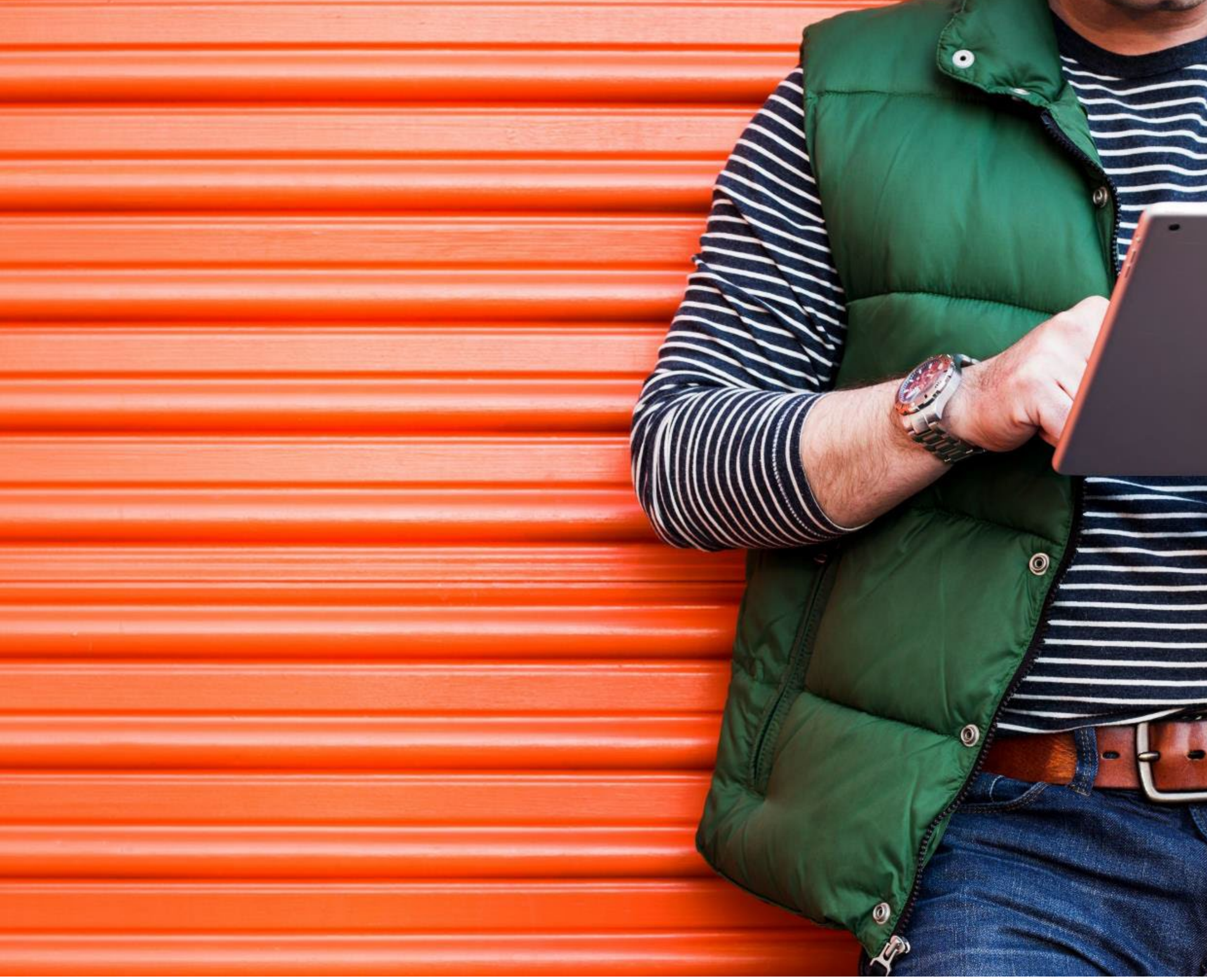

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# SELF STORAGE MARKET ASIA PACIFIC:
## The SSAA Annual Survey for 2022


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# Foreword

## Self storage is at an inflection point - in the best sort of way

2020 was the year when the Asian industry held its breath. In 2021 it exhaled - and started running. The promise of a 'recession-proof' industry was proven and global media regaled business readers with tales of self storage outperforming every traditional and alternative real estate asset class.

Across Asia, operator members of all sizes expanded their operations. Smaller operators in Hong Kong grew single location businesses, doubling their floor space. Indian firms made plans for second, third and fourth locations. One operator in Vietnam had a hugely successful turn on their national version of the global TV sensation, Shark Tank, with judges showering the valet and self storage concept with praise and making opening offers on the show! Operators from Jordan to Japan asked for new contacts among our supplier members as they renovated old facilities and planned new ones.

One of the themes of the year was maturation. Our Investors and Supplier members are a big part of this story. Big money is making a big impact in some markets. Technology that is widespread in the USA and European markets came to Asia this year as operators levelled up in 2021.

On the technology front, AI for dynamic pricing came to Asia (starting in Japan). Space calculators are being tested by market leaders looking for an edge. Energy saving technology used in German self storage is now available through the SSAA membership. Apps are all the rage and Asian based companies are providing it for valet AND self storage operations. Solar energy panels on rooftops are spreading from Dubai to Singapore. Biometric electronic locks are about to make their debut in Asia, perhaps becoming the industry norm for high-end self storage operations. For many tech suppliers, Japan was their entry point. The rest of Asia will follow.

Global investors are acquiring operations with an aim to capture the returns offered by self storage. Heavyweights like Warburg Pincus, Mitsuuroko, Heitman, Gaw Capital, and Blackstone and more are making moves in Asia. En bloc buildings are being acquired in markets where it was previously thought impossible due to the high cost of real estate. This also enables the introduction of new concepts (like co-working) and new technologies (like facial recognition security and robotic lockers). REITs, common in the rest of the world to hold self storage assets, have so far eluded the Asian market, but should start arriving with force in the next 3-5 years as investors seek exits and open up investment in the market to a massive new investor fan base.

**To our Members:** Your survey submissions reflect this maturation. Your top challenges are related to expansion - acquiring new land and regulatory restrictions. You have plans to grow, grow and grow some more. A record number of you completed the survey ex-Japan, making for the best data sample yet.

Surveys from Japan experienced a revolution as our partner, JLL encouraged, their Tokyo office to translate the survey for that audience. The RSA, our vital partner in Japan, distributed the survey to members who dutifully completed it and returned the survey on time and en masse.

We can't thank both JLL and RSA enough for making this happen. China still proves challenging to collect data, but we aim to improve this survey every year and JLL is a committed partner to make this happen. Their lead on the project, Park Sung-min, has been a doggedly diligent project manager and insightful analyst. We appreciate his efforts with the whole JLL team to make this happen.

The year has had challenges and members in a couple of countries suffered lengthy strict lockdowns that hampered growth. But overall, occupancy has held and self storage has been a global winner. We still think Asia has huge amounts of potential to be unlocked as our industry matures. The beginning of the decade started strong for self storage. We look forward to the rest of the world becoming more 'normal' in 2023 - with self storage leading the charge. Excelsior!

Helen Ng
Chair, SSAA

Andrew Work
Executive Director, SSAA

“

I broke into that forbidden **BOX** for inspiration and came up with Red Submarine. But Ringo insisted it should be Yellow.

Paul McCartney
(RedBox user)

RED BOX STORAGE 紅盒迷你倉

# Table of Contents

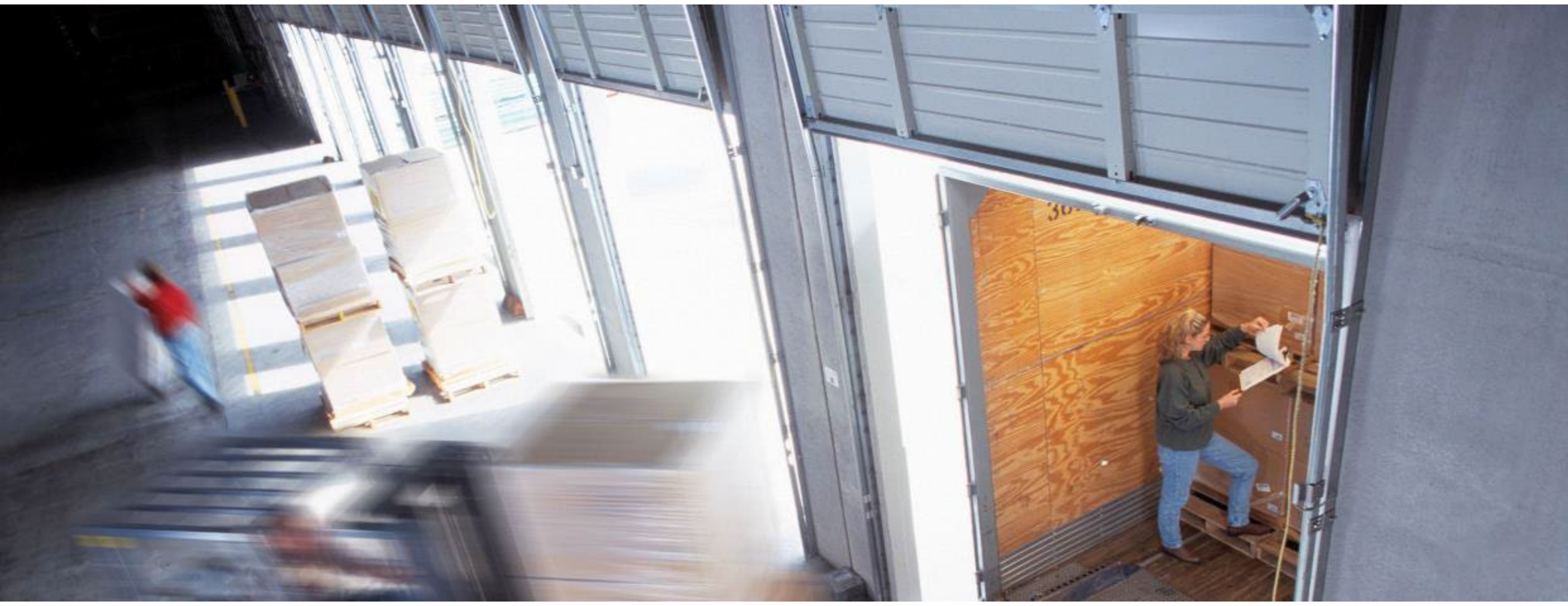
# Introduction

## SELF STORAGE MARKET ASIA PACIFIC: The SSAA Annual Survey for 2022

In this report, we highlight the major findings of the eighth annual survey conducted by the Self Storage Association Asia (SSAA). The survey is filled out by SSAA's member companies across the region. The insider data contributed is collated, anonymised and analysed to provide a snapshot of where the industry stands at the end of 2022 and how operators see their future prospects. The survey release is an annual highlight of the industry for operators, suppliers and investors alike, the best source of data in a region with no listed companies presenting published results.

Through the latest survey, Asian operators around the region have projected strong confidence and optimism about the self storage growth trajectory. Many highlighted that once economic activities were normalized to a pre-pandemic level, they have embraced a great deal of pent-up demand from both individual and business segments. As a result, in their surveys, many indicated record levels of occupancies as well as one of the strongest annual rental performances. The future of Asia self storage business remains even brighter. APAC's strong economic outlook, coupled with its rapid urbanisation across the region, is likely to further spark the need for third party storage facilities.

Some challenges are looming though. Global central banks are raising interest rates to levels not seen in the last 40 years. Many economists reckon the combined impact of rampant inflation pressure and hawkish monetary policy would tip the global economy into recession around the middle part of the next year - although many think this upcoming economic depression is expected to be a short and shallow one. Aided by structural tailwinds and ever increasing awareness among both consumers and businesses, demand will continue to grow in the coming year regardless of the level of economic activities. This growth trajectory will continue to set this niche sector apart from other sectors within the Asian commercial real estate market.

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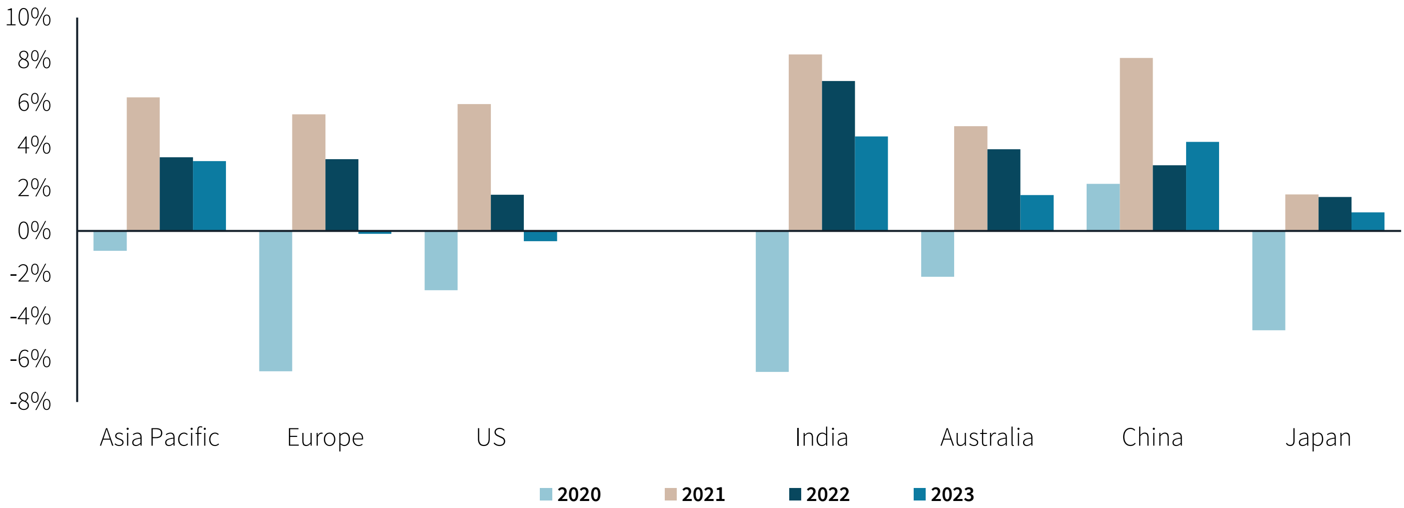
# Macro Overview

## GDP growth for Asia Pacific to be muted, but outperforming other regions

Following sluggish economic performance in 2022, global economic growth in 2023 is forecast to be muted amid strong macroeconomic headwinds and growing geopolitical risks. While Europe and the US may enter a mild recession in the near future, Asia Pacific is deemed to be more resilient as re-openings in the region and the release of pent-up demand would help spur recovery, while still recognising downside risks. As global central banks are adopting monetary tightening and hiking interest rates to combat soaring inflation, external demand could soften and investment volumes remain low. The economic growth in Asia Pacific will hinge on the pace of re-opening of major economies in the region, especially China, and the impact of government policies on tackling the inflation-induced cost of living crisis.

**Figure 1:** Real GDP y-o-y % change in local currency




**Source:** Oxford Economics, 4Q22

## Geopolitical tensions add to existing economic imbalances

Besides macroeconomic headwinds, geopolitical tensions are also affecting the trajectory of post-pandemic economic recovery. As the Russia-Ukraine War is still in play at the time of publication, existing economic imbalances are amplified by the volatile situation. However, the main impact of the war is on Europe and it is not creating new strains on the rest of the world, particularly Asia Pacific.

During the pandemic, restrictions on movements and global migration have created a massive shortage of skilled labour in the workforce, driving up wages across the board. The labour shortage issue in Central and Eastern Europe is exacerbated by the war, while refugee inflows in other geographies boost the labour force. In addition, employees are now adapting to and taking advantage of new employment trends, such as shorter and more flexible shifts for manufacturing, logistics and transport.

The war has also increased transport costs and affected supply chain routes as those from Russia and Ukraine are shut off, increasing capacity demand on other routes. Material cost inflation has also been intensified by the war. The higher oil and gas prices increase energy costs, while food and commodity prices are also driven up due to acute shortage, resulting in a cost of living crisis for many. The impact is greater in Europe than elsewhere in the world due to reliance on Russian imports, but Asia Pacific is not immune to the shock.

The uncertainty of the war weighs on investor sentiment in Europe. For investors outside Europe, the war represents a material risk in investing in every European country. Within Europe, investment and location preferences have been revisited and some investors opt to move from Central and Eastern Europe to Western or Southern Europe. The growth outlook in Europe is significantly dragged down by the war, whereas that for the rest of the world is largely unaffected.

Real estate investors have become more reluctant to invest in Europe following the outbreak of the war, leading to diversion of capital to other regions, including Asia Pacific. However, the increased geopolitical uncertainty is adversely impacting investment decision making, with capital deployments postponed, redirected or cancelled, phase of price discovery prolonged and deal closing time elongated.

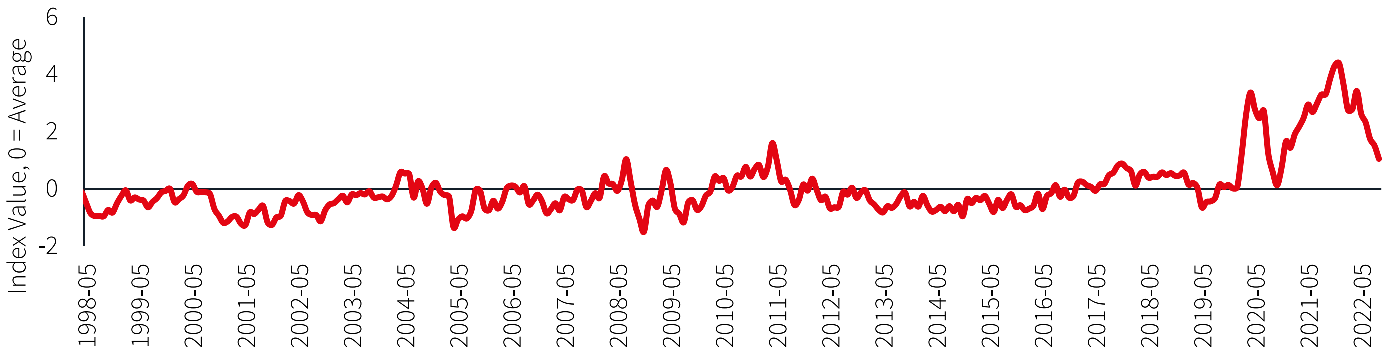
## Supply chain pressure remains exceptionally elevated

As China continues its zero-Covid strategy, the supply chain in Asia Pacific remains highly disrupted due to intermittent Covid-related lockdowns across the country, which involve closing factories and ports. Supply chain disruption is fuelling inflation in the region. While new shipping capacity is expected to come to the market over the next two years, easing disruption and bringing shipping costs down, the risks to inflation forecasts still lie to the upside. If supply chain disruption does not ease in the short term, inflation will remain higher for longer and GDP growth will be further impaired.

As the post-pandemic recovery in real estate development begins to take shape, demand for construction inputs is rising, but the global supply chain is still playing catch-up and commodity prices remain elevated, causing huge inflationary pressures on crucial building materials. Supply chain disruption is therefore affecting construction and refurbishment, causing increasing cases of project delays and cost overruns.

**Figure 2:** Global supply chain pressure index




**Source:** New York Federal Reserve; Global Supply Chain Pressure Index, 4Q22

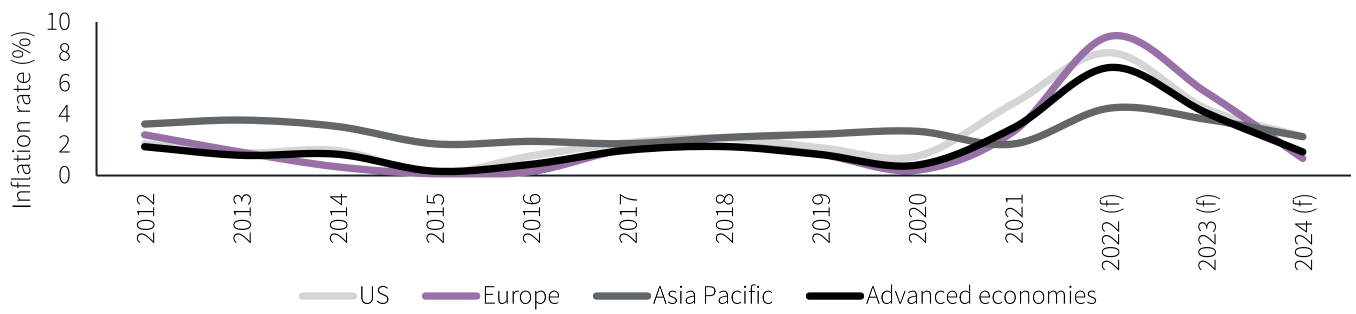
## Inflation has peaked and expected to return to target levels within 12-24 months

The global economy is facing its first inflationary crisis in decades. Inflation has seen a sharp and persistent increase due to fiscal stimuli to combat the pandemic, increased demand for goods, labour shortages, supply chain disruption and the shocks of the Russia-Ukraine War. Hyperinflation increases the cost of living for consumers and operating for businesses across the board. Producers' ability to pass on the higher costs to consumers depends on industry, competition and regulation factors.

Businesses may face bankruptcy if they cannot pass the soaring costs on to consumers.

While inflation has not been a consideration in developed economies since at least the turn of the millennium, it is now a material concern and there is limited experience in the market of how to incorporate it into lease and investment decisions. However, there are early signs that inflation has peaked and expected to return to central banks' target levels within 12-24 months, with limited upside risks remaining.

**Figure 3:** Inflation rates



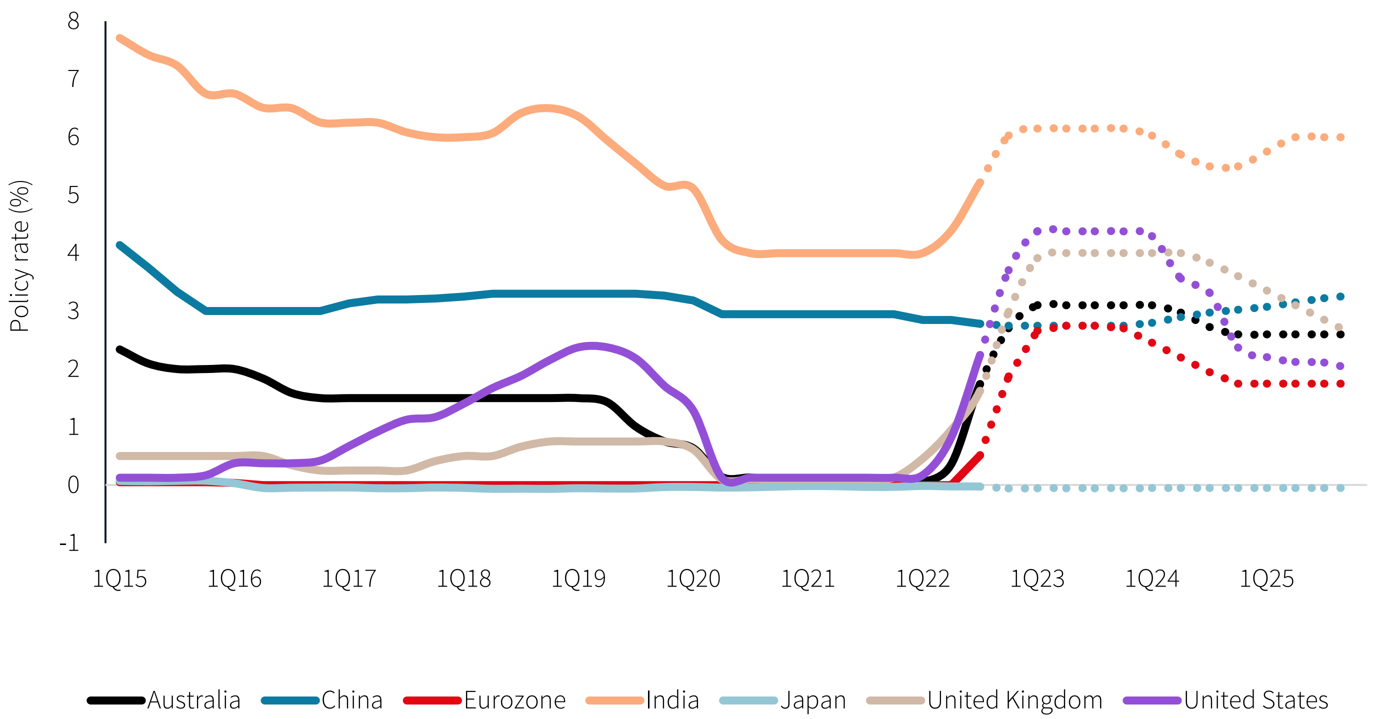

**Source:** Oxford Economics, 4Q22

## Quantitative tightening raidses cost of debt and funding

In an attempt to combat rising inflation, global central banks hike interest rates and adopt quantitative tightening policies. Policy rates are forecast to rise further and peak by mid-2023 at the earliest, increasing the cost of debt and funding for investors. In a time of uncertainty and risk aversion, capital is being diverted to assets with lower risks since decent returns can now be achieved on previously low-yielding assets, such as government debt.

**Figure 4:** Central bank policy rates




**Source:** Oxford Economics, 4Q22

## Currency depreciation against USD

The timely quantitative tightening by the US Fed leads to higher interest rate differentials between the US and other countries and the appreciation of USD against major currencies of advanced economies. There are also idiosyncratic risks for some of the currencies, for instance the Russia-Ukraine War has put the euro and other European currencies under pressure. The strong USD makes European and Asian assets cheaper for foreign investors, which may entice more new entrants to the market.

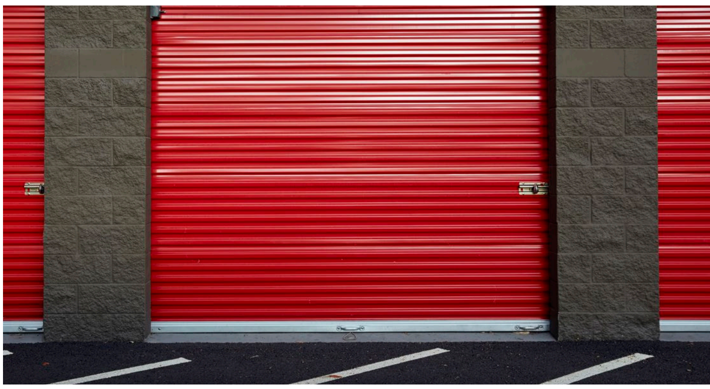
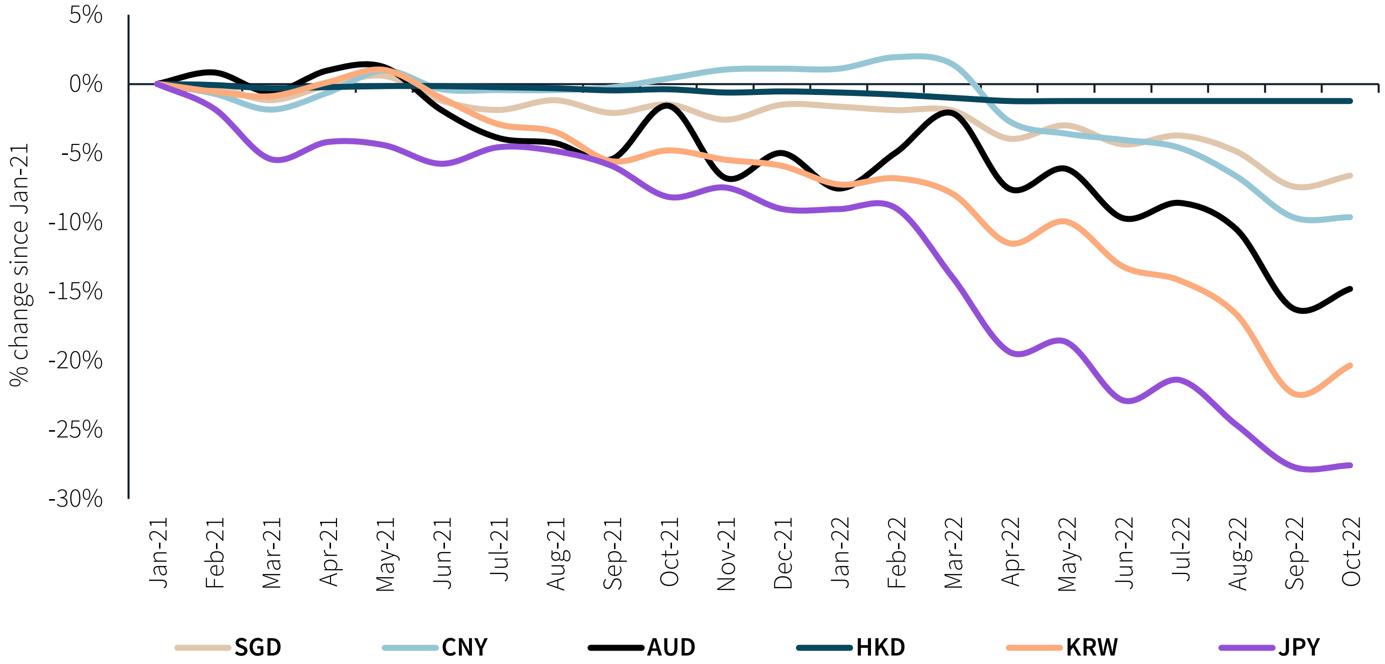


**Figure 5:** Exchange rates against USD




**Source:** Bloomberg, 4Q22

## Reasons for optimism

Despite the macroeconomic headwinds and geopolitical risks ahead, there are some reasons for optimism. The labour market has shown strength as evidenced by multi-decade lows in unemployment, high job vacancies and rising wages. Household balance sheets have shown stability and are at least as good as during the pre-pandemic periods, while corporate balance sheets have manifested strength as corporate profits are at record levels.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# Industry Overview – Demand Drivers

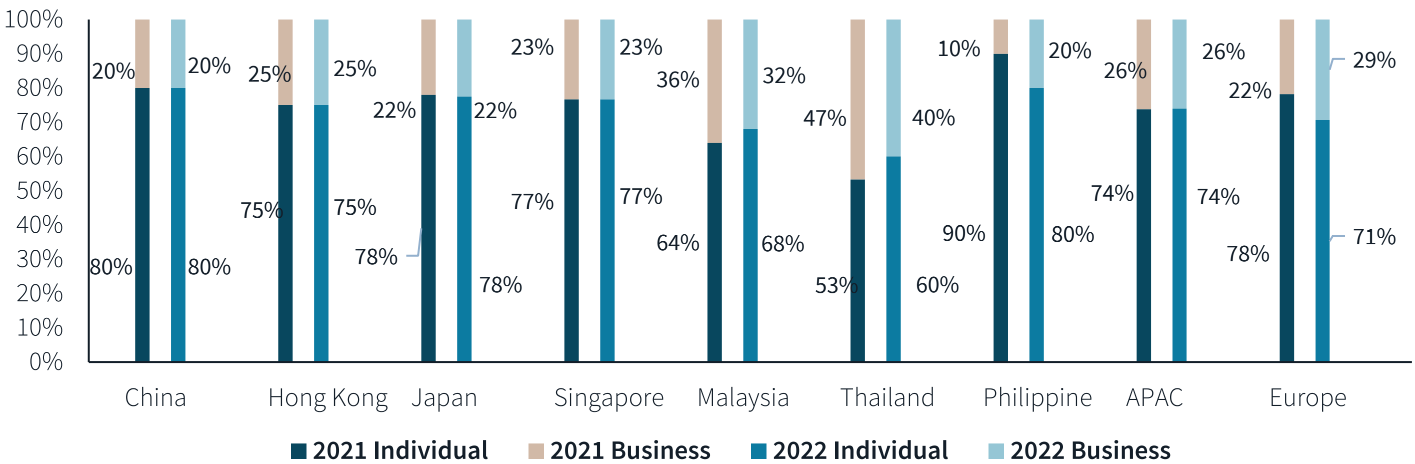
## Strong demand from both personal and business segments

APAC individual/business demand split stayed unchanged between this year and last year with both individual and business demands growing together at a similar rate. As indicated in the previous year's survey, during the first part of the pandemic period, the individual demand outstripped the business demand as individuals tried to free up their personal space, transforming their homes into multi-purpose living space as the work-from-home (WFH) trend accelerated. From the second half of the last year, however, as economic activity started to revert to normal, the business demand has played catch-up.

Both sectors have continued to grow and the result is a nearly unchanged split over the year.

Additionally, notable reversals in business demand contribution as a percentage of the whole continued in such markets as Thailand and Malaysia. There, as individual consumer awareness toward self storage improves, individual demand is catching up to business demand and outstripping it thereby normalizing the mix compared to Asian peers.

**Figure 6:** Individual vs Business Demand Split



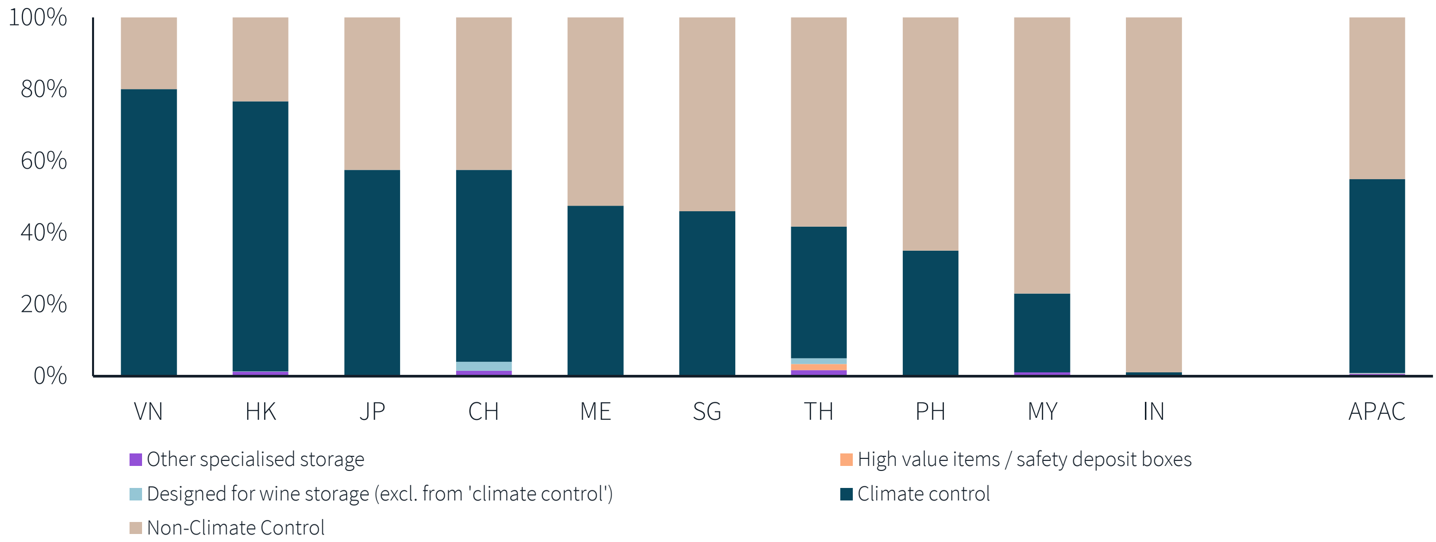

**Source:** SSAA Annual Survey 2022, FEDESSA 2022

## Product mix varies more across markets

Product mix continues to remain varied across markets whilst staying analogous at country level between this year and last year. That said, further diversification into the climate control segment was seen in Japan (+4.7%) and Thailand (+15.7%) with more purpose-built facilities being ushered in and the demand on higher quality space picking up in these markets. Moving forward, the climate control share is likely to grow across the region, especially in emerging markets. As operators in the region are in a full expansion mode, but may struggle to pass on a 15-30% higher cost associated with the climate control products onto new customers compared to the non-climate control products.

**Figure 7:** Product Mix (Type)

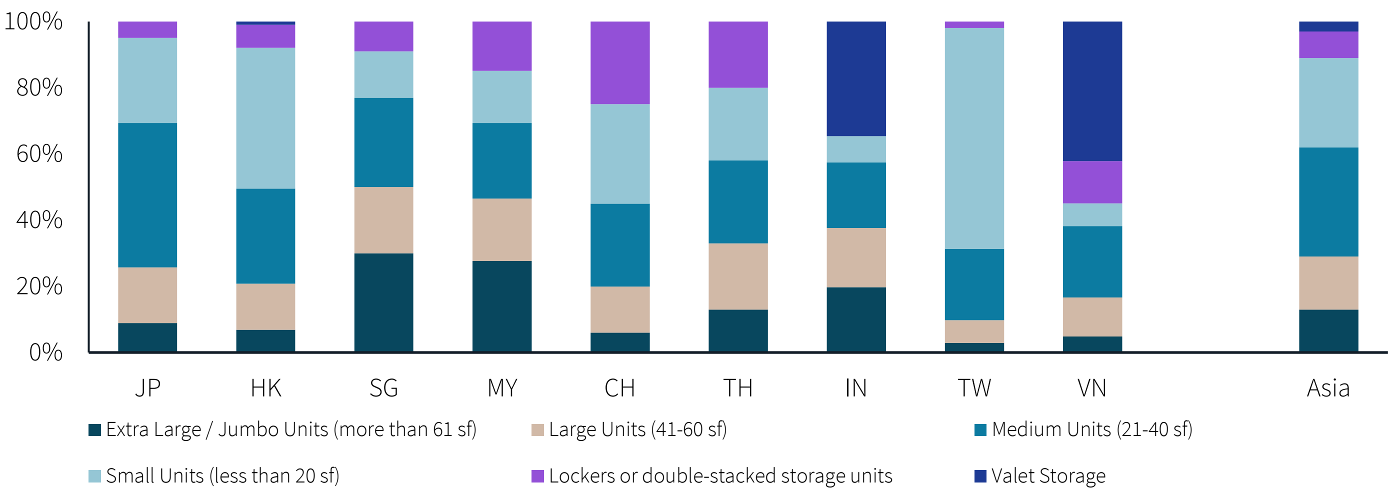



**Source:** SSAA Annual Survey 2022

Compared to last year, the strong mix by size has become more balanced between various size offerings as operators have endeavoured to cater to more diverse and sophisticated needs arising from customers. Additionally, it is worth noting that valet storage service remains most prevalent in India and Vietnam. The valet service is also making strides in the Hong Kong market although its share remains only marginal at 5% at the moment.

We anticipate the valet service to continue to gain grounds into the markets in which car ownership ratio remains relatively low or transportation infrastructure remains underdeveloped. Yet, even for the markets without those pre-conditions, the share of the valet storage service could continue to grow since many self storage operators are keen to offer this niche product to differentiate themselves.

**Figure 8 :** Storage Mix (Size)




**Source:** SSAA Annual Survey 2022

 | 

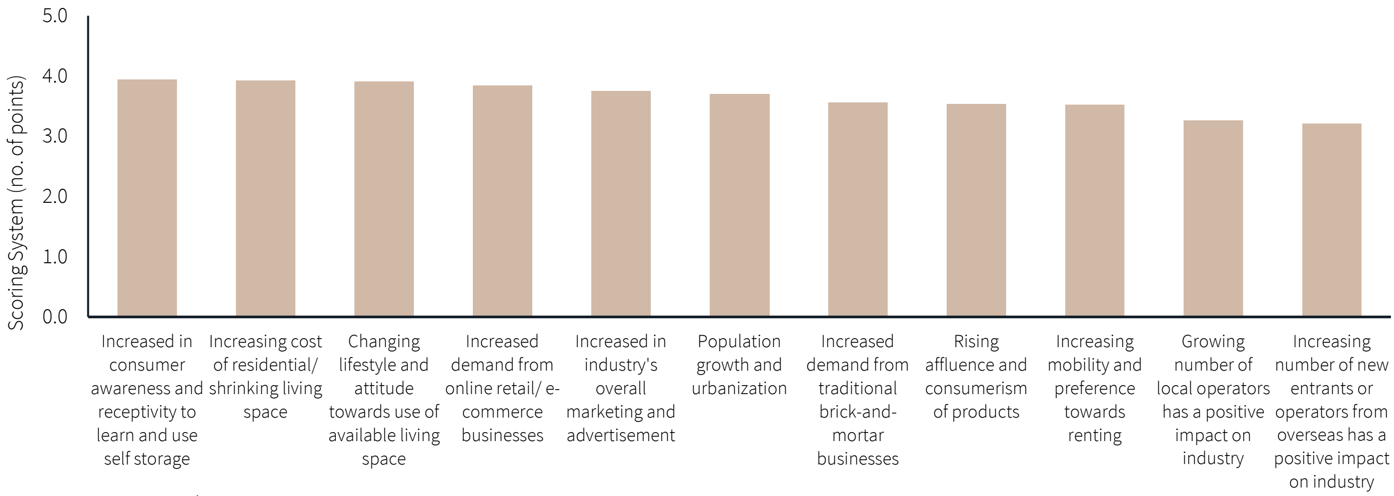
## Top 3 demand drivers are related to individual demand

As in the previous survey, increased consumer awareness, the rising cost of living, changing lifestyles and attitudes toward living space re-emerged as the three best rated drivers for this year; all are associated with individual demand. The findings continued to underpin that fact that individual awareness about the self storage market has significantly improved since the onset of the COVID, greatly benefiting from the WFH practice adopted by firms and individuals.

More importantly, these results continued to reveal the importance of the underlying demographic trends for promoting individual demands such as rapid urbanisation, housing affordability challenge and rising renting population, many of which are accelerating to the advantage of the Asian self storage operators

In the following section, we examine some of these key demographic trends as well as demand drivers in detail.

**Figure 9:** Demand drivers




**Source:** SSAA Annual Survey 2022

## Urbanisation and rising accommodation are driving forces behind self storage demand

Asia Pacific's urbanisation trend remains undeniably the biggest driving force to facilitate the need for self storage from individuals. All else equal, higher urbanisation leads to more densely populated cities and therefore greater demand for housing in cities. Ultimately, rising housing demand drives up accommodation costs - often to unbearable levels, forcing people to opt for smaller living spaces or rental houses as opposed to owned homes. Each of the above pain points translates into a potential need for self storage business emerging from individual customers.

According to the UN, despite its current low level of urbanisation, the pace of urbanisation is gaining strong momentum across the APAC, engendering numerous urban challenges. Of note, more than 53% of the world's urban population are living in Asia Pacific and the region is expected to have 29 mega cities housing ½ billion people by 2023. Intriguingly, the regional urbanisation trend is being observed on both emerging markets and mature markets. For instance, even Tokyo and Osaka, two of the region's oldest metropolitans are continuing to experience a steady population growth amid sustained net migrations as people relocate from rural areas or smaller cities into those metropolitans.

Most importantly, considering a noticeable gap in the degree of the urbanisation between the APAC and other continents, the region will undergo a massive wave of net migration, adding millions into each of the existing cities in upcoming decades. Therefore, the urbanisation trend alone would give a strong spur to the growth of self storage business in the region over the next few decades.

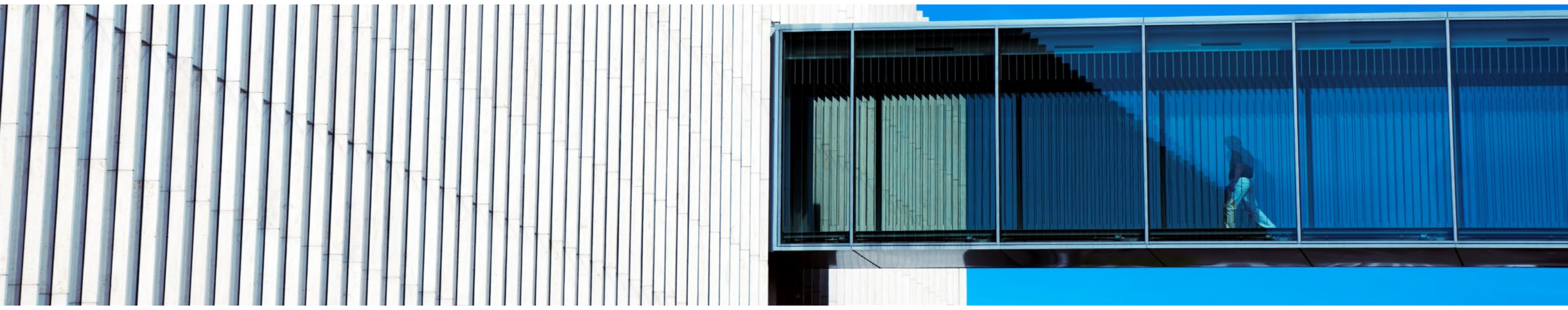


**Figure 10:** Top 10 Urban Agglomerations (2020 vs 2000)

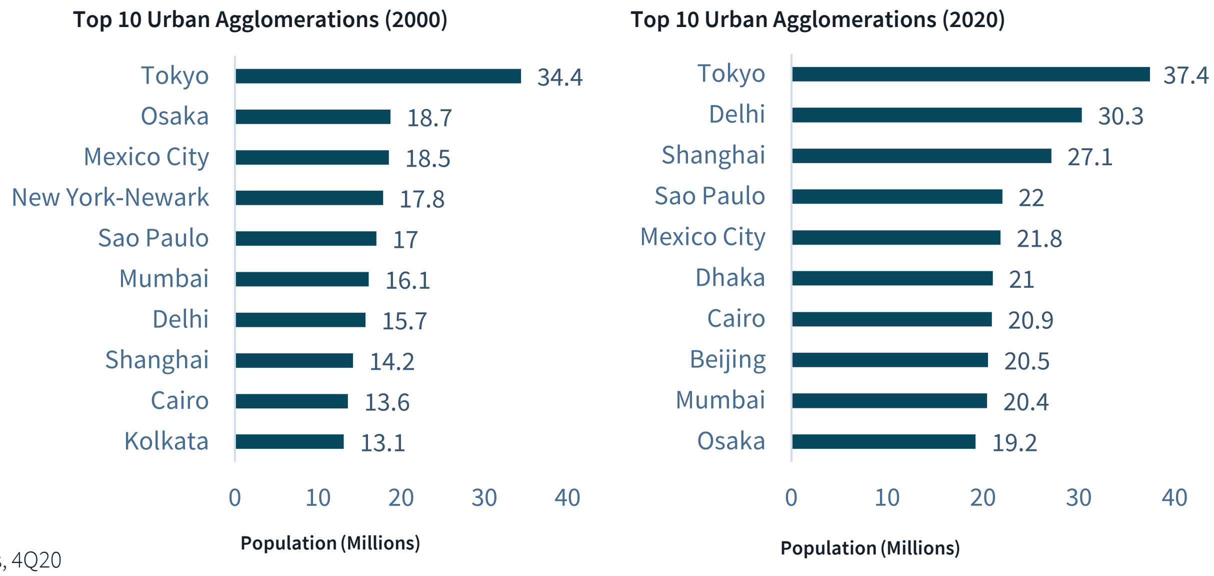
**29**

**Expected number of mega cities in Asia pacific housing**

**½**

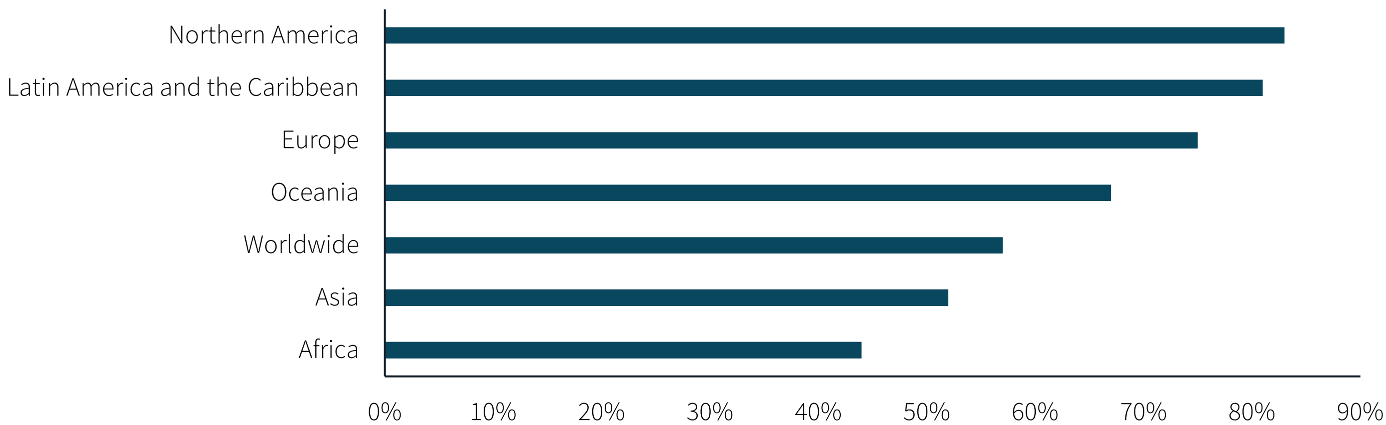
**billion people**

**By 2023**




**Source:** Oxford Economics, 4Q20

**Figure 11:** Share of urban population worldwide in 2022, by continent




**Source:** Statista

Skyrocketing housing prices are another prominent catalyst for self storage as it essentially is driving more and more people to rental units. Renters are more likely to be avid users of self storage as they tend to relocate to places more frequently than homeowners, and the size of rental homes remain too limited to hoard goods compared to owner occupied homes.

Lately, housing affordability has come to fore globally as an issue, putting homeownership out of reach for many aspiring home buyers. In fact, UBS now values nearly all global gateway cities as either overpriced or at risk of a housing bubble.

**Figure 12:** UBS real estate bubble index 2022


**Source:** UBS

However, in Asia Pacific, the affordable housing crisis had escalated to crisis levels even prior to the pandemic. As evidenced in the below chart showing shelter price to median household income ratios (Figure 13), the price tags in Asian cities remain highly elevated even relative to most revered global gateway cities like New York and London.

Since the housing affordability is likely to be further aggravated by the region's rapid urbanisation and resilient population growth, moving forward, the self storage market is likely to reap even greater benefits from this on-going housing crisis.

**Figure 13:** Global housing affordability


**Source:** Demographia, March 2022; for Seoul, South Korea median multiple was referred
**Note:** Median multiple = median house price / median household income

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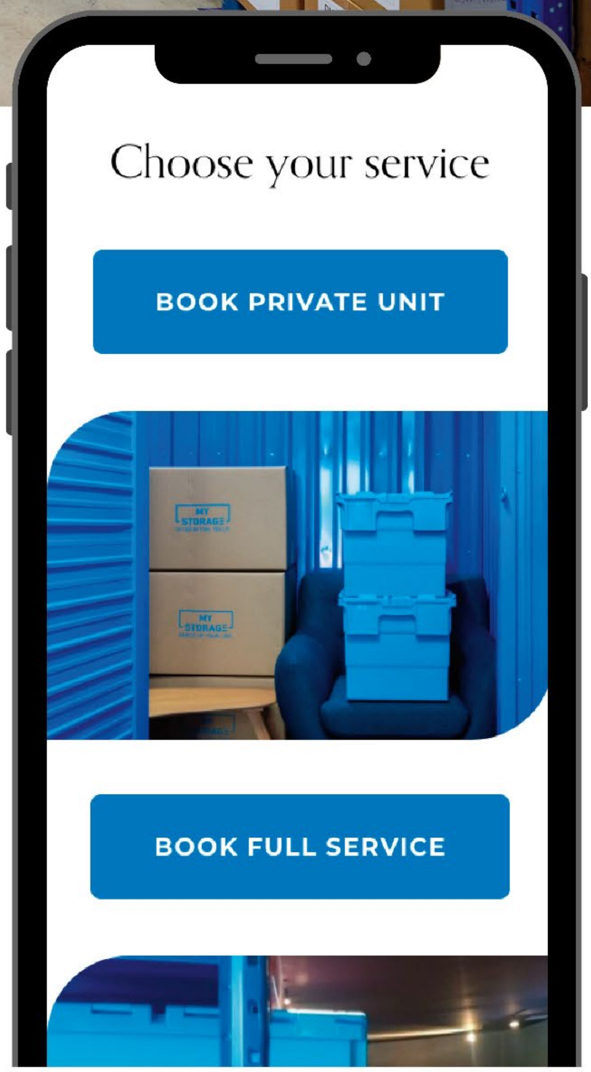


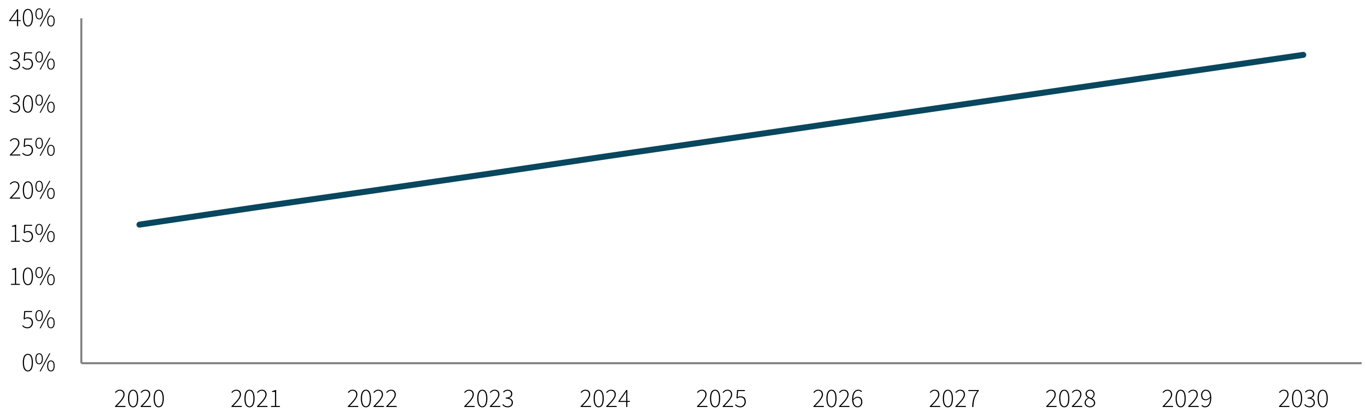
# APAC boasts of the strongest e-commerce momentum amongst regions

Another equally important source of self storage demand is enterprise driven demand. They tend to lease bigger storage units for a long period and at higher rates than individual consumers. As such, a well balanced mix between the enterprise segment and the individual segment could provide a valuable protection to downside risk for self storage operators while achieving rental uplifts.

Interestingly, the APAC enterprise demand sources have become diverse over years, ranging from SMEs and start ups to e-commerce retailers and even mom and pop stores. However, still the bulk of the growth of the enterprise demand is largely driven by a robust e-commerce growth momentum seen across the region. Even more encouraging is that this double digit e-commerce growth momentum could continue for at least the next two decades.

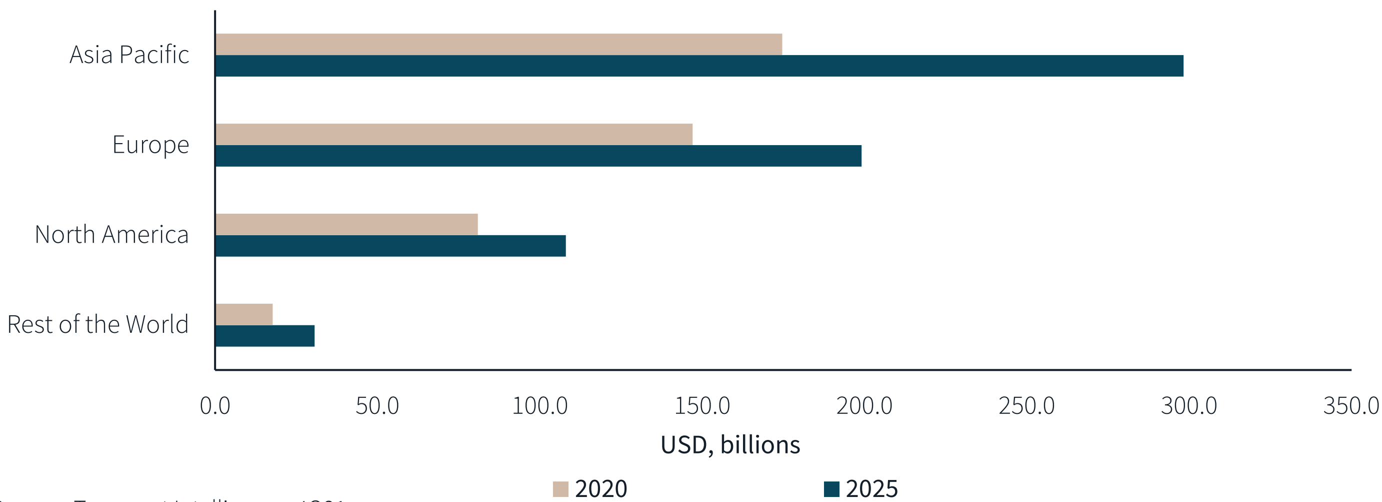
As the below chart (Figure 14) shows, globally the e-commerce share of total retail sales could grow up to 35% by 2030 but the share for many countries in APAC are currently in the mid- to high-teens, except for South Korea and China. As the share is predicted to grow only 1 to 1.5% per annum, there is an ample room for the growth for APAC e-commerce and this will continue to fuel self storage's business demand going forward.

**Figure 14:** Global e-commerce spend as % of total retail spend




**Source:** eMarketer

**Figure 15:** E-commerce by regions




**Source:** Transport Intelligence, 4Q21

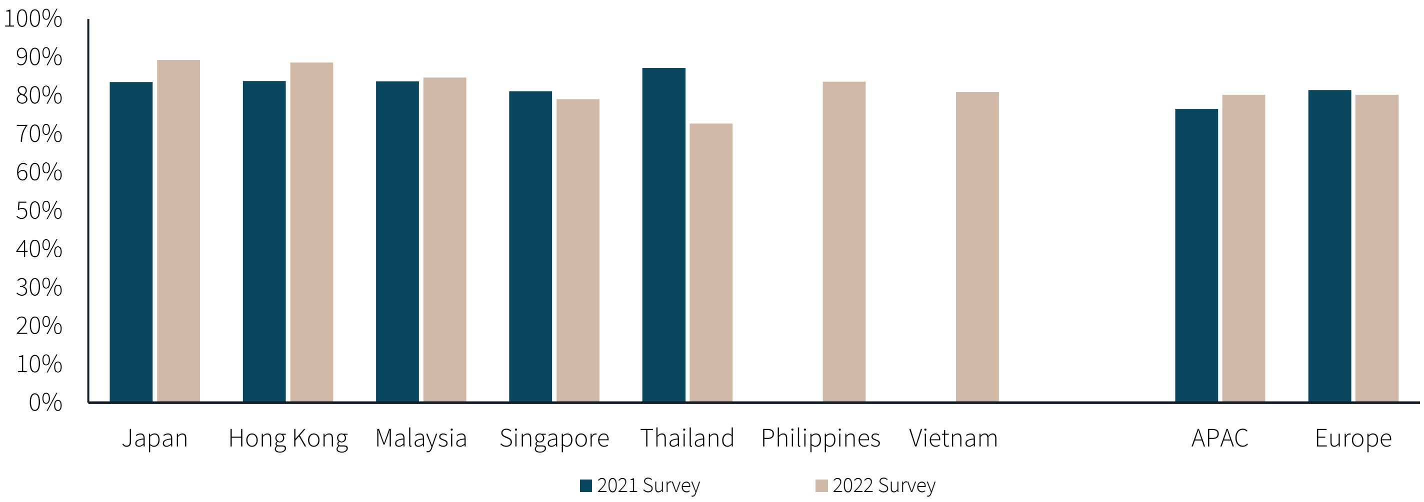
 

## Occupancy continues to climb on the back of strong pent-up demands across the region

Relative to last year, the overall 2022 Asia Pacific occupancy rate gained 3.6% to a new height of 80.2% with major markets, including the Japan and Hong Kong markets, successfully managing to scale back vacancy levels further. Across the region, once COVID restrictions were lifted and borders re-opened, self storage operators have been buoyed by the release of pent-up demand from both individual and business segments. Both individuals and enterprises alike have demanded an additional space at self storage facilities as people have started to relocate between places for work, education, and leisure purposes while businesses have also attempted to stock up on inventory amid reviving economic activities

Another promising sign comes from many emerging markets such as The Philippines, Malaysia, and Vietnam. They have already reached healthy levels of vacancies over years despite the recent strong supply cycle at these markets, hinting a stronger than expected take up trend amid rising individual demand. All in all, occupancy levels of Asian markets are already in line with European occupancy levels, demonstrating the resilience and growth potential of the self storage industry in the region.

**Figure 16 :** Occupancy levels in APAC




**Source:** SSAA Annual Survey 2021 and 2022, FEDESSA 2021 and 2022. Excluded facilities opened in 2022

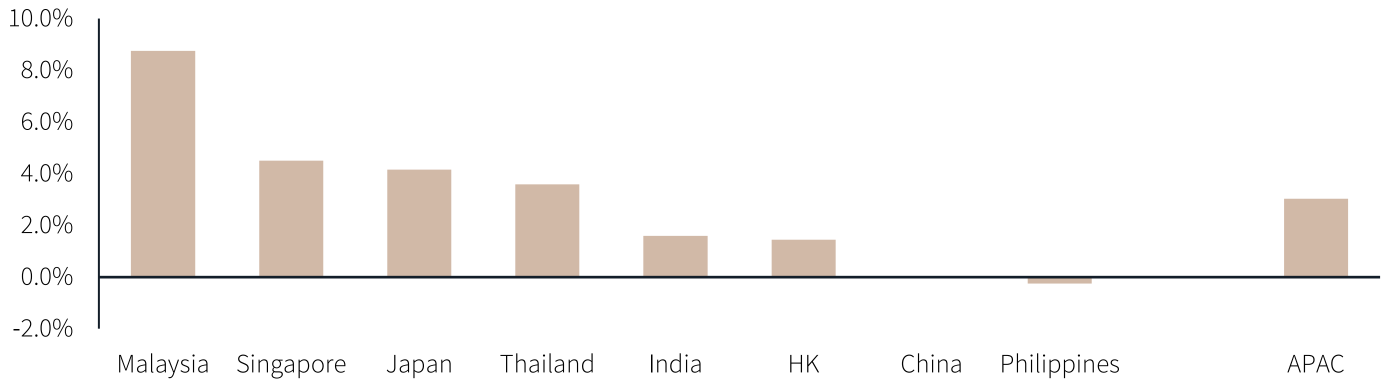
## Post pandemic rental recovery was seen across the region

The overall rental performance for the whole region posted a 3% annual rental growth, faring better than the previous year. From the second half of the 2021, as the whole region started to embrace endemic (i.e. end pandemic) policies and strategies, a rise in demand has been seen around the region, boosting occupancy levels at major markets. Over this period, consumer awareness and receptivity has also substantially increased, helping the Asian self storage businesses win over new customers.

Some emerging markets like China and The Philippines saw rental performance remain flattened by supply and demand imbalances which is caused by new supplies from existing operators as well as new entrants.

**Figure 17:** Annual rental performance by market




**Source:** SSAA Annual Survey 2022

## A wide scope for value-add services to grow in APAC

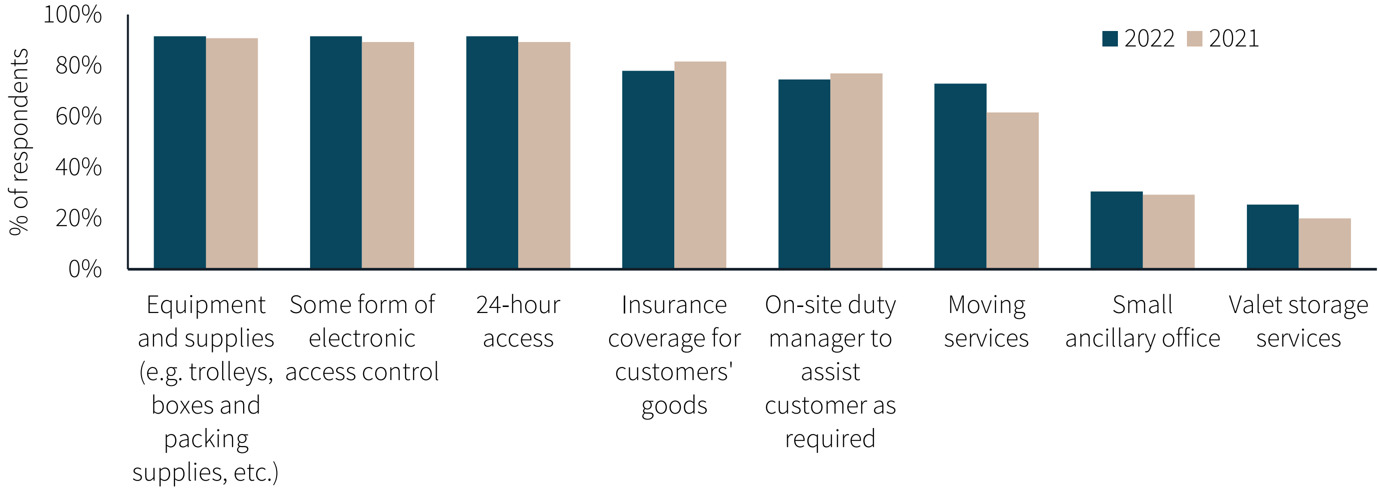
According to this year's survey, value-added services are estimated to produce around 6.4% of the revenue in line with the last year's results. As the below chart illustrates, the APAC operators appear to have adopted more value-add services in nearly all surveyed categories, but the improvement was marginal in most categories. Marked exceptions were seen in moving services and valet storage services which ticked up 11% and 5%, respectively, over the year.

Ironically, at the whole market level, the insurance coverage category declined by 3.5% over the year. However, moving forward, as the self storage industry evolves, we expect more operators to include insurance coverage into their value-add service portfolio. Self storage brands in the region are now eager to raise the contribution to revenue from value-add service to high single digits and in doing so, many of them are considering adding insurance coverage service given its sizable markup.

Lastly, although some improvements were made relative to the last year, still roughly 34% of surveyed operators reported their contribution of value-added service as a percentage of revenue as less than or equal to 2%. Moreover, on this same measure, the region as whole still undershoots - by a large margin of 5.6% - compared to the UK (Asia's average of 6.4% to the UK's 12%). Therefore, there is still a wide scope for the APAC operators to see a further growth into the revenue contribution from value-add services going forward.

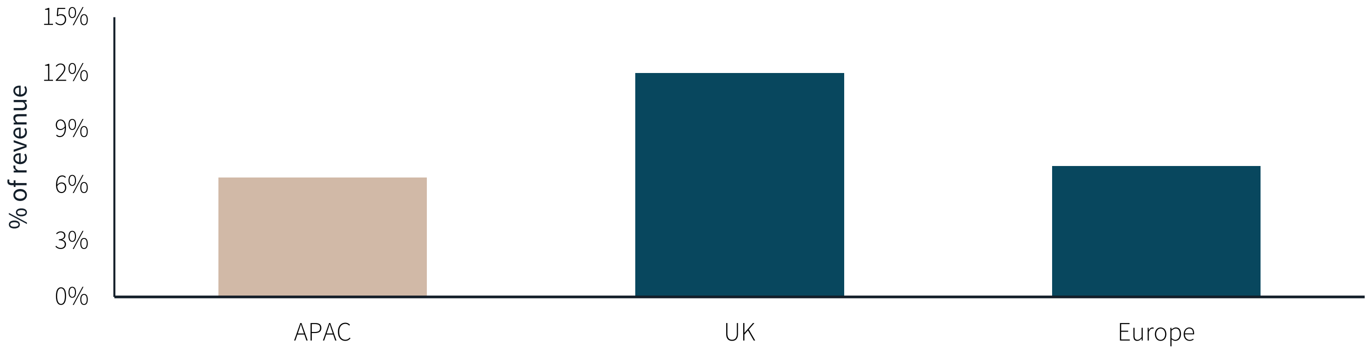
 

**Figure 18:** Value-add services provided 2021 vs 2022




**Source:** SSAA Annual Survey 2022

**Figure 19:** Value-add services as a percentage of revenue




**Source:** SSAA Annual Survey 2022; FEDESSA 2021

## More spending on social media platforms underway

As in the prior surveys, referrals resulted in the highest conversion rates (59%), followed by the company website (46%), physical signage and ads (42%), and online advertisements and search engines (40%). Interestingly, the latter three turn out to be on equal terms to one another in terms of the conversion ratio.

It is worth mentioning that in an expanding customer base, the combination of referrals and physical signage could serve as a powerful tool in marketing efforts and its effectiveness may surpass company websites alone. As such, more spending on referral and physical signage are highly worthwhile.

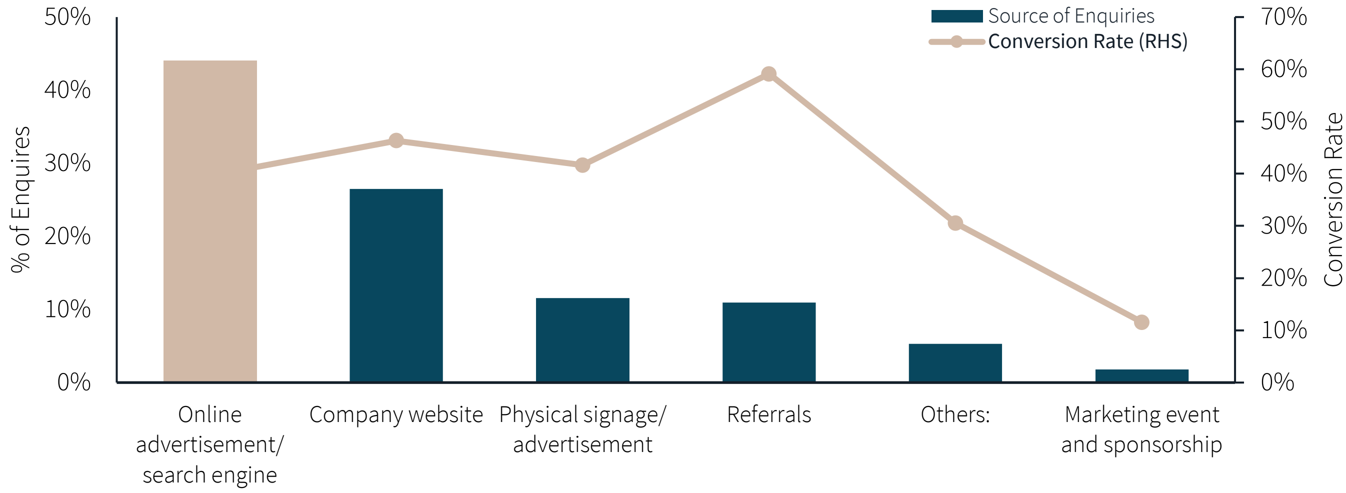
The combination would be even more effective going forward as now consumer awareness about self storage is growing faster.

In addition, Asian operators continued to add new features into their online platforms. More are offering the following features: customer ability to book and reserve lockers online, visitation via virtual tours of facilities online and the use of proprietary mobile apps.

As competition amongst operators continues to heat up, increased spending on online marketing is likely to continue. Especially, over the next several years, more operators are expected to turn to social media platforms - Instagram/Facebook/YouTube – as an effort to reach out to Gen Z and millennials, fast-emerging customer segments for the business

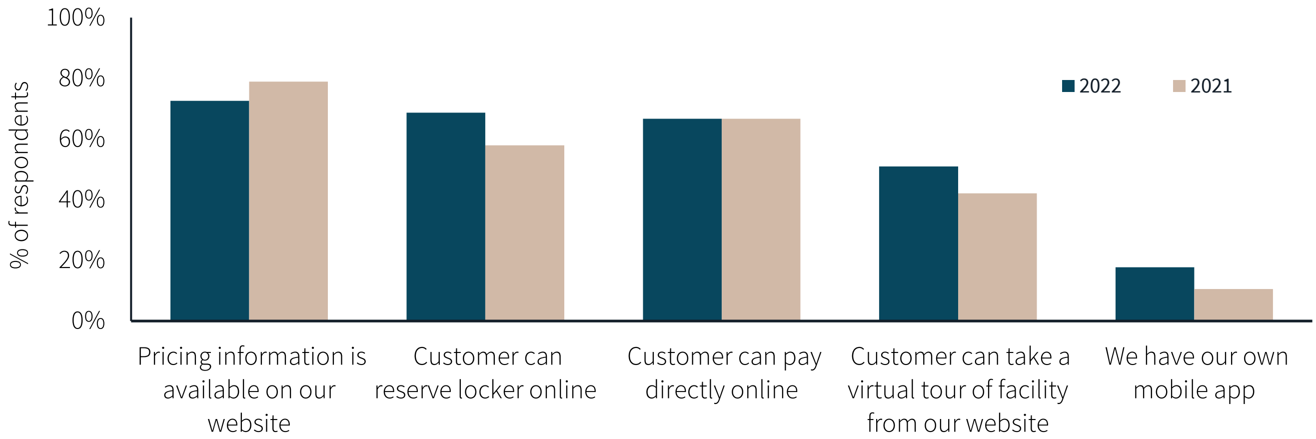
 

**Figure 20 :** Source of enquires and conversion rates




**Source:** SSAA Annual Survey 2022

**Figure 21:** Online strategy




**Source:** SSAA Annual Survey 2022

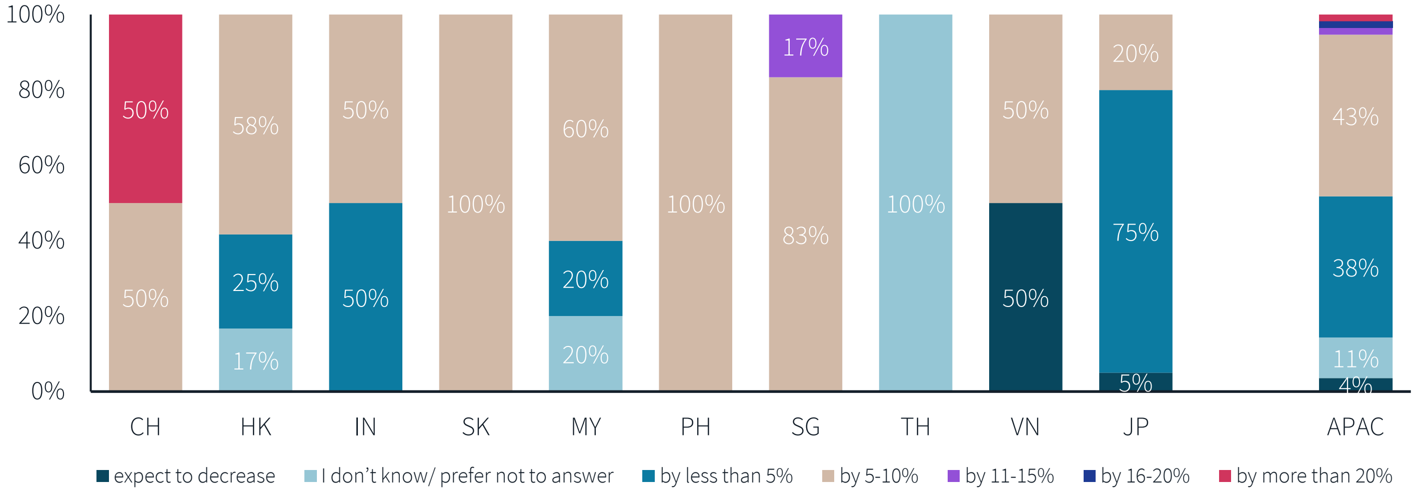
## An upbeat outlook on rents continued in both short and medium term

The latest survey result shows that around 85% of respondents expect to achieve a positive annual rental growth for the year of 2022 and this figure has risen for two consecutive years - 79% and 58% of respondents expected an improvement in 2021 and 2020, respectively. Given that the pre-COVID positive rental growth expectation was estimated at 72%, a rate of 85% continues to prove that self storage rental performance across the board continues to normalise or even improve, boasting of the defensiveness and resiliency of the sector compared with other asset classes.

As for a longer horizon, 77% of the respondents - modestly lower than the 2022 full year - expected positive rental growth. However, looking more closely, the dent was mainly attributable to the uncertainties projected by the operators in emerging markets. In fact, the established markets such as Singapore, Hong Kong, and Japan, found their longer rental outlooks more skewed to positive territory than their short term outlooks. Indeed, there is a pronounced bifurcation in rental outlook between emerging markets and mature markets in the region.

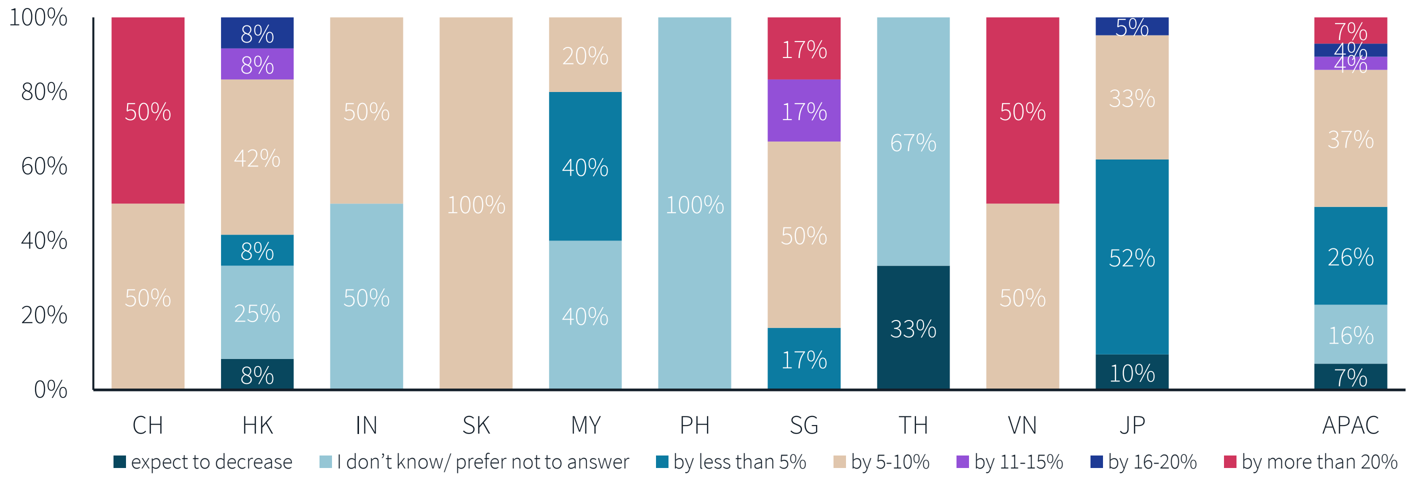
 

**Figure 22:** 2022 rental growth expectations




**Source:** SSAA Annual Survey 2022

**Figure 23:** 3 to 5 years rental growth expectations




**Source:** SSAA Annual Survey 2022

## Profitability outlook remains resilient as well

In both short and medium terms, profitability outlook results turn out to be more sanguine than rental outlook at both country level and regional level. This year, 88% of the respondents expected a positive profitability for the year of 2022 whilst 84% expressed a positive expectation for the longer term.

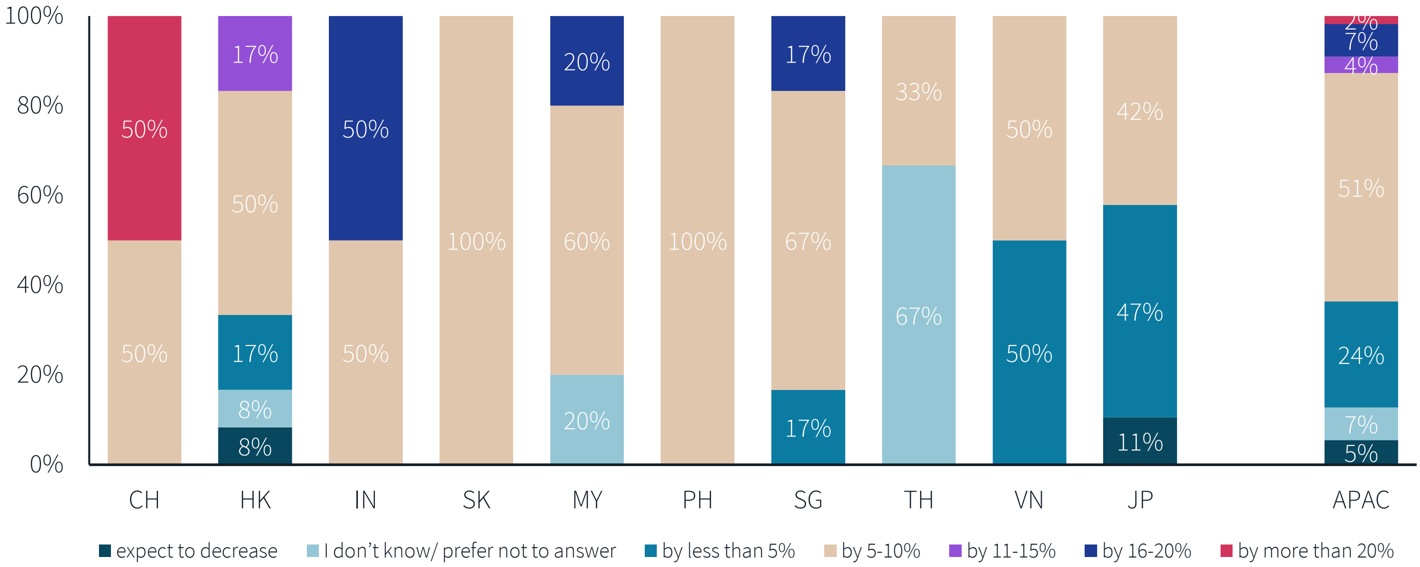
Interestingly, respondents anticipating positive rental growth tend to show an even more positive view vis a vis their profitability outlook. This is not a coincidence.

The self storage business is a textbook example of an industry with high operating leverage where the cost structure is tilted toward fixed cost. Thus, if self storage operators build scale, their net profits will always outgrow their top lines

Lastly, on a similar vein, a bifurcation between emerging markets and mature markets was also witnessed for their diverging profitability outlook.

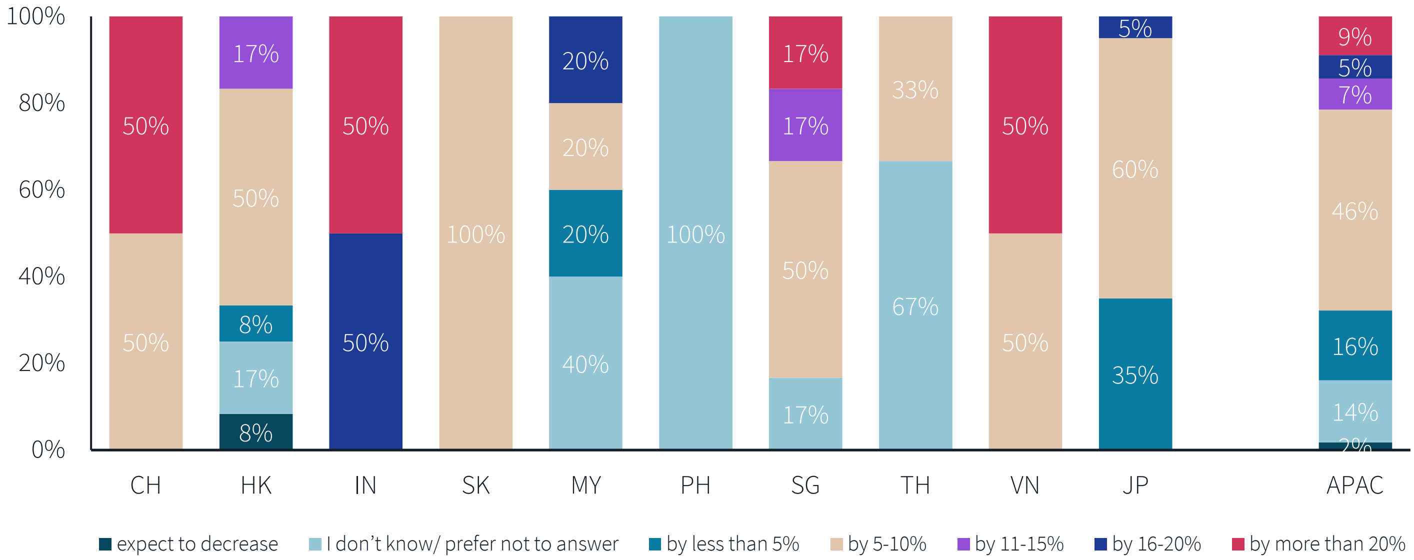
 

**Figure 24:** 2022 profitability expectations




**Source:** SSAA Annual Survey 2022

**Figure 25:** 3 to 5 years profitability expectations




**Source:** SSAA Annual Survey 2022

## Real estate market conditions continued to be cited as operators' biggest challenge

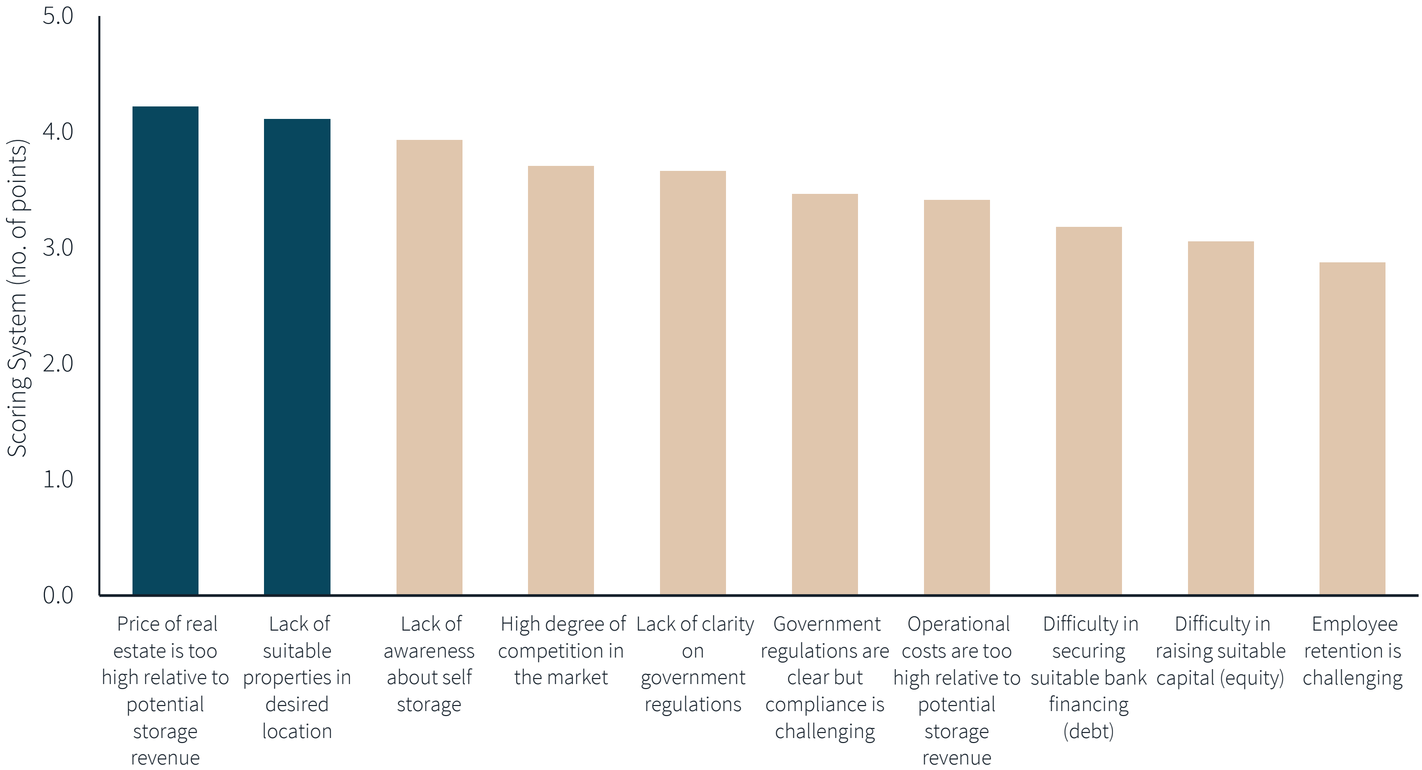
Since expansion is now front of mind for self storage operators, it is no surprise that price of real estate, as well as a lack of suitable properties were pointed out as the two biggest hurdles facing operators.

Amid rising interest rates and a looming global economic recession, price correction for commercial real estate remains inevitable but the extent of price correction in the region is likely to fall short of the level of price adjustments in the US and Europe given the strong appetite for Asian institutional grade real estate. Thus, these two items are expected to remain top picks in the long run.

Nonetheless, operators expressed a sense of optimism by marking financial backing as one of the least challenging items, implying more institutional capital flocking to the sector.

Similarly, operators modestly pushed back against the notion that employee retention has become a challenge within the industry. This alludes to the idea that labour shortages and employee turnover plaguing many industries now remains well contained for the self storage industry in Asia.

**Figure 26:** Key challenges




**Source:** SSAA Annual Survey 2022

# Investment Market

## APAC commercial real estate volumes are expected to remain sluggish

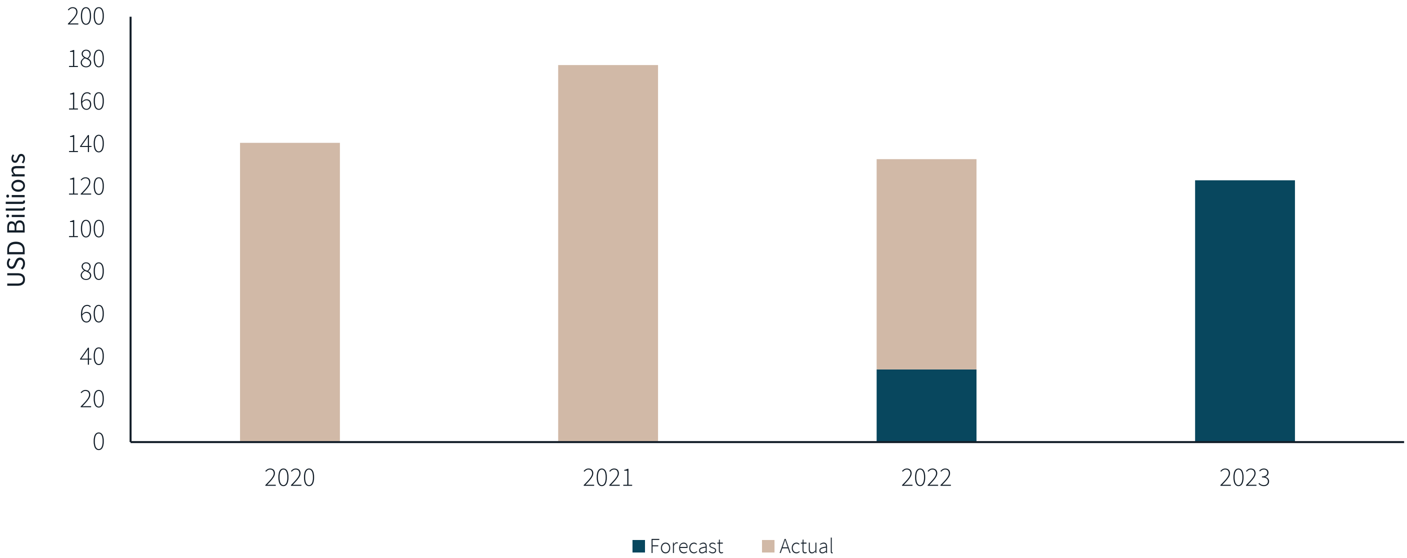
Commercial real estate investment volumes in Asia Pacific are forecast to fall 5-10% in 2023, albeit from a low base forecast for 2022, with looming economic recession and rising cost of debt affecting regional investment activities. Deal pipelines stay limited as both vendors and investors become less engaged amid global macro uncertainties. The growing bid-ask gaps are weighing on price discovery, prolonging deal closures, while securing equity or debt financing has become more difficult under tighter credit conditions in some markets.

A volatile pandemic situation, persisting geopolitical tensions, global supply chain disruptions and faster-than-expected quantitative tightening by central banks remain potential economic headwinds. Investors are cautious in underwriting deals, while some landlords may shelve or postpone divestment plans after bids come in thinner and lower than expected.

As global central banks hike interest rates to combat rising inflation, the cost of debt for real estate investments is piling up in most Asia Pacific geographies. Construction costs have also skyrocketed as a result of soaring inflation, creating uncertainties and delays to various development projects, impeding investment sentiment and depressing land values.

It is worth mentioning that since major Asia Pacific currencies have depreciated against the USD over the year and volumes are reported in USD, to some extent, the currency depreciation itself has contributed to lower volumes and forecasts. The exception is Hong Kong, where the Hong Kong dollar has a longstanding peg to the USD.

**Figure 27:** APAC commercial real estate volumes 2020-2023

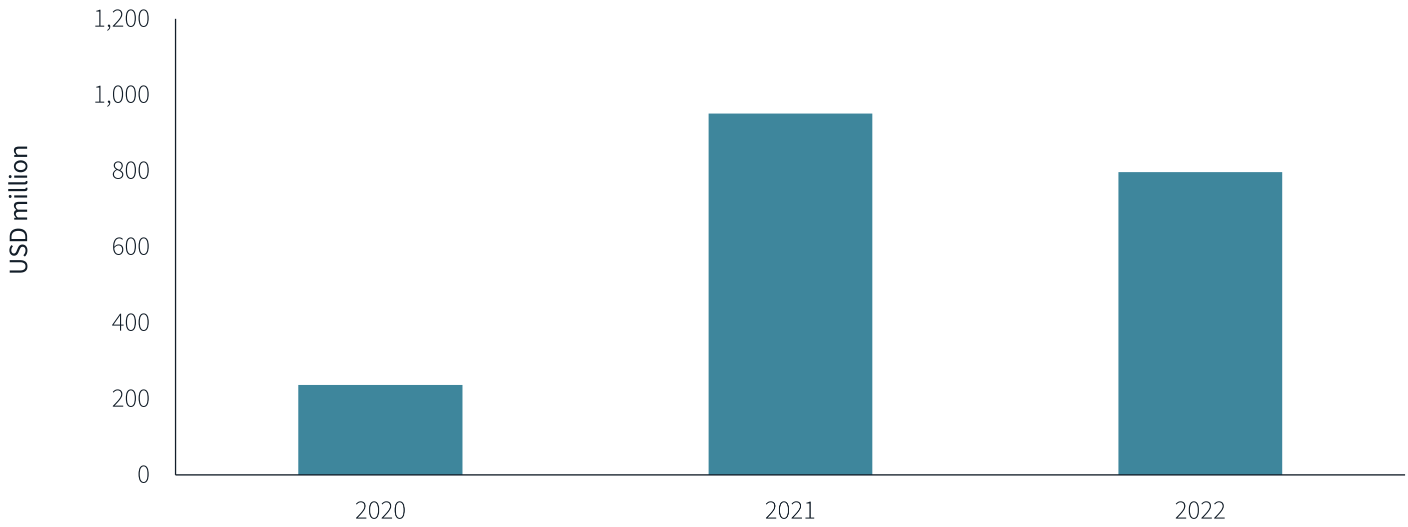



**Source:** JLL, 4Q 2022. 2022 and 2023 figures are estimates.

On the contrary, the APAC self storage investment activities are reaching new heights. Behind the record high volumes has been a deepening capital pool as more institutional investors are entering the fray. Global private equity funds are looking to APAC to replicate their earlier success in the US and Europe. Besides, Asia's leading self storage operators – often backed by institutional capital or corporates - are keen to acquire self storage facilities or platforms to scale quickly as opposed to growing organically. Also, buoyed by its strong market fundamentals and scalability, even core/core plus investors are now turning to this growing niche asset class. Evidently, more arrivals of institutional grade self storage portfolios and the growing investable universe of self storage assets has been another big draw.

**Figure 28:** APAC self storage investment volume 2020-2022




**Source:** JLL, RCA 2022 estimate as of 2022 October

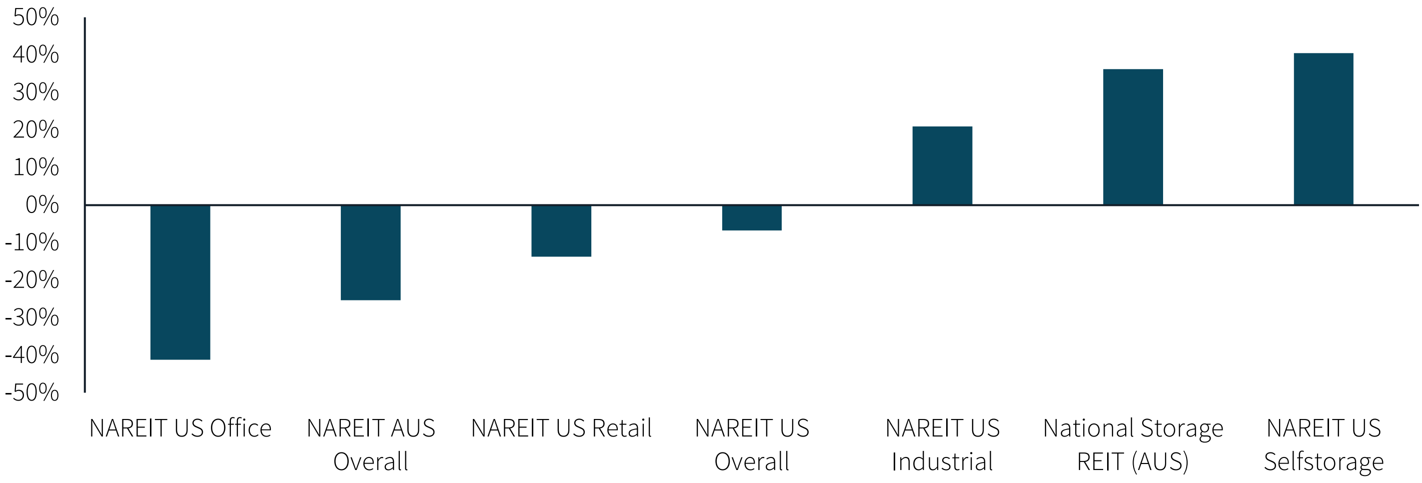
## Self storage REITs remain the best performer

The biggest driving force behind the improved liquidity mentioned above is the stellar performance self storage industry has repeatedly displayed. The self storage sector has emerged as the most resilient asset class in this pandemic-ridden world. Since the onset of the pandemic, the US self storage REITs have outperformed all other REIT subgroups.

Certainly, the self storage sector is not immune to the on-going global monetary tightening and in fact, the US self storage REIT index lost 26% year to date in line with the rest of the market; however, it still managed to outperform office and industrial sector year to date.

**Figure 29:** REIT performance




**Source:** Bloomberg, based on data for the period January 2020 – November 2022


## Share of ownership needs to be higher to woo institutional capital

Owner-occupation is less common in APAC, with just 30% (43% for ASIA ex-Japan) of the surveyed facilities being owned facilities as compared to up to 77% in the UK.

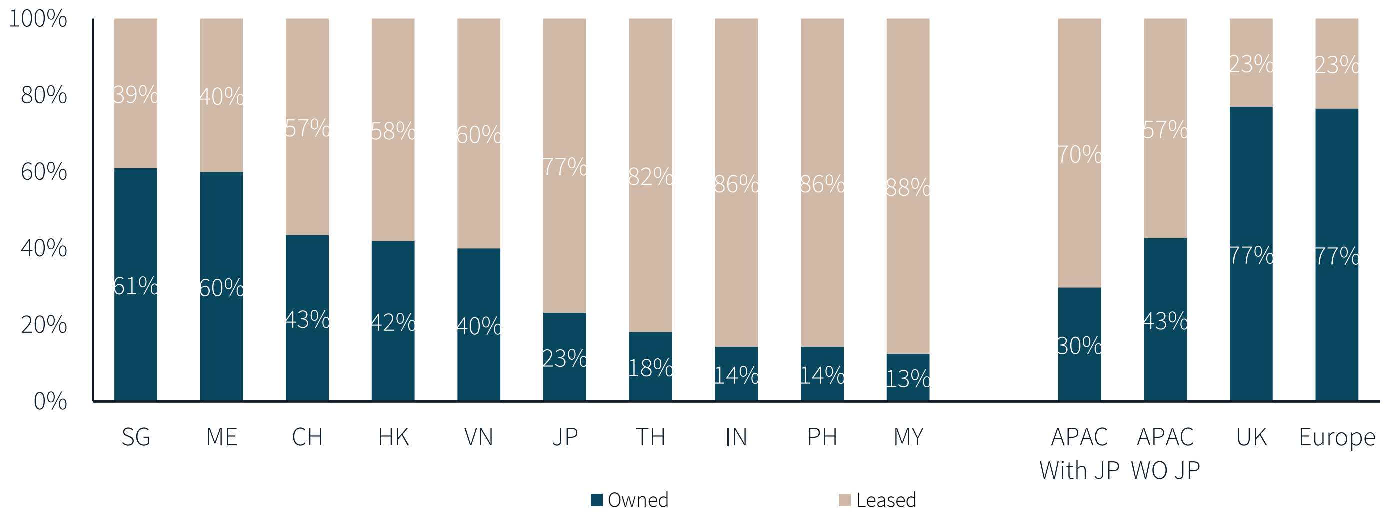
This result could shed light on several valuable insights: 1) Asian operators often favour leasing schemes over owned assets as a) the leasing option is associated with lower entry costs or b) many of these operators are not well positioned yet to fund their expansion via ownership model, 2) Operators also prioritize leasing over ownership to gain access to desired areas as often owner occupation is simply not available at these locations, 3) At some markets, ownership restrictions remain in place especially for foreign capital, 4) Especially at emerging markets, the risk of eviction or relocation remain slim or relocation options remain readily available, and 5) Many operators are prioritizing their investments on marketing, safety, technology and other amenities in their facilities

However, going forward, as evidenced in the ascent of the ownership model in Australia and other mature markets in the region, we expect the short-term lease arrangements to be less employed as operators favouring leasing are highly exposed to landlord risks of either discontinuing a lease contract or facing steeper rental hikes.

More importantly, the development of freehold assets is most accretive to value and also enables the operator to receive more favourable financing and valuation. As such, we expect the proportion of self-owned facilities to rise in the long run as the market matures which in turn should increase the attractiveness of the industry to institutional investors.

**Figure 30:** Owned assets versus leased




**Source:** SSAA Annual Survey 2022

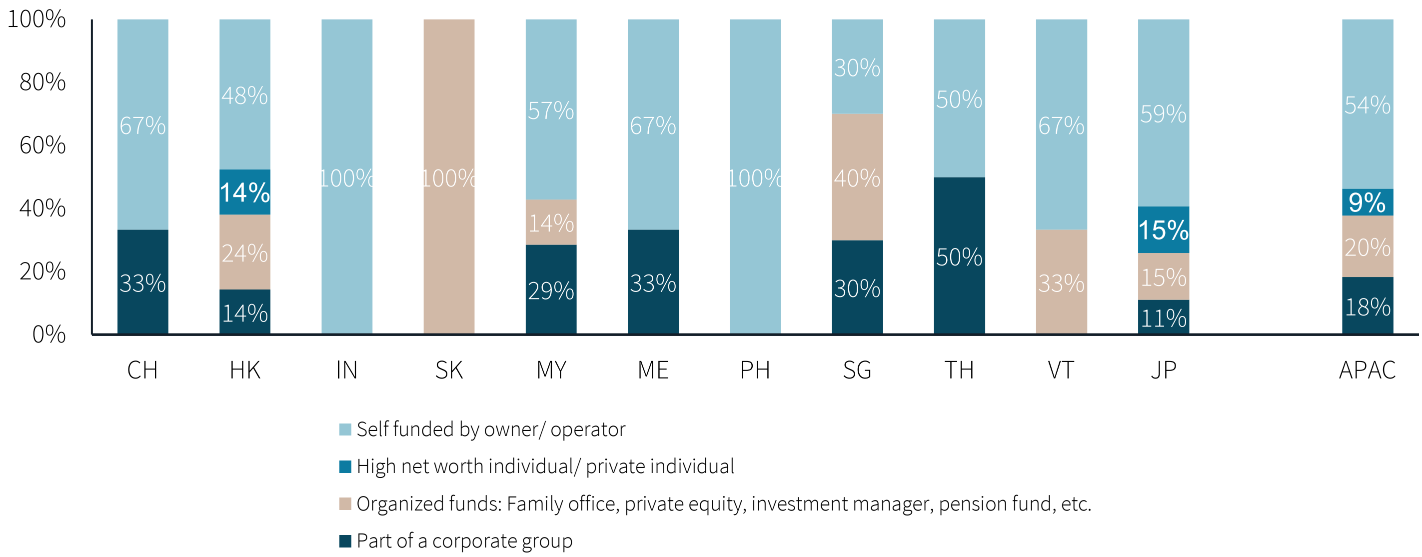
**Note:** Owned includes freehold and leasehold titles. Leased refers to building lease.

## Around 66% of facilities in Asia Pacific are privately or self-funded

Private funds and self funding continued to remain a dominant source of capital for self storage, currently accounting for 63% of the funding for the industry, a slight decline from 66% last year. This year, Malaysia, Singapore, Hong Kong, and Japan saw their fund sources more diversified with institutional capital, but their changes in composition remain relatively modest.

Having said that, as mentioned earlier, as investors are pouring into APAC self storage sector, the share of organised funds and corporate funding is likely to continue to grow going forward.

**Figure 31:** Sources of funding




**Source:** SSAA Annual Survey 2022

## 40% of respondents to seek external funding

As in the previous survey, respondents have expressed a cautious view regarding funding. Only 40% of operators expressed a desire to seek external funding, the same result from the prior year. Nonetheless, given the current uncertain economic climate, we still view this as a positive result; the 40% still represents a significant portion, illustrating the vibrancy of the sector and a strong momentum of the expansion within the industry.

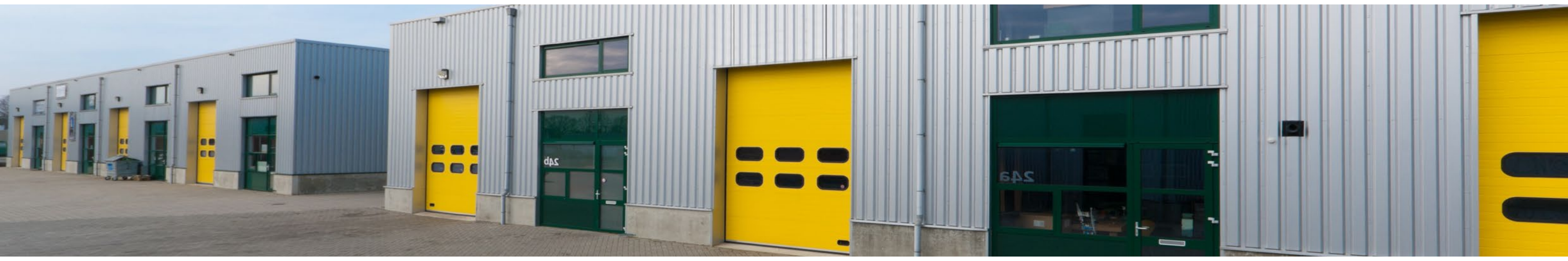
**Figure 32:** Desire to seek external funding

40%
Yes

Desire to seek external funding over the next 2 years

60%
No

**Source:** SSAA Annual Survey 2022



## Self storage sector to continue to grow

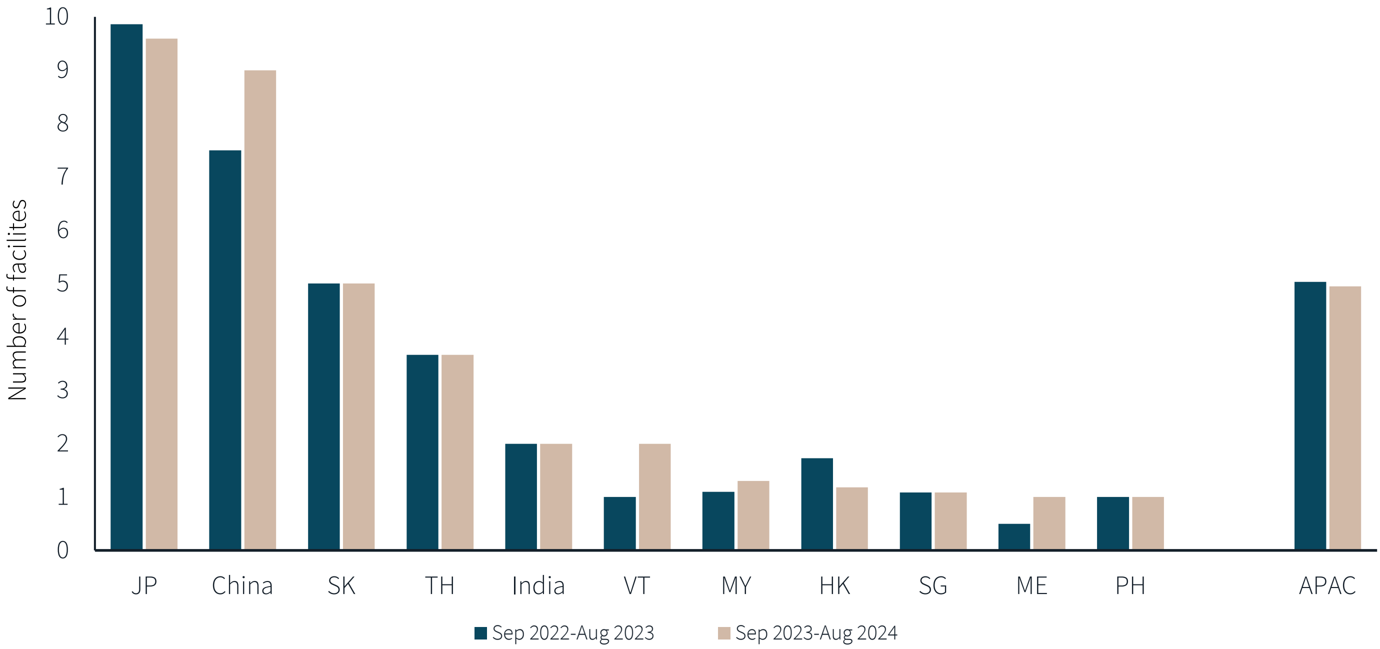
Self storage expansion momentum is gaining further speed, again indicative of the growth prospects and optimism within the industry. According to this year's survey, operators in the region are now willing to expand at a brisker pace, adding five new facilities per annum, a leap from three additions indicated in the last year's survey. In expansion efforts, China, Japan, South Korea, and Thailand will stay ahead of the curve.

In the meantime, Hong Kong and Vietnam operators are anticipating some moderation in their expansion plan compared to the earlier survey results.

Given the confidence in driving expansion, we believe this emerging sector is well placed to attract more institutional capital, leading to boosted liquidity and scalability.

**Figure 33:** Plans for new facilities




**Source:** SSAA Annual Survey 2022

# Conclusion

Across the region, optimism is rising within the self storage industry. APAC self storage is well-positioned to ride upwards on post-pandemic growth momentum. Wide adoption of hybrid work model (office and WFH) and consistent marketing efforts delivered by regional self storage operators drive consumer awareness and receptivity toward the self storage industry. Occupancy levels have reached record highs while rental performance has normalised despite a strong supply cycle. These solid fundamentals of the self storage sector have greatly boosted confidence amongst investors, leading global cornerstone investors to pile into Asian self storage markets.

Its long-term growth trajectory remains even more promising. Backed by structural tailwinds blowing across the region that include strong macroeconomic factors, solid demographic trends, and e-commerce growth, the APAC self storage market is better placed to capture robust growth in the coming decades compared to other alternative real estate classes in the region.
Given its attractive returns, solid market fundamentals and growth potential, APAC self storage is likely to continue to remain a sound investment proposition, attracting more institutional capital and leading to better liquidity, scalability, and even higher returns on investment for years to come.

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