

# SELF STORAGE

SECTOR INSIGHT



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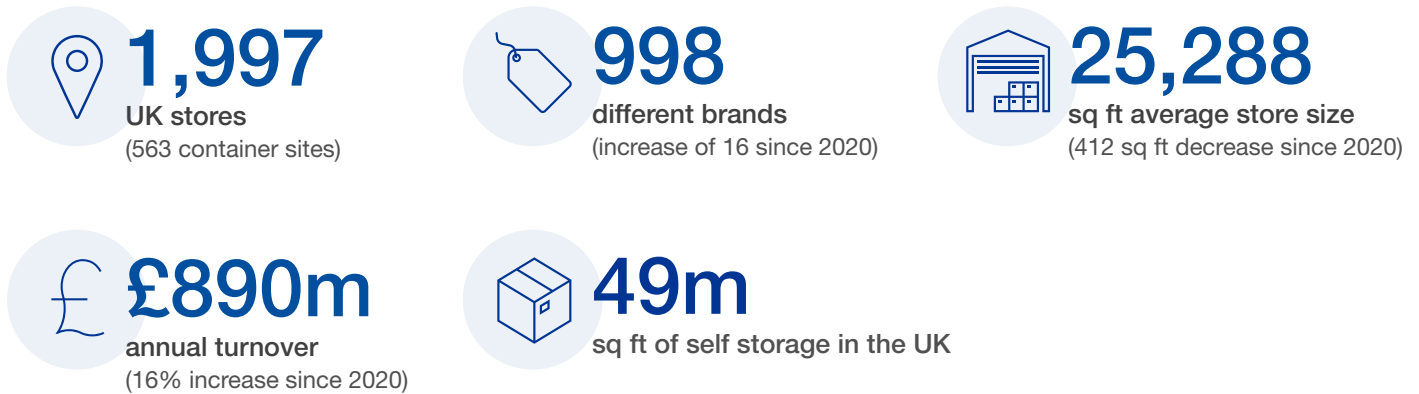
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# Market overview

## Key figures

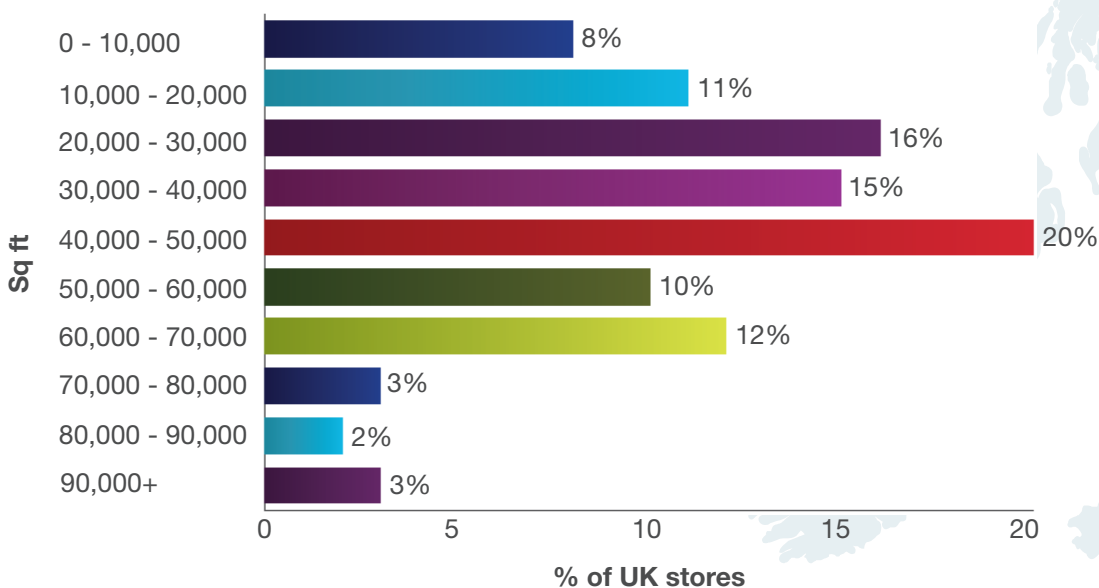


## Market dynamics

For a relatively new industry in the UK, self storage facilities are in almost every large town and city in the UK. With prominent, brightly coloured buildings, a large proportion of the population will recognise the industry and the biggest brands. The incredible growth of the self storage industry in the last twenty years has been fuelled by ever increasing demand from both commercial and domestic customers. It's exciting to report that we expect growth to continue.

The UK's self storage capacity currently stands at 0.73 sq ft per capita, which is significantly behind established markets such as the USA (9.44 sq ft per capita) and Australia (1.89 sq ft per capita). To draw a comparison, a number of European markets operate on similar per capita metrics to Australia. If the UK were to grow to the same levels we estimate that an additional c. 1,400 stores (71% growth) would be viable above the existing 1,997 stores in the UK today.

### Number of stores by size



# Recent self storage activity

The self storage sector is highly active and a number of key investors have entered the market or further developed their interests within the sector in recent months. Key developments include:

**August 2020** – MyLockup receives funding from Allied Irish Bank to facilitate expansion

**August 2020** – Storage Giant open a brand new mixed-use facility in Brislington, Bristol

**October 2020** – Moorfield Group enter a joint venture with Stor-Age, owner of Storage King to develop assets across London & South East

**October 2020** – McCarthy's Storage World opens in Huddersfield, converting a previous retail unit

**December 2020** – The Storage Team acquire a new Widnes site to be opened in 2021

**February 2021** – Lok'n'Store acquires the Chichester Lok'n Store from Gypsy Moth Storage Ltd, whilst selling them the freehold to a Wolverhampton site

**September 2021** – Shurgard acquires A&A Self Storage, adding three sites within Central London and one in Watford

**January 2020** – Storage World open new facility at Airport City, Manchester after success in Manchester & Middleton

**September 2020** – Access Self Storage open new Sydenham facility

**September 2020** – Secure Store was sold to Padlock Capital Partners, a US investor

**November 2020** – Legal & General acquire SureStore Bury & Lichfield, to be managed by SureStore

**November 2020** – SureStore opens their brand new store in Wigan

**January 2021** – Shurgard opens their new Barking store situated on the A13

**March 2021** – Space Station open Solihull site extension with approximately 250 units added

# Demand-side

**Population demographics are the key drivers of growth. Population expansion combined with shortage of property and more house sharing creates a demand for additional storage space. The sector has also benefited from increased house sales during the COVID-19 pandemic with many operators observing improved occupancy.**

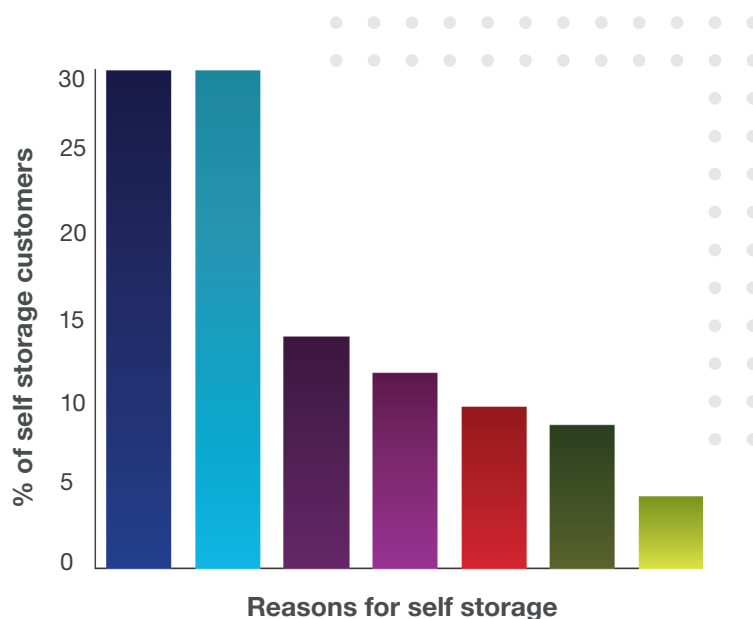
Long-term trends in the UK economy have significantly increased the demand for self storage in the last twenty years. This demand for domestic self storage is intrinsically linked to housing in the UK, with circa 30% of domestic self storage customers using self storage because they “have no room” at home. Demand for self storage has increased with the UK population growing 13.4% from 2000 to 2020 (ONS). Whilst the UK housing stock struggles to keep up with the population’s requirement for housing, the increase in young adults living with parents has put strain on space within households. Additionally, the Self Storage Association (“SSA”) claim that divorced or separated people are twice as likely to use self storage.

There has also been a migration of the population to city centre living. Whilst this been hampered due to COVID-19, Liverpool and Birmingham experienced a 181% and 163% rise in city centre populations, respectively, from 2002-2018 (Centre for Cities). This shift in the population to mostly high-rise apartments is another factor in the increase in the demand for space.

According to a SSA survey, “moving between properties” was the prime reason for needing self storage, alongside having no room, highlighting the connection between self storage and the housing market. During the first national lockdown of the COVID-19 pandemic, much like the rest of the UK, the housing market stood still. Self storage operators reported that their enquiries were down 30-50% and many had a bleak outlook for 2020. However, the COVID-19 pandemic has proven valuable for the sector with many operators seeing growth above and beyond their expectations, partly due to an extension in average length of stay by customers and increased demand from smaller retailers expanding their online presence and seeking additional space to hold stock. The Chancellor’s announcement on the 8th July 2020 that there was to be a Stamp Duty holiday increased activity in the housing market rapidly with the average house price increasing 8.4% in 2020 alone. Talking to self storage operators, PKF has learned that the increase in house moves has positively affected a number of self storage operators in the UK, allowing them to increase their occupancy. This is expected to continue whilst the government continues measures to promote home ownership and housing market activity.

## Reasons for self storage

- Moving and between properties ●
- No room for items at residence ●
- Need to create more space ●
- Important life event recently ●
- Moving and don't have enough space in new home ●
- Home is being decorated or renovated ●
- Need to declutter my home to sell it ●





# Supply-side

**Traditional bricks and mortar self storage facilities are facing pressure from new operators that are using lower cost business models such as out of town land and containers sites. This has been mostly facilitated by increasing levels of enquiries from online consumers allowing for greater price comparison. Although, proximity and access to storage facilities remain key customer demands.**

Due to rising land and property prices, the self storage industry has seen large amounts of investment from pension funds, private equity and individuals. As circa 80% of self storage stores operate from freehold premises, the underlying asset value of the property is often seen as a safe investment with the long-term trend of property and land values rising. As an operating asset, the potential returns from a multi-tenanted self storage operation often outweigh the returns of the capital markets and a single tenant lease agreement. This has attracted the attention of large institutional investors such as Legal & General who have entered the market with a number of high value property acquisitions, partnering with self storage

management companies such as SureStore to run the day-to-day business operations. In the SME sector, PKF has found this has been replicated by private investors who typically acquire property and hold the asset in a Self Administered Pension Schemes (SASS) whilst running the self storage operation through a separate limited company.

Entry to the self storage market requires a significant amount of capital expenditure to acquire land, property and fund an initial fit-out. However, the ongoing operating costs are extremely low relative to other industries. Staff costs are typically the largest of all operating costs and are only likely to include one full time and one part time member of staff per site. As such self storage investors typically yield high returns once a site is mature.

Recently, a small number of container-site operations, with lower capital requirements have been established. These are typically developed on lower cost land away from prime routes and utilise the consumer's increased use of the internet to source self storage solutions (the SSA UK report that 69% of enquiries are now sourced through the internet).

Operating costs	%
Staff Costs	30%
Rates & Taxes	21%
Management Costs	10%
Online Marketing	7%
Utilities	5%
Other Expenses	14%
Merchandise	2%
Repairs & Maintenance	6%
Insurance	3%
Other Marketing	2%

# 2020 at a glance

**At the beginning of the COVID-19 pandemic, no one could have foreseen the record breaking year that self storage was about to have.**

Despite being able to open as an essential business, the first lockdown reduced activity across the economy, including in the self storage industry. However, as the economy started to reopen for the first time and the chancellor announced a stamp duty holiday, 88% of self storage operators observed an increase in enquiries, with 44% of

these saying the increase was significant. Due to a reduced churn rate alongside elevated demand, largely driven from the increased activity in the housing market, the average occupancy rate across the industry reached 82.3%, the highest recorded level so far. Operators were also able to raise rental rates in response to the increased demand and subsequently 80% of self storage operators recognised an improvement in their business as a result of the pandemic.

## A selection of the record-breaking statistics from 2020:

**Average occupancy rate:**

**82.3%**

(2019: 76.2%)

**Average churn rate:**

**97%**

(2019: 118%)

**Average net room rate:**

**£23.94**

(2019: £23.08)



## Deal activity in the self storage Industry

**During the early stages of the pandemic deal activity fell but quickly recovered to more normal levels. Lok'n'Store and Legal and General were the more active investors during the year.**

In Q2 2020 COVID-19 paused many transactions. However, overall deal activity remained strong in the second half of the year with a large number of operators opening new stores and acquiring sites to develop. Legal and General invested in a further two SureStore sites in Bury and Lichfield. Lok'n'Store sold its freehold site in Wolverhampton with full planning permission for a self storage facility to Gypsy Moth Storage Ltd (GMS), whilst GMS sold its Chichester store to Lok'n'Store. Heitman LLC also made their first acquisition under the Space Station brand, acquiring Rent-A-Space Shrewsbury, operating out of a 58,000 sq ft, purpose built facility.

A number of operators continued to develop greenfield self storage facilities, although it is widely recognised that owners suffer cash losses until they are able to grow the occupancy rate to a sustainable level, often taking a number of years before a facility breaks even. Acquiring a self storage facility as a going concern, allows operators to acquire an asset that is immediately cash generative, boosting its revenue and profits as well as increasing the assets in their portfolio. As the self storage industry matures, PKF expect M&A activity to increase significantly. We know from conversations with prolific buyers within the market that many are looking to acquire profitable self storage businesses on top of their acquisition of freehold sites for development.



# The future of UK self storage

We believe the self storage industry to have positive growth dynamics as increased home working puts more pressure on employers and home worker's use of space. We believe this is a permanent change in the market and will increase demand for storage. Mature self storage operations typically enjoy high yields and low operational complexity which makes it attractive to a wide population of investors including pension funds. Given the many positive dynamics for the industry, and the highly fragmented nature of the market we expect consolidation and further investment over the next 5 years.

The demand for self storage will naturally expand with **population growth** but will increase further with demand for space as demand for **home working** continues. A number of companies in the UK have already set out their idea of a "new normal". It is expected that many office workers will continue to work at least part of the week at home in the future. As well as the added pressure on space at home, the **reduction in office space**

that companies use will also increase commercial demand for storage. Activity in the **housing market** is also expected to remain high for the foreseeable future with average house prices reaching record highs of £252,000 and schemes, such as 95% mortgages, being introduced to encourage first time buyers.

**Overseas and domestic investors** are increasingly looking to invest in the UK self storage industry, evidenced by Heitman LLC and Legal & General's recent investments. We expect this to continue in the future, having a positive impact on the pricing of self storage assets.

The self storage market is **highly fragmented**, with many single site operations throughout the UK. Major players such as Safestore and Access Self Storage continue to consolidate, looking to grow through both property acquisition and business acquisitions. With the expectation that **Capital Gains Tax and Business Asset Disposal Relief** is likely to increase towards income tax levels, this is likely to act as a catalyst for some self storage owners to consider realising their investment and take advantage of the high number of consolidators in the sector and benefit from competitive tension putting pressure on acquirers to pay strategic premiums for the right assets.



# About PKF Corporate Finance

At PKF Corporate Finance, we start by thoroughly understanding your objectives and business issues before creating highly flexible, innovative solutions that fit your needs.

We deliver practical, commercially-viable advice with positivity, and tenacity. We strive to deliver exceptional service quality, irrespective of the size of the deal, by building close relationships with clients, keeping them well-informed and providing a proactive service to guide them every inch of the way.

The Corporate Finance team regularly features as one of the most active dealmakers whilst consistently delivering the highest quality service; this has been recognised by many industry awards, and is evidenced repeatedly in client testimonials.

Sector Insights is a condensed summary of activity provided as a service by PKF Corporate Finance. Professional advice should always be taken when making any investment decisions.



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right people  
right size  
right solutions

**SOURCES:**

SSA Annual Industry Report 2021

SSA Annual Industry Report 2020

ONS

MarketIQ

PKF analysis

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