

# The View Towards Global Expansion

## An Update On The Self-Storage Market Overseas

By Poppy Behrens and Paul Fahey

The influence of the self-storage industry in the U.S. is indeed spreading around the world. Where will we see it next and what variations will it take on?

Over the past three decades, the concept of self-storage has grown dramatically in the United States, evolving into an industry that is respected for its forward momentum and increasing professionalism. Because of its early success in this country, the idea of self-storage slowly began to migrate across our northern borders into Canada, where it has also grown into a successful industry. And in the 1980s, self-storage made its way across the seas to Australia, where the virgin industry boomed through the 1990s. But the industry's expansion didn't stop there.

Over the past decade, the self-storage industry has taken root in Europe—which with over 500 million people has nearly twice the population of the U.S. and could very well prove to be the industry's largest worldwide market. Surprisingly, many of these European self-storage operations are not just the undertaking of adventurous, local entrepreneurs or “mom and pop” operators that have stumbled on the concept of storage. Instead, major U.S. companies and self-storage operators like Shurgard, Devon Self-Storage and Security Capital are investing in foreign markets.

Today the domino effect continues, with new self-storage facilities popping up in faraway places with a wide variety of cultures and economic conditions like Mexico, Venezuela, Brazil, Japan, South Africa and the British West Indies. And as this growth continues, some experts believe it is only a matter of time before we see global consolidation of the industry. In short, we've come a long way from the early days of American garage-like buildings for storing things. Welcome to the worldwide business of self-storage.

### The Overseas Players

“On a per capita basis, the U.S. averages about four square feet per person,” says Cris Burnam, president of Columbia, MO-based StorageMart, who recently explored the self-storage market overseas with his brother Mike, CEO of StorageMart. “Canada averages 1.5 feet per capita, Australia has 1.0 square feet per capita and the UK has .13 square feet per capita, while the Euro zone has only .01 square feet per capita.”

Over a period of five days, the Burnams visited approximately 25 UK self-storage operations in Manchester, London and Bristol. Additionally, they met with one large operator, Safestore, which owns 20 locations, and one mid-size operator, Rent A Space, which has three locations. They then traveled to The Netherlands, where they met with seven operators and toured five facilities.

In gauging the major players in the European market, the Burnams believe that some of the larger operators are viewing the UK as a springboard to the Euro zone. “There have been several acquisitions made over the past few years,” says Cris. “Access (Security Capital) has been an active acquirer as has Spaces (Mentmore Abby). Safestore has been both a seller and a buyer.” And, he says, Access, Shurgard and Spaces are all vigorously pursuing continental strategies.

Of the total number of facilities that are established overseas, excluding the Australian market, the majority are in the UK. One interesting aspect of the characteristics of the players in the UK market is the market share of its seven largest players. This handful of large operators averages in excess of 20 facilities each and has, between them, approximately 50 percent of the total number of facilities in the UK. This is a major departure from the U.S., where according to statistics for 2001 as presented in the 10th Annual Self-Storage Almanac, the top 10 self-storage operators only had a 11.85 percent share of the market, with the top 50 operators having a total 15.71 percent share of the market.

The reason for this dominance by the large operators is due to the fact that most have benefited from considerable investment via American investors or the UK Stock markets. Without the successful track record of the U.S. industry providing an indicator to investors of how the UK market will develop, and therefore the potential of the investment opportunity, it is likely that little of this money would have been pumped into the UK industry.

The scale of the investments so far, in itself, provides a level of credibility for the sector, which should encourage continued institutional investment in would-be key market players from here on. Therefore, we are likely to see this very different characteristic of the UK industry in terms of the level of market share of its key players continue, if not increase, leading to an industry dominated by a comparatively small number of very large operators

This factor is likely to be consistent certainly throughout Europe, as in fact four of the seven key players in the UK already have an interest in continental Europe. And like others who are sure to follow, they will eventually see themselves as European operators rather than national operators.

Of the UK's seven key players, Shurgard is the smallest with only a handful of units within the UK. The company will soon become the largest European operator however, with a current rate of new facility roll out on a scale previously seen only in the U.S. Now with 72 facilities in Europe, Shurgard operates in the UK, France Sweden, Denmark, The Netherlands, Belgium and France.

There are a number of other key players emerging outside of the UK, not the least of which is Scandinavian-based operator Storage Holdings Group. With 17 sites, this operator has recently opened the first Eastern Europe facility in Prague in the Czech Republic, which now puts them in a total of five countries. Access Storage Solutions is the current leading overseas operator with a total of 93 sites. This company is unique in that it operates 27 of its facilities in Australia under the Millers brand. Access, a Security Capital owned company, along with Shurgard, will no doubt prove to be the first two in a very long line of truly global operators.

### **Overview of the UK Market**

While there is a dramatic difference in the per capita numbers when compared to that of the United States, it is the UK that has experienced the most prolific growth rate in the overseas market since the late 1990s. That increase is particularly impressive when you consider that the self-storage market there has been expanding at a rate that is now approaching 30 percent per year.

"The UK has a population of approximately 60 million people, yet only has 300 self-storage facilities," says Cris Burnam. "In comparison, the city of Atlanta, Ga. now has approximately 450 storage locations. Overall, if the UK market is 25 years behind the U.S., we believe that UK operators will catch-up to U.S. standards in only 10 years." Indeed, while the number of facilities in the UK will reach over 400 this year, it is anticipated that if the market continues to expand at this rate, it will grow to 3,000 facilities by the end of the decade.

Starting from the time that the first self-storage facility opened in the UK in 1984, the industry grew by an average of only seven facilities per year until 1997. It then experienced a surge in growth that saw the total number of self-storage facilities reach approximately 100. In 1998, the first publicly traded storage firms began to emerge.

By the end of the decade, the self-storage industry in the UK reached a critical point for a combination of reasons. First, having grown to over 100 facilities, the “best-kept secret” of the property sector was no longer a secret despite the best efforts of many operators to keep it so. Second, by the end of the decade, seven key players had emerged, all of which had received considerable injections of development capital. With most of that capital emanating from the U.S., those key operators embarked on sizeable expansion plans. Third, the end of the decade saw an economic environment so healthy that as the business of self-storage became more noticed, a large number of entrepreneurs from all backgrounds identified its potential and had the confidence to invest in this “new” concept.

“Currently, the industry in the UK has the ‘look and feel’ of the American market in the late 1970s and early 80s, but the growth curve is rapidly accelerating,” says Cris Burnam. He explains that many of the stores in the UK have been poorly located and appear to be poorly operated in terms of what we expect in the U.S. “However, there are a few operators—three public and one private firm—that have clearly been studying the U.S. market and are beginning to roll out a new generation of product.”

### **The Removalist Aspect**

According to both Cris and Mike Burnam, historically, old-line moving companies known as “removalists” have dominated the UK market, just as bonded warehouses were dominant in the 1960s and 70s in the U.S. This is easy to understand when you consider the fact that prior to the introduction of self-storage, people in the UK either lived with the inconvenience of clutter, stored goods with relatives, or used a removalist much as one would have used a moving and storage company in the U.S. And this trend isn’t just confined to the UK.

“Over here, the moving and storage industry is a much more dominant force,” says David Grant, executive vice president of European operations for Shurgard, when defining the role of removalists. “That is due in part to the fact that the self-move business is not nearly as significant here as it is in the United States with companies like U-Haul® and Ryder®.”

Grant explains that there are very good reasons for the absence of this much-used U.S. type of service. “In the U.S., you can walk into a self-storage facility with a drivers license and walk out having rented a 27-foot truck,” he says. “You can no more do that in Europe than fly to the moon.” Why? Because European streets tend to be narrower and more con-gested, hence driving a truck that large without specialized training becomes a safety issue. “Over here, you need a special license to drive anything over 15 feet long,” Grant explains.

Another factor that tends to aid the removalists in the European market is the much higher percentage of people living in multi-story environments. “Get-ting things up and down the stairwells of these buildings is very difficult because the stairwells are too narrow to handle big items,” says Grant, who explains that there are companies that specialize in moving people from these areas. In fact, a very large percentage of inner city mov-ing is done out through the windows or by a conveyer belt that looks much like the hook and ladder apparatus used by a fire department.

One company, Grant cites, will actually drive down a street of high-rise apartments with a container on the back of the truck that can be elevated into the air with a scissor-lift. “The lift takes this container up four, five, even six stories to the open window of the apartment,” he says. “Then everything is pushed out the window into the container.”

There is another factor that has favored removalists in the past, according to Shurgard Director of Marketing and Sales for Europe Frank Boot. “Only a few years ago, you couldn’t really move yourself in Europe because you had to cross borders and go through customs, so you hired someone to do it for you,” he explains. “That complexity of the European market is fading out slowly because over the past year all of the European borders are virtually gone. Still, the mentality changes take place gradually over time.”

As a result of these restrictions and complexities, Grant states that the removalists were and still are a very large component in Europe, so much so that these companies probably handle between 75 to 80 percent of all moves. “In the U.S.,” he says, “it is probably close to the inverse of that.”

The good news is that removalists are starting to recognize the self-storage industry as a viable option. According to Grant, many removalist customers are starting to request that their belongings be stored at self-storage facilities instead of having them warehoused. Additionally, as removalists' warehouses fill to capacity, they are turning to self-storage facilities for storage space.

"We have definitely worked out a lot of good partnerships with them," says Grant.

The Burnams point out that while the UK's self-storage industry is currently in its infancy, consumer awareness is growing. "If the U.S. can be used as an accurate model, it can be expected that the self-storage industry can grow at least 10 to 15 times its current size, while the removal industry stagnates," says Cris. "There is at least anecdotal evidence that this is occurring. Most operators have indicated that traditional rent up rates in the UK were about 50 percent longer than in the U.S. However, as consumer awareness of the product grows, [rates] are beginning to accelerate."

The Burnams saw first hand evidence of this at three newly constructed stores— two in London and one in Manchester. Each of these had great locations. Two of them were nearly up to the latest American standards. Yet all three were clearly enjoying rent-up rates that operators in the U.S. would be pleased to get. "If the growth in consumer awareness continues," Cris says, "then it stands to reason that there are significant opportunities for new product."

### **Land and Money Issues**

As the Burnams see it, the self-storage industry in the UK is severely under-capitalized and debt is virtually nonexistent. As a result, they say the industry has embraced leasehold-based development. "Currently, two-thirds of the existing stock of facilities are on leasehold property," Cris says. "To date, this has not had any dramatic ill effects as lessees have certain extension rights by law in the UK. There also has not been any adverse impact on the acquisition of leasehold-based properties."

Overall, the Burnams say that the acquisition or development of freehold stores vs. leasehold stores has depended on how well funded is the developer. Cris does note that some cash rich buyers probably prefer to purchase freehold, however, the location has historically driven the deal—not the form of ownership.

In terms of capital and leverage in the UK, the Burnams see that the public players have had relatively good cash hordes and are searching for opportunities, as in the case of Access (Security Capital). Additionally, they say that there are several small entrepreneurial start-ups throughout the country, but no one player of any significance.

"One thing that all of the players have in common is a lack of access to debt," explains Cris Burnam. "Large operators might have access to a credit facility of some kind, but as yet there are no self-storage lenders. The banking industry in the UK is extremely skeptical of self-storage as yet, and we have not been made aware of any kind of financing activity, other than perhaps the financing of a freehold building based on the underlying value of the real estate. As success stories accumulate, it is reasonable to assume that debt will become available in the future, but it might be several years away. Of all the issues facing the industry in the UK, access to debt and equity is the most serious."

### **Moving Across Europe**

The growth of self-storage in Continental Europe is now following closely behind that of the UK. Initially, France saw the largest increase in development. This year, that country could reach a total of 100 facilities, putting it pretty much where the UK was in 1997. There is a likelihood however, that France will experience a faster growth curve than that of the UK over the last five years, due to the fact that some of its operators have U.S. originated funds at their disposal. Additionally, there are a number of well-funded UK-based operators that are also developing there.

In general, the overall growth curve of Continental Europe is likely to be steeper than that of the UK since most UK lenders have not yet taken a favorable outlook on the industry. Since there is no real proven track record for self-storage there, operators can only point to the U.S. experience to substantiate its viability. On the other hand, France and other Continental European countries will have the benefit of the

emerging evidence of self-storage success in the UK to point to, thereby enabling operators to show that this U.S. concept does appeal to European consumers.

Just behind France, in terms of growth, are the Scandinavian countries, Holland and Belgium. Germany, the largest European country with a population over 100,000, has yet to see the concept prove itself and as a result is lagging behind the other European countries where self-storage has made its debut. With only a handful of facilities each, Italy, Spain and Portugal are only just beginning to see the concept of self-storage emerge, however these countries are prime targets for many of the ambitious operators that are currently based in other European countries.

Possibly due to the Irish/American influence, self-storage entrepreneurs in Ireland seem to have identified and adopted U.S. concepts more quickly than most Europeans, however the considerably over-inflated property values that prevail in Ireland have currently stunted industry growth. Still, the dozen or so self-storage facilities that exist in Ireland are serving a comparatively smaller population (four million people) than other European countries.

Moving to other parts of the globe, the mid to late 1990s saw the self-storage industry emerge in both South America with Venezuela and Brazil opening their first facilities. Additionally, South Africa also saw its first self-storage developments. And while economic factors in these countries appear to limit the potential for the growth of self-storage, to date, the rate of growth has been not too dissimilar to that of the UK's industry in the 1980s.

Currently, new frontiers are being crossed in areas like Eastern Europe with the first self-storage facility there about to open in Prague in the Czech Republic. Additionally, Asian facilities are currently being developed in Tokyo and Singapore, with facilities also springing up in the British West Indies.

### **One Perspective**

A small but growing operator that has done quite well in mainland Europe is the Continental Storage/Storage Holding Group. "We have two main companies—one in Scandinavia and one for the rest of Europe," says the company's chairman, Carl Svenson. "We have a total of 20 sites open or due to open during the next few months, and we own a minority share of SAFE Self-Storage in Stockholm, Sweden, which owns and operates three sites."

Continental Storage is also opening the first ever self-storage facility in Eastern Europe next month—a 70,000-square foot facility in Prague, Czech Republic. "We are also currently operating in Norway, Sweden, Denmark and Spain," says Svenson, who admits that while the mainland European market is still in its infancy, he expects that there will be enormous growth over the next 20 years. "But it is more difficult to grow fast in Europe because of plenty of local barriers to entry. Each country has its own rules, and even in the same country the rules and building codes vary much more than in the U.S. In some places it's fine to put in mezzanine floors, in other places it's impossible. That is quite a challenge for a relatively small company as ours."

The company's reason for moving into different countries has varied. "Continental Storage AS majority shareholder, The Selvaag Group, is a homebuilder based in Oslo," says Svenson. "It was building retirement homes on the coast of South-ern Spain and discovered a demand for self-storage units." After a period of extensive research on the market in Spain, the company decided to build its first facility there in Barcelona. It is due to open this spring, with several more to follow.

As a smaller operator, Svenson has seen problems in all phases of the development and operation of facilities in mainland Europe. "When we build or convert, there are huge problems with zoning, especially in Spain," he says. "Sometimes you have to wait 12 months for a building permit, and sometimes you are not allowed to use your warehouse for self-storage even if you follow the codes 100 percent."

Svenson admits there are a lot of poli-tics involved. "If the city, for example, is considering making new roads or changing where existing roads are located," he says, "they may close the entire area for any new activity, even if this means that the property owners will go bankrupt. It is crazy, but true."

On the operations side, Svenson says filling the site fast is always a problem. "In new markets nobody knows the concept, and you might experience many months of very slow rental," he says. "The concept always works, but in some cases it takes three times longer to fill a site in Europe than it does in the U.S."

### **The Problem of Awareness**

If there is one thing most operators familiar with the overseas market agree on, it's the fact that there is a definite lack of awareness about what self-storage is in Europe. "The question over here is 'What is the awareness level?' unlike in the U.S. where the question is, 'What is the demand level?'" explains Grant. He likens the situation to the one faced in the United States in the late 1970s when operators were having to build awareness and educate consumers about what self-storage was.

"You are dealing more with growth and awareness here than anything else," says Grant. "At one end of the spectrum you have the UK, in particular greater London, which is the most competitive market in Europe. There is somewhere in the neighborhood of 250 stores there—that's a small number compared to the U.S. for similar population—still, it's far and away the most competitive in that sense. Then you get into other markets like France, which probably has a grand total of 60 stores for a population of 60 million."

Both Burnams agree with that perspective, stating that the biggest problem facing the industry overseas is customer awareness. In fact, they believe that it is the single biggest limiting factor to the potential for profitable self-storage opportunities there.

"The identification of the need has been one of the critical things here," says Shurgard's Boot. "You have to help people understand what self-storage is, how it relates to them, and how they can use it." Once you educate the people about what self-storage is, Boot says you have to consider another factor. "This is a need driven business. You have to be there at the moment the need pops up."

As a result, Boot says that Shurgard's marketing effort has been to reach those groups that are as broad as possible, those that could have a need for self-storage, and those that would find identification with the market.

"There is no one typical self-storage customer," says Boot of the European market. "Just as you can find 1,001 reasons to store goods, you can find 1,001 profiles for potential storage customers."

### **Development Factors and Costs**

Both the U.S. and Australian self-storage industries grew rapidly due to the availability of development land. No such benefit applies to most of the European countries. Land for development is not only scarce, but when available is often extremely expensive. The result is that many facilities developed overseas are multi-story conversions. For the most part, the rows of drive up units that are seen in the United States are rarely seen in Europe.

"We would estimate that at least 90 percent of the facilities in the UK today are conversions of existing factory or warehouse buildings," says Cris Burnam. "In addition, nearly all of them are multilevel 'boxes.' Virtually no one in the UK, with the possible exception of Shurgard, is developing horizontally. Rather, most stores resemble the early factory conversions that were done in the 1980s throughout the U.S." Shurgard is indeed a unique operator in Europe, with 70 percent of its facilities being newly built. "Many more of those could have been conversions," says Grant, "but what we found, especially with small sites, is that in most cases we were better off knocking the building down and starting over."

According to Grant, the other 30 percent of the time, it was either better for Shurgard to use the existing building, or, in some cases, the company was not allowed to tear the building down. "A couple of times, we saved a building because we thought it would save us money, and we wished we hadn't," he offers with a laugh.

In the UK, large warehouses in highly visible locations have become much sought after by self-storage operators. Unfortunately, there is also an increased demand for these properties by retailers and

merchants thanks to the healthy economic climate of the late 1990s. This has caused the cost of this type of property to rise dramatically and rather disproportionately in an already inflationary property market.

In London for example, \$140 per square foot is not an unusually high price for a building in a good location. Nevertheless, a site selling at this price might also require that another \$50 per foot be spent on mezzanine floors and partitioning, all of which results in a total cost of more than \$250 per rentable square foot.

The unavailability of affordable land or affordable buildings for conversions in Europe has been a negative factor for the industry. It has, in some cases, led to key operators failing to achieve their growth targets. On the other hand, this has also been seen as a positive factor by some self-storage operators, as it provides a barrier to market entry that limits the scale of newcomers to the industry.

From what the Burnams saw, amenities in the UK are not up to American standards on almost all of the current stock of self-storage facilities; however, most new stores are increasingly being equipped with more modern features like elevators and alarms. “While the market over there may be 10 to 12 years behind the U.S. in terms of acceptance of the products, they are very close to us in terms of the new type of facilities that we are building here,” says Mike.

Svenson agrees, saying that operators in Europe are building very high quality self-storage facilities, often surpassing the new U.S. sites in terms of technology and materials. “To us, this seems like a competition to get attention from investors more than attention from customers,” he says. “In a market as big as the European market will be, there should be room for more ‘economy’ type self-storage, offering units at lower prices.”

Svenson explains that “self-storage units (to rent) in Europe are, in general, much higher priced than in the U.S. “Our strategy is to offer good quality self-storage with all the necessary safety features and access control,” he says. “But we will not, spend an extra \$100,000 on a sprinkler system if we don’t have to.”

Mezzanine systems are widely used in European facilities. And as capital is so scarce, most new projects are “phased in” using cash flow. A typical project might build a mezzanine and the first 8,000-feet of storage. Several small additions of 3,000 to 10,000 feet may then be completed over time. Unfinished “bulk” space can be leased out as industrial flex-space in the interim. This method of organic growth has been tried and tested, and is being executed better by UK operators than by Americans.

Facility sizes overseas are small by American standards—this again is comparable to the states several years ago. Most self-storage facilities appear to be less than 40,000 square feet, which could have a dampening effect on net margins. However, the latest and greatest self-storage facilities being developed tend to be larger.

As for European building codes, zoning and permits, there are many similarities to the early days of the industry in the U.S. when there was no designated category for self-storage. In essence, developers and operators overseas are faced with the task of educating local authorities about what self-storage is, and where it does and does not need to follow the same rules as other businesses.

“A classic example is parking,” says Grant. “We all went through it in the U.S. in the 1970s and 80s when they’d say, ‘The closest you are is to a retail center so you need 200 parking stalls.’ Then we’d have to say, ‘No, we don’t need that many.’ It’s all the same over here with parking, fire and safety.” Grant does say that for the most part, the authorities are pretty reasonable in Europe.

Looking at it from the Burnam’s perspective, while the permitting process appears to have much lower barriers than in most U.S. markets, they were treated to numerous “horror stories” while in the UK. “We heard about being held up in planning for such unbearable periods as 6 to 7 months,” says Cris. However, he adds, “Building and fire codes in particular appear to be much less of an issue than they are in the U.S.”

Additionally, Cris says, “We believe that actual conversion costs in the UK are approximately 5 to 20 percent cheaper than what we have been spending in New York and Chicago.” He is quick to note that,

“While code is less complex and costs are slightly cheaper, it must be noted that regulatory bodies are likely to catch up with American practices over time, and that as competition increases, so will costs.”

### **Looking Ahead**

In summing up where the self-storage market in Europe is headed, perhaps Grant says it best. “I am convinced that this will be a global product that is universally accepted by the populations that are there,” he offers. “It will be better or worse for the same reasons it would be in the U.S. There is no doubt in my mind that there will be some countries and cities that will have a much higher demand, while other have a much lower demand.” But above all, Grant says, “I have no doubt, that over time, self-storage will be a global business.”

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