econometric forecasting and consulting solutions to real estate.

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Executive Summary

Self-storage poised for growth in Asia

Self-storage is a relatively new type of commercial property in Asia that is primed for growth due to demographic changes, strong business activity, and growing investor interest. Focusing on the more developed cities of Tokyo, Hong Kong, and Singapore, demand is being driven by the four "Ds" – death, divorce, density, and dislocation as well as business activity (office expansion and contraction).

Self-storage supply is currently limited as saturation levels have yet to reach those seen in the more mature markets of the US, UK and Australia. As a result, both operators and investors are keen to satisfy the demand in the market and increase self-storage supply. Self-storage rental rates are healthy, lending support to increased conversion of underutilised properties into self-storage facilities.

Despite the strong demand fundamentals and robust investor interest, the key risks of low awareness levels, lack of available properties for conversion, and short lease and land tenure may dampen the growth potential of self-storage. On balance, demand for self-storage is outstripping supply in Tokyo, Hong Kong, and Singapore, leading to continued expansion of self-storage. As the market develops, there are three trends for self-storage in Asia: consolidation of larger players; continued new entrants of smaller, niche players; and REIT formation of the first Asian self-storage portfolio.

Introduction

What is self-storage?

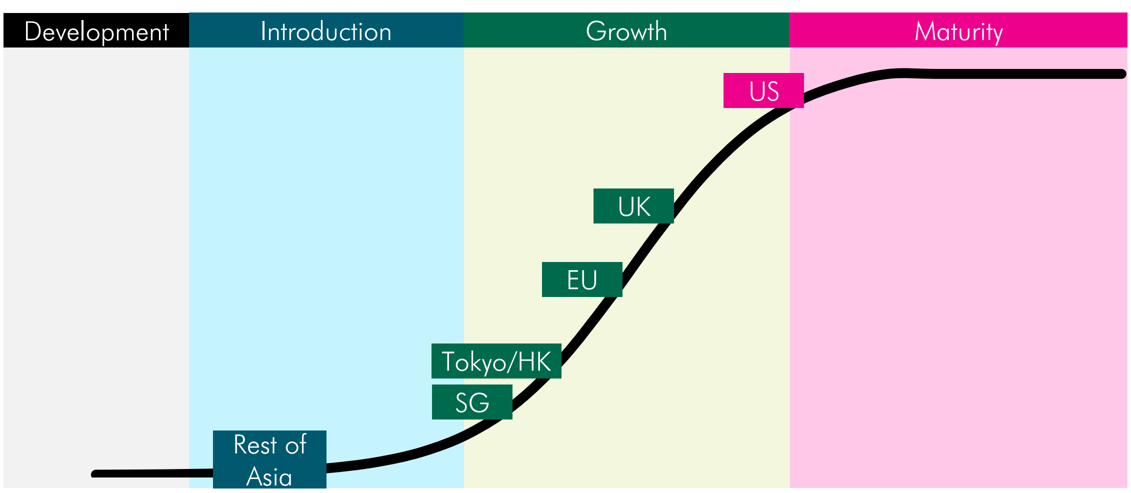
Self-storage is a type of commercial property that allows customers to rent units for the purpose of storage. It is typically leased out to customers on a short-term basis (month-to-month), primarily for domestic use. While mature and developed in the United States, the United Kingdom and Australia, this type of commercial property is relatively new to Asia. Self-storage in Asia has rapidly expanded since first emerging in the early 2000's, fulfilling market demand for more storage space. This Major Report will focus on Tokyo, Hong Kong and Singapore due to their market size, relative maturity and favourable demand drivers.

Market evolution – Asia is 20 years behind the U.S.

The evolution of self-storage, like most products, can be broken into five phases – development, introduction, growth, and maturity. In the US, the most advanced self-storage market, the development phase occurred between the 1950's and 1960's. After an introduction phase in the 1970's, third generation, modern self-storage facilities started to permeate the market and the US self-storage industry subsequently entered into a phase of rapid growth. From 1984 to 2004, self-storage space per capita in the US increased from 1.2 to 5.0. Currently, maturity has set into the US market with growth (as measured by self-storage space per capita) slowing from double digits to 4.6% from 2004 to 2014. As an industry, self-storage has not yet entered the decline phase but certain local markets may be on the decline due to changing demographic or over-capacity.

The evolution of self-storage in Asia is around 20 years behind that of the US. The development phase was drastically shortened due to the operational and business models already having been proven in the US, UK, and Australia. Starting in the 2000's, self-storage in Tokyo, Hong Kong, and Singapore has had a 10-15 year introductory phase. Currently, Asia self-storage is transitioning into the growth phase, and the rapid expansion of self-storage facilities is expected in Tokyo, Hong Kong, and Singapore. As self-storage grows in prominence, investors are increasingly being drawn into this alternative asset class.

Figure 1: Self-storage development cycle



Source: CBRE Estimates, May 2015.

Demand drivers

The four "D's" and business activity

According to Public Storage, the largest self-storage REIT in the US, self-storage demand is driven by disruptive life events called the four "D's" – death, divorce, downsizing and dislocation (job change, marriage, college or natural disaster) – as well as business activity (expansions and contractions). In the international cities of Hong Kong, Singapore and Tokyo, consumer demand from the four "D's" and business demand from office expansions are both healthy and growing.

Figure 2: Self-storage demand drivers

	Self-Storage Demand Drivers
	Death
	Divorce
	Density
	Dislocation
	Business activity

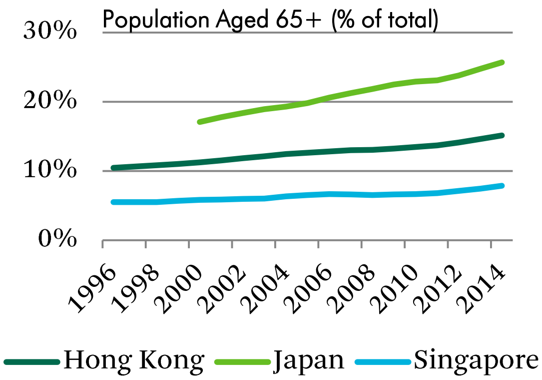
Source: CBRE Research, 2015. Public Storage Annual Report, 2015.

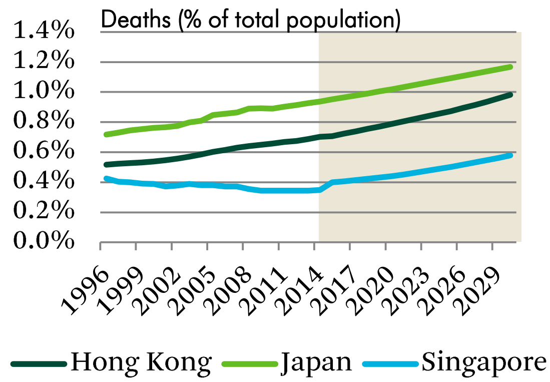
Demand driver - death

In Hong Kong and Tokyo, ageing populations will inevitably result in many deaths in the coming decades. Between 2000 and 2014, the proportion of the population aged 65 and over grew from 11% to 15% in Hong Kong and 17% to 26% in Japan. As people pass on, their belongings must be sorted and catalogued by their relatives. Self-storage is the solution when this event occurs. From 2015 to 2030, the death rate (number of deaths per 1000 persons) is expected to increase from 7.0 to 9.8 in Hong Kong and 9.5 to 11.7 in Japan. Singapore has a younger population demographic but the death rate is still expected to rise from 4.0 to 5.8 from 2015 to 2030, an increase of 45%. The increasing number of deaths in Hong Kong and Tokyo will likely result in greater demand for self-storage.

Demand drivers

Figure 3: Demand driver - death





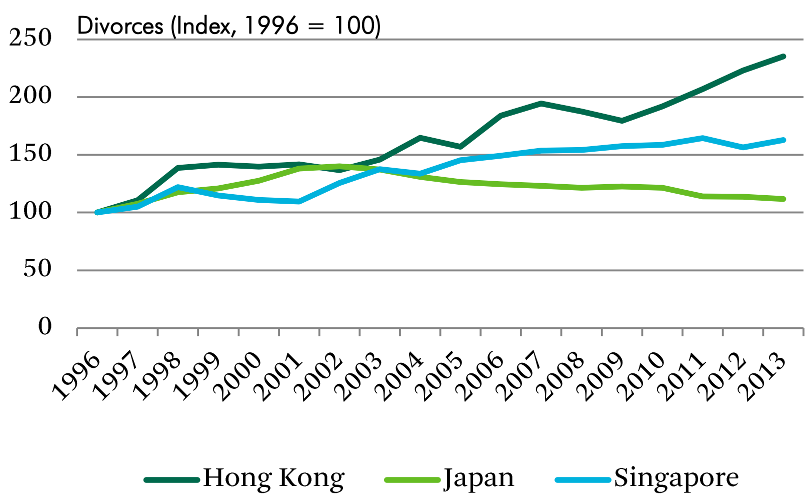
Source: CEIC, 2015.
Hong Kong Census & Statistics Department, Feb 2015.
Japan Statistical Bureau, Jan 2014.
Singapore Department of Statistics, Sep 2014.

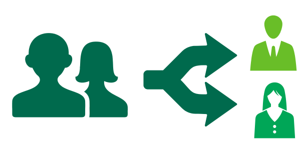
Source: CEIC, 2015.
US Census Bureau, Mar 2014.

Demand driver - divorce

Divorce is a life event that often spurs demand for self-storage. Between 2000 and 2013, the yearly number of divorces increased 68% in Hong Kong and 46% in Singapore. When couples split up, one person often has to move out, creating demand for self-storage. While Japan has shown a decrease in divorces, this statistic is overshadowed by the ageing population trend as there is an even greater decrease in the number of marriages. The growing number of divorces, along with deaths, is creating demand for self-storage.

Figure 4: Demand driver - divorce





Source: CEIC, 2015.
Hong Kong Census & Statistics Department, Nov 2014.
Japan Ministry of Health, Labor and Welfare, Apr 2015.
Singapore Department of Statistics, Apr 2015.

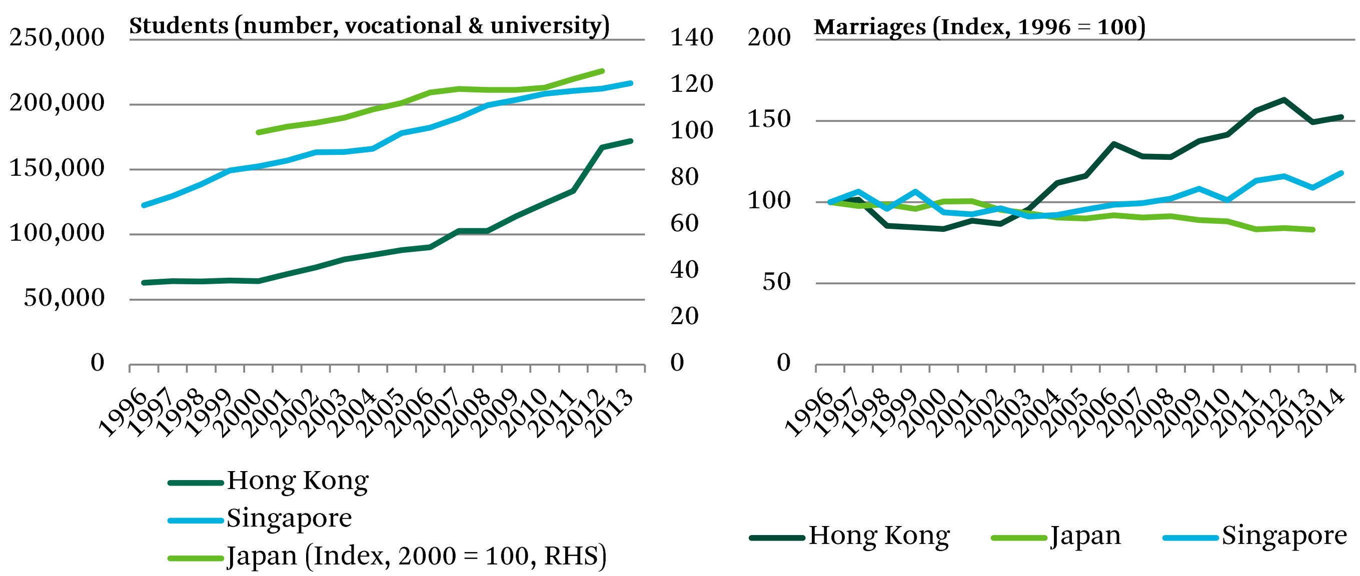
Demand drivers

Demand driver - dislocation

Dislocation, the disruption of one's natural routine or order, usually happens when life events such as marriage, job changes, or entering into matriculation occur. The frequency of these dislocation events is increasing in Hong Kong, Singapore and Tokyo. Marriages are on the rise with the number 79% and 16% higher in 2013 than in 2000 in Hong Kong and Singapore, respectively. Marriage usually involves the merger of two households into one, which creates demand for extra space. Another dislocation factor is student matriculation, which is on the rise as education becomes more accessible and foreign students opt to move to these Asian capital cities for their education. From 2000 to 2013, the number of students in post-secondary and vocational institutions increased by 168% and 42% in Hong Kong and Singapore, respectively.

Tertiary school enrollment also increased by 26% from 2000 to 2012 in Japan. Self-storage can be utilised when students transition between living situations – from living on campus to renting outside the school or when moving during the summer holiday period. Additionally, when students move out of their parents house to start university, the children's room can be turned into additional space, necessitating the need for temporary storage of old childhood keepsakes. Finally, employee turnover rates are typically higher in Asia than in developed western markets. According to a 2012 survey by human resources consulting firm Hays, 63% of employees in Hong Kong, 46% in Singapore and 30% in Japan changed jobs after one to two years. With the young, urban portion of the workforce, mobility is not an issue and changing residences with job changes will often trigger self-storage requirements. In the international economies of Hong Kong, Singapore and Japan, dislocation events are frequent and can be sources of demand for self-storage.

Figure 5: Demand driver - dislocation



Source: CEIC, 2015.
Hong Kong Census & Statistics Department, Nov 2014.
World Bank, Dec 2015.
Singapore Department of Statistics, Mar 2015.

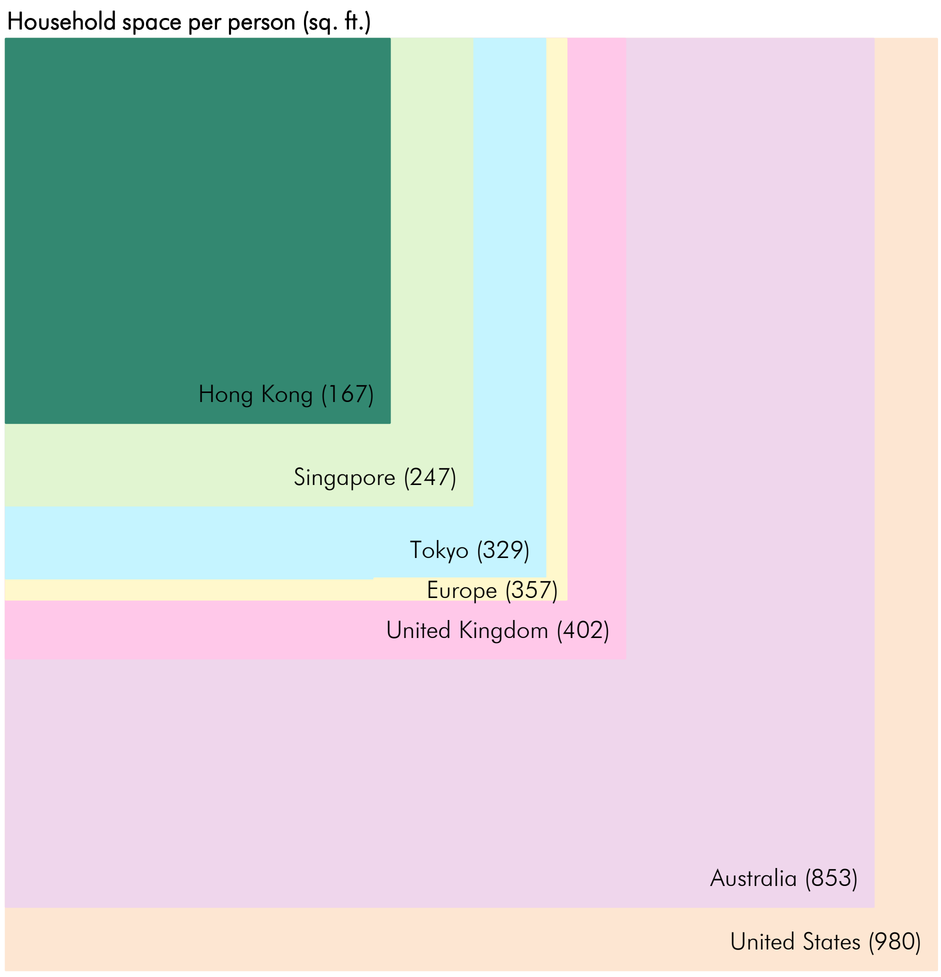
Source: CEIC, 2015.
Hong Kong Census & Statistics Department, Apr 2015.
Japan Ministry of Health, Labour, and Welfare, Apr 2015.
Singapore Department of Statistics, Mar 2015.

Demand drivers

Demand driver - density

The downsizing driver deals with consumers moving from a larger residence to a smaller residence, often when children leave the house. In Asia, this demand driver can better be explained by the density factor as living space is tight, especially in Hong Kong, Tokyo and Singapore. Average household space per person is only 167 sq. ft. in Hong Kong, 247 sq. ft. in Singapore and 329 sq. ft. in Tokyo[1]. Using a standard twin bed size of 20 sq. ft. and 80% efficiency ratio, the bed alone would take up between 8-15% of each person's net household space. When compared to the average household space per person of 980 sq. ft. in the US[1], there is much less personal space available in Asia. In these tightly packed Asian metropolises, there is great potential for demand for self-storage as an extension of a person's house. Seasonal items may be stored and rotated into and out of a self-storage unit as the weather changes. Valuable collector's items can be stored for safe-keeping. Space is a valued commodity in Hong Kong, Tokyo, and Singapore and self-storage is a simple way to expand one's household size.

Figure 6: Demand driver - density



Source: CBRE Research, 2015.
Various country government statistical agencies1.

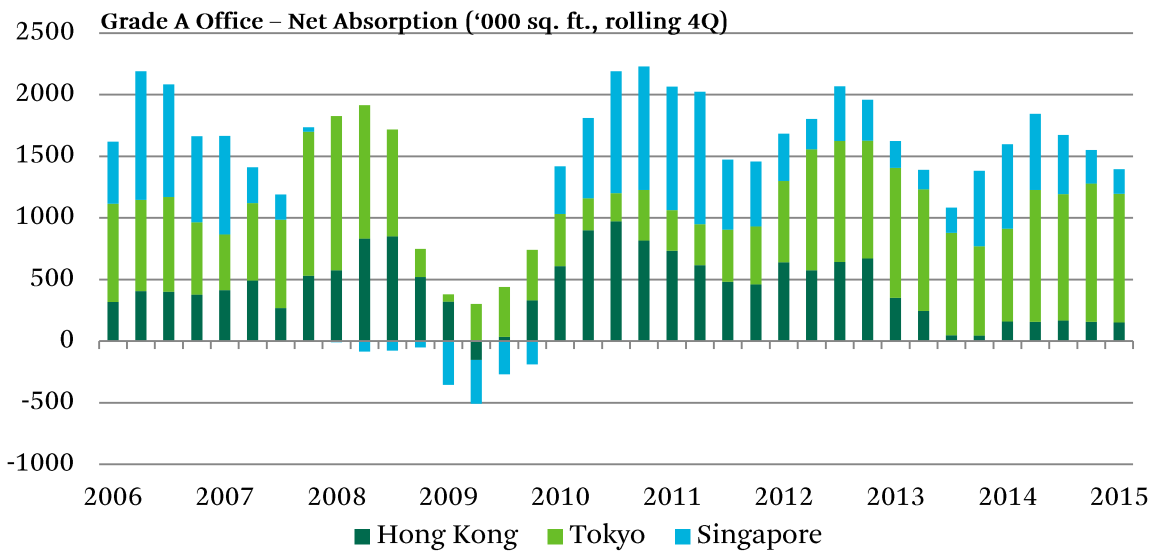
1 Hong Kong Census and Statistics Department, 2015. Statistics Japan, Ministry of Internal Affairs and Communications, 2015. Singapore Department of Statistics, 2015. Demographia, 2013. Japan Property Central, 2014. Eurostat, 2011. Australia Institute of Family Studies, 2011. US Census Bureau, 2014.

Demand drivers

Demand driver – business activity

Besides consumer demand from the four "D's" – death, divorce, downsizing (density) and dislocation - there has also been strong business demand driven by robust office expansion in Asia. Net absorption of office space has been strong from 2005 to 2014, with average yearly net absorption standing at 2.6 million sq. ft. in Tokyo, 1.8 million sq. ft. in Hong Kong and 1.5 million sq. ft. in Singapore. As new businesses are established and offices expand, the need for archival and document storage should increase as well. Notably, all three cities have lengthy seven year record keeping laws for business records. In addition, small businesses, contractors and sales representatives often use self-storage to store inventory. E-commerce is strong in the region with many entrepreneurial individuals using self-storage as both e-retail showrooms and easily accessible inventory storage. The strong office and business expansion in Asia is likely to necessitate corresponding demand for self-storage. Overall, the demographic and economic trends are favourable in Asia for the self-storage business.

Figure 7: Demand driver – business activity



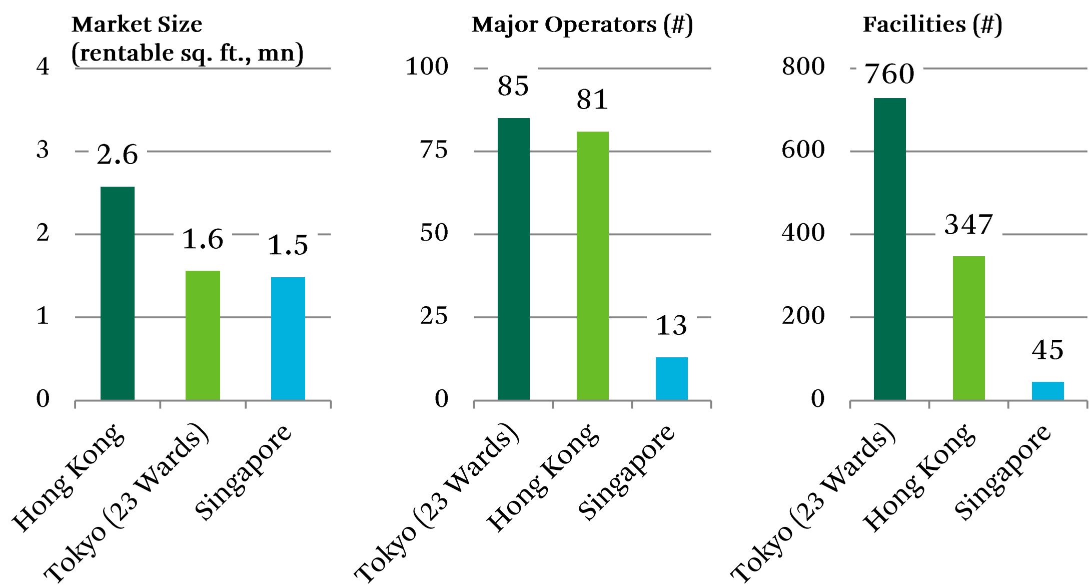
Source: CBRE Research, Q1 2015.

Self-storage supply and the competitive environment

Tokyo and Hong Kong have more competition

Since first emerging 10-15 years ago, the self-storage industry in Asia has expanded both in terms of supply and competition. On the supply side, CBRE estimates that there is stock of 2.6 million sq. ft., 1.6 million sq. ft. and 1.5 million sq. ft. of rentable self-storage space in Hong Kong, Tokyo and Singapore respectively. In order to meet the growing demand for self-storage, market leaders and new entrants have been expanding. Older established players have been seeking M&A opportunities to expand market share more quickly than through organic growth. New entrants, such as niche players focused on Valet storage, are also trying hard to get a foothold. The number of major operators has reached 85 in Tokyo; 81 in Hong Kong; and 13 in Singapore. In terms of competition, Hong Kong and Tokyo have 11.2 and 9.4 operators per million persons while Singapore is under less competition with only 2.4 operators per million persons. Tokyo looks to be undersupplied in the self-storage market with the amount of self-storage per household only a quarter of that in Hong Kong and Singapore. The amount of self-storage supply in Tokyo would need to increase four-fold to equal the per capita supply in Hong Kong and Singapore. With the demographics of death, divorce, density and dislocation favourable for self-storage demand, there should be great room for growth in Japan. Finally, while Singapore has the most self-storage space per household (1.3), the self-storage market generates the most revenue per facility, based on average asking rates. It also has been the most active investment market, with a number of market operators purchasing competitors to increase their size and market share.

Figure 8: Supply statistics



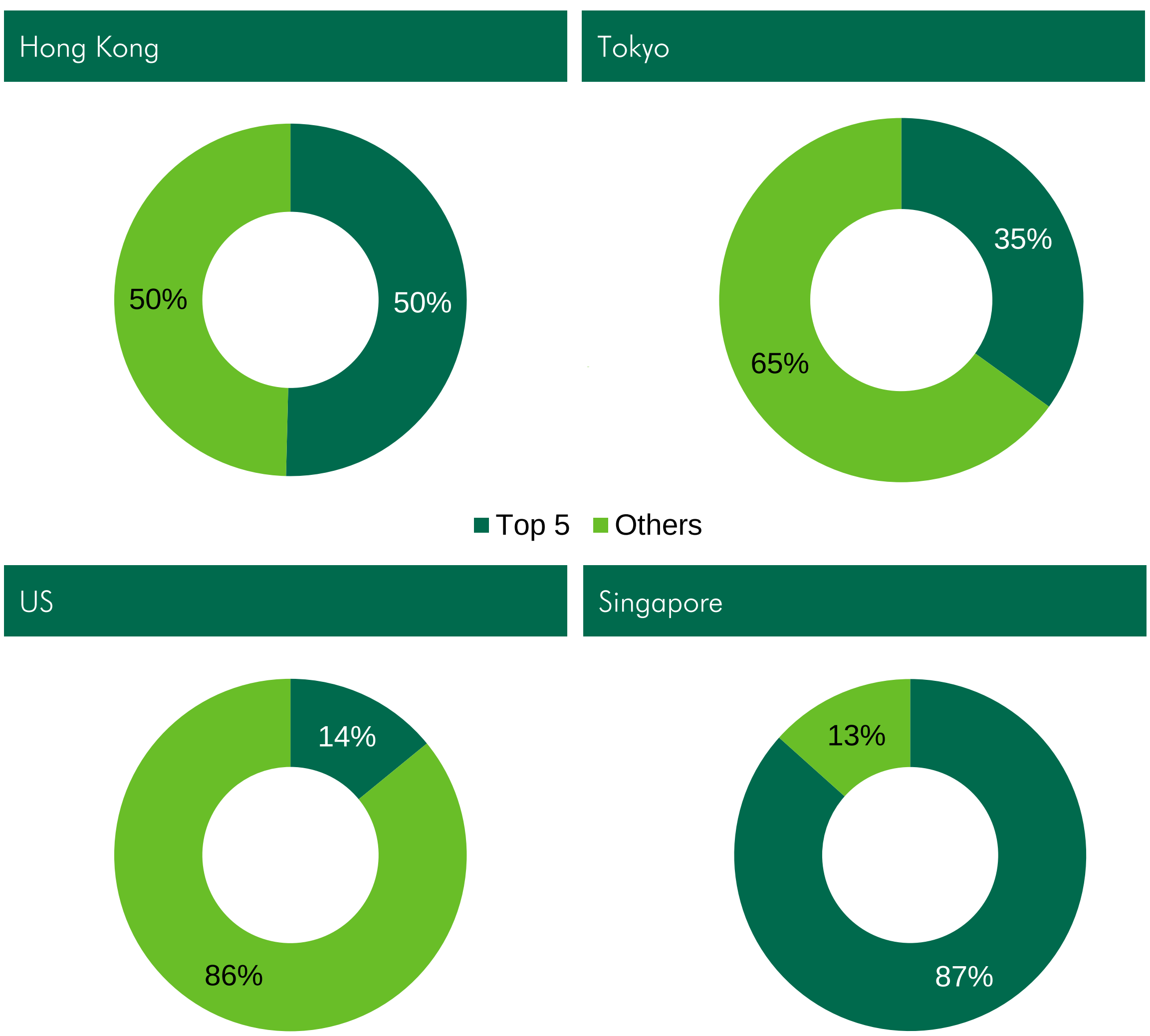
Source: CBRE Research, Q1 2015.
Quraz, 2014.

Self-storage supply and the competitive environment

Concentrated market, open for new entrants

While competition is heating up in Asia, there is still room for growth as market share is still very concentrated when compared to the US. The US self-storage market is highly competitive and fragmented. As of the end of 2014, there is over 2.5 billion sq. ft. of rentable self-storage space in the US, with the top five operators only accounting for 14.1% of the market. There exists both national players, including a developed REIT market, as well as a multitude of single-owned, family-run operations. In contrast, Singapore, Hong Kong, and Tokyo are all less competitive and more concentrated with the top five operators having 87%, 50%, and 35% market share. As self-storage continues to grow, more small players may begin to enter the market to meet the rising demand for self-storage. Larger, more established players will still have the advantage in sharing overhead costs and better brand recognition. However, Asia self-storage is still in it's growth phase and there remains opportunity for growth from both big and small players.

Figure 9: Self-storage market share (rentable sq. ft.)



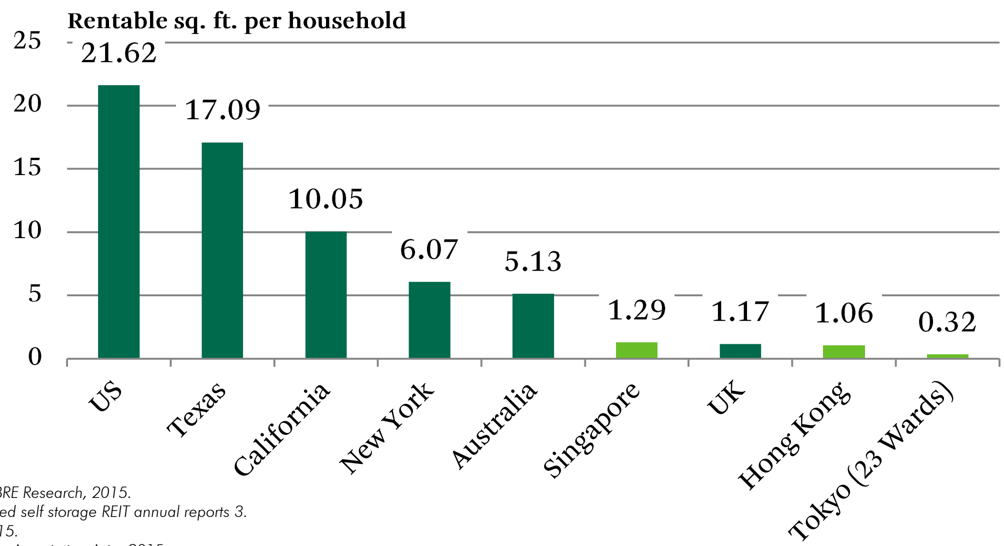
Source: CBRE Estimates, Q1 2015.
Company annual reports, 2014.
Quraz, 2014.

Market Potential

Huge shortfall to match US self-storage saturation

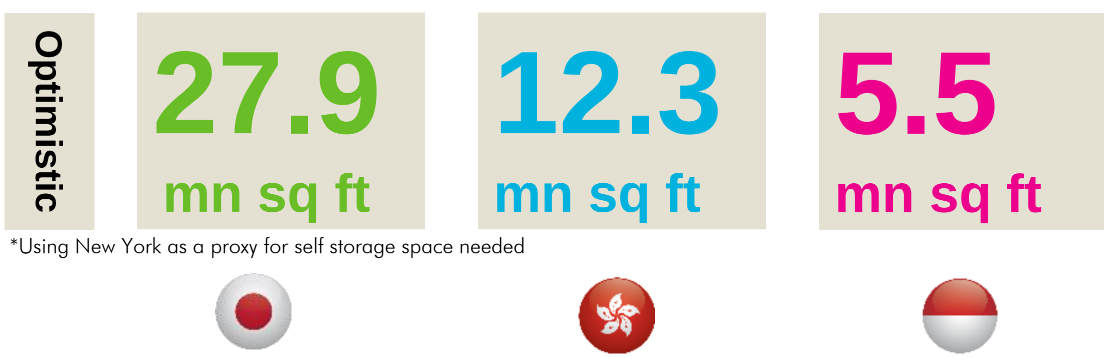
While the major cities of Hong Kong, Singapore and Tokyo have differing supply dynamics, all three have a shortfall in self-storage space. Under three different scenarios, there is potential for growth. Self-storage per household is a common metric to measure the saturation of the market. When comparing Asia self-storage per household (1.3 in Singapore; 1.1 in Hong Kong; and 0.32 in Tokyo) with more developed markets, there is an apparent shortage of self-storage space. Using New York State (6.1 sq. ft. per household) as a basis point in terms of self-storage space required, there is a potential shortfall of 27.9 million sq. ft. in Tokyo; 12.1 million sq. ft. in Hong Kong; and 5.5 million sq. ft. in Singapore[2]. However, given the scarcity of available properties to convert and the lower awareness of self-storage in Asia, the expansion of self-storage to this level will be challenging in the short-term.

Figure 10: Self-storage space per household (rentable sq. ft.)



Source: CBRE Research, 2015.
Various listed self storage REIT annual reports 3.
Quraz, 2015.
Self Storage Association Asia, 2015.

Figure 11a: Potential additional* self-storage space needed (rentable sq. ft.)



*Using New York as a proxy for self storage space needed

Source: CBRE, 2015
Oxford Economics,, Mar 2015
Self Storage Association, 2015.

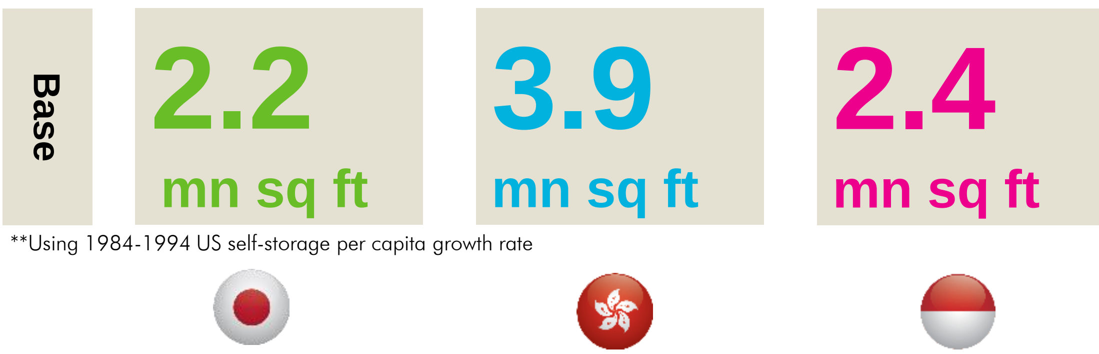
*2 Assuming Asia self-storage reaches saturation levels of New York. [(New York saturation – current Asia saturation) * Asia population]*
3 Public Storage, 2013. CubeSmart, 2014. UncleBob's, 2015

Market Potential

Shortage of 2.2 to 3.9 million sq. ft. of self-storage space

In another more conservative scenario, the growth potential can be benchmarked against the historical US growth rate between 1984 and 1994, when the modern self-storage market in the US started transitioning into its growth phase. During this ten-year period, self-storage per capita increased at a rate of 2.4. When applied to developed Asian markets, which are currently transitioning into their growth phase, 3.9, 2.4, and 2.2 million sq. ft. of self-storage space are forecasted to be required over the next decade.

Figure 11b: Potential additional** self-storage space needed (rentable sq. ft.)



Source: CBRE, 2015
Oxford Economics,, Mar 2015
Self Storage Association, 2015.

In the pessimistic scenario of full saturation of self-storage in Asia, there is still room for expansion due to population growth. Over the next decade, in order to maintain the same self-storage saturation, there will be a need for 203,000 sq. ft. of rentable self-storage space in Hong Kong; 170,000 sq. ft. in Singapore; and 14,000 sq. ft. in Tokyo due to population increases. However, demand for self-storage is likely to be higher as the consumer – death, divorce, density, and dislocation – and business dynamics are favourable in Asia, which should lend support to the continued growth of self-storage in the region. In all three scenarios – self-storage per household benchmarking, growth rate benchmarking, and population growth forecasting – there exists a need for more self-storage.

Figure 11c: Potential additional*** self-storage space needed (rentable sq. ft.)

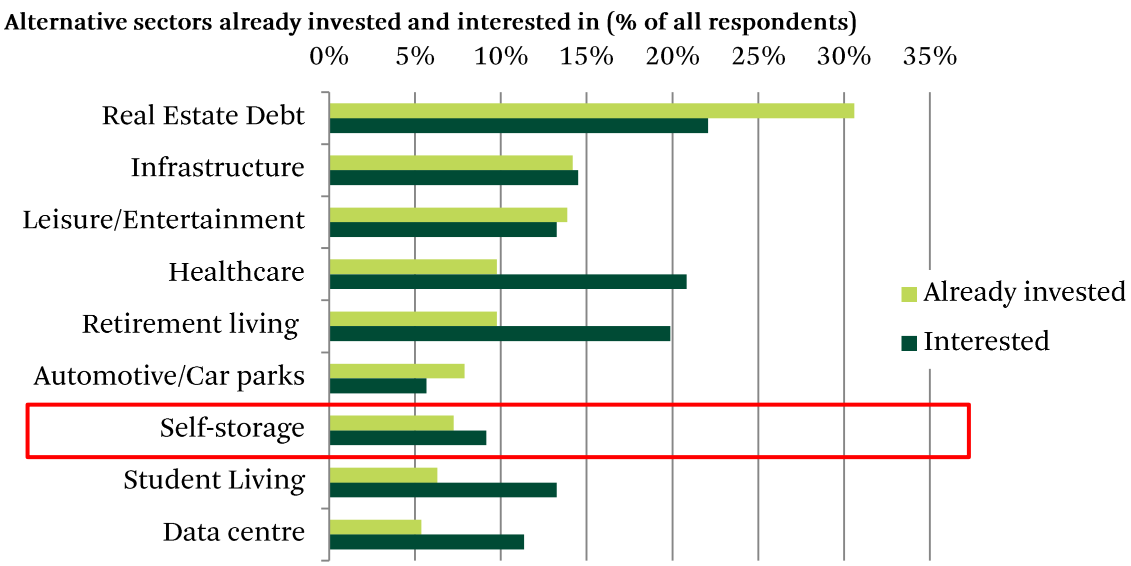
Source: CBRE, 2015
Oxford Economics,, Mar 2015
Self Storage Association, 2015.

Growing investor interest

16% of APAC investors have or are interested in self-storage

Investor interest in this alternative sector has picked up in recent years. In the latest CBRE Asia Pacific Investor Intentions Survey conducted in January 2015, 7% of investors surveyed had already invested in self-storage, with an additional 9% interested in the sector. The improving sentiment towards this sector is reflected by the multiple self-storage investment deals over the last two years. For example, StorHub, a Singaporean self-storage operator wholly owned by CapitaLand, purchased Big Orange, a local competitor in July 2013 for SGD 91.8 million. The consolidation deal allowed StorHub to double in size and become the largest operator in Singapore. The intensifying competition is likely to bring about more buyouts as operators seek to build out their storage networks.

Figure 12: Most preferred alternative investment sector



Source: CBRE Asia Pacific Investor Intentions Survey 2015.

Interest from global real estate funds is also growing. In Japan, Evergreen Real Estate Partners, a global real estate investment firm, acquired Quraz, the largest self-storage operator in Japan, in September 2013. As part of the acquisition, Evergreen was able to secure a JPY 20 billion loan to develop Quraz's self-storage business in Japan. More recently, in 2015, Blackstone acquired Mini Co in Hong Kong for approximately HKD 420 million, marking the second case of an institutional investor acquiring a self-storage company in Asia. Outsider investment into the self-storage business is a positive indicator for this emerging asset class. Furthermore, operators are beginning to move across country borders in order to establish a regional storage network. One such example saw Lock+Store, a Singaporean self-storage company and subsidiary of Singapore Post, purchase The Store House in Hong Kong. The cross-country branch locations are helpful for international companies which need a trusted storage partner in multiple countries. As the Asia Pacific self-storage market develops, there is an opportunity for the emergence of a pan-Asia self-storage operator.

Growing investor interest

Operators and investors are seeking established facilities

Figure 13: Recent major self-storage investment deals

CapitaLand purchases Big Orange	
Country	Singapore
Buyer	StorHub (CapitaLand)
Buyer Type	Property Company
Price	SGD 91.8 million
Date	July 2013

Evergreen purchases Quraz	
Country	Japan
Buyer	Evergreen Real Estate Partners LLC
Buyer Type	Real estate investment company
Loan size	JPY 20 billion
Date	September 2013

SingPost purchases Storehouse	
Country	Hong Kong
Buyer	General Storage Company Pte (Singapore Post)
Buyer Type	Self storage operator
Price	SGD 12.12 million
Date	July 2014

Blackstone purchases MiniCo	
Country	Hong Kong
Buyer	Blackstone
Buyer Type	Real estate investment company
Price	HKD 420 million (approximate)
Date	March 2015

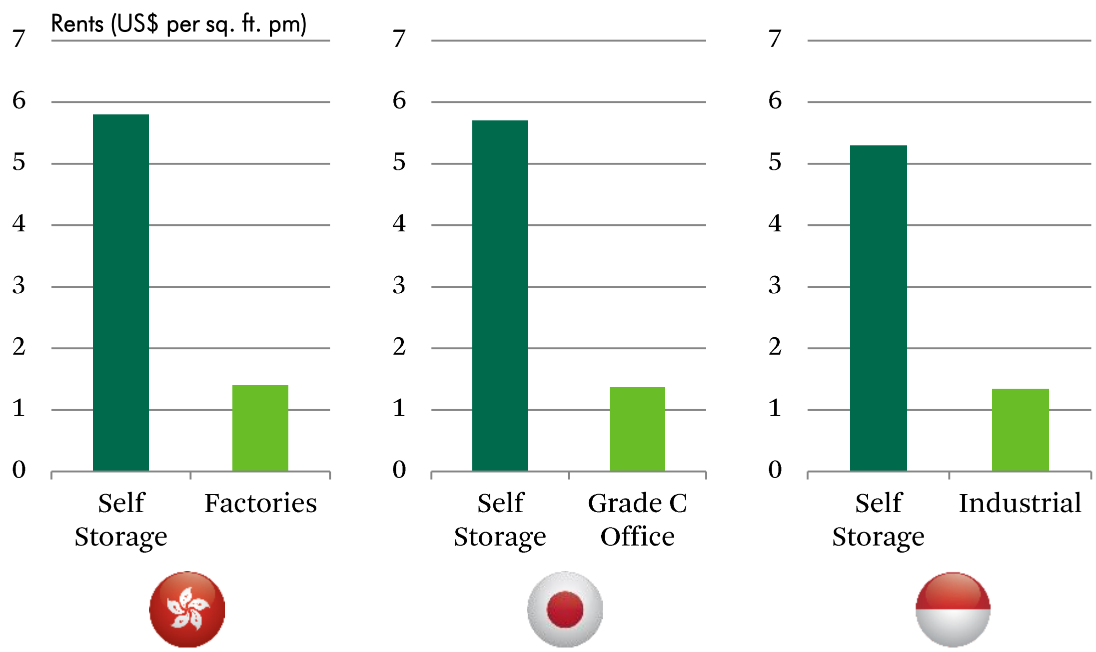
Source: CBRE Research, 2015.

Conversion of properties into self-storage

Healthy rental uplift from self-storage conversion

Given the market potential for self-storage in Asia, increasing self-storage supply is a topic of interest. In Hong Kong, Singapore and Tokyo, greenfield sites are scarce and usually unsuitable for self-storage locations due to their pricing, size or location. However, the conversion of commercial buildings into self-storage facilities is more appealing due to their location and rental uplift. With the ease of access being one of the most important factors in self-storage sites, commercial buildings located near residential and business clusters are highly sought after. In Hong Kong and Singapore, old industrial buildings are typically converted to self-storage. In Japan, underutilised grade C offices are often transformed. As old manufacturing clusters are gentrified in Hong Kong and Singapore, old light industrial buildings have been converted to self-storage facilities. In Tokyo, which is geographically more spread out, lower quality office buildings located closer to residential areas have been utilised for conversion.

Figure 14: Self Storage rates vs other asset classes



Source: CBRE Research, Q1 2015.

Source: Quraz, 2015

Source: CBRE Research, Q1 2015.

Besides the attractive location, there are also favourable margins for converting old commercial buildings into self-storage facilities. Average self-storage asking rents are US$ 5.8, US$ 5.7 and US$ 5.3 per sq. ft. per month in Hong Kong, Tokyo and Singapore, respectively. These rental rates for self-storage space are between 3.9 and 4.2 times greater than the rents of the underlying property.

Conversion of properties into self-storage

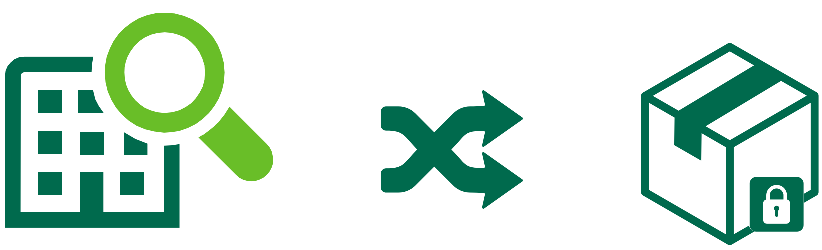
Double digit returns from self-storage investment

There is a solid case for self-storage conversion due to the rental uplift. For sub-leasing properties over a ten-year timeframe, the internal rate of return (IRR) is 30% for Singapore, 26% for Tokyo and 23% for Hong Kong. The key assumptions include a 90% stabilised occupancy rate (with a four-year stabilisation period after a one-year construction period); 4-5% self-storage rental growth per year; 100% equity; 55-70% space efficiency rate; and 10-15% underlying rental increase for the leased property. However, given the shorter lease terms in Asia, it is often difficult to secure a location for more than one lease term, which is typically three years.

Purchasing the underlying property will offer more stability and enable the operator to build a long-term presence in strategic locations. Using similar assumptions (but with a 30% LTV ratio instead of 100% equity), the IRR is not as favourable as sub-leasing, owing to the large upfront costs. With a constant yield assumption, the IRR still ranges between 15-17% in Hong Kong, Singapore, and Japan. When the exit yield is doubled, the IRR values vary between 10-12%, showing the strength of the self-storage rental margins. The emphasis on accessibility and lack of greenfield sites has made the conversion of old commercial buildings the primary driver behind the increase in self-storage stock in Hong Kong, Tokyo and Singapore.

Figure 15: Potential investment returns from self-storage conversions

City	IRR Sub-leasing≠	IRR Buying
Hong Kong	23.0%	15.2%
Tokyo	26.0%	17.4%
Singapore	30.4%	15.0%



Source: CBRE Estimates, 2015.
Assumptions: 90% of average asking rental revenue, 90% stabilized occupancy, 10 year investment period, 4-5% rental growth/year, 4 years to stabilize occupancy, 30% LTV, 55-70% efficiency.
≠Assuming one can lease the same unit over the 10 year period (with 10-15% underlying rental increase per lease-term) & 100% equity.

4 Sub-leasing refers to the self-storage operator not owning the underlying property and instead leases the premises for self-storage operations.

Risks

Key risks: Awareness, availability and short lease terms

Demographic change and business activity point to significant opportunities for the growth of the self-storage industry in Asia. However, there are three key risks – the overall lack of awareness of self-storage; the scarcity of suitably located properties; and the short lease terms and land tenure in Asia. According to the IPSOS self-storage survey, only 23% of respondents aged 18-49 in Hong Kong, 15% in Singapore and 2% in Japan are currently using or have used self-storage services within the past year. Given the relatively short history of self-storage in Asia, more marketing, education and time is needed to develop the customer base for self-storage. This low awareness rate from both a consumer and landlord perspective must be mitigated before self-storage penetration can reach levels seen in developed markets.

The location of self-storage units is of great importance to its success. This is especially true in Asian cities where convenience is paramount. In order to be thought of as an extension of one's house, self-storage units should be located close to major residential clusters or transportation hubs. The amount of suitable properties for self-storage conversion may be limited in Hong Kong and Singapore due to high costs and competition with office or residential conversions. The lack of supply of underlying properties may constrain the growth of self-storage despite positive demand characteristics.

Lease and land tenure is the third key risk for self-storage in Asia. While leasing the underlying property for self-storage offers a quicker and cheaper expansion route, lease terms are typically shorter in Asia, especially in Hong Kong where the norm is two to three years. This may prove challenging for operators which opt to lease properties for a self-storage business as the stabilisation period of many new self-storage facilities is at least one year. In Japan, this is less of a problem as tenants have stronger rights to continued occupancy. For operators who own their properties, the long-term stability is not as secure as in the US as most land in Asia is under leasehold status. In Singapore, for example, the land tenure of new government sites may be shortened to 30 to 20 years. With the long-term stability of land and property less secure in Asia, financing may be costlier and may dampen the growth potential of self-storage.

New opportunities

Self-storage primed to spread to other Asian cities

Figure 16: Future destinations for self-storage

Shanghai Beijing Shenzhen	Taipei	Manila	Bangkok	Kuala Lumpur

Driver	Ageing Population (death)	Divorce	Urbanisation (density)	Marriage (dislocation)	Students (dislocation)	Office Expansion
Shanghai	■■	■	■■■	■	■■	■■■
Beijing	■■	■	■■■	■	■■	■
Shenzhen	■■	■	■■■	■	■■	■■■
Taipei	■■■	■	■■■	■	■■	■■
Manila			■	■		■■
Bangkok			■	■	■	■
Kuala Lumpur			■■	■	■	■

Source: CBRE, 2015.

■■■ Strength of demand driver

Outlook for 2015

Strong demand, more expansion and rising investment

The next destinations for self-storage will be China (Shenzhen, Shanghai, and Beijing) and the capital cities of Taiwan (Taipei), Malaysia (Kuala Lumpur), the Philippines (Manila) and Thailand (Bangkok). These cities are experiencing similar demand drivers – tighter living spaces due to urbanisation; strong job growth and other dislocation events; and a growing office market – as more developed Asian cities.

China is the most talked about developing market but locating and securing the right type of property is more difficult as industrial zones are located far outside the major population centres. The most likely entry method would be the conversion of older office buildings, similar to the process in Japan. Taiwan has a similar living situation, demographic and income level as Hong Kong, Singapore and Tokyo, which should warrant further investigation. Finally, while the emerging markets of Malaysia, Philippines and Bangkok have comparatively younger populations, meaning that the death demand driver is not so significant, urbanisation (tighter living conditions), strong job growth (dislocation) and healthy office expansion will provide an adequate base for self-storage demand in the coming years.

The outlook for the self-storage market is positive in Hong Kong, Singapore and Tokyo, as the trends of death, divorce, density and dislocation as well as robust office expansion support growth. Because of the low saturation, as measured by self-storage per household, the self-storage market is set for expansion in these markets. Investment interest is picking up in this nascent sector but the first pan-Asia self-storage operator has yet to emerge. In the long term, continued consolidation by market leaders will help attract more outside capital into this alternative asset class. REIT formation is the next logical progression given the tax benefits, access to capital and increased visibility that REIT formation provides. Multiple self-storage REITs in the larger markets of the US, UK and Australia have proven the viability of this concept and the first Asia self-storage REIT is likely to be launched within the next decade.

For more information about this regional major report, please contact:

RESEARCH

Henry Chin, Ph.D
Head of Research, Asia Pacific
+852 2820 8160
henry.chin@cbre.com.hk

Jonathan Hsu
Head of Occupier Markets Research, Asia Pacific
+852 2820 2957
jonathan.hsu@cbre.com.hk

Jason Fong
Senior Analyst, Asia Pacific
+852 2820 2867
jason.fong@cbre.com.hk

BROKERAGE

Darren Benson
Executive Director, Industrial & Logistics, Brokerage Services, Asia
+852 2989 5173
darren.benson@cbre.com.hk

For more information regarding global research and activity, please contact:

Nick Axford, Ph.D.
Global Head of Research
+44 20 7182 2876
nick.axford@cbre.com

Richard Barkham, Ph.D., MRICS
Global Chief Economist
+44 20 7182 2665
richard.barkham@cbre.com

Spencer Levy
Head of Research, Americas
+1 410 951 8443
spencer.levy@cbre.com

Henry Chin, Ph.D
Head of Research, Asia Pacific
+852 2820 8160
henry.chin@cbre.com.hk

Neil Blake, Ph.D.
Head of Research, EMEA
+44 20 7182 2133
neil.blake@cbre.com
Follow Neil on Twitter: @neilblake123

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