Research

The Self Storage Association Asia Annual Survey 2021

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 leveled 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. Apps are all the rage and Asian based companies are providing it for valet AND self storage ops. 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, Blackstone and more are making moves or have their eye on 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.

Survey submissions reflect this maturation. 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 companies 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 for the first time. 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 Sungmin, 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. 2021 was just the beginning. We look forward to the world becoming more 'normal' in 2022 - with self storage leading the charge. Excelsior!

Helen Ng
Chair, SSAA

Andrew Work
Executive Director, SSAA

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01 Introduction

While self storage is in its infancy in many markets around the region, the latest APAC self storage survey results paint an upbeat picture about this emerging asset class. Thanks to unforeseen demands fuelled by the pandemic, most of the large markets in the region have been able to remain intact whilst emerging markets have undergone an impressive growth. Yet, the future looks even brighter. A strong economic outlook coupled with positive urbanization and demographics trends across the region is likely to further spark the need for third party storage facilities.

In this paper, we examine the results of the seventh consecutive annual survey conducted by the Self Storage Association Asia (SSAA). The survey is filled out by SSAA's member companies across the region. It is evident that, while some challenges remain, sound fundamentals and strong growth prospects will drive uptake of self storage by consumers and businesses. Compared to other underperforming real estate asset classes battered by COVID, this growth will see Asia Pacific self storage gain further traction amongst investors.

02
Macro Overview

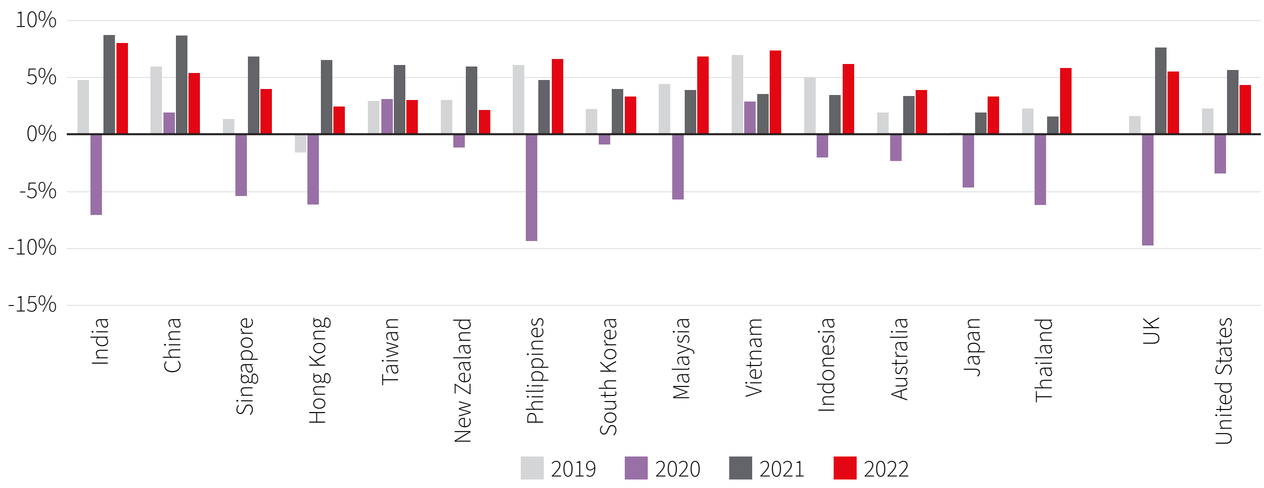
2022 GDP growth for Asia Pacific to normalize, closer to 2019 levels

Despite tighter lockdowns in certain countries on account of renewed COVID-19 outbreaks, economic recovery across the Asia Pacific has remained resilient in 2021. Most economies recorded notable real GDP growth, making up for 2020's losses largely thanks to many countries' vaccination efforts, robust fiscal support and healthy export growth. We believe that rising vaccination rates will continue to be crucial to a sustained economic recovery for Asia Pacific. Although the covid situation remains fluid due to the new variant, countries around the region are better equipped with tools to fight the virus and maintain monetary and fiscal easing.

Therefore, most regional economies should see economic growth further normalize in 2022 with many countries reaching or exceeding the pre-pandemic growth level.

Figure 1

Real GDP y-o-y % change



Source: Oxford Economics, 4Q21

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Mobility recovery is uneven among countries, yet there is strong recovery in AP retail

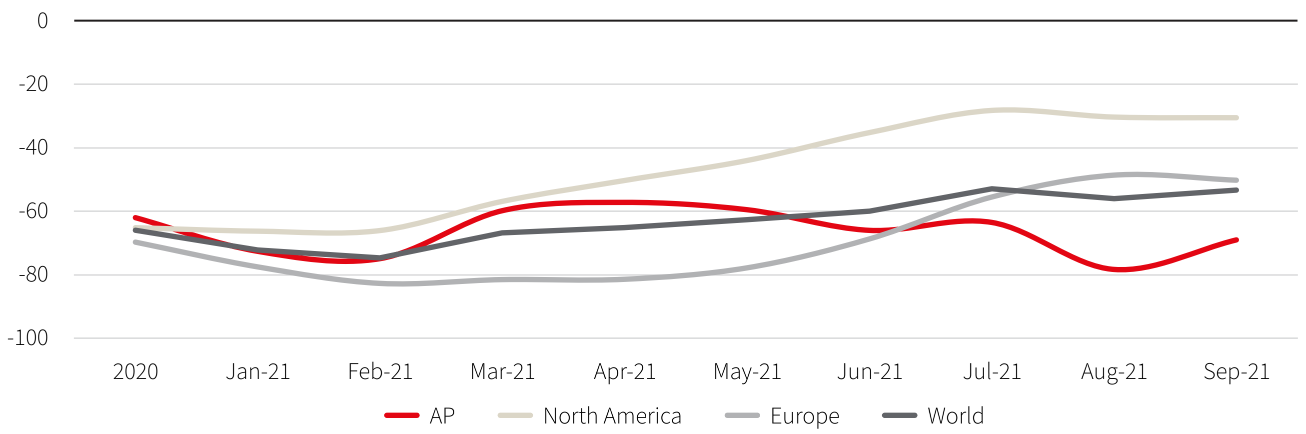
At publication, cross-border movements remain challenging. This is more pronounced in Asia Pacific and Europe as corporate travel and international leisure travel have been curtailed to a large extent. International air travel for Asia Pacific remains the most subdued due to strict travel restrictions and onerous mandatory quarantines. As international and domestic tourism play a crucial role in generating brick and mortar retail sales, tourism-dependent markets may still underperform in the near-term.

In self storage, this has created some opportunities as expatriates, business and retirees, put goods in storage as they relocated to home countries. Many customers thought the storage would be temporary until they could return to their retiree residence (think Phuket, Thailand) or thought their goods could shortly follow by ship. However, COVID inspired quarantines and global supply chain snarls, respectively, have seen goods in storage enjoy their residence for much longer than expected.

Tightened social distancing measures reduced community mobility within certain countries. According to Google Community Mobility Trends, movement restrictions hampered footfall patterns in Singapore, Australia, Japan, while traffic for Hong Kong, India and South Korea rebounded back to pre-pandemic

Figure 2

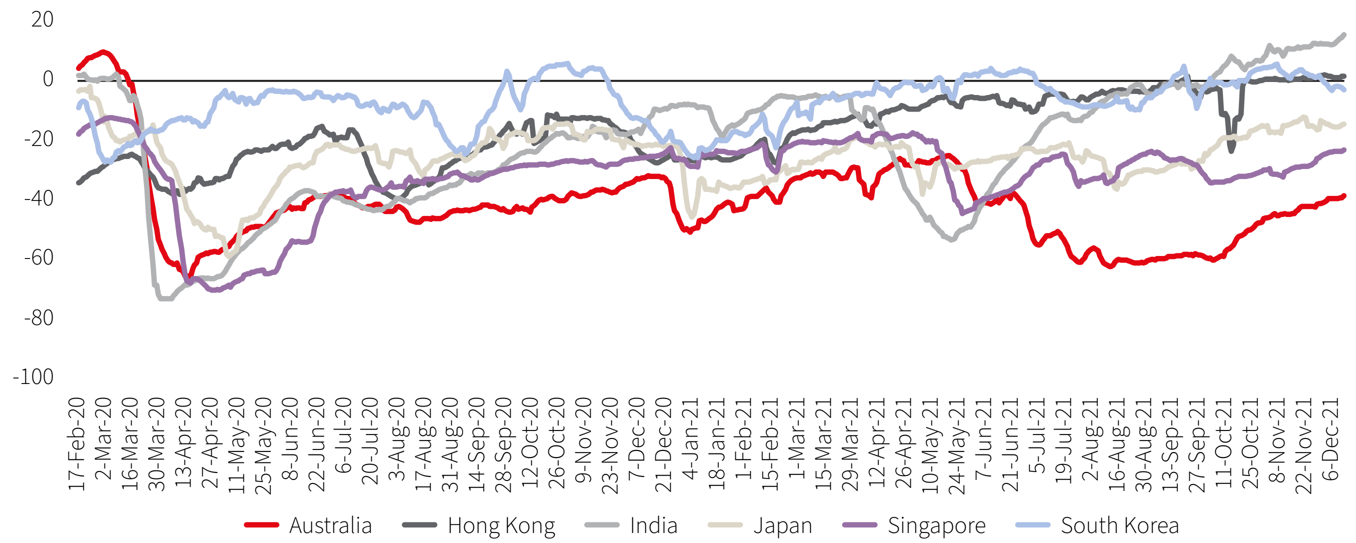
Passenger kilometres vs pre crisis levels %



Source: IATA, September 2021

Figure 3

Transit stations (% from baseline*, 7-day MA)



Source: Google Community Mobility Trends, December 2021 levels. Going forward, the pace of recovery is likely to be uneven for different markets across Asia Pacific as several countries may put in place new measures to keep the surge of the new variant in check.

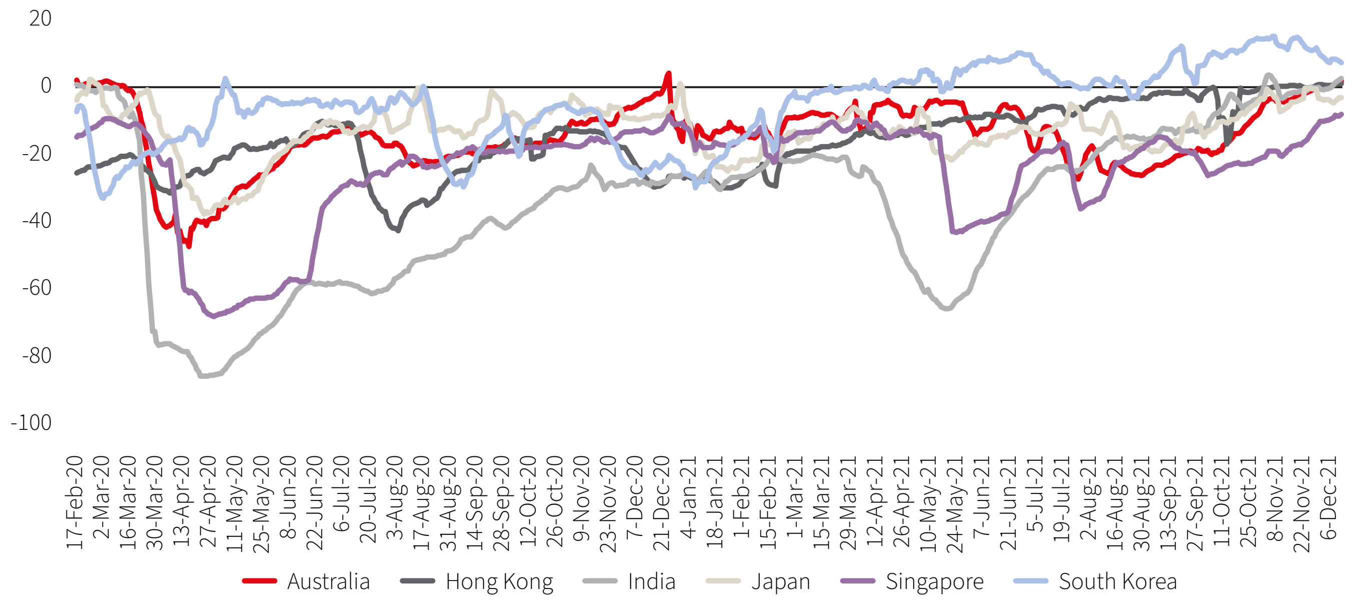
Despite reduced mobility in several countries, consumer confidence across the region did not falter. In fact, a marked recovery in traffic for the retail and entertainment trade sectors has been seen across the region on the back of rising vaccination rates and pent-up demand. That said, the near-term outlook for physical retailers is heavily dependent on location. Suburban malls close to large residential catchments are likely to continue outperforming malls and high streets located in CBD and tourist areas.

Recovery in retail sales underpinned by e-commerce

Retail sales have rebounded from pandemic lows in 2020, benefitting from relaxed mobility restrictions, and improving consumer confidence. However, it is key to note that online retail has played a crucial role in its recovery. The pandemic has accelerated the shift towards digital channels, changing consumer preference in favor of e-commerce. Some online shopping platforms have also taken advantage of this situation to broaden their reach and move into untapped territories such as fresh food deliveries. Although e-commerce has witnessed robust growth across Asia Pacific,

Figure 4

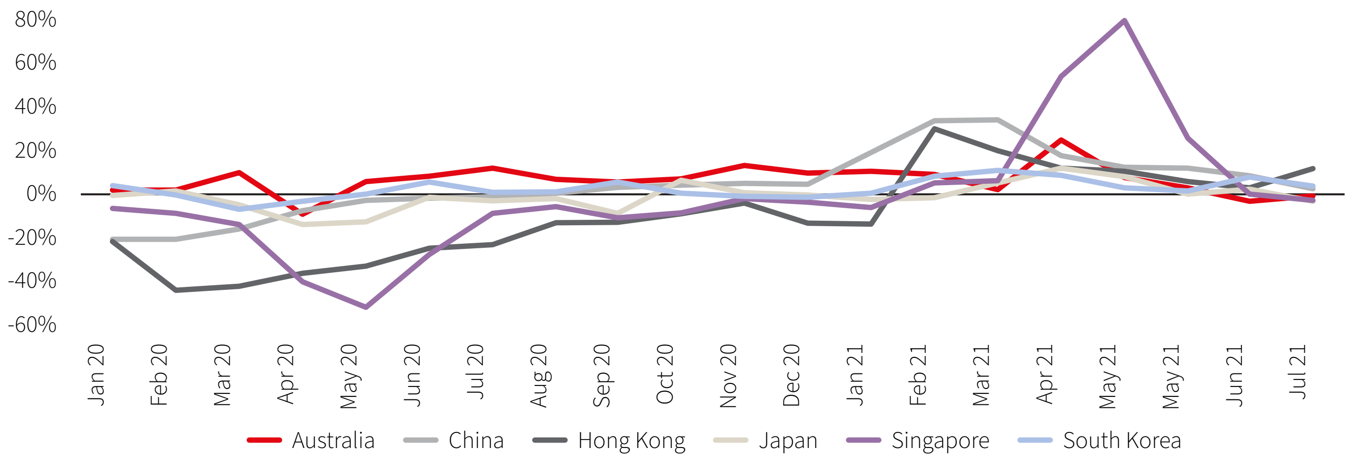
Retail & Entertainment (% from baseline*, 7-day MA)



Note: This includes places like restaurants, cafes, malls, theme parks and movie theaters.
Source: Google Community Mobility Trends, December 2021

Figure 5

Retail sales (y-o-y)



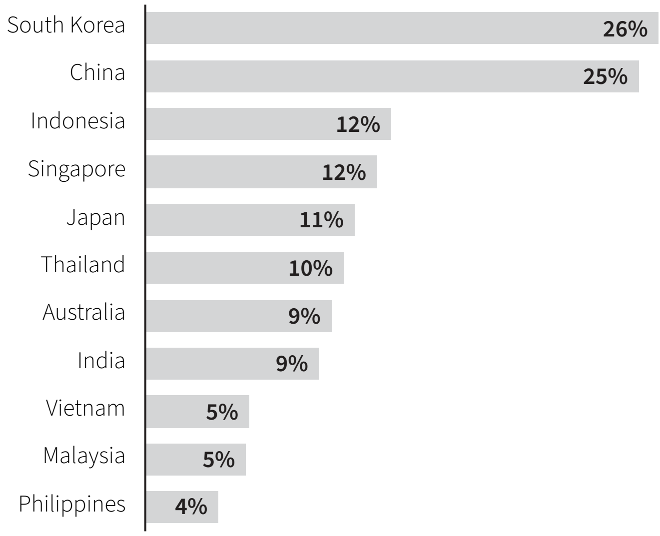
Source: various government statistical agencies e-commerce as a percentage of total retail sales is still a relatively small slice of the pie for most markets. Adoption rates are much higher for China and South Korea as these nations have been at the forefront of e-commerce even prior to the onset of COVID-19. e-commerce plays an increasing role in the uptake of self storage, as detailed later in this report.

Self storage REITs continue to outperform

The self storage sector has emerged as the most resilient asset class in this pandemic-ridden world. Since the onset of COVID-19, U.S. self storage REITs have outperformed all other REIT subgroups. Self storage REITs were also the best performers in 2020. Notably, traditional asset classes like the retail and office property sectors continue to underperform. This is largely attributable to weaker market fundamentals due to border closures and protracted work-from-home arrangements put in place by many companies.

Figure 6

Proportion of e-commerce in total retail sales, 2020

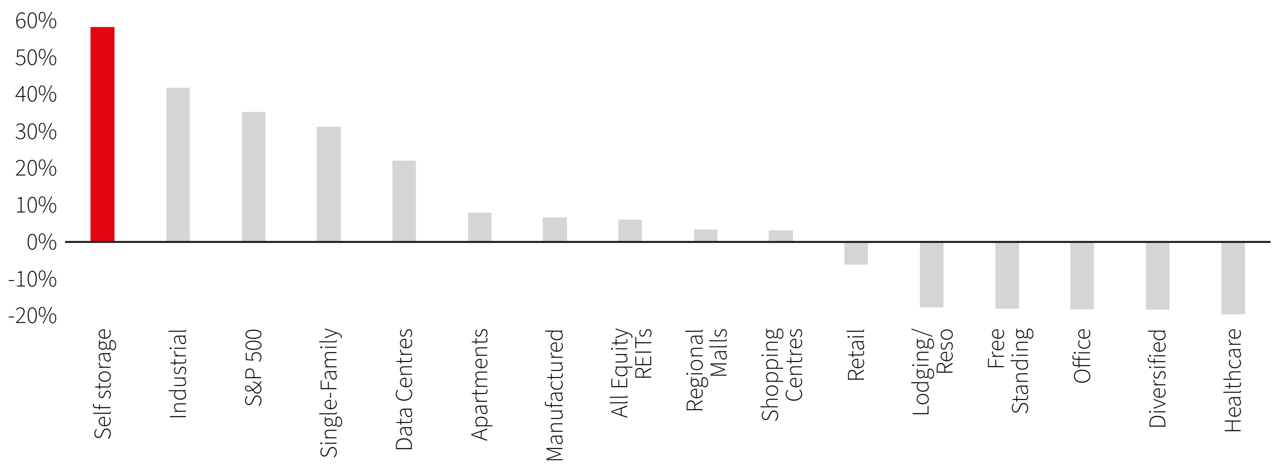


Note: e-commerce penetration rates may not be directly comparable across countries due to differences in methodology and definition of consumer categories that are included.

Source: Government statistical agencies for Australia, China, Singapore & South Korea. Estimates for other markets are based on calculations by JLL using e-commerce sales data from eMarketer and e-Conomy 2020 (a report by Google, Temasek & Bain)), and total retail sales data from Oxford Economics (April 2021)

Figure 7

FTSE NAREIT index performance



Source: FTSE NAREIT based on data for the period 21 February 2020 – 1 December 2021

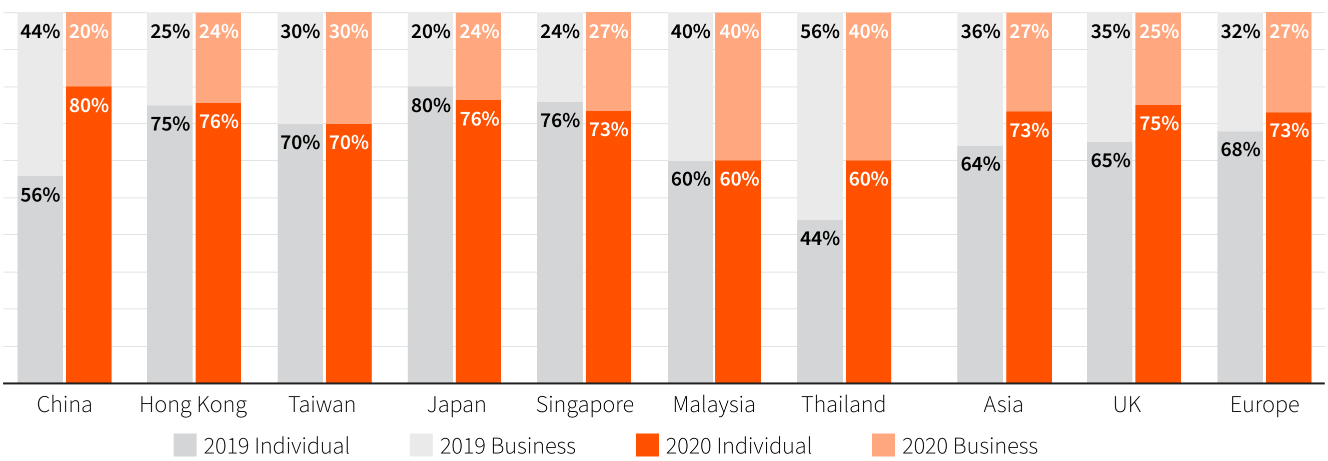
03
Industry Overview – Demand Drivers

Growing self storage demand from personal users

Comparing 2021's survey results with 2020's, the proportion of demand coming from personal users for the region has grown for most markets in Asia Pacific. Intriguingly, self storage in China, Thailand, and Hong Kong are at the forefront of this shift in customer mix. Although this could be related to GDP contraction in these countries, dampening the business demand, the more likely explanation is an improvement in consumer awareness and receptivity towards using self storage facilities for personal use. At least in the near term, we expect to see more demand from individuals, rather than business, underpinned by work-from-home (WFH) space woes amid the pandemic. However, this may change in the longer term as business demand is likely to increase with greater e-commerce user penetration and growth.

Figure 8

Individual vs business demand split



Source: SSAA Annual Survey 2020 and 2021, FEDESSA 2020 and 2021

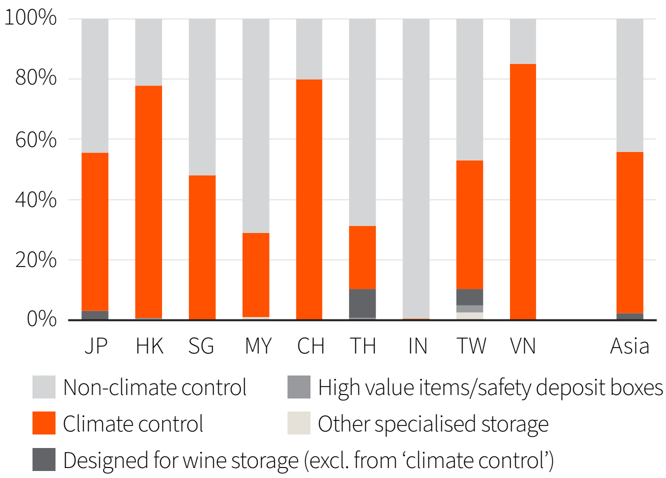
Product mix varies more across markets

While storage mix is homogenous, product mix varies across markets. This is most notable in Malaysia and Singapore, as the non-climate controlled segment takes up a fair bit of space. However, compared to the previous year, climate control segments have increased by around 28 percentage points in Singapore and by 11 percentage points in Malaysia. This diversification into the climate control segment is likely to continue to pick up across the region, but especially in emerging markets like India, given the low base. Other more specialised types of storage space (such as areas designed for wine storage) remain limited still in all AP markets. That said, this segment will likely become more popular as customers' needs evolve.

Storage mix by size is analogous between the latest two surveys, though it is worth mentioning that valet storage takes up a significant proportion of the space in India and Vietnam. In India in particular, the service culture means that those who can afford self storage are accustomed to having other people do the heavy lifting and delivery for them in all parts of their lives, making valet services (outsourced or offered by the operator) a must. Developing markets grappling with new supplies or entrants could see more valet storage than established markets as many self storage operators are keen to offer this niche product to differentiate themselves.

Figure 9

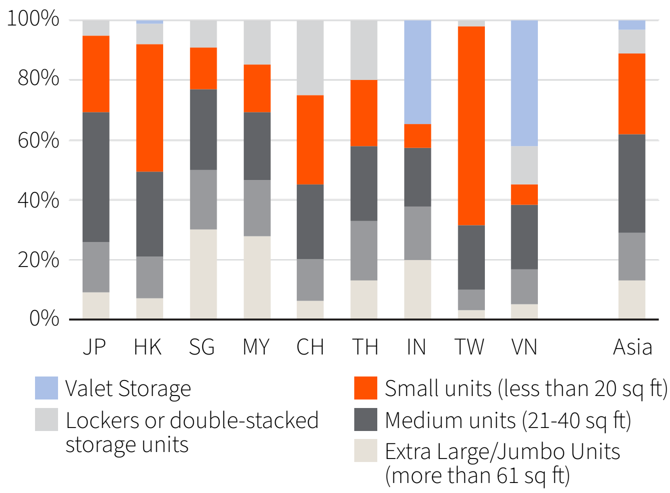
Product mix (type)



Source: SSAA Annual Survey 2021

Figure 10

Storage mix (size)



Source: SSAA Annual Survey 2021

Top 3 demand drivers are related to individual demand

The highest ranked demand drivers in the previous survey re-emerged as the best rated drivers for this year as well. That said, it is interesting to note that the top 3 rated demand drivers this year are all associated with individual demand. Online retail/e-commerce demand driver, the benchmark for the business demand and the second biggest driver of last year, slipped to fourth place. This alludes to stronger demand from the individual segment as more employees repurposed their homes into multi-functional living spaces by freeing up space by moving household goods into self storage.

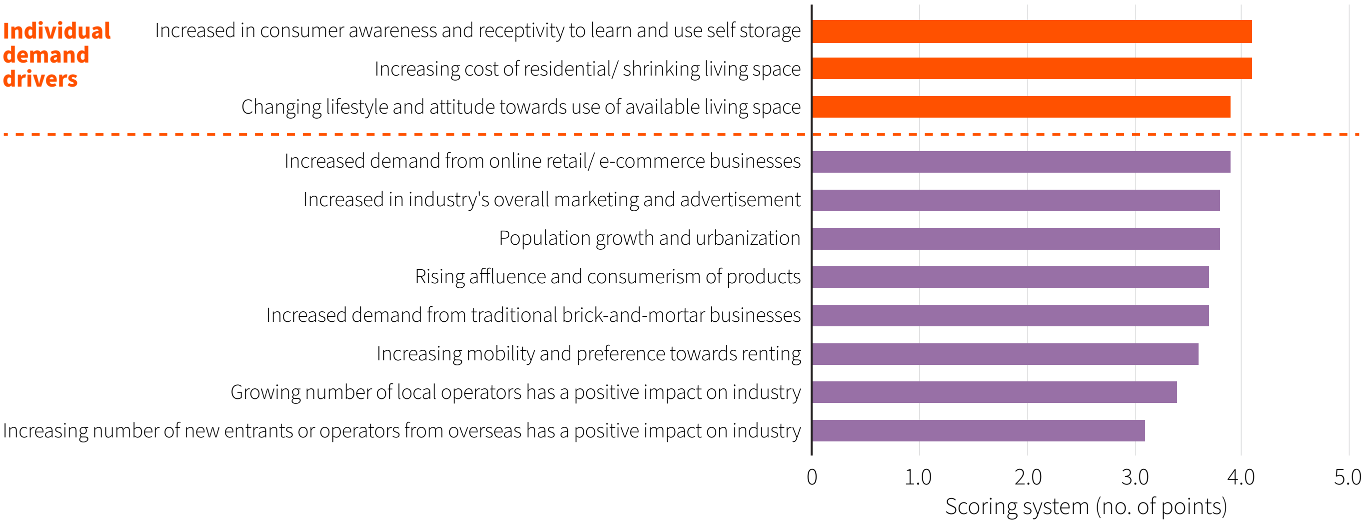
In the following section, we delve into some key demand drivers.

Urbanization and rising accommodation among driving forces behind self storage demand

Although this year's survey captured the population and urbanization as the sixth demand driver, Asia Pacific's urbanization trend remains undeniably the biggest driving force to facilitate the need for self storage from individuals. Asia Pacific is home to 53% of the world's urban population. When a nation has a higher urban population, it is typically correlated to smaller living spaces and higher accommodation costs due to greater demand for housing. This also results in a higher renter population within cities. Renters shift accommodations more frequently than homeowners. Some require a storage facility to

Figure 11

Demand drivers



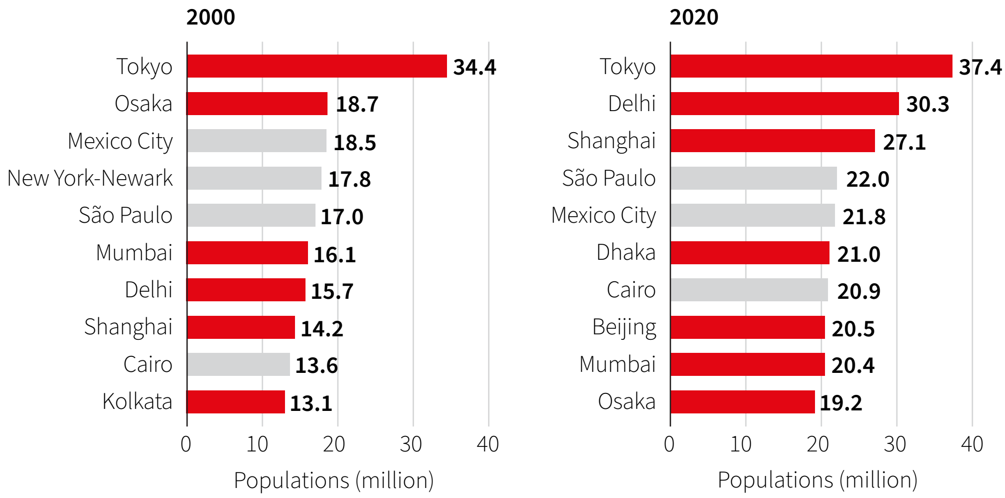
Source: SSAA Annual Survey 2021

Figure 12

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, 4Q 2020

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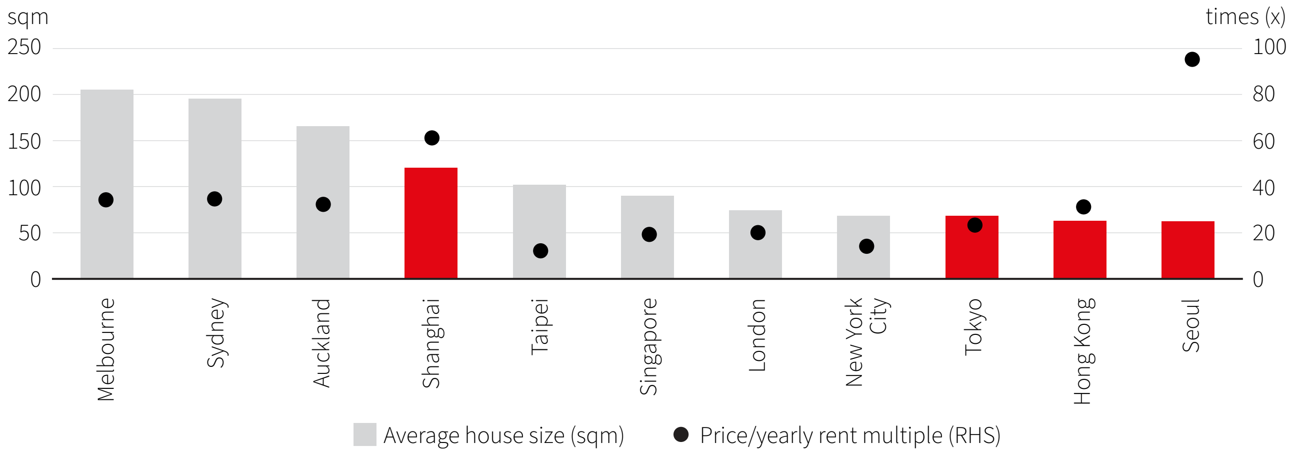
temporarily house their belongings as they transition to a new home. All of these aforementioned developments are supporting, and likely to continue to support, self storage demand across the region in the long term. By 2035, Asia Pacific is projected to have 29 mega cities housing ½ billion people and this impetus alone would give a strong momentum to the growth of self storage business in the region over the next decade.

Affordable housing became an issue globally as home prices skyrocketed, underpinned by low interest rates and supply shortages during the pandemic. However, in Asia Pacific, housing prices-to-rent ratio had been elevated even prior to the onset of the pandemic. As evidenced in the smaller average home size of the APAC cities in the below graph compared to global benchmarks, households are buying smaller apartments or rental units as an alternative and this has been behind rising individual demand from individual consumers for self storage. Since this issue is only to be compounded by the Asia Pacific's rapid urbanization, the self storage market is likely to be the biggest beneficiary from this emerging demand.

> Some require a storage facility to temporarily house their belongings as they transition to a new home.

Figure 13

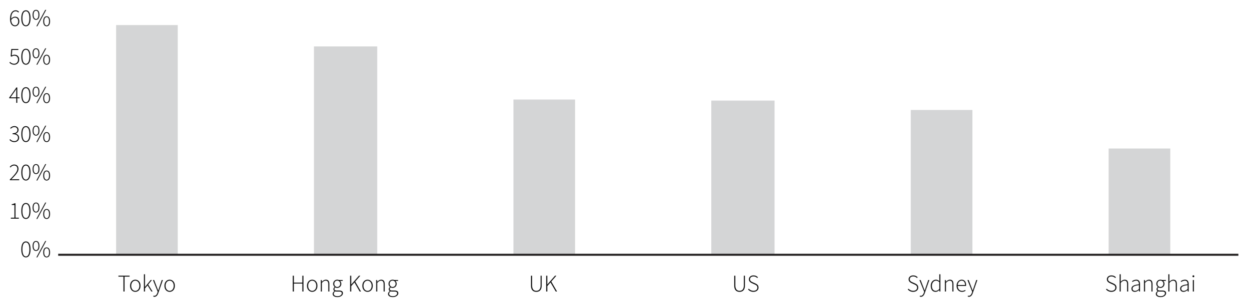
Average house size



Note: 2019 data for all market
Source: JLL estimates

Figure 14

Proportion of population renting (%)



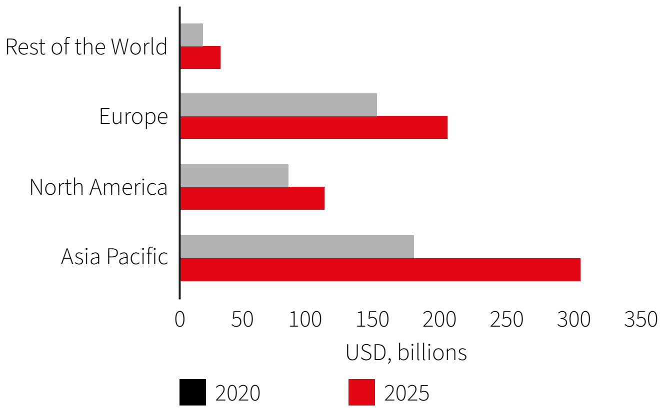
Source: JLL estimates

APAC boasts of the strongest e-commerce momentum amongst regions

Another key demand driver for APAC self storage is the explosive growth in e-commerce. E-commerce retailers typically employ self storage spaces for inventory storage and last-mile delivery. E-commerce growth for Asia Pacific is expected to grow at 11% CAGR over the next 5 years. Notably, this is almost double that of other global regions, which are projected to grow at 6% CAGR over the next 5 years.

Figure 15

E-commerce by regions



Source: Transport Intelligence, 2Q21

Occupancy continues to remain healthy across the region

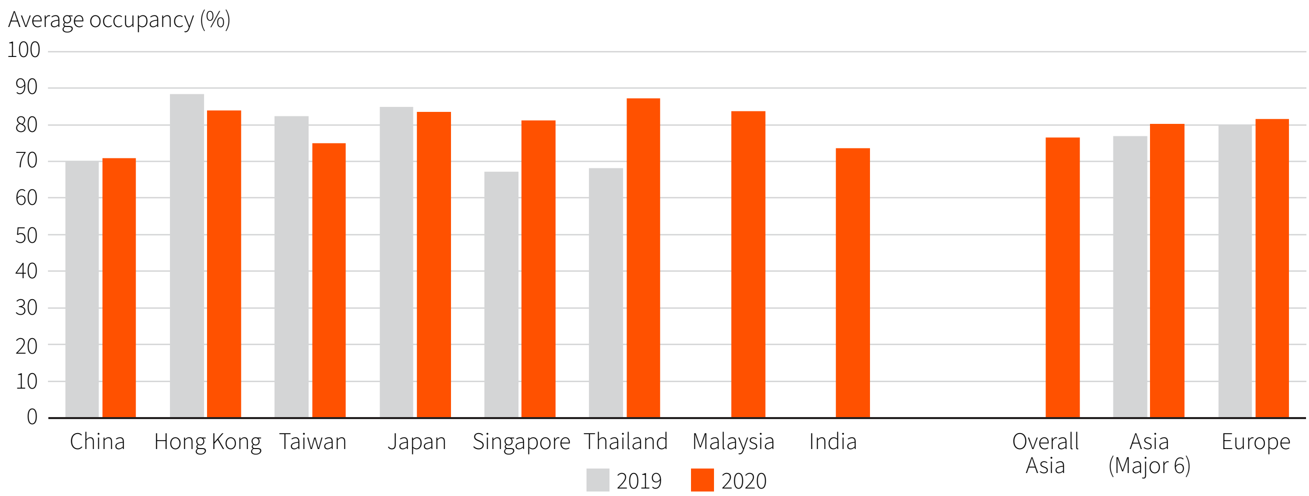
The overall 2020 Asia Pacific occupancy rate is 77%, demonstrating its resiliency despite the COVID challenges. Among "The Major 6" regions - China, Thailand, Taiwan, Japan, Singapore, and Hong Kong - overall occupancy saw an improvement between 2019 and 2020, underscoring the attractiveness of the self storage sector as a defensive and income-resilient asset class

Looking at individual countries, China, HK, and Japan all weathered the COVID storm well, seeing their occupancies remaining steady. Singapore and Thailand managed to register meaningful reductions in vacancies with demand for self storage within these countries growing on the back of more individuals freeing up their home space.

Compared to more mature markets, like the US and Europe that have occupancy rates between 75% and 80%, the current level of AP occupancy remains healthy and is likely to further trend upwards. Emerging markets like India, China, and Vietnam are expected to stabilize their occupancies going forward.

Figure 16

Occupancy levels in APAC



Source: SSAA Annual Survey 2020 and 2021, FEDESSA 2020 and 2021. Excluded facilities opened in 2021

Rental rate remains resilient despite COVID headwinds

On average, monthly rental rates in Asia Pacific were recorded at USD 3.8 psf pm in 2020, declining from USD 4.0 psf pm seen in the 2019 survey as our latest survey results captured a moderation in average monthly rental rates in dollar terms across most APAC markets.

However, looking deeper, some of this dip appears to stem from dollar appreciation over the course of 2021 coupled with the fact that survey respondent compositions differ at country level and regional level between the past two years. Other changes in results could arise from improvements in sampling in this year's survey from an increased number of survey participants to more diligent review and follow up of checking on anomalies.

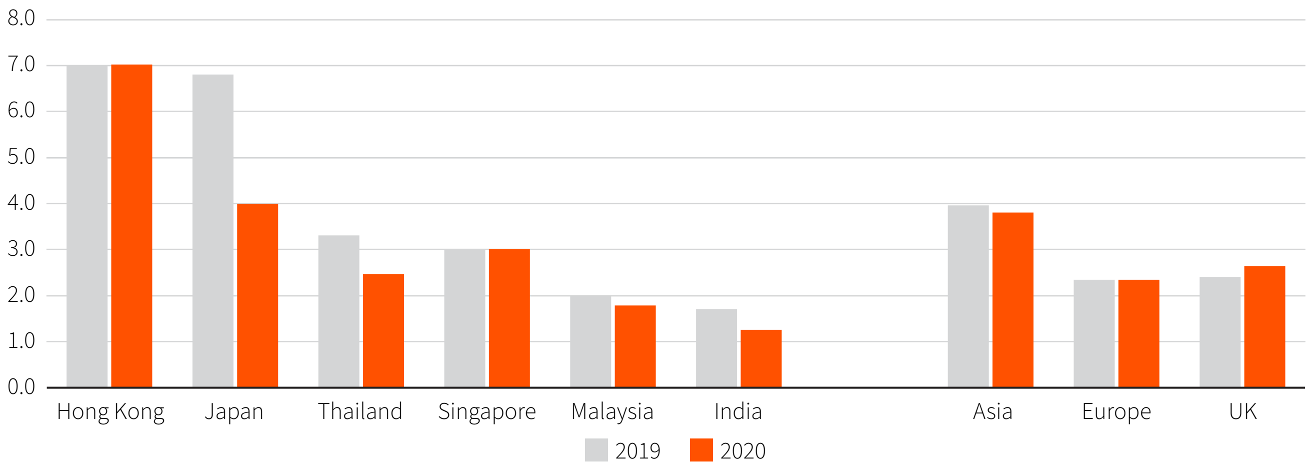
For example, the large decline in Japan's rental rates could be attributed to the fact that far more members in Japan participated in this year's survey. Last year's smaller sample size could have been from a smaller, more elite, Tokyo focused sample. This year's survey had far greater representation thanks to support from the RSA and the JLL Japan office.

On a similar note, although Thailand's rental rate seems to have experienced a sizable contraction on the surface, it is mostly driven by new members who partook in this year's survey; indeed, same store rental rates are stable over this period.

Hong Kong and Singapore, on the other hand, the most mature and largest markets in the Asia ex-Japan region, saw their rental rates, in terms of local currency, picking up by 1% and 1.3%, respectively, over the same period. Taking into consideration the fact that these two markets often serve as bellwethers in the region, the latest estimated rental rates in terms of local currency could be on par or marginally up relative to the last year's across the region despite the COVID uncertainties.

Figure 17

Average rental rate (USD psf pm)



Source: SSAA Annual Survey 2020 and 2021, FEDESSA 2020 and 2021

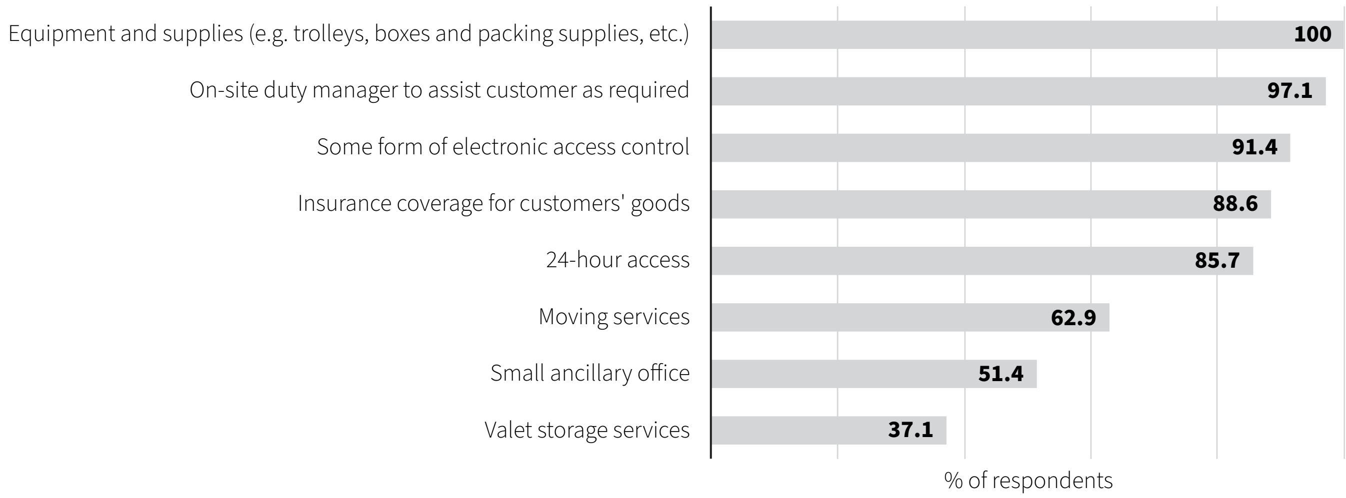
Value-add services represent a growth opportunity

As a percentage, value-added services are estimated to produce around 7% of the top line in Asia Pacific, the same as last year. This represents an extensive gap as compared to more advanced markets. For instance, UK operators produce 12% of their revenue from value-added services. That being said, our latest survey results capture a notable increase in three value-add service categories in terms of as % of respondents: insurance coverage (+20%), small ancillary offices (+11%), and valet storage (+3%) as operators have striven to extend these services into their value-add service offering.

More importantly, around 50% of surveyed operators reported their contribution of value-add service as % of revenue as less than or equal to 2%. We expect this underutilization to normalize gradually, in turn, presenting a strong source for the revenue growth for operators going forward.

Figure 18

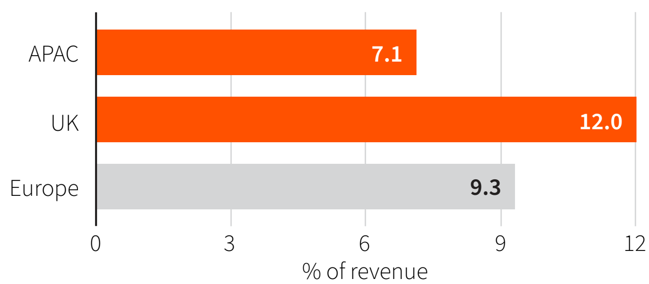
Value-add services provided



Source: SSAA Annual Survey 2021
Note: for the compatibility to the last year survey result, Japan data were excluded

Figure 19

Value add services as a percentage of revenue



Source: SSAA Annual Survey 2021
Note: for the compatibility to the last year survey result, Japan data were excluded

> More importantly, around 50% of surveyed operators reported their contribution of value-add service as % of revenue as less than or equal to 2%.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store-friendly.com
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13 Yip Cheong Street , Fanling (Storefriendly Tower Metropolis)
8 A Kung Ngam Village Road, Shau Kei Wan (Shau Kei Wan Storefriendly Tower)

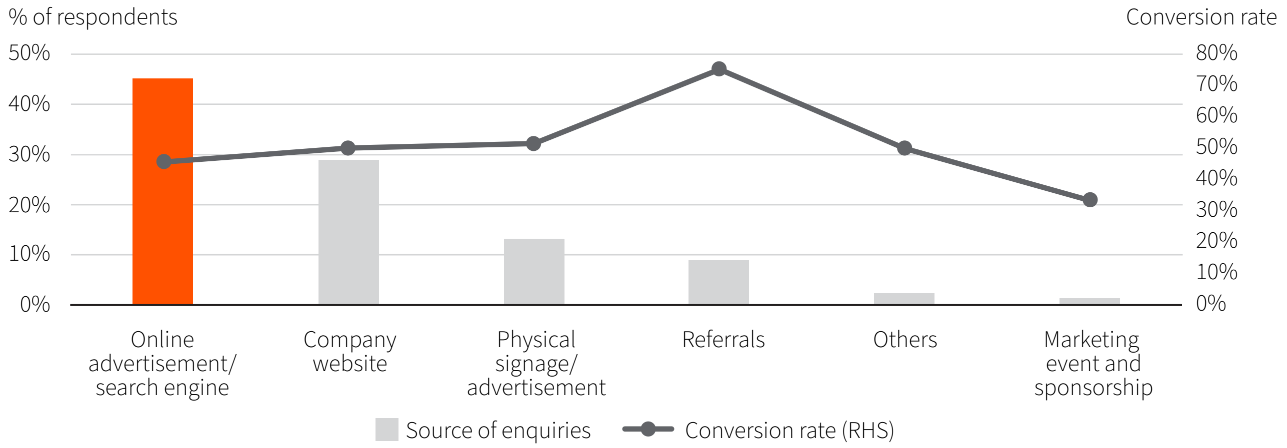
Building a versatile online platform is critical

Similar to last year, referrals resulted in the highest conversion rates (75%), followed by physical signage and ads (51%), the company website (50%), and online advertisements and search engines (46%). Intriguingly, across the spectrum of enquiries, we saw a marked uptick in conversation rate from this year's survey relative to the last year. However, this finding should be attributable to more rigorous data checks conducted this year as opposed to changes in the fundamentals. When it comes to a type of adopted online strategy, except for mobile apps, each of the other four online strategies - online payment, online pricing information, online reservation and online virtual tours have already been adopted by a majority of the surveyed operators.

Given the high conversion rate in both online advertisement/search engine and company websites, in conjunction with adopting diverse online features, building a versatile online platform is a must for the success of any self storage business.

Figure 20

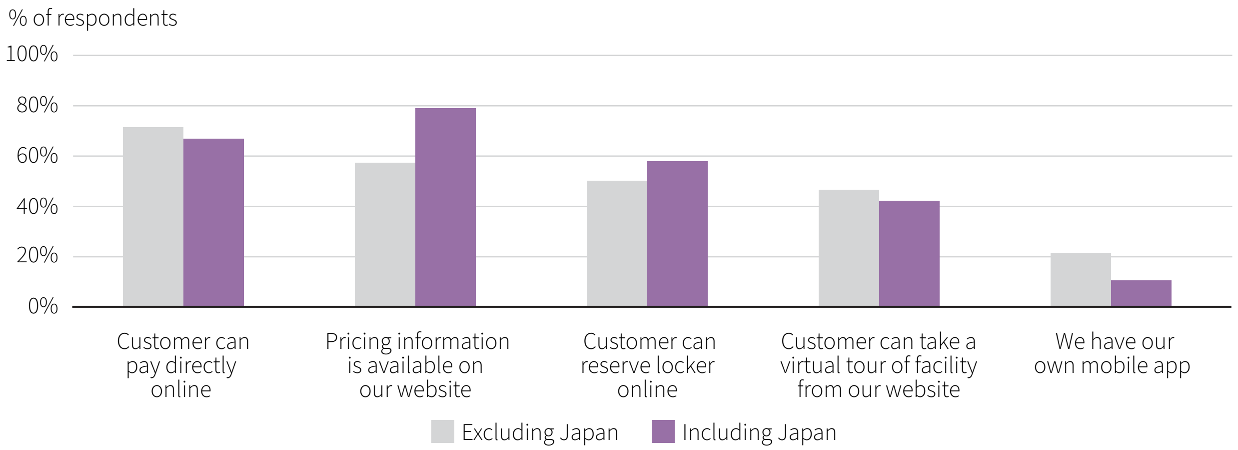
Source of enquires and conversion rates



Source: SSAA Annual Survey 2021

Figure 21

Online strategy



Source: SSAA Annual Survey 2021

An upbeat outlook on rents in both short and medium terms

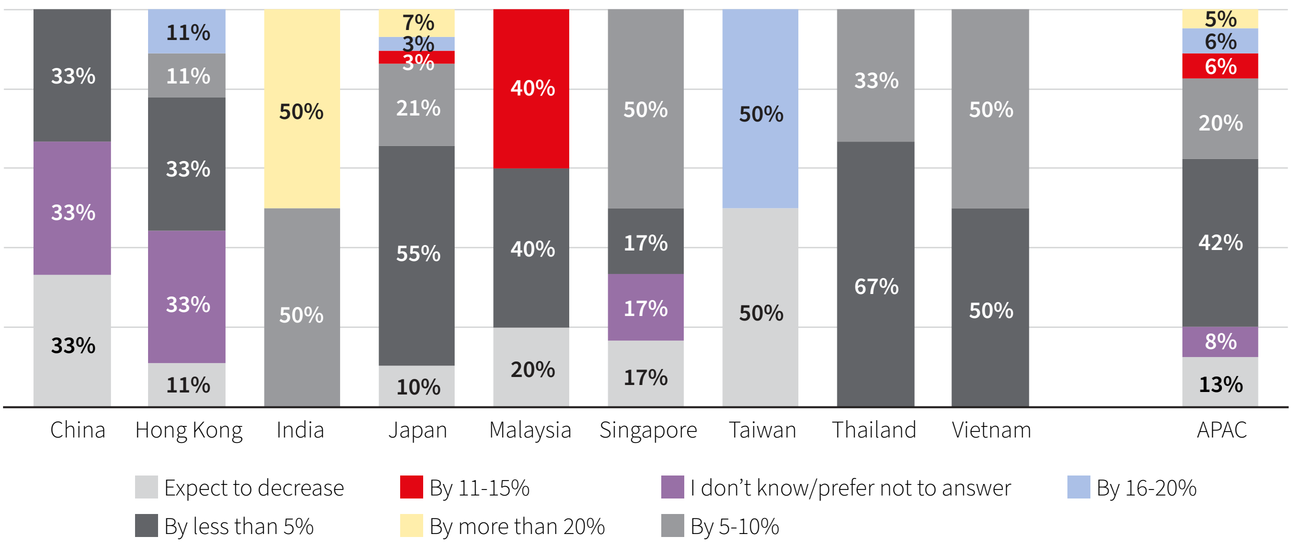
The latest survey result shows that around 79% of respondents expect to achieve a positive annual rental growth for the year of 2021, a noticeable leap from the prior year's result where only 58% of respondents expected an improvement in rental rates. Additionally, given the pre-COVID positive rental growth expectation was estimated at 72%, a rate of 79% shows the rental growth trajectory for the whole industry is already back on track in spite of the pandemic.

A noticeable leap from the prior year's result where only 58% of respondents expected an improvement in rental rates.

The future appears to be even more promising. Nearly 84% of the surveyed respondents expressed a positive annual rental growth expectation over the next three to five years.

Figure 22

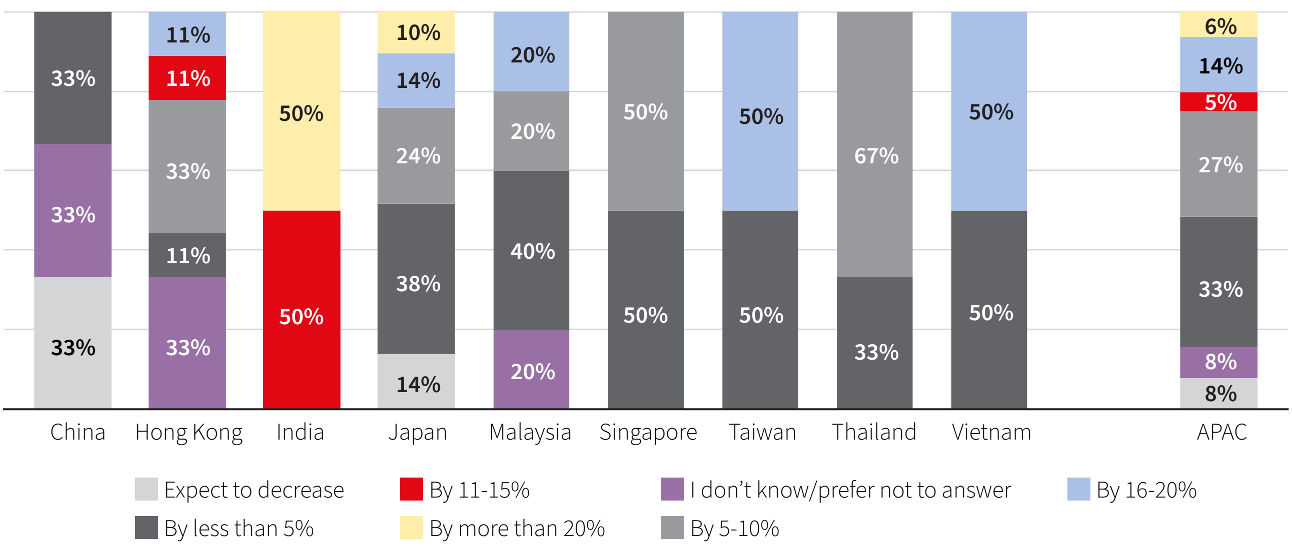
2021 rental growth expectations



Source: SSAA Annual Survey 2021

Figure 23

3 to 5 years rental growth expectations



Source: SSAA Annual Survey 2021

Profitability outlook remains resilient as well

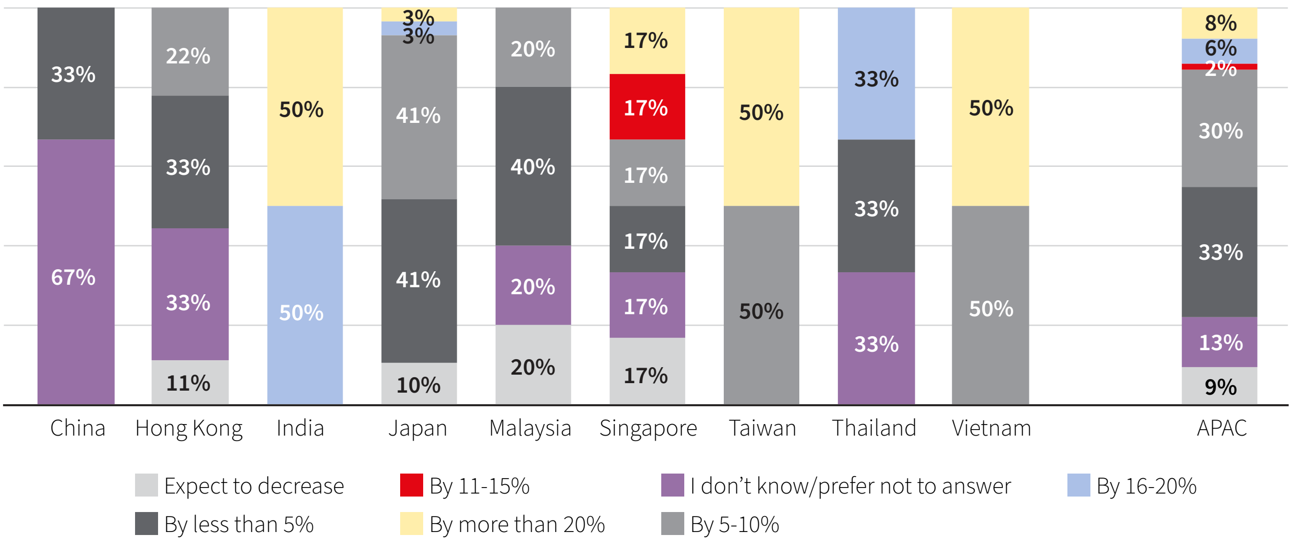
The 2020 survey was conducted in the midst of the pandemic. Prior to COVID-19, 72% of respondents expected rental growth in 2020. However, only 58% expected rental growth in 2020 after the pandemic; roughly a modest 14 percentage point decline. Overall, this illustrated the defensiveness of the sector compared with many other sectors and industries that are in more negative territory. As the survey is based on 2019 performance, the next annual survey will likely provide deeper insights into the actual impact.

In a similar vein, 78% of respondents expected profitability growth in 2021, while 89% expect profitability growth in the longer term. Again in line with those rental outlooks, these findings reaffirm a positive prospect for the sector.

One item to raise is that respondents with positive rental growth view tend to show an even more positive view vis a vis their profitability outlook which is a textbook example of industry with high operating leverage. In other words, given self storage's high proportion of fixed costs to variable costs, operators expect to earn more per unit rented as they improve occupancy.

Figure 24

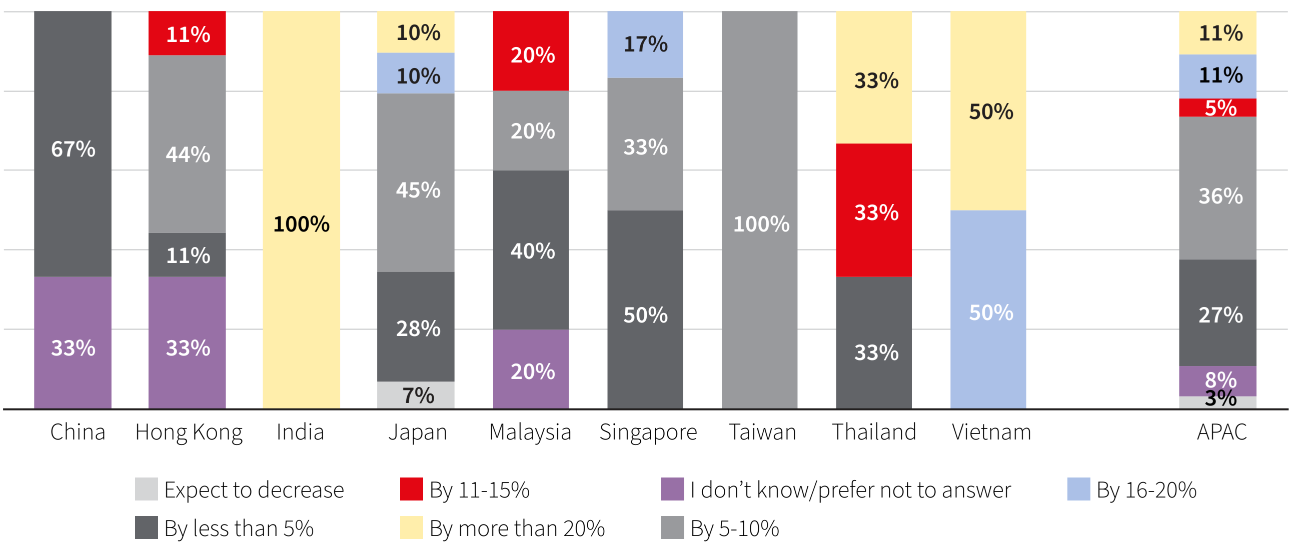
2021 profitability expectations



Source: SSAA Annual Survey 2021

Figure 25

3 to 5 years profitability expectations



Source: SSAA Annual Survey 2021

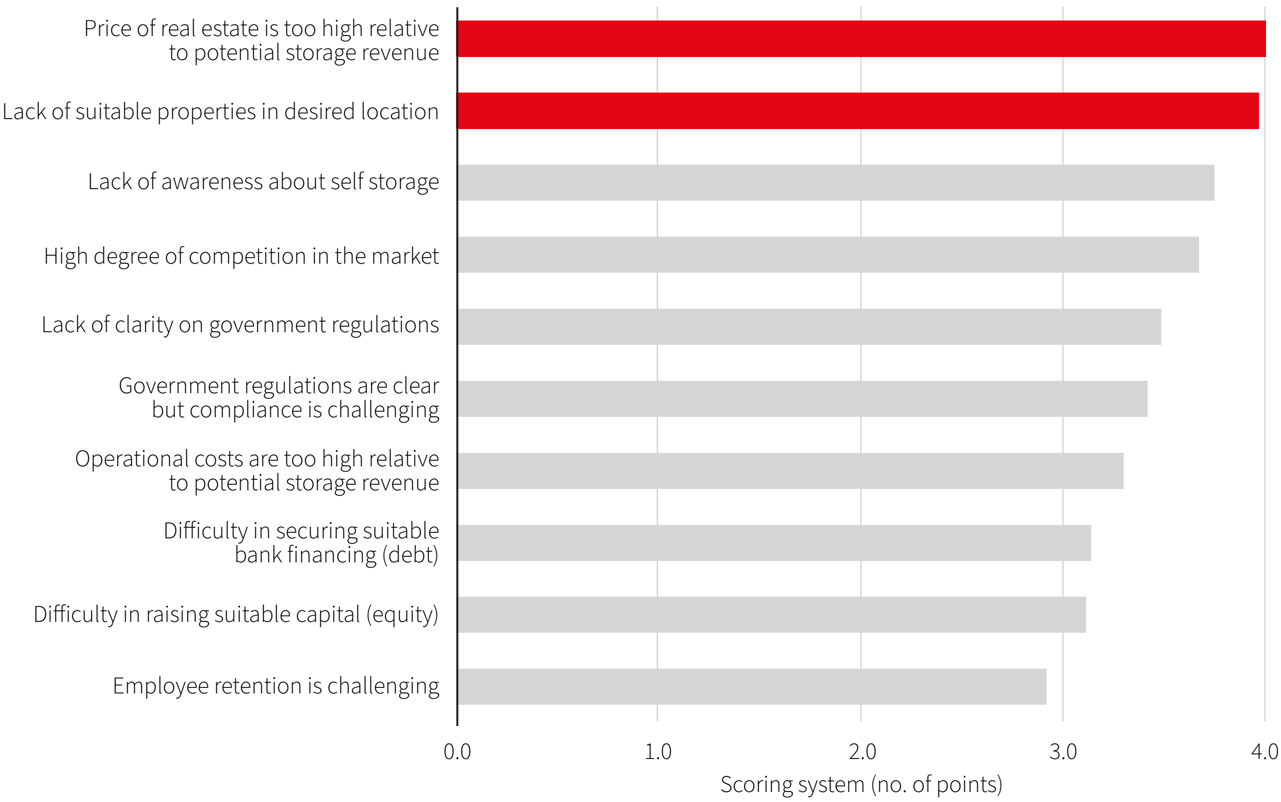
Real estate market conditions are cited as their biggest challenges

This year, the price of real estate and a lack of suitable properties in desired locations were cited as the two biggest hurdles facing operators. Tightening real estate conditions, in fact, can be felt across the APAC commercial real estate market and have become a big headwind for rapidly burgeoning real estate asset classes such as self storage. In response to these adverse market conditions, we expect APAC operators to prefer and select ownership structures over leasing, which is happening in the Australian market at the moment.

Interestingly, both ‘Lack of awareness about self storage’ and ‘Lack of clarity on government regulation’, the two top picks of the last year, fell back into the third spot and fifth spot respectively, suggesting an improvement in consumer awareness and government regulation in recent years.

Figure 26

Key challenges



Source: SSAA Annual Survey 2021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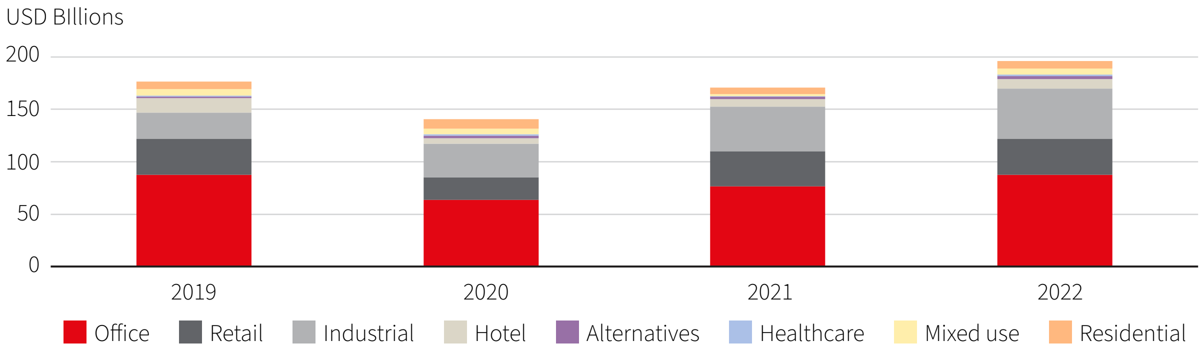
04
Investment Market

2021 APAC commercial real estate volumes are expected to reach pre-COVID levels

After experiencing a correction in 2020, the APAC Commercial Real Estate (CRE) volume has made a marked recovery over the course of 2021. Asia Pacific direct real estate transactions up to the third quarter reached USD 125 billion, rising 30% compared with the same period a year earlier. With this momentum, we expect the 2021 full-year APAC investment volume to reach pre-pandemic levels.

Market fundamentals and trends underpinning the CRE market lately include asset allocation into real estate, record high dry powder, yield compression, and attractive relative value. These factors would continue to hold up well and even likely consolidate to some degree moving forward. With this in mind, JLL believes 2022 APAC transaction volume is likely to climb 15% yoy to a new record, the highest volume in history. We believe this record high level of liquidity and burgeoning investor pool should also benefit and give even more momentum to the self storage sector.

Figure 27
APAC commercial real estate volume



Source: JLL, 4Q 2021. 2021 and 2022 are estimates

Industrial assets present attractive risk-adjusted returns across the region

Survey results show that self storage operators looking to own their facilities are now grappling with very limited acquisition opportunities in industrial properties. Among all asset classes monitored by JLL Research, industrial assets have enjoyed the most pronounced compression in both the pre- and post-COVID periods alike. Amid the pandemic led demand for industrial property (driven by ecommerce and logistics), the pace of compression since the start of the pandemic has become even sharper across the region.

Backed by structural tailwinds toward industrial assets and theirs relative value to office assets, we believe the yield compression cycle for industrial assets could continue, albeit at a more gradual pace.

With this impetus, although Singapore and Tokyo appear to offer the best cash on cash return at the moment, any industrial bets across major AP economies, we believe, would allow investors to reap attractive risk-adjusted returns.

Leasing model is more prevalent in the APAC region

Leasing and owner-occupation represent two different experiences for operators. Owner-occupation is less common in Asia Pacific, with just 18% (43% for ASIA ex-Japan) of the surveyed facilities being owned facilities as compared to up to 77% in the UK.

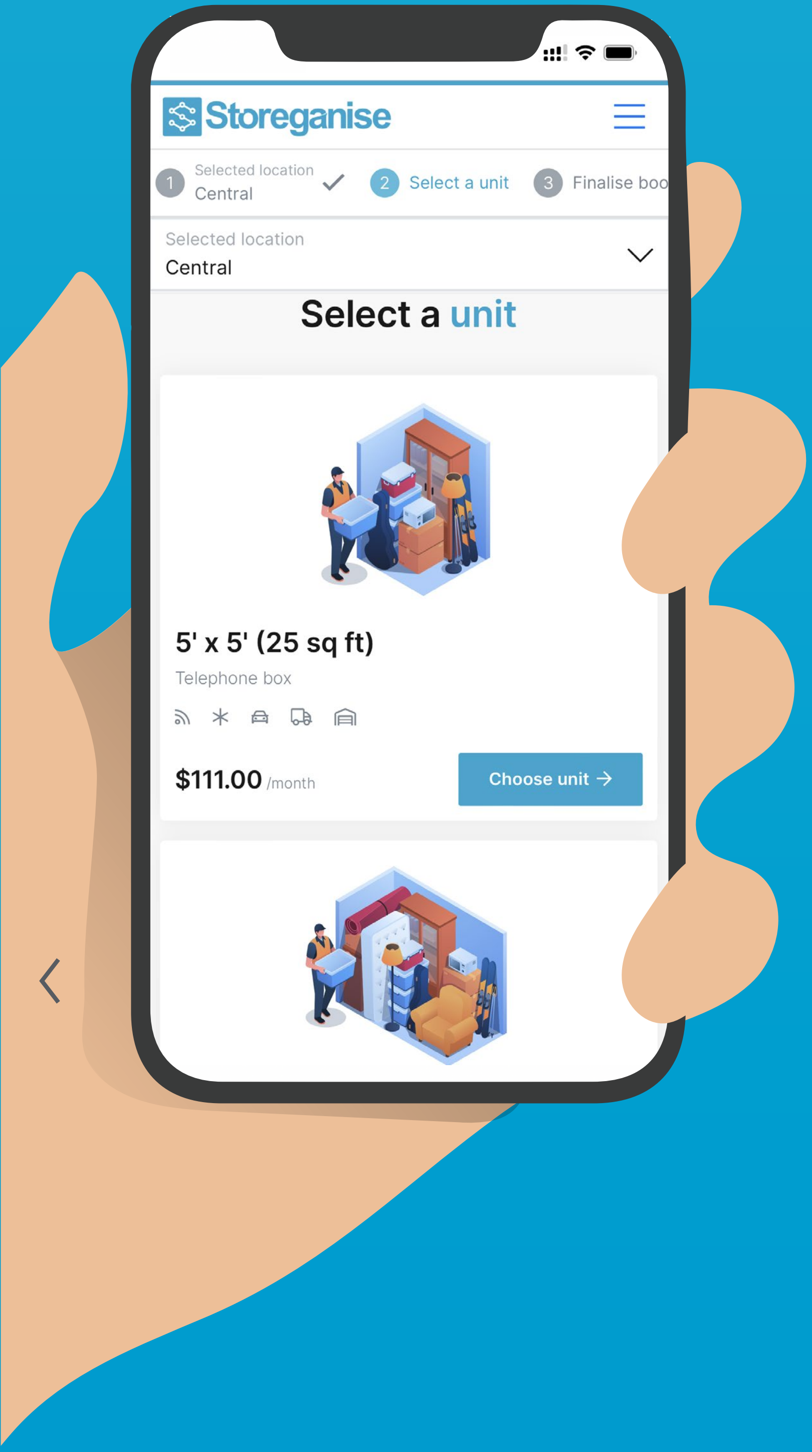
Table 1

Yields, loan-to-value ratios and costs of debt

Industrial Market	Typical Cost of debt (%)	Typical LVR (%)	Transactional Yield (%)	Yield Spread of Debt Cost (bps)	Cash-on-cash Yield (%)
Hong Kong	1.60	50	3.60	200	5.60
Seoul	3.00	60	4.05	105	5.63
Singapore	1.50	40-50	5.25	375	8.32
Shanghai (RMB)	4.65	30-50	4.40	-25	4.40
Sydney	2.00	50	3.50	150	5.00
Melbourne	2.00	50	3.50	150	5.00
Tokyo	0.60	55-60	3.00	240	6.60

Note: Cash-on-cash yield is calculated by: (transactional yields – cost of debt x LTV ratio)/(1 – LTV ratio). Debt costs are based on investment grade borrowers, core stabilized assets fixed pricing on typical market maturities. Australian cap rates are net face yields, other markets are net effective

Source: JLL 3Q 2021


Storeganise
1 Selected location
Central
2 Select a unit
Selected location
Central
Select a unit
5' x 5' (25 sq ft)
Telephone box
$111.00 /month
Choose unit

This highlights the fact that operators more often opt for leasehold interests that present lower entry costs. Operators also consider leasing to gain access to areas where owner occupation is simply not available because the lack of availability of land or capital do not always allow them to adopt this model.

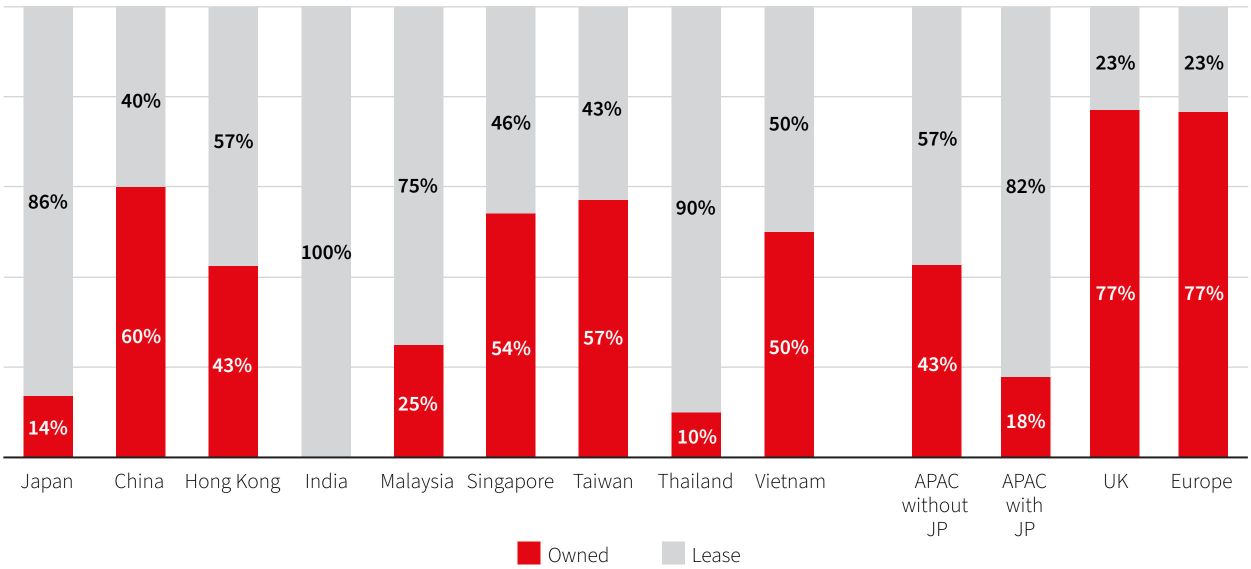
However, short term lease arrangements give rise to the risk of landlords not renewing leases. Plus, periodic lease payment is increasingly costly since many operators are investing more in safety, technology and other amenities in their facilities as markets mature and consumer expectations rise. Owner occupation is most accretive to value and also enables the operator to find more favourable debt terms. As such, we expect the proportion of self-owned facilities to rise as the market matures.

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 66% of the funding for the industry, a 10% increase from the prior year. Having said that, we have already seen private equity funds and institutional capital such as America's Warbug Pincus, Heitman and Blackstone and Japan's Mistuuroko deploying money in this sector with a strong focus on Hong Kong, Australia and Japan. Hence, the share of organized funds and corporate funding will gain ground going forward.

Figure 28

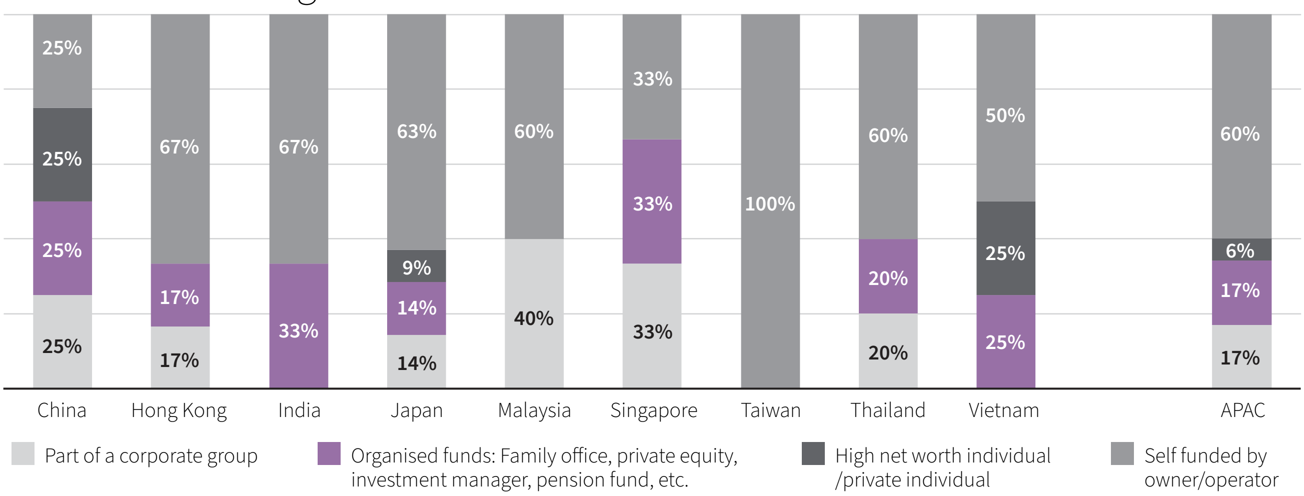
Ownership versus lease



Source: SSAA Annual Survey 2021, FEDESSA 2021
Note: Owned includes freehold and leasehold titles. Leased refers to building lease.

Figure 29

Sources of funding



Source: SSAA Annual Survey 2021

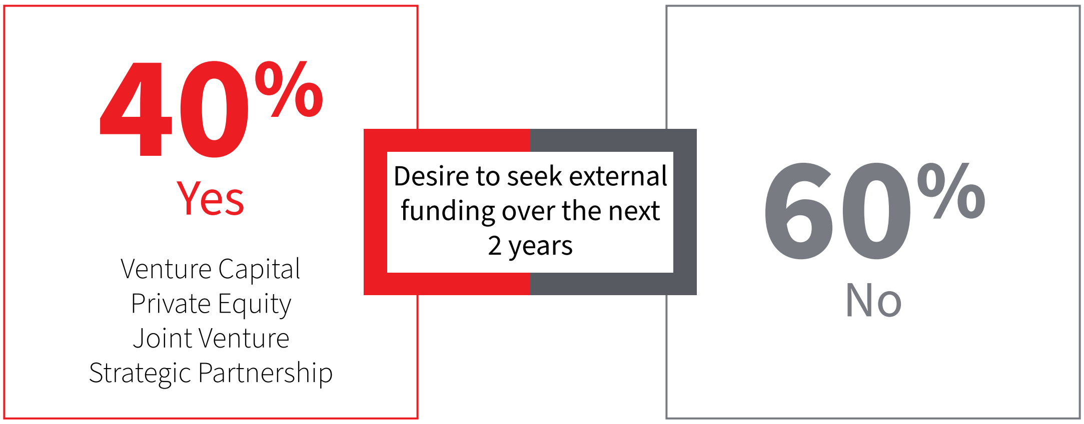
40% of respondents to seek external funding

For two consecutive years, respondents have expressed a cautious view with regard to funding. This year, the share of operators seeking external funding over the next 2 years declined to 40% from 50%, the result observed in the prior year. Nonetheless, given the current uncertain economic climate, we still view this as a positive result, as 40% of operators are planning to form new relationships and prepare for new business growth going forward.

Self storage sector to continue to grow

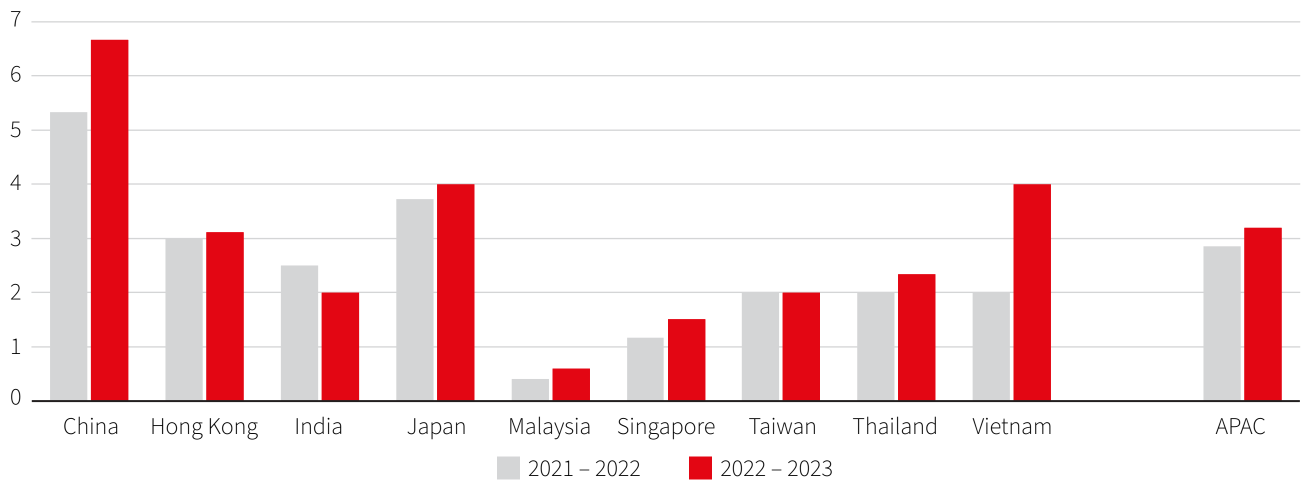
Optimism is rising compared to expectations expressed in last year's survey. Bar Malaysia and Taiwan, operators in the rest of the region are willing to expand at a brisker pace (compared to previous years) over the next two years, again reflecting growth prospects and optimism within the industry. Given 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 30
Desire to seek external funding

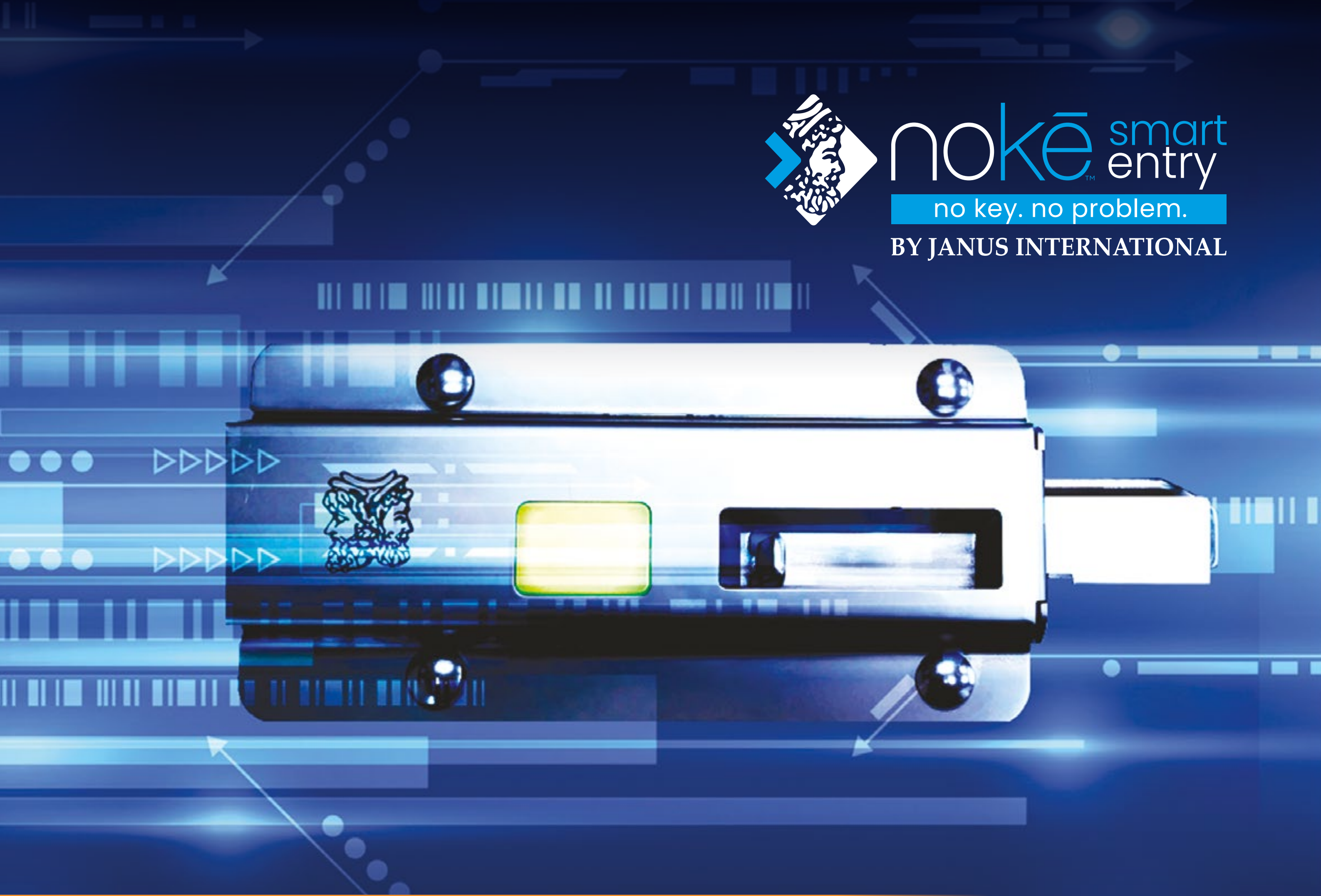


Source: SSAA Annual Survey 2021

Figure 31
Plans for new facilities



Sources: SSAA Annual Survey 2021



Game-changing self storage access control

The latest electronic smart lock, Nokē One by Janus International, introduces automation by eliminating entry codes and padlocks through the power of fully mobile access control. The Nokē™ Smart Entry system is a cloud-based digital key management solution, designed specifically for the self storage industry, that allows tenants entry to a facility and its units using a smart phone. The electronic lock comes with a feature-rich Smart Storage Entry phone application, with notification options for operators, managers, and tenants and is available in any language.

Get in touch for a free consultation:

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In 2022, Steel Storage Asia Pte Ltd, a wholly owned subsidiary of the Janus International Group, will operate as Janus International (Storage Solutions) Asia Pte Ltd.

05
Conclusions

While the COVID situation continues to drag on some core CRE sectors, the APAC self storage sector has proved to be an exception, prospering throughout the pandemic. In fact, the asset class has benefited from the unanticipated pandemic-driven demands influencing individual and business users to increase their self storage consumption. Undoubtedly, the sector has now returned to, or even surpassed its pre-COVID upbeat growth trajectory. We believe that, encouraged by strong macroeconomic factors, solid demographic trends, persistent changes to consumer behaviour (like WFH) and e-commerce growth potential across the region, the APAC self storage market is better placed to capture robust growth in the coming decade compared to other alternative real estate classes in the region.

Challenges do remain, however, especially with real estate pricing and availability of property in suitable locations. Likewise, relative to more advanced global markets, the whole region still lags in some of the key market parameters such as low contribution of value-add service to revenue and a heavy reliance on leasing over ownership. However, these are challenges that are connected to high growth prospects or that represent unrealised opportunities to improve revenue at low investment costs (i.e. improve profitability).

Given its attractive returns, solid market fundamentals and growth potential, APAC self storage is likely to continue to remain a sound investment prospect, attracting more institutional capital and leading to better liquidity, scalability, and higher returns on investment for years to come.

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