Drivers Jonas Deloitte.

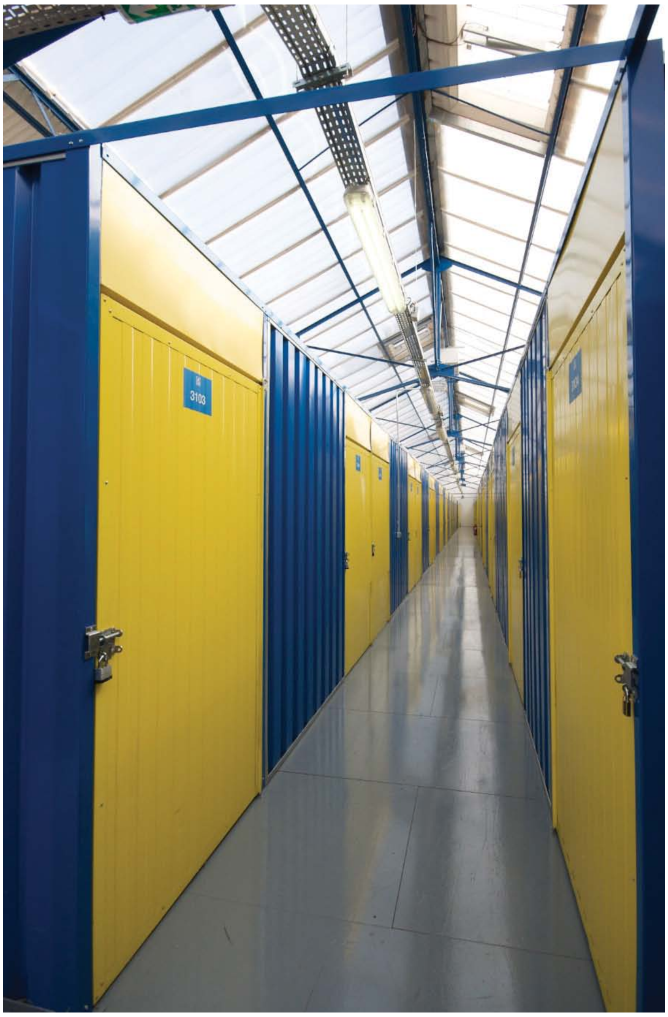
The Self Storage Association UK Annual Survey 2011

ssa
self storage association
United Kingdom

Contents

Introduction

This is the fifth consecutive annual survey carried out by the Self Storage Association UK (SSA UK) from its members. Drivers Jonas Deloitte has been commissioned this year to produce a report based on the responses to a questionnaire distributed by the SSA UK and its own analysis of the factors relevant to self storage in the UK. Responses to the questionnaire have come back from 82 separate companies and covered 440 self storage facilities. Responses to the questions relate to the position as at 31 December 2010.



The questionnaire was enlarged this year, in particular to gauge operators' levels of confidence, to get a more detailed breakdown of customers' reasons for using self storage and to gauge room prices being achieved for certain standard sizes at different locations. A number of core questions, however, have remained constant throughout the life of the survey, and, where possible, trends over the five year period are shown. Exact year-on-year comparisons are not always possible as there is a variation in the participants in each survey.

The introductory section of this report aims to paint a picture of the whole of the self storage industry in the UK based on current information provided by Drivers Jonas Deloitte and the SSA UK. However, please note that the Survey Results section is based only on the responses to the questionnaire.

Comments have also been added from a number of interviews undertaken by Drivers Jonas Deloitte with key executives involved in the industry.

Rodney Walker
CEO, Self Storage Association UK
June 2011

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Key findings

The results of the survey paint a picture of a sector which has weathered the recession intact and is looking forward to a period of steady growth. Confidence amongst respondents since last year's survey has improved: most operators expect to be able to increase rents to both existing and new customers during 2011, and to avoid increasing incentives to new customers any further.

Whilst the slowdown in the housing market has impacted on the industry, other demand drivers have allowed the sector to remain in relatively good health.

The 2010 data shows both that customers are continuing to increase their length of stay and that encouragingly a majority of room rates have seen some sort of increase over the previous year.

New development has slowed right down: only 15% of operators expanded their portfolios in 2010, and less than 10% expect to open more than one new store before 2014. The survey shows that an increasing proportion of facilities are now purpose-built – over 30%. These are predominantly to be found in London and the South East. Operators have paused their expansion plans whilst they concentrate on growing income from their existing outlets.

The survey results show that the predominant method of customers making enquiries is now online, and the importance of brand and the need to have an effective internet presence came out strongly in both the survey and the follow-up interviews.

The UK self storage industry

Drivers Jonas Deloitte has compiled a database of self storage facilities in the United Kingdom and has estimated that there are currently 800 in the UK, and 36% of these facilities are owned by the seven largest operators.

There are a number of different definitions for what pertains to be a self storage facility. The database Drivers Jonas Deloitte has compiled includes both purpose-built and converted properties. These facilities provide around 29.5m sq ft of lettable space, equating to 0.5 sq ft of space per person across the whole of the UK. The database does not include those facilities that exclusively offer containerised storage.

The survey recorded the details of some 43 facilities that opened during 2009 and 2010, which compares with 119 openings over the period 2006 to 2008. The majority - 55% - of these recent openings were in the Midlands, Wales, the North and Scotland, much higher than the proportion of all facilities that are already open in these regions (36%). Just 24% of recent openings were in London and the South East, compared with 45% of existing facilities.

So recent expansion has predominantly taken place in areas of lower existing supply. Part of the reason for this is the higher land prices in and around London, which, coupled with stronger competition for sites from other uses, mean that deeper resources are needed to open new facilities here. Partly it is also a sign of an industry maturing beyond its core stronghold and seeking to establish a national service offer.

The table opposite shows the variation in supply of self storage around 10 key metropolitan areas in the UK.

Whilst the statistics show varying levels of penetration in UK cities, the fluctuations can be due to varying socio-economic demand.

Summary financial performance

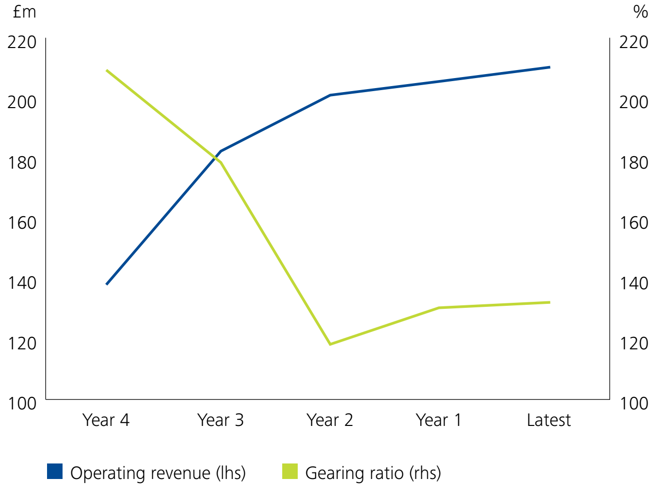
An analysis of results of the seven largest self storage operators* that have filed accounts over each of the last five years shows operating revenue has continued to grow over the period, albeit at a much slower rate. The group saw a return to profitability in 2010 after a two-year decline in profits from the peak in 2007. The average gearing level for this group, which stood at over 200% five years ago, has since fallen back and now stands at around 140%. Slowing rates of expansion over the last five years along with tougher bank lending conditions have encouraged operators to reduce their debt. [1]

* The seven operators in Table 1 are Safestore Holdings Plc (including UnePiece En Plus, France), Big Yellow Group, Access Self Storage, Lok'nStore Group, Shurgard Storage Centres UK, Big Box Storage Centres, and Space Maker Storage.

"The self storage industry continues to show resilience in the current testing economic climate and our operators maintain a cautiously optimistic outlook"

Rodney Walker, SSA UK

1. Revenue and gearing



Source: Drivers Jonas Deloitte Research / Mint UK

Rentable self storage space per person (excluding removals and containerised storage)

City / Town	Space available sq ft	Population	Sq ft per person
London	8,100,000	8,300,000	0.98
Birmingham (within motorways)	439,000	992,000	0.44
Glasgow	428,000	910,000	0.47
Leeds (Metro)	450,000	810,000	0.55
Manchester (Inside M60 less Stockport facilities)	463,000	635,000	0.73
Liverpool (Metro)	260,000	590,000	0.44
Bristol (Metro)	428,000	587,000	0.73
Sheffield	235,000	512,000	0.46
Edinburgh	442,000	450,000	0.98
Cardiff	228,000	324,000	0.70

Source: Drivers Jonas Deloitte Research / SSA UK

The large operators

Operator	No. of stores	Ownership
Safestore	96	Listed on London Stock Exchange (LSE)
Big Yellow	63	Listed on LSE and a UK REIT
Access Self Storage	52	Privately owned
Storage King	23	Privately owned, with a mix of franchised and directly owned facilities
Lok'nStore	22	Listed on AIM
Shurgard	22	Subsidiary of Shurgard Self Storage Europe which is in turn a subsidiary of Public Storage, aUS REIT
Alligator Self Storage	15	Privately owned
TOTAL	293	

Source: Drivers Jonas Deloitte Research

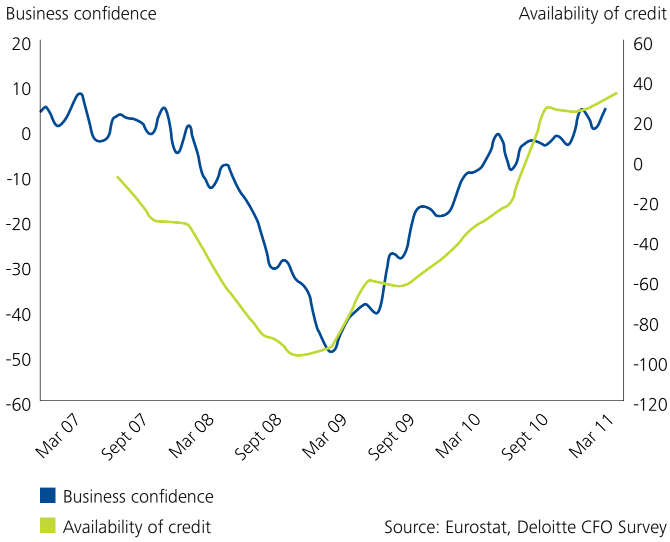
The economic environment

Despite tough economic conditions, the self storage industry has coped well with the weak business environment. There can be no doubt that the UK has been through a period of significant economic turbulence since the onset of the financial crisis. Equally, however, it is also clear that a recovery is now underway in the UK economy, and a high level overview of recent economic developments would certainly confirm this. GDP grew by around 1.5% over the course of 2010, while the stock market staged an impressive recovery towards the end of the year and many corporates were able to replenish their balance sheets. At the same time, the coalition government has embarked on ambitious, albeit necessary, reductions in public expenditure, helping to safeguard confidence in Sterling and thereby keeping downward pressure on borrowing costs.

Nonetheless, the finer details show that the recovery to date has been heavily biased towards the corporate sector with consumers and, importantly, the residential sector continuing to falter. Admittedly, 2009 saw a net fall in the number of firms operating in the UK, as the number of new business starts was outweighed by the number of business failures. Since then however, business confidence indicators have improved, and there are signs that there has been a revival in business activity. Export-orientated firms in particular have benefitted from the weakness of Sterling, which has aided the competitiveness of UK exports in global trade. Consequently, an increasing number of firms have again begun to consider expansion prospects, with recent results from the quarterly Deloitte CFO surveys showing a steady increase in firms' desire to invest and potential improvements in the availability of credit to do so [2]. Business customers are attractive to self storage operators, staying longer and renting more space than private customers on average. Newly formed companies in particular are more likely to require storage space.

However, the feed-through to a stronger consumer environment remains elusive in many parts of the country, perhaps most notably when it comes to the labour market. Although businesses have stockpiled funds for investment and expansion, little has so far been translated into new jobs. In part this reflects a less volatile path of employment levels during this downturn – previous recessions saw much higher rates of redundancy, and the need to re-hire during the recovery was therefore greater than it is today. Even so, the rate of unemployment in the UK has hovered stubbornly around the 2.5m mark for much of the past 18 months.

2. Business confidence and availability of credit



Source: Eurostat, Deloitte CFO Survey

"We see a tough scenario for the economy in the medium term... we are managing the business as if we get virtually no economic growth for the next five years"

Andrew Jacobs, Lok'nStore

Employment prospects muted

The short term outlook for employment remains mixed. It is difficult to envisage a scenario in which businesses are investing more heavily, yet do not, at some point, demand more labour. However, while the private sector can be expected to raise demand for employment in time, public sector job cuts will counteract this to a greater or lesser degree, at least in the short term.

Given the significance of public sector job cuts and the differing proportions of public sector employment from town to town, unemployment is therefore likely to take on an additional regional dimension over and above any traditional differences. Based on the type and density of public sector employment, research undertaken by the Centre for Cities* suggests that cities such as Newport, Swansea and Plymouth stand to suffer the most from public sector job cuts, whilst the likes of Glasgow, Peterborough and London are expected to be the most resilient. [3]

Inflation remains stubborn

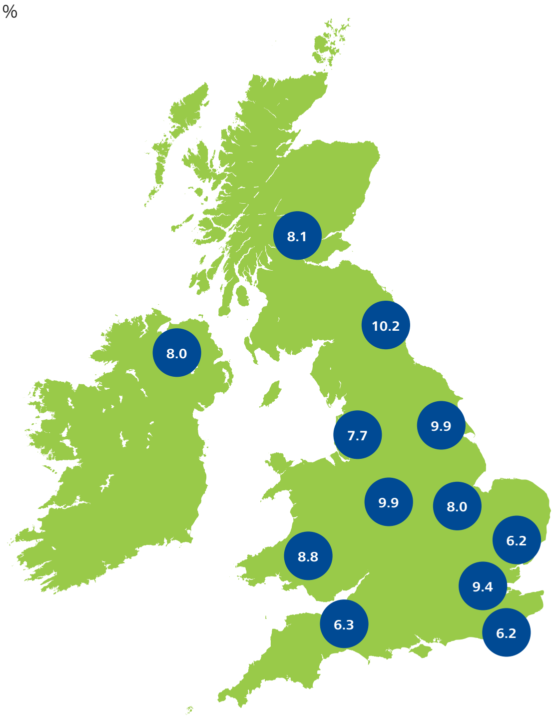
A relative weakness in the labour market has not been sufficient to avoid a sharp increase in inflation over the course of 2010. Since the start of 2011, inflation on the CPI measure has remained at or above 4.0%, against a target of 2.5%. Part of the cause has been the very loose monetary policy run by the Bank of England over the past two years, which saw Sterling fall in value and therefore increase the cost of imported goods. Steady rises in commodity prices also played a role, as a strong recovery in energy intensive emerging markets pushed up demand. Lastly, fiscal policy has also had an effect, with the government raising VAT by 2.5 percentage points at the start of both 2010 and 2011.

Hampering consumer spending

The result of these inflationary pressures has been a fall in real consumer incomes. Even now, as nominal wage growth has begun to edge up, it is running at barely half the rate of inflation. Furthermore, this has been the case more or less ever since the start of the financial crisis. Meanwhile, traditional ways of topping up income are less accessible – consumer credit is not so freely available as it has been in past years, and a weaker housing market has made mortgage equity withdrawal less appealing for many. Indeed, the household savings ratio has recovered from its nadir of -0.9% in the first quarter of 2008, reaching 5.4% in the last quarter of 2010, reflecting a greater degree of uncertainty and the desire to increase precautionary savings.

3. UK unemployment by region

%



Source: ONS, Drivers Jonas Deloitte: March 2011

As a result of these factors, the weakness in consumer spending over the past year does not come as a great surprise. Modest consumer spending growth is still forecast for 2011 however, with a stronger rate of growth expected thereafter. [4]

One interlinked reason for relatively weak consumer activity has been the sluggish activity seen in the housing market, often considered a key driver of certain sectors of the retail market. In particular, this will have affected retailers of home furnishings, DIY products, white goods and other housing-related items.

The housing market

The housing market is one of the key determinants of self storage demand – the latest survey records that over 50% of storage tenancies relate to the housing market in some way. Things have picked up recently: 2010 did see something of a rebound in housing market activity, with the level of transactions in the UK rising from 167,000 in the first quarter of 2009 to around 218,000 in the last quarter of 2010. However, transaction volumes remain significantly below long run averages, with a similar trend being seen across all regions in England and Wales [5]. One feature of the current market highlighted by a number of interviewees is the existence of a growing core of personal customers who, unable to move house, have found themselves locked into long term self storage use.

More timely mortgage approvals data show that there has been very little change in the rate of housing market activity in early 2011, yet this period of stability may be lagging behind a slight improvement in buyer interest seen in the first quarter of 2011. Anecdotal evidence suggests that Bovis, Barratt and Persimmon all noted stronger than anticipated interest at their sites during that period, while Taylor Wimpey reported that its reliance on discounts and incentives fell. Within the wider residential market, the RICS also reported some improvements, with falls in new buyer interest levelling off and the amount of stock per surveyor falling during recent months. [6]

In addition to a period of relatively stable prices, there is some evidence to suggest that improving affordability may be playing a role in the stabilisation of the market at present. The Nationwide measure of affordability calculates the average share of first time buyers' take home pay accounted for by mortgage payments: at the end of 2007 – around the time of the most recent housing market peak – average mortgage payments were accounting for more than 50% of first time buyers' take home pay, but by 2010 this figure had fallen to around 35%, where it has remained since.

For those trying to move up the housing ladder, however, affordability trends have been less clear cut. Over the past decade, Halifax data shows a 69% increase in the price of an average UK property – yet prices for flats only increased by 53%, while prices for terraced properties increased by 86% [7]. The corollary is that, for flat owners at least, moving to a larger property became relatively more expensive over the past decade, and this will inevitably have convinced some to remain in flats for longer than they may have wished. For many of these people, a self storage unit will be the solution to their need for additional space.

In the longer term, housing market activity is likely to be affected by a variety of demographic factors. The move towards smaller family units is well established, and appears likely to continue for some time. Indeed, the trend is held back by a shortage of suitable housing, and could intensify if a greater amount of stock came to the market. In the absence of national minimum space standards for private house building, new dwellings in the UK are smaller than in most other EU countries. A recent survey published by CABE* showed that a majority of occupiers of new houses in London and the South East felt their home had insufficient storage space for their needs.

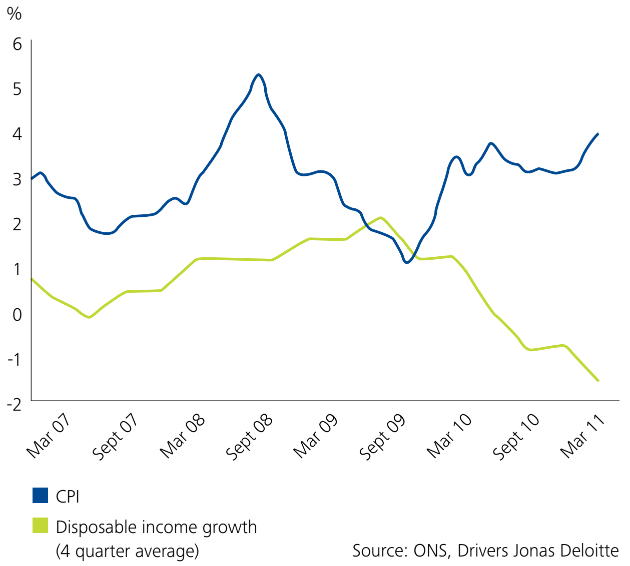
A general rise in population levels must also be factored in as a driver of housing market activity. Oxford Economics, for example, predicts that the UK population will rise to 65 million by 2020. Part of this growth will be due to domestic population growth, while some will be the result of further immigration. Figures from the Office of National Statistics show that although net immigration slowed directly after the onset of the recession, from 2009 the rate began to rise again. Current government policy seeks to put a cap on immigration, yet as this will only affect those outside the EU – the source of the majority of recent immigration – the effect on overall immigration levels is not expected to be very large.

1. *Cities Outlook 2011* Centre for Cities, 2001
2. *Space in New Homes: What Residents Think* CABE, 2009

* *Social Trends* ONS, 2010

> "I think there is still a massive opportunity for self storage in the UK"
>
> Jon Wyles, Smart Storage

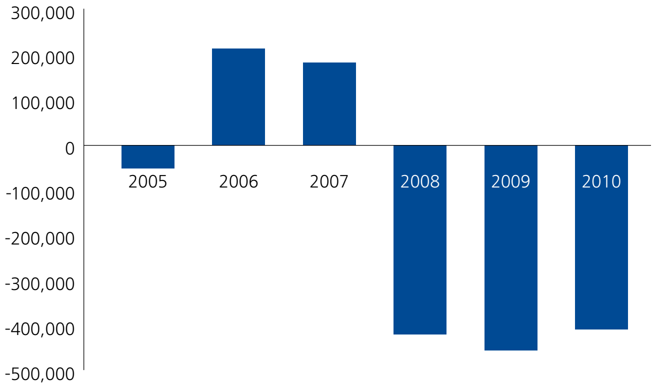
4. CPI inflation and household disposable income growth



Source: ONS, Drivers Jonas Deloitte

6. Housing market transaction volumes

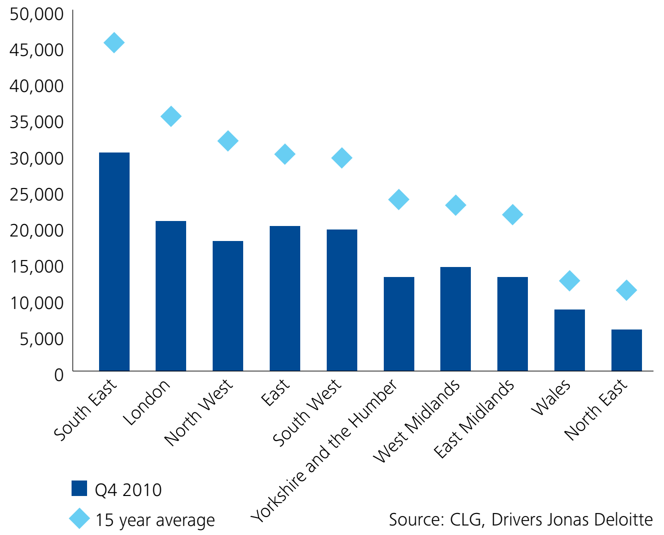
Difference from 15 year average (England & Wales)



Source: DCLG, Drivers Jonas Deloitte

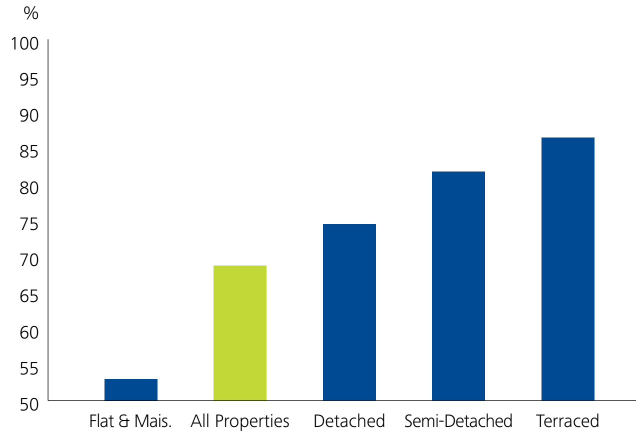
5. Housing market transaction volumes (England & Wales)

Transactions



Source: CLG, Drivers Jonas Deloitte

7. Price growth by type of home, 2000-2010



Source: Halifax, Drivers Jonas Deloitte

Internal migration rates have yet to recover, however. While there were around 1.25m inter-regional moves per year in the period prior to 2007, since then the figure has fallen to around 1.15m in 2009, with data for the first half of 2010 not pointing to any significant increase so far. In the short term, a continuation of the trend for fewer inter-regional moves could continue – the housing market is currently not as active as it has been in the past, making it potentially harder to buy and sell properties when relocating, and the greater potential for households to be in a "negative equity" situation will also act as a deterrent to those contemplating relocation.

Not all internal migration involves house purchases, however. Students embarking on further education often have to relocate in order to attend their institution of choice, even if this is only during the academic year. Over the past few years, the shortage of employment opportunities has driven an increase in the number of students, yet this trend may change once the anticipated rises in course fees kick in. In contrast, overseas students have been paying higher course fees for some time, and the attraction of the UK's universities remains intact. However, as part of the government's restrictions on immigration, rules on visas for overseas students will also be tightened, potentially adding a second limiting factor to the number of UK students.

"Things are improving in the industry as a whole. It is a period of consolidation. It is a period for concentrating on occupancy and revenue growth"

Jimmy Gibson, Big Yellow Self Storage

The economic outlook

The benefits of the initial stages of the UK economic recovery have fallen heavily to the corporate sector, with the improvement in the global economic environment likely to add further support in 2011 and beyond. Meanwhile, the latest data from the Deloitte CFO survey show that entrepreneurial spirits are again on the rise, with the percentage of CFOs who think now is a good time to take risks increasing dramatically in recent quarters.

In contrast, the consumer sector is set to face further pressure from a combination of tighter fiscal policies, falling real incomes, and a sluggish labour market. Consequently, it would be unrealistic to expect a significant turnaround in consumer sentiment during 2011.

At least in the short term then, the UK housing market looks set to face a further period of below trend activity. Access to finance is likely to remain restrictive for some time to come, and in any case, current confidence levels suggest that many consumers are not especially keen to take the financial risk of moving house. In the longer term however, past experience shows that a continued economic recovery will gradually erode the current barriers to housing market activity – credit constraints will ease, real income growth will recover, and consumer sentiment will improve.

For self storage operators, there are a number of key areas which are driving demand for rented space. On the residential side, these include the long term shrinking of the average household size (from 3.1 in 1961 to 2.4 in 2009)*, and the lengthening of the average time taken over the house moving process in the current sluggish market. The rising number of overseas students visiting the country is an important factor, and higher education policy announcements from the government will be read closely. Perhaps the most welcome figures, however, will be those showing an upswing in the numbers of new company formations and a general return to growth for UK GDP in 2011.

Survey results

Methodology

In order to provide more useful insight into the data collected, responses from SSA UK members (as at 31st December 2010) have been broken down by a number of criteria, where the resulting subsets have been large enough.

Location

The following regional groups have been used for 2010 data: London (inside M25); Rest of South East; South & South West; Midlands & Wales; North & Scotland. When comparing data across the five years, the following four regions have been used: London; South (South, South East & South West excluding London); Midlands & Wales; North & Scotland.

Company size

On certain charts, the different responses between Independent operators (with up to and including five facilities) and Multiple operators have been shown.

Facility opening date

Facilities have been broken down into the following five bands of opening dates: pre 2000; 2000-2002; 2003-2005; 2006-2008; 2009-2010.

Survey size

Comparison of survey samples, 2006 to 2010

	2006	2007	2008	2009	2010
Number of companies	87	78	109	92	82
Number of facilities	315	342	429	444	440

Site information

Facility size

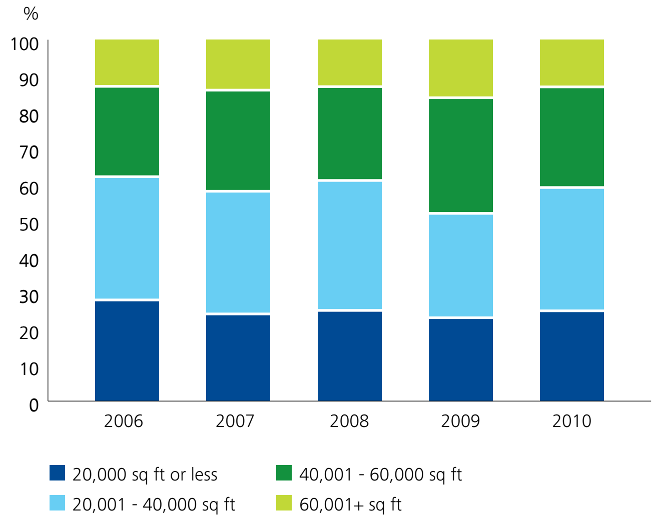
There has been little significant change in the spread of facility sizes over the last five years. A quarter of facilities are of 20,000 sq ft or less, while 13% are 60,000 sq ft or over. [8]

Average lettable area per facility (sq ft)

2006	2007	2008	2009	2010
36,900	37,500	38,300	40,300	40,000

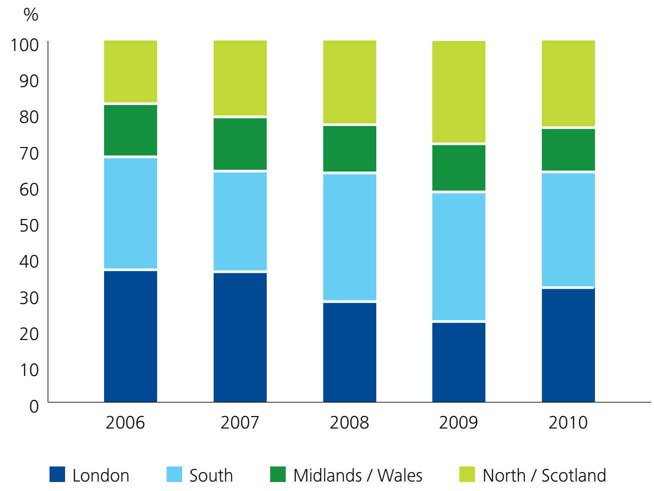
Among facilities opened in the last two years, the average size is relatively low at just over 22,000 sq ft, but this hides a wide difference between new purpose-built facilities – averaging nearly 43,600 sq ft – and conversions from warehouses and other uses at 8,500 sq ft.

8. Net lettable area



Source: Drivers Jonas Deloitte / SSA UK

9. Proportion of facilities by region



Source: Drivers Jonas Deloitte / SSA UK

Facility age: regional split

50% of facilities in the Midlands and Wales were opened in the last 4 years; against only 30% in the more established market in London and the rest of the South East. [10]

Over 30% of facilities are now purpose-built, up from 15% of facilities in 2006. [11]

Over half of these purpose-built facilities are located in London and the South East. [12]

Three quarters of responding companies operate one or two sites – a proportion which has changed little over the history of the survey. But over two thirds of facilities (68%) are owned or managed by the multiple-site operators.

Ownership

85% of facilities are freehold or long leasehold owned, and only 15% of all facilities surveyed are held on a sub-25 year lease, while among purpose-built facilities this proportion shrinks to just 4%. Only a small minority (5%) of facilities were reported to be managed on behalf of a third party investor. [13]

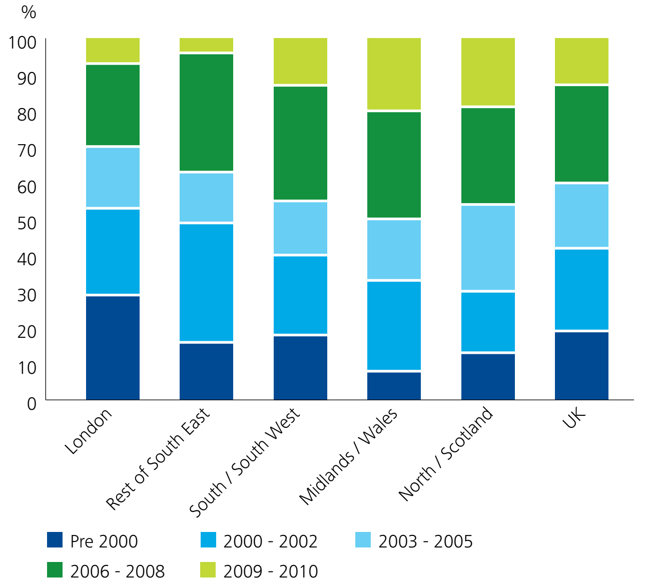
The percentage of facilities owned under freehold and long leasehold has grown over the last three years. [14]

Small operators are more likely to hold short leaseholds. [15]

"In some markets we think it's appropriate to grow with freehold. In some we think it's appropriate to grow with leasehold, and in some we think it's appropriate to grow with management contracts and we deploy all three models to create the best value for shareholders."

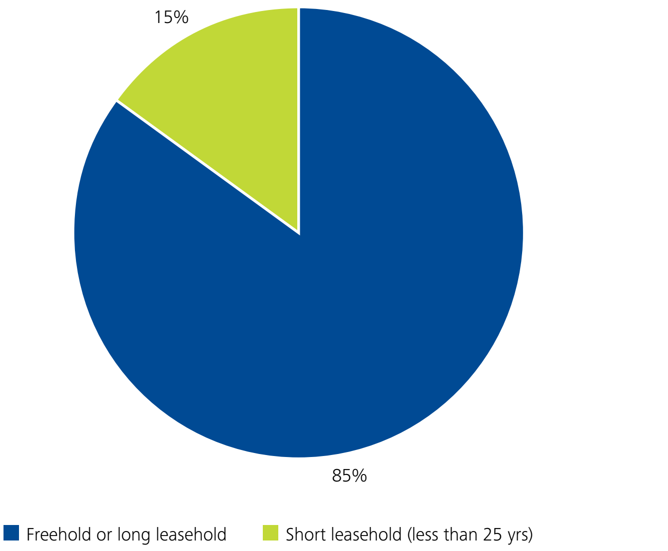
Peter Gowers, Safestore

10. Regional split of stock by age



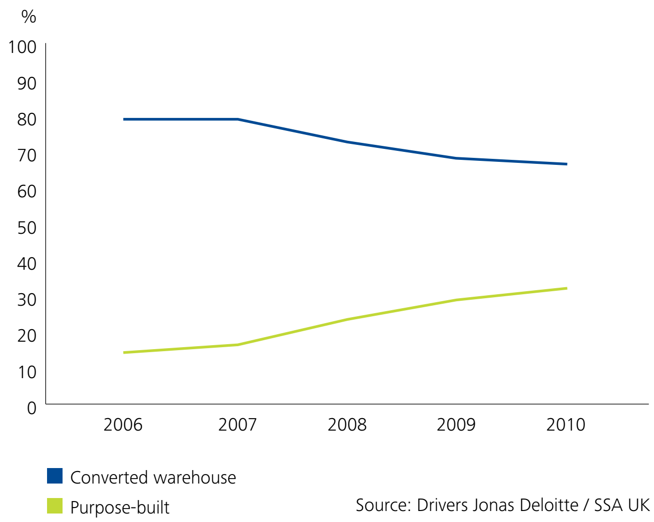
Source: Drivers Jonas Deloitte / SSA UK

13. Ownership split



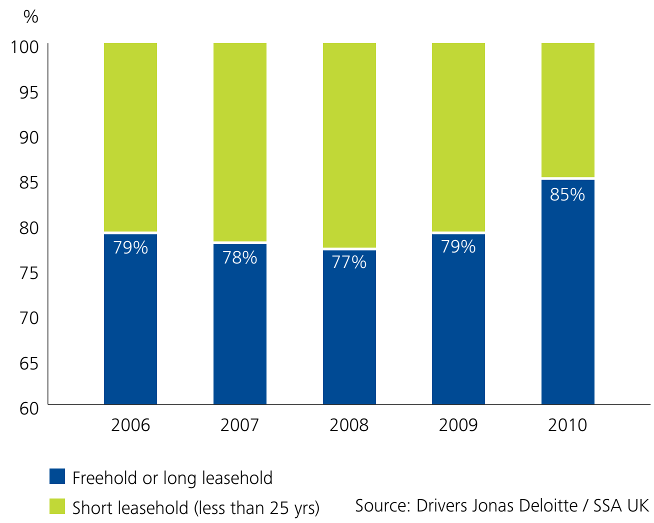
Source: Drivers Jonas Deloitte / SSA UK

11. Type of facility over time



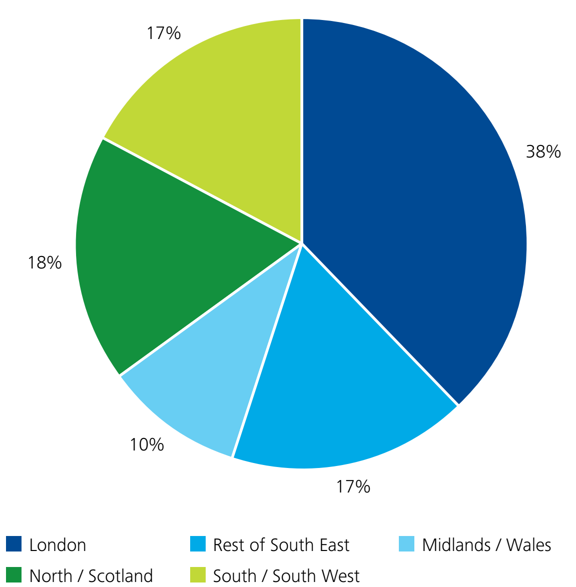
Source: Drivers Jonas Deloitte / SSA UK

14. Ownership split over time



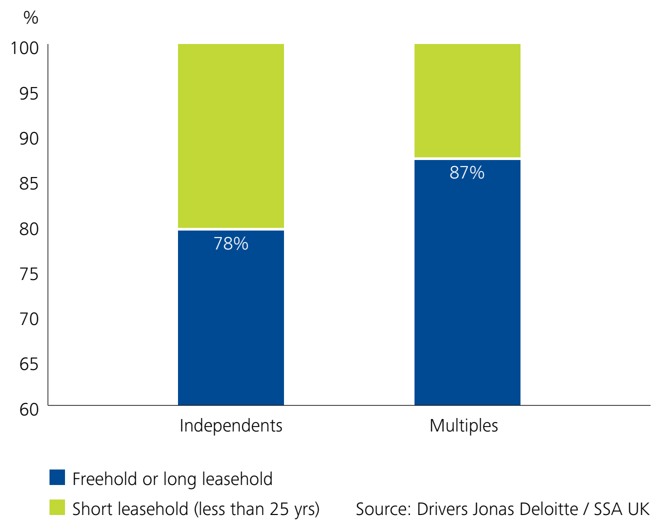
Source: Drivers Jonas Deloitte / SSA UK

12. Distribution of purpose-built facilities



Source: Drivers Jonas Deloitte / SSA UK

15. Ownership by operator type

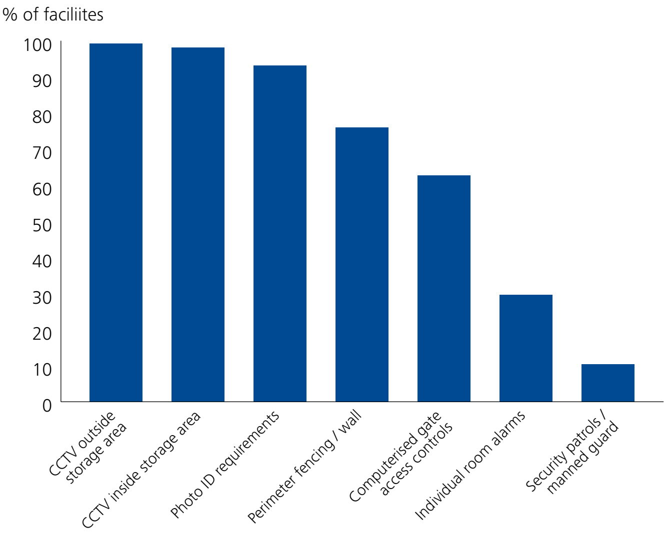


Source: Drivers Jonas Deloitte / SSA UK

Security features

Security features remain key to customers, with most facilities having CCTV across the whole building. Nearly a third also provide individual room alarms. [16]

16. Security features

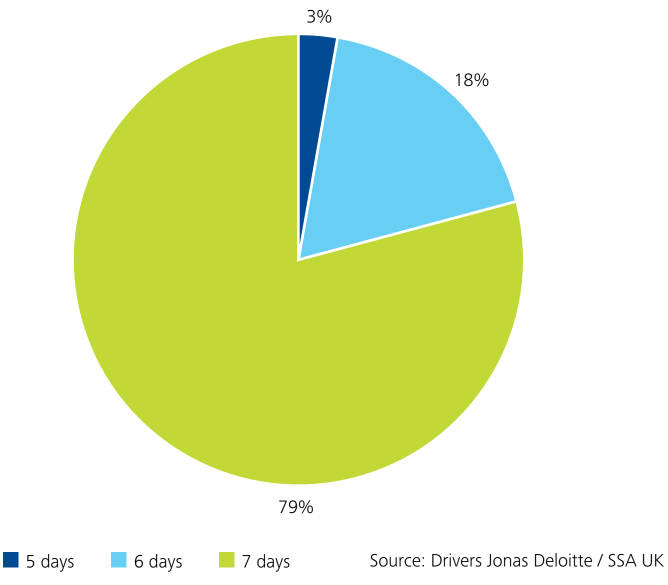


Source: Drivers Jonas Deloitte / SSA UK

Opening hours

Almost 80% of all facilities currently open seven days a week, with just 3% opening only on five days. Among recently opened facilities, 64% open every day, and 18% open just five days, suggesting that operators are controlling costs by matching opening hours to demand. [17]

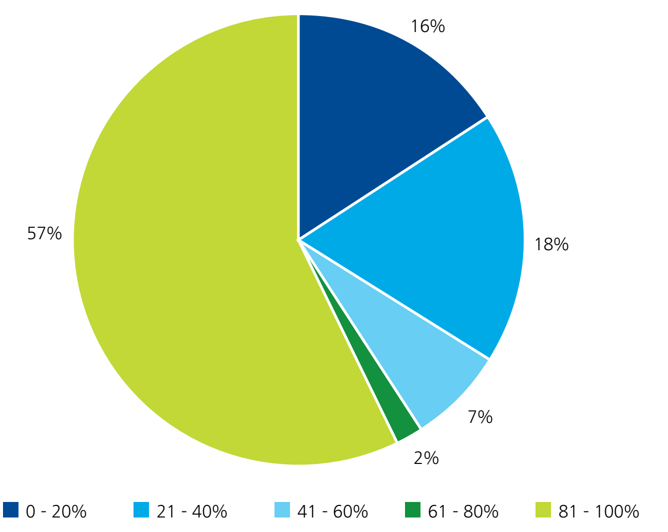
17. Number of days open per week



Source: Drivers Jonas Deloitte / SSA UK

The majority of facilities - 62% - offer 24 hour access to at least part of the premises, but for over a third of facilities this access is limited to less than 40% of the space. Operators have indicated there is limited demand for this service, but for a minority of customers, particularly business customers, it is a requirement. [18]

18. Among facilities offering 24hr access, proportion of facility open 24hrs



Source: Drivers Jonas Deloitte / SSA UK

"Security is a key fundamental. Peace of mind is a huge emotive driver on closing a sale"

Andrew Donaldson, BiG Storage

"Every single one of our rooms throughout the whole business is individually alarmed"

Jimmy Gibson, Big Yellow Self Storage

"I don't think that in the future you are going to be able to run a successful premium self storage centre if it's not going to offer 24 hour access – especially in London"

Frederic de Ryckman de Betz, Attic Secure Self Storage

Occupancy

Tenant mix

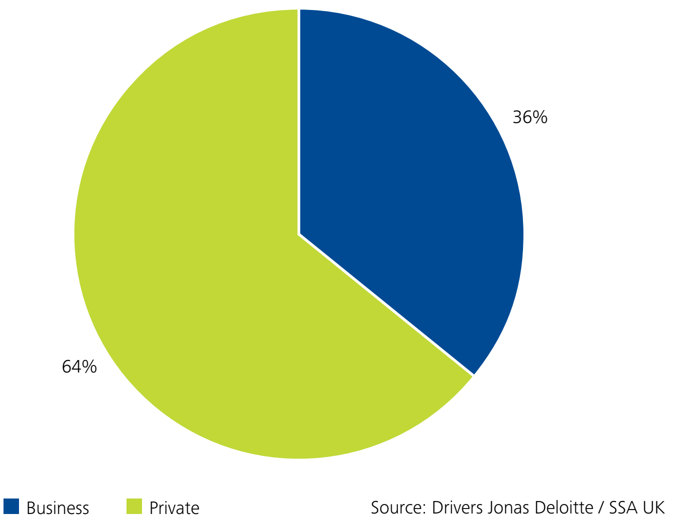
Private individuals typically occupy just over 64% of the space in a facility, with business customers taking 36% [19]. This proportion has fallen from the 70% returned from responses in 2008. This is probably because business space occupancy has remained relatively stable over this time, but most operators have less space occupied by private individuals (as a result of the slowdown in the housing market) and therefore the percentage of space occupied by businesses has grown as a proportion of total occupancy. Business tenants take larger units and stay for longer. Almost a fifth of companies reported that business occupiers took 50% or more of their space.

Among private individuals, the lion's share of space is taken by domestic customers: those storing their belongings during a house move, home improvement works or simply to free up space in the home. The Drivers Jonas Deloitte / Self Storage Association UK survey results have for the first time split out the reasons private customers choose to use self storage, and show that just over a third of space is taken by those in the process of moving house. Those undertaking major home improvements or renting space to declutter their homes - who in general take a longer lease - account for a further fifth. In all, over 55% of all space is taken by domestic customers. [20]

> "Because of the nature of the property market, lifestyle customers and de-clutterers are becoming a more important segment... Due to the current state of the market storers are often selling first, renting, then buying, and in the process to achieve a sale storers are de-cluttering. "

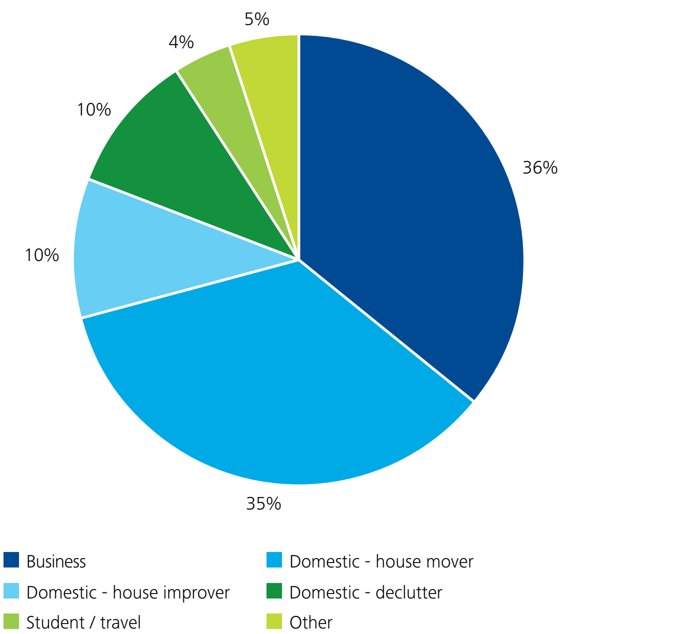
Simon Hodgson, Alligator Self Storage

19. Tenant split by space occupied



Source: Drivers Jonas Deloitte / SSA UK

20. Detailed tenant mix by space occupied



Source: Drivers Jonas Deloitte / SSA UK

Enquiry source

Customers are increasingly relying on the internet to find storage outlets. Since 2007 the proportion of enquiries coming from the web has steadily grown from under 20% to over 40%. This has been mirrored by the falling number of people using printed directories, down over the same period from over 30% to below 10%. Referrals and signage have broadly contributed the same over the period. In interviews, some operators reported that up to 80% of their prospects came via their website. [21]

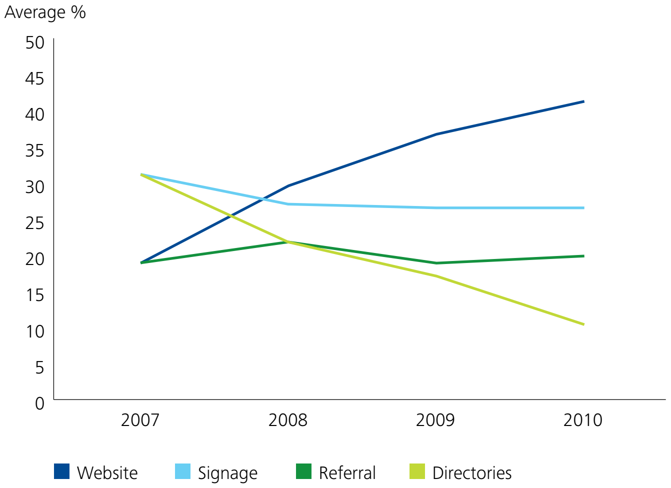
All of those interviewed were keen to talk about ways to improve the impact of their web presence, optimise their Google ranking, generate more enquiries and convert them to bookings.

Marketing spend – predominantly on optimising the impact of a firm's internet presence – is expected to fall as a proportion of turnover in 2011, from 9.1% on average in 2009 to 7.2% in 2010. However some firms, particularly the multiple operators, forecast that they would be spending a higher proportion on marketing.

Unsurprisingly, operators report that enquirers who visit in person become customers most frequently, with a 60% conversion rate, compared with a conversion rate of 45% for those enquiring by phone and a conversion rate of only 31% for those enquiring by email. The difficulty in converting enquiries is a key issue for operators currently: one reported that three years ago the majority of leads came by phone and 75% signed up to a contract, whereas now 80% come by email and only 21% are converted.

Potential customers are increasingly able to view prices online, and in some cases to complete their booking, without needing to speak to a member of staff. While this is helpful for the customer, it has reduced the opportunity for the operator to sell additional services, such as packing materials.

21. Drivers of enquiries



Source: Drivers Jonas Deloitte / SSA UK

"We wouldn't have a successful business without the internet helping our customers to find self storage as a solution"

Jon Wyles, Smart Storage

"We talk about the internet and marketing almost daily, which was not something we used to do"

Simon Hodgson, Alligator Self Storage

"We manage our online campaign very, very carefully... but we make sure we're getting value for money. So if my marketing spend goes up then generally speaking that means I have an increase in enquiries."

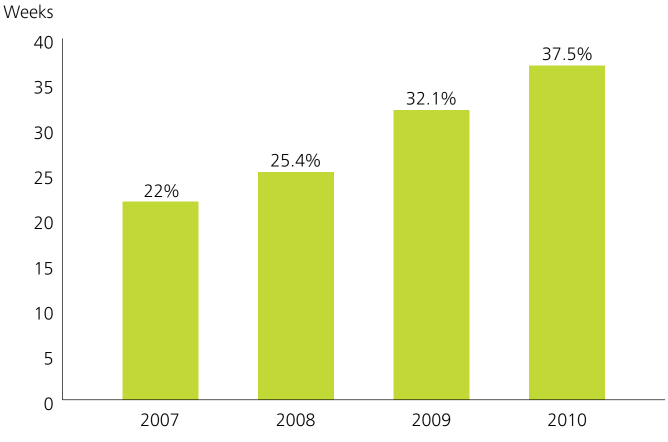
Frederic de Ryckman de Betz, Attic Secure Self Storage

Length of stay

Business customers stay twice as long as domestic customers on average: 56 weeks as opposed to 27 weeks. Multiple site operators achieve longer average stays than the smaller independents, with an average business customer taking an 84-week contract and a private individual staying just over a year.

The average length of stay reported across all customers has grown steadily over the last four years, from 22 to 37 weeks [22]. House movers tend to stay the shortest length of time, so the lower level of housing market transactions seen over the last two years compared with earlier in the 2000s, will have contributed to raising this average figure.

22. Average length of stay



Source: Drivers Jonas Deloitte / SSA UK

Occupancy rates

Among mature facilities (open at least five years) just over two thirds of lettable space was occupied at the end of 2010 [23]. This level is lower than that recorded in previous years but suggests the sector is in reasonable shape coming out of the recession and is expecting occupancy to improve this year.

Facilities in London, the rest of the South East and the South West generally achieve higher levels of occupancy than those in other parts of the country. [24]

Across the country, average occupancy levels increase steadily with the number of years of trading. The chart shows that stores will generally take over five years to approach their potential occupancy level. [25]

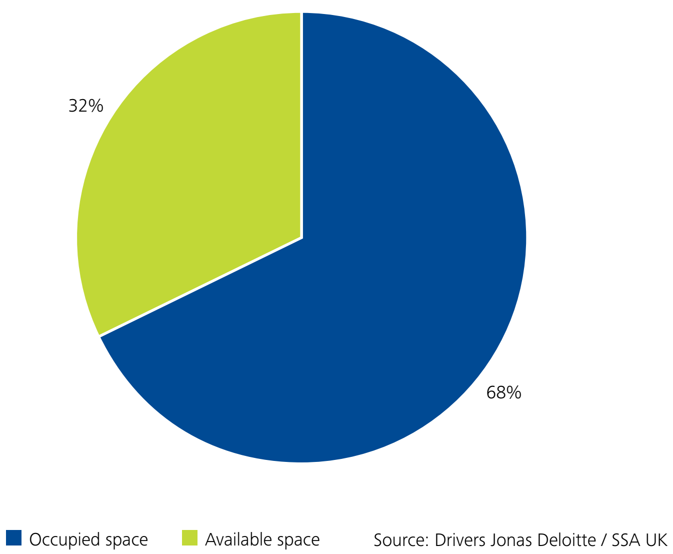
Alternative uses

Office space is the most commonly additional service, on offer at over a third of facilities. Container storage is only offered at 19% of facilities in the survey [26].

“It is always that fine balance between square feet occupied and rate per sq ft which produces your ultimate revenue”

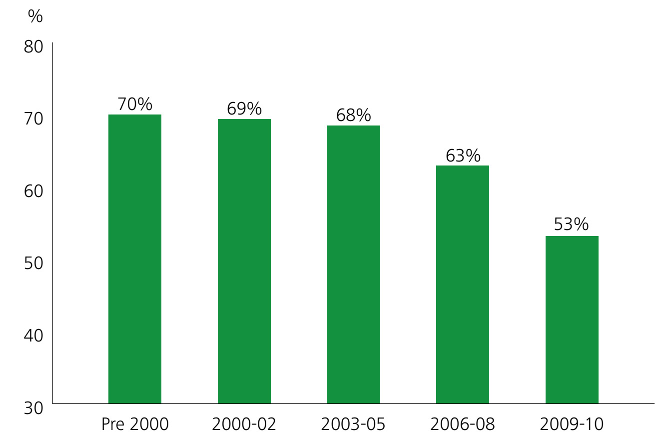
Jon Wyles, Smart Storage

23. Occupied and available space at end December 2010 (facilities opened pre-2006)



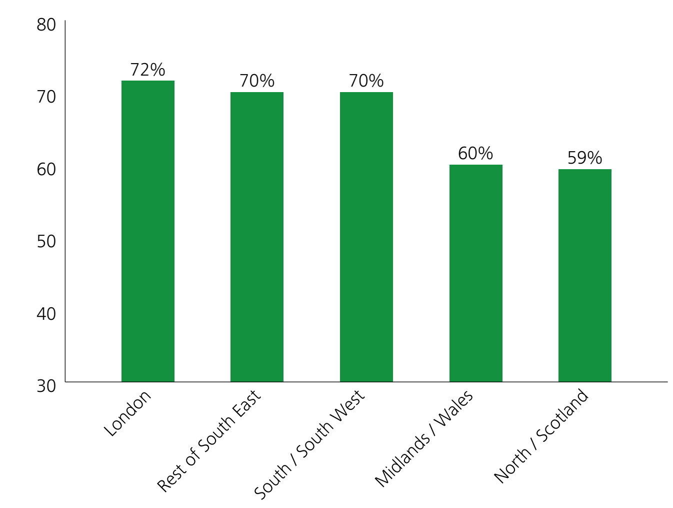
Source: Drivers Jonas Deloitte / SSA UK

25. Average space occupied by facility opening date



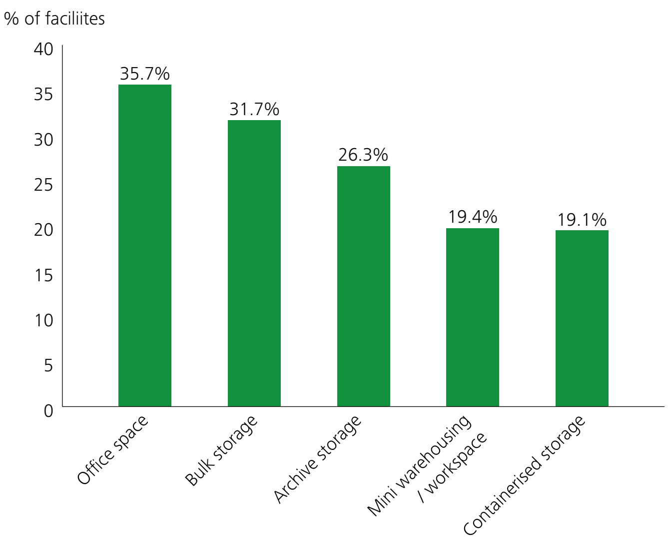
Source: Drivers Jonas Deloitte / SSA UK

24. Occupied space by region (facilities opened pre-2006)



Source: Drivers Jonas Deloitte / SSA UK

26. Other services offered



Source: Drivers Jonas Deloitte / SSA UK

Rental rates

The average net billed rate has shown a recovery from the dip in 2009, reaching almost £22 per sq ft per annum last year. [27]

Across the regions, London led the way with an average billed rate of £29.54 per sq ft. At the other end of the scale, the North of England and Scotland billed £15.35 compared with an average for the UK of £21.97. [28]

Over the period 2006 to 2010, a clear gap has emerged between regions' room rate increases. Compound annual increases in the South (5.6%) and London (4.2%) contrast with the performance of the Midlands and Wales (0.9%) and the North and Scotland (0.2%) [29].

The table on the right shows the average UK prices for typical room sizes sold at facilities. In future surveys we will be able to measure the change in the asking rates over time, and by geographical area.

Multiple facility operators manage to charge their customers 10% more than independents across all sizes of room.

VAT on room rental was charged by 27% of respondents to the survey.

Room rates have increased over the last year for the majority of operators. However the survey picks out the difference between rate increases on occupied rooms and those on empty rooms. For existing customers, rents have increased above the rate of inflation at almost half of facilities and increased below inflation at a further 15% [31]. On empty rooms, however, operators have found it more difficult to raise rents, with only 20% growing their rates ahead of inflation. [32] This is a clear sign of the level of competition that currently exists between operators, to entice customers into storage and to grow occupancy.

In the previous survey, 63% of facilities raised their empty room rates above the rate of inflation. In 2008 this figure was 66%, and in 2007 it was 76%.

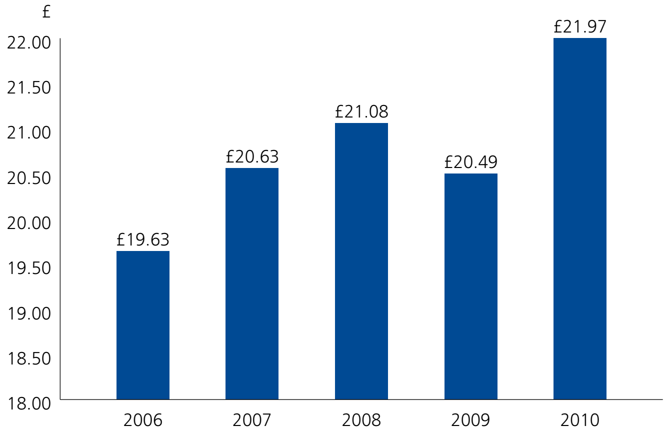
Average rent

Size of room	Average rent / week	Average rent per sq ft per annum
25 sq ft	£20.22	£42.06
50 sq ft	£33.00	£34.32
75 sq ft	£43.23	£29.97
100 sq ft	£55.15	£28.68
150 sq ft	£71.28	£24.71
200 sq ft	£89.54	£23.28

"We believe that self storage is quite price inelastic. If the industry puts its prices up then total revenue will basically grow by a similar amount, if the industry puts prices down revenue will likely fall by a similar amount."

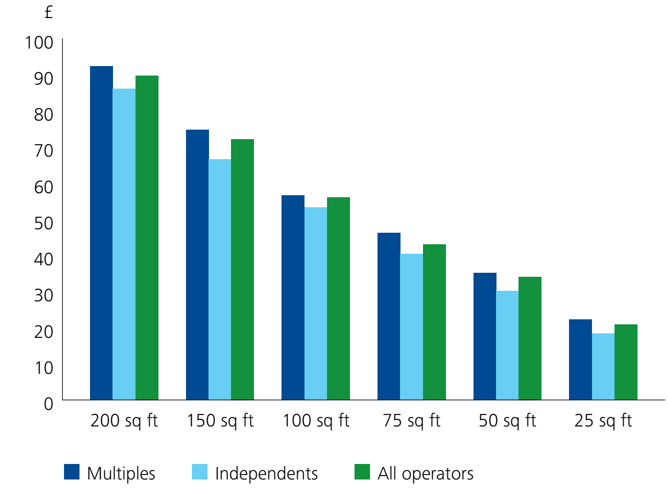
Andrew Jacobs, Lok'nStore

27. Average billed room rate



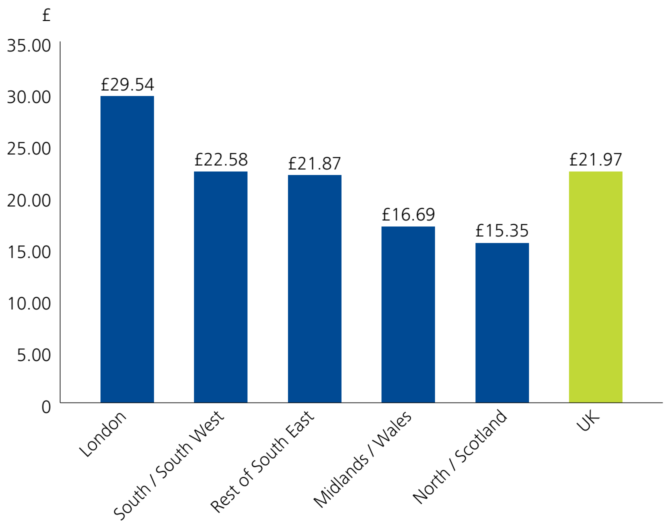
Source: Drivers Jonas Deloitte / SSA UK

30. Average weekly rents by room size



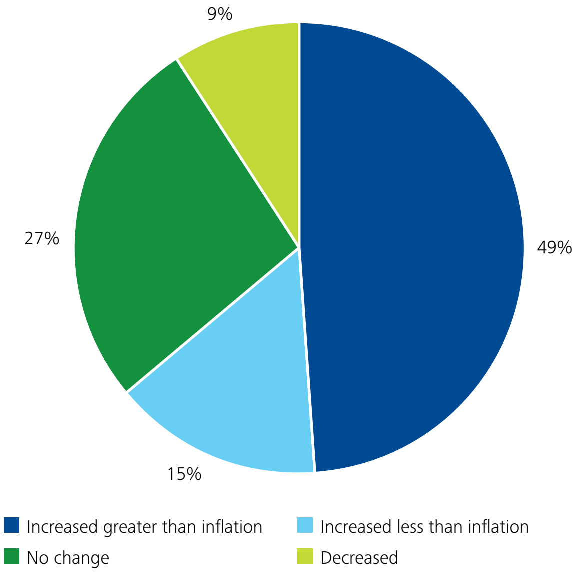
Source: Drivers Jonas Deloitte / SSA UK

28. Average net billed rent at end Dec 2010



Source: Drivers Jonas Deloitte / SSA UK

31. Existing customer rates: change since last year

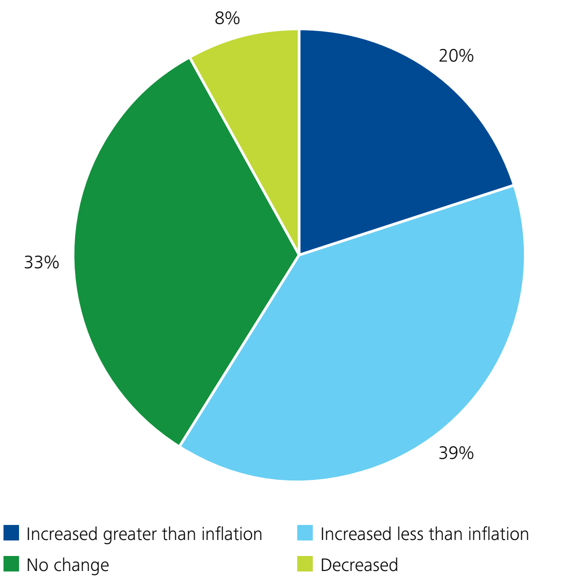


Source: Drivers Jonas Deloitte / SSA UK

29. Regional average room rates

Source: Drivers Jonas Deloitte / SSA UK

32. Empty room rates: change since last year



Source: Drivers Jonas Deloitte / SSA UK

Finances

Among operators with a turnover from self storage below £1 million, the average turnover figure has shown some resilience over the downturn. [33]

Sales from other sources – principally insurance and packing materials – have declined as a proportion of self storage sales over the last five years. Companies have found it harder to sell the add-ons as customers increasingly sign up to storage online. [34] & [35]

This is combined with the general reduction in consumer spending on packing materials, as disposable incomes have shrunk over the last 12 to 18 months.

Staffing

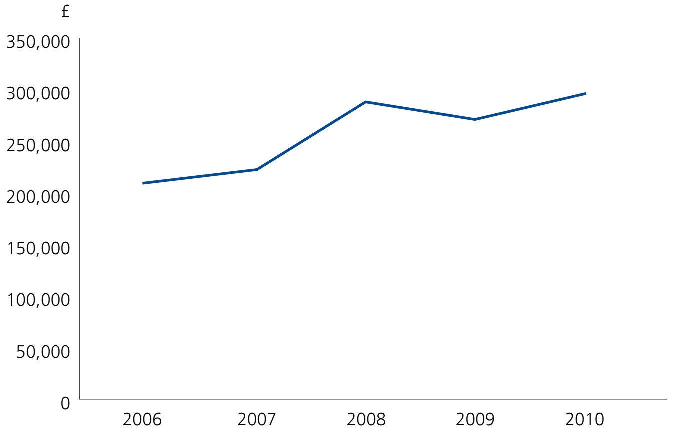
The average number of staff employed per facility has continued to drift down since 2007, now at 2.7 per store. [36]

Some stores have reduced trading days from 7 to 6 (or even 5) to save costs in the current environment. This will have a knock-on effect on their staffing levels.

There is a clear gradation in average staff numbers when results are split by the age of the facility. More recently opened sites employ fewer people than older ones. Newer stores will of course be less full and therefore require less staffing, and this is another indication of the time it takes for a facility to reach maturity. Newer facilities may also be more efficiently designed and run. [37]

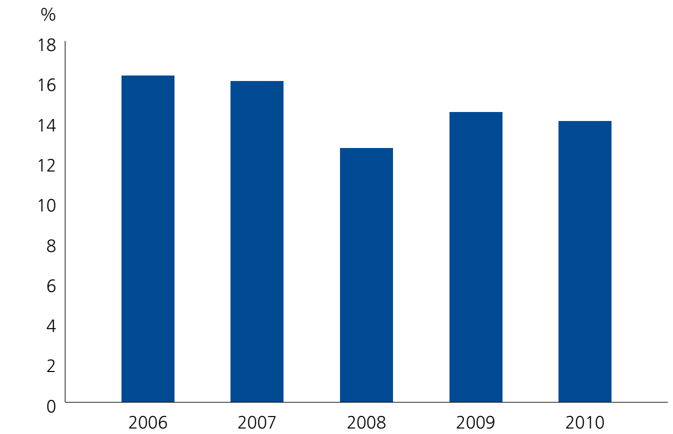
> “I think there is a lot of opportunity to grow other avenues within the business apart from the core self storage element”
>
> Frederic de Ryckman de Betz, Attic

33. Average self storage turnover below £1m



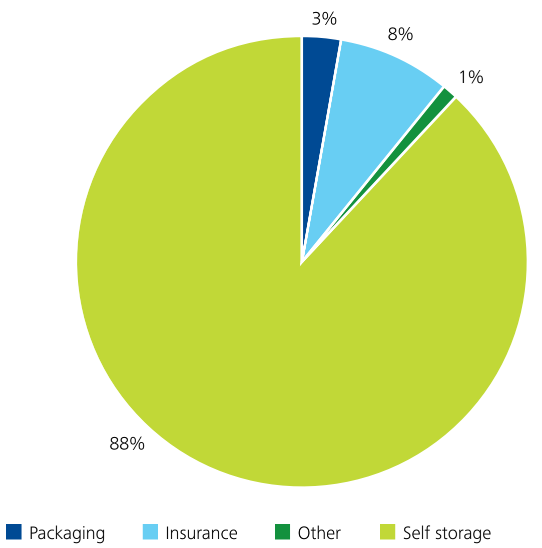
Source: Drivers Jonas Deloitte / SSA UK

34. All other turnover as a percentage of self storage turnover



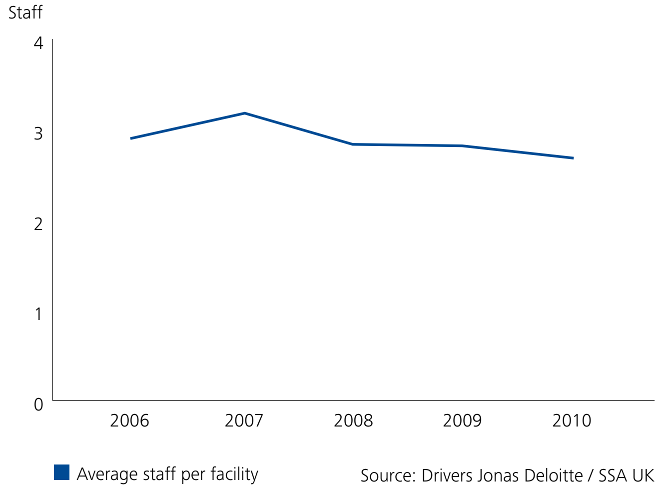
Source: Drivers Jonas Deloitte / SSA UK

35. Turnover by source

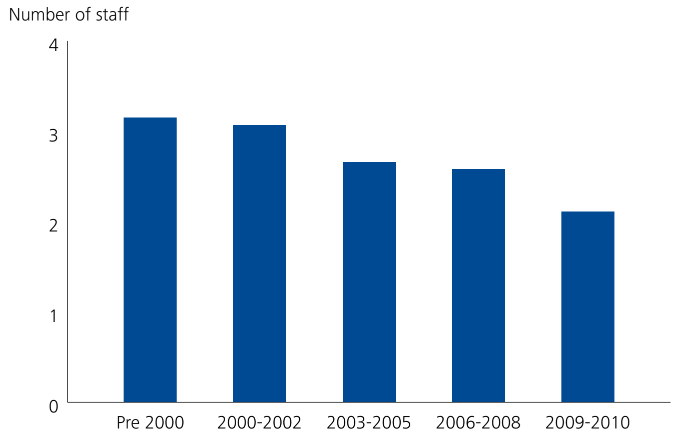


Source: Drivers Jonas Deloitte / SSA UK

36. Staffing levels



Source: Drivers Jonas Deloitte / SSA UK



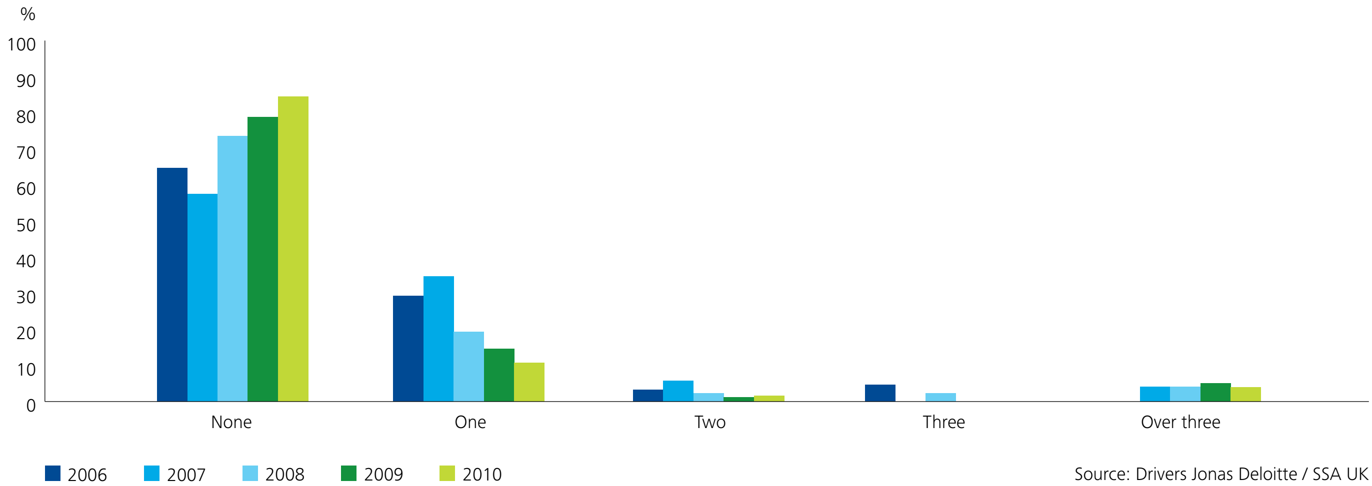
Source: Drivers Jonas Deloitte / SSA UK

Expansion

The tap was firmly turned off for new supply in 2010. 85% of firms reported that they did not open a single new facility during the year [38]. Of the new sites that did open, a larger proportion than in 2009 were located in London. Operators have confirmed that while some cities around the country appear to have reached saturation levels, for the present, certain parts of London are seen as an area where there is potential for further supply. Lack of access to capital (in particular bank finance) has been the main reason cited for not expanding operators' portfolios.

In interviews, operators have differed in their views on the importance of location when selecting a site for a new facility. One (London based operator) has suggested that because enquiries are now so driven by the internet and prominent sites are in far shorter supply, the most important consideration is to ensure your new facility is not liable to be eclipsed in the future by a competitor's better-placed site. For another, prime location is as important as ever: "What you need is the front corner of a busy industrial estate fronting a busy retail park, on a busy main road, in or out of an affluent town in the South East".

38. Percentage of companies opening new facilities



Source: Drivers Jonas Deloitte / SSA UK

"Good news: supply has all but stopped"

Jimmy Gibson, Big Yellow Self Storage

"I think you'll find that the bigger companies are all very focused on maximising the income from their current portfolios... and that will be the focus for quite a few years to come rather than store openings"

Andrew Jacobs, Lok'nStore

"Our development strategy is to concentrate on the major markets, particularly Paris and London and the South East of England where we see good customer demand"

Peter Gowers, Safestore

Outlook

The majority of respondents to the survey expressed the view that conditions would improve overall during 2011; and this was particularly the case among multiple operators [39]. The overwhelming majority expected occupancy levels to increase. 74% thought room rates for new customers would go up; but only 8% saw incentive levels increasing (down from 35% in 2009). [40]

Confidence in opening new outlets has improved since last year, but remains unlikely for most. [41]

In fact, less than 10% of operators are planning more than one opening before 2014. [42]

Potential growth of the industry

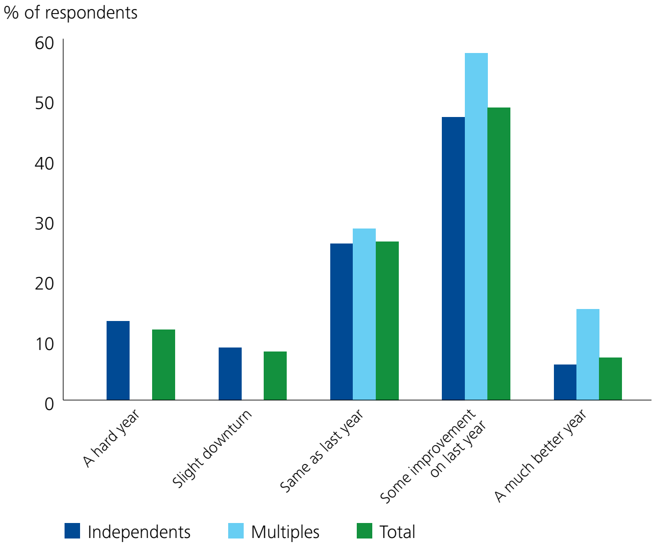
Operators interviewed by Drivers Jonas Deloitte all agreed that the UK self storage market had not reached maturity and that there is further growth to come. They differed, however, in their views on the extent of this growth and how quickly it might come through to the UK market.

The comparison of lettable space per person (0.5 sq ft in the UK; 7 in the US and 1.1 in Australia) suggests the UK market has a long way to grow, but so too does the fragmented, competitive nature of the industry here. A first sign of the market maturing would be the start of sector consolidation, which one interviewee could see happening over the next three to five years.

The nature of the US market is also different from the UK (and the rest of Europe). Rents per square foot are much lower, and for many a self storage unit is seen as an extension to their home and part of a way of living, rather than a short term necessity forced through an event such as divorce or redundancy. Until consumers change their perception of self storage, it will be difficult to see the market growing to anywhere near the US model.

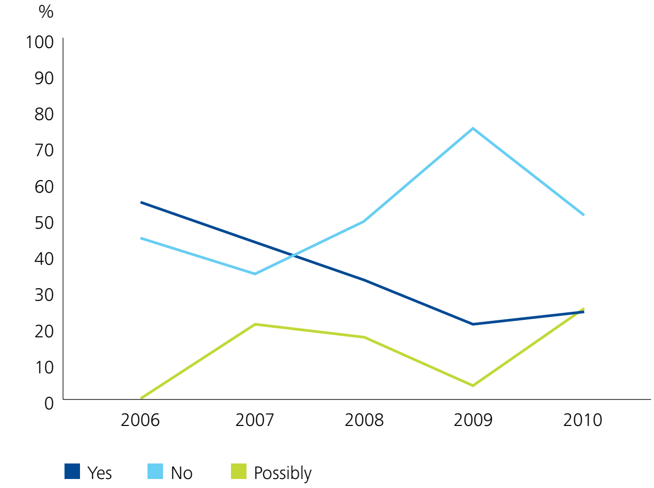
> "Our expectations are fairly low for 2011 on the back of the level of housing market transactions forecast for this year. Mortgage approvals are around 45,000 a month nationally and for a stable housing market you need to be closer to 70,000."
>
> Jon Wyles, Smart Storage

39. Outlook for the year ahead



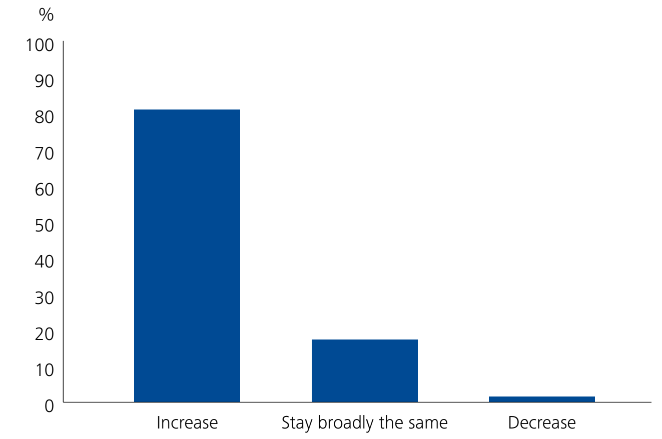
Source: Drivers Jonas Deloitte / SSA UK

41. Likelihood of companies opening new facilities over next 12 months



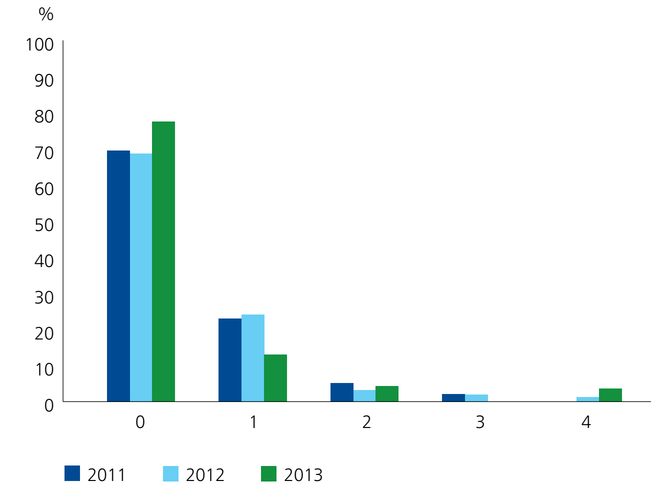
Source: Drivers Jonas Deloitte / SSA UK

40. Outlook for occupancy levels



Source: Drivers Jonas Deloitte / SSA UK

42. Proportion of companies intending to open new facilities over the next three years



Source: Drivers Jonas Deloitte / SSA UK

"We do believe the market has got further to grow... because we see the potential for self storage to become more a solution to a life style problem than just a distress purchase that you use from time to time"

Peter Gowers, Safestore

"I'm not sure the industry will double in size within the next 5 years, but it will definitely grow by half as much again"

Simon Hodgson, Alligator Self Storage

"I think we still have probably another two to three years to go before we start to see some significant gains in occupancy in the industry... and probably three to four years from now we will be in a fairly active and comfortable market once again"

Frederic de Ryckman de Betz, Attic Secure Self Storage

Conclusions

Self storage operators are being cautious about their future expansion plans; for the moment the focus is on improving occupancy, income and operating margins within their existing portfolios. Lack of access to affordable capital (particularly from the banks) has halted plans for all but a few new facilities, and those who have intentions to open new sites are looking ever harder at the criteria they need to meet.

Optimism about the economy has risen a long way from the lows recorded in early 2009, but the consensus is that we are only part of the way back to 'normal' conditions. One of the themes that came from the interviews was the wide variation in performance across the country, and not just a London and South East versus the rest split. Safestore have reported some excellent trading in parts of Scotland, for example, while another operator suggested some parts of London may have temporarily reached saturation level of store supply.

While the survey results show that billed rates have picked up between 2009 and 2010, many of those interviewed have struck a more cautious note about revenue performance. Almost all agree however that they expect to see average occupancy levels in their facilities rise in 2011.

The domestic customer is the key to supporting a sustained self storage recovery, but operators are also keen to attract new business customers who fill more space and take longer leases. The slow housing market has produced a more varied picture of domestic customers' reasons for storing: those trying to sell often rent space to declutter, then continue to use self storage after they have achieved their transaction. To attract new customers, operators are committing the majority of their marketing budget to the internet and grappling with the potential offered by new social media such as Facebook, YouTube and Twitter.

Self storage companies' turnover figures demonstrate a reasonably resilient sector. As an investment, the sector can be seen as a hedge against inflation, with short leases allowing more flexibility to raise rents than in other commercial property sectors.

The growth of the self storage industry in the UK is currently on pause, as firms concentrate on improving income from existing facilities. As it matures, economies of scale will bring some consolidation but the consensus suggests this is still some years off. And when confidence in the UK economy returns, the market has the capacity for further expansion.

"In ten years' time it could be twice or three times as big as it is at the moment, but it is never going to get to the US level of penetration because there just isn't the availability of properties in the UK"

Andrew Jacobs, Lok'nStore

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