

# UK OPERATIONAL REAL ESTATE INSIGHTS

## SELF STORAGE

OCTOBER 2020



**CBRE**

# SELF STORAGE MARKET UPDATE

The Coronavirus pandemic has resulted in significant disruption across the real estate market with the spotlight on operational performance across various segments, including the “conventional” sectors of retail, office and industrial/distribution but with a particular focus on operational real estate such as hotels, healthcare, purpose built student accommodation, data centres, pubs, leisure assets and, of course, self storage.

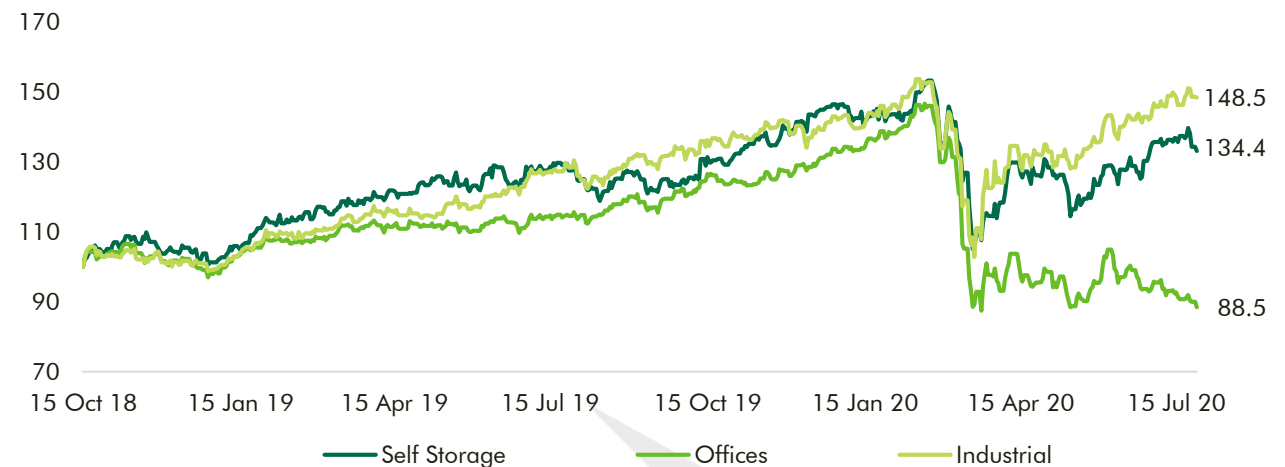
There has been a well-documented disparity in performance between real estate segments, with structural changes taking place in the physical and online retail markets with resulting impacts for real estate, and in particular the distribution sector. Operational real estate has also seen a huge divergence in trading patterns since March with some sectors holding up well, and even benefitting from the Pandemic, but others such as destination leisure suffering from significant distress. Investors, if not directly impacted by these changes, are clearly observing the differing performance of the sectors during this period of disruption.

We anticipate that the Pandemic will most likely bring opportunities for the self storage industry and at CBRE we are uniquely positioned to provide advice and help bring forward some of these opportunities.

## PUBLIC COMPANY PERFORMANCE

Graph (A) shows share prices over time for baskets of public company shares for three comparison sectors. The self storage group comprises Big Yellow, Safestore and Shurgard and therefore clearly covers several markets with a bias towards the UK.

Since inception(1) (Oct 18) (Graph A)



Source: FactSet as of close 27 Jun 2020 | (1) Shurgard inception into public market on 15 Oct 2018

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On the previous graph the office line (17 companies) and industrial line (4 companies) cover various European markets.

The industrial basket is weighted more towards logistics and distribution rather than industrial and manufacturing and this is the sector that has been the beneficiary of the structural shift towards online retailing over a period of time, accelerated during the global Pandemic.

It is not a surprise to see the strongest share price performance in the industrial/distribution sector, but self storage has also demonstrated notable performance, reflecting the recent operational results of the sector during the pandemic.

Looking at the public companies in more detail (see Table A) there are some further factors to highlight:

- The market capitalisation of the three self storage companies is circa €6.5bn – only 3.6% of the market cap for all sectors considered in the Table A. It remains very niche within the wider market for indirect investment in real estate. The enterprise value is even lower at circa 2%.
- Share prices for self storage initially fell in line with a number of sectors (21 Feb to 23 Mar). The price recovery since then has been good, with only the residential and industrial markets performing better.
- Implied NIYs (net initial yields) are amongst the

(Table A)

	MARKET CAPITALISATION (BN)	ENTERPRISE VALUE (BN)	21 FEB TO 23 MAR	21 FEB TO CURRENT	IMPLIED NIY	DISCOUNT TO NAV	DISCOUNT TO GAV	LTV	NET DEBT: EBITDA	FY20 RENTAL GROWTH	PRE-COVID NRI GROWTH
TOTAL	188.6	385.8	-34.9%	-19.2%	5.0%	-7.7%	-3.8%	42.2%	11.1x	-3.0%	2.6%
Office	65.1	136.2	-40.9%	-38.0%	5.8%	-30.5%	-20.3%	42.2%	11.3x	-2.2%	2.2%
Living	63.6	109.9	-26.8%	1.2%	4.0%	-1.1%	-0.7%	44.0%	12.7x	-1.1%	2.7%
Retail	18.6	84.0	-43.0%	-51.7%	7.5%	-56.2%	-26.7%	56.2%	13.0x	-18.5%	2.2%
Industrial	22.3	29.4	-29.6%	0.9%	3.5%	44.7%	31.9%	33.6%	7.6x	2.2%	3.2%
Other	18.9	26.3	-28.4%	-15.1%	4.6%	34.3%	23.2%	33.1%	6.6x	0.8%	4.6%
Self Storage	6.6	7.8	-28.6%	-11.4%	4.6%	37.9%	30.4%	21.9%	3.6x	0.5%	6.3%
Healthcare	11.3	16.8	-26.6%	-14.9%	4.5%	38.3%	23.1%	39.8%	8.4x	1.3%	1.9%
Other	1.0	1.7	-46.4%	-42.7%	6.6%	-38.1%	-25.5%	31.9%	6.1x	n/a	0.0%

lowest of the asset classes, reflecting a general yield shift for the self storage market over a period of years plus further revenue growth.

- Self storage companies have the lowest LTV (loan to value) ratios of any sector and therefore demonstrate lower risk for investors.
- Self storage has a proven rental growth record and compares favourably with other sectors.
- Self storage share prices demonstrate a significant premium to NAV and GAV when most sectors trade at a discount. This is a longstanding feature of the sector and reflects a range of factors for self storage, including:

- Difficulty in purchasing trading self storage directly
- Nature and liquidity of shares vs direct property ownership
- The way assets are accounted for. For example, each asset is considered separately with no portfolio premium, full stamp duty transaction costs are reflected when actual disposals would usually be via a shares sale with lower taxes, leases are typically assumed not to be renewed at expiry, admin costs are at store level and don't reflect portfolio or synergistic cost savings
- The GAV and NAV don't reflect the value of the platform and brand and the potential to deliver new developments etc

# SELF STORAGE MARKET UPDATE

To get a wide range of perspectives on the Self Storage sector, we interviewed John Trotman, CFO of Big Yellow Group Plc, Christian Yates, co-founder of development company Away Storage Ltd and Robert Fay, VP in Debt Investments & Special Situations at LaSalle Investment Management. Here is what they had to say:

## JOHN TROTMAN:

**Q: What lessons have been learned from the Coronavirus pandemic?**

A: We, together with every other business, have experienced two seismic external shocks in twelve years; the global financial crisis and now the Covid-19 pandemic. It is our view that no management team in any business can confidently predict the timing of these momentous events, all we can assume and know with certainty is that they will happen again. We therefore continue to believe that businesses should be financed conservatively with a modest amount of debt to be resilient in these times.

As our stores are already automated, and given our significant investment in our digital platform, we were able to continue to service our customers with remote reservations and check-in throughout the lockdown and the subsequent period. We will continue to invest in improving the automation of our business.

Covid-19 is accelerating and accentuating pre-existing structural trends, and presents challenges and opportunities and we believe that self storage, and in particular Big Yellow, will be a net beneficiary of these changes given the nature of



our product.

Immediately following the lockdown in March, we saw an impact on demand through a significant reduction in our activity levels and an initial loss in net occupancy, although year-on-year revenue continued to grow, driven by rental growth.

As the lockdown measures were gradually relaxed from mid-May, we saw an improvement in demand across all segments, with the second half of the quarter seeing prospects up by 10% on last year, leading to improved occupancy performance.

So far, our cash collection has been relatively secure, with many of our customers paying by direct debit, and is now in line with last year.

**Q: What are your expectations for self storage trading in the medium term?**

A: Significant economic uncertainty remains, and it should be noted that we have limited visibility in this business, with customers tending to reserve only a few weeks before moving in. However, we remain confident of the longer-term growth prospects for Big Yellow; the principal drivers being occupancy-led revenue growth from the existing portfolio and targeted new stores in our core markets whilst retaining our conservative capital structure.

**Q: What emerging trends and opportunities do you see in the sector?**

A: We are seeing growth in supply across many markets in the UK but this is much more limited in

# SELF STORAGE MARKET UPDATE

the markets where we have the strongest presence - London and its commuter towns.

**Q: Big Yellow has focussed on the UK market. Do you see that changing over time?**

A: We see further growth opportunities in the UK and will continue to focus our investment in our core area of London and its commuter towns, and selected larger regional cities.

## CHRISTIAN YATES

**Q: What attracted you to investing in self storage?**

A: We are attracted by the relatively simple, robust and transparent business concept and execution, the return levels in the sector, a sector that is generally shielded from,

technological obsolescence the dynamics of the UK market where we perceive an underlying growth story driven by low awareness of the industry and changing living habits as well as the redevelopment of city centres.

My background is quite varied, having worked in fund management and private equity and across a range of asset classes including renewable energy and real estate. At Away Storage we in the process of building a chain of self storage stores from the conversion of redundant retail, office or



commercial assets in city centres or out-of-town retail/business parks so meeting the needs of changing living and employment habits. But we are also looking at existing trading assets.

**Q: How does this sector compare with other investments that you have made through your career?**

A: Its early days but I'm expecting that the returns will compare favourably with the risks we are taking. I'm also conscious of the need for flexibility in this type of market and we will look at a range of options for purchase, development and sale. Our acquisitions so far have been quite varied in location and style.

**Q: What do you hope to achieve over the next three years?**

A: We are planning to build a platform with adequate scale (5-10 stores) to generate efficiencies in management and central costs that will grow steadily over time to enhance the total returns for our investors.

**Q: Is there anything that has surprised you about this industry, based on your experience so far?**

A: I do like that this is a small industry with a fairly close knit community of operators, suppliers and advisers. People have mostly been very friendly and generous in sharing their experiences and knowledge, even where we may be a potential competitor.

## ROBERT FAY

**Q: What is your view of the self storage sector?**

A: We like this asset class because of its proven resilience, diversified tenant base and growth potential in the European market.

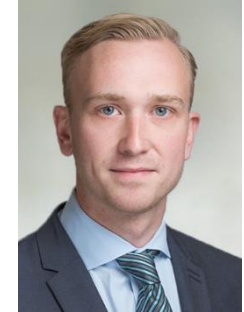
Operators with a proven track record and locations with strong underlying demand fundamentals are key ingredients for us when underwriting in this sector.

**Q: What sort of structures are you able to offer self storage companies?**

A: We are able to provide a wide range of financing solutions across our platform; from stretch senior on mature assets to preferred equity solutions on development or stabilising assets.

**Q: How has Coronavirus impacted the debt sector?**

A: We have seen a pullback from traditional lenders across the market given the uncertainty posed by COVID, however, we feel that self-storage will be more resilient as compared to some other asset classes and we continue to have appetite to increase our exposure to the sector.



# SELF STORAGE MARKET UPDATE

## INVESTMENT MARKET AND TRANSACTIONS

Based on the commentary above, it is no surprise that we see increasing investor interest in the self storage market and this is coming from a range of sources, such as:

- Institutions and funds, particularly those with underperforming assets. At present this is mainly focussed on solutions and opportunities within their own their own portfolios.
- Private equity – from a range of funds/fund sizes with requirements on a Pan EMEA basis
- Property companies
- Existing investors in the sector; this is part of a wider consolidation play which has been taking place over a period of years.

For many of these investors the difficulty with this sector is the lack of available opportunities and in particular the very limited options to invest directly at scale in existing trading assets.

This table details the transactions that we have recorded to date in 2020.

DATE	COUNTRY	DESCRIPTION	SELLER	BUYER	ASSETS
02/20	FR	Two (of four) Flexistockage sites in Paris	Flexistockage	Shurgard	2
02/20	UK	LGIM buys Storage Boost, Stafford	Storage Boost	LGIM	1
05/20	DE	4 ZeitLager facilities in Munich sold for €33.3m. 2,700+ units and additional build-out opportunities. The acquisition's stabilized yield (incl. future redev.) circa 8-10%.	Zeitlager	Shurgard	4
06/20	BE	Acquisition of Lokabox self storage, Belgium.	Lokabox	Carlyle/Safestore JV	6
08/20	NL	Three coastal assets in the Netherlands	Safe Store Opslag	Volta Capital/Europa Storage Grp	3
08/20	UK	Acquisition of Secure Store. Combined lettable area of 66,000 sq ft, stores to be managed by Cinch Storage.	Secure Store	Padlock Capital Partners	2

## LATEST TRADING KPI'S

### Big Yellow

Latest FY Report Mar 20



Stores (UK)



4.69

MLA (mil)



80.7%

Occupancy



£27.86

Av. Rental Rate

### Safestore

Latest FY Report Oct 19



Stores (UK & Paris)



6.47

MLA (mil)



76.7%

Occupancy



£26.09

Av. Rental Rate

### Shurgard

Latest FY Report Dec 19



Stores (7 countries)



12.83

MLA (mil)



86.1%

Occupancy



€20.10

Av. Rental Rate

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## OUR TRACK RECORD

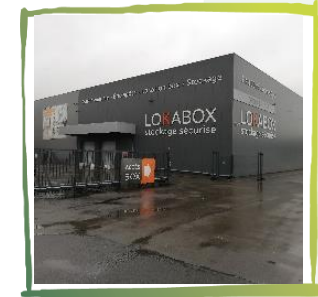


### BIG YELLOW

Portfolio of 88 assets

Client: Big Yellow

Assignment Type: Valuation for Financial  
Reporting Purposes



### LOKABOX

6 assets located in Belgium

Client: LaSalle Investment Management

Assignment Type: Valuation for loan  
security purposes



### PGIM

4 assets located in Germany

Client: PGIM Real Estate Capital

Assignment Type: Valuation for loan  
security purposes.



### REDDITCH CONVERSION

The Quadrant, Redditch

Client: StorMe London Ltd

Assignment Type: Valuation of a  
conversion project for Fund reporting.